

FOR IMMEDIATE RELEASE

July 06, 2017

**ICRA Lanka reaffirms the [SL]A+ issuer rating of
JAT Holdings (Pvt) Limited**

ICRA Lanka Limited, Subsidiary of ICRA Limited, group company of Moody's Investors Service, has reaffirmed the Issuer rating of [SL]A+ (pronounced S L A plus¹) with stable outlook for JAT Holdings (Pvt) Ltd ("JAT" / "the company").

The reaffirmation of the rating primarily factors in the company's strong brand name and dominant market position in the Sri Lankan paints industry, especially in the water based wood coating segment as well as the growing decorative paint segment. During FY17, the company has become the largest exclusive distributor globally for Sayerlack brand, which is owned by Sherwin Williams, for the South Asian region. Owing to the strong preference for the Sayerlack brand in the Sri Lankan market, JAT Holdings has the largest market share despite heavy competition from incumbent and new MNCs. The revenue contribution of Sayerlack to the company has been more than 60% leading to concentration risks. However, with the introduction of new product categories during FY17, dependency on Sayerlack brands/products is expected to further reduce. Moreover, considering the established relationship between JAT Holdings & Sherwin Williams and the strategic nature of the tie-up (JAT being the largest distributor in the world for Sherwin Williams) - the scope of which has been recently increased to include the Pakistan and Indian markets as well - ICRA Lanka views the company's risk of dependency on Sayerlack as moderate.

The rating also factors in the strong growth potential for wood care products in Sri Lanka and the company's continued focus on increasing its market share in regions where its reach has been sub-optimal till date. The Company has also diversified into the decorative paints segment in the recent past through tie-ups with international brands like Permoglaze & Crown and has been steadily gaining market share despite intense competition. The large market size of the decorative paints segment, as compared to wood care market segment, and the projected growth rates are expected to aid the company's revenue growth going forward.

The rating also considers positively the company's recent diversification into innovative new product categories such as Ceiling products, Sand Papers, Master Brush, Fire Resistant Paints etc, which have been posting strong volume growth. JAT envisages itself as a leading player in the broader interior and living spaces market and has concluded tie-ups with premium international brands such as Herman Miller, Armstrong etc. ICRA Lanka also takes note of the company's diversification into fast growing export markets (such as India, Bangladesh and Pakistan). JAT has become the leading player in the Bangladesh wood coating segment by distributing Sayerlack through its strong distribution network and effective marketing initiatives. The management has recognized India and Pakistan as more promising growth opportunities and has initiated significant brand building efforts to enter the market through its own showrooms. Notwithstanding the company's rapid scale-up in the Bangladesh market, ICRA Lanka views its success in the Indian operation as a formidable challenge. The extent of financial investments to be made towards the Indian market foray will remain a key rating sensitivity.

¹ For complete rating scale and definitions please refer to ICRA Lanka's Website www.icralanka.com or other ICRA Rating Publications

ICRA Lanka also takes into account the experience of the promoters, the company's strong track record and reputation in the industry, which have enabled the company to enjoy steady access to funding from financial institutions. The company's professional management team coupled with a strong governance structure adds further comfort. These apart, the rating also factors in the group's positive cash accruals, which is characterized by healthy profit margins (PAT margin 15.6% in FYE March 17 Vis a Vis 17.3% in FYE March 16).

Notwithstanding the positive cash accruals, the company's working capital position has deteriorated over the past four years. The receivables levels over the last 5 years have increased owing to the growing nature of the business as well as increasing competition in Sri Lanka. Given the expansion of business and the industry practices, ICRA Lanka expects the company's receivable levels to remain elevated in the medium term. JAT's strong brand equity and the market leadership have enabled the company to pass on partly any additional cost increases despite the growing competition. Moreover, JAT Holdings being the largest global distributor/dealer of Sherwin Williams, enjoys the maximum price discounts from the supplier. Therefore, ICRA Lanka expects that the impact from the cost increases due to foreign exchange risks on the company's revenue and consequently the profitability will be marginal in the short to medium term.

Financials;

The company, had recorded a YOY growth in revenue in excess of 10-15% from FYE March 12 to FYE March 16, due to strong performance in both local and export market segments. The growth momentum continued in FYE March 17 with the company registering a YOY 18% growth in revenue. The export sales had increased YOY 20.0% in FYE March 17 owing to the strong performance in Bangladesh operation. Notwithstanding the growing competition in the Sri Lankan wood coating industry, the company's OPBDITA and PAT Margins have gradually increased from FYE March 12 to FYE March 16 (PAT margin FYE March 14 -13%, FYE March 15- 15.0%, FYE March 16 -17.1% and FYE March 17-15.6%). The moderation of OPBDITA and PAT margins in FY17 is attributable to the high administrative expenditures as the business has further diversified with new subsidiaries during this period. The company has registered a net profit of LKR 902.6 Mn in FYE March 16 compared to the net profit of LKR 849.0 Mn in the previous year.

The company's working capital requirements have remained high over the years, owing to the high debtors and inventory levels. The recent increase in the debtor levels is partly attributable to the growing scale of the business as well as the industry practice of extending credit to distributors/dealers to gain more market share.

Notwithstanding the high capital expenditure levels and working capital position in FY17, the company has limited its reliance on external debt, mainly due to strong cash accruals from operations. The Company's debt profile is largely skewed towards short term loans to fund the inventories and the working capital requirements, which are refinanced on a regular basis. Further, net accruals in the recent past as well as new capital injection through a private placement in FY17, have bolstered the net worth position of the company substantially (Net worth of LKR 3.3 Bn in FYE March 17, Vis a Vis LKR 2.4 Bn in FYE March 16 and LKR 1.8 Bn in FYE March 15). As a consequence, the Company's capital structure has remained relatively strong with gearing of 0.3x in FY17 (FYE March 16 - 0.3x). The company's coverage and key debt metrics have also improved given the relatively lower debt levels on the books, coupled with improving operating results.

ICRA Lanka does not foresee any significant capital expenditure, except for Indian operations and new head office complex & the automated warehouse, which are currently being constructed and are financed through limited debt financing. ICRA Lanka evaluates positively the arrival of new investors in FY17, who would further bring value to the company going forward. The company has been

evaluating further capital raising exercises to further expand the growing business in the region and ICRA Lanka will evaluate the impact post finalization of the same.

Group Profile

Incorporated in 1993, JAT Holdings (Pvt) Ltd has become a dominant player in the Sri Lankan wood coating, decorative painting and interior living spaces market segments. The Company has a commanding market position in the Sri Lankan wood coating industry, mainly due to its brand equity and product innovation. While wood coating products are its core business segment, the company has successfully ventured into adjacent market segments, such as decorative paints, paint brushes, furniture accessories and interior products. JAT has the competitive advantage of being the sole distributor and marketer for Sayerlack premium wood coating product for the South Asian region, which includes markets such as India, Pakistan, Bangladesh, Maldives, and Seychelles. The distribution rights have enabled JAT to rapidly grow its export sales in much larger markets such as India and Bangladesh. Going forward, the company is focusing on India and Pakistan, as its key growth markets, where JAT will focus most of its marketing efforts. In addition to its core wood coating and decorative products, JAT envisage to position itself as the leading player in the broader interior and living spaces market. The Company has taken few strategic initiatives in this direction, including the introduction of Herman Miller premium furniture and Armstrong architectural products to the Sri Lankan market.

On a consolidated basis, JAT reported a net profit of LKR 902.6 Mn on a total income of LKR 5,782.9 Mn in FYE March 17, compared to a net profit of LKR 849.0 Mn reported on a total income of LKR 4,904.7 Mn in FYE March 16.

July 2017

For further details please contact:

Analyst Contacts:

Mr. Raghunath T, (Tel. No. +91-4445964440)

Raghunath.t@icraindia.com

Mr. Danushka Perera, (Tel. No. +94-77-4781591)

danushka@icralanka.com

Relationship Contacts:

Mr. W Don Barnabas, (Tel. No. +94-11-4339907)

wdbarnabas@icralanka.com



Subsidiary of

ICRA Limited

A Group Company of Moody's Investors Service

CORPORATE OFFICE

Level 10, East Tower, World Trade Center, Colombo 01, Sri Lanka

Tel: +94 11 4339907; Fax: +94 11 2333307

Email: info@icralanka.com; Website: www.icralanka.com

Contents may be used freely with due acknowledgement to ICRA Lanka.

All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable. Although reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.

