

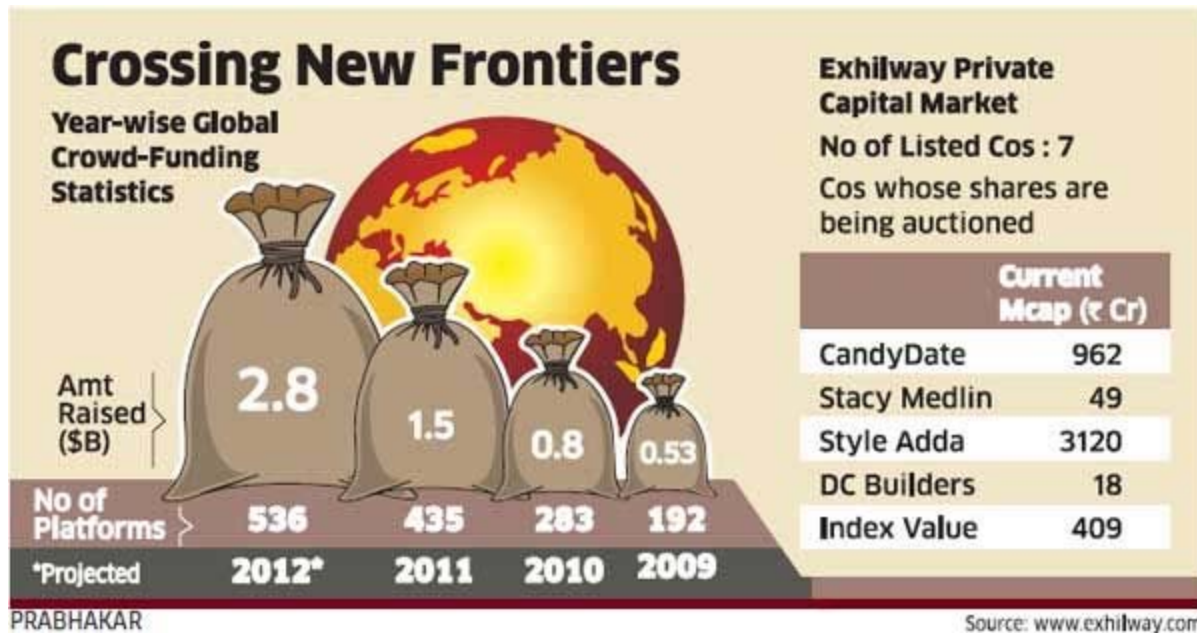
Affluent Indian investor club takes to crowd funding

Vijay Gurav, ET Bureau Jul 6, 2012, 06.10AM IST

MUMBAI: Crowd-funding, an investment concept being practised successfully worldwide by privately-owned secondary capital markets such as the US-based Kickstarter and its closest rival IndieGoGo, has increasingly made inroads into India.

Online exchange Exhilway Private Capital Market (EPCM) and Mumbai Angels, a club of high net worth investors (HNIs), are the two major platforms currently in existence here, helping smaller unlisted companies raise funds through a wider participation of investors in equity.

While these markets are based on the faith that fund-raising is conducted fairly for the benefit of all the parties involved, there are concerns that lack of regulatory monitoring could make this investment mechanism vulnerable to the risk of any of the participants adopting unfair practices for their own benefit.



Launched in April this year, EPCM has established contacts with around 1,900 investors, mostly HNIs and corporates, who are willing to invest at least Rs 5 crore each in emerging companies with a preference for sectors like e-commerce, information technology, electronics and agro.

With a strength of 150 investors currently, Mumbai Angels has been in existence since 2006. Its members have invested in 40 companies with six exits and follow-up rounds in 12 companies. Deal sizes typically range from Rs 1 crore to Rs 3 crore.

Globally, crowd-funding is booming with funds worth \$2.8 billion estimated to be raised in the current calendar year. This will be substantially higher than \$1.5 billion in 2011 and \$ 530 million in 2009.

The number of global private capital markets offering crowd-funding platforms has risen from 100 in 2007 to over 450, including four in China, at present. The space is dominated by Kickstarter, the largest in the US, followed by IndieGoGo.

Exhilway is a global hedge fund headquartered in Calgary, Canada, which runs a pre-IPO exchange in India on which seven companies are listed at present. Member investors are kept updated on major developments in listed companies to help them take proper investment decisions.

"We do not charge any fee but instead pick up some stake, a minimum of 3-4% and maximum up to 10%, free of cost in a fund-seeking company," said Rahul Malhotra, CEO, Exhilway Private Capital Market.

There is a lock-in period of six months which can be extended up to three years. Investors can buy and sell their stakes through auctions. Four out of the seven companies have already started the bidding process on the exchange. The transactions are subject to taxes such as STT and capital gain as applicable.

EPCM's trading system is different from that of NSE and BSE. The listed companies conduct auction of their shares to raise funds and investors participate in these auctions to buy stakes. The exchange and the valuation firms together set the base price for the shares.

As the activities of private secondary capital markets are not governed by any regulatory authorities, there are concerns how certain issues, particularly relating to quality of companies, their promoters and sources of investments, are dealt with to ensure transparency and efficient working of the fund-raising mechanism.

"We have our own team of analysts, valuers and also hire services of financial experts for valuation and analysis of fund-seeking companies from every aspect - promoter background, past financials, industry background and prospects. A team of VCs and HNIs hold meetings with the management for several days before placing their bet on the business, said Malhotra.

Though its activity is similar to crowd-funding, Mumbai Angels has kept its scope limited to select investors. "We do not run a private exchange. Ours is a club of sophisticated investors who have a sharp investment acumen and awareness about risk involved in investing in new, smaller companies," said Mumbai Angels founder member and investment banker Praveen Chakravarty.

Collectively, member investors can invest about Rs 100 crore a year based on their individual commitment of Rs 50 lakh to Rs 1 crore. Presently active in Mumbai and Bangalore, the seed-funding network will be expanded to other major cities in the country in the coming months, said Chakravarty.

Some bankers are concerned that lack of regulations surrounding investments through crowd-funding could leave the investors in lurch if the companies are found to be badly governed.

"To implement private secondary market kind of structure successfully in India, it is necessary that a proper due diligence is conducted on the fund-seeking companies to guide prospective investors on their investment decisions. Or, investors themselves should be savvy and knowledgeable enough to make their own judgment about the companies" said Mehul Savla, managing director, Ripplewave Private Equity, a Mumbai-based boutique investment banking firm.