

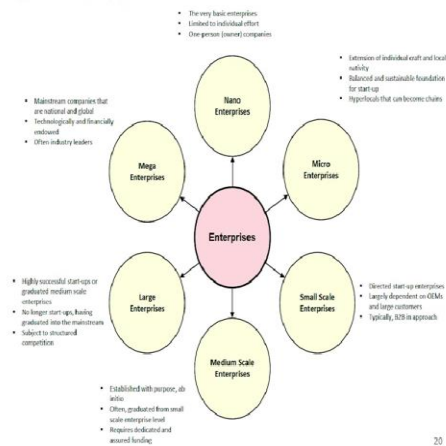
**Courses on Entrepreneurship**  
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**Lecture 32**

**Raising Finances and Developing Financial Strategy Part 2**

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**Six Types of Enterprises**



So, there are 6 types of enterprises. One type of enterprise is Nano Enterprise, second type of enterprises are Micro Enterprise, third is this Small Scale, fourth is the Medium Scale, fifth Large Scale and sixth is the Mega Corporation. So, Nano Enterprise are those, which are the very basic enterprises. Typically, these are one person or one owner companies. And whatever happens there is solely based on the individual effort.

Then we come to the Micro Enterprises, which are extension of individual craft and social nativity into the enterprise. When we look at let us say, a saree boutique shop or an ethnic variety of sarees, which are being converted into a business opportunity, you can say that it is an individual craft, which is blended with local nativity and creates a micro enterprise.

So, when we talk about Amazon doing let us say great Indian festival Sale or Flipkart doing that kind of sale, they are also relying on these kinds of micro enterprises, which are converting their individual craft and local nativity into enterprises and plugging into the overall Ecommerce

system. And this is a balanced and sustainable foundation for start-up because you are having the core capability or competence of technology.

And you are plugging into a marketing network, which is national and which can probably sustain your production. These also are micro enterprises, which can become hyper local enterprises at the beginning, but they can also become a chain of hyper local enterprises. If you look at sweet and snacks stores, which typically start in one place, but spread themselves across the city over a period of time.

You can see that micro enterprises one great avenue of growth. The third type of enterprises are the small scale Enterprise enterprises. These in the past have been the bulwark of entrepreneurial movement. These enterprises are typically the ancillary enterprises for established big corporations. They are largely dependent on original equipment manufacturers; they are largely dependent on anchor customers and they have a B2B approach when they start their businesses.

And they are medium scale companies, which are set up with the objective of being a medium scale enterprises because the nature of business as well as the nature of product demand certain scale of investment, demand certain scale of production and they would have graduated also from a small scale. But they require a completely different way of funding and different way of growing.

Then we have large enterprises, which are the mainstream companies. When a start-up goes through its journey from nano enterprise to micro to small scale to medium scale, it is going to evolve into a large enterprise. And then we have got mega enterprises, which are the, ones which are backed by highest level of technology and are well financially endowed. And typically, mega enterprises are often industry leaders.

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### The Start-up Canvas – Nano Enterprises

Start-up entities which cater to one product and one small market segment are best termed as *nano enterprises*.

Nano enterprises are an integral and dominant part of Indian employment system, and interestingly the nano-entrepreneurial effort is surviving despite lack of attention to it by the formal economic system. Some examples:

- vegetable cart vendors serving homes in multiple streets,
- street-side tailors meeting the clothing needs of the location,
- corner shops providing grocery items for neighbourhoods,
- mobile tailor with sewing machine
- local iron person,
- street vendors for snacks, fruits and vegetables, and
- A host of such service providers



Image Courtesy: Reuters

A nano enterprise is usually operated by only one individual, the founder or the owner.

In the past, they were seen as individual self-employment activities and were left at that

In today's environment, each such nano enterprise itself can grow into a small scale enterprise with upskilling and wider business horizon, supported by funding and technology.

Yesterday's plumber and electrician are today's UrbanClap, for example!

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So, when we look at the start-up canvas of nano enterprises, we will find that such nano enterprises are there everywhere. It is usually operated by only one individual. Previously, they were individual self-employment activities, and people were content being that way for the rest of the lives. But today, a nano entrepreneur just does not want to be that. He or she is able to see whatever is happening in the outside world. And he is questioning himself or herself, how do I grow from being what I am to what I could be?

And to take just one example, if yesterday's plumber or electrician is today's UrbanClap in a way of speaking, I am not saying that one plumber and one electrician have become UrbanClap. But if you see the business model of UrbanClap, it is nothing but providing a variety of services from home maintenance to home health service to something else, something else.

So, these are basic capabilities that have been there in individuals, but they have become businesses. So why cannot a security guard of today become a security services provider of tomorrow? It is all limited to the thinking and if the thinking is vast enough, typically a nano enterprise can also grow into a micro enterprise and thereafter into a small scale enterprise.

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### The Start-up Canvas – Micro Enterprises

Micro enterprises are emerging as the new seeds of India's entrepreneurial movement; technology has given a new reach and scope for such micro enterprises

Micro enterprises are based on the premise that individual craft and local nativity could be turned into businesses in their own right. Examples abound:

- graphic and web designing houses which provide publishing support,
- print houses which print multiple products for multiple clients,
- a restaurant which provides multiple cuisines for a multi-ethnic population, and
- a boutique which caters to multiple clothing styles.

Institutionalised craftsmanship, with or without digital support, drives typical examples of the next level of *micro enterprises*.



Micro enterprises have a few good attributes relevant for a sustainable start-up economy. They:

- are typically hyperlocal but have the ability to replicate themselves into chains of hyperlocal enterprises,
- combine product and service attributes and are thus able to generate customer engagement and brand equity, and
- represent a balance between investment needs of business and funding capabilities of founders

Micro enterprises emerge as a winning starting approach for a diversified start-up movement



And when we talk about micro enterprises, I said that there are companies, which are very concentrated in the initial phase. But then they, because of the acceptance the product or service has, they move into different areas. So, when you look at travel agencies, for example, they start in one area and quickly move into other areas or even move across the cities. If you look at restaurant chains, Chennai has got its own chains of famous restaurants.

One example is shown in an image here. Those typically start from one location and based on the customer acceptance success, they move into different locations. Same happens to the web designers, graphic houses, app designers, they move from one place to another place. Therefore, institutionalized craftsmanship, that is craftsmanship, which is institutionalized in terms of a business undertaking, with or without digital support are typically micro enterprises, which we see.

And they are typically hyperlocal but they have the ability to be in several localities. They combine both product and service. The key to micro enterprise success is not merely the product, but the relationship with the customers and the customer loyalty, the brand equity they are able to generate very quickly.

And they also represent probably an ideal balance between the investment needs of a business and the funding capability of founders. They do not require mega investments, but they also

require a certain level of investment, which take the company to a notable stage. And for a diversified start-up movement, which a country like India needs micro enterprises seem to be the basic foundation, which we all should aim at.

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### The Start-up Canvas – Small Scale Enterprises

Small scale enterprises (SSEs) have been the mainstay of India's entrepreneurial movement, focussed essentially on manufacturing output for large scale enterprises

Government policies traditionally provided investment and tax subsidies for SSEs besides land in State industrial parks, leading to growth of SSEs. Examples abound:

- ancillary component suppliers for original equipment manufacturers (OEMs)
- bus and truck body building units
- units in dedicated thematic zones (eg., apparel, pharmaceuticals, electronics)

However, SSEs became victims of their own initial advantages:

- dependence on OEMs subjected them to market vicissitudes faced by OEMs,
- exclusive relationships constrained SSEs from exploring broader opportunities, including exports, and
- SSE mindsets and supportive policies acted as disincentives to grow business beyond subsidy-qualifying levels or to undertake investments for technology upgradation, product-market diversification and capacity expansion

With 'market-seeking' and 'market-making' rather than 'market-assurance' becoming driver of India's start-up movement, SSEs may see a transformation in their strategies in future

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Then we have small scale enterprises. As I said, these are typical ancillary component suppliers for leading original equipment manufacturers. Other examples are bus and truck bodybuilding units and companies which are in the dedicated thematic zones like an apparel zone or electronic zone.

So, you will find that if there is an mobile manufacturing electronic zone, you will find companies which are doing these wiring harnesses, companies which are doing the chargers, companies which are providing certain basic internal components of the mobile system. But the advantage of small scale units has also become the disadvantage over a period of time because they are so dependent on the original equipment manufacturers, the businesses tend to move up and down with the business success or not so great success of the original equipment manufacturers.

Secondly, because these relationships tended to be exclusive, the bargaining power of the original equipment manufacturer tends to be pretty strong and the small scale enterprises tend to become larger. And thirdly, which is a point very specific to India. The policy incentives in the

previous regime are so skewed towards small scale enterprises that by way of definition of the investment limits and the turnover limit, that many small scale units decided to stay on as small scale units rather than graduate into medium scale or mega institutions.

So, what we require today is that small scale enterprises must be open to looking at life beyond the original equipment manufacturers, who may have provided the basic wherewithal to start the unit that is important. And in the long run, when they improve their volume base or when they enhance the volume base, they will be able to invest more in technology and does help the original equipment manufacturers with whom they have started their start-up journey.

Secondly, the focus of start-up movement is moving from assured market, which somebody provides to a challenging domain of market seeking, that is find where the market is to see where the emerging markets are to one of market making that is create your own market through your novel method of doing the product or service. Small scale enterprises as we understand now of being dependent on big companies may itself change in the future. They will need to rejig their strategy is to be more of market makers and market seekers then market assured companies.

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### The Start-up Canvas – Medium Scale Enterprises

Medium scale enterprises (MSEs) are matured small scale enterprises or entrepreneurial firms established on medium scale from the very initial stage.

Corporate investments in entrepreneurial ventures based on criticality of technology and supply for OEMs facilitate formation of entrepreneurial MSEs.

Certain domains such as pharmaceutical R&D will also require entrepreneurial firms that are of medium scale from the very beginning

Recent government policies reducing tax rate to 15 percent for new enterprises could spur scale-oriented entrepreneurial effort; even so, entrepreneurial MSEs could be second generation enterprises than first generation enterprises

MSEs tend to be set up with:

- Certainty in product and market opportunity,
- Established funding lines,
- Modern technologies,
- Structured organisation,
- Trained workforce, and
- Capable management

MSEs provide sustainable, rather than disruptive, entrepreneurship.



Then of course, the Medium Scale Enterprises. Medium scale enterprises are typically organized enterprises. You can find a typical organization structure is a medium scale enterprise comprising a CEO, you will have a Chief Operating Officer, Chief Commercial Officer; and

COO will have somebody dedicated to manufacturing and operations, and somebody dedicated to quality and regulatory affairs; and Commercial Officer will have sales distribution and other areas.

And medium scale enterprises are marked by the following factors. One there is a certainty in product and market opportunity. Secondly, they have established funding lines. They are backed by modern technologies, fourth they have structured organization, trained workforce and capable management. Medium scale enterprises provide sustainable entrepreneurship rather than disruptive entrepreneurship.

Disruptive entrepreneurship occurs from micro enterprises and small scale enterprises, which are disrupting the technologies, which are adopted by the medium scale and large scale companies. In our earlier discussions, we have gone through how disruptive technology starts either at the bottom-end of the market or at the top-end of the market, and gains acceptance either on basis of technology or on the basis of price and or on the basis of both the factors and eventually cover the entire market space.

But MSEs, which are moving along in this phase, they provide sustainable entrepreneurship rather than disruptive entrepreneurship. That does not mean that they would not have technology, they would have the evolutionary nature of technology, which also we have discussed in the earlier points of view.

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### The Start-up Way to Grow

Each enterprise develops based on two parameters:

**Efficiency:** the ability to cover more in a day (for example, the number of households the vegetable vendor can cater to in a day), and

**Scalability:** the ability to convert efficiency into profits that can be reinvested (for example, the growth trajectory from being a local cart vendor to multi-city grocery deliverer)



The above is a function of entrepreneurial energy that is fuelled by finance and management.

With an already large economy which is set to grow further driven by demographics and technologies, India offers several domains, each with potential for hundreds of start-ups and millions of dollars of investment each year.

This presents a great opportunity for different types of firms, from nano to mega to co-exist and also to evolve higher in scale and scope.

India's healthcare sector is one prime example with co-existence of nano, micro, small, medium, large, and mega start-ups.

Also, today's medium, large, and mega healthcare start-up firms were nano, micro and small firms in their earlier years, validating the theory of start-up evolution.

A typical start-up hierarchy in the Indian healthcare sector is illustrated in the following slide

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So, the start-up way to grow is a kind of four pyramid structure. One Scalability – Every start-up has to scale itself and the more you are able to scale, the better are your prospects from the point of view of investment. The second is revenue profit optimization. Scalability and having more footfalls, more clicks and more regions to cover or more products to cover by itself does not assure that revenue profit optimization occurs.

And why are we saying the revenue profit optimization? We need profit to be sustainable. We need revenue as a result of scale. Scalability without sustainability is of little use in the long term, and sustainability does not occur unless there is scalability. So, if you are able to be a successful nano entrepreneur, and you decide not to scale up, obviously sustainability could be there. But that sustainability is of no use, when you want to grow as an aggressive start-up.

Therefore, scalability is important. Sustainability is important. And the bridge between the two is revenue profit optimization. At what points of time, would you optimize your revenue and profit equation? Would you like to have higher revenues at cost of margins or would you like to have lower revenues with the advantage of higher margins? So, growth with sustainability is the key parameter that drives.

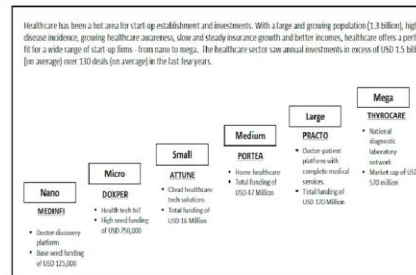
And for different firms this equation, revenue profit optimization, the balance between scalability and sustainability and how it is seen as a growing company with sustainability, they all differ.



And each company depending upon its scale and size and the industry in which corporate it operates has to find its own way of start-up growth phase.

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#### A Typical Start-up Hierarchy - Indian Healthcare Sector



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Now, when we look at any industry, it is quite possible for an industry to comprise different types of forms. And the difference is that in a traditional industrial structure, it is quite possible for a mega corporation to have such overwhelming market coverage and market dominance that small company may find it difficult to survive.

But the magic and the beauty of the start-up scenario is that, if you are in an innovative digital space or if you are in an innovative technological space, it is quite possible for you to exist as a nano enterprise as also as a mega enterprise. So, I have taken a few examples from the Healthcare sector. Healthcare sector defining the whole spread of patient care, home health care, then diagnostics and also hospital support systems.

So, when you look at that, we have got here six types of companies corresponding to what we have discussed earlier. And healthcare also has been, as I said, from the earlier slides, a hot area for starting new companies and with the large growing population and the kind of healthcare coverage we have, we can also understand that start-ups would have good potential in the healthcare space.

So in this, we have got at the nano stage, MEDINFI, it is a company which is just focused on doctor discovery. It just helps you to find the right kind of doctor for you to make your appointments and it could secure a base seed funding of 125,000 dollars. Then, we also have a company called doxper, which is a kind of micro enterprise. It moves to the next generation of healthcare where IoT, Internet of Things is used to manage health technology and it has been able to get higher seed funding, because the technology requires that level of funding.

Then we have got ATTUNE, which is a small scale enterprise. It offers cloud healthcare, technological solutions, and it has a total funding of U. S. dollars 16 million. Then, when we come to the medium scale enterprise, we have a company called PORTEA, which is by now a very well known company, which offers home health care on a national basis and it has been able to secure a funding of 47 million dollars.

Then comes Practo, which is a large enterprise today, doctor-patient platform, which provides complete spectrum of medical services and has been able to secure 170 dollars million as its total funding. And Thyrocare is probably a mega corporation in the healthcare space. It has gone through a very successful public enterprise and it is a national diagnostic laboratory network and today it has got a market capitalization of 570 million dollars.

So, the interesting point in this slide is that there is potential for tech based companies starting as nano and also operating as mega and that is also possibility by applying appropriate vision strategy execution triad, you can move, course through these six phases very successfully. And again, as I said, these logos of companies are being present here for the visual connect and for visual appeal and all logos are the properties of the respective companies and are being used only for the educational purpose and for visual connectivity, as we discuss those companies in terms of the start-up contributions they have made.

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Top funded Start-ups in 2018				
Industry Type	Company			
FinTech	Policy Bazaar	Pine Labs	Lendingkart	clearTax
EdTech	BYJU'S	Topper	unacademy	IIMAX
E Commerce	Flipkart	Paytm	Amazon	Zilliox
Consumer Services	Swiggy	Zomato	Urbanclap	Licious
Enterprisetech	Freshworks	Postman	AVI	BrowserStack
Traveltech	OYO	MakeMyTrip	Headout	DRIVEU
Media & Entertainment	Gaana	P D	Paytm	CEC
Healthtech	Cure.fit	Doc	PharmEasy	netmeds.com
Deeptech	thinQ	Antworks	Servify	DETECT



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So, when we look at the top funded start-ups in 2018, FinTech, Edtech, Ecommerce, Consumer Services, Enterprisetech, Traveltech, Media & Entertainment, Healthtech, Deeptech, you will find that there are companies with which we are able to regularly connect. PolicyBazaar is a well-known company in the FinTech space. Lendingkart is another company. PhonePe that is also a very well-known company.

In Edtech, BYJU'S is the leader. Topper is also there. Unacademy is another company, which is moving high. In Ecommerce, of course, the top five knowns are pretty well-known. In Consumer Services, Swiggy and Zomato, the food delivery companies are known. Enterprisetech, Freshworks is a company which has moved up high. Traveltech, OYO is very well-known. In Media & Entertainment, Gaana is one of the leading companies.

Paytm is also there strongly in media and entertainment although there could be a view that a part of Paytm also functions in Ecommerce space. In Healthtech, there are companies which are getting funded. These five companies as you can see are not companies which are not there in the previous healthcare slide.

And typically, PharmEasy and Netmeds are companies, which are getting into the medicine dispensing that is disintermediation of the existing long distribution chain and make patients get

their medicines very quickly and at attractive prices. And Deeptech is the area which is coming up newly comprising on artificial intelligence, machine intelligence and things like that.

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**Idea to Enterprise**

From the yesteryears' movie magazine idea to yesterday's direct-to-home television, true entrepreneurial effort is:

- not one of a product or service whose time has come
- but one of an idea which has been thought of ahead of its time

With the explosion in knowledge levels and the implosion in customer needs there exist today far more product and service ideas than at any point of history.

Mentorship and financing are two critical inputs which can help the nano, micro, and small enterprises get established first, and later become medium, large, and mega enterprises progressively.

While large firms have the necessary track record and competencies to raise resources for new entrepreneurial ventures in their quest for growth, nano, micro and small firms need explicit, dedicated and empathetic support.

NPTEL

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So clearly, the funding of start-ups is a challenge because we do not see a product as we saw in the earlier days. From the times we had an earlier year's movie magazine, today's direct-to-home television. It is not that the idea was very well defined before us. It is not that time has come for that idea to fructify. But the success lies in our thinking of the idea ahead of its time.

So to repeat, the idea to enterprise mission is not based on seeing a product in physical appearance and then saying that this needs to be funded to its logical conclusion. It is also not one of the product being available right on time when the market requires. The whole magic and the challenge in start-up is to conceptualizing and developing a product ahead of its time in a way that the market is able to appreciate the importance for this product.

So, there is a lot of what shall we say, advocacy involved in getting a product idea financed. It requires a lot of mentoring, how you would get into this mind space of the investors and there is also lot of management, which is involved in how we will ensure the success of this start-up. So, for nano, micro and small enterprises in the start-up space to grow into bigger corporations, there is a lot of need for financing. But probably there is even greater need for mentoring. So that they becomes correspondingly bigger companies over a period of time.

So while large companies have the necessary track record and competencies to raise resources, by the sheer strength, the way the telecom companies have been raising finances, the way the automobile companies have been raising finances, or the whole, whole series of big corporations have been raising finances, you will be amazed at the way thousands of millions of dollars are being raised globally.

But when it comes to the start-up era or the start-up companies, it requires a lot of explicit, dedicated and empathetic support for the start-ups to get the kind of finance, which is required. So, it is a kind of counterintuitive or paradoxical situation. On one hand, you have a number of investor means, investor entities which are all too eager to invest in start-up ecosystem. On the other hand, you have start-ups which would, indeed struggle to find who is the right investor for its requirements.

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#### Passion to Performance

Indian investors, financial institutions, banks, and companies have resources but are in need of structures and policies that channel their funds to support start-up firms.

The financing options for start-ups in India are still procedurally modelled after funding established businesses

The financing and investment eco-system will need to be specifically geared to spot entrepreneurs and help them translate their ideas into enterprises or organised activities.

In India, nano, micro and small firms can emerge and survive only based on conservative bank priority funding.

India, therefore, needs a wholly new genre of entrepreneurial financing, whether it is a uniquely Indian type or an established Western type.

Fintech start-ups and a new breed of financial entrepreneurs are required to lead a whole new entrepreneurial revolution in India.

Several alternative models, each of which will be relevant to a different type of entrepreneurial initiatives, are discussed below.



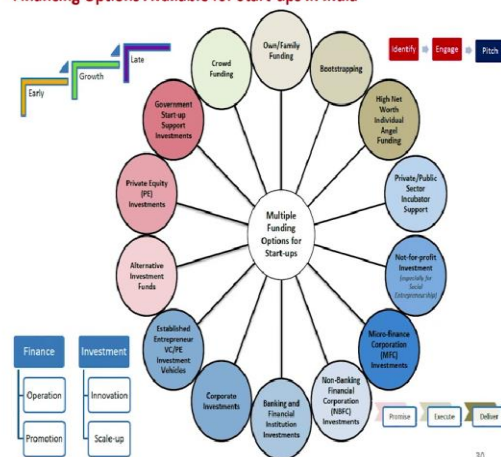
So, this idea to enterprise is kind of very challenging concept in start-ups. And it can also be made more effective by idea to performance paradigm. So, this idea to finance can happen when the idea is made into performance by entrepreneur passion. So, typically in the Indian situation even today, we can say that the nano and micro as well as small firms can survive based on conservative bank policy funding.

So, when we look at the idea to enterprise model, what makes this idea to enterprise model work is the conversion of the passion into performance. The idea is there, it wants to become an enterprise. But for that the entrepreneur passion has to convert that into performance. And typically, the Indian financing system is still modeled after the traditional enterprises, the way the projections are made and the way the revenue parameters are set and the way finance, bank finance would like the money to come back.

But for the nano, small scale, micro enterprises to become bigger, we need an entrepreneurial financing system, which is quite different from the traditional bank financing systems. So, we need to explore alternative financing models, which are relevant for different types of initiatives. So, we will see what is possible.

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Financing Options Available for Start-ups in India



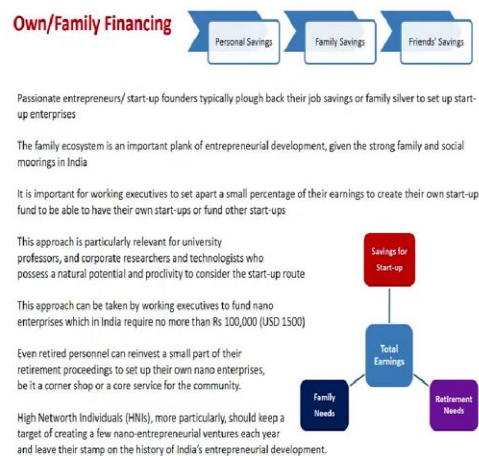
This slide provides an interesting graphic of the number of financing options which are available. Some of these financing options we have discussed in the previous slides, but a few other things which we have not discussed emerge here. Like Bootstrapping, we are talking about incubator support accelerators support. We are talking about corporations directly supporting the start-ups. We are also talking about state governments and central government acting directly in, in support of start-ups.

So, the way we do it is that you got to identify what is the right source of finance for the kind of start-up, which we have. Second engage with the right kind of investors, it could be an institution or an individual and then make a pitch for those kinds of investments. And depending upon whether we are in the early phase or growth phase or late phase, we can have our own ways of seeking the right kind of finances and right kind of investments.

And the so called investment actually comprises two paths, I would say one is the financing portion and other is investing portion. The investment portion typically looks at the fundamental innovation of the start-up. It also looks at this scale up whereas the financing portion looks at the operational cycle, operating cycle of the company, which talks about the raising of the team in terms of size and scale, then also doing the promotion of the product.

And as with all the kinds of marketing and other activities, we start with a promise saying that this start-up is going deliver on these kinds of expectations. Then we will execute and hopefully, we will deliver. As a result, multiple funding options, we have can be utilized in the appropriate manner as we go forward.

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So, own family financing we do not require to say much. But the total earnings a person has can be put into three classifications. One is what is required for the family needs. Second, what is required for the retirement needs that is the post work area. And the third is the savings for the start-ups. There are high net worth individuals who have been able to understand this emerging start-up space and have clearly earmarked a portion of their earnings for the future start-up investments.

And it is quite interesting that in today's situation, when we think that employment will move from on the job, big company employment to self employment and enterprise, we should look at how we can become entrepreneurs. So many of the people who are listening to this course, must also plan, if I were to be an entrepreneur, what would I need?

I need an idea, a level of passion, but also, I need finances. So just as one saves for retirement, one would also be best placed to save for being a start-up founder of oneself. And if one decides not to be a start-up founder, obviously that would become the retirement savings. So, a time has come in the journey of entrepreneurship, for every employed professional also to set apart some savings to equity, which was not there until today.



And this is ideally useful for working executives who can really afford to spend certain money stored as future equity for start-ups. And even retired personnel can decide that part of my income, post retirement income will be channeled into the start-up era.

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### Community Financing

Extending the concept further, gated communities and apartment associations can have an even more impactful role

Gated communities and apartment associations typically have a greater access to collective resources and provide a ready demand base of captive user needs

These entities can help establish nano-entrepreneurial ventures that meet the local community needs effectively.

From a security service to a mechanized laundry, and from a library service to a documentation service, opportunities for creation of nano ventures by gated residential communities are indeed plenty.

As these gated communities develop into new suburbs and mini-cities, the nano and micro foundations of business can indeed grow over time.

The lesson here is that individuals and communities have far greater power in their hands to create nano entrepreneurs than they realize.



Image: Arsal Trilok



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The second is Community Financing. Each community in today's situation has got purchasing power has also investment power. So, when we look at the gated communities of the type, which we have shown here, typically they comprise, let's say about 500 to 1,000 apartments or villas. And together, they have got cumulative community needs, as also cumulative anchor supporting power.

So, from a security service to a mechanized laundry, from a library service to daily grocery requirements, from a documentation service to a kind of internet service, there are a number of ways in which nano ventures can be supported by the gated communities. And once a gated community becomes a new suburb, naturally the start-up which has been encouraged by the gated community can also grow into a bigger hyper local company.

So, there is possibility of community financing helping the start-ups grow. And it is a kind of synergistic way of living. Community helps start-ups with hyper local demand. It also provides certain seed capital assured market. Whereas start-up serve community with alacrity, they will

serve a community with loyalty and first attention. So, this provides a kind of win-win situation for the communities as well as start-ups.

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### Individual Start-up Funds as a Concept

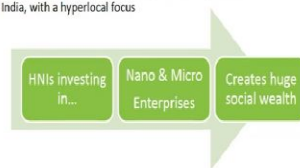
To enable a broad-based and more structured public participation in start-up movement, the policy framework should enable formation of Individual Start-up Investment Funds (ISIFs)

Under this scheme, an individual or any group of individuals should be allowed to set up an Individual Start-up Investment Fund (ISIF) with a lower base fund limit of Rs 50 lakhs to Rs 1 crore with a singular focus on nano and micro start-up funding.

ISIFs should be allowed to invest in the seed rounds of nano and micro enterprises and exit through Series A funding, with their capital gains fully exempt from tax.

This will enable common middle class citizens as well as high income individuals get together to stimulate localised nano and micro start-up activities.

ISIF, which is a take on Alternative Investment Funds, is just an example of how individuals can be entrepreneurially encouraged and enabled to prime entrepreneurial movement in India, with a hyperlocal focus



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The third one is individual start-up funds as a concept. When you operate big funds, there are certain policies available, there are certain fees which are accruing to the venture capital firms. There are certain return expectations. But an individual does not have any of those benefits. It is already a taxed amount and he does not have any income arising out of this kind of investment, which he is making as this capital.

Therefore, there is a lot of merit in allowing individuals to set-up their own start-up funds with certain limited levels, it need not be several crores as the alternative investment funds are. There could be funds between 50 lakhs rupees and one 1 crore rupees and an individual could get tax breaks, once he sets-up this kind of fund. And when the fund matures and when the returns are obtained, there need not be the kind of capital gains tax, which are there on other types of funds.

So, it is like an alternative investment fund, but very much modeled for an individual to be able to set apart certain money for start-up development. This could be one way of helping individuals get into the start-up financing scheme without undue risks.