

# JUPITER CAPITAL PARTNERS

## Sri Lanka Private Equity Market Newsletter

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## PRIVATE EQUITY NEWS

**Employees Provident Fund invested US\$ 4.2 million for 10% stake in Cargills Agriculture and Commercial Bank.** Employees Provident Fund is Sri Lanka's largest private sector retirement fund operating under the **Central Bank of Sri Lanka**. According to 2012 Central Bank Report, only 5.4% of the US\$ 8.7 billion Employees Provident Fund is invested in (both public and private) equities. The Greenfield bank promoted by **CT Holdings Group** earlier secured investments from **IFC** and **DEG** (for 10% stake each). Cargills Agriculture and Commercial Bank has not yet commenced operations.

Stock market investor **Dinal Wijemanne upped his stake from 9% to 15% in Sinhaputra Finance PLC**, thus becoming second largest shareholder. Sinhaputra Finance, headquartered in Kandy in central Sri Lanka has a market cap of US\$ 4 million. For FY 2012/13 Sinhaputra Finance reported US\$ 6.5 million top-line and US\$ 0.53 million bottom-line. Last month Wijemanne disposed his 28% stake in **Nanda Finance and Investments PLC** when **BRAC** acquired the company for US\$ 7 million.

**China's Yunnan Highland Capital is likely to invest in Sri Lanka.** According to recent news reports, the newly established PE firm is scouting for opportunities in the country. Chinese state backed Yunnan Highland Capital is currently fund-raising upto US\$ 2.4 billion for regional investments, and is China's second offshore fund. China's PE initiative will compliment many large scale direct investments and contracts undertaken by Chinese firms in Sri Lanka.

## OTHER INVESTMENT HEADLINES

**John Keells Holdings PLC formally announced US\$ 650 million city resort** to be built on its current head office premises. The city resort is a mixed development comprising of retail, residential, hospitality, commercial and gaming facilities. John Keells Holdings whose market cap is around US\$ 1.7 billion, did not disclose funding plans for the venture but called a shareholder meeting to obtain approval for the project (which is valued more than 50% of its assets).

**Ocenpick, a local company launched US\$ 2.5 million in a fish farm venture to be located off Trincomalee sea** in North Eastern Sri Lanka. This is an important milestone in the Sri Lankan fisheries industry as the first project into fish farming in the ocean.



Artists impression of John Keells Holdings' integrated development. (pic from [www.skycrappercity.com](http://www.skycrappercity.com))

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**Sri Lanka Ports Authority announced that US\$ 1.43 billion project to develop a new port city is now finalized.** Accordingly **China Communication Construction Company** will reclaim 230 hectares adjoining new Colombo's south harbor. Developer will be offered 50 hectares of the reclaimed land on a 99 year lease. Another landmark deal announced in July was the **US\$ 1.5 billion toll-road highway project connecting Colombo and Dambulla** – a major transit and tourist hub in central Sri Lanka. Project was awarded to **China Merchants Holdings (International) Company Limited** and **China Merchants Hua Jian Highway Investment Company Limited** to design, construct, finance and operate the highway. This is the first major scale private investment into highway development in the country. Further Government announced award of a US\$ 260 million contract to build a **circular road connecting Trincomalee Port** in North Eastern province to a Chinese firm with financing from **Industrial and Commercial Bank of China**.

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*US\$ 2.39 billion worth infrastructure projects/ contracts awarded to Chinese firms and investors during July 2013*

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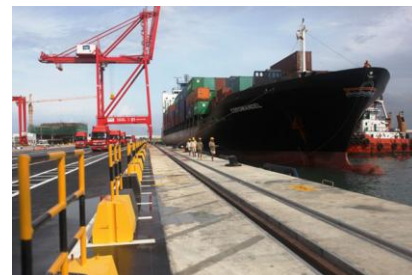
**Dialog Axiata PLC** signed a US\$ 150 million FDI deal with the Board of Investment to further develop its infrastructure. Dialog Axiata which is the largest mobile phone operator in the country is also the largest FDI source for the country with cumulative investments over US\$1.5 billion.

**Nation Lanka PLC** announced that it is evaluating acquiring **National Building Society Limited**. According to company's news release acquiring the housing loan firm will increase AUM of the financial services firm by over US\$ 7.6 million.

The M&A deal closed early this year by **Touchwood PLC** to acquire and bail out troubled finance company - **Central Investment and Finance PLC** has failed according to latest reports. The deal has failed as the buyer has failed to infuse required capital shortage estimated at US\$ 12 million. In July Central Bank appointed state backed **Peoples Leasing PLC** to manage Central Investments and Finance as an interim measure.

**First deepwater terminal of new Colombo South Harbor commenced operations in July.** The **Colombo International Container Terminals** is a joint venture of **Ports Authority of Sri Lanka** and **China Merchant Holdings International Ltd** (under a 35 year built, operate and transfer contract). The second phase of the US\$ 0.5 billion – 2.4 million TEU capacity project is expected to be completed in 2014. Colombo South Harbour will be officially open in August.

Several cement manufacturers announced plans to expand capacity to meet growing demand. **Tokyo Cement PLC** is planning a US\$ 50 million expansion which include purchase of two more ships and upgrading its private jetty in Trincomalle port in North Eastern province to accommodate large ships. Swiss owned **Holcim** also announced that they are investing around US\$ 33 million to double manufacturing capacity of its two plants and also in a terminal in Trincomalee port. **Ruhunu Cement**, a cement importing firm also announced that the company has tied up with its Pakistani principal **D G Khan Cement Company** to start a US\$ 15 million plant closer to Hambantotata port targeting local market and exports to African markets.



New terminal at Colombo South Harbor can handle large carriers upto 18,000 TEU.

## POLICY, LAW AND REGULATION UPDATES

In an entrepreneur friendly move, **Central Bank of Sri Lanka imposed ceilings for penal interest rate charges.** Accordingly default penalty for commercial bank loans will be capped at 2% while the default interest cap for other financial services firms will be 3 %. Currently banks and finance firms charge very high penal interest rates. Earlier Central Bank capped interest rates charged for credit card debt at 24%.

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In a bid to promote exports and industrial sector, Government **declared both Colombo Port and newly opened Hambantota Port as free ports**. Government also declared newly opened **Mattala Airport** and two main export processing zones (katunayake and Koggala) as free zones. This move is expected to promote entrepot trade.

**Government also announced setting up a regulatory framework for Micro-finance Institutions**. As per the new regulations, all Microfinance institutions which accept public deposits will be categorized under three tiers. Tier 1 firms will be supervised by the Central Bank and the Tier 2 and Tier 3 firms will be supervised by an approved Audit firms, and Co-operative Development Board respectively.

**Ministry of Finance increased taxes** on several import items and increased duties on alcoholic beverages and cigarettes. Import taxes were revised upward in milk products, motor vehicle spares and tires. Ministry said the import taxes were aimed as an incentive to local producers.

## FINANCIAL MARKETS

There were several debt deals closed by commercial banks in July. **NDB Emirates Bank** of UAE closed US\$ 200 debt deal with state owned **Bank of Ceylon**. NDB Emirates also entered into a strategic tie up with Bank of Ceylon to expand lending activities in Sri Lanka. **HSBC** has provided US\$ 6.7 million to **Milco Limited**, a state owned dairy firm to modernize its plant. **Nations Trust Bank PLC** also secured a US\$ 15 million funding facility from **ADB** for SME lending. **Softlogic Finance PLC** also announced a US\$ 3.8 million listed debt issue.

Month end 3-month Treasury bill rate was 8.63% while commercial bank prime lending rate was 11.79%. Sri Lanka rupee depreciated marginally by 0.8% during July as month end buying rates and selling rates were 129.95 and 133.15 respectively against US\$.

**Performance at Colombo Stock Exchange declines further in July**. Main All Share Price Index lost 1.37% though the market is 6.9% up for the year. Average daily turnover slipped to US\$ 3.7 million compared to US\$ 6.7 million in June. There was US\$ 8.3 million net inflow for the month.

## ECONOMY HIGHLIGHTS

**Moody's cut Sri Lanka foreign current sovereign debt ratings from B1 stable to from B1 Positive**. Rating agency stated the decision was driven by decline in the strength of the external payment position and slow down in the pace of fiscal consolidation.

**Central Bank indicated that it will hold current policy rates until around September this year** as inflation further eased to 6.1% (YoY) in July from 6.8% in June. Private Sector credit picked up in May marking 9.2% growth YoY (Rs 18.3 billion growth during the month compared to 7.6 billion growth in April).

Government revenues were down by 3.8% for the first four months of 2013 to Rs 314.8 billion as Government expense rose by 7.1% to 658.4 bn.

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*Stock market activity further declines as main index extends lost 1.37%.*

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*Economic data indicate tight fiscal position, which is likely to ease with new tax increases effective August.*

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**Exports upto May 2013 were down by 6.6%** to US\$ 3.84 billion while imports also declined by 9.4% to 7.58 billion. Sri Lanka's total external reserves stood at US\$ 8.17 billion while gross official reserves was US\$ 6.57 billion.

According to the Minister of Investment Promotion, **FDI during first half was US\$ 430 million** compared to US\$ 1.3 billion recorded in CY 2012. The minister expressed his confidence of the US\$ 2 billion FDI target for 2013 as many mega mixed developments and hotel projects are expected to commence construction during second half of 2013.

Note: All figures mentioned in this report are converted to US\$ using the mid month end rate of Rs 131/55, except where figures are provided in US\$ at source.

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