



## Virtual Refresher Course on Industrial Subsidies and StartUp Ecosystem

🕒 50 Min

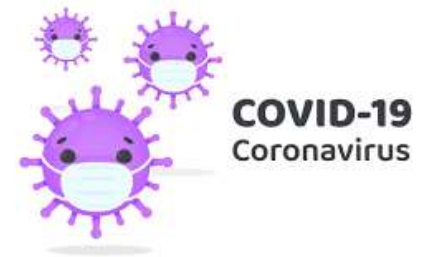
Level #3

April 16, 2021

# StartUp Ecosystem



Presented By  
Pratik Bhutada  
ACA, ACCA (UK), M. Com

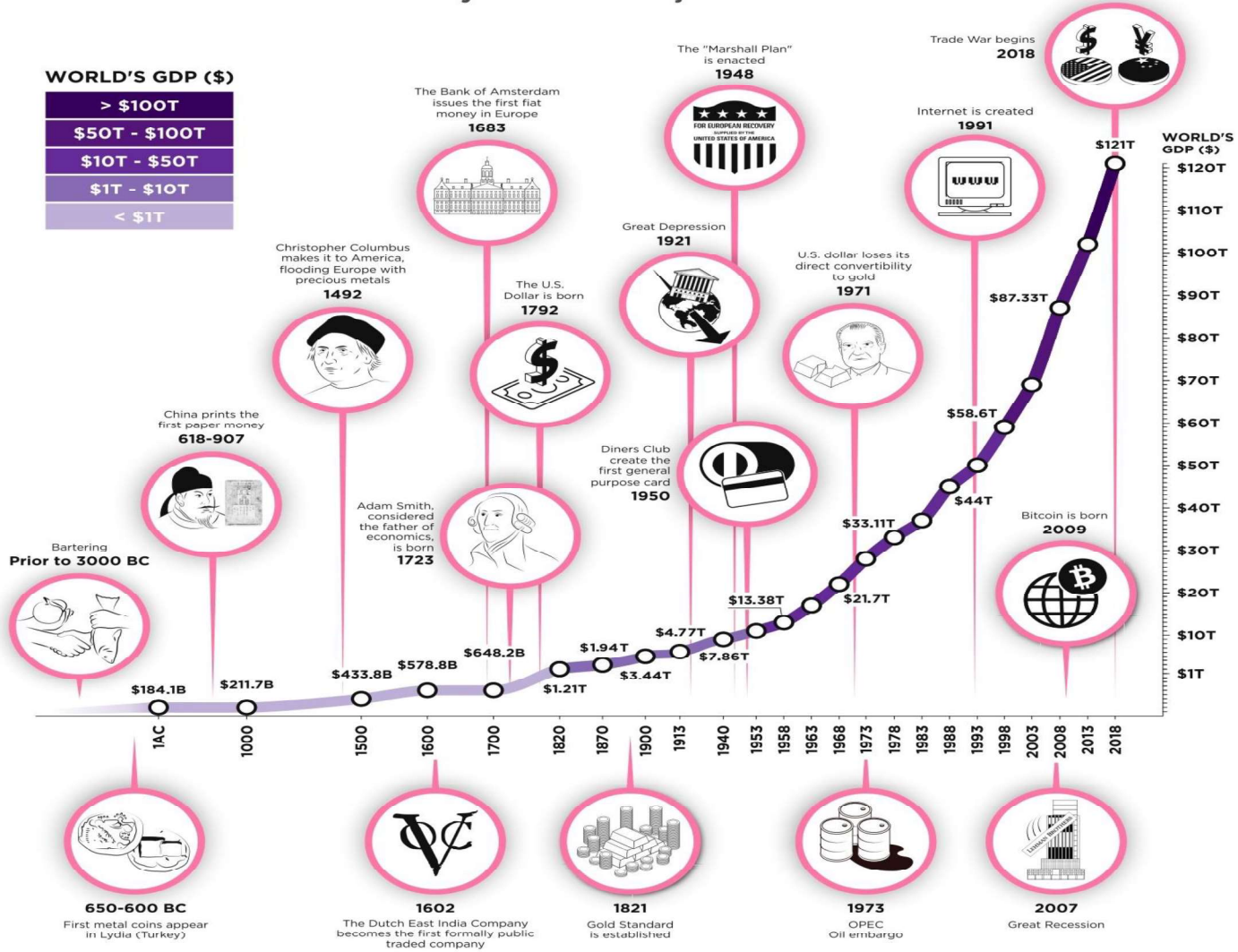




UNICORN STARTUP

# A Timeline of the World's Economic History

World's GDP by Year and Major Economic Events



# What is StartUp?

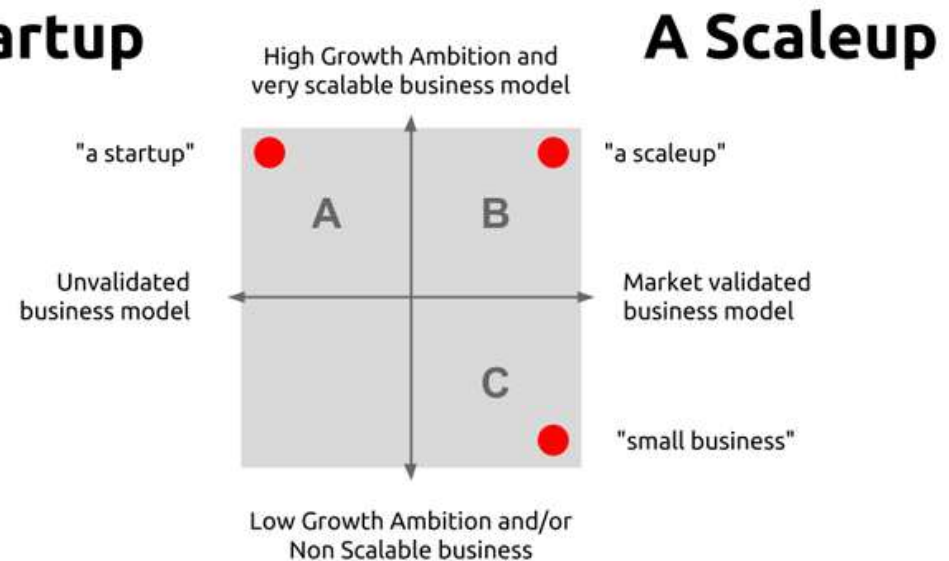
- Whether every new business is StartUp?
- Is there any differentiation between a new business and a StartUp?

## Major Points for differentiation:

- Growth Potential / Scalability
- Validation of Business Model

It does not necessarily entail tech innovation or invention; it is focused on new business models.

## A Startup



***StartUp is a temporary organization designed to look for a business model that is repeatable and scalable.***

# StartUp Ecosystem

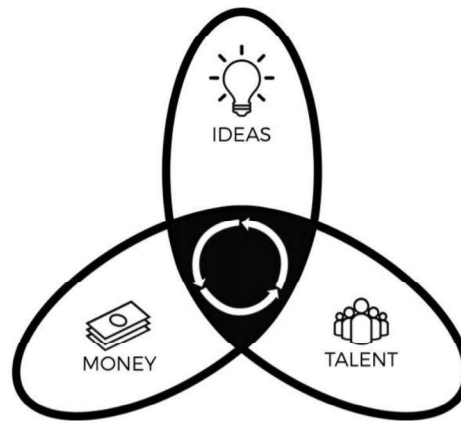
- A StartUp ecosystem is formed by people, StartUps in their various stages and various types of organizations in a location, **interacting as a system** to create new StartUp companies.
- Involvement of not only StartUp but the **other organisations** as well.
- Location Specific Communities;
  - Nation, State, City, University, etc.



# StartUp Ecosystem

## Components of StartUp Ecosystem

- Ideas, Inventions;
- Startups at various stages;
- Entrepreneurs;
- Startup team members;
- Angel investors;
- Startup mentors;
- Startup advisors;
- Other entrepreneurial minded people;
- People from **other organizations** with startup activities



### UNDERSTANDING TERMINOLOGY

- ✓ Angel Investors
- ✓ Super Angels
- ✓ P2P Lending
- ✓ Lean StartUp
- ✓ Burn Rate

# StartUp Ecosystem

## Other Organisations forming part of Ecosystem

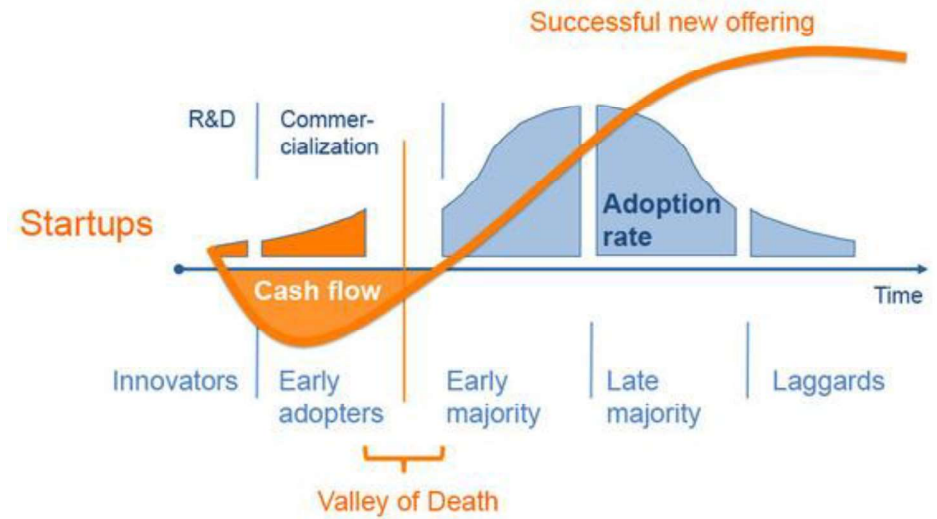
- Universities
- Incubators
- Accelerators
- Co-working spaces
- **Service providers (consulting, accounting, legal, etc.)**
- Event organizers
- StartUp competitions
- Investor Networks
- **Venture Capital companies**
- Crowdfunding portals
- Other funding providers (loans, grants etc.)
- StartUp blogs & other business media
- Other facilitators

### UNDERSTANDING TERMINOLOGY

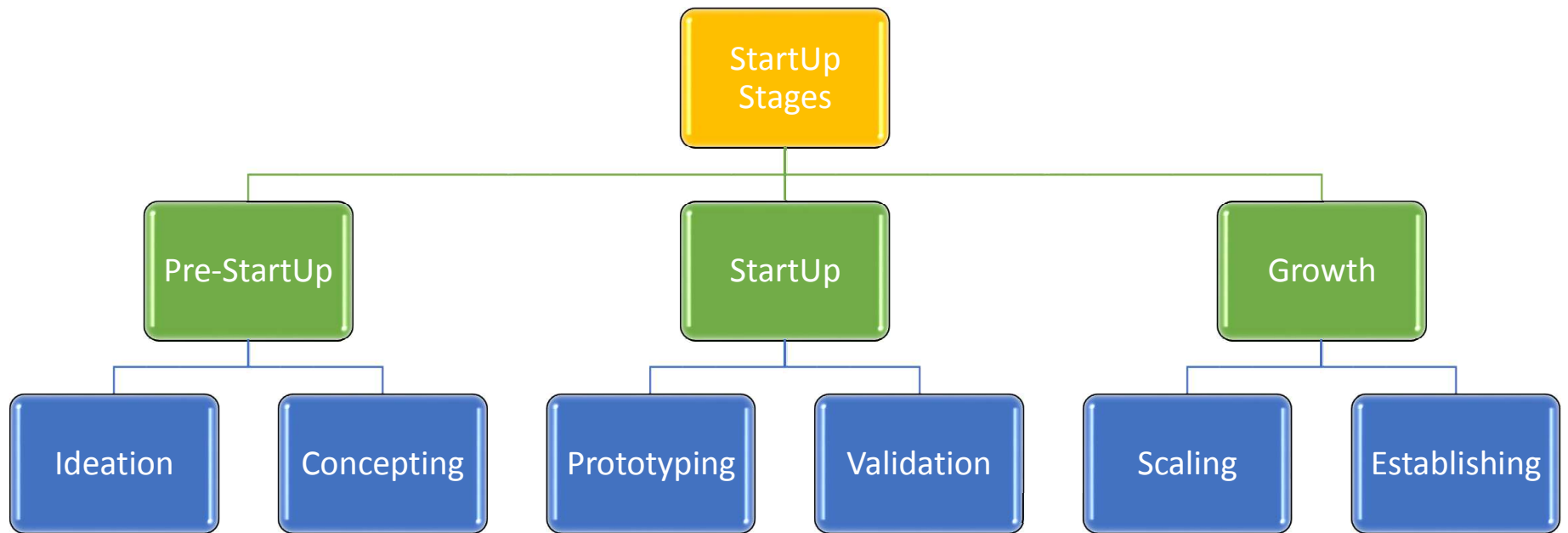
- ✓ Incubator
- ✓ Accelerator
- ✓ Venture Capitalists



# BUSINESS ACCELERATOR.

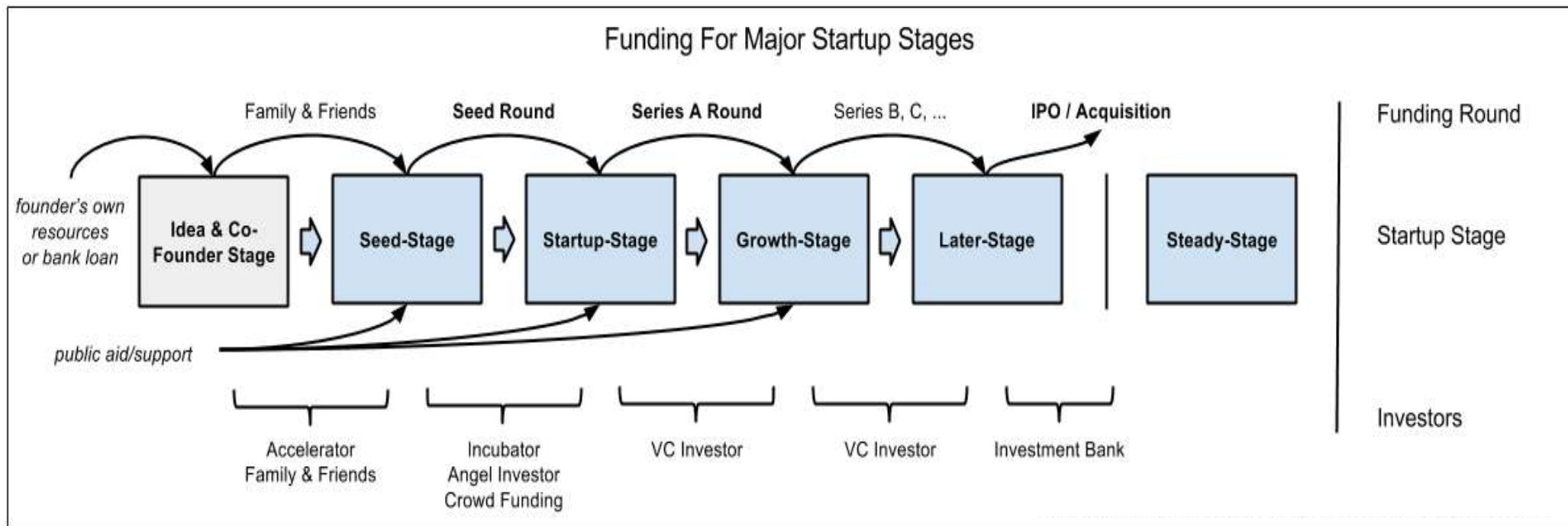


# Stages of StartUp



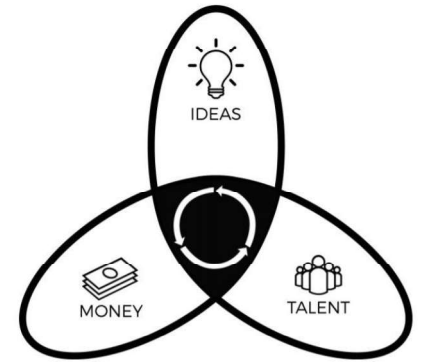


# Stages of StartUp and Source of Funding



# StartUp Ecosystem

## Factors Affecting the Ecosystem



### External Factors

- Financial Conditions;
- Market Disruptions;
- Transitions;
- Distant people and technologies;

### Internal Factors

- Availability of resources;
  - People;
  - Funds;
  - Ideas;
- Success and Failures of StartUps;

Dynamic in Nature  
State of Equilibrium

Resistance and Resilience  
Management of Ecosystem

# Where does India Stands?

## STARTUP ECOSYSTEM IN NUMBERS

**41,000+** startups recognized by DPIIT

Startups are spread across **590 DISTRICTS** – the startup movement has reached about **80% OF OUR DISTRICTS**

All States and UTs in India have at least one startup

**45%** of the recognised startups are from Tier-2 and Tier-3 cities

**44%** of the recognized startups have at least one woman director

Startups recognized across **54 SECTORS** and **224 SUB-SECTORS**

**4.6+** lakh jobs reported by recognized startups

An average of **12 JOBS** created by each recognized startup

**RS. 4,509.16 CRORES** has been injected to boost over 384 startups under Fund of Funds for Startups Scheme

# Relevant Registrations and Recognitions

- StartUp India Program by DPIIT – Recognition as StartUp
- Applications for Income-tax Exemptions/Deductions
  - Angel Tax Exemption
  - 80 IAC Deduction
- GeM Portal – Government e-Marketplace
- Assistance for Getting incubated
- Various Government Schemes, Grants, Competitions, etc.



# Benefits of DPIIT recognition



## Self Certification

Self-compliance under 3 environmental & 6 labour laws



## Easier Public Procurement Norms

Get listed as seller to the government & benefit from exemptions on EMD & min requirements.



## Patent Application & IPR Protection

Fast track & up to 80% rebate in filing patents



## Income Tax Exemption

For 3 consecutive years & exemptions on capital gains & investments above Fair Market Value



## Easy Winding Up of Company

Within 90 days under Insolvency & Bankruptcy Code, 2016

#startupindia

## EASE OF STARTING UP

**39 REGULATORY CHANGES** to enhance ease of doing business, ease of raising capital, and reducing compliance burden have been undertaken

**169 RECOGNIZED STARTUPS** have availed benefits of self-certification under Ministry of Labour and Employment

**319 RECOGNIZED STARTUPS** have been granted income tax exemption from the provisions of Section 80-IAC of the Income Tax Act

**3,422 ENTITIES** have been granted exemption under Section 56(2)(viib) of the Income Tax Act

**510 PATENT FACILITATORS** and **392 TRADEMARK FACILITATORS** are empaneled under Startups Intellectual Property Protection scheme

**3,618 PATENT APPLICATIONS** have been granted **80% REBATE** on the filing fee

**6,832 TRADEMARK APPLICATIONS** have been granted a **50% REBATE** on filing fee

# Technical definition of StartUp as per DPIIT

- Start-up means an entity, incorporated or registered in India:
  - upto a period of ten years from the date of incorporation;
    - as a PLC or P'ship Firm or a LLP;
  - with an annual turnover not exceeding **Rs. 100 Crore** for any of the financial years since incorporation/registration;
  - working towards
    - innovation, development or improvement of products or processes or services, or
    - if it is a scalable business model with a high potential of
      - employment generation or
      - wealth creation; and
  - should not be an entity formed by splitting up or reconstruction of an existing business.

*[Notification GSR 127 (E) dated 19th Feb 2019]*

# GeM Portal



- Easy Public Procurement;
- Startup can apply for government tenders and are entitled to avail exemption on
  - Prior Experience;
  - Prior Turnover;
  - **Earnest Money Deposit (EMD);**

## ENABLING GOVERNMENT PROCUREMENT

**6,678** recognized startups registered on Government e-Marketplace (GeM)

**39,270** orders of cumulative value Rs. 1,413 crores (placed to startups on GeM)



# Angel Tax

As per section 56(2)(viib) of the Income-tax Act, when a company issues shares to an investor, it has to bring in the capital at FMV of shares.

FMV can be determined through DCF method which generally has to be certified by Merchant Banker.

If the capital money so received exceeds the FMV of the shares issued, such excess amount becomes the income of the company, and is taxable as other income.

This taxing provision of income-tax law is called '**Angel Tax**'.

# Conditions for Angel Taxation Exemption

DPIIT Notification no. G.S.R. 127(E)



Startup registration must be obtained from Department For Promotion of Industry and Internal Trade (DPIIT);

Singed copy of Form 2 must be filed with DPIIT;

Aggregate amount of paid-up share capital and share premium should not exceed Rs. 25 crores, excluding received from – (i) Non-resident, (ii) Venture Capital Fund/Company registered as Category-I AIFs, (iii) Specified companies

‘Specified company’ means a company whose shares are traded on stock exchanges and whose net worth on the last date of preceding financial year exceeds Rs. 100 Crores or turnover for the preceding financial year exceeds Rs. 250 Crores.

The turnover remains below Rs. 100 crores in each year since incorporation till the year in which investment is obtained

# Eased conditions for Angel Taxation

DPIIT Notification no. G.S.R. 127(E)

No investment in the following assets up to **seven years from the end of financial year in which shares are issued at premium**:

- immovable property (land, building or both)\*
- loans and advances\*
- capital contribution made to any other entity;
- shares and securities;
- motor vehicle, aircraft, yacht or any other mode of transport, (exceeding ten lakh rupees of cost)\*
- jewelry\* or bullion
- archaeological collections
- drawings, paintings, sculptures or any work of art

*\* The restrictions will not apply if the assets are used in ordinary course of business or held as stock-in-trade*

# Relaxed norms for carry forward & set-off of losses

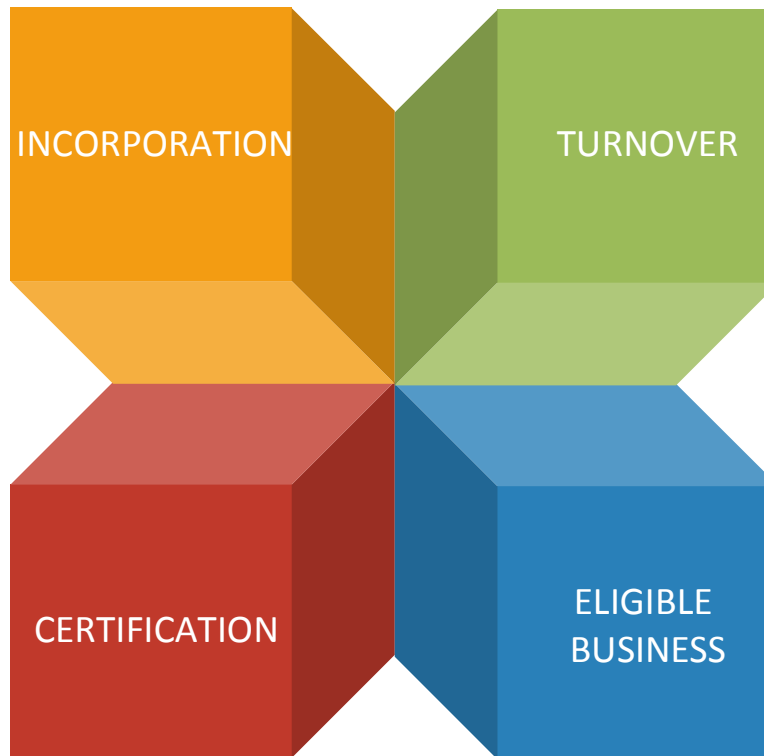
- High Burn Rate in initial years;
- Funding Requirement fulfilled by raising funds from Investors via issue of equity
- Section 79 of the IT Act mandates that
  - tax losses cannot be carried forward for set-off against future year losses,
  - if shareholders (who held shares in the year of loss) holding **at least 51%** of voting rights do not hold the shares in the year when profit is earned.
- In simple terms, if the voting rights of original shareholders slide below 51%,
  - either through a stake sale or through issue of fresh share capital,
- then the losses incurred in earlier years would not be allowed to be set-off against the profits of future years.
- However, eligible startups have been **partially exempted** from the above condition.
- Eligible startups will be exempted if the stake of original founders of the company is **diluted only through issue of capital fresh share capital**.
- This relief is available only for the losses incurred in first **seven years** of incorporation.

# Income-tax Holiday

## Eligibility for Income-tax Holiday

An eligible StartUp must be either a **company or a LLP**, and it must fulfil all the below conditions:

Incorporated between 1 April 2016 and 31 March 2022, and should not be formed by splitting up or reconstruction of an existing business



Has obtained certificate from the Inter-Ministerial Board of Certification

Turnover of business does not exceed INR 100Cr

Innovation, development or improvement of products or processes or services, or a scalable business model with a high potential of employment generation or wealth creation

# 100 % Tax Holiday



100% tax deduction against profits under Section 80-IAC of the Income-tax Act

Allowed for 3 consecutive tax years

Any 3 years within a block of 10 years from the date of incorporation

# 100% Tax Holiday

## Conditions

- Once the 100% tax rebate is claimed, it has to be claimed for consecutive three years.
- The turnover from business should not exceed Rs. 100 Crores.
- Business should not be formed by transfer of machinery or plant previously used for any purpose (except if the value is below 20% of total value of machinery or plant, or is imported).

# Understanding a role of Consultant in Ecosystem

## Traditional Services



AUDIT





# Understanding a role of Consultant in Ecosystem

## New Role expected by Ecosystem

- Whether Entrepreneurs/founders need a traditional services?
- Outsourcing of Compliance, Legal and Finance Function – Whether feasible for StartUps?
- Why it is important?
- New role expected by StartUps;
- Consultants v. CFO;
- ADVISORS or MENTORS

# Understanding a role of Consultant in Ecosystem StartUp Stage-wise legal needs – PRE-STARTUP



## Ideation

- Reviewing IP;
- Reviewing potential structure of Entity;
- Analysing Funding Requirement



## Concepting

- Domain Name;
- Setting up Entity Structure;
- Founders' Agreement

# Understanding a role of Consultant in Ecosystem

## StartUp Stage-wise legal needs – STARTUP



- Shareholders' Agreement;
- ESOP Pool allocation and scheme drafting;
- Seed Funding and related compliance;
- Employee/Consultant Agreements;
- Finalising IP Related Decisions
- Website – Privacy Policy, Data Usage Policy, User Management Policy, etc.



- Negotiating and agreeing trading agreements for Vendors, Customers, Distribution, Agents, etc.
- Finalising ESOP Scheme and its implementation;
- Pre-Series A and Series A Funding and Compliance;
- Dispute Resolutions;

# Understanding a role of Consultant in Ecosystem

## StartUp Stage-wise legal needs – GROWTH



### Scaling

- Revamping the Entity Structure;
- Further funding agreements for series B,C... funding
- Exit of Investors;
- Planning for IPO;
- Dispute Resolutions at large scale;
- SOPs and Internal Controls



### Establishing

- Merger and Acquisitions of other companies;
- IP Renewals;
- Repetition of earlier stages for new products / markets;
- Due Diligence;

# Challenges

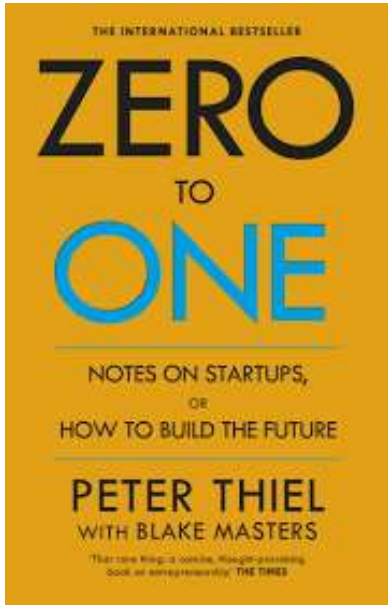
- From Consultant's POV, what is the right time to become Advisor?
- Success ratio of StartUps?
- Fees
  - Burn Rate, Profitability, Liquidity Issues
  - Advisory Equity / CSOP?
- Dynamic in Nature
- In growth stage, change in geographic location of the StartUp.
  - Singapore, Hongkong, Silicon Valley, etc.

# Opportunities

- Increase in Number of Unicorns in India;
- Government Policies;
- Allocation of Funds for StartUps;
- Next Big Thing;
- Transitional shift from Traditional to new-age practice;
- Working with Dynamic, Enthusiastic People

# Way Ahead

- *Aatma Nirbhar Bharat*
- Creation of Innovation Zones at the level of Urban Local Bodie
- Integrate Academia & Innovation to encourage Entrepreneurship
- Establish new Incubators and Accelerators
- SIAC in every district
- Ease of Starting Up
- Easing of Compliance Burden



*“Customers won’t care about any particular technology unless it solves a particular problem in a superior way. And if you can’t monopolize a unique solution for a small market, you’ll be stuck with vicious competition.”*

– Peter Thiel  
In his book ZERO TO ONE





*Thanks for your attention and  
time!*