

Status of Start Ups in India

Why in news?

IIT Madras released its 10th Annual Report on Indian Venture Capital and Private Equity at TiECON2018.

What are the key findings?

- The 2018 report has identified the factors associated with successful ventures in different stages of their lifecycle.
- Only 3 sectors accounted for 63% of the companies nationally that received venture funding.
- They are software and internet services, consumer products and services, and fintech and payments.

• Incubation facilities

1. About 56 percent of the incubators are located in universities, indicating the important role played by universities in supporting entrepreneurship and start-ups.
2. Sector focus: Technology sector is supported by the largest number of incubators.
3. Followed by healthcare sector, Telecommunications, industrials, and consumer goods in terms of number of incubators to support.
4. Incubation is not seen as the preferred approach in commercializing innovations such as in utilities or in the oil and gas sector.
5. More than 50 percent of the incubators were set up in the last five years.

• Accelerators

1. While incubators are present across different locations in the country, accelerators are essentially an urban phenomenon:
2. Virtually almost all of the accelerators are located in the main cities - Chennai, Bengaluru, Hyderabad, Mumbai, Ahmedabad, and New Delhi.
3. The highest number of accelerators is found in Bengaluru, followed by the NCR region and Mumbai.

• Angel Funding

1. Growth in angel investments: Angel deals have shown an annual

- average growth rate of 124 percent during the period 2008 - 15.
2. Age of start-ups at the time of receiving angel investment has consistently decreased (4.77 years in 2008 to 0.54 years in 2015).
 3. Profile of angel investors: Analysis of the angel investor sample indicated a good mix of experienced (i.e., who have made five investments or more) as well as new investors (i.e., who have made less than five investments).
 4. Angels investors were classified into two separate quartiles based on the number of deals and the amount of investment.
 5. Based on the number of deals it was found that top quartile investors have a higher degree of sector concentration with most investments in technology.
 6. The bottom quartile investors exhibit a higher degree of diversity in terms of the number of deals in different sectors.

• **Venture Funding**

1. Venture funding is concentrated in Tier1 cities.
 2. The 6 Tier 1 cities of India received the largest chunk of investment accounting for about two-thirds of the angel and venture funding.
 3. Tier 2 cities received 31% of the total investment and start-ups in Tier 3 cities accounted for about 2 % of the total investment.
 4. There exists a big gulf in investment flow between start-ups in Tier 1 cities and the other two tiers.
- Factors such as the start-up sector and age of the start-up mattered only in the initial stages of funding.
 - As the companies mature, these factors cease to influence funding decisions as the demonstrated performance of the companies outweighs all the other factors.

Are Startups jobs generators or growth engine?

- India has the world's third largest start-up ecosystem.
- However it has not helped in creating enough jobs and thwarting 'job-less' growth
- Start-ups have created about 80,000 jobs in 2016.
- This is expected to rise to 250,000 annually by 2020.
- It is estimated that around 8-10 million enter the job market every year.
- The average number of employees in large listed companies is about 35 per Rs 100 crore of market value.
- But in the case of startups it is only 0.04, which is a ratio of 875:1.
- The report argues that the Start-ups operate lot more efficiently in terms of manpower, and thus should not be seen as a major engine for job creation.

- The employee to market value ratio would definitely increase as the start-ups become mature and increase in size,
- Basically, Start-ups are more an engine for innovation and growth rather than job creation

What are the contributions of Startups?

- It acts as a major platform for nurturing innovative ideas and developing them into an enterprise.
- It can provide a new flavor in the job market that is difficult to replicate in the existing companies.
- Start-ups are able to provide a more unstructured and flexible work environment that meets the aspirations of those who seek such work environments.

Source: Business Line

