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Sri Lanka's private equity industry interested in fast-growing small and mid-sized firms- report

By Nicel Jane Avellana



Sri Lanka

Officials said that the private equity industry in Sri Lanka is interested in supporting small and medium sized firms that have a winning business model and a plan for growth, the news website Lanka Business Online or LBO reported.

The report quoted Jupiter Capital Partners Managing Director Indika Hettiarachchi as saying that a company with an annual growth plan of only 10% to 15% was not a contender for private equity funds. Jupiter Capital Partners is a private equity firm based in Colombo.

In a Colombo forum about private equity investment, Hettiarachchi said, "Unless we make a return of 25 percent IRR we cannot do the deal, because the investors demand high returns."

Private equity companies are interested in investing in businesses whose operations are already underway and were ambitious about their plans for growth. They were not seeking to give seed money to startups the way angel investors or venture capital do, the report said.

Hettiarachchi said that private equity firms had to make certain that the companies they invest in will have record of exits as this is what will bring in more funds later on. He added that while there were private equity funds tailored for specific investments, for smaller emerging markets like Sri Lanka, a generalist fund which would be able to look for opportunities in a wide range of sectors is the better option, the report said.

A fast growing firm would have the choice of raising debt or finding a strategic

partner instead of going the private equity route. Equity investment, however, would enable cash to stay in the business to fuel the company's growth. This is compared to bank debt which drained cash flows since money borrowed has to be repaid. Partnering with a strategic investor may also limit the company's growth opportunities if it conflicts with their own operations, the report said.