

# Angel Investment

A new way of funding for small entrepreneurs



Tabassum Parveen

Research Scholar – Dept. of Management  
Bhagwant University, Ajmer, India

**Abstract**— Angel investors are the first investors of a startup and are also a crucial component of the startup ecosystem. They invest at the earliest stage of a company’s lifecycle, long before a typical institutional investor would take interest. For businesses that require outside financing, angels can be a boon and sometimes add substantial value beyond money by making key introductions and giving critical advice. A right angel can make a significant difference to the startup. They provide the required capital and hope to the entrepreneur as well as motivate him to compete globally.

**Keywords**—Angel investor, angel network, Indian Scenario, Indian investors, angel tax, types of investors

## I. Angel Investor

An **angel investor** is usually a high net worth individual who provides financial backing for small startups or entrepreneurs. Often, angel investors are found among an entrepreneur's family and friends. They provide funding for a startup, often in exchange for convertible debt or ownership stake in the company. They are also known as a business angel, informal investor, angel funder, private investor, or seed investor

When an angel investor invests he looks for the return. This is the first thing that a startup seeking funds needs to affirm the investor that their reputation won't be in jeopardy if the startup fails to work. The startups have to be mindful of the time the investor can devote to offer advice, and how much time he/she can fruitfully commit. In addition to this, the question also arises about the quantum of capital the investor is willing to invest and in return of what consideration. For startups, it is necessary that the investor is supportive of their venture and is willing to offer time and advice. Getting funding from angel investors isn't easy, but it can be done if the startups take the right approach and are a good match with their interests. And the benefits can go beyond the money for the business.

Angels can be of two types: Known and unknown to the entrepreneur. They can be professionals such as doctors and lawyers; business associates such as executives, suppliers and customers; and even other entrepreneurs. Angels are motivated by an entrepreneur's drive to succeed, persistence and mental discipline not by profit only as it happens in the case of venture capital.

Different types of angel investors - by David Beisel, Cofounder and Partner at NextView Ventures, a dedicated seed-stage venture capital firm making investments in internet-enabled startups. 1) **The Super Angel** makes large number of investments, his time is divided amongst many portfolio companies. 2) **The Domain Angels** have spent their entire careers in a specific industry. They will have the ability to “see” the opportunity that the startup is going after unlike anyone else, save the entrepreneur because they know the industry. 3) **The Previous-Colleague Angels** are those with whom you have worked before. 4) **The Friends & Family Angels** are usually the first people to be willing to write a check. 5) **The Grouped Angels** are formally grouped together for various reasons. This can benefit entrepreneurs because of a one-pitch-many-investors process, but can be challenging too. 6)

**The Fellow-Entrepreneur Angel**- Entrepreneurs know other entrepreneurial endeavors best, and can be great backers of other businesses – they're likely to be one of the first to take the leap of faith and the first to help. 7) **The “True Believer” Angel** These angels are can as difficult to find, they hear startup's story, instantly believe, and want to immediately invest sometimes in spite of the financial risks. 8) **Financial Angel** There is a small cadre of angels out there who are diligently and intentionally, but also quietly, building a diverse of early stage startup investments through the lens of a portfolio allocation model. Rather than investing in a fund manager to do the work for them, they are instead doing it themselves for the purposes of disbursing their personal capital into a portfolio purely aimed at financial return. 9) **The “Sport Fisherman” Angel** - These mega-wealthy individuals, sometimes not from the startup world, invest an extremely small portion of their net wealth into early-stage startups for the entertainment-value of participating and care very little if their investments actually yield a return. 10) **The Foolish Angel** are truly naïve blind supporter angel but as a foolish owner of your business can influence it in foolish ways.

## II. Angel investment network

The Angel Investment Network connects entrepreneurs with Angel Investors globally.

There can be three types of networks: 1) **Public Angel Network**- a simple group of people, where angel investors join the network with no commitment to invest in any company at any time. They are just part of the network. When there is any opportunity they attend and decide on their own. Usually there are no dedicated team members for this as no one is paying for the events or other expenses. This term is usually used in accelerators and Government startup programs.

2) **Private Angel Network / Angel Club** – It is a private paid network, where members pay a monthly/yearly subscription to cover expenses and the team salaries (1-2 team members). The team works on sourcing the deals, basic screening, and might also help later on in due diligence. In this type, Angels might create private syndicates among each other. In this type, angels might be forced to commit to participate in at least one startup investment deal a year to stay in the network (there might also be a minimum amount to commit every year).

**3) Angel Fund** - This is the most sophisticated version where angels pay upfront an amount to participate in some sort of a fund structure. However, it's not the traditional GP-LP(General partners – limited partners) fund. All Angels are basically considered LPs and GPs at the same time, where they vote to invest in a deal. The voting process can be very simple or very complicated depending on the internal structure of the fund. For example, some angel might get more voting power depending on how much they invested in the fund. When the number of angels gets bigger and their interests get more diversified, they might start having few committees for different sector or stages.

#### **Some of the topmost Angel Investment Networks in India are:**

1. Indian Angel Network
2. Venture Catalysts
3. Chennai Angels
4. Mumbai Angels
5. Lead Angels Network
6. Calcutta Angels
7. Hyderabad Angels
8. Chandigarh Angels

**Angel Investment Scenario in India:** According to industry observers, an investment of around \$12 billion might come from 2,000 angel investors and hundreds of smaller backers of start-ups by the end of the year. Of this, about \$7 billion will come in the form of corporate investment.

Dr. Apoorv Ranjan Sharma, co-founder at Venture Catalysts, said, “The early stage investment sector in India is unorganized and in need of an urgent revival to match with the pace at which the startup ecosystem is growing.”

Start-up ecosystem in India: 2,000: Estimated number of angel investors in the country, 16,000: Start-ups registered with government, Rs 100 cr: New annual turnover limit for a firm to be considered a start-up, which will benefit larger companies.

### **III. Angel Tax**

Angel tax is levied when a privately-held company raises funds at a rate higher than its “fair valuation.” Currently, India charges 30% in angel tax. Over the past several months, many Indian startups have received tax notices from the income tax department. Several of these tax demands include sky-high penalties.

On Feb. 19, the government relaxed norms for companies that qualify as “startups” and can avail angel-tax breaks. Now, an entity is considered a startup for up to 10 years after its incorporation as compared to seven years earlier. The upper limit for the turnover of tax-exempt startups has been increased from Rs25 crore earlier to Rs100 crore.

According to industry experts, with fears of getting entangled in taxation hassles gone, more high net worth individuals (HNIs) will turn angel investors. Investment in start-ups, if the market conditions remain stable, would double, industry experts said. According to reports, angels invested around \$5.5 billion in early stage start-ups in 2018. This number could double in coming years.

### **IV Advantages and Disadvantages of Angel Investors for Business Owners**

1. The first advantage is that financing from angel investments is much less risky than debt financing. 2. Unlike a loan, invested capital does not have to be paid back in the event of business failure. 3. Most angel investors understand business and take a long-term view. 4. An angel investor is often looking for a personal opportunity as well as an investment. 5. They give more autonomy to entrepreneurs. 6. They ask for smaller deals.

1. The first disadvantage of using angel investors is the loss of complete control as a part owner. 2. Angel investor will have a say in how the business is run and will also receive a portion of the profits when the business is sold. 3. They want say in the firm.

### **V. The Top Angel Investors In India**

**Rajan Anandan** has been an active angel investor in India, Sri Lanka, and the US. He has invested in many Indian start-ups including Capillary, Druva, Webengage, Wiziq, etchies.in, Authorstream, Justeat, Innovizetech, Aurality, Peelworks, and Buytheprice. By profession, he is the Managing Director of Google India. Rajan was the Managing Director of Microsoft India, before Google. Prior to working in Microsoft, he was Vice President of Dell Inc.

**Anupam Gopal Mittal** is popularly known for bringing a revolution in arranged marriage market through his offering shaadi.com. He has a portfolio of over 50 startups.

**Sanjay Mehta** is known for his investments in diverse sectors from educations, health, media, online, medical, travel, FnB, retails. He has so far refrained from investing in e-commerce platforms.

**Abhishek Goyal**, Co-founder Tracxn Technologies Pvt. Ltd, BTEch from Indian Institute of Technology-Kanpur, is popularly known as the startup tracker.

**Sharad Sharma**, former CEO of Yahoo! India R&D. He has more than 22 years of global experience in the Internet, enterprise software, and infrastructure markets

**Anand Ladsariya** is the CEO and promoter director of Everest Flavours Ltd. He Graduated as a topper of his class and also won a gold medal from Bombay University and Post Graduate MBA from IIM, Ahmedabad.

**Sunil Kalra** started investing in 2002. He is an investor known for his adaptability to venture into new sectors with no or little prior experience. His initial investment was in the real estate sector, and currently, his portfolio has expanded into startups varying from education, healthcare, and e-commerce.

**Rajesh Sawhney** Rajesh is the Founder of Super Angels of India. He has a vast experience in entertainment, media, and communication sector which also includes his last association with Reliance Entertainment Private Limited as president for seven years.

**TV Mohandas Pai** has brought his decades of operational and leadership experience in his startup investing ventures. Mr. Mohandas is the Chairman of Manipal Global Education; he is also an ardent supporter of the Akshaya Patra Foundation and is one of the members of the board of trustees of Akshaya Patra

**RehanYar Khan** is an Indian venture capitalist and founder and operator of Orios Venture Partners., a Mumbai-based venture fund for technology startups. Orios is the largest domestically raised venture capital fund in India.

## VI. Women focused angel investments

Some of the angel investors in world are focusing on women entrepreneurs to support their startups. Earlier it was difficult for a woman to raise money for her startup but now some of the angel investors are especially providing capital and other support to women to chase their dreams. For example UK based **Angel Academe** is a young team predominantly made up of female investors. The group specializes in backing technology startups with at least one woman on the founding team. Their main areas of investment interests include FinTech, Digital Media, Cyber Security, Education tech, B2B and B2B2C. **Addidi business** angel network (UK) is another example of women focused angel network.

## Conclusion

Angel investors invest millions of rupees in startup and entrepreneurial ventures yearly, they are usually the primary investors to supply startups the much-needed equity to kick start the startup business. Angel investing is not only making returns for the investors but also a passion to uplift small entrepreneurs and pursuing one's own passion by being an angel to the venture one wants to help succeed. Angel investing is more about taking risk rather than just lending money for a business venture. Financial institutions have always been hesitant about lending startups, small, young firms due to the perceived riskiness of future prospects and lack of guarantee in the form of collateral. This scenario has been altered by angel investing to young entrepreneurs who have desire to succeed and innovative ideas.

Developing economies like India is an ideal environment for startups and angel investors to grow due to the huge consumer base. Startups play an important role in promoting local business and talent and angel investment has recently become an important part of the startup ecosystem.

Angel investors are also a ray of hope for small town startups by providing them financial assistance and sharing their expertise and experience with them which in turn make them globally competent and less vulnerable to the expertise and capital power of big business giants.

## References

- The different types of angel investors, Aug 13, 2012, Reprinted from [NextView Ventures](#), By David Beisel, Co-founder and Partner at NextView Ventures, a dedicated seed-stage venture capital firm making investments in internet-enabled startups.
- What is an angel investment network?, By [Ahmad Takatkah](#), VCpreneur, Disrupting VC by Data
- All About Angel Investment And The Top Angel Investors In India, blog post by Rohit Sharma, [M.A. in business law from NUJS](#), Kolkata
- Over 7,000 cash-starved start-ups may benefit from angel tax relief, <https://www.business-standard.com › Companies › News>, First Published: Thu, February 21 2019. 01:35 IST
- <https://www.shopify.in/encyclopedia/angel-investor>
- [https://en.wikipedia.org/wiki/Angel\\_investor](https://en.wikipedia.org/wiki/Angel_investor)
- <https://www.entrepreneur.com/encyclopedia/angel-investor>
- <https://www.syndicatoroom.com/angel-investors/networks/addidi-business-angels>
- <https://angel.co/women-focused/investors>
- <https://www.business-standard.com › Companies › News>
- <https://blog.ipleaders.in>General>
- <https://in.thehackerstreet.com/top-angel-investment-networks-in-india>
- <https://www.investmentnetwork.in>
- <https://www.quora.com/What-is-an-angel-investment-network>
- <https://gadgets.ndtv.com/internet/features/meet-indias-super-angels-and-the-top-startups-theyre-backing-801559>
- <https://qz.com/india/.../modi-governments-angel-tax-relief-doesnt-benefit-many-startups/>
- <https://medium.com/.../a-founders-guide-to-working-with-angel-investors-dec8619b5...>