

JUPITER CAPITAL PARTNERS

Sri Lanka Private Equity Market Newsletter

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PRIVATE EQUITY NEWS

Investment/ deal news in April

Blue Ocean Ventures acquired a 68.2% stake in Sunshine Travels and Tours. Sunshine Travels is a travel services firm fully owned by **Sunshine holdings PLC** previously. After this deal, Sunshine Holdings will continue to own 24.8% while employees will own 7%. The **announcement** from Sunshine Holdings did not disclose the value of investment, but stated this divestment as a part of group's strategy to focus on core business activities. Blue Ocean Ventures is a venture fund investing in early stage/small companies. This is their third investment in the travel and leisure services sector. According to Sunshine Holdings' stock exchange filings, for the FY 2012/13, Sunshine Travels turnover grew by 51% to US\$363,517 but lost US\$ 39,413 compared to US\$ 20,676 profit earned last year. **Aureos Capital**, an emerging markets PE firm, invested US\$ 4.75 million in Sunshine Holdings in 2008.

CT Holdings PLC sold its 80.4% stake in Lanka Ceramics PLC to a consortium led by Lanka Ceramics PLC, a company controlled by the investment firm **Vallibel One PLC** for US\$ 22.8 million. According to reports, Royal Ceramics is expected to reduce its stake in Lanka Ceramics to 51% as **Mr. A. A. Page**, Chairman of Lanka Ceramics (and also a major shareholder of seller firm - CT Holdings) is expected to raise his personal stake in Lanka Ceramics to 30% as part of the deal. Lanka Ceramics also owns businesses in aluminum fabrication, packaging and plantations. CT Holdings is expected to use proceeds of this sale to fund its new commercial banking venture. This M&A deal results in concentration of local tiles/bathware manufacturing and aluminum fabrication businesses within two related business groups – both controlled by **Dhammika Perera**. For the nine months ended in December 2012, Lanka Ceramics recorded a 22% increase in revenue to US\$ 70 million but profits (attributable to shareholders) dropped 39% to US\$ 1.28 million (Group EBITDA was US\$ 10.6 million)

Hemas Holdings PLC acquired J. L. Morrisons and Sons PLC, a FMCG and pharmaceutical company. Hemas who is also a leading player in the FMCG businesses paid US\$ 13.5 million to buy a 71% voting stock and 51% of non-voting stock of the company and will offer to buy remaining shareholders. Price of Morrisons' have risen almost 100% during May amid speculation of a potential M&A deal. For the FY 2012/13 Morrisons' turnover was up by 3% to US\$ 24 million and bottom-line and EBITDA dropped by 26% to US\$ 1.27 million and US\$ 1.38 million respectively.

Anilana Resorts and Properties Ltd to raise upto US\$ 7.6 million through an IPO in June. Anilana resorts has two new beach resorts in the east coast (one still under construction) and a retreat in a central hill station. In addition company owns a landbank for future hotel developments (mainly in the east coast). Anilana was promoted by **Asanga Seneviratne** – an entrepreneur, and has already raised US\$ 7.9 in a private placement in 2011 by offering a 40% stake in the company. Several local and foreign institutional and PE investors have invested in the private placement.

Two M&A deals during the month highlight M&A led growth strategies adopted by many domestic-market focused businesses.

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PE Fund/ Fund Manager Updates

Only two foreign PE firms operated in Sri Lanka have scaled down their operations in Sri Lanka. Both **LR Global** and **Abraaj Group** (former **Aureos Capital**) have closed their offices and now operating through nominal representation. Aureos Capital (before they were acquired by Abraaj) announced a new India Fund in 2011 (which had an allocation for Sri Lanka) and LR Global launched a Sri Lanka Fund in 2011 for which IFC committed US\$ 10 million. Both Companies have several existing investments in the country, but did not announce any new investments during the last two years.

However, **Calamander Capital** who led an unsuccessful attempt to set-up a Sri Lanka Fund in 2009, has made progress in both early stage investing and in the buyout market. They have closed four early stage deals and two buyouts during last two years.

DEVELOPMENT, BUSINESS, AND INVESTMENT HEADLINES

US\$ 218 mn worth of FDI inflow during Q1 2013. According to the Minister of Investment Promotion, there have been 144 investments in ventures/projects less than US\$ 1 million (in size) and 37 investments projects more than US\$ 1 million.

Sri Lanka to spend about US\$ 53 billion for infrastructure. A recent study by Global InfraSys/Asia Consulting has estimated between 2011 – 2020 Sri Lanka will invest about US\$ 18.1 billion for roads US\$ 8.7 billion to develop ports, US\$ 5.9 billion to develop aviation infrastructure and US\$ 4.1 billion to develop railways. Most of these projects are foreign funded either on commercial loans or concessionary bilateral loans. Further HSBC in a latest report titled “*Bridging the gap*” US\$ 1 trillion in urban infrastructure” has included **Sri Lanka along with China and Malaysia as the next “take off economies”** The report has highlighted that Sri Lanka ranks higher than other peers in infrastructure development (index) and also observes that urbanization has declined during post war period. In related news, government announced this month, fresh borrowings amounting to US\$ 2.2 billion from China to fund government’s infrastructure drive. China has already funded country’s second International Airport and port located in south of the country.

Cinnovation Group to build a US\$ 75 million cement plant. The business group owned by Nepalese billionaire Binod Chaudhary has closed a deal to invest in a 600,000 MT capacity cement plant in northern Sri Lanka. Cinnovation already have several investments in the hotel sector with estimated value of over US\$ 200 million.

Abans Group and Singapore’s Silveneedle Hospitality Group to build a US\$ 100 million luxury lifestyle mall. The mall will also have a 200 room hotel. Earlier privately held Abans Group secured a state owned prime water front land in Colombo for this project. Abans group, whose main business include electronics retailing, announced a US\$ 40 mn PE deal with Standard Chartered Private Equity last year.

Lanka Hospitals PLC announced a US\$ 6.7 million investment to expand diagnostics services. Many privately run hospitals are increasing their diagnostic capabilities amid growing non-communicable disease patterns. Lanka Hospital is majority owned by state owned Sri Lanka Insurance Corporation and India’s Fortis also has a 29% stake.

Growth in infrastructure spending attracting investments into businesses like cement manufacturing.

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Dialog Broadband Ltd. acquired Sky Television and Radio Networks (Pvt) Ltd for US\$ 6.3 million. Dialog Broadband, is a subsidiary of Dialog Axiata PLC and will expand its high speed LTE data communication services using Sky Televisions' (2.3 GHz) spectrum.

Coco Agro (Pvt) Ltd to build a US\$ 2.6 million hotel. The coir-based products manufacturing firm will build a 4-star 'eco-friendly' hotel close to main Airport. Hotel will have large conference facility.

FINANCIAL MARKETS

Stock market gained by 8.6% for the month and 14.5% for the year. Healthy level of foreign inflow and daily market activity were witnessed during the month. Average daily activity was US\$ 10.7 million while the month end capitalization stood at US\$ 22 billion. There was a net foreign inflow of US\$ 38.7 million for the month (US\$ 108.3 cumulative for the year)

Sri Lankan government issued 30 - year bonds for the first time. The first US\$ 23.7 million issue which carried 9% coupon rate was sold at a 12.5% yield. Decision to issue 30 year old bonds was highly welcomed by debt dealers and investors and traders expect a good demand from foreign investors as well for the issue (Currently there is a 12.5% ceiling on foreign bond holding).

Month end 3-month T-bill rate was 9.18%. Average weighted commercial bank prime lending rate was 12.75% while weighted deposit rate stood at 13.9%.

Sri Lankan rupee ended the month at Rs 124.99 – 128.08 against US\$ which is a marginal 0.2% gain against the US\$.

The Securities and Exchange Commission and Monetary Board have approved that investment in mutual funds which are investing in government debt as liquid assets. This move allows retirement funds and pension funds to be invested in open end mutual funds. Government has been providing many incentives to mutual funds/unit trust industry to channel more private savings into capital market.

Colombo bourse gained by 8.6% for the month - 14.5% gain for the year.

ECONOMY HIGHLIGHTS

Change in policy rates

Central Bank reduced its policy rates by 0.5% amid warning by IMF of possible inflationary pressure. Accordingly the new repurchase and reverse repurchase rates will be 7% and 9% respectively. Last revision of policy rates was in December 2012 with a 0.25% cut. Sri Lanka raised interest rates and imposed measures to curtail (some) imports in 2011/2012 to overcome deteriorating BOP. These measures were partly responsible for slowdown in growth and also lackluster performance of the equity market (in 2012).

Inflation accelerated to 7.3% in May from 6.4% month year earlier (YoY), but average annual inflation remained at 8.8%. Increase was partly due to electricity tariff hike.

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Slow down in private sector credit indicate slow growth of investment activities by the private sector.

Ballooning state borrowing

During first three months of 2013, private sector credit growth was US\$ 294 million while credit to government expanded by US\$ 1.4 billion. By end March, net credit to government (including central bank credit) was up 18.5% (YoY) to US\$ 9.3 billion and credit to private sector grew by 10.9% US\$ 18.9 billion.

External position improved during the first two months of 2013. Exports were down by 10.7% to US\$ 1,526 million while imports also fell 15.6% to US\$ 2,951. Trade gap narrowed to US\$ 1,424 for the first two months of 2013 compared to US\$ 1,786.5 in 2012.

Cumulative tourist arrivals for the first four months of 2013 increased by 11.6% to 368,627 while earnings from tourism grew at a faster rate of 20.5% to US\$ 107.2 million in January.

Note: All figures mentioned in the report are converted into US\$ using the mid month end rate of Rs 126/51, except where figures are provided in US\$ at source.

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