

# JAT HOLDINGS LIMITED

## Research Report Prepared by



### **CAPITAL ALLIANCE PARTNERS LIMITED**

Level 05, "Millennium House",  
No. 46/58, Nawam Mawatha,  
Colombo 02,  
Sri Lanka.

We, Capital Alliance Partners Limited ("CAL"), hereby declare that we possess the requisite expertise to perform reports of this nature involving a quoted company categorised under the GICS Sector Classification: Materials.

Please note that the valuation of JAT was conducted by CAL primarily based on the assumptions and the financial information provided by Board of Directors and Senior Management of JAT and CAL has employed best efforts to independently review and analyse the assumptions provided by the management in comparison with the historical financial performance of the Company, industry trends and peer information.

Further, we declare that the Research Report has been prepared in conformity with the disclosures stated in the 'Guidance Note' pertaining to the preparation of a Valuation/Research report.



The Board of Directors,

JAT Holdings Limited,  
No. 351,  
Pannipitiya Road,  
Thalawathugoda,  
Sri Lanka.

Dear Sir/Madam,

## **Valuation Report to the Board of Directors and Shareholders of JAT Holdings Limited on the proposed Initial Public Offering**

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We, Capital Alliance Partners Limited, in the capacity of Joint Managers and Financial Advisors to the Initial Public Offering (IPO) of JAT Holdings Limited, wish to submit the enclosed Research Report wholly prepared by us in accordance with Section 3.1.4 (c) of the Colombo Stock Exchange Listing Rules.

Please find enclosed herewith the detailed Research Report for your reference.

Thank you,  
Yours faithfully,

### **CAPITAL ALLIANCE PARTNERS LIMITED**

Sgd

**Vishnu Balachandran**  
Executive Vice President  
Head of Investment Banking

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BOARD OF DIRECTORS  
Mr. W. A. T. Fernando | Mr. D. A. De Zoysa | Mr. T. J. William

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## Glossary of terms and Abbreviations

APAC	Asia Pacific
ASPI	All Share Price Index
AWPLR	Average Weighted Prime Lending Rate
BDT	Bangladeshi Taka
BM	Brush Master (Pvt) Ltd
CAGR	Compound Annual Growth Rate
CAL	Capital Alliance Partners Limited
Capex	Capital Expenditure
DMCC	JAT Exports DMCC
Comps	Comparable Companies to JAT
CSE	Colombo Stock Exchange
DCF	Discounted Cash Flow
EBIT	Earnings Before Interest & Tax
EBIT (1 – T)	Tax Adjusted Earnings Before Interest & Tax
EBITDA	Earnings Before Interest, Tax, Depreciation & Amortization
EPS	Earnings per Share
ETB	Ethiopian Birr
EV	Enterprise Value
FCFF	Free Cashflow to Firm
FY	Financial Year
INR	Indian Rupee
IPO	Initial Public Offer
JAT	JAT Group
JATA	JAT East African Plant
JATB	JAT Bangladesh Plant
JATE	JAT Exports (Pvt) Ltd
JATH	JAT Holdings Limited
JATG	JAT Global (Pvt) Ltd
LKR	Sri Lankan Rupee
LKR Bn	Sri Lankan Rupee (in billion)
LKR Mn	Sri Lankan Rupee (in million)
Market Cap	Market Capitalization
NAV	Net Asset Value
NAVPS	Net Asset Value per Share
NC	Nitrocellulose
PAT	Profit After Tax
P/E Relative or PER	Price to Earnings Ratio
PU	Polyurethane
Point Valuation	A Single Price Point Arrived at Using a Single Basis
SEC	Securities & Exchange Commission of Sri Lanka
USD	United States Dollar
USD Bn	United States Dollar (in billions)
USD Mn	United States Dollar (in millions)
the Assignment	Provide an independent valuation to be included in the IPO Prospectus of JAT Holdings Limited
the Board	The Board of Directors of JAT Holdings Limited
Ordinary Voting Shares	Ordinary Voting Shares of JAT Holdings Limited
Offeror	JAT Holdings Limited
Shareholders	Shareholders of JAT Holdings Limited
SOTP	Sum of the Parts
TTM	Trailing Twelve Months
Valuation Date	Wednesday, 31 March 2021
WACC	Weighted Average Cost of Capital
WC Inv.	Investment in Working Capital
WWRC	Worldwide Resins and Chemicals (Pvt) Ltd

## 1.0 Introduction

### 1.1 Executive Summary

CAL valued JAT Holdings Limited ("JAT"/"Company") using two fundamental valuation methods: Sum of the Parts ("SOTP") valuation using Discounted Cash Flow ("DCF") analysis and PER Relative. Based on this, we conclude the value of JAT of LKR 32.70; based on our primary valuation metrics – the SOTP using DCF and PER.

We would also like to bring to the reader's attention that the IPO price of LKR 27.00 per share is at a c. 17.4% discount to our reference Point Valuation, based on the DCF and PER, of LKR 32.70. This IPO discount is provided to investors in order to provide a potential upside on the investment.

The table below sets out the findings from the valuation methodologies mentioned above. Please refer Section 6.0 – Valuation Results for a more detailed discussion.

Method	Intrinsic Value of Equity (LKR Mn)	Weightage	Value Per Share (LKR)*
DCF	16,589	90%	32.50**
Forward PER	17,615	10%	34.51
Average Value Per Share (LKR)			32.70

\*Based on the total number of shares in issue post IPO

\*\*The DCF value per share setout herein, is subject to the viability of the said forecasts/assumptions made in section 4 of this Research Report

#### However, we offer the following cautions to investors:

Point valuations are highly subjective. We considered a few methods to provide balance, but concluded that a SOTP was more appropriate vis-à-vis the available alternatives due to the following reasons.

- JAT has significant investments in several companies in Sri Lanka and overseas consolidated as Subsidiaries. Thus, we believe SOTP valuation using DCF analysis is the best model to grasp the full value of JAT as it captures the future potential and profitability of the Group.
- We have considered several CSE-listed peers as well as Bangladeshi listed peers for our Forward PER valuation. The 'Materials and Capital Goods' Sector Peers as per the GICS classification on the CSE – included Royal Ceramics Lanka PLC, Tokyo Cement Lanka PLC, Alumex PLC, ACL Cables PLC and Lanka Walltiles PLC and the 'Paints and Building Products' Industry Peers as per industry classification on the S&P Capital IQ – included Berger Paints Bangladesh Limited, Nahee Aluminium Composite Panel Ltd, Fu-Wang Ceramic Industry Limited and RAK Ceramics (Bangladesh) Limited – all of which are listed companies engaged in the manufacturing and trading businesses. These companies are operationally comparable to JAT as the peers are in the construction space, however, not direct comparables and the company level PERs exhibit a broad variation. Therefore, we have allocated a 10% weightage to PER valuation as part of our primary valuation mode.

Bangladeshi peers were considered as a significant amount of revenue of JAT is attributable to Bangladesh and presence in Bangladesh is expected to increase going forward with the establishment of the manufacturing facility in Bangladesh.

We have used the Forward PER valuation method as opposed to trailing PER valuation method as the profitability in FY21 was heavily impacted due to the subdued economic impact of COVID-19. Therefore, FY21 results do not accurately reflect company's earnings capability.

- The NAV was not considered as a valuation basis. Since the NAV of the individual companies is not directly related to the earnings capacity of the respective entities based on the nature of operations, we have not considered it as a valuation mode.

## 1.2 Background to the Assignment

Incorporated in 1993, JAT Holdings Limited has progressed in establishing itself as one of the leading paints and coating companies in Sri Lanka over the last 25 years. The Company has expanded regionally across Bangladesh, India, the Maldives as well as internationally in East Africa. JAT's regional operations now account for c. 25% of its business. JAT has also ventured into the furnishing and buildings field and has added leading furniture brands such as SEA, Hermann Miller, Armstrong and Houros under JAT's product portfolio.

At this juncture, JAT is considering obtaining a listing on the CSE via an IPO to meet the dual objectives of raising additional capital for the following business expansion projects and of providing an exit option for Emerald Sri Lanka Fund 1 Limited, that has a c. 5.96% holding in JAT.

	Description	Fund Utilization	Expected Utilization Timeline
1	Investment in enhancing the existing R&D facility to a fully-fledged state-of-the-art facility for all coatings	433,165,000	Q2 of FY22 – Q4 of FY22
2	Setting up manufacturing facility in Bangladesh	515,423,927	Q2 of FY22 – Q4 of FY22
3	Investment in expanding the "WHITE by JAT" Marketing and Development Initiatives	256,884,046	Q2 of FY22 – Q4 of FY23
4	Setting up a Manufacturing Facility in East Africa	301,523,927	Q2 of FY23 – Q4 of FY23
		1,506,996,900	

Thus, the Board of Directors of JAT has appointed CAL, to conduct a valuation of JAT shares.

## 1.3 Terms of Reference

Our terms of reference in respect to this Assignment involve presenting to the Board of Directors and Shareholders of JAT (the Shareholders) the value of JAT shares at the point of the IPO.

## 2.0 Overview – JAT Holdings Limited

JAT Holdings Limited was incorporated in 1993 and have since been the distributor of the leading brand names in the paints and coatings industry including Sayerlack and Borma Wachs. Among its many achievements, JAT was placed among LMD's Top 20 Conglomerate Brands in Sri Lanka by Brands Annual 2020 and among the Top 100 Most Respected Companies cited by LMD for four consecutive years. The company has achieved a meteoric rise under the competent leadership of Mr. Aelian Gunawardene who was on the LMD's A List for three consecutive years commencing in 2018 and won the Entrepreneur of the Year award in 2017.

While enjoying a dominant position in the timber coating market with an enviable share of c. 55%<sup>1</sup> in water base and PU wood coating along with its strong presence in South Asia has enabled JAT to be the largest distributor in the world for Sayerlack<sup>2</sup>, which is the wood coating brand of The Sherwin-Williams Company.

Its newest product, 'WHITE by JAT' was launched in December 2020 and is a superlative quality emulsion paint. The Company aims to match superior quality with affordability for their consumers (homeowners, shop owners and corporates) in an efficient and convenient manner as these paints are sold online and are delivered to their consumers.

Further to having been in the paints and coatings industry for a significant time period, JAT has recently ventured into the furnishing and buildings field. The company has partnered with leading furniture brands such as Hermann Miller, Armstrong and Houros to name just a few. By partnering with the SEA Group, JAT has become a component of many high-profile projects in the construction of Sri Lanka's most desirable residential and commercial properties. These include the completion of kitchen sets, wardrobes and vanities at Altair Residential Project, 606 The Address and Prime Grand etc.

JAT has a significant market presence in Bangladesh ever since they entered the wood coating market in 2001 with brands such as 'Sayerlack' and 'J Chem'. Given the large market share in Bangladesh and the expectations for this to grow significantly over the years, there is an even greater scope for JAT to widen its operations in Bangladesh. This is a task made achievable by setting up a manufacturing plant within Bangladesh itself so JAT could cater to the expanding consumer segment and the rising middle-class portion of Bangladesh population.

Innovation has been the driving force behind JAT ever since its inception. In keeping with this principle, in 2018, the company made strides in together fusing innovation with sustainability. This was achieved with the introduction of waterbase wood coatings to Sri Lanka and Polyurethane (PU) coatings to Bangladesh which revolutionised these markets. The latest innovation is the launch of JAT's Petal Paint which gained recognition in New York, Thailand, United Kingdom etc. JAT pioneered the idea of utilizing the volumes of discarded flowers made as offerings at temples and extracting the pigments out of the flowers to manufacture paints. The paints were then used by enterprising artists who would utilize their creative efforts to repaint and restore the existing murals of the temples.

### JAT Holdings Limited – Group Structure



<sup>1</sup> Pepper Cube Consultants (Pvt) Ltd - Outlet Census Survey, 2021

<sup>2</sup> Sherwin Williams Letter dated 4th of May 2021

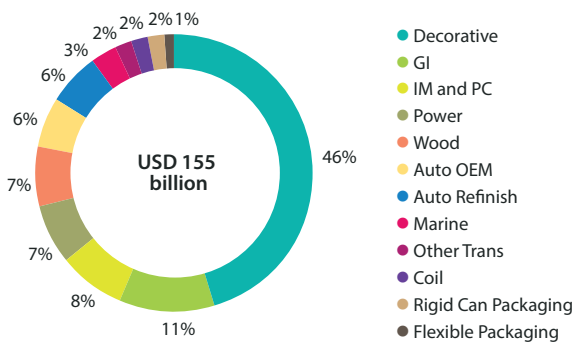
## 3.0 Industry Overview

### 3.1. Overview on the global coating industry:

The global wood coating industry is a highly specialized industry that is designated as indoor and outdoor coating of residential, commercial and institutional buildings. The market is inextricably linked and is therefore driven by the construction and furnishing sectors as it forms a key component in their processes.

The coatings market can be analyzed by way in which it is divided into different segments. As depicted in the figure below decorative paints lead the industry and is followed by general industrial, industrial maintenance and protective coatings and also powder and wood coatings. The decorative paints industry consists of paints for interiors and exteriors and includes emulsion and enamel paints. Recently, it has become popular in 'Do It Yourself' (DIY) projects among new homeowners and those looking to remodel their homes themselves. The market for wood coatings comprises a niche since protective coatings and wood coatings are used on an industrial scale with larger building projects and complexes.

**Sectoral Split of The Global Coatings Industry - 2019**

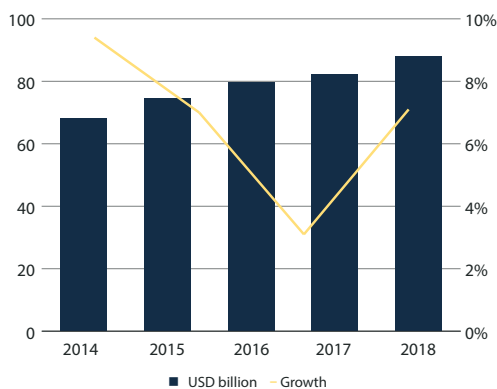


Source: Global Coatings Report, 2020

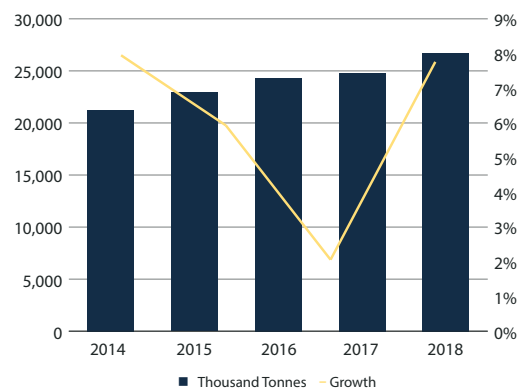
#### 3.1.1. Asia Pacific market segmentation:

The Asia Pacific (APAC) market is a highly lucrative for the coating and paints industry. The APAC coating and paints industry achieved a total revenue of USD 87,906.9 million as recorded in 2018, with a CAGR of c. 6.6% between 2014-2018<sup>3</sup>.

**Market Value (USD billion) during 2014-2018**



**Market Volume (Thousand Tonnes) during 2014-2018**



Source: Marketline, 2019

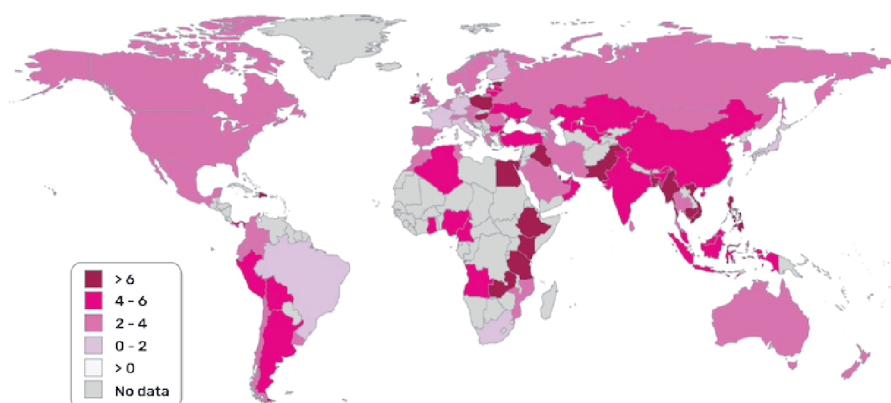
A key driver of the lucrative coating and paints industry in APAC is the share of the construction sector and its relative success in this region. This is owed to the fact that the higher the number of commercial, office and residential buildings being built, the greater the demand for paints and coatings required for these buildings. Studies carried out by the Market Data indicate that the APAC construction sector accounts for the largest share of the global construction sector. This is attributable to the successful growth stories in India and China, which in turn, led to the boom in the multifaceted construction sector; not just in terms of infrastructure development but more importantly residential, commercial and office buildings<sup>4</sup>.

<sup>3</sup> Marketline Research. 2019.

<sup>4</sup> Market Data. 2018



## Global Construction Output Growth (Real USD), Average % Change During 2018-2022



Source: Global Data Construction Intelligence Centre, 2018

### 3.1.2 Analysis of the Local Paints and Coating Industry:

The local paints and coatings industry can be divided into two main segments as Wood Coating and Decorative Paints segments. The local wood coating market is mainly composed of Water-Based, Polyurethane (PU) and Nitrocellulose (NC) products where JAT is the market leader in the Water-Based and PU space commanding a c. 55% market share<sup>5</sup>. Water-Based and PU products are considered as higher value products with premium quality compared to NC products. Although Sri Lanka used to be primarily a NC based market, a gradual shift from NC based products to more premium quality Water-Based and PU products could be identified over the last 15 years.

Further, there is no disclosures regarding the market share related to NC segment as there is no formal research carried out with respect to this segment.

Sayerlack shows a strong presence in the wood coating category and ranks among the top two across all provinces as the highest selling wood coating product in Sri Lanka as depicted by the below table.

Provincial Ranking – Wood Coating									
	Western Province	Southern Province	North-Western Province	Central Province	Sabaragamuwa Province	Uva Province	North-Central Province	Eastern Province	Northern Province
1	Sayerlack	Competitor 1	Others	Sayerlack	Sayerlack	Sayerlack	Sayerlack	Sayerlack	Competitor 3
2	Others	Sayerlack	Sayerlack	Others	Competitor 1	Competitor 3	Competitor 4	Competitor 1	Sayerlack
3	Competitor 1	Others	Competitor 2	Competitor 1	Others	Competitor 1	Others	Competitor 3	Others

Source: Outlet Census Survey, Pepper Cube Consultants (Pvt) Ltd, 2021

The decorative paints market is partially consolidated in nature, with only few major brands dominating the segment. This segment can be mainly segregated into two main categories as Interior and Exterior Decorative Paints.

Provincial Ranking – Interior Decorative Paints									
	Western Province	Southern Province	North-Western Province	Central Province	Sabaragamuwa Province	Uva Province	North-Central Province	Eastern Province	Northern Province
1	Competitor 2	Competitor 1	Competitor 4	Competitor 5	Competitor 1	Competitor 1	Competitor 2	Competitor 3	Competitor 3
2	Competitor 3	Competitor 4	Competitor 6	Competitor 3	Competitor 3	Competitor 5	Competitor 6	Competitor 1	Competitor 5
3	Competitor 5	Competitor 3	Competitor 2	Competitor 2	Competitor 2	Competitor 3	Competitor 4	Competitor 4	Competitor 4

Provincial Ranking – Exterior Decorative Paints									
	Western Province	Southern Province	North-Western Province	Central Province	Sabaragamuwa Province	Uva Province	North-Central Province	Eastern Province	Northern Province
1	Competitor 2	Competitor 1	Competitor 4	Competitor 5	Competitor 1	Competitor 1	Competitor 6	Competitor 3	Competitor 3
2	Competitor 3	Competitor 3	Competitor 6	Competitor 4	Competitor 2	Competitor 5	Competitor 5	Competitor 1	Competitor 5
3	Competitor 1	Competitor 5	Competitor 2	-	Competitor 3	Competitor 3	Competitor 3	Competitor 5	Competitor 1

Source: Outlet Census Survey, Pepper Cube Consultants (Pvt) Ltd, 2021

<sup>5</sup> Outlet Census Survey, Pepper Cube Consultants (Pvt) Ltd, 2021

Paint brush market can be divided into Black and Gold Brushes and Roller Brushes and JAT ranks highest in both these segments in Sri Lanka. The provincial ranking in the two segments has been illustrated below.

Provincial Ranking – Black and Gold Brushes									
	Western Province	Southern Province	North-Western Province	Central Province	Sabaragamuwa Province	Uva Province	North-Central Province	Eastern Province	Northern Province
1	Brush Master	Competitor 4	Competitor 1	Brush Master	Competitor 5	Competitor 3	Brush Master	Brush Master	Competitor 5
2	Harris Classic	Competitor 6	Others	Competitor 3	Brush Master	Harris Classic	Competitor 3	Competitor 3	Competitor 2
3	Competitor 1	Competitor 5	Harris Classic	Competitor 5	Competitor 4	Competitor 4	Harris Classic	Competitor 6	Competitor 3

Provincial Ranking – Roller Brushes									
	Western Province	Southern Province	North-Western Province	Central Province	Sabaragamuwa Province	Uva Province	North-Central Province	Eastern Province	Northern Province
1	Brush Master	Others	Competitor 1	Others	Competitor 5	Others	Brush Master	Brush Master	Others
2	Harris Classic	Competitor 6	Others	Competitor 6	Harris Classic	Competitor 2	Competitor 2	Competitor 2	Competitor 5
3	Competitor 2	Brush Master	Competitor 6	Competitor 1	Competitor 6	Competitor 6	Competitor 6	Competitor 6	Competitor 1

Source: Outlet Census Survey, Pepper Cube Consultants (Pvt) Ltd, 2021

The roller brushes segment indicates low market concentration as evidenced by large number of brands with a smaller market share which are categorized as 'Others' in the above table.

*The names of the competitors of JAT and their relative market share is not disclosed herein, as the market studies carried out by JAT in this regard is considered to be confidential by the company.*

### 3.2. Unforeseen times: impact of the global COVID-19 pandemic

The onset of the COVID-19 pandemic towards the end of 2019, brought with it extreme unprecedented circumstances. It impacted nearly every industry in the world and its reverberations have continued to be felt to the present day. A notable impact on the wood coating and paints industry was caused by the disruption in supply chains due to the imposition of national lockdowns and closing of international borders to contain the spread of the virus. Given that the industry imports c. 50% of its raw materials to process solvents, resins and add on components to the overall product mix, this invariably led to lags in the supply of coatings and paints<sup>6</sup>. This had the knock-on effect of short supply for a period of time till paint companies were able to maneuver through this and ensure a steady stream of raw materials supply.

A further impact is that during the imposed lockdowns and the following of mandatory social distancing, the dearth of labour to paint houses which led to a fall in demand for paints. As a result, customers had to postpone their re-painting cycle for an unforeseeable future. Given that countries have shown an ability to were grow as lockdowns eased, there is likely to be a success story at the end, as these consumers will create an effect of pent-up demand when they are eventually able to purchase paints and have their homes re-painted.

Therefore, it is worth noting that the ongoing pandemic is not indicative of a bleak industry outlook. Studies have shown that despite weak performance in the construction sector in the shorter run, the sector is likely to pick up in the medium run as governments are following through with fiscal stimulus packages which will ensure economic recovery<sup>7</sup>. Studies conducted by Oxford Economists highlight that despite the pandemic, given the roll out of the vaccines, the construction industry is said to experience a c. 35% growth by 2030, amounting to USD 5.8 trillion<sup>8</sup>. As such, there is a great potential for demand in the coating and paint sector to pick up.

Moreover, with the projected growth of the global urban population especially in the Asia Pacific region, there will be rising demand for residential and commercial property which will greatly benefit the construction sector. Research undertaken by the Economic and Social Affairs Department of the UN show that the current global urban population amounts to c. 55% and this is forecast to increase by 38% by 2050 as an additional 2.5 billion people are estimated to move to urban areas<sup>9</sup>.

Therefore, despite the severe impact of the COVID-19 pandemic, it is clear that the rapid rate of urbanization and the construction sector booms in both local and international contexts ensure that the demand for the coating and paints industry will rise exponentially.

<sup>6</sup>Nirmal Bang Institutional Equities Research. 2020.

<sup>7</sup>Independent Commodity Intelligence Services. 2020

<sup>8</sup>Industry Arc Research report. N.d.

<sup>9</sup>Outlet Census Survey, Pepper Cube Consultants (Pvt) Ltd, 2021

### 3.3. Industry prospects by country

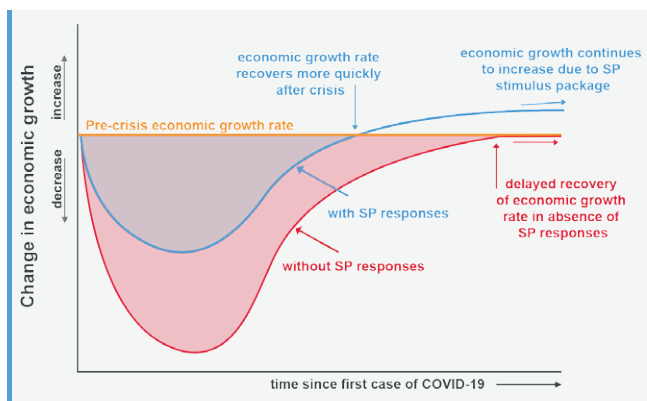
#### 3.3.1. Sri Lanka:

The construction industry is supported by the government in the wake of the COVID-19 pandemic with the state providing a liquidity facility to contractors and suppliers of government projects at an interest rate of 4%<sup>10</sup>. The reduction of mortgage-backed housing loans to an unprecedented 7% is a favorable outcome for those venturing to purchase homes or other residential property such as apartments<sup>11</sup>. In the first quarter there was only a reported 671 less total housing approvals compared to the final quarter of 2019; a definitive sign that residential and building projects are continuing to rise despite a small decrease even in the midst of the pandemic<sup>12</sup>.

Further, an analysis carried out by house.lk, a leading property website shows a c. 26% increase in site viewing activity in January 2021 compared to December 2020, which attests to greater interest in the property market<sup>13</sup>. A study undertaken by the Real Estate Intelligence Unit of Sri Lanka shows that tier 3 (Colombo 04-15/ non-prime land) property are being offered at a discounted price by up to c. 15% which makes it even more affordable for property hunters, the first-time property or homeowners in search of property within central Colombo<sup>14</sup>. The report also showed a keen interest by expats in renting or owning a home in Sri Lanka as their second home, a factor which adds to the demand for property in the country.

All these factors aid in projecting a more optimistic outlook for the construction sector boom which is also compounded by the fact that the Sri Lankan government's rapid deployment of stimulus packages which have helped keep the economy afloat.

#### Impact of Fiscal Stimulus Packages (SP) During The COVID-19 Pandemic



Source: UN Working Paper, 2020

#### 3.3.2. Bangladesh:

There has been an increase in manufacturing activities in large cities such as Dhaka and Chattogram which have contributed to the increase in success of the paints industry. In 2019, the annual consumption of paints was 180,000 tonnes with a YoY growth of c. 6%<sup>15</sup>.

Success in this sector is owed to the country's growing market size brought about by the rise in investment by local and foreign entities, especially in the industrial and infrastructure sectors which have led to a greater demand for paints and the regular repainting of interiors<sup>16</sup>. In a similar vein to India, Bangladesh too has a rapidly growing urban population which has called for the development of metro cities and metro hubs in order to create equitable spread of demographics<sup>17</sup>. This will no doubt lead to increased construction activities and consequently a greater demand for coating paints which will be a boon to the industry.

Further, Bangladesh already has a substantial market segment and this is projected to grow exponentially in future due to their rapid increase in population. This creates a more optimistic perspective for the industry to extend their operations as there is ample scope to meet the demands of the Bangladeshi population as the country navigates the post COVID-19 era.

#### 3.3.3. India:

India is the world's third largest consumer of paints according to a study conducted by HDFC Securities. The paint market was valued at Rs. 520 billion in 2020 and the market is dominated by the decorative paints segment which includes wall paint, exterior paints, wood finishes and enamel<sup>18</sup>.

<sup>10</sup>Central Bank of Sri Lanka. 2020

<sup>12</sup>Housing Approval Index, Central Bank of Sri Lanka. Quarterly statistics 2003-2020

<sup>15</sup>Coatings World. 2020

<sup>11</sup>Monetary Law Act Order, Central Bank of Sri Lanka. 2020

<sup>13</sup>Lanka Business Online. 2021

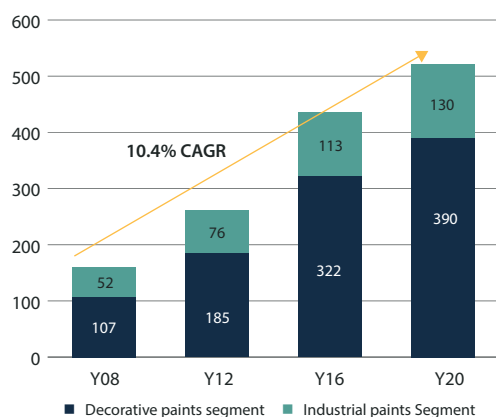
<sup>16</sup>The Daily Star. 2019

<sup>14</sup>Daily FT. 2021

<sup>17</sup>The Daily Star. 2021

<sup>18</sup>Nirmal Bang Institutional Equities

### Indian Paint Industry Growth (INR billion) 2008-2020

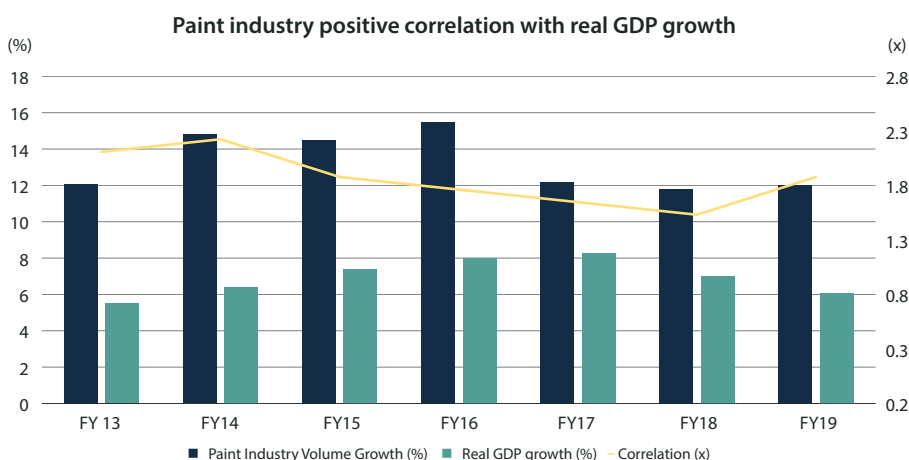


Source: Nirmal Bang Institutional Equities Research, 2020

Despite the impact of the pandemic in the short term, the coating and paints and construction industries are expected to boom for several reasons. The growth of the population which is expected to reach 1.61 billion by 2047<sup>19</sup> which will fuel the demand for greater homes and residential property thus driving up demand in both the construction and paints sector. Urbanization rates are also on the rise in India as most of the population move into the urban areas. The United Nations estimates c. 40% of the Indian population to transition into urban centers by 2030<sup>20</sup> which will add greater pressure on the need for housing thereby leading to a rise in construction of residential properties.

As the paints industry is greatly correlated with GDP growth in the country, it directly impacts the disposable incomes of the population. As growth picks up in the last quarters of 2021 and in 2022, studies predict that this will lead to a raise in demand for the paints industry as more people will be able to afford repainting at shorter paint cycles which has been the more recent trend<sup>21</sup>.

### Coatings Industry Growth Vs GDP Growth



Source: Nirmal Bang Institutional Equities Research, 2020

<sup>19</sup>The Policy Times, 2021

<sup>20</sup>India Today, 2021

<sup>21</sup>HDFC Securities, 2020

## 4.0 Financial Forecasts and Assumptions

We have forecasted the financial statements of JAT based on the audited financial statements for the period ending 31st March 2021. Key inputs from management were also obtained in order to better understand the business operations of the Company. The forecast financial performance also considered the future outlook of the coating and paint industry in Asia Pacific region.

CAL has established that the assumptions used in the forecasts and outlook given in this report are fair and reasonable to the best of our knowledge.

Following exchange rates have been considered in our forecast.

	FY21	FY22E	FY23E	FY24E	FY25E	FY26E
EUR/LKR	217.0	249.6	262.0	275.1	286.1	297.6
Depreciation rate		15.0%	5.0%	5.0%	4.0%	4.0%
USD/LKR	187.2	198.5	210.4	220.9	231.9	241.2
Depreciation rate		6.0%	6.0%	5.0%	5.0%	4.0%
INR/LKR	2.5	2.6	2.7	2.9	3.0	3.2
Depreciation rate		4.8%	4.8%	4.8%	4.8%	4.8%
EUR/INR	86.8	95.3	95.5	95.7	95.0	94.4
Depreciation rate		9.8%	0.2%	0.2%	-0.7%	-0.7%
USD/BDT	84.7	86.3	87.9	89.5	91.2	92.9
Depreciation rate		1.9%	1.9%	1.9%	1.9%	1.9%
BDT/LKR	2.2	2.3	2.4	2.5	2.5	2.6
Depreciation rate		4.1%	4.1%	3.1%	3.1%	2.1%
EUR/BDT	98.2	108.5	109.5	111.5	112.5	114.6
Depreciation rate		10.5%	0.9%	1.9%	0.9%	1.9%
INR/BDT	1.1	1.1	1.1	1.2	1.2	1.2
Depreciation rate		0.7%	0.7%	1.6%	1.6%	2.6%
ETB/LKR	4.9	4.6	4.3	4.0	3.7	3.5
Depreciation rate		-6.6%	-6.6%	-6.6%	-6.6%	-6.6%
EUR/INR	86.8	95.3	95.5	95.7	95.0	94.4
Depreciation rate		9.8%	0.2%	0.2%	-0.7%	-0.7%

### 4.1 Revenue Forecasts and Assumptions

Group recorded LKR 5,360 Mn in FY21 in the backdrop of the pandemic situation. The declining trend observed in overall revenue of JAT Holdings in FY20 (-4%) and FY21 (-15%) are due to the external market factors that occurred during the respective years, Easter attacks and the Covid-19 which had a significant impact on the operations of JAT. The Group is expected to record c. 73.6% YoY growth in FY22E due to the pent-up demand and improvements in macro-economic variables as the pandemic situation eases. Total revenue of the Group is expected to grow at a 5-year CAGR of c. 18.2% during the forecast period.

#### Group Revenue (LKR Mn)

FY 31st March	FY19	FY20	FY21	FY22E	FY23E	FY24E	FY25E	FY26E
Local Revenue	4,850	4,509	4,696	6,970	7,877	9,096	10,659	12,452
Foreign Revenue	1,697	1,787	664	2,334	2,910	3,787	4,909	5,697
Total Revenue	6,547	6,296	5,360	9,305	10,787	12,882	15,568	18,149

We have considered growth in volumes and prices for each category of products based on management expectations while taking into consideration the actual results up to 31st March 2021 when forecasting revenue for each entity under JAT.

#### Revenue – JAT Holdings Limited (Company)

Revenue of JAT Holdings Limited (JATH) comprises sale of wood coatings, decorative paints, brushes, furniture and project revenue with the revenue from wood coatings accounting for c. 75.1% of the total revenue on average over the last four years. Revenue from export sales has accounted for c. 27% on average over the three years leading up to FY19. In FY20, the Group formed two new entities, JAT Exports (Pvt) Ltd and JAT Exports DMCC which purely focused on exports. Hence JATH's revenue from FY20 onward consists only local sales.

## Revenue (LKR Mn)

FY 31st March	FY19	FY20	FY21	FY22E	FY23E	FY24E	FY25E	FY26E
<b>Sayerlack</b>								
Revenue	2,578	2,080	2,834	3,274	3,709	4,202	4,978	5,989
YoY Growth		-19%	36%	16%	13%	13%	18%	20%
<b>Borma Wachs</b>								
Revenue	167	149	200	231	262	296	334	377
YoY Growth		-11%	34%	16%	13%	13%	13%	13%
<b>Masters</b>								
Revenue	96	101	103	315	361	413	468	532
YoY Growth		4%	2%	208%	14%	14%	13%	13%
<b>J Chem</b>								
Revenue	303	273	350	386	422	461	498	539
YoY Growth		-10%	28%	10%	9%	9%	8%	8%
<b>Others</b>								
Revenue	64	95	138	138	138	246	461	676
YoY Growth		49%	45%	0%	0%	78%	87%	47%
<b>J Chem – Katunayake Plant</b>								
Revenue	234	66	53	320	-	-	-	-
YoY Growth		-72%	-19%	499%				
<b>Wood Coating - Exports</b>								
Revenue	1,413	-	-	-	-	-	-	-
<b>Total Wood Coating Revenue</b>	<b>4,856</b>	<b>2,765</b>	<b>3,679</b>	<b>4,664</b>	<b>4,891</b>	<b>5,618</b>	<b>6,739</b>	<b>8,112</b>
<b>Decorative Paints</b>								
Revenue	259	165	119	173	189	206	223	241
YoY Growth		-36%	-28%	45%	9%	9%	8%	8%
<b>WHITE by JAT</b>								
Revenue	-	-	75	316	474	734	918	1,056
YoY Growth				320%	50%	55%	25%	15%
<b>Total Decorative Paints Revenue</b>	<b>259</b>	<b>165</b>	<b>194</b>	<b>489</b>	<b>663</b>	<b>940</b>	<b>1,141</b>	<b>1,297</b>
<b>Brush Master and Harris</b>								
Revenue	206	219	278	394	453	506	571	641
YoY Growth		6%	27%	42%	15%	12%	13%	12%
<b>Total Brushes Revenue</b>	<b>206</b>	<b>219</b>	<b>278</b>	<b>394</b>	<b>453</b>	<b>506</b>	<b>571</b>	<b>641</b>
<b>Furnitures</b>								
Revenue	13	12	54	68	85	106	117	128
YoY Growth		-7%	348%	25%	25%	25%	10%	10%
<b>SEA Kitchens</b>								
Revenue	29	74	28	126	139	153	160	168
YoY Growth		152%	-62%	350%	10%	10%	5%	5%
<b>Total Furnitures Revenue</b>	<b>42</b>	<b>86</b>	<b>82</b>	<b>194</b>	<b>224</b>	<b>259</b>	<b>277</b>	<b>297</b>
<b>Projects</b>								
Revenue	950	1,194	266	1,287	1,372	1,484	1,628	1,786
YoY Growth		26%	-78%	383%	7%	8%	10%	10%
<b>Total Projects Revenue</b>	<b>950</b>	<b>1,194</b>	<b>266</b>	<b>1,287</b>	<b>1,372</b>	<b>1,484</b>	<b>1,628</b>	<b>1,786</b>
<b>Total Revenue</b>	<b>6,313</b>	<b>4,428</b>	<b>4,500</b>	<b>7,028</b>	<b>7,602</b>	<b>8,807</b>	<b>10,356</b>	<b>12,133</b>

JATH's revenue is largely seasonal, where over c. 60% of the total revenue is generated in the last two quarters of the Financial Year. Revenue in FY20 was affected as a result of slowdown in retail market in Q1 FY20 due to the Easter attacks and in Q4 FY20 due to the COVID-19 pandemic while FY21 revenue was largely affected by the pandemic situation which prevailed in the country.

Total revenue from wood coatings is expected to increase by c. 26.8% in FY22E, where JATH is expected to launch a 3 in 1 wood coating product for ceilings under Masters brand which would increase Masters revenue by c. 208% YoY. JAT has been successful in introducing many new successful products in the past, proven by JAT's most recent addition, 'WHITE by JAT' as mentioned below. The new product under 'Masters' is expected to add c. LKR 190 million to the top line while existing products under the same brand is expected to grow at a CAGR of 10% in FY22E (LKR 128 million) compared to FY19 (LKR 96 million).

Furthermore, JAT is also expecting a 499% increase in the revenue generated through J Chem- Katunayaka Plant in FY22E compared to revenue recorded during FY20 and FY21 (LKR 66 million and LKR 53 million respectively), which were significantly low due to the external factors such as

Covid-19 pandemic and Easter attack resulting in export disruptions. The rapid development of large cities such as Dhaka and Chittagong, has resulted in an exponential growth in construction and real estate development sectors. This, coupled with the rise in investments by local and foreign entities into the industrial and infrastructure sectors, has led to the success of the paints and coating industry in Bangladesh<sup>22</sup>. JAT's strong brand presence in Bangladesh would aid them in capitalizing off the growing construction sector. Accordingly, the revenue projected for J Chem-Katunayaka for FY22E (LKR 320 million) is at a c. 11% CAGR compared to FY19 (LKR 234 million) which is in line with the historical 3-year CAGR of construction sector in Bangladesh (c. 15%)<sup>23</sup>.

It should also be noted that the R&D center is expected to increase revenue with the inclusion of innovative products developed in-house to secure local market needs. JATH's revenue from wood coating is expected to grow at a 5-year CAGR of c. 14.8% during the forecast period.

Revenue from decorative paints is expected to grow at a CAGR of c. 27.6% from FY22E due to the 'WHITE by JAT' range; the newest addition to the JAT portfolio. 'WHITE by JAT' was launched at the end of December 2020 as a brilliant white emulsion product and achieved LKR 75 million within the first three months of the launch. JATH intends to promote its direct-to-consumer e-commerce strategy as the primary driver for this range supported by a rigorous marketing and business development strategy which is planned for FY22E and FY23E respectively.

JATH acquired exclusive rights to manufacture and distribute Harris brushes, rollers & accessories in FY19. Harris is considered as a premium product in the brush segment and is a part of Orkla – a leading brush company in the Scandinavian region. However, the growth in brush category was affected due to the ban of importation of roller brushes with reference to the luxury goods ban and COVID-19 shutdowns in FY21. Therefore, JAT is yet to unlock the full potential of revenue from the Harris brand. JATH has obtained special approval from the Government to import roller brushes and the growth in JAT's brush segment is expected to be led by Harris going forward. Revenue from the brushes sector is expected to increase by c. 41.7% in FY22E due to the increase in sales of Harris roller brushes. Revenue from brush category is expected to grow at a CAGR of c. 13.0% from FY22E with the expected increase in brush production as a result of the automation of the brush factory in FY22E.

Revenue from furniture and projects are expected to grow at a CAGR of c. 11.2% and c. 8.5% respectively during the forecast period. SEA Kitchens revenue was affected in FY21 due to the ban on import of kitchen items with relevance to the luxury goods ban. However, JATH has obtained special approval from the Government to import kitchen items thereafter. Lower cost of capital with low borrowing rates (mortgage-backed loan interest rates reduced to 7%) is expected to catalyze potential first-time home buyers of homes and drive demand for SEA Kitchens. As a result, SEA Kitchens is expected to grow at a c. 31% 2-year CAGR to record revenue of LKR 126 Mn in FY22E. Project revenue decreased by c. 77.7% YoY in FY21 due to the delays in overall commencement and completion of projects as a result of the pandemic. This is expected to increase in FY22E by c. 382.9% due to the spill over revenue from secured projects backed by the expected construction industry growth amidst the low interest rate environment.

## Revenue – Brush Master (Pvt) Ltd

Revenue generated from Brush Master (Pvt) Ltd (BM) consists of revenue from sale of paint related brushes. BM generated total revenue of LKR 91 Mn for the year ending March 2021. In FY22, BM is expected to generate revenue of LKR 101 Mn. Total revenue of BM is expected to grow at a CAGR of c. 11.6% during the forecast period.

### Revenue (LKR Mn)

FY 31st March	FY19	FY20	FY21	FY22E	FY23E	FY24E	FY25E	FY26E
<b>Brush Master</b>								
Revenue	110	66	91	101	113	126	141	157
YoY Growth		-40%	38%	12%	12%	12%	12%	12%
<b>Total Revenue</b>	<b>110</b>	<b>66</b>	<b>91</b>	<b>101</b>	<b>113</b>	<b>126</b>	<b>141</b>	<b>157</b>

## Revenue – Worldwide Resins & Chemicals (Pvt) Ltd

Worldwide Resins & Chemicals (Pvt) Ltd. (WWRC) engages in the sale of resins and chemicals to industrial clients. WWRC generated total revenue of LKR 238 Mn for the year ending March 2021 and is expected to grow at a CAGR of c. 5.0% during the forecast period.

### Revenue (LKR Mn)

FY 31st March	FY19	FY20	FY21	FY22E	FY23E	FY24E	FY25E	FY26E
<b>Chemicals</b>								
Revenue	215	191	238	262	275	289	303	318
YoY Growth		-11%	25%	10%	5%	5%	5%	5%
<b>Total Revenue</b>	<b>215</b>	<b>191</b>	<b>238</b>	<b>262</b>	<b>275</b>	<b>289</b>	<b>303</b>	<b>318</b>

## Revenue – JAT Exports (Pvt) Ltd

The revenue generated from JAT Exports (Pvt) Ltd (JATE) in FY20 comprised revenue from exports of J Chem products to Bangladesh and revenue from entrepot trading of wood coating and decorative paint products. From FY21 onwards, JATE will be only exporting J Chem products to Bangladesh until the Bangladesh factory (JATB) commences its operations. In FY21, JATE's revenue declined to LKR 75 Mn as a result of shutdowns

<sup>22</sup> Coatings World, 2020

<sup>23</sup> CEIC Databases and CAL estimates



due to the COVID-19 pandemic and is expected to record LKR 395 Mn Revenue in FY22E.

#### Revenue (LKR Mn)

FY 31st March	FY20	FY21	FY22E
<b>J Chem</b>			
Revenue	279	75	395
YoY Growth		-73%	425%
<b>Entrepot Trading</b>			
Revenue	1,392	-	-
<b>Total Wood Coating Revenue</b>	<b>1,671</b>	<b>75</b>	<b>395</b>
<b>Total Decorative Paints Revenue</b>	<b>10</b>	<b>-</b>	<b>-</b>
<b>Total Revenue</b>	<b>1,681</b>	<b>75</b>	<b>395</b>

#### Revenue – JAT Exports DMCC

JAT Exports DMCC (DMCC) is situated in The United Arab Emirates and carries out entrepot trading. DMCC is the main export arm of JAT and caters to markets such as Bangladesh, India, the Maldives and the African region. In FY21, export revenue was adversely affected due to the COVID-19 pandemic and DMCC recorded a revenue of LKR 571 Mn as a result, which is a c. 62.7% decrease compared to the average export revenue from FY17 to FY19 under JATH (LKR 1,534 Mn). However, DMCC is expected to increase revenue in FY22E to surpass the Group's past performance in exports, recording a c. 236.1% YoY growth in wood coating revenue in FY22E.

Starting from FY23E, DMCC is expected to supply raw materials to JATB. As such, DMCC's revenue from Bangladesh from FY23E is estimated at 100% from the sales to JATB. Sayerlack sales to other countries include Maldives, Pakistan and East African markets with sales to the African region expected to commence in FY23E. However, with the commencement of JATA in FY24E, the revenue from other countries is expected to decrease by c. 43.1% YoY.

Total revenue of DMCC is expected to grow at a CAGR of c. 24.8% during the forecast period mainly attributable to the growth in Bangladesh.

#### Revenue (LKR Mn)

FY 31st March	FY20	FY21	FY22E	FY23E	FY24E	FY25E	FY26E
<b>Sayerlack - Bangladesh</b>							
Revenue	75	480	1,637	2,175	2,843	3,696	4,266
YoY Growth		536%	241%	33%	31%	30%	15%
<b>Sayerlack - India</b>							
Revenue	-	67	134	169	187	204	222
YoY Growth			102%	26%	10%	9%	9%
<b>Sayerlack - Other Countries</b>							
Revenue	-	2	149	246	140	160	167
YoY Growth				65%	-43%	14%	4%
<b>Other</b>							
Revenue	-	23	-	-	-	-	-
<b>Total Wood Coating Revenue</b>	<b>75</b>	<b>571</b>	<b>1,921</b>	<b>2,591</b>	<b>3,170</b>	<b>4,060</b>	<b>4,655</b>
<b>Furnitures</b>							
Revenue	-	-	-	50	54	58	61
YoY Growth					7%	7%	6%
<b>Total Furnitures Revenue</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>50</b>	<b>54</b>	<b>58</b>	<b>61</b>
<b>Total Revenue</b>	<b>75</b>	<b>571</b>	<b>1,921</b>	<b>2,641</b>	<b>3,224</b>	<b>4,118</b>	<b>4,717</b>

#### Revenue – JAT Global (Pvt) Ltd

JAT Global (Pvt) Ltd (JATG) is situated in India and carries out the trading and distribution of wood coating products in India. JATG generated a total revenue of INR 18 Mn for the year ending March 2021. JATG only operated in Karnataka region in the past but it is expected to expand sales beyond Karnataka region from FY22E onwards. JATG has already secured sales to original equipment manufacturers ("OEM") in India and sales beyond Karnataka through distributors. With the commencement of JATB, products manufactured by JATB are expected to be distributed to the Indian market through JATG, while reducing the direct imports from the supplier. Total revenue of JATG is expected to grow at a CAGR of c. 10.0% during the forecast period.



#### Revenue (INR Mn)

FY 31st March	FY19	FY20	FY21	FY22E	FY23E	FY24E	FY25E	FY26E
<b>Sayerlack</b>								
Revenue	19	16	18	58	70	63	58	56
YoY Growth		-14%	9%	231%	20%	-10%	-8%	-3%
<b>Borma Wachs</b>								
Revenue		2	0	-	-	-	-	-
<b>J Chem/Masters/R&amp;D new products</b>								
Revenue	-	-	-	-	-	14	23	29
YoY Growth							66%	24%
<b>Total Revenue</b>	<b>19</b>	<b>18</b>	<b>18</b>	<b>58</b>	<b>70</b>	<b>78</b>	<b>81</b>	<b>85</b>

#### Revenue – Bangladesh Plant

JAT plans to set up a manufacturing plant in Bangladesh to capitalize on the experience JAT has built in operating in Bangladesh for over 10 years while achieving a competitive edge through backward vertical integration.

Bangladesh Plant (JATB) is expected to commence operations at the beginning of FY23E and is expected to achieve a revenue of BDT 1,012 Mn during the year by focusing only on Bangladesh. From FY24E onwards, JATB is expected to cater to India and The Maldives in addition to Bangladesh. Total revenue of JATB is expected to grow at a CAGR of c. 23.0% during the forecast period mainly backed by the growth of the Bangladeshi economy and its population.

#### Revenue (BDT Mn)

FY 31st March	FY23E	FY24E	FY25E	FY26E
<b>Sayerlack/J Chem/Masters/R&amp;D new products - Bangladesh</b>				
Revenue	1,012	1,283	1,618	1,829
YoY Growth		27%	26%	13%
<b>Sayerlack/J Chem/Masters/R&amp;D new products - India</b>				
Revenue	-	14	24	30
YoY Growth			68%	27%
<b>Sayerlack/J Chem/Masters/R&amp;D new products - Maldives</b>				
Revenue	-	14	16	24
YoY Growth			11%	53%
<b>Total Revenue</b>	<b>1,012</b>	<b>1,311</b>	<b>1,657</b>	<b>1,883</b>

#### Revenue – East African Plant

JAT plans to set up a manufacturing plant in East Africa to exploit a virgin market in terms of wood coatings by introducing manufactured, low-cost products while capitalizing on the regional trade agreements within the African region.

East African Plant (JATA) is expected to commence operations at the beginning of FY24E and is expected to achieve a revenue of ETB 50 Mn in the first year. Total revenue of JATA is expected to grow at a CAGR of c. 34.9% during the forecast period with the focus on distribution while capturing the market by building a viable brand presence over the period.

#### Revenue (ETB Mn)

FY 31st March	FY24E	FY25E	FY26E	FY27E	FY28E
<b>Sayerlack</b>					
Revenue	25	31	38	44	48
YoY Growth		23%	24%	15%	10%
<b>J Chem/Masters/R&amp;D new products</b>					
Revenue	25	57	89	106	117
YoY Growth		128%	56%	20%	10%
<b>Total Revenue</b>	<b>50</b>	<b>87</b>	<b>126</b>	<b>150</b>	<b>165</b>

## 4.2 Cost of Sales Forecasts and Assumptions

The cost of sales of the Group was forecasted separately for each company as a percentage of revenue for each product category. Cost of sales of the group is expected to grow at a 5-year CAGR of c. 16.4% during the forecast period.

### Group Cost of Sales (LKR Mn)

FY 31st March	FY19	FY20	FY21	FY22E	FY23E	FY24E	FY25E	FY26E
Cost of Sales	4,616	4,557	3,715	6,703	7,284	8,835	10,541	12,308

We have considered both management input as well as the performance of each individual companies in arriving at cost of sales assumptions for each company under JAT Group.

### Cost of Sales - JATH

We have assumed a 2% margin improvement for wood coating, decorative paint and brush categories in FY23E and FY25E as a result of the Research and Development ("R&D") facility which is expected to commence operations in FY22E. However, the actual margin improvement is expected to be less than 2% as a result of the increase in raw material prices due to currency depreciation.

The total cost of sales of wood coating is expected to increase by c. 39.1% in FY22E in line with the revenue growth. The increase in cost is greater than revenue in FY22E as a result of increase in raw material prices due to the expected currency depreciation. Cost of sales of wood coating is expected to grow at a CAGR of c. 13.6% thereafter.

The total cost of sales of decorative paints is expected to increase by c. 127% in FY22E. Cost of sales of decorative paints is expected to grow at a CAGR of c. 26.2% from FY22E. Historically, the J Chem Paints line under decorative paints segment supplied products under Crown and Permoglaze brands which predominantly targeted Government tenders. This resulted in low margins for the product in order for JAT to be price competitive. From FY22E onwards, Crown and Permoglaze brands are expected to be replaced by a more premium quality product under JAT's own brand, "J Chem", targeting a wider range of customers including high-end retail segment which is expected to improve margins.

With the completion of the automation of brush manufacturing facility at the end of FY22E, the overall cost of production of brushes is expected to reduce resulting a 5% gross profit margin improvement in FY23E. Cost of sales of brushes is expected to grow at a CAGR of c. 9.7% from FY22E.

JATH is expected to maintain cost of sales of Furniture and SEA Kitchens at 70% and 75% of revenue respectively during the forecast period. Gross profit margins of projects shrunk during FY21 due to delays as a result of lockdown situation prevailed in the country, whereas JATH continued to incur direct overhead costs such as employee salaries. However, from FY22E onwards, the gross profit margin of projects is expected to improve as the construction industry reverts to pre-pandemic levels from the misfortunes of the pandemic.

### Cost of Sales (LKR Mn)

FY 31st March	FY19	FY20	FY21	FY22E	FY23E	FY24E	FY25E	FY26E
<b>Sayerlack</b>								
Cost of Sales	1,396	1,048	1,366	1,643	1,825	2,109	2,424	2,976
As a % of Sales	54.1%	50.4%	48.2%	50.2%	49.2%	50.2%	48.7%	49.7%
<b>Borma Wachs</b>								
Cost of Sales	109	88	126	153	171	197	218	250
As a % of Sales	65.4%	59.1%	62.8%	66.3%	65.3%	66.3%	65.3%	66.3%
<b>Masters</b>								
Cost of Sales	80	84	81	259	293	339	377	434
As a % of Sales	83.1%	83.5%	78.6%	82.1%	81.1%	82.1%	80.6%	81.6%
<b>J Chem</b>								
Cost of Sales	253	226	273	301	325	359	383	420
As a % of Sales	83.7%	82.6%	78.0%	78.0%	77.0%	78.0%	77.0%	78.0%
<b>Others</b>								
Cost of Sales	55	83	88	101	100	185	351	522
As a % of Sales	85.1%	87.4%	64.1%	73.1%	72.1%	75.1%	76.1%	77.1%
<b>J Chem – Katunayake Plant</b>								
Cost of Sales	192	63	51	304	-	-	-	-
As a % of Sales	82.0%	94.3%	95.0%	95.0%				

FY 31st March	FY19	FY20	FY21	FY22E	FY23E	FY24E	FY25E	FY26E
<b>Other Exports</b>								
Cost of Sales	1,152	-	-	-	-	-	-	-
<b>Total Wood Coating</b>	<b>3,236</b>	<b>1,592</b>	<b>1,985</b>	<b>2,762</b>	<b>2,712</b>	<b>3,189</b>	<b>3,754</b>	<b>4,602</b>
<b>J Chem Paints</b>								
Cost of Sales	223	143	113	136	147	162	172	188
As a % of Sales	85.9%	86.4%	85.1%	78.6%	77.6%	78.6%	77.1%	78.1%
<b>WHITE by JAT</b>								
Cost of Sales	-	-	57	249	364	563	686	789
As a % of Sales			75.7%	78.7%	76.7%	76.7%	74.7%	74.7%
<b>Total Decorative Paints</b>	<b>223</b>	<b>143</b>	<b>170</b>	<b>385</b>	<b>510</b>	<b>725</b>	<b>858</b>	<b>977</b>
<b>Brush Master and Harris</b>								
Cost of Sales	171	182	228	323	340	379	417	468
As a % of Sales	83.0%	83.3%	82.2%	82.0%	75.0%	75.0%	73.0%	73.0%
<b>Total Brushes</b>	<b>171</b>	<b>182</b>	<b>228</b>	<b>323</b>	<b>340</b>	<b>379</b>	<b>417</b>	<b>468</b>
<b>Furnitures</b>								
Cost of Sales	9	9	34	47	59	74	82	90
As a % of Sales	70.9%	73.8%	61.8%	70.0%	70.0%	70.0%	70.0%	70.0%
<b>SEA Kitchens</b>								
Cost of Sales	22	55	21	95	104	115	120	126
As a % of Sales	75.0%	75.0%	75.4%	75.0%	75.0%	75.0%	75.0%	75.0%
<b>Total Furnitures</b>	<b>31</b>	<b>64</b>	<b>55</b>	<b>142</b>	<b>164</b>	<b>189</b>	<b>202</b>	<b>216</b>
<b>Projects</b>								
Cost of Sales	746	1,076	280	1,068	1,111	1,202	1,318	1,447
As a % of Sales	78.6%	90.1%	105.2%	83.0%	81.0%	81.0%	81.0%	81.0%
<b>Total Projects</b>	<b>746</b>	<b>1,076</b>	<b>280</b>	<b>1,068</b>	<b>1,111</b>	<b>1,202</b>	<b>1,318</b>	<b>1,447</b>
<b>Depreciation</b>	<b>32</b>	<b>26</b>	<b>32</b>	<b>38</b>	<b>59</b>	<b>63</b>	<b>67</b>	<b>70</b>
As a % of Total Depreciation	34.1%	24.6%	29.6%	33.0%	33.0%	33.0%	33.0%	33.0%
<b>Stock Provisions</b>	<b>-</b>	<b>-</b>	<b>315</b>	<b>176</b>	<b>152</b>	<b>176</b>	<b>207</b>	<b>243</b>
As a % of Sales			7.0%	2.5%	2.0%	2.0%	2.0%	2.0%
<b>Total Cost of Sales</b>	<b>4,440</b>	<b>3,083</b>	<b>3,064</b>	<b>4,894</b>	<b>5,048</b>	<b>5,923</b>	<b>6,823</b>	<b>8,022</b>

## Cost of Sales- BM

Cost of sales of BM was forecasted on a similar basis as disclosed above for JATH. The margins were affected during FY20 and FY21 due to the reduction in sales as a result of unfavorable market conditions mentioned earlier and the fixed overhead cost BM had to incur. With the expected increase in volumes, margins are expected to improve in FY22E coupled with an increase in prices by 5%. The automation of brush manufacturing facility and the commencement of the R&D center as mentioned above, is expected to result in a 7% gross profit margin improvement excluding depreciation in FY23E and a further 2% margin improvement in FY25E.

### Cost of Sales (LKR Mn)

FY 31st March	FY19	FY20	FY21	FY22E	FY23E	FY24E	FY25E	FY26E
<b>Brush Master</b>								
Cost of Sales	90	57	80	79	80	90	97	108
As a % of Sales	82.8%	88.6%	87.5%	78.0%	71.0%	71.0%	69.0%	69.0%
<b>Depreciation</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>6</b>	<b>6</b>	<b>6</b>	<b>7</b>
As a % of Total Depreciation	86.1%	86.5%	98.9%	98.9%	98.9%	98.9%	98.9%	98.9%
<b>Total Cost of Sales</b>	<b>91</b>	<b>58</b>	<b>81</b>	<b>80</b>	<b>87</b>	<b>96</b>	<b>104</b>	<b>115</b>

## Cost of Sales - WWRC

Cost of sales of WWRC is expected to be 79% of revenue during the forecast period.

### Cost of Sales (LKR Mn)

FY 31st March	FY19	FY20	FY21	FY22E	FY23E	FY24E	FY25E	FY26E
<b>Chemicals</b>								
Cost of Sales	183	159	187	207	217	228	240	252
As a % of Sales	84.9%	83.0%	78.4%	79.0%	79.0%	79.0%	79.0%	79.0%
<b>Total Cost of Sales</b>	<b>183</b>	<b>159</b>	<b>187</b>	<b>207</b>	<b>217</b>	<b>228</b>	<b>240</b>	<b>252</b>

## Cost of Sales – JATE

Cost of sales of JATE is equivalent to JATH's J Chem sales from its Katunayake Plant. JATE is expected to keep a gross profit margin of 19.0% on these products in FY22E.

### Cost of Sales (LKR Mn)

FY 31st March	FY20	FY21	FY22E
<b>J Chem</b>			
Cost of Sales	229	53	320
As a % of Sales	82.0%	71.0%	81.0%
<b>Indenting</b>			
Cost of Sales	1,095	-	-
<b>Total Wood Coating</b>	<b>1,324</b>	<b>53</b>	<b>320</b>
<b>Total Decorative Paints</b>	<b>10</b>	<b>-</b>	<b>-</b>
<b>Total Cost of Sales</b>	<b>1,334</b>	<b>53</b>	<b>320</b>

## Cost of Sales - DMCC

DMCC is generally expected to maintain the following gross profit margins respective to the following geographies;

- Bangladesh - 16.0%
- India - 12.0%
- Other Countries (the Maldives, Counties in the African Region, etc.) - 38.0%

However, due to the expected currency depreciation of regional countries as against the Euro, it is assumed DMCC to reduce prices by 2.0% YoY from FY22E to FY24E with margins reducing in Bangladesh to provide a competitive edge to JATB over competitors in the Bangladeshi market.

With the commencement of JATB, DMCC is expected to supply raw materials to JATB which is expected to improve the combined margins of these products supplied to the market by 10.5% effective FY23E; due to the product improvements planned.

Similarly, a 2.0% price reduction is expected in India in FY22E in order to maintain c. 10.0% gross profit margin during the forecast period. Revenue from other countries is mainly composed of exports to Maldives and the cost is expected to remain around c. 61.0% of revenue during the forecast period.

Cost of sales of SEA Kitchens to Australia is expected to be c. 80.0% of revenue during the forecast period.

#### Cost of Sales (LKR Mn)

FY 31st March	FY20	FY21	FY22E	FY23E	FY24E	FY25E	FY26E
<b>Sayerlack - Bangladesh</b>							
Cost of Sales	59	376	1,410	1,690	2,269	2,949	3,405
As a % of Sales	79.0%	78.4%	86.1%	77.7%	79.8%	79.8%	79.8%
<b>Sayerlack - India</b>							
Cost of Sales	-	66	121	152	168	183	200
As a % of Sales		99.2%	90.0%	90.0%	90.0%	90.0%	90.0%
<b>Sayerlack - Other Countries</b>							
Cost of Sales	-	1	94	163	85	98	102
As a % of Sales			63.0%	66.0%	61.0%	61.0%	61.0%
<b>Other</b>							
Cost of Sales	-	17	-	-	-	-	-
<b>Total Wood Coating</b>	<b>59</b>	<b>460</b>	<b>1,625</b>	<b>2,005</b>	<b>2,522</b>	<b>3,230</b>	<b>3,706</b>
<b>Furnitures</b>							
Cost of Sales	-	-	-	40	43	46	49
As a % of Sales				80.0%	80.0%	80.0%	80.0%
<b>Total Furnitures</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>40</b>	<b>43</b>	<b>46</b>	<b>49</b>
<b>Total Cost of Sales</b>	<b>59</b>	<b>460</b>	<b>1,625</b>	<b>2,045</b>	<b>2,565</b>	<b>3,277</b>	<b>3,756</b>

#### Cost of Sales - JATG

Historically, JATG recorded low margins as a result of fixed overhead costs and low sales volumes achieved in India. However, JATG is expected to maintain a gross profit margin of 12% during FY22E and FY23E as a result of the expected increase in volumes through sales expansion mentioned under revenue assumptions in page 13.. Gross profit margin is expected to improve by a further c. 3.0% in FY24E due to the collaboration with the R&D facility. JATG is expected to maintain a margin of 15% on products manufactured by JATB.

#### Cost of Sales (INR Mn)

FY 31st March	FY19	FY20	FY21	FY22E	FY23E	FY24E	FY25E	FY26E
<b>Sayerlack</b>								
Cost of Sales	17	21	20	51	62	54	49	48
As a % of Sales	92%	127%	114%	88%	88%	85%	85%	85%
<b>Borma Wachs</b>								
Cost of Sales	-	3	0	-	-	-	-	-
<b>J Chem/Masters/R&amp;D new products</b>								
Cost of Sales	-	-	-	-	-	12	20	25
As a % of Sales						85%	85%	85%
<b>Total Cost of Sales</b>	<b>17</b>	<b>24</b>	<b>20</b>	<b>51</b>	<b>62</b>	<b>66</b>	<b>69</b>	<b>73</b>

#### Cost of Sales - JATB

Cost of sales of JATB is assumed to be 90%, 92% and 80% of revenue for Bangladesh, India and Maldives respectively.

#### Cost of Sales (BDT Mn)

FY 31st March	FY23E	FY24E	FY25E	FY26E
<b>Sayerlack/J Chem/Masters/R&amp;D new products - Bangladesh</b>				
Cost of Sales	909	1,153	1,453	1,643
As a % of Sales	90%	90%	90%	90%
<b>Sayerlack/J Chem/Masters/R&amp;D new products - India</b>				
Cost of Sales	-	13	22	27
As a % of Sales		92%	92%	92%
<b>Sayerlack/J Chem/Masters/R&amp;D new products - Maldives</b>				
Cost of Sales	-	11	13	19
As a % of Sales		80%	80%	80%
<b>Total Cost of Sales</b>	<b>909</b>	<b>1,177</b>	<b>1,488</b>	<b>1,690</b>

## Cost of Sales - JATA

Cost of sales of JATA is assumed to be 80.0% and 70.0% of revenue for Sayerlack products and own brand products respectively.

### Cost of Sales (ETB Mn)

FY 31st March	FY24E	FY25E	FY26E	FY27E	FY28E
<b>Sayerlack</b>					
Cost of Sales	20	24	30	35	38
As a % of Sales	80%	80%	80%	80%	80%
<b>J Chem/Masters/R&amp;D new products</b>					
Cost of Sales	17	40	62	74	82
As a % of Sales	70%	70%	70%	70%	70%
<b>Total Cost of Sales</b>	<b>37</b>	<b>64</b>	<b>92</b>	<b>109</b>	<b>120</b>

## 4.3 Selling and Distribution Expenses

Selling and distribution expenses of JATH consist primarily of marketing and business development, staff related expenses and sales commission expenses. Selling and distribution expenses are expected to increase by c. 30.3% and c. 14.4% in FY22E and FY23E respectively as a result of additional expenses incurred such as advertising, promotions and website developments in order to promote WHITE by JAT; the newest addition to JATH's emulsion range. Selling and distribution expenses are expected to grow at a CAGR of c. 5.9% over the remaining projected years.

### Selling & Distribution Expenses (LKR Mn)

FY 31st March	FY19	FY20	FY21	FY22E	FY23E	FY24E	FY25E	FY26E
JATH	576	623	627	817	934	870	983	1,110
YoY Growth		8.2%	0.6%	30.3%	14.4%	-6.9%	13.0%	12.9%
WWRC	9	9	12	13	15	16	17	19
YoY Growth		2.4%	37.4%	8.7%	8.7%	8.8%	8.8%	8.8%
JATE	-	34	32	32	-	-	-	-
YoY Growth			-7.4%	0.4%				
DMCC	-	-	40	1	1	2	2	2
YoY Growth				-96.6%	5.0%	5.0%	5.0%	5.0%

## 4.4 Administrative Expenses

Administrative expenses of JATH consist primarily of personnel cost, director remuneration, depreciation and amortization charges and warehouse expenses and other general administrative expenses. In FY21, JATH and BM incurred one off expenditures of LKR 36 Mn to fund the Indian operation and LKR 4 Mn write off of import advances respectively. As a result, the net effect of increase in expenses against the one-off expenses is expected to reduce the administration expenses of JATH and BM by 2.2% and 25.4% respectively. The total administrative expenses of JATH are expected to grow at a CAGR of c. 13.2% in the forecast period.

### Administration Expenses (LKR Mn)

FY 31st March	FY19	FY20	FY21	FY22E	FY23E	FY24E	FY25E	FY26E
JATH	257	331	361	353	471	511	552	581
YoY Growth		28.6%	9.2%	-2.2%	33.4%	8.6%	8.0%	5.1%
BM	19	16	13	10	11	12	13	14
YoY Growth		-12.9%	-16.4%	-25.4%	8.5%	7.4%	7.5%	7.6%
WWRC	9	8	8	8	8	8	8	9
YoY Growth		-7.6%	-8.1%	0.3%	2.4%	2.5%	2.6%	2.8%
JATE	-	1	0	1	-	-	-	-
YoY Growth			-53.4%	125.5%				
DMCC	-	0	2	3	3	3	4	4
YoY Growth			3063.0%	10.0%	10.0%	10.0%	10.0%	10.0%
JATG (INR Mn)	13	11	5	5	6	6	6	6
YoY Growth		-14.0%	-55.9%	5.0%	5.0%	5.0%	5.0%	5.0%
JATB (BDT Mn)	-	-	-	-	40	43	46	50
YoY Growth						7.4%	7.5%	7.6%
JATA (ETB Mn)	-	-	-	-	-	14	15	16
YoY Growth							7.1%	7.2%

## 4.5 Working Capital

Working capital cycle for the forecasted period has been based on the historical averages and management input.

Days	JATH	BM	WWRC	JATE	DMCC	JATG	JATB	JATA
Inventory	150	120	90	-	-	120	60	60
Receivables	165	90	135	100	115	120	90	90
Payables	65	-	90	100	100	100	100	100

## 5.0 Valuation Methodology

CAL considered the following valuation methodologies in order to arrive at a fair value for JAT's shares based on the relevance and appropriateness of the respective valuation methodology for a company that engages in importing, manufacturing, trading and distribution of finishing and furnishing products.

- Discounted Cash Flow (DCF) Method
- P/E Relative Valuation

### 5.1 Discounted Cash Flow (DCF) Method

A discounted cash flow (DCF) analysis was used in order to arrive at an intrinsic value for JAT. A DCF analysis can be used to measure a company's ability to generate future cash flows. A DCF method can capture a company's growth potential and provide a more reflective result of the entire value of a business. Free cash flow to firm (FCFF) was calculated using the following formula:

Earnings Before Interest and Tax x (1-tax rate)  
+ Depreciation and Amortization  
- Capital Expenditure  
+ Working Capital Investment  
= FCFF

In deriving an intrinsic value for JAT, the present value of FCFFs was calculated using the following:

$$V_0 = \left[ \sum_{t=1}^n \frac{FCFF_t}{(1+WACC)^t} \right] + TVn$$

Where:

$V_0$  = Intrinsic Value in year 0  
 $FCFF_t$  = Free Cash flow to firm in year t  
 $WACC$  = Weighted Average Cost of Capital  
 $TVn$  = Present value of terminal value at year n

Further, the Gordon Growth Model (GGM) was used to derive  $TVn$  with the following formula:

$$TVn = \frac{FCFFn (1+g)}{(WACC - g) \times (1+WACC)^n}$$

Where:

$g$  = Growth rate of FCFF  
 $WACC$  = Weighted Average Cost of Capital

The discount rate used in a DCF calculation is the Weighted Average Cost of Capital (WACC) which captures the effects of both equity and debt capital in a company when calculating the required rate of return. The following formula is used to calculate the WACC:

$$WACC = We(Ke) + Wd(Kd(1-t))$$

Where:

$We$  = Weightage of Equity  
 $Wd$  = Weightage of Debt  
 $Kd(1-t)$  = After Tax Cost of Debt  
 $Ke$  = Cost of Equity

In arriving at the intrinsic value per share for JAT, the following formula was used:

$$\text{Intrinsic Value of JAT} = \frac{\text{Present Value of FCFFs} - \text{Net Debt}}{\text{Number of Shares in Issue}}$$

### 5.2 P/E Relative

A P/E ratio measures a company's market value to its earnings. The relative value for JAT's shares using a P/E ratio would be calculated as follows:

$$\text{Implicit Value of JAT} = \left( \text{Earnings of JAT} * \frac{P}{E} \text{Multiple} \right)$$

Where:

P/E Multiple: Weighted Average of the Peer Group P/E Multiple  
Earnings = Profit Attributable to Equity Holders of JAT

## 6.0 Valuation Results

This section details out the assumptions used for the valuation and results based on the valuation methods described in Section 5.0 – Valuation Methodology.

### 6.1 Discounted Cash Flow (DCF) Valuation Method

Valuation Summary based on DCF Method (LKR Mn)

Entity	Enterprise Value	Net Debt	Intrinsic Value	Stake	Market Value
JAT Holdings Limited	8,926	326	8,601	100.00%	8,601
JAT Exports (Pvt) Ltd	146	(19)	165	100.00%	165
JAT Exports DMCC	6,681	(240)	6,921	100.00%	6,921
Brush Master (Pvt) Ltd	126	33	92	55.00%	51
Worldwide Resins & Chemicals (Pvt) Ltd	213	(5)	218	100.00%	218
JAT Global (Pvt) Ltd	115	(0)	115	98.37%	113
Bangladesh Plant	494	-	494	100.00%	494
East African Plant	51	-	51	100.00%	51
<b>Total Value</b>					16,589
Number of Shares*					510,407,773
<b>Value per share of JAT (LKR)</b>					32.50

\*Based on the total number of shares in issue post IPO

Based on the DCF analysis, the total equity of JAT is LKR 16,601 million with LKR 32.50 per voting share.

JATH (LKR Mn)

FY 31st March	FY22E	FY23E	FY24E	FY25E	FY26E
EBIT	972	1,156	1,510	2,004	2,428
Tax	12%	14%	14%	14%	24%
EBIT (1-T)	856	994	1,298	1,724	1,845
Depreciation and amortisation	135	198	208	221	215
Working Capital	(1,116)	(148)	(759)	(919)	(1,097)
Capex	(513)	(82)	(89)	(97)	(106)
Non-Cash Items	176	152	176	207	243
Acquisition of balance stake in BM	(8)	-	-	-	-
FCFF	(467)	1,114	834	1,135	1,099
Terminal value	-	-	-	-	11,870
FCFF including terminal value	(467)	1,114	834	1,135	12,970
Discounting Factor	0.886	0.785	0.696	0.617	0.554
Discounted FCFF	(413)	875	580	700	7,184

As at 31st March 2021	LKR Mn
Debt	542
Cash	(216)
<b>Net Debt</b>	326
<b>Enterprise value</b>	8,926
Net Debt	(326)
<b>Equity value</b>	8,601

WACC and Terminal Growth Rate	FY22E	Up to FY25E	FY26E onwards
Risk free rate	7.1%	7.1%	7.1%
AWPLR	5.5%	5.5%	5.5%
Debt spread	2.0%	2.0%	2.0%
Tax	12.0%	14.0%	24.0%
Kd (1-t)	6.6%	6.5%	5.7%
Debt weightage	40.0%	40.0%	40.0%
Equity risk premium	10.0%	10.0%	10.0%
Ke	17.1%	17.1%	17.1%
<b>WACC</b>	12.9%	12.8%	12.5%
<b>Terminal growth rate</b>	3.0%	3.0%	3.0%



We have considered three WACCs at three stages to discount the cashflows of JATH. As per the 2021 government budget, the tax rate applicable will reduce by 50% in the year of listing after which it's subject to a 14% concessionary tax rate for 3 subsequent years. From FY26E onwards, JATH will be taxable at 24%.

Based on the DCF analysis, the total equity of JATH is LKR 8,601 million.

#### Sensitivity Analysis (LKR Mn)

WACC								
Terminal Growth Rate		11.0%	11.5%	12.0%	12.5%	13.0%	13.5%	14.0%
	1.5%	8,997	8,491	8,036	7,625	7,251	6,911	6,600
	2.0%	9,416	8,862	8,366	7,919	7,516	7,149	6,816
	2.5%	9,885	9,274	8,730	8,243	7,805	7,409	7,049
	3.0%	10,411	9,734	9,135	8,601	8,123	7,693	7,305
	3.5%	11,008	10,251	9,586	8,998	8,475	8,006	7,584
	4.0%	11,689	10,837	10,094	9,442	8,865	8,351	7,891
	4.5%	12,474	11,506	10,670	9,941	9,301	8,735	8,230

#### BM (LKR Mn)

FY 31st March	FY22E	FY23E	FY24E	FY25E	FY26E
EBIT	12	16	19	25	29
Tax	18%	18%	18%	18%	18%
EBIT (1-T)	9	13	15	20	24
Depreciation and amortisation	1	6	6	7	7
Working Capital	(41)	18	(5)	(5)	(6)
Capex	(55)	(0)	(1)	(1)	(1)
FCFF	(86)	37	16	21	23
Terminal value	-	-	-	-	248
FCFF including terminal value	(86)	37	16	21	271
Discounting Factor	0.887	0.787	0.698	0.619	0.550
Discounted FCFF	(77)	29	11	13	149

As at 31st March 2021	LKR Mn
Debt	34
Cash	(0)
<b>Net Debt</b>	<b>33</b>
<b>Enterprise value</b>	<b>126</b>
Net Debt	(33)
<b>Equity value</b>	<b>92</b>

WACC and Terminal Growth Rate	
Risk free rate	7.1%
AWPLR	5.5%
Debt spread	2.0%
Tax	18.0%
Kd (1-t)	6.2%
Debt weightage	40.0%
Equity risk premium	10.0%
Ke	17.1%
<b>WACC</b>	<b>12.7%</b>
<b>Terminal growth rate</b>	<b>3.0%</b>

Based on the DCF analysis, the total equity of BM is LKR 92 million.

### Sensitivity Analysis (LKR Mn)

WACC								
Terminal Growth Rate		11.2%	11.7%	12.2%	12.7%	13.2%	13.7%	14.2%
	1.5%	102	91	81	72	64	57	50
	2.0%	110	98	88	78	70	62	55
	2.5%	120	107	95	85	76	67	60
	3.0%	130	116	104	92	82	73	65
	3.5%	142	127	113	100	89	80	71
	4.0%	156	138	123	109	97	87	77
	4.5%	172	152	135	120	106	94	84

### WWRC (LKR Mn)

FY 31st March	FY22E	FY23E	FY24E	FY25E	FY26E
EBIT	34	35	37	38	39
Tax	24%	24%	24%	24%	24%
EBIT (1-T)	26	27	28	29	30
Depreciation and amortisation	0	0	0	0	0
Working Capital	(19)	(5)	(5)	(5)	(6)
Capex	(0)	(0)	(0)	(0)	(0)
FCFF	7	22	23	23	24
Terminal value	-	-	-	-	262
FCFF including terminal value	7	22	23	23	287
Discounting Factor	0.889	0.790	0.702	0.623	0.554
Discounted FCFF	6	17	16	15	159

As at 31st March 2021	LKR Mn
Debt	14
Cash	(18)
<b>Net Debt</b>	<b>(5)</b>
<b>Enterprise value</b>	<b>213</b>
Net Debt	5
<b>Equity value</b>	<b>218</b>

WACC and Terminal Growth Rate	
Risk free rate	7.1%
AWPLR	5.5%
Debt spread	2.0%
Tax	24.0%
Kd (1-t)	5.7%
Debt weightage	40.0%
Equity risk premium	10.0%
Ke	17.1%
<b>WACC</b>	<b>12.5%</b>
<b>Terminal growth rate</b>	<b>3.0%</b>

Based on the DCF analysis, the total equity of WWRC is LKR 218 million.

### Sensitivity Analysis (LKR Mn)

WACC								
Terminal Growth Rate		11.0%	11.5%	12.0%	12.5%	13.0%	13.5%	14.0%
	1.5%	229	217	206	196	187	179	172
	2.0%	238	225	213	203	193	184	176
	2.5%	248	234	221	210	200	190	182
	3.0%	260	244	230	218	207	196	187
	3.5%	273	256	240	227	214	203	193
	4.0%	288	269	252	236	223	211	200
	4.5%	305	283	264	247	233	220	208

JATE (LKR Mn)

FY 31st March	FY22E
EBIT	42
Tax	14%
EBIT (1-T)	37
Depreciation and amortisation	-
Working Capital	128
Capex	-
FCFF	165
Terminal value	-
FCFF including terminal value	165
Discounting Factor	0.886
Discounted FCFF	146

As at 31st March 2021	LKR Mn
Debt	1
Cash	(19)
<b>Net Debt</b>	<b>(19)</b>
<b>Enterprise value</b>	<b>146</b>
Net Debt	19
<b>Equity value</b>	<b>165</b>

WACC and Terminal Growth Rate	
Risk free rate	7.1%
AWPLR	5.5%
Debt spread	2.0%
Tax	14.0%
Kd (1-t)	6.5%
Debt weightage	40.0%
Equity risk premium	10.0%
Ke	17.1%
<b>WACC</b>	<b>12.8%</b>

Based on the DCF analysis, the total equity of JATE is LKR 165 million.

Sensitivity Analysis (LKR Mn)

WACC						
11.3%	11.8%	12.3%	12.8%	13.3%	13.8%	14.3%
167	166	166	165	164	164	163

DMCC (LKR Mn)

FY 31st March	FY22E	FY23E	FY24E	FY25E	FY26E
EBIT	292	591	654	836	956
Tax	0%	0%	0%	0%	0%
EBIT (1-T)	292	591	654	836	956
Depreciation and amortisation	-	-	-	-	-
Working Capital	(163)	(112)	(41)	(87)	(58)
Capex	-	-	-	-	-
FCFF	129	480	613	749	898
Terminal value	-	-	-	-	9,013
FCFF including terminal value	129	480	613	749	9,911
Discounting Factor	0.883	0.780	0.688	0.608	0.536
Discounted FCFF	114	374	422	455	5,317

As at 31st March 2021	LKR Mn
Debt	-
Cash	(240)
<b>Net Debt</b>	<b>(240)</b>
<b>Enterprise value</b>	<b>6,681</b>
Net Debt	240
<b>Equity value</b>	<b>6,921</b>

WACC and Terminal Growth Rate	
Risk free rate	7.1%
AWPLR	5.5%
Debt spread	2.0%
Tax	0.0%
Kd (1-t)	7.5%
Debt weightage	40.0%
Equity risk premium	10.0%
Ke	17.1%
<b>WACC</b>	<b>13.3%</b>
<b>Terminal growth rate</b>	<b>3.0%</b>

Based on the DCF analysis, the total equity of DMCC is LKR 6,921 million.

#### Sensitivity Analysis (LKR Mn)

WACC								
Terminal Growth Rate		11.8%	12.3%	12.8%	13.3%	13.8%	14.3%	14.8%
	1.5%	7,266	6,892	6,553	6,243	5,959	5,698	5,457
	2.0%	7,553	7,148	6,782	6,449	6,145	5,866	5,609
	2.5%	7,871	7,430	7,033	6,674	6,347	6,048	5,775
	3.0%	8,226	7,743	7,310	6,921	6,568	6,247	5,954
	3.5%	8,623	8,091	7,617	7,193	6,811	6,464	6,150
	4.0%	9,072	8,481	7,960	7,495	7,078	6,703	6,363
	4.5%	9,582	8,922	8,343	7,831	7,375	6,966	6,597

#### JATG (INR Mn)

FY 31st March	FY22E	FY23E	FY24E	FY25E	FY26E
EBIT	2	3	6	6	6
Tax	22%	22%	22%	22%	22%
EBIT (1-T)	1	2	4	5	5
Depreciation and amortisation	0	0	0	0	0
Working Capital	13	(3)	(2)	(1)	(1)
Capex	(0)	(0)	(0)	(0)	(0)
FCFF	15	(1)	2	4	4
Terminal value	-	-	-	-	45
FCFF including terminal value	15	(1)	2	4	49
Discounting Factor	0.892	0.796	0.711	0.634	0.566
Discounted FCFF	13	(1)	2	2	28

As at 31st March 2021	INR Mn
Debt	-
Cash	(0)
<b>Net Debt</b>	<b>(0)</b>
<b>Enterprise value</b>	<b>44</b>
Net Debt	0
<b>Equity value</b>	<b>44</b>

WACC and Terminal Growth Rate	
Risk free rate	5.5%
Base Rate	8.8%
Tax	22.0%
Kd (1-t)	6.9%
Debt weightage	40.0%
Equity risk premium	10.0%
Ke	15.5%
<b>WACC</b>	<b>12.1%</b>
<b>Terminal growth rate</b>	<b>3.0%</b>

Based on the DCF analysis, the total equity of JATG is INR 44 million (LKR 115 million\*\*).

\*\*Converted at INR/LKR spot rate of 2.61 as at 27 April 2021

### Sensitivity Analysis (INR Mn)

WACC								
Terminal Growth Rate		10.6%	11.1%	11.6%	12.1%	12.6%	13.1%	13.6%
	1.5%	46	44	42	40	39	37	36
	2.0%	48	46	43	42	40	38	37
	2.5%	50	47	45	43	41	39	38
	3.0%	52	49	47	44	42	40	39
	3.5%	55	52	49	46	44	42	40
	4.0%	58	54	51	48	45	43	41
	4.5%	61	57	53	50	47	45	43

### JATB (BDT Mn)

FY 31st March	FY22E	FY23E	FY24E	FY25E	FY26E
EBIT	-	63	91	123	143
Tax	35%	35%	35%	35%	35%
EBIT (1-T)	-	41	59	80	93
Depreciation and amortisation	-	9	9	9	9
Working Capital	-	(150)	(44)	(51)	(34)
Capex	(224)	-	(4)	(4)	(4)
FCFF	(224)	(100)	20	34	65
Terminal value	-	-	-	-	745
FCFF including terminal value	(224)	(100)	20	34	810
Discounting Factor	0.893	0.797	0.712	0.636	0.568
Discounted FCFF	(200)	(80)	14	22	460

As at 31st March 2021	BDT Mn
Enterprise value	216
Net Debt	-
<b>Equity value</b>	<b>216</b>

Based on the DCF analysis, the total equity of JATG is BDT 216 million (LKR 494 million).

*\*\*Converted at BDT/LKR spot rate of 2.29 as at 27 April 2021*

WACC and Terminal Growth Rate	
Risk free rate	6.5%
Lending Rate	8.0%
Tax	35.0%
Kd (1-t)	5.2%
Debt weightage	40.0%
Equity risk premium	10.0%
Ke	16.5%
<b>WACC</b>	<b>12.0%</b>
<b>Terminal growth rate</b>	<b>3.0%</b>

### Sensitivity Analysis (INR Mn)

WACC								
Terminal Growth Rate		10.5%	11.0%	11.5%	12.0%	12.5%	13.0%	13.5%
	1.5%	238	205	176	150	126	105	86
	2.0%	267	231	198	170	144	121	100
	2.5%	299	259	223	192	164	138	116
	3.0%	336	290	251	216	185	157	133
	3.5%	377	326	282	243	209	178	151
	4.0%	426	367	317	274	235	202	172
	4.5%	482	415	357	308	265	228	195

JATA (ETB Mn)

FY 31st March	FY23E	FY24E	FY25E	FY26E	FY27E	FY28E
EBIT	-	(2)	8	18	23	26
Tax	35%	35%	35%	35%	35%	35%
EBIT (1-T)	-	(2)	5	11	15	17
Depreciation and amortisation	-	3	3	3	3	3
Working Capital	-	(8)	(6)	(7)	(4)	(2)
Capex	(71)	5	(1)	(1)	(2)	(2)
FCFF	(71)	(2)	0	7	13	16
Terminal value	-	-	-	-	-	136
FCFF including terminal value	(71)	(2)	0	7	13	152
Discounting Factor	0.755	0.656	0.570	0.495	0.430	0.374
Discounted FCFF	(53)	(1)	0	3	5	57

As at 31st March 2021	ETB Mn
Enterprise value	11
Net Debt	-
<b>Equity value</b>	<b>11</b>

Based on the DCF analysis, the total equity of JATG is ETB 11 million (LKR 51 million).

*\*\*Converted at ETB/LKR spot rate of 4.62 as at 27 April 2021*

WACC and Terminal Growth Rate	
Risk free rate	8.9%
Lending Rate	14.3%
Tax	35.0%
Kd (1-t)	9.3%
Debt weightage	40.0%
Equity risk premium	10.0%
Ke	18.9%
<b>WACC</b>	<b>15.1%</b>
<b>Terminal growth rate</b>	<b>3.0%</b>

Sensitivity Analysis (ETB Mn)

WACC								
Terminal Growth Rate		13.6%	14.1%	14.6%	15.1%	15.6%	16.1%	16.6%
	1.5%	15	11	8	5	2	(0)	(3)
	2.0%	18	14	10	7	4	1	(1)
	2.5%	21	16	12	9	6	3	0
	3.0%	24	19	15	11	8	5	2
	3.5%	27	22	18	14	10	7	4
	4.0%	31	26	21	16	12	9	6
	4.5%	35	29	24	19	15	11	8

## 6.2 Forward PER Valuation Method

CAL used the following Comparable Peers for the relative valuation of JAT. The peer group for JAT was selected based off the companies listed under the Materials and Capital Goods industry groups based on GICS classification on the CSE and the Paints and Building Products industry groups in Bangladesh as per industry classification on the S&P Capital IQ.

The applicable ratios for the Comparable Peers are provided in the tables below.

Comparable Peer	Country	Market Cap* (USD Mn) **	TTM PAT (USD Mn) **	PER	Weightage (1-Discount)	Discounted PER
Royal Ceramics Lanka PLC	Sri Lanka	216.85	31.03	7.0x	100%	7.0x
Tokyo Cement Company (Lanka) PLC	Sri Lanka	144.25	27.44	5.3x	100%	5.3x
Alumex PLC	Sri Lanka	40.27	4.25	9.5x	100%	9.5x
ACL Cables PLC	Sri Lanka	52.47	6.03	8.7x	100%	8.7x
Lanka Walltiles PLC	Sri Lanka	92.23	14.97	6.2x	100%	6.2x
Berger Paints Bangladesh Limited	Bangladesh	991.53	27.97	35.4x	90%	31.9x
Nahee Aluminum Composite Panel Ltd.	Bangladesh	31.94	1.42	22.5x	100%	22.5x
Fu-Wang Ceramic Industry Limited	Bangladesh	18.49	0.65	28.3x	100%	28.3x
RAK Ceramics (Bangladesh) Limited	Bangladesh	159.57	4.41	36.2x	100%	36.2x
Average Peer PER				17.7x		17.3x

Source: Colombo Stock Exchange, Dhaka Stock Exchange, Respective Company Financials

\*Market Capitalization as at 04 June 2021

\*\*Converted at USD/LKR spot rate of 197.72 and USD/BDT spot rate of 84.75 as at 08 June 2021

	LKR Mn
FY22E PAT Attributable to Shareholders	1,194
Cost of Equity	17.1%
PV of FY22E PAT Attributable to Shareholders	1,020
Average Peer PER	17.3x
Value of JAT	17,615
Number of Shares*	510,407,773
Value per Share of JAT (LKR)	34.51

\*Based on the total number of shares in issue post IPO

The impact of COVID-19, disruptions to supply chain and overall slowdown in sales due to subdued economic and consumer activity heavily impacted profitability in FY21 and as a result is not an accurate reflection of the company's earnings capability. Therefore, we have used the Forward PER valuation method as opposed to trailing PER valuation method. The FY22E PAT attributable to shareholders was discounted using the cost of equity of JATH and multiplied by the peer PER to arrive at the valuation of JAT as at the valuation date.

Based on the Average Peer PER, the total equity value of JAT is LKR 17,615 million with a per share value of LKR 34.51 per voting share.

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## 7.0 Value Recommendation

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We summarise the rationale for our recommendation as follows:

- The SOTP DCF valuation indicates a price of LKR 32.50
- The Forward PER relative valuation indicates a price of LKR 34.51

We conclude our valuation recommendation of LKR 32.70 a share of JAT based on our primary valuation metric – the SOTP using DCF and PER.



## 8.0 Forecast Statement of Financial Performance

### 8.1 JAT Group

FY 31st March (LKR Mn)	FY19	FY20	FY21	FY22E	FY23E	FY24E	FY25E	FY26E
Revenue	6,547	6,296	5,360	9,305	10,787	12,882	15,568	18,149
Cost of Sales	(4,616)	(4,557)	(3,715)	(6,703)	(7,284)	(8,835)	(10,541)	(12,308)
Gross profit	1,932	1,739	1,644	2,601	3,503	4,047	5,027	5,841
Other Income	19	75	53	-	-	-	-	-
Selling and Distribution Costs	(592)	(667)	(711)	(863)	(950)	(887)	(1,002)	(1,131)
Administration Expenses	(306)	(311)	(301)	(381)	(596)	(707)	(763)	(806)
Operating Profit	1,053	837	685	1,357	1,957	2,453	3,263	3,904
Finance Cost	(129)	(133)	(83)	(52)	(87)	(129)	(167)	(211)
Finance Income	17	47	43	19	14	13	13	15
Gain/(Loss) on Disposal of Subsidiaries	-	-	-	-	-	-	-	-
Profit Before Tax	941	751	644	1,323	1,884	2,336	3,108	3,708
Income tax	(60)	(44)	(44)	(129)	(212)	(279)	(380)	(696)
Profit After Tax	881	707	600	1,194	1,672	2,057	2,728	3,012
Non-Controlling Interest	(3)	(5)	2	0	0	0	0	0
Profit Attributable to Equity Holders	884	712	599	1,194	1,671	2,057	2,728	3,012
Group Profit After Tax	881	707	600	1,194	1,672	2,057	2,728	3,012

### 8.2 JATH

FY 31st March (LKR Mn)	FY19	FY20	FY21	FY22E	FY23E	FY24E	FY25E	FY26E
Revenue	6,313	4,428	4,513	7,028	7,602	8,807	10,356	12,133
Cost of Sales	(4,440)	(3,083)	(3,064)	(4,894)	(5,048)	(5,923)	(6,823)	(8,022)
Gross profit	1,873	1,345	1,448	2,135	2,554	2,884	3,533	4,111
Other Income	39	290	157	321	629	717	940	1,096
Selling and Distribution Costs	(576)	(623)	(627)	(817)	(934)	(870)	(983)	(1,110)
Administration Expenses	(257)	(331)	(361)	(353)	(471)	(511)	(552)	(581)
Operating Profit	1,080	682	618	1,286	1,778	2,220	2,937	3,516
Finance Cost	(114)	(126)	(73)	(47)	(59)	(70)	(89)	(120)
Finance Income	17	30	21	12	9	10	8	9
Gain/(Loss) on Disposal of Subsidiaries	-	-	-	-	-	-	-	-
Profit Before Tax	983	585	566	1,251	1,728	2,160	2,856	3,406
Income tax	(57)	(10)	(36)	(112)	(155)	(203)	(269)	(556)
Profit After Tax	926	576	529	1,138	1,573	1,957	2,587	2,850

### 8.3 BM

FY 31st March (LKR Mn)	FY19	FY20	FY21	FY22E	FY23E	FY24E	FY25E	FY26E
<b>Revenue</b>	<b>110</b>	<b>66</b>	<b>91</b>	<b>101</b>	<b>113</b>	<b>126</b>	<b>141</b>	<b>157</b>
Cost of Sales	(91)	(58)	(80)	(80)	(87)	(96)	(104)	(115)
<b>Gross profit</b>	<b>19</b>	<b>7</b>	<b>11</b>	<b>22</b>	<b>26</b>	<b>30</b>	<b>37</b>	<b>42</b>
Other Income	3	1	6	-	-	-	-	-
Selling and Distribution Costs	-	-	-	-	-	-	-	-
Administration Expenses	(19)	(16)	(13)	(10)	(11)	(12)	(13)	(14)
<b>Operating Profit</b>	<b>3</b>	<b>(8)</b>	<b>4</b>	<b>12</b>	<b>16</b>	<b>19</b>	<b>25</b>	<b>29</b>
Finance Cost	(8)	(3)	(2)	(4)	(4)	(2)	(2)	(1)
Finance Income	-	-	-	0	0	0	0	0
Gain/(Loss) on Disposal of Subsidiaries	-	-	-	-	-	-	-	-
<b>Profit Before Tax</b>	<b>(4)</b>	<b>(11)</b>	<b>2</b>	<b>8</b>	<b>12</b>	<b>16</b>	<b>23</b>	<b>28</b>
Income tax	(1)	-	(1)	(1)	(2)	(3)	(4)	(5)
<b>Profit After Tax</b>	<b>(5)</b>	<b>(11)</b>	<b>1</b>	<b>6</b>	<b>10</b>	<b>13</b>	<b>19</b>	<b>23</b>

### 8.4 WWRC

FY 31st March (LKR Mn)	FY19	FY20	FY21	FY22E	FY23E	FY24E	FY25E	FY26E
<b>Revenue</b>	<b>215</b>	<b>191</b>	<b>238</b>	<b>262</b>	<b>275</b>	<b>289</b>	<b>303</b>	<b>318</b>
Cost of Sales	(183)	(159)	(187)	(207)	(217)	(228)	(240)	(252)
<b>Gross profit</b>	<b>32</b>	<b>33</b>	<b>51</b>	<b>55</b>	<b>58</b>	<b>61</b>	<b>64</b>	<b>67</b>
Other Income	-	0	-	-	-	-	-	-
Selling and Distribution Costs	(9)	(9)	(12)	(13)	(15)	(16)	(17)	(19)
Administration Expenses	(9)	(8)	(8)	(8)	(8)	(8)	(8)	(9)
<b>Operating Profit</b>	<b>14</b>	<b>15</b>	<b>31</b>	<b>34</b>	<b>35</b>	<b>37</b>	<b>38</b>	<b>39</b>
Finance Cost	(9)	(3)	(3)	(1)	(0)	(0)	(0)	(0)
Finance Income	-	-	-	1	0	0	1	1
Gain/(Loss) on Disposal of Subsidiaries	-	-	-	-	-	-	-	-
<b>Profit Before Tax</b>	<b>6</b>	<b>12</b>	<b>28</b>	<b>34</b>	<b>35</b>	<b>37</b>	<b>39</b>	<b>41</b>
Income tax	(2)	(3)	(7)	(8)	(8)	(9)	(9)	(10)
<b>Profit After Tax</b>	<b>4</b>	<b>9</b>	<b>22</b>	<b>26</b>	<b>27</b>	<b>28</b>	<b>29</b>	<b>31</b>

### 8.5 JATE

FY 31st March (LKR Mn)	FY20	FY21	FY22E
<b>Revenue</b>	<b>1,682</b>	<b>75</b>	<b>395</b>
Cost of Sales	(1,334)	(53)	(320)
<b>Gross profit</b>	<b>347</b>	<b>22</b>	<b>75</b>
Other Income	-	-	-
Selling and Distribution Costs	(34)	(32)	(32)
Administration Expenses	(1)	(0)	(1)
<b>Operating Profit</b>	<b>312</b>	<b>(10)</b>	<b>42</b>
Finance Cost	(0)	(0)	(0)
Finance Income	17	18	1
Gain/(Loss) on Disposal of Subsidiaries	-	-	-
<b>Profit Before Tax</b>	<b>329</b>	<b>8</b>	<b>43</b>
Income tax	(31)	0	(6)
<b>Profit After Tax</b>	<b>298</b>	<b>8</b>	<b>37</b>

## 8.6 DMCC

FY 31st March (LKR Mn)	FY20	FY21	FY22E	FY23E	FY24E	FY25E	FY26E
Revenue	75	571	1,921	2,641	3,224	4,118	4,717
Cost of Sales	(59)	(460)	(1,625)	(2,045)	(2,565)	(3,277)	(3,756)
Gross profit	16	112	296	596	658	841	961
Other Income	-	-	-	-	-	-	-
Selling and Distribution Costs	-	(40)	(1)	(1)	(2)	(2)	(2)
Administration Expenses	(0)	(2)	(3)	(3)	(3)	(4)	(4)
Operating Profit	16	69	292	591	654	836	956
Finance Cost	(1)	(5)	-	-	-	-	-
Finance Income	0	3	5	2	1	2	2
Gain/(Loss) on Disposal of Subsidiaries	-	-	-	-	-	-	-
Profit Before Tax	15	67	297	594	655	837	957
Income tax	-	-	-	-	-	-	-
Profit After Tax	15	67	297	594	655	837	957

## 8.7 JATG

FY 31st March (INR Mn)	FY19	FY20	FY21	FY22E	FY23E	FY24E	FY25E	FY26E
Revenue	19	18	18	58	70	78	81	85
Cost of Sales	(18)	(24)	(20)	(51)	(62)	(66)	(69)	(73)
Gross profit	2	(6)	(3)	7	8	12	12	13
Other Income	0	-	0	-	-	-	-	-
Selling and Distribution Costs	-	-	-	-	-	-	-	-
Administration Expenses	(13)	(11)	(5)	(5)	(6)	(6)	(6)	(6)
Operating Profit	(12)	(17)	(9)	2	3	6	6	6
Finance Cost	-	-	-	-	-	-	-	-
Finance Income	-	-	-	0	1	1	1	1
Gain/(Loss) on Disposal of Subsidiaries	(5)	27	37	-	-	-	-	-
Profit Before Tax	(17)	10	28	2	4	6	7	7
Income tax	-	-	-	(0)	(1)	(1)	(2)	(2)
Profit After Tax	(17)	10	28	1	3	5	5	6

## 8.8 JATB

FY 31st March (BDT Mn)	FY23E	FY24E	FY25E	FY26E
Revenue	1,012	1,311	1,657	1,883
Cost of Sales	(909)	(1,177)	(1,488)	(1,690)
Gross profit	103	134	169	193
Other Income	-	-	-	-
Selling and Distribution Costs	-	-	-	-
Administration Expenses	(40)	(43)	(46)	(50)
Operating Profit	63	91	123	143
Finance Cost	(10)	(22)	(27)	(31)
Finance Income	-	-	-	-
Gain/(Loss) on Disposal of Subsidiaries	-	-	-	-
Profit Before Tax	53	70	96	112
Income tax	(19)	(24)	(34)	(39)
Profit After Tax	35	45	63	73

## 8.9 JATA

FY 31st March (ETB Mn)	FY24E	FY25E	FY26E	FY27E	FY28E
Revenue	50	87	126	150	165
Cost of Sales	(37)	(64)	(92)	(109)	(120)
Gross profit	12	23	34	41	45
Other Income	-	-	-	-	-
Selling and Distribution Costs	-	-	-	-	-
Administration Expenses	(14)	(15)	(16)	(18)	(19)
Operating Profit	(2)	8	18	23	26
Finance Cost	(1)	(2)	(3)	(3)	(3)
Finance Income	-	-	-	-	-
Gain/(Loss) on Disposal of Subsidiaries	-	-	-	-	-
Profit Before Tax	(3)	6	15	20	22
Income tax	-	(2)	(5)	(7)	(8)
Profit After Tax	(3)	4	10	13	14

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## 9.0 Risks

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The future performance of JAT is subject to a number of risks that may or may not be within the control of the Company. Should any of the risks highlighted here materialize, it could have an adverse effect on the performance of the Company and its ordinary share price. This section highlights the main sources (but not necessarily all) of the risks faced by the Company.

### Macroeconomic Instability

Due to the company's global presence, JAT will also be affected by global macro-economic factors. Policies adopted by the different governments and on the political stability in different geographies play a crucial role in the company's performance as it has a direct impact on foreign investments. For example, instabilities in political environments could lead to a lengthy and more bureaucratic processes to establish manufacturing plants resulting in delays in construction and cost overruns. Furthermore, inflation rates of a country will affect consumer spending power and indirectly impact the company's performance.

### Impacts of the global pandemic

The global effect of COVID-19 pandemic is substantial and has resulted in a downturn of economic growth. Increase in costs and lead times in the supply chain, decline in sales due to lockdowns and supplier shocks has affected JAT along with reduced capacity. With the vaccination process well on its way the company has managed to regain its momentum and has increased sales in comparison to those prevalent in the initial stages of the pandemic. However, it should be noted that the long-term effects of rising unemployment, raw material price increases and stagnant economic growth can adversely affect the company and its performance.

### Exchange rate risks

JAT is exposed to exchange risks due to its operations globally. Currently JAT mainly imports using USD and EURO and any depreciation against these currencies can lead to higher raw material costs which would affect gross profit margins. However, the company has managed to maintain its margins through constant innovation and by passing the costs to its customers. With the establishment of manufacturing plants in East Africa and Bangladesh these exchange rate risks need to be monitored regularly.

### Increase in competition

The African region is a premature market and as it progresses along the way, more competitors might enter the market posing challenges to JAT's the market share. Furthermore, India and Bangladesh have well established competitors operating efficiently creating a more competitive environment and if operations are not managed efficiently, it can lead to eroded margins. However, JAT has remained competitive throughout with its innovative products and customer engagement strategies and will be further leveraging on research and development through its full-fledged research facility.

### Loss of strategic relationships

JAT has established exclusive agencies and distributorships with companies such as SEA, Herman Miller etc. Any loss of these relationships can have a negative impact on the company's performance. However, JAT has been able to build close relationships with such strategic customers and is confident in continuing these relationships in the foreseeable future. Furthermore, to reduce risks, the company is also focusing on backward integration.

### Import restrictions and tax regulations

JAT is heavily dependent on imports for its manufacturing and distribution services thus any restrictions imposed on raw material can severely impact JAT. Bangladesh operations can be heavily affected if any import restrictions are placed as it is highly dependent on DMCC imports. Furthermore, the company benefits from certain tax regimes such as the Dubai operations bearing 0% tax. Thus, changes in tax can influence the company's performance.

### Lack of online penetration

'WHITE by JAT' is expected to be promoted via online purchasing. In the event of speed of shifting towards online marketing in the country is stagnant, the expected sales may not be achieved by the company. Also, there is a risk of competitors copying the strategy adopted by JAT which may result in its inability to achieve the expected volume growths.

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## 10.0 Individuals Materially Participating in the Valuation Assignment

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### 10.1 CAL Team

**Deshan Pushparajah, CFA, FCMA, FCCA, BSc** – Managing Director, Global Markets & Investment Banking

Deshan is an expert at public and private capital markets, both buy-side and sell-side M&A and enjoys the trust of an established network of clients in the local and international capital markets. He has been with the group since 2007 and has overseen the team through the changing post-conflict economic realities and has been instrumental in CAL emerging as a market leader in Equity capital markets and a considerable force in Debt capital markets. Deshan is a CFA Charter holder (USA) and a Fellow Member of the Chartered Institute of Management Accountants, UK and the Association of Chartered Certified Accountants, UK. He also holds a Bachelor's in Applied Accounting from Oxford Brookes University, UK

**Vishnu Balachandran, CFA, ACMA, BBA** – Executive Vice President - Head of Investment Banking

Vishnu joined CAL in 2011 and has been a key driver in concluding many noteworthy M&A advisory transactions and debt issuances. Prior to joining CAL, he worked as an Equity Analyst at Amba Research, covering FMCG and retail markets in East Asia. Vishnu is a CFA Charter holder (USA), an Associate Member of the Chartered Institute of Management Accountants (UK) and holds a Bachelor's in Business Administration from the University of Colombo.

**Rizny Faisal, CFA, ACMA**, – Senior Vice President - Head of Equity Capital Markets and M&A

Rizny carries with him over a decade of financial consultancy field experience in providing buy-side financial due diligence, financial valuation, vendor assistance and external audit and assurance services. He has provided transaction advisory services with a particular emphasis on financial due diligence reviews across a range of industries including hospitality, manufacturing, FMCG retail and distribution, power and energy, financial services, construction and apparel. He also has experience in a range of audit and assurance services, covering a diverse range of industries including hospitality, manufacturing, financial services, retail and distribution, FMCG and shipping. Rizny is a Chartered Financial Analyst and an Associate Member of the Chartered Institute of Management Accountants UK.

**Udesh Rajeendra, BSc** – Assistant Vice President – Investment Banking

Udesh joined CAL in 2016 and has been involved in a number of capital market transactions. He holds a Bachelor's in Economics and Management and a Diploma in Economics from the University of London.

**Dakshitha Vithanage, BSc** – Assistant Manager - Investment Banking

Dakshitha joined CAL in early 2018 and has been involved in a number of capital market transactions including M&A, Corporate restructuring and company listings. He holds a Bachelor's in Finance from the University of Sri Jayewardenepura and he is a Passed Finalist of the Chartered Institute of Management Accountants (UK).

**Divyanjee Thrimanne, LLB** – Analyst - Investment Banking

Divyanjee joined CAL in early 2021, prior to which she worked as an Analyst in the Corporate Finance and Valuation Consulting Division of PricewaterhouseCoopers. She holds a Bachelor's degree in Law from the University of Colombo and she is a Passed Finalist of the Chartered Institute of Management Accountants (UK). Divyanjee is an Attorney-at Law of the Supreme Court of Sri Lanka.

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## 11.0 Disclaimer

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Our analysis is based on information obtained from the audited financials and additional information supplied by JAT management. We accepted all such information as accurate and acted with due care and consideration in preparing the report. However, nothing has come to our attention to believe that the facts and data set forth in the report are incorrect. However, we assume no responsibility for errors or omissions in information furnished by JAT.

Neither CAL nor any of its employees involved in this assignment have a financial interest in JAT. The fee for the preparation of this report is not contingent upon results reported.

We did not investigate either property titles or the directors' claims of JAT's ownership of said properties. Neither have we explored the possibility of liens or encumbrances lodged against the properties.

This report is for the use of the Board of Directors and shareholders of JAT for the purpose set out in Section 1.2 of this report and should not be used for any other purpose.

In carrying out this Assignment, analyses deemed to be appropriate and assessments that were possible and practical within the time available have been carried out. Financial information and market data from the CSE and S&P Capital IQ have also been used for this Assignment.

The value recommendations given in this report are valid as of Tuesday, 22 June 2021 and will be valid for a period of five months from the date of issuance of the Prospectus. A factor to be considered for this report is that the valuations carried out are done based on financial data released by JAT. Where the data provided were incomplete, we have used reasonable judgment.