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A Critical Study Based on How to Start a Startup by Entrepreneurs in India

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ABSTRACT

Emerging in a developed country, “startup India” aims at promoting and growth of startups for drive in the growth of sustainable development and growth in the economy, and the Government has provided various Schemes for startups by offering loans at reasonable rates development of business provide tax exemption on startups etc. In this paper, we talk about principles of registration, exemptions, and challenges, facing the challenges various schemes given by the government of India. In today’s scenario, around 50000’s startups started in India; according to reports in 2018 and 2021, a very huge response has been coming to start their own startup. For example, many people leave their own job from their companies and start their own startups like UDAAN, FLIPKART, BOAT, BHARATPE, OYO, ETC.

Keywords: *startup, registration, growth, incentives, tax exemptions, benefits, development.*

I. INTRODUCTION

A startup is a company which is registered under the Companies act 2013 by following the fulfilment of specified conditions.

- 1) Acquiring a business name
- 2) Acquiring all the legal licenses and registrations
- 3) Legal details of the business, for example- what you want to start a sole proprietorship, partnerships firms, private limited company,
- 4) By knowing all the relevant tax regimes and accounting terms of the business
- 5) By getting DPIIT registration (department for the promotion of industry and internal trade)
- 6) Documentation of the business, for example- memorandum of association, article of association etc.
- 7) Other areas of the business

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In layman language startup means to develop their new product and sell their product and items in the market that the customer will buy the product at a large number and cannot be irreplaceable by the customer. In recent times the startup has on its huge peak, and a show name called Sharktank India which a plan of action by Entrepreneurs come and ask for investment in which various investors come together to buy equity and shares of the company and the people who need investment to start their own startup come at their platform and start telling about their plan and ask for the capital investment or funds by sharing their company equity and bonds this will help many startups to raise their capital to expand their business and to start their startup by telling them their startup plan in India. Because of this show, many start doing their startup at a huge level.

II. SUCCESSFUL MSME GROWTH WITH STARTUPS IN INDIA

Both the plans of the Indian government, like MSME and startups in India, emerged as successful platforms to provide employment opportunities to the younger generation. MSME not only help in providing help in ample amount of opportunities to the people of India but also help in reducing imbalances in the society and development of the rural sector by setting the industries in the rural and backward region. MSME stands for the micro, small medium enterprises in MSME classifies into three categories MICRO SMALL and MEDIUM enterprise

- 1) Microenterprise starts with an investment of upto 1crore and a turnover of less than 5crore
- 2) Small enterprise- starts with investments upto 10 crores and turnover of less than 50crore
- 3) Medium enterprise- starts with investment upto 20 crores and turnover of less than 100cr

MSMEs contribute 33 percent of the GDP, and there are 6.3 crores present MSMEs in India.

(A)Funding and other support are given to startups by the Government of India to entrepreneurs.

- 1) Fund of funds- for providing support to startups government has created a startup (FFS) at the small industries development bank of India with 10000 crores. The FFS shall contribute to the alternate investment funds (AIFs) for investing in equity linked to various startups.
- 2) Startup India seed Fund- Government of India has newly launched a startup India seed fund worth INR 1000 crores to help ideas from Aspiring entrepreneurs.
- 3) Credit guarantee funds for startups- since debt funding for Startups is perceived as a higher risky activity, the Government has launched a credit guarantee scheme fund for

startups is being set up with a contribution of 2 crores, which covers 75% of credit upto 150 lakhs. And 85% of less than 5 lakh to micro enterprise. Over the next four years to provide credit guarantee cover to Banks, lending institutions provide loans for startups.

4) Tax incentives-

- a. Tax exemption on profits under section 80-IAC of the Income Tax Act.
- b. tax exemption on investment above fair market value
- c. Exemption from tax on the long-term capital gain if such fund is invested as per guidelines or notified by the central government in section 50EE of the Income Tax Act, 1961.
- d. Amendment in section 79 of the income tax act.

5) Setting up of the startup centres technological incubators. 14 startup centres and 15 technological business incubators are to be set up collaboratively by the ministry of human resource development and development of science and technology; out of 14 centres, 10 have been approved.

6) Research parks- 7 research parks have been established in IIT KHAGARPUR as a functional park, and 1 research park in Gandhi Nagar IIT.

(B) Exemptions are given to the Entrepreneurs by the government of India.

- 1) Simple process-Government has launched an easy method to register Themselves as a startup in just one click on your mobile through the government portal; those who are interested in opening a startup can fill up the form and complete it online.
- 2) Easy assessable to funds through the government- A 1000 crore fund is set up by the Government to provide to the startups as venture capital and also government guarantee to the lenders to encourage banks and other financial institutions to provide venture capital.
- 3) Exemption of tax given to the government for 3 years- exemption from tax for 3 years provided to get a certification from the inter-ministerial board
- 4) Research and Development facilities- seven or more research centres had been opened in the research and development sector.
- 5) Easy exit- a startup can close its business within 90 days of the application of winding up.
- 6) Tax saving for investors- tax saving for investors can invest their capital gains in the

venture capital of a startup business to exempt the tax from the government.

- 7) Apply for the tenders-Government of India has given to startups for applying in government tenders and exempted from prior experience and turnover.
- 8) Meet other entrepreneurs: Government of India has proposed to hold meeting 2 startup fests annually, both nationally and internationally, to meet the stakeholders for investment purposes in the startup project.

(C) Examples of Successful startups started in India by Entrepreneurs

- 1) BOAT was started as a successful startup by AMAN Gupta and its co-founders with an investment of 30 lakhs of rupees. BOAT deals in electronics items like headphones, watches, earphones, Bluetooth speakers, etc., which have a great name in India and foreign countries also. And the Net worth of BOAT company is 10500 crore.
- 2) The second successful startup was of a 23-year hardworking entrepreneur PRAFULL BILLORE named MBA CHAI VALA, who started his chai startup with a tea stall and with his selling techniques, he opened various branches of MBA CHAI VALA he now Crorepati in recent times. You can check his story on Youtube; he also motivates youth to start their own new startup with their creative ideas. His net worth is 5-10 crore per year.
- 3) The third example is of the youngest founder of OYO rooms, RITESH AGGARWAL, who started thinking at the age of 17 by travelling in guest houses and doing research that there would be a massive shortage of affordable rooms in India then he started a concept of OYO rooms and is still a successful startup in India and launched his startup in 2013. The net worth of OYO rooms is around 1.1 million USD.
- 4) The next successful startup story of BYJU's the learning app which everyone knows, provides education to 3rd to 12th-year students and provides competitive exams preparation, also founded by BYJU RAVEENDRAN. He made millions of rupees through this platform, and the brand ambassador is SHAHRUKH KHAN of this platform. And the net worth of BYJU'S platform is around 22 billion us dollars in 2022, and over 115 million registered students were there in BYJU.
- 5) The foremost important and successful startup in India was founded by VIJAY SHEKHAR SHARMA the platform is popularly known as PAYTM, which started as a PAYTM wallet then does mobile recharge, tickets, flight bookings, movies tickets, added and UPI payments through banks also added and it was launched in 2011 and in

2022 the revenue of PAYTM is 5624crore.

- 6) Now comes the one of the youngest Entrepreneur in INDIA is TILAK MEHTA who is just 16 year old and started his own startup in 2018, “paper and parcels”, which is a digital courier company that provide one day parcel services collaborating with MUMBAI dabbawalas. Paper and parcel is a door-to-door Service from pen and paper to all other important work. The paper and parcel company’s net worth is around 100 crore.

III. LIFE CYCLE OF A STARTUP

The life cycle of a startup person starts with growing up an idea of business; as we have mentioned that people in shark tank India come up with their ideas and ask for investment in place of their company equity.

Steps regarding the lifecycle of an Entrepreneur.

- 1) Development of an idea: the first step is developing an idea. It is a stage in which there are gathering of various ideas, opinion favoured, and Unfavoured opinion comes to assess the business idea or model.
- 2) Validation: Once the idea has been evaluated and strategies have been adopted, then it is very important to validate the product or services, then the process of defining a goal and developing the propositions to validate the goals of the same customer feedback.
- 3) Early transactions- It is a stage in which we target our costumer can portray definitive results to the outside world a stage in the present scenario set of challenges visibly revenue and cash flow. Customer retention confirms every transaction of the company and its product.
- 4) Growth/exit- in the fourth stage of lifecycle of a startup the company has attained true economic value and economic success and earned profits in this stage company can retain in the market or retain and exit the market if they are in losses also.

(A) Registration steps to enter into a startup-

- 1) formation of a company in India- the companies have to be registered under the companies act 2013 for incorporation winding up, mergers and acquisition etc. now, after formation and registration, it will be difficult to choose which type of companies should be preferred

2) Types of companies:

- a. Private Company: Private company is a company in which there will be a restriction on the transfer of shares and limited numbers of members but also less rigid formalities better than public companies. There will be a public company by raising capital from the public.
- b. One-person companies: this concept of one person company has been newly brought in the companies act; in this company, there will be one director, there will be a limited liability concept in the one-person company, and there will be mentioned a nominee name in the memorandum of association.

3) Now, after selecting the company, there will be a procedure to prepare the documents for incorporation of the companies

a. Charter documents of the companies-

i. MEMORANDUM OF ASSOCIATION- memorandum of association sets out the objective of the company recommended as follows

1. The main and foremost clause of the memorandum of association shall mention the name clause suffixed with the private limited.
2. Third clause of the memorandum of association is an important clause of memorandum of association. The MOA binds the area of operation according to the objects of the MOA; if it will not be followed or action has been taken, then MOA will be void.

ii. ARTICLES OF ASSOCIATIONS: Articles of association contain the rules and regulations of the companies, and they will be applicable to both private and public companies.

5) LEGAL FORMALITIES FOR THE INCORPORATION OF THE COMPANY:

- a. PRE-INCOPORATIOANAL FORMALITIES- digital signature certificate (DSC) is required for preparing and filling the incorporation documents required under the companies act 2013
- b. Director of the company shall have to propose and file the DIN number in SPICe+ with address proof and identity card. DIN will be given after approval of the form.

- c. The next step is filling the online application through the simplified Proforma for incorporation company electronically (SPICe+-INC-32) with eMOA (INC-34) and AGILE-PRO-S
- d. The final step is to get the incorporation certificate of the company.
- e. POST INCOPORATIONAL FACILITIES- once the certificate has been issued by the ROC (registrar of companies), the companies become a separate legal entity in the eyes of the law in India.

Options that are available for finance-related matters to startup companies.

Finance is the lifeblood of the business; without finance company cannot think of survival. In the case of a startup, venture capital is the best source of funding. Let's discuss major sources of funding for startups.

- 1) Family and friends
- 2) Venture capitalist
- 3) Bank loans
- 4) Crowdfunding
- 5) Subsidies given by the government
- 6) Savings of the founders
- 7) Angel investors
- 8) Company builders or accelerators
- 9) Venture debt\ IPO\others

(A) Seed capital

Seed capital is the investment at the initial stage of the business. The capital can be borrowed from friends, relatives, investors, venture capitalists, founder savings Etc. Venture capitalists invest money after market research of the startup that this startup will run in the long term or not; then, after all the analysis, venture capitalists will Invest money in the startups. Seed capital, in simple terms investment at the growth stage of business

Seed funding is a risky investment also because it invests at the initial stage, where are chances of losses at the beginning, so many founders or funding agencies will use the wait-and-watch approach in the beginning, to see if the business will run in the long term or not. If we see from the founder's point of view than it will not be risky because he has a plan to use this fund at the

best level for a run in the long term.

Seed capital is also less relative to procedural paper-related work, and it is straight forward process as compared to other funding process; legal process fees are also low as compared to other funding sources, and there is also no restriction at the initial stage of business.

Financing is generally of two types- a) equity financing b) debt-financing

Startups use mainly use equity finance capital, venture capital, and private equity investors, because there are risk factor, is less; because if the loss is there in business founder does not have to return the investment, but in debt financing, there is a high for the founder because he has to give collateral securities against the fund

(B) Equity Financing

- 1) Venture capital- venture capital is the investment at large scale of funds at the initial stage; convertible instruments are preferred rather than preferred instruments, and most commonly, investment is used, which includes convertible preference shares and compulsory debentures
- 2) Angel investors- angel investors are groups of people or individuals who are willing to invest in the business for equity shares of the company under SEBI regulations act 2012
- 3) Angel investors invest in the business which are-
 - a. Startups which have a turnover of less than 25 crore in that case, angel investors will invest
 - b. are not sponsored by any industry which has a turnover more than 300crore
 - c. angel investors will not invest in that companies which have any family connection with venture capitalist
- 4) angel investment should not be less than 25 lakhs and not more than 10crore

(C) Debt financing

Debt financing means financing the capital through loans from banks, NBFCs, commercial borrowings etc. in debt financing owner has to give collateral securities against loans or finance money.

- 1) Loans from the banks and NBFCs- Loans from helps help in finance for purchasing the raw material inventory equipment goods. In the case of loans from banks or NBFCs, we did not have to give the equity of the company but have to give collateral securities of the company against the loan and also pay interest every month with the sum payable

amount and the founder or owner will have a good reputation in the society.

- 2) External commercial borrowings- external commercial borrowings (ECB) in the form of bank loans by giving securitised convertible and nonconvertible preference shares. And can be availed from non-resident lenders to fund the business requirement of a company; it can be assessed in two ways- (1) automatic route (B) approval route- depending upon the category of the eligible borrower and recognised lenders amount of ECB availed< average maturity period and other applicable factors
- 3) CGTMSE loans- under the credit guarantee trust for micro and small enterprise scheme launched by the ministry of micro, small medium enterprise (MSME) government of India has encouraged entrepreneurs to get Upto 1crore without any collateral securities. Any entrepreneurs can avail the benefit of this scheme under the government of India from regional rural banks, NSIC, SIDBI, without any giving collateral securities, signed by an agreement with credit guarantee trust.

IV. PROBLEMS FACED BY ENTREPRENEURS FOR STARTING A STARTUP

Challenges are everywhere; Around 150 million entrepreneurs are there in the world, and new entrepreneur growth is 50 million every year; launching any new product in the Market, there is a similar product available in the market at a lower or higher cost. There will be very less difference seen in similar products. Every entrepreneur has to be the survival of the fittest in the market; if he cannot compete in the market, he will lose his place in the market Adapting to newly technology can help to be the survival of the fittest but on a long-term basis.

Financial problems - the major factor of problem in a startup is that the entrepreneurs invest all the money in the business and cannot save a part of the money for a future crisis; finding suitable investors are also a difficult task like venture capitalist to invest in risky business entrepreneurs has to retained some investment for rainy days.

- 1) Lack of planning- it is impressive to know that many startups are failed in starting due to a lack of planning of decision to choose the right business ideas and strategies planning to do some work planning in sales development of funding does not give importance to planning to see the unforeseen crisis or problems coming in future planning Is the base of startup to plan how actually we can survive in the market with the help of planning
- 2) Hiring the right talent for the business- Not hiring the right talent can also be a problem faced by entrepreneurs because employees can do the business at the top or do the

business at the low, choosing the right candidate for the organisation finding best candidate can prove expensive for a newly started business finding the right talent is still a main problem faced by entrepreneurs

- 3) Effective marketing & limited budget- marketing of a product is the main factor in the sale of a product, and the cost of marketing on television or on online sites is too high that a new enterprise or startup cannot afford that much of expenses, so they use limited source of budget in marketing which does not help to grow in the competitive market entrepreneurs use spoken of mouth and advertising in small sites rather than television or promoting in the newspaper that will make a special impact of a product in the eyes of people.
- 4) Time management - time management will also be the main cause of problems in entrepreneurs because many big companies are also facing time management like production is not ready on time, delivery of products is not on time, and project work does not complete on time.
- 5) Reach the customer- Many businesses are also failed due to the failure to attract customer towards the product without finding the right customer. Powerful ideas or planning will not work until you attract the right customer towards the product; there are many ways to reach the customer like social media, newspaper, and television; if you are attracting youngsters, then advertise on social media if you are attracting females for households products then advertise in television.
- 6) Dealing with the criticism- the foremost important challenge faced by entrepreneurs is criticism from people, relatives, family, and investors; many entrepreneurs face criticism in their life; for example, RATTAN TATA sir faced criticism when they launched TATA NANO in which people make comments on this car that this is small and hated the car because of this failure project sir RATTAN TATA sir faces criticism of people.

V. CONCLUSION

At present day startup can help in the growth of the economy and the development of mindset from jobs to business; in today's scenario, startup gives so much awareness that 20-25 years of children are working as entrepreneurs in different fields, some of them making tea businesses at large scale on the top like ANUBHAV DUBEY a great entrepreneur and in a field like affiliate marketing Krishna as a good example.

According to the report, MSMEs increased 18.5 percent in India from 21.21 lakh in 2019 and 25.13 lakh in 2020. This sector helps in the growth of the economy nationally and internationally.
