

Indian Start-up Ecosystem —Opportunities And Challenges

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Angel Investor and Crowd Funding - A Comparative Study with Indian Perspectives

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Introduction

The term angel originally came from Broadway Theater, where it was used to describe wealthy individuals who provided finance for theatrical productions, failing which may lead to the closure of such theatrical production. Since the investors funded the production at a critical, time they were accoladed as angel investors.

Definition

An angel investor who the one known as Business Angel, Informal Investor, Angel Funder and Seed Investor as an affluent individual who provides capital for a business start up usually in exchange for convertible debt or ownership equity.

A small but increasing number of angel investors invest online through equity crowd funding or organize themselves into angel groups or angel networks to share research and pool their investment capital as well as to provide advice to their portfolio companies. The concept of angel investor originated from USA.

Features of Angel Funding

1. Angel investors are often retired entrepreneurs or executives who show interest in angel investing beyond the reason of monetary return.
2. Angel Funding keeps abreast of current developments in a particular business arena.
3. They are mentor for another generation of entrepreneurs.
4. They make use of their experience and networks on a less than full time basis on the venture selected for 3 angel investments.

5. In addition to funding of ventures, they often provide valuable management advice and important contacts.
6. The angel funded business meet angel investors in several ways viz., referrals from investors' trusted sources and other business contacts at investors conference and symposia. They also meet angels at their meetings by group of angels where they have face to face meeting with the angels.
7. Angel investors invest their own funds and they make their own decisions on the investment.
8. There is no a fixed 'set amount' of investment for angle investors and the range can vary to reach even millions of dollar.

Source of fund and Investment profile

- Angel investors invest their own money into the ventures they choose where the funds raised by the venture from family and friends circle are not commensurate.
- The range of their investment is varying and there is no concrete quantum of funds at the start up.
- Though the angel investors represent mostly individuals, they route their financing through limited liability company, a business trust and investment fund vehicles.
- Angel investors look for opportunities to a defined exit strategy, acquisitions or initial public offerings. Further they seek returns ranging from 20 to 30 per cent.
- Angel fund boosts investment in the early stages for start-ups and SEBI has green signaled the investment in early stage entities.

Pros and Cons of angel investment

Pros

- Existing businesses can get funds at times to push their operations to the next level such as new product launch, marketing campaign for expanding outreach and the like.
- They are valuable investors since they are personally interested in the venture they invest and travel with the venture for its success.
- Angel networks offer mentoring and other help to investors.
- There is no need to use the funds to ship out our product to a bunch of backers and some amount can be spent on advertisement and public relations.

Cons

- Angel investing may not be the right route on a start up in which the investor wants to keep control for a long time.
- The angel investor can't have a full freedom to run the funded company based on their own policies.

Crowd Fund

The practice of funding a project or venture by raising money from a large number of people who each contributes relatively small amount, typically via the internet. Crowd fund leverage its network for greater reach and exposure. It is a method of raising capital through the collective effort of friends, family, customers and individual investors.

Benefits of crowd funding

- **Reach:** Crowd funding platform has a high reach to collect the funds from various sources of accredited investors.
- **Apt presentation of the project or business:** In crowd finding an apt and vivid presentation of the existing or new business conceived can be made with features such as history, traction offerings, market and value proposition in a digestible package
- **Marketing:** Crowd funding enables a good marketing of the product and service raised through that channel with a wide reach.
- **Validation of concept:** Crowd funding creates excellent opportunity to present the concept of business of the venturer. The venture can make excellent presentation on line and clear conceptual doubts and other operational difficulties to be encountered by the respondents.
- **Efficiency:** Online crowd funding centralizes and streamlines fund raising efforts. A comprehensive profile of the project can be presented to all the potential investors and overlapping effort to teach the investors can be avoided by crowd funding effort.
- **Not losing equity:** Crowd funding can give access to the company seeking funds without giving away equity in return.
- **Pre marketing benefit:** Crowd funding can be a good way to attract new customers and prove your concept before going to market.

- **Media attention:** Crowd funding could attract media attention and boost the popularity of the project or product and will increase the reach of the venture to more people on media propagation.

Cons of Crowd Funding

- **No mentor-ship:** Selecting Crowd Fund route will make the investors to lose the valuable guidance and mentor-ship that angel investors bring to the table.
- **Fees:** Most Crowd funding platforms, charge a fee if the project is successful along with credit card processing fee.
- **Limited in scope:** Reward based Crowd funding is limited in scope in terms of the average finance

Differences between Crowd funding and Angel funding

Features	Crowd funding	Angel funding
Equity	Not giving any equity to the investors	Large amount of equity to be given when compared to the fund raised through crowd fund mode.
Amount	Contribution to crowded fund will be minimum and to seek more number of investors	Angel investors are moderate in terms of money since the investor wants inclusive participation.
Stage	Seeking crowd fund at the idea stage business model development stage or at the inception stage	Can reach the angel investors at any stage and the angels are ready to invest on the merit of the proposal.
Value	Not providing any value on follow up guidance in the start up.	Angel investors concentrate in the funded project with guidance and super vision with meetings till they exit from the project.
Nature of investor	Anyone interested in the project by perusing the online presentation	Generally experienced and expertised people seeking returns become angel investors
Risk management	Can't shift risk and to sustain it	Can sell the equity at the point of facing high risk.

Angel funding and Venture capital

Venture capital is money that is given to help new start up firms that often are considered to have both high growth and high risk potential. Entrepreneurs with projects new, unproven and risky seek venture capital which is not readily available from the source of traditional financing such as banks.

Both venture capital and angel investors provide capital to start up with risk, there are key differences between the two. Angel investment comes from individuals whereas venture capital comes from a firm or institution. Venture capitalists provide startup finance in a huge sum whereas the angel investors contribute in limited investment. Venture capitalist will invest in any startup; but angel investors make investment on familiar business to them in which they have expertise knowledge and experience.

Angel investors in India

In India angel investors have to play an important role in startup eco system which is the 3rd largest in the world. In the current scenario, the Indian startup eco-system has really grown by massive funding, consolidation activities and evolving technology. Top ten investors made 425 investment within a period of 10 years.

The top ten angel investors in India are Rajan Anandan, Anupam Gopal Mittal, Sanjay Mehta, Zishann, Hayath, Shared Sharma, Anand Ladsariya, Sunil Kaira, Rajesh Sawhney, T.V.Mohan Das Pai and Rehan Yar Khan.

The entrepreneurs before admitting the assistance of the angel investors must know the position of them regarding the following features.

1. The reputation of the angel investor wouldn't be affected in case of the failure of the startup.
2. The availability of the angel investor to offer advice and to travel with the project.
3. The quantum of capital to put in now and to keep in reserve.
4. To be supportive and give advice on the projects in its progress.
5. The viability of providing the finance by cutting the cheque with least hassle
6. Details on investments met with fiasco.

SEBI and Angel Investors

SEBI has announced amendments regarding angel fund regulations in SEBI (Alternative funds Investment) Regulations 2012. N.R.Narayana Murthy is the Chairman for Alternative funds Investment Policy Advisory Committee (AIPAC) in which experts drawn from across the market. The committee of experts formed in March 2015, is to develop the alternative investment industry further and the start up of eco system in India.

AIPAC recommended certain measures to Angel fund and SEBI approved their recommendations which are as follows.

- The upper limit for number of angel investors in a scheme is increased from forty nine to two hundred.
- Angel funds will be allowed to invest in startups incorporated within five years which was earlier three years.
- The requirements of minimum investment amount by an Angel fund in any venture capital fund undertaking are reduced from 50 lakhs to 25 lakhs.
- Angel funds are allowed to invest in overseas venture capital undertaking upto 25% of their investible corpus in line with other AIF's.

Angel Investments Present Scenario

In the current scenario, the Angel Investments in Indian startups hit a five year high in the year ended March 2016, as venture capital firm and existing angel investors pumped in cash to back the next wave of startup stars according to Inno Ven Capital, a venture debt firm. The Angel Investments in India in FY 2016 stood at Rs.13.6 crore across 69 deals a rise of 62 per cent in deal value and 47 per cent in deal volume. In the FY 2015, about Rs.70 crore was invested across 47 deals. Though angel investors remained upbeat, 46 per cent of the startups which raised angel funding last fiscal have not been able to raise a follow on round while 32 per cent secured one round funding.

Angel Network in India

An Angel Network is a group of Angel investors who have organized to invest collectively, operate more effectively and provide mutual support. Angel networks are also known as angel groups.

Indian Angel Network is to keen in early stage businesses. Which have potential to create disproportionate value. The members of the Angel Network are leaders in the entrepreneurial Eco system as they have had strong operational managements experience as top brass officers or a back ground of creating new and successful ventures. They diffuse their knowledge to create scale and value for new ventures.

Features of Indian Angel Network

1. Strong backdrop with entrepreneurial and operational investors who could make angel investment in niche areas
2. Angel Network Investors have the willingness to invest money and time in ventures which they could float successfully in future.

3. Their ability to create a vast network and makes the funding process easy on viable ventures.
4. They are able to get quick feedback in the investments decision and to make appropriate changes.

The Indian Angel Network looks for multiple sector investment on agriculture, E-Commerce, Education, Financial services, Gaming Health care, hospitality, Information Technology, Internet, Life style, Manufacturing, Mobile, Retail, Semiconductor and services. The IAN is interested to invest in startups which have high barriers to entry, with scalable business, a complementary management team and differentiated value proposition.

The purpose of an Angel Network is not only to fund innovative and viable ventures but also to be helpful in validating and mentoring.

Mentoring

With the wealth of experience of the members of IAN and Mumbai angels we can get their expertise and mentoring and it will be useful to the entrepreneur in his operational walk on the venture.

Connections

The Indian Angel Network enhances to have connections and make the business deal easier with introduction to prospective clients. Sometimes the investors themselves may become client.

Bouncing ideas and validation

Investors are the best people to bounce idea and validate our idea, model and concept. The angel investors previous refined experience will help to have hassle free venture on the walk. The angel investment could tell the success stories of angel investing.

In News

India-needs-more-angel-investors

Unlike in developed countries, start ups in India do not grow due to lack of enthusiasm from angel investors, Infosys co-founder Kris Gopalakrishnan said here on Saturday."In countries like the US, there are almost five angel investors per start up. In India, however, there is hardly one angel investor for five start ups. the current turmoil in the banking system will not

affect the start ups, Gopalakrishnan told the media on the sidelines of two-day Empresario StartUp Summit 2018, an annual event by the Entrepreneurship Development Institute of India.

"As far as community investing is concerned, India is good. But community investing is not in the form of equity investments, but more like debt. We need more equity investments from communities for the start ups in the country to grow." Gopalakrishnan said he believes India FinTech start ups are one of the best in the world, adding that the country needed a robust ecosystem for the start ups to be successful.

An extract from Inc42's recently released Annual Indian Tech Startup

Funding Report 2017 which provides a meticulously detailed analysis of the funding trends, top Angel investors, and Merger & Acquisitions (M&As) in the Indian startup ecosystem for the period 2014-2017.

In the last article, we talked about the three most active VC funds of 2017. Today, we bring you **the top three angel investors**. Before we share names, let's take a look at some interesting trends around angel investor participation in the Indian tech startup funding in 2017.

As per Inc42 DataLabs, **512 active angel investors** participated in the Indian tech startup funding in 2017. **This is a 22% decrease in comparison to 2016**. We also observed a further decrease in the addition of new angel investors to the Indian tech startup ecosystem. Upon further dwelling into the data, Inc42 DataLabs found that: out of the total angel investors in India (since 2014) i.e. 1,777, over 1410 have made just a single deal and about 192 have made two. This figure came along with 175 angels who participated in three or more deals. **Only 9.8% have participated in more than three funding deals.**

Most Active Angel Investors In India: Indian Tech Startup Funding Report 2017

As per Inc42's annual Indian tech startup funding report 2017, Google VP, South East Asia and India, **Rajan Anandan was the most active Angel investor in 2017** with eight investments. The second and third rank was taken up by **Girish Mathrubootham**, founder and CEO Freshworks and **Satveer Singh Thakral**, CEO, Singapore Angel Network with six deals each. While in 2016, FreeCharge founder Kunal Shah grabbed the topmost spot, he has

slipped to the fifth position in 2017. In 2017, he was preceded by **Anand Chandrasekaran**, Director, Producer/ Platforms, Facebook.



The launch of several angel networks and platforms formed one of the major reasons that have boosted angel investor participation in the Indian tech startup funding.

Another major change is that these platforms and networks have opened doors for **High Networth Individuals (HNIs) from across India and especially from Tier II and Tier III cities** who are interested to invest in Indian tech startups.

Local angel networks such as **The Chennai Angel Network, Chandigarh Angel Network (CAN) (which participated in 8 deals in 2017)**, etc. have also given a boost to the ecosystem of investors at a local level by bringing them together to boost the startup funding activity in these cities.

Conclusions of the study

Both Angel investing and crowd funding are options to get finance, but angel investing edges crowd funding in the following points. Angel investor provides ample quantum of funds needed by the venturers and also the mentoring work over and above the control of SEBI.

Angel investors with their profound knowledge, guide their ward-entrepreneurs and share their joys and sorrows on the ventures with mentoring, connections and validation.

In India, the Angel investors are still in the young stage and they could be augmented at this juncture of India being in need of startups and to bring make in India concept into reality.

Angel investor's service must be utilized along with services of the venture capitalists since they cannot be relied for full scale of finance.

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