

JUPITER CAPITAL PARTNERS

Sri Lanka Private Equity Market Newsletter

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JUNE 2014

JUPITER CAPITAL PARTNERS UPDATES

Jupiter Capital Partners in partnership with its portfolio company Hydromec International (Pvt) Ltd. launched an equipment renting business. The new venture will rent machinery/equipment mainly to construction projects. New equipment renting platform will enable Hydromec International to offer flexible solutions for customers.

PE & OTHER DEALS IN JUNE

Guardian Fund Management Group acquired a 19.6% stake in Hayleys MGT Knitting Mills PLC for USD 2.9 million. The fund manager of family controlled **Carsons Cumberbatch** group bought the stake from **Hayleys PLC** which will own close to 63.4% in the company post sale. Hayleys MGT Knitting Mills has been reporting losses since the company reported a fraud relating to stocks in 2011. For the FY 2013/14, company lost USD 1.4 million on USD 61.2 million revenue.

Cargills Ceylon PLC announced it is selling brewery business it bought three years ago. Cargills said **Lion Brewery (Ceylon) PLC.**, a listed brewery firm controlled by **Carsons Cumberbatch Group** is acquiring its brewery unit for USD 40 million resulting in consolidating of Sri Lanka's brewery business within a single group. Cargills acquired the brewery venture for around USD 10 million in 2011, and sale price is believed to be close to asset value of the firm (debt free). Millers Brewery which sells beer under own brands has failed to contribute positively to Cargills group whose main business line includes retailing (supermarkets) and FMCG. In a separate development, **Cargills Bank** commenced commercial operations. The PE backed greenfield bank promoted by the Cargills group took more than one year to start operations since raising capital and nearly three years since approval was granted from the Central Bank.

Senior Marketing Systems Asia Pte Ltd., a Singaporean firm upped its stake in E-Channeling PLC to 47.5% from 30% at a cost of USD 2.3 million. Senior Marketing also offered to buy out other shareholders. Senior Marketing System is linked to Tokyo Stock Exchange listed **SMS Company Ltd.** The IT services company specializing in healthcare sector reported a top line of USD 1.4 million and a USD 0.4 million bottom-line for FY 2013/14.

Bombay Stock Exchange listed **Cipla Ltd announced acquisition of a 60% stake Citihealth Imports (Pvt) Ltd for USD 14 million.** Citihealth is a privately held pharmaceutical distribution company with nearly two decade track record.



*Supplying construction equipment is a one business line of Hydromec International. Hydromec is agent for several leading construction equipment suppliers.
(Pic from www.hydromec.biz)*

“many diversified business groups which ventured into new business lines are now looking at exiting these ventures as some ventures have failed to meet expectations and also due to many such acquisitions becoming unsustainable due to high leverage”.

Two mergers were announced in June relating to the proposed consolidation plan of non-bank lending institutions. **Assetline Leasing Co. Ltd.**, a small leasing firm linked David Pieris Motor Company said it is buying **Lisvin Investments Ltd**, another small privately held independent finance company. Two other finance companies controlled by Malaysian investor Dato Seri Tiong King also said they are merging. Accordingly **TKS Finance Ltd** and **Asian Finance Ltd** will merge to create one company. Last year Central Bank asked more than 50 non-bank finance firms to merge to create stronger firms.

Aitken Spence Hotel Holdings PLC. said it acquired a 143 room 5-star hotel property in Chennai for US\$ 25 million. This will be company's third hotel in India. Aitken Spence Hotels owns/operates 20 hotels in Sri Lanka, Maldives, India and in Oman. Aitken Spence Hotels also announced formally launching earlier announced US\$ 100 million – 500 room resort in partnership with Spain's RIU Group (see pic left)

MAK Holdings Inc, a foreign firm linked to a local financial advisory firm, bought approx 17% stake in **ACME Packaging and Printing PLC** for approx **USD 0.6 million**. New investors are expected to help the loss making company turn around. Newly listed investment holding firm **Adam Investments PLC** also bought a 25% stake in troubled **PC Pharma PLC** for over USD 0.4 million.

In debt market deals, **NDB Bank PLC** raised a further USD 75 million on top of USD 125 million it raised earlier this year. Several international banks and development finance institutions have participated in the lending consortium led by **IFC**. This deal is viewed as an alternative to the USD 250 million international bond issue NDB Bank planned for last year. Although the rate of the deal is not disclosed, facility is likely to be priced at around LIBOR + 5.75% - the rate at which IFC lent to another commercial bank last year.

State owned **Sri Lankan Airlines** has raised USD 175 million through a 5 year senior bond priced at 5.3%. Bonds are guaranteed by the government, and issue was reportedly oversubscribed by 17 times, and is the lowest priced international bond offer by a local firm so far. Last year two banks raised fund through international bonds priced as high as 9.6%. This month Central Bank also issued 3 year Development Bonds worth USD 240 million priced at 3.75% + 6 month LIBOR.

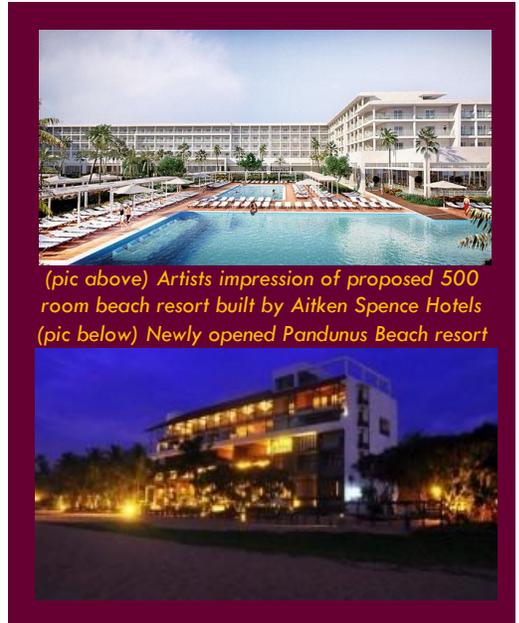
In other PE related news, **Chamber of Construction Industry**, an industry association said it is mulling setting up a USD 200 million fund to invest in infrastructure projects. Chamber said it is in talks with **DFCC bank** and **Ceylon Asset Management** a mutual fund manager to partner with the initiative.

OTHER BUSINESS & INVESTMENT NEWS

Adding to over 50 hotels and resorts opened so far this year alone, a 96 room **Pandunus Beach** resort commenced operations earlier this month. The USD 15 million hotel is a joint venture by two local business groups – **Thilakawardena Textiles Group** and **Evergreen Plantation Management Company**.

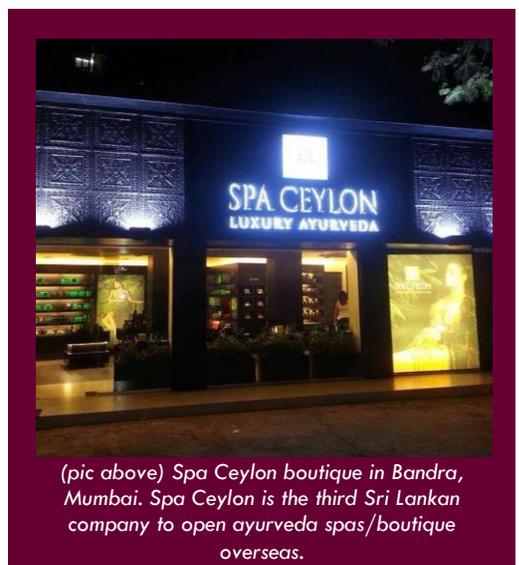
Meanwhile **Mercantile Merchant Bank**, a merchant bank said it is investing in a USD 4.6 million resort in Delft Island off Northern peninsular. Company also said they are in the process of developing several smaller tourism related ventures including a river marina.

Sri Lanka's **Spa Ceylon**, a luxury ayurveda boutique and spa chain opened its second overseas boutique/spa in Mumbai. Family run company joins few Sri Lankan firms which have ventured into in Indian consumer/retail market under their own brands. Several Sri Lankan cosmetics/ayurveda product firms have made success in overseas markets. (see picture on right)



(pic above) Artists impression of proposed 500 room beach resort built by Aitken Spence Hotels
(pic below) Newly opened Pandunus Beach resort

“according to a recent media report, currently there are 106 hotels (with over 6,750 rooms) under various stages of construction around the country. Some industry experts warn of potential price-war and possibility of bankruptcy of some firms.



(pic above) Spa Ceylon boutique in Bandra, Mumbai. Spa Ceylon is the third Sri Lankan company to open ayurveda spas/boutique overseas.

Nawaloka Hospital, an early entrant to private healthcare business has expanded its healthcare services to Seychelles by opening a medical center. **Nawaloka Group** also announced entry to tertiary education business with a million dollar investment in a private campus. Sri Lanka's education sector has also attracted a Maldivian firm called **Villa College** to set up an private campus in Colombo. Large numbers of Maldivian students are studying in Sri Lanka.

According to Indian media reports, India's **Maruti Suzuki** and **UK's Land Rover** have abandoned their plans to start vehicle assembly plants in Sri Lanka with partnership with their local agents. Reports highlight that they have failed to obtain necessary approvals as proposed ventures could not meet minimum local value addition criteria set by government. Currently only one local firm is engaged in assembling vehicles. Research shows that locally assembled "Micro" branded vehicles now accounts for a large share of brand new vehicle sales. Some reports highlight that sale of Maruti vehicles which accounted for a very large share of brand new vehicle sales earlier, have now dropped to a very low level.

As foreign mining firms' interest in Sri Lankan graphite mining ventures increase, **Sri Lanka Nano Technology Institute** is said it is establishing **carbon nano tube manufacturing plant** using locally available graphite. Meanwhile Australia's **Bora Bora Resources** also said it signed a deal with **Monash University** to commercialize a patented product it hope to produce with graphite obtained from its Sri Lanka mines.

According to media reports, **Ceylon Electricity Board**, state utility is setting up a **100 MW wind power project**, and planning on auctioning other plants with 50 MW capacity to private investors (in 10 MW blocks). Media highlights that such scheme could lead to uncompetitive practices, and ultimately higher electricity cost for consumers. Sri Lanka's power sector is seen heading for a rough time, and at least one major power generating company is for sale after state utility did not renew its thermal power purchase contracts.

Global insurance firm **AIG**, which has a very small market share in Sri Lanka's insurance market said it is exiting Sri Lanka. According to a recent report Sri Lanka's insurance sector's gross written premiums grew by 8.4% in 2013 while assets of Insurance companies also grew by 13%

COLOMBO STOCK MARKET UPDATES

Lucky Lanka Milk Processing Company Ltd., a family owned dairy business filed for a USD 2.3 million IPO. The IPO shares are priced giving the dairy business an enterprise value of around USD 8.6 (which is equivalent to around 10x EV/EBITDA post IPO). This is the third IPO to come to the market in 2014. (see text box on left)

Stock Market's main **All Share Price Index** gained by **1.8% in June** recording an overall **7.9% gain since beginning of the year**. Average daily turnover decreased to USD 7.1 million from USD 9.5 million month ago. There was a net foreign inflow of USD 21 million. So far a foreign inflow of USD 44 million has reported in 2014.

Month end market stock market capitalization was around USD 20.5 billion which is 8.7% growth since beginning of the year. However, market cap is likely to drop during second half of 2014 as many companies are expected to de-list to comply with minimum public float requirement. Already several companies have announced de-listings. In addition proposed banking and financial sector consolidation will also likely to reduce market capitalization as well as number of firms listed.

Lucky Lanka Milk Processing Co: A reflection of reality faced by Sri Lankan entrepreneurs?

Lucky Lanka is often referred to as an entrepreneurial success story. Also the dairy firm has won many accolades as its business has many social and development impact. However company's IPO prospectus highlights that the company has been operating with very high leverage, and with very high cost of borrowing (compared to market rates). It is a good example of how a business with so called "social development aspects" and "inclusive growth aspects" could not receive suitable funding at an affordable rate. It appears that Company was even forced to tap informal sector to raise funds for operations.

A company producing milk products consumed by people of all walks of life, across the country, failing to secure appropriate debt or equity funding reflect the reality faced by many entrepreneurs: difficulty in accessing suitable funding as well difficulty in accessing debt at a reasonable cost.

In addition, it is noteworthy that company's main debt providers are not the large institutions and this suggests that many SME lending programs spearheaded by large lending institutions may not be effective in channeling funds to real entrepreneurs!

ECONOMIC HIGHLIGHTS

Economy grew by 7.6% during first quarter of 2014 compared to 6.1% recorded for the same period last year. Industrial sector recorded 12.6% growth led by expansion in many export industries. Service sector grew by 6.5% while agriculture growth was dropped by 0.2% mainly due to adverse weather conditions.

Inflation in June dropped to 2.8% (YoY) from 3.2% last month. Average annual inflation also eased 4.9% from 5.3% in June. However, inflation index gained by 1.1% for the month, highest gain recorded in a year.

Treasury bill yields remained around 6.54% almost unchanged from last month while prime lending rate stood at around 7.9%. Average weighted bank deposit rates dropped 7.74% in May compared to 8.06% in April. Average lending rates also eased marginally to 14.18% in May from 14.44% in April

Sri Lankan rupee appreciated by 0.08% during June to close the month at Rs 128/90 – 131/77 to USD. Exports for the first four months increased by 17% to USD 3.6 billion, while imports also grew by 2.6% to USD 6.2 billion. Remittances for the same period showed an increase of 11% to USD 2.2 billion. Earnings from tourism jumped by 37% to USD 0.8 billion on tourist arrival growth of 37% (YoY).

ENDS

Note: All figures mentioned in this report are converted to US\$ using the mid month end rate of Rs 130/33, except where figures are provided in US\$ at source.

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