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PGIL/SE/2024-25/76

Date: November 20, 2024

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Sub: Transcript of Conference Call

Dear Sir/Madam,

In continuation to our letter no. PGIL/SE/2024-25/75 dated November 13, 2024, please find enclosed herewith the transcript of the Conference Call held with Investors / Analyst on November 13, 2024, to discuss Company's financial results for the quarter and half year ended September 30, 2024.

You are requested to take the same on your records.

Thanking you,

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

SHILPA BUDHIA
Digitally signed by SHILPA BUDHIA
Date: 2024.11.20 15:12:17 +05'30'

(Shilpa Budhia)
Company Secretary & Compliance Officer
ICSI Mem. No. ACS-23564

"Pearl Global Industries Limited
Q2 & H1 FY '25 Earnings Conference Call"
November 13, 2024

E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on 13th November 2024 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 Pearl Global Industries Ltd Q2 and H1 FY25 Earnings Conference Call. This conference call may contain forward looking statements about the company which are based on the beliefs, opinions and expectations of the company as on date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict.

As a reminder, all participants' lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touch tone phone. Please note that this conference is being recorded.

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

Pallab Banerjee: Thank you and good morning everyone. I welcome you to our Q2 and H1 FY25 Earnings Conference Call. Along with me we have our Group CFO, Mr. Sanjay Gandhi and SGA Investor Relations Advisors. I hope all of you have had a chance to go through the investor presentation uploaded on the Exchange and our company website. I am pleased to announce that our growth momentum persisted in the first half of the fiscal, resulting in our highest ever consolidated half-yearly revenue, adjusted EBITDA and profitability.

During the first half of the fiscal, we saw a 21.6% increase in consolidated revenue. Led by the sales growth in Bangladesh, India and Vietnam, due to strong order book and healthy growth in sales volume. We have touched almost INR200 crores adjusted EBITDA on a consolidated basis in H1 of FY25. Once again, this is a proof that our strategies are working well and a testament to our competitive advantage as a global manufacturer.

Our consistent growth is fueled by capitalizing on our key strengths, a multi-country presence, diverse product categories, in-market design expertise and the strategic customer relationships. This growth has been largely driven by the increased orders from existing customers, enhancing our relationships and by expanding the wallet share among customers we have acquired over the past 5 years. Let me share an overview of the industry and our business outlook.

Global retailers are sharing positive outlook on both inventory levels and overall demand trends. The global inventory de-stocking cycle has concluded, leaving retailers with optimized stock positions. In their recent updates, they indicated lower inventory levels driven by stable demand.

The US retail demonstrated a resilience in 2024, with estimated monthly sales reaching $17.7 billion in September, a 1% increase compared to September of 2023. We anticipate that the purchasing activity will remain healthy and stable throughout the rest of the year. Annually, the US market has been growing 2%-5% over the last few years and I think this trend will continue through this year.

We may end anywhere between 1%-3% growth. As of August 2024, year-to-date apparel imports into the US have declined by nearly 4% year-on-year with improvements that we expect in the second half of the year. Most retail brands were out of the situation of a reduced buying due to overstock situation after the summer season, which was up to the import of month of March of this year.

Most US retail industry leaders held a cautiously optimistic outlook thus far and that is due to majorly because of the election year. With the Trump government coming in with a focused approach towards the US economy at its centre and the MAGA movement, we anticipate a positive outlook going forward. Moving on to the UK retail situation, this market grew last year by almost 5% and year-to-date we have seen a trend of 2%.

As of August 2024, year-to-date apparel imports into the UK have decreased by almost 11%. Though improvements are anticipated in the later half of the year, the Christmas sales seem to be gaining momentum this month. We are seeing positive trends from our customers.

The apparel imports into the EU have decreased by approximately 3% year-to-date as of August 2024, whereas for Japan it has decreased by almost 5%. However, we have seen positive traction in both these markets with our wallet shares with our customers growing somewhat significantly. We have received positive response from our Australian retailers as well.

As we continue to improve our market shares with customers across all the above markets, our order book business share with our US-based customers is trending towards 67% and the non-US being at 33%. Non-US customers are from EU, Japan, Australia, UK and Canada in that order. However, please do note that most of these customers do have stores across the world and thus our numbers for ship-to-country will be somewhat different.

Moving on to the logistics, the Red Sea crisis and elevated logistics costs continue to drive up the transportation expenses for the retailers in the US and UK and some of the other Western countries. However, our costs remain unaffected as all our shipments operate under FOB terms. Our priority is to accelerate delivery timelines as customers expect shipments at least a week earlier to accommodate this particular time which is needed for vessels to reroute around the African continent.

This has been the norm for now. Further challenge in recent months is also the cost of and availability of the containers for our vessels. This has started to ease off. Our manufacturing facility in Guatemala with a transit time of USA just over a week continues to attract increasing interest and inquiries from our customers. However, the overall capacity of Central America and even for us, it remains limited and is only a fraction of what we have in Asia. Now moving on to Bangladesh, Bangladesh underwent a period of unrest followed by a change in government and had faced a curfew shutdowns for almost six days of July and the early August.

Since then, our facilities have been running at full capacity. We noticed good opportunities to gain market share as some of the bigger vendors were forced to scale down their operations due to financial irregularities and stricter regulations from the banks and the interim government. We experienced a 97% plus attendance immediately as we restarted after the curfew was lifted.

This further improved as we moved on. Our business in Bangladesh is at all time high. Following the disruptions in July, we achieved our highest shipments volumes ever in August and with zero delays in our deliveries.

Our customers are now confident on our ability to deliver on time from Bangladesh facilities and having a strong backup. We have witnessed good growth coming from customers based in Europe, UK, US and Japan in our Bangladesh factories. We are pleased to share that our order book is currently full with strong visibility for the fiscal year and beyond.

We do take pride in highlighting that our ability to navigate the crisis both financially and operationally remained resilient enabling us to achieve our best ever performance from Bangladesh. It is the second largest exporter of apparel just next to China. Through the recent turmoil, it is driving some consolidation within the industry and companies with strong balance sheets like that of Pearl Global are in a position to thrive and capitalize on this trend.

In fact, we are seeing a greater willingness amongst our partners' factories for even greater collaboration. Our European Union and UK customers are keen to strategically guide and support us in this journey. This country still has advantages of lower cost, higher efficiency, productivity, availability of skilled workforce and a well-experienced middle and lower level management staff along with the favorable trade agreements with important markets of EU, UK, Canada, Australia and China.

It continues to improve its logistics infrastructure. This will continue to keep them ahead of the competition from other geographies. Moving to our presence in Vietnam, we have seen strong growth from this country in this quarter and we are confident in maintaining this upward trajectory.

Going forward, we will continue to expand in this geography at a steady pace while providing exceptional service for our high-end customers. Indonesia is set to regain its performance levels after a decline over the past 2 years. Our new factory is now fully ready and we have got good response from our existing and new customers. We will continue to ramp up the production lines and output over the next two to three quarters steadily. Again, our endeavor is to service our high-end customers from this geography as well.

Coming to our performance in India, we have witnessed good growth from our Indian operations which grew by 31.4% year-on-year for quarter 2 of this financial year 2025 and 18.3% on year-on-year if looked at for H1 of Financial Year 2025. On the margin front in India, we still have opportunities to grow significantly. We added newer capacities in our existing facilities in metros of Gurgaon, Bangalore and Chennai over the last 8 months and are in process of adding newer capacities in the second-tier cities of Muzaffarpur, Bhubaneswar and in Indore.

As this production lines with diversified product and customers, they are still in a ramp-up phase, thus leading to temporarily higher costs. We expect this to improve in the next few quarters. We already have and we foresee good order book for upcoming spring and summer season products in H2 for India. Historically, quarter 2 and quarter 3 have been slower quarters for us due to limited product offered and we believe that we are on the right path to mitigate and lower this risk going forward.

With above actions, we are confident of improving the margin trajectory from the year 2025 onwards even in India. We do observe an active interest from our customers to have bigger presence in India, especially who feel they are overexposed in Bangladesh. However, they are used to the cost structure of Bangladesh. On a cost comparison, the Tier 2 and Tier 3 cities of India are closer to the cost structure of Dhaka and there is availability of steady workforce.

However, we need to quickly ramp up the ecosystem and train this workforce to be efficient and compete with the Bangladesh countries. For now, our customers are confident of our strength across both sides of the border. Let us partner even more. In summary, all our initiatives are progressing well. We will continue to develop our relationships with customers who are strengthening their positions in the global market.

Our focus remains on consistently breaking previous records in revenue, capacity and efficiency, which will directly contribute enhancing our bottom line profits. We are solidly on target with our forecast of top line and bottom line for the year and the strategic goals of 2028 we have shared with you earlier. Now I will hand over to Sanjay Gandhi, our Group CFO, who will walk you through the Q2 and H1 Financial Year 2025 financials. Sanjay, over to you.

Sanjay Gandhi: Thank you, Pallab. Good morning everybody and welcome to our Earning Calls for Q2 and H1 FY25. I will now take you all through our financial and operational performance. Starting with consolidated financial, we are happy to report that on a consolidated basis, the highest ever quarterly revenue and half yearly performance in terms of consolidated revenue, adjusted EBITDA and profitability. Revenue increased to INR1,201.9 crores in quarter 2 FY25, a notable increase of 25.1% year-on-year.

For H1 FY25, revenue increased by 21.6% year-on-year to INR2,254.7 crores. The growth in revenue was led by sales growth in Bangladesh, India and Vietnam due to strong order book and healthy growth in sales volume. Adjusted EBITDA for the quarter Q2 FY25 increased to INR98.8 crores, reflecting a growth of 24.4% year-on-year. Adjusted EBITDA margin stood at 8.2% in quarter 2 FY25.

We are happy to share that we have almost touched INR200 crores consolidated adjusted EBITDA mark in H1 FY25. Adjusted EBITDA increased by 21.6% year-on-year to INR199.2 crores in H1 FY25 with adjusted EBITDA margin at 8.8%. The EBITDA growth year-on-year is in line with the revenue growth. Please note that adjusted EBITDA exclude ESOP expenses of INR2 crores in Q2 FY25 and INR4.2 crores in H1 FY25.

PAT for quarter 2 FY25 increased to INR55.6 crores reflecting a growth of 42.8% year-on-year whereas for H1 FY25 PAT increased by 36.2% year-on-year to INR117.6 crores. If you look at PAT after minority interest this increased by 47.4% year-on-year to INR58.5 crores in Q2 FY25. For H1 FY25 PAT after minority interest increased by 41.1% year-on-year to INR123.8 crores. PAT after minority interest margin stood at 4.9% in Q2 FY25 and 5.5% in H1 FY25, witnessing a growth of 80 bps year-on-year in quarter 2 FY25 and H1 FY25, respectively.

Please note that quarter 2 FY25 had an exceptional expense of INR4.2 crores whereas H1 FY20 had an exceptional gain – net exceptional gain of INR1.4 crores. Exceptional items include gain on the sale of non-core assets and QIP expense for H1 FY25. Coming to standalone financial, for Q2 FY25 revenue increased to INR287.1 crores representing a 31.4% increase year-on-year whereas revenue for H1 FY25 increased by 18.3% year-on-year to INR563.2 crores.

Increase in revenue due to growth in business with existing as well as new customers. Adjusted EBITDA witnessed a decline of 54.7% year-on-year and stood at INR4.2 crores in quarter 2 with adjusted EBITDA margin at 1.5% for the reason which has been outlined by Pallab. For H1 FY25 adjusted EBITDA witnessed a decline of 40.7% and stood at INR17.5 crores with EBITDA margin at 3.1%. EBITDA margin as stated is impacted due to lower gross margin on the new style and customer addition during the quarter and year and higher manufacturing costs incurred during H1 with continuation of ramping up of factory in Chennai and one factory in Gurgaon.

PAT for quarter 2 FY25 grew by INR9.7x to INR11.6 crores. For H1 FY25 PAT grew by 115% year-on-year to INR27.5 crores. Please note quarter 2 FY25 has an exceptional expense of INR3.5 crores on account of QIP expense whereas H1 FY25 had an exceptional gain of INR2 crores. Our strong performance at the group level is reflected in our strengthening balance sheet. Cash and bank balance excluding cash earmarked for LC payments stood at INR337 crores as of September 2024. Gross debt stood at INR498 crores. Net debt to EBITDA stood at INR0.28 times in H1 FY25.

As of September 2024, net working capital debt stood at 37 days. On a steady state basis with growth in the business and the customer base we believe that net working capital days of around 35 to 45 should be a stable state for us going forward. On a capital expenditure side our capex commitment plan across geography for FY25 is approximately INR125 crores. Total fixed asset capitalized during H1 is INR63 crores across geographies. In India it is largely Chennai factory expansion, building plant and machinery. In Bangladesh it is washing facility expansion, replacement of plant and machinery.

In Guatemala it is largely in expansion, addition of few lines and buying of plant and machinery. In Bangladesh, as Pallab mentioned earlier, the industry is witnessing consolidation and a growth in order book for vendor-supplier with a stronger operating matrix. For us, we had the best ever performance from Bangladesh region due to the reason which we have highlighted. Looking at the situation, we will evaluate opportunity for Greenfield, capex/acquisition, respectively. However, we would wait and watch the stability and situation to normalize further.

Till such time, we will continue to expand via asset-light model i.e., partnership facility to cater to the strong inflow of order from existing as well as new customers. In Bihar, total capex commitment will be in the range of INR30-INR35 crores in two phases which will be a combination of debt and equity. This will be committed in H2 of this financial year.

As you all are aware, we have a stated dividend policy in place with respect to the same. The company has declared an interim dividend of INR5 per share with dividend distribution amounting to INR22.9 crores which is 19.5% of consolidated profit after tax.

Just to summarize, we have witnessed a strong performance in the first half of the fiscal year. This coupled with a strong and diverse customer base, geographical presence, we are well positioned for a strong performance in the coming years and are on well track to achieve our stated guidance for this year and towards our FY'28 goals.

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

Moderator: The first question is from the line of Palash Kavale from Nuvama Wealth. Please go ahead.

Palash Kavale: Thank you for the opportunity and congratulations on a good set of results. Sir, do you see operating leverage kicking in for the second half of the year? Yes, that is the only question which I have.

Pallab Banerjee: Sanjay, you will take that?

Sanjay Gandhi: Sure. So, we are seeing the volume growth in H1 and we believe that this volume growth and value growth should continue in H2. And yes, by the end of this year, we should see that leverage kicking in.

Palash Kavale: Okay, sir. Thank you. Thank you for your answer. That is it from my side.

Pallab Banerjee: Normally, if I have to add to what Sanjay is saying, definitely the second year is the spring-summer season for the western markets and we are seeing a good traction in terms of our order book. So, naturally, this volume will continue to go up and that will give some kind of leverage benefit to us. That is why, like the kind of forecast that we have been saying, we think that we are solidly on track on that.

Palash Kavale: Thank you. Thank you for your answer, sir.

Moderator: The next question is from the line of Pranav Shikhare from Navneet Family Office. Please go ahead.

Pranav Shikhare: So, my question was, what are your capex plans going forward and what is the capacity utilization we could see at all the three facilities, which is in India, Bangladesh and Vietnam and what kind of capacity expansion also we could see at these three facilities going forward?

Pallab Banerjee: So, I will let Sanjay speak specifically on the capex part. But what we can tell you about in terms of the trend of business that we are seeing in India, definitely, as you just heard from us, that we are seeing quite a significant uptrend. And even in Bangladesh, I think the utilization would be very high because the kind of order interest that we are seeing from our customers are significantly higher out there.

So, in India, our capacity utilization will improve. Bangladesh, I think most of it will cross and that's where we will be adding some more partner capacity. And Indonesia, as I just mentioned, that it will, the new facility that we have started, that will be ramping up to the full capacity over the next two to three quarters.

And Vietnam, we are experiencing a steady growth again. So, in all the locations, we will be seeing a better utilization of the capacity that we have published. Of course, in geographies like Bangladesh, we have to expand some of the capacity as well. Sanjay, over to you for the capex part.

Sanjay Gandhi: Sure. So, as I mentioned earlier that we are looking at a INR125 crores of capex commitment approximately in H2 of this year. And this will happen in Bangladesh and India. We are also looking at an opportunity, some strategic opportunity, which may effectify in the second half of this financial year. So, that may entail additional capex of INR20-INR25 crores rupees.

Pranav Shikhare: So, what is the split between all the capacities for the capex?

Sanjay Gandhi: Sorry, if you could repeat your question, I couldn't hear it.

Pranav Shikhare: What will be the split between all the three capacities, the capex?

Pallab Banerjee: Three geographies you mean? India, Bangladesh and Vietnam. I think that's what the question is.

Pranav Shikhare: what will be the split of the capex? Yes, between all three capacities.

Sanjay Gandhi: Sorry, there is some voice disturbance. So, I could not hear you. Split? Yes. So, the split in terms of, so we are looking at INR35 to INR40 crores in India in H2 and INR70 to INR80 crores in Bangladesh and INR20 to INR25 between Vietnam and Indonesia.

Pranav Shikhare: Okay. So, my second question is, what kind of traction are we seeing from US retailers? Like there is in terms of imports now and what are the inventory levels and what is the update with the de-stocking which has happened? So, has it normalized now?

Pallab Banerjee: Yes, I think US what we are seeing is in terms of the high stock level that we had experienced for the last one year. I think that part is over from the spring-summer buy. That was getting over in this holiday season, which is currently in store, which is getting sold.

So, this holiday ship actually was shipped much earlier. So, if you see like now from spring-summer onwards, the numbers that have been coming in have been quite normal. So, if you even look into the month-wise imports of US, like where January was minus 16% of this year, whereas if you look into the recent months, it's hovering at a very low negative percent or like in the positive.

That means like they are buying much, much more. And again, as we are now the shipments will start going for the summer season now and then followed by the fall and holiday, which we think fall and holiday of next year. That means the goods which will be sold in the period of August to December. I think we should be back on track with that normal. So, if I talk in terms of number last year, they had done about INR78.8 billion dollars worth of imports, US. I think this year it will cross that number.

And again, for the next year, the number would start growing up. So, from that point of view, I think this economy, if you're talking about with the election over now and we have a clear majority, I think that was one thing that was disturbing everybody, whether there will be a clear majority or there will be chaos. So, I think with that thing now behind us, I think we should be looking into a good growth in the US market. There are certain policies which are being debated and all, but I think still overall the consumer sentiments and all things could improve.

Pranav Shikhare: And also, sir, what are the top five clients contributing to the total revenues currently?

Pallab Banerjee: So, if we look at our top five customers at this point of time, top five or six, I think the number is quite significant. We are closing to almost about 67% plus, 68%, 69% in that range is coming from the top five customers. And I think these are the customers who are also in regular conversation with us in terms of their strategy over the next two to three years. So, I think we are in a very comfortable position from that point of view and getting that visibility from these guys.

Pranav Shikhare: Also, sir, you mentioned that we will only focus on value-added products, which will increase the realization for us.

Pallab Banerjee: So, you see, we are operating across seven countries. We are also, in our mix, if you look at it, we have all sections of the market. So, we are supplying to premium customers or the premium brands. And then we are also supplying the bigger kind of stores or the big box retailers. And we are also supplying to the discounters, if you talk of US market.

Similarly, for other markets also, we have always targeted all the three segments. I think by focusing on the three segments and having a separate strategy for all the segments, it does mitigate the risk of the economic downturn or upturn. So, that's something I think we are stably on that path. And we are not looking to change that.

But, yes, if you are talking specifically of value items or the premium segments, we do quite a lot. And that's significantly growing both across our Vietnam and Indonesia. And the demand is going up at this point of time. And also, we are servicing that kind of clients from Guatemala as well.

India and Bangladesh, we have a section linked to this kind of premium customers. And also, we have a larger section in these two countries, which is catering to the other two sections of the market. That is your mass market retailer as well as the discounters. So, that's something that we have been following. I hope that answers your question.

Pranav Shikhare: Yes, one last question. Can you also give a break up of what is the average selling price for our product in India and in Bangladesh and Vietnam and Indonesia etc?

Pallab Banerjee: So, we have so far been talking about an overall average price. I think we have given you a forecast of 2028. So, we calculated on an annual average of our realization price that was done in the last year.

So, from there onwards, what we are seeing is that as the market improves and the premium segment is definitely going up, then there will be a minor change in the overall business of this unit value realization that you are talking about. But depending on the kind of customers and what is the split across all these geographies, we have not been publishing so far. So, Sanjay, do we give some kind of visibility in terms of individual market-wise FOB's?

Sanjay Gandhi: See, we have been mentioning about that our average realization should be around INR600 rupees and that is where our strategic plan has been built up. This will of course have a range where in a market like Vietnam and Indonesia, our FOB price can go anywhere between the range of $20 to $25. And the rest, Bangladesh and India of course will be on the lower side. On an average blended basis, we will be looking at $7 dollars, $7.1 dollars. That is how the blended average is. We have been discussing largely.

Pranav Shikhare: Thank you, sir.

Sanjay Gandhi: Thank you.

Moderator: The next question is from the line of Pulkit Singhal from Dalmas Capital Management. Please, go ahead.

Pulkit Singhal: Thanks for the opportunity and congrats to Pallab and team for a good performance. My first question is on Bangladesh itself. So, the revival that you have seen and the kind of operations that you are running in Bangladesh, is it reflective of the local industry experience or is there something different that Pearl might have been benefiting versus other players in Bangladesh?

Pallab Banerjee: So, if you speak about Bangladesh, Bangladesh is a very big market and there were many major players out there. What we have seen in these last few months is that certain big players have definitely started scaling down their operations as they are getting investigated for financial irregularities in terms of their leverage, in terms of their loans and all. So, I don't know, that could be politically motivated or they had the support of the earlier political regime that was there in Bangladesh.

So, whatever is the reason for that, as a result, what we are seeing is a certain kind of consolidation or shift that is happening in Bangladesh. It's not that only Pearl is gaining, but there are many other players in Bangladesh who are definitely gaining a lot of traction at this point of time.

We are also seeing the players, the external players like the Chinese and the Koreans and the Taiwanese are also moving into that market and acquiring business facilities out there. So, yes, it's an interesting change that is going through in Bangladesh at this point of time. If you ask me, overall exports may fluctuate a little bit, may not grow as aggressively as it was growing earlier, but it's not going to go aggressively also. You will not see a very big difference in terms of the total volume in terms of Bangladesh.

If you see this particular year, they have been gaining market shares in the US steadily. Europe overall has been going relatively slow compared to the last year. So, that’s definitely is being compensated by the US business that has been steadily growing in Bangladesh.

So, overall, I think the market will continue to make a major change. But yes, the players might change. Some of the players have gone out of business or is going really, really from a big player to becoming a mid-size or a smaller player. So, that kind of internal change and consolidation is definitely happening in Bangladesh.

Pulkit Singhal: That is an interesting change. Right. So, when existing big players...I mean, if there's a change of hands between those running operations and you've been in Bangladesh for a long time, isn't... I mean, rather than Chinese and Koreans acquiring capacities there, shouldn't it be our strategy to go... to acquire capacities there and capitalize on this opportunity?

Pallab Banerjee: Yes, that definitely is on the card. So, definitely, we are continuously evaluating the situation. So, whether to acquire some kind of business or to go for Greenfield to grow, have some kind of growth. Yes, what we have been talking about, you have been with us for some time. As you have seen, we have the growth that we forecast, 15%-20%. So, that much of additional capacity or partnership capacity is always we have. So, what we are witnessing now is that that capacity is getting completely full.

And the demand is even more. So, it's a good time to invest. So, we are evaluating it. There were a little bit of the turmoil or unrest that we all have been reading in the newspapers. And also, I think now we are seeing much more steadiness, both in terms of government and in terms of the business environment in Bangladesh. So, we'll continue to watch that.

In terms of acquisition, you know, the complexity is that always there is a history. Like, what kind of finance they had taken, which bank, how much was clean or how much was not a political investment and also to know that. So, that's something is a little bit more complex, I would say. So, we are evaluating both.

We had some opportunities of acquisition earlier, which we held back due to this unrest. But at the same time, some Greenfield opportunities are coming up, which we are evaluating very, very seriously. And we will, in fact, take some steps within the next period, as just mentioned by Sanjay.

Pulkit Singhal: Understood. Secondly, I mean, being a… I mean, having presence in India and Indonesia, is there…I mean, since you mentioned that some of those players are looking to diversify, are you getting some benefit of being that player who can offer them Bangladesh or India, whichever they choose and basis whatever situation arises in the future? Are you able to capitalize on that as a player? Right now…

Pallab Banerjee: Yes. I mentioned that. I see what's happening is that we have a significant kind of capacity both side of the border. if you talk of India and Bangladesh. And the difference is that, we are… Factories were in the metro cities at this point of time, where the cost difference still is significant. But if I go to these tier two cities and tier three cities, like, especially in the eastern zone, like Bihar and Odisha, something is a focus at this point of time. And that also gives a lot of comfort.

The people who had a little bit of overexposure, for example, the Australian market, which had a trade benefit earlier with Bangladesh, and there was a huge exposure of Australian customers in Bangladesh. We see some kind of diversification for them. And if I can offer capacities both in Bangladesh and India, that's definitely very attractive for them. Same thing what we are seeing in the European market.

So, people who doesn't want the time to take that financial hit by giving higher price in India or in Vietnam or other countries, but who have a backing from us that, okay, yes, if there is any problem, we can always ship the business to India with the same fabrics immediately can be sourced and can be shifted. So, those kind of benefits is giving a lot of confidence to these players. There are a few categories like bottoms and which have been really the strength of Bangladesh.

And it's so that's something some of our US customers also have said that, okay, if you they are asking us to diversify the product in India and build up the capability for those products as well. So, which we are looking at and building up those kind of capabilities in our factories as well. Same is the case that we are finding from our Japanese customer.

So, what they are finding is that the advantage that the Japanese brands have, especially in China and also China and Bangladesh still have a link to China, India. So, that's something also being capitalized by keeping the same program, let's say, going to the other markets from India, but for China, it goes out of Bangladesh. So, those kind of leverage is definitely playing in our advantage at this point of time quite well.

And that has been the strategy that has been our footprint of our strategy and our company in the last five years as we have been talking repeatedly about it. So, we are seeing that benefit. Thank you. Thank you for highlighting it. Yes, definitely it is working in our favor at this point of time.

Pulkit Singhal: Yes, just lastly, on the tier two cities, I mean, given your current experience, are you able to clearly see that these can be big centers for manufacturing in the future or you still need certain amount of experience there to be able to call it out?

Pallab Banerjee: Yes, whether it will become, Bihar will become a Karnataka overnight? No, it may not because Karnataka has been having this industry for a very long period of time. But if you look at the workforce, especially in Bangalore or in Chennai or in Gurgaon, you will find a significant amount - a significant portion of it is coming from Bihar. So, our experience so far in Muzaffarpur has been quite good. So, we are just starting at this point of time. And the kind of interest that we are seeing from the workforce is encouraging. And we do plan to shift operation out.

Similarly, from Orissa also, we find a lot of workforce which has come into and our Chennai plants. Again, like we are in Orissa, we are finding the workforce to be quite stable. But yes, both these places, what we find is that the new population that is coming into the work stream, we need to train them up. The old people who have been already in the industry and have worked in Bangalore or in Gurgaon and all, certain things metro gives is definitely more overtime. Because when these workers come to these centres, they tend to find out all opportunities to earn more, which is a good and a bad practice, I would say.

So, as we go into these tier 2 cities and tier 3 cities, we would like to make the industry much more disciplined, rather than this overtime culture or this only working for money kind of culture. That is something that has to happen, I would say. That discipline of working without, I would say, uninformed absenteeism and other things. We need to discipline them and train them up for a higher productivity culture that we have already in Bangladesh.

So, these are some of the things that we are working on as of now. So far, experience has been good, both in Orissa and Bihar. Whether it can be scaled up immediately, but it cannot be. It might take a few years to get to that level of Karnataka or Gurgaon or Tamil Nadu specifically. But then, I think we are on the right path. I am not meaning Pearl Global only, but as a country, I think we are on the right path.

Pulkit Singhal: Got it. Thank you and all the best.

Pallab Banerjee: Thank you.

Moderator: The next question is from the line-up. Srinjana Mittal from RatnaTraya. Please go ahead.

Srinjana Mittal: Hi. Thank you for the opportunity and congrats on the good execution. A couple of questions. One is on the India business. You mentioned that the gross margins were a little bit on the lower side because we added new customers. So, I just wanted to understand. Is that the newer customers that we have added, the nature of the customers and orders are a little bit lower realizationally and lower margins? Or is it just because currently it's in our trial phase? Yes.

Pallab Banerjee: It's a combination of both to a certain extent. As you see, we are growing - we have intended to grow in this tier 2 and tier 3 cities where we are starting our operations. So, that operation is not fully established as of yet. It's just starting. And we had or we have opportunities at this point of time from certain customers who are migrating a part of the business, let's say from Bangladesh and all and needs that very price-sensitive customers I'm talking about.

So, those kinds of customers can be developed in this tier 2, tier 3 cities. So, as this particular quarters are normally been low quarters, so we didn't restrict ourselves from booking the business and executing it, getting the teams ready both in the tier 2 cities and some of these quantities were also executed from our metro cities factories as well. That's hitting that margin.

But I think this is more of that ramp-up period what we'll see which both in terms of getting a new customer, understanding their requirement and executing it and then executing it to match them to the right factory where the cost could be low. So, both these are under the process at this point of time. So, that's the reason for which we said that maybe like what you can see there's a separation of the margin because of these facts. But as we make it much more well-oiled and much more experienced at this point of time with the movement of time, the next couple of quarters, you'll see a significant advantage.

Srinjana Mittal: Understood. That's right.

Pallab Banerjee: I hope that answers the question now.

Srinjana Mittal: Yes, it does. My second question is, it might be a little bit naive question, but I wanted to understand the seasonality of our business. Like you mentioned for India business, the Q1 and Q2 are slower quarters. Likewise, for other regions like Vietnam, Bangladesh, which quarters are bigger and which are relatively slower quarters? If you can just get some color on that.

Pallab Banerjee: Yes. See, India typically, Pearl has been making a lot of woven tops and blouses, the fashion segment. So, that was very much focused on the spring-summer. So, naturally, for fall and holiday seasons for the western markets, this business, these numbers used to be down. Comparatively, it was lower. That's the reason for which we have been focusing on markets like Australia and all, which could come late.

But not to the extent that, the size of US market versus size of Australian market, you can understand. It's a big difference. So, those are the challenges that we had in India. So, of what we talked about today, as we see this opportunity of both tier 2 as well as the new categories. So, we are diversifying our product. So, we are growing our capacity in the knits area as well as in the bottoms area.

Pearl was not manufacturing in India to a great extent, which was more, I would say these knits and wovens were more in Bangladesh with the denims. Typically, what we do in the outerwear, we have been focusing the synthetic outerwear. Majority of it was coming from Vietnam and Indonesia. Now, the seasonality we were talking about, so definitely for the western markets and the northern hemisphere market, the outerwear seasons is more towards the Q1 and Q2. That's where, like, the maximum shipping, shipment actually produced and shipped. Q2 is, I would say, would be the maximum shipment, but even Q1 gets a lot of shipment.

Whereas, for the top, it would be more of Q3 and Q4. So, that's how the seasonality matters. But if you see at Pearl, we have been talking in terms of seven different product categories as verticals, in which we would design, we would see the market, we have identified the customers, and we are marketing that product. So, that ups and downs of the seasonality, like, we would try to cover up. I think we have made good progress in that direction. And that's something, as you can see, the difference between the seasons would continue to be lesser and lesser.

Srinjana Mittal: Right. Thank you. That's very clear. Just one last question. So, on the tax rate, you have mentioned some detail on the presentation, that also helps. But just one clarification. So, our India business, the effective tax rate is around 20-odd percent, like, adjusting for the dividend income, which comes from the subsidy. And, like, for the subsidies, the entities that are outside, what would be the tax rate there?

Sanjay Gandhi: So, every geography entity has a different tax rate applicability. In Hong Kong, there are two entities, onshore and offshore, as a structure where it is 16.5%. And then, in one entity, it is – there is no corporate tax – profit tax there. In Vietnam, it is 10%. In Bangladesh, it's come effectively anywhere between 15% to 18%. Indonesia is 22%.

So, that's how the tax structure is, if they are across geographies. So, our blended tax rate, you know, on normal basis, we say that, take around 13% to 15%. Now, it will vary quarter to quarter, depending upon which origin is making the highest shipment, which geography is making the highest shipment, and which geography is making what kind of a style, as a fun combination of that. So, on a blended basis, we say, you can presume around – somewhere around 15% for us to be effective rate.

Srinjana Mittal: Right. Makes sense. And India would be around 20%, 25%.

Sanjay Gandhi: India rate is 25.15%. This quarter, particularly, because there is some -- when you look at a book profit and the tax profit, there's certain calculation which has to be done. So, on the book space of it, it is coming around 22%, yes.

Srinjana Mittal: Thank you so much for taking my questions and all the best.

Sanjay Gandhi: Thank you.

Moderator: The next question is from the line of Mohnish Ghodke from HDFC Mutual Fund. Please go ahead.

Mohnish Ghodke: Hello, sir. Thank you for the opportunity. So, this 33% volume growth which we have in H1 of this year as compared to last year, has this been broadly similar for our factory locations, particularly Bangladesh, or is it higher for some geographies?

Sanjay Gandhi: It is largely for Bangladesh – the higher for Bangladesh and then accordingly slightly lower than Bangladesh for other geographies.

Mohnish Ghodke: Okay. And so, what is driving this growth? I mean, if we see the volume growth is outpacing the revenue growth now. So, is it – so, first of all, the 33% volume growth, what were the key drivers? Is it like new category, new customers? And at the same time, what is the reason for lower realization as compared to last year?

Pallab Banerjee: Yes. So, see, like, you know, in terms of the customers, like, as I said, like, across the seven categories, we have things like outerwear, which is at a higher FOBs. And if you talk of the knits, which is being supplied to the big box retailers or the major mass retailers, that will be at the lowest price range.

So, the average would be because of that. So, season-to-season, maybe, like, you might see a little bit of a fluctuation when we see that average across all the categories and all the locations, but we are not seeing a significant trend in that.

Mohnish Ghodke: Okay. So, as outerwear, what would be the growth in outerwear category as compared to last year?

Pallab Banerjee: So, we are seeing, general traction from our customers, the wallet shares. Like, what we do is that for every customer, we track whether it's an up trending customer. First of all, are they doing good in the market? Will they be existing in five to 10 years' time profitably or not? And if we find that a customer is going on the right path and will be very or getting stronger every year, so we try to invest more with that particular customer. We try to deepen our relationship and grow our market share with that kind of customers.

So far, the kind of mix that we have in the top five, all of them are doing quite well in the market. And if I look at the top 20 to top 25 customers that we have been focusing upon across all our geographies, we don't see any risky customer at this point of time. So, that's why one of the policies that we also have been talking about is that all our customers are properly, like, you know, risk mitigated.

So, either we have some kind of factoring or some kind of insurance against each one of them, and that gives me the measure. Now, in terms of whether each having a particular, price points or particular product, we try to get maximum wallet share of each of these customers if they're doing well across all the seven categories of product. So, that's been our strategy so far. So, when you're asking, just like, keeping this in mind, can you just narrow down your question exactly what you want to know from us?

Mohnish Ghodke: No, I was saying, I mean, the 33% volume growth, I mean, what were the key drivers for it? I mean, is it, like, a particular category, like, outerwear, or is it a new customer which we added? So, just wanted to understand some, you know, granular details.

Pallab Banerjee: So, we are growing. In fact, if you see, most of these customers across all the geographies have been very positive need tracking with us, and we are experiencing growth in most of them. There are a few customers, like, which used to be in my top five, like, Macy's and all, who have not been doing so well in the market. So, definitely, we have decreased our exposure as well as the business, but, yes, we are just keeping a watch and maintaining the relationship. So, that continues.

In terms of growth in a particular category, I think what we have seen is that Wovens have been tracking quite well in the last few quarters, and so we think that there could be an opportunity that Knits might come back, but that's depending on the customer's end as well, like, what goods they are selling and what they are buying more and more.

Certain categories that we have not been doing, let's say, in India, like, bottoms category, we have grown significantly, which would give a slightly higher FOB value. We have grown the sleepwear category quite significantly, so that's not a high FOB value compared to an outerwear or a bottoms, but, otherwise, it's a very steady business, because sleepwear is always needed across the year.

Similarly, Knits, so, if any particular region is getting a little bit more orders, then you'll see a little bit of dip in the FOB's if I'm doing it with the mass retailers, but at the same time, we have got customers at the higher end, like, Chico's or PVH , Tommy Hilfiger's and all, so their Knits prices are also significantly good.

So, yes, we are not tracking exactly, like, which particular category is going up or down season by season, but, yes, we have a strategy for each of our categories over a longer period of time, and that helps us to gain the wallet share of each of the customers. So, I'm sorry, like, I may not be exactly specifically able to reply to your question about which particular category has tracked up in this particular season, but we can come back to you and give some more details on that.

Mohnish Ghodke: No, no, sir, this gave a detailed idea as to where we are standing. Sir, one bookkeeping question. So, in our quarterly P&L, so there is purchase of stock in trade of INR138 crores, so does it mean, is it, like, our purchase from our partner factories?

Sanjay Gandhi: Hello, it's not, yes, it is inclusive of that. Yes, So, yes, the partnership factory is included in this also. The job work, what we do is definitely a part of it.

Mohnish Ghodke: Okay, Thank you, sir.

Sanjay Gandhi: Thank you.

Moderator: The next question is from the line of Bhavya Gandhi from Dalal & Broacha Stock Broking Limited. Please go ahead.

Bhavya Gandhi: Yes, hi, thanks for the opportunity. Couple of questions from my end. So, first thing on the subsidiary structure, because we have couple of step-down subsidiaries, so is it not possible to consolidate it and maybe have a region subsidiary altogether so that it becomes a simple structure altogether on the corporate front? Any thoughts on this?

Sanjay Gandhi: So, the structurally, if you look at it, every entity is catering to certain geography or certain customer. Specifically, if you look at Vietnam entity or Bangladesh entity, there are certain tax benefit which are available for setting up the manufacturing unit there. And therefore, they become, the entity has to be incorporated in those particular geographies there.

Within Hong Kong, there are there are three entities which are onshore entity and the three entity which are offshore entity. Now, offshore entities are largely driven from the requirement coming from consolidated supplier from a retailer. That's the one.

Secondly, the other subsidiary which we have in Hong Kong was largely to consolidate the procurement from, let's say, China or elsewhere else and catering to the needs of, need for Bangladesh and Vietnam. So, there is a specific purpose for which this entity got created so that the value can be captured there.

Now, when we have all these consolidated entry entities in Hong Kong, our banking limit also take cognizance of all this requirement and hence the bankers are comfortable in terms of looking at overall position rather than looking at it on a piece basis. And they also want to have a specific the limits which is attributable to the specific segment which we are operating.

If you go to further down, Dubai, it's a different geography altogether. We got to have a separate legal entity there and in Dubai also there is a free trade zone where you have to incorporate the entity if you want to avail certain tax benefit which are given by the country as per the rules and regulation of that law of the country.

So, I mean, what I am saying is that, you know, in terms of the structuring which has happened is largely to really keeping in mind the requirement which is there from our retailer buyer perspective, keeping in mind the requirement from the banking limit consolidation and also to really see the optimise the our tax incident so that the maximum valuation can be there for the shareholder.

Bhavya Gandhi: Got it, sir. And with respect to INR125 crores capex commitment that you said for H2, can you just provide what is the asset turnover because historically we have been telling that our decision would be based on ROC. So, I am looking at for region wise ROC and asset turn for the further capex.

Sanjay Gandhi: So, I mean, when we look at a net fixed asset basis, the fixed asset turnover we like to target around 3.5 to 4 is what is our direction and in terms of the return on capital employed we are looking at, , threshold of 18% to 20% as the factory, as the capex gets stabilized. These are the threshold level for us to really look at an opportunity and for any brown field expansion or even for the green field for that matter. In the interim there can be a situation where the ROCE may be suppressed but eventually, with all the plans - the strategy plan, this is what the direction we are really looking at.

Bhavya Gandhi: Okay. And also in the consolidated capacity utilization, what is the consolidated capacity utilization for the current quarter because we said that our order books are already full. So, just wanted to understand.

Sanjay Gandhi: So, the H1, when we look at H1, the shipment number of pieces which has been shipped, we are looking at a blended utilization around 80% and then as we highlighted in our earlier commentary that there are opportunity for getting partnership factory associated with us because of the consolidation or the wallet share getting shifted within Bangladesh with the manufacturing facility. That is another one which is will also enhance our capacity without incurring immediate capex. However, we do have a plan of committing the capex in H2 of this financial year where the capacity will be added in India and Bangladesh.

Bhavya Gandhi: Sir, for the quarter, for the current quarter, if you can throw, how much is the blended capacity utilization and where can it peak out along with partnership factory that we are planning for?

Sanjay Gandhi: See The capacity utilization on a quarterly become little bit, we will not be able to track it and we will not be able to make a meaningful conclusion out of it. What happens is that every style is a different, every style will have a different minutes which is required to produce that. If, you know, if the product style changes, the number of pieces which can be produced from the same factories also changes.

So, that is why I mentioned the H1, we are looking at a blended capacity utilization as for H1 of this financial year around 80%. I think we have a sufficient space even the order book is full. We should be able to, meet and grow for the rest of the year without falling on the capacities - without facing any capacity constraint for the rest of the year as well.

Bhavya Gandhi: Okay. What would be the order book number if you can throw some light on it and when can it be, what is the timeline to fulfill that order book? Is it like three four months or you can throw some light on that as well?

Sanjay Gandhi: Generally, we do not… Yes, Pallab, go ahead.

Pallab Banerjee: Yes, I can give a general answer Sanjay on that because, see, in our industry, the orders, most of the orders are booked with about, for the next three to four months. Of course, like when we are talking about category wise, certain categories like bottoms or the outerwear where the lead times are generally slightly longer. So, that goes up to about five to six months or seven months also in some cases.

So, that's where the kind of booking that we get. But at the same time, the advantage that we can provide to our customers is a faster timeline. So, we have certain customers like Inditex Group, these are the ones of the world.

So, they try to decrease it to even lesser. So, they try to work with about, you know, 60 days or 70 days kind of turnaround time as well. So, depending on which customers, like our best customers that we would see is like the Japanese customers or certain other workwear customers that we have.

So, those are the ones like who give a longer lead time. And the fashion customers, like specifically they talked about Zara or Mango and all, they give the least of the turnovers. So, if I have to talk on an average, I would say about four months, three to four months is an average that we see as an industry.

Bhavya Gandhi: Got it. And can you throw some light on the absolute order book number, if that's possible?

Pallab Banerjee: So, this particular year, like we had told that we will be increasing our top line. And we have been talking about CAGR of at least about 12%-14%. But then, if you talk of the current order book, I think it's higher than that compared to last year. So, this year would be a better year compared to 12-14% I already saw that in India, we have talked about 31% growth in this particular quarter.

Overall, you are seeing the 21.6% growth that we have seen in terms of shift quantity. Now, in our industry, what happens is there will be a lot of WIP also is there. So, that means either goods which are partly manufactured and partly yet to be manufactured. And there are goods which have been manufactured but not yet accounted for in terms of sales, which we call it as in transit or let's say handed over but not yet shipped.

So, those kind of all these numbers. So, if you look at annual level, that's why Sanjay was saying that tracking it at a quarter by quarter level would be a little difficult. So, we talk about only the total revenue. That means what the sales that we can talk about in our books. So, that number you are seeing this growth. I think overall, this particular year, we will be definitely moving to a much healthy number. Sanjay, any forecast that we can give in these calls?

Sanjay Gandhi: So, Pallab, as a practice, we don't go quarter on quarter order booking. We look at full year. And as you rightly mentioned that we have given a guidance of 12% to 14% growth in the next three-year time period. Some year will show a higher growth than 12% to 14%. Compounded annual is what we are looking at to grow with that business. And our capacity is getting built up in line with that. This is how we look at these numbers.

Bhavya Gandhi: And if you can just throw some light on the capex for FY'26, because INR 125 crores you mentioned for the second half. But if you can throw some light for the future capacities for FY'26?

Sanjay Gandhi: So, FY'26, so we keep looking at opportunities. You know, there are two, three process which happens along with that. You know, while we are looking for a capex, there is a customer expansion. There is a wallet share expansion. There is a product design, sampling, marketing. And then basis that you keep on adding the capacity, right?

At least some traction has to be there. In any case, if you look at our three-year plan which we have shared and which we keep working internally on a rolling basis, there is a plan which we say that as the market develops up, FY'26 will be the year where the balance of the capex which we plan to do towards FY'28 should get committed.

Bhavya Gandhi: Okay. Let me just ask you in another way, what would be the customer addition for the quarter? I believe because we add the customers first and then we add the capacities. That's the right thinking or it's the other way around?

Pallab Banerjee: So, what we do in that, in this particular one is we have our pipeline of customers, new customers and the existing customers, what kind of wallet share that we would be gaining from them or year-on-year. So, that's a due diligence we continue to do on a daily basis, I would say. So, on that, if you look at it, the traction is happening and we have certain new customers which we have acquired this particular year whose business will also significantly grow over the next two years or next three years.

And the ones that we have been working in the last five years, we can forecast what kind of growth that would be there. So, when we talked about this 2028 forecast, this is a number that we have calculated and this is a number that we have forecasted which has been in detail, it has been worked out.

So, both your questions in terms of getting the customers and then getting the capacity. So, capacity we told very specifically to get to that number of 2028, we would be adding equivalent to 10 factories of 1000 machines each, which would be approximately around INR500 crores of total investment. So, as you can see, most of it has already been - a significant amount has been done already or being committed within this next quarter or so. And similar, I think, would be the numbers for the next 2025-2026 also, you will see.

Bhavya Gandhi: Okay. So, this last thing would be US tariff and Japan FTA, if you can throw some light on that because are we seeing any increased traction from Chinese markets to any of our regions because the US is about to put in tariffs on China, that is the broad narrative out there. So, are we seeing any increased traction from our customers who are already wanting to shift or is it just a hoax?

Pallab Banerjee: That's a very deep question, long answer. I can try to answer it as much as I know. The new president was talking about 60% additional duty.

Bhavya Gandhi: You are not audible.

Pallab Banerjee: Hello?

Bhavya Gandhi: Yes, yes, yes, you are audible now.

Pallab Banerjee: Sorry, I don't know. Let me just repeat. So, the 60% duty that I was talking about, that Trump has spoken about may not be legally possible, but there will be a significant jump, I think, and the team that he is talking about that we are hearing in the news today, definitely I think this is the direction that this team, the new government will follow.

So, whatever it is, most of the big retailers have significantly moved away from China. What has happened is that that particular hole that got created in terms of the capacity that China had for US market is getting filled in two different manner. One, the Xi'an and the Timor and all that, the way they were doing direct shipping to the customer. So, I think, again, for that, they are going to come back with a law which will, direct to customer, will be definitely affected. The de minimis rule will definitely be revised very soon.

And the second part that was happening from China is the importer business. So, there were people like who are the Chinese big players, they were importing the goods and stocking in US and then supplying to the big box retailers. And while importing into the U.S., they were definitely manipulating the prices. As a result, that you see that the average import cost of an item had gone significantly down.

So, as US is way lower than even a Venezuela import that comes compared to like what is coming from China. So, those are the things I think is known to all of us, but there was not much action that had happened in this last one, one and a half year. So, which I think we will see some good movement, maybe like within the next few months.

So, that means opportunity will be opened up for migrating further business from China, the importer kind of business. And also, it will put a little bit of pressure in terms of the cost, even after the manipulating the cost that some of these players have been doing. So, these two both are positive results.

So, both this should give some benefits to real benefit to the China plus one and countries like India should benefit along with Bangladesh and Vietnam and Indonesia. So, that's something definitely on the card. It looks like. So, specifically, sorry, like, you had a second part to your question or this is exactly what answers your question.

Bhavya Gandhi: If one were to export directly from China, let's take a INR500 gold realization, FOB price, 500 INR, I'm talking and one were to export from Bangladesh, assuming everything is constant, what would be the landed cost after applying duties? One exporting from Bangladesh, one exporting from China?

Pallab Banerjee: Yes, as of now, let's say as typical cotton product would land about 25% to 26% is the cost of transportation and duty, duty about 17% and then transportation, another transportation insurance and everything, another 10%. So, so that particular cost like China is at this point of time paying a penalty of another 10%. So, as they import from China, the difference is about 10%.

Now, Trump has been talking about increasing that to maybe a 60%. So, I don't know like what will happen may not be 60%, but some other percentage might happen. At the same time, Trump also spoke about that any other country from where the goods are getting imported, including like Bangladesh, Cambodia, Vietnam and all this, he's talking about additional 10% to 20% of duty.

Again, whether it will happen or not, we don't know. But significantly in his talks, he didn't mention India or the India name was little less prominent in terms of this penalization. So, let's see like what happens. These are things that are completely gray, I would say.

One thing, if I look at the team that he's talking about, definitely there will be impact on China to a certain extent. Now, how the this INR500 goods that you example that you spoke about, how the importers used to do is that they didn't declare it as INR500.

So, they would declare it as, let's say, INR200 or INR300 and pay a lesser amount of duty, which a big retailer who is taking an FOB shipment from India or Bangladesh or Vietnam would never do it. But an importer, China's proxy importer, maybe in US would have done that. So, definitely there was a little bit of tug of war was going on.

So, US were continuously blacklisting some of these companies, but it still continues. So, that's where the game was getting played. If this additional duty comes, even that manipulation activity also will slow down. That's what I assume.

Bhavya Gandhi: Got it, sir.

Pallab Banerjee: Did that make sense?

Bhavya Gandhi: Yes, perfect.

Moderator: Sorry to interrupt you, Bhavya, due to time constraint. We'll take this as the last question.

Bhavya Gandhi: Just last, second part on the Japanese FTA, because I think that's a great opportunity for us. If you can throw light between India and Japan FTA, what is the FTA agreement between Japan and Japan?

Pallab Banerjee: India and Japan FTA has been existing. Yes. So, it has been existing for some time. But Japanese customers are very process oriented, very different kind of process. The processes are very different compared to how a US market would operate. The Japanese people are Japanese and Koreans and all. So, within the community, the trust is very high. So, outside the community, it takes time to build up that trust level.

And second is the quality. So, they don't… See, most of the other US retailers, they have a statistical method of doing the quality inspection and taking the goods, which they call it as AQL. So, that thing doesn't apply for Japan. So, they go, most of the customers like Muji or, you know, Uniqlo and all, they believe in zero defect kind of policy. So, we have a significant business with Muji, where they talk of almost zero defect. That means 180 defects are allowed for a million garments.

So, that particular practice for Indian exporters have not been so successful. Somehow, we have been working with them for more than five years now, and we are seeing a significant growth. As one after the other, our factories are getting trained in that way of operations of Japan.

So, we believe that we will continue to grow in the Japanese market. So far we have been focused on only one customer, and it's almost a significant amount of our business, almost like 7% to 8% of our total turnover is trending towards this market and this customer. So, in general, for India, it has been a struggle. For us at Pearl, like, it has been one of our focus areas. So, we are seeing a good success. After India, we have started with Bangladesh, and we're talking of starting in Indonesia and other places as well. So, yes, there is definitely a good opportunity.

Australia is another, just one small extension to your answer. Australia is the other country, like, where the FTA happened. So, earlier, Bangladesh had that advantage, but now India is also on equal footing. So, we are seeing clearly an interest from Australia as well. The UK FTA has been more like a mirage. It has been like, you know, both at government level, politics, ministry level, and all.

We have been hearing about it, but we don't know when and how it will get done. So, yes, these are the three major ones. The other treaties that we have at this point of time with Kuwait and other markets are very insignificant. So, we don't see much of traction there.

Moderator: Thank you. Ladies and gentlemen, we'll take this as the last question. I now hand the conference over to the management for closing comments.

Sanjay Gandhi: Thank you. In case of any further queries, kindly reach out to us or Strategic Growth Advisor our Investor Relations Advisor. Thank you.

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