



**COMMON PRE-SEEN**

**(SL1 - SL4)**

**DECEMBER 2023**

## Sunshine Construction PLC (SCP)

### Historical review

Sunshine Construction (Pvt) Ltd (SCL) was listed on the Colombo Stock Exchange in 2005 as Sunshine Construction PLC (SCP) just after celebrating its 30<sup>th</sup> anniversary.

Punchi Banda Appuhami (Punchi Banda) was born in a village called Thihagoda, in the Matara District, as the eldest son to an underprivileged family with four brothers and two sisters. His father was a farmer, and his mother was a housewife who helped her husband with farming and looked after the housework and seven children. Punchi Banda was a good carpenter as well as a mason who helped his village people to build their houses during his free time. He completed his secondary education and spent his free time reading books and playing his favourite musical instrument, the flute. He was an energetic entrepreneur who tried to manage opportunities successfully. He was a popular young person amongst his friends and villagers since he was always there to help them. His brothers and sisters teamed up to give him a hand with his work and his friends were also always there with him whenever there was work to be done.

Punchi Banda started undertaking jobs and construction work even from areas out of his hometown and became popular as Punchi Banda '*bass*'. His popularity grew day by day, and he was able to increase their family income, since all his brothers and sisters were working for him. Punchi Banda trained quite a number of village people in order to get their assistance in his work and paid them well for their daily work. Therefore, he was able to have his own helpers, senior carpenters, masons, and plumbers who worked at his construction sites.

One day, Punchi Banda went to obtain a term loan from his bank to buy construction equipment for his business. However, he was unable to secure the loan due to the unavailability of financial statements for submission to the bank to demonstrate his ability to repay the loan even though he had been maintaining a bank account with the bank for more than 15 years. However, the bank manager advised Punchi Banda to start a company and open a bank account and prepare a record of all the transactions for the next three months, and for that purpose to get assistance from a qualified accountant who could prepare financial statements and submit them along with the loan application. Coincidentally, soon after the meeting with the bank, Punchi Banda met one of his school mates, Kamal Weragama, who was practicing as a chartered accountant at that time, and requested his opinion and advice on how to register a limited liability company with the Registrar of Companies whilst appointing his four brothers as directors of the company. Punchi Banda wanted to retain the position of chairman and offered Kamal to join as a director of the company once it was formed since he knew all the formalities, accounting, taxation and especially how to negotiate with the bank. Kamal accepted the offer to act as a director, and helped to prepare the financial statements and negotiate with the bank along with the finance staff of the company.

Kamal proposed the name Sunshine Construction (Pvt) Ltd for the company. Punchi Banda and his family agreed to register the company as Sunshine Construction (Pvt) Ltd (SCL). SCL was registered on 1 January 1975 with a small office adjoining Punchi Banda's house. Initially, there were accounts assistants and key technical staff to supervise and bill clients for the work done. Punchi Banda handled receivables from clients since he maintained personal relationships with each client. SCL was a fast-growing company and recruited civil engineers, draftsmen, quantity surveyors, and qualified technical staff. Kamal then approached Punchi Banda and advised him to appoint one of his good friends Gamunu De Silva, an experienced civil engineer with a first-class degree and master's qualification from the University of Peradeniya (who also practices as a chartered engineer), as an executive director to head the operations of SCL. The board of directors unanimously agreed, and Gamunu was appointed in 1980 as an executive director to head and oversee the construction sites and operations of SCL. All the technical staff including engineers came under his purview. He teamed up with the marketing and finance teams in assessing new sites and offering quotations.

Punchi Banda retained 60% of the shares of SCL and allocated 5% each to the two outside directors Kamal and Gamunu. The rest was allocated amongst his four brothers and two sisters (who had successfully completed their secondary education).

Punchi Banda advised his four brothers to acquire knowledge on construction technology as they were serving as directors of the company. Fortunately, Matara Technical College was established in 1974 and from there they were able to obtain diplomas in construction technology.

SCL subsequently started quoting for government tenders for the construction of buildings and roads with competitive prices and offered the best services the company could provide since they had adequate expertise in managing construction work. With the competitiveness that set in and the need to maintain high-quality standards, the percentage of profit reduced in comparison to the old days. "*Timely and high-quality delivery*", the slogan adopted by SCL, proved quite challenging to achieve in the construction industry due to the scarcity of resources such as good quality workers and raw materials, modern machinery, expertise in the industry, and issues with regard to the scheduling of projects in hand.

The vision of SCL is "To be the leading brand in construction, recognised for quality and innovation, and supporting our staff and the communities in which we work by being the contractor of choice in the South Asian region".

In 2003, Punchi Banda (the chairman) pointed out at one of the board meetings that SCL should start the manufacturing of products related to the construction industry under a separate company with a reliable investor, offering 20% of the ownership of the proposed company to him. Sunshine Manufacturing (Pvt) Ltd (SML) was incorporated in 2003 with an initial stated capital of Rs. 200 million with SCL holding 80% of the ownership and Somapala Edirisinghe holding the rest. Somapala was a chartered engineer with 20 years of experience in the construction industry locally as well as overseas. Punchi Banda became the initial chairman of SML with Somapala assuming the role of managing director. Kosala Appuhami,

the eldest son of Punchi Banda was appointed as an executive director of SML in 2003. Kosala was 25 years old at that time and had just graduated as a civil engineer from the University of Sydney, obtaining a Bachelor of Engineering (Honors) in Civil Engineering. Kosala, being a young engineer, had many novel ideas to be introduced as innovations to the group. He was appointed to overlook the manufacturing process.

SML was engaged in the production of autoclaved aerated concrete (AAC) blocks produced using fly ash, a by-product of the cement industry. AAC is a precast, lightweight foam concrete building material that can be used to make concrete masonry unit blocks. An AAC block is a mixture of quartz, calcined calcium sulfate, lime, cement, water and aluminum powder. These blocks have a low environmental footprint and are thus considered to be a far more eco-friendly alternative compared to traditional clay bricks and cement blocks. It is also a lightweight, load bearing, high insulating, and durable building product.

SML's production plant is in Puttalam, which consists of three autoclave machines with a total production capacity of forty-eight (48) molds per day. In the year under review, production output was increased thanks to stringent monitoring of the autoclave cycle, increasing the number of operational shifts, and pursuing other efficiency improvements.

AAC blocks are produced in 3 sizes and are ideally suited for wall construction applications in high-rise buildings, residential units, commercial units, hospitals, warehouses, factories, schools, universities, hotels, and shopping malls.

In 2005, the board of directors of SCL took a unanimous decision to go for an initial public offering (IPO) and also enter into real estate, apartment and housing schemes sector, since there was a huge demand for them from the diaspora as well as local residents. The group secretary, Nuwan Abeyasekara, worked out the necessary documentation. Punchi Banda wanted to first incorporate a separate company to handle this sector with 100% ownership by SCP. The necessary funds were raised from the IPO.

Punchi Banda requested his son Kosala to be the managing director of this new company and develop it by applying the latest technology and processes of the construction industry. The new company was named Sunshine Real Estate and Residency (Pvt) Ltd (SRERL). Before listing SCL on the Colombo Stock Exchange, Punchi Banda's brothers and sisters agreed to sell 30% of the shares of SCL held by them to Kosala, at their current value, to enable him to take Sunshine Group to the next level as they trusted his innovative ability. As suggested by the board, SCL was listed as a public limited company called Sunshine Construction PLC (SCP) on the Colombo Stock Exchange in 2005 and the new ownership structure of SCP was as follows (and it is maintained to date).

	<b>Ownership</b>
Punchi Banda Appuhami	40%
Kosala Appuhami	16%
Kamal Weragama	2%
Gamunu De Silva	2%
Public	40%

The new board of directors of SCP comprised the previous seven directors with two new independent directors Hemaka Bandara and Buwaneka De Silva. Hemaka is a chartered engineer who is specialised in town planning and has expert knowledge in construction. Buwaneka is a chartered marketer as well as an economist, who holds three master’s degrees in three different fields of studies (MBA, MEcon and MSc). Kosala was appointed as the managing director of SCP.

**Current status of Sunshine Group**

Sunshine Group has been successfully involved in the construction of buildings, highways, roads, apartments and bridges. Some of the ongoing projects were held up due to the current economic downturn of the country with majority of the completed government projects remaining unpaid for by the government. The management of SCP has taken a decision not to quote for new government tenders until the government settles the outstanding payments. However, the board of directors of SCP requested its independent director Buwaneka to explore new overseas markets such as India, Bangladesh, the Maldives, the Middle East, and African countries, to secure new projects to bridge the potential shortfall in revenue of the company.

**Sunshine Real Estate and Residency (Pvt) Ltd (SRERL)**

SRERL is a real estate and property development company, with a BOI-approved multi-storey condominium, a mixed development, located in the heart of Kollupitiya, Colombo. It comprises 225 luxury units with a total floor area of 582,000 sq. ft. that includes a saleable area of 410,000 sq. ft., and value integration into every aspect – from its premium location to the finest quality products and world-renowned brands that offer potential owners both a perfect home and a solid investment. The development comprises a large national standard infinity swimming pool, disabled parking and access, a sewerage treatment plant, and rainwater harvesting infrastructure amongst other features. This condominium project is structurally designed to withstand earthquakes measuring up to a magnitude of 6 on the Richter scale even though Colombo has been classified as a seismic zone ‘0’ under the International Building Code. With its unique curvilinear design, fine finishes, prime location, and superior construction techniques, it is comparable to any high-end condominium complex in any part of the world.

Per the group slogan “*timely and high-quality delivery,*” SRERL always focuses on meeting the group’s expectations. Kosala followed his father’s footsteps with his innovative approach to achieve high growth in the context of the current economic downturn of the country with

the help of Buwaneka who is an expert in marketing. Buwaneka advised Kosala, the managing director of SCP, that SRERL should have a marketing strategy and a campaign to attract the diaspora overseas especially in Canada, the United Kingdom, and the United States.

SRERL is currently developing a prime land located in Jayawardenepura Kotte, the center of the capital city, to build and sell individual units. This project was held up due to the scarcity of raw materials and high prices caused by the restriction on imports. Currently, after the relaxation of import restrictions, the prices have come down. Hence the management decided to restart the project and market it amongst the locals as well as overseas buyers. SRERL focuses on this niche customer base locally as well as internationally, and the company is flexible enough to customise each condominium/apartment to suit the specific customer requirements.

### **Sunshine Manufacturing (Pvt) Ltd (SML)**

SML has steadily increased its presence across the construction value chain through strategic investments in setting up production plants that provide key construction-related inputs to support SCP's project operations around the country. Plant capacity expansions are planned ahead of time through the annual capital expenditure plan, while annual budget allocations drive continuous and ongoing maintenance and improvements at all plants. The company is collaborating with the research and development unit of the Road Development Authority (RDA) to develop an innovative solution to appropriately modify the asphalt wearing course and binder to enhance the durability of road surfaces.

SML uses the following strategies in its manufacturing operations.

- Make-to-Stock (MTS): Goods are produced by predicting the market, and they are produced regardless of orders being received.
- Make-to-Order (MTO): Goods are produced when orders are received, making it easier to control inventory.

The company manufactures/processes the following inputs related to construction, based on the above strategies.

- Autoclaved aerated concrete (AAC) blocks
- Soil/sand
- Bricks
- Concrete mix

However, due to the current economic setback, SML has lost the local market share and incurred losses during FY 2022/23.

## **Management processes of Sunshine Group**

- **General management**

The board of directors of SCP is responsible for formulating group policies, and there is a newly created vice chairman's position at SCP, and it was filled by Kosala, who was already assigned the responsibility of monitoring the activities of SML. The managing director of SML, Somapala was requested to report directly to the vice chairman on administrative activities.

- **ERP system (SAP version ERP 6.0)**

SCP, Sri Lanka's leading infrastructure development solutions provider, has chosen the latest version of the enterprise resource planning (ERP) application (SAP ERP 6.0) to streamline its core business operations and improve the efficiency of the IT reporting environment across its corporate office and site offices in the country. SCP is associated with the region's largest and most prestigious civil engineering projects involving the construction of bridges and flyovers to roads and highways, harbours, water supply schemes and laying of optical fibre backbones. Sunshine Group, with a workforce of 1,500, has executed more than 50 projects to date, and has been the strength behind many infrastructure development programmes across the island. The SAP solution is intended to boost organisation-wide project management capabilities and improve visibility and controls throughout the lifecycle of projects.

- **Human resources**

Human capital plays a vital role in the ongoing success of Sunshine Group as each and every employee contributes to the day-to-day operations and supports the achievement of the group's broader strategic objectives.

Human resources at SCP are centralised under the purview of the Human Resource Department (HRD). The HRD is charged with ensuring the company complies with the applicable labour laws. Labour laws applicable to SCP are the Shop and Office Employees Act No. 19 of 1954, Wages Boards Ordinance, EPF Act, ETF Act, and Payment of Gratuity Act of Sri Lanka. During FY 2021/22 new laws were introduced to increase the minimum wage. Sunshine Group has not fully complied with all the set changes of these new laws.

The vice chairman of SCP pointed out that the group has not considered the allowances paid to workers when calculating the monthly contributions to EPF/ETF by the companies. The finance director, Kamal mentioned that letters were obtained from employees when joining the group confirming that they were comfortable with the management decision of not considering allowances in computing the monthly EPF/ETF contributions.

- **Human resources information system (HRIS)**

The HRIS currently in place records and generates reports pertaining to employee attendance. During the year under review, work was initiated to migrate to a new HRIS called 'HR Mates'. The new system, which is expected to go live during FY 2023/24, will create a platform to integrate key modules including training and development, performance appraisal, recruitment, time and attendance, as well as the management information system.

However, although the Sunshine group maintains a HRIS, it takes more than 45 days to update HR information of construction sites located in different places and sometimes there are errors when feeding information manually by the data entry staff.

The group maintains a non-discriminatory approach to offer equal opportunities to all employees regardless of their gender, age, religion, political opinion, social origin or any other status protected by law.

Sunshine Group respects the UN Convention on the Rights of the Child and Principle 5 of the UN Global Compact regarding child labour. Accordingly, the group has included stringent verification controls as part of the selection process to ensure all new recruitments comply with the minimum age regulations as stipulated by Sri Lanka's labour laws. However, site managers from outstation have recruited children as helpers considering the economic difficulties and issues faced by their families; but they were not assigned any heavy work.

Buwaneka, one of the independent directors who heads the audit committee is not interested in having regular financial review committee meetings, since he is not well-versed in financial accounting as well as the internal control procedures of an organisation – the major areas to be reviewed by an audit committee. This matter was discussed at the recent board meeting and majority of the directors proposed that in order to have an effective audit committee, it is best for Buwaneka to be replaced by Kosala as the chairman of the audit committee since he is knowledgeable in finance and the systems of SCP. It was further observed that this will enhance the scope of the committee and help improve the internal control systems as well as the financial reporting standards of SCP. Since there were no objections, the company secretary was directed to seek advice and take necessary action to prepare an appropriate board paper for the next board meeting.

### **Group performance and future strategies**

The finance director tabled a brief board paper on the group's performance during FY 2022/23 at the recent board meeting to draw attention to the current status of the industry as well as the future direction of the group (**refer Annexure 1**).



According to him, group revenue had dropped by 13% compared to the previous year while the revenue of the company (SCP) had decreased by 24%. The gross profit ratio of the group had come down to 14% from 22% in the previous year, while SCP's gross profit had come down to 16.6% from 19% in FY 2022/23. He further pointed out that this was mainly due to the low revenue of SML and SML's loss of Rs. 38 million for FY 2022/23.

The chairman wanted to have a special board meeting after going through the financial performance of FY 2022/23. The chairman highlighted the continuous drop in performance especially at SML with the market demand for products dropping by 60% compared to FY 2018/19 and the company (SML) incurring losses and experiencing a rise in trade receivables (from the government and corporate sector) by 50% compared to FY 2018/19. He stated that the industry will not bounce back quickly even though there are some positive signs of recovery of the Sri Lankan economy following the domestic debt restructuring process.

The chairman further pointed out that the group working capital management policy should be reviewed since the large pending projects were accounted for under inventories, and last year's progress of these projects was poor. Also, the trade receivables of the group and SCP have gone beyond the group credit policy of a maximum of 45 days. He requested the vice chairman of SCP, Kosala to recommend alternative strategies to overcome this situation which has an adverse effect on the group since there were very expensive modern plant and machinery that were not utilised at full capacity due to the low demand and tight financial position. Moreover, the bank is also putting pressure due to the outstanding overdraft facility, urging that debts of the group need to be restructured.

The board of directors requested the finance director to re-negotiate with the bank explaining the current situation of the group and the fact that existing interest rates offered by the bank for overdrafts and term loans are 17% and 15% respectively, which are excessive compared to the current average market rates of 14% and 12%.

Kosala, whilst agreeing with his father about the current financial status of SCP, said that the proposal of the bank for restructuring of debt should be viewed positively as the construction industry has bright prospects. However, increasing the value-added tax rate from 15% to 18% with effect from January 2024 will have an impact on the future operations of the group.

The finance director pointed out that due to the existing import restrictions enforced by the government of Sri Lanka, the supply chain of the group has been adversely affected, and poor quality raw materials were being purchased to meet the current requirement of the group at a higher cost after accounting for waste. He suggested acquiring one or two local manufacturing establishments as a strategy to have good quality products and maintain the company's vision.

Sunshine Group did not declare dividends for the last four years although the group had a good reputation for declaring dividends of 50% – 60% of profits attributable to the equity holders previously, all the way since its inception. The chairman brought to the notice of the directors that until the economy reaches stability and the company becomes financially strong, profits will not be distributed as they need to be accumulated to meet future development/expansion needs. A few investors of SCP are not happy with the management’s decision and are willing to dispose of their shares. The current market price of an SCP share is Rs. 159, which is the lowest price it has ever been (even lower than its net assets value). The beta value of SCP is 1.20 and the market risk premium is 7%.

The beta values, financial information of peer companies and market information are as follows.

	<b>ABX PLC (Similar company to SML)</b>	<b>PQR PLC (Similar company to SRERL)</b>
Beta	1.62	1.92
Debt-to-equity ratio	2.5 : 3.0	1.5 : 2.5
Market risk premium	5%	4%

### **Market information**

- 10-year Central Bank bond rate: 10%
- Current exchange rate: USD 1 = LKR 309 – LKR 320
- Forward rate

	<b>USD/LKR</b>
6-month forward rate	LKR 325 – LKR 338
1-year forward rate	LKR 340 – LKR 348

## Annexure 01: Financial information

### Sunshine Construction PLC Statement of Profit and Loss and Other Comprehensive Income

For the year ended 31 March	Group		Company	
	2023	2022	2023	2022
	Unaudited		Unaudited	
	Rs. million			
Revenue	20,254	23,285	10,028	13,245
Cost of sales	(17,418)	(18,221)	(8,368)	(10,728)
<b>Gross profit</b>	<b>2,836</b>	<b>5,064</b>	<b>1,660</b>	<b>2,517</b>
Other income	221	573	172	325
Administrative expenses	(1,251)	(1,052)	(758)	(825)
Other expenses	(105)	(72)	(71)	(54)
<b>Operating profit</b>	<b>1,701</b>	<b>4,513</b>	<b>1,003</b>	<b>1,963</b>
Finance income	281	175	251	112
Finance cost	(1,325)	(1,130)	(825)	(873)
<b>Profit before tax</b>	<b>657</b>	<b>3,558</b>	<b>429</b>	<b>1,202</b>
Income tax (expense)/reversal	(415)	(643)	(186)	(144)
<b>Profit for the year</b>	<b>242</b>	<b>2,915</b>	<b>243</b>	<b>1,058</b>
<b>Profit attributable to:</b>				
- Equity holders of the parent	250	2,893	243	1,058
- Non-controlling interest	(8)	22	-	-
<b>Profit for the year</b>	<b>242</b>	<b>2,915</b>	<b>243</b>	<b>1,058</b>
<b>Other comprehensive income (OCI)</b>				
<b>Items that will not be reclassified to profit and loss</b>				
Re-measurement of defined benefit liability	125	(6)	112	(6)
Revaluation of land and buildings	-	72	-	48
Related tax	(18)	40	(16)	(8)
<b>Other comprehensive income for the period, net of tax</b>	<b>107</b>	<b>106</b>	<b>96</b>	<b>34</b>
<b>Total comprehensive income for the year, net of tax</b>	<b>349</b>	<b>3,021</b>	<b>339</b>	<b>1,092</b>
<b>Total comprehensive income attributable to:</b>				
- Equity holders of the parent	357	2,999	339	1,092
- Non-controlling interest	(8)	22	-	-
<b>Total comprehensive income for the year, net of tax</b>	<b>349</b>	<b>3,021</b>	<b>339</b>	<b>1,092</b>
<b>Earnings per share (Rs.)</b>	<b>16.67</b>	<b>192.87</b>	<b>16.20</b>	<b>70.53</b>

**Sunshine Construction PLC**  
**Statement of Financial Position**

As at 31 March	Group		Company	
	2023	2022	2023	2022
	Unaudited		Unaudited	
	Rs. million			
<b>ASSETS</b>				
<b>Non-current assets</b>				
Property, plant and equipment	6,604	5,545	4,225	3,332
Right-of-use assets	1,025	725	125	172
Investment properties	6,852	6,525	852	752
Investment properties (work-in-progress)	1,425	1,125	-	-
Intangible assets	752	652	48	35
Investments in subsidiaries	-	-	1,250	1,250
Deferred tax asset	62	48	-	-
<b>Total non-current assets</b>	<b>16,720</b>	<b>14,620</b>	<b>6,500</b>	<b>5,541</b>
<b>Current assets</b>				
Inventories	5,742	4,252	2,252	2,060
Trade and other receivables	8,790	7,252	5,743	6,815
Amount due from related parties	8	19	351	652
Current tax assets	54	72	-	-
Short-term investments	537	258	537	258
Short-term deposits	1,015	925	825	752
Cash and cash equivalents	20	15	10	33
<b>Total current assets</b>	<b>16,166</b>	<b>12,793</b>	<b>9,718</b>	<b>10,570</b>
<b>Total assets</b>	<b>32,886</b>	<b>27,413</b>	<b>16,218</b>	<b>16,111</b>
<b>EQUITY AND LIABILITIES</b>				
<b>Equity</b>				
Stated capital (15 million shares)	1,500	1,500	1,500	1,500
Retained earnings	7,521	7,164	5,543	5,204
Revaluation reserves	72	72	48	48
Equity attributable to equity holders of the parent	9,093	8,736	7,091	6,752
Non-controlling interest	1,882	1,890	-	-
<b>Total equity</b>	<b>10,975</b>	<b>10,626</b>	<b>7,091</b>	<b>6,752</b>
<b>Non-current liabilities</b>				
Lease liabilities	127	116	2	-
Loans and borrowings	7,252	5,917	4,250	4,489

Employee benefit liabilities	324	426	243	334
Deferred tax liabilities	982	752	77	68
<b>Total non-current liabilities</b>	<b>8,685</b>	<b>7,211</b>	<b>4,572</b>	<b>4,891</b>
<b>Current liabilities</b>				
Bank overdraft	1,590	1,126	-	-
Trade and other payables	8,825	6,252	2,477	2,706
Amount due to related parties	72	45	191	112
Lease liabilities	135	100	-	-
Loans and borrowings	2,523	1,758	1,825	1,325
Current tax liabilities	81	295	62	325
<b>Total current liabilities</b>	<b>13,226</b>	<b>9,576</b>	<b>4,555</b>	<b>4,468</b>
<b>Total liabilities</b>	<b>21,911</b>	<b>16,787</b>	<b>9,127</b>	<b>9,359</b>
<b>Total equity and liabilities</b>	<b>32,886</b>	<b>27,413</b>	<b>16,218</b>	<b>16,111</b>

#### Segmental information for the year ended 31 March 2023 (Unaudited)

Segment	SCP	SML	SRERL	Adjustment	Group
	<b>Rs. million</b>				
<b>Revenue</b>					
External customers	9,752	1,252	9,250	-	20,254
Inter-segment	276	142	975	(1,393)	-
<b>Total revenue</b>	<b>10,028</b>	<b>1,394</b>	<b>10,225</b>	<b>(1,393)</b>	<b>20,254</b>
Segment operating profit	1,003	56	1,227	(585)	1,701
Net finance income/ (cost)	(574)	(94)	(376)	-	(1,044)
Income tax expense	(186)	-	(229)	-	(415)
<b>Segment profit after tax</b>	<b>243</b>	<b>(38)</b>	<b>622</b>	<b>(585)</b>	<b>242</b>
<b>Total assets</b>	<b>16,218</b>	<b>11,250</b>	<b>7,668</b>	<b>(2,250)</b>	<b>32,886</b>
<b>Total liabilities</b>	<b>9,127</b>	<b>1,840</b>	<b>11,312</b>	<b>(368)</b>	<b>21,911</b>

## Extracts of the 5-year forecast

<b>Sunshine Group: 5-year forecast</b>					
	<b>Rs. million</b>				
	<b>2023/24</b>	<b>2024/25</b>	<b>2025/26</b>	<b>2026/27</b>	<b>2027/28</b>
Earnings before interest and tax (EBIT)	2,077	2,459	2,576	2,707	2,882
Additional capital expenditure	-	258	278	330	366
Depreciation	324	319	352	374	385
Change in working capital (outflow)	115	153	56	79	95

<b>SML: 5-year forecast</b>					
	<b>Rs. million</b>				
	<b>2023/24</b>	<b>2024/25</b>	<b>2025/26</b>	<b>2026/27</b>	<b>2027/28</b>
EBIT	300	330	363	399	439
Additional capital expenditure	-	30	32	40	46
Depreciation	92	95	100	112	115
Change in working capital (outflow)	12	9	11	12	13

<b>SRERL: 5-year forecast</b>					
	<b>Rs. million</b>				
	<b>2023/24</b>	<b>2024/25</b>	<b>2025/26</b>	<b>2026/27</b>	<b>2027/28</b>
EBIT	550	578	624	674	741
Additional capital expenditure	-	72	75	80	85
Depreciation	110	112	126	130	135
Change in working capital (outflow)	8	9	15	17	22

## **Annexure 02: Sri Lanka Construction Market Overview and Forecast, 2023 – 2027**

The Sri Lanka construction market is expected to contract by 14.9% in real terms this year, down from Global Data’s previous estimate of a 7.9% decline, owing to the ongoing economic and political crisis, steep currency depreciation, and rising inflation. According to the latest report released by the Asian Development Bank (ADB) in April 2023, the domestic currency depreciated by 44.8% against the US dollar in 2022. In January 2023, the government announced that it will cut its recurrent budget expenditure by 6% in 2023 in a bid to tackle the financial crisis and secure IMF financial support. Moreover, the cabinet approved a proposal to delay some public employees’ salaries to manage public finances. These are all expected to weigh on both economic and construction industry growth in the coming quarters.

Further weighing on construction activity is the suspension of major infrastructure projects due to financial issues, owing to an increase in foreign debt and decreasing tax revenues. According to the World Bank, as of December 2022, Sri Lanka has an external debt burden of around LKR 16.7 trillion (US\$ 52 billion). Of that, 40% is owed to private creditors, including financial institutions, while the rest is owed to bilateral creditors, of which China, Japan, and India are the largest.

Despite near-term challenges, the medium to long-term growth prospects of the Sri Lankan construction industry are expected to be positive, assuming an improvement in economic stability and a resumption of investment in transport, housing, and renewable energy projects, and government policies to promote manufacturing and exports. The Sri Lankan construction industry is expected to register an average annual growth of 5.6% from 2024 to 2027, picking up from the low base in 2022 and 2023. In January 2023, India’s state-owned railway company Indian Railway Construction International (IRCON) launched a LKR 28.9 billion (US\$ 90 million) programme for the upgradation of the railway track in Jaffna. Growth over the forecast period will also be supported by a bailout loan aimed at helping the country overcome its financial crisis. In March 2023, the International Monetary Fund (IMF) approved a LKR 962.4 billion (US\$ 3 billion) bailout for Sri Lanka for a period of seven years, to support a recovery from its worst financial crisis.

**Source:** (<https://www.globaldata.com/store/report/sri-lanka-construction-market-analysis/>)

## **Sri Lanka's property market and future trends**

Sri Lanka's property market has emerged as a vibrant and dynamic sector, presenting a plethora of opportunities for investors and developers. With a strategic location, a growing economy, and a focus on infrastructure development, the country's real estate landscape is poised for substantial growth in the coming years. The property market has experienced steady growth, fueled by rapid urbanisation and population expansion. The World Bank estimates that Sri Lanka's urban population stood at 18.8% in 2020, indicating a shift towards urban centers. This trend has created a robust demand for residential, commercial, and mixed-use properties, particularly in major cities such as Colombo, Kandy, and Galle. The country's urbanisation, coupled with a rising middle class and increasing purchasing power, has contributed to the sustained growth and stability of the property market.

Foreign direct investments (FDIs) have played a pivotal role in shaping Sri Lanka's property market. The country's strategic location, coupled with supportive government policies, has attracted significant inflows of FDI. According to the Board of Investment of Sri Lanka, the country received US\$ 600 million in FDI so far in 2023, demonstrating the confidence of international investors in the potential of Sri Lanka's real estate sector.

Speaking to The Sunday Morning Business, Iconic Developments Managing Director Rohan Parikh stated that a shortage of apartments in the Sri Lankan property market was imminent, which would inevitably lead to a surge in property prices.

"This impending shift is a consequence of the recent economic crisis, which has slowed down new developments. With the current inventory in Colombo expected to sell out soon and a limited number of new projects in the pipeline, the demand for apartments will soon outstrip". He further noted that this could pose challenges for prospective homeowners seeking affordable housing in the city, while potentially benefiting existing property owners and investors.

"Meeting a surge in demand will be a significant challenge for the property sector. The economic crisis has led to a contraction in the sector, forcing many developers to halt operations due to financial constraints. This, coupled with the high cost of construction, VAT (value added tax), and import duties, has created a challenging environment for developers to initiate new projects," Parikh noted.

**Source: (<https://www.themorning.lk/articles/OxcA8jr3Xjvnz48BZLgy>)**