



STARTUP
INDIAN

RIGHT NOW

THE STARTUP NEWSLETTER

SPECIAL ISSUE ON ANGEL INVESTING

ANGEL INVESTORS

hold a special place in the journey of a startup. That's because they provide the ever-so-critical SEED CAPITAL to those who are budding with ideas and are looking to change the world.

In this special issue we take a deep deep dive into the world of Angel investing. We've done quite some bit of number crunching to answer some questions that are often left unanswered. Like, what should be your net worth to start Angel investing? Or, what should be your average cheque size? Or, how many years will you have to wait before you can expect an exit?

That's not all, we've also summarised a lot of our learnings from working with Angels to tell you, what do startups expect from Angels? Or, what are some successful ways of creating a fail-safe portfolio of startups?

Next, we've highlighted the names of some notable Angel Investors who have collectively provided capital to 1000+ Indian Startups and have recorded some eye-popping returns (both positive and negative) in the process.

Finally, we zoom out to understand the state of Angel Investing in India and the prospects of growth in the space.

All of this to motivate you to start investing in Startups today OR set a goal to start investing someday, not far from today.

Happy reading!



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1 WHAT SHOULD BE YOUR **NET WORTH** TO START ANGEL INVESTING?

To be honest, with all the news of VCs minting money on early-stage investments, we all feel like getting a piece of the tech pie. Right? But investing in startups requires you to have knowledge, network and of course CAPITAL. So, let's try to find out if you're cut out to be an Angel Investor, financially speaking:

Let's say your net worth is X

Now, what % of this net worth do you invest in startups?

Financial giants JP Morgan and Merrill Lynch say that 15-30% of your investable assets should be invested in alternative asset classes. So, for the sake of calculation, let's take an average of 25% (or 1/4th) of your net worth as the target.

But what do we mean by Alternative Asset Classes? Think of them as the cool kids at the investment party: hedge funds, real estate, private debt and private equity. So, let's say you invest 33% (or 1/3rd) of your total allocation to alternative asset classes, into private equity or startups.

But do you put all that money in 1 startup?

To dodge the "Oops, my startup sank!", you would ideally like to create a portfolio of such investments into startups.

So, what's a failsafe number of startups you should bet on?

A Wall Street Journal article by Harvard Business School lecturer, Shikhar Ghosh says that 3 out of 4 funded startups never return any

cash to investors. Which means, to create a failsafe portfolio you should target to invest in AT LEAST 4 startups.

And how much should you invest in each of these startups?

So, to answer this, we crunched some numbers. We collated more than 600 investments made by some of the leading Angel Investors of India to arrive at a benchmark value. The median ticket size of Angel investment came to an even ₹20 Lakh (\$24K).

Alright, now that we have an idea of your average cheque size, the minimum size of your portfolio and some idea about what % of your net worth you should allocate to this high-risk-high-return asset class, we can solve for X.

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Turns out, if you have about ₹10 Crore (\$1.2M) worth of assets, you're cut out to be an Angel investor. Financially speaking at least.

Of course, you can be more bullish and increase your fund allocation to this asset class, or you can be more conservative and increase the size of your portfolio just to improve your chances of success. Do as you will and set a goal for yourself.

₹10 Crore	×	25%	×	33%	=	4	×	₹20 Lakh
(\$1.2M) net worth of Angel to start investing in startups		of total net worth to be invested in alternative assets		of investment in alternative assets to be invested in startups		minimum no. of startups to invest in to reduce risk of failure		(\$24K) median Angel investment in each startup

2 WHAT OTHER BENEFITS CAN ANGEL INVESTORS BRING ALONG?

How many times have we seen on Shark Tank that founders end up choosing an investor, whose deal is worse in terms of valuation, but much better in terms of mentorship and synergy? The fact is, most founders are ready to compromise on their valuation for the much-needed knowledge and network of the investors. Let's discuss a bit about the ways in which you can contribute beyond the CAPITAL that you bring in:

- Net worth
- Non-financial requisites
- Return expectations

- 1. **Knowledge Benefit** – There are 2 forms of knowledge you can provide viz. Hard Knowledge and Soft Knowledge.

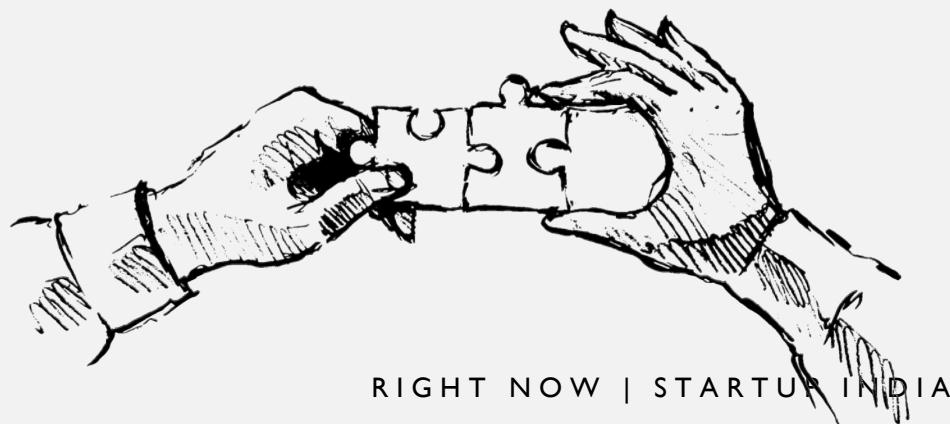
- **Domain expertise** translates into **Hard Knowledge**, i.e. knowing in-depth about a specific field of business. For eg. Consider you've been successfully running a food & beverage company for decades because of which you've developed a deep expertise of managing and growing consumer brands. In that case, you're in a great position to add value to B2C startups. Take for e.g., Jitendra Gupta (Ex-PayU, founder of Jupiter- neo bank and Citrus payment solutions) has invested in 75 rounds out of which 44% have been in the Fintech domain.

- **Functional expertise** translates into **Soft Knowledge**, i.e. the capability to manage the business. For eg. Consider that you've been in the helm of affairs of several companies as their marketing head and CMO. In that case, you can guide startups with their marketing efforts. You'll relate this with Aman Gupta, co-founder and CMO of BoAt Lifestyle and one of the renowned sharks at Shark Tank India. Most of his

investment pursuits at the show revolve around opportunities where he can provide marketing mentorship to promising consumer brands.

2. **Network Benefit** – You can play a role in assisting the entrepreneur connect with key customers, key suppliers, strategic partners or explore other geographies or you can help the startups to access the next round of funding or help execute a trade sale exit (acquisition). For e.g. a B2B SaaS startup, that makes software for the banking sector will be keen to have you as an Angel investor if you're well connected with banks and financial institutions.

3. **Credibility Benefit** – You may be so highly reputed such that your investment in a startup would automatically imply that the venture/product/tech is of high quality and worthy of doing business with or investing into. Take for e.g. Sachin Bansal & Binny Bansal, co-founders of ecommerce major Flipkart, invested ₹3 Crore (\$476K) each in EV startup Ather Energy's seed round, at a ₹37 Crore (\$6.2M) valuation. Thereafter, Tiger Global Management (also early investor at Flipkart) and Hero MotoCorp invested huge amounts into the startup's subsequent funding rounds, and today it's valued at ₹4,000 Crore+ (\$500M+).



3 HOW MUCH RETURNS SHOULD YOU EXPECT FROM YOUR STARTUP PORTFOLIO?

Remember what we said earlier? Research says that 3 out of 4 startups fail. Which means investing in startups is extremely risky. So, if you're betting money in this risky asset class, you'd expect high rewards also, right? That's why, experts suggest that you should expect at least 10% alpha (additional returns) on your startup portfolio, over and above the market benchmark index (like NIFTY50) coming to around 25%. To corroborate this, we analyzed the investment portfolios of 10 notable Angel investors of India, comprising of 500+ startup investments. At an average, their investment grew by 30% p.a. Combining the 2, you can target an IRR range of **25% - 30%** on your startup investment portfolio.

Alright, so there's high risk, high reward and long gestation period. How do you factor all these and have a benchmark to work with? Let's do some math:

- Considering the expected ROI from your entire portfolio of startup investments @25% - 30% and the failure rate of startups @3/4th, we calculated your expected IRR from each startup investment - which comes to **52% - 84%**, depending on the investment horizon.

This range is also corroborated from a study published by KPMG in 2021, which collates IRR expectation of investors from early-stage investments by 4 different research papers. It suggests a broad IRR range of 50% to 100% in seed stage investments.

- Now there's 1 more thing to consider: For you to achieve your targeted IRR, the startup's valuation will have to grow even more,

because of the dilution in your stake over subsequent funding rounds. Let's understand this with an e.g. - say you invest ₹40 Lakhs (\$50K) in a startup at a valuation of ₹4 Crore (\$500K) getting 10% stakes in the venture. Over the next 5 years, the startup dilutes 75% of its shares in subsequent fundraises up to its Series C funding in which it's valued at ₹100 Crore (\$12.5M). So, at the end of the Series C round you hold only 2.5% of the company. Therefore, even though the venture's valuation grew 25x from when you invested, your MOIC (multiple on invested capital) is only 6.25x (i.e. an IRR of 44%). You get the gist right?

- Long story short, our calculations indicate that a startup's valuation shall multiply by at least **25x to 76x** over the investment period (longer the investment period, higher the multiple) for you to earn the targeted IRR of 52% - 84%.

To sum it up, if you're creating a portfolio of 4 startup investments with an investment horizon of say 7 years, you're holding good if at least 1 of them have grown in valuation by 76x over the next 7 years.

We've summarized below our findings of targeted IRR and minimum growth required in startup's valuation to achieve the overall ROI of 30% p.a. on a portfolio of 8 startup investments of equal amounts, assuming 75% of them give zero returns:

Investment Horizon	4	5	6	7
Expected ROI from startup portfolio	30%	30%	30%	30%
Investments giving 0 return (assumed)	75%	75%	75%	75%
Dilution in stakes (assumed)	55%	62%	64%	67%
Targeted IRR from each investment	84%	72%	64%	58%
Minimum growth in startup's valuation	25x	39x	54x	76x

4 WHAT SHOULD BE YOUR INVESTMENT STRATEGY?

By now you must have framed up your mind on whether to invest in startups or not. Now, let's try to understand how you can frame your investment strategy. There's no 1 winning strategy per say, so we've created some rules of thumb to help you make up your mind:

- **Do you have any domain or functional expertise?** – Answering this question will help you to understand which sectors you should explore for investing. [Refer page 5 \(point 1\)](#).
- **Will you be doing your own evaluations?** – Answering this question will also help you to zero in on the sectors that you should explore for investing. A thorough evaluation and due diligence of the opportunities mitigates a lot of risks associated with startup investments. However, for in-depth evaluation, you need to have good understanding of the underlying sector, market trends, consumer preferences, policy support, and so on. Of course, a lot of this can be outsourced to experts like us, still the ultimate hunch will be yours. Therefore, many Angels **restrict their investments to industries in which they are familiar** as this enables them to make more informed judgments about the venture's potential.
- **How much time do you have available to make contributions?** – Answering this question will help you understand whether you would like to be a **passive or an active investor**, or a combination of those. Some Angel investors make multitude of bets, like

Kunal Shah has made 200+ investments in Indian startups, but this does not mean that he spends all his time to groom them. He may like to have a more passive approach. While there are some who like to have a more hands on approach, and therefore make less but more strategic bets, where they can spend time and add value.

- **Will you be investing alone or with other Angels?** – Answering this question will help you answer the **size** of your investments as well as understand how actively you'll be involved in the venture's management. Like in case of a startup that you are very bullish about, and which falls in your area of expertise, you might like to **play the lead role and also become a director**. Whereas, in some cases you might want to share the role by acting along with other Angels, and therefore, not take up a position at the board. The size of your investment will be bigger in cases where you take a board role and smaller in the case of passive investments. Take for e.g. Kunal Bahl and Rohit Bansal- both are founders of Snapdeal and have together invested in more than 40 startups.
- **Will you be sourcing your own deals?** – Finally, answering this question will help you decide if you must join an Angel network that does the sourcing for you OR join hands with experts like us, who curate lucrative and relevant deals for you OR you would like to source deals by yourself. If you choose to do it by yourself, then you must determine if you have **enough contacts to generate a stream of possible ventures** seeking Angel funding.

● Return expectations

● **Investment Strategy**

● Valuation & Evaluation

5 HOW TO INCREASE YOUR CHANCES OF SUCCESS?

By now you have a budget and a strategy in mind. Now we'll discuss 2 critical things that can substantially increase your return on investment in startups:

A. Due Diligence - Most experienced Angels would state that their least successful investments are those where they failed to undertake rigorous due diligence (DD). Carrying out a thorough DD helps to avoid any unexpected surprises after the investment is made. But due diligence requires experts so you can outsource it to professionals like us.

B. Valuation - You have to be sure that you're not paying too much for the equity stakes that you're getting. That's why it's a good practice to carry out a proper valuation assessment of the startup using some established methods. Some of the methods include:

1. Discounted Cash flow method,
2. Comparable company analysis,
3. Venture Capital method, and
4. Finally, the underdog- the Scorecard method: In our experience, this method reveals a lot about the qualitative aspects of a startup, that goes beyond the numbers.

Parameters like strength of the founding team, size of the market, competition and technology are often missed while valuing a startup, but this method makes you appreciate these aspects of the business too, and accordingly value it.

In fact, you can use it right at the outset of getting an opportunity, not to find the value, but to get a better sense of the strengths of the startup.

You can also rely upon consultants like us, to do this assessment for you. However, to make things a bit easier from the get-go, we ran some calculations. We collated the amount of funds raised and the percentage of equity diluted by Indian startups in 2023 during their pre-seed and seed rounds to come up with some reliable benchmarks. Here's what we found:

- The Unicorns raised an average of **₹4 Crore (\$482K)** in their pre-seed/seed round from Angel Investors.
- In the process, they diluted **7.5-10%** of their equity.

So, if you're investing **₹20 Lakhs (\$24K)** in a startup, you can target an equity stake of **0.35%-0.50%**.

One last piece of advice: In the end, the valuation that you arrive at is nothing but a bargain between you and the startup. Now, even though your target will be to obtain maximum stake in return for your investment, you have to keep in mind that the startup will have to raise money multiple times more in order to make it large

and in the process, it will also have to dilute a lot more. Which means, the more equity you take, the lesser of it will be available with the founders to dilute further and therefore, it will become increasingly difficult for them to raise funds. So, before you bargain for more, think long term.

• Investment Strategy

● **Valuation & Evaluation**

● Gestation & Exit

6 WHEN CAN YOU EXPECT TO EXIT AND HOW TO EXIT?

Expected exit route: While most of the startups expect to provide an exit by going public someday, majority of your exit opportunities will realistically come in the form of acquisition of the startup by a bigger fish. We collated a set of 50 exits done by some notable Angel investors in the last decade to understand this better:

1. In 90% of the cases the startups were acquired and hence the investors could exit.
2. In only 8% cases the shares of Angels were purchased by institutional investors during a bigger round of funding like Series A/Series B.
3. Only in 2% cases the startup bought-back the Angel Investors' shares and
4. In another 2% cases the exit came at the time of IPO.

This breaks a common myth among first time Angel Investors that entry of institutional investors at a later stage automatically means exit of the earlier investors. That's because institutional investors would seldom like to hand out money to investors directly rather than infusing cash in the startup itself. Moreover, they would certainly not want the startup to use their money to buy-back the shares of earlier investors.

Time taken to exit: In our set of 50 exits by notable Angel investors, the average time taken to exit came to 4 years, the majority of which came through acquisitions or purchase by institutional investors.

Now, to understand how much time it takes to IPO, we took a sample set of another 50 startups that have been funded by venture capital funds and got listed in the past 5 years. These companies took an average of 14 years to get listed from their founding year. Assuming that the Angel investors come in at the seed stage of 0-4 years, you can expect the IPO to happen at least after 10 years.

Joining the pieces together, we get a target timeframe of 4-10 years for your exit. This should be sufficient to tell you the level of patience it requires to invest in startups.

90%

exits came through acquisition
of the startup venture

4-10 years
investment horizon

**Abhishek Goyal**

Delhivery

₹7 Lakh

₹9 Crore

59%

IPO

10 years

Rohit Bansal

Unicommerce

₹10 Lakh

₹3 Crore

99%

Acquisition

5 years

Kunal Bahl

Beardo

₹25 Lakh

₹3 Crore

91%

Acquisition

4 years

SUCCESSFUL EXITS

Startup

Amt Invested

Exit Amount

IRR

Exit Route

Holding Period

**Kunal Shah**

Daily Ninja

₹6 Lakh

₹6 Lakh

-1%

Acquisition

3 years

**Sujeet Kumar**

Koo

₹1 Crore

NIL

-100%

Shut Down

3 years

**Anupam Mittal**

PrettySecrets

₹1 Crore

NIL

-100%

Shut Down

6 years

UNSUCCESSFUL EXITS

Gestation & Exit

Notable Investments

Trends

**SUCCESSFUL HOLDINGS****Kunal Bahl**

Credgenics

₹74 Lakh

₹648 Crore

353%

5 years

Anupam Mittal

Healofy

₹17 Lakh

₹18 Crore

99%

7 years

Rohit Bansal

Mamaearth

₹1 Crore

₹66 Crore

81%

7 years

Startup

Amt Invested

Exit Amount

IRR

Holding Period

Raman Roy

SP Robotics Works

₹6 Crore

₹7 Crore

0.00%

8 years

Ramakant Sharma

Trell

₹9 Crore

₹11 Crore

0.00%

6 years

Anupam Mittal

MyCareerStack

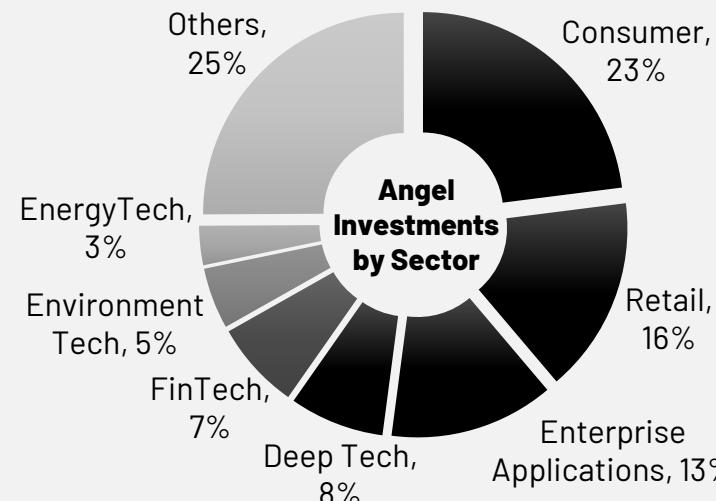
₹4 Crore

₹10 Lakh

-42.67%

11 years

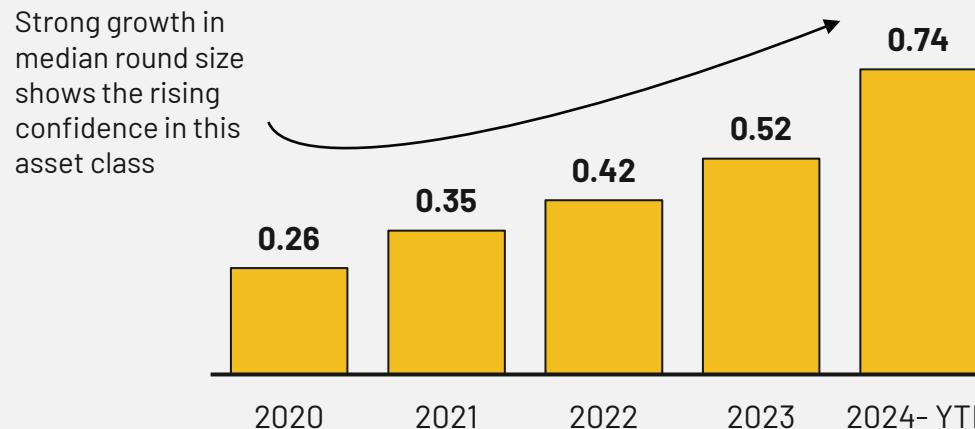
NOT SO SUCCESSFUL HOLDINGS



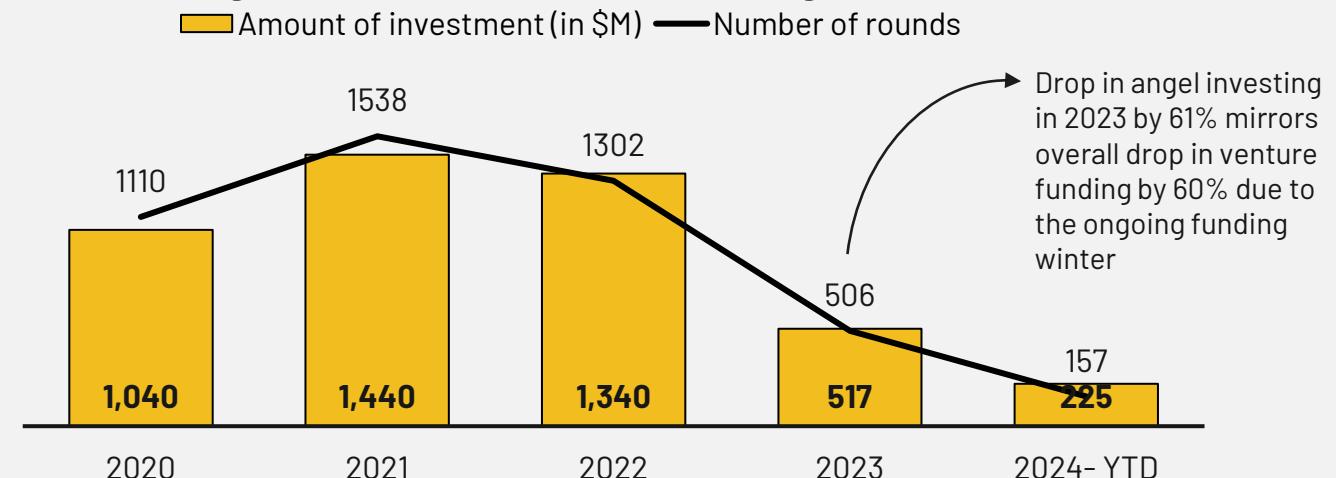
● Notable Investments

● Trends

Median Round Size in Angel Round (\$M)



Angel Investment Rounds and Funding in India



Huge upside potential for Angel Investing in India

In pg.4 we derived that people having net worth above ₹10 Crore (\$1.2M) should be investing in startups



HOW STARTUP INDIAN SUPPORTS ANGEL INVESTORS

We help Angel investors to learn the ABC of startup investing and then support them through the entire process of investing in a startup



Sourcing & Research

You need not spend time and effort to set up a separate team. Our dedicated team of analysts can help you identify, represent and evaluate startup investment opportunities, based on your preferences.



Due Diligence

We carry out in-depth legal, finance and market due diligence of startups, to ensure you make informed decisions. Our DD process is augmented by our research and analysis capabilities that gives unmatched insights into the startup's business and overall industry.



Deal Support

Before you invest funds in a Startup, it's important to ensure that your rights and interests are sufficiently protected. We provide handholding throughout the deal making process, including valuation, negotiation, deal structuring and term-sheet & SHA documentation.



Investment Monitoring

Startups can spiral out of control after raising funds if you don't regularly monitor their health & growth. We track key metrics and monitor governance of investee startups to report early warning signals that allow you to take timely remedial actions. This includes MIS, monitoring corporate governance, industry insights, etc.



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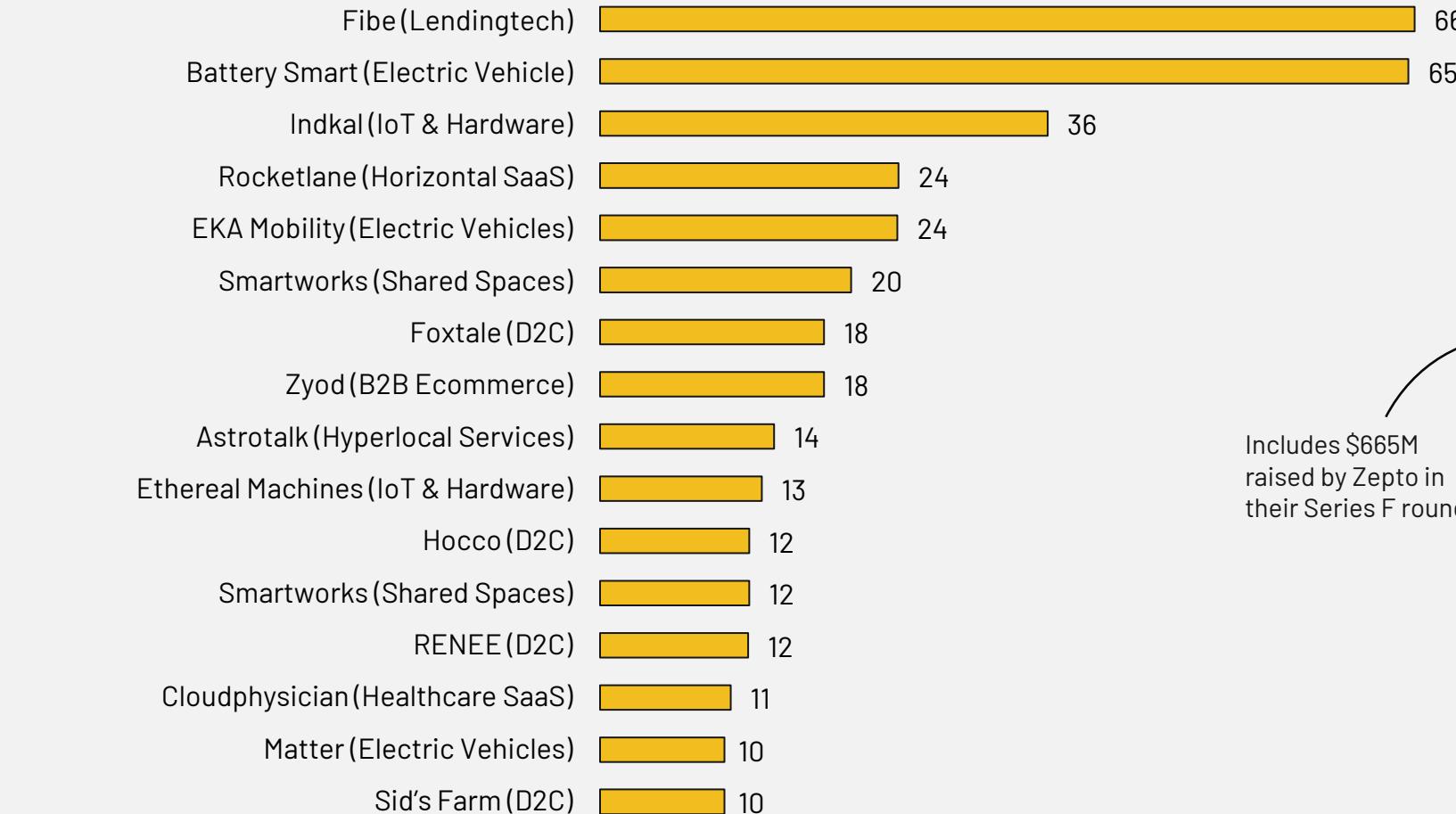


RECENT STAKE GRABS IN INDIAN STARTUPS

Jun'24

Investments of more than \$10M (non-unicorn)

(figures in \$ Million)



75 Deals in total

70%
of deals in E-commerce and Fintech

\$1,295M Total funds raised in Equity

Includes \$665M raised by Zepto in their Series F round

\$144M Invested in Series A Rounds

29%
Early-stage funding

(source: Inc42)

WHAT ELSE IS BUZZING

Reliance and Ola's grocery delivery pursuits are still alive – Despite shuttering their grocery delivery verticals JioMart Express and Ola Dash in the past, the two companies are back in the game. JioMart is doing pilot tests of instant deliveries in Mumbai, while Ola plans to roll out grocery delivery through ONDC. This development comes on the heels of stellar growth in topline posted by the quick commerce trio Swiggy, Zepto and Blinkit.

Thanks to ONDC, now an ecommerce major may start food delivery – Flipkart aims to enter the food delivery business through GOI's ONDC platform. ONDC is a decentralized platform that connects sellers, logistics providers and buyers on the same platform. Therefore, it will allow Flipkart to provide cost effective food delivery service, as it won't need to deploy its own fleet of delivery executives, and at the same time, tap a growing and profitable sector.

Homegrown X.com (twitter) rival deadpooled – The Indian microblogging platform Koo, which had 10M+ users, was shut down, as its acquisition and partnership talks with big internet companies failed. At its peak in 2022, having 250+ employees, the startup was valued at \$285M, despite having posted only \$655K revenue in FY22. Marquee investors like Tiger Global Management, Accel, 3one4 Capital and Kalaari Capital had invested significant amounts in the startup.

Another down round by a Unicorn – The hospitality Unicorn Oyo reportedly raised a down round of \$50M, at a 77% lower valuation from its peak valuation of \$9M in 2021. However, this comes on the heels of two major announcements made by the company – maiden profit in FY24 of approx. \$12.5M and the opening of its first luxury hotel in Dubai. The company also withdrew its IPO papers recently.

Ather is setting up its third manufacturing facility – The EV startup is setting up its third facility to manufacture battery packs and EV scooters in Maharashtra, to optimize logistics cost and make faster deliveries to customers of key markets.

Byju's worst nightmare is here

NCLT admitted BCCI's plea seeking insolvency proceeding against Byju's over unpaid dues of about ₹158.9Cr (\$19M). The tribunal has appointed Mr. Pankaj Srivastava as interim resolution professional to take over the operations of the company until a committee of creditors is appointed. Srivastava has been directed to invite claims from all creditors.

Zepto bags a huge cheque despite funding winter

The quick commerce major raised \$665M at a valuation of \$3.6B, more than doubling its valuation of \$1.4B. The company targets to double its dark stores to 700. The founders claim that 75% of their dark stores is EBITDA positive.

Ultrahuman smart ring gets FDA approved AFib detection

The Indian startup of wearable smart rings has achieved USA FDA license for its Afib detection tech. The tech can help you to measure your heart rhythm and changes in blood volume. The company hopes to make significant strides with this in the US market.

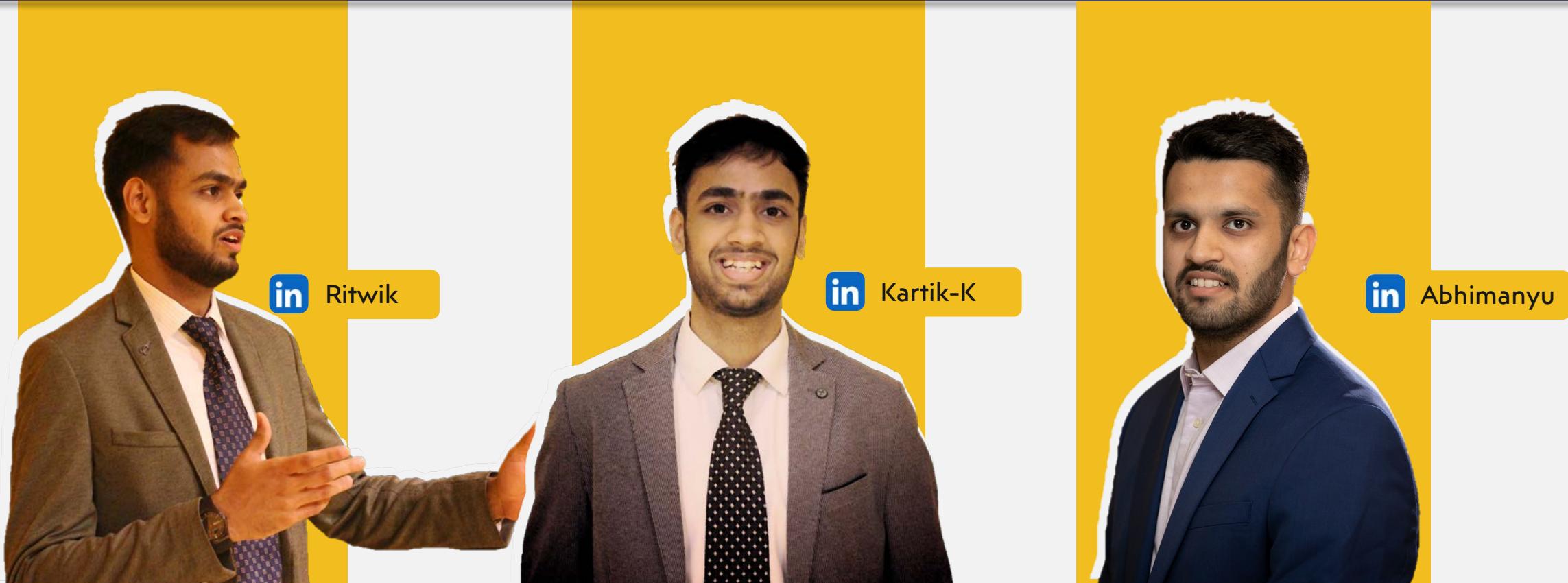
Tech Mahindra delivers gen-AI Project Indus in just 5 months

The company has successfully created an indigenous alternative to ChatGPT in just \$5M. The model can communicate in 40 different local languages and dialects. Only a year back Sam Altman had made a strong statement during his visit to India that it will be hopeless for India to train ChatGPT like AI, which kicked off Tech Mahindra's foray into the space.



CREATORS AT STARTUP INDIAN

Born and brought up in one of the world's fastest growing economies, we experienced change as the only constant in our young India. With that new road, that new policy, that first e-commerce site, that first app-based cab ride, the world around us kept evolving at a breakneck speed. Moved by this wave, we started wondering what are those little things that add up to the big change? Who are the change enablers? And how can we contribute to their cause? So here we are, a team of finance enthusiasts, researching, developing, designing and counselling to make financing and finance a tad bit easier for **visionary entrepreneurs** and **courageous investors**.



Wow! This is **Uber Cool!**

You made it to the end!

