British International Investment

FMO Entrepreneurial Development Bank

Schweizerische Eidgenossenschaft
Confédération suisse
Confederazione Svizzera
Confederaziun svizra

Swiss Agency for Development and Cooperation SDC
स्वीस सरकार विकास सहयोग एसडीसी

Investment Readiness Scorecard

Self Assessment for Companies with PEVC interests

NPEA Nepal Private Equity Association

Invest for Impact Nepal

June 2023

Table of Contents

Investment Readiness Scorecard: Overview

NPEA
Nepal Private Equity Association

Invest for Impact Nepal

Investment Readiness Scorecard: Overview

? WHAT IS IT

- Self-assessment toolkit developed with the aim to enable Small and Medium Enterprises (SME) to **assess their investment readiness** in Nepal.
- The toolkit is **sector agnostic** hence can be applied to a wide range of businesses

FOR WHO

- It can be used by **SMEs** who are looking for investors in Nepal.
- It can also be used by **fund managers** to share with the companies evaluated for potential investments.

INTENDED OUTCOME

- For SMEs to be aware of **what investors look for as well as to recognize their strengths and improvement areas**.
- Facilitate **higher engagement** and **active cooperation** between the investment ecosystem actors i.e. investors, SMEs and BSPs, leading to enhanced deal flow.

Self-Assessment Parameters

Nepal Private Equity Association

Invest for Impact Nepal

Priorities for Investment

	Value Proposition	Management Team	Business and Financial Planning	Responsible Business Practice
Foundation	Value Proposition	Management Team	Business and Financial Planning	Responsible Business Practice
Categories	Product/Service Attractiveness (50%) Market Demand/Growth Potential (25%) Commercial Attractiveness (25%)	Technical Expertise (40%) Management Experience (35%) Company Operation and Goals (25%)	Business Planning (80%) Investment Planning (20%)	Environmental & Social Impact (35%) Business Integrity (35%) Corporate Governance (30%)
Rationale	A company's product/service value for customers, coupled with the size of the current and potential market, allows investors to gauge the value of their investment in the company. Commercial attractiveness allows investors to assess whether the business presents a commercially viable investment opportunity.	The investment attractiveness of a company is highly dependent on the capabilities of its founding team and core management team. A strong management team is capable of setting goals, ensuring seamless implementation, mitigating risks and motivating the team to achieve growth targets.	Sound business and financial management practices plus investment plans help companies convince investors of the potential for high returns on their investments, which thus increasing investment attractiveness.	Assessing parameters related to responsible business practices helps investors identify opportunities and anticipate potential risks whilst ensuring that the company has a positive impact on the environment and society. This is particularly important for impact investors to meet their overall development objectives.

Note:

1. Appearing in red font are "must have criteria" for investment decision.
2. Low scores do not necessarily result in non-investment decision as long as prior to investment decision investee companies express "willingness to comply" to suggestions for improvement from investors.

Self-Assessment: Value Proposition

Value Proposition		
Product / Service Attractiveness (50%)		
Product / Service Demand	0 5 10	Company has a positive feeling on demand for the product/ service **but no clear proof** Company **can explain** in detail why there is a demand, and the market size is growing, but it **has to be tested** Company **has demonstrated traction with sales** at price equal to or near equal to its desired selling price
Product / Service Innovation	0 5 10	Company's products and services are **similar to what is available** in the market Company's products and services are **a bit different from competitors** and include unique features Company's products and services **are unique and have competitive advantages** from competitors, i.e cheaper while providing same or greater value or clearly defined additional or better product benefits
Market Demand and Growth Potential (25%)		
Competitive Landscape	0 5	Company is **unaware about its key competitors** or does not understand about their business strategy Company **knows direct competitors** and/or competitive position
Market Share	0 5	Company is **unaware about its market share** Company knows **its market share and/or knows percent market share it wants to capture** in 3-5 years
Commercial Attractiveness (25%)		
Revenue Trend	0 5	Company's average annual revenue has **not increased in the last 1-3 years**. Company has seen an average annual revenue **increase in the last 1 to 3 years**.
Gross Profit Trend	0 5	Company's gross profit **in the last 3 years is decreasing or has not increased** Company's gross profit in the last 3 years is **on an increasing trend or is positive**
Net Profit Trend	0 5	Company's Net profit over the last three years **is decreasing or has not increased** Company's Net profit in the last **3 years is positive**
Return on Investment (ROI)	0 5	Company's return on investment has **not increased or is on decreasing trend** in the last 1 to 3 years Company's return on investment is **on the positive trend** in the last 1 to 3 years

Note: Not all subcategories may be applicable for all industries (e.g., Commodity versus niche product) and investors may use suitable subcategory for different sectors

Self-Assessment: Management Team

Management Team		
Technical Expertise (40%)		
Market Knowledge	0	Founder or at least a Promoter has **less than 2 years of** experience witin the industry
	5	Founder or at least a Promoter has **2-3 years of professional experience** in the market
	10	Founder or at least a Promoter has **over 3 years of professional experience** in the market
Technical Skillset	0	Management is **currently only comprised of the founder or family members** who drive/s decision making
	5	Management has a technically **diverse team with product expertise but limited marketing, sales or finance skillset**
	10	Management team has people with **expertise in marketing, sales, finance and product / service development**
Management Experience (35%)		
Management experience	0	Key members in the core team has **less than 3 years of** relevant team management experience
	5	At least one member in the core team has **professional team management experience (5–7 years)**
	10	At least one member in the core team has **professional team management experience (more than 7 years) or has experience in other companies in the same industry**
Management Team stability	0	Management team is **working together as a team for less than 1 year**
	5	Management team **does not have frequent turnover and is working together for 1-3 years**
	10	Management team is **stable and is working together for over 3 years**.
Company Operations & Goals (25%)		
Company Vision and Goals	0	Vision and goals are **still being developed**
	5	Clear **short term vision and goals** set for the company
	10	Clear **vision and goals** set for the company for a period of 5 years or more
Organisation Structure	0	**Lack of clear roles** assigned to key individuals operating the business
	5	**Organisation chart** with **clear main roles assigned**
	10	**Clear organization structure** with roles and responsibilities, approval limits, review processes and evaluation criteria

Note: Some criteria eg. Technical Skillset criteria as is, my not apply to start-up businesses.

Self-Assessment: Business & Financial Planning

Business and Financial Planning		
Business Planning (80%)		
Product / Service Development Plan	0 5 10	Company does **not have a concrete product or service development plan** yet Company **has a high level view on major product and service improvements i**n the coming years Company **has a detailed 3-5 years product / service development plan**
Business Plan	0 10	**No written Business plan** **3-5 Year detailed Business plan** with business strategy, business structure, market research, marketing and human resources plans, and financial forecasting (linked to revenue and cost forecasts) including anticipated working capital needs and identified sources of funding
Financial Statements	0 5 10	**No updated or accurate financial statements** and accounting records **Updated and accurate 1-Year Management account** with key financial metrics including profit/loss and revenue **Audited Financial Statement** (Profit/Loss Statement, Cash Flow Statement, Balance Sheet)
Investment Planning (20%)		
Pitch Deck	0 5 10	Company **has no business overview document** or pitch deck Company **has a business overview/ business profile document** with key products/services, financial highlights Company **has a pitch deck with detailed documentation** for pre-due diligence
Company Valuation	0 5	Company **has not done any research to determine valuation** and does not have an idea of expected value Company **knows the expected valuation range** based on valuation models and scenarios

Self-Assessment: Responsible Business Practice

Responsible Business Practice		
Environmental & Social Impact (35%)*		
Environmental Risks	0 5 10	Company's activities **pose major threats** to the environment **or no risk assessment has been done** Company's activities **pose threats** to the environment **but steps have been taken** to reduce these risks Company has **completed a comprehensive assessment** of potential risks and mitigation process and there is **no existing environmental threats**
Social Risks	0 5 10	Company's activities **pose major threats** to the community or **no risk assessment has been done** Company's activities **pose threats** to the community but **steps have been taken** to reduce these risks Company has **completed a comprehensive assessment** of potential risks and mitigation process including supplier screening and there are **no existing risks to the community**
Business Integrity (35%)		
Financial Integrity	0 5 10	Company generally honors contractual obligations with internal and external stakeholders (shareholders, partners, suppliers, customers, financial institutions etc.) but **records indicate case(s) of default due to company oversight** Company honors contractual obligations with internal and external stakeholders (shareholders, partners, suppliers, customers, financial institutions etc.) but **records indicate case(s) of default due to situations outside of the control of the company** Company's **records indicate no defaults** in honoring ccontractual obligations with internal and external stakeholders (shareholders, partners, suppliers, customers, financial institutions etc.)
Contractual Policies	0 5 10	Company's existing suppliers and customers have been **selected on a relationship basis** with limited contractual obligations Company **has clear contractual policies** for its suppliers and customers including payment terms, related third party transaction policies Company has **clear contractual policies** for its suppliers and customers **with background checks** completed prior to contract finalisation
Corporate Governance (30%)		
Regulatory Compliance	0 5 10	Company may be **aware of the regulations** present within the industry **but does not comply** with most of them Company is **fully aware of and broadly complies with laws and regulations** including for taxation laws Company **fully complies with laws and regulations**
Transparency & Disclosure	0 5 10	**No policies or processes for sharing any financial or non-financial reports** internally or with shareholders **Prepares financial and non-financial reports for internal confidential use** only Basic **financial and non-financial reports shared annually** with shareholders
Decision Making	0 5 10	Company **decisions are taken by the founder** and are **not documented** Company **decisions are taken in the boardroom** and are **sometimes documented** Company decisions are always **taken after thorough discussion** in the boardroom and **always documented**

Note: Some funds look favorably towards SMEs that they have systems in place to measure environment and social impacts

Investment Readiness Scorecard: Gradients

NPEA
Nepal Private Equity Association

Invest for Impact Nepal

Investment Readiness Scorecard: Gradients

Scale of 0 - 34

Investment Aware — **10** — **Investment Explorer** — **22** — **Investment Ready**

It is likely that **you are aware of the key investor requirements but are yet to implement effective processes and policies favoured by investors** in Nepal. Prioritising on strengthening the management team and value proposition can lead to quick wins. Your team could overcome leadership challenges by setting clear goals to motivate the team. Your company could face highly competitive challenge and may not be reaching your target audience. Seeking customer feedback can ensure that the product/ service offerings meet their needs. **Investors are eager to explore ways to support companies at this stage as well**, so please do reach out for discussions.

It is likely that **you meet the important criteria that investors look for generally in a leadership team and a sound business**. Refer to the SME Toolkit to **get in touch with relevant investors who will welcome further discussions and are always willing to offer support and guidance** on how they can potentially work together with you to bridge any gaps or address any operational challenges and accelerate your journey towards becoming investment ready.

It is likely that **you meet most of the criteria that investors generally look for when evaluating companies for investment**! If you haven't been in touch with them yet, do **reach out to the key investors** listed in the SME Toolkit to share more about your company and have a personalised discussion on the potential investment opportunities. **They would be delighted to hear from you and work together with you to address any questions** you may have as well as provide support with the documentations you may need to prepare!

Note: Calculation of Scores

Final Score for each sub-category is calculated by multiplying the weightage (of the category) with its score and divided by the number of subcategories in the category and is totalled up.

E.g., Calculation of Final Score of Product Service Demand under Product Service Attractiveness (this carries a weightage of 40%)

*Final Score for Product / Service Demand = 40% * Score (of either 0, 5 or 10)/ 2 (There are 2 subcategories under Product Service Attractiveness)*

Link to excel sheet.

Disclaimer: Every company is unique, and this self-assessment aims to provide a high-level guidance on key investor requirements. Please contact NPEA or NPEA members listed for a more personalized discussion and evaluation of the level of your investment readiness.

Kindly note that the scores are indicative only and getting investment ready score does not necessarily guarantee investment from investors.

Mandatory Checks

Business License

Securing a relevant business license that allows you to formally operate your business and enter into partnerships on behalf of a registered legal entity is crucial. However, given the complex regulatory environment in Nepal, companies should at minimum understand the main licenses they require to operate legally.

Sanctions Check

It is important to understand any links to sanctioned entities and prepare documentations with sufficient information about the company, owners and family involved as well as directors and shareholders to help investors establish that you do not have any direct links with sanctioned entities or politically exposed persons (PEP)*.

Ethics Check

It is important for companies to understand possible ethical risks and establish policies and processes with proper documentation to ensure that your organization and employees, owners and family involved as well as directors and shareholders do not engage in human rights violation, illicit trade, drug trafficking, child labor, discrimination or modern slavery.

Invest for Impact Nepal

Sanepa, Lalitpur Metropolitan City Ward No. 2, Lalitpur, Nepal

info@investforimpactnepal.com
www.investforimpactnepal.com
www.linkedin.com/company/invest-for-impact-nepal/
www.twitter.com/Invest4Nepal

NPEA
Nepal Private Equity Association

Sanepa, Lalitpur Metropolitan City Ward No. 2, Lalitpur, Nepal

info@nepalpea.org
https://www.nepalpea.org/
https://www.linkedin.com/company/nepal-private-equity-association/