



**First Capital**  
A Janashakthi Group Company

# LISTED FABRIC MANUFACTURING SECTOR IN SRI LANKA

## “KNITTING THE THREADS OF RECOVERY...”

### INITIATING WITH A BUY

#### FIRST CAPITAL RESEARCH

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*\*\*Please refer page 97 for an important disclaimer*

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# EXECUTIVE SUMMARY: “KNITTING THE THREADS OF RECOVERY...”



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Sri Lanka’s fabric manufacturing sector remains a strategically important component of the broader textile and apparel industry whilst textile and apparel exports contribute approximately 38.0% of total merchandise exports. Within the local fabric industry, **Teejay Lanka PLC (TJL) and Hayleys Fabric PLC (MGT)** collectively account for roughly **9.0%** of production market share, specializing in cotton and synthetic fabrics respectively. Both companies play a critical role as nominated suppliers to **leading global apparel brands** (Nike, PVH, Victoria’s Secret, Marks & Spencer, Uniqlo, Levi’s and Lululemon etc.) and **retailers** (Walmart, Lidl, Decathlon, and Tesco etc.), reinforcing their position within international supply chains. The textile and apparel sector’s competitive advantage stems from its **strong emphasis on sustainability, ethical manufacturing, strategic positioning, enabling shorter lead times, high value addition** (exceeding 60.0%), and the **capability to produce complex, value-added apparel**. These strengths position Sri Lanka favorably amid the ongoing global sourcing shift driven by the **China+1 strategy**. TJL’s and MGT’s product mix, innovations and sustainability positioning are shaped by these structural advantages. Recent global trade dynamics, including the implementation of a more **uniform 15.0% U.S. reciprocal tariff** regime for all the countries, have reshaped competitive conditions. India’s reciprocal tariff rate has also declined from 50.0% to 15.0%, providing a favorable advantage to TJL due to its operational presence in the country. While short-term demand remains subdued due to inventory drawdowns by global brands, early signs indicate the beginning of a **restocking cycle** as we saw in the 2022-2024 post-covid cycle. This is expected to underpin a gradual recovery in demand from global brands. Looking ahead, in our base case scenario, the sector is likely to transition from contraction to expansion, supported by **stable macroeconomic conditions in key export markets** (U.S., EU, and UK), **largely moderated input costs** despite near-term oil-related headwinds, and an **improvement in operating leverage** driven by higher capacity utilization. Management of TJL and MGT have guided for a **temporary earnings softness in 4QFY26E and 1QFY27E**, with a subsequent recovery anticipated as order flows strengthen and tariff conditions **stabilize from 2HFY27E**. Thereby our bullishness for the sector is backed by three main investment pillars.

**1. The triumph: Regional contender and opportunities - sustainability, quality, value-addition and shorter lead times for niche segments attract orders to Sri Lanka despite higher ASPs**

**2. Thread by thread: What drives demand for apparel and fabric?; The U.S. post-tariff restocking cycle has yet to begin, with fabric players expected to shift from contraction to gradual expansion as demand recovers**

**3. Knitting the bottom-line: Margins poised for recovery on easing input costs and operating leverage, despite oil-linked headwinds**

Amid these factors, we forecast the earnings of **TJL and MGT** to grow by **306.0%YoY** and **115.3%YoY**, respectively, by FY27E. We issue a **BUY** recommendation on both stocks, with target prices of **LKR 42.0 for TJL and LKR 37.0 for MGT for FY27E**. Our valuations, based on DCF and PER methodologies, indicate potential **AERs of 50.0% for TJL and 23.0% for MGT**.

## WHY THE FABRIC SECTOR IN SRI LANKA NOW?

As earnings near a trough, recovering demand, strong ESG credentials, and attractive valuations underpinned by <1.0x PEG ratios, Sri Lanka's fabric manufacturing sector presents a compelling entry point



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**U.S. tariffs are the new normal now:** With U.S. reciprocal tariff rates becoming more uniform across countries, we believe competition is increasingly shifting toward each country's unique strengths and specializations. In this context, Sri Lanka's key advantages; **sustainability, quality, high value addition, and shorter lead times for niche, smaller-order volumes** position it well to capture incremental demand in the evolving global sourcing landscape with China +1 strategy.

**Brands are entering a post-tariff inventory drawdown phase:** We observe that global apparel brands are undergoing a transition similar to the post-COVID period, where excess inventories they piled up during tariff period are being worked down. This is reflected in declining inventory levels, higher inventory turnover, and lower inventory days. While consensus expect inventories to gradually rebuild, we believe this marks the early stage of a **new inventory replenishment cycle**, supporting a forward-looking demand recovery in the U.S. post reciprocal tariff era.

**From a contraction to an expansion:** Looking ahead to FY27E, we expect **capacity utilization to improve** as Sri Lanka continues to attract orders, alongside a recovery in fabric sector revenues. While near-term earnings may remain under pressure, we anticipate a recovery as order flows strengthen, with a clear inflection from 2HFY27E driven by revenue translating into bottom-line growth. We also believe sector profitability is likely to bottom out over the next two quarters, signaling the trough of the cycle, thereby we expect a **306.0%YoY and a 115.3%YoY bottom-line growth for TJL and MGT by FY27E**, respectively.

**Fabric players have knitted through turbulence:** We noted several company-specific developments during the tariff transition period, where companies effectively turned uncertainty into an advantage. TJL **reduced its breakeven capacity to 67.0%** from **70.0%**, enhancing operational efficiency, while MGT secured **new clients** and **diversified its revenue base**. These strategic actions position both firms to benefit from post-tariff dynamics, supporting margin resilience and earnings recovery from FY27E onwards.

**Share price declined significantly:** Following the U.S. tariff announcement, share prices of both TJL and MGT declined by **40.6%** and **35.4%**, respectively, and are now trading at **33-month lows**. In our view, this disconnect between price and fundamentals presents a compelling entry opportunity, with our valuations suggesting **44.8%** and **19.7%** upside for TJL and MGT, respectively for FY27E.

**Better picks for ESG focused investors:** We believe both companies stand out from an ESG perspective, with improving ESG credentials. This positions TJL and MGT as under-recognized ESG players, potentially attracting ESG focused incremental investor interest over the long term, **yet to be popularized in Sri Lanka**.

**PEG suggests higher growth potential** Our analysis of regional peers on a PER basis indicates that TJL and MGT are trading at a premium. However, this premium appears justified, as their **forward PEG ratios remain below 1.0x**, implying that the valuations are supported by strong earnings growth expectations. Historical trends also indicate that improvements in operating performance have been key catalysts for share price performance and increase.

**A good entry point:** Overall, with valuations at cyclical lows and earnings near a trough, we see a compelling entry point. Coupled with recovering demand, improving margins, and potential re-rating, we initiate coverage on Sri Lanka's listed fabric manufacturers with a **BUY** recommendation.

**1.0**

## **AN OVERVIEW TO THE LISTED FABRIC MANUFACTURING SECTOR**

**1.1. LANSCAPE OF SRI LANKA'S LISTED FABRIC MANUFACTURING SECTOR**

**1.2. WHAT MAKES TJL AND MGT STAND OUT FROM EACH OTHER?**

**1.3. FABRIC MANUFACTURING SECTOR REVENUE AND PROFITABILITY**

**1.4. APPAREL AND FABRIC SECTOR VALUE CHAIN**



## 1.1. LANDSCAPE OF SRI LANKA'S LISTED FABRIC MANUFACTURING SECTOR

**TJL and MGT together account for c.9.0% of Sri Lanka's fabric manufacturing market, with TJL specializing in cotton fabrics and MGT focusing on synthetic fabrics, while both operate as weft knitting manufacturers**

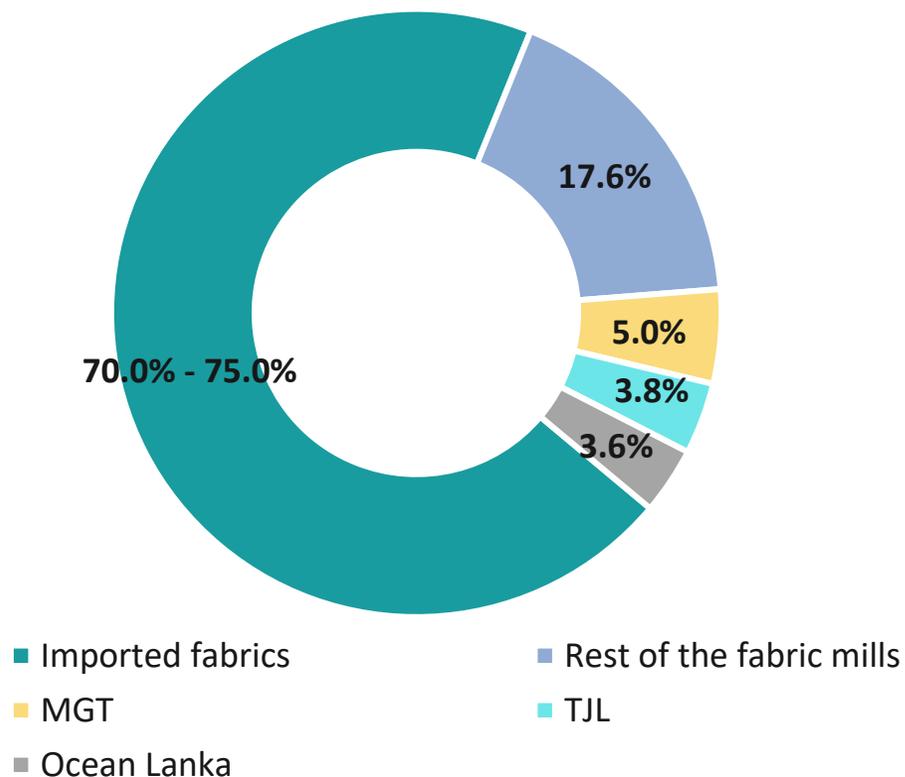


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Sri Lanka imports approximately 70.0%-75.0% of the fabrics required for apparel manufacturing, with annual fabric consumption estimated at around 419,524.9 metric tons.

While MGT leads in the Sri Lankan market with a 60.0MT daily capacity, TJL becomes the largest listed player with a daily capacity of 103.0MT when its integrated capacities in India, Egypt and Sri Lanka are considered.

TJL and MGT together account for c.9.0% for Sri Lanka's fabric manufacturing market share based on available capacity







TJL is the vertically backward integrated fabric mill of Brandix

**Manufacturing capabilities**

Sri Lanka: 45.0MT/day | India: 55.0MT/day | Egypt: 3.0MT/day  
Indonesia: contracted capacity





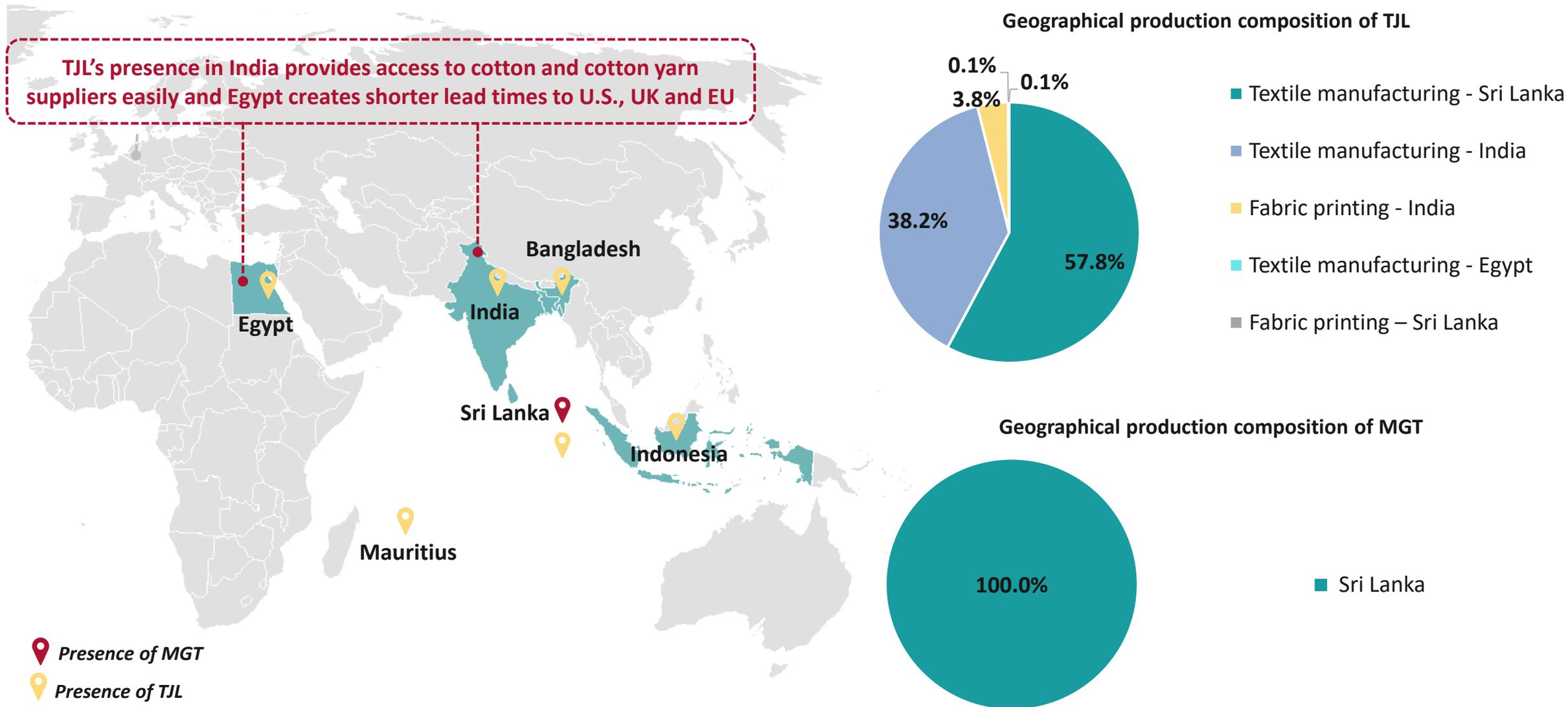
MGT generates 50.0% of its revenue through MAS

**Manufacturing capabilities**

Sri Lanka: 60.0MT /day

## 1.2. WHAT MAKES TJL AND MGT STAND OUT FROM EACH OTHER?

TJL benefits from a diversified geographic footprint and strong proximity to cotton raw material supply chains, distinguishing itself from MGT, as TJL reduces risk through revenue diversification...



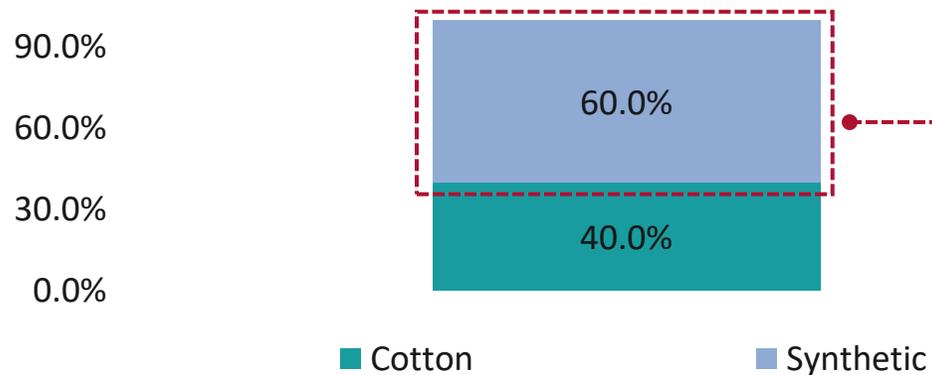
## 1.2. WHAT MAKES TJL AND MGT STAND OUT FROM EACH OTHER?



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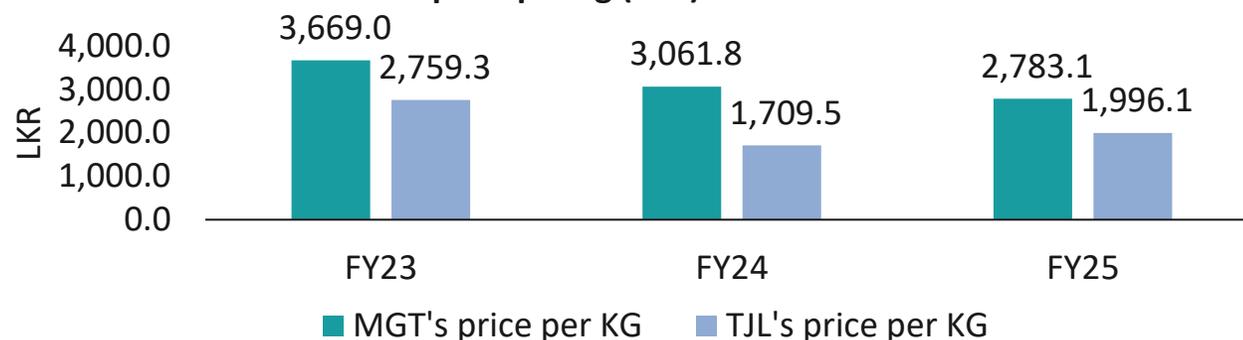
...while MGT's product specialization and innovation sustain its position as a distinct, high-margin player

MGT's product wise revenue composition

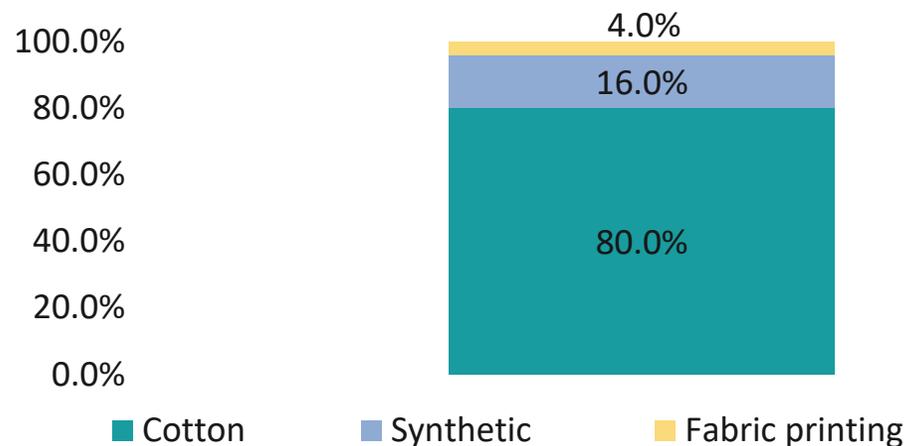


MGT's focus on synthetic fabrics drives higher gross margins versus TJL, while its innovation-led and patented offerings enable premium pricing.

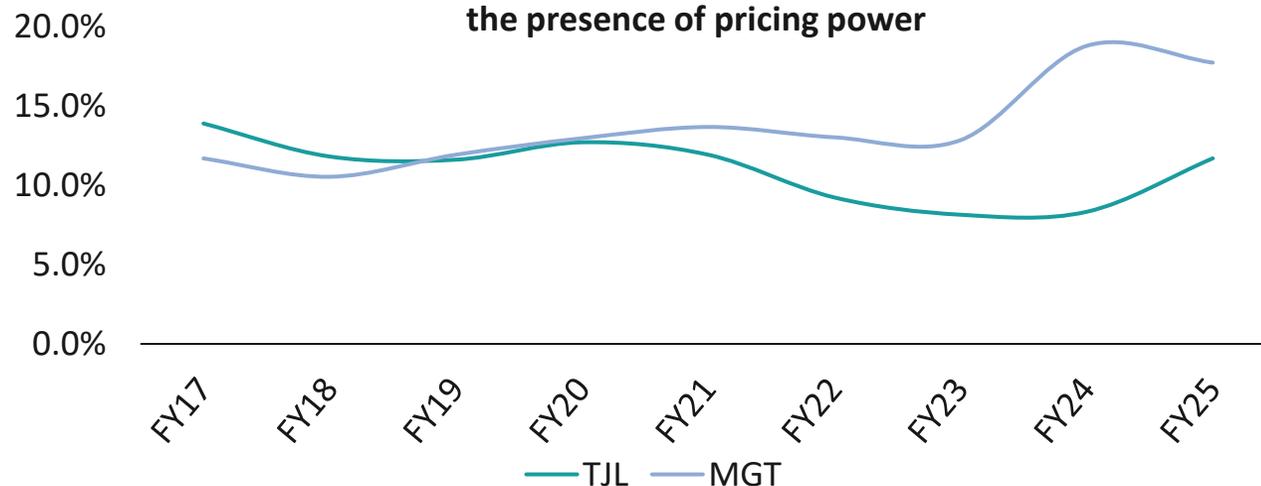
MGT's price per kg (LKR) is well above TJL



TJL's product wise revenue composition



Gross margins of MGT is well above TJL's gross margins, indicating the presence of pricing power



\*\*Refer slide 27 and 28 for more details

### 1.3. FABRIC MANUFACTURING SECTOR REVENUE AND PROFITABILITY

**TJL's larger daily capacity of 103.0MT (vs. MGT's 60.0MT), results in concentration of a greater share of revenue and earnings within the listed fabric manufacturing space**

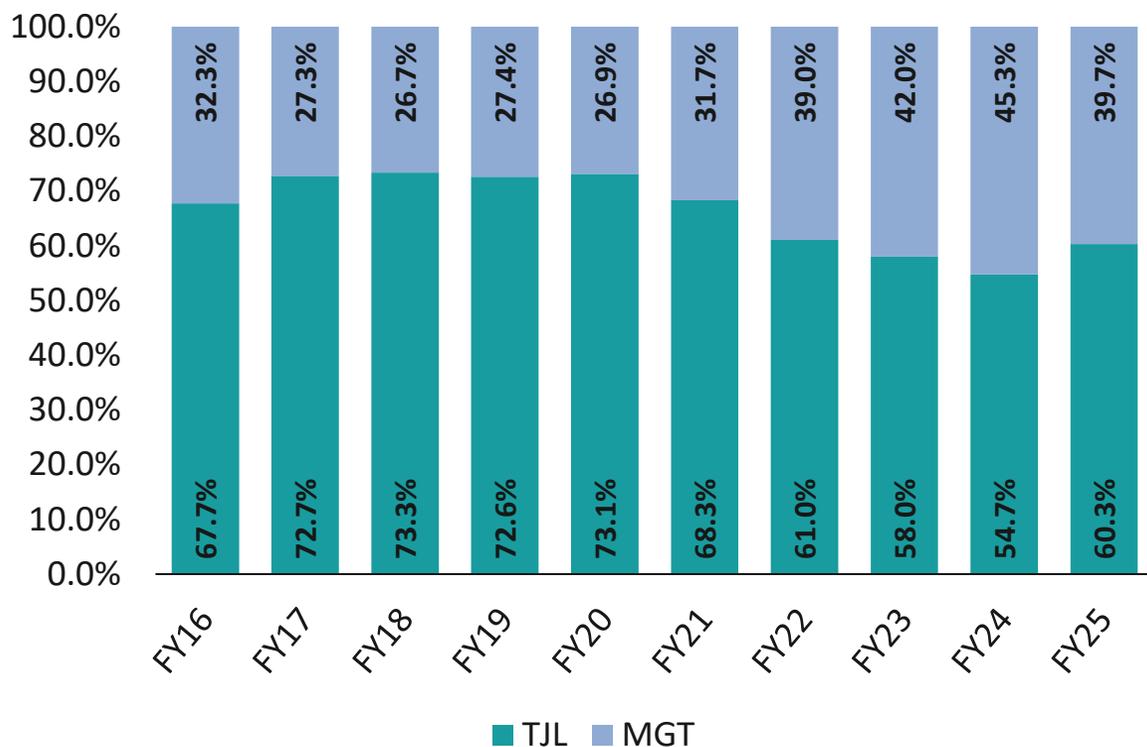


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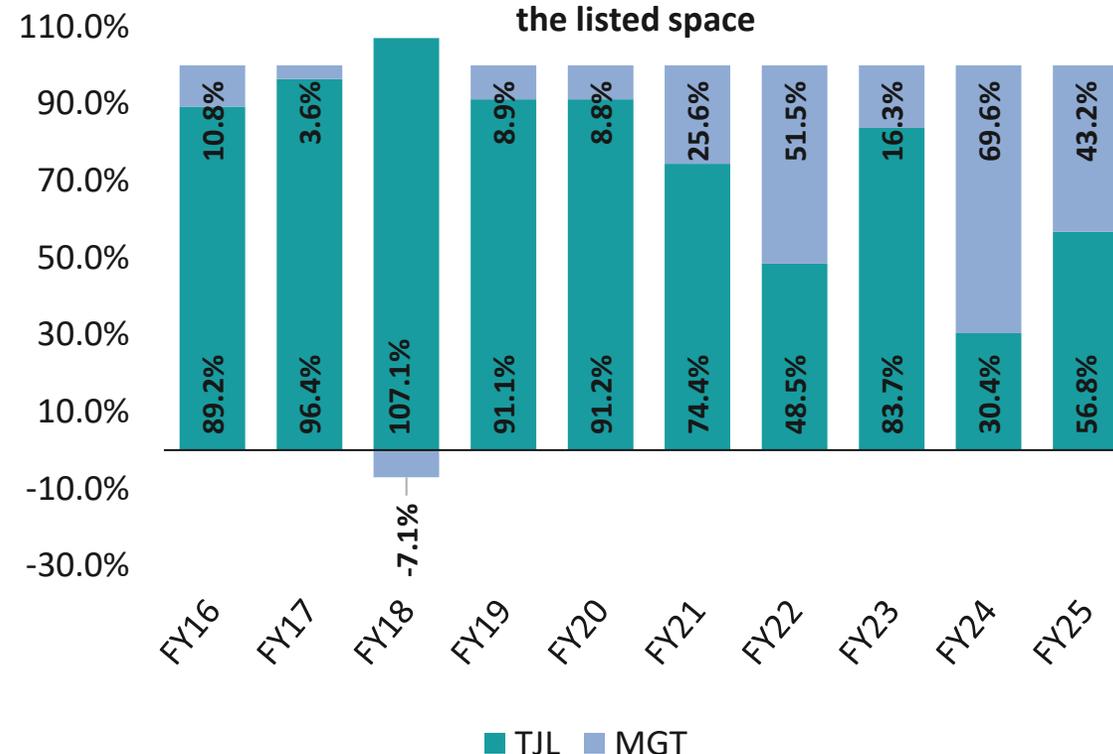
The fabric sector's revenue base is highly vulnerable to external macro conditions in core export markets, with 100.0% dollar-denominated revenues providing a partial hedge. Reflecting Sri Lanka's deep-rooted apparel sector capabilities, fabric sector performance remains closely linked to broader industry trends.

The fabric sector's profitability is structurally exposed to macroeconomic dynamics in key export markets and input cost volatility. Strong cost discipline, particularly through renewable energy integration, enables firms to partially mitigate these risks, complemented by diversification and innovation as key strategic levers.

**Over the past decade, TJL has driven c.66.0% of topline, while MGT contributed c.34.0% in the listed space**



**Over the past decade, TJL has contributed 77.0% of combined profitability, while MGT accounted for 23.0% in the listed space**

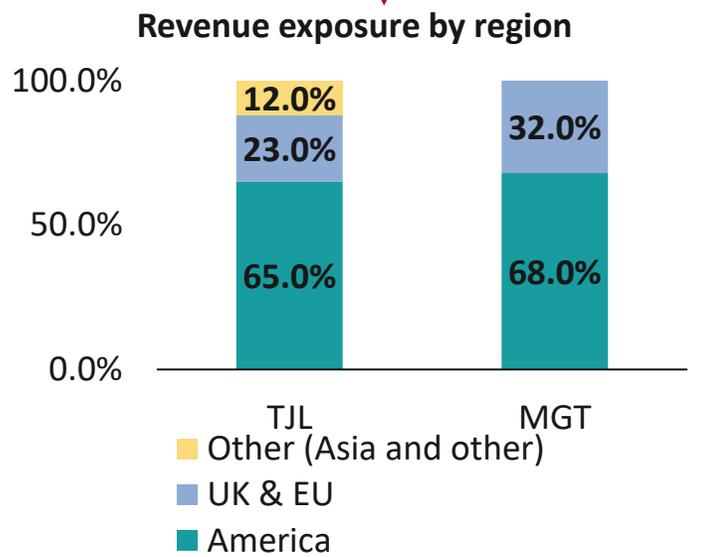
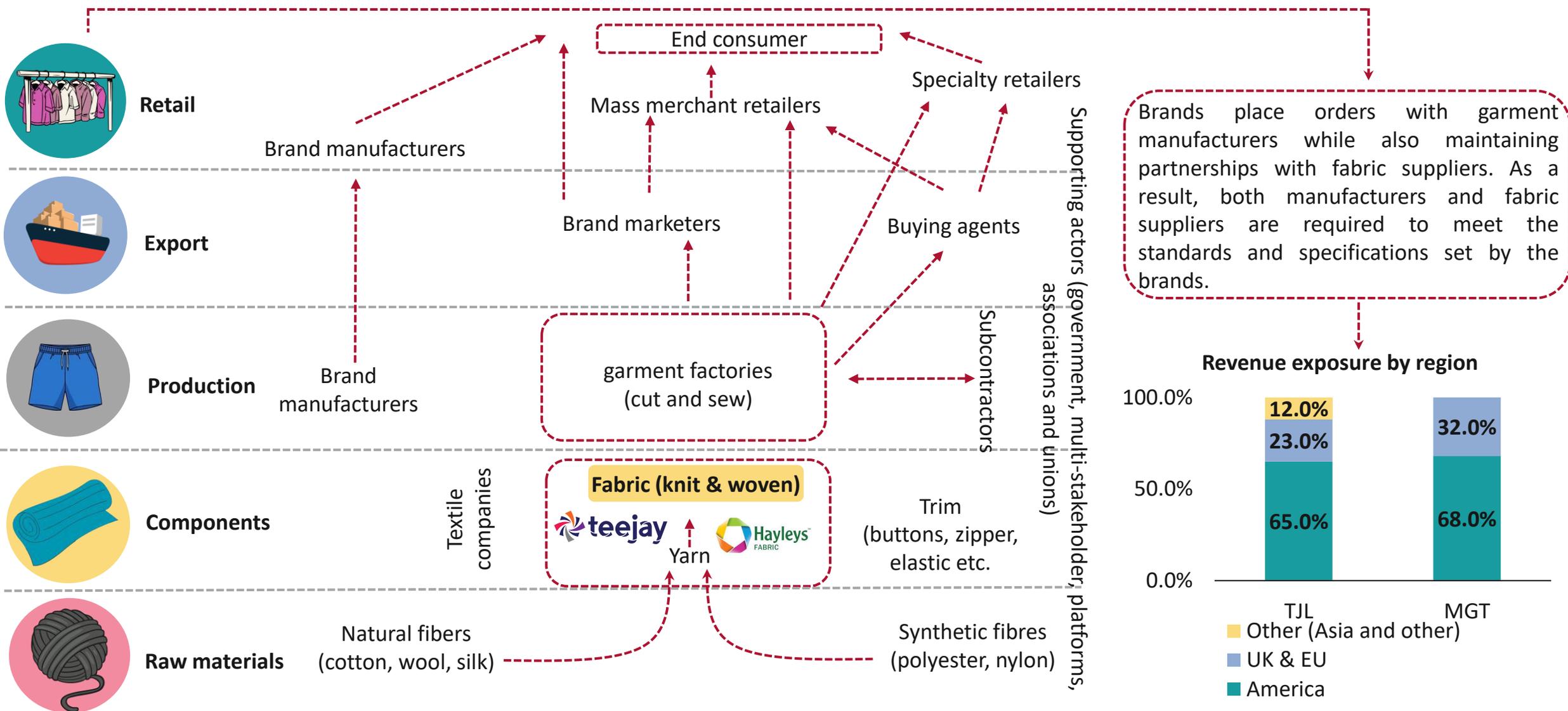


# 1.4. APPAREL AND FABRIC SECTOR VALUE CHAIN

As the apparel landscape continues to evolve, fabric manufacturers play a pivotal role in shaping brand decisions around product composition and sourcing strategies



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## 2.0

# SECTOR INVESTMENT THESIS

### 2.1. THE TRIUMPH: REGIONAL CONTENDER AND OPPORTUNITIES

SUSTAINABILITY, QUALITY, VALUE-ADDITION AND SHORTER LEAD TIMES FOR NICHE SEGMENTS ATTRACT ORDERS TO SRI LANKA DESPITE HIGHER ASPs

### 2.2. THREAD BY THREAD: WHAT DRIVES DEMAND FOR APPAREL AND FABRIC?

THE U.S. POST-TARIFF RESTOCKING CYCLE IS YET TO BEGIN, WITH FABRIC PLAYERS EXPECTED TO SHIFT FROM CONTRACTION TO GRADUAL EXPANSION AS DEMAND RECOVERS

### 2.3. KNITTING THE BOTTOM-LINE: MARGIN RECOVERY UNDERWAY

MARGINS POISED FOR RECOVERY ON EASING INPUT COSTS AND OPERATING LEVERAGE, DESPITE OIL-LINKED HEADWINDS





## 2.1

**THE TRIUMPH: REGIONAL CONTENDOR AND OPPORTUNITIES**  
**SUSTAINABILITY, QUALITY, VALUE-ADDITION AND SHORTER LEAD TIMES FOR**  
**NICHE SEGMENTS ATTRACT ORDERS TO SRI LANKA DESPITE HIGHER ASPs**

## 2.1.1. APPAREL SECTOR LANDSCAPE IN SRI LANKA

# Sri Lanka's textile and apparel exports contributes c.38.0% to the total merchandise exports of the country...

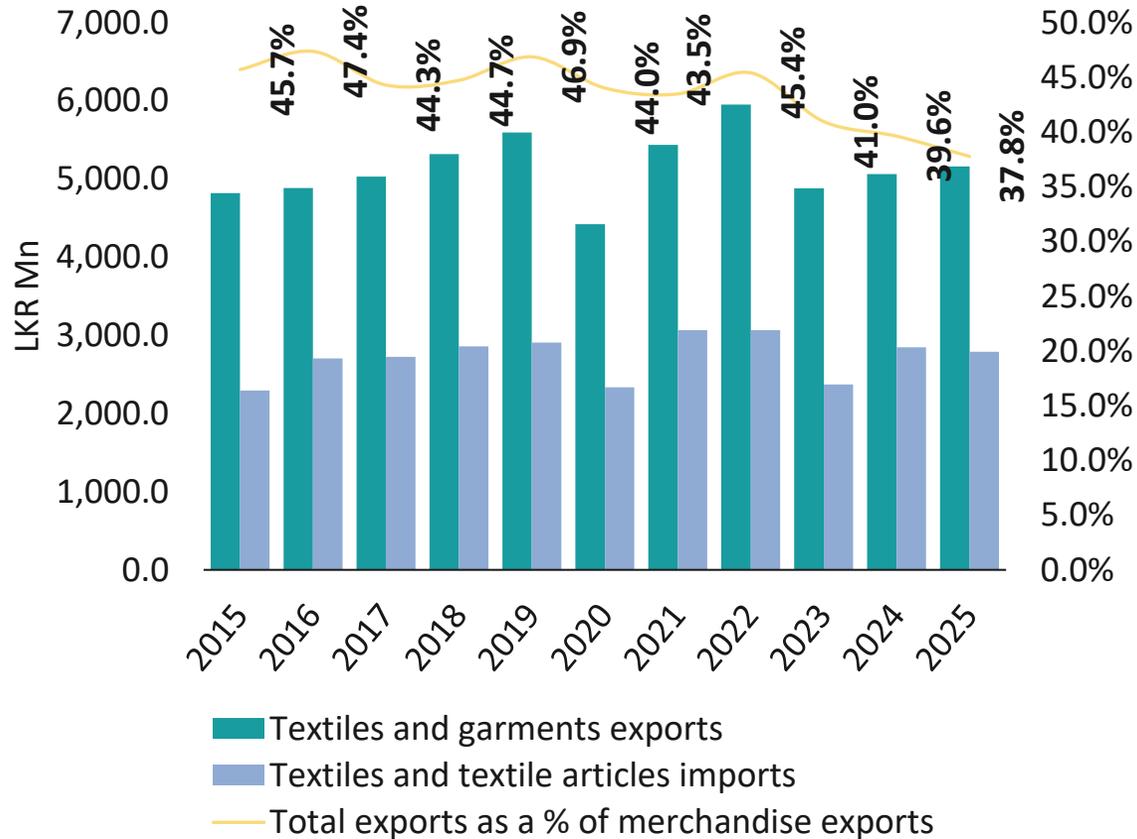


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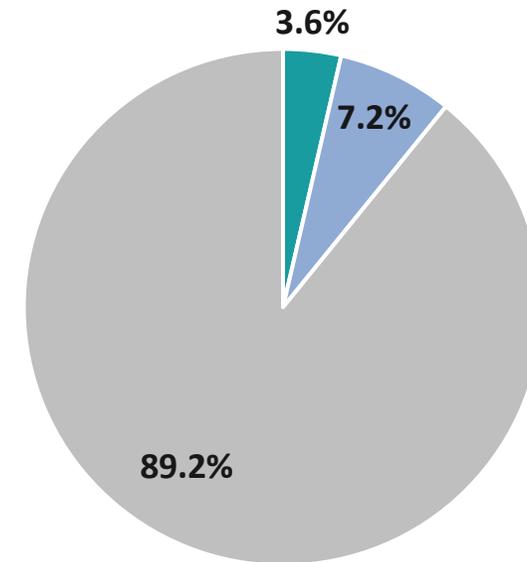
Sri Lanka's apparel sector delivers over 60.0% domestic value addition, reinforcing its position as a competitive net exporter.

The apparel and textile sector employs a significant portion of Sri Lanka's workforce, underscoring its critical role in the economy.

**Textile and apparel industry exports contribute approximately 38.0% of total merchandise exports...**



**...whilst the apparel and textile sector employs approximately 10.0% of Sri Lanka's workforce**



- Direct employment in the apparel sector
- Indirect employment apparel sector
- Rest of the sectors

## 2.1.1. APPAREL SECTOR LANDSCAPE IN SRI LANKA

...whilst the U.S., EU, and UK constitute the core end markets for Sri Lanka's apparel exports, with knitted garments accounting for majority of the export value, surpassing 60.0%

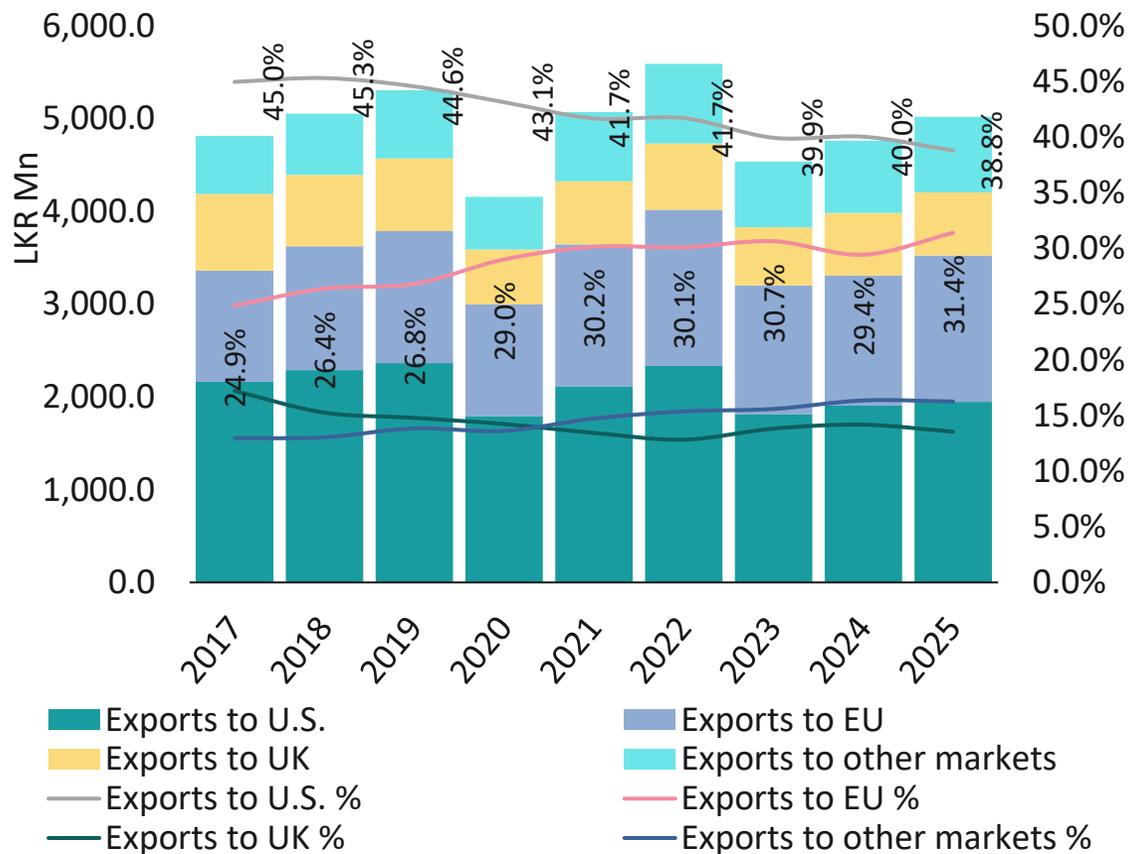


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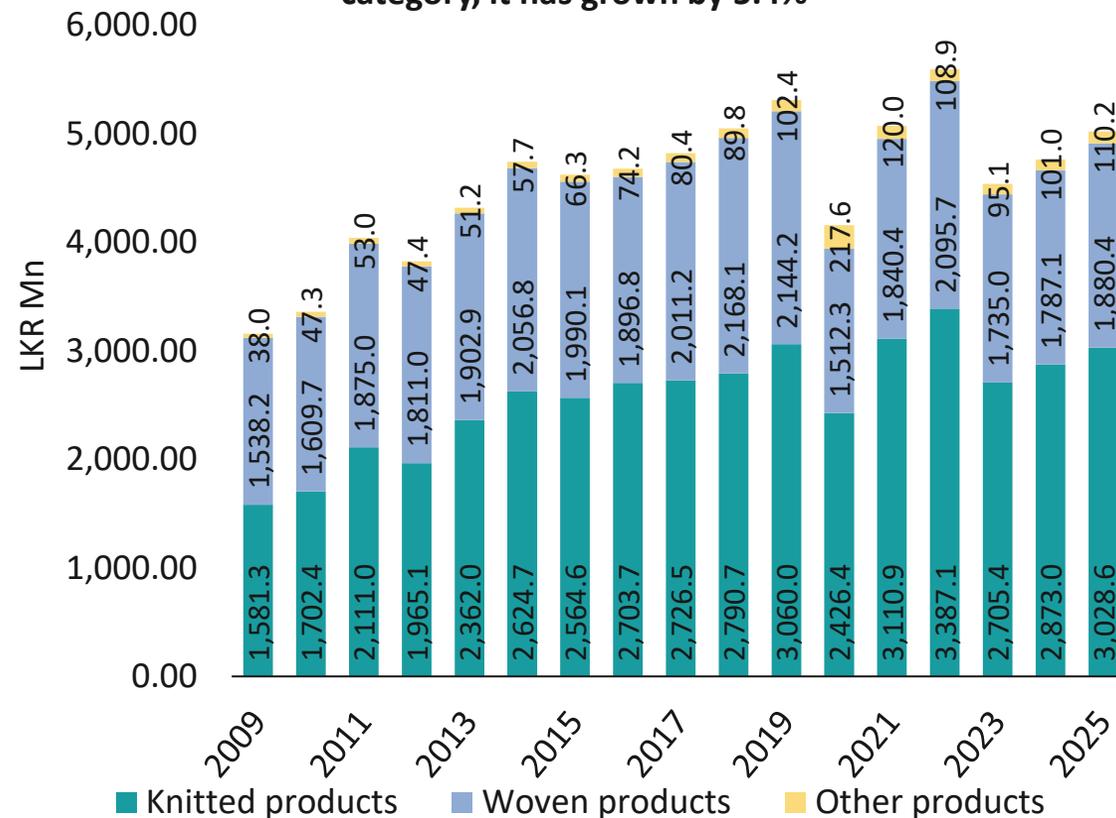
Sri Lanka's apparel and textile exports are highly concentrated, with the top three markets contributing c.84.0%, and the U.S. alone representing 39.0% in 2025. During 2025 apparel exports rose by 5.4%YoY.

Knitted fabrics dominate Sri Lanka's apparel exports, representing c.60.3% of the total, consistent with prevailing global apparel trends.

During 2025 apparel exports rose by 5.4%YoY...



...with knitted apparel and textiles as the primary product category, it has grown by 5.4%



## 2.1.2. SRI LANKA'S APPAREL SECTOR IN THE U.S. POST-TARIFF ERA

Since Apr-25, Trump has adjusted reciprocal tariffs multiple times; the tax rates are now a uniform 15.0% for 150 days for all countries, effective 21<sup>st</sup> Feb-26



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Following the "Liberation Day" tariff measures announced by U.S. President Donald Trump on 2<sup>nd</sup> Apr-25, tariff rates for several neighboring countries, including India and Sri Lanka, have been revised multiple times.

**WHAT'S IMPORTANT? With tariff rates now equalized, geography no longer provides a significant competitive advantage. Countries must now compete based on their unique strengths and capabilities.**

### Key important days in U.S. tariff announcements

**2<sup>nd</sup> Apr-25 (Liberation Day):** 10.0% baseline duty on nearly all U.S. imports.

**26.0%** reciprocal tariff on Indian goods and **44.0%** reciprocal tariff on Sri Lankan goods.

**9<sup>th</sup> Apr-25:** A 90-day pause takes effect for country-specific reciprocal tariffs (except China) to negotiate, postponing the higher 44%/26% rates.

**9<sup>th</sup> Jul-25:** The 90-day pause expires. Sri Lanka's tariff is adjusted down to 30.0% from the initial 44.0%.

**27<sup>th</sup> Aug-25: India Escalation:** Additional 25.0% punitive tariff on India takes effect, bringing total tariffs on many Indian goods to c.50.0%.

#### 7<sup>th</sup> Aug-25: Reciprocal Tariffs Implementation:

- **India impact:** Total U.S. tariff on Indian goods reaches roughly 25.0%.
- **Sri Lanka impact:** Final 20.0% reciprocal tariff takes effect.

**31<sup>st</sup> Jul-25: India Penalty:** US announces an additional 25.0% tariff on Indian goods due to Russian oil purchases, scheduled for August.

**2<sup>nd</sup> Feb-26 (Major Shift - India): US-India Trade Deal:** US reduces reciprocal tariff on India from 25.0% to 18.0% and removes the extra 25.0% penalty (total reduction from 50.0% to 18.0%).

**20<sup>th</sup> Feb-26:** Following a Supreme Court ruling (6-3) declaring sweeping IEEPA-based tariffs illegal, President Trump imposed a new 10.0% (later adjusted to 15.0%) global tariff on most imports, effective 24<sup>th</sup> Feb-26, for a 150-day period.

**21<sup>st</sup> Feb-26 (new tariff action):** the administration invoked Section 122 of the Trade Act of 1974, which permits a maximum 15.0% tariff for 150 days without congressional approval.

## 2.1.2. SRI LANKA'S APPAREL SECTOR IN THE U.S. POST-TARIFF ERA

During the post-tariff period, despite having higher tariff rates than other Asian peers, Sri Lanka was able to capture orders as apparel and textile exports to U.S. increased by 2.1%...

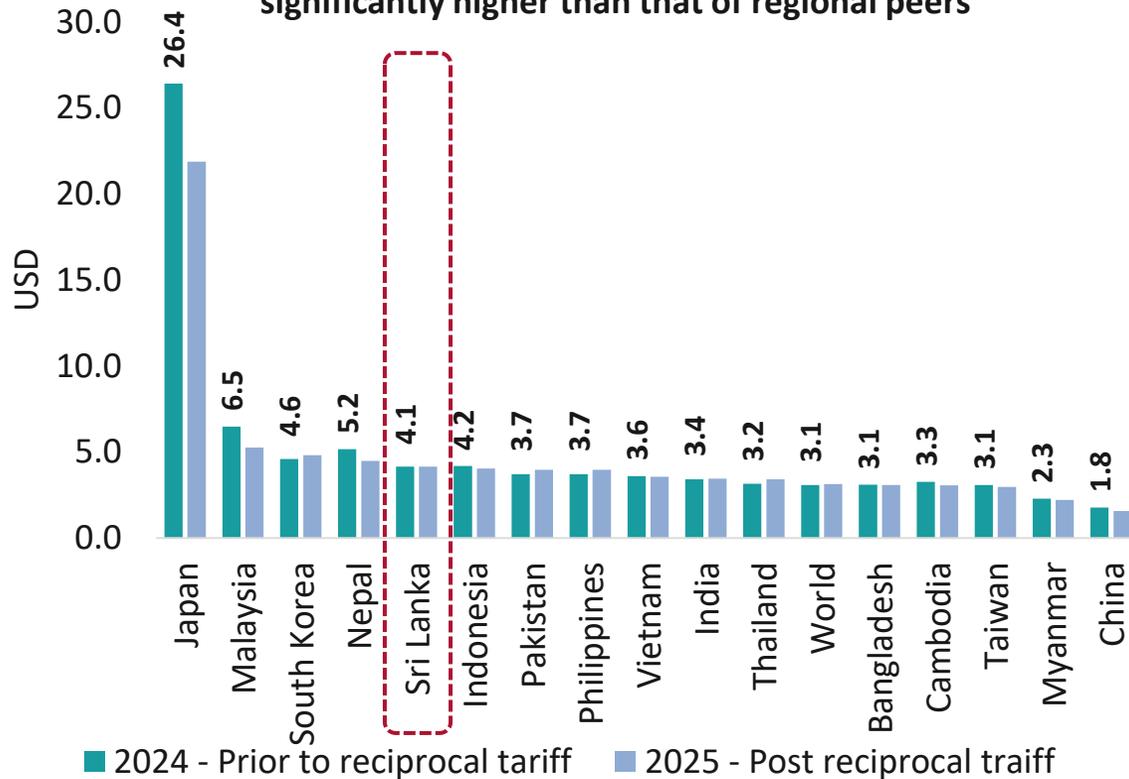


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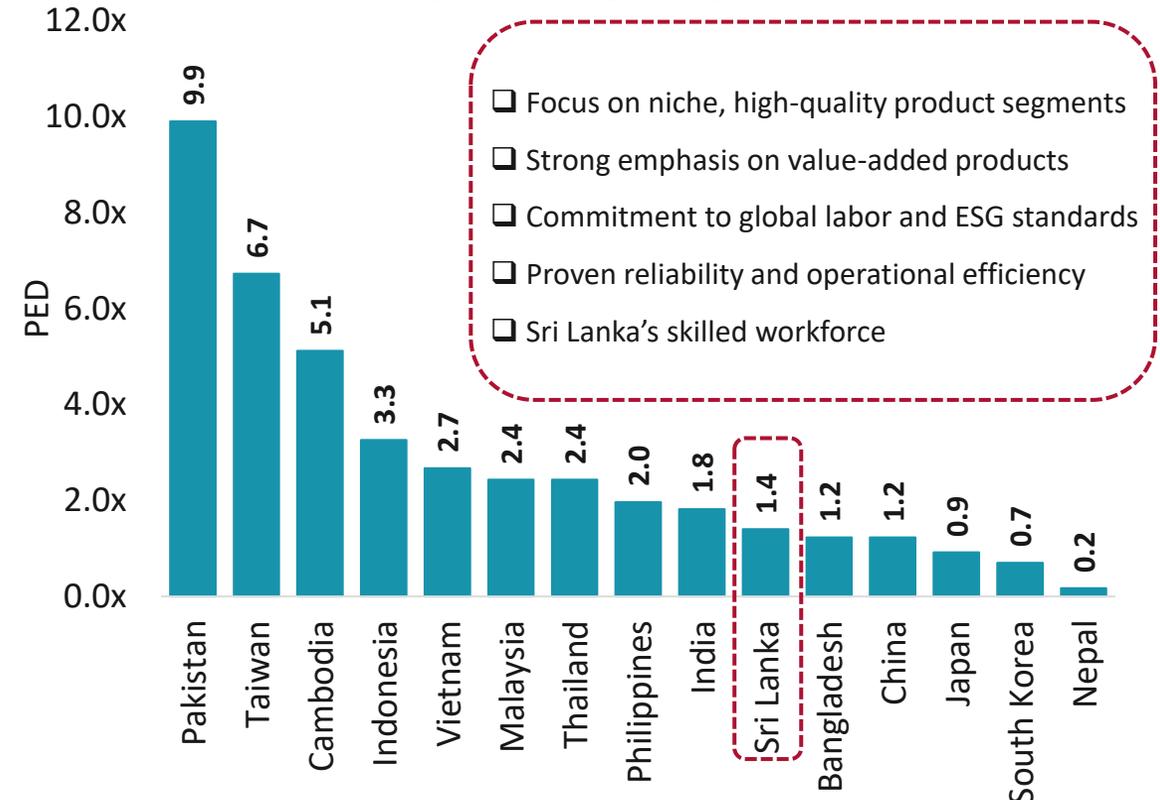
Following U.S. tariff changes, ASP rose in 2025 compared to 2024, while the majority of tariff impacts were absorbed by apparel and textile manufacturers...

...however, for Sri Lanka, the demand in the U.S. remains **relatively inelastic** compared to other regions resulting in apparel and textile exports to U.S. to grow by 2.1%, also supported by a shift of orders away from China.

Sri Lanka's average selling price for garments exported to the U.S., both pre- and post-tariff periods, remains significantly higher than that of regional peers



Sri Lanka's price elasticity of demand relatively inelastic compared to regional peers



## 2.1.2. SRI LANKA'S APPAREL SECTOR IN THE U.S. POST-TARIFF ERA

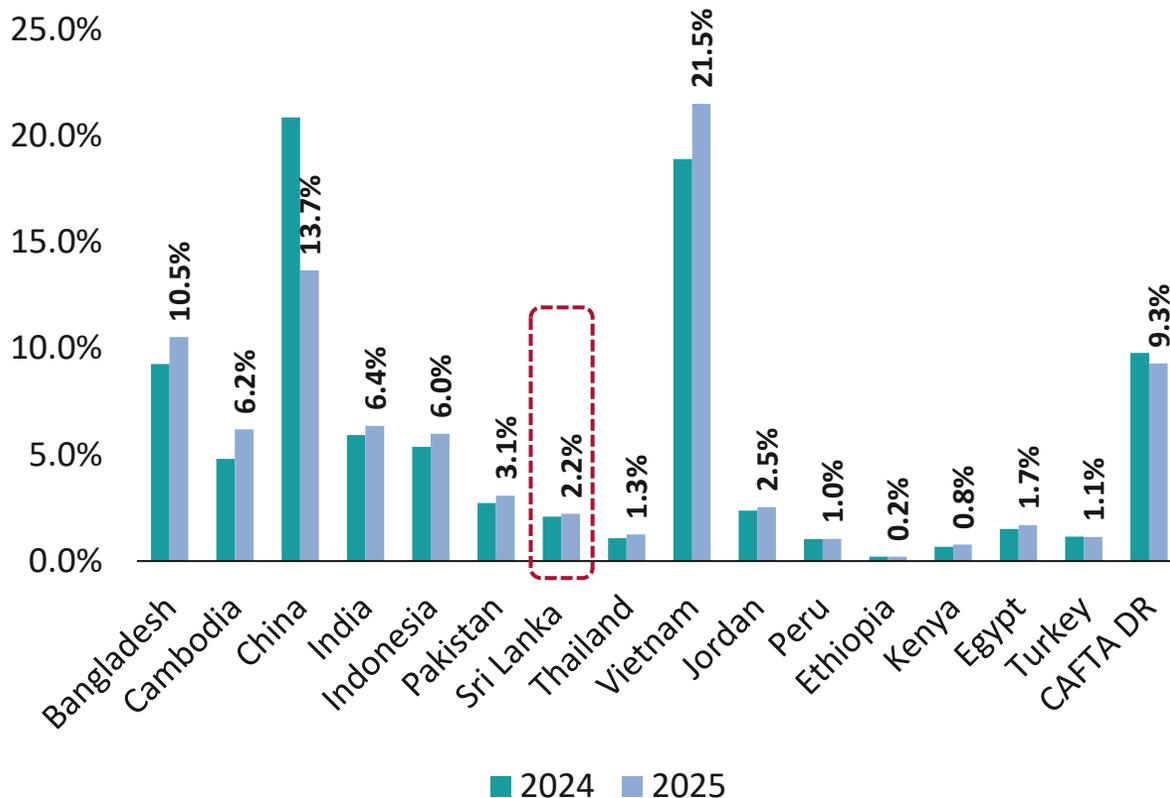
...which made Sri Lanka's share of the U.S. apparel import market rise by 0.1%, while China's share fell by 7.2% in 2025 (vs. 2024), indicating that other Asian countries are absorbing the redirected orders...



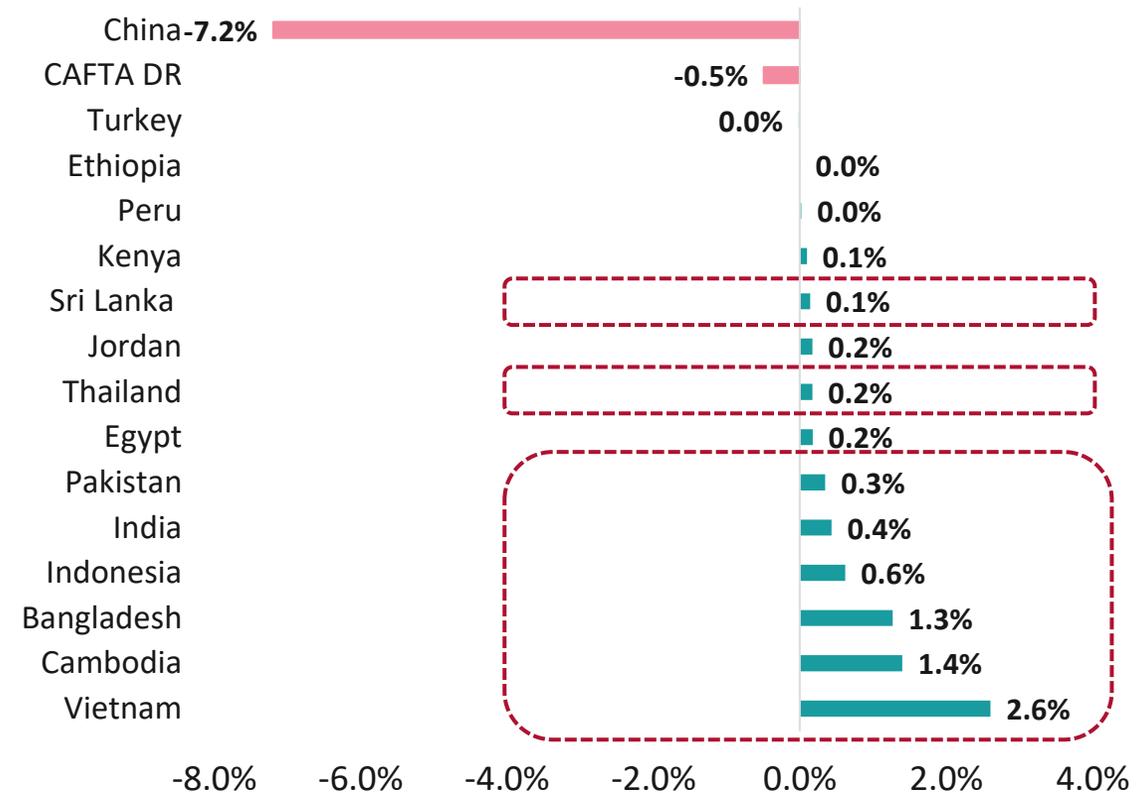
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Collectively, Asian manufacturers, including Bangladesh, Cambodia, India, Indonesia, Pakistan, Sri Lanka, Thailand, and Vietnam captured approximately 7.0% of the market share lost by China, with the remainder absorbed by African countries. Additionally, apparel imports to the U.S. has dropped by 1.7%YoY in 2025.

An increase in post-tariff apparel import market share has been observed among Asian peers...



...as Vietnam's share increased by 2.6%. Whilst Sri Lanka saw a 0.1% increase in share



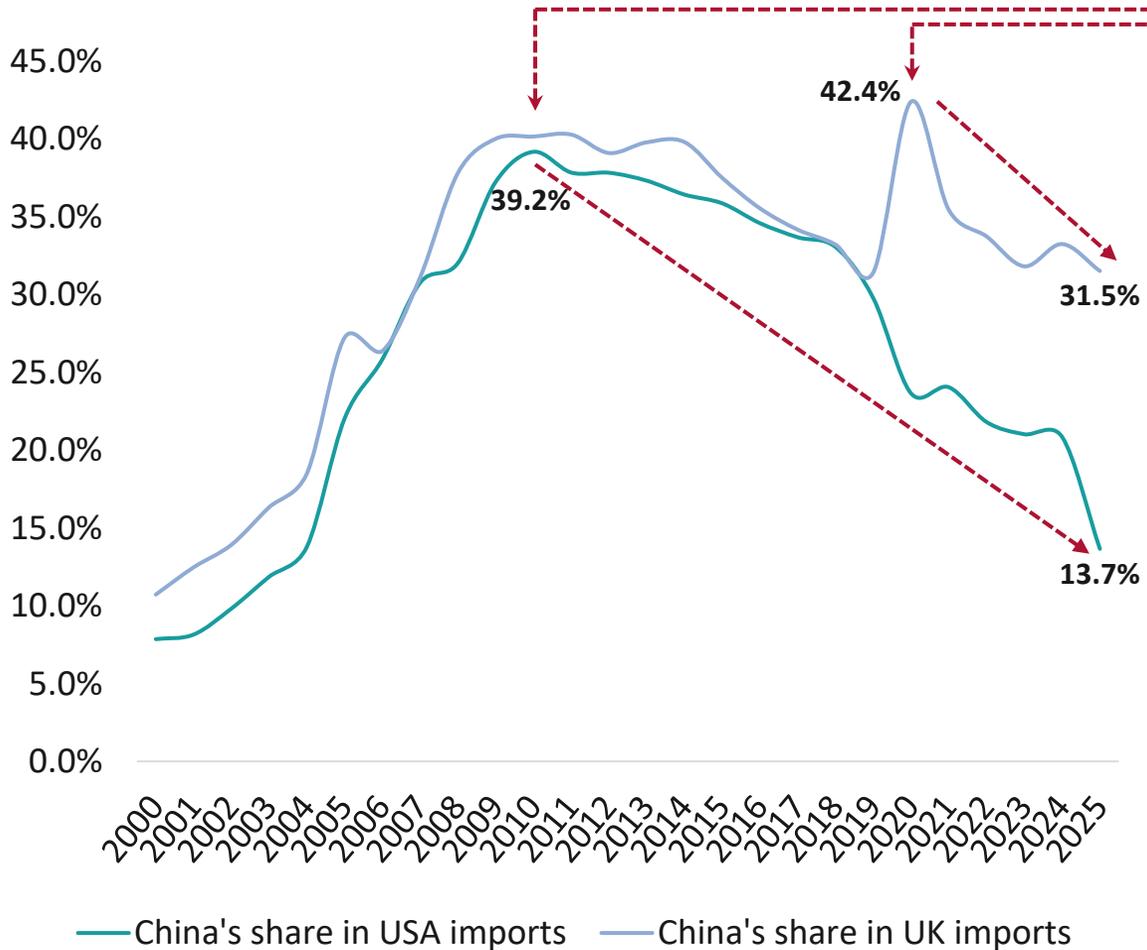
## 2.1.3. CHINA +1 STRATEGY

...as the China+1 strategy has caused China's U.S. apparel import share to drop by 25.3% at its peak, with similar shifts in UK, reflecting a strategic realignment of global supply chains



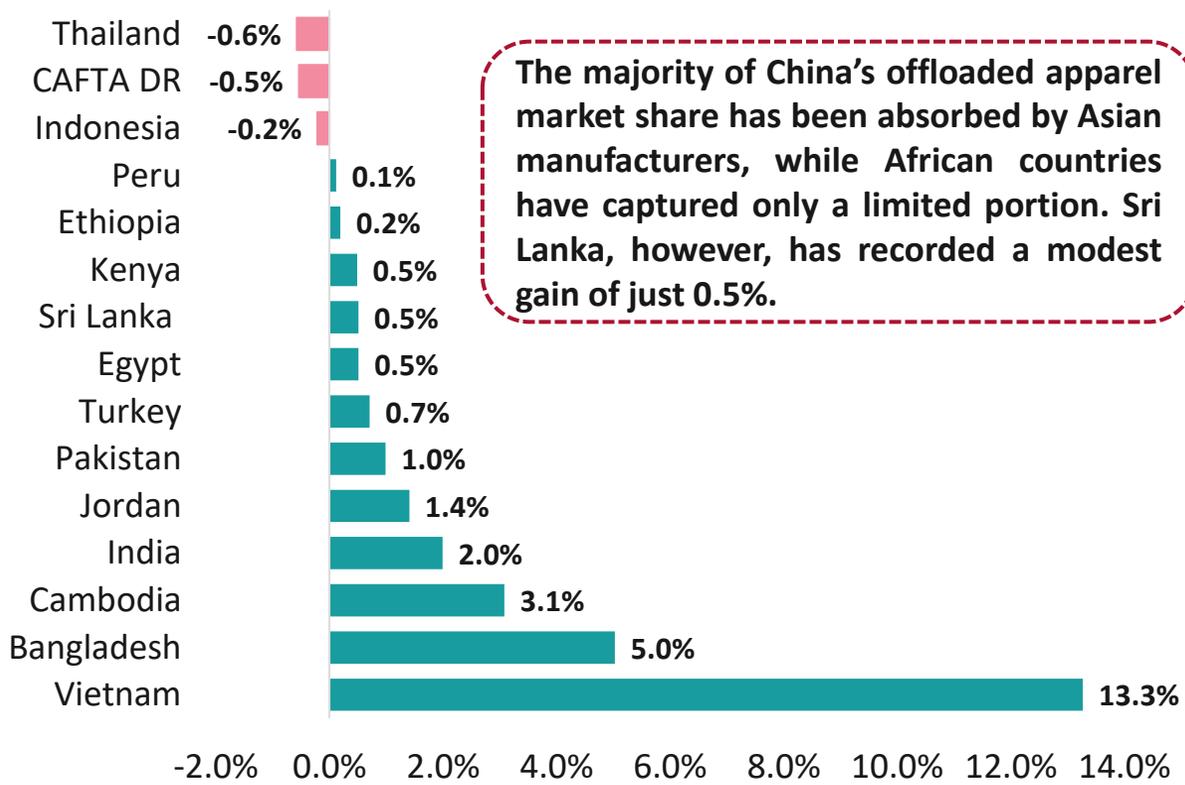
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China's share in U.S. and UK apparel imports reduced drastically over the years



From its peak market share of 39.2% in the U.S. in 2010, China has lost 25.3% in 2025. Similarly, in the U.K., China's market share declined from a peak of 42.5% in 2020 to 31.5% in 2025, partly driven by concerns surrounding the Xinjiang cotton industry and a shift by brands toward sustainability since the late 2010s.

Import market share change in the U.S. since 2010



The majority of China's offloaded apparel market share has been absorbed by Asian manufacturers, while African countries have captured only a limited portion. Sri Lanka, however, has recorded a modest gain of just 0.5%.

## 2.1.3. CHINA +1 STRATEGY



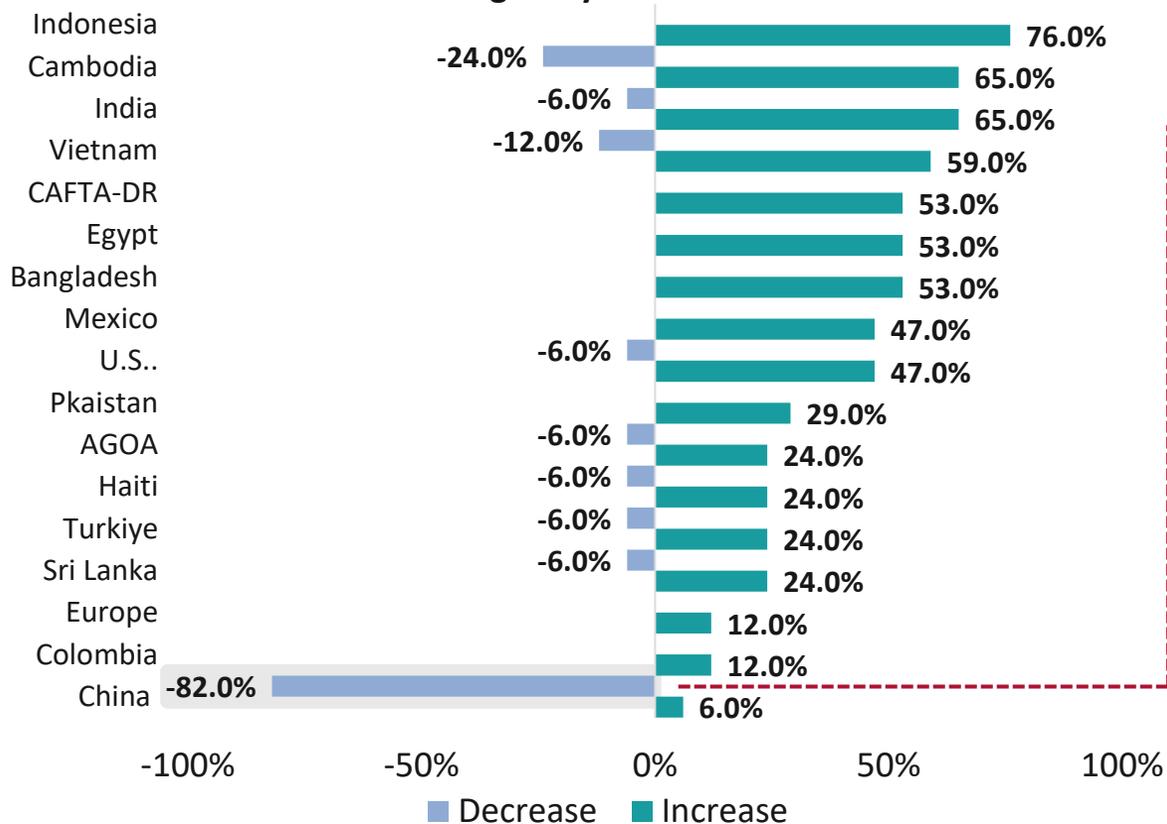
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**This trend is expected to continue through 2027E, with 80.0% of U.S. fashion companies planning to diversify sourcing away from China, according to the USFIA benchmarking study...**

U.S. fashion companies remain deeply concerned about the future of the U.S.-China relationship during Trump's second term and plan to further "reduce China exposure" to mitigate sourcing risks.

Many large U.S. fashion companies are reducing their apparel sourcing from China to low single-digit levels by 2026E, driven mainly by geopolitical risks, trade restrictions, and forced labor concerns. This shift is occurring despite China's continued economic competitiveness in areas such as vertical integration, cost efficiency, flexibility, and speed to market.

**80.0% of U.S. fashion companies planning to diversify sourcing away from China**



**80.0%**

Despite the announcement of a U.S. - China "trade deal" in May 2025, more than 80.0% of respondents plan to further reduce their apparel sourcing from China over the next two years through 2027E, hitting a new record high.

Furthermore, U.S. fashion companies are increasingly focusing on sourcing diversification and strengthening relationships with key vendors, aiming to build a more geographically diverse sourcing base and expand their vendor networks over the next two years.

Sourcing from more countries	8.8%
Source from more suppliers or vendors	41.2%
No change in the number of countries	17.6%
No change in the number of suppliers or vendors	11.8%
Source from fewer countries	5.9%
Source from fewer suppliers or vendors	17.6%

## 2.1.4. NEARSHORING

...whilst disruptions in global supply chains due to geo-political uncertainties, coupled with the need for faster lead times to reduce inventory holding costs, have driven a shift toward nearshoring



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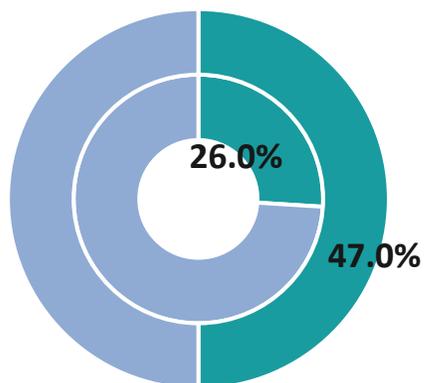
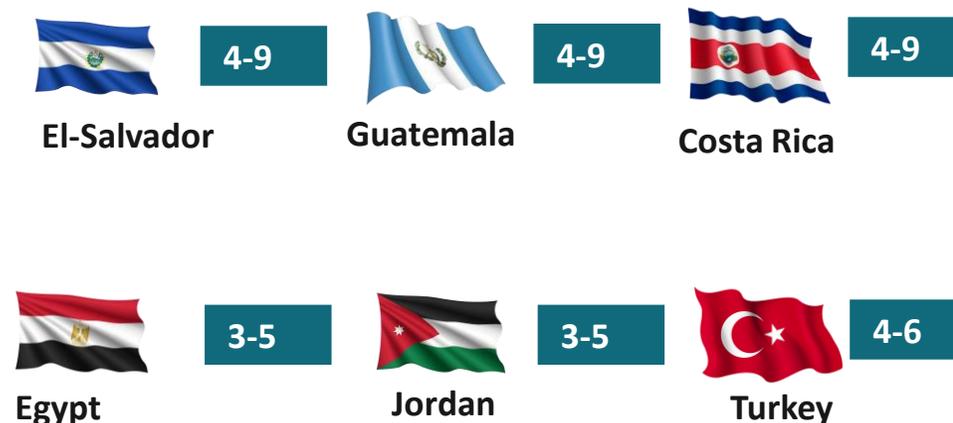
Notably, most U.S. fashion companies still consider expanding nearshoring from the **Western Hemisphere** as part of their overall sourcing diversification strategy. For example, similar to 2024 results, nearly ALL companies that plan to increase apparel sourcing from USMCA or CAFTA-DR members over 2027E also plan to increase sourcing from Asia.

With reducing lead times, a key focus for the sector, local manufacturers have expanded into markets like Jordan, Egypt, and Turkey to enhance their competitiveness.

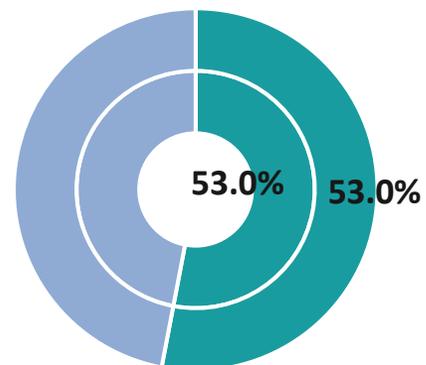
### Asia's three shortest lead time countries to U.S. (weeks)



### Lead time from selected countries in CAFTA-DR and Africa to U.S. (weeks)



About 47.0% of respondents plan to expand apparel sourcing from Mexico over 2027E, a notable increase from only 26.0% in the 2024 survey.



Similarly, about half of the respondents plan to expand apparel sourcing from CAFTA-DR members through 2027E, similar to 53.0% in 2024.

## 2.1.4. NEARSHORING

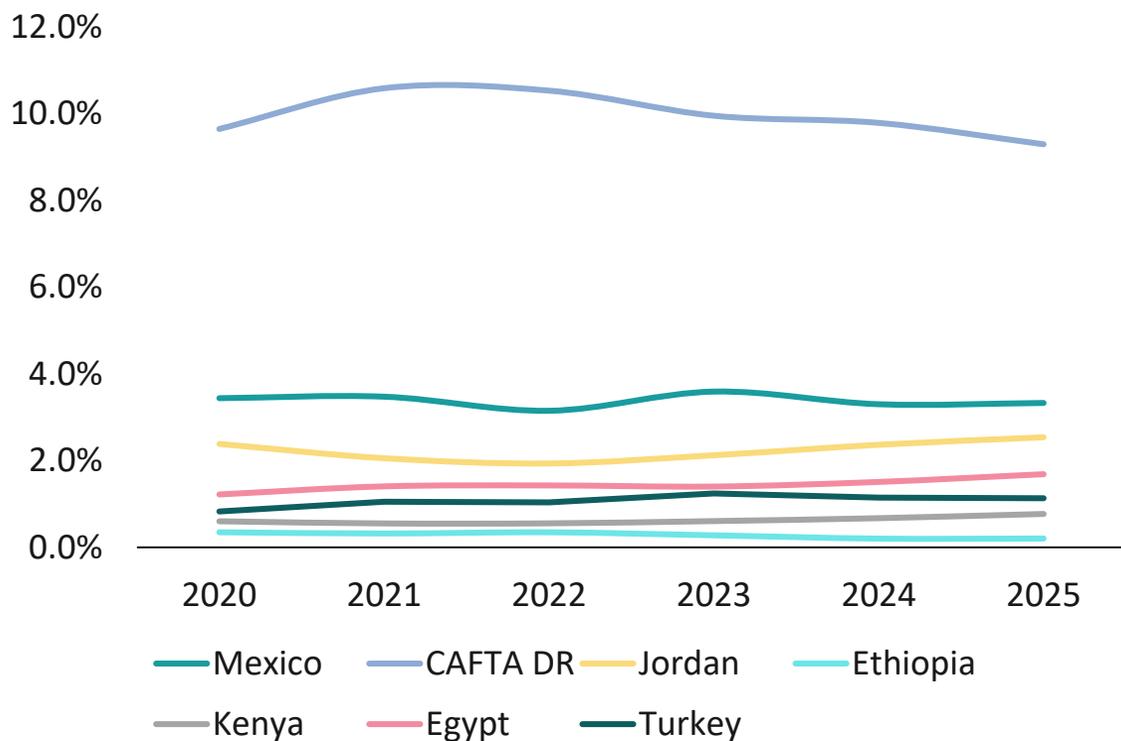
However, the share of imports from nearshoring countries has not increased significantly, primarily due to higher cost structures compared to Asia



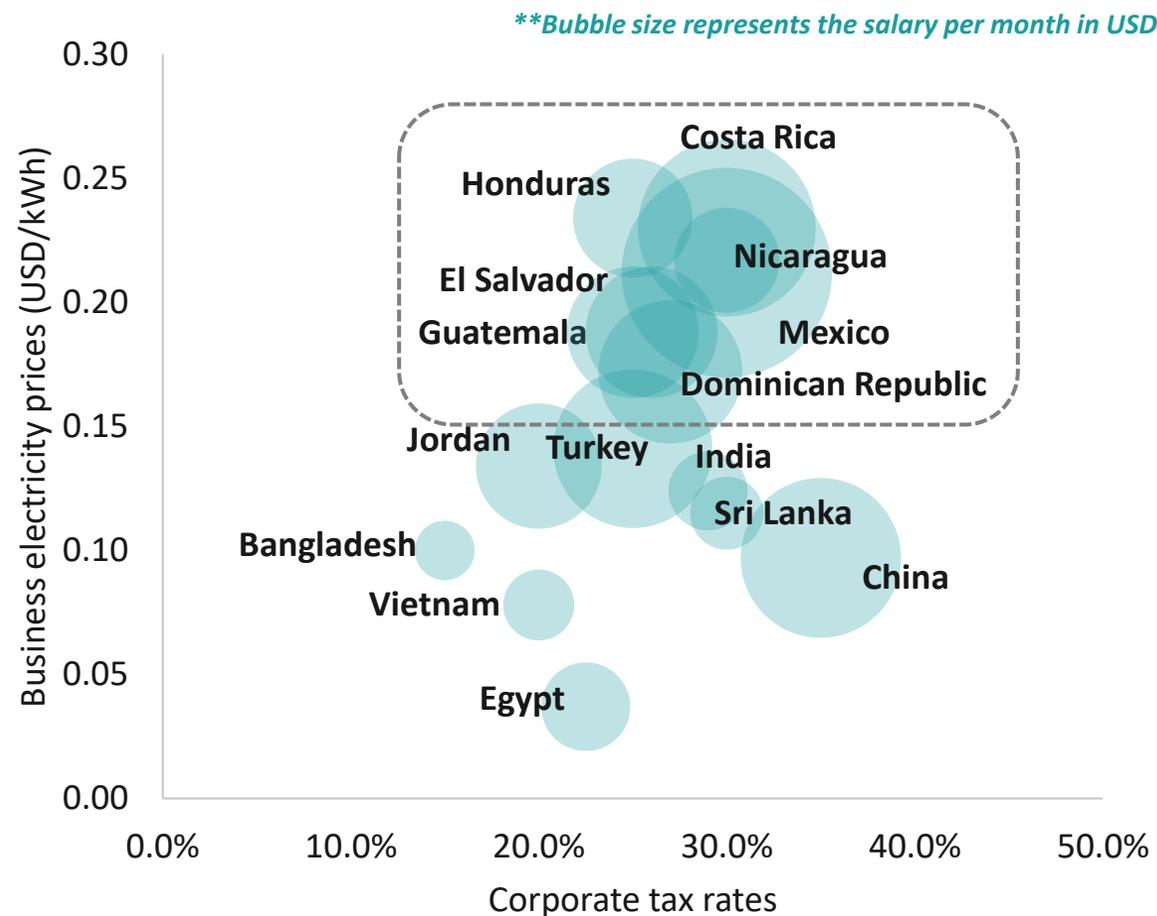
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U.S. apparel import shares from Mexico, CAFTA-DR, and Ethiopia declined by 0.1%, 0.4%, and 0.1%, respectively. Meanwhile, shares from Jordan, Kenya, Egypt, and Turkey recorded only modest increases of 0.2%, 0.2%, 0.5%, and 0.2%, respectively...

The U.S. apparel import share attributable to nearshoring countries has remained largely unchanged, with no material shift observed



...as the shift to these countries remains gradual, primarily due to their higher cost structures, as illustrated in the graph below.



## 2.1.5. AN OPPORTUNITY LIES AHEAD

# The UK's DCTS reforms, in force from 1<sup>st</sup> Jan-26, ease trade barriers through improved tariff concessions and rules of origin flexibility, supporting growth in apparel and textile export volumes in Sri Lanka



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Sri Lanka's garment industry is poised for a renewed export boost following major reforms to the UK's Developing Countries Trading Scheme (DCTS), effective 1<sup>st</sup> Jan-26. The updated rules grant tariff-free access to the UK market under significantly more flexible rules of origin. Sri Lankan apparel manufacturers can now source up to 100.0% of their raw materials globally while still qualifying for zero-tariff entry marking a clear shift from earlier requirements that enforced regional sourcing and multiple stages of production within Sri Lanka.

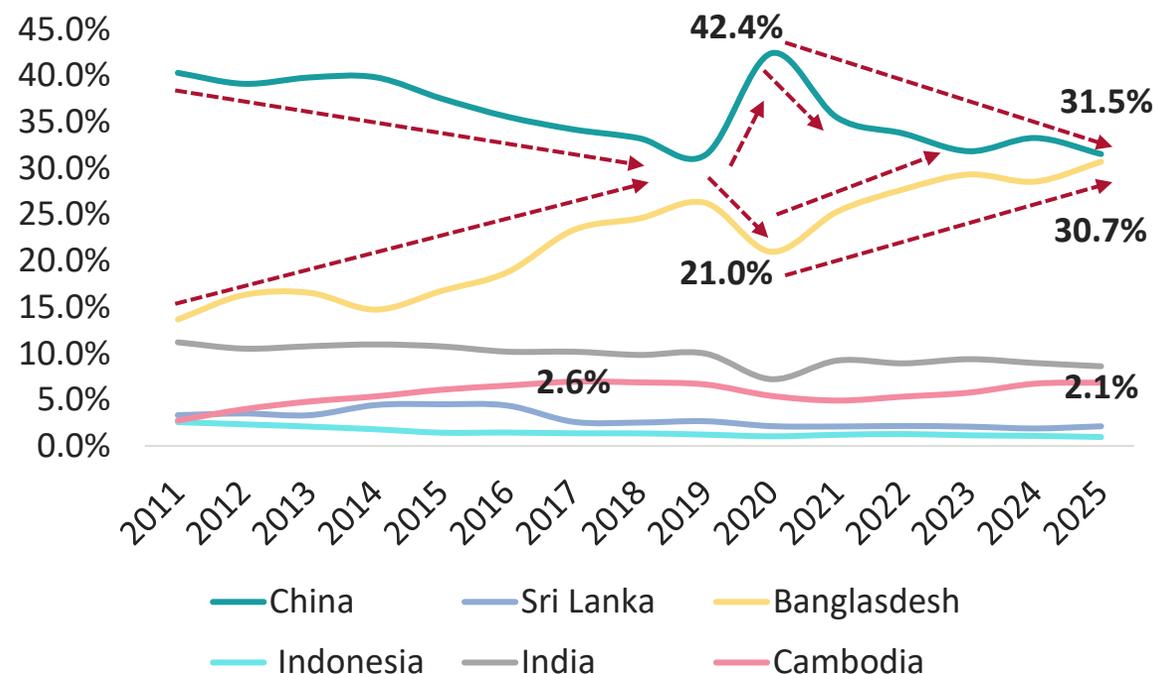
### Asian peers qualifying under new rule

Comprehensive preferences	Enhanced preferences	Standard preferences
Bangladesh	Philippines	India
Cambodia	Sri Lanka	Indonesia

### IMPACT: POSITIVE

Bangladesh benefits from the DCTS, with 99.8% of exports entering duty-free, compared to 92.0% under Enhanced Preferences and 65.0% under the Standard scheme. With rising tariffs in China and the adoption of the "China +1" sourcing strategy, some orders may shift to Bangladesh, particularly as brands like Marks & Spencer now focus on the mass market as we can see in the chart in the right-side. Going forward we expect this trend to continue. **However, with DCTS, Sri Lanka's current market share could recover from 2.1% to its 2017 level of 2.6% as prices become more competitive.**

### Bangladesh's share of the UK apparel imports increased to 30.7% in 2025 from 24.2% in 2020, gaining majority of the market share lost by China



## 2.1.6. COULD A RISE IN GDP PER CAPITA POSE A POTENTIAL THREAT?

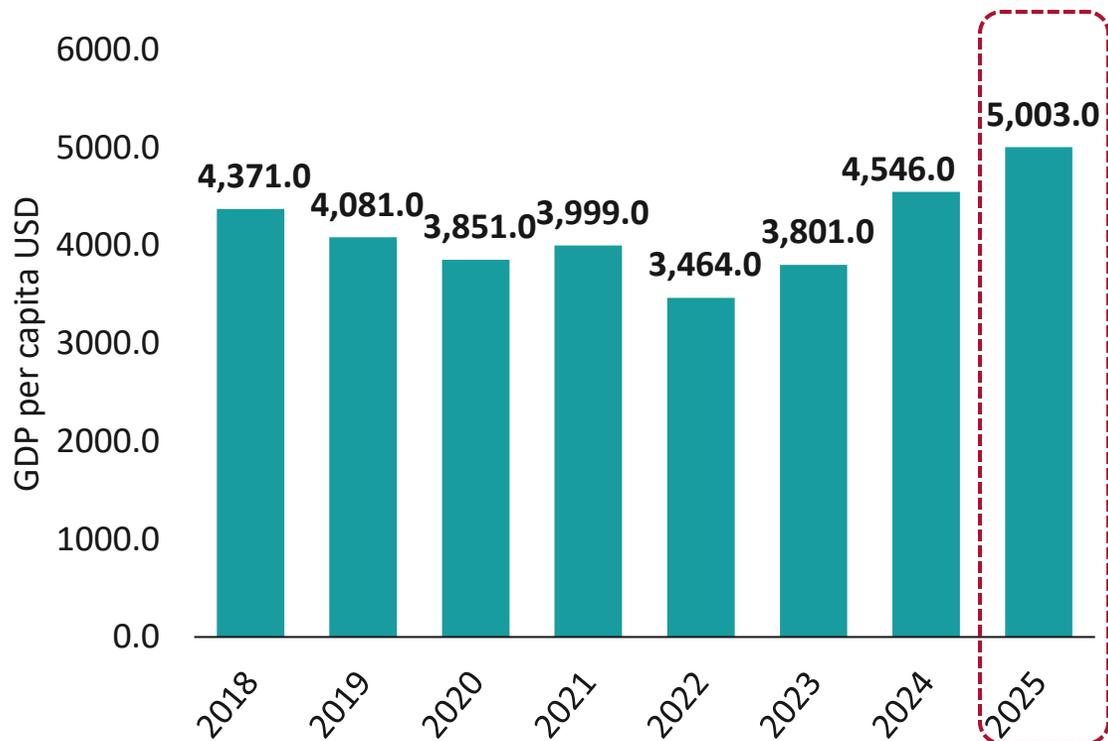
An increase in per capita GDP in 2025 could pose a significant threat to Sri Lanka's exports, to both the UK and EU if the country remains at the upper-middle-income level through 2027E for 3-consecutive years



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Sri Lanka's eligibility for GSP+ is contingent on maintaining a per capita GDP below the upper-middle-income threshold for three-consecutive years. While the country had approached this threshold in 2017-2018, economic contractions including a pre-Covid recession, the pandemic, and the subsequent economic crisis temporarily reduced per capita GDP below the limit. **According to provisional data, Sri Lanka's per capita GDP has once again crossed the upper-middle-income threshold in 2025. If this trend continues, the country risks losing GSP+ eligibility by 2027E, posing a threat to the current 44.9% total export value (in 2025), stemming from EU and UK collectively.** This potential loss is particularly critical, as it would be irreversible, highlighting that sustained economic growth, while positive in general, could paradoxically undermine preferential trade benefits in EU and UK both. **IMPACT: NO IMMEDIATE IMPACT**

2025 provisional data shows a rise in per capita GDP...



...as Sri Lanka enters to the World Bank's upper middle-income category

	LOW INCOME	LOWER-MIDDLE INCOME	UPPER-MIDDLE INCOME	HIGH INCOME
New for FY26E (USD)	<=1,1135	1,136 – 4,495	4,496 - 13,935	>13,935
Previous for FY25 (USD)	<=1,1145	1,1146 - 4,515	4,516 – 14,005	>14,005

## 2.1.7. AN OPPORTUNITY FOR SRI LANKA = CHINA +1 STRATEGY + DCTS?

Accordingly, FCR expects this momentum to continue, with Sri Lanka's import market share of U.S. likely rising around 2.7% from 2.2%, considering current price levels under current global sourcing trends



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**1. U.S. apparel consumption currently stands at 24,814.1Mn SME, compared to a 10-year average of 26,821.1Mn SME. At present, China accounts for 27.3% of the U.S. fabric requirement.**

Under a downside scenario where China's share declines to **24.0%** (a reduction of **3.3%**), the corresponding volume displacement is estimated as follows:

- From current consumption:  
 **$24,814.1 \times 3.3\% = 326.2\text{Mn SME}$**
- From 10-year average consumption:  
 **$26,821.1 \times 3.3\% = 885.1\text{Mn SME}$**

This represents the potential volume that would need to be absorbed by alternative sourcing markets.

### **2. Sri Lanka capacity and potential share capture**

Sri Lanka's peak historical apparel export volume reached **505.0Mn SME in 2022**. However, on a more conservative basis assuming a **2.0% reduction from 2021 levels**, capacity is estimated at approximately **432.7Mn SME**.

Based on current operating levels, this implies an **incremental capacity of approximately 15.9Mn SME** available to capture displaced demand.

### **3. Recent market dynamics (2025)**

In 2025, China experienced a volume decline of **2,527.2Mn SME**. Sri Lanka absorbed approximately **1.0%** of this displaced volume in 2025, equivalent to roughly **15.8Mn SME**, indicating alignment with its realistic absorption capacity.

#### **4. Conclusion**

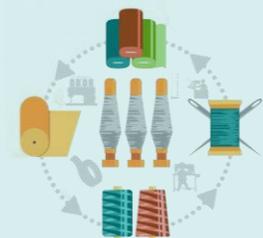
- Sri Lanka's potential to capture displaced Chinese apparel volume remains constrained by capacity. Based on current estimates:
  - **Likely share capture ranges between 0.6% and 0.9% of displaced volume and additional 135.6Mn USD from China +1 strategy.**
  - **Achieving above 3.0% import volume share capture appears highly unlikely in U.S.**
  - Overall, while there is a clear opportunity arising from a reduction in China's share, Sri Lanka's ability to benefit is limited and incremental rather than transformational.
- DCTS may cause additional 6.6Mn SME volume increase and impact would be minimal.

### 1. Sustainability: “GARMENTS WITHOUT GUILT”

Sustainability remains a defining competitive advantage. Sri Lanka has built a strong reputation for ethical manufacturing, environmental stewardship, and compliance transparency. Many factories operate with renewable energy integration, water recycling systems, and internationally recognized certifications, reinforcing the country’s image as a responsible sourcing destination. For several global brands, sourcing from Sri Lanka aligns with ESG commitments and supply chain traceability goals.

#### GREEN MANUFACTURING LEADERSHIP

- Home to the **world’s first eco-friendly Green Garment Factory**
- Factories reduce **energy consumption by c.50%** and **water usage by c.70%**
- Several facilities hold **LEED Platinum and Gold certifications**
- Adoption of **recycling, effluent treatment and waste management systems**



FABRIC AND THREAD



#### ETHICAL MANUFACTURING STANDARDS

- Sri Lanka was the **only outsourced apparel manufacturing country in Asia to ratify all 27 ILO conventions**
- Apparel sector operates under the **“Garments Without Guilt” code**
- Strict policies ensuring **no child labour, no forced labour, and no sweatshop practices**
- Strong reputation for **fair wages and worker welfare**



#### QUALITY & RELIABILITY

- Long-standing partnerships with **leading global apparel brands**
- Industry known for **high manufacturing standards and compliance**
- **“Made in Sri Lanka”** associated with **quality, reliability, and ethical production**



TEXTILE MILL

## 2.1.8. WHY SRI LANKA? THE COMPETITIVE EDGE 01: SUSTAINABILITY



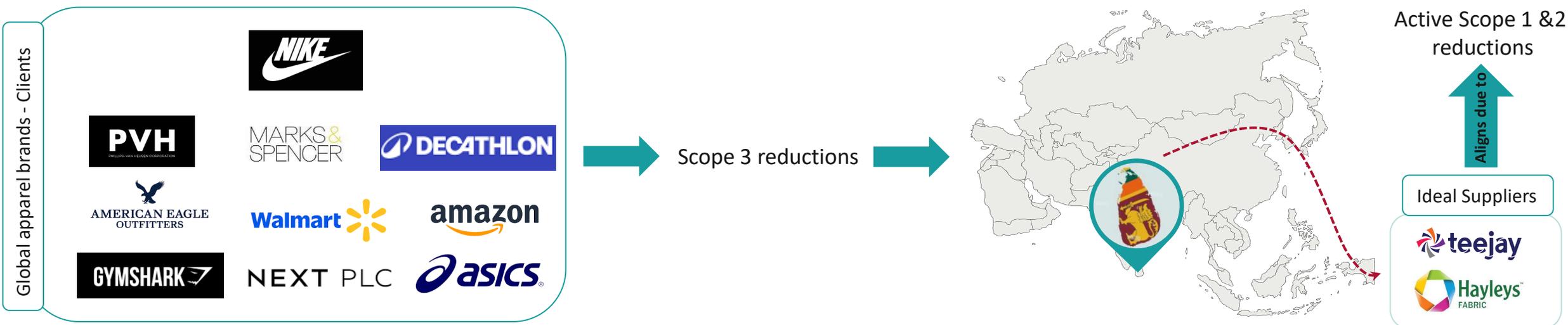
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### Global apparel brands are facing increasing pressure to reduce their carbon footprint as corporate emissions are assessed across Scope 1, Scope 2 and Scope 3 categories...

Global companies are increasingly measuring and reporting emissions across three categories under the **Greenhouse Gas Protocol**. This framework helps identify where emissions originate across a company's operations and value chain.

- 1 Scope 1 - Direct operational emissions**  
Emissions generated from sources owned or controlled by the company, including on-site fuel combustion and manufacturing processes.
- 2 Scope 2 – Indirect emissions from purchased energy**  
Emissions associated with electricity or other energy purchased and consumed in company operations.
- 3 Scope 3 – Value chain emissions**  
Indirect emissions occurring across the broader value chain, particularly from raw materials, manufacturing, and logistics.

Global apparel brands cannot meaningfully reduce their Scope 3 emissions unless upstream suppliers such as TJL and MGT reduce their Scope 1 and Scope 2 emissions.



## 2.1.8. WHY SRI LANKA? THE COMPETITIVE EDGE 01: SUSTAINABILITY



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...thereby key global brands remain committed to reducing their 'Scope 3' CO<sub>2</sub> reduction targets...

Sustainability has become a key factor of consideration in supplier sourcing as most retail and fashion giants emit a greater majority of their carbon emissions via the scope 3 bracket, and remain focused on reducing this which can only be done if suppliers proactively take measured to reduce their Scope 1 emissions.

	Brand / Company	Scope 3 Share of Total Emissions	Scope 3 Reduction Target	Target Year
	Nike	c.96–97%	30% reduction in Scope 3 emissions (purchased goods & services, transport & distribution)	2030
	PVH Corp. (Tommy Hilfiger / Calvin Klein)	c.95%	42% reduction in Scope 3 emissions (SBTi-aligned)	2030
	Marks & Spencer	c.94–95%	42% reduction in Scope 3 emissions	2030
	Decathlon	c.90–95%	42% absolute emissions reduction across Scopes 1–3	2030
	Amazon	c.75–80%	Net-zero carbon across value chain	2040
	Walmart	Majority Scope 3	Avoid 1 gigaton CO <sub>2</sub> e from global supply chain	2030
	American Eagle Outfitters	Majority Scope 3	Science-Based Target aligned Scope 3 reduction (c.30%)	2030
	ASICS	c.96%	63% reduction in Scope 3 emissions intensity	2030
	Next PLC	c.90%+	Net-zero across value chain	2040
	Gymshark	c.98%	Net-zero value chain	2040

## 2.1.8. WHY SRI LANKA? THE COMPETITIVE EDGE 01: SUSTAINABILITY

...which has made it such that these key brands require their suppliers to actively implement strategies that reduce their 'Scope 1' and 'Scope 2' emissions

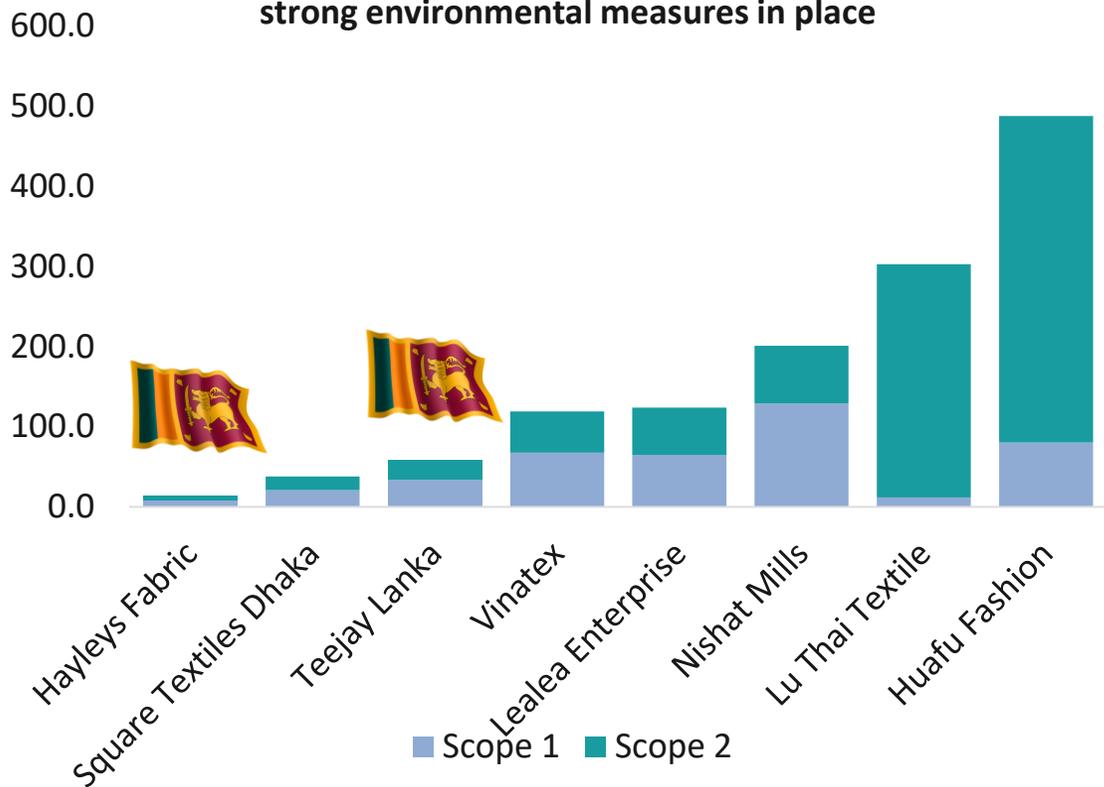


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Sri Lankan fabric manufacturers such as **MGT** and **TJL** demonstrate significantly lower carbon intensity compared to several regional peers, highlighting the country's advantage in sustainable textile manufacturing.

Furthermore, TJL and MGT have transparently reported all aspects of their sustainability disclosures and plans unlike majority of the South Asian peers, making the companies a perfect fit for global brands

TJL and MGT report low levels of Carbon intensity (MT of CO2 emissions per USD Mn of Revenue), highlighting strong environmental measures in place



\*\*Carbon intensity calculated based on Scope 1 and Scope 2 emissions relative to company revenue.



c.90%+ of emissions arise from Scope 3 (supply chain)

### Supplier Decarbonisation Requirements

- Renewable energy adoption in manufacturing
- Reduction in Scope 1 & Scope 2 emissions
- Energy efficiency improvements
- Water recycling and waste reduction
- Transparent ESG and carbon reporting



	Local suppliers	Peers
Renewable energy adoption in manufacturing	✓	Moderate
Reduction in Scope 1 & Scope 2 emissions	✓	Moderate
Energy efficiency improvements	✓	Moderate
Water recycling and waste reduction	✓	Moderate
Transparent ESG and carbon reporting	✓	✗

## 2.1.8. WHY SRI LANKA? THE COMPETITIVE EDGE 01: SUSTAINABILITY

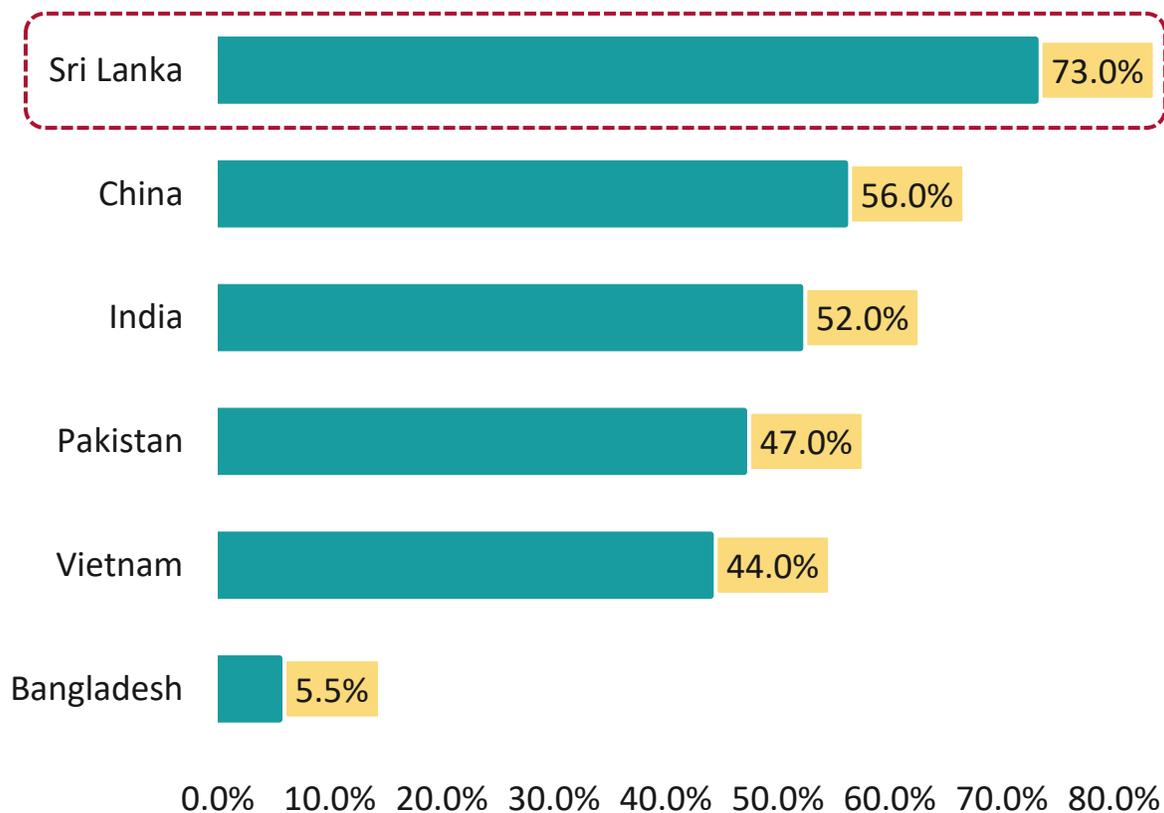
### Sri Lanka's sustainability forward feature aligns with both parties, becoming an ideal sourcing destination for these key global brands...



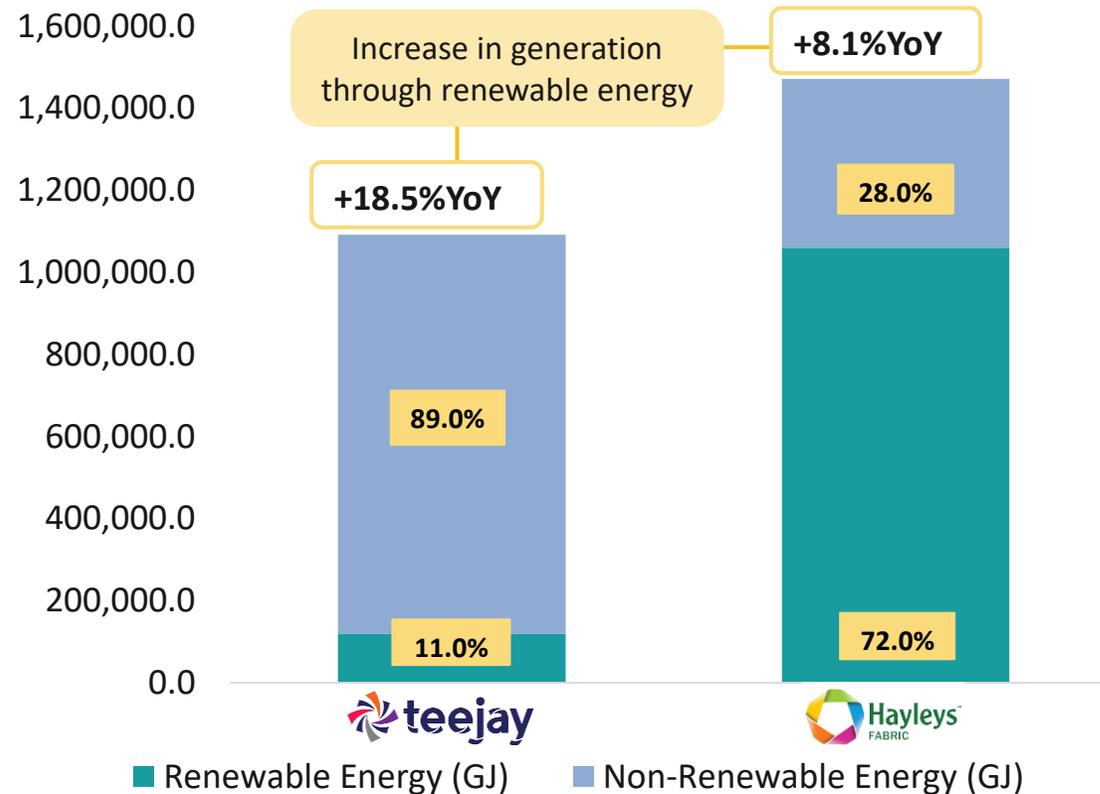
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While global apparel brands source from multiple destinations such as China, Vietnam, Bangladesh and India, Sri Lanka's strong sustainability credentials increasingly position it as a preferred sourcing destination.

Sri Lanka is No.01 in renewable energy generation compared to major South Asian apparel export regions



Energy generation mix in FY25



TJL has begun increasing its integration of renewable energy and has invested USD 2.6Mn in attempt to switch from fuel to biomass, whilst a 7MW solar plant is under construction.

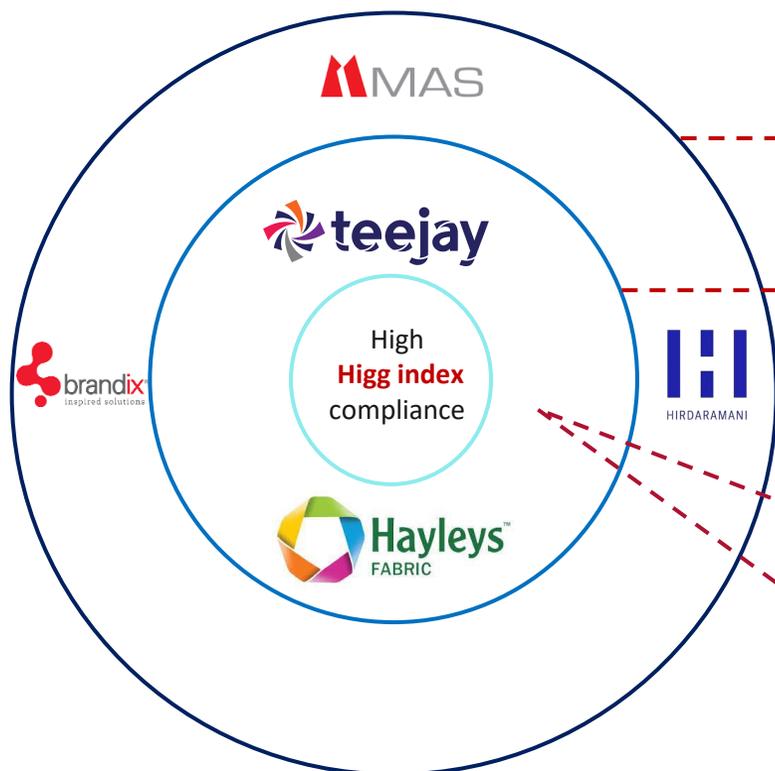
## 2.1.8. WHY SRI LANKA? THE COMPETITIVE EDGE 01: SUSTAINABILITY

...whereas the recognition received for both TJL and MGT alongside key unlisted apparel exporters in Sri Lanka via high 'HIGG Index' scores increase appeal



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High HIGG Index adoption across energy, emissions, water, waste, and chemical management—spanning both fabric (TJL, MGT) and apparel exporters (MAS, Brandix, Hirdaramani)—highlights a fully integrated, sustainable apparel ecosystem in Sri Lanka.



Global apparel exporters (MAS, Brandix, Hirdaramani) integrate HIGG Index across manufacturing and sourcing decisions

Fabric manufacturers (TJL, Hayleys Fabric) achieve high HIGG FEM scores, reinforcing sustainable input sourcing

**teejay**

**HIGG FEM Score in 2025: 99.0%**

- Strong performance across **energy efficiency, emissions control, and water management**
- High adoption of **renewable energy and sustainable raw materials**
- Positioned among **top-tier global fabric mills on ESG benchmarks**

**Hayleys FABRIC**

**HIGG FEM Adoption: c.75–92% supplier coverage**

- Extensive **HIGG implementation across Tier 1 supplier base**
- Focus on **traceability, waste reduction, and resource optimization**
- Strengthens **end-to-end sustainability compliance within supply chain**

End-to-end HIGG Index adoption across Sri Lanka's apparel value chain.

## 2.1.8. WHY SRI LANKA? THE COMPETITIVE EDGE 01: SUSTAINABILITY

### Additionally, supportive labour policies reframe Sri Lanka’s appeal by adding another dimension of attractiveness



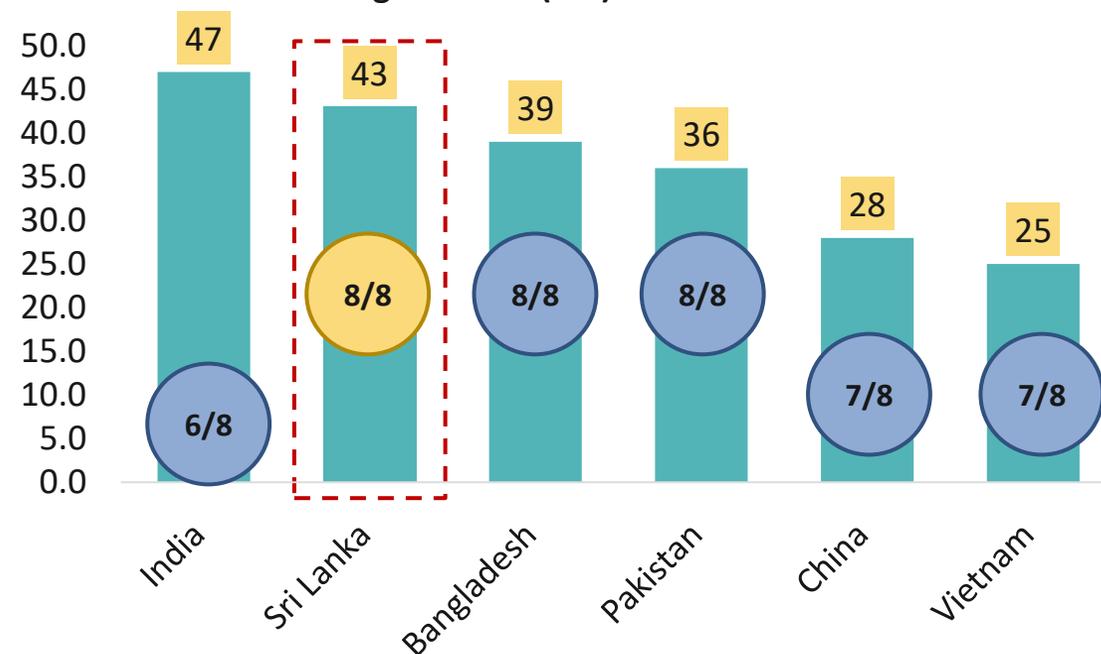
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Sri Lanka’s apparel sector benefits from a **strong labour regulatory framework and internationally recognized worker protection standards**, strengthening its reputation as a responsible sourcing destination. The country is the **only outsourced apparel manufacturing hub in Asia to have ratified 43 International Labour Organization (ILO) conventions**, reinforcing commitments to fair wages, safe working environments, and ethical labour practices.

These supportive labour policies enhance Sri Lanka’s attractiveness to global apparel brands that increasingly prioritizes **ethical sourcing, labour compliance, and supply chain transparency**. Compared with several competing sourcing destinations, Sri Lanka demonstrates **stronger worker welfare standards and industrial stability**, positioning the country as a preferred partner for brands seeking responsible and sustainable manufacturing.

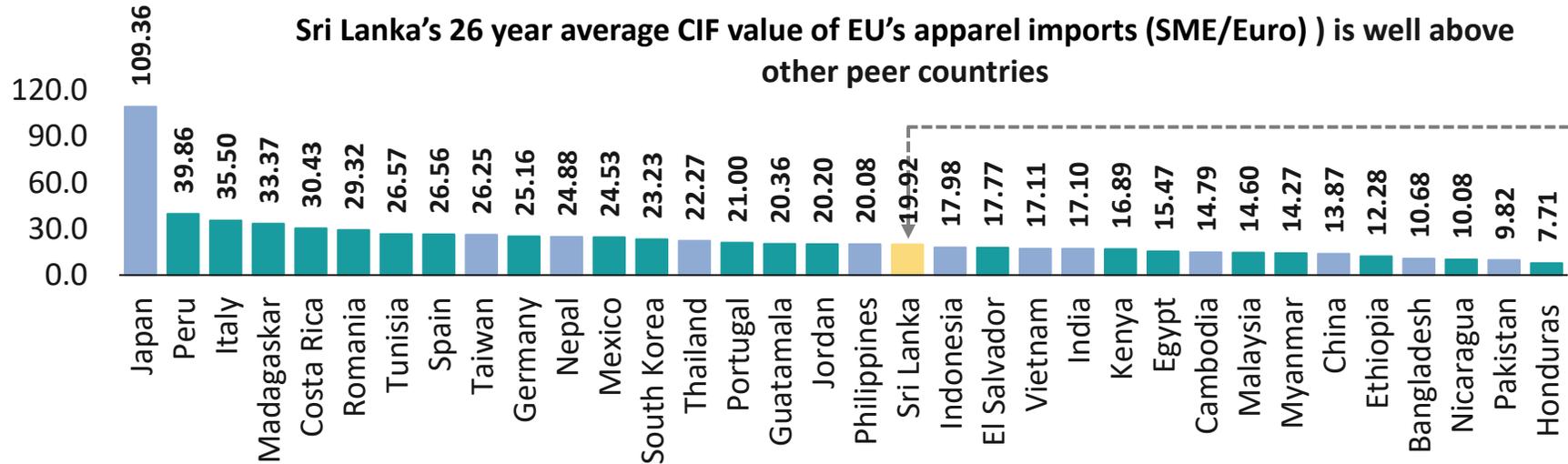
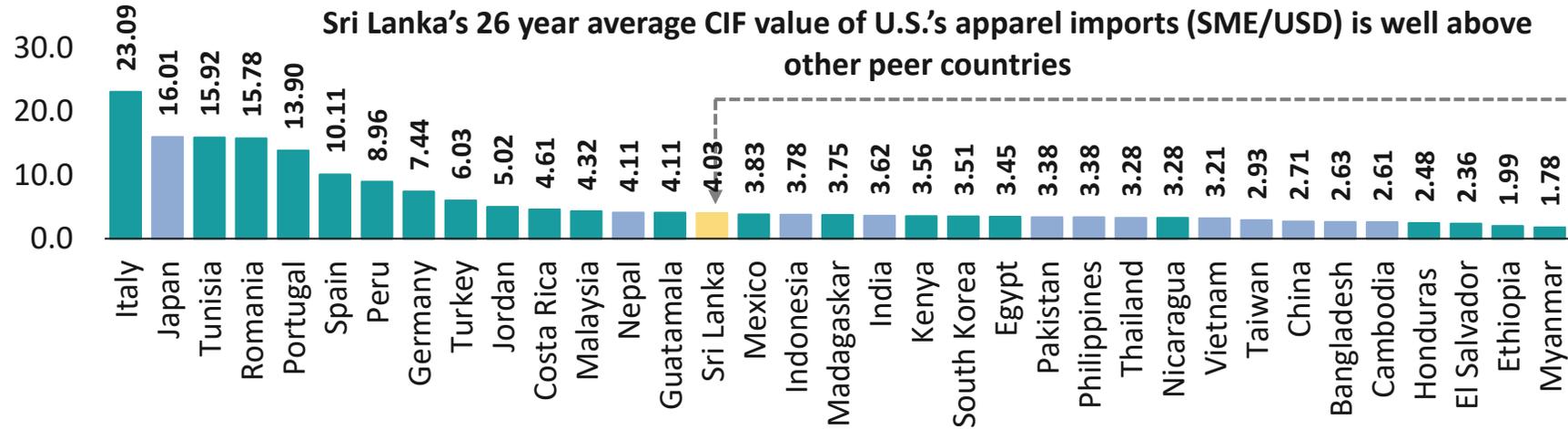
Country	Compliance Reputation	Labour Law Enforcement	Worker Welfare Standards	Skilled Workforce
Bangladesh	✗	✓	✗	✓
Vietnam	✓	✓	✗	✓
Pakistan	✗	✗	✗	✓
India	✓	✓	✗	✓
China	✓	✓	✗	✓
<b>Sri Lanka</b>	✓	✓	✓	✓

Sri Lanka stands out among its peers as the leading country among those with **all 8 fundamental International Labour Organization (ILO) conventions ratified**





## 2. High quality products and specialization in value-added apparel: “A COUNTRY KNOWN FOR QUALITY”



Regional peers (light blue) Other peers (teal)

Over the past 26 years, Sri Lanka's average selling price has remained consistently higher than its regional peers, reflecting the influence of several structural and market-driven factors.

Value-added products due to complexity

Range of products in which Sri Lanka specializes

Higher production cost

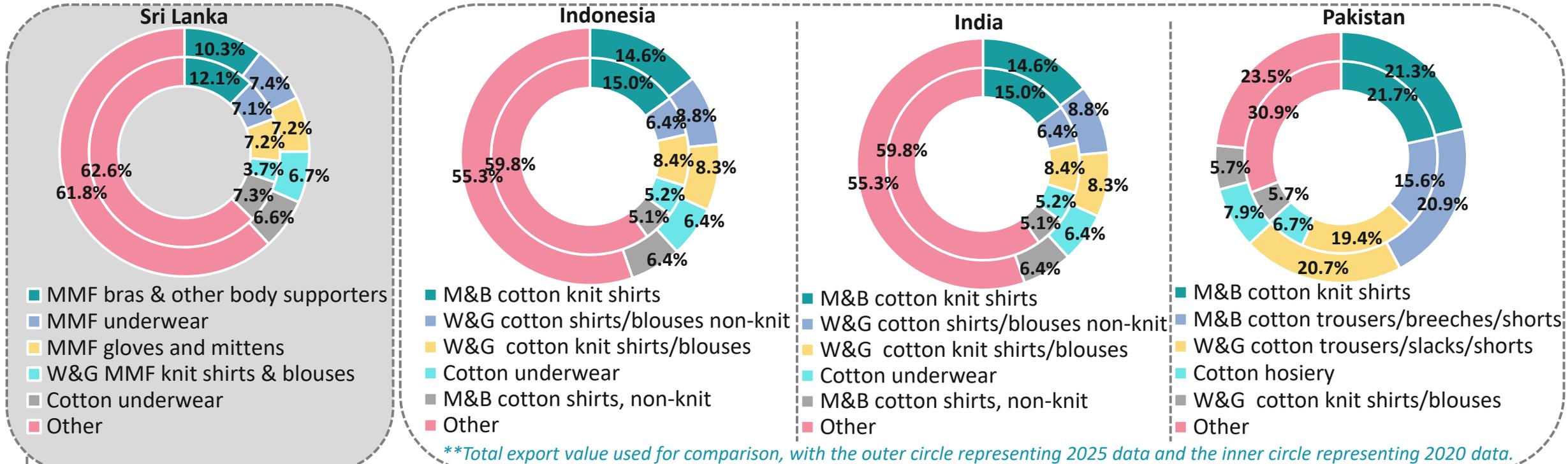
## 2.1.8. WHY SRI LANKA? THE COMPETITIVE EDGE 02: QUALITY + COST = HIGHER ASP

Sri Lanka demonstrates a strong specialization in intimates, activewear, and swimwear, as reflected in the product mix of its apparel exports to the U.S., with a balanced split between cotton and MMF...

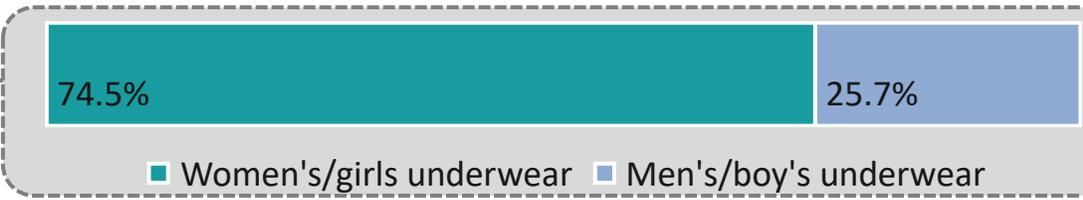


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Sri Lanka's closest competitors, based on the 26-year average CIF value of U.S. apparel imports (SME/USD), are identified as Indonesia, India, and Pakistan. While these countries specialize in different product categories, **Sri Lanka focuses primarily on intimates, activewear, and swimwear, which are higher-value segments due to their complexity.** In contrast, large-scale producers such as China, Bangladesh, and Vietnam operate with greater capacity, resulting in lower average selling prices driven by economies of scale. Specially, Bangladesh caters to the mass market.



\*\*Total export value used for comparison, with the outer circle representing 2025 data and the inner circle representing 2020 data.



Approximately 74.5% of total MMF and cotton undergarment exports comprise women's and girls' segments, which are technically intensive and require advanced manufacturing capabilities, product engineering, and continuous innovation.

## 2.1.8. WHY SRI LANKA? THE COMPETITIVE EDGE 02: QUALITY + COST = HIGHER ASP

...as higher technical complexity and capability requirements in womenswear production drive greater value addition, leading to higher ASPs catering to large and small size batches with 1,000-5,000 pieces...

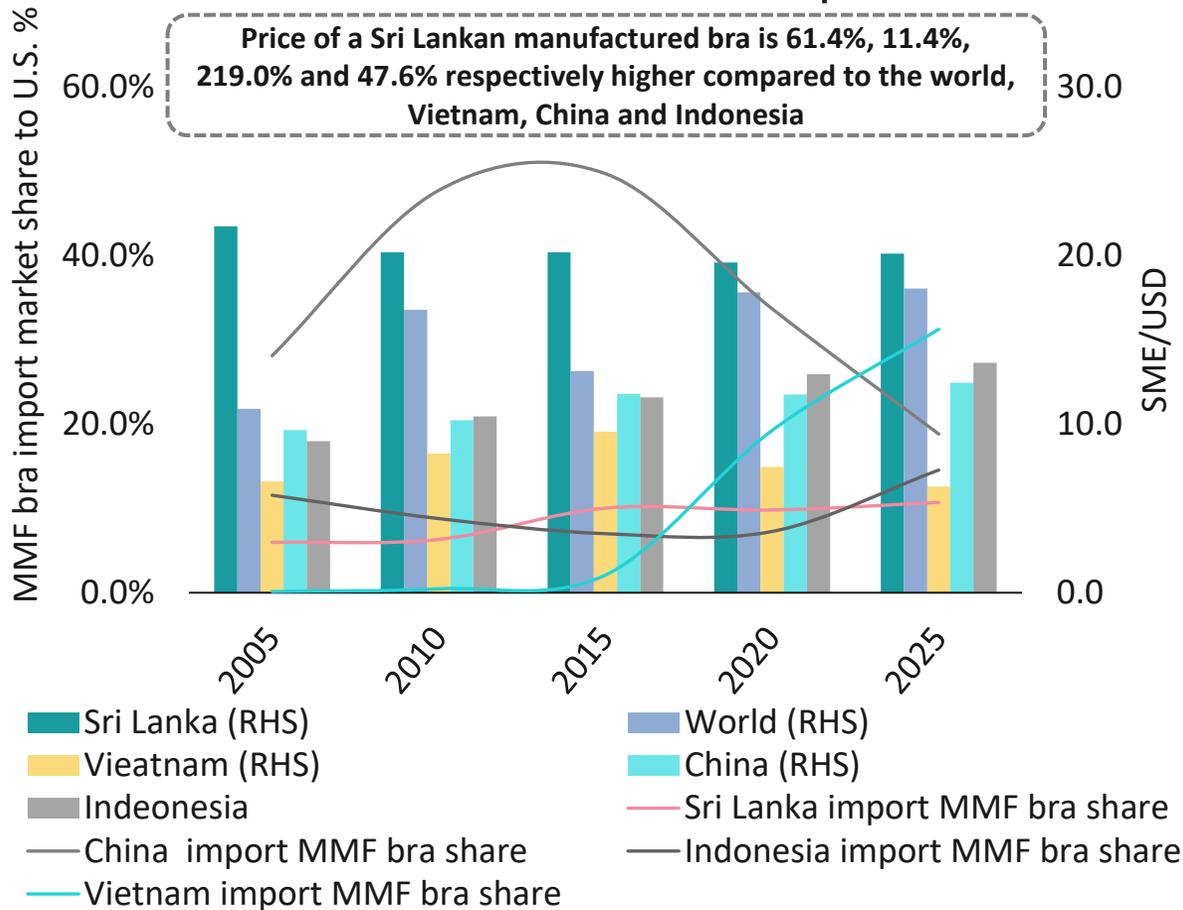


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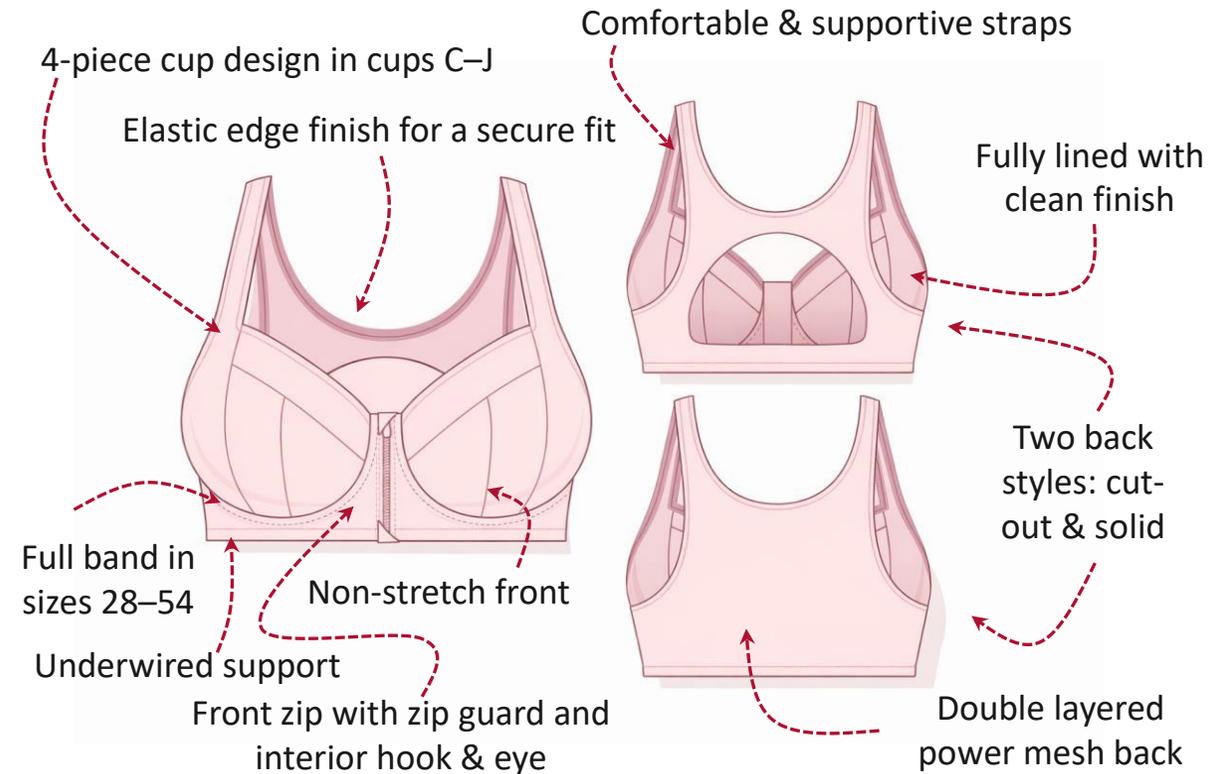
Sri Lanka accounted for **10.7% of total U.S. bra imports in 2025**, making it the **fourth-largest supplier globally**. However, bras produced in Sri Lanka are priced higher compared to those from other countries...

**MMF bra market share and unit price**

Price of a Sri Lankan manufactured bra is 61.4%, 11.4%, 219.0% and 47.6% respectively higher compared to the world, Vietnam, China and Indonesia



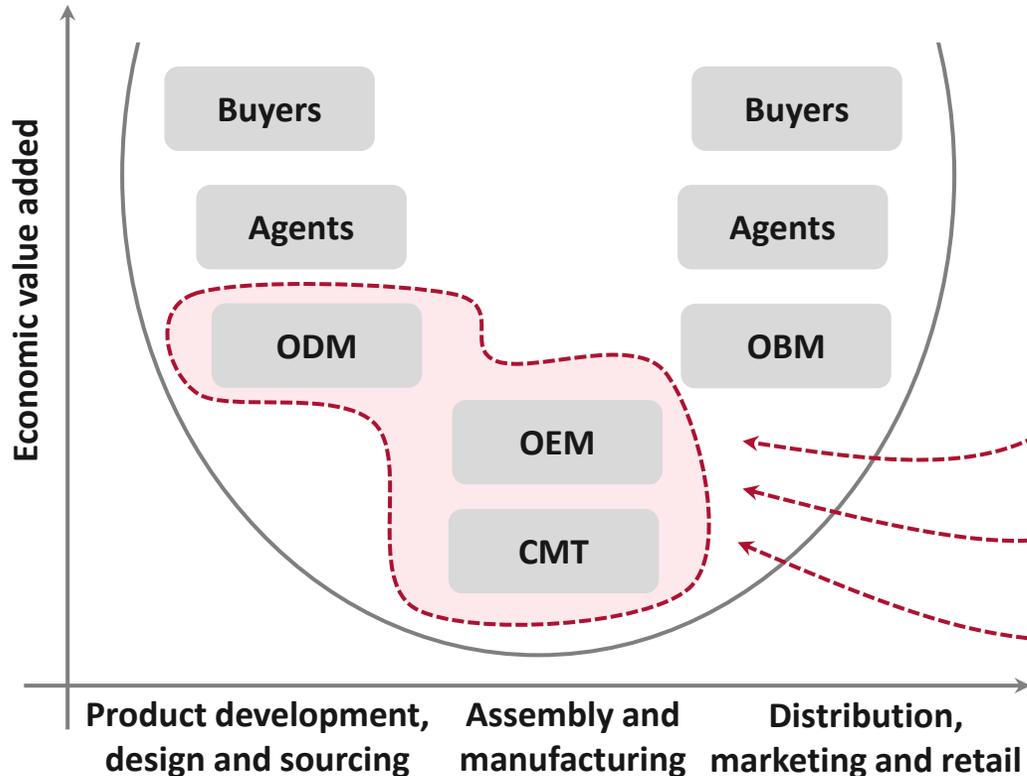
...due to higher value addition and innovation. A bra typically requires **20–40+ individual components**; such as cups, straps, wings, gore, elastic bands, closures, and underwire; compared to a T-shirt, whereas a **T-shirt generally consists of only 4–6 main pieces**, including the front, back, sleeves. This value addition justifies a higher price per garment.



...supported by the innovations of Sri Lankan apparel manufacturers...

Sri Lanka's top three apparel manufacturers are leveraging innovation to stay ahead of industry trends, enabling them to produce **batches within 21 days**.

According to the garment sector's "smiling curve," Sri Lanka's leading apparel manufacturers possess capabilities across Original Design Manufacturing (ODM), Original Equipment Manufacturing (OEM), and Cut-Make-Trim (CMT), thereby generating higher value for their products.



Brandix has enhanced its product development process through digital tools, including 3D sampling and the use of early-stage AI technologies, which support sketching and sample development while significantly reducing turnaround times. The company has also initiated a phased implementation of front-end Robotic Process Automation (RPA).



Product innovations are enhancing resource efficiency through the use of climate-positive raw materials and waste reduction, while also focusing on durability and closed-loop end-of-life solutions. These advancements enable large-scale production using fewer resources and improve recyclability, delivering significant sustainability benefits. Additionally, approximately 50.0% of MAS's revenue is generated from sustainable products. MAS of Sri Lanka developed their new products in partnership with leading brands from the U.S., the EU and Japan.

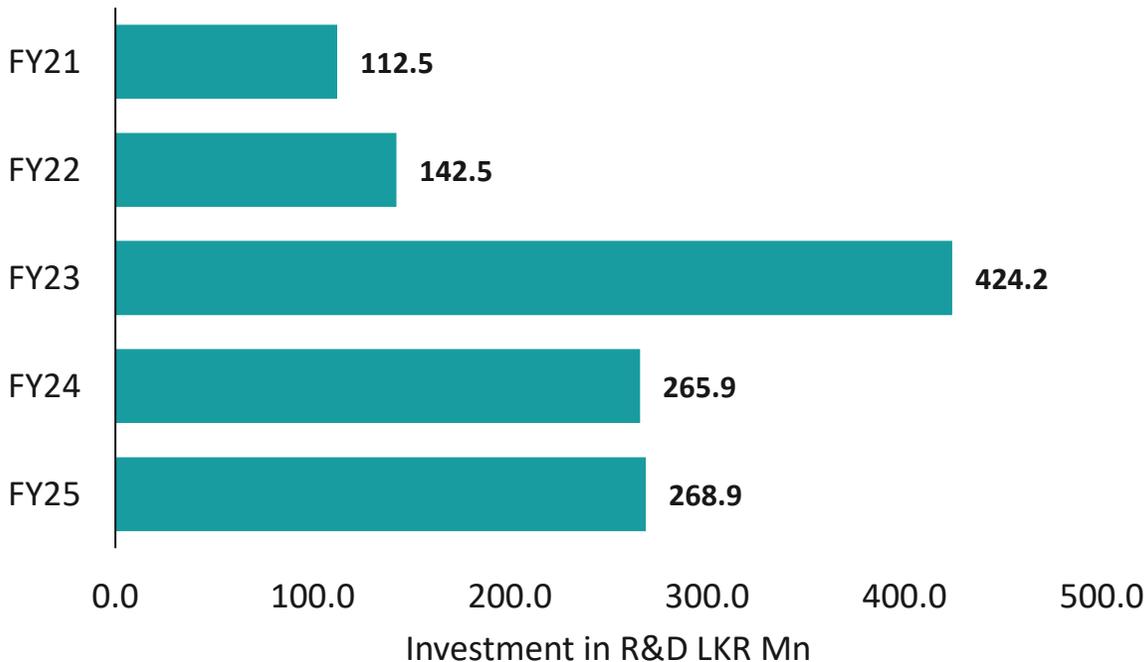


"Mihila Tex" in Pannala is Hirdaramani Group's latest USD 30.0Mn investment in sustainable apparel manufacturing, with a strong focus on eco-friendly production and the use of 3D design technologies in apparel development.

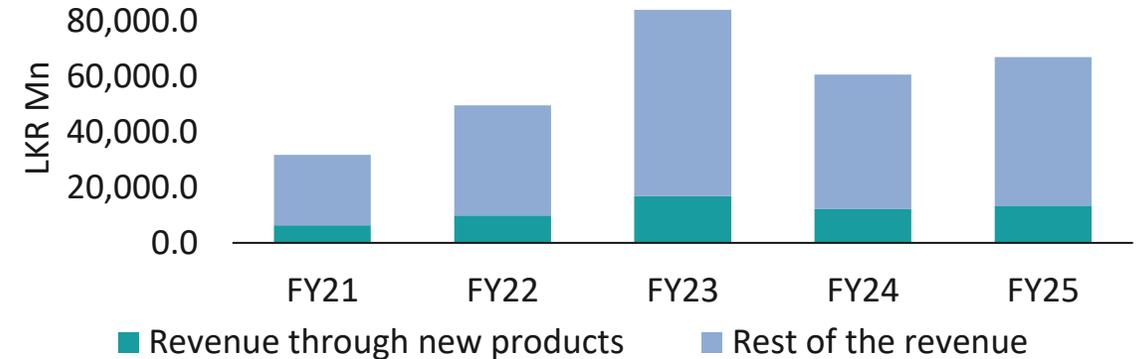


### ...coupled with the innovations of Sri Lankan fabric manufacturers 01) TJL

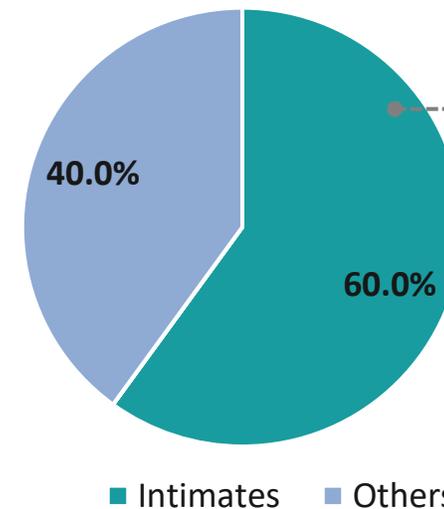
TJL's "INSCOPE Innovation Hub" has driven over 100 new product developments in FY25, with a strong emphasis on research and development particularly in **sustainable and synthetic-based products along with material innovation**. TJL has expanded its capabilities to include lace dyeing, while introducing new technical products and prioritizing the development of synthetic, sustainable, and functional fabrics. Its offerings are centered around five key product pillars: casual wear, sleepwear, activewear, intimates, and sustainability...



...as TJL generates c.10.0%-20.0% of revenue through the new product developments.



TJL's revenue composition



As reflected in the revenue composition of TJL, as TJL align closely with broader apparel industry specialization with TJL primarily focuses on cotton intimates.

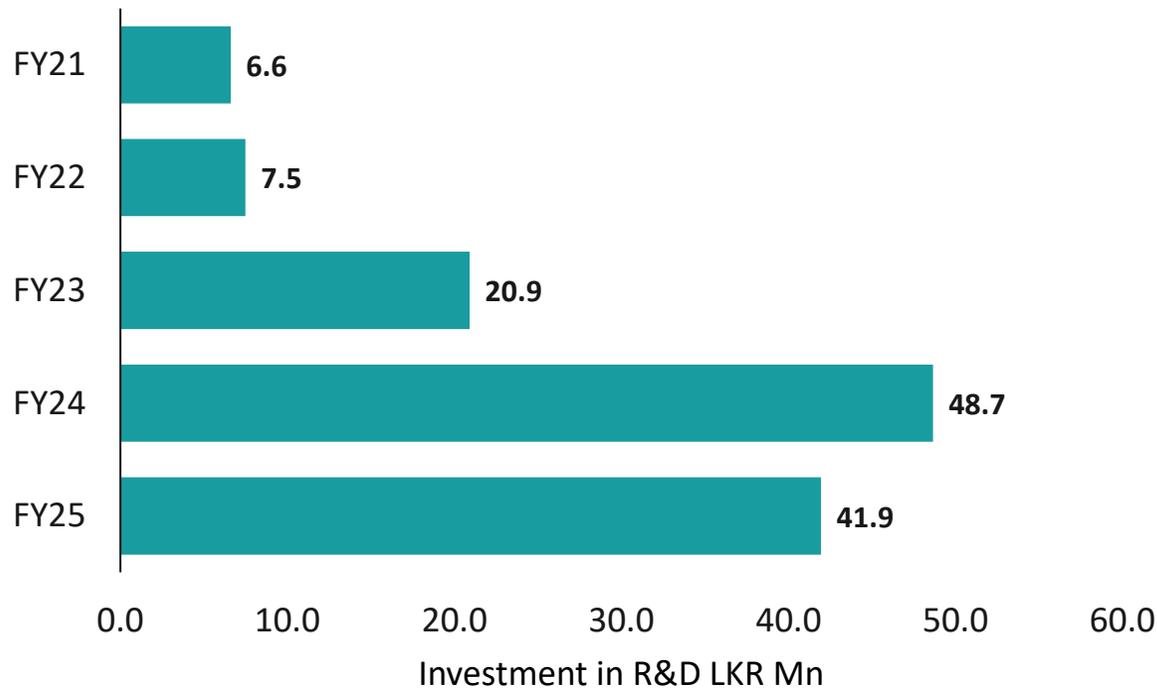
## 2.1.8. WHY SRI LANKA? THE COMPETITIVE EDGE 02: QUALITY + COST = HIGHER ASP



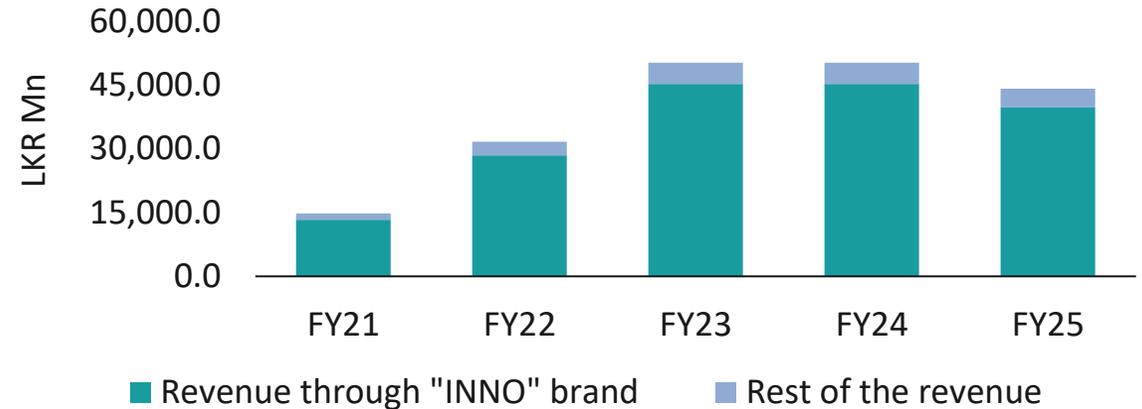
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### ...coupled with the innovations of Sri Lankan fabric manufactures 02) MGT

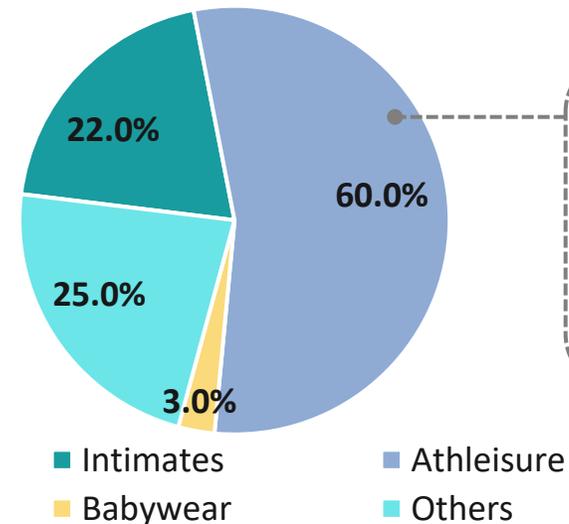
MGT's "INNO" brand has led the development of 149 new fabric products in FY25, with a strong focus on research and development, particularly in **sustainable synthetic-based materials for the performance enhancement**. These innovations cover a wide range of sustainable and high-performance textiles, utilizing blends such as organic cotton, recycled polyester, spandex, and modal. The emphasis goes beyond aesthetics, ensuring each fabric delivers enhanced durability, comfort, and style...



...as MGT generates c.90.0% of revenue through the "INNO" brand.



#### MGT's revenue composition



As reflected in the revenue composition of MGT, as MGT align closely with broader apparel industry specialization with MGT primarily focuses on athleisure segment through synthetic fabric.

## 2.1.8. WHY SRI LANKA? THE COMPETITIVE EDGE 02: QUALITY + COST = HIGHER ASP

Quality and value addition, along with a structurally higher cost base driven by elevated taxes, higher labour costs and energy tariffs, push up unit costs and result in higher ASPs

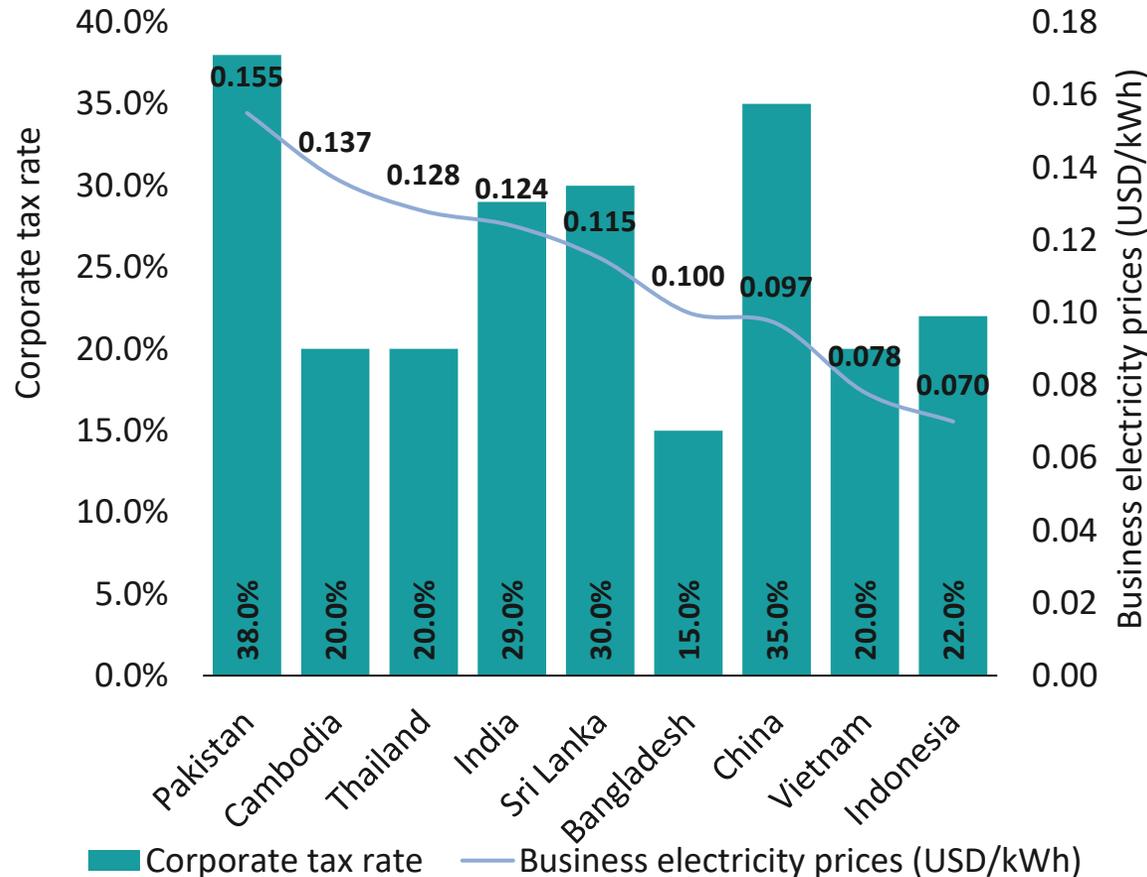


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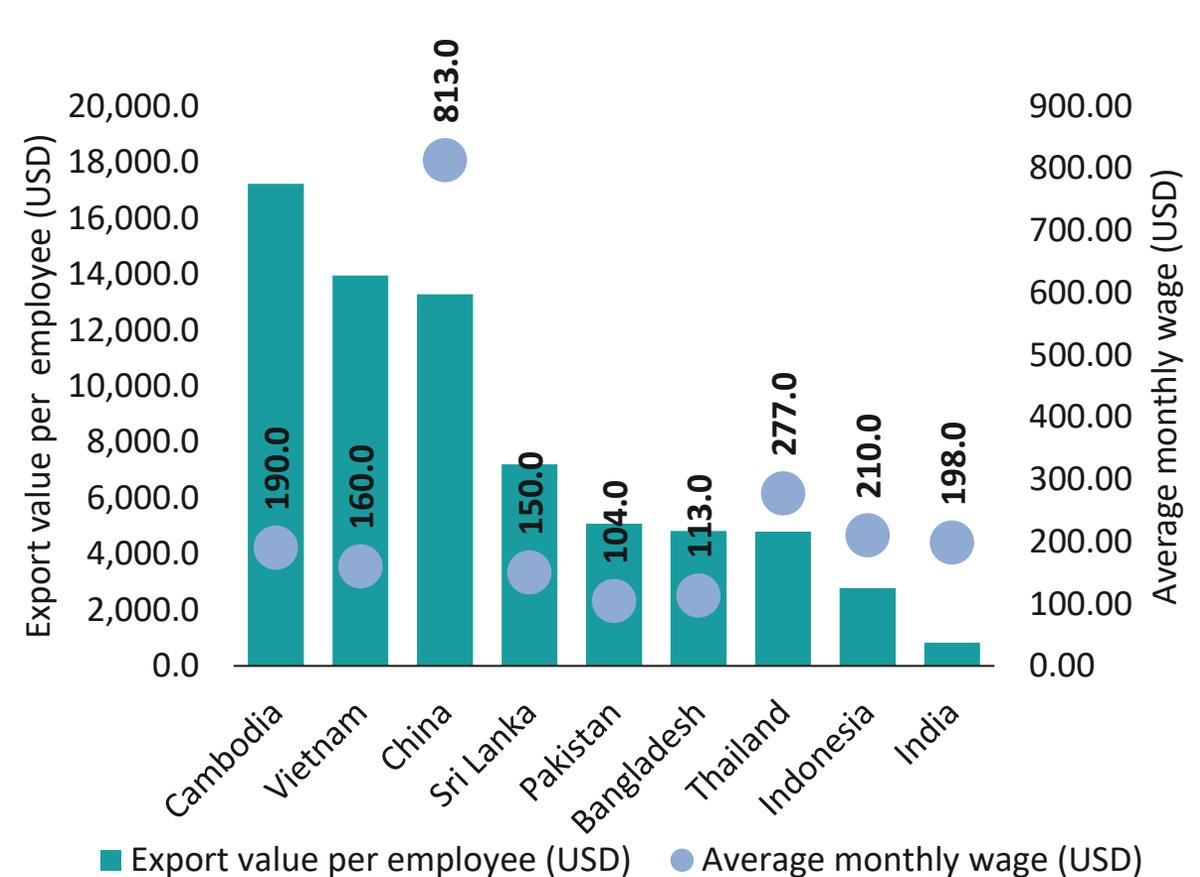
Sri Lanka faces cost competitiveness challenges due to higher electricity tariffs and corporate tax rates.

Despite higher wage rates compared to regional peers, export value per employee remains elevated, driven by greater value addition.

Sri Lanka has the highest operating costs among its peers...



...however, export value per employee ranks at the top



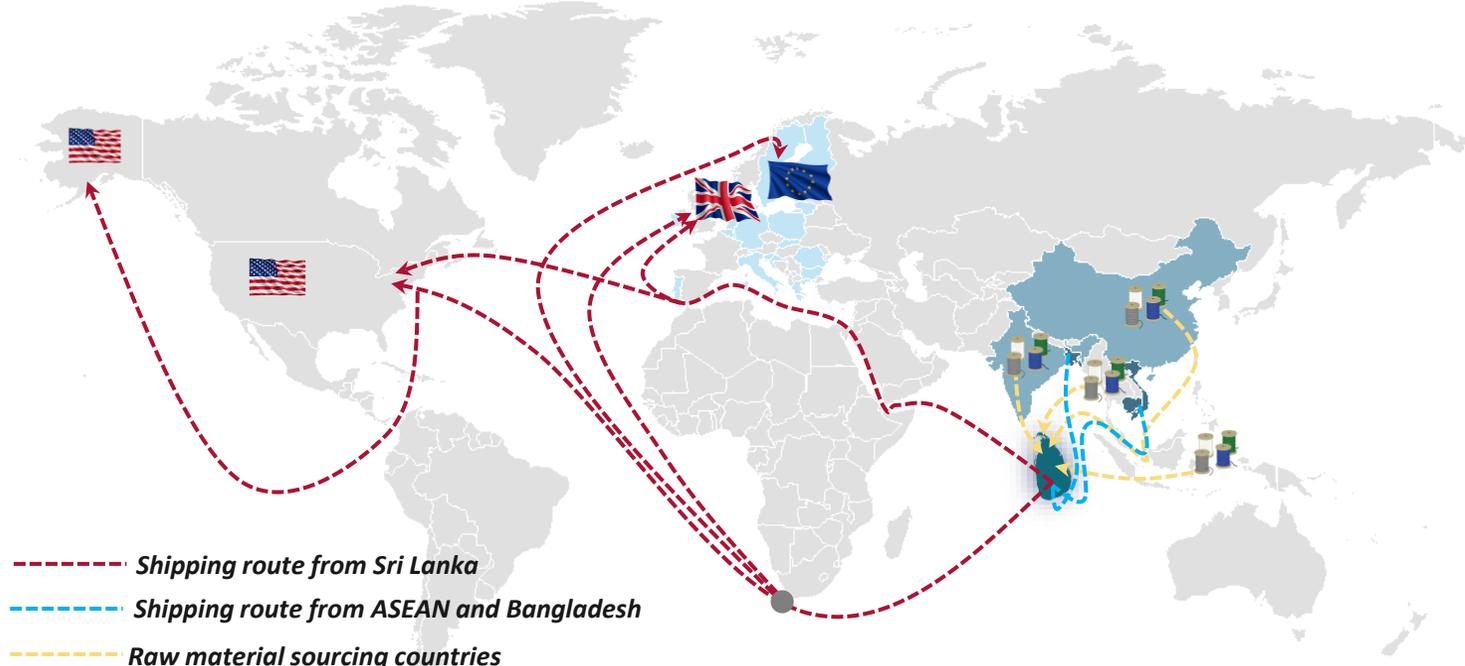
## 2.1.9. WHY SRI LANKA? THE COMPETITIVE EDGE 03: SHORTER LEAD TIMES

### 3. Lead time: “SRI LANKA’S STRATEGIC LOCATION, WITH CLOSE PROXIMITY TO KEY RAW MATERIAL PRODUCING COUNTRIES, DISTINGUISH SRI LANKA FROM REGIONAL PEERS”



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Shipping routes and Sri Lanka’s fabric and yarn sourcing countries



Lead times of major Asian apparel manufactures (weeks)



**Apparel manufacturers in Bangladesh and ASEAN often depend on Sri Lankan ports for transshipment, adding approximately 3–10 days to shipping time.**

Sri Lanka’s strategic location near key raw material suppliers like India, China, and ASEAN countries enables faster sourcing of fabrics and yarn inputs, while its position in the Indian Ocean allows direct shipping to major global markets without significant transshipment delays. Together, these advantages reduce lead time, improve delivery speed and reliability, and strengthen its competitiveness as an efficient apparel export hub. Therefore, in the mathematical formula of lead time, Sri Lanka has a competitive advantage due to **shorter time to shipment of fabrics** and **faster export of final products** compared to other countries. This is further reinforced by the use of air freight for small-batch products such as intimates, swimwear, and athleisure.

*Mathematical formula of lead time = [Information lead time] + [(time to manufacturing fabrics) + (time to shipment of fabrics) + (time to unloading fabrics and customs formalities at port) + (time to take fabrics from port to manufacturing point) + (time to sample approval and production of final product) + (Time to shipment or export of final products)]*



## 2.2

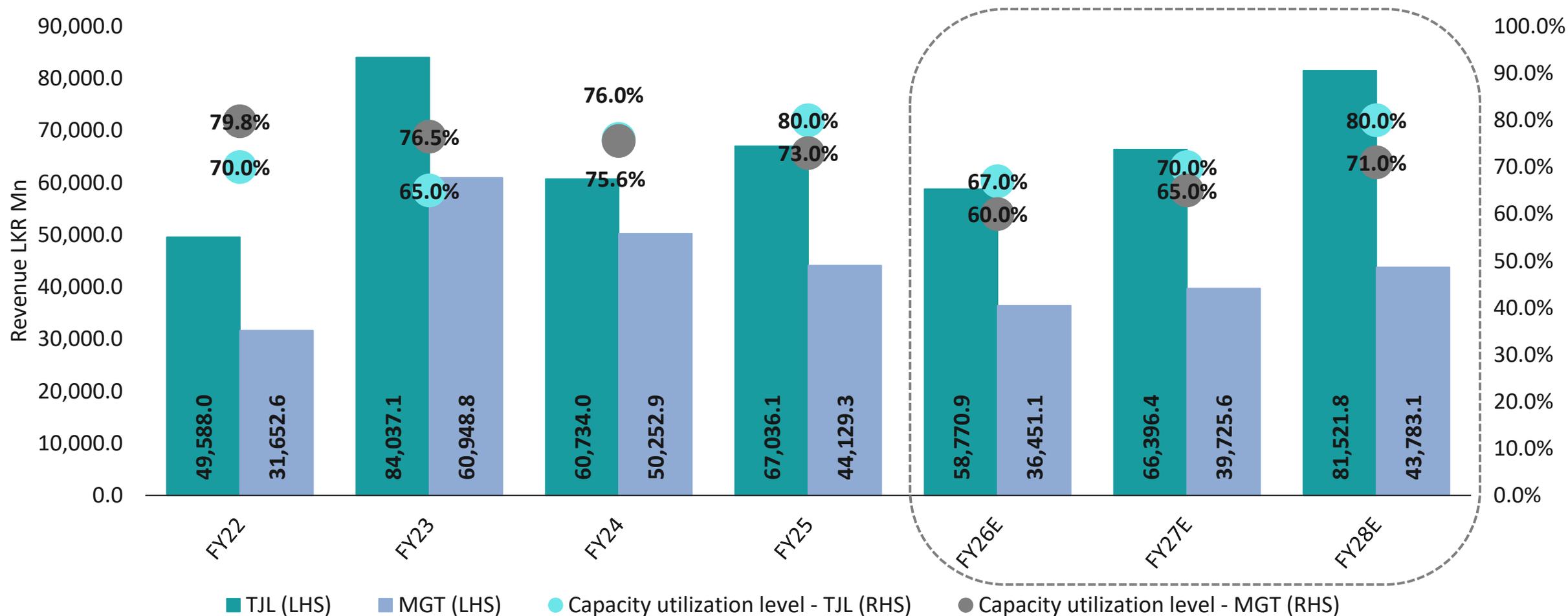
### **THREAD BY THREAD: WHAT DRIVES DEMAND FOR APPAREL AND FABRIC?**

**THE U.S. POST-TARIFF RESTOCKING CYCLE IS YET TO BEGIN, WITH FABRIC PLAYERS EXPECTED TO SHIFT FROM CONTRACTION TO GRADUAL EXPANSION AS DEMAND RECOVERS**

## 2.2.1 FROM CONTRACTION TO RECOVERY PHASE

**FCR expects apparel exports of Sri Lanka to increase by 4.0%YoY, which is likely to translate into higher capacity utilization and topline growth for listed fabric players in FY27E under the base case scenario...**

Although overall domestic capacity has contracted over the past year due to uncertainty surrounding U.S. tariffs and relatively high tariff rates in India, fabric sector players are seeing a steady rise in capacity utilization. Many are on track to achieve utilization levels of 65.0%–70.0% by the end of FY27E.



## 2.2.2. DEMAND DRIVERS

...as retail inventory destocking cycle nears completion, supporting a recovery in apparel import demand with improving inventory days...

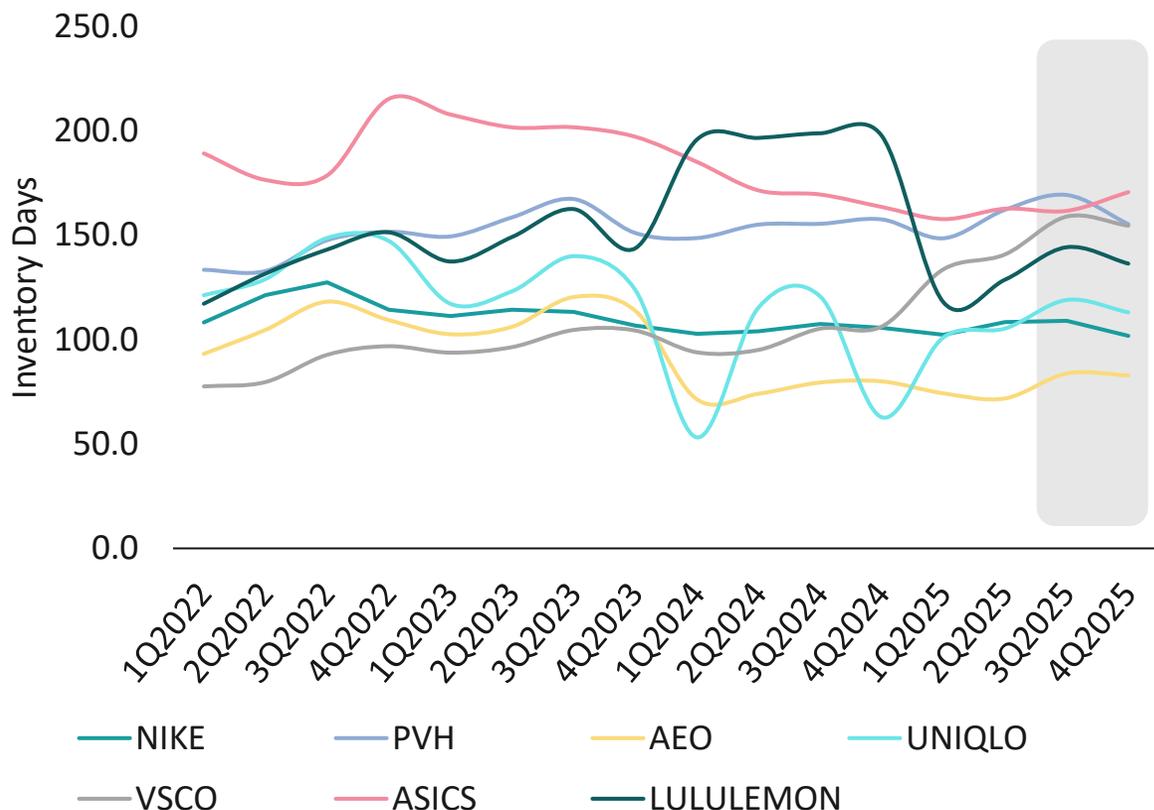


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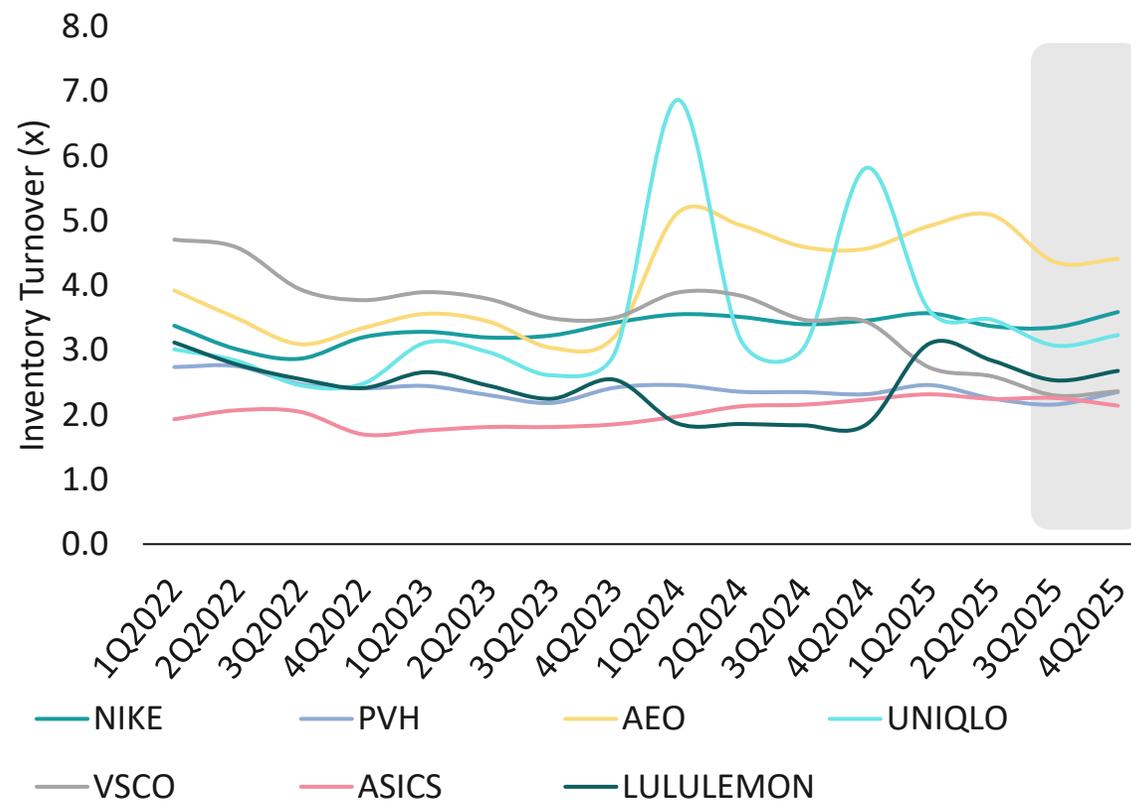
Retail inventory levels for major global apparel brands such as Nike, PVH Corp. and American Eagle Outfitters have moderated from their highest levels with inventory days gradually declining, as retailers' clear excess stock they built up during the destocking phase.

Following the moderation in inventory levels, inventory turnover ratios across several retailers have stabilized and shown early signs of improvement, indicating stronger sell-through rates and improving inventory management efficiency.

Inventory days of global apparel brands are decreasing QoQ...



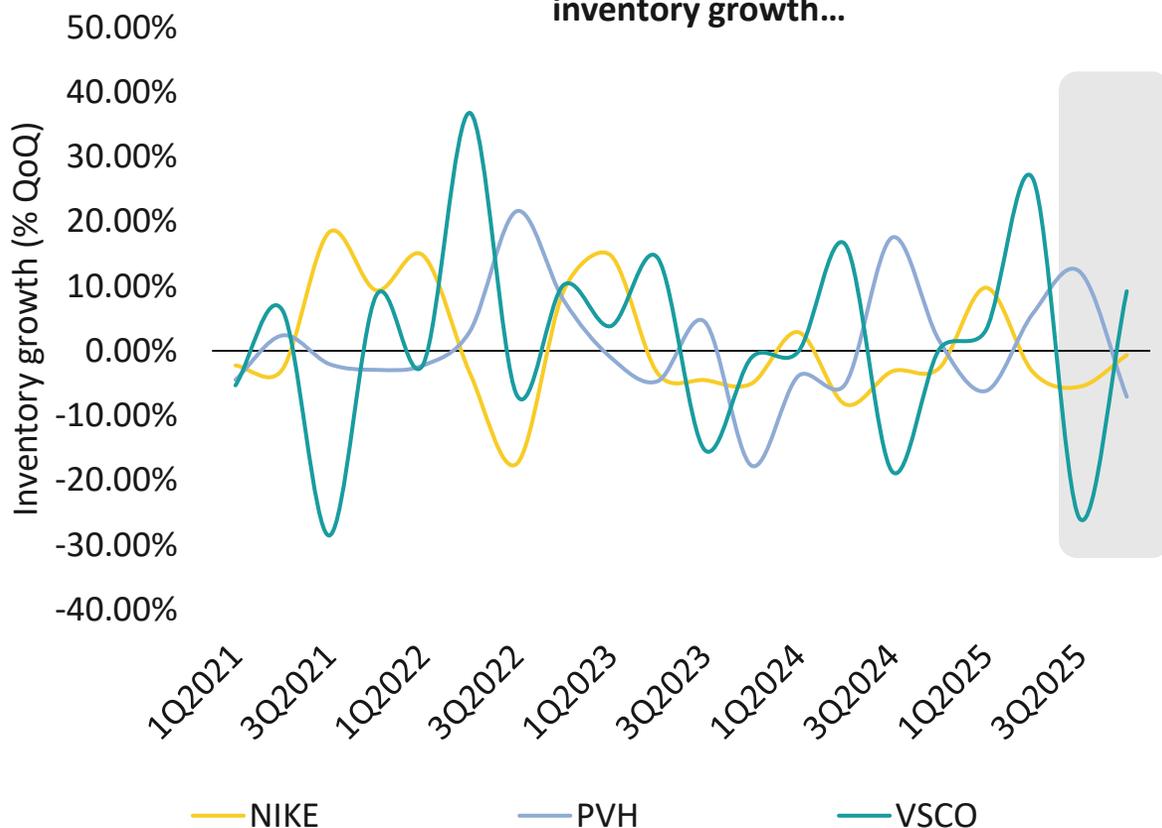
...whilst inventory turnover is increasing QoQ



### ...evident by the decreasing inventories QoQ in major brands...

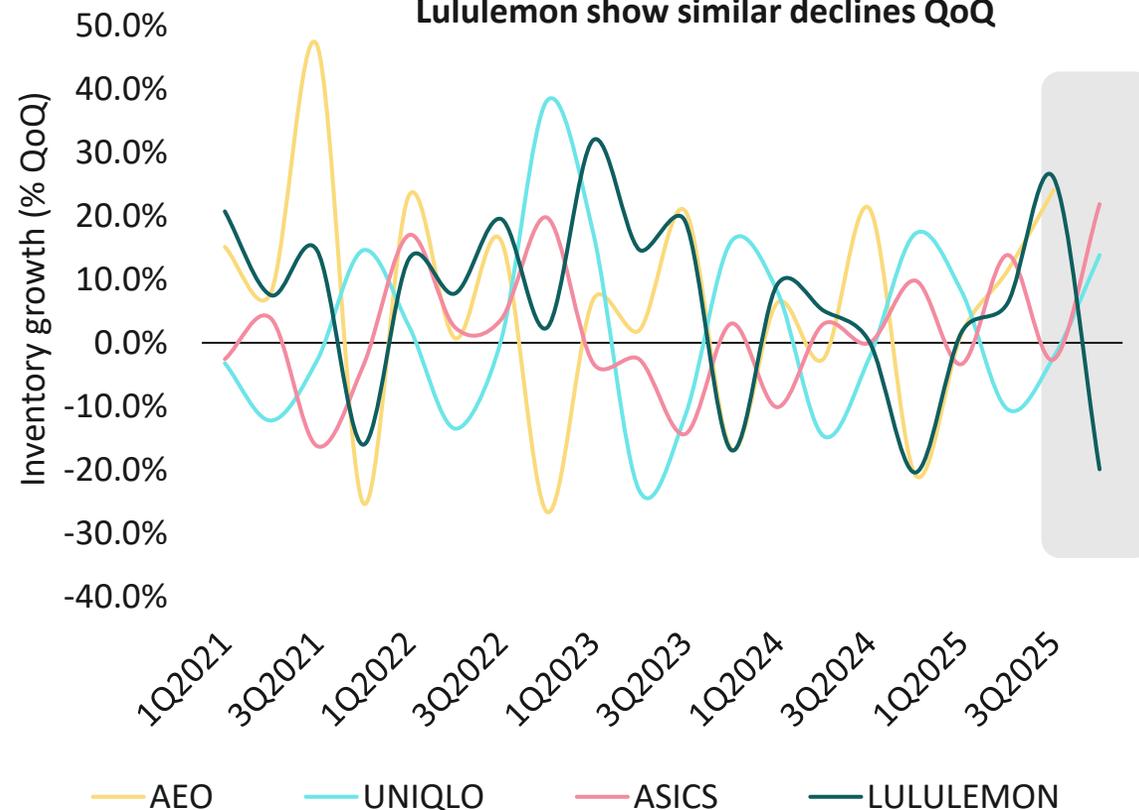
Global apparel brands like Nike, PVH, and VSCO front-loaded orders during U.S. tariff uncertainty, creating high inventory levels that limited new orders. Recent data show declining inventory growth and improving turnover, indicating the destocking cycle is ending.

**Nike, PVH, and VSCO are witnessing a decline in QoQ inventory growth...**



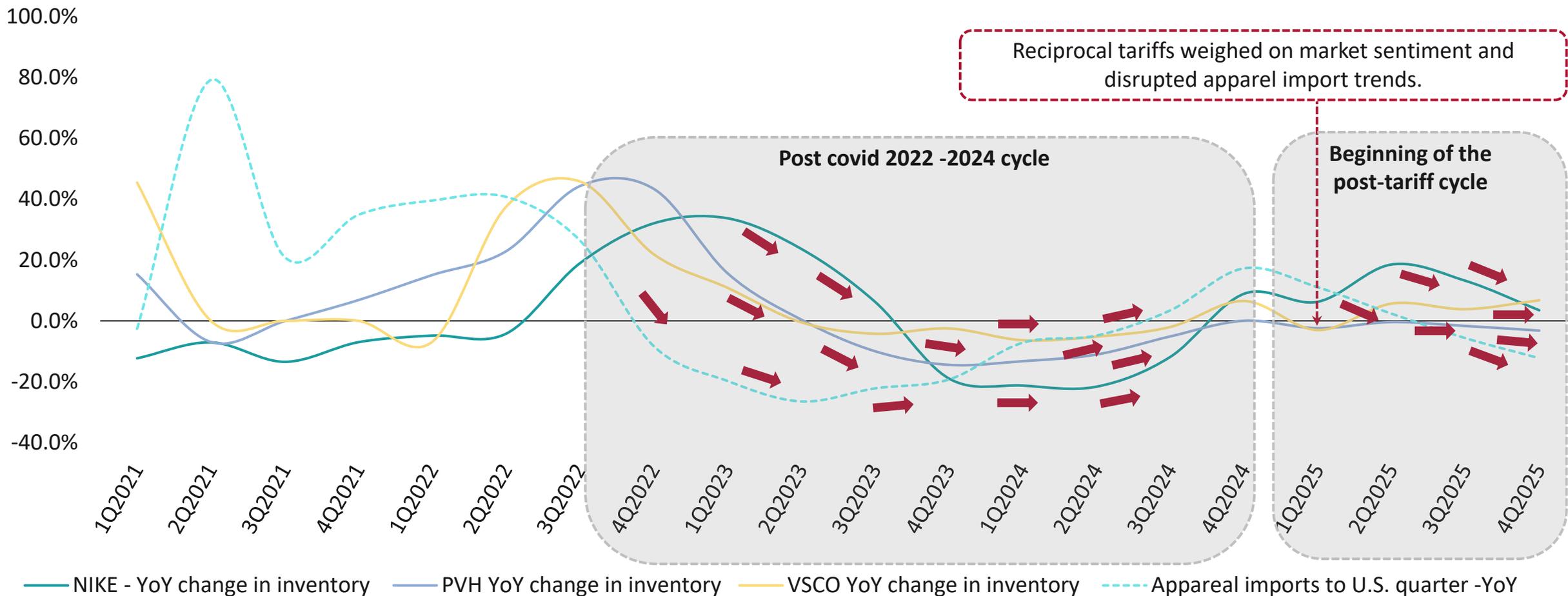
Other global retailers like American Eagle Outfitters, Uniqlo, ASICS, and Lululemon show similar declines in inventory growth, with slight differences in timing and magnitude. Their inventories are gradually normalizing, signaling that the broader destocking phase is ending.

**...whilst American Eagle Outfitters, Uniqlo, ASICS, and Lululemon show similar declines QoQ**



### ...which could drive higher apparel imports into the U.S., as observed in previous periods

As observed during the post-COVID 2022–2024 inventory cycle, brands are currently in a phase of reducing inventory levels. We expect inventories to bottom out over the next two quarters in the post-tariff cycle, after which a rebuild in stock levels could occur, ultimately influencing the revenue growth and profitability of textile and apparel players.

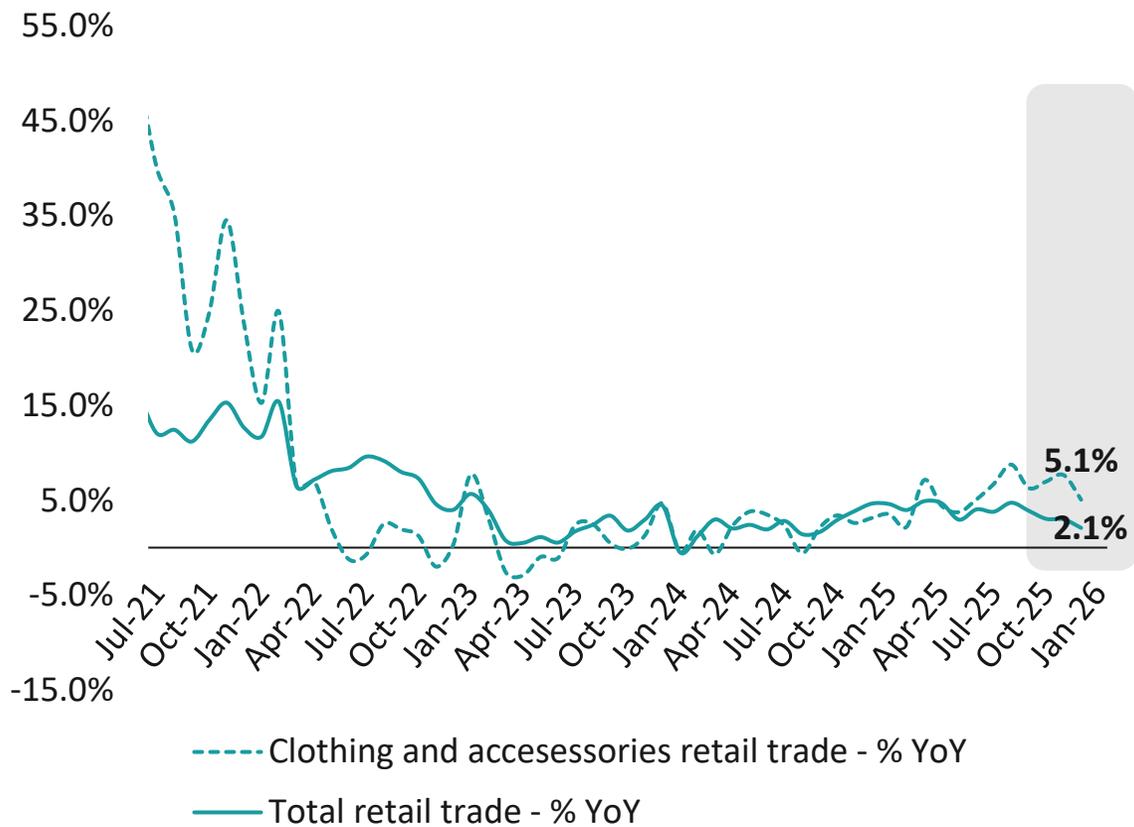




### With improving apparel retail demand in the U.S., and EU...

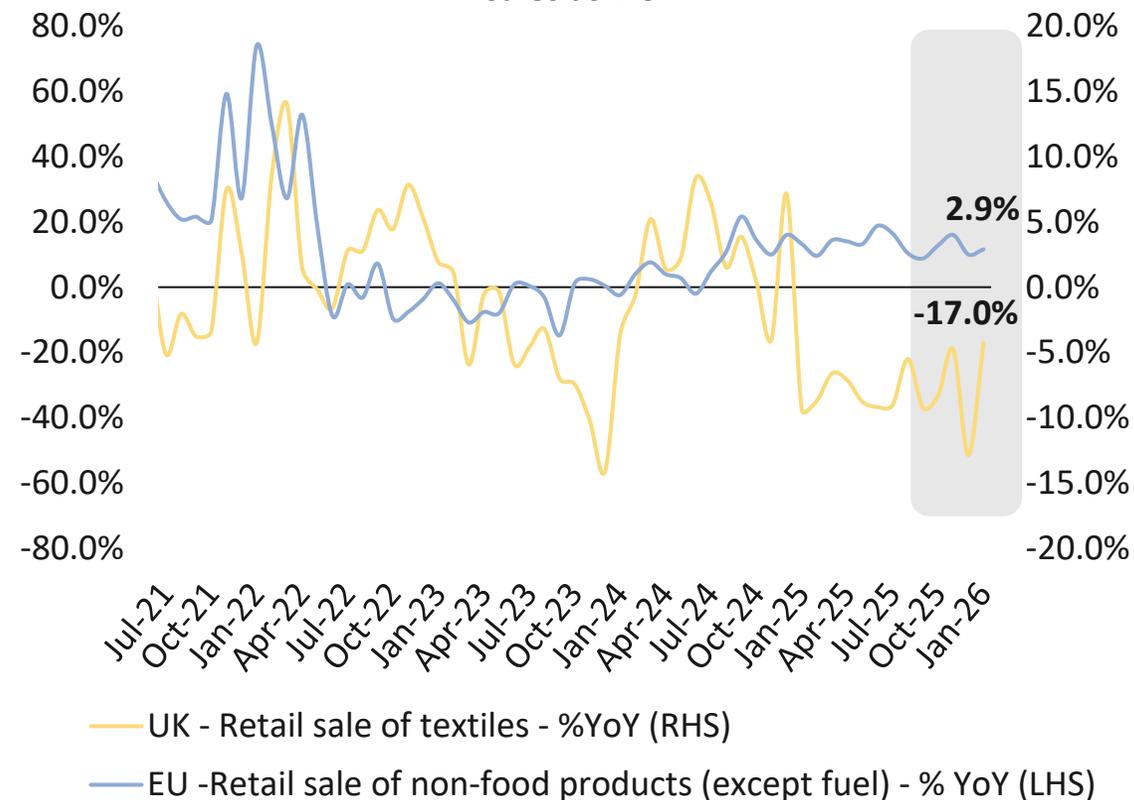
U.S. clothing and accessories retail sales increased by 5.1%YoY in Jan-26, indicating a gradual recovery in demand following the U.S. tariff period. Since Sep-24, sales have recorded a continuous 16-month growth streak.

Retail trade and clothing and accessories retail trade showing YoY growth in U.S...



The EU region is showing a gradual rebound, with non-food retail sales rising by 2.9%YoY in Jan-26, reflecting a 19-month period of expansion, although the UK continues to lag behind.

...whilst similar trends can be observed in EU and UK retail sales as well



## 2.2.2. DEMAND DRIVERS

...supported by strengthening consumer sentiment and easing labor market pressures in major markets, reinforcing expectations of a sustained rebound of apparel volumes, translating to higher usage of fabrics

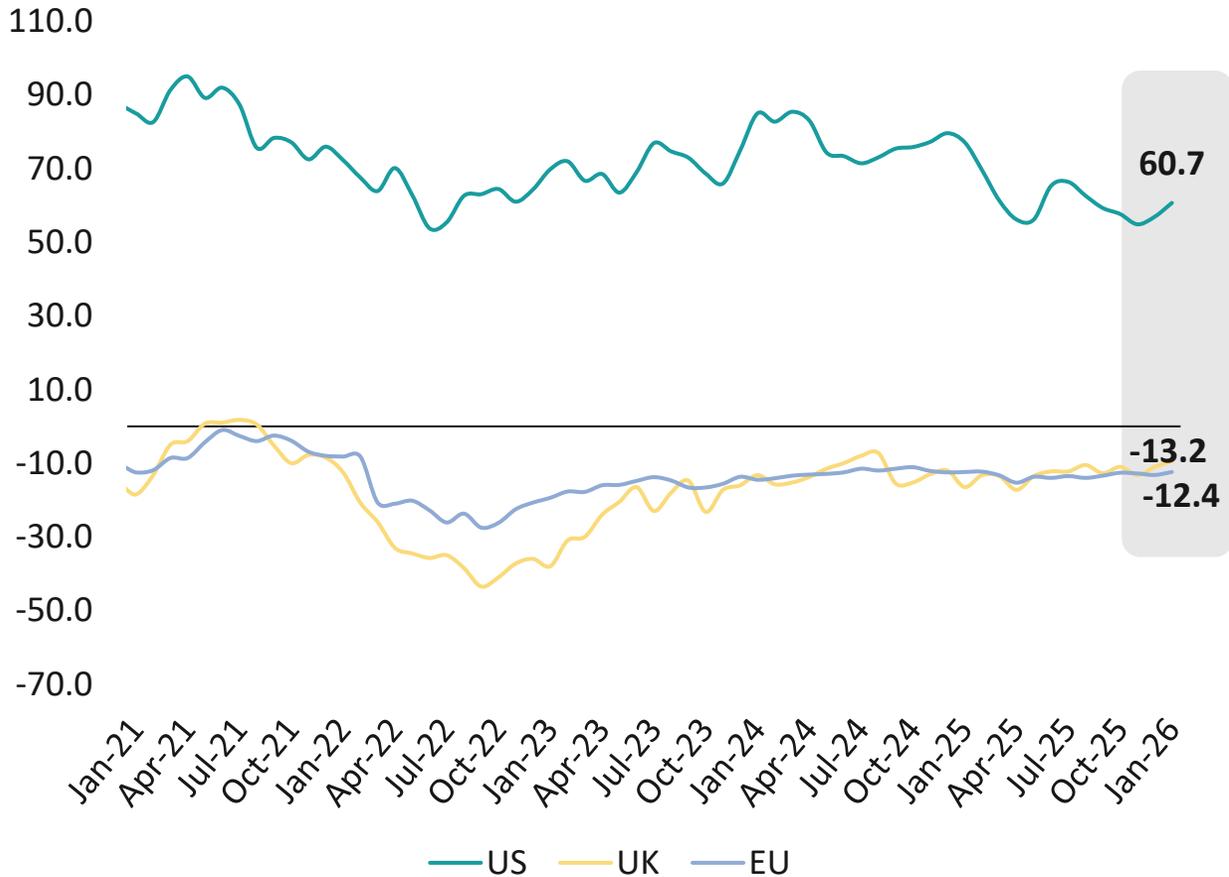


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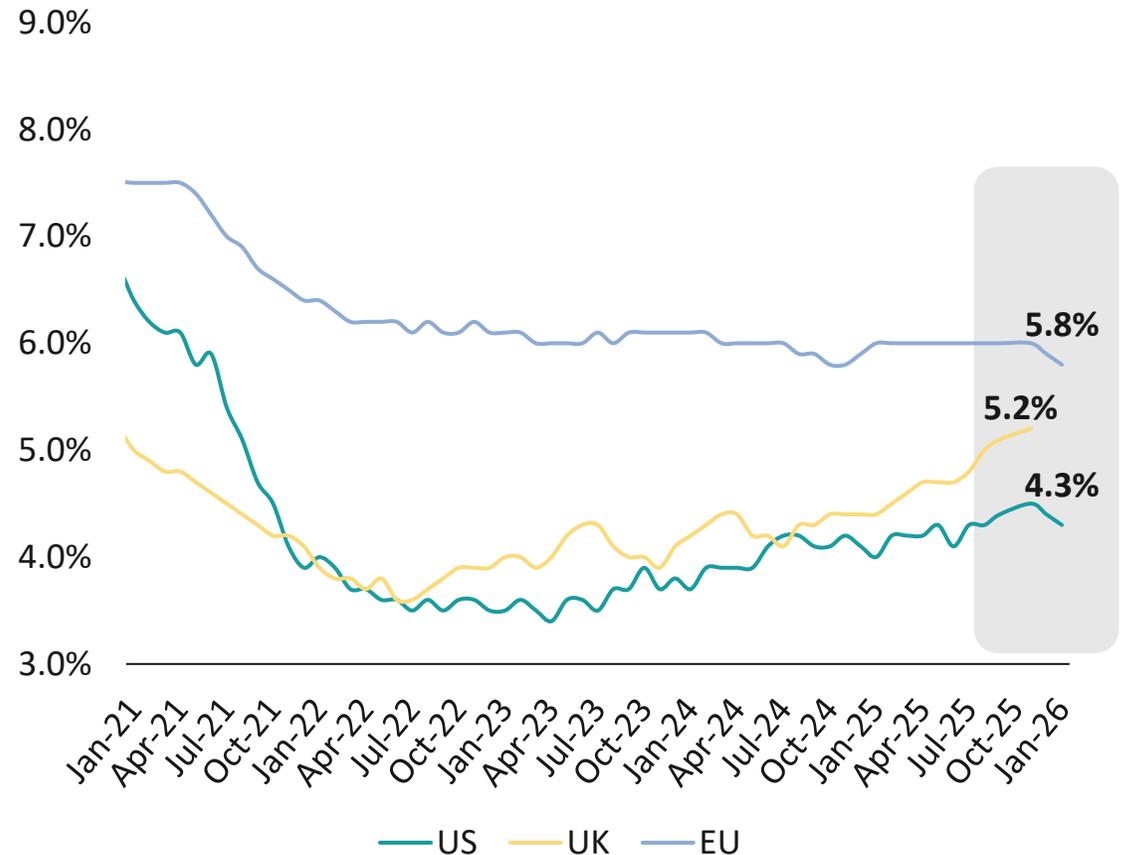
After the tariff announcement, U.S. consumer confidence stayed subdued, though the Jan-26 reading indicates an uptick. Meanwhile, both the UK and EU are also showing signs of a gradual recovery.

Declining unemployment rates in the U.S. and EU are likely to support consumer spending. However, the UK's unemployment rate rose in Jan-26.

Consumer confidence is improving in U.S., EU and UK...



...supported by decreasing seasonally adjusted unemployment rate



## 2.2.2. DEMAND DRIVERS

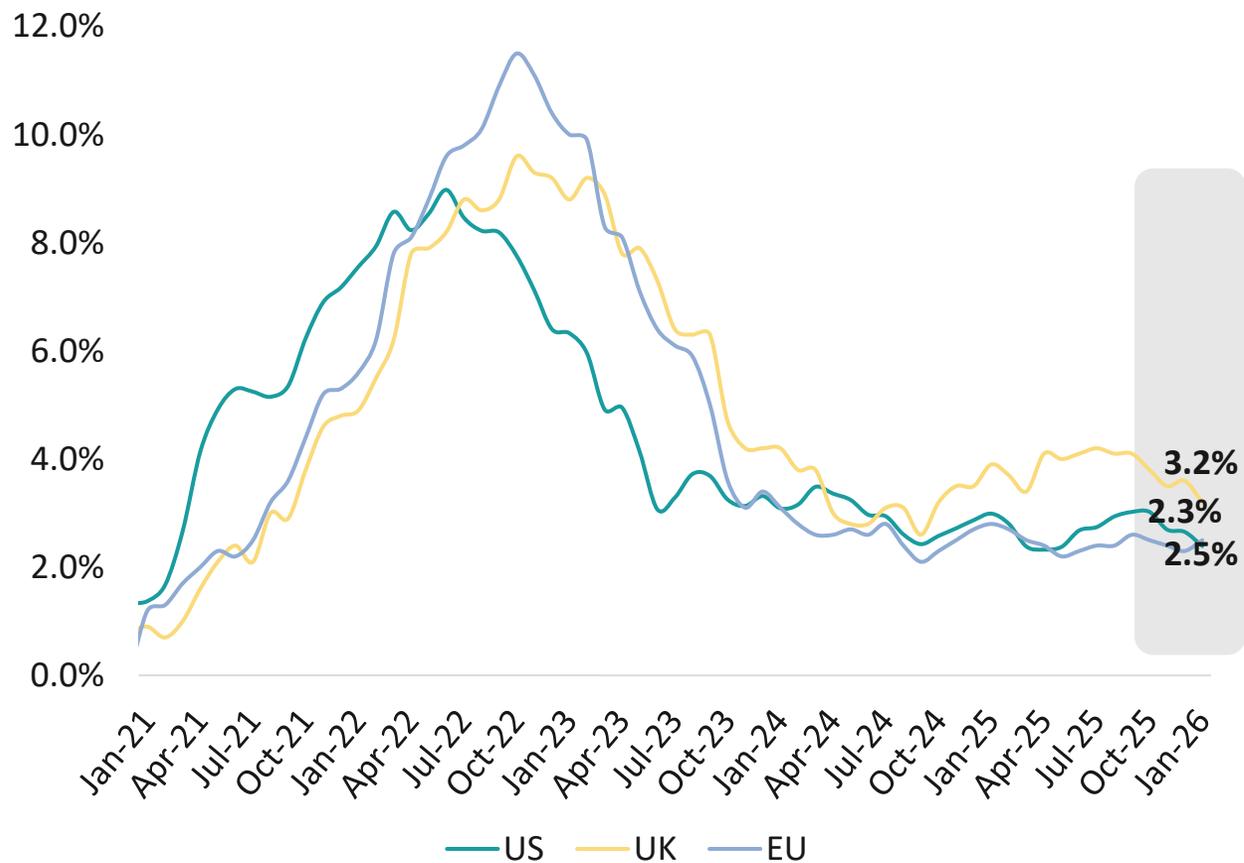
# Easing inflation and improving macroeconomic conditions support consumer demand in key apparel export markets...



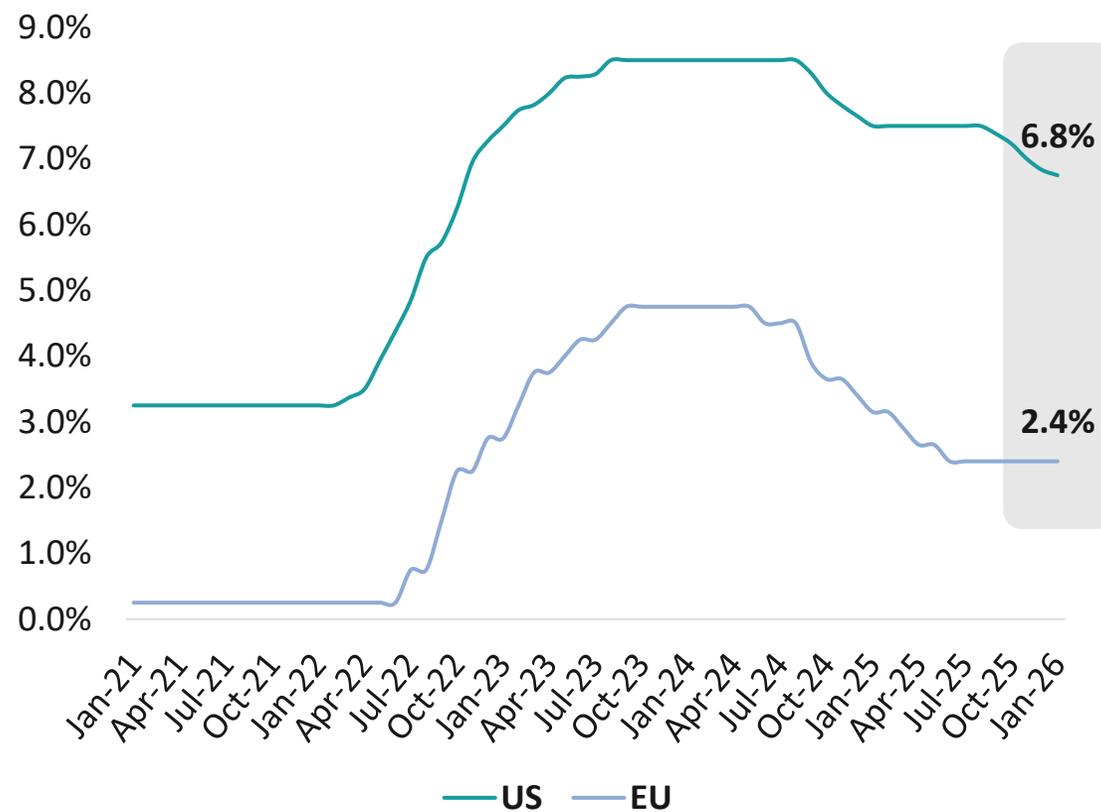
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Macroeconomic conditions in key export markets are becoming more supportive. Inflation in the U.S., UK, and the Euro zone has eased significantly from its peak, reducing pressure on household purchasing power. Meanwhile, relatively low interest rates are expected to further support consumer spending.

Monthly inflation in UK and EU is decreasing...



...whilst interest rates at low levels supporting consumption



## 2.2.2. DEMAND DRIVERS

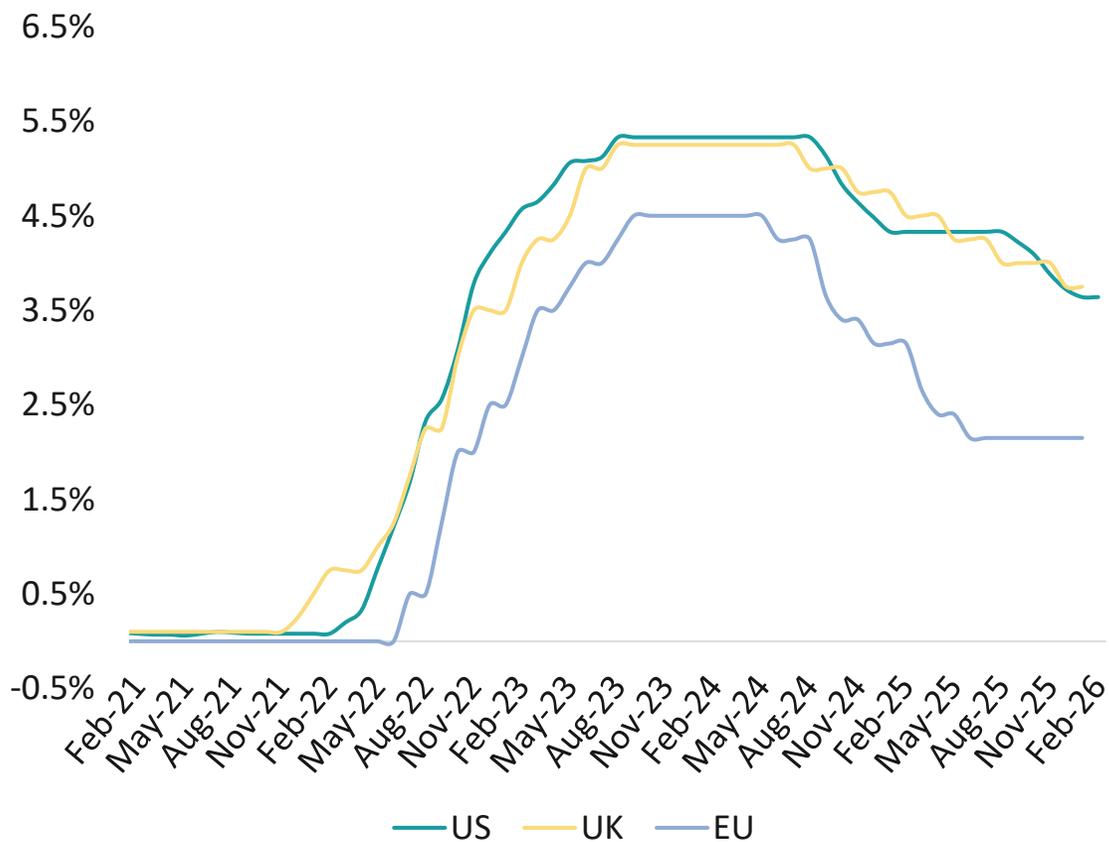
### ...with major Central Banks maintaining steady monetary policy, the outlook points to a more favorable demand environment for apparel consumption



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Major Central Banks are gradually shifting toward a more accommodative stance, creating a supportive backdrop for consumer demand. As interest rates ease or remain at low, stable levels, borrowing costs for households decline and financial conditions improve. This, in turn, boosts consumer confidence and disposable income, encouraging higher spending on discretionary items such as apparel.

Policy Interest Rates



### Monetary Policy Outlook

#### FED

“We expect the Fed to remain on hold in the first half of 2026, before delivering additional 50 bps of cuts in the second half of the year.”

#### ECB

“With inflation near target and GDP growth holding steady, the ECB is likely to keep rates unchanged. Risks are tilted to the downside if growth weakens or inflation undershoots materially.”

#### BOE

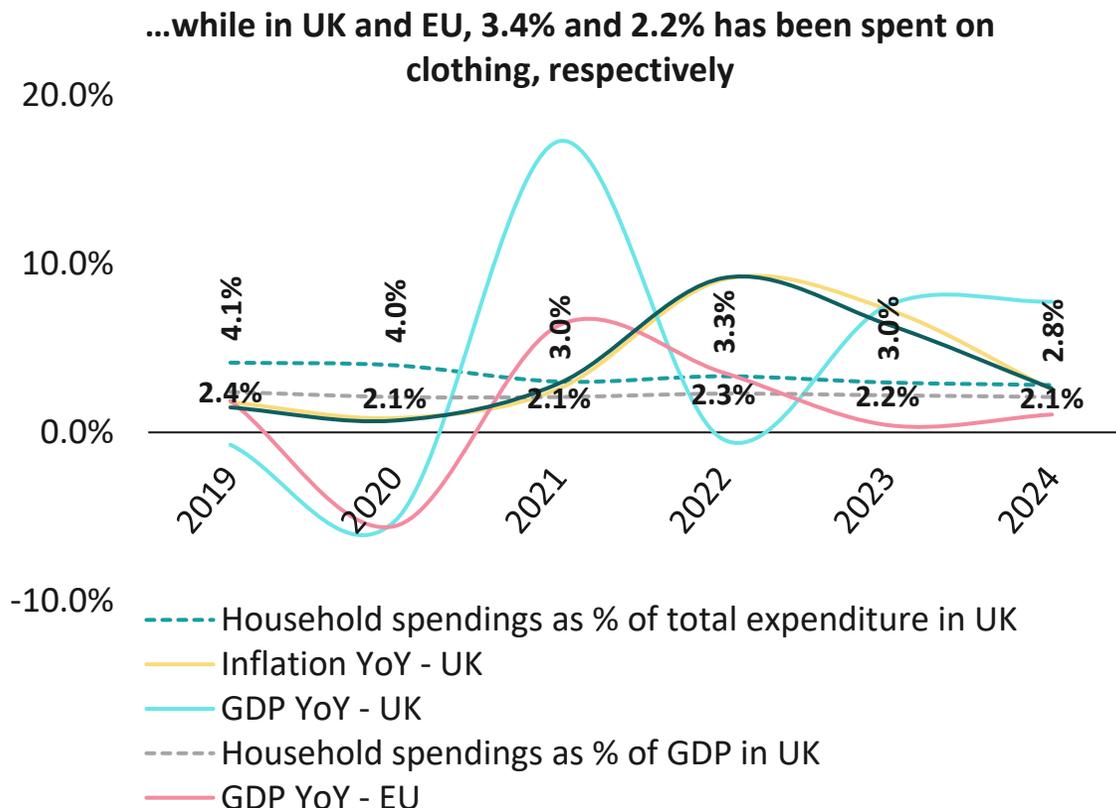
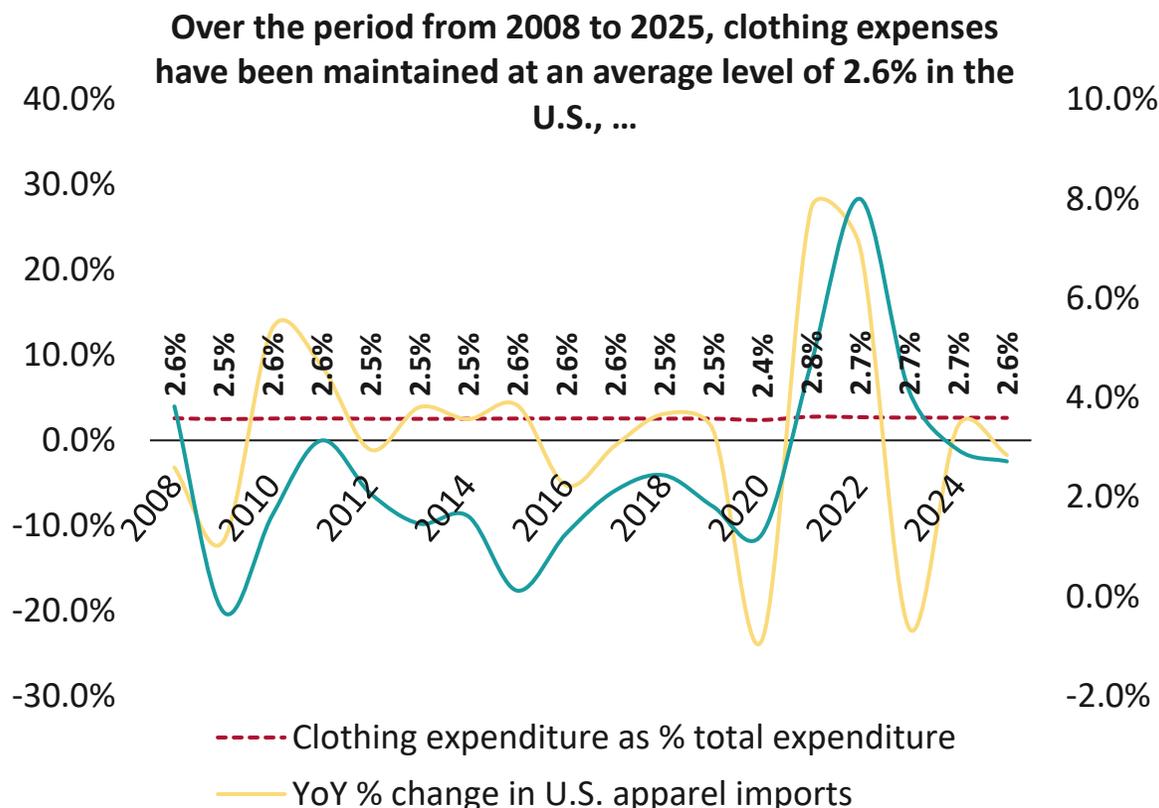
“We expect the Bank of England to deliver its final 25 bps cut in April, with rates held at 3.5% thereafter. Risks are tilted towards more easing if growth continues to disappoint and labor market softens further.”

## 2.2.2. DEMAND DRIVERS

However, as noted over the past decade, despite the macroeconomic conditions prevalent at the time, consumers in the U.S., EU and UK have maintained a baseline level of spending on clothing



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**FACT:** Between 2020 and 2022, U.S. household expenditure declined by 3.6%, while spending on clothing fell more sharply by 9.0%. Despite this, clothing expenditure as a share of total spending remained stable at 2.4%. In 2022, overall household expenditure increased by 6.1%, and YoY spending on clothing rose by 1.0%. Clothing's share of total expenditure also held steady at 2.7%. This suggests that, **despite macroeconomic fluctuations and shocks, the proportion of household spending allocated to clothing has remained relatively consistent over time.**

## 2.2.3. DEMAND DRIVERS: KEY TRENDS THAT SHAPE 2026 AND BEYOND

According to McKinsey's 2026 state of art fashion report, AI is reshaping fashion shopping, prompting brands to use rich, API-accessible content to stay visible and preferred by autonomous AI agents



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**53.0%**

53.0% of U.S. consumers who used generative AI for search in the second quarter of 2025 also used it to help them shop.

**4.7%**

Shopping-related searches on generative AI platforms grew 4.7% between 2024 and 2025.

**41.0%**

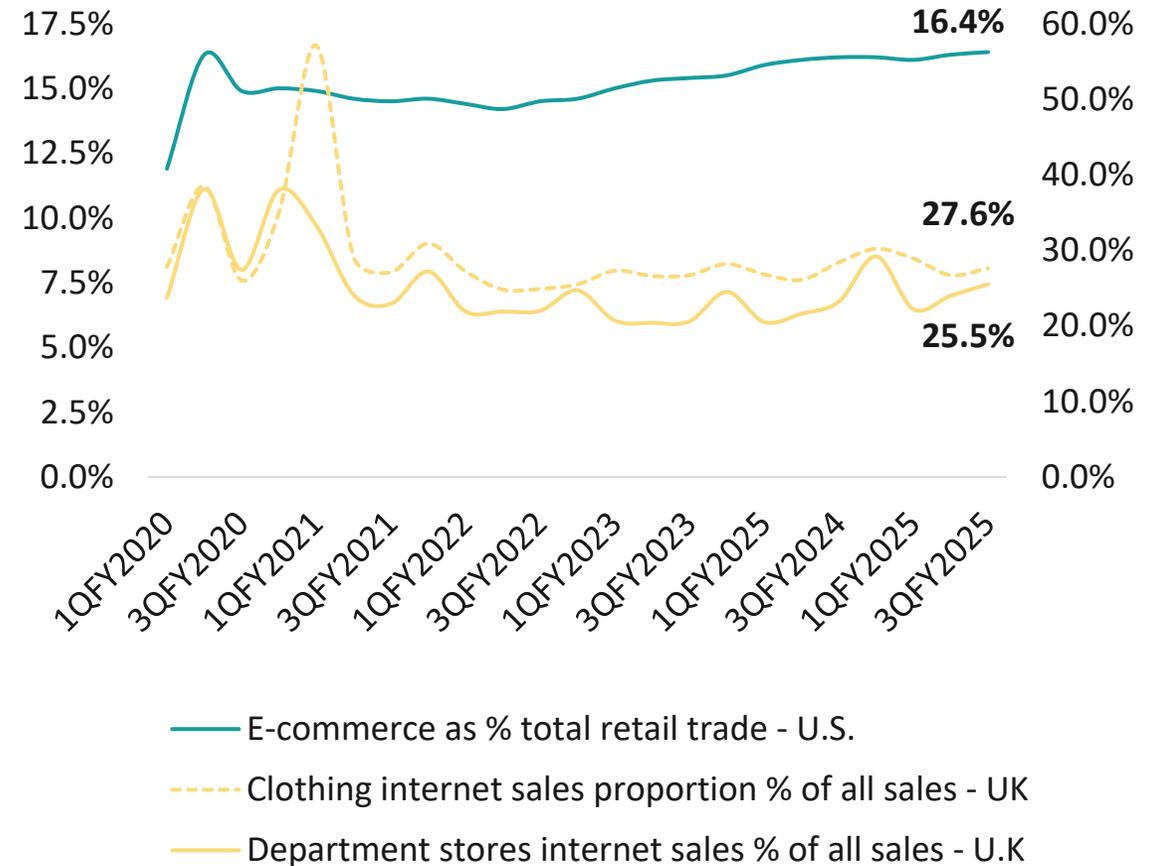
41.0% of consumers say they trust generative AI search results more than traditional advertising.

**85.0%**

85.0% express higher satisfaction with AI-assisted shopping journeys than conventional ones.

Online shopping enhances convenience for customers, which can boost satisfaction and drive higher sales.

E-commerce/online trade as a % of total sales





## 2.3

**KNITTING THE BOTTOM-LINE: MARGIN RECOVERY UNDERWAY**  
**MARGINS POISED FOR RECOVERY ON EASING INPUT COSTS AND OPERATING LEVERAGE, DESPITE OIL-LINKED HEADWINDS**

## 2.3.1. TALES OF TWO ENDS: TJL AND MGT MAY GET WORSE FOR NEXT TWO QUARTERS BEFORE RECOVERING

A short-term earnings dip is likely for both TJL and MGT between 4QFY26E and 1QFY27E, according to the management, followed by recovery, as orders materialize and tariff conditions normalize

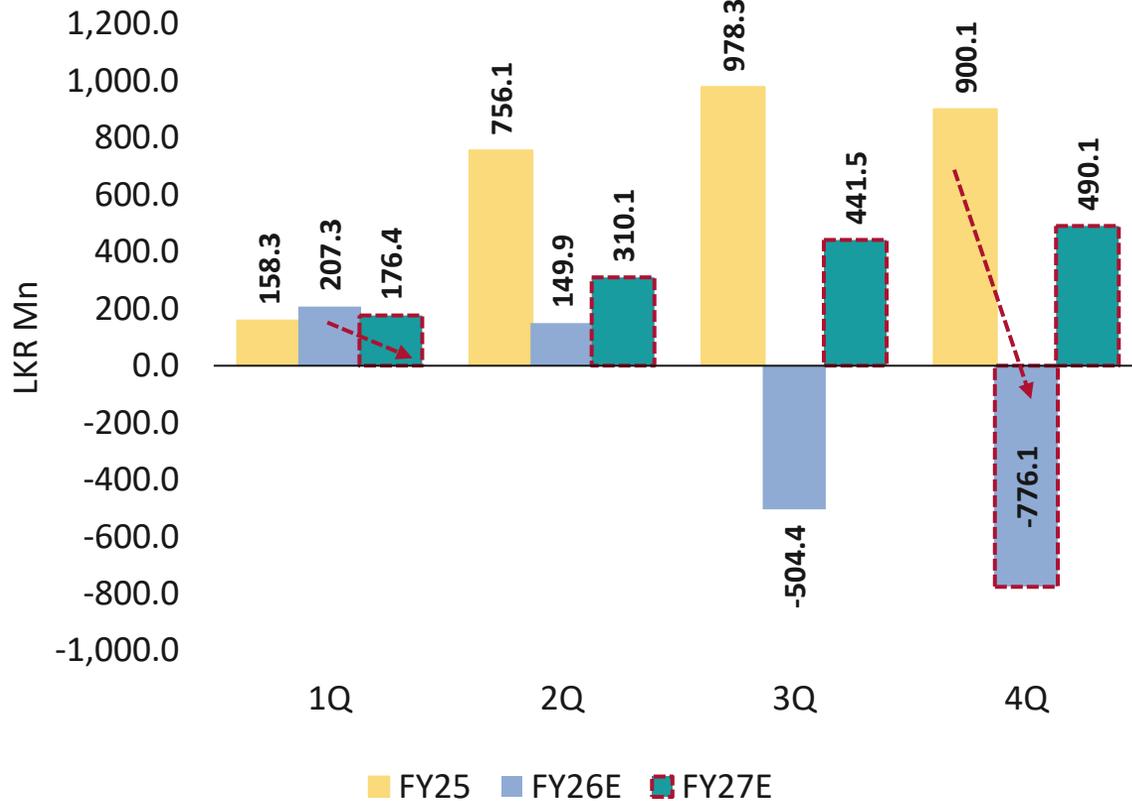


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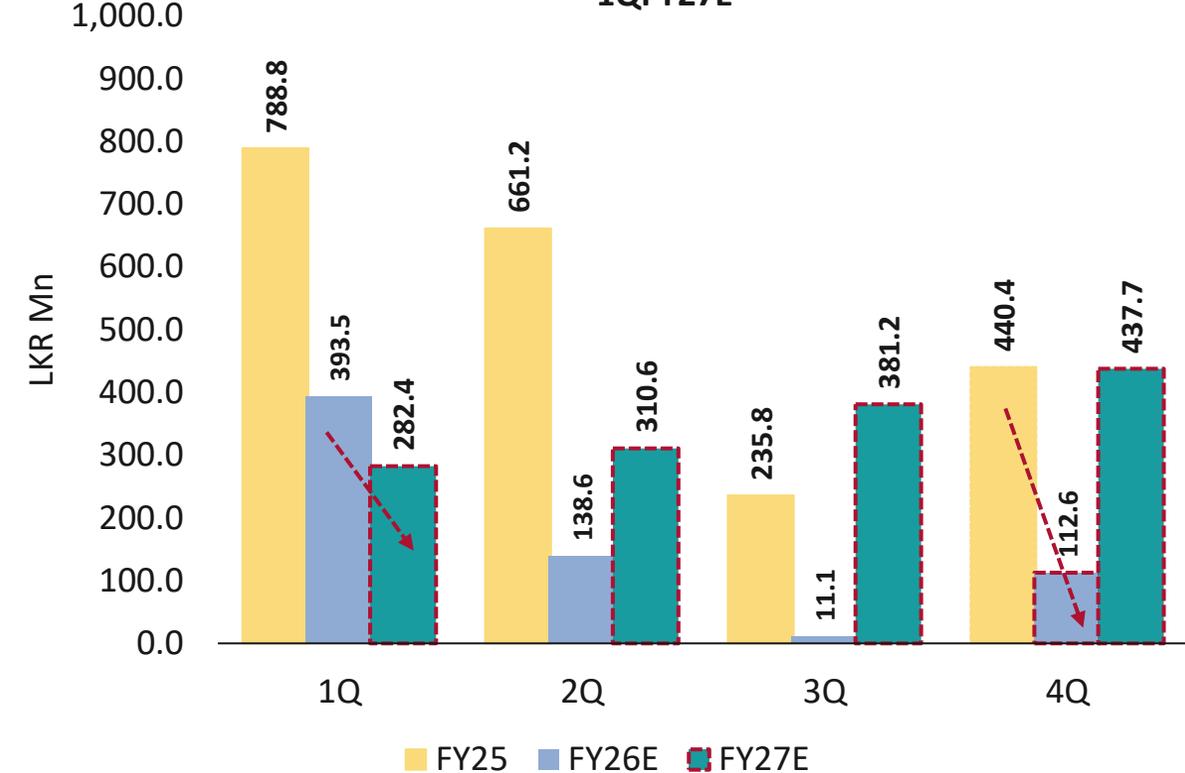
**TJL:** TJL's earnings are expected to decline, followed by a gradual recovery during the last two quarters of FY27E supported by improving order inflows and operational efficiencies

**MGT:** MGT's earnings are also projected to rebound from 2HFY27E, supported by improving order inflows and customer diversification strategies

TJL's earnings are expected to decline by 186.2%YoY in 4QFY26E and 14.9%YoY in 1QFY27E...



...whilst following a similar trend, MGT's earnings are projected to decline by 74.8%YoY in 4QFY26E and 28.2%YoY in 1QFY27E



## 2.3.2. FORWARD OUTLOOK FOR GROSS AND OPERATING MARGINS

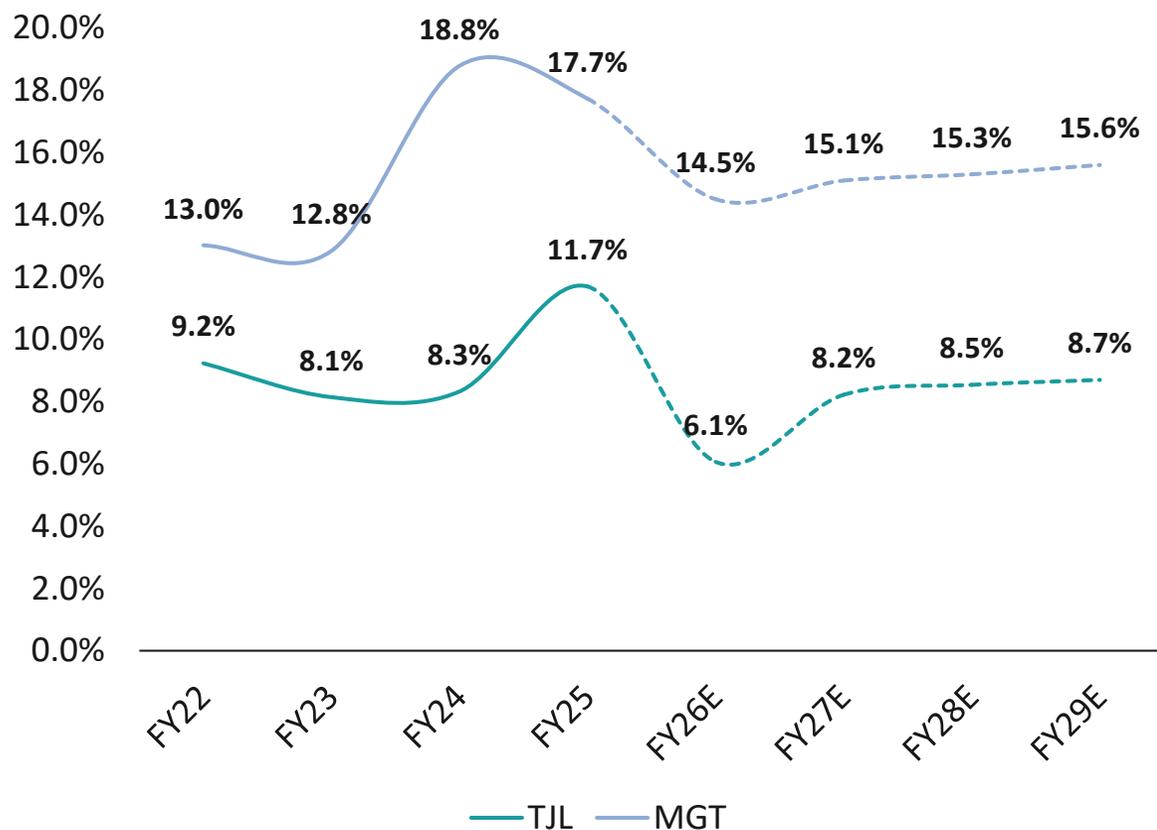
**While demand recovery and competitive positioning support topline growth, earnings expansion is increasingly driven by improving GP and EBIT margins...**



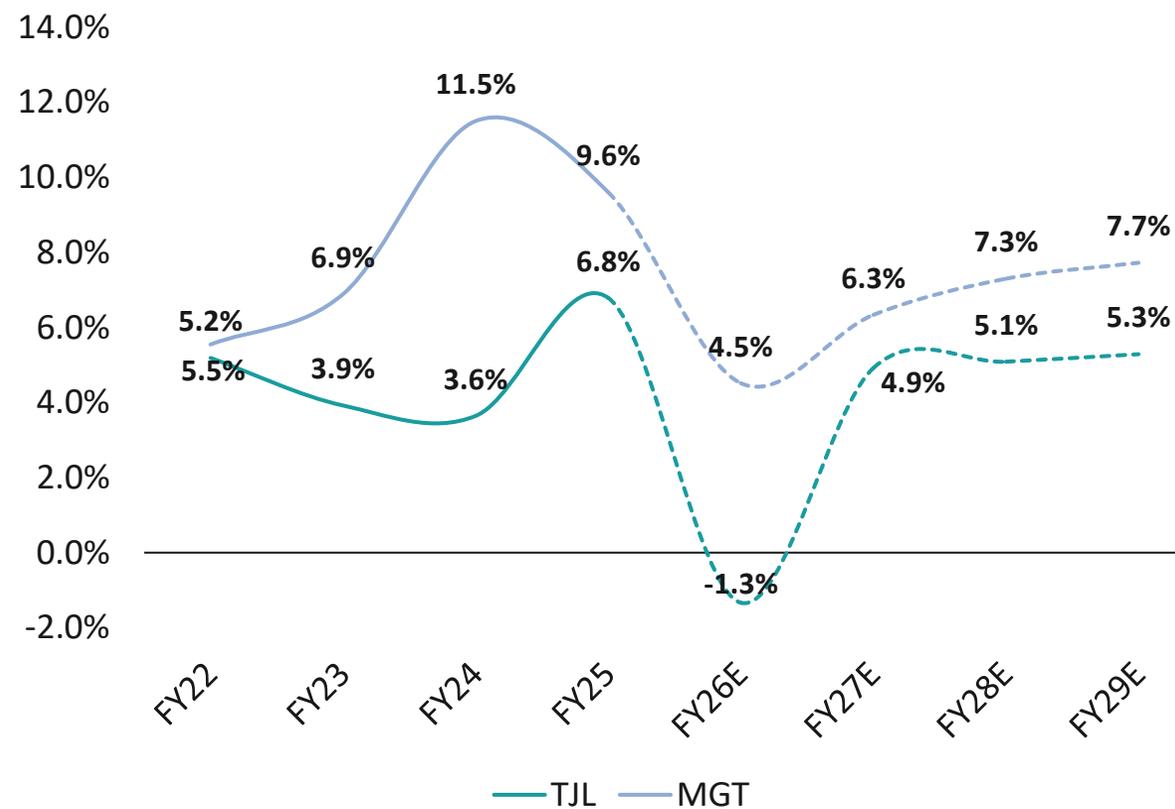
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While near-term earnings remain exposed to input cost volatility, we expect a gradual recovery in both gross and EBIT margins over the forecast horizon. Gross margins are likely to stabilize first, supported by easing raw material costs and improved procurement efficiencies. More importantly, EBIT margins are expected to recover at a faster pace, driven by operating leverage as capacity utilization improves and fixed costs are better absorbed. TJL is likely to see a sharper recovery from a lower base, while MGT continues to demonstrate a more stable and consistent margin expansion trajectory.

**GP margin margins of both players may recover...**



**...whilst EBIT margins may follow the same pattern**



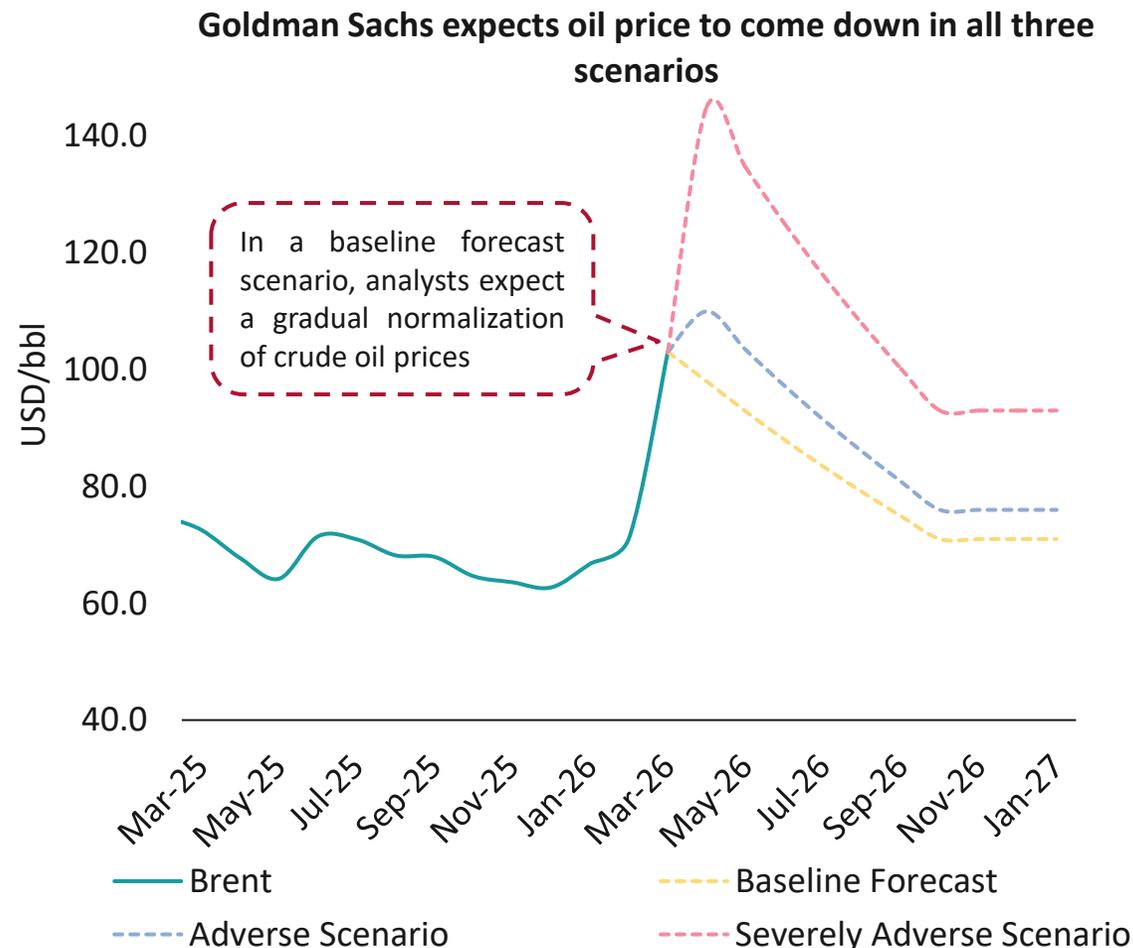
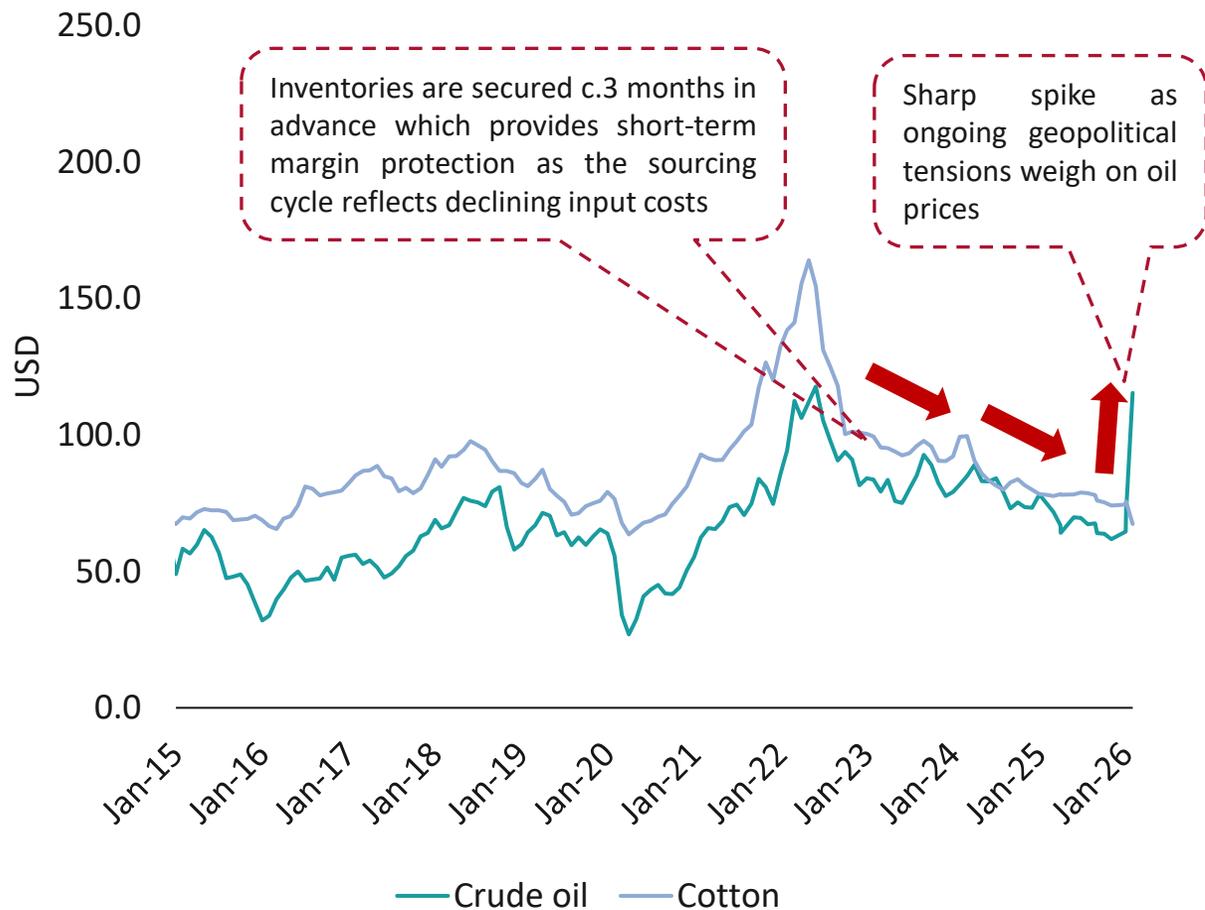
### 2.3.3. STABLE RAW MATERIAL PRICES SUPPORT MARGINS

...driven by expected stabilization of cotton and crude oil prices, which will normalize cost of goods sold and support gross margin recovery



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Raw material price volatility remains a key driver of margin movements, with recent easing in cotton and relatively stable synthetic-linked input costs supporting gross margin recovery. Cotton prices have historically exhibited sharp spikes — notably during supply disruptions — before normalizing, while crude oil movements continue to influence synthetic input costs and freight rates.



## 2.3.4. EXTERNAL SHOCKS WEIGH ON OIL AND FREIGHT PRICES

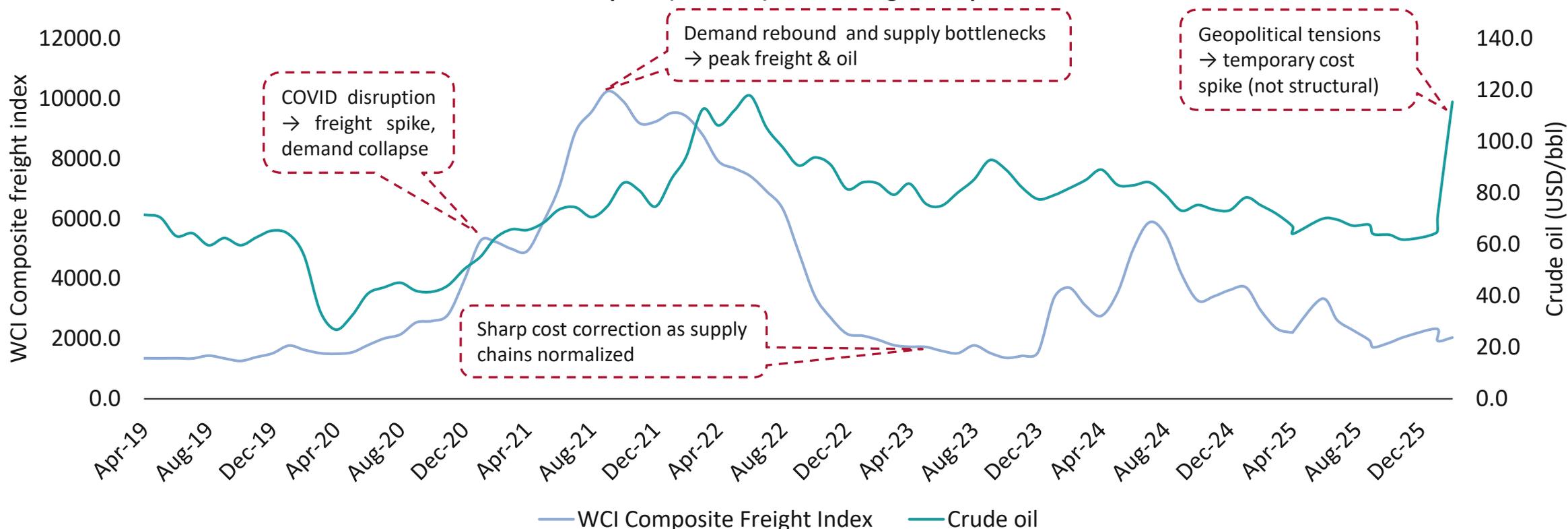
However, in the near term, rising crude oil prices introduce risks through higher synthetic input costs, freight charges, and insurance premiums...



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Crude oil volatility remains a key driver of input cost risk, impacting synthetic raw materials, freight, and insurance costs. Historically, cost spikes are linked to external shocks and are typically followed by periods of normalization. The recent increase in oil prices reflects renewed geopolitical risk; however, we expect these pressures to be temporary rather than structural.

Crude oil price (USD/bbl) vs WCI freight composite



**Cost shocks are cyclical — margins recover as input costs normalize**

## 2.3.5. MARGIN RECOVERY EXPECTED, DRIVEN BY EASING INPUT COSTS

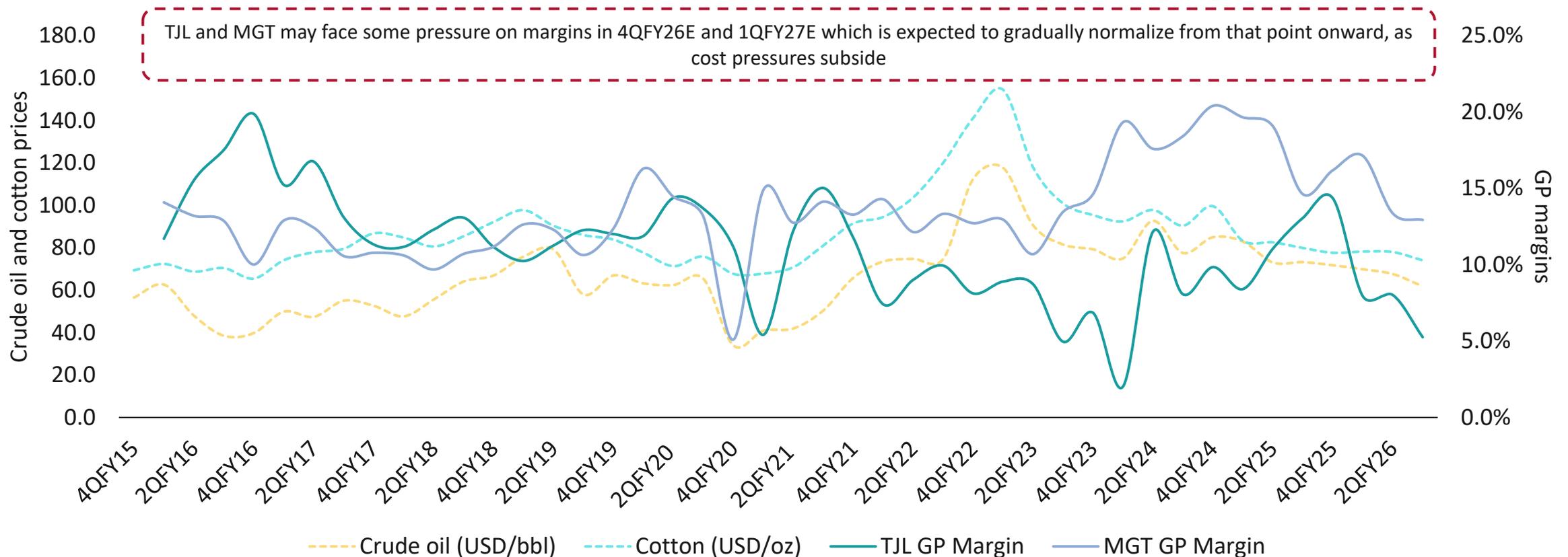
...as margins closely track input cost movements, as evidenced historically, while expected normalization stimulates recovery



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Raw material price volatility remains a key driver of margin movements, with clear historical sensitivity to both cotton and oil-linked input costs. Periods of elevated input prices have typically coincided with margin compression, followed by recovery as costs normalize. With cotton prices stabilizing and synthetic-linked input costs expected to ease post recent volatility, we expect a gradual recovery in gross margins.

**An increase in crude oil prices prompt and uptick in cotton and synthetic yarn prices, impacting GP margins of the companies while a decrease in raw material cost has exerted positive pressure on margins**



## 2.3.6. VALUE DRIVERS THAT JUSTIFY STABLE RAW MATERIAL OUTLOOK

Furthermore, sustained high production levels of cotton in key export regions reinforce global cotton oversupply dynamics...

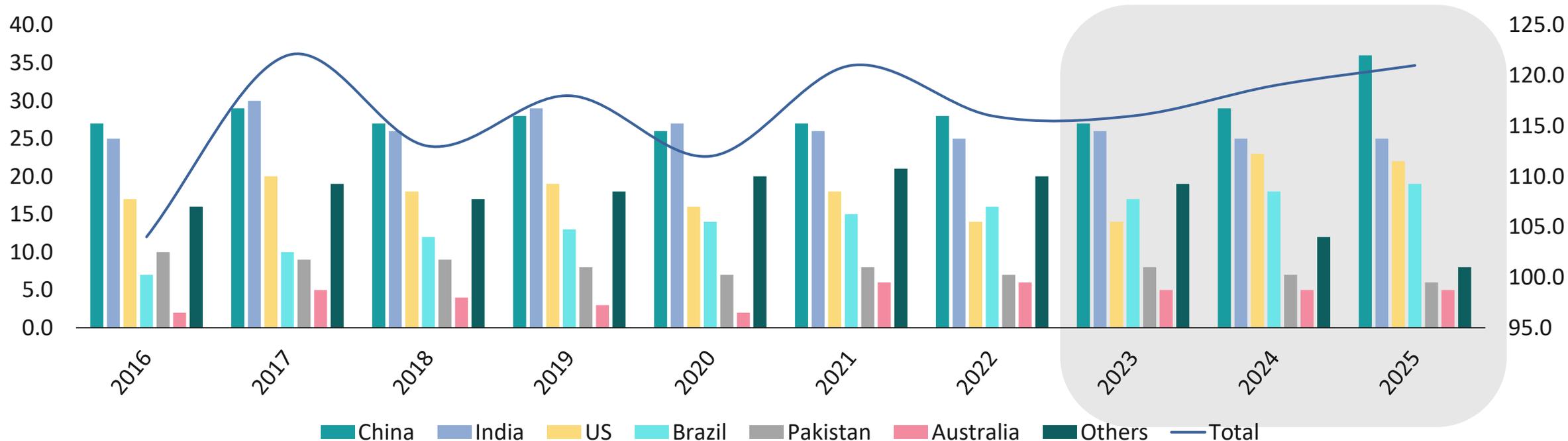


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Global cotton production has remained consistently elevated over the past decade, averaging c.115.4Mn bales, with 2024/25 output reaching 120.9Mn bales—near multi-year highs. Key producers including China (35.5Mn bales), India (23.5Mn bales), and the US (13.9Mn bales) continue to anchor global supply, while Brazil has emerged as a structurally growing contributor (19.5Mn bales in 2025 vs 7.0Mn in 2017). Despite minor cyclical dips (e.g 113.3Mn bales in 2020), supply has demonstrated resilience and rapid recovery, preventing any sustained tightening in the market. This persistent production strength, coupled with only moderate demand growth, reinforces the ongoing supply-demand imbalance and supports the expectation of subdued cotton price dynamics in the near term.

**Key export regions have consecutively out-produced cotton targets each year and the value of exports has also risen each year, thereby an excess supply situation can only be mitigated through stable pricing strategies**

Total production in Mn (480 lb. Bales)



## 2.3.7. PRODUCT MIX MOVES IN FAVOUR OF HIGHER MARGIN YIELD

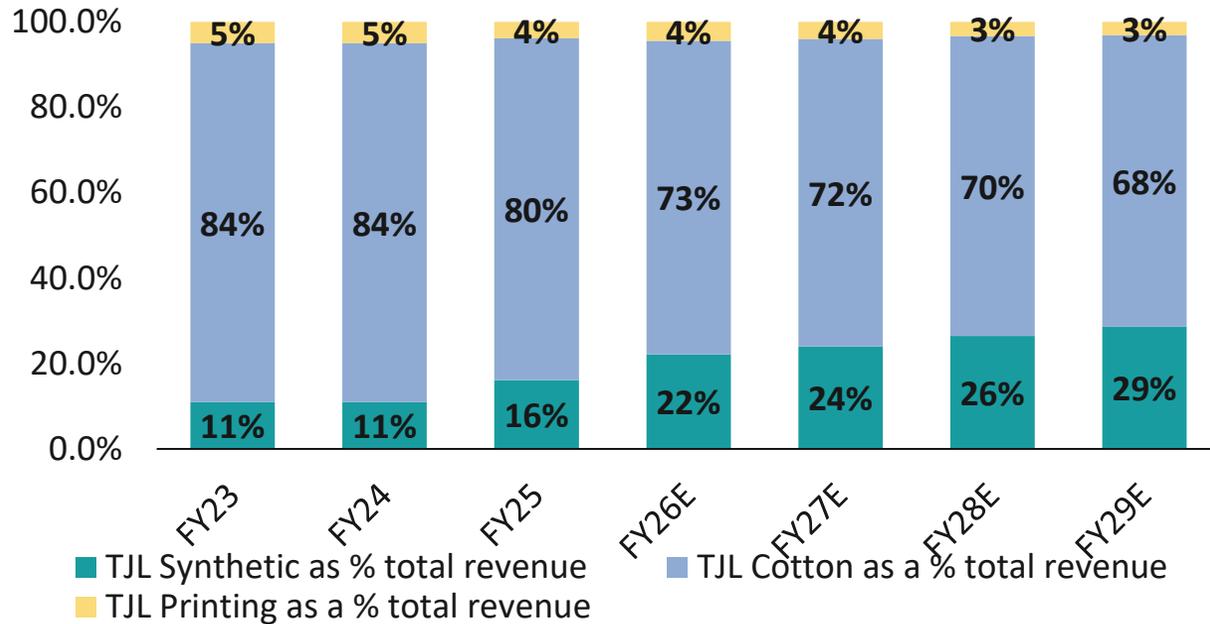
...and a structural shift towards higher-margin synthetic fabrics is expected to improve product mix and support long-term gross margin expansion...



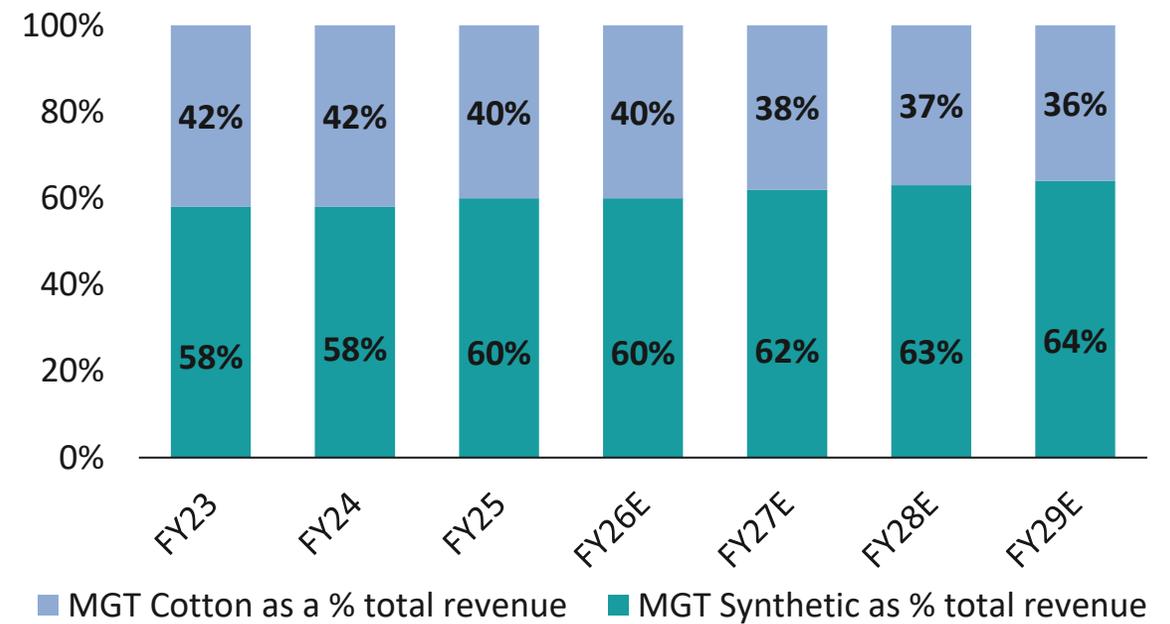
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TJL's synthetic contribution is expected to increase from 11.0% in FY23 to c.30% by FY31E, while MGT continues to maintain a higher synthetic exposure, rising to c.66% over the same period. Given synthetic fabrics typically generate c.20% higher margins than cotton-based products, this shift is expected to support sustained margin expansion across both companies. Overall, the increasing contribution of synthetic fabrics is likely to act as a key structural driver of long-term profitability.

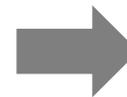
TJL's revenue mix highlights the sequential increase from synthetic segment



MGT's current dominance in synthetic fabric is also expand



Synthetic fabrics can yield **c.20% higher margins** than cotton fabrics



FCR expects the increasing contribution of synthetic fabrics to both TJL's and MGT's revenue to play a key role in supporting margin expansion.

## 2.3.8. LKR DEPRECIATION AND PRICING POWER FURTHER ENHANCES TOPLINE

...whist predominantly dollar-denominated revenues provide a natural hedge, and support pricing resilience

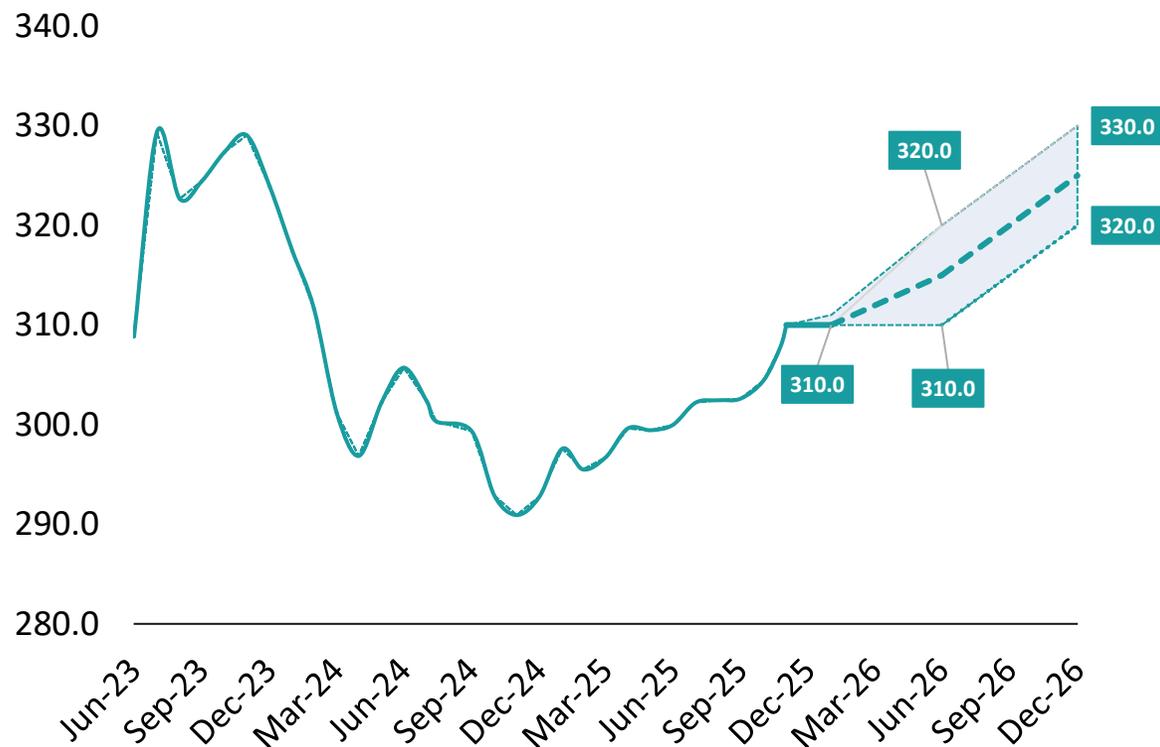


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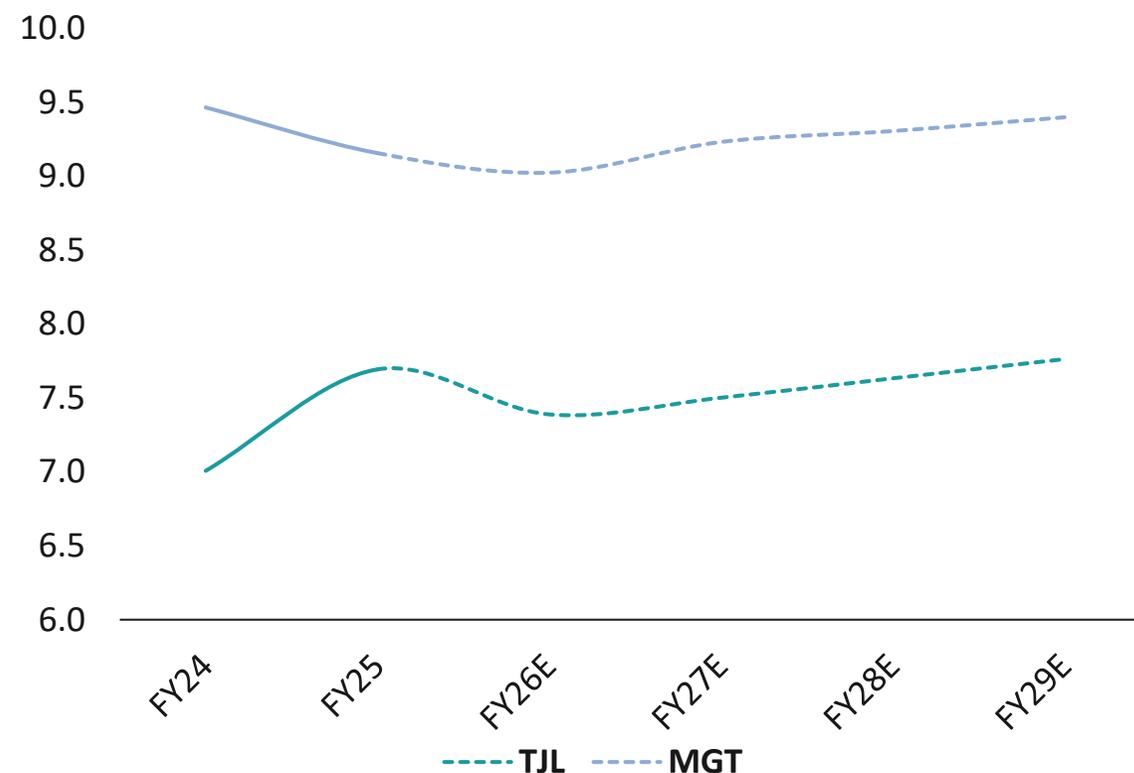
FCR expects c.5% LKR depreciation, providing a structural tailwind to topline given predominantly USD-denominated revenues. This creates a natural hedge against cost pressures, supporting uplift in LKR revenues even in a stable volume environment, thereby reinforcing earnings resilience.

ASPs are expected to recover gradually following prior pressure from tariff disruptions, which led to discounting and a loss of pricing power across both companies. MGT's strategic shift toward higher-end customers supports stronger pricing recovery, while TJL is also positioned to regain pricing power as conditions normalize.

FCR expects the LKR to depreciate by c.5.0% this year...



...which is expected to further enhance ASP (USD/kg)



## 2.3.9. CAPACITY UTILIZATION SUPPORTS EBIT GROWTH

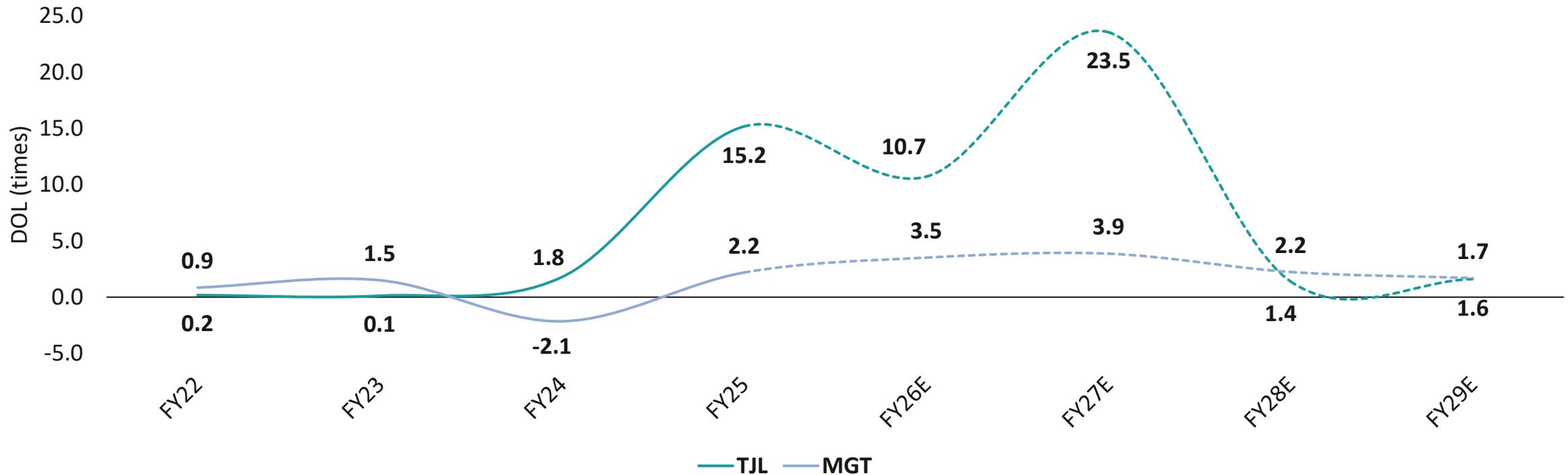
Capacity utilization is also expected to improve, enhancing operating leverage and driving stronger expansion at the EBIT margin level...



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Operating leverage is supporting earnings expansion, with improving capacity utilization driving a stronger conversion of revenue growth into EBIT. Both TJL and MGT demonstrate this trend, with TJL reflecting higher sensitivity to revenue changes, while MGT shows a more stable and consistent leverage profile. Overall, improving utilization is expected to enhance fixed cost absorption, supporting sustained EBIT margin expansion across both companies.

We expect degree of operating leverage (DOL) of MGT and TJL may increase before stabilizing as capacity utilization increases



DOL calculated as % change in EBIT divided by % change in revenue

## 2.3.9. UTILITY COST PRESSURES OVERCOME THROUGH RENEWABLE ENERGY INTEGRATION

...but rising electricity tariffs remain a key cost pressure, partially mitigated by increasing renewable energy adoption...

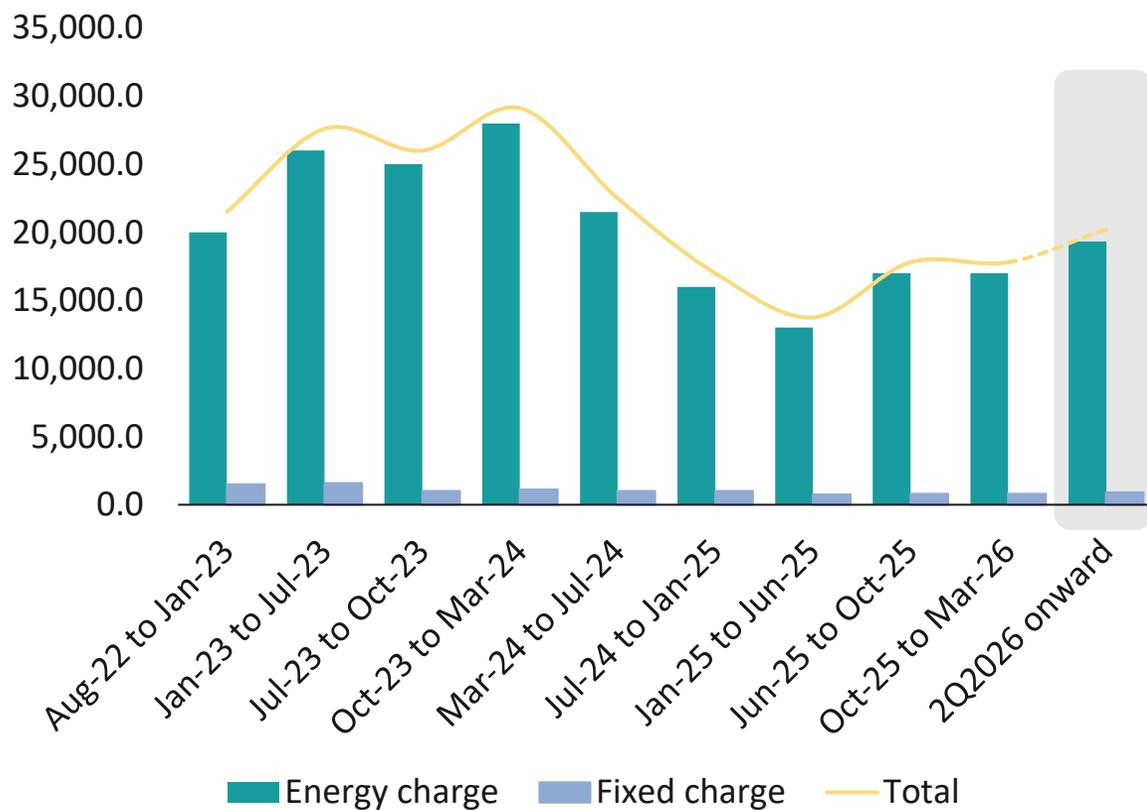


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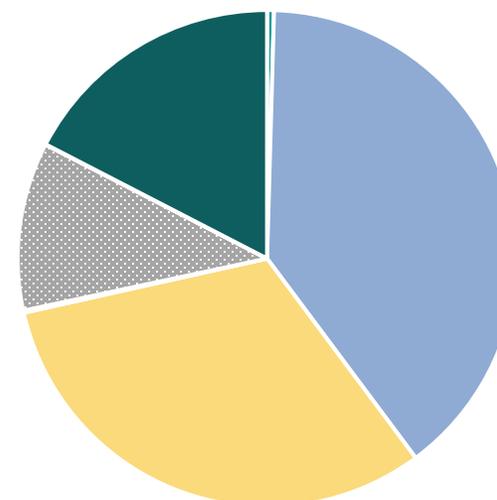
Elevated electricity tariffs continue to exert pressure on production costs, with Sri Lanka remaining relatively less competitive compared to regional peers. This places upward pressure on cost of production, particularly given the energy-intensive nature of fabric manufacturing.

However, increasing integration of renewable energy is helping to partially offset these cost pressures. Both TJL and MGT have progressively shifted their energy mix toward renewables, reducing reliance on grid-based electricity and improving cost efficiency.

Industrial/hotel electricity charge >300kWh

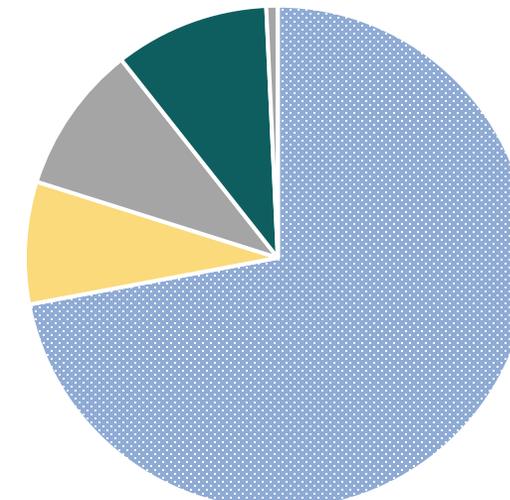


TJL currently generates **11.0%** through renewable energy



- Diesel
- Coal
- Biomass
- Electricity
- Furnace oil
- LPG
- Solar energy

MGT currently generates **72.0%** through renewable energy



- Biomass
- Diesel
- Furnace oil
- Electricity
- LPG
- Petrol

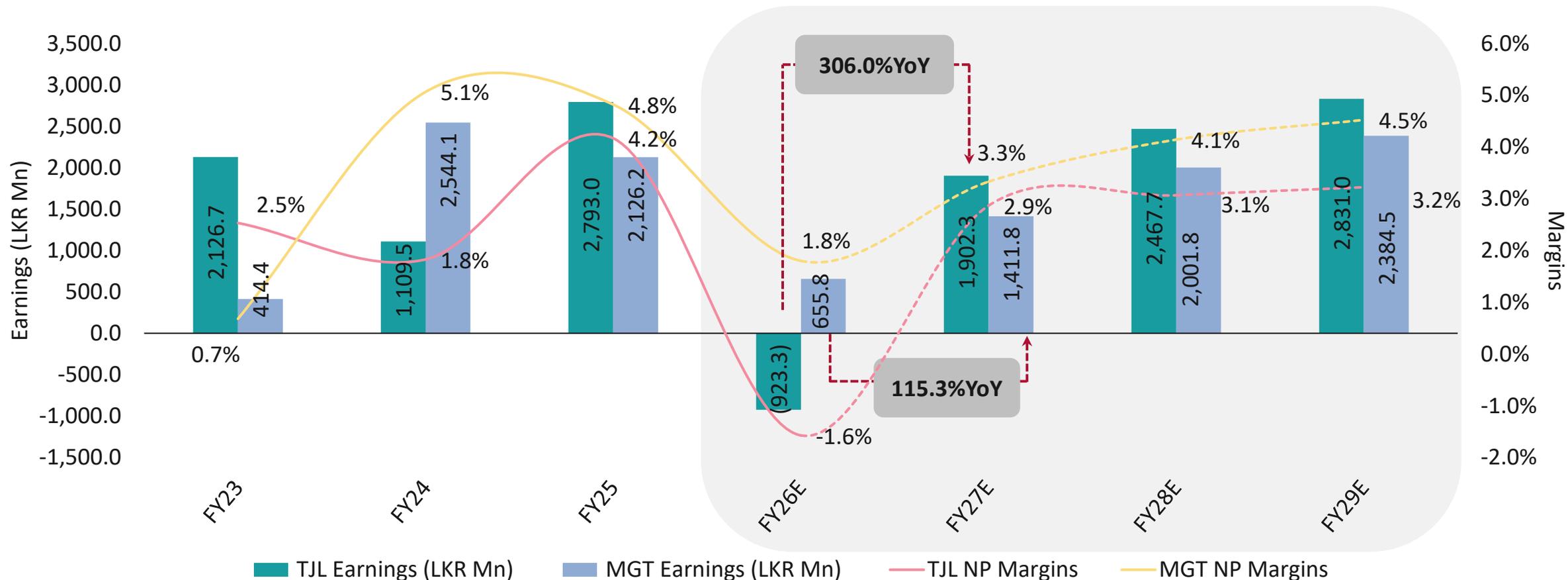
## 2.3.10. OVERALL EARNINGS OUTLOOK REMAINS MODERATELY POSITIVE

...resulting in a balanced margin outlook with modest gross margin expansion and earnings growth despite near term external cost pressures



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While near-term earnings remain exposed to input cost volatility, we expect a gradual recovery supported by easing raw material prices, improving operating leverage, and pricing normalization. Structural drivers, including a shift toward higher-margin synthetic products and currency tailwinds, further support earnings expansion. Overall, both TJL and MGT are well-positioned to deliver steady earnings growth, with margins normalizing over the medium term.



## 2.3.11. SENSITIVITY ANALYSIS

### Earnings sensitivity to exchange rate and ASP movements: earnings of both TJL and MGT are most sensitive to variations in the exchange rate



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**TJL** – From the base case earnings point, a  $\pm 5.0\%$  change in exchange rate results in an approximate  $\pm 113.3\%$  variation in earnings, which is consistent with the sharp swing observed from losses to profitability across the table. A  $\pm 2.0\%$  change in cotton ASP leads to a  $\pm 34.0\%$  change in earnings, correctly highlighting pricing as a key driver.

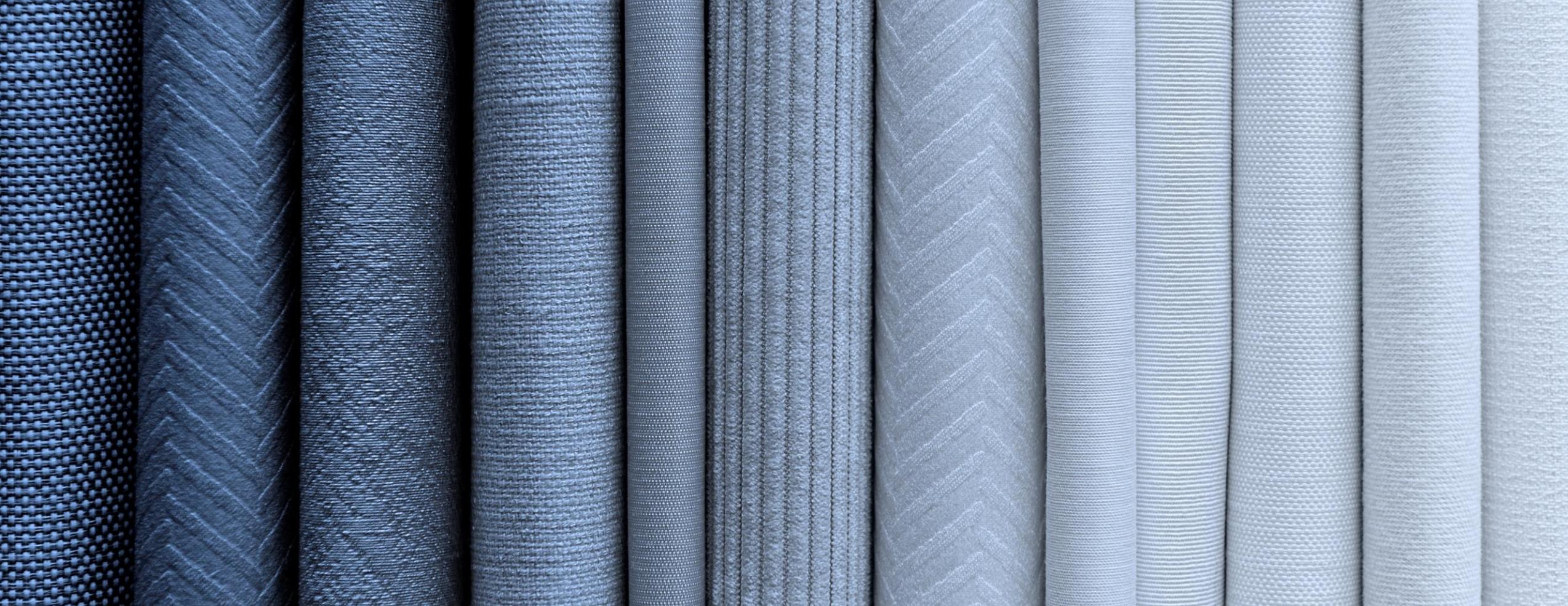
**MGT**- A 5.0% LKR depreciation increases earnings by 9.2%, while a 5.0% appreciation reduces profits by 9.2%. Similarly, a  $\pm 2.0\%$  change in ASP drives a 6.0% change in earnings, highlighting that although fluctuations are balanced, the exchange rate holds higher influence over MGT's earnings profile.

		Exchange rate					
		1,902.3	305.5	315.5	325.5	335.5	345.5
Cotton fabric ASP (USD)	7.3	(3,457.6)	(1,470.1)	622.0	2,714.2	4,910.9	
	7.4	(2,885.7)	(868.1)	1,255.7	3,379.5	5,609.5	
	7.5	(2,302.1)	(253.8)	1,902.3	4,058.4	6,322.4	
	7.7	(1,718.6)	360.4	2,548.9	4,737.4	7,035.3	
	7.8	(1,123.4)	987.0	3,208.4	5,429.9	7,762.4	

		Exchange rate					
		1,411.8	305.5	315.5	325.5	335.5	345.5
Average ASP (USD)	8.9	993.1	1,118.4	1,243.7	1,369.0	1,494.2	
	9.0	1,071.2	1,199.1	1,326.9	1,454.7	1,582.6	
	9.2	1,150.9	1,281.4	1,411.8	1,542.3	1,672.7	
	9.4	1,230.6	1,363.7	1,496.7	1,629.8	1,762.8	
	9.6	1,311.9	1,447.6	1,583.4	1,719.1	1,854.8	

		Exchange rate					
		1,902.3	305.5	315.5	325.5	335.5	345.5
Synthetic fabric ASP (USD)	6.3	(2,687.9)	(659.8)	1,474.9	3,609.7	5,851.2	
	6.8	(2,497.0)	(458.9)	1,686.5	3,831.8	6,084.4	
	7.3	(2,302.1)	(253.8)	1,902.3	4,058.4	6,322.4	
	7.8	(2,107.3)	(48.8)	2,118.2	4,285.1	6,560.4	
	8.3	(1,908.6)	160.4	2,338.3	4,516.3	6,803.1	

Furthermore a  $\pm 2\%$  change in synthetic ASP alters the profitability by 11.3%. This shows that **TJL's** earnings are highly sensitive to exchange rate fluctuations as well as changes in cotton ASPs as opposed to synthetic fabric prices.



3.0

## SCENARIO ANALYSIS

**GLOBAL ECONOMIC UNCERTAINTY IS INTENSIFYING RELIANCE ON SCENARIO ANALYSIS, AND INVESTORS ARE ADVISED TO TAKE DECISIONS BASED ON CLEAR RISK–REWARD TRADE-OFFS**

### 3.1. SCENARIO BASED TARGETS

FCR uses a top-down approach to forecast both revenue and profitability across different scenarios, given the current volatile macroeconomic environment



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Sri Lanka's apparel exports bull case scenario for 2026E

**LKR 6,266.5**

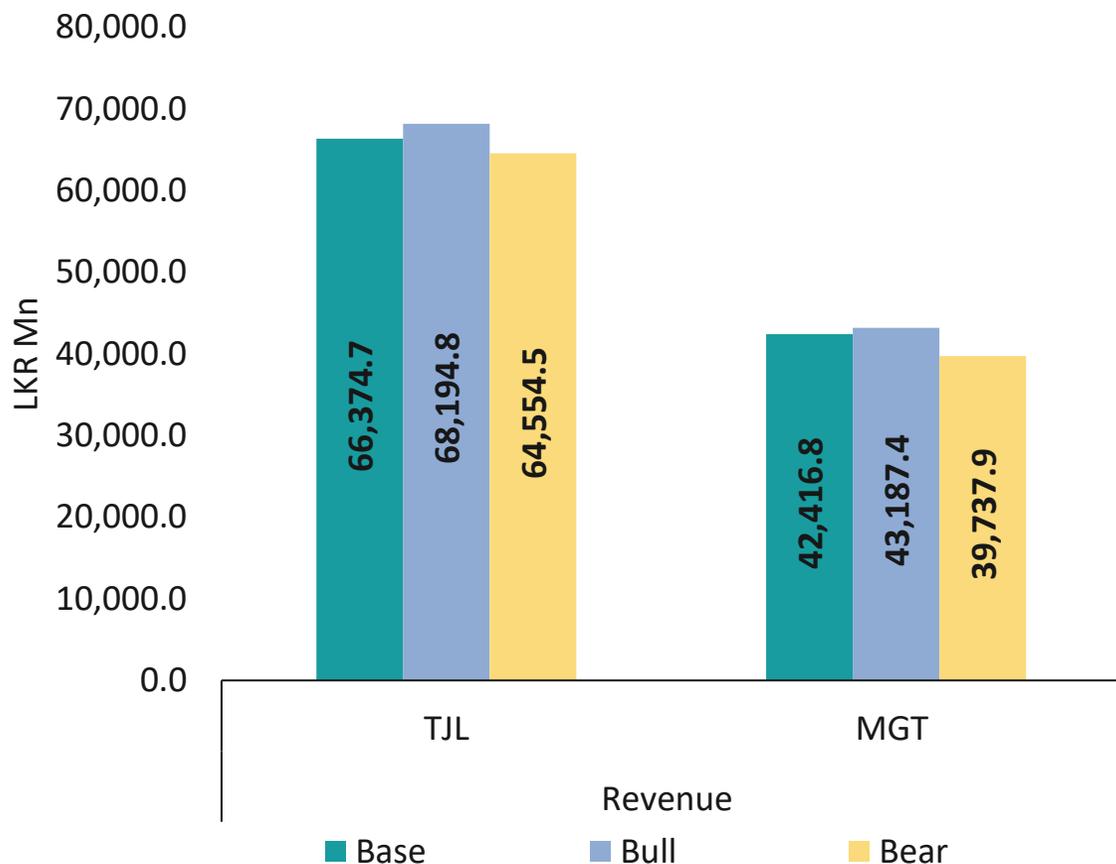
Sri Lanka's apparel exports base case scenario for 2026E

**LKR 5,368.7Bn**

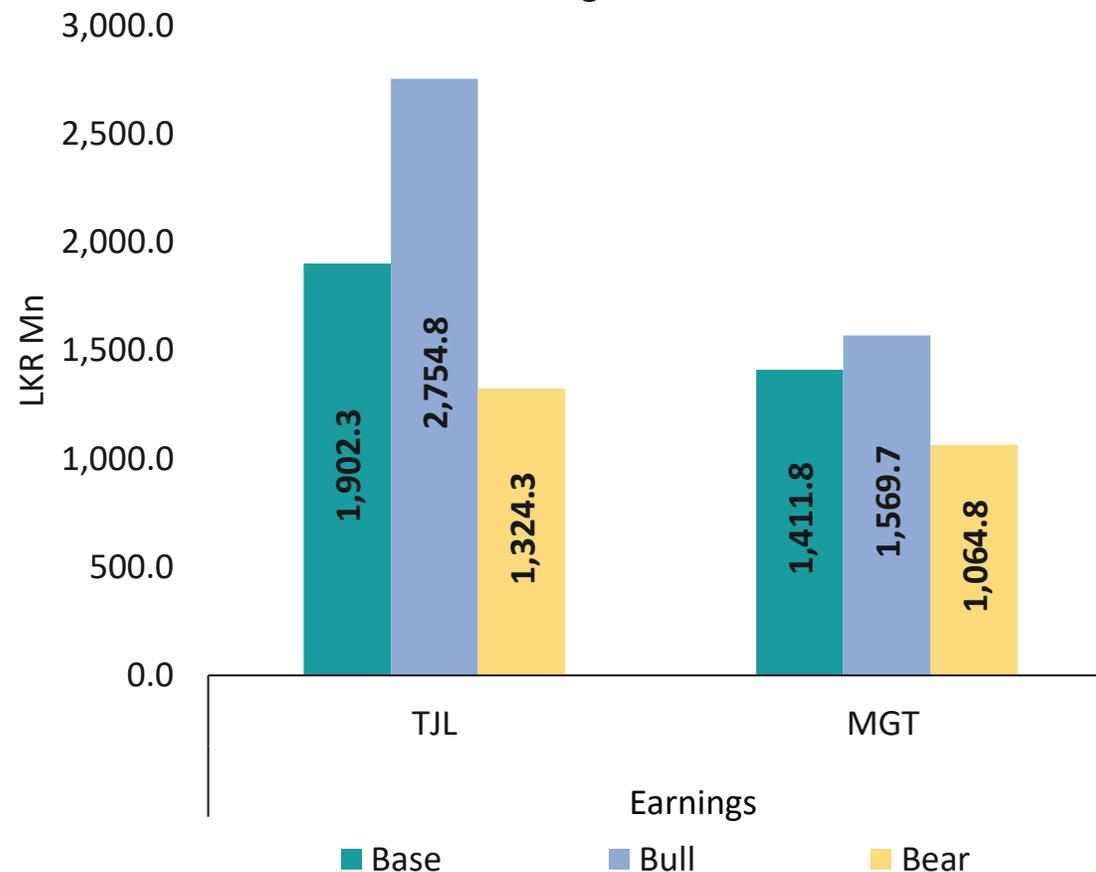
Sri Lanka's apparel exports bear case scenario for 2026E

**LKR 4,594.8Bn**

Revenue scenarios - FY27E



Earnings scenarios - FY27E



## 3.2. KEY ASSUMPTIONS FOR SCENARIOS

FCR uses a top-down approach to forecast both revenue and profitability across different scenarios, given the current volatile macroeconomic environment cont'd



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Bull case	Base case	Bear case												
<p><b>1. Macroeconomic outlook</b> Economic conditions in key export markets are expected to improve, and demand is likely to increase beyond World Bank and IMF growth targets.</p> <p><b>2. Impact on brand performance</b> Improved demand expected to drive stronger brand performance.</p> <p><b>3. Labor market conditions</b> Unemployment is expected to decrease.</p> <p><b>4. Inflation trends</b> Inflation may decrease or remain stable.</p> <p><b>5. Consumer spending pressure</b> Minimal to no pressure on consumer wallets and consumer spending expected to strengthen.</p> <p><b>6. China+1 strategy</b> Sri Lanka may absorb a larger share of volumes, though still lower than East Asian countries.</p> <p><b>7.FCR's bull case exchange rate:</b> LKR 316.2</p> <p><b>8. Expectation of U.S. and Iran:</b> War situation cools down and war may persist for another 1-month.</p> <p><i>**Please refer to Appendix II for the numerical assumptions underlying the scenarios</i></p>	<p><b>1. Macroeconomic outlook</b> Current economic conditions in key export markets (U.S., EU, UK) are expected to persist and outlook aligned with World Bank and IMF growth targets.</p> <table border="1"> <thead> <tr> <th>GDP targets</th> <th>U.S.</th> <th>EU</th> <th>UK</th> </tr> </thead> <tbody> <tr> <td>World Bank</td> <td>2.2%</td> <td>0.9%</td> <td>1.1% - 1.6%</td> </tr> <tr> <td>IMF</td> <td>2.1%</td> <td>1.4%</td> <td>1.3%</td> </tr> </tbody> </table> <p><b>2. Impact on brand performance</b> Stable economic conditions expected to support steady brand performance.</p> <p><b>3. Labor market conditions</b> Unemployment is projected to remain stable.</p> <p><b>4. Inflation trends</b> Inflation is expected to stay at current levels.</p> <p><b>5. Consumer spending pressure</b> Limited pressure on consumer wallets and consumer spending expected to remain stable.</p> <p><b>6. China+1 strategy</b> Sri Lanka is likely to absorb a small share of redirected volumes.</p> <p><b>7. FCR's base case exchange rate:</b> LKR 325.0</p> <p><b>8.Expectation of U.S. and Iran:</b> War may persist for another 1-2months.</p>	GDP targets	U.S.	EU	UK	World Bank	2.2%	0.9%	1.1% - 1.6%	IMF	2.1%	1.4%	1.3%	<p><b>1. Macroeconomic Outlook</b> Economic conditions in key export markets may deteriorate and performance may fall below World Bank and IMF growth targets.</p> <p><b>2. Impact on brand performance</b> Weaker economic conditions likely to negatively affect brand performance.</p> <p><b>3. Labor market conditions</b> Unemployment levels are expected to increase.</p> <p><b>4. Inflation trends</b> Inflation may rise above current levels.</p> <p><b>5. Consumer spending pressure</b> Increased inflation will create high pressure on consumer wallets and likely reduction in discretionary spending.</p> <p><b>6. China+1 strategy</b> No room to absorb the redirected volumes as India, Vietnam and Bangladesh may absorb.</p> <p><b>7. FCR's bear case exchange rate:</b> LKR 330.8</p> <p><b>8.Expectation of U.S. and Iran:</b> War may persist for over 3 months.</p>
GDP targets	U.S.	EU	UK											
World Bank	2.2%	0.9%	1.1% - 1.6%											
IMF	2.1%	1.4%	1.3%											

## 4.0

### THREAD YOUR NEEDLE: VALUATIONS AND FCR'S TOP RECOMMENDATIONS

*4.1. HISTORICAL PRICE AND PER TRENDS*

*4.2. COMPARISON WITH REGIONAL PEERS*

*4.3. FCR'S TOP PICKS FOR THE SECTOR*



## 4.1. HISTORICAL PRICE AND PER TRENDS

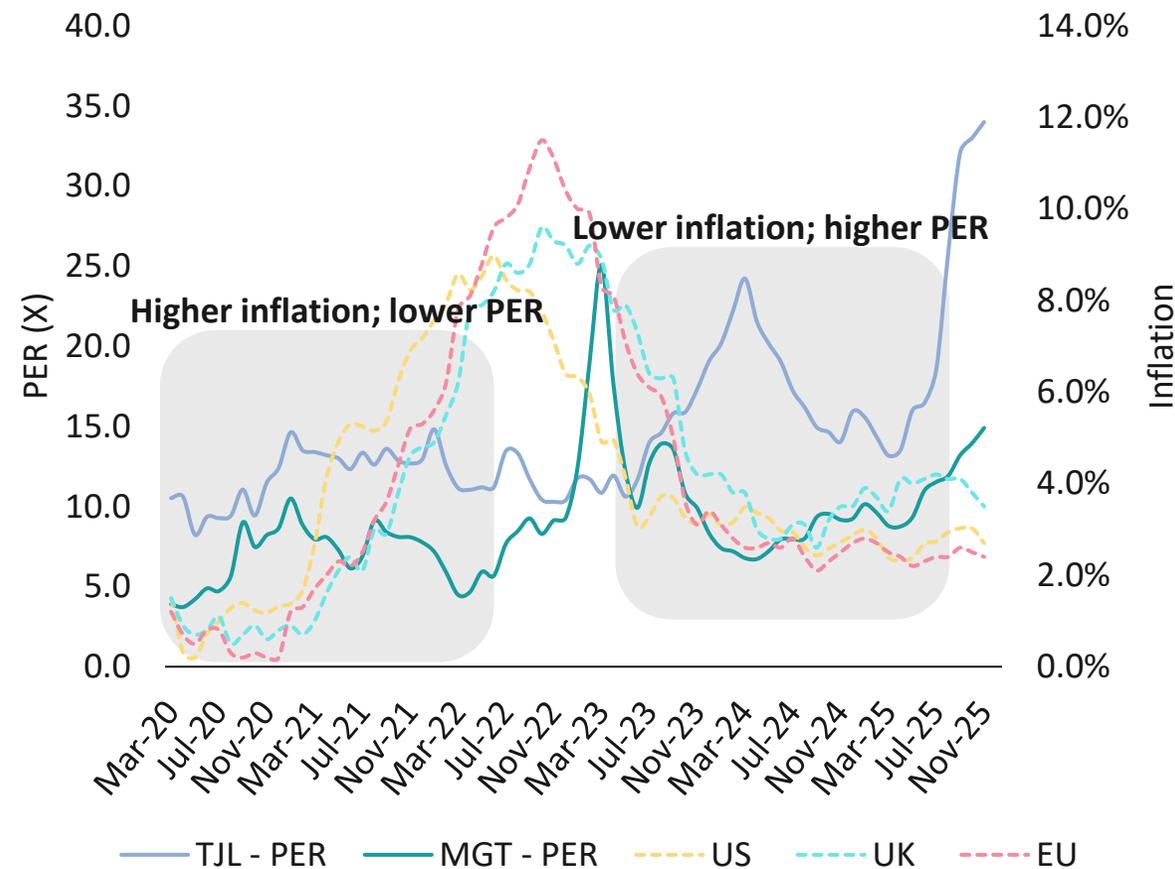
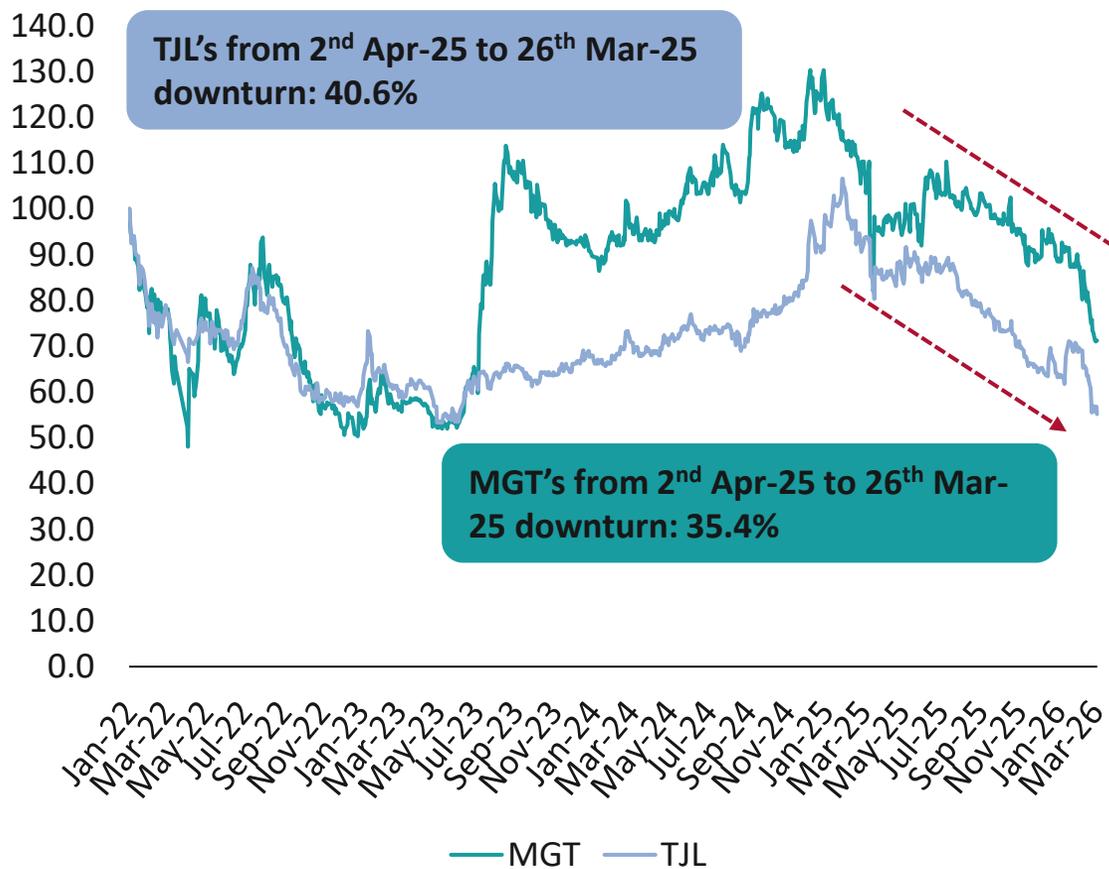
# Company valuations respond to macroeconomic conditions in key export markets, with lower inflation supporting higher PER through increased consumer spending and improved profitability



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Following the U.S. reciprocal tariff announcement, share prices of both **TJL** and **MGT** declined by **40.6%** and **35.4%** respectively as of 26<sup>th</sup> March 2026. Both stocks are currently trading at a **33-month low**, indicating that the post-tariff inventory replenishment cycle has yet to commence.

TJL and MGT exhibit an **inverse correlation** with **inflation** across **key apparel export markets**, with PER contracting during inflationary periods and expanding as inflation moderates, indicating sensitivity to macroeconomic conditions.



## 4.2. COMPARISON WITH REGIONAL PEERS

The PEG ratio suggests stronger growth prospects for TJL and MGT, as their elevated PER relative to regional peers is supported by higher expected earnings growth



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Company name	Bloomberg ticker	Country	Available capacity per day	Gross margin	ROE	TTM PER	EV/EBITDA	EV/sales	PBV
Teejay Lanka PLC	TJL SL	Sri Lanka	103MT	5.3%	11.2%	27.8x	11.1x	0.4x	0.8x
Hayleys Fabric PLC	MGT SL	Sri Lanka	60MT	12.9%	8.6%	12.7x	6.5x	6.5x	1.4x
Square Textiles	SQTT BD	Bangladesh	60MT	12.9%	13.5%	6.7x	6.1x	1.0x	0.9x
Vietnam National Textile and Garment Group	VGT VN	Vietnam	92MT	10.8%	4.5%	13.0x	8.9x	0.7x	0.9x
Song Hong Garments	MSH VN	Vietnam	0.17Mn units	23.1%	13.5%	6.3x	4.1x	0.6x	1.7x
Nishat Mills	NML PA	Pakistan	0.87 Mn sqmt	14.6%	7.0%	14.6x	4.2x	0.7x	0.4x
Haufu Fashin Co LTD	HAU CH	China	556MT	22.9%	-0.3%	7.8x	3.9x	1.2x	1.2x
Page Industries	PAG IN	India	660,000 units	50.0%	52.7%	58.4x	39.3x	9.3x	28.4x
Vardhman Textiles Ltd	VTEX IN	India	500,000m	43.0%	8.6%	18.2	11.8x	1.5x	1.5x
<i>High</i>				50.0%	52.7%	58.4x	39.3x	9.3x	28.4x
<i>Low</i>				5.3%	-0.3%	6.3x	3.9x	0.4x	0.4x
<i>25% percentile</i>				11.9%	5.8%	9.0x	4.7x	0.7x	0.9x
<i>Mean</i>				21.7%	13.3%	18.4x	10.7x	2.4x	4.1x
<i>75% percentile</i>				33.1%	13.5%	25.4x	11.6x	4.0x	1.6x
<b>Median</b>				<b>14.6%</b>	<b>8.6%</b>	<b>13.0x</b>	<b>6.5x</b>	<b>1.0x</b>	<b>1.2x</b>

**Premium valuations signal embedded growth expectations:** TJL is trading at a significant premium to the regional peer median on both PER and EV/EBITDA, at 113.8% and 70.8% respectively, while MGT trades at a marginal 2.3% discount on PER and broadly in line on EV/EBITDA. Given the elevated PER and EV/EBITDA multiples, we place greater emphasis on the PEG ratio to better assess growth-adjusted valuation.

## 4.2. COMPARISON WITH REGIONAL PEERS CONT'D

The PEG ratio suggests stronger growth prospects for TJL and MGT, as their elevated PER relative to regional peers is supported by higher expected earnings growth cont'd



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### FORWARD PEG CALCULATION FOR TJL

EPS growth in FY27E: 306.0%

Forward PER in FY27E 11.0x

PEG ratio =11.0/306.0

**PEG = 0.04x < 1.0x**

### FORWARD PEG CALCULATION FOR MGT

EPS growth FY27E 115.3%

Forward PER in FY27E 9.1x

PEG ratio =9.1/115.3

**PEG = 0.3x < 1.0x**

Both TJL and MGT trade at PEG ratios well below 1, indicating strong growth potential and suggesting that expected earnings growth is not yet fully priced in. TJL is projected to deliver robust EPS growth of 306.0%, albeit from a lower base, while MGT is expected to record a solid 115.3% growth trajectory.

*\*\* (Note: EPS growth is taken for TJL as 306.0, not 3.06, since PEG conventionally uses percentage terms and EPS growth is taken for MGT as 115.3, not 1.15, since PEG conventionally uses percentage terms.)*



## 4.3

### FCR'S TOP PICKS FOR THE SECTOR

TJL	: FY27E LKR 42.0 (AER: 50%)	FY28E LKR 50.0 (AER: 34%)
MGT	: FY27E LKR 37.0 (AER: 23%)	FY28E LKR 46.0 (AER: 24%)

# TJL | TEEJAY LANKA PLC | INITIATING WITH A BUY | “STITCHING THE RECOVERY THROUGH STRATEGY AND GROWTH”

**Fair Value: FY27E - LKR 42.0 [+45%]**

*Total Return with DPS: FY27E - 50% [AER 50%]*

**Fair Value: FY28E - LKR 50.0 [72%]**

*Total Return with DPS: FY28E - 79% [AER 34%]*

## Recovery-driven growth supported by scale, diversification, and improving demand visibility

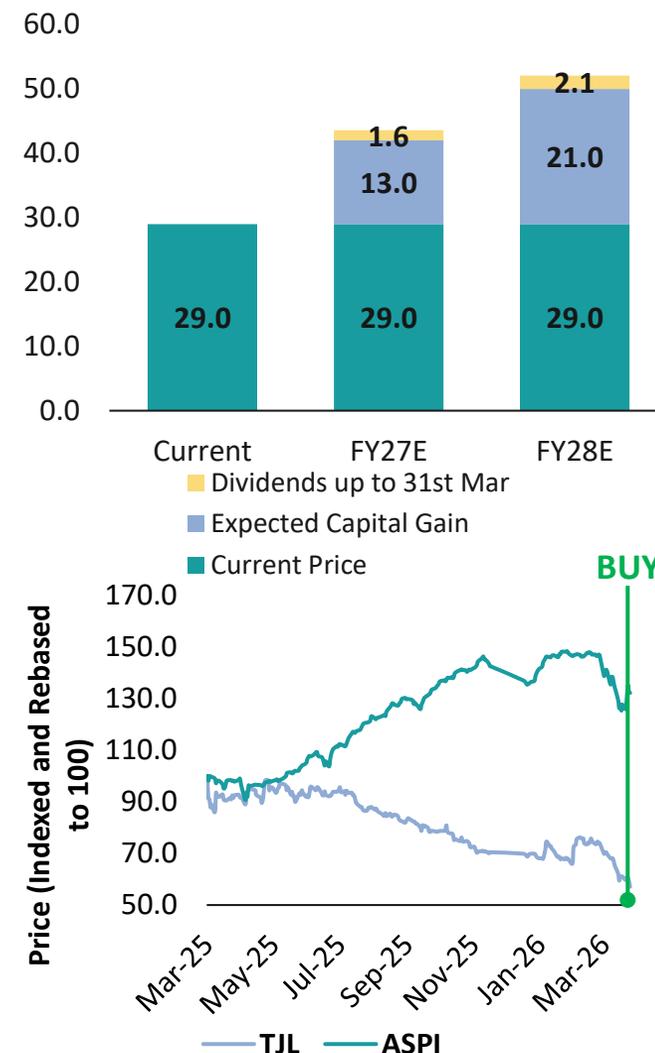
Earnings are expected to recover gradually, supported by scale advantages and improving demand conditions. TJL’s performance has been impacted by weak global demand and pricing pressure, with 9MFY26 revenue declining 8.2%YoY to LKR 45.7Bn and earnings slipping to a loss of LKR 147.2Mn, driven by lower utilization and tariff-related disruptions, particularly in India. Structurally, TJL remains well-positioned with a diversified footprint across Sri Lanka, India, Egypt and Indonesia, enabling proximity to both raw materials and key markets. We forecast revenue to reach LKR 66.4Bn and LKR 80.5Bn in FY27E and FY28E (up 13.0%YoY and 21.3%YoY), supported by capacity utilization improving from 67.0% to 80.0% by FY28E, and a gradual recovery in order flows. Further support stems from low price elasticity in core markets, ongoing China+1 sourcing shifts, and stable performance across key regions. Furthermore, India’s tariff rate has decreased from 50.0% to 15.0%, creating a favorable advantage for TJL due to its strong operational presence in the country, primarily as a cotton fabric manufacturer. FCR expects earnings to recover to LKR 1.9Bn in FY27E and LKR 2.5Bn in FY28E, supported by order expansion, inventory normalization at key brands, and TJL’s positioning as a leading sustainable fabric manufacturer.

## Margin recovery supported by cotton cost stabilization, operational efficiencies, and energy cost savings

We expect gross margins to expand by 215bps and 32bps and operating margins by 625bps and 17bps in FY27E and FY28E, respectively, supported by utilization improving from c.65–70% to 80.0% and continued cost efficiencies, following a sharp downturn in FY26. TJL’s margins have come under pressure due to pricing declines (c.5.0%–6.0%) and lower capacity utilization amid weak demand and competitive intensity, with near-term pressure likely to persist until 1QFY27E. However, global cotton oversupply and elevated inventories are expected to keep input costs subdued, benefiting TJL’s cotton-heavy mix, while tariff normalization (flat 15.0% reciprocal rate) across sourcing countries limits ASP disadvantages. Combined with renewable energy integration, including the addition of a 7MW solar plant as well as biomass plant, and ongoing cost optimization initiatives, TJL has also undertaken cost restructuring measures that have improved cost absorption per kg, lowering the breakeven capacity from 70.0% to 67.0% and supporting margin recovery.

## Valuation remains attractive at current price, as FCR expects TPs of LKR 42.0 and LKR 50.0 in FY27E and FY28E, respectively

We recommend a BUY on TJL, supported by its scale, diversified footprint, and recovery potential, which position it to benefit disproportionately from a cyclical upturn in global textile demand. Despite near-term earnings pressure, TJL offers significant upside through operating leverage, with margin expansion and capacity utilization recovery expected to drive earnings growth. We value the company at a target price of LKR 42.0 in FY27E and LKR 50.0 in FY28E, derived using a blended valuation approach (DCF and PER methodologies with equal weighting), implying a PER of 15.0x for both years. This offers an AER of 50.1% and 33.9%, respectively, driven by earnings normalization and improving global demand dynamics.



## Valuation methods and assumptions

### Valuation Summary

Expected TJL price	FY27E	FY28E
DCF based target price	45.1	51.9
PER based Valuation	39.6	51.3
Average Target Price	42.3	51.6
Target Price after Rounding off	42.0	50.0

Return	FY27E	FY28E
Target Price	42.0	50.0
Current Price	29.0	29.0
Capital Gain (LKR)	13.0	21.0
Dividends up to 31st March	1.6	2.1
Capital Gain %	45%	72%
Dividend Yield %	5%	7%
Total Return %	50%	79%
Annualized Return %	50%	34%

### PER Based Valuation

PER based Valuation	FY27E	FY28E
Earnings (LKR 'Mn)	1,902	2,468
No. of Shares ('Mn)	721	721
EPS	2.6	3.4
Expected PER	15.0x	15.0x
Target Price	39.6	51.3

### Discounted Cash Flow Valuation

DCF based valuation	FY27E	FY28E
Enterprise Value	40,397	42,382
(-) Debt	(8,367)	(8,278)
(+) Cash	1,664	4,454
(-) Retirement benefit obligations	(1,122)	(1,122)
Total Value of Equity	32,572	37,436
No. of Shares (Mn)	721	721
Target Price	45.1	51.9

### Cost of Equity

COE	FY27E	FY28E
Rf	9%	9%
Rm	17%	17%
Growth %	3%	3%
$\beta$	0.5	0.5
$Ke = Rf + \beta(Rm - Rf)$	13%	13%

### Weighted Average Cost of Capital

WACC	FY27E	FY28E
Ke	13%	13%
Kd	6%	6%
D/E Assumption	40/60	40/60
Terminal Growth (%)	3%	3%
WACC	10%	10%

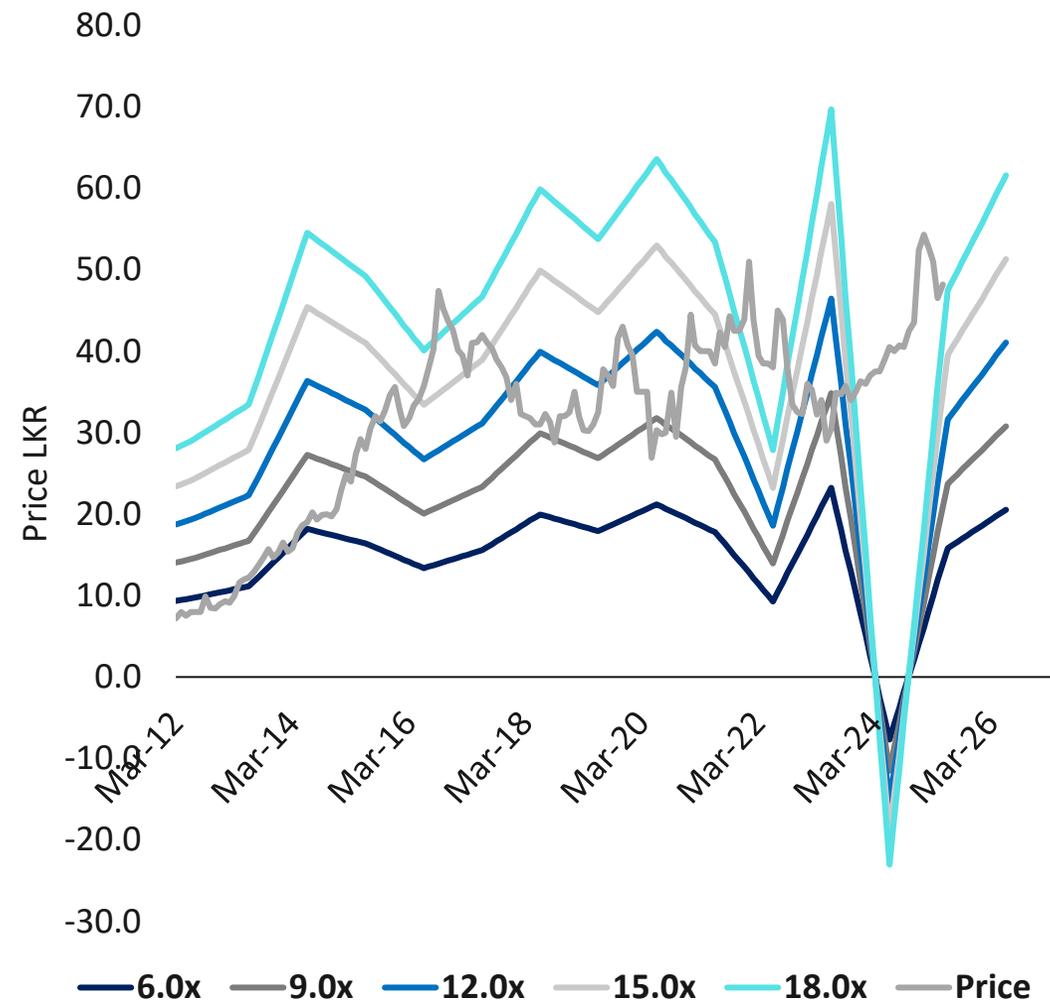


## Valuation methods and assumptions

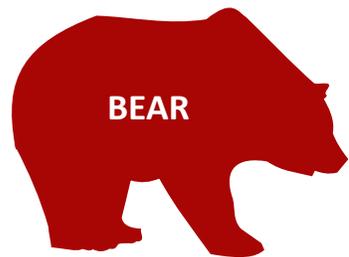
### Valuation Table

P/E 31 March	FY23	FY24	FY25	FY26E	FY27E	FY28E	FY29E
Estimates (LKR 'Mn)							
Revenue	84,037	60,734	67,036	58,738	66,375	80,493	87,888
Gross profit	6,843	5,057	7,841	3,563	5,456	6,873	7,644
EBIT	3,295	2,213	4,551	(784)	3,265	4,096	4,647
<b>Net Profit</b>	<b>2,127</b>	<b>1,110</b>	<b>2,793</b>	<b>(923)</b>	<b>1,902</b>	<b>2,468</b>	<b>2,831</b>
Adjusted EPS (LKR)	2.9	1.5	3.9	(1.3)	2.6	3.4	3.9
YoY Growth (%)	-16.0%	-47.8%	151.7%	-133.1%	306.0%	29.7%	14.7%
DPS (LKR)	1.5	0.8	2.4	-	1.6	2.1	2.4
<b>Valuations</b>							
PER (x)	9.8x	18.9x	7.5x	-22.7x	11.0x	8.5x	7.4x
PBV (x)	0.6x	0.7x	0.7x	0.7x	0.7x	0.6x	0.6x
DY (%)	5.2%	2.6%	8.1%	0.0%	5.5%	7.1%	8.1%
Adjusted NAVPS	44.4	41.8	43.7	42.4	43.5	44.8	46.4
Dividend Payout	51%	49%	61%	0%	60%	60%	60%

### PER Band Chart

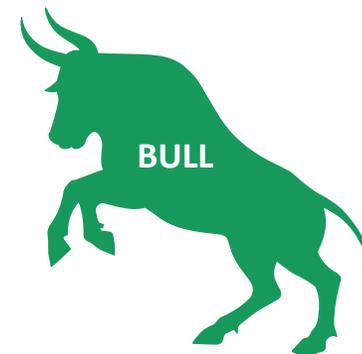


FCR analyzed two scenarios with varying assumptions to assess the price changes of TJL, with the Bull case yielding a price of **LKR 57.0** and the Bear case resulting in a price of **LKR 31.0**



Target price: LKR 31.0  
Upside: 6.9%  
Dividend yield: 3.8%  
Total annualized return: 10.7%

Target price: LKR 57.0  
Upside: 96.6%  
Dividend yield: 7.9%  
Total annualized return: 104.1%



Key assumptions

68.0%	Capacity utilization rate	72.0%
+1.5%	Growth in average selling price – cotton and synthetic average	+6.1%
+5.7%	Change in cotton prices	+2.6%
7.1%	GP margin	9.9%
3.8%	EBIT margin	6.6%
LKR 330.8/USD	Exchange rate	LKR 316.2/USD

*We determined the bull and bear case price targets by analysing various factors such as capacity utilization, growth projections, cost-saving scenarios, and exchange rate fluctuations. These scenarios helped us assess potential price changes based on macroeconomic conditions and industry-specific assumptions.*



## Strong ESG Profile driven by environmental leadership and robust governance integration

### Environmental

85.0%

#### Energy and emissions – 8.8 / 10

Scope 1, 2 & 3 emissions tracked; ISO 14064 verified

SBTi-aligned decarbonization pathway and net-zero direction

Renewable energy (solar + biomass) integrated into operations

#### Water and effluents – 8.7 / 10

High water recycling rates and zero liquid discharge practices

Advanced wastewater treatment across facilities

#### Materials and chemicals – 8.4 / 10

ZDHC compliance and Bluesign-aligned chemical management

Certified sustainable materials (GRS, GOTS) integrated into production

#### Waste and circularity – 8.1 / 10

Fabric waste reduction and recycling initiatives

Circular manufacturing focus embedded in operations

### Social

87.3%

#### Workforce management – 8.5/ 10

- Structured training, health & safety programs, employee wellbeing focus

- Low incident rates and compliance with labour standards

#### Supply chain responsibility – 9.0 / 10

- Responsible sourcing frameworks aligned with global client requirements

- Supplier engagement and ESG compliance monitoring

#### Community and CSR – 8.7 / 10

- “Thirasara Mehewara” initiatives aligned with SDGs (education, water access)

- Ongoing community development in operating regions

#### Customer and product responsibility – 8.7/ 10

- Strong alignment with global brands requiring ESG compliance

- Sustainable product offerings supporting client ESG targets

### Governance

100.0%

#### Board structure and oversight – 10.0 / 10

- Board-level ESG oversight and dedicated sustainability governance structures

#### Risk management and controls – 10.0 / 10

- ESG integrated into enterprise risk framework (SRRO model)

- Continuous monitoring via Sustainability Performance Analyzer (SPA)

#### Disclosure and transparency – 10.0 / 10

- GRI-based integrated reporting with IFRS S1/S2 alignment

- 14+ years of consistent integrated reporting

#### Audit and assurance – 10.0 / 10

- External assurance of ESG metrics and climate disclosures

- Independent verification frameworks in place

**Satisfies all the requirements provided by CA code of best practices.**

# MGT | HAYLEYS FABRIC PLC | INITIATING WITH A BUY | “THREADING THE SEAMS FOR A STRONGER COMEBACK”

**Fair Value: FY27E - LKR 37.0 [+20%]**

*Total Return with DPS: FY27E - 23% [AER 23%]*

**Fair Value: FY28E - LKR 46.0 [+49%]**

*Total Return with DPS: FY28E - 54% [AER 24%]*

## Short-term pressure, but structurally resilient topline supported by premium positioning

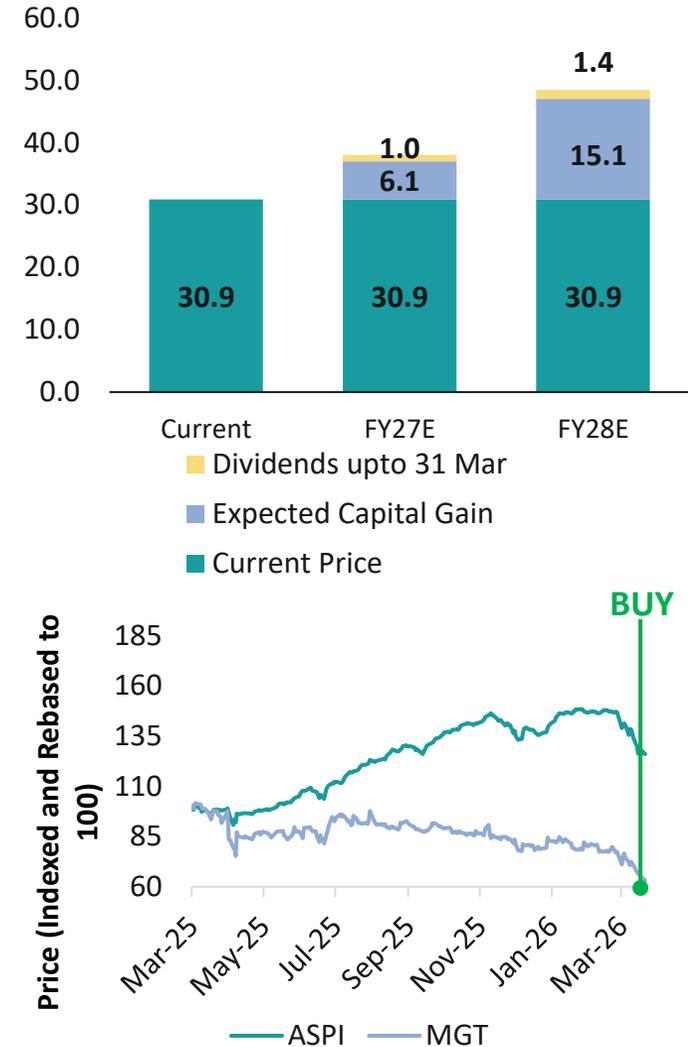
MGT’s earnings trajectory has recently reflected macro-driven softness in global apparel demand, with revenue declining by c.18.5%YoY over 9MFY26 and profitability impacted by elevated costs and weaker order volumes. This is largely attributable to subdued demand in key export markets such as the U.S., where apparel consumption remains below long-term averages, alongside tariff-related uncertainties affecting order flows. However, structurally, MGT remains well-positioned, supported by its strong relationships with global brands such as Nike and PVH and continued customer diversification initiatives with its recent acquisition of UNIQLO, positioning itself within the Japan market. Going forward, we expect the topline to reach LKR 42.4Bn and LKR 48.3Bn in FY27E and FY28E, respectively. This allows MGT’s bottom line to also expand and recover from the current subdued levels, reaching LKR 1.4Bn and LKR 2.0Bn in FY27E and FY28E, respectively.

## Premium synthetic mix and innovation-led strategy to sustain superior margin profile

MGT’s margin profile remains a key investment driver, underpinned by its c.60% exposure to synthetic fabrics, which yield high margins compared to cotton and benefit from relatively lower raw material prices. Despite near-term margin compression due to operating leverage and higher costs resulting in a sharp 58.5%YoY downturn in EBIT for 9MFY26, MGT’s focus on innovation-led, value-added fabrics through the INNO brand and premium pricing strategy is expected to sustain margins above its peers, starting from 2QFY27E. We expect gross margins to expand by 60bps and 20bps and operating margins to amplify further, by 182bps and 96bps in FY27E and FY28E, respectively supported continuous innovation in existing portfolio. FCR’s view of a 5.0% depreciation of the LKR bodes well for MGT as its topline is dollar denominated whereas c.39.0% of raw materials are sourced locally, allowing the company to benefit from a weakening rupee and absorb short term cost pressures from the ongoing geopolitical situation.

## Structural margin strength and global brand positioning propel earnings growth, resulting in a AERs of 22.9% and 23.8% in FY27E and FY28E, respectively

We recommend a BUY on MGT, supported by its structurally superior margin profile due its product portfolio, innovation, strong ESG positioning, new client acquisitions and relationships with global brands, which provide long-term earnings visibility. While near-term earnings volatility persists, the company’s ability to generate consistent cash flows and maintain premium pricing justifies a valuation premium. Additionally, MGT’s leadership in sustainability (e.g., SBTi-validated net-zero targets) enhances its attractiveness to global brands increasingly focused on Scope 3 emissions reduction. FCR derives target prices of LKR 37.0 for FY27E and LKR 46.0 for FY28E, implying AER’s of 22.9% and 23.8%, respectively. This reinforces our **BUY** recommendation at the current level of LKR 30.9.



## Valuation methods and assumptions

### Valuation Summary

Expected MGT price	FY27E	FY28E
DCF based target price	38.9	43.2
PER based Valuation	34.0	48.2
Average Target Price	36.5	45.7
Target Price after Rounding off	37.0	46.0

Return	FY27E	FY28E
Target Price	37.0	46.0
Current Price	30.9	30.9
Capital Gain (LKR)	6.1	15.1
Dividends up to 31st March	1.0	1.4
Capital Gain %	20%	49%
Dividend Yield %	3%	5%
Total Return %	23%	54%
Annualized Return %	23%	24%

### PER Based Valuation

PER based Valuation	FY27E	FY28E
Earnings (LKR 'Mn)	1,412	2,002
No. of Shares ('Mn)	415	415
EPS	3.4	4.8
Expected PER	10.0x	10.0x
Target Price	34.0	48.2

### Discounted Cash Flow Valuation

DCF based valuation	FY27E	FY28E
Enterprise Value	22,841	23,982
(-) Debt	(7,451)	(7,432)
(+) Cash	2,089	2,695
(-) Retirement Benefit Obligations	(1,304)	(1,304)
Total Value of Equity	16,175	17,941
No. of Shares (Mn)	415	415
Target Price	38.9	43.2

### Cost of Equity

COE	FY27E	FY28E
Rf	9%	9%
Rm	17%	17%
Growth %	3%	3%
$\beta$	1.1	1.1
$Ke = Rf + \beta(Rm - Rf)$	18%	18%

### Weighted Average Cost of Capital

WACC	FY27E	FY28E
Ke	18%	18%
Kd	13%	13%
D/E Assumption	40/60	40/60
Terminal Growth (%)	3%	3%
WACC	16%	16%

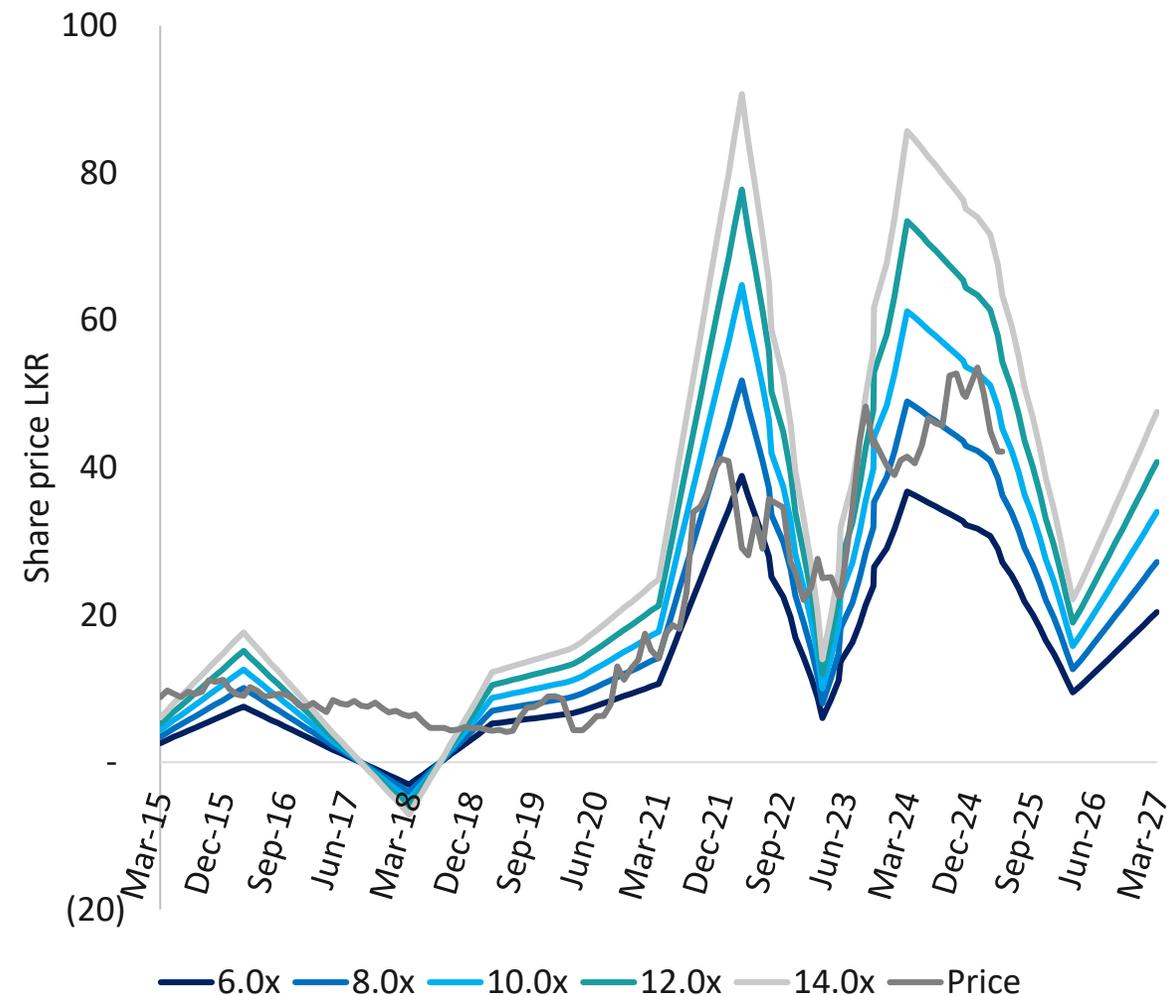


## Valuation methods and assumptions

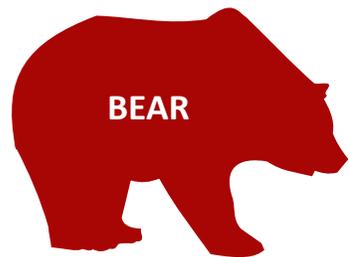
### Valuation Table

P/E 31 March	FY23	FY24	FY25	FY26E	FY27E	FY28E	FY29E
Estimates (LKR 'Mn)							
Revenue	60,949	50,253	44,129	36,451	42,417	48,347	52,737
Gross profit	7,826	9,440	7,824	5,285	6,405	7,397	8,227
EBIT	4,199	5,780	4,238	1,647	2,687	3,529	4,074
<b>Net Profit</b>	<b>414</b>	<b>2,544</b>	<b>2,126</b>	<b>656</b>	<b>1,412</b>	<b>2,002</b>	<b>2,385</b>
Adjusted EPS (LKR)	1.0	6.1	5.1	1.6	3.4	4.8	5.7
YoY Growth (%)	-84.6%	513.9%	-16.4%	-69.2%	115.3%	41.8%	19.1%
DPS (LKR)	2.5	2.5	1.9	0.5	1.0	1.4	1.7
<b>Valuations</b>							
PER (x)	31.0x	5.0x	6.0x	19.6x	9.1x	6.4x	5.4x
PBV (x)	1.4x	1.3x	1.1x	1.1x	1.0x	0.9x	0.8x
DY (%)	8.1%	8.1%	6.0%	1.5%	3.3%	4.7%	5.6%
Adjusted NAVPS	22.8	24.1	27.3	28.4	30.8	34.2	38.2
Dividend Payout	250.6%	40.8%	36.2%	30.0%	30.0%	30.0%	30.0%

### PER Band Chart

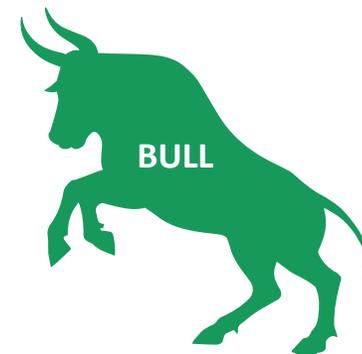


FCR analyzed two scenarios with varying assumptions to assess the price changes of MGT, with the Bull case yielding a price of **LKR 45.0** and the Bear case resulting in a price of **LKR 29.0**



Target price: LKR 29.0  
Downside: -12.1%  
Dividend yield: 2.3%  
Total annualized return: -9.5%

Target price: LKR 45.0  
Upside: 36.4%  
Dividend yield: 3.4%  
Total annualized return: 38.3%



Key assumptions

60.0%	Capacity utilization rate	70.0%
+0.5%	Growth in average selling price – cotton and synthetic average	+2.5%
14.0%	GP margin	17.0%
5.5%	EBIT margin	6.7%
LKR 330.8/USD	Exchange rate	LKR 316.2/USD

*We determined the bull and bear case price targets by analysing various factors such as capacity utilization, growth projections, cost-saving scenarios, and exchange rate fluctuations. These scenarios helped us assess potential price changes based on macroeconomic conditions and industry-specific assumptions.*



## Strong ESG Profile driven by environmental leadership and robust governance integration

### Environmental

87.0%

#### Energy and emissions – 8.9 / 10

Carbon neutral certification achieved consecutively; strong emissions management framework  
ISO 14001 certified environmental management systems across operations  
Renewable energy and efficiency initiatives embedded into production

#### Water and effluents – 8.8 / 10

Participation in global water stewardship initiatives ensuring responsible water usage  
Advanced water treatment and conservation practices across facilities

#### Materials and chemicals – 8.6 / 10

Sustainable fabric innovation and recycling-based product lines (e.g., INNO range)  
GOTS certification supporting sustainable raw material usage

#### Waste and circularity – 8.5 / 10

Circular innovation initiatives (e.g., waste-to-dye solutions like WARNA)  
Strong waste management and recycling integration into operations

### Social

86.0%

#### Workforce management – 8.5 / 10

ISO 45001 certified health & safety systems and strong employee wellbeing focus  
Ethical labour practices with strict prohibition of forced/child labour

#### Supply chain responsibility – 9.0 / 10

SEDEX membership and adherence to ETI code for ethical sourcing  
Supplier compliance aligned with global apparel standards

#### Community and CSR – 9.5 / 10

Biodiversity initiatives (wetland conservation, reforestation, ecosystem protection)  
Community engagement programs focused on health, education and environment

#### Customer and product responsibility – 7.4 / 10

Strong alignment with global apparel brands requiring ESG compliance  
Sustainable product innovation and responsible manufacturing practices

### Governance

97.5%

#### Board structure and oversight – 10.0 / 10

Board accountable for strategic direction and oversight of all operations

#### Risk management and controls – 10.0 / 10

ESG integrated into sustainability scorecards and operational decision-making

#### Disclosure and transparency – 9.5 / 10

Integrated reporting with detailed sustainability disclosures and industry recognition

#### Audit and assurance – 9.5 / 10

External assurance on sustainability and financial reporting

Structured governance and compliance frameworks in place

**Satisfies all the requirements provided by CA code of best practices.**



5.0

## **RISKS TO THE SECTOR**

**INVESTORS ARE ADVISED TO THOROUGHLY REVIEW ALL RELEVANT INFORMATION PROVIDED IN FCR'S RISK CATEGORIZATION TO DETERMINE AND ASSESS THE RISKS ASSOCIATED WITH THE INVESTMENT**

## 4.1. FCR'S CATEGORIZATION OF RISKS TO THE SECTOR

Against the current geopolitical landscape, the sector as a whole may face additional risks as the impact of a global economic slowdown affects all economic parties



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A Janashakthi Group Company

Code	Risk	Financial and valuation impact	Likelihood	Impact
DOR 1	Input cost volatility arising from geopolitical tensions	Volatility in cotton, synthetic inputs, and oil-linked derivatives remains the most immediate risk, with geopolitical tensions driving fluctuations in raw material, freight, and insurance costs. This could exert pressure on gross and EBIT margins, although any easing in commodity prices would provide a direct margin tailwind.	High	High
DOR 2	Economic slowdown in key export markets	Weak consumer demand in the US and EU could weigh on order volumes and pricing power, impacting revenue growth and capacity utilization. However, any recovery in retail demand and inventory restocking cycles would support a rebound in export orders.	High	High
DOR 3	Rising freight costs and supply chain disruptions	Freight rates remain highly sensitive to global disruptions, with elevated oil prices and geopolitical risks increasing distribution costs and impacting EBIT margins. A normalization in logistics conditions would provide meaningful cost relief.	High	High
DOR 4	Exchange rate fluctuations of the LKR	Currency depreciation supports export revenue translation but increases USD-denominated input costs, resulting in a natural hedge. However, sharp or unpredictable movements may create earnings volatility.	Medium	High
DOR 5	Potential increases in electricity tariffs	Currency depreciation supports export revenue translation but increases USD-denominated input costs, resulting in a natural hedge. However, sharp or unpredictable movements may create earnings volatility.	High	Medium

## 4.1. FCR'S CATEGORIZATION OF RISKS TO THE SECTOR

Against the current geopolitical landscape, the sector as a whole may face additional risks as the impact of a global economic slowdown affects all economic parties cont'd



First Capital  
A Janashakthi Group Company

Code	Risk	Financial and valuation impact	Likelihood	Impact
DOR 6	Intensifying price competition from regional sourcing markets	Competition from Bangladesh, Vietnam, and India may pressure margins, particularly in commoditized segments. However, Sri Lanka's focus on value-added and sustainable products provides some insulation.	High	Medium
DOR 7	New risk-based VAT refund system	The removal of SVAT represents a structural shift from a cash-neutral suspension mechanism to a working capital-intensive refund regime. While the new system aims to enhance transparency and compliance, it introduces short-term liquidity constraints and margin pressures for exporters which can increase the finance cost. Impact for bigger firms are low.	High	Medium
DOR 8	Exposure to interest rate fluctuations	Higher interest rates may increase financing costs, impacting net margins, particularly for leveraged firms. A declining rate environment would support profitability.	Medium	Medium
DOR 9	Stricter government policies targeting fast fashion, sustainability and textile waste	Tightening global sustainability regulations may increase compliance costs and reduce demand from fast fashion segments. However, this could benefit Sri Lanka's positioning as a sustainable sourcing destination.	Medium	Medium



## Categorization of the aforementioned risks into a risk matrix through assessment of their likelihood and impact

The above identified both downside to the sector, including operational and macro-economic factors. Our financial forecasts and valuations are based on conservative assumptions, taking into account the likelihood and potential impact of these risks. In doing so, we have adjusted our assumptions with appropriate premiums and discounts.

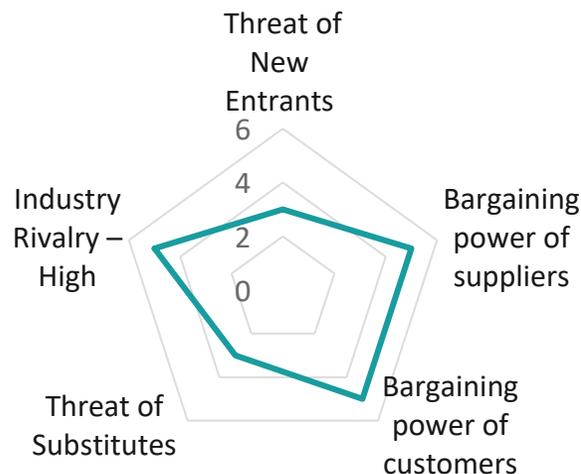
		LIKELIHOOD			
		LOW	MEDIUM	HIGH	VERY HIGH
IMPACT	LOW		DOR9 - Stricter government policies targeting fast fashion, sustainability and textile waste		
	MEDIUM		DOR4 – Exchange rate fluctuations of the LKR DOR8 – Exposure to interest rate fluctuations	DOR5 - Potential increases in electricity tariffs DOR7 - New risk-based VAT refund system	
	HIGH		DOR6 – Intensifying price competition from regional sourcing markets	DOR2 – Economic slowdown in key export markets DOR3 - Rising freight costs and supply chain disruptions	
	VERY HIGH			DOR1 – Input cost volatility arising from geopolitical tensions	



6.0

APPENDICES

## Porter's five forces analysis - Sri Lankan textile & apparel sector



### Threat of New Entrants - Moderate

- Entry into textile manufacturing requires high capital for machinery, factories, and technology, with economies of scale giving existing players a cost advantage. However, moderate risk exists as Sri Lanka imports 70-75% of its fabric, leaving niche opportunities for new entrants.
- In contrast, the apparel sector needs less capital, though compliance and quality certifications remain a barrier.

### Bargaining Power of Suppliers - High

- Textile manufacturers depend on imported cotton, synthetic fibers, and chemicals, making them vulnerable to price volatility and currency fluctuations. Renewable energy and innovation help somewhat but don't remove this dependence.
- In apparel, supplier power is lower as companies can source from multiple textile manufacturers.

### Bargaining Power of Buyers - High

- Large apparel brands dominate demand and can easily switch suppliers. Sri Lanka's export concentration and global sourcing strategies increase buyer influence.
- In apparel, buyer power is slightly higher due to exposure to global fashion brands and price-sensitive markets.

### Threat of Substitutes - Moderate

- Substitutes come from synthetic fibers, recycled materials, or alternative sourcing countries. Manufacturers need to innovate and diversify.
- Apparel faces similar substitution risks from fast fashion, second-hand clothing, and alternate sourcing.

### Industry Rivalry - High

- Competition is strong from regional players, though Sri Lanka focuses on high-value and sustainable products. The export-oriented nature exposes the sector to global demand fluctuations.
- Rivalry in apparel is equally high, driven by fast delivery and global sourcing demands.

**Overall attractiveness: neutral to moderate**

While Sri Lanka has strong sustainability credentials, high-value specialization, and operational reliability, external pressures from suppliers, buyers, and intense competition limit profitability.

## II. KEY ASSUMPTIONS FOR SCENARIOS

Base, Bull, and Bear case assumptions are derived from historical patterns observed during economic downturns, growth periods, and shocks, and are applied to our forecasts using relevant correlations



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Variable	Bull case			Base case			Bear case		
	U.S.	EU	UK	U.S.	EU	UK	U.S.	EU	UK
<b>GDP growth targets</b>									
<b>World Bank</b> (only for base case)	4.0%	4.0%-6.0%	2.0%-2.5%	2.2%	0.9%	1.1% - 1.6%	(1.0%)-(3.0%)	(3.0%)-(5.0%)	(1.0%)-(2.0%)
<b>IMF</b> (only for base case)				2.1%	1.4%	1.3%			
<b>Inflation trends</b>	1.0% - 3.0%	1.0% - 2.0%	1.0%-2.0%	2.4%	2.5%	3.2%	4.0% - 7.0%	9.0% - 11.0%	5.0%-10.0%
<b>Labor market conditions</b> (unemployment rate)	3.0% - 4.0%	5.0%-6.0%	3.0%-4.0%	4.6%	5.8%	5.1%	8.0% - 10.0%	6.0% - 7.0%	4.0%-5.0%
<b>Consumer confidence level/index</b>	80.0-90.0	(5)-(10)	(5.0)-(10.0)	65.0-70.0	(12.0)	(9.5)	60.0-65.0	Over (20)	(30)-(40)

### III. FINANCIALS

## TEEJAY LANKA PLC: SUMMARIZED STATEMENT OF PROFIT OR LOSS

TJL.N0000



First Capital  
A Janashakthi Group Company

Statement of Profit or Loss (LKR Mn)	FY23	FY24	FY25	FY26E	FY27E	FY28E	FY29E
<b>As at 31st March</b>							
Revenue	84,037	60,734	67,036	58,738	66,375	80,493	87,888
Cost of sales	(77,194)	(55,677)	(59,195)	(55,175)	(60,919)	(73,620)	(80,244)
<b>Gross profit</b>	<b>6,843</b>	<b>5,057</b>	<b>7,841</b>	<b>3,563</b>	<b>5,456</b>	<b>6,873</b>	<b>7,644</b>
Other income	532	203	527	352	398	483	527
Selling, Distribution & Admin expenses	(4,079)	(3,047)	(3,817)	(4,699)	(2,589)	(3,260)	(3,524)
<b>Operating profit</b>	<b>3,295</b>	<b>2,213</b>	<b>4,551</b>	<b>(784)</b>	<b>3,265</b>	<b>4,096</b>	<b>4,647</b>
Finance Income	811	455	390	255	243	241	241
Less : Finance Cost	(990)	(1,096)	(894)	(790)	(790)	(812)	(844)
Net Finance Income/(Costs)	(179)	(641)	(503)	(535)	(548)	(570)	(603)
<b>Profit before tax</b>	<b>3,116</b>	<b>1,572</b>	<b>4,047</b>	<b>(1,319)</b>	<b>2,718</b>	<b>3,525</b>	<b>4,044</b>
Income tax expense	(990)	(463)	(1,254)	396	(815)	(1,058)	(1,213)
<b>Profit for the Year</b>	<b>2,127</b>	<b>1,110</b>	<b>2,793</b>	<b>(923)</b>	<b>1,902</b>	<b>2,468</b>	<b>2,831</b>
<b>EPS</b>	<b>3.0</b>	<b>1.5</b>	<b>3.9</b>	<b>(1.3)</b>	<b>2.6</b>	<b>3.4</b>	<b>3.9</b>

### III. FINANCIALS

## TEEJAY LANKA PLC: SUMMARIZED STATEMENT OF FINANCIAL POSITION

TJL.N0000



First Capital  
A Janashakthi Group Company

Statement of Financial Position (LKR Mn)	FY23	FY24	FY25	FY26E	FY27E	FY28E	FY29E
<b>As at 31st March</b>							
<b>ASSETS</b>							
<b>Non-Current Assets</b>							
Property, plant and equipment	20,259	18,142	17,270	17,029	17,130	17,378	17,671
Capital work-in-progress	1,836	703	317	669	1,255	2,326	2,120
Other assets	7,641	14,142	14,387	8,915	10,271	13,017	10,615
Inventories	13,383	11,646	11,332	11,748	13,009	13,684	15,820
Trade and other receivables	9,026	9,774	11,921	11,748	11,284	13,281	14,062
6,383,354	7,914	7,233	5,584	232	1,664	4,454	2,070
<b>Total Assets</b>	<b>60,058</b>	<b>61,640</b>	<b>60,811</b>	<b>50,340</b>	<b>54,612</b>	<b>64,140</b>	<b>62,358</b>
<b>EQUITY AND LIABILITIES</b>							
<b>Capital and Reserves</b>							
Stated capital	4,442	4,442	4,583	4,583	4,583	4,583	4,583
Exchange equalisation reserve	18,048	15,752	187	187	187	187	187
Retained earnings	9,400	9,754	15,394	14,470	15,231	16,218	17,351
Share option scheme	153	182	11,366	11,366	11,366	11,366	11,366
<b>Total Equity</b>	<b>32,043</b>	<b>30,130</b>	<b>31,529</b>	<b>30,606</b>	<b>31,367</b>	<b>32,354</b>	<b>33,487</b>
<b>LIABILITIES</b>							
Borrowings	16,969	13,755	12,048	11,641	11,640	11,551	11,569
Trade and other payables	10,556	10,866	12,064	8,276	10,356	16,197	15,648
Current tax liability	490	282	213	213	213	213	213
<b>Total Equity &amp; Liabilities</b>	<b>60,058</b>	<b>55,033</b>	<b>55,855</b>	<b>50,736</b>	<b>53,576</b>	<b>60,314</b>	<b>60,916</b>
<b>Adjusted NAVPS</b>	<b>44.4</b>	<b>41.8</b>	<b>43.7</b>	<b>42.4</b>	<b>43.5</b>	<b>44.8</b>	<b>46.4</b>

## TEEJAY LANKA PLC: KEY RATIOS

### TJL.N0000



		FY23	FY24	FY25	FY26E	FY27E	FY28E	FY29E
<b>Growth</b>	Revenue	69.5%	-27.7%	10.4%	-12.4%	13.0%	21.3%	9.2%
	Gross Profit	49.5%	-26.1%	55.1%	-54.6%	53.1%	26.0%	11.2%
	EBIT	8.8%	-49.5%	157.4%	-132.6%	306.0%	29.7%	14.7%
	Net Profit	-16.0%	-47.8%	151.7%	-133.1%	306.0%	29.7%	14.7%
<b>Profitability</b>	GP Margin	8.1%	8.3%	11.7%	6.1%	8.2%	8.5%	8.7%
	EBIT Margin	3.9%	3.6%	6.8%	-1.3%	4.9%	5.1%	5.3%
	NP Margin	2.5%	1.8%	4.2%	-1.6%	2.9%	3.1%	3.2%
	Return on Equity	7.1%	3.6%	9.1%	-3.0%	6.1%	7.7%	8.6%
<b>Liquidity</b>	Current Ratio	1.9x	1.9x	1.9x	2.1x	1.9x	1.7x	1.7x
	Quick Ratio	1.2x	1.2x	1.3x	1.2x	1.1x	1.0x	1.0x
<b>Activity</b>	Inventory Days	70.3	82.0	70.8	76.3	74.2	66.2	67.1
	Accounts Payable Days	66.6	70.2	70.7	67.3	55.8	65.8	72.4
	Accounts Receivable Days	47.5	56.5	59.1	73.5	63.3	55.7	56.8
<b>Gearing</b>	Debt/Equity	0.4x	0.4x	0.3x	0.3x	0.3x	0.3x	0.2x
	Debt/Debt+Equity	0.3x	0.3x	0.2x	0.2x	0.2x	0.2x	0.2x
	Debt/Total assets	0.2x	0.2x	0.2x	0.2x	0.2x	0.1x	0.1x

### III. FINANCIALS

## HAYLEYS FABRIC PLC: SUMMARIZED STATEMENT OF PROFIT OR LOSS MGT.N0000



First Capital  
A Janashakthi Group Company

Statement of Profit or Loss (LKR Mn)	FY23	FY24	FY25	FY26E	FY27E	FY28E	FY29E
<b>As at 31st March</b>							
Revenue from Contracts with Customers	60,949	50,253	44,129	36,451	42,417	48,347	52,737
Cost of Sales	(53,123)	(40,813)	(36,306)	(31,166)	(36,012)	(40,950)	(44,510)
<b>Gross Profit</b>	<b>7,826</b>	<b>9,440</b>	<b>7,824</b>	<b>5,285</b>	<b>6,405</b>	<b>7,397</b>	<b>8,227</b>
Other Operating Income	258	234	277	299	323	349	377
Administrative Expenses	(3,407)	(3,683)	(3,565)	(3,637)	(3,691)	(3,821)	(3,992)
Distribution Expenses	(463)	(188)	(288)	(292)	(339)	(387)	(527)
Other Expenses	(16)	(22)	(9)	(10)	(10)	(10)	(10)
<b>EBIT</b>	<b>4,199</b>	<b>5,780</b>	<b>4,238</b>	<b>1,647</b>	<b>2,687</b>	<b>3,529</b>	<b>4,074</b>
Net Financing Income/(Expense)	(1,133)	(1,979)	(1,121)	(710)	(671)	(669)	(667)
<b>Profit Before Tax</b>	<b>3,066</b>	<b>3,801</b>	<b>3,116</b>	<b>937</b>	<b>2,017</b>	<b>2,860</b>	<b>3,406</b>
Tax	(2,652)	(1,257)	(990)	(281)	(605)	(858)	(1,022)
<b>Profit After Tax</b>	<b>414</b>	<b>2,544</b>	<b>2,126</b>	<b>656</b>	<b>1,412</b>	<b>2,002</b>	<b>2,385</b>
Adjusted EPS	1.0	6.1	5.1	1.6	3.4	4.8	5.7

### III. FINANCIALS

## HAYLEYS FABRIC PLC: SUMMARIZED STATEMENT OF FINANCIAL POSITION

MGT.N0000



First Capital  
A Janashakthi Group Company

Statement of Financial Position (LKR Mn)	FY23	FY24	FY25	FY26E	FY27E	FY28E	FY29E	FY30E
<b>As at 31st March</b>								
<b>ASSETS</b>								
Property, Plant and Equipment	14,979	13,584	13,954	15,005	15,725	16,393	17,000	17,532
Goodwill	3,502	3,188	3,138	3,138	3,138	3,138	3,138	3,138
Inventories	12,315	9,286	9,314	6,856	8,031	9,132	9,926	10,614
Trade Receivables	6,048	4,869	5,078	3,645	3,818	3,868	4,219	4,527
Other Assets	1,523	1,201	1,053	1,043	1,036	1,030	1,024	905
Cash and Cash Equivalents	1,530	3,372	3,158	2,264	2,089	2,695	3,349	4,232
<b>Total Assets</b>	<b>39,897</b>	<b>35,500</b>	<b>35,694</b>	<b>31,952</b>	<b>33,836</b>	<b>36,256</b>	<b>38,655</b>	<b>40,948</b>
<b>EQUITY AND LIABILITIES</b>								
<b>Capital and Reserves</b>								
Stated Capital	1,968	1,968	1,968	1,968	1,968	1,968	1,968	1,968
Revaluation Reserve	173	157	281	281	281	281	281	281
Retained Earnings	2,089	3,549	4,913	5,373	6,361	7,762	9,431	11,312
Exchange Fluctuation Reserve	5,262	4,343	4,183	4,183	4,183	4,183	4,183	4,183
<b>Total Equity</b>	<b>9,492</b>	<b>10,018</b>	<b>11,346</b>	<b>11,805</b>	<b>12,793</b>	<b>14,194</b>	<b>15,864</b>	<b>17,744</b>
<b>Liabilities</b>								
Interest Bearing Loans and Borrowings	13,286	11,095	11,207	7,939	7,505	7,487	7,469	7,452
Retirement benefit obligations	1,017	1,180	1,304	1,304	1,304	1,304	1,304	1,324
Trade and Other Payables	9,146	7,721	7,167	6,233	7,562	8,600	9,347	9,757
Bank Overdraft	1,116	617	626	626	626	626	626	626
Other Financial Liabilities	5,840	4,869	4,045	4,045	4,045	4,045	4,045	4,045
<b>Total Equity and Liabilities</b>	<b>39,897</b>	<b>35,500</b>	<b>35,694</b>	<b>31,952</b>	<b>33,836</b>	<b>36,256</b>	<b>38,655</b>	<b>40,948</b>
Adjusted NAVPS	22.8	24.1	27.3	28.4	30.8	34.2	38.2	42.7

## HAYLEYS FABRIC PLC: KEY RATIOS MGT.N0000



		FY23	FY24	FY25	FY26E	FY27E	FY28E	FY29E
<b>Growth</b>	Revenue	92.6%	-17.5%	-12.2%	-17.4%	16.4%	14.0%	9.1%
	Gross Profit	89.9%	20.6%	-17.1%	-32.4%	21.2%	15.5%	11.2%
	EBIT	139.1%	37.6%	-26.7%	-61.1%	63.2%	31.3%	15.4%
	Net Profit	-84.6%	513.9%	-16.4%	-69.2%	115.3%	41.8%	19.1%
<b>Profitability</b>	GP Margin	12.8%	18.8%	17.7%	14.5%	15.1%	15.3%	15.6%
	EBIT Margin	6.9%	11.5%	9.6%	4.5%	6.3%	7.3%	7.7%
	NP Margin	0.7%	5.1%	4.8%	1.8%	3.3%	4.1%	4.5%
	Return on Equity	4.4%	25.4%	18.7%	5.6%	11.0%	14.1%	15.0%
<b>Liquidity</b>	Current Ratio	1.0x	1.1x	1.1x	1.1x	1.1x	1.2x	1.3x
	Quick Ratio	0.4x	0.6x	0.5x	0.5x	0.5x	0.6x	0.6x
<b>Activity</b>	Inventory Days	84.6	83.0	93.6	80.3	81.4	81.4	81.4
	Accounts Payable Days	62.8	69.1	72.1	73.0	76.7	76.7	76.7
	Accounts Receivable Days	41.6	43.5	51.0	42.7	38.7	34.5	34.6
<b>Gearing</b>	Debt/Equity	1.5x	1.2x	1.0x	0.7x	0.6x	0.6x	0.5x
	Debt/Debt+Equity	0.6x	0.5x	0.5x	0.4x	0.4x	0.4x	0.3x
	Debt/Total assets	0.4x	0.3x	0.3x	0.3x	0.2x	0.2x	0.2x

## IV. FCR's RECOMMENDATION CRITERIA



First Capital  
A Janashakthi Group Company

Categorization	Company Category	Buy	Hold	Sell
Grade A	S&P SL20 Companies	T.Bill + 5% & Above	T.Bill + 1% & Above	Below T.Bill + 1%
Grade B	Rest of the Companies	T.Bill + 8% & Above	T.Bill + 3% & Above	Below T.Bill + 3%
Grade C	Companies less than LKR 1Bn Market Cap	T.Bill + 11% & Above	T.Bill + 6% & Above	Below T.Bill + 6%

Categorization	Company Category	Buy	Hold	Sell
Grade A	S&P SL20 Companies	14.0%	10.0%	10.0%
Grade B	Rest of the Companies	17.0%	12.0%	12.0%
Grade C	Companies less than LKR 1Bn Market Cap	20.0%	15.0%	15.0%

- AER – Annualized Effective Return
- ASP – Average Selling Price
- bps – Basis Points
- CAGR – Compound Annual Growth Rate
- CAPEX – Capital Expenditure
- CIF – Cost, Insurance, and Freight
- DCF – Discounted Cash Flow
- DPS – Dividends Per Share
- DCTS – Developing Country Trading Scheme
- EBIT – Earnings Before Interest and Taxes
- EBITDA – Earnings Before Interest, Taxes, Depreciation, and Amortization
- EPS – Earnings Per Share
- ESG – Environmental, Social, and Governance
- EV – Enterprise Value
- EV/EBITDA – Enterprise Value to EBITDA Ratio
- FCF – Free Cash Flow
- FEM – Facility Environmental Module (Higg Index)
- FY – Financial Year
- GDP – Gross Domestic Product
- GJ – Gigajoule
- GSP+ – Generalized Scheme of Preferences Plus
- HIGG – Higg Sustainability Index
- HR – Human Resources
- ILO – International Labour Organization
- IRR – Internal Rate of Return
- kg – Kilogram
- kWh – Kilowatt-hour
- LKR – Sri Lankan Rupee
- MMF – Man Made Fiber
- Mn – Million
- MT – Metric Ton
- MW – Megawatt
- NWC – Net Working Capital
- OEM – Original Equipment Manufacturer
- ODM – Original Design Manufacturer
- PAT – Profit After Tax
- PBT – Profit Before Tax
- PEG – Price/Earnings to Growth Ratio
- PER (P/E) – Price Earnings Ratio
- ROE – Return on Equity
- SME – Square Meter Equivalent
- SBTi – Science Based Targets initiative
- TJL – Teejay Lanka PLC
- TTM – Trailing Twelve Months
- U.S. – United States
- USD – United States Dollar
- UK – United Kingdom



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MANAGING RISKS”*



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