

SRI LANKAN BUSINESSES ADJUST FOR SURVIVAL AND GROWTH

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Despite the termination of the war with the military victory in mid May 2009, no significant improvement could be seen in the difficult conditions under which businesses had to operate. For example, financial results released by Hayleys MGT - a leading Sri Lankan fabric maker- for the period from April to June 2009 show that both their turnover and the net profit have reduced by 21% and 15% respectively. This has been attributed mainly to price reductions and high finance costs. John Keels hotels have announced that their losses for the same quarter amounted to 150 million rupees as tourist arrivals slumped.

There are several other indicators also illustrating the impact of difficult economic conditions on business. As per the Central Bank of Sri Lanka, auto diesel and kerosene sales in the first four months of the year have declined by 5.7% (to 566,000 metric tons) and 7.5% (to 49,000 metric tons) respectively compared to the same period last year. Motor vehicle sales in the first four months of the year declined by 32.3% (to 61,346 units). However, petrol sales for the same period has increased by 1.7% (to 179,000 metric tons). The decline in cement consumption during the first four months of the year has been 15.9% (to 1,001,000 metric tons). Electricity sales to industries also have declined by 12.6% (to 597 GWH) in the first quarter of the year compared to the previous year. At the ports transshipment container handling in the first four months of the year has declined by 8.8% (to 793,556 t.e.u.s) in comparison to the previous year. Similarly domestic container traffic in the first four month of the year has declined by 15.9% (to 230,588 t.e.u.s).

Sri Lankan stocks which suddenly rose soon after the war ended continued to drop as the investors stayed on the sidelines waiting for the market to settle down. Stock market analysts are of the opinion that the foreign investors await a clearer direction on the security situation, how the government will progress with infrastructure development and business services and the consequences of the International Monetary Fund (IMF) loan. According to some stockbrokers foreign investors show concern over currency stabilization and the confidence factor.

In this context several initiatives have been taken both by the government and the private sector to set up mechanisms in the northern and eastern parts of the country to foster a peaceful and stable environment that is conducive for business and the economy to flourish. Sri

Lankan air force has started domestic commercial flights to these areas using aircrafts which were used for regular transport missions of the soldiers during the war. Charter flights are also on offer to tourist destinations and other towns in the island using helicopters and light fixed-wing transport aircrafts. Another private company also offers helicopter charter flights that are said to be in demand by businessmen wanting to visit potential investment sites in the north and east. According to Sri Lankan air force sources, an air force Bell-206 four-seater helicopter can be hired for 955 dollars an hour, a Bell-412 eight-seater for 2,334 dollars an hour, and the larger Mi-17 which can take about a dozen passengers for 2,830 dollars an hour. A 15-seater Y-12 light transport fixed wing aircraft can be chartered for 1,029 dollars an hour.

The Board of Investment of Sri Lanka (BOI) has given priority to open up a branch office in the Jaffna peninsula. This office is expected to expedite their development plans for the Northern areas. The BOI has had discussions with the investors on various schemes to develop private schools particularly a medical college, universities and hospitals in the previously conflict-affected areas. They will also promote agricultural and fisheries Projects. In addition BOI will encourage the Tamil Diaspora to invest in Jaffna particularly in real estate development and the construction of apartments and housing complexes which could also be used by them as their second homes. Delegations from business chambers, associations and organizations have also visited the north and held discussions with senior officials of the government and the private sector organizations aiming at promoting business in the those areas. A wide range of investment opportunities have emerged in the north and east including rebuilding transport infra structure much of which was destroyed or neglected due to war. There are opportunities to create facilities to link farmers and factories in the northern and eastern areas with markets elsewhere in the island. Areas for investment include private-public partnerships such as setting up of cold storage facilities to store and process fish, vegetables and fruits.

Amidst this situation several Sri Lankan business organizations have successfully exploited business opportunities in other countries. For example, Chevron Lubricants Lanka PLC recently felicitated its Bangladeshi distributor, the Navana Group, on completing three years of successful operations and achieving a record 80% growth in the lubricant market in Bangladesh during the last year. The Elephant House which is now a part of John Keels Holdings Group has disclosed that its ice cream sales in the Maldives had grown strongly to give it a 48% share of that market. A leading organization of the hospitality industry, Jetwing Leisure Group is expanding abroad, building links with foreign partners, including Nepal's Chaudhary conglomerate. The Chaudhary Group is also investing in Sri Lanka. Through its unit Cinnovation, it has already acquired a 50 % stake in Royal Heritage Hotel, which owns the Jetwing nature reserve 'Vil Uyana' and a 49 % stake in Seashells Hotel. Sri Lanka's National Development Bank (NDB) has launched its Bangladesh joint venture investment bank, NDB Capital Limited, positioning the group to be able to expand in a bigger market. According to NDB Investment Bank (NDBIB), the group's investment bank in Sri Lanka, Bangladesh is a virgin market where professional investment banking services are currently not available.

Several ownership changes also took place in the Sri Lankan business sector during the month of July 2009. Tata Group of India has acquired 51% control of Sri Lanka's Dutch Lanka Trailers (DLT), for 8.67 million US dollars (997 million rupees). TRF Ltd- a Tata unit - in a Bombay stock exchange filing has announced that it has the option to acquire the balance 49% of Dutch Lanka Trailers for 8.33 million US dollars. Kshatriya Holdings PLC has informed the Colombo Stock Exchange that 9.4 million shares of Kotmale Holdings PLC (29.94% of its voting rights) have been acquired by First Capital Holding PLC (a Kshatriya Holdings subsidiary) for Rs. 206.8 million. This transaction has been carried out at Rs. 22 a share. Sri Lanka's Ceylinco Finance, part of the troubled Ceylinco Group, has made an announcement that it has decided to sell its stock broking subsidiary, Ceylinco Stock Brokers where they own a 73% stake. In a stock exchange filing, this company has disclosed that E-W Information Systems Ltd and B P De Silva Holdings as their prospective buyers. The sale is subject to the approval of the Colombo Stock Exchange. Eagle Insurance recently informed the Colombo Stock Exchange that it has recently concluded the transfer of its 100% shareholding of five million shares comprising the entirety of the issued share capital of Eagle NDB Fund Management Company Ltd. (ENDB) for the price of Rs. 29.55 for each share of ENDB in such proportions where Capital Development & Investment Company PLC acquired 16.15% of the direct holding of the issued share capital of ENDB and Aviva NDB Finance Lanka Pvt. Ltd., the direct holding of 83.85% of ENDB. Millicom International Cellular, the parent of Sri Lanka's Tigo celco, would complete the sale of its Asian operations by the first quarter of 2010, chief executive Mikael Grahne has announced. As per a media report Axiata- the parent of Dialog Telekom- may offer 200 million US dollars for the Sri Lankan unit of Millicom International Cellular. This report has quoted Millicom chief financial officer Francois-Xavier Roger as saying that the group is considering selling Sri Lanka operations together or separately with Cambodia and Laos. People's Leasing Company Ltd. (P.L.C.) has informed the Colombo Stock Exchange after its recent acquisition of an 84.5% stake in the voting shares of Seylan Merchant Leasing PLC (S.M.L.), that it has made a mandatory offer to buy its remaining shares at Rs. 23 a share, which is the highest price paid by P.L.C to acquire S.M.L.'s shares, as per the Takeovers and Mergers Code.

In additions to above ownership transfers, several alliances were also formed by some Sri Lankan business organizations during July 2009. Sampath Bank has joined forces with DFCC Vardhana Bank, to offer more comprehensive ATM network facilities with wider location coverage in the island for their customers. The combined set up of DFCC-Sampath ATM network comprises over 212 ATM points spread across the island, providing customers to access their savings and current accounts with more ease. MoneyGram spread its tentacles in Sri Lanka consequent to Pan Asia Bank network teaming up with Hatton National Bank (HNB) to launch MoneyGram remittance services. An agreement to this effect was signed in Colombo at

HNB Towers recently, a press release said. Sampath Bank PLC and Eagle Insurance PLC have renewed their bancassurance partnership facilitating greater benefits and convenience to their customers. Eagle Insurance PLC is backed by the strength of Aviva - a global giant in the insurance industry and NDB Bank in Sri Lanka. The partnership offers Sampath Bank customers the convenience of accessing General and Life Insurance products of Eagle Insurance via over 116 Sampath Bank branches islandwide. This will give them access to a range of insurance solutions for their investment.

There were also leadership changes in two leading business organizations in Sri Lanka. Citibank Sri Lanka's former CEO Dennis Hussey has been replaced by Glen Robert Rase to oversee local operations of the Bank, following a rocky tenure by Mr. Hussey over the oil hedging issue. Banking industry sources said Mr. Hussey was transferred to Japan last month in a non-CEO position after serving in Colombo for about 18 months. Mohan Pandithage assumed duties as Chairman & Chief Executive of Hayleys PLC. Having joined the Group in 1969 as a Management Trainee, he has progressed to head Hayleys in a long and successful career of 40 years. He headed the Transportation Sector of the Group for over 30 years and is responsible for its growth and development during that time.

Sri Lankan coconut cultivators have demanded that they be allowed to sell their land as coconut growing has become unprofitable due to falling nut prices. Parakrama Jayatilleke, Chairman of the Coconut Growers Association, said the low price of nuts and high costs, especially of fertilizer, had thrown cultivators into great difficulty. If coconut cultivators were not able to make a profit out of their small plots of coconut trees they should be allowed to sell their lands, he has said at the association's recent annual general meeting.

During the period under review, several Sri Lankan business organizations received special recognition for their achievements. The Commercial Bank of Ceylon has been adjudged Sri Lanka's 'Best Bank' by Hong Kong based 'FinanceAsia,' one of the most eminent financial publications in the Region. The Sri Lanka office of Leo Burnett Solutions Inc. (LBSI), won a bronze at the recently concluded Asian Marketing Effectiveness Festival, according to a press release issued by this advertising agency. Sri Lanka's fashion retail inspiration ODEL has won international acclaim with its flagship at Alexandra Place being adjudged the Best Retail Development outlet in the country at the 2009 Asia Pacific Commercial Property Awards.

An innovative plan of a Sri Lankan company, mostly appealing to those interested in buying a vehicle and run it below current market rates, is cited here to conclude this review. Diesel and Motor Engineering Company PLC (DIMO) plans to market a "low cost" diesel powered six seater vehicle assembled locally at their plant in Weliveriya. A proto-type of this vehicle has been

already donated to the Sri Lanka Transport Board at the beginning of the year. Fuel efficiency of this vehicle is estimated to be around 18-20 kilometers per litre of diesel.