No shortage of funding options for viable ideas

The soon-to-be-launched Startup India Seed Fund is one avenue entrepreneurs should surely explore, but there are several more

BINDISHA SARANG

One thing that can make starting a new business a lot easier is an investor willing to bet on your business model. If you are looking for funds for your start-up, you have reason to cheer. The government is set to launch a ₹945 crore fund for start-ups, called the Startup India Seed Fund, on April 1.

A start-up isn't necessarily a boutique firm. Srinivas Chunduru, founder, VANS Investments says, "According to the Start-Up India scheme's definition, the enterprise should be a technology-enabled, scalable business that is able to create employment and solve problems faced by people."

The Startup India Seed Fund is to be disbursed over five years to early-stage businesses. It is looking to support around 3,600 entrepreneurs through 300 incubators. The corpus will be disbursed via select incubators across the country. The selected start-ups will be offered up to ₹20 lakh as grants for proof of concept and up to ₹50 lakh through convertible debentures, debt, or debt-linked instruments for commercialisation of the idea.

STARTUP INDIA SEED FUND: HOW WILL APPLICATIONS BE EVALUATED?

Criterion	Details
■Need	Does it solve a real-world problem?
■Feasibility	Feasibility of technical claims; roadmap for product development
■Potential impact	Customer demographic and the technology's effect on it
■Novelty	Unique Selling Proposition of the technology, associated Intellectual Property
■Team	Strength of the team: Technical and business expertise
■Fund utilisation plan	Roadmap for money utilisation

Footnote: List is non-exhaustive. Source: https://www.startupindia.gov.in/

Eligibility criteria

At the time of application, the start-up should not have been incorporated more than two years ago. It must be incorporated as a private limited company, a registered partnership firm, or a limited liability partnership (LLP). Also, Indian promoters should have at least 51 per cent shareholding in the start-up. The envisaged product or service should have a market fit, be commercially viable, and have scope for scaling up. The start-up must use technology in its core product or service, business, or distribution model, or methodology to solve the problem being targeted. Preference will be given to firms with innovative solutions in sectors like social impact, waste management, water management, financial inclusion, education, agriculture, food processing, biotechnology, and healthcare, to name a few.

Alternative funding sources

There are plenty of other options. Ashish Ambasta, co-founder of a start-up called HappyPlus Consulting says, "Right now a number of investors are sitting on surplus funds looking for good start-ups to invest in. Due to the pandemic, they did not get an opportunity to put their money into good businesses last year."

There are several ways to raise funds. Chitradeep Aras, head of Centre for Entrepreneurship in SPJIMR, says, "Funding happens on a case-by-case basis and depends on the stage of the business."

Bootstrapping: This means tapping into funds that belong to you, your family or friends. Usually, the money borrowed from family and friends is interest-free or at a lower rate of interest. Aras says, "Self-funding or loans from family and friends does not dilute your equity. But the disadvantage is that unlike other options like seed funds, such funds don't come with guidance."

Loans: If you need to borrow money, the best option is to take a loan against an asset. For a distribution-based product, a loan can be obtained against the stock. For first-time start-ups, these loans are easier to get than a direct business loan from a bank. Adhil Shetty, chief executive officer, BankBazaar says, "A start-up may have difficulty qualifying for a business loan until it has been in operation for at least three years. Traditional business loans typically require two years of tax returns to prove consistent gross and net profits. So, look for alternative forms of credit. Go for a collateral-based loan, such as a loan against property, gold loan, or even a secured personal loan." Bill discounting facility from banks is an option for a service-centric business having contracts with large companies.

Angel investors: Angel investors are high net worth individuals or groups of individuals who invest money in start-ups or early-stage small businesses. Chunduru says, "There are a number of angel investor groups or networks in India. There are city-level groups, too, like Mumbai Angel Network, Bangalore Angel Network, etc." Usually, angel investors take larger risk, which means they may require you to give them a larger share of the firm. Chunduru says, "This is usually when they like your idea, your business plan, and are willing to give you the needed funds to start the business. They don't just give funds but also handhold and offer their expertise."

Incubators and venture capitalists: There are a number of incubators in the country, including the academic kind. Large corporate houses, especially tech companies, too, have incubators. Aras says, "Besides funds, many also offer facilities, expertise, mentorship and free tech support."

Venture capitalists offer capital to start-ups which show high growth potential in exchange for an equity stake. But not all VCs fund early-stage businesses.

Crowdfunding: Here, you raise money for your business from a large number of people through online platforms such as Wishberry and Kickstarter. You can raise the target amount and return the rest.