

PGIL/SE/2023-24/99

Date: February 19, 2024

THE GENERAL MANAGER,
DEPARTMENT OF CORPORATE SERVICES
CRD
BSE LIMITED
1ST FLOOR, NEW TRADING RING
ROTUNDA BUILDING, P. J. TOWERS
DALAL STREET, FORT,
MUMBAI – 400 001

Reg: Scrip Code: BSE-532808;

THE GENERAL MANAGER,
LISTING DEPARTMENT
NATIONAL STOCK EXCHANGE OF INDIA
LTD.
“EXCHANGE PLAZA”, PLOT NO. C- 1,
G- BLOCK, BANDRA - KURLA COMPLEX,
BANDRA (E),
MUMBAI - 400 051

NSE - PGIL

Sub: Transcript of Conference Call

Dear Sir/Madam,

In continuation to our letter dated February 13, 2024, regarding submission of audio recording of the call conference held with Investors/ Analyst on February 13, 2024, to discuss Company's Un-audited financial results for the quarter and period ended December 31, 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
ICSI Mem. No. ACS-23564

Encl.: As above

Pearl Global Industries Limited

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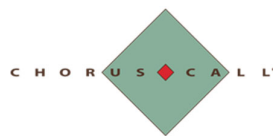
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“Pearl Global Industries Limited
Q3 FY '24 Earnings Conference Call”
February 13, 2024



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

Disclaimer: E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on 13th February 2024 will prevail.

Moderator: Ladies and gentlemen, good day and welcome to Pearl Global Industries Limited Q3 and 9 months 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 involve 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 star then zero on your touch-tone phone. Please note that this conference is being recorded.

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

Pallab Banerjee: Thank you. Hello, good evening, everyone. I welcome you all to our Q3 and 9 months of Financial Year 24 earnings conference call.

Along with me, we have the Group CFO, Mr. Sanjay Gandhi and SGA, our Investor Relations Advisors. I hope all of you have gone through the investor presentation uploaded on the exchange and our company website. We are happy to report highest ever 9-month performance since the inception, demonstrating a promising growth.

This growth is primarily driven by 20% increase in our overseas revenue, particularly from the sales in Bangladesh and Vietnam. However, the revenue from India was negatively affected. This was due to an overall less order and we could relocate some of our production to competitive locations like Bangladesh while maintaining our market share with our customers in a conservative environment.

Now, with the holiday sales in the US being over, all retailers and brands have successfully recovered from the over-inventory situation of last year. Looking ahead, we anticipate a gradual improvement in consumer sentiment, showcasing a resilience and strength of the US and other economies. There are some concerns in the US with uncertainties of election this year and the ongoing wars.

However, on the positive side, we are looking forward to interest cuts by Fed and also across other developed economies. With the expected decrease in the inflationary pressure, we anticipate an overall improvement in textile and manufacturing trade. Despite the challenges, our multinational presence in manufacturing and sales, diversified product offerings, robust design and strong customer relationships have solidified our positions globally, making us the preferred vendor for increasing number of customers.

While amongst all of our export business to the reputed Western customers, this is regarding the Red Sea situation, I must say that while all the export business of the reputed Western customers is done on freight on board terms, that is why the increase of freight costs does not affect the business. And for the customers who are paying these freights have long-term rates negotiated with the carriers, so it is not even affecting them either. However, this

increases the transit time for goods going to Europe and US from India and Bangladesh by one week.

Some US retailers and European retailers are cautious of their inventory and what they are asking the factories to prepone their shipments by one week that's the effect we have seen due to red sea situation. Our manufacturing setup in Guatemala, where transit time is just over a week, is getting more queries and lots of interest from these customers. However, capacity in Central America is limited and would be just a fraction of that of Asia as on date.

Vietnam and Indonesia, is not affected as their vessels, travels through the Pacific Ocean for the West Coast of US, so there is no effect at all. Pearl's diverse location is a huge strength to tackle such global logistics challenges that come up from time to time. In terms of global textiles and apparel exports, China's share has been on the decline and due to various geopolitical factors and rising manufacturing costs, apart from that business from Myanmar shifted to the geopolitics. I will speak once again from the logistics point of view. This is regarding some disturbance that happened in the Red Sea for shipping. In that regard, while most of our export business to all the reputed Western customers is done on freight or FOB terms.

That is why the increase of freight costs does not affect the business. And for the customers who are paying for this freight, they also have long-term rates negotiated with the carriers, so it is not even affecting them either. However, this increases the transit time for goods going to Europe and US from India and Bangladesh by one week.

And some of the US retailers and European retailers are cautious of their inventory and what they are asking the factories is to prepone by one week. That is the effect that we are seeing because of this Red Sea situation. Our manufacturing set up in Guatemala, from where to US the transit time is just over a week, is getting more queries and lots of interest from these customers. However, as you know, the capacity all across Central America is limited and would just be a fraction of that of Asia as on date. Vietnam and Indonesia is not affected as their vessels travels through the Pacific Ocean for the West Coast of US and Pearl's diverse location is a huge strength to tackle such global logistics challenges that comes up time to time.

Okay hello everyone once again. Apologies for the technical incomings that we had. As I was saying, in terms of global textile and apparel exports China's share has been on decline due to various geopolitical factors and also the rising manufacturing costs. Apart from that, business from Myanmar shifted out due to the geopolitics again. For us, our presence in Bangladesh and Vietnam has become more advantageous. So is Indonesia. These countries have seen a boost in their global apparel trade share. Bangladesh in particular has become a leader in the garment factories.

Thanks to substantial investments in green growth, meeting the demands of the consumers of the West. This shift has greatly benefited us, allowing us for more effective factory utilization and improved efficiencies. In regards to the Bangladesh wage revision, as we had

discussed in our last quarter's call, that increase in Bangladesh wages would create an impact between 12 to 15% in our wage bills.

And overall, if I look at Bangladesh's P&L perspective, it changes by approximately 1 to 1.5% compared to the top line. If we continue to operate as is, however, if we have strategies in place to mitigate this increase, which entails more automation, bringing in more efficiency with increase in business and by adding better profile of customers. Okay. So as I mentioned, we have a solid connection with our top five, six customers for over a decade now. These partnerships have really thrived over the years while we have expanded and welcomed new customers on board.

With offices, staff and design teams in USA, UK and Spain, we are able to serve our customers even more effectively and keep our supply chain running smoothly. Our asset light model approach continues to help us to enhance their performance metrics. Looking ahead, we are focused on further boosting our metrics in a similar way.

Our primary objective is to elevate our success to even greater heights by surpassing our previous revenue growth records, which will directly impact our bottom line. We are committed to achieving this goal through a manifested approach. This includes the introduction of new product categories, fortifying our existing customer relationships and expanding their share of wallet.

Moreover, our objective extends to drawing the fresh clientele while nurturing a dynamic, adaptable and inventive workforce committed to bringing Pearl Global's vision to success. We are pleased to announce we are strengthening the Pearl Global leadership team at the Board level with introduction of Dr. Rajiv Kumar, Mr. Sanjay Kapoor and Mr. Ashwini Agarwal. The profiles and a portion of the deck has been uploaded into the exchange.

Their arrival promises to introduce unmatched experience, driving both innovation and success. With their vast expertise, they are set to strengthen the company's strategic objectives, guaranteeing ongoing success in this sector. Their forward-thinking leadership harmonizes effortlessly with our dedication to innovation, bolstering our preparedness for the continual growth within our ecosystem.

Furthermore, we wish to inform that Pearl Global will be hosting an Investor/Analyst meet on 26th of February in Mumbai at Jio Convention Centre to discuss various growth opportunities and way forward of the company over the next three to five years. The formal invitation, consisting of all details, will be uploaded on the Stock Exchange soon and we would be happy to meet everyone and discuss our strategy for the future growth.

Now, I would like to hand over the call to Mr. Sanjay Gandhi, our Group CFO, who will provide you with the insights of financial performance. Sanjay, over to you.

Sanjay Gandhi:

Thank you, Pallab. Good evening, everybody, and welcome to our Q3 and 9-Month FY'24 Earning Conference Call. Coming to the financial and operational performance of the company, we have reported the highest ever nine-month performance.

On a consolidated basis, nine-month FY'24 revenue increased by 5.4% year-on-year to INR2,558.8 crores on account of improved capacity utilization from Bangladesh and Vietnam factories and our multi-vessels. Our India revenue saw an adverse impact due to shifting of sales from turnover to competitive location like Bangladesh.

On a consolidated basis, adjusted EBITDA, excluding the ESOP expenses, showed that INR2,32.5 crores for nine-month FY'24 as compared to INR192.7 crores for nine-month FY'23, a growth of 21% year-on-year, while margin improved by 120 bps year-on-year from 7.9% in nine-month FY'23 to 9.1% in nine-month FY'24.

ESOP expenses for nine-month FY'24 stood at INR6.1 crores. Nine-month FY'23 had no ESOP expenses. The factor contributing to the margin enhancement was enhanced operational efficiency and increased profitability due to improving efficiency in Bangladesh and Vietnam units.

Finance costs increased from INR48.9 crores in nine-month FY'23 to INR60.9 crores in nine-month FY'24 on account of increase in Factoring costs for receivable financing, increase in interest costs on short-term and long-term borrowing, and interest for lease amortization.

Our return on capital employed improved from 21.9% in nine-month FY'23 to 26.3% in nine-month FY'24 due to improved asset turn and improvement in profitability. This is calculated on a 12-month trading basis.

Reported PBT for nine-month FY'24 was INR137.7 crores and was INR190.9 crores for nine-month FY'23, a growth of 15% year-on-year basis. PAT stood at INR120.1 crores, a growth of 20.5% year-on-year basis.

Revenue for the quarter stood at INR704 crores, adjusted EBITDA for quarter three FY'24 stood at INR68.6 crores compared to INR73.2 crores in quarter three FY'23. Quarter three FY'24 margins stood at 9.7% versus 10.2% in quarter three FY'23.

Effective tax rate was lower on a group basis due to high concentration of profit in overseas entities. PAT for quarter three FY'24 stood at INR33.8 crores compared to INR37.4 crores in quarter three FY'23.

Coming to standalone performance, revenue for nine-month FY'24 saw a dip of 24% year-on-year to INR633.6 crores. Our adjusted EBITDA saw a dip of 40% year-on-year for nine-month FY'24 from INR48.2 crores to INR28.7 crores in nine-month FY'24.

PAT for nine-month FY'24 stood at INR16.3 crores, a drop of 37% year-on-year basis. Quarter three FY'24 revenue stood at INR157.6 crores, adjusted EBITDA stood at minus INR-0.8 crores. PAT grew by 52% to INR3.5 crores. This was because the tax rate had decreased due to non-taxable pass-through dividend income.

The stand-alone business saw an impact due to shifting of order to BD and slack in demand. However, we believe the worst quarter is behind us and going ahead we are confident on the

industry growth and we believe that our company is best placed to capture the largest high of this opportunity.

Regarding Bangladesh wage increase impact on earnings, which we have already mentioned by Pallab that it is approximately 1% to 1.5% of Bangladesh top line in their P&L. However, from the risk mitigation perspective, there are many measures which have been taken. As such, we don't see any adverse impact on earnings in the coming quarter.

Furthermore, KPMG has been designated as our statutory Auditor in Bangladesh as a strategic step towards fostering good corporate governance practices in overseas operations. At this moment, overseas operations contribute more than 80% of our profit. This commitment reinforces our dedication to fortify our corporate governance framework.

Thank you. We shall now open the floor for questions and answers.

Moderator: Thank you very much. We will now begin the question-and-answer session. We have our first question from the line of Prerna Jhunjunwala from Elara Capital. Please go ahead.

Prerna Jhunjunwala: Thank you for the opportunity and detailed presentation and outlook. I would still want to understand how is your order book stacking up given that you are saying that we should expect gradual improvement in demand scenario. So, could you just help us understand what kind of growth should we expect or how muted the scenario is for the next two to three quarters?

Pallab Banerjee: Thank you. When I spoke about the conservative approach in terms of the demand, that's because of the macro factors that is prevailing all over the world, whether the elections across so many democracies of the world and also especially USA and the war situation that we are seeing.

In terms of order book, yes, we are exercising all our strategies that are in place. So, in the short term, for the next two quarters, we are not seeing any dearth of orders at this point of time to fill up our order book.

But, yes, in the long term, these are the risks that the market still has. I would say, as we are seeing in the U.S., Trump's presidency option is becoming more and more clear. So, there are certain companies which are going to go conservative at this point of time.

So, those ups and downs will continue to be there in the market. And that's why we said, on the other hand, if the interest rates starts going down, that should definitely help the market to go up in terms of the consumer behavior.

Prerna Jhunjunwala: Okay. Understood, sir. So, sir, what kind of capacity utilization should we be operating in for the next two quarters? I am still not very clear on the near-term scenario. I missed your voice.

Pallab Banerjee: See, like what we had in the last three quarters, two to three quarters, where most of the manufacturers had to take a slow approach because the demand in the USA has especially

gone down because most of the retailers had a lot of over inventory. And they bought in the earlier year, but were selling till this holiday season this year. What I am saying is, the problem that we had over the last three quarters where not only us, I think you must have heard from others as well, like the order book scenario was not so good because they had a lot of inventory, especially in the U.S. market.

So order book that were coming from the U.S. market was slow and muted because most of the retailers had inventory from the earlier year. So that particular problem is now behind us. In their holiday season, which ended in December, most of this inventory or over inventory position that they had has been cleared.

So now it is that how robust did they see the market or the consumer demand? So when I speak of a conservative approach in terms of consumer demand, that is being more of a normal term compared to last year's situation that we are facing. So yes, compared to last year, the order books are much better.

Our capacities are filled. Our order book is full at this point of time for the next couple of quarters. So we do not see any problem in order books in the short term. But yes, whether the market would go a gung-ho and or full force at this point of time, there I feel this when I speak to our customers in all the -- especially in the U.S. and all, we see that there is still a conservative approach for them.

But remember one thing, like when they had an inventory situation, they were buying almost 30% to 40% less. compared to any conservative approach that they would be doing. They might be buying only 5%, 7% less. So as a market, we do have a play of more than 25% from year-on-year in terms of US markets, especially other markets continue to be normal and we are not seeing a big change, either negative or positive at this point of time.

Prerna Jhunjunwala: This is very helpful.

Pallab Banerjee: Did I answer your question? Yes. Thank you.

Prerna Jhunjunwala: And second, how are the margins now given that demand is picking up? So are we in a better position to command some pricing and improve our margins further or is pricing pressure prevails in current scenario?

Pallab Banerjee: So the pricing pressure that happens because of raw material prices and the capacity, like open capacities or unfilled capacities across the globe. So that situation is definitely getting better, which was there earlier. So that is definitely getting better. But it is not to that extent as of now that you can see a huge rise in the raw material prices or any other things.

So as of now, I would say it's much better than last year. But if you talk of 2021-22, when really like the raw material prices went to the roof because there was a huge demand, that situation is not foreseen as of now.

Prerna Jhunjunwala: Understood, sir. Thank you for the detailed answers. I'll come back to the question to you for any further questions. Thank you.

- Pallab Banerjee:** Thank you so much.
- Moderator:** Thank you. The next question is from the line of Dhruv Shah from Ambika Fincap. Please go ahead.
- Dhruv Shah:** Hi. Thank you for the opportunity. My first question, Pallab, is on your current quarter. So will you attribute the de-growth mainly due to Bangladesh problems the industry is facing in Bangladesh?
- Pallab Banerjee:** No. As we mentioned that you -- what would happen in this particular quarter, we had a situation in which our order books were less and because the US market was not placing their business. Like I'm sure like you have heard it early as well. When the US had an over inventory situation, they were placing almost 25%, 30%, 40%, even certain customers were placing less compared to what they normally buy.
- So that resulted in the preference of the country that goes in is Vietnam and Bangladesh for us because their capacity and the cost competitiveness that we could get there is much better than what we had in India. So as a result, some of the orders that we prefer to service from Bangladesh compared to India on that last quarter.
- So our dip, if you can see, is more in India compared to the other places like Bangladesh and Vietnam, where our order books actually went up. That's a strategic decision that we took to make sure that we hold to the wallet share of our customers. Does that answer your question?
- Dhruv Shah:** So can we see a current quarter, are we seeing business as usual in Bangladesh?
- Pallab Banerjee:** Yes, yes. Bangladesh, we don't see any disruption. So before the election, there were some kind of disturbance, I think, which you must have read in the media. But for example, our factories, we have four big, large factories out there and some other partner factories. So, only one of the factories was affected for about two and a half or three days. Apart from that, we never had any kind of problem.
- So as a result, Bangladesh, before election, there were a lot of what you call stoppages and all that we could see in the media was to make sure that they were the opposition or maybe the workforce was trying to make sure that the wage increase happens in time. So once that had happened, after that, work has been quite normal. We haven't seen any kind of disruptions.
- Dhruv Shah:** Right. Right now, we have 44% of our capacity in Bangladesh. So in three years down the line, what kind of percentage will Bangladesh contribute to your top line? I just wanted to have a rough figure of Bangladesh in your overall scheme of things?
- Pallab Banerjee:** So our strategy is to have -- in any location, we are not going like overboard. So we should continue to see about anywhere between 30% to 40% from Bangladesh. Let's say 35% is our goal. But in that range, we'll continue. So you'll see similar kind of growth will be happening in India and Vietnam and other places also. But yes, there are a lot of opportunities at this point of time in Bangladesh because they had recently had a wage increase.

So naturally, the factories which were inefficient or which are not fully, not well managed, there are some people like who will be slowing down or getting out of business. So there is definitely a lot of shake will happen in Bangladesh, which is happening as we speak. And that is an advantage that we'll be having.

Dhruv Shah: Right. Right. And on the growth per se, can we expect you guys to clock in 15% to 20% what you have been guiding for next year on the current year base?

Pallab Banerjee: As of now, that we think in the world, yes, we should be clocking that. -- The challenges comes up. I think both the wars that is happening in Ukraine and a lot of effort is being done to contain those wars and put back the economy of the world economy on track. So as with what we are seeing as of now, we don't see any challenge to get to our target.

Dhruv Shah: Right. Right. And one bookkeeping question for Sanjay. What kind of tax rate should we model in our -- should we model because it's been up and down?

Sanjay Gandhi: Yes. Yes, the tax rate should be taken anywhere between 16% to 18% on a steady state basis. And this year, the India contribution to the profit pool is less. So larger part of the profit is in overseas entity, which has a lower tax rate. And therefore you're seeing this fluctuation coming up. But on a steady state basis, we believe that between 16% to 18% should be our effective tax rate.

Dhruv Shah: Fair enough. Great. Thank you so much for the opportunity.

Sanjay Gandhi: Thank you.

Pallab Banerjee: Thank you.

Moderator: Thank you. The next question is from the line of Dhyey from Niveshaay Investment Advisors. Please go ahead.

Dhyey: Good evening, sir. Congratulations on the good set of numbers. I wanted to ask that in one of the previous calls, you mentioned that the US market has started procuring from the near areas only. And that is the reason why we set up a central America plant. So is this change a long term thing? Or would it be the US procuring material from other markets as well? So like India, Vietnam, etcetera?

Pallab Banerjee: See, the sourcing ability that is there in the central American market is only a small fraction of compared to when you compare to the USA, sorry, the Asia, Asia sourcing. That means like Asian countries like Vietnam, Bangladesh, India, Sri Lanka, Pakistan. So all these countries, the kind of large capacity that we have the numbers. So I can give you an example like even India, like our export is about \$18 billion, \$16 billion. Between \$16 and \$18, we're moving, I think hopefully we'll touch \$18 soon.

So that compared to that, Guatemala ships only \$2 billion as a country. So naturally, it's a very small fraction of what Bangladesh and Vietnam and India and Indonesia can do. So there are some investments that is going on there. The costs are high. Their minimum wage

and everything like you have to plan for at least about \$400 to \$500. That kind of wage is there.

So even like some of the players like us and some of our other colleagues have definitely opened up some kind of production unit there. Also, the limitation would be in terms of raw material. They don't have as many mills or as much of cotton or other growth that is happening in this part of Asia is not there. So, yes, for the US retailers, they want to mitigate risk.

They might move about whatever 3%, 4%, 5% kind of sourcing into Central America. Some people might go a little higher percentage, maybe going up to 10% to 12%. But they cannot shift a very large chunk of their manufacturing into that market. So Asia will continue to be important.

And as we are seeing geopolitically, as China and Myanmar is going like it's reducing in terms of apparel manufacturing and trading internationally. So that's a very huge chunk of business that will be flowing into the other countries of Asia. So for now, it's not a big concern. But yes, we went strategically to the central market because Central America market because our key customers, where we are very closely working with.

So they wanted that we have a presence there and they were guaranteeing certain amount of business. It will not be a large, it will be much smaller fraction of a total business. But yes, it definitely helps in terms of our presence in that area and customer servicing that we want to do. And it's not that it's not profitable. So it's definitely something smart to do.

Dhyey: So like right now, the Guatemala plant is sourcing just to the North America, right?

Pallab Banerjee: Yes. Guatemala plant would be supplying to only North America market.

Dhyey: I also wanted to understand this, that geographical EBITDA are very fluctuating in nature. So why is that? So the geographical EBITDA which we have is very fluctuating in nature. So can you explain why is that so?

Pallab Banerjee: Sanjay will take the geographical EBITDA.

Sanjay Gandhi: Fluctuation in EBITDA for the group level. So group level, I think we are consistently improving EBITDA. There is a fluctuation in EBITDA in the standalone entity for the reason the top line is really gone down in this quarter, which has impacted adversely because our fixed cost remaining the same, that could not be leveraged with the lower turnover, which we hope that in coming quarter it will get addressed.

Otherwise, if you look at our EBITDA trajectory, I think it has been in upward direction, plus minus 0.5 bps only. And we believe that we should continue to improve the EBITDA as we go into the next financial year as well.

Dhyey: Correct, sir. Sir, I also wanted to understand this thing, that if we get an order from a particular geography, so just for example, let's say we got an order from North America. And

is it any correlation between the plants which will supply from like the Bangladesh plant or the Indian plant, or it can go from any of the plants?

Pallab Banerjee:

So normally for every location, we have certain products which we develop from each of these locations, which are like as Pearl, we do about six different categories of product. So that means like pants, t-shirts, woven tops, outerwear, swimwear, sleepwear. So every plant is like, you know, have got some kind of specialization which we utilize.

For this particular quarter, Q3, which may be like, you know, giving rise to this question that you're asking, is where we had some quality product, which was originally made in India, and we took a decision because of the pressure that we could get still better margin out of Bangladesh, which was a quite extraordinary situation, I would say, that was happening because of the less or over-inventory situation in USA, which resulted in much lesser order. And the market was super competitive and the margins were hit all across.

So in that period, we took some smart decision, which we, so that we can maximize our return to all of you. So that's, that's something like was an exceptional situation that Pearl as a company is ready to execute like that. But in general, like our strategy and our infrastructure exists in a way so that each category is being serviced from a location which has got its specialty.

Dhyey:

Correct, sir. Thanks a lot. That was really helpful.

Pallab Banerjee:

I hope it explains or should I explain more?

Dhyey:

No, no. I'm clear with my doubts, sir. Thank you.

Pallab Banerjee:

Thank you.

Moderator:

Thank you. The next question is from the line of Rohit Mehra from SK Securities. Please go ahead.

Rohit Mehra:

Yes. Thank you for the opportunity. So my first question is, what are we doing to improve our Indian operations and performance?

Pallab Banerjee:

So India, I think we are in strong wicket. Like we are seeing definitely a lot of demand. Like you see, like India, we had specialized, for example, Pearl specializes in the items like women's blouses, shirts, sleepwear, and those kind of products, which are lighter weight fabrics. So we are seeing good demand and good order book situation on that.

So there was a situation, as I mentioned, in the last quarter, which was the drag end of our over-inventory situation of US. And we could see and we could foresee that situation that was coming up. So we had worked with our customers to ensure that we can give them a better price or hold on to their better wallet share and also generate better return for our investors.

So that's something with a decision that we are taking. But in general, India is in a strong wicket and we are experiencing growth in the coming year as we are seeing the demand and the responses from our customers.

We would be exploring more options in India, like to expand into other states as a lot of initiatives are coming from the government of India. So that growth plan and that strategy is we will continue to update you about how we plan it up for the next few years. So I think we are on track from India.

Rohit Mehra: Okay, understood, understood. And can you share the expected top line and bottom line based on the target sets of FY25? And what is our capex plan for FY25?

Sanjay Gandhi: So I just want to say that, you know, we have already stated that we are looking at a 15% to 20% top line growth for the next three years. And that guidance still remains there. We, with the kind of capacity what we have, we are in the customer relationship, which is getting developed and the demand scenario, which is changing.

We are confident of achieving 15% to 20% top line growth in the next three to four year time. As far as the capex is concerned, this year we have done INR120 crores of capex. We have committed a capex of INR120 crores, out of which INR90 crores has been incurred, which is a mix of automation, which is a mix of capacity enhancement and certain replacement.

I have given the percentage in my last earning call, I can mention that out of INR90 crores, INR50 crores has gone in capacity enhancement and INR30 crores has gone in automation and modern laundry equipment, which we wanted to have in Bangladesh. And INR10 crores is towards replacement of machinery. Going forward in next financial year, I think every geography will have their capex requirement.

We are compiling the capacity requirement. I think we should be in the similar range of INR80 crores to INR100 crores capex across geography. But at the same time, every capex is looked at its merit of return on capital employed. But looking at the opportunity which lies ahead, I think we should be having this kind of capex as a first cut number to start with.

Rohit Mehra: Yes, got it. Thank you for your detailed answer. So that answers my question and all the very best. Thank you.

Sanjay Gandhi: Thank you.

Moderator: Thank you. The next question is from the line of Anurag Agarwal from Agarwal Analytical Investments. Please go ahead.

Anurag Agarwal: Hi, sir. Thank you for the opportunity. It was very heartening to listen that we've hired KPMG as an auditor in Bangladesh. Could you throw some light? Are we going to hire big four auditors for Vietnam and other locations as well?

- Sanjay Gandhi:** Okay, I just would like to update. I think in the previous call, we did that. So in Vietnam, we have a Deloitte as statutory auditor. In Hong Kong, we have Ernst & Young as a statutory auditor. In Indonesia, there is a tier two firm which is Topper in tier two. That's an auditor.
- In Bangladesh, we have now KPMG. So overseas location, we already have the big four working as statutory auditor. The reason is our profit and the revenue and the capacity is also overseas maximum at this point in time.
- So the need of centering the governance framework was felt in those overseas locations and that's how we have been making a change of the auditor once the terms are getting over to strengthen our governance framework.
- Anurag Agarwal:** Got it. Another thing, sir, you mentioned that in Bangladesh, the wage hike will have an impact of about 1%-1.5% on our EBITDA, but we are planning to negate them through automation or through getting more premium clients. So are we close to adding any new client out there?
- Sanjay Gandhi:** Sorry, I just want to clarify before Pallab can go ahead. It is 1%-1.5% of top line of Bangladesh country. It's not a group turnover, only Bangladesh country.
- Pallab Banerjee:** So yes, we are going through all the three strategies. That means better efficiency and dedicated production lines. Second would be to increase the top line to have more volume so that our overheads can be distributed over more.
- And the third would be to have customers like who are with better margins or better service level to provide and get a margin as well. So all these strategies in place, yes, we are in close communication with new customers, which we are starting soon.
- Anurag Agarwal:** Sorry, I didn't get the last part. Could you repeat the last part?
- Pallab Banerjee:** Yes, I said like, you know, your question specifically was that addition of new customers happening or not. So yes, we are close to that, definitely.
- Anurag Agarwal:** Okay, that's great to hear. And the last question is...
- Moderator:** I'm sorry to interrupt. May I request that you return to the question queue?
- Anurag Agarwal:** It's a very small question. Last one, if you may allow. Like there's going to be a Bharat Tech Expo in Feb only. So is your company going to participate in that?
- Sanjay Gandhi:** Yes, sure, definitely.
- Moderator:** Thank you. The next question is from the line of Pulkit Singhal from Dalmus Capital Management. Please go ahead.
- Pulkit Singhal:** Hi, thank you for the opportunity. At the outset, we would like to congratulate the management for significantly turning around the operations in the last two years, despite challenging times. And also, particularly for strengthening the corporate governance

initiatives when it comes to independent directors, as well as having big four auditors in the subsidiary.

We hope you would also consider the big four auditors for the stand-alone entity and India entity as well in the future. Secondly, just, you know, given, I mean, you sound more optimistic now in terms of the potential demand going ahead. How do we understand what would be the peak revenue potential from your current capacities, assuming the current level of raw material prices and some reasonable mix, whatever you think is right? What would be that figure?

Pallab Banerjee: So, as we mentioned that our goal or what we are working for definitely in that 15% to 20% range of growth. And compared to what happened two years back, where there was a lot of inflation in the raw material prices, which was also increasing or inflating the top line. So, compared to that, like even in our current price range, we are talking about this kind of growth that we have targeted for ourselves. So, that we continue and we are confident of achieving that.

Pulkit Singhal: What I meant, Pallab, was when does the capacities get to work? So, if you achieve 15%, 20% growth for the next year, does that mean you're operating at 90% utilization at that point? Or do you still have room to grow?

Pallab Banerjee: Yes, definitely we have room to grow. If you had seen like originally the kind of infrastructure that we have across all the region, we have with minimum capital expenditure, we can grow to almost up to about another about 10 million pieces plus. We are currently I think in the range of about 60 million pieces.

And with some investment, for example, certain growth that we are having in our factories, where we are increasing the number of machines, the number of lines, with that kind of minimal capital expenditure, we can grow up to about 80 million, 84 million pieces annually. So, that's the current infrastructure that we have. But that doesn't mean that we are not looking for more opportunities and options. So, that we continue to have. We may start a couple of additional factories over this year or so, both in the countries where we are present very strongly. So, that will continue to happen as we see.

In fact, if we go more than that, this current 15% I think should be workable. But even if we see that, okay, there's more potential and we're bringing in additional customers, they've come out strong with us. So, we can quickly go and have additional factories also with us.

Today, we have that plan and options ready for us.

Pulkit Singhal: Right. I mean, currently, you're closer to 50 million pieces, I think, in terms of shift capacity. So, that 50 can kind of go till 80, 84 with smaller capacity.

Pallab Banerjee: Yes. So, last year, we saw that we were around 54. Compared to that, I think we should be because the raw material prices have really gone down compared to the year before.

So, even the kind of growth that we will be achieving this particular year, you will see that number of pieces has definitely gone. And I think that will continue to go up again in the coming year. So, yes, currently, what we're talking about is on the current raw material prices, which we don't see immediately to go either way down or up.

So, with that thing, assuming that remains constant, we're still on path to the regular growth that we are promising you.

Pulkit Singhal: Okay. And are you looking at any M&A in the future? Is that something you're working on?

Pallab Banerjee: So, we took that, today's capital as we took that option approval from our board. So, we are ready for that. So, if some good opportunity comes up, why not?

But as of now, I would say, like, more of the kind of infrastructure that we have, we are planning more on that basis. But yes, we are always on the lookout for good options.

Pulkit Singhal: And in terms of the margin profile, which is the potential margin profile, let's say, as you scale up two years, three years, four years out, I understand there's an element of product mix as well. You're already at closer to 9% kind of margin and you are guided to double digits. But I'm just trying to understand, is this business, and given Pearl Global model, which is different from other governing companies in India, I mean, is this, is the band more like a 13 to 15 kind of percentage margin business that is possible? Or is it more on the lower end in terms of double digits that is there?

Pallab Banerjee: Sanjay, would you like to answer that or?

Sanjay Gandhi: Let me just take this question.

Pallab Banerjee: Yes okay.

Sanjay Gandhi: So in terms of the margin trajectory, I think one is that, with the, your question was whether three years down the line, when we achieve those kind of a growth in top line as to where the margin can go. So let's say that we are achieving that 15% to 20% growth, I think we should be looking at definitely 3% to 4% improvement from where we are right now.

Given the leverage, it will play out over a period of time, the given that, the infrastructure, which is already built in terms of design, marketing, and group structure we have to facilitate that growth. Now going to 13%, 14%, 15%, I think it's, I mean, some of our factories are already generating that kind of a margin. So as you mentioned in your question itself, it's a question of product mix, which prevails.

I think it is always a combination of which product prevails and how do you really capture the wallets here. So once you try to balance it out, maybe there is some averaging happens. But yes, there are certain styles which already generate 13% to 15%.

And a few factory, couple of factories are already working on that parameters. So I hope I am able to give you, so there is no clear direction in the sense of 13% to 15%. But yes, there

is an opportunity exists in certain pockets in the given segment where you can achieve that number.

And on a blended one, 12%, 13% can be achievable if three years down the line when we are looking at, or when we keep on achieving 15% to 20% growth year on year basis.

Pulkit Singhal: Understood. Very clear. Thank you and all the best.

Sanjay Gandhi: Thank you.

Moderator: Thank you. The next question is from the line of Pulavarthi Saikiran, an individual investor. Please go ahead.

Pulavarthi Saikiran: Yes. So just one quick question. Your business seems to have a very high fixed turnovers, probably in the range of six currently, but even if I look at in the last 10 years, we hovered between four to six times.

Looks like reasonably higher when compared with other peers, more so in the textile industry. What explains this and how do you see this going forward so that we can just get a handle on what kind of capex you might be needing? Thank you very much.

Sanjay Gandhi: Thank you for your question. Asset turn in our business normally is 4 to 4.5, when the factories are operating at their peak level, it means the operation has stabilized post the start of the new operation. And as the, as the operation keeps on going, let's say 570 down the line, the assets start increasing naturally because the depreciation set will keep on generating.

The life of the asset is already 10 years, 12 years plus. So which means that your asset goes on the higher side as the assets keep on aging in that sense. And there is a very nominal repair and maintenance expenses one incurs towards that.

Now, the second asset turn component is, the combination of own capex plus the partnership factory. To give you an example that, if we have four, our own factory in Bangladesh, one in Vietnam, we have a similar amount, similar number of factories, which are working on a partnership model, which means that, with the same amount of infrastructure, you're able to actually finance your turnover. So that's why, the asset turn will always be with our focus on the asset light business model.

The asset turn will be sustainable in, within five to six levels in years to come also. And in India also, our strategy is to work in a model where the investment is not very heavy in the figure set, where we are able to generate easily four to five kind of asset turns. So on a steady state basis, I think when the operations start in the initial period, when the new operations stabilize it, anywhere between four to five should be the norm we expect our milk factory to generate.

Pulavarthi Saikiran: Thanks for this. Just one thing, if you can just elaborate further, you said regarding the partnership model, is my understanding right that they will put in or they will share the capex and hence asset turns will be higher? That's what you were suggesting?

- Sanjay Gandhi:** Yes. So currently the structure is that there are many factories which are already operating, but they lack marketing design capabilities. So that's where the pearl joint hand with them, use their infrastructure and get a marketing order to them to provide the quality inspection and everything.
- And we also provide a working capital arraignment in terms of sourcing of fabric to control the quality of raw material which goes into government. And that helps us in terms of improving an overall asset utilization.
- Pulavarthi Saikiran:** Do you find this more scalable, sir? So you would, if you have to think for the next few years, you will be in a position to identify more opportunities like this, hence you will be able to scale it up further across the geographies, or is it this model is more specific to any specific geography as such?
- Pallab Banerjee:** Yes. So wherever the market, the production manufacturing market is more matured, this particular model exists more cohesively out there. In India, it's still less.
- But if I look at Bangladesh and Vietnam, where who does a substantial contribution to the world trade or world manufacturing. So there, this model is much more prevalent. So, at Pearl, you will see that almost about, about 10%, 15%, 20% of our business would always be in this model, where capital expenditure may not be asked fully.
- Pulavarthi Saikiran:** Thanks a lot. This is really helpful. Thank you. Highly appreciate this. Thank you.
- Pallab Banerjee:** Thank you.
- Moderator:** Thank you. As there are no further questions from the participants, I would now like to hand the conference over to the management for closing comments. Over to you, sir.
- 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, Investor Relations Advisor.
- Thank you once again for taking the time to join us on the call.
- Moderator:** On behalf of Pearl Global Industries Limited, that concludes this conference. Thank you for joining us. And you may now disconnect your lines.