

JUPITER CAPITAL PARTNERS

Sri Lanka Private Equity Market Newsletter

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DEAL ACTIVITY AND PE NEWS IN OCTOBER

Browns Investments PLC announced that it had invested US\$ 1.9 million to acquire 50% stake in Sun and Fun Resorts Ltd. Sun and Fun Resorts plans to build a 71 room resort in Pasikudah – a popular beach destination in the eastern coast. Browns Investments is a listed investment holding company. In April they acquired 51% stake **Green Paradise Resort** for US\$ 3.9 mn. Green Paradise is an inland resort.

Senior Marketing Systems (Pte) Ltd a bought a further 15% stake in E-Channeling PLC for US\$ 1.24 million. Senior Marketing Systems is a Japanese healthcare technology company (and a unit of Tokyo Stock Exchange listed **SMS Company Ltd**). With this purchase Senior Marketing Systems has increased its stake in E-Channeling to just under 30%. E-Channeling is an healthcare IT service provider which was initially backed by VC and PE investors. For the first quarter of 2013/14 E-Channeling reported US\$ 0.122 million bottom-line (up 50%)

Citizens Development Business Finance PLC closed a deal to obtain US\$ 6 million funding line from Belgian Investment Company for Developing Countries. Company is a specialized non-banking financial institution. **Ceylinco Insurance Co PLC**, country's largest private insurance firm is the largest shareholder of the Citizens Development Business Finance and company recorded US\$ 2.1 million profit for the first half of 2013/14 (up 13%)

Union Bank PLC, a mid-sized commercial bank announced that it is in talks with a large international institutional investment firm for a capital infusion. In 2011 Union Bank closed a deal to acquire a small finance company with an investment from Shorecap. Union bank which reported US\$ 0.8 million bottom-line for the first half of 2014 (down 26% YoY) has a market cap of US\$ 48 million.

According to news reports **Ceylinco Insurance PLC**, a largest private insurance firm in Sri Lanka is negotiating to acquire **British School of Colombo**, a leading international School in Colombo for US\$ 15 million (see picture left)

Organizers of **Venture Engine**, a start-up venture competition, and a platform for linking start ups with angel investors, said two out of ten finalists of 2013 competition has secured US\$ 0.7 million in seed funding so far. Funding for the two ventures in jewelry and leisure services has come from **Sri Lankan and Indian Angel Investor** network. According to organizers of Venture Engine, several other start-ups are currently negotiating VC funding and some winners of last year competition are now negotiating second round funding.

Sri Lanka has seen increased focus on fostering innovation and star-ups and thus gradual emergence of an eco-system to foster entrepreneurship and innovation. There are several similar programs promoted by several institutions. These programs are mostly organized like competitions where young entrepreneurs can obtain seed funding to commercialize their innovative ideas.



British School of Colombo, (pictured above) is one of several English Medium Private Schools in Colombo.

OTHER INVESTMENT & HEADLINES

The Sri Lanka Institute of Nanotechnology's modern campus named **Nanotechnology Center for Excellence** was opened earlier this month. Government has provided US\$ 13.5 funding for the project while private companies have provided US\$ 2.6 million (so far) for this project. This center will provide R&D services for companies. (see picture on right)

Maruti Suzuki India Ltd is evaluating to establish a plant in Sri Lanka and is likely to add more value than the 30% minimum value addition required by the government for such projects. Maruti vehicles sales have reduced to around 250 per month from earlier 1,300 per month after tax hike to curtail imports.

Calzedonia, a leading international apparel firm which owns brands such as *intimissimi* opened a new US\$ 150 million factory in Vavuniya – a city located in former war zone. The Italian group first entered Sri Lanka in 1999 and now operates seven factories employing over 12,000 staff.

Iluka Resources Limited, Australian based firms said it had bought a Sri Lankan company which has exploration rights to mineral sand in the island's north west. Iluka Resources said in an Australian stock exchange filing that it had bought **PDK Resources (Pvt) Ltd**, which owned exploration rights.

Hatton National Bank PLC, a leading private bank announced floating of a new subsidiary to carry out micro-finance businesses. Bank said it will tap foreign institutions for funding for the same at later stage. Meanwhile, Nanda Finance & Investments PLC, which was acquired by BRAC in June this year infused US\$ 0.34 million capital through a rights issue.

John Keells Holdings PLC, raised US\$ 176 million this month through a rights issue to fund new city resort property project which will also have a casino. Company said its original plan for the project has not changed although government withdrew a new regulation and tax incentive scheme targeting casinos (See more under Regulation Updates). in the meantime Malaysia's **Khazanah** increased its stake in the company to over 10% during the month.

Ceylon Beverages PLC, a company engaged in beer manufacture is investing a further US\$ 1.8 million in company's restaurant venture – **Pubs N Places**. Company already operates a pubs and restaurant chain.

Urban Development Authority has signed a US\$ 400 deal with India's **Tata Group** for an urban housing project to relocate low income dwellers in Colombo city. This project was delayed due to protests by residents in some areas. According to reports, Urban Development Authority is also looking for an investor to build a 200 room hotel in **Waters Edge** complex in Colombo suburbs (see picture on right).

According to reports state owned National carrier - **Sri Lankan Airlines** is planning to borrow US\$ 250 million for working capital. Sri Lankan Airlines is also engaged in a re-fleeting program and announced this month that they signed a deal to lease three A350-900 aircrafts from International Lease Finance Corp (part of AIG) while four will be bought outright.

According to reports, government is likely to buy **Standard Chartered Bank's** landmark colonial building opposite Presidents House in Colombo's Central Business District. Standard Chartered Bank put the building on the market in 2012 at a price tag of US\$ 8.7 million. The property is mostly occupied by government. Earlier state managed Employee Provident Fund, a retirement benefit fund, purchased two historic colonials buildings in the Central Business District in Colombo.



Nanotechnology Center for Excellence (pictured above) is located in a 50-acre site in south of Colombo city.



Waters Edge (pictured above) is a multipurpose entertainment cum conference venue located between Colombo city and Battaramulla – a suburban city where Parliament and many government offices are located. Waters Edge is also a venue for Commonwealth Heads of Government Meetings to be held in November 2013

REGULATION/POLICY UPDATES

In an effort to promote more listings in the Colombo Stock Exchange, **Securities and Exchange Commission of Sri Lanka re-introduced the “listing by introduction”** where a company can list securities without having to offer for sale or an offer for subscription. However, SEC has imposed new conditions for such listings. Listing by introduction was first introduced in 2000 and suspended in March 2012 as several fundamentally weak companies made entry to Stock Exchange using this mechanism. Over 33 companies were listed by this method.

Re-introduction of the “Listing by Introduction” could encourage more PE investments as investors can exit easily without having to go through an IPO.

Meanwhile Colombo Stock Exchange said it is looking at the possibility for **introducing a new board to list ventures/companies with foreign investments** (mainly Board of Investment approved ventures). This initiative was mooted to make it easier for foreign investors to exit.

Government withdrew its proposed law relating to operation of Casinos due to pressure from religious and other lobby groups. Government is likely to re-introduce this bill with amendments. Proposed new rules are likely to be modeled similar to Singapore’s model where certain restrictions are imposed for locals for entering casinos. Three major property projects with gaming facilities have already got green light from Board of Investments (country’s main investment promotion bureau) and have already obtained lands in the designated gaming zone. Two proposed gaming ventures are majority owned by Sri Lankan business groups while the third project is jointly promoted by a Sri Lankan group and Australia’s Crown.

DEVELOPMENT NEWS



Newly Opened **Colombo-Katunayake Expressway** runs closer to Negombo Lagoon north of Colombo.

A new expressway connecting Colombo and Country’s main Airport was declared opened in October. The 29 km expressway built at a cost of US\$ 291 million cuts travel time between Colombo and main Katunayake Airport to 15 minutes. Travel time to Airport from Colombo can take up to two hours in rush hours. Project was funded by China. Expressway also links Colombo with Negombo a popular tourist hub closer to Airport. (see picture on left)

In another deal with China, Government announced the launch of a project to **extend southern coastal railway** up to Kataragama in South Eastern Sri Lanka. The US\$ 272 million project will be funded by China. Under phase one, 27 km stretch is expected to be completed by 2016.

Sri Lanka signed the delayed coal-power project deal with India. Accordingly a 500 MW coal power plant will be built in Sampur in Northern Sri Lanka at a cost of US\$ 600 million. The project will be jointly owned by Sri Lanka’s state owned Ceylon Electricity Board and National Thermal Power Corporation of India.

FINANCIAL MARKETS

DFCC bank PLC which originally planned a US\$ 250 million international bond offer, issued US\$ 100 million at 9.6% during October. **NDB Bank PLC** is also expected to raise US\$ 100 million in November. Last month state owned **National Savings Bank** raised US\$ 750 million at 8.875% thus raising benchmark rates for future international bond offers by Sri Lankan banks. Sri Lankan banks are encouraged to borrow overseas by the Central Bank.

Central Bank reduced policy rates by further 0.5% despite IMF cautioning against further relaxing of monetary policy. Month end average weighted lending and savings rates of commercial banks’ were 15.77% and 9.93% respectively. Month end 3-month Treasury Bill rate was 10.19% compared to 10.38% month ago.

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Sri Lankan Rupee gained marginally by 0.6% for the month. Rupee has depreciated by 3% for the year.

In corporate debt market, two new issues were announced by two banks: **Sampath Bank PLC** announced US\$ 38 million local bond issue and **Nations Trust Bank PLC** announced US\$ 22.8 million junior bond issue.

Main All Share Price Index of the **Colombo Stock Exchange** gained by **2.6%** for the month as average daily turnover improved to US\$ 6.8 million (from US\$ 4.8 million last month). Market has now gained by 5.5% for the year. Net foreign inflow for the month was US\$ 24 million thus increasing cumulative inflow for the year to US\$ 174 million.

ECONOMY HIGHLIGHTS

Inflation increased to 6.7% (YoY) in October from 6.2% month ago. However, average 12 month inflation eased marginally to 7.6% from 7.8%.

Private sector credit growth showed an increase of US\$ 24.4 for the month to US\$ 18.8 billion which is a 7.8% growth YoY.

Foreign reserves as at end of August were US\$ 7.5 billion which is a 10.2% decline from the beginning of the year. Cumulative exports for the period upto August were down marginally by 1% to US\$ 6.4 billion while imports were also down by 3.3% to US\$ 12.4 billion thus improving BOP position by 5.6% to a deficit of US\$ 5.9 billion.

Remittances (inflow) up to August were up by 16.3% to US\$ 570 million while **earnings from tourism were also up by 22% to US\$ 784.4 million.**

Private Sector Credit growth is expected to further decline as cost of funding of main lenders is expected to rise.

ENDS

Note: All figures mentioned in this report are converted to US\$ using the mid month end rate of Rs 131/04, except where figures are provided in US\$ at source.

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