

How you can become a successful angel investor

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Three years is all it took angel investor Anupam Mittal to earn about 25x returns. He co-invested Rs 1 crore, with ace angel investor Rehan Yar Khan, in Ola Cabs in 2011. The two were the first investors in Ola. In October 2014, Ola raised \$210 million from Japan's SoftBank, valuing Mittal's stake alone at Rs 25 crore. Similarly, GSF Accelerator angels including Meena Ganesh earned 5x to 7x returns on their investments in Bangalore-based Little Eye Lab in only 18 months, after it was acquired by Facebook. Exciting this may seem, but such profitable exits are rare exceptions in the world of angel investing; a majority of investments turn duds.

"Seven out of 10 ventures will die," says Rajan Anandan, managing director, Google India. Khan, Mittal, Anandan and Ganesh have among them seen over a dozen investments turn bad. Still, more such profitable exits are indeed happening as the Indian entrepreneurial ecosystem matures, attracting more new angel investors. India's club of angel investors has grown from about 50 in 2006 to about 1,000 now.

And a veritable stampede is in the making. Entrepreneurs, CXOs with substantial wealth, scions of business families, successful and high net worth stock market investors and just about everybody else with some money to invest are exploring angel investments. But what does it take to be an angel? All angels aim to become a Peter Thiel, Ron Conway or a Ram Shriram. The three have made \$1 billion-plus each by backing startups. For instance Thiel, cofounder of Paypal, picked a 10.2% stake in Facebook in 2004 for \$0.5 million. During Facebook's IPO in May 2012, Thiel sold 16.8 million of his shares for \$638 million and the rest for \$396 million in August that year. Closer home, it will be a while before any angel hits the billion dollar returns landmark, but interest in angel investing is rising.

Meena Ganesh 51 & K Ganesh 53

Angel since: 2005

Number of investments: 25 (includes BookAdda, BrownTape, MustSeeIndia.com)
Exits: 2 includes Little Eye Labs (acquired by Facebook)

Angel lessons: Focus on areas you know

"There's an entrepreneurial tidal wave attracting new angels," says Niren Shah, managing director, Norwest venture Partners.

But there's no easy money to be made. As most ventures tank, angel dreams evaporate, some within months of investments. "There's a rush to become angels today, but how many companies reach Series A (when VC funds invest, providing an exit for angels)?" asks Sunil Kalra. He started funding startups in 2004 and has a portfolio of 60 companies. ET spoke to over half-a-dozen such investors who made over 25 investments each to figure out what it takes to be a successful angel.



Angel Deals

| Year | 2010 | 2011 | 2012 | 2013 | 2014 | 2015YTD | Total |
|--------------------|-------|-------|-------|-------|-------|---------|--------|
| No. of deals | 28 | 63 | 119 | 116 | 133 | 32 | 491 |
| Value (\$ million) | 14.28 | 15.12 | 56.21 | 34.21 | 54.94 | 7.84 | 182.65 |

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The 10,000-hour Rule

"My advice is unless you are willing to learn the game, stay in it for 12-15 years, don't do it directly," says Google's Anandan. To be good at anything you got to do it for 10,000 hours, he believes. Beatles and Bill Gates were at it that long before they became world-class band and software writer, respectively.

"You can't invest and sit back. Angel investing is not passive, but active investment," he says.

Adds Saurabh Srivastava, co-founder, Indian Angel Network (IAN): "Angel investing is not wealth management. An angel should have the stomach to lose money. It (losing money) should not give you sleepless nights." Delhi-based IAN is the largest club of angel investors with 325 members, up from 10 back in 2006, when it started.

Saurabh Srivastava, 68

Angel since: 2000

Number of investments: 70 (includes: Sapience, Peelworks, Stayzilla)

Exits: 12-15 includes IndiaBulls, Scicom, India Games.

Angel lessons: Be ready to write off money invested; don't try to run the startup or force founder to accept your advice

"I invest Rs 5 lakh to Rs 10 lakh in each venture fully aware that it's high risk. It has to be done with spare money," says Meena Ganesh, CEO, Portea Medical. Ganesh, along with her husband K Ganesh has funded 25 companies, a dozen via GSF Accelerator.

In 2011, the couple started building their own ideas into ventures and have seven promoted ventures. Portea Medical, which provides healthcare assistance at home, is one of them.

Seasoned angels say just backing two to four investments is not good enough. "You need a portfolio," says Padmaja Ruparel, president, IAN. A portfolio does three things, explains Ruparel: it mitigates risks, offers sectoral diversification, geographic diversification and brings depth in investments.

About 10% of IAN members have a portfolio of 30 companies each. Anandan has a portfolio of 50 companies, Kalra has invested in 60 startups, Rajesh Sawhney, founder, GSF Accelerator has 40 companies. It takes a portfolio to be a successful angel.

"There's a lead investor — say someone who understands the sector and there are other angels who invest along with the lead. This helps diversify portfolio and share risks," says Ruparel.



Being an Angel

It's not wealth management. Only invest money you are ready to lose

Have a portfolio of at least 10 companies. Large angels in India have 50-70 companies; in US 150-200 companies

Don't bet blindly. Invest in a team rather than in solo startups and look at where the idea will be in five years from the time of investing

Diversify portfolio

To start with invest via seed funds or co-invest with other angels

Be clear on business models – B2C burns cash far quicker than B2B

CXOs turning angels need to pay heed that their advice may not be followed and they won't control outcome of their investment

For example, LoudCell, a startup that remotely measures diesel consumed by generators, has 35 investors. XSI, a semiconductor startup, has 30 investors. London-based Lowdownapp has 35 IAN angels as investors and Mobilewalla, a US-based analytics services provider for mobiles, has 20 IAN members as investors.

"Over a five-to-seven-year period an angel must aim to have at least 10 companies," says Anandan. In nine years of investing in India, he has built a portfolio of 50. He has made five exits, 15 companies he funded have raised Series A and B, but 10 are no longer in business. It is too early to tell the fate of the rest, admits Anandan. Knowing when to exit is critical as well. Smart angels exit partly when valuation doubles to recover their initial investment.

IAN's Srivastava has a portfolio of 70 companies since he started in 2000. He invested in 10 startups as part of the Infinity fund which backed IndiaBulls, India Games and Avendus. "Half of them disappeared, but on the other half, we made a lot of money to more than cover up for losses. Diversification helps achieve this. And it's not a game of chance, but a well understood bet," he says.

Some Luck & a B2C Focus

Angel investing is not gambling, but fortune favours those with a larger portfolio. "In gambling you need a lot of luck and some skill. In angel investing you need a lot of skill and some luck," says Ganesh. "An angel needs the ability to see five years ahead — what the startup could become in that time. It is a business of skill and not speculation," says Shah of Norwest.

The choice of business model is also critical to success.

Angels find that backing a B2B business carries less risk than a B2C business. "My 10,000-hour rule is skewed towards B2B," says Anandan.

Adds Kalra: "B2C needs massive amounts of capital to scale, create stickiness with customers to enable repeat purchases. There are hardly any B2C startups in my portfolio of 60 companies."

Rajan Anandan, 46

Angel since: 2005

Number of investments: 50 (including CultureAlley, Instamojo, Druva) Exits: Five, including BizIQ & Hungryzone.

Angel lessons: Do it for 10,000 hours to be good at it. Have a portfolio of at least 10 startups.

Angels also need to understand the business landscape. Technology startups and new apps sound cool, but what might be high tech today could be irrelevant tomorrow. "The problem with technology is that time doesn't stand still," says Kalra.



Adds Sawhney of GSF: "Angel investing is not the same as mutual fund investing, where you can sit back. Here, it's your money and you are the investment expert."

Entrepreneur or CXO

Many first-generation entrepreneurs and CXOs with enough money are rushing into angel investing. A successful businessman or CXO may not necessarily make a good angel, veterans say.

An angel should not try to run the company he is funding. If you want to put money and control the business, angel investing is not for you. This is tougher for a CXO to accept than for an entrepreneur.

"A CXO will find it difficult to accept that a venture did not take off. Also he likes to control the outcome and in that case is unlikely to make a good angel," says Vineet Nayar, founder Sampark Foundation. Nayar, former CEO of HCL Technologies, does not invest in startups. Nayar believes if he has a great idea, he might as well start it himself rather than invest in someone else's startup.

"My angel investments are done with money I am ready to lose," says Ganesh. In other words, she lets the entrepreneur run the business.

Adds Kalpana Jain, senior director, Deloitte India: "It's the gut of an entrepreneur versus process orientation of a CXO. Psychologically it's difficult for a CXO to turn angel."

Sunil Kalra, 51

Angel since: 2004

Number of investments: 60 (includes TaxSpanner. com, Mobilewalla, Crayon Data).

Exits: 10 partial; includes Quench, Druva, Exclusively.in

Angel lessons: Avoid get-rich-quick ideas; back team and ensure there's a market for the idea. Angels make snap decisions. "I decided to invest in CultureAlley (a language learning app based startup) after a 15-minute phone call," says Kalra. The app is trending with 65,000 daily users and Tiger Global, a venture capital fund, has also invested in it. Kalra, 51, has honed the ability to make quick decisions over 10 years in angel investing.



On the other hand, Deep Kalra, founder and CEO, makemytrip.com, no longer funds startups directly. He is invested in 15 companies via seed funds like Kae Capital, Blume Venture, India Quotient. "I realised I didn't have the time two years ago," he says.

The last lesson: Be prepared to part with both time and money.