

# THE FUTURE IS MANUFACTURING



Shamendra Panditha, Managing Director, Sierra Cables, has been in the manufacturing industry since the 1970s. With the establishment of Sierra Cables

in the year 2000, the monopoly in the cable industry was broken, thus, providing a balance in the sector. With manufacturing facilities in Sri Lanka, Sierra Cables is producing a range of cables and wires. They have also ventured into Kenya and Fiji with their own manufacturing plants thus, supplying to the East African as well as the Australian and New Zealand markets. Shamendra Panditha is confident that with the Government's policy of encouraging local businesses, the manufacturing industry has many opportunities to utilize. Recognizing this fact, Sierra Cables will be establishing two more manufacturing plants within this financial year.

By Udeshi Amarasinghe. Assisted by Swetha Ratnajothi. Photography Menaka Aravinda.

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### **Can you tell us about the beginning of Sierra Cables and its progress since then?**

We established Sierra Cables in the year 2000 after acquiring Alucop Cables, which was owned by Mr Sohli Captain. The factory was situated in Ratmalana, and once we bought over the company we relocated the facility to Athurugiriya. At that time, Alucop was manufacturing a small product portfolio. We enhanced it to include armored and heavy cables. In 2005, Sierra Cables went public and we started manufacturing Aerial Bundled Conductors (ABC). At that time, ABC was manufactured by ACL only. We became the second manufacturer of ABC.

Thereafter, we decided to expand out of Sri Lanka. Our first overseas business was in Kenya; we set up a plant in Nairobi and started manufacturing cables for East Africa. The African operation is a fully owned subsidiary of Sierra Cables. In 2016, we formed a joint venture company in Fiji with two partners. We were mainly targeting Australia and New Zealand.

Apart from cables, we are also manufacturing PVC pipes in the same premises. This was initiated with the aim of supplying to the Water Board. In addition to these two factories, we have a joint venture company in BOI, Katunayake, where we manufacture patch cables. The company was established with a Norwegian partner and the products are mainly for exports.

At the time we acquired Alucop, it was a 100-million-rupee company but today

Sierra Cables is a five-billion-rupee company.

In Sri Lanka, there are two large groups that are manufacturing cables. One is ACL Cables, which also includes Kelani Cables, and they control 70 percent of the market share. The second company is Sierra Cables and we have a market share of about 22 percent. We are not as large as the other company but in terms of our products and quality we are on par. Our export market is about ten percent. Our focus is on manufacturing and that is why we established a plant in Kenya to supply to the East Africa region, and another in Fiji to supply to Australia and New Zealand.

### **What about the manufacturing facility and the products offered by Sierra Cables?**

We have a modern factory with state-of-the-art equipment. We manufacture from 1mm up to 1000mm<sup>2</sup> single core cables and 1.5mm x 4 core to 400mm x 4 core armored cables. We also manufacture Fire Resistance cables. In addition, we manufacture ABC cables. The normal industrial cables and domestic cables are manufactured according to British standards, and the ABC are manufactured to French standards. These being some of the most stringent standards in the world.

### **What was the thinking behind venturing overseas?**

In fact, we had been trying to export to Africa for a very long time. But it was difficult because in most African countries, their economies are closed. They will always give preference to a local manufacturer. Egypt is considered within Africa and it is an industrially developed country. Therefore, the cable requirement for Africa is provided by Egypt without any duty. In order to overcome this challenge, we thought of setting up a plant in Africa. The future is in Africa.

In terms of our partnership in Fiji, it was our partners who are the largest hardware dealers in Fiji that invited us to establish a manufacturing plant. They also felt that there was a vacuum in the neighboring small islands, in facilities to manufacture cables. The other reason was that Australia and New Zealand have free trade agreements with Fiji. Therefore, products manufactured in Fiji could be exported duty free to Australia and New Zealand. These are very big markets and both countries do not manufacture low value added cables, they import that from Malaysia or China. As such, Fiji made use of this opportunity because freight cost is also less than bringing the products from East Asia.

## **How do you find the Kenya and Fiji operations?**

With my experience in both countries, they want to develop their country. Take Kenya, it is a big country, they do not focus on politics, but they want to develop the country, they want to start everything on their own.

In Kenya, we started the company within about six months because we were able to secure all approvals very quickly. I once met a Minister who was in-charge of foreign investment in Kenya. The Minister himself made a cup of coffee for me. They are very educated people and very polite. They are helpful and always want to promote investors to come and manufacture in Kenya. They do not encourage traders. Most of the Ministers have studied at Harvard, Cambridge and Oxford. Even the secretaries of Ministries are very powerful, similar to when Sri Lanka had permanent secretaries. The Ministry secretaries in Kenya who are known as the principle secretaries are more powerful than the ministers. They are well-versed in their subject areas and know what needs to be done.



Even in Fiji they would not allow any other country to come and influence them. They always try to promote their own people. It is a small country but they want the Fijians to work. They bring partners but they are very selective, they do not want large companies to come and take over the country.

Most of the educated Fijians migrate to Australia or New Zealand because they can go there without any restrictions. Fijians are not used to hard work and they are more laidback. But the Indian origin Fijians work in our factory and they are hard working. It is the same in Kenya as well. Productivity wise their output is very much higher than Sri Lankans. We see women working as masons in Kenya on ten to fifteen story buildings. Casual workers would stay in queues in the morning to receive some form of work.

### **Will Sierra Cables look at other markets?**

At the time we started there were many free-trade agreements. There was a free trade agreement with India, where we would be able to sell copper cables from Sri Lanka at zero duty. Up until 2010, we were able to do very good business with India. However, thereafter India they revised their duty for copper, and it was no longer competitive for us to continue.

### **Does Sierra Cables have to compete with imported cables and products?**

We had that challenge but with the COVID-19 pandemic, the Government has restricted imports. Duty for cables is 15 percent and on top of this there is a CESS of 15 percent.

Today, there is a demand created in Sri Lanka due to the import restrictions. We have been faring considerably well. Even with the factory closure for two months due to the pandemic, we did not reduce the salary of any of our staff. We paid from April onwards and gave them a bonus and increment as well. We were able to maintain our volumes. Due to import restrictions, a demand was created for cables mainly for the big project sector. Previously these projects had the privilege of importing cables at zero duty, which is no longer possible.

### **Even recently a British investor visited the factory. What was the significance of that?**

They were mainly interested in our operations in the Katunayake free-trade

zone. Their main focus was with setting up a semiconductor plant either in Sri Lanka or India.

In this period, the cost of finance is very low. In the domestic market itself we are finding people building their houses. In the same manner, people have started to invest. In the last few years we did not see any investment. I would say this is the best time to invest.

Sri Lanka has many opportunities especially due to our strategic location. Even for India, a person in Tamil Nadu or Kerala would find it is cheaper to purchase from Sri Lanka than from Delhi or Bombay. The Government should maintain a closer relationship with India; and we would be able to do many things.



**How important is research and development for your company?**

We have developed everything in-house with Sri Lankan talent. Sierra Cables has never had a joint venture or technical collaboration. We recently developed the fire resistant cable and we were also the first to receive the SLS certification

for solar cables. All research and development are done in-house with local talent. And, we also received a tax rebate for R&D.

**In terms of human resources in the industry, do you find the required talent or skills?**

There are two sides to it; we can find engineers or technical people but at the floor level it is very difficult to find labor. We do tie up with technical colleges to train our technical staff. The younger generation do not like to work in one place from eight in the morning to five in the evening. There is a scarcity of machine operators because they also prefer to drive three-wheelers for hire. School leavers do not want to come and work in a factory for full time. This is a challenge not only for us but for the entire manufacturing and plantations sectors.

Religious leaders have a big role to play in encouraging the young to engage in productive employment. If you take the people in villages they will only listen to the Buddhist monks. The clergy should not be involved in politics but should educate and inculcate discipline in the people. They have a very important role to play.

**What about the availability of raw materials?**

In this industry, nothing is available locally. The main raw material is copper, thereafter aluminum, and PVC, which is a petroleum bi-product. We import everything. The only item we purchase locally is wooden drums.

In the cable industry, there are two variables. One is the metal price, which is based on London Metal Exchange (LME), it varies with the exchange rate. The other variable is the exchange rate as we purchase everything in dollars.

**The Sri Lankan Government is encouraging Sri Lankan businesses. We are focusing on import substitution. What is the potential especially with large projects taking place as well?**

I would say it is a good decision, which should have been made about 15 years ago. The country was open with a flow of imported items but today people are interested in manufacturing locally. There are many small industries that are coming up. We can look at having assembling plants in Sri Lanka; for example, take a mobile, we can bring all the components and assemble the product within

Sri Lanka. Then at least the labor and profit will remain in Sri Lanka. Thereafter, we can gradually start to manufacture various components as well. The Government can have a policy that if a company wants to increase manufacturing they can receive a tax rebate for a stipulated time. First to do the assembling and then gradually they can start manufacturing.

There are many projects including the Port City project that are purchasing cables from us.

I have seen in Kenya where the Government provides grants to encourage manufacturing in their country, and even in tenders they give priority to Kenyan made products. In Sri Lanka since we were open all this time, local manufacturing companies did not get the opportunity. But now there are restrictions to items to import, where there are facilities to manufacture locally.

### **What about the staff at Sierra Cables?**

Our staff have been very cooperative, even during curfew time. We organized passes, and they came to work even though there was a risk. They understood the gravity of the situation and importance of keeping the company operating. That is how we survived. We are fortunate to have these types of individuals working for us.

### **Very few manufacturing companies have gone public. Why is that?**

In the cable industry all three major players are listed in the Colombo Stock Exchange. It is important for companies to go public. At Sierra Cables all our staff are shareholders of the company. Therefore, they know it is their company. They take ownership and feel motivated. Sierra Cables is the only company in the Sierra Group that went public. Sierra Constructions wanted to go for public but they could not at that time. But we wanted to broad base the ownership from the very beginning.

Companies should go public. One of the main advantages for minority shareholders is that they can exit at any time. At the beginning I was the second largest shareholder of Sierra Cables but my ownership was about five percent. We have three independent directors and they always look after the interests of the minority shareholder. When there are systems, you can survive. In our case even though I am the Managing Director, we cannot do whatever we want,



everything is controlled and monitored so that there is transparency and good governance.

**In terms of the manufacturing industry in general in Sri Lanka, what are your thoughts?**

The manufacturing industry is the most stable business. Profits may not be high but you can survive in any situation. I have the experience because I have been in the industry since the 1970s. We have had to face many issues, such as insurgencies, the 30-year long conflict and the Tsunami. But we have been able to overcome challenges and progress forward. In the stock market, you can see that all manufacturing companies are doing well. Specially, if you are manufacturing building materials or products, which are used for other industries, then you can survive.

The Government should support the manufacturing industry. In a country such as Sri Lanka, we have limited resources that could be used as raw materials. If we take India, they have raw materials. The cost of importing raw materials is very high in Sri Lanka.

Sri Lanka must promote public-private partnerships because that is the way we can grow. Furthermore, while we need the private sector we also need the public sector. Because then there is always a balance that is maintained for the common good. During President J R Jayewardene's term and under Minister Lalith Athulathmudali there were many profit making public enterprises that were managed well.



### **Can you tell us about yourself and career?**

I am not from Colombo; my hometown is Galle. I studied at St Aloysius College, Galle and from there I was selected to the University of Moratuwa. The day I graduated from the university, I entered the cable industry. I started my career with Associated Cables Limited at that time, which was part of AMW (Associated Motorways). From ACL, I joined Mr Sohli Captain's venture, Alucop. I thereafter, joined Central Industries and switched from cables to pipes. I was with Central Industries for 12 years until 1997. I joined Kelani Cables, which was owned by an Australian company at that time. It was known as Olex Cables, Australia. At that time when Olex wanted to exit, we went for a management buyout of the company with Sierra Construction, but ACL managed to outbid us. Thereafter, we bought Alucop with Sierra Group and formed Sierra Cables, which we started in the year 2000. By establishing Sierra Cables we were able to break the monopoly in the cable market.

### **Future plans for Sierra Cables?**

We will be establishing two more industries during this financial year. We have acquired the land. Due to the recent policies of the Government we have been able to venture into these new industries. There are many opportunities in the water and electricity sectors. The Government has taken a policy not to use PVC, and instead use high density polyethylene pipes. We are going to start a plant with a multinational company, where we can supply not only in Sri Lanka but also to the overseas market.