SRI LANKA APPAREL EXPORTERS ASSOCIATION

NEWSLETTER

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NEWS IN BRIEF

Sri Lanka's Cabinet Approves Starting Talks With Indonesia For PTA

- Sri Lanka's cabinet recently gave the nod to start talks with Indonesia, a potential trading partner, for a preferential trade agreement, ultimately leading to a free trade agreement.

- Cabinet spokesperson Bandula Gunawardana said the government is expediting negotiations on signing trade agreements with Thailand, China and Singapore as well.

Sri Lanka's cabinet recently granted permission to start negotiations with Indonesia for a preferential trade agreement (PTA), ultimately leading to a free trade agreement (FTA). President Ranil Wickremesinghe had sought cabinet approval early this week for the same.

The country has identified Indonesia as a potential trading partner to cultivate profitable trade ties, the government's information department said.

In 2018, both sides had launched a joint feasibility study to commence negotiations for an FTA.

"Indonesia is one of the largest economies in South East Asia. The preferential agreement will help to enhance access to our exports and it will also allow (Indonesia) to import competitively," cabinet spokesperson minister Bandula Gunawardana was quoted as saying by Sri Lankan media reports.

Gunawardana said the government is expediting negotiations on signing trade agreements with Thailand, China and Singapore as well.
Sri Lanka has also decided to formally request the member countries of the Regional Comprehensive Economic Partnership to join the trade pact.

Source: Fiber2Fashion

Aitken Spence To Revive Two Garment Factories In Koggala With US $ 3.6mn Investment

Blue-chip conglomerate Aitken Spence has entered into an agreement with the Board of Investment (BOI) to kick off operations of two garment factories that halted operations recently, due to reduced orders.

The BOI announced in a statement to the media that following its intervention, Aitken Spence is pumping in an investment of about US $ 3.6 million in the first phase to re-establish the two factories that are located in the Koggala Investment Processing Zone.

The factories will operate under the banner 'Ace Apparels' and there are plans to further expand operations, the statement said. The agreement with the BOI and Ace Apparels was inked on July 28.

Although not disclosing the previous operators of the two garment factories, the BOI shared that the facilities previously catered exclusively to the US market.
"About 2500 people, who were making a living, lost their jobs due to this. The value of the machinery of these factories located in the Koggala Investment Processing Zone is hundreds of millions of US dollars," the BOI said.

According to Ace Apparels CEO Lushan Perera, the factory will operate under a new vision and is expected to generate substantial new job opportunities. Steps are taken to start production within two months.
At present, the Koggala Investment Processing Zone has a workforce of 11,000 (direct jobs), which will increase to 13,500 with the two factories resuming operations.

Perera added that given the ongoing global economic crisis, Ace Apparels hopes to focus on competitive products and finding new markets, for which, more attention would be on emerging Asian countries such as India, China, Indonesia and Japan.

Source: SLAEA

WRAP's Chief Backs Independent Verification For Sri Lankan Apparel

Avedis Seferian, the chief of Worldwide Responsible Accreditation Production (WRAP). Pic: Joint Apparel Association Forum (JAAF)

- WRAP's chief Avedis Seferian highlighted the significance of independent certification amid global economic challenges, as per an interview with JAAF.

- He maintained that WRAP-like programmes offer a superior proposition over individual buyer audits, diminishing audit.

- He also hailed JAAF's efforts in endorsing Sri Lanka as a premier sourcing destination. Avedis Seferian, the chief of Worldwide Responsible Accreditation Production (WRAP), recently highlighted the importance of independent certification, particularly for Sri Lankan apparel companies navigating through the current global economic challenges. In an interview with the Joint Apparel Association Forum (JAAF), Seferian explained that certification programmes like WRAP offer valuable benefits over proprietary audits.

Source: Fiber2Fashion

“Certification programmes like WRAP offer a more valuable proposition compared to buyers doing their own duplicative audits,” said Seferian. He added that this reduces audit fatigue in the industry and makes WRAP certification a robust testament to responsible sourcing. Furthermore, with legislative requirements now emphasizing the importance of independent programmes like WRAP, there is an increased focus on independent certification rather than proprietary audits. This approach, he suggested, saves time, resources, and augments credibility.

On the topic of Sri Lanka’s progress in the apparel industry concerning environmental, social, and corporate governance (ESG) criteria as per WRAP’s observations, Seferian was appreciative. “The industry has done a great job of making responsible manufacturing a key part of its identity,” he remarked. He praised Sri Lankan factories for their dedication to social compliance and sustainability. Seferian noted their consistency, proactive approach, and dedication to go beyond minimum compliance. He acknowledged their efforts in adopting practices that favour employee welfare and empowerment, especially for women.

When questioned about the expected overhaul of labour laws in Sri Lanka, Seferian provided insights into how WRAP would adapt. “Regarding Sri Lanka's latest labour law reforms, WRAP follows a dynamic and adaptive approach. For instance, if there are changes in the labour laws that dictate minimum salaries, WRAP's protocol automatically updates its directives to reflect these new requirements. This flexibility ensures that WRAP remains compliant with the latest regulations without the need for a complete overhaul of the programme,” he explained. “Different regions have distinct labour laws and regulations, resulting in varying payment standards. WRAP mandates that all entities under its certification comply with the applicable laws and regulations of their respective locations. As labour laws evolve or change in Sri Lanka, WRAP seamlessly adjusts its protocols.”

Seferian also recognised JAAF’s role in promoting Sri Lanka as a premier sourcing destination, owing to its commitment to social responsibility.

Source: Fiber2Fashion

Expecting reversal in Sri Lanka’s apparel sector dip by year’s end

The Sri Lankan apparel sector is currently experiencing a downturn, but there are positive prospects for a turnaround by the year’s end, according to Arti Bhagat, the Executive Director of World India Exhibition and Promotion Pvt. Ltd (WORLDEX).

Bhagat attributes Sri Lanka’s apparel sector dip to global issues like the Ukraine-Russia war and European recession, but sees a positive turnaround and plans to host INTEX South Asia in Sri Lanka on 10th-12th August this year.

She mentioned that both Bangladesh and Sri Lanka experienced this crisis because of their limited domestic market, unlike India, whose apparel exports are nearly double. Their company witnessed significant growth in Sri Lanka’s apparel industry, initiating its first exhibition there in 2015 and subsequently hosting regular events in Bangladesh and India. “We have conducted five INTEX exhibitions in Sri Lanka, three in Bangladesh, and two in India,” she stated.

The exhibition receives support from Apparel-related associations and Ministries. Moreover, this year, companies will showcase modern apparel sector technology to be implemented in Sri Lanka. “Intex South Asia provides an excellent platform for textile and apparel SMEs in search of international business opportunities, featuring a diverse array of global and regional exhibitors.” The Expo aims to boost textile and clothing exports to both EU and non-EU markets. Additionally, various technical seminars related to the apparel sector will be held during the event.”

Source: Apparel Resource

EXPORT OF APPAREL STATISTICS

Export of Apparel for the Month of June 2018 - 2023

	2018 US$. Mn	2019 US$. Mn	2020 US$. Mn	2021 US$. Mn	2022 US$. Mn	2023 US$. Mn	2022/2023 Change %
Total Exports	**427.00**	**481.30**	**382.28**	**384.84**	**536.65**	**401.63**	**-25.16**
US	180.00	203.87	179.46	138.05	231.38	154.56	-33.20
EU	121.15	126.55	106.33	127.99	158.48	132.92	-16.13
UK	64.66	75.31	46.45	60.05	69.52	57.95	-16.64
Other	61.19	75.57	50.04	58.75	77.27	56.20	-27.27

Export of Apparel January - June (Cumulative) 2018 - 2023

	2018 US$. Mn	2019 US$. Mn	2020 US$. Mn	2021 US$. Mn	2022 US$. Mn	2023 US$. Mn	2022/2023 Change %
Total Exports	**2,395.00**	**2,620.30**	**1,835.16**	**2,326.50**	**2,792.64**	**2,285.76**	**-18.15**
US	1,047.00	1,137.87	830.49	927.69	1,197.91	901.01	-24.78
EU	627.85	686.85	484.08	724.25	808.96	690.07	-14.70
UK	399.99	420.28	268.72	327.62	380.49	321.74	-15.44
Other	320.16	375.30	251.87	346.94	405.28	372.94	-7.98

Export of Apparel in the Month of June 2018 - 2023 to All Countries

	2018 US$. Mn	2019 US$. Mn	2020 US$. Mn	2021 US$. Mn	2022 US$. Mn	2023 US$. Mn
Chapter 61	239.00	286.74	188.64	230.78	326.51	238.86
Chapter 62	180.00	185.37	134.36	145.85	199.84	154.48
Chapter 63	8.00	9.19	59.28	8.22	10.30	8.30
Total	**427.00**	**481.30**	**382.28**	**384.85**	**536.65**	**401.64**

US' Kontoor Brands expects low-single digit revenue rise in FY23

INSIGHTS

- Kontoor Brands projects a low-single digit revenue growth for FY23, with Q3 FY23 anticipated to exceed the annual forecast.
- Adjusted gross margins are forecast between 43.5 per cent and 44 per cent, showcasing a growth from FY22's 43.1 per cent.
- EPS growth is expected, with notable EPS rise in Q4 FY23.
- Capital expenditures are forecast at $35-$40 million.

Kontoor Brands has provided an outlook for its fiscal 2023 (FY23) that presents a picture of measured growth and expansion in key areas. The apparel conglomerate anticipates a low-single digit percentage increase in revenue over the previous year, maintaining the same prediction as its earlier outlook.

The second half of the year is expected to outperform the first in terms of growth. Despite anticipating challenges in US consumer demand in Q4 FY23, the reopening of the China market is likely to offset some concerns. Given the continued market share gains in the US, along with improved shipments and point-of-sale (POS) metrics, Q3 FY23 is predicted to see mid-single digit revenue growth, surpassing the overall yearly forecast, Kontoor Brands said in a press release.

The adjusted gross margin for FY23 is slated to range between 43.5 per cent and 44 per cent, which represents a 40 to 90 basis point growth compared to FY22's 43.1 per cent. Excluding restructuring charges in Q2 FY23, this estimate aligns with their previous projections. Factors contributing to this margin expansion in the latter half of the year include a mix of geographic and direct-to-consumer sales, regularizing production, and easing input costs. Remarkably, the most significant gross margin gains are anticipated in Q4 FY23.

In terms of operational expenses, the adjusted selling, general, and administrative expense is predicted to grow at a mid-single digit percentage compared to FY22. Adjusted earnings per share (EPS) for the fiscal are expected to range from $4.55 to $4.75. Notably, the largest EPS growth is foreseen in Q4 FY23.

The company projects capital expenditures between $35 million and $40 million for FY23, primarily directed towards expansion of owned retail stores and enhancements in manufacturing and distribution facilities.

"While we continue to assume macroeconomic pressures will weigh on consumer demand in the second half of FY23, we are seeing shipments better align with POS in the US, which gives us confidence that third quarter revenue should deliver outsized growth relative to our full year guidance. Our FY23 outlook, now on an adjusted basis to exclude restructuring charges, is consistent with our prior outlook. Our aggressive measures to improve inventory in the second quarter, and expected further progress during the balance of 2023, will position us to exit the year with a healthy balance sheet and accelerating cash flow that affords significant capital allocation optionality as we head into FY24," **said *Scott Baxter, president, chief executive officer and chair of Kontoor Brands*.**

Source: Fiber2Fashion