

# JUPITER CAPITAL PARTNERS

## Sri Lanka Private Equity Market Newsletter

Jupiter Capital Partners (Pvt) Ltd., No. 20 Retreat Road, Colombo 00400, Sri Lanka. Tel: +(94) 112 501 716 Fax: +(94) 112 552 063  
Email: [info@jupitercapitalpartners.com](mailto:info@jupitercapitalpartners.com) Web: [www.jupitercapitalpartners.com](http://www.jupitercapitalpartners.com)

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## DEALS & OTHER PRIVATE EQUITY NEWS

**Australia's Ataraxia Capital Partners has backed US\$ 1 million Subway franchise venture.** Ataraxia said it will further infuse a million dollars to expand outlets, and also seeking local partners as they opened the first **Subway** outlet in Colombo. Another noteworthy addition to restaurants in Colombo during the month is **Kaema Sutra** – one of several restaurants located at newly opened up market **Arcade at Independence Square** mall (see pictures on left and also under Development News).

**Danish Investment Fund for Developing Countries has committed USD 0.7 million in debt funding for Falck Sri Lanka**, a medical emergency service provider. Danish Investment fund which provides funding for Danish companies expanding to developing countries earlier provided USD 1.5 million for specialty tire manufacturing firm **Starco's** Sri Lankan venture in 2012.

In another initiative similar to Danish Investment Fund, Netherlands government initiated **Dutch Good Growth Fund has included Sri Lanka as a beneficiary country.** Accordingly Sri Lankan and Dutch SMEs expanding to Sri Lanka can obtain funding for expansions. In addition this newly set up fund is providing credit and credit insurance for Dutch SMEs who are trading with businesses in developing countries.

**Aureos South Asia Fund LLC sold its remaining 10% stake in Sunshine Holdings PLC for approx. USD 3.4 million.** In 2008 Aureos bought a 25% stake in diversified group for USD 4.75 million and shed its stake in several rounds. For the FY 2013/14 Sunshine, made USD 5.2 million bottomline (up 8%). Subsequent to Aureos' sale, share price of Sunshine rose more than 25%. Aureos which closed its Sri Lanka office after the being acquired by **Abraaj** in 2011, is believed to have exited all its Sri Lankan investments now.

**Canada's Fairfax Financial Holdings is buying into Union Assurance PLC's general insurance business unit valued at USD 35 million.** Accordingly Fairfax Asia will buy a 78% stake in the general insurance unit of Union Assurance PLC which is 95% owned by **John Keells Holdings PLC.** New insurance regulations require insurance firms to segregate life and general businesses under separate entities.

**Commercial Bank PLC said it is buying Indra Finance Ltd. USD 6.7 million.** Indra Finance is a privately held leasing firm linked to a motor vehicle trading firm. Interestingly Commercial Bank which is one of largest private banks in the country exited leasing business in 2009 to concentrate on core-banking. Indra Finance was granted a license as a non-bank finance company in May 2013 - months before policy decision to reduce number of finance firms by promoting an industry consolidation.



Pic above: A **Two egg hopper** served at **Kaema Sutra**, priced at USD 1.50 (around 6 times the price of an egg hopper sold at ordinary restaurants). Kaema Sutra specializes in contemporary Sri Lankan food and hopper is a popular local cuisine!

Pic below: **Jacqueline Fernandez**, Former Miss Sri Lanka and Bollywood actress. She is an investor/partner in Kaema Sutra, and joins few other Sri Lankan celebrities who have recently ventured into restaurant businesses. According to media reports she has also invested in a private island off southern shores of Sri Lanka



**Deshodaya Development Finance Ltd said it is acquiring George Stewart Finance PLC for USD 3.8 million**, as two largest shareholders of George Stewart have agreed to sell their combined 75% stake. Sale price is around 50% premium to book value, but almost 100% discount to market price of company' shares (at the time deal was announced). George Stewart Finance has a track record of over 7 years, but reported a bottomline of only around USD 51,000 for FY 2013/14 (up 100% YoY). Deshodaya is a micro finance firm linked to Sarvodaya (a large co-operative organization) and obtained license to operate as a finance company in 2011.

As the regulator driven consolidation of the financial sector gains momentum, a small vehicle leasing firm **Koshiha Leasing Co Ltd. said it decided to stop leasing business** and hence discontinues being a regulated/supervised firm under the Central Bank. The company with over three decade history said it will continue with other businesses under *Koshiha Investments Ltd.* and the company took this decision as it did not wish to be merged with another firm.

**Samson International PLC said it acquired Okta PVC Lanka (Pvt) Ltd for approx USD 1 million.** Samson International manufactures rubber based household, medical and industrial goods, and plans to diversify into PVC pipes and related products with the acquisition of Okta.

As textiles producers are experiencing improved performance, **Lanka Century Investments PLC** and its investee firm **Ceylon Leather Products PLC** have invested a further USD 2.7 million and increased their effective holding in **South Asia Textiles Industries Lanka (Pvt) Ltd** to 86.1% from 55.2%.

In other noteworthy deals during July, **Adam Investments PLC.**, a newly listed small investment firm took control of two troubled firms **PCH Holdings PLC** and **PC Pharma PLC**. According to reports, only viable business of the troubled group is an activate carbon business unit.

## OTHER BUSINESS & INVESTMENT NEWS

Malaysian state owned Energy firm **Tenaga Nasional Bhd** has signed a deal with **KLS Energy Sdn Bhd**, another Malaysian firm, relating to a 35MW renewable energy hybrid wind and solar power project in Jaffna, in northern Sri Lanka. According to company's news release, KLS Energy has received a 20 year contract with *Ceylon Electricity Board*.

**DNC Asiatic Holdings Sdn Bhd** a Malaysian and Chinese joint venture based in Malaysia said it is investing USD 6.3 million in a new motor cycle assembly plant in Sri Lanka. The firm which produces *Demak* brand motorcycles first entered Sri Lanka in 2012, and plans to sell around 5,000 motor-cycles this year. Company also plans to manufacture three-wheelers.

US based packaging firm **R-Pac International Holdings Co.** announced a joint venture with Sri Lankan listed packaging firm **Princare PLC**. Newly set up **Royal Pack Princare** will focus on labels and packaging for apparel industry. Princare is a leading packaging firm catering mainly to tea industry.

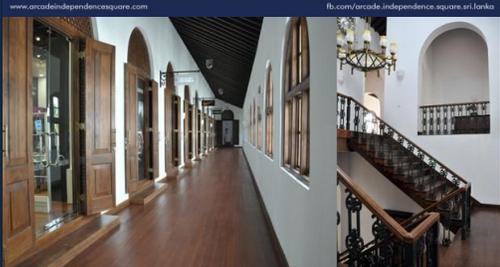
**Qiao Zhen International**, a Chinese firms said it is investing approx USD 5 million in a furniture and furniture parts manufacturing venture in Sri Lanka. New venture is expected to produce furniture and furniture parts using non-precious woods mainly for the export market.

**Singha Cement**, part of **Italcementi Spa** of Italy said it is investing USD 10 million in a new terminal at Colombo port. Company is aiming to increase its market share by around 1% in highly competitive and fragmented cement market in Sri Lanka.

*A move by a small financial services firm to stay away from the regulator driven consolidation of the financial services sector, and deciding to change its business lines may encourage other independent (and financially strong) firms to adopt similar strategies.*

*Chinese motor vehicle brands are seen increasing their market share in Sri Lanka as sale of some Indian makes are declining sharply, according to research. Some Chinese makes have competitive advantage due to local assembling.*

Pics below: Arcade at Independence Square.



Pics below: TRACE Expert City.



**Royal Plastics Ltd.**, a Sri Lankan firm said it is investing USD 2.3 million to manufacture grease for local automotive industry. Sri Lanka's current annual grease imports are estimated around US\$ 0.8 billion.

**Two more new resort hotel projects were announced during July.** **Theme Resorts & Spas (Pvt) Ltd**, which already owns/operates a beach resort and an inland resort said it is building a USD 13.8 million 4-star 82 room resort in Kaplitiya, which is yet to emerge as a main beach resort hub. **Union Resort & Spa Ltd**, another local company already owning/operating a popular beach resort said it is building an eco-friendly USD 5 million 30 villa resort closer to historic UNESCO heritage site of Sigiriya.

Chinese firm **VVS Lanka** which entered Sri Lanka to venture into gems and jewelry business said it is also venturing into a green shop house project aiming to market economical Chinese goods. Accordingly company will promote "mom and pop" style retail boutiques. Company which acquired management control of **Blue Diamonds Jewelry PLC** with a purchase of only around 18% stake said it also bought a company called *Integris (pvt) Ltd* which is engaged in energy saving products. Another local gems and jewelry firm named **Gamini Gems and Jewellery** also opened new a USD 4.6 million show room cum lapidary center in Kandy.

**Prime Lands Group**, a leading property firm said it is launching a new venture to build affordable homes. Company said it is developing housing estates with houses priced around USD 15,000 – 30,000 and with convenient financing options. Meanwhile *Ceylinco Developers PLC*. another large housing developer said most of the buyers of houses of their large scale housing projects are expatriate workers.

State owned **Bank of Ceylon** which is the largest commercial bank in the country said that government is infusing a fresh USD 77 million capital on top of proposed USD 61 million local bond offer. Bank which Have been funding state businesses and also infrastructure projects has recently loaned USD 46 million to **National School of Business Management**, a state promoted tertiary educational institute currently being constructed.

## DEVELOPMENT NEWS

**Asian Development Bank announced more funding for infrastructure development.** USD 300 million will be provided to increase renewable power capacity and distribution (including funding for a new 30 MW hydropower project in Central Sri Lanka). ADB has further agreed provide USD 0.8 billion concessionary loan be disbursed during 2014 - 2020 to upgrade rural roads.

Construction of a **71 KM highway linking Southern Highway to Ratnapura/Pelmadulla** is expected to commence in December. Although the Ratnapura/Pelmadulla are not major economically important cities, the region is a major producer of low grown tea and also known for gem mining/trading.

**Two projects undertaken by the Urban Development Authority to convert old buildings into luxury commercial real estate commenced operations.** These properties are owned by the government and rented to private firms for value added commercial use. **Arcade at Independence Square**, located adjoining historic independence square, is positioned as a luxury shopping and entertainment complex. This property which dates back to early British colonial administration earlier housed government offices which are now relocated to buildings outside Colombo city. The first phased of an IT park named **TRACE (Technologically Reawakening Culture of Excellent) Expert City** was also opened during the month. An old warehousing complex known as *Tripoli Market* was converted to modern hi-tech office spaces to be rented to IT/technologyfirms. (see pictures on left)

## COLOMBO STOCK MARKET UPDATES

There was only one new issues/listings in the stock market during July. **Dunamis Capital PLC.**, an investment firm raised USD 3.8 million bonds mainly to finance a housing project by one of its group companies.

Stock Market's main **All Share Price Index gained by 6.8% during the month to record an overall 15.2% gain for the year.** Average daily turnover also increased sharply to USD 12.3 million from USD 7.1 million month ago. There was a net foreign inflow of USD 36 million during July. So far total foreign inflow of USD 80 million has been achieved for 2014. Month end market stock market capitalization was around USD 22 billion compared to USD 20.5 billion month ago.

As the number of dollar bonds issued by the government and private firms increase, **Ceylon Asset Management**, a mutual fund manager, launched a USD denominated bond fund named **Ceylon Dollar Bond Fund.**

## ECONOMIC HIGHLIGHTS

**Government has contained budget deficit to 3.5% for the first four months of 2014** and forecasts a 5.2% budget deficit for the full year. State revenues have increased by 11.5% while tax revenues have increased by 8.5%. Revenue deficit has also reduced slightly from last year despite a 6.5% increase in current expenditure.

**Inflation in July increased to 3.6% (YoY)** from 2.8% month ago as IMF warned of possible inflationary pressure building up as interest rates continued to remain low. IMF also cautioned about increase in foreign borrowings by the government and banks. S&P said that as much as **25% of domestic credit is financed by external debt** – second highest level in Asia Pacific region. According to Moody's estimates around **11% of bank's assets are funded by foreign borrowings.** Government incentives for banks to borrow from international markets have raised funding profile of many banks.

**Treasury bill yields remained around 6.34%** marginally down from last month. Prime lending rate was at 7.6% compared to around 7.9% last month. **Credit growth further dropped to 2.2% in May (YoY)** compared to 3.3% month ago and 9.3% year ago. A report by Standard Chartered has shows that **banks have been passing the benefit of reduction of policy interest rates mainly to their prime/top-tier corporate clients while SMEs and individuals continue to pay high cost of borrowing.** According to same report the Non-performing loans have risen to 6.2% in Q1 2014 from 3.7% in 2012.

Rupee ended the month at 128.75/131.62 vs. USD (rupee stronger 0.11% MoM). Exports upto May were up by 15.7% to USD 4.45 billion while imports were down by 1.5% to USD 7.5 billion. Remittances were also up by 10.5% to USD 2.7 billion while earnings from tourism also showed healthy growth of 35.8% to USD 0.9 billion. .

ENDS

Note: All figures mentioned in this report are converted to US\$ using the mid month end rate of Rs 130/18, except where figures are provided in US\$ at source.

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