

Increase of household health and savings

Anticipated transaction impact

Improved health and increased savings of Indonesian households, and improved environmental outcomes

Impact score Pass (18/21)
Credit score Pass (17/21)

Loan Overview

Commitment limit	USD 50,000
Tenor and structure	48 months, quarterly payments paid in advance
Interest rate	7.75%
Collateral	USD 10,900 approx. value of 3 commercial vehicles
Guaranty	USD 25,000

Financial Overview

2019E Revenue	USD 572 k
2019 Maturing loans	None
Net assets as of Dec 2018	USD 344 k

Company Information

Legal name	PT Holland for Water
Incorporation date	2 Nov 2007
Corporate address	West Java, Indonesia
Nature of business	Clean water and sanitation
Website	www.nazava.com

Shareholders

Name	Domicile	Share (%)
Lieselotte Heederik	Indonesia	18.6
Guido van Hofwegen	Indonesia	18.6
STAK PYM-Indonesia	Indonesia	34.0
Other shareholders	Netherlands	28.8

Company management

Name	Nationality	Position
Lieselotte Heederik	Dutch	Co-Founders &
Guido van Hofwegen	Dutch	Directors
Syahri Abdillah	Indonesian	Manager
Firmansyah Helmy Sani	Indonesian	Account Manager

Recommendation

Approval of a USD 50,000 term loan given the company's positive impact rating and financial stability plus a 50% personal guaranty from a philanthropic supporter.

Note: FX rate assumed at 14,500 USD:IDR

Nazava

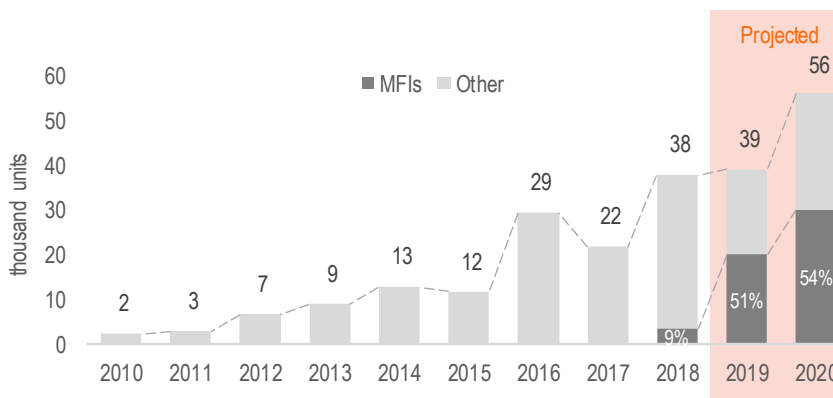
Business overview

Nazava produces and sells economical household water filters to both urban and rural families in Indonesia. Most Indonesians get their drinking water from wells which are overwhelmingly contaminated. Those who do get clean drinking water do so by either boiling water or purchasing bottled water which can become financially burdensome for the 8 million Javanese who earn less than USD 1.90/day. With its filter, Nazava is able to provide the cheapest clean water solution saving households USD 35/year compared to boiling water and USD 62/ year compared to purchasing bottled water. Each filter can purify 2-3 liters/hour and up to 7,000 liters over three years before a replacement filter is needed.

Nazava experienced a surge of growth in 2018 achieving positive EBITDA amounting to USD 79k. It sold around 38,000 filters generating USD 497 k of revenue, a 94% increase from the previous year. To date, Nazava has sold over 134,000 filters.

From the second half of the 2018, Nazava shifted its distribution strategy to tap micro-finance institutions (MFIs) whose large client base and financing programs provide Nazava greater reach to customers who are able to purchase filters at very accommodative terms. Nazava anticipates MFIs to contribute 54% of total units sold by 2020 from 9% in 2018.

Figure 1: Nazava filters sold, 2010-2020E



Source: Nazava Financial Model, March 2019

Transaction overview

Nazava is seeking a USD 50,000 working capital loan as it expands its production and marketing efforts in light of its plan to significantly grow its sales through MFIs.

Currently, the company buys its ceramic filter “candles” in containerloads from two distributors in China who require full payment (~USD 50,000) before a container is shipped. To support its growth, Nazava needs more capital as it places more frequent orders to expand their inventory. We are proposing a USD 53,873 four-year term loan to Nazava. Three commercial vehicles with an estimated market value of USD 10,900 will be used as collateral. A term sheet is attached.

In addition, Steven D. White, a member of Nazava’s Board of Directors, has personally guaranteed 50% of the principal up to a maximum of USD 25,000. are obliged to first pursue payment from Nazava before collecting the guaranty.

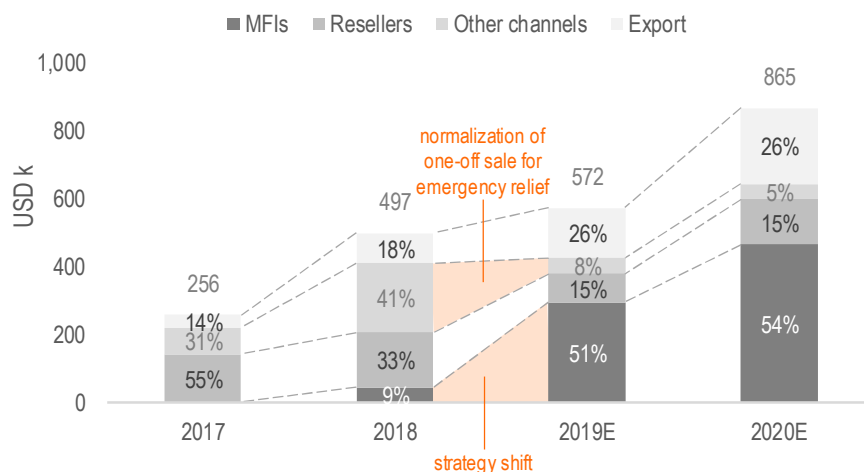
Steven is a mentor to Nazava via the GSBI Mentor's Program and an Advisory Board member of the Miller Center for Social Entrepreneurship at Santa Clara University. He is a US citizen and lives in Carmel, CA. Steven was VP of Manufacturing at Valid Logic Systems which went public in 1984, VP of Operations for Logic Modeling which was acquired by Synopsys in 1993, and CEO of O-In Automation which was acquired by Mentor Graphics in 2004.

Steven's guaranty is unsecured, and we have not reviewed his personal financial information, however, we have reason to believe that he can comfortably honor this USD 25,000 commitment.

Rationale to lend

- Nazava provides significant impact by lowering expenses and improving health outcomes of Indonesian households. It is also able to affect the environment positively from reduced consumption of gas and plastic bottles. We assess Nazava’s impact to be high with a score of 18 out of 21. (See *Appendix 1: Nazava Impact Assessment*)
 - Nazava filter users save on average 35 USD per year compared to boiling water with liquid propane gas (LPG). Users who previously bought filtered water save as much as 62 USD per year. These are significant savings for the 8 million Javanese who earn less than 1.90 per day. Nazava measures the household savings of Indonesian households from the use of its filters as amounting to USD 14.5 million to date.
 - A significant difference in health has been found between users and non-users of Nazava filters. For Nazava users, only 8% have reported a diarrheal occurrence in the past 6 months, compared to 21% of non-users. This is notable given 33 million people in Indonesia lack access to clean water sources while 15,000 children under the age of 5 die each year from diarrhea.
 - Environmental outcomes are also improved by the use of Nazava filters as the amount of carbon emissions released into the atmosphere is decreased as customers no longer need to boil water with LPG to have drinking water. A third-party analysis by Bureau Veritas has verified that Nazava has reduced 28,879 tons of CO2 through its operations between 2015 and 2018.
- Recent growth translates to increasingly robust financial and credit standing as Nazava scales its operations. We assess Nazava’s credit standing to be adequate with a score of 17 out of 21 (See *Appendix 2: Nazava Credit Assessment*) given our analysis of their financial standing.
 - In 2018, Nazava experienced a 94% increase of revenue from the previous year. This was partly due to significant one-off sale of filters for relief efforts which contributed to 31% of revenue. Moving forward, Nazava’s growth is anticipated to be derived from MFIs. Starting in the second half of 2018, Nazava shifted its distribution strategy from individual resellers to MFIs which accounted for 18% of revenue growth for the whole year.

Figure 2: Nazava Revenue by Channel, 2017-2020E



Source: Nazava Historical Sales and Projections

Nazava is now focused on gaining more contracts with MFIs which they plan to support with significant sales and marketing efforts, attributable expenses to which is set to increase by 69% and 75% in 2019 and 2020, respectively. Results of this change is expected to materialize in 2020, when revenue is expected to amount to USD 865 k.

Figure 3: Nazava Income statement 2016-2021E

in USD	2016	2017	2018	2019E	2020E	2021E
Revenue	277,905	256,205	496,996	572,481	864,788	1,029,470
Cost of sales	-179,052	-161,471	-297,430	-343,488	-510,225	-607,387
Gross profit	98,853	94,733	199,566	228,992	354,563	422,083
Operating expenses	-86,538	-119,179	-120,884	-154,609	-237,136	-280,746
EBITDA	12,315	-24,445	78,683	74,383	117,427	141,336
Financial performance metrics						
Annual revenue growth rate		-8%	94%	15%	51%	19%
Gross profit margin	36%	37%	40%	40%	41%	41%
EBITDA margin	4%	-10%	16%	13%	14%	14%

Source: Nazava Financial Model, March 2019

- Nazava has a strong financial position with most of its capital being derived from equity. As of end of 2018, it has more than adequate liquidity and leverage ratios having no outstanding long-term debt and manageable short-term debt of USD 43k.

Figure 4: Nazava Balance Sheet 2016-2018

in USD	2016	2017	2018
Assets			
Current assets	520,676	407,662	393,696
Non-current assets	22,350	74,144	76,100
Total assets	543,026	481,806	469,796
Liabilities and shareholders' equity			
Current liabilities	96,473	71,071	125,564
Non-current liabilities	106,781	113,188	0
Total liabilities	203,254	184,259	125,564
Shareholders' equity	339,772	297,547	344,232
Total liabilities and shareholders' equity	543,026	481,806	469,796
Financial position metrics			
Debt Service Coverage Ratio (DSCR)		1.63x	1.85x
Debt-to-Equity (D/E)	1.67x	1.61x	2.74x
Current Ratio	5.40x	5.74x	3.14x

Source: Nazava Financial Model, March 2019

- We estimate Nazava to have adequate cash to service its debts in the next two years assuming additional loans will be drawn as planned in 2019 of USD 50,000 from Kiva and USD 30,000 from Bindon Foundation, and given significantly tempered projections featuring the following assumptions:
 - Units sold through MFIs for 2019 and 2020 to be only 50% of Nazava's projections
 - Projected days receivable to be maintained at 2018 level of 75 days against Nazava's shortened estimate of 60 days
 - Projected days inventory to be maintained at 2018 level of 230 days against Nazava's shortened estimate of 190 days

Cash in 2021 is anticipated to be negative given Nazava's planned unleveraged acquisition of USD 276k worth of factory equipment during the year. This could be an opportunity for Beneficial Returns to extend an equipment loan to Nazava.

Without the acquisition, Beneficial Returns projects year-end 2021 cash to remain adequate at USD 117k. We believe that Nazava will not acquire the factory equipment unless it secures financing.

Figure 5: Nazava vs Beneficial Returns Consolidated financial highlights, 2019E-2021E

	2019E	2020E	2021E
Nazava management estimate			
MFI unit sales	20,000	30,000	37,510
DSCR	1.59x	2.45x	2.89x
Ending cash after debt service (in USD)	173,442	250,124	37,202
Beneficial Returns estimate			
MFI unit sales	10,000	15,000	20,035
DSCR	0.80x	1.10x	1.30x
Ending cash after debt service (in USD)	157,545	135,998	-158,206

Source: Nazava Financial Model, March 2019

Major risks and mitigating factors

Risk	Risk factor	Probability	Risk mitigating factor
Nazava unable to sustain its positive earnings trend	Failure to achieve revenue growth from loss of current contracts with MFIs	Low	<ul style="list-style-type: none"> Nazava has 2 MFI resellers which has so far exhibited sustainable demand for filters with purchases of 800 filters a month (totaling ~25% of predicted 2019 sales) Nazava has allocated resources to provide extensive sales and marketing support to support MFIs and boost and sustain sales of filters
	Failure to achieve revenue growth from failure to acquire new MFIs	Moderate	<ul style="list-style-type: none"> Nazava has onboarded 2 MFIs to date, showing their ability to onboard new MFIs Nazava has been leveraging feedback to support MFIs in obtaining new customers
	Failure to support growth from risk from suppliers	Low	<ul style="list-style-type: none"> Filter candles are of generic design and could be sourced from various suppliers Currently, Nazava sources its ceramic filter candles from Chinese suppliers, both of whom consider Nazava as a very small customer. We assess it highly unlikely that these suppliers will go out of business.
Nazava unable to meet its payment obligations to Highlands	Inability to convert receivables to cash	Low	<ul style="list-style-type: none"> Nazava's shift to MFIs is projected to cause a shortening of days receivable given the 30-day payment terms of MFIs compared to the 60+ day terms experienced with individual resellers. We expect this change to increase Nazava's ability to generate cash to service its debt to Beneficial Returns
	Slow lead times leading to high inventory burden	Moderate	<ul style="list-style-type: none"> Except for the ceramic filter casing, all components are made in Indonesia with lead time of around 3 weeks Nazava is working with Chinese manufacturers to have smaller, monthly deliveries to reduce lead time (currently at 3 months) and to reduce need for significant working capital for each delivery
	Inability to draw loans from Kiva and Bindon Foundation	Low	<ul style="list-style-type: none"> Kiva has a long-standing relationship with Nazava, having historically provided short-term loans to the company annually. We have no reason to believe this will cease to continue in the future. Even without a long-term loan from Bindon Foundation, we anticipate cash of Nazava to be sufficient to support its operations (but possibly not its capital expenditures)

Conclusion

We recommend extending a loan of USD 50,000 to Nazava given its strong impact score and adequate credit score. The transaction is also further supported by collateral and a 50% guaranty by Steven D. White.

The greatest risk to this transaction is Nazava's customer concentration with MFIs and its ability to onboard more of these high-volume distributors. We believe this is sufficiently mitigated by sufficient allocation of resources by Nazava to sales and marketing to support and propel MFI sales.

We identify another risk to be the working capital strain to Nazava given the inventory burden of sourcing ceramic filter candles by the containerload from China. We believe its strong relationships with its partners whom they can draw capital from can adequately mitigate this risk.

Appendix 1: Nazava Impact Assessment

Impact score: 18 out of 21

Prospective borrowers are rated with 1 point for Low, 2 points for Moderate and 3 points for High. Minimum score of 15 for approval.

	Low	Moderate	High	Score
1 SCALE Is the social enterprise addressing a major social or environmental problem and do they have the capacity to make a measurable, positive difference themselves or by influencing others?			✓	3
2 SYSTEMIC CHANGE Is the social enterprise focused on systemic change? In other words, would the impact continue even if the social enterprise went out of business?	✓			1
3 SUSTAINABILITY Does the social enterprise have a business model that is or has a strong likelihood of being sustainable? This may include a portion of philanthropic revenue provided that is sustainable.		✓		2
4 STAKEHOLDER ENGAGEMENT Does the social enterprise engage all stakeholders in their work? Is the social enterprise building local, human resources? Does it actively share its insights with others? Are indigenous communities involved?			✓	3
5 RIGOR How does the social enterprise measure its own impact and how well is it doing against these metrics?			✓	3
6 EFFICIENCY Are the social enterprise's impact outcomes cost efficient vs. other interventions? If not, is it likely that they will become so as the social enterprise grows?			✓	3
7 INTENTION How committed to its social or environmental mission is the social enterprise?			✓	3
TOTAL				18

Appendix 2: Nazava Credit Assessment

Credit score: 17 out of 21

Prospective borrowers are rated with 1 point for Low, 2 points for Moderate and 3 points for High. Minimum score of 15 for approval.

	Low	Moderate	High	Score
1 BELIEF IN MANAGEMENT Does the social enterprise have a strong management team (extensive industry experience, strong leadership and entrepreneurial background)? Is the governance structure adequate?			✓	3
2 ACCOMMODATIVE BUSINESS ENVIRONMENT Is the social enterprise operating in an industry with low level of competition? Does the social enterprise provide products or services that have low threat of substitution?		✓		2
3 QUALITY OF FINANCIAL INFORMATION Can the financial information provided be depended on? Has its financial statements been audited?			✓	3
4 ABILITY TO BE PROFITABLE Does the social enterprise have a positive earnings trend? Are the earnings sustainable?		✓		2
5 STRENGTH OF FINANCIAL POSITION Does the social enterprise maintain adequate financial ratios (DSCR, Debt-to-equity, Current ratio) to support a debt obligation?		✓		2
6 ABILITY TO SERVICE DEBT Does the social enterprise have the ability to establish a strong cash position to meet its debt obligations on time?		✓		2
7 COLLATERAL OR GUARANTEES Is there collateral for the loan with an adequate loan-to-value amount? Is there a guarantor for the loan?			✓	3
TOTAL				17

Appendix 3: Photos of Impact of Nazava

