

Calamander Group to Start Sri Lanka's First Private Equity Fund

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By Cherian Thomas

June 22 (Bloomberg) -- [Calamander Group Pte](#), a Singapore-based investment company, will create the first private equity fund focused on Sri Lanka, betting the nation's economy will prosper after the end of three decades of civil war.

Calamander plans to invest between \$50 million and \$75 million in the island nation's rubber, tea, timber, coconut, bank and ceramics businesses in the next 18 months, Managing Director [Roman Scott](#) said in a telephone interview on June 19. The fund aims to earn a return of as much as 35 percent, he said.

"It's not a big fund by world standards but for Sri Lanka you can actually do a lot of damage with that kind of money," Scott said. "There's a huge opportunity to do a lot."

Interest in Sri Lanka is growing after its military defeated the Tamil Tiger rebels last month, ending Asia's longest running civil war. Investor [Jim Rogers](#), who correctly predicted a commodity price rally in 1999, says he sees "wonderful opportunities" in Sri Lanka, while HSBC Private Bank says the country could become the "Hong Kong of India."

"The end of the war has greatly enhanced Sri Lanka's prospects," said Jan Zalewski, a London-based analyst at [IHS Global Insight](#), an economic forecasting company. "But the future depends upon the government's initiative to satisfactorily address the root causes of the conflict."

Calamander's Scott said the private equity market in Sri Lanka could grow to between \$1 billion and \$3 billion in five years provided the government gets its "economic and political policies right."

Tamil Defeat

Sri Lanka defeated the Liberation Tigers of Tamil Eelam on May 16 and ended their struggle for a separate homeland. President [Mahinda Rajapaksa](#) may still have to find a settlement to the separatist demands of the ethnic Tamils to secure lasting peace and build investor confidence, Zalewski said.

The final battles have left about 300,000 people displaced and living in more than 40 camps across the northern part of the country. [Rajapaksa](#) said last month he intends to resettle them in the region within 180 days.

Calamander is just starting to raise funds and is targeting high net worth individuals and institutions in Asia, particularly Indians and foreign investors in India, Scott said.

“Wealthy Indians understand the potential for Sri Lanka,” he said. “They get it because they see Sri Lanka as an economic extension of India. Effectively, Sri Lanka is part of a greater Indian economic zone.”

[Arjuna Mahendran](#), HSBC Private Bank’s chief investment strategist, says Sri Lanka could benefit from its proximity to India, just as Hong Kong profits from being a trade hub to China. Sri Lanka lies 31 kilometers (19 miles) south east of India, the world’s second-fastest-growing major economy.

Colombo Port

Seventy percent of the goods handled by the [Colombo port](#) are goods for import by India and that could increase because Indian ports don’t have enough depth, Mahendran said. Sri Lanka plans to quadruple capacity at the Colombo port in three years.

Scott said Calamander has already identified investments in Sri Lanka worth about \$40 million, mainly in rubber, banks and trading of commodities like coconut and tea. The fund has predominantly invested in real estate in London and Singapore and advised bank restructuring in Vietnam and the Philippines.

“The geopolitical risks are not half as bad as everybody thinks they are in the West,” Scott said. “So rather than waste our time trying to persuade people who have never been to Sri Lanka and never understood it, we are relying to tap resources in India.”

Companies and investors in India understand that the “trend growth rate in the long run for Sri Lanka should be about the Indian growth rate,” he said.

‘Huge Interest’

“People who understand India recognize that the huge private equity interest in India in the last five years has pushed up Indian asset prices,” Scott said. “And Sri Lanka is basically, we think, Cinderella, that is you get Indian growth rates and asset prices that are 50 percent of India’s.”

Calamander won’t invest in Sri Lankan textiles, [tourism](#) and tea plantations, businesses that the country is renowned for. Scott says even though Sri Lanka makes high-end apparel including Victoria’s Secret lingerie, he doesn’t like the structure of the business because it’s “far too prone to big single orders.”

Tea plantations have “horrible unionized labor” and Calamander will look for investment opportunities in factories, processing, blending and marketing of the commodity, Scott said.

Calamander is also “wary of tourist sector and hotels” because a stray security incident in the country could see tourist arrivals drop by half a million “overnight,” he said, making the business “a lot riskier and lot less stable.”

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