

FUELLED STARTUPS

Wealthy businessmen and new-economy entrepreneurs are backing startups with personal investments, infusing cash and credibility to the exciting asset class, find **Shonali Advani** and **Madhav Chanchani**

Last week when Tata Sons chairman emeritus Ratan Tata made a personal investment in online furniture retailer Urban Ladder, his third in a new economy venture in recent months, it turned the spotlight on an asset class that is gaining the favour of moneyed Indians, both old and new.

These investors, several of whom are entrepreneurs themselves, are lured by the pay-outs that a handful of Indian startups have delivered to early backers as well as the excitement of participating in a new and rising trend.

"My IRR is north of a 100% and there is no other market I know that has been able to give me that kind of returns," said Anupam Mittal, founder and CEO of People Group, one of the most-active angel investors in India with over 40 investments, a portfolio built over the last six years. He invested in property before 2006, but after that has been backing startups with his spare cash.

One of Mittal's well-known angel investment was in digital marketing agency Interactive Avenues which was acquired by IPG Mediabrands last year for a reported ₹350-400 crore.

"There are some people doing it for glamour and it has that appeal in the market," said Mittal. "I have written off five investments and will probably write off five more," he added.

Wealth managers say that while real estate still tops the wish list, an increasing number of young Indian entrepreneurs are picking angel investments as an avenue to park personal wealth.

"Entrepreneurs today invest mainly in core-technology or technology enabled startups," said Srikanth Bhagavat, managing director and principal advisor, Hexagon Wealth, a wealth management firm whose clients include small and mid-sized companies as well as high net-worth individuals including CEOs of listed firms.

Earlier this year, startup accelerator Tandem Capital made an estimated hundred-fold return on its investment in mobile gaming company Bash Gaming, maker of casino game Bingo Bash. Amongst those who back the Silicon Valley firm are two of India's most active startup investors - Manipal group scion Ranjan Pai and former Infosys director Mohandas Pai.

Rise of angel networks have also helped fuel this trend but several of the new breed are all going direct.

Pallav Nadhani of Bengaluru-based Fusion Charts bought an apartment in Acropolis, a condominium in Koramangala, the city's upmarket residential area comprising 50% of personal wealth but makes angel investments as well.

"About 25-30% of my net worth goes in angel investments," Nadhani said who typically invests ₹10 lakh to ₹1.5 crore in startups. He's made 12 investments to date and is an LP in The Morpheus too. The balance, he

shared, is in mutual funds. Girish Mathrubootham, co-founder and CEO, Freshdesk, who has been making angel investments since 2013, said backing startups and helping them grow gives him a deep sense of satisfaction. "I don't see this as a means to de-risking or diversifying my portfolio." To win big an angel has to invest in several before spotting a winner said the Chennai-based entrepreneur who cautions that this is an asset class for those with "enough money".

"One major difference between new generation entrepreneurs versus old is that some of their needs aren't met like a house or property. So, with their first liquidity event, they usually take care of this immediate need," said George Mitra, CEO, Avendus Wealth Management. Entrepreneurs usually invest in villas, gated communities and apartment complexes. Coupled with this is the fact that securing housing loans is difficult and real estate provides a tax shield.

However, once property needs are met, most young entrepreneurs turn their attention back to the startup game. Ahimanikya Satapathy, CEO and founder of DocEngage, makers of a CRM solution for medical practitioners, has invested ₹4-5 crore in property.

"When I make more money I'll look at angel investments, and help startups get built. I'll enjoy that more," he said. Mitra of Avendus is of the view that several entrepreneurs also try and keep capital in assets that deliver fixed income since they're taking a high level of risk in their own business.

Take for instance Bhavin and Divyank Turakhia, serial entrepreneurs behind the Directi Group. Their overall worth will be around \$400-450 million of which 75-80% is locked into equity in various businesses while the rest in liquid investments like bonds and fixed income. "We hate lack of flexibility because there's so much to do in our own businesses. I'm happy making lower returns, but want to have quick access to capital in case I want to make a strategic investment in the business," said Bhavin Turakhia.

They are also evaluating commitments overseas to venture capital funds. Several of those backing startups are also now looking to pool their money into funds, as with the Bengaluru based Pais-Ranjan and Mohandas - who are not related to each other.

They have together set up Aarin Capital and also back impact investment fund Unitus Seed and technology investment firm Exfinity Fund.

"Funds (that invest in startups) give good returns, support entrepreneurship, and are exciting to do," said Mohandas Pai.

Shonali.Advani@timesgroup.com

BUSINESS LEADERS WHO BACK STARTUPS



RATAN TATA
Online marketplace Snapdeal; Jewellery retailer BlueStone; Furniture e-tailer Urban Ladder



HARSH MARIWALA
Internet startup Wooqer; Startup sandbox Ant Farm; Set up nonprofit venture called Ascent to support entrepreneurs



RAKESH JHUNJHUNWALA
Healthcare startup Full Life



RONNIE SCREWVALA
Over a dozen investments through family office Unilazer Ventures including specialist e-tailer Lenskart, marketing solutions & analytics firm ZipDial and agri-farming venture INI Farms



N R NARAYANA MURTHY
Family-owned Catamaran Ventures has backed startups like Hector Beverages, Yebhi.com and Healthspring. Most recent deal - JV with Amazon to speed up small business owners' adoption of e-commerce



AZIM PREMJI
Family office Premji Invest has taken well-timed bets on Myntra (which was acquired by Flipkart) and Snapdeal. Also backed firms like DataStax and Amagi Media Labs



SACHIN (pictured) & BINNY BANSAL
COFOUNDERS, FLIPKART: News In Shorts, Roposo.com, MadRat Games



KUNAL BAHL
COFOUNDER, SNAPDEAL: Ola Cabs, Housing.com, Unicommerce, Tripoto



NAVEEN TEWARI
COFOUNDER, INMOBI: LetsVenture, Mettl.com, Tushky.com



ANUPAM MITTAL
FOUNDER & CEO, PEOPLE GROUP: Ola Cabs, Tushky, Peelworks, Sapience Analytics, Pretty Secrets, Druva and VC funds Orios Venture Partners, Kae Capital and GSF Accelerator



GIRISH MATHRUBOOTHAM
CO-FOUNDER & CEO, FRESHDESK: Chargebee, ShieldSquare, Frilp

WHO MUST MAKE ANGEL INVESTMENTS

While angel investments has become a status symbol in the startup ecosystem, entrepreneurs should cover their basic financial needs like a house and financial liquidity before venturing into it.

Angel investments are also highly illiquid, so funds are not accessible in case of urgency

Also investors who have a fixed return expectation and requirement should avoid angel investments as it is a high-risk and |return asset class

HOW THE COOKIE CRUMBLES

On an average, active angel investors who back startups invest ₹60-70 lakhs per year

Angel investors cut cheques starting from ₹5 lakhs

Personal allocation among entrepreneurs can range from 5% to 50%, but majority of their personal wealth is locked up in their own businesses and real estate

CHALLENGES FOR ANGELS

The Finance Act 2012 introduced a provision through amendment of section 56 which was called 'Startup Tax' or 'Angel Tax'. Under this, share premium above the fair value of investment by Indian angel investors is taxed

Sebi regulation in 2013 provided relief to angels investing through a fund, but not for individuals

Angels need to stay invested for 36 months to benefit from long terms capital gains tax

HOW ANGEL INVESTING WORKS

Angel investments - which in India range from ₹50 lakh to ₹3 crore - are typically done in groups of at least 5-6 investors

Some members of the angel consortium also take a board seat

Angels invest their personal money in a startup, mostly in their area of expertise, often marking it the first outside capital for a startup

This is followed by venture capital funding, which is institutional capital

Angels typically exit after series B or C round of funding, while some continue to hold shares even after the IPO

TOP PAY-OUTS TO ANGEL INVESTORS IN INDIA

Indian Angel Network, which backed data security company Druva Software in 2008, has seen some angels exit the company with 22 times returns

Mobile advertisement firm InMobi also saw certain investors from Mumbai Angels exit at over 20-30x in early 2010

Ratan Tata bought stake from angel investor Kenneth Glass in e-tailer Snapdeal, after it was valued at \$1 billion

Sequoia Capital giving partial exit to angels in OYO Rooms at ₹140-150 crore valuation, as compared to entry valuation of ₹3-5 crore



The older generation won't be able to figure out technology the way the new ones do. Entrepreneurs today invest mainly in core-technology or technology enabled startups

Srikanth Bhagavat,
MD & Principal Advisor, Hexagon Wealth