

Arafa Textiles: Men's wear from Cairo targets the luxury sector

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If you are browsing the formal men's wear section of a UK department store, the chances are that you will find yourself looking at a suit made or distributed by Arafa Holding.

The Egyptian clothing company controls 12 per cent of the UK suit retail market through the Baird Group, in which it has a majority stake.

Arafa, which employs about 8,000 workers, has come a long way from its origins as a fabric retailer in the Nile delta at the beginning of the last century.

Alaa Arafa, the chairman, trained as a doctor, but took over stewardship of the company in 1982, having come home to help out the family business when his father was taken ill.

As he puts it, he found that he "didn't have the chance" to go back to medicine.

Dr Arafa has pioneered an unusual business model, moving first from selling then manufacturing textiles into making ready-to-wear garments and, eventually, through acquisitions, into retail.

The result is a vertically integrated production chain stretching from Arafa's textile factory in Beni-Sweif, south of Cairo, to Macy's in New York.

The group, which reported a gross profit of \$44m in the first half of this year, works in three sectors, formal, casual and luxury. It also manufactures suits for top Italian brands such as Cerruti, Valentino and Pal Zileri, and holds a 35 per cent stake in Zileri.

"Made in Egypt" does not have quite the same ring as "Made in Italy", and Peter Lucas, chairman of Baird, says he felt like "a bit of a pioneer" when he first went in to business with Arafa several years ago. "People were tending to go to Italy or Portugal," he recalls.

Arafa, however, managed to find a way of producing sufficiently high quality material at Egyptian labour prices. "Its like finding unappropriated treasure," says Peter Lucas. "You don't want to tell anyone else."

Egypt is also able to take advantage of preferential trading status with the European Union, and the vertically integrated model means that Arafa can provide rapid-response supply.

Since a high-speed ferry between Alexandria and Venice started running this year, Arafa has a much faster delivery schedule.

This means that the company can sometimes supply more quickly than competitors in such places as Romania, because of weekend restrictions on truck movements in Europe.

"We are closer to Europe than Europe," Dr Arafa chortles.

The last year has not been without difficulties, however. Plunging profits in the mid-market retail sector forced Arafa to divest from two of its European retail companies.

Although this improved profits, it cost the company a serious slab of the retail market.

Mohammed Khalifa, the chief investment officer, says that retail strategy is now focused on the luxury market.

The company, which went public in 2006, has also struggled with stock liquidity.

Most of its shareholders are institutional, and trading volumes have been low, reflecting low share prices following the financial crisis, although at the end of the year it managed to increase activity by distributing dividends.

In the long term, Arafa sees the future of the luxury clothing industry in China – but in terms of consumers not of manufacturers.

The company is seeking to enter the market as distributor and retailer, but is still at the early stages.

Another departure is the manufacturing of shirts, made with Egyptian cotton.

"It's more acceptable to have a Made in Egypt shirt than a Made in Egypt suit," says Dr Arafa.

Mohamed Khalifa agrees. "We've done the hard part," he says.

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