

Nepal-focused Dolma Impact Fund closes debut vehicle at \$36.6m

Nepal-focused private equity fund Dolma Impact Fund made the final close of its debut fund at \$36.6 million in June 2018, a top executive told this portal.

Dolma Impact Fund I came to a final close three years after its second close of \$26 million.

Dolma Fund Management, the fund manager responsible for Dolma Impact Fund, is a pioneer in the private equity space in Nepal and among a handful of PE investment firms committed to equity investments in the country.

The fund's institutional investors include FMO, Finnfund, Development Bank of Austria (OeEB) and the Dutch Good Growth Fund (DGGF).

Dolma Impact Fund, which is currently managing seven investments in Nepal in sectors including healthcare, pharmaceuticals, energy and technology, is targeting up to a total of 11 deals out of Fund I to invest in teams seeking growth capital.

Tim Gocher, CEO, founder and director of Dolma Fund Management, says Nepal has evolved as an investment ground. Its improved infrastructure and growth potential are attracting more investors to a country that has traditionally been seen as a natural disaster-prone landlocked country.

In an interaction with DEALSTREETASIA, Gocher talks about Dolma Impact Fund I, its portfolio, the overall investment climate and its interest to invest in the technology space in Nepal.

Edited Excerpts:-

Can you give us an update on Dolma Impact Fund and the final close of its debut fund?

Dolma Impact Fund I achieved its first close in September 2014, with a second close in June 2015, bringing total commitments to almost \$26 million. This was intended to be the final close, but as we exceeded expectation in terms of deals and performance, and due to growing demand for growth capital in Nepal, an “extended final close” was achieved in June 2018, bringing total commitments to \$36.6 million. This is the final close and does not extend our investment period.

Who are the investors that have participated in the extended final close?

The majority of Dolma Impact Fund I commitments come from bilateral Development Finance Institutions, with some family office/HNWI investors and, of course, the GP – Dolma Fund Management. We are the first international private equity fund investing in Nepal. With no track record of private equity in Nepal before us, let alone impact funds, we needed pioneering institutions with experience of other frontier markets. Our major investors include FMO, Finnfund, Development Bank of Austria (OeEB) and the Dutch Good Growth Fund (DGGF). All these investors increased their commitments in the June 2018 close.

How many investments are you targeting in Nepal out of the fund?

So far, we have committed to seven investments and are targeting a total of 10-11 deals.

What would you say contributes to the Fund’s success of raising additional investments for a market like Nepal?

The team is number one. We made the choice early on to build a team of Nepalese professionals, supported by international experience from our Advisory Board, IC and Investors’ Advisory Committee. Many in our team returned from abroad

having gained their degrees and experience, especially from the US, UK and India. This has delivered the right blend of cultural understanding and international best practices. Of course, it is our team's proven ability to execute that contributes most to fundraising.

The second factor is the market in Nepal. The early years were tough, with the first 18 months dominated by earthquakes, followed by a blockade on the Indian border where almost all imports come from. This brought the country to a standstill. But even during this period, we were doing deals. Nepalese entrepreneurs (and people) never cease to amaze us with their dedication in the face of difficulties. But now things are different. The successful peace accord is a distant memory, and political stability, a more reliable electricity supply, and a new government with a will to reform the regulations have boosted business confidence. I'm glad we established our brand in the difficult years. We are now benefiting from a boom in demand for corporate growth.

Your portfolio includes Suri Khola Hydropower, Rhododendron Biotech and CloudFactory Group. How would you assess the progress of those companies? How viable would you say the returns would be?

These were some of our earlier deals and we're delighted with the outcomes so far. They give us a good blend of clean energy, pharmaceutical manufacturing and technology, and all either substitute imports or drive exports at a time when Nepal's trade deficit is growing. They have also driven considerable local employment when under-employment in Nepal results in millions seeking employment abroad.

Suri Khola is under construction and planning an IPO on the local exchange. Rhododendron provides around 90 per cent of the country's haemodialysis fluid as the need for kidney dialysis rises. And CloudFactory has grown from a \$4.3-million Annualized Run Rate (ARR) when we invested, to \$21 million today.

Although sector agnostic, the Dolma Impact Fund is looking into some attractive spaces like renewable energy, agriculture, healthcare and tourism. What do you look for in potential investee companies?

Almost all sectors are experiencing growth in Nepal. Regardless of the industry, our main criteria for investment is a dedicated, driven management team who wish to reach international standards in environmental, social, and corporate governance.

How has Dolma's investment journey in Nepal been like? Please tell us about your portfolio and significant milestones reached by the firms following your investment.

Our more recent deals include a hospital growing to 100 beds, grain storage [startup], and e-commerce [business]. The demand for affordable, quality healthcare is booming.

Our grain storage business will provide 10,000 farmers with the ability to store their grain to sell when demand is highest while allowing them to access finance using their grain as collateral. And Sastodeal, our e-commerce business, drove revenue growth by 233 per cent in the last quarter. The e-commerce market here is heating up.

Sastodeal is the number two player after Daraz, which was recently acquired by Alibaba. We see significant interest from e-commerce companies in South Asia seeking a foothold in the high-growth Nepalese market. In fact, we've been surprised at the level of technology innovation and opportunities in Nepal and plan further investments in this sector.

As the first PE fund in Nepal, what do you think the ecosystem in Nepal needs for more private equity firms to appear?

There are already at least two other private equity funds focused on smaller ticket sizes compared to Dolma. We need more, and would also like to see later stage, vertically focused funds enter the market, providing us with more exit options.

What is your assessment of the regulatory environment and ease of doing business in Nepal?

To achieve this, the government must make it easier to bring money into (and out of) the country. At the moment, to receive an FDI licence, it requires multiple signatures from multiple government agencies and can take many months following legal commitment. It is the only major country in South Asia to require this and receives by far the smallest amount of FDI per capita in part as a result. That's not too bad for us as we have a team here to deal with that, but for larger, international funds, it would make things difficult.

Will there be any subsequent investment funds likely to be launched in the near future?

Yes. We would like the growth trend in our investee companies to continue, and perhaps a valuation event to take place. Then we plan to return to the market for a larger Dolma Impact Fund II.

When you fundraise, what are the kind of investors that show interest? And what part of the Nepal growth story most attracts them to invest?

For our first fund, it was difficult to find investors prepared to take the risk. Due to our performance, and improvement in the business environment since then, we're seeing a broader category of investors take an interest. These include impact funds and private sector investors seeking exposure to Nepal's growth while driving significant social and environmental benefits that are so essential in this country.

What kind of an exit horizon do you work with and also what are the returns expectations in Nepal?

Being the first fund for the country, it is difficult to state our target returns. There isn't a track record of return performance to go on. We hope that we can achieve returns that attract other investors into the market, both for Dolma and others that can bring more plurality to the private equity and capital market landscape in Nepal. To achieve this, our returns must be superior to those experienced in India.

For our energy investments, the local stock exchange is a good path for exit and we plan to pioneer the first IPOs of other sectors such as agriculture and hospitals. But at the same time, we stay close to the investment and acquisition markets of India where we are planning trade sales. We would like to see our first valuation event, if not full exit, within the next two years.

Anything you would like to add?

We believe Nepal could have a much higher potential for growth and impact. What we have in common among our Dolma team is a desire to see the country develop while retaining its unique and beautiful culture. While it's hard to calculate returns at this stage, I know that the achievement we are most proud of is that our investee companies now provide around 3,000 quality, sustainable jobs in Nepal, a number that seems to grow by the day.

By Juliet Shwe Gaung