

RAY OF HOPE FOR BUSINESS RECOVERY

BY

ANANDA JAYAWARDANE

Corporate financial results for the previous financial year announced during the month of June 2009 reflect adverse effects of turbulent and volatile business environment on certain companies.

Profit for the year ended 31st March 2009 of Hayleys PLC, the business conglomerate involved in a diverse range of businesses, has dropped by 26% to Rs.803 million from Rs.1.08 billion during the corresponding period in the previous year despite the increase in the gross turn over to Rs. 32b. from Rs. 30b. in 2008. Dipped Products, the rubber gloves manufacturing subsidiary of the Hayleys has announced that its profits fell by 2% in the 2008-09 financial year as high costs eroded margins and recession hit sales but the turnaround of its Thai medical gloves unit augured well for the future. Associated Motorways PLC (AMW) which is a well known automobile company in Sri Lanka which is almost totally owned by the Al-Futtaim group of Dubai, has posted its first loss in ten years in the nine months ended December 31, 2008 with a negative bottom line of Rs.79m., down from a profit of Rs.427.5m. during the full year ended March 31, 2008. Another business giant - Hemas Holdings - has announced that their net profit fell by 31.7% to Rs 775m. in the 2008-09 financial year.

However, under similar unfavourable external conditions certain other companies with strategic advantages have been able to generate acceptable financial results. For example, the well known diverse business group Aitken Spence Group has announced that their net profit in the year ended March 2009 has risen by 10.8% to Rs. 2.0b. from a year ago despite difficulties caused by the global economic crisis. The company has made a statement that its maritime transport, logistics, power, printing and inward remittances businesses did well during the year, but returns from plantations and garments were below expectations while its tourism profits fell as arrivals slumped. Sri Lanka's Carson group said that their net profit for the year ended March 31, 2009 has increased by 22% to two billion rupees

from a year ago while revenue has increased by 10% to Rs 16.8b. Haycarb PLC, the world's biggest producer of activated carbon derived from coconut shell charcoal, has successfully concluded the year ended March 31, 2009 by increasing group turnover by 8% and profit after tax by 23% .

As discussed in the reviews for April and May 2009, the financial sector also has performed well during this period. Despite the uncertainty in the country's financial sector during the last quarter of the financial year, Central Finance Company PLC has continued to demonstrate encouraging results. During the three months ended in March 2009, the Company maintained a steady growth in income as deposits continued to increase and profit before tax was recorded to be higher than the corresponding period in the previous year. ICICI Bank's Sri Lanka branch operations recorded a profit before tax of Rs.312m. for the financial year ended March 31, 2009, reflecting a growth of 54% over the previous year's profit before tax of Rs. 201m. Financial giant LB Finance recently posted financial figures for 2008/09 disclosing a remarkable increase in both revenue and profits amidst difficulties in the macroeconomic environment. The company recorded a creditable net profit of Rs.360m. - the highest profit made during its 38 year history, a 75% increase from last year's Rs.206m and a revenue growth of 29.1% to Rs.3,580m. Vallibel Finance's gross interest income of Rs.119m. in financial year 2007/08 grew by an impressive Rs.357 m., which is a 198% increase. Company gross profits too followed course, recording a Rs.146m. growth, up by 164% over last year's profit of Rs.55.6m.

The unfavourable conditions for non-financial business in general, have adversely affected employment of the country. Sri Lanka's industrial sector has lost 96,000 jobs in the first quarter of 2009 with the apparel workers losing 60,000 jobs and construction workers losing 36,000 jobs, according to a government survey. Earnings of the apparel sector declined by 10.1% year on year to US\$ 227m. in April 2009. Despite industry confidence expressed of having confirmed orders, some orders were cancelled or postponed amidst uncertainties about the strength and duration of the global economic downturn. According to the Central Bank the demand from E.U. declined by 17.6% to US\$ 103m. while demand from U.S.A. picked up by 4.4% to US\$ 103m. in April 2009. Cumulative export earnings declined by 16.2% to US\$ 2,085m. Sri Lankan Airlines, on top of the one year voluntary no pay leave offered to its employees, has also made an offer to its senior management to take a day or two days pay cut a month. The company has some 5,000 employees.

While there are large scale job losses in Sri Lanka owing to the global financial crisis, there is also an acute shortage of workers. According to the Labour Ministry there is an acute labour shortage of 100,000 workers in the plantation sector. Similarly there are some 10,000 vacancies in the Free Trade Zones. This situation has arisen as large companies like MAS Holdings, Brandix, Dialog and Hayleys having downsized offering VRS (Voluntary Retirement Schemes) to top managers while not laying off other workers. The Employers Federation of Ceylon (EFC) began a survey in March of its 540 members to gather data on VRS, retrenchment, termination of employment and layoffs. Some of the preliminary findings from 129 responses received so far show that 614 employees had accepted the VRS and of this 352 (over 55%) were executives and above and the balance were supervisory grades and below. Also 50-60 % of the companies say they will not retrench workers but launch job rotation and job sharing schemes.

The Colombo stock market hit an eight-month high after the military announced victory over the Tiger rebels on May 18. However, this situation did not last long as investors took profits after the sharp rise of stocks in the euphoria that followed the military victory. In early June 2009 the Supreme Court declared that the privatization of Sri Lanka Insurance Corporation (SLIC) was illegal and ordered the shares to be returned to the government and refund the purchase price. The left-oriented politician who played a key role in successfully returning this business back into state hands through court action has made a public announcement that there are about 40 other privatizations that need to be re-examined and action can be filed in regard to at least a few of them. The share market was adversely affected with all these incidents and it remained flat during the month with marginal ups and downs.

The military victory has positively influenced various business sectors in Sri Lanka the results of which are yet to be seen. While the war was progressing in favour of the government, people fleeing LTTE-held areas in the north have carried millions of rupees in cash and gold securely wrapped in 'pottanis' (cloth bundles on their head). These displaced people have deposited a total of Rs 390 million in the two mobile branches of the Bank of Ceylon and People's Bank, just two days after they opened. Subsequently several other banks have moved into these areas and deposits grew further.

Brandix, a top Sri Lankan apparel maker, is planning to boost production at a factory built in Batticaloa, a former war-torn area in the east of the island where ex-female Tiger combatants are also working. Their current production is 20,000 pieces and they want to push it up to 50,000 pieces. South Asia Gateway Terminals (SAGT), a container terminal in Colombo port in which John Keels Holdings has a major stake, has announced that volumes have recovered after falls in five consecutive months. It has handled 143,453 TEUs (Twenty foot Equivalent Units of boxes) in May 2009 which is a 1.3% increase compared to the last year. Air Asia, which has flown more than 65 million passengers on more than 122 routes in just 7 years, has enfolded Colombo in its network of destinations with flights between Colombo and Kuala Lumpur. Sri Lanka's tourism sector has launched campaigns to unblock tourist arrivals to the country during this winter - and to arrest the issue of adverse travel advisories. "The travel advisory by Australia has been reduced in severity. Other countries will also follow," the President of the Tourist Hotels Association of Sri Lanka, Srilal Miththapala has announced to the newspapers. The Sri Lankan government has approved a proposal by an Indian company to set up a four-star hotel and convention centre with an investment of 25 million US dollars. The proposed hotel would be set up on a three-acre block of land north of Colombo close to the international airport.

Amidst above developments several Sri Lankan companies have identified business opportunities outside the country and have already initiated action. Sri Lankan glass manufacturer Piramal Glass Ceylon is aiming for a bigger share of the growing market for bottles in India with its specialty coloured glass making ability. According to Piramal Glass they have shipped last year 70% of its export volumes to India where it plans to strengthen its position as supplier of high value-added specialty bottles for boutique wines and colored liquor bottles. It exports glass bottles to India duty free under a free trade pact between the two countries. Haycarb PLC is exploring a more proactive presence in other manufacturing markets such as India, Thailand, and Indonesia. According to senior sources they are planning to set up a manufacturing plant in India. They also plan to expand the capacity at their plant in Indonesia while in Thailand they will expand their plant in terms of processes. They see an opportunity in being close to countries such as Thailand, Indonesia and India where costs are escalating but have very sizeable local markets. Lion Brewery (Ceylon) PLC is looking at growing market opportunities in the Indian Sub-Continent following its investment in a joint

venture in India now operating four breweries in Maharashtra, Rajasthan, Himachal Pradesh and Kolkata.

As a concluding remark a thought provoking extract from the annual report of Ceylon Brewery PLC and its subsidiary Lion Brewery (Ceylon) PLC for 2008/2009 on "drunken culture" and "responsible alcohol culture" is reproduced below.

"The group remains committed in its effort to institute a responsible alcohol culture. Sri Lanka had for too long allowed proliferation of a drunken culture. Spirits have held a significant advantage over a standard lager on a 'kick-per-buck' basis, compelling consumers to choose hard alcohol over soft. The issue of overpricing, coupled with the lack of availability – distribution of beer is restricted by government to just 2% of the country's retail universe - has led to a flourishing illicit trade, which consumes over 90% of beverage alcohols produced."