Startups, investors for regulatory changes to unlock domestic capital

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Bengaluru/New Delhi/Mumbai, 19 January

India's venture-capital industry and startup ecosystem want regulatory relief from the government in the Budget, arguing that policy changes could unlock billions of dollars in domestic capital for startups and position the country as a leader in emerging technologies.

Investors and startup executives are calling for extending the period for an entity to be recognised as a startup from 10 to 15 years for deep-tech companies, rationalising taxes on alternative investment funds (AIFs), and reduced goods and services tax (GST) on education-technology (edtech) platforms.

The demands come as fundraising activity hits multi-year lows.

There is also a need for the regulatory framework to keep pace with the capital-intensive needs of sectors like semiconductors, space technology, and artificial intelligence (AI) — the areas where the government has ambitions on self-reliance.

Anirudh A Damani, managing partner at Artha Venture Fund, said the deep-tech ecosystem's core expectation was policy alignment with India's long-term self-reliance ambitions.

Sectors like semiconductors and space technology operate on extended innovation and capital cycles, requiring policy frameworks that reflect that.

Gopal Jain, managing director and chief of Gaja Alternative Asset Management, said India needed deeper pools of long-term capital for startups to scale up in a sustainable manner.

AIFs have the potential to grow from about ₹13.5 trillion today to nearly ₹100 trillion over the next decade, he said.

Kunal Khattar, founding partner, AdvatEdge Partners, said India must choose between being an assembler or being a global hub for electric-vehicle technology. The Budget should incentivise domestic manufacturing of magnet-free motors and power electronics to insulate Indian automakers from global supply chain shocks, Khattar said.

Players in edtech are calling for tax exemption, innovation-linked incentives, and public-private partnerships to accelerate digital-learning adoption.

Edtech platforms suggest reducing GST on digital tools, infrastructure, and content for schools from 18 per cent to a lower tax bracket.

Fintech companies and technology service providers have called for financial incentives for modernising legacy systems, funding for research and development projects, and innovation-linked tax benefits.

"Time-bound fiscal incentives, such as accelerated depreciation or targeted capital expenditure support, can help banks modernise core processing, digital experiences, and fraud and risk platforms in a responsible and phased manner," said Ramki Gaddipati, chief executive officer (CEO), APAC, and Global chief technological officer, Zeta.

Jitin Bhasin, founder and CEO, SaveIN, a health care fintech startup, said as India scaled up to being a $5 trillion economy, the Budget presented a critical window to catalyse domestic consumption and strengthen the startup ecosystem.

Ravi Kumar, CEO, Cubastion, a digital transformation consulting firm, said the Budget could help the software industry scale up from pilot projects to full-blown deliveries.

Support for AI adoption is one major expectation, Kumar said.

Rachit Chawla, CEO and co-founder, Finway Accelerator, said employee stock ownership plans in India were viewed as a tax burden rather than a wealth-building tool. First, employees should pay tax only upon liquidity, such as during an initial public offering, buyback or acquisition.

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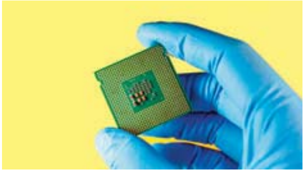

Budget wish list

- **Deep-tech:** Extending DPIIT's startup recognition from 10 years to at least 15 years seen as critical for the sector
- **EV:** Incentivise domestic manufacturing of magnet-free motors and power electronics
- **Ed-tech:** Reduction of GST on digital tools, infrastructure, and content for schools
- **Fintech:** Financial incentives toward modernisation of legacy systems, R&D funding