

# Financing the Startup Economy - A Critical Study

C. Aishwarya\*, C. A. Sangeeta S.\*\*

## Abstract

Startup is becoming a trend in our country with the government also recognizing this form of business by providing incentives. However, from the time this idea gained momentum in 2016 with the launch of Start Up India Initiative by the government, not many startups have succeeded. Majority of failures can be attributed to the financial aspects of startups at various stages. Post the initial funding received at the experimental phase, entrepreneurs find it difficult to meet the financing needs at the expansion stage. This particular issue needs to be explored further so that suitable remedies or solutions can be sought. This paper aims at gaining an understanding of various sources of funding available for a startup. The main focus is on selection of funding with regards to different sources, underlined causes for these and to give an insight into what consequences these choices will have on the venture. An attempt has also been made to comprehend the entrepreneur's perception toward various capital providing institutions.

*"You need three things to create a successful startup - to start with good people, to make something customers actually want, and to spend as little money as possible." -Paul Graham*

**Keywords:** Startup, Financing, India

## Introduction

The economic growth of a country is measured by the increase in its GDP (Gross Domestic Product). The Indian economy is the sixth-largest in the world.<sup>1</sup> "The country has been classified as a newly industrialized country, and one of the G-20 major economies, with an average growth

rate of approximately 7%."<sup>2</sup> The long-term prospective of the Indian economy has been identified as being positive due to its young population, corresponding low dependency ratio, healthy savings and investment rates, and increasing integration into the global economy.

Few professionals/individuals have the power to create something from absolutely nothing. A crazy idea can become a reality which can have an impact on a large number of people. In a nutshell, this became the main motto of having a startup. Young entrepreneurs nowadays love this occupation/area as they are ready to take up all uncertainties, victory or failure and are ready to connect with customers from all spectrums of life. Earlier, businesses needed many years to reach a breakeven. However, this does not seem to be the case now.

With the abundance of knowledge coupled with the use of mobile/web applications and cloud computing, it is easier to have a customer base at a certain level of profitable scale within a short period. In this modern, technology-driven world, we need more startups as they are the 'Change Agents' (Carlson & Usher, 2016; Kidder, 2012; Huy & Mintzberg, 2003) that can save the world. Startups boost the economy with revolutionary technology and create new industries over time and Ultimately become money-making engines for the owners, employees and shareholders. They also deal with new technology<sup>3</sup> which generally lies in the highest end of value addition chain. Apart from this, they provide the benefits to the economy, like job creation, result in lower unemployment, inciting innovation and increased competition thereby increasing

<sup>3</sup> <http://foreignpolicy.com/2016/12/20/india-overtakes-britain-as-the-worlds-sixth-largest-economy/>

<sup>2</sup> [https://en.wikipedia.org/wiki/Economy\\_of\\_India](https://en.wikipedia.org/wiki/Economy_of_India)

<sup>3</sup> <https://www.startupgrind.com/blog/role-of-startups-in-economic-prosperity/>

\* Student, M.Sc. Finance, St. Francis College for Women, Hyderabad, Telangana, India.

\*\* Assistant Professor, St. Francis College for Women, Hyderabad, Telangana, India. Email: [sangeetash.shankar@gmail.com](mailto:sangeetash.shankar@gmail.com)

the choices to customers.<sup>3</sup>

However, research with regard to startup financing is still in the nascent stage in India.

## Significance

The significance of this research is to identify areas/avenues from where different startups access funds and the underlying causes for their choices. This study will help us understand the background for a startup, the financing for a startup and the various life cycle stages for a startup, and the financing at various stages.

## Objectives

- To understand the life cycle of a startup and the financial life cycle of a startup.
- To study the various forms of financing available at various stages of the startup.
- To establish the relationship between the form of financing used and the nature of the product/service being provided.

Several modes of financing are available, which a startup promoter has to select from. However, a judicious/appropriate selection has to be made without which the project may fail. Thus, it is very important to understand the various funding sources available, their merits and demerits, and the appropriate selection based on the various factors such as project cost, phases, valuation of the startup and their stakeholders.

## Research Methodology

A qualitative approach has been used in this study. The approach involved collecting data that established different point of views in order to explore a phenomenon; i.e. financing methods used by start-ups at various stages of their lifecycles.

This called for personal interviews with the promoters of 13 startups. Interviews were facilitated with the use of structured questionnaire. The questions were formulated as open questions in order to encourage forthright views. The respondents were all contacted by telephone and were requested to be a part of this research. Three interviews

were in person at a location of the respondent's preference, two over e-mail and the remaining through telephone. On an average, each interview lasted about 20–25 minutes. Interaction with several participants continued after the interview had been conducted, as they were eager to share information that they felt could benefit us for this study. At the same time, they had requested for confidentiality regarding their organization names, revenues, and such other sensitive information.

Secondary data available from news reports and other databases with regard to 50 other startups were evaluated.

## Scope of the Study

The startups which have been interviewed have their establishments in Hyderabad though their targeted customers were widely spread. The age of the companies taken up for research is not older than ten years.

## Limitations of the Study

- Hesitation of companies in providing data that would help in a comprehensive analysis.
- Limitation in the number of participants who took part in the study.
- Lack of earlier research especially with respect to India against which the results could be compared.
- Generalization of the results as they include an aspect of personal opinion that may not reflect reality. This study was conducted in late 2016-early 2017. Much has changed in the interim period. Further research can be taken up to study the variations.

The names of startups have not been mentioned in the study as per the requests of the promoters to maintain confidentiality.

## Review of Literature

Not much published research is available in the Indian context with regard to the financing aspect of startups. A descriptive study was done by Singh and Andaleeb (2016).

Sugrue and Ward (1993) tried to study the capital structure of small startup firms with regard to debt use

in the structure. They studied the demographics of both the firm and the entrepreneur. “When debt obtained from other than financial institutions is considered, factors such as gender, experience, education, and expected firm size also play a role in the structure of startup capital”.

Angel investing was studied by Van Osnabrugge and Robinson (2000).

Research in countries like the United States has used the signaling theory, i.e., filing of patents by startups can signal a fresh need for finance whereby VC and other angel investors may come forward (Antonio Davila, George Foster, Mahendra Gupta,2003). Conti, A., Thursby, J., & Thursby, M. (2013) again used signaling theory in case of Israeli startups. Marina Klačmer Čalopa\*, Jelena Horvat and Maja Lalić had reviewed the startup scene in Croatia in 2014 and made a note that startups in Croatia mainly preferred traditional and informal modes of financing, particularly in the initial seed stage.

## Theoretical Background

*“It’s not about ideas. It is about making them happen.” -Deepinder Goyal*

Investopedia defines a startup as a company that is in the first stage of its operations. These companies are often initially bankrolled by their entrepreneurial founders as they attempt to capitalize on developing a product or service for which they believe there is a demand.

of existence for an entity were revised from five to seven to presently ten years.

Warby Parker Co-CEO Neil Blumenthal has a similar definition: “A startup is a company working to solve a problem where the solution is not obvious and success is not guaranteed.”

Homejoy CEO Adora Cheung tells Forbes: “A startup is a state of mind. It’s when people join your company and are still making the explicit decision to forgo stability in exchange for the promise of tremendous growth and the excitement of making immediate impact.”

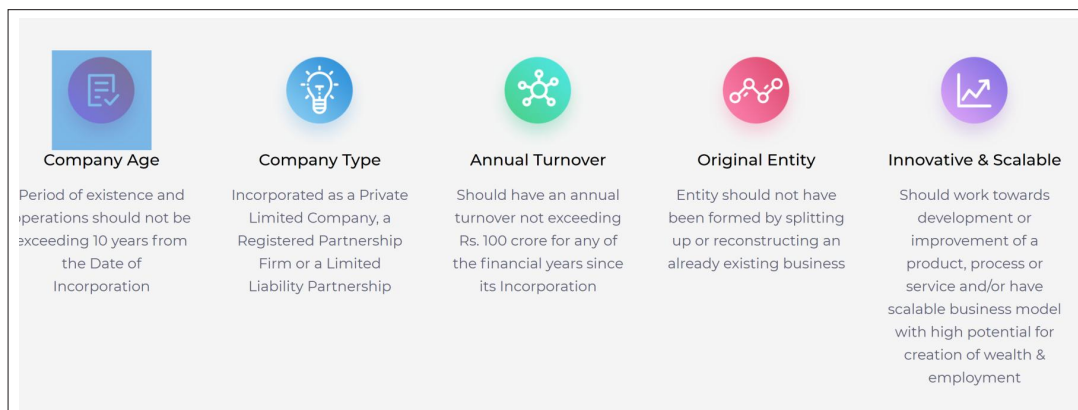
“On April 17 2015, the Ministry of Commerce and Industry, Government of India, defined the word ‘Startup’ under their ‘Startup India, Stand up India’ Policy. According to the Government policy (for government schemes), an entity was to be defined as a startup:

- Up to five years from its incorporation/registration
- If its turnover for any of the financial years has not exceeded Rupees 25 crore, and
- It is working toward innovation, development, deployment, and commercialization of new products, processes or services driven by technology or intellectual property;

Provided that any such entity formed by splitting up or reconstruction of a business already in existence shall not be considered a ‘startup’.

Currently, the definition/characteristics of a startup have been modified as under:

With a view to giving impetus to this scheme, the criteria



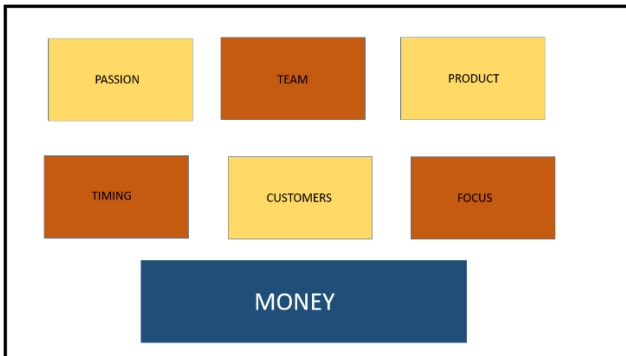
Source: <https://www.startupindia.gov.in/content/sih/en/startup-scheme.html>

**Fig 1: Definition of a Startup**

## Essential Requirements of a Startup

“A good idea does necessarily result in a good product” (Greg Clydesdale). A good product does not necessarily result in a company. To succeed, a company needs more than just a good idea and its success is largely due to how the idea is executed, a talented staff and management and

necessary capital to make everything come together and push the venture ahead.



Adapted from: Inc.com, Neal Cabage, <https://www.inc.com/neal-cabage/6-things-a-successful-startup-needs.html> Retrieved: 29<sup>th</sup> July 2017

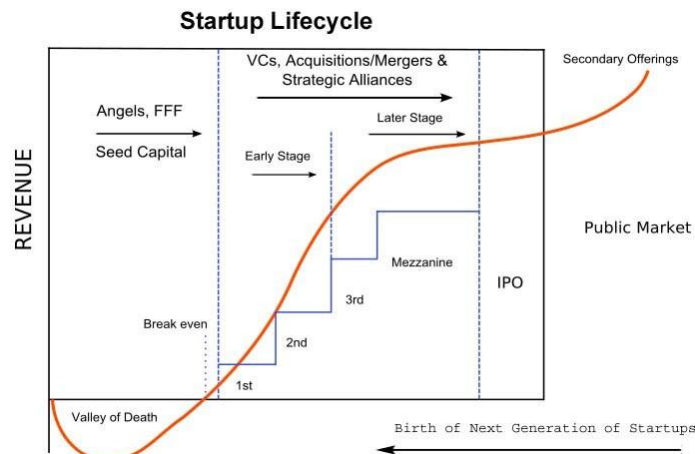
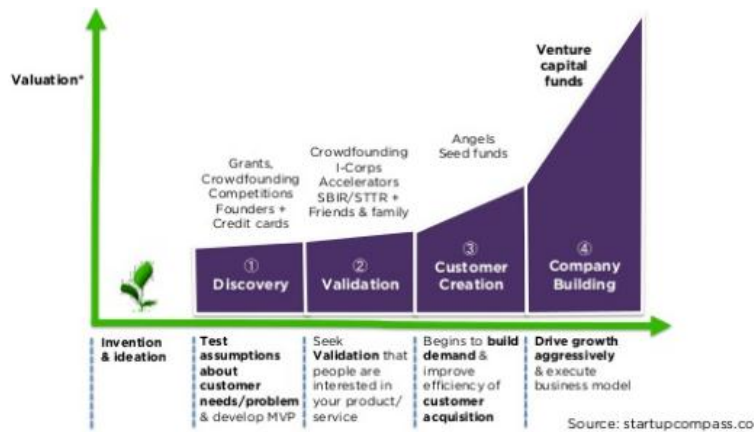
and their selective combination at various sources of the lifecycle.

**Fig. 1: Requirements of a Startup**

*Finance:* Apart from all the above factors, finance forms the most important aspect. Every business requires money to get started and the goal should be to minimize the risk and cost wherever possible. The promoter has to look out for various sources of financing that will reduce the overall risk and help make the product a success.

Out of all the requirements, the most critical one for success is the ability to acquire the necessary capital by choosing the right sources to ensure the growth of business till the cash flow reaches a level where a business is self-sustained and can grow on its own. This project covers the various financing options to suit the Indian environment

### Lifecycle of Startup



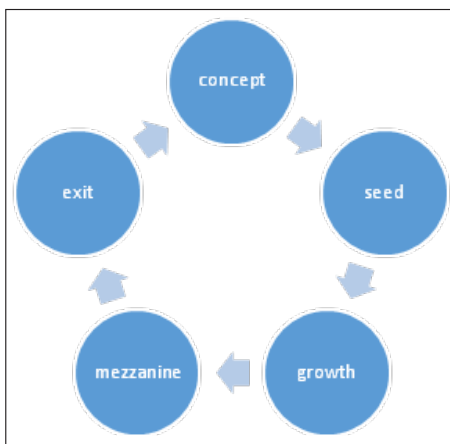
Source: Net valley.com; [http://www.netvalley.com/silicon\\_valley\\_history.html](http://www.netvalley.com/silicon_valley_history.html) retrieved: 29th July 2017

**Fig. 2: Life Cycle of a Startup**

- *Invention and Ideation:* Ideation is the creative process of generating, developing, and communicating new ideas.
- *Discovery:* This stage includes forming the founding team, interviewing many customers, finding value proposition, creating minimum viable products, joining an accelerator or an incubator and on boarding of mentors and advisors.
- *Validation:* This stage includes the refinement of core features, initial user growth, metrics and analytics implementation, first key hires, first paying customers, and product market fit.
- *Customer Creation:* This stage includes refining the value proposition, overhauling the user experience, continuous sales, and finding customer acquisition channels.
- *Company Building:* This includes massive customer acquisition, back-end scalability improvements, first executive hires, process implementation, and establishment of departments.

Because of different needs at different phases of the startups, the funding requirements also vary accordingly. The requirement also varies with the outlay, strength of innovation, demand and supply, marketability of the product, network (links), etc.

### Funding Life Cycle



Source: <http://fundingsage.com/startup-funding-rounds-and-the-funding-life-cycle/>

**Fig. 3: Funding Lifecycle**

The first stage is the concept stage where the idea germinates leading to the seed stage wherein the initial

funding is provided by friends and family or at most times through personal savings. The seed stage leads to the early and growth stage where the angel investors come into the picture. At the end of this stage, venture capitalists start showing an interest. Series A funding begins. The mezzanine stage involves the series B and series C funding. The last stage is the exit stage where the investors/promoters exit through an IPO/strategic business sale.

### Funding Forms

#### Bootstrapping

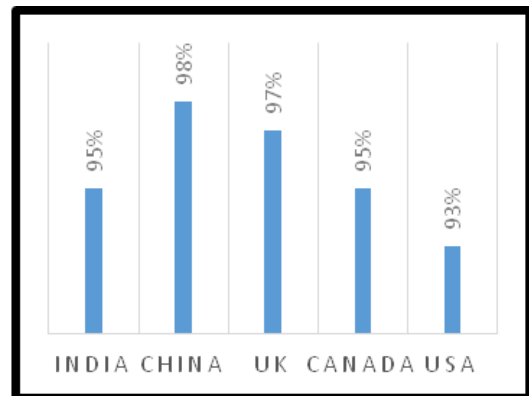
Investopedia defines bootstrapping as “a situation in which an entrepreneur starts a company with little capital. An individual is said to be bootstrapping when he or she attempts to found and build a company from personal finances or from the operating revenues of the new company.”

Here are the examples of a few Indian startups that started out with their own funds and had the courage to stay on course.

- *Antilog Vacations:* Offers online bookings and holiday packages.
- *Quick Heal:* It is an IT solutions company.
- *Fusion Charts:* Is a data visualization company.

Fig. 4 and 5 represent the percentage of entrepreneurs who use their own funds and the proportion of own funds to that of the total capital in five countries.

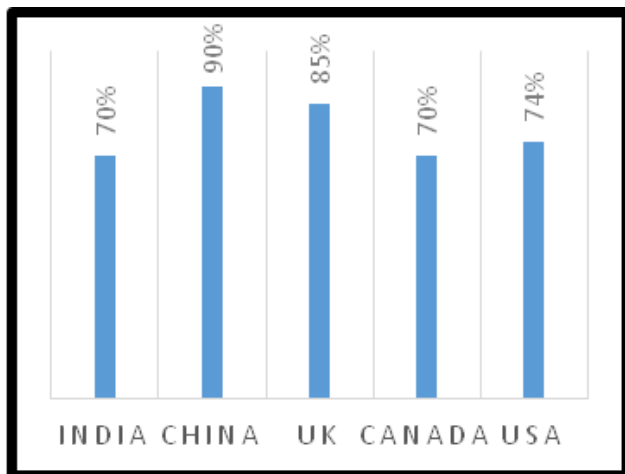
Percentage of entrepreneurs using own funds and funds needed coming from own money<sup>4</sup>:



Source: Global Entrepreneurship Monitor, 2015

<sup>4</sup> Global Entrepreneurship Monitor, 2015

**Fig. 4: Percentage of Entrepreneurs Using Own Funds**



**Fig. 5: Percentage of Funds Needed from Own Money**

### Friends and Family

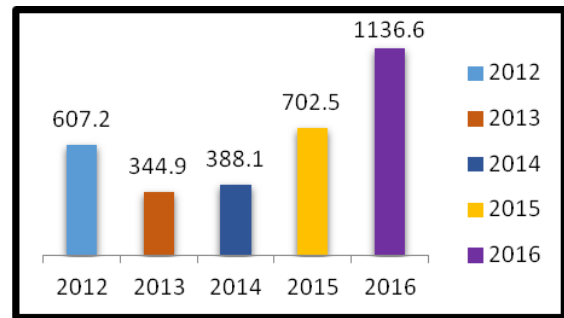
Family members/friends can become potential investors if they believe in the idea and are willing to carry some of the risk and provide financial capital. They are often familiar with the concept of the venture.

### Business Angels

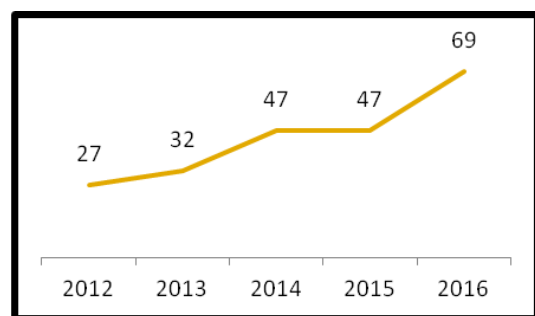
An angel investor (also known as a business angel, informal investor, angel funder, private investor, or seed investor) is an affluent individual who provides capital for a business startup, usually in exchange for convertible debt or ownership equity. The capital angel investors provide may be a one-time investment to help the business propel or an ongoing injection of money to support and carry the company through its difficult early stages. The major sectors that are targeted by the Business Angels include Internet, Healthcare, Mobile Apps, E-Commerce, etc. The following charts are indicative of the investment volumes made by the Angel groups in India for the years 2010 to 2016.

Investments (in value and number) made by Angel groups in 2016<sup>5</sup>.

<sup>5</sup> Innoven Capital: India Angel Report



**Fig. 6: Investments Made by Angel Groups in India, 2016**



**Fig. 7: Number of Deals**

### Crowd Funding

Crowd funding is a method of raising capital through the collective effort of friends, family, customers, and individual investors. It is the practice of funding a project or venture by raising monetary contributions from a large number of people. Crowd funding is a form of crowd sourcing and a form of alternative finance. This approach taps into the collective efforts of a large pool of individuals, primarily online via social media and crowd funding platforms. This leverages their networks for greater reach and exposure.<sup>66</sup> There are three parties to a crowd funding agreement an Initiator, supporters and a moderating organization.

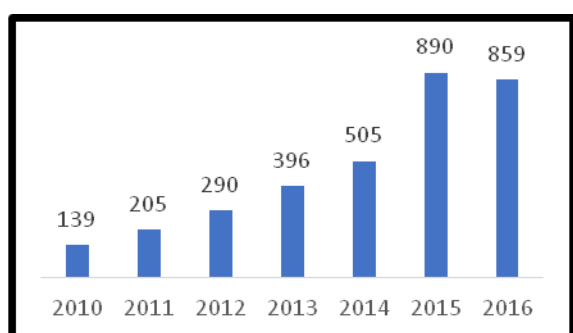
### Venture Capital

Venture capital is financing that investors provide to startup companies and small businesses that are believed to have long-term growth potential. For startups without

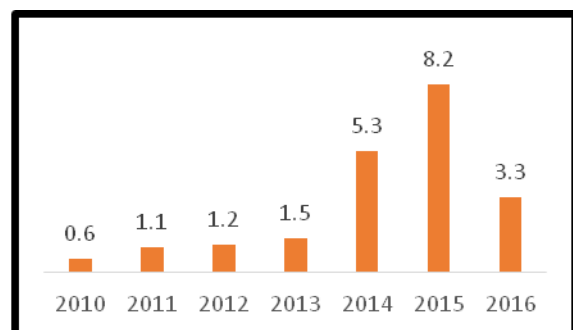
<sup>66</sup> Crowd Funding: Customers as Investors

access to capital markets, venture capital is an essential source of money. Though providing venture capital can be risky for the investors who put up the funds, the potential for above-average returns is an attractive payoff. Venture capital does not always take a monetary form; it can be provided in the form of technical or managerial expertise. For new companies or startup ventures that have a limited operating history, venture capital funding is increasingly becoming a popular capital raising source, as funding through loans or other debt instruments is not readily available.

Venture Financing (in value and number)<sup>7</sup>



**Fig. 8: Venture Financing by Year in India-Deal Counts**



**Fig. 9: Venture Capital Financing by Year, India-Capital in Billion \$**

## Banking Institutions

Lending from banking institutions is convenient for short-term working capital from the startup phase onwards. As startups may possess neither credit nor tangible assets;

banks have always found it tough to lend to startups. Young companies find it difficult to get any funding from banks due to uncertainty regarding these companies' credit worthiness and operations. Private banks are limiting their services to startups mainly to providing expert guidance and due diligence. The hardcore funding is still very risky for them and they are not ready to make these investments. Whereas, banks like SBI, SIDBI have come up with various schemes and branches especially dedicated to startups.

## Government Financing

During the launch of "Startup India; Stand up India", the Prime Minister, Shri. Narendra Modi, expressed that, "Startups are the engines of exponential growth, manifesting the power of innovation. Several big companies were startups of yesterday. They were born with a spirit of enterprise and adventure kept alive due to hard work and perseverance and today have become the shining beacons of innovation."<sup>8</sup> Governments around the world often have programs aimed at financing young entrepreneurial firms since the young startup firms are often unable to procure the required capital. So, it is necessary that the government fills this funding gap by providing capital for the very early stage.

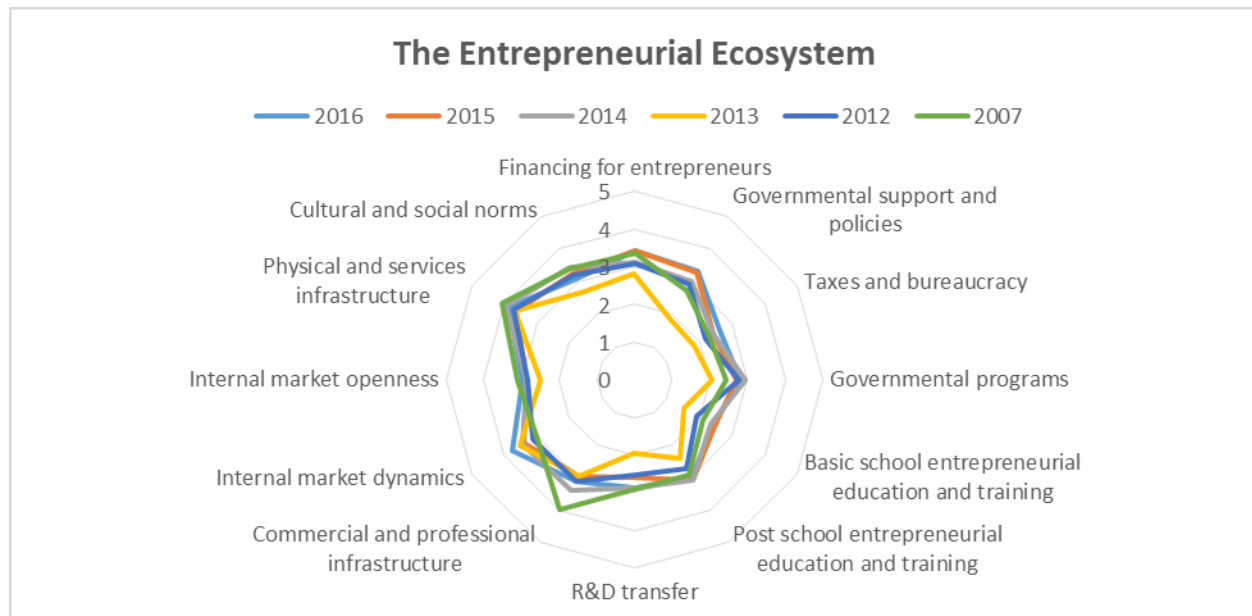
The Stand-Up India Scheme Facilitates bank loans between Rs. 10 lakh and Rs. 1 Crore to at least one Scheduled Caste (SC) or Scheduled Tribe (ST) borrower and at least one woman borrower per bank branch for setting up a greenfield enterprise. This enterprise may be in manufacturing, services, or the trading sector. In case of non-individual enterprises, at least 51% of the shareholding and controlling stake should be held by either an SC/ST or woman entrepreneur

Initially, an entrepreneur can benefit if he makes use of his personal resources. However, the financial needs will quickly increase as the startup develops and starts to grow. For acquiring external capital, it becomes essential for the promoter to meet the investors and lenders in the capital market. Hence, it is necessary that a promoter has an idea of all the possible sources with its pros and cons known to him.

<sup>7</sup> Venture Pulse Q4 2016

<sup>8</sup> Narendra Modi Speech during Launch of Startup India Stand up India

## Entrepreneurship Scenario in India



Expert Ratings: 1 = highly insufficient, 5 = highly sufficient  
 Source: Global entrepreneurship monitor, 2016; <http://www.gemconsortium.org/country-profile/69>

**Fig. 10: Entrepreneurial Ecosystem**

### Data Analysis

By using all the data collected through the research, an attempt has been made to present all sources of financing at the stages and the entrepreneur's perception about that mode of financing. Thirteen companies were interviewed from various industries in order to understand their pattern of funding. These companies are one to seven years old on an average and their services and products ranged from event management to the latest applications for smart phones. The promoters of these companies are highly innovative with or without any prior work experience having strong flair and passion for their business. Most of them are professional degree holders. The financing mode for each of the startup is different on the basis of prior experience of the promoter, the nature of business involved in, their stage in the life cycle, their preference for dilution, the speed at which the company wants to grow, and many more aspects.

The analysis suggests that there is no generic rule/pattern that a startup follows for funding. Table 1 shows the observations presented as a comparative study:

### Questionwise Analysis

When starting a new business, it is essential for the entrepreneur to acquire sufficient amount of capital, especially for those startups that rely on new knowledge or technology. In the following, the main differences and similarities regarding the most prominent sources of funding will be presented. Most of the companies have made use of the capacity from personal savings, friends and family members. It is a primary source in the early growing stage since at this time, the businesses were not big enough to attract business from venture capitalists.

When asked the interviewees regarding their nature of business and the idea behind starting the business, the commonality that was clearly visible was a desire to do something different and to provide services/products that cater to every aspect of an individual's need. The promoters offered products/services ranging from entertainment to healthcare, transport to mobile apps, and event management to fashion apparel. Most of the young promoters felt that their ideas sprung from their passion, personal experiences, business acumen and identification increasing demand for a particular product.

*“Occasionally, I’ve had to throw in money from my own pocket but this hasn’t been significant at all.”<sup>9</sup>*

One major observation as regards the first (seed) finance was that (9 out of the 13) of the interviewed start-ups had used their personal savings. It was felt that personal equity helps to maintain control in the operational decisions. It is also evident that they were aware of the benefits of self-financing when compared to easily acquire outside financing as highlighted by the respondents. Several respondents felt that using their own personal resources initially ensured that they utilized their money to the maximum extent and more rationally.

*“Friends and Family is the toughest source of capital as friends say that it doesn’t matter but it still pricks me that I still owe them a lot of money.”<sup>10</sup>*

Friends and family members also contributed to their setting up their ventures. The amount of investment from this source was relatively low but was enough for their business to attract money from private investors/venture capital companies at a later stage. They also expressed that they had to explain carefully to friends and family about the investment opportunities and the risk involved in order to avoid ruining the relations. Getting money from friends and family was like a double-edged knife, which has both advantages and disadvantages. According to the respondents, it is the simplest and the quickest method of procuring funds. On the other side, if the promoter is not able to repay the amount, relationships are likely to be ruined.

*“Though the banks make an effort through their schemes in reality, they are not interested in lending money to a startup.”<sup>11</sup>*

After making use of funds from friends and families, there were companies like startup 1 which procured an Asset backed Loan from a private bank. Apart from startup 1, startup 12 and 13 also used bank overdraft for its initial operations. They used bank loans as their primary source of funding. But, there was always an element of reluctance on the banks side to lend money to the early stage startups without collateral.

<sup>9</sup> Promoter of Sweet Talk

<sup>10</sup> Promoter of #3

<sup>11</sup> Promoter of #1.

*“Venture capital investors have a large amount of power in decision making.”<sup>12</sup>*

Start-up 5, the Directors personal funds accounted for about 51% of the capital and raised an additional 39% capital from venture capitalists in its round 1 financing. Startup 9 got its first round from 50K ventures to the tune of \$200,000. The promoters of these companies felt that the venture capitalists were long term investors and did not need an immediate repayment. The venture capitalists received a share in the business and when it succeeds, earn huge returns. Most of the interviewed promoters said that they had spent ample amount of time and energy to prove their worth to receive funding from a venture capitalist.

*“They not only bring in funds but also years of experience.”<sup>13</sup>*

Startup 2, 11 with its growth, used funding from Business Angels. Startup 2 preferred Angles as they not only brought in money but also years of experiences, energies, advices and the networks of contacts. Startup 2 had no major issue in raising funds as their product was already launched, demand generated and they needed funds to expand. The growth was already established; hence, no major problems.

Startups 4, 7, and 8 financed their startups from the revenues being generated. Startup 6 had additional benefits from being a part of NASSCOM Warehouse. Startup 9 raised another round from shell foundation and Startup 10 got funded by angels to the tune of \$300,000.

*“This has helped our startup gain the required marketing and helped us assess the demand for these products.”<sup>14</sup>*

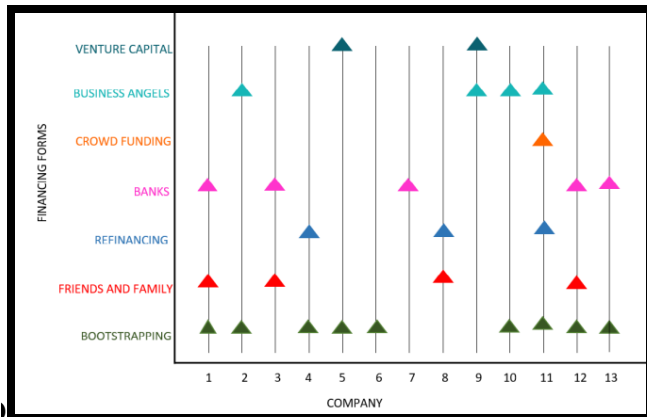
Crowd funding is a rather new source of capital for startups and is dependent on the internet as a funding channel. Startup 11 was the only startup that raised money through crowd funding where the promoter created an online profile to explain his goals of raising funds and shared the project publicly to attract investors. The startup used this as a means to validate their product as well as to promote it.

<sup>12</sup> Promoter of #9

<sup>13</sup> Promoter of #2

<sup>14</sup> Promoter of #11

### Present Form of Financing Being Used

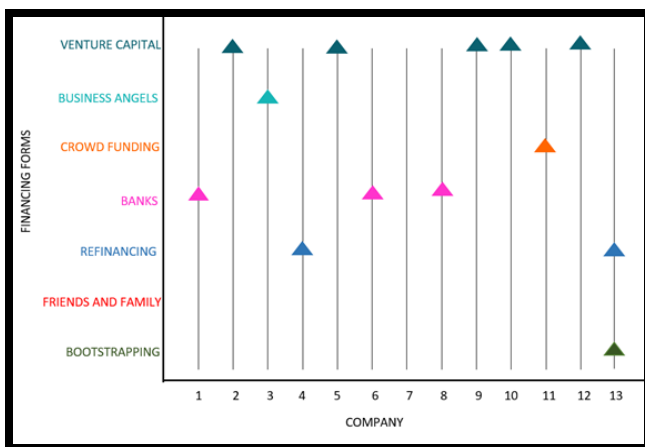


**Fig. 11: Present Form of Financing Being Used by Startups**

Startups 2, 5, 9, 10, 11, 13 had problems with respect to the acceptance of the idea, getting the right investor, dilution in the share of the promoter, etc. Startup 12 felt that there was too much of paper work involved and startup 13's main issue was unpredictable nature of the market leading to seasonal returns and increasing interest burdens.

All the companies that I interviewed had approached their investors at the initial stage, still trying to find a footing and they all had plans of expanding both geographically and operations wise.

### Financing for Expansion



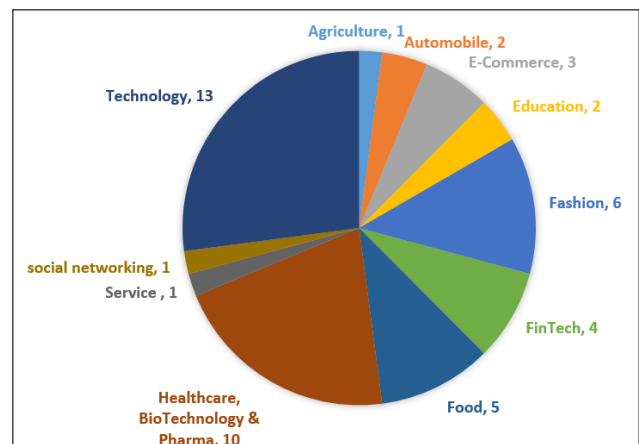
**Fig. 12: Financing for Expansion**

As expansion comes with a cost, the plans for financing moved from utilizing personal contacts, bootstrapping to other sources. Startups 2, 3, 9, 10, 11 and 12 expressed that they would approach either Business Angels or Venture capitalists for funding. They had a notion that acquiring this form of capital was more challenging due to high competition. Startup 4 was very unique both in terms of idea and funding. The promoter said that he would be approaching BCCI for further funding. Startups 1 and 6 would prefer to use a bank funding rather than private equity. Startup 13 expressed that he preferred bootstrapping and refinancing as the risk associated with this form of financing was the least.

In the course of the discussion, most of the respondents expressed that they depended heavily on their personal networks to obtain their funds regardless of their geographical locations. As they moved into the later stages of operations, this network was of great value as they could get better access to funds.

### Secondary Data Analysis

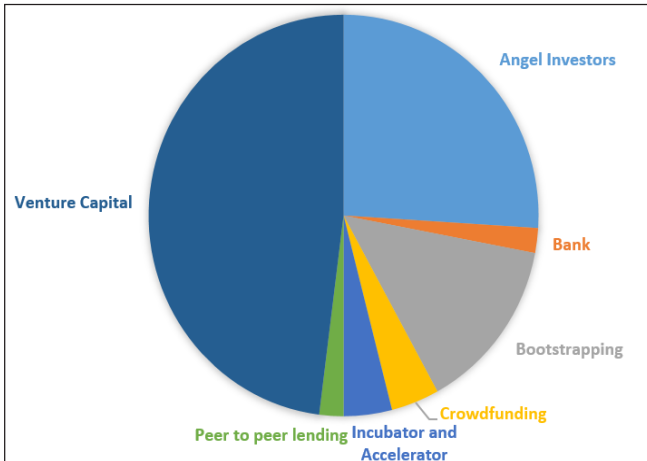
#### Sector Wise Classification of Startups



**Fig. 13: Sector Wise Classification of Startups**

Fifty startups were listed and studied. The sectors in which the startups found their business are illustrated in the pie diagram. The technology sector, followed by the Healthcare, Pharmaceutical and Bio technology sectors, was the most preferred. Six startups offered online services and products from the fashion industry.

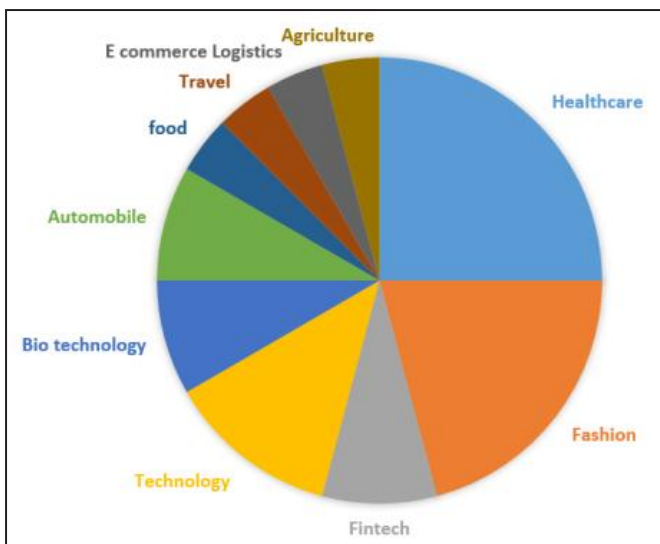
### Methods Used for Financing the Startup



**Fig. 14: Methods Used for Financing the Startups**

Venture capital has been the most preferred form of financing for these startups. Business Angel funding follows it. Most of the companies that have bootstrapped are successful and are looking out for alternative forms of financing to expand their operations. Peer-to-peer lending is still developing in the market and hence there are not many takers.

### Venture Capital Sector Preference



**Fig. 15: Sector Preference of Venture Capital**

### Venture Capital Trend in the Nature of the Product

VC went in for more product based business for funding rather than service oriented.

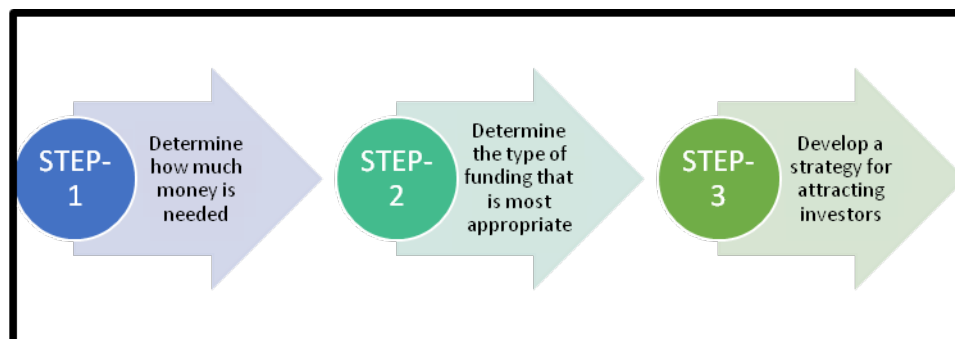
### Findings

The aim of this research was to explore the various sources funding for startups by studying different types of financing. All the issues related to funding such as sources of financing, approaching methods and the entrepreneurs perception regarding various forms of financing were discussed in the interview in order to ensure in depth understanding. Few of the promoters would not choose bank loans because of the rigid borrowing structure like need for a collateral, fixed interest and principal payments, and long and cumbersome paper work.

- Bootstrapping was preferred by every promoter as it was least risky and came with the perk of being extremely flexible. Here, the promoter feels that as every hard-earned penny counts, he makes the most out of it and this remains the sole motivating factor to make the startup a success.
- Perceptions regarding venture capitals were varied.
  - Most of them felt that it should not be taken at the initial stage.
  - It was not preferred as it leads to dilution of ownership and unnecessary interference in the operations of the business.
  - The positive aspect of venture capital is that as the startup grows, the financing needs of the startup also grows and these can be met by venture capitalists.
  - Being a risk capital, there is no compulsion to repay this fund.
  - There are higher chances of exits when additional investment/financial support is required either for growth/sustenance.
- Use of business angels was the most sought out as they not only bring in money but also expertise.

All the interviewees felt that there were no specific rules in the process of financing and

for each investor, there are many rounds of funding. It is evident that the entrepreneurs carried out the following steps to increase their firm's chance of success.



**Fig. 16: Steps for Increasing the Firm's Chances for Success**

The purpose of knowing exactly the needed money in Step 1 is to avoid shortage of capital when operating and also to eliminate unnecessary expenses. Secondly, entrepreneurs cannot persuade investors when they are still uncertain about their financing needs.

In Step 2, all the entrepreneurs have clearly understood the pros and cons of each source of funding and selected the most applicable form depending upon their startup conditions, repayable ability, their risk appetite, etc.

In Step 3, they have developed their own strategies to get funded.

Within business operations, the capital requirements include fixed capital requirements like purchase of fixed assets like building, land, equipment, etc., the working capital requirements are in and out of the cash flows like credit sales, seasonal sales, purchases and contingencies.

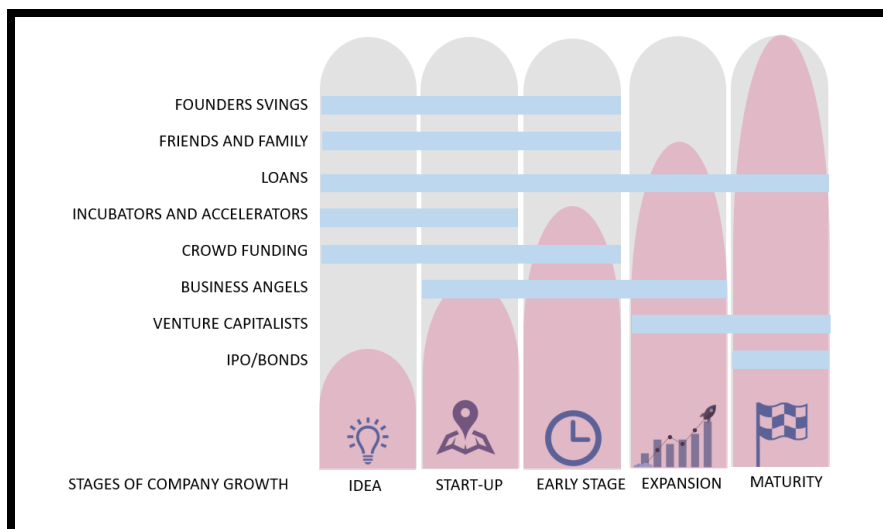
Growth capital forms the most important aspect of a startup. This capital is not used for current consumption rather for expansion purposes.

From then, each startup has developed a suitable financing strategy in order to reduce expenses and increase cash flows. Most of them have bootstrapped and used their personal funds for building products, paying developers,

and the initial marketing costs. They have utilized co-working spaces in order to cut rental costs, marketed through social media to cut marketing costs, asked their friends to lend their skills to cut down on resource costs.

In spite of various efforts from the Government of India, there are a few takers for these. This is because of lack of knowledge about the various options that the government provides. In order to benefit the startup, it is necessary for entrepreneurs to search for capital as well as significant advices from public institutions like banks.

In addition, the findings also show that no investors are willing to invest unless they are interested in the business. For that reason, it is important that the promoters take into consideration which investors they want to work with, which is a time-consuming process. They have to prove the potential of their business ideas by presenting their vision and mission in a very convincing manner. Along with this, a working revenue model, a good support in the form of team, initial customers, etc., should demonstrate why the new venture represents an attractive investment for the lenders or the investors. These requirements change with the type of finance that the promoter decides to use.



Adapted: Noor Shawwa, ThinkDoBusiness.com

**Fig. 17: An Infographic Showing the Different Sources of Funding Options for a Small Business, How They Match the Company Stage, and What Type of Funding They are (Debt or Equity)**

In the early stages, i.e., the ideation stage, all the funds came from entrepreneur, friends, and family. Once the idea took form and was executed and the initial sales occurred, to some extent, the validity of the idea was established. After gaining confidence that the product would grow, the promoters began to scout for investors either in the form of debt or equity. Debt was acquired in the form of loans from public and private banks, friends, family etc. Equity was raised from venture capitalists, business angels, private equity funders etc.

In addition to the 13 personal interviews conducted, we also studied the funding patterns of 50 startups which were already in existence for some time. Though the initial source of funding was not available, most of these companies are at the stage of expansion and hence are using Venture Capitals and Business angels for meeting their capital requirements. Some of these startups in their profiles also revealed that they had initially bootstrapped but had later on moved to equity and debt form of funding. They also revealed that once their ideas were accepted they had no problem raising funds from then on.

### Suggestions for the Government

Develop entrepreneurial ecosystems in terms of government policy and action, financial infrastructure,

education, and access to markets. It is critical to recognize the importance of developing an overall approach to building synergies in entrepreneurial efforts and infrastructures.

Understand skill gaps and develop an educational infrastructure to address these gaps. Though skill India initiative was framed by Government of India, it needs further changes to suit the needs of the actual stakeholders of startups.

Build digital infrastructure capabilities in areas beyond cities that make use of climate positive energy resources when possible and 'off the grid' energy sources where necessary, in order to connect remote entrepreneurs with markets.

### Suggestions at the Entrepreneurs' Level

An idea for a startup must spring from personal experiences, problems faced by the promoter himself or by his/her friends and family. The idea must be a solution to the problem.

Before turning the business idea into practicality, the promoter must assess his idea both technically and financially. Technical assessment includes market study, competitor analysis, and competitive advantage over

others in the market. Financial assessment includes whether the customer would purchase the product.

In cases of startups, personal network and presentation skills go a long in approaching investors. The entrepreneurs can expand their network by becoming a part of an incubator, winning various startup competitions, participating in fares, exhibitions and meets.

The startups must also look into various government grants and schemes introduced for the growth and expansion of their ventures. They should also assess the time frames for getting these schemes into action.

Follow the “guy-Kawasaki rule” for the pitch presentation while approaching investors.

Till the startup reaches a point of self-sustenance, the entrepreneur must have another source of income that they can use as a backup plan for both himself and his startup.

In conclusion, as the startup trend seems to be growing exponentially both globally and in India, competition is becoming fierce. The success of these entities depends on how creative the idea is, and the entrepreneurs understanding of the advantages, and the risks associated with different forms of funding. Funding should not be considered in isolation but is an integrated part of innovation, demand, supply and sustainability.

Further study can be taken up on the awareness level among the population with regard to the various schemes, policies and programs initiated by the government in this regard.

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Table 1

Sr. No.	Question	#1	#2	#3	#4	#5	#6
1.	Nature of Business	Production, processing and marketing of super foods	Mobile Application	Service-Fitness Services	Service Oriented	Infrastructure	---
2.	Sources of Finance	Asset Backed Loan (LAP) from a private bank, Friends and Family, Self-Finance	Initial expenses were met by bootstrapping. With growth, the startup used Angel funds.	Friends and Family, Mortgage of personal property (gold, flat)	Bootstrapping and Refinancing of the revenues generated.	Director's personal funds which accounts 51% capital investment, and venture capital	Bootstrapping, Friends and Family to the tune of Rs.2 Crores, Additional benefits from being a part of NASSCOM Warehouse
3.	Problems faced while Raising Finance	Not disclosed	Acceptance of the pitch presentation by the investors.	Risk of losing relations with unstable revenue model.	None as it was self-funded	Giving the investors their return keeping in mind the long gestation period of the project.	Not disclosed
4.	Stage at which they approached investors	At the initial stage for starting operation	At the growth stage	At the inception	Since initiation.	At the beginning	Since initiation and after becoming a part of NASSCOM Warehouse.
5.	Form of funding that would be used for expansion	Working capital Loan	Series A funding from a Venture Capital Firm	Angel or a seed funding from a Venture capital firm	Sponsorships	NA	Bank loan from SIDBI at the initial stage of growth and then move to private equity or venture funds when the promoter plans for an aggressive growth strategy.
6.	Their perception regarding various forms of financing	The organization is not willing to take Venture funds as a source of financing because of dilution, demands in cases of not meeting the requirements in the term sheet etc.	The startup has bootstrapped and knows the value of money. After knowing that the product is viable, they approached Angels. They prefer this form of financing because of the expertise that they bring to the table.	The promoter will not choose bank loans because of the need to provide a collateral.	The promoter of the organization feels that if any startup has a cutting edge idea, the funds flow into the organization.	The promoter will not choose bank loans because of the need to provide a collateral.	The promoter feels that involving an investor at a very early stage of the startup life cycle, the startup faces a risk of dilution and the lack of freedom to take decisions.

Sr. No.	Question	#7	#8	#9	#10	#11	#12	#13
1.	Nature of Business	Service oriented- Photography	Online jewelry and clothes	Transport	Application based	---	---	Confectionery (Chocolates)
2.	Sources of Finance	Personal loan for purchase of equipment, and the refinance model for financing its operations	Friends and family contributed Rs 20,000 for starting and marketing the organization. Apart from this, the promoter uses her salary as a base for running the operations. The money from the operations are being reinvested into the organization.	Round 1 financing from 50K ventures to the tune of \$200,000. The startup also got another \$200,000 investment from Shell Foundation	The startup first bootstrapped, the Friends and Family invested Rs 15 lakhs and recently, the startup got funded by a group of angels to the tune of \$300,000.	Bootstrapping, Angel Investors investments to the tune of Rs 10 lakhs, Refinancing, crowd funding	banks overdraft, bootstrapping and friends and family	Bank Loans, bootstrapping.
3.	Problems faced while Raising Finance	No problems faced	No problems faced	The investors had problems with the idea, startup structure, unit economics etc.	Investors wanted to see actual growth in their client base before they invested the money, Making a reliable and a working revenue model.	Acceptance of the product from both the investors and the customers.	paper work, convincing banks for support	Seasonal and irregular returns in this nature of the business lead to challenges in repaying the loan. Unpredictable nature of the market further contributes to the confusion in funding and gaining the confidence of the lending financial institution.
4.	Stage at which they approached investors	At the initial stage	At the initial stage after the idea validation and market survey.	At the initial and the growth stage	At the initial stage after the idea validation and after receiving the initial cliental.	At the initiation to the growth stage	At the initiation to the growth stage	Inception time for the heavy overheads for setting up the factory.
5.	Form of funding that would be used for expansion	The promoter would continue to use a refinancing model.	Loan from a private bank	Series A funding from a reputed venture capitalist like Sequoia Capital	Would approach unconventional venture capitalists who are very high risk takers.	Crowd funding	equity funding	Bootstrapping and Refinancing

Sr. No.	Question	#7	#8	#9	#10	#11	#12	#13
6.	Their perception regarding various forms of financing	The promoter does not want to have any dilution in his ownership and hence will not approach an angel or a Venture capitalist for financing their business	Being a working woman, the promoter feels that getting a bank loan with the best credibility will be easy and will not have any interference from an outsider as in the cases of angels and venture capitalists.	The promoter feels that as the startup grows, the financing needs of the startup also increases and these needs can only be met by venture capitalists or a group of angel investors and not traditional investors like banks	They feel that as they have a huge amount of loan from friends and family, the possibility of jeopardizing these relations is high and relying on Venture Capitalists and angels would give them a better perspective of their business and its functioning.	The promoter feels that for an extremely inventive product, getting the customers preference is very essential. Crowd Funding provides that platform wherein they can assess the demand for the product and then jump into production rather than just having a market survey.	The promoter feels that debt funding should be avoided and opt for equity funding from beginning as the burden of repayment of interest and principal is not an option but a compulsion as is not the case for equity.	The promoter feels that debt funding should be avoided as the business is seasonal by nature, their ability to repay the instalment on time with high rates of interest is not favorable. The promoter feels that bootstrapping the least amount of risk as the accumulated amount doesn't attract any interest or repayment tenure.

## Analysis of 50 Indian Startups Which have Made a Name for Themselves

Sr. No.	Startup Name	Industry	Type of Funding
1	WealthApp Financial Advisors	FinTech	Angel Investors
2	UrbanPiper	Food	Angel Investors
3	InFeedo	Service	Angel Investors
4	Vehico	Technology	Angel Investors
5	Wooplr	Fashion	Angel Investors
6	STAQU	Technology	Angel Investors
7	FREASHTOHOME	Food	Angel Investors
8	UNBXD	E-Commerce	Angel Investors
9	nowfloats	Technology	Angel Investors
10	Fareye	Technology	Angel Investors
11	Myra	Pharmaceuticals	Angel Investors
12	Appvirality.Inc	Technology	Angel Investors
13	PriceJugaad	Technology	Angel Investors
14	urDoorstep Eretail	E commerce	Bank
15	Antilog Vacations	Travel	Bootstrapping
16	Zify	Technology	Bootstrapping
17	We Do sky	Technology	Bootstrapping
18	Memllog	Technology	Bootstrapping
19	quackquack.in	social networking	Bootstrapping
20	ID Foods	Food	Bootstrapping

<i>Sr. No</i>	<i>Startup Name</i>	<i>Industry</i>	<i>Type of Funding</i>
21	FreashMenu	Food	Bootstrapping
22	Practice Mock	Education	Crowd funding
23	Rocket tutor	Education	Crowd funding
24	HealthifyMe	Healthtech	Incubator and Accelerator
25	Canvasflip	Technology	Incubator and Accelerator
26	Faircent	FinTech	Peer to peer lending
27	Invictus Oncology	Bio Technology	Venture Capital
28	Forus	Healthcare	Venture Capital
29	Innov4sight	Healthcare	Venture Capital
30	Revv	Automobile	Venture capital
31	Mr.Hot Foods	Food	Venture Capital
32	LookAtMe	Fashion	Venture Capital
33	NeuroEquilibrium	Healthcare	Venture Capital
34	Doctor Insta	Healthcare	Venture Capital
35	GoMechanic	Automobile	Venture Capital
36	Nykaa	Fashion	Venture Capital
37	StalkBuyLove	Fashion	Venture Capital
38	Capital Float	FinTech	Venture capital
39	Flyrobe	Fashion	Venture Capital
40	Tripoto	Travel	Venture Capital
41	Peelworks	Technology	Venture Capital
42	Finomena	FinTech	Venture Capital
43	ManageMySpa	Healthcare	Venture Capital
44	MapMyGenome	Bio Technology	Venture Capital
45	TrueWeight	Healthcare	Venture Capital
46	MySmartPrice	Fashion	Venture Capital
47	Ecomm Express	E commerce Logistics	Venture Capital
48	InMobi	Technology	Venture Capital
49	FIB-Sol	Agriculture	Venture Capital
50	Pinwi	Technology	Venture Capital