

JUPITER CAPITAL PARTNERS

Sri Lanka Private Equity Market Newsletter

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PRIVATE EQUITY INVESTMENTS

Deals closed during 4th quarter 2012

Softlogic Group (“SG”) announced several private equity (“PE”) deals during the quarter. US\$ 32 mn investment in Asiri Hospital Group by Actis is prominent among these deals. Other deals include a US\$ 15 mn (debt and quasi equity) investment from IFC in SG’s consumer/ electronics retail business unit, and a US\$ 10 mn (loan and convertible debt) investment from FMO in SG’s financial services subsidiary. IFC also provided a US\$ 10 mn loan for SG’s leisure sector arm to finance ongoing hotel projects.

Further FMO and DEG sealed a deal to acquire a combined 38% stake in Asian Alliance Insurance PLC - another SG company. The Rs 1.8 bn (approx. US\$ 13.8 mn) deal is expected to be closed in January 2013 after regulatory approval.

International Foodstuff (Pvt) Ltd., an organic food exporter also closed a PE investment from a consortium of investors from the Middle East.

Dialog Axiata PLC announced a US\$ 1.6 mn investment in a 26% stake in Digital Commerce Lanka (Pvt) Ltd. This deal results in creation of a new e-commerce company by merging businesses of a VC backed e-commerce company which ran popular online discount mall (www.anything.lk), and the e-commerce business unit of the largest telecommunication service provider in the country.

Another IT company - 24x7 Techies, an online tech-support firm which won the *Venture Engine 2012* competition, announced raising US\$ 0.6 mn VC investment through a fundraising event in the US. The launch of a platform for linking start-up IT/ Technology start-ups and angel investors called *Venture Engine* in early 2012 is a commendable step towards supporting start up IT/technology companies. The *Venture Engine 2012* competition helped 9 start-up companies to raise Rs 100 million (approx US\$ 0.75 mn) in seed capital earlier this year.

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7 deals closed during 4th quarter. Investors include Actis, IFC, FMO & DEG

2012 highlights

*Khazanah, Calamander
Capital & Standard
Chartered Private Equity
close investments in
2012*

Other noteworthy PE deals closed during 2012 are Malaysia's Khazanah acquiring 8.8% stake in diversified conglomerate John Keells Holdings PLC for US\$ 120 mn, and Standard Chartered Private Equity's US\$ 40 mn deal in Abans Group - a leader in consumer durable/ electronic appliance market.

It was also reported that Singapore based Calamander Capital who were unsuccessful in raising a Sri Lanka PE Fund in 2009, had acquired Unawatuna Beach Resort ("UBR")- a popular beach resort. In December UBR was renamed as Calamander Unawatuna Beach. Asia Capital PLC, a diversified financial services firm also announced raising US\$ 3.8 from two Japanese investment firms (in two deals) for their ongoing hotel and property projects.

Though not a PE deal, Parkson Retail's acquisition of a 42% stake in Odel PLC, a leading department store chain (from promoters) for Rs 1.42 bn (approx. US\$ 11 mn) is also a noteworthy deal in 2012.

PRIVATE EQUITY EXITS

PE Exits and IPOs/ listings of PE backed companies during 2012

Several PE exits were seen during 2012. TRF Ltd (unit of Tata Group) purchased the remaining 49% stake in Dutch Lanka Trailer Manufacturers Ltd for US\$ 8.3 mn as part of the deal they entered into in 2009. A large stake in Aqua Packaging Ltd, a leading exporter of flexible packaging, was bought by two strategic overseas investors - These two deals paved the way for Aureos Capital to fully exit from both companies.

There were two listing/IPOs of PE backed companies during the year: Access Engineering Ltd, an engineering/construction firm who earlier raised Rs 4.5 bn (approx US\$ 35 mn) in a private placement went public in March 2012. Sanasa Development Bank ("SDB"), a micro-finance co-operative bank was listed in May 2012. IFC invested Rs 99 mn (approx. US\$ 0.8 mn) in a 3.6% stake in SDB prior to the listing.

PRIVATE EQUITY FUND & FUND MANAGER NEWS

In December, Asia Capital PLC announced plans to launch a hybrid investment fund. Proposed Rs 1.5 bn (US\$ 11.5 mn) fund will source investments from Japanese investors through a feeder fund, and target PE investments in leisure sector and in financial services companies.

AIA Group's acquisition of Aviva NDB insurance PLC was completed during the quarter. This deal injected NDB Capital Holdings PLC ("NDBC") US\$ 59 mn. NDBC is the strategic investment holding arm of NDB Bank PLC, and previously NDBC announced their plans to enter PE market.

Sri Lanka is one of the 10 countries selected for an investment program/fund promoted by ADB targeting investments in *Inclusive Businesses* ("IB"). IB is a business whose core business activity/model incorporates the low-income section of the population within company's value chain as suppliers, consumers, distributors or as employees. ADB has already completed initial market assessment for Sri Lanka and is likely to implement the investment program through the participation of local PE fund managers. Sri Lanka is also included in a similar *Impact Investment fund* program promoted by UK's Department of International Development (and CDC PLC of UK). This program covers countries in Africa and South Asia and target investments in intermediaries which provide capital to businesses and projects aiming to improve lives of poor segments of the population

ECONOMY

Sri Lankan GDP grew by 7.9%, 6.4% and 4.8% for the first three quarters of this year compared to 7.9%, 8.2% and 8.4% growth during corresponding periods last year. The Central Bank predicts GDP growth for 2012 will come down to 6.8% from 8.3% seen last year. This is in par with the ADB's forecast of 6.5% and IMF forecast of 6.7% for 2012. However, growth forecasts for 2013 and beyond remain optimistic and are expected to reach higher than 7%. Restrictive policy measures adopted in early 2012 and adverse weather patterns are some contributing factors for the slow growth during 2012.

Inflation rose to 9.2% (YoY) in December from 3.82% recorded in the beginning of the year. Increase in fuel prices, Sri Lankan Rupee (SLR) depreciation, and adverse weather impacted inflation to increase. SLR after hitting low as Rs 134 for US\$, gained gradually towards the end of the year and closed at Rs 126. Steady foreign inflow and slow down in imports helped gradual stabilization of the exchange rate. Central Bank is predicting Balance of Payment ("BOP") surplus of US\$ 100mn for 2012 and US\$ 780mn for 2013. Sri Lanka's BOP recorded a deficit in excess of US\$ 1bn in 2011. Imports for the first 10 months of 2012 have declined by 4.5%, while exports have declined by 6.6%. Robust growth in revenues from foreign remittances (at 17%) and tourism (at 22%) was seen in the same time period. FDI during first nine months stood at US\$ 615 mn which is a drop of 9.4% compared to last year.

Credit to the private sector which increased at 28% YOY in January 2011, continued to increase incrementally and peaked at 35.2% in March 2012. The Central Bank then increased its policy rates and imposed a credit ceiling on the banking sector; requiring it to restrict lending in 2012 to levels only 18% higher than those of 2011. Repo and reverse repo rates which stood at 7% and 8.5% at the end of 2011 were increased by 50 basis points in February 2012 and then again by 25 basis points in April 2012. The Central Bank cut rates by 25 basis points in December 2012, signaling the possibility of further easing given reducing pressure from inflation, which it expects to moderate in 2013.

The Government's budget for 2013 projected a budget deficit as a percentage of GDP of 6.2% and 5.8% for 2012 and 2013 respectively. The budget deficit for 2011 was 6.9% of GDP. National debt is to be maintained at 80% of GDP

CAPITAL MARKET

Stock market performance during 2012

Colombo Stock Exchange ("CSE") recorded a decline of 7.7% during 2012. This was further to the 8.5% decline in 2011. However, the high level of volatility prevailed throughout the year offered many lucrative trading opportunities and the market saw gradual entry of many long term investors as indicated by large foreign inflow. Foreign net-inflow during 2012 was US\$ 303.81 compared to the US\$ 168mn net-outflow recorded last year. Restrictive policy measures taken during early 2012 also had an impact on the overall market.

Market activity during 2012 was also lower compared to 2011 - market turnover ratio dropped to 0.10 in 2012 from 0.25 in 2011. Capital raised in the market also dropped to Rs 14.5 bn (approx US\$ 118 mn) from 47.2 bn (approx US\$ 412 mn) in 2011. Year end market cap remained at 33.1% of GDP (2011) compared to 39.5% in 2011.

Colombo stock market dropped by 7.7% in 2012 and market activity (daily turnover) declined by 61% compared to 2011.

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Earnings of listed companies were improved during the quarter ended Sept 2011 (by an estimated 34%) although earnings for the first six months remains flat compared to previous year. Current market valuations are around 11x-11.4x on average compared to emerging market forwards P/E s of 12.8x on average. Valuations of some sectors such as Hotels and Travels, Healthcare, Diversified Companies, and Banking, Finance and Insurance are comparatively higher than other sectors.

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