

Obstacle Course

Archaic laws, over-regulation and corruption are creating obstacles in starting up and operating new ventures in India. Shutting down companies is even more painful, writes **Harsimran Julka**

The Roadblocks

- Registering a Company**
Takes almost a month in India, compared to just a week in the US, or just 3 days in Singapore.
- Opening a Current A/C**
Requires 6-7 set of documents, often certified by a CA. Banks decline, if a start-up doesn't possess a service tax or VAT registration
- Shutting Down**
An entrepreneur needs to present a winding up petition to the court, appoint liquidators, meet all creditors, distribute company's assets and wait for court hearings, which may take years
- Bribery**
In a global index that ranks countries with the least amount of corruption, Denmark ranks 1st, Singapore 3rd and India 94th

Regulatory roadblocks are emerging as the biggest challenge for scores of entrepreneurs catering to the growing demand for innovative services from Indian consumers.

These ventures that deliver a range of products from education, healthcare and financial services are finding themselves mired in a maze of byzantine laws and multiple compliances required across states.

"Regulatory cholesterol is very high in India, which is becoming toxic to the growth of entrepreneurship," says Manish Sabharwal, co-founder of temporary staffing firm, TeamLease. The Bangalore-based company has hired a battery of 80 lawyers to handle the various licences required to manage a portfolio of 1,200 clients. At present with 90,000 people on its rolls, Team Lease grosses a revenue of ₹1300 crore.

"It would have been 10 times larger if the regulatory cholesterol was removed by the government," says Sabharwal a graduate of the Wharton School of Business who founded the firm in 2002.

Others such as Hitesh Chaturvedi, founder of online retailer GreenDust that resells unused branded goods say they have faced instances of official harassment. At an interstate border check post, a truck bearing refurbished electronic goods from the Delhi-based retail firm was stopped and penalties levied, despite all papers being in order.

Chaturvedi and Sabharwal's frustrations are similar to those borne by many other entrepreneurs in the country, who deal with corrupt inspectors, archaic labour laws, and a lack of clarity on regulation and taxation issues.

Many of these ventures breaking new ground by using technology to deliver services ranging from mobile payments to online insurance and data services face inordinate delays in obtaining approvals to start-up.

Anand Shrivastav who founded Beam Money had to wait for five years to get a licence to start his digital payments business. The Delhi-based venture provides mobile wallets to pay mobile or direct-to-home television services bills or to shop online.

It counts ICICI Bank's m-pesa and Airtel Money as similar services. And like other mobile wallet providers, Beam Money now wants to offer mobile remittance services to



people in rural areas but current regulations do not permit it to do so.

"The technology already exists and a whole marketplace of entrepreneurs is just waiting for an RBI clearance," says Shrivastav, who expects his company to earn revenues of ₹125 crore by the end of this year.

Experts are of the view that a lack of regulatory clarity is what leads to entrepreneurs being caught in a quagmire. "Government should play the role of a facilitator not a regulator of entrepreneurship," says Krishna Tanuku, Executive Director, Wadhvani Centre for Entrepreneurship Development, Indian School of Business.

On an average it takes about four to eight weeks for a new company to be registered in India compared to a few days in many developed markets.

"After that, there is a long list of licenses which will take about eight weeks to complete. In most cases it is only after 12 weeks that a new business can expect to start up legally," says Navin Kumar, co-founder of eLagaan.com, which provides incorporation services for new ventures.

Apart from delays, entrepreneurs also face the brunt of over regulation. Online firms such as Policybazaar.com or EasyPolicy.com which sell insurance directly to customers are allowed to earn a maximum of ₹10 for a lead provided to an insurance company, whether a customer is buying a cover worth ₹1 lakh or more.

"What is the need of a regulator to fix the cost of a lead, it should be left to market forces," says Yashish Dahiya, 40, founder of Policybazaar.com.

Indian Institute of Management, Bangalore's professor of corporate strategy Rishikesh Krishna is of the view that the

enthusiasm of regulators to protect consumer interest should not kill entrepreneurship. "If a business has to send a mass SMS mailer to a large number of people, it has to now take prior approvals on the text of the SMSes," he points out.

It is the need for such compliance that mobile services company SMSGupshup is railing against. "We have 65 million users on our platform now, and why should we be held liable if someone sends an offensive SMS using our site," says Beerud Sheth, 42, who founded the firm in 2005.

While opening a company is difficult in India, shutting it down is even more painful. Entrepreneurs need to present a winding up petition to the court, appoint liquidators, meet all creditors and wait for court hearings, which may take years.

Most entrepreneurs don't wind up the company officially, even after shutting operations, a software development firm, is still running on paper, five years after we shut operations," says Saurabh Singh, founder of AppStudioz. "The registration is still valid and we are still trying to figure out a way to close it down," adds Singh, whose new firm is grossing about \$1 million a year.

Despite all the legal hurdles and obstacles put in the way of new startups, should people turn entrepreneurs in India? "Absolutely!" says Sabharwal, of TeamLease.

"If you wait for all lights to be green in India, you will never be able to start up. Success comes to those who stay alive long enough in the game, to get lucky at some point," he says.

(With Inputs from Apurva Vishwanath)

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The Problems

E-Commerce

Policy Hurdle: Ban on foreign direct investment in companies engaged in retail e-commerce
Affected parties: Online retailers who want to raise funds from foreign investors
Impact: Has led to layoffs, closure and acquisitions of some e-commerce companies who were unable to raise follow on venture capital funding

Mobile Value Added Services

Regulation: Ban on bulk SMSes, over-regulation of Do Not Call registry
Affected Parties: Has impacted bulk SMS providers, telemarketing agencies, mobile value added service providers, daily deal startups
Impact: Has led to layoffs, closure, and acquisitions of many mobile value added services companies. Has impacted the telemarketing industry

Social Media

Policy Hurdle: Websites which carry user generated content can be pulled up in court
Affected parties: Social media content websites
Impact: Very few new ventures being launched

Mobile Remittances & Digital Payments

Policy Hurdle: Ban on encashing currency by users of mobile money products
Affected parties: Financial services startups, telcos and mobile money startups
Impact: Hampering launch of new business models that revolve around online payments.

No of Days it takes to Start a Company

India	27
Canada	5
US	6
UK	13
Singapore	3
New Zealand	1
Pakistan	27
China	31
Chile	8
Sri Lanka	7

SOURCE: WORLD BANK

India's Strengths & Weaknesses as a Market:

- Strengths**
- Cost competitiveness
 - Skilled workforce
 - Large domestic economy
 - Access to financing
 - Keen interest from foreign investors
 - Strong fiscal policy
 - Policy stability & predictability
- Weaknesses**
- Poor business legislation
 - Poor basic infrastructure
 - Inadequate health & environment safety
 - Bribery & corruption
 - Exchange rate volatility
 - Low broadband rate

India Slips In Competitiveness Ranks

RANKINGS	2013	2012
USA	1	2
Switzerland	2	3
Hong Kong	3	1
Sweden	4	5
Singapore	5	4
Norway	6	8
Canada	7	6
India	40	35

SOURCE: IMD

Six Tips to Boost Startups

Expert View

An early-stage investor who has backed over half a dozen companies including mobile services venture ZipDial and business software maker Hotelogix, **Sunil K Goyal** now helms, YourNest Angel Fund, which invests in early stage companies. In conversation with **Harsimran Julka**, Goyal, who earlier led the direct-to-home services at Bharti Airtel, lists out six things the government must do to boost entrepreneurship.



SINGLE WINDOW TO STARTUP:

In an index that measures the ease of starting a business in a country, India ranks 173rd. It can inch up the index by ensuring that a single application covers all aspects required to first register a company. With a similar process followed subsequently to obtain mandatory certification for employee benefits including provident fund, gratuity and professional tax.

SIMPLE NORMS TO SHUT DOWN:

Given the high risk of failure for startups, the procedures for winding-up a small and medium business must also be simplified. Startups must be encouraged to adopt a formal corporate entity rather than the current way of sole proprietorship or partnership firm as the former is more transparent and accountable.

STARTUP TAX SOS:

Small enterprises require time to grow into healthy businesses; therefore there is need for concessions in the early days. They should be allowed the benefit of self-regulation and self-compliance with stringent penalties for prevention of potential misuse. Steps in these directions can save valuable time and make them competitive globally.

OFFER INCENTIVES FOR INVESTORS:

All savings of high-net worth individuals goes into government securities, gold, fixed income securities and real estate instead of risk capital. They should be allowed to re-invest their capital gains in domestic venture capital funds in addition to RBI Bonds. Currently, the capital gains from one residential property can be re-invested in another and tax can be saved under Section 54 of the Income Tax Act. Startups require a similar provision.

ALLOW PENSION FUNDS TO INVEST IN STARTUPS:

Indian venture funds attract capital from global pension and provident funds and insurance companies. Strangely, Indian Institutions are not allowed to invest even a small portion of their corpus in funds that back entrepreneurial startups.

SIMPLIFY FUND INFLOW FROM NRIS:

It takes months to convince a non-resident India, but has recently started acquiring customers in the North in cities such as Delhi and Kanpur. The company has also found cli-

Having worked in the US, I have seen their govt officials work with startups to understand if a law needs a change. In India, officials cause more obstruction than facilitation

Hitendra Chaturvedi | Founder & CEO, *GreenDust*

It takes about 4-8 weeks for a new company to be registered in India compared to few days in other developed markets

Navin Kumar | Founder & CEO, *eLagaan.com*

It's a matter of fifteen minutes to incorporate a company in Delaware, in India it takes almost a month

Girish Ramdas | Co-founder & CEO, *Magzter Inc*

Companies here somehow operate through jugaad, but there is a limit to jugaad as well. Many startups remain dwarfs for the same reason till the end of their lifecycle

Manish Sabharwal | Co-Founder, *TeamLease Services*

Creating Talktime for Machines

Chennai-based Nimble helps enterprises wirelessly manage their remote assets without human intervention

Beyond Links

Nimble Wireless
Founded in 2007 by two friends
Siva Sivakumar (in pic) wireless industry expert and **Naveen Sabapathy** a telecommunication product manager

WHAT IT DOES
Provide machine to machine communication technology which helps enterprises and customers wirelessly connect, control and manage their remote assets without human intervention

SCOPE
The IoT and M2M market is expected to grow from \$44 billion in 2011 to **\$290 billion** by 2017, at an estimated CAGR of 30.1% from 2012 to 2017, according to research firm MarketsandMarkets

HOW IT DOES
By providing M2M and connected wireless products and services encompassing cellular, Global Positioning System, WiFi, Radio-frequency identification and Zigbee technologies

Customers
• INDUS TOWERS
• TATA TELESERVICES • ELEKTRONIKA SALES
• MAHARASHTRA STATE ELECTRICITY BOARD

Hot Startup

PEERZADA ABRAR

Making machines talk to each other is proving to be smart business for a Chennai-based technology venture that uses wireless communication to build a range of novel applications.

Nimble Wireless, co-founded by former Qualcomm employee Siva Sivakumar, develops technology used to track loan repayments by consumers in the US as well as to monitor the health of hundreds of telecom towers in India, without human intervention.

"Wireless technologies revolutionised how people connected with each other. A similar revolution is now happening with machines communicating with each other," says Sivakumar, an engineer from the Coimbatore Institute of Technology, who spent almost two decades in the US telecom industry before returning in 2007.

He teamed up with friend Naveen Sabapathy to launch his first entrepreneurial venture, a handset design services firm, which proved to be a non-starter because of stiff competition from established players. Realising the need for a pivot in business strategy, the duo decided to build wireless products that could link machines with each other. "We were laying tracks as the train approached," says Sivakumar, who quickly rolled out a variety of applications for both local and overseas customers.

The market for such products based on machine-to-machine communications is expected to grow from \$44 billion (₹2.47 lakh crore) in 2011 to \$290

billion (₹16.30 lakh crore) by 2017, says to research firm MarketsandMarkets.

In India, Nimble has customers including Tata Teleservices, Maharashtra State Electricity board and telecom tower operator Indus Towers, which works with telecom majors Airtel, Idea and Vodafone.

Sensors developed by the Chennai-based startup are deployed in about 500 telecom towers. These help to manage the towers remotely and gather real-time insights such as health of batteries, temperature and diesel fuel levels.

For Maharashtra State Electricity Board, Nimble has set up a smart metering system, where electricity consumption is transmitted wirelessly to handheld devices of field employees and the electricity department. Experts say although managing remote assets is a big opportunity; it requires clear value addition and a strong relationship with partners.

"It is a question of providing right applications," said Shashikanth Suryanarayanan, a professor at IIT-Bombay.

In the US, Nimble's technology has proved useful in recovering stolen goods, by helping to track a stolen truck loaded with a consignment worth \$200,000 (₹1.1 crore) within an hour of the crime being reported.

For another customer that retails high-end consumer electronics, the Chennai-based venture has built a novel application. When customers fail to repay monthly installments on expensive pianos, an embedded sensor within disables the instrument.

"It all boils down to money. Saving more money through increasing efficiencies makes profit," says David McCartney, co-founder of M2M

DataSmart, a US-based wireless data service provider, which is a customer of Nimble.

Nimble, which now has a team of 25 engineers, has crossed a turnover of ₹3 crore and aims to clock revenues of ₹15 crore by 2014. This estimated three-fold increase in revenues will be driven by the company's ability to build simpler commercial applications based on machine-to-machine communication.

"This is very similar to Apple providing the iPhone as a vehicle to write apps on—they made it simple," says McCartney of M2M DataSmart.

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Is yours a Hot Startup?

FIND OUT WITH THIS QUIZ

- Do you have enough cash to tide over operating expenses for six months?** Y/N
- Do you have a team that can steer the business in your absence?** Y/N
- Have you launched a product or service in the market?** Y/N
- Do you have paying customers?** Y/N
- Are you earning profits?** Y/N

A score of 4/5 makes yours a hot startup. If you know of such a compelling firm, please write to us at indiaemerging@timesgroup.com

DEAL CORNER

Inventus Leads \$2m Funding in eDreams Edusoft

Bangalore based education technology venture eDreams Edusoft has raised \$2 million (about ₹11 crore) in second round of funding from Inventus Capital Partners and existing investors Mumbai Angels. Inventus has led the investment.

"The funding is mainly for expanding our reach beyond South India. We will also invest in product development," said Rajeev Pathak, who co-founded eDreams in 2010. The company has developed FunToot, a cloud-based software that uses artificial intelligence and natural language processing tools to give personalised tutoring. The software, which costs between ₹150 and ₹300 a student per month, is used by over 20,000 children in over 30 schools.

The company has so far focused on South India, but has recently started acquiring customers in the North in cities such as Delhi and Kanpur. The company has also found cli-

ents in smaller towns such as Chikamagalur in Karnataka and Chalakudi in Kerala.

Rutvik Doshi, Principal at Inventus, said that schools are struggling to provide individual attention. "Providing personalised learning to each child is one of the greatest challenges of modern schooling system. FunToot is a significant innovation at solving this challenge," said Doshi. The product is available at present only for mathematics tutoring. A part of the funding, Pathak said, will be used to develop similar tutoring tools for Science and English. These products will be deployed in the next academic year.

The education sector has witnessed a spate of investments this year. RankJunction, MeritNation, Learnpedia, Eduraft and MeraCareerGuide are some of the firms that raised venture funding since December 2012.

RADHIKA P NAIK

HealthCare Global Buys Major Pie in Assisted Conception Centre

Cancer care provider HealthCare Global Enterprises has acquired a majority stake in Bangalore Assisted Conception Centre, a leading provider of fertility care. The company founded in 1990 by Kamini A. Rao operates four fertility centers across Bangalore. These will now be rebranded as Milann - The Fertility Centre. "We will build upon this expertise to help establish the nation's leading fertility care provider," said BS Ajaikumar,

chief executive of Healthcare Global. The fertility services market which is unorganised in the country has started to receive attention from investors in the recent past. This month Manipal Health Enterprises announced an investment of ₹40 crore in Ankur Healthcare, a specialty firm focused on services in areas like reproductive medicine and men's health, particularly male infertility and sexual dysfunction.