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A RESEARCH STUDY OF CHALLENGES FOR START -UPS POST COVID-19 PANDEMIC BEFORE INDIAN ECONOMY

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ABSTRACT

The challenges of technology startups in particular have been highlighted by NASSCOM recently. But no study has been undertaken thus far regarding the challenges faced by startups in other sectors, including hospitality and the social sector. The challenges faced by startups are diverse and vary from sector to sector. Consider startups in the hospitality sector. Since the possibility of travel and tourism has been next to nil over the past six months. The first half of any new financial year is a great time to accelerate growth, but the COVID-19 outbreak changed the scenario this year. The situation is unprecedented for almost every sector of the economy, especially the early-stage ventures.

It is no longer about which sectors have suffered damage, but rather which industry has been hurt to what extent. From that damage assessment perspective, the travel and hospitality sector has suffered extensive losses and it is likely to be the area which will take the longest to re-emerge due to the new normal. Similarly, other people-intensive sectors, such as manufacturing, logistics, transportation etc., will have to face stiffer challenges. Then there are emerging sectors exemplified by the hygiene industry, which have gained prominence during the current crisis. In a country like India, hygiene has for long been a topic of hot discussion, but there has been little action.

Keywords: C-Challenges, T-Technology, C-Consider, I-Industry, L-Logistics

INTRODUCTION

This is likely to change now with a very real and globally witnessed impact of contamination related risks. Whether it is personal, surface or community hygiene, the playing field has changed already. For instance, let's talk about hand sanitisers. Before the pandemic came into picture, there were a handful of brands and the product was at best considered an item of necessity in certain hospital areas. However, today, it is a product that the masses cutting across economic and geographic divisions are aware of.

The consumption has increased several-folds in the last three months itself. Similarly, surface disinfectants, soaps, masks, gloves, sanitiser sprays and other such hygiene products have seen such a rise in demand that there is a demand-supply gap today. It is this growth potential that has already brought several new brands into the market, and there will be a lot of investment in this arena. It is not only during the COVID-19 pandemic, but also hygiene which will continue to be one of the most rapidly growing industries in the future.

This is a great lesson in understanding one aspect of operations that was previously given little thought by most businesses. Things were being run with focus only on the graphs and marketing. Times have changed now. Yet, adversity can also be a great opportunity. War not only destroys but also creates opportunities for those who are resilient and keen to rebuild. Today, our war against coronavirus has brought to us similar challenges and opportunities.

The challenges and how to tackle them

Cash flow

We are all witnessing a drop in sales and the degree of impact varies according to the sector a company operates in. However, what is needed at this point is the ability to be adaptive and innovative. Reassess what you do and what new can be done to make yourself relevant during the current crisis. A lot of e-commerce companies and even conventional shops started selling groceries, fruits or vegetables or providing logistic support to the retailers. Car makers are making ventilators and wine makers started producing hand-sanitisers. Such adaptability not only keeps the cash flow going but also helps in scoring valuable marketing points by serving the consumers in their hour of need.

Growth set backs

Irrespective of your organisation's size or industry, weathering the storm and not expansion should be the focus areas for now. There might have been plans to launch new products, cover new territories or secure more funding, but, those plans need to be put on hold until the situation improves.

In fact, the apparent growth setbacks could be an opportunity to display your resilience. By continuing to remain upbeat and adapting to the current scenario, a company can prove to be of higher value to potential investors, clients, employees and other stakeholders.

Funding

Funding plans are undoubtedly going to be put on hold for the time being. Investors would want to wait and watch and even from the start-up perspective, it is better to bid your time. As of now, it is a difficult scenario, and investments might come at higher costs, eventually proving to be a fresh challenge. However, by waiting for the situation to improve, a company can give itself time to realign its future plans, targets, financial needs and other such inputs.

Thus, it would not only be on a better footing during the funding rounds, but its operational strategy would be more in sync with growth in the new scenario.

Manpower

This is one key area of concern, especially to labour intensive sectors such as agriculture, manufacturing, and construction etc. There will be depletion of quality resources, and it might lead to aggressive talent poaching.

The work processes and guidelines will also change due to the social distancing norms that will now become mandatory on a long-term basis. Hence, there is a need to conduct a detailed review of the company's human resources requirements, expenditure and future strategies.

The focus should be on talent retention because when the markets open, there will be demand and companies that can cater to that demand will make it big. Having looked into the challenges,

we must also consider the opportunities that the current scenario presents.

India up to 53% of businesses have specified a certain amount of impact of shutdowns caused due to coronavirus on operations, as per a FICCI survey in March. By 24 April the unemployment rate had increased nearly 19% within a month, reaching 26% unemployment across India, according to the 'Centre for Monitoring Indian Economy'. Around 140,000,000 (140 million) Indians lost employment during the lockdown. More than 45% households across the nation reported an income drop as compared to the previous year. Various business such as hotels and airlines cut salaries and laid off employees Revenue of transport companies such as Ola Cabs went down nearly 95% in March–April resulting in 1400 layoffs.¹ It was estimated that the loss to the tourism industry will be ₹15,000 crore (US\$2.1 billion) for March and April alone. CII, ASSOCHAM and FAITH estimate that a huge chunk of the workforce involved with tourism in the country faces unemployment.¹ Live events industry saw an estimated loss of ₹3,000 crore (US\$420 million).

A number of young startups have been impacted as funding has fallen.¹ A DataLabs report shows a 45% decrease in the total growth-stage funding (Series A round) as compared to Q4 2019. According to a KPMG report venture capital in Indian startups has fallen over 50% in Q1 2020 from Q4 2019.¹

Government revenue has been severely affected with tax collection going down, and as a result the government has been trying to find ways of reducing its own costs.¹ On 10 May 2020, Union Minister Nitin Gadkari said that some states didn't have enough money to pay salaries in the near future. In April, former Reserve Bank of India chief Raghuram Rajan said that the coronavirus pandemic in India may just be the "greatest emergency since Independence", while the former Chief Economic Advisor to the Government of India said in April that India should prepare for a negative growth rate in FY21.¹

The Indian economy was expected to lose over ₹32,000 crore (US\$4.5 billion) every day during the first 21 days of the lockdown, according to Acuité Ratings.¹ Barclays said the cost of the first 21 days of shutdown as well as the previous two shorter ones will total to around ₹8.5 lakh crore (US\$120 billion). Confederation of Indian Industry (CII) had sought an economic fiscal stimulus package of 1% of India's GDP amounting to ₹2 lakh crore (US\$28 billion). The fiscal package and fiscal policies approach is being compared to what

has happened in other countries such as Germany, Brazil and Japan. Jefferies Group said that the government can spend ₹1.3 lakh crore (US\$18 billion) to fight the impact of coronavirus.¹ Bloomberg's economists say at least ₹2.15 lakh crore (US\$30 billion) needs to be spent. Former CEA Arvind Subramanian said that India would need a ₹10 trillion (US\$140 billion) stimulus to overcome the contraction.

Supply chains and logistics

Following the lockdown, certain essential supply chains broke down.¹ Britannia Industries, supporting the lockdown, urged the government to ensure inter-state movement of the raw material for the food processing industry was not hampered. The Managing director of Britannia stated that "if even one link in the supply chain is broken, the country could run out of stocks of packaged food in the next 7–10 days." Although inter-state travel has been banned, it doesn't apply to essentials, and in places like Maharashtra the state police are yet to streamline the process, disrupting supply chains. Vidya Krishnan writes in The Atlantic that due to the lockdown even movement of medical goods were affected.

On 29 March the government allowed the movement of all essential as well as non-essential goods across the country during the lockdown.¹ The milk and newspaper supply chains are also allowed to function

Migrant workers and labour force

Due to the lockdown, daily-wage workers (the urban poor and migrant laborers) were left with no work. At the same time, the lockdown restrictions put a stop on the movement of buses and trains. Large numbers of migrant workers ended up walking back to their villages.

Soon after a central government directive in late March, state governments set up 21,000 camps to house over 660,000 migrants and stop the exodus. Over 500 hunger relief centres were set up by the Delhi government by the last week of March. By 5 April 75 lakh people were being provided food across the country in food camps run by the government and NGOs. As of 12 April, 37,978 relief camps and 26,225 food camps had been set up. Migrants in such camps in Kerala were provided with medical essentials such as masks, sanitizers, and medicines.¹

Soon after the nationwide lockdown was announced in late March, FM Sitharaman announced a ₹1.7 lakh crore (US\$24 billion) spending plan for the poor. This consisted of cash transfers and steps to ensure food security. To help provide jobs and wages to workers, the average daily wages under the MGNREGA were increased to ₹202 (US\$2.80) from the earlier ₹182 (US\$2.60), as of 1 April. On 14 May, FM Sitharaman further announced free food grains for the migrant workers, targeting 80 million migrant workers by spending ₹35 billion (US\$490 million).¹

Railways transported 48,00,000 migrants back to their homes in the special trains allocated for them between 1 and 27 May. While this service was not initially free, with additional charges over the normal fares, the central government later made the Railways offer an 85% subsidy on the train fares, and the state governments funded the remaining 15%. In the same time period, a total of 91 lakh migrants traveled on both trains and buses.

The governments of Uttar Pradesh, Madhya Pradesh and Gujarat sought to temporarily revise their labour laws in early May with the purpose of attracting industries and investments. Labour unions criticized this as being harmful to the migrant workers while giving more authority to the employers.

On 20 June 2020 the government launched the Garib Kalyan Rojgar Abhiyaan for the welfare of migrants. In July, Livemint reported that companies were having difficulties in bringing back the workforce. Even after incentives, many laborers are reluctant to travel back to urban areas

Centre and state collaboration

Numerous center versus state tussles have taken place during the COVID-19 pandemic, having a socio-economic impact other than the immediate political impact. Some tussles are not directly related to the pandemic such as the Telangana Chief Minister over the Electricity (Amendment) Bill. Other tussles are directly related to the impacts of the pandemic such as the exodus of migrants. Liquor became another source of dispute. Some states have had disputes with the centre related to how the lockdown should be implemented.

The Modi government, in view of the coronavirus pandemic, suspended Members of Parliament Local Area Development Scheme (MPLADS) for two years. This action has been called problematic in many ways, including causing a centralisation of power, being anti-federal in nature, and having an effect on local level development and MP influence at micro levels of the society to handle distress. There have been calls for halting the ₹20,000 crore (US\$2.8 billion) redevelopment of the central vista project in Delhi instead.

During the exit of the lockdown there has been a lack of centre and state collaboration as well as with local authorities. This has been visible in the handling of migrant labour; now that companies are restarting, there is a labour shortage.

Recovery shapes

In the beginning of May, Duvvuri Subbarao, a former RBI governor, said that India could look forward to a V-shaped recovery. A V-shaped recovery is the best outcome.¹ Arthur D. Little, an international consulting firm, has suggested that India will most probably see a W-shaped recovery. Mythili Bhusnurmath writes in The Economic Times that U-shaped recovery is the most likely followed by an L-shaped recovery. CRISIL chief economist says if things go well, that if the virus is contained, we can expect a V-recovery, otherwise it will end up as a U-recovery.¹ On 24 July 2020 Ajay Bhushan Pandey, the Finance Secretary of India, said that the "Indian economy could revive sooner than we expect" while Tarun Bajaj, the Economic Affairs Secretary said that he expects a V-shaped recovery. On 24 September 2020, Economic Times reported that while speaking at the ET Global Summit, Kevin Sneader, global managing partner of McKinsey and Co. said that, "many economists have been talking about 'V', 'U' and 'K' shape recoveries ever since the COVID-19 pandemic began. Yet, in all likelihood, there could be an 'X' shaped recovery for global economies, including India."¹

V-shaped recovery

In the second week of May, companies started preparations for restarting operations. Some companies opened offices with the maximum permitted strength of 33% while others took a more cautious approach of as low as five per cent. The beginning of June saw companies further reopen and making plans to reopen. A study by Elara Securities Inc. found that five Indian states, Kerala, Punjab, Tamil Nadu, Haryana and Karnataka, are contributing 27% to India's GDP as India emerges from a total lockdown. By mid-June, unemployment levels were back to pre-lockdown levels. Online sales reached pre-COVID-19 level sales by June end. Hindustan Unilever registered pre-COVID-19 levels in sales in late June. On 2 July 2020, The Times of India reported that a number of economic indicators such as the manufacturers Purchasing Managers' Index, goods movement, GST collections, electricity usage and rail freight transport showed significant improvement as compared to previous months. Localised intermittent shutdowns in July were seen to negatively affect aspects of the country's economic recovery. On 29 July 2020, the Cabinet of India passed the National Educational Policy 2020 aimed at strengthening the economy. By 13 September 2020, Nomura India's Business Resumption Index showed that economic activity was nearly back to pre-lockdown levels.

By mid-January 2021 only agriculture, forestry and fishing saw positive growth. Sectors such as manufacturing, real estate, professional services, construction, tourism, public utility and defence were still in recession. The economic survey of India for 2021, tabled during the Budget Session of the Parliament on 31 January 2020, stated that "starting July (2020), a resilient V-shaped recovery is underway". This conclusion was based on indicators such as E-Way Bills, GST revenue statistics, commercial paper, steel demand and recovery in GDP growth. On 26 February 2021, India's GDP was back to pre-lockdown levels. Due to low base effect a number of infrastructure sectors such as natural gas and cement saw high double digit growth in March 2021; a number of related sector such as coal were still in recession. In April the output of the core infrastructure sectors again saw high growth, again a consequence of the low base effect.

Higher Sales

The lockdown has stopped business operations and retail sales, but not diminished the demand. Startups that successfully see through this period will have plenty of sales opportunities. If a brand can cultivate the image of being capable of meeting the public requirements through the right products, it will earn revenues.

Product Innovation

In the revised scenario of the future, the customer demands will also change. Hence, startups that can dynamically innovate their existing products or launch new products and services will be in an advantageous position.

For instance, most services will go digital and demand for doorstep deliveries of products and services will increase tremendously. Startups that focus on fulfilling the demand changes will gain to benefit the most.

Global opportunity

It is not only the Indian economy but those all over the world that have been hit hard by the pandemic. Hence, the resumption of normalcy will witness demand for quality, innovative and affordable products from all over the world. Indian startups that can create products to address the global needs will see a growth acceleration that will surpass even the pre-COVID-19 times.

Overall, the situation poses some serious transitional challenges at present. There is a need for support from the government, investors and organisational leadership to get through this situation.

Contingency planning and revamping of workforces to efficiently handle the post-COVID-19 demand is the need of the hour. The companies that continue to operate in the new normal or are founded after the lockdown is over, will stand to gain from the situation.

From the beginning of the Covid-19 crisis, economists have been remarkably united on what policymakers should and should not worry about from an economic perspective. The very sharp fall in GDP resulting from health-related restrictions, as well as individuals' own decisions, is not the main concern – indeed, it is necessary to suppress the virus and therefore allow economic recovery. Rather it is to prevent permanent damage to the economy that government and policy makers should worry about.

For India, the pandemic sauntered on stage when the economic slowdown in India had already begun. At now, there are two stories that we are hearing on India recently, first that if a vaccine or treatment isn't developed soon, the number of Covid-19 cases in India may increase to 2.87 lakhs per day by Q12021 (Source: MIT Research). Second story about plateauing of the pick up on economic activity following the relaxation of a nationwide Covid-induced lockdown. These underscore the uncertainty surrounding the future course of the pandemic – spread and when will it peak, vaccine, etc. This uncertainty has very real implications, has made businesses and consumers jittery and unsure with no capacity nor appetite for consumption and will continue to upset any chance of resumption of normal business activity. With each passing week, the economic stress continues to build because individuals earning less and, as a result, holding back consumption. That essentially translates to the economy working well below its potential.

An already-slowng Indian economy has been derailed with the onslaught of Covid crisis and some damage off course will be long-lasting. But, most economists are unanimous that in the current financial year, India's economy will contract. The difference of opinion is only about the extent of this contraction. The range varies between minus 4% to minus 14%.

While that enormous challenge looms, many economists are of the opinion that India is likely to end up with an elongated U-shape recovery. After hitting rock bottom this year, the economy will start its recovery in the next financial year (2021-22). But it sure will not be easy and It just won't be straightforward.

The fight will be about increasing economic activity

With the lockdown, the economic activity came to a grinding halt in India from the end of March. Domestic consumption almost wiped out. Pay cuts and layoffs, combined with fear of spread led to lack of shopping and completely eroded demand.

While the non-discretionary spending on groceries and other essential items remained largely unscathed during the lockdown, the revival in consumption, will be driven by discretionary as well as non-discretionary spending. Despite the Indian government's decision to remove most the demand scenario is expected to remain weak for most of the current financial year. But it could make a comeback next year.

And as the uncertainty surrounding income and jobs reduces, economists believe that some people will be able to raise their discretionary spending on non-essential goods during festive season and the rafter flowing into 2021

Increase in Employment

The depth of the slowdown in the current financial year means that a rebound is inevitable but unemployment could hamper the recovery process. The issue of migrant workers will have an impact on the economic growth and availability of quality workers in the post-COVID-19 world will be a challenge

India should be wary of the challenges in smooth recovery in labour markets. While GDP in India was growing, employment remained stagnant and if this trend continues, it's another problem. Without a boost in employment, households incomes will be under strain, consumer sentiments will be low and the economic recovery will be sluggish.

MSME- challenge of credit and demand

Some of the MSMEs which were impacted by GST and demonetisation haven't still recovered. The damaging impact on smaller businesses challenges has exacerbated with the reduction of household expenditure owing to Covid-19 and drying up of cashflows and investment.

The government has chosen the credit and monetary policy route to boost the economic growth rather than the fiscal mode. The \$266 billion Covid-19 package, which focuses on indirect measures like providing access to credit and infusion of equity, may provide relief but is it enough to support beleaguered micro, small and medium (MSME) enterprises? Because, even if they are able to re-start their businesses, their ability to bounce back is connected to revival of demand. If sales remain so tepid, they might not be able to repay the debt.

The virus complication

Not just the MSMEs, India's aviation and hospitality, travel and tourism, fashion and lifestyle, auto industries have been facing their own set of problems. The revival in these sectors expected to take much longer and will have a cascading effect on the overall economy.

Overall all businesses are grappling with losses/ reductions. The reopening of the economy is posing fresh challenges as the spread of the virus is gaining pace. Despite the relaxation in restrictions, the economic activity is limping back to normality, and the extent of the dent would emanate from the longevity of the Covid-19. If lockdown gets reimposed or restrictions enhanced/ extended, then it could lead to the delay or derailment of the recovery process.

Conclusion

COVID-19 pandemic is a significant shock to economies all around the world. Even the major economies like the USA have been badly mauled, with unemployment rising and a cut in economic growth despite a \$3 trillion stimulus. The Pandemic has caused a shock for the Indian economy as well. Consumption, manufacturing, exports, capital flows, the legs on which the Indian economy had been growing have all been impacted adversely.

India came out of lockdown about 2 months back with restrictions still in many parts of the country. There is no magic quick fix or shortcut to stimulate and restart demand in an economy, which is the most important key to economic revival next to vaccine becoming available. This will take time, patience and continuous effort. Amidst this uncertainty, what will be key to revival is how people come out of their homes, how people restart their lives, how will it impact demand organically and availability of capital when businesses are ready to kick start production to service demand.

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