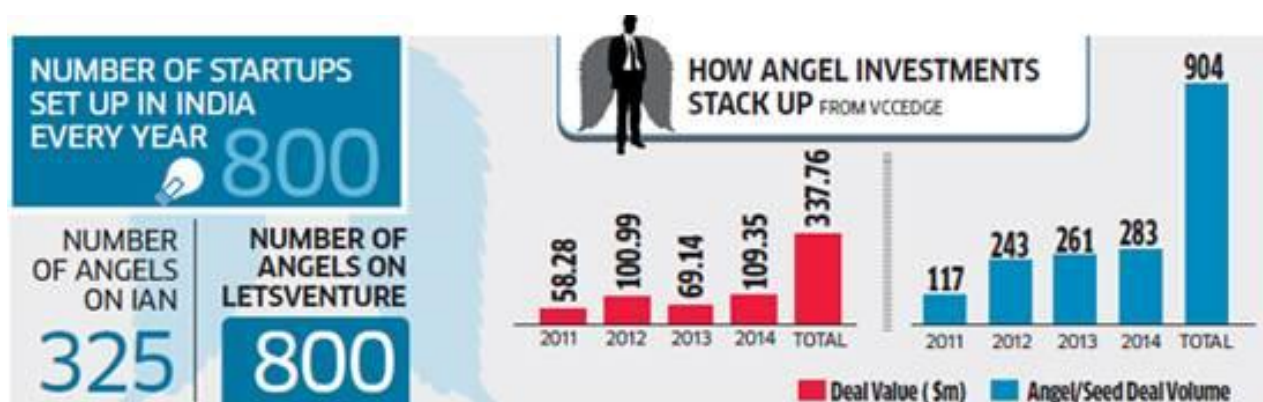


Angel investing becomes the new asset class for wealthy Indians

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http://articles.economictimes.indiatimes.com/2015-02-06/news/58879045_1_indian-angel-network-angel-investing-letsventure

Steven Sule returned to Mumbai in late 2013 after nearly three years in London, with a plan to set up an advisory firm to leverage his expertise in mergers and acquisitions. Before long, he was introduced to the Indian Angel Network and off to Sri Lanka as part of a delegation to connect with investors and startups.



"The easiest thing to do was to get plugged in," said Sule, 32, who cofounded investment firm Naste Advisors in April. A few months later, in November, he also signed up with LetsVenture, an online platform for angel investors and led a Rs 5.2 crore investment in financial analytics firm Aureus Analytics. His co-investors included Google's Southeast Asia head Rajan Anandan, Murugappa Group scion Arun Venkatachalam and Arihant Patni, managing director of The Hive India.

From being a high-risk asset class for a select few, angel investing is evolving into one of the most sought forms of investment in India's maturing startup ecosystem. More investors such as Sule are stepping down the investment ladder willing to bet on fledgling companies that might yet be firming up their business plans, lured by a potential for higher returns than what other conservative asset classes such as mutual funds and secondary markets can offer.

Successful early-stage startups can return profits of up to 10 times to angel investors in 2-3 years.

Over longer periods, the returns can reach as high as 100 times, said Srikanth Bhagavat, managing director and principal advisor at Hexagon Capital Advisors. The risk? If an investee company fails, the investment sinks.

It is a great time to startup in India. CB Insights says, India overtook China in terms of sale of investments in technology startups in 2014. Since 2011, angel investments in India have doubled to 283 last year, according to research firm VCCEdge. Indian Angel Network, a grouping of earlystage

investors, has added about 325 members since its launch in 2006 to become the largest such network in Asia.

The nearly two-year-old online investing platform LetsVenture already has 800 members.

"My theory is that a fair bit of angel investing in India today is money that is looking for quick high returns in India that was earlier chasing such returns in the highly inefficient public markets," said Sabarinathan N, chairman of the incubator at the Indian Institute of Management, Bangalore, who has been closely following the angel investing space the past 30 years. "With that market becoming more regulated, efficient and dominated by institutional investors, these investors are 'punting' in the angel markets."

At the most basic level, an angel finances very early-stage companies. An ideal angel has the time to source and pick deals as well as mentor his investee companies. He should also have enough financial strength to absorb the shock if his investment goes bust - the success rate in India is 1 or 2 in 10 startups.

The trick lies in identifying the right startup, say experts. Picking a solid team over an idea could yield returns, as the devil lies in the execution of an idea - the mantra of Paul Graham, cofounder of popular Silicon Valley accelerator YCombinator. "You want to fund people who are relentlessly resourceful," he says in a blog post. "Thermals happen, yes, but no one can predict them — not even the founders and certainly not you as an investor. And only good people can ride the thermals if they hit them anyway."



Dinesh Agarwal (45)	Vinod Keni (50)
CEO, IndiamART	Co-Founder, Peachtree Capital Partners & Management Advisors
Best pick: Little Eye Labs	Best pick: Druva
Number of companies: 38 including Wishberry, SilverPush, Ozonetel	Number of companies: 50 including Aurus Network, Stayzilla
Exits: Little Eye Labs, WeAreHolidays, PlayCez	Exits: Druva, Saga Food, Westrix Technologies
Size of investment: ₹1 lakh-20 lakh	Size of investment: ₹5 lakh-25 lakh
USP: Streamlines ideas and compels entrepreneurs to execute them	USP: Financial management and operational efficiency
Tip: Have zero expectation of getting any results and know that it consumes time	Tip: Know that it is not easy. Get involved with lots of companies

ET gives a lowdown on the several options for an aspiring angel investor in India:

Network approach

Indian Angel Network, like most such networks, accepts applications only on recommendations from members. An applicant's profile is circulated among members and their objections recorded and then the network tries to understand his or her motivation for angel investing. Members should want to invest in and mentor startups and be willing to look beyond safe bets such as real estate and

gold. It takes about a week for a new investor to come onboard, said Padmaja Ruparel, cofounder of IAN.

An aspiring investor should, in their application, mention their experience, domain expertise, career trajectory, as well as details such as whether he or she has participated in any highlevel committees or created any ventures.

Ajeet Khurana, who joined Mumbai Angels in 2010, says angel networks have undergone a massive transformation in the past four years. For one, entry is easier. While it took him about 10 months to be accepted into the network, "now, those who come with a referral and meet the criterion are let in," said Khurana, who has invested in 22 startups so far. Also, networks now seek domain experts and entrepreneurs as angels, and not only investors with a background in finance, he said.

Most investors have a net worth of at least Rs 10 crore, Khurana said, adding that an angel typically should not invest more than 1-2% of their total wealth. Other city-based networks to have sprung up in the past are Chennai Angels, Kolkata Angels, among others.

Online deal making platforms

Like everything else in India, angel investing is also moving online. LetsVenture is at the forefront of this. Once an invite is sent to an investor, LetsVenture looks at whether the person has what it takes either over a cup of coffee or a phone call. An aspiring angel should plan for a minimum corpus of \$65,000-\$125,000 (Rs 40 lakh -Rs 77 lakh) for investing in 8-10 startups over a period of 2-3 years, according to LetsVenture. So, a networth of \$350,000-\$500,000 (Rs 2.1 crore - Rs 3.1 crore) or an annual income in excess of \$100,000-\$175,000 (Rs 60 lakh - Rs 1.1 crore) is a must-have to start on this journey.

"There is no hard and fast rule. It is just about knowing whether they get it or not," said Ganesh Nayak, who heads investor relations at LetsVenture, adding that the process generally takes about three days. Former entrepreneurs, angel investors from other backgrounds or companies with rich domain expertise are the common categories of investors enlisting on LetsVenture, he said.

"The best startups are going to entrepreneurturned-angel investors because they know they can add value," said Shanti Mohan, CEO of LetsVenture. Another online angel platform, ah!Ventures, has closed seven deals at least in the past one-and-half years.

Why LetsVenture? Because it helps cut down the time factor for investors: they only contact startups they like and initiate discussions accordingly. "The success of LetsVenture is mostly because there are people like me in abundance - those who can afford to invest Rs 5-10 lakh at a go," said Krishna Khandelwal, 28, an investment banker from Mumbai and one of the earliest investors on LetsVenture. He has invested in companies such as GrabHouse, Tydy and testbook.com.

Pros and cons of these two forms

While angel networks offer startups high mentoring, they take longer to close deals. On the other hand, deal-making platforms are efficient in closing rounds, but cannot really be accountable for

what happens after financing is closed. "How do you ensure that startups continue to be mentored? Or if the source of money is legitimate?" said Ruparel of Indian Angel Network. The online model has to mature to ensure that such gaps are filled, she said. If one wants to invest without spending much time on finding startups, the online marketplace would be the way to go. But if an investor likes to seek out companies and wants to engage with founders on a much deeper level, angel networks enable that.

"So, the merits and issues of either mode will become apparent only after we have a body of experiences from the post investment phase as well. That will decide which of these models will prevail," said Sabarinathan of IIM-B.

Closed networks

Harvard Alumni Angels India and newly formed CIO Angel Network have fairly easy entry processes. If you are a Harvard alum, you can pay the fee and immediately join the network. CIO Angel Network and BITS Pilani's Spark Angels have similar criteria.

"When a CIO (chief information officers in technology companies) is willing to invest in your technology, what bigger validation can you have for your product?" said Sanjay Mehta, a member of the network. But such networks tend to be limited in strength - CIO Network was started this month, and three-year old Harvard Alumni Angels India has 30 members - and so they look to syndicate with other angel networks. Unlike Indian Angel Network, Harvard Alumni Angels is not a network per se. The members invest in their individual capacity, but leverage their Harvard brand to the benefit of their portfolio companies.

"We constantly receive requests from non-Harvard alumni who wish to collaborate and co-invest with our members. We plan to open our pitch days to select alumni from top tier schools like MIT, Stanford, London School of Business, UChicago, etc.," said Ravi Gururaj, cofounder of Harvard Alumni Angels India.

Informal networks

In the background are informal networks, comprising highly-accomplished angels, who evaluate and invest in startups much before bringing these companies to the notice of the formal ones. Such an investor could be a former boss of an entrepreneur who believes in the person and the idea, said Mohan of LetsVenture. Gururaj, who is also a member of an informal angel network along with investors such as Google's Anandan, estimates India has at least a half dozen such groups. "They often refer deals to each other for feedback and co-investment," he said. "Since these folks are mostly credible industry leaders, when they opt to invest and lead a deal together, it rapidly galvanises interest from others and helps the founder close funding faster."