

JUPITER CAPITAL PARTNERS

Sri Lanka Private Equity Market Newsletter

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APRIL 2014

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JUPITER CAPITAL PARTNERS UPDATES

Indika Hettiarachchi, Founder/Managing Director of Jupiter Capital Partners, was chosen as one of the 40 influential Sri Lankans under the age of 40 by Echelon, a leading Sri Lankan business magazine. He was ranked at 9th position in the annual compilation which describes the selected persons as most important *risk takers, job creators and rule breaker in 2014*. (see picture on left).

Jupiter Capital Partners recently finalized an investment in Hydromec International (Pvt) Ltd. Hydromec is an established engineering and trading firm serving many high growth industries in the country including construction, infrastructure development, logistics and warehousing, and transport businesses. Company is also the agent for several leading suppliers of material handling equipment/machinery and storage systems.

PE DEALS & OTHER PE NEWS

JAT Holdings, a company engaged in distribution of wood coating, paints and related products has secured US\$ 3.5 million. Four local investors have invested in a combined 7% stake through a private placement offering, and company says it is negotiating selling a further 7% to another investor. JAT Holdings has operations in Bangladesh and Maldives and has made approx. US\$ 3.1 million bottom-line for the year ended 31/3/2014. Company said it plans for an IPO in 2014.

Lankem Ceylon PLC, a diversified business group made two strategic acquisitions during March. Company bought a 43.6% stake in **Waverly Power (Pvt) Ltd**, a company engaged in hydro power generation for US\$ 0.8 million. Second acquisition was **Ceylon Tapes (Pvt) Ltd**, a company engaged in manufacturing adhesive tapes. Ceylon Tapes which was acquired for approx US\$ 1 million was a company with nearly two decade history and was initially backed by **Peoples Venture Investment Co.**, a venture capital firm.

NDB Bank PLC said it sold a 35% stake in Maldives Finance Leasing Co. (Pvt) Ltd for US\$ 1.1 million. Maldives Finance Leasing Co. was started in 2002 with initial funding from NDB Bank, IFC and several other Maldivian investors. Sale price reflects a small loss for NDB Bank.

Moldex Ltd., a family investment firm, sold a 8.2% stake in Sunshine Holdings PLC for approx. US\$ 2.5 million to another private investor (T. Sethiverl). Mouldex bought a stake in Sunshine Holdings last August from **Aureos South Asia Fund LLC**, a PE fund. However Mouldex exited Sunshine shares at a 14% less than the purchase price. Last year Mouldex sold a 19% stake it held in **Watawala Plantations PLC** to **Estate Management Services Ltd**, a group company of Sunshine Holdings. Aureos still holds around 10% stake in Sunshine Holdings after several rounds of partial exits.

In other private debt finance deals, **MAS Capital, one of largest garments and textiles firm in Sri Lanka has secured a US\$ 35 million deal with IFC.** Funding is expected to be utilized for capacity expansion, sustainability projects and product development. MAS Capital has 41 manufacturing facilities (including 9 overseas plants) and employs over 66,000.



Indika Hettiarachchi, Founding Managing Director, Jupiter Capital Partners accepting an award from Shamindra Kulamannage, Editor, Echelon Magazine at an Awards Ceremony held at Taj Samudra Hotel in Colombo.

NDB Capital Holdings PLC, a subsidiary of NDB Bank PLC is floating a PE fund with a partnership with US based Zephyr Management and IFC. Proposed US\$ 50 million fund will be managed from Colombo and Bangalore, and IFC disclosed a US\$ 10 million commitment for the proposed fund which is expected to set up by September. In 2011 also IFC anchored a Sri Lanka country fund with a US based firm called **LR Global**. LR Global later abandoned Sri Lanka fund plans as they could not secure additional commitments (other than IFC's US\$ 10 million). IFC is an investor in Zephyr managed funds.

NDB bank has three PE/VC funds and investment companies under its group: **Ayojana Fund** and **NDB Venture Investment Fund** are joint venture funds with UK's **CDC Group**. These 1996-vintage funds (which are currently under liquidation) were the first ever country funds to be backed by CDC Group, and were managed independently (and became part of **Aureos Capital** after CDC's restructuring). The third investment vehicle - **NDB Capital Holdings** (earlier known as **Capital Development and Investment Co.**) now operates as the investment bank of the NDB Group. NDB Capital Holdings has over US\$ 44.8 capital base and larger share of which are invested in mutual funds and debt securities.

Venture Engine, a competition and a platform to raise funds for start-up firms from angel investors launched its 2014 competition. The program is organized by Lanka and India Angel Investor Network and Blue Ocean Ventures. According to reports, the program has so far provided US\$ 1.5 million funding for 12 start-ups.

Recently released **Central Bank of Sri Lanka's Annual report has highlighted the need to develop PE as a major source of financing Sri Lankan enterprises** as Sri Lanka moves to a higher growth trajectory. While echoing many points highlighted by Jupiter Capital Partners through various research articles, the report notes that Sri Lankan firms rely heavily on bank borrowings for funding new investments.

Views on Sri Lankan PE market !

US based PE firm Zephyr's founder in an interview with Emerging Markets PE Association notes that Sri Lanka is an attractive market for PE, although Sri Lanka is unlikely to attract larger PE firms due to its small market. He notes that Sri Lanka is a highly productive society which produces high quality products. He further highlights the good education system in Sri Lanka which has produced highest literacy rate in the region. He also notes that Sri Lanka has less corruption compared to India, and there are no social hindrances for growth like the caste system in India.

Zephyr's Partner in Bangalore commenting about the launch of joint venture PE fund with NDB Bank observes that Sri Lankan market is similar to India a decade ago where bank funding is limited and many young companies did not have options for funding beyond friends and family.

OTHER INVESTMENT & BUSINESS NEWS

Amaya Leisure PLC., a listed hotel holding company acquired a 51% stake in Sun Tan Resorts (Pvt) Ltd for US\$ 4.3 million. Sun Tan Resorts owns a 125 room 4-star resort in Eastern coast which is currently managed by Thailand's **Centara Resorts and Resorts**. Sun Tan Resorts was promoted by **International Distilleries Lanka Ltd**, a local business group. Amaya Leisure is a group company of diversified industrial group **Hayleys PLC**. (See pictures on right)

In other news on the leisure sector, **Waskaduwa Beach Resort PLC a subsidiary of Citrus Leisure PLC** said its 150 room 5-star beach resort – **Citrus Waskaduwa** commenced operations in April. The US\$ 20 million hotel is the second hotel property of **Citrus** group, a relatively new player in the leisure sector.

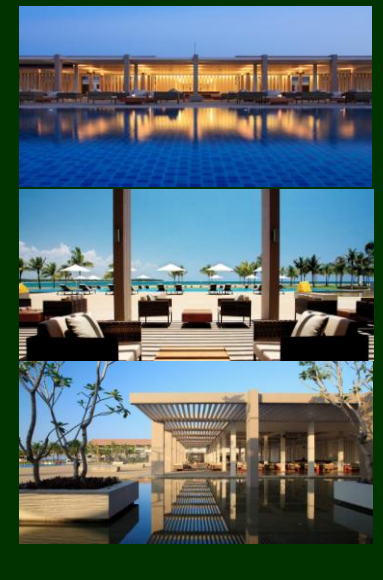
Asia Orient Leisure Ltd., another new entrant to the leisure sector said it is investing US\$ 3 million in several small boutique hotels around country under **Escondite** brand. Firm has already commenced a city hotel in close proximity to Colombo.

Odel PLC., a leading department store chain has invested US\$ 6.1 million to buy prime city property adjoining its main store in Colombo. Malaysia's **Parkson Retail** owns 47% in Odel and company is planning to expand its main store in Colombo.

CEAT Kelani Holdings has also invested US\$ 4.6 million to increase production capacity by 70%. CEAT Kelani is Sri Lanka's largest tire producer and is a joint venture of Sri Lanka's **Kelani Tyres PLC** and India's **CEAT group**.

Country's two major telcos announced major infrastructure investments. **Sri Lanka Telecom PLC is investing US\$ 415 while Dialog Axiata PLC is expected to pump US\$ 115 million for infrastructure investments.** Sri Lanka Telecom is majority owned by government and Dialog Axiata is majority owned by Malaysia's Axiata.

Centara Pasikudah Resort & Spa (pictured below), is one of the first resorts to open in the East coast after the end of three decade old civil conflict in 2009.



Aegis Ltd., a global outsourcing and technology firm said it has invested over US\$ 1 million to expand capacity infrastructure in Sri Lanka unit. Company which entered Sri Lanka in 2009 by acquiring an existing BPO firm, plans to increase staff to 1,000 from current 350.

Bairaha Farms PLC, a leading poultry producer announced a US\$ 12.6 million joint venture to manufacture animal feed. This is company's second joint venture with **Farms Pride (Pvt) Ltd.** The first JV between the two parties is **Fortune GP Lanka (Pvt) Ltd** which now has a 50% market share in broiler breeder parent chick requirements in the country.

A local company **S&D Chemicals (Pvt) Ltd, is setting up a US\$ 3 million chemical plant.** Company is expected to manufacture industrial chemicals used in garments and textiles industries. Company plans to have offices in several Asian and Middle Easter countries

India's Shree Renuka Sugars Ltd has been selected to establish a US\$ 220 million sugar refinery plant in the industrial zone linked to new Hambantota port in southern Sri Lanka. **Lanka Sugar Refinery (Pvt) Ltd** is awarded the project by **Sri Lanka Ports Authority** after evaluating proposals received for port related industries.



US\$ 650 million Waterfront mixed development (pic above) promoted by John Keells Holdings will have 500 room hotel, and commercial retail space including retail and office space.



Queenbury hotel (pic above). promoted by Vallibel One Group and an existing local gaming operator will have 500 rooms and estimated to cost US\$ 350 million.



Crown Colombo (pic above), promoted by Australia's Crown group and a local gaming operator, will have 400 room hotel and expected to cost US\$ 350 million

POLICY INITIATIVES & UPDATES

Sri Lanka's **Parliament approved three major integrated property projects under Strategic Development Project Act** granting tax breaks and other incentives. These **three integrated resort projects are expected to have gaming facilities (casino) as main attraction.** Parliament approved these projects amid opposition from various political, religious and social organizations. Parties opposing the move mostly opposed granting concessions for gambling on moral grounds, and against recognition of gambling as a sector of strategic importance. Sri Lanka already has several casinos in Colombo and at least one promoter has raised funds for the proposed projects and has already commenced construction. (See images on left).

In a ground breaking initiative, a **local administrative body in Eastern province, issued (strict) guidelines on micro-finance activities.** According to new instructions, micro-finance firms have to comply with rate ceilings and also work with government administrative system in processing micro-lending applications. Former war zone areas in Northern, Eastern and North Central provinces have seen increased micro-finance activities. Currently a regulatory framework is being developed to regulate micro-finance industry.

Central Bank announced that consolidation of the banking and financial sector companies is on track and relevant tax law amendments have been enacted to provide relevant tax concessions as per the last year budget proposal. Although many firms are believed to be engaged in preliminary discussions on potential mergers and acquisitions, only two initiatives are publically disclosed so far: These are proposed merger between **DFCC Bank PLC** and **NDB Bank PLC**, and the merging **Merchant Bank of Sri Lanka PLC** with two of its subsidiary firms - All three firms have significant direct and indirect state ownership.

COLOMBO STOCK MARKET UPDATES

Stock Market's main **All Share Price Index gained by 4.3% in April** marking an up to date gain of 5.3% for 2014. Average daily turnover improved to US\$8.5 from US\$ 4.5 million last month. There was **net foreign outflow of US\$ 4.9 million** during April. Year to date foreign outflow is estimated around US\$ 55.1 million.

Adam Investments, a family owned investment firm filed for an US\$ 3.1 million IPO. Company is offering nearly 30% stake to investors through the IPO scheduled for May.

Hemas Holdings PLC., a diversified group raised US\$ 7.7 million from 5-year bond issue priced at 11%. Another diversified industrial group **Richard Pieris & Co PLC** also announced a US\$ 26.8 million 3-5 year bond issue priced between 10.75% - 11.25% to be opened in May. Yield on government bonds with similar maturities is around 9.5% - 10%.

Many non-financial firms are likely to replace high cost bank loans with bonds. This is likely to further slow private sector credit growth.

ECONOMIC HIGHLIGHTS

Inflation (YoY) picked up in April to 4.9% reversing a trend of steady decline since November 2013. As the Central bank held rates unchanged, treasury bill rates dropped marginally to 6.58% from 6.65% month ago. Three month treasury bill rate year ago was 9.23%. Exchange rate against US\$ remained unchanged in April.

Sri Lanka recently issued its 7th **sovereign bond issue of US\$ 0.5 Billion at a yield of 5.1%** - lower than the 6.0% paid for previous issue. This issue follows US\$ 60 million development bond issued last month at 4.35%. Meanwhile **Fitch Ratings confirms its BB- country rating** for Sri Lanka with stable outlook. Fitch Ratings has highlighted the strong economic growth, but has also noted that Sri Lanka's government debt is more than double and foreign debt more than three times of similar rated countries.

Despite low inflation and low interest rate environment, growth in private sector investment is slower than expected. However, there is a healthy level of expansions and new investments by FDI backed firms. In 2013, reinvestments of earnings of FDI backed companies reached US\$ 350 million, a significant increase compared to previous years.

According to recently released Central Bank Annual report Sri Lanka's per capita GDP has reached US\$ 3,280 in 2013 and it has taken only six years to double GDP per capital since 2007. However, the US\$ 67.2 billion economy has seen a slowdown in growth in private sector investments. **Investments as a percentage of GDP reduced to 29.6% in 2013 from 30.6% year ago.** Private Sector Investments has increased by 11.7% in 2013 compared to 13.7% year ago. Foreign capital inflows (including portfolio investments and loans) during 2013 were US\$ 0.82 billion compared to US\$ 0.96 billion in 2012.

On the positive side, **there is healthy increase in self-employed persons and employers indicating growing entrepreneurship in the country.** Domestic savings increased during 2013 to reach 20% of GDP. Also during 2013, there was a sharp increase in Sri Lankans leaving for foreign employment – especially in professional and middle level job categories.

ENDS

Note: All figures mentioned in this report are converted to US\$ using the mid month end rate of Rs 130/60, except where figures are provided in US\$ at source.

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Newsletter No. 15

Issued on 2 May 2014