

Business/Interview

Young but dynamic Hela spearheading its own apparel manufacturing revolution

■ Already the largest apparel manufacturer in Kenya and Ethiopia, Hela aims to be the biggest in Egypt in intimate wear category in the next 3-4 years

By NISTHAR CASSIM

HELA Clothing, relatively young but dynamic, has seen phenomenal growth thanks to strategic and bold moves, especially being the first to set up operations in East Africa. In five years it has become the biggest apparel manufacturer and exporter out of Kenya and Ethiopia. Encouraged by this success, last year it ventured into North African hub Egypt. Today the Group employs 15,000 and has a turnover of over \$250 million. It serves some of the world's top luxury apparel brands including Tommy Hilfiger, Calvin Klein, Michael Kors and VF Corp, through its 11 manufacturing facilities located in Sri Lanka, Kenya, and Ethiopia.

The Company is upbeat about future prospects as it continues to innovate. Taking a further bold step is Hela's quest to become the first apparel manufacturer and exporter with a global footprint to be listed on the Colombo Stock Exchange. Hela Apparel Holdings Ltd.'s Initial Public Offering of 20.5% stake, or 267.1 million shares, at Rs. 15 each aims at raising Rs. 4 billion. The IPO, the largest public issue by value in over a decade, is up for subscription whilst its official opening is tomorrow (12 January). Funds raised via the IPO will be towards setting up a fabric mill (Rs. 1 billion), beefing up Hela's core digital systems through the implementation of a new SAP ERP system (Rs. 600 million) and Rs. 2 billion towards strengthening the balance sheet by settling existing debt in order to support future expansion. In addition, Rs. 400 million will be spent on automation-related capital expenditure to improve productivity and efficiency. The Daily FT-SC Securities Ltd., as part of its joint initiative 'Market Pulse', recently met up with Hela Group CEO Dilanka Jinadasa to get key insights to the Group's success so far, future prospects, challenges and opportunities in the sector. Here are excerpts of the FT TV interview conducted by SC Securities Assistant Manager Investment Banking and Marketing Dilusha Gamage:

Q: Give us a brief overview of Hela.
A: Hela is an apparel manufacturer of Sri Lankan origin but over the last few years we have ventured abroad starting with East Africa, with our first plant in Kenya followed by one in Ethiopia and further expanding to North Africa in Egypt. Today we have 15,000 employees across these four countries. We manufacture over 8 million pieces of apparel monthly.

Q: How has the apparel industry been fairing?
A: The apparel industry is very important for Sri Lanka. Last year nearly 40% of Sri Lanka's foreign exchange earnings came through the apparel industry or almost one out of two dollars came from our industry. It employs over 400,000 directly across the country and a lot more indirectly. So, the apparel industry is very important especially at a time when the country is in need of foreign currency reserves.

Q: What are the issues facing higher growth in the apparel industry?
A: From a local standpoint, being a USD denominated business, we are not too adversely affected from the forex crisis. There is a perception that rupee depreciation helps exports, but I don't agree with it completely. Depreciation does not become a disadvantage but generally the benefit is lost because the cost of production goes up. We have to pass on some of the benefits to our employees because depreciation pushes up the cost of living. Having a more conducive environment for exports is more important than mere depreciation in a situation where the apparel industry is seeing unprecedented demand. The latter is due to multiple reasons, including COVID pandemic-induced stimulus initiatives in our consumer markets and supply chain disruptions in producer countries. Sri Lanka is in a unique position to capitalise from this opportunity.

Q: The benefit of GSP+ for Sri Lanka is in the balance. Any concerns?
A: GSP+ scheme is important. However, my personal opinion is if we lose it, it is not a major disadvantage. Prior to the pandemic the industry knew that the GSP+ was to expire in 2023. As a business have been readying for an era of post-GSP+ environment. The main way to handle this challenge is to move up in the value chain. As a business you need to stop competing on price and do it in value offering either by giving supply chain solutions, design solutions to the brands, etc. This way you are at a position where you compete on factors

other than price. That said, why GSP+ is important or the way we lose it is important because of the perceptions it creates in the retail markets we serve. As a country it is important we maintain a reputation of good governance and social justice.

Q: Are you saying Sri Lanka is not too dependent on GSP+?

A: It is a mixed bag. There will be certain manufacturers who may be somewhat more dependent than others. At Hela we are not entirely driven by a model that requires GSP+ to exist or be financially viable.

Q: How does the private sector and Government collaboration go in addressing industry issues?

A: The Joint Apparel Association Forum (JAAF) and the Government continue a good relationship. We voice out the industry concerns so that the Government can respond. A good example is how JAAF reached out to the Government to prioritise the apparel sector and export sector in general on the COVID vaccination. The Government responded quickly and did a great job enabling the industry to bring back employees at full scale and resume our operations and exports and meet our customer commitments.

Q: What needs to be done to take the apparel industry to the next level?

A: May be a couple of things. As a country we could do a lot better in terms of scaling up our supply chain aspect of apparel. We do have a few fabric and accessories suppliers but still there is huge room given the fact that a \$5 billion dollar industry imports over \$2 billion worth of fabric and accessories. The Government has acknowledged this and has set up a dedicated Fabric Park in Eravur. This will give an impetus to domestically cater part of the supply chain requirements.

Next is for the industry itself to really scale up outside Sri Lanka. I don't think it is necessary for everyone to be operating out of Sri Lanka. We should also export our expertise and take our core competencies and set up in other consumer market-strategic countries as well. We can continue to use Sri Lanka as the hub for design, development and innovation and global procurements and do the mass manufacturing in countries with high populations that can support mass manufacturing.

If we get these key initiatives right, we can see more dollars being repatriated back to Sri Lanka and grow the industry overall.

Q: How unique is Sri Lanka in comparison to some of the other producer countries?
A: Sri Lanka has a lot of competitive advantages. One is that Sri Lanka has a very mature apparel industry which has been fairly thriving for the past two to three decades. A major reason for this is the strategic relationships the industry has built with the customers we serve. If you look at the categories that Sri Lanka exports in scale, we are servicing those brands who are champions in those categories globally. Be it in sportswear, lingerie or underwear, a lot of those global brands have their top suppliers coming from Sri Lanka or Sri Lankan suppliers who have got plants globally.

Q: What is Hela's secret in building strong relationships with top global brands?
A: My colleagues think I have a problem saying "No." I don't know whether it is a good or a bad thing. At Hela we know our purpose in the industry and our relationship with our customers is that we come to work on a daily basis thinking how we can solve the problems that the customers are going through. Be it in lead times, sustainability or having a great product at the right time at the right price. We try to understand the problems they are facing and give solutions. At times

we even help some of our customers realise problems or the bottlenecks or pain points they are going through, we flag it up and propose a solution. That sort of relationship has built trust over time. Now it has come to a point where customers come to us whenever they have a problem and ask how we can help.

Q: Does it work both ways, especially during times of stress or challenges, for example the pandemic?

A: Yes, it definitely works both ways, especially when you have strategic relationships like we do without customers. We don't serve a huge number of brands,



Hela Group CEO Dilanka Jinadasa (right) gestures during the Daily FT-SC Securities organised "Market Pulse" interview done by SC Securities Assistant Manager Investment Banking and Marketing Dilusha Gamage



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may be eight to 10 at maximum within the \$250 million we export. But within the brands we serve we are among the top three suppliers for them. We saw these strong relationships coming to play, especially during the early days of the pandemic when the whole world went through a shutdown. Our brands' stores were closed, warehouses were full, and asked us to stop manufacturing as well when our business models and operations were not meant to be shut down. We understood the ground realities then and as soon as we felt it was safe to resume operations, we reached out to the brands we came up to an agreement where, even though they didn't need the inventory, we started producing and shipping and we will sort out the specifics later. We are completely appreciative of the support extended by our brands over that difficult period.

Q: We have seen a migration of apparel production from China due to trade restrictions and other factors. COVID also created a lot of supply chain issues. How can Sri Lanka take advantage of this scenario and how is Hela responding?
A: It is difficult for Sri Lanka to capitalise on all of the manufacturing migration out of China. The industry in China is around \$180-200 billion whereas Sri Lanka's is \$5 billion. So even if 1% of China's industry migrates to Sri Lanka, it is effectively 50% growth in our industry and that kind of growth we can't handle right now as we don't have the capacity and labour force. However, what we can do is try and get a manageable component of China's manufacturing migration, may be high value items and technologically complex ones, and Sri Lankan manufacturers who have a global presence have a better chance to capture it because they got more scalable manufacturing locations, be it near shore Africa or in the Indian subcontinent.

Q: Can you share the reasons for Hela's rapid expansion into Africa?
A: In 2014 we decided we needed to be international and couldn't be a standalone Sri Lankan entity. At that point we had the option of going to Bangladesh like most

of the Lankan companies did. But we realised that if we went to Bangladesh in 2014, we would be one of the last to do so. We also had the option of venturing into Vietnam and benefiting from the Trans-Pacific Partnership (TPP), and if we did then we would have been the one before the last Sri Lankan company to enter that country. So, we looked at where Hela could have a first move advantage and as Africa was getting a bit of traction as the final frontier for apparel manufacturing, we decided to enter Africa through Kenya. We chose Kenya because of its maturity. It has a stable political system, good infrastructure and their first language is English along with Swahili. This allows us to recruit good middle and top management enabling Sri Lankan staff to set up and operate in a more collaborative way. We also used Kenya to better understand the East African landscape and then ventured out within the region. We set up in Kenya in 2016 and once we reached a level of scale, we expanded to Ethiopia in 2017, and in 2021 we ventured into North Africa via Egypt. Each of these countries have different value propositions. Not just cost but great work force, infrastructure and even access to cotton. So, a variety of factors make Africa a great place for the manufacture of apparel.

Q: Are there changes in specific categories post-COVID?
A: There was a shift to lounge wear as more people were working from home. So, the wallet share migrated to this category. Luckily we are a lounge and underwear

manufacturer and we saw record demand. But with countries opening up, some of the customer spend will shift to other categories. How much is yet to be seen.

Q: Do you see a model change in apparel manufacturing with more Sri Lankan companies considering low labour cost locations?
A: I don't think the shift will be purely driven by cost. Sri Lanka isn't extremely expensive to operate. Sri Lanka may be one third the cost of Turkey, but that country's apparel industry is five times bigger than Sri Lanka's. The real bottleneck will come out of capacity. Sri Lanka will struggle to cross the \$10 billion export landmark in a few years because of capacity and insufficient labour population. Sri Lanka should focus on becoming a knowledge hub in apparel, design and innovation, and do the mass manufacturing in countries where there is efficient labour capacity.

Q: What thoughts about the listing on the Colombo Stock Exchange and the IPO which is now up for subscription?
A: We are extremely excited about it. It is something we as a team have dreamt about for years. There are also various benefits of being a listed company besides the opportunity to raise capital. It brings in good governance to work better with global brands be it joint ventures or co-investments. Being listed and regulated along with improved good governance reduces your reputational risk. Opportunities for mergers and acquisition are immense if and when scaling up is needed in an efficient manner. Hela is probably the only apparel, or among a handful, to have an ESOP scheme for our leadership and employees. Being listed makes their stocks more liquid or worthwhile. It helps us to align incentives and strategies between shareholders and our employees on a medium- to long-term basis. We foresee a future where one day eventually all our employees, or most, become shareholders and partners of the Company.

Q: What are you offering to investors?
A: Our vision is for Hela to be the proxy for the apparel industry, being the only export apparel manufacturer to be listed. Everyone understands how important the apparel industry is for Sri Lanka apart from it being synonymous with Sri Lanka. So, Hela's IPO is a great opportunity to be part of that apparel growth story. It is an investment in a local apparel company but with global presence. US Dollar earnings provide a natural currency hedge for Hela and access to Sri Lanka's largest or profitable sector.

Q: How important is the equity market for business?
A: It is very important. It allows the private sector to scale up globally. My advice is no matter which industry one is in, they must look at global opportunities and not just Sri Lanka. Being a listed company helps to capture those global opportunities in an efficient manner. I am aware of the challenges and concerns, but the pros outweigh the cons.

Q: What is the future of the apparel industry?
A: One of Hela's proudest feats is that we are the largest apparel manufacturer in Kenya, one out of five dollars shipped from Kenya is by Hela. We are the largest in Ethiopia. We also expect to be the largest in Egypt in the intimate wear category in the next three to four years. We are proud of these achievements as a company and as Sri Lankans. We like to see other players in the apparel sector achieve such commanding positions in other apparel hotspots as well, and Sri Lanka spearheading that apparel manufacturing revolution.

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