



RESEARCH ARTICLE

Status of investment in startup in India – An analysis

J. Pavithra

Abstract

Business ventures are undergoing a paradigm shift in promoting the economic growth of a country. The focus of entrepreneurship has taken a dynamic way in terms of the growth of firms across industries. The incidence of ventures is growing rapidly worldwide. The word startup has emerged as an important part of the country, especially in emerging economies. Different approaches have been taken towards the working mechanisms of companies. The investment opportunities presented by these companies can be accessed through venture capital firms, crowdfunding, and angel investors. This study aims to demonstrate the status of ventures in India. The research problem underlies the investment patterns of firms' funding and the nature of companies in the early stages of funding. The research gaps were identified through a review of the literature gathered from existing sources. Data collection is conducted through secondary data sources through various reports. The findings are intended to underlie the investment patterns of companies undergoing startup initiatives.

Keywords: Startup India, Venture funding, Incubation, Investment

Introduction

In recent years, startup companies have gained significant importance in India, particularly those registered under the Indian Startup initiative. The increasing number of startups in India provides a vibrant opportunity to increase employment. Startups foster the growth of entrepreneurial ventures. Encouraged startups to grow through venture capital, Angel investors, and crowdfunding. Successful startups support growth and development (David et al., 2021; Bindal et al., 2018; Ramchandani, 2017). DPIIT has revamped the definition of a startup through the introduction of an action plan, which enables firms to gain more recognition. It is defined as an entity that is considered through the following criteria for up to five years from the date of incorporation or registration. The turnover for any of the financial years did not exceed ₹ 25 crores. The firm is working to contribute to the innovation, development,

deployment, and commercialization of new products, processes, or services driven by technology or intellectual property (Lakshmi & Bhargavi, 2023).

Stages of Startup

Pre-Startup

It is the first initial stage of identifying the idea which is being targeted for a specific market and validated as a product or service. Startup Firms are started and maintained by increasing the benefits or problems that intensify in global businesses. Growth: Startups start to work efficiently when the entrepreneur adopts the business model and creates avenues to increase customers, which, in turn, pushes business growth aggressively by sustaining businesses.

Evolution of Startup India

Our Prime Minister, Hon'ble Shri Narendra Modi, unveiled his vision for the potential of Indian entrepreneurs on August 15, 2015, Independence Day. The goal of the new endeavor is to turn invention into an action plan for change. On January 16, 2016, the government introduced the Startup India Program, which aims to create a robust environment for innovation and, through the efforts of entrepreneurs, foster sustainable economic growth and generate a significant number of job opportunities. The Startup India program was implemented using a framework to create regulations for the startup ecosystem across the entire country (Kamaluddin & Sridhar, 2021). On January 16, 2018, an action plan was unveiled. The action plan comprises industry-academia cooperation and incubation, financial support and incentives, as well as

Faculty of Management, SRM Institute of Science and Technology, Chennai, Tamil Nadu, India.

***Corresponding Author:** J. Pavithra, Faculty of Management, SRM Institute of Science and Technology, Chennai, Tamil Nadu, India., E-Mail: pavithralect@yahoo.com

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simplification and handholding. The startup strategy has envisioned a plethora of advantages, including tax breaks, capital gains tax exemptions, support for investing public procurement firms, and more. The advantages are provided by the self-certification compliance approach in terms of exemptions from labor and environmental laws. Other perks offered by the action plan include an 80% refund on patent registration fees and an 80% refund on trademark filing fees, according to Startup India Movement (Saura et al., 2021).

Industry – Academia Partnerships and Incubation

The collaboration between industry and academia will help organize startup fests to showcase innovation, aiming to foster collaboration in emerging new areas. The launch of Atal Mission generates business opportunities and a talent utilization program. This will also encourage the private sector to set up incubators. Academic institutions at the national level can establish innovation centers. Several institutes have set up a research park, one of which is established at IIT Madras. The launch of innovation-featured programmes will encourage students of such academic institutions to bring new innovations towards motivating startups. Annual Incubator challenges are also facilitated to encourage students to showcase innovative talents, which in turn foster into new startups (Braunerhjelm & Henrekson, 2023).

Initiatives Post G20 Summit of Startup

Founded as an official engagement group under the G20 India Presidency 2023, Startup20 aims to provide a platform for startups in the same way as Business20 (B20) supports the interests of MSMEs and large corporations. Startup20 has helped establish India as a global hub for startups and has grown to become the third-largest ecosystem worldwide. It serves as a forum for discussion with stakeholders in the global startup ecosystem and aims to represent the global startup ecosystem when addressing macroeconomic issues and difficulties faced by business owners with G20 leaders. This would operate similarly to other G20 interaction groups, with initial support from the Startup20 secretariat and G20 India Sherpa. In line with Prime Minister Shri Narendra Modi's philosophy, Startup20 aims to foster cooperation and growth by establishing connections with various stakeholders within the startup ecosystem. It will employ a consensus-based technique to generate recommendations for each priority area and forward key topics for discussion (Figure 1).

The goal of this engagement group was to develop a global narrative for supporting startups and facilitating collaborations among investors, corporates, innovation agencies, startups, and other key ecosystem participants. By 2030, Startup20 wants to commit about INR 80 L Cr to startups. One of the few nations that has distinguished between startups and micro, small, and medium-sized

businesses (MSMEs) is India. The Startup20's inclusion of a startup definition highlights the importance of this distinction. Through programs like the One Future Alliance and Digital Innovation Alliance, India has accelerated the adoption of its success stories in UPI payments and Digital Public Infrastructure (DPI) to the G20 and beyond. This has helped draw attention to the innovations and solutions provided by India's startup ecosystem, giving Indian startups an opportunity to tap into global investment sources and foreign markets.

Startup India Seed Funding Scheme

For people whose firms are just getting started, the seed funding program is advantageous. The program supports the growth of early-stage firms and helps them secure funding. Angel investors, venture capital firms, banks, and other financial institutions provide funding. However, it's crucial to give seed money to startups with a creative bent and to help them through proof-of-concept trials before they advance to the next phase. With a maximum amount of Rs 945 crore, the DPIIT established the Startup India Seed Fund Scheme to give entrepreneurs financial support for market access, product development, prototype creation, proof of concept, and commercialization. Over the course of the four years, the program will also help an estimated 3600 entrepreneurs through 300 incubators. During the International Summit on January 16, 2021, this plan was unveiled. In India, seed funds were provided to all qualifying startups.

The startup must have a business idea for developing a product or service relevant to the market, and it must have been established for no more than two years prior to submitting the application to DPIIT (Swetha et al., 2024). The startup should use technology in its product, service, business plan, distribution strategy, or approach to address the issues it is trying to address. The inclination for funding startups to prioritize creative and innovative solutions in the following areas: financial inclusion, waste management, agriculture, food processing, biotechnology, education, agriculture, energy, mobility, defense, space, railroads, oil

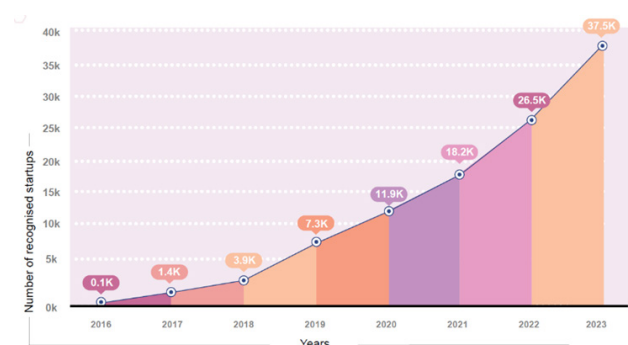


Figure 1: Recent development of startups

and gas, etc. Funding for startups under any other national or state government plan shouldn't exceed 10 lakhs. Prize money from rivals and grand challenges, as well as monthly allowances and access to labs and prototype facilities, are not included in the program. In accordance with the Companies Act of 2013, Indian promoters must possess at least 51% of the shares in the businesses at the time of application to the incubator for the program. In accordance with the program requirements, a startup applicant may receive seed financing in the form of a grant, debt, or convertible debentures.

Challenges of Startups at Each Stage

Challenge of the Idea and Validation Stage

Determining a Workable Issue and Solution. It can be difficult for founders to identify a market gap or determine whether their product effectively meets customer needs. Problem: Insufficient resources. Startups usually have little capital and little technical or commercial experience. The challenge is to form a team. Without a tested idea or resources, it is challenging to draw in talented people who share the goal. Mitigation: Start small with a proof-of-concept, use accelerators and incubators, and pay attention to client feedback.

Product development is the challenge at the startup stage (building the product)

It can be both financially and technically demanding to turn an idea into a scalable and useful product. The difficulty in obtaining funds Due to their lack of traction or untested business models, many businesses are returned down by investors. Acquisition of customers is a challenge. Without a strong brand presence, it can be challenging to attract the initial few clients and demonstrate market demand. Mitigation strategies include testing MVPs (Minimum Viable Products), bootstrapping when practical, and focusing first on niche markets.

The challenge of scaling operations during the growth stage

It's crucial to control rising demand while preserving the caliber of goods and services. Financial management is a challenge. Resources may be strained when juggling cash flow and high growth costs, particularly if revenues are slow to come in.

- **Challenge: Rivalry**

Market competition may intensify as a result of both new and established players.

- **Mitigation**

Create strong procedures, make deliberate hiring decisions, and concentrate on uniqueness.

The challenge of the expansion stage

breaking into new markets It can be challenging to understand the diverse needs, cultural nuances, and legal

requirements in new areas. Organizational scaling is a challenge.

Managing a larger workforce and growing teams while maintaining a strong corporate culture is a common challenge. Pressure from investors is a challenge. Growth expectations from investors might lead to unsustainable decisions.

- **Mitigation**

Conduct market research, establish a clear expansion strategy, and set realistic investor expectations.

The Challenge of Maturity Stage: Maintaining growth

Maintaining innovation and staying relevant in a highly competitive market can be a significant challenge. Challenge: Diversification Over-reliance on a single product/service or market can expose startups to risks.

Challenge: Exit strategy Deciding on IPOs, acquisitions, or other exit options involves complex financial and strategic planning. Mitigation: Explore R&D for innovation, diversify revenue streams, and consult advisors for exit strategies.

Problem Statement

Startups are essential for stimulating economic growth and innovation. Nonetheless, there are a number of major obstacles facing the startup investment ecosystem:

Access to Early-Stage Investment

Due to a lack of proof of concept, uncertain business models, and low investor trust, many entrepreneurs find it challenging to secure seed and early-stage investments.

Significant Risk for Investors

Potential investors are deterred by the significant risks associated with investing in startups, including market volatility, business failure, and uncertain profits.

Fragmented Ecosystem

Compared to their metropolitan counterparts, startups in Tier 2 and Tier 3 cities often have limited access to investors, incubators, and accelerators, resulting in regional imbalances (Hausberg & Korreck, 2018).

Regulatory and Tax Barriers

Both investors and business owners are hampered by intricate regulatory frameworks, high compliance costs, and unclear tax advantages.

Scalability Issues

Inadequate infrastructure, operational inefficiencies, and a lack of strategic investor support are some of the main reasons why startups frequently struggle to scale their businesses.

Investor-Startup Mismatch

Funding gaps arise when investor expectations—such as quick growth and profitability—differ from startup reality, such as lengthy gestation periods.

Exit Challenges

Investors find it challenging to leave with appealing returns due to a lack of merger and acquisition activity, limited initial public offerings (IPOs), and undeveloped secondary markets.

Focus on Selective Sectors

When particular industries—like fintech and SaaS—are given too much attention, funding variety is reduced, underserving other important sectors like healthcare, education, and agriculture (Tanweer et al., 2023).

Literature Review

Gupta & Raghuvanshi (2024) state that diverse sources of funding are available to social entrepreneurship, including grants, equity investments, debt financing, and hybrid models. The study provides an in-depth overview of the the financing of social ventures. The study states that the investigation of women-led social ventures has created opportunities for investment. It analyzes the challenges faced by women social entrepreneurs in the Indian context, specifically in Karnataka. The study focuses mainly on criticisms of short-term returns prevalent in traditional investment models and their incompatibility with long-term social ventures. The research also discusses finding alternative solutions with long-term investments for social ventures.

Shah & Jokhi (2023) study focuses on the impact of government policies on the growth of startups. The policies project a positive impact and increase sources of funding through easy regulations, maximizing support for startups. The study highlighted the startup ecosystem in India across various sectors, including e-commerce, fintech, healthcare, education, and food delivery. The research states that the growth of startups is enormous, driven by technology and changing customer behavior. David *et al.* (2021) report addresses the trends in investment in startups in India. The research primarily focused on the stages, sectors, and geographical distribution of investment in India. The major investments are concentrated in the big cities, while the concentration in small cities is very low. Păvăloaia & Necula (2023) analyze the critical issues of attracting skilled professionals through competition due to established enterprises. There is a shortage of talent in domain-specific areas, such as artificial intelligence and blockchain.

Sharma *et al.* (2020) explore the correlation between entrepreneurs and the number of startups, as well as their impact on economic growth. It concludes that there is a positive relationship between the number of startups and economic growth. It also explains the problems as well. The study aims to analyze the Startup India initiative. The objective of the study was to assess the impact of startups, the challenges they face, and the level of awareness about startups. The study suggests setting up more policies aimed at attracting more startups, which promote job opportunities and economic growth for the country.

Shetty (2017) The analysis on the performance of venture capital funding in India, China and the USA. It was assessed that venture capital funding in India is lower compared to the USA. The research indicates that the Indian consumer technology industry has been receiving increasing amounts of venture capital funding.

The findings of Bertoni and Tykvová (2015), indicated that venture capital significantly enhances the growth prospects of innovative startups, particularly in technology-driven industries. The authors emphasize the importance of supportive policies to cultivate a robust venture capital ecosystem in Europe. The authors conclude that venture capital plays a crucial role in accelerating the growth of startups, particularly in technology sectors, by providing not only financial resources but also valuable managerial expertise. The study finds that startups participating in accelerators tend to achieve higher levels of funding and success compared to those that do not, highlighting the importance of structured support in the early stages of startup development. The study concludes that venture capital significantly enhances the likelihood of startup success and innovation, particularly in high-tech industries, and suggests that regional differences in venture capital availability can lead to disparities in startup performance across Europe.

Cumming and Johan (2009) find that venture capital and private equity play a critical role in the growth of startups, particularly in technology-driven sectors, and emphasize the need for a supportive regulatory framework to enhance investment in these areas. Tidd *et al.*, (2005). The authors argue that successful startups are those that effectively integrate innovation into their business models. They suggest that investors should look for startups that demonstrate a clear innovation strategy and the potential for sustainable growth.

Research Gap

There are no startup scheme ideologies in the studies. Few studies highlight the difficulties faced by business endeavors. In conclusion, the extensive literature on startup financing offers valuable insights for business owners, financiers, and legislators, while also contributing to the scholarly discourse. Continued research in this area may lead to improved frameworks and strategies that foster the growth and viability of new businesses, ultimately benefiting society as a whole.

Objective of the Study

The study aims to understand the nature of startups in India. The research analyzes the current status of startups in India. The analysis is to interpret the fundings of startups.

Materials and Methods

The research design employed is a descriptive study. The data collection is generated from secondary data. Secondary

data collection is conducted through journals, reports, and magazines. The secondary data are sourced from the Startup India Reports of the Government of India. The secondary sources are taken from PWC Report (Research & Insights), KPMG Report (Insights).

Results

The USA has the highest number of startups and dominates the startup segment; India is the third-largest country in introducing new ventures, followed by other countries that have fewer firms (Figure 2).

Figure 3 illustrates the growth in the retail tech sector in 2022, with edtech companies expected to continue increasing in 2023. There is a balance of fintech companies in the banking and financial industry. The advertising and media tech companies have shown an improvement.

Figure 4 states that the business-to-customer models of enterprises are increasing more than the business-to-business model in 2022. In 2023, the business-to-business model and business-to-customer model are gaining equal importance in new enterprises.

Figure 5 depicts that the total funding companies have gradually declined in 2023 compared to 2022. The equity investment has also reduced in 2023 to 2022.

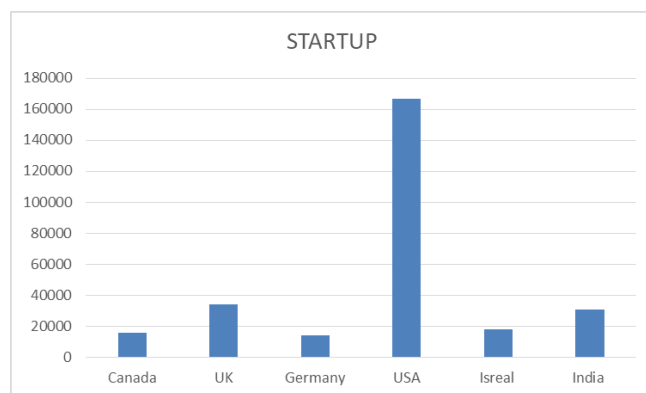


Figure 2: Country wise ranking of startups

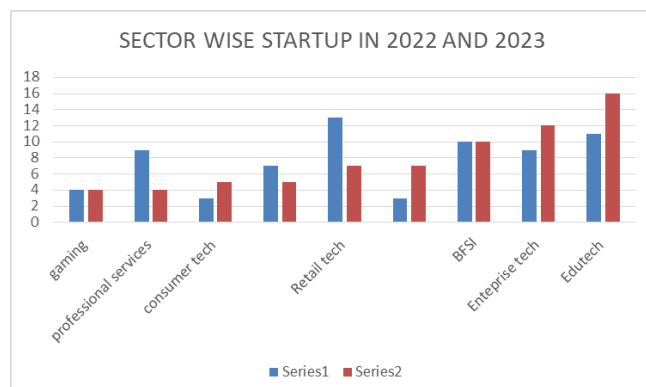


Figure 3: Sector wise startups in 2022 – 2023

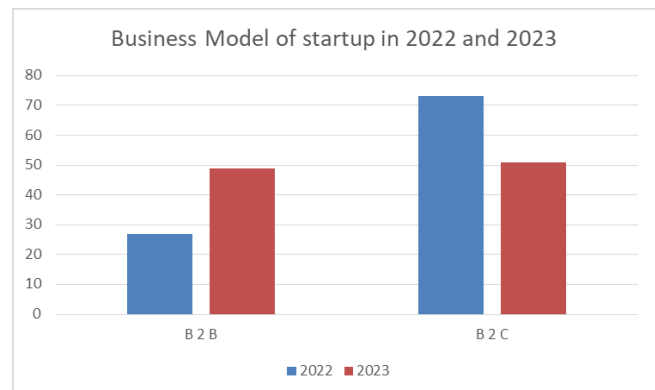


Figure 4: Startup business model in 2022 and 2023

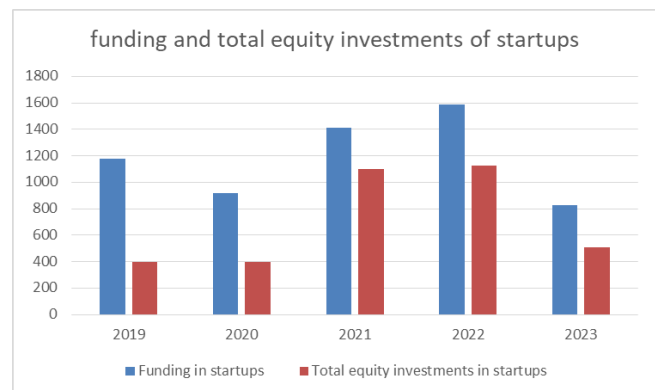


Figure 5: Funding and investment of startup

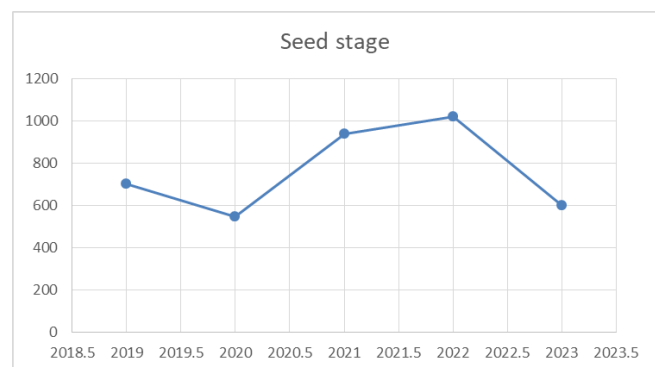


Figure 6: Investment of startups in seed stage

Figure 6 illustrates that the seeding funding granted for the initial business funding has declined in 2023. A sharp decline in seed funding indicates that funding is meagerly offered in the seed stage.

Discussion

India's stance in taking the initiative on startups has taken an important lead alongside the USA and Germany. It is

observed that a greater number of edtech companies have been established in 2023, and other sectors, such as banking and finance, have also seen an increase in the number of companies. The Business-to-Customer Model has envisioned the emergence of new companies, as well as the Business-to-Business Model, which is also making efforts to start new ventures. The funding for startups has gradually declined, and equity investment has also declined in 2023. There is steep decline in the investment of startups in 2023. There is a need for other sectors to also strive for new venture firms. A greater number of venture capital firms, crowdfunding, and angel investors need to come forward to take more steps towards seed funding of startups. New investments will lead to a greater number of companies involved in the startup segment.

The study has few limitations, which needs to be considered. Focusing on students from a single city may not accurately represent the diversity of perspectives across different regions in India. The study has limited generalizability due to the convenience sampling of 133 students from a single city, Chennai. University students may exhibit specific characteristics that differ from those of the general population or other relevant groups. Potential bias from focusing on university students, who may not represent the broader population.

Conclusion

Startups in India have emerged and made a significant impact on the economy. The Startup India campaign has brought more innovations to the ground, bringing the digital revolution into context. The digital revolution sets the stage for tech startups to have a proactive approach in the future. However, there are also concerns that need to be raised for non-tech startups. There are some situations where a lack of funding is necessary to improve a company. Some companies initially have seed funding but lack the resources to proceed further due to various drawbacks, such as stiff competition in the sector, a large number of companies, and a lack of human resources and product marketing. These concerns should be addressed in order to mitigate the risk of failure. The long-term potential of the Indian startup ecosystem remains strong despite these obstacles. Opportunities for long-term growth are presented by a youthful population, growing international interest, and technical advancement. Measures to increase the clarity of regulations and offer financial incentives may further accelerate development.

Future Scope of Research

Future research could delve deeper into the dynamics of crowdfunding as an alternative investment model, which has gained traction in recent years. Understanding how different types of crowdfunding, such as rewards-based or equity crowdfunding, affect startup success could

provide valuable insights for entrepreneurs and investors alike. Moreover, examining the psychological factors that influence investor behavior and decision-making in startup investments could help uncover the emotional and cognitive biases that affect funding outcomes. Lastly, investigating the long-term trajectories of startups post-investment will be essential to assess the sustainability of business models in an ever-evolving market.

Acknowledgment

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