



THE START UP GUIDE

Today, India is a thriving consumer & technology driven market with a scope for exponential growth. Entrepreneurs are tapping this opportunity through sustainable and tailor-made customer centric business models at affordable prices and redefining the dynamics of business through use of technology.

India is a home to 35+ unicorn startups, out of which 11 startups joined the unicorn club in the pandemic hit year 2020 alone and 10 more in 2021 so far.

Bengaluru, the startup capital of India, has been ranked in the world's top 30 startup ecosystem¹.

While India makes a mark on the VUCA map, your startup is your personal opportunity to create an impact in the world.

¹ The Global Startup Ecosystem Report 2020 by Startup Genome

LIFECYCLE OF A STARTUP

1

PRE-INCORPORATION

2

LAUNCH OF BUSINESS

3

RUNNING YOUR BUSINESS

4

RAISING CAPITAL

1

PRE-INCORPORATION

It all starts with an IDEA!

“Ideas can be life-changing. Sometimes all you need to open the door is just one more good idea”- *Jim Rohn*.

The first step towards starting up is to validate your idea, through family, friends and most importantly, your target customers. Use smoke tests, conduct a survey, assess yourself.

Business Plan

A clear and well-laid out business plan is crucial when you want to start running a business. Documenting your business objectives, resources you plan to use, operations that need to be performed, your risk appetite and numbers that you expect to fetch on your financials will help in organizing your ideas and give your business the right direction.

Once your idea is validated, go to the next step of giving your business a formal identity.

HOW TO CHOOSE THE RIGHT TYPE OF ENTITY

The first question that arises is what type of entity is the best fit for your business

Your choice of the type of legal structure for your business should be based on your short term and long term business goals.

It is one of the most important choices at the start of your business as it determines the personal liability you face, your ability to raise capital, distribution of business profits, the taxes you will pay and the amount of paperwork and administration costs coming your way.

TYPE OF ENTITY

WHAT WORKS WHEN

Sole Proprietorship

Advisable at the Idea Validation Stage where the business idea may be tested without incurring a significant expense and minimal formalities.

Partnership Firm

Advisable when the partners are closely associated and the business does not require external capital. Also provides greater autonomy in decision making and flexibility in running the business

Limited Liability Partnership (LLP)

Advisable when the partners are professionally associated and the business does not require external capital, also when partners wish to limit their personal liability as in case of a Private company yet enjoy the flexibility of a partnership firm.

Private Limited Company

Advisable for a business that requires raising funds from external investors as it enables the investor to hold a stake in the business or when it plans to share ownership with employees by issuing stock incentives.

“Our only advice to all entrepreneurs is to *START!*”

2

LAUNCH OF BUSINESS

“Vision without execution is just hallucination” – Thomas Edison

Once incorporated, your business may immediately need contractual relationships, IPR protection and mandatory licenses to launch business operations.

Then the founders can focus on core business competencies and eliminate the possibility of regulatory or compliance related hassles.

CONTRACTUAL RELATIONSHIPS

Contractual relationships are very important from a business point of view to formalize on clear terms of a business transaction or an arrangement. Startups typically find themselves entering into the following contractual relationships:

1. *Co-founders Agreement*

A Co-founders Agreement is a formal arrangement with your Co-founders. It puts forward the equity distribution terms, IPR ownership, initial investments, roles & responsibilities and designation of each Co-founder.

2. *Shareholders' Agreement*

An agreement amongst shareholders of a company, segregating the ownership and management of the company. It also stipulates the rights and obligations of the shareholders and board of directors.

3. *Term Sheet*

Any startup requires investments to get off the ground. A Term Sheet works as an initial offer of investment in a company. It describes the terms on which the Investor will invest in the company, however does not hold any binding value.

4. *Non-Disclosure Agreement (NDA)*

Non-Disclosure Agreement safeguards any confidential information that is shared with a third party.

5. Employment Agreement

An agreement to govern the employer-employee relationship.

6. Vendor Agreement

A Vendor Agreement is typically used in circumstances where an outworker is hired or where services/ goods are purchased for business.

7. Service Agreement

A Service Agreement is a document between the service provider and a customer enumerating the nuances of how the service will be provided and the obligations of the service provider.

8. SaaS Agreement

SaaS Agreement stands for "Software-As-A-Service" Agreement. It is a type of Service Agreement which sets out the terms for provision and delivery of software services to customers through the internet.

9. Terms & Conditions

Terms & Conditions policy defines the relationship between the service provider and a user and is typically used on e-commerce platforms.

10. Privacy Policy

A privacy policy outlines how the user data collected by the business from a user shall be utilized by the service provider

INTELLECTUAL PROPERTY RIGHTS (IPR)

	TRADEMARK	COPYRIGHT	PATENT
<i>Nature of Right</i>	Protects symbolic expression	Protects creative expression	Protects functional expression
<i>Type of Protection</i>	A visual symbol which may be a word, signature, name, device, label, numerals or a combination of colors used by one undertaking on goods or services distinguishing one brand/business from another	Any type of tangible original literary, dramatic, musical and artistic works and cinematograph films and sound recordings from unauthorized uses.	Any type of invention which has industry application and commercial viability.
<i>Ideal time of Application for Protection</i>	Advisable before or as soon as business operations under the brand name have started.	Acquisition of copyright is automatic and it does not require any formality. However registration is recommended to prove valid ownership.	The application for patent should be filed before the publication of the invention and till then it should not be disclosed or published.
<i>Duration of Protection</i>	Trademark protection is valid for 10 years from the registration of the mark.	Literary or musical or artistic works are granted copyright protection period which extends throughout the lifetime of the author and upto 60 years after his/her death	Patent protection is granted for a period of 20 years from the date of registration. A renewal fee is payable from 3rd year onwards. After the lapse of 20 years, the subject matter of patent is not entitled to any protection.
<i>Examples</i>	Symbols, Logos, Names	Source codes, music compositions, books etc.	Innovative Technology, New Products.

LICENSES

When you start your business operations, you have to apply for certain licenses, depending upon the national and state laws governing your business and the nature and size of your business. Some of the basic licenses are listed below:

1. Startup India & IMBC registration

It is a voluntary registration. Eligible start-ups may get registered with DIPP through their website or mobile app & apply to get Inter-Ministerial Board Certificate ("IMBC") to obtain tax holiday for 100% profit for 3 consecutive years out of 7 years from incorporation. Relaxation is also available from Angel tax provisions and carry forward of losses u/s 79 of Income Tax Act, 1961.

In addition to income tax benefits, a registered start up is also entitled to other operational relaxations and rebates in patent and trademark filing. A registered startup can also become a part of Startup Hub, a Central Govt initiative, which helps them to connect with mentors, incubators and investors.

2. MSME registration

Startup can get voluntary MSME registration by satisfying Investment & Turnover criteria specified to get benefits such as loans without collaterals, reduction in interest on loans, reimbursement of ISO certification charges.

It helps to reduce the collection period of receivables as a buyer is expected to make a payment for the goods/services within 15 days of the purchase. If the buyer delays the payment for more than 45 days, the enterprise is eligible to charge compound interest which is 3 times the rate notified by RBI

3. Shops & Establishment License

Shops and establishment registration requirements are governed by respective state laws and are applicable to all commercial establishments.

4. Employee Provident Fund (EPF)

Establishments with 20 or more employees are required by law to register for the EPF scheme within a month of reaching the threshold, or it can also get registration voluntarily.

5. Professional Tax (PT)

Article 276 of the Constitution empowers the state governments to levy professional tax with a maximum cap of INR 2,500/annum. Amount of PT liability to deduct based on different slabs & registration are governed by respective state governments.

6. Goods and Services Tax (GST)

GST envisages bringing together all the indirect taxes in India under one umbrella tax. The threshold applicable for registration differs from state to state. GST rate will be applicable based on the nature of supply. Supplier has to charge GST on the sales he makes & remits the balance to the government after deducting the eligible Input Tax Credit available on purchases on satisfaction of applicable conditions.

Exports are not chargeable to GST & the supplier can get the refund for tax paid on purchases if the LTU (Letter of undertaking) is obtained.

GST to be paid on import of services for business by the importer.

An E-commerce operator has to obtain separate registration to deduct TCS on net amount payable to the original supplier.

Apart from these generic licenses, various specific licenses may also be required viz. TRAI licensing, DoT licensing, IT/ITes Licensing etc. depending on the nature of your business and the industry in which you operate.

3

RUNNING THE BUSINESS

*“The ability to convert ideas to things
is the secret of outward success” –
Henry Ward Beecher*

Running your business hinges on one word - Sustainability.

The strategy you employ to achieve short term goals accumulating into your long-term goals requires a clear visibility of your business plan, important milestones and a systematic tracking of your progress.

When sustainability becomes a part of your organization's culture, you know your business is here to stay.

Before your business can grow and sustain its momentum, the following actions need to be performed to ensure your company builds a strong foundation for long term success:

Diligent Book Keeping

To keep record of all the financial transactions of the business according to the applicable accounting framework and regulatory standards. This gives a clear understanding of the financial performance of the business over a period of time and financial position of the business as on date.

Adequate Budgeting

Budgeting is essential to set targets for your business in terms of revenues and expenses. Benchmarking these budgets with actual performance provides clarity as to where your business is heading and helps to maintain discipline over inflow & outflow of funds by taking corrective actions, as needed.

Management Information System (MIS)

MIS is a tool for transforming the data collected into information of the business. This assists the management in charting the road map for the business, taking strategic decisions and enabling growth of the business.

Internal Audit

Internal audit helps to identify the operational inefficiencies of the business in a detailed manner and take measures to address them. This paves the way for effective management and brings stability in business. Risk analysis helps to identify & manage the risks according to risk appetite of the management in an effective manner.

Compliance

If compliance feels like an expense, non-compliance will end up in a loss for your business. Certain compliances ought to be done within a stipulated time period and are essential to keep the regulators at bay.

Primary compliances are as follows:

- Annual Filing of Income Tax returns within due dates.
- Annual Filings of audited Balance Sheet and Statement of Profit & Loss with the RoC
- Periodic filings for GST, TDS and applicable statutory returns

4

RAISING CAPITAL

*“The only people in the world who
can change things are those who
can sell ideas”* – Lois Wyse

Raising capital funds indicates parting with an equity stake in your business in return for capital. Running out of money is the main reason why most businesses fail despite having a brilliant idea and a competent team. The following pointers could help you in obtaining those funds needed to grow your business.

Pitch Deck

A simple but detailed pitch deck makes it easy to give better understanding & clarity to prospective investors about your business and its objectives. A pitch deck should be able to articulate a compelling and interesting story by covering the following basic details in your presentation:

- Company overview
- Mission & Vision of the Company
- The problem you're trying to address
- The solutions that you're offering
- Your Products / Services
- Business model
- Market Opportunity
- Potential / existing competitors in the market
- Your Key Differentiators
- Business strategy
- Target customers
- Revenue and Cost estimates
- Projected financials
- Team profile
- Cap table & funding requirements.

Vendor Due Diligence (VDD)

Vendor due diligence is a voluntary screening of documents & business through independent professionals, generally opted for before going for funding. It helps to get a sense of possible risks and detailed understanding of issues.

This helps startups prepare for the investor's due diligence process well in advance to ensure smooth and swift deal closure.

TYPE OF FUNDING

Friends & Family Round

Reaching out to people close to you and asking them to put a portion of their life savings in your idea

Seed/ Angel Investment / Pre Series A

Primary effort in raising external capital. Typically, this round is sourced from professionals, or semi-professional Angel Investors either individually, or in a consortium.

Series A/ Early Stage Investing

Typically, capital is raised through Venture Capital Funds.

Series B

Typically, capital is raised through Venture Capital Funds, mostly led by the Series A investors.

ESOPs:

Denotes Employee Stock Option Plans.

STAGE OF FUNDING

To kickstart the business. Initial stage after the company is incorporated.

One of the primary rounds of external capital raising opted for at a time when operational difficulties arise and an immediate requirement of money is an impediment.

At the time when there is a need for a larger amount of funding for the growth of the business

At the time of Expansion Stage. A need for Series B is felt and sufficed at the time of expansion of the business.

Pre Angel Round / Pre Series A.

TYPICAL PERCENTAGE OF EQUITY TO BE DILUTED AND THE AMOUNT RAISED

Upto 10% for upto Rs. 25 Lakhs

Upto 20% for upto Rs. 3.5 Crore

Upto 25% for Rs. 7-20 crore

May vary according to the needs of the business.

Upto 12% of the equity pool.

As you would have realized, starting up is not just about having a revolutionary idea, but also getting the execution right.

"There's no shortage of remarkable ideas, what's missing is the will to execute them" – Seth Godin

And for a solid execution you need strong business backend. This document gives you a perspective on how to strengthen this aspect of your business and get going!

At the crux of it, this document is all about
Simplifying Your Business.

DISCLAIMER

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