

# JUPITER CAPITAL PARTNERS

## Sri Lanka Private Equity Market Newsletter

Jupiter Capital Partners (Pvt.) Ltd.  
20, Retreat Road  
Colombo 00400, Sri Lanka.  
Tel: +(94) 112 501 716 Fax: +(94) 112 552 063  
info@jupitercapitalpartners.com

NOVEMBER 2013

### CONTENTS

Dear Activity & PE News in  
September, 1  
Other Investment Headlines, 1-2  
Regulation/ Policy Update, 2  
Financial Markets, 3  
Economy Highlights, 3

*Sri Lanka's  
investment/project  
pipeline in property  
development and  
hotels/resorts continue to  
increase, supported by  
growing tourist arrivals  
and growing demand for  
condominiums by  
expatriate community.*



Artists impression of **Clearpoint Residencies**.  
The 46-storey residential tower will have  
private garden or even an optional pool for  
each apartment.

## DEAL ACTIVITY AND PE NEWS IN NOVEMBER

*There was no major deal activity during November, except two noteworthy exits. **Expolanka Holdings PLC** said it divested two non-core businesses in commodities trading and restaurants and realized US\$ 4.2 million. Expolanka has been divesting its non-core assets and increasing investment into core logistics and transport related businesses.*

Local (family) investor Dr. S. Selliah and related entities sold 13.6% stake in Lanka **Walltiles PLC** for US\$ 4.4 million as the major shareholder - Lanka Tiles PLC, increased its stake to nearly 68%. For the first half of 2013/14 company's earnings were down by 17% to US\$ 0.85 million

## OTHER INVESTMENT & BUSINESS HEADLINES

*Several new property development and hotel/resort projects were announced during November:*

- **China Harbor Engineering Company** signed two deals worth US\$ 500 million. One project is to build a golf resort in close proximity to newly opened Mattala Airport and the other project will build a hotel and duty free shopping center linked to the Airport. China Harbour Engineering Company also funded the construction of Mattala airport.
- Sri Lanka's leading hotel operator **Aitken Spence PLC**, said it entered into a joint venture with **RIU Hotels of Spain** to develop a US\$ 100 hotel comprising 500 rooms in Ahungalle – a city along southern coastline where Aitken Spence already has a large hotel. According to the company's news release, RIU Hotels will link the resort to its chain of hotel and long-stay guests will be flown to the resort by charter flights through new Mattala Airport.
- Small local hotel operator **Cockpit Hotels (Pvt) Ltd** which operates a hotel close to Colombo Airport announced a second hotel in Kandalama – a tourist hub, with an investment of US\$ 1.1 million.
- Australia's **Property Alliance Capital** and local **ISL Holdings (Pvt) Ltd** recently signed a deal with the **Urban Development Authority** and the Board of Investment for a US\$ 450 million mixed development project in Central Colombo.
- **Milroy Perera Associates (Pvt.) Limited**, a Sri Lankan architectural firm announced a US\$ 45.6 million residential project. According to the promoters, this project will be world's tallest vertical garden with all floors having maintenance-free gardens and many eco-friendly feature (see picture on right).
- **GVR Lanka (Pvt) Ltd.** announced the launch of a US\$ 45 million mixed development project in Kandy, main city in Central hills with funding from US based **Serendip Investment Group LLC**.

In November Sri Lanka hosted largest ever **Commonwealth Business Forum** with 1,500 participants to coincide with the Commonwealth Heads of Government Meeting held in Colombo. A noteworthy highlight in the forum was Australia's James Packers' strong case to develop Colombo as an entertainment hub to cater to growing middle income market in Asia.

Listed investment holding company – **Dunamis Capital PLC** said it was venturing into synthetic leather manufacturing targeted at local market with an investment of US\$ 1.5 million. Dunamis Capital has investments in housing development and financial services. In January they sold a business manufacturing kindergarten tools and toys for US\$ 0.2 million.

**Amana Bank**, Sri Lanka's first commercial bank to specialize in Islamic banking services filed for an IPO to raise upto US\$ 15.2 by offering 22% stake. Four largest shareholders of Anama Bank are **Bank Islam Malaysia Berhad**, **AB Bank Limited** (of Bangladesh), Saudi Arabia's **Islamic Development Bank** and Sri Lanka's **Akbar Brothers (Pvt) Limited**. Amana bank commenced operations in 2011 and made US\$ 1.1 million profit in 2012.

US based **Accenture** has signed an agreement with **Brandix**, one of the largest exporter of apparel in Sri Lanka, to provide Business Process Outsourcing services for the apparel sector. The venture will specialize in providing human resources, finance and accounting and procurement.

**Merchant Bank of Sri Lanka PLC**, a listed non-banking financial services firm majority owned by state owned **Bank of Ceylon** is planning to merge its subsidiary **MBSL Savings bank**. Merchant Bank became owners of MBSL Savings bank through a shareholder restructuring subsequent to collapse of **Ceylinco Group** which initially launched country's first specialized savings bank. In early 2012, Navara Capital, a local business group, also signed a deal with Merchant Bank to takeover MBSL Savings Bank. However a deal was not closed.

**House of Fashions**, a popular clothing store in Colombo with over two decade of history opened a new flagship store in Colombo. According to reports, the new store is the largest single-owner retail store in South Asia. House of Fashions emerged as a main shopping center in Colombo after it opened a large 5-storey store in 1999. (see picture on right)



House of Fashions' new store is a 9-storey, 250,000 sq.ft. modern store with large vehicle parking facilities on site.

## REGULATION/POLICY UPDATES

**Government has announced that it is encouraging consolidation in the banking and financial services sector**, in its 2014 budget proposals. Accordingly 48 non-bank finance companies will be encouraged to consolidate into approx 20 companies and smaller banks will be encouraged to merge to form larger and stronger banks. Also large financial services institutions with subsidiaries will be encouraged to merge with the parent firm thus reducing the overall risk. Tax incentives were also offered for such consolidation deals. There has been a significant increase in the number small of financial services firms and large number of these firms are not adequately capitalized and hence poses a threat to the overall financial system. Central bank is expected to issue guidelines on this proposed plan early next year.

Much awaited policy regarding foreign ownership of land was also announced with the budget proposals. Accordingly **foreign nations can only lease land by paying an upfront tax at 15%**. Details of the new rule are yet to be announced.

Other noteworthy budget proposals include expansion of value added tax network for mid-size retailers whose revenue exceeds US\$ 1.9 million per quarter (from earlier US\$ 2.8 million).

*Proposed consolidation in the banking and financial services sector is likely to create PE investment opportunities.*

## FINANCIAL MARKETS

Month end average weighted lending and deposit rates of commercial banks' were 15.52% and 9.52% respectively. Month end 3-month Treasury Bill rate was 10.64% compared to 11.90% month ago.

Sri Lanka rupee depreciated by 0.18% for the month to close at 129/58 and 132/84 to US Dollar.

### 2014 Budget highlights

2014 budget proposals are targeted at maintaining an overall deficit of 5.2% GDP compared to estimated 5.8% deficit in 2013.

Government plans to increase revenue 21.5% to 1274.6 billion from 2013 estimate of Rs 1052.

Public Investments are expected to increase by 32.7% to 668.5 bn in 2014.

Government is estimated to borrow Rs 280.6 bn locally and 235.5 of which 97.5 is expected to be commercial borrowings.

Sri Lanka's corporate debt market kept its growth momentum with several new issues announced in November. **NDB Bank PLC**, which originally planned a US\$ 250 international bond offer, is now planning to go for the largest local bond offer to raise up to US\$ 76 million. Details of the offer are yet to be announced. Further **Merchant Bank of Sri Lanka** has announced that it is planning to raise up to US\$ 7.6Mn by selling debentures. **MCSL Financial Services**, another small finance company linked to state owned Bank of Ceylon said it was issuing US\$ 3.8 million bond. Another listed finance company **LB Finance PLC** said it was issuing US\$ 15.2 debt. **Citizens Development Business Finance PLC**, which obtained a US\$ 6 million funding from Belgian Investment Company for Developing Countries, said it was raising US\$ 7.6 million debt issue to growth lending,

Sri Lankan stock market showed volatility as main **All Share price index lost 3% thus reversing 2.6% gain recorded last month**. However the index is up 2.3% year to date. Average daily turnover was US\$ 4.58 million compared to US\$ 6.8 last month. There was a net foreign outflow of US\$ 3.9 for the month and year to date foreign inflow stood at approx US\$ 170 million.

## ECONOMY HIGHLIGHTS

**Central Bank revised Sri Lanka's 2013 GDP growth target to 7.2% - 7.3%** (down from earlier estimate of 7.5%) as the third quarter GDP growth reached 7.8%. Growth during first and second quarter were 6% and 6.8% respectively. World Bank and ADB estimate Sri Lankan economy to grow by 6.8% in 2013.

As per the Department of Fiscal Policy **country's budget deficit during Jan- Sep 13 shrank to 5.6% of GDP from 6.4% a year earlier**. The improvement was on revenue growth of 2.7% YoY to US\$ 5.9 billion, driven by 4.2% YoY increase in tax revenue to US\$ 5.4 billion. Budget deficit was financed by US\$ 3 billion domestic borrowing and US\$0.7 billion foreign borrowing. Government target to maintain a budget deficit of 5.8% of GDP for 2013.

Country's external assets dropped by a marginal 0.3% to US\$ 8.331 billion at end of September, compared to beginning of the year. **Exports were up marginally by 0.3% to US\$ 7.327 billion and imports were down by 0.9% to US\$ 14.048 billion** thus improving the trade balance by 2.1% to US\$ 6.721 billion.

**Inflation declined to 5.6% in November (YoY)** from 6.7% in November. However, average 12 month inflation eased marginally to 7.3% from 7.6 month ago%. Private sector credit growth remained low at 7.6% (YoY, Cumulative).

ENDS

**Third quarter GDP growth was 7.8%. Agriculture grew by 7%, manufacturing sector growth was 8.1%, Services grew by 7.9%**

This Newsletter has been compiled by Jupiter Capital Partners (Private) Limited ("Jupiter"). The information contained in this document is based on publicly available information and from sources believed to be reliable and accurate. Jupiter, however, does not guarantee the accuracy, authenticity or completeness of the information given herein. No investment-related decision should be taken on the basis of the information given in this document. Information contained in this document does not constitute an offer to sell, or a solicitation of an investment to Private Equity Funds promoted, managed or advised by Jupiter or its affiliates. This document is for the use of the intended recipient and their institutions. Copying and/or distribution to other parties is strictly prohibited. No part of this Newsletter may be quoted or reproduced without written permission from Jupiter.

© Jupiter 2013

Newsletter No. 10

Issued on 3 November 2013