* CH.4 : Startups and its Registeration *

• A Startup company is entrepreneurial venture which is typically emerging, fast-growing & aims at solving unmet need by developing innovative product.

• It is designed to develop & validate scalable business model effectively.

* START UP INDIA POLICY.

• start-ups policies
• Government initiatives
• Exemptions for start-ups.
• Tax benefits
• Cooling period for start ups.

• An entity shall be considered as start up
  - Upto period of 10 years from date of incorporation or registeration, if it is any Private Limited Company or Partnership firm or LLP.
  - Turnover of entity shall not exceed 100 crore rupees.
  - Entity working towards innovation developments of products or services or if it is scalable business model with high potential of employment generation or wealth creation.

- It is provided that entity formed by spilliting up or reconstruction of business is not a startup.

* Funding Support & Incentives.

1) Fund of funds : To provide fund to startups, Government has created funds for startups (FFS) at Small Industries Development Bank OF India (SIDBI) with a corpus of ₹ 10,000 crore. The FFS shall contribute to Alternative Investment fund for investing in equity & equity linked instruments.

2) Startup India Seed fund : Goverment has launched Startup India Seed fund worth ₹ 1000 crore, for Supporting startups.

3) Credit guarantee fund for startups : Debt funding for startups is considered as high-risk activity. Credit guarantee fund for startups is being setup with budgetory corpus Rs. 500 crore, per year over next 4 years.

4) Relaxed Norms in Public Procurement for startups : Department of expenditure has issued notification for relaxing public procurement norms in respect of all startups by all ministers.

5) Tax incentives : The Inter-Minister Board of Certification set up by (DPIIT) Department for promotion of Industry & Internal Trade, which validates startups for granting Tax related benefits. There is

no Tax for startups for 3 years. Maximum amount can be invested is ₹ 50. Lakh.

6) Legal Support & fast-tracking Patent Examinations at lower costs : Scheme for startups IPR Protection (SIPP) for faciliating fast track filing of Patents, Trademarks & design has been introduced. The scheme provides for quicken examination of patents filed by startups, it will reduce time taken in getting patents.

7) Self-Certification based Compliance Regime : Compliance norms relating to Environmental & labour laws have been eased in order to reduce the regulatory burden on startups. 3 Environmental law & 6 labour law should be followed by them.

- Environmental laws :-
  1) The Water Prevention & Control of Prevention Act, 1974.
  2) Air Prevention & control of pollution Act, 1981.
  3) Water Prevention & Control of pollution cess Act, 2003
- Labour laws :-
  1) Payment of Gratuity Act, 1972.
  2) Employee state Insurance Act, 1948.
  3) Contract labour regulation & abolition Act, 1917
  4) Employees P.F & misclleneous provisions Act
  5) Interstate Migrant Workmen Act, 1919.
  6) Building & other constructions works Act, 1996.

8) Setting up Incubators : Incubators not only offeres high number of service, they often also makes grants / debt / equity investments.

9) Setting up of Startup Centres & Technology Business Incubators (TBIs) : 14 startup centres & 15 technology business incubators are to be set up collaboratively by Ministry of Human Resource Development (MHRD) and Department of science & technology (DST). Out of 14 start ups 10 have been approved.

10) Reasearch Parks : 7 Research Parks will be set up as per the startup India Action Plan. Out of these 7 IIT Kharagpur already has a functional Research Park.

* PENALTY FOR STARTUP

• If startup company fails to comply any provision of Companies Act, 2013, then company and its officer shall liable to a penalty which shall not be more than 1/2 of penalty subject to maximum 2 lakh in case of company and 1 lakh in case of officer in default

* The process of recognition of eligible entity as startup shall be under

i] A startup shall make online application over mobile app or portal set up by DPIIT.

ii) The application shall be go along with -
- A Copy of Certificate of incorporation / registration, and
- A write-up about nature of business highligting that how it is working, towards innovation, development or process or in terms of employment generation or wealth creation.

iii) The DPIIT may, after calling for such documents / information & making such enquires as it may deem fit -
- Recognise the eligible entity as startup .or.
- Reject application by providing reasons.

* EXEMPTIONS FOR STARTUPS.

1] Simple Process
- To get register as startup is very simple process.
- Government of India has launched a mobile app & a website for easy registration for startups.
- If anyone interested in setting up startup can fill a simple form on website & upload some documents.
- The whole / entire process for registration of startup is completely online.

2] Reduction in Cost
- The government has also provided the list of facilitators of patents & trademarks.
- They will provide high quality intellectual property right including examination at lower cost.
- The Government will bear all facillitator fees & startup will bear only statutory fees.

- There is 80% reduction in cost of filing patents for startups.

3] Easy access to funds.

- To provide funds to startups 10,000 crore rupees fund is setup by government.
- The government is also giving guarantee to banks & other financial Institution for ~~privi~~ providing funds to start-ups.

4] Research & Development facilities.

- Seven new research parks will be set up to provide facilities to startups in R&D sector.

5] Tax holiday for 3 years.

- Start ups will be exempted from income tax for 3 years provided they get a certification from Inter-Ministerial Board (IMB).

6] No time-consuming compliances.

- Various compliances have been simplified for startups to save time & money.
- Start ups are allowed to self-certify compliance with 6 labour & 3 environmental laws.

7] Tax savings to investors.

- People who invests their capital gains in venture funds setup by Govt. will get exemption from capital gains.
- This will help to attract more investors.

5] Easy exit

- Start up can close its business within 90 days from date of application of winding up.

* BENEFITS / EXEMPTIONS TO START UPS UNDER COMPANIES ACT 2013.

i] It is provided that if a start up company receives amt of 25 lakh or more by a single tranche from a person & if it is repayable / convertible into equity within 10 years, then it shall not be treated as deposit.

ii] The provisions of sec. 73 clause (a) to (e) shall not apply to start ups for 5 years from its incorporation.

iii] Start ups are allowed to issue Employee Stock Options to promoters working as employee.

iv] A start up company can issue sweat equity shares not exceeding 50% of paid-up share capital upto 10 years from date of its incorporation.

v] The annual return of start up must be signed by Company Secretary or if CS is not available then by director of Company.

vi] Start up shall at least have one board meeting in half calendar year and gap between two board meetings shall not exceed 90 days.

* REGISTRATION

1) Incorporation of Business Entity
- Before getting registered as start up one should decide his business as Private Ltd company / Partnership firm / Limited liability Partnership (LLP).
- After incorporation it should state where the registered office of new entity has been established.

2) Register with start up India.
- To get register as start up visit Startup India website & click on button 'Register'.
- After that enter his / her name, email i'd, mobile no., and password then click on 'register' button.
- OTP will be sent to email id & other details should be mentioned.
- After entering these details start up India profile will be created.

3) Get recognition from DPIIT.
- The recognition helps start up to avail various benefits like access to high - quality intellectual property services & resources, relaxation in public procurement norms, self -certification of labour & environmental laws, easy winding of company, no tax for 3 years.

4) Application for recognition.
- On 'Start up recognition form' the details has to be filed such as
  - full address
  - authorised representative details

- directors / partners details
- information required.
- start up activities & self - certification.

5) Documentation required for Registration.
following documents shall be kept ready. -
- Incorporation / Registration certificate of start up
- PAN number.
- Proof of funding.
- Authorization letter of authorised representative.
- Proof of concept like pitch deck / website link
- Patent & trademark details
- List of awards or certificates

6) Getting the Recognition number.
• Once application has been made recognition number will be generated after examination of documents within 2 days after submitting details.

* IMPORTANT POINTS FOR STARTUP

i) Choose the right legal structure for your start up.

ii) Registration & business licenses

iii) Intellectual Property Protection.

iv) Founder Equity :
Split & vesting - Founder equity should be split amongst founders according to nature of role played

by each founder along with their time, effort & Capital contribution.

vi] founder agreements : The agreement should represent clear understanding between founders on all key issues related to startup.

vii] Employment Contracts : Employment Contracts are certain-ly valuable to employees. It contains details of terms regarding description of job profile, compensation and other associated benefits. And number of clauses may be inserted to safe guard & protect interest of startup.

viii] Employee stock option pool (ESOP)

viiii] Third Party agreements : It is advisable to execute a non-disclose agreements. If creation of intellectual property is component of such third-party agree-ment, then it shall clearly mention all right to intellectual property & shall vest & owned by startup and 3rd party shall not stake any claim on the same.

ix] Investment structuring : It is necessary for start ups to seek proper legal advice while nego-tiating deals for investment & rights of investor. As a process an intention document detailing structure of transaction called term sheet.

2) Compliance Management : Startup is in compliance with legal, secreterial, accounting, taxation, employee related & other associated compliances.

* FINANCING OPTIONS AVAILABLE FOR STARUP COMPANIES.

Depending on the stage of a stratup, major sources of financing entrepreneurs includes -

1) Saving of founders (Private Capital of founders)
2) Venture capital.
3) Crowd funding.
4) family & friends.
5) Incubator / Company builder & accelerator.
6) Internal financing (operating Cash flow).
7) Venture Debt / IPO / ICO / others.
8) Angel investors.
9) Government subsidies.
10) Bank loans.

Points	Equity financing	Debt financing	Grants
Nature	There is no component of invested funds	Invested funds to be repaid within specified time with interest.	There is no component of invested funds.
Risk	Risk factor is higher	Risk factor is comparatively lower than equity.	There is no risk factor
Pressure for repayment	Less pressure of repayment involved.	It involves more pressure of repayment.	No pressure for repayment
Return to investor	Capital growth for investor.	Interest payments	No return.
Involvement in decision.	Equity fund investors are involved in decision making process.	Debt fund have very less involvement in decision making process.	No involvement in decision making process.
Sources	Angel investors, Self financing, family & friends, Venture capital, Crowd funding.	Banks, non-baking, financial institutions, Govt. loan schemes (Mudra loan, stand up India)	Central government & state government

* SEED CAPITAL –

- Startup business needs help of finance to grow and explore.
- The funding done at the early stage is called seed funding, and the capital knows as seed capital.
- Seed capital is the initial capital used at time of starting the business.
- This capital can come from the founders, families or friends.

* EQUITY ~~FIA~~ FINANCING

Startups are usually equity financed by way of a venture capital / private equity investors / angel investors.

1) Venture Capital : Venture capital is first large investment a startup can expect to receive. Usually, when a company invests into start ups is venture capital. The investor & start up will normally enter into a non – ~~dind~~ binding offer based on preliminary valuation.

2) Angel investors : Angel investors are individuals who are willing to fund venture in return for equity stake. Under SEBI Regulations, 2012 following restrictions applicable to angel investors –

Angel investors shall invest in startup which :

- are not related to industrial group whose turnover exceeds ₹ 300 crore, &
- are not companies with family connection with any of angel investors who are investing in company.

• Investment by venture fund in capital shall not be less than ₹ 25 lakh & shall not exceed ₹ 10 crores.

• Locked - in ~~fo~~ period for investment by angel fund is one year.

* Funding procedure from venture capitalist.

1) Memorandum of understanding is made & setting out legal terms for agreements.

2) Parties will make share subscription agreement, debenture subscription agreement.

3) Parties may enter into shareholders agreement

4) Issuance of securities through private placement process.

5) Filing of necessary e-form with ROC

6) Amend AOA as per shareholder's agreement

* BRIDGE ROUND

• When start up needs additional capital between two rounds of funding they may rise a bridge round.

• Ex. Company is ~~es~~ approved with term loan of 50 lakh to be given after 6 months, company may seek a bridge round during this period

- Startups will 1st target existing investors during bridge round & can raise from ~~additional~~ new investors if additional fund is needed.

* SERIES FUNDING.

- ~~After~~ After seed funding round / Angel funding round ~~wil~~ then series funding round will start from A to Z.
- first round of stock offered by seed funding / Angel funding will call as series A funding and subsequent funding will ~~sta~~ continue as series B, C, D --- Z

* Things to know when Raising a 'Series A Round':

1) Be Series A Ready.

- If any start up is looking to raise series A, then it might be good idea to get familiar with venture funds.
- The following key factors are generally taken into consideration — Promising unit economics,
  Revenue,
  Proof of business model,
  Systems ready to support efficient Scaling,
  Product / market fit,
  Customer aquisition strategy & success.
  Quality of team.
- It is wise to evaluate where company stands against these metricts to figure if you are ready for series A.

2) Start early.

- Fund raising is the time consuming process in the current environment.
- It can be realistic about the timeframe.
- Every sha start up shall make sure to start process at least 7-8 months prior it it when it wants to raise Series A financing.
- The deal process has two parts, pre-termsheet and post-term sheet.

3) Leverage your network.

- Seed funding is more plentiful & easier to raise as compared to series A.
- Start ups shall leverage their network & shall build genuine relationship before starting series A fund raise it will make easier to get potential meetings with investors.
- These second degree network have powerful and favourable outcomes.

4) Practice your "Pitch"

- Every strat up shall take as many meetings as possible.
- Start up shall contract to other founders who have successfully raised Series A & take their inputs for pitch.
- Firstly start up should meet low priority investors they will ask relevant questions & will give valuable feedback.
- ~~I~~ This will help start up for their meeting with top priority investors.

5) Create fundraise Momentum
- Approaching multiple venture funds at the same time is a good idea to get competitive dynamic into process.
- Every startup shall try to ~~con~~ keep conversation with interested investors as much as possible.

6) know the 'standard market practice'
- Startups shall keep themselves up to date with commanly offered deal terms of series A.
- The strongest line of defence & most accepted rationale for negotiating such terms is that they are not standard market practice.

* DEBT FINANCING

I Loans from Banks & NBFCS.
- Loans from banks & NBFCs help finance the purchase of inventory & equipment and it will secure operating capital & funds for expansion.
- There are several disadvantage of such funding option.
- Not do you pay interest on loan but it also has to be done on time irrespective how your business is faring.
- They require substantial collateral fulfillment of term & conditions & lot of documents as follows –
  - Application for loan sanction by borrowers.
  - Issue of saction letter by bank.
  - Agreement of loan
  - Deed of mortgage, deep of guarantee & hyphothecation.

2] External Commercial borrowings
• External commercial borrowings in form of bank loans, buyers. credit, securitized instruments can also be allowed from non-resident lenders to fund business requirement of company.

3] CGTMSE [Credit Guarante Trust for Micro & Small Enterprises]
• This scheme is launched by MSME
• Under Credit Guarantee Trust for Micro & small Enterprise one can get loans up to 1 crore without collateral or surety.
• A new & existing MSME can take loan under scheme from all scheduled commercial bank & specified Regional Rural Bank, NSIC, NEDFI & SIDBI which have signed agreement with credit guarantee trust.

* Initial Public offering (IPO)
• In IPO company raises funds by offering its equity shares to public.
• It allows stock market to tap wide pool of stock market investors to provide it large volume of capital for future growth.

* UNCONVENTIONAL MODES OF FINANCING OPTIONS

1] Crowd funding.
• Getting seed funding ~~from of~~ small amounts collected from large number of people is known as ~~crow~~ crowd funding.

• There are many companies in India which are really specialized in Crowd funding.

• The entrepreneur can get money by showcasing his idea to large number of people of its utility and sucess.

• SEBI even rolled out a 'Consultation Paper on Crowd funding in India' to propose framework in form of Crowd funding for allowing startups & SMEs to raise initial stage funding from investors.

2] Incubators

• Incubators helps entrepreneur to ~~dele~~ develop business idea by providing resource & services in return of 2-10% equity stake.

• They offer office space, administrative support, legal compliances, management training, access to industry experts as well as funding through angel investors & VCs.

• These are usually government - supported institutes like IIMs & IITs.

• The incubation period is 2-3 years.

* ENTREPRENEURSHIP

• It is the process of making money, earning profits and increasing wealth while constituting characteristics like risk taking, management, leadership & innovation

- The entrepreneur is the one who is willing to bear the risk of new venture if there is significant chance for profit.

- Following are four key elements of entrepreneurship –
  - Innovation.
  - Risk taking.
  - Vision.
  - Organising skills.

- Traits of entrepreneur
1) He is the person who owns his own enterprise
2) He is a modarate risk taker & works under uncertainty for acheiving goal.
3) He is innovative.
4) Reflects strong urge to be independent.
5) He always tries to do something better.
6) Prepared to withstand the hard life.
7) He is determined but patient.
8) has sense of leadership
9) also has sense of competitiveness
10) Takes personal responsibility.
11) Oriented towards future.
12) Covert any situation into opportunity.

- Characteristics of Entrepreneur

  - Mental ability.

- Business Secrecy
- Clear objectives
- Human Relation.
- Communication ability.

* How Entrepreneurship is different from a Startup ?

• The primary difference between startup & entrepreneurship is that entrepreneur refers to all business ventures, new or old.

• It includes small business, partnerships, firms, Sole - proprietorship which can based on new idea or existing idea.

• And, the startup is a newly emerged business activity started by individuals to meet market gap.

• Startups means new businesses that are solving market's problems with unique solutions.

* UNICORN STARTUPS

• A unicorn is a term used to indicate a privately held startup company with valuation of over $1 billion.

• The journey of unicorn starts from growth stage, they solve everybody's problem with unique way.

• The reason for successful startups is their solutions on specific need in new & unique way.

- The Indian startup ecosystem has developed dynamically in recent times.

- However, in past decade there has been significant increase in investment activity & infrastructure facilities.

- In 2021, India witnessed the birth of 44 unicorns with total valuation of $93 Billion

- Some of big unicorn ~~m~~ names that offered IPO include, Zomato, Nykaa, Policy Bazar, Paytm & fresh-works.

* LIFE CYCLE OF START-UP

1] Stage 1 : Ideation & Development.

- It is categorised by importance of testing ~~feasi~~ capability of product / service offered.
- Testing viability can help to ~~anwer~~ answer larger questions about govt. aid, regulations & other factors.
- Some consideration of ideation & development are
  - Target market
  - Business models
  - Team skillset.

2] ~~Vo~~ Stage 2 : Validation

- The process involves defining goals, developing a value proposition & validating same through customer feedback.

- This stage of startup drives understanding of potential outcomes.
- Some considerations of validating are
  - Validating & testing
  - Prototypes
  - Modifications.

3] Stage 3 : Early Traction

- At early traction stage set of target customers can test effectiveness of product offered validation of product can give definitive results to outside world.
- This stage presents its own set of challenges & visibly express revenue & cash flow.
- Pivoting - When company shifts its business strategy then Pivoting occurs. Company shifts its business strategy to provide changes in its industry, customer preferences or any other factor. It is initially process of startup translating direct or indirect feedback into change in its business model.

4] Stage 4 : Growth & Exist

- When the company has attained true economic health & has sufficient size and earns avergage or above-average, then at this stage company can choose to scale up or expand its market through IPO / mergers & aquisitions.