

JUPITER CAPITAL PARTNERS

Sri Lanka Private Equity Market Newsletter

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JUPITER CAPITAL PARTNERS UPDATES

Jupiter Capital Partners conducted a Seminar on Private Equity Funding on the 22nd January at Taj Samudra Hotel. The full day seminar featured eight speakers who talked on several topics related to Private Equity ("PE") investments with emphasis on the SME sector. The main purpose of the Seminar was to educate entrepreneurs and business community about PE. Seminar featured several leading professionals in the country in their respective fields as well as entrepreneurs who shared their success stories and how PE helped them to build successful companies. (see photos on left)

Jupiter Capital Partners plans to hold an Investor Conference/Seminar during 2Q 2014.



Seminar on Private Equity Funding was attended by over 80 participants.



*Above: Dilip Kodikara, Promoter of Dutch Lanka Trailers sharing his success story.
Below: Ayomi Aluvihare Gunewardene, Partner, FJ&G De Saram presenting about Legal aspects aspects of a PE investment.*



PE AND OTHER DEAL ACTIVITY IN JANUARY

Commercial Credit and Finance PLC, a mid size listed finance company has secured deal to raise US\$ 12.9 Mn through a US based Creation Investments Sri Lanka LLC. The deal will increase company's equity capital to US\$ 16.5 Mn from current US\$ 3.6 Mn. The investment will be made through two tranches and the investor will hold 25% stake in the company. For the first half of FY 2013/14 Commercial Credit's revenue was up by 72% to US\$ 23.4 Mn and bottom-line grew by 20% to US\$ 2.6 Mn.

India Infoline Ltd divested its 76% stake in its Sri Lankan stock brokering arm – IIFL Securities (Ceylon) Ltd. to its Sri Lankan partner and CEO Priyani Ratnagopal for US\$ 0.4 Mn. According to reports, India Infoline is also looking to divest its Sri Lankan investment arm **IIFL Capital Ceylon**. Both these companies have reported losses according to reports. In another similar deal **Rating Agency Malaysia Bhd. has sold its Sri Lankan rating unit RAM Ratings Lanka.** Company's newly appointed Chairman and CEO have bought out the RAM's stake.

A consortium of investors led by Investec Capital, a boutique advisory firm special acquired Orient Wealth Ltd. Orient Wealth is a Unit Trust (mutual fund) manager and currently manages three unit trusts. The seller was **Orient Capital Ltd**, a group company a company of **Janashakthi Ltd** which also owns Janashakthi Insurance.

Frontier Capital Partners, an advisory firm has sold a 75% stake in Global Media Network Ltd to Sierra Information Technologies Ltd. Global Media Network specializes in media, research, interactive platforms and training. Sierra Technologies is a part of a Sierra group which is a large construction and engineering group.

Virtusa Inc., Nasdaq listed IT firm with Sri Lankan roots has recently acquired Swedish financial outsourcing consultancy – TradeTech for. The US\$ 20 Mn deal also has an earn-out payment upto US\$ 4 Mn. Virtusa was promoted by a Sri Lankan technology entrepreneur and has large development center in Sri Lanka.

Millennium Housing Developers PLC – a housing project developer raised US\$ 0.7 Mn by offering 18.6% stake through an IPO. However company did not receive strong investor interest to exercise the option to sell a further 8.6% for additional US\$ 0.7 Mn. Millennium Developers is majority owned by **Nation Lanka Finance PLC**, which was previously part of **Ceylinco Group**. For the FY 2012/13 Company earned US\$ 0.7Mn profits from US\$ 4.3 Mn sales. (see Box on right)

Lanka Transformers Group has secured long term funding to finance its 52 MW thermal power project in Bangladesh. US\$ 21.5 Mn has been raised from several Bangladeshi Banks through a Preferred Share issue while US\$ 14 Mn has been raised through a loan from Sri Lankan banks. **Lanka Ventures PLC**, a Sri Lankan VC firm specializing in funding power projects had earlier invested US\$ 2 Mn in a 12% stake in the venture were Lanka Transformers Group owns a majority 80% stake. Lanka Transformers Group is an engineering company serving power sector. Company also owns and operates power plants. Lanka Transformers is majority owned by state power utility **Ceylon Electricity Board**.

In another development related to power sector, **Aitken Spence Power**, a power supplier under diversified group **Aitken Spence Holdings PLC**, is reportedly looking at investing in a 200 MW thermal power plant to Bangladesh. In January they sold one of its 24 MW thermal power plants idling since last year due to expiry of power purchase agreements to a Pakistani buyer for approx US\$ 2 Mn (who will relocate the plant in Pakistan). Power Purchase Agreement of another 100 MW power plant owned by the company is due to expire next year. Ceylon Electricity Board has not renewed some power purchase contracts which were originally signed at high prices.

In another debt funding deal, **IFC has signed a deal with NDB Bank PLC** to provide a Senior loan of US\$ 20 Mn and a debt syndication of US\$ 60 Mn. In December 2013 NDB raised US\$ 76 Mn through a public bond issue (which was the single largest bond issue in the country). Earlier NDB cancelled a US\$ 250 Mn international bond offer initially planned for late 2013.

OTHER INVESTMENT & BUSINESS HEADLINES

Subsequent to the announcement of Central Bank's policy framework to consolidate Banking and Non-Bank Finance companies (see under Regulation and Policy Updates), **NDB Bank PLC and DFCC Bank PLC announced they have initiated preliminary discussion on a merger.** Government indirectly hold significant stakes in both banks and both banks were originally started as Development Banks but later on moved into commercial banking and other financial services. (See Box on right for more info)

CT Holdings PLC announced that it received a license to commence operations of its proposed green-field bank linked to its Cargills supermarket chain. CT Holdings first announced venturing into banking in 2011, but the launching of the bank delayed. New **Cargills Agriculture and Commercial Bank** is also expected to absorb small finance companies in line with the Central Bank's roadmap to consolidate the financial services sector. CT Group hold 30% of the new bank and a further 30% is split among **IFC, DEG** and Sri Lanka's **MJF group** (makers of Dimah Tea). Many other local corporate have also invested in smaller stakes in the new bank. However the banking license, which was issued when Central Bank was pushing for a consolidation in the financial services sector, is believed to be subject to conditions among which is a restriction on branch expansion.

In a separate development related to banking sector, **US based PE firm TPG is also reportedly negotiating a deal with Union Bank PLC** a small bank (which earlier announced that they are in talks with a large US based investor). Several other banking groups are also expected to announce their plans for consolidation and these consolidation plans are expected to include absorbing non-bank finance companies (especially those with cross shareholding or linked through common shareholding and/or common directorships)

Millennium Housing Developers pioneered the "mega township projects" in the country with launching of a 1,600 unit housing project in 1999. Company has subsequently launched several smaller projects.



Picture above: entrance to Company's second 850 unit housing estate in Ja-Ela, north of Colombo.

Potential Impact on NDB Bank and DFCC merger in their PE and VC activities.

NDB recently announced that its subsidiary NDB Capital Holdings PLC is planning to float a PE fund with the partnership of a foreign PE firm. NDB Capital Holdings engage in investment banking and investment activities.

DFCC also has an investment banking and investment management unit called Acuity Partners. Acuity Partners is a joint venture between DFCC Bank and Hatton National Bank PLC, another large private bank Lanka Ventures PLC, a listed VC firm specializing in investments in power projects comes under Acuity Partners.

Acuity Partners also has a strategic partnership with Guardian Fund Management, which is a group company of family controlled Carsons Cumberbatch Group. Guardian Fund Management also ventured into PE in 2011 through a listed company and named it Guardian Capital Partners PLC.

A merger between DFCC and NDB could result in merging of current PE and VC activities of both groups under one umbrella.



Above: Newly opened Jetwing Yala Resort

Below: A Tent Room at newly opened Aliya Resort & Spa (Pictures from agoda.com).



Two new resorts commenced operations in January. One of the leading Sri Lankan hotel operators - Jetwing opened its newest resort located adjoining Yala wildlife park in southern Sri Lanka. The 80 room resort **Jetwing Yala** was built at a cost of US\$ 16 Mn. Second hotel opened in January is **Aliya Resort & Spa**, promoted by a veteran Sri Lankan hotelier. US\$ 7.8 Mn 96-room Aliya Resort & Spa is located within the cultural triangle and in close proximity are many historic sites and inland wildlife parks. (see pictures on left). **Hemas Holdings PLC** also said that they signed the deal to construct its second resort (a US\$ 40 Mn beach resort) under its earlier announced plan to develop three resorts in a partnership with Thailand's **Minor Group**.

Orange Electric, a leading manufacturer of electrical and lighting products has invested US\$ 0.8 Mn in a plant to recycle scrap copper and produce copper wire. The new venture is expected to save company over a million dollars per month. Currently large amount of scrap copper is exported (illegally) to India for recycling. Orange Electric has recently acquired a 49% stake in a Singaporean company **Shirakawa Denki** which enabled the firm to market its products in South East Asian region.

Ruwanasiri Dairies (Pvt) Limited, a company in dairy business with over four decade of experience has invested US\$ 0.8 Mn in a new dairy plant to produce milk products. The new plant located in Uva Province will market milk products under own brand.

Abans Group has tied up with Malaysia's SCICOM (MSC) Bhd., to float a BPO venture to provide customer contact management. The venture will have 300 seat facility and Seylan Bank PLC has already signed with the unit to obtain customer contact services and backend processing. Another family run diversified business house **EAP Holdings** also ventured into BPO services by floating a company called **Swarna Solutions Ltd**.

ISM e-Commerce, a Dutch e-commerce and e-learning company recently signed a contract with Board of Investment for a US\$ 3 Mn investment in Sri Lanka.

Angel Investor Network, a platform linking angel investors and start up ventures has signed a MoU with Sri Lanka Inventors Commission. Accordingly Angel Network will expand its deal flow coverage to explore opportunities in many industries. Angel Investor Network has backed 13 ventures with US\$ 1.3 Mn funding in 2013 according to reports.

Mobitel (Pvt) Ltd, one of largest mobile telephone operators in the country and a subsidiary of **Sri Lanka Telecom PLC** said the company is in discussions with **Hutchison Asia Telecom** to acquire their Sri Lankan mobile phone business. India's **Bharathi Airtel** is also expected to exit from its loss making Sri Lankan unit and it is widely speculated that UAE based **Etisalat** is expected to acquire Airtel's Sri Lankan operations to increase its market share in Sri Lanka.

REGULATION & POLICY UPDATES

One of the core focuses of the Central Bank's Annual Roadmap for 2014 is the strengthening banking and financial services institutions. **The plan envisages creating a large development bank and at least 5 commercial banks with assets over US\$ 7.5 Bn (Rupees Trillion) in addition to reduction in the interest spread of banks.** The plan stressed on the need to consolidate the banking and financial services sector and proposed a merger between NDB Bank and DFCC Bank – two former development banks with substantial state shareholding.

Later Central Bank subsequently issued a comprehensive framework and a plan to consolidate and strengthen the non-bank finance companies. **According to this plan, all finance companies are categorized into two main categories (according to size) and large firms were encouraged to acquire smaller firms and/or smaller firms to merge with each other.** Central bank targets to reduce the number of finance companies from 30 to 20. These firms were asked to provide a plan by end of March. Central Bank is expected to intervene and arrange consolidation plan for companies which fail to propose a plan on their own. Under the plan Banks are also encouraged to acquire non-bank finance companies (especially if are they linked by shareholding or common shareholders/directors)

Main theme of the Roadmap 2014 s to take steps to avoid Sri Lanka falling into "middle income trap". Strengthening of the financial sector plays a key role in it.

Sri Lanka's trend of share prices falling after IPO/listing

Share prices of newly listed firms during last 2-3 years dropped sharply below issue price. This was partly due to "Private Placement" and "private trading" of shares before the IPO/ listing.

Private placements, which gained popularity during post 2009 market boom, are often marketed as a "Private Equity" deal, but offered to a large number of retail and short-term investors. Share prices fall as these investors sell shares after the company is listed.

Companies use Private Placements to raise funds to boost balance sheet prior to IPO and/or to reduce promoter holdings prior to IPO/listing.

Sri Lanka's economic growth is challenged by low pace of FDI growth. Moreover 20% of FDI recorded during 2010-2012 were in the form of bank loans, which are likely to be expansions of existing

A World Bank Survey (2011) shows that Sri Lankan companies use (comparatively) high level of borrowing to finance growth. Slower credit growth could also be due to many borrowers reaching their borrowing capacity for current level of growth/investments.

STOCK MARKET UPDATE

Stock Market activity showed a positive momentum as the main **All Share Index gained by 5.7% for the month**. Turnover level also improved to an average of US\$ 8.4 Mn per day compared to US\$ 4.9 last month. There was net foreign inflow of US\$ 7.4 Mn for the month. Moth end Market Cap was US\$ 20 Bn,

Share price of Amana Bank PLC first company to list in 2014, fell around 20% after shares started trading on 29th January. Amana Bank is country's first Islamic bank (which had IPO in December 2013) and its share price decline follows a continuing of sharp price decline of newly listed stocks during last two years. (see Box on left for more info)

ECONOMIC UPDATE

According to Central Bank estimates, economy grew by 7.2% in 2013 compared to target of 7.5%. Central Bank estimates economy to grow by 7.8% in 2014 while curtailing inflation at 5%.

Sri Lanka has attracted an estimated US\$ 1.3 Bn worth FDI during 2013 compared to initial target of US\$ 2 Bn. FDI's during 2013 is almost same as the level of FDI recorded in 2012. Government is targeting a US\$ 2.5 Bn FDI for 2014.

Government raised US\$ 1 Bn through an international bond offer. The issue was closed at 6% and it was reported that US investors have bought 62% of the issue. State owned Sri Lankan Airlines also reported that they are tapping international market for a upto US\$ 325 Mn to part finance its re-fleeting program.

Inflation declined to 4.4% (YoY) in January from 4.7% in December. Although the Inex showed monthly change of 0.6% - highest since June 2013. Average 12 month inflation eased to 6.5% from 6.9. Government Month end 3-month T-bill yield dropped by 6.82% from 7.54% month ago. **Sri Lanka rupee appreciated marginally by 0.1%** to close at Rs 130/72 per US\$. Beginning of the month Central Bank reduced current Standby Lending rate (for commercial banks) by 50bp to 8% and reduced the spread between standing lending and deposit rate to 150bp from current 200bp.

Exports up to November showed a growth of 5.6% to US\$ 9.4 Bn thanks to strong performance during last three months. Industrial exports have shown 4.1% growth to US\$ 7 Bn. Imports were down by 2.5% US\$ 17.2 Bn for the same period. Earnings from tourism continued to grow recording 23.7% to nearly US\$ 1.1 Bn by end of November. Tourist arrivals increased by 26.9% to 1.12 million for the same period. **Overall BOP position improved to a deficit of US\$ 7.8 Bn compared to US\$ 8.7 Bn a year ago**.

Private sector credit growth (YoY) slowed further in November to 7.3% compared to 7.4% (month ago and 20.7% year ago. Growth in Net Credit to Government (YoY) also dropped to 25.6% in November compared to 27.5% month ago and 31.6% year ago.

ENDS

Note: All figures mentioned in this report are converted to US\$ using the mid month end rate of Rs 130/72, except where figures are provided in US\$ at source.

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