Gearing up for a favourable investment climate

A study of angel investment community and outlook for India
Abstract

The report highlights key results of a survey conducted in the global angel investment community by LetsVenture and PwC. From these results, we have derived main factors that will be critical for a sustainable environment for angel investment in India.
Contents

Foreword 4
Current start-up environment in India 5
The survey design 8
  Methodology 9
  The reach-out 9
  Limitations 9
Survey highlights 10
  Investor profile 11
  Investments 11
  The motivation and way of working 12
  Exits and pro-rata investments 13
Conclusion 14
Foreword

LetsVenture, an online marketplace that enables early stage start-up investments in India, has observed behaviours of angel investors for more than three years. It has approached developing an angel investor marketplace more as a science than an art—a science that can be explained with numbers and can be ‘predicted’ if understood analytically. As an online platform, it started with the premise that an online marketplace, creating easy access and discovery for founders and investors, along with offering operational efficiency, is likely to be relevant to the Indian ecosystem. In the last five years, LetsVenture has unlocked alternate capital from four very different categories of investors—second generation family businesses, entrepreneur-turned-investor and CXOs of organisations.

However, the gap, we realised, was a 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 in Indian start-ups. The survey covered Indian investors (70%) and global investors (30%). It has brought forth some interesting insights on sectoral preferences, motivation to invest and exit data.

This is one of our first attempts to understand this asset class better. We do hope you find this publication relevant and look forward to your feedback on how we can improve our future studies.
Current start-up environment in India
India has witnessed an impressive growth in the number of start-ups in the last few years. As per data from *Startup India*, there were a total of 8,625 start-ups in India as on 30 March 2018. Among these, 2,711 startups were incorporated in the country in 2017. Along with traditional sectors such as financial services, retail and hospitality, the ecosystem is witnessing growth of start-ups offering innovative solutions in healthcare, automobiles, transport and smart mobility, hospitality, e-commerce, social segment, etc.

While there is still a long way ahead, the Government has taken strong measures to create a better environment. India’s ranking in the World Bank’s ease of doing business has gone up from 130 to 100 laying the foundations for a thriving start-up ecosystem. According to the UNCTAD’s Investment Trends Monitor (2018), India was the tenth largest recipient of global FDI in 2017 and remained the top-most 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 a large pool of potential start-ups.

India has shot into prominence in the global start-up and investing ecosystem. Starting off as a nascent space in the 2000s, the country has come a long way with 13 unicorns under its belt—coming third in the global race for the same.

According to Thomson Reuters, M&A deals worth US$99.7 billion were recorded in the first nine months of 2018. While there were a lot of Indian companies acquiring foreign ones, the west started looking at India with start-up acquisitions from Facebook and Google and the largest of them all, the Flipkart-Walmart deal.

With all the euphoria around start-ups, India is now poised to be one of the largest markets facilitating start-ups to scale, outside the US and China.

However, capital remains the critical requirement for start-ups. Based on a survey done with founders on the top-three challenges to entrepreneurship in India, raising funds at early stage was the biggest challenge. With increased understanding and visibility of start-ups, angel investing is better appreciated in the country today. Angel investment in the country has seen interesting trends in the last few years. While more than US$350 million has been invested every year in the early stage space over the last five years, investors and investees have faced some challenges in the smooth transaction flow.

### Angel investment scenario in India

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of deals</th>
<th>Total Invested ($M)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>542</td>
<td>310</td>
</tr>
<tr>
<td>2016</td>
<td>693</td>
<td>214</td>
</tr>
<tr>
<td>2017</td>
<td>421</td>
<td>203</td>
</tr>
<tr>
<td>H1 2018</td>
<td>182</td>
<td>117</td>
</tr>
</tbody>
</table>

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 start-ups in India. The ecosystem witnessed a sharp rise in 2015, followed by the market correction in 2016. Post this trough, series A and B deals have occurred at a higher rate than before 2015 and as the data shows, the numbers are poised to grow in the years to come. Foreign VCs, family offices and corporate ventures are taking increased interest 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.

### Series-A funding in India

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Invested ($M)</th>
<th>Number of deals</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>400</td>
<td>104</td>
</tr>
<tr>
<td>2012</td>
<td>470</td>
<td>140</td>
</tr>
<tr>
<td>2013</td>
<td>550</td>
<td>141</td>
</tr>
<tr>
<td>2014</td>
<td>930</td>
<td>239</td>
</tr>
<tr>
<td>2015</td>
<td>332</td>
<td>128</td>
</tr>
<tr>
<td>2016</td>
<td>256</td>
<td>97</td>
</tr>
<tr>
<td>2017</td>
<td>275</td>
<td>32</td>
</tr>
<tr>
<td>2018</td>
<td>450</td>
<td>109</td>
</tr>
</tbody>
</table>

### Series-B funding in India

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Invested ($M)</th>
<th>Number of deals</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>500</td>
<td>60</td>
</tr>
<tr>
<td>2012</td>
<td>900</td>
<td>85</td>
</tr>
<tr>
<td>2013</td>
<td>563</td>
<td>77</td>
</tr>
<tr>
<td>2014</td>
<td>910</td>
<td>86</td>
</tr>
<tr>
<td>2015</td>
<td>380</td>
<td>59</td>
</tr>
<tr>
<td>2016</td>
<td>240</td>
<td>44</td>
</tr>
<tr>
<td>2017</td>
<td>213</td>
<td>35</td>
</tr>
<tr>
<td>2018</td>
<td>270</td>
<td>46</td>
</tr>
</tbody>
</table>

While we have seen phenomenal growth over the last decade, there are still challenges that plague early stage start-ups and angels. Some are market driven—such as lack of good exit opportunities, mismatch of valuation and expected valuation and others. Others are purely regulatory and tax issues—Angel tax, FDI receipt filings or intimation, enhanced regulatory requirements compared to 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 angel investments at 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 ‘start-up’ with the approval of an inter-ministerial panel by satisfying 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 start-up ecosystem continues to thrive in the country, the government and regulators will need to continuously make the policies more user-friendly and create an environment for rapid closure of deals in the angel investment space.

5. VCCEdge database, accessed on 21 October 2018
The survey design
Let'sVenture, along with PricewaterhouseCoopers Private Limited, conducted a survey to understand the profile of angel investors and trends in angel investments in India. In addition, we tried to understand the behaviour of angel investors associated with investments in start-ups across the globe, which will have a bearing on the future investment potential in India.

**Methodology**

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

- Sectors of interest
- Deal size and tenure preference
- Method of investment
- Motivation and expectations

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

**Limitations**

All the sample survey and polls are subjected to a few sources of errors, which may not be quantifiable. The source of error could be:

1. **Sampling error**

   The study has limitations in terms of number of respondents participating. The research was conducted over a sample size of 191 respondents presuming it to be an indicator of entire angel investors across the globe who are investing in 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 survey had a few questions, which some of the participants would not like to disclose and those parameters are not considered while interpreting these responses.

**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.
Survey highlights
Investor profile

The angel investors surveyed had varying experiences in investment. Although one out of two investors had more than four years of investment experience, the survey revealed that almost three out of ten investors had started their investment journey recently.

This is an interesting trend and the segment is expected to comprise young folks, with good academic and professional background who may be willing to take some risk for increased returns.

In addition, more than 50% of 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 angel investors see it as an opportunity to invest. More than 50% of tech investors see emerging technologies and FinTech as the most promising area for investment. Therefore, there is certainly a technology boom in the market with emerging technology as the central theme.

Primarily angel investors seem to be young technology specialists. They understand the technology stack behind the working of a start-up and have the capital to invest albeit at an increased risk. It will be critical for a country like India, to create a favourable ecosystem and encourage this breed of investors.

Investments

The respondents of the survey comprised seasoned investors who have had many investments, as well as those who had started the journey recently.

Almost two out of every three investors had an investment ticket size of less than 20 lakhs INR.

More than 40% of angel investors invest between INR3-10 lakhs

More than 23% of angel investors invest between INR10-20 lakhs

Most of the angel investors see investment in start-ups as risky as compared to matured start-ups. Therefore, they prefer to diversify their investment portfolio in multiple start-ups with reduced ticket size amounts.

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

1 out of every 3 investors was sector agnostic
This is an interesting trend, wherein investors are open to start-ups with a good idea, founder profiles, execution roadmap and overall ability to scale up. Quite a few in this bracket indicated that they will prefer technology-savvy companies, which re-iterates the focus on technology going ahead. According to the survey, a few major sectors, which excite the angel investors are:

- **FinTech**
- **EdTech**
- **AgriTech**
- **HealthTech**
- **E-commerce**

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

### The motivation and way of working

From the survey it is seen that 46% of angel investors work closely with co-founders of the start-ups, while 40% of them replied that they may work with them on case-to-case basis. Therefore angel investors could be seen to be much enthusiastic to work with co-founders.
This could be out of curiosity or could be to monitor operations at the ground level. This in an interesting development, wherein angel investors are not looking only at returns but also seeking ways to engage closely with the founders, bring in their expertise and mentor and guide the team. Therefore, going forward, we can witness a shift in the angel investor-founder relationship, wherein the relationship could tilt towards mentor-mentee rather than a pure play investor-investee. This is amplified by the next dimension, wherein investors indicated their primary motivation behind investments.

Exits and pro-rata investments

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

For 56% of the investors, less than 25% of their portfolio companies raised a follow-on round, whereas for 10% of the investors, more than 50% of their portfolio start-ups raised a follow-on round.

For 36% of surveyed angels, less than 20% of their investments had given them exits, while 56% of angels had not yet exited 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 lack of exits and lack of follow-on rounds. Therefore, exit numbers are expected to go up as more start-ups reach the Series B and beyond.

Some of the top exit strategies for angel investors is illustrated in the figure below.

<table>
<thead>
<tr>
<th>Exit strategies</th>
<th>Yes</th>
<th>No</th>
<th>Depends</th>
</tr>
</thead>
<tbody>
<tr>
<td>Successful IPO</td>
<td>30%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Early exit</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dividend royalty or buy-back</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Large acquisition</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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

While it is great to see several new VCs, corporate funds and micro-funds setting up offices in India, the value of angel investors in a thriving start-up ecosystem remains irreplaceable. As a country, we are currently at an inflection point and going forward technology start-ups can become a major catalyst in India’s growth story. 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 indicates that angels have not received any spectacular exits yet. Despite that, angels from across the globe are taking active interest in investing in Indian start-ups, 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 founders can leverage.

It is our privilege to have a first-hand view of the trends mentioned above in our day-to-day operations. We feel India is a unique country and angel investing trends could have patterns, which may not be similar to other countries. This report is a small step towards our endeavour to map these emerging trends across angel investing, which are exclusive to India.
Gearing up for a favourable investment climate...
About LetsVenture

Founded in 2013, LetsVenture is India’s premier platform for angel investors, family offices, and foreign funds to invest in start-ups and contribute to VC funds. LetsVenture works with start-ups and investors on discovery, syndication and closure of funding rounds including management of due diligence and completion of paperwork. There are 18,000+ start-ups and 3,000+ investors on the platform. In the last five years, its investor members have invested in 175 companies and a total amount of US$72 million. LetsVenture is backed by India’s most prominent investors such as Accel, IDG Ventures, Nandan Nilekani (founder Infosys, worth US$30 billion), Rishad Premji (founder Wipro, worth US$35 billion), Ratan Tata (Chairman Emeritus of US$100 billion worth Tata Group), Mohandas Pai and Karan Thakral (Singapore).

Contact us

Shanti Mohan
Co-founder & CEO, LetsVenture
shanti@letsventure.com

With contributions from Ravish Ratnam, Apurva Chawla
About PwC

At PwC, our purpose is to build trust in society and solve important problems. We’re a network of firms in 158 countries with over 250,000 people who are committed to delivering quality in assurance, advisory and tax services. Find out more and tell us what matters to you by visiting us at www.pwc.com.

In India, PwC has offices in these cities: Ahmedabad, Bengaluru, Chennai, Delhi NCR, Hyderabad, Kolkata, Mumbai and Pune. For more information about PwC India’s service offerings, visit www.pwc.in

PwC refers to the PwC network and/or one or more of its member firms, each of which is a separate legal entity. Please see www.pwc.com/structure for further details.

© 2018 PwC. All rights reserved

Contact us

Vivek Belgavi
Partner, financial services and India FinTech leader, PwC
vivek.belgavi@pwc.com

Harshal Kamdar
Partner, Tax and Regulatory Services, PwC
harshal.kamdar@pwc.com

Vaidison Krishnamurty
Partner, Deals, PwC
vaidison.krishnamurty@pwc.com

Mayur Gala
Partner, Tax and Regulatory Services, PwC
mayur.gala@pwc.com

Amit Nawka
Executive Director, Deals, PwC
Amit.nawka@pwc.com

With contributions from Shekhar Lele, Pratik Pathrabe