



# TEEJAY LANKA PLC

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ANALYSIS OF EQUITY INVESTMENTS  
DEPARTMENT OF FINANCE

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**DATE : 5 TH DECEMBER 2022**

**CURRENT PRICE : 33.00**

**TICKER : TJL.N0000**

**RECOMMENDATION : BUY**

## EXECUTIVE SUMMARY

Teejay Lanka PLC, a company with a strong market capital and engages in Apperal Trade Industries.

## INVESTMENT HIGHLIGHTS

A BUY recommendation is issued on Teejay Lanka PLC with a target price of LKR 36.66, representing a 11% upside from the closing price of LKR 33.00 per share on 5th December 2022. Our Target Price calculation is based on the mix of the Discounted Cash flow (DCF) model with a target price of LKR 36.66 & Dividend Discount Model with a target price of LKR 9.18 and EV/EBITDA multiple with a target price of LKR 55.76. It can be stated that it is the main reason and there are few more reasons to the BUY recommendation.

- Intrinsic value is 36.66 according to FCSS and market price is undervalued.
- Forecasted EPS is increasing overtime.
- The Terminal Growth Rate 3.12%.

The aggregate results derived from the above calculations, estimations and competitive positioning, strengths, future growth strategies, exposure to investment risks and evaluating their consequent impacts on valuation of Teejay is confirm the BUY recommendation

## Key Financials

Key Financials	2023E	2024E	2025E	2026E	2027E
ROE	9.40	9.40	9.45	9.73	10.02
Debt to Equity	0.66	0.61	0.57	0.55	0.49
Operating Profit Margin	0.07	0.07	0.07	0.07	0.07
Gross Profit Margin	0.11	0.11	0.11	0.11	0.11

## INDUSTRY OUTLOOK

Teejay Lanka PLC operates textile and apparel sectors, and they produce materials to the leading companies in the same sectors in Sri Lanka. They have a good demand for their manufactured items.

## INVESTMENT RISK

Foreign Exchange Risk arises from the assets and liabilities denominated in LKR and INR and the expenses including salaries and wages. LKR depreciated against USD by over 44% during the financial year 21/22 also INR depreciated by around 10% during the year, but these fluctuations did not make huge impact on Teejay Lanka PLC seems it is mainly driven on export industries. The company has to face interest rate risk due to fluctuations in the market interest rate. Under the industries Teejay Lanka PLC identified threats to margin. All these were mitigate by companies' management successfully.

## COMPANY DESCRIPTION

### OVERVIEW

Teejay Lanka PLC is a knitted fabric manufacturer in South Asia specializing in weft knit manufacturing which located manufacturing facilities in Sri Lanka and India and a state-of-the-art printing facility in Sri Lanka. Teejay Lanka was formed in 2000 and was founded as a joint venture between Linea Clothing & Textured Jersey UK. In 2004, Pacific Textile Holdings acquired Teejay UK's stake in the company. In 2011 the company was listed as a public company and currently is one of the constitutions of the S&P Sri Lanka 20 Index of CSE.

### BUSINESS SEGMENTS

Teejay operates through two segments Textile manufacturing and Fabric printing. The textile manufacturing segment engages in manufacturing and selling weft knit fabrics to export and indirect export. Fabric printing segment engaging in rotary screen printing of knitted and woven fabrics to export and indirect export. (fig-1)

### GEOGRAPHIC REACH

Teejay reaches markets across the USA, Europe, and Asia with 8 leading global retail apparel brands which are 'PVH, L Brands NIKE USA, 'Marks & Spencer' UK, 'Calzedonia' in Italy, 'Decathlon' in France, 'LIDL' in Germany, and 'Uniqlo' Japan. (fig-2)

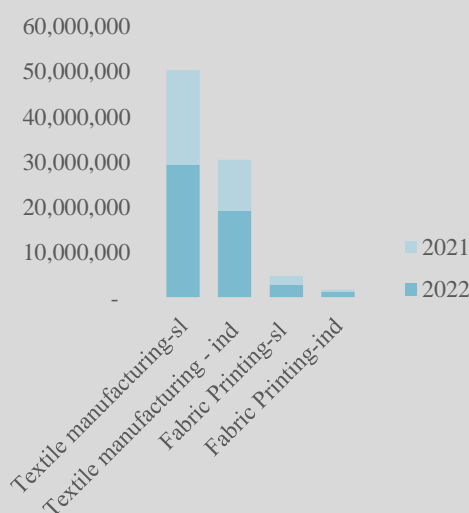
### PRODUCT HIGHLIGHTS

The company provides a range of products including Single Jersey, Interlock, Rib, Pique, Lacoste, Fleece, Terry, Collars, and Cuffs. It is engaged in natural regenerated synthetic, as well as protein fiber solutions including cotton, regenerated, synthetic, nylon, and protein fiber.

### VALUE CREATION

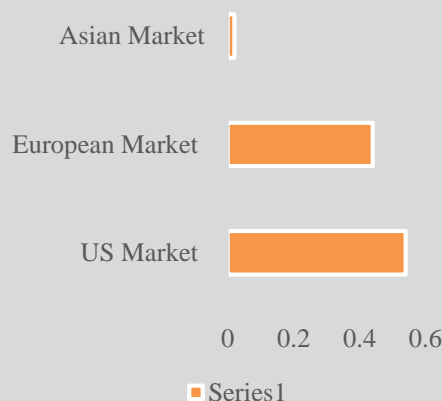
Teejay Lanka believes in sustainable value creation for both company and their operating environment and they achieve its key output, which is world-class knit fabric through financial capital, manufactured capital, human capital, intellectual capital, social & relationship capital, and natural capital. As the strategies for value creation, Teejay Lanka uses their multiple locations, operational excellence, and competent workforce. The value creation process is supported by the underlying value of integrity, innovation to lead, collaboration, and togetherness. Teejay's value-added products have been critical in improving the product mix and operating in a niche market. (fig-3)

Figure 1 - Segment Revenue



Source – Company Data

Figure 2 - Revenue from Regions



Source - Company Data

Figure 3 - Total Adjusted EBITDA



Source - Company Data

## INDUSTRY OVERVIEW AND COMPETITIVE POSITIONING

### 2.1. INDUSTRY OVERVIEW

The global textile market industry is valued at USD 993.6 billion in the last year and it is anticipated to grow at a 4% of compound annual growth rate. The Sri Lankan textile industry is the largest gross export earner with more than 52% of total export earnings. Sri Lankan exports of textiles increased by 19.3% (USD 4082.81 million) from January to August 2022 compared to the last year. (fig-4,5)

#### SRI LANKA ECONOMIC AND POLITICAL ENVIRONMENT

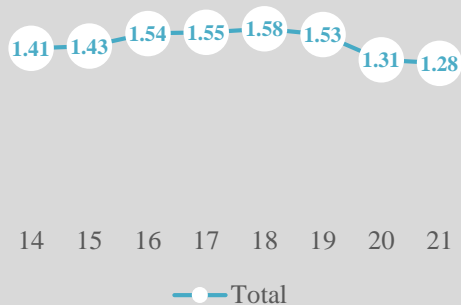
Sri Lankan foreign reserves were less than 2 billion in December 2021 after the pandemic situation. The Sri Lankan government imposed new regulations to limit the import of essential goods such as fuel, medicines, and drugs to save foreign reserves for external debt payment. Import restrictions lead the country to a fuel shortage and blackouts. It affected the textile industry directly. Some small and medium-scale companies and large-scale companies like Decathlon exited the Sri Lankan market.

Sri Lankan inflation levels increased by 73.7% within the last year. Inflation leads to an increase in material and labor costs. The most impactful challenges that the textile industry faces due to inflation are the high importing cost for raw materials and the high logistic cost for the on-time delivery of finished goods.

#### BARGAINING POWER OF THE BUYERS

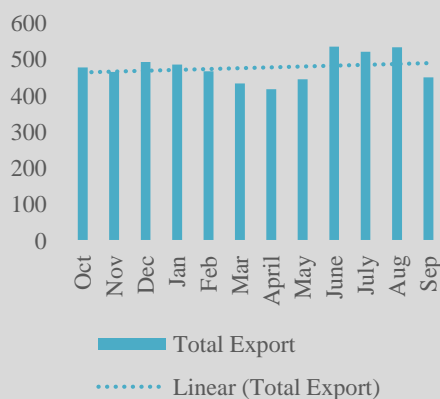
The major buyers of Teejay Lanka PLC are Calvin Klein, Victoria's Secret, and Calzedonia. The industry consists of many suppliers that influence the buyers to control the market. Therefore, suppliers have to work closely with them to ensure continuous orders. The Looming energy crisis and Inflation might affect to the USA & UK markets in the winter season for customers to meet their end needs. Demand for the apparel industry is currently shifting from the China to South Asian region due to low-cost and high-quality products compared to China. Customers play a superior role in affecting demand. Therefore, the bargaining power of the market is high.(fig-6,7)

**Figure 4 - Revenue in the apparel market**



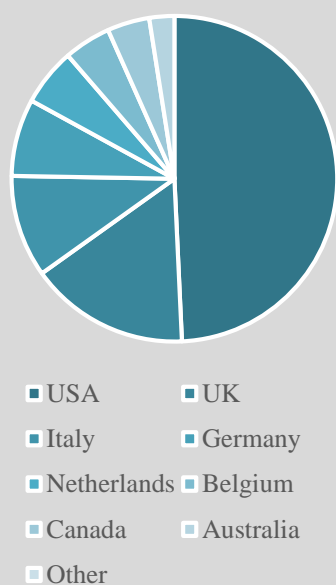
Source - Statista

**Figure 5 - Textile & Apparel exports in usd mn 2021- 2022**



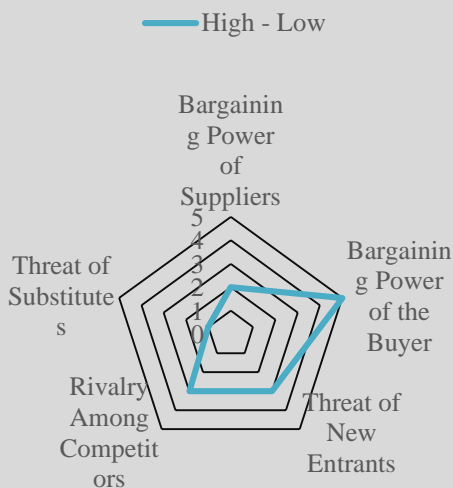
Source - JAAFSL

**Figure 6 - Key apparel exports markets in 2021**



Source - JAAFSL

**Figure 7 - Porter's five forces analysis**



Source - Team Analysis

**Figure 8 – SWOT Analysis**

**S** - Best Exporter in the knitted Fabric sector

**W** - cash flow interest rate risk,

**O** - Teejay gained a net foreign exchange gain

**T** - D-grade credit rating for Sri Lanka

Source - Team Analysis

**Figure 9 – Top Competitors**



Source - Zoominfo

## RIVALRY AMONG COMPETITORS

Teejay Lanka Plc was able to upgrade its expertise by establishing a strategic business partnership with Brandix Lanka and Pacific Textiles who are the leading pioneers in the apparel industry. Teejay Lanka Plc has six major competitors in the industry. A few of them are Hayleys Fabric Plc., Globe Textile Ltd, Antex Knitting, Etc. These companies already have strong financial stability and strategic capabilities, which increase the rivalry among the competitors. However, Teejay Lanka Plc can be identified as the market leader in the South Asian region with revenue of LKR 49,587,964 in 2021/2022. Thus, competition is moderate among existing competitors. (fig-7)

## 2.2. COMPETITIVE POSITIONING

Teejay Lanka PLC has positioned itself as the leading knitwear manufacturer in Sri Lanka and largest knit fabric provider in South Asia with Pacific Textiles owning 60% & Brandix Lanka owning 40% of the shareholding structure. The company holds the highest record in the Higgs Index, which is 90% indicating its sustainable manufacturing level recognized on the international level.

Sri Lanka's D-grade credit rating and increased core operating costs due to high inflation have negatively impacted the competitive position

In Sri Lanka apparel industry, have many competitive advantages compared with others.

- Majority of businesses in Sri Lanka's apparel manufacturing sector, which have been operating for over 20 years, branded and serve the global market.
- The impact of association with market leaders such as Brandix Lanka and Pacific Textiles enables the Group to further enhance its expertise.

There are 859 garment and textile exporters in Sri Lanka and the domestic market is very competitive. In order to be competitive internationally Teejay was successful in commencing business with the largest specialty retailer in the US. Teejay achieved differentiation by offering value-added novelty products, and thereby making its way into the online fashion trade. The excellent execution of this product innovation strategy enabled Teejay to report strong sales volumes for the FY 2021/22.



## INVESTMENT SUMMARY

### HIGHLIGHTS

We issue a hold recommendation for Teejay with the intrinsic value of LKR 23.99, representing a 31% downside from the closing price of LKR 39.80 per share on 28th November 2022. The Target Price calculation is based on the mix of the Discounted Cash flow to Firm (DCF) model & Dividend Discount Model and EV/EBITDA multiple.

#### 1. Economic conditions such as high tax rates, economic unstable, unpredictable behavior of Sri Lankan stock market.

Since the country is facing on a major economic crisis effected overall Sri Lankan economy it affects for the operations of the companies as well. As an exporting company it is clear that Teejay is getting a benefit from the price decrease of Sri Lankan rupee against USD but, when considering the operating costs for the company and their continuous supply the group faced common issues that occurs for all Sri Lankan economy. Still the effect on inflation is not fixed and the negative credit rating for Sri Lanka will affect negatively for Teejay.

#### 2. Teejay Lanka PLC has a relatively high cost of capital (27.97%)

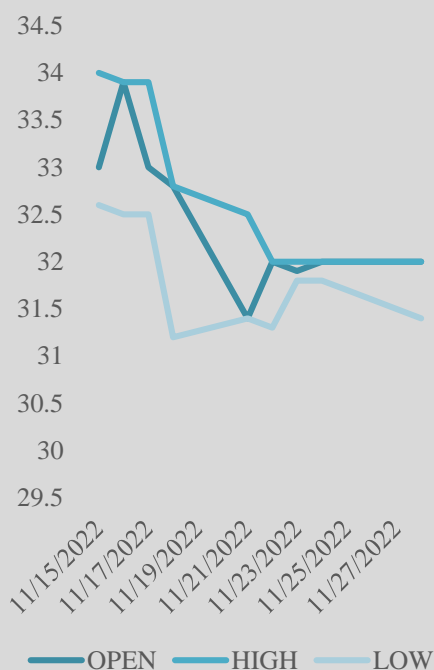
The cost of capital can also determine a company's valuation. Since a company with a high cost of capital can expect lower proceeds in the long run, investors are likely to see less value in owning a share of TeejayLanka PLC.

#### 3. The intrinsic value of the company is under valued

The intrinsic value calculated based on the DCFF is 23.99 and the average intrinsic value Calculated based on the DDM is 9.98 which means that the current stock price is overvalued.

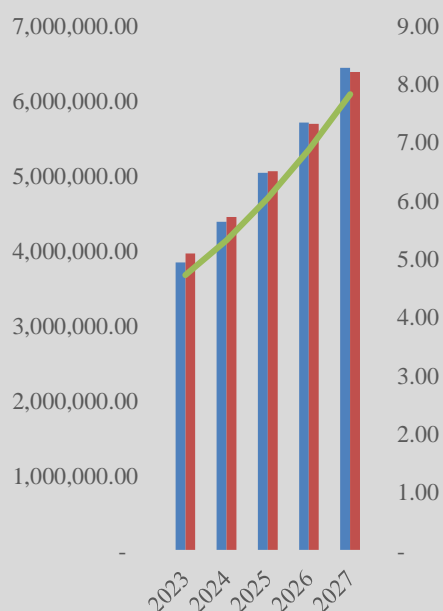
This situation is further confirmed by the intrinsic value calculated using relative valuation which is 14.13.

Figure 10 – Share Price Over Last Month



Source - Team Analysis

Figure 11- Profit before tax, EBIT, EPS

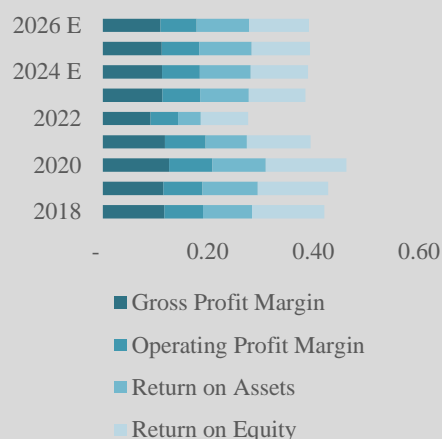


Source - Team Analysis

## FINANCIAL ANALYSIS

### PROFITABILITY RATIO

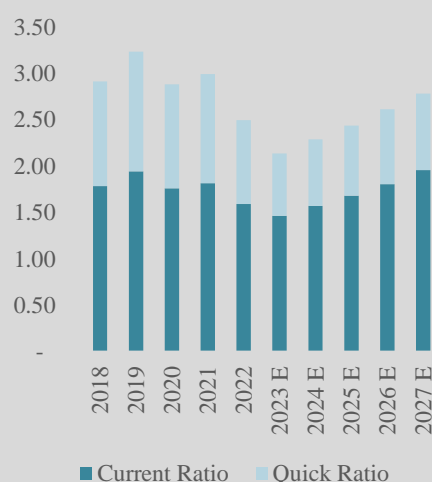
**Figure 12 - Profitability Ratios**



The company has maintained a stable gross profit margin rate (between 12% - 13%) over the past five years. But FY 21/22 the company has failed to continue its stable Gross profit margin. When it is come to forecasted gross profit margin it is constant for the next five years. The company's Operating profit margin also set to be constant for the next forecasted years. GPM and operating profit margin get constant since forecasted cost of sales got as the proportion of revenue. Return on assets and return on equity, both ratios have been declining over the past two years (FY2021 & FY2022). Expected ROA constant for upcoming five years. But expected ROE constant for upcoming four years (FY2023E-FY2026E) but at FY2027E It will increase to 0.12.

### LIQUIDITY RATIOS

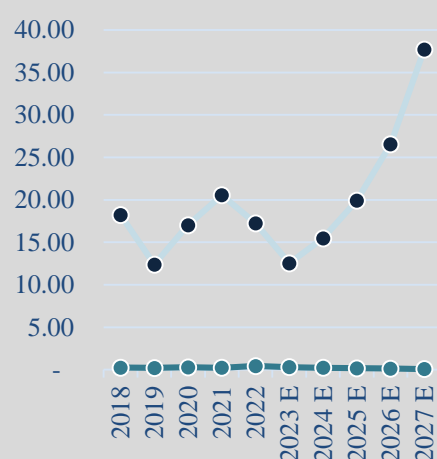
**Figure 13 - Liquidity Ratio**



The current ratio and quick ratio both take values above 1 except the FY21/22 quick ratio. So we can conclude that company well cared for their ability of paying short term obligations. But at the FY 2023E both current and quick ratios will decrease. There after both ratios will increase. Expected net working capital will behave same as the current ratio and quick ratio. The net working capital of the company ha increased over the past five years.(fig-13)

### SOLVENCY RATIOS

**Figure 14 - Solvency Ratios**



The gearing ratio and the debt to equity ratios of the company are between inclining for the past 4 years but it tend to decline within next 5 years. This interpret higher equity compared to debt, hence we can expect that the financial risk of the company will decline. The interest coverage of the company has favorable and relatively stable rate.(fig-14)

### INVESTOR'S RATIO

The Earning per share of the company is growing over time and the growth of the EPS will be continue for the next 5 years, since the EPS is growing continuously we can say that the investors can generate a good earning for their investment. Since the company has a good dividend history, we assumed that the company will declare dividends for next 5 years. The dividend yield for next 5 years will around 75%.

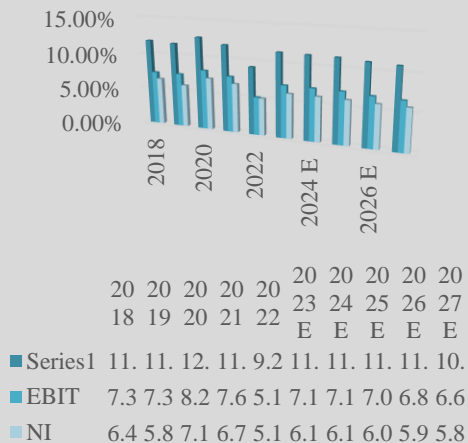
### EFFICIENCY RATIOS

Although the inventory turnover ratio of had a declining momentum the company will be able to convert it into stable rate. But as a whole the efficiency ratios takes a bit adverse forecast figures.

Source - Team Analysis

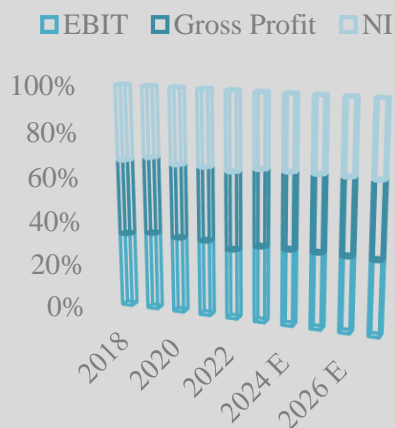


**Figure 15 – Vertical Analysis**



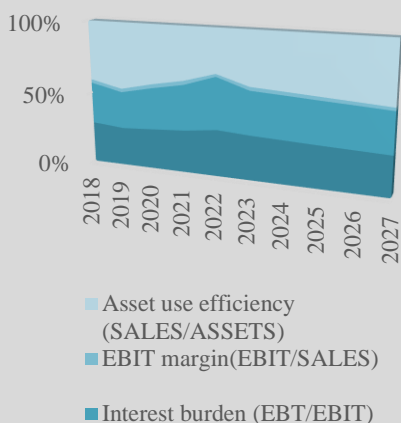
Source - Team Analysis

**Figure 16 – Horizontal Analysis**



Source - Team Analysis

**Figure 17 – Du pont Analysis**



Source - Team Analysis

## COMMON SIZE ANALYSIS

### VERTICAL ANALYSIS

Even though the company was able to maintain a stable rate in gross profit margin, in the 21/22 FY it dropped outstandingly (9.2%). According to the PPE of the company, we can see that the CAPEX is declining over the past years and it will be also declining for the next five years. Inventories also increased over the past five years and it will continue for the upcoming years. When it comes to the capital structure of the company, the company has decided to continue its operations with more borrowings till the FY2022 then after borrowings will decline. (fig-15)

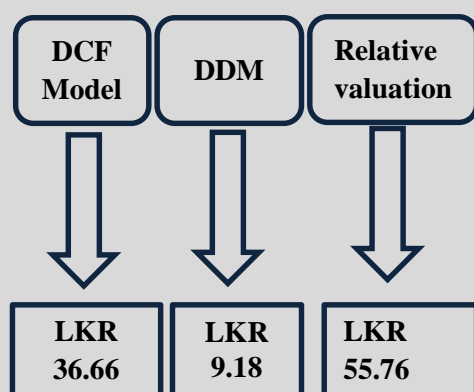
### HORIZONTAL ANALYSIS

The revenue of the company is increasing over the past years but in 21/22FY it has a significant impact on revenue when compared with the 2018FY. Revenue for the upcoming years also will increase for the next five years when it is compared to the 2018FY. Cost of sales also, has a growth of more than 100% this may be due to the sharp increases in yarn cost. Because of this gross profit increased less than revenue increment. Also for the upcoming years cost of sales will increase. Operating profits and the profits for the year has gradually increased for the past five years and these trends will continue for the upcoming years. Total NCA has increased at increasing rate but for the upcoming years it will increase but at decreasing rate. Total liabilities and Current liabilities has same patterns. They has gradually increased till 2021FY and there is significant increment in 2022FY and at 2023FYE it will decrease and then after there will gradual increment.(fig-16)

### DU PONT ANALYSIS

Teejay Lanka PLC was able to maintain a stable proportion of profits retained after paying taxes. Interest burden is increasing over the past years, and it will continually grow. the operating income per rupee of sales is declining over the past years 21/22 FY Operating income margin is below average (5%) and for the forecasted years the company will be able to maintain steady values. When it comes to generating sales using its assets the company indicates an inefficiency. Because the Asset use efficiency ratios keep declining over time and will continually grow. By looking at the decline of the financial leverage, we can state that the debt capital is reducing in the capital structure. Analyzing the ROE of the company has a stable momentum.(fig-17)

**Figure 18 – Use of Valuation Method**



Source - Team Estimates

**Figure 19 – Cost of Equity CAPM Assumptions**

<b>Risk Free Rate</b>	<b>30.75%</b>
<b>Beta</b>	<b>0.748</b>
<b>Market Return</b>	<b>57.14%</b>
<b>Cost of Equity</b>	<b>50.49%</b>

Source - Team Estimates

**Figure 20 – Relative Valuation**

<b>EV/EBITDA Ratio for Teejay</b>	<b>8.04x</b>
<b>Industry Median</b>	<b>10.85x</b>
<b>Enterprise Value</b>	<b>44,228,245.30</b>
<b>Net Debt</b>	<b>4,262,694.00</b>
<b>Equity Value</b>	<b>39,965,551.30</b>
<b>Shares Outstanding</b>	<b>716,739.98</b>
<b>Share Price</b>	<b>55.76</b>

Source - Team Estimates

## VALUATION

We issue a Buy recommendation on Teejay Lanka PLC with a target price of LKR 36.66, representing a 11% upside from the closing price of LKR 33.00 per share on 5th December 2022. Our Target Price calculation is based on the mix of the Discounted Cash flow (DCF) model with a target price of LKR 36.66 & Dividend Discount Model with a target price of LKR 9.18 and EV/EBITDA multiple with a target price of LKR 55.76. Positive cash flow to earnings and predictability of cash flows in relation to profitability are the reasons for selecting DCF methodology. The reason to select DDM is the company has paid its dividends annually for past 5 years & we assumed that the company will pay dividend for next 5 years.

## INTRINSIC VALUATION

Free cash flow to Firm (FCFF) model was selected to calculate the intrinsic value Teejay has positive cash flows to firm. With the business nature of Teejay Lanka, FCFF shows a steadily increase. This has mainly affected from the company growth rate. The model is based on a specific year on year forecast from FY23E to FY27E.

## WACC

The weighted average cost of capital (WACC) of 27.93% was arrived by proportionately weighing the categories of capital: for 53% equity and 47% for debt. We applied a 2.40% cost of debt in computing. CAPM model was used in arriving at the cost of equity. The risk-free rate was figured by considering 10 years T bond yield of Sri Lanka of 30.75%. Country default spread based risk premium of 26.39% was used as the risk premium. we arrived at a levered beta of 0.748. We derived a Cost of Equity of 50.49%.

## TERMINAL GROWTH RATE

The Terminal Growth Rate 3.12% is calculated by weighing after 2027 GDP growth. Further Return on Equity (ROE) & retention ratio considered in deciding TGV.

## RELATIVE VALUATION

Relative valuation indicates the multiples, which compare Teejay with its peer groups to confirm our buy recommendation. Since most of Teejay's peers were privet limited companies, we selected out of the textile manufacturing industry Hayleys fabrics and Global textiles (Ind) Ltd and BPPL Holding PLC considering fairly homogenous operating models.

**Figure 21 – Peer Group**

Peer group	P/E Ratio	P/B Ratio	P/S Ratio	EV/EBIT Ratio	EV/EBITDA Ratio
Hayles Fabric	3.98x	1.18x	0.34x	5.52x	4.61x
Global Textile (Ind) Ltd	4.00x	60.77x	7.88x	198.80x	184.36x
BPPL Holdings PLC	8.91x	1.97x	1.25x	13.50x	10.85x
Multiple	4.00x	1.97x	1.25x	10.85x	13.50x
Share price	14.13	71.61	80.55	55.76	42.52

**Figure 22 – Risk Matrix**

	Impact	low	medium	high
Likelihood	high			
	medium			
	low			

Source - Company Data

**Figure 23 – Exchange Rate Depreciation**



Source - Company Data

We calculated both price multiples and enterprise value multiples and most of the ratios indicate higher prices as the share price based on the valuation except the P/E Ratio. We assume that the reason behind the lower P/E Ratio is the increasing manner of Teejay's EPS compared to the share price. As the most appropriate, multiple EV/EBITDA ratio selected out of the multiples considering the profits and the business stage of Teejay. It is clear that the group undervalued, under EV/EBITDA ratio, which confirms our buy recommendation for the investors.

## INVESTMENT RISKS

We identified a variety of risks for Teejay including foreign exchange risks, credit risks, interest rate risks, and liquidity risks. Since Teejay is operating in the international B2B market the highly competitive international environment risk exposes additional risks to the company.

### 5.1 FINANCIAL RISK

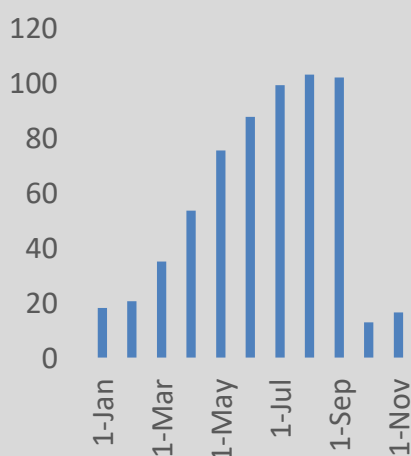
#### FOREIGN EXCHANGE RISK (IMPACT-LOW, LIKELIHOOD-PROBABLE)

Teejay is sensitive to fluctuation in the value of USD against LKR and INR because of the currency of the entity and subsidiaries operating in USD. Basically, foreign exchange risks arising from the assets and liabilities denominated in LKR and INR and the expenses including salaries and wages. Sri Lankan Rupee (LKR) depreciated against the USD by over 44% during the financial year 21/22 due to the economic crisis in Sri Lanka, also the Indian Rupee depreciated by around 10% during the year. The impact of currency depreciation is not making a huge impact on Teejay since they are mainly operating in the export industry however, Teejay monitors the market on an ongoing basis and follows the booking of a forward contract whenever it is required to manage the exchange rate risk situations

#### INTEREST RATE RISK (IMPACT-HIGH, LIKELIHOOD-PROBABLE)

The company's and its subsidiaries' term deposits and bank borrowings relate to the changes in the market interest rate, and it creates an interest rate risk for the group. Long-term borrowings with variable rates are the main interest rate risk source, which makes a cash flow interest rate risk to the group. As a strategy to mitigate the risk group manages interest rate risk by daily monitoring and managing cash flows, keeping borrowings to a minimum, and negotiating favorable rates on borrowings and deposits. .

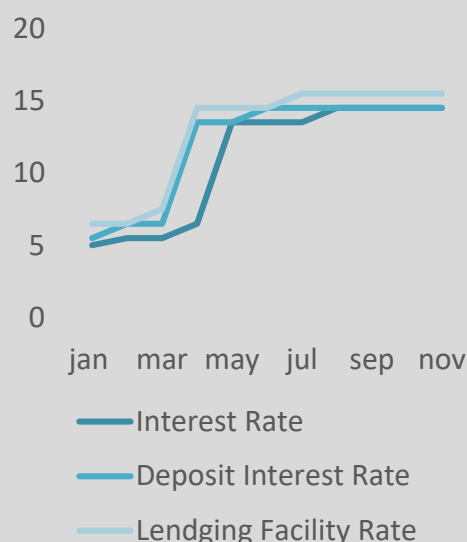
**Figure 24 – Producer Price Change**



■ Producer Prices Changes

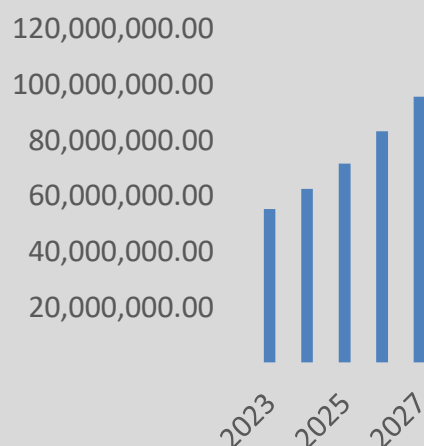
Source - Trading Economics

**Figure 25 – Interest Rate Changes**



Source - Trading Economics

**Figure 26- Forecasted Group Revenue**



Source - Team Estimates

## CREDIT RISK (IMPACT-LOW, LIKELIHOOD-POSSIBLE)

There are a few factors that can be identified as the source of credit risk such as, cash and cash equivalents and short-term deposits with banks and financial institutions, as well as credit exposures to foreign customers, including outstanding receivables and committed transactions. The credit risk of customers is assessed by considering their financial position, past experience, and other factors. Individual risk limits are set based on internal limits approved by the management of the group.

## 5.2 CORPORATE RISK

### COMPETITION/INDUSTRY RISK (IMPACT-MEDIUM, LIKELIHOOD-POSSIBLE)

Under the industry risk, Teejay identified threats to margins, loss of market share due to the current crisis, and consumer mindset changes in accordance with the fashion fabric. By building strong partnerships with vendors, working with global brands, and via the advantage of ‘China plus one’ strategy of customers group mitigate their industry risk.

### INVESTMENT RISK (IMPACT-LOW, LIKELIHOOD-POSSIBLE)

Through the capital investment made in plant and machinery, there is a risk of external influences achieving benefits and it’s identified under the investment risk of the group. By monitoring project timelines closely and risk reviews of major projects Teejay mitigates the investment risk.

## 5.3 OPERATIONAL RISK

### ENVIRONMENTAL RISK (IMPACT-MEDIUM, LIKELIHOOD-POSSIBLE)

Since Teejay is engaging in weft knitting majorly, there is a risk of the use of natural resources regulations’ perceived threats. To mitigate the risk, the group conducts an environment management system and policies, strict compliance, persistent monitoring of the related parameters, and safe disposal of solid waste through a licensed scheduled waste management company.

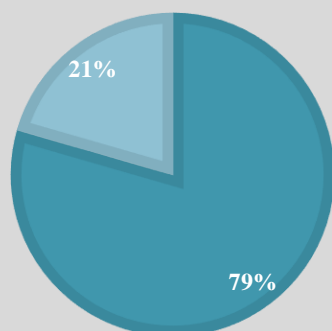
### ENERGY COST ESCALATION/ NON-AVAILABILITY RISK (IMPACT-MEDIUM, LIKELIHOOD-POSSIBLE)

Risk due to the non-availability of fuel to hit the demand or the risk of increasing energy costs is identified under the energy cost escalation. Improving the process, investing in energy-efficient equipment and machines, and increasing fuel storage was taken as the mitigating strategy against the energy cost escalation.

## ENVIRONMENTAL, SOCIAL & GOVERNANCE

**Figure 27 – Shareholder Base**

■ Top 20 Shareholders  
■ Other Shareholders



Source – Company Data

**Figure 28 – CSR Project Portfolio**



Source – Company Data

**Figure 29 – Top 5 Shareholders**



Source – Market Screener

Teejay embarked on a transformational journey through product transformation & establishing a strong framework for ESG commitments.

### 6.1 ENVIRONMENT

Teejay's reputation is synonymous with quality internationally acclaimed for world class knit fabric. Their environment targets are set by alongside management programs and reviewed annually. They are extremely sensitive to there surroundings. So as industry leaders and influencers they take an active role in reducing waste and upholding healthy habits from focusing on controlling greenhouse gas emissions and waste management, water stewardship & energy consumption. They conduct awareness programs like reforestation projects and corban emission reduction, by taking initiative to eliminate chemicals in their processes. They developed a carbon neutral fabric and have been able to cut down on water consumption by replacing the existing dye machines with low liquid ratio & also used recycled raw materials to create blends with a minimum of 25% recycled cotton.

### 6.2 SOCIAL

Teejay is driving their sustainability as a strategy doing all the activities and initiatives to create their own culture. Teejay Lanka is compliant with the principles of good corporate governance and practices corporate social responsibility through various projects, most of which are focused on community projects. Teejay received an ISO 9001:2015, ISO 14001:2015 and OHSAS 18001:2007 compliant company & first developer of green fabric of the industry

### 6.3 GOVERNANCE

The company's board of directors consists of various experts with at least 25 years of industry experience. By appointing four independent members in the board of directors, Teejay follows the code of Best Practice on Governance Issued by CA Sri Lanka 2017 & Integrated Reporting Framework Issued by IIRC, Requirements of Environmental & social Certifications. The three independent directors (PROF. Malik Kumara Ranasinghe, Amith Goonarathe, Masaru Okutomi, Kit Vai Tou) are also non-executive, allowing them to contribute fair opinions in board decisions. The roles of CEO and Chairman of the Board remain separate, with Pubudu De Silva as the CEO and Ajith Gunawaedene as the Chair.

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## APPENDIX A : FINANCIALS

### A1 : STATEMENT OF PROFIT AND LOSS

	2018A	2019A	2020A	2021A	2022A	2023E	2024E	2025E	2026E	2027E
Revenue from contracts with customers	24,647,488.00	31,746,592.00	33,276,976.00	31,780,287.00	49,587,964.00	55,323,306.79	62,470,637.61	71,530,778.14	83,149,989.56	95,544,636.84
Cost of sales	(21,736,289.00)	(28,060,534.00)	(29,047,934.00)	(27,990,328.00)	(45,010,323.00)	(48,984,618.91)	(55,357,244.47)	(63,417,787.95)	(73,946,424.97)	(85,132,898.25)
Gross profit	2,911,199.00	3,686,058.00	4,229,042.00	3,789,959.00	4,577,641.00	6,338,689.01	7,113,392.25	8,112,990.20	9,203,560.98	10,411,738.58
Other operating income - net	237,537.00	246,073.00	172,617.00	185,662.00	151,482.00	348,234.53	535,145.83	720,026.54	32,684.14	484,982.79
Distribution expenses	(138,423.00)	(168,321.00)	(195,150.00)	(177,672.00)	(369,517.00)	(330,002.71)	(376,995.32)	(442,153.83)	(519,245.68)	(609,144.63)
Administrative expenses	(1,199,471.00)	(1,415,749.00)	(1,428,813.00)	(1,392,044.00)	(1,743,533.00)	(2,380,671.04)	(2,617,854.42)	(2,959,040.07)	(3,413,593.42)	(3,869,912.30)
Net impairment (loss)/gain on financial assets	Nil	(3,412.00)	(49,265.00)	35,497.00	(42,970.00)	(13,103.58)	(17,769.94)	(23,065.71)	(10,379.27)	(33,357.15)
Operating profit (EBIT)	1,810,842.00	2,344,649.00	2,728,431.00	2,441,402.00	2,573,103.00	3,963,146.20	4,452,230.39	5,060,757.11	5,693,026.81	6,384,307.30
Finance income	106,297.00	101,899.00	243,825.00	276,786.00	439,838.00	200,164.88	222,059.55	236,283.71	233,634.19	225,067.32
Finance expense	(99,423.00)	(189,486.00)	(160,292.00)	(118,851.00)	(149,221.00)	(316,132.18)	(287,820.25)	(254,366.06)	(214,553.83)	(169,412.69)
Net finance income/(cost)	6,874.00	(87,587.00)	83,533.00	157,935.00	290,617.00	(115,967.71)	(65,760.30)	(18,082.35)	19,080.36	55,654.63
Profit before tax (EBT)	1,817,716.00	2,257,062.00	2,811,964.00	2,599,337.00	2,863,720.00	3,847,178.50	4,386,470.10	5,042,674.76	5,712,107.17	6,439,961.92
Income tax expense	(221,602.00)	(398,345.00)	(428,180.00)	(459,735.00)	(332,470.00)	(465,872.50)	(575,764.81)	(718,666.19)	(789,183.08)	(836,798.11)
Profit for the year	1,596,114.00	1,858,717.00	2,383,784.00	2,139,602.00	2,531,250.00	3,381,306.00	3,810,705.29	4,324,008.56	4,922,924.09	5,603,163.81
Profit attributable to equity holders of the Company	1,596,114.00	1,858,717.00	2,383,784.00	2,139,602.00	2,531,250.00	3,381,306.00	3,810,705.29	4,324,008.56	4,922,924.09	5,603,163.81
Earnings per share										
Basic Earnings per share (Rs.)	2.28	2.65	3.40	3.04	3.54	4.72	5.32	6.04	6.88	7.83

## A2 : STATEMENT OF FINANCIAL POSITION

ASSETS	2018A	2019A	2020A	2021A	2022A	2023E	2024E	2025E	2026E	2027E
Non-current assets										
Property, plant and equipment	7,534,180.00	8,408,235.00	8,777,251.00	8,710,818.00	14,715,246.00	14,543,454.90	14,411,709.31	14,246,581.19	14,116,507.61	14,110,906.71
Intangible assets	54,458.00	94,321.00	77,726.00	125,452.00	143,391.00	150,819.67	162,170.11	167,788.05	177,846.90	180,376.86
Right-of-use assets	Nil	Nil	910,400.00	899,016.00	1,341,498.00	1,486,455.67	1,669,049.89	1,916,303.52	2,107,905.36	2,315,055.26
Capital work-in-progress	444,541.00	119,098.00	589,511.00	425,281.00	5,268,720.00	5,269,704.65	5,249,538.03	5,290,426.69	5,240,367.87	5,213,143.30
Investments in subsidiaries	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Deferred tax assets	125,070.00	111,021.00	256,257.00	273,228.00	431,633.00	295,692.2	279,943.62	261,894.52	267,859.72	254,226.24
Lease rentals paid in advance	227,820.00	235,887.00	Nil	Nil	Nil	NIL	NIL	NIL	NIL	NIL
Goodwill	51,112.00	57,912.00	62,298.00	65,709.00	96,010.00	99,919.78	104,335.48	108,311.51	112,207.22	116,195.34
	8,437,181.00	9,026,474.00	10,673,443.00	10,499,504.00	21,996,492.80	21,846,047.19	21,876,742.44	21,991,302.47	22,022,694.72	22,189,903.69
Current assets										
Inventories	4,091,207.00	4,494,420.00	5,904,129.00	7,280,706.00	16,355,771.00	11,512,727.27	13,252,487.85	15,958,654.39	19,415,784.08	23,016,254.66
Trade and other receivables	3,494,456.00	4,012,653.00	4,136,507.00	7,180,865.00	13,336,008.00	8,553,433.15	9,818,777.45	11,683,112.71	14,229,853.64	15,303,483.46
Current tax receivables	Nil	8,766.00	18,219.00	6,170.00	Nil	16,333.32	18,622.90	21,864.84	21,707.02	26,769.63
Derivative financial instruments	9,817.00	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Other financial assets	789,378.00	553,370.00	967,425.00	1,679,622.00	1,822,146.00	1,162,388.20	1,236,990.24	1,373,714.29	1,454,972.15	1,410,042.17
Cash and cash equivalents	2,742,897.00	4,290,248.00	5,262,770.00	4,452,472.00	6,383,354.00					
	11,127,755.00	13,359,457.00	16,289,050.00	20,599,835.00	37,897,271.00	21,244,881.94	24,326,878.43	29,037,346.23	35,122,316.88	39,756,549.94
Total assets	19,564,936.00	22,385,931.00	26,962,493.00	31,099,339.00	59,893,775.00	43,090,924.13	46,203,625.87	51,028,655.70	57,145,016.60	61,946,453.63

## EQUITY AND LIABILITIES

### Capital and reserves

Stated capital	4,056,683.00	4,056,683.00	4,056,683.00	4,248,787.00	4,442,234.00	4,442,234.00	4,442,234.00	4,442,234.00	4,442,234.00	4,442,234.00
Hedging reserve	9,673.00	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Exchange equalisation reserve	2,577,679.00	4,171,784.00	5,263,417.00	6,225,275.00	15,219,688.00	17,774,424.40	20,329,160.80	23,287,741.10	26,473,733.95	30,008,786.78
Share option scheme	85,505.00	96,760.00	96,760.00	153,491.00	153,491.00	183,406.00	213,321.00	245,275.00	282,403.75	319,532.50
Retained earnings	4,971,882.00	5,600,028.00	6,231,783.00	7,136,671.00	8,410,456.00	9,227,450.60	10,218,918.23	11,270,143.40	12,415,721.41	13,900,477.01
	11,701,422.00	13,925,255.00	15,648,643.00	17,764,222.00	28,225,869.00	31,627,515.00	35,203,634.03	39,245,393.50	43,614,093.11	48,671,030.28

### Non-current liabilities

Interest bearing borrowings	1,106,784.00	801,182.00	412,192.00	197,620.00	5,581,171.00	4,422,691.20	3,854,139.46	3,176,527.69	2,398,990.23	1,501,369.24
Lease liabilities	Nil	Nil	627,993.00	654,657.00	930,430.00	979,018.76	1,009,032.72	1,035,997.83	1,073,761.08	1,107,335.66
Deferred tax liabilities	318,004.00	538,266.00	647,592.00	626,990.00	918,784.00	754,654.42	714,460.72	668,816.44	646,429.86	609,119.97
Retirement benefit obligations	207,666.00	251,932.00	377,583.00	520,422.00	424,817.00	356,484.00	386,247.60	413,110.72	420,216.26	400,175.12
	1,632,454.00	1,591,380.00	2,065,360.00	1,999,689.00	7,855,202.00	6,512,848.38	5,963,880.50	5,294,452.68	4,539,397.43	3,617,999.98

### Current liabilities

Interest bearing borrowings	1,729,455.00	2,166,685.00	3,502,111.00	3,108,290.00	5,913,542.00	3,828,636.80	3,336,452.74	2,749,857.55	2,076,758.66	1,299,705.82
Lease liabilities	Nil	Nil	12,106.00	13,663.00	43,051.00	28,057.23	32,111.55	36,806.64	34,355.85	36,667.27
Current tax liabilities	14,647.00	Nil	91,594.00	126,421.00	232,725.00	138,870.81	158,337.51	182,024.40	210,214.46	221,758.16
Trade and other payables	4,486,958.00	4,702,611.00	5,642,679.00	8,087,052.00	17,623,386.00	10,497,309.20	11,950,094.13	14,302,557.30	17,139,607.14	18,759,572.85
	6,231,060.00	6,869,296.00	9,248,490.00	11,335,426.00	23,812,704.00	14,492,874.04	15,476,995.93	17,271,245.89	19,460,936.12	20,317,704.11

Total liabilities	7,863,514.00	8,460,676.00	11,313,850.00	13,335,115.00	31,667,906.00	21,005,722.42	21,440,876.43	22,565,698.57	24,000,333.55	23,935,704.09
Total equity and liabilities	19,564,936.00	22,385,931.00	26,962,493.00	31,099,339.00	59,893,775.00	52,633,237.43	56,644,510.46	61,811,092.07	67,614,426.66	72,606,734.38

## A3 : CASH FLOW STATMENT

	2018A	2019A	2020A	2021A	2022A	2023E	2024E	2025E	2026E	2027E
Cash flows from operating activities										
Cash generated from operations	3,111,271.00	3,774,400.00	4,209,437.00	2,723,558.00	5,081,356.00	8,997,414.77	7,071,006.44	7,413,765.25	7,455,371.05	8,581,165.04
Finance income received	65,133.00	101,899.00	120,065.00	186,842.00	154,745.00	136,447.8	153,832.35	154,410.59	160,138.45	154,861.23
Finance cost paid	(99,423.00)	(159,980.00)	(112,865.00)	(70,962.00)	(96,504.00)	(316,132.18)	(287,820.25)	(254,366.06)	(214,553.83)	(169,412.69)
Retirement benefit obligations paid	(35,887.00)	(35,091.00)	(62,845.00)	(29,044.00)	(71,497.00)	(46,872.80)	(49,069.96)	(51,865.75)	(49,669.90)	(53,795.08)
Tax paid	(30,711.00)	(96,220.00)	(305,159.00)	(466,630.00)	(301,995.00)	(378,635.47)	(497,494.77)	(640,215.77)	(740,550.56)	(740,551.38)
Net cash generated from operating activities	3,010,383.00	3,585,008.00	3,848,633.00	2,343,764.00	4,766,105.00	8,392,221.80	6,390,453.81	6,621,728.25	6,610,735.19	7,772,267.11
Cash flows from investing activities										
Additions or expenses incurred on capital work-in-progress	(1,673,005.00)	(812,944.00)	(1,461,606.00)	(715,459.00)	(5,962,561.00)	(1,165,753.25)	(1,064,302.90)	(1,114,574.68)	(1,045,168.42)	(1,111,110.50)
Net increase in investments in financial assets	450,292.00	236,008.00	(414,055.00)	(712,197.00)	(142,524.00)	(116,495.20)	(229,852.64)	(323,024.77)	(304,818.72)	(223,343.07)
Proceeds from sales of property, plant and equipments	Nil	268.00	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Net cash generated / (used in) from investing activities	(1,222,713.00)	(576,668.00)	(1,875,661.00)	(1,427,656.00)	(6,105,085.00)	(1,282,248.45)	(1,294,155.54)	(1,437,599.45)	(1,349,987.14)	(1,334,453.57)
Cash flows from financing activities										
Dividend paid	(1,368,816.00)	(1,228,424.00)	(1,684,696.00)	(1,170,382.00)	(1,433,480.00)	(2,576,711.59)	(2,831,637.87)	(3,283,950.62)	(3,790,732.35)	(4,145,247.70)
Settlement of borrowings	(43,380.00)	(332,060.00)	(330,449.00)	(104,484.00)	(4,493,306.00)	(1,060,735.80)	(1,264,206.96)	(1,450,636.35)	(1,674,673.82)	(1,988,711.79)
Poceeds from Issue of shares	Nil	Nil	Nil	194,525.00	193,447.00	Nil	Nil	Nil	Nil	Nil
Settlement of related party borrowings	Nil	Nil	Nil	(674,496.00)	Nil	Nil	Nil	Nil	Nil	Nil
Proceeds received from bank borrowings	757,350.00	81,360.00	886,350.00	Nil	9,164,963.00	Nil	Nil	Nil	Nil	Nil
Proceeds from the repurchase of shares by a subsidiary	113,997.00	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Principal elements of lease payments	Nil	Nil	(7,638.00)	(59,920.00)	(131,046.00)	(95,559.66)	(101,876.15)	(107,986.04)	(108,368.20)	(112,988.37)
Net cash used in financing activities	(540,849.00)	(1,479,124.00)	(1,136,433.00)	(1,814,757.00)	3,300,578.00	(3,733,007.05)	(4,197,720.98)	(4,842,573.01)	(5,573,774.38)	(6,246,947.85)
Net (decrease) / increase in cash and cash equivalents	1,246,821.00	1,529,216.00	836,539.00	(898,649.00)	1,961,598.00	3,376,966.30	898,577.29	341,555.79	(313,026.32)	190,865.69
Cash and cash equivalents at beginning of year	1,489,817.00	2,736,638.00	4,265,854.00	5,102,393.00	4,203,744.00	6,165,342.00	9,542,308.30	10,440,885.59	10,782,441.38	10,469,415.06
Cash and cash equivalents at end of year	2,736,638.00	4,265,854.00	5,102,393.00	4,203,744.00	6,165,342.00	9,542,308.30	10,440,885.59	10,782,441.38	10,469,415.06	10,660,280.75

## A4 : RATIO ANALYSIS

1.Profitability Ratios	2018A	2019A	2020A	2021A	2022A	2023E	2024E	2025E	2026E	2027E
1.1 Gross profit margin [Gross profit/revenue]x100	0.12	0.12	0.13	0.12	0.09	0.11	0.11	0.11	0.11	0.11
1.2 Operating profit margin [EBIT/revenue]x100	0.07	0.07	0.08	0.08	0.05	0.07	0.07	0.07	0.07	0.07
1.3 Return on assets (ROA) [EBIT/total assets]	0.09	0.10	0.10	0.08	0.04	0.09	0.10	0.10	0.10	0.10
1.4 Return on equity (ROE) [Net profit after tax/ shareholder equity]	0.14	0.13	0.15	0.12	0.09	0.11	0.11	0.11	0.11	0.12
2.Liquidity Ratios										
2.1 Current ratio [current assets/current liabilities]	1.79	1.94	1.76	1.82	1.59	1.47	1.57	1.68	1.80	1.96
2.2 Quick ratio [cash and near cash/current liabilities]	1.13	1.29	1.12	1.18	0.90	0.67	0.72	0.76	0.81	0.82
2.3 Net working capital [current assets - current liabilities]	4,896,695,000	6,490,161.00	7,040,560.00	9,264,409.00	14,084,573.00	6,752,007.90	8,849,882.51	11,766,100.34	15,661,380.77	19,438,845.83
3.Efficiency Ratios (Activity Ratio)										
3.1 Asset turnover [sales/total assets]	1.26	1.42	1.23	1.02	0.83	1.28	1.35	1.40	1.46	1.54
3.2 Inventory turnover [cost of goods sold/inventory value]	5.31	6.24	4.92	3.84	2.75	4.25	4.18	3.97	3.81	3.70
3.3 Debtors collection period [trade receivables/sales]x365	51.75	46.13	45.37	82.47	98.16	56.43	57.37	59.62	62.46	58.46
3.4 Inventory holding period [ inventory/cost Of goods sold]x365	68.70	58.46	74.19	94.94	132.63	85.78	87.38	91.85	95.84	98.68
3.5 Creditors settlement period [trade payables/cost of goods sold]x365	75.35	Nil	70.90	105.46	142.91	78.22	78.79	82.32	84.60	80.43
3.6 Operating cycle [inventory days +customer collection period]	120.45	104.60	119.56	177.42	230.79	142.22	144.75	151.47	158.30	157.14
3.7 Cash conversion cycle [inventory days+customer collection period - supplier payable period]	45.10	Nil	48.66	71.96	87.88	64.00	65.96	69.15	73.70	76.71

4.Solvency Ratios	2018A	2019A	2020A	2021A	2022A	2023E	2024E	2025E	2026E	2027E
4.1 Gearing	0.24	0.21	0.29	0.22	0.44	0.29	0.23	0.18	0.13	0.08
[total borrowings/net assets]										
4.2 Debt to equity ratio	0.67	0.61	0.72	0.75	1.12	0.66	0.61	0.57	0.55	0.49
[Total liabilities/shareholders equity]										
4.3 Interest coverage	18.21	12.37	17.02	20.54	17.24	12.54	15.47	19.90	26.53	37.68
[EBIT/interest expense]										
5.Investor's Ratios										
5.1 Earnings per share (EPS)	2.28	2.65	3.40	3.04	3.54	4.72	5.32	6.04	6.88	7.83
[earnings attributable to ordinary share holders/No.of ordinary shares]										
5.2 Price-earnings ratio (P/E ratio)	13.99	11.47	6.85	13.16	11.24					
[market price per ordinary share/earnings per ordinary share]										
5.3 Dividend yield	0.061	0.058	0.103	0.070	0.059					
[Dividend per ordinary share/current market price ]										
5.4 Dividend payout ratio	0.86	0.66	0.71	0.92	0.66	76.20%	74.31%	75.95%	77.00%	73.98%
[dividends/net income]or [dividend Per Share/EPS]										
5.5 Dividend per share	1.95	1.75	2.4	2.8	2.35	3.60	3.96	4.59	5.30	5.79
[dividend/no.of ordinary shares]										



## A5 : VERTICAL ANALYSIS

Statement of Profit or Loss	2018A	2019A	2020A	2021A	2022A	2023E	2024E	2025E	2026E	2027E
Revenue from contracts with customers	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Cost of sales	-88.19%	-88.39%	-87.29%	-88.07%	-90.77%	-88.54%	-88.61%	-88.66%	-88.93%	-89.10%
Gross profit	11.81%	11.61%	12.71%	11.93%	9.23%	11.46%	11.39%	11.34%	11.07%	10.90%
Other operating income - net	0.96%	0.78%	0.52%	0.58%	0.31%	0.63%	0.56%	0.52%	0.52%	0.51%
Distribution expenses	-0.56%	-0.53%	-0.59%	-0.56%	-0.75%	-0.60%	-0.60%	-0.62%	-0.62%	-0.64%
Administrative expenses	-4.87%	-4.46%	-4.29%	-4.38%	-3.52%	-4.30%	-4.19%	-4.14%	-4.11%	-4.05%
Net impairment (loss)/gain on financial assets	Nil	-0.01%	-0.15%	0.11%	-0.09%	-0.02%	-0.03%	-0.03%	-0.01%	-0.03%
Operating profit	7.35%	7.39%	8.20%	7.68%	5.19%	7.16%	7.13%	7.07%	6.85%	6.68%
Finance income	0.43%	0.32%	0.73%	0.87%	0.89%	0.36%	0.36%	0.33%	0.28%	0.24%
Finance expense	-0.40%	-0.60%	-0.48%	-0.37%	-0.30%	-0.57%	-0.46%	-0.36%	-0.26%	-0.18%
Net finance income	0.03%	-0.28%	0.25%	0.50%	0.59%	-0.21%	-0.11%	-0.03%	0.02%	0.06%
Profit before tax	7.37%	7.11%	8.45%	8.18%	5.78%	6.95%	7.02%	7.05%	6.87%	6.74%
Income tax expense	-0.90%	-1.25%	-1.29%	-1.45%	-0.67%	-0.84%	-0.92%	-1.00%	-0.95%	-0.88%
Profit for the year	6.48%	5.85%	7.16%	6.73%	5.10%	6.11%	6.10%	6.04%	5.92%	5.86%
Profit attributable to equity holders of the Company	6.48%	5.85%	7.16%	6.73%	5.10%	6.11%	6.10%	6.04%	5.92%	5.86%

Statement of Financial Position	2018A	2019A	2020A	2021A	2022A	2023E	2024E	2025E	2026E	2027E
ASSETS										
Non-current assets										
Property, plant and equipment	38.509%	37.560%	32.554%	28.010%	24.569%	33.751%	31.192%	27.919%	24.703%	22.779%
Intangible assets	0.278%	0.421%	0.288%	0.403%	0.239%	0.350%	0.351%	0.329%	0.311%	0.291%
Right-of-use assets	Nil	Nil	3.377%	2.891%	2.240%	3.450%	3.612%	3.755%	3.689%	3.737%
Capital work-in-progress	2.272%	0.532%	2.186%	1.367%	8.797%	12.229%	11.362%	10.368%	9.170%	8.416%
Investments in subsidiaries	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Deferred tax assets	0.639%	0.496%	0.950%	0.879%	0.721%	0.686%	0.606%	0.513%	0.469%	0.410%
Lease rentals paid in advance	1.164%	1.054%	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Goodwill	0.261%	0.259%	0.231%	0.211%	0.160%	0.232%	0.226%	0.212%	0.196%	0.188%
Total Non-current assets	43.124%	40.322%	39.586%	33.761%	36.726%	50.698%	47.349%	43.096%	38.538%	35.821%
Current assets										
Inventories	20.911%	20.077%	21.898%	23.411%	27.308%	26.717%	28.683%	31.274%	33.976%	37.155%
Trade and other receivables	17.861%	17.925%	15.342%	23.090%	22.266%	19.850%	21.251%	22.895%	24.901%	24.704%
Current tax receivables	Nil	0.039%	0.068%	0.020%	Nil	0.038%	0.040%	0.043%	0.038%	0.043%
Derivative financial instruments	0.050%	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Other financial assets (Short term deposits)	4.035%	2.472%	3.588%	5.401%	3.042%	2.698%	2.677%	2.692%	2.546%	2.276%
Cash and cash equivalents	14.019%	19.165%	19.519%	14.317%	10.658%	0.000%	0.000%	0.000%	0.000%	0.000%
Total Current assets	56.876%	59.678%	60.414%	66.239%	63.274%	49.302%	52.651%	56.904%	100.000%	64.179%
Total assets	100.000%	100.000%	100.000%	100.000%	100.000%	100.000%	100.000%	100.000%	100.000%	100.000%

EQUITY AND LIABILITIES										
Capital and reserves	2018A	2019A	2020A	2021A	2022A	2023E	2024E	2025E	2026E	2027E
Stated capital	20.734%	18.122%	15.046%	13.662%	7.417%	8.440%	7.842%	7.187%	6.570%	6.118%
Hedging reserve	0.049%	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Exchange equalisation reserve	13.175%	18.636%	19.521%	20.017%	25.411%	33.770%	35.889%	37.676%	39.154%	41.331%
Share option scheme	0.437%	0.432%	0.359%	0.494%	0.256%	0.348%	0.377%	0.397%	0.418%	0.440%
Retained earnings	25.412%	25.016%	23.113%	22.948%	14.042%	17.532%	18.040%	18.233%	18.363%	19.145%
Total Capital and reserves	59.808%	62.205%	58.039%	57.121%	47.127%	60.090%	62.148%	63.492%	64.504%	67.034%
Non-current liabilities										
Interest bearing borrowings	5.657%	3.579%	1.529%	0.635%	9.318%	8.403%	6.804%	5.139%	3.548%	2.068%
Lease liabilities	Nil	Nil	2.329%	2.105%	1.553%	1.860%	1.781%	1.676%	1.588%	1.525%
Deferred tax liabilities	1.625%	2.404%	2.402%	2.016%	1.534%	1.434%	1.261%	1.082%	0.956%	0.839%
Retirement benefit obligations	1.061%	1.125%	1.400%	1.673%	0.709%	0.677%	0.682%	0.668%	0.621%	0.551%
Total Non-current liabilities	8.344%	7.109%	7.660%	6.430%	13.115%	12.374%	10.529%	8.566%	6.714%	4.983%
Current liabilities										
Interest bearing borrowings	8.840%	9.679%	12.989%	9.995%	9.873%	7.274%	5.890%	4.449%	3.071%	1.790%
Lease liabilities	Nil	Nil	0.045%	0.044%	0.072%	0.053%	0.057%	0.060%	0.051%	0.051%
Current tax liabilities	0.075%	Nil	0.340%	0.407%	0.389%	0.264%	0.280%	0.294%	0.311%	0.305%
Trade and other payables	22.934%	21.007%	20.928%	26.004%	29.424%	19.944%	21.097%	23.139%	25.349%	25.837%
Total Current liabilities	31.848%	30.686%	34.301%	36.449%	39.758%	27.536%	27.323%	27.942%	28.782%	27.983%
Total liabilities	40.192%	37.795%	41.961%	42.879%	52.873%	39.910%	37.852%	36.508%	35.496%	32.966%
Total equity and liabilities	100.000%	100.000%	100.000%	100.000%	100.000%	100.000%	100.000%	100.000%	100.000%	100.000%

## A6 : HORIZONTAL ANALYSIS

Statement of Profit or Loss	2018A	2019A	2020A	2021A	2022A	2023E	2024E	2025E	2026E	2027E
Revenue from contracts with customers	100.000%	128.803%	135.012%	128.939%	201.189%	224.458%	253.456%	290.215%	337.357%	387.645%
Cost of sales	100.000%	129.095%	133.638%	128.772%	207.075%	225.359%	254.677%	291.760%	340.198%	391.663%
Gross profit	100.000%	126.616%	145.268%	130.186%	157.242%	217.735%	244.346%	278.682%	316.143%	357.644%
Other operating income - net	100.000%	103.594%	72.670%	78.161%	63.772%	146.602%	147.959%	156.618%	182.154%	204.171%
Distribution expenses	100.000%	121.599%	140.981%	128.354%	266.948%	238.402%	272.350%	319.422%	375.115%	440.060%
Administrative expenses	100.000%	118.031%	119.120%	116.055%	145.358%	198.477%	218.251%	246.695%	284.592%	322.635%
Net impairment (loss)/gain on financial assets	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Operating profit	100.000%	129.478%	150.672%	134.821%	142.094%	218.857%	245.865%	279.470%	314.386%	352.560%
Finance income	100.000%	95.863%	229.381%	260.389%	413.782%	188.307%	208.905%	222.286%	219.794%	211.734%
Finance expense	100.000%	190.586%	161.222%	119.541%	150.087%	317.967%	289.491%	255.842%	215.799%	170.396%
Net finance income	100.000%	-1274.178%	1215.202%	2297.571%	4227.771%	-1687.048%	-956.653%	-263.054%	277.573%	809.640%
Profit before tax	100.000%	124.170%	154.698%	143.000%	157.545%	211.649%	241.318%	277.418%	314.246%	354.289%
Income tax expense	100.000%	179.757%	193.220%	207.460%	150.030%	210.229%	259.819%	324.305%	356.126%	377.613%
Profit for the year	100.000%	116.453%	149.349%	134.051%	158.588%	211.846%	238.749%	270.909%	308.432%	351.050%
Profit attributable to equity holders of the Company	100.000%	116.453%	149.349%	134.051%	158.588%	211.846%	238.749%	270.909%	308.432%	351.050%

Statement of Financial Position										
ASSETS	2018A	2019A	2020A	2021A	2022A	2023E	2024E	2025E	2026E	2027E
Non-current assets										
Property, plant and equipment	100.000%	111.601%	116.499%	115.617%	195.313%	193.033%	191.284%	189.093%	187.366%	187.292%
Intangible assets	100.000%	173.200%	142.727%	230.365%	263.306%	276.947%	297.789%	308.105%	326.576%	331.222%
Capital work-in-progress	100.000%	26.791%	132.611%	95.667%	1185.205%	1185.426%	1180.890%	1190.087%	1178.827%	1172.702%
Investments in subsidiaries	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Deferred tax assets	100.000%	88.767%	204.891%	218.460%	345.113%	236.422%	223.830%	209.398%	214.168%	203.267%
Total NCA	100.000%	106.984%	126.505%	124.443%	260.709%	258.926%	259.290%	260.648%	261.020%	263.001%
Current assets										
Inventories	100.000%	109.856%	144.313%	177.960%	399.779%	281.402%	323.926%	390.072%	474.573%	562.579%
Trade and other receivables	100.000%	114.829%	118.373%	205.493%	381.633%	244.772%	280.982%	334.333%	407.212%	437.936%
Other financial assets (Short term deposits)	100.000%	70.102%	122.555%	212.778%	230.833%	147.254%	156.704%	174.025%	184.319%	178.627%
Cash and cash equivalents	100.000%	156.413%	191.869%	162.327%	232.723%	0.000%	0.000%	0.000%	0.000%	0.000%
Total CA	100.000%	120.055%	146.382%	185.121%	340.565%	190.918%	218.614%	260.945%	315.628%	357.274%
Total assets	100.000%	114.419%	137.810%	158.954%	306.128%	220.246%	236.155%	260.817%	292.079%	316.620%
EQUITY AND LIABILITIES										
Capital and reserves										
Stated capital	100.000%	100.000%	100.000%	104.735%	109.504%	109.504%	109.504%	109.504%	109.504%	109.504%
Exchange equalisation reserve	100.000%	161.843%	204.192%	241.507%	590.442%	689.552%	788.661%	903.438%	1027.038%	1164.179%
Share option scheme	100.000%	113.163%	113.163%	179.511%	179.511%	214.497%	249.484%	286.855%	330.277%	373.700%
Retained earnings	100.000%	112.634%	125.341%	143.541%	169.160%	185.593%	205.534%	226.678%	249.719%	279.582%
Non-current liabilities										
Interest bearing borrowings	100.000%	72.388%	37.242%	17.855%	504.269%	399.598%	348.229%	287.005%	216.753%	135.652%
Deferred tax liabilities	100.000%	169.264%	203.643%	197.164%	288.922%	237.310%	224.670%	210.317%	203.277%	191.545%
Lease liabilities	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Retirement benefit obligations	100.000%	121.316%	181.822%	250.605%	204.567%	171.662%	185.995%	198.930%	202.352%	192.701%
Total NCL	100.000%	110.243%	148.426%	181.918%	382.161%	232.591%	248.385%	277.180%	312.321%	326.071%
Current liabilities										
Interest bearing borrowings	100.000%	125.281%	202.498%	179.727%	341.931%	221.378%	192.919%	159.001%	120.082%	75.151%
Lease liabilities	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Current tax liabilities	100.000%	Nil	625.343%	863.119%	1588.892%	948.118%	1081.024%	1242.742%	1435.205%	1514.018%
Trade and other payables	100.000%	104.806%	125.757%	180.235%	392.769%	233.952%	266.330%	318.758%	381.987%	418.091%
Total liabilities	100.000%	107.594%	143.878%	169.582%	402.720%	267.129%	272.663%	286.967%	305.211%	304.389%
Total equity and liabilities	100.000%	114.419%	137.810%	158.954%	306.128%	269.018%	289.521%	315.928%	345.590%	371.106%

## A7 : DU PONT ANALYSIS

Dupont Analysis	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Tax burden(NI/EBT)	0.88	0.82	0.85	0.82	0.88	0.88	0.87	0.86	0.86	0.87
Interest burden (EBT/EBIT)	0.88	0.79	0.87	0.88	0.98	0.85	0.86	0.85	0.86	0.88
EBIT margin(EBIT/SALES)	0.07	0.07	0.08	0.08	0.05	0.07	0.07	0.07	0.07	0.07
Asset use efficiency (SALES/ASSETS)	1.26	1.42	1.23	1.02	0.83	1.28	1.35	1.40	1.46	1.54
Financial Leverage(ASSETS/EQUITY)	1.67	1.61	1.72	1.75	2.12	1.36	1.31	1.30	1.31	1.27
ROE	11.98%	10.99%	12.91%	9.91%	7.93%	9.40%	9.40%	9.45%	9.73%	10.02%
ROE(Net income/ Total Equity)	13.64%	13.35%	15.23%	12.04%	8.97%	10.69%	10.82%	11.02%	11.29%	11.51%
Difference	1.66%	2.36%	2.32%	2.13%	1.04%	1.29%	1.42%	1.57%	1.56%	1.50%

## A8 : FORECASTED ASSUMPTION

Line Items	Assumptions
<b>Sales</b>	<ul style="list-style-type: none"> <li>Manufacturing revenue were forecasted based on Industry Growth rate</li> </ul>
<b>Cost of sales</b>	<ul style="list-style-type: none"> <li>Cost of sales took as a percentage of sales and forecasted it using moving average.</li> </ul>
<b>Net other operating income Distribution Expenses</b> <b>Administrative Expenses</b> <b>Net Impairment loss/gain on financial assets</b>	<ul style="list-style-type: none"> <li>Net other operating income, Distribution Expenses, Administrative Expenses, Net Impairment loss/gain on financial assets took as a percentage of sales and forecasted it by using moving average.</li> </ul>
<b>Finance Income</b>	
<ul style="list-style-type: none"> <li>foreign transaction and translation gains</li> <li>Short Term Bank Borrowings</li> </ul>	<ul style="list-style-type: none"> <li>foreign transaction and translation gains took as a percentage of sales and forecasted it using moving average.</li> <li>Forecasted using weighted average interest rates</li> </ul>
<b>Finance Expenses</b>	
<ul style="list-style-type: none"> <li>Short- and long-term bank borrowings</li> <li>Bank OD</li> </ul>	<ul style="list-style-type: none"> <li>Forecasted using weighted average interest rates</li> <li>Bank OD forecasted using Weighted average interest rates</li> </ul>
<b>PPE &amp; Capital working Progress</b>	<ul style="list-style-type: none"> <li>Disposals, Adjustments &amp; Transferred to intangible assets will not be occurred within next 5-year period.</li> <li>Since the Effect of change in foreign exchange rates are abnormal in 2022, we are taking 2018-2021 average as 2022 Effect of change in foreign exchange rates</li> <li>The prediction for the next 5 years based on the RMA of Effect of change in foreign exchange rates</li> <li>Transfers from capital work-in-progress is calculated using MA, but the year 2022 was omitted due to unusual fluctuations</li> <li>Transfers from capital work-in-progress of Motor vehicles will not be occurred</li> <li>Expenses incurred in capital working progress will be taking as a MA</li> </ul>

<b>Ingestible Assets</b>	<ul style="list-style-type: none"> <li>• Transferred to intangible assets will be taking as MA</li> <li>• Transferred to intangible assets for goodwill will not be occurred</li> <li>• Amortization charge for goodwill will not be occurred</li> <li>• Since the Effect of change in foreign exchange rates of 2022 figure is unusual, the 2022 figure took as an average of past 4 years</li> <li>• Effect of change in foreign exchange rates is taken as an MA of previous years</li> <li>• Intangible assets will not be transfer to the PPE within next 5 years</li> </ul>
<b>Right of use assets</b> <b>Lease liabilities</b>	<ul style="list-style-type: none"> <li>• Lease interest took as a % of lease opening balance and forecasted using moving average</li> <li>• There will not be any additions in next 5 years</li> <li>• Rentals paid during the year took as a % of the total lease payable at the beginning of the year and predicted by using moving averages</li> <li>• Lease breakdown into current and noncurrent using as a % of total lease liabilities</li> <li>• Depreciation charge for Right of use Asset took as a % and forecasted using moving average</li> </ul>
<b>Inventories</b> <ul style="list-style-type: none"> <li>• Raw materials</li> <li>• Work-in-progress</li> <li>• Finished goods</li> <li>• Goods in transit</li> <li>• Effluent chemicals, fuel, and consumables</li> </ul>	<ul style="list-style-type: none"> <li>• Raw materials, Work-in-progress, finished goods as a % of the cost of sales and forecasted using moving averages</li> </ul>
<b>Trade and other receivables</b>	<ul style="list-style-type: none"> <li>• Trade and other receivables as a % of sales and forecasted using moving averages</li> </ul>
<b>Deferred Tax</b>	<ul style="list-style-type: none"> <li>• Deferred income taxes are calculated on all temporary differences under the liability method and are measured using a tax rate of 14%</li> <li>• Deferred tax charged to statement of comprehensive income assumed 2% for projections</li> <li>• All the deferred tax assets are assumed as deferred tax assets to be recovered after more than 12 months</li> <li>• Transfers to deferred tax assets are assumed not to occur</li> </ul>
<b>EQUITY</b>	<ul style="list-style-type: none"> <li>• Equity shares will not be issued within next 5 years</li> <li>• Hedging Reserve Will not be increase within next 5 years</li> <li>• Share option scheme predicted using moving average</li> <li>• Other comprehensive income for the year predicted using moving average</li> <li>• Final dividend &amp; Interim dividend will be paid as the 2022 Dividend paid ratio</li> </ul>
<b>Interest bearing borrowings</b>	<ul style="list-style-type: none"> <li>• The company will not be taking any non-current borrowings for next 5 years</li> <li>• The company will not be taking any Short-term bank borrowings for next 5 years</li> <li>• The ratio between Short-term bank borrowing &amp; Non-current borrowings for next 5 years will be as 2022 for the next 5 years</li> <li>• The interests rates will be held as constant for next five year</li> <li>• Buyers credit from bank will be paid of in next 5 years evenly</li> <li>• Short-term bank borrowings &amp; Between 2 - 5 years Will be paid of evenly</li> <li>• The bank borrowing interest rates of 2022 will be continue as a constant for next 5 year</li> </ul>

## **APPENDIX B : COMPANY OVERVIEW**

### **B1 : BUSINESS MODEL**

As a local fabric supplier for the clothing sector across USA, Europe and Asia Teejay is mainly focusing on branded clothing manufacturing companies and their ultimate goal is to be the perfect fabric solutions provider for branded clothing. The company strategy is to become a USD 300Mn company in 2022/23 providing customers with world-class fabric solutions delivered through sustainable operations and best in class talent in multiple locations.

As the core business values Integrity, Innovate to Lead, Collaboration and Togetherness can be identified. Since doing the right thing stands as the core of the company culture the company breed integrity. As a collaborative and team driven company, Teejay sets the benchmark to the industry while leading in an innovative deck. At Teejay collaboration is a practice, the company collaborate with all the stakeholders for the well-being of everyone it stands as the operational excellence driven of company. Teejay focused on Speed, Innovation and Sustainability and teamwork is the success behind the company's growth and performance.

### **B2: COMPANY MARKET REACH AND SEGMENT DESCRIPTION**

Teejay's management examines performance from both a product and geographic perspective. Company identified Textile manufacturing (Sri Lanka & India) and Fabric printing (Sri Lanka) as the reportable segments of the company, however the contribution for the revenue of the company region wise can be identified. Teejay was successful in commencing business with the large specialty retailer in the US and, achieved differentiation by offering value-added novelty products and thereby entered into online fashion trade. The execution of the product innovation strategy enabled to report strong sales volumes.



### **B3: SUPPLY CHAIN PROCESS**

Challenge	Mitigation Strategy
Supplying goods with narrow supplier base due to border closures or trade wars.	The company introduced new suppliers, a short-term measure.
	Shift orders between Sri Lankan and Indian manufacturing locations to mitigate the risk of delayed customer deliveries.
Delayed arrival of raw material due to logistical problems.	The company increased inventory levels of both locations to secure timely delivery to customers and it ensured uninterrupted production.



## **APPENDIX C : INDUSTRY OVERVIEW AND COMPETITIVE POSITIONING**

### **C1 : PESTEL ANALYSIS**

#### **1. POLITICAL**

**Increase of import taxes** - Sri Lankan foreign reserves stood at nearly USD 8 billion. However, it was less than 2 billion in December 2021 after the Easter attack and Pandemic. Due to this reason, the Sri Lankan government had to limit the import of essential goods such as fuel, medicines, and drugs to pay the external debt. Because of that, government imposes new import taxes to restrict imported goods such as materials.

**Political instability** - Blackouts and Fuel crises lead the country to protest. The country's political instability influences foreign investors to leave the share market.

#### **2. ECONOMIC**

**More than 10-hour blackouts** - Fuel shortage leads to a series of blackouts that are more than 10 hours. It affected the textile industry directly. Most small-scale and medium-scale companies exit the market.

**High Inflation** - Within the last 12 months, countries' inflation levels increased by 73.7%. Because of that, material cost and labor cost increase.

**Logistic Cost** - One of the most impactful challenges that the textile industry faces is the on-time delivery (export) of finished goods because of the high logistic cost and fuel shortage and high import cost of the materials.

#### **3. SOCIOLOGICAL**

**Out-Migration** - Current economic collapse influence the workforce of the country to migrate.

#### **4. Technological**

**Laser Treatment** - Laser marking in the textile is allowing a reduction in water consumption by up to 60%.

#### **5. LEGAL**

**Institute of Textile and Apparel Act** - Sri Lanka Institute of Textile and Apparel maintains the all rules and regulations of the industry.

#### **6. ENVIRONMENTAL**

**Green Initiative Concept** - Textile companies have taken initiatives to implement effective environmental policies such as the establishment of green fabric.

### **C2 : PORTER'S FIVE FORCES ANALYSIS**

#### **01. THE BARGAINING POWER OF SUPPLIERS – 2**

The bargaining power of suppliers is at a low level due to existence of many suppliers in India, China and Pakistan who have the capability of supplying raw materials. Teejay India expansion project was undertaken and finalized the previous financial year. India is an Apparel hub with access to an extensive market. Teejay has a history of 20 years of working with the current supplier portfolio. One of the main challenges was to overcome the trend of suppliers globally reversing long-term bookings and increasing quotations for usual timelines. However, The Group was able to secure requirements for its brands by leveraging on these valuable supplier partnerships.

## **02. BARGAINING POWER OF THE BUYERS - 5**

The major buyers of Teejay Lanka as apparel manufacturing companies such as DECALTHON, LIDL, CALZEDONIA, CALVIN KLEIN, M&S, VICTORIA'S SECRET. Sri Lanka's biggest apparel market is the USA. Though first six months of 2022 shows promising figures, it is important to understand the rising inflation and its adverse effects on the apparel sales.

The buyers control market hence working closely with them will ensure continuous orders. Upcoming winter season is a major concern for EU & UK with the looming energy crisis. With already high inflation, this could result in lower apparel sales as customers struggle to meet the ends needs. There is a clear shift in demand for apparel from China to the South Asian region. Teejay Group has been eyeing new markets, new brands and new production areas to adapt to shifting trade patterns. Therefore, customers play a superior role in affecting the demand and there is a high bargaining power of buyers exist within the market.

## **03. THREATS OF NEW ENTRANTS - 3**

Apparel industry has High Economic of scale and Industry requires high level of investment. Existing rivals have well organized and they have industry experience, which would be difficult for a new entrant achieve. Browns Fabric Mill that produces knit fabrics entered the market with a US\$53 million investment. In another development, MAS holdings acquired BAM knitting, adding to the already impressive MAS fabric cluster.

Therefore, starting a new local business in the apparel industry is not an easy task and involves high risk. Thus, the threat of entering the local business market is at a very low level. Nevertheless, the entry of international players into the local market can be a risk, as the high capital requirement is not a barrier for established international textile companies. Therefore, there is a moderate level of threat of newcomers.

## **04. RIVALRY AMONG COMPETITORS – 3**

Teejay has established strategic business partnerships with leading pioneers within the fabric and apparel industry Brandix Lanka and Pacific Textiles. The influence gained due to associating with market leaders of such caliber enable the Group to upgrade its expertise. Teejay Lanka has high Number of equally balanced competitors. Apparel industry consists of six major players, yeh group Co. Ltd, Group Merlet, Hayleys Fabric Plc., Globe Textile Ltd, Kamal Ltd and Antex Knitting. These companies have strong financial stability, goodwill, strategic capabilities and loyalty programs, which increase the rivalry among competitors. Evaluating the existing competition, Teejay Lanka can identify as the market leader in the South Asian region; further, the company manufactures Woven Fabric and Synthetic Fabric. Thus, competition can identified as moderate among existing competitors.

## **05. THREAT OF SUBSTITUTES – 1**

The presence of substitutes is rarely a threat to the apparel industry due to continuous changes in trends. A moderate threat of substitute products makes an apparel industry more attractive.

The recent changes in market patterns and preferences such as moving from Knitted fabric and Woven to Synthetic fabric can identified as a threat for Teejay Company. In addition, the recent started joint venture between Best Pacific Textile PLC Hong Kong and Brandix to manufacture Synthetic fabric can be a threat.

### C3 : SWOT ANALYSIS

#### Strengths

- A wide range of products and services offered in relation to weft knit manufacturing includes dying, finishing, and lace and yarn dying, synthetic fabric production under the printing sector.
- Teejay is a strong brand in the apparel industry which is engaging among Europe, American, and Asian markets positioning as a preferred fabric provider for leading brands such as PVH, Calzedonia, Lbrands, Nike, Uniqlo Decathlon, Marks & Spencer, and LIDL.
- Teejay was awarded as Best Exporter in the knitted Fabric sector for both 19-20 & 20-21 years at the Presidential Exports Awards.
- The company holds the highest record in the Higgs Index which is 90% indicating its sustainable manufacturing level is recognized on the international level.

#### Weaknesses

- The company wasn't able to pay dividends on an annual basis or as interim dividend payments for their equity holders due to the high amount of investments Teejay holds their profits in retained earnings with the purpose of future expansions and research and developments.
- The long-term debt obligations with floating interest rates expose Teejay to a cash flow interest rate risk.

#### Opportunities

- Upsurge in western markets and increment of 'revenge buying' among the main customers targeted by Teejay and increase of orders from the other brands.
- As an exporting company, Teejay gained a net foreign exchange gain during the year ended 31 March 2022.
- The main operation costs, which are material costs and labor costs were increased due to the high inflation in Sri Lanka.
- The D-grade credit rating for Sri Lanka make a negative impact on foreign investments overall for local companies.

#### Threats

## APPENDIX D : VALUATION

### D1 : FCFF

	Historical years					Implicit forecasts				
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
EBIT*(1-Tax)	1,575,432.54	1,931,990.78	2,248,227.14	1,992,184.03	2,181,991.34	3,314,775.49	3,693,926.51	4,204,557.98	4,737,618.50	5,333,546.33
<u>Non cash Items</u>										
(+)Depreciation	1,064,514.00	1,240,971.00	1,286,324.00	1,381,321.00	1,451,718.00	1,916,260.70	1,888,339.45	1,838,235.45	1,803,131.26	1,750,105.37
Amortization	45,858.00	43,147.00	39,632.00	47,145.00	51,962.00	39,232.80	40,921.56	43,778.67	44,608.01	44,100.61
<u>(+)/(-) Investment in Working Capital</u>	(113,329.00)	729,170.00	511,354.00	1,929,686.00	5,581,398.00	(2,389,352.28)	1,535,142.83	2,197,593.69	3,138,472.90	3,047,653.61
Net Capital Expenditure	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
FCFF	2,572,475.54	3,945,278.78	4,085,537.14	5,350,336.03	9,267,069.34	2,880,916.70	7,158,330.35	8,284,165.79	9,723,830.66	10,175,405.92
Terminal value										42,292,298.56
Weighted average number of ordinary shares										715,663.00
FCFF + TV						2,880,916.70	7,158,330.35	8,284,165.79	9,723,830.66	52,467,704.48

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Inventories	2,877,542.00	4,091,207.00	4,494,420.00	5,904,129.00	7,280,706.00	16,355,777.00	11,512,727.27	13,252,487.85	15,958,654.39	19,415,784.08	23,016,254.66
Trade and other receivables	3,370,099.00	3,494,456.00	4,012,653.00	4,136,507.00	7,180,865.00	13,336,000.00	8,553,433.15	9,818,777.45	11,683,112.71	14,229,853.64	15,303,483.46
Current tax receivables	Nil	Nil	8,766.00	18,219.00	6,170.00	Nil	16,333.32	18,622.90	21,864.84	21,707.02	26,769.63
Current tax liabilities	6,535	14,647.00	Nil	91,594.00	126,421.00	232,725.00	138,870.81	158,337.51	182,024.40	210,214.46	221,758.16
Trade and other payables	3,043,719.00	4,486,958.00	4,702,611.00	5,642,679.00	8,087,052.00	17,623,386.00	10,497,309.20	11,950,094.13	14,302,557.30	17,139,607.14	18,759,572.85
NWC	3,197,387	3,084,058	3,813,228	4,324,582	6,254,268	11,835,666	9,446,314.7	10,981,457	13,179,050	16,317,523	19,365,177
Change in WC	-113,329	729,170	511,354	1,929,686	5,581,398	(2,389,352.28)	1,535,143	2,197,594	3,138,473	3,047,654	

## D2 : WACC

Cost of debt taken as 2022 interest rates, because the 2022 int rates will continue for next 5 year

Cost of debt 2.88%

Effective tax rate 16.36%

Cost of debt\*(1-T) 2.40%

### Cost of equity calculation

Risk free rate 30.75%

10 years T bond yield of Sri Lanka

Beta 0.748

Taken from investing.com

Market Return 57.14%

Cost of equity (CAPM) 50.49%

Terminal growth rate 3.12%

### Weights calculation

Weights are calculated using 2022 capital structure

		Weight
Total debt	11,494,713.00	47%
Market cap	13,006,181.00	53%
Total	24,500,894.00	

WACC 27.93%

## D3 : DDM

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	Terminal
Dividend	1,368,816	1,228,424	1,684,696	1,170,382	1,433,480	2,576,712	2,831,638	3,283,951	3,790,732	4,145,248	
DPS	1.95	1.75	2.40	2.80	2.35	3.60	3.96	4.59	5.30	5.79	7.00
Dividend growth rate						53%	10%	16%	15%	9%	
Average Dividend growth rate								21%			
Risk Free Rate						30.75%	30.75%	30.75%	30.75%	30.75%	30.75%
Market Risk Premium						26.39%	26.39%	26.39%	26.39%	26.39%	26.39%
Beta						0.75	0.75	0.75	0.75	0.75	0.75
Required rate of return						50.49%	50.49%	50.49%	50.49%	50.49%	50.49%
Equity value						2.39	1.75	1.35	1.03	0.75	1.91
terminal value	14.728836	18									
Intrinsic value	9.18										
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	
g=Retention ratio x ROE	0.02	0.05	0.04	0.01	0.03	0.03	0.03	0.03	0.03	0.03	
Retention ratio = [1-payout ratio]	0.14	0.34	0.29	0.08	0.34	0.24	0.26	0.24	0.23	0.26	

## **APPENDIX F : CORPORATE GOVERNANCE**

### **F1 : TEEJAY BOARD OF DIRECTORS**

NAME	POSITION	YEARS OF AFFILIATION	AFFILIATIONS
AJIT GUNewardene	Chairman Independent Non-Executive Director		<ul style="list-style-type: none"> <li>Served as Deputy chairman of John Keells Holdings.</li> <li>Chairman of Nations Trust.</li> <li>served as Director and subsequently Chairman of Union Assurance Ltd.</li> <li>Chairman of the Colombo Stock Exchange (CSE) from 2000 – 2003.</li> </ul>
ASHROFF OMAR	Non-Executive Director	16	<ul style="list-style-type: none"> <li>Group Chief Executive Officer of Brandix Apparel Limited.</li> <li>Senior member at the society of Plastics Engineers</li> <li>Member of the Textile Institute and on the board of 45 other companies.</li> </ul>
HASITHA PREMARATNE	Non-Executive Director	20	<ul style="list-style-type: none"> <li>The Group Finance Director of Brandix Group.</li> <li>He is an Independent Director of John Keells Hotels and Chairman of its Audit Committee.</li> <li>Former Director of a Bank of Ceylon.</li> <li>Independent Director of John Keells Hotel</li> </ul>
AMITHA GOONERATNE	Independent Non-Executive Director	26	<ul style="list-style-type: none"> <li>A Senior Professor in Civil Engineering at the University of Moratuwa.</li> <li>He is an Independent Non-Executive Director of Access Engineering PLC.</li> <li>He is a former Vice- Chancellor of the University of Moratuwa.</li> <li>Former Member of the University Grants Commission and National Research Council</li> </ul>
MITHA GOONERATNE	Independent Non-Executive Director	20	<ul style="list-style-type: none"> <li>Served as the Managing Director of Commercial Bank.</li> <li>The Founder Chairman of the Financial Ombudsman Sri Lanka (Guarantee) Ltd.</li> <li>Former Chairman of the Sri Lanka Banks' Association (Guarantee) Ltd.</li> <li>He was also the Managing Director of Commercial Development Company PLC.</li> </ul>
MASARU OKUTOMI	Non-Executive Director	04	<ul style="list-style-type: none"> <li>Chairman and CEO of Pacific Textile Holdings Limited.</li> <li>Held senior management positions including Managing Director of Toray Industries (South China) Co., Ltd. and of Toray Industries (Hong Kong) Ltd., Deputy Managing Director of Toray Industries (China) Co., Ltd.</li> </ul>
KIT VAI TOU	Non-Executive Director	10	<ul style="list-style-type: none"> <li>Executive Director and the Chief Financial Officer of Pacific Textiles Holdings Limited</li> <li>Fellow member of the Hong Kong Institute of Certified Public Accountants</li> </ul>



## F2 : TEEJAY EXECUTIVE COMMITTEE

NAME	POSITION	YEARS OF AFFILIATION	AFFILIATIONS
PUBUDU DE SILVA	Group Chief Executive Officer	32	<ul style="list-style-type: none"> <li>Chairman of the Fabric and Apparel Accessory Manufacturing Association.</li> <li>Head of Planning at Slimline – Pannala</li> <li>holds a Master's in Business Administration from the University of Lincoln (UK), &amp; Masters in Manufacturing Management from the University of Colombo and a Diploma in Business Administration from the University of Colombo.</li> </ul>
SANJAYA BASNAYAKE	Chief Operating Officer - Production & Engineering	28	<ul style="list-style-type: none"> <li>Served as Senior Executive at Hayley's-MGT Textiles PLC.</li> <li>has an NDT in Textile &amp; Clothing Technology from the University of Moratuwa,</li> <li>a Diploma in Management from Open University of Sri Lanka</li> </ul>
SALMAN NISHTAR	Chief Financial Officer	16	<ul style="list-style-type: none"> <li>He is an Associate Member of Chartered Management Accountants (United Kingdom) &amp; Institute of Chartered Accountants (Sri Lanka) &amp; Chartered Global Management Accountants (CGMA)</li> </ul>
PAMODA KARIYAWASAM	Senior General Manager - Sales & Marketing and Supply Chain	17	<ul style="list-style-type: none"> <li>Served as a Deputy General Manager of t Unilever Sri Lanka.</li> <li>holds a Special Degree in Business Administration with a Second- Class Honors (Upper Division) from the University of Colombo</li> </ul>

## F3 : CORPORATE SOCIAL RESPONSIBILITY PROJECTS

Projects completed	Vicinity
Donation of equipment to Avissawella Hospital for Covid 19 treatment	Within Vicinity
Provision of toilet facilities for the Covid-19 treatment ward (Avissawella Hospital)	Within Vicinity
Provision of safety overalls for staff in Avissawella Hospital	Within Vicinity
Donation of bedding for Avissawella Hospital	Within Vicinity
Provision of theater shoes for the Ragama Hospital - ICU ward	Outside Vicinity
Donation to build a pre-school building	Outside Vicinity