

Research Report



E M L Consultants Limited

We, Atarah Capital Partners (Pvt) Limited ("ACP") hereby declare that we possess the requisite expertise to perform reports of this nature involving a company that would be likely to be classified under the Commercial and Professional Services Sector of the Colombo Stock Exchange

We also declare that the Research Report has been prepared in accordance with the disclosures specified in the 'Valuation/ Research Report - Guidance Note' issued by the CSE.

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GLOSSARY OF TERMS AND ABBREVIATIONS

ACP	Atarah Capital Partners (Pvt) Limited
ADB	Asian Development Bank
ADO	Asian Development Outlook
BOI	Board of Investments
CAGR	Compound Annual Growth Rate
CBH	Capacity Building and Human Resources Development
CBSL	Central Bank of Sri Lanka
CDS	Central Depository Systems (Pvt) Limited
CEA	Central Environmental Authority
CIDA	Construction Industry Development Authority
CSE	Colombo Stock Exchange
DCF	Discounted Cash Flow
DF	Discount Factor
DSC	Design Supervision and Management Consultant
EBIT	Earnings before Interest and Tax
EBITDA	Earnings before Interest, Tax, Depreciation and Amortization
EIA	Environmental Impact Assessments
EML, the Company	E M L Consultants Limited
ENR	Environment and Natural Resources Management
EOI	Expression of Interest
FCFF	Free Cash Flows to Firm
FY	Financial Year
FYE	Financial Year Ended
GDP	Gross Domestic Production
GICS	Global Industry Classification Standards
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit
IEE	Initial Environmental Examinations
IMF	International Monetary Fund
JICA	Japan International Cooperation Agency
LHS	Left Hand Side
Mn	Million
NAV	Net Assets Value
P/ BV	Price to Book Value ratio
P/ E	Price to Earnings Ratio
PV	Present Value
Rs or LKR	Sri Lankan Rupees
SEC	Securities and Exchange Commission of Sri Lanka
SMEs	Small and Medium Sized Enterprises
UIE	Urban and Industrial Engineering
UNDP	United Nations Development Program
UNFCCC	United Nations Framework Convention on Climate Change
UN HABITAT	United Nations Human Settlements Programme
UNICEF	United Nations Children's Emergency Fund
USAID	United States Agency for International Development
USD	United States Dollars
WACC	Weighted Average Cost of Capital
WC	Working Capital
YoY	Year on Year

1.0 INTRODUCTION

1.1 Executive Summary

We, Atarah Capital Partners (Pvt) Limited has conducted a research and carried out the valuation of shares using the methods of Discounted Cash Flows valuation and Adjusted/ Historical Net Assets Value techniques to arrive at an appropriate equity value for the Company. The results are summarized as below.

Valuation Technique	Price Per Share (LKR)
Discounted Cash flow Basis	2.03 - 2.24
Net Asset Value	1.16
Adjusted Net Asset Value	1.76

We have adopted the DCF method as the primary valuation technique that most appropriately reflect the fair value of the shares due to the following reasons:

- Given the nature of business operations of the Company and expected business growth backed by internal strategies and general macro-economic developments, DCF will be the most suitable method to capture the growth potential of the company.
- Reported Net Asset Value to have undervalued assets hence Adjusted Net Asset Value approach adopted by revaluing the properties. However, Adjusted Net Asset value approach would also not reflect the true growth potential of the business. Assets based approach has been used to indicate the lowest value point of the range whilst the Adjusted Net Asset Value provides an indication of value of a share considering the fair value of Company's assets and liabilities.
- At present, there are no listed companies that mimic the operations of the company, none with the same operating structure, thus resulting the market-based approach for valuation purposes to be less effective and the said approach was not considered in determining the fair value of the shares.

Based on our analysis, we recommend a value of LKR 2.00 per share as the "Reference Price" of a share for listing by way of an Introduction.

The "Reference Price" recommended by ACP is with a discount of 6.1% to the value per share derived using the DCF method i.e LKR 2.13 per share. Aforesaid discount is recommended to maintain the fair value of a share within the equity value range arrived as explained above, and it would be an attractive starting price for secondary market trading upon listing. The DCF value per share set out herein, is subject to the viability of the assumptions / forecasts made in section 6 and 7 of this Research Report.

1.2 Objectives of the Report

ACP has been engaged by the management of E M L Consultants Limited (EML), to determine the fair value of a share and advise the Company on the appropriate "Reference Price" for shares to be listed via the proposed introductory listing. Accordingly, this Research Report has been prepared by ACP in order to provide the said basis in determining the fair value of Ordinary Voting Shares of EML in connection with the proposed Introductory listing, as required under Rule 3.4.8 (b) (iii) of the CSE Listing Rules.

Accordingly, this report provides information pertaining to the industry in which EML is operating and the basis adopted in determining the fair value of the company's Ordinary Voting Shares.

2.0 OVERVIEW OF THE COMPANY

2.1 The Company

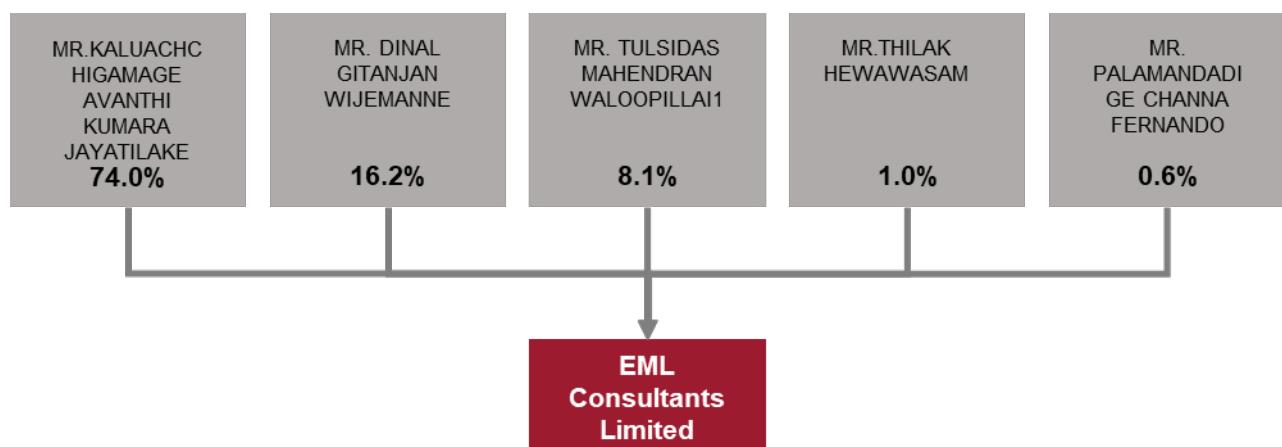
EML was incorporated in year 1993 to provide technical and management consultancy services to the private and public sector in Sri Lanka and across the globe. The Registered office of the Company is situated at No: 6/10 Rajamahavihara Road, Pitakotte, Sri Lanka.

The initial scope of services focused on environmental and natural resources management. Within a brief period of time, EML emerged as a leading consultancy service provider in many diverse industries and fields, and successfully expanded to cover a broad spectrum of areas such as community and livelihood development, SMEs, feasibility and environmental assessments, climate change, biodiversity and eco systems, socioeconomic surveys, institutional development, conceptual and detailed designs, heritage and culture, infrastructure projects related to renewable energy, water supply, waste disposal, roads, transport and coastal management.

EML has successfully implemented over 300 projects, covering a multitude of sectors funded by the State institutions and major international donor agencies including the ADB, World Bank, UNDP, UNFCCC, UNICEF, UN HABITAT, USAID, JICA, CIDA and GIZ. EML is a member of National Chamber of Commerce and is also a registered specialized technical service provider to the Central Environmental Authority (CEA), Board of Investment (BOI) and several other Government agencies.

The main revenue streams of the Company are derived from consultancy fees based on projects secured by the company in multiple verticals.

The shareholding structure of the Company is as follows;



2.2 Main Business Activities

2.2.1 Environment and Natural Resources Management (ENR)

Consultancies in the ENR projects segment ranges from conservations to environmental studies, to biotechnology and climate change. In house expertise allows EML to provide services such as Environmental Impact Assessments (EIA's) and Initial Environmental Examinations (IEE's) for Development Projects.

Conducting comprehensive environmental impact assessments is one of the leading business verticals. The company's project managers and officers have experience in fields such as environmental science studies and management as well as agriculture, conservation and geographic information systems. Experienced both in house and in the field environment, these officers spend much of their time visiting project sites and working outdoors, conducting field based research and assessments. Categories serviced under this segment include;

- Agriculture, Irrigation & Natural Resources Management
- Environmental Reviews and Monitoring Reports
- Forestry and Wildlife Management
- CDM Project Development under C-trading
- GIS and Remote Sensing
- Environmental Action Plans and Strategic Environmental Studies

2.2.2 Capacity Building and Human Resources Development (CBH) Programs

The CBH experts at EML offer a host of services aimed for economic growth and institutional development. The CBH division develops specific, measurable and accountable strategies for the clients to meet the aims and objectives of the project.

EML offers many programs in training and human capacity building, facilitating the transfer of knowledge and dissemination of information. The training programs and workshops include social sector development, productivity improvements, organizational restructuring and policy making and planning. Categories serviced under this segment include;

- Governance & Community Development
- Monitoring, Evaluation & Surveys and planning
- Micro-Finance & Enterprise Development

2.2.3 Urban and Industrial Engineering (UIE) Services

The Urban and Industrial Engineering expertise in EML offers consultancy services in EIAs, IEEs, Engineering Assessments (EAs), project feasibility studies, waste minimization and waste/wastewater treatment. With the assistance of internal and external expertise, EML execute the services whilst adhering to the client's aims and objectives. Categories serviced under this segment include;

- Planning and Preparation
 - Project identification/proposal preparation
 - Feasibility studies/Master plans
 - EIAs, IEEs, EAs
 - Technical investigation, sampling, analyzing Waste audits (including Cleaner Production Audit)
- Conceptual & Detail Designs
 - Engineering related conceptual & detail designs
 - Preparation of tender documents
 - Review of designs
 - Evaluation of tenders [as a service for third parties]
- Implementation (including technical supervision)
 - Technical support for the implementation
 - Project management
 - Construction supervision
 - Necessary technical training (human resource development)
 - Workshops/seminars
- Monitoring & Evaluation
 - Performance Evaluation and Management
 - Follow-up and Coaching
 - Documentation and Dissemination
 - Impact Monitoring and Analysis

2.2.4 Special Projects Management

The special project management capacity of EML brings together teams that represent the ENR, CBH and UIE divisions, as well as experts from other areas to implement projects that require different subject areas and expertise. Categories serviced under this segment include;

- Water and Sanitation Projects
- Integrated Waste Management
- Institutional Development and Governance

Projects of this vertical include Greater Colombo Wastewater Management Project- Design Supervision and Management Consultant (DSC), feasibility and detailed designs - In association with SMEC of Australia.

Environment Assessment for the Proposed Septage Treatment Facilities at Mullaitivu and Kilinochchci Districts under Water Supply and Sanitation Improvement Project (WSSIP), Greater Colombo Wastewater Management Project – Institutional Development Consultancy.

2.3 Summary of historical financial information

Revenue

In terms of services listed in the preceding Section 2.2, the company is either directly approached by the respective parties who wish to engage EML's professional services, or the company will engage in a bidding process with other peer competitors.

Success Rates of Expression of Interests

	Submitted Proposals	Shortlisted Proposals	Success Rate (%)
2016	32	16	50
2017	26	12	50
2018	32	20	60
2019	30	12	40
2020	30	20	66

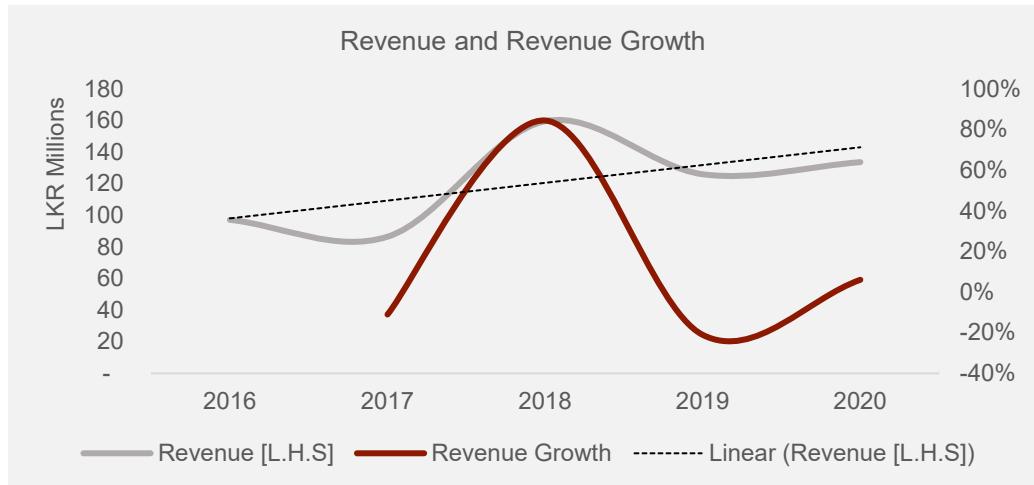
Success Rates of Technical Proposals

	Submitted Proposals	Shortlisted Proposals	Success Rate (%)
2016	60	08	13
2017	29	06	13
2018	40	10	25
2019	50	10	20
2020	55	12	22

Note: Technical Proposal submissions include those short listed plus direct submission without short listing. Ex' All UNDP projects are without short listing

Source: Management Information provided by the Company

The services requested in each project can be unique and the quoted charge (Revenue for EML) will depend on number of factors including the external expertise to be secured (ie: Third party Consultants), duration of the project, location of the project etc. Duration of projects can vary from 3 Months to 4 Years. At the request of the project owner, EML will provide additional services with an additional charge on top of the quoted fee.



Source: Management Information and Audited Financial Statements

Given the fact that the Revenues depends on the secured number of projects and different project specifications [including time, value, intended stakeholders, character etc.] high volatility can be expected and such volatility has been observed when historical revenues are considered. However, with the skill and expertise of the management, EML has managed to secure a long term upward trend in revenues.

During the period from 2016 to 2020, overall revenue has increased from LKR 97 Million to LKR 134 Million, indicating a 4 Year compound annual growth rate of c.8% and an increase of 6% compared to that of 2019. Given the nature of the business, impact of COVID - 19 has been comparatively low on the services provided by the company.

Management has been able to **secure twelve new projects** during the first half of 2021 and expects the momentum to continue to the rest of the year; hence we forecasted a revenue of LKR 139 Million for the year 2021 together with the revenues that will accrue from projects continuing from past years.

Revenue will be charged by the company based on Installment Method in line with pre-agree project milestones.

Revenue forecasts have been made considering the current businesses in hand, expected changes in macro-economic conditions supporting future business growth of current business verticals of the Company, and with a reasonable growth expectation as described under 'Forecasted financial statements' and 'Assumptions' sections of this report.

Direct Cost

As discussed in the preceding sections of this report, the business operations of EML is mainly focused on providing consultancy services in a wide range of verticals. In this regard, the management has identified the inefficiencies of maintaining a fixed permanent cadre of consultants. Therefore, at the availability of a project [during the proposal / bidding stage], the management will identify the required specialized expertise for the project and retain relevant consultants/ specialists on contract basis. In addition, the company has two consultants on retainer basis. Hence, under the applied operational model, the consultancy fees dominate a major portion [over 80%] of the direct costs.

Apart from the above mentioned costs, transportation charges, accommodation charges [on projects carried out in outstation areas] are amongst the other cost components. These costs are directly dependent on the number of projects handled and the specifications of such projects. The table below sets out the major cost categories and their approximate contribution to the total direct cost.

	Contribution to Direct Cost (%)
Consultancy fees	80 - 90
Other Operational Costs	10 - 20
Total cost	100

Source: Management Information and Audited Financial Statements

Other Income

Other income includes one-off events such as gains/loss of fixed asset disposals and other recurring non-operational income such as rent income, exchange rate gains etc. Such income categories vary in each year as the majority of these income components are not under the Company's control.

Breakdown of Other Income

LKR	2016	2017	2018	2019	2020
Rent Income	1,620,000	405,000	-	-	25,000
Gain on Disposal of Motor Vehicle	2,396,627			-	9,015,000
Creditor written back	2,610,910	651,084	591,587	658,299	-
Exchange (Loss) / Gain	1,565,287	1,968,583	7,456,146	(364,181)	2,810,412
Reversal of Bad debt Provision		650,542			
Interest Income	1,542,141	1,806,523	2,166,719	2,273,585	2,234,952

Source: Management Information and Audited Financial Statements

The premises [i.e: land and building] that is currently owned by EML is utilized by certain other related party companies. In this regard, it is observed that the rent charged from such companies is significantly lower than prevailing market rates. Further, there are vacant areas in the building where no rent income is derived at present, hence the property is under-utilized. Based on the management's assessment, a monthly rent of LKR 250,000 – LKR 300,000 can be earned for a similar rentable property at current market rates.

In addition, EML conducts merely non-operational activities [administration activities] in the captioned premises and occupies less than 25% of the total square footage of the building. Therefore, the company has the ability to shift the functions currently operated within the building premises to another location without any business impact. Reason being, the functions carried out by the company within the building being 'non location specific'.

Due to above-mentioned factors, best use value of the property is not reflected in the business due to under-charged rent.

Administrative Expenses

Administrative expenses mainly include overhead items such as staff salaries, other staff costs, utility expenses and maintenance costs etc. relating to daily back-office activities.

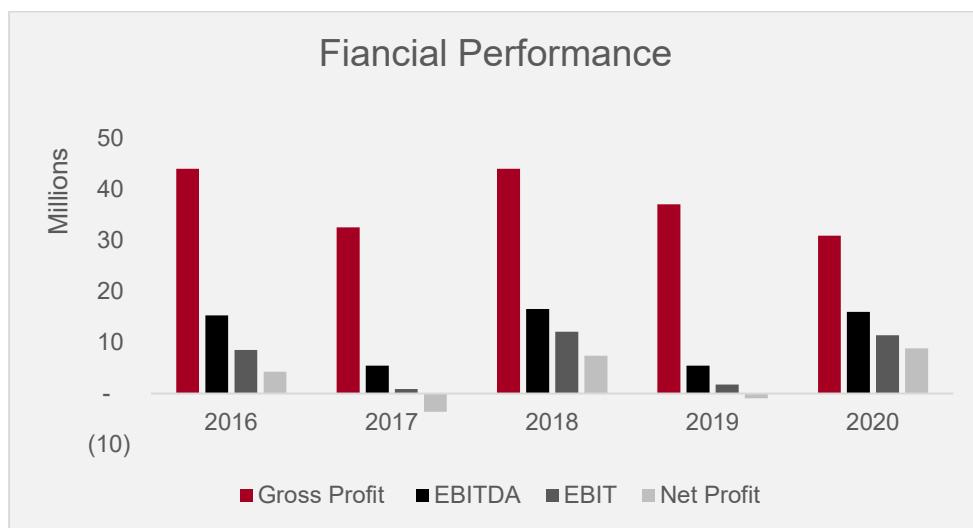
During the financial year 2020, EML has closely managed the overhead costs with the impact of COVID-19 pandemic. However, costs are expected to rise in FY 2021 and future financial years due to the increase in staff related costs, execution of Company's future strategic plans and also due to expected increases in price levels and resulting impact on cost items. Administration expenses [including depreciation and amortization] has reduced from LKR 45 million [2016] to LKR 38 Million in 2019. This has further reduced in 2020 to LKR 33 Million.

Finance Costs

At present, the company incurs interest costs on term loans, leases and bank overdrafts obtained to facilitate fund requirements for the purpose of working capital and developing the business. With the gradual improvement of cash flows and reduction in loans and leases due to future repayments, interest costs of the Company is expected to reduce gradually in the future. In addition, no major borrowings are anticipated in the years to come.

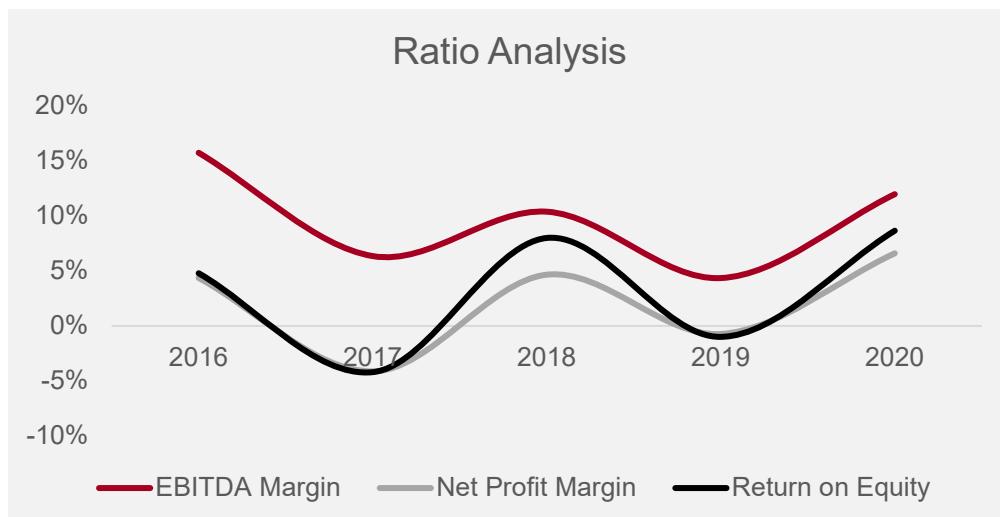
Profitability

The profitability of the company has been varying with the revenues and costs relating to number of secured projects as well as the overhead cost levels. It is also observed that the volatility of gross margins results in volatile returns at each financial year in the past. Given the current operational model which maintains consultants on retainer basis and recruitments on contract basis has resulted in a better financial efficacy in the Company. During the considered period from 2016 to 2020, the highest loss was recorded in 2017 which amounts to LKR 3.5 Million due to a relatively low gross profit and operating profit that further impacted by the interest costs.



Source: Audited Financial Statements

However, the management's continuing efforts on reducing the running cost of the operations will support in the future profitability due to the low breakeven levels.



Source: Audited Financial Statements

Detailed description of assumptions made in the financial forecast is set out under Section 5.3 of this Research Report.

Interim Financial Statements for the period ended 31st May 2021

During the five-months period the company has been able to record a revenue of LKR 36.7 million with a gross profit of LKR 12.9 million. Derived gross profit margin for the period was 35%, which tends higher compared to last two years, however somewhat similar to trends of financial years prior to 2018. Pricing strategies and effective cost controls have been key in achieving the mentioned yield. Net profit of the company for the five-month period is LKR 3.1 million yielding a net profit margin of 2.3%.

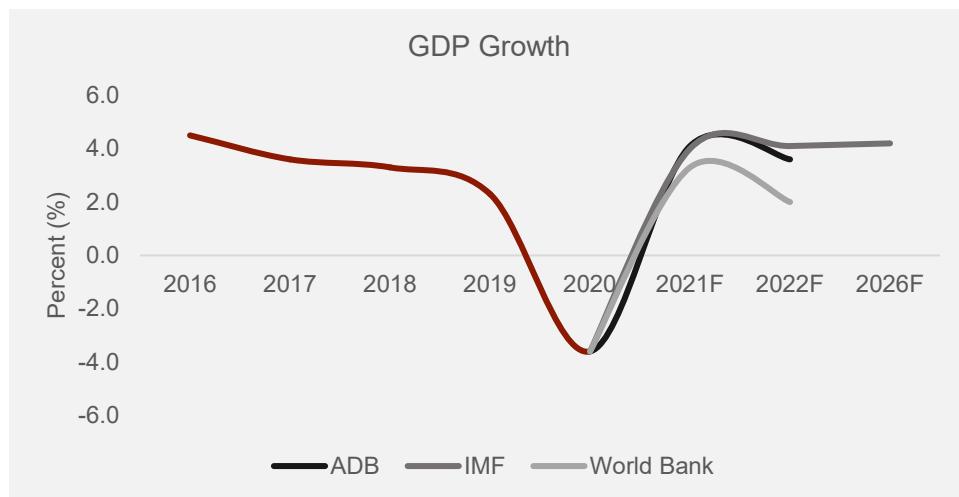
Total asset position of the company is LKR 204.6 million as at 31st May 2021 whilst the total equity value is LKR 105.1 Million as at the same date.

3.0 OVERVIEW OF THE COUNTRY AND INDUSTRY

3.1 Sri Lanka Outlook – Challenging but achievable

Favorable GDP Outlook

As in the case for the rest of the world, Sri Lanka too witnessed the adverse impacts of COVID-19 pandemic, whilst the country was progressing towards a recovery from the Easter Sunday attacks that occurred in April 2019. In 2020, the GDP was severely crippled, especially the second quarter economic activity due to complete lockdown of the country. The economy showed signs of resilience towards COVID-19 second wave which started in the beginning of October, which in fact led to a marginal recovery in economic activity for 2020. Such momentum gained continued into the 1st quarter of 2021 however the 3rd wave of COVID – 19 that hit the country during the month of April is bound to slow down economic activity yet again.



Growth is expected to rebound during the latter part of 2021, as both global and local economic activities are expected to show some recovery and vaccination drives would allow further relaxation of border controls. International agencies maintain positive outlook towards the real GDP growth during the year 2021. ADB, IMF and World Bank has forecasted a minimum 3% growth for the year 2021. However, Sri Lanka's challenging macroeconomic situation is likely to moderate growth in 2022.

Monetary and Fiscal Policies to support Economic Recovery

During the initial stages of the pandemic, the Government provided a six month debt moratorium for sectors which are adversely affected as well as on the lease rentals of vehicles. Tourism moratoriums were extended to March 2021 due to the airport closure and also zero tourism earnings. In addition, certain other facilities were provided to revive the economy.

In addition, due to the gloomy global economic outlook, the CBSL slashed policy rates in January 2020, followed by additional cuts during the year, lowering the short-term interest rates to unprecedented levels which resulted excess liquidity in the market, leading to a sharp decline in the government bonds and bills market. High liquidity levels caused overnight rates to move towards the lower bound of the policy corridor throughout 3Q and 4Q of 2020.

Going forward, Central Bank outlined the intention of maintaining a low single digit interest rate to boost the economic activity and to maintain a sustainable growth trajectory. This can be challenging with the increasing private sector credit growth and reliance on domestic sources to provide a significant portion of net deficit financing.

Credit Rating Downgrades

Due to existing challenges on the debt repayment plans coupled with high budget deficits, rating agencies downgraded Sri Lanka. In September 2020, Moody's Investor Services downgraded Sri Lanka's long-term foreign currency issuer and senior unsecured ratings to Caa1 from B2 and changed the Outlook to Stable.

Measures to curtail non-essential imports together with significantly lower global petroleum prices, assisted to reduce import expenditure in 2020, resulting in a notable improvement in the trade deficit. Recovery of demand in the export markets, increase in worker remittances coupled up with current import restrictions, the ADB's current account deficit forecast is expected to edge lower to 1.1% of GDP in 2021. [Source: Asian Development Bank's flagship annual economic publication, the Asian Development Outlook (ADO) 2021]

3.2 Investments in Infrastructure despite the pandemic

Despite the pandemic, Government entities and agencies maintained the course of infrastructure development in the country.

In 2020, the Road development authority incurred LKR 226.1 billion [Source: CBSL annual report 2020] for the maintenance and development of expressways and highways, widening and improvement of roads, construction of bridges and flyovers and also rehabilitation of roads affected by natural disasters, which was 49% higher compared to 2019. In addition, the development towards an efficient highway network is continuing. Investments in other transport related sectors have increased during the year as well.

Irrigation and drinking water related investments have continued in 2020, with a focus on providing clean water and to increase the productivity of the agricultural sector.

The government plans to increase public investment to 5.4% of GDP as part of its push for recovery in 2021.[Source: Economic Research Department of CBSL] This increase will come from allocations for Government priorities in health and education, a 100,000 kilometer road program, water for all, rural development and primary production in agriculture, plantations, fisheries, and energy. [Source: CBSL annual report 2020] The government projects a budget deficit at 8.8% of GDP in 2021. High recurrent expenditure of the country can pose a threat towards the achievement of the said public investments.

3.3 Developments in sectors related to EML's operating space

Construction Sector

Despite the spread of COVID-19, there is a high certainty for construction projects to gradually pick up pace and reach the required level of momentum by the 4th quarter of 2021. Foreign funded construction projects are expected to resume and continue since funding would be available for such projects. However, the projects Funded by the Government of Sri Lanka could be paused until the COVID spread is curtailed to a manageable level. Further, there is a likelihood that payments falling due on Government funded projects may encounter delays, as in the case observed in the past.

There is a growing need in the country for affordable middle income housing projects, another segment where EML would find its business potential in terms of provisioning its services.

Developments in the Port City can be viewed as a turnkey project opportunity for the country with heavy reliance on the construction segment.

Agriculture Sector

Pandemic highlighted the fragilities and the vulnerabilities on the imported food market. With the increasing pressure on the exchange rate coupled with identified vulnerabilities, increasing food self-sufficiency whilst boosting economic growth through increased agricultural production has become a key priority.

With the drive towards increasing food self-sufficiency, the Government has committed to providing free fertilizer for paddy production and fertilizer subsidies for several other major crops, while safeguarding local agricultural producers by discouraging imports of certain agricultural products. In line with the government decision to ban chemical fertilizer and consumers' tendency toward organically grown vegetables and fruits will create avenues for research, use of technology and implement new projects where EML also have a chance to provide its services in specific segments.

Key Focus on Tourism

Global tourism sector came to a grinding halt with the regional lockdowns and border restrictions caused due to the pandemic. Sri Lanka, with a higher reliance on the tourism sector, faces the same adverse effects on top of the Easter Sunday attack bombings occurred in 2019.

Vaccination procedure is likely to provide a breathing space towards the sector during 4th quarter 2021. Innovative strategies such as bio bubbles have also been utilized by the Government to revive tourism. Sri Lanka opened its borders for international tourists in January 2021, after being closed for 10 months which showcased a positive momentum. However, the recent setbacks surrounding the ongoing COVID -19 3rd wave has forced closure of Airports yet again, which will hamper tourism related income, perhaps until the 1st quarter of 2022.

In addition, new projects related to hospitality and leisure sector are expected to initiate with the expected boost in tourism sector resulting from the Port City Project. (Related Projects include [South Asia's first Disneyland to come up in Bopita Leisure Park | Daily News – April 8, 2021](#)).

Given the country's high reliance on income derived from tourism, high Government priority and a recovery plan can be expected in the near future, which is bound to benefit the business focus and provision of services by EML in the captioned sector. Further, many countries have started to implement or are considering the use of COVID-19 "vaccine passports" – paper or digital forms certifying that a person has been vaccinated against COVID-19, for purposes of international travel. In addition, some countries are using them for domestic travel and/or access to certain establishments, activities, and events. Such certifications are separate from but related to the issue of vaccine mandates. Where COVID-19 vaccines are mandated, there will be a need to certify vaccine status, and a vaccine passport is a potential tool for that purpose hence Government of Sri Lanka is bound to use this tool to revive the tourism sector.

3.4 New developments and drivers for increasing demand for EML's Consultancy Space

Change in Consumer Behavior

Community awareness towards environmental impact has heightened during the past decade and also growing technological infrastructure [smart mobile penetration and wider internet access] has acted as a catalyst. In addition to the regulatory requirements, the increase in the number of environmental groups and their activeness will result in new construction projects to be more scrutinized based on the environmental impact on the project surrounding.

Donor related projects to increase with increasing global political ties

During past few years leading up to 2019, a slowdown in donor based projects was witnessed. However, with stronger strategic alliances especially with the Asian block will lead to an increase in donor based projects in the future where EML has the opportunity to benefit well from these projects as seen in the past.

FDI Inflow to the country

The Government of Sri Lanka is targeting to attract more than US\$ 2.5 billion worth of Foreign Direct Investments (FDIs) this year, aftermath of numbers dwindle over the last two years as investor sentiment withered following the Easter Sunday attack and the adverse impacts of COVID-19 on the global economy. During the first nine months of 2020, Sri Lanka managed to attract foreign investments worth only US\$ 548

million, down 31 per cent compared to US\$ 793 million attracted during the same period of 2019. [[Sri Lanka targets US\\$2.5bn FDI in 2021: Minister | EconomyNext](#) Dec 16 2020]

Private Sector Demand for Specialized Consultation Services

Whilst businesses face challenging economic and market conditions, private sector institutions always exploit opportunities in every corner of the organization to improve performance, increase efficiency of the workforce through capacity building and at times restructuring organizations. These activities are generally outsourced to third party service providers that specialized in these areas. EML as a provider of human resource development and capacity building programs certainly could benefit from the increase in demand for such services from the private sector.

4.0 VALUATION RESULTS

4.1 Discounted Cash flow Methodology

Equity Value per Share

	2021 (7 Months)	2022	2023	2024	2025	Terminal Value
EBIT	5,405,291	7,711,487	10,333,873	12,730,376	16,095,212	
Tax	(378,370)	(1,079,608)	(1,446,742)	(1,782,253)	(2,253,330)	
Depreciation	3,568,895	5,641,853	5,771,279	5,654,578	3,656,828	
Capital Investment*	(843,442)	-	(501,003)	(854,229)	(1,965,783)	
WC Investment	(3,028,486)	(4,089,242)	(5,788,306)	(1,055,969)	(1,218,118)	
FCFF	4,723,887	8,184,490	8,369,101	14,692,503	14,314,809	117,268,858
DF	0.9600	0.8347	0.7258	0.6310	0.5487	0.5487
PV of FCFF	4,535,057	6,831,746	6,074,013	9,271,491	7,854,096	64,341,817
Enterprise Value	98,908,220					
Additions:						
Cash and Cash Equivalent	30,265,506					
Investment Property ¹	102,300,000					
Deductions:						
Borrowings	(38,296,469)					
Equity Value	193,177,257					
Number of Shares	90,900,000					
Equity Value per Share	2.13					

¹ In order to obtain the best use value of the property, a market rent for the premise used by EML has been charged and the property has been considered as a freehold investment property. Market value of the property to be LKR 102 Million based on the survey conducted by a Chartered Valuation surveyor in February 2021.

*Capital Investment refers to the expected investments in property plant and equipment during the forecasted period.

Sensitivity Analysis and Price Range

Terminal Growth	WACC				
	13.01%	14.01%	15.01%	16.01%	17.01%
2.00%	2.30	2.19	2.10	2.02	1.95
2.25%	2.32	2.21	2.11	2.03	1.96
2.50%	2.34	2.22	2.13	2.04	1.97
2.75%	2.37	2.24	2.14	2.06	1.98
3.00%	2.39	2.27	2.16	2.07	1.99

Based on the different volatilities on WACC and terminal growth rate, value range based on discounted cash flow basis to be LKR 2.03 – LKR 2.24 per share

Key Assumptions

Key Assumptions	
5-year T- Bond secondary market avg. yield as of 17.05.2021	7.97%
Market Risk premium ¹	8.00%
Cost of equity (Ke)	15.97%
Value of Equity ²	80.00%
Weighted Avg. Cost of debt	13.00%
Cost of debt (1-T)	11.18%
Value of debt	20.00%
Discount factor (WACC)	15.012%
Long term growth rate ³	2.50%

¹ Market risk premium of 8% is considered as appropriate to capture Consultancy services industry related risks. The business model of the Company permits them to reasonably manage the impact of adverse economic and market risks, hence we believe the risk premium applied herein is adequate.

² Considering the fact that the borrowings position is reducing gradually, we assumed a debt and equity composition of 20% : 80% in the long run, giving due consideration to future strategies of the Company.

³ Long term growth rate of 2.5% is applied in the valuation, considering the earnings growth and assuming increasing demand for Consultancy and related services in the long run.

4.2 Adjusted Net Asset Value Methodology

	Net Asset Value 31 ST May 2021	Adjustments	Adjusted Net Asset Value
	LKR	LKR	LKR
Total Non-current assets	67,404,168	54,450,341	121,854,509
Total current assets	137,210,920	-	137,210,920
Total assets	204,615,088	54,450,341	259,065,429
Total Non-current liabilities	11,665,293	-	11,665,293
Total Current liabilities	87,809,706	-	87,809,706
Total Shareholder's funds	105,140,089	54,450,341	159,590,430
Number of Shares	90,900,000	90,900,000	90,900,000
Value per Share	1.16	0.60	1.76

¹ Increase in market value as per the market valuation conducted on the property in February 2021 by Mr. Sampath P. Dayaratne MRICS, an independent valuer and the current book value of the property.

5.0 VALUATION METHODOLOGY

5.1 Discounted cash flow Methodology

Discounted cash flow is a valuation method used to estimate the value of an investment based on its future cash flows. Based on the future cash flow projection, this methodology will identify the value of the investment as at the considered valuation date. Given the current operation of the business and the expected growth backed by internal strategies and macro-economic developments, DCF will be able to capture the growth potential of the operations of EML. Hence, DCF is considered as the primary valuation technique.

Free Cash Flow to Firm (FCFF) was calculated using the following formula:

FCFF = Earnings before Interest and Tax * (1-tax rate) + Depreciation& Amortization - Capital Expenditure + Working Capital Investment (net)

In order to arrive at an intrinsic value for the company, the future FCFF's were discounted using the following formula:

$$\sum_{i=0}^n \frac{FCFF_i}{(1 + WACC)^i} + \frac{TV}{(1 + WACC)^n}$$

FCFF = Free Cash Flow to Firm in year t

WACC = Weighted Average Cost of Capital

TV = Terminal Value at year n

Where the Terminal Value is calculated through,

$$\frac{FCFF_n \times (1 + g)}{(WACC - g)}$$

g = Long term Growth rate

And WACC is calculated through,

$$W_d \times K_d \times (1 - T) + W_e \times K_e$$

K_e = Cost of Equity

K_d = Cost of Debt

T = Company's tax rate

Fair value of equity was computed by deducting net debt and adjusting the Non-operational assets and liabilities to the total present value of FCFFs.

5.2 Net asset Value and Adjusted Net Asset Value Methodology

Net Asset value is based on reported shareholders' funds in the Balance sheet, whilst the adjusted net asset value is based on the market value of assets and liabilities in the balance sheet. Given the strong balance sheet of the company, this can be a strong parameter in realizing the low end of the valuation range.

$$\frac{\text{Net Asset Value per Share}}{\text{Market | Reporeted Value of Total Assets} - \text{Market | Reporeted Value of Total Liabilities}} = \frac{\text{Number of Shares}}{\text{Number of Shares}}$$

6.0 ASSUMPTIONS USED IN FINANCIAL FORECASTS

Financial forecasts are based upon assumptions made by the management that would reasonably reflect the future business potential, and such assumptions are based on best estimates. Management has taken into consideration the current business levels, possible impact of the macro-economic environment on its business verticals, business development plans and future capital requirements of the company etc.

6.1 Revenue

During the past 4 operational periods, the company has maintained a compound annual growth of c.8% in revenues. In addition, the management has communicated the plan of recruiting an experienced Business Development professional. With the new recruitment, the Management expects to maintain a 8% year on year growth of revenue during the explicit forecasted period; to be in line with the past revenue growth rates.

As per IMF forecasts, the GDP growth of the country will be volatile around c.4%. A similar increase in the infrastructure projects plus an addition due to the new Government's policies can be expected during the forecasted period.

For the 5 months period ended 31st May 2021, EML has been able to record a topline of LKR 36 million. Management is confident in securing a total revenue of LKR 139 Million for the year, given the prevailing projects at hand and opportunities available.

Considering the interim results of 2021, management's estimates and expected GDP growth, we assumed below mentioned Revenue growth rates as reasonable for the company, and accordingly used in the financial forecast.

	2021E	2022F	2023F	2024F	2025F
Revenue Growth	4.5%	6.2%	6.2%	6.2%	6.2%

Providing a timewise breakdown of Project revenues is challenging given the demanding requirements and variability in the timelines where EML has minimum control.

6.2 Direct Costs

The reported gross profit margin of the company for past 5 financial years has varied from 23% – 45%. The maintained profit margins have been volatile given the specifications of each project undertaken. During the current financial year [as per unaudited interim financial statements] direct costs have declined to 65%.

The management reasonably expect that the same pricing strategies could be maintained going forward. In this regard, a direct cost margin of 70% has been applied for the year 2021, considering the businesses in hand and thereafter the direct cost margin assumed to reduce to 68% in 2023 and maintain the same during the forecasted period.

6.3 Other Income

Total other income for the company for the FY 2020, excluding interest income, a one off event [disposal of Motor Vehicle - LKR 9.0 Million] and rent from related party company [LKR 25,000], reaches to LKR 2.8 Million, hence such a level has been assumed to remain constant over the explicit forecasted period. During the first 5 months period of 2021, there has been a gain of c. LKR 4.4 Mn from disposal of a vehicle that results in a significant other income for FY 2021E. Other income also consists of interest income that is estimated to generate from short term vestments in the range of 6% to 8% p.a.

As discussed earlier in the report, the charged rent from related party companies are significantly below the market rates hence does not reflect the best use of property value. Hence, rent [which is earned from the

property] will be discarded from the forecasted financial statements and the property will be treated as an investment property.

6.4 Administrative Expenses

Staff related expenses have been forecasted to grow at 5% YoY over the explicit forecasted period. In addition, there will be a new recruitment towards the business development division that will lead to additional salary cost. An annual growth rate of 6% has been used in order to arrive at the other administrative related expenses over the explicit forecasted period.

As mentioned above, in order to capture the best use value of the property, it will be required to consider it as a free hold investment property. Hence, a monthly rent of LKR 150,000 has been included into the costs [Paying a rent for the square footage used by the EML] enabling the fair value of the property being taken as a part of the equity value.

6.5 Depreciation

Depreciation of assets are charged so as to allocate the cost of assets and less their residual values over their estimated useful lives using the straight line method, commencing from the month in which the asset is available for use. Rates used for depreciation are as follows;

Buildings	5%
Computer Equipment	33%
Furniture and Fittings	33%
Office Equipment's	25%
Motor Vehicles	20%

It is assumed that 20% of the increase in cash at the financial year end will be channeled for new additions to the highly depreciated assets categories of the portfolio.

6.6 Finance Income

Finance income, assuming that the surplus cash generated from operations would be invested at a rate of 6% - 8% p.a., in a suitable investment opportunity as decided by the Company. It is assumed that 60% of the increase in cash at the financial year end will be channeled to such investments at the beginning of the following financial year.

6.7 Finance Costs

Effective interest rates of the loan balances range from 9% -13%. [Except for the COVID-19 related loan granted with an interest rate of 4%, which has been acquired in the month of March 2020].

Effective interest rate of 7.1% has been applied in FY 2021 for the Bank overdraft facility driven by the working capital requirements of the company, and it is maintained at 8.5% during the remaining forecasted period.

6.8 Taxation

The Company is liable for income tax at the rate of 14% on taxable profits, which is the corporate income tax rate applicable for SMEs. There are no tax concessions enjoyed by the Company at present, however, in the event a listing is obtained in the CSE prior to 31st December 2021, EML will avail for a 50% reduction in the income tax payable for the year of assessment commencing from 1st April 2021 in accordance with the provisions of Inland Revenue (Amendment) Act, No.10 of 2021.

6.9 Working capital

During the end of the explicit forecasted period, the management targets to maintain a 90 days trade receivable period and a 90 days creditor settlement period.

6.10 Investments in property, plant and equipment

It is assumed that 20% of the net increase in yearly cash flows to be used for purchase of PPE in the subsequent financial year.

6.11 Borrowings

It is assumed that the loans and leases to be settled as scheduled and Bank overdraft to be maintained in the range of LKR 13.6 Mn each year.

7.0 FORECASTED FINANCIAL STATEMENTS

7.1 Statement of Comprehensive Income

	2020A	2021E	2022F	2023F	2024F	Amounts in LKR 2025F
Revenue	133,740,943	139,759,285	148,424,361	157,626,672	167,399,525	177,778,296
Direct Cost	(102,776,025)	(97,831,500)	(102,412,809)	(107,186,137)	(113,831,677)	(120,889,241)
Gross profit	30,964,918	41,927,786	46,011,552	50,440,535	53,567,848	56,889,055
Other income	14,085,364	10,160,618	5,635,225	5,635,225	6,697,069	6,902,084
Administrative expenses	(29,039,311)	(36,466,401)	(38,293,436)	(39,970,607)	(41,879,964)	(44,039,099)
EBITDA	16,801,858	15,622,003	13,353,340	16,105,152	18,384,954	19,752,040
Depreciation	(4,579,936)	(6,187,449)	(5,641,853)	(5,771,279)	(5,654,578)	(3,656,828)
EBIT	11,431,035	9,434,554	7,711,487	10,333,873	12,730,376	16,095,212
Finance costs	(1,892,402)	(2,745,383)	(2,136,162)	(1,829,573)	(1,542,534)	(1,274,574)
Finance costs – net	(1,892,402)	(2,745,383)	(2,136,162)	(1,829,573)	(1,542,534)	(1,274,574)
(Loss) / profit before tax	9,538,633	6,689,170	5,575,325	8,504,300	11,187,842	14,820,638
Income tax	-(712,697)	(468,242)	(780,546)	(1,190,602)	(1,566,298)	(2,074,889)
(Loss) / profit for the year	8,825,936	6,220,929	4,794,780	7,313,698	9,621,544	12,745,749
Earnings/ (Loss) per share	0.10	0.07	0.05	0.08	0.11	0.14

7.2 Statement of Financial Position

Amounts in LKR

	2020A	2021E	2022F	2023F	2024F	2025F
Assets						
Non-current assets						
PPE – Freehold	51,192,283	50,520,165	49,010,809	47,779,949	47,045,246	46,956,281
PPE -Leasehold	10,726,682	14,657,253	10,587,824	6,518,394	2,448,965	848,965
Total Non-current assets	61,918,965	65,177,418	59,598,632	54,298,344	49,494,211	47,805,246
Current assets						
Trade and Other Receivables	36,283,319	38,290,215	36,597,788	38,866,851	41,276,595	43,835,744
Income Tax Refund	1,698,330	1,698,330	1,698,330	1,698,330	1,698,330	1,698,330
Short - Term Investments	42,742,507	47,080,209	47,471,663	48,989,623	51,555,408	57,467,459
Amount due from Related Party	20,184,591	20,184,591	20,184,591	20,184,591	20,184,591	20,184,591
Cash and cash equivalents	31,225,244	25,192,704	27,855,481	32,131,789	41,985,208	49,050,151
Total current assets	132,133,991	132,446,050	133,807,853	141,871,183	156,700,132	172,236,275
Total assets	194,052,956	197,623,467	193,406,485	196,169,527	206,194,343	220,041,521
Equity and liabilities						
Capital and reserves						
Stated capital	90,900,000	90,900,000	90,900,000	90,900,000	90,900,000	90,900,000
Retained earnings	11,101,481	17,322,410	22,077,050	29,380,851	39,026,213	51,797,710
Total Shareholder's funds	102,001,481	108,222,410	112,977,050	120,280,851	129,926,213	142,697,710
Non-current liabilities						
Borrowings	7,100,000	2,930,106	154,191	-	-	-
Defined benefit obligations	3,736,872	4,592,986	5,491,906	6,435,772	7,426,832	8,467,444
Deferred income tax liabilities	2,238,783	2,238,783	2,238,783	2,238,783	2,238,783	2,238,783
Total Non-current liabilities	13,075,655	9,761,876	7,884,881	8,674,555	9,665,615	10,706,227
Current liabilities						
Borrowings	19,504,410	24,004,990	22,039,607	20,228,417	18,263,035	16,957,074
Trade and other payables	47,067,320	40,204,726	33,669,965	29,366,065	29,627,423	29,808,306
Amounts due to Related Party	12,404,090	16,081,890	16,834,982	17,619,639	18,712,057	19,872,204
Total Current liabilities	78,975,820	80,291,606	72,544,554	67,214,121	66,602,515	66,637,584
Total Equity and liabilities	194,052,956	198,275,891	193,406,485	196,169,527	206,194,343	220,041,521
Net Assets value per share	1.12	1.19	1.24	1.32	1.43	1.57

7.3 Statement of Cash Flow

Amounts in LKR

	2020A	2021E	2022F	2023F	2024F	2025F
Cash generated from / (used in) operations						
(Loss) / profit before tax	9,538,633	6,655,462	5,565,104	8,492,791	11,215,538	14,850,578
Adjustments for:						
Depreciation	4,579,936	6,221,158	5,675,562	5,806,275	5,659,394	3,659,649
Interest expense	448,451	2,745,383	2,136,162	1,829,573	1,542,534	1,274,574
Gratuity Provision	1,606,234	856,114	898,920	943,866	991,059	1,040,612
Profit/(Loss) on disposal of property, plant and equipment	(9,015,000)	-	-	-	-	-
Operating Profit Before Working Capital Changes	7,158,254	16,478,117	14,275,748	17,072,506	19,408,526	20,825,413
Changes in working capital:						
- (Increase) / Decrease in Trade and Other Receivable	(8,154,915)	(2,006,896)	1,692,428	(2,269,063)	(2,409,745)	(2,559,149)
- (Increase) / Decrease in Amounts Due From Related Party	6,353	-	-	-	-	-
- Increase / (Decrease) in Trade and Other Payables	7,430,041	(6,862,594)	(6,534,761)	(4,303,900)	261,358	180,883
- Increase / (Decrease) in Amounts Due To Related Party	(309,900)	3,677,800	753,092	784,657	1,092,418	1,160,148
Cash (used in) / generated from operations	6,129,833	11,286,427	10,186,506	11,284,199	18,352,556	19,607,294
Interest paid	(345,467)	(2,745,383)	(2,136,162)	(1,829,573)	(1,542,534)	(1,274,574)
Income Tax/WHT Paid		(465,882)	(779,115)	(1,188,991)	(1,570,175)	(2,079,081)
Net (used in) / generated from operating activities	5,784,366	8,075,162	7,271,229	8,265,635	15,239,847	16,253,640
Cash flows from investing activities						
Purchase of property, plant and equipment	(134,001)	(9,576,385)	-	(505,986)	(855,262)	(1,970,684)
Investment / uplift in short term investment	(3,962,893)	(4,729,156)	-	(1,517,959)	(2,565,785)	(5,912,051)
Net cash generated from investing activities	(4,096,894)	(14,305,542)		(2,023,946)	(3,421,046)	(7,882,735)
Cash flows from financing activities						
Movement in borrowing	6,194,455	330,686	(4,741,297)	(1,965,382)	(1,965,382)	(1,305,962)
Net cash used in financing activities	6,194,455	330,686	(4,741,297)	(1,965,382)	(1,965,382)	(1,305,962)
Net (Decrease) / Increase in Cash and Cash Equivalents	7,881,927	(5,899,695)	2,529,932	4,276,308	9,853,419	7,064,943
Cash and Cash Equivalents at the Beginning of the Year	9,706,011	17,587,938	11,688,244	14,218,176	18,494,484	28,347,903
Cash and Cash Equivalents at the End of the Year	17,587,938	11,688,244	14,218,176	18,494,484	28,347,903	35,412,846

7.4 Financial Ratios

Ratio	2020	2021E	2022F	2023F	2024F	2025F
Revenue Growth	6.1%	4.5%	6.2%	6.2%	6.2%	6.2%
Gross Profit (GP) Margin	23%	30%	31%	32%	32%	32%
EBITDA	12%	11%	9%	10%	11%	11%
Net Profit (NP) Margin	7%	4%	3%	5%	6%	7%
Return on Equity (ROE)	8.7%	5.7	4.2%	6.1%	7.4%	8.9%
Net Asset Value per share (LKR)	1.12	1.19	1.24	1.32	1.42	1.57
Earnings/ (loss) per share (LKR)	0.10	0.07	0.05	0.08	0.11	0.14
Debt/ Equity	26%	25%	20%	17%	14%	12%

8.0 THE TEAM

Rohan Senewiratne – Founder | Managing Director

A veteran in the Sri Lankan capital markets industry with three decades of experience across Regulatory Organizations (Securities and Exchange Commission of Sri Lanka and the Colombo Stock Exchange) and market intermediary institutions (Securities Brokerage Firms and Unit Trusts) in his career. Rohan is a Director / Shareholder of ACP, with corporate experience across multiple industries and institutions.

Rohan joined the capital markets industry in 1992 as a Management Trainee of the Colombo Stock Exchange. In 1994, he joined Lanka Securities (Pvt) Limited (a joint venture stockbroking firm between Bank of Ceylon and Merchant Bank of Sri Lanka) as an Investment Advisor and rose to the level of Director Sales in 2001. In 2003, he joined Lanka ORIX Securities (Pvt) Limited (former subsidiary of Lanka ORIX Leasing Company PLC) as an Executive Director. During his career in stockbroking, he has successfully structured many strategic transactions (listed and unlisted) and has offered investment advice to clients ranging from local retail investors to global foreign funds functioning in Frontier Markets sphere.

In 2008 Rohan joined the Global Service Delivery Centre of HSBC in Colombo, its Hedge Funds and Traditional Funds Administration division as Vice President Operations and subsequently rose to the level of VP / Country Head, HSBC Securities Services COE Colombo in 2011.

Rohan joined the capital markets regulator, Securities and Exchange Commission of Sri Lanka as Consultant - Special Projects in 2013. He was instrumental in development and implementation of the first ever USD denominated investment product in the Sri Lankan capital market (Dollar Bond Fund Unit Trusts) during his tenure at SEC.

Rohan is a Graduate / Passed Finalist of Association of Business Executives UK and also graduated with a Master's Degree in Business Administration from University of Wales in 2008.

Chandana Wijesundara – Vice President – Investment Banking

After completing a successful career spanning over 9 years at the Colombo Stock Exchange (CSE), Chandana joined Atarah Capital Partners in February 2020. His experience encompasses Corporate Finance / Investment Banking, complemented with vast experience on end-to-end process of public listing of securities gained whilst holding key responsibilities at the Listings Division of the CSE. He was a member of the regulatory teams that launched the Multi Currency Board and the Empower Board (for SME's) as listing platforms and has been involved in many other regulatory process implementations and revisions with ample exposure to capital market related practices, laws and regulations. He has been a key resource person representing CSE at various forums conducted to promote listing of securities amongst prospective issuers.

Chandana also possesses hands on experience in Financial Reporting and Auditing where he carried out numerous tasks during statutory audits at Ernst & Young for over 3 years. Formally qualified with a Bachelor of Business Management (Finance) Special Degree (2nd Lower) from University of Kelaniya Sri Lanka, Chandana is also an Affiliate of Association of Chartered Certified Accountants (ACCA) UK.

9.0 DISCLAIMER

Valuation model of this report has been prepared by ACP based on the analysis of historical financial statements, both audited and unaudited of E M L Consultants Limited and the future plans provided by the management of the Company. The financial forecasts are based on several assumptions and judgements of significance subjectivity. Therefore, such information should not be considered as a guarantee or representation, expressed or implied of the future achievements of the Company and are subject to change according to the Company's ability to execute its business plans and may vary depending on the macro-economic conditions prevailing time-to-time.

ACP's independent verifications were limited to analysis of historical financial statements of the Company, present operational structure and use of professional judgement as regard to the assumptions disclosed under section of 'Discounted cash flows'. Forecasted results and assumptions have been discussed with the management of EML and assumptions used has been compared with the past trends and macro-economic factors to the extent of availability of such information. ACP has made inquiries with the management on future plans in place to achieve the expected results.

ACP assumes no responsibility over the omission of information furnished by the Company. The industry information included in this report is based on external information sources mentioned therein and ACP has not independently verified such information.

Accordingly, the information and results should not be considered as a representation made by ACP and does not by any mean is a guarantee of future achievements of the Company. ACP does not accept any liability of a loss incurred by any person by acting or not acting based on the information presented in this Report. The recipients of this report are expected to make their own analysis and judgments considering the historical financial information and macro-economic factors that could affect the present and future operations of the Company.

The value recommendation provided in this report is valid for a period of 3 months from the date of the Introductory Document, provided no material changes are taking place in the Company's operating environment during the aforesaid period.

We also confirm that we are neither a related party of EML as defined in Sri Lanka Accounting Standards, nor has a significant interest or financial connection with the Company.

Valuation Date: 31st May 2021

Report Date: 31st July 2021