

Angel investor – a real angel to budding entrepreneur

[Business](#), [Entrepreneurship](#)



It is unlikely that not too many have heard of Angel investing in India. For starters, the monies involved are nowhere near as large as in VC or PE invests. Nor are the companies themselves large. And most angels are individual entrepreneurs themselves who have made it good. Individual private investors who invest in entrepreneurial companies are commonly and affectionately known as "angel investors". Generally, entrepreneurs have a plethora of choice when they want to raise capital, including - Personal savings, Friends and family, mortgages, Government grants, Asset based loans, factoring, banks, Institutional investors (arranged through investment banks), leasing, VCs, IPOs, but here is a new way out to the entrepreneurs to get financed, that is Angel Investment.

Projects that are refused by VCs as being too small for their portfolio would be better off getting Angel funding and reaching the right size to approach VC, as these days VCs are ready to finance business when it reaches the stage of at least „prototype? aking. This research paper throws light on a very recent phenomenon in India, called Angel investing which is generally confused with VC funding, Angels are individuals or groups who not only invest but also mentor entrepreneurs. This paper also covers the preparation by the entrepreneur to get the funding, gives ideas about terms on which to deal and also means to meet the angels. But entrepreneurs have to note that, only 1% to 2% of all business plans presented to either angels or VCs receive funding. Entrepreneurs need to read the necessary books and speak to individuals with financing expertise so when the opportunity arises, they are fully prepared to present their concept to investors. Incomplete business

plans are unacceptable in today's competitive environment. But it should also be noted that angels always appreciate initiative.

1 What is Angel Investing? "I think you can do business without a VC but you cannot without an Angel," avowed Amit Agarwala, founder and CEO of Amdale Software Technologies, who raised Angel funds in 2003 in India. What are Angels and why are they so important? Angels, at least in the secular sense, are individuals who invest time and money in very young companies. In fact, they often invest in an entrepreneur at a point when the business exists only as a good idea. Angels are individuals who invest their own money into start up companies. Usually angels also mentor the entrepreneurs in whose companies they are invested. They use their own cash to invest in early stage companies, and they prefer to take an equity position in the company either directly through the issuance of shares or indirectly through other instruments that are convertible into shares. Angel investors are so named because in the early 1900s wealthy individuals provided capital to help launch new theatrical productions.

As patrons of the arts, these investors were considered by theater professionals as "Angels." During the initial conversations with an angel group and during the presentation to the angels, it confuses the entrepreneur to find out which of the members are the real decision makers. This is difficult to ascertain but can be very valuable information because angels are human and they feel safety in numbers. The entrepreneur should focus on the more experienced angels and the managing directors of the angel group. If groups of investors are interested, it is far better for them to

invest as an LLC (limited liability Company) than as individuals. VCs are weary of complex capitalization structures and an entrepreneur risks losing access to larger amounts of capital. In addition, major company decision making can become unwieldy if large numbers of investor/owners need to be consulting.

Finding an angel investor is like finding a spouse Personal chemistry is critical because it is a long term relationship. This chemistry may take time to build so invest quality time in getting to know the angel. If you are dealing with a group of angels, it is the lead angel that will be on your board or that will manage the investment on behalf of others that should be your focus. It is far better in the long run for an entrepreneur to turn down an angel investment because of lack of chemistry and wait for a better match. How do angels value start ups? As they say, beauty is in the eye of the beholder," Pradeep Gupta, Co-founder of Indian Angel Network, describes the value of a startup. Valuing a non-existent company is difficult, if not impossible. However, there are some approaches for determining ownership percentage that seem common across Angels; milestones that Angels regard as valuable; and certain considerations taken into account when negotiating.

Combined, these provide a starting point for the new entrepreneur to understand how much of her company she may have to sell to raise Angel funds. Angels usually look at these aspects: ? How much value has been created to date? How large can the company grow, and how much additional capital will it take to get there? ? Most importantly the entrepreneur and his team 2 Post-investment Involvement: Angels usually provide guidance on

business strategy and models; connect entrepreneurs to experts and potential customers; and help raise other funds as required. Angels have a variety of individual and professional backgrounds Angels can add tremendous value to startups. On the other hand, angels are humans and are subject to their personal idiosyncrasies. One or more of these characterizations may apply to an angel: Guardian angel- This type of investor has relevant industry expertise and will be actively involved in helping the startup achieve success Operational angel- This angel has significant experience as a senior executive in major corporations. For an entrepreneur, this type of investor can add much value because he or she knows what the company needs to do in order to scale up operations. Entrepreneur angel-An investor that has “ been there, done that” is very valuable to a novice entrepreneur.

For example, an entrepreneur can add perspective to the founders on what to expect from investors and how to effectively negotiate financing terms. Hands-off angel-A wealthy doctor, attorney or similar professional must focus on his or her day-to-day career. This type of investor is willing to invest but usually does not have the time or specific expertise to be of much help to the startup. Control freak- Some investors either believe they have all the answers because they have achieved certain wealth or they have the personality to convince themselves they know “ everything. Caveat emptor. Why angel investor? Generally entrepreneurs have a plethora of choice when they want to raise capital, including Personal savings, Friends and family, mortgages, Government grants, Asset based loans, factoring,

banks, Institutional investors (arranged through investment banks), leasing, VCs, IPOs, but as a superior choice amongst all, especially for a budding entrepreneur, angels in India are playing the priority role. Triple Digit Crores PE Funds Double Digit Crores VC funds Few Crores Angel Investors Few Lakhs Friends & Family Some studies suggest that angels spread out their investments into many avenues and companies when compared to that of VCs and their volume of investments also sums up to 10 to 20 times more than latter.

Angels fill a critical capital gap, between “ friends and family” and VCs. When a startup requires more than 25 Lakhs but less than about 5 crore, angels are a viable source of capital. This level of funding is below the radar screen of most venture capitalists, although some VCs will occasionally fund a seed round of as little 5 crore. Here is a comparative study of Angels and VCs

Funding amounts	Motivation to invest	Angels	Rs. 25 lakh to 5 Crore	Not just return driven, strong emotional component (“ bragging rights”, psychological benefits of coaching, rush from being involved in fast paced startups)	Prefer anonymity, reachable via referrals or through angel groups	VCs	Rs. 5 Crore and above	Mostly return-driven with adjustments for relationships with other VCs and reputation among entrepreneurs	Accessibility	Geographical focus
Key reasons to invest	Regional	Personal chemistry with entrepreneur, detailed market analysis, sustainable competitive advantages	Less than VC firms because have the luxury of being selective	Relatively fast (one day to three weeks), terms are somewhat negotiable (more than with VCs)	Common or preferred stock, occasionally convertible debt (debt convertible to equity)					

shares) 10% - 50% Relatively fast and light Lump sum or milestone
 Operational experience, common sense advice, specific industry expertise
 Number of investments Term sheet issuance Investment vehicle Highly
 visible, usually will only look at business plans referred by their network of
 contacts (attorneys, etc.) Regional, national or international, depending on
 the firm Nearly developed product, operating history, strong and
 experienced team, sustainable competitive advantages More than angels
 because need to make a minimum number of investments in a given year
 Can be fast, but usually is at a moderate pace (several weeks), terms are
 fairly standard and not very negotiable Preferred stock (convertible to
 common) Equity percentage Due diligence Funding process Long term value
 added Reaction to bad news Target exit time Target IRR returns 20% or more
 Relatively slow and methodical Lump sum or milestone Experience in
 managing growth, deep pockets, networks of additional sources of capital,
 rolodex, experience in managing IPOs and sale exits Roll up the sleeves and
 help Intense communication and solve the problem, open up coaching; open
 up rolodex; help rolodex structure joint ventures, new financing rounds or
 mergers; fire management 5 to 7 years 3 to 5 years 15% to 25% 20% to 40%
 4 How to meet an Angel? Angels are individuals investing on their own behalf
 - they are not acting as part of investment companies, and they don't
 advertise.

It's fairly rare, for instance, to go to a meeting, and have someone stand up
 and shout, " Over here! I'm an Angel! " Not only that, but Angel investing is a
 new phenomenon in India, so there simply aren't as many Angels around as

in Silicon Valley, for example. This poses a challenge for new entrepreneurs: how does one find and meet a potential Angel investor? Is it luck? It may seem like a happy accident, when one hears the stories. Sridar Iyengar, an active Angel in both the US and India, sat next to Vani Kola at a dinner, just when she was starting „ RightWorks? based on that chance of meeting, he became one of her Angel investor. Tripat Preet Singh, a young Angel of five companies, and now at NEA Indo-US Partners, happened to meet one of his entrepreneurs in a friend's office. 3 ways to find an Angel ? Ask everyone you know ? Research - and then cold call. It does work. ? Make use of existing forums What's the best preparation to attract Angels? Once you have identified your Angel, how should you prepare to have the best chance of interesting him or her? Still an idea is ok Angels, by definition, invest at the earliest stage.

They do not expect running businesses, full business plans, or even set business models. In fact, for an entrepreneur, working with an Angel to shape the business can be part of the investment process. Sridar Iyengar, an active Angel investor in both Silicon Valley and India shared his perspective, " If I have been part of that process, then actually I have some skin in the game. I want it to succeed. And it's easier to put the money in. " According to Angels, some basic questions that entrepreneurs need to have thought through include: ? What is the problem, the 'pain point' you are addressing? ? Who and where are the target customers and how do you reach them? ? At what price point would someone be willing to use this product or service? ? Why do you think your team will succeed - particularly

if there is no prior entrepreneurial or industry experience? ? Who is the competition, and why do you have an advantage? External validation If you want to convince an Angel, it helps to have convinced other people along the way. Obtaining external validation - building believers - is a key to proving the idea has merit.

The first thing is to try to get somebody who has credibility in that area, to believe in the idea," says an angel investor The ultimate validation, of course, comes from having a customer - someone actually willing to pay for your product or service. At such an early stage, however, that may not be possible. In which case, there is value in having a customer become a believer in your efforts. Evaluation of business plans uses several parameters Too many entrepreneurs limit their opportunities by writing weak business plans. Great ideas are common; much rarer are businesses with the people and products to enter a market and 5 take share or dominate. Only 1 % to 2% of all business plans presented to angels or VCs receive funding. Investors refer to the valuation of a company prior to receiving a round of investment as " premoney.

" Once funding occurs, at that instant, the value of the company rises by the amount of funding and the " post-money" value is determined If a startup has no revenues, then valuation is subject to much negotiation and relies more on common practices of angel and venture capital investors. A " hot" company with patents or competitive advantages and potential for hundreds of millions of dollars in sales will certainly command a larger value than one with tens of millions in potential sales, but hard rules are difficult to establish

in the investing industry Exits Angels need to exhibit a level of patience with their investments and understand that they will not likely recognize a return for a number of years. Angel investments are usually illiquid until some form of an exit strategy is employed. The founders should include their exit strategy in the company's business plan, and it should be agreed upon between the entrepreneurs and the investors. Although market conditions may cause the exit strategy to change, investors want to know the plan as well as the time frame for harvesting their investment. The following list details some of the most common harvesting methods:

- Strategic Sale: The company is sold, often to another industry player.
- Initial Public Offering: While this method can be lucrative, it can be a very difficult exit method to execute.

There are numerous rules and requirements involved with an IPO, and it is very time-consuming.

- Partial Sale: The investor sells his stake in the company back to management or to another willing buyer.
- Bankruptcy: If the company is not successful, it can declare bankruptcy, either restructuring its operations or going out of business completely.

Angel investment gets a leg up in India Indian Angels Network A formal association of individuals who will screen deals together, and may co-invest in a company. Not all Angels in a network will invest in a deal - it's an individual decision. Indian Angel Network and Mumbai Angels, two groups of early stage investors, are on a mission to bring angel fundculture- the process of nurturing new companies to the next level, where they could easily attract venture capital investments - in India. The two groups based in Delhi and

Mumbai, respectively, hope to make angel funding more active here in coming years, riding on their successful investments in the past, albeit in their individual capacity.

For instance, Infinity Ventures, an early stage venture capital fund promoted by investors such as Saurabh Srivastava (who is now with Indian Angel Network), had invested in some of today's successful companies such as Avendus Advisors, an investment bank offering private equity syndication, M&A, fixed income, structured finance, special situations and strategic advisory services to corporate houses and investors. Indiabulls, a leading financial services and real estate development company and India Games, one of the major gaming companies in India. So far, IAN has invested in seven companies which includes San Shadow Consultants, a firm that helps companies create intellectual property rights or a patent portfolio, Knowcross, an IT consulting firm and Authorgen, a firm that provides e-learning software products and services. It has also made one exit along with Mumbai Angels in Madhouse, a DVD rental company, which was later acquired by Seventymm. 6 IAN's network has grown to 60 members and now includes institutions such as Google, IBM, Punjab Venture Capital, Sidbi Venture Capital, Naukri. com and Greylock Partners. Mumbai Angels also plans to expand its 25 member team to 100 members in the next 2 years.

IAN has operations in Delhi, Bangalore and Mumbai whereas Mumbai Angels are just operational in Mumbai itself. Indian Innovators association The ideal angel is someone who is a generation ahead in creating value in the industry. They'll provide financial capital as well as intellectual capital, which

could be even more important than the money. The picture in India is different - Angels are hard to find. To bring Angel Investors and Innovators together, Indian Innovators Association made arrangements with selected Angels to examine the Business Plans of Indian Innovators. Innovators looking for angel investment may contact the association with an executive summary of their business plan. Detailed plans can be submitted to the interested Angel after the preliminary examination.

Band of Angels in Delhi Band Of Angels opened shop in Delhi. Started in April 2006, the Band of Angels is a unique concept which brings together highly successful entrepreneurs and CEOs from India and around the world who are interested in investing in start up / early stage ventures which have the potential of creating disproportionate value. The Band looks at a broad spectrum for investments : ? IT products & services - High end BPO / KPO ? Retail - Biotech & Pharma ? Internet - Media & Entertainment ? Leading edgetechnology in telecom & embedded domains The Band looks at investing typically up to USD 100, 000 to USD 1 million and exiting over a 3 to 5 year period through an IPO, M&A or strategic sale. The Band may consider investments over a million dollars but is likely to do so through syndication. web page : <http://www.boaindia.com/> A few other angel investors in India ? ? ? ? Chennai Fund www.chennai.tie.org

Indian Angels Network New Delhi 110

065[(mailto:)]com Mumbai Angels Vimmla, www.mumbaiangels.com

TiE Entrepreneurship <http://www.bangalore.tieentrepreneurship.com>

tie. rg source: [www. nenonline. org](http://www.nenonline.org) Conclusion You Too Can Find an Angel - Build Your Pipeline The best way to source an investor angel is through referrals. You need to be introduced by a credible source. Networking is a tradition which works and is especially important when you seek an angel investor. Networking is hard work; it requires time, energy and follow up.

Do not expect networking to pay dividends immediately. It is a long haul so be prepared. It is not easy to find angels. Most of them value their privacy and do not want to be approached by every person who is looking for funds. Knowing the right person is the key to getting an introduction to an angel investor. 7 You should try to meet as many business owners as possible. Many of these business owners may be or may want to be angel investors.

Alternatively, these business owners may be willing to refer you to investors who they know. Another way to get an introduction is to connect with your accountant, lawyer, banker, customers, employees, doctor, dentist, consultants, or your professor at a local university, especially one that specializes in entrepreneurship. In order to find money you may need to be aggressive; for example, consider calling the CEO of a company that is similar to yours, but not a competitor, and see if you can get the CEO to introduce you to a potential angel or someone who might know angels. If you meet any venture capitalists, keep in touch with them even if they are unable to invest in the company. Some of them have contacts with angels. By the same token, you should cultivate contacts with investment bankers and other intermediaries as they also often have contacts with angels. There is Hope It is tough finding angel investors.

There is a strong perception that there is angel money waiting to be invested but the conduit is not as developed in India as it should be in order to match entrepreneurs with angels. The good news is that it looks like more local resources will be developed in the future to help bring entrepreneurs and angels together. 8 Appendices: ? Bibliography ? Typical angel questionnaire ? Reading/surfing Appendix 1 – Bibliography ? ? ? ? ? ? ? Winning Angels: David Amis and Howard Stevenson, Prentice Hall, 2001 Business week-Dec ' 07 DARE-Entrepreneurship magazine-Dec07, Jan 08. <http://www.smallbusinessnotes.com> <http://www.indianangelnetwork.com>

<http://www.nenonline.org> <http://www.boaindia.com> <http://www.indianinnovatorsforum.org> ? Appendix 2 - Reading/Surfing List ? Benjamin, Gerald A.

and Margulis, Joel B. , The Angel Investor's Handbook: How to Profit from Early-Stage ? ? ? ? ? ? ? ? ? Investing, New York: Bloomberg, 2001. Hill, Brian E. and Power, Dee, Attracting Capital From Angels: How Their Money and Their Experience Can Help You Build a Successful Company, New York, John Wiley ; Sons, 2002 Simmons, Cal and May, John, Every Business Needs an Angel: Getting the Money You Need to Make Your Company Grow, Washington DC: Crown Business, 2001. Williams, Kelly, Working with Angel Investors for Community Development, New York: Community Development Venture Capital Alliance, 2003. <http://www.infinityventure.com>

<http://www.strategicinvestment.blogspot.com> <http://www.podtech.com> <http://www.thealarmclock.com>

com <http://www.fundingpost.com> <http://www.angel-investor-guide.com>
<http://www.inc.com> Appendix 3 - Typical Preliminary Questionnaire From
Angel Groups To Entrepreneurs • Name of company • Year founded and
legal structure (“ C” Corp, “ S” Corp, LLC, etc.

) • Who referred you to this angel group? Summary of business (in 3 sentences or less) • What problem is your product or service solving? • What is the size of the market, how much has it grown in the past few years, and what is its projected growth? • Describe the competition (companies as well as substitute products) • What are your company? s competitive advantages? • Why will your company succeed in the long run? • Does the company or its founders have any relevant patents or proprietary technologies? (please do not reveal specific proprietary information) • What is the relevant experience of each member of the management team? Please enclose a one page resume of the CEO. • What is the company? s sales and marketing strategy? • If you have a website, what is the URL? • What are the major short, medium and long range operational milestones you intend to achieve? • Please complete the table below: • Are 50% or more of revenues generated from one or two customers? • What are the 3 greatest risks of this venture? • What is your capitalization structure? (How many shares are currently owned by founders and investors? How much capital has been invested so far, and by whom? • How much capital are you seeking, and how will this capital be used? • How many rounds of investment and what amounts do you expect to need in total? • What is your exit strategy? • Please list the name and company of your professional advisors (attorney,

CPA, and/or consultant): • Who is the main contact person at the company?

Please provide address, telephone, mobile phone, and fax