

## START-UP FUNDING AND GROWTH OF START-UPS IN INDIA

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### Abstract

Start-up India revolutionised the innovative and Begin-up scenario of the country over the last 5 years. The number of Start-ups set up in India over the years is very large. This growth has been exponential across the states in various industries. The number registered Start-ups from States and Union territories have been evaluated. The fund based assistance provided by Government for Start-up ecosystem with regard to its action plan have also contributed to this growth. The correlation between funds drawdown through AFIs over the years with that of number of start-ups recognised have also been analysed in this study. There have been an exponential growth in Start-up registrations with from 2016 to 2021- almost 28 times jump in 5 years.

**Key words:-** Fund of Funds, Start-up, Start-up Ecosystem, Seed Fund Scheme, Institutional Incubation

It has been widely proven that Government funding will enhance innovation and research in begin-ups, new ventures and private sector. Innovation disruption is found to be more prevalent with public-private collaboration as against private

funded entities. However, since government is not particularly focused on the growth and expansion of start-up firms, public funding appears to hamper the scaling-up of start-ups. So it can be inferred that direct funding by Government is not in

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the best interest of Start-ups. (Sykora, 2019)

Start-ups do not make revenue in its initial stages and incur heavy losses owing to ideation, innovation, establishment etc. Initial years of a Start-up do not render any revenues. Hence institutional incubation is absolutely essential. Funding is crucial for Start-ups more than any other ventures that require less seed capital. Since it is not easier for Start-ups to raise funds through conventional sources, Government should provide for incubation and ecosystem of growth.

Venture capitalists are not interested in start-ups during crisis in economy (like Covid-19) and there is huge cost associated with investment by private parties. Rolling out of funds through traditional financial institutions will not help Start-ups as it will take much time. The funds must be deployed through institutions that stay closer to the Start-up business environment who are sensible about the nature of Start-up business cycle. Government funds must reach the Start-ups through Venture Capital funds, accelerators and business angels. These intermediaries will be accustomed with the Start-ups. (Alemany, 2020)

With the intention of mitigating the aftermath of Covid pandemic, high growth companies were assisted by UK Government. Early stage companies and high growth Start-ups were given financial assistance of £250 million through programme called Future Fund. The Government also extends its aid through an agency called 'Innovate UK' from which eligible Start-ups can get grants and loans up to £200 million. Those who

weren't eligible are offered another £175,000. (Treasury, 2020)

Empirical data by Start-up Cartography project (Fazio et al., 2021) suggests that Start-ups from eight states in USA shows that the number of Start-ups formed in these states increased after COVID pandemic significantly. This growth in registrations are attributed to the passage of Federal Relief packages by Government. These packages are not directly issued for new company formation. But it helped in survival of firms and start-up formation rates also increased pursuant to this intervention by US government.

These are instances where Government took adhoc measures during the times of a crisis like COVID. But Start-up funding has been identified as a crucial measure by India Government. Prime Minister Narendra Modi considers Start-ups and technology as effective tool for nation's transformation. In 2016, Government of India initiated a flagship programme called Start-up India. It involves an Action Plan (*Startup India: Action Plan*, 2016) that aims at providing an ecosystem for, encouraging innovation, generation, designing and materialisation of innovative ideas. The start-up ecosystem nurtures, empowers and supports the start-ups. This ultimately contributes to economic growth and employment generation.

Start-up India have several stated objectives for it, which are broadly classified into 3 main areas of Action Plan:

1. Simplification and handholding: it focuses on beginning of operation,

registration, protection of intellectual property, legal assistance, compliance procedures etc

2. Funding Support and incentives: focuses on funding support, credit guarantee, tax exemption, investment etc.
3. Industry academia Partnership and incubation: focuses on collaboration of start-ups with research institutions, innovation institutions, incubators etc.

The study focuses on second area of Action Plan- Funding support and incentives, with exclusive appraisal of Government initiated funding. The government does not directly fund the start-ups. Instead, they kick-started the start-up revolution by setting up a ‘Fund of Funds’ which will not invest directly in any start-up enterprises, but invests in SEBI registered Alternate Investment funds, who invests in Start-ups. Initially, a corpus of ₹10,000 crores was set out for Fund of funds for Start-ups (FFS). To provide capital at earlier stage of a Start-up business, Start-up India Seed Fund Scheme (SISFS) was also set up in 2021, (ALLOCATION OF FUNDS TO STARTUPS, 2022) along with FFS.

In this study, the growth in number of Start-ups in India across States and Union territories through the years from 2016 to 2022 is evaluated. This growth could be due to various factors. Funding is an important factor and is pitched against the growth in number of start-ups to find any relation between both.

**Rationale of Study**

The study is trying to establish the relevance of Government funding in

Start-up ecosystem by finding a relation between funding and Start-up formation rate.

**Methodology**

For this, the data of Start-ups recognised by DPIIT over the course of five years from 2016 to 2021 is compiled. The funds allotted and drawdown through AIFs in this period are also accessed from the official websites of government. To establish the relationship, a correlation test is conducted between variables by stating Null hypothesis-

- There is no significant relationship between funds drawdown and Start-ups recognized over the years

**Objectives of the Study**

1. To evaluate the growth of start-ups registered in India since the inception of start-up India.
2. To find correlation between drawdown of funds and growth in recognised start-ups over the years.

**Fund of Funds for Start-ups (FFS)**

Unveiled in 2016 with a corpus of ₹ 10000 crores to be invested in various AIF (Alternate Investment Funds) registered with SEBI, FFS cater the funding need of Start-up enterprises. AIFs supported under FFS shall invest at least twice the contribution out of FFS, in Start-ups as defined by Government of India under Start-up India, Stand-up India scheme vide Gazette Notification G.S.R.127 (E) dated February 19, 2019 and as amended from time to time. (FFS - SIDBI Fund of Funds, 2022)

Alternative Investment Funds (AIFs), known as daughter funds, who in turn

invest money in growing Indian start-ups through equity and equity-linked instruments. SIDBI has been given the mandate of managing this Fund through selection of suitable daughter funds and overseeing the disbursement of committed capital. (*Promotion of Startups in India*, 2021)

- As of 01 December 2020, SIDBI has committed ₹4326.95 crore to 60 AIFs that have raised a corpus of <sup>1</sup> 31,598 crore
- Amount of ₹1270.46 crore has been drawn from FFS and an amount of ₹4509.16 crore has been injected to boost over 384 start-ups

**Start-up India Seed Fund Scheme (SISFS)**

Start-up India Seed Fund Scheme has been approved by the government, with an outlay of ₹945Crore to provide financial assistance to start-ups for Proof of Concept, prototype development, product trials, market entry, and commercialization. It will support an estimated 3,600 entrepreneurs through 300 incubators in the next 4 years. The scheme will be implemented with effect from 1st April 2021.

**Results and Discussions**

The number of start-ups recognised since the inception of Start-up India is shown below. Start-up India was conceived in 2016 and several schemes and support mechanisms were used since then.

At the onset of Start-up India initiative, only a handful of start-ups were operational in India, with majority concentrated in industrially sound states with well-established infrastructure facilities. However, with adequate funding, and supporting start-up ecosystem, the start-up numbers started rising across the country. Maharashtra tops the list with most number of Start-ups, followed by Karnataka and Delhi.

There are states that received funds from FFS through AIFs within 5 years to promote Start-up ecosystem. The allocation and drawdown are as in Table 3.

The increase in number of Start-ups in India over the years shall be attributed to the funds allocated under FFS through drawdowns from AIFs. Hence the relation between both are examined with the help of a hypothesis:

**Table 1**  
**Start-up India Seed Fund Allocation**

Year	Allocation of Funds under SISFS (Rs. in crores)	Funds Approved under SISFS (Rs. In crores)
FY2021-22	126	295.75
FY2022-23	346.50	-
FY2023-24	283.50	-
FY2024-25	189	-
<b>Total</b>	<b>945</b>	<b>295.75</b>

*Source: data.gov.in*

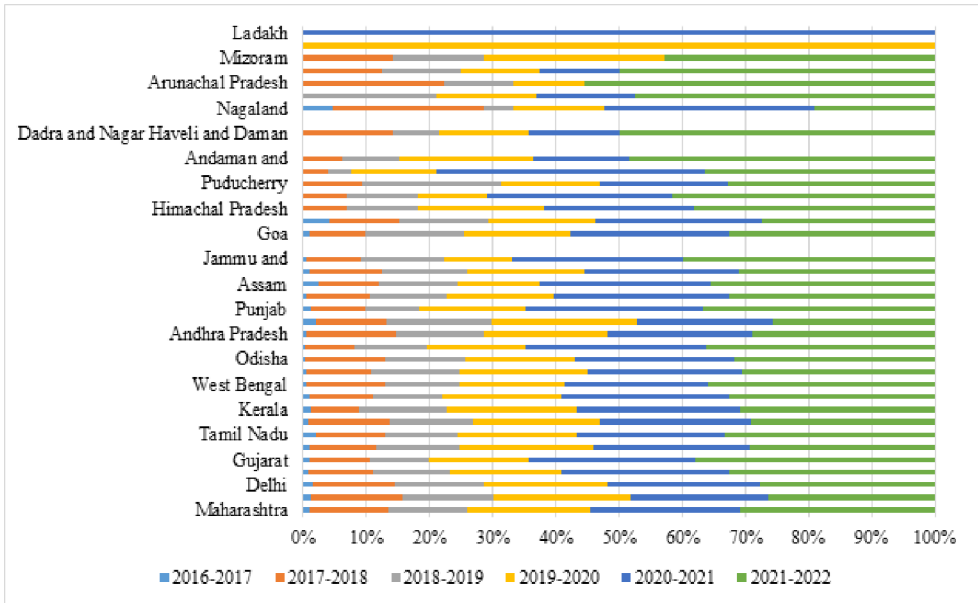
**Table 2**

**State-wise & Year-wise list of recognized Startups across the country for the last five years (data as on 21st March 2022)**

Sl. No.	State/ UTs	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021	2021-2022	Total
1	Maharashtra	136	1,534	1,526	2,420	2,918	3,799	12,333
2	Karnataka	96	1,189	1,187	1,790	1,797	2,184	8,243
3	Delhi	116	1,035	1,112	1,554	1,913	2,184	7,914
4	Uttar Pradesh	41	616	735	1,039	1,587	1,946	5,964
5	Gujarat	40	426	398	701	1,149	1,664	4,378
6	Haryana	38	379	480	772	896	1,068	3,633
7	TamilNadu	69	393	413	672	835	1,184	3,566
8	Telangana	29	457	461	707	848	1,028	3,530
9	Kerala	41	225	427	618	788	938	3,037
10	Rajasthan	19	209	227	390	545	674	2,064
11	WestBengal	13	253	240	338	462	736	2,042
12	MadhyaPradesh	12	192	257	380	456	574	1,871
13	Odisha	5	155	155	215	308	391	1,229
14	Bihar	4	87	127	176	321	404	1,119
15	AndhraPradesh	6	146	145	200	238	299	1,034
16	Chhattisgarh	15	79	120	164	154	184	716
17	Punjab	8	56	54	109	180	237	644
18	Jharkhand	3	63	76	105	174	204	625
19	Assam	13	52	66	70	145	191	537
20	Uttarakhand	6	61	71	99	130	166	533
21	Jammu and Kashmir	2	29	44	36	92	134	337
22	Goa	3	25	44	48	71	92	283
23	Chandigarh	10	26	33	40	62	65	236
24	HimachalPradesh	0	12	20	35	42	67	176
25	Manipur	0	5	8	8	21	30	72
26	Puducherry	0	6	14	10	13	21	64
27	Tripura	0	2	2	7	22	19	52
28	Andaman and Nicobar Islands	0	2	3	7	5	16	33
29	Dadra and Nagar Haveli and Daman and Diu	0	4	2	4	4	14	28
30	Nagaland	1	5	1	3	7	4	21
31	Meghalaya	0	0	4	3	3	9	19
32	Arunachal Pradesh	0	2	1	1	0	5	9
33	Sikkim	0	1	1	1	1	4	8
34	Mizoram	0	1	1	2	0	3	7
35	Lakshadweep	0	0	0	1	0	0	1
36	Ladakh	0	0	0	0	1	0	1
	<b>Total</b>	<b>726</b>	<b>7,727</b>	<b>8,455</b>	<b>12,725</b>	<b>16,188</b>	<b>20,538</b>	<b>66,359</b>

Source: data.gov.in

**Figure 1**  
**State-wise & Year-wise list of recognized Startups**



Source: data.gov.in

**Table 3**  
**Year-wise Allocation and Drawdown of Funds under FFS**  
**as on 21st March 2022**

Year	Allocation of Funds under FFS (₹ incrore)	Drawdown made to AIFs under FFS (₹ incrore)
2016-17	100	34
2017-18	-	106
2018-19	-	292
2019-20	431.30	594
2020-21	429.99	459
2021-22	1330	948.30
<b>Total</b>	<b>2791.29</b>	<b>2433.30</b>

Source: www.gov.in

H0 - There is no significant relationship between funds drawdown and Start-ups recognized over the years.

We reject the null hypothesis at 1% significance level. The correlation between funds drawdown & Start-ups recognised over the years are significantly high.

**Conclusion**

It has been found from trends across the world that Start-up needs huge funding and traditional financial institutions hesitate to provide it. Government intervention may not always prove to be fruitful either. So it give rise to intermediaries like Venture

**Table 4**

**Year-wise Drawdown of Funds under FFS as on 21st March 2022 is as under:**

Year	Start-ups recognised
2016-17	726
2017-18	7727
2018-19	8455
2019-20	12725
2020-21	16188

*Source: www.gov.in*

**Table 4  
Correlations**

			Funds down drawn	Start-ups registered
Spearman's rho	Funds down drawn	Correlation Coefficient	1.000	.943**
		Sig. (2-tailed)	.	.005
		N	6	6
	Start-ups registered	Correlation Coefficient	.943**	1.000
		Sig. (2-tailed)	.005	.
		N	6	6
**. Correlation is significant at the 0.01 level (2-tailed).				

Capitalists, Corpus Funds etc who act on behalf of government. With that, the government does not directly fund the Start-ups. However, there are schemes and support systems through which they ensure the funding of Start-ups. The prominent ones are Fund of Funds for Start-ups (FFS) and Start-up India seed fund scheme (SISFS) which contributed to the growth of Start-ups in States across

India. There have been an exponential growth in Start-up registrations with from 2016 to 2021- almost 28 times jump in 5 years.

The FFS have been allocating funds to AFIs and the drawdown funds over the years seem to correlate with the increase in Start-ups recognised over the years.

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