# CEYLON OXYGEN LTD

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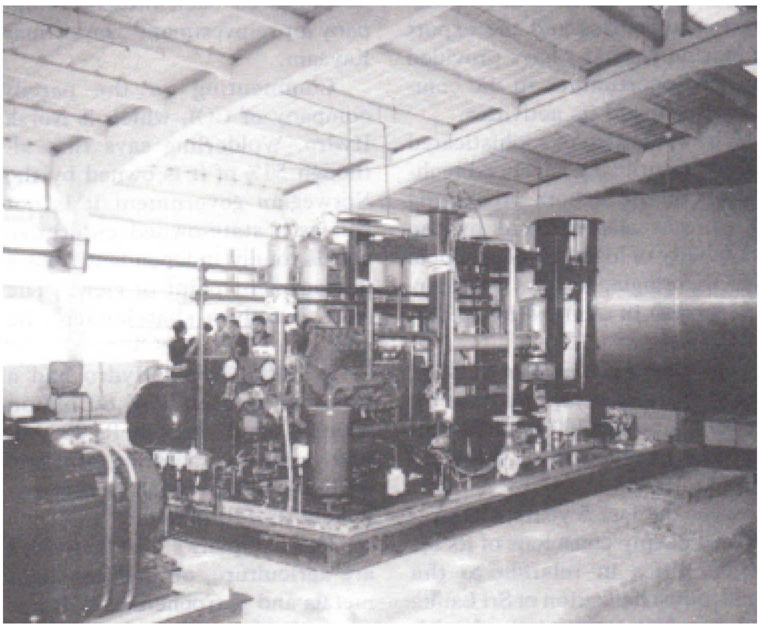
**C**eylon Oxygen Ltd. (COL), Sri Lanka's main supplier. of Industrial and Medical Gases and Liquids is planning a massive investment of approximately Rs 450 million in a new state-of-the-art, high-tech air separation plant, which will have a significantly higher liquid production capacity with unproved efficiency with regard to energy and other utilities that are limited resources in the island. The higher capacity will also give improved reliability to existing customers and will give COL an opportunity to introduce a new gas application to the market, with advantage to the customer in quality and process efficiency, states the Chairman of COL, RN Hapugalle, in his review for the year ended 31st December 1995.

Technically, the new air separation plant is designed to produce either 100% oxygen or a lower volume of oxygen and nitrogen, with the total of both being of the same volume.

Commenting on the need for an investment of this magnitude the charismatic Managing Director of COL, Lennox Wolderling says, “Over the last years, the market for gaseous products has been growing significantly, leading to a situation where the actual facilities are getting too small. Infact, if we continue to grow in line of demand from the market over the next years, then probably we will completely run out of existing capacity”. Therefore, COL’s major shareholder *Norsk Hydro* a.s., Norway, has decided to increase the existing capacity with this new air separation plant.

Wolderling explains, “An air separation plant is a sort of a machine which makes liquid oxygen and liquid nitrogen which are products demanded and very necessary for a certain number of industries we have in this country. Liquid nitrogen for instance, is
used in the electronic industry which has made it possible for several foreign companies to invest in Sri Lanka in this area of business.”

The company received three responses to the tender for this high-tech air separation plant: one from a British-based company, another from an Italian concern and the third from Cosmodyne of USA. “The Italian company was not in line with the description of our tender and infact the British offer wasn’t either. Although closer to what we needed, they were more than 20% more expensive than the initial offer from Cosmodyne”, says Wolderling. Although the contract had not been signed at the time of writing, the decision to acquire the new air separation plant from Cosmodyne of USA had been made. This investment which is estimated around Rs 450 million is almost the annual turnover of COL.



Explaining the background of Cosmodyne, Wolderling says, that the company had been a leading supplier to the military in the USA. However, since the easing of international tension on the US military, the company had more or less reorganized itself to cater to the demands of the industrial consumer market.

In order to obtain the finances for an investment of this nature (Rs 450 million), COL has decided to go in for a Rights Issue. At the time of writing however, COL had not obtained approval from the Colombo Stock Exchange for this Rights Issue. Commenting on this sensitive area Wolderling says, "We are talking about Rs 180 million through this Rights Issue. We will most probably apply for a NORAD loan for approximately Rs 150 million and the balance will be through local Merchant and Development banks". Adding further he said, "This will be a totally normal Rights Issue among existing share holders."

At present, the annual demand for liquid oxygen is around 3 million This is considersered very small compared to other countries where Norsk Hydro is operating. Oxygen is mainly used for welding and cutting and its major user is the Colombo Dock Yard, but it goes down to smaller users like wayside garages and of course to the medical sector, says Wolderling COL is one of the first success stories of the government's privatization programme. In 1990, Norsk Hydro a.s. of Norway, acquired 60% stakes in COL. 10% of the shares were allotted free of charge to its employees and the balance 30% were sold to the public. The company is administered by an all Sri Lankan management team with the only foreign national being its Managing Director. The company's main line of business to date has been the production of Industrial and Medical gases and liquids, namely oxygen, nitrogen, nitrous oxide, carbon dioxide, dry-ice and dissolved acetylene. Diversification has also brought about trading of Electrodes, Transformers Medical Equipment and Imported Gases.

The sub-product of carbon dioxide or CO, is dry-ice which has a very fast growing market with lots of opportunities in its applications. "Infact, the dry-ice business is growing so fast we even export it to the Maldives for Tuna fish exports to Japan, which could be a very good market in Sri Lanka too, if there was more Tuna export", says Wolderling.

COL being a base industry spurs industrial development else where. The company continues to attune itself to the quickening pace of industrial development in Sri Lanka and increasingly plays pivotal role in this process. The development of new market segments such as the electronics, food processing, cycle assembly, refrigeration industries and the export of marine products have provided further opportunities to the company to expand its activities.

The setting up of sophisticated industries utilizing advanced technology in the export processing zones, was also spurred by the availability of high-purity products of COL, bringing about a consider able growth in demand for its liquid products.

The Finance Manager of COL, Omar Kayaam says, “We have invested almost Rs 300 million from the time of takeover of the company in 1990.”

Over the last 5 years, COL remained deeply conscious of its responsibilities in relation to the rapid industrialization of Sri Lanka and its obligations to the health care services. In this regard, COL gave top priority to modernization of the plant and machinery and moved towards new and advanced technology. The company invested in a new CO, plant to supplement the production of the existing plant, as the demand for CO, and dry-ice grew rapidly in 1995. Investments for that year amounted to Rs 89.3 million which coupled with similar investments made in the previous 4 years, take post-privatization investments to Rs 243 million. COL has greatly benefited by the government’s decision to waive duty and turnover tax under fiscal incentives offered for new investments utilizing advanced technology.

COL maintains a very conservative dividend policy. 80% of its profits over the last 5 years have been reinvested in the company. “Generally, if you look at companies owned by multinationals they pay out very high dividend rates so that they recover most of their investments in a short period. Here, it has been the other way round. We’ve been maintaining a dividend policy of around 20% so that 80% of the profits can be ploughed back into the company for reinvestment”, says Omar Kayaam.

Commenting on the parent company of COL which is Norsk Hydro, Wolderling says that although 51% of it is owned by the Norwegian government it is not run as a state-owned enterprise and is totally independant from a management point of view. “The state is only a shareholder”, he adds.

In 1995, Norsk Hydro had a turnover of over NOK 80 billion which is approximately Rs 900 billion, with an operating profit of NOK 10 billion which is approximately Rs 110 billion.

The company's core activities are agriculture, oil and gas, light metals and petrochemicals. It has a worldwide network for production and marketing of fertilizers in Europe, "and as such I know that it will be actually very interested in the fertilizer business in Sri Lanka", says Wolderling.

The company is also one of Europe's largest producers of aluminium and one of the two largest magnesium producers in the West. According to Wolderling, "The oil and gas operation which deals with off-shore oil in the North Sea is the main source of income for the company". It is infact one of the leading petroleum companies on the Norwegian continental shelf and is operator for the Oseberg, Brage, Troll Oil, Njord and Visund fields.

Norsk Hydro also has a division for petrochemicals to which COL belongs.

Until 10 years ago, the main strategy of Norsk Hydro was to invest in Europe and North America, but over the last 10 years, the company has been focussing more on South East Asia. "The total investments that are to be made in South East Asia are infact a quarter of the total investments of Norsk Hydro", says Wolderling. This obviously points to a strong intention of the company to develop outside Europe. Wolderling goes on to say, "One of the main reasons of course being, that this is the only region in the world now, which has growth rates that go beyond 5%". He adds on a positive note, "and of course part of this development is going into Sri Lanka which we consider as a potential market for the coming years."

With this kind of confidence in the future of the Sri Lankan economy and the support, strength and the vast resources available to Norsk Hydro, COL has every chance of becoming a model company not only in Sri Lanka but in the whole of Asia.

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