



19BAT618-FINANCIAL SOURCING MANAGEMENT

Angel investors play a crucial role in the world of startups and entrepreneurship. An angel investor is an affluent individual who provides capital for a business start-up, usually in exchange for convertible debt or ownership equity. The term "angel" originally comes from Broadway, where it was used to describe wealthy individuals who provided money for theatrical productions.

Origins of Angel Investors

Angel is a term that originated from Broadway theatre. That was a time when wealthy people gave money to theatrical productions. Angel Investor was initially used by William Wetzel of the University of New Hampshire. Wetzel is the founder of the centre for venture research. Wetzel completed the education about how entrepreneurs can gather capital. That is how the term and purpose of angel investment came into being. At the initial phase of the startup, business angels act as the bridge between self-funding and sourcing capital. In maximum circumstances, business angels invest in familiar industries. These trends make them an outstanding networking resource for small businesses. Angels remain connected to startup funders, and they refer them to other investors as your business expands.

Who Can Be an Angel Investor?

An individual who has a focus on financial capital and aims to offer the right funding for startups may become an angel investor. Maximum entrepreneurs prefer them for small businesses or startups over any other predatory sources of funding since they are less intrusive.

The purpose of an angel investor is to invest between Rs. 5 lakhs and Rs. 2 crores based on the company's size.

At different times, they may not prefer investing over 5-10% of the total portfolio amount in one company.

Key aspects of angel investors:

1. **Early-stage Funding:** Angel investors typically invest in the early stages of a startup when it may be challenging to secure funding from traditional sources like banks or venture capitalists. This stage is often referred to as the "seed" or "angel" round.
2. **High-Risk, High-Reward:** Investing in startups is inherently risky. Angel investors understand that many startups fail, but they are willing to take that risk in the hope of substantial returns if the company succeeds. They often invest in industries or sectors they have expertise in, allowing them to make more informed decisions.

3. **Expertise and Mentorship:** Angel investors often bring more than just capital to the table. Many have successful entrepreneurial backgrounds or expertise in specific industries. Beyond funding, they may provide valuable advice, mentorship, and industry connections to help the startup grow and succeed.
4. **Convertible Debt or Equity:** Angel investors typically receive convertible debt or equity in exchange for their investment. Convertible debt means they loan money to the startup with the option to convert that debt into ownership equity in the future, usually during a later funding round.
5. **Personal Involvement:** Unlike some institutional investors, angel investors are often personally involved in the businesses they invest in. They may serve on the board of directors, offer strategic guidance, and actively participate in decision-making processes.
6. **Local Networks:** Angel investors often operate within specific geographical areas or industries, forming local networks that support and nurture startups in those regions or sectors. This can create a positive ecosystem for entrepreneurship.
7. **Exit Strategy:** Angel investors typically expect a profitable exit from their investment within a few years. This can happen through various means, such as the startup going public (initial public offering or IPO), being acquired by a larger company, or other exit strategies.

Angel investors play a vital role in the early stages of a startup by providing not just financial support but also valuable expertise and mentorship. Their involvement is often a critical factor in the success of a young and growing company.

Types of Angel Investors

At times, angel investors in India may wish to acquire an accredited investment status. But consider [SEBI](#), an accredited investor might be an individual having a total worth of Rs. 7.5 crores having a liquid worth of Rs. 3.75 crores on individuals with income of Rs. 2 crores. Note that they also have accreditation by a credible agency. Note that not always an angel investor turns out to be an accredited investor. The only requirement one needs to become an angel investor is an interest in offering capital for startups. So, an angel investor can be anyone from your family, wealthy individuals, groups, or even crowdfunding. Let's discover more in the following points:

- **A Family Member or Friend:** In startup funding, an angel investor turns out to be the entrepreneur's friend or family member. It's a common source of funding for startups and often the first point of consideration for startups regarding funding.
- **Groups:** Did you know multiple angel investors in India operate as part of one group? It increases their potential for a high amount of investment.
- **Wealthy individuals:** Based on the business, people have a higher net worth than other individuals. Some of the angel investors examples of wealthy individuals include engineers, successful business individuals, doctors, and more. They invest a significant amount of money in exchange for equity in that business.
- **Crowdfunding:** The next type is crowdfunding – a sort of funding that is gaining immense traction these days. What it does is allows larger groups of individuals to invest a small amount of money to support the company and assist it in meeting the funding objectives.

Advantages and Disadvantages Of Angel Investment For A Business

Advantages of Angel Investors

- 1. Connections:** Angel investors in India are well-connected in a business as they connect the entrepreneur to new clients, business partners, and funding options.
- 2. Expert Investors:** With angel investment, you can have extensive sectoral knowledge. They may be business owners with expertise and experience in the same industry and provide you with guidance for success.
- 3. Extended Support:** Angel investors must be encouraged by the position to contribute the maximum that they can. In addition, adding their name to the business profile may raise funding.
- 4. Big bankroll:** If the small firm needs more money, it may consult the angel investor for additional contributions. Even when an establishment cannot secure finance from the bank or other financial agency, they may get support from angel investors.

Disadvantages of Angel Investors

- 1. Shared Authority:** A few angel investors in India may demand a huge ownership stake. So, you may end up selling more than you ever intended to. As a result, it dilutes your ownership and causes hindrances in future business fund-raising.
- 2. Time and Effort:** Always stay prepared for the long and arduous procedure since you must produce paperwork, which includes income statements, cash flow statements, balance sheets, bank statements, and more.
- 3. Possibly being rejected:** Even when you believe that your company has exceptional growth potential or a revolutionary product, funding may carry some risk.
- 4. Possibly Ineffective:** Hiring someone without conducting due diligence may bring financial consequences. So, you need to request references from your investor. It is better to speak to startups with whom they have worked previously for funding. An angel investor must be devoted and hardworking to work with you besides aiming to gain the money back solely. Such a type of professional would lead to success.