

Why Startup should have Legal Partners?

By Syed Asif Iqbal

India in last few year have significantly improved in terms of its ranking for providing ease of doing business but it still falls around 100th rank out of 191 which is not so encouraging for Indian startup industry. If you are starting a startup in India you would definitely face many administrative and regulatory challenges from the government of India.

Inefficient legal system and lack of business legal literacy add on to the difficulty of start-ups. A recent survey conducted by Inventus Capital Partners revealed a expected fact that regulation uncertainty is one the toughest challenge for most of the dreamers and entrepreneurs who look set up business in India as career next to bollywood and cricket.

Throughout the life of a start-up it has to be on toes for both legal developments and its compliance, be it creating an entity, protecting the intellectual property rights, standing against their competitors, raising funds or becoming an unicorn, the timeline of the start-ups is somehow built on the strong pillars of an efficient legal team.

Before one has to start an idea as their business goal one must understand the law of the land and the legal framework around their business idea. I generally refer that as business legal literacy. That not only requires start-ups to understand what legal and compliance they must be aware of but also help them to understand what benefits they can reap from the government policies.

It's also important understand that no obligation comes without a right. Certainly, start-ups can learn alot from this simple preposition. Every start-up is bound by the legal framework and compliances of the country and has lot of obligations to perform even at infant stage but they will have to understand these obligations are connected with rights and benefits which they can avail from the government policies. Most them struggle around these obligations and fail to encash the benefits that is the outcome of the psychology built around the legal system in India.

The lesson about benefits a startup can get from government is quite old but it will never loose its charm. To cut short a start-up is entitled to following benefits in Indian jurisdiction:

- There are 118 incubators are powering the ecosystem across the country
- Startups are entitled to income tax exemption for first three years.
- Startups are entitled to 80% rebate on patent costs
- No inspections would be conducted for three years under Labour law
- public procurement norms have been relaxed for start-ups
- Exit is also made easy. One can exit within 90 days from the date of application of winding up
- 10,000 crore rupees fund is set-up by government to provide funds to the startups as venture capital
- Startups can apply for government tenders with many relaxations.
- Motor Vehicle Act has been amended to encourage entrepreneurship in road transport sector.

The list is not exhaustive and doesn't include many relaxations provided by the government to encourage Indian start-ups.

We had a look over the benefits side of the coin and these benefits boost your confidence but it is important to keep in mind the scenario where you can feel choked or frustrated due to non compliance or for putting your legal documentation at the back seat. Let's consider some case studies where startup ended up destroying their business or had to shut down for not being able to adopt the legal changes in their business plan. Also few case studies which dictates what a smart legal strategy can do for your business.

Snap chat: Reggie Brown filed a lawsuit claiming that he has been illegally ousted by co-founders Evan Spiegel and Bobby Murphy and his rightful interest in the company was denied. This was a clear issue of absence of a definite founder agreement. If the partners would have entered into clear and definite agreement Evan Spiegel and Bobby Murphy would not have ended up paying Reggie Brown \$157.5 million in a settlement in September 2014.

Bike Taxi: Startup like Heybob, Dot, TuWheelz, Zingo, Rideji who were providing bike taxi services had to shut down when it was announced by the transport department that the same is illegal. While only a few states provide for commercial bike-taxi licenses, the lack of clarity on regulations was one of the focal reason for these failures. However,

several start-ups have now approached transport department to legalise and make clarifications on regulation with regard to the same to boost bike taxi market. Bangalore is one city which is likely to allow bike taxis on such request.

Zebpay: Recently the crypto exchange company has shut down its operation in India and had to move to countries like Canada and Malta to survive. This was the outcome of RBI declaration that bitcoin is not legal tender. Due to lack of legal research and scope zebpay lost its acceleration or had no way out to survive further in India while at the same time other crypto start-ups are still operating.

Shotpitch: This startup came up on the concept to connect startups and investors around the globe although it was one of the most innovative idea but could not survive due to its failure find a way within regulations of SEBI.

Uber & Ola: When uber & Ola started in India market there was no clear regulation to regulate or control these taxi aggregators. When there were few cases of rape registered there was a call even to shut down these cab services. However, due to timely intervention of the ministry of finance and appreciation for their employment generation they were allowed to run in india. I believe it was all because of the smartly built model and legal plans which led these aggregators survive.

PolicyBazaar : Another example of smart strategy based on good legal research is of the startup we all know as PolicyBazaar.com.who had imagined purchasing insurance online but this was made possible through the efforts of founder and CEO Yashish Dahiya went to meet the IRDA chief and convinced him to write a letter that gave him some relief.

There can be many lessons which can be learnt through these start-ups. Before you start working over a business you must find out that what is the legal framework of your product. If your product is new and unprecedented study the legal framework of the product which is most similar to yours. A start-up must have a legal resource who can guide the startup throughout the journey of business and market acquisition.

Imagine a situation where a venture capitalist has committed to fund you but has asked for the due diligence and you are in no position to support your claims. You cannot

always dig the well when you feel thirsty. You need to be very careful and plan a smart legal strategy for your business. Also you need to be aware of all the compliance to comply them at right time. For all this you need you have a legal partner either in a form of legal advisor, internal team member or a firm.

Its great if you have an internal resource to take care of your legal things if not you must have someone as your legal partner. This will not only allow you to focus on things what you are good at but also give you immunity to the upcoming legal havocs.