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TOP CA CASE STUDY EXAMINATION

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ADVANCE INFORMATION

Hamson's Business Prospects

The Hamson Group

Hamson Group (HG) is a large scale conglomerate established sixty years ago having a solid foundation in diversified businesses. It is committed towards enriching lives of stakeholders. The group was originally established focusing on businesses in the Fast Moving Consumer Goods (FMCG) sector and currently earns revenue of over Rs.20,000 million per annum. Further it has been diversified into health care, transportation and power sectors recording more than Rs. 200 million profits from each sector.

In the recent past HG expanded its business to include the pharmaceutical and personal care sectors with the new acquisition of Misions and Sons PLC. It has also been considered to construct a hotel property exploring business opportunities related to the fast growing leisure sector.

The Company has witnessed continuous growth momentum delivering strong results in all business sectors. Group revenue registered Rs. 26,000 million in 2013. In terms of consolidated profits, it was an exceptional year, representing a massive growth. From an overall macroeconomic perspective, long-term business prospects remain positive, irrespective of the environmental challenges posed by some of the sectors as shown by economic indicators.

During the last year, the stock price of HG increased and the FMCG business enjoyed another successful year establishing a record in its revenue growth. This was achieved amidst tough conditions experienced in the industry and growth is largely evidenced by the price escalation.

In the personal care sector, growth was driven by strong performances in baby, oral, hair and feminine hygiene product categories. Also health care sector performed exceptionally well during the year with a revenue growth of 20% and profit growth of 54%. Hamson Pharmaceuticals continued to strengthen its market leadership position in pharmaceuticals distribution with a share of 18% whilst the overall market experienced a growth of 16%. The

leisure sector of HG posted a revenue growth of 38% providing encouragement to the board of directors. Along with these developments, by considering the future business prospects directors rationalize the process of further expansion of business. (*Annexure 1*)

On the back of tourist arrivals in 2013 surpassing the 1.2 million mark, Destination Management business, as well as hotels posted a significant growth in terms of revenue and profits. Average occupancy across HG's hotel portfolio stood at 75%. For its service excellence, HG hotel group has been awarded several accolades in recent years.

Driven by strong growth in the aviation and maritime business segments, the group's transportation sector revenue grew by 40% over the past year. Business maintained its market leadership position and HG travel agency significantly increased its market share due to strong growth and massive development in the North and East regions of Sri Lanka.

Future of Hamson Group

At recent board meetings, key heads of HG were discussing different business opportunities which evolved as a result of positive current macro economic variables. Hence, each sector of the group is encouraged to come up with ambitious growth plans to cater to the rapidly changing business environment and to address the needs of its customers to achieve a competitive edge in its business excellence. Accordingly, HG has decided to have the proposals evaluated by a special committee headed by the group CEO, directly reporting to the chairman of the group. In the recent past, board of directors also considered pros and cons of related and non related diversifications. Some of the directors emphasized the importance of considering business opportunity in the health care services sector, which will provide good long term potential. They recommend building high quality general hospitals in the areas of high density middle class population. In line with this vision, the group should focus on the significant step of embarking on a hospital project.

In the mean time, the committee headed by CEO received the following information relating to different business options proposed by Hamson Health Care Ltd and Hamson Leisure Ltd¹. According to the discussion of the special committee, following views and facts were presented by head of Hamson Health Care Ltd. Extract of the chairman's presentation is as follows.

“I would like to table some important facts relating to the health care service industry in Sri Lanka based on statistics and information reported in the Central Bank Report. The private sector continues to play a significant role in health care service delivery in Sri Lanka. The number of registered private hospitals stood at around 200 by end of 2012 with a bed capacity of approximately 5,000. The increase in income levels and changing lifestyles has created a significant demand for private health services. As this trend continues into the future, there is an urgent need for effective private health service regulations and appropriate accreditation policies to ensure that service quality is not compromised in an attempt to profit from the growing pace of demand and the lag in supply. The process of amending the existing Private Medical Institutions (Registration) Act was continued in 2012 and further steps are being taken to streamline the procedure related to temporary registration of foreign qualified specialists to be employed in private hospitals and to provide services for workshops, curative care and special camps on a voluntary basis. Implementation of appropriate accreditation policies to accredit private healthcare service providers is also relevant to developing niche markets, such as health tourism, which can complement Sri Lanka's efforts in attracting tourists.”

At the same time, by considering the long term prospects for the leisure industry in Sri Lanka, the group expects to implement a fully diversified development model for a hotel development project under Hamson Leisure Ltd. Further, discussions revealed that the hotels and restaurants sub sector recorded a growth rate of 20 per cent in 2012 compared to 26 per cent in the previous year, maintaining a positive momentum realized as a result of the peace dividend. The tourism sector passed the landmark of one million tourist arrivals in 2012

¹ *Hamson Health Care Ltd and, Hamson Leisure Ltd are fully owned subsidiaries of Hamson Group.*

growing in line with the targets set for the sector. Earnings from tourism exceeded US Dollar 1 billion, the highest amount recorded within a year, recording a growth of 25 per cent. The higher growth in tourist earnings compared to that of arrivals reflects the increase in average spending by tourists during 2012. However, guest nights and occupancy rates have both declined in graded hotels in 2012. This could be attributed to the rapid expansion in the hotel sector with an increase in unregistered hotels, guest houses and home stays, a concept promoted by the Sri Lanka Tourism Development Authority, attracting more local and foreign tourists. The industry is largely benefitted by rapid infrastructure development and transport facilities such as domestic rail and air transport, supporting efficient tourist mobilization. Realization of the benefits of new hotels established, and hotel refurbishments are also expected to boost the growth in the sub sectors in years to come.

Business Environment

Further, one of the senior executives of Hamsons Leisure Ltd prepared a report highlighting the present and future prospects of tourism and leisure sectors in Sri Lanka. Contents of this report were justified through statistics provided in the recent report published by the Central Bank of Sri Lanka.

Thanks to the post-conflict growth momentum, Sri Lanka attracted more than 1.2 million tourists in 2013. Tourist arrivals in 2012 surpassed its target of 950,000 to record 1,005,605 arrivals, an increase of 18 per cent, over 855,975 arrivals in 2011. When considering tourist arrivals in terms of regions, Western Europe remained the foremost source of tourists accounting for 37 per cent of total arrivals in 2012 compared to 36.8 per cent in 2011. South Asia, the second major regional market, accounted for 25 per cent of arrivals. Arrivals from Eastern Europe, East Asia, and Australasia increased significantly due to promotional activities and new air routes that connected to Sri Lanka. This has resulted in the gradual diversification of Sri Lanka's tourism markets. With regard to arrivals from individual countries, India remained the leading country of origin of tourists followed by the UK, Germany, France and Australia. These five countries together accounted for 47 per cent of tourists to Sri Lanka in 2012. Over 74 per cent of tourists arrived in Sri Lanka for holiday

purposes, while 9 per cent arrived for business purposes in 2012 and others visited their friends and relatives, conventions and meetings (MICE tourism) and for religious and cultural purposes.

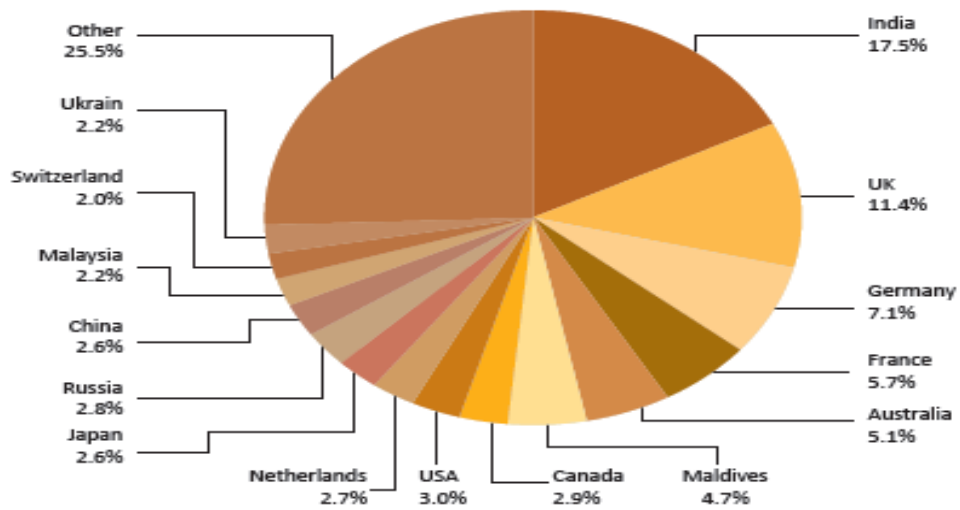
Earnings from tourism increased substantially in 2012, supported by the increase in tourist arrivals and the average spending per tourist, earnings from tourism increased by 25 per cent to US dollars 1,039 million in 2012 compared to US dollars 830 million recorded in 2011. Average tourist spending per night increased to US dollars 103 in 2012 from US dollars 97 recorded in 2011, reflecting the increase in arrivals of high spending tourists as well as improved facilities. Employment generation by the tourism industry recorded a significant increase of 17 per cent, indicating increases in both direct and indirect employment.

The Sri Lanka Tourism Development Authority (SLTDA) continued to operationalise its role through the National Tourism Strategy introduced in 2011 to develop the tourism sector. The aim of attracting 2.5 million tourists and recording earnings of US dollars 2.75 billion from tourism by 2016 remained the main focus of the industry. Consequently, promotional activities were conducted in 25 trade and travel fairs worldwide with travel industry participation in direct market promotions that were held in the UK, China, Germany, India and the Netherlands and other countries. The development of domestic infrastructure facilities, strategic investments by global hotel chains, promotional campaigns, new tourist attractions and identified zones in the Northern and Eastern Provinces for tourism development activities, gave Sri Lanka a stronger stand in international promotions.

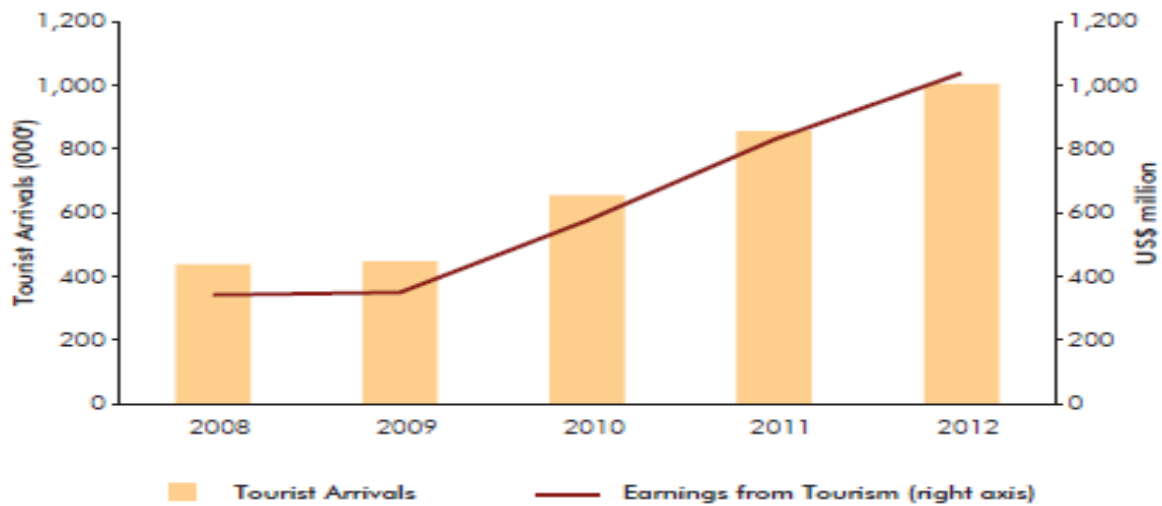
Industry-wide investments were made to enhance the capacity to accommodate the growing number of tourists to the country. Tourism Development Zones in Kalpitiya, Kuchchaveli and Yala are being promoted for investment with a view to developing tourism on different themes. A hotel coming under the Kuchchaveli tourism development project was completed with an investment of Rs. 850 million adding luxury rooms in 2012. The ongoing Kalpitiya integrated tourism development project and the resort development project Passikudah with an investment of over Rs. 10 billion will develop 11 new facilities to cover 764 rooms, most

of the construction work was completed in 2013. Several new and refurbished star class hotels commenced operations in 2012 while new hotels are under construction in different parts of the country. Shangri-La Asia Limited, one of Asia Pacific's leading luxury hotel chains, has already commenced construction of a 650 room luxury hotel complex in Colombo with high end retail facilities and deluxe apartments, and is scheduled to commence its operations in 2015. The Shangri-La group started developing a second property, a 50-villa and 400-room beach resort on the southern coast in Hambantota, and this too is scheduled to commence operations in 2015. International hotel chains such as Hyatt, Movenpick, and Sheraton are also expected to be commencing their operations in Sri Lanka in the near future. Meanwhile, the SLTDA together with the Urban Development Authority (UDA) continued its tourism zone identification process in the districts of Mulativu, Mannar and Jaffna in the Northern Province. The 'home stay' programme of the SLTDA further enhanced the tourism industry's capacity and became popular among tourists and the travel trade. The SLTDA refurbished and upgraded 25 resorts coming under their purview in addition to the new registration of 150 home stay units in 2012.

Tourist Arrivals in 2012 by Country



Tourist Arrivals and Earnings from Tourism



Source: Central Bank Report - 2012

Tourism Performance

Item	2008	2009	2010	2011	2012 (a)	Y-o-Y Change (%)	
						2011	2012(a)
Tourist Arrivals (No.)	438,475	447,890	654,476	855,975	1,005,605	30.8	17.5
Pleasure	321,079	358,188	516,538	663,343	748,436	28.4	12.8
Business	37,261	38,473	83,270	68,097	90,040	-18.2	32.2
Other	80,135	51,229	54,668	124,535	167,129	127.8	34.2
Tourist Guest Nights ('000)	4,166	4,076	6,548	8,559	10,056	30.7	17.5
Room Occupancy Rate (%)	43.9	48.4	70.2	77.1	71.2	9.8	-7.7
Gross Tourist Receipts (Rs. million)	37,094	40,133	65,018	91,926	132,427	41.4	44.1
Per Capita Tourist Receipts (Rs.)	84,598	89,605	99,344	107,393	131,688	8.1	22.6
Total Employment (No.)	123,134	124,970	132,055	138,685	162,869	5.0	17.4
Direct	51,306	52,071	55,023	57,786	67,862	5.0	17.4
Indirect	71,828	72,899	77,032	80,899	95,007	5.0	17.4

Sources: Sri Lanka Tourism Development Authority
Central Bank of Sri Lanka

Source: Central Bank Report - 2012

Hamson's way forward

CEO of Hamson Leisure Ltd (HLL) draws the attention of the evaluation committee to the possibility of acquiring Rangiri Hotel Ltd, a family owned business. In a proposal put forward by a senior executive of HLL, it is stated that Rangiri Hotel Ltd (RHL) is searching for a prospective acquirer and informal discussion the senior executive of HLL had with a manager if RHL had revealed that a conflict exists among family shareholders of RHL. Further the senior executive had gathered information regarding income and financial position of RHL (annexure 02) and other details of Rangiri Hotel Ltd as set out below.

Rangiri Hotel Ltd is a Sri Lanka-based company. The Company, engaged in hotel business and established in 1969 owns and manages three popular beach holiday resorts nestled amidst lush verdant gardens and a pristine, pollution free stretch of beach on the south west coast of Sri Lanka in the popular tourist haven of Beruwela. It all started when the current chairman of the Rangiri Hotel Ltd, acquired one of the most beautiful stretches of beach on Sri Lanka's south west coast in Beruwela and decided to build his first hotel. In 2012, Rangiri Hotel Ltd won a Sri Lanka Presidential Award as the best hotel in its star-category in the whole of Sri Lanka. The previous year business performance was satisfactory. The EPS and DPS are also increasing over the period last two years. When compared with the industry, Rangiri Hotel is performing in a satisfactory manner and further, its shareholders obtain a fair return on their investment.

In addition to above business option, one of the directors in Hamson Leisure Ltd pointed out the possibility of constructing a new hotel complex on a land purchased by the company 5 years back for Rs. 100 million close to Tissawava at Anuradapura. CEO of Hamson group was positive about this venture and asks the evaluation committee to look for more information on this particular business option.

Also quoting a recent newspaper article, he pointed out to the committee that other similar business options exist in the industry (*Annexure 3*).

Committee headed by group CEO who is a qualified chartered accountant, had several discussions to evaluate proposals and ideas contributed by key heads within the group. One of the committee members who is a senior managing director pointed out that individual strategies proposed by sub companies should be integrated to show the group view to its group stakeholders. Confirming the opinion, group CEO further expressed his belief about the importance of “Integrated Reporting” which is widely discussed in the corporate world. He pointed out how organisations really create value for a group. Accordingly he emphasized that it is a concise communication of an organisation’s strategy, governance and performance and it demonstrates the links between its financial performance and its wider social, environmental and economic context. Further he commented that businesses are expected to report not just on profit but on their impact on the wider economy, society and the environment. Integrated reporting gives a ‘dashboard’ view of an organisation’s activities and performance in this broader context, which will enable more effective decision making at board level, improve the information available to investors and encourage more integrated thinking and business practices. He was also concerned about the importance of risk management and corporate governance which is an integral part of the future success of HG. Therefore, he appointed a member of the committee to study the possibility of applying the integrated reporting concept to the Hamson group.

Further, another director of the Hamson group who is highly interested in initiating one of the emerging business opportunities, is in the Business Process Outsourcing (BPO) industry. He suggested appointing a fresh committee to assess the feasibility of forming a new company to enter the BPO industry in Sri Lanka. Emphasizing his views on this issue he pointed that Sri Lanka has won the ‘Off-shore Destination of the Year’ at The National Outsourcing Association Awards (NOAAs). Some directors commented that this kind of new venture creations increase the business risk of the group. Accordingly they requested that a comprehensive feasibility study be carried out.

Annexure 01

Hamson Group PLC Income Statement		
For The Year Ended 31st March	2013 Rs (million)	2012 Rs (million)
Income	26,122	21,531
Cost of Sales	(18,070)	(14,963)
Gross Profit	8,052	6,568
Other Operating Income	296	176
Administrative Expenses	(3,849)	(3,188)
Selling & Distribution Expenses	(2,085)	(1,793)
Share of profit from associates	1	11
Operating Profit Before Finance Cost	2,415	1,774
Finance Cost	(372)	(465)
Finance Income	340	203
Net Profit Before Taxation	2,383	1,512
Taxation	(478)	(247)
Net Profit/(Loss)	1,905	1,265
<u>Attributable to</u>		
Equity holders of Parent	1,640	1,088
Non Controlling Interest (NCI)	265	177
DPS Rs.	0.60	0.50

Annexure 01 contd.

Hamson Group PLC		
Statement of Financial Position		
As at 31st March	2013	2012
	Rs (million)	Rs (million)
ASSETS		
Non-Current Assets		
Property, Plant & Equipment	11,294	10,285
Investment Property	579	475
Intangible Assets	435	462
Investment in Associates	221	180
Other Non Current Financial Assets	173	324
Deferred Tax	39	35
	12,741	11,761
Current Assets		
Inventories	2,426	2,004
Trade & Other Receivables	7,045	5,853
Cash & Cash Equivalents	3,224	3,271
	12,695	11,128
Total assets	25,436	22,889
EQUITY & LIABILITIES		
Capital & Reserves		
Stated Capital	1,600	1,600
Other Reserves	1,720	1,591
Retained Earnings	8,936	7,447
Non Controlling Interest	2,261	1,991
	14,517	12,629
Non Current Liabilities		
Interest Bearing Loans	2,183	1,482
Other Liabilities	583	409
	2,766	1,891
Current Liabilities		
Trade & Other Payables	5,907	6,256
Bank Overdraft	2,246	2,113
	8,153	8,369
Total Equity and Liability	25,436	22,889
Number of shares (million)	515	515
Market Price Per Share Rs. (at the year-end)	27	26

Annexure 02**Rangiri Hotel Ltd,
Income Statement for the Years Ended 31st March
(Rs. 000')**

	2013	2012	2011	2010	2009
Turnover	381,878	363,220	271,316	305,771	317,684
Cost of sales	(115,418)	(101,667)	(77,842)	(88,675)	(157,443)
Gross profit	266,460	261,553	193,474	217,096	160,241
Other operating income	6,600	6,524	2,288	3,821	3,968
Marketing expenses	(3,268)	(3,902)	(3,308)	(4,000)	(5,307)
Staff and administrative expenses	(56,486)	(47,466)	(20,023)	(29,551)	(29,474)
Operating profit	213,306	216,709	172,431	187,366	129,428
Non operating income	-	-	-	48,296	-
Finance income	2,723	3,933	14,983	13,992	2,672
Share of results of associates	16,240	14,709	(6,565)	(30,872)	25,810
Profit before tax	232,269	235,351	180,849	218,782	157,910
Tax	(454)	(7,966)	-	(10,583)	-
Profit for the year	231,815	227,385	180,849	208,199	157,910

Annexure 02. (contd.)**Rangiri Hotel Ltd,
Statement of Financial Position
as at 31st March (Rs. 000')**

	2013	2012	2011	2010	2009
ASSETS					
Non-current assets					
Property, plant and equipment	780,794	790,508	798,045	396,597	416,221
Investments in associates	484,219	466,023	382,187	378,044	232,246
Other investments	12,535	12,535	4,452	4,441	662
Loan to associate company	750	750			
Non- current receivables					6,057
	1,278,298	1,269,816	1,184,684	779,082	655,186
Current assets					
Inventories	9,709	9,601	10,119	7,019	9,322
Receivables and prepayments	48,491	40,330	39,619	32,624	41,284
Current tax receivables	2,756	1,304	3,064		
Cash and cash equivalent	68,760	62,224	42,543	75,724	56,151
	129,716	113,459	95,345	115,367	106,757
Total assets	1,408,014	1,383,275	1,280,029	894,449	761,943
EQUITY AND LIABILITIES					
Stated capital (Rs.2/- per share)	90,000	90,000	72,000	72,000	72,000
Retained earnings	1,077,939	1,054,758	884,220	770,286	637,039
	1,167,939	1,144,758	956,220	842,286	709,039
Non-current liabilities					
Borrowings	186,049	189,522	293,151	29,635	9,187
Current liabilities					
Trade and other payables	39,013	26,705	23,489	14,554	30,261
Borrowings	15,013	22,290	7,169	2,470	7,153
Current tax liabilities	-	-	-	5,504	6,303
	54,026	48,995	30,658	22,528	43,717
Total equity and liabilities	1,408,014	1,383,275	1,280,029	894,449	761,943

Annexure 03

Hemas Holdings PLC Signs Agreement with BOI for New Hotel Project in Tangalle

Posted on [September 4, 2013](#)

Hemas Holdings PLC together with Minor Hotel Group of Thailand has finalized plans to construct and operate a luxury five star resort on the Southern Coast of Sri Lanka in Tangalle, Hambantota District.

The investment agreement was signed recently with the Board of Investment of Sri Lanka by Mr. Abbas Esufally -Group Director of Hemas Holdings PLC, and Mr Ranil de Silva – Managing Director of Serendib Leisure Hotels.

The Hemas Group acquired this unique property in the Deep South over 20 years ago. The proposed 154 roomed project will cater to up – market tourists and will have luxurious hotel rooms and private villas with their own plunge pools. The hotel will also boast of 3 restaurants and a purpose-built spa. The property will be operated under the Anantara brand, and will epitomise the very best in indigenous Sri Lankan design, and will be complemented with all the luxuries sought-after by the modern-day traveller.

Construction and implementation of the project will commence immediately with the resort scheduled for opening in February 2015. The total value of the investment is approximately US\$ 40 million.

Hemas Holdings PLC – one of Sri Lanka’s most respected conglomerates has investments in multiple disciplines ranging from FMCG, healthcare, transportation, leisure and power generation. The Group’s leisure arm – Serendib Leisure Management Ltd has extensive experience in the Hotel and Leisure industry and now owns and manages a series of hotels and resorts in several strategic tourist locations in Sri Lanka, such as AVANI Bentota Resort & Spa, AVANI Kalutara Resort, Club Hotel Dolphin and Hotel Sigiriya.

Minor Hotel Group (MHG) is a hotel owner, operator and investor, currently with a portfolio of 52 hotels and 42 serviced suites in operation under the Anantara, AVANI, Per AQUUM, Elewana, and Oaks brands across Asia-Pacific, the Middle East and Africa.