

**Entrepreneurship**  
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**Lecture 33**

**Raising Finances and Developing Financial Strategy-Part 3**

(Refer Slide Time: 0:17)

**Angel Funding**

Angels are High Networth Individuals (HNIs) who are committed to invest in early stage start-ups either individually or through Angel Networks.

Angel Networks adopt a structured process of inviting applications for start-ups, evaluating the start-up proposals through independent agencies and investing in them

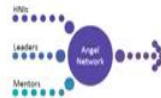
Typically Angel Networks seek to cash out as part of subsequent Series Funding steps so that they can provide returns to the HNIs and also enlarge the corpus for subsequent investments.

Start-ups also engage with individual members of the Networks not only to receive their individual investments but also to get presented to the Angel Network.

Angel Networks in India are, by and large, organised regionally although they accept applications from start-ups anywhere

Typically, angel investments do not come with restrictions of board membership and other governance parameters demanded by venture capital and private equity firms, and hence are first choice for start-ups for early stage funding.

34



Then of course we have got the very famous Angel Funding route. Angels are nothing but high net worth individuals who are networked by the platforms or network individually with certain enterprises and they comprise not only the investors, they also comprise mentors, they also comprise leaders who are part of a forum and they typically look at companies which could be supported in the early stage and seed stage activities. And their job is to kind of help a start-up take-off.

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Select Top Angel Investors in India - 2018			
SL NO	INVESTORS		PREVIOUS POSITION
1	Binny Bansal		Co-founder, Flipkart
2	Sachin Bansal		Co-founder, Flipkart
3	Kris Gopala Krishnan		Co-founder, Infosys
4	Ratan N Tata		Chairman Emeritus, Tata Motors
5	Nandan Nilekani		Co-founder, Infosys
<b>Lead Profiles</b>	Marquee investors	Founders of high-value start-ups	Founders of mainstream corporations
<b>Other Profiles</b>	Academicians	High networth individuals	Industry executives
<b>Phases</b>	Post-retirement	Post-cashout	In service - supported by employers
<b>Scope</b>	Personal investments	Tactical investments	Strategic investments
<b>Purpose</b>	Social purpose	Business purpose	Profit motive

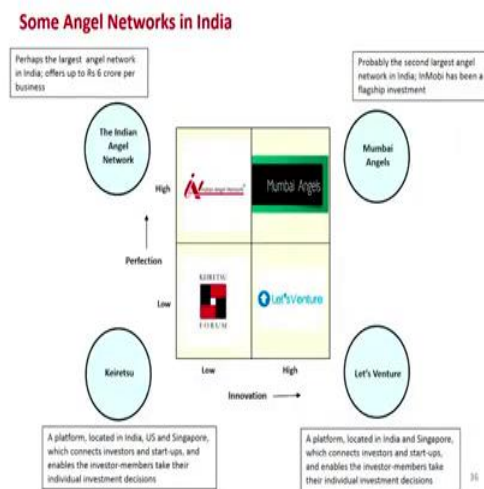


And there are number of angel investment companies and there are also several angel investors. Here we have got five investors I have highlighted. Typically, they are investors who have moved out of successful entrepreneurial companies such as Flipkart or Infosys and or very well-known industrial leaders, market leaders like Ratan Tata. So, Binny Bansal, Sachin Bansal, Kris Gopala Krishnan and Nandan Nilekani and Ratan Tata, I have mentioned.

But if you see the lead profiles, they have been founders of high value start-ups or they have been founders and leaders of mainstream corporations. There are some of the people who are not in this top Angel Investors list but can be found elsewhere, they are academicians from US other developed European countries or who have made good standing for themselves in India. They are high net worth individuals typically, and industry executives are also participating. And the phases in which they invest or post retirement or post cash out of the existing firm and at times in service supported by employers.

The scope will varies between the personal investments to tactical investments to strategic investments. And the purpose again varies between social purpose, business purpose and in certain cases only profit motive.

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So, when we talk about angel networks, we have got four types of networks, one is innovation, second is perfection. Now, we have got four types of angel networks shown here, one is the Indian Angel Network which is probably the largest angel network we can find in India. It offers up to 6 crore per business.

The second one is the Mumbai Angels, which is the second largest angel network, InMobi has been a very successful start-up organised by this Mumbai angels' network. Keiretsu is another forum which is global, but it has got its network across countries and it is the platform. It evaluates the proposals, but allows the individual investor to deal with the company make his own decisions.

And Let's Venture is a platform located in India and Singapore, it connects the investors and start ups and enables the investor members take their individual investment decisions. So, these are the four Angel networks I have demonstrated here as a symbolic of the angel support.

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### Incubator Support

Incubators are infrastructure platforms that make available plug and play facilities, co-working spaces, legal and patenting support as well as mentoring to start-ups



Incubators enable start-ups overcome their resource constraints to an extent and get organized well.

Incubators provide relief to start-ups in ideation and prototyping phases as well as in PoC of MVP.

Government of India has set up Atal Incubation Centres (under Atal Innovation Mission) in public and private sectors in addition to scaling up Established Incubation Centres.

Several State Governments have also set up State level incubation centres.

Armed with grants, the incubators are well positioned to support start-ups pursue their programmes

Details are available at:

[https://www.startupindia.gov.in/content/sih/en/compendium\\_of\\_good\\_practices/incubationsupport.html](https://www.startupindia.gov.in/content/sih/en/compendium_of_good_practices/incubationsupport.html)

37



Then we have got incubator support, incubators are facilities offered by private institutions as well as public institutions to provide plug and play support. Not only the plug and play facilities, the incubators provide certain legal help, they have prescribed formats by which a company can be established.

They provide company registration support; they also provide patenting support. Therefore, certain of this is administrative activities which are beyond the easy hold of start-ups who are techs by definition, these incubators provide and to that extent they help the start-ups overcome their resource constraints and get organised well.

They also provide certain relief in ideation and prototyping based on frequent interactions with the mentors. Government India has set up under its innovation mission Atal Incubation Centres and it helps both the public sector and private sector participate in this initiative. They also has scaled up the established incubation centres if a person is interested in understanding more about these things, we can go through this link which we have given at the bottom of this slide.

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**Incubator Support for Not-for-Profit Start-ups**

Some Incubators and Accelerators provide specific investment support for start-ups that are set up with not-for-profit motive

Such platforms are especially helpful to encourage and sustain social entrepreneurship that aims at improving the Quality of Life in the country

N/Core is one such incubator which is set up with participation from Cisco, Ford Foundation, and IRB Infrastructure

N/Core recently unveiled Series/N to provide funding for 30 start-ups over 5 years, ranging up to Rs 2 crore for each start-up

N/Core has senior executives from various IT and other companies to mentor and nurture start-ups

Incubators typically provide their funds in any of the four forms of grants, debt, quasi-equity and equity



**N/Core's First Batch Of Non-Profit Incubates**

- Environment** - Policy initiatives, new ideas intended to improve quality of water
- Education** - Providing self access to government hospitals using IoT, an app for medical professionals
- Healthcare** - Allocation of management by linking environmental related services to IoT
- Energy** - Supporting general awareness in their child education, helping them for an improved background
- Food Safety** - Reducing as a second hand for school related task, more for a positive impact on the world
- Healthcare** - Reducing software engineers skills to underutilized young adults, irrespective of their formal education level
- Education** - Supporting financial literacy for women & their family
- Healthcare** - Reducing impact of smoking by government schools through digital surveillance
- Healthcare** - Improving literacy rate through advanced legal services, digital of financial, communication services
- Healthcare** - Reducing as a second hand for school related task, more for a positive impact on the world
- Healthcare** - Reducing software engineers skills to underutilized young adults, irrespective of their formal education level

Members | Over 38

And there are also incubators which are focused more on the not-for-profit start-ups and these not-profit start-ups are supported by multinational companies like Cisco and Ford foundation and also Indian large companies like IRB infrastructure. N/Core is one company which has recently unveiled Series/N to provide funding for 30 start-ups over 5 years ranging up to 2 crores rupees for each start up. And they also have executives from various IT companies who helped in the mentoring and management of these start-ups.

They also have developed their own non-profit incubators, apart from being an incubator by itself and N/Core has helped develop certain non-profit incubators who can take on this movement further, so foundation for environmental monitoring, Sushrat Foundation, then Sathi these are all foundations which have been started by N/Core to take on this mantle further.

And they typically provide in terms of certain funding, not certainly at the levels which the individual or individual seed investors or individual companies provide, but they provide funds in small time grants, they provide debt, quasi-equity and equity.

(Refer Slide Time: 6:12)

The slide, titled "Other Investors", features the NPTEL logo in the top right corner. It contains four blue boxes with the following text:

- Angel Networks - Venture Catalyst, Indian Angel Network, Mumbai Angel Network
- Incubators and Accelerators – Y Combinator, Axilor
- Angel Networks – 19 : 81 Deals
- Incubators and Accelerators – 250+ : 46 Deals

At the bottom of the slide, there are logos for Y Combinator, Startup School (by Y Combinator), and Axilor. To the right of the logos is a small graphic titled "JOIN THE ELITE LIST OF AXILOR GRADUATES" with a list of names and icons. A speaker is visible in the bottom right corner of the slide frame.

The other investors we have talked about and angel networks are not few, they have made 81 deals in 2018. And incubators and the accelerators as of now there are 250 but not all incubators could make deals, only about 46 deals have been made by the incubators and accelerators.

Y Combinator, Axilor these are some of the interesting incubators which we have. And if you see the list of graduates from Axilor, you can see that the idea is to get start-ups enrolled as part of the incubator system and after the incubation is done, they are allowed to move out of the incubator.

So, when IIT Madras research Park which is a leading incubator sets up its facilities it is expected that the companies will function there for a certain period of time and depending upon their business strategy and execution they are kind of free to move out and find their own space and move on to become a bigger company, so that more companies can be incubated as we go forward with the available infrastructure.

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**Bootstrapping as a Source of Finance**

Bootstrapping is a method of financing a start-up through creative use of resources, trade channels and other stakeholder relationships, without raising equity from equity investors or loans from banks.

Bootstrapping is highly advantageous to founders because equity is not diluted and loans are not contracted; they retain full value of the company

Leasing of real estate and equipment can be a cost-efficient way of setting up the initial base for the start-up

Bootstrapping can work in product development when potential customers have a stake or interest in the product and are willing to pre-fund the product

It can also work in prototype build when the contract manufacturing organisation (CMO) has capacity that can be offered in anticipation of future payments

Founders need to be adept at tight working capital management to be able to be successful at bootstrapping

Bootstrapping should not be seen as a permanent or complete financial solution as bootstrapping can limit the start-up to a resource-strapped stalemate too

Bootstrapping should be used to develop internal skills and build value in the start-up without equity dilution or interest burden



Facility	Product	Market
Plug and Play facilities to minimise fixed costs	R&D that is aligned to a niche, then a theme	Working capital to produce and sell



Then we talk about bootstrapping, that is a very interesting method of financing, where in we use our resources very creatively, we use the trade channels creatively and also use other stakeholder relationships so that you do not raise any equity at all. So, a bootstrapping company typically approaches let us say a large company says that I have got a different way of doing this product, give me the market access. It may also say that I would like to do this operational cycle through a particular portal which is dedicated to bootstrapping companies, and then you have to provide me the advance money.

So, if the product is of interest and people feel that there is advantage to the main company by delegating this development to this company, it is quite possible that advance money is provided for the operating cycle to kick in. So, your funding, your working capital requirements, you are also enabling a market access and therefore, it is a very cost efficient way of setting up the initial base for start-up.

It works very well in product development where potential customers would like certain exclusivity in the product and they are having interest in the kind of technology which the start-up operates. And in case they can exchange based on start-ups interest, the equity stake versus funding it is possible to bootstrap the company without much of private equity and venture capital participation.

It is also very successfully applied in contract manufacturing organisation where you work for another company but in a very innovative way and the bigger company has got the capacity that can be offered and along with the capacity you get certain advanced orders, so

therefore, you are able to fund your future payments, but to be able to bootstrap the founders and the working teams must be able to be managing their working capital requirements very tightly and they have the ability to scale up in a gradual manner.

But to talk about the cons, bootstrapping can be resource constraining, it may kind of limit your vision, it may limit your strategy and it may kind of make you dependent on the larger company which is helping you with your working capital support or product development support.

So, it is an opportunity to hone your internal skills with some kind of assurance by a bigger market participant but not necessarily always the best route, that said, you can say that there are many examples of even today's large corporations having bootstrapped founders at some point of time.

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**Early Bootstrapping by the Current and Famed Rich**

Reference: <https://richtopia.com/effective-leadership/10-successful-companies-started-bootstrapping-case-studies>



Reportedly, founders of major tech giants today went through a bootstrapping phase in the early stage of their entrepreneurial journeys in each case – Demonstrating the value of creating the product concept and building prototype on shoestring budgets

Robert J. Lahm and Harold T. Little succinctly write in their seminal research article [Bootstrapping Business Start](#):  
URL: "Bootstrapping is entrepreneurship in its purest form. It is the transformation of human capital into financial capital."



So, you have got some examples here, we know that Facebook is leading the social media platform, Dell is a leading computer company, Apple of course needs no introduction, HP again in computers and printing equipment and enterprise solutions, Microsoft of course the leader in operating systems.

When you look at each of these founders at some point of time or the other they have bootstrapped their way to growth and it does not mean that did not take other finances, they did take finances but bootstrapping their product, demonstrating to the customers and getting the customers by in was one of the important phases of their development. Again, here you



can find some more references on bootstrapping at the top and the bottom I have provided certain references.

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### Alternate Investment Funds

In India, **Alternate Investment Funds (AIFs)** are defined in Regulation 2(1) (b) of Securities and Exchange Board of India (Alternative Investment Funds) Regulations, 2012.

AIF refers to any privately pooled investment fund, (whether from Indian or foreign sources), in the form of a trust or a company or a body corporate or a Limited Liability Partnership (LLP).

Hence, in India, AIFs are private funds which are otherwise not coming under the jurisdiction of any regulatory agency in India.



As per Securities and Exchange Board of India (Alternative Investment Funds) Regulations, 2012 Alternative Investment Funds shall seek registration in one of the three categories:

- **Category I:** Mainly invests in start-ups, SME's or any other sector which Govt. considers economically and socially viable.
- **Category II:** These include Alternative Investment Funds such as private equity funds or debt funds for which no specific incentives or concessions are given by the government or any other Regulator
- **Category III:** Alternative Investment Funds such as hedge funds or funds which trade with a view to make short term returns or such other funds which are open ended and for which no specific incentives or concessions are given by the government or any other Regulator.



Then we come to the real big ticket investors. We have under Indian regulations, a concept of alternate investment funds and they are categorized into category 1, category 2 and category 3 funds. Category 1 funds are start-up funds, category 2 are private equity and VC funds and category 3 are hedge funds. And we can also as I said, we can create a newer breed of funds, typically appropriate for India like, I talked about Indian individual investment funds, which need to be creatively created for Indian requirements.

Category 1 funds mainly invest in start-ups, small and micro enterprises or any other sector which government considers economically and socially viable. Category 2 firms or the companies which are private equity funds or debt funds, for which no specific incentives or concession are given by the government or any other regulator. Category 3 or hedge funds which trade with a view to make short term returns which are funds which are open ended again for which there will be no incentives or concessions.

So typically, as far as the government is concerned, they feel that the category 1 start-up funds are the ones which require incentives and the others are based on the market dynamics and also the start-up valuations.

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### Western Venture Capital Model - 1

Venture capital (VC) firms entered the Indian industrial scene in the 1990s in a big way along with the economic policy liberalisation.

VC firms' entry was pursuant to a decision of the Government of India to allow foreign finance companies take stakes in the Indian companies.

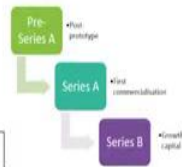
Taking stakes of 10 to 25 percent in the capital structure of new as well as fast growing companies, venture capital firms enabled a number of first generation enterprises strengthen their equity base and also list themselves on the bourses.

Venture capital funds enable companies achieve the crucial leap from a modest beginning to a growth-oriented stage, accessing technologies or markets through their equity financing.

As companies are not typically listed at that stage, venture capital firms take stake based on stock pricing negotiated with the promoters.

Seed funding and Series A, B, and C funding constitute the primary support to start-ups.

In most cases, additional Series funding rounds D, E etc., are commonplace



43



So when we look at the Western Venture Capital Model, they have entered India in a big way from the 1990's. Venture Capital has been there in the developed world for several decades but the Indian entry has been from the 1990's and that has been pursuant to a decision of the Government of India in that period to allow foreign finance companies to take stakes in the Indian corporates.

So, taking stakes of 10 to 25 percent in the capital structure of new as well as fast growing companies, venture capital firms have enabled growth of number of start-ups, they have enabled several first generation enterprises, strengthen their equity base and also become highly successful Indian companies. They enable companies achieve this crucial leap from a modest beginning to a high growth area.

They also help the companies get into a modern technological framework, for example you are thinking of a smart phone of your own design, initially you can start by bootstrapping with various resources available or seed funding, but when you really want to have your own assembly plant which has got its own high level of environmental control and processing systems, then definitely you need higher level of finance which venture capital funds can typically make available. And venture capital itself is available in different series, series A to series E, F, G like that and pre-series A is also possible where post-prototype investments are considered.

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### Western Venture Capital Model - 2

While venture capital firms serve a valuable purpose, their emphasis on growth and exit at attractive valuations, through listing or further sale to other strategic investors, tends to distort orderly growth of companies through additional investments direct into the companies.

Typically, venture capital firms help establish medium scale enterprises with their investments ranging between USD 10 to 50 million. Venture capital firms tend to be sector-savvy, betting on sunrise and entrepreneurially driven sectors.

India's IT and pharmaceutical sectors in the 2000s benefitted from venture capital investments.

Potentially, venture capital can support India's drive into sunrise sectors such as biotechnology, nanotechnology, healthcare, education, artificial intelligence, alternative fuels, and clean technologies, providing confidence to entrepreneurs move into such sectors.

That said, if the global venture capital funds tie up with Indian groups the ability to take risks relevant to the Indian scenario could be reinforced and in greater focus with India's needs.



44



In the Western venture capital model, we have only the Western capital firm, venture capital firms with Indian leaders working in, but venture capital firms of the Western origin and the Indian venture capital firms are completely two different streams. What we would think is that we need to have a combination of global VC's and local corporate so that we develop an adaptive venture capital ecosystem which need not necessarily go by this stringent evaluation parameters or this stringent valuation parameters of the Western venture capitals but we also look at something which is very endogenous to Indian requirements.

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### Top Venture Capital Firms in India - 2018

SN	NAME	
1	Accel Partners India	Accel
2	Sequoia Capital India	sequoia capital
3	Blume Ventures	BLUME VENTURES
4	Nexus Venture Partners	NEXUS
5	Kalaari Capital	kalaari
6	Matrix Partners India	matrix
7	Omidyar Network	OMIDYAR NETWORK
8	Saif Partners	SAIF PARTNERS
9	IDG Ventures	IDG
10	Beenext Ventures	BEENEXT

45



This slide gives the top venture capital firms in India 2018 ranking Accel partners, Sequoia Capital India, Blume Ventures, Nexus Venture Partners, Kalaari Capital, Matrix Partners, Omidyar Networks, Saif Partners, IDG Ventures, Beenext Ventures. If you look at any successful start-up, you will find that three or four names from this top 10 people are always there indicating their commitment and also being a participant of the Indian start-up ecosystem.

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### Global Private Equity Model - 1

While venture capital funding and private equity funding are seen to be synonymous, private equity funds tend to favour listed companies for their investments.

Most private equity firms enter established firms through preferential allotment of new shares to themselves at prices that reflect market valuations or reflect specific premiums based on their insights into business plans.

While venture capital firms provide growth capital, private equity players provide funding for a variety of purposes including growth capital, capital for retiring debt, mezzanine funding and acquisition war chest.

With investment ranges from USD 50 to USD 200 million, private equity firms can truly shape medium scale enterprises become large corporations.

Though the global economic downturn of 2008 and 2009 saw the weak foundations of organised venture capital and private equity industries, entry of big funds like SoftBank and Alibaba has led to deal sizes skyrocketing to a big range of USD 500 million to USD 2.5 billion.



Global private equity system is completely different, they depend on the high ticket size for their ability to fund huge growth. Typically, we have had the US and Europe based funds priming the growth but more recently Japan and China based funds also have come into the play and though the economic slowdown of 2008-2009 kind of shook the foundations of venture capital as well as private equity industries. Later on the entry of big funds like Softbank and Alibaba and also Global networking of these funding institutions has provided new flip to the private equity model.

(Refer Slide Time: 15:55)

Some Top Global Private Equity Players



Global private equity players have huge fund levels, reaching up to USD 60 billion in the case of top ranking PE player, and play major role in funding established start-ups moving into mainstream arena

47



And these are the companies which we are looking at, Blackstone, The Carlyle Group, KKR, TPG, Apollo, BainCapital, Warburg Pincus, CVC, Advent International, again when we look at big companies, you will find that these are the companies which have enabled large companies become bigger.

Many companies in the pharmaceutical space have had investments by these private equity funds and have enabled the companies become from Indians disorientation to global orientation and many of the real estate firms have been supported by some of the well-known private equity firms.

And even in the banking system, when certain banks are cash trapped, but their operating models are good and when the teams are good, private equity enters and typically private equity is considered in one manner as patient captive because they feel that the operating model is good proven but the companies having certain constraints and challenges in moving from this stage of development to the next stage of development so the capital is willing to be patient for 5 to 7 years and let the company find its moorings in this new era successfully.

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### Global Private Equity model - 2

The established private equity industry has global investors. Their investments are subject to returns to their investors, some of them extremely large and powerful ones such as global pension funds.

Some of the leading global equity firms have been driving Indian start-up and established firms' industrial growth aggressively

In good times, these private equity players are nation and sector agnostic, seek a diversified investment portfolio and display a penchant for globalisation of their portfolio firms.

In difficult times or when other nations secure better investment rankings, they tend to be cautious and selective as well

Indian financial institutions, gratuity and pension funds, provident funds and mutual funds as well as large public and private sector groups have the potential to create India's own private equity behemoths.



So, when we look at this kind of situation, we have got Indian PE firms which we could look at as our goal. We have private corporations, public sector undertakings, mutual funds, we also have in India banks and financial institutions, we also have pension funds. For example, Life Insurance Corporation is one big investment behemoth. Now, if you are able to have all these companies support and Indian PE system, we will be in a position to create our own venture capital firms, we will be able to provide our own private equity system which is probably insulated from global equity returns.

One of the reasons why we must maintain this start-up movement irrespective of what happens with the federate or what happens with the central bank policies of other countries is that India is in a growth mode and we need to continuously grow. And we cannot allow our start-up developments be constrained by the global liquidity movements.

On the other hand, we should also be able to participate in the development across the regions, across the nations in case some exciting developments are happening elsewhere, so there is no reason why an Indian private equity firm, if it is established cannot participate in exciting development in the Silicon Valley of the west.

So, we should be in a position to generate a private equity capability within our own system, just as we have created our own banking and financial capability and our own insurance capability, we should be able to do a private equity capability also. So, these are thought for the future, these are thought for the policy creation in our Indian ecosystem.

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### State as Super Equity Player - 1

As large firms grow larger, many grow beyond the reach of even large private equity players. Large firms and private equity players manage the situation by creating subsidiaries for newer activities and channelling equity flows.

In countries such as India where government owned public sector undertakings (PSUs) occupy commanding heights of the economy, the State has to assume the role of a super public equity player or venture capital player, with respect to the PSUs.

Several corporations in infrastructure sector have emerged due to such public investments by the Government of India. These PSUs are also given special status as Maharatnas, Navratnas, and Miniratnas based on their financial scale and performance.

Such PSUs, in turn, have led to creation of new strengths in the economy, which the private sector or the overseas players would consider to be either beyond their means or their risk profile.



And that happens when state things of itself as a super equity player. State has been running several companies actually, many public sector undertakings which are classified as Maharatnas, Navratnas and Miniratnas are public sector undertakings with 100 percent ownership of public sector operations and in steel, oil, gas, containers, distribution, shipping. So, various infrastructure areas have been managed by the government directly as not merely as a promoter and investor but as a manager.

Now, as we think of divestment, as we think of government's role as being separate from supporting versus actually operating, as the debate considers what kind of industries or what kind of economic sectors should be the main stay of government participation, we also have this start-up paradigm coming up. We can think of a situation where we would earn significant disinvestment proceeds as part of the PSU privatization and use part of that disinvestment proceeds to develop PSU driven start-ups or start-ups which are very important for the infrastructure development as we go forward.

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### Government Policy Framework

As of date, there are as many as 58 schemes that are available under the aegis of different central ministries and departments that support start-up activity.

These are comprehensively listed in the Government of India 'start-upindia' website (<https://www.startupindiahub.org.in>).

From grants which help training of unemployed individuals to funding of high risk-high reward research there are several options available for a wide range of start-up needs.

There are several schemes available under the aegis of the State Governments too. It would be a good idea to have a start-up firm that connects start-ups with the government schemes, and also with incubators and accelerators as well as with mentors, investors, and other enablers.



Therefore, state by itself can act as a super equity player in the emerging situation. Government over the last 5 to 6 years has been doing number of things to enhance the awareness and the ability of start-up ecosystem. Some of these initiatives are comprehensively listed in the start-up India hub in the government, and there are about 58 schemes which are available under the start-up India scheme and in addition to that, various state governments have their own individual scheme so much.

So, even connecting all the schemes and feeding them to the start-ups could be a good start-up idea, that is the kind of width and diversity of funds as well as the grants that are available for start-ups. In addition to that, we have National entrepreneurship awards every year to help young entrepreneurs and ecosystem builders to get recognised for their outstanding efforts in entrepreneurship development.



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### Non-Profit Organisation (NPO) Support for Start-ups

Bharatiya Yuva Shakti Trust (BYST), an NPO set up in 1992 in India by Lakshmi Venkatesan is a trend setter in providing end-to-end support for disadvantaged micro-entrepreneurs in the form of loans, mentoring, networking, and marketing.

BYST nurtures the young micro-entrepreneurs until they reach a level at which they are not only self-sufficient, but they in turn make a valuable contribution to the society through creation of wealth and employment.

Over 4000 experts and professionals, including some actors and public figures, associated themselves with BYST as mentors for entrepreneurs since its inception.

Nationally, BYST has supported 4200 micro-entrepreneurial ventures, employing over 175,000 people and providing training to several thousands of people since its inception.

BYST has both rural and urban training programmes covering six major regions of India. Confederation of India (CII) provides the infrastructure and administrative support to BYST.

BYST is also networked with international organisations that are aligned to similar objectives. NPO model is particularly appropriate when financial needs are low and mentorship needs are high.



We have so far talked about for profit start-up activities, but there are also incubators and other supporting investors for non-profit organisation. I have come across a very interesting and very noble organisation called Bhartiya Yuva Shakti Trust BYST, it was set up in 1992 by Lakshmi Venkatesan in India and it was obviously a kind of very inspired thought that we can bring every nano entrepreneur into a mainstream economic activity.

And I was personally a participant in this kind of activities when I was in Ashok Leyland, I was spending one day a week with, not the full day though, I was spending a part of my day with the entrepreneurs who are empanelled in BYST understanding how they could convert their technology and craft into a viable enterprise.

And as of now nationally, BYST has supported 4200 micro entrepreneurial ventures and has seen the employment of 175 thousand people. It has also provided training to people in rural hamlets as well as in urban areas for several thousands of people. And this very interesting enterprise has been supported by Confederation of Indian Industry and this initiative covers 6 regions of India.

It is also networked with major international organisations that are aligned to similar objectives. This NPO model is particularly appropriate when financial needs are low, mentorship needs are high, that is the, it is a kind of small enterprise model or nano enterprise model, where individual has got its ability, the craft to do, delivery a product but it requires lot of management effort and that management effort can be provided by outside experts as well as BYST.

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**Indian Start-up and Financing Ecosystem**

The boom of the Indian start-up ecosystem started towards the late 1990s / early 2000s.

In a short span of less than 2 decades, India has witnessed a huge transformation across the innovation & entrepreneurship landscape, with over:

- 20,000+ start-ups,
- 270+ incubation & business acceleration centres/programs,
- 200+ global & domestic VC firms supporting home-grown start-ups, and
- a fast-growing community of 230+ angel investors.

India also boasts of being home to the 3rd largest unicorn community, with over 18 high achieving startups (started in the last 11 years) having gone on to raise over USD18 Bn funding, valued at over USD 60 Bn.

These unicorns have made a huge difference by changing the outlook of global investors, VC & PE Firms, and global corporates towards the massive opportunity posed by the growing Indian consumer market.

The growing rise of internet users and falling internet prices has played a catalytic role in expanding the ecosystem, with over 600 Mn Indians now using internet services across the country.



So, with all this kind of support which is available over a period of two decades, India has indeed witnessed a huge transformation across the start-ups space. We have today 20 thousand plus start-ups, we have got 270 plus incubation and business acceleration centres programs, 200 plus global and domestic VC firms supporting home grown start-ups and a fast growing community of 230 plus angel investors.

We have the third largest unicorn community in the world, we have discussed this in the previous sessions, we also mentioned that while we are the third largest, the distance between the second which is China and us is significantly large, and China is probably number 1 in terms of unicorns in the emerging areas of artificial intelligence, special learning and deep learning, therefore that we said that while it is great that we are number 3, we also need to bridge this gap between number 1 and 2 on one hand and number 3 which is India and the other.

But then it is very clear that the unicorns have made a huge difference by changing the outlook of global investors, VC's and PE's towards the Indian start-ups system. And the growing number of internet users of India which is a about 600 million users, and the mobile connectivity makes India a future digital hub, and therefore inspires many investors to come and support Indian start-up system.

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### Corporations as Investors

The advantage of mainstream corporations taking to start-up investments is that there would be a well-needed focus on, and dovetailing with, mainstream activities.

An overwhelming number of start-ups focus on digital applications, including e-commerce and digital technologies while established corporations with a strong brick and mortar business have only peripheral digital applications

Established corporations could gain a lot by investing in start-ups that are strategically aligned and technologically reinforcing to their businesses

Reliance Industries, for example, has taken up a start-up initiative covering modern technologies, for example, physical products such as wind turbines, solar and hydro-electric plants, logistics, artificial intelligence, robotics and data analytics.



Take Solutions is an example of how a corporate investment of Rs 2 crore by Shriram Group enabled the company become a mainstream software solutions company.



Mahindra Group's Rise project has been focusing on grants for start-ups in energy and transportation sector while Godrej Group's venture capital fund has been focussing on agricultural and consumer products.

If every successful corporation begins investing in and starts mentoring start-ups in related technologies and products, India would see a significant level of product innovation and delivery



Quite apart from that, we can also find just as the earlier generations of cooperation supported ancillary units, we can have corporations today look at start-up ecosystem as a new kind of ancillary infrastructure that needs to be supported. We have got the idea of new technologies being started by new companies like Telecommunication venture by Reliance Industries Limited.

Similarly, Mahindra has got its only digital services, then Godrej has got its agro services. Each of these companies have decided that we will take up our vertical as the new platform to generate start-ups and if every corporation starts modernizing itself, and in this process of modernization takes up supporting of start-ups as one of the important activities, corporation themselves can become investors.

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### Reliance Start-up Portfolio

Reliance Industries has invested in 11 start-ups to reinforce its digital ecosystem



Source: <https://inc42.com/features/indian-tech-startup-acquisitions-and-investments-by-reliance/>

54



So, if you look at Reliance start-up portfolio, you will see that Reliance Industries has invested in 11 start-ups to reinforces digitally ecosystem. Some of the start-ups have already been incubated and supported and funded by other companies, that does not prevent as I said earlier we can have multiple investors in any particular start-up but what is important here is that these start-ups are dovetail to the value chain of the newer digital platform which the company is executing. More information on this can be got from the link which I have given below.

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### Focus Areas of Reliance Portfolio of Start-ups

Start-up	Focus Area
C-Square	Enterprisetech for digital commerce
EasyGov	SaaS enterprise for citizens to search for and access government schemes/services
Emibibe	AI based digital learning solutions
Fynd	Time-optimized sourcing of products for customers
Grab	On-demand reverse logistics, first-mile and last-mile deliveries
Haptik	Digital assistants
Netradyne	Digital logistics solutions for fleet flow
Reverie	Real-time delivery of online content in multiple Indian languages
Saavn	Indian music streaming
Sankhya Sutra	High-performance computing
Tesseract	Mixed Reality, Augmented Reality and Virtual Reality

Interestingly, Reliance has invested in start-ups that have already seen some traction through investments by seed investors, VC and PE funds

55



So as I said, each of these start-ups has had certain objective in mind, C square enterprise tech for digital commerce. EasyGov Saas enterprise because when you have telecommunications, it helps you to do the public services on the fly. Then we have got Embibe, AI based digital learning, digital learning is one aspect of mobile telephony we have seen again in previous thing how digital learning has become one of the important start-up domains in the start-up space.

Then how do you find the resources for our services, Haptik digital assistants, that is again another important thing. Then mixed reality augmented reality which is parts of gaming and media content services through the mobile telephony, that is also an important start-up. So, if the business vertical has a certain focus areas, it becomes logical that that business vertical should support several other start-ups with appropriate investments.

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#### Corporate Catalyst Model - 1

Major corporations, given their organisational infrastructure and market reach as well as their financial capability can contribute impressively to the entrepreneurial movement directly and indirectly.

The logical way is to convert or let go fragments of their value chain or operational spectrum as nano or micro entrepreneurial ventures. This is a natural and economical way of creating entrepreneurial value while enhancing the cost-competitiveness of the company.

Each function or domain of a firm, for example research, manufacturing, marketing, supply chain, human resources, accounting, information technology and clinical trials, offers scope for creating entrepreneurial outfits for outsourcing of fragments of such domains.

Chinese phone and appliances maker Xiaomi Corp stated that it would invest as much as USD 1 billion in 100 start-ups in India over the next 5 years to develop an ecosystem of apps around its mobile phone range is an example of this approach.

Elaborating, its chief executive Lei Jun stated that it pioneered such a start-up investment strategy in China (investing in as many as 300 companies over the last four years for USD 4 billion) which was instrumental in catapulting Xiaomi into the global big league in smartphones.

The chief executive also stated that the firm would like to do only a few core things by itself and let its partners do the rest, which strategy contributed to its rapid growth. This model of big firms growing through partner/affiliation relationships would offer a major opportunity for start-ups. <sup>58</sup>



Then we have got corporate catalyst model, here we have talked about companies which have been supported by other companies and which are plugged into the value chain. The same thing can be further extended saying that, I as a corporation can help at totally attached start-up ecosystem. So Chinese phone and appliances maker Xiaomi has said that, I would invest as much as US dollar 1 billion in hundred start-ups in India over the next five years to develop an ecosystem of apps around its mobile phone use, this is an example of the approach.

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### Corporate Catalyst Model - 2

Quite apart from such value chain participation, another way is to leverage a corporation's resources to reach out to wider population, create awareness and harness passion, in association with Non Governmental Organisations (NGOs) and Not for Profit Organisations (NPOs)

The success of the Teach India initiative organised by the Times of India media group in association with select NGOs in bringing together educated experts to teach underprivileged children is proof enough of the relevance of this approach.

Corporations can undertake with equal aplomb entrepreneurial initiatives utilising their resources.



In addition to individual corporations industry associations such as FICCI, CII and ASSOCHAM can each play a catalyst role by creating divisions for entrepreneurial projects.

Government policies should facilitate corporations establishing Corporate Start-up Investment Funds (CSIFs) with higher base fund limit of Rs 5 crore or Rs 10 crore which any group of corporations can establish.

Such corporate funds should be allowed to invest in larger seed rounds and corporate grants, and exit through PE funding or IPOs, with their capital gains partially exempt from tax.

Successful corporations have enormous funds at their disposal which they can effectively leverage for both industrial and social start-up development.



Similarly, when Times of India Group decided that we will extend our teaching to all the schools by co-opting experienced people rendered this is a public service that has become a corporate catalyst model. Innovation to these kinds of initiatives if industry associations also entered this space like FICCI, CII and ASSOCHAM. Then there would be great catalysis of the start-up movement by the corporate participation.

And such corporate funds can also invest in the seed rounds provide corporate grants and participate in IPO's of the start-ups as anchor investors and incentivizing such investments with capital gains relief. The fact is that successful corporations have got enormous funds at their disposal, which they can effectively leverage for both industrial and social start-up development.

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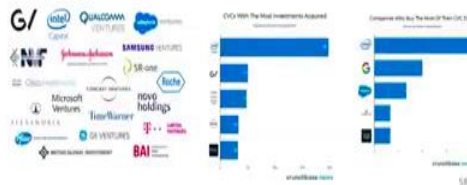
### Corporate Ventures

Several global corporations have set up venture capital arms that evaluate, fund and even acquire promising start-ups

The practice is well established in pharmaceuticals and technology domains, given the need for disruptive technologies and models

The images below are self-explanatory, in terms of the extent of the corporate venture practice and the firms actively involved in the space

Indian corporations must take the cue and move into the corporate venture space to develop value in the Indian start-up capital space



This process has taken significant roots in the western domain, as you can see from the logos here, we will find that every large corporation has its own venture arm, Intel has got Intel capital, Qualcomm, the mobile chip maker they have got Qualcomm ventures, Roche has got its own venture division, Novo Nordisk, it has been in early pioneer having its own venture capital network, GE ventures is another active participant. So, with this, Intel capital, then GE ventures they have made significant investments in start-ups and the number have moved from 50 to as much as 300.

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### Infosys Founders' VC Model

Apart from corporations directly supporting start-up and entrepreneurial development, promoters of successful firms can themselves set up venture capital funds to support this endeavour

Infosys founder, N R Narayana Murthy, set up Catamaran Ventures as an investment fund that helps early stage start-ups; so have other Infosys co-founders, Kris Gopalkrishnan and Nandan Nilekani in their own ways

Companies listed in the National Stock Exchange of India have a combined market capitalisation of over USD 1 trillion. Even a very nominal sale of the capital would provide billions of dollars of funds for setting up promoter-inspired venture capital funds.



If entrepreneur-heads of all listed companies dedicate a small share (say, from 0.1 to 0.5 percent) of the respective companies' shareholding/market capitalisation, USD 1 to 5 billion would become available to support entrepreneurial ventures.

When this scale of finance is coupled with their personal commitment to mentor budding entrepreneurs a sea change would occur in the entrepreneurial scene.

Vedanta, India's metals and energy conglomerate led by Anil Agarwal, has pledged 75 percent of its wealth for investment in programmes with socio-economic objectives.

Several other successful entrepreneurs as well as corporate group heads have the potential to replicate or improve upon the Catamaran model.



We also have another model where the Indian founders can set up their own venture capital firms. One of the successful models in that has been the Catamaran Company, set up by Ex Infosys lead co-founder Mr. Narayana Murthy. He has setup Catamaran ventures as an investment fund that helps early-stage start-ups, so many other investors Infosys co-founders like Kris Gopala Krishnan, Nandan Nilekani as well as Mohandas Pai and long back Mr. Raghavan himself, they have set up their own small units to help Indian start-ups with the VC firms of their own.

Now, companies listed in the National Stock Exchange have got market capitalisation of over US Dollar 1 trillion, even if a miniscule percentage, say 0.1 to 0.5 percent of this kind of market capitalisation is used at one point, US dollar 1 to 5 billion will be available to setup private equity ventures or venture capital firms of this nature. So, when this scale of finance is combined with the passion of the founders and the leaders to mentor budding start-ups, the availability of financing for the Indian start-ups would be enormous.

Vedanta, for example has pledged that 75 percent of the founder's wealth would be used for investment in programs with socio economic objectives. So, has been some statements by other industrial founders. So it is possible to follow, replicate or improve upon the Catamaran model as we go forward.