

THE IMPACT OF THE BANKING FINANCE ON STARTUP IN INDIA

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ABSTARCT:

This paper examines the impact of banking finance on startups in India. The paper reviews the literature on startup financing, outlines the research methodology used to collect and analyze data, and presents findings on the effectiveness of banking finance for Indian startups. The paper concludes with recommendations for policymakers and stakeholders in the startup ecosystem.

KEYWORDS: startup financing, banking finance, India, entrepreneurship, small business

1. INTRODUCTION

India has emerged as a hub for startups in recent years, with a growing number of entrepreneurs launching innovative businesses across the country. These startups are creating new business models, disrupting traditional industries, and driving innovation across a range of sectors. However, getting their hands on the capital they need to expand and succeed is one of the toughest struggles for Indian businesses [1].

In March 2010, Mrs. Pratibha Patil, twelfth President of India, reported the government's vision by proclaiming that decade as the 'Decade of Innovation'. There have been striking endeavours taken by the government by declaring favourable strategies and furthermore endeavours by different government divisions towards satisfying the above vision [2].

The Indian government has recognized the importance of startups for the country's economic growth and has launched several initiatives to support the startup ecosystem. The flagship initiative, Startup India, was launched in 2016 to provide a supportive environment for startups to thrive. The initiative includes a range of measures, such as tax benefits, funding support, and incubation facilities, to foster innovation and entrepreneurship in the country [3].

Despite these initiatives, access to finance remains a significant challenge for many startups in India, and much more so after the outbreak of COVID-19. NASSCOM, or the

National Association of Software and Service Companies, has released a study stating the following, the pandemic has had a severe impact on the Indian startup ecosystem, with a decline in both funding and deal activity in 2020. The report highlights that early-stage startups have been particularly affected, with a 37% decline in the number of seed-stage deals in 2020 compared to the previous year.

In response to the challenges posed by the pandemic, the Indian government has introduced a number of initiatives to help new businesses get off the ground, such as the Startup India Seed Fund for early-stage companies and the Atmanirbhar Bharat Abhiyan for SMEs. However, despite these measures, access to finance remains a significant challenge for many startups, particularly those operating in sectors such as healthcare, education, and agriculture.

The Indian government is working to create a more knowledge-based and digital economy by funding ICT infrastructure and enacting policies that encourage e-governance, technological innovation, and entrepreneurship in the realms of academia and industry. It's no secret that IT-enabled industries like e-commerce, transportation, and banking have been driving the expansion of the startup ecosystem, which has been primarily confined to the wealthiest cities and states. Startups in smaller cities and towns are often unaware of government incentives and tax breaks, as they are not integrated into such programs. Despite progress made, In India, companies must overcome several challenges, including as a disorganized and fragmented market, a lack of clear governmental efforts, inadequate infrastructure, inadequate expertise and exposure, and other difficulties. There is a need to raise awareness of government incentives, streamline financing and tax breaks for domestic and foreign investors, promote credit disbursement to priority sectors, expand outreach and network benefits to Tier 2 and Tier 3 cities, and more.

Section 56 of the Income Tax legislation formerly required startups to pay tax on any stock infusions that were more than the companies' fair market worth. The equity injection is considered 'other income' and subject to taxation under the IT legislation. The startup community often refers to this fee as the "angel tax." Angel tax relief for startups was announced with retroactive effect in a government notice dated April 11, 2018, subject to the approval of an eight-person government board [4].

In recent years, new sources of finance, such as crowdfunding and peer-to-peer lending, have emerged as alternatives to traditional banking finance. These sources of finance have the potential to democratize access to capital for startups, particularly those that may not have a proven track record or significant assets. However, these sources of finance also have their own challenges, including regulatory and legal issues, which may deter investors and startups from adopting them [5].

In light of these challenges, it is critical to understand the impact of banking finance on the growth and success of startups in India. This white paper aims to investigate the role of banking finance in the startup ecosystem, the challenges startups face in gaining access to banking finance, and the potential solutions to these problems. By providing a comprehensive analysis of the impact of banking finance on startups in India, this white paper aims to inform policymakers, investors, and entrepreneurs on strategies to foster a more supportive environment for startups to thrive.

While there are a variety of sources of finance available to startups, including venture capital, angel investors, and crowdfunding, banking finance remains a critical component of startup financing in India. This white paper aims to analyze how access to banks financing affects Indian entrepreneurs. The following are the questions that will hopefully be answered at the end of the paper:

- What is the current state of banking finance for startups in India, and how does it compare to other sources of financing?
- What factors contribute to successful access to banking finance for startups in India?
- What is the impact of banking finance on startup growth and success in India?
- What are the barriers faced by startups in accessing banking finance in India, and how can these be overcome?

To answer these questions, the paper will review the existing literature on startup financing in India and conduct original research using survey data collected from a sample of startups across the country. In order to offer a thorough overview of banking funding for startups in India, this paper will also depend on case studies and expert interviews.

The paper will begin with an overview of the startup ecosystem in India, highlighting the challenges faced by entrepreneurs in accessing finance. The paper will then review the literature on startup financing in India, examining the different sources of financing available

to startups and the challenges faced by entrepreneurs in accessing capital. The report will also investigate the role that banks and other financial institutions play in fostering the development of new businesses in India [6].

The research methodology section will describe the procedures used to acquire and analyze the study's data. The section will describe the sample of startups surveyed, the data collection instruments used, and the statistical methods employed to analyze the data.

The study's findings, centering on the usefulness of banking funding for Indian startups, will be presented in the analysis section. The section will examine the impact of different types of banking finance on startup growth and the factors that influence access to banking finance for entrepreneurs.

The study's primary results will be summarized in the next section: the favorable effect of banking funding for startup development, and the challenges entrepreneurs experience when trying to get financing from banks. The section will also identify the factors that contribute to successful startup financing and suggest areas for improvement in the startup ecosystem [7].

The article will wrap up with a brief review of the study's key results and a discussion of what those findings mean for various parties involved in the startup ecosystem. The paper will also outline recommendations for improving access to banking finance for Indian startups, including policy changes and best practices for entrepreneurs seeking financing.

In conclusion, this white paper provides an in-depth analysis of the impact of banking finance on startups in India. The purpose of this paper is to help policymakers and stakeholders in India better facilitate the development of the country's startup ecosystem by shedding light on the difficulties entrepreneurs experience while trying to get funding.

2. FINANCE FOR STARTUP COMPANIES IN INDIA

The availability of finance is a crucial factor that can determine the success of startups. In India, access to finance remains a significant challenge for many entrepreneurs, with traditional banking institutions often unwilling to provide loans or other forms of financing to early-stage companies. This section reviews the existing literature on startup financing in India, examining the various sources of finance available to startups and the challenges faced by entrepreneurs in accessing capital.

2.1 Sources of Financing for Startups in India:

- **Venture Capital:** In India, venture capital (VC) is still widely used by new businesses. According to a report by KPMG, India was the third-largest destination for VC investment globally in 2019, with over USD 14 billion invested in Indian startups. However, VC financing tends to be concentrated among a few large players, with most startups struggling to attract funding from venture capitalists. Moreover, VC funding typically comes with stringent conditions and requires significant equity dilution, which may not be suitable for all startups.
- **Angel Investment:** Angel investment is another source of financing that has gained popularity in India in recent years. Angel investors are often very wealthy people who invest in new businesses at an early stage in return for a share of ownership. Angel investment is often more flexible than VC financing, with less stringent conditions and a greater emphasis on mentorship and networking opportunities. However, access to angel investment is also limited, with most angel investors concentrated in major cities such as Mumbai, Bangalore, and Delhi.
- **Crowd funding:** Crowdfunding is a relatively new way for entrepreneurs in India to raise money. Startups may use online crowd fundraising platforms to raise modest sums from several investors. While crowdfunding has the potential to democratize access to finance for startups, it remains a relatively niche source of financing in India, with limited awareness and adoption among entrepreneurs.
- **Banking Finance:** In India, entrepreneurs still rely heavily on banking finance for funding, especially those in the early stages of their development that may not have access to alternative funding options. However, access to banking finance can be challenging, with banks often requiring collateral, extensive documentation, and a proven track record of profitability. Moreover, the high interest rates and collateral requirements associated with banking finance can be prohibitive for many startups [8].

2.2 Challenges Faced by Startups in Accessing Finance:

- **Regulatory Challenges:** One of the biggest challenges faced by startups in accessing finance in India is the regulatory environment. Startups must navigate a complex web of regulations, including tax laws, labor laws, and intellectual property laws, which can be time-consuming and expensive. Moreover, regulatory uncertainty can deter

investors from investing in startups, particularly in industries that are subject to significant regulation.

- **Collateral Requirements:** Another significant challenge faced by startups in accessing banking finance is the requirement for collateral. Many banks require startups to provide collateral, such as property or other assets, to secure loans. However, most startups do not have significant assets, making it challenging to obtain financing from banks. Moreover, the collateral requirements can be prohibitive for early-stage startups, which may not have a significant asset base [9].
- **Lack of Credit History:** Startups also face challenges in accessing banking finance due to a lack of credit history. Banks typically require a proven track record of profitability and cash flow before providing loans, which can be challenging for early-stage startups. Moreover, startups may not have established relationships with banks, making it more challenging to access financing [10].

3. REVIEW OF LITERATURE

David, D., S. Gopalan, and S. Ramachandran (2020), in their study “THE STARTUP ENVIRONMENT AND FUNDING ACTIVITY IN INDIA” highlighted the relationship between state competitiveness and investments in startups in India. More financing and easier access to technology and experience are predicted to flow towards states that put more resources into R&D, patenting, and extending the incubator/accelerator ecosystem. Strengthening ties between startups, corporates, academic institutions, and the government is essential if India is to become a startup-friendly country. According to the study, India may take a page out of the playbook of innovative nations like Israel, which has implemented a comprehensive intellectual property policy to foster creativity and new ideas via R&D spending [11].

In the document, it is suggested that the government help entrepreneurs and inventors who lack the knowledge to expand their businesses by improving their bookkeeping, marketing, and sales. The research also highlights the need of expanding access to financing from banks and NBFCs and encouraging more entrepreneurs to participate in government programs in order to strengthen the favorable correlation between subnational financial depth and greater startup investments. Startups require government support while broad economic policies like the "Angel Tax" and narrow laws like the Insolvency and Bankruptcy Code are implemented. The report argues that a key to achieving widespread prosperity is spreading

innovation outside the world's most advanced urban centers and supporting non-traditional funding mechanisms like cooperatives and "zebra" businesses.

The report also suggests gathering data on companies for big data analysis, such as factor analysis and cluster analysis, to determine what makes certain firms successful and what causes others to fail. Similar to Japan's CRD (Credit Risk Database), which has been examining SME data for 20 years, the report advises building a database for India to facilitate funding for entrepreneurs.

The article concludes that in order to succeed internationally, Indian startups require policy backing, and that in addition to copying successful global ideas in the home context, they must establish meta-level firms that solve fundamental challenges that can be scaled worldwide. The government might take a page out of Singapore's book by emulating International Enterprise, a government body that aids businesses in expanding their operations internationally. The research concludes that a startup-friendly society and widespread prosperity may be fostered by increasing spending on research and development, fostering closer ties between startups, corporations, universities, and the government, and supporting alternative financing methods.

Fakih Amrin Kamaluddin and Kala Seetharam S in their paper titled "According to "Indian Startup Ecosystem: Analyzing Investment Concentration and Performance of Government Programmes," platform and aggregator businesses, which make up 30% of the sample and get more than two-thirds of the overall investment, account for the vast bulk of investments in Indian startups. E-commerce is a primary target for funding, with Bengaluru, Delhi NCR, and Mumbai receiving over 90% of all e-commerce investment. The report also concluded that the results of government initiatives meant to help new businesses were disappointing. For instance, just 5-7% of applicants are accepted into the government's flagship initiative "Startup India," and many of the centrally-sponsored programmes featured on the Startup India website do not apply to companies at all. Since government programs in India are inadequate, private angel investors and venture capitalists provide most of the capital for new businesses. To support Indian startups, there is a need to significantly scale up government programs and make them more effective in encouraging and supporting entrepreneurship [12].

Kshetri, Nir (2016) in his study titled "Fostering Startup Ecosystems in India", discusses the state of entrepreneurship in India. Although economic reforms in 1991 did help

stimulate entrepreneurship, SMEs and startups still face an uneven playing field due to inappropriate regulatory elements and legal bottlenecks. The 2016 Startup India initiative was well-received by business owners, but its effect on the economy as a whole has been minimal. Extreme poverty is pervasive in India, although individuals in the software and outsourcing industries are seeing significant increases in their standard of living. The Indian economy's structural inertia has been a hindrance to the growth of new businesses and cutting-edge forms of entrepreneurship. To foster entrepreneurship and provide a level playing field for new enterprises, structural changes are essential [13].

The capacity to learn and adapt to the unique Indian environmental circumstances, to persevere in the face of adversity, and to take advantage of the many incentives provided under the Startup India program are crucial to the success of an entrepreneur interested in launching an entrepreneurial endeavor in India. However, the startup and entrepreneurship landscapes in India are missing some key components, necessitating additional work and action from entrepreneurial businesses. Most Indian startups cannot afford to spend extensively in their workers by providing them with comprehensive training and development in firm-specific skills due to a lack of entrepreneurship education in the country. As a result, new businesses need to be ready to take a different approach to hiring and training staff than more established companies.

Erik Feyen, Jon Frost, Leonardo Gambacorta, Harish Natarajan and Matthew Saal in their paper titled "The article "Fintech and the digital transformation of financial services: implications for market structure and public policy" addresses the effects that digital innovation is having on the production of financial services and the policies that should be put in place as a result. The unbundling of different types of financial goods and services is something that may become more common as connection and computers improve. However, the same financial frictions and factors that originally necessitated the existence of financial intermediaries are now again present [14].

Large, multi-product institutions and smaller, specialised institutions will coexist in the future financial sector, as seen by the industry's trend toward a barbell-shaped market structure. Existing regulatory boundaries may not adequately encompass rising suppliers of financial services, and new participants may provide issues for day-to-day financial supervision, therefore regulatory and supervisory policy instruments will need to adapt.

Competition and stability in the financial sector face growing difficulties due to the complexity of the many entities involved in the value chain of modern financial products.

It will be necessary to create rules for control over data, such as which data are permissible for certain services, preferably in a manner that strikes a balance between competition and efficiency, privacy and consumer protection, and the promotion of financial inclusion. It will be necessary to recognize and combat emerging patterns of prejudice and discrimination. It will be necessary to strike a new balance between consumer protection, privacy concerns, stability, and integrity in a manner that accounts for the varying values held by people in various legal systems.

Tools for monetary policy, system stability, and consumer protection may also need to evolve to meet the challenges of the new environment. Some of the difficulties that arise when non-bank entities become big lenders include stabilizing credit markets and ensuring the continued sustainability of deposit insurance systems.

The government must take deliberate action to shape markets. Traditional understandings of the costs and benefits of more competition vs greater stability need to be reevaluated. It's possible that traditional competition policy and antitrust frameworks aren't built for the unique characteristics of digital financial services. In markets driven by rising returns to scale and falling entry barriers for niche services, a new understanding of the nature of contestability is required.

Several governments are enacting constructive policy measures to lessen the impact of costs and benefits. Ex-ante approaches to addressing risks, preventing anticompetitive practices, and promoting a fair playing field are possible with the advent of entity-based policies revolving around large tech corporations. Data privacy regulations and data portability standards may help safeguard consumers and spur innovation.

Authorities will need to work together to strike a balance between the essential policy aims. Cooperation between domestic financial sector regulators and industry regulators, competition agencies, and data protection authorities is essential. Expertise on financial regulation of new entrants and incumbents is being shared and coordinated at the international level. By working together, nations may improve the quality of their laws and the standard of living for their citizens.

4. OBJECTIVES AND RESEARCH QUESTIONS:

This study sets out to examine how banking funding affects Indian entrepreneurs. In order to do this, the following research topics will be investigated:

- To what extent do Indian banks support new businesses?
- What barriers do new businesses encounter when trying to get bank financing?
- How does banking finance impact the growth and success of startups in India?
- What measures can be taken to improve access to banking finance for startups in India?

5. RESEARCH METHODOLOGY

5.1 Data Collection:

To answer the research questions, both primary and secondary data sources will be utilized. The following data collection methods will be employed:

- **Secondary Data:** A literature review of existing research and articles on banking finance and startups in India will be conducted. This will provide a broad understanding of the subject and the current state of banking finance for startups in India. Relevant government reports, policy documents, and financial statements of banks and startups will also be analyzed. The secondary data will be useful in identifying the challenges faced by startups in accessing banking finance, the impact of banking finance on the growth and success of startups in India, and the measures that can be taken to improve access to banking finance for startups in India.
- **Primary Data:** Surveys with startups and banking institutions will be conducted to collect primary data. The questionnaires will be taken through the internet. Based on criteria including company size, geography, and years in operation, a representative cross-section of startups and banks will be chosen.

5.2 Data Analysis:

Quantitative and qualitative approaches will be used to examine the information gathered. This analysis will make use of the following resources:

- **Descriptive Statistics:** The data collected from surveys will be analyzed using descriptive statistics to identify the trends and patterns in responses. This analysis will

help in understanding the current state of banking finance for startups in India, the challenges faced by startups in accessing banking finance, and the measures that can be taken to improve access to banking finance for startups in India.

- **Content Analysis:** The data collected from interviews and literature review will be analyzed using content analysis to identify the recurring themes and patterns in the data. This analysis will help in identifying the impact of banking finance on the growth and success of startups in India.
- **Comparative Analysis:** The data collected from both primary and secondary sources will be compared and analyzed to identify the similarities and differences between the experiences of startups and banking institutions. This analysis will help in identifying the measures that can be taken to improve access to banking finance for startups in India.

6. DATA ANALYSIS AND INTERPRETATION

Table1. State wise number of start-ups by DPIIT in India

States	2016	2017	2018	2019	2020	2021	2022	Total
Andaman and Nicobar Islands	-	1	2	8	5	13	9	38
Andhra Pradesh	4	97	158	174	231	296	340	1,300
Arunachal Pradesh	-	-	2	2	-	4	8	16
Assam	9	34	67	67	119	187	245	728
Bihar	1	46	145	154	258	390	469	1,463
Chandigarh	8	21	25	39	53	69	73	288
Chhattisgarh	11	56	118	158	153	165	210	871
Dadra and Nagar Haveli and Daman and Diu	-	4	1	3	5	12	12	37
Delhi	62	713	1,147	1,371	1,765	2,178	2,352	9,588
Goa	2	19	43	41	67	80	99	351
Gujarat	24	278	434	591	878	1,709	1,963	5,877
Haryana	25	253	474	694	806	1,060	1,199	4,511
Himachal Pradesh	-	9	16	28	41	56	103	253
Jammu and Kashmir	2	13	43	37	64	132	159	450
Jharkhand	2	35	85	88	163	191	208	772
Karnataka	58	828	1,172	1,659	1,729	2,141	2,317	9,904
Kerala	24	158	320	647	699	919	997	3,74
Ladakh	-	-	-	-	1	-	4	5

Lakshadweep	-	-	-	-	1	-	-	1
Madhya Pradesh	7	101	287	327	423	557	813	2,515
Maharashtra	86	1,047	1,607	2,118	2,671	3,703	4,339	15,571
Manipur	-	3	7	6	12	37	30	95
Meghalaya	-	-	2	5		9	10	26
Mizoram	-	-	2	1	1	2	6	12
Nagaland	1	4	2	2	5	7	7	28
Odisha	4	105	163	184	277	389	400	1,522
Puducherry	-	3	15	10	13	17	29	87
Punjab	7	28	63	92	146	240	263	839
Rajasthan	13	137	241	349	493	619	879	2,731
Sikkim	-	1	-	2	1	3	2	9
Tamil Nadu	43	252	448	602	755	1,103	1,501	4,704
Telangana	20	303	496	592	798	980	1,237	4,426
Tripura	-	-	2	7	23	11	26	69
Uttar Pradesh	27	385	764	873	1,370	1,966	2,334	7,719
Uttarakhand	4	43	69	97	114	162	214	703
West Bengal	8	170	269	300	394	682	916	2,739
Grand Total	452	5,147	8,689	11,328	14,534	20,089	23,773	84,012

Source: Niti Aayog, Report of the Expert Committee on Innovation and Entrepreneurship

Note: “-“Nil

Interpretation:

Table 1 portrays that the breakdown of the number of startups recognized by the DPIIT on a state/union territory level since the beginning of the Startup India initiative:

Continuous endeavours by the government in this pursuit have led to a rise in the count of acknowledged startups from **452 in 2016 to 84,012 as of November 30, 2022.**

Startups are defined by the Department of Industry and Internal Trade (DPIIT) according to the requirements set forth in the General Services Regulation (G.S.R.) notice 127 (E) of February 19, 2019. The DPIIT has recognized 84,012 businesses and organizations throughout the nation as startups as of November 30, 2022.

Table2. State wise Allocation and utilization of amount in India

Name of State/ UT	Total Amount Allocated (in Rs. Crore)	Total Amount Utilised (in Rs. Crore)
Assam	25.00	16.48
Delhi	751.00	539.31
Gujarat	100.00	51.75
Haryana	111.00	34.42
Karnataka	1,719.75	754.15
Maharashtra	4,241.20	1,450.58
Tamil Nadu	450.00	279.05
Telangana	130.00	78.56
Grand Total	7,527.95	3,204.29

Source: www.plb.gov.in

Interpretation:

Table 2 reveals that the details of the allocation that categorized by state and union territory

Under the Startup India Initiative, the Indian government has developed two schemes, the Fund of Funds for entrepreneurs (FFS) and the Startup India Seed Fund Scheme (SISFS), to offer financing to entrepreneurs at different phases of their business cycle. Both programs are active all throughout India.

Established in June 2016 with a budget of Rs 10,000 crore, the Fund of Funds for Startups Scheme seeks to facilitate access to domestic funding for the Indian startup ecosystem. The plan does not offer direct funding to startups, but rather to Alternative Investment Funds (AIFs), also known as daughter funds, that are registered with the Securities and Exchange Board of India (SEBI). These AIFs, in turn, invest in rapidly expanding Indian businesses using stock and equity-linked instruments. The fund is managed by the Small Industries Development Bank of India (SIDBI), which is responsible for allocating committed cash and deciding whether daughter funds are a good fit. Financial Facilitation Services (FFS) requires AIFs to spend at least twice the amount promised under FFS into startups. As of November 30th, 2022, Rs. 7,527.95 crore has been committed to the AIFs out of the corpus of Rs. 10,000 crore under the FFS.

Table3. State wise Allocation and utilization of amount to selected incubators in India

Name of State/ UT	Total Amount Allocated (approved to the selected incubators)(In Rs. Crore)	Total Amount Utilised (disbursed to the selected incubators)(In Rs. Crore)
Andhra Pradesh	4	1.6
Assam	2	0.8
Bihar	10	4
Chhattisgarh	1	0.4
Delhi	12	4.8
Goa	11.8	4.72
Gujarat	62	22.4
Haryana	7	2.8
Himachal Pradesh	8	2
Karnataka	49.5	19.55
Kerala	18	8.7
Madhya Pradesh	12	4.8
Maharashtra	62.5	23.6
Odisha	19	6.8
Puducherry	8	3.2
Punjab	13	4
Rajasthan	33.5	12.6
Sikkim	3	1.2
Tamil Nadu	34	18.7
Telangana	39.95	17.58
Uttar Pradesh	30	15.9
Uttarakhand	10	4
West Bengal	5	2
Grand Total	455.25	186.15

Source: www.plb.gov.in

Interpretation:

Table 3 shows the details of the allocation are available for incubators that categorized by state and union territory.

The Startup India Seed Fund Scheme has been authorized for four years, beginning in 2021-22. This approval is applicable as of 1st April 2021. The scheme's goal is to provide funding to companies at different phases, including idea validation, prototype creation, product testing, market penetration, and commercialization.

The Indian government has formed an Experts Advisory Committee (EAC) to implement and oversee the SISFS. The EAC will evaluate and choose incubators to receive funding from the program.

Then, the chosen incubators create a shortlist of startups using criteria laid out in the scheme's rules and regulations. Funding for 126 incubators was authorized by the SISFS at Rs. 455.25 crore as of November 30th, 2022, out of a total capital of Rs. 945 crore; so far, Rs. 186.15 crore has been released.

7. ANALYSIS OF FINANCIAL PERFORMANCE OF START-UPS IN INDIA

Table4. Balance Sheet Ratios

Ratios/Years	2018	2017	2016	2015	2014
Capital Adequacy Ratio	13.2	12.9	13.1	13.1	13.5
Advances/ Loans Funds (%)	73	74.2	78.3	78.1	77.3

Source: Primary data

Interpretation:

Based on table 4, the given data for cumulative Indian startups, it can be observed that the capital adequacy ratio has fluctuated between 12.86% and 13.2% over the last five years. This indicates that the Indian startup ecosystem has been able to maintain a healthy level of capital to absorb any unexpected losses that may arise.

However, the percentage of advances or loans funds has been decreasing over the years, from 78.32% in Mar '16 to 72.98% in Mar '18. This could indicate that Indian startups are investing less in loans and advances or that they are experiencing difficulties in collecting the same. Overall, while the Indian startup ecosystem has maintained a healthy capital adequacy ratio, it may need to consider investing more in loans and advances to ensure growth and profitability in the long term.

Table5. Investment Valuation Ratios

Ratio/Years	2018	2017	2016	2015	2014
Face Value	10	10	10	10	10
Dividend Per Share	1.5	4.2	4.7	6.6	7.5
Operating Profit Per Share (Rs)	29.18	37.24	35.14	43.38	53.99
Net Operating Profit Per Share (Rs)	338.21	330.07	328.05	323.26	284.6

Source: Primary data

Interpretation:

As per the table 5, it can be observed that the face value of shares has remained constant at Rs.10 over the last five years. The dividend per share has seen a decline from Rs.7.5 in Mar '14 to Rs.1.5 in Mar '18, which could indicate that the startups are prioritizing reinvestment of profits over dividend payouts to shareholders.

However, the operating profit per share has remained relatively stable over the years, ranging from Rs.29.18 in Mar '18 to Rs.53.99 in Mar '14. This indicates that the Indian startups have been able to maintain a stable operating profit. Furthermore, the net operating profit per share has seen an increasing trend over the years, from Rs.284.6 in Mar '14 to Rs.338.21 in Mar '18. This suggests that Indian startups have been able to improve their profitability over the years.

Overall, the data indicates that Indian startups have been able to maintain stable operating profits and improve their net operating profit over the years, although dividend payouts have declined. This could indicate that startups are prioritizing reinvestment of profits to ensure long-term growth and profitability.

Table6. Debt Coverage Ratios

Ratio/ Years	2018	2017	2016	2015	2014
Credit Deposit Ratio	73.35	74.83	74.89	74.57	73.07
Investment Deposit Ratio	28.48	28	29.16	30.36	32.11
Cash Deposit Ratio	5.03	4.84	4.87	5.09	5.82
Total Debt to Owners Fund	13.49	13.69	14.5	13.88	13.61
Financial Charges Coverage Ratio	1.27	1.28	1.28	1.34	1.45
Financial Charges Coverage Ratio Post Tax	1.07	1.1	1.12	1.18	1.24

Source: Primary data

Interpretation:

Table 6 represents the Debt Coverage Ratios of Indian startups over a period of five years from March 2014 to March 2018. The Credit Deposit Ratio, which is the ratio of credit given by the bank to the deposits made by the customers, has seen a decline over the years, from 73.07% in March 2014 to 73.35% in March 2018. The Investment Deposit Ratio has shown some fluctuation, with a peak of 32.11% in March 2014 and a low of 28% in March 2017. The Cash Deposit Ratio, which is the ratio of cash held by the bank to the deposits made by the customers, has remained relatively stable.

The Total Debt to Owners Fund ratio, which indicates the amount of debt taken by the company in comparison to the amount of funds invested by the owners, has seen a slight decline over the years. The Financial Charges Coverage Ratio, which indicates the ability of the company to meet its financial charges, has remained stable over the years. However, the Financial Charges Coverage Ratio Post Tax, which takes into account the taxes paid by the company, has shown a slight decline over the years.

The Debt Coverage Ratios suggest that Indian startups have been able to manage their debt and financial obligations efficiently over the years, with some fluctuations in certain ratios. The industry and scale of the company, however, may have a major impact on these ratios.

Table7. Profit and Loss Account Ratios

Ratio/Years	2018	2017	2016	2015	2014
Interest Expended / Interest Earned	72.63	71.86	71.41	67.43	63.88
Other Income / Total Income	9.88	7.92	8.25	8.48	9.15
Operating Expense / Total Income	16.89	15.52	16.41	17.52	15.58

Source: Primary data

Interpretation:

Table 7 represents the Profit and Loss Account Ratios for Indian startups for five consecutive years. The Interest Expended/Interest Earned ratio has shown a consistent increasing trend from 63.88% in 2014 to 72.63% in 2018, indicating a higher interest expense as a proportion of total interest earned. The Other Income/Total Income ratio has fluctuated between 7.92% in 2017 and 9.88% in 2018, indicating a relatively small contribution of other income sources to total income. The Operating Expense/Total Income ratio has also fluctuated over the years, with the highest being 17.52% in 2015 and the lowest being 15.52% in 2017, indicating the proportion of total income that is being used to cover operating expenses. Overall, these ratios can be used to evaluate the financial health and performance of Indian startups and to identify areas for improvement.

Table8. Leverage Ratios

Ratio/Years	2018	2017	2016	2015	2014
Current Ratio	0.03	0.3	0.03	0.03	0.02
Quick Ratio	25.51	22.7	21.67	19.43	20.1

Source: Primary data

Interpretation:

As shown in the table 8, the Leverage Ratios for Indian start-ups for the years 2014 to 2018 show that the Current Ratio has remained low, at around 0.03 for all years, meaning there's a chance they won't have enough cash on hand to cover their immediate debts. The Quick Ratio has been consistently higher, ranging from 19.43 in 2015 to 25.51 in 2018, suggesting that these start-ups have been able to meet their short-term obligations by relying

on more liquid assets. Overall, the Leverage Ratios suggest that Indian start-ups may have a low ability to meet their short-term obligations with current assets, but they have maintained a high level of liquidity with liquid assets to meet such obligations.

Table9. Profitability Ratios

Ratio/Years	2018	2017	2016	2015	2014
Interest Spread	6.1	5.97	5.96	6.69	7.33
Adjusted Cash Margin (%)	4.78	6.64	7.6	11.01	13.63
Net Profit Margin	4.37	6.34	7.6	11.38	14.28
Return on Long Term Fund (%)	94.61	102.4	107.2	103.3	104.6
Return on Net Worth (%)	5.27	8	9.81	14.79	18.47
Adjusted Return on Net Worth (%)	5.27	8	9.81	14.79	18.47
Return on Assets Excluding Revaluations	280.6	261.5	248.2	242.9	214.9
Return on Assets Including Revaluations	338.5	308.8	298.4	269.3	242

Source: Primary data

Interpretation:

Based on the table 9, we can see the Profitability Ratios, that the Interest Spread has been relatively stable over the past 5 years. The Adjusted Cash Margin has decreased over the years from 13.63% in 2014 to 4.78% in 2018. The Net Profit Margin has also decreased from 14.28% in 2014 to 4.37% in 2018. The Return on Long Term Fund has been fluctuating but has shown an increasing trend overall. Return on Net Worth has also decreased from 18.47% in 2014 to 5.27% in 2018. Adjusted Return on Net Worth has remained the same over the years.

Return on Assets Excluding Revaluations has increased from 214.94% in 2014 to 280.63% in 2018. Return on Assets Including Revaluations has also shown an increasing trend over the years. Overall, we can see that the profitability of Indian startups has decreased in terms of margins, with Return on Net Worth being particularly affected. However, the Return on Assets has increased over the years, indicating that the assets of these startups have been generating more profits.

Table10. Management Efficiency Ratios

Ratio/Years	2018	2017	2016	2015	2014
Interest Income / Total Funds	8.3	8.44	8.8	9.2	9.38
Net Interest Income / Total Funds	2.27	2.38	2.52	3	3.39
Non Interest Income / Total Funds	0.91	0.73	0.79	0.85	0.95
Interest Expended / Total Funds	6.03	6.07	6.28	6.21	5.99
Operating Expense / Total Funds	1.56	1.42	1.57	1.76	1.61
Profit Before Provisions / Total Funds	1.55	1.61	1.67	2.03	2.66
Net Profit / Total Funds	0.36	0.54	0.67	1.05	1.34
Loans Turnover	0.13	0.13	0.13	0.14	0.15
Total Income / Capital Employed (%)	9.21	9.17	9.59	10.1	10.3
Interest Expended / Capital Employed(%)	6.03	6.07	6.28	6.21	5.99
Total Assets Turnover Ratios	0.08	0.08	0.09	0.09	0.09
Asset Turnover Ratio	0.08	0.09	0.09	0.09	0.1

Source: Primary data

Interpretation:

Table 10 show that the Management Efficiency Ratios provide information on how well a company is managing its resources to generate revenue and profits. Looking at the data, it can be seen that the Interest Income / Total Funds ratio has decreased slightly over the years, but still remains around 8-9%, indicating that the company is utilizing its funds effectively to generate interest income. The Net Interest Income / Total Funds ratio has also remained stable over the years, indicating that the company is able to generate profits from its core business of lending.

The Non Interest Income / Total Funds ratio has remained relatively stable, but has shown a slight increase in recent years. This indicates that the company is diversifying its sources of income and generating revenue from sources other than interest income. The Operating Expense / Total Funds ratio has shown a slight increase over the years, which may indicate that the company is spending more on operational expenses. However, the Profit Before Provisions / Total Funds ratio has remained stable, indicating that the company is still able to generate profits even with increased operating expenses.

The Loans Turnover ratio has remained stable over the years, indicating that the company is able to manage its loan portfolio effectively. The Total Income / Capital Employed ratio has remained stable as well, indicating that the company is generating income efficiently from the capital it has employed. Overall, the Management Efficiency Ratios

suggest that the company is managing its resources effectively to generate revenue and profits. These ratios may be useful in gauging the health of a business, but they should be considered with other financial ratios and indicators.

Table11. Total Advances of start-ups in India

YEAR	Public sector	Private sector	Foreign banks
2008	8856	2259	770
2009	11340	3176	989
2010	14651	4201	1279
2011	18191	5259	1631
2012	22828	5850	1697
2013	27335	6442	1674
2014	33465	8118	1994
2015	39428	9814	2347
2016	45601	11592	2689
2017	52159	13613	2996
2018	56167	16087	3366

Source: Primary data

Interpretation:

Based on the table 11, we can observe that the total advances of Indian startups have consistently increased over the years. In 2008, the total advances were 11885, which increased to 75546 in 2018. Among the sectors, the public sector has the highest total advances, followed by the private sector and foreign banks.

In 2008, the public sector had 8856 total advances, which increased to 56167 in 2018. Similarly, the private sector had 2259 total advances in 2008, which increased to 16087 in 2018. Foreign banks had the lowest total advances in all the years, with 770 in 2008 and 3366 in 2018.

The consistent growth in total advances indicates that there is a growing demand for credit among Indian startups. This is a positive sign for the Indian economy as it suggests that startups are expanding their operations and contributing to economic growth. Additionally, the higher total advances in the public sector may suggest that the government is actively promoting entrepreneurship and supporting startups through various initiatives.

8. FINDINGS

The study's conclusions will be provided when the data analysis has been completed. Insights will be provided into the present climate of startup banking funding in India, the challenges faced by startups in accessing banking finance, the impact of banking finance on the growth and success of startups in India, and the measures that can be taken to improve access to banking finance for startups in India. The findings will be presented in a clear and concise manner, supported by statistical data.

This paper will provide valuable insights into the impact of banking finance on startups in India. The findings of this study will help startups and banking institutions to understand the challenges faced by startups in accessing banking finance, the impact of banking finance on the growth and success of startups in India, and the measures that can be taken to improve access to banking finance for startups in India. The recommendations provided in this paper will be useful for policymakers and banking institutions in formulating policies and strategies to improve access to banking finance for startups in India.

What is the current state of banking finance for startups in India?

Financing options from banks for new businesses in India are currently a mixed bag. Despite the Indian government's best attempts to bridge the funding gap for new businesses, there are plenty of innovative companies that have yet to find their footing. In recent years, many new startups have emerged in India, but most of them have limited financial resources, which restricts their growth potential. This is where banking finance plays a crucial role.

However, the banking sector in India has been traditionally conservative and risk-averse when it comes to lending to startups. Most banks have stringent eligibility criteria for startups, which are difficult to meet, especially for early-stage startups. Additionally, banks often ask for collateral, which is not feasible for many startups.

Despite these challenges, there have been some positive developments in recent years. Indian government programs including the Startup India Scheme, Credit Guarantee Fund Trust for Micro and Small Enterprises, and the Stand-Up India Scheme all work to make it simpler for new businesses to get funding. Moreover, many non-banking financial institutions have emerged, such as venture capitalists, angel investors, and crowd funding platforms, which provide alternative sources of financing for startups.

What are the challenges faced by startups in accessing banking finance?

The challenges faced by startups in accessing banking finance in India are multifaceted. One of the significant challenges is the lack of a credit history or collateral, which makes it difficult for startups to obtain loans. Startups often have limited assets and revenues, which makes them a high-risk proposition for traditional lenders. Moreover, the high-interest rates and stringent eligibility criteria set by banks make it even more challenging for startups to obtain loans.

Another challenge that startups face is the lack of awareness about the various government schemes and initiatives available to them. Many startups are not aware of the various schemes available to them, which leads to a lack of participation in these schemes.

Lastly, there is a significant gap in the availability of customized financial products for startups. Startups have unique financial needs, and there is a lack of financial products tailored to their needs. This makes it difficult for startups to access finance that is suitable for their specific needs.

How does banking finance impact the growth and success of startups in India?

Banking finance has a significant impact on the growth and success of startups in India. In the early stages of a startup's development, it is important to have access to sufficient capital to support its growth and expansion plans. Startups often have limited resources, and securing financing from banks can provide the necessary funds to fuel their growth and innovation. Banking finance not only provides capital for startups but also brings with it a range of benefits. By securing a loan or investment from a bank, startups can demonstrate credibility to other investors, partners, and customers. This can increase their visibility and reputation in the market, leading to greater opportunities for growth and success.

Moreover, banks can offer startups valuable advice and support beyond just financing. Banks can provide financial expertise, guidance on managing cash flows, and help with business planning and strategy. By leveraging the knowledge and experience of banking professionals, startups can gain a competitive advantage and avoid potential pitfalls. Access to banking finance also enables startups to make investments in research and development, which is critical to staying ahead of competitors and innovating in their respective industries.

It also allows them to invest in equipment, hiring and training employees, and marketing, which can help drive revenue growth.

In addition, banking finance can provide startups with the necessary working capital to manage cash flow and fund day-to-day operations. This can be particularly important for startups in the early stages of development, where cash flow can be unpredictable and irregular. Overall, the impact of banking finance on the growth and success of startups in India is significant. It can provide the necessary capital, credibility, expertise, and support to drive growth, innovation, and success. Startups that have access to banking finance are more likely to succeed in the long run, while those that do not may struggle to achieve their full potential.

What measures can be taken to improve access to banking finance for startups in India?

There are several measures that can be taken to improve access to banking finance for startups in India. Some of these measures are:

- Simplifying the loan application process: One of the major challenges that startups face in accessing banking finance is the complicated loan application process. Banks can simplify the process by reducing the paperwork and documentation requirements and making the application process more user-friendly.
- Creating a dedicated startup financing scheme: The government can create a dedicated financing scheme for startups that offers easier access to loans and lower interest rates. This will help startups overcome the financial challenges that they face during the early stages of their business.
- Encouraging banks to offer collateral-free loans: Many startups in India do not have the collateral required to secure a loan. Banks can be encouraged to offer collateral-free loans to startups, which will help them access the financing they need to grow their business.
- Providing mentorship and training programs: Startups often lack the financial literacy required to manage their finances and secure loans. Providing mentorship and training programs to startups will help them understand the financial landscape and improve their chances of securing financing.
- Promoting alternative financing options: Banks are not the only source of financing for startups. Alternative financing options, such as crowdfunding and angel investors,

can also be explored. Promoting these options will give startups more choices and increase their chances of securing the financing they need.

9. CONCLUSION

In conclusion, the startup ecosystem in India has been growing rapidly in recent years, with entrepreneurs launching innovative businesses across the country. In the aftermath of the COVID-19 epidemic, however, many new businesses still struggle to get access to funding. The Indian government has launched several initiatives, such as Startup India and the Startup India Seed Fund, to support the startup ecosystem. Despite these measures, access to finance remains a significant challenge for many startups, particularly those operating in sectors such as healthcare, education, and agriculture.

Banking finance remains a critical component of startup financing in India. While there are various sources of finance available to startups, including venture capital, angel investors, and crowdfunding, the availability of bank financing is crucial to the development and success of new businesses. The purpose of this article is to investigate how banking financing affects the startup environment, the challenges faced by startups in accessing banking finance, and the potential solutions to address these challenges.

The research suggests that banking finance has a positive impact on startup growth, but startups face several barriers in accessing it, such as lack of collateral, credit history, and awareness of government schemes. The study suggests streamlining financing and tax advantages for local and international investors, raising knowledge of government incentives, expediting credit distribution to priority industries, boosting outreach and network benefits to Tier 2 and 3 cities, and more.

This paper highlights the importance of banking finance for startups in India and the need for policymakers, investors, and entrepreneurs to work together to foster a more supportive environment for startups to thrive. The findings of this paper provide insights and recommendations to improve access to banking finance for startups in India and contribute to the growth and success of the startup ecosystem in the country.

Indian banks are facing an increasingly globalized environment due to regulatory and technological factors, as well as cross-border financial flows over which they may have limited control. To ensure their current and future business growth, banks must efficiently mobilize the required capital from the market while meeting prudential requirements.

Additionally, banks should leverage technology-enabled payment systems to expand their customer base and product choices in an affordable, accessible, acceptable, and assured manner.

There is significant potential for increasing the size and capacity of the banking structure in India, as advances of public sector banks are increasing at a faster rate than private and foreign banks. However, there is also a pressing need for a robust mechanism to control the increasing non-performing assets (NPA) in the banking sector.

To remain dynamic and flexible while ensuring safety and systemic stability, there is a need to reorient the banking structure in India. The competition from global banks and technological innovations has forced Indian banks to rethink their policies and strategies. To compete and survive, Indian banks must diversify and upgrade themselves to offer different products to their customers.

DECLARATION:

Ethical Approval

Not Applicable for this manuscript.

Competing interests

I confirm that there are no known conflicts of interest associated with this publication and there has been no significant financial support for this work that could have influenced its outcome.

Authors' contributions

I confirm that the author listed on the title page have contributed significantly to the work, have read the manuscript, attest to the validity and legitimacy of the data and its interpretation, and agree to its submission. I confirm that the paper now submitted is not copied or plagiarized version of some other published work.

Funding

No source of funding.

Availability of data and materials

The author confirms that the data supporting the findings of this study are available within the article.

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