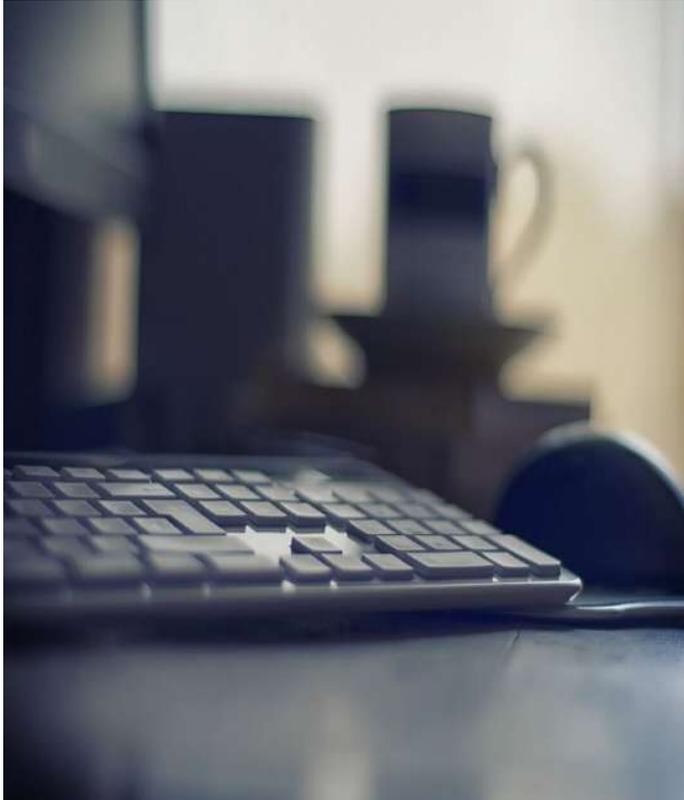


Angel Investment Landscape of India

2018



Gearing up for favourable investment climate

A study of angel investment community and outlook for India

ABSTRACT

The report captures key highlights of a survey conducted in the global angel investment community by LetsVenture. We derive the key factors that will be critical for a sustainable angel investments in India

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Foreword

At LetsVenture, an online marketplace that enables early stage startup investments in India, we have been witness to angel investing behaviors at close quarter. We have approached the marketplace building more as a science than an art – a science that be explained with numbers, and can be ‘predicted’ if understood analytically. As an online platform, we started with the thesis that an online marketplace, creating easy access and discovery for founders and investors, along with offering operational efficiency would be relevant to the Indian ecosystem. In the last 5 years, we have unlocked alternate capital from 4 very different categories of investors: 2nd generation family businesses, Entrepreneur - turned - investor, CXOs of organizations and the Global Indian.



However a gap we realized was the lack of baseline benchmark on angel investing in India – we continue to be ‘influenced’ by data from other geographies. We conducted a survey to assess the profile of angel investors investing into Indian startups. The survey covered investors from India (70%) and global investors (30%). It has brought forth few interesting insights on sectoral preferences, motivations of investing and exit data.

This is a first attempt at understanding this asset class better. We do hope you find this relevant and we look forward to your feedback on how future studies could be improved further.

Shanti Mohan

Shanti Mohan
Co-Founder and CEO, LetsVenture

Current Startup Landscape In India

India has witnessed an impressive growth in the number of startups in the previous few years. As per Startup India, a total of 8,625 startups were recognized in India as on 30th march 2018. 2711 startups were incorporated in the country in 2017¹. Along with traditional sectors such as financial services, retail, hospitality, the ecosystem is witnessing to witness growth of startups offering innovative solutions in healthcare, automobiles, transport and smart mobility, hospitality, e-commerce, social segment, etc.

While there is a still long way ahead, there have been strong measures from the Government for creating a better environment.

India has witnessed a rise in ranking from 130 to 100 in World Bank's ease of doing business report has laid the foundations for a thriving startup ecosystem². According to the UNCTAD's Investment Trends Monitor (2018), India was the 10th largest recipient of global FDI in 2017 and remained the topmost destination for greenfield capital investment. Increase in caps for FDI in sectors such as Insurance, Medical Devices, Defence, Broadcasting sectors, to name a few has assisted in the much needed investment for the large pool of potential³.

India has been leapfrogged in the global startup and investing ecosystem. Starting off as a nascent space in the 2000's, the country has come a long way with 13 unicorns under its belt, 3rd in the the global race for the same.

99.7 bn USD worth M&A deals were recorded in the first nine months of 2018, according to Thomson Reuters. While there were a lot of Indian companies acquiring foreign ones, the west diverted their eyeballs towards India with startup acquisitions from Facebook and Google with largest of them all being the Flipkart-Walmart deal.

With all the euphoria around, India is now poised to be one of the largest markets facilitating startups to scale, outside USA and China.

However, capital remains the critical requirement for startups. Based on a survey done with founders on the top 3 challenges to entrepreneurship in India; raising funds at early stage was the biggest challenge. With increased understanding and visibility of startups, angel investing is better understood in the country today. The angel investment in the country has seen interesting trends in the previous few years⁴. While about over 350m USD has been invested every year in

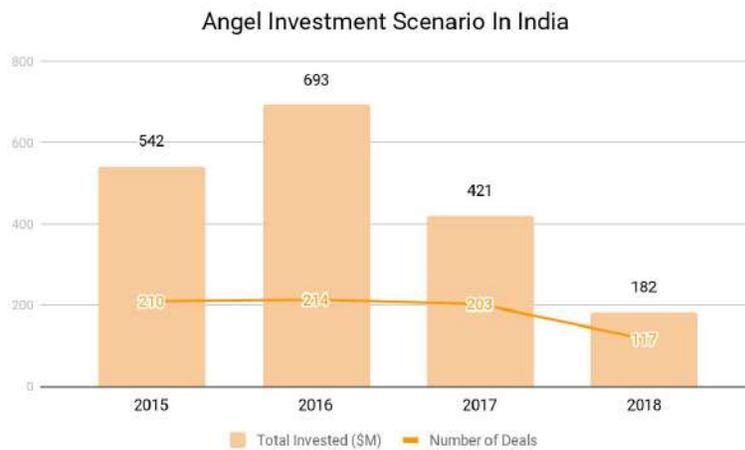
¹ Business Standard (2018). Retrieved from https://www.business-standard.com/article/news-cm/8-625-startups-recognised-as-on-30-march-2018-118040400743_1.html. Last accessed on 19th October 2018

² World Bank (2017). Retrieved from <https://www.worldbank.org/en/news/press-release/2017/10/31/india-jumps-doing-business-rankings-with-sustained-reform-focus>. Last accessed on 19th October 2018

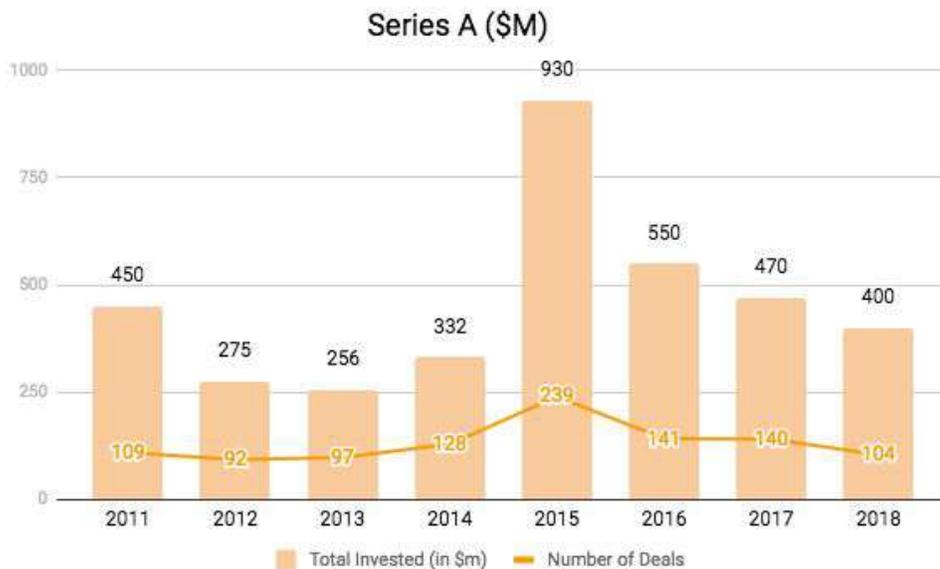
³ http://dipp.nic.in/sites/default/files/ru497_0.pdf

⁴ Apurva P. Yourstory (2018). Retrieved from <https://yourstory.com/2018/08/meet-this-years-top-angel-investors-in-indian-startups/>. Last accessed on 19th October 2018

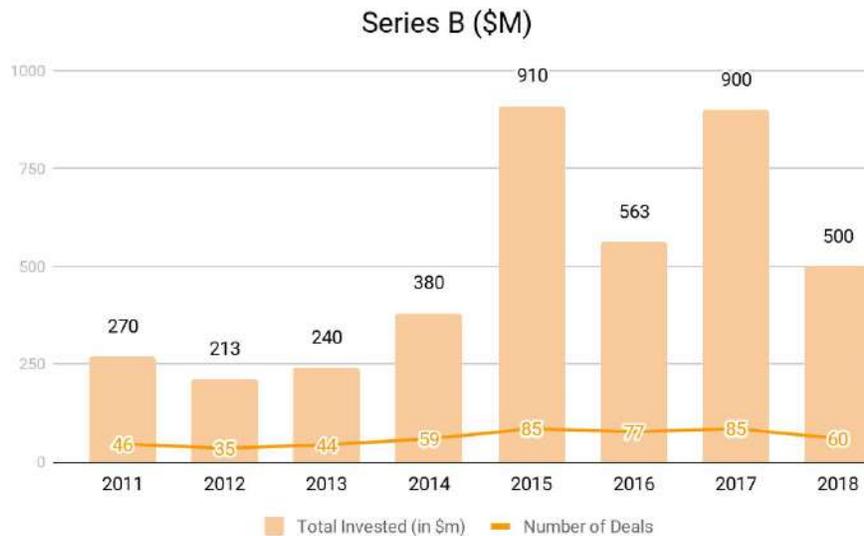
the early stage space over the last 5 years, the investors as well as the investees have faced a few challenges in the smooth transaction flow.



Moreover, since 2011, a big jump in series A and series B funding has been recorded, which has further boosted confidence of angel investors to invest in startups in India.⁵ The ecosystem witnessed a spike in 2015, and then came the market correction in 2016. Post this trough, series A and B deals have occurred at a higher rate than the pre-2015 times and as the data shows, the numbers are poised to grow in the years to come. There is an increased interest being seen from foreign VCs, Family Offices and Corporate Ventures leading to additional liquidity in the growth stage. Needless to say, this is going to lead to more cash exits and acquisitions, which is a positive trend for angel investors.



⁵ VCCEdge database, accessed on 21st October 2018



While we have seen a phenomenal growth over the last decade, there are still challenges that plague the early stage startups and angels. Some are market driven - such as lack of good exit opportunities, valuation expectation mismatch and others. The others are purely regulatory and tax issues - angel tax , FDI receipt filings/intimation,higher regulatory requirements compared to the developed markets and such. Earlier this year, the government came up with certain changes that ensure angel tax was not levied. The objective was to bring the angel investments on par with venture capital investments, as far as tax treatment is concerned.

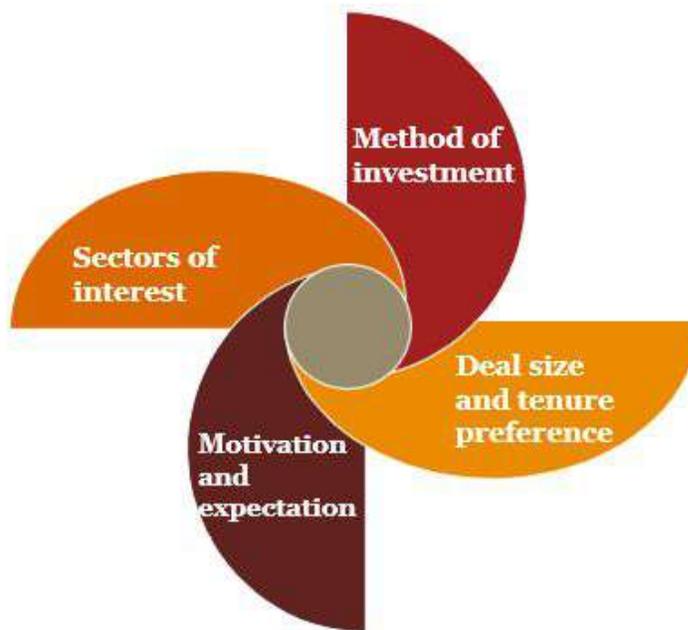
This was a welcome change, however, a few niggling issues such as recognition of a company as a “startup” by approval of an inter-ministerial panel by qualifying for various criteria, certification by either a government entity or an approved incubator, mandatory valuation by a merchant banker have raised concerns with regards to swiftness and costs associated with angel investment. To ensure that the startup ecosystem continues to thrive in the country, the government and regulators would need to continuously make the policies more user-friendly and create an environment for faster closure of deals in the angel investment space.

The survey design

LetsVenture conducted a survey to understand the profile of angel investors and trends in angel investments. We further tried to understand the behavior of angel investors associated with investments in startups across the globe, which will have a bearing on the future investment potential in India.

Methodology

The method of delivery of the survey was an online questionnaire disseminated through email. The survey had 15 questions and were focused on the below dimensions:

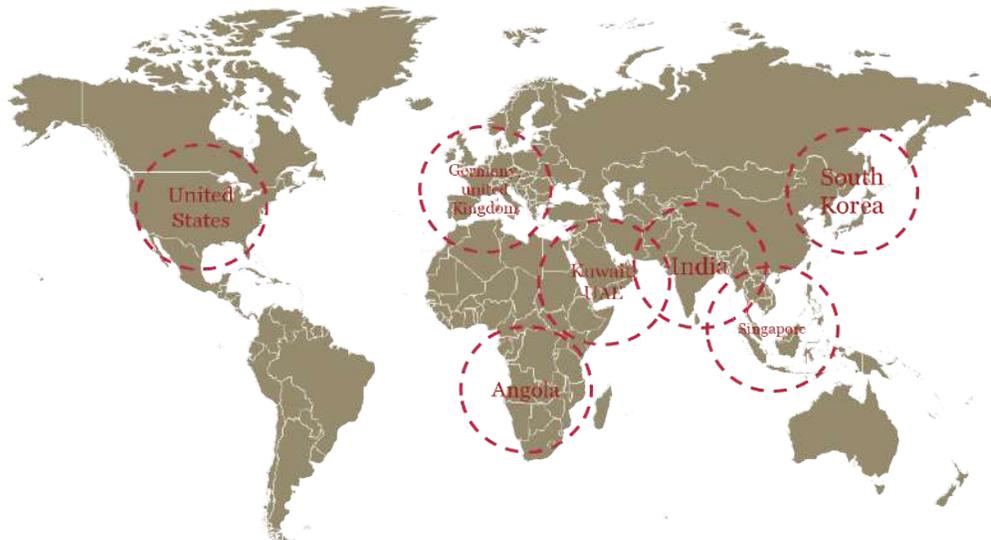


Key dimensions of angel investment assessed

A few of the questions across the survey also tried to specifically capture the perception of angel investors towards investment in Indian startups, to indicate the future cross-border investment potential in India.

The reach-out

The survey was shared with angel investors across the globe and the feedback was asked regarding their angel investments in Indian startups.. We received feedback from 191 angel investors, across 9 major countries. Most the angels outside India are of Indian diaspora - this is indicative that there is a huge capital base outside India which can potentially support early stage Indian startups.



Limitations

All the sample survey and polls are subjected to a few sources of errors which might not be quantifiable. The sources of errors could be-

1. Sampling error:

The study has limitations in terms number of respondents participated. The research was conducted over a sample size of 191 respondents presuming it as an indicator of the entire angel investor base across the globe. The results could be biased considering a large number of the investors are based out of India.

2. Error associated with self-selection:

The survey was conducted disproportionately in terms of location, experience and multiple other parameters, the responses received could be biased.

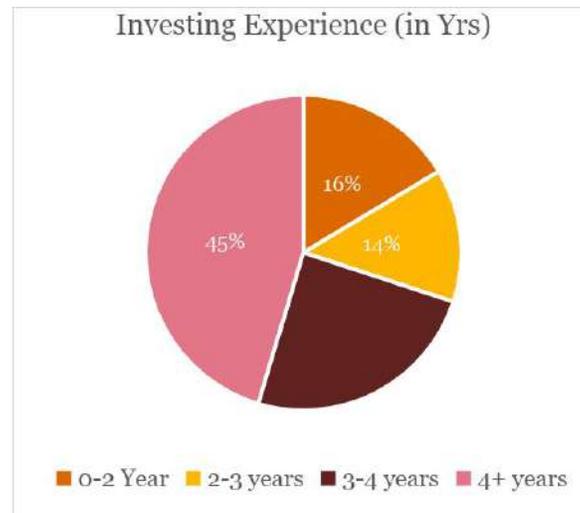
3. Error associated with non-response:

The floated survey had some questions which some of the participants would not like to disclose and those parameters are not considered while interpreting the responses.

Survey highlights

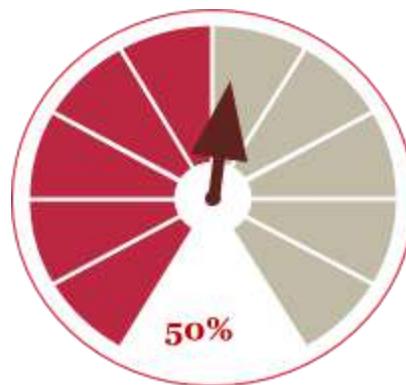
Investor profile:

The angel investors surveyed had varying experiences in investment. Although every 1 out of 2 investors had more than 4 years of investment experience, the survey revealed that almost 3 out of 10 investors had started their investment journey recently.



This is an interesting trend and the segment would comprise young folks, with good academic and professional background who may be willing to take some risk, in expectation of higher returns. This is also an indication that angel investment activity has started picking up fast in India over the recent years..

Moreover, more than 50% of the angel investors see technology as a future disruptor.



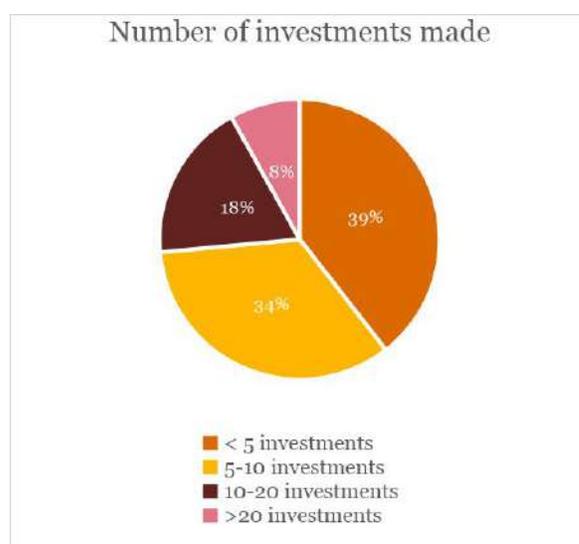
The survey indicated that technology is seen as a driver of future disruption and more than 50% of the angel investors see it as an opportunity to invest. More than 50% of the tech investors see

emerging technologies and FinTech as the most promising area for investment. Thus, there is certainly a technology boom in the market with emerging technology at the center of theme.

Thus there seems to be a supply of angel investors who are young technology specialists. They understand the technology stack behind the working of a startup and have the capital to invest albeit at a higher risk. It would be critical for a country like India, to create a favourable ecosystem and encourage such a breed of investors.

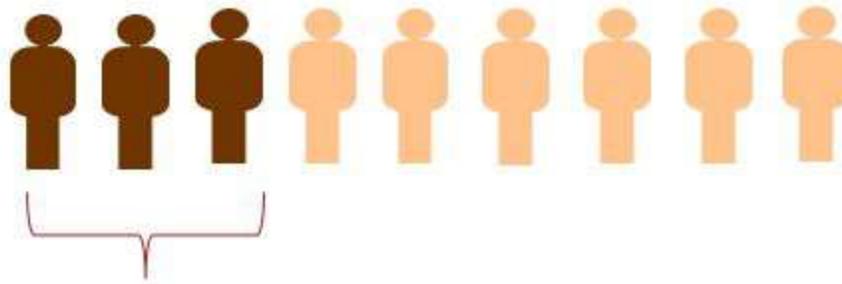
Investments

The respondents of the survey comprised of seasoned investors who have had many investments, as well as those who had started the journey recently. The fact that 39% of the respondents have made less than 5 investments further indicate that a large pool of fresh angel investors are entering the market. It is also important to note that more than 26% of angels have made more than 10 investments . For the angel ecosystem to flourish, it is crucial that the experience and insights gained by these experienced angels is passed on to the new investors.



Almost 2 out of every 3 investors had an investment ticket size of less than 20 lakhs. Infact, a little more than 40% of investors invest in the range of 3 to 10 lacs. Thus we see that angels prefer to diversify their investment portfolio in multiple startups with lesser ticket size amounts.

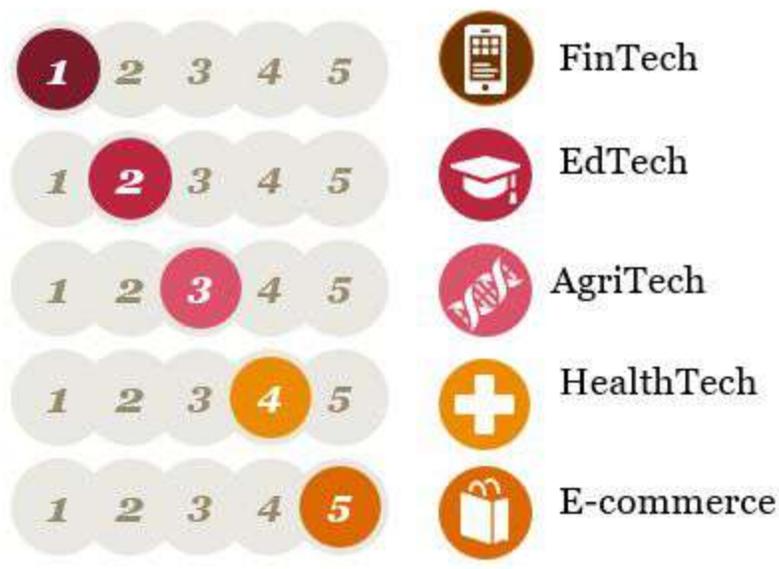
The survey also tried to study the preferred sectors of the angel investors. With multiple sectors in India showing a lot of promise, the aim was to get a flavor of their investment potential.



**1 out of every 3 investors
was sector agnostic**

This is an interesting trend, wherein investors are open to startups with a good idea, founder profiles, execution roadmap and overall ability to scale up. Quite a few of them of this bracket, indicated that they would prefer technology-savvy companies, which re-iterates the focus on technology going ahead.

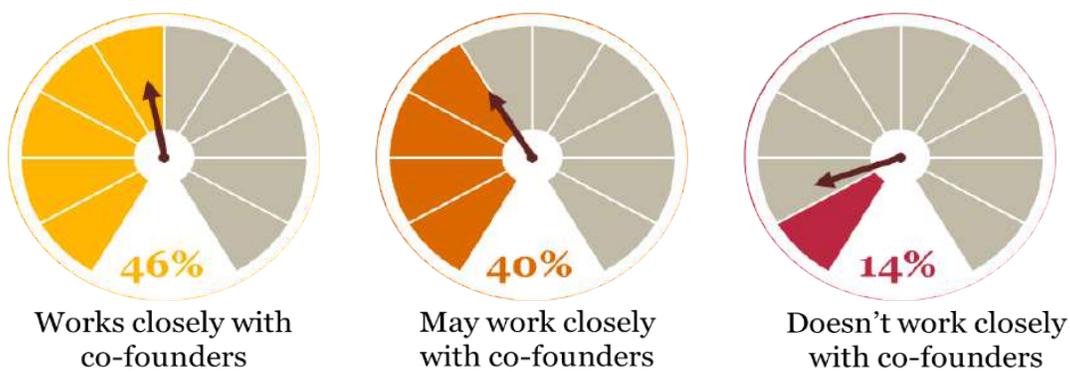
As per the survey, a few of the major sectors which excite the angel investors are:



Other sectors of interest are consumer goods, media and entertainment, social enterprises, logistics, among others.

The motivation and way of working

From the survey it is seen that 46% of the angel investors work closely with co-founders of the startups, while 40% of them mentioned that they may work with them on a case to case basis. Thus angel investors could be seen to be much enthusiastic to work with founders.



This could be out of curiosity or could be to monitor the operations at ground level. This is an interesting development, wherein angel investors are not looking only at returns but also seeking ways to engage closely with the founders, bringing in their expertise to mentor and guide the team. Thus, going forward, we can witness a shift in the angel investor- founder relationship, wherein the relationship could tilt towards mentor-mentee rather than pure play

investor-estee. This is amplified by the next dimension, wherein investors indicated their primary motivation behind investments. Based on a survey done in the US on Angel investors, it was seen that the probability of success of a startup was increased by 30% when the time spent by the angel investor was more regular and well defined.



Thus almost 7 out of 10 investors are motivated by reasons beyond just financial gain.

Exits and Pro-Rata Investments

We also studied the number of exits that angels investors in our sample space have received.

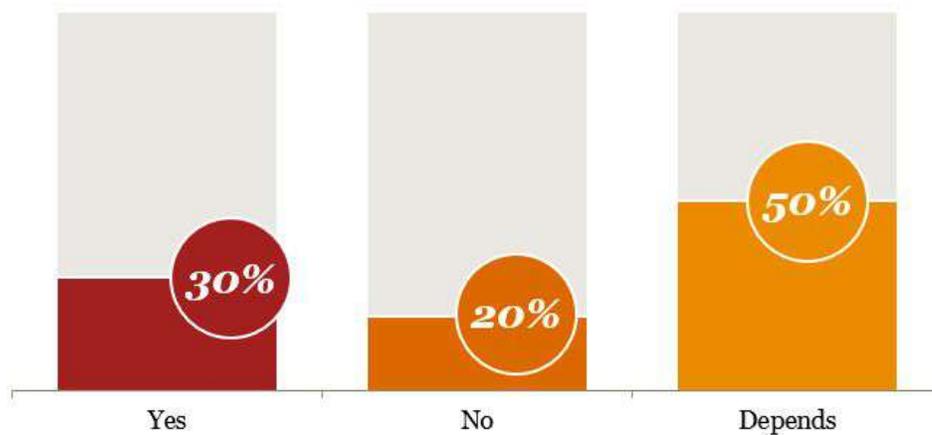
For 56% of the investors, less than 25% of their portfolio companies had raised a follow-on round, while only for 10% of the investors, more than 50% of their portfolio startups had raised a follow-on round.

For 36% of surveyed angels, less than 20% of their investments had given them exits, while 56% of the angels had not yet gotten exits from their investments. This indicates that while angel investment has picked up, there are still not many exits that the angels have seen. However, there is a clear correlation between the lack of exits and the lack of follow on rounds. Thus exit numbers are expected to go up as more startups reach the Series B and beyond.

Some of the top exit strategies for angel investors is illustrated in the following image.



Given that the failure rate of startups is very high in general, it becomes imperative to maintain your holdings in the well performing startups. Our survey showed that only about 30% of the investors reserve a pool of their capital to maintain their pro-rata stake in their portfolio startups as they raise subsequent rounds, while 20% of angels do not maintain their pro-rata. The remaining 50% of the angels maintain their pro-rata holding on a case-to-case basis.



Conclusion

While it is great to see a number of new VCs, corporate funds and micro-funds setting up offices in India, the value of angel investors in a thriving startup ecosystem remains irreplaceable. As a nation, we are currently at an inflection point and technology startups can become a major catalyst in India's growth story going forward. Over the last few decades, Indians have excelled in a variety of fields ranging from traditional businesses to cutting edge technologies. It is very important that the depth of experience of these successful individuals is passed on to the next generation which is aggressively trying to bring disruption across industries with technology at the core.

The report shows the angels have not received spectacular exits yet. Despite that, angels from across the globe are taking active interest in investing in Indian startups, and their outlook is not limited to viewing them as just financial investments. The fact that a lot of angel investors have started investing recently indicates that new angels are constantly joining the fold - thus bringing a diverse set of expertise that the founders can leverage.

At LetsVenture, we feel privileged to witness the above trend first hand in our day-to-day operations. We feel India is a unique country and the angel investing trends could have patterns which might not resonate directly with that of other countries. This report is a small step towards our endeavour to map the emerging trends across angel investing in India.

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