

The Indian startup ecosystem: promises to keep

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The year 2020 was an aberration; one that no industry, government, enterprise – mature or startup – could ever have anticipated. While the Indian economy shrank dramatically, businesses with a strong digital fulfilment model – supported by digital payments – saw their consumer base expand, both in terms of numbers and profile.

Within the startup ecosystem, a large number of businesses struggled with 15 per cent of India's 40,000 startups ultimately having to shut shop as a result of the pandemic¹. On the other hand, many digital and digitally enabled startups witnessed remarkable growth. India saw 11 startups cross the USD1 billion mark in valuation and claim the unicorn tag; this number was nine in 2019².

Budget and the road to recovery

Over the past few years, the startup ecosystem has seen many changes with the influx of large amounts of domestic and foreign funds, consolidation activities, innovation, evolving technologies and a growing domestic market. The recent budget provided this segment with further support with multiple targeted benefits and initiatives being announced.

Over the last five years, the government has been an active facilitator for the entire startup ecosystem. The liberalisation in relation to one-person companies (OPCs) is expected to help young startups and innovators with limited funds formalise their businesses at an early stage. Apart from that, there is also a one-year extension of the tax holiday for startups. The capital gains exemption for investment in startups has also been extended by one year to 31 March 2022. Another important initiative by the government is the recently approved Startup India Seed Fund Scheme with a corpus of INR945 crore (USD131 million). It is

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aimed at providing financial assistance to startups for proof of concept, prototype development, product trials, market entry and commercialisation. NRIs can also incorporate OPCs in India and there is a significant reduction in the residency time limit for an Indian citizen to set up an OPC from 182 days to 120 days. The social security for the gig workers is an important social reform for the vast population working on flexible contracts. In an attempt to lower the compliance burden on startups, the Finance Minister also proposed to revise the definition of small companies under the Companies Act, 2013 by increasing their capitalisation threshold from not exceeding INR50 lakh (USD69 thousand) to not exceeding INR2 crore (USD0.3 million) and turnover from not exceeding INR2 crore (USD0.3 million) to not exceeding INR20 crore (USD2.7 million)³

The future awaits

Post pandemic, the focus for India seems to be on strengthening the digital infrastructure within key sectors such as healthcare and education, alongside ensuring employment generation in manufacturing and infrastructure. The Indian startup ecosystem must develop solutions that allow businesses in these key sectors to achieve these goals of national importance. Interestingly, India is well placed with adequate undeployed capital within angel investors, venture capitalists (VCs), private equities (PEs) and Indian family offices. However, there is a dearth of credible and scalable startups where this money can be invested. This presents Indian entrepreneurs with an attractive opportunity to be both innovative and creative in their ideas, with the assurance that funding is apparently less of a constraint. Startups that survived 2020 are also currently enjoying the renewed confidence of the investors.

In 2021, Indian VCs believe that deal flow will continue to be robust as global funds remain keen to invest in the Indian startup ecosystem. Indian investors have indicated in various interactions that they will continue to bet on sectors such as e-commerce, ed-tech, fintech and SaaS, with certain future-ready sectors such as spacetech and agritech also seeing greater interest. Consolidation in India's tech ecosystem, an increase in mergers and acquisitions and a rise in IPOs are predicted for 2021⁴. Deep-tech and new startup hubs are expected to continue to grow at a 40–45⁵ per cent CAGR. In terms of total unicorns, India is on track to have a 50-plus strong unicorn club by 2021–22⁶.

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In conclusion

Certain proactive measures, such as augmenting physical infrastructure, enabling technology adoption for blended learning/skilling, fast-tracking policy implementation, and streamlining the skilling ecosystem would be critical to help further growth of the startup ecosystem. This can be achieved by:

- **Focusing more on the ease of doing business**; a lot has been done but more support is needed so that founders can concentrate on core business rather than the bureaucracy around it
- Upgrading the **R&D infrastructure and curriculums** in education institutions to make students ready for the digital world
- Strengthening the **domestic financing ecosystem** — banks, VCs, institutions, use of pension funds, etc.
- Allowing the **listing** of domestic companies overseas
- **Reducing the compliance burden** under domestic tax regulations, labour laws, corporate laws, etc.

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¹ 2021 to mark a new era for the Indian startup ecosystem, Mint, December 2020

² 2020 In Review: 11 Indian Startups that defied the pandemic to enter the Unicorn Club, Inc42, December 2020

³ Budget 2021 recognizes that role of startups and MSMEs are central to India's future of \$5T economy, Financial Express, February 2021

⁴ 2021 will be a watershed moment for India's tech ecosystem, Business Insider India, January 2021

⁵ Indian Tech Start-Up Ecosystem – On the march to a trillion-dollar digital economy – a report by Nasscom in association with Zinnov, January 2021

⁶ Deep tech adoption driving growth for India's tech startups in 2021, January 2021

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