



AN ANALYTICAL STUDY ON VENTURE CAPITAL-ANGEL INVESTORS WITH SPECIAL REFERENCE TO CROWDFUNDING IN KANNADA FILM INDUSTRY

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Introduction

An angel investor (also known as a business angel, informal investor, angel funder, private investor, or seed investor) is an affluent individual who provides capital for a business start-up, usually in exchange for convertible debt or ownership equity. A small but increasing number of angel investors invest online through equity crowdfunding or organize themselves into angel groups or angel networks to share research and pool their investment capital, as well as to provide advice to their portfolio companies. The "Lucia" a movie financed through the crowd-funding model releases in local cinemas it will mark a first for the Kannada film industry. Funded by over 100 investors who contributed to the project through a Facebook page and a blog run by director-actor Pawan Kumar, the movie slated to be a thriller will be the first Kannada movie to bypass the traditional film financing mode. The rising trend in the use of this platform owes greatly to the public's choice in the matter. People contribute to projects that they're passionate about and projects that have no fan base, generally, never take off. Companies and individuals all around the world have started making more and more use of this phenomenon especially those from the entertainment industry.

"The rationale why crowdfunding has become a success is its underlying promise of being able to democratize the whole process of film making, allow the communities to support what they want to see and enable creative entrepreneurs to free themselves from the control of just few hands and being able to enjoy the creative freedom that they always

Theoretical Background

Crowdfunding is the practice of funding a project or venture by raising monetary contributions from a large number of people. Crowdfunding is a form of crowdsourcing and of alternative finance. In 2015, it was estimated that worldwide over US\$34 billion was raised this way.

Although the concept can also be executed through mail-order subscriptions, benefit events, and other methods, it is now often performed via Internet-mediated registries.¹ This modern crowdfunding model is generally based on three types of actors: the project initiator who proposes the idea and/or project to be funded, individuals or groups who support the idea, and a moderating organization (the "platform") that brings the parties together to launch the idea

The Objectives of Study

- To analysis the risk and return of crowdfunding.
- To understand the concept of Crowdfunding

Methodology

The study is primarily based on secondary data and information and research material i.e. reference books, Journals, Newspapers and websites, The Income and expenses Statement of Lucia movie were used to analysis the Return of investment for crowdfunding method.

Result and Discussion

Crowdfunding is solicitation of funds (small amount) from multiple investors through a web-based platform or social networking site for a specific project, business venture or social cause.

Types of crowdfunding

1. Reward-based

Reward-based crowdfunding has been used for a wide range of purposes, including motion picture promotion, free software development, inventions development, scientific research, and civic projects.

Many characteristics of rewards-based crowdfunding, also called non-equity crowdfunding, have been identified by research studies. In rewards-based crowdfunding, funding does not rely on location. The distance between creators and investors on Sellaband was about 3,000 miles when the platform introduced royalty sharing. The funding for these projects is distributed unevenly, with a few projects accounting for the majority of overall funding. Additionally, funding increases as a project



nears its goal, encouraging what is called "herding behavior". Research also shows that friends and family account for a large, or even majority, portion of early fundraising. This capital may encourage subsequent funders to invest in the project. While funding does not depend on location, observation shows that funding is largely tied to the locations of traditional financing options. In reward-based crowdfunding, funders are often too hopeful about project returns and must revise expectations when returns are not met.

2. Equity

Equity crowdfunding is the collective effort of individuals to support efforts initiated by other people or organizations through the provision of finance in the form of equity. In the United States, legislation that is mentioned in the 2012 JOBS Act will allow for a wider pool of small investors with fewer restrictions following the implementation of the act. Unlike non-equity crowdfunding, equity crowdfunding contains heightened "information asymmetries". The creator must not only produce the product for which they are raising capital, but also create equity through the construction of a company. Syndicates, which involve many investors following the strategy of a single lead investor, can be effective in reducing information asymmetry and in avoiding the outcome of market failure associated with equity crowdfunding.

3. Software value token

Another kind of crowdfunding is to raise funds for a project where a digital or software-based value token is offered as a reward to funders. Value tokens are endogenously created by particular open decentralized networks that and are used to incentivize client computers of the network to expend scarce computer resources on maintaining the protocol network. These value tokens may or may not exist at the time of the crowdsale, and may require substantial development effort and eventual software release before the token is live and establishes a market value. Although funds may be raised simply for the value token itself, funds raised on blockchain-based crowdfunding can also represent equity, bonds, or even "market-maker seats of governance" for the entity being funded. Examples of such crowdsales are Augur decentralized, distributed prediction market software which raised US\$4 million from more than 3500 participants; Ethereum blockchain; Digix/ Digix DAO and "The DAO."

4. Debt-based

Debt-based crowdfunding (also known as "peer to peer", "P2P", "marketplace lending", or "crowdlending") arose with the founding of Zopa in the UK in 2005 and in the US in 2006, with the launches of Lending Club and Prosper.com. Borrowers apply online, generally for free, and their application is reviewed and verified by an automated system, which also determines the borrower's credit risk and interest rate. Investors buy securities in a fund which makes the loans to individual borrowers or bundles of borrowers. Investors make money from interest on the unsecured loans; the system operators make money by taking a percentage of the loan and a loan servicing fee. In 2009, institutional investors entered the P2P lending arena; for example in 2013, Google invested \$125 million in Lending Club. In 2014 in the US, P2P lending totalled about \$5 billion. In 2014 in the UK, P2P platforms lent businesses £749 million, a growth of 250% from 2012 to 2014, and lent retail customers £547 million, a growth of 108% from 2012 to 2014. In both countries in 2014, about 75% of all the money transferred through crowdfunding went through P2P platforms. Lending Club went public in December 2014 at a valuation around \$9 billion. Debt crowdfunding in the U.S. has further evolved with the May 16, 2016 enactment of Title III of the JOBS Act, which allows unaccredited investors to invest directly in private businesses through regulated Funding Portals or Broker-Dealers.

5. Litigation

Litigation crowdfunding allows plaintiffs or defendants to reach out to hundreds of their peers simultaneously in a semiprivate and confidential manner to obtain funding, either seeking donations or providing a reward in return for funding. It also allows investors to purchase a stake in a claim they have funded, which may allow them to get back more than their investment if the case succeeds (the reward is based on the compensation received by the litigant at the end of his or her case, known as a contingent fee in the United States, a success fee in the United Kingdom, or a partum de quota litis in many civil law systems). LexShares is a platform that allows accredited investors to invest in lawsuits.

6. Donation-based

Charity donation-based crowdfunding is the collective effort of individuals to help charitable causes. A form of charity crowdfunding is civic crowdfunding, in which funds are raised to enhance public life and space.

Method used by Lucia movie for collecting Crowdfunding

In December 2011 Pawan Kumar announced on the Web that his next project, after the success of his directorial debut film Lifeuhshtene, was going to be Lucia. First two months, he met quite a few producers and top actors and found it difficult



to fund his film. That led Pawan Kumar to write a post titled Making Enemies on his blog. Three days after it was published, the response was so overwhelming that he decided to pitch the idea of inviting people to produce the film and Pawan Kumar initiated Project Lucia. Lucia is notable for its use of crowdfunding. It was funded by 110 investors who contributed to the project through a Facebook page and a blog run by director-actor Pawan Kumar. It was the first Kannada movie to bypass the traditional film financing model. The director initially offered the lead role to model turned actor Digant but he was later replaced by SathishNinasam, who has played supporting roles in many Kannada films. From this we see that Director used equity crowdfunding to collect fund from public.

Analysis and Interpretation

Investment of Movie

Expenditure- Lucia movie capital information	
Source of Funding	Rs.
Through Crowd Funding	51,00,000
Budget of the film is	51,00,000

Revenue-Lucia movie total Collection	
	Rs.
Satellite Rights	95,00,000
Ticket sales	3,06,00,000
Outside Karnataka	8,00,000

Income and Expense Statement			
Income	Rs.	Expenses	Rs.
Satellite Rights	95,00,000	Expenses to film	51,00,000
Ticket Sale	3,06,00,000	Profit	3,58,00,000
Other state	8,00,000		
	4,09,00,000		4,09,00,000

Return on Investment

$$\begin{aligned} \text{ROI} &= \text{Net Profit/Cost of investment} * 100 \\ \text{ROI} &= (35800000/5100000) * 100 \\ &= 701.968 \text{ which is } \mathbf{7 \text{ times of investment (approximate)}} \end{aligned}$$

Interpretation

From the above mentioned table deplete the capital of Lucia movie(5100000) and total collection of movie (40900000) . From the income and expenses of Lucia movie the profit is (35800000) and Return on Investment of the movie 701.968% which is 7 times of the Investment.

Conclusion

As we all know that angel investors(venture capitalist) have been playing vital role for startups many e-commerce venture in the current decade. Crowdfunding is the part of angel investor to finance for startup venture which picking up in Indian market and the above mentioned case study is the evidence that the venture capital has got better capital growth with stipulated period. In present scenario, any business idea can reach interested and potential investors through face book and other social media as found the interesting story line in one of the time movie VelaiillaPattadhari-pooling human resources for construction.

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