

Managing Director/ CEO's Review



“A significant milestone was the rebranding of the Group bringing the three different companies under one common brand. Our new logo and branding reflect the dynamism and energy of our young and passionate team.”

Q: HOW WOULD YOU DESCRIBE THE YEAR GONE BY?

The past year has been an extremely eventful and exciting year with mixed outcomes and major transformations. We have reached pinnacles, and we have seen some valleys as well. Being named among the Best 200 Companies under a Billion in Asia, by Forbes, was a crowning moment for us. During the year we transformed our Company's identity into Teejay, and took major steps to remain more modern and relevant to our Stakeholders. We also battled some of the toughest recent times for the Textile industry, while being picked into the S&P Top 20 Index in Sri Lanka. So we have much to reflect on with passion and satisfaction. Teejay remained among the most profitable in the Industry, despite dropping from the highs of the previous year, due to an inimical industry environment in which the price of the key raw material rose steeply. Dampened demand for apparels in key markets left little room for transfer of the ensuing higher costs borne by the fabric industry. Cotton Yarn accounts for over 60% of Teejay's costs and a sharp 30% rise in average prices of Cotton yarn due to supply constraints impacted our profitability during the year. PAT declined by just under ten percent despite a significant 24% growth in Turnover and a strong order book. However, our Rs. 2 Bn Profit still makes us one of the most profitable companies in the Industry and locally. The PE ratio increased to 13 during the year compared with 9 the previous year, underscoring the Market confidence in our future plans.

The year under review also saw your Company continue to augment its platform for future growth, with the addition of new business lines, new customers, new products and expanding capacities – reflecting our buoyant outlook on opportunities for the industry for the year ahead and beyond

Q: WHAT ARE SOME OF THOSE INITIATIVES AND OTHER MILESTONES DURING THE YEAR?

One of our major transformations was to morph to become a full spectrum fabric supplier, by beginning to provide Synthetic fabric locally. Following the acquisition of the capabilities to manufacture Synthetics - a totally new segment, the year under review saw us launch the commercial production of synthetics for the first time. It is a market which brims with immense growth potential and your Company will look to grow this range. Teejay's primary focus is on the Synthetics category of Polyamide of which we are at present the only manufacturer in Sri Lanka, and we are leveraging global talent to mesh with our local team during this endeavour.

Furthering our footprint as South Asia's largest Mill, we commenced expanding the capacities at Teejay India, in its first year of operations as part of the Teejay Group. Phase I of expansion was completed during the last quarter of the year with the addition of a 9 tons to capacity, while Phase II, which is currently underway and scheduled for completion

around September 2017, would expand capacity by a further 10 tons. The full investment in expansion of around USD 15 Mn during times of dropping profitability, demonstrate our confidence in the upward momentum we expect in our business over the next few months.

Moreover, we also invested Rs.108 Mn in a state-of-the-art digital printer for Teejay Prints opening up new vistas for growth through prints.

A significant milestone was the rebranding of the Group bringing the three different companies under one common brand. Our new logo and branding reflect the dynamism and energy of our young and passionate team. A common brand also reflects the very effective and seamless integration of the two entities acquired in the previous year, towards a common objective as one Group. The graphical element of the new branding is a fluid and dynamic representation of who we are and what we stand for which we've termed as Teejay's DNA, and it ensures that our communication is uniform and easily identifiable across different applications. The new brand is also in line with our vision to evolve into a US Dollar 300 Million Company in 2020, and our plans to invest deeper into digitalisation, R&D, state of the art equipment and carbon neutral products. We have identified our brand identity to be a significant intangible capital in our value creation process. Accordingly we began to place a value on the brand by monetising brand Teejay to the Group's subsidiary in India, as practiced by many multinational enterprises.

I am proud to share another significant initiative that we took in keeping with our Triple Bottom Line strategy. Teejay launched the world's first Carbon neutral fabric during the year. Teejay entered into a partnership with the Carbon Consulting Company (CCC) to calculate the product carbon footprint of a selected range of our fabrics and we have been able to completely offset the carbon emissions associated with their production. We have at present brought together one of the leading Apparel Groups in the Island and their client, to quantify, measure and offset carbon emissions associated with a garment produced using a Carbon Neutral fabric from Teejay.

We also initiated several operational changes and re-engineered our processes at all three locations, with the objective of improving productivity, reducing costs, ingraining a culture of commitment to excellence and

progressing towards a path of Lean Manufacturing. These would also strengthen our resilience to meet challenges in the future. The success of our efforts was also facilitated by a Bottom Up approach adopted this year, which saw many of the initiatives such as 5S and Kaizen spearheaded and championed by our associates across the Group. Our success in these efforts towards operational excellence also received external recognition during the year, for example the Gold Award for the Best Case Study by the Quality Circle of Vishakapatnam, India and the Silver Award for Best Case Study by the National Conference of Rajpur India. In June 2017, further complementing these efforts, Teejay Lanka's team marked another milestone, receiving Gold and Silver awards at the 'National Convention on Quality & Productivity'. Your Company will continue to make its supply chain and the production process more agile and efficient on a continual basis.

We are also most heartened by the many national and international accolades we received in recognition of our commitment to business excellence and sustainable practices during the year. The Company won the International Dyer & Finisher of the Year award, for the 3rd consecutive year at the World Textile Awards in UK. Among the other awards were the Manufacturing Gold award in the Apparel Textile and Leather products category awarded by the National Chamber of Commerce; and the Gold Awards, for Performance Management, Corporate Governance as well as Local Market research awarded by the National Chamber of Commerce.

Q: WHAT LIES BEHIND THE SUCCESS OF TEEJAY?

A: At Teejay, our entire team comes together to pull towards a common direction and strategic imperatives, based on our long term and short term aspirations. Customers remain our lifeblood and we are indeed thankful to them not just for their business, but also for their guidance and constant demands which push us continually to reach higher and higher. During the year we invested several million dollars in Plant modernisation and automation, outside of our core expansion. We are installing several new knitting machines in both locations to supplement our outputs. We invested in business Intelligence to ensure we take deep looks at our data and strengthen our analytics. We invested even further in modernizing our coal plant, and our productivity per person is constantly enhanced through technology options.

Our Cost control initiatives are also vigorous and carefully monitored.

The Sustainability model which facilitates a Triple Bottom Line focus has been a key factor in our ability to sustain market leadership in today's global landscape and in our resilience during challenging industry environments.

While environmental sustainability is high on our agenda as a manufacturing industry, our success has also been built on 'Enduring Bonds'; between us as a team, with our customers, suppliers, associates and other stakeholders. Our customer portfolio is built on long term engagement and relationships with our direct clients as well as end customers which include some of the world's leading apparel brands. The strengths of these relationships continue to be a key factor in our performance.

Numerous win-win as well as CSR initiatives continue to foster enduring bonds with the local communities in our neighbourhood in Sri Lanka and to continue the socially integrated model followed at our Indian manufacturing plant. These initiatives are presented in the Human Capital report of the ensuing MD&A.

The dynamism, abilities and passion of our team have been key to our success and industry leadership. Training and development of this valuable asset is a high priority at Teejay. The fact that many in team Teejay have been part of its journey since inception and their careers have followed the growth path of the Company, as well as the low attrition rates are also a reflection of the Company's commitment to creating enduring bonds as a corner stone of its sustainable model. We use world class training institutions such as CCL, and many global and local trainers, to nurture our top talent. Overseas posting and job rotation ensures that new experiences and thinking is constantly applied to the job.

We appreciate the very positive relationships we have with numerous Investors and Stock Brokers, who show keen interest in our progress. We strive to be transparent and consistent in our conversations and disclosures, and aspire to meet and exceed the Market expectations that they indicate to us. Having risen within a short duration to be among the top twenty market capitalised listed companies, we take our obligations towards our Investor community, very seriously.

“We also see an increasing demand for Synthetics, with the many positive attributes of this fabric pointing to sustained growth in this category. We expect this growth potential to be augmented by the opening up of new market opportunities by the resumption of the GSP+ in the period ahead.”

As a leading manufacturing industry, our environmental sustainability initiatives are two pronged, minimising our carbon footprint proactively espousing and spearheading environmental causes through green initiatives and Wastage Control on the other hand. The year under review also saw your Company obtain ISO 14001 certification, underpinning and endorsing our commitment to the effective environment management of our operations.

In line with our Triple Bottom Line focus, Teejay is a keen supporter of the global initiative of “Zero Discharge of Hazardous Chemicals (ZDHC) by 2020”. The global action steps are reflected in our work and include the strengthening of the Chemical management process at Teejay; substituting the hazardous chemicals with more environmental friendly chemicals and establishing a cross functional team from all three entities to drive the Company's progress towards achieving this goal.

Q: WHAT ARE SOME OF THE TRENDS IN THE INDUSTRY THAT WILL IMPACT THE FUTURE?

A: We can see that the industry cycles (the entire value chain) are getting shorter by the day; and global brands prefer to manufacture as late as possible to enable better “Read and React” models. This is seriously challenging the agility of all Supply Chains.

The growing phenomenon of online apparel retailing is another which has amplified the need for shorter supply chains and delivery in smaller quantities, based on unpredicted demand.

These shifts challenge fabric manufacturers to increase the speed of processes, shorten their supply chains and increase the agility and flexibility of their operations to meet these changing market needs. Data analytics are increasingly going to help companies navigate this new world.

We also see an increasing demand for Synthetics, with the many positive attributes of this fabric pointing to sustained growth in this category. We expect this growth potential to be augmented by the opening up of new market opportunities by the resumption of the GSP+ in the period ahead. Environmental consciousness, the rise of non traditional players in the chain such as Amazon, the emergence of newer markets such as China and India, are a few others which will transform the landscape. Unpredictability, such as the case of TPP in Vietnam and so on, make it more challenging for Investors to think long term as well.

Q: ANY CLOSING THOUGHTS, INCLUDING ABOUT THE FUTURE?

A: Our strategic priorities, as enumerated on in the ensuing MD&A and last year, still remain relevant. In the year ahead we will also place greater focus on how we deliver and achieve these strategies with a view to enhancing efficiency to sustain our competitive advantage. Faster response ability and agility will be a key to sustained growth into the future as lead times will continue to become shorter.

An aggressive sales drive will also be a key strategy in tandem with the new opportunities that are expected, with GSP+. We have also identified significant untapped potential and emerging brands in both EU and the United States which we will explore.

Innovation, speed and service levels which your Company as a market leader has leveraged and will continue to enhance as key competitive advantages, will remain as priorities for sustaining growth and leadership in the industry.

Development and acquisition of technology will go hand in hand with our strategic imperatives and continue to be a key to the continuous enhancement and evolution of our processes; to ensure that they are on par with the changing requirements of the industry and that Teejay spearheads the region's fabric market through our initiatives. In this regard, we are fortunate to have a highly competent and experienced Board, and the Management team is constantly grateful for the guidance they provide us. The strategic inputs received from our two key shareholders, Brandix and Pacific, are exceptionally valuable as we navigate this turbulent industry.

Teejay's market positioning and its ability to offer complete solutions in dyeing, finishing, printing and lace dyeing together with knit solutions in Cotton, Cotton blend and Synthetics, equip it with a comparative advantage across the industry and provides an excellent platform to reach new horizons and its goal to be a \$300 Million company by 2020. We remain quite excited about the journey ahead, and thank our many stakeholders for their continual partnership.