



Confederation of Indian Industry

Building the Digital State

Fostering the ecosystem

Technology



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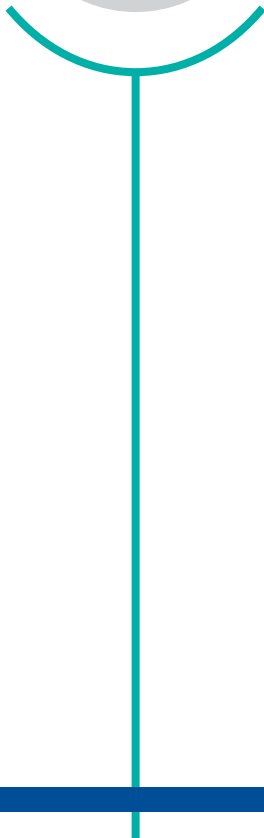
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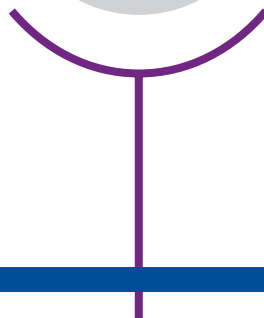
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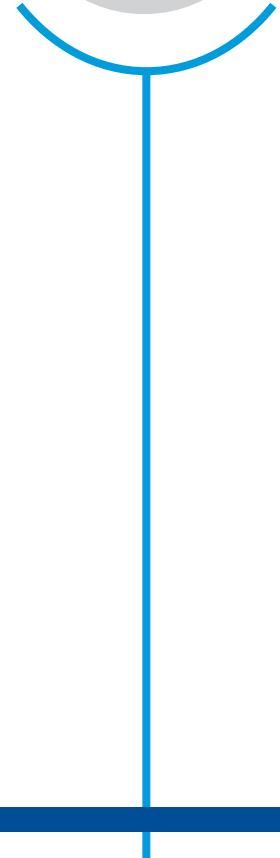
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Preface

The term 'digital' in itself has undergone significant transformation over the last three decades – digital was what analog was not – digital was about 1 and 0, it was about integrated circuits, and it was about other things that didn't quite capture its essence and importance back then. Today, the true meaning of digital has changed, and it has taken a more personal turn, each individual interprets the term in their own manner, or they associate with it. Social media, smartphones, analytics, cloud, Artificial Intelligence (AI) and robotics are some manifestations of the term. We can safely define digital transformation as the way organizations are transforming their businesses, introducing new products and services, driving a different customer experience among other changes by keeping technology at the centre of the business.

Over the years, technology has moved from the fringes in playing a support role to the centre where today businesses leverage the strength of digital technology to differentiate themselves. While organisations are investing in building or upgrading their digital infrastructure, they are simultaneously taking conscious efforts to increase 'digital literacy' as well..

We would all agree that technology is omnipotent and all pervasive. With the growing competition and rising consumer expectations, more and more organisations today realise the importance of having a digital strategy in their scheme of things to achieve the crucial competitive advantage. We are trying to learn more about how other businesses have used technology to achieve efficiency and effectiveness, and are constantly exploring what we could do differently. Today, the mere survival of any business is dependent on the digital strategy they employ and how their clients/ consumers perceive it.

Innovative technology is no longer limited to the big players in the industry. More and more start-ups in India are progressively conjuring innovative ways to use technology to turn the industries upside down. Every day, several aspiring entrepreneurs introduce creative ideas to impress consumers with their products/services. India now focusses on many such entrepreneurs and encourages them to use technology to solve the problems faced by consumers. The focus is not just on building a project/ service that can address the problem, but the one that can address it with agility. Digital technologies have helped in a big way in driving business agility. The new big therefore is speed.

Tamil Nadu increasingly focusses on fostering the start-up ecosystem in India. The state government, along with various industry associations has taken several steps to encourage entrepreneurs to come up with innovative solutions to common problems. The state has already seen some of the finest start-ups in the cloud and analytics space. With the state government planning to encourage investments in the state, it is all the more evident that the start-up scenario is only going to move forward¹. While Tamil Nadu ranks among the top start-up destinations in India, there is a clear ambition to make it the top start-up destination by strengthening the already robust ecosystem.

This report brings to light the digital transformation taking place around us, highlights the strengths of the start-up ecosystem in Tamil Nadu along with how new competencies are being seeded and built to scale in creating a supply chain which would be both bold and innovative.



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1. KPMG in India's analysis, based on industry observation and research, 2015



The digital revolution in India





The experiment with Information Technology (IT) began about four decades ago¹. The integration of IT into businesses has helped enable organisations to gain visibility across functions and automate various processes in the value chain. This further facilitated the development of standardised offerings and helped them gain a competitive edge in the marketplace. During the last decade, organisations have encountered challenges that have steered them away from standardised solutions and encouraged them to provide tailored services to their customers. They feel the need to have an end-to-end visibility of their value chains and align business models to optimise their gains from IT investments.

The world has been swept by the digital revolution and information has exploded in an unprecedented manner. India has moved beyond the digital threshold and is vigorously making an attempt to boost the economic development of the country by connecting farmers and entrepreneurs from small villages and towns. Harnessing digital initiatives backed by innovations is facilitating the digital revolution in the country. The spread of digital literacy and education is expected to have a major contribution in the progress of the country.

Organisations that are not able to cope up with digitalisation and upskill their employees abilities to use digital tools will soon be pushed down the ladder of economic growth. The success of the Silicon Valley as the hub of start-ups in the United States has inspired many countries to replicate this model. There is huge speculation about the next set of cities that will emerge in this space, and while there are innumerable examples of modern, growing cities around the world, Indian cities such as Mumbai and Bengaluru are among the top ones¹. The magnitude of potential depicted by India's technology sector forms the foundation of explosive growth of start-ups in the country.

Companies view digital as a fast-maturing opportunity and bank on it to provide them with new avenues of generating profitable revenue. They use machines equipped with digital sensors and cloud-based software to build digitised solutions. In a bid to not miss the digital train, organisations are scrambling to pluck the low-hanging fruits which include productivity gains and process efficiencies. Businesses have identified digital as the tool to deliver a compelling customer experience and develop breakthrough offerings that help them achieve the targeted transformation. However, the road to success in

achieving complete digitisation needs to cross the cost hurdle.

Even now, there are companies that are not leveraging digital technologies to their maximum potential, as they view the cost of digital adoption and digital transactions as a roadblock. One effective way to achieve digitisation is to put customers at the centre of the digital roadmap designed by the organisation. This shall strengthen the organisation's understanding of customer needs and demands, and help them deliver the desired customer value.

Indians are riding on the wave of entrepreneurship, fuelled by the digital revolution. The country ranks third in the world in terms of start-ups and facilitates the creation of more than 800 ventures on an annual basis. These start-ups are positioned well in the Asian market as companies that are building global solutions, primarily digital. They extend the promise to provide an opportunity to expand beyond the U.S. and Europe².

There is a paradigm shift in the way businesses function in India as consumers have started moving towards mobile applications, e-commerce platforms and online marketplaces. Today's consumer has achieved a very high level of sophistication with respect to awareness about the products in the marketplace. Digital consumers are well equipped to make informed decisions and associate themselves with businesses they want to engage with and select offerings of their own choice. The result of all this is the creation of a huge demand for digital products, thus widening the platform for start-ups that are focussing on big data, consumer internet, and analytics and communication.

Furthermore, the central government is propagating the concept of digital in a big way. The launch of the 'Digital India' initiative by the government aims at helping around 10,000 start-ups and creating a significant number of new job opportunities in the near future³. It is expected to be a boon for the booming e-commerce space and provide huge prospects for start-ups to flourish in the country. With the aim to strengthen internet penetration in the country, the government plans massive investment programmes, which shall and also help to grow its coverage to reach the innermost zones. The central government along with various state governments aims to build a strong digital infrastructure¹.

1. KPMG in India's analysis, based on industry observation and research, 2015
2. NASSCOM Strategic Report 2015

3. 10000startups.com

The start-up landscape in India





The golden era of Indian start-ups

With the number of start-up ventures already exceeding 4200, the Indian start-up ecosystem is steadily achieving newer heights and is now the third largest start-up community in the world¹. There has been a massive pool of funding that has pushed the growth of start-ups². Also, a number of MNCs are getting aggressively involved with initiatives supporting start-ups. The Indian government has taken a much-needed initiative called 'Start-up India, Stand up India' to incentivise entrepreneurship and foster a culture of providing bank finance to start-ups.

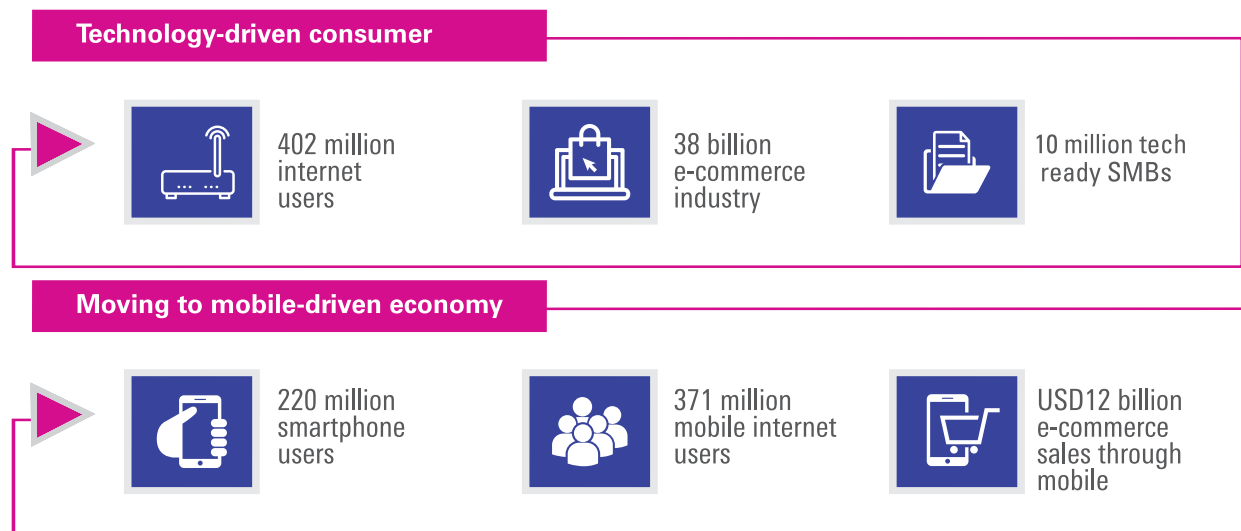
The number of technology start-ups in 2014 was 3,100 which has substantially increased in 2015 to reach 4,200¹. Most new start-ups are Business to Consumer (B2C) and are primarily present in three segments, viz. e-commerce, aggregators and consumer services, however, enterprise software and health tech are fast gaining momentum.

Geographically, Bengaluru, Delhi-NCR and Mumbai have most of these budding start-ups. Cities such as Hyderabad, Jaipur, Chennai, Ahmedabad and Pune are other emerging destinations driving the start-up proposition³.

We believe that technology is the backbone of the entire

start-up ecosystem. This is one of the main reasons that a large portion of founders of successful ventures are engineers, analysts, etc., examples from India being Sachin and Binny Bansal, Vijay Shekhar Sharma, and so on². The start-up ecosystem is based on innovation which, we believe is hugely dependent on technology. For one of the leading e-commerce companies in the world, the biggest Intellectual Property (IP) after its name would be its technology platform, which is interestingly called as 'Marketplace'¹. Today, some of the biggest hubs for start-ups lie in the Indian Institute of Technology (IITs) and other engineering campuses in India². Start-ups are vehicles through which neo-entrepreneurs try to resolve problems of the traditional world and society through a new, radical and innovative approach. We believe that all such new ideas or approaches shall rely on technology for delivery. The start-up ecosystem today is structured around internet/smart devices and analytics, and for the optimal use of the above, businesses have to use technology.

India has witnessed a significant growth in the number of start-ups over the past few years, especially in the technology and e-commerce space, consumer services, and hyperlocal services.



Source: <http://www.thehindu.com/business/e-commerce-industry-to-cross-38-billion-this-year-asso-cham/article8058892.ece>, accessed on 29th August, 2016

1. NASSCOM Strategic Report 2015
2. KPMG in India's analysis, based on industry observation and research, 2015
3. Start-up India – Momentous Rise of the Indian Start-up Ecosystem, Edition 2015



Various initiatives supporting growth of start-ups in the country

Many multinational companies have joined hands with the Government of India in a bid to support start-ups. Apart from providing financial incentives to promote entrepreneurship, in order to create inclusive growth, the government plans to introduce transparent online processes for selection, replacing interview-based processes, and shifting focus from digital to manufacturing, with a higher emphasis on Tier-II cities more than Tier-I. Also, the government has major plans in the pipeline for start-ups working in the Internet of Things (IOT) space: to provide facilities for import of capital goods and raw materials required for IoT product manufacturing; . It also intends to provide subsidised rates to such start-ups to purchase land for development of IoT centres³.

‘NASSCOM 10,000 start-ups’⁴ helps budding entrepreneurs in India by forming an ecosystem of all the stakeholders, including start-up incubators, accelerators, angel investors, venture capitalists, start-up support groups, mentors and industry experts to guide and mentor to bridge the existing knowledge gap.

Another organisation, iSpirt⁷ is a new think-tank that has been set up in Bengaluru, with the objective to promote the existing Indian software product companies as these are envisaged to play a key role in the country's future. iSpirt provides unbiased data about the product industry to aid policy making and seeks to replicate the success of the Silicon Valley in India.

Several state governments are showing great interest in supporting the growth of start-ups. T-HUB⁵, an initiative

by the Government of Telangana, serves as a technology incubation centre to promote entrepreneurship in the state.

With such pronounced initiatives, India can foster an environment of innovation and entrepreneurship. However, in our opinion, if India wants to progress from its current position of being number three and become the most attractive destination for start-ups in the world, it needs to traverse a long road, riddled with challenges.

Key challenges faced by start-ups in India

At present, start-ups in India face a wide range of challenges. These include but are not limited to, mentoring, right talent acquisition and reinvention. Indian start-ups lack mentorship as they do not have access to the right mentors⁶. India has a big chunk of population comprising of young entrepreneurs with great ideas, but these people do not have enough industry experience or resources to launch their products/services successfully. Another challenge is the fear of failure in the minds of individuals that overshadows their brilliance and comes out in the form of resistance to the start-up culture. Hence, start-ups in India often struggle to reinvent and match customers' expectations. While dealing with digital customers, it is imperative for start-ups to conjure up fresh concepts and strategies so as to attract new and existing customers.

One of the biggest challenges in the tech start-up sector is that sometimes the founders/co-founders do not have the technology acumen which forces them to take a longer path towards establishing their businesses.

What Indian start-ups get right

- M&A of Indian start-ups are witnessing growth which is driven by market consolidation, acquihiring, technology acquisition, and customer acquisition.
- There is an increase in the number of exit opportunities for investors with M&A gaining traction in India.
- Adoption of innovative approaches has helped attract and retain top talent.

Source: KPMG in India analysis

What Indian start-ups get wrong

- They are often alleged to be borrowing ideas from foreign start-ups.
- They often miss out on devising a proper scaling plan.
- Directional efforts are needed to aid formulation of government policies for ease of doing business. Policies are needed to provide tax incentives, availability of risk capital, participation in government contracts, etc.

3. www.india-briefing.com, article posted on November 19,2015

4. <http://www.financialexpress.com/article/industry/companies/10000-startups-on-road-to-a-worthy-goal/84727/>, accessed on 7th November 2015

5. <http://www.it.telangana.gov.in/sectors/t-hub/>, accessed on 8th November, 2015

6. KPMG in India's analysis, based on industry observation and research, 2015

7. www.ispirt.in



Future of start-ups in India

The government initiatives to build a favourable environment for start-ups, make India an attractive investment and business destination. India, through its growing internet users, has already created a space for numerous e-commerce companies that are changing the way business is being done in the country. Innovative start-ups that contribute to a larger ecosystem such as e-commerce shall have a great chance to ride on the achievements of existing players in India, and thereby have lower cost of customer acquisition. Also, innovative start-ups in the analytics, digital or application space shall become the focus for acquisition for larger players in the industry.

The convergence of stakeholders across the business ecosystem in the country is important, since they need to establish market access by providing regulatory guidance in a bid to implement and deliver projects. Also, they need to impart specialised trainings to start-ups working in innovative areas. A more conducive environment needs to be created and various steps could be taken in this direction. These could include facilitation of incubation, IPR, and innovation norms. Academia-industry collaborate to develop the requisite set of capabilities and talent pool could also be encouraged, which are expected to propel the scope for further growth. To nurture start-ups in the country, we believe, it is important to recognise the blooming ones for their innovation and rapid growth. Innovations could be encouraged by showcasing their success stories on a national level, allowing a behavioural change in the business environment, etc. Also, awarding successful start-ups at relevant Indian and global platforms can facilitate in building a reputation that India is a start-up friendly nation.

There has been a significant rise in the number of growth opportunities for stakeholders in the start-up ecosystem. Indian start-ups are making huge efforts to attract and retain new talent, which include providing employees with an invigorating work culture and alluring financial benefits. The maturing start-up ecosystem now makes a profound contribution to the Indian economy⁶. To stay ahead of the disruptive growth, it is important that the start-up ecosystem is continuously nurtured through regulations, collaboration, branding, funding and mentorship.

What we can learn from the global initiatives

In an attempt to encourage entrepreneurship, Shanghai has started incubating college students and preparing them to start their own businesses. With the intention of making a Chinese Silicon Valley, the Chinese government is giving grants, providing coaching and free office space. Also, there is support being extended by local governments and educational institutions in China, for striving entrepreneurs and students.

Numerous funds have been launched by China pumping hundreds of billions into a start-up ecosystem - both at provincial and central levels - in the form of incentives, investments, and subsidies, targeting specific sectors such as semiconductors, manufacturing and energy.

Similarly, TAQNIA, a technology investment vehicle was, launched by Saudi Arabia as an addition to their support for early stage R&D through King Abdallaziz City for Science and Technology (KACST). There are many other successful government-driven investment vehicles akin to the above that have been launched in Singapore and Israel as well.

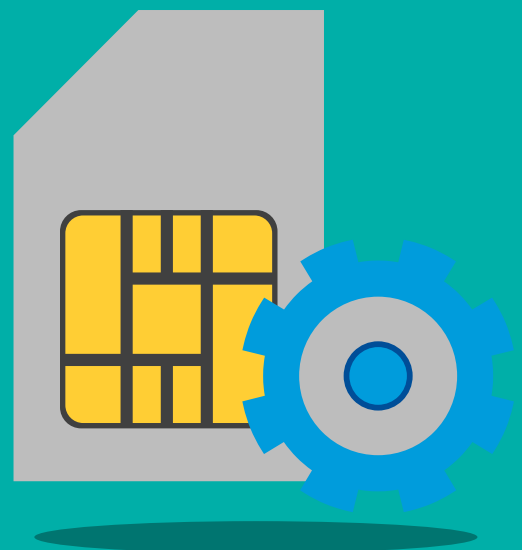
Russian Venture Company was launched by Russia in 2006 with USD1 billion, wherein the organisation directly invests in companies as well as other venture funds. They have more than 15 active funds ranging from technology to infrastructure and bio-sciences to renewables. Rusnano Fund, to the tune of USD 10 billion, was also launched by Russia; it focusses on large scale nano-technology investments.

In 2008, a USD100 billion technology fund was launched by Abu Dhabi sovereign wealth fund, Mubadala. An investment of more than USD20 billion was used in creating Global Foundries, the second- largest semiconductor manufacturing company.

In a bid to provide funding to start-ups, the Singaporean government rolled out several initiatives which include business incubator schemes, cash grants, debt financing schemes, government equity financing schemes, and tax incentives. In the last few years, Singapore has witnessed the expansion of the start-up landscape in the country and is fast becoming a major hub for first-time entrepreneurs⁶.

6. KPMG in India's analysis, based on industry observation and research, 2015

Tamil Nadu - Strengths and capabilities in information technology





An overview of the IT and ITeS industry in Tamil Nadu

The IT and ITeS industry has a considerable share in the services sector in Tamil Nadu as it is one of the largest software exporters in India with a major chunk in the overall pie. This can be attributed to some of the Indian players in the IT domain.

According to the Software Technology Parks of India (STPI), in Chennai, Tamil Nadu witnessed a huge jump in the registration of software units in the last decade with 1,780 units registered in 2012-13¹. This has resulted in the creation of 3.75 lakh employment opportunities.

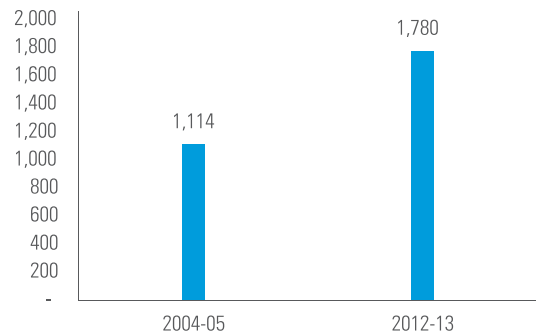
Some major IT companies have declared a spending of INR10,950 crore² in the state over a period of time, creating over two lakh job opportunities. The planned investments would be to set up IT parks, research parks, development centres, etc.

Tamil Nadu also received an FDI inflow of USD17.8 billion³ for the period 2000-2015. The state ranks third in IT/ITeS sector investment, accounting for about 11 per cent of the total industry³.

Software and electronic goods: Substantial growth was seen in the numbers for exports of computer software and electronic goods from Tamil Nadu. The number grew by 18 per cent from USD8,870 million in 2011-12 to USD12,380 million in 2013-14².

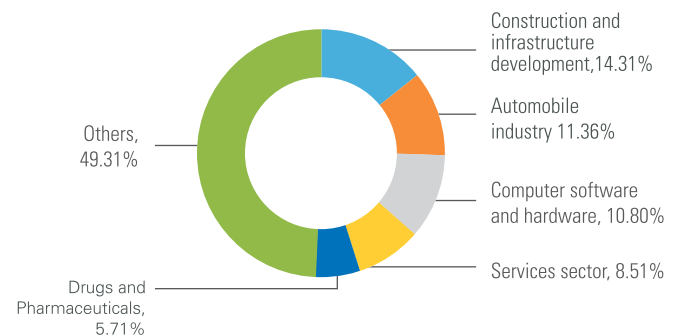


Number of IT units in Tamil Nadu



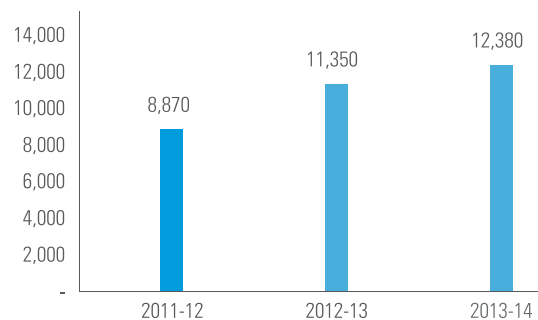
Source: Tamil Nadu Global Investor's meet on Sept 9,10 2015, profile: <http://tamilnadugim.com/>

Cumulative FDI distribution in Tamil Nadu



Source: Tamil Nadu Global Investor's meet on Sept 9,10 2015, profile: <http://tamilnadugim.com/>

Tamil Nadu's exports of computer software and electronic goods (USD million)



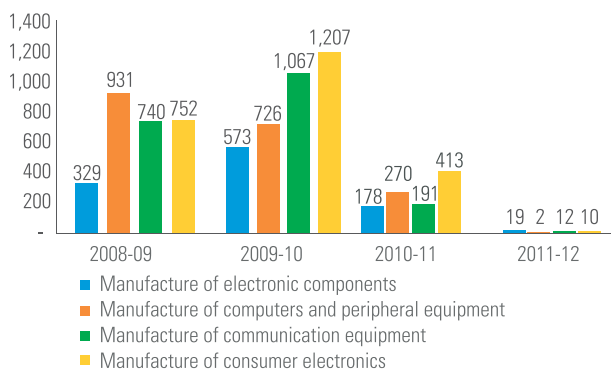
Source: Tamil Nadu Global Investor's meet profile: <http://tamilnadugim.com/>

1. http://articles.economictimes.indiatimes.com/2014-12-15/news/57072215_1_software-exports-south-india-chennai-office
 2. http://www.business-standard.com/article/companies/ft-majors-to-invest-rs-10-950-crore-in-tamil-nadu-115091100344_1.html
 3. Tamil Nadu Global Investor's meet profile: <http://tamilnadugim.com/>



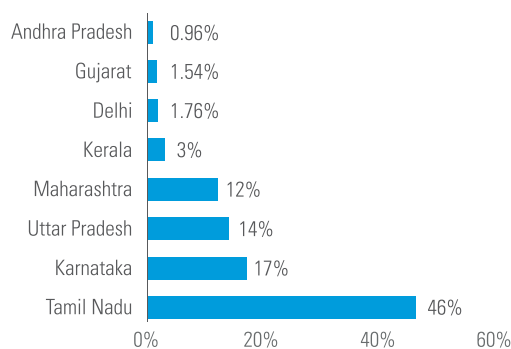
As the third largest manufacturer of electronic hardware in India there has been a significant increase in the contribution of Tamil Nadu to the national electronic hardware output⁶. The number has shot up from 10 per cent in 2008-09 to 18 per cent in 2012-13³. Tamil Nadu has over 23³ Electronic Hardware Technological Parks (EHTPs) located in major IT centric Special Economic Zones (SEZs) of Sriperumbudur, Oragadam, and Mahindra World City⁸.

Production of major sectors in the industry



Source: Tamil Nadu Global Investor's meet profile: <http://tamilnadugim.com/>

Electronic hardware exports of India by top states



Source: Tamil Nadu Global Investor's meet profile: <http://tamilnadugim.com/>

IT and ITeS exports

Tamil Nadu clocked INR75,000 crore in IT ITeS sector exports in the fiscal 2014-15⁴. Exports from the Software Technology Parks of India (STPI)-registered units had a contribution of INR32,000 crore which is, up 14 per cent from the previous year's INR28,000 crore.

The STPI plans to set up four new incubation centres in the state in a bid to encourage the growth of the start-up ecosystem. Major contributors to exports are the IT and ITeS units located in STPI and SEZs⁸. The government also plans to set up plug-and-play centres in Coimbatore, Trichy and Madurai.

Each facility is expected to conjure up an investment of INR30 crores³ and will be ready in three years. The Union government is gearing up to promote start-ups in the state and is expected to expand the space offered to the IT industry.

Government support

The Rural BPO Policy 2012⁵ provides:

- Capital subsidy of 20 per cent on capital investments subject to employment of at least 50 trained people in that unit.
- Training subsidy of INR1,500 per person per month.
- Transport facility for the BPM.
- Exemption from payment of SD/EMD and cost of tender.

The ICT policy 2008⁶ provides:

- Structured package of incentives for IT/ITeS facilities being set up/expanded in Chennai, Tiruvallur, Kancheepuram, with a minimum investment of INR250 crore (INR150 crore for other districts) in a span of three years.
- Special incentives for facilities in Tier-I and II locations: include back ended capital subsidy and electricity tax exemptions based on investment pattern and measure.
- Upto 100 per cent FSI relaxation for IT-ITeS parks.
- Exemptions in stamp duty and registration fee.
- Reduction in power tariffs.
- Administrative incentives.
- Physical incentives.
- Single window clearance mechanism.
- Support in augmenting civic infrastructure, data security, etc.

3. Tamil Nadu Global Investor's meet profile: <http://tamilnadugim.com/>

4. http://www.business-standard.com/article/economy-policy/tamil-nadu-it-ites-exports-touch-rs-75-000-cr-115062800715_1.html

5. Tamil Nadu Global Investor's meet profile: <http://tamilnadugim.com/>

6. Tamilnadu Global Investors meet, presentation, released in Sep,2015

7. www.investingintamilnadu.com

8. tamilnadugim.com



Focussing on start-ups in Tamil Nadu





The start-up landscape in Tamil Nadu

Tamil Nadu, famously known as the 'Detroit of India', offers a variety of feasible opportunities and benefits for start-ups and Micro Small and Medium Enterprises (MSMEs). The state has become a hub for new business avenues and is fast emerging as a preferred destination for doing business by young and enthusiastic entrepreneurs and professionals¹.

The number of start-ups in the city has crossed hundreds and most of these are in the Information and Communication Technology (ICT) space, though companies in the e-commerce space, education, consulting, food and beverage, healthcare, manufacturing and other verticals are also doing well².

The city has a significant chunk of entrepreneurs who are innovative and believe in taking risks while planning to do things differently. There is a sizeable number of people, who have now become role models, as they have opened start-ups and achieved notable success. Also, there exists a healthy network of angel investors (wealthy individuals) that drive investments in start-ups, while also providing mentorship¹.

Success stories

One of the leading online matrimonial classified sites founded in Tamil Nadu ensured a near complete shift from matrimonial advertisements in newspapers. Many globally renowned organisations have invested in this company. The company is looking at an IPO in the coming months.

The founder of one of the leading software product companies that offers Software as a Service (SaaS), has been termed as an unconventional entrepreneur.

Global VC firms and leading international organisations have made investments in a start-up that specialises in cloud based customer support platform.

A hotspot of SaaS start-ups in the country:

Chennai is fast emerging as the Software-as-a-Service (SaaS) hub of India. Although Chennai may not be as high-profile as Mumbai or Bengaluru with respect to start-up activities, the city has an overwhelming presence of SaaS ventures. Some of the leading SaaS companies founded in Chennai, have been in direct competition with some of the global pureplay and traditional SaaS providers. Some of the companies in SaaS space in Chennai that have recently got venture funding are mainly into billing platform, customer support, social media brand intelligence and product database².

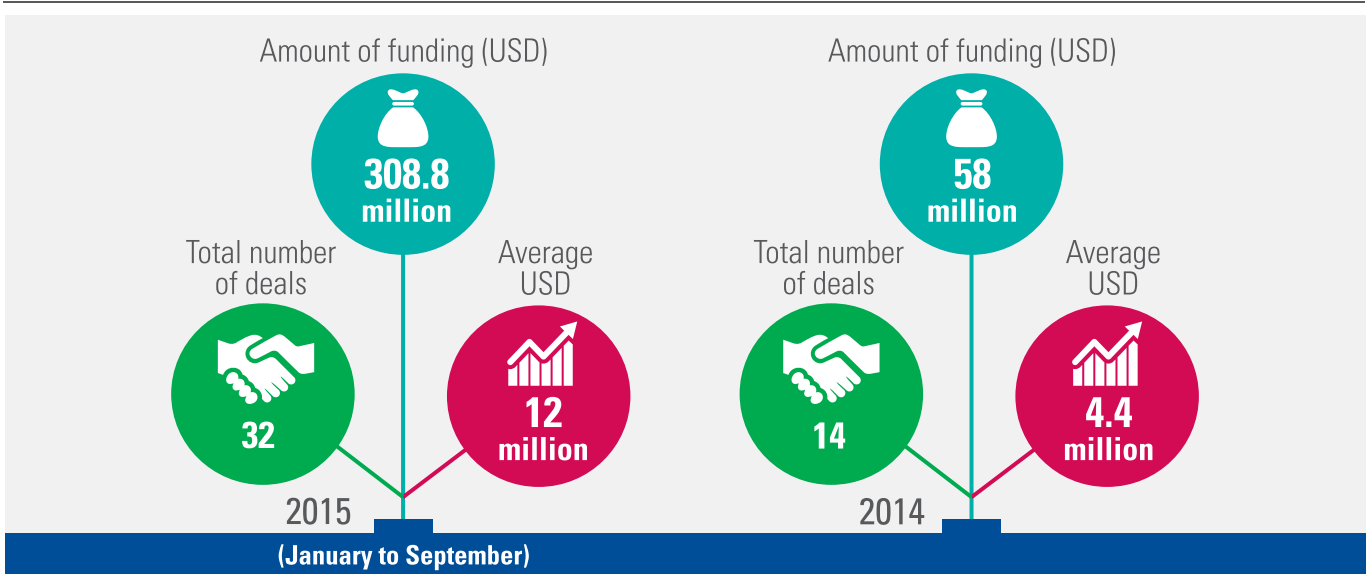
1. www.chennaiememes.co.in, article published on August 22, 2015

2. www.business-standard.com, article published on October 23, 2015



Start-up funding in Chennai

Chennai is widely known for its significant presence in the manufacturing sector and houses a huge amount of engineering talent. In the past few years, the city has emerged as a hub for start-ups and is building an ecosystem of its own. The amount of funding for disclosed deals from January to September 2015 was USD308 million with an average deal size of USD12 million.



Source: Youstory.com; <http://yourstory.com/2015/10/chennais-next-generation-startups/>

Supporting initiatives in Tamil Nadu

Startup warehouse: National Association of Software and Services (NASSCOM) has signed an MoU with the Government of Tamil Nadu to establish a warehouse in Chennai to help budding entrepreneurs and start-ups learn, work and expedite their business growth³.

Warehouses for start-ups: In a bid to lure start-ups and adopt a business-friendly approach, the Government of Tamil Nadu plans to cast aside dedicated areas or warehouses. The first such warehouse is expected to become operational at Tidel Park in Chennai⁴. Karnataka and West Bengal were the states that pioneered this concept and Tamil Nadu is now following suit by planning dedicated start-up warehouses⁴.

Chennai Angels and Keiretsu Forum: Keiretsu Forum, a U.S. - based angel investor network is all geared up to set foot in India and start operations here. The forum spans across three continents and consists of about 1,400 members in 34 chapters. The soft launch of the Chennai chapter took place in February 2015 and, since then, 10 investors have already signed up. The members

of the Chennai chapter would provide early stage capital ranging from INR50 lakh to INR5 crore. They would aid entrepreneurs raise higher amounts through syndication with other chapters worldwide.

The Keiretsu Forum acts as a facilitator in getting applications, screening them and publishing the short-listed applications for its chapter members to enable them to take investment decisions. The forum does not invest in start-ups but creates a network for like-minded investors and provides a platform for angel investors to network with international investors and start-ups.

IIT Madras Incubation Cell⁵: The cell aims to coordinate, synergise and leverage various strands of excellence driving innovation and entrepreneurship in a thriving ecosystem consisting of advanced research as a highly successful body facilitating industrial interactions⁶. It is India's first university-driven research park and has a stellar track record of incubation in sectors such as rural technologies, industrial solutions and social impact⁷.

3. <http://www.dtnext.in/News/City/2016/03/02214202/Nasscom-Tamil-Nadu-government-to-set-up-startup-warehouse.vpf>, accessed on 30th August, 2016

4. www.tidelpark.com, <http://timesofindia.indiatimes.com/business/india-business/Tamil-Nadu-to-set-up-incubator-for-startups/articleshow/45934655.cms>

5. <http://www.incubation.iitm.ac.in/>

6. <http://www.incubation.iitm.ac.in/>

7. <http://www.incubation.iitm.ac.in/>



Key challenges in the growth of start-ups in the state, are as below:

Need for more capital: The number of start-ups in Chennai significantly exceeds the actual number that is known widely. However, there is not enough capital availability, that too at the seed stage. This presents a bleak picture, especially when compared with a city like Bengaluru, which leads in terms of angel investors and angel-funded companies. Chennai houses only 50 angel investors vis-a-vis 220 residing in Bengaluru and around 210 in Mumbai⁸. In the period between January 2010 and January 2015⁹, the number of companies that received angel funding in Chennai was only half the number as received by those in Bengaluru and Mumbai. Chennai lags in terms of incubators also, with only four existing as compared to twelve in Delhi, nine in Bengaluru and five in Mumbai¹⁴.

Better positioning of the state: Leading IT giants and several well-known start-ups are all based in Bengaluru. Taking Mumbai as an example, it was not until IIT-Bombay stepped in that the city became active in nurturing entrepreneurs, creating a start-up ecosystem. The other factor that has helped Mumbai was its status as the financial capital of the country. However, neither of these factors played out in the case of Chennai. Nevertheless, the next wave of start-ups expected to be in the SaaS space are projected to change the positioning of the city.

It is not that the growth of the start-up ecosystem will be fully curtailed as a result of these challenges. Even in the U.S., there are only two areas – Silicon Valley and Boston – that are known for start-ups. The others are still struggling to establish their presence. Also, in a country like India, the ecosystem shall flourish with multiple hubs - each cluster with its own character and culture, support mechanisms and type of start-ups.

Key initiatives taken by other Indian state governments to foster the start-up culture

The Government of Telangana and selected private companies have come up with a start-up ecosystem in the state called T-Hub. The aim of this initiative is to aid and incubate new entrepreneurs. This public-private partnership intends to unite entrepreneurs, investors and advisors from different parts of the country. T-Hub has partnered with

premier educational institutions such as IIT - Hyderabad, NALSAR University and Indian School of Business¹³. T-Hub aims to house nearly 1,000 start-ups by 2020¹⁰.

In a bid to maintain Bengaluru's edge as India's startup destination of choice, Karnataka is lining up a slew of incentives for start-ups, including tax breaks, access to cash and regulatory free passes¹¹. The Karnataka start-up policy aims to employ half of its total qualified workforce the state, in the next four years; it shall also help define the creation of technology based products and services, in the state. These companies are expected to derive multiple benefits until the point of a revenue threshold of INR50 crores is reached, such as reimbursements on service tax, VAT/CST, marketing incentives (30 per cent of the costs, including travel to international trade shows) and patent filing costs. The policy states that a start-up cell would be set up, along with a hotline and a portal, and together they would act as a single-point of information related to investors, policies, regulations, patent matters and more.

The Government of Kerala launched a start-up policy that aims at promoting entrepreneurship among the youth. It has garnered a good response with more than 800 ventures being launched at the Start-up Techno Park business incubator at Kochi. Kochi's 'start-up village' is an ambitious project with plans to incubate 1,000 product start-ups in the next decade, mostly by students¹⁵. It is a Public Private Partnership (PPP) initiative and the stakeholders include the National Science and Technology Entrepreneurship Development Board; Technopark; and the Department of Science and Technology of the Government of India¹². The start-up village is modelled on the lines of the technology start-up incubators in the Silicon Valley, and is envisaged to give support to student entrepreneurs by provisioning them with the requisite facilities and services.

The Rajasthan Start-up Policy 2015 is designed to boost the start-up ecosystem and provide the required sustenance to the entrepreneurial talent of the state. The policy would be valid for five years. It targets the setting up of 50 incubators and aims to provide support to more than 500 innovative start-ups¹⁵.

8. <http://www.thehindubusinessline.com/news/variety/is-chennai-really-not-so-hot-for-startups/article7220267.ece>

9. <http://www.thehindubusinessline.com/news/variety/is-chennai-really-not-so-hot-for-startups/article7220267.ece>

10. DNA (Daily News & Analysis, Nov 4 2015 Issue)

11. The Economic Times, Nov 18 2015 Issue

12. BioSpectrum (India), March 18 2015 Issue

13. Daily News & Analysis (DNA), November 4, 2015

14. <http://www.thehindubusinessline.com/news/variety/is-chennai-really-not-so-hot-for-startups/article7220267.ece>

15. www.business-standard.com, article published on October 10, 2015

Our recommendations





Major role of the state government in making Tamil Nadu a hotbed for start-ups

Start-ups are the future of our economy. It is the need of the hour for the Government of Tamil Nadu to work with industry partners and policymakers to create and nurture a robust environment for start-ups to thrive in the state for many years to come.

Create conducive business environment: In a bid to encourage innovative start-ups, the state government should focus on creating an entrepreneurial ecosystem. Support should be extended to entrepreneurs to take risks and overcome challenges. The business environment should aim to enable greater number of companies to progress from the start-up stage to the next level of growth and maturity. The environment should be such that these businesses get nurtured into productive and profitable enterprises in years to come.

Develop skills: Start-ups mainly comprise of first-generation entrepreneurs. Hence, to hone the managerial competence of individuals, there is a great need to upskill them and provide them with a strong support mechanism.

Mentor: There is a huge difference in the performance of companies that get guidance from successful mentors and the companies that do not. An enterprise can gain a lot in terms of strategy and execution, if it gets a good mentor. The value-add derived from good mentoring, exponentially increases the chances of success for the enterprise. As India is a hot-bed for start-ups, it needs mentoring on a big scale. Government should promote mentorship programmes with the help of industry players so that startups are aligned with the mentors in the journey of entrepreneurship from the very beginning.

Design low-cost credit schemes for start-ups: Several Indian start-ups today face the challenge of lack of access to risk capital, especially early to pre-revenue stage. In a bid to create a high value product growth engine, this challenge must be addressed quickly. In the various stages of the business life cycle, from conception to profitability, start-ups need different kinds and levels of capital and which need to be fulfilled appropriately.

More funding options: To expand funding options, the government needs to foster a venture capitalist environment that is at par with other countries. This could also include a 10-year tax hold for venture capital firms who support new entrepreneurs and innovation. The government could also offer a tax rebate for already established companies making investments into new companies.

Simplify regulations during the initial years of operations: The policies in existence to enter the Indian business market are complex and outdated. Regulations need to be simplified at least for the first three years of operations, including incorporation, annual filings and closure.

Form state level association: The Government of Tamil Nadu can form an association that brings together investors, budding start-ups, industrialists, and organisations whose main aim would be to promote entrepreneurial culture in the state.

Key objectives of this association could be-

- To encourage youth to create business plans
- Meet the demands of start-ups and intermediate with the government to take up their needs and interest.



About CII

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With 66 offices, including nine centres of excellence, in India, and 8 overseas offices in Australia, Bahrain, China, Egypt, France, Singapore, UK, and USA, as well as institutional partnerships with 312 counterpart organisations in 106 countries, CII serves as a reference point for Indian industry and the international business community.

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