

The Angel Investment Scenario



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Angel investment is rapidly emerging as an important class of funding for the entrepreneurial ecosystem. A number of Angel groups have emerged in the country and start-ups are reaching out to such groups to fund their expansion in the early stages.

India was world renowned for its entrepreneurial prowess in ancient

times but colonization scuttled the entrepreneurship spirit. For several decades after independence, the middle class was unwilling to take risks and preferred secure jobs over risky ventures. However, a few ventured out, especially in the IT, ITES, internet, ecommerce spaces and created huge successes. These entrepreneurs have become role models for today's youth. Right from the college stage, today's youth is willing to try out new ideas; open to taking risks; and is ready to plunge into the start-up ecosystem. There is a new surge of entrepreneurial energy in India. Nasscom estimates that 3000 start-ups are emerging every year. This number is expected to grow to 10000 start-ups by 2020.

The first source of money for such start-ups is usually from friends and family. The next round comprising seed money is now coming from the emerging entrepreneurial ecosystem players including co-location spaces, incubators, accelerators, MSME schemes, DST, etc. This investment is typically under 25 lakhs. The next class of investment is the Angel round, where Angels step in to prepare companies for Series A investments.

Angel investment has emerged as an asset class associated with high risks and high returns. Angel groups typically make 50 lakhs to 5 crores investments. They also provide a lot of value addition to start-ups besides mere investment. They help entrepreneurs by mentoring them; defining the road map for success; work out product, services, technology, and market strategies; and fine tune the business and financial plan. Angel groups also provide early market access to start-ups through their personal networks. Angels typically take

20-30% of the company for providing the investment and value addition.

There are two types of Angels – private Angels and Angel groups. Private Angels are few like-minded high net-worth individuals (HNIs) who come together to work with limited number of start-ups (typically 2-3 each year) and prepare them for the next investment rounds. Angel groups operate as societies or are registered with SEBI as an Alternate Investment Fund (AIF). They would comprise 50 + members and typically make 10-40 investments each year.

Angel investment is still in its infancy but is growing very rapidly. While it is very difficult to map the private Angel investments, the Angel groups have been mapped by the InnoVen Capital: India Angel Report 2015. The report covers the major Angel groups like Indian Angel Networks, Mumbai Angels, Hyderabad Angels, The Chennai Angels, and Calcutta Angels. As per this report, Angel investment has grown by 80% in 2015. The report estimates that in FY 2014, Rs. 38 crores was invested by these 5 Angel groups which went up to 70 crores in FY 2015. This trend is likely to continue with many more Angel groups coming up. By FY 2020 this asset class could reach 500 to 1000 crores. In 2015 the Angel groups invested in 47 companies with the median round at 1.38 crores and pre-money valuations of Rs 9 crores. Angel groups follow through with repeat investments in more than a quarter of the deals. The leading destinations are Bangalore, Mumbai and Delhi.

Angel investors typically are taking high risks and therefore, need to have a hedging strategy to minimize the risk. This is done through a portfolio approach. Angels invest in large number of companies across various sectors thereby hedging their bets. However, presently, bulk of the money has gone into IT/ITeS, online services, consumer services, telecom/mobile/VAS, eCommerce sector. Additionally, there is a growing trend towards IOT, education, healthcare and hospitality sectors.

The Indian Angel Network is the largest Angel group in India. Established in 2006, IAN provides high quality mentoring, vast network of over 350 Angels as well as inputs on strategy, execution as well as market access. IAN members have been leaders in mentoring and developing the entrepreneurial system in India and have several successes under their belt of creating successful ventures. IAN has done nearly 100 investments with over a dozen highly successful exits.