

JUPITER CAPITAL PARTNERS

Sri Lanka Private Equity Market Newsletter

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PRIVATE EQUITY NEWS

Investments closed/announced during the first quarter of 2013

Pragnya Advisers, an Indian Private Equity adviser focusing on real estate, has invested US\$ 5 mn in a property project in Colombo. The proposed project involves developing a US\$ 40 mn mixed use luxury property named "Platinum 1 Tower".

DEG and FMO purchase 19% each in Asian Alliance Insurance PLC ("Asian Alliance") from Softlogic Group ("Softlogic") for aprox. US\$ 14 mn in early March. This secondary PIPE deal (which was signed during 4Q 2012) saw DEG and FMO paying over 50% premium to the market price of Asian Alliance shares. Softlogic owned over 95% in Asian Alliance prior to the sale. This partial sell-down helped Softlogic to reduce their borrowings partly associated with their acquisition of Asian Alliance in August 2011. Furthermore, it was disclosed that **FMO has disbursed the US\$ 4 mn convertible equity facility to Softlogic Finance PLC**, a medium size non-bank financial services company under the Softlogic group. This disbursement was a part of the US\$ 10 mn deal FMO signed with the company in November 2012, a deal that was intended to boost the balance sheet of the finance company.

Central Finance and Investments PLC ("CIFL"), another medium size financial services firm is expected to receive US\$ 12 mn capital infusion. This deal is linked to the acquisition of the Aspic group of companies by R. A. Maloney, the largest shareholder of Touchwood Investments PLC, a company engaged in forestry businesses. CIFL is majority owned by Aspic Group and the price paid for the Aspic group by the new owner was not disclosed. This deal appears to be supported by the Central Bank of Sri Lanka, which has been monitoring the developments of smaller finance companies like CIFL.

CT Holdings, a diversified business group, announced that IFC and DEG will invest 10% each in Cargills Agriculture and Commercial Bank ("Cargills Bank") – a new commercial bank promoted by CT Holdings. CT Holdings, which owns the largest supermarket chain in the country, will also contribute a 20% stake in the venture. Cargills Bank is likely to raise the balance equity through a private placement, as announced earlier. The announcement did not disclose the amount to be invested by each party, but noted that IFC's and DEG's investment is subject to the fulfillment of certain terms and conditions.

The Jetwing Group ("Jetwing"), one of Sri Lanka's leading resort hotel owners and operators, announced plans to raise funds to finance four new hotel properties. According to Hiran Cooray, the Chairman **Jetwing will bundle four new hotel properties into a new company named Jetwing Symphony and offer a 30% equity stake for US\$ 8 mn.** Jetwing Symphony is expected to apply for an IPO later. Two hotel properties under JS are still under construction while the other two are expected to commence construction within one year.

**IFC, DEG and FMO
continue aggressive
equity investment
strategy**

Exits/ divestments during the first quarter of 2013

Royal Ceramics PLC (“Royal”), a tiles, sanitary and bathware producer, exited Asia Siyaka PLC (“Siyaka”), a commodity broker, through a strategic sale to another player in commodities business. Royal purchased a 51% stake in Siyaka in April 2012. The US\$ 2.9 million sale, which needed special approval from the stock exchange to bypass lock-in provisions (after IPO), netted only around 10% gain to the investor.

Delmege Forsyth & Co., a PE backed private company in the business of trading, distribution and transport services, is also planning to list in the Colombo Stock exchange. In June 2011, Delmege was acquired by a consortium led by leading Sri Lankan entrepreneur Dhammika Perera for approx US\$ 28 mn. Subsequently LR Global, a frontier markets investment firm purchased a 10% stake in Delmege from a party in the buyout consortium by reportedly paying a 25% premium to the buyout price. P

Fund/ Fund Manager News

Frontier markets investment manager **LR Global (“LR”) has appointed Reaz Islam, a Bangladeshi national, to head Sri Lankan operations** - a vacancy left by the departure of the Sri Lankan unit’s founding Managing Director, Channa de Silva, in 2012. Reaz Islam also heads LR’s mutual fund operations in Bangladesh. LR reportedly invested US\$ 20 mn in Sri Lankan ventures when they entered Sri Lanka in mid 2010. Subsequently, LR secured a US\$ 10 million commitment from IFC in June 2011 for a US\$ 50 mn Sri Lanka country fund. LR has not announced any new investments since their investment in Delmege Forsyth & Co. in June 2011.

ECONOMY

The Sri Lankan economy grew by 6.4 % in 2012, compared to 8.3% growth recorded in 2011. The industrial sector, which accounts for 30% of GDP, grew by 10.3% in line with 2011. Service sector growth declined to 4.6% from 8.6% in 2011. This was partly due to a slow-down in import trade as a result of restrictive policy measures. Though the agricultural sector grew by 5.1% compared to 1.5% in 2011, its share of the GDP declined further to a mere 11%. The Central Bank forecast the Sri Lankan economy to grow by 7.5% in 2013. Highlighting the Annual Roadmap, the Central Bank Governor indicated that Sri Lanka was likely to achieve US\$ 1.5 bn FDI in 2013. The actual FDI for the first nine months of 2012 was US\$ 614 mn, compared to the target of US\$ 1.2 bn for 2012.

Inflation declined to 7.5% in March 2013 after hitting highs of 9.8% in January and February. The Sri Lankan rupee remained unchanged at the end of the quarter compared to the beginning. During 2012, the country’s external assets increased by 15% to US\$ 6.8 bn. The trade balance improved by 4.1% to a deficit of US\$ 9.3 bn. The country’s total exports dropped by 7.4% in 2012 in US\$ terms, though in local currency terms import revenue increased by 6.7%. Imports also declined by 5.8% in US\$ terms. Net worker remittances up to September 2012 saw an increase of 14.4% to US\$ 3.9 bn. For the first nine months, the overall BOP was US\$ 269 mn.

Despite a relaxation of monetary policy in December 2012, credit growth declined further to 15.5% in January 2013 (from 17.6% in December 2012). The credit growth in 2012 was intentionally curbed to cool down the economy. According to the Central Bank, private sector credit is expected to pick up during the coming months as interest rates ease. Currently 3 month Treasuries are yielding around 10% and the 3 month interbank rate is around 12.5%

The latest employment data show that unemployment in Sri Lanka (as at the end of the second quarter of 2012) has declined to 3.8% - the lowest rate recorded during the past few years. However, the data show that unemployment among educated females is 11.7%, more than double the rate of unemployment among educated males (5.5%).

The economy grew by 6.4% in 2012.
Industry grew by 10%,
Agriculture grew by 5.1% and
Service sector growth was 4.6%

CAPITAL MARKET NEWS

**Increase in debt issues
and changes in several
stock broking firm
ownership**

The Colombo Stock Exchange's ("CSE") activity improved marginally during the quarter. The main All Share Price index increased by a marginal 1.6% during the 1Q 2013, and the quarter saw net foreign buying amounting to approx US\$ 23 mn. The daily market turnover was around US\$ 8 mn compared to around US\$ 7 mn recorded in FY 2012. **CSE's quarter end market cap stood at US\$ 17.5 bn.** Prices remained sticky due to high interest rates and also due to company earnings expecting to remain flat for the FY 2012/13.

Although the IPO market dried down during the last two quarters, the CSE saw an increase in debt issues. **There were 3 debt issues worth approx US\$ 36 mn during the quarter** (Commercial Credit and Finance PLC, Seylan Bank PLC and Merchant Bank of Ceylon PLC) **and 4 more corporate debt issues amounting to US\$ 94 million were announced during the quarter** (Central Finance PLC, Lion Brewery PLC, People's Leasing and Finance PLC., Softlogic Holdings PLC.). Most of the debt issued during last two quarters had attractive rates of around 15 – 16%. There were 6 debt issues worth around US\$ 55 million during FY 2012.

The National Savings Bank and Bank of Ceylon, two state owned banks, announced plans to raise US\$ 1.5 bn debt from the international market. Many commercial banks have been seen tapping international debt markets during the last few quarters as per the directions given by the Central Bank. During 1Q 2013, DFCC bank raised US\$ 45 mn and announced that a further US\$ 250 mn would be raised later this year. Sampath Bank PLC also raised debt worth US\$ 165 mn within this quarter. Dialog Axiata PLC, a unit of the Axiata Group of Malaysia, announced that it will issue Islamic bonds worth US\$388 mn in Malaysia.

During the quarter, ownership of two stock broking firms changed hands. Capital Holdings PLC, a financial services firm, acquired **DNH Financial** for approx. US\$ 1.4 mn. Stock market investor Nimal Perera and his associated company- Royal Ceramics PLC- bought a controlling stake in **New World Securities**, a stock broking firm hitherto controlled by a group of Japanese investors. Another stock broking firm that is also expected to change hands soon is **Heraymila Securities**, currently owned by the Middle Eastern family investment office of Abdulaziz Al Mashaal. Many new entrants to the stock broking business during the bull run in 2009-10 were badly affected as the market corrected in 2011 – 12.

OTHER HIGHLIGHTS

Sri Lanka's second International Airport commenced operations in March. The newly opened Mattala Rajapakse International Airport is located in the south of the country and is initially geared to handle up to 1 million passengers and 30,000 aircraft movements annually. The government is offering many incentives to industries to relocate or start businesses closer to the newly opened Airport.

Dialog Axiata, the country's largest mobile operator, launched 4-G commercial operations after buying 10 MHz of the 1800 LTE spectrum for US\$ 28 mn. This is the first time that 4-G commercial services have been launched in South Asia.

Tourist arrivals in January were up by 13.4%, compared to the 15.7% growth recorded in January last year. Steady growth in arrivals is a good indication that Sri Lanka will achieve the target growth rate of 25% for 2013 after growing by 17.5% in 2012.

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