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Equity Crowdfunding Role On Start-Up Pre-Seed Capital In India: A Case Study

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Abstract

The present study understands the impact of equity crowding funding on start-up pre-seed capital in India. A Mixed approach of semi-structured interview with the start-up's and technology entrepreneur's survey method is adopted. All the participants of the survey were from small business sectors in TamilNadu, India. Snowball sampling was used to collect the responses from the entrepreneurs. The paper discusses on the various types of industries involved in equity crowd funding, the various sources from where they acquire pre-seed capital finances. SEBI Guidelines on Crowd funding of equity and the limitations faced by Indian start-up entrepreneurs on Crowd Funding of equity based are also discussed.

Key Words: *Equity Crowd funding, Start-Up, Technology Based, Pre-seed capital, India*

INTRODUCTION

Entrepreneurship is a most important driver for the economic growth of a country. Entrepreneurs are the blood for the country as any new innovation happens through entrepreneurship. India being identified with digitalization; emergence of technology-based esteem has to be encouraged. However, entrepreneurship deals with numerous risks where the predominant risk is the raising of pre-seed capital. Many starts-ups are not successful as they suffer with the insufficiency of the capital to run the business in their initial stages. With the various modes available to the new entrepreneurs, crowdfunding as a financing source is the most recent technique. The development of India as economic power in the universal arena and its choice to liberalized and privatized economy with global linkages beginning from the year 1991 has projected the country as a protruding global force. Now, India is the third prime economy in the world after U.S. and China entry into trillion-dollar club both basis of Gross Domestic Product (GDP) and its market capitalization in stock markets, is sufficient evidence of phenomenal improvement achieved in preceding 25 years.

It matches ideal with different sources of financing. It can also be given as seed cash – the capital that we require is too little for investors to include – until we observe the expansion of liquid. It is a process of making funding a business venture or a creative project by collecting funds from large count of people, typically through internet. For any length of time that new companies can show something to the group, crowdfunding can be considered for business visionaries. It is an appealing and important aspect for-plays money. It limits the tedious raising support process, so new companies invest more energy when that really matters, on their business. There are various types of crowdfunding, in which crowd funding plays paramount role among the tech- start-up entrepreneurs.

Equity crowd funding is the process of financing, whereby a businessperson sells a quantified level of equity or bond-like stakes in a firm to a collection of stakeholders to make funding over a call (Ahlers et al., 2015). Equity crowdfunding offers ventures with a possibility to assemble funding from an enormous base of investors. In the present target business, equity based crowd funding has been providing the equity stake business. Compared to various methods of crowd funding, equity crowd funding is moderately novel phenomenon (Lukkarinen et al., 2016). In exchange of issue of parity shares of company funding are issued. The number of equity shares against the investments made online was received by investigators. But however, safeguarding stockholder is a challenge intended to regulators in this type. It is a new possibility however rising funds from numerous means like market investment (stock exchange), financial and banks institutions and others are observed.

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Conversely, the process of fund raising through this way might not be adequate and cost operative thus making crowd funding as a smart way for them. Though, highest priority is to maintain a good designed website so that depositors might retain a tap on their progress.

Although crowdfunding is growing, there is a scarcity of research on the subject of equity crowdfunding options in the Indian scenario. Studies that have been conducted on crowd funding mainly focused on developed countries involved, and on developing countries like India. The major focused point of interest is that how equity crowdfunding can encourage start-up entrepreneurs in India and to grow the stream of innovative entrepreneurship.

Start-Ups

In the present scenario, recently initiated companies are in a new phase of development. Most of the start-up software companies are having high reproducible technologies because they often use high tech schemes. They are known for their potential of growth. Several motivating factors displayed by the research are that based upon technology start-ups are vastly situated in urban regions. Main purposes are accredited for the necessity of a market. It is now known presently there are several related and other start-up enterprises in traditional business and industries regions. At the global level, there are huge demands accompanying with the position and the methods of funding commercial investments (informal and formal), specifically in passé of passionate globalization (Klačmer Čalopa, 2014). It is proved that the investments of the start-up companies are determined on the basis of the country economic growth that are taken from GEM exploration presented at 54 countries. As GDP for each capita income surges, larger economic prospects for venture in commercial events are being generated.

Given this backdrop the aim is to give solution for the research questions.

1. What are all the industries using crowd funding as financing options?
2. What are all the sources of Pre-seed capital for start-up entrepreneurs in acquiring finances?

More specifically the research has two objectives:

3. What are all the pre-seed capital insufficiency start-up entrepreneurs suffer from?
4. What are the risks and challenges that are faced by equity crowdfunding entrepreneurs in India?

METHODOLOGY

To address these objectives, the mixed-method is being used. The data has been collected from 250 tech start-up entrepreneurs and semi structured interview has been conducted among start-up entrepreneurs. The study provides true insights from crowd funding implementation options in India. To conceptualize the research theoretically, the relevant literatures of equity crowdfunding are analysed before dealing with the research context and data. Article concludes with the discussion on the limitations of equity crowdfunding and shows a way for future scope of research. Quantitative and qualitative approaches are based equally (Creswell & Clark, 2007). Equity crowdfunding being a new and complex area of research using mixing method approach might boost useful insights to our sympathetic between start-up entrepreneurs and the funding agencies for entrepreneurship. This method is useful to overcome the conditions of diverse data sets (Chitakunya 2012; Takhar & Chitakunya, 2012).

Data Collection was organised in 2 phases. The initial phase focused on the opinions obtained from the start-up entrepreneurs in TamilNadu through a questionnaire. Respondents were selected on three conditions.

1. Their start-up initiative should not be greater than 5 years since Inception.
2. Their initial capital should be less than 5 lakhs.
3. Their place of start-up should be located in Chennai, Tamil Nadu.

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These criteria have been fixed in order to select the correct respondents for the study. For data collection, 2nd phase or semi structured follow up interview has been conducted in order to solicit reviews of the entrepreneurs. The data measured is heavily diverse. It is on understanding of equity crowdfunding challenges faced by the Indian entrepreneurs. Pseudonyms have been used to protect the identity of the entrepreneurs. A snowball sampling statistical technique is being used to identify the Tech start-up entrepreneurs. Snowball technique is taken to make easy identification of the data. The rate of advancement of technology and the resulting leverage of the same propelled by innovation as marked an era of a host of e-commerce business models which has emerged in latest past was successfully scaled up tremendously. Hence, a study of the implication of technology driven start-up can never be over emphasized.

LITERATURE REVIEW

According to Marmer, et al, (2011), there are three types of initial level of internet companies in USA. The “Atomizers” whose features are intensive on customers, drawing the clienteles who express attention towards the product, fast enactment, communal automatization practices which have been executed before manually, a big market, the existing market on struggle, strong technology-oriented developers, usage of new technologies, etc. "The Integrator" can be appropriate to newly establised with security high, initial profit, directing to both standard and small initiatives also smaller markets, great possibility so that Integrators keep small teams even after scaling (growth and expansion), etc. "The Challenger" have divided with very high sale, customer dependence, complex and rigid markets, repeating sales, more capital, business team’s types of start-ups.

Technology sector of start-ups

With regard to the investments in advanced start-ups, they mark utmost of venture capital (VC) capitalizing in Northern America. Canada’s Venture Capital Association (CVCA) announces online the yearly venture information retrieved by Thomson Reuters on behalf of the business. The CVCA likewise raises their existing venture categorizations and the cessation by segment of capital venture investment. In common, they quote 4 prime sectors:

- Information technology
- Life sciences
- Energy and environmental technologies
- Traditional containing consumer and business services, consumer products, and manufacturing

Comparison of Tech and Non-Tech investments over start-ups.

The decreasing attention in non-tech start-ups in middle of early-stage investors is not unexpected. It had been narrowing over previous two years alongside a peak of 106 deals values $562 million in 2011, reserves in non-tech start-ups erected at 90 deals a value of $478 million to earlier calendar year. VCs evidently perceive sufficient depth in start-up technology market nowadays to assign more capital to certain commercials. Over the previous 12-18 months, numerous have straightened their approaches to evolution into pure-play technology investors.

To be rational, the advertness midst investors to place extra dollars to effort in certain start-ups is not utterly unproven. As a regulation, globally, VCs pursue to invest in commercials that provide non-linear returns. They move in businesses initially, regularly venturing capital on unapproved businesses models, even pre-revenue companies. Tech start-ups incline to afford non-linear returns more frequently than non-technology start-up s.

Overview India’s position of start-ups

As per NASSOCM report, around 40% evolution in numerous incubators scope to nearly 110 in 2015 as in contradiction of around 80 in 2014 year. India is firm emerging as start-up nation. The Indian

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technology scenario has perceived an incredible growth in direction of creation of advanced start-ups and has developed as 3rd fastest emergent pivot for the start-ups count.

In middle of numerous debates and arguments over the stuffed of start-up effervesce, the Indian commercial spirit is ever growing, with scenario evolving in a way like not most earlier. Most people will approximate the environment as stochastic. With peaks and valleys in backing, revisions and de-valuations, and appearance of new sectors, India is at a very crucial juncture, chalking out own growth trajectory.

The count of 10,000 new ventures are ingenuity by India's foremost IT business body NASSCOM to measure up investment ecosystem over India by ten times through incubation, backing and substance for 10,000 start-ups technology based in coming ten years. The agenda's apparition is to:

1. Adoptive free enterprise and construct commercial competences at scale.
2. Build up support scheme for tech start-up s.

With an emerging growth India started 4,200 start-ups as ranking third in the whole, 2.3X progress in several active part takers, increasing digital customer base, portable first population, enlightening party-political environment, and great attention from international stockholders are limited to the key teamsters 2015's Motivating start-up verticals: Analytics, Health-tech, IoT, and Hyperlocal e-commerce Bangalore, Mumbai and NCR endure to be upper start-up terminuses with closely 65% of entire Indian ventures. Motivated by large part of B2C attentive ventures, NCR observes extreme amount of capital in Chennai, Pune, Jaipur, Ahmedabad and Hyderabad are the foremost forthcoming start-up sites. 125% level of increase is by Funding, from $2.2 billion in 2014 to $4.9 billion in 2015; and by cumulative funding of ~$3.2 billion over 2010-14 period.

The start-ups are generating an innovative world of flair Executives from domestic and global businesses which link top points at start-up ventures or preliminary for their individual ventures. In India 72% of start-up founders are under 35 years old. Start-ups are provided that terrifying work culture laterally with attentive fiscal benefits to decoy new and remember prevailing talent.

Start-up firms are recognized in two sorts, right off the bat, the pre-start up organize, and the one that are as of now working. For the organizations in the pre-start-up arranges the essential wellspring of back is the Owner's capital, trailed by Banks and Angel financial specialists. Though for the new companies as of now in working stages the financing alternatives fluctuate. Writing survey discovered that for such new companies Venture Capitalists, Trade Credit and Leasing are the main wellsprings of back. These choices are practiced at various phases of the firm lifecycle. Amid the firm life cycle, the underlying two phases are generally overwhelmed by the Owner's capital, Banks and Angel speculators. The following sections of the paper throws light on the various pre-seed capital options available to the entrepreneurs.

Sources of Pre-seed Capital for Start-ups

Personal investment

Personal money can capitalize while borrowing in the form of cash or insurance. These are evidences to your banker that you devour a long-term assurance to your project. The personal investment can make nous for minor growth commercials, or those that have sturdy unit economics and minimal operative overhead. For several start-ups, conversely, bootstrapping can be consequence in sluggish operative growth, and lacking of supplementary capital to invest in development and marketing, can outcome in deteriorating behind by better-funded competitors.

Land

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State governments might immediately modernize and shorten inland procedures and assign above 30,000 empty sites lying unoccupied in recognized industrialized sectors throughout the nation, to institute with respectable industrial increase.

Mid-sized industrial estates

National regimes must instantly categorize mid-sized land plots near urban parts that might be established with communal funding. Start-ups usually locate for spaces near where their subsidiary kin and marketplaces are situated. Also, growth of small plots is probably noted as minimum time-consuming related to higher ventures like NIMZ. The appropriate central governments must accord importance to such growth, if essential by creating appropriate changes in current programmes and by advanced funding levels.

Rented premises

National regimes that might take program for building of places that could be specified on rental payment to manufacture start-up initiatives. This will assist de-risk in borrow initiates, and was previously endorsed by PM's Squad. This programs can also be sustained by the government.

Friends and Family

Particular start-ups can get in succession with little assistances from friends and family. Mixing personal relationship can be moreover a boon or a drain dependent on dynamics of relationship. Start-ups should admit capital from prospective early investors based on neither they would be decent investors first, and as friends or family second, your inner province before intensifying your perspectives. As regulation of thumb, professional investors like to perceive real perspective of game, and people who believe you.

Accelerators and Incubators

Associations that afford investment and/or other facilities such as office space, mentoring or training programs are denoted to as accelerators or incubators. Certain start-up accelerators deliver early-stage investments in return of fairness or exchangeable notes in an enterprise. For certain start-ups these agendas can be worth sources of guidance, networking, and outline levitation.

Funding

Government programmes to fund start-ups in industrial, which has prospective for development, might be afforded with upper stages of capital and subvention. Towards start Programme supported by Prime Minister's Employment Generation (PMEG) might be upscale for including a distinctive opening for such schemes. The plan can be re-débuted as Prime Minister's Employment and Entrepreneurship Generation Programme (PMEEGP).

A commission under Chief Economic Consultant or any other senior consultant in Investment could be complex to mark precise commendations on exclusion of strategy and financial impairments for improving stream of angel and initial phase venture capital subsidy for start-ups, partaking respect to endorsements of report from Mitra Committee.
National Innovation Council said that, India Inclusive Innovation Fund might be engaged very fastly for advanced start-up s, which assistance necessities of India's low revenue societies.
According to Cvijanović et al., (2008) Development of company can be assessed by phases of development. Five phases of development are experimental or seed, start-up, expansion, recapitalization and buyout. The source of financing by the company's development is shown in the figure below (Giurca Vasilescu, 2009)

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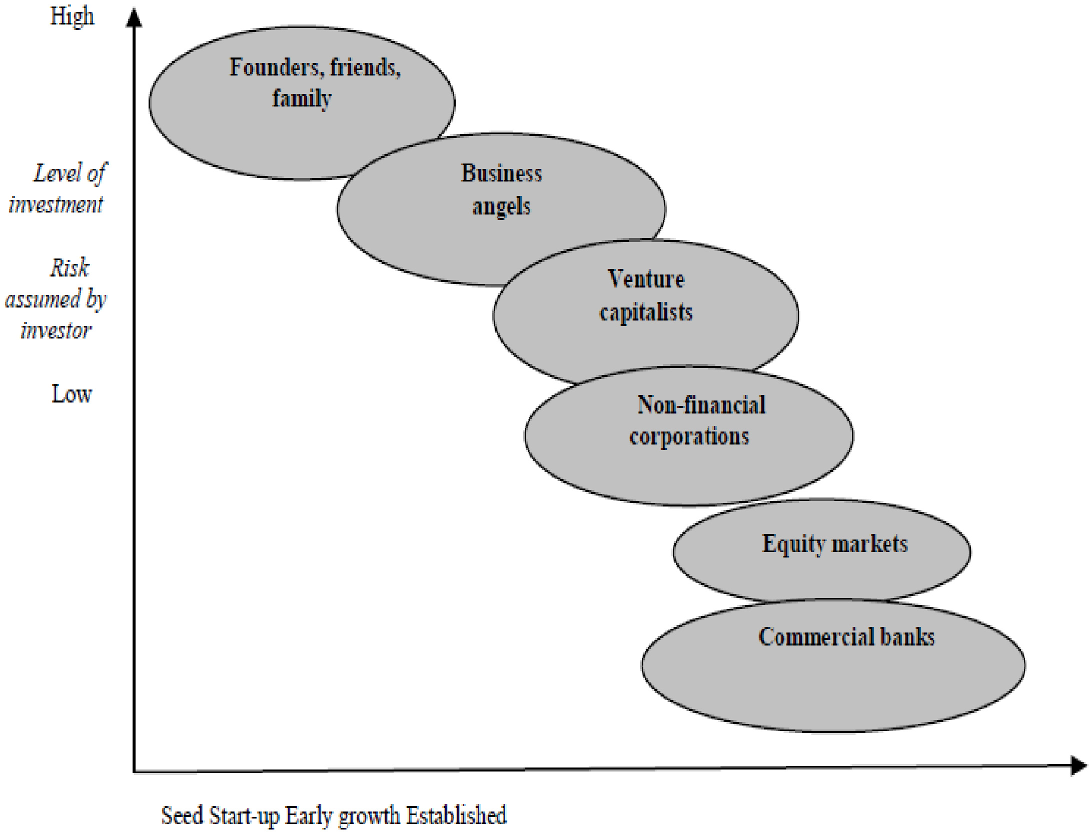

Financing sources

The entire concept of start-ups which is called cyberspace or virtual reality space have formed, that enables company to finance and create an operational trade at negligible cost.

Least capitals diminish the threat and allow a quicker adjustment or even bankruptcy of corporations. Online business is ready to make the establishment of the start-ups does not bother about the product ready in the market or not, but which is online available. This tactic is noble as it permits the industrialists of start-up corporations to analyze the state of market, does there is a necessity for their service or product, and is it so value capitalizing in it (Kìškis, 2011).

Many industrialists fail and fallowed to a step back from its approach of venturing into accomplishing commercial success and producing revenue, and thus every day, fresh theories, approaches and notions that offer direction are generated and characterized a standard for industrialists on how to respond and attain triumph in undefined circumstances (Zlatarėk, 2012). Thesis by Kählig (2011) is an important effort to understand start-ups

The main reason behind the failure of start-ups is because of the implementation of the product they work on the implementation of the incorrect product for too long and in doing so devote a noteworthy amount of money – both for advertising and sales, just to sell the wrong product (Nobel, 2011).

The creative way of influencing crowdfunding is by creating an eco-system. Identifying the stakeholders is a useful way to understand the ecosystem of crowdfunding. The objectives of the organization are listed below by which the stakeholders are affected.

- Founder placed their project idea on crowdfunding website

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- The website provides the space to post their project and provide features like ability to post a video and other project relate things.
- Backers use the crowdfunding website to explore the projects and decide whether to contribute the project.
- The website provider provides the communication between the founders and backers also provides secure payment transaction system for funds exchanging between founders and backers.
- Founders use traditional capital markets for some of their projects.
- This traditional capital market has connection with the crowdfunding websites in some of the situations like to estimate whether a market occurs and discover dissimilar price points.

Role of crowd funding in seed Start-Up Finance.

As Audretsch recapitulate a widespread experiential literature, the probability of existence for new applicants is less, and those that do endure progress at an advanced rate than the officials. Firms with a greater start-up size have an advanced probability of existence. Therefore, the size of an innovative firm at start-up has a momentous influence on its post-entry presentation and existence. The elements of the size of the firms at entry though, endured under-researched and mistreated for a long time. A few of experiential revisions on the elements of organization start-up size mostly scrutinize the part played by industry appearances such as the minimum efficient scale of the industry, industry growth, effects of operation at suboptimal scale (Audretsch, D. B., & Tamvada, J. P. 2008).

Crowdfunding is capitalized through funds which are afforded by official depositors called Partial Partners. The crowdfunding collect organization fees from the PPs which insurances the operating costs of the squad, empowering the CF well-founded to employ a batch of professionals. These capitals are then capitalized straight in entrepreneurial ventures called Portfolio Companies or PCs. Official depositors consist of pension moneys, benefactions, fund of moneys, banks, insurance companies and can also comprise high net worth individuals and family offices. Official investment permits the sharing of money for capitalizing in private companies and the description of the investment procedure to proficient fund managers with in coordination of the capability and enticements to capitalize in and backing high growth companies (European Venture Capital Association. 2010).

If the situation arises to close the start-ups, then the capital start-ups of the crowdfunding will be the solution to improve funding especially when the financing is credit type. While every start-up businesses regularly take high risky rate and have greater rate of misfortune in contrast with other industries therefore risk entrepreneurs and angel partakers find that early phase was so good and improved, when it is doubtful that crowd funding as a representative decision among the range of mechanisms then the reasonable upward potential is a conclusive factor. The pros observed that new technologies are often in start-ups corporations. As mentioned the most problematic instants of a start-up's lifespan is the initial stage subsidy. Several respectable concepts, prototypes and ideas never get the desirable early subsidy to demonstrate the concepts' value and move it to the succeeding subsidy rounds. So we can say, the best effective way to funding start-up industry is to get the initial stage subsidy work well.

In this process Group-subsidy is one main tool, though it looks only inventive plans like a venture from the unique business and on science, technology, or information-based start-ups have a factual fortune to grab the attention of upcoming partakers. "Crowdfunding may help some start-ups financially even as it may jeopardize their intellectual property strategies and implementation. To decrease the effect and so to reduce these harm start-ups will need to develop strong investor relations staff that can manage the expectations of disparate Crowd funding's before the offerings". There are some factors that latent impending start-up inventor must take into account while determining to make group-subsidy of fiscal support. They are information on effectual communication within Web 2.0, by means of web source as possible as that, about the abilities upcoming business might gain from and observing for these abilities among prospective partakers, inspiring shareholders to active partaking in venture and in the awareness of lawful constraints.

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Financing sources for start-ups

There are certain steps to take up an entrepreneurs venture. That is to confirm an source for suitable supporting. To analyse the utilization of fiscal resources, George and Kotha (2012) displayed that in start-up, experienced entrepreneurial are capable to elevate more capitals (from informal and formal bases) compared to capitalists with no knowledge in it. Plans for start-up and start-up corporations are being motivated to those partakers who will develop the project considerably or product through their investments and at the same time to contribute better growth by positive vibrations with industry affairs, which partaker tends to have and what are necessary for improving the products. Atherton (2012) demonstrated that there are huge factors that influencing the decision of a start-up founder on the financing source (formal or informal). It can be showcased that most great difference amongst the vastly exploited and below-capitalized start-ups are observed at the same time. Very big obstacle that are faced by many entrepreneurs is that to find investments in order to grow or expanding a start-up (Berger et al., 2011). Paul et al., (2007) explained that start-up companies gives prior importance to improve internal financing.

Few occasions, it is better to find start-up businesses bootstrapping, because it good to invest without any third person. In realism, this is a very problematic task, but for a creative financing strategy, it will be a base foundation of entrepreneurship and characterizes (Lahm et al., 2005). If the start-up require no great investment and if no fiscal investment need to be enclosed by third person (Worrell, 2002) in that situation bootstrapping implies that the entrepreneur has certain income at the beginning, In this process it is clearly noticed that entrepreneurs have full control and strong power over their corporation (absence of co-owners), while at the same time the disadvantage is that capitalist founds to be in isolation if the person is less or young experienced or with no practice and corporate professionals to guide further (Lopac, 2007). While many authors explain that bootstrapping as a method of transforming human capital into financial capital, which involves certain level of investment from external sources.

By considering 214 countries, a researcher wants to find the bootstrapping impact as an added value and succeeded. (Vanacker et al., 2010). Recent studies show that the bootstrapping and lean start-ups are complementary approaches that helps start-ups corporation to develop. Two techniques are used to eradicate overages by enlargement of current capitals as more funds are from outsources it has thrown (Maurya, 2012). Financing small companies are distributed into new and traditional approaches of initiating start-up corporations along with bootstrapping.

Financial related assets are required for an undertaking to frame, and along these lines work. Henceforth, the financing of new businesses is a major inquiry in big business explore. Because of the part new organizations play in business development, rivalry and advancement, financing choices of new companies have high ramifications on the general economy. Besides, these choices, and how they clarify the utilization of obligation and value, have imperative ramifications on how the business can work, the danger of disappointment, execution of the business, and the potential for future development of the undertaking (Cassar, 2002)

When obtaining capital for beginning a business wander, a business visionary can profit by their own assets, additionally alluded to as (starting) insider financing. In any case, the monetary needs will rapidly increment as the start-up creates and begins to develop, particularly for imaginative new businesses trying to develop moderately quickly. For procuring outside capital, business people will meet financial specialists and loan specialists in the capital market. The reason for this market is to build esteem creation through enhancing the assignment of monetary assets. Other than money related capital, chance and administrative control are likewise dispensed in the capital market (Knivsflå, et al, 2000).

Acquisition financing from the formal hazard capital market is for the most part advantageous in any stage from the start-up stage until the point that the business is publically recorded. Financial speculators are proficient speculators looking to augment the arrival of their venture. Consequently, they will regularly contribute with scholarly capital, notwithstanding monetary capital. They give direction, guiding and bolster for the official administration, access to substantial expert systems, and

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they can add to expand the authenticity of the business. Financial speculators are for the most part slanted towards putting resources into business whose objective is to develop quickly, consequently there must be a substantiated marketable strategy supporting such destinations. The dynamic position investors take, and the assets they give past monetary help, additionally improve the probability of accomplishing this objective of quick development.

Comparison about the traditional and emerging methods in start-up s

Traditional methods characterize a reasonable arrangement for start-up companies to start rising money, and most start-up companies pass in commercial world in this technique. If start-up project founders claim their own financial capitals and cannot self-sufficiently rise the start-up without peripheral investments they typically consult the traditional financing bases like: bank loans, 3F (i.e. Friends, Family and Fools), seed investments, business angels and venture capital investments.

As venture approaches in start-up businesses are altering and developing, few innovative approaches of funding start-up plans and businesses are identified nowadays. Specific successful accelerators in world are predictable web-based sources for raising fund is: Y Combinator, TechStars, CRV Quick Start, Seed camp, Start-up bootcamp, Fundable (crowdfunding) and others. The financial in start-ups are starting towards about the emerging methods which they can gain many profits as per there methods they go. An operative financial system is one that can source financial resources to an extensive variety of companies in changing situations and channel financial capital from different sources to business investments. As banking segment remains feeble and banks alter to new controlling atmosphere, recognized investors and additional non-bank troupes, comprising affluent private investors have a prospective part to show for substantial financing gap that may extend in post-crisis environment.

Capital formation in start-ups

Incomes of venture in unpublished organization recorded under Enterprises Act could be made free of tax after a year of venturing, as allowable for enumerated corporations. This will inspire together institutional and individual partakers as to afford parity support to start-up firms and meet their non-debt investment necessities (Storey, 2016).

Incentivizing through taxation

Manufacturing individuals in systematized division may be reinvigorated by contributing lesser company tax charges, as is prepared in numerous nations, also with Japan. Otherwise, exception and businesses in Direct Tax might be measured in first three years of processes. The exception in succeeding two years might be imperfect to 50% of revenue tax obligation. It would have perceived that such a tax exception may not consequence in noteworthy income loss to regime as initial two years or so are years of scuffle for starting a business. Yet, the incentivizing message that such a tax exception will carry would be a tremendously powerful one.

Financial cycle in start-up s.

The funding and improvement phases of start-up diverge significantly reliant on source of information utilized. Conversely there is certain overlap in descriptors, it should be distinguished that this is suitable. One of main encounters challenged by a financier is supporting his project, meanwhile it is authoritative that fiscal desires of a corporate variation as corporate faces diverse encounters. The capitalist should capable to distinguish where the association in lifespan cycle, and stipulate which supporting possibility has to be utilized.

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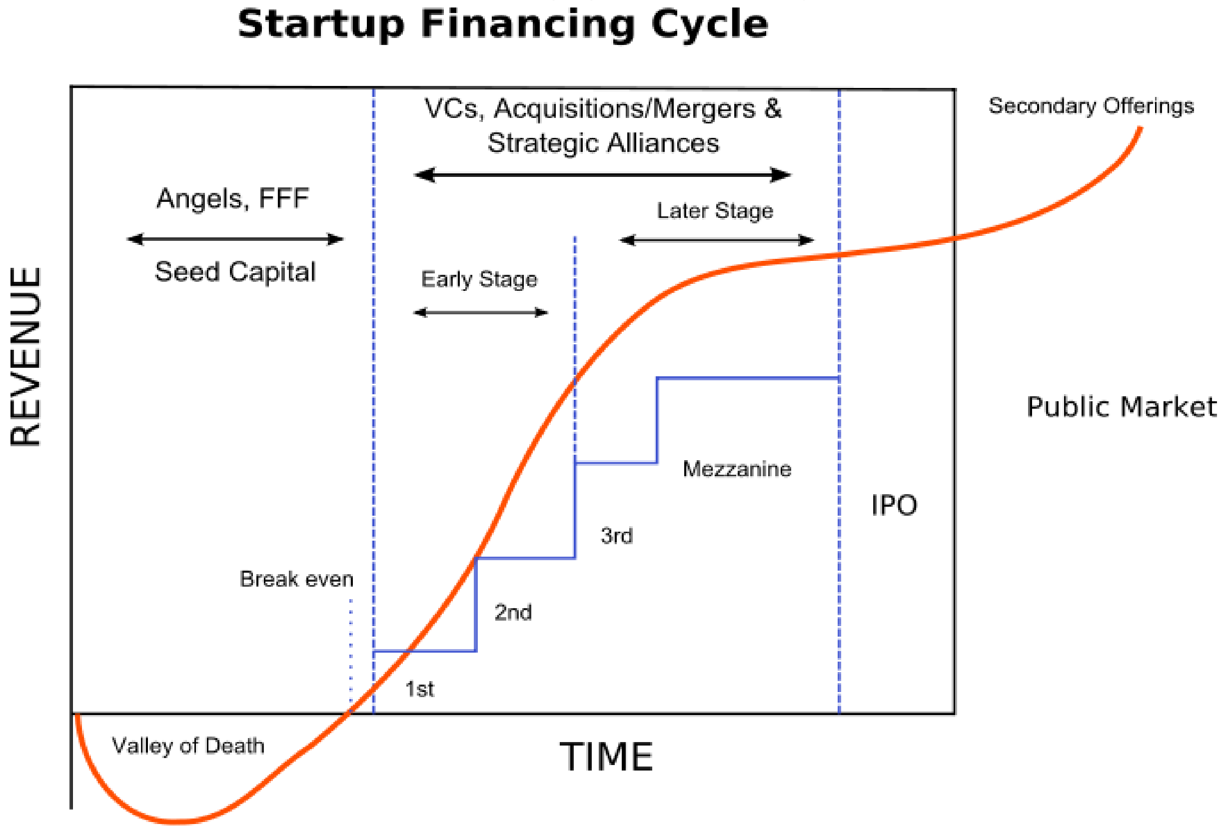
Start-ups have some exclusive possibilities for funding at various phases of their procedure. Some of best prevalent in them are Angel partakers and Venture Investments. The two possibilities support start-up corporations initiate operations, exchanging cash for an equity stake.



Start-up financial cycle

It is mostly grounded on 3 phases: 1) seed capital, 2) venture capital, 3) initial public offering.

1) Seed capital

Little sum of money prerequisite to evidence that the theory of start-up is practicable and realistic, is acknowledged as seed investment. It is usually not used to twitch a corporate over broad scale, but to explore its diverse potentials. Seed investment is further like a safeties contributing, where parties who have particular association to start-up, invest essential funds to initiate business. The people capitalizing in specific schemes are identified as Angel partakers. Seed investment possibilities be also able to engender from group subsidy. An imperative term for the passé of period among a corporation's acceptance of seed investment and its establishing a safe flow of cash is curve of Death Valley, as displayed in fig1.1. Throughout the curve, start-up is doubtful to obtain any supporting. The curve mentions to high prospect that business might miscarry throughout Death Valley curve.

2) Venture capital

Capital venture that are delivered as subsidy choice to initial-period for start-ups, generally after the venture has been financed by angel partakers. In response for venture, investment entrepreneurs anticipate a return over an ensuing comprehension occasion like IPO or vocation deal of company. Once a new start-up accomplishes to come out of Valley of Death and equally break into two phases of financing.

a) Early phase
b) Later phase

In tallying to seed investment, a definite sum of capitals is essential to get commercial systematized and operative. This start-up investment also labelled as early phase supporting. Also required is early functional investment, to assist early marketable sale of start-up's products. This is another phase of supporting, and related with intensifying corporate away from breakeven point also

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optimistic flow of cash heights. This assists trade stocks, supplies, expenses and debtors. On this opinion, scheme cannot devise accomplished an optimistic cash flow.

3) Initial Public Offering (IPO)
An IPO, frequently termed as contributing, while a company is concentrating on collective stock shares to make it public authorised for first while. This is regularly done by a start-up that has happening making profits over funds expected from Venture Capitals, and currently wants to enlarge more. IPOs as under-writers along with comprise limited investment bank. The association proposing its shares emblems an agreement with a prime underwriter to vend its shares to investors. The underwriter formerly slants investors, with proposals to vend the shares.

Technology based: examples for crowdfunding

Lets Venture

As an online funding platform Lets Venture enables start-ups which are looking to show growth in seed capital to generate online investment, and connect to accreditors investors. It is a place to connect with mentors and grow new business plans. It aims to help start-ups by funding closure process and to make more business. Lets Venture uses its funding received from angel investors that expands and grow in more global investors, founded in 2013.

TERMSHEET

Here termsheet.io accelerates to make deals once you found an investor for start-up. The Term Sheet team makes more possible tool, tactic and strategy to remove bottlenecks and more risk features in the deal making when facilitation of seed investment. Hence it is found easy to works on three points - qualifying angel investors and founders, orchestrating or syndicating funding rounds and finally, closing deals.

CATAPOOOLT

The founder's words, "The most positive facet for them is power to make funding and enable, engage and communities about the crowd funding statement. The founder Sathish and his co-founder Yogesh Karikurve have rich experience in film funding and therefore Catapooolt focus on film funding compared to other. He says, that he established this crowd funding in 2010, to bring more participation in Indian start-up eco-system. Besides setting up the funding request, they also help the start-ups in helping projects strategies their crowdfunding campaigns. To enable the creative entrepreneurs venture is the main idea. As start-up founders, most of the time focus shifts more on start-up growth than understanding internals of funding procedures.

Founder, Satish Kataria, was mentioned that he has been fallowing start-ups to mentor and grow co-operation from 2010. It has been a believer of the crowdfunding idea for start-up's. Crowdfunding also provides a platform for participants in order to involve more in making Indian eco-system to full fil their dreams in democratic funding in the event of launching. The researcher mentions that catapooolt was identified as second venture in crowdfunding as a creative idea.

GLOBEVESTOR

In two countries US and India, Globevestor operates a mix of micro-funds and an online technology platform in promising start-up's as new firm. Same like SaaS, fintech, education, IoT, transport and healthtech, Globevestor also have 32 early-stage investment.

Given these challenges and limitations of equity crowdfunding, there is a need to understand the limitations of equity crowdfunding and challenges in Indian scenario.

Risks of equity-based crowd funding

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Kirby and Worner (2014) found risks that relates to equity crowd funding as fraud risk, risk of illiquidity, platform for risk failure, risk of default, risk of cyber-attack and lack of clearness and disclosure of risks. In their very early ages the risk of default is high among them. Actual default rates of crowd funded companies are often unknown and as many platforms have recently opened; so no conclusive data is available.

Dorff (2013) referred to a study by Wiltbank et al., (2009) where angel investors were shown to not succeed reliably in present growing promising start-ups. While a very less percentage accumulated to loss, but minor percentage of the investments earned large returns. The best performing angel investor's accumulated majority of the total gains measured in the group, and likewise the few successful investments in the investment collection accounted for majority of returns.

Most crowd funding projects involve intellectual property. The Property that is disclosed can impact its legal status. In this process patent protection may be observed to be decreased as patents could be filed by wrongful parties, especially when operating in multiple countries with different legislation. Trademarks face related complications. (Wells, 2013)

Most organizations inspired by seeking after crowdfunding are additionally unfit to depend on one of the enlistment exclusions under the Securities Act and ensuing directions. The exclusions are either taken a toll restrictive or confine contributing pools to a deficient number of speculators. Right now, Regulation exempts open offerings that don't surpass $5 million over a year time frame. This exclusion still requires a backer to document a divulgence along with Securities and Exchange Commission (SEC), and is consequently here and there alluded to as a "smaller than usual enrollment". With Regulation A, a business may make general requesting to speculators, yet regardless it might be restrictively costly to enroll under the exception. By a few assessments, Regulation A revelation costs run from $40,000 to $60,000. Control D, a well-known arrangement of exclusions for certain non-open organizations, is likewise exceptionally restricting. It tops the quantity of unaccredited financial specialists, which means the individuals who do not have certain refinement or net worth benchmarks, at 35.

Furthermore, before the JOBS Act, the exclusion limited the way organizations could request speculations. With the points of confinement on the quantity of unaccredited speculators, organizations requiring to swarm source utilizing Regulation D are not ready to genuinely "source from the group" since they are constrained on the sorts of financial specialists they can have. And preceding the JOBS Act, other industries, organizations are not permitted to make general sales. While not particularly characterized under SEC controls, the authorizing body discovered that reasonable sales of venture required a prior substantive connection between the backer and the potential financial specialist. Once in a while was this the case; genuine crowdfunding was unimaginable under Regulation D (Stemler, A. R. 2013).

The elements of the entrepreneurial scene of late years has the change of the beginning period chance capital market. This is reflected in various advancements. In 5 years of time, first place following the post-2008 worldwide budgetary emergency (GFC), there has been a sharp fall in the accessibility of bank loaning to new and independent ventures, to the degree that in the UK there is an expected crevice between the interest for and supply of SME loaning of between £26 billion and £53 billion. Second, there has been an adjustment in the supply of beginning period value back, reflected in the fall of the supposed financing lift (Harrison, R. 2013).

Limitations of crowd funding

Legal limitations to crowd funding are widespread as there is no regulation for this in most countries yet. Thus, crowd funding platform holders have been cautioned that they are treading on thin ice. Van Wingerden and Ryan (2011) explained that crowd funding has faced disputes concerning to multi-investor ownership of intellectual property. A researcher in 2011, in the US gave the information about the crowd funding which is not found anywhere. The open advancement of projects disrupts the

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Financial Promotion Act in the UK and thus powers UK based crowd funding websites to only be capable to display the projects to members, making it tougher for these to be easily promoted on social networks. Firms cannot make universal solicitations for equity offerings unless they are openly listed. Caps on number of stockholders and amount of speculation are also common guidelines present in Germany, Netherlands and France. For example, in Media there should not be more than 100 stakeholders as forced by French law (Schwienbacher and Larralde, 2010). These principles aimed to protect the 'unqualified investor' which is demarcated through his speculation amount or net worth.

Equity crowdfunding is accepting consideration from policymakers as a potential wellspring of assets for new businesses, a section of the economy that has constrained access to fund. Youthful firms have no reputation and frequently need advantages to be utilized as certifications for bank credits. Additionally, data asymmetries make it troublesome for financial specialists to distinguish and assess the capability of these organizations. Customarily there have been three wellsprings of value subsidizing for youthful creative firms: founders, family and companions; angel investor speculators; and financial speculators.

The part which will be new to India would be the idea going on the web. This will hence act like a noteworthy challenge since India has not yet been exceptionally fruitful in building up a wrongdoing free digital system starting at now. There is a low put stock in level among the clients in India with regards to the validity of anything occurring on the web. In addition, the industry is likewise not extremely financial specialist agreeable. Prior, the internet business idea turned into a pattern simply because of the presentation of money down framework by organizations. It can be securely said India is as yet not ready to manage fake sites and spam sends. It can't be said to be a nation which can manage web security and mindfulness efficiently.

Further, the issue of tax evasion would likewise scale up as pastors and different partners would begin getting engaged with these crowdfunding projects. Apart from all other previously mentioned issues, the idea of crowdfunding is getting quick. US has officially made it lawful by the order of Jumpstart Our Business Start-ups Act, 2012 (JOBS Act) as are different nations, consequently such an institution ought to be sanctioned in India likewise with the goal that it is contend with different nations on rise to levels. "The jobs" Act is worldwide counterparts to our crowdfunding regime. It is extremely fundamental for a nation like India to investigate an assortment of alternatives to raise capital for its new companies. To put into impact a working model of capital raising for these start-up endeavours and little and medium scale ventures it is initially extremely basic that SEBI determines in clear words that its Regulations should be connected on the Internet destinations which will get associated with the procedure of crowdfunding. Besides, these stages ought to additionally go to the controllers with the goal that they can work in a way which is tenable and furthermore extremely straightforward in nature. Thirdly, India should have stricken the punishments and liabilities on any digital related misrepresentation that happens in order to discourage others from doing such types. Additionally, all the arrangements made ought to keep into mind the IT laws predominant in the nation. In this manner, India is prepared for receiving another idea that is being utilized overall to advance the development of its ventures.

Challenges in start-up's

The chance of facing challenges and new risks are necessary first part of start-up achievement. Though, an attentive and perceptive mind is necessary while making choices relating start-up actions to decrease any risk of failure. Though challenges were pertaining for each start-up, the purpose to overawed challenges even though in periods of misery and fate is successful start-up. Start-ups that flourish are ones that were continually in search of business chances, they are assiduous in grabbing and exploiting them moreover finding advanced customs to handle the challenges that are faced by all Start-ups.

Major challenges faced in start-ups:

- Inadequate capital and knowledge
- Absence of appropriate banking finance

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- Trade and commerce globalization
- Squat production capacity
- Inefficient market strategy
- Non-availability of vastly skilled labor at low cost
- Identification of new market
- Credit
- Exit mechanism

CROWDFUNDING PROBLEMS IN INDIA

1. As there is no legalization provided to equity-based crowd funding, it is facing some legal issues in India

2. The limitations that seek to explain about new risk and challenges of crowdfunding for money legalizations. An example of legalizing under the brand of crowdfunding is the Sahara case. These actions have directed to observe crowdfunding that comprises a big sum of money or is equity based.

3. The depositors lean towards to fraudulent including the huge sums elevated. The operation owners can be pretentious destructively. This since there is no alternative for the supporters.

4. For crowdfunding centered on lending, approval from RBI is mandatory as it comes in its guidelines. There is a necessity for documentation of procedures and disclosures associated to usage of funds and other pertinent particulars.

5. In the SEBI standards, institution can increase only up to 10 Croce by delivering equity shares. No solo depositor intends to grip more than 25% investment in a company. The sponsor should have a least of 5% equity investment in the company for at least 3 years. There is reedy line in SEBI crowdfunding procedures that would make equity crowdfunding illegal.

6. Since India is a developing platform for online trades, the digital market is vulnerable to security dangers while funding commercial models online. Additional reason why SEBI has issued principles in the name of public safety.

DISCUSSION

The present study exchange previous research in two ways. While first study highlights the value of Technology entrepreneurs and their growth for our economy. Second way identifies crowdfunding as a valuable area of research for economic growth that may need interventions. Crowdfunding esteem, explains the main challenges and bottleneck type of situations faced by the entrepreneur. From this insight, the study can help to address the real-time challenges faced by the start-up entrepreneurs on the 3C capital issues.

CONCLUSION

The present study is to understand the challenges faced by the start-up entrepreneurs and to develop a deeper understanding on the SEBI guidelines, issues faced for the pre-seed capital finances and the insufficiency of funds to run the business.The data shows that when most of the other sources remain the same, the number of employees gets reduced when there is increased time-period of the respondents. Data says that many people are not able to give them salaries and no prior career to them. Moreover, the research work has further implication of creating more awareness about the crowd funding and its benefits in India. It is seen that throw down of new risks and challenges are faced by start-up technology entrepreneurs.
The major findings were, it is not clear in India whether equity crowd funding is governed by companies Act 2013 or the platforms are doing brisk business without any obligation by sebi's Act.

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Most of the platforms are not disclosing their raised amount and SEBI declare it is un-authorised, illegal and the investors were alerted to take risk in their own.

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