



First Capital
A Janashakthi Group Company

HELA APPAREL HOLDINGS

EQUITY | SRI LANKA | CONSUMER DURABLES

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“Heading to innovative fashion solutions”

Fair Value [FY23E]: LKR 19.2 [28%]
Total Return 28% [AER 22%]

IPO Report | 6 Jan 2022

FIRST CAPITAL RESEARCH

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1.0 Company Highlights



Leading expert in the apparel sector to set a landmark

■ Hela Apparel Holdings Limited (HELA) is the holding company for the HELA Group, founded and headquartered in Sri Lanka over three decades.

■ The group provides sustainable and ethical supply chain solutions to the world's leading apparel brands such as Tommy Hilfiger, Calvin Klein, Michael Kors, and VF Corp.

■ HELA works closely with its customers, from designing to delivery, in the Intimate wear, Sportswear, Kidswear and Medicalwear product ranges.

■ The Group is also aiming to further scale up its operations in Africa and is planning to lease a manufacturing plant in Egypt by early 2022.

■ As one of the fastest growing apparel manufactures in Sri Lanka and a pioneer in developing the sector in East Africa, the Company is also a highly valued strategic partner for its customers.

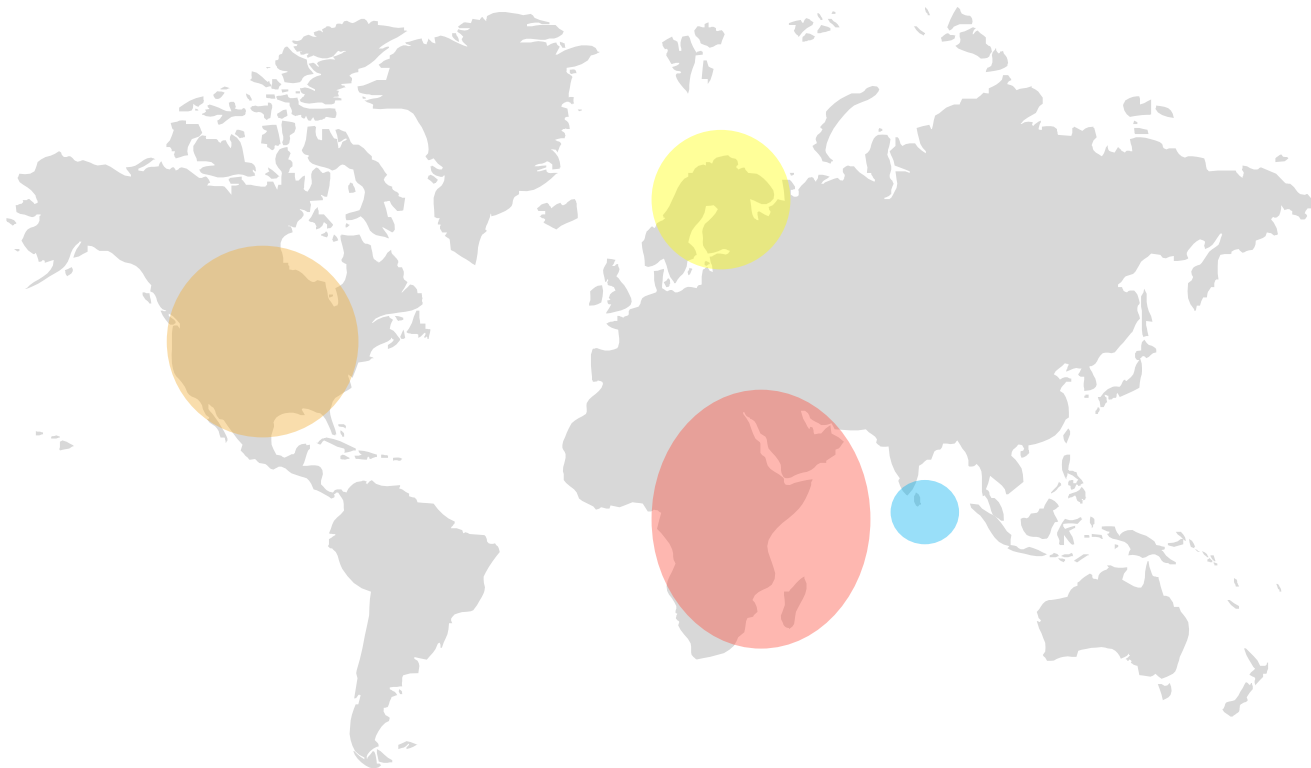
■ With 11 factories across three countries and a workforce of over 18,000 across the globe, HELA leads the industry in ethical and sustainable manufacturing practices supported through its design centres in Sri Lanka, US, UK, and France.

■ HELA added Medical Wear as an additional product category in FY22 via the establishment of Safeguard Workwear EPZ Limited (SGW) in Kenya.



Diversified global footprint

The global footprint of the HELA Group spans over 8 countries across **Asia, Africa, Europe and North America** - enables HELA to provide its customers with a unique combination of solutions, including innovative design services, duty-free manufacturing, and sourcing advice, coordinated from its headquarters in Sri Lanka.



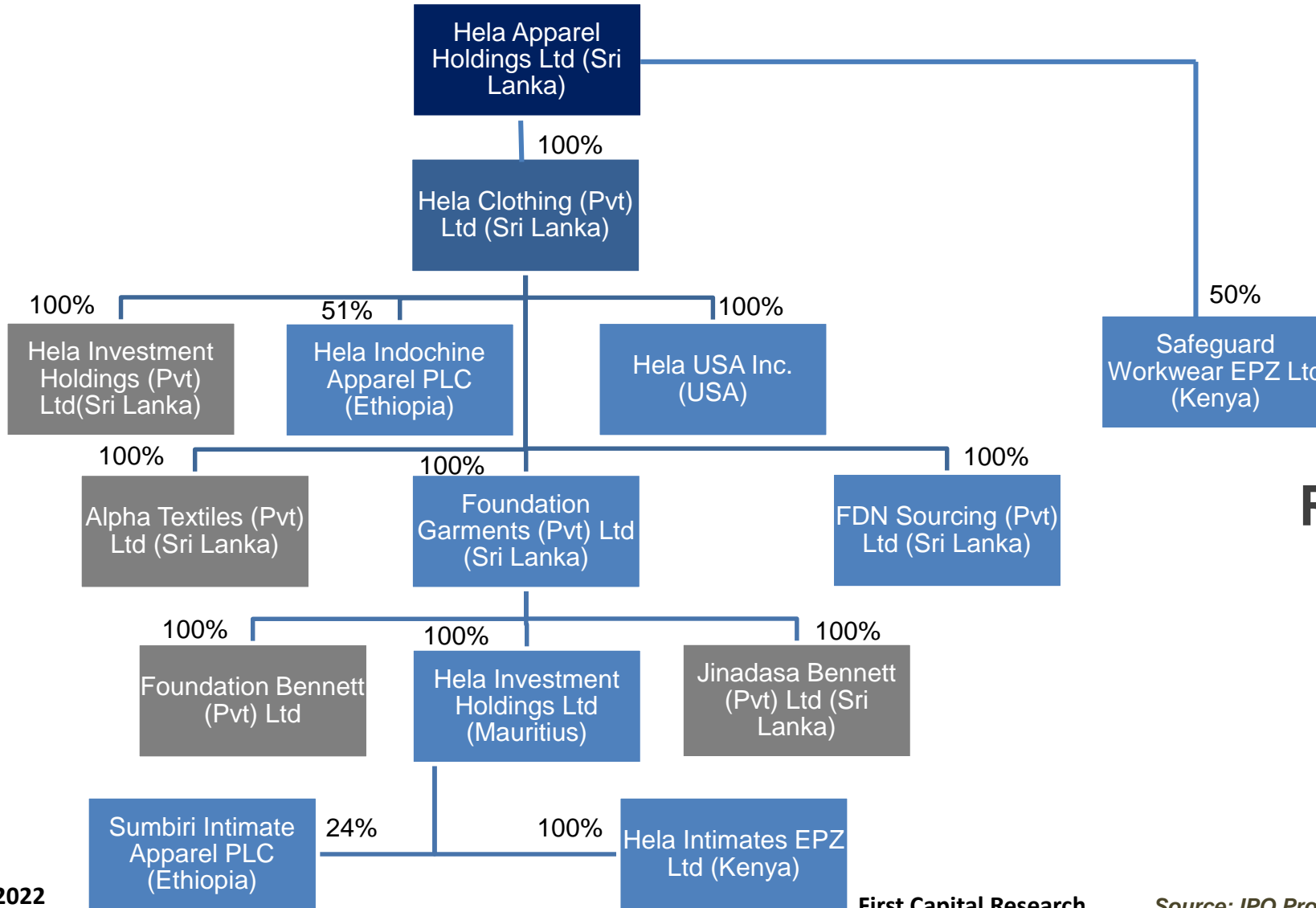
SRILANKA

- Output capacity of 4Mn units per month
- 500,000 Production hours per month
- 8,845 Employees
- Sleepwear, Boxers, Lingerie, Activewear, and Kidswear

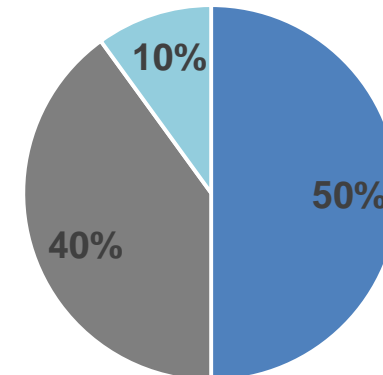
KENYA

- Output capacity of 2.5Mn units per month
- 300,000 Production hours per month
- 4,464 Employees
- Boxers, Tops, Woven Pants, and Sleepwear

HELA Group Structure as of 30th Sep 2021



Revenue Mix


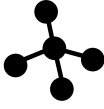






- Sri Lanka
- Kenya
- Ethiopia

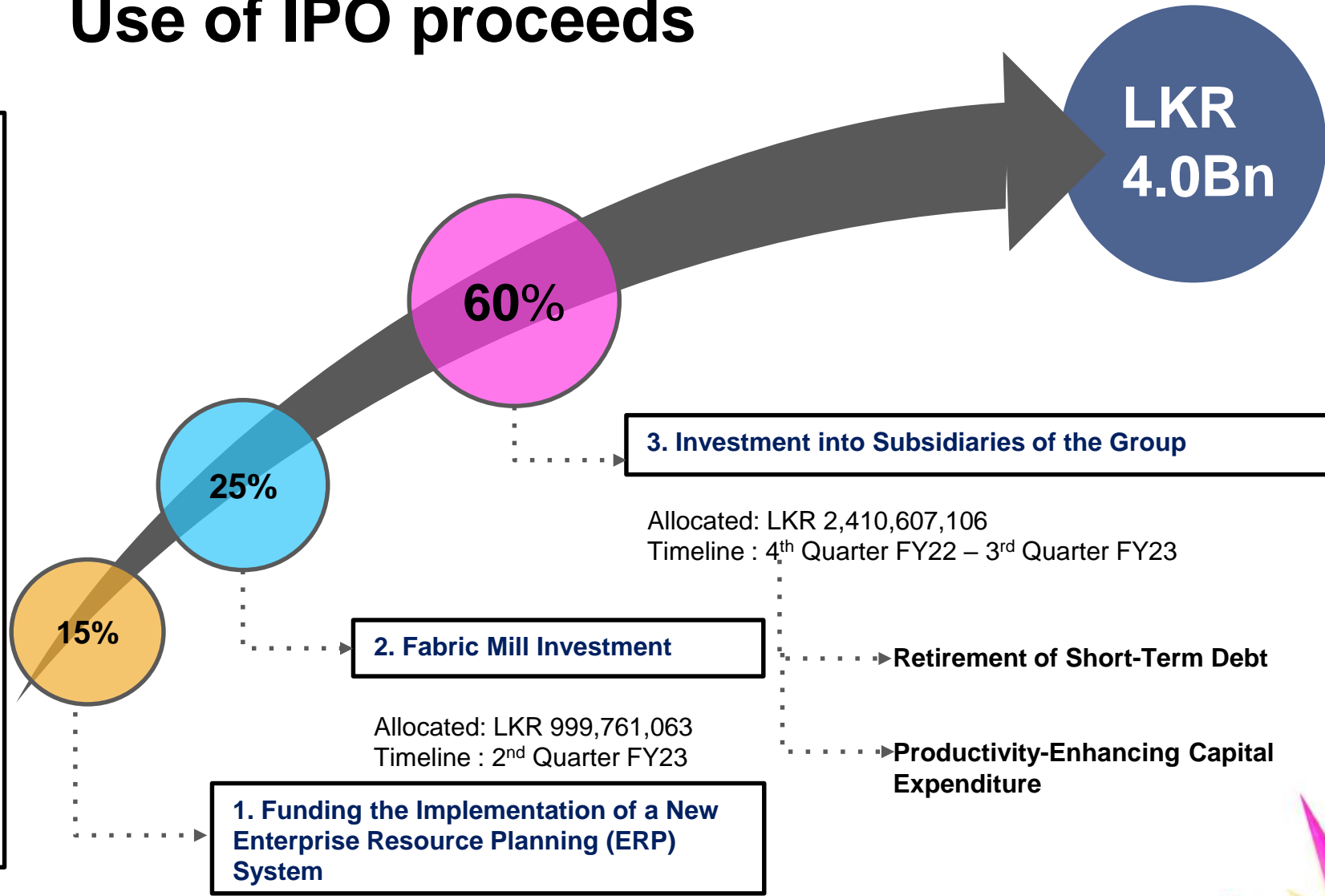


2.0 Offer Summary

IPO Highlights

-  **LKR 15.0** per share
-  **267,108,998** ordinary voting shares on offer
-  **LKR 4.0Bn** Offer Size
-  **20.5%** stake offered to the public
-  **LKR 19.5Bn** Market Capitalisation
-  Issue Open Date **12.01.2022**

Use of IPO proceeds



Existing Shareholder Details and Allotment Structure

Name of the Shareholder	No. of Shares	% of Ownership
Lesing Hela Ltd	614,256,956	47.14%
Tars Investments Lanka (Pvt) Ltd	235,498,562	18.07%
Panadura Liyanage Dilanka Jinadasa	133,656,266	10.26%
Dominic McVey	30,598,973	2.35%
Warnakulasooriya Mahawaduge Shameen Ravindra Peiris	4,855,743	0.37%
Ranjith Sanath Perera Amarathunga	4,807,961	0.37%
Albert Rasakantha Rasiah	4,273,743	0.33%
Warshapperuma Arachchige Rajitha Gunawardhana	1,442,388	0.11%
Pintherumahawaduge Shaminda Viraj Fernando	1,442,388	0.11%
Others	5,175,966	0.39%
Existing Shareholders	1,036,008,946	79.50%
IPO Shareholders	267,108,998	20.50%
Total	1,303,117,944	100.00%

Allotment Structure

Applicant Category	Allocation of IPO (%)
Unit Trusts	10.0%
Retail Individual	15.5%
Group Employees and Directors	7.5%
Non-Retail	67.0%
	100.0%

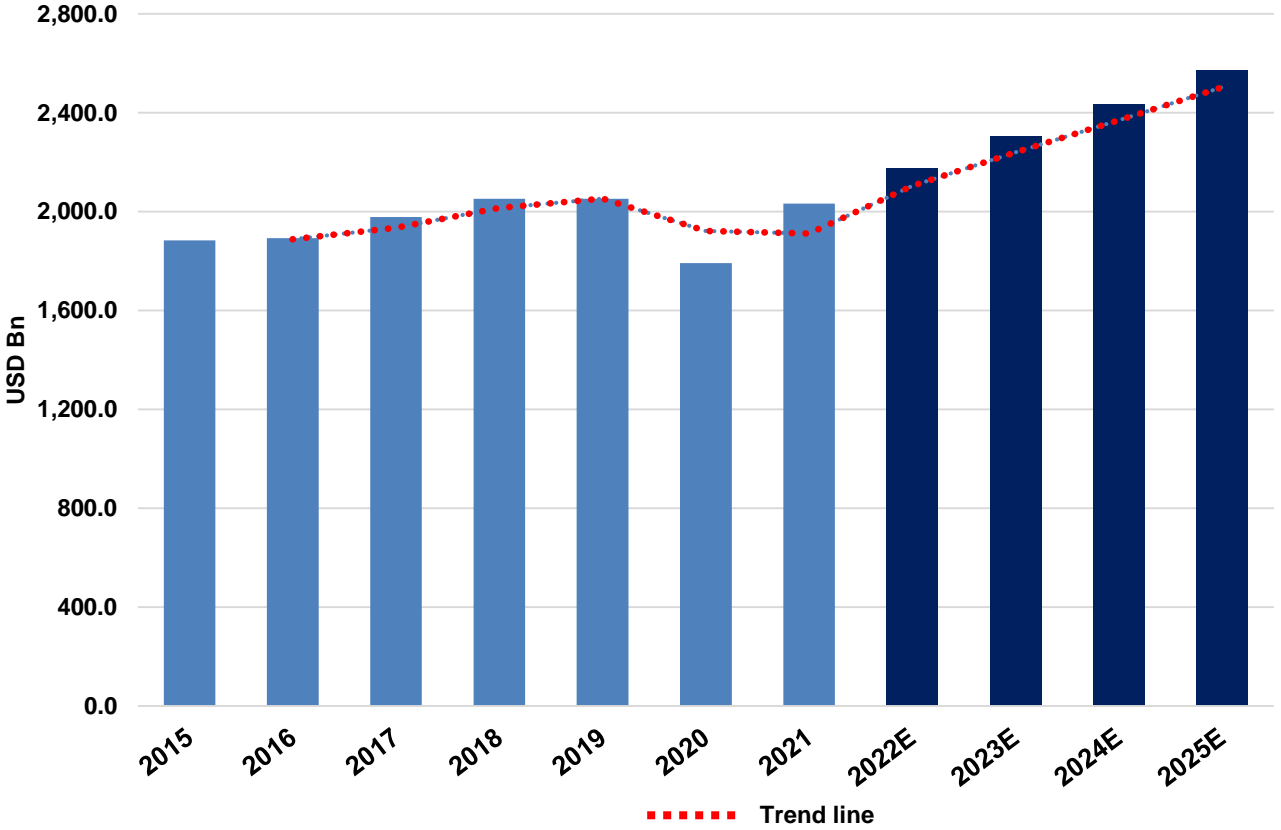
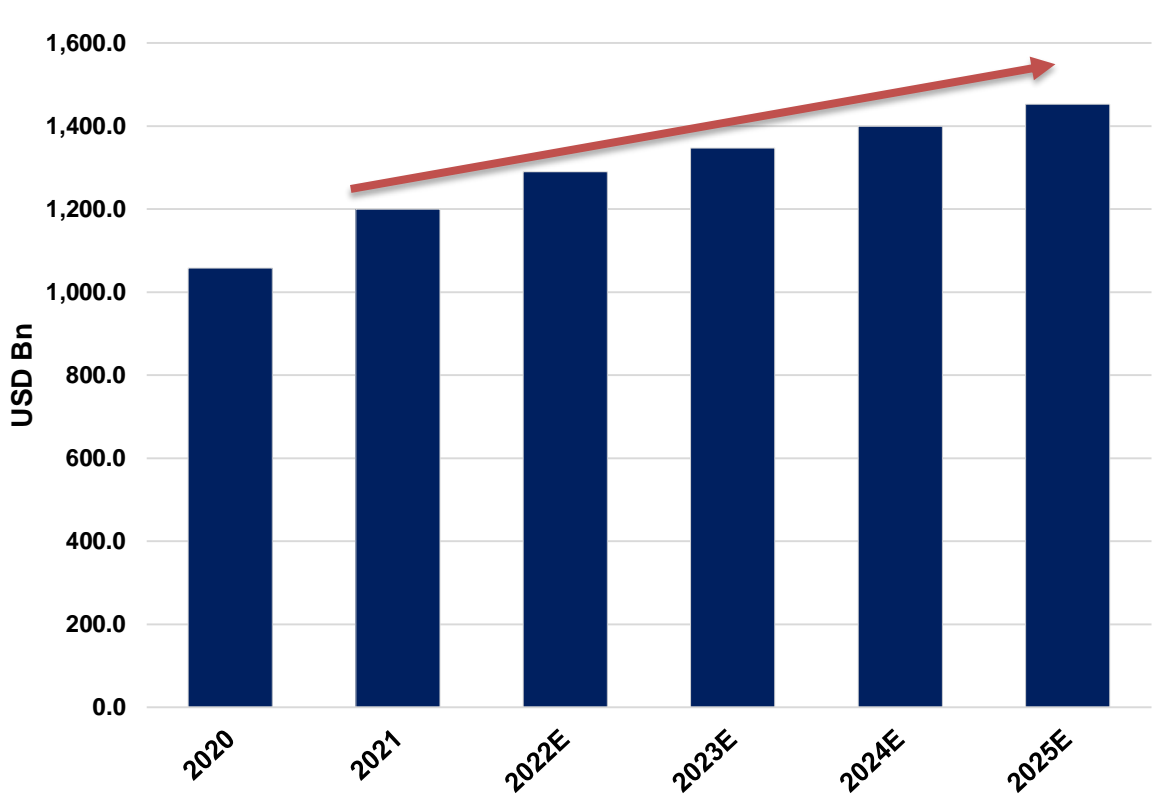


3.0 Investment Rationale

3.1 Global demand for clothing and footwear is booming

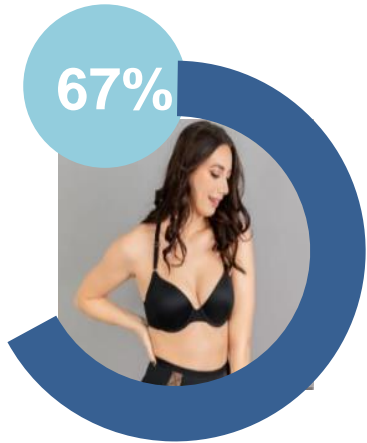
Global apparel industry is expected to recover and grow at a CAGR of 4.9% from 2021 to 2025.

The consumer spending on clothing & footwear to grow at a CAGR of 6.1% from 2021 to 2025.



3.2 Expansions and diversifications in terms of product categories, customers and....

HELA has a wide product range



Intimate Wear



Activewear



Kidswear



Medical wear

Innovative products gained huge market credibility and higher margins



Tommy Hilf premium essentials underwear made from a fabric blend featuring recycled and organic cotton.



Michael Kors pinnacle moulded boxer short with Gel Print.



Calvin Klein ultra stretch- the four way stretch structure allows flexible fit for lounge pieces and is perfect for the new normal lifestyle – from WFH to workout mode.



Torrid one size panty a smooth microfiber with 400% elongation in both length and width to fit all sizes.

....geographical locations makes HELA the leading apparel manufacturer

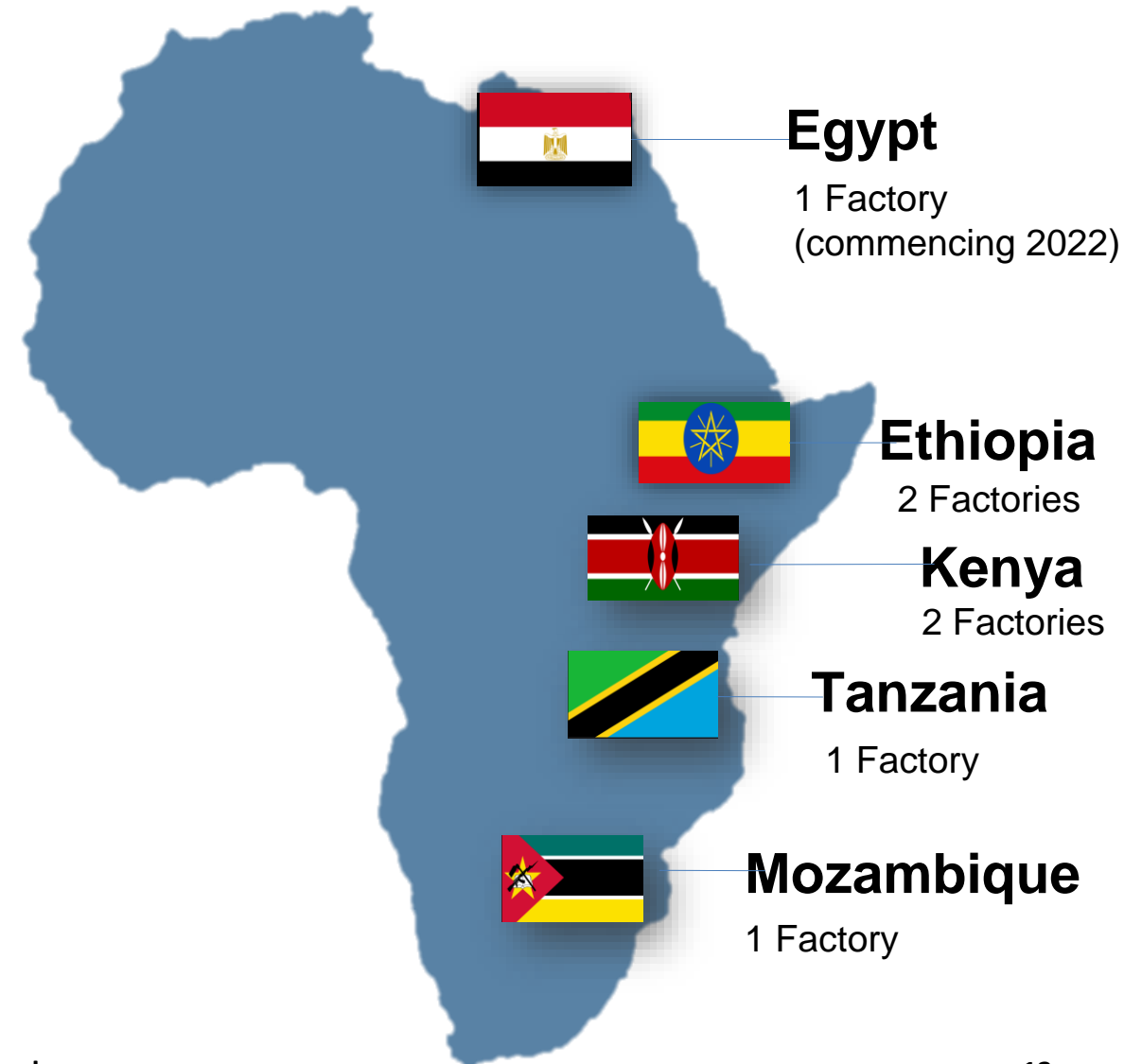
Shift in apparel sourcing away from China

China's share in the global apparel exports market dropped from 31.2% in 2016 to 29.9% in 1H2021 and it is further expected to decline over the upcoming years due to the rising labour costs and concerns about the use of forced labour.

As a result, apparel manufactures are looking for alternative sourcing locations across Asia and Africa which give cost advantage and duty free access.

HELA has been a pioneer in the rehabilitation of East Africa's apparel industry, entering Kenya in 2016, and its early successes on the continent have made the company one of the region's largest apparel exporters.

The company's next expansion in Africa will be in **Egypt** – offering a “near shoring” solution with a well-developed local supply chain, as well as indefinite duty-free access to the US and Europe.



3.3 HELA'S new investment into new fabric mill to obtain greater supply chain security while....

HELA intends to invest LKR 1.0Bn of the IPO proceeds in a fabric manufacturing mill in Sri Lanka with a daily production capacity of between **15 to 30 tonnes**.

Rationale



Supply Chain Security:

Fabrics is the most important component of the Company's supply chain, hence the investment will provide a more reliable and consistent supply of fabrics.



Expansion of Sector Expertise:

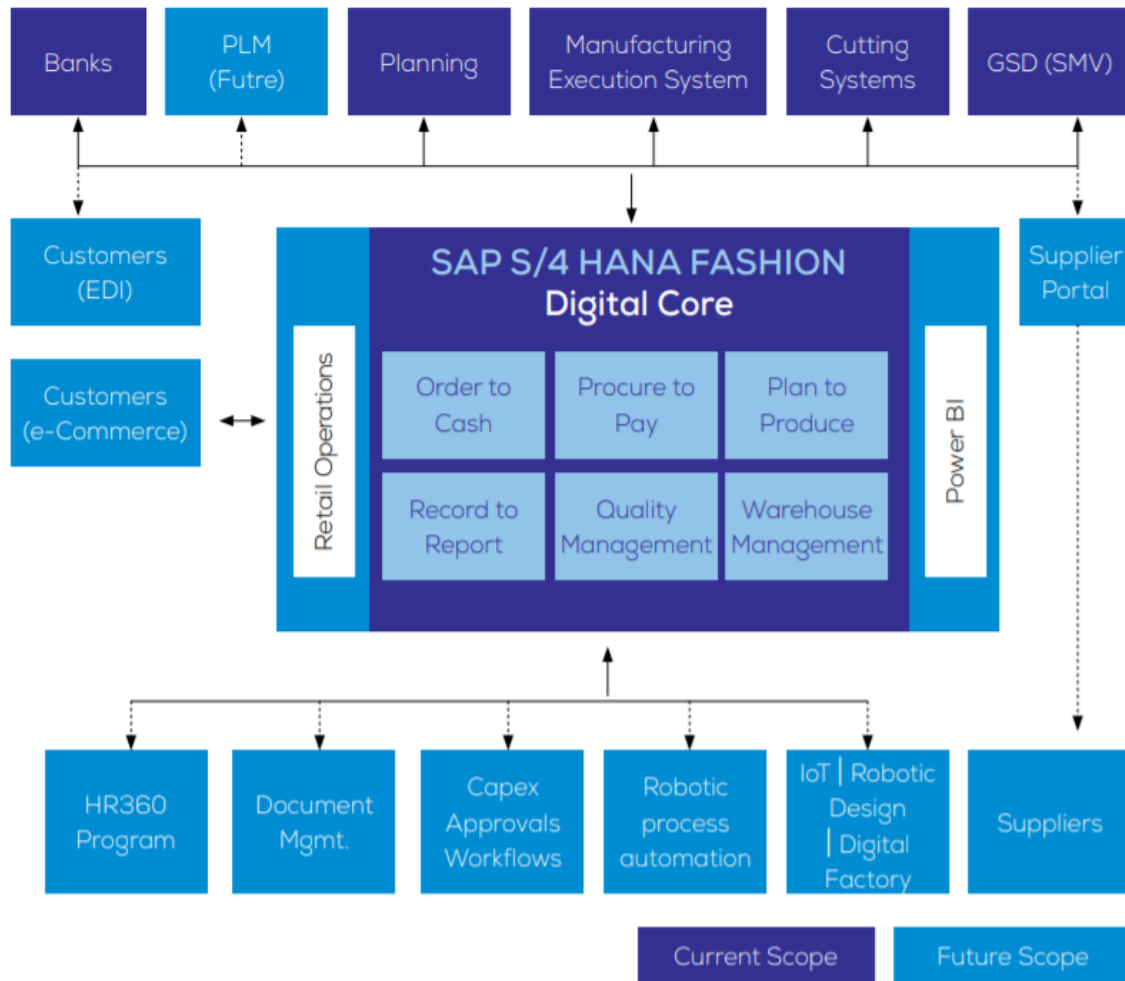
Development of greater expertise and human capital in this sector, can be leveraged in future supply chain investments in Africa.



Innovative Solutions:

Coordination between design team and textile manufacturer support the development of more innovative textile solutions, such as sustainable fabrics.

....funding in SAP Enterprise Resource Planning (ERP) system to develop the company's digital core



As part of HELA's digital transformation strategy, SAP S/4 HANA Fashion ERP system will be completely implemented in FY23.

Rationale

Currently the HELA Group uses 34 systems for its core operations and support services, including multiple different ERP solutions with minimum integration.

Hence, the current systems are not supportive of the management's strategy to expand both in terms of revenue and geographical footprint.

The effective means of addressing this issue is the the integration of 6 existing applications with the SAP S/4 Hana Fashion ERP solution to create a streamlined 'Digital Core'.

This will help to create consistency across the systems used for a particular function throughout the Group, reduce lead times and support business growth.



4.0 Valuation

Valuation Summary

Valuations

<i>P/E 31 March</i>	<i>FY19</i>	<i>FY20</i>	<i>FY21</i>	<i>FY22E</i>	<i>FY23E</i>
<i>(5 Months)</i>					
Earnings (LKR 'Mn)					
Revenue	16,155	32,874	32,155	46,625	60,612
Gross Profit	2,654	6,996	6,065	8,159	11,213
EBIT	467	1,988	1,960	2,232	2,928
Net Profit	-192	805	767	1,259	1,923
Adjusted EPS (LKR)	-0.19	0.78	0.74	0.97	1.48
<i>YoY % Growth</i>		-519%	-5%	31%	53%
Valuations					
PER (x)	N/A	19.3	20.3	15.5	10.2
PBV (x)	18.3	6.2	4.3	2.6	2.6
<i>NAVPS</i>	<i>0.8</i>	<i>2.4</i>	<i>3.5</i>	<i>5.9</i>	<i>5.9</i>

1HFY22 Financial Statement

Income Statement	30.09.2021	30.09.2020
Six Month Ended 30th Sep (LKR 'Mn)	(Unaudited)	(Unaudited)
Revenue	26,381	11,809
Cost of Sales	-22,568	-10,066
Gross Profit	3,813	1,743
Other Income	57	173
Selling and Distribution Expenses	-379	-177
Administrative Expenses	-2,393	-1,380
Other gains/(losses) - net	219	28
Operating profit/(loss)	1,317	387
Finance (costs)/income - net	-645	-471
Share of net loss of joint ventures	-30	-
Profit before Tax	642	-84
Income Tax Reversal / (Expenses)	-22	-24
Profit for the Period	620	-108
Non-Controlling Interest	-31	-
Profit Attributable to Equity Holders	651	-108

PER based valuation derives a TP of LKR 19.2 for FY23E

PER based Valuation	FY23E
FY23E Earnings (LKR 'Mn)	1,923
No. of Shares ('Mn)	1,303
FY23E EPS	1.5
Expected PER	13.0x
Price at 13.0x FY23E Earnings	19.2

Return	FY23E
Target Price	19.2
Current Price	15.0
Capital Gain (LKR)	4.2
Capital Gain %	28%
Total Return %	28%
Annualized Return %	22%

Peer Group Comparison

	Share Price 06.01.22 (LKR)	FY21 EPS (LKR)	NAVPS 30.09.2021 (LKR)	P/E (x)	P/BV (x)
TJL	50.0	3.04	25.54	16.4	2.0
MGT	42.8	1.77	11.33	24.2	3.8
HELA - Pre IPO	15.0	0.74	4.16	20.3	3.6
Consumer Durables Sector				17.3	2.1
Market				12.8	1.5

Post IPO

Shareholders	No. Shares	%
Existing Shareholders	1,036,008,946	79.5%
IPO Shareholders	267,108,998	20.5%
	1,303,117,944	100.0%

Income Statement

Income Statement	FY19	FY20	FY21	FY22E	FY23E
Year ended 31st March (LKR 'Mn)	(5 months)				
Revenue	16,155	32,874	32,155	46,625	60,612
Cost of Sales	-13,502	-25,878	-26,090	-38,466	-49,399
Gross Profit	2,654	6,996	6,065	8,159	11,213
Other Income	75	143	263	100	100
Selling and Distribution Expenses	-348	-591	-599	-932	-1,212
Administrative Expenses	-2,061	-4,571	-3,835	-5,595	-7,273
Net impairment losses on financial assets	-	-75	-17	-	-
Other gains/(losses) - net	148	85	82	500	100
Operating profit/(loss)	467	1,988	1,960	2,232	2,928
Finance (costs)/income - net	-552	-1,169	-1,048	-921	-903
Profit before Tax	-85	819	912	1,311	2,025
Income Tax Reversal / (Expenses)	-113	-52	-41	-92	-142
Profit for the Period	-199	767	872	1,219	1,883
Non-Controlling Interest	-6	-37	105	-40	-40
Profit Attributable to Equity Holders	-192	805	767	1,259	1,923

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THANK YOU

“Successful Investment Is About Managing Risk...”

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