STARTUP INDIA: A ONE STEP AHEAD FOR THE RAPID INDUSTRIALISATION OF INDIA INCLUDING MSMEs

Anil P. S1, Gajendranaidu

1Associate Professor, Department of Management, Gnanam School of Business, Thanjavur, Tamilnadu.
2Professor & HOD, Department of Management, Auden College of Management and Technology, Bangalore.

ABSTRACT

“Startup India” movement is centred on an action plan designed at encouraging bank finance for start-ups to enhance entrepreneurship and encourage startups with a view to create more employment opportunity. It was first announced by Prime Minister Narendra Modi on Independence Day at Red fort. The main focus of the movement is to avoid all the hassles of “license raj” and hindrances like in land permissions, foreign investment proposal, and environmental clearances. The timing couldn’t have been more appropriate. Last year, over 80,000 jobs have been created in the country by startups according to data supplied by IT industry body Nasscom. Besides, the number of active investors in Indian startups had more than doubled last year to 490 from 220 in 2014, as per the Nasscom study. The scale of startup action in the country has been nothing but stupendous and the government has taken note of that.

KEYWORDS

Startup India, MSME, Startup India Hub, Fair Market Value, Incubator Units.

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INTRODUCTION

Startup India is a flagship initiative of the Government of India, envisioned to shape a strong ecosystem for fostering revolution and Startups in the country that will get-up and-go maintainable economic progress and engender huge scope of employment opportunities. In order to meet the purposes of the initiative, Government of India is declaring this Action Plan that discourses all features of the Startup ecosystem. With this Action Plan, the Government expects to rush scattering of the Startup drive from digital/technology sector to a wide range of sectors including agriculture, manufacturing, social sector, healthcare, education, etc.; and from existing tier 1 cities to tier 2 and tier 3 cities including semi-urban and rural areas.

The Action Plan is divided across the following Areas:

• Simplification and Handholding
• Funding Support and Incentives
• Industry-Academia Partnership and Incubation.

Through this new edge of the govt., is not attracting the youth as a job hunter any more but considering them as job creators.

Simplification and Handholding

The major hurdle that blocks the new ventures is the hassles of formalities. Regulatory procedures necessitating the compliance of time consuming laws such as labour and environment. Often, new and small firms are unaware of gradations of the matters and can be subjected to intrusive action by regulatory agencies. In order to make compliance for Startups friendly and flexible, simplifications are required in the regulatory system such as Labour Laws and Environment laws.

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Corresponding Author:
Anil P. S,
Chithira, Near LMSHSS,
Vattappara, P.O., Trivandrum.
E-mail: anilpsnair@gmail.com
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Environment Laws Covers

The Water (Prevention & Control of Pollution) Act, 1974; The Water (Prevention & Control of Pollution) Cess (Amendment) Act, 2003; The Air (Prevention & Control of Pollution) Act, 1981.

It has always been a tall task for women to start their own business. Women entrepreneurs are doing well in the entrepreneurial ecosystem and if they are given proper support, then they would excel in this field. Government has now come into action as it has declared that there is a special scheme for the women entrepreneurs also on their card.

Another thing which has made these mushrooming entrepreneurs happy is the incubation centres. Government in its Startup policy has declared that it will bring sector-specific incubators for the budding startups. This will enable startups to incubate more properly with sector specific knowledge.

General Qualifications to get Benefits of Startups India

1. It must be registered/incorporated as Private Limited Company under the Companies Act, 2013; or Registered Partnership firm; or Limited Liability Partnership under the Limited Liability Partnership Act, 2008.
2. It should not be more than five-year-old from the date of incorporation/registration.
3. Annual turnover should not exceed more than 25 cores during the preceding financial year.
4. Startup must be working towards innovation, development, deployment or commercialisation of new products, processes or services driven by technology or intellectual property.
a. The Startup must aim to develop and commercialise;
b. A new product or service or process; or
c. A significantly improved existing product or service
   or process that will create or add value for customers or workflow.
5. The Startup should not be the one only engaged in
developing products or services or processes, but must
have potential to commercialise it.
6. The Startup should be a new venture and it should not be
a one which it restructured or reframed an old one or an
existing one.
7. The Startup has to get certification from the Inter-
Ministerial Board, setup by DIPP to see whether the
venture is an innovative one or not.

Source: http://yourstory.com/2016/01/startup-india-action-
plan-eligible/

Startups in India
Hub
The concept envisages the single window system to enable
knowledge exchange and funds access to each venture.
Government has taken many steps to improve the ease of
doing business and is also building an exciting and enabling
situation for these Startups, with the promotion of the “Startup
India” drive. Startup India hub will now provide entrepreneurs
a single point of access to communicate or go ahead. This can
also be done through a new mobile app. This single point
access will make the formalities easy.

The “Startup India Hub” will act as a Key Participant in the
Vibrant Network and will:
• Act in a hub and team up with Central & State
  Governments, Indian and abroad VCs, angel grids, banks,
  incubators, legal partners, counsellors, universities and
  R&D institutions.
• Extend assistance to Startups through their growth with
  special attention on important features like getting
  finance, feasibility test, business configuring advisory,
  development of advanced marketing skills, technology
  commercialisation and management evaluation.
• Arrange mentor sessions in association with
  government institution, incubation centres, educational
  institutions and private institutions who seek to stand
  in revolution.

Rolling-out of Mobile App and Portal
To provide a single window for Startups for interacting with
Government and regulatory institutions for all of their
business linked data and to discuss ground-breaking ideas
among stakeholders. To start the operations, Startups want
registration with respective apex establishments. Delays and
lack of knowledge in completing registration formalities can
further delay in establishing Startups. Lack of getting adequate
finance from formal sources, employing experienced workers
and generation of good incomes can cause delays.

Besides, Startups often suffer from the ambiguity
concerning the precise regulatory requirements to set up its
operations. To ensure that the information is readily
obtainable, it is envisioned that a checklist of mandatory
authorisations covering labour licensing, eco-friendly
approvals, etc. be made available. At present, the Startup
ecosystem in India lacks proper platform(s) for Startups to
link and co-operate with other ecosystem associates. To
eliminate these hurdles, the Government shall introduce a

Mobile App to provide on-the-go Accessibility for:
1. Registering Startups with respective Government
   agencies.
2. To track the status of the application for registration and
downloading of the registration certificate at any point of
time. A digital version of the mobile application is made
available.
3. Filing for compliances and obtaining information on
various clearances/approvals/registrations required.
4. The Application is to provide a collaborative platform at a
   national network of stakeholders (Including venture
   funds, incubators, academia, mentors, etc.).

Legal Support and Fast-tracking Patent Examination at
Lower Costs
To promote awareness and adoption of IPRs by Startups and
facilitate them in protecting and commercialising the IPRs by
providing access to high quality Intellectual Property services
and resources, including fast-track examination of patent
applications and rebate in fees.

Various Measures being taken in this Regard Include:
• Fast-tracking of Startup patent applications: The
  valuation of any innovation goes up enormously, once it
  gets the caring cover of a patent.
• Panel of facilitators are also there to assist in filing of IP
  applications: For effective carrying out of the scheme, a
  panel of “facilitators” shall be appointed by the
  Controller General of Patents, Designs and Trademarks
  (CGPDTM).
• Government has to shoulder the facilitation cost. Under
  this structure, the union Government shall stand the
  entire fees of the facilitators for any number of patents,
  trademarks or designs that a Startup may file, and the
  Startups have to incur the statutory fees payable only.
  Startups shall be provided with a rebate of 80% in filing
  of patents vis-à-vis other companies. This will help them
  pare costs in the critical determinative years.

Relaxed Norms of Public Procurement for Startups
The objective of relaxing the norms of public procurement is
to provide an equal platform to Startups in the manufacturing
sector against the experienced entrepreneurs. The major
hindrance in new startups by youngsters is the hassles of
norms and objections thereby. For instance, whenever a
tender is floated by a government body or another public sector entity the basic norm by them will be the previous experience in the industry or their prior turnover which new startups cannot show.

Here as per the new provisions, with effect from April 1, 2015, Central Government, State Government and PSUs have to mandatorily procure at least 20% from the Micro, Small and Medium Enterprise (MSME).

To promote Startups, Government must exempt Startups who are in the manufacturing sector from the criteria of “prior experience/turnover” without any reduction in quality standards or technical parameters.

**Faster Exit for Startups**

Yet another limiting factor is the ease of coming out from failures. If the project is a failure, the investor should be able to come out from the business by closing down its functions. The formalities to close down the business should be easy. In the event of a business failure, it is very difficult to rearrange capital and assets to more productive roads and accordingly a hasty and simple method has been suggested for Startups to wind-up operations.

In terms of the IBB, Startups with simple debt structures or those meeting such criteria as may be specified may wind up within a period of 90 days from making of an application for winding up on a fast track basis.

**Providing Funding Support through a Fund of Funds with a Corpus of INR 10,000 crore**

One of key challenges faced by Startups in India has been access to finance. Often Startups, due to lack of collaterals or existing cash flows, fail to justify the loans. Besides, the high risk nature of Startups wherein a significant percentage fail to take-off, hampers their investment attractiveness.

In order to provide funding support to Startups, Government will set up a fund with an initial corpus of INR 2,500 crore and a total corpus of INR 10,000 crore over a period 4 years (i.e. INR 2,500 crore per year). The Fund will be in the nature of Fund of Funds, which means that it will not invest directly into Startups, but shall participate in the capital of SEBI registered Venture Funds.

**Key Features of the Fund of Funds are highlighted below:**

- The Fund of Funds shall be managed by a Board with private professionals drawn from industry bodies, academia, and successful Startups.
- Life Insurance Corporation (LIC) shall be a co-investor in the Fund of Funds.
- The Fund of Funds shall contribute to a maximum of 50% of the stated daughter fund size. In order to be able to receive the contribution, the daughter fund should have already raised the balance 50% or more of the stated fund size as the case may be. The Fund of Funds shall have representation on the governance structure/board of the venture fund based on the contribution made.
- The Fund shall ensure support to a broad mix of sectors such as manufacturing, agriculture, health, education, etc.

**Tax Exemption on Capital Gains**

Due to their high risk nature, Startups are not able to attract investment in their initial stage. It is therefore important that suitable inducements are provided to investors for investing in the Startup system. With this objective, exemption shall be given to persons who have capital gains during the year, if they have invested such capital gains in the Fund of Funds recognised by the Government. This will supplement the funds available to various VCs/AIFs for investment in Startups. In addition, existing capital gain tax exemption for investment in newly formed manufacturing MSMEs by individuals shall be extended to all Startups. Currently, such an entity needs to purchase “new assets” with the capital gain received to avail such an exemption. Investment in ‘computer or computer software’ (As used in core business activity) shall also be considered as purchase of ‘new assets’ in order to promote technology driven Startups.

**Tax Exemption to Startups for 3 years**

Innovation is the essence of every Startup. Young minds kindle new ideas every day to think beyond conventional strategies of the existing corporate world. During the initial years, budding entrepreneurs struggle to evaluate the feasibility of their business idea. Significant capital investment is made in embracing ever-changing technology, fighting rising competition and navigating through the unique challenges arising from their venture. Also, there are limited alternative sources of finance available to the small and growing entrepreneurs, leading to constrained cash funds. With a view to stimulate the development of Startups in India and provide them a competitive platform, it is imperative that the profits of Startup initiatives are exempted from income tax for a period of 3 years. This fiscal exemption shall facilitate growth of business and meet the working capital requirements during the initial years of operations. The exemption shall be available subject to non-distribution of dividend by the Startup.

**Tax Exemption on Investments above Fair Market Value**

Under The Income Tax Act, 1961, where a Startup (Company) receives any consideration for issue of shares which exceeds the Fair Market Value (FMV) of such shares, such excess consideration is taxable in the hands of recipient as Income from Other Sources. In the context of Startups, where the idea is at a conceptualisation or development stage, it is often difficult to determine the FMV of such shares. In majority of the cases, FMV is also significantly lower than the value at which the capital investment is made. This results into the tax being levied under section 56 (2) (viii). Currently, investment by venture capital funds in Startups is exempted from operations of this provision. The same shall be extended to investment made by incubators in the Startups.

**Atal Innovation Mission to encourage entrepreneurship and innovation:**

The Atal Innovation Mission will establish sector specific incubators and 500 ‘Tinkering Labs’ to promote entrepreneurship, provide pre-incubation training and a seed fund for high-growth startups. Three innovation awards will be given per state and union territory, along with three national awards, as well as a Grand Innovation Challenge Award for finding ultra-low cost solutions for India.

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Innovation Focused Programs for Students
An innovation core program targeted at school kids aims to source 10 lakh innovations from five lakh schools, out of which the best 100 would be shortlisted and showcased at an Annual Festival of Innovations, to be held in Rashtrapati Bhavan. A Grand Challenge program called NIDHI (National Initiative for Developing and Harnessing Innovations) shall be instituted through Innovation and Entrepreneurship Development Centres (IEDCs) to support and award INR 10 lakhs to 20 student innovations. Uchat Avishkar Yojana, a joint MHRD-DST scheme has earmarked Rs. 250 crore annually to foster "very high quality" research amongst IIT students.

An annual Incubator Grand Challenge
The government will identify and select ten incubators, evaluated on pre-defined Key Performance Indicators (KPIs) as having the potential to become world class, and give them Rs. 10 crore each as financial assistance to ramp up their infrastructure.

CONCLUSION
The Action Plan read of tax concessions, finance, ease-of-doing business, revolution, among a host of other grand commitments that would help entrepreneurs to start and grow their businesses. Directionally, the Action Plan got a thumbs up from all stakeholders such as entrepreneurs and investors in the startup ecosystem. The Action Plan stated that profits of startup would be exempt from income tax for a period of three years. It also said investors would get a tax exemption on capital gains, in a bid to help startups attract more investments. The government also announced its intention of providing financial support through a ‘Fund of Funds’ which would have a corpus of Rs. 10,000 crore. Public sector behemoth Life Insurance Corporation will be a co-investor in this fund.

REFERENCES
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