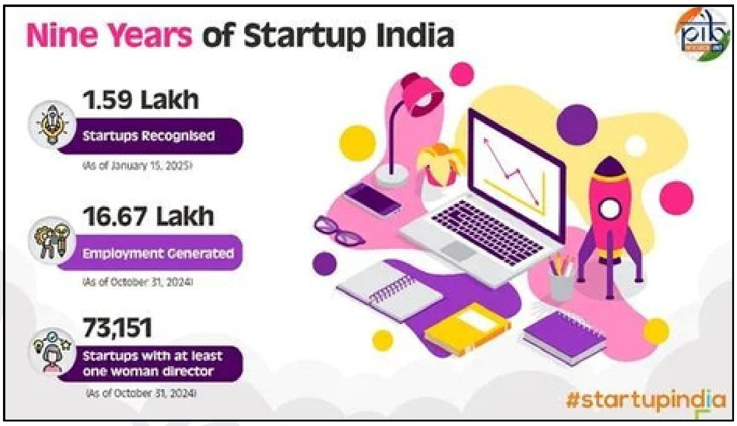
The Valley of Death: Does Funding Matter for the Success of Early-Stage Indian Startups?


[1]

[2]

KID: 20250221

Indian startup ecosystem becomes the 3rd largest in the world with 1.59+ lakhs registered startups under DPIIT (Press Information Bureau, 2025). With 119 unicorns (Tracxn, 2025) and a substantial growth of Angel investors, Incubators, Venture Capitalists (VCs) and Government support like the Digital India programme (2014), Startup India Scheme (2016), the ecosystem becomes more vibrant for entrepreneurs. However, beneath this glittering surface lies a harsh reality: a significant number of Indian startups die during the early stage (between the Seed to Series B stage). This phase is called the "Valley of Death".



This describes the critical early-stage period where startups build a prototype, form a team, and launch an MVP. During the initial days of operations, entrepreneurs have more information about their ventures than outside investors do. This leads to the generation of high information asymmetry between fund providers and entrepreneurs.

However, 90% of the Indian startups failed during their first 5 years of initial operations (Goswami et al., 2023) due to one of the reasons of "lack of funding". Figure 1 reveals the funding disparity (94.01%) between Indian and US-based startups in early-stages, which is higher than the Growth and Later-stage funding disparity.

Additionally, due to liabilities of smallness (Freeman et al., 1983) and newness (Stinchcombe, 1965), there exists a significantly higher information asymmetry between new firms and investors that ultimately impacts the funding decisions negatively.

Ultimately, financial managers should make prudent financing decisions to remain competitive in a dynamic business environment.

Moreover, the optimum financing decisions will lead to better risk management, maximisation of the value of firms and performance.

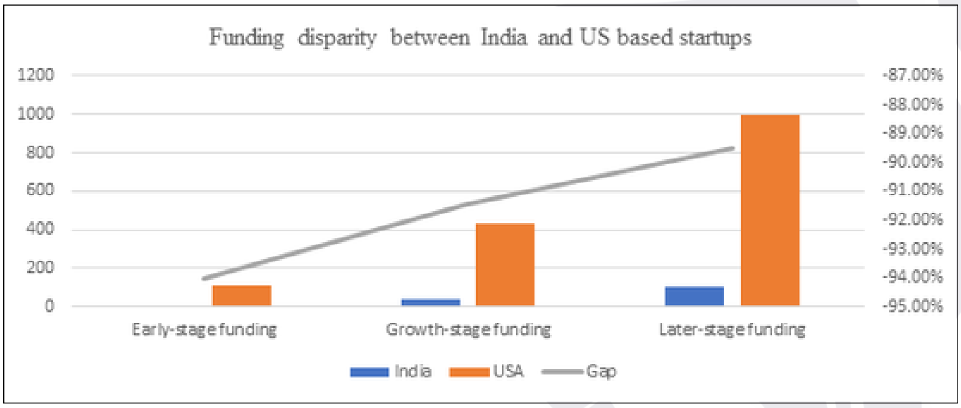


Figure 1 . Author's creation. Source: Inc42 Report (2024)

Importantly, the government may design various supportive public policies, such as tax incentives and interest subsidies for early-stage startups, while attracting Foreign Direct Investment (FDI) in the Indian ecosystem to reduce the funding disparity and boost new venture performance.

Ultimately, it becomes utmost important for the startups to maintain their optimal capital structure by adjusting the costs and benefits associated with the funding decisions. During the early stage, entrepreneurs require a substantial amount of funding not only for R&D investments and product development, but also for successfully establishing and initiating businesses. However, a lack of credit history and reputation hinders startup's ability to secure external funding.

As India aspires to become 3rd third-largest economy in the world with its tremendous startup ecosystem growth as a global startup hub, the question is no longer just about how to chase higher valuation of a startup in a short period of time, but rather fostering value creation, which ensures long-term sustainable growth.

[1] Mr Subhajit Bhattacharjee
PhD Scholar
[2] Dr RanaPratap Maradana
Assistant Professor
Department of Entrepreneurship and Management