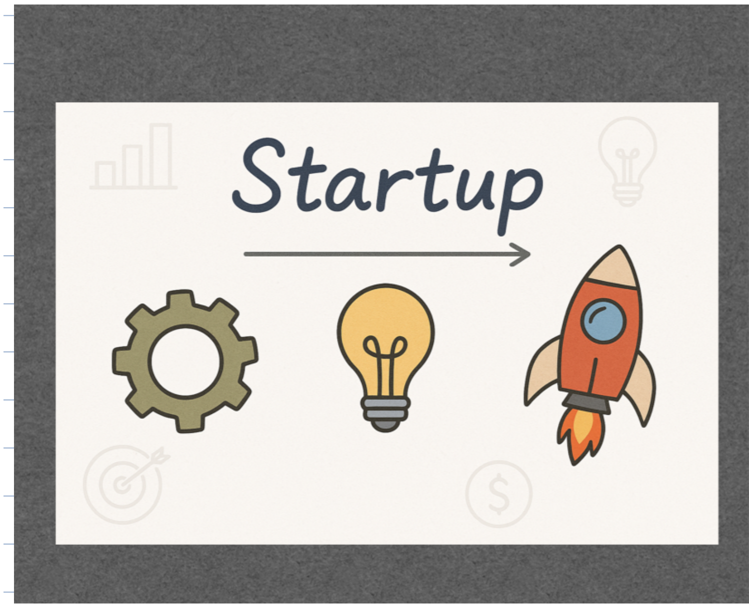

Definition of Start-Up

As per DPIIT, An Entity shall be considerd as Startup

1. upto a period of 10 years from date of incorporation if registered as Pvt. Ltd. Company or LLP or partnership firm as per their respective acts.

2. Turnover for any financial year has not exceeded ₹ 100 crore.

3. Entity is working towards innovation (नई खोज), development or improvement of products, or processes or services, or if it is scalable business model with high potential of employment generation or wealth creation.

⚠ Provided entity formed by splitting up or reconstruction of existing business shall NOT be considerd Startup.

V.V. Imp.

Unicorn : Startup Company that has reached a valuation of $1 billion or more.
eg : Paytm, OYO, Zomato, Rapido, etc.)
FYI : 1 billion = 100 crore

Decacorn : Startup with valuation of $ 10 billion or more (1000 crore)

Startup Landscape (Environment) in India

"Startup India" initiative launched on 15th August 2015 by PM Shri Narendra Modi to foster (encourage) entrepreneurship and innovation by building supportive ecosystem for startup.

Startup India comprises 19 action plan targetting :
- funding support
- Simplification for startups
- Partnership of industry with academics.

Highlights of Start-up India Policy

1. Funds for Startups (FFS) of ₹ 10,000 crore with SIDBI
2. Startup India Seed fund of ₹ 1000 crore
3. Credit Guarantee funds for Startups
4. Relaxed norms in Public procurement
5. Fast track Patent Examination / Registration
6. Self certification for environment & labour laws.
7. Setting up incubators
8. Startup Centers & Technology Business Incubators
9. Research Park
10. Various Tax incentives u/s 80 IAC, 79, 54EE, 54GB

Exemptions (Benefits) for Startups

1. Simple online process of registration
2. Government bears 80% fees for patent & trademark.
3. Easy access to funds (₹ 10,000 crore fund by govt.)
4. Tax holiday (exemption) for 3 years u/s 80 IAC
5. Eligible to apply for govt tender without experience.
6. New Research park to assist startup in R&D.
7. Simplified and less time taking procedures.
8. Easy exit - can wind up operation within 90 days of application.

Exemption available under Companies Act, 2013

1. Startups are not mandated to prepare Cashflow statements.
2. Issue of sweat equity shares upto 50% of paid up capital within 10 years of incorporation.
3. Startup can offer ESOP to promoter and director.
4. Startup can accept deposit from Public
5. Annual return can be signed by director in absence of CS.
6. One board meeting per half calendar year, 90 days gap in between.
7. Lesser penalty as per section 446 B.

Registration Steps for Startups

I. Incorporation of Business Entity

As Private Ltd. Company or LLP or Partnership firm.

II. Register with Startup India

Register as Startup through Startup India website.

III. Get Recognition from DPIIT

After registering on Startup India, apply for DPIIT Recognition (Department for Promotion of Industry and Internal Trade) through DPIIT app or website

IV. Application for Recognition

Feed (fill) the necessary details in recognition form

- Entity details, full office address, director / partner details, startup activities.

V. Documentation required for recognition.

- Incorporation / Registration Certificate
- PAN Number
- Proof of funding
- Proof of Concept (pitch deck, website, video)
- Patent and trademark details
- list of awards (if any)

VI. Recognition Number

DPIIT will recognise startup within 1-4 days or reject application with reason.

Angel Tax

Angel Tax is the income tax charged on the capital raised by unlisted companies through issue of shares at a price higher than the Fair Market.

This excess amount is treated as Income from Other Sources and taxed under section 56 (2) (vii b)

Angel Tax Exemption

After being recognised by DPIIT, a startup may apply for exemption from Angel Tax under section 56 by meeting certain conditions:

1. DPIIT recognition is mandatory
   - Startup must be recognised by DPIIT.

2. Capital Limit of ₹ 25 crore
   - Total paid up Share Capital + Share Premium after issuing new shares must NOT exceed ₹ 25 crore.
   - following investment are excluded from ₹ 25 crore limit
     - Investment from Non Resident
     - Investment from Venture Capital fund
     - Investment from Specified Company (as notified)

3. Restriction on Asset Investment for 7 years
   - To prevent misuse, startup must not invest in certain asset for 7 years, if invested in these asset it will loose exemption.

❌ **The prohibited assets include:**

Asset Type	Exemption if...
🏠 Residential property	Used for renting or stock-in-trade
🏢 Commercial property	Used for business, renting or stock-in-trade
💸 Loans & Advances	If not part of regular lending business
📄 Capital contributions	To any other entity
📈 Shares & Securities	Any kind
🚗 Vehicles, yacht, aircraft	If cost > ₹10 lakhs, unless used for leasing/hiring
💍 Jewellery	Unless stock-in-trade
📦 Other capital assets	Covered under Explanation to 56(2)(vii)(d)(iv)-(ix)

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Life Cycle of Startup

Stage I : Ideation and Development

- Brainstorming (Thinking) and testing the feasibility (workability) of the product or service.
- This stage involves identifying problem, developing an prototype (initial concept) and determining if there is a viable (possible) market for product or service.

Key activities :

- Identifying Target Market → Building business model → Gathering right team

Stage II : Validation

- Confirming value proposition (offering) through customer feedback.
- This stage is about validating (confirming) the product's potential or acceptance in real world.
- Entrepreneurs gather feedback from early users to refine (improve) product and services.

Stage III : Early Traction

- In this stage, product / service is tested with target customers and analyzing market feedback.
- In this stage, startup begins momentum and see initial growth. Product is improved based on early user adoption.
- At stage III, pivoting may be necessary. This means adjusting product / service based on customer feedback.

Stage IV : Growth / Exit

- Scaling up the operation and achieving long term stability or exit.
- Once product fit is achieved, focus shifts to scaling operations, expanding reach and planning for long term success.
- Market Penetration, Mergers & Acquisition, IPO all this activities are part of stage IV.

Important Points for Startups : Refer Pg no. 68-69

Types of Financing

There are two types of financing

Equity financing

Meaning : Raising capital by selling ownership i.e shares.

Types

1. Venture Capitalist / Private Equity
2. Angel Investors
3. Series funding
4. Bridge Rounds
5. Initial Public Offering (IPO)

Debt financing

Meaning : Raising funds by borrowing from lenders, to be repaid along with interest.

Types

1. Loan from Bank / NBFC
2. External Commercial Borrowing
3. CGTMSE loans

Equity Financing

1. Venture Capitalist / Private Equity

- Professional firms providing significant investment.
- In the form of convertible preference shares or debentures.
- Process → Prepare Term Sheet (T&C and Valuation)
  Conduct Due diligence
  Prepare Subscription agreement
  Prepare Shareholder agreement
  Complete Compliance (filing with ROC)

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2. Angel Investors

- These are High Net-worth individuals or industry group.
- Angel Investors are usually individuals or group of industry professionals who are willing to fund the venture in return for an equity stake.
- SEBI regulations 2022, has made following restrictions to Angel funds
  - Invest in startup not connected with large industrial group whose turnover exceed ₹ 300 crore.
  - Shall not invest in companies connected with any of Angel Investor of company.
  - Investment shall not be less than ₹ 25 lakh and shall not exceed ₹ 10 crore.
  - Investment shall be locked in for one (1) year.

3. Series funding

Rounds : Series A, B, C, etc.

Instruments : Series preferred stock with preferential right

Size : \$2M – \$10M, 10-30% ownership

Purpose : Development, marketing, employees

4. Bridge Rounds

- Fills funding gap between major rounds.
- Form of convertible debt
- Rapid growth or for IPO preparation

5. Initial Public Offering (IPO)

- Raises funds from public by selling equity shares for first time.
- Secure significant (huge) capital from pool of stock market investors.

Debt financing

1. Loans from Bank & NBFC
   - To purchase inventory and equipment
   - For securing working capital and funds for expansion.
   - No ownership dilution
   - Mandatory interest payment
   - Requires collateral and good credit history.

2. External Commercial Borrowing (ECB)
   - Loans obtained from non-resident lender in forms like bank loans, buyer's credit, supplier's credit and bonds.
   - There are two routes
     - Automatic Route : No approval needed
     - Approval Route : Prior RBI approval needed
   - Can't use ECB for :
     - Further lending or capital market investment
     - Acquiring Indian Companies
     - Real estate investment
     - for creating charge

3. CGTMSE [Credit Guarantee Trust for Micro & Small Enterprises]
   - Scheme under ministry of MSME
   - Loan upto ₹ 1 crore without collateral.

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Diffrence between Equity financing and Debt financing

Characteristics of Investment	Equity Financing	Debt Financing	Grants
Nature	There is no component of repayment of the invested funds	Invested Funds to be repaid within a stipulated time frame with interest	There is no component of repayment of the invested funds
Risk	Risk factor for the investor is higher as he has no guarantee against his investment	Risk Factor for the investor is lower as he generally has collateral against his investment	There is no risk factor for the startup as no collateral is involved
Pressure for Repayment	Less pressure for startups to adhere to a repayment timeline but added pressure from investors to achieve growth targets	More pressure for startups to adhere to repayment timeline and as a result more pressure to generate cash flows to meet interest repayments	No pressure for repayment as grants are a form of monetary support provided for a specific purpose
Return to Investor	Capital growth for investors	Interest payments	No Return
Involvement in Decisions	Equity Fund Investors usually prefer to involve themselves in decision making process	Debt Fund have very less involvement in decision making	No direct involvement in decision making
Sources	Angel Investors, Self-financing, Family and Friends, Venture Capitalists, Crowd Funding, Incubators/ Accelerators	Banks, Non-Banking Financial Institutions, Government Loan Schemes (CGTMSE, Mudra Loan, Standup India)	Central Government, State Governments, Corporate Challenges, Grant Programs of Private Entities

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Seed Capital

Meaning : Seed Capital is the initial funding used to start a business or project.

Sources : It is primarily sourced from
- Founder's personal saving
- Friends and family
- Angel Investors

Purpose : Seed Capital covers early stage expenses like
- Market Research
- Product Development
- Operational Cost
- Establish business Model
- Build a prototype

Risk : Seed funding is risky as investors has to adopt "wait and watch" approach.

Paperwork and Cost : Fewer legal formalities and fees as compared to advanced rounds.

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Unconventional Modes of financing which are becoming popular in India

I. Crowd Funding

It is a modern method of raising seed funding by collecting small amounts of money from large number of people, usually facilitated through internet.

Process / Key features

1. Online Platform
   - Specialized companies or portals in India to enable crowdfunding.
   - Entrepreneurs showcase their business idea and projections online.

2. Investor Engagement
   - Includes profile, presentation and visual content to attract potential investors.
   - Highlight the impact of idea and expected return or rewards for investors.

3. Wide Reach
   - Leverages the power of internet to connect with diverse audience.

II. Incubators

Meaning : Incubators helps entrepreneurs in pre-seed funding stage by providing support, resources and mentorship.

Support services : Office space, Admin and legal support, Training, mentoring, links to angel investors and Venture Capitalist.

Equity Stake : Incubator take 2-10% equity stake.

Time Period : Incubation period is 2-3 years.

Run / Operated by : usually government supported like IIM, IIT or private business incubators like Microsoft accelerator.

Entrepreneurship

It is a process of creating and managing a business to earn profit, increase wealth and generate value, characterized by risk taking, innovation, leadership and management skills.

Key elements of entrepreneurship

- Innovation
- Vision
- Risk Taking
- Organising Skills (effective planning & mgmt)

V.Imp.

Difference between Startup and Entrepreneurship

The primary distinction between Startup and Entrepreneurship is that

↳ an Entrepreneur refers to all business Ventures, new or old.

↳ It includes small businesses, partnerships, firms, sole proprietorships which can be based on new idea or an existing idea.

↳ On the other hand, Startup is a newly emerged business venture started by individual founder to meet market gap.

↳ Startup mostly mean new businesses that are solving market's problem with unique ideas.