Completion Assessment Executive Summary

Kamatan

March 2023

Investee	Kamatan Farm Tech Private Limited (now merged into Samunnati Financial Intermediation and Services Private Limited)
Main implementation country	India
Additional implementation countries	N/A
Funding amount agreed	$2.12 million (INR 150 million)
Funding amount disbursed	$1.14 million (INR 80 million)
Co-funding	Undisclosed
Investment Date	20 April 2020
Actual implementation period	1 April 2021
Expected PYI range at year 10 (ex-ante)	8K – 86K

Innovation

Marketing of smallholders' produce has traditionally relied on a fragmented and multi-tiered ecosystem of intermediaries. This has resulted in low efficiencies, high levels of waste, and little value addition between farmgate and market. In addition, buyers seeking uniform high-quality produce are unable to satisfy their demand, and private infrastructure investment is inadequate.

Kamatan's innovation was to create scale at the smallholder farmer level and allow for the benefits of resultant economies to be passed on to farmers. The model sought to achieve the needed scale economies by linking markets directly to Farmer Producer Organisations/Companies (FPOs).[1] Unlike many agri-tech startups prevalent at the time Kamatan was founded in 2017, the company rooted its model in the backend, closer to farmers than most other models that continued to work with aggregators and traders. While government subsidies enabled FPOs to form, linkage of these setups with markets was missing. In contrast, Kamatan partnered with food processors, millers, retailers and other market operators to create a diversified pan-India aggregated demand base. Simultaneously, Kamatan partnered with FPOs or directly with farmers to create an enabling ecosystem for producers to efficiently market their produce. Besides disintermediation, the key value-added services offered by Kamatan to the producers and buyers were technology integration; access to credit and other inputs; sorting, grading and quality standardisation; and access to warehouses and logistics. Kamatan's business model was based on trading margins from the procurement of output and sale of inputs, in addition to charging a service fee for the digital technologies and value-added services they offered.

During GIF's investment period, Kamatan was acquired by another larger company (Samunnati) that continues to work closely with FPOs to create and strengthen market linkages and for financial inclusion of their farmer members by providing financial solutions for marketing.

The Samunnati/Kamatan models directly address the core development challenge outlined above thereby boosting smallholder farmer incomes positively and reducing economic losses at the system level.

Goal of investment

GIF's investment was aimed at delivering the benefits of scale to smallholder farmers by leveraging

[1] FPOs are farmer collectives set up by government bodies like the National Bank for Agriculture and Rural Development (NABARD), the Small Farmer Agriculture Consortium (SFAC) and other agencies. These FPOs are being set up in large numbers with support from government subsidies in an attempt to solve the above challenges of aggregation and capacity of farmers.

Farmer Producer Organizations (FPOs) and implementing mechanisms to disintermediate their access to markets while simultaneously using market feedback collected as part of this process to drive improvement in quality and efficiency in the supply chain. Such benefits were thought to manifest in increased incomes through better price realisations, reduced waste and greater efficiency through the use of technology. By demonstrating this through Kamatan, the investment aimed to eventually help build an organised backend marketplace and supply chain for procurement of agriculture produce and bringing in best practices in sorting, grading, quality assurance and traceability which are essential ingredients for building further farm infrastructure and investment in value added services.

Type of investment

GIF led a $3.6 million Series B equity round in Kamatan as the lead investor with a commitment of $2.1 million (INR 150 million).

Original investment rationale

Kamatan was the only company focused entirely on working directly with smallholder farmers and FPOs among many other companies trying to aggregate and disintermediate the agricultural value chain. Kamatan's services built the capacity of FPOs while offering higher and transparent prices, access to distant markets and a reduction in transport costs and wastages for farmers.

As a young, fast-growing company with an operationally intensive model disrupting established ecosystems that were loaded against the farmer, the company needed risk capital to demonstrate the scalability of a model that had started showing early signs of success with positive gross margins. The equity from GIF was meant to support the development of an organised backend marketplace and supply chain for procurement of agricultural produce bringing in best practices in sorting, grading, quality assurance and traceability.

The investment was also driven by a sound rationale around additionality centering around:

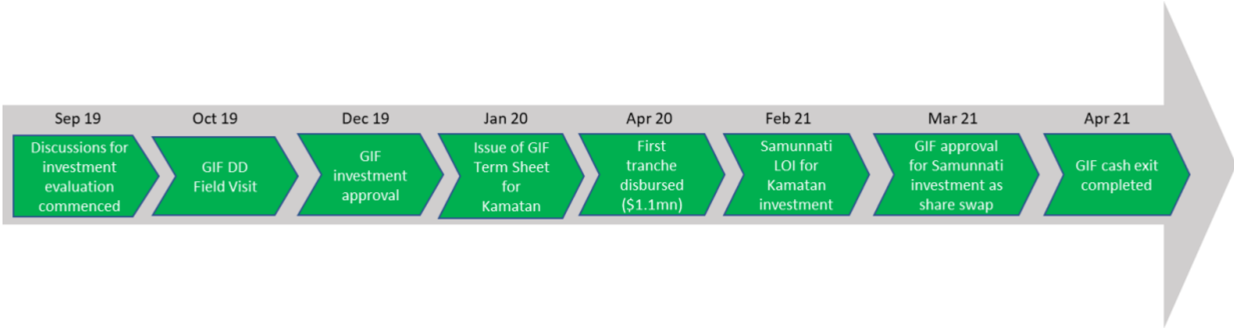
1. **Creation of impact evidence and knowledge sharing**. GIF directly supported Kamatan to develop metrics which align its growth drivers and resource management with FPO agreements and the expected social and economic impact on farmer members of FPOs.
2. **Crowding in additional private sector capital**. GIF helped to insource additional capital (equity as well as debt for working capital) for the company. Other local investors also participated in the round led by GIF.
3. **Going beyond what most financial returns-first impact investors focus on,** i.e. the front-end, retail and pure technology e-commerce models, leaving the backend high impact smallholder farmer context to the government / development agencies.

Expected impact

In making this investment, GIF expected that Kamatan would reach many more FPOs (and, through them, more smallholder farmers) enabling greater incomes from increased efficiencies, reduced waste, finer value grading, access to credit, improved skills for serving their farmer members better and for connecting directly with markets.

By focusing on these elements, Kamatan's services that allow FPO members to break their dependency on informal traders and rely on the services of FPOs were expected to be boosted. The scale and quality benefits including, inter alia, reduced logistics costs, waste reduction, increased productivity would create the profit pool sharing which would benefit both the farmers and Kamatan.

Implementation



Though the investment was presented to GIF by an investment bank, Kamatan's CEO and Founder had been known to the investment lead, Avinash, from earlier interactions from his prior work in the impact investing space. Due diligence across commercial, financial, tax, legal and ESG aspects was carried out in accordance with GIF's standard process. Commercial due diligence included a study of the materials submitted by the company across market, business model, competition and related aspects, and discussions and a field visit with the company founders and their existing investors.

Results

Implementation mostly went according to the plan in the first twelve months of the investment. In line with the objectives set out, Kamatan achieved significantly greater volumes and revenues with a larger number of FPOs and with greater offtake towards organised buyers while achieving much of the technology integration and development and its associated early benefits.

However, the investment would not run through its envisaged course to fully achieve targets, the release of the second tranche and an exit in 2024. Instead, Kamatan's acquisition by Samunnati Finance about a year after GIF's investment effectively meant that the focus and drive towards achievement of the vision and long term objectives (laid out in Section 3 above) behind GIF's investment in Kamatan were strengthened. Samunnati's business model, post acquisition, centres around financing the agricultural value chain (with a large share of such financing being for FPOs or enterprises working with FPOs) and enabling and strengthening market linkages for farmers and FPOs at a scale that was many times that of Kamatan, which served to substantiate GIF's investment thesis and accelerate the pathways to scale.

Overall profitability at the EBITDA level improved even when volumes rose four times with multiple new customers and FPOs being added. This was despite a slight reduction in contribution margin due to external factors (and to some extent as a conscious entry strategy into new markets), indicating a much better management of overheads. Senior management was strengthened with recruitment of a CFO, Procurement Lead, and Senior Product Manager, among other critical roles.

GIF had a positive role in catalysing two rounds of funding: one that came alongside GIF's own investment from Elevar, and another that came in the form of an investment and associated acquisition of Kamatan by Samunnati in a stock swap. While the acquisition would likely have taken place irrespective of GIF's investment in Kamatan and hence attribution of the investment to GIF is not absolute, GIF's guidance and insistence on Kamatan to remain aligned with its mission of FPO market linkage ensured that Kamatan remained an attractive target for Samunnati. GIF's consent as an investor for this acquisition was essential for this highly synergistic acquisition to take place.

GIF's investment in Kamatan delivered a healthy net IRR despite a tax haircut of 43% that had to be absorbed on account of the short holding period. With a pre-tax IRR nearly at commercial levels, and continued demonstration of strong performance post-exit as aligned with GIF's investment thesis despite the many extraneous challenges in the intervening period (including COVID-19-related unprecedented disruptions to food supply chains) the financial results were nothing short of impressive.

Objectives defined at time of investment		Achievement to the extent that can be derived from KPIs	Achievement to the extent that can be derived from broader/qualitative assessment
Objective 1	Create awareness, demand and incentives for sorting, grading and other quality enhancing activities at the FPO level.	Though challenging to assess in the absence of a baseline, since 100% of produce sold was reported as graded in the instances where the related KPI were reported, achievement can be stated as high.	All FPOs Kamatan worked with did use grading and sorting compared to most FPOs overall not using any/minimally; with takeover by Samunnati which eases the financial stress and enables greater business volumes and investment through provision of cost-effective financing for FPOs, there is reason to believe that this objective will be well met in due course.
Objective 2	Increase effective price realisation of farmers by 5-10% through premium paid for quality and reductions in costs, e.g. by lower transport and wastage and by eliminating or reducing other transaction costs to traditional marketing.	Data available does not substantiate the achievement of this objective.	The significant increase in volumes transacted with Kamatan which would otherwise have been transacted in the traditional multi-tiered chain is indicative of the likely reduced wastage and improved quality given Kamatan's transparent and organised procurement and buyer relationships. The Samunnati acquisition is expected to be positive in this regard for the same reason as articulated in Objective 1.
Objective 3	Piloting the farmer app and strengthening the ERP system for integration with other stakeholders, e.g. credit providers, warehousing and logistics solutions providers.	No KPI data linked to this objective is available.	Good level of progress was made with the launch of the farmer app in June 2020 with over 80,000 downloads within 11 months of launch, strengthening the IT team with senior recruitments.
Objective 4	Company scales the model to 50+ FPOs from 11 currently directly reaching 50K+ producers.	Over the holding period of the investment, this number rose to 15 despite evidence challenges arising from COVID-19 in much of the investment period.	Merger with Samunnati significantly expanded access and reach to hundreds of FPOs.
Objective 5	Company demonstrates sustained relationship and growth with existing FPOs increasing offtake to >10% of total production.	Insufficient data from MIS to assess.	Merger with Samunnati significantly expanded access and reach to hundreds of FPOs and greater share of the produce of existing FPOs on account of better access to working capital finance.

Key learnings

Kamatan achieved improved profitability at the EBITDA level but was slightly worse off at the contribution margin level, with gross margins being materially lower than before the investment. Though this appears to have been part of a conscious strategy to scale, identifying further near farm value maximisation and addition options beyond trading of produce would have been further value accretive. The mere trading (even with associated grading and sorting) of agricultural produce provides thin gross margin which is at further risk subject to: 1) vagaries of production, impacted by a range of unpredictable factors across weather, regional/international supply-demand dynamics, and unorganised competition; and 2) access to a significant quantum of cost effective working capital finance, the cost of which may not be covered by the thin margins afforded by trading. While scale is important, linking management incentives solely or heavily to revenues can also create adverse motivations, especially in a context where competing models are funded with larger venture capital firms that can sustain longer timeframes of high levels of burn in investee companies.

Though Kamatan's model incorporated capacity development for FPOs, as a private enterprise, its ability to invest larger amounts in skill building was constrained. Working with the government to direct and sharpen support for FPOs (beyond just setting them up and providing concessional startup capital) and to include capacity building of FPOs in the form of skills management skills, process skills and for recruitment of key personnel would be useful going forward.

Conditions for the release of the second tranche were quite steep which, in part, led to the second tranche not being released until the Samunnati takeover. Committing a larger quantum upfront or making milestones for subsequent tranches more directly attributable to company efforts in alignment with agreed philosophy would be another key learning.

GIF reporting requirements were considered useful by Kamatan and they adhered to the reporting through the investment period. However, for an organisation like Kamatan, operating at significantly larger scale, collection and reporting of some metrics may have proven difficult and we have no insight whether some or any of these metrics were ultimately adopted by Samunnati. GIF can continue to work on being more efficient and extracting maximum impact data from fewer data points which can scale with organisations even as they graduate from development focused investors to commercially minded investors.