

Regulatory Reconfiguration of Angel Investment Networks in India: Implications for Early-Stage Startup Financing and Capital Formation

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ABSTRACT

This study analyzes the transformation of India's early-stage financing ecosystem by examining the comparative roles of individual angel investors and organized angel investment networks, with emphasis on the regulatory reforms introduced by the Securities and Exchange Board of India (SEBI) in 2025. Over the last decade, India has developed into a leading global startup ecosystem, driven by rapid digitalization and policy initiatives that promote innovation. As venture capital firms increasingly concentrate on later-stage investments, angel investors have assumed a critical function in addressing seed and pre-seed funding gaps. Employing a descriptive research methodology and drawing on secondary data from regulatory publications and industry reports, the study evaluates structural differences in investment practices and outcomes. The findings suggest that angel networks enhance investment efficiency through systematic due diligence, risk diversification, and post-investment mentorship, contributing to improved governance and startup sustainability. However, the introduction of stricter accredited investor requirements and expanded compliance obligations in 2025 has reduced participation and deal activity, excluding several experienced investors from the ecosystem. Although these reforms may strengthen investment discipline and capital allocation efficiency, they also risk constraining access to early-stage funding. The study concludes that a balanced regulatory approach is necessary to ensure investor protection while preserving inclusivity and supporting sustained entrepreneurial growth in India.

Keywords: Angel Financing, Start-up Capital, Early Stage Entrepreneurship, Investment Regulation, Innovation Ecosystem.

INTRODUCTION

With over 1.59 lakh DPIIT-recognized startups as of January 15, 2025, India ranks as the world's third-largest startup ecosystem, driven by more than 100 unicorns (Firms/Companies having valuation at \$ 1 billion or more) (PIB.2025). In this context, Angel investments in Indian startups saw a significant decline in 2025, marking a period of adjustment for the country's early-stage funding landscape as new regulations changed - who can participate in these funding rounds and how initial investments are made. Although capital continued to flow, the number of deals funded by angels dropped substantially, altering the fundraising environment for early-stage entrepreneurs. The regulatory changes included stricter eligibility criteria limiting angel fund participation to accredited investors, increased financial requirements for investors, and more extensive compliance and reporting obligations for angel funds. These measures reduced participation and slowed down early-stage deal activity.

LITERATURE REVIEW

An angel network is a formal group consisting of individual angel investors and corporate investors who operate under an organized framework. This structure oversees the processes of finding investment opportunities, assessing them, working with portfolio companies, and exiting investments when the time is right. Typically, these activities are coordinated by a secretariat (Sabarinathan G.2019, June). Over the past decade, angel investor financing has gained prominence in India as venture capital firms have increasingly shifted their focus toward later-stage investments. Angel investor networks have become instrumental in bridging the early-stage funding gap by providing seed capital, mentorship, and strategic support. These networks also guide startups in structuring suitable financing options, thereby strengthening their preparedness for future venture capital funding rounds (Ananthanarayan S.2023). Recent journalistic and industry sources document a shift in investor sentiment amid changing regulatory and macroeconomic conditions. Reports from major financial publications emphasize that

regulatory tightening in 2025 has reduced participation in angel markets while concentrating capital among fewer investors. Despite these observations, systematic academic analysis of the regulatory impact remains limited, creating a research gap that this study seeks to address.

RESEARCH GAP

While prior studies examine the contributions of angel investors to startup ecosystems, limited research focuses on the intersection of regulatory reform and angel investment activity in India. Specifically, there is insufficient empirical discussion on how stricter accreditation norms influence investor participation, deal structures, and capital availability at the seed stage. This paper addresses this gap by synthesizing regulatory analysis with market performance data.

RESEARCH OBJECTIVE

To evaluate the comparative advantages of angel investment networks over individual angel investors.

To summarize and interpret the policy changes introduced by SEBI in 2025 affecting the participation in Angel investment networks.

To analyze trends in leading angel investment networks in India.

To study the effect of policy changes on the availability of early stage funding or seed capital to startups.

6 RESEARCH METHODOLOGY

This research adopts a descriptive methodology based on secondary data sources. Information was collected from academic journals, government releases, regulatory circulars, and industry reports. Data relating to angel investment volumes and deal activity were analyzed to identify trends before and after the 2025 regulatory reforms. Qualitative insights from expert commentary were incorporated to contextualize quantitative findings.

7 FINDINGS & DISCUSSION

7 1 Angel Investing networks as superior to angel investors

From a performance perspective, individual angel investors are characterized by high flexibility, rapid decision-making, and close personal involvement with startups, which can result in exceptional returns in a limited number of successful ventures. Their hands-on approach is particularly effective at the earliest stages of firm development. In contrast, angel investment networks tend to achieve stronger average performance outcomes by offering superior risk-adjusted returns, higher startup survival rates, and increased access to follow-on funding and exit opportunities. Through portfolio diversification, collective due diligence, and structured post-investment support, angel networks provide a more consistent and scalable model for fostering early-stage startup growth. Consequently, while both investment models are complementary, angel investment networks play a more sustained and systematic role in strengthening the startup ecosystem.

7 2 Analysis of Top 5 Active Angel investment Networks:

As per Tracxn website, important performing and active angel investment Networks are Mumbai Angels, Capier Investments, Acsys investments, SAE, Indian Angel Network (IAN). Data obtained from the number of investments made by these angel investments networks revealed that in 2022, these angel networks made the highest investment in early stage capital and henceforth the number of investments showed a declining trend which was very prominent in 2025. This declining was mainly attributable to the negative global trends and SEBI regulations affecting the angel investment Networks the most. It was also observed that due to the presence of positive environmental factors governing the Indian Economy, many Fintech & other technology driven startups became Unicorns (Valuation of the venture equal or more than \$1 billion).

7 3 Regulatory Transformation in 2025

Reflecting this shift, the number of angel investment rounds decreased by 44 percent to 834 deals in 2025, down from 1,495 deals in 2024, according to data from market intelligence platform Tracxn (Moneycontrol.2025, December). Total capital invested also declined, but at a slower rate. Investment amounts fell by about 28 percent,

from \$5.35 billion in 2024 to \$3.85 billion so far in 2025, as regulatory changes and other factors took effect (Moneycontrol.2025, December). The sharper drop in the number of deals compared to the capital invested suggests fewer participants, although those who remained active tended to make larger investments. The new SEBI regulations have unintentionally excluded the very individuals who built India's early-stage ecosystem—operators, founders, and senior leaders who traditionally supported startups well before institutional investors entered the scene. By increasing the minimum net worth requirement for angel investors from Rs 2 crore to Rs 7.5 crore, the rule treats startup investing solely as a matter of personal wealth, ignoring experience, sector expertise, or operational insight. The decrease was inconsistent throughout the year and intensified in the latter half. In the first half of 2025, angel deal activity dropped by 31 percent compared to the same period in 2024, falling to 569 deals from 824 deals, while funding decreased by 10 percent to \$2.36 billion. The decline then speed up further. In the second half of 2025, angel investment rounds have declined by nearly 60 percent, dropping to 265 deals compared to 671 deals in the same period the previous year. Funding also decreased by 46 percent, falling to \$1.48 billion from \$2.73 billion. This significant downturn coincided with the introduction of a revised regulatory framework for angel investing in September, 2025. The decrease in deal activity has been accompanied by reduced syndication and fewer bridges rounds, making founders more reliant on securing a clear lead investor early in the fundraising process.

7.4 Changes made in Angel investment framework

The main changes are as follows:

- Only Accredited Investors (AIs) are allowed to invest in Angel Funds (details provided below).
- For the specific purpose of investing in Angel Funds, AIs will be considered Qualified Institutional Buyers (QIBs), allowing them to exceed the private placement limit of 200 investors set by the Companies Act.
- The investment range in portfolio companies has been expanded from Rs 25 lakhs – Rs 10 crores to Rs 10 lakhs – Rs 25 crores.
- The 25% cap on investment concentration in a single startup has been eliminated; additionally, minimum investor requirements and fundraising procedures have been eased.

Prior to this amendment, SEBI defined an Angel Investor as any individual or entity intending to invest in an Angel Fund, with individuals required to have a net worth exceeding Rs 2 Crores, and corporate bodies needing a net worth above Rs 10 Crores. These net worth thresholds were self-declared by the investors at the time of their contribution to Angel Funds.

Following the amendment, Angel Investors must now be recognized as Accredited Investors certified by an accrediting agency upon meeting specific criteria:

- For individuals, Hindu Undivided Families (HUFs), family trusts, or sole proprietorships:
 - An annual income of at least Rs 2 Crores; or
 - A net worth of at least Rs 7.5 Crores, with a minimum of Rs 3.75 Crores held in financial assets;
- or
- An annual income of at least Rs 1 Crore and a net worth of at least Rs 5 Crores, with at least Rs 2.5 Crores in financial assets.
- For corporate bodies, a net worth of at least Rs 50 Crores.
- For trusts other than family trusts, a net worth of at least Rs 50 Crores.
- For partnership firms, each partner must individually satisfy the accreditation eligibility criteria (SEBI Circular.2025, September).

The updated framework limits investments through angel funds to accredited investors who must meet higher financial criteria and undergo a formal accreditation process. Additionally, angel funds now face stricter

compliance, reporting, and on boarding requirements. New procedural hurdles like mandatory declarations, accreditation expenses, and constantly evolving rules have made investing cumbersome, unpredictable, and fraught with regulatory risks. For an asset class that is already inherently risky, regulatory-induced volatility creates a chilling effect. The reduced participation is most evident at the founder level, especially in the structure of early-stage funding rounds. Founders now face greater challenges in closing rounds without a clear lead investor. Closing a round without a lead investor in place is becoming increasingly difficult. In the past, syndicates and investment platforms used to support bridge funding rounds, but that safety net has mostly vanished. Incentives for syndication have weakened as nowadays there is little motivation to do this because sourcing fees are heavily taxed and carry cannot be easily shared with external leads.

7 5 Perceived fear among angel investment platforms about the new regulations

Effects go beyond just the amount of funding as it also means startups lose early institutional validation. Ankur Mittal, co-founder of Inflection Point Ventures (IPV), said, “Many companies aiming for or moving toward IPOs today first gained serious institutional trust from angel investors at an early stage.” He added, “While protecting investors is important, the proposed limits risk excluding many potential participants from the ecosystem. This exclusion would reduce not only capital flow to early-stage ventures but also the experience, judgment, networks, and hands-on support that angel investors typically provide.

7 6 Positive side of new regulation

Not all investors see the drop in deal numbers as negative. Anirudh A Damani, managing partner at Artha Venture Fund—a micro-VC focusing on seed and early-growth startups—said some earlier angel activity involved very small investments that complicated fundraising without showing strong commitment. “Some networks accepted checks as low as Rs 25,000, and one even allowed Rs 5,000. That’s not angel investing; it’s retail crowd funding masquerading as venture investing,” Damani said. “Removing these investors ‘speeds up rounds. Serious angels are still investing.” Damani also noted that the quality of startups reaching institutional investors has improved. “Founders approaching us today are much more disciplined. They focus on unit economics, use customer money wisely, and avoid unnecessary spending,” he said (Moneycontrol.2025, December). “The risk will come only if compliance costs become so high that seed funds can’t operate.” Tracxn data partly supports this perspective, showing that while the number of deals dropped sharply, the total funding amount declined less dramatically—suggesting capital is more concentrated rather than completely withdrawn.

7 7 Future prospects

Overall, 2025 data indicates that India’s angel investing market has become smaller, slower, and more concentrated. Capital is still available, but access has narrowed, especially for founders raising pre-seed and seed rounds. Whether this adjustment leads to a healthier, more disciplined ecosystem or causes lasting gaps at the early funding stages will depend on how participation and incentive structures develop. For now, the year-end figures clearly show a shift in how early-stage capital is being allocated in India.

8 CONCLUSION

The regulatory overhaul reflects a tension between investor protection and ecosystem inclusivity. While formal accreditation enhances transparency and reduces speculative participation, excessive barriers may constrain the diversity of capital sources. A balanced approach is essential to maintain innovation momentum while safeguarding investors. The 2025 regulatory reforms have reshaped participation patterns, producing a more concentrated yet potentially more disciplined market. Policymakers must continuously evaluate the trade-offs between regulation and accessibility to ensure that early-stage entrepreneurs retain adequate funding opportunities. Future research should incorporate longitudinal data to assess long-term ecosystem outcomes.

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