

# JUPITER CAPITAL PARTNERS

## Sri Lanka Private Equity Market Newsletter

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## JUPITER CAPITAL PARTNERS UPDATES

**Jupiter Capital Partners established a new private equity (“PE”) fund** to invest in opportunistic deals in the SME space. Sri Lanka based **JCP Opportunities Fund** will target buyouts and company restructurings in addition to providing growth capital. The fund will focus on deals less than US\$ 0.5 million.

## PRIVATE EQUITY NEWS

**Anilana Hotels and Properties Ltd raised US\$ 3.7 million from an IPO.** Anilana owns a newly opened beach resort in the east coast (see pictures) and manages a small hill station retreat. Company plans to develop 7 resorts totaling 450 rooms. Most of Anilana’s post-IPO equity value of US\$ 35 million was backed by its large land bank and future project pipeline. Company’s IPO price reflects a 60 % capital gain for investors who invested US\$ 7.7 million in company’s private placement in 2011. Notable foreign and local institutional (PE) investors in the company include **GMO Trust, MAS Capital** and **Janashakthi Ltd.** Company’s shares are expected to start trading in July.

**Pyramid Wilmar Plantations (Pvt) Ltd acquired a 35% stake in Estate Management Services (Pvt) Ltd for US\$ 13.7 million.** Accordingly Sri Lanka’s **Sunshine Holdings PLC** reduced its stake in the company from 51% to 33.15%, and India’s **Tata Global Beverages Ltd** cut its stake from 49% to 31.85%. November last year, Sunshine Holdings announced its subsidiary - Estate Management Services was in discussions with Pyramid Wilmar to pursue a joint venture opportunities to develop its plantation businesses. Estate Management Services, in addition to managing 53.75% owned **Watawala Plantations PLC**, runs a plantation produce related FMCG business (mainly branded teas and edible oils). For the FY 2012/13 Watawala Plantations made US\$ 5.2 million bottom-line while the FMCG unit reported US\$ 1.5 million profits. Pyramid Wilmar is a unit of Singapore’s leading listed agribusiness firm - **Wilmar International Ltd** and **Wressless Holdings.** Emerging Markets PE firm **Aureos Capital** (now **Abraaj Group**) invested in a 25% stake in Sunshine Holdings and also bought a 5% stake in Watawala Plantations in 2008. Aureos Capital has partially exited from both investments with healthy gains.



Anilana Pasikuda (pictured above) is located in emerging tourist hub in east coast. Source: Company website/facebook page

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**Global development organization - BRAC and Sri Lanka's LOLC Micro Credit Ltd acquired Nanda Investments and Finance PLC to venture into micro credit market.** BRAC and LOLC Micro Credit will hold 57% and 33% respectively in the US\$ 7 million acquisition. LOLC Micro Credit is a non-banking financial institution engaged in micro finance business and part of Sri Lanka's **LOLC Group PLC** - a large diversified firm with interest in financial services and leisure. **FMO** also owns a 20% stake in LOLC Micro Credit. LOLC further announced that **Tridos Bank** is expected to take a 10% stake in the new venture and provide funding to expand micro finance lending. Nanda Investments and Finance is a 50-year old small finance company (listed in 2011) and previously owned by a business family engaged in motor vehicles trade. For the FY 2012/13 company recorded US\$ 0.51 million turnover (up 25% YoY) and US\$ 0.22 million profit (up 49% YoY). Company had a net worth of US\$ 4 million as at end of March 2013.

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*In 2012 US\$ 0.7 billion worth of micro finance loans disbursed by commercial banks.*

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**Sri Lanka's first IFC-backed PE fund has failed to reach a close.** According to IFC's Sri Lanka country head, IFC's US\$ 10 million commitment (signed in 2011) to **LR Global Sri Lanka country fund** has lapsed without fund reaching a close. However, in December 2012, LR Global announced that several DFIs have expressed interest in investing in the IFC-backed fund and appointed a new President to head Sri Lankan operations. Nevertheless, IFC's Sri Lanka head points out that IFC continues to believe in PE prospects in Sri Lanka.

**Emerging markets expert and hedge fund manager Nick Pardini also highlights the potential for PE in Sri Lanka.** In his May 2013 *Emerging Markets Insider* report titled "A bullish case for Sri Lanka", he highlights that *Sri Lanka offer one of the best investment opportunities in South Asia and notes that the best way to obtain exposure to Sri Lanka's growth is through PE and real estate.*

## OTHER INVESTMENT RELATED NEWS

**Kuwait's National Industries Group Holding SAK acquired Sri Lankan stock broking and fund management businesses owned by Dubai's Al Marshal Group.** After the acquisition business name was changed to **Candor** from **Heraymila**. National Industries Group is a large diversified business group in Kuwait and closed the acquisition through its Dubai based Eagle Proprietary Investments Ltd. Heraymila entered Sri Lanka in 2010 and launched a mutual fund last year.

**Hadi Hamad Al-Hammam Group entered into a deal with Sri Lanka's Port Authority to build a US\$ 45 million ship building and ship repair facility.** The Saudi Arabian industrial and marine services firm will build the facility adjoining Galle port. A ship repair facility has been an essential feature to promote the yacht marina in Galle port, which is located in close proximity to historic dutch port.

**Damro Group announced launch of a US\$ 40 million city hotel.** The proposed 270 room **Marino Sands hotel** will mainly target budget travelers and will also have a 100,000 sq.ft department store. Sri Lanka's **Damro Group is South Asia's largest furniture manufacturer** and has over 150 retail stores across Sri Lanka and in India. Damro also manufactures electronic items and markets them under own brand

**Nawaloka Hospitals PLC announced a US\$ 4.4 million investment in a new hospital** in Negombo - a main coastal city north of Colombo airport. This is firm's first major expansion outside the main hospital complex in central Colombo. Nawaloka Hospitals runs a large tertiary care hospital in central Colombo and several medical centers in suburbs. Also during the month **Hemas Hospitals opened their third hospital built at a cost of US\$ 10 million** in Thalawathugoda - a residential city adjoining administrative city Sri Jayewardenepura in the east of Colombo city.



Nawaloka Hospital (pictured above,) opened in 1985, is one of early entrants to private medical services business in Sri Lanka.

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**EoN Resorts (Pvt) Ltd, a Maldives-based resorts developer signed a deal to build a US\$ 170 mn luxury mixed development property project.** The proposed development will be built on a lake front land owned by Ministry of Fisheries. The 45 storey property will consist of 300 rooms, 100 apartments, 150,000 sq.ft mall, and large convention center. This is the second hotel to be developed in Colombo's designated zone for casinos and related lesiure activities. **Australia's Crown Group** is also building a US\$ 350 mn hotel and casino along the same stretch of water front land in a joint venture with Sri Lankan **Casino operator – Rank Holdings**. Both these projects have received *strategic investment* status with attractive tax concessions.

**Avic International Corporation of China has finalized and launched a US\$ 300 million mixed development** in prime city land bought from a private party at a cost of US\$ 14 million a few months ago. The proposed mixed development has received *strategic investment* status. Another property project launched this month was the **US\$ 10 million 45 story residential project by SMI Holdings**, a local company.

**Government appointed a committee to propose new regulations to promote and discourage FDI in certain sectors.** Some sectors like assembling of vehicles, boat building, refining petroleum are industries highlighted as industries which need FDIs in order to boost exports. Also FDI will be encouraged in areas like poultry farming and processing and value addition of spices. FDI is likely to be discouraged in industries like cement and steel manufacturing, beauty care related products, small scale agri-businesses, and retail trade.

**Government is also proposing some new restrictions on foreign owned firms and foreign individuals from acquiring land** on freehold basis. However new law is expected to have necessary provisions for industries and for property developers. According to various news reports foreigners can acquire land on 99-year lease under the proposed regulations. Final details of the proposed regulation are yet to be announced.

**Sri Lanka imposed a 10% tax on gold imports** as gold prices continued to fall. The move was intended to curtail gold smuggling into India though Sri Lanka (after India imposed an 8% tax). Sri Lanka also experienced surge in gold imports. Tax will also help to push local gold prices which have been a concern for the banking and financial services sector. Sri Lankan banking and non bank financial institutions have large exposure to gold-backed loans/gold pawning.

## FINANCIAL MARKETS

**Central Bank of Sri Lanka further relaxed forex** regulations and increased foreign exchange (currency) allowances for travel purposes (for Sri Lankans). Among several relaxations of regulations is the provision to freely repatriate profits earned from condominium property investments (by non residents).

**Sri Lankan rupee depreciated sharply by a 3% against US\$** during the month to close at 128/80-132/08. Some reports indicate sale of government securities by some foreign investors cause pressure on the exchange rate.

**Central Bank also took several measures to cut lending rates.** The statutory reserve ratio was reduced by 2% to 6%. Central Bank also instructed commercial banks to reduce interest charged on credit cards to 24% (from current 28%). Central bank also urged commercial banks to cut lending rates noting that the gap between inflation and lending rates is high as 8% and gap should be brought down to 3% - 5% in par with other countries.

By end of June 3-month Treasury bill rates dropped marginally to 8.66% (from 8.73 % end of May). Prime lending rate at commercial banks stood at 8.66% compared to 8.73% month ago.

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*New regulation on FDI and land ownership is likely to discourage small and medium size foreign investments, but likely to benefit local SMEs.*

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*Proposed new land ownership regulation (for foreigners) and relaxed forex rules are likely to benefit condominium property developers.*

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Government issued US\$ 254 Development Bonds with 3 and 5 year maturities. 3 Year bonds were issued at LIBOR + 4% and 5 year bonds were issued at LIBOR + 4.15%.

In corporate debt issues market, **NDB Bank which obtained a S&P B+/B rating is issuing a US\$ 250 million international** bonds while state owned **National Savings Bank** has also fast track its maiden US\$1 billion bond issue. During June, **Hatton National Bank PLC** announced that they closed a debt deal with **China Development bank** worth US\$ 49 million and also announced a deep discount 10-year bonds worth US\$ 23 million. This is the first time deep discounted bonds are issued in Sri Lanka. During the month, **IFC** also signed a US\$ 24 million loan to **NDB Bank PLC** to increase its SME lending.

Stock market was volatile during June and main All Share Price Index lost 5.3% during the month (8.5% gain for the year). Average daily turnover was US\$ 6.7 mn compared to US\$ 10.7 last month. Month end market capitalization stood at US\$ 18 billion. Net foreign inflow for the month was US\$ 11.5 million.

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*Equity market lost by 5.5% during June and daily turnover levels also declined.*

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## ECONOMY HIGHLIGHTS

According to latest data Sri Lankan economy has grown by 6% during the first quarter of 2013 compared to 8% recorded during the same period last year. 6% growth was higher than analyst's expectation. The growth rate was higher than analysts' expectations. Agriculture sector which was affected by adverse weather grew by 2% while services grew by 4.3%. Industrial sector recorded a 10.7% growth.

For the four months ended in April, country's external reserves stood at US\$ 8.5 billion with gross official reserves amounting to US\$ 6.8 billion. Country's exports during the first four months declined by 16.8% to US\$ 2.36 billion while imports also declined to US\$ 4.49 billion. However during the same period earnings from tourism grew by 19.8% to US\$ 407 million on 11.7% growth in cumulative tourism arrivals. Inflow from worker remittances was US\$ 2.1 billion up 6.4% YoY. Foreign Inflows to the government securities was US\$ 612 million compared to outflow of US\$ 479 during same period last year.

Inflation slowed to 6.8% (YoY) in June compared to 7.3% recorded in May.

Note: All figures mentioned in this report are converted to US\$ using the mid month end rate of Rs 130/44, except where figures are provided in US\$ at source.

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*Relaxation of monetary policy and currency depreciation likely to reverse the declining exports and imports.*

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