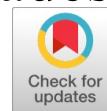


# Angel Investing in India in the Past Two Decades

Sidharth Ananthanarayan



**Abstract:** *In the past two decades, there has been a drastic shift in the mindset of Indian youth, which has led to strong Economic growth in India. The news startups are focusing on significant issues faced by the people in the country and trying to develop solutions with the help of technology or service. The increase in startups has also created several job opportunities for the youth. The latest reports indicate that there are around 55,00 startups registered in India, which is 100% more than the number of startups in 2015. Along with the increase in the number of startups, there has been a significant increase in investors and investments. The key investors are Angel Investors, Venture Capitalists, and Private Equity Firms. Since Venture Capitalists are shifting their focus to larger deals and mature startups, a significant gap is being created for early-stage startups. Angel investors are contributing significantly to the void left by Venture capitalists for early startups. The Angel investors have closed over 1600 deals and invested around 1.2 billion dollars from 2010 to 2019.*

**Keywords:** *Angle Investors, Venture Capitalists, Economic Growth, India, Angel Network.*

## I. INTRODUCTION

In the past two decades, there has been a drastic shift in the mindset of Indian youth, which has led to strong Economic growth in India. The startups are focusing on significant issues faced by the people in the country and trying to develop solutions with the help of technology or as a service. The increase in startups has also created several job opportunities for the youth. The latest reports indicate that around 55,000 registered in India, which is 100% more than the number of startups in 2015 [1]. Along with the increase in the number of startups, there has been a significant increase in investors and investment. The key investors are Angel Investors, Venture Capitalists, and Private Equity Firms. Due to the shift in focus of Venture Capitalists, Angel Investors contribute significantly to early-stage startups. Angel investors are the primary source of seed-fund for a startup enterprise after bootstrapping with the help of friends and family [2]. They are considered to have more deals and invest in many more enterprises than venture capital [3], [4], [5] An angel provides capital in the form of debt or a certain percentage of equity from their funds to a startup. There are two types of investors; the first one is a Lone Wolf Investor, the angels who invest as individuals. These are primarily highly affluent business tycoons [6].

The second type is the angels who invest in a group called Angel Networks. The predominant angel network in India is Indian Angel Network (AIN). The AIN is a large group mainly located in tier 1 cities of India. There are also two new types of Angels – Pure Angel and Super Angel [7]. Pure Angels are active investors who invest as individuals or as part of the angel network. The Super Angels are the successful entrepreneurs who have exited their previous ventures and are reinvesting in new startups to give back to the community. This paper aims to understand the contribution of angel investing in India and the value creation in the past two decades.

## II. PURPOSE OF THE STUDY

India is one of the Emerging economies and is growing faster; even with the impact of the pandemic, it is not slowing down. The Indian startup ecosystem is propelled by substantial funding due to the success of recent unicorns and the increasing domestic market [7]. India is estimated to be home to over 55,000 startups, the second-largest ecosystem in work [1]. This tremendous growth is impossible without the strong support and high investment in startups. The past two decades have observed a significant rise in the Indian startup ecosystem; the key factors are the support from venture capitalists, angel investors, and equity firms. Angle investors seem to have played a significant role in contributing to these startups; until 2016, the angles have closed over 855 deals [8]. The purpose of this paper is an effort to understand angel investors' role in the Indian startup ecosystem till 2022.

## III. METHOD OF THE STUDY

The basic idea of this study is to review the research articles related to the angle of investing in India over the past two decades. This literature review will help understand the contribution of angel investors and the value they add to the startup ecosystem. For this research, multiple journals in online databases like Scopus, Science Direct, Springer, and SAGE were searched with the keyword Angel Investing in India to gather the literature on angel investing in India. Twenty-five articles from the past ten years were shortlisted. Out of the Twenty-five articles, any article with limited information on venture capitalists, angel investors, and equity firms was excluded. Eleven articles were for the literature review.

## IV. LITERATURE REVIEW

With the help of the identified peer-reviewed articles, an attempt is made to understand the overall growth and value addition of the angel investors for Indian startups.

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Research [9] highlighted the shift of focus by venture capitalists toward larger and more mature deals causing a significant gap for early-stage startups to raise capital. The author highlights the importance of angel investors can fund these early startups and fill the void. The author highlights the issues venture capitalists face in financing small-scale companies face, which is one of the reasons for the shift in focus.

Research [10] provides insights on angles investing in three ways. The first is by mapping the investing activities carried out by the investors, the second is by gathering the investment data and understanding the focus of investment by the angel investors, and the third is by profiling the investors based on their level of activeness amongst the networks. The research highlights that most successful firms with angel investing have gone beyond the angels and secured VC funding. The study also highlights that angels mainly focus on high-growth areas like e-commerce, services, education, and healthcare.

Research [6] provides insights into the functioning of the Indian Angel Network. The study also provides insights regarding the functioning of the Indian Angel Network, which is different from the rest of the angel networks. Though the information was limited, the author has been able to provide an outline of the network's investing activities and functional structure. The author highlighted that the companies with angel network funding took around 600 days to obtain VC funding before 2008. The extensive data from the angel network has reduced the time to 326 days.

Research [7] highlights the role of angel investors in the Indian startup ecosystem. The author has reviewed the information from various public resources and provides insights into the significant increase in funding by angel investors in India. The author has also studied the policies and schemes that the government has implemented to support the startup ecosystem.

Research [11] provides insights into the goals of the state of Indian Startup ecosystems. The first is to identify the challenges startups face, the second is to identify growth factors and motivations for startup founders, and the last is to identify pillars supporting these startups.

Research [8] provides insights into investing trends by angel investors in India. The author also provides insights into the concentration of the area of investment made by angel investors. The author has discussed with various angel investors actively involved with companies and gathered information regarding the difference between individual angels vs. angel groups.

Research [12] provides insights into the angel investor and VCs' overall contribution to the startups. The author has reviewed and provided information on the sectors and geographical areas of investment the angels and VCs made.

Research [13] provides insights into overall Angel investing based on gender. The author has extensively analyzed the angel investment deals closed between 2010-2019 and highlighted the ratio of Men-led and Women-led businesses. The author has shared significant insights regarding the gaps in gender and the opportunities for an angel investor to help close these gaps.

Research [1] provides insights into the impact of the government policies implemented to support the startup

ecosystem. The author also highlights the challenges of accepting government-sponsored programs and the value angel investors will add to early-stage startups.

Research [14] provides insights into the factors that angel investors consider in India when investing in a startup. The author highlights that angel investors risk losing the investment since they have limited information about the market and regulations.

Research [15] provides insights into the overall success of the startup ecosystem. The article highlights the importance of governance and review of the policies announced by the government, which has had limited success in making a difference within the ecosystem. The article also highlights an opportunity for Angel investors to fill the gap and be the differentiator for startups.

Research [16] provides insights into factors that have led to the success of startups from 2016 to 2021. The author provides insights into ten key features that helped the Indian startup ecosystem taste success. The author also discusses the areas that need attention to increase the startups' success further.

## V. RESULTS & ANALYSIS

The economic prosperity of India rests on political, social, and economic conditions prevailing in the country. Hard work and quality education of the large Indian population have yielded results in the new generation of entrepreneurs [7]. The reforms of the 1990s have given a significant enhancement to the Indian middle-class population, and the Indian economy has been put on the global economic map; it has also caused a substantial shift in the mindset of people in India toward the startup ecosystem. The rise in average household income and exposure to the global market has prompted Indians to think ahead and innovate further; this is the main reason for the entrepreneurial spirit in the country [7]. Technological advancements in the past have favored the functioning of several startups. There is a significant increase in the rate of entrepreneurship in the Asian region; India, Thailand, and Singapore are among the top countries with a considerable number of startups. The Indian government has reformed several policies that resulted in requiring fewer licenses to start a company. It also reduced the overall government controls and allowed privatizing several government-owned firms. Implementing several new technologies across industries at various levels has reduced overall costs. Research studies have demonstrated that startups have the advantage of pioneering and creating new top-line products, and e-commerce is helping smaller firms to be competitive by assisting them in setting up a business and selling through e-commerce [17].

Along with the product sector, the service sector also contributes to the country's GDP. The contribution is around 60% in developed countries, but in India, it is nearly 50% [7]. The service industry provides several opportunities for first-generation entrepreneurs; among the services Software, and Business process are dominant.



The ease of doing business index by the World Bank indicates the country's business environment (A World Bank flagship report, 13ed). India is ranked 63 out of 189 countries in the overall ease of doing business, per the World Bank's Doing Business Report 2019 [18]. Investment attractiveness, property allocation, intermittent power supply, stricter laws, and lack of transparency are considered significant constraints in India. India is among the attractive destination for investment. Global players like Walmart, Goldman Sachs, and Thomson Reuters monitor Indian startups with substantial business opportunities.

India's startup ecosystem is on the fast track to supporting the growth of the Indian economy. India is the second-fastest-growing and third-largest startup ecosystem in the world. From 2005 to 2015, over 27,724 startups were created in India [12], and the latest data shows that there are over 55,000 startups in the country [1].

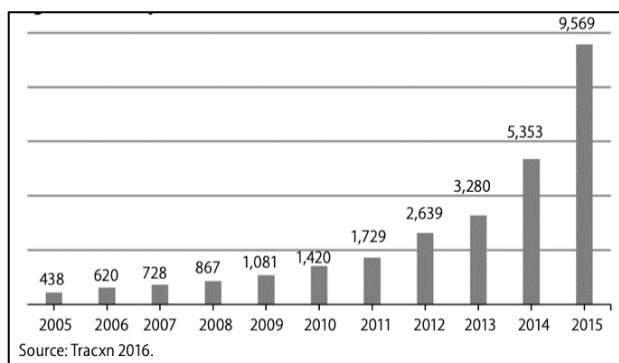


Fig. 1. Growth of Indian Startups from 2005-2015 [12]

Indian startups utilized over \$70 billion until 2020, and the funding is expected to reach \$150 billion by 2025 [1]. The critical success of the top unicorns in India is a crucial reason for these potential funding opportunities. Table -1 below highlights the valuation of 18 unicorns that have highlighted the success of startups [11].

Venture Capitalists and Angel investors are the key reasons for the success of these unicorns, along with product innovation. The prominent Venture Capitalists are Tiger Global, Sequoia Capital, Softbank, and Alibaba; until 2015, they have invested over USD 500mn in Indian startups. Although Venture Capitalists have a strong presence in India, their focus has been on startups that are in the later stage of development and have an opportunity to yield a larger share in the startup; this is creating a gap in the funding, which impacts the early-stage startups that need funding [9]. Banks or Angel investors usually fill this gap. Banks avoid lending due to a lack of collateral, leaving the entrepreneurs with Angel Investors.

Angel investors' capital investment can be considered seed funding if the startups are in the early stage. Many high-net-worth individuals are becoming angel investors by investing their time and money in the early stage of startups. These investors invest capital in startups for a specific percentage of company ownership. Some investors also group and invest in a particular industry area; these investors in a network are often highly experienced entrepreneurs with an understanding of the intricacies of the business. The networks also provide an opportunity for investors in various geographies to contribute to the funding; this helps add value

to the team and provides a better understanding of the market. These different practices highlight that angel networks function in an organized manner; they provide room for enough flexibility when diversifying their funds. Angel networks act as catalysts in sourcing deals and investments; this helps address the inefficiencies in the process.

Table- I: List of Unicorns till 2019 in India

	Startup	Sector	Valuation (US\$ billion)
2014	InMobi	Mobile & telecommunications	\$1
	Snapdeal	E-commerce & direct-to-consumer	\$7
	Ola Cabs	Auto & transportation	\$6.2
2015	One97 Communications	Fintech	\$10
2016	Hike	Mobile & telecommunications	\$1.4
	Shopclues	E-commerce & direct-to-consumer	\$1.1
2017	BYJU'S	Edtech	\$5.75
	ReNew Power	Other	\$2
2018	OYO Rooms	Travel	\$4.3
	Swiggy	Supply chain, logistics, & delivery	\$3.3
	Zomato	Internet software & services	\$2.18
	PolicyBazaar	Fintech	\$1
	Udaan	Supply chain, logistics, & delivery	\$1
	BillDesk	Fintech	\$1.8
	2019	Delhivery	Supply Chain, logistics, delivery
	BigBasket	Supply chain, logistics, delivery	\$1
	Dream11	Internet software & services	\$1
	Ola Electric Mobility	Auto & transportation	\$1
	Rivigo	Supply chain, logistics, delivery	\$1

Source: CB Insights (2019)

There are several angel networks, and different shared objectives bind them. Since there is no formal registration requirement or regulatory oversight governing angel networks, a single source of information on angel networks in business is unavailable. Three Indian Angel Networks (IAN), Mumbai Angels, Chennai Angels, Hyderabad Angels, Calcutta Angels, (BITS) Spark Angels, Chandigarh Angels, Native Angel Network, and CIO Angel Network appear to be among the more active networks [8]. The sector where the investors invest depends on preference and the entrepreneurs' qualities.

The research by [7] highlights the sectors in which most of the Indian Angel Network invests. It is shown that IT is the most preferred sector for IAN, followed by the Service industry and Financial Services. The availability of a large talent pool in the IT sector makes it an attractive industry for both entrepreneurs and investors. Some key examples of successful startups are Paytm, Upgrad, Phonepe, and Urban company. Along with these IT startups, some successful startups in the Service sector are Flipkart (acquired by Walmart), Quikr, Sulekha, and Yatra [19]. As highlighted earlier in Table -1, some of these above startups turned into Unicorns in India, which makes it promising and helps the investors to gain a higher capital investment.



## Angel Investing in India in the Past Two Decades

**Table- II: Sectors in Which Angel Investors Are Investing in India.**

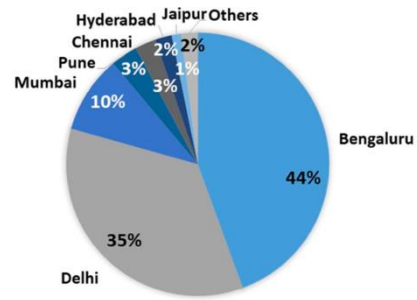
Sl. No.	Sectors	No of Angel Investors: Sector Wise in IAN	
1	Agriculture	9	2.32%
2	E-Commerce	20	5.15%
3	Education	42	10.82%
4	Financial Services	68	17.53%
5	Gaming	10	2.58%
6	HealthCare	36	9.28%
7	Hospitality	27	6.96%
8	Information Technology	169	43.56%
9	Internet	66	17.01%
10	Lifestyle	31	7.99%
11	Manufacturing	51	13.14%
12	Mobile	38	9.79%
13	Retail	37	9.54%
14	Semiconductor	2	0.52%
15	Service	70	18.04%
16	Social-Impact	46	11.86%
	Total Investors	388	

*Source: Indian Angel Network, Retrieved from <http://indianangelnetwork.com/individual-members>*

**Table- III: Top 10 Most Active Angel Markets and their Deal Count From 2010 to 2019.**

Country Rank	Deal Count	% Global Total	Capital Invested (in millions USD)	% Global Total	Company Count	Average Deal Size (in millions USD)	
1	United States	24,567	61.47%	26,751.43	67.14%	18,435	1.089
2	England	3547	8.88%	2871.51	7.21%	2476	0.810
3	India	1657	4.15%	1200.69	3.01%	1410	0.725
4	Canada	1,124	2.81%	1,095.83	2.75%	877	0.975
5	France	1120	2.80%	955.3	2.40%	950	0.853
6	China	699	1.75%	781.08	1.96%	671	1.117
7	Germany	560	1.40%	285.92	0.72%	498	0.511
8	Spain	522	1.31%	280.96	0.71%	435	0.538
9	Russia	490	1.23%	243.26	0.61%	405	0.496
10	Sweden	453	1.13%	330.99	0.83%	363	0.731

Another important aspect is the geographic distribution of angels in India; 80% of the Indian startups are in Tier 1 Metro cities, and the rest of the startups are distributed in Tier 2 metro cities [1]. 44% of the investment till 2020 was for startups in Bengaluru, also called the Silicon Valley of India. Delhi, the National capital, accounted for 35% of the investment, followed by Mumbai for 10%. The remaining 10% was distributed amongst tier 2 cities like Pune, Hyderabad, and Chennai. The research by [7] highlighted that till 2015, the tier 1 cities received 90% of the funding, and only 10% of the funding went to the tier two cities; from 2015, there was 10% shift of investment from tier 1 cities to tier 2 cities. The growth highlights the value created by the angel investors to develop and support the talent pool in tier 2 cities.



*Source: The state of Indian startup ecosystem report, Inc42, 2020*

**Fig. 2. The Geographic Distribution of Investment in Indian Startups in 2020**

In terms of the growth in Asian Cities, five out of ten cities are in India [11]. There is also a significant increase in investment of approximately 400% on average among the five Indian cities.

**Table- IV: Asian Cities' Growth in Investment Between 2010-2012 and 2015-2017.**

Rank	Geography	Deals (2010-12)	Deals (2015-17)	% Change
1	Bangkok, Thailand	9	65	622%
2	Ahmedabad, India	7	49	600%
3	Jakarta, Indonesia	24	161	571%
4	Delhi, India	168	851	407%
5	Bangalore, India	195	792	306%
6	Ho Chi Minh City, Vietnam	8	32	300%
7	Mumbai, India	133	516	288%
8	Calcutta, India	8	31	288%
9	Dubai, UAE	23	86	274%
10	Kuala Lumpur, Malaysia	28	103	268%

Some of the Business Tycoons are turning into Angel Investors and are starting to invest in early-stage startups; this is a significant shift in the focus. Some examples are Ratan Tata, Azim Premji, Narayana Murthy, and Nandan Nilekani invest in startups.

Mr. Ratan Tata has invested in 21 companies, including two US-based and a China-based firm.

Such investments from the business tycoons always attract more investment and help attract more angel investors to small startups.

Although sufficient capital is available, the angles consider some essential factors while investing. As highlighted in Table -V, seven factors are considered by the angel for deciding on investments [14].



**Table- V: Seven factors are considered by the angel for deciding on an investment.**

Sub-Criterion	Factor	Consideration
The entrepreneur has a good track record The entrepreneur is well networked	1	Objective Entrepreneur Characteristics
The startup has low monitoring and administrative costs	2	Finance Consideration (Cost)
The entrepreneur has a great desire for success The entrepreneur has honesty and integrity	3	Subjective Entrepreneur Characteristics
The startup has low capital requirements	4	Finance Consideration (Capital)
There are high barriers to entry There is a potential for high market growth	5	Market Consideration
The startup has high internal rate of return	6	Finance Consideration (Return)
The product/service has a competitive advantage over competing products	7	Product Consideration

**DECLARATION**

Funding/ Grants/ Financial Support	No, I did not receive.
Conflicts of Interest/ Competing Interests	No conflicts of interest to the best of our knowledge.
Ethical Approval and Consent to Participate	No, the article does not require ethical approval and consent to participate with evidence.
Availability of Data and Material/ Data Access Statement	Not relevant.
Authors Contributions	I am only the sole author of the article.

**VI. CONCLUSION**

Startups in India have been booming every year, and there are approximately 55,000 startups as of 202; there are several opportunities to grow further in the coming years, which will help India grow as a significant player in the global market. The other factors are the recent developments in technology, the increase in the domestic market, changes in policies to ease the business process, and the availability of funding from local and global investors. In the past decade, the Angel investor financing option has become the first choice for a startup due to the shift of focus by VCs. The Angel Investor networks contribute significantly to filling the gap and supporting the startup in business development activities for additional future VC funding rounds. The angel networks also share insights on the right financing for the business based on their knowledge.

Since angels invest in the 'jockey' than in the 'horse' [20], [7] along with the seven factors, the angels also focus on the advantages/disadvantages of the product, market potential, barriers for market entry, and compliance factors. Based on these factors, we can deduce that angels make the calculated choice.

Indian Angel Networks are actively investing in various sectors and have contributed to a significant increase of more than 40 startupserage. The new angel investments by Indian business tycoons are providing a significant boost to the startups that are finding it difficult to fill the gap; this highlights that the active presence of angel investors is acting as a catalyst for the growth of Indian startups.

**VII. FUTURE STUDIES**

Though there is a significant shift in angel investments, there is a considerable gender gap in the Angel investment network and women-led startups. A detailed review of the current state of women-led businesses and their success can shed light on it and help Angel investors support them in reducing the gap between men-led companies and women-led businesses.

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