



Defence Start-ups

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What is a Start-up?

- A Start-up is a young company founded by one or more entrepreneurs to develop a unique product or service and bring it to market.
- A startup is a newly established company, typically in the early stages of development, that is designed for rapidly growing industries by offering a unique product or service. Startups are often characterized by their innovative and disruptive nature, as they seek to enter and transform established markets.

Definition

- A start-up is a venture that is initiated by its founders around an idea or a problem with a potential for significant business opportunity and impact.
- A startup company is a newly formed business with particular momentum behind it based on perceived demand for its product or service. The intention of a start-up is to grow rapidly as a result of offering something that addresses a particular market gap.
- A small business that has just been started.
- The Global Entrepreneurship Monitor (GEM) defines a startup as "a newly created firm that has the potential to grow rapidly and create significant economic value, often through the development of innovative products or services" (GEM, 2021).

- The exact definition of a startup can vary depending on the context and industry. However, the common characteristics of a startup include a high level of uncertainty, a focus on experimentation and learning, and a willingness to pivot the business strategy as needed.
- In short, a startup is a process that starts with a venture idea or opportunity, followed by an intended individual entrepreneur, who organizes a series of activities, creates competency, and mobilizes resources, using his/her networks in an environment in order to create value.

Process of creation of Start-up

- **Idea**
- Shaping entrepreneurial **Intention**
- **Preparation** – Mobilisation of resources, create competence and organise activities
- **Networking**
- **Entry**
- **Value Creation**
- **Exit**

Steps to create a startup.

- Choosing a legal structure – whether it is sole proprietorship or partnership or limited liability company or a corporation.
- Director Identification Number (DIN) & Digital signature Certificate (DSC) – if registered as company, it must obtain DIN and DSC
- Name and Logo registration – register with registrar of companies.
- Necessary Licenses – different Industries require different licenses
- Business registration – register with registrar of companies or MSME etc.
- Memorandum of Association (MOA) and Articles of Association (AOA) – have to be registered with registrar of companies
- Tax registration – register for PAN/GST/tax identification number
- Open bank account – current business account
- Intellectual property protection – If startup has any IP, protect/register it.
- Compliance with regulations – such as labour laws, environment laws etc.

Why do we require start-ups in India?

- To create India into a job creator's from job seekers
- New Innovations
- New Ideas make life simpler
- Huge Number of VCs are interested in investing
- Fill the gaps in growth and development in the country
- Government initiatives
- Healthy Competition

Start-up ecosystem in India

- India has emerged as the 3rd largest ecosystem for startups globally with over 77,000 DPIIT-recognized startups across 656 districts of the country as of 29th August 2022.
- India ranks #2nd in innovation quality with top positions in the quality of scientific publications and the quality of its universities among middle-income economies. The innovation in India is not just limited to certain sectors. We have recognized startups solving problems in 56 diverse industrial sectors with 13% from IT services, 9% healthcare and life sciences, 7% education, 5% professional and commercial services, 5% agriculture and 5% food & beverages.

Unicorns, Gazelles, Cheetahs

- Unicorn is a term used in the venture capital industry to describe a privately held startup company with a value of over \$1 billion.
- “Gazelle” is a startup founded after 2000 with the potential to go unicorn in two years. They have an estimate valuation ranging from \$500 million to \$1 billion.
- Cheetah may go to unicorn in next four years. Valuation of Cheetahs range from \$200 million to \$500 million

Unicorns Of India

- As of 07th September 2022, India is home to 107 unicorns with a total valuation of \$ 340.79 Bn.
- The year 2021, 2020, and 2019 saw the birth of the maximum number of Indian unicorns with 44, 11, and 7 unicorns coming each year, respectively.
- Geographically, the center of India's high-tech industry, Bengaluru is India's unicorn capital with the largest number of unicorns headquarters followed by Delhi (NCR) and Mumbai.
- Mensa Brands took only 6 months to become a unicorn in 2021, making it one of fastest unicorns in Asia.
- Some one of big unicorn names that offered an IPO include Zomato, Nykaa, PolicyBazaar, Paytm and Freshworks, while many are already in line such as Delhivery, Mobikwik and CarDekho.

Conditions to be fulfilled to be a startup.. (Eligible Startup)

An entity shall be considered as a startup, if it satisfies all the following condition:

a. If it is incorporated/registered as any of the followings:

- a. Private Limited Company (as defined in Companies Act, 2013).
- b. Partnership Firm (registered under Partnership Act, 1932).
- c. Limited Liability Partnership (registered under Limited Liability Partnership Act, 2008).
- d. One Person Company (as defined in Companies Act, 2013).

Provided that such entity is not formed by splitting up or reconstruction of a business already in existence.

b. It has not completed ten years since incorporation/registration as above.

c. Its turnover for any of the financial years has not exceeded INR 100 Crore.

d. It satisfies any of the following conditions:

i) It is working towards:

Innovation of new products/processes/services or

Development of new products/processes/services or

Improvement of existing products/processes/services

ii) It is a scalable business model with a high potential of:

Employment generation or

Wealth creation.

The Action Plan is divided across the following areas:

- Simplification and Handholding
- Funding Support and Incentives
- Industry-Academia Partnership and Incubation

Registration of startup

Company (which satisfies the meaning of start-up) may apply to be recognized by Department for Promotion of Industry and Internal Trade (DPIIT) using startup India portal

Requirements for recognition:

- a. Certificate of Incorporation/Registration and PAN
- b. Total No. of directors/partners and details of each director/partner with respect to Name, Mobile No., Email ID and complete address.
- c. Entity details with respect to Industry, sector and category in which it deals.
- d. Details of Authorised Representative (Name, Designation, Mobile No. and Email ID)
- e. Number of Employees including founders.

- f. Whether any awards/recognition received by the entity? if yes, need to upload document with respect to award/recognition received.
- g. What is the problem the startup is solving? It needs to be explained in maximum 250 words.
- h. How does your startup propose to solve above mentioned problem? It needs to be explained in maximum 250 words.
- i. What is the uniqueness of your solution? It needs to be explained in maximum 250 words.
- j. How does your startup generate revenue? It needs to be explained in maximum 250 words.
- k. Links or upload additional document to support your application. (eg. Website link, Videos, Pitch Deck, Patents, etc.). It is mandatory to provide any one.

Benefits of Startup Recognition by DPIIT

- a. Various benefits with respect to Intellectual Property Rights (IPR)
- b. Relaxation in Public Procurement Norms for Startups
- c. Self-Certification of Compliance with Labour & Environment Laws
- d. Faster Exit
- e. Income Tax Exemption under section 80IAC for 3 years
- f. Fund of Funds for Startups
 - The flow of funds is Government > SIDBI > Venture Capitals > Startups.
- g. Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE)
- h. Tax Exemptions on Capital Gains

IPR Benefits

Startups are provided following benefits with respect to intellectual property rights:

- i) Startups are provided **80% rebate** in filing of patent application and **50% rebate** in filing of trademark application.
- ii) **Speedy examination** & disposal of patent application is provided in respect of startups.
- iii) A panel of **facilitators are provided to startups to assist in filing of application** for intellectual property rights such as patents and trademarks. **Central Government bears the entire fees of the facilitators** for any number of patents, trademarks or designs, and Startups only bear the cost of the statutory fees payable.

As per latest data released by government more than 1000 applicants have received fee benefits and more than 4000 IPR facilitators available to assist startups in getting IPRs.

Public Procurement Norms

- Generally when a tender is issued by a government entity or public sector undertaking, it has a requirement of either prior experience or turnover. Generally, startups fail to meet the criteria to participate in the tender.
- In order to promote startups in manufacturing sector at par with well experienced entrepreneurs/companies having high turnover government has **exempted startups from the criteria of prior experience or turnover**. However, no relaxation has been granted with respect to quality standards or technical parameters.

Self-certifications

- In order to reduce the regulatory burden on Startups, it has been allowed to **self-certify compliances with certain labour & environment laws** for a period of three years from the date of incorporation.
- In respect of labour laws **no inspection** will be carried out unless they receive a credible & verifiable complaint of violation, filed in writing and approved by at least one level senior to the inspecting officer.

Exit

- Due to innovative nature of Startups, unfortunately a significant percentage of startups fail to succeed.
- In the event of a startup failure, it is important to **reallocate capital** and resources left to more productive options available and therefore, **a swift and simple winding up process** has been set up for Startups.
- This will promote entrepreneurs to experiment with new and innovative ideas, without having the fear of facing a complex and long-drawn exit process where their capital remain needlessly stuck.

Tax Exemption

- With a view to stimulate the development of Startups in India and provide them a competitive platform, **tax exemption to recognised startups for 3 years on approval basis** has been allowed.
- Startups incorporated on or after 1st April 2016 can apply for income tax exemption under section 80IAC of the Income Tax Act, 1961.
- The Inter-Ministerial Board validates the innovative nature of the business for granting Income Tax Exemption.
- The recognized Startups that are granted an Inter-Ministerial Board Certificate are exempted from income-tax for a period of **3 consecutive years out of 10 years since incorporation.**

Why do we require start-ups in defence sector?

- Defence start-ups can be involved in a wide range of activities, from developing new weapons systems and military equipment to designing and building software applications that can help the military operate more effectively.
- **Agility and speed:** Start-ups are typically more agile and faster to develop new products and technologies than larger, more established defence contractors.

- **Innovation:** Start-ups are often more willing to take risks and explore new ideas than larger companies, which can lead to more innovative products and solutions.
- **Cost-effectiveness:** Start-ups are often more cost-effective than larger companies, as they have lower overheads and can be more efficient in their operations.
- **Flexibility:** Start-ups can be more flexible in their approach to developing products and solutions, as they are not bound by the same bureaucratic processes and procedures as larger companies.

Other reasons include...

- To promote indigenization
- Indian Designed, Developed and Manufactured' (IDDM)
- India imports nearly 60% of its defence equipment, spending close to \$6.4 billion every year
- Aatmanirbhar Mission

What are Defence start-ups?

- In the defense context, a startup refers to a company that is focused on developing innovative technologies, products, or services to support military and defense organizations. These startups often operate in a highly regulated and complex industry, with a focus on addressing the specific needs and requirements of the defense sector.
- The Defense Innovation Unit (DIU) defines a defense startup as "a company that develops and delivers innovative technology solutions for national security challenges" (DIU, n.d.). These startups typically focus on areas such as cybersecurity, artificial intelligence, unmanned systems, and advanced manufacturing.

Defense startups are often characterized by their agility, speed, and willingness to take risks to develop solutions that meet the needs of the defense industry. They are also often heavily involved in working with government agencies and defense contractors to secure funding and contracts to support their growth.

Innovations for Defence Excellence (iDEX)

- aim to achieve self-reliance and to foster innovation and technology development in Defence and Aerospace Sectors by engaging Industries including MSMEs, start-ups, individual innovators, R&D institutes and academia.
- the projects or problem statements are identified based on the requirements projected by the Armed Forces, OFB&DPSUs.
- 58 iDEX winners have so far been identified for 18 problem statements/challenges under three rounds of Defence India Startup Challenge (DISC).
- Separate procedure for 'Make-II' category (Industry funded)

Initiatives - set up innovative centres in institutions and organizations

- DRDO has created eight Advanced technology centres across India to carryout research activities in the identified futuristic/new technology areas
- Atal Innovation Mission (AIM), NITI Aayog has set up a total of 68 Incubation centres across the country
- iDEX envisages to engage with existing Defence Innovation Hubs (defence related MSME clusters) and create new hubs where innovators can get information about needs and feedback from the services directly and create solutions for India's major defence platforms. 9 Institutions have been identified and are working as partner incubators to support activities under iDEX.

Some startups

- **ideaForge, Tonbo Imaging, CM Environsystems, and VizExperts**
- **CRON Systems** - developing IoT-based products to help the armed forces deploy border security solutions. - Kavach security system
- **Asteria Aerospace** is a robotics and artificial intelligence startup, which provides drone-based solutions to the military, paramilitary, and police forces for security and surveillance purposes.

- **Optimized Electrotech** is an electro-optic startup that provides security and surveillance solutions.
- **VINVELI** - focuses on providing solutions to the aerospace and robotics industry. - involved in building Unmanned Aerial Vehicles (UAV) for both commercial and defence purposes.
- **Big Bang Boom Solutions** - involved in developing integrated intellectual properties for defence purposes - T-Series Unmanned Tank Development, BN (boron nitrate) based Hybrid Personal Combat Armour, 360 Advance Battle Interface, Flying Warden-drones for riot control, and smart fencing system, among others.

What Next?

- Do we have enough laws to regulate the functioning of start-up?
- What is the role of government, when they are providing funds?
- How is data pooled? and data used?
- What about dual - use technologies?
- How are products chosen, when there are multiple products?



Thank You