



## Angel Funding: A Strategic Move Towards Investment Financing in India

\*Dr. Poonam Mahajan, Assistant Professor, College, Narot Jaimal Singh, Pathankot,  
poonam\_mcs@yahoo.co.in

\*\*Ms. Pradeep Kaur (Corresponding Author), Assistant Professor, Department of Commerce and Business Management, Guru Nanak Dev University Regional Campus, Gurdaspur, pradeepusfs@gndu.ac.in

\*\*\*Dr Gurpreet Kaur, Assistant Professor, Department of Commerce, Bebe Nanaki Guru Nanak Dev University College, Kapurthala, Punjab.

Date of Submission: 02-09-2024

Date of Acceptance: 14-09-2024

### Abstract

The research paper examines the status of angel networks and investors highlighting their growing influence in the startup ecosystem. It explores the formation, strategies and geographical expansion of key angel networks, their impact on early-stage funding and the evolving role of technology and mentorship. The paper provides insights into the challenges and opportunities for angel investors, emphasizing their critical role in fostering innovation and economic growth.

### I. Introduction

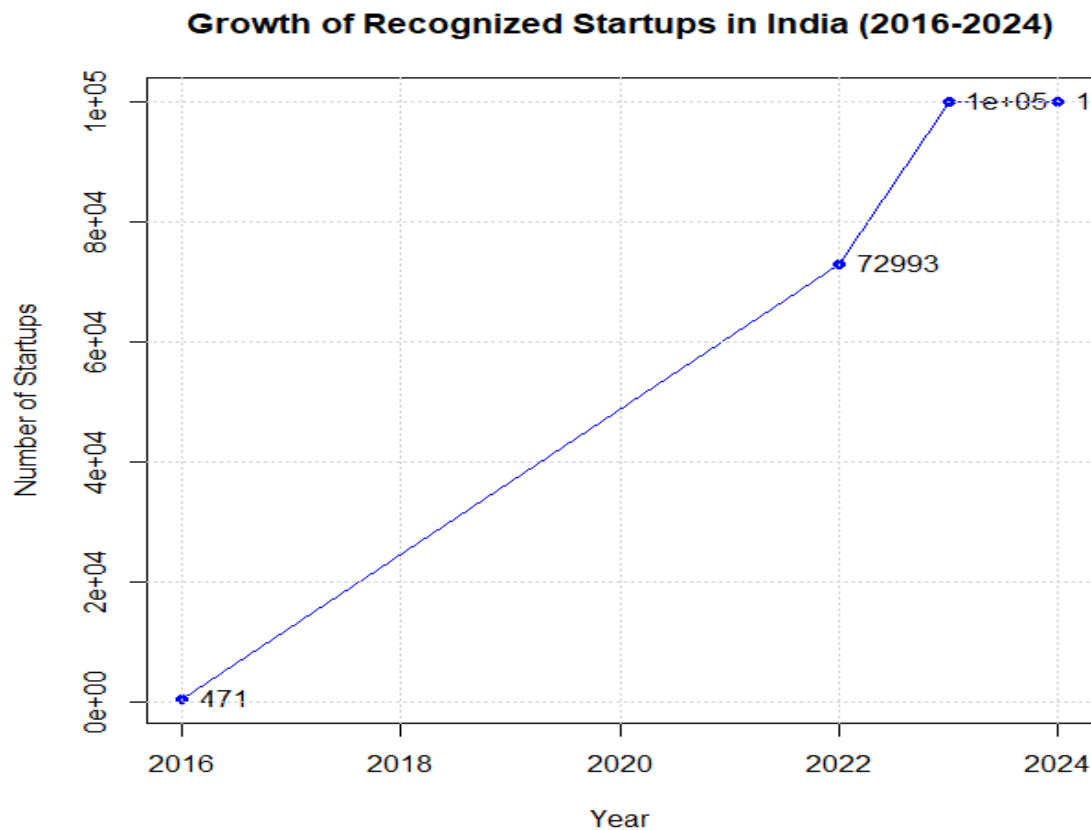
Many new startups are emerging in India with their unique business plans and ideas but one of the constraint they face is financing. Angel financing emerged as informal venture fund to facilitate these businesses. It is new concept and still in advancing stage. Angel investors refer to individual who provide fund from his/her own pocket as seed funding for start-ups which they found profitable or satisfied with business plan. Shane (2009) defines an angel as “a person who provides capital in the form of debt or equity from his own funds to private business owned and

operated by someone else who is neither a friend nor family member”.

Shane (2008) defined that every angel is an informal investor, but not all informal investors are angels. Informal investors fall into two categories: angels and friends & family. Some of the prominent angel networks in India include Indian Angel Network, Chennai Angels, Hyderabad Angels, and Mumbai Angels, among others. Angel investors are generally high-net-worth individuals who invest in early-stage businesses in exchange for equity. They take on substantial risk, as these businesses often have no track record or guarantee of success. In addition to providing capital, angel investors frequently offer specialized knowledge to help the business reach its goals. When successful, the returns can be impressive—often doubling the initial investment on average, and sometimes exceeding ten times the investment after an exit period of 5-7 years. A successful exit might involve selling the company to a larger business or going public. As the number of start-ups in India continues to grow, so too will the number of angel investors. The picture of the growth of recognized start-ups in India from the year 2016 to 2024 has been presented in figure 1.



Figure 1



*Source: Fortune India, Times Now and Startup India*

The figure 1 shows that the number of start-ups in India has increased drastically from 471 in 2016 to 72,933 by June 2022 and reaching 100,000 in 2024. It shows tremendous growth (37%) of Start-ups in India in the year 2024 from the year 2022 respectively.

#### **Types of Angel Investors**

##### **Family Investors**

It may include your parents, relatives or other close friends who trust you. This investment is based on sentiments and personal in nature.

##### **Relationship Investor**

Coworkers, business friends or colleagues who know you and believe in you may invest money. They try to be supportive but also care about returns.

##### **Idea Investor**

They are familiar with industry you are trying to enter. If entrepreneur is able to convince them about his/her idea, they can invest in it.

#### **The Once Removed Investor**

Relationship or idea investor can help you to get in connection with this investor. They can invest money if get convinced with your business plan.

#### **The Archangel Investor**

This investor has huge amount of network of connections which can prove helpful if you can invest him/her.

Nowadays, there are Aam Aadmi Angels also who are individuals with corporate backgrounds often holding degrees from IIMs and other business schools. They are one group who left their corporate jobs to become investors. The other group consists of those from business families who invest family wealth. They may not have attended a B-school or studied at IIT or IIM. Both groups are vital to the entrepreneurship ecosystem because they bring diverse experiences," said Sharad Sharma, co-founder of iSPIRT Foundation, a think-tank that works with start-ups.



One doesn't need to be wealthy to become an angel investor. An individual can contribute as little as Rs 2-3 lakhs and by joining an angel network, many individuals can collectively invest and become part of the investment community. Angel investors emphasize on closer interaction and work on basis of trust. They prefer small companies as investing their own savings. Motivations for investing can be profitability in the form of returns or helping other entrepreneurs.

Angel investors are different from venture capitalist as they emphasize on informal and minimal negotiations in opposite of formal and long negotiations. Contractual obligations is also minimal in angel investing but huge amount of paper work and contracts are involve in venture capital.

### Regulatory Framework

Under the SEBI (Alternative Investment Funds) Regulations, 2012, an "Angel Fund" is categorized as a sub-type of Venture Capital Fund under Category I-Alternative Investment Fund (AIF). These funds raise capital from angel investors and invest according to the provisions outlined in Chapter III-A of the AIF Regulations. Angel funds are only permitted to raise capital by issuing units to angel investors.

An "Angel Investor" is defined as an individual or entity that meets specific criteria to invest in an angel fund. For individual investors, the requirements include having net tangible assets of at least ₹2 crore, excluding the value of their primary residence, and possessing early-stage investment experience, being a serial entrepreneur, or having at least ten years of experience as a senior management professional. For corporate bodies, a net worth of at least ₹10 crore is required. Additionally, entities registered as an AIF or as a Venture Capital Fund (VCF) under the SEBI (Venture Capital Funds) Regulations, 1996, also qualify as angel investors.

Angel funds must accept a minimum investment of ₹25 lakh from an individual angel investor within a maximum period of 3 years. If the investor is a corporate body, it must either have a net worth of ₹10 crore or be registered as an AIF or VCF with SEBI. In a notification dated June 2018, SEBI amended regulations related to angel investors. Angel investors have to file term sheet with SEBI within 10 days of launching scheme previously it was memorandum slip. Term sheet has three categories. First category involves information related to investment and Investee Company. Second category deals with compliance with SEBI's AIF regulations and last category involves material changes.

It also reduced the minimum corpus size required for angel fund to Rs. 5 cr. Maximum period for accepting funds from angel investors raised to 5 yrs. from previous 3 years. Angel funds are allowed to source money from 200 investors instead of 49 now. Angel investors can invest minimum of 25 lakhs for minimum lock in of 1 yr. instead of 3 years.

There are some restrictions also for angel investors. These are mentioned as follows:

1. Not more than 25% of total investments under all schemes can be invested in one investee company.
2. They cannot invest in associate company.
3. Investment in venture capital fund to be locked in for period of 3 years.
4. Minimum investment in venture capital fund is Rs. 50 lakhs and maximum investment of Rs. 50 crore.
5. Uninvested portion may be invested in liquid mutual funds, bank deposits, treasury bills, and commercial paper, etc.
6. They shall not borrow funds or engage in leverage except for meeting temporary requirements subject to maximum of 30 days, maximum 4 times a year and maximum 10% of investible funds.

SEBI has taken these initiatives to flourish angel financing in India and also to keep check on dealings. It may help to standardized angel financing in country.

### Rationale of Study

Angel investing is a contemporary concept which came into existence around 2006. There are not many studies done on this. Even meaning of angel investor was not clear until SEBI issued regulatory framework for it. Angel funds are currently classified under Category I of the Alternative Investment Fund (AIF) framework. An amendment to the AIF Regulations in 2012 helped clarify many of the complexities surrounding angel financing. Compared to business loans, securing funding from angel investors involves less risk for business owners, as angel funds typically take on a shareholder role within the firm.

Angel investors bring valuable experience and knowledge contributing significantly to the growth of startups. Unlike other forms of investment, seed investors often have a long-term commitment to the company and a personal stake in its success, given that they are investing their own money. The ultimate goal or exit strategy for private investors typically involves either the acquisition of the startup or its public listing. To reach this stage, they help position the company for future



investments from venture capitalists, making it profitable for all parties involved.

Furthermore, angel investors have been instrumental in driving the growth of startups in developing countries like India, the Philippines, and South Africa. Their funding and technical support have been crucial in shaping the future of many promising startups, contributing to the steady increase in their numbers. In 2021, risk capital—funds invested in high-risk projects for the potential of higher returns, commonly associated with angel investors and venture capitalists—accounted for 10% of all new companies created in India annually.

There are many angel investors present in India but only few are active while some only invested once. Many angel networks are formed allowing registration of angel investors and thus facilitating as link between angel investors and new entrepreneurs. There is a dire need to study because of following reasons:

1. To analyse presence of active angel investors.
2. To gather information regarding their investments and investee company.

There is need of research to properly understand angel financing in India and to understand this strategic move of capital financing.

### **Objectives of the Study**

The objectives of this study are as follows:

1. To understand Angel Financing in India.
2. To identify active angel investors and their network in India.

## **II. Literature Review**

Angel financing is recent investing fund risen as alternative investment fund. It refers to financing done by angel investors. Angel investors invest in start-ups with their own money. They also provide entrepreneurs with their mentoring, advices and also guide them in their journey. Some of the studies done in this field are as follows:

Author aimed to understand angel financing in India by exploring the concept through three key avenues. First, he examined the investments made by various angel investors to gain insights into their investment patterns. Secondly, he gathered investment data to profile the focus areas of these investments. Lastly, he analyzed the status of investors by studying the active participants within angel networks, providing a comprehensive view of the landscape of angel financing in India (Sabarinathan, 2014). Vincenzo capizzi (2015) study analyzed the informal venture capital market in Italy focusing on 143 divestments made by 102

informal investors between 2007 and 2012. The research considered variables such as industry, experience, holding period, rejection rate, year of divestiture, and profitability. One of the major findings was a significant relationship between investor experience and the internal rate of return (IRR).

Further Sudek (2006) study examined the investment criteria considered by angel investors in Southern California when reviewing investment opportunities. The study also explored how these investors prioritize their criteria. Conducted in two phases, the first phase involved qualitative research, where primary data was gathered through observation and participation as a member of Tech Coast Angels. The second phase involved the development of a quantitative questionnaire based on the findings from the initial qualitative phase. Shane (2008) conducted study titled "The Importance of Angel Investing in Financing the Growth of Entrepreneurial Ventures," aimed to clarify the role of angel investors in fostering the growth of entrepreneurs and their startups. The study sought to determine the size of the angel capital market and analyze the existing demand for angel capital. Additionally, it examined the primary characteristics of angel investments and the companies that received such financing.

Moses and Adebisi (2013) addressed the financing challenges faced by small businesses in developing economies. The research aimed to enhance the framework for understanding the benefits of angel financing. A descriptive survey was conducted, distributing 120 questionnaires and receiving responses. The study employed the Kolmogorov-Smirnov (K-S) test to evaluate the stated assumptions. Wong (2002) proposed a model to explain angel investor behavior, utilizing a unique dataset of angel-financed firms. Although the sample included around 800 firms, responses were received from only 143 companies. The model predicted that entrepreneurs prefer to retain control rights within the firm and that geographical proximity is a key factor in angel investors' decision-making. Freear et al. (2002) conducted a review of 20 years of research on the angel investment segment, examining the attitudes, behaviors, and characteristics of angel investors. Despite extensive research, some questions remain unanswered, such as how angel clusters form, whether a lead angel exists, and how angels source their deals.

Aernoudt (2005) aimed to develop strategies to facilitate angel financing. The paper provided recommendations to improve the effectiveness of angel investors, such as establishing



companies, enhancing the efficiency of angel networks, and encouraging collaboration among investors through measures like syndication, co-investment schemes, corporate orientation, and business angel academies.

Similarly, Coleman and Robb (2009) used data from the Kauffman Firm Survey to explore gender differences in the financing of new firms. The longitudinal survey, based on 4,928 U.S. firms that started in 2004, revealed that women raised less capital than men and primarily relied on personal savings rather than external sources. Additionally, Rodriguez (2011) focused on the financing gap at the startup stage, identifying angel investors as the best providers of seed funding. The study discussed various criteria used by angel investors, particularly those based on Tech Coast Angels, and included case studies on four Tech Coast Angels-backed startups: Green Dot, Integrien, Trius Therapeutics, and Language Weaver.

#### Current Status of Angel Investors

The angel investors are becoming part of angel networks or angel funds to give easy access to new start-ups. As of November 15, there are 268 registered alternative investment fund but only five are angel funds. Some of the active angel networks in India are Indian angel network, Mumbai angel network, the Chennai angels, Hyderabad angels, Chandigarh angel network, etc. Angel investors do not follow specific procedures for selecting future investment in start-ups or in exit policy. There is so much abnormality in angel market in India. For the

past few years information technology (IT) sector is major receiver of angel investment but with due time there is increase in investment in other sectors.

There are over 1000 active Indian angel investors whose capacity to invest is estimated at \$1 billion dollars annually. Some of the top leading angel investors are Sunil Kalra, Sharad Sharma, Meena Ganesh, Ritesh Malik, Rajan Anandan and Krishnan Ganesh.

Some of the startups invested by them are as follows and presented in table 1:

1. **Sunil Kalra:** TargetingMantra, Instamojo, CultureAlley, Aurality, AdPushup, Frrole, Mobilewalla, Druva, Jigsee, Innoveda, Airwoot, HashCube, Sapience, Wishberry and Crayon Data.
2. **Sharad Sharma:** Frrole, Mobilewalla, HashCube, Druva Software, Kwench Library Solution, Vayavya Labs, Unbx, Consure Medical and Aurus Network Infotech Pvt. Ltd.
3. **Meena Ganesh:** Must See India, SilverPush, HackerEarth, Oximity, Overcart, Browntape, delyver.com and onlineprasad.com.
4. **Ritesh Malik:** RHLvision, Mashinga, Asimov Robotics, SectorQube Technolabs, Bisko Labs and Inc42.
5. **Rajan Anandan:** StepOut, Capillary Technologies, Sourceeasy, 24/7 Techies, TargetingMantra, Instamojo, CultureAlley, Social Cops, MissMalini.com, Socialblood.org, Mobilewalla and POPxo.com.
6. **Krishnan Ganesh:** Must See India, SilverPush, HackerEarth, Oximity, Overcart, Browntape, delyver.com and Onlineprasad.com.

Table 1 Top Angel Investors for Start-ups in India

Name	Companies Invested	Key Focus Area
Kunal Shah	Betterhalf, Bright Money, Cloudsek, Convin, Credgenics, Kofluence, Zaamo	AI, AI security, AI Creatives & AI Targeting, AI-Powered SaaS Based Digital Risk Monitoring & Management Platform, AI-based Collection Portfolio Management
Anupam Mittal	Ample Wholesale, Adonmo, Airstream	AL and ML, Adtech, Agritech and Farming
Kunal Bahl	Ans Commerce, Allrounder cup, Anar	AL and ML, Adtech, Agritech and Farming
Rohit Kumar Bansal	Ans Commerce, Allrounder cup, Anar	AL and ML, Apps, Agritech and Farming
Ramakant Sharma	Airmeet, ATI motors, Atomberg	AL and ML, Adtech, Agritech and Farming
Dr. Ritesh Malik	Asimov Robotics, Adstuck Consulting, Agnikul Cosmos	Apps, Biotech, Adtech
Rajan Anandan	Absolute, Appvirality, Appknox	AL and ML, Apps, Agritech and Farming
Kris Gopalakrishnan	99tests, Acadgild, Agrigenome Labs	AL and ML, Adtech, Agritech and Farming



Peyush Bansal	AAS Vidyalaya- Anytime Anywhere School, Ariro Toys, Carragreen	Apps, Biotech, Business Support Services
Namita Vikas Thapar	AAS Vidyalaya- Anytime Anywhere School, Brandsdaddy, Bumner	Agritech and Farming, Apps, Biotech

### Most Active Angel Network for Indian Start-Ups Angellist India

Naval Ravikant established this silicon valley-based investor network, Angellist India in 2018. It has supported over 500 Indian startups including notable names like BharatPe, Dealshare, Jupiter Money, Teach Mint, Plum, and Blue Tokai Coffee Roasters. Angellist India participated in STAGE's \$4.8 million funding round in November 2022. The network aims to uphold high standards by inviting investors with significant prior investment experience and domain expertise.

### Chandigarh Angel Network (CAN)

Alok Ramsisaria founded it in 2015. CAN has created over 1,500 jobs and made 28 investments, leading eight and exiting three. Its portfolio spans various industries including F&B, education, fintech, and more. Notable startups backed by CAN include Biryani By Kilo, Pick My Work, goSTOPS, TSaw Drones and Heal At Home. CAN collaborates with ecosystem partners such as JITO Incubation and Innovation Foundation, HSBC, Global Business Angels Network, Headstart and IIT Mandi Catalyst offering both funding and mentorship to entrepreneurs.

### Hyderabad Angel Network

It was founded in 2012 by Rajesh Manthana. Hyderabad Angels is an angel network that sources investments from the US, UK, Singapore, and the UAE. It boasts 120 investors from diverse backgrounds and has made over 50 investments with more than 10 successful exits. The network has also partnered with over 50 companies to attract investments for startups. Its portfolio includes notable names such as BluSmart Mobility, ZineOne, Metamorphosis, Flexmo, Zepo, and OnlinePrasad. Hyderabad Angels collaborates with partners including Ah! Ventures, Microsoft, LetsVenture, Tracxn, Innoven Capital, Startup India, and NASSCOM.

### Indian Angel Network

It was founded in 2006 by Alok Mittal and Padmaja Ruparel, Indian Angel Network (IAN) is a SEBI-registered early-stage fund with over 470 investors from 11 countries. It has made 198

investments, led 98 rounds, and achieved 14 exits. IAN emphasizes providing continuous access to high-quality mentoring, extensive networks, and strategic and executional inputs. The network targets investments in a diverse range of industries, including agriculture, e-commerce, education, hospitality, internet, gaming, retail and semiconductors.

### Jito Angel Network

Siddharth Jain established it in 2017. Jito Angel Network is part of the Jito Incubation and Innovation Foundation (JIIF). The network, which has over 450 investors, has made 76 investments, leading 46 of those rounds, with a cumulative investment exceeding INR 147 crore. Its portfolio includes startups such as BluSmart Mobility, Magenta Mobility, Chalo, Comofi Medtech, Bodhi AI, and Chargegrid. JITO's goal is to foster an innovation-driven entrepreneurial ecosystem that promotes socio-economic development and builds successful companies.

### Lead Angels

Lead Angels was founded by Sushanto Mitra in 2013 which has marked a decade of operation in India. The network collaborates with 400 angel investors from India and abroad and is registered with SEBI as a Category-I AIF. Lead Angels has made 80 investments, leading 19 rounds, and boasts notable exits including Super Daily, Planet Super Heroes, and Belita. Its investor base includes seasoned entrepreneurs, professionals and industry veterans with a presence extending to the Middle East, Europe, and North America. The network supports startups such as Shopkirana, Supr Daily, Godesi, Ockypocky, PlanetSpark, SkyeAir, and Dhruva Space. In addition to funding, Lead Angels offers support in compliance and governance through its vertical Lead Advisory.

### Lets Venture

Shanti Mohan and Sanjay Jha established LetsVenture in 2013 which has made 950 investments with a portfolio valued at over \$11 billion. The network comprises 19,530 investors. Last year, the Indian Ministry of Electronics and Information Technology (MeitY) partnered with



LetsVenture to invest in early-stage startups. Under this collaboration, LetsVenture Foundation, part of the government's SAMRIDH startup accelerator programme, announced plans to invest up to \$100,000 in eight startups during the first phase. Notable startups in its portfolio include Airmeet, CityMall, BharatX, Dukaan, Agnikul, Absolute Foods, Trel, inFeedo, Yulu Bikes and Vernacular.ai.

#### **Mumbai Angels Network**

Prashant Choksey and Praveen Chakravarty founded it in 2006. Mumbai Angels Network (MAN) has over 750 investors and claims to have made more than 200 successful investments, with over 100 exits. The network's investors, spanning 10 countries, have invested INR 400 crore in Indian startups. According to data on their website, technology, marketplace and life sciences startups represent 14%, 10%, and 8% of its portfolio respectively. MAN's investments include startups such as Canvera, Purpille, Avishkaar, BluSmart, Myntra, Snackible, and NewsBytes.

#### **The Chennai Angels (TCA)**

It was founded by Ramaraj R in 2007. The Chennai Angels (TCA) focuses on sectors such as agri-tech and sustainability, electric vehicles (EVs), deep science and technology, health tech, fin-tech, direct-to-consumer (D2C) businesses, and Web 3.0. The network has backed over 80 startups across India, including Chai Kings, BatteryPool, Samaaro, Finance Buddha, goSTOPS, and Freed. TCA has seen successful exits from startups like Purpille, TrulyMadly, CloudCherry, PopXO, and Online Prasad. The angel network comprises over 120 individual, institutional, and corporate investors from diverse industries and has partnered with other angel networks including Indian Angel Network, Chandigarh Angels Network, LetsVenture and Venture Catalysts.

#### **Venture Catalysts**

It was founded by Anil Jain, Anuj Golecha, Apoorva Ranjan Sharma and Gaurav Jain in 2016. Venture Catalysts has invested in 176 startups with a combined value exceeding \$3 billion. Its most recent investment was in BASIC Home Loan which raised \$4.7 million in a pre-Series B round led by stock market investor Ashish Kacholia. The network's portfolio includes notable startups such as AgriGator, Airmeet, Ai Highway, Beardo, BharatPe, Betel Leaf, Brew House, BluSmart Mobility, Clout Loot and Desi Farms.

#### **We Founder Circle (WFC)**

It was founded by Neeraj Tyagi, Gaurav VK Singhvi, Bhawna Bhatnagar, Vikas Aggarwal and Saurabh Deo in 2020. We Founder Circle (WFC) boasts a network of over 9,000 investors and participated in more than 100 investment deals. The network aims to provide startup founders with multi-domain expertise through its diverse group of distinguished investors. In addition to India, WFC operates in the US, the UK, Singapore, Australia, Germany, and Switzerland. In March, WFC launched Invstt.com, a startup marketplace designed to streamline portfolio management, angel investing, and networking. Notable startups in its portfolio include Stylework, Vidyakul, Settle, BluSmart Mobility, and Microfinance.ai.

### **III. Conclusion**

This research paper highlights the pivotal role that angel networks and investors play in the contemporary startup ecosystem. It becomes clear how these networks are essential for providing early-stage funding and mentorship to nascent companies by analyzing their development, strategic approaches and international expansion. The incorporation of technology has further amplified their impact, improving investment processes and extending their reach. However, challenges such as market fluctuations and the need for effective governance persist. Angel investors remain crucial for driving innovation and fostering economic growth and a deeper understanding of their evolving landscape can enhance their contributions to the startup sector. Future studies should address these challenges and explore new opportunities within the angel investment field.

#### **Bibliography**

- [1]. Aernoudt, R. (2005). Business angels: The smartest money for starters? Plea for a renewed policy focus on business angels.
- [2]. Capizzi, V. (2015). The returns of business angel investments and their major determinants. *Venture Capital*, 17(4), 271-298.
- [3]. Coleman, S., & Robb, A. (2009). A comparison of new firm financing by gender: evidence from the Kauffman Firm Survey data. *Small Business Economics*, 33(4), 397.
- [4]. Freear, J., Sohl, J. E., & Wetzel, W. (2002). Angles on angels: financing technology-based ventures-a historical perspective. *Venture Capital: An International Journal of Entrepreneurial Finance*, 4(4), 275-287.



- [5]. Moses, O., & Adebisi, J. (2013). Small business financing in Nigeria: An investigation of the angel option.
- [6]. Rodriguez, E. M. (2011). Angel financing: Matching start-up firms with angel investors.
- [7]. Sabarinathan, G. (2014). Understanding angel investing in India: an exploratory study based on publicly available data.
- [8]. Shane, S. (2012). The importance of angel investing in financing the growth of entrepreneurial ventures. *The Quarterly Journal of Finance*, 2(02), 1250009.
- [9]. Sudek, R. (2006). Angel investment criteria. *Journal of Small Business Strategy*, 17(2), 89-104.
- [10]. Wong, A. (2002). Angel finance: The other venture capital. *Venture Capital: Investment Strategies, Structures, and Policies*, 347-364.