# Hemas Power Limited

## Initial Public Offer

## Opens on September 17, 2009

### Overview of the Share Offer

- Hemas Power Limited ('HMP' or 'Hemas Power' or 'the Company') intends to offer 31,300,000 Ordinary Shares to the public via an Initial Public Offer (IPO). The issue is an "Offer for Subscription", with the ultimate public holding of the Company increasing to 25% subject to the minimum subscription provisions given under Rule 3.1.18 (b) of the CSE Listing Rules. The remainder of the shares would be held by Hemas Holdings PLC.
- The Share Offer Price for the IPO will be determined through a 100% book building exercise (i.e. price determined through investor demand). The price range for the Offering will be between Rs. 17.00 and Rs. 20.00 in steps of Rs. 1.00. This converts to an issue size of Rs. 532 million – Rs. 626 million (approximately USD 4.6 million – USD 5.4 million at an exchange rate of 115.00 LKR/USD).
- The above price range for the Offering would result in the market capitalisation of the Company to be in the region of Rs. 2.1 billion – Rs. 2.5 billion (approximately USD 18.5 million – USD 21.8 million).
- Upon successful completion of the Offering, the shares of the Company would be listed under the "Power & Energy" sector on the Main Board of the Colombo Stock Exchange (CSE).
- Approximately Rs. 280 million of the proceeds raised through the issue would be utilised as the equity contribution to develop the Magal Ganga small hydropower project which has an estimated total cost of Rs. 430 million. The remaining portion of the funds raised through the issue would be utilised for investments in other viable power generation projects including greenfield projects and/or acquisition of currently operational projects.
- NDB Investment Bank Limited, S S P Corporate Services (Private) Limited and Bank of Ceylon are the Managers, Registrars and Bankers to the offering respectively.

### Operations of Hemas Power

- Hemas Power Limited incorporated in June 2003, was setup by Hemas Holdings PLC as a strategic investment company and currently functions as the holding company of the Group's power sector investments. The Company currently has investments in a thermal power plant (Heladhanavi, a joint venture with Lakdhanavi Limited) and two Small Hydropower Projects.
- HMP owns 47.06% of the total ordinary shares (50% of ordinary voting shares) of Heladhanavi Limited. The 100MW thermal power plant in the Western coast of the country was commissioned in September 2004 at a cost of Rs. 6.2 billion (USD 62 million) and currently operates under a Power Purchase Agreement (PPA) entered into with Ceylon Electricity Board (CEB) valid till December 2014. The remaining stake is owned by Lakdhanavi Limited, which is also the Operations and Maintenance contractor for the plant.
- Hemas Power connected its first Small Hydropower Plant (SHP) to the National Grid in October 2008. This 2MW SHP, situated at Giddawa, Teldeniya in the Kandy District, is fed by the river Hulu Ganga and is capable of supplying approximately 8 million kWh of energy annually. The SHP operates under a Standardised Power Purchase Agreement (SPPA) entered into with the CEB for a tenure of 15 years. The plant has been developed based on the 'run-of-the-river' design principle which is considered to be more environmentally friendly than reservoir based hydropower plants.
- The second small hydropower project, Magal Ganga SHP, was acquired by Hemas Power in 2008. The SHP is to be located at Deraniyagala in the Kegalle District on the upper section of the river Magal Ganga (an upper tributary of the Kelani river). Although relevant regulatory approvals for Magal Ganga project has been received at the originally estimated capacity of 1.18MW, recent studies conducted by HMP reveal that the location has potential to develop a 2.4MW plant. Presently, the Company has obtained approval from the Sustainable Energy Authority and CEB for the capacity increase and is currently in the process of sourcing other necessary approvals to commence development and operate the plant at a 2.4MW capacity.

### Overview of Hemas Group

- Hemas Holdings PLC (HHL) is a leading conglomerate with a significant presence in the local personal care and healthcare sectors and has interests in transport, leisure, power and other strategic investments.
- HHL has been in operation since 1948 and was listed on the CSE in 2003. At present, the market capitalisation of HHL is approximately Rs. 11 billion (USD 95.7 million) and is ranked amongst the top 20 market capitalised companies on the CSE.
- HHL has actively pursued a growth strategy during the past decade enabling the company to cement its presence in key strategic business units and build several recognisable brands in personal care sector. Hemas Group's foray into power sector was also a part of the growth strategy and has contributed approximately 34 % to HHL's bottom line in the FY 2008/09.

### Industry Overview

- The power industry is structured into three main activities; generation, transmission and distribution. Both CEB and the private sector participate in power generation whilst transmission and distribution activities are conducted by CEB with limited participation in distribution by Lanka Electricity Company (Private) Limited (LECO), an entity owned by CEB and few governmental authorities.
- At present, private sector participation is in the form of thermal power plants and small hydropower plants. During 2008, 89.6% of private sector power generation was through thermal sources and in total contributed 37.2% to the national grid. According to the CEB Statistical Digest 2008, the thermal power sector includes 10 Independent Power Producers (IPPs) of which Heladhanavi is the lowest cost power producer for the CEB (refer table overleaf).
- During 2008, private hydropower operators contributed only 4.3% of the total energy generated to the national grid. According to the National Energy Policy of Sri Lanka (NEPSL), approximately 10% of the total energy generated beyond 2015 is expected to be from Non Conventional Renewable Energy (NCRE) sources such as small hydro, wind and biomass. These policy initiatives promote private sector participation in the NCRE sector thus creating positive prospects for private power producers including Hemas Power Limited.

| Average Unit Cost of IPPs | | | |
|---|---|---|---|
| Name of IPP | Average Cost Per Unit (Rs.) | | |
| | 2008 | 2007 | 2006 |
| Asia Power | 19.75 | 15.64 | 13.00 |
| Lakdhanavi | 19.29 | 15.70 | 13.07 |
| Colombo Power | 19.79 | 14.87 | 11.91 |
| ACE- Matara | 19.74 | 16.39 | 13.60 |
| ACE -Horana | 19.32 | 16.04 | 13.07 |
| ACE - Embilipitiya | 18.70 | 14.87 | 11.62 |
| **Heladhanavi** | **16.80** | **12.91** | **10.60** |
| AES -Kelanitissa | 23.33 | 17.32 | 15.78 |
| Aggreko - Chunnakam | 34.07 | 26.53 | 22.31 |
| West Coast Power | 33.94 | n/a | n/a |

*Source : CEB Statistical Digest 2006 – 2008*

| Electrical Energy Supplied to the Grid as a Share of the Total | | | | |
|---|---|---|---|---|
| Year | Conventional hydroelectric | Maximum from oil | Coal | Minimum from NCRE |
| 2005 (Actual) | 36% | 61% | - | 3% |
| 2008 (Actual) | 38% | 58% | - | 4% |
| 2015 (Projected) | 28% | 8% | 54% | 10% |

*Source : Based on National Energy Policy of Sri Lanka*

## Future Plans and Direction of Hemas Power

- Initial on site development activities of Magal Ganga SHP is already being carried out and the construction of the 2.4 MW plant is expected to commence in late 2009.
- As stated in the NEPSL, HMP's focus on small hydropower sector for future investments is in tandem with CEB and Sri Lankan Government interest on the NCRE sector for power generation. HMP will also ardently pursue other renewable energy sector opportunities.
- HMP would also explore investments into thermal power generation depending on the availability of opportunities in the market.
- With regard to Heladhanavi, despite the PPA between Heladhanavi and CEB expiring in December 2014, provided that the plant could offer to maintain its current low unit cost of energy generated compared to other thermal power producers, there is a reasonable probability that the plant would be offered to continue operations beyond the PPA period at least for a short while.

## Summary Historical Financials of HMP Group

*All figures in Rs. '000*

| For the year ended March 31, | 2005 | 2006 | 2007 | 2008 | 2009* |
|---|---|---|---|---|---|
| Revenue | 1,402,258 | 2,924,949 | 3,667,242 | 4,966,160 | 4,868,560 |
| Profit/(Loss) From Operating Activities | 215,928 | 483,008 | 522,877 | 552,286 | 481,547 |
| Profit Attributable to Ordinary Shareholders of HMP | 103,543 | 243,980 | 294,064 | 286,938 | 222,818 |
| Earnings per Share (Rs.)** | 5.26 | 3.94 | 3.67 | 3.58 | 2.37 |
| | | | | | |
| Net Asset Value per Share (Rs.) | 14.09 | 14.45 | 16.30 | 17.13 | 18.06 |
| Long Term Gearing *(using the long term debt portion)* | 71.34% | 54.97% | 45.96% | 32.45% | 18.16% |

* *The decrease in profitability in year 2009 is mainly attributed to increase in O&M cost and higher financing costs*

** *There have been new share issues in the Financial Years 03/04, 04/05, 05/06 and 07/08*

**Directors of Hemas Power Limited are collectively and individually responsible for the information set out above.**

**By order of the Board**

**Signed**

**Managing Director**
**Hemas Power Limited**
**August 20, 2009**

**In addition to this document you are hereby requested to refer the Prospectus issued in this regard and consult your stockbroker, bank manager, lawyer or any other professional advisor prior to investing in the shares.**

For more information visit www.cse.lk, www.hemas.com, www.ndbib.com Hotline: 011 4731999

NDB Investment Bank

**Financial Advisor and Managers to the Offering**