

# PATAMAR | CAPITAL

## Q2 2020 QUARTERLY REPORT

*Patamar Fund II, L.P.*





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## LETTER FROM THE PATAMAR PARTNERS

September 2020

Dear Patamar Fund II LPs,

We hope you and your families are safe and healthy in this historic year.

Over the past nine months we have noticed that investor sentiment around the world has been significantly affected by local economic and social conditions, and it is no different in our core markets in South and Southeast Asia. Indonesia, Vietnam, India and The Philippines have each taken a different approach to addressing the COVID-19 outbreak and the economic effects of local and national shutdowns have varied accordingly.

**Vietnam** has been the leader in Southeast Asia (and perhaps the entire world) in its health response to COVID-19. Despite a recent second wave of infections in the vacation city of Da Nang, the Vietnamese government has acted swiftly and its people have responded responsibly in protecting themselves and others from further spread of the virus. Strong testing efforts and quarantine measures have been employed since early 2020, and total cases surpassed 1,000 for the first time last week. With a population of 96 million, Vietnam has the lowest per capita case rates in the world. Besides major restrictions in a few areas, the country is nearly back to business as usual. Coupled with increased manufacturing orders and exports from Vietnam following the U.S.-China trade disputes, Vietnam is still positioned for positive economic growth in 2020. Based on these factors, early stage investors continue to increase their allocations to the Vietnam startup scene, with a 61% increase in venture capital funding from 1H 2019 to 1H 2020.

With a population of over 270 million people spread across 17,508 islands, **Indonesia** is the largest market in SE Asia and faces challenges in containing the spread of the COVID-19 virus. Testing has been light across the country, except for heavy testing and resources centered on the economic hub and capital city of Jakarta. The number of new daily cases recently exceeded 2,700 pushing the total of cases over 166,000 on August 28, but without strong testing and treatment capacity, the figures are likely underreported. Although the domestic economy has recently reopened, volumes are low and it is unlikely that the country will be open to visitors in 2020, leading the National Government to recently approve economic assistance to small businesses and workers in the informal sectors of the economy. Even with significant past and upcoming challenges containing COVID-19, venture capital and private equity investors continue to pursue and invest in companies that they believe will drive the future economic activity in the country; Indonesian startups received USD 2.47 billion in funding in 1H 2020, a 162% increase over the same period in 2019.

**The Philippines** has been hit with over 194,000 cases of COVID-19 since the start of the pandemic, with most of the effect being felt in the Manila area. The government has been active with economic stimulus packages throughout the year, but the efficacy has been limited and the reduction in remittances from the 2.2 million overseas migrant workers who have been returning home has had a large impact on the local economy. With a population of nearly 110 million people, there is still strong domestic demand for products and services and strong future economic growth prospects, but investment activity has cooled off with a 77% reduction in venture capital funding from 1H 2019 to 1H 2020. The Filipino startup ecosystem is still quite nascent compared to Indonesia, leading to a fewer number of high quality startups ready for funding; as a result, most SE Asian venture capital firms with a regional mandate have not hired full-time team members in The Philippines in the same manner they have built full-time teams in Indonesia and Vietnam.

**India** instituted a full lockdown from March 24 -May 31, but the government did not have the fiscal capacity to both provide subsidies to millions of poor people who have been disproportionately hit by the lockdown as well as provide a large stimulus to the formal economy. With a reported fatality rate under 2% - among the lowest in the world - the government decided to open up the country allowing the organized and unorganized sectors to reconvene economic activity with the hope of generating jobs. The country has been hit hard with over 3.3

## LETTER FROM THE PATAMAR PARTNERS

million cases and increasing highs of new cases each day. As a developing country with the world's second largest population, major challenges remain for conducting testing, delivering health care and economic relief. Although venture capital investments dropped from an average of 50 new investments per month in January-April 2020 to 20 new investments in May 2020, new companies are still being launched and investment numbers seem to be increasing.

Even with all the challenges that are likely to come, we still believe that investing in emerging Asian markets that have proven resilient in past economic crises will provide tremendous opportunities for financial returns and positive social impact....and that our investment mandate focused on driving impact at scale is more important than ever. With the increasing (and almost forced) adoption of digital products and services by governments, consumers, and small businesses, we believe the timing is right to take advantage of the strong opportunity to build a portfolio of companies working to (a) improve access to essential products and services and (b) provide income generating opportunities for low and middle-income communities. Dondi, Shuyin and I were recently interviewed on this topic, and you can hear more detailed thoughts using the following link (<https://www.linkedin.com/pulse/interview-team-from-patamar-capital-florian-kohler/>).

There is definitely a risk that tech companies can contribute to creating new “winners take all” business models and economic systems that drive more inequality in emerging markets; this is why we feel it is more important than ever for early-stage investors and impact-focused founders to work together to drive the development of new business models, create and imprint an “impact DNA” in their company cultures, fuel future growth, bring in later-stage impact-oriented investors, and own the majority of tech-driven platforms that are poised to modernize traditional industries and create the economic models that will likely dominate emerging economies and reach the next billion people while also generating inclusive economic growth.

We feel very fortunate that Patamar Fund II had not yet completed a large number of investments prior to the COVID-19 outbreak; placing the Fund in an advantageous position for the long-term. The ability to build a portfolio with COVID-19 risks as a factor in our decision making process provides a strong opportunity to seek attractively priced investments and build a portfolio of more mature companies with strong management teams at lower valuations over the coming year.

On a weekly basis our team discusses the conditions in each market and we continue to refine our investment strategy as (a) consumer preferences and trends change, and (b) as digital adoption curves accelerate the growth and monetization of tech-enabled businesses focused on more effective and efficient delivery of basic products and services. We believe that some behaviors are here to stay, driven by increased convenience, better product offerings, and the “forced adoption” of online services, but are also cognizant that many behavior changes are likely not permanent. Understanding such nuances will be key in investing in the attractive business models of the future without “overpaying for hype” or unsustainable growth rates that may not remain.

We are deeply thankful for your support and believe that your investment in Patamar will help drive positive economic and social impact across the region.

If you have any questions or would like to connect with any of our portfolio companies, please reach out at any time.

Sending all our best,  
Beau & the Patamar Capital team



# Kinara Capital

**COUNTRY** India (HQ)

**SECTOR** Financial Services

**INVESTMENT LEAD** Geoff Woolley

## COMPANY BACKGROUND

Kinara Capital provides loans of \$1,400 to \$21,000 to small-to-medium enterprises (SMEs) in India for working capital and asset purchases. Aiming to fill the gap between microfinance and bank financing, Kinara focuses on several industries and sub-sectors, including small-scale manufacturing, rural franchises, and handicraft productions.

## LIVELIHOOD IMPACT

By providing loans to SMEs, low-income entrepreneurs can expand their businesses through the purchase of additional machinery or raw materials, leading to an increase in the entrepreneur's business income. Additionally, as SMEs grow, they hire more employees from low-income communities. As a result of COVID-19, SMEs were hit hard and millions of migrant workers lost their jobs in the informal sector. Kinara will continue to play an impactful role in lending to creditworthy SMEs, helping stabilize the SME sector, and driving the recovery of jobs and economic growth.

## Q2 HIGHLIGHT

***Kinara improved its loan repayment collection rates from a low of ~20% to ~45% during Q2 2020, despite the three-month extension of loan repayment moratoriums by the Reserve Bank of India (RBI). SME borrowers view loans from Kinara as a critical source of financing, and have been loyal in making their repayments when possible.***

## BUSINESS UPDATE

The pandemic is expected to create a devastating impact on the financial sector as India's USD 3 trillion economy went into lockdown. The early signs were grim as the millions of migrant workers who make up a majority of the SME and MSME workforce traveled back to their villages after losing

their jobs. In response to the slowdown, Respond, Recover, and Thrive became the ethos of Kinara's leadership team. Kinara was quickly identified and implemented a focused approach combining tactical initiatives to address immediate concerns and strategic interventions to recalibrate the business model to maintain profitability and facilitate future growth.

As a testament to the maturity and tenacity of the Kinara management team, Kinara quickly overcame the liquidity crunch created by the RBI's loan repayment moratorium through effective customer engagement, reducing disbursements to match loan repayments, and negotiating repayment grace periods with its lenders. Kinara has reduced overhead expenses by restructuring the organization and accelerating the execution of its planned digital strategy that will enable Kinara to expand with lower operational costs.

## FINANCIAL PERFORMANCE

Kinara's Gross Loan Portfolio (AUM) decreased from USD 121m in Q1 2020 to USD 108m in Q2 2020. The reduction in AUM was driven by the decision to significantly reduce disbursements to preserve cash until the loan repayment collection moratorium period ended in August 2020. Despite COVID-19 effect, Kinara managed to finish the quarter with a positive net profit of ~3%.

## FUNDRAISING

After stabilizing its liquidity position, Kinara decided to delay its previous plans to raise an external growth-financing round from new investors until 2021. COVID-19 has negatively affected the fundraising environment for financial services companies, as investors are scared that a number of poorly run lending companies are poised to fail. Kinara's investors have been impressed with the Company's performance and management team's efforts, and the Company is currently raising an internal round that is estimated to close in Q3 2020.

# PATAMAR | CAPITAL

## **Patamar Fund II, LP**

(A Cayman Island Limited Partnership )

## **Financial Statements**

**For the period from April 1, 2020 to June 30, 2020**

*(Unaudited)*

## Patamar Fund II, LP

(A Cayman Island Partnership)

Balance Sheet

As of June 30, 2020

(Unaudited)

|  | As of<br>Jun 30, 2020<br>\$ | As of<br>Dec 31, 2019<br>\$ |
|--|-----------------------------|-----------------------------|
| <b>Assets</b>                                  |                             |                             |
| Investment at fair value (refer to Appendix A) | 2,067,967                   | 2,276,334                   |
| Cash and cash equivalents                      | 4,255,360                   | 3,288                       |
| Due from affiliate                             | 121,700                     | -                           |
| Prepayments                                    | 162                         | 3,358                       |
| <b>Total Assets</b>                            | <b>6,445,189</b>            | <b>2,282,980</b>            |
| <b>Liabilities and Equity</b>                  |                             |                             |
| Liabilities                                    |                             |                             |
| Other payables and accruals                    | 44,090                      | 89,334                      |
| Due to affiliate                               | 312,061                     | 312,561                     |
| Total liabilities                              | 356,151                     | 401,895                     |
| Equity   |                             |                             |
| Capital contributions                          | 7,712,121                   | 3,337,374                   |
| Capital contributions prepaid / (receivable)   | 342,879                     | (30,874)                    |
| Accumulated investment loss                    | (1,425,415)                 | (246,465)                   |
| Current investment loss                        | (540,547)                   | (1,178,950)                 |
|  | 6,089,038                   | 1,881,085                   |
| <b>Total Liabilities and Equity</b>            | <b>6,445,189</b>            | <b>2,282,980</b>            |

**Patamar Fund II, LP**

(A Cayman Island Partnership)

**Income Statement**

For the period from April 1, 2020 to June 30, 2020

(Unaudited)

|  | <b>2020</b>                    |                                | <b>2019</b>                    |
|--|--------------------------------|--------------------------------|--------------------------------|
|  | Apr 1, 2020 to<br>Jun 30, 2020 | Jan 1, 2020 to<br>Jun 30, 2020 | Jan 1, 2019 to<br>Dec 31, 2019 |
|  | \$                             | \$                             | \$                             |
| <b>Expenses</b>                              |                                |                                |                                |
| Interest expense                             | -                              | -                              | 5,933                          |
| Legal and professional fee                   | 6,476                          | 6,476                          | 62,171                         |
| Management fee                               | 127,250                        | 277,066                        | 287,868                        |
| Organizational costs                         | 5,777                          | 28,808                         | 113,391                        |
| Syndication costs                            | -                              | -                              | 381,668                        |
| Unrealized loss on investment in master fund | 34,698                         | 208,367                        | 238,666                        |
| Other expenses                               | 15,087                         | 19,830                         | 89,253                         |
| <b>Total Expenses</b>                        | <b>189,288</b>                 | <b>540,547</b>                 | <b>1,178,950</b>               |
| <b>Net Investment Loss</b>                   | <b>(189,288)</b>               | <b>(540,547)</b>               | <b>(1,178,950)</b>             |



**Patamar Fund II, LP**

(A Cayman Island Partnership)

## Statement of Cash Flows

As of June 30, 2020

(Unaudited)

|   | <b>2020</b><br>Jan 1, 2020 to<br>Jun 30, 2020<br>\$ | <b>2019</b><br>Jan 1, 2019 to<br>Dec 31, 2019<br>\$ |
|---|---|---|
| <b>Cash Flows From Operating Activities</b>   |   |   |
| Net loss resulting from operations  | (540,547)   | (1,178,950)   |
| Adjustments to reconcile net loss resulting from operations to net cash used in operating activities: |   |   |
| Unrealized loss on investment in master fund  | 208,367   | 238,666   |
| Changes in assets and liabilities:  |   |   |
| Due to/from affiliate   | (122,200)   | 73,123  |
| Prepayments   | 3,196   | (3,358)   |
| Other payables and accruals   | (45,244)  | 76,688  |
| <b>Net Cash Used In Operating Activities</b>  | (496,428)   | (793,831)   |
| <b>Cash Flows From Investing Activities</b>   |   |   |
| Investment in master fund   | -   | (2,515,000)   |
| <b>Net Cash Inflow / (Outflow) From Investing Activities</b>  | -   | (2,515,000)   |
| <b>Cash Flows From Financing Activities</b>   |   |   |
| Capital contributions   | 4,374,747   | 3,337,374   |
| Capital contributions receivable  | (43,747)  | (33,374)  |
| Contribution received in advance  | 417,500   | 2,500   |
| <b>Net Cash Inflow From Financing Activities</b>  | 4,748,500   | 3,306,500   |
| <b>Net Increase / (Decrease) in Cash and Cash Equivalents</b>   | 4,252,072   | (2,331)   |
| <b>Cash and cash equivalents, at beginning of period</b>  | 3,288   | 5,619   |
| <b>Cash and cash equivalents, at end of period</b>  | 4,255,360   | 3,288   |

**Patamar Fund II, LP**

(A Cayman Island Partnership)

**Statement of Changes in Partners' Capital**

As of June 30, 2020

(Unaudited)

|  | General<br>Partner<br>\$ | Limited<br>Partners<br>\$ | Total<br>\$      |
|--|--------------------------|---------------------------|------------------|
| <b>At January 1, 2020</b>                    | (11,375)                 | 1,892,460                 | 1,881,085        |
| Capital contributions                        | 43,747                   | 4,331,000                 | 4,374,747        |
| Capital contributions prepaid / (receivable) | (43,747)                 | 417,500                   | 373,753          |
| Net investment loss                          | (2,635)                  | (537,912)                 | (540,547)        |
| <b>Balances, June 30, 2020</b>               | <u>(14,010)</u>          | <u>6,103,048</u>          | <u>6,089,038</u> |
| <br><b>At January 1, 2019</b>                | (2,465)                  | (244,000)                 | (246,465)        |
| Capital contributions                        | 33,374                   | 3,304,000                 | 3,337,374        |
| Capital contributions receivable             | (33,374)                 | 2,500                     | (30,874)         |
| Net investment loss                          | (8,910)                  | (1,170,040)               | (1,178,950)      |
| <b>At December 31, 2019</b>                  | <u>(11,375)</u>          | <u>1,892,460</u>          | <u>1,881,085</u> |

## Patamar Fund II, LP

(A Cayman Island Partnership)

Appendix A - Schedule of Portfolio Investments through Master Fund

As of June 30, 2020

(Unaudited)

|  | As of<br>Jun 30, 2020<br>\$ | As of<br>Dec 31, 2019<br>\$ |
|--|-----------------------------|-----------------------------|
| Investment in Master Fund at Fair Value  |                             |                             |
| <b>Investment in Master Fund at beginning of period</b>  | 2,276,334                   | 2,515,000                   |
| Unrealised Appreciation / (Depreciation) for Visage Holdings and Finance Private Limited (Kinara) <sup>1</sup> | (122,485)                   | (110,209)                   |
| Expenses incurred by master fund   | (85,882)                    | (128,457)                   |
| <b>Total unrealized loss from investment in master fund</b>  | (208,367)                   | (238,666)                   |
| <b>Investment in Master Fund at end of period</b>  | <u>2,067,967</u>            | <u>2,276,334</u>            |

<sup>1</sup> This investment is denominated in foreign currency (US\$2,396,806 at cost). The Unrealized Appreciation / (Depreciation) is related to the fluctuation in the currency exchange rates.