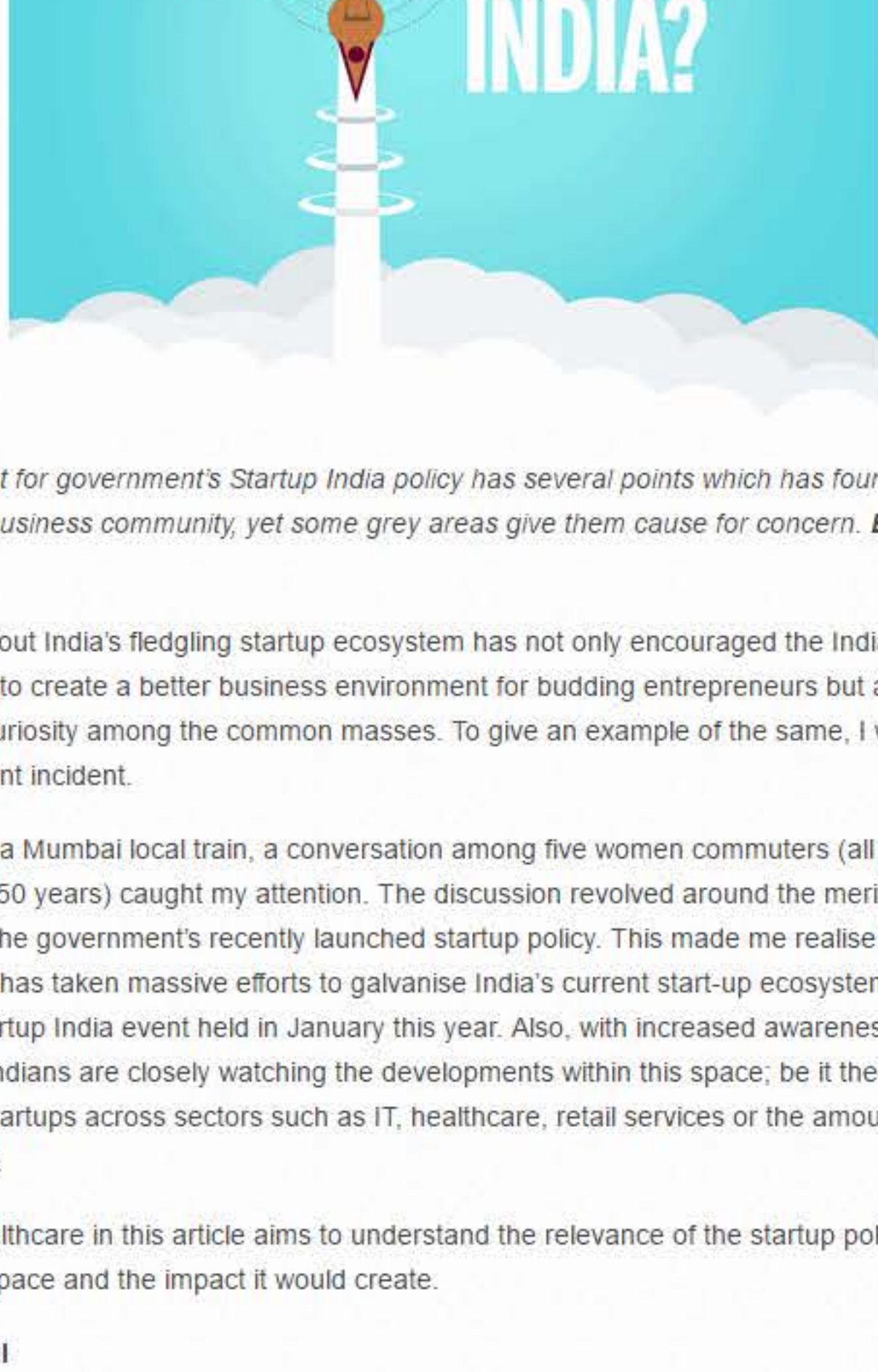


StartUp India Will It Lead To Stand Up India?

By **Raelene Kambli** on March 7, 2016



The blueprint for government's Startup India policy has several points which has found favour among the business community, yet some grey areas give them cause for concern. **By Raelene Kambli**

The buzz about India's fledgling startup ecosystem has not only encouraged the Indian government to create a better business environment for budding entrepreneurs but also generated curiosity among the common masses. To give an example of the same, I would like to share a recent incident.

Travelling in a Mumbai local train, a conversation among five women commuters (all in the age group of 35-50 years) caught my attention. The discussion revolved around the merits and demerits of the government's recently launched startup policy. This made me realise that the government has taken massive efforts to galvanise India's current start-up ecosystem through its glittering Startup India event held in January this year. Also, with increased awareness created by the media, Indians are closely watching the developments within this space; be it the escalating number of startups across sectors such as IT, healthcare, retail services or the amount of funds being raised.

Express Healthcare in this article aims to understand the relevance of the startup policy in the healthcare space and the impact it would create.

In a nutshell

PM **Narendra Modi**, on January 16, 2016, launched the eagerly awaited startup policy. It aims to boost innovation and entrepreneurship in the country and plug the gaps that hinder the growth and development of start-ups. The policy was launched as part of the 'Start-up India, Stand up India' campaign – an initiative which led to a first-of-its-kind dialogue between India's start-up community and the government. The event attracted around 40 top CEOs, startup founders and investors from the Silicon Valley as well as star entrepreneurs from India. During this event the Prime Minister, as part of an Action Plan, also announced a slew of measures that are touted to give an impetus to the fast burgeoning startup culture within the country.

Key highlights of the policy

- Defining startups:** the policy defines a startup as "an entity, incorporated or registered in India not prior to five years, with annual turnover not exceeding Rs 25 crores in any preceding financial year, working towards innovation, development, deployment or commercialisation of new products, processes or services driven by technology or intellectual property (IP)."
- Introduction of self-certification:** To reduce regulatory burden, startups can self-certify themselves, complying with the labour and environment laws. In case of labour laws, no inspections will be conducted for a period of three years. However, startups may be inspected on receipt of credible and verifiable complaint of violation, filed in writing and approved by at least one level senior to the inspecting officer. In case of environment laws, startups which fall under the 'white category' (as defined by the Central Pollution Control Board) would be able to self-certify compliance and only random checks would be carried out. This move will be beneficial to healthcare startups per se.
- Establishing a startup hub:** This will be a single point of contact for the startup community which will help ensure ease of use and provide guidance.
- Simplifying the startup process:** The **mobile app** and portal will allow startups to get registered within one day. It will also act as a platform for information sharing between startups.
- Providing legal support and accelerating patent applications:** Patents filed by startups will get priority. They will also get a rebate of 80 per cent in filing patents. This will ensure IPR protection for startups, one of their major concerns.
- Simplifying exit norms:** The exit norms and policies have been modified for startups with simple debt structures which can be fast tracked to 90 days.
- Tax exemption from capital gains:** Investors will be exempted from tax on capital gains.
- Tax holiday on profits:** Startups will get an exemption of three years.
- Introduction of 'funds of funds':** With a corpus of Rs 10,000 crores over four years, the government-sponsored fund will support startups.
- Credit guarantee fund for startups:** Government aims to catalyse entrepreneurship by providing credit to innovators across all sections of the society.
- Relaxed public procurement norms:** Eased norms on experience and turnover whilst maintaining quality and technical requirements. This is specially for the manufacturing sector, they get a level playing field with experienced companies.
- Setting up of 35 new incubators:** These will be set-up at existing institutions across the country for which 80 per cent funding by central and state governments each and 20 per cent by private sector has already been committed.
- Organising startup fests:** For promotion, visibility.
- Setting up of seven new research parks:** These will be modelled on the lines of the research park at IIT, Madras.
- Promoting biotech entrepreneurship:** Plans to set up five new bioclusters, 50 new bioclusters, 150 technology transfer offices and 20 biotech offices will heavily help the sector.

Thus, the government's action plan seeks to revitalise the startup ecosystem in the country. It has found appreciation among many national and international business leaders. During the startup event, Masayoshi Son, Chairman and CEO, Softbank called this move as the beginning of a Big Bang for India. He further said that India has the potential to surpass the US in next 25 years. Travis Kalanick, Founder of Uber applauded the government's initiative and urged the many Indian startups present at the event to keep innovating as creativity is the only way to success. Likewise, Onno Ruhl, Country Director, World Bank said, "India needs to create jobs in a big way and innovation is the key. We will support the government in every possible way." Some leading economists have called this move a revolution in the Indian entrepreneurial sector. Ease of registering a business, shutting it down, a three-year tax holiday on profits and discounts on registering intellectual property (IP) are some of the incentives that have been lauded by economists. All this and more has enthused startups in India. But, does the startup policy fit the bill for healthcare? Let's examine.

Fostering a healthy startup culture

Backed by innovation and the growing need for healthcare services, several startups have come up with an aim to change the face of healthcare as we know it. According to Amit Mookim, Country Principal, IMS Consulting Group, the Indian healthcare market today is pegged at \$100 billion and is expected to grow to \$280 billion by 2020. Hence, Mookim believes that there are enough white spaces to explore, providing an enormous opportunity for the entrepreneurs. Healthcare start-ups can tap into these prospects where the big players have not been able to penetrate. "Implementation of the Startup India policy will drive further innovation among the startups. With numerous global and domestic players – big and small – across healthcare products and services offerings, the market has increasingly become globally competitive. In such a scenario, the new age players can take a lead in breaking the archaic mode of providing services to the end customers. There has already been a surge in the last two years with the entry of numerous healthcare startups that have efficiently tried to bridge the gap between the service providers and the end-users. It is really commendable to see how these new entrants are trying to reach out to the end customers with innovative services, making the entire healthcare experience to be easy and simple," he explains.

Jagruti Bhatia, Senior Advisor-Healthcare, KPMG Advisory Services, chips in, "Given the new focus on funding innovation and expanding infrastructure, Indian startups have never had a more nurturing environment to experiment and thrive in. The factors paving the way for digital health startups in India have been in play for almost a decade now – a rapid growth in GDP, smart phone penetration and half a billion citizens under the age of 25 will add impetus to the burgeoning startup culture."

She further mentions that some of the top scoring healthcare startups such as Physiomeconnect, Arojo Home Healthcare, Avitas, Aajicare, Practo, NetMeds, Portea Medical, MedGenome, Lybrate, Attune, Relisys, 1mg, WelcomeCure, DocEngage, LiveHealth etc., could be game changers in the healthcare space.

Bhatia also feels that the newly launched startup policy will dynamise the sector and propel it towards accelerated growth. She opines, "It is designed in a way that it addresses a lot of pain points that the startup entrepreneurs faced in India. The government's 'Startup India, Stand up India' programme intends to build a strong ecosystem for nurturing innovation with a view to driving sustainable economic growth and generating large-scale employment opportunity. The Indian diaspora of entrepreneurship will be greatly enthused by the policy though we have to wait and watch for its effective implementation. But it's a great start and in my opinion, this will open up many doors for building a ground for innovations, entrepreneurship and interventions in healthcare to make a big difference and change the way healthcare maybe delivered over the next decade."

While analysts see the startup policy opening new avenues for healthcare start-ups, entrepreneurs are also optimistic as they see some interesting incentives lined up as part of the policy's action plan.

"For long, Indian entrepreneurs have depended on foreign capital for seed funding. This policy will create the momentum for the formation of seed capital in the country. Ideas themselves are incapable of doing much without adequate application of capital. Hence, this policy is a step in the right direction," opines Srinivasan HR, Vice Chairman & MD, TAKE Solutions.

Anurav Rane, Founder & CEO of PlanMyMedicalTrip. com, conveys, "In India, the biggest reason for not establishing a new organisation was the fact that they would receive no support from any experienced agencies nor would the bureaucracy support their cause. But we believe that this initiative by the government will do good to the startup culture in India."

Harpreet Singh, Director, Oxyent Group, also calls it a well-timed policy and says, "To maintain the economic growth of India at eight per cent, it is important that India produces more jobs. Since the outsourcing industry has reached to a good size, more organic growth of the country via entrepreneurship and SMEs will promote manufacturing and innovation in India. It is a fairly young country and hence it will definitely see more attempts to convert ideas into reality. Since government has eased income tax and IP registration, it will definitely provide a platform for more initiatives to be tried."

On the same lines, Saurabh Arora, Founder & CEO, Lybrate adds, "The policy that the government has come up with shows its steely resolve to encourage and catalyse the startup ecosystem, in letter and spirit. No ecosystem can establish itself fully and flourish in the absence of government and local support. Startups are doing extremely well in India, apparent from the fact that we are today ranked third when it comes to the most number of start-ups worldwide. The government has grasped the reality as to how greatly they can contribute to economic growth and this is very timely."

With so much fervour in the air, can we say that government's startup policy has brought a new lease of life for healthcare players? Or is there a catch to this situation?

The flip side and corrective measures

As the old saying goes 'There are two sides to every coin.' Likewise, the startup policy too has its share of areas that need better clarity and loopholes that need to be plugged. Let's delve into understanding them.

The definition of a startup mentioned in the policy is 'as an entity with an annual turnover not exceeding Rs 25 crores, working towards innovation, driven by technology or intellectual property.' However, the question that arises is how will the government decide whether a startup is driven by innovation? Within the healthcare space, there are many startups who are working towards resolving a healthcare need, but are not heavily driven by technology and IP. Will the government consider them as startups?

Arora also raises this point. He feels that this definition will create confusion in the minds of many. He further says that if the government decides whether a business is driven by innovation or not, it will only give rise to bureaucracy.

Additionally, to encourage seed capital investment, the government exempted tax above fair market value (FMV) for incubators in startups, which is currently only available to venture capital (VC) funds. Experts are of the opinion that this move has a drawback and the government should reconsider this provision. Gupta explains, "The whole concept of FMV is a big pain point for a startup. In most of the cases, startups try to get FMV as close as possible to the share issue price, which is an unhealthy practice. Then, we still have the issue of how we treat foreign investment. The FDI rules are still unclear and I am not sure how much this policy will prevent startups from moving to Singapore."

Another valid concern was raised by Gupta. Will this policy stem the exodus of healthcare startups to other preferred business destinations?

Difficulty in doing business is often cited as the key reason for the exodus of startups from India. The startup policy primarily aims to resolve this issue. In fact, the government has introduced capital gains exemption on startups to prevent them from moving out of India, which is certainly a welcome move. However, some startups feel that this provision remains ambiguous. "Government has not eased out on capital gains, moreover the investor funding aggregators and exit liabilities are still ill-defined in India. I feel that most entrepreneurs will still prefer Dubai and Singapore to monetise on mature ideas based on capital gains," Singh states.

Most startups also complain about the provision of tax holidays being limited to three years. Raising concerns on this provision and suggesting corrections for the same, Arora points out, "What is important for the government to understand is that how many startups become profitable in the very first three years. Perhaps, not even a handful. It takes good time for a startup to establish themselves and to let users become accustomed to their models, a time-consuming process. When users begin to understand the innovation and taste the benefits, only then will they shell out money to use the platforms. If the aim of the government is to cut the cash outflow of startups and make them financially viable, I would recommend giving tax break for the first year of profitability within six years of inception. This is likely to ensure that more companies become eligible to avail the tax benefit while at the same time the total amount of benefit remains almost the same." Moreover, some experts also feel that the government has ignored taxes such as service tax and custom duty which are very crucial to businesses that are built in the B2B space and who are also dealing in the medical equipment space. They are of the opinion that if the government really intends to boost healthcare startups, then it should also consider providing custom duty exemptions for the initial two to three years. This would be beneficial to startups in the medical equipment space who regularly import components to design their products.

Another point of worry is the establishment of the 'funds of funds' to finance startups. This provision the government will take taxpayer funds to invest in other VC funds, which in turn will fund startups. However, what is the rationale for the government to risk taxpayer funds in this?

Not just the experts, but even the common masses raise this query. Agreeing with this point, Arora elucidates, "This is debatable as it involves taxpayers' money and investing in startups is a risky bet. Government wants to stay away from directly funding the startups and thus it has found the way of doing so via VC funds. Funding is an initial roadblock that many entrepreneurs are unable to get through and many innovative ideas are nipped in the bud for that reason. To encourage budding entrepreneurs, the step is meaningful. But, against the backdrop of the thriving VC industry, the best the government can do is to make sure that the fund managers put in the money only in those companies which are actually solving the real problems of the country, like those addressing the problems of healthcare, rural education, financial issues of farmers etc. They should invest only in those startups which if capitalised has the potential to change the face of the nation."

Bhatia chooses to disagree and has a counterinterview to offer. She says, "We are aware that India is over-reliant on foreign VCs and the government needs to offset this imbalance. So, this may be an effective way to address it. Although there are mixed opinions about this as some find it to be irrational, the government is looking into these and plans to take all viewpoints into consideration. An advisory panel set up by SEBI and led by Infosys Founder NR Narayana Murthy has just submitted a report suggesting reforms to make the fund-raising environment for VC funds more conducive."

"The biggest challenge is ensuring that the funds reach the deserving entrepreneurs. It should not happen that we have a sudden splurge in new companies being created to leverage the income tax period and utilise the IP registration facilities to register non-pragmatic ideas, leveraging the current economic themes i.e. alternate energy and healthcare to all. We need to establish a systematic platform that ensures that innovative ideas are grouped in different categories and SMEs for each category are picked based on proven industry track record. This will ensure that government funding is utilised in improving maturity of the concerned industry and allows India to improve its R&D capability in the concerned industry," informs Singh.

Pradeep Dadha, Founder & CEO, Netmeds.com chips in, "Whenever there is a government programme, by nature, there will be more bureaucracy, and of course, the opportunity for mismanagement and corruption. The challenge will be to make the agency agile, efficient and fair."

Bhatia highlights another area for the government to reconsider. She says, "According to the new policy, public procurement norms relaxation maybe applicable only to startups in the manufacturing sector. This leaves technically capable startups in the fields like health IT, healthcare services etc., away from public bidding."

In times to come..

All said and done, the government, by introducing the startup policy and preparing an action plan, has created a positive environment. Though the action plan is still in its nascent stage, if implemented effectively, we can hope for better outcomes. All that is needed is concerted efforts by all stakeholders including the central government, various state governments, entrepreneurs, investors, mentors etc., to drive this mission to the next level. Kalanick's advice during the Startup India event was, "India, always be Jugaading and create magic." Paying heed to this, startups within the healthcare space should make hay while the sun shines.

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