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HNIs Wake Up to Startups as New Investment Class

Six VC funds have seen ₹1,200cr investment by the rich in past year

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Mumbai: High networth individuals have pumped in over ₹1,200 crore into venture capital funds focussed on investing in early-stage entrepreneurs, underlying the growing popularity of startups as an asset class. These investments have flowed in over the past year into six such venture capital funds which have together raised ₹4,360 crore, data shared by these funds with **ET** reveal.

Big Corpus of Funds from HNIs ▸▸ 17

Richie Rich Line Up

Fund	Total Pool (₹ Cr)	Funds Raised from HNIs
Orios Venture Partners	300	**150**
Zodius Capital	700	**320**
YourNest Angel	110	**100**
Kalaari Capital*	1,750	**300**
Blume Ventures*	300	**75**
Orios Venture Partners - Second Fund *	1,200	**300**

*Commitment drawn. Estimate figures.
SOURCE - VC fund managers, wealth managers

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Big Corpus of Funds from HNIs

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These six funds — Orios Venture Partners, Zodius Capital, YourNest Angel, Kalaari Capital and Blume Ventures — have the mandate to invest in app-makers, radio taxi companies, food-ordering platforms and healthcare aggregators and such Internet businesses and other startups.

In some funds, over 50% of the corpus raised has come in from high networth individuals (HNIs). "People who are exposed to various asset classes have now begun seeing value in venture funds," says Sunil Goyal, CEO of YourNest Angel Fund. "The trend to invest in startups started with top executives and entrepreneurs; now even traditionally wealthy investors are warming up to the idea of investing in startup funds."

These numbers are in line with an ET CXO poll on startup investing published on Monday. Over 60% of the 100-plus CXOs polled by ET said they had already invested a portion of their wealth in startups. Another 25% expressed interest in such investments in the future.

'AWARENESS LEVEL LOW'

"The HNI response to startup funds has been pretty good, but awareness level is still low," says Rehan Yar Khan, founder-partner at Orios Venture Partners. These funds, Khan says, are not yet as popular as real estate or equity funds.

Orios Venture mobilised close to Rs 150 crore from HNIs in its earlier fund, which closed in August 2014. It is now raising a Rs 1,200-crore fund and expects to get Rs 300 crore from rich Indian investors. Zodius Capital recently raised over 45% of its Rs 700-crore fund from rich domestic investors. The first tranche of YourNest Angel Fund — amounting to Rs 18 crore — had about 35 individual investors; the final close, which raised over Rs 90 crore (closed in June 2015), saw participation from 140 individual investors. Kalaari Capital and Kae Capital have also raised substantial chunks of capital from HNIs.

Such startup funds — which come under alternative investment funds' regulation of Securities & Exchange Board of India — are not allowed to accept investments below Rs 1 crore — making the segment a rich man's play. At all times, asset managers have to keep a minimum corpus of Rs 20 crore and no one fund can have more than 1,000 investors. "One needs to have Rs 3-5 crore to invest to have a meaningful exposure to these funds; this would be about 8-10% of their overall portfolios," says Ashish Shankar, head (investment advisory), Motilal Oswal Private Wealth Management.

TICKET SIZES HAVE GROWN

Individual ticket sizes have also grown over the past few months with average investment ticket sizes of Rs 10-20 crore. Wealth managers seek larger investments as these funds have a high failure rate. A portfolio of 20 companies may only have 3-4 multi-baggers (yielding returns upwards of 50 times), the rest being average performers and many turning plain duds.

Wealth managers say funds will have to generate gross returns in excess of 20% to make a meaningful case. "We'll have to wait and see how the first batch of funds delivers in terms of returns. Vintage funds in this segment will set the tone for future investments in startups," said Karthik Reddy, managing partner at Blume Ventures.

Most alternative funds have exit loads, chargeable in case of premature redemption. These are often in the range of 3% to 5% of the net corpus. Asset managers levy fund management fees, which ranges between 2% and 5%, every year. They also skim a portion of profits generated — mostly 15-20%. Wealth managers pocket 4-5% commission selling these funds.

Such funds can only attract investors with high risk appetites. "There's a serious asset bubble build-up in the startup segment. People are entering these funds at the wrong time. Besides, all these startup funds carry high liquidity risk," says Feroze Azeez of Anand Rathi Private Wealth, which does not sell startup funds.