

## Angels turn saviours for cash-starved start-ups

11 May 2010, 0118 hrs IST, Shailesh Menon, ET Bureau

MUMBAI: The saying “if you seek an angel with an open heart, you shall always find one” may hold true in these times, considering the significant

rise in number of angel investors. Though the number of angel investments (made formally) is abysmally low when compared to that for developed countries, business angels seem keen to turn ‘saviour angels’ to quality start-ups that are short on capital.

According to experts handling finance for small and medium enterprises (SMEs), the number of aspiring ‘business angels’ registering with top networks have been rising multifold over the past two years. The Mumbai Angel Network, which started operations with just around 40 members in early-2007, currently has more than 80 registered angel investors. Indian Angel Network – which started on a low key in 2006 – has around 100 members willing to seed-fund quality projects.

“The number of registrations have risen over the past two years. Angel investing is a good avenue for decent returns; quality investments can yield 20-30 times returns,” said Mansi Shah, core team, Mumbai Angel Network.

According to investment experts, seed funding helps angel investors to get chunky holdings at lower price. A favourable business climate coupled with a rising need for seed funding and decent returns are encouraging affluent investors to fund start-ups. If one were to profile a cross-section of angel investors in India, a good number of them would be erstwhile CEOs, successful businessmen, top corporate managers and professionals.

“Affluent investors are turning ‘angels’ as they have lost faith in the equities market. Angel investors are seeing higher return upsides in SMEs than fairly-priced listed companies. Conventionally speaking, investors expect returns 3-5 times more than their overall investment,” said a senior member of Indian Angel Network.

The emergence of networks have made ‘angel funds’ more accessible. The start-up entrepreneur only has to submit his business plan at the network to catch the eye of angels. If the business is viable, angel investors individually or as a group lay out business plans and fund the project. The funding could be anywhere between Rs 10 lakh and a few crores. The tenure of investments could be for 3-6 years and large-ticket venture capitalists (VCs) or private equity (PE) funds could be the exit point for angel investors.

“The key to angel investing is finding a good follow-up investor. Encouragingly though, start-ups funded by angel investors are getting second-phase investments from PE funds,” said Arun Natarajan, managing director, Venture Intelligence.

IDG Ventures & Qualcomm’s investments in Apalya Technologies, Reliance Ventures’ investment in Dhama Apparels, Sherpalo Ventures and Reliance Ventures’ investments in Reverse Logistics and Sequoia Capital’s investments in Druvaa Software are some of the top follow-up investments over the past few months.

According to Mr Natarajan, unlike in early-2000, angel investors have shown more confidence while investing in start-ups during 2008 and 2009 – the years of slowdown.

Mumbai Angels made nine and six investments in 2008 and 2009, respectively. Members of Indian Angel Network made seven and three investments in 2008 and 2009, respectively.

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