



Exceeding Expectations...Always

“Pearl Global Industries Limited
Q3 and 9M FY '23 Earnings Conference Call”

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**MANAGEMENT: MR. PALLAB BANERJEE – MANAGING DIRECTOR –
PEARL GLOBAL INDUSTRIES LIMITED
MR. SANJAY GANDHI – CHIEF FINANCIAL OFFICER –
PEARL GLOBAL INDUSTRIES LIMITED
SGA – INVESTOR RELATIONS ADVISORS**

Moderator:

Ladies and gentlemen, good day and welcome to the Q3 and Nine Months FY '23 Earnings Conference Call of Pearl Global Industries Limited. 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 touchtone phone. Please note that this conference is being recorded.

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

Pallab Banerjee:

Thank you. Hi, good morning, everyone. And I welcome you all to our Quarter 3- and nine-month financial year '23 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.

So, despite the tough market condition, owing to inflationary pressure and the macroeconomic challenges, I am happy to state that we have been able to deliver a healthy top-line and a bottom-line. One of the major reasons for this is our global competitive advantage, keeping us at par with our global peers, I would say.

We are present in eight different countries having our manufacturing facilities and design offices. This multinational presence over more than a decade gives us this advantage and the leverage, scale and react to the changing business needs at a faster pace. Contribution from a single country is not more than 35%. This mitigates our risk and dependence of any particular location. Our diversified product offering with a robust design team ensures we have on trend product basket available in a close proximity on the time zone of the customers that we have, and this in turn enhances the customer serviceability and the relationships.

We have a longstanding relationship with our top five customers. Four out of these five are more than a decade old. Established offices with employees and design team in US, UK, Spain, helps us service our customers much better. We do realize the importance of being an asset light business model and our consistent endeavour is to work on improving our return ratios, as you can see.

Our ROCE has improved from 12.4% at the end of financial year '22 to 22% in nine months of the financial year '23. This is calculated on a 12-month trailing basis. We are on our path to be a large manufacturing company with our base across the geographies, which gives us the platform to win diversified order contracts and hence despite these short-term challenges posed

by the global slowdown at this point of time, we are still confident of achieving our vision on a longer-term basis.

We are standing by our promise of improving our operating profitability and return ratios. We continue to work on maintaining the same momentum. Having said that, the cascading effect of the global sluggishness has led to a relative slowdown of the growth in our order book for the short term. Margins of the coming quarters would be suppressed when compared to the quarter of financial year '23. Quarter 3, on account of this international and domestic slowdown that is still prevailing. We however anticipate that the margins for the full year to be a high single-digit on account of improved efficiency and improved capacity utilization at all our facilities.

With this, I would now hand over the call to Mr. Sanjay Gandhi, our Group CFO, who will run us through the financial performance of the company.

Sanjay Gandhi:

Good morning, everybody, and welcome to our Quarter 3 and nine months financial year '23 earnings 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 '23 revenue increased by 34% year-on-year to INR 2,428 crores on account of improved product mix, better realization per piece, improved capacity utilization from Bangladesh and Vietnam factories, and improved operational efficiency in Bangladesh.

Also from Quarter 3 FY '23 onwards, the Alpha unit that we had acquired earlier this year has also been fully integrated. Overseas revenue continued to contribute 65% of the Group revenue. On a consolidated basis, EBITDA for nine months FY '23 stood at INR 193 crores, a growth of 91% year-on-year, while margins improved by 2.39% year-on-year from 5.5% in nine months FY '22 to 7.9% in nine months FY '23.

Reasons for this improvement in margins were improved profitability in overseas operation, led by consistent improved profitability in Vietnam operations, integration from Alpha acquisition, better product mix and improved operational efficiency. Reported PBT for nine months FY '23 was INR 120 crores, and PAT stood at INR 100 crores, a growth of 140% year-on-year. On a consolidated basis, revenue for Quarter 3 FY '23 grew 2% to INR 717 crores.

EBITDA grew 71% from INR 43 crores. Quarter 3 FY '23 margin stood at 10% versus 6% in Quarter 3 FY '2022. Margins for next quarter may see a dip quarter-on-quarter owing to the slowdown in the order book. We would end this year with high single-digit margin, and our endeavour is to work on achieving a stable state double-digit margin in the medium to long term supported by the stable global economic condition. PAT for Quarter 3 FY '23 stood at INR 37 crores, a growth of 120%.

Coming to the standalone performance, revenue for nine months FY '23 grew 42% year-on-year to INR 829 crores mainly due to a strong first half. Our EBITDA improved 79% year-on-year for nine-month FY '23 from INR 27 crores to INR 48 crores, mainly on account of operating leverage and improved operational efficiency.

Nine months FY '23 reported PBT stood at INR 32 crores, a growth of 61% year-on-year, and PAT for nine months FY '23 stood at INR 26 crores, a growth of 80% year-on-year. Going ahead, in mid to long term, we are confident on the industry growth, and we believe that our company is best placed to capture the larger pie of this opportunity.

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

Moderator: Thank you very much. We will now begin the question answer session. The first question is from the line of Nisarg Vakharia from NV Alpha Fund Management.

Nisarg Vakharia: Dear all, good morning, gentlemen, and good job at the margins in this quarter. Sir, you have attributed the margin expansion to synergy benefits coming from your recent acquisition. But generally, those benefits come below the gross margin level. And in this quarter, we have seen one of the highest gross margins. Just wanted to understand the sustainability of these gross margins.

Sanjay Gandhi: Yes, hi, good morning. This is Sanjay Gandhi. So the margin improvement, firstly, is a combination of two, three factors. One is, there is a continued improvement in Vietnam operations in Quarter 3 as we have witnessed in H1 of this financial year. Secondly, Bangladesh operations per se have shown considerable improvement when we compare year-on-year basis. Third of course is an Alpha unit which got integrated from this quarter onwards. There has been a margin improvements. So three largely are contributing to the marginal improvement.

Nisarg Vakharia: All these three categories are a better product mix than what we do otherwise, which would explain why the gross margins are higher?

Sanjay Gandhi: Yes, so it's a combination. If you'll see Vietnam, yes, we have seen a continued improvement in the product mix and therefore, realization per unit, which is FOB price have almost 80% more consistency in all the three quarters. And we see that this trend to continue. Of course, then it can be a macroeconomic environment in short term, which may have a slight impact, but otherwise, we feel that with our factory already establishing those credential of manufacturing all these high-end product with a high realization and higher margins, the demand should continue for those factory.

Secondly, the operational improvement, which has been there in Bangladesh, I think there is every reason for us to believe that operational efficiency, where we have already achieved, we'll continue to improve thereon.

Third, as we discuss about the Alpha acquisition, at the time, we mentioned that we will be targeting any concrete acquisition or the major capex, return on capital employed between 15% to 20% in the first year, and in the next two three years, stabilizing around 18% to 20%. And we also mentioned Alpha acquisition will be revenue and EBITDA accretive from the first year itself. And this is where the operational efficiency of Alpha, and that's why we targeted that unit and in the first year itself, we are able to get return on capital employed in the range of 18% to 20% for Alpha. And we believe that this should continue as we mentioned that with global

economic environment getting stabilized, I think the operational efficiency, which we have already achieved, that should continue the trend.

So, in a way, with all the economic environment getting stabilized, there is every possibility for margin to sustain in our overseas operations.

Nisarg Vakharia: **Ok thank you for the clarification.** Also, when I look at your nine-month performance in terms of top-line, y-on-y, how much of that performance would you attribute to higher FOB prices due to elevated price of cotton, and how much of it is due to volume?

Pallab Banerjee: So Mr. Vakharia, like what happens in our industry is that most of the customers that we're working with, we are doing season by season kind of booking of raw material and the product and the prices are finalized. So normally, if the raw material prices are going up, in general, the trend in the industry or that we follow is to pass that to the customer. Similarly, it goes the other way around as well.

Nisarg Vakharia: Yes, my question is that only, sir, that what is the reason of top-line growth, if you can divide it into price and volume. What is the volume growth that we've had on a nine-month basis?

Sanjay Gandhi: So, volume growth, if you really see...

Pallab Banerjee: We have published that here.

Sanjay Gandhi: We are almost producing and shipping the similar number of pieces, which is a 40 million pieces, if you see our...

Pallab Banerjee: Nine -month...

Sanjay Gandhi: Presentation on a nine-month basis, it's 40.7 million. This is against 40.1 million. So it's largely the volume basis, there is not much significant growth. However, the FOB price, because it's a better product mix. Secondly, you already mentioned about the cotton prices, raw material increasing and that has

Pallab Banerjee: First half of the year.

Sanjay Gandhi: That is the first half of the year has also helped in terms of the revenue growth.

Moderator: The next question is from the line of Vishal Prasad from ET Capital. Please go ahead.

Vishal Prasad: Hi, good morning. I have a few questions. If I look at our history, probably starting from 2011 till now, in earlier four, five years, our margin used to be 2% to 1%. And suddenly, it changed in 2014 to 2015, where revenues went down and margin went up. And then again if I look at '22, this sudden change in terms of doubling our revenue and significant improvement in profitability. So there is something changing in our organization, and if you can help me understand what is that, that would be great.

Pallab Banerjee:

So, maybe like, if we talk about the recent change, let us focus on that rather than focusing on what happened in 2014-15, I would say that since 2019, we have formulated a different strategy of growth in our organization. And yes, because of pandemic, we could not grow in the first two years. So that's why, like suddenly, you saw some growth in the last year. And we would have continued to grow at a rate of 15% to 20%, cumulative. That's the goal that we continue to have.

But current market condition is preventing that growth, as we just talked about, in terms of numbers of the volume. But yes, current tailwind that we have in terms of or we had, in the first half of the year of the raw material prices as well as maybe from the foreign exchange and all, so all this combined, we are seeing, I would say, some amount of growth this year also. But that's the part of the strategy that we are working on.

We have operations across various countries, as I just mentioned. And our vision is to be the good supply chain solution provider to all the retailers of the globe. And on that vision, we will continue to grow, we will have more geographical presence across the globe where this industry or the manufacturing industry is providing a solution of the supply chain to the retailers. So that's the kind of vision on which Pearl is marching forward, and we will see this continue. Yes, most of the strategies we have formulated in the year of 2019, I would say, '19-'20, and that execution, we will continue to see over the next few years as well.

Vishal Prasad:

Sure. I mean, I was just looking at our transcripts of previous calls and in both the calls that we have done, you have mentioned that we are present in two of the major supply chain of the apparels. Could you please help me understand, what are these two supply chains and are we trying to get into more supply chain going forward?

Pallab Banerjee:

The four basic supply chains that is really thriving in our industry is one is the far east, or I would say the Southeast Asia, which is your comprising of China, Indonesia, Vietnam belt majorly. And that's the biggest supply chain at this point of time of apparel, if you take out the European one, which is Germany and other production, they do lot of high value production.

I'm talking about the mass merchandise where we prevail, our industry, like us prevail. So there, the Southeast Asia is the biggest supply chain, followed by the South Asia, which is your India, Bangladesh, Vietnam sorry, India, Bangladesh, Sri Lanka, Pakistan. And then the third one would be your Mediterranean region where you've got, Egypt, Turkey, your Italy and some of the other Mediterranean countries.

And then you go to the Central America for supply chain. I would say, like these are the four big ones which is, where we are competing, the product mix that we are supplying. So this is the reason. So, yes, Pearl would have the vision to be on all these four supply chains in future. So that objective or that vision, we continue with.

Vishal Prasad:

If we talk about Pearl and PDS, so there is some overlap in terms of customers that we have, especially in UK. So are we directly competing with PDS or there is a different focus and we do not directly compete?

Pallab Banerjee: PDS has got a different business model compared to our manufacturing model, what I understand. It's a different company. So, I won't be able to comment about their vision or their goal. As long as competition, I would say like, we are competing with the global manufacturers. That's why like our peer group or our competition, we would identify as. The PDS's model, we are not in direct conflict with, as I understand.

Vishal Prasad: And we don't supply to PDS as well.

Pallab Banerjee: No, we have zero overlap.

Vishal Prasad: And one last question, sir, if I may, I mean, we have been talking about Vietnam, that it's giving us some competitive advantage in terms of margin improvement. So if you could just help me understand a bit of our history in Vietnam, and what is that we are getting from that country which is helping us improve in terms of the product mix that we are trying to supply.

Pallab Banerjee: So Pearl acquired a company in Vietnam in the year of 2016-17, I guess. So, that company, the manufacturing setup that we had, so in 2019-20, as I was talking about earlier, like, when we formulated our strategy, so we looked at the strengths that Vietnam has or weaknesses that Vietnam would have. After doing that SWOT analysis, like the kind of customers that we would go after, the kind of products that we would go after, the kind of price points, the client servicing, everything, that whole combination that we had worked out for us, so that is, at this point of time, giving us the advantage.

So we have now, a certain, steady customer base that we have developed, where we are working very closely to supply in the products, which are of higher value and higher technical advantage which is may not be there in the other regions of our production, manufacturing as of now. So that strategy has played out well, and we are seeing the benefit in this year.

Sanjay Gandhi: And if I may just add on this, to your earlier question of the previous financial year showing a very low single-digit margins, it's largely because all these investments which had been done, whether it's Vietnam specifically and within India also, there were not yielding that higher reserves.

One of the reason was the customer mix and product mix. And that's where the strategy which was framed, what Pallab just mentioned, in the year '19-'20 years to really diversify the customer mix, understanding the capabilities which Vietnam as a factory, as a country is doing otherwise and capable of doing it and then targeting those customers, those product mix. I think those are something which are really now resulting into higher gross margin and getting reflected in books of account.

A similar kind of a strategy is being where we are working for India and Bangladesh and we know in the long term, that's why we had mentioned in our call and earlier calls as well, that for us, the journey is towards a double-digit margin. I think that transition will happen by developing all the strategy and implementing those strategies.

Vishal Prasad: Right. And sir, what percentage of our revenue comes from our own manufacturing and what is outsourced?

Pallab Banerjee: Usually, it is our own manufacturing. Certain countries like Vietnam and Bangladesh are a mature market, where we have dedicated capacities in other facilities, which are not 100% owned by us. But we manage that. Our raw material is always ours. The whole management of the production line would be ours, but the capex would be somebody else's.

So that's the kind of model, which is much more matured in those markets. In India also, we do some of that but the market is not as matured as the other two countries. So but, these are the three places that we're taking these advantages. In terms of percentages, I would say overall percentage, I think not more than 15% to 20%, maybe like - at most, where we are using the facilities which are not 100% of ours.

Moderator: The next question is from the line of Pulkit Singhal from Dalmus Capital Management.

Pulkit Singhal: Thank you for the opportunity and congrats on an excellent set of numbers. The first question is in the gross margin, the previous participant also mentioned, I know you've been trying to add value added products, but if you see the gross margin trajectory of the company, it was actually higher pre COVID at 50%, 52%, it came down to 45%, even the last two quarters was 45%. So is it that only for this particular quarter we had got a sizable difference in the kind of product mix, which has aided because this was not visible, at least, in the previous quarter?

Sanjay Gandhi: So, the product mix is quarter-on-quarter, will be comparable because every season has different product and the style to cater to. So normally, our comparison on ongoing basis will be year-on-year not really sequentially quarter, so whatever product mix we have achieved and which we have serviced to our customers across geographies that product mix will continue in the same quarter of the next financial year. So there is a bit of stability in terms of the product mix, which has already been achieved.

Having said that, we all know, global economic environment, how they're shaping up. All this, I think when the environment gets stabilized, there is always a scope for more improvement.

Pulkit Singhal: Right, right. So ones should not interpolate, basically, the 53.5% because -- so there is a sizable increase, even versus last year, the same quarter 45% going to 53%. So that is what you're calling out has been the product mix improvement, but it is not necessary the next quarter will also show a similar kind of thing. It's just a one quarter...

Sanjay Gandhi: Yes, you're right. See, this quarter as I mentioned, there are three factors. One is product mix, second is the operational improvement in Bangladesh operation, existing factory and also the new factory which we commercialized last financial year, which is Prudent Fashion Limited. This factory was last year breakeven because it was the first year of operation.

This year, it is also generating a return on capital employed between 15% to 20%, as we mentioned in our previous calls as well. And Alpha also has helped. So overall, this quarter is

bolstered with all these three factors. Coming quarters, which is Quarter 4, we mentioned that because of slowdown in the order book, there may be margin pressure. So Quarter 3 margin may not be really something we can look in Quarter 4, because of the macroeconomic environment. I think this is an industry-wide phenomenon, not really specific to Pearl, as such.

Pulkit Singhal:

Right. And if you could quantify how much is Alpha, because it's first...

Sanjay Gandhi:

I think company by company, we will not refrain, but yes, we can have a specific discussion later on if there is some clarification required on that part.

Moderator:

Mr. Pulkit Singhal does that answers your question? As there's no response from the participant, we'll move to the next question which is from the line of Riddhesh Gandhi from Discovery Capital.

Riddhesh Gandhi:

Hi Sir, Many congratulations on the quarter. So, sir, I just wanted to understand, is the slowdown, which you are seeing, is it you think because of excess inventory, which your retailers and your customers were actually holding or do you think it's because of an anticipation of a slowdown and a recession happening in America?

Pallab Banerjee:

I think the inventory issue that most of the retailers have would be covered up in this current fall booking, the fall of '23. That means the goods that the retailers would be selling in the month of August to December. And I think those orders have been already either placed or being placed. So this would take care of.

So this is the time that I think if you go back last year, most of these retailers have some excess order that they had booked, either they had cancelled or they had held, or they're holding it in US itself. I think this is a season where I would say that most of this inventory correction would be over.

So this fall, shipping normally happens in, I would say, our -- in India, be our Q4 or Q1, end of Q4 and beginning of Q1, that's the kind of period that these goods are shipped out. And generally, the market is definitely very cautious at this point of time. Most of the retailers are buying anywhere between 10% to 20% less. They are keeping some budgets open to chase into -- or basically to fast forward some goods, if required, if the sales are better. So that cautious approach is there in the market at this point of time.

So that would continue to put the pressure in terms of excess capacity in manufacturing and the margins would always get a little compressed. So that's the kind of outlook, if you ask me, that's the kind of outlook will still be prevailing for the next couple of quarters in the industry in general. Of course, there will be specific certain customers might be exception, some customers, I can see that have better management of inventory as of now. So they have already done away with the inventories, excess inventory. So, yes, it would depend customer to customer, but in general, if you were to speak, then this is what the scenario would be.

Riddhesh Gandhi: So as we into actually Q4 and into early next year where we already have a reasonable amount of visibility given the order books will already be there, what are the kinds of expectation we have. Is it just a slowdown in the rate of growth or all do we potentially expect to commit actually, I mean degrowth likely as well?

Pallab Banerjee: So how we see it as of now is whatever the worst that would happen, I think we have seen that. I don't think it will go down any further. But it will -- as of now, what we're seeing is that it's not going up, the business volumes or the numbers that each of these retailers are buying, they're not bullish as of yet.

So they're, as I've said, they're still budgeting in a manner that they would be buying 10% to 15% less or 20% less and keep that money open to react after seeing the sales. So that means that when we talk about last year, like when things were coming into a standstill, and we were going into that new kind of curve, so I think at this point of time, I would say we are at the bottom of the new curve. Like, when it starts going up is yet to be seen, that's the kind of outlook that I would present.

Riddhesh Gandhi: Got it. That's helpful, sir.

Sanjay Gandhi: Just to add on that, specific to your point on year-on-year, basis on the top-line, there may be a marginal decline, but we are working hard to make sure that our bottom-line is reserved, and shows some improvement.

Pallab Banerjee: So yes, if you see the general industry climate or weather that I spoke about. So, our strategy would be to mitigate those. So that means like if we are at the bottom at this point of time, that means the world over, have got more capacity and less business at this point of time. So which means more competition, more margin pressure. The strategy would be to make sure that the kind of customer base that we have, how we work with them, so that our capacities are full, our order books are full, and which are the customers that we should be going after, what kind of product mix that we should be going after which would give us a slightly better margin. So those are kind of strategies that we will be continuing to implement so that we remain on our promise and objectives that we have shared with all of you.

Riddhesh Gandhi: And the other question was typically, of course, we are hearing this across the street about potential slowdown in retailers. Is that also a leading to any impact on your negotiating power with customers and in turn the gross margins you would expect to make?

Pallab Banerjee: The gross margin, as I said, like, when the market slows down, definitely the raw material will also come under pressure. So what the raw material prices were about seven, eight months back, compared to that, definitely that would ease off. But at the same time, as I've said, there's more manufacturing capacity at this point of time in the market. So the retailers would have a better negotiation power with the manufacturers.

So that should not vary to a big extent but that depends on what kind of customer base, you have what kind of customer relationship you have, how much of diversification you have in your

strategy for company to company. So that's something will play at this point of time. As I said like being Pearl, being present in three of the big supply chain of the -- let's say, two, at this point of time. So with that, at least we have that visibility, and we can play that.

Of course, Bangladesh, Vietnam, these are the big markets at this point of time. As China is getting some kind of effect, geopolitical effect of slowdown, the business is migrating from China. And that is coming into all the other countries. The biggest beneficiaries have been Bangladesh and Vietnam, and followed by Indonesia and India, for us.

So that, I think, will continue to play. So that will continue to give us the visibility, what kind of margins, what kind of big players or as I've said, our global competitors, how they are strategizing. So we are in, I would say, close observation, close contact, whatever you call it. And we will continue to formulate our strategy so that we can mitigate this kind of risk for our company.

Moderator: The next question is from the line of Raaj from Arjav Partners. Please go ahead.

Raaj: Hi. I only wanted to know how would your FY '24 sales and everything would look like, given the commentary you have given?

Pallab Banerjee: So as I said, like there is a macro factor which would be slow at this point of time, market. Keeping that in mind, the strategy that we've formulated, the kind of customers that -- would be going into, so the whole mix across the globe, not only on one or two market only, it has to be much more diversified. Even in a market, there are various kinds of customers, there are large format retailers, there are specialty brands, there are national brands. So we would be continuing to hedge our risk, we would go to that.

Talking about very specifics in a particular market when this kind of fluctuation happens, there are certain, maybe sometimes the national brands do well, sometimes the private brands of the large format retailers do well. So depending on that mix, much detail more mix of brands that we would be manufacturing for quarter by quarter, season by season. So we will move those, what you called, our blocks so that our goal is maintained.

So that's something that we'll continue to work on very closely with all these market. So that's why, like I told you, like the advantages that we have, we are in the various manufacturing hubs, as well as we are very close to the market, to the customers. Being office and regular interaction with them in the same cities, also helps us. So those are things that we'll continue to have in Pearl so that we take the advantage of this moving dynamic situation in the market.

Raaj: All right. So, looking at FY '24, I think the sales would be more or less the same, right?

Pallab Banerjee: As of now, it looks like that maybe, because the growth that we the trajectory that we had in the last year, that may not be there. That kind of -- definitely not 80%, but the kind of goal that we are working on our 20%, 25% growth every year-on-year, so let's see, like how much will be

there. It's difficult to predict at this point of time. But at the same time, we don't see a big decline as well.

Moderator: Thank you. The next question is from the line of Abhishek Agarwal from Gems Quest.

Abhishek Agarwal: Yes, thank you for taking my question, sir, and congratulations on great set of numbers. My question is in relation with the earlier passing month. I mean, just to continue, I, know I understand, we've faced worst of the times in last six, eight months for the whole textile sectors as a whole. So, I just wanted to ask, sir, is the order momentum or say, the inquiries that we had three to four months back, have they improved or are we seeing any improvement in the order inquiry or order book as of now, as we stand today? And second part of the question is, is this environment, will this help us in taking away market share from some of the smaller players? I believe they're struggling to even survive in these times.

Pallab Banerjee: Yes, the first part of the question that you had is the scenario of getting any different. Yes, definitely four, five months back most of the retailers were struggling with the inventory. So that, I think, is tapering off now. So they are seeing some of the products which are in a higher demand, and they are planning -- giving those orders at this point of time. So that's definitely happening.

To that extent, as I said, the normal buying power that each of these retailers would have under normal circumstances, I see it still average, I would say, about 10% low. Some retailers who had bigger inventory problems, maybe at 20%, others who had controlled inventory, maybe they're already at their normal level. So that's happening.

The second part of the question is what's happening to the industry across the globe. See, there are lot of geopolitics and macroeconomic factors are playing all around. The big hubs like Pakistan is undergoing some kind of problem at this point of time. Sri Lanka, we had that problem earlier there. These are also government manufacturing hubs.

If you look at Bangladesh, also there are much better controlled, I would say, as an economy, but still the gas prices are almost more than 100% up, the petroleum and gas, and energy costs are going up. So those kind of fluctuations would be there. Pakistan and Sri Lanka had very difficult time to manage it, Bangladesh is managing it better.

The other countries, which might get affected, the smaller countries where our kind of industry is there. So that dynamic will always continue to play. And even the players, the zombies, as we call it, financially, like who have been existing because of the monetary situation of globe over the last 10 to 15 years, they would definitely be having a difficult time. Some of them will go out of the business.

So those kind of dynamics will continue to play because it's not a smooth water as of now. The water is still choppy, the weather is still not perfect. So yes, in those times, there will be -- definitely, defaulters who would be there. So that will continue to happen and I think the stable

companies, the better managed companies with better disciplines will gain market share in that. That's a general statement, I would say.

Moderator: Thank you. The next question is from the line of Bhavya Chheda from Seven Islands PMS.

Bhavya Chheda: Yes, congrats for the great numbers. So, I want just one question. What is the overall capacity utilisation for all the plants across the world, all the eight plants?

Sanjay Gandhi: See, we have annual capacity of 80 million-plus pieces. We are at, right now, nine months, 40 million pieces. Last year, we did 55 million pieces of goods. So we have capacity in terms of -- scaling capacity is really huge in that sense. So there is a lot of opportunity for us to scale up. I think the top-line, we can easily grow, as Pallab mentioned, at 20% for the next three years within the existing capacity also. At the same time, we keep looking for an opportunity to really see wherever we have more brownfield project, we'll definitely keep on looking to add the capacity because we see in the long term, the -- we are very positive on this growth coming back to the sector, and we'll see that once these macroeconomic headwinds are over, the tailwinds will start coming in the industry.

Bhavya Chheda: So we can get the percentage of capex utilization, like, right now...

Pallab Banerjee: As we mentioned, we have our in-house factories, and we have certain capacities where our direct investment on the capex is low. So that gives us that flexibility. So today, if we look at all the factories, all the units that we have engaged in, that gives this number which Sanjay just mentioned, which should be almost about anywhere between 75 to 80 million units.

But compared to that, like if we talk of today that, after three quarters, we have done about 40 million units. So that gives us a long runway. So, now some of these -- what happens in the industry, like we have one part is that the factory capacity and everything is there, then how much machines that you're engaging, and if required we can buy, because those kind of investments are low. And also, the infrastructure is existing but that that kind of manpower and the machines, we are not utilizing.

So that's the kind of flexibility that you're working with. Yes, if you're talking specifically of our 100% owned factories, there utilization would be much, much higher. That has to be, and that's a strategy that we always play along.

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

Pulkit Singhal: Thank you for the opportunity. Sorry, last time, it got disconnected. You mentioned about the worst of inventory correction having already taken place. Now that has happened over the last two quarters. And during the inventory correction phase, obviously, the retailer demand would have been worse of, maybe 30%, 40% declined. And at that point, you have grown 26% in 2Q, and now 2%, all in 3Q. So now that inventory correction is behind and even if the market is

stabilizing, retailer demand is surely higher than what it was two quarters ago. Therefore, why is there still a cautiousness? Shouldn't your revenue growth accelerate, therefore?

Pallab Banerjee:

As I mentioned, Pulkit, most of these retailers are also not buying. The large format retailers are being cautious at this point of time. So they're buying about 20% less, anywhere between 0% to 20%, less, I would say. The people who have got better inventory are still going ahead and buying. The other ones, that are yet to clear it off in this fall holiday season. So they're getting still cautious.

Overall also, like if I look at every retailer, they are not going plus at this point of time. They would keep it minus and then keep open -- money open to chase into or take a last-minute decision or react to the market condition. So which means that the initial booking that we'd get as manufacturers would be less as a whole. Of course, depending on what strategy, what positioning of we are with a particular customer, maybe we'll still be gaining market share compared to year-over-year. But generally, that's the market condition.

So in this market condition, it would be not prudent to be like very, I would say, a bit for us to say that, okay, like no, now the things are over and we will be growing. So we have to cautiously watch how this market condition evolves. We are -- you see, like certain advantages that we have, closely working with these designs -- designing those products gives us the ability also to really join hands with them for this correction at a later time. So those kind of advantages, we will have, but this is not like, I would say, already everything has happened. These are things which are all in motion at this point of time.

Pulkit Singhal:

Correct...

Pallab Banerjee:

That is why it is better to be cautious.

Pulkit Singhal:

Yes, yes. No, fair point. I'm just trying to understand, if I were to ask you the same question six months ago, and you did talk about it, that time, the retailer demand would have been 30%, 40% percent lower than what it was earlier, right?

Pallab Banerjee:

Yes.

Pulkit Singhal:

And now it's 20% lower...

Pallab Banerjee:

Large format retailers, yes.

Pulkit Singhal:

And now it's 0% to 20% lower. So on a sequential basis therefore their demand is therefore improving. On a y-o-y, they're still declined, I get that. But sequentially, their demand has improved from what it was six months ago.

Pallab Banerjee:

Yes.

Pulkit Singhal:

And secondly, I know there's a lot of work that has gone on improving operational efficiencies at various plants. As investors, it's very hard to figure that out from the financial numbers

reported, because the entire work seems to be suggestive of product mix improvement. So how do we understand -- I mean because operational efficiencies should figure below gross margin line. That's my understanding. They are not really typically at the gross margin line. So how do we understand either numerically or otherwise, how that operational efficiency is, what are the things that you've done that are -- or where's that figure in your financial?

Sanjay Gandhi:

Could you please repeat specifically. Sorry, Pulkit, I could not understand your question.

Pulkit Singhal:

My limited point was that you've obviously worked on improving operational efficiencies in all your plants. As investors, we look at that as a leverage that you see below the gross margin line, that is at the operating cost line. We assume that anything -- any improvement at gross margin line is typically to do with product mix or pricing related decisions and not operational efficiencies. So when you're calling out operational efficiencies, how do we see that in your numbers?

Sanjay Gandhi:

The operational efficiency, you would see that the manufacturing cost improvements, it is -- you'll see the gross margin improvement, what happened is the gross margin is also combination of the wastages which are done at various processes, the fabric which is getting utilized as per the design specification, which is supposed to be handled, the efficiency in terms of the procurement of the fabric, the efficiency in terms of the logistics of the fabric reaching to the various factory, the efficiency in terms of the production cut date. So all -- efficiency in terms of the cut to shape, cut to orders, there are multiple various factors, which are there which has - get reflected in the gross margin.

Now, these parameters are specifically to the factory performance parameter. That is why one of the question which was there whether this operational efficiency is sustainable, my answer was that, whatever operational efficiency has been brought in on those factories, they will either continue to add that level or only improve from there on, because we can't have this -- once we identify the issue, address it, I think it will stay there or it will improve from there on. All these factors will lead to an improvement in those gross margin only.

The second part could be that overhead productivity, within the same overhead, within the same asset turn, you're able to generate a higher turnover. So that really gets leverage. It starts happening from there as a percentage of the sales. If you see, one of the percentage of the sale of the depreciation is down from 2% to 1.6%. So our asset turn has also improved significantly.

So that also is one of the thing, which can be reflected or seen from there, which means that the existing, whatever fixed asset we have, we are able to generate either a better product, higher FOB, volume because sales volume remaining the same, what we are saying is that the realization per piece is growing high, which means a higher product is getting produced with the same manpower giving a little bit better training to them and the equipment with slight modification or addition of the equipment, we are able to generate that. So all this will get reflected in a multiple metrics. It's, there is no one metrics which will have capturing this efficiencies.

Pulkit Singhal: No, I think that's a fair point. I mean despite volume decline, in fact on a nine-month basis, you're growing margin. I mean, that volume decline would have ideally caused a margin impact as well, I mean at an operating cost level also. I also understood that the gross margin has various operational efficiencies.

But would you say that the large chunk of that operational efficiencies is at the gross margin line that is reflected in Q3 or would you say that has been -- it has been reflected in the previous two quarters?

Sanjay Gandhi: Yes, so as I mentioned that Vietnam continued to show the improvement in all the quarters, Quarter 1, Quarter 2, Quarter 3, that has been consistently, which they have demonstrated and achieved in last three quarters. So, I think they have reached a stage of improvement from there on only or the stability in terms of that. Bangladesh has some large improvement in Quarter 3, the new factory, which is Prudent fashion, which got commercialized last year.

I think Quarter 3 has shown a substantial improvement in their efficiency. And also the new factory, which has got integrated is also at a similar level of efficiency, which we normally would like to have our old factories operating at.

Pulkit Singhal: Okay, that is great. Lastly, this Alpha acquisition, if you could just share, because this is the first quarter of the integration in the numbers. I mean, what is the kind of contribution or let's say annual sales this facility can do and what kind of margins it operates? Is it a substantial number to kind of move the needle or -- I'm just trying to get a sense of this new acquisition contribution.

Sanjay Gandhi: Yes, so, I mean, while I was answering your earlier question that entity by entity I think we will not be able to give the number. However, just to give an idea, we mentioned while filing the declaration regarding the acquisition of Alpha that it has the potential of generating \$20 million to \$25 million on annual basis.

And in terms of the return on capital employed, we did mention that we are targeting anywhere between 15% to 20%. Happy to say that we will be reaching that return on capital employed in the first year of integration itself. And I think it will continue in that manner, only because it is already operating for so many years and the CEO continues to operate the company factory the way it was operating earlier. So we will see that sustainable improvement coming in from there on only.

Moderator: The next question is from the line of Samir Rathi, an Individual Investor.

Samir Rathi: Yes. Congratulations to the Management for excellent set of numbers. During this presentation, what I can see is that we are talking about -- a lot about the achievements made by Vietnam and Bangladesh, wherein they are contributing a lot to our business. Our majority of the Indian operations are in India as well. Are the Indian operations not contributed to an extent which they should?

Number two, the government also the PLI scheme for which the -- I feel Pearl also participated in it. What exactly has been the status? Are we are really benefiting from that particular PLI scheme?

Number three, the third question would be, that we see a lot of inflation in Bangladesh, and the report suggests that in days to come, the inflation is going to become higher and higher. So are we seeing some kind of a salary pressure we can basically didn't the margins more from that place? These are the three things.

Pallab Banerjee: Thank you, Mr. Rathi. Good thoughts and good, detailed questions, you have got. So let me go one by one, which is what?

Sanjay Gandhi: India's contribution.

Pallab Banerjee: India's contribution, yes. So first is, let's say, what is India's contribution to our numbers, total numbers. It is around 35%, that we have been maintaining over the period. So that will continue. In terms of the PLI schemes that Government of India has commenced, it is new investment. So that investment, once somebody makes that investment and ships more than INR 200 crores of goods from that new investment, then they start getting the PLI advantages. So, which is still couple of years away, that direct benefit that will be coming in.

In general, India is performing, yes, India is performing, definitely. India is contributing to the growth of -- to the profit of the company. But what we saw, like from quarter to quarter, the needle mover that we have in this particular quarter was coming from Vietnam and Bangladesh. So that's why we mentioned that those two names more. And, then what else? I think you talked about the Bangladesh inflation....

Samir Rathi: No...

Pallab Banerjee: Bangladesh, yes, like you have -- it does have an inflation -- sorry?

Samir Rathi: Yes, yes, exactly, exactly.

Pallab Banerjee: So, Bangladesh does have an inflation because of the petroleum prices and the energies has gone up, so which definitely gives an impact of at least about, I would say, an average of 3%, at least 2.5% to 3%, definitely the cost has gone up, but again, the dollar has depreciated there as well in terms of the exchange rate, if I talk about. So that compensates a little bit of it. There is a slight, still there is a slide dent, maybe to the extent of some decimal point, less than 1%. So that's something like we have to gain over with the efficiencies that we're trying to achieve both in terms of utilization and efficiency of manufacturing.

So overall, if you look at the markets, manufacturing markets or the ecosystem that we have in Vietnam and Bangladesh, it is definitely much stronger than what we have in India as of now for this particular industry. That's why the numbers they generate the textile -- the garment industry of Vietnam and Bangladesh are all -- both of them are \$30 billion or more, compared

to India, which is still around \$15 billion, \$16 million. And India is so spread out, whereas if you go to those two countries, like it's only two or three cities which are having all this turnover.

So the ease of operation would be definitely better because of the ecosystem which is already existing. So yes, there would be always this kind of pressure would be there. Bangladesh, there is a pressure at this point of time. So the people who may not have strong, disciplined approach in their business, the 3%, 2% to 3% increase would be definitely a big jolt.

The people who are not completely working on the dollar, like, for example, like if you're buying the fabric from outside and bringing it to Bangladesh and shipping it, so then your contribution is only 20% or 25%. Like that, you are actually -- the benefit that you can take off that dollar. But there are companies who are doing 100% of raw material from Bangladesh and manufacturing and shipping. So they would have the complete head, 100% of the dollar advantage to them.

So those kind of dynamics will play. So when we do a detailed strategy planning as a company, so we keep all these factors in mind, so that we can mitigate our risk. So as I said, when these conditions fluctuating and the macro factors are not in favour of us, we have to be in fully detail, we have to make those strategies very clearly so that we can manoeuvre through and continue with our promise on what we have to deliver.

I hope I've answered all the points of your...

Samir Rathi:

What is like -- because things across the globe, because as far as India is concerned, we understand that we are in kind of a purple patch wherein there will be a little bit of stability, but across the globe, there are things which may or may not be in our control. And all the top Management is sitting in India.

What exactly are the steps which we are taking? I understand that the things are spread out in India. But being the leaders and all the leaders, which are sitting in India as well, the top Management is sitting in India, should not we do enough to promote the business from India, rather than looking, say, at places like Bangladesh, where you never know what -- today say, six months back what Pakistan was, God knows what can happen to Bangladesh as well. The recent reports which are coming in are not really very printing a rosy picture about Bangladesh as well.

Pallab Banerjee:

So see, what's happening is, first of all, when you say that all the top leaders of Pearl are sitting in India, so that's not a correct statement, I would say. The model that we have, we have CEOs in each of the country, we have very strong team in each of the locations. And me, myself also is always traveling in all the locations and spending good amount of time with, I would say the contributor of the economy or the major players in each of these countries, maybe not be in our company.

So that's something, like, we keep a very, very close ground. And that's the kind of strength that we, as Pearl, as a company have been bringing on to the table. And we will continue to do that. In terms of what you are saying is that there are disturbances that happened in maybe Sri Lanka

or Pakistan or Bangladesh might happen or any other country might happen, so same is in India also.

Like, if you look at it, when the business is coming out of China, what has happened in these last two or three years, the major portion of the business has been lacked in by two countries, which is Vietnam and Bangladesh. India could not do that. The kind of infrastructure for the industry and the ecosystem that we need for the industry, we are building it up, definitely, the current government is much more open, much more listening, but it will take a few more years.

And we are completely clued to that. Wherever the opportunity where we can think that better return would be there from India, so these kind of investments will continue to happen in India as well. But at this point of time like or one year back, the kind of investment that we did, because we knew very well that those will give us the benefits in those countries. So that will continue to happen. We are very detailed in terms of when we are making our strategies and going into these markets. We will be going into other markets also in near future. And we will continue to get those benefits.

Sanjay Gandhi:

And just to add, that's the advantage Pearl has. Pearl is present in four geographies. So every geography, including India, offer a potential to grow. So, currently in India, we may be doing \$120 million turnover, but the potential to grow is much higher. So we are looking at a strategy of setting up expansion under PLI scheme or expansion under existing unit in India as well. So, I mean, each geography itself can go and become an independent entity.

If you look at the size of our competitor, which is there in India, probably that's an opportunity we can have for each geography so as to say, India can reach that level, Bangladesh also can that level, and so is Vietnam and Indonesia in that sense.

So, I think there is multiple opportunity, leveraging opportunity for different products, different segment, which is available by being present in four geographies.

Moderator:

The next question is from the line of Vignesh Iyer from Sequent Investments.

Vignesh Iyer:

Congratulations Sir on great set of numbers, Sir my question is in relation to the Bangladesh units. So, if I were to see on the segmental performance side, I've seen that the Bangladesh unit has been more or less consistent around 5%, 6% EBIT margins for the last 10 or 12 quarters, except for one or two quarters. So the major contributor for the current increase in margin is from Bangladesh unit, that is, it comes around 9.5%, 10% EBIT. So sir, could you just quantify as to say, the 4% increment that has happened from 6% to 10%, could you quantify that, say, 100 -- 1% is due to the product mix or 1% is due to the efficiency that has been brought by the company, or due to acquisition. If you could just give me a ballpark number as to what attributed to that increase in EBIT.

Sanjay Gandhi:

So, I think we will not be able to give those details in terms of how much is coming from the FOB price increase, how much is coming from manufacturing efficiency and all that. So something as a metrics, we track it, we don't share it in that sense.

- Vignesh Iyer:** Okay sir, just to get the idea, in the Bangladesh unit, can you at least let us know the power and gas cost as compared to the last quarter? Is it more or less stable or we seeing some spike in that cost?
- Sanjay Gandhi:** You are telling the power cost in Bangladesh, right?
- Vignesh Iyer:** Right, right. Exactly.
- Pallab Banerjee:** As I said, earlier, so there is definitely, at this point of time, an inflation, about more than couple of percent. But at the same time, the dollar advantage does compensate that. So its impact is much less than 1% also.
- Vignesh Iyer:** Okay, so this is quarter-on-quarter, right? I mean, compared to last quarter, we have seen some spike in...
- Pallab Banerjee:** If I'm talking about, let's say, not quarter-on-quarter but year-on-year. And also, at the price of the unit which I am selling to a customer.
- Moderator:** Thank you. Ladies and gentlemen, this was the last question for today. I would now like to hand the conference over to the management for 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 you like to know more about the company, please feel free to contact our team or SGA, our Investor Relation Advisors. Thank you once again for taking the time to join us on the call.
- Pallab Banerjee:** Thank you.
- Moderator:** Thank you. On behalf of the Pearl Global Industries Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.