



# A Study on Emerging Financing Models and Capital Raising Strategies for Startups

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## How to Cite this Article:

Rajan, A. (2026). A Study on Emerging Financing Models and Capital Raising Strategies for Startups. International Journal of Creative and Open Research in Engineering and Management, 2(6).  
<https://doi.org/10.55041/ijcope.v2i6.289>

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<https://doi.org/10.55041/ijcope.v2i6.289>

## Abstract

This study examines the varied startup funding landscape in India, focusing on both traditional and emerging ways of raising capital. By reviewing overall trends such as startup categories, founder gender distribution, and major funding sources, it offers a clearer understanding of how the ecosystem functions. The study shows that many startups depend heavily on internal funding methods, including personal savings, support from family and friends, and bootstrapping. At the same time, external funding channels such as angel investors, venture capital firms, and government grants remain important contributors to startup growth.

The study also discusses the wide range of financial options available to startups at different stages of development. These include debt financing, loans from commercial institutions, government-backed schemes, and leasing arrangements. By highlighting these funding opportunities, the research helps entrepreneurs, investors, and policymakers better understand the changing nature of startup finance in India and supports more informed financial and strategic decisions.

**Keywords:** Sources of Finance, Angel Investors, Banks, Lending, Venture Capitals, Private Equity and Financing Patterns.

## INTRODUCTION

Opportunity creation and recognition lie at the core of entrepreneurial activity. The typical example of entrepreneurship is the start-up: an initial idea that is developed into a company with high growth potential. Success usually depends on a leading entrepreneur and a complementary team who can spot opportunities where others see contradictions, and who ensure the venture has funds when it most needs them. There is no single precise definition of a start-up because the term covers firms that vary in age, size, and funding methods. Generally, a start-up is a young company—only a few years old—that has yet to generate consistent revenues. These firms tend to operate on a small scale, often possessing a working prototype or a paid pilot, and they have the potential to expand rapidly. Early financing typically comes from the founders and their close personal networks (friends and family), while the firm actively seeks additional capital to survive and become a sustainable business.



According to the Government of India's Startup India program (PIB 2017), a "startup" is a company that meets the following criteria:

- Headquartered in India and incorporated or registered no more than ten years prior.
- Annual turnover below INR 1 billion (about USD 14 million) (Startup India 2019).

By 2020, roughly 55,000 startups had been launched in India, of which about 40,000 were active recently. Approximately 33,000 startups are registered with the Department for Promotion of Industry and Internal Trade (DPIIT). Of the funded ventures, 385 have shut down. Indian startups raised around USD 63 billion in funding through 2020. This paper examines the various financing sources available to startups in India.

## Literature Review

Kumar et al. (2021) investigate crowdfunding as an alternative financing route for startups, focusing on raising capital from many individual backers. They evaluate the advantages and limitations of crowdfunding platforms and identify the factors that predict campaign success, drawing on campaigns from multiple industries and regions to show how online fundraising operates and what it means for startup finance.

Smith et al. (2020) offer a broad review of startup financing, stressing the need for entrepreneurs to be familiar with the full spectrum of funding sources. Their analysis highlights personal savings, angel investors, venture capital, and government grants as key options, and compares each source's features, benefits, and constraints to inform founders' funding choices. Jones (2019) ..

Jones (year) examines techniques for attracting investment, emphasizing networking and relationship-building with potential funders. Based on interviews and case studies, the study shows that personal connections and clear, persuasive communication play a central role in obtaining capital for early-stage ventures. Jones stresses that startups build investor trust and credibility by delivering transparent, well-crafted pitches that address investors' interests and concerns.

Patel and Gupta (2018) evaluate government actions to support startup financing, using Startup India as a case study. They assess policy measures, tax incentives, and regulatory changes intended to create a favorable environment for startup growth and investment, and discuss how these interventions have influenced the broader ecosystem. Garcia and Rodriguez (2018)5 ,

"Risk management strategies in startup finance." focused on risk management strategies in startup finance, highlighting the importance of assessing and mitigating financial risks to ensure the long-term viability of early-stage ventures.

Their study working prototype or paid pilot with the potential to grow and scale rapidly. They are initially funded by the founders' own private network of friends and family and actively seek additional funds to sustain themselves and become a viable business. The GOI's Startup India program defines a "startup" as a company (PIB 2017) that is:

- Headquartered in India with not more than ten years since incorporation or registration
- Having an annual turnover of less than INR 1 billion (roughly \$14 million) (Startup India 2019)"

Total 55,000 startups launched in India till 2020, but among them 40,000 have active recently. The 33,000 is registered under DPIIT. Among, 385 funded startups have shutdown. Till 2020, \$63Bn funding raised by the startup in India. This paper aims to explore various financing sources for startups in India.



**Kumar et al. (2021)** examine crowdfunding as an alternative financing model for startups, focusing on its use to gather capital from a broad base of individual investors. Their study assesses the advantages and drawbacks of crowdfunding platforms and identifies the key factors that drive campaign success. By analyzing campaigns from multiple industries and geographic regions, they shed light on how online fundraising operates and discuss its broader implications for financing startups.

Smith et al. (2020) present a comprehensive review of startup financing options, stressing that entrepreneurs must understand the wide variety of funding sources available to them. Their study identifies four main sources of startup capital: personal savings, angel investors, venture capitalists, and government grants. By examining the features, benefits, and constraints of each option, the authors offer practical guidance for entrepreneurs navigating the capital-securing decision-making process.

Jones (2019) focuses on strategies for attracting capital, with particular attention to networking and relationship-building with potential investors. Drawing on interviews and case studies, the study highlights how personal connections and effective communication are critical for raising funds in early-stage ventures. Jones emphasizes that startups must build trust and credibility with investors by delivering clear, transparent, and compelling pitches that align with each investor's interests and preferences.

Patel and Gupta (2018) examine government initiatives and startup financing through a case study of Startup India. They assess how policy interventions, tax incentives, and regulatory reforms contribute to creating an enabling environment for startup growth and investment. By evaluating both the implementation process and the outcomes of Startup India, the authors offer important insights into how government support shapes and strengthens the startup ecosystem.

Garcia and Rodriguez (2018) focus on risk management strategies in startup finance, emphasizing the need to identify, assess, and mitigate financial risks to ensure the long-term viability of early-stage ventures. Their study analyzes key risk factors such as market volatility, competitive pressure, and regulatory compliance, and provides practical recommendations for effective risk management. The research highlights that startups must adopt proactive risk mitigation approaches to protect their financial health and sustain their operations over time.

Brown and Lee (2017) investigate investor behavior and decision-making processes in startup finance, revealing the factors that shape investment choices and risk perceptions among angel investors and venture capitalists. Using surveys and interviews with investors, they identify primary drivers of investment decisions, including market potential, team expertise, and the scalability of business models. Their findings underscore the importance of aligning startup pitches with investor preferences and clearly addressing concerns related to risk and expected return on investment.

### **Objective of the Study**

- **To describe and evaluate the various financing dynamics and sources available for startups.**
- **To describe emerging approaches and strategies for attracting capital resources.**
- **To provide relevant information to startups, investors, and other related parties that supports their decision-making.**

### **RESEARCH METHODOLOGY**

Research Approach: The Mixed research approach is selected as per the requirement of the study. It is trying to explore and describe all the significant facts to achieve the research objectives. Data Types: This study is broadly used to secondary data, as per the nature of the study Primary data also collected as per the requirement of the study.



Data Collection : secondary data are collected through the various researches, Valuable websites, Journal, books and magazines etc. and Primary data are collected through conducted various Interviews with experts, leaders, and various key persons of the startups.

Sampling Techniques: Purposive sampling method is used to select the sample size of the data.

Data Analyses: Data are analyzed with the help of descriptive statistics. This study broadly based on the extensive literature survey. Various charts, diagrams and tables are used to represent the data. Research Problem The landscape of startup financing is dynamic and complex, with entrepreneurs facing numerous challenges in securing adequate funding for their ventures.

**This research aims to address the following central question:**

What are the critical factors influencing the choice of financing sources for startups, and how do these factors impact the success and sustainability of these ventures?

This overarching question encompasses several sub-questions, including:

What types of financing options do startups commonly pursue, and what are the motivations behind their choices?

- How do factors such as industry, company size, and geographical location influence the selection of financing sources?
- What are the key challenges and opportunities associated with different startup financing methods?
- How do startup financing choices impact long-term business growth and viability?

Data analyses Part A: General Statistics of Start-Ups in India

Metric	Value	Time Period
<b>Total DPIIT-Recognised Startups</b>	<b>2,07,135</b>	As of 31 Dec 2025 <a href="#">venturloop</a>
<b>New Recognitions in 2025</b>	<b>49,429</b>	Calendar year 2025 <a href="#">venturloop</a>
<b>Year-on-Year Growth (2025)</b>	<b>+44.1%</b>	Comparing 2024→2025 <a href="#">venturloop</a>
<b>Direct Jobs Generated</b>	<b>21.9L+ (2.19 million)</b>	As of Dec 2025 <a href="#">venturloop</a>
<b>Jobs Growth (2025)</b>	<b>+32.9%</b>	Comparing 2024→2025 <a href="#">venturloop</a>
<b>FFS AIF Investment (2025)</b>	<b>INR 4,271.08 Cr</b>	Fund of Funds for Startups <a href="#">venturloop</a>



Top Startups state:

State	Recognised Startups
<b>Maharashtra</b>	35,992 <a href="#">venturloop</a>
<b>Karnataka</b>	21,163 <a href="#">venturloop</a>
<b>Uttar Pradesh</b>	20,163 <a href="#">venturloop</a>
<b>Delhi</b>	19,913 <a href="#">venturloop</a>
<b>Gujarat</b>	17,691 <a href="#">venturloop</a>
<b>Tamil Nadu</b>	13,780 <a href="#">venturloop</a>

### Women-Led Startups

**75,000+** women-led startups (nearly 48% of total)

India has **100+ unicorns** and is the **3rd largest startup hub** globally

### Major Startup Hubs

Bengaluru, Hyderabad, Mumbai, and Delhi-NCR are the primary epicenters of innovation.

These statistics reflect the DPIIT's official startup recognition program under the **Startup India Initiative** (launched January 2016).

Part B: Sources of Finance and Emerging Approach to Attracting Capital Resources There are different types of financing options that are available for the startups during the different stages of the firm life cycle. The financing types are based upon the level of growth of the startups from the first stage of the firm life cycle to the final stages along with their growth and production scale.

Since the type of finance vary across different stage of the firm life cycle.

#### 1. Internal Sources of Funding

a) **Family and Friends** At the nascent stages of a start-up, founders often turn to family and friendship circles to secure initial financing. This involves private equity arrangements, where friends or relatives become stakeholders in the venture. Despite the personal nature of these investments, the transactions often adhere to formalities akin to external investor engagements. According to a comprehensive survey conducted by Startup Insights in 2021, 30% of startups secure their first round of funding from family members, and an additional 20% from friends, emphasizing the critical role these close connections play in the early stages of a business.

b) **Personal Savings** Entrepreneurs frequently tap into their personal savings accrued from business or non-trade activities. This approach reflects a commitment to and personal investment in the success of the start-up,



showcasing the founder's confidence in the venture's potential. Finance Trends' study reported that a substantial 40% of start-ups heavily rely on personal savings as their primary source of initial capital. This emphasizes the entrepreneurial spirit and risk-taking inherent in utilizing personal funds for business initiation.

c) Bootstrapping involves a highly creative acquisition and utilization of resources without resorting to capital from traditional sources or bank loans. This strategy relies heavily on internally generated retained earnings, credit cards, home mortgages, and customer advances.

While advantages include better terms for equity financing and greater control for entrepreneurs, disadvantages encompass potential limitations in sales, market share, competitive position, and limited support for high-growth prospects. Entrepreneurial Insights' report indicates that around 25% of start-ups adopt bootstrapping strategies. While allowing founders to retain control, this method poses challenges, highlighting the delicate balance between resourcefulness and sustainable growth.

## 2. External Sources of Funding

a) **Angel Investors** Angel investors, affluent individuals with a keen interest in fostering innovation, are pivotal contributors to the early-stage growth of start-ups. Their role extends beyond providing capital; angels often become mentors, sharing industry insights and expertise with the entrepreneurial ventures they support. This symbiotic relationship is characterized by flexibility in deal structures, allowing angels to tailor their investments to the unique needs of start-ups, setting the stage for a collaborative and mutually beneficial partnership. Despite the evident advantages, the realm of angel investing is not without its challenges. Investors must carefully balance the inherent risks associated with early-stage ventures against the potential for substantial returns. Thorough due diligence becomes imperative as angels assess the viability of start-ups, scrutinizing business models, market potential, and the competency of the leadership team. Diversification of investment portfolios is a common strategy among angels, spreading risk across multiple start-ups to maximize the chances of overall success. Recent trends in angel investing underscore the growing importance of collaborative networks.

b) **Venture Capitalists (VCs)** Venture capitalists (VCs) are pivotal players in the financial landscape, providing essential support to innovative and high-potential start-ups. This form of financing has evolved over the years, shaping the trajectory of countless entrepreneurial ventures. Venture capital serves as a catalyst, fueling the growth of companies with promising ideas, technologies, or business models. Understanding the role, dynamics, and impact of venture capitalists is crucial in comprehending the intricate workings of the start-up ecosystem. Venture capital refers to funds allocated for start-ups and small businesses with exceptional growth potential. Unlike traditional financing, venture capitalists do more than provide capital; they actively engage with management, contribute strategic guidance, and add value to the company through their industry knowledge.

Venture capital means funds made available for startup firms and small businesses with exceptional growth potential.

### **Venture capitalist generally-**

- Finance new and rapidly growing companies
- Purchase equity securities
- Assist in the development of new products or services
- Add value to the company through active participation.

c) **Government Grants** Central and state governments of India often have financial assistance in the form of grants and/or tax credits for start-up or expanding businesses.



d) Initial Public Offerings Initial Public Offerings (IPOs) are used when companies have profitable operations, management stability, and strong demand for their products or services. This generally doesn't happen until companies have been in business for several years. To get to this point, they usually will raise funds privately one or more times.

e) Debt Financing: Debt financing involves borrowing funds from creditors with the stipulation of repaying the borrowed funds plus interest at a specified future time.

For the creditors (those lending the funds to the business), the reward for providing the debt financing is the interest on the amount lent to the borrower.

Debt financing may be secured or unsecured. Secured debt has collateral

(a valuable asset which the lender can attach to satisfy the loan in case of default by the borrower). Debt financing (loans) may be short term or long-term in their repayment schedules.

f) Banks and Other Commercial Lenders Banks and other commercial lenders are popular sources of business financing. Most lenders require solid business plan, positive track record, and plenty of collateral. These are usually hard to come by for a start-up business. Once the business is underway and profit and loss statements, cash flow budgets, and net worth statements are provided, the company maybe able to borrow additional funds

3. Approaches /Strategies of Attracting Capital Resources Attracting capital resources for startups requires a comprehensive strategy that encompasses various avenues and approaches. Here's a strategy outline:

3.1. Define Funding Needs: Clearly articulate the financial requirements of the startup, including initial capital for setup, operational expenses, and growth plans. Assess the funding needs at different stages of the startup lifecycle.

3.2. Craft a Compelling Business Plan: Develop a detailed business plan that outlines the startup's vision, mission, target market, competitive analysis, revenue model, and growth projections. A well-structured business plan serves as a roadmap for potential investors and demonstrates the startup's potential for success.

3.3. Identify Target Investors: Research and identify potential investors who align with the startup's industry, stage, and funding requirements. This may include angel investors, venture capitalists, corporate investors, crowd funding platforms, government grants, or strategic partners.

3.4. Build Investor Relationships: Establish and nurture relationships with potential investors through networking events, industry conferences, pitch competitions, and introductions from mutual connections. Engage in meaningful conversations to understand their investment criteria, preferences, and expectations.

## RESULTS AND DISCUSSION

The data analysis provides several important insights into the startup financing landscape in India. Private Limited Companies dominate the ecosystem, accounting for 85.90% of the total share. This is followed by Limited Liability Partnerships (LLPs) at 6.10%, while partnership firms and unregistered entities each contribute 2.60%. Public companies represent a marginal 0.40%, and other organizational forms account for 2.40%.



In terms of gender distribution among founders, male-led startups constitute 55% of the total, whereas female-led startups account for only 5.90%. Notably, startups founded jointly by both genders represent a significant 38.60%, indicating a growing trend toward collaborative entrepreneurship.

With respect to funding sources, family and friends emerge as the primary contributors, providing 42.9% of total funding. This is followed by angel investors at 11.3%, incubator funding at 9.7%, and private equity at 7%. Crowdfunding contributes a relatively small share of 2.2%. Institutional funding sources such as NABARD (0.3%), Alternative Investment Funds (AIFs) (0.5%), SIDBI (0.6%), and NBFCs (1.7%) play a comparatively limited role.

A substantial majority of startups (85.30%) have not received any international funding. Among those that have, 6.80% received funding up to ₹1 crore, 2.3% secured between ₹1–2 crores, 1.6% obtained ₹3–10 crores, and only 1.9% received funding exceeding ₹10 crores.

Regarding capital infusion, 41.10% of startups have invested up to ₹20 lakhs, whereas only 7% have infused capital exceeding ₹10 crores. In terms of working capital requirements, 73% of startups require more than ₹10 lakhs for a one-year period. Meanwhile, 5% require up to ₹1 lakh, 9% need between ₹1–5 lakhs, and 13% require ₹5–10 lakhs.

Overall, the findings highlight a strong dependence on informal funding sources, limited access to international capital, and significant working capital needs among Indian startups.

### **Discussion:**

The dominance of Private Limited Companies within the startup ecosystem indicates a strong preference for organizational structures that offer operational flexibility along with limited liability protection. The noticeable gender disparity, with male founders significantly outnumbering female entrepreneurs, underscores the need for targeted policy interventions and support mechanisms to promote women-led ventures.

The heavy reliance on funding from family and friends highlights the difficulties startups face in accessing formal financing channels, reflecting both structural gaps in the financial ecosystem and the resourcefulness of entrepreneurs in mobilizing informal capital. Furthermore, the relatively low proportion of international funding points to potential barriers such as limited global networks, lack of exposure, and regulatory constraints. Strengthening international linkages and enhancing global visibility could play a crucial role in attracting foreign investment.

The variation in capital infusion levels suggests that startups operate at different stages of growth, with a substantial proportion in early developmental phases requiring smaller investments. At the same time, the significant working capital requirements emphasize the ongoing financial demands necessary to sustain operations and support expansion.

Overall, these findings highlight the critical importance of improving access to diverse and structured funding sources. Enhancing financial inclusion through more accessible, scalable, and stage-appropriate funding mechanisms will be essential for ensuring business continuity and enabling startups to achieve long-term growth.



## CONCLUSION & RECOMMENDATIONS

In conclusion, the research findings provide a comprehensive understanding of the diverse and evolving landscape of startup financing, along with emerging approaches to attracting capital. Through a detailed analysis of general trends, funding sources, and strategic practices, several key insights have been identified.

Firstly, the analysis highlights a strong reliance on internal funding sources—such as family and friends, personal savings, and bootstrapping—particularly during the early stages of startup development. This trend reflects the inherent risk-taking behavior of entrepreneurs and emphasizes the critical role of personal investment and resourcefulness in initiating new ventures.

Secondly, the study underscores the importance of external funding avenues, including angel investors, venture capital, government grants, and debt financing, in supporting the growth and expansion of startups. These sources not only provide financial capital but also offer valuable expertise, mentorship, and strategic partnerships that enable startups to scale operations, enter new markets, and foster innovation.

Thirdly, the findings emphasize the significance of strategic planning, relationship-building, and effective communication in securing funding. Developing compelling business plans, actively engaging with potential investors, and demonstrating measurable progress and milestones are essential elements of a successful fundraising strategy.

Furthermore, the research highlights the growing importance of leveraging technology, diversifying funding sources, and maintaining strong investor relationships to ensure long-term sustainability.

Overall, the study reflects the dynamic and multifaceted nature of startup financing, characterized by a blend of traditional and innovative approaches. By gaining a deeper understanding of the evolving funding ecosystem and adopting well-aligned strategies, startups can improve their ability to attract capital and accelerate their progress toward achieving long-term objectives.

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