

# HOW TO START A STARTUP?

CA Shubham Maloo

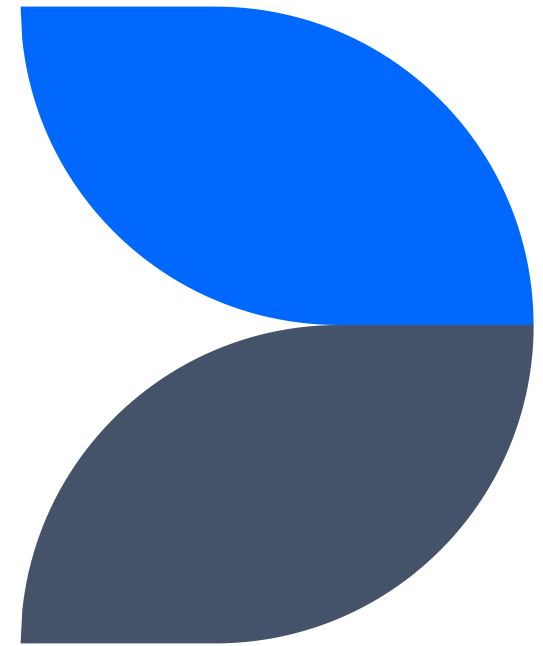
WIRC of the INSTITUTE OF CHARTERED  
ACCOUNTANT OF INDIA

# Introduction

Startups

*Innovating for India*

*Innovating from India*



# Why as a CA, you should learn about this topic?

Understanding the financial aspects of a startup

Experience with risk management

Understand the Ecosystem

Diversify your career path

Impact on society



# CA's In start-ups Ecosystem



# Executive Summary

87K +  
Active Startups in  
India

100+  
Total Number of  
Unicorns

The US  
is the biggest source  
of foreign Investment  
in Indian Startup

\$70 Billion  
raised by 3436  
Startups Between  
2014 and 2020

Fintech  
The Top Startup  
Sector

711  
M&As between 2015  
and 2021



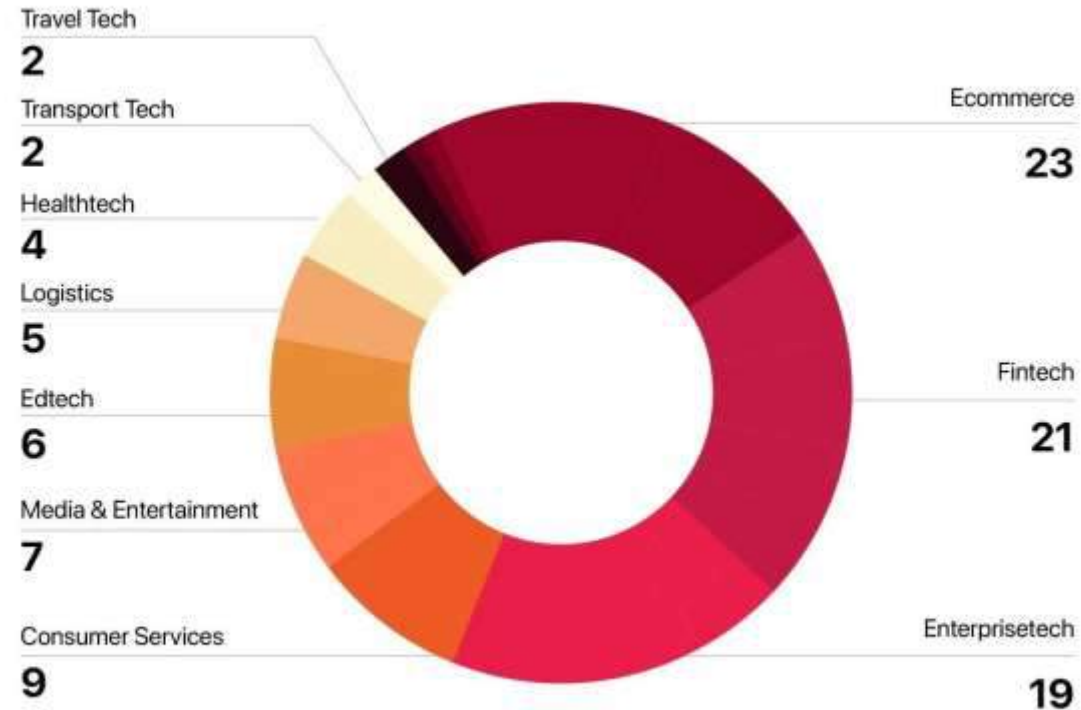
# What is a Unicorn?

Privately held startup company valued at over US\$1 billion (Appx. 7600 Cr.)

Which was the first Unicorn Startup of India?

**Inmobi in 2011.**

Ecommerce Produced The Most Of India's 100 Unicorns



Sources: Inc42

Inc42



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# 8 Differences Between Startups And Business

Innovations

To what scopes your business will come up to?

How fast will your business grow?

How soon business will be paid off and how much it is possible to earn?

How much are you to invest?

Are there any technologies used running a business?

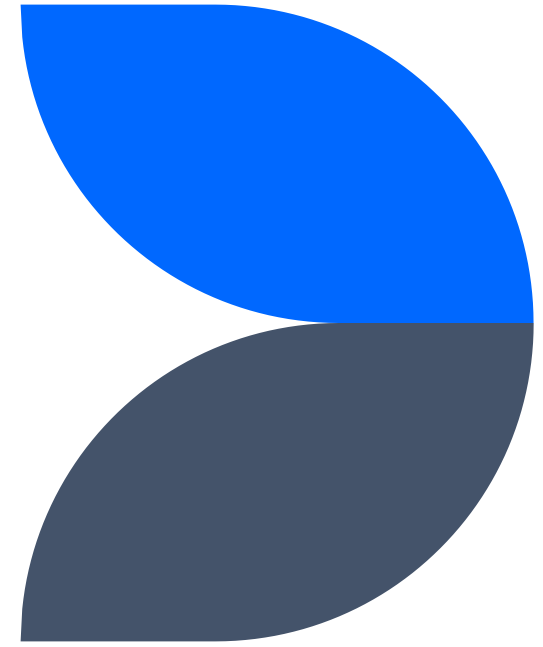
For how long will your business run?

And the last one but not least in our list of main differences between startups and small business is **exit strategy**.



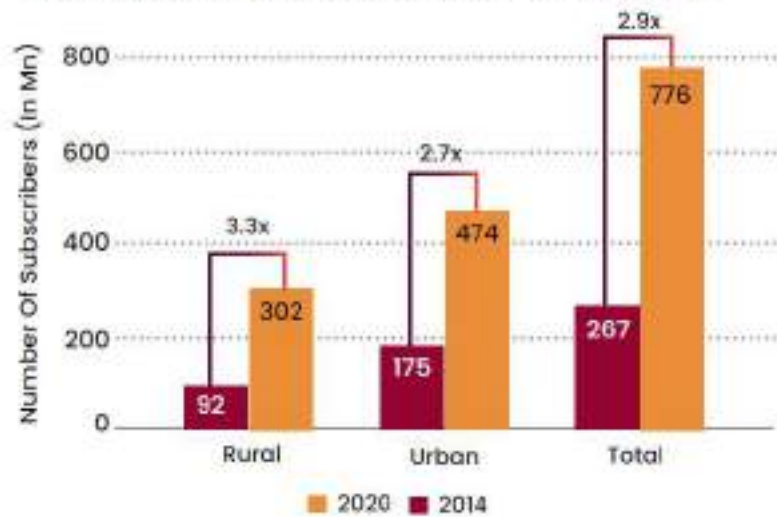


# Factors Fuelling The Growth Of The Startup Ecosystem In India



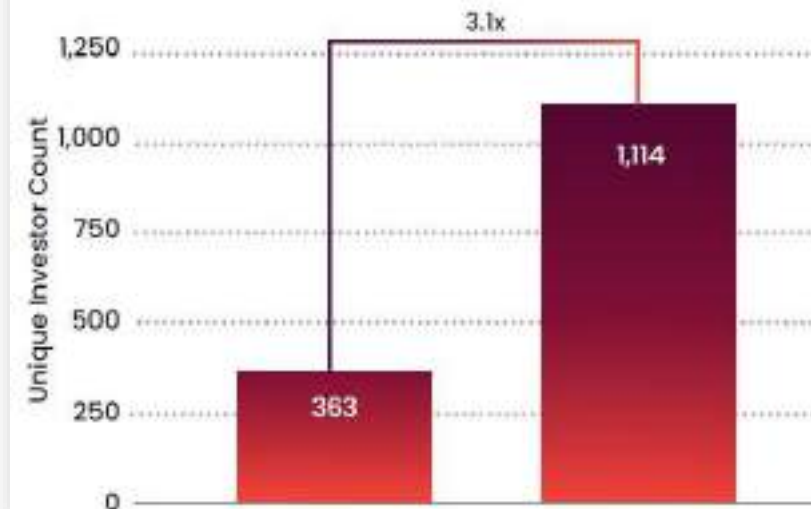
## Growing Internet Penetration

57% Of The Indian Population Had An Internet Subscription In 2020 Compared To 21% In 2014



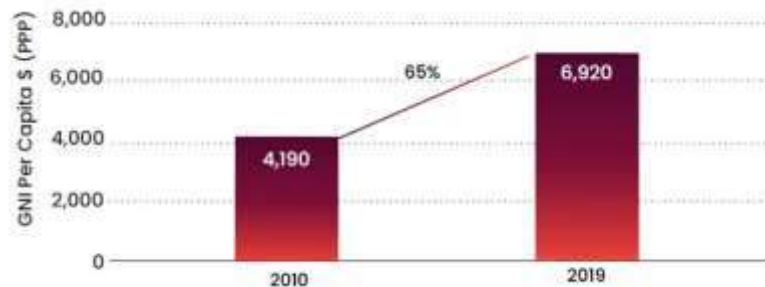
## Growing Investor Ecosystem

Between 2014 And 2020, 978 Unique Investors, On Average Invested In The Indian Startup Ecosystem Annually



## Growing Per Capita Income

Per Capita Income Of Indians Surged 65% Over The Past Decade

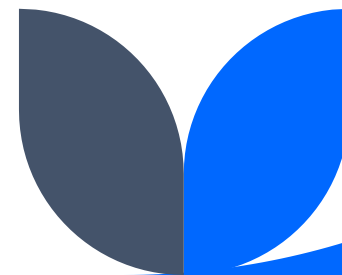


Source: World Bank

# Government Schemes launched to develop and encourage entrepreneurship in India :

Aatmanirbhar Bharat  
App Innovation Challenge  
SAMRIDH Scheme  
Startup India Seed Fund  
Startup Leadership Program  
ASPIRE  
Pradhan Mantri Mudra Yojana (PMMY)  
Chunauti  
Qualcomm Semiconductor Mentorship Program (QSMP)  
Digital India Bhashini  
Digital India GENESIS  
India Water Pitch-Pilot-Scale Startup Challenge  
Ministry of Skill Development and Entrepreneurship  
ATAL Innovation Mission  
Biz Portal  
Dairy Processing and Infrastructure Development Fund (DIDF)  
Support for International Patent Protection in Electronics & Information Technology (SIP-EIT)  
Multiplier Grants Scheme (MGS)

Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE)  
Software Technology Park (STP) Scheme  
The Venture Capital Assistance Scheme (VCA)  
Loan For Rooftop Solar Pv Power Projects  
NewGen Innovation and Entrepreneurship Development Centre (NewGen IEDC)  
Single Point Registration Scheme  
Modified Special Incentive Package Scheme (M-SIPS)  
Stand Up India Scheme  
High Risk - High Reward Research  
IREDA-NCEF Refinance Scheme  
Dairy Entrepreneurship Development Scheme  
Drone Shakti  
Zero Defect Zero Effect (ZED) Certification Scheme  
Sub-Mission on Agricultural Mechanization (SMAM)  
Credit Linked Capital Subsidy for Technology Upgradation (CLCSS)  
Design Clinic Scheme for Design Expertise



# Start-up India

## *Eligibility*

Company Age < 10 Years

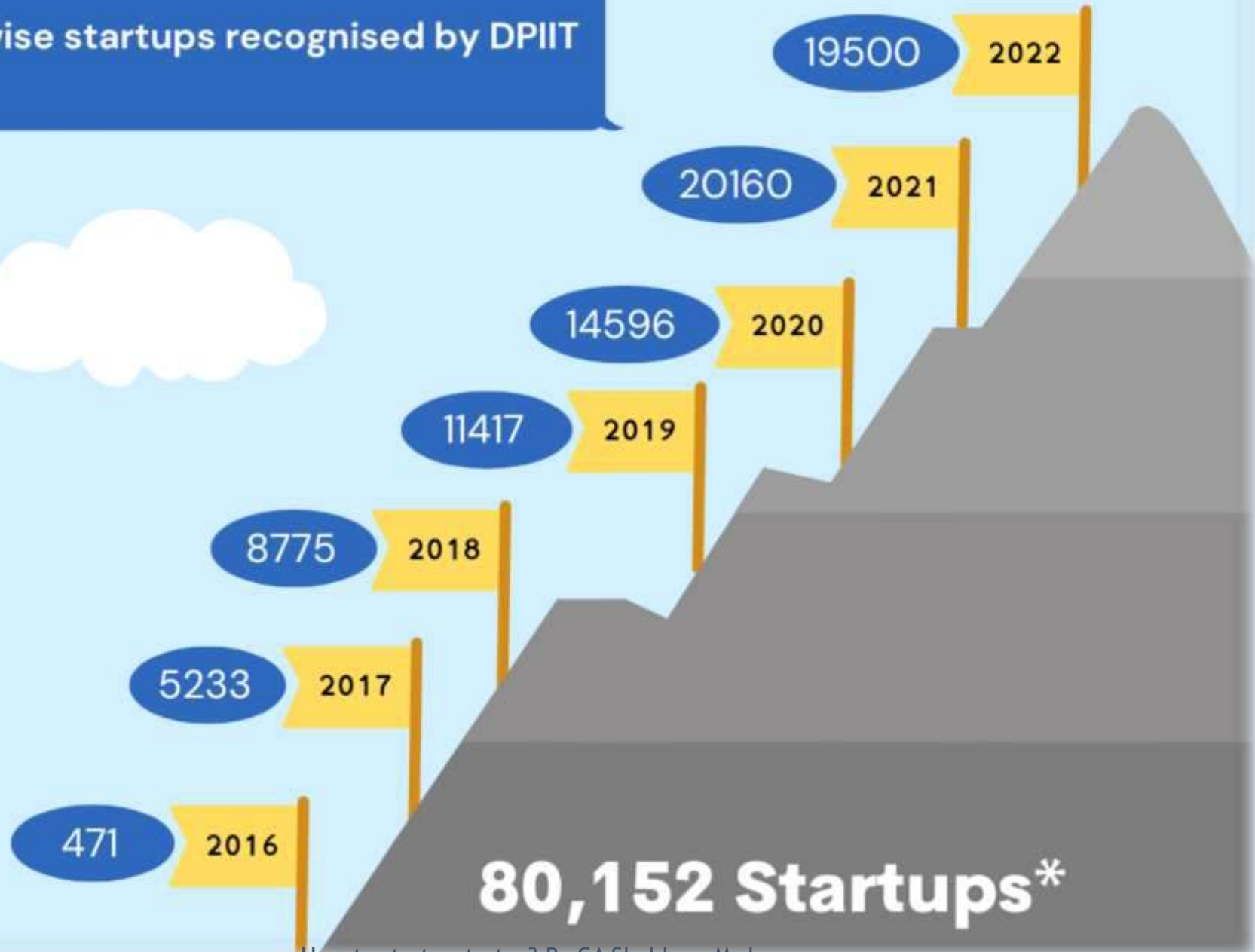
Company Type – Registered Partnership Firm, LLP and Private Limited Company

Annual Turnover < 100 Cr.

Original Entity

Innovative and Scalable

## Year-wise startups recognised by DPIIT



# Benefits



**Simple process**



**80% Reduction in cost of filing patents**



**Easy access to Funds - 10,000 crore rupees fund**



**Tax holiday for 3 Year - Inter-Ministerial Board (IMB)**



**Apply for tenders - "prior experience/turnover not required"**



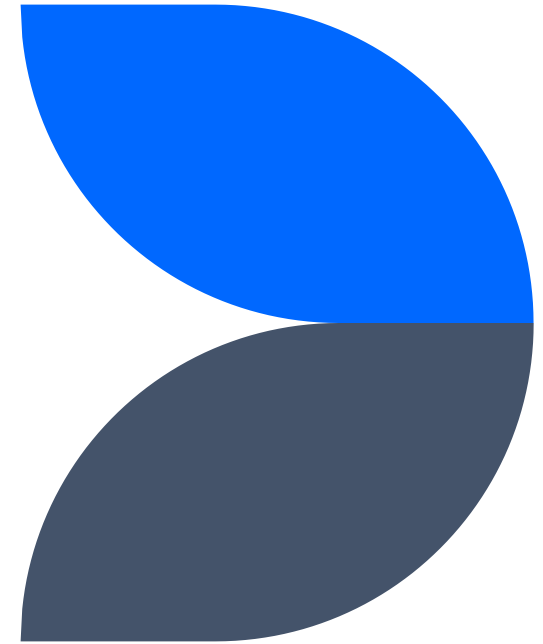
**self-certify compliance - 9 labour and 3 environment laws.**



**Easy exit - within 90 days**

# HOW TO BUILD A START UP ?

Step by Step Process



# HOW TO BUILD A START UP ?

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**Start with a Great Idea**

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**Make a Business Plan**

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**Secure Funding for Your Startup**

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**Surround Yourself With the Right People**

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**Make Sure You're Following All the Legal Steps**

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**Develop a Marketing Plan**

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**Build a Customer Base**

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**Plan to Change**

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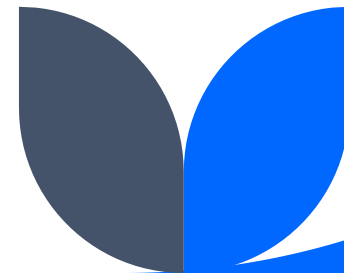
# Start with a Great Idea



**PROBLEM**



**SOLUTION**



# Make a Business Plan

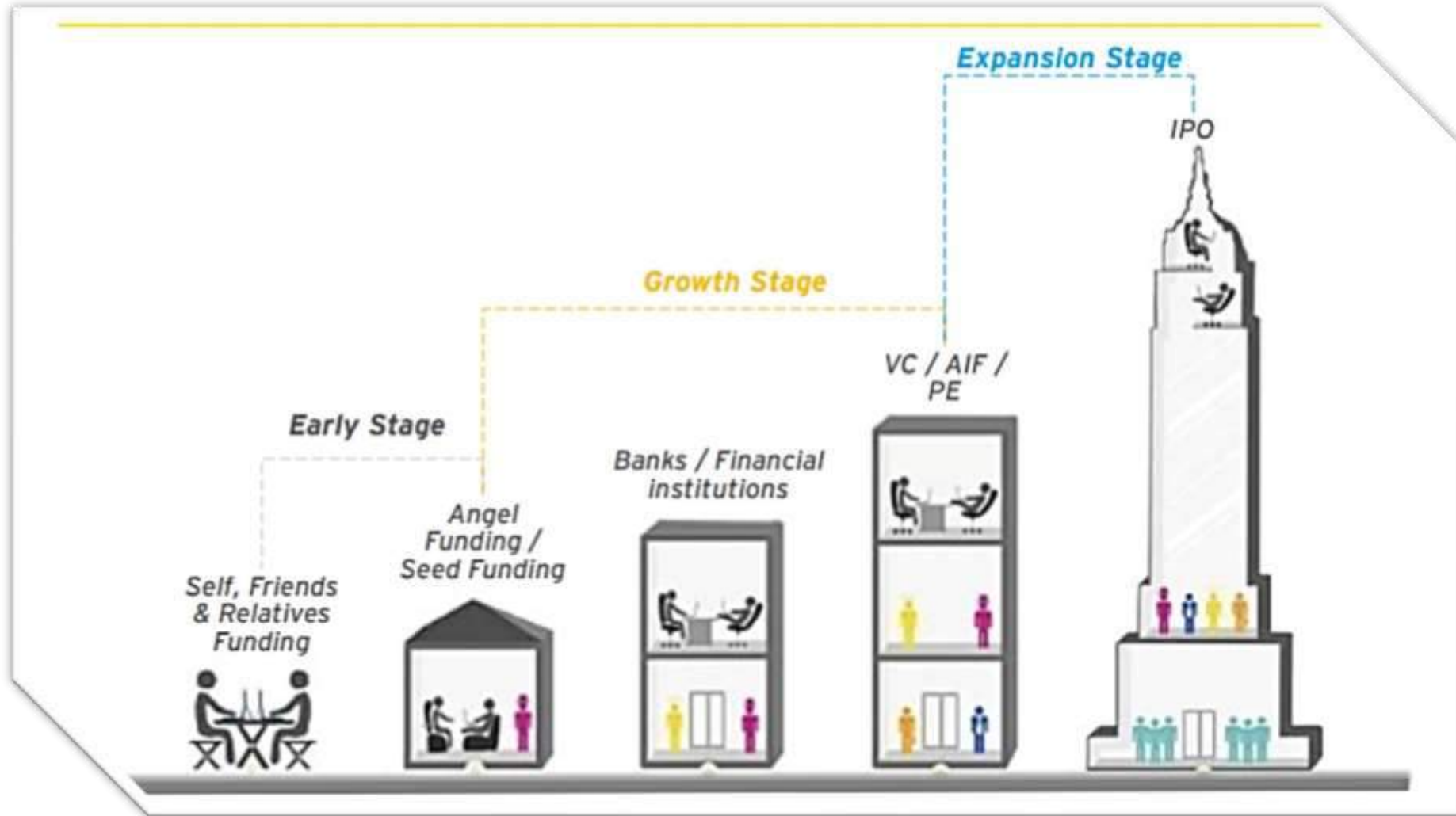


Describes your products and services



Should include information on your industry, operations, finances and a market analysis.

# Secure Funding for Your Startup



# TYPES OF STARTUP INVESTMENTS

Investor perspective

## PRE-SEED

- Idea Stage
- No MVP
- No Revenue
- Strong Founders
- Stronger Idea
- Equity investments
- Convertible debt
- 5 lacs to 3 crores

## SEED INV

- MVP Stage
- Minimum Revenue
- Strong Founders
- Business Synergy
- Equity investments
- Convertible debt
- 1 cr to 5 cr

## PRE SERIES A & BEYOND

- Revenue & Business Model proven
- Business Synergy
- Equity investments
- Convertible debt
- 5 cr to 20 cr

## DEBT FINANCING

- PRE-SERIES A & ABOVE
- Production/ Service proven
- Decent Revenue
- Conversion to Equity later
- Convertible debt
- Trifecta, Alteria funds

# Surround Yourself With the Right People



BUILDING THE RIGHT STARTUP TEAM IS ESPECIALLY IMPORTANT IN THE EARLY STAGES OF SMALL BUSINESSES



EARLY ON THE MAIN FOCUS SHOULD BE COST REDUCTION AND INCREASING PROFITABILITY

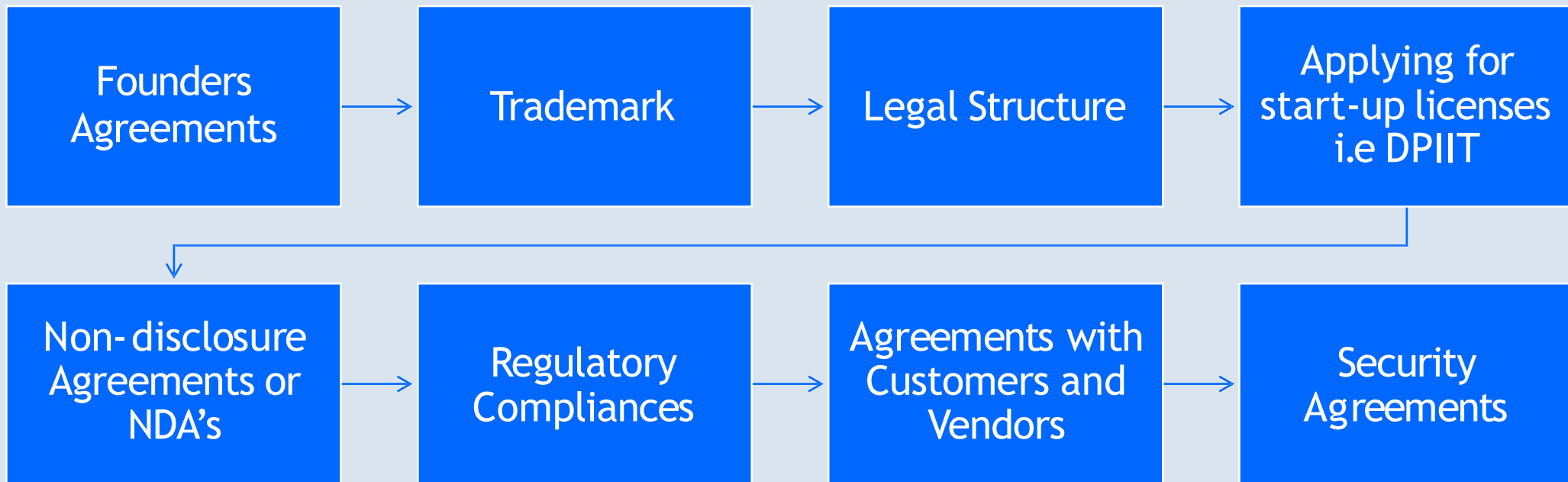


A BIG TEAM WILL LEAD TO CHAOS AND UNNECESSARY EXPENDITURE

**“You don’t build a business, you build people, then people build the business.”**



# Make Sure You're Following All the Legal Steps



# Develop a Marketing Plan

Establish

- Establish a brand identity

Stand out

- Stand out from competition

Create

- Create customer relationships and build loyalty

Increase

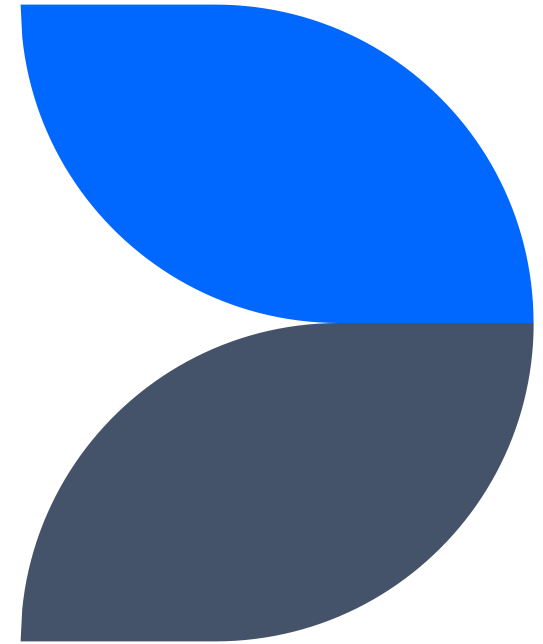
- Increase visibility, which attracts new customers

Strengthen

- Strengthen your company's reputation

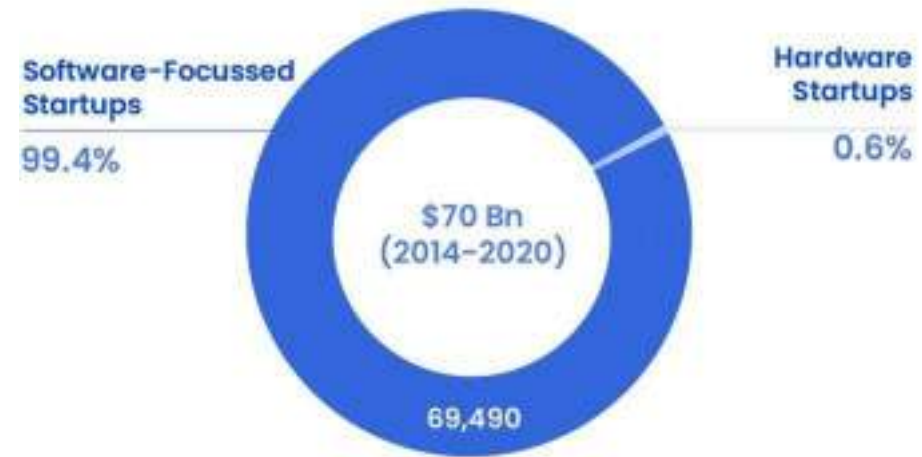
# KEY CHALLENGES

Hindering the Indian startup  
ecosystem

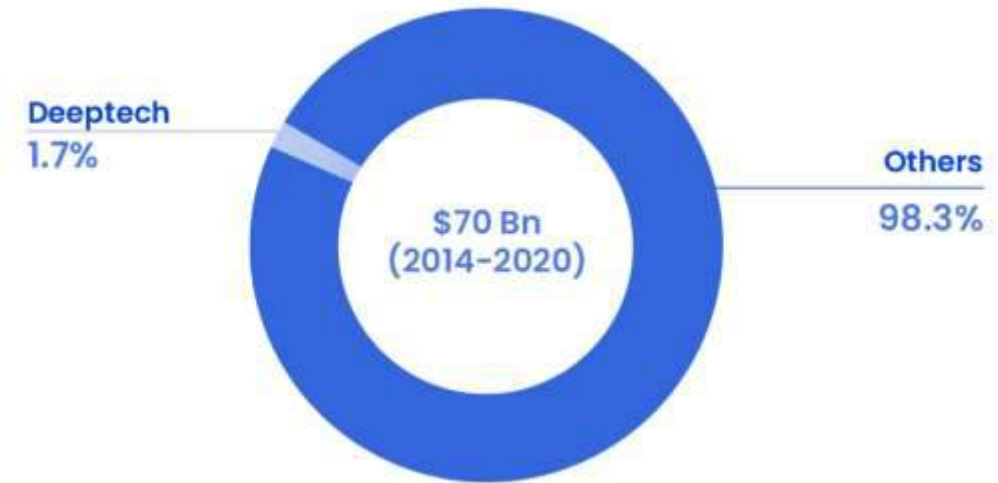




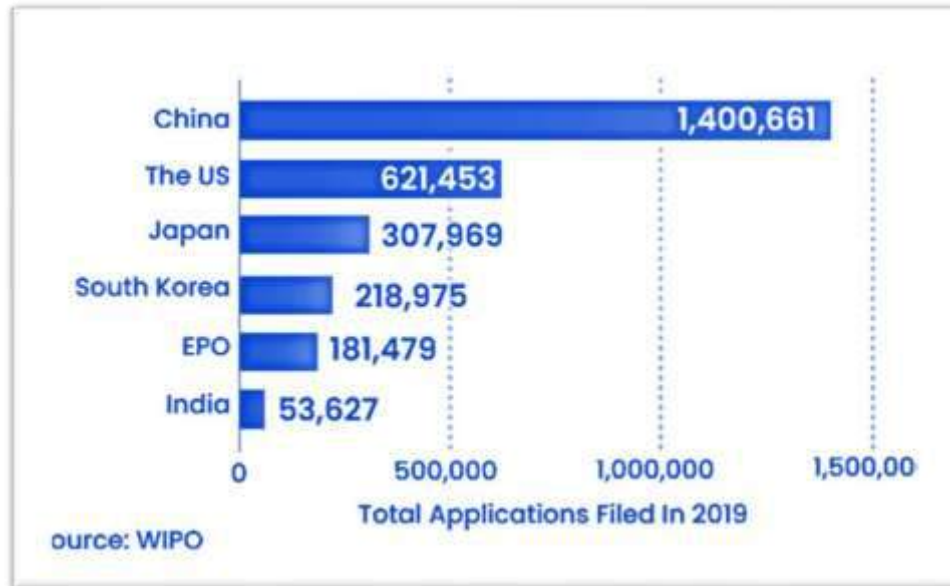
# Inadequate Ecosystem For Hardware Startups



# Low Investor Confidence Towards Deeptech Startups



# The State Of IP Patents In India

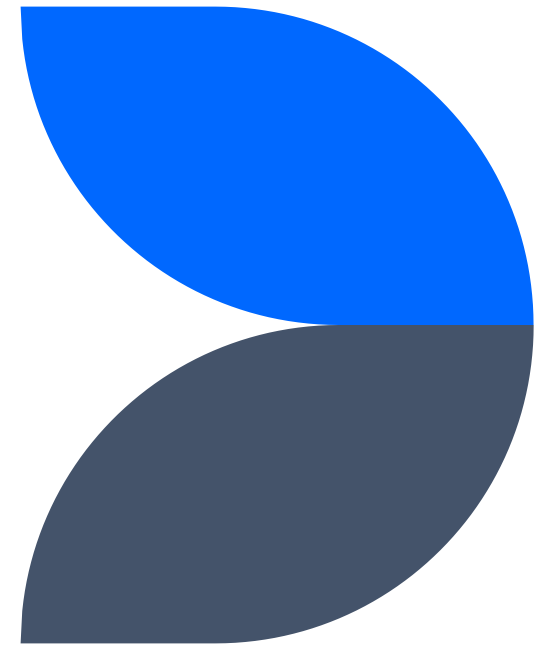


# Regulatory Myopia

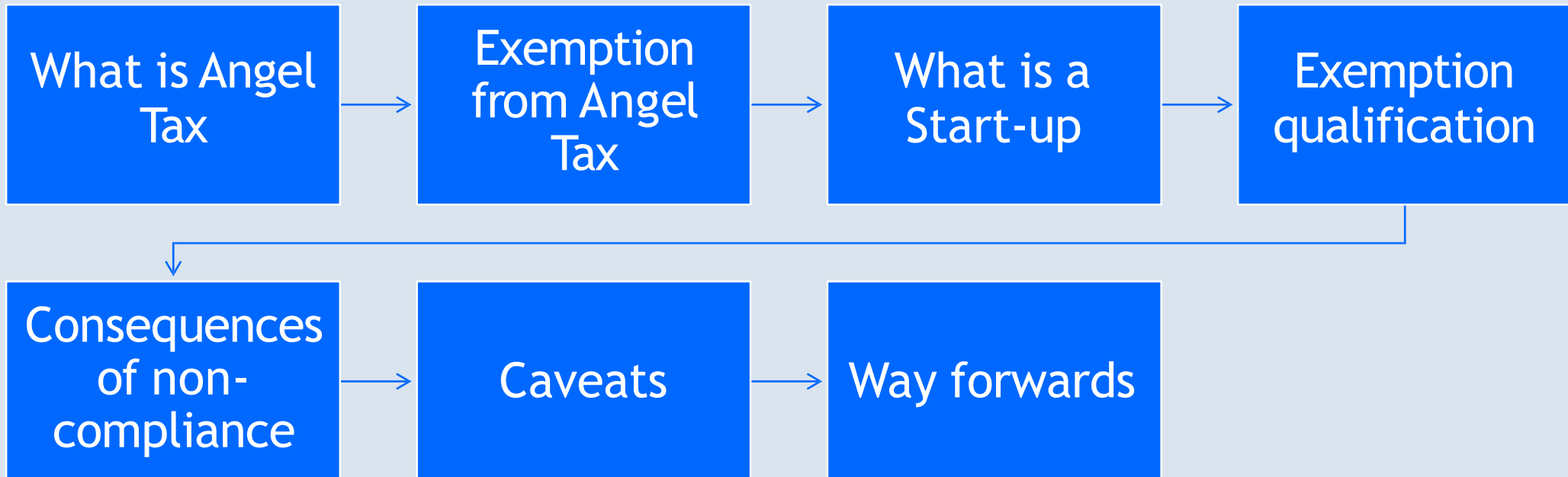
Regulatory Policy	Origin	Impact On The Startup Ecosystem
Angel Tax	Introduced in Section 56(2)(viib) of the Income Tax Act	In Q3 2018, when angel tax notices were sent to numerous startups and investors, angel funding in early-stage startups stood at \$158 Mn. Post the CBDT notices, the number declined by a whopping 62% to \$60.4 Mn.
Online Pharmacy Licence	Notices by Delhi and Madras High Courts banning the online sale of medicines	Uncertainty among online pharmacy stakeholders impacted investor confidence in the sector.
The Information Technology (Intermediary Guidelines and Digital Media Ethics Code) Rules, 2021	Digital Media Ethics Code Rules, 2021	Apart from privacy concerns regarding messaging and social media apps, OTT videos' possible censorship will also hamper freedom of expression, the biggest selling point of OTT content.

# Angel Tax

Challenges for the Startup Ecosystem



# Schema



# WHAT IS ANGEL TAX

Angel tax Is the term used to refer to the income tax payable on **capital** raised by unlisted companies via issue of shares **where the share price is seen in excess of the fair market value** of the shares sold resulting in an effective tax of over 30%

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Recipient : **Company** not being a Company in which the public are substantially interested  
i.e Private Ltd Company

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Consideration for : **Issue of shares**

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Received from : **Resident**

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Conditions : Issue price > Fair Value of shares (i.e. issued at a premium) **AND** Consideration > FMV of shares

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Taxability : **IFOS** = Consideration - FMV

# EXEMPTION FROM ANGEL TAX

Where the consideration for issue of share is received

By a venture capital undertaking form a VC company or a VC fund or a Specified fund\*

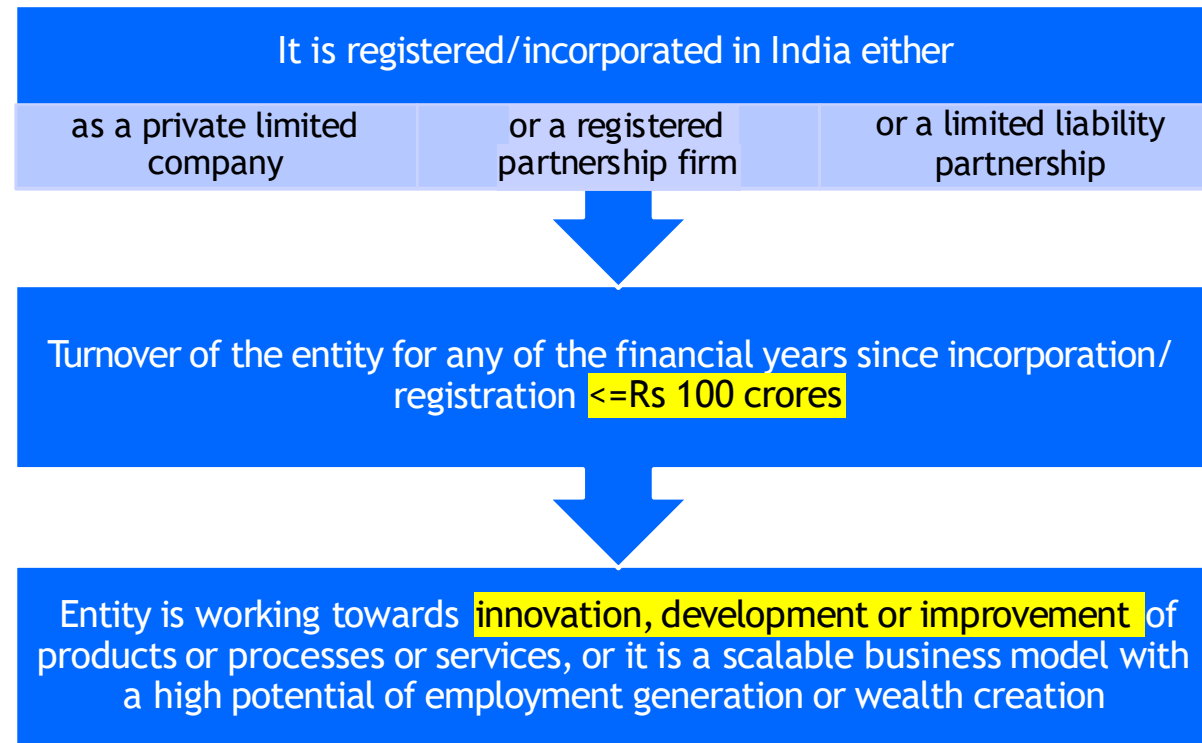
By a company from a class or classes of persons as may be notified by the Central Government in this behalf:

- **Start-ups recognized by DPIIT**, subject to conditions

\*Fund established or incorporated in India which has been granted a certificate of registration as a Category II AIF and is regulated by SEBI

# WHAT IS A START-UP?

An entity shall be considered a start-up up to a **period of ten years** from the date of incorporation/registration if the following 3 conditions are fulfilled :



An entity formed by splitting up/reconstruction of an existing business shall not be considered a start-up

# ELIGIBILITY FOR EXEMPTION FROM ANGEL TAX



Aggregate amount of paid up share capital and share premium of the start up **after issue or proposed issue of share  $\leq$ Rs 25 crores**

The Rs 25 crores limit shall not include amount paid by

Non-resident	VC company or VC Fund	Specified Company- Listed co. whose <ul style="list-style-type: none"><li>• Net Worth on the last date of FY preceding the FY in which shares are issued <math>&gt;</math>Rs100 crores or</li><li>• Turnover for the FY preceding the year in which shares re issued <math>&gt;</math>Rs 250crores</li></ul>
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# ELIGIBILITY FOR EXEMPTION FROM ANGEL TAX

2

Subject to the condition that the start-up should not invest, within 7 years from the end of the latest financial year in which the shares are issued at a premium, in any of the following:

Building or land for the purpose (other than own use or as stock in trade or for the purpose of renting);

For advancing loans (other than where the lending of money is the substantial part of the business of the start-up);

Capital contribution to any other entity; Shares and securities;

Motor Vehicle, aircraft, yacht, or any other mode of transport, the actual cost of which exceeds INR 10 Lakhs (other than that held by the start-up for the purpose of plying, hiring, leasing, or as stock-in-trade, in the ordinary course of business);

Jewellery (other than that held by the start-up as stock in the ordinary course of business);  
Archaeological collections & Artifacts etc

# Consequence of Non-Compliance

If any eligible start-up fails to comply with the conditions as referred in the Notification, the exemption from Angel Tax allowed to such start-up earlier shall be revoked.

The effect of the revocation is that any consideration received before failure by such start-up which is in excess of the fair market value of shares will be ***deemed to be the income of the start-up*** for the financial year in which exemption is revoked.

Further, it shall be deemed that the start-up has **under-reported** its income and shall be liable for consequences u/s 270A i.e. ***penalty equal to 200% of the amount*** of tax payable on under-reported income.

# CAVEATS

Start-ups that invest in shares and securities are **not eligible for angel tax exemption**.

Since most new ventures tend to invest in **debt mutual funds** to multiply their fund, this hinders their growth.

A blanket restriction on investment in shares and securities **impairs the ability of a start-up to expand its operations** through acquisitions or the setting up of subsidiaries.

The embargo on downstream investments as well as on loans and advances are far too constraining.

Start ups that have given **salary advances or loans to employees** are not eligible for the exemption from angel tax.

It is imperative to revisit these end-use tests to limit investments into sin-use goods.

# CONTD

Section 68 (unexplained credits) provides relief only for VCC or VCF in terms of share capital money received

The officer may still tax the premium under Section 68 if the resident does not provide proper justification of nature and source of such sum invested

Start-ups are barred from making a capital contribution to any entity.

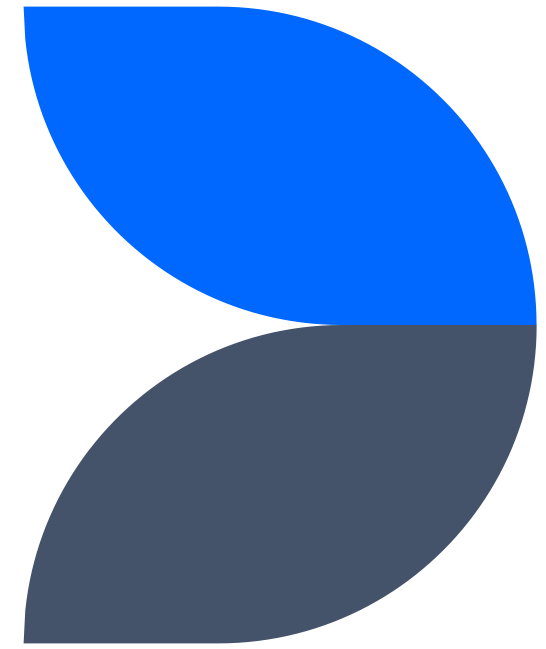
This again creates obstacles for companies that operate in certain sectors that require licenses with other firms to sustain long-term growth.

The start-ups may now be forced to raise funds over the permissible limit of Rs 25 crores by way of debt.

This will not only dilute the net-worth of the start-up but also fasten a possible interest burden on the business which may not necessarily be profitable enough to absorb the cost.

# Investment and Exit

Taxation and more



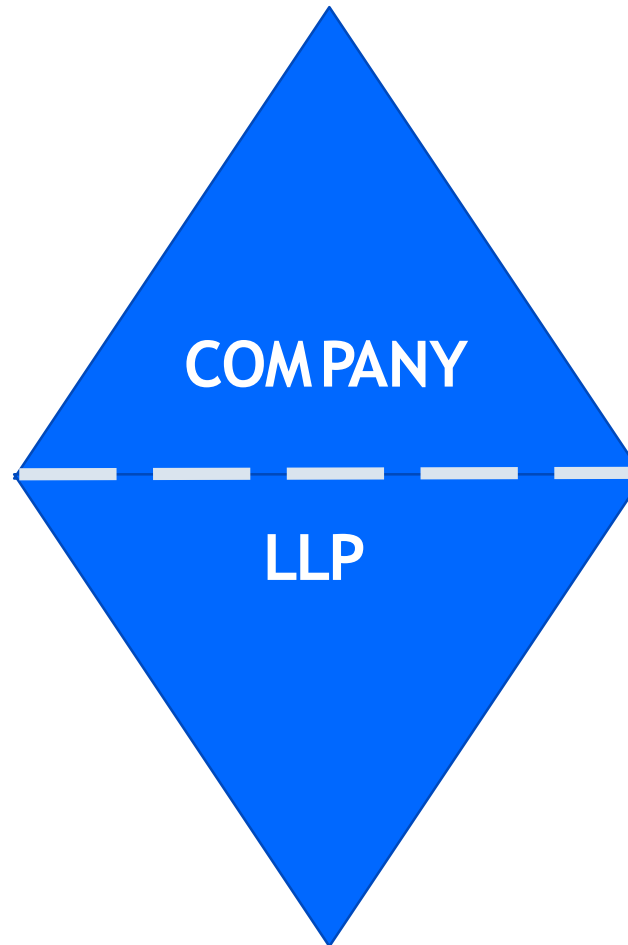
# Modes of investment

## Domestic

- ▶ Equity Shares
- ▶ Preference Shares
- ▶ Debentures
- ▶ Loan

## Domestic

- ▶ Capital
- ▶ Loan



## Foreign

- ▶ Foreign Direct Investment (FDI)
- ▶ External Commercial Borrowings (ECB)

## Foreign

- ▶ Foreign Direct Investment (FDI)

### TOP 10 ACQUISITIONS IN THE INDIAN STARTUP ECOSYSTEM



NOTE: 2022 STARTUP INVESTMENT DATA IS AS OF 26 NOVEMBER 2022  
 SOURCE: INC42

# The Biggest Acquirers In Indian Startup Ecosystem

Flipkart 

 freshworks



 opp  
ITERATE





UPSTREAM  
COMMERCE







MapmyIndia

Liv.ai



Frillp

Konotor





Pipemonk







FRAMEBENCH



FLINT>









easygov













NOWFLATS



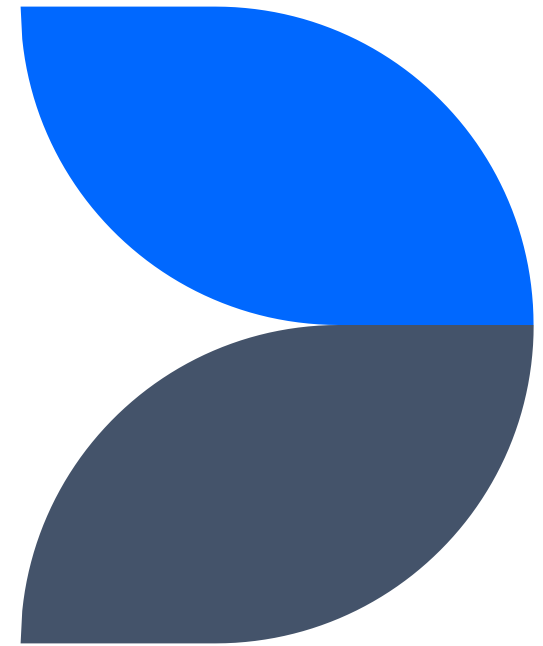






# Future is here

Startups that shocked the world



# ChatGPT



## Examples

"Explain quantum computing in simple terms" →

"Got any creative ideas for a 10 year old's birthday?" →

"How do I make an HTTP request in Javascript?" →



## Capabilities

Remembers what user said earlier in the conversation

Allows user to provide follow-up corrections

Trained to decline inappropriate requests



## Limitations

May occasionally generate incorrect information

May occasionally produce harmful instructions or biased content

Limited knowledge of world and events after 2021



[ChatGPT Jan 9 Version](#). Free Research Preview. Our goal is to make AI systems more natural and safe to interact with. Your feedback will help us improve.



@ca.shubhammaloo

# DALL·E 2

DALL·E 2 is a new AI system that can create realistic images and art from a description in natural language.



@ca.shubhammaloo



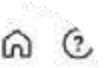
Design spotlight ▾

Business ▾

Education ▾

Plans and pricing ▾

Learn ▾



# Design made easy, and free.

Create amazing visual content with no design experience. Start by yourself, or invite others to collaborate.

Start designing

Browse templates





# Thank you

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