NPEA

Nepal Private Equity Association





MARKET SNAPSHOT

Volume II | July, 2024





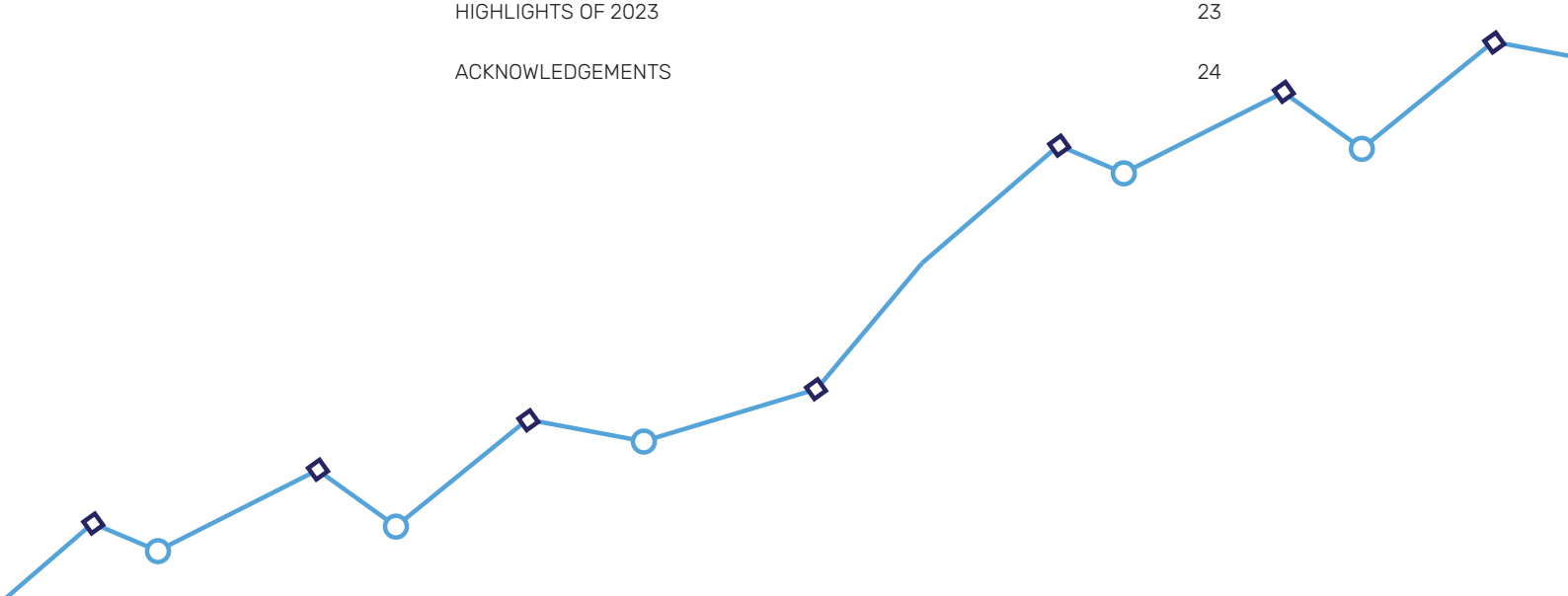


An overview of Nepal's private equity and venture capital landscape, highlighting key trends of 2023

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MESSAGE FROM **THE CHAIRPERSON**

2023 has been a year of significant milestones for the PEVC sector in Nepal. The report highlights a remarkable increase in investment activities by NPEA members, with a total of USD 35 million invested in 2023 alone, contributing to a cumulative total of USD 101 million from 2012 to 2023.

Dear Members, Partners, and Stakeholders, The Private Equity and Venture Capital (PE/VC) ecosystem in Nepal is evolving in a robust and linear manner, our latest presentation of the "NPEA Market Snapshot Volume II, July 2024," attests to this remarkable journey. This comprehensive report is a testament to the collective efforts of the Nepal Private Equity Association (NPEA) and our dedicated members. As we navigate through this landscape, this report provides invaluable insights into the trends, opportunities, and achievements of the past year.

2024 has been a year of significant milestones for the PEVC sector in Nepal. The report highlights a remarkable increase in investment activities by NPEA members, with a total of USD 35 million invested in 2023 alone, contributing to a cumulative total of USD 101 million from 2012 to 2023. The advent of the Specialized Investment Funds (SIF) in this asset class has tremendously contributed to this. This growth underscores the dynamism and resilience of our market, reflecting the confidence and commitment of both local and international investors in Nepal's economic potential.

The introduction of new funds, the diversity of sectors attracting investments, and the active participation of various market players have collectively strengthened our investment ecosystem. Notably, sectors such as renewable energy, information technology, and transportation have seen substantial investments, indicating a strategic focus on areas crucial for sustainable development.

As we continue to advocate for a supportive regulatory environment and foster professional growth within the industry, the NPEA remains committed to its mission of enhancing the private equity and venture capital landscape in Nepal. Our efforts in policy advocacy, networking, training, and research are pivotal in shaping a conducive environment for investment and innovation.

I extend my heartfelt gratitude to our members, partners, and all contributors for their unwavering support and collaboration. Special appreciation to Invest in Nepal (IIN) and US AID- Trade and Competitiveness for their continued support in our endeavors. Together, we are paving the way for a vibrant and sustainable investment future for Nepal.

SIDDHANT RAJ PANDEY
CHAIRPERSON



ABOUT THE **NEPAL PRIVATE EQUITY ASSOCIATION**

The Nepal Private Equity Association (NPEA) is the umbrella organization for private equity and venture capital fund managers, as well as business service providers in Nepal. Established as a non-profit entity, NPEA currently counts 18 'regular' members, comprising private equity and venture capital fund managers, and 7 'associate' members, consisting of business service providers such as law firms and audit firms.

The association is dedicated to fostering a sustainable investment environment in Nepal, advocating for beneficial policies, and providing networking, training, research, and resources for its members. Its activities are geared towards strengthening Nepal's private and alternative investment ecosystem, enhancing professional skills in the field, and facilitating connections between local and international players in the industry.



NPEA operates on a multi-pronged approach and this encompasses four key pillars:



1. POLICY ADVOCACY AND LOBBYING:

By actively collaborating with policymakers and regulatory bodies, the NPEA fosters the creation of a legal and regulatory framework that supports and promotes private equity and venture capital investments in Nepal.



3. TRAINING AND PROFESSIONAL DEVELOPMENT:

Acknowledging the critical role of expertise in the industry, the NPEA offers specialized training sessions aimed at enhancing skills and professionalism of individuals involved in the private equity and venture capital sectors. This initiative helps professionals adeptly navigate the complexities and keep up with the global best practices of the investment landscape.



2. NETWORKING OPPORTUNITIES:

The association organizes a wide range of networking events, creating valuable opportunities for its members to engage with each other and with potential investors, exchange ideas, and build meaningful connections, thereby fostering a collaborative investment community.



4. RESEARCH AND INFORMATION DISSEMINATION:

With a commitment to transparency and informed decision-making, the NPEA conducts research and shares resources to disseminate insights on the state of the private equity and venture capital markets in Nepal, in addition to building toolkits for investors and businesses seeking investment.

By standing as a pillar of support for innovation and entrepreneurship, the Nepal Private Equity Association plays a pivotal role in shaping a vibrant and sustainable investment ecosystem in Nepal, paving the way for the country's economic prosperity



ABOUT **NPEA MARKET SNAPSHOT II**

The "Market Snapshot Volume II" is an analysis published by the Nepal Private Equity Association to provide insights into the private equity and venture capital investment landscape within Nepal's Private Equity and Venture Capital (PEVC) sector for the year 2023 and also provide a cumulative report on data collected by the association dating back to 2012. This report is vital for investors, entrepreneurs, policymakers, and other stakeholders interested in understanding the dynamics, trends, and opportunities within the Nepalese alternative investment market.

SOURCE OF DATA:

This report is based solely on information collected from member firms of the Nepal Private Equity Association (NPEA) through voluntary surveys. Data from organizations or institutions not affiliated with the NPEA, either currently or previously, are not included. These member firms encompass a wide range of the investment community, including venture capitalists and private equity investors. Leveraging data from these firms, the NPEA strives to ensure that this report provides a comprehensive and accurate reflection of investment activities for the specified period.

IMPORTANCE OF THE REPORT:

- **For Investors:** Offers a comprehensive analysis of the market, equipping investors with the knowledge to make well-informed decisions and understand the broader context of the industry.

- **For Entrepreneurs:** Delivers insights into sectors drawing investments, empowering entrepreneurs to tailor their business strategies in accordance with prevailing market trends.

- **For Policymakers:** Facilitates comprehension of the alternative investment landscape, essential for developing policies that stimulate further investment and bolster the growth of vital sectors. Additionally, a discussion on policy reforms enhances regulators' awareness of the primary challenges within the PEVC sector, as highlighted by attorneys working in this field.

The "Market Snapshot Volume II" serves as a pivotal resource for understanding the investment ecosystem in Nepal. By offering a detailed examination of investment activities, trends, and sectoral performance, the report plays a crucial role in fostering an environment conducive to growth and innovation in Nepal's economy. Additionally, the report features interviews to offer more comprehensive information and deeper insights into the market trends."

2023 PEVC MARKET HIGHLIGHTS FROM NPEA MEMBERS

"All amounts projected in this report is in US Dollars"

FIGURE 1: SUMMARY OF KEY METRICS UP TO 2023

	2023	2012-2022	2012-2023
Total Number of Active Funds	8	11	16
Total Number of Investments (including reinvestments)	22	74	96
Total Amount Invested	**USD 35 Million**	**USD 66 Million**	**USD 101 Million**

Figure 1 provides a summary of key metrics from the private equity and venture capital market for the year 2023, alongside cumulative figures from previous years or a broader dataset between 2012 - 2022 which was previously reported in the first volume of the market snapshot.

FIGURE 2: ACTIVE FUNDS THROUGHOUT THE YEARS

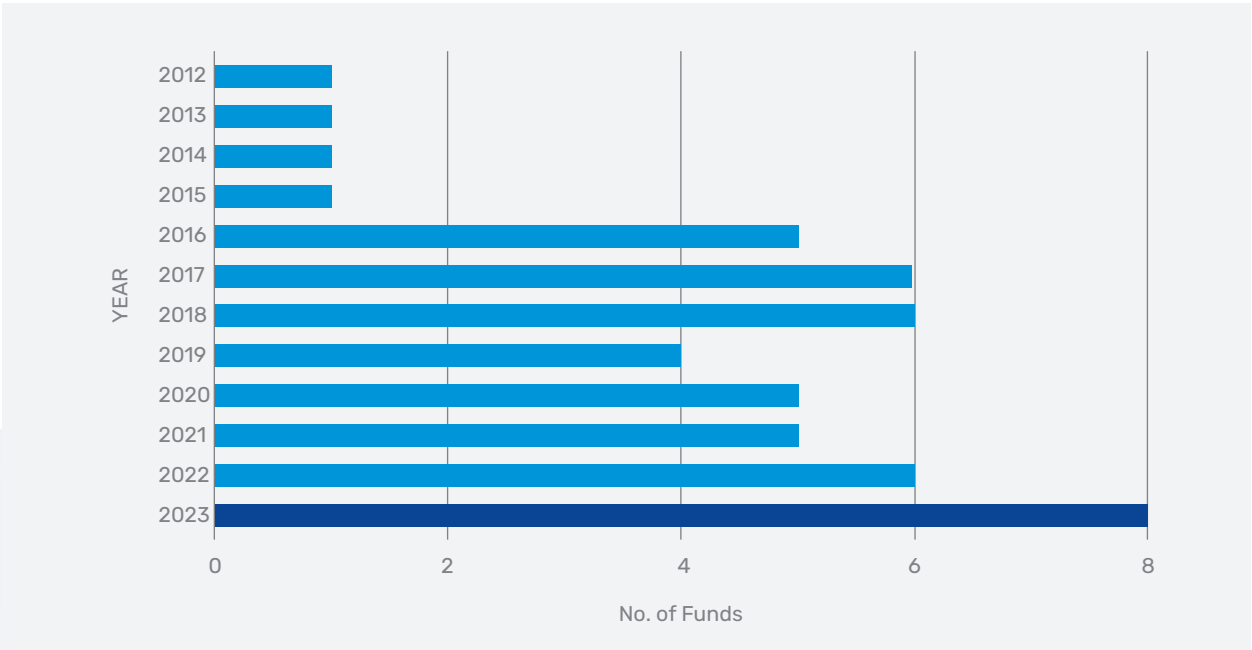


Figure 2 represents the number of funds that have made investments from 2012 to 2023.



TOTAL NUMBER OF FUNDS:

There were eight funds by **eight fund managers active (i.e. made investments) in 2023**, contributing to a cumulative total of sixteen funds that have made investments from 2012 to 2023. 62.50%, or five, of these are new funds with no prior investments before 2023. The newcomers in the market for 2023 include the Alpha Plus Vision Fund by Alpha Ventures, the Avasar Equity Diversified Fund by Avasar Equity, the Nepal Infrastructures Investment Fund by Global Equity Fund, NIBL Equity Partners by NIMB Ace Capital, Prabhu Dynamic Equity Fund by Prabhu Capital. The market welcomed these new entrants in 2023, substantially boosting the overall count of investors.

TOTAL NUMBER OF INVESTMENTS:

In 2023, the **22 investments made** represents a 29.73% increase in the total number of investments to date, bringing the total to 96 between 2012 and 2023.

TOTAL AMOUNT INVESTED:

In the year 2023, USD 35 million was invested by PEVC funds in Nepal, contributing to a grand total of USD 101 million till date between 2012 and 2023. This year's investments represent a substantial fraction (roughly 35%) of the total capital deployed, highlighting 2023 as a significant year for investment volume.

Overall, the PEVC market in 2023 was characterized by an active investment scene, with a considerable number of new investors, a healthy volume of investments, significant capital injection, and a diverse but focused industry interest. This snapshot indicates growth within the PEVC sector for the year 2023.

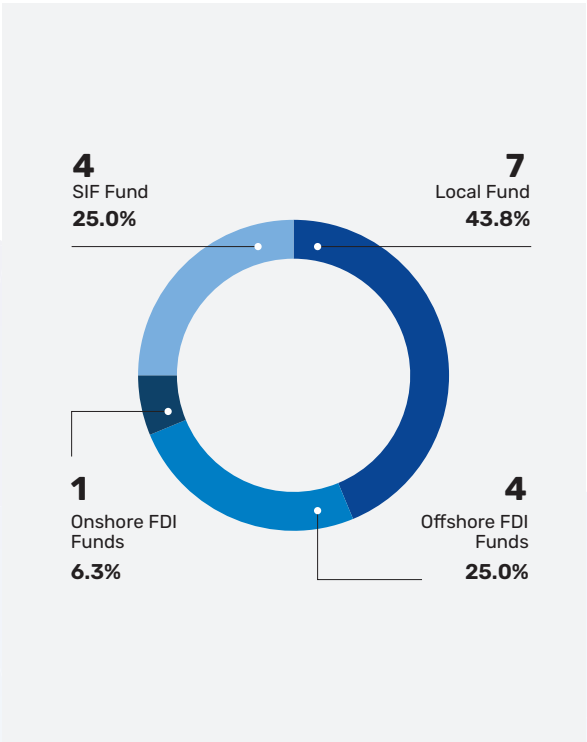
NPEA MEMBERS MARKET PARTICIPANTS 2012 - 2023

FIGURE 3: BREAKDOWN OF FUNDS BY THEIR FUND TYPE

Type of Funds	Number of Operational Funds
Local Fund	7
Offshore FDI Funds	4
Onshore FDI Funds	1
SIF Fund	4
Total	**16**

Figure 3 presents a categorization of private equity and venture capital market funds based on their type. It distinguishes between funds that are operational across four different types: Local Fund, Offshore Foreign Direct Investment (FDI), Onshore FDI, and Specialized Investment Fund (SIF) Fund. There are a total of 16 funds that are active across all categories to date. This total underscores the active and prospective dynamism within the PEVC market, especially with the Specialized Investment Fund 2019 provision.

FIGURE 4: NUMBER OF ACTIVE PEVC FUNDS BY FUND TYPE TO DATE



1. LOCAL FUND:

It is established as a limited liability company, with investments exclusively sourced from Nepalese Investors. There are seven local funds that have made investments as of 2023.

2. OFFSHORE FDI:

Funds are registered outside of Nepal and engage in direct investments within Nepal's portfolio's without the need for a local presence. There are four offshore FDI funds that have made investments as of 2023.

3. ONSHORE FDI:

Funds are established as limited liability investment companies in Nepal, attracting full or partial investments from investors, and they also have the Fund manager incorporated in Nepal. Only one onshore FDI fund is operational which indicates a relatively small presence in the Nepali market.

4. SIF FUND:

There are 4 funds licensed under the Specialized Investment Fund 2019 within the Securities Act. A significant number of fund managers are planning to start operations and mostly are currently awaiting their SIF licenses.

TOTAL AMOUNT INVESTED IN 2023 BY NPEA MEMBERS

FIGURE 5 : FUND TYPE WISE TOTAL AMOUNT INVESTED IN 2023

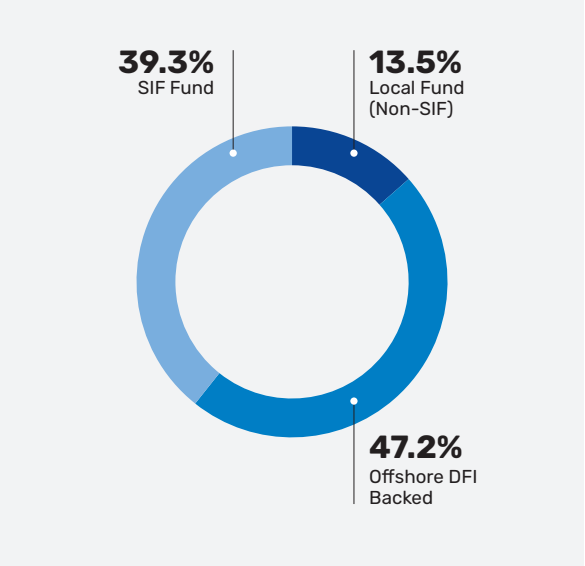


Figure 5 illustrates how the USD 35 million dispersed in 2023 was allocated among various types of funds.

FIGURE 6: FUND TYPE WISE TOTAL AMOUNT INVESTED FROM 2012-2023

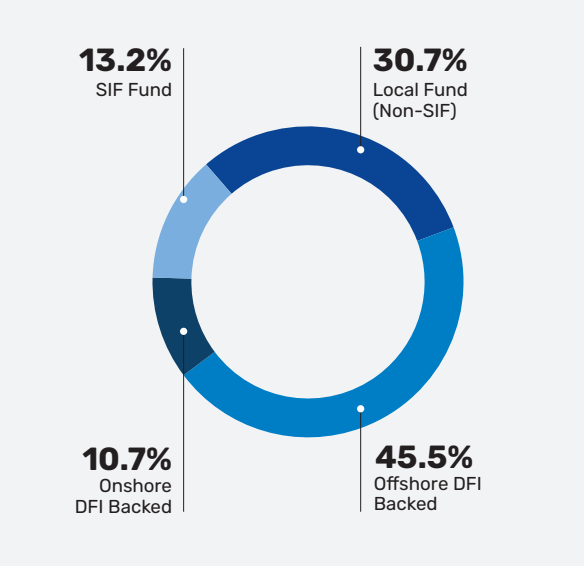


Figure 6 provides a cumulative overview of the distribution of USD 101 million from 2012 to 2023 across the four fund types.

1. OFFSHORE DFI BACKED:

Accounts for 47.2% of the total investment in 2023. Between 2012 and 2023, Offshore FDI backed has made 45.5% of the total investment amount and the largest among the four fund types.

2. LOCAL FUND (NON-SIF);

Made up 39.3% of the total investment, represented in 2023. To date, considering all the investments made, they represent 30.7% of the investments.

3. SIF FUNDS:

Made up 13.5% of the total investment in 2023 was made by SIF licensed funds which made their total share 13.2% to date.

4.ONSHORE DFI BACKED:

The smallest segment, which also made no investments in the year of 2023. Onshore DFI Backed funds make up 10.7% of the total investments by PEVC funds from 2012 to 2023.

SECTOR BREAKDOWN OF INVESTMENTS

I. SECTORAL FOCUS OF INVESTMENT IN 2023

FIGURE 7: INDUSTRY-WISE NUMBER OF INVESTMENTS IN 2023

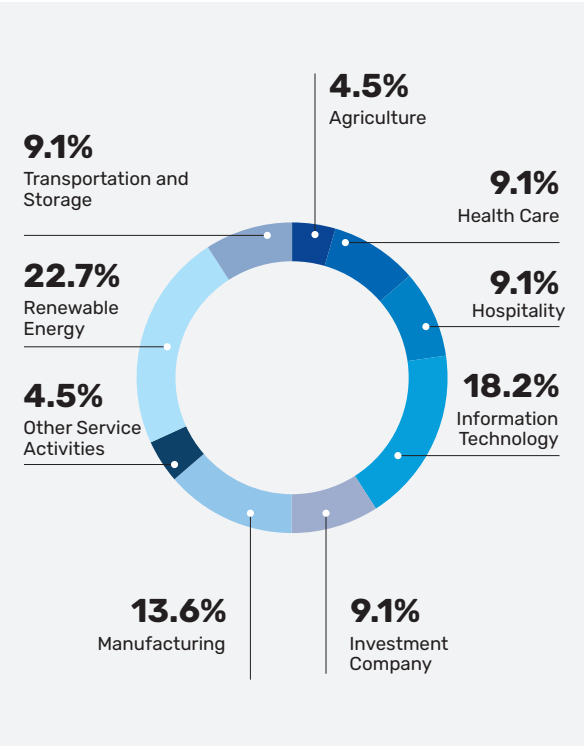


Figure 7 shows the distribution of investments across various sectors in 2023. Renewable Energy leads with the highest number of investments, totaling five and making up 22.7% of all investments, indicating a strong focus in this sector. Information Technology follows with four investments, accounting for 18.2%, highlighting significant activity in this industry. The newly introduced sector, 'Transportation and Storage,' accounts for 9.1% of the total, with 2 out of the 22 investments made in 2023. Overall, investors distributed their capital across 9 different sectors in 2023.

II. HISTORICAL SECTORAL FOCUS OF INVESTMENTS BETWEEN 2012 -2023

FIGURE 8: OVERALL INSTANCES OF INVESTMENTS BETWEEN 2012 - 2023

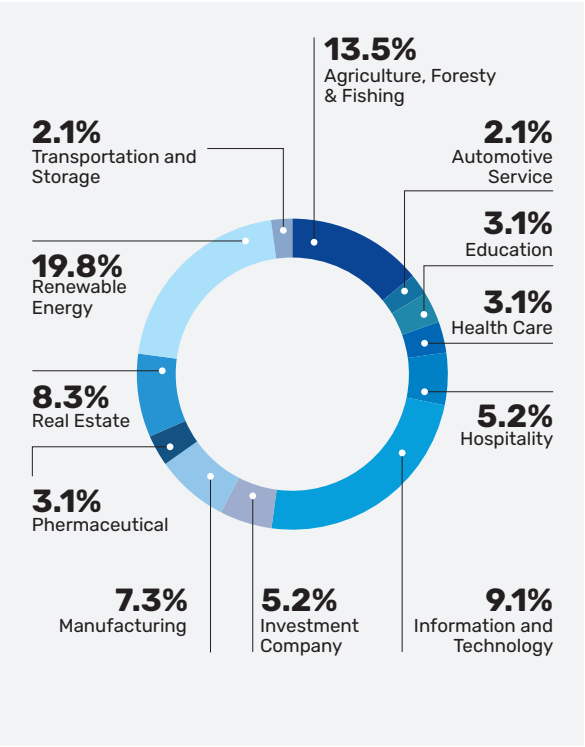
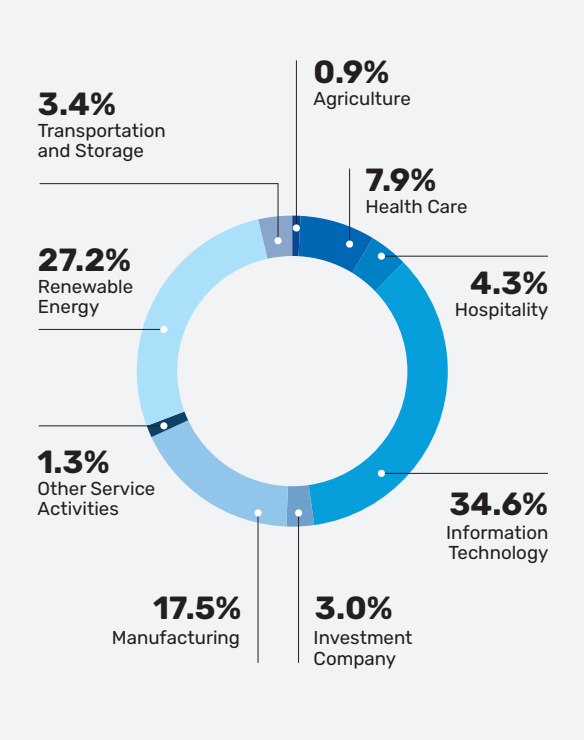


Figure 8, which illustrates the industry-wise distribution of investments from 2012-2023, highlighting 'Information and Technology' as the dominant sector with 22 investments, making up 22.9% of the total to date. It is closely followed by Renewable Energy at 19.8% with 19 investments, and Agriculture, Forestry, and Fishing with 13 investments accounting for 13.5%. Investors have covered 16 different sectors to date.

III. AMOUNT OF INVESTMENT IN 2023

The highest investment amount in 2023 was directed toward the Information Technology sector, constituting 34.6% of the total USD 35 million invested. Renewable Energy followed closely, receiving 27.2% of the total investment for the year.

FIGURE 9: SECTOR-WISE TOTAL AMOUNT OF INVESTMENTS IN 2023



IV. AMOUNT OF INVESTMENT BETWEEN 2012 -2023

Between 2012 and 2023, as shown in Figure 10, the Renewable Energy sector received the highest investment, accounting for 39.6% of the total USD 101 million invested to date. The Information Technology sector follows closely, with 28.2% of the total investment.

FIGURE 10: SECTOR-SPECIFIC TOTAL INVESTMENT AMOUNT BETWEEN 2012-2023

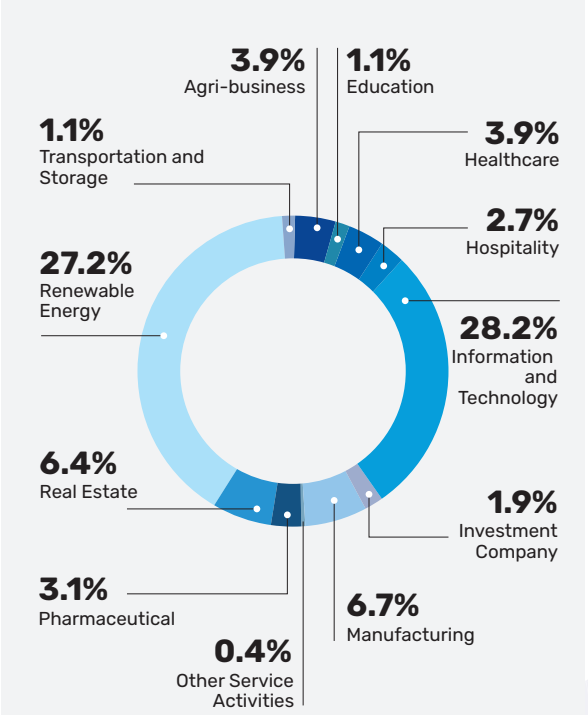


FIGURE 11: LARGEST AMOUNT OF INVESTMENT MADE IN VARIOUS SECTORS BY PEVC FUNDS BETWEEN 2012- 2023

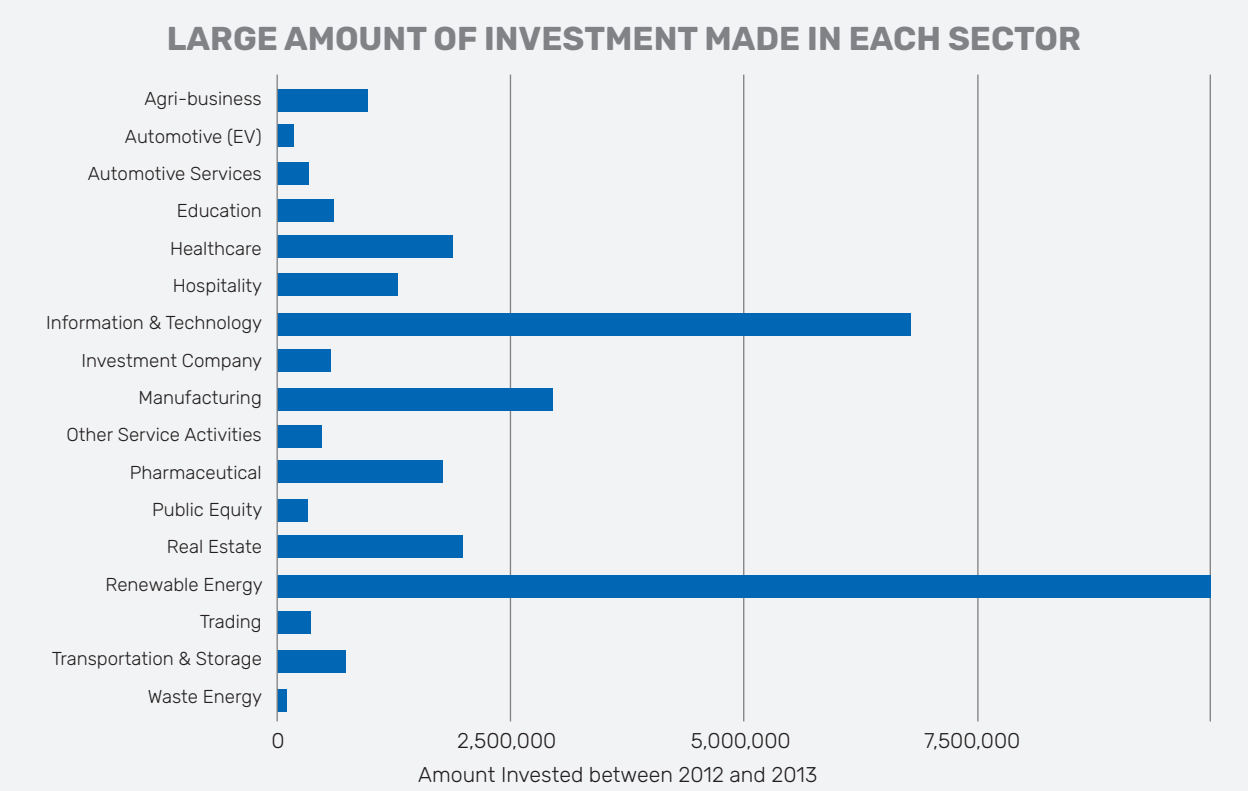
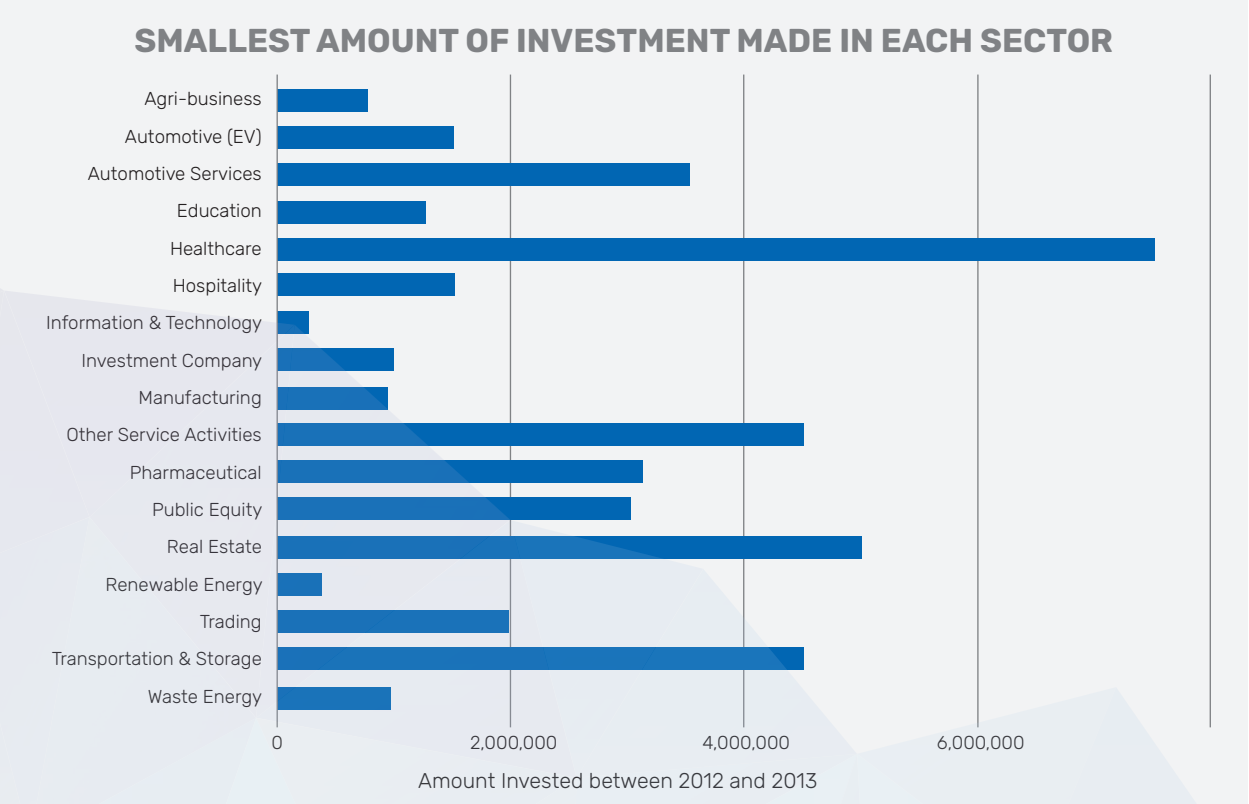
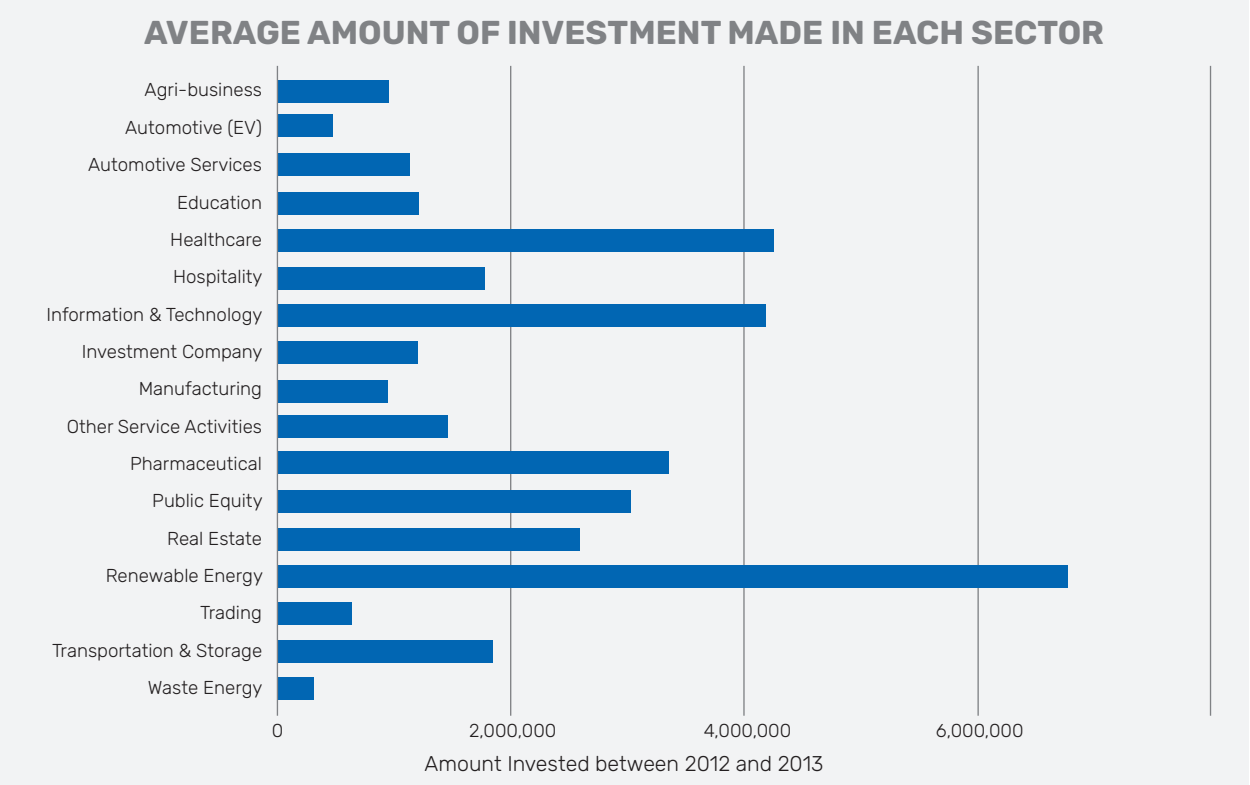


FIGURE 12: MINIMUM AMOUNT OF INVESTMENT MADE IN VARIOUS SECTORS BY PEVC FUNDS BETWEEN 2012- 2023



Figures 11 and 12 illustrate the largest and smallest PE/VC investments between 2012 and 2023. The hydro sector received the highest investment at USD 1 million, while the information technology sector received the smallest investment, with less than USD 100,000.

FIGURE 13: AVERAGE AMOUNT OF INVESTMENT MADE IN VARIOUS SECTORS BY PEVC FUNDS BETWEEN 2012 - 2023



The average investment across all deals in the PEVC sector from 2012 to 2023 is **USD 1,049,235.00.**

INSTRUMENTS USED IN INVESTMENT BETWEEN 2012 AND 2023

FIGURE 14: INSTRUMENTS USED IN INVESTMENT BETWEEN 2012-2023

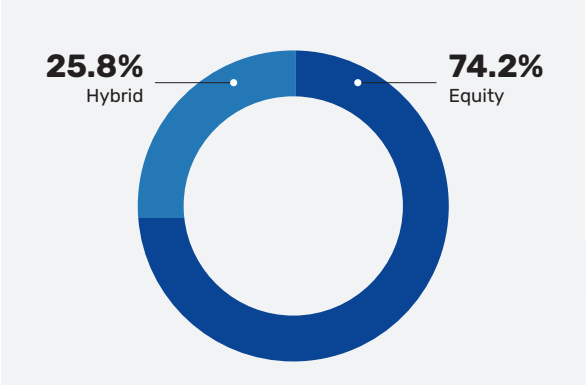


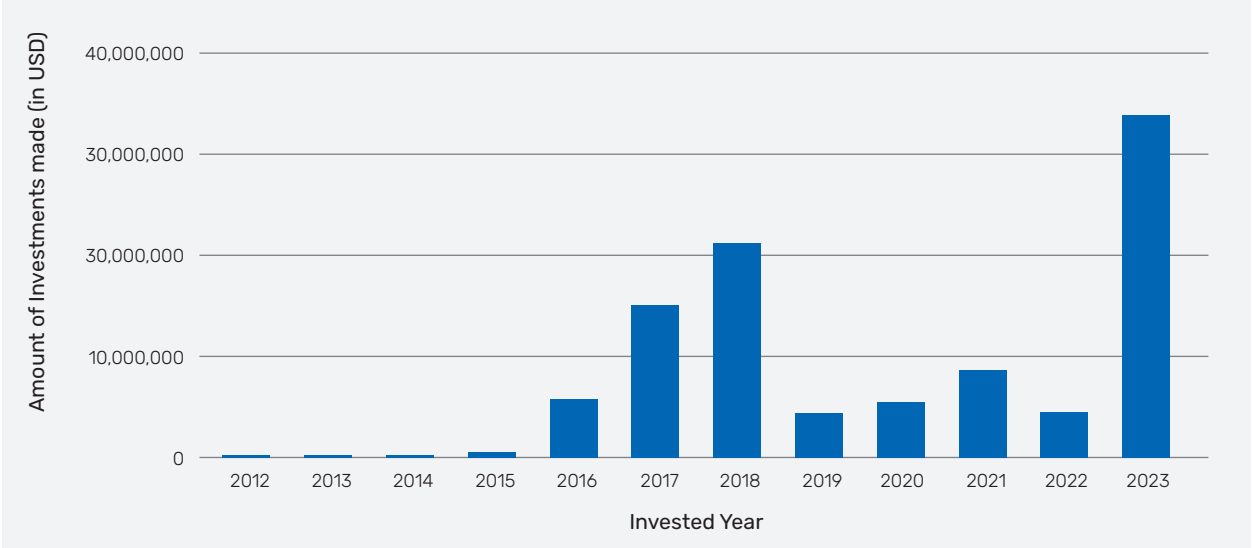
Figure 14 illustrates the distribution of investment instruments utilized in the market, with equity being the predominant choice. Equity investments constitute a significant majority, making up 74.2% of the total, represented by 69 instances.

Hybrid instruments, which blend elements of both equity and debt or include some form of a convertible feature, also account for a substantial portion at 25.8%, or 24 instances. This indicates that a quarter of the investments are made using financial instruments that offer both the potential for capital growth and fixed returns.

The data reveals a clear preference for equity and hybrid instruments in investments, with debt being far less common. This trend suggests that investors are favoring the potential high returns from equity investments in a bullish market or seeking the balanced risk-return profile of hybrid instruments, while being more cautious with lending.

PEVC AMOUNT INVESTED YEAR-OVER-YEAR

FIGURE 15: AMOUNT OF INVESTMENTS MADE (IN USD) VS. INVESTED YEAR



The graph presents the annual investment amounts in USD from 2012 to 2023, highlighting a general growth trend with some fluctuations. The years 2018 and 2023 are particularly notable, with 2023 recording the highest annual investment so far. After 2016, there is a variability in annual investments, with some years seeing lower amounts. However, 2023 shows a dramatic surge, reaching the highest investment amount for the entire period, substantially exceeding previous years. This spike may indicate an influx of new market players, with most funds in 2023 coming from the Specialized Investment Fund Regulation 2019.

PEVC EXITS

FIGURE 17: DISTRIBUTION OF EXIT STATUSES FOR INVESTMENTS BETWEEN 2019 - 2023

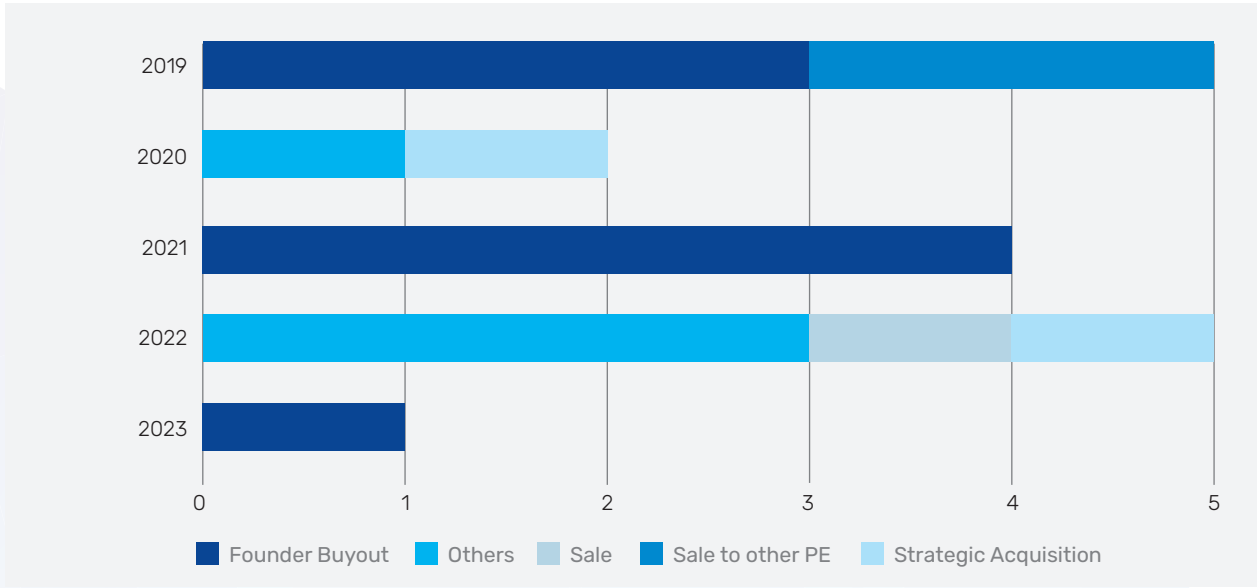


Figure 17 illustrates the number of exits since 2019, beginning with the first year in which an exit was recorded. By 2023, a total of 17 exits have occurred through various routes, including 8 founder buyouts, which is the most commonly used exit strategy to date. The exits were made by 5 funds in total.



UJJWAL CHAND
CHIEF INVESTMENT OFFICER

STRATEGIC INSIGHTS FROM **2023'S MOST ACTIVE INVESTMENT FUND**

The Nepal Infrastructures Investment Fund made the highest number of investments within the year of 2023. With 6 investments made in 2023, totaling approximately USD 2.8 Million, we had the opportunity to interview Mr. Ujjwal Chand, Chief Investment Officer of Global Equity Fund, the fund manager for the Nepal Infrastructures Investment Fund, to discuss the fund's investments in 2023.

1. WHAT STRATEGIC DECISIONS AND MARKET TRENDS CONTRIBUTED TO NIIF MAKING SO MANY INVESTMENTS THIS YEAR, AND HOW DO YOU NAVIGATE THE DECISION-MAKING PROCESS SWIFTLY?

Global Equity Fund (GEF) started assessing companies about three years back with the expectation that the Letter of Intention for PEVC Fund management from SEBON would swiftly lead to obtaining a full license. But, as it took a long time to get a license, we had heaps of data, especially business plans and projections, promoter profiles across multiple companies. This data was very helpful while assessing the companies later when one of the investment vehicles came into operation for GEF. Thus, the time required to assess these companies was much less than assessing new companies. This is the reason the decision making could be done at a faster pace. For new companies, the pace wouldn't be as swift as a lot of due diligence and market assessment will need to be done from scratch. However, we would like to note that as the current economic scenario is such that the entrepreneurs and growing businesses are quite desperate for growth capital, leading to a larger potential company pool for any PEVC Fund Manager.

2. WHAT PROBLEMS/CHALLENGES DID YOU FACE WHILE MAKING INVESTMENTS?

We've faced several significant challenges. Firstly, obtaining clean financials and banking transactions from potential portfolio companies has been very difficult. This has led to delays in decision-making and highlighted the rudimentary state of investor relations communication in many firms. Additionally, some entrepreneurs perceive detailed assessments and term sheet clauses as signs of mistrust from investors, which complicates the negotiation process. Furthermore, there is often a lack of reliable data to understand market size and competitor share, making it hard to make educated decisions regarding market risk.

3. LOOKING BACK, WHICH INVESTMENT FROM THIS YEAR DO YOU BELIEVE BEST EXEMPLIFIES YOUR FUND'S OBJECTIVES AND SUCCESS METRICS?

I think all the investments we have made to date perfectly align our objectives which is to promote a sustainable and efficient national economy. The company has integrated strong ESG values, which we prioritize within our organization and portfolio companies. Additionally, our support has enabled them to enhance their technology systems, improving data management and accounts handling. Over the long term, we believe that digitizing data across various departments and market segments will lead to better decision-making and exemplify our success metrics.

4. WHAT ARE THE PRIMARY SECTORS YOUR FUND IS TARGETING FOR THE UPCOMING YEAR, AND HOW DO YOU PLAN TO ADAPT TO THE EVOLVING PRIVATE EQUITY AND VENTURE CAPITAL MARKET IN NEPAL?

We haven't identified primary sectors as such, but the key remains to focus on a sustainable and efficient national economy. So, any sector or company that helps in creating a more sustainable and efficient national economy would attract our interest.

THE REINVESTMENT JOURNEY OF **GHAM POWER BY ONE TO WATCH**



SUDEEP BIR TULADHAR
CHIEF OPERATING OFFICER

Founded in 2010, Gham Power is dedicated to promoting renewable energy solutions. Initially focused on urban electrification, the company shifted to rural markets in 2013, offering solar pumps and microgrids to boost economic activity and improve livelihoods in off-grid communities. Recognized for its impact, Gham Power has received two reinvestments from One to Watch, a leading private equity fund manager based in Kathmandu, marking a successful private equity and venture capital story. The first investment occurred in December 2015, followed by a second in May 2021 and September 2021 remitted in two tranches . In our interview, Mr. Sudeep Bir Tuladhar, Chief Operating Officer at GhamPower, shared insights into their journey and success, highlighting the transformative power of strategic investments in renewable energy.

1. CAN YOU DESCRIBE THE KEY ACHIEVEMENTS AND GROWTH MILESTONES YOUR COMPANY HAS REACHED SINCE THE INITIAL INVESTMENT THAT LED TO THE REINVESTMENT?

The impact of the investment at Gham Power has been immense, particularly given the timing when we were exploring various ventures but were hindered by a lack of funds. Here are the major achievements and milestones:

Product Development and Launch: Gham Power, traditionally an EPC (Engineering Procurement and Construction) company, had been working on the "Energy as a Service '' model, which is highly capital-intensive. With funds from OTW, we established an SPV to operate under this model. Currently, the SPV manages 6 MW of solar assets and is on track to install 20MW by 2025.

Revenue and Profitability Growth: The funding from OTW has tripled our revenue and increased our profitability by 2.5 times.

Research and Technology: The investment enabled us to undertake several R&D projects, leading to improved products such as:

- Sustainable use of batteries with solar in both EPC and RESCO models.
- Development of smart meters for solar water pumping systems to track operational data using sensors for soil moisture, sodium, potassium, discharge, and water levels.
- Development of the "Super Krishak" app, designed to help farmers improve their yield.

Team Growth and Talent Acquisition: We have significantly expanded our team, attracting top talent and retaining our best employees. Our team size has tripled since the investment.

Social Impact: Gham Power is now recognized as a leader in the solar industry, winning awards, receiving positive media coverage, and enhancing brand credibility. Through this investment, we have impacted over 40,000 people, curbed 41k tonnes of CO2, and displaced 15,583 kL of diesel with our solar projects.

Each of these achievements not only reflects the success of raising equity investment but also positions the company for continued growth, market leadership, and potential future investment opportunities.

2. HOW HAS THE SUPPORT FROM THE FUND MANAGER CONTRIBUTED TO YOUR COMPANY'S PROGRESS? LOOKING BACK, HOW WOULD YOU DESCRIBE THE JOURNEY WITH ONE TO WATCH FROM THE FIRST INVESTMENT TO NOW?

One To Watch has been extending support well beyond financial investment and has significantly enhanced



the growth prospects and success of Gham Power. Categorically, some of the major supports provided are:

Operational Support: We have a regular monthly meeting with OTW where we discuss our operational and strategic issues. This meeting has been helpful in the sense that we get the necessary insights and support on the issues that we have been facing. One of the notable supports being, the OTW team helped in our discussions with various other lenders and stakeholders leading to Gham Power receiving faster credit. The support has also helped strengthen our relationship with the bank.

Prioritizing Corporate Governance: The OTW team has been keenly advocating improving the corporate governance structure at Gham Power. Over the years Gham Power has taken important steps towards forming a robust governance structure by:

- Recruitment of an internal auditor and company secretary
- Development & implementation of Standard Operating Procedures for procurement, accounting, inventory management, and HR management.

This improved corporate governance structure has helped improve the decision-making process, instilled transparency, and helped mitigate risks.

Network and Connections: OTW with a broad network of industry contacts, potential customers, and strategic partners has facilitated introductions and connections that have led to partnerships, business development opportunities, etc.

Financial and Legal Expertise: OTW with its financial expertise has benefitted Gham Power, especially in areas such as financial modeling, valuation, negotiations, and compliance.

Overall, the journey with OTW has been a fruitful one with plenty of support beyond financial investment.

3. HOW DOES THE INVESTMENT BY ONE TO WATCH ALIGN WITH YOUR COMPANY'S LONG-TERM STRATEGIC GOALS?

Gham Power has been established with the mission of providing clean energy creating a lasting impact in terms of cost-saving, reducing carbon footprints, and improving the energy security in the country. Similarly, our investors connected through OTW also have a keen focus on renewable energy, especially solar. This makes Gham Power and OTW a perfect match in terms of long-term goals which have resulted in synergy thereby supporting sustainable growth, improved stakeholder relationships, and enhanced financial performance.

INVESTMENT AND DEVELOPMENT OF HYDROPOWER IN NEPAL: **A FOCUS ON SETI KHOLA**



We asked the team at Dolma Advisors to provide information about their investment in the Seti Khola hydropower project through the Dolma Impact Fund II. This investment is one of the largest made in 2023. Given the substantial investments in the hydropower industry, this article aims to explain the reasons behind such significant funding.

VISHAL BISTA
INVESTMENT MANAGER,
DOLMA ADVISORS

STRATEGIC IMPORTANCE OF INVESTING IN NEPAL'S HYDROPOWER

Dolma Impact Fund II (DIF II) invests in Nepal's energy sector due to the country's substantial hydropower potential and the strategic opportunity to capitalize on both domestic and regional demand. Nepal's abundant water resources offer a strong foundation for hydropower development, which is critical given the country's current electricity supply shortfall.

In fiscal year 2021, Nepal's peak electricity demand was 1,482 MW, while its installed generation capacity was only 1,396 MW, highlighting a significant need for investment. Although approximately 89 percent of the population had access to electricity as of 2019, the supply was often unreliable and of low quality. Per capita electricity consumption rose from 63 kilowatt-hours (kWh) per year in 2000 to 177 kWh per year in 2018, demonstrating an increasing demand for reliable energy. Unrestricted electricity demand is forecasted to rise from 10,138 gigawatt-hours (GWh) in 2019-2020 to 31,196 GWh in 2029-2030, underscoring the necessity for expanded energy resources.

Additionally, Nepal is poised to become a key energy exporter in South Asia. Discussions with India and Bangladesh aim to facilitate the export of up to 15,000 MW of electricity, and Nepal has already signed an export agreement with India. This export potential, coupled with growing internal demand, makes the energy sector a highly attractive investment opportunity.

The Nepalese government's commitment to the sector, through policies such as tax benefits and subsidies for hydropower projects, further encourages investment. These favorable conditions have led to increasing private sector involvement in power generation, boosting the growth prospects of Nepal's energy sector.

In summary, DIF II's investment in Nepal's energy sector is driven by the vast market potential, the supportive regulatory environment, and the strategic opportunities for regional energy exportation.

WHY INVEST IN SETI KHOLA?

Seti Khola was in its initial stages of construction when DIF II began conversations with the promoters. Located on the outskirts of Pokhara Metropolitan City, Seti Khola is a low-head, high-flow run-of-river hydropower project in Nepal. Key factors favoring the Seti Khola hydropower project include its accessibility, reliable hydrology, technical feasibility, minimal complexities in land acquisition, the promoters' prior experience, and the signing of a Power Purchase Agreement (PPA) with the Nepal Electricity Authority (NEA).

Both in-house and external assessments of the technical and economic feasibility provided substantial



comfort for DIF II to invest in Seti Khola. Additionally, the promoters' successful completion and operation of a 7 MW hydropower project significantly reduced the risks associated with executing Seti Khola. The experienced technical team, which has executed numerous projects in Nepal, further assured that they could deliver the project. Market risks were mitigated by a PPA with NEA, ensuring the sale of energy upon project completion. The mix of private and government land for the project, which was already secured, also provided confidence for investment. The combination of low head, high flow, and ease of accessibility reduced many risks associated with remote hydropower projects.

These factors collectively reduced major risk factors, enabling DIF II to reliably project the company's future performance. Beyond being an attractive financial proposition, the development of the Seti Khola hydropower project acts as a catalyst for local development and community empowerment. The initiatives undertaken by Seti Khola have significant impacts on the socio-economic fabric of the region, generating employment opportunities, improving access to clean and reliable energy, and stimulating infrastructural growth in previously overlooked areas. Seti Khola's commitment extends beyond energy provision, with investments in educational and healthcare initiatives that enhance the overall quality of life for community members. Additionally, Seti Khola promotes environmental conservation and supports local entrepreneurship, fostering a symbiotic relationship between sustainable development and community prosperity.

HOW DOLMA HELPS SETI KHOLA

Beyond providing the required equity, Dolma also offers strategic guidance to the company through its board members, helping navigate regulatory requirements, manage environmental and social risks, and optimize operations. This guidance is based on Dolma's extensive experience in the sector and its understanding of local and global market dynamics.

Dolma remains committed to the company's long-term success beyond the initial investment. The fund provides resources and support to help the company scale and succeed over time. This includes facilitating access to additional capital, providing industry insights, and offering global networking opportunities.

Dolma also works with the company to build its organizational capacity. This includes strengthening the company's environmental and social management systems, improving health and safety practices, and enhancing labor conditions and benefits. Additionally, Dolma helps the company implement a robust stakeholder engagement plan and grievance redressal mechanism.

PARTICIPATING DATA CONTRIBUTORS

1. Aadhyanta Fund Management
2. Alpha Plus Vision Fund
3. Avasar Equity Diversified Fund
4. Business Oxygen
5. Dolma Impact Fund- I
6. Dolma Impact Fund- II
7. Kriti Venture Fund Limited
8. Nepal Infrastructures Investment Fund
9. NIBL Equity Partners
10. One to Watch
11. OTW ORE Fund
12. Prabhu Dynamic Private Equity Fund-1
13. Reliable Venture Capital Limited
14. Team Ventures Pvt. Ltd
15. Tele Ventures Pvt. Ltd.
16. True North Associates

METHODOLOGY

The data and analysis presented in this report were collected and compiled using a multi-stage process to ensure accuracy and reliability. The methodology involved the following steps:

1. DATA COLLECTION:
   Data were gathered from member firms associated with the Nepal Private Equity Association (NPEA) through voluntary surveys. The contributors were provided with an excel sheet and asked for various details of their investments made. These firms represent a broad spectrum of the investment community, including venture capitalists and private equity investors.

2. DATA VALIDATION:
   The collected data underwent a rigorous validation process to ensure accuracy and consistency. Any inconsistencies or discrepancies were resolved through communication with the respective firms.

3. DATA ANALYSIS:
   The data were analyzed using statistical methods and financial analysis techniques to derive meaningful insights into the private equity and venture capital investment landscape in Nepal.

4. PEER REVIEW:
   The analysis was reviewed by internal and external experts in the field of private equity and venture capital to ensure its validity and reliability.

5. REPORT COMPILATION:
   The findings of the analysis were compiled into this report, which aims to provide a comprehensive overview of the private equity and venture capital market in Nepal for the year 2023 and cumulatively from 2012 to 2022.

It is important to note that while every effort has been made to ensure the accuracy and reliability of the data and analysis, the methodology is subject to certain limitations, including the voluntary nature of data collection and the reliance on self-reported information from member firms.

DISCLAIMERS

The information presented in this report, "Market Snapshot Volume II (2023)," published by the Nepal Private Equity Association (NPEA), is based on data voluntarily provided by member firms associated with the NPEA. The report aims to provide insights into the private equity and venture capital (PEVC) investment made by its member firms for the year of 2023, as well as cumulative data from 2012 to 2022. While every effort has been made to ensure the accuracy and reliability of the data and analysis, the NPEA and the authors of this report cannot guarantee the completeness or validity of the information provided. The report is intended for informational purposes only and should not be construed as investment advice. Readers are advised to conduct their own research and analysis before making any investment decisions. The NPEA and the authors disclaim any liability for any loss or damage arising from the use of or reliance on the information presented in this report.

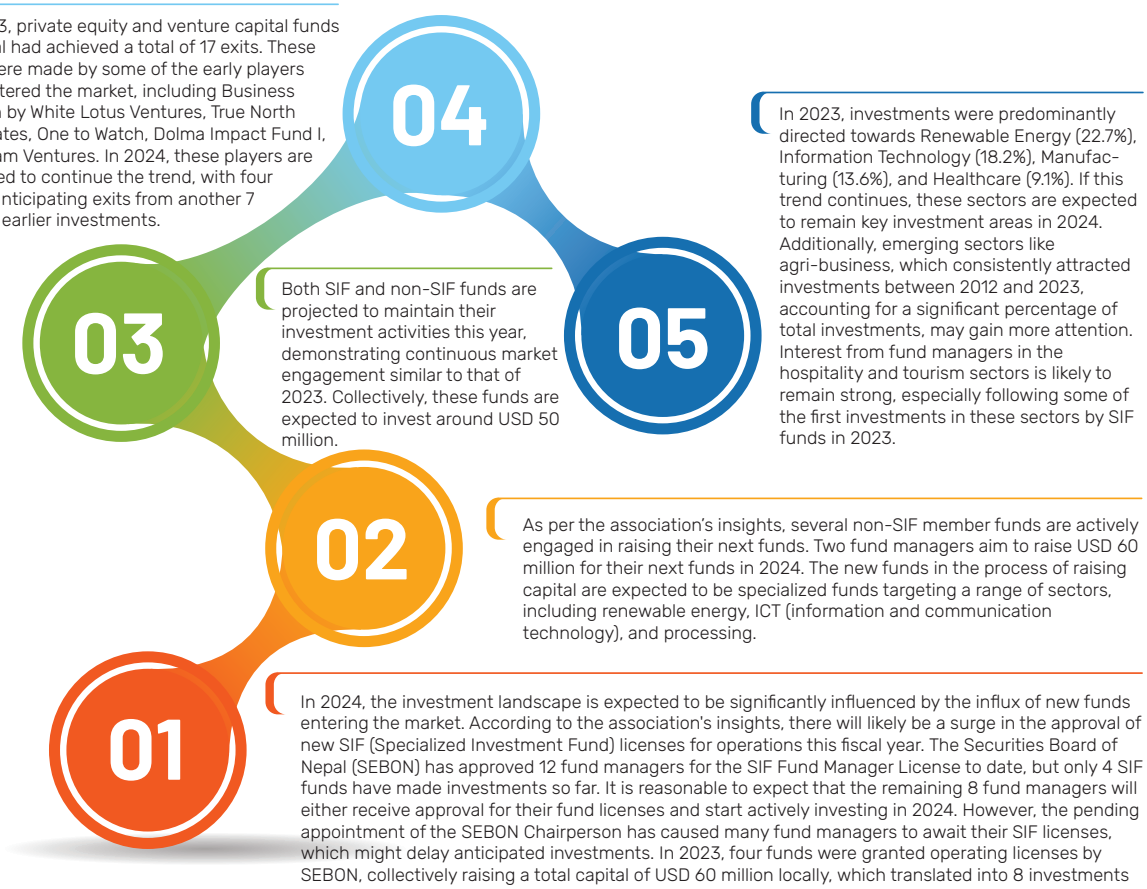
HIGHLIGHTS OF 2023

2023 was an eventful year for the alternative investment industry in Nepal. There was a surge in the number of new funds as well as investments. Below are some highlights from the year:

In 2023, USD 35 million was invested, bringing the cumulative total to USD 101 million. There were eight funds that made investment in 2023, taking the total number of active funds to sixteen since 2012. Among the eight funds, four are new SIF-licensed funds that started their investments in 2023, contributing approximately 40% of the investment in 2023.

The renewable energy sector continues to be the most attractive sector for private equity investors. Avasar Equity, through its Avasar Equity Diversified Fund, has made its first investment in Him Parbat Hydropower. Similarly, Dolma Advisors, through the Dolma Impact Fund II, has invested in Set Khola. Additionally, two other funds have also invested in the sector, making the total investment USD 9 Million. Additionally, Reliable Ventures' investment in Budhanilkantha Heritage Limited and Alpha Plus Ventures' investment in Aloft Kathmandu are among the first investments by SIF-licensed funds in the hospitality sector. The flow of capital into hospitality in 2023 has generated interest among investors about the potential growth and opportunities in this sector with the potential to create long-term sustainable jobs for the economic growth.

SOME TRENDS TO FOLLOW THIS YEAR



Looking ahead, there is optimism for increased investment activity, particularly with the anticipated entry of new SIF-authorized fund managers in 2024. Overall, the Nepal Private Equity Association remains committed to enhancing the investment ecosystem, advocating for supportive policies, and providing valuable insights to foster a vibrant and sustainable alternative investment market.

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