"Pearl Global Industries Limited

Q1 FY '24 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Q1 FY24 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 a touch-tone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Pallab Banerjee. Thank you and over to you, sir.

Pallab Banerjee: Thank you. Hi, good morning everyone and I welcome you all to our quarter one financial year 2024 earnings conference call. Along with me on the call we have 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 the global macro environment is sluggish and continues to remain a challenge. Although the excess inventory situation of the big US brands and retailers is coming to an end, their sales numbers continues to be conservative.

And PGIL sales have risen marginally for this quarter. Order booking looks positive as the retailers prepare for the upcoming seasons. Our next few months sales is conservative. This is mainly because the global retailers continued their efforts to reduce their excess inventory. Global retailers witnessed a decline in their excess inventory during Q1 of 2023 and expect the inventory position to further reduce significantly by current year of 2023. As an example, Gap Inc. saw an inventory decline of 27% year-on-year in the latest quarter and expects the inventory to be balanced significantly as compared to the financial year 22.

Large retailers like Walmart, Target, Costco have also lowered and controlled their inventory much better this year. This means order books for the industry will be close to normal going forward. As you know, with the backdrop of China plus one strategy, it is increasing its market share along with other competing nations. There is a high likelihood of India signing a free trade agreement with Europe and the UK, while already benefiting from the India-Australia FTA.

We maintain a confident outlook on the continued growth and traction of Indian exports in the medium to long term. The Indian government is actually working to – is actively working to promote the growth and development of the country's textile sector, implementing a range of effective and meaningful schemes over the years. Amidst the challenging economic landscape, marked by inflationary pressures and macroeconomic hurdles on the global scale, we are rapidly emerging as the preferred choice within the ecosystem of our esteemed global clientele.

This can be attributed to our distinguished global competitive advantage with positions as on par with our global peers. Our multinational presence, diverse portfolio of our product, robust design teams, strong parentage with a professional team and exceptional customer relationship collectively establish a strong global standing, thus making us a preferred vendor among our customers. Our company has successfully expanded its reach to various regions worldwide with a notable presence of 23 manufacturing facilities situated across five different countries.

There are four big supply chains, as I have mentioned in my earlier calls. These include Southeast Asia, South Asia, the Mediterranean region, and Central America. Most of our customers and the big global retailers do source from all of these locations. Pearl Global has been running its manufacturing plants in two of these supply chains, namely the Southeast Asia, our plants are in Indonesia and Vietnam, and in South Asia, where we are having our operations in India and Bangladesh.

Now in COVID-19, pandemic did expose the vulnerabilities for the long transits from Asian and African countries as a sourcing base for markets like US. And this has prompted US retailers to prioritize sourcing from near shore countries. This year, most of them have been in lookout for capabilities and capacities that emphasize speed and inventory control. I'm happy to announce that Pearl has started a manufacturing in Central America that is a third you know supply chain that we speak about via a strategic expansion in Guatemala.

Pearl is now fully equipped for this need of the US retailers and will continue to add advantage to our customers. Pearl Global has acquired a 55% equity stake in Pearl Guatemala Holdco Limited. The existing factory, earlier owned by a Guatemalan resident and a U.S. resident, and was generating an annual revenue of $3.8 million, it was operating three production lines. Post this acquisition, Pearl GT Holdco Ltd. will incur a capex of up to US$2 million in the subsidiary to expand the capacity up to 12 lines and which shall generate an annual revenue of US$20 million by manufacturing for our prestigious customers.

With its stable business environment and membership in the Central America Free Trade Agreement, Guatemala allows us to tap into the duty-free benefits standing out as one of the most stable environments in the near-shore region. Having established relationships with our clients for over the last two decades, approximately 60% of our revenues are contributed by clients who have trusted Pearl as their apparel manufacturer for over 10 years, indicating our focus on delivering the best results for our clients at the best cost, quality, and minimal lead times.

These strategic partnerships continue to prosper as we grow while on board new customers. Last year around 70% of our revenue was from US while the rest of the contributions came from Europeans, English, Japanese and Australian retailers. The share of our non-US business is on the rise this year. As I mentioned before, our business revenue in the next quarters continues to be tight. However, we do maintain our focus for the year to be flat or slight growth. Our primary objective is to reach higher levels of success by surpassing previous revenue growth records, which will positively impact our bottom line.

This will be accomplished through various means, such as introducing new product categories, strengthening our existing customer relationships, and to increase the wallet share, their wallet share, the existing customer's wallet share. Attracting new customers and assembling a resilient, agile and creative team dedicated to the realizing of Pearl Global's vision. With this, I hand over this call to Mr. Sanjay Gandhi, our Group CFO, to run you down with some of the financials of Q1 Financial year '24. Over to Sanjay.

Sanjay Gandhi: Thank you Pallab. Good morning everybody and welcome to our earnings call Q1 FY24. Coming to the financial and operating performance of the company on a consolidated basis total income for quarter 1 FY24 increased by 5% year on year to INR894 crores. EBITDA for Q1 FY24 expanded by 140 bps year on year to 9.3% from 7.9% in Q1 FY23. PAT for the quarter stood at INR47.4 crores versus a profit of INR36.4 crores in Q1 FY23. Partnership factory contribution to the overall revenue stood at 16% for Q1 FY24.

Revenue for this quarter increased on account of higher realizations per unit and improved capacity utilization level as we continue to gain traction from existing customers. Margin expanded because of an improved product mix and improved profitability from our overseas operations and on account of operating leverage kicking in. Despite the sluggish macroeconomic environment for our business, we continue to remain confident on our long-term goal of achieving a target revenue target of 15% to 20% over the next three to four years.

With strategic allocation of capital, efficient cash flow management and robust internal control, we are confident of delivering the best result to not only our clients but also our stakeholders. With this, I would like to open the floor for questions. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. Our first question is from the line of Keshav from RakSan Investors. Please go ahead.

Keshav: Hi, good morning, sir. Congrats for a very good performance this quarter. Firstly, sir, year-on-year there is a near 20% volume correction, but the ASPs have gone up to make up for it. So, can you help understand what's driving this ASP growth and how sustainable is it?

Pallab Banerjee: Yes, if you see like we do declare the results in two formats. One is the India standalone and then the consolidated result. So, I think what you are asking for is that India there is a decline in the number, but overall the number has gone up. Correct.

So, what has happened is we had last year, when the demands were high, we had taken certain orders in India which were supposed to be like in the long term should be produced in countries like Bangladesh. So, very competitive and bulk orders which are much more Bangladesh friendly compared to India.

So, this year we didn't have that pressure. So, we had capacities in Bangladesh where our efficiency and everything went up. So, those orders we had shifted back to Bangladesh for this year. So, that extra pressure that we had in India is not there this particular year and the second is that we had also undertaken another plant of ours in India to do some renovation. So, that's why like we had operated one plant less in India, a smaller plant.

So, these are two things that contributed to be a lesser revenue in India portion and overall our business that means from the customer wallet share it did not decrease. So, in fact, it increased and we shifted the place of production manufacturing looking at where the best benefit could be achieved.

Keshav: And sir secondly so a bit more light on how the demand scenario might affect us, so the global textile demand is just seeing some of the other headwinds for a while and any projections are getting difficult to understand. But slowdown is being seen now in multiple industries. So, what we said about conservative growth for the next few months, taking that into account and whatever visibility we have with our clients, do we still expect to do 10% to 15% PAT growth this year?

Pallab Banerjee: Sanjay, I can take that. In terms of the overall revenue number, that we are projecting to be similar to last year or maybe a minor growth. So, that's what we have been forecasting and we still stand to that forecast. In terms of PAT or the PBT bar portion, so we have been working on that to -- as our the scalability of our factories and the efficiencies that we have been achieving in some of our factories that is generating that extra benefit so that's something and plus other disciplines of financial management is giving us the growth in our PBT and PAT. So, that again like whatever focus that we have been talking about that we will maintain.

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

Pulkit Singhal: Thank you for the opportunity and congrats on a very good set of numbers. First question is just to understand a bit more on the seasonality aspect of the business. If my understanding is correct, second half typically in a financial year is better for you in terms of revenues than the first half. Is my understanding correct in a normal year?

Pallab Banerjee: Depends on the region. So yes, for the India region, definitely it is the second half gets better.

Pulkit Singhal: I meant on a consolidated basis, but when you look at the consolidated revenues.

Pallab Banerjee: Yeah, to a certain extent, yes.

Pulkit Singhal: Overall, that's what we called out in the last.

Pallab Banerjee: Yeah.

Pulkit Singhal: Now in that context, and given that second half of last year was also a very soft base for you where you were knocking INR700 crores out of revenues. And lastly, given that even one of the competitors has called out the second half will be much better. You can already see that in the order books in terms of growth rates and given your opening commentary as well. Given that you've delivered already 5% revenue growth in 1Q, which was the most challenging quarter, why would the full year be anything sort of double digit revenue growth?

Pallab Banerjee: I would say that what I'm seeing at this point of time from the U.S market is still has not kicked in the growth that we are talking about or we are expecting. Most of the retailers have been balancing out their excess inventory. So, that part is becoming better. But so far, still they're very conservative in terms of their buying.

So yes, we continue to project that there will be a growth, but may not be a big amount of growth. So, that's why we have been saying that, okay, it will be flat to a little growth. What we're seeing is that like for us, the Q1 revenue has been good, Q2 overall revenue again soft or similar to last year. But then from Q3 and Q4 we will see a little bit more bouncing.

Pulkit Singhal: Yes, exactly. I mean Q3 and Q4 because your current order book would be for Q3, if my understanding is correct already. Have you filled up your Q3 revenues, I mean your order book?

Pallab Banerjee: Yes. So you see, that's what I'm saying. If you look at the full continue full year, so from that, we are still positive. We will be definitely showing some growth. But to what extent, I would like to go conservative because of what I'm seeing in the current market scenario. So, I'm not over-elated to say that, okay, we should be having a double digit growth and all as of now. But as the number comes in, as the number picks up, definitely we'll keep the market informed.

Pulkit Singhal: Thanks. And secondly, if you could just call out what is the forex loss for the quarter in the other expense?

Sanjay Gandhi: So, let me just explain. So the forex this loss is actually, this is always the translation loss. We have the accounts which are maintained in Vietnam currency, Bangladesh currency and then they get translated into Hong Kong in U.S doller and then U.S dollar to INR finally. So, there are multi-layer of consolidation. So, it is all unrealized currency translation loss which is on the balance sheet item which is sitting that really is there otherwise on a currency basis we don't have any situation for loss as such.

Pulkit Singhal: Right, but you account for that in other expenses my understanding?

Sanjay Gandhi: Yes, yes, you are right. So, there is a hedge accounting principle which is supposed to be followed. It goes into three heads so I mean if you look at I just give for the sake of time I I'll give you three components. Some part of it goes and gets clubbed with the sales. As long as the hedge contract, what you take is linked to the sales contract. There is a certain portion which goes to other expense, and there is some portion which goes to OCI. So, depending upon the nature of the forex gain or loss, it gets categorized accordingly.

Pulkit Singhal: Understood because last year, there was a huge loss setting for the full year in the other expense. And I was just wondering what is the repeatability of that expense on an annual basis, I mean let alone from a quarterly basis. But if I look at things annually, this year, next year, etcetera, do you expect that quantum of loss to continue?

Sanjay Gandhi: I don't think there will be any loss given the fact that the currency is depreciating overall. As I mentioned that the loss which arises is on account of the currency translation because of the multi-layer currency which we operate and multi-layer consolidation which takes place on the balance sheet item. On the P&L side, on the real transaction basis, there has never been a loss because we have a currency which is depreciating and all our revenues are denominated in US dollars.

Pulkit Singhal: I will try to take this a bit offline, but thank you for answering my question.

Moderator: Thank you. Our next question is from the line of Vignesh Iyer from Sequent Investments. Please go ahead.

Vignesh Iyer: Congratulations, sir, on a very strong set of numbers in a difficult environment and thank you for the opportunity. Sir, I was going through your geographical split that you have given segmental. So, what I observed is last two quarters, Bangladesh was in around 10% PBIT margins and now it has come back to its 5%, 6% margin whereas Hong Kong and Vietnam has seen significant growth and profitability. Is there a seasonality to this specific geography running the business or we are seeing a more consistent level of margins from here on?

Sanjay Gandhi: So I'd just like to mention that you're referring to the segment result. In segment result, there are lot of intercompany elimination which takes place and it vary quarter-on-quarter basis. So, that may not be clear true reflection of the profitability which is there in that particular country. Reason being that you know there is some invoicing which we have to do from Pearl Global Hong Kong and then Pearl Global Hong Kong and the respective country will have the inter-company elimination there.

In some quarter it may be more, some quarter it may be less and it varies from the customer-to-customer basis. So, that may not be true reflective of what profitability is there to compare on a quarter-on-quarter basis. So, it is a bit longest concept to explain in terms of the segmental reporting. I can take up your question later in detail if you would like to understand a little more about how does the overall revenue transaction of the Pearl is structured for a better understanding and appreciation of the segmental accounting.

Vignesh Iyer: Okay. I will surely contact you post this call to understand it. But just to understand is this every geography a profit center in itself or it is more about profitability at a company level?

Sanjay Gandhi: So, yeah we have a profit center for every geography like Bangladesh is a different profit center and there is a separate legal entity which operates in there. Vietnam is separate, Indonesia is separate and India is separate. So, every country has a separate profit center and the tracking and MIS and management information and evaluation of those countries happen on that basis only.

Vignesh Iyer: Yeah, but they don't invoice, I mean between geographies on cost value it is invoiced at market value only, right. I mean to ensure that that geography is making the profit as if it is selling in the open market.

Sanjay Gandhi: That's why I mentioned there is some technicality around that, about the intercompany and then customer requirement also comes into play and that all is combination is put together and of course as you rightly mentioned there are transfer pricing regulations which require a compliance and that are adhered to and thereafter this entire transaction is given effect.

So, for better understanding I think it will require a little more on discussion about how the transaction structure is there given the particular requirement of the customer and therefore looking at a segmental result, it may not be clear indicative of the profit potential of that geography itself.

Vignesh Iyer: Okay, I will probably contact the IR and I mean set up something. Okay, sir second question is just to understand what would be our tax rate for this year at consolidated level?

Sanjay Gandhi: So, effective tax rate you know given so that's another point which is pertinent to the first question also which I wanted to elaborate later. But I just give you the effective tax rate percentage which is on a consolidated basis for us given that Vietnam has a different tax slab which is on to lower tax regime and then there is a separate taxation rate in Hong Kong, Bangladesh, Indonesia and India.

The blended rate changes as per the profit percentage which is accruing in the different country. However, we feel that 16% to 18% is something which should be the effective rate for the company as a whole. In some year it may change depending upon how much the profit is lying in overseas but on an average basis when we look at it when we prepare our budget and forecast the blended rate comes to around 16% to 18%.

Vignesh Iyer: Okay, I understood. Sir one last question, our Guatemala facility, I mean, when would When would the capex start and expected to have a full facility ready for production?

Sanjay Gandhi: Pallab would you like to take this?

Pallab Banerjee: This investment has started already. So we are at this point of time in process of expanding the lines. We will do it in phases and as our clients like the bigger clients, would be placing the order. In fact, the first order has already started manufacturing there as I speak. So, this will see that growth, both in terms of the capacity and that's how the capex has been planned over this one year.

Vignesh Iyer: I mean if you could just give a timeline to this phase, if possible quarter wise a rough number will do, I mean about the quarter.

Sanjay Gandhi: If you're asking about the capex amount sorry, you are asking about the capex amount?

Vignesh Iyer: On phase wise, when it will be spent just to get an idea.

Sanjay Gandhi: Yeah, sure, sure. So, this year when we are talking in August 23, I think by the end of March 24, we would have incurred at least 25% of the capex on this facility and going into next year, FY24-25, we expect within 6 months of next financial year, this quarter 1 and quarter 2, as the facility scale up, we will be starting incurring and I think completion should happen around quarter 2 or quarter 3 of next financial year.

It is all about how quickly and how fast the facility or the existing phase wise capex start generating the return which we are looking at it and it can be accelerated also depending upon the traction which comes from the customer. It is all in our hand in that sense.

Vignesh Iyer: Okay, okay. Thank you, sir. That's all from my side. All the best.

Sanjay Gandhi: Thank you.

Moderator: Thank you. Our next question is from the line of Narendra from Robo Capital. Please go ahead.

Narendra: Yes, thanks for the opportunity and congratulations on a good set of numbers.

Moderator: Sorry to interrupt. Mr. Narendra, may we request you to use your handset please?

Narendra: Yeah, so my first question would be regarding the situation in the overseas market. So, when is it expected to normalize like you have a medium term revenue guidance of 15-20% so when could we see that coming up?

Pallab Banerjee: So, situation across the globe is conservative at this point of time, but if I have to break it down region-wise, till last year, the markets like Europe, Japan, Australia were much, much more conservative compared to U.S. So, U.S. was really very, very highly charged and they were really in high demand and because of that happened because of the logistical delay that was happening in 2021.

So, that's that resulted in a excess demand from U.S and we saw a lot of high demand situation whereas the other countries other regions that means your UK or Europe continued to be conservative. They were just starting the war so that definitely they were very, very conservative at that point of time. Even Australia and Japan, post-pandemic, have been conservative in the whole period of 2022 if I have to look back.

What I'm seeing now is that these other markets are normalized. They are like Australia or Japan, Europe and UK. So, they are much more normal at this point of time, whereas U.S landed up with a huge amount of extra inventory because they were so bullish in 2021-22 period. So, when they placed so much of business and then the market became slow for them when the goods arrived. So that generated extraordinary, I would say, negative demand for the US. So there most of the retailers were buying almost like 30%, 35% less compared to what they would buy, even more than that.

So for them to come back to normalcy, we expected that from spring to summer season, they should be coming back into normalcy. But you see, what was happening is that they had two things. One, extra inventory, that excess inventory that they were carrying. And second, the market continued to be slow. So those markets have yet started buying aggressively, or buying, I would say, not 100% normal. So from a 30% to 40% dip, they are now coming back into about 10% to 15% dip.

The other thing that happened in US market was a conscious shift towards near-shoring. Most of these retailers have kept a budget of at least about 5%, 7%, 10% of their total sourcing. They try to source now from the near shoring. So this two reason would be responsible for some amount of glut in the Asia market from the US. So you see like, if I look at overall where US is going conservative for Asia, the other markets are coming back to normal.

Now if all the markets fire in the same pace or come back to a normalcy, then we will see, a growth further in India as a whole that we experienced in 2021-22. So that's something I think might take another two seasons, but it is going in that direction.

Narendra: So the Guatemala acquisition that you have done so that that should help us all part of the problem in the US, right?

Pallab Banerjee: Yes, see Guatemala is a new acquisition for us. We have taken a very small unit as you have it's ever running only about three Production lines and we are ramping up to 12 production lines. Guatemala is a small country, compared to the Asia, the kind of factories that we have in India, Bangladesh or Vietnam, this is a smaller operation. And for us also, it's a new country. As we go in, as we establish ourself and then we grow. Yes, from the US customers, there's a huge push initially and there're a huge attraction for them.

In fact, all my US retailers have already visited the Guatemala plant. All of them, I think 50% of them, has already placed me confirmed orders, but not to the comparison of your India and Bangladesh or Vietnam numbers that we do out here, but the capacity that we have built up that we are seeing a good traction out there. And yes, we will be growing that as we get more-and-more hold in the near shore country of Guatemala.

Narendra: Okay, so there is scope for more expansion than what you have budgeted right now, right? If I am not wrong, you mentioned…

Pallab Banerjee: There are two ways the expansion can happen. One is by direct capex and the other one is also by outsourcing. So as you know the Pearl, we do have an expertise of doing both. So, we don't do 100% like in countries where it allows us, where the ecosystem exists to do more outsourcing. So, we'll capitalize on both. So, yes, it's more to come. It's a new start as of now. So, we will be going carefully. We'll not make any mistakes. That's the first goal. And then ramp it up, grow it up.

Narendra: Okay. So just a clarification, you said the revenue potential of that facility is $20 million, right?

Pallab Banerjee: Yes, as of now we have planned up to that much.

Narendra: Okay, and any idea when could we see that coming up in our profits?

Sanjay Gandhi: We have mentioned in the press release that we are expecting post our complete capex is done in the next two years to three years we should be able to reach to that level.

Narendra: Okay, and the first year utilization, if you could say, something for next year maybe?

Sanjay Gandhi: So let the first the capex will happen, I think we can keep on updating in our quarterly call as the progress happens in Guatemala as to what's the capacity utilization we are looking at because it's also a function of the product mix, customer mix and acceleration which takes place. We'll keep you updated on that.

Narendra: Okay. And just one last question regarding the margin. So, is the current margin number sustainable?

Sanjay Gandhi: The margin, which, see the combination, the mix of the revenue with that kind of a mix continuing, yes, it is sustainable in that sense. We have given in this year of challenges which Pallab has already mentioned about the conservative. We have initially said in this year we will be able to maintain the EBITDA margin what we had last year despite all the challenges. We are maintaining that guidance till now. Our endeavour is always to make an improvement on the top of it.

Narendra: Okay. Thank you so much and all the best.

Sanjay Gandhi: Thank you so much.

Moderator: Thank you. Our next question is from the line of Rishabh Shah from Global Securities. Please go ahead.

Rishabh Shah: Yeah, hi. So thanks for the opportunity and congrats on a good set of numbers. So I have two questions. First is, what are our average turnaround times for our current factories in different value chains, if you can give some, like put some light on that?

Pallab Banerjee: Average turnaround time of manufacturing, or setting up a unit?

Rishabh Shah: Manufacturing.

Pallab Banerjee: So, we do seasonal, like you know, most of our in the apparel manufacturing, the orders come in seasonally, that means you can say four quarters. So, each quarter will have, although like the quarter time period may not exactly match to the financial quarter that we publish, but yes, 4x inimum most of the US customers do place the business. The Europeans try to do it maybe 5x to 6x in a year, and there are certain fast fashion retailers like the Inditex Group which has got Bershka and Zara, or like S. Oliver and Mango. So these kind of customers do take more than that. They go up to eight to 10 cycles of buying as well.

And for us, we have to produce within that timeline. So depending on the customer, we do have a timeline which ranges from 140 days to even as less as 50 days, or 40 days also.

Rishabh Shah: But for blended it is somewhat if you can...

Pallab Banerjee: Blended you can say best is best is about anywhere between 4 to 5 times in a year.

Rishabh Shah: Understood. Thank you. Thank you for the detailed answer. Next question is how is the company planning to reduce its environmental impact? So considering a lot of major apparel retailers have turned to sustainable practices and what is our company doing to adhere to these strict ESG norms?

Pallab Banerjee: So definitely, we had and always continue to evolve our plans on the sustainability front. So, I am proud to say that today, like you know, one of the measures that most of these Western retailers keep track on is, they call it as Higgs index. So, our score in the Higgs index is much better than the global average of the manufacturers of apparel. So that continues.

We continue to invest. Some of our units use solar power and more are going in that direction. So at various phases, whether it is the sustainable energy or the conservation of water or recycling. Most of the water that we use across all our plants, we have STP and ETP where we recycle that water. And that has been continuing.

Yes, to the accuracy of what kind of recycling, how less is a discharge, that has been improving every year. In fact this year we are doing our little bit of investment in the washing units of Bangladesh where we want to conserve almost about 85% of the water. So that those kind of exercises we continue to do and that's the advantage that we always have from our customers which who appreciate this and we work very closely with their goals and in fact help them to achieve their goals by being completely sustainable at our end.

Rishabh Shah: Understood. Thank you so much.

Pallab Banerjee: I think detail-wise, we should be publishing in our annual reports, like we continue to update what we're doing.

Rishabh Shah: Understood. Thank you so much and all the best.

Pallab Banerjee: Thank you.

Moderator: Thank you. Our next question is from the line of Navneet Bhaiya, who's an individual investor. Please go ahead.

Navneet Bhaiya: Hi, Pallab and congrats for a great set of numbers. I wanted to know what's the revenue split between your large format stores and the higher fashion speciality retailers as of now?

Pallab Banerjee: We do have both. In fact, we do supply to the large format retailers, we do supply to the brands, which are national brands in the US, and then we have specialty retailers. So we have, you can say that the combination is all three. So example, the large format retailers would be like Kohl's or a Walmart, so that kind of customer that we have. Those are like large format retailers.

Then we have brands like Tommy Hilfiger, Calvin Klein or Polo Ralph Lauren, this is the brands who have their own retailer also specialty retail plus they supply big volumes to all these large retailers. And then the third one is the specialty retailers, like Gap, Old Navy, or Aritzia, or this kind of brands like American Eagle. So all three combinations are there. Now in terms of percentage breakout, I would say large retailer would be, large format retailer of US and Europe combined should be about 50% of ours.

Navneet Bhaiya: Okay, and the have been 50 to 60 split?

Pallab Banerjee: Roughly Yes, approximately I may not be 100% correct because these numbers fluctuate season on season. But my rough estimate would be about 50%, yes.

Navneet Bhaiya: Okay, so any progress that we've had as a company over the last three, six odd months in terms of developing, new high fashion retailers as our customers?

Pallab Banerjee: Yes, we continue to do that. We have been at it. So many new customers, we have been trying to develop and have developed also, in this last couple of years and that share continues to improve and increase.

Navneet Bhaiya: Okay, so any specific name that you could call out that you've added maybe in the last six odd months?

Pallab Banerjee: Over the last two years, if you talk of, there are players like Chico's, then we have players like the S. Oliver's or some of the Gary Webbers and other many few others like which we're continuously in discussion with and starting to work with. So there are various brands like even we have started our own operation as a licensee and branding.

So that also has is taking off at this point of time. So there will be higher end brands that you'll see more and more. And when I'm talking about large form retailers, I'm talking about the global. When I talk of 50% is not only US, so we have in US like people like Macy's and Walmart and the Kohl's. Similarly, we have in Europe.

We have the George at Asda or the Primark and in Japan, I have Muji, they're also a grocery and become big store, big format store and same in Australia, like I work with, but you see like no, I have tried to split the risk across the globe. So not only exposure having purely, when I talk of 50% exposure to the large format retailer, it's not in US only.

And so, if you want to say that okay, Muji or a Japanese customer can be a specialty retailer because they have dealt like that, that can be done. But yes, either how you want to do the classification more from the financial point of view or from the product, the inventory we are sending to them.

Navneet Bhaiya: No, I would suspect, last when you organized the plant visit, you had mentioned that developing your brand customers is obviously more difficult, but it's more sticky and may offer a better margin for your products as well. So I was just trying to understand from that perspective?

Pallab Banerjee: Yes, so there are customers like you know Next, there are customers like the speciality ones, I just mentioned like Chico's or Red Sea or some of the others. Like we are continuously in discussion with and are either we are starting, we had just started and some of them like we have increased our percentage here. So that continues to happen.

Navneet Bhaiya: So roughly as you mentioned, the split is about 50-50 right now, roughly?

Pallab Banerjee: If you talk of large format store across the globe, yes.

Navneet Bhaiya: Understood and in again high-specialty retailers, how are the progress been in getting to the higher-end like, may be I don't know, I am just taking an example, like Hugo Boss or Karl Lagerfeld, the ones which are more premium? How has the progress been in that?

Pallab Banerjee: We do that. We supply to Hugo Boss or Brooks Brothers and those kind of customers. We are supplying but they are buying and the numbers are smaller. The production runs are smaller, the efficiency goes down, margins are better but it's always risky because if you see over these years, like they are much more vulnerable like, when something happens like pandemic or anything happens, the vulnerability of these brands is the highest. So that also, like, always we keep a check on that, on their financials and how they are doing.

Navneet Bhaiya: On those calls?

Pallab Banerjee: So yes, there is a whole set of, we have our Indonesia plant is very, needle specifically high or the Vietnam, some of the customers, we have are very high needle. So these are all full of this kind of brands as well. So yes, so we do cater to that. Even in India also, we have started some of these high-end retailers, specialty brands as of now. And so is in Bangladesh. Like we do ship to, we did ship to Everlands and other customers like that at higher end from our Bangladesh as well.

So that continues but the percentage would be always smaller because that's how we continue to get and as me and Sanjay have mentioned repeatedly in this calls like we take pride that in terms of how we manage the business is almost like 98%- 99% of our revenues are always insured in terms of either factored or insured. So that tells us the financials of our customers always. So depending on that, like when it is really grow with those kind of brands, we will do. As of now, we definitely maintain a balance.

Navneet Bhaiya: Okay, so do you have a target in mind, the medium term where you would want this company to be or do you think 50%- 50% is a good percentage split to have or do you think, it should go higher in one vertical?

Pallab Banerjee: Our business share will be split across the regions because what I have seen in this last couple of years is that, even the region-wise, we see a variety of the variation and demand. And also, the way they are functioning or the risks that they are taking. So I definitely want to split, like I said like, till last year after the pandemic the US share went up so high, we were almost 70% exposure was in the US. So definitely this year like the first of all the balance has to happen between US and the rest of the world and then comes this kind of format of retailing and I would always like to have a balance between the large format and the specialty retail and also the brands.

Because that's like how you control. Some of the time, the national brands do really well in the US. When the retailers don't want to take their own risk, they would rely on these national brands. And the other time, they would, when things go fine for them, when their inventory is in control, they really push for their private brands. So then my share in this format retailers would go up at that point of time. So that's the variables that we have in our business. And we like to control them as much as possible for our strategy and our benefits or other goals like I told you the risk goals that we have.

Navneet Bhaiya: Understood. Thank you so much for your responses, sir, and all the best for your future.

Pallab Banerjee: Thank you.

Moderator: Thank you. Our next question is from the line of Himanshu Bisani from Niveshaay. Please go ahead.

Himanshu Bisani: Thank you, sir, and congratulations for the good set of numbers. Sir, on the business segments of large fashion stores, large format stores and high fashion retail, is it possible to give a margin difference between these segments?

Pallab Banerjee: No, we don't do that because you see, I don't know, most of our facilities do multiple brands and multiple segments. So I would like to track the performance of my individual manufacturing units and the individual businesses. That means, as Sanjay explained earlier, we have these five regions. So, five regions are profit centers. So, there will be mix in each one of them, which will be ideal for them, for particular.

So, yes, we have an exposure, we have these customers, and ideally like I should have a control over how much percentage of the mix would be there within those. So that my profitability goal is there. So you may have one particular customer, let's say at a very high end, where the margins are high, but the volumes would be less and the risk could be high again. So that's something, I don't think worth mentioning or going into that kind of detail. Unless until like, I don't know, like what was the objective of going there?

Unless until, I think my first priority would be to make sure that each of my business units or SBUs are profitable and tracking us by the goal. So that's how we use that. Sanjay, you want to add?

Sanjay Gandhi: No, Pallab, you are very right. We are tracking every business-wise profitability at the profit center and there is always a combination of the flexibility, fungibility which is lost and it's all a blended return which we are looking at from the asset which are invested across geographies.

Himanshu Bisani: How are the business dynamics between them currently? I'm assuming that large format stores are much more economical and with high inflation they must be better with the demand than compared to the high fashion retailers. Am I assuming correctly?

Pallab Banerjee: See, large format retailers are definitely they drive the volume and the turnovers for many companies. So, when we do compete with the large format retailers to book our business, then we compete with the biggest of the world. So that means the biggest companies from China or Taiwan or Korea or Vietnam and Bangladesh. So we have to compete with them.

So naturally the competition is high and the margins get much more competitive. But when you go for a small retailer, a small high fashion brand, so then the competition is less at that point of time and we are looking for a particular look or a particular fashion or a particular fabric.

So they are very nit-picky, they can be really like slow in their decision making and really going trying to do something different. So it's a mix. So definitely you need both to run effective operation or a large-scale operation. You need the large retailers also and for the smaller ones or the specialty ones as well.

So that's how we look at it as these are various levers that we have in our business which we use to generate the maximum return for our investors and profitability for each of our units.

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

Pulkit Singhal: Thank you for the follow-up. My first question is on margins itself. I mean, we have now done eight and a half to 10% kind of margins in the last three quarters, which honestly, I mean, in such a demand environment, in a low demand environment, that there will be higher competition intensity and you're operating at 60%, 65% utilization is quite commendable.

But whenever the demand rise, and let's say next two, three years, and you scale up the business from INR3,000 crores to whatever it be, INR4,000 crores, INR5,000 crores, shouldn't this only go up because of higher utilizations and lower competition intensity or do you anticipate a scenario where a very significant adverse product mix can also impact it?

I'm just trying to see what would be the determinants over the next two, three years. And can it easily be into well into double digits margin?

Pallab Banerjee: Pulkit, I think all the conversation that we had and thank you for asking these probing questions. I told you, like, you know, we are trying to create a very healthy business model. It's not skewed to only one or two or customers or one kind of customers or one kind of region or one region.

So the business model that we are adopting at Pearl has to be very healthy and robust and definitely the first objective was to mitigate all kinds of risk and then use these levers to maximize both the volume and the profitability. So I think that's the journey that we have undertaken and that's the kind of you know the processes that we are putting across.

So yes if the market opens up if like you know all the markets are firing at the same rate then definitely Pearl will have a very good time I think with this kind of business model that we have been able to set up even in this tough conditions. That's how I would like to see it.

Pulkit Singhal: I understand, yeah. And in terms of the hiring plans, typically, I mean, even if you have to fill in capacity, you have to hire up front and train up front before the actual demand comes in, with capacities in place. So, when I, if I look at the hiring plans, how have that changed? Are you starting to, because there's a general rate of attrition that anyways happens every quarter, are you now starting to hire more aggressively or how has your hiring plan changed in the last three-four quarters?

Pallab Banerjee: Two aspects to it. One is the executives and the decision makers and the middle level and upper level management. So that across all our locations is stable and we are hiring more and we are continuing to grow because we have a growth plan as we have discussed. So the other part is in the factory, the number of workers.

I think that we are quite stable in all locations apart from India. India as a country has got a high turnover. I think also because most of our factories are also in the region where it's like the oldest region like Gurgaon or Bangalore and Chennai and all. So where there are a lot of industry is there. So the turnover is high. We are almost having an attrition of I would say plus 6% plus this month of time.

So that's giving us also you know a benefit when it happens of this kind of slowdown that happens. Then I don't have to retrench people, I just have to wait for two months and already I have lost 12% of my workforce. But that's those are the things that we are seeing and observing. In other regions where if I also look at from economy part or the ecosystem that we have in a Vietnam or Bangladesh, when this comes down, my facilities have been very vulnerable.

It's in India like we have to be careful and as I told you repeatedly like India is growing at this point of time. The system is still under development not as developed as Vietnam and Bangladesh as of yet.

So that's where we have to be much more careful in particular. Many as -- I don't see much of challenge as of now to ramp up in a short notice.

Pulkit Singhal: Okay. And given that the second half, as you said, I mean, is a better season, seasonality aspect INR880 crores, INR900 crores kind of fund rate that you have done already delivered in Q1, can one expect that rate to continue or there can be significant changes in that?

Pallab Banerjee: As of now, the indications look like it should be in that direction, unless and until something happens globally, something that we can't foresee as of now, but it looks like it's in that direction.

Pulkit Singhal: Lastly, this is the capex. If you can call out what will be capex for this year and where all will that be going, if you can split it up?

Pallab Banerjee: So we have a normal budget of capex that continues to grow in terms of upgrading our machinery or upgrading our sustainability effort. You know, one of our facility where we had land, so we are growing, we will be adding new machines. So those are the things that we have undertaken. So no major capex as of now. We might go for one of these schemes that Indian government is coming up with, but that's still under discussion.

Moderator: Thank you. Ladies and gentlemen, that brings us to the end of our question and answer session. I would now like to hand the conference over to Mr. Pallab Banerjee for closing comments.

Pallab Banerjee: Hello. Yes, Sanjay. You want to take that?

Sanjay Gandhi: Yes. 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.