

SUMMER INTERNSHIP REPORT

at SteerX

(April 20th to June 21st)



A Report on

Crucial Aspects of Angel Investing at SteerX

By Anamika Singh

Under the guidance of Dr Nidhi

PGDM (Hospital and Health Management) 2022-2024



International Institute of Health Management Research New Delhi

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FEEDBACK FORM

(Organization Supervisor)

Name of the Student: Anamika Singh

Summer Internship Institution: SteerX Innovations Pvt Ltd.

Area of Summer Internship: Healthtech Startups investment
and consulting

Attendance: Good

Objectives met: Yes

Deliverables: Guide on angel investments
social media policy and framework.

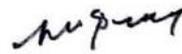
Strengths: Willingness to learn and contribute
Ability to grasp inputs and feedback

Suggestions for Improvement:
Aspire to be thorough and create high-quality
outcomes.

Signature of the Officer-in-Charge (Internship)

Date: 6/21/2024

Place: Gurugram


(LALIT SINGLA)



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0505, DLF Corporate Greens Sector-74A,
Gurgaon-122004
contact@steerxglobal.com

Ms. Anamika Singh
Delhi
India

June 27, 2024

To whomsoever it may concern,

This letter is to certify that Ms. Anamika has successfully completed her internship at SteerX from April 20, 2024, to June 21, 2024. During her time with us, she worked as a social media and Market Reach Intern.

Anamika demonstrated exceptional skills in managing and enhancing our social media presence. She was responsible for creating engaging content, analysing social media metrics, and implementing strategies to increase our market reach. Her innovative approach and dedication were instrumental in achieving significant growth in our online engagement and brand visibility.

Her performance was well-appreciated by the team, and she consistently demonstrated professionalism, creativity, and a strong work ethic. Anamika's ability to quickly adapt and take on new challenges made her a valuable member of our team.

We are confident that Anamika will excel in her future endeavours and make significant contributions wherever she goes. We wish her all the best in her career.

Warm Regards,

A handwritten signature in black ink, appearing to read "Lalit Singla".

Lalit Singla
Founder & CEO

Certificate of Approval

The Summer Internship Project of titled "CRUCIAL ASPECTS OF ANGEL INVESTING" is hereby approved as a certified study in management carried out and presented in a manner satisfactorily to warrant its acceptance as a prerequisite for the award of **Post Graduate Diploma in Hospital and Health Management** for which it has been submitted. It is understood that by this approval the undersigned do not necessarily endorse or approve any statement made, opinion expressed, or conclusion drawn therein but approve the report only for the purpose it is submitted.


Name of the Mentor - Dr Nidhi Tode
Designation Associate Professor
IIMR, Delhi

FEEDBACK FORM

(IIHMR MENTOR)

Name of the Student: Anamika Singh

Summer Internship Institution: SteerX

Area of Summer Internship: Healthtech Startups Investment & consulting

Attendance: 97%.

Objectives met: Yes.

Deliverables: Angel Investing guide, Social Media Strategies

Strengths: Good presentation skills, communication and willingness to learn, ability to deliver.

Suggestions for Improvement:

Anamika

Signature of the Officer-in-Charge (Internship)

Date: 11/12/24

Place: New Delhi

Anamika Singh ST report

ORIGINALITY REPORT

7%

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Introduction

The study was conducted to explore the **crucial aspects of angel investing**, particularly in the context of **healthcare startups**, and to understand how **SteerX**—an angel investing company—approaches this process.

Introduction to SteerX

SteerX is building an ecosystem where technology, innovation and collaboration converge to address the most pressing healthcare challenges of today and the future.

They are passionate about working with founders who fuel their dreams with raw passion and determination, are committed to empowering mission driven startups that have the potential to transform healthcare and create a positive impact on society.

The mission statement of SteerX is to shape the future of healthcare by building an ecosystem where technology and innovation converge to propel businesses with the potential to revolutionize healthcare, while benefiting society.

Strategies to Build the Startup eco-system:

Build an International Network of Angel Investors:

Objective: Establish a global community of angel investors.

Importance: By connecting with angel investors from around the world, startups can access a larger pool of capital, expertise, and market opportunities. This network also facilitates cross-border investments and collaborations.

Invest in High Potential Healthcare Startups Early:

Objective: Identify and invest in healthcare startups with strong growth potential at an early stage.

Importance: Early-stage investments in high-potential startups allow investors to maximize returns as the startups grow. It also enables investors to support innovative solutions in the healthcare sector, which can lead to significant advancements and improvements in patient care.

Go Beyond Investment in Deeply Nurturing Startups:

Objective: Provide more than just financial support to startups.

Importance: By offering mentorship, strategic guidance, and operational support, investors can help startups overcome challenges and achieve sustainable growth. This comprehensive nurturing approach increases the chances of success for the startups.

Open Doors to Potential Customers and Channel Partners:

Objective: Facilitate connections between startups and potential customers or business partners.

Importance: Establishing relationships with key customers and partners can accelerate a startup's growth by providing access to new markets, enhancing credibility, and driving sales. It also helps startups build a strong network within the industry.

 **International Market Access for Startups with Relevant Offerings:**

Objective: Help startups expand their reach to international markets.

Importance: Access to international markets can significantly increase a startup's growth potential. By navigating regulatory requirements, cultural differences, and market dynamics, startups can tap into new customer bases and revenue streams.

 **Expert-Led Investment Thesis, Robust Sourcing and Due-Diligence Process, and Actively Managed Portfolio Strategy:**

Objective: Implement a systematic and thorough investment approach.

Importance: An expert-led investment thesis ensures that investment decisions are based on deep industry knowledge and insights. A robust sourcing and due-diligence process helps identify the best investment opportunities and mitigate risks. Actively managing the portfolio ensures that investments are closely monitored, and support is provided as needed to maximize returns.

Objectives

1. To Understand the Role of Angel Investing in Startup Development
2. To Explore Strategies of SteerX in Building a Startup Ecosystem
3. To Assess the Benefits and Challenges of Angel Investing
4. To Investigate the Due Diligence and Decision-Making Processes

Methodology

This study employs a secondary research methodology to explore the impact of angel investment on healthcare startups in India. Secondary research is selected due to its effectiveness in leveraging existing data to derive insights without the need for primary data collection.

Literature Review

An extensive literature review is conducted to compile relevant information from academic sources. This review encompasses:

□ **SSAcademic Journals:** Articles from reputable journals such as the Journal of Business Venturing, Venture Capital Journal, Indian Journal of Finance, and Journal of Health Economics are examined. These sources provide theoretical frameworks, empirical evidence, and case studies on angel investment and its effects on startups, particularly in the healthcare sector.

□ **Books:** Foundational and contemporary books on venture capital, angel investment, healthcare innovation, and entrepreneurship are reviewed. These texts offer historical context, theoretical underpinnings, and practical insights.

□ **Conference Papers:** Papers from conferences focused on entrepreneurship, healthcare innovation, and investment trends are analyzed. These sources often present the latest research findings and emerging trends in the field.

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□ **Theses and Dissertations:** Graduate and doctoral research on related topics are included to incorporate comprehensive academic perspectives and detailed case studies.

Inclusion and Exclusion Criteria

Inclusion Criteria

1. **Geographic Focus:** Studies, reports, and data that specifically pertain to healthcare startups in India.
2. **Time Frame:** Publications and data from the last 10 years (2014-2024) to ensure relevance and currency.
3. **Relevance to Topic:** Sources that directly address angel investment, venture capital, or the financial performance and growth of healthcare startups.
4. **Data Quality:** Peer-reviewed journals, reports from reputable firms, and databases with comprehensive and verifiable data.

Exclusion Criteria

1. **Geographic Irrelevance:** Studies focusing on healthcare startups outside India unless they provide comparative insights applicable to the Indian context.

2. **Outdated Information:** Publications and data older than 10 years unless they provide foundational theories or historical context critical to the study.
3. **Non-credible Sources:** Articles and reports from non-peer-reviewed journals, blogs, or sources lacking credibility and academic rigor.
4. **Irrelevant Content:** Sources that do not focus on the intersection of angel investment and healthcare startups, such as general business investment articles without sector-specific insight.

Review of Literature

1. The Role of Angel Investing in Startup Development

Angel investing is often the lifeblood for early-stage startups, providing the initial capital required to bring innovative ideas to market. Angel investors typically enter during the seed or Series A rounds when startups face the most significant financial challenges but also offer the highest potential for returns. Research indicates that angel investment provides not only capital but also critical mentorship and strategic connections that accelerate startup growth. [1] This mentoring is particularly valuable in healthcare, where startups face regulatory hurdles, market uncertainties, and long development cycles [2]

In the healthcare sector, angel investing has the power to shape the future by funding projects that may not be immediately profitable but have the potential to create long-term societal value. [3] emphasize that angel investors in healthcare are typically more patient with their investments, understanding the long timelines needed to bring a healthcare product to market.

2. Healthcare Startups and Angel Investments

Healthcare startups, particularly in digital health, biotechnology, and telemedicine, have seen increasing attention from angel investors over the past decade. According to the State of Digital Health 2022 by Rock Health, the healthcare sector has been one of the largest recipients of angel funding, particularly in digital health solutions that are scalable and have broad market implications. Angel investors in this space are critical as they often bridge the gap before the startup can secure venture capital, which typically requires a more proven track record [4].

A study found that angel investors in healthcare startups are not only looking for financial returns but also value-driven investments that aim to impact public health, such as technologies focused on mental health, diabetes management, and personalized medicine. These high-impact areas are especially attractive to investors seeking to combine profit with social good. SteerX's focus on mission-driven healthcare startups mirrors these trends, with its emphasis on scaling solutions that address pressing healthcare challenges globally.[5]

3. Benefits and Challenges for Angel Investors

Angel investors enjoy the potential for high returns, but the risk of failure is also substantial. A study found that while angel investments can lead to high returns, more than 50% of angel-backed ventures fail, leading to no return on investment. [6] Healthcare startups, given their regulatory complexities and long development cycles, have an even higher probability of failure. However, the rewards for successful investments can be substantial, as healthcare solutions can reach millions and generate significant returns over time. [7]

Moreover, angel investors often contribute beyond capital, offering expertise and mentorship to help startups navigate early-stage challenges. The study indicates that startups receiving guidance from angel investors are 25% more likely to secure subsequent funding. Additionally,

angel investors benefit from a high level of involvement and influence in the startup, which enhances their ability to guide the company to success.[8]

4. The Importance of Due Diligence in Angel Investing

Due diligence is a critical part of the angel investment process, particularly in the healthcare industry, where regulatory and technical due diligence is complex and time-consuming. The study suggest that successful investors spend an average of 40 hours per startup conducting due diligence, focusing on assessing the startup's financial health, market potential, competitive advantage, and legal standing. For healthcare startups, due diligence extends to evaluating regulatory approvals, intellectual property (IP), clinical efficacy, and the team's experience in navigating complex healthcare landscapes.

Investors who fail to conduct thorough due diligence in healthcare startups may face unforeseen risks, including regulatory setbacks or non-compliance with industry standards, which can result in significant losses. SteerX's robust due diligence process, as outlined in the report, is designed to mitigate such risks and ensure that only the most promising and scalable healthcare ventures are funded. [6]

5. Strategies for Building a Startup Ecosystem

Creating a thriving startup ecosystem is essential to fostering innovation, especially in sectors like healthcare, where collaboration between various stakeholders—such as investors, startups, regulators, and healthcare providers—is crucial. Studies show that ecosystems with strong angel investor networks tend to have more successful startups due to better funding availability, networking opportunities, and expertise sharing. [5]

In healthcare, the ecosystem's complexity increases due to the need for regulatory navigation, understanding the healthcare landscape, and achieving clinical validation. SteerX's strategy of providing not only capital but also strategic guidance and market access aligns with these findings. By actively supporting startups with mentorship and helping them connect with potential customers and partners, SteerX fosters a robust ecosystem that benefits both startups and investors.

6. Cross-Border Investments in Healthcare Startups

The importance of cross-border investments in healthcare startups cannot be understated. As markets become more globalized, startups with international scalability have a higher chance of growth. A report highlighted that cross-border investments provide startups with access to diverse markets, more capital sources, and broader business networks. [8] Investors benefit from these opportunities as they can diversify their portfolios and reduce market-specific risks.

SteerX's international network of angel investors allows it to connect healthcare startups with global markets and resources, enhancing their chances of scaling successfully. Cross-border investments help startups access not only financial capital but also expertise in navigating global regulatory environments and market conditions.

7. The Impact of Mentorship on Startup Success

Mentorship plays a significant role in the success of startups, especially in highly competitive and technical fields like healthcare. A study found that angel-backed startups with active mentorship were 30% more likely to secure follow-on funding and had a 40% higher chance of success in scaling their business. [9] SteerX exemplifies this by not only providing capital but also offering extensive mentorship to its portfolio companies, thus increasing their likelihood of long-term success.

Angel investors, particularly those with experience in the healthcare industry, provide essential guidance in navigating regulatory hurdles, establishing strategic partnerships, and refining business models to achieve sustainable growth.

SteerX Process of Angel Investing

What is Angel Investing?

What is Angel Investing: Angel investing is a crucial catalyst for startup growth, where high net worth individuals inject capital into early-stage ventures in exchange for equity or convertible debt, fueling innovation and entrepreneurship.

Who is an Angel Investor?

An angel investor, also known as a business angel, informal investor, angel funder, private investor, or seed investor, is someone who provides financial backing to startups. They often do so at a very early stage, where the risk of failure is high, offering either convertible debt or ownership equity. Their involvement can be one-time or in multiple rounds of funding. Angel investing plays a crucial role in the startup ecosystem. It involves taking calculated risks to support early-stage businesses, often when few others will.

The Role of Angel Investors

Angel investors are often the first source of external funding for startups. They play a crucial role in helping businesses launch by providing not just capital, but also mentorship, guidance, and industry connections. Many angel investors have entrepreneurial experience and can offer valuable insights to new companies.

- ✚ Early Investment Stages: Angel investors typically invest at the seed stage or Series A funding round. The seed stage is when the company is just developing its idea and business plan. Series A funding comes later, when the startup has a proven product or service and seeks to scale its operations.
- ✚ Investment Amounts: Angel investments are usually smaller than those from venture capitalists, ranging from tens of thousands to a few million dollars per startup. Often, a

group of angel investors will pool their resources to fund a business.

Benefits to Startups of Angel Investing:

- ✚ Essential capital that allows for product development, team expansion, and enhanced marketing efforts.
 - ✚ They also offer valuable expertise and mentorship, helping startups navigate early-stage challenges. Additionally, angel investors can connect startups with potential customers, strategic partners, and other funding sources through their extensive networks.
 - ✚ However, engaging with angel investors comes with potential drawbacks. Startups carry a high level of risk, and there's a significant chance that the investment may not yield returns. In exchange for their investment, angel investors receive ownership stakes, leading to equity dilution and shared decision-making power.
 - ✚ Furthermore, startups often take years to become profitable, requiring investors to be patient and committed for the long term.
-
- ✚ They should also develop a clear investment strategy that aligns with their interests and expertise and cultivate a strong network of startups and fellow investors to find promising opportunities and share insights.
 - ✚ By carefully considering these factors, both startups and angel investors can create successful and mutually beneficial partnerships.

Benefits to Angel Investors:

- ✚ **Screening Investments:** Angel investors review numerous business plans and pitches to identify potential investments. They often focus on industries they are familiar with or sectors that align with their personal interests or values.
- ✚ **Due Diligence:** After pinpointing promising startups, investors conduct an in-depth assessment to understand the risks and potential returns. This involves evaluating the business model, financial health, and market potential.
- ✚ **Investment Decision:** Based on the due diligence findings, investors decide whether to invest. Key factors include the startup's growth potential, the competence of the management team, and the broader market opportunity.
- ✚ **Negotiation and Deal Structuring:** Upon deciding to invest, the angel investor negotiates the deal terms. This includes determining the investment amount, equity stake, and any specific rights or protections the investor will receive.
- ✚ **Post-Investment Involvement:** Many angel investors actively support their portfolio companies' post-investment. They may offer mentorship, strategic advice, and valuable industry connections to help the startup grow and succeed.

Both entrepreneurs and investors play crucial roles in this dynamic process, each bringing their unique perspectives and expertise to forge successful investment partnerships.

Steps in Angel Investing

Pre-Screening and Initial Meeting (Unofficial Meet)

The angel investment process begins with a pre-screening phase where investors identify potential startups for investment. This often involves an initial meeting with the founders, which is typically informal and designed to get a sense of the team's vision and capabilities. During this stage, the investors seek to understand the startup's core idea, its market potential, and how well the founders can articulate their vision. The goal is to determine if there is a preliminary fit between the investor's interests and the startup's potential. This stage often includes an elevator pitch or a brief overview of the startup, allowing investors to quickly assess whether they are interested in exploring the opportunity further.

L0 Screening-Pitch Deck Presentation

If the initial meeting goes well, the process moves to a more formal presentation where the founders present a detailed pitch deck to the investors. The pitch deck is a critical document that provides a comprehensive overview of the business model, market opportunity, product or service, revenue projections, and the founding team. This presentation is designed to convince investors of the startup's potential for growth and profitability. It typically includes sections on the problem the startup is solving, the size and dynamics of the market, the competitive landscape, and the unique value proposition of the startup's offering. The pitch deck also highlights the business's financials, including past performance, current financial status, and future projections.

L1 Screening-Due Diligence

Upon a successful pitch deck presentation, the next phase is due diligence, a thorough and meticulous evaluation of the startup. This involves scrutinizing financial statements, revenue models, and funding history to ensure the startup's financial health. Market analysis is conducted to validate the market size, growth potential, and competitive positioning. Additionally, a detailed evaluation of the product or service is undertaken to assess its feasibility, innovation, and market fit. Legal due diligence is also crucial, examining the company's legal structure, intellectual property rights, contracts, and regulatory compliance. This phase aims to mitigate risks by ensuring all claims made by the startup are accurate and there are no hidden issues that could affect the investment.

L3 Screening-Term Sheet Negotiation

If the due diligence results are satisfactory, the angel investor and the startup enter into term sheet negotiations. The term sheet is a preliminary agreement that outlines the key terms and conditions of the investment. This includes the company's valuation, which determines the equity stake the investor will receive, the amount of capital to be invested, and the structure of the investment, whether direct equity or convertible debt. Additionally, the term sheet addresses investor rights such as board seats, voting rights, and anti-dilution provisions. This stage is crucial as it lays the foundation for the legal

agreements that will follow and ensures that both parties are aligned on the investment's terms.

Closing the Deal

Once the terms are agreed upon, the investment deal is finalized through the signing of binding legal documents. This includes the stock purchase agreement and shareholders' agreement, which formalize the investment terms and protect the interests of both the investor and the startup. Following the legal documentation, the investment funds are transferred to the startup's account. This step marks the official start of the partnership, with the investor acquiring an ownership stake in the company. The closing of the deal is a significant milestone, as it provides the startup with the necessary capital to execute its business plan and scale its operations.

Post-Investment Support

After the investment is made, angel investors often take an active role in supporting the startup. This support goes beyond financial investment and includes mentoring the founders, providing strategic guidance, and helping with business development. Investors leverage their experience and networks to connect the startup with potential customers, partners, and additional investors. They may also assist in refining the startup's business strategy, navigating challenges, and making key decisions. Regular monitoring of the startup's progress is part of this phase, ensuring that the business stays on track to meet its goals and providing timely advice and support to drive growth.

Legal and Due Diligence

Business Plan

A comprehensive business plan is a foundational document that outlines the startup's vision, mission, goals, and strategy for achieving its objectives. It details the company's value proposition, market analysis, competitive landscape, marketing and sales strategies, operational plan, and financial projections. During the due diligence process, angel investors carefully review the business plan to understand the startup's overall strategy and assess the feasibility and scalability of the business model. The plan should provide clear answers to key questions about the business's market opportunity, target customers, revenue streams, and growth potential. A well-prepared business plan demonstrates the founders' thorough understanding of their industry and their preparedness to execute their vision.

Risk/SWOT Analysis

A SWOT (Strengths, Weaknesses, Opportunities, Threats) analysis is an essential part of due diligence, offering a clear snapshot of the internal and external factors that could impact the startup's success. Angel investors use this analysis to evaluate the startup's strengths and competitive advantages, such as unique technologies, skilled personnel, or strategic partnerships. They also consider weaknesses, which might include gaps in the founding team's experience, product development challenges, or limited market

presence. Opportunities and threats are examined to understand the potential for growth and the external risks the startup may face, such as market trends, regulatory changes, or new competitors. This analysis helps investors gauge the startup's resilience and adaptability in a dynamic market environment.

Funding History

The funding history provides a record of all previous financing rounds, including the amounts raised, the types of investors involved, and the valuation of the company at each round. It is crucial for investors to understand the startup's funding trajectory, how previous funds were utilized, and the progress made with those investments. This history can reveal the startup's ability to attract and manage capital, as well as the confidence previous investors have shown in the business. Any issues such as down rounds (where valuation decreases between rounds) or complex equity structures need to be carefully analyzed to understand their implications for new investments.

Financial Statements for 3-5 Years

Angel investors scrutinize the startup's financial statements, including the income statement, balance sheet, and cash flow statement, typically covering the past three to five years. These documents provide a detailed view of the company's financial health, revenue growth, profitability, cash flow management, and overall financial stability. Key financial metrics such as gross margin, operating margin, net profit margin, and EBITDA (earnings before interest, taxes, depreciation, and amortization) are closely examined. Investors also look for trends in revenue growth, expense management, and capital efficiency. This financial analysis helps investors assess the startup's past performance and forecast its future financial trajectory.

Equity Ownership

Understanding the equity ownership structure is critical for angel investors to determine the distribution of shares among founders, employees, and previous investors. This includes analyzing the cap table (capitalization table), which lists all the equity holders and their respective ownership percentages. Investors look at how much equity the founders retain, which can indicate their commitment and potential future dilution. They also examine any existing stock options or convertible securities that could affect equity distribution in the future. Clear understanding of the equity structure helps investors anticipate potential conflicts and ensures that their investment terms protect their interests.

Customer Surveys or Testimonials

Customer surveys and testimonials provide valuable insights into how the startup's product or service is perceived in the market. Positive feedback from current customers can validate the product's value proposition, effectiveness, and market fit. Investors use this information to gauge customer satisfaction, loyalty, and the potential for repeat business. Additionally, customer feedback can reveal areas for improvement and provide a real-world perspective on the product's strengths and weaknesses. This qualitative data complements the quantitative market analysis and helps investors form a comprehensive view of the startup's market potential.

Pitch Deck of the Startup

The pitch deck is a concise presentation that encapsulates the key aspects of the startup's business plan. It typically includes slides on the problem being addressed, the solution offered by the startup, the market opportunity, business model, competitive landscape, financial projections, and the founding team. During the due diligence process, angel investors review the pitch deck to understand the startup's core message and how effectively it communicates its value proposition to potential investors. A well-crafted pitch deck should be clear, compelling, and visually engaging, providing a snapshot of the startup's potential for success.

Information about the Product They Are Raising Funds For

Detailed information about the product or service for which the startup is raising funds is crucial in the due diligence process. This includes technical specifications, development status, unique features, intellectual property (such as patents or trademarks), and plans for future enhancements. Investors evaluate this information to understand the product's competitive advantage, market readiness, and scalability. They also assess the development timeline, associated risks, and the resources required to bring the product to market. A thorough understanding of the product helps investors determine the feasibility and potential return on investment.

Legal Due Diligence

Legal due diligence involves a comprehensive review of the startup's legal standing and compliance with relevant laws and regulations. This includes examining the company's formation documents, intellectual property rights, contracts with customers and suppliers, employment agreements, and any ongoing or potential litigation. Investors ensure that the startup has clear ownership of its intellectual property and that there are no legal obstacles that could hinder its operations or growth. Compliance with employment laws, data protection regulations, and industry-specific regulations is also verified. Legal due diligence helps investors mitigate risks associated with legal issues and ensures that their investment is protected from unforeseen legal complications.

Analysis of the Fund Structure

Funding Vehicle: SEBI Registered AIF, Category-1 Angel Fund

Overview of SEBI Registered AIFs

The Securities and Exchange Board of India (SEBI) regulates Alternative Investment Funds (AIFs) under the AIF Regulations, 2012. AIFs are investment vehicles established to pool funds from sophisticated investors, whether Indian or foreign, for investing in accordance with a defined investment policy for the benefit of its investors. SEBI classifies AIFs into three

categories, each catering to different investment strategies and risk profiles.

Category-1 Angel Funds

Category-1 AIFs are those which invest in start-ups, early-stage ventures, social ventures, Small and Medium Enterprises (SMEs), infrastructure, or other sectors or areas which the government or regulators consider as socially or economically desirable. Within this category, there are several sub-categories, including Venture Capital Funds, SME Funds, Social Venture Funds, Infrastructure Funds, and Angel Funds.

Angel Funds, a sub-category of Category-1 AIFs, are specifically designed to pool investment from angel investors for financing early-stage startups. These funds are registered with SEBI and follow stringent regulations to ensure transparency, accountability, and investor protection.

Angel investors (as defined by SEBI): Indian residents or nonresidents.

- ✚ **Regulatory Oversight:** As SEBI registered entities, Category-1 Angel Funds are subject to rigorous regulatory oversight, ensuring they operate within the framework established by SEBI. This includes compliance with reporting requirements, governance standards, and investment restrictions aimed at protecting investors' interests.
- ✚ **Pooling of Capital:** These funds pool capital from a diverse group of angel investors, creating a substantial corpus that can be strategically deployed into early-stage startups. This pooling mechanism allows for risk diversification and provides startups with significant financial resources to fuel their growth.
- ✚ **Investment in Early-Stage Startups:** Category-1 Angel Funds are geared towards investing in early-stage startups, typically at the seed or pre-seed stages. These funds provide critical capital to startups during their formative phases, enabling them to develop their products, scale their operations, and achieve market fit.
- ✚ **Tax Incentives:** Investments made through SEBI registered Category-1 Angel Funds often come with tax benefits, making them an attractive option for investors. These tax incentives can include exemptions on capital gains and other income tax benefits, thereby enhancing the overall return on investment.
- ✚ **Expert Management:** Angel Funds are managed by experienced fund managers who have a deep understanding of the startup ecosystem and possess the skills to identify high-potential startups. These managers conduct thorough due diligence, assess the viability of business models, and provide strategic guidance to portfolio companies.
- ✚ **Due Diligence and Transparency:** The SEBI regulations mandate comprehensive due diligence and high levels of transparency in operations. Angel Funds are required to provide regular updates to investors, including detailed reports on the performance of portfolio companies, financial statements, and compliance with regulatory requirements.
- ✚ **Investor Rights and Protection:** SEBI regulations ensure that the rights and interests of investors are protected. This includes provisions for investor grievance redressal, transparency in fee structures, and mechanisms to address conflicts of interest.

1. The Role of Category-1 Angel Funds in the Startup Ecosystem

Category-1 Angel Funds play a crucial role in the startup ecosystem by providing early-stage startups with access to vital capital and strategic support. This funding enables startups to navigate the challenging initial phases of their business journey, develop their products, scale

their operations, and reach their growth potential. Additionally, these funds contribute to economic development by fostering innovation, creating jobs, and driving technological advancements.

2. SEBI's Definition of Angel Investors

The Securities and Exchange Board of India (SEBI) provides specific guidelines regarding who qualifies as an angel investor. According to SEBI's regulations, angel investors can be both Indian residents and nonresidents. This inclusivity ensures that startups in India have access to a broad pool of potential investors, both domestic and international, thereby increasing their chances of securing the necessary capital to grow.

Key Criteria for Angel Investors as Defined by SEBI

1. Financial Net Worth:

- **Indian Residents:** For an Indian resident to qualify as an angel investor, they must meet a minimum financial net worth criterion. This ensures that the individual has sufficient financial resources to make high-risk investments in early-stage startups.
- **Nonresidents:** Similarly, nonresident individuals must also meet specific financial net worth criteria set by SEBI. This criterion ensures that nonresident investors are financially capable of undertaking the risks associated with investing in startups.

2. Investment Capacity:

- Angel investors, whether resident or nonresident, should have the capacity to invest a minimum amount in a single startup. This threshold is set to ensure that the investments made are significant enough to provide meaningful support to the startups.

3. Investment Experience and Expertise:

- SEBI encourages angel investors to have relevant experience or expertise in managing or investing in startups. This ensures that they can provide valuable guidance and mentorship to the startups in which they invest, beyond just financial support.

4. Compliance with SEBI Regulations:

- Both Indian resident and nonresident angel investors must comply with SEBI's regulations regarding angel investing. This includes adherence to investment limits, holding periods, and reporting requirements. These regulations are designed to protect investors and maintain the integrity of the investment ecosystem.

 **Ticket size per investor: average of \$125k contributed via 5 installments over 2 to 3 years.**

- **Ticket Size:** This is the amount of money that each investor commits to the fund. In your example, the average ticket size per investor is \$125,000.
- **Contributed via 5 Installments:** Instead of investing the entire \$125,000 upfront, the

investor makes contributions in installments. This could mean that the investor commits to investing \$125,000 in total but spreads this amount across multiple payments. For instance, they might invest \$25,000 in each of 5 installments.

- **Over 2 to 3 Years:** The entire investment of \$125,000 is not made all at once but rather over a period of 2 to 3 years. This allows the investor and the fund more flexibility in managing investments and deploying capital over time.

Startup stage: Pre-Seed to Series-A

- Target portfolio diversification: 15+ startups for each individual investor

Pre-seed startups are at their earliest stages, often developing concepts or prototypes and seeking initial funding to validate their business models. Seed-stage startups have usually progressed to developing minimum viable products and are looking to scale their operations and conduct market validation. Series A startups are further along, having achieved product-market fit and looking to expand into new markets. To mitigate risk and maximize potential returns, angel investors often aim to diversify their portfolios across at least 15 startups. This diversification strategy spreads investment across startups at different stages and industries, balancing the higher risk of early-stage investments with potential high returns and the more stable growth of later-stage investments. By diversifying their portfolios, investors can strategically position themselves to capitalize on growth opportunities while managing the inherent risks associated with startup investments.

Management/ transaction fee: annual 2% plus taxes (capped at 4 years, i.e. 8% plus taxes of the committed investment)

Management and transaction fees typically refer to the costs associated with managing an angel investment fund. These fees are crucial considerations for investors looking to understand the total expense ratio of their investments. The structure commonly involves an annual management fee of 2%, calculated on the total committed investment amount. This fee is intended to cover operational costs, due diligence, and ongoing management of the fund. Additionally, there might be taxes applicable to these fees.

Importantly, in many angel investment funds, these fees are capped over a set period, often not exceeding 4 years, totaling 8% (plus taxes) of the initial committed investment. This cap ensures that the cumulative fees do not excessively erode investor returns over the long term. Understanding and transparently disclosing these fees are critical for investors evaluating the overall cost-effectiveness and potential returns of participating in angel investment funds.

Operating fee: NIL (typically 1-2%)

One-time setup fee: NIL (typically up to 2%)

Operating Fee:

- **Typical Range:** Operating fees are usually a percentage of the total assets under management (AUM), typically ranging from 1% to 2% annually.
- **Purpose:** This fee covers the ongoing operational expenses of managing the fund. It

includes costs such as administrative expenses, legal fees, accounting services, and other day-to-day operational costs. The fee ensures that the fund remains operational and well-managed throughout its lifespan.

One-Time Setup Fee:

- **Typical Range:** Setup fees are one-time charges incurred at the inception of the investment or fund commitment. They typically range up to 2% of the total capital committed by the investor.
- **Purpose:** This fee covers the initial setup and launch costs of the investment fund or platform. It includes expenses related to legal structuring, regulatory compliance, marketing, and initial operational setup. The fee ensures that the fund or platform is established correctly and ready to begin operations effectively.

✚ Hurdle Rate: 12% annual

- **Carry: 20% of profits (with catch-up)**

Hurdle Rate:

- The hurdle rate is the minimum rate of return that a fund must achieve before the fund manager can start earning a share of the profits (carry).
- **Typical Application:** In your case, the hurdle rate is set at 12% annually. This means that the fund must generate returns of at least 12% per year on the invested capital before the fund manager is entitled to any share of the profits.

Carry:

- Carry, also known as carried interest or performance fee, represents the share of profits that fund managers receive above and beyond the hurdle rate.
- **Structure:** Typically, carry is structured as a percentage of the profits generated by the fund. In your example, the carry is set at 20% of profits.
- **Catch-Up:** The "catch-up" provision ensures that the fund manager receives their share of profits in full after the hurdle rate is met. It allows the fund manager to catch up to the agreed share of profits (20% in this case) on all gains, including those accumulated while achieving the hurdle rate.

Criteria to become an Angel Investor at SteerX

Under SEBI (Securities and Exchange Board of India) guidelines, angel investors are typically defined as high-net-worth individuals or entities who invest in early-stage startups and unlisted companies. To become an angel investor, individuals must meet certain criteria:

- **✚ Financial Capability:** Angel investors are required to have sufficient financial resources to invest in startups, which are inherently risky ventures.
- **✚ Net Worth:** SEBI guidelines often stipulate a minimum net worth requirement for individuals seeking to qualify as angel investors.
- **✚ Risk Tolerance:** Investors must demonstrate a high tolerance for risk, given the

speculative nature of investments in early-stage companies.

- ✚ **Investment Limits:** SEBI may impose limits on the maximum amount an angel investor can invest in a single startup to diversify risk.
- ✚ **Compliance and Reporting:** Angel investors must comply with SEBI regulations regarding disclosure of investments, reporting requirements, and adherence to investor protection guidelines.
- ✚ **Ethical Considerations:** SEBI guidelines emphasize ethical practices in investment decisions and require investors to adhere to legal and regulatory frameworks governing angel investments.
- ✚ **Support and Mentorship:** While not mandatory, SEBI encourages angel investors to provide support and mentorship to startups beyond financial investment, contributing to their growth and success.

By adhering to SEBI guidelines, angel investors contribute to the development of the entrepreneurial ecosystem while mitigating risks and ensuring compliance with regulatory standards in India's investment landscape.

Criteria for Investments in Start-ups

- ✚ **Invest in DPIIT Recognized Startups:** These startups are recognized by the Indian government for their innovative potential and eligibility for various benefits and support programs.
- ✚ **Healthcare Specialization Across Themes and Subdomains:** Focus on startups within healthcare that address specific themes (e.g., digital health, biotech) and functional subdomains (e.g., diagnostics, telemedicine).
- ✚ **Investment Stages: Pre-Seed to Series A:** Target startups at early stages of development (pre-seed to Series A) where initial funding is critical for product development, market validation, and early growth.
- ✚ **A-Rated Founding Team:** Emphasis on startups led by founders with strong credentials, relevant experience, and the potential to scale the business significantly.
- ✚ **Market Size and Differentiation:** Prioritize startups targeting large market opportunities with significant differentiation from competitors, offering unique value propositions.
- ✚ **Scalable Business Model:** Focus on startups with business models capable of scaling rapidly, leveraging technology or innovative approaches to achieve growth.
- ✚ **Projected ARR (Annual Recurring Revenue) of Over \$5M:** Preference for startups demonstrating strong revenue potential with projected ARR exceeding \$5 million, indicating scalability and market traction.
- ✚ **Path to Profitability:** Evaluate startups with clear strategies to achieve profitability, ensuring sustainable growth and financial health.

- ✚ **Revenue-Generating Startups with Repeat Business:** Prefer startups already generating revenue and demonstrating repeat business, unless they offer disruptive IP/technology that could revolutionize the market.
- ✚ **Global Market Potential:** Prioritize startups with international scalability or those targeting global markets, reflecting broader growth opportunities beyond domestic boundaries.
- ✚ **Effective Go-to-Market (GTM) Strategy:** Focus on startups with well-defined GTM strategies or opportunities where additional support can enhance their market approach.
- ✚ **Co-Investment with Professional Investors:** Collaborate with angel networks, venture capitalists (VCs), and super angels to diversify investment risks and leverage collective expertise and resources.

Role of Angel Investors at SteerX

✚ **Building a portfolio:**

Building a portfolio in stands for strategically selecting and diversifying investments across early-stage startups to optimize potential returns while managing risks effectively. Initially, investors define their investment strategy, outlining goals such as expected returns, risk tolerance, sector preferences, and strategic interests. They source potential investments from angel networks, venture capital firms, and personal connections, conducting rigorous due diligence to evaluate market opportunities, competitive advantages, scalability of business models, and the quality of founding teams.

Risk management is critical, with investors spreading their capital across multiple startups to mitigate concentration risk and increase the likelihood of capturing high-growth opportunities. Negotiating investment terms and executing transactions requires careful consideration of valuation, equity stakes, and investor protections. Post-investment, active monitoring and support are essential, providing strategic guidance and leveraging networks to help portfolio companies achieve milestones and navigate challenges.

Successful portfolio management includes assessing opportunities for follow-on investments to support scaling startups and planning exit strategies such as acquisitions or IPOs to realize returns. Continuous learning and adaptation to industry trends and market dynamics inform ongoing portfolio optimization, ensuring alignment with evolving investment goals and maximizing the potential for long-term success in angel investing.

Nurturing an Angel Investment Portfolio:

Nurturing an angel investment portfolio involves actively engaging with early-stage startups to support their growth and maximize investment potential. Angel investors play a pivotal role beyond providing capital by offering strategic guidance and mentorship based on their industry experience and networks. They facilitate introductions to key stakeholders, including customers and partners, to foster business development opportunities. Monitoring performance closely, investors provide operational support and help startups navigate challenges, enabling them to pivot strategies when necessary to align with market dynamics and achieve scalability. Continuous assessment of market trends and proactive portfolio management ensure that investors remain agile, ready to capitalize on emerging opportunities and prepare for potential exits through strategic planning and engagement with potential acquirers or public markets. This hands-on approach not only enhances the value of individual investments but also contributes to the overall success and sustainability of the angel investment portfolio.

Unlocking the potential benefits:

Unlocking the potential benefits of an angel investment portfolio involves proactive engagement and strategic management to maximize returns and foster long-term growth. Angel investors play a pivotal role beyond financial backing by offering strategic guidance and mentorship based on their industry expertise and networks. They facilitate valuable connections with potential customers, partners, and industry leaders, accelerating business development and market expansion for portfolio companies. By optimizing operational strategies, refining business models, and supporting scalability, investors help startups achieve operational excellence and enhance competitiveness in dynamic markets.

Furthermore, angel investors strategically deploy capital to fuel growth initiatives and participate in follow-on investment rounds to capitalize on emerging opportunities. They guide startups in navigating market shifts and customer feedback, enabling strategic pivots that align with evolving market demands. Additionally, investors prepare portfolio companies for potential exits through meticulous planning for mergers, acquisitions, or IPOs, ensuring optimal valuation and liquidity events. Continuous learning and adaptation to industry trends and technological advancements enable investors to refine their strategies and optimize portfolio performance over time.

Through these proactive efforts, angel investors not only unlock financial returns but also contribute significantly to the success and sustainability of early-stage ventures, fostering innovation and economic growth in the entrepreneurial ecosystem.

Limitations of Angel Investors

Angel investors face several limitations that can impact their investment strategies and outcomes:

- ✚ **High Risk:** Investments in early-stage startups are inherently risky, with a high probability of failure. Angel investors must accept the potential loss of their invested capital if startups do not succeed.
- ✚ **Lack of Liquidity:** Angel investments are typically illiquid, meaning that investors may not be able to easily sell or liquidate their investments until a liquidity event, such as an acquisition or IPO, occurs. This lack of liquidity ties up capital for extended periods.
- ✚ **Limited Diversification:** Due to the high minimum investment size and concentrated focus on a small number of startups, angel investors may struggle to achieve adequate portfolio diversification. This concentration increases risk exposure to the performance of individual companies.
- ✚ **Uncertain Returns:** The success and profitability of startups are uncertain and often depend on factors beyond the investor's control, such as market conditions, competitive landscape, and changes in consumer preferences.
- ✚ **Time and Resource Intensive:** Successful angel investing requires significant time commitment for sourcing deals, conducting due diligence, and providing ongoing support to portfolio companies. This intensive involvement may be challenging for investors with limited availability or expertise.
- ✚ **Regulatory and Legal Complexity:** Angel investments are subject to regulatory requirements and legal considerations, including compliance with securities laws, tax implications, and potential disputes over ownership or governance rights.
- ✚ **Dependency on Founders and Management:** The performance and success of startups heavily rely on the capabilities, decisions, and execution of the founding team and management. Changes in leadership or strategic direction can impact investment outcomes.
- ✚ **Limited Control and Influence:** Angel investors often hold minority stakes in startups and may have limited control over business decisions or operational strategies. This lack of influence can pose challenges in aligning investor interests with those of the founders and management team.

Limitations of the study

While secondary research offers several advantages, it also has limitations that must be acknowledged:

3. **Data Availability:** The study is limited by the availability and accessibility of secondary data. Some relevant data may be proprietary or unpublished. Efforts are made to access comprehensive databases and reports, but gaps may still exist.
4. **Data Quality:** The accuracy and reliability of secondary data depend on the methodologies and rigor of the original data collection efforts. Inconsistencies or errors in the original data can affect the study's findings. Critical evaluation and triangulation are used to mitigate these risks.
5. **Scope of Analysis:** Secondary research may not fully capture the nuances of individual startup experiences and investor strategies, which could be better explored through primary research methods. Case studies and detailed analyses from primary sources are reviewed to complement the secondary data.
6. **Contextual Differences:** The findings from secondary data sources may not always perfectly align with the specific context of healthcare startups in India. Comparative analysis is used to identify relevant insights and contextualize the data

Results

Angel investing bridges critical gaps in the funding landscape for startups. SteerX's focus on healthcare startups emphasizes the dual role of angel investors as financiers and mentors. The study revealed that early financial backing, combined with strategic guidance, significantly increases startup survival rates and scalability. SteerX employs a robust strategy, including building an international network of investors, investing early in high-potential startups, and facilitating global market access. These strategies empower startups with resources, connections, and mentorship, fostering a supportive ecosystem for long-term success. Due diligence is a cornerstone of SteerX's approach. The process includes rigorous screening (e.g., L0 and L1 stages), financial analysis, market validation, and legal reviews. The study found that SteerX's expert-led due diligence mitigates risks effectively and enhances investment outcomes. SteerX's emphasis on cross-border investments demonstrates the advantages of accessing international markets. These investments enable startups to scale globally, navigate regulatory barriers, and tap into diverse customer bases, driving both innovation and profitability.

Discussion

The study explores the intricate dynamics of angel investing, emphasizing its significance in fostering innovation and scaling startups, particularly in the healthcare domain. By focusing on the ecosystem cultivated by SteerX, it highlights the interplay between financial backing, strategic guidance, and the broader support network provided to early-stage ventures.

Conclusion

The study underscores the pivotal role of angel investing in the startup ecosystem, with SteerX serving as a case study for best practices in healthcare-focused angel investment. By integrating financial resources with mentorship, strategic guidance, and an expansive global network, SteerX exemplifies how angel investors can drive innovation and societal impact.

Key takeaways include:

- The necessity of aligning investment strategies with specific industry needs, such as healthcare.
- The importance of a rigorous due diligence process to mitigate risks and maximize returns.
- The potential of cross-border investments in unlocking new markets and growth opportunities.

SteerX's ecosystem-oriented approach highlights the transformative potential of angel investing when coupled with a mission-driven focus on societal impact.

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