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மின்சக்தி மற்றும் வலுசக்தி அமைச்சு
MINISTRYOF POWER AND ENERGY

117, Galle Road, Colombo 01

My No | Your No | Date 11.12.2022

Cabinet Memorandum No. 72/2022.PE

Cabinet Memorandum

Broad Basing of the Existing Share Structure of LTL Holdings (Pvt) Ltd and for Listing of its Shares in Colombo Stock Exchange to realize the Capital Investment (FDI) Requirement of the LTL Holdings (Pvt) Ltd from the Capital Market.

01. Background

Section 12 (1) (e) of the Ceylon Electricity Board Act No. 17 of 1969 has empowered the Ceylon Electricity Board (CEB) to acquire, hold, take or give on lease or hire, mortgage, pledge or sell or otherwise dispose or sell any movable and immovable property ,and in pursuance of this authority, CEB has acquired 63% of the shares of the LTL Holdings (Pvt) Ltd.(LTL), which was established in 1980, as a "joint venture" between CEB and ABB (a foreign company) a unique experiment of a "Public-Private partnership with Commercial autonomy free from the management of the CEB. Later 37% of the shares have been purchased by the employees of the LTL by obtaining loans. CEB **having initially invested of Rs. 7.8 million (in 1983) and a further Rs. 87.5 million in 1996**, now owns 10.5 million shares out of the 16.67million shares of the company, thus having a 63% ownership of LTL.**CEB's stake is now valued at Rs. 35 Billion.** As per the valuation carried out by Government Valuer in 2017, the value of the company' was determined at Rs. 17,755million. A recent valuation by NDB Investment Bank has valued the company, adjusted for current USD/LKR value, at Rs. 55,922 million.

Since inception,LTL as the Company under the "Company's Act with the commercial autonomy, free from the management of the CEB, has been engaging in various businesses in large scale in power sector which includes;

- Manufacture of transformers
- Galvanizing
- Steel tower fabrication,
- Thermal, wind and hydro power generation and
- Switchgear manufacturing,
- Construction of transmission lines and grid substations.

With this novel experience, with freedom to take decisions on its own free from the involvement of the CEB, LTL has turned out to be a resounding success over the last 40 years, having its business operations in a larger scale in Sri Lanka as well as in several other countries, within the power sector.

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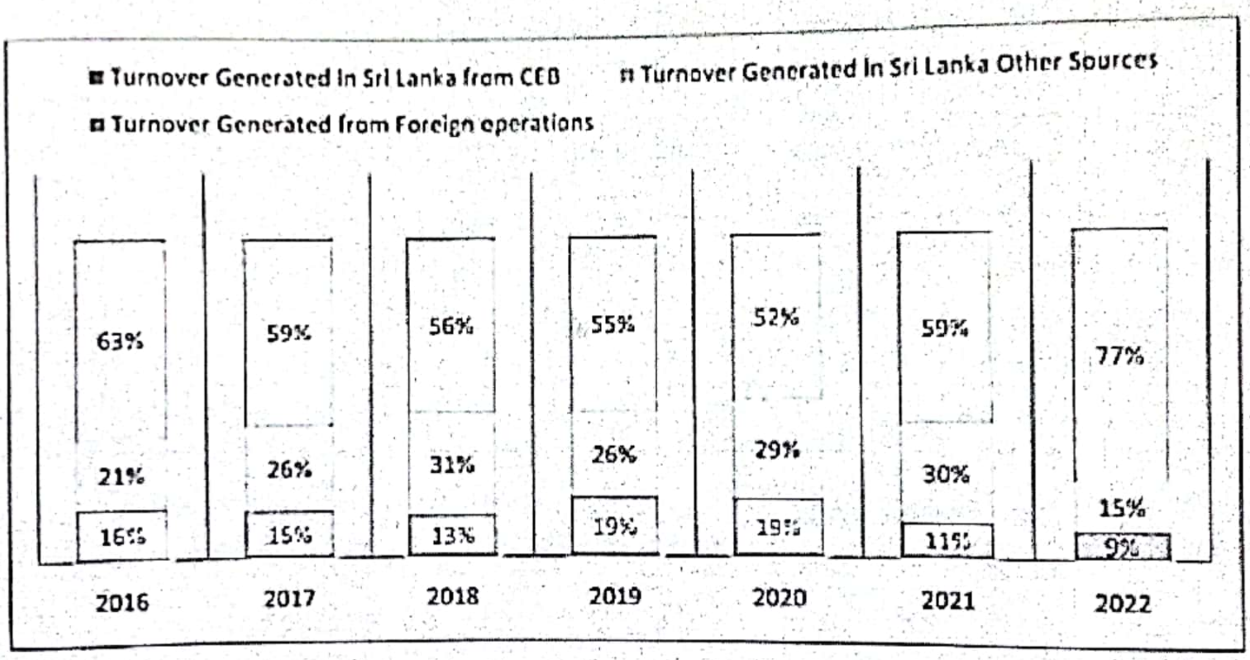
LTL is the only Sri Lankan power company which has operations in both thermal and renewable power generations outside Sri Lanka. LTL is a globally known Sri Lankan brand in power sector and is now successfully competing in global markets with multinational companies from all over the world.

CEB having initially invested of Rs. 7.8 million (in 1983) and a further Rs. 87.5 million in 1996, now owns 10.5 million shares out of the 16.67 million shares of the company, thus having a 63% ownership of LTL, so CEB's stake is now valued at Rs. 35 billion. As per the valuation carried out by the Government Valuer in 2017, the value of the company, adjusted for current USD/LKR value at Rs. 55,922 million.

Although at the inception, CEB was mainly instrumental in creating revenue generating opportunities through open bidding process to LTL, but LTL has diversified its revenue generating operations away from CEB over the past 25 years, by adoption of global expansion strategy. As a result, it currently owns several power plants and manufacturing facilities in Tanzania, Uganda, Maldives, Kenya, Ethiopia, Bangladesh, Nepal and India in addition to exporting its products to more than 20 countries. This has resulted in majority of its revenue being originated outside Sri Lanka as shown below.



Accordingly, LTL has generated only for 9% of its revenue during Financial Year 2021/22 for engaging with the works connected with the CEB, and the involvement of the LTL on works related to the CEB activities for its revenue generation process is now getting diminished day by day and upon finalization of the ongoing institutional reform process of the CEB, there will be no purpose being served to the CEB, by withholding the CEB's share ownership right of the LTL as it was. (all operational units of the CEB will be unbundled and corporatized as new Companies under the Companies Act within next 03 months). With the implementation of the said process, the current CEB shares of 63% within LTL, will be the shares of the treasury and the Secretary of the Ministry of Finance with a discretionary right for him to decide to diverts such shares to the market/investor appropriately.

Since the Secretary, Ministry of Finance has already given its approval to divest some of the shares owned by CEB /issue new shares in LTL, to the market to realize the required capital infusion including forex requirement for expansion of its Business activities abroad as planned by the Business Plan of the LTL, there is no justification whatsoever, to prevent the LTL from moving forward with the "share broad basing proposal" to realize its required capital infusion including most wanted FOREX which is more beneficial to the economy at this critical juncture.

One of the principal objectives behind the "ongoing structural reforms to the CEB" as a part of the overall "restructuring process of electricity industry" is to relieve the fiscal burden of the government for provision of CAPEX to meet the capital fund requirement to modernize and expand the existing capacity of the transmission and distribution infrastructure of the country including the operation and maintenance of such infrastructure, while allowing the new entities under companies act to harness their CAPEX requirement including FOREX through the capital market. It is in that context the said proposal of the LTL Holdings (Pvt) Ltd for broad basing of its existing share structure as per below is compatible, consistent and in compliance with the said re-structuring objectives of the government.

02. Current status of the business plan of the LTL with justification and the issues needs to be resolved

LTL already is the largest power sector company in Sri Lanka and currently engaged with the construction of the only power plant (350 MW of LNG combined power plant at Kerawalapitiya - Sobadhanavi) as the EPC contractor and as well as the independent power producer, in Sri Lanka. In keeping with its plan for growth, during last 2 years LTL has continued to develop business opportunities in foreign countries with lucrative projects in renewable and thermal power which contributed to 77% of its income in 2021/22. LTL now has several newer international projects lined up for investment. LTL as "one of the major employers for Sri Lankan engineering graduates and other levels of technicians" provides more and more employment opportunities in its projects abroad, which is a sizable contribution towards FOREX earnings of the country. The foreign project flow of LTL ensures that it brings significant USD denominated foreign exchange to Sri Lanka.

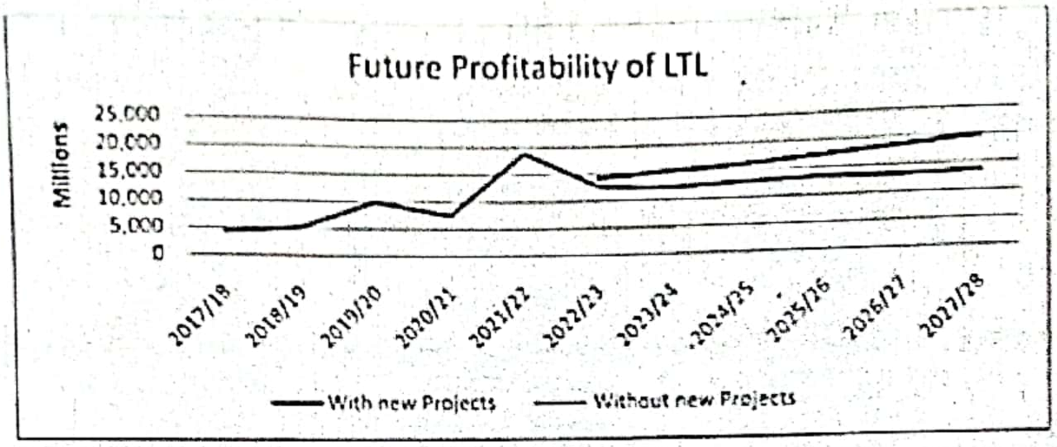
LTL is already one of the top 20 companies by Profit in Sri Lanka. Therefore, from Sri Lankan economy's point of view, government is in a duty and has a great responsibility to facilitate the LTL as one of the leading Sri Lankans own company to;

- Implement its projects in Sri Lanka and abroad
- engage in international business with the sole objective of increasing the current export earning capacity of the Country
- provide more employment opportunities to Sri Lankans to work abroad
- attract more FOREX remittances to Sri Lanka's forex stability on the long term.

Capital infused by CEB in 1980s and other shareholders (even adjusted for present value) is now less than 2% of LTL's net worth. LTL has grown up solely by using internally generated profits by itself. The above-mentioned new projects however require LTL to find additional share capital in Sri Lankan Rupees and in forex. If equity investments including forex cannot be made in these projects in the near future, LTL will lose the development rights currently secured through open competitive bidding processes for them and more importantly the completion of the ongoing 350MW LNG Project (Sobadhanavi) could get either delayed.

These investments in the normal course of action would require LTL's capital to be enhanced by its existing shareholders by about Rs.15 billion - Rs.20 billion. CEB, nor the treasury (after structural reforms completed) due to its current financial crisis cannot make any investments in LTL.

The new projects are expected to improve the profitability of LTL by around Rs. 6 billion (in 2027/28 when they are fully operation). If the above-mentioned new capital is to be infused without the participation of the CEB/GOSL, new shares have to be issued to new investors and it will dilute CEB/GOSL shareholding from current 63%. However, the number of shares owned by CEB/Treasury nor the value of CEB / Treasury shareholding will not go down. In fact, it is expected that the profitability of the LTL will go up by an amount more than the dilution. Further the value of CEB/GOSL investment will go up as a result of this broad basing.



The directors of LTL appointed the two investment banks i.e. M/s NDB Investment Bank (NDBIB) and M/s CT CLSA Capital (Pvt) Ltd recently to formulate a strategy to source required investments for new projects. They have advised that LTL has a great potential to attract the required investments from large international equity funds in a series of Public Offerings (IPO) in Colombo Stock Exchange commencing in 2023 despite Sri Lanka's economic problems, since LTL's main income sources are from outside Sri Lanka. If this advice is implemented, with the proposed shares broad basing plan, Sri Lanka can attract significant Foreign Direct Investments (FDI) into Sri Lanka, along with the following prospective benefits to the Sri Lankan economy.

a. LTL can engage in more foreign projects that will provide large number of employment opportunities for Sri Lankan engineers in those foreign projects
b. Construction Contracts of the presently identified foreign projects (usually done by LTL itself) will earn more than USD 40 millionprofits to Sri Lanka. (Recently concluded Bangladesh Power Plant Project, in which it invested USD 27 million, a construction profit of USD 11 million was brought to Sri Lanka in November 2020)
c. Ensure LTL has access in future to the capital markets to finance large power projects it is planning in destinations such as Bangladesh
d. Remove present constraints and attitudes affecting LTL's international competitiveness;
e. Provide an opportunity to the general public to be shareholders in a very successful private public partnership.

03. Recommendation

LTL Board has proposed to its three shareholders, (CEB, two independent companies for Employees of the LTL) for approval to issue 5.5 million new share issues in LTL, in addition to the existing 16.67M shares, for which approval has been obtained from the LTL Board. Secretary to the Treasury being the owner of the equity of the CEB and the prospective owner of the 63% shares of the LTL has already granted his approval for this proposal. Accordingly, LTL will make an application for a listing in Colombo

Stock Exchange for listing of the new shares, in terms of the provisions of Security and Foreign Exchange Act No 12 of 2017 and Companies Act No 7 of 2007. By implementing this proposal, CEB orthe Secretary to the Treasury (as the owner of the equity) will continue to get dividends similar to what it presently receives from LTL.

		Current Shareholding		Shareholding after new share Issue		
		Number of Shares (000)	Percentage	Proposed new shares (000)	New Shareholding (000)	Percentage
Existing Shares	CEB	10,500	63%		10,500	47.37%
	Peradev Ltd	4,500	27%		4,500	20.30%
	Teckpro Investments Ltd	1,667	10%		1,667	7.52%
New Shares	New Investors through (Public through CSE)			5,500	5,500	24.81%
	Total	**16,667**	**100%**	**5,500**	**22,167**	**100%**

There will be no impediment legally nor administratively, for the CEB to agree (Treasury has already agreed for such broad basing plan of the LTL) for the proposed broad basing plan of the LTL. In view of the following beneficial effects to the CEB (during the transitional period of the ongoing institutional reforms of the CEB) and the Treasury thereafter.

- CEB / GOSL will remain single largest shareholder in LTL even after re-structure
- CEB / GOSL will have the same number of directors in LTL Board as of now
- CEB Chairman and CEB GM or two senior officials of the treasury will continue to be directors of LTL
- CEB Chairman or any senior officials of the Treasury will continue to be Chairman of LTL
- CEB / GOSL will have higher value for its shares than now due to premium attached to IPO
- CEB dividends in future will be more than now due to higher profits from new Projects carried out from IPO proceeds
- LTL's IPO can instill confidence in financiers like IMF/WB in CEB's restructuring process
- CEB/GOSL will be able to monetize LTL shares for financing with a market price for shares
- (Unlike now when it is a private company)

Therefore, It is necessary to authorize and direct the Board of Directors of the CEB (they have the authority only during the transitional period of the ongoing institutional reform process of the CEB) and also to the **Secretary to the Treasury (who will be the prospective equity owner of the LTL upon completion of the ongoing institutional reform process)** to implement above mentioned share broad basing plan of LTL, to obtain required additional investment requirement including FOREX through capital market.

04. Approval

To enable the LTL to proceed with the implementation of proposed business plan, by attracting urgently required capital infusion from the capital market,the approval the Cabinet of Ministers is now sought to implement the proposal recommended in paragraph 3 above.

Kanchana Wijesekera (M.P)
Minister of Power & Energy
...11.12.2022