

## **SRI LANKAN BUSINESSES ADJUST FOR SURVIVAL AND GROWTH WITH HIGH EXPECTATIONS ON ECONOMIC STABILITY**

**BY**

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With the gradual improvement of the security and safety situation, arrival of foreign visitors to Sri Lanka has increased by 28% in July 2009 compared to the corresponding period of the previous year. The numbers from Western Europe (mainly Germany, United Kingdom and Netherlands) and South Asia have shown sharp increases. According to the Minister of Tourism Promotions, special promotional plans are underway targeting the Indian, Middle East, Russian & Chinese markets to achieve an arrival target of one million in 2010/2011. The private sector has also taken steps to exploit emerging opportunities. For example Aitken Spence, one of Sri Lanka's top hotel firms, has resumed talks with Six Senses Spas, an international spa chain, on building an up-market resort on the south-west coast near Ahungalla, a prime beach resort where it has two hotels and Trans Asia Hotel has been refurbished and rebranded as Cinnamon Lakeside Colombo.

There have been several other initiatives by business organizations including signing of an agreement by Suntel Ltd with Orient City - one of the largest IT parks under construction - to provide an advanced data communication solution, an investment of US \$10 Million by Dialog Telekom for the development of mobile telecommunication infrastructure in the Northern Province linking the war ravaged province with rest of the mobile network in the country, initial steps taken by the International Organisation for Migration (IOM), to establish eight rice processing centres in Batticaloa district through a project funded by the Australian Government's AusAID programme, and setting up of two state-of-the-art chilling centres in Trincomalee district by Nestle Lanka directly benefiting the local rural communities. According to the Ceylon Chamber of Commerce, a 40-member Japanese trade and investment mission is also due to visit Sri Lanka in November 2009 in order to promote trade, investment, tourism and services between the two countries. Members of the mission during their visit will take part in the Japan - Sri Lanka Business Co-operation Committee meeting scheduled to be held during November 18-20, 2009.

The decline of garment exports from Sri Lanka which was 22.23% during the month of May 2009 compared to the corresponding period in 2008, has slowed down to 5.6% (US\$ 237.8 million) during June 2009 on the same basis of comparison. Total exports from Sri Lanka which showed a decline of 27.8% in May 2009 compared to May 2008, has also slowed down to 13.7% in June 2009. In addition, some of the Sri Lankan companies have been able to successfully exploit business opportunities in foreign countries. HVA Group, producers of the 'Heladiv' tea brand, has opened three exclusive tea boutiques in the Fujian Province and Beijing in China. The Beijing Pure Ceylon Tea Company of the Huichen Group, the joint venture partner is one of the leading industrial and construction giants in China with businesses around the world. According to a communication of MTD Walkers, the 150 year old firm long associated with the island's tea industry which is now controlled by a

Malaysian construction group has intensified its export operations to Vietnam and Rwanda. The company has also planned to penetrate the Indonesian market and is working towards obtaining sizeable orders. SriLankan Engineering has recently carried out two major projects on two Airbus aircrafts of Air Blue, further strengthening its business relationship with the Pakistani airline.

Another significant indicator of the improved confidence level of the international community in the business environment in Sri Lanka is the recent ranking carried out by the consulting giant, A.T. Kearney which is known as "Global Services Location Index (GSLI)" where Sri Lanka has risen to 16th position from 29th position it occupied in 2007. The Global Services Location Index (GSLI), first established in 2004, analyzes and ranks top 50 countries worldwide as destinations for providing outsourcing services, including IT services and support, contact centres, and back-office support. Each country's score is composed of a weighted combination of relative scores on 43 measurements, which are grouped into three categories: financial attractiveness, people skills and ability and business environment.

\However financial results of a number of leading companies during the first quarter of 2009/10 financial year (April-June, 2009) have remained poor indicating that the period between the military success and termination of war in mid May 2009 and now has been too short for businesses to recover. Diesel and Motor Engineering Company (DIMO) has made a 51 million rupee net loss for the quarter ended June 2009 due to weak sales in motor vehicles, construction machinery and lighting equipment. Singer (Sri Lanka) PLC Group's net profit and revenue for the same period have declined substantially. Aitken Spence PLC, the diversified conglomerate has recorded a profit of Rs 433.7 million, a decline of 22.3% for the three months ended 30th June 2009 compared to the same period during 2008. Declining turnover across all segments has resulted in significantly lower profits for the Distilleries Company of Sri Lanka (DCSL), despite lower cost of sales and administrative expenses. According to the financial statements of the company, the consolidated net profit for the three months ended 30th June 2009 fell by 54.88% to Rs.565 million from a net profit of Rs.1.2 billion for the corresponding period last year. Turnover also has decreased by 39.51% to Rs.9.7 billion from Rs.16 billion in 2008. This privatized company has reverted to the state on a court decision. Dialog Telekom, a unit of Malaysia's Axiata and the island's leading mobile telephone operator has lost 7.6 billion rupees in the June 2009 quarter. United Motors Lanka (UMLL) has also recorded a 132 million-rupee loss in the June 2009 quarter as sales have almost halved owing to weak orders from

Government ministries and the private sector. The national carrier, Sri Lankan Airlines, is struggling to recover from a serious financial crisis. "From this July onwards we suspended all staff increments, bonuses, inducements and allowances and 90% of the unions agree with these measures," Manoj Gunawardena, CEO, Sri Lankan Airlines has told the press recently. Sri Lanka's oldest finance company-The Finance Company- a unit of the troubled Ceylinco group, has lost 693 million rupees in the quarter ended June 2009 as net interest income remained negative and loan loss provisions continued to rise. This company had made a net profit of 45 million rupees in the same quarter a year ago.

According to a study carried out by the Employers Federation of Sri Lanka (EFC), local companies have adopted a range of 'manpower restructuring' methods to adjust to global recession impacts. These include outright termination of workers and voluntary retirement schemes (VRS), and the use of less drastic methods like temporary layoffs, wage freezes and recruitment freezes. The survey conducted by the EFC from March to June of this year, targeting 135 EFC member companies has identified various mechanisms used which indicates that the overall preference has been to retain workers, because large shedding can make a company leaner but not necessarily healthier, according to the Director General of the EFC, Ravi Peiris. Many companies have opted to control operating costs by stopping new recruitment (60%) and a few (15.5%) have stopped wage increases in 2009. Only five companies have applied to the Labour Department in 2009 so far to terminate workers. However, there are companies looking into temporary worker layoffs as an alternative to termination. Already four companies have opted for temporary layoffs.

Media Services has recently released the widely acclaimed 'Most Respected' entities rankings according to which the Commercial Bank has emerged as "the number 1" beating long-time favourite John Keels Holdings (JKH) this year. The top 20 companies, in the descending order are, Commercial Bank, JKH, Dialog, Hayleys, Unilever Ceylon, Hatton National Bank, MAS, Sampath Bank, HSBC, Aitken Spence, Sri Lanka Telecom, Cargills, Brandix, Mobitel, Singer, Nations Trust Bank, Hemas, Distilleries, Eagle Insurance and Nestle. In another competition, Renuka Agrifoods, a Sri Lankan exporter of value-added agro-based products, was named the Overall National Winner (Gold Award) at the recent National Agribusiness Awards 2009. This award ceremony was organized by the National Agribusiness Council, an umbrella group of 20 trade associations representing the agribusiness sector of the country. The Sri Lanka unit of Standard Chartered Bank has retained its 'AAA (Ika)' rating from Fitch, but the agency said its capital was hurt by a bad loan originating from oil derivative sales to a state-run oil distributor. The Ceylon Chamber of Commerce in its continuing effort to promote Corporate Social Responsibility (CSR) within the business community has announced the "Best Corporate Citizen Award 2009," which will be held in December, 2009.

There have also been a number of major changes in the business sector during the period under review. These include changes in top management, mergers and acquisitions. The board of directors of Lanka Hospitals Corporation (LHC), led by business tycoon Harry Jayewardene, was dissolved by its holding company, state-owned Sri Lanka Insurance Corporation (SLIC) and a new board of directors was appointed in its place which includes Defence Secretary Gotabaya Rajapaksa. The other directors include, Pradeep Kariyawasam, Dr. Nalaka Godahewa, Dr. S. S. L. Perera, Dr. Ajith Amarasinghe, Asoka Nissanka Pathirane, and Brig. Dr. Sanjeewa Heman Munasinghe. The Nations Trust Bank, a unit of John Keels Holdings has shaken up the top management of the bank shortly after an 800 million rupee foreign exchange loss was discovered. Accordingly the Chief Executive Officer Zulfiqar Zavahir has retired and Saliya Rajakaruna, retiring Chief Financial Officer of Bank of Ceylon has been appointed as the successor. In addition the Deputy Chief Executive Iftikar Ahamed has resigned and the Chief Treasury Manager has also ceased to function. In another development, the National Development Bank (NDB) is seriously considering a merger with Commercial Bank. The acquisition of a big stake in Sri Lanka Telecom, the island's dominant

fixed-line operator, by Malaysia's Global Telecommunications Holdings NV has been nominated for a global mergers and acquisition award. The nomination has been made under the Media, Entertainment or Telecom Deal of the Year category of the awards by M&A Advisor. Global Telecommunications Holding N.V, a Netherlands-based firm that is a unit of Malaysia's UT group, bought a 35.19 percent stake in Sri Lanka Telecom in 2008 at 50.50 rupees a share.