

**HELA APPAREL HOLDINGS PLC [HELA.N0000]****MAINTAIN HOLD****“ONE FOR THE FUTURE”****Fair Value: FY23E - LKR 10.0 [-5%]**

Total Return with DPS: FY23E - -5% [AER -7%]

FY24E - LKR 14.0 [+33%]

FY24E - 33% [AER 18%]

HELA reported a net loss of LKR 289.0Mn in 4QFY22 cf. a profit of LKR 415.5Mn. The loss incurred during the quarter was predominantly as a result of higher OPEX (+42.3%YoY), increased net interest expenses (+38.0%YoY) and startup losses incurred at its recently operational Egypt manufacturing plant. Meanwhile, going forward we expect HELA revenues to grow at a 3Yr FWD CAGR of 30.3% between FY22-25E backed by strong recovery in consumer brands from key markets, increased contribution from Egypt and Rupee depreciation cf. the USD. However, given the disruptions at Sri Lankan operations due to fuel shortages and reduction in efficiencies together with the increased finance costs (in the backdrop of rising interest rates) we expect HELA to undergo a challenging FY23 and witness a rapid recovery during the medium term. Therefore taking in to consideration the challenges ahead, we revised down our earnings forecast for FY23E by 47.8% to LKR 1.0Bn and FY24E by 50.1% to LKR 1.3Bn. Given the downward revision of earnings together with the significant rise in risk free rate (from 12% to 15%), we have also revised down our target price for FY23E to LKR 10.0 from LKR 17.7 and FY24E fair value to LKR14.0, thus maintaining the rating **HOLD**.

LKR (Mn)	4QFY21	4QFY22	YoY	FY21	FY22	YoY
Earnings (LKR 'Mn)						
Revenue	9,989	14,594	+46%	32,155	56,180	+75%
Gross Profit	2,514	2,908	+16%	6,011	8,812	+47%
Operating Profit	824	503	-39%	1,960	2,603	+33%
PBT	483	(36)	-107%	912	1,074	+18%
Net Profit	415	(289)	-170%	767	818	+7%
Balance Sheet (LKR 'Mn)						
Shareholder's Equity	3,630	12,800	+253%	3,630	12,800	+253%
Borrowings	15,784	31,648	+101%	15,784	31,648	+101%
NAVPS	3	10	+253%	3	10	+253%

HELA reports a net loss of LKR 289.0Mn for 4QFY22

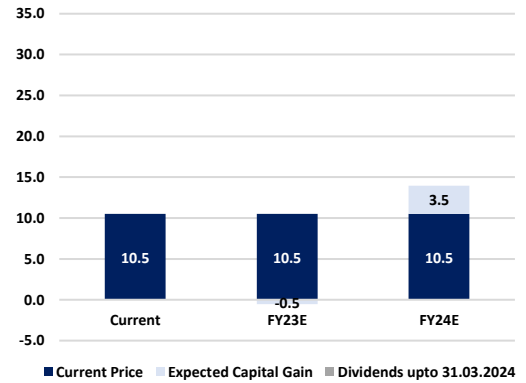
HELA reported a net loss of LKR 289.0Mn for 4QFY22 cf. a profit of LKR 415.5Mn. The loss incurred during the quarter was largely attributable to the increased OPEX (+42.3%YoY), higher net finance cost (+38.0%YoY) and JV loss of LKR 68.7Mn (owing partly due to start-up costs at Egypt). Meanwhile, revenue for 4QFY22 improved by 46.1%YoY to LKR 14.6Bn owing to relatively better efficiencies and increased operating hours at Sri Lankan plants. Despite the growth in top-line, gross profit margin was under pressure during the quarter (19.9% in 4QFY22 cf. 25.2% in 4QFY21) due to higher cotton prices (averaged at USD 126.0/lbs. in 4QFY22 cf. USD 80.0/lbs. in 4QFY21) and freight costs (air freight rates averaged at USD 4.3/Kg in 4QFY22 cf. USD 3.6/Kg in 4QFY21).

Relatively lower exposure in Sri Lanka to benefit HELA

During FY22, HELA generated c. 45% of its revenue from manufacturing facilities located outside of Sri Lanka. Furthermore, HELA also completed and commissioned its manufacturing facilities in Egypt. As per the IPO prospectus, HELA is expected to benefit with nearshoring opportunities (access to European markets in 3 days and U.S. markets in 12 days) with the start of manufacturing at Egypt. Moreover, as per the management disclosure, HELA is also expected to benefit from indefinite duty-free access to the US, EU and UK markets, and has a well-developed textile supply chain. Meanwhile, Sri Lanka is currently undergoing a crisis with the steep depreciation of the LKR/USD (Rupee depreciated c. 80%YoY since float) and shortages of fuel and other supplies. Hence, given the negative operating climate prevailing in the country, we expect a reduction in efficiencies and operating hours at the Sri Lankan facilities. Moreover, given the USD liquidity shortages in the country together with the impact from Rupee depreciation, we also expect HELA to undergo a challenging period with regards to sourcing of their key raw materials. Hence, with HELA reducing their exposure and dependency on Sri Lanka, we believe HELA is positioned well and have an advantage over its peers.

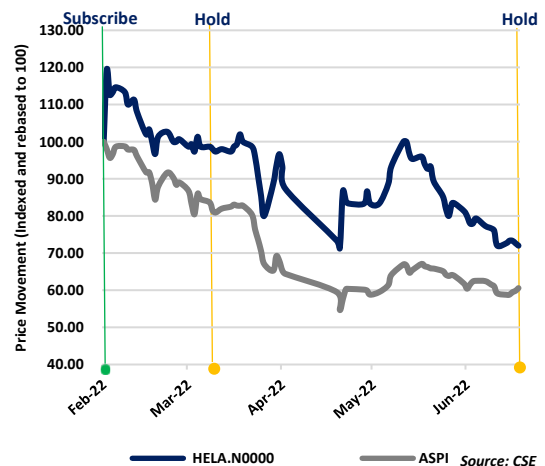
Earnings revised down and Hold rating maintained

Given the prevailing negative operating environment in the country with reduction in efficiencies, coupled with increased finance expenditure due to higher exposure to debt (Debt to Equity stood at 247.2% as of 4QFY22 and 90% is USD denominated debt) on the back of rising interest rate climate (Fed have raised rates from near 0% to 1.58% and is expected to raise rates by another 75bps in July and 50bps in September to tackle the 40-year high inflation), we revise down our earnings forecast for FY23E by 47.8% to LKR 1.0Bn and FY24E by 50.1% to LKR 1.3Bn. Moreover, on the back of downward revision of earnings and significant rise in risk free rate (up from 12% to 15%), we have also decreased our target price for FY23E to LKR 10.0 from LKR 17.7 and FY24E fair value to LKR 14.0. **MAINTAIN HOLD**

**FIRST CAPITAL RESEARCH**

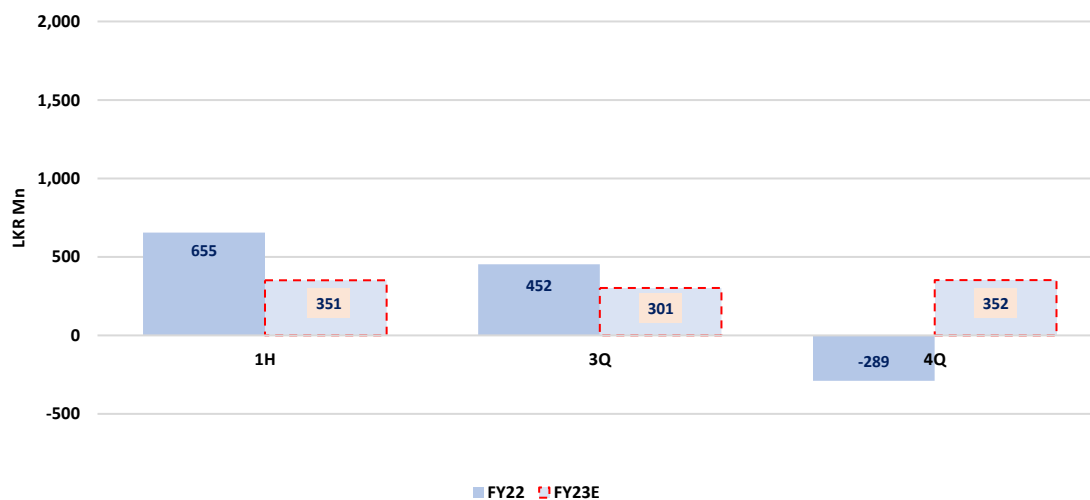
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ranjan@firstcapital.lk**Price movement of HELA vs ASPI (indexed and rebased to 100)****Disclosure on Shareholding:**

First Capital Group or the covering analyst did not hold 1% or more of the total outstanding share capital of HELA during the five trading days prior to the issuance of this document.

Quarterly Earnings



Valuation Table

P/E 31 March	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Estimates (LKR 'Mn)							
Revenue	32,310	32,874	32,155	56,180	89,023	102,677	124,149
Gross profit	5,307	6,996	6,011	8,812	14,689	17,044	20,733
EBIT	935	1,988	1,960	2,603	4,507	4,515	4,942
Net Profit	(396)	805	767	818	1,004	1,333	1,825
Adjusted EPS (LKR)	(0.3)	0.6	0.6	0.6	0.8	1.0	1.4
YoY Growth (%)	-74%	303%	-5%	7%	23%	33%	37%
Valuations							
PER (x)	-34.5x	17.0x	17.8x	16.7x	13.6x	10.3x	7.5x
PBV (x)	-28.3x	5.5x	3.8x	1.1x	1.0x	0.9x	0.8x
NAVPS	(0.4)	1.9	2.8	9.8	10.6	11.6	13.0



Valuation Summary

Expected HELA Price	FY23E	FY24E	Return	FY23E	FY24E
PER Valuation based target price	10.0	13.3	Target Price	10.0	14.0
DCF Valuation based target price	9.9	14.7	Current Price	10.5	10.5
Average Target Price	10.0	14.0	Capital Gain (LKR)	-0.5	3.5
Target Price after Rounding off	10.0	14.0	Dividends upto 31 Mar (LKR)	0.0	0.0
			Capital Gain %	-5%	33%
			Dividend Yield %	0%	0%
			Total Return %	-5%	33%
			Annualized Return %	-7%	18%

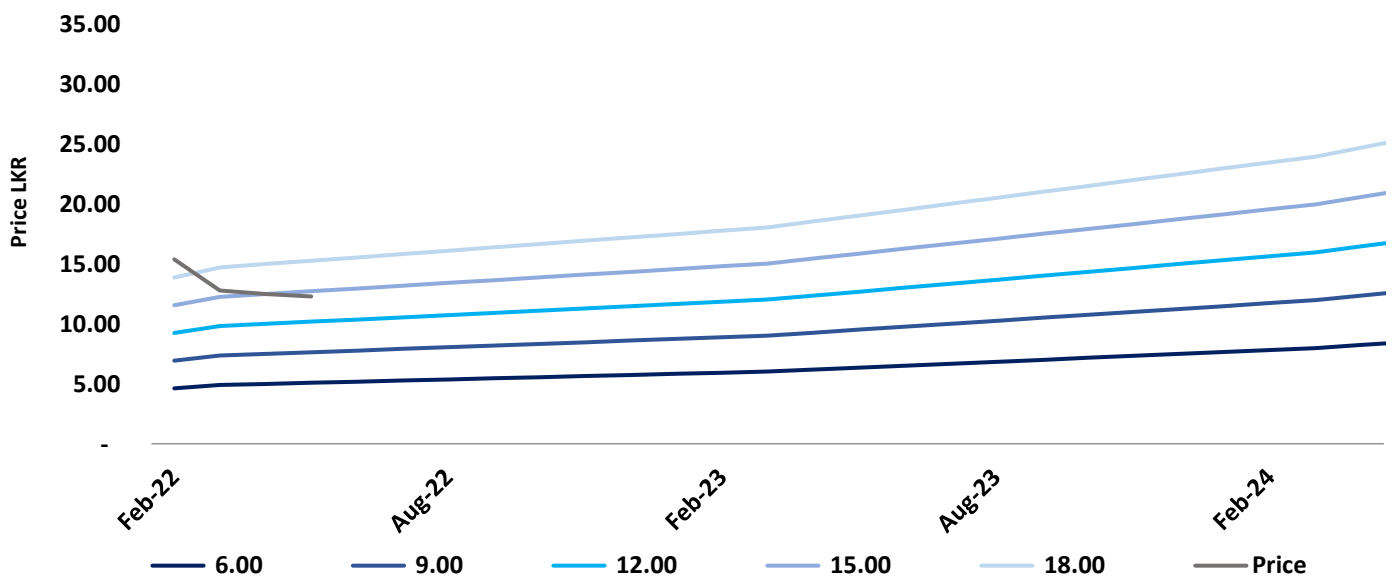
Discounted Cash flow Valuation

DCF based Valuation	FY23E	FY24E	COE	FY23E	FY24E
Enterprise Value	36,309	37,937	Rf	15%	15%
Debt (-)	(27,748)	(25,748)	Rm	23%	23%
Cash (+)	4,368	6,906	Growth %	3%	3%
Total Value of Equity	12,930	19,096	β	0.90	0.90
No. of Shares (Mn)	1,303	1,303	$Ke = Rf + \beta(Rm - Rf)$	22%	22%
Target Price	9.9	14.7			

PER valuation

PER based Valuation	FY23E	FY24E	WACC	FY23E	FY24E
Earnings (LKR 'Mn)	1,004	1,333	Ke	22%	22%
No. of Shares ('Mn)	1,303	1,303	Kd	9%	9%
EPS	0.8	1.0	D/E Assumption	80/20	80/20
Expected PER	13x	13x	Terminal Growth (%)	3%	3%
Price at 13x Earnings	10.0	13.3	WACC	12%	11%

PER Chart



Appendix I: Statement of Income and Expenses

Income Statement	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Year ended 31st March (LKR 'Mn)							
Revenue	32,310.4	32,874.3	32,155.1	56,179.6	89,023.2	102,677.1	124,149.1
Cost of Sales	(27,003.3)	(25,878.2)	(26,144.4)	(47,367.8)	(74,334.4)	(85,632.7)	(103,416.2)
Gross Profit	5,307.2	6,996.2	6,010.7	8,811.8	14,688.8	17,044.4	20,732.9
Other Income	149.9	142.7	262.8	93.3	133.5	205.4	372.4
Selling and Distribution Expenses	(696.3)	(590.7)	(598.5)	(1,444.2)	(2,403.6)	(3,080.3)	(3,848.6)
Administrative Expenses	(4,121.3)	(4,570.9)	(3,780.7)	(5,179.7)	(8,012.1)	(9,754.3)	(12,414.9)
Net impairment losses on financial assets	-	(75.0)	(16.8)	-	-	-	-
Other gains/(losses) - net	295.1	85.5	82.4	322.3	100.0	100.0	100.0
Operating profit/(loss)	934.5	1,987.8	1,960.0	2,603.5	4,506.6	4,515.1	4,941.8
Finance (costs)/income - net	(1,116.8)	(1,168.5)	(1,047.9)	(1,438.2)	(2,935.5)	(2,505.8)	(2,236.3)
Share of net loss of joint ventures	-	-	-	(91.5)	(50.0)	10.0	60.0
Profit before Tax	(182.2)	819.3	912.1	1,073.8	1,521.1	2,019.3	2,765.5
Income Tax Reversal / (Expenses)	(226.6)	(51.8)	(40.6)	(258.8)	(380.3)	(504.8)	(691.4)
Profit for the Period	(408.8)	767.5	871.5	815.0	1,140.8	1,514.5	2,074.1
Non-Controlling Interest	12.8	37.1	(104.7)	3.4	(137.0)	(181.9)	(249.1)
Profit Attributable to Equity Holders	(396.0)	804.6	766.8	818.4	1,003.8	1,332.6	1,825.0

Appendix II: Statement of Financial Position

Statement of Financial Position	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Year ended 31st March (LKR 'Mn)							
ASSETS							
Non-Current Assets							
Property, plant and equipment	3,755.2	3,550.3	3,560.9	5,954.8	6,163.2	6,378.9	6,602.2
Investment property	286.4	301.8	340.8	564.1	564.1	564.1	564.1
Right-of-use assets	-	372.6	562.7	1,853.4	1,853.4	1,853.4	1,853.4
Intangible assets	5,318.8	6,730.9	7,271.4	10,914.7	10,820.4	10,727.0	10,634.6
Capital work-in-progress	51.6	78.5	42.3	599.8	599.8	599.8	599.8
Investment in joint venture	-	-	-	320.4	320.4	320.4	320.4
Pre-paid rentals	8.9	-	-	-	-	-	-
Deferred tax assets	-	289.0	290.4	-	-	-	-
Other financial assets at amortised cost	0.7	0.2	0.2	0.3	0.3	0.3	0.3
	9,421.6	11,323.3	12,068.7	20,207.5	20,321.6	20,444.0	20,574.8
Current Assets							
Inventories	2,976.2	3,694.3	5,453.1	13,279.7	15,610.2	14,557.6	15,512.4
Trade and other receivables	5,866.7	5,248.1	5,288.3	13,006.4	15,133.9	14,374.8	14,897.9
Prepaid rentals	0.1	-	-	-	-	-	-
Finance lease receivables	-	-	911.7	1,058.0	1,058.0	1,058.0	1,058.0
Other assets	-	983.1	1,034.8	1,658.2	1,658.2	1,658.2	1,658.2
Income tax receivables	14.5	15.1	6.3	5.1	5.1	5.1	5.1
Cash and cash equivalents	930.7	1,803.9	1,896.5	5,244.2	4,368.0	6,906.3	8,645.0
	9,788.2	11,744.4	14,590.8	34,251.5	37,833.4	38,560.0	41,776.6
Total Assets	19,209.8	23,067.7	26,659.5	54,459.0	58,155.1	59,004.0	62,351.5
EQUITY							
Stated capital	1,215.9	1,723.9	1,723.9	5,696.0	5,696.0	5,696.0	5,696.0
Advance against share capital	911.5	-	-	-	-	-	-
Other reserves	613.4	(1.0)	86.1	141.0	141.0	141.0	141.0
Retained earnings/ (Accumulated losses)	(3,277.4)	582.9	1,313.8	2,200.5	3,204.3	4,536.9	6,361.8
Exchange equalization reserve	52.6	197.8	505.8	4,762.4	4,762.4	4,762.4	4,762.4
Shareholders' Equity	(484.1)	2,503.6	3,629.6	12,799.9	13,803.7	15,136.3	16,961.3
Non-Controlling Interest	184.4	230.7	340.1	150.5	150.5	150.5	150.5
	(299.7)	2,734.3	3,969.7	12,950.5	13,954.3	15,286.8	17,111.8
LIABILITIES							
Non-Current Liabilities							
Borrowings	3,235.0	2,240.4	2,063.2	1,593.5	1,593.5	1,593.5	1,593.5
Deferred income tax liabilities	167.3	377.4	357.5	389.3	389.3	389.3	389.3
Lease liabilities	-	103.7	548.5	1,733.3	1,733.3	1,733.3	1,733.3
Employee benefit obligations	246.3	327.3	436.9	426.4	426.4	426.4	426.4
	3,648.6	3,048.8	3,406.1	4,142.6	4,142.6	4,142.6	4,142.6
Current Liabilities							
Trade and other payables	4,430.9	4,306.5	6,110.3	9,017.9	15,610.2	17,126.5	19,649.1
Lease liabilities	-	303.7	73.9	433.9	433.9	433.9	433.9
Income tax liabilities	-	-	1.7	27.3	27.3	27.3	27.3
Borrowings	11,430.0	12,674.3	13,097.9	27,886.8	23,986.8	21,986.8	20,986.8
	15,860.9	17,284.5	19,283.7	37,365.9	40,058.2	39,574.5	41,097.1
Total Equity & Liabilities	19,209.8	23,067.7	26,659.5	54,459.0	58,155.1	59,004.0	62,351.5



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