

# A new paradigm for start-ups

The biggest positive in the action plan for start-ups announced by Prime Minister Narendra Modi on January 16 was the unequivocal commitment to offer a conducive ecosystem for start-ups to flourish. But a lot remains to be done



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Prime Minister Narendra Modi announced the action plan for start-ups at a glittering event on January 16. It was a great show. More than 1,500 start-ups were present, the energy was high and palpable. The next generation of Indian business leaders gathered in their full strength and, what was more amazing, they were on the dais with global stars. Women entrepreneurs were showcased and they made us proud. An action plan was sorely needed as the situation was grim.

Six out of eight Indian Unicorns had re-domiciled outside India. Ten of the top B2B start-ups had gone, 54 per cent of the top start-ups had gone in 2014 and 75 per cent in 2015. Our policies and tax laws were forcing the best and the brightest to register outside India. Global investors wanted a more benign environment with tax certainty as they were investing long-term, not the tax nightmare we have had in India. Our forex regulations were not in tune with investor needs, mergers and acquisitions could become difficult and long-drawn-out and structuring was convoluted.

There were many conversations with the Department of Industrial Policy and Promotion, Department of Revenue, Ministry Of Corporate Affairs and the Reserve Bank of India (RBI). They were positive and promised much. The

Securities and Exchange Board of India (SEBI) was truly outstanding. Within four months, they created a listing structure that was on a par with Nasdaq on the same bourse but with different norms. Expectations were being built up about radical moves and the action plan did not disappoint.

The biggest positive was the unequivocal commitment of the prime minister, the finance minister, the commerce minister, all secretaries to government and the Prime Minister's Office to offer a conducive ecosystem for start-ups to flourish. Never before was such an extensive commitment seen in public. All recognised that these new generation entrepreneurs would transform India by leveraging technology, solve her challenges and create a massive number of jobs across the country.

The action plan met around 60 per cent of their needs — faster and easier registration of companies, self-certification for many laws, no inspection for three years, funding for patents, speed of patent protection and the like. A promise to change the law in the new Bankruptcy Bill to ensure closure of dead companies within 90 days was a big plus. With the high mortality here, ease of starting and ending is essential. Public procurement norms, too, would be changed, removing turnover and track record conditions. Funding for 500 incubators across universities, innovation movements, research parks and industry parks were assured. An ecosystem would be created to support innovation with funding for grand challenges.

Start-up funding was a large ask, and it was answered with a big idea: ₹10,000 crore for a fund of funds over four years which would catalyse investment of around ₹100,000 crore at series A level over the next seven years, truly transformational and a message to Indian



**WELL BEGUN** Prime Minister Narendra Modi at the Start-Up India event in New Delhi last week. The biggest positive was the unequivocal commitment of the PM to offer a conducive ecosystem for start-ups to flourish

PHOTO: SANJAY K SHARMA

capital to participate in this high-return area. The credit guarantee for lending to start-ups is welcome, as it will enhance access to credit.

A few tax concessions were thrown in. A three-year tax holiday, though of not much use as there would hardly be any profits to tax, would nevertheless save the start-ups from harassment by tax officials. Some changes in the capital gains regime were made. There were promises to consider in the Budget demands to equate capital gains for start-ups with the regime in the listed market. A serious issue was the high deduction on receipts due to withholding of tax and service tax, causing serious cash-flow issues. Revenue actually said they understood this and would try to mitigate it in the Budget. It was heartening to see a positive, open outlook by revenue after so many years.

The forex area remains a major challenge. RBI governor Raghuram Rajan has promised to relook at all regulations

inhibiting investments, reduce unnecessary documentation, but we are yet to see changes for start-ups. Forex regulations are a major reason for re-domiciling. We need a more open progressive regulation in this area. The hangover of FERA (Foreign Exchange Regulation Act) lingers. Governor Rajan's letter to his staff says it all and offers hope of change.

Much more needs to be done. Company law is a big hindrance, putting a heavy compliance burden on small start-ups. The penalty provisions are onerous. Tax laws need more clarifications and simplification. Taxes on alternative investment funds and venture capital need rationalisation. The valuation of start-ups for investment by angels needs clarity. Policies on digitisation and digital business are not clear. Marketplaces are not understood, least of all e-commerce! Mobile banking needs a boost. Payment systems need change. Supply chain issues continue to linger. Funding is needed for training in new

technologies. In biotechnology, speedier clearances, Intellectual Property Rights issues and the like need clarifications.

The definition of a start-up for much of the benefits, as a unit with a turnover of not more than ₹25 crore, not more than five years old, working towards innovation driven by technology or IP, needing a certification from an inter-ministerial board, is an unhappy compromise driven by fears of misuse reflecting our general environment. This would need a relook early on, as it will inhibit growth in a number of start-ups. Again, most of the promised investment in universities is limited to IIT and central government-funded institutions, ignoring 97 per cent of India, a glaring discrimination.

Overall, very positive with much work to do, but the direction is clear — up, up and away!

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