

# JUPITER CAPITAL PARTNERS

## Sri Lanka Private Equity Market Newsletter

Jupiter Capital Partners (Pvt.) Ltd.  
Suite M14, Mezzanine Floor, Galadari Hotel  
64, Lotus Road, Colombo 01, Sri Lanka  
Tel: + (94) 112 380 667 Fax: + (94) 112 380 668  
info@jupitercapitalpartners.com

SEPTEMBER 2013

### CONTENTS

Jupiter Capital Partners News, 1  
Dear Activity & PE News in  
September, 1-2  
Other Investment Headlines, 2-3  
Regulation/ Policy Update, 3  
Development News, 3  
Financial Markets, 4  
Economy Highlights, 4-5

## JUPITER CAPITAL PARTNERS NEWS

**Jupiter Capital Partners closed a deal to invest in a significant minority stake in Hydromec Engineering (Pvt) Ltd.** Hydromec Engineering is an engineering services and trading firm, and a successor company to a leading firm in the field with over 15 year track record. Company serves transport, logistics, construction and power generation industries.

## SEPTEMBER DEAL ACTIVITY & PE NEWS

**Senior Marketing Systems (Pte) Ltd bought a 15% stake in E-Channeling PLC for \$1.2 million.** Senior Marketing Systems is a Japanese healthcare technology infrastructure company and a unit of **Tokyo Stock Exchange listed SMS Company Ltd.** Seller was **Capital Trust Holdings**, a local investment company. E-Channeling, provides software for hospitals, and runs an online platform for making doctor appointments and scheduling hospital service. It is Sri Lanka's first IT Company to list in the Colombo Stock Exchange. Company was originally promoted by **Millennium Information Technologies** (which is now a subsidiary of London Stock Exchange) and several institutional investors including **Ayojana Fund**. For the 1Q 2013/14, company reported a top line of \$ 0.282 million (up 20%) and a bottom-line of \$ 0.122 (up 50%).

**Lanka Ventures PLC has invested \$ 2 million in a Bangladeshi power plant.** Lanka Ventures is an investment/VC company controlled by **DFCC Bank** and **Hatton National Bank** and only focuses on investing in the power sector. **Raj Lanka Power Company Ltd**, is a joint venture promoted by Sri Lankan company **Lakdhanavi Limited**, and Bangladeshi investors. Raj Lanka Power Company is currently constructing 52.2 MW thermal power plant in Rajshahi district in Bangladesh.

**Pan Asia Bank PLC has secured a \$ 20 million from The Global Climate Partnership Fund.** Pan Asia Bank will utilize the 7-year funds to offer "green leases" for hybrid vehicles, energy saving refrigerators, air conditioners and solar electricity installations. Pan Asia Bank is the first commercial bank in South Asia to secure funding from the Global Climate Partnership Fund. Mid sized Pan Asia Bank recorded \$ 32 million top line (up 45%) and \$ 1.2 million (down 55%) for the first half of 2013.

According to news reports a **foreign investor (Iqbal Deredia) has signed a deal to acquire p Serene Pavilions, a small boutique hotel, for \$ 4.5 million** (See picture on left). However, a shareholder battle has emerged between two groups of shareholders prompting shareholders to seek legal recourse related to the sale. Serene Pavilions was promoted by British media mogul Sir Clive Leach and several local and foreign investors.



**Serene Pavilions** is a small 12-villa boutique hotel located in south of Colombo. It is a member of Small Luxury Hotels of the World network.

In other deal news, **Adam Investments**, a local family investment firm purchased 10% stake in **Orient Garments PLC** for \$ 0.227 million, and emerging markets PE fund **Aureos South Asia Fund LLC** shed a further 1% in **Watawala Plantations PLC** for \$ 0.261 million.

**ADB announced plans to increase equity investments in Sri Lankan Agribusinesses.** ADB re-commenced its lending program for private agribusinesses in 2012 and also plans equity investments in agribusiness. ADB said they target Sri Lankan organic food producers as part of the program.

**Emerging Markets investor - Leapfrog Investments has included Sri Lanka as a priority country for its second fund** which reached first close of \$ 204 million. Leapfrog focuses on insurance and microfinance businesses which are catering to bottom of the pyramid market.

**NDB Capital Holdings PLC has signed a deal with Zephyr Management LP** to explore joint venture opportunity to float a PE management company. NDB Capital Holdings is a subsidiary of **NDB Bank PLC**. Government is the largest shareholder of NDB Bank (through several state institutions/Funds). NDB Capital Holdings is mainly an investment holding company focusing on fixed income products in addition to running an investment banking and securities businesses. Zephyr is an emerging markets PE firm head quartered in the US. According to news reports the joint venture will be majority owned by NDB Capital Holdings and is subject to regulatory approvals. Previously US based **LR Global's** efforts to establish a Sri Lanka PE fund with the backing of **IFC** failed. IFC has also backed Zephyr Funds.

*Sri Lanka is receiving increasing attention of emerging markets PE Funds/Firms.*

## OTHER INVESTMENT HEADLINES

Diversified firm - **Hemas Holdings PLC** announced plans to build a \$ 40 million resort with Thailand's **Minor Group**. The proposed 154-room 5 star resort will be located in Southern coastal city of Tangalle and will be branded as an Anantara hotel.

Another leading hotel group **Aitken Spence** said it is negotiating a joint venture deal with Spanish hotel group **RIU Hotels and Resorts** to build a resort in Ahungalla. In 2010, Aitken Spence signed a deal with **Six Senses** to develop a \$ 40 million hotel in the same property, but the project did not take off the ground.

**Kramski Lanka Ltd**, a German tool manufacturer, announced that they have invested in a \$ 2.27 million new plant as the company completed two decades in Sri Lanka.

**Softlogic Holdings PLC** a diversified Sri Lankan business group announced that the group has secured the **Burgher King Franchise** for Sri Lanka and plans to open three restaurants within next few months. Recently, **Cargills Ceylon PLC** also announced that they have secured **TGIF franchise**. Two new franchises will complete with already established western fast chains like KFC, McDolands, Pizza Hut and Dominos with an estimated 100 outlets (combined).

*Fast-food/ restaurants business grew by 50% in 2012. Growth is driven by changing consumer habits and tourism.*

The new management of the Sri Lankan agro-forestry firm **Touchwood Investments PLC** announced that they are seeking \$ 1.5 million short term funds and \$ 21 million long term capital infusion. Company has been facing liquidity problems and some investors have filed legal action to wind up the company due to non-payment of guaranteed returns from plantation projects. Company's share price has been falling sharply amid SEC investigations on the company and promoter affairs.

**IFC** signed a deal to provide supplier credit facility to **Brandix** – a leading Sri Lankan apparel manufacturing firm. This is the first supplier credit facility offered in South Asia by IFC's \$ 500 million Global Trade Supplier Credit program.

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*Government is encouraging investments into dairy industry to reduce dairy imports (estimated at US\$ 300 million in 2012). Sri Lanka produces only 25 - 30% of dairy requirement locally.*

*China - Sri Lanka FTA is targeted at reducing \$ 2.4 billion trade gap.*

Australian mining firm **Bora Bora Resources Ltd** has secured license to explore graphite in a 200 square KM land off central Sri Lanka. Company also has a 75% owned subsidiary in Sri Lanka engaged in graphite mining. Sri Lanka's mineral exports have shown steady growth during last few quarters.

**Singaporean Dialysis Medical Group** has signed a deal with Board of Investment of Sri Lanka to set up a US\$ 1.5 million specialized hospital to offer dialysis services to local market

**Ceylon Pencil Co. Ltd** a privately held leading stationery products company and owner of "Atlas" brand purchased "Homerun" brand from **Colour Products Ltd**. "Homerun" brand is a leading pastel/crayons brand with over 50 year history.

According to media reports, **Velema Holdings** of The Netherlands has offered to set up a fully equipped state of the art dairy farm utilizing 1,500 hectares of land.

## REGULATION/POLICY UPDATES

**Sri Lanka is expected to sign proposed Free Trade Agreement with China** before the Commonwealth Heads of Government Meeting (to be held in Colombo in November this year). Free Trade pact is expected to open up Chinese market for Sri Lankan products including its main export earner – apparel products

In a move which will have significant impact on future renewable power sector investments, **Ceylon Electricity Board has decided to suspend all upcoming wind power and solar power projects** thus limiting total solar power capacity to 80 MW and wind power to 220 MW. This decision was taken due to technical issues and is expected to review in 2014.

## DEVELOPMENT NEWS

Reconstructed 63 Km long **railway track linking the main city of former war zone – Kilinochchi** with Omanthai was declared opened in mid September. Train services in this line were stopped in 1985 after LTTE bombed and destroyed a passenger train killing over 100 people. The railway track was destroyed during the three decade of war which ended in 2009. Now passengers can travel by train from Colombo to Kilinochchi – which was the nerve center of LTTE (terrorist) controlled areas prior to 2009.(see picture on left)

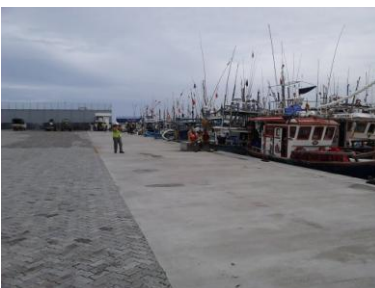
**Oluvil Fisheries Harbor and facilities for fishery industry was opened** in early September. The \$ 53 million project located in Eastern Province was funded by Denmark and was part of the redevelopment program of the former war-zone. (see picture of left)

**ADB has provided a further \$ 75 million funding** to improve access roads to the Sri Lanka's first highway linking country's capital with South of the country. According to ADB's estimates, Sri Lanka's road capacity needs to be doubled within next 8-10 year to meet rising demand.

**China's Exim Bank is providing \$ 808 million for the second phase of Hambantota Port** in Southern Sri Lanka. The project is expected to be completed in 2015. According to reports sand dredged to expand harbor will be used to create an artificial island off port. According to same report, investors have expressed interest to establish entertainment and shopping facilities in the same island catering to seamen and passengers of ships calling to the port for bunkering, etc.



Re-opened Kilinochchi Railway Station (above) . Kilinochchi was the central station of former LTTE controlled areas. (Pic courtesy of pathivu.com)



Fishing Boats in newly opened **Oluvil Fishing Harbour** (above) in the Eastern coast. (pics from ugo.cn)

## FINANCIAL MARKETS

State owned **National Savings Bank** completed its maiden international bond offer. The \$ 750 million rated issue (BB-) was closed at 8.875%. According to analysts the high rate of the issue is likely to increase cost of future international bond issues resulting in higher cost of funds for local businesses. However according to reports, secondary market yields of these bonds have declined to around 8%.

Two other state linked commercial Banks are also preparing to tap international debt market: **DFCC Bank PLC** is expected to raise \$ 250 million (rated B+) and **NDB Bank PLC** (which also signed deal to float a PE management firm this month) has already completed a road show to promote its \$ 250 million debt issue (rated B+). According to reports, indicative rates for these two issues are higher than 9%. All state owned/linked banks are tapping international markets and these issues are viewed as an extension of government borrowing programs.

**LOLC PLC** – a diversified group with major exposure to financial services and leisure also announced plans to raise \$ 50 – 100 million debt from Middle Eastern investors.

Further state owned **Bank of Ceylon**, the largest commercial bank in the country announced a \$ 60 million local bond issue. **Abans Group**, a large privately held diversified business group announced \$ 15 million local debt issue (rated A-). **EAP Broadcasting Holdings**, a privately held entertainment and media firm also announced \$ 11.4 million debt issue (rated BBB). State linked housing finance firm **HDFC PLC** also announced plans to raise upto \$ 15.2 million debt.

Several listed debt issues were completed in September. These include **Nawaloka Hospital PLC's** \$ 11.3 million issue, **Alliance Finance PLC's** \$ 9.5 and **Singer Finance PLC's** \$ 9.5 million debt issue.

Commercial Bank's average weighted lending rate was 15.93% compare to 16.14% month ago. Average weighted deposit rate as at month end stood at 10.1% slightly down from 10.43% month ago.

**Sri Lanka rupee appreciate by 1.1% during September** to end the month at Rs 130/27 – 133/62 to one US\$.

**Main stock market index lost by 0.5% during September.** However All Share Price Index is still in a positive territory of 2.9% year to date. There was U\$ 10.6 million foreign inflow during the month marking a cumulative inflow of \$ 150 million for the year.

Average daily turnover was \$ 4.8 million compared to \$ 5.2 million previous month.

## ECONOMY HIGHLIGHTS

**Sri Lankan economy grew by 6.8% during second quarter of 2013** compared to 6.0% during first quarter and 6.4% recorded in second quarter 2012. While Central Bank maintains a growth target of 7.5% for 2013, IMF has revised growth target marginally to 6.5% from 6.3%. IMF has further called to structural reforms, limited forex interventions and halt in easing monetary policy.

**Private sector credit grew by 1.1% (8.4%, YoY) in July** to \$ 18.6. However country's unemployment increased to 4.6% during first quarter of 2013 (27 month high) from 4%. Unemployment of females and high-school graduates were comparatively higher.

*High yielding international bond issues are likely put upward pressure on cost of funds in the local market.*

### *Selected high growth sectors during second quarter*

*Mining (other than gems) - 13.7%*  
*Utilities Services (electricity, water, gas)- 16.2%*  
*Construction - 17.8%*  
*Hotels and Restaurants - 21.1%*  
*Transport (railways, passenger, and goods) - 10.1%*

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**Cumulative export performance up to July declined by 2.7% to \$ 5.5 billion** while imports also declined by 2.6% to \$ 10.8 billion resulting in a \$ 5.3 billion trade balance. However exports grew by 8% in July (YoY) continuing upward trend recorded in June. Worker remittances (inflows) were up by 10% to US\$ 3.7 billion for the same period. Earnings from tourism during the period up to July recorded 20.3% growth to \$ 674 million on a 12.5% increase in tourist arrivals.

Inflation declined to 6.2% in September from 6.3% last month.

Meanwhile government borrowings continued to increase amid falling state revenues. Government borrowings reached \$ 9.8 billion in July up 30.6% YoY accounting for 31.6% domestic credit. Sri Lanka issued a fresh \$ 200 million bonds to Middle East investors in September.

*Sri Lankan exports are recovering with growth recorded in June and July.*

Note: All figures mentioned in this report are converted to US\$ using the mid month end rate of Rs 131/94, except where figures are provided in US\$ at source.

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Newsletter No. 8

Issued on 2 October 2013