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CONSUMER CONNECT INITIATIVE

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Crowdfunding in India didn't really kick off with a bang, but it is slowly and steadily gaining ground and pulling in investors

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Crowdfunding — raising small amounts of money through various lenders — as a concept is not new. While books have been crowdfunded for centuries, war bonds too were theoretically a form of crowdfunding military conflicts. But the concept on the internet first gained popularity when in 1997, fans raised $60,000 for British rock band Marillion's US tour.

Cut to the present. In India, crowdfunding via the internet has been around since a decade but has gathered pace only in the past five years. The penetration of the internet and popularity of smartphones has stirred a lot of action in the segment.

Globally, there are broadly four types of crowdfunding that's accepted: P2P (peer to peer lending), reward crowdfunding, equity crowdfunding and donation crowdfunding. Of these equity crowdfunding, though still largely unexplored, has a lot of potential. With equity crowdfunding, companies sell securities, whether in the form of equity in the company, debt, revenue share, convertible note, and more. Investors in equity crowdfunding stand to make a profit if they make a good investment and the company they invested in grows.

While crowdfunding by Indian start-ups is not allowed, Indian investors can invest in start-ups and early-stage businesses on foreign platforms such as Republic.co, Seedinvest, Wefunder, AngelList, EquityNet, CircleUp, etc. in the US and Crowdcube, Syndicate Room and Crowdfunder in the UK. This form of asset class involves high risk but also promises good returns without requiring heavy investment. A little due diligence on the investor's part to assess the authenticity of the entrepreneur and the project can help them reap huge benefits.

Interestingly, Manshu Agarwal, CEO, Ponder, believes India is a good market for equity crowdfunding. "Once the market and the regulatory landscape develops, equity crowdfunding can work well in India as people are looking for ownership in entities that excite them. The stock market has created a lot of new wealth, and equity crowdfunding can spread this through another asset class." As for building investor confidence, being fully legally compliant is the way to go, he said.

Currently standing at an estimated ₹300 crore, the sector has huge growth potential, believes Vinay Mathews of Faircent, a P2P lending platform. "Since we started five years back, we have seen 20-25 % growth, both in terms of borrowers and lenders. Riding on the shared economy wave, this sector has the potential to see 100-200% growth in years to come." The platform attracts borrowers with requirement as low as ₹50 and does several checks and balances to ensure their authenticity.

Over the past few years, P2P and donation-based lending has really caught up. Milaap, one of the most prominent donation-based crowdfunding platforms that entered the space eight years back, is a case in point. "India's private healthcare spending is estimated at $90 billion a year. Of this, about $60 billion is out-of-pocket: From savings, borrowing or support from friends and family. Crowdfunding can be a great debt-free way to meet urgent medical needs," says Anoj Viswanathan, President and Co-founder, Milaap.

The platform that sees a huge influx of borrowers in need of urgent medical aid everyday, raised ₹1.2 crore for Kerala flood victims last year.

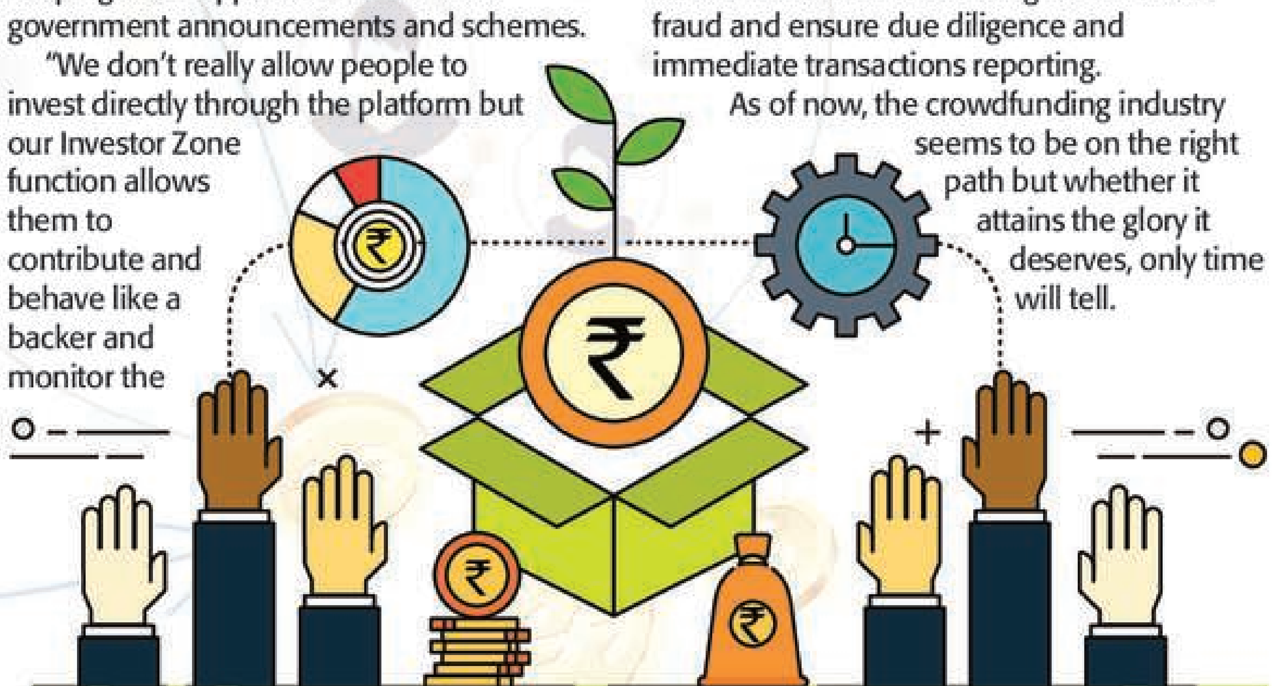
As is the norm these days, being women-centric has its own advantage. Desiredwings, a reward-based, women-only crowdfunding platform helps women entrepreneurs raise money for their projects. Apart from helping women raise money, the platform also provides them access to renowned influencers, big investors and mentors besides keeping them apprised about various government announcements and schemes.

"We don't really allow people to invest directly through the platform but our Investor Zone function allows them to contribute and behave like a backer and monitor the entrepreneur and the project closely," said Shabir Momin, Co-founder, Desiredwings. The platform claims that investors have gained anything between 5-30 times RoI (return on investment) through it. For the borrower, the advantage is that the backers pay for the service or product in advance, which helps them significantly in managing cash flow.

The future looks bright for the segment but there are some challenges too. Some promising start-ups are picked up by angel investors at an early stage and don't reach the crowdfunding platforms. "Plus, the absence of a standardised process for rating investment opportunities makes it difficult for an investor to evaluate a project," says Gayathri Parthasarathy, National Head — Financial Services, KPMG in India. However, with Sebi working on a regulatory framework for crowdfunding, things may look up for the sector, she said.

A regulatory framework would be a boon for the investor as it will mitigate the risk of fraud and ensure due diligence and immediate transactions reporting.

As of now, the crowdfunding industry seems to be on the right path but whether it attains the glory it deserves, only time will tell.



CHECKLIST BEFORE INVESTING

- Do you understand the investment? Ask, check and confirm
- Always read the terms and conditions and understand the risks involved
- Find out the due course of action in case the platform shuts down
- Know the platform's average default rates; the best platforms offer default rates as low as 1.3 to 3.5%.
- Check the fees involved. Some platforms do not charge any fee, while others may charge anything between 1 - 8% on all repayments received or 18 to 20% of interest earned

CROWDFUNDING INVESTORS' BREED

THE RISK TAKER: Individuals who can brave risks and look at high gains. They are usually those who invest in ideas from different portfolios. Entrepreneurs look for this category of investors as they help them float towards implementation.

THE INDUSTRY EXPERT: Those who have in-depth knowledge about a particular domain. They invest in the concept on the basis of their analysis and speculations. Through this approach, this breed mitigates the risk of mismanagement and is among the first ones to get the project insights, which help them to plan the exit strategy.

THE IMPRESSIONABLE: They follow the herd and get influenced easily as they invest without conducting proper due diligence. They are basically on the platform to make quick and easy money and the ticket size of their investment is usually small.