



IMPACT OF STARTUPS IN INDIAN GDP IN 2022

Sneha CJ, Vignesh B, Dr. J. Krithika

Asst System Engineer TCS, PGDM Second Year Student, Sr Asst Professor, XIME-Chennai

Article DOI: <https://doi.org/10.36713/epra12212>

DOI No: 10.36713/epra12212

ABSTRACT

Indian start-ups have made their mark on the global stage. The ecosystem's rapid growth and maturity have unleashed a tremendous appetite for scalability, alternative funding options, global market expansion, and the ability to enable millions of jobs. This meteoric rise of start-ups has made India the world's third largest start-up ecosystem, and it has had a significant impact on the Indian economy, demonstrating the ability to contribute approximately 4-5 percent of India's GDP. This report aims to highlight the impact of start-ups on the Indian economy, as well as the ecosystem's inherent ability to foster inclusivity, sustainability, and growth. Start-ups do not exist in isolation; rather, they are part of a larger corporate environment dedicated to developing solutions with significant social and economic impact. Because start-ups are incubators for cutting-edge inventions, they create jobs, which means more career opportunities; more employment leads to a stronger economy, and a stronger economy has a direct impact on the growth of cities where start-ups are located.

KEYWORDS: *GDP- Gross domestic product; Start-ups; Unicorn; Financial benefits; Indian economy; Macroeconomics; Impact on economy; Indian business.*

INTRODUCTION

A start-up is technically any business that focuses on developing, commercializing, and developing novel goods, services, or systems powered by innovative technology or intellectual property. Over the last 20 years, the Indian startup environment has grown rapidly, and more assistance is now available in all areas. Startups do not exist in isolation; rather, they are part of a larger corporate environment dedicated to developing solutions with significant social and economic impact. Because start-ups are incubators for cutting-edge inventions, they create jobs, which means more career opportunities; more employment leads to a stronger economy, and a stronger economy has a direct impact on the growth of cities where startups are located. Start-ups will demonstrate a new perspective on entrepreneurship, assist newcomers in establishing their businesses, and connect to form a dynamic network of start-ups. This program will only benefit the country's most talented young people, who will also be able to create new jobs.

STARTUP CULTURE IN INDIA

India is a young country, with 65% of its population between the ages of 25 and 35. The number of start-ups in India has increased gradually rather than abruptly. If one had to pinpoint the exact year when India's start-ups revolution began, it would be 2008. We are all aware of the global recession that began in 2008, forcing businesses all over the world to reallocate resources and lay off massive numbers of workers. It primarily impacted Indian IT professionals, who developed intense job-related fear and began looking for alternative means of support. The young nation was shaken by this fear, which was accompanied by an insatiable desire to prove one's worth, and as a result, its people broke free from the shackles of mediocrity and rose to the occasion.

"A thousand mile journey begins with one step." —
From Lao Tzu

The scenario is the same every time: someone, usually from a middle-class family, begins to put a brilliant idea into action. They put in a lot of effort to put their ideas into action, attract investors' attention, gather useful human resources, and build their own brands.

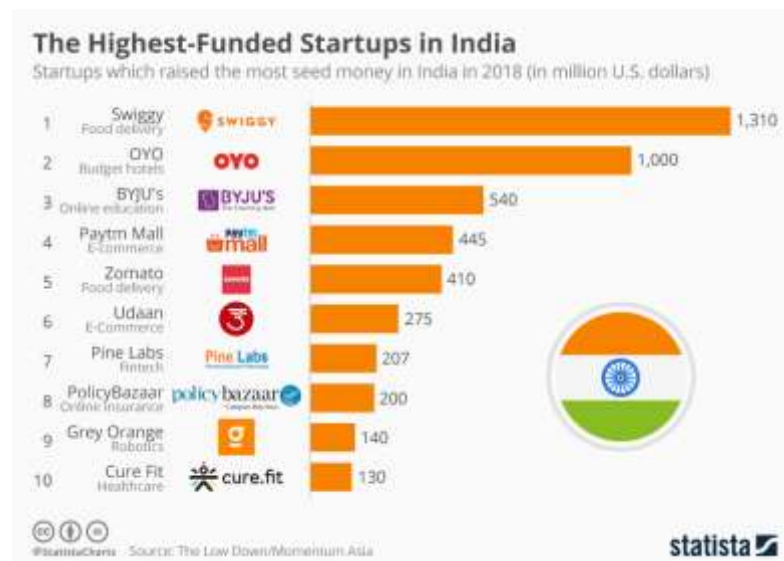


Fig 1 : Start-up Fund in India

Start-ups in India are known for their welcoming work environments, late-night gatherings, and a culture that encourages fair treatment of co-workers. According to Inc42, India has over 6,000 start-ups, and Prime Minister Narendra Modi believes that 44% of them are headquartered in Tier II and Tier III cities. India currently has the world's second-largest start-ups ecosystem. According to a survey conducted by Innoven Capital, the following are the primary reasons why India is among the countries with the best start-ups environments in the world:

1. When compared to other countries, the cost of doing business is relatively low.
2. Both customers and vendors live in close quarters.
3. The domestic market has grown significantly as a result of the 7 million graduates who choose to work in start-ups over MNCs each year.
4. Because India has the second-largest internet user population after China, businesses can communicate with their local markets more easily by using Facebook and WhatsApp.

DEVELOPMENT OF STARTUPS IN INDIA

According to data from the Commerce Ministry as of June 30, 2022, the number of recognised start-ups in the country increased from 471 in 2016 to 72,993 in 2022, a phenomenal increase of more than 15,400%. 4,500 start-ups in new technology fields such as the internet of things (IoT), robots, artificial intelligence, analytics, and others are among the 56 diverse industries represented by the recognised start-ups. The Indian start-up community benefits greatly from venture capital (VC) funding. "Investors appear to be growing more confident in Indian start-ups. In India, venture capital (VC) investment deal volume increased by 39% year on year (YoY) during the first half (H1) of 2022, reaching 976. Global Data, a leading data and analytics firm, reports that "the equivalent announced fundraising amount too logged a 4.5% increase to \$15.6 billion."

"India saw a positive trend in both VC funding value and volume in H1 2022 compared to H1 2021," says Aurojyoti Bose, Lead Analyst at Global Data.

Several significant transactions were also announced in the country during the first half of 2022. During the period, Verse Innovation received \$805 million in funding, Think and Learn (Byju's) received \$800 million in series F funding, Bundl Technologies (Swiggy) received \$700 million, Polygon received \$450 million, and Xpressbees received \$300 million. These are just a few of the notable transactions announced at the time.

GOVERNMENT SUPPORT TO THE START-UPS

On January 16, 2016, the government unveiled the start-up India programme in an effort to foster India's start-up culture while also fostering economic growth, entrepreneurship, and significant job opportunities. The Start-ups India Action Plan, Fund of Funds for Start-ups (FFS) Scheme, start-up India Seed Fund, Start-ups India: The Way Ahead, start-up India Showcase, and start-up India Hub are among the Centre's initiatives, as are three years of income tax exemption and self-certification under labour and environmental laws.

Furthermore, a number of government agencies have launched a variety of programmes to assist the start-up sector. In 2016, the Department of Science and Technology launched the National Initiative for Developing and Harnessing Innovations, an overarching programme for start-ups. Furthermore, through the Biotechnology Industry Research Assistance Council, the biotechnology department fosters and supports entrepreneurs (BIRAC). The Centre's Innovation and Agri-entrepreneur Development initiative promotes innovation and agri-preneurship. Furthermore, the Defence Ministry's Innovations for Defence Excellence (iDEX) programme seeks to promote innovation and technological advancement in the aerospace and defence sectors in order to achieve self-sufficiency.



However, the sector as a whole has been struggling due to disruptions in the global supply chain that have resulted in a funding shortage. Because they rely so heavily on outside investment, Indian companies are suffering the most. A number of companies, including unicorns like Unacademy, Byju's, Vedantu, and Cars24, have laid off employees. According to reports, over 12,000 Indian start-up employees have been laid off. Meanwhile, over 22,000 employees in the tech and start-up industries worldwide have been affected.

Few Government initiatives to boost Start-ups.

- Make In India
- Start-up India
- AIM Platform
- STEP Platform
- NewGen IEDC
- Biotech Push
- NSDM

INDIA’S GDP

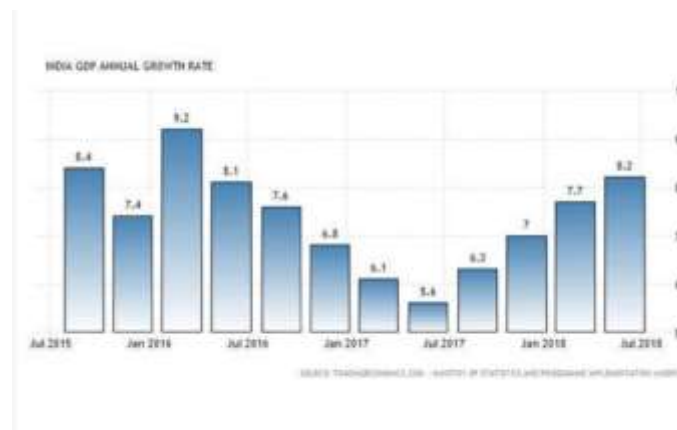


Fig 2 : Indian GDP Annual Growth Rate

Year over year (y-o-y), service exports increased by 30.2%, owing to increases in software, business, and travel services. Net services revenue increased both annually and sequentially. The net outgo of the primary income account, which primarily reflects payments of investment income, increased from US\$ 9.8 billion to US\$ 12.0 billion in the previous year. Private transfer receipts totalled US\$ 27.4 billion, a 29.7% increase over the same period last year, and were primarily comprised of remittances from Indians working abroad. Over the previous year, net foreign direct investment in the financial account fell from US\$ 8.7 billion to US\$ 6.4 billion.

IMPACT OF STARTUPS ON GDP

According to a StrideOne survey, India's ecosystem, which includes over 60,000 registered companies, has the

potential to contribute 4-5% to the country's GDP over the next three to five years. According to Economic Survey 2021-22, India has the world's third-largest start-up ecosystem after the United States and China, with approximately 61,400 registered start-ups.

"With the rise of start-ups, India has become the world's third-largest start-up ecosystem, with a significant impact on the Indian economy. This rise of start-ups has demonstrated the ability to contribute roughly 4-5% of India's GDP "StrideOne, a tech-enabled non-banking financial company, was founded by Ishpreet Singh Gandhi (NBFC).

While GDP increased by 8.4% in the same quarter of 2021-2022, it increased by 13.5% in the previous quarter, April-June 2022-2023. The Reserve Bank of India (RBI) predicted that Q2 growth would range between 6.1 and 6.3% in a study released earlier this month. Notably, India maintained its position as the world's largest and fastest-growing economy, while China's economy expanded by 3.9% from July to September 2022.



555 Unique Investors Participated In Startup Funding In H1 2020
 Sequoia Capital emerged as the top investor in H1 2020

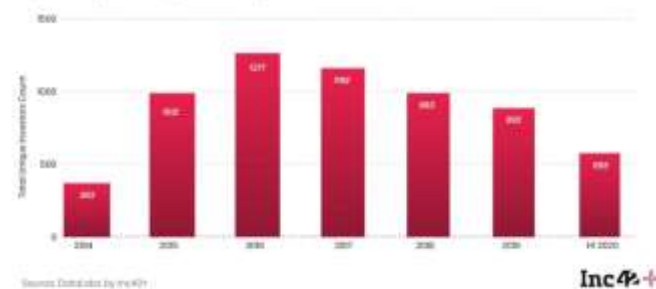


Fig 3 : Start-up Funding

In contrast to the 20,000 platforms predicted to be registered in 2021, the research predicts 24,500 platforms to be registered in 2022. According to the data, between 2022 and 2027, new start-up registration is expected to increase by 25% per year. The report predicts that job growth among start-ups will increase by 24% between 2022 and 2027. According to the report, start-ups will likely add approximately 2,30,000 new jobs in 2022, up from about 1,92,000 in the previous year.

It also discovered that start-up investment has been rapidly increasing, with total funding raised increasing 42% per year between 2016 and 2021 and deal count increasing 23%. The majority of the money raised was invested in SaaS, fintech, logistics, and autotech.

However, according to a survey conducted by market intelligence platform Tracxn, investment in Indian start-ups fell 35% year on year (up to 5 December) to \$24.7 billion, with a decrease in late-stage funding being the primary contributor. The textile industry accounts for approximately 2.3% of the country's GDP. According to the report, more than 28% of India's micro, small, and medium-sized enterprises (MSMEs) use start-up platforms to find business opportunities. Their revenues increased by 29% after joining these platforms in 2022. According to a chart of the nation's contribution to the gig economy, over 70% of fast-commerce firms' workforce bases in 2022 will be made up of gig workers. While approximately 8 million gig workers made up 1.5% of the workforce in India in 2020-21, it is expected that by 2024, their share of total employment will increase to 4%. Start-ups are limiting the number of full-time employees they hire. Gig workers are beginning to replace these permanent employees. According to the report, a 15% increase in enterprises have adopted a semi-gig worker model since October 2021. According to the survey, small truck owners account for roughly half of the country's start-ups in the B2B logistics sector, including Delhivery and Shadowfax. This industry is expected to grow fivefold by 2025. It also stated that thanks to the digitalization and platformisation provided by start-ups, fleet owners can improve utilisation by reducing 40-50% of their fleet's idle time.

FUTURE EXPECTATION OF STARTUP

When the Covid-19 pandemic began in early 2020, a global shutdown severely harmed the start-up sector. To deal with the extreme situation, most businesses slashed spending and suspended hiring. However, the reform did not go as badly as expected until about a year later. Investors made significant bets on a new era of capital-efficient technologies and clever business strategies as markets remained strong and funding for IT companies continued to flow. Even the labour market processes were in the employee's favour. When many people resigned from their jobs in search of better opportunities during The Great Resignation, hiring increased dramatically across the board as businesses scrambled to fill the talent gap.

However, when Russia invaded Ukraine in February 2022, the situation changed. The newfound euphoria in the start-up community in India and elsewhere has been tempered by the impact of geopolitical instability on the global economy, as well as collapsing markets, rising inflation, and concerns about a prolonged global recession. In terms of start-up financing, digital has a promising future. As the use of blockchain and fintech-based money movement grows post-pandemic, it won't be long before all capital investments are funded using decentralised frameworks that aim to increase cross-border money movement and improve both business and investor security.

As investors' fear of missing out (FOMO) has given way to traditional belt-tightening, the philosophy for firms large and small has shifted from "expansion at any cost" to making a profit. To put it another way, this year has been marked by "loud" layoffs (done vehemently on all types of communication channels, particularly social media), and all indications indicate that the chaos will undoubtedly continue well into 2023.

PREDICTION and EXPECTATIONS

Experts predict that Indian firms with strong unit economics will fare better than their overseas competitors during the current economic downturn. Despite global market challenges, India has emerged as a shining light when compared to wealthy nations such as the United States and Europe, and it will continue to do so. According to the



Economic Survey, at least one new business was established in 555 of India's districts, reflecting the country's rapid growth in the number of start-ups over the previous six years, with a significant majority of them based in IT-related businesses. Because they are at a crossroads, many firms in the Indian start-up ecosystem are being forced to make "hard decisions" about how to proceed with future expansion. Over the next two to three years, there will be a large number of IPOs (initial public offerings) from the Indian start-up ecosystem in the digital and tech medium.

RECOMMENDATIONS

Government Initiatives and Subsidies will create a great impact in boosting Start-up culture in India. Encouraging Entrepreneurship education and awareness among students to know about the benefits and scope of opportunities available. Knowledge about Resources and Govt benefits available in India will create a greater boost in start-up culture in India.

CONCLUSION

Start-ups are proliferating at an unprecedented rate. Both male and female entrepreneurs are launching new ventures. In order to maintain their credibility, women are contributing more ideas and taking risks. Indian start-ups strive to create a start-up environment by focusing on important education, talent, innovation, and incubators, as well as communicating with funding agencies. The government is now assisting new businesses. According to NASSCOM, India has the world's third largest start-up ecosystem. The economy expanded by more than 65% in 2015. A start-up allows an entrepreneur to educate and inspire others while they consider what to do and how to do it. Although entrepreneurs face challenges, they are being addressed at the same time. They are determined to establish and redirect their energy to plan, support, and execute their dreams while also contributing to the growth of the economy. This new start-up initiative promises faster approvals for starting a business, easier exits, tax breaks, and faster patent registration. This initiative has the potential to create jobs at a time when the manufacturing sector is in decline. For any new idea to become a successful venture, it requires appropriate support, synchronisation, and mentoring from stakeholders, the government, and the community.

REFERENCE

1. Y. Sharma, —Women entrepreneur in India, *IOSR Journal of Business* Y. Sharma, —Women entrepreneur in India, *IOSR Journal of Business Management*, 15(2), 2013. Sumit Mishra - *START-UP IN INDIA: OPPORTUNITIES AND CHALLENGES*, researchgate publications.
2. M. Goyal and J. Prakash, —Women entrepreneurship in India-problems and prospects, *Zenith International Journal of Multidisciplinary Research*, 1(5), 2011.
3. M.D. Ensley, K. M. Hmieleski and C. L. Pearce, —The importance of vertical and shared leadership with in new venture top management teams: Implication for the performance of the start-ups”, 2006.
4. <https://www.entrepreneur.com/en-in/news-and-trends/indias-startups-likely-to-contribute-4-5-of-gdp-in/441270the-startups>, 2006 . .

5. M. Caliendo, S. Kunn, F. Wiebner and J. Hogenacker, —Subsidized start-ups out of unemployment :A comparison of regular business start-ups, *IZA Discussion Papers*, 8817, 2015.
6. <https://www.tomorrowmakers.com/financial-planning/initiatives-indian-government-boost-startups-india-research-article#:~:text=Providing%20collaboration%20opportunities%20for%20different,Promoting%20innovations>
7. S. P. Robbins, *Organizational Behavior, Motivation concepts*, (India :Pearson Education, 2009), 194.
8. www.startupindia.gov.in
9. https://en.wikipedia.org/wiki/Start-up_company
10. https://en.wikipedia.org/wiki/Start-up_India
11. http://www.iisermohali.ac.in/Start-upIndia_ActionPlan_16January2016.pdf
12. <https://www.speakingwalls.in/blogs/speaking-walls/85632515-eight-challenges-faced-by-an-indian-start-up>
13. <http://www.iamwire.com/2015/10/biggest-roadblocks-faced-start-ups-india/124312>
14. *NASSCOM start-up India report 2015*
15. www.startup-india.org
16. <http://www.indianstartups.com/>
17. www.grantthornton.in
18. www.statista.com