

## A Study on Financial Support System for Start-ups in Bangalore City

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### ABSTRACT

India stands in third place as a largest tech start-ups in the world and has the second largest start-up ecosystem, Bangalore being the Mecca of start-ups accounts for 41% for all new ventures launched in India. “Start-up India flagship initiative” was the primary reason for such an outcome. Though there is an essential shift towards creating an business friendly and favourable conducive environment for the start-ups, the actual translation of ideas into realities requires an adequate and appropriate sources of funding. The process of embracing and nurturing the innovative business ideas which contributes towards employment generation and acts as an problem solving mechanism requires exclusive sources of funding at the each stage of start-up. This research paper aims to analyze and study the modes of funding at each stage of start-ups and problems associated while accessing the same.

**Key words:** Start-ups, Start-up Ecosystem, innovation, Sources of funding, Associated Problems..

### INTRODUCTION

India being the developing south Asian country, is the 7th largest by its area and the most populous one. Raise in the population signals the greater prospective for more employment generation And there is an increasing demand to a great extent for more creative systems. One of these systems is a start up eco system. And India is the process of undertaking an essential shift towards creating an business friendly environment.

The years between 2010-2020 is declared to be the innovative decade by India. The motives for self employment and the urge by embracing the start up India Initiative which remains as a nurturing force and creating a platform of dynamism for start up ecosystem is remarkable.

According to NASSCOM- ZINNOVE report titled “Indian start up ecosystem 2018”, India has emerged as the third biggest start up hub in the world.

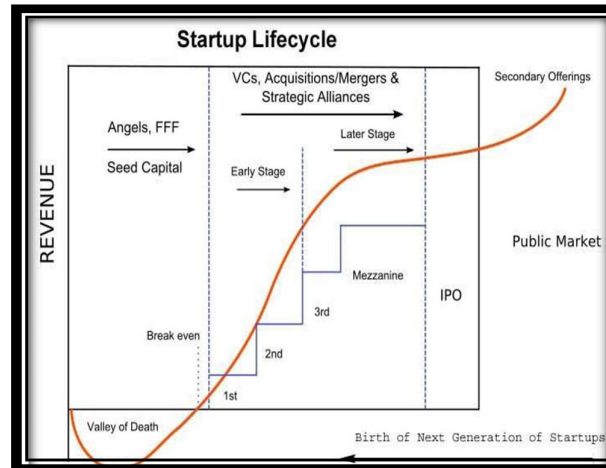
In particular, across India, Bangalore has been receiving increased global recognition as a tech start -up hub and is considered to be the home for the largest tech start-ups in the country and the third largest in the world.

According to Gazette notification released by Department for Promotion of Industry and Internal Trade (DPIIT) defined Start-up as an entity with the following parameters:

- Till up to 10 years from its date of incorporation.

- With an annual turnover not exceeding INR100 crores in the preceding financial year and
- Working towards innovation, development or improvement of product or process or service.
- It is scalable business model with high potential of employment generation or wealth creation.
- And such an entity is not formed by splitting up, or reconstruction of business already in existence.

### 1. Stages of start-up and available modes of funding at each stage



1. **Self funding/Bootstrapping:** It is a form of pre-seed capital which consists of low level financing for fructifying a new idea.
2. **Start-up funding:** Start-up funding refers to the expenses being directed for manufacturing and early sales funding of new firms.
3. **Second- Round:** This phase of funding is related to the operational capital given for early stage companies which are selling products, but not returning a profit.
4. **Third-Round:** Also known as Mezzanine financing, this is the money for expanding a newly beneficial company.
5. **Fourth-Round:** Also called as bridge financing, fourth round is proposed for "going public" process.

### 2. Sources of finance:

1. **Angel investors:** Angel finance is an informal form of direct finance, where the wealthy individuals can invest directly in small companies or start-ups through an equity contract.
2. **Venture Capital:** Venture capital is a formal kind of financing strategy made available to the early stage of the firm that involves ample risk of total loss or failure of the firm. It is the main source of finance for the high technology firm and significantly contributes to the growth and maturity stage of start-up firms.
3. **Owner's capital:** for the start-up firms in the initial stage, owner's capital is seen as "Seed Funding" when the options for external finance are limited. It is an important source of internal financing that comprises of funds from owner's savings, investments, family and friends since these firms have no collateral or track records to approach external funding.
4. **Banks:** The decision for start-ups to opt for banking finance depends upon different criteria's like time frame, amount of credit availability, level of inference and supervision across firms. As it is an external source of funding, start-ups have difficulty in obtaining due to vague future prospects.

5. **Government grants:** Through the start-up India initiative, Government of India launched various schemes exclusive for start-ups to promote innovation and generate various societal benefits.

**Here is a list of popular few Start-up schemes launched by the Indian government, run under different ministries and further headed by different departments:**

<b>Nature of the Scheme</b>	<b>Industry Applicable</b>	<b>Fiscal Incentives</b>
<b>Support for international Patent Protection (SIP)</b>	IT services, analytics, hardware technology enterprise software, internet of things, AI.	Upto 15 lakhs or 50% of the total expenses incurred in filing and processing of the patent application upto grant, whichever is lesser.
<b>Coir Udyami Yojana</b>	Agriculture	The amount of bank credit will be 55% of the total project cost after deducting 40% of the margin money and owners contribution of 5% from beneficiaries.
<b>Stand-up India</b>	Sector Agnostic	Composite loan between INR 10 lakhs and INR 1CR to cover 75% of project cost can be taken up, inclusive of term loan and working capital.
<b>Mahila Udyam Nidhi yojana</b>	Sector Agnostic	Provides financial assistance of Rs. 10 lakhs to set up a new small scale venture and the repayment of loans is within 10 years.
<b>Pradhan Manthri Mudhra Yojana</b>	Sector Agnostic	Provides Sishu Loans covering upto INR 50000, Kishore loans upto 5 lakhs, Tarun loans upto 10 lakhs.
<b>MSME Market Development Assistance</b>	Sector Agnostic	The total subsidy on air fare and space rental charges will be restricted to INR 1.25 lakhs per unit.
<b>Software Technology Park (STP)</b>	IT services, fintech, enterprise software, analytics, AI.	Sales in DTA upto 50% of the FOB value of exports is permissible and depreciation of computers at accelerated rates upto 100% over 5 years is permissible.

<b>The Venture Capital Assistance Scheme</b>	Agriculture	The quantum of SFAC Venture capital Assistance will depend on the project cost and will be the lowest of; 26% of the promoter's equity or INR 50 lakhs.
<b>Idea2PoC</b>	Sector Agnostic	The funding level is upto 50 lakhs, released in tranches as per project milestone.
<b>Credit limited Capital subsidy for technology up gradation</b>	Sector Agnostic	Funding level of upto INR10 Cr and rate of subsidy enhanced to 15%.

### 3. Issues and Challenges of Start-ups;

- Inadequate Financial Resources
- Poor Revenue generation
- Acquisition of right kind of talent(TeamMembers)
- Regulations
- Growth decelerators
- Lack of mentorship

### 4. Review of Literature

- i. **(Dr .Achibane Mustapa and Jamal, 2018)** “Entrepreneurial issue of funding Start-up companies” wrote about the basic mechanisms of the entrepreneurial finance, and its relationship with the early stages.
- ii. **(Tamoor Tariq, 2013)** in his research work titled “start-up Financing” stated that start-up firms face restricted access to finance which acts as an main barrier to their growth.
- iii. **(T.V Sethuraman, 1970)** “Institutional finance of economic development in India” reveals that there is lack of co-operation among different Financial institution, follow different patterns of processing techniques for availing financial assistance, consequence of which entrepreneurs have to bear additional expenditure in the form of application fees and legal charges.
- iv. **(Ankash Dutta, 2016)** in his journal “Start-up Initiative” showed the lime light on the start-up campaign initiative taken by the Indian government and discussed various governmental policies, plans, policies, schemes and strategies related to start-ups.
- v. **Dr, Gopaldas Pawan Kumar, 2018)** “Indian start-ups –Issues, Challenges and Opportunities” discussed the objectives, issues and challenges that the Indian Start-ups has to face along with the opportunities that country can provide in the current ecosystem.

## 5. Statement of Problem

Finance is key input of production, distribution and development of any business organisation. It is therefore, aptly described as 'Life-blood' of industry and is a prerequisite for accelerating the process of industrial development.

Due to lack of financial assistance from banks and other financial institutions, the capable and potential ideas of the entrepreneurs could not be materialised effectively, as the consequence of which many start-ups fail in the early stage or even sometimes in the pre-start-up stage itself.

To know the availability of the financial institutions for start-ups, awareness level among the entrepreneurs regarding financial facilities and various schemes that are exclusively provided for the start-ups and also the problems faced while obtaining the loans are studied in the present research paper 'A study on the Financial Support System for Start-ups in Bangalore City'.

Research design: Descriptive and Analytical Data collection sources: Data collection is through Primary sources.

Scope of the study: The present research paper aims to study the various financial facilities that are available for start-up community, and to analyse the various governmental financial policies, credit schemes and plans that are exclusively available for start-up firms and to find the problems associated while obtaining the financial assistance from the Financial Institutions.

The study was conducted at Bangalore district.

**Data Collection Instrument:** Likert scale questionnaire of 21 questions.

**Sampling design:** Stratified random sampling.

**Sample size:** 50

**Statistical tools used for analysis:** Descriptive statistics such as percentage and graphs is used to describe the results of the study, Weighted average is used to examine the data set which influences the data and chi-square analysis is used to examine the association between the awareness level of the entrepreneurs and the educational qualification, and the association between the managerial experience of the entrepreneurs and problems faced while obtaining the loan.

## 6. Hypothesis:

- i. H<sub>0</sub>: There is no association between the Educational qualification of the entrepreneurs and Awareness level of schemes offered by financial institutions.

**H<sub>1</sub>: There is association between the Educational qualification of the entrepreneurs and Awareness level of schemes offered by financial institutions.**

- ii. H<sub>0</sub>: There is no association between the Managerial experience of entrepreneurs and Problems faced while obtaining the loan from financial institutions.

**H<sub>1</sub>: There is association between the Managerial experience of entrepreneurs and Problems faced while obtaining the loan from financial institutions.**

## 7. Objectives of the study

- To study the financial facilities provided by Indian government for the start-ups.
- To examine the major problems faced by Start-ups while obtaining financial support.
- To examine the Entrepreneurs perception regarding institutional financing for start-ups.

## 8. Limitations of the study

- The study is particularly relating to financing of Start-ups covers only Bangalore urban districts.
- The sample size of the study was restricted to 50 Start-ups due to time constraints
- The study is majorly focused on the governmental financial assistance for Start-ups. Data collection and Interpretation

Demographic study: the demographic study of these start-up's entrepreneurs reveal that most of the respondents belong to the age group between 21-25 years with a majority of 92% of the respondents are male and also the majority of the respondents entrepreneurs are qualified Graduates.

Nature of Entrepreneurial activity: respondents from different fields like Agriculture, Automotive, Food catering, Retail, Fashion, Finance etc are taken for study. Followed with a majority of 30% of the Start-ups are Sole proprietorship and more than 50% of the start-ups are working for less than 2 years.

### 8.1 Accessibility of government schemes for financing start-ups

- Start-up India initiative among the entrepreneurs: a majority of 52% of the respondents has good awareness level.
- Awareness about government schemes of financing: A majority of 32% of the respondents has a good awareness level.
- Awareness about governmental lending procedures: Majority of 44% of respondents awareness level is average.
- Awareness about terms and conditions of governmental lending: A majority of 40% of respondents awareness level is average.
- Accessibility of governmental financial facilities: Majority of 44% of respondents has good awareness level.
- Accessibility of person-in-charge for availing financial assistance: A majority of 48% of respondents has good awareness level.

### 8.2 Accessibility of Financial Institutions among the entrepreneurs

- Financial Institutions among the entrepreneurs: A majority of 52% of respondents has good awareness level.
- Awareness about the financial institutions schemes of financing: A majority of 52% of respondents has good awareness level.
- Awareness about financial institutions lending procedures: majority of 60% of respondents has good awareness level.
  - Awareness about financial institutions terms and conditions of lending: majority of 56% has good awareness level.
  - Accessibility of financial institutions: majority of 44% of respondents has good awareness

level.

- Accessibility of financial services provided by financial institutions: Majority of 52% of respondents has good awareness level.
- Accessibility of Person-in-charge: 60% of respondents has Good awareness level.

### 8.3 Reliability of Financial Institutions

- Reliability of financial institutions lending norms:
- A majority of 52% of respondents say that the reliability of financial institutions lending norms are good.
- Reliability of assistance given on time: Majority of 44% of respondents say that the responsibility of assistance is given on time.
- Reliability of initial funding: A majority of 44% of respondents say that the reliability for initial funding is Good.
- Reliability for long term finance: majority of 44% say that the long term finance is average
- Reliability for modernization and up-gradation of finance: A majority of 36% of the respondents say that the reliability for modernization and up-gradation that is required is Good as well as Average.
- Reliability of financial assistance at financial crisis: A Majority of 44% of the respondents say that the assistance given at the time of financial crisis is Good.

### 8.4 Opinion of Financial Institutions

- Financial institutions are following cumbersome procedure: A majority of 32% of respondents agree that the financial institutions follow cumbersome procedures.
- Performance of Financial Institutions are less than expectations of borrowers: majority of 30% agree that the performance of financial institutions are less than the expectations of borrow-up owners.
- Financial Institutions need to educate the Start-up entrepreneurs: A majority of 60% of the respondents agree that Financial Institutions need to educate the Start-up entrepreneur.
- Institutional finance for the promotion of technology is inadequate: A majority of 38% of the respondents agree that the Institutional finance for technology is inadequate.
- Financial Institutions should tune in their policies in consonance to Start-ups: A majority of 48% of the respondents say that Financial Institutions should tune in their policies in consonance with the Start-ups.
- Financial Institutions should act as a guide, philosopher and promoter of Start-ups: Majority of 52% of respondents agree that the Financial Institutions should act as guide, philosopher and promoter of start-ups.
- Awareness about the Financial Institutions among the entrepreneurs is very low: A majority of 40% of respondents agree that the awareness about Financial Institutions among the entrepreneur is low.
- Financial Institutions are inefficient and not at all reliable at financial crisis: A majority of 26% of the respondents of the respondents agree that the Financial Institutions are inefficient and not at all reliable at financial crisis.

### 8.5 Problems of Financial Institutions

- Processing Time: A majority of 36% say that it is Very High.
- Terms and Conditions: A majority of 48% of respondents say that the terms and conditions followed by financial institutions are neutral.
- Amount of Financial assistance: majority of 36% of the respondents say amount of financial assistance is High. Higher the amount of financial assistance, higher the problems associated

with it.

- Interest: majority of 44% of respondents say that the amount of interest charged by the financial institutions is high.
- Getting timely assistance: majority of 44% of the respondents agree that the problem associated in getting timely assistance is high.
  - Procedure to be complied: Majority of 48% of respondents are being neutral regarding procedures to be complied.
  - Availing concessions for payments: A majority of 16% of the respondents feel that availing concessions for regular repayment of loan is High.

Chi-square analysis between the Educational qualification of respondents and Awareness level of respondents in regard to the schemes offered by the financial institutions.

Statistical Tool	Chi-square
Degree of freedom	4
P Value	0.05
Calculated value	0.999

om the above values it could be interpreted that since the calculated value is more than the P value, Null Hypothesis (H0) must be accepted , and Alternative Hypothesis (H1) is rejected.

8.1 Therefore, there is no significant relationship between the Educational qualification of the respondents and the Awareness level of schemes offered by financial institutions.

- Chi-square analysis between the Managerial Experience of respondents and Problems faced while obtaining the loan from financial institutions.

Statistical Tool	Chi-square
Degree of freedom	4
P Value	0.05
Calculated value	0.999

From the above table it could be interpreted that the calculated value is more than the P value, Null Hypothesis (H0) must be accepted and Alternative Hypothesis (H1) is rejected.

Therefore there is no significant relationship between the Managerial Experience of the respondents and Problems faced while obtaining the loan from financial institutions.

## 9. Findings

- Since the first objective of the research paper was to study the various financial facilities providing by Indian government for financing start-ups, there is a good awareness level among the respondents about the Start-up India initiative, accessibility and availability of financial facilities that are exclusive for start-ups.
- But the reliability of financial facilities are ranked to be on average .
- The study reveals the fact that the financial institutions should act as guide, philosopher and promoter of Start-up to lift ideas into reality.
- A majority of the entrepreneurs agree that the financial institutions follow cumbersome procedures, performance is less than the expectation of the borrowers.
- Financial institutions need to educate the entrepreneurs, institutional finance for the promotion

of technology is inadequate, should tune the policy in consonance to start-ups.

- A majority of the respondents are unhappy with the processing time, terms and conditions, relationship with banks and other financial institutions, amount of financial assistance.
- Interest charged for loan is too high, availing concession for regular payments is a matter to be materialized and procedures to be complied is too high.
- Majority of the respondents fall in the age group of 21-25 and are sole proprietors.
- Fifty percent of the start-ups are working for less than 2 years.
- There is no significant relationship seen between the educational qualification of the respondents and the awareness level of the schemes offered by the financial institutions.
- There is no significant relationship seen between managerial experience of the respondents and the problems faced while obtaining the loan.

## 10. Conclusion

Small fragments of contributions from a number of entrepreneurs would have a cascading effect on the economy and the employment generation which would compliment large and medium industries effort catapulting India into a fast growing economy. The Start-up community has a lot of challenges ranging from finance to human resource and from launch to sustain the growth often. Being a country with large population, the plethora of opportunities available are many for start-ups offering products and services ranging from food, retail, hygiene to solar and IT applications for day to day problems.

## 11. Suggestions

1. The financial assistance provided by the financial institutions should be feasible to all types of entrepreneurial activities.
2. It is suggested to make the process in sanctioning loans and other forms of financial assistance easier, by implementing user friendly modes.
3. Financial institutions should conduct various training programmes among the entrepreneur community to help them combat reality, and to fit in their new ideas to the customer demands.
4. Inadequacy of financial and moral support for the development of technology in India is a major hindrance, therefore exclusive assistance in this field is to be evolved.
5. Concessions for regular repayment of loan and reduced rate of interest charged on the loan amount could be considered.

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