Source of Funding for Startups

In our modern world, where everyone strives to bring innovation, a good idea isn't enough to create a startup. A Startup is in the first stage of operations and comprises one or more entrepreneurs who want to develop their product or service or to bring innovation to product or service.

Before knowing about source of funding etc., let us first understand what is a Startup?

What is Startup?

A startup is an entity that is incorporated as a Private Limited Company or registered as Limited Liability Partnership or registered as a Partnership Firm upto a period of ten years from date of incorporation/registration whose turnover for any of financial years since incorporation/registration has not exceeded one hundred crore rupees and is working towards innovation, development or improvement of products or processes or services with intent to generate employment and wealth creation.

It is provided that entity formed by splitting up or reconstruction of an existing business is not considered as "Startup".

What is Funding and why funding is required?

Funding for startups refers to the process of securing financial resources to support the launch, growth, expansion and scaling of a new business or venture. Funding is essential for startups to develop and refine their product or service, build a team and hire talent, cover operational expenses and the most important aspect to scale and expand the business.

Startup require funding for various reasons, including:

i. Research and development: Startups may require funding for R&D, product development and innovation.

ii. Limited personal savings: Sometimes Entrepreneurs may not have enough personal funds to support their ventures so they raise funds for startups.

iii. Cash Flow management: Startups may need funding to manage cash flow and maintain liquidity.

Source of Funding

Startup funding is the funds a startup should obtain to support or establish its business. It is one of the essential pillars of growth for a startup. Securing funding is a crucial step in turning startup idea into a successful business. There are various options available, entrepreneurs can choose best fit for their venture.

Self-financing or bootstrapping: It is self-funding, using personal savings or revenue to operate the startup. By self-financing, startups can build a strong foundation, attract funding opportunities. It allows entrepreneurs to validate their business idea, test market demand and refine their product or service before seeking external funding. This approach allows entrepreneurs to maintain, control their company, without diluting equity or incurring debt. The majority of Startups are bootstrapped. Many successful startups have adopted self-financing as a strategic approach for achieving long-term success. Other than self-financing following other sources can also be sought:

Other types of Funding:

1. Equity funding for startups:

   Equity funding means selling a percentage of a company's equity to investors in return for capital. Following types of equity financing:

(a) Friends and Family: Getting funds from friends and Family is common type of funding that entrepreneurs choose in early stage often in exchange in equity.

(b) Angel Investors: Angel Investors are high net worth individuals who invest money or offer funds to high potential startups in return for equity. They analyse a startups potential, invest in them when it makes profit since they get the startup's equity. They typically invest between Rs. 5 lakhs to Rs. 50 lakhs or more in startups in exchange of equity.

(c) Crowdfunding: Crowdfunding means raising money from many people who contribute small amount individually. It is usually done through online platform. Some of Crowdfunding platforms are:

- ImpactGuru provide funding for medical expenses, social causes etc.
- UpEffect provide funding for social impact projects and startups
- FuelADream provide funding for creative projects and personal needs.

(d) Venture capitalists: Startups with high-growth potential can approach venture capitalist funds that provide funding for startup. Matrix Partners India, Nexus Venture Partners, Indian Angel Network are few examples of Venture Capitalists in India.

(e) Incubators: These are organizations established for assisting entrepreneurs with resources, mentorship and funding. It support early-stage startups, often in exchange for equity. Example : IIM Ahmedabad's Centre for Innovation Incubation and Entrepreneurship (CIIE), IIT Bombay's Society for Innovation and Entrepreneurship (SINE) etc. They support startups across various industries such as healthcare, social impact etc.

2. Debt Funding for Startups:

Debt funding means borrowing money and paying it back with interest. Debt must be repaid within a stipulated time period along with interest. Debt fund has less involvement in decision making process. Following types of debt financing:

(a) Banks/ Non-Banking Financial Companies (NBFCs): Startups can get loan from Banks and NBFCs, and provide business asset as collateral. This is mainly used to get working capital. Startups show their revenue of products or services to ensure their ability to return principal and interest loan payments. Lendingkart NBFC provide collateral-free loans to startups, InCred Finance NBFC provide loans and credit lines for funding their startups.

(b) Venture debt funds: Venture debt funds are investment funds that invest money in startups in the form of debt. Debt funds usually invest along with an angel investor or Venture Capitalist. SIDBI Venture Capital, Venture Debt Fund by IIFL, BlackSoil Capital etc. are some Venture Debt Funds providing funds to startups

3. Grants for Startups:

A grant is a financial award given to a startup to facilitate its goal or performance. Grants are non-repayable funds awarded for specific purposes such as research, development, or growth initiatives. Grants given to startup provided by government agencies, foundations and organizations to support new businesses. The following are type of grants:

- Government grants: Federal, state or local government offering funds for startups, often with a focus on innovation, job creation or economic development such as SIDBI Fund of Funds Scheme, Startup India Seed Fund Scheme, Startup India Investor Connect etc.

- Foundation grants: Private foundations supporting startups focused more on their mission of promoting healthcare, education or sustainability.

- Corporate grants: Large corporations offering funds to startups aligned with mission to seek innovative solutions and technologies to enhance their product or services.

- University grants: Research grants or funding opportunities provided by universities, often in exchange for collaboration or intellectual property.

Conclusion:

At last, funding is a crucial aspect of startup growth and success. Startups have various funding options to choose from, each with its pros and cons. Understanding these sources and alternative options can help entrepreneurs make informed decisions and secure right funding option for their startups growth and goals.

Common Terminologies used in Startups:

1. **Bootstrapping**: Self-funding a startup without external investment.

2. **Pitch**: A presentation made to potential investors to secure funding.

3. **Seed funding**: Early-Stage funding for startups, usually from angel investors or venture capitalists.

4. **Equity**: The percentage of ownership in the business offered to investors in exchange for investment.

5. **Counteroffer**: A revised offer made by investor in response to entrepreneur's initial offer.

6. **Out**: When an entrepreneur declines investor's offer and exit the deal.

7. **Return on Investment (ROI)**: Expected financial return on investor's investment.

8. **Scalability**: The potential for the business to grow and expand.

9. **Valuation**: The estimated worth of the business, used to determine the equity stake.

10. **Market size**: Estimated size of the market for the business's product or service.

11. **Cash flow**: The business's inflows and outflows of cash.

12. **Break-even analysis**: An assessment when the business will become profitable.

13. **Projections**: Business's projected financial performance, often including revenue and profit forecasts.

14. **EBITDA**: Earnings before Interest, Taxes, Depreciation and Amortization. It is used to evaluate entrepreneur's profit margins, determine the company's value.

15. **Burn rate**: The rate at which startup spends its cash reserves.

S.No.	Purpose	URL Link
1	It a digital platform that facilitates easy registration of MSMEs in India and access various benefits and schemes by to government	**https://udyamregistration.gov.in/Government-India/Ministry-MSME-registration.htm**
2	It promote and develop Khadi and village industries in India and facilitate online shopping of Khadi products.	**http://khadiindia.gov.in/**
3	It is to promote and support Indian exports and exporters and facilitate the participation in international trade fairs and exhibitions	**https://fieo.org/?__cf_chl_tk=elFJJyuTlMvwjRxiRG5iiOoOInh5Xq.sameujtDCnYY-1722675904-0.0.1.1-3882**
4	It provide a single window access to all the trade related information and services. It also facilitates export and Import procedures, market access and trade opportunities.	**https://indiantradeportal.in/**
5	It promote and support startups in India. Support innovation and entrepreneurship in India.	**https://www.startupindia.gov.in/**

6.	Provide information on SIDBI's products and services, such as loans, financing options and advisory services.	**https://www.sidbi.in/en/**
7.	It facilitates funding for startups by connecting them with investors.	**https://investorconnect.startupindia.gov.in/**
8.	It is to promote industrial development and trade in India and also encourage foreign investment and trade.	**https://dpiit.gov.in/**

Relevant Links for website of Startups: