

Middle-class tax bonanza, leading to possible rise in demand, is a plus for consumer internet companies though startups and investors feel disappointed by budget's silence over vexing issues like angel investor tax

# Hopes Ride on Middle Order

## TEN ISSUES FACING THE ECONOMY

# 9/10

## Maturing Startup Ecosystem

Three years of Startup India  
**15,472** number of startups recognised under Startup India

**8,993** recognised in 2018 alone

**1.49 lakh** new jobs created by 13,176 startups

**11 jobs** on average per startup

**45%** of startups have at least one or more women directors

**28** THE AVERAGE AGE OF INDIA'S ENTREPRENEURS, AMONG THE YOUNGEST IN THE WORLD



In the big league  
 India added **8 unicorns** in 2018

Third biggest behind US and China in terms of number of unicorns

**\$11 billion** raised by startups in 2018

**19 startups** raised \$100 million or more

Key advantages for India's startups

Economic openness and freedom

Skilled workforce increasingly willing to take risk

India's large domestic market

Attention provided by government through 'Startup India'



Angel tax problems  
 Many startups and angel investors have received tax notices

Govt has announced measures to ease concerns

Startups still feel more needs to be done

Lack of rupee funds  
 Domestic investment in startups is not so readily available

Domestic VCs struggling to raise rupee funds

**<10,000 cr** fund of funds by Sidbi

**<1,900 cr** approximately committed from the fund

Sidbi looking to automate disbursement process

Ecommerce sector in churn

Govt has issued new guidelines for the sector

Guidelines effective February 1

Leading ecommerce majors will need to rejig business models

Source: ET Research

## IN FOCUS

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The Indian middle class, which is expected to gain on the back of the tax-relief bonanza announced in the budget, will help generate demand among consumers, internet entrepreneurs told ET.

Interim finance minister Piyush Goyal said in his budget speech that full tax rebate will be offered to individual taxpayers earning up to ₹5 lakh annually. Digital stock-broking company Zerodha's chief executive Nithin Kamath said with the middle-income segment saving more on taxes, it is also an opportunity to encourage them to invest. "The finance minister has put more money in the hands of the consumers which is always a good sign for companies like ours. This can also help them invest more and tech platforms like ours are ideal to cater to their requirements," said Kamath. While Goyal's budget speech did not address many of the other hot-button issues like angel tax, startup entrepreneurs said the increased digitisation momentum of the government could help them grow their business fast and take services digitally to rural areas. Further, the guaranteed income scheme for the rural poor and pension protection for the workers in the unorganised sectors can help companies working in the financial-inclusion business. "The government is talking about direct cash transfer of ₹6,000 per annum to small farmers. To be able to access the cash from their bank accounts they will need micro ATMs and Aadhaar-enabled PoS terminals, which is where we come in," said Anand Kumar Bajaj, founder, PayNearby, which has deployed more than 1.5 lakh AePS PoS terminals.

Highlighting the government's attempts to digitise villages, payment companies have pointed out that it could mean that digital payment solutions could be deployed in villages as well.

"The government's target to reach 1 lakh digital villages will help in increasing the penetration levels of channels such as PoS, QR code and UPI, and augur well for acquirers like us," said Rav B Goyal, managing director, AGS Transact Technologies, which deploys PoS terminals for banks.

Further, on the DBT scheme, payment industry executives pointed out that instead of a full-fledged bank account, a prepaid account could be ideal since the benefit amount is low. "A prepaid account or a wallet solution could be ideal to transfer the minimum income scheme that the government is talking about," said Naveen Surya, chairman, Fintech Convergence Council, an industry body of fintech companies. "We need more clarity on this matter as to how the transaction can be made." Surya added that while the overall digitisation agenda of the government looks interesting, the lack of specific rebates and incentives for entities in this space was a big disappointment. Bajaj from PayNearby also said that the business correspondent industry, which helps drive financial inclusion digitally, was not mentioned while customer service centres were spoken about. The business correspondent industry is suffering from high GST rates, which is a stress for these companies since operation margins are anyway low in this business, he said. Stressing on the overall digitisation agenda of the government, Goyal pointed out by 2030 the country's foundation will be built on the digitisation initiatives it has undertaken over the past few years, for which tech startups will be playing a critical role.

"Better infrastructure in rural areas leads to higher economic activity and helps businesses thrive where banks will play a crucial role in driving growth," said Rishi Gupta, CEO, Fino Payments Bank.

## INTERIM BUDGET 1980-81

R Venkataraman

R Venkataraman had to present an interim budget as his government had just been elected and there was little time to prepare a full budget. In his speech, he attacked the previous governments' policies for "allowing the economy to drift, through inaction and mismanagement, into stagnation." The interim budget raised the share of priority sector lending to 40%. Among three I-T concessions in this budget, one was for awards received for poverty alleviation, which "set at rest doubts about the taxability of the Nobel Prize awarded to Mother Teresa".



**RITESH AGARWAL**  
 Founder, Oyo Hotels & Homes

The interim budget sets lofty expectations of a Vision 2030 to bring wide-spread economic growth through next generation physical and social infrastructure. But the trek to a \$10-trillion economy will not be easy. There is the promise of hope, but the delivery needs to be precise. The key problems like job growth and skill-talent gap need to be solved. With a low average inflation and tax

and towns welcome more visitors. As the mobile data revolution explodes, there is enhanced scope for bridging the digital divide and spurring entrepreneurship. We are already the second-largest hub of startups and maintaining competitiveness requires timely investments, streamlining regulations and continuing business-friendly measures. For instance, interventions for streamlining state-level guidelines in the hospitality sector, similar to the 'one nation, one tax' model of GST, will be welcome. Simplifying compliance and helping the e-commerce sector thrive through targeted measures will spur growth. The national programme on AI, along with national and supplementary centres, sends the right note on the government's intent to transform through technology. Vision 2030 has presented a bold blueprint of the essential investments in people, infrastructure and technology to become a leading economy. We must recognise the enabling role that technology can play in solving redundancies, ramping up efficiencies and creating opportunities of the future, including roles in e-commerce logistics, ride-share, fintech, food-tech and hospitality. In line with the proposed first and second dimensions of this vision, incentivising a progressively Digital India will not just help meet a five-year target of 100,000 digital villages but also empower the millions of dreamers from small towns and mofussils like me to start their own entrepreneurial journeys. For a country at the doors of greatness, the 2030 vision reverberates in all that young India pursues.

## KEY TAKEAWAYS

### Sops for Small Businesses and Startups

Incentives were given to small businesses and startups. Overall compliance processes were simplified and threshold limit for presumptive taxation was raised

### Mobile Data Consumption up 50 Times

Monthly consumption of mobile data has increased by over 50 times in the past five years. The cost of data and voice calls in India is now possibly the lowest in the world

### One Lakh Digital Villages in Five Years

Common Service Centres are expanding their services and also creating digital infrastructure in the villages, including connectivity, to convert the villages into Digital Villages

# 15.6cr

Loans amounting to ₹7,23,000 crore were disbursed under MUDRA Yojana. Self-employment schemes to propel youth



## AI to Drive Country Forward

Govt wants to use tech for efficient tax regime and improve export logistics

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**Bengaluru:** The interim finance minister announced plans to digitise over one lakh villages and focus on artificial intelligence as well as transform the country into a hub for smartphone and electric vehicle manufacturing.

Piyush Goyal said that the country's digital infrastructure and economy by 2030 will be built on the work done in digitisation of government processes and private transactions. As part of this move, the government plans to make

one lakh villages Digital Villages over the next five years with the help of Common Service Centres (CSCs), a public-private initiative that offers digital services to villagers.

"Today, under Make in India, mobile and parts manufacturing companies have increased to more than 268 providing huge job opportunities," he said.

India's three lakh CSCs employ about 12 lakh people and are digitally deliver-

ing several services to citizens. The CSCs are expanding their services and creating digital infrastructure in the villages, including connectivity to convert the villages into "digital" villages. The government has also mooted a national programme on 'artificial intelligence' and will set up a National Centre on Artificial Intelligence as a hub along with Centres of Excellence. Nine priority areas have been identified.

It also plans to use technology for efficient direct tax administration as well as use RFID technology to improve export logistics.

The interim budget is a document of hope but delivery needs to be precise to achieve targets



## START AND STOP

## Startups Rue Lack of Clarity on Key Issues

OUT OF LIMELIGHT Already hit by new ecomm FDI rules, sector feels ignored by govt

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India's startup ecosystem said it was disappointed by the lack of a solution to contentious issues plaguing the sector such as the angel tax. Entrepreneurs said overall sentiment across the sector remained fairly subdued especially as the industry is also grappling with new e-commerce FDI rules. A long-term demand of startups to do away with Section 56 of the I-T Act, the so-called angel-tax issue, had picked up steam last year after firms began receiving I-T notices. "An 'election-year budget' that expectedly has something for everyone," said Kiran Mazumdar-Shaw, CMD, Biocon. "It was, however, disappointing to see the absence of any additional allocation for healthcare or incentives for science and technology. For the startups, angel-tax holiday for 10 years was expected but it did not happen," she said.

"While there are a number of issues that the industry has brought up, they have not done anything to fix it or encourage the sector," said Rehan Yar Khan, managing partner at Oris Venture Partners. Entrepreneurs said they had little hope of the issues being resolved given that it was only an interim budget. But the government's move to address topics such as income tax slabs and farmer payouts added to the impression that the problems of startups were not high on the list to solve. "They need to solve the problem once and for all and the industry was expecting something. It's a disappointment," said V Balakrishnan, chairman of Exfinity Ventures, who was of the view that the new guidelines for FDI in e-commerce focused solely on protecting a vote bank of small traders and did not benefit consumers.

While admitting that there were also positives, entrepreneurs said it was still a lost opportunity. "Budget lacked a few expected measures, such as higher tax exemptions for the middle class and small businesses and the abolition of angel tax. We do encourage creation of a level playing field for MSMEs and providing a 2% rebate on loans up to ₹1 crore for MSMEs," said Radhika Aggarwal, chief business officer at ShopClues.

## BRIEF CASE



### Reaching for the Skies and Beyond

Gaganyaan, the country's first humanspace flight plan is top on the radar of the government as part of its vision for outerspace. The interim budget has increased allocation by 3.4% to ₹10,252 crore for space activities in fiscal 2020. Three-fourths of the money would be for space technologies such as rocket and spacecraft. India becoming a satellite launchpad for the world is part of this vision.



**Kalyan Krishnamurthy**  
 CEO, Flipkart Group

More money in the hands of rural and middle class is good for driving consumption. More and more local MSME makers and sellers can cater to this increased demand and we at Flipkart marketplace will be happy to support thousands of such sellers to access consumers cost-effectively and efficiently



**Vijay Shekhar Sharma**  
 Founder, Paytm

This is a great budget for the middle class. I'm glad the FM focused on skilling and SME-based job creation. The budget is overall very positive

Strong initiatives in #Budget2019 that will spur growth in the M&E industry. The initiative on anti-piracy will protect revenue, single window clearance ensures ease of filming and will help India keep pace with contemporary world practices. A big thank you to Govt led by PM Modi. @praseenjoshi

I think this budget is almost like the BJP manifesto for elections. Great combination of short term and long term benefits for various segments @ankitnagori27

India seems to have moved away from dramatising budget day. This one just came and went. Perfect @amrishrau

## Promises Galore, but the Trek to a \$10-trillion Economy won't be Easy

### IN A NUTSHELL

- ▶ Budget addresses issue of job growth via indirect references
- ▶ Digital India will empower millions of dreamers from small towns and mofussils
- ▶ Enhanced scope for bridging the digital divide and spurring entrepreneurship
- ▶ We require investments, streamlined regulations and business-friendly measures to retain startup hotspot tag