"*A Study on Capital Structure and Funding Challenges in Case of Start-Ups: A Multiple Case-Study in North Karnataka Region*"

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Abstract:

Over the past two years, the global start-up economy generated around $2.8 trillion in economic value which was a 20 percent increase from the prior two-year period. Despite this remarkable performance of start-ups across the world, barely half of the population is participating in this start-up ecosystem growth story. The imagination of how large and fast the global start-up growth would be if larger sections of population get involved in this growth journey. India is growing fast and so is the start-up scenario in India. Over the past few years, a lot of new and encouraging stories have garnered much-deserved attention, but so have the problems staring these start-ups in their strive to success. Start-ups struggle in the initial phases are mostly due to their lack resources, financial resources being one of the most critical ones.

The right combination of the capital structure is very important to any start-ups. Start-ups are those which are new to the market and have a unique product. These companies typically don't have a fully developed business model and, more importantly, lack adequate capital to move on to the next phase of business. Most of these companies are initially funded by their founders. Many start-ups end up turning to others for more funding—family, friends, and venture capitalists. There are different combinations of capital structure but the start-ups should choose that combination which is optimal and which can get more benefits to the start-ups. Choosing the right combination of capital structure is very important to run the start-up.

This study is based on both primary and secondary data. Cases have been prepared by conducting interviews with the founders, company websites and the reports shared by them. The study was conducted to know about the capital structure of start-ups, different challenges and opportunities related capital structure and to know the problems faced by the start-ups while raising the funds.

This study helps to understand the capital structure of the start-ups and it clearly states that from which sources the start-ups raise the capital and the problems face by them while raising the funds. The finding of the study highlighted various problems of start-ups while raising the funds, combination of capital. It was found that most of the start-ups at the initial stage, rise

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funds through equity, they do not go for debt. Many of the start-ups are facing problem related to finance during Covid-19, so they are expecting more help and support from government, investors and incubators.

Keywords: Capital structure, Start-ups, Fund raising

Introduction

"It doesn't matter whether a company is big or small. Capital structure matters. It always has and always will."

The term start-up refers to a company in the first stage of its operations. The journey of a start-up typically begins by a founder (solo-founder) or co-founders who have a way unique and feasible way to solve a problem. Start-ups are founded by one or more entrepreneurs who want to develop a product or service for which they believe there is a demand. He founder of a start-up will begin market validation by problem review, solution analysis, and building a minimum viable product (MVP), i.e. a prototype, to develop and validate their business models. The start-up process can take a long period of time (by some estimates, three years or longer), and hence sustained effort is required. Sustaining effort over the long term is especially challenging, because of the high failure rates and uncertain outcomes. Because of the lack of information, high uncertainty, the need to make decisions quickly. These companies generally start with high costs and limited revenue which is why they look for capital from a variety of sources such as venture capitalists. The founders of the start-ups generally, turn towards their family, friends and own savings at the beginning of the business. The other sources of funds for the start-ups are Bank loan, individual investors, private institutions, crowd funding, etc.

Capital structure decision is one of the most important decisions for any firm. Determining the optimal capital structure of the firm is the significant issue while deciding the capital structure. The firm should decide the capital structure well in advance so that, they can meets its capital expenditure decision. It is important to list the pros and cons of various sources of fund available and then select the best one keeping in mind the optimal capital mix or one which reduces the cost of capital. Decision of capital structure is an on-going process which is done throughout the life of the firm and also when a company takes a new project. The capital structure which maximizes the market value of the firm is known as optimal capital structure.

Capital structure includes equity, preference and debt, the right combination of these components make optimal capital structure. The firm can raise the funds from only equity, or only debt, or combination equity and debt. Only equity refers to owner's contribution and here there is no contribution of external investors or no debt taken. Only debt refers to here the founder of the firm did not invested his money into business and business is completely depended upon externals funds. The firm raises equity by issuing common and preferred stock while debt can be classified in the form of loans payable, notes payable, bonds, debentures, etc.

Equity holders are the owners of the firm, and they have a long-term commitment to the firm in the trust that it will grow in near future. In contrast, debt holders are the creditors of the firm and they have no long-term commitment to the firm as they are more interested in the timely repayment of their interest and principal amount. The financial manager of a firm wants to invest cash for future projects, while shareholders are more interested in regular dividend payments. Thus, the decision on capital structure plays a vital role on the part of the financial manager of a firm.

Financial leverage is the ratio of debt and equity, which states the relationship between the borrowed funds and owner's funds in the capital structure of a firm. It varies within firms and industries. Firms with equity only are called 'unlevered firms', while firms with both debt and equity are termed as 'levered firms'. The financial manager has an impact on the wealth of the shareholders, and an excessive debt level in the capital structure when not required can increase the chances of the firm to become bankrupt. Hence, it is one of the significant factors of a firm's success.

Industrial analysis

As per the *Global Start-up Ecosystem report (GSER) 2019*, the global start-ups generated over $2.8 trillion in economic value. This report also says that there is a short-fall for female founders; it is found that only 17% of female tech founders are there. The highest share of female founder is found in Chicago. The report of GSER states that barely half of them are participating in the economy and are generating trillions, and if more people start to participate then the global start-up economy makes high progress.

Indian start-ups are also not lagging behind; they are also growing faster over a past few years. The Indian tech start-up ecosystem became the 3rd largest in the start-up ecosystem in the globe. There are over 9,300 tech start-ups, which are providing direct employment to over 4 lakh rupees people. In

2018 there were around 50000 start-ups in India, around 8,900-9,300 of these start-ups are tech based and 1300 more new tech based start-ups raised during 2019. Cities like Bangalore and the ones in the NCR region can be rightfully called the startup hubs of India for housing almost 80% of the total count. India has succeeded in becoming a leader in the startup space in the past decade.

The key sectors for start-ups in India: Ecommerce like Flipkart, Snapdeal, ShopClues, etc are growing by 22% year on year; HealthTech like Cult, Netmeds, etc are growing by 28% year on year; FinTech like PolicyBazaar, Phonepe, etc are growing by 31% year on year; EdTech like Unacademy, BYJUs, etc have potential to reach INR 142 billion by 2021; TravelTech like Yatra, OYO, etc have potential to reach INR 986 billion by 2021; consumer service like Swiggy, JustDial, etc have potential to reach INR 1088 billion by 2020.

Despite the multiple challenges that abound, India's growth story and its potential remain a strong bet, with its thriving innovation-led entrepreneurial ecosystem poised to contribute significantly to the country's move to an Aatmanirbhar Bharat, or a self-reliant India. This was also reflected in the world of Indian start-ups that still saw investments flowing in amidst the cautious business environment.

COVID-19 has been hard for everyone, and start-up community have to take it one step at a time. Still, the spate of innovations from the start-up ecosystem, the way founders and investors have come together as a community to help each other, and the resilience of entrepreneurs in the face of a formidable enemy has been inspiring, and it is expected that the start-up community will weather the pandemic.

Objectives

- To understand the capital structure of start-ups.
- To understand the funding pattern of start-ups.
- To understand the various challenges and opportunities related to capital structure of start-ups.
- Problem faced by start-ups during Covid-19.

Literature review

Modigliani and Miller (1958) claimed that there is no unique theory on capital structure or consensus on determinants of capital structure and direction of their influence and capital structure does not influence the value of the firm in perfect markets.

The study conducted by *Paolo Saona, Pablo San Martín, and Mauricio Jara(2018)* found that the group affiliated firms take advantage of internal capital markets and transaction with related parties(ex: loans at competitive interest rates) that reduces the demand for external debts. In affiliated firm, shareholders behave as regulator and avoid the supervisory role of debt. *Harris and Raviv (1991)* study conducted by them analyzed that industry type, volatility, fixed assets, non-debt tax shield and profitability are main determinants of capital structure but here influence of leverage is not considered. This study included also analysis of macro determinants and their effect on capital structure. Results of study indicate significance of the following determinants: type of assets, profitability, size of a firm, growth and industry type with positive influence confirmed for type of assets and size of a firm and negative influence for profitability and growth opportunities.

As per *James C. Van Horne (2002)*, debt, preferred equity and common equity are the permanent source of funds for any company. The main objective of capital structure is to maximize the value of the firm and to minimize the overall cost of the capital. It is a choice between how much debt and equity to be taken. Debt financing includes short-term debt, long-term debt, bonds, loans payables, notes payable, debentures, etc. Here a fixed rate of interest to be paid at the fixed period and the interest on debt is tax deductible expense. Equity includes common equity, preference equity and the firm’s reserves. Here there is no commitment to pay any interest and principal payments to the investors. Hence, raising funds through equity is less risky compared to raising funds through debt. But, here the cost of equity is more compared to cost of equity. A firm should make a right combination of capital structure.

Donaldson (1985) explained that when the firm stocks ownership changes, the dependence on debt or equity also changes and this results in changes in the firm’s financial objective. *Rajan and Zingales (1995)* summarized many studies and suggest determination of capital structure are tangibility, depreciation, tax shields, growth prospects, size, risk, advertisement expenses, R&D expenses, profitability, uniqueness, etc. *Pandey (2004)* argued that capital structure decision should be analyzed to examine its effect on the value of the firm. *Chandra (1997)* studied the effect of leverage on shareholder’s return. *Ramachandran and Candasamy (2011)* proved that a strong one-to-one relationship exists between capital structure and profitability variables, where capital structure has a significant influence on the profitability of the firm revealed a positive relationship of debt with profitability. *Pouraghajan and Malekian (2012)* found a significant and negative relationship between leverage and firm performance. *Ibrahim (2009)* reveals that the capital structure has a weak-to-no impact on firm performance .A study conducted by the *Saurabh Chadha, Anil K. Sharma (2015)*, says that financial leverage or capital structure has no impact on firm's financial performance, but the other factors like stage of business, size, sales growth, asset turnover and ownership structure are important determinants of capital structure.

The study conducted by *Nancy Huyghebaert and Linda M. Van de Gucht (2007)*, shed a new light on the role of bank in financing the start-ups. Start-ups, compared to matured companies, they do not have any history or reputation, and faces a high risk failure. Due to these factors banks hesitate to give loans to start-ups. In addition, their ownership is highly concentrated and private benefits of control can be quite large. First, the results of the study reveal that adverse selection and risk shifting incentives significantly affect the initial financial structure of business start-ups. Rather than staying out all together, banks actually finance a smaller fraction of debt when these problems are potentially large. Adverse selection and risk shifting incentives, however, do not affect the maturity structure of bank loans. Their results thus suggest that banks limit their exposure to information and incentive problems by reducing the loan size rather than through screening and monitoring. Banks may be willing to invest in a long-term relationship with these types of start-ups to reap the benefits once these firms reach the growth stage.

Research methodology

This study was conducted mainly to understand the various funds available for the start-up and to understand the capital structure of the start-ups. Many research paper and reports were collected from various sources like EBSCO, GOOGLE SCHOLAR, company websites, etc., to understand the concept of start-up and capital structure. The cases were built on three start-ups – BIOSYL, STEK INNOVATON and SANKALP RURAL DEVELOPMENT SOCIETY. The information to build the cases studies was collected through interviews with the founders, company websites and the reports shared by them.

Case study 01

Name of the start-up: STEK INNOVATION PVT LTD

Name of the founder: Dr. Jeethendra Kumar, Chief executive officer

About the founder

Dr. Jeethendra Kumar is 27 years old and he is basically from Udupi. He completed his engineering from KLE BVB, Hubli and also he is a PhD holder. Before starting start-up he had 2 years of work experience from one of the reputed company in Pune. He likes challenges and also he is a risk taker.

Introduction

STEK INNOVATIONS PVT LTD was started back in 2017 at KLE Technological University, Vidyanagar, Hubli by single Founder Dr. Jeethendra Kumar. STEK INNOVATIONS PVT LTD got registered in the year 2018, Feb 5. Currently they have six employees working there.

Currently they are working in domains likes Website Design, Development, marketplace handling and Digital Marketing with more than 200 clients. In house team of Developers, Designers, and Marketing experts help them in executing any project smoothly and in turn clients need not look out for other service providers in terms of IT related stuff. They associate with their clients in three different domains:

- Digital Marketing Consultant
- Ecommerce Consultant
- IT Consultant

The beginning

Dr. Jeethendra Kumar had a different idea and to execute it he wanted to start a company along with his few friends, when he was doing his engineering. At the beginning his friends agreed with him to start a company but at a later stage his friends hesitated, thinking that it will work out or no and also they thought starting a business is very risky thing, due to these reason his friends joined other companies to work. Later, Dr. Jeethendra Kumar paused his plan of starting a company and thought of getting experience before starting the company.

Dr. Jeethendra Kumar, as he was not from the family business background, he joined one of the reputed companies in Pune. He completed 2 years in that company and gained sufficient knowledge and experience from that company.

While, he was working, as he got another idea, he consulted his sister who was the legal adviser.

His sister advised him that he cannot launch his product being in another company because even his product was of IT sector itself. And if he launch being working under other company, then it may lead to legal violation. So, he resigned from that company, in order launch his own product.

After leaving the company he came to Hubli and started to look for the people who can help him. That time, he came across KLE CTIE incubators, as he was a student of that KLE it was easy for him to get help from them. KLE CTIE said him that they will help him but with a condition. The condition was, first he need to conduct a survey to check whether there is demand for his product or no. So, accordingly he conducted a survey to know the demand for his product and he got good amount responses for that survey. As he had good survey results, KLE CTIE helped him by providing office space, furniture, and free rent at an initial years. And then he launched his product and it was quiet successful.

Challenges at the initial days

At the initial stage, as he was from technical background he did not know much about legal procedure. He was facing difficulties in registering his company, filing for tax, etc. then he came across a company called VAKIL SEARCH, this company provides a package service. Dr. Jeethendra Kumar approached him and made a contract with him to carry out all legal procedures. Vakil Search Company undertook all the legal procedure to start a company and also help to file the GST and to maintain other related documents and Dr. Jeethendra Kumar made payment according to the service provided.

Dr. Jeethendra Kumar did not face much difficulty in hiring employees. As he was in the campus of KLE Technological University, it was easy for him to hire employees. But identifying the right candidate was challenging for him. He use to hire those people who were willing to learn in start-ups, they willingness to learn new things in multiple domain was the main criteria he was looking for. After hiring, they use to give them training in all the activities that start-up was undertaking. After the training, the employee had a chance to select a domain in which he had specialization.

Getting customers at an initial stage was very challenging for him. Because it was a new company, and people do not trust such company so easy. He uses to approach the people directly by visiting their stores, but due to lack of knowledge and trust by the people, it was difficult for to meet his expectations. Later on, he came across a company called BNI, he took membership in that company. In BNI, Members meet weekly to discuss business and support each other businesses by sharing referrals. As he was a single director, it was a quiet challenging for him to manage all the activities.

Capital structure

Initially, Dr. Jeethendra Kumar started this company with 6 lakh rupees. He raised those 6 lakh rupees from his saving and with the help of his family. Later, he took loan from an individual investors i.e., seed investor for giving salaries to the employees. Apart from this he did not taken loan from outside. According to him, taking loans from outside is more risky and have to listen to conditions of them, so he did not opt for loans.

He fixes the budget at the beginning of every financial year. At the times of shortage of fund, he invests funds from the retained earnings. Total investment made to the start-up is 20 lakh rupees. He has plan to expand his business in Bangalore, he do not any plan to approach any kind of investors to raise fund instead he want to rise funds from his retain earnings to set-up business in Bangalore. He is not looking for any investors but if any investors are ready they can invest but only after if they agree to the terms and condition of founder.

During Covid-19

Due to Covid-19, they are facing difficulties because customer is asking them to stop the service. Due to this, there is decline in their cash flow. So he is trying to cut the expenses by changing working structure. He is not reducing man force but he kept in hold and paying them according to their working hours because again it will be difficult to search same candidate and also it will be difficult to provide them training at the present situation.
As he was a single person to manage the whole business it was a quiet challenging for him.

Case study 02

Name of the start-up : BIOSYL TECHNOLOGIES PVTLTD
Name of the founders : Amit Vernekar, founder and CEO of Biosyl Technologies
Sarah D'souza, co-founder and director of Biosyl Technologies
Industries : Biotechnology
Employees working : 6
Headquarters : Hubli, Karnataka
Type : Privately Held
Founded : 2013

Specialties : Food Adulteration Testing, Milk Test Kits, Dairy Test Kits

About the founders

Mr. Amit Vernekar, the founder and CEO of Biosyl Technologies, is a B.E Biotechnology graduates from KLE'S BVB College. He is basically from Hubli. He did not have any working experience at the time of starting this start-up. Sarah D'souza is the co-founder and director of Biosyl Technologies. She is also a Biotechnology graduates from KLE'S BVB College. Even she is basically from Hubli, but now she is married and she shifted to Bangalore and she is working in Bangalore branch.

Introduction

Biosyl Technologies was established by B.E. Biotechnology graduates Mr. Amit Vernekar and Ms. Sarah D'souza in July 2012, incubated at the Centre for Technology Entrepreneurship, BVBCET, Hubli.

Biosyl Technologies Pvt Ltd was established to focus on Food Quality Testing. They are an emerging bio-technological enterprise, driven by the vision to provide innovative products in Food Quality Analysis, serving customers across India. Biosyl's integrated solutions cover areas under Food Adulteration, Bio-chemical assays and Micro-Biological Analysis.

The Beginning

The journey of Biosyl traced back in 2011, when the founders of the company Amit Vernekar and Sarah D'souza were doing their engineering course at B.V.B. College of Engineering and Technology, Hubli. Both of them are from Hubli and belong to middle-class families.

Amit and Sarah were classmates during their engineering days at BVB. They use to participate in many technical events in their college with that model and got a lot of appreciation from the judges, this made them to think that they product have potential to get sold in market. And after that they started thinking like entrepreneurs and thought of working on their idea with some commercial motives as well. They got some cash prize which they decided to invest in their idea.

After graduating from the college, they soon got their registered as Biosyl Technologies Pvt. Ltd. in 2013. Meanwhile, the college support continued and they also got incubated at the CTIE (Centre for Technology Innovation and Entrepreneurship) incubation centre in the BVB campus itself.

Challenges at the initial days

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At the time of registration, there was a problematic situation for them the situation was that, there was a condition that they have to register the company in their home address, but they do not wanted to register to their home address, but later, their college helped them by giving they address.

There was another problematic situation for them at the time of registration when they came to know that the name Biosyl was already registered by some other company. In their prior college events and competition they used to use BIOSYL for their team name, so founders were known and recognized by the name BIOSYL, so they wanted keep same name to their start-up. As two companies cannot have same name, so it was another obstacle for them. Later, somehow they requested and convinced the other company, as that person of another company was very kind and friendly he allowed founders to use BIOSYL name for registration and then they registered the start-up with the name BIOSYL.

Amit and Sarah were from the biotech background but to operate on certain machines they needed knowledge related to various equipments (under the domain of mechanical engineering). Also, they needed to understand various electronics, instrumentation, etc. due to lack of knowledge they were facing difficulties to operate smoothly and effectively. But the BVB campus helped them to overcome this problem. They had problems even regarding the design aspect. In order to express their design to a designer, they needed to have some basic design made, which could be done using some high-tech software. They decided to get some knowledge in this area. Regarding the technical resources and designing work, they took help of some AutoCAD17 professionals, suggested by some friends and faculty and learnt the software AutoCAD using which they could themselves design their model.

Getting employees at the initiation stage was difficult for them because, as they had a shortage of fund to provide salary for them. So, at the initial stage they did not hired anyone but in turn they gave internship for the interested students. Till now they gave internship to around 45 students. But from last 3 years they started to hire the people. Keeping Criteria to hire an employee was not so easy because as it was not so famous company and engineer student heisted to come to start-ups and also the expectation of engineer will be very high, so they started to hire any diploma student whose expectation can match to their level. And also it is difficult to assign a particular role to a particular person in start-ups. After hiring they will give trainings to them in all the activity they do like testing kits, handling administrative activities, etc., they will give overall training

After around one and a half year of starting-up, they started to lose some patience. Even money wise they were going blank and it was getting difficult for them to sustain. For financial help their families took care of the initial expenses but they had their own limitations and could only support to some extent. Initially, manufacturing of equipment was also consuming quite a bit of time. They were using the lab facility of the Biotech Dept. of BVB College as they could not afford the costly equipments to set up their own lab.

As they both are not from management background they faced more difficulties in managing things in the start-up.

Capital structure

At the initially stage, investment made by Amit Vernekar and Sarah D'souza was bootstrapped. They both invested 1.5 lakh rupees each so, the total initial investment was 3 lakh rupees. Out of those 3 lakh rupees, 2.5 lakh rupees went to set-up the equipments and remaining they used to run their business.

The founders did not opt for any loans or investments from outsider because they felt that getting investments from the investors is not so easy. It requires fulfilling certain procedure, conditions and also it requires more time to get investments. Instead of taking loans, they use to request their vendors that they will make payment in installment basis. Whatever, they use to earn they use to reinvest it in their company. The total investment of that start-up is 40 lakh rupees it is completely from owners fund and retained earnings, no debt it taken till now.

The founders have they unique approach for capital budgeting. Generally, they do not plan for allocation of their fund at the starting of the year, but they keep track of how much fund is available with them and later, seeing the trends and demands for they product during the course of the year they allocate funds accordingly. Also they do not plan for whole year; their plans are for certain period. Later, as the trends and demand changes for their product, their plan also changes accordingly.

In case of fund shortage, founders themselves invest in the company and later company pays them back. Company pays interest of 12% to the founders. At a point, when the company was facing financial crisis, founders i.e., Amit Vernekar and Sarah D'souza invested 3 lakh rupees and 4.5 lakh rupees respectively. The company paid them interest at 12% for their investment, but now that investment is repaid. Currently, they do not have any debt.

During Covid-19

During the Covid-19 times, financially they did not face much difficulty till now because they had their retained earnings. They used that retained earnings to meet their expenses and because of prudent approach they always had sufficient cash flow. Hence, they were able to manage the things. But, due to Covid-19, their sales are decreasing and also there is decline in their cash-flow in the start-up. It is becoming difficult for them to raise the funds, so they are currently in touch with investors but not yet made deal for investments. Actually, they had planned to increase their investment for further expansion of business, but due to Covid-19, as there is more uncertainty. So, they stop that plan.

Case study 03

Name of the founder : Sikandar Meeranayak, Executive director/CEO

Name of the organization : Sankalpa Rural Development Society (SRDS)

No. of mentors and advisors : 05

Number of employees : 32

Branches : Hubli, Gadag andBangalore.

About the founder

Mr. Sikandar Meeranayak is 37 years old. He completed his BSW and he is a fellowship of Deshpande foundation. His father is a farmer and he is basically from Kotumachagi, Gadag district.

Introduction

Sikandar Meeranayak founded Sankalpa Rural Development Society (SRDS) in January 2008 and it is registered under Karnataka Societies Act, 1960. SRDS is a non-profit organization and it is located in the city of Hubli, Karnataka. The main business of SRDS is water management through innovative, cost effective and simple people friendly technology. SRDS has come up with a very innovative and cost-effective technique of direct bore-well recharge wherein they don't create new bore-wells but just recharge the old ones by directing rain water via the bore well into the aquifer. SRDS's direct bore-well recharge technique combines rainwater harvesting practices with an innovative approach to replenish ground-tables and aquifers with naturally filtered rainwater.

SRDS provides modern-day rain-water harvesting systems for roof top harvesting. They also

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spread awareness about rainwater conservation practices and also explain why protection and recycling of water is essential to our well-being. They use proven techniques of rain-water harvesting and innovative techniques to resolve water-scarcity problems in rural and urban communities. SRDS team is helping farmers affected by the falling water tables and unpredictable monsoons in rural India.

Their customers include farmers, industry people, households, big residential buildings, apartments, government institutions, schools, colleges etc. They are presently spread over districts of Dharwad, Gadag, Haveri, Belagavi and Bijapur in Karnataka. In the last few years they have recharged more than 650 bore wells and also installed over 75 rooftop rainwater harvesting units in the region. They have projects from state governments, NGOs, private bodies, NABARD (National Bank for Agriculture and Rural Development) 45, etc. SRDS has worked in seven states in India- Maharashtra, U.P, Telangana, Karnataka, Tamil Nadu, Gujarat and Punjab.

SRDS also provide Self Help Group (SHF) model and provide micro credit for women's empowerment. This organization has more than 600 SHFs in district of Gadag and Dharwad with over 5500 women a part of these groups. Women's Empowerment through Self Help Group (SHG) model and leveraging micro credit is another forte of SRDS. Loans are given through ICICI Bank and Micrograam to Finance these women's small businesses and ultimately make them self-reliant.

A Cooperative Society was formed in January 2019 to further support the sustainability of their work with financial literacy and a saving model for rural people.

The Journey

From the childhood Sikandar faced severe droughts in his region and that time he understood the importance of water for farming and conservative of water. Thus, this made him to decide to do something to solve it. In 2001-04 his region again faced three years of severe drought and it became difficult for the people to get water. This was very tough period for his village and for whole Gadag district. At that time Sikandar worked with some government agencies on water management projects.

After his graduation, Sikandar worked with two projects- Sujala and Jal Nirmal project (government of Karnataka projects) related to water management. Sikandar also implemented one of projects for RDS (Rural Development Society) which is Belgaum based organization. He worked with them for some time. In 2006-07, Sikandar worked with Water Literacy Foundation in Bangalore where again he got experience of working in water harvesting related projects. That time, he was exposed to various water harvesting techniques and innovations and he got an opportunity to learn lot of things related to water management. Hailing from a drought prone region in Gadag and having a difficult childhood, Sikandar was easily influenced by the scope of work in the field of water preservation and management.

During his fellowship program at Deshpande Foundation, there were 23 fellow students aspiring to become entrepreneurs but only 2 could sustain the rough journey of entrepreneurship. He never thought of doing office work under other people as a suitable option for him. He also believes that entrepreneurs have to be risk bearers and forego the temptations of secure life, secure job and guaranteed monthly salaries. He was determined to succeed or perish in this field only. It is this determination which gave him strength to work in extreme conditions (which is very common in his work) when recharging the bore-wells across different geographical regions of India.

Challenges at the initial days

After fellowship they were 24 people, some went to other jobs, as it was his passion to do something related to water, so he fixed his mind to do something, though from inside he use to feel that - did he made mistake by deciding so. But as there was support from the Deshpande foundation, so he stuck to his plan.

There was the condition from the Deshpande foundation that was, first he needed to show his idea, so that the foundation can check whether his idea will work or no, and they can feel assured to invest in his plan. Later, when foundation felt that his idea has potential they approved his work and provided rent free office place for the first year and also free internet facilities. Deshpande foundation used to conduct various events and he use to go participate and use to give presentations. These participations helped him in expanding his contacts and also it gave a hope to continue his work.

For the first 3 year, it was very difficult for him. At a point, he thought of stop this and also he felt to wind-up his business. But still he stayed strong and tried to face all the difficulties, because he had confidence that it will work and become successful one day. And also in Rain harvest sector, much business person and professional workers are not there to provide such services to the people.

Initially, getting employees was a difficult task. The main criteria for hiring was that they should have will to work in village, because there will be more field work, they should also have to be flexible to working hours, qualification can be anything but they should fit to the work was their main focus.

Getting customers was also difficult for him initially. So, he use visit the industry directly and he also invest in events and all so they publicity can grow. And also exchanged visiting cards with others; at the later stage he used social media for marketing.

As he was sole director at the initial stage, so all the activities needed to be managed by him, it was very difficult for him to do everything by his own. At later stage he started to hire people to work for him, as his business started to grow.

Capital structure

SRDS started-up as service oriented firm, it did not require much funds. Funds were required mostly for his personal survival needs. Deshpande foundation gave him rupees 50,000 for the meeting these expenses, at the initial stage. It was actually given as loan but there was a condition, that if he becomes successful then he does not need to pay it back to Deshpande foundation.

It was NGO, so every year they use to get grants from the Deshpande foundation for example 1st year they got 10 lakh rupees rupees and next year they got around 15 lakh rupees, seeing their work they use to provide him grants. Later, even NABARD started to give grants for them. And also foreign institute called 'Save Indian Farmers' start to give funds, starting they gave around 7 lakh rupees, later 29 lakh rupees even they use to provide funds seeing their work. With these funds they use to run their start-up.

As he business was growing he use to make investment from the retained earnings, so he did not thought much about debt funds and all. And from 2013-14 he started to get awards and all, he use invested those funds back to the start-up. He did not take any loans.

Capital budgeting, they make budgeting for 6 months. They list out all the expense and accordingly they allocated the funds. In case of the shortage they invest from retained earnings. Current invest is 2.5 cr. They have planned to make it doubt in coming years.

Recently he started a new business under the same name, but it is a commercialized. They provide services to the industries. He made investment to that business from the retained earning only. Here they did not made a heavy investments because it was a service oriented business so, as and when they use to get orders along with that they will also get certain portion of that contract price, with that they use start their work. They will purchase materials on credit from the vendors. They are not looking for investment as they provide only services.

During Covid-19

Due to Covid-19 they are facing lot of problems. They are unable to meet their targets and also they lost many project, during this time.

Findings

From the study it was found that founder of the start-ups finance their start-ups from the bootstraps, family or friends at the initial stage to avoid the risk of taking debt. The start-ups do not require a huge investment at the initial stage, this indicates that founder do not want to take risk by investing more at the initial stage.

The owner's contribution is more compared to debt contribution at the initial stage of business of start-ups. As the start-up makes progress and start to grow the contribution reduces and debt contribution starts to increase. Start-ups have they own way or approach to the capital budgeting. For example Biosyl case-study, here the founders do not fix capital budget at the beginning of the year, but as the trend and demand changes allocation of funds also changes accordingly.

Start-ups get easy loans with low or no interest from the incubation centers, friends, family this helps the start-ups in its operational activities. In all the three start-up case-study, incubation center played a vital role in developing the start-ups. Incubation centre provided all the required facilities like office space, labs, library, electricity, furniture etc to start their start-ups with low cost or free of cost.

Apart from finance, many start-ups are facing difficulties in marketing their product, due to the reason like lack of knowledge about their product to the customers. Start-ups should make use of social media to advertise their product. As we can see that marketing through social media has became the major advertising tool. And also it was found that most of the founders of the start-ups are not from management background and they have lack of knowledge of management of finance, but they have great idea, this is the reason for the start-ups are surviving thought they do not have management skills.

Start-ups hire the employees and give trainings in their own way. As the Biosyl and Stek Innovation start-ups are in incubation centre, which is located in BVB campus, this made them easy to get employees or interns. Start-ups, when they hire a new employee, they give training in all the activities undertaken by the start-ups. Later when employees get experience in all the activities, they are allowed to work in particular domain or in that work in which they have expertise knowledge.

During the Covid-19 their sales were declining and also their cash flow is at decreasing. As the Sankalp Rural Development Society start-up founder said that they lost more projects due to Covid-19 outbreak, even start-ups like Biosyl and Stek Innovation facing decline in their sales due to Covid-19.Start-ups like Biosyl and Stek Innovation were planning to expand their business and were planning to get more investment to expand their business but now due to Covid-19, as there is more uncertainties they are posting they plan to expand business. They are expecting more help and support from the government, from their investors and also from their incubators.

Implication

The present study has huge implication for start-ups, other start-ups, policy makers, loan providers and many others. Based on the study it can be suggested that start-ups should not completely depend on equity funds, but also should take debt, this helps to increase their production and also to expand their business. Taking more of debts which has low rate of interest helps the start-ups to avail leverage benefits. The procedure followed by the bank at the time of giving loan, has to be reduced, this will encourage start-ups to take more of debt. Start-ups should also market their products through social media or online advertisement which has became the major source of advertising now, to increase their sales and they should focus to expand their business.

Conclusion

Capital structure plays a vital role in the start-ups. Selecting the right combination which leads to optimal capital structure is very important to run the business effectively. There is a variety of combination of capital structure, it left to start-ups to adopt that capital structure which will results them as benefit. The a combination of capital structure chosen by one start-ups may not be hold good to other start-ups, according to their business type and size they need to choose an optimal capital structure. Start-ups turn towards their family, friends to raise the funds to start their business, they try avoid taking debts or loans from outsider in order to reduce the risk of paying them a fixed rate of interest. But, when the business starts to grow they take loans in order to expand their business. Many of the start-ups are facing problem related to finance during Covid-19. They are seeking help from government, investors, and incubators.

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