

# JUPITER CAPITAL PARTNERS

## Sri Lanka Private Equity Market Newsletter

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AUGUST 2014

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## DEALS & OTHER PRIVATE EQUITY NEWS

Global private investment firm **TPG Capital** announced details of the **USD 117 Mn buyout of Union Bank of Colombo PLC**. The deal which was first announced in October 2013 will result in TPG acquiring up to a 75% stake in the small bank which reported USD 16.8 Mn revenue (up 2%) and a profit of USD 0.2 Mn (down 79%) in the first six months of 2014. Bank's assets and net assets reached USD 305 Mn and USD 37.3 Mn respectively. Approx. USD 87 Mn will be infused to strengthen bank's balance sheet and TPG is also expected to buy 6.25% stake from minority shareholders. Malaysia's **Genting Berhad** is the largest single shareholder of Union Bank at present with 18.5% shareholding. TPG has secured special approval from the Central Bank for this deal as existing law imposes single shareholder limit of 10% though related parties can go up to 15% maximum shareholding in a bank.

**Cargills Ceylon PLC** said **IFC** is investing **USD 20 Mn for an 8% stake in its supermarket unit** which recorded USD 378 Mn topline (up 11%) and USD 14.5 Mn operating profit (up 13%) for the FY ended in March 2014. The deal is based on a pre-money equity valuation of USD 225 Mn (which is equivalent to around 78% of the market capitalization of Cargills Ceylon PLC). Cargills group which has interest in F&B, restaurants, property and banking, reported a loss of USD 1.1 Mn for the 1Q 2014/15 compared to USD 0.9 Mn profit made last year. Cargills Group's performance has been declining during last few quarters and company recently sold its loss making brewery business unit. In 2013, IFC invested in a greenfield bank promoted by Cargills Group. **Cargills Bank** so far has opened only a few branches and yet to offer banking services through its supermarket chain as originally planned. This is IFC's second deal in the retail space in Sri Lanka. (see pic on left)

Indian firm **Muthoot Finance Ltd.** bought a **30% stake in Asia Asset Finance PLC** for **USD 2.1 Mn** from its promoter **Asia Capital PLC** (which reduced its stake from 72.7% to 42.7%). Asia Asset Finance has also announced a further USD 3.4 Mn fund raising (to meet minimum capital requirement) which will increase Muthoot investment up to USD 3.1 Mn. Asia Asset's revenue was up by 8% to USD 1.5 Mn while profits declined by 16% to USD 0.1 Mn in the 1Q 2014/15. Asia Capital which operated as an investment firm is now focusing only on leisure sector.

**Zinc Hospitality Group** has signed a deal to invest **USD 1.9 Mn for a 50% stake in a JV with Ceylon Hotels Corporation PLC**. Ceylon Hotels Corp. owns a chain of small hotels (rest houses and inns) which are operated through three subsidiaries. The JV will take over one subsidiary which owns several Rest Houses across the country. Earlier Ceylon Hotels Corp. said company spent more than USD 10.8 Mn in upgrading property portfolio. Zinc Hospitality group, owned by Nepalese **Immovation/ Chowdhury** group, has made several investment in Sri Lankan hotels.



Pic above: **Cargills Food City** super market chain is the largest supermarket chain in the country, but it faces stiff competition from other supermarket chains in urban areas. Estimated market share of modern retail trade in Sri Lanka is around 15%. Although such low penetration level is unlikely to adversely impact independent/ small retailer businesses, recently there has been a notable increase in supermarkets in urban areas.

*“Despite concerns of oversupply of hotel rooms and possible rate cuts, a recent report highlights that luxury/ up-market room rates actually increased by 9% as at mid 2014 (YoY) indicating an overall 12% revenue growth”*

Several M&A deals were closed/announced in the financial services sector. All these deal were part of the policy driven initiative to consolidate the financial sector:

- Newly established **Cargills Bank** said it is buying **Capital Alliance Finance PLC**, a listed finance firm controlled by **Capital Alliance Ltd.**, a capital markets firm. Capital Alliance Finance's equity is valued at USD 4.6 Mn – almost 2X book value. Company made USD 0.4 Mn revenue and a loss of USD 0.014 Mn for the 1Q 2014/15.
- Large private banking group **Hatton National Bank PLC** said it is buying 51% stake in privately held **Prime Grameen Micro Finance Ltd** for USD 5 Mn. Prime Grameen, which is modeled like Bangladesh's Grameen concept, was started by **Ceylinco Group** in 2000. In 2009, subsequent to collapse of the Ceylinco group, its control passed on to **Prime Lands Group** - a real estate company.
- **Commercial Credit & Finance PLC** said it is acquiring listed **Trade Finance and Investments PLC** for USD 12.1 Mn. Trade Finance & Investments' net book value is around USD 6.5 Mn while the company made a bottomline of USD 0.4 Mn for the 1Q 2014/15.
- **Orient Finance PLC**, a company owned by **Janshakthi Insurance PLC** said it is acquiring an 87% stake in **Bartleet Finance PLC**, a listed finance company. Bartleet Finance PLC had a net book value of USD 4.2 Mn and made a loss of USD 0.6 Mn on a USD 2.6 Mn revenue for the 1Q 2014/15. Price of the deal was not disclosed.
- **Senkadagala Finance PLC** which secured a USD 7 Mn debt package from **IFC** earlier this year. said it is buying privately held **Newest Capital Ltd.** for USD 2.3 Mn. According to sources, Newest Capital, which is an unheard firm in the financial market, has obtained license to operate as a leasing firm two years ago although it had not engaged in any commercial operations.
- **Citizen Development Business Finance PLC**, a listed finance company also said its Directors agreed to buy 86.3% stake in privately held **Laughs Capital Ltd** for USD 3.26 Mn from **Laughs Holdings Ltd.** In October 2012, Laughs Holdings bought 67% of **Softlogic Credit Ltd** for USD 0.8 Mn (from Softlogic Group) and entered financial services business.

Listed construction firm **MTD Walker PLC** said it is buying **Wiscon Development Ceylon (Pvt) Ltd.** for USD 16.7 Mn. Wiscon is a Malaysian owned property development firm and MTD Walter is also owned by Malaysia's **MTD Capital Bhd.**

In other noteworthy deals, control of **Industrial Asphalt Ceylon PLC**, a small listed company with around USD 1.5 Mn market cap was acquired by its CEO **Govidasamy Ramanan** who is also an investment banker. Industrial Aphalt is in the business of trading of bitumen relate products.

Canadian mining firm **Elcora Resources** said it raised USD 0.6 Mn out of the proposed USD 1.5 Mn private offering to fund its Sri Lanka's **Sakura graphite mining project.**

In other noteworthy exits, **Vallibel One PLC** said the company sold its **50% stake in Orit Apparels Lanka (Pvt) Ltd** for **USD USD 8.3 Mn** to its other shareholders. Vallibel One, a listed investment firm controlled by billionaire entrepreneur **Dhammiaka Perera**, bought the 50% stake in the specialist denim clothing maker in 2011 for USD 7.26 Mn. Orit Apparels made USD 75 Mn revenue and a loss of USD 1.4 Mn for the last financial year.

*“One of the objectives of the initiative to consolidate financial sector is to reduce the number of firms engaged in fund based financial services. However it is unlikely that the number of firms will reduce significantly as most of the deals announced indicate that original corporate entities will continue under new investors/ shareholders without merging balance sheets/operations.”*

*“Sri Lanka's private sector credit accounts for only around 39% GDP (2013). Even though this ratio is very low, Sri Lanka's private sector credit growth is facing many challenges which may slow down the growth of the entire banking and finance sector in the medium term.”*

Pics below: Floating market built over an earlier neglected canal. These canals were originally built during 17<sup>th</sup> century by Dutch to transport good to Colombo port.



Pics below: Restored 17<sup>th</sup> Century hospital complex now houses luxury retail shops. This complex is located inside the Dutch Fort in Galle city which is UNESCO heritage site.



## OTHER BUSINESS & INVESTMENT NEWS

Two Indian firms - **Future Consumer Enterprises Ltd** and **SVA India Ltd** have formed a Sri Lankan JV named **Aussee Oat Milling (Pvt) Ltd**. The USD 10.5 Mn venture plans to manufacture oat based food products for export market.

**Ravago Group**, a Belgian multinational engaged in plastics related businesses said it started a Sri Lankan business unit to cater to growing local demand for plastic products for industrial uses and other manufacturing industries. **ISM**, a Dutch e-commerce company said it is setting up its Asia Pacific branch in Sri Lanka with an investment of USD 3 Mn investment.

**CML-MTD Constructions Ltd.**, a subsidiary of listed construction firm **MTD Walter PLC** said it is investing in a USD 43.3 Mn in a large housing project as part of Urban Development Authority's urban rejuvenation program. Under the Malaysia's EXIM bank funded program, company will construct houses for underserved settlements. **Sanken** another Sri Lankan construction firms which already undertake overseas projects said it is investing US\$ 40 mn in a property development project in Maldives.

Two more new hotel projects in Southern Sri Lanka were announced during August. **Asia Capital PLC**, which recently secured PE funding from Japanese investors said it is investing USD 13.8 Mn in a hotel in the coastal city of Galle. **Ascot Holdings PLC** which is engaged in construction related businesses also said it is building a hotel in Yala wildlife park in Southern Sri Lanka.

## DEVELOPMENT NEWS

**Sri Lankan Army** which has ventured into some commercial ventures has taken initiative to **redevelop an 11,140 hectare dairy farm Kandakuda** which is located in the former war zone in Eastern Sri Lanka. Ministry of Economic Development is planning to import 20,000 cows from Australia at a cost of USD 74 Mn with funding from Australia's Export Finance Insurance Co. and Netherlands Rabobank to develop dairy farming in other provinces. Sri Lanka has initiated many programs to develop local dairy industry to save over USD 0.4 Bn spent annually to import milk products.

Sri Lanka is rebuilding 151.3 km major road linking Badulla in central Sri Lanka with Chenkadi in Eastern Coast with funding from OPEC fund for International development and the Saudi Fund for Development.

Adding to increasing recreational venues around the country, two more unique locations opened in August. First is a newly developed floating market in a canal in central Colombo and the second is a shopping arcade in a restored 17<sup>th</sup> century building. (see pictures on left)

## COLOMBO STOCK MARKET UPDATES

**All Share Index gaining by 3.2% for the month and recording a 19% gain for the year.** Average daily turnover for the month was USD 14.6 Mn compared to USD 12.3 in July. There was a USD 22.3 Mn outflow of foreign portfolio investments. So far Colombo bourse has secured USD 56.8 Mn worth foreign inflows for the year.

During August, SEC cancelled a trade of a large block of **PC Pharma PLC** by **Adam Investments PLC.**, a listed investment firm as it violated market rules. The new investment company sold a stake of a company for which it was suppose to offer a buyout offer. According to market sources some stock market deals which make no commercial sense indicate prevalence of certain manipulative practices in the market.

There were two new listed bond issues. **Soflogic Finance PLC** raised USD 10.75 through a bond issue guaranteed by GurantCo priced at 10% or 1.5% + T bill rate. **DFCC Bank** also raised USD 38.5 Mn priced at 8.5%.

*“Current low rates offer a good opportunity for firms to tap public bond market to secure low cost funding upto 5 years. But so far only a few non-financial firms have tapped the bond market”*

## ECONOMIC HIGHLIGHTS

According to report, **Sri Lanka has attracted USD 0.82 Bn FDI during first half of 2014**, which is 51% more than the FDI inflow during the same period last year. Sri Lanka set a FDI target of USD 2.5 Bn for 2014 after achieving USD 1.3 Bn in 2013. Tourism related ventures have received 36% of FDI while utilities and infrastructure projects have received 26% and 15% respectively.

Latest employment data shows that **unemployment during the first quarter of 2014 stood at 4.1%** compared to 4.6% year ago. However, youth unemployment (persons aged between 15 – 24) is still high at 19%. Youth Female unemployment was 27.3% compared to overall female unemployment rate of 6.1% and male unemployment rate of 3%.

*“Slow private sector credit growth coupled with slow down in intermediary and investment goods imports hint a possible short term slowdown in economic activities”*

**Inflation declined to 3.5% in August** compared to 3.6% in July (YoY). Monthly inflation index showed a decline of 0.5% in August which is the first time inflation index declined since September 2013. **Treasury bill yields remained around 6.19% at end of August compared to 6.34%** month ago. Central Bank data shows private sector **Credit growth further dropped to 2.0% in June** (YoY) compared to 2.2% month ago. Weighted average lending stood at 13.83% in June.

**Trade deficit for the first half of 2014 was USD 3.5 Bn which is a decline of 20% compared to same period last year.** Exports grew by 16.8% to USD 5.4 Bn while imports declined by 1.2% to USD 8.9 Bn. Textiles and apparels which accounts for 44% of country's exports grew by 20.6% compared to last year. However, import of intermediate goods have shown a marginal growth of 3% but investment goods imports have declined by 15.8%.

There was no change in the exchange rate between Sri Lankan rupee and USD during the month. Sri Lankan rupee has gained about 0.4% for the year so far.

ENDS

Note: All figures mentioned in this report are converted to US\$ using the mid month end rate of Rs 130/19, except where figures are provided in USD at source.

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Newsletter No. 19. Issued on 1 September 2014

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