INSTITUTIONAL SUPPORT FOR STARTUPS IN KERALA FOR SEED CAPITAL FUNDING

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Abstract

Startups have been hailed among the innovative and revolutionary developments of a nation. However, identifying the seed fund is difficult to establish any business. The medium for allocating seed funds is traditional sources like banks, own funds, friends, families, etc. India is a fast-growing economy, and this has been acknowledged on a global basis by many investors. The Government of India has initiated Startup India Mission to identify and support innovative entrepreneurs. Kerala Startup Mission, Kerala State Industrial Development Corporation Ltd and Kerala Financial Corporation extend support to startups in Kerala. These government undertakings introduced many funding schemes in the form of loans and other financial assistance to help the needy talents. This study confines only the startups registered under the Kerala startup mission who accepted the seed funding schemes of the Kerala Startup Mission. It aims to highlightthe institutional financial support received by startups in Kerala.

Key words:- Seed fund, Startup, Government Schemes, Kerala Startup Mission (KSUM), Institutional support.

Entrepreneur comes up with innovative ideas and commercialises their vision to serve society and profit generation through products or services. Commercialising these creative ideas of young talents needs a support system financially and non-financially. Thus, the concepts of startups are generated. Startups are new businesses that intend to grow large beyond the solo founder.

To support young talents and to utilise their ideas for the development of the economy, startups are established. The

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government of India launched an innovative scheme known as "Stand up India-Startup India" on January 26, 2015, to strengthen and support startups with creative and explorable ideas.

To help these entrepreneurial talents, the Government of Kerala initiated the startup movement through certain government undertakings like Kerala Startup Mission (KSUM) in 2006, Kerala State Industrial Development Corporation Ltd (KSIDC) in 1961, and Kerala Financial Corporation (KFC) in 1953. Government undertakings and private institutions played a pivotal role in the development of society by identifying every piece of the vibrant Startup ecosystem. These seed capital initiatives of government undertaking introduced many funding schemes such as soft loans and other financial assistance to help the needy talents with technologically innovative products and services. Innovation always has a positive impact on the growth of an economy. Recently Kerala has bagged the top position in Asia in affordable talent in the 'Global Startup Ecosystem Report' (GSER) and ranked fourth in the Global ranking in the GSER. From 2019 to 2021, Kerala created a startup ecosystem valued at Rs.1,037.35 crore. This study points out the different schemes of seed capital assistance provided by Kerala Startup Mission (KSUM), the nodal agency of the government of Kerala.

Review of Literature

Seed capital is necessary to create the business model and innovative products, as mentioned in numerous previous researches. According to Basil Peters (2009), most venture capital funds in the form of seed capital are designed for an average period of 13 -14 years. Another study states that most entrepreneurs are in a difficult situation with identifying and allocating seed capital or venture capital. The main reasons for this issue are that most entrepreneurs can't go for immediate large-scale operations, nor do they have the potential to expand and hence don't qualify for venture capital. Another reason is that there are few venture capitalists, and the number of entrepreneurs is too large (Lavinsky, 2010). In a Dutch bank ABN AMRO study, startups have difficulties gathering funding between € 35,000 and € 150,000 (Voorbraak, 2011). A study by the U.S. Federal Reserve emphasises that the denial rate for loans of less than $ 100,000 is more than twice as high as for bigger loans for startups in the U.S. (Pagliery, 2012).Family and friends often provide seed capital to develop a product prototype (Adelmen and Marks, 2013).The majority of the Startups considered (56 percent) have received government funding in the form of grants in seed funds, marketing support, etc. A mentor from Kerala thinks that only if a state can produce more successful startups can it attract more investors. There are many profitable Startups in Bangalore, which makes it the startup hub in India. Creating a similar perception in our state helps to attract more native and non-native investors. Entrepreneurs and startups in the early stages use personal savings from friends and families. It shows the relevance of seed funding on the part of government bodies (Nikhil et al., 2015).

Statement of the Problem

There have been tremendous changes in Kerala's entrepreneurial taste over the last few years. Startups are one initiative. Raising enough initial funds or seed funds is one of the most challenging tasks any entrepreneur faces. The introduction of government undertakings like the Kerala Startup Mission has changed how an entrepreneur views the allocation of seed funds and starting a startup. To help these young talents develop their innovative business ideas at the academic level, the Government of Kerala initiated the concept of seed funding schemes for startups by developing government bodies to support and provide financial assistance to startups. However, analysing the fund sanctioned by government undertakings shows that there seems to be a disparity in dispersing seed funds to various sectors or industries of startups in Kerala. So, it offers a significant problem in this area of seed funding in Kerala. This paper benefits the concerned authorities to take necessary actions to ensure the profitable utilisation of seed capital in developing the economy.

Objectives of the Study

1. To study the various institutional financial support provided by Kerala Startup Mission for seed capital for startups in Kerala.
2. To study the growth of startups and seed capital in Kerala.

Scope of the Study

The study is limited to the 3100 startup companies who received seed investment from the Kerala Startup Mission. The research focuses on the financial assistance obtained from the Kerala Starup Mission between 2019 and 2021.

Methodology

This paper is descriptive and analytical. The source of data is secondary sources. The secondary data were collected from the Kerala Startup ecosystem reports, Kerala Startup Mission Annual reports, Books, journals, newspapers, articles, the Internet, and the website of Kerala Startup Mission. Various tools used for analysis are trend analysis, graphical methods, and percentage analysis. This paper only considers the startups registered in Kerala Startup Mission.

Kerala Startup Mission (KSUM)

Kerala Startup Mission is the nodal agency of the Government of Kerala for entrepreneurship development and incubation activities in Kerala. It is formerly known as Technopark Technology Business Incubator (TBI). The industry is Technology Business Incubator, headquartered in Thiruvananthapuram, India. Seed funding for Startups began in 2006. In September 2015, the Kerala Startup Mission launched its online portal, receiving its applications online. Since then, the frequency of executing the seed fund has increased.

Various Seed funding schemes of Kerala Startup Mission

1. Innovation grant

This scheme provides financial assistance to startups to help them to transform their innovative ideas into scalable ventures.

The innovation grant can be classified into the following:

Ï% **Idea grant:** The idea grant converts an idea into a prototype. The financial assistance is given up to Rs. 2 Lakhs.

Ï% **Productisation grant:** This grant is provided to convert the minimum viable prototypes into marketable prototypes. Fund assistance is given up to Rs.7 lakhs/idea.

Ï% **Scale-up grant:** The scale-up grant is offered to viable market prototypes for developing initial markets, which is given up to Rs. 12 lakhs /idea.

Table 2 shows a decrease in the number of startups and the amount sanctioned for idea grants in 2020-2021; the same is the case with scale-up grants. Contrarily, there is a rise in the number of startups and the amount authorised for productisation grants in 2020-2021.

2. Early Stage KSUM Seed Fund

This scheme provides financial assistance to startups in soft loans limited to INR 10 lakhs. The loan is provided for product development, testing and

Table 1

Details regarding Idea Grant

Item	Numbers
Total number of idea days conducted	22
Total number of Applications received	7304
Total number of Applications shortlisted	1422
Total number of Ideas selected	407
Total amount of funds allocated	19.68 crores

Source: Kerala startup Mission website (Analytics)

Table 2

Details regarding different seed funding schemes

Scheme	Number of startups		Amount sanctioned (Rs.)		Percentage change in startups	Percentage change in the amount
	2019-2020	2020-2021	2019-2020	2020-2021		
Idea grant	42	38	Rs.5,161,000	Rs.3,157,943	-9.52	-38.81
Productisation grant	48	70	Rs.12,640,000	Rs.18,393,360	45.83	45.52
Scale up grant	17	14	Rs.81,00,000	Rs.57,00,000	-17.64	-29.63

Source: Kerala Startup ecosystem report and Kerala Startup Mission annual report 2021-22

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trials, market testing, finding early adopters, and customer acquisitions.

Highlights of the scheme are i) Collateral free, ii) Loan disbursements in instalments, iii) 12 months moratorium, iv) Principal repayment in EMIs and v) Three percent interest discounting for prompt and non-default repayments.

3. Early-stage Equity Funding:

KSUM has partnered with SEBI-accredited venture capital to provide early-stage startups with funding ranging from INR 25 Lakh to INR 2 crores. Technology-based startups in the early stages who need financing for product development are eligible for this scheme.

Challenges and Opportunities of Startups in Kerala

The significant challenges for startups in Kerala are lack of financial resources, poor revenue generation, lack of skilled team members, lack of infrastructure support, difficulty in creating a market that is appropriate for the product, exceeding customer expectations, Government Regulations, Lack of good mentorship, and lack of a good branding strategy. Kerala is a land of many opportunities, and there are wider opportunities for startups in Kerala State. They are Kerala's growing population, change in the mindset of the working class, substantial investment options in startup sectors, proper Government initiatives and subsidies, and a high literacy rate of young talents and good entrepreneurial skilled youth.

Analysis and Interpretation of the Data

Table 3 shows an increase in startups from 2015 to 2022. So, it offers a positive impact on startup growth.

As per Figure 1, the trend line shows that more funding is provided at the seed stage (early revenues-37.21 per cent) of a startup stage. It highlights that seed funding plays a significant role in the early background or early stage of startup funding.

Table 3

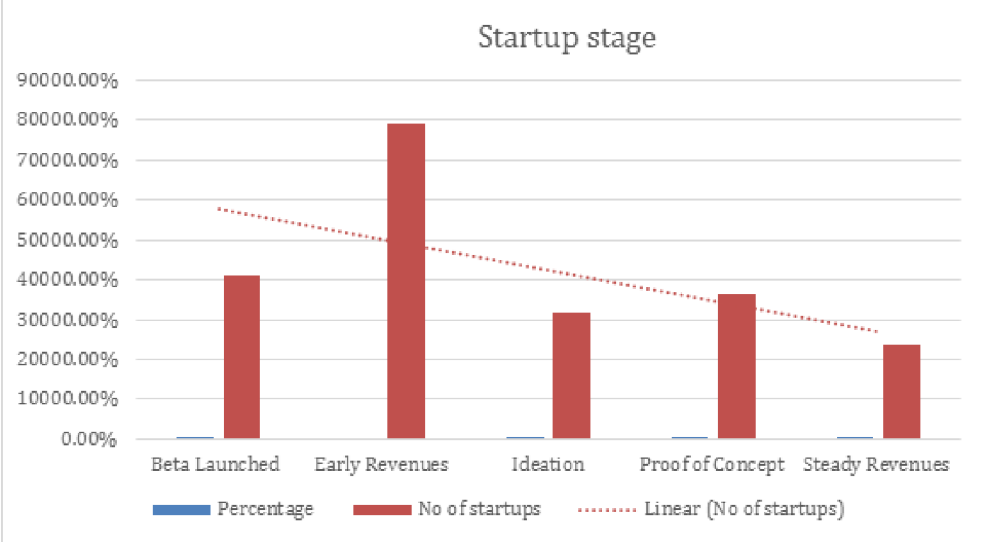
Growth of Startups from 2016 to 2022

Year	No. of Startups	Annual Growth Rate (percentage)
2016	140	-
2017	757	440.71
2018	1500	98.15
2019	2200	46.67
2020	2307	4.86
2021	2429	5.29
2022	3100	27.62

Source: Kerala Startup ecosystem report and Kerala Startup Mission annual report 2021-22

Figure 1

Stages of Startup funding



Source: Kerala startup Mission website (Analytics)

Table 4 shows that around 54.19 percent of funding is provided for the product and service category of business.

As per Table 5, a more significant number of startups are increasing in the area of enterprise applications (9.68 per cent), education (8.77 per cent), health (6.77 per cent), and artificial intelligence (7.09 per cent).

Table 6 shows that there are 1804 technology-related startups in Kerala. The majority of startups are in the field of mobile apps (17.90 per cent), web technologies (10.86 per cent), SAAS (9.7 per cent), aggregator platforms (8.96 per cent), artificial intelligence (8.37 per cent), and green technology (5.76 per cent).

Results and Discussion

Kerala Startup Mission plays a crucial role in developing the startup ecosystem in Kerala. Acquiring seed finance is one of the significant challenges faced by startup founders. As per the trend analysis, the trend line shows that more funding is provided at a startup's seed stage (early revenues-37.21 per cent). As per the above Analysis, seed funding is given more (54.19 per cent) in the product and service category of the startup. The institutional support provided by Kerala Startup Mission has a positive impact only in specific industries like enterprise Applications, education, artificial intelligence, health, the Internet of things, etc. It shows a decrease in the number of startups and the amount sanctioned for idea grants in 2020-2021. There is a remarkable fall in the number of startups and the amount authorised in scale-up grants in 2020-2021. An upsurge in the number of startups and the amount sanctioned is observed for productisation grants in 2020-2021.

Table 4

Company Types and Startups

Company Type	Number of startups	Percentage
Product	1420	45.81
Product and Service	1680	54.19
Total	**3100**	**100**

Source: Kerala startup Mission website (Analytics):

Table 5

Startup Industry wise Analysis

Industry	No. of startups	Percentage	Industry	No. of startups	Percentage
AdTech	59	2	Energy	92	2.97
Advertising	26	0.84	Enterprise Applications	300	9.68
Aeronautics Aerospace & Defence	17	0.55	Enterprise Infrastructure	54	1.74
Agriculture	127	4.1	FinTech	103	3.32
Analytics	19	0.62	FoodTech	117	3.77
Animation	3	0.09	Gaming	25	0.81
AR VR (Augmented + Virtual Reality)	22	0.71	HealthTech	210	6.77
Architecture Interior Design	11	0.35	Insurance	13	0.42
Art & Photography	7	0.22	Internet of Things	190	6.13
Artificial Intelligence	220	7.09	Investment Industry	8	0.25
Automotive	49	1.58	Life Sciences	59	1.9
Biotechnology	15	0.48	Logistics	160	5.16
Chemicals	9	0.29	Manufacture of Machinery and Equipment	43	1.38
Construction Technology	35	1.13	Media & Entertainment	90	2.9
Consumer	90	2.9	Mobile	175	5.64
Consumer Goods	76	2.45	Packaging	1	0.03
Cyber Security	33	1.06	Real Estate	6	0.19
Data as a Service	77	2.48	Retail	142	4.58
Defense Equipment	4	0.12	Telecom	10	0.32
EdTech	272	8.77	Travel & Tourism	16	0.51
Electronics	81	2.61	Waste Management	34	1.09

Source: Kerala Startup Mission website (Analytics)

Table 6

Startup Technology wise Analysis

Technology	Number of startups	Percentage
3D Printing	13	0.72
Aggregator Platform	162	8.96
Artificial Intelligence	151	8.37
Augmented Reality	20	1.1
Big Data	21	1.16
Blockchain	17	0.94
Chatbots	6	0.3
Consumer Robotics	29	1.6
CRM	33	1.9
Data Analytics	33	1.9
Display Technology	16	0.89
Drones	15	0.83
Enterprise Solutions	137	7.59
ERP	61	3.38
Geospatial	2	0.11
Geographic Information Systems	8	0.44
Green Technology	104	5.76
Industrial Robotics	27	1.49
Internet of Things	114	6.32
Machine Learning & Data Sciences	36	1.96
Mobile Apps	323	17.9
Nanotechnology	19	1.05
Natural User Interface	8	0.44
NewSpace	12	0.67
SAAS	175	9.7
Security & Surveillance Technology	24	1.33
Semiconductors	10	0.55
Sensors	16	0.89
Virtual Reality (VR)	16	0.89
Web technology	196	10.86
Total	**1804**	**100**

Source: Kerala startup Mission website (Analytics)

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Seed funding is provided for enterprises that work on applications, education, health, artificial intelligence and the Internet of Things. It should be noted that industries like packaging, biotechnology, art and photography, waste management, real estate, investment, insurance, and aeronautics need more support from government agencies like Kerala Startup Mission. Kerala Startup Mission should provide seed fund assistance to emerging technologically advanced businesses in the field of 3D printing, augmented reality, drones, big data, chat-bots, block-chain, etc. These technologies have scope for innovations and progress that could provide placements and improve the state's GDP.

Findings and Conclusion

As per the trend analysis, the trend line shows that more funding is provided at a startup's seed stage (early revenues-37.21 per cent). As per the above Analysis, seed funding is given more (54.19 per cent) in the startup product and service category. More seed funding is provided for industries like enterprise applications, education, health, artificial intelligence, and the Internet of Things. Industries like packaging, biotechnology, etc., could solve social issues like unemployment, waste management, health issues, etc., so investing more in such industries contributes to social development and the state's economic development. We have highly talented personnel in fields such as display technology, geospatial, geographic information systems, semiconductors, sensors, 3D printing, security, surveillance, augmented reality, drones, big data, chatbots, blockchain, etc., and financial assistance in the form of seed funds could result in numerous enterprises that could deliver performance at par with multinational companies. The institutional support of the Kerala Startup Mission extended to specific sectors indicates the disparity in dispersing seed funds to different categories of the Startup ecosystem, preventing the presentation of the ideology of several entrepreneurs. Hence, institutional support and encouragement should be ensured for startups in all emerging sectors of the state.

The government support at the seed stages considerably helped the state's startup ecosystem flourish. It also served as a trust factor in attracting other investors to the startups. Initiatives to invest in promising sectors could considerably decrease the unemployment in the state. Kerala Startup Mission should take necessary measures to increase investments in promising sectors like green technology, aeronautics, art, etc. This could bring significant changes to the socio-economic scenario of the state. Promoting practical ideas improve intellectual capabilities and add to human capital. New businesses in the state bring down investments and contribute to the revenues. This could bring about technological advancements together with a change in the thought process of youth in the state. The government of Kerala should implement proper initiatives to erase all the loopholes and solve all startup challenges. Startup Mission should act as a platform to build up more opportunities for the startup ecosystem in Kerala.

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