

Stages of startups and sources of funding in India

Startup India Hub

<https://www.startupindia.gov.in/>

There are multiple sources of funding available for startups. However, the source of funding should typically match the stage of operations of the startup. Please note that raising funds from external sources is a time-consuming process and can easily take over 6 months to convert.

Ideation/pre-seed stage

This is the stage where you, the entrepreneur, has an idea and are working on bringing it to life. At this stage, the amount of funds needed is usually small.

Given the fact that you are at such an initial stage in the startup lifecycle, there are very limited and mostly informal channels available for raising funds. Common funding sources utilized by startups in this stage are:

- **Bootstrapping/Self-financing:** Bootstrapping a startup means growing your business with little or no venture capital or outside investment. It means relying on your own savings and revenue to operate and expand. This is the first recourse for most entrepreneurs as there is no pressure to pay back the funds or dilute control of your startup.
- **Friends and family:** This is also a commonly utilized channel of funding by entrepreneurs still in the early stages. The major benefit of this source of investment is that there is an inherent level of trust between the entrepreneurs and the investors
- **Business plan/pitching events:** This is the prize money/grants/financial benefits that is provided by institutes or organizations that conduct business plan competitions and challenges. Even though the quantum of money is not generally large, it is usually enough at idea stage. What makes the difference at these events is having a good business plan.

Validation/seed stage

This is the stage where your startup has a prototype ready and you need to validate the potential demand for your startup's product/service. This is called conducting a "Proof of Concept (PoC)," after which comes the big market launch. To do this, the startup will need to conduct field trials, test the product on a few potential customers, onboard mentors, and build a formal team. Common funding sources utilized by startups in this stage are:

- **Incubators:** Incubators are organizations set-up with the specific goal of assisting entrepreneurs with building and launching their startups. Not only do incubators offer a lot

of value-added services (office space, utilities, admin, & legal assistance, etc.), they often also make grants/debt/equity investments

- **Government loan schemes:** The government has initiated a few loan schemes to provide collateral-free debt to aspiring entrepreneurs and help them gain access to low-cost capital. Some such schemes include CGTMSE, MUDRA, and Stand-up India.
- **Angel investors:** Angel investors are individuals who invest their money into high potential startups in return for equity. Reach out to angel networks such as Indian Angel Network, Mumbai Angels, Lead Angels, Chennai Angels, etc. or relevant industrialists for this.
- **Crowd funding:** Crowd funding refers to raising money from a large number of people who each contribute a relatively small amount. This is typically done via online crowd funding platforms.

Early traction/series A stage

This is the stage where your startup's products or services have been launched in the market. Key performance indicators such as customer base, revenue, app downloads, etc. become important at this stage. Funds are raised at this stage to further grow user base, product offerings, expand to new geographies, etc. Common funding sources utilized by startups in this stage are:

- **Venture capital funds:** Venture capital (VC) funds are professionally managed investment funds that invest exclusively in high-growth startups. Each VC fund has its own investment thesis—preferred sectors, stage of startup, and funding amount—which should align with your startup. VCs take startup equity in return for their investments and actively engage in mentorship of their investee startups.
- **Banks/NBFCs:** Formal debt can be raised from banks and NBFCs at this stage as the startup can show market traction and revenue to validate their ability to finance interest payment obligations. This is especially applicable for working capital. Some entrepreneurs might prefer debt over equity as they debt funding does not dilute equity stake.
- **Venture debt funds:** Venture Debt funds are private investment funds that invest money in startups primarily in the form of debt. Debt funds typically invest along with an angel or VC round.

- **TReDs:** To decrease the financing concerns faced by MSMEs in India, RBI introduced the concept of TReDS in 2014, an institutional mechanism for financing trade receivables on a secure digital platform. Trade Receivable Exchanges such as M1xchange, standardizes the process of funding MSMEs via Invoice Discounting. TReDS addresses the gaps in MSME industry as enterprises face challenges in getting their payments on time, thus creating working capital discrepancies. TReDS is a timely and effective solution to drive the MSME sector to the next phase of Indian economy.

Scaling/series B & above stage

At this stage, the startup is experiencing fast rate of market growth and increasing revenues. Common funding sources utilized by startups in this stage are:

- **Venture capital funds:** VC funds with larger ticket size in their investment thesis provide funding for late stage startups. It is recommended to approach these funds only after the startup

has generated significant market traction. A pool of VCs may come together and fund a startup as well.

- **Private equity/investment firms:** Private equity/Investment firms generally do not fund startups; however, lately some private equity and investment firms have been providing funds for fast-growing late-stage startups who have maintained a consistent growth record.

Initial public offering

Initial Public Offer (IPO) refers to the event where a startup lists on stock market for the first time. Since the public listing process is elaborate and replete with statutory formalities, it is generally undertaken by startups with an impressive track record of profits and who are growing at a steady pace. One of the benefits of an IPO is that a public listing at times can increase the credibility of the startup and be a good exit opportunity for stakeholders. Any Angel investor, VC, or PE fund may buy out investors of a previous round to get their equity share as well.

COVID-19 mRNA vaccine technology transfer hub

The World Health Organization (WHO) and its partners are seeking to expand the capacity of low- and middle-income countries (LMICs) to produce COVID-19 vaccines and scale up manufacturing to increase global access to these critical tools to bring the pandemic under control. WHO will facilitate the establishment of one (or more, as appropriate) technology transfer hub(s) that will use a hub and spoke model (REF) to transfer a comprehensive technology package and provide appropriate training to interested manufacturers in LMICs. This initiative will initially prioritize the mRNA-vaccine technology but could expand to other technologies in the future.

To support this activity, we are seeking expressions of interest from:

1. Small/middle-sized (public or private) manufacturers of medical products (drugs, vaccines or drug substances) preferably, but not exclusively, in LMICs, which could host a COVID-19 mRNA hub and:
 - o Assemble the technology up to good manufacturing practices-grade pilot lots for clinical trials;
 - o Transfer the appropriate know-how and technology to existing or new manufacturers in LMICs to enable them to develop and produce COVID-19 mRNA vaccines;
2. Owners (public or private) of technology and/or intellectual property rights. These may be academic institutions, pharmaceutical companies, non-governmental organizations or any other entity willing to contribute these to a technology transfer hub, under the auspices of WHO, to enable production of mRNA-based COVID-19 vaccines in LMICs.

For this initial expression of interest, entities may contact:

Martin Friede (friedem@who.int) and Raj Long (rlong@who.int)
World Health Organization

Selected funding programmes in Malaysia

Malaysia Digital Economy Corporation (MDEC) Sdn Bhd

<https://mdec.my/>

Businesses of all sizes can reach out to and engage with various support initiatives that MDEC currently manages. This includes the different grants that are currently made available for different industry verticals. These market assistance are actively providing the support businesses need to remain sustainable or expand their operations.

Smart Automation Grant (SAG)

This is a specific matching grant for services companies that will help them automate their business processes and move towards digitalization.

The grant will be used solely for the purpose of kickstarting the development and implementation of projects that push the adoption of technologies to automate business operations.

The Development Grant

Development Grant focuses on the development stage of the Project, the stage where it involves idea generation, production design, market research, and marketing analysis. The development stage is defined as a planning phase of the Project.

This includes development of the idea into working script, research and development (R&D) of the concept, business plans, and preparation of documents which are investor-friendly. Applicants with new project/IP/idea within the Eligible Project Categories are encouraged to apply for funding under the Development Grant.

Production Grant

Production Grant focuses on the production stage of the project which involves the activity of creating, assembling, aggregating, and generally producing or generating content.

IP Marketing & Licensing Grant

IP Marketing & Licensing Grant is a financial assistance provided to IP creators with market ready product (s). This includes IP extension, IP registration, development of style guide and other activities related to marketing, promotion, localization, commercialization, licensing, or distribution.

Creative Industry Export Acceleration and Enterprise Development (CREED)

The Creative Industry Export Acceleration and Enterprise Development (CREED) is an end-to-end fund to address long-term

industry growth and sustainability. CREED is designed to support established creative content companies with a history of successful IP developed and commercialized.

Global Tech Fund

The Global Tech Fund (GTF) aim is to support the following three focus pillars:

1. Nurturing Global Champions
2. Driving Investments
3. Catalyzing Digital Innovation Ecosystem

GTF targets local scale-up technology companies who are ready to go into their first global market or expand their existing global market presence via technology innovation and commercialization of market-driven product/service. We want to see potential Malaysian unicorn in the making. Local technology companies are welcome to set up Centre of Excellence for the benefit of the ecosystem.

GTF targets foreign technology companies to set up Centre of Excellence to conduct high value technology innovation/R&D activities leading to the development and commercialization of market-driven, innovative product/service for the global market as well as contribute to ecosystem development. (Source from Wikipedia: A centre of excellence (COE) is a shared facility that provides leadership, best practices, research, support and/or training for a focus area.)

- TF supports local and foreign technology companies to:
- Acquire new knowledge and/or
- Develop local talents in the identified technology area/s and/or
- Research and develop new, innovative and market-driven product/service for regional/global customers and/or
- Innovate on existing product/service transformatively for regional/global customers and/or
- Development of new technologies or innovation on existing technologies that will disrupt the market by the introduction of innovative, market-driven product/service and/or
- Establish Centre/s of Excellence to conduct R&D activities leading to development and commercialization of innovative product/service and/or
- Develop the Malaysian ecosystem by conducting ecosystem development initiatives.