

PGIL/SE/2023-24/75

Date: November 14, 2023

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DEPARTMENT OF CORPORATE SERVICES - CRD
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NSE - PGIL

Sub: Transcript of Conference Call

Dear Sir/Madam,

In continuation to our letter dated November 9, 2023 regarding submission of audio recording of the call conference held with Investors / Analyst on November 9, 2023, to discuss Company's financial results for the quarter and half year ended September 30, 2023, please find enclosed herewith the transcript of the aforesaid Conference Call.

You are requested to take the same on your records.

Thanking you,

Yours faithfully,
for **Pearl Global Industries Limited**

(Shilpa Budhia)
Company Secretary and Compliance Officer
ICSI M. No.: ACS-23564

Encl: as above

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“Pearl Global Industries Limited Q2 FY-24 Earnings Conference Call”

November 09, 2023



**MANAGEMENT: MR. PALLAB BANERJEE – MANAGING DIRECTOR –
PEARL GLOBAL INDUSTRIES LIMITED
MR. SANJAY GANDHI – GROUP CHIEF FINANCIAL
OFFICER – PEARL GLOBAL INDUSTRIES LIMITED**

Disclaimer: E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on 9th November 2023 will prevail.

Moderator: Ladies and gentlemen, good morning and welcome to Pearl Global Industries Limited Q2 & H1 FY24 Earnings Conference Call.

This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions and expectations of the company as on date of this call. These statements are not the guarantees of future performance and involves risks and uncertainties that are difficult to predict. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Pallab Banerjee – Managing Director, Pearl Global Industries Limited. Thank you and over to you, sir.

Pallab Banerjee: Thank you. Good morning. I welcome everyone to our Q2 and H1 of Financial Year ‘24 Earnings Conference Call.

Along with me, we have our group CFO – Mr. Sanjay Gandhi and SGA, our Investor Relations Advisors. I hope all of you have gone through our Investor Presentations uploaded on the Exchange and our company website.

I’m happy to state that our H1 Financial Year ‘24 revenue is better and has seen a formidable growth as compared to the previous years. This growth is attributed to the improved performance in Bangladesh and Vietnam operations. The demand scenario in the US still remains muted, with the lead to retailers liquidating their inventory during this holiday ‘23 season and controlling their new purchases for spring summer of 2024 season at this moment. This could pose a short-term dent in the demand, thus leading a comparatively muted growth in the second half of our year. However, our multinational presence both for the manufacturing and sales, our diversified product offering, robust design, and our strong customer relationships has put us in a better position globally, making us a preferred vendor to most of these customers.

Our new manufacturing setup in the Central America and relationships with the existing and prospective strategy customers will help further in our growth trajectory. The overall long term industry prospects looks positive with the possibility of UK and EU, European Union FTA with India and the extension of the ROCTL scheme for the post March 2024 period. This should boost the Indian exports for the garment and textile industry. Overall, Pearl Global has also been able to offset the impact of this demand slowdown because of the business, which has been rerouted from China under the China Plus One policy, followed by the large brands and retailers across the globe.

Our company has finalized a dividend policy where when, we will be declaring a dividend of at least 20% of the consolidated profit after tax in a given year to our shareholders. The Board of Directors of the company have declared a second interim dividend, which is also a special

dividend of Rs.12.50 per equity share for Financial Year '24 considering the continuous improvement in the business of entire group over the last few quarters.

On the other hand, ICRA has upgraded our long term and short-term credit rating from ICRA BBB+ to ICRA A- and from ICRA A2 to ICRA A2+. The rating upgrade factors in the consistent healthy performance of Pearl Global over the last two years, despite the evolving demand slowdown in the US market or other key markets. And also, amongst the, in between the inflationary pressure which is affecting the discretionary spending of our customers.

With this backdrop of global macro challenges, we are focused on the geographical diversity in our customer base. And we feel that this should help us to maintain our overall business share and the operational efficiencies that we strive for. Bangladesh as a country has their wage revision, their wage board has proposed an increase in their minimum wage. This happens once in five years. The country is due for elections in January 2024. So, there is a condition of protests, which is creating some disruptions at various locations of Dhaka. While three of our factories had no disruption, and working smoothly, one of the locations where one of our factory is located, we are seeing some protests. It continues to work, but we did let go of our workers on certain days or declare a closure on a few days if there is a concern of safety of our workers.

So, that's the update from my side, I would now like to hand over the call to Mr. Sanjay Gandhi – our Group CFO who will run us through the financial performance of the company. Over to you Sanjay.

Sanjay Gandhi:

Thank you, Pallab. Good morning, everybody and welcome to our quarter two and H1 FY24 Earning Conference Call.

Coming to the Financial and Operational Performance of the Company, we have reported the highest ever H1 performance, like Pallab had already mentioned that to mark our continuous improvement in performance, we have announced a special dividend of Rs.12.50 per share, which is 125% of the face value. This will amount to a total cash payout of approximately Rs.27 crores. We have received a total dividend of approximately 10 crores from our overseas subsidiaries, which is being used to pay out this special dividend as well.

On a consolidated basis H1 FY24 revenue grew 8% year-on-year to Rs.1,854.8 crores on account of better product mix owing to strong order book for outwear products products improved capacity utilization in Vietnam and Bangladesh. H1 FY24 includes revenue of Rs.72 crores from integration of Alpha, which was not part of consolidation in H1 FY23. Adjusted EBITDA margin excluding the ESOP expenses stood at 8.8% for H1 FY24, which was 180 bps higher year-on-year. ESOP expenses for H1 FY24 stood at Rs.2.9 crores, H1, FY23 had no ESOP expenses. Finance cost for H1 FY24 increased from Rs.31.3 crores in H1 FY23 to Rs.43.5 crores in H1 FY24 on account of increase in factoring cost for receivable financing. PAT for H1 FY24 stood at Rs.86.3 crores versus Rs.62.3 in H1 FY23. EPS was Rs.40.5 in H1 FY24 versus Rs.27.5 in H1 FY23.

For quarter two FY24 our consolidated revenue grew 12% year-on-year to Rs.960.6 crores from Rs.860.3 crores in quarter two FY23. Adjusted EBITDA margin stood at 8.3% which was 220 bps higher year-on-year. PAT grew 51% from Rs.25.9 crores in quarter two FY23 to Rs.39 crores in quarter two FY24.

On a standalone basis, revenue for H1 FY24 stood at Rs.476 crores versus 628.4 crores in H1 FY23, a decline of 24% year-on-year. This was on account of shifting of sales for customer to competitive location like Bangladesh. This helps us increase our revenue in Bangladesh owing to our multinational presence. Hence the overall impact is neutral from the group revenue perspective. The revenue was also impacted by reduced demand from a few customers owing to meet demand environment. We are in discussion to add 2-3 strategy customers in India. Adjusted EBITDA margin for H1 FY24 stood at 6.2% versus 6.1% in H1 FY23. PAT stood at Rs.12.8 crores versus Rs.23.6 crores. For quarter two FY24 revenue dropped 23% year-on-year to Rs.218.5 crores versus Rs.300.5 crores. Adjusted EBITDA margin stood at 4.2% and PAT was at Rs.1.2 crores.

Our strong performance is reflected with our strengthening balance sheet. On a consolidated basis our net worth as of September 23 stood at Rs.753 crores, gross debt declined to Rs.374 crores versus Rs.448 crores as on March 23. Next year it should improve to 0.04 times from 0.21 times as on FY23. Return on capital employed calculated on TTM basis stood at 30.8%. Margin money earmarked at LC payment is excluded from capital employed calculation. Net working capital days on TTM basis, trailing 12-month basis stood at 13 days, receivables stood at 30 days, inventory days were 33, payable days were 50 as on September 23.

On the capital expenditure side, our CAPEX plan across geographies for FY24 is approximately (+120) crores, out of this (+120) crores 50% is for capacity enhancement, 40% is for upgradation and 10% is towards the maintenance. Already incurred CAPEX is around 60 crores where the capacity is 45%, upgradation 45% and maintenance 10%.

Thank you, we shall now open the floor for questions-and-answers.

Moderator: Thank you. Ladies and gentlemen, we will now begin with the question-and-answer session. The first question is from the line of Keshav from RakSan Investors. Please go ahead.

Keshav: Sir, firstly what has led to the inventory correcting so much between March and in this quarter?

Sanjay Gandhi: Sure, I would like to take up this question Pallab. So, inventory has reduced, so if you look at outwear segment for Vietnam largely, most of the shipments are for fall and winter order which gets completed by September end, by June we start building the inventory from April and May onwards. All the inventory gets liquidated by the end of September. For our overseas operation like Vietnam and also in Bangladesh there have been a shipment which were really expedited at the behest of the customer. And that has resulted in inventory liquidation overseas operations. In India, there has been a, there is a lower inventory in line with the revenue reduction, which has been there around 25% quarter-on-quarter.

Keshav: So, is it in anyway indicative of a slowdown in the coming quarters?

Pallab Banerjee: No, what Sanjay just explained is that, the seasonality of the business that we have specially for the outerwear, which is a high value item. And that's what is produced most of the production of outerwear starts in our Vietnam operation, we have seen that it starts building up from February end onwards slowly and most of the major shipment is shipped out in the first quarter and the second quarter of the year. So, that's one of the impact that we will see every year from that part of the business. And the second one again which what happened last year, we were holding certain inventory and the request of the customer to be shipped out this year, because there was an over inventory situation with the customers last year. So, that also is something that you have seen that has moved out from the Bangladesh. These are two examples which he just mentioned, we are not seeing this inventory coming down because of the slowdown of the business. There have been a few months in the country like we're faced a little bit of slow in terms of our sales and production in the month of, at the end of this quarter like September was a little affected, but that's not resulting in a big drop in the inventory, I would say.

Keshav: Okay. And sir lastly the growth we have spoken of in the coming quarters. Can you talk a bit more about what kind of a hit we are foreseeing in H2?

Pallab Banerjee: We as a company built up all the strategies for year-on-year growth of at least 15% to 20%. And the trajectory that we will have to follow, but what happened this last year this is the kind of major macro factor that we have seen, whether because of war, slowing down of the economies in certain parts, the high inflation resulting in the discretionary spending getting reduced. So, those are the things that we are seeing an impact because of which we are not able to grow at that rate. So, far for H1, we are still maintaining almost about 7% to 8% of growth that you've seen, which we would like to maintain in the second half as well. But yes, the situation is not that good that we can cover up in the next part of the year and get to our target of +15%. So, that's what we are seeing at a macro level. Strategy wise, what we have done is, we have looked into the various diversification of our customer base and whatever this strategic customers who give us some kind of forecast on long term. So, when we see sudden drop in that numbers we immediately work on the second tier or the third tier of the customer segmentation that we have created in our pyramid and start approaching them to push for that extra growth of the business that is required for our growth. This also included some new inclusion of customers. And this particular year, my focus has been outside of USA as well. That means Japan, Australia, or European market, which where our exposure was low. So, we are definitely increasing exposure in those markets as well. So, in a way that compensates for the decline that we would see from our existing customers of US, but I can compensate with the numbers from the other locations. So, that has so far worked pretty well for us. And I foresee that same would continue for the second half of the year. Once again, I don't expect to get back to the 15%, but mostly probably we will end the year either flat or a little bit of up, as we have said between 5% to 8% let's see how we can close this year.

Moderator: Thank you. The next question is from the line of Pulkit Singhal from Dalmus Capital Management. Please go ahead.

- Pulkit Singhal:** Congrats on a great first half numbers, where most of the other listed players had shown some decline. I'm kind of surprised by the commentary because, now we are hearing most of the people saying that inventories at the larger retailers have already been depleted and they are seeing much better demand going ahead second half. So, why is our commentary different from the other two or three listed players?
- Pallab Banerjee:** So, how we are seeing the market especially like if I talk of US where there was an inventory situation. So, most of the retailers were placing almost 30% or +30% less business in the last couple of quarters. Now what we are seeing is that they are definitely increasing from that, I would say from a minus 30, 35 range, they are coming out to a minus 10, minus 15 range. Why this is happening one, everybody is conservative at this point of time, they are not going gung-ho and ordering more or compensating like the drop in inventory and immediately going for a higher inventory no, they are not doing that. They are keeping a certain part of their margin or certain part of the money budget for reacting in the season, how the market would be, and what inventory that they would be bringing in. A certain budget have been relocated to the near shoring as well. So, these is the two definite trends that we have seen in most of our US retailers. So, that's one of the reasons that we are when we say this, this is what we consider I am saying.
- Pulkit Singhal:** Correct. So, when they were ordering 30% lesser, or previously you had delivered revenues in the first half broadly, 900 to 950 crores on a quarterly basis in that range. Now they are ordering from less than 30% so you are saying now 15%. So, it's a better situation relatively. Therefore, maintaining the range that you have already delivered in the first half on a quarterly basis. Is that something that will be tough for you in the second half?
- Pallab Banerjee:** No, I think what we have, if you see from a growth target that we had of +15%, we are less. So, that's where like, my benchmark is more from there. When I say that, we will be maintaining the kind of numbers that we are doing now. That's similarity or parity between the last year H2 and this year H2, that's something we are confident of maintaining.
- Pulkit Singhal:** No, sir why I'm checking that is because last year H2 is a much softer base, you had H2 was hardly 750 to 800 crores of top line. Now, if you were to maintain your first half quarterly base of 900, 950 crores, there's a significant growth in the second half implied of 20%, 25%. So, unless you are saying that there's a certain seasonality which is adverse in the business in second half, because my understanding was second half is usually better for us, then I'm just a bit confused on this, what is the range that you're talking about in terms of revenues?
- Pallab Banerjee:** Compared to last year, if you see one was what were the total base of last year compared to that if I have to mention a number, then I am at this point of time forecasting a similar number for this current year, with any very minor upward, which will be maybe like, 5% to 7%. So, that is something that we are still maintaining. Yes, the first-year benefit, first half benefit that you have seen, second half like the first three months we have already at this point of time, we have all the numbers, and we are seeing that. And the second, that is quarter four booking is currently happening. So, yes, maybe it's a positive to what we have seen earlier. But just to share this time confidently that we are going to get +15%, I don't see that confidence in the market as of yet.

- Pulkit Singhal:** Okay. And in terms of margins, there's been a substantial difference in first quarter versus second quarter. Last three quarters, you've delivered gross margins of 49% to 51% odd sometimes even 53%. But there's a sharp drop to 44% on gross margins this quarter, what has led to that?
- Pallab Banerjee:** One of the thing is that as soon as the market becomes soft there is definitely an overcapacity situation. So, the prices definitely, it becomes the buyers can negotiate much more. So, that one effect definitely comes in and the other would be the various other macro factors that we are continuing to see, how the inflation and other things that will continue to affect us both some of the region like for example Bangladesh, the wage revision would be happening or is happening at this point of time. In India also, like we are seeing the dollar advantage that normally would come year-after-year at this point of time we had seen a slowdown on that. So, those are the effects of macro factors that will continue to happen.
- Sanjay Gandhi:** Just to add on the margin front, just to add on quarter two FY23 was 45.8% and quarter two FY24 is 44.6%, the comparison which we have been always mentioning is that has to be on year-on-year, the sequential quarter is not something to compare because the product mix, the customer mix gets changed. And with that, therefore the quarter-on-quarter, year-on-year is a much better comparison than other thing if you look at EBITDA also, the last year quarter two FY23 was 6.1%. And now we are at 8.3% so almost 50% improvement in EBITDA margin. So, we are maintaining that what Pallab just mentioned about the, year-on-year quarter comparison, even this year we will continue to show the improvement for the rest of the year as well. Overall, what we have given the guidance in the beginning of the financial year that our revenue will be neutral or 5% we are saying now the revenue may be increase in 5% to 10%. And the bottom line what we have achieved, we said 8.1% what we achieved last year full year will improve on that. But we definitely said despite the macro challenges, we will maintain at least and will improve on. The trend as of now shows that we will improve it and we will continue to improve on that, as we head into the H2 and the next year.
- Pulkit Singhal:** Understood. Just the last question on the finance cost, we have Rs.374 crores of debt, but we are also holding some Rs.330 odd crores of cash. I am just trying to understand your cash management policy, why are we giving almost 88 crores of finance cost which is a sizable amount of your PBT, when you can pay back the debt?
- Sanjay Gandhi:** Sure, absolutely. There are two or three aspects of this question what you mentioned about first is on the finance, firstly finance comprises of three components, one is the interest on term loan, then interest on working capital and then there is a factoring cost. Now, interest we know across the board, across geography the interest on term loan has increased, long term loan when I say is long term loan has increased and that has impacted the finance cost because geography and across industries also. The second part is the working capital, in short-term working capital there's also interest increase however, because of our cash realization we have kept the debt level to a significantly low, overall debt has come down short term by Rs.88 odd crores in line with our liquidity which has come in so, we have kept the debt at a low level. So, the increase in interest cost to some extent has been offset by a reduction in the debt level. So, that has been

the secondary aspect. Third is on the factoring cost, now in line with our strategy of de-risking ourselves from the credit exposure, we know very well there are challenges which retailer in US are facing. And then we are able to get a non-recourse financing to de-risk us from the receivable risk and also to add to the liquidity we are not stopping any loan recourse financing program, despite the cost increase by 3%, 3.5%. So, that is a major chunk, which is sitting in our finance cost and leading to an increase in cost. So, despite our, even if we bring the debt to zero levels, the finance cost on the receivable will keep on increasing there because we would like to have the receivable kept at a low level to maintain our working capital position. The fourth, you mentioned about the cash management policy, we have a plan about capital expenditure which I just mentioned in my opening commentary and these CAPEX plans are ongoing and then there are evaluation also which keeps happening towards the growth of the company. Third, we have also framed the dividend policy, which mentioned very clearly 20% of the PAT will be declared as dividend in line with that there is a dividend which is getting declared. So, we are allocating cash and capital in-line with the dividend policy and the growth policy and also looking at an opportunity for the inorganic as and when it materializes. We were looking at all those options as well.

Moderator: Thank you. The next question is from the line of Prerna Jhunjhunwala from Elara Capital. Please go ahead.

Prerna Jhunjhunwala: Sir my question was related to the geographical mix of revenue. With respect to manufacturing locations, your India exposure is coming down do you see why is it coming down, why did you mention that you have moved some orders to more competitive locations than India, just trying to understand that comment.

Pallab Banerjee: So, you see, if we talk of how our business is, we are in five different locations of manufacturing and depending on the customers need and on certain product, like where we can produce much more competitively, so we took that decision. Last year, we had certain product that we had made in India, where this year we found that if we do out of another location like Bangladesh, we could get a benefit. So, those are the decisions that we'll continue to take in future as well. So, that's the advantage that the infrastructure at Pearl that we have, it does benefit our customers as well as our own strategies as well. But that doesn't mean that India numbers would continue to go down or India business is not in priority. We do have plans for India. And we are marching ahead quite solidly on that path, I would say.

Prerna Jhunjhunwala: That's helpful sir. Second question on your customer mix. Today, how much would be top five customers contribute to your top line and how has the new client addition ramped up over the last one, one and a half years for you. And do we see this slowdown that you've mentioned largely because of existing customers or something and new customers are making up for it or is it that new and old customers are relatively facing hiccups on inventory management across the board?

Pallab Banerjee: The fluctuation of demand or the inventory situation that happened, it majorly affected the US market in the last one year. Of course during the pandemic all the markets were affected. But

immediately after the pandemic the US had definitely been very aggressive in terms of their buying. Because the consumer trend was definitely higher immediately after the pandemic, now that has slowed down since 2022, I would say and that resulted in some kind of over inventory situation in the US. So, which I think is now getting corrected most of the extra inventory that the US retailers had would be consumed in this holiday season, which is this October, November December of sales. So, going forward, I don't see much of an over inventory situation in any of the US retailers. Compared to that, the other markets that is what we have seen in 2022 and 2023. that markets like Japan, Australia they were like absolutely slow earlier. So, that picked up momentum. Europe has been stable immediately after the war definitely there was a decline of about 20%, 25%, but now they have been more or less stable. Year-on-year if you look at the imports that most of these countries have done, over the month of July, August, September, we see a decline. So, that shows the conservatism that is there in terms of their buying plans. So, that led us to correct our own strategies, and whatever declines that we could forecast or receive the forecast from our existing top clients. We are trying to compensate that by going into other regions or pushing, certain other regions where our exposure has been low. So, that's how like we are compensating in terms of our own strategy. One part of the question you had asked is?

Prerna Jhunjhunwala:

Top five customers contribution?

Pallab Banerjee:

Top five customers contribution continues to be more than 70% in our organization as of now. But you see the top five customers means like much more strategic relationship for us. And that's where like we continue to get some kind of visibility of their buying patterns, or there buying budgets over the next few quarters. So, that helps us to plan our strategies accordingly.

Prerna Jhunjhunwala:

Okay. And how is the FTA country to India sign FTA with the Australia and UAE. So, how is our exposure improving in declining, how is our exposure to those countries and how is the demand that you're facing from those particular regions?

Pallab Banerjee:

Sure. Australia is definitely a focus but compared to US it is much smaller market. So, even if a customer who we had added last year, if the customer even it grows by 200% or 300% the number would be quite insignificant compared to when we talk about the US market. But yes, we are seeing considerable growth and a lot of energy and focus in the Australia market, in Japan also we have seen the same. Europe also we are seeing some increase, UK where like we have an FTA which might come in way sooner than later. So, that market we are seeing a good traction at this point of time. We have been doing a lot of business of Europe and UK through our Bangladesh operation. So, now we can see that there's a renewed interest from those customers for India production. So, that definitely is benefiting us.

Prerna Jhunjhunwala:

Okay, that's helpful sir. And just asking the last question on receivable days, we've seen receivable days increasing for you this half, what would be the key reason for the same and will it normalize back to lower levels?

Sanjay Gandhi:

Receivable days are 30 days in H1, if you look at historical it has been around 49, 50 days. So, it will remain around 30, 25, 30, 35 days.

Prerna Jhunjhunwala: Okay, this is normal days, there is no customer saying that we would want to be a little later with this?

Sanjay Gandhi: No.

Prerna Jhunjhunwala: No challenges at the customer end?

Sanjay Gandhi: Yes, it is normally done, between 25 to 35 days is we expect to get over it.

Pallab Banerjee: So, that's because of also the factoring that we are doing, because most of our receivables are definitely factored.

Moderator: Thank you. The next question is from the line of Varun Gajaria from Omkara Capital. Please go ahead.

Varun Gajaria: I will come back in the queue.

Moderator: Thank you. We'll move on to the next question. That is from the line of Nishid Shah from Ambika Fincap. Please go ahead.

Dhruv: This is Dhruv here. My first question is on your capacity in Guatemala, when is that you guys plan to commission?

Pallab Banerjee: No, we're shipping from Guatemala already. We have already shipped to our customers.

Dhruv: We were putting a new line there?

Pallab Banerjee: We took over a small plant, which was running a few lines and we are adding more capacity to that. So, that we are doing in three stages. So, that commissioning part, commissioning already like premium customers that we have bought in. So, that we have started shipping from Guatemala, yes, like to break even and to generate more revenue over a period of next one to two years. So, we have that plan, we are increasing the number of rooms in phases, that we need grow.

Dhruv: Right. My second question is, what kind of margin hit do you envisage because of the wage hike in Bangladesh, because what we hear is, probably there will be a 40% hike and considering Bangladesh is your, you ship almost 45 million pieces per annum which is your largest in terms of capacity, what kind of margin hit do you envisage because of that?

Pallab Banerjee: So, impact would be definitely more than 40%, the wage board has recommended about a 56% hike as recent as yesterday, and there is the election is happening this particular by January, we'll see the election in Bangladesh. So, at this point of time, it's a perfect condition for protests happening, where the workers or certain unions are saying that we need much more. And of course, like what we are seeing is about 56% as of now, which has been talked about. That would also get some kind of compensation from other advantages, like the dollar rate has been

advantageous for us that something will compensate to a certain extent, we are definitely modernizing and putting more automation and other things to compensate even further. And as you see, the kind of factories that we are running there, talking or servicing the clients that are in our portfolio. We do pay wages which are much higher than the minimum wage. So, the impact of minimum wage may not in that certain percentage will impact us. But yes, there would be a net impact in terms of wage portion. We forecast it to go up around 15% definitely, now this 15% how does it get compensated one would be dollar advantage efficiency and productivity, through automation and other benefits, we would like to bring in into the production. And net impact in terms of numbers, Sanjay what would be the right number which can see as of now, between 1% to 2%?

Sanjay Gandhi:

Yes, you are right Pallab, you mentioned clearly that though, the increase which is pronounced by the wage department in Bangladesh is around 56% to 12,500 Taka as against existing 8,000 for all the entry even the new entry level, for us many of the tailors, skill laborer are already in range of that or slightly exceeding. So, the wage bill per se may increase 15% to 20%, as a percentage of the turnover, it will have around 1%, 1.25% which will get mitigated with the devaluation of Bangladesh startup which is already expected around 8% to 10% more from where we are right now. And then the productivity and automation process which we have done to really cope will also compensate part of it and there will be certain renewable sustainable initiatives which have been, the CAPEX has already been incurred, that will bring in saving and energy consumption. And that should help us in offsetting this increase. And plus, of course there will be negotiation and discussion with the vendor, with the buyer to really look at that. So, as of now these are the mitigation measure, we have, we see that challenges, we see that disruption. But, yes the overall, the strategy to counter that is also in place to ensure that our margins in absolute terms are really not impacted to a great extent, there may be small impact, but we don't see, we think we have a strategy in place to really address that. And we should be able to implement that.

Dhruv:

Sanjay, we had a vision to reach the double-digit margin. So, when do we achieve that, is it delayed by a couple of quarters because of this, can we say that?

Sanjay Gandhi:

So, Dhruv if you see the current quarter performance as well from a 6.1% we reached 8.3%, so first our point was that we should, once we have achieved last year 8.1%, our endeavors was to make it sustainable in excess of 8%. To large extent this year we are on course to achieve that, we should end the year in more than +8.1% now that definitely the target is to reach to a double digit EBITDA, with as a next year coming in, with all the demand macroeconomic environment getting stabilize, it should be possible for us to reach that number sooner. So, I don't say which quarter onward, but definitely we are optimistic of achieving it in FY24-25 and let's see how quarter four of this year goes, the quarter four normally is when the demand really picks up and we should have the really good summer and spring season and that should also define our trajectory or approach towards double digit EBITDA.

Dhruv:

And Pallab, just to emphasize on this Bangladesh issue, is your muted guidance for the second half particularly Q3 coming from the extent that there is some disruption in Bangladesh?

Pallab Banerjee:

This Bangladesh disruption may continue for November, December period because of the election. But let's see, like so far like we don't have any backlog or any backup that is needed. So, far things have been quite under control, but yes what we are hearing is that, their protest as they have, some workers got killed during these protests, and also so that I think as a third world country, and what we have seen in the earlier years of wage revision and elections, so not very unusual as of yet. But yes, I won't say that my conservative approach is only because of Bangladesh, I would say that these are things that something like which we can forecast, in our business certain things that we should be able to, when we foresee something then the whole approach is to what are the strategies that we have to put in place so that we can mitigate those risks or those thing that we can forecast.

The major thing is what's happening in the macro world I would say, we had an earlier like one war which was going on. Now the second war has started. That definitely gives certain amount of conservatism, when we speak to our customers and the consumer sentiment also, it's quite contradictory at this point of time, the last quarter, US underwent a 4.9% jump in the GDP, which was unprecedented, nobody expected that. Still, if you look at most of the CEOs, or other management of the companies, nobody is very, very upbeat with that kind of number, people should be in a very high position at this point of time, I would say. So, that's something that we are not seeing as of yet. I have been interacting with the customers very, very closely and in fact, this particular year, I have put in that extra effort to be really close to all our customers' top management so that we know exactly what's happening. So, my conservative is more from that angle.

So, yes, definitely things like what we discussed with Pulkit that, things have improved in terms of inventory. People are looking for growth in business at this point of time. But yes, like whether we are completely in the green areas of now, like we had in some part of 21-22, I'm not seeing that positivity in the market as of yet. So, naturally we have to make sure that our strategy is securely in place. And we continue to march our objectives that we have, and something like which we can control very well. So, that's why the kind of numbers that we are showing as of now.

Dhruv:

Right. And just my last question on Guatemala in terms of productivity, how do you compare them with the like's of Vietnam, Bangladesh and India?

Pallab Banerjee:

Very similar to Vietnam. Because if you talk of productivity and the wage both, but it's not a cheap country, the wages of the workers are similar to Vietnam, the productivity and skill, what I'm seeing is compared to Vietnam, the scale is not as big as Vietnam. The total sales of the country, our total exports is in the range of \$2 billion to \$2.5 billion. So, otherwise, it's very similar, at a smaller scale.

Moderator:

Thank you. The next question is from the line of Varun Gajaria from Omkara Capital. Please go ahead.

- Varun Gajaria:** Just wanted to track back what are our CAPEX plans right now, in case I've missed it so far, is there or do we have any CAPEX lined up now, now that we will be executing our Guatemala lines in the next few quarters?
- Sanjay Gandhi:** So, at a group level, we are looking at a CAPEX in excess of +120 crores plus which is planned for Financial Year '24 across geographies, like in Indonesia we have already incurred the 100% of the CAPEX, Guatemala 40% of the CAPEX has already been incurred. In Bangladesh, around 70% of the CAPEX has been incurred, in India there is a facility expansion, capacity expansion which is happening in Chennai factory that is also undergoing, there is only 15% 20% we have done so far. So, this is about the CAPEX plan we have, so CAPEX will have three component which I mentioned earlier, one is for the capacity expansion almost 50%, 55% of this amount is for the capacity expansion, which should start generating revenue from next financial year. Gradually it will calibrate by the end of the next financial year so it should reach a good capacity utilization level. Then there is a upgradation facility, now upgradation also includes the CAPEX which is incurred for the sustainability and automation of the machinery at different location a different factory. Third is on the maintenance CAPEX which is like machines are getting old and they need to be replaced and some repair and maintenance which has to be carried out and leasehold improvement in various locations. So, these three parts are there on the CAPEX part.
- Varun Gajaria:** Okay. So, can I get a split of the CAPEX in each of the regions at least?
- Pallab Banerjee:** Sorry, I didn't.
- Varun Gajaria:** That is pending.
- Pallab Banerjee:** CAPEX which is pending?
- Varun Gajaria:** Yes, Rs.120 crores of CAPEX in FY24, and in each of the regions around 40%, in Guatemala, 70% done in Bangladesh, so can I get a split of how much we are doing in every region or how much is pending every region?
- Sanjay Gandhi:** I would like to just mention that out of this around 55%, 60% CAPEX has already been incurred, 40%, 45% will be incurred in the rest of the year. And different geographies will have a different stage of completion, Indonesia is already done. Guatemala is 50%, Bangladesh, there are one factory which everything is done, another factory has 30% completion which is more of a capacity expansion by 25%, 30%. In India, also there is a capacity expansion which is taking place and then plus there is a automation of the machinery and maintenance CAPEX. So, automation and maintenance is already incurred, on the capacity expansion is what I mentioned about 20% is what we have already incurred, 80% will be incurred in the rest of the year.
- Varun Gajaria:** Okay. And which quarter are we expecting US to come back in FY25, what is the order book or at least the revenue that we are expecting from the Guatemala facility, now that there's a shift in near shoring also, so how is that panning out?

Sanjay Gandhi: Yes, in our filing when we declared this acquisition joint venture in Guatemala, we mentioned in two-to-three-year time period, it has the potential to reach \$20 to \$25 million, we are on course to in that trajectory only, we are still maintaining those guidelines, and we should be able to achieve that.

Varun Gajaria: Okay. And any challenges that you are facing in Vietnam right now or that still strong that's to look at, in terms of the demand, or wages for that?

Pallab Banerjee: For us, we have strategized for every location, in terms of our capacity fulfillment, and that we are strongly marching. So, when I'm talking about a conservative approach of the global market, we are not saying that we are under booked, or we have a dearth of orders at this point of time. What we are talking about is the growth we had in recent past we have shown that in the year-on-year growth has been like as high as 70% to 80% also. So, this is not that year, that we are talking about as of now, our growth would be limited to maybe between 5% and 7% on an annual basis. From each region, we are strongly on path in terms of the strategy that we have, and the capacity that we have, we are quite confident of fulfilling those capacities. Whether it's Vietnam, Bangladesh, India, and Guatemala. Guatemala is still insignificant, as you can understand from Sanjay's numbers. So, it's still small, but it will be over the next two years, it will become more and more important, as you will see.

Moderator: Thank you. The next question is from the line of Vignesh Iyer from Sequent Investments. The current participant has placed the call on hold. Ladies and gentlemen, due to time constraint, we'll take that as the last question. I now hand the conference over to the management for the closing comments.

Sanjay Gandhi: Thank you, everyone. I hope we have been able to answer all your questions satisfactorily. However, should you need any further clarification or would like to know more about the company, please feel free to contact our team or SGA, our investor relations advisors. Thank you once again for taking the time to join us on the call.

Moderator: Thank you, members of the management team. Ladies and gentlemen, on behalf of Pearl Global Industries, that concludes this conference call. We thank you for joining us and you may now disconnect your lines. Thank you.