



“Pearl Global Industries Limited
Q4 FY '23 Earnings Conference Call”
May 17, 2023

Disclaimer: E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the website of the company on 17th May 2023 will prevail.



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

Moderator: Ladies and gentlemen, good day and welcome to the Q4 FY23 Earning 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 expectation 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 touchnote phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Pallab Banerjee, MD for his opening remarks. Thank you, and over to you, sir.

Pallab Banerjee: Hello everyone, good morning. Welcome to our Q4FY23 and full financial of 2023 Earnings Conference Call. Along with me we have our Group CFO, Sanjay Gandhi and SGA, our Investor Relations Advisors. I hope all of you have had a chance to go through our annual results and the investor presentation uploaded on the exchange and our company website.

The outstanding performance of fiscal 2023 year is a testament to our competitive advantage. For financial year '23, the company has declared an interim dividend of INR5 per share at the end of the fiscal year, resulting in a total dividend payout of INR7.5, 75% of our face value for this financial year of 2023. We have skillfully leveraged our core strength of multilateral presence, design team, gift towards the asset light model and strong customer relationships to achieve the sustained growth which is primarily driven by incremental orders from our existing customers with better realizations and the orders for value-added sales from the customers that we acquired in the last three to four years.

Our presence across the global textile chains -- value chains in Asia, has helped us cater to our global clients effectively, utilizing our global capacities and mitigating uncertainties by leveraging our facilities in different markets. While the global operating environment continues to remain challenging, amid the higher interest costs and the inflation rates which are high, especially in the western economies, we expect revenue to be remaining at the same level or to show some growth as of last year during the quarter one of financial year '24 and throughout the H1 of financial year '24.

However, we are putting all our effort and we are confident of achieving 15% to 20% revenue CAGR over the next three to four years. Having said this, margins could remain under pressure for the industry and we at PGIL are confident of maintaining our margins between 7% to 8% on a full year basis. Our efforts will be to improve the same, which we are confident of achieving by once the macro factor stabilizes, then definitely we would be in a very, very healthy position. That's something we are confident of.

To navigate challenges pertaining to the uncertain business environment, we are setting up very stringent risk governance framework to hedge against the sudden increase in raw materials or poor performance financially of some of our overseas brands and customers. And of course, the rising interest costs that we have seen, hopefully like no more interest costs from the US market, but we never know. This shall help us in keeping our profitability intact. We incurred a total capex of INR48 crores in financial year '23 and we intend to incur a capex of anywhere between INR50 crores to INR60 crores again in the financial year '24.

With this, I would like to give you some information of key developments in each country that Pearl Global has its operations in. In India, the management has taken steps to address inefficiencies in partnership factories operating in India during the current quarter. We have ended up the partnership and brought the factory under Pearl's umbrella. So, we are now completely managing that operation.

Furthermore, the company remains committed to exploring opportunities for expansion of its capacities in India. Endeavour being supported by various government initiatives such as the PLI scheme, the state incentive schemes for expansion, we are going through all the details, these initiatives incentivize the manufacturing within this country, within our country of India, making it favorable for this opportunity and for the growth in India.

The company has successfully added two to three new customers in India. The strategic move is expected to contribute to the growth of the company's order book in the coming years. On to Bangladesh, our new factory has started generating positive return in the first year of its commercial operations. You have heard in our last call; it has now generated a healthy ROCE and a cash flow. Other recently acquired company or the factory that we did in the last year has proven to be a valuable asset to our company.

The integration of the Brownfield acquisition with PGIL has been quite seamless in increased revenues and improving our profitability. The positive and the growing ROCE further reinforces the success of this acquisition. In Vietnam, the factories that we have achieved higher levels of productivity, thanks to an improved product mix and an expanded range of offerings for customers. Consequently, this has led to higher realizations and significant enhancement in the operational efficiencies. Our partnership model is successfully evolving in Vietnam and it's giving us good results.

In Indonesia, the company has successfully expanded its operations by constructing a new facility on the land acquired in 2021. With the capital expenditure of INR29 crores, new facility replaces the old one and also it offers 35% increase in our total capacity in Indonesia. This enhanced facility enables the management of more complex processes, allowing the company to deliver value-added products to the clients, building an improved per-piece realization. This higher capacity is expected to drive increased revenues for Indonesia in the next fiscal year of 2024-25.

Other offices like in Europe, our company has opened up an office in Spain, as well. The strategic move positions the company closer to the European textile value chain, facilitating the acquisition of new customers and strengthens the collaboration with the existing clients, client

and development by next to the operations or their design offices in Spain. With Europe boasting a robust value chain, the company anticipates continued growth through its presence in this region.

In USA, the company has set up a separate division, branding and licensing opportunity. We have hired a new CEO who has a few years of experience to develop similar kind of business in its previous strengths. This opportunity will take time, but we believe this will be another growth engine for us.

For US customers, during the pandemic and post-pandemic when the logistics challenges were there, near shore production became important and so most of our customers are talking to us to explore this near shore opportunities. That means manufacturing happening in the capital region of the Central America region. We are exploring this near shore manufacturing opportunities and we expect things should be finalized in the next couple of months. The customers' assurance of doing business is a very good opportunity for us.

With this, I think I have given you more or less what's happening within our company. Now I would like to hand over this call to Sanjay Gandhi, Mr. Sanjay Gandhi, our group CFO to run us through the financial performance.

Sanjay Gandhi:

Thank you Pallab. Good morning, everyone. It gives me immense pleasure to report another successful year for our company with records breaking financial and operational group level performance. I'm pleased to announce that for FY23 on a consolidated basis, our revenue has increased by 16.4% year-on-year to INR3,158 crores versus INR2,713 crores in FY22. Primarily due to increased order from existing customers and improved realization from newly customers who have been acquired during the year, integration of Alpha acquisition and improved operational efficiency at Bangladesh and Vietnam Unit.

EBITDA for FY23 stood as INR255.5 crores, the growth of 81.8% year-on-year versus INR140.6 crores in FY22, while our margin improved by 290 bps year-on-year from 5.2% in FY22 to 8.1% in FY23. This improvement in margin is a result of better product mix, improving operational efficiencies, consistent improved profitability in Vietnam and Bangladesh operation and integration of new acquisition which is Alpha in Bangladesh.

PAT for the year stood at INR153 crores versus INR70.1 crores in FY22. EPS is INR68.9 in FY23 versus INR31.46 in FY22. For quarter 4, FY23, our consolidated revenue declined by 18.5% to INR730 crores versus INR896 crores in FY22. EBITDA grew by 55.9% to INR62.8 crores compared to INR39.7 crores in the same quarter last year.

Margin improved from 4.4% in FY22 to 8.6% in FY23. On a standalone basis, revenue for the year stood at INR1103 crores versus INR933 crores in FY22, the growth of 18.2% year-on-year. This growth was a result of increasing business from our existing clients and addition of new strategic clients. Better product mix on account of increase in our product range offered to customer resulting in an increased realization.

Operational efficiency improved by employing best-in-class businesses.

EBITDA margin improved from 4.4% in FY22 to 6.3% in FY23. PAT for the year stood at INR53.8 crores in FY23 versus 27.2 crores in FY22. EPS doubled from INR12.54 in FY22 to INR24.84 in FY23. For the quarter ended -- quarter 4, FY23 revenue declined 21.5% to INR274 crores. Margin improved from 4% in FY22 to 7.8% in FY23. PAT for the quarter grew 119.3% to INR27.9 crores versus 12.7 crores in FY22. Our strong performance is reflected with our strengthening balance sheets. On a consolidated basis, our network for FY23 stood at INR723 crores versus 599 crores in FY22.

Gross debt declined to INR448 crores in FY23 versus INR564 crores in FY22. Net gearing ratio improved to 0.21 times from 0.67 times in FY22. Return on capital employed improved from 12.4% in FY22 to 24.2% in FY23. INR42.5 crores of margin money earmarked as LC payment is excluded from capital employed calculation.

Net working capital days improved from 63 days in FY22 to 38 days in FY23. Receivable days declined to 24 days in FY23 from 49 days in FY22. Inventory days decreased to 59 days in FY23 from 73 days in FY22 and payable days declined to 45 days in FY23 from 59 days in FY22. Debt service coverage ratio improved from 1.95 times to 2.3 times. Net debt to EBITDA stand at 0.6 times.

On a standalone basis, our net worth for financial year at '23 stood at INR381 crores versus INR344 crores in FY22. Gross debt declined to INR206 crores in FY23 versus INR260 crores in FY22. Net gearing ratio improved to 0.31 times from 0.57 times in FY22. Return on capital employed improved from 10.3% in FY22 to 16.2% in FY23.

Net working capital days improved from 63 days in FY22 to 40 days in FY23. Receivable days declined to 37 days in FY23 from 45 days in FY22. Inventory days increased to 87 days in FY23 from 45 days in FY22. Payable days declined to 42 days in FY23 from 70 days in FY22. Debt service coverage ratio improved from 0.8 times to 2.3 times. Net debt to EBITDA stands at 0.6 times for FY23.

With this, I would like to open the floor for questions.

- Moderator:** Thank you. Our first question comes from Keshav with RakSan Investors. Please go ahead.
- Keshav:** Hi, good morning, sir. Sir, this near-shoring opportunity you spoke of in the opening address, would that be on a partnership basis or are we planning to set up our own facilities?
- Pallab Banerjee:** It is a joint venture. We are looking into the existing factories which are already operating in that region.
- Keshav:** Okay, sir. What is your sense on what kind of products can really be near shored to LATAM in the medium to long term?
- Pallab Banerjee:** The cost of manufacturing in this region is higher compared to Asia, but there is a duty-free advantage also because of the capital region. We will be using that benefit. And despite the cost being high, the raw material cost to a certain extent, as you land into the USA, it is similar to what is coming from Asia. That is the objective and goal that we are working on. The product

that you asked about, we will be starting with more of a net product because that is where we are seeing the demand coming back in this region because that is the volume driver, and the retailers want to keep a leaner inventory on certain products. So that something is discussion that we are having with most of our customers. Do I answer all your questions?

Keshav: Yes, sir. Just one thing. Is that more of a de-risking strategy from our clients or do we see a longer-term negative impact in Southeast Asia or India from that?

Pallab Banerjee: I don't see it will be a long-term negative for Asia in general because this particular region does not have that much of capacity.

Keshav: Okay. All right. Secondly, the way we built our business, we are playing to the strengths of different countries that have their own differentiators. For instance, high volume, low value, cotton stuff you have in Bangladesh, more value added, India can do, Vietnam would have synthetics. For the past two years, a sizable quantum of growth for us has come from clients less than five years old.

This year, 50% of our growth was led by new clients. Now, the macros are ripe for bigger players to see benefits of consolidation. There have been reports of Indian government going for partial shutdowns because of weak Christmas booking. Are we seeing the benefit of having a broad-based manufacturing base and getting more inquiries from our existing clients to transfer more share to us?

Pallab Banerjee: Endeavour would be always to have a better market share of our key clients. That is all the efforts in that direction. In my previous quarterly calls, I always mentioned that we at Pearl believe in having a presence in all the supply chain of our apparel garments, fashion garments in the world. There are about four or five big supply chains that we can talk about. Like I have mentioned earlier also that there is Southeast Asia, South Asia, Mediterranean region. [inaudible 0:20:30] that means Europe buying from Europe and US buying within US. That is how most of our customers and most of these big retailers, either in Europe or in US, they source from all these channels or all these locations.

At Pearl, we always had that endeavour to be present in most of these supply chains. If you look at it, we are already supplying to our customers from Southeast Asia. We are supplying from South Asia. Now we would be supplying to them. We are adding Central America as well, so very close to it. Then the only two areas which are not there would be more I would say Mediterranean region and maybe onshore for some of our clients. These are the two things that will be left behind. When you talk of the complete sourcing for these customers or for these customer partners, so they use all these five channels. We would always try to grab their market share by having our presence in maximum number of these channels. That is the way that we would continue to operate.

Keshav: Sure, sir. I have more questions, but I will come back in the queue.

Moderator: Thank you. Our next question comes from Vishal Prasad with VP Capital. Please go ahead.

Vishal Prasad: Hi, good morning. In our industry, usually clients engage in two ways. Either they directly outsource to the manufacturer, or they outsource to a middleman like Li & Fung and some other companies. There are some clients who engage in both these models. Could you please share when does a client directly outsource to a manufacturer and in what cases they go through a middleman?

Pallab Banerjee: My experience, what I have seen is that organizations who are much well organized and much more evolved in their sourcing strategies, they do have their own offices, global offices where they source from. For example, if I speak of companies like Gap, they own sourcing offices. They don't engage any middlemen or any agents in between. Whereas there are other brands who may not have such a matured supply chain organization within their organization. They would like to take the benefit of some of these evolved partners like Li & Fung which has got a very extensive sourcing base across the globe. Similarly, there are other companies like MGF, there are companies like New Times.

These are the agents who are playing a big role. I have also seen like Gap definitely go through some kind of middlemen like Mitsubishi of the world and Stylane that we work with and others. They do definitely have a way or process of working in which they rely quite a lot extensively on this kind of network. It depends on the market; it depends on the customers maturity level in terms of how they are sourcing the garments. Does that answer your question?

Vishal Prasad: Let's say we take Walmart for an example. I don't know if we work with them but that's a general example I'm taking. They take both the routes where they partner with the manufacturer and sometimes, they partner with the middlemen as well. They are very capable in Walmart in terms of their own supply chain, and they are a huge company but what I'm trying to understand is what goes behind taking the decision on this is the part of the business which should go to the manufacturer directly and this is the part of the business which should go to middlemen. Is there something that you have noticed or is that generated?

Pallab Banerjee: When you talk of a middleman, when you talk of a specific agent, the retailers would go to that agency or to that middleman for a host of services. Services like finding a manufacturer in a particular country, maintaining the communication, the quality inspections, supervision. Those are the services that this middleman provides. For a company like Walmart and all also work with a lot of direct importers.

Most of the big retailers, large format retailers in the US, they source from two, even if they don't go to an agent, they would have vendors who directly do FOB shipment and their company, for example Walmart, will have their own logistics team who will be bringing in the goods. Or they may be buying from suppliers who are based in the USA. That supplier might be going to a manufacturing unit and placing a business there. But in Walmart's record, that's a direct supplier. So they are not acting as a middleman. I'm just giving this example. There are three things.

That means if you're talking about there is an agency business, there is a direct business. Agency business are the people, for example, there are many brands, let's say a middle level brand like J. Crew, Chico's or Antela, who are not very big, but they do rely on this kind of middleman. A

lot of business that happens through this middleman or the agencies, which I mentioned about in our industry. And then there are other people like in the US, a big chunk, I would say, the people who are importer on record, that means they would be buying the goods from China, from India, from Bangladesh and all, and they would warehouse it in the US.

That means they would be the importer on record to bring the goods into the US and then supply to the retailers. So broadly there are three. So if you are mixing in your group the second and third together, so I was trying to say that there is also in that way there are two groups, if I'm making sense to you.

Vishal Prasad: Okay, sure. The second question that I have is, do we engage directly with our clients in all the engagements or sometimes we also go through a middleman?

Pallab Banerjee: Our preference is always to have a direct engagement. So most of our business is through direct engagement. Of course there could be a middleman, like who would be doing a kind of service to the customer. So these services will come through. For example, we have a – they do take certain services from Li & Fung, but our engagement with the course management is direct. So we speak to them direct, the business planning, the strategization that happens over a longer period of time, those kinds of conversations would be happening directly with the customer.

But the operationally certain activities are done by the agent. Same thing is for customers like Muji in Japan. Relationship is direct, but they do have certain activities they do through. Your agency business that I think we have would be quite insignificant. I think the entire group, less than I would say 10% of the business would be happening which is we are working through an agency or an agent who is dealing with the customer.

Vishal Prasad: Okay. And sir, do we get our orders through a competitive bidding or usually it's through relationships and negotiations?

Pallab Banerjee: Again that depends on the strategy of the customer. There are certain products which is the core basic items. Most of the customers want to have some kind of bidding process. It may be an open bid, or it may be a bid between only a handful of vendors who do this product for them. So that generally is a practice which is quite prevalent, especially in the western markets.

Vishal Prasad: So bidding would be L1, whoever quotes the least gets the business?

Pallab Banerjee: Not necessarily. They generally look at the price, the delivery speed and also in some cases the design and capability. So maybe like of course the endeavour would be to place it to an L1, but there could be certain other parameters which supersedes in the decision making. Now this I am talking more from my experience in the past, but that's generally the trend that I have seen. And even as a manufacturer also we see that sometimes.

Vishal Prasad: So, price is not the only criteria and your relationship and your ability to deliver definitely comes into picture.

Pallab Banerjee: Yes, delivery performance is definitely important. Very important.

Vishal Prasad: Sir, last question, last call when I asked, you mentioned that 10% to 15% of our revenue comes through partner manufacturing?

Pallab Banerjee: Partner factories, yes. So, if you see the certain matured markets like Vietnam, and to a certain extent, Bangladesh also, we do have partnership factories, where we do source from. So, it helps us mitigating some of our resources. Sometimes the fluctuation of the quantity and some quantities required in a bigger number in a smaller amount of time, where our capacities, along with partnership capacities can be used.

And in certain cases, like, the flexibility that we get by working with the partner factories for certain clients of us also is helpful. So, yes, that remains in our strategy and will continue to be there. A certain percentage may not be a big chunk, would be we do this kind of partnership factories where we source from.

Moderator: Thank you. Our next question comes from Aditya Sen with Robo Capital. Please go ahead.

Aditya Sen: Hi, good morning. I wanted to understand about the acquisition that we made in Bangladesh. Earlier we were in the partnership model and now we are shifting to the self-owned model. Am I right on this, sir?

Pallab Banerjee: This particular case, like, one of the partner factories that we worked with for some time. And then we made the decision to acquire that company. That's the case of Alpha. It may not be like, the only formula that will work in future. So, there will be certain partnership factories which will continue to be partnership factories. And, for example, what we are seeing in Central America, like we are in exploration and close discussions. So, there we haven't worked as yet. But Yes, from the beginning itself, we will be acquiring shareholding.

Aditya Sen: Okay. So, all-in-all, we will proceed with the partnership model if we see a good partnership.

Pallab Banerjee: And as I mentioned, like, it will not be the majority of the percentage of our business, but it will play a role.

Aditya Sen: Okay. One more. In the initial comments, you mentioned that we are expecting a revenue growth of 15% to 20%. So, what will be the growth drivers for this? Will it be only macroeconomic or the acquisitions that we are looking forward to make and the capex?

Pallab Banerjee: Yes. Like, we as a company have, I would say, a sight on a continuous growth anywhere between 15% to 20% in a CAGR level year-on-year. Of course, there are certain times, certain quarters, where the market is fluctuating, whether because of war or because of inflation or because of interest rates going up, or sometimes, like we saw, like, at least half the year last year was a huge concern on the over-inventory position in markets like US and all. So, otherwise, like, we will continue on our strategy to have this growth of about 15% to 20%.

So, that's what I can foresee in the near future, over the next five to seven years, if we talk about in that horizon. So, we will be exploring, if you look at our mission vision statement, like, we are working in this particular field of providing fashion and manufacturing and supplying

apparel products to our customers and doing a supply chain service, that means, try to be more end-to-end.

So, in our statement today, like what I mentioned about the licensing part of the business in US, so that's a part of our supply chain. So, that means, like, for a particular licensed brand, like, we as a company will do the entire designing, manufacturing and then selling it to the retailers. So, that's done by this new division that we're creating. So, those kind of opportunities we will continue to explore, either various regions of manufacturing, partnerships in manufacturing.

Sanjay Gandhi: And just to add to this point, which Pallab mentioned, if you look at our current capacity utilization, which is a blended capacity utilization, we are now at 65%-plus. I think there is enough headroom for at least a couple of years to really keep on adding within the existing capacity while we are looking for an opportunity for expansion, as Pallab mentioned.

Aditya Sen: Okay, thank you, for this. Next, I would like to know the outlook on tax. Until when are we going to sustain this range and are we expecting 25% of tax in the coming years?

Sanjay Gandhi: Sorry, there was some noise from the backdrop. I could not hear you. Are you talking about the tax rate?

Aditya Sen: Yes, tax rate.

Sanjay Gandhi: So, see the tax, you're talking about the corporate tax rate, just to clarify, right? So, the tax rate is applicable in all the countries at a different rate. You know, the Hong Kong, we have a different combination of nil, 0% of corporate tax and then there is a 16.25%. Bangladesh is a combination of tax on the turnover or 10% of the deemed profit. And Vietnam is 10%. Indonesia has a 22%-plus India is 25%. So, it all depends, which part of the geography the maximum profit is getting generated and our blended tax rate will be applicable.

So, I do not see that, we'll be falling the 25% bracket at all, because the India contribution on the top line is only 35%, for last, if you look at three to four years' time period and the other part of the profit is getting in overseas countries, which will be lesser than 25%. So, the blended rate will be, you know, let's say, within 15% to 18% is something which we can look at.

Aditya Sen: Okay. This was great. Thanks a lot. I'll back in the queue.

Sanjay Gandhi: Thank you.

Moderator: Thank you. Our next question comes from Faisal Hawa with HG Hawa and Company. Please go ahead.

Faisal Hawa: Sir, you mentioned in your initial comments that now the funds as given as margin for LC are not being taken into ROCE calculations. So, what effect does it have on our, ROCE going up? By what percentage does it go up? And what is the reason for doing this?

Sanjay Gandhi: Yes, so it's a 1% impact, the ROCE will improve by 1%. The reason for excluding exclusion was that, since these funds were really, when you look at the capital employment, employee point of view, these are earmarked for making the payment against the trade creditors, which are

spending in books. So, we thought it is appropriate to follow a conservative thing, appropriate that towards the trade waiver rather than setting it from the long term and the short-term borrowings per se. So, that's the reason, otherwise, by 1%. So, it will become 25%-plus against 24%. So, we are following just a conservative on that.

Faisal Hawa: So, are we saying that the ROCE has gone up from 12% to previous FY, to now 24% in this FY?

Sanjay Gandhi: Yes, you are right.

Faisal Hawa: So, sir, you have almost, you have more than actually fulfilled your promise given in the previous con call that the ROCE will go up.

Sanjay Gandhi: Absolutely. Thank you for reminding. Yes, we were looking at close to 20%. And we were happy that we could deliver on that, much above that time period. Overall, we are always targeting that any new project which is taken in the company, whether it is a brownfield acquisition, and even the capacity enhancement at the existing factory, if any capex is coming from any country -- then everybody has to look at return on capital employed has to be close to 20% to start, in a period of two, three years' time period that project has to generate. Initial six or eight months can be lower, but eventually, this project should have the capability of reaching a 20% gross rate. And that is a yardstick for approval at a board level also. This cadence has actually been set up in the last 12 months or 14 months of multiple deliberations.

Faisal Hawa: But do we still hold on to a target of almost going 20%-22% every year in volume terms for the next three, four years? It may not happen like every year; I can understand that. But generally, I have a CAGR of 20% for three, four years in volume terms. And also, sir, what is our ROE for FY '24, FY '23 rather?

Sanjay Gandhi: FY '23. So, see, if you look at our effective tax rate, it is coming to be around 10% because of the distribution of the profit in line with that. So, I think we should be close to 18%-19% of return on equity given this kind of a strength across the countries.

Faisal Hawa: And you feel that this will be now maintained over next three, four years for the ROCE and ROE? Those metrics are now very much in place as a very big foundation. It is not due to any yearly seasonal factors or anything.

Sanjay Gandhi: Yes. You are very right. You know, I do not think there is not any seasonal or one-time impact. It is coming in the ROCE improvement. Now, the ROCE target, as I mentioned, we are targeting very clearly and all our capex or any other decision, which is financial capital allocation is between 18% to 20%. So, we should be able to maintain that. There can be a certain period, you are incurring a capex, there is in a particular factory and before it starts generating the incremental return, it may take a while, maybe a couple of quarters before you start generating. But overall, when we look at it, the incremental capital employment should be able to generate 18% to 20%. So, net-net, we should be always close to 20%.

Faisal Hawa: And sir, on a consolidated basis, what is our capacity utilization in all the factories?

Sanjay Gandhi: So, the blended capacity utilization is around 65%. This is what in response, as an answer to the earlier question I was mentioning that within the existing capacity partnership and our own factory, there is a potential for us to really grow, for at least for the next couple of years to utilize that and these two years will be also looking at more opportunity for collaboration, whether it is a partnership or the joint venture or maybe the brownfield acquisition. So, Yes.

Faisal Hawa: And sir, we are also seeing, the emergence of three or four very big groups in garments like, Reliance Trends and even Aditya Birla Group. So, are we making any kind of effort to become like a choice contract manufacturer for them also very early into their evolution?

Sanjay Gandhi: I do not think so. I will request Pallab if he can just mention about it.

Pallab Banerjee: Yes, our focus has still been in a global manufacturer. Yes, India would be one of the countries, but yes, as of now, current focus is still the opportunities to encash upon.

Faisal Hawa: Okay. Thanks a lot, sir.

Moderator: Thank you. Our next question comes from Pulkit Singhal with Dalmas Capital Management. Please go ahead.

Pulkit Singhal: Thank you for the opportunity. Congrats on a great set of numbers. First question to Pallab, I mean, if you can just help us understand qualitatively how the discussions are going on with potential brands or existing customers. I mean, have those conversations, number of such conversations picked-up versus say last year? And what is the nature of those conversations? How has that changed? What is their focus like versus last year and currently?

Pallab Banerjee: Yes, conversations are happening at a full pace, I would say. In fact, I am taking this call from US only. So, that is why I think there was a delay because we had some technical snag for connecting. So, we apologize for that. We are starting this call a little late. There have been a huge amount of conversation and interaction with most of the customers.

So, either they are visiting us or they are asking us to visit them. Various strategy conversations are going on at this point of time. Yes, market is in that influx. What happened in the last 12 months, I think, will have a long-term repercussion on the industry as a whole, how the retailers would think and build up their strategies. So, that is evolving and undergoing. So, there could be certain risks. We are seeing certain customers becoming [inaudible 0:43:58] by-the-day and certain others like, who have a very strong strategic vision and are strengthening themselves quite a lot. So, yes, there is a mover and shaker kind of activities in this market of US especially.

So, yes, like till the holiday season, like another gentleman also mentioned, there were numbers that were quite low because that is because most of the US retailers had inventory and they have not been buying for those products. So, as we get into spring-summer goods of 2024, so that means for the retailers of Q1 and Q2 of 2024 when they are buying, how they would be selling. So, that season, they are still like most of the retailers are conservative.

I am hearing that they would be buying anywhere between 15% to 25% conservatively and keep some budgets open to see. So, that is why for them, options like near-shore and all would be

more important when they want to see like how the customers are reacting and the consumers are reacting, what is the kind of buying trend that is coming up in the consumer. So, that wait and watch also is happening in the market.

Pulkit Singhal: Okay. And the guidance you mentioned of 15% to 20% on a CAGR basis for revenue growth, what is it that you expect for next year? Will it be in this band or do you expect lower?

Pallab Banerjee: 15% to 20%? Yes. Okay. Compared to their normal sales that was like pre-pandemic or after pandemic, there was definitely a couple of quarters where there was a lot of pent-up demand. So, from those high levels, if you calculate, then they are projecting almost 25% or 15%.

Pulkit Singhal: No, no. My question is on the revenue guidance for the company. You had mentioned of 15% to 20% revenue growth CAGR is what you are striving to achieve over the next few years. The question is, for FY '24, will our revenue growth be in this band or will it be lower?

Pallab Banerjee: Our strategy and planning and implementation is more towards the same to have this growth. And the central, like what we know today is what is the current situation of the market. So, if the dynamics changes further to the bad or to becoming much worse, then maybe it will be more challenging for us. But with the current challenges that we have in our hand, we have planned this way.

Pulkit Singhal: Understood. Just last question is on debtordays, it has come down significantly. I mean, you used to have 48 to 50 days, and it's better than it became 41 last year, and now 33. Is this also reflecting your cautiousness while dealing with customers and therefore, as things pick up, this better days also goes up or is this sustainable? Is this some level of customer mix which allows you to operate at 33 days on?

Pallab Banerjee: That's something like Sanjay and me have been mentioning in our earlier calls also, like we definitely do a huge amount of focus on the risk mitigation. So, our customers are still working with 60 days or 90 days kind of terms. We do organize ourselves in such a manner so we avoid that risk of 60 to 90 days. And some of our customers are definitely reducing their time. The people like who have done well, better, their finances as they have they have improved their payment terms. So, it's a combination of both.

But Sanjay's policy has been very clear, like we have not been taking that risk and we have the various means of either factoring or insuring and taking it earlier. So, that's something like Sanjay, if you want to add.

Sanjay Gandhi: No, Pallab, you have captured it right. So, our policy remains intact. I mean, I think our strategy of focusing on getting the, bringing the liquidity into the system and also do the risk mitigation from the post shipment perspective, it remains intact. Any new customer who is coming in goes through the same scrutiny. And Yes, this is how the process normally is. So, we like to liquidate our receiver at the earliest, whether through supply chain financing, it is non-recourse factoring or from the receivable factoring with the bank offer us without any recourse. Those avenues and efforts will always be continued.

- Pulkit Singhal:** So, three years out, will it remain at this level or higher? I'm just trying to get ahead. I mean, because there's a huge situation?
- Sanjay Gandhi:** It is on a combination of the customer, which is there. Some customers, you know, the shipment time may take a little longer. So, in May, you know, we may say, you know, 10-15 days can be added depending upon the mix of the customer which is coming in that total revenue or that particular quarter.
- Moderator:** Thank you. Our next question comes from Chinmay Khabra with MK Global. Please go ahead.
- Chinmay Khabra:** Yes, hi, sir. I just wanted to understand what percentage of production comes from the partner factories and how much is it from the capacity that we have inbuilt?
- Sanjay Gandhi:** We have given a break-up between percentage of partnership factory. We said for 13-14% is coming from the partnership and the rest is our manufacturing as we close this financial year.
- Chinmay Khabra:** And I just wanted to understand what is the impact on the margins when taking the partner's factory route and production being done in our own factory?
- Sanjay Gandhi:** I mean, we will not be sharing that, you know, in terms of the separation, but it's a part of our strategy. You know, some side will go to the partnership, some will come here. It's a, you know, a way of style which are offered to the client, to the buyer. And accordingly, you know, the rationalization takes place in line with that. So let's look at a blended margin which is existing because both co-exist.
- Chinmay Khabra:** So we blended a capacity of 65% which is given only for the utilization which is done at our factories, right? Not including of the partnership factories.
- Sanjay Gandhi:** Including the partnership.
- Chinmay Khabra:** Okay. All right. And just another question regarding the demand scenario. You have, I just wanted to confirm that the holiday season is approaching. You are seeing that there is a little conservatism in terms of orders which are being placed by the retailers. Am I right?
- Pallab Banerjee:** Yes. For the holiday season, definitely the over-inventory situation of U.S. played a significant role. So the retailers have reconsidered it because they had inventory from the earlier years. That's generally in the market that the situation was. And I think that's why you must have seen in the news also, like, you know, a lot of capacities are open, a lot of vendors are not doing well. That was the main reason.
- Chinmay Khabra:** I understand that. Going ahead, like in the month of Jan, Feb, we have seen that the inventories for the retailers have started coming down and new orders have been started. I mean, new orders are being placed by them. So is it that the scenario currently or are you still facing issues with the retailers placing orders?
- Pallab Banerjee:** So definitely, as I just mentioned, from spring onwards, that inventory situation will not play any significant role in terms of their booking. So most of the retailers are talking of exhausting that inventory, over-inventory that they had. Now going forward, whether they will buy 100

percent or they will buy conservatively and they're waiting for the market to pick up, that they don't go back into an over-inventory situation.

So as a retailer, like if I had bought 100 pieces last year to sell, so this year my planning would be to go with 85 and then see how the market is, and then buy this balance 10 to 15 close to our season, seeing the consumer's response. That's where, like, near-shoring or off-shoring, that means the lead time...

Moderator: Thank you. Our next question comes from Rishi Gupta with Goldstone Capital. Please go ahead. Mr. Gupta, we are still not able to hear you. Thank you. We move on to our next question from Vishal Prasad with VP Capital. Please go ahead.

Vishal Prasad: Hi. I have a few more questions. When we think about our industry, usually what comes to our mind is what happened in Bangladesh a few years back. So we as the company, how do we ensure that Rana Plaza doesn't happen to us?

Pallab Banerjee: If I have to answer that question, there are two aspects. One, from what's happening from our own regulations in India and how the vendors are approaching the business. And the second is, there are certain regulations which are followed by the customers also. So there have been now null a few updates where we are looking at all the building structure, the strengths. So that kind of procedure of certifications and all are prevalent in India also now.

And the key customers, the big ones are asking for that. So whether it's a gap or what-nots and all, any big customers or any organized customers when they are working with us. So they are definitely asking for that kind of certification of the buildings and the infrastructure, the structural strength and all are being checked.

So yes, there were a lot of focus on Bangladesh. Today, fortunately, Bangladesh is in a very strong position. Most of the buildings engaged in our industry is following all these protocols. The same thing has started in India as well, I would say. So any new construction that is going on, definitely the specifications are very important.

I'm not sure about the domestic market and the domestic brands as yet because from the government of India also, I think there are a couple of conversations that I had in which they are trying to formulate this process as of now. But for international clients, it's already existing.

Vishal Prasad: Okay. And so what percentage of our revenue comes from fast fashion? And given that the turnaround time is probably three, four weeks or six weeks in fast fashion. So how do we deal with this scenario? Because usually our contracts would be, we have to turn around in three to six months, but in fast fashion, it's different. So how do we do that?

Pallab Banerjee: Fast fashion, yes, has not been termed in the last decade because it's generating too much to the environment, what's happening to the environment and all. So that's why, if you see most of the retailers are not using the term fast fashion, like even the biggest ones like Inditex Group, their brands were really into fast fashion product earlier and some of the other European retailers.

So they have also taken a different strategic route. So they have become much more sustainable. They are definitely talking about renewable energy or recycling of their products. So that definitely is a new trend. In terms of quick reaction to the demand situation, so that's various solutions are being looked into and various strategies are there among the retailers.

So just like from concept to design, if they have to do in three weeks or four weeks, so that's where like near shore and onshore is playing a very important role where they don't have the transportation timeline. So yes, European retailers are buying a lot of goods within Europe and so is the trend that I'm seeing in the American market as well. So how you produce that good, whether it's a quick lead time or a long lead time.

So there the supply chain has to be established. So whether it's the raw material part as well as the manufacturing part. So that's being now looked into by most of the retailers so that it continues to be sustainable even with a short duration of time. With us, yes, we are looking at that both. We do a significant amount of production for Inditex Group out of Bangladesh. So their initial orders where we are talking about establishing the raw material design and everything.

So that would give us at least about three months kind of time. But when they need the replenishment, once that the mill, the raw material, fabric and how the garment has to be manufactured and all the approvals, that once that is in place, then they look for a quicker turnaround, which is maybe like five weeks in place of 12 weeks. So that's something is in place. But Yes, whatever is happening now is very, very sustainable approach has been taken by all the retailers.

So Yes, when you are asking the question about quick turnaround versus a long turnaround, if it's from sustainability point of view, it is definitely being taken about, taken care of. So the planning is also much more clearer now. So the customers who are looking for quick turnaround book their capacity way in advance with us. So that means our planning can take that into consideration and then do it.

Vishal Prasad:

So when we look at our partner factories, and they would be having some capacity. So have we put a cap on from our side that we will not book more than certain percentage of their capacity available so that they are not 100% depending on us? Is there a number that we have thought of?

Pallab Banerjee:

We will always be a manufacturer of our processes because see, like we take pride in that process, how we are sourcing our raw material and how we are manufacturing the goods, the proper good manufacturing processes or ethical practices. So that's something is our USP to our customer. Naturally, like the kind of customers that we are being strategic to and how we are coming across to them, it cannot be 100% on sourcing model.

So it will be always a manufacturing. Now within that a certain percentage, we can say like partner factories can be there where we set it up as per the requirement of the customer and our own SOPs. So like whatever is the Pearl SOP, so whether you are taking the goods from our 100% own factory or the dedicated lines and the dedicated capacity that I have in a partner's factory. So for a customer, it will be the same service and the same approach. So that is our

endeavor. I'm not saying that we are 100% out there, but we are whatever, 70% to 90% we are in that journey. The capacity percentage to our overall turnover will always be limited to this lower number that you have been hearing consistently from us now.

Vishal Prasad:

Let me say briefly, probably I was not clear. So what I was asking is we have partner factories and they would be having some capacity with them. So do we go and say, okay, we will take your 100% capacity or have we put a cap that we will not take more than 50, 60% of the capacity from the partner so that they are not fully dependent on us? That's from risk management perspective?

Pallab Banerjee:

Yes. So yes, certain factories, we have an arrangement of learning their X percentage of their lines. So like if the factory or the partnership factory may have 30 lines factory. So if our commitment is for the 10 lines, so we would take care of the 10 lines. Generally, we are not in 100%.

So maybe like only one or two in some cases, like for example, the Alpha acquisition, when we were very clear that we will go in that path. So we started taking 100% capacity management of theirs. Otherwise, it's a part only. We don't want to be in 100%. Want to be way more specific? Yes. I would say in cases that what we are aware of is not more than 30 to 50% of our partner factory that we're using.

Moderator:

Thank you. Our next question comes from Rishi Gupta with Goldstone Capital. Please go ahead.

Rishi Gupta:

Yes. Congratulations on an excellent set of numbers. And you guys have made a very formidable business model. And I understand that you're giving that you'll be growing 15% to 20% every year in the top line. So what will be the profitability means your emphasis is on the profitability part also, like we could see in this quarter. So at the same time, you will be maintaining the profitability, or will it be higher since you're in a great mix right now and your product line event into the blended and high-end projects, products right now?

Pallab Banerjee:

Our decision making is definitely the basis of the profits. So we definitely want to take the decision where we are more confident of the range of 7% to 8% at least to start with, or as soon as possible in some new projects, maybe take a couple of quarters to achieve there. But unless until we see that very clearly, as a minimum, we are...

Rishi Gupta:

What about -- you will be taking some debt also, like you have decreased the debt level, or like Sanjay said, about that the current capacity is you can go for four, five years, three, four years in the current capacity only.

Pallab Banerjee:

Because the infrastructure that we have with minimum investment, we can grow this is of our capacity. That means the factory, the locations, the area that we have, maybe we may add a couple of additional production lines, do a little bit more automation, maybe add an extra working shed for us. So that's with that kind of thing, we can definitely do a capacity growth from 54 million pieces to almost 74 million pieces. That much runway we do have in front of us.

Of course, that doesn't mean that we will not go for a greenfield project, because with the Indian government, the initiative that they're talking about, we are also closely watching and looking into the opportunity. If something comes up, we will go for that as well. So which may be a greenfield project where we would be needing capital to do something. But yes, not majorly looking into only greenfield or big projects.

Sanjay Gandhi:

Just to add, Mr. Gupta, to be on your three things. One is that the 15%-20% CAGR is in three-to-four-year time periods. So we'll have as Pallab mentioned, there will be some quarterly volatility could be there. But eventually, you know, this is what we should be able to, we are targeting it.

On the margin side, we definitely would be heading towards a double-digit EBITDA. That's our target. Once the macroeconomic environment, Pallab mentioned in his earlier speech also said, I think we should be heading towards a double-digit EBITDA kind of margin in, depending on the mixing the higher FOB, customer and the product side, we should be targeting there.

On the debt side, there will be some debt taken for the, but even more of a capacity augmentation, it's a deep bottlenecking of existing, like, say, in one of the factory, we have a land which is available, and there is already a factory already established. So if you have to extend it, and to make it, add 35%-40% of more capacity by making an extension there, we will be looking at those opportunities, which Pallab mentioned about those things. So yes, there will be a mix of debt and equity. But as I mentioned, the overall return on capital employed has to meet a certain level, what we have said.

Rishi Gupta:

Definitely. What is the dividend policy? Because I saw some document that 25% of the

Moderator:

Sir, please join the queue for follow-up questions. We move on to our next question, which is from the line of Naitik Mohta with Sequent Investment. Please go ahead.

Naitik Mota:

Congratulations on good set of numbers. Sir, just two questions from my side, both from the Bangladesh unit. So since the last two quarters, we have been doing low double-digit margins in Bangladesh so what do you see, are these margins sustainable and some picture on margin that we expect in FY '24. Also, what are the power costs like in Bangladesh in quarter four and quarter one right now?

Pallab Banerjee:

Sanjay do you want to take that?

Sanjay Gandhi:

Yes. So you're mentioning about the first question is about the margin in Bangladesh and its sustainability, right? So the margin in Bangladesh, yes, it has been a double digit for us. If I look at return on capital employed for all the three factories, which we have one the greenfield, which commenced, and then the brownfield, and then there is a existing factory which we're running over there, have been a good healthy margin. With efficiency and operating leverage, I think we should be able to continue to maintain those healthy margins.

As I mentioned, Pallab has also highlighted that given the uncertainty around the little bit of the demand side, inflation and interest factor, there may be a one or two quarter which is showing a challenging, but overall, as a company, we are well set in terms of achieving those set of margins,

which we have already achieved. so in a way, that's sustainable, barring macroeconomic environment, which may impact the situation for a one or two quarter at the most. That was one.

Second, you mentioned about the -- sorry, if you can...

Chinmay Khabra: Yes, so some color on EBITDA margins for FY '24 and the power cost scenario in Bangladesh?

Sanjay Gandhi: Yes, so EBITDA margin, I think in speech Pallab has covered that we are looking for sure to maintain the margin what we have achieved in this year. Of course, we always like to, as I mentioned, that our target is to reach to a double-digit EBITDA. Now, we all understand the macroeconomic environment, there is interest cost, the inflationary challenges which are there in the near term. So despite that, we feel that we should be able to maintain the margin. Once the situation stabilizes and things are really normalizing on the interest and inflation eases, I think we should be able to improve the margin on a sustainable basis from there on.

But first, foremost, is that what we have achieved, we should be able to sustain it and improve from there on. It can happen in this year, it can happen in the next year, early next year also, as the situation is on the demand side.

Third is on the power cost. The power cost in Bangladesh has definitely gone up. Now, the exact number and all I can give it to you later, you can connect with me. But yes, power cost has gone up and accordingly, we have done the costing of the product in line with that. But, as I was mentioning, so it's linked to the margin and everything what the cost is going up. So inflation is impacting it, some part of the inflation we are able to build in the costing. However, considering the demand scenario, you have to give a certain portion and bear those costs with us. So that may have a little bit of influence on the margin in the short term.

Chinmay Khabra: Thank you. That's it from my side.

Moderator: Thank you. Our next question comes from Amit Kumar with India Capital Fund. Please go ahead.

Amit Kumar: Hello, many thanks for the opportunity and great set of numbers, sir. I just wanted to learn two things. First, basically, your debtor days have gone down drastically to 45 days. Is it a one-time affair? Or and what kind of means demand trends are there, especially from Europe and the US?

And what are the cost competitive advantage your factories have got in Bangladesh and Vietnam and Indonesia? Because the tax structure is just 3% margin, what I understand. So anything additional, you can put a light on that in detail, or we can do it offline also, if you can explain.

Sanjay Gandhi: On the debtor days, I would just like to mention that, as I was replying to earlier queries as well, the debtor days has been achieved with a combination of getting this financing from the bank supply chain financing and the factory financing and that will continue to have it. However, as for the number of days and particular year end, it is a function of customer mix in that particular month, number of shipments which have taken place in the last month of the year, and how evenly they are distributed in the last quarter.

But overall, we look at, we should be within the range of plus, minus, plus 10 days, not 25 days to 35 days kind of debtor we should be here. So it's not a one-off phenomenon, it's a result of the earlier exercise of ensuring the liquidity and the risk management, which is really reflecting in the number right now.

And for detailed questions on the other part of, I think we can have a one-on-one discussion also, as may be comfortable or convenient time.

Amit Kumar: Okay. Thank you.

Moderator: Thank you. Our next question comes from the line of Rishi Gupta with Goldstone Capital. Please go ahead.

Rishi Gupta: Yes. Just one question. A document that 25% of the net profits will be given as dividend somewhere. What will be the future policy on that?

Sanjay Gandhi: So dividend, Mr. Gupta, we have policy which is very clearly defined that, we will be -- after doing a careful evaluation of the growth opportunity, the working capital requirement in the business, the dividend will be given, we definitely have a consistent policy of sharing certain percentage of profit as a dividend. However, as we're evaluating it, there are two, three factors which we have to look at, every geography has their own expansion plan. And they may or may not have been fructified. But as long as they're working progress, we would like to just evaluate them carefully before, going for a dividend. However, we are given the profit getting increased, we definitely have a policy of increasing the dividend rate also as we go in coming financial year.

Rishi Gupta: So will there be final dividend in this?

Sanjay Gandhi: So as I said, we are evaluating, the various opportunity in each country, that decision will take two, three months' time period, by the time the AGM happens, we'll be knowing what is the opportunity and how do we want to go for an internal approval funding, or what is the best of you know, in the interest of the shareholder and what maximize the return for the shareholder.

Rishi Gupta: Definitely. Congratulations once again. Best of luck you, sir.

Pallab Banerjee: I can say that. Definitely an important part of Pearl. So it's not that it will be only growth. So it will be a balance always.

Rishi Gupta: Okay. That finishes my question.

Moderator: Thank you. Ladies and gentlemen, we have reached to the end of the question-and-answer-session. 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 like to know more about the company, please feel free to contact our team or SGA, our investor relations advisor. Thank you once again for taking the time to join us on the call.

Moderator: Thank you. On behalf of Pearl Global Industries Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.