Initiating Coverage

3rd December, 2024

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Pearl Global Industries Ltd [PGIL]

Initiating Coverage | Textiles | Outsourcing

Diversifying Threads, Weaving Opportunities

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Equity Research Desk

03rd December 2024

Pearl Global Industries Ltd (PGIL) stands as a leading global manufacturer and exporter of ready made garments to global brands & retailers. PGIL is the only Indian listed entity with a diversified manufacturing footprint across India, Bangladesh, Vietnam, Indonesia, and Guatemala (covering three of the four major textile supply chains), is well-positioned to benefit from the anticipated shift in procurement by large global brands and retailers from China to these markets. PGIL's multi-stream business model enables the company to offer multi-country and multi-product solutions across knit and woven clothing categories, efficiently serving its global customers. Global vendors in this category typically operate within the $1 bn to $3 bn revenue range (~2x to 6x size of PGIL), whereas PGIL is currently positioned at ~0.5 bn, merely scratching the surface of its potential. With a new professional management team now in place, the company is strategically focused on scaling its operations to match the size of other global vendors within the next four to five years.

In the textile industry, a significant trend has developed among garment exporters (sellers), with brands and retailers (buyers) accelerating the consolidation of their vendor bases post covid. This shift has benefited companies like PGIL. PGIL operates its own manufacturing facilities while also partnering with other manufacturers to ensure flexibility and scalability in production (asset light model).

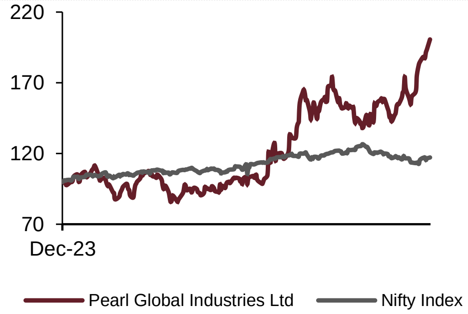
PGIL doubled revenue from FY20 to Rs. 34 bn in FY24, with EBITDA margin rising from 4% in FY21 to ~9%, aiming for double digits through operational leverage, product mix optimization, and strategic initiatives.PGIL aims to increase production volumes from 83.9 mn pieces to 120-140 mn pieces by FY28, reflecting >50% growth in capacity. The company targets revenue growth from ~Rs.35 bn in FY24 to Rs.60 bn by FY28, supported by the addition of new customers in last 5 years.To support this growth, PGIL has planned capex of ~Rs.4.5-5 bn (~70% addition to existing gross block) over the next 3-4 years.

Rating	TP (Rs)	Up/Dn (%)
BUY	**1,600**	**31**

Market data		
Current price	**Rs**	**1,220**
Market Cap (Rs.Bn)	(Rs Bn)	56
Market Cap (US$ Mn)	(US$ Mn)	664
Face Value	Rs	5
52 Weeks High/Low	Rs	1270 / 522
Average Daily Volume	('000)	119
BSE Code		532808
Bloomberg		PGIL.IN

Source: Bloomberg

One Year Performance



Source: Bloomberg

% Shareholding	Sep-24	Jun-24
Promoters	63	63
Public	37	37
Total	**100**	**100**

Source: Bloomberg

Financial Summary

Y/E Mar (Rs mn)	FY20	FY21	FY22	FY23	FY24	FY25e	FY26e	FY27e
Net sales	16,851	14,909	27,135	31,584	34,362	42,446	47,291	56,527
EBIDTA	669	606	1,405	2,555	3,078	4,080	4,804	6,423
Margins	4.0	4.1	5.2	8.1	9.0	9.6	10.2	11.4
PAT (adj)	222	48	616	1,361	1,755	2,172	2,426	3,486
Growth (%)	-67.6	-19.5	301.0	118.2	10.5	25.1	12.0	44.7
EPS	4.98	3.99	15.73	34.45	40.11	49.84	55.67	79.99
P/E (x)	246	307	78	35	30	25	22	15
P/B (x)	11	10	9	7	7	5	5	4
EV/EBITDA (x)	83	92	41	21	18	13	12	9
RoE (%)	5	1	11	21	23	24	23	27
ROCE (%)	9	5	12	20	23	26	25	27
RoIC (%)	7	-19	10	22	26	27	24	27

Source: Dalal and Broacha

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We initiate coverage on Pearl Global Industries Ltd (PGIL) with a "BUY" rating and recommend that investors consider adding the stock during any corrections in the midcap and smallcap sectors. We project a revenue/EBITDA/PAT/EPS CAGR of 18%/28%/27%/26% over FY24-27e. Despite being one of the most efficient garment exporters, PGIL trades at 15x FY27e EPS of Rs.80. PGIL boasts superior return ratios >20%, compared to peers trading at ~20x multiples with lower returns ratios. Given improved industry dynamics, enhanced execution capabilities, new professional management, strategic business improvements, and government support for the textiles sector, we expect a re-rating of PGIL's historical PE multiple from 10-12x to 20x. At this valuation, the stock's FY27e EPS of Rs.80 translates to a target price of Rs.1,600, offering a 31% upside to CMP of Rs.1,222. The valuation implies a <1 PEG ratio, which we consider reasonable in the context of the broader market.

Why ready made garments (RMG)?

Garmenting stands out as the least cyclical and most challenging segment in the textile value chain due to its high entry barriers. Leading brands and retailers typically work with a select group of trusted vendors, creating a competitive moat. Being closest to the brands and end customers, garmenting offers superior return ratios compared to other segments within the textile value chain.

Why Pearl Global Industries Ltd (PGIL)?

PGIL is the only Indian listed entity with multi-product, multi-location manufacturing facilities spanning 3/4 of the global textile supply chain. This unique positioning makes PGIL a preferred vendor partner and a key beneficiary of the ongoing value migration in the textile supply chain from China to countries like Bangladesh, Indonesia, Vietnam, and India. With a presence in all these strategic locations, PGIL meets the diverse requirements of global brands, leveraging the distinct advantages each region offers.

Investment Rationale:

❖ The "China+1" strategy is proving to be highly effective

Global apparel brands are reducing reliance on China due to rising costs, geopolitical tensions, and concerns over working conditions. Players like **Mango, Dr. Martens, Adidas, Nike, PVH Corp (Tommy Hilfiger, Calvin Klein), Walmart, and Target are diversifying supply chains to reduce risks.** This trend gained momentum post-COVID-19, following severe supply chain disruptions, high freight costs, and shipping delays, prompting brands to explore alternative manufacturing hubs. **In 2019, China accounted for 30% of total apparel imports to the USA, which significantly declined to 22% by 2023.** This shift has benefited countries like Vietnam, Bangladesh, Indonesia, and India. **Refer to Exhibit No.11 for more details**. With a presence in all these strategic locations, PGIL meets the diverse requirements of global brands, leveraging the distinct advantages each region offers.

❖ Vendor consolidation set to expand opportunities for long-term winners

Post-pandemic fashion firms are consolidating their supplier base to streamline procurement, enhance adaptability, and strengthen key partnerships. Companies increasingly prefer reliable, digitized suppliers that offer flexibility in batch sizes and production cycles. **For instance, Gap Inc. reduced its vendors from 1,000 in 2015 to 250 in 2023, saving $550 mn by streamlining operations and prioritizing sustainability-focused partners,** highlighting the growing trend of vendor consolidation. PGIL is the only Indian listed garment supplier recognized as a global vendor, a notable achievement in an industry where no other domestic players have reached this status. The company offers a unique value proposition with multi-country, multi-product capabilities. **Refer to Exhibit No. 13 for more details.**

❖ PGIL 2.0 led by professional management

In 2019, PGIL underwent a significant corporate transformation, with promoters stepping back from daily operations and appointing a team of seasoned industry professionals. This team includes Pallab Banerjee (Managing Director), who previously served as Head of Procurement at Gap, **overseeing $4 bn in procurement** and leading Gap India operations during his 21-year tenure with the company. Alongside him are experienced leaders such as Mr. Sanjay Gandhi (Group CFO), Mr. Vikas Mehra (CEO, Bangladesh), and Mr. Gurusankar Gurumoorthy (CEO, Vietnam and Hong Kong). Together, they bring a wealth of **manufacturing and retail experience** from global brands like Gap, Walmart, and Marks & Spencer.

❖ New client additions to double revenue in 4 years (18% CAGR)

PGIL aims to nearly double its revenue from a FY24 base of Rs.34 bn to Rs.63 bn (DnB Est of Rs.63 bn vs management guidance of Rs.60 bn) **by FY28e (17% CAGR)**. To reach this target of Rs.63 bn, PGIL has strategically added new clients over the last five years, whose revenue contribution rose from around 5% in FY20 to ~45% in FY24, demonstrating strong market penetration. PGIL has structured a "3-bracket" customer model to achieve this revenue goal:

[1] the top three customers, contributing between $250-300 Mn collectively (around $100 Mn each),

[2] the next ten customers, adding another $350-400 Mn (around $35-40 Mn each), and

[3] additional "tail" customers contributing a combined $50-90 Mn, ensuring a path to surpass the revenue target.

❖ Gross block addition of Rs.4.5-5bn to drive future growth

To support this revenue growth, PGIL has outlined an incremental capex plan of Rs.4.5-5 bn, representing ~70% of its existing gross block of Rs.6.7 bn. The investments span key geographies, including Bangladesh, Indonesia, Vietnam, India, and Guatemala. With an average asset turnover of 3.5-4x at full capacity utilization, this capex can generate additional revenues of Rs.18-20 bn. All projects are planned to achieve a RoCE of ~20% at full capacity.

❖ PGIL: Only listed multi-product, multi-country manufacturer from India

As an early entrant into three out of four global supply chains (Southeast Asia, South Asia, Mediterranean region, and Central America), PGIL has established itself with a diverse product portfolio and multi-country manufacturing capabilities. PGIL's global peers, with multi-location operations and diverse product offerings, generate revenues ranging from $1bn to $3bn, underscoring significant growth potential for PGIL, which currently operates at ~$0.5bn in revenue. Key benchmarks include **Shenzhou International (HK), Makalot Industrial (Taiwan), and Sae-A Trading (Korea)**, each at a $1bn to 3bn revenue scale with 13-14% EBITDA margins. These peers share a similar customer base, offering valuable insights to enhance PGIL's strategy and close the gap in scale and profitability.

❖ High Entry barrier industry

Entering partnerships with large brands/retailers like Kohl's, PVH, Gap, Inditex, Muji & Polo Ralph is challenging due to their well-established supply chains. New suppliers can only enter during strategic shifts, such as changes in sourcing strategies or new product introductions. New entrants face high compliance requirements and long lead times for factory construction and approvals.

❖ Other factors that will drive industry growth

The Indian government has set an ambitious target for the textiles and apparel sector to grow at a 10% CAGR, reaching US$350 bn by 2030, with exports projected at US$100 bn. To achieve this, it has launched initiatives like the PLI scheme, PM MITRA (7 textile parks), and FTAs. The sector is expected to attract ~Rs.950 bn investments (~Rs.700 bn from PM MITRA and ~Rs.250 bn from the PLI scheme) over the next 3-5 years. The government is also driving employment growth through garment manufacturing, with subsidies of Rs.4k per job, significantly lower than the ~Rs.30k-35k cost for government jobs.

Snapshot of PGIL's Business Model

Company Background:

Pearl Global Industries Ltd, established in 1987, is a leading multinational apparel manufacturing company based in India. It provides end-to-end supply chain solutions for global fashion brands, specializing in various categories such as knits, woven garments, denim, outerwear, and more. Dr. Deepak Kumar Seth is the founder and Group Chairman of Pearl Global Industries, established in 1987. He is recognized as a pioneer in India's apparel manufacturing sector, having expanded his business from a single plant to a global network across more than 20 countries. His entrepreneurial journey began with an initial export order of 6,000 shirts, and today his companies serve over 200 top global retailers. Pulkit Seth, son of Deepak Seth, serves as the Managing Director and Vice Chairman of Pearl Global Industries Ltd. A graduate of the Stern School of Business with a bachelor's degree in science, he joined the family business in 2002 and now leads the company.

Vision & Mission:

Vision: Pearl Global Industries aims **"to be the global leader providing end-to-end supply chain solutions to the fashion industry"**. This vision reflects their ambition to lead the fashion industry by offering comprehensive solutions that cover every aspect of the supply chain.

Mission: The company's mission is **"to continuously exceed customer and shareholder expectations by strategically driving sustainability, technological advancement, and innovative solutions delivered with the best talent in the industry"**

Manufacturing Plants along with capacities & products (FY24):

PGIL began operations with a single manufacturing facility in Gurugram, Haryana, India. Over the years, it has expanded its manufacturing operations within India and overseas in Bangladesh, Vietnam, and Indonesia. Additionally, PGIL has established design centers in India, Indonesia, Bangladesh, Vietnam, the USA (New York), Spain, Hong Kong, and the United Kingdom. Diverse manufacturing capabilities backed by >3 decades of experience: **PGIL operates 24 specialized manufacturing units, with an annual production capacity of 83.9 Mn units, ensuring a well-diversified and low-risk manufacturing base.** PGIL Industries offers a diverse range of apparel, including knitted tees, polos, dresses, woven shirts, denim jeans, outerwear, activewear, and athleisure for men, women, and toddlers.

PGIL operates a mix of fully owned factories (accounting for 84% of production) and partnership factories (accounting for 16%), particularly in mature markets like Vietnam and Bangladesh. This allows for flexibility and scale in production. The cheapest production costs are currently in Bangladesh, followed by India, Vietnam, and then Indonesia.

Partnership Model (Asset light model):

In countries like Bangladesh and Vietnam, PGIL leverages an outsourcing model by partnering with other factories, utilizing dedicated production lines, which enhances operational flexibility. This ecosystem, however, is not yet developed in India. PGIL aims to eventually establish a similar outsourcing model in India, but until then, Bangladesh and Vietnam are expected to outperform India in terms of operational efficiency.

In the partnership model, PGIL and the partner have distinct roles. Pearl provides working capital, handles design and product development, manages execution and monitoring teams, procures fabric, and ensures optimal use of partner facilities. **The partner handles CAPEX and works on a per-piece contract basis.** This model offers several synergies: it enables quicker capacity planning and expansion, **ensures facilities are near supply chain areas, and keeps Pearl asset-light,** thereby enhancing return ratios.

Raw materials & its pricing

The key raw materials PGIL utilizes in its manufacturing operations include finished fabrics made from natural fibers such as cotton, wool, silk, linen, georgette, and polyester. Additionally, PGIL sources accessories and trims like fasteners, buttons, labels, and other consumables essential for production.

Raw materials are sourced locally, with all fabric in India being domestic, while Bangladesh uses 70% local fabrics and 30% from China and other regions. PGIL operates a flexible pricing model where raw material cost fluctuations are directly passed on to customers, ensuring balanced margins. PGIL typically does not engage in long-term supply contracts with its vendors. Instead, the company places purchase orders with them on a need basis.

Products:

PGIL's capability to supply **seven product** categories (knitted tops, woven tops, trousers, denim, outerwear, kids wear, and athleisure) enables clients to source multiple products from a single supplier, enhancing **cost-efficiency**.

Customers:

PGIL maintains a strong mix of large retailers and specialized high-fashion retailers, which provides resilience during varying economic cycles. Their top 5-6 customers include **Kohl's, PVH, Polo Ralph Lauren, Gap, Muji, and the Inditex Group**, all of which have solid financial backing. New customers, including both retailers and brands added since 2019, contribute ~40-45% of PGIL's turnover.

PGIL operates without long-term sales contracts, fulfilling orders based on customer purchase requests. Products are made to meet specific requirements, with orders generally placed at the start of each season, though there is no obligation for customers to place orders.

PGIL's new professional management assessed its existing customer base for financial stability, identifying vulnerable clients, and implemented a focused strategy to acquire financially strong, stable customers by providing strategic solutions that align with their diversification and sourcing needs.

Currently, ~70% of PGIL's revenue comes from the U.S. market, but as global markets like Europe, Japan, and Australia recover from slower demand, the company expects its geographic concentration to gradually shift towards a more balanced global distribution.

Global brands sourcing from PGIL in one country may expand their orders to other regions as well. For example, Tommy Hilfiger, which initially sourced from PGIL for the U.S. market, is now also sourcing for Europe. This demonstrates that once PGIL establishes a successful partnership with a brand in one geography, it can lead to opportunities in other regions, as seen with clients like Tommy Hilfiger.

Foreign exchange fluctuations:

PGIL has a natural hedge in all the overseas operations. For India, there is no currency exposure on the imports side & on the exports side and on the exports side, the company has a calibrated hedging policy.

Geographic Diversification:

Pearl Global has strategically expanded its operations across different countries, including Bangladesh, Vietnam, and Indonesia. This allows them to capitalize on varying seasonal demands in different regions, creating a more balanced and predictable revenue stream throughout the year. For example, while India and Bangladesh see a higher concentration of revenue in the second half of the financial year (H2), Vietnam and Indonesia experience greater activity in H1.

End Products & its pricing mechanism:

The company's **average selling price is ~Rs.620, which translates to about US $7**. This price varies depending on the product category. For instance, high-end ski wear can fetch prices between **US $50 and US $80, while t-shirts are priced around US $1.80.** Prices are negotiated on a **style-by-style basis** through a competitive bidding process.

Credit Rating:

PGIL's long-term credit rating has been upgraded from [ICRA]A- (Stable) to [ICRA]A (Stable), and the short-term rating has been upgraded from [ICRA]A2+ to [ICRA]A1.

Competitors:

Global Peers: Chinese and Taiwanese companies have EBITDA margins of ~12-13%, but PGIL outperforms them in working capital efficiency despite their higher revenues.

Indian Peers: PGIL competes in a fragmented global and Indian garment industry alongside peers like Gokaldas Exports, S.P. Apparels, Kitex Garments, and KPR Mills, leveraging its international presence, scalable operations, and innovative designs to meet diverse customer needs and reduce lead times.

Gokaldas (Key competitor): Gokaldas primarily focuses on outerwear, which generally commands higher price points with an average realization of Rs.950-1,000 per unit. In contrast, PGIL produces a diverse range of products, including lower-priced items like tees, which impacts their overall average realization with closer to ~Rs.625 per unit.

Inventory:

All PGIL orders are made-to-order, eliminating inventory maintenance and the risk of obsolescence due to fashion changes. PGIL experiences a maximum lead time of ~six months, with most orders having a visibility of ~three months.

Logistic costs:

The Red Sea situation has driven up transportation costs for retailers in the U.S., UK, and Western countries. However, PGIL remains unaffected by these increased costs, as all their shipments are handled under FOB (Freight on Board) terms, keeping their costs stable despite the disruptions.

Designing:

With over **75 designers across eight locations**, the company handles the entire process from **concept to finished product**.PGIL design and product development team analyse the fashion trends and use modern technologies of 3D rendering. PGIL uses **3D tools like CLO, Browzwear and Optitex** to craft their products. Each of PGIL locations are equipped with these digital technologies.

Each quarter, large fashion retailers create new designs and then approach multiple vendors to secure the best price. PGIL offers a significant advantage with real-time, in-country design collaboration, where its teams work directly with customers' design teams, enhancing efficiency, responsiveness, and client integration.

Retailers design products to meet consistent price points. Pearl collaborates on designs, offering retailers better production visibility and pricing control. This direct involvement also gives Pearl an edge over competitors who bid on pre-designed products. **Currently, PGIL operates with a 50:50 mix, where 50% of the designs are provided by PGIL and the remaining 50% by brands/retailers.**

Capex:

The lead time for setting up a factory is typically between 12-18 months. Future capex will be financed with 35% equity and 65% debt. There will be no significant change in the debt-to-equity ratio.

Software :

PGIL utilizes SAP ECC 6 EHP 7 with AFS 6.7 and QR-enabled digitization to track inventory, WIP, and quality inspections in real-time, ensuring high standards and timely deliveries.

Global trends:

Sustainable fashion, athleisure, gender-neutral apparel are among the latest trends. Athleisure is a new trend driven by lifestyle changes and increasing health consciousness without compromising on style. Individuals are looking for comfort wear that are stylish and may be used for workout sessions along with regular wear. Additionally, gender-neutral fashion is picking pace with several consumers opting for unisex designs and styles in their clothing, accessories, and footwear.

Exhibit 1: Revenue to grow at ~17% CAGR largely led by volume growth of ~16% over FY24-28e

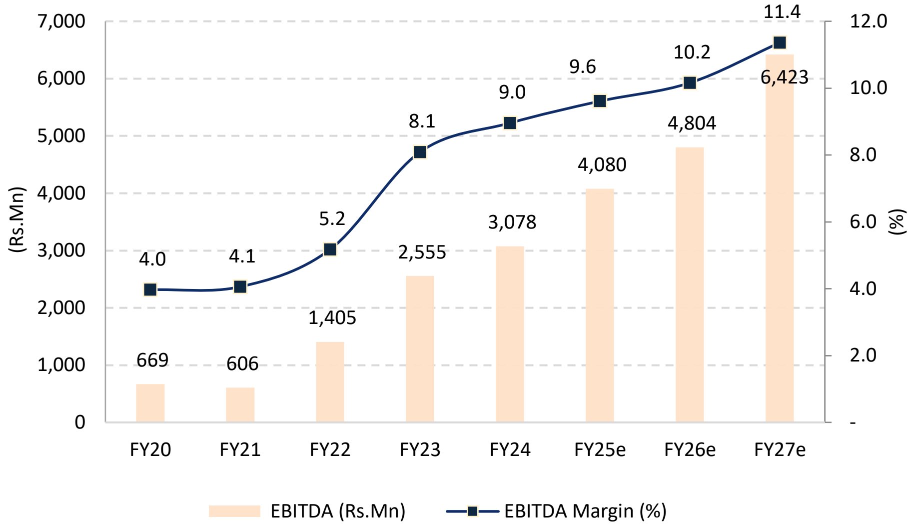
Particulars	FY19	FY20	FY21	FY22	FY23	FY24	FY25e	FY26e	FY27e	FY28e	CAGR FY24-27e (%)	CAGR FY24-28e (%)
No.of Factories												
Bangladesh	2	3	3	8	9	9						
India	11	11	6	8	7	7						
Vietnam	1	1	1	3	5	5						
Indonesia	3	3	2	2	2	2						
Guatemala	0	0	0	0	0	1						
No of Factories	**17**	**18**	**12**	**21**	**23**	**24**	**27**	**30**	**33**	**36**	**11**	**11**
Installed Capacity (Mn Pieces)	**69**	**75**	**75**	**81**	**80**	**84**	**91**	**100**	**125**	**137**	**14**	**13**
YoY	*-*	*9*	*0*	*7*	*-1*	*5*	*8*	*10*	*25*	*10*	*-*	*-*
Capacity Utilisation (%)	**-**	**-**	**-**	**67**	**68**	**68**	**82**	**80**	**75**	**75**	**-**	**-**
Actual Production (Mn Pieces)	**-**	**-**	**-**	**54**	**54**	**56**	**74**	**80**	**93**	**103**	**19**	**17**
YoY	*-*	*-*	*-*	*-*	*-*	*1*	*33*	*7*	*17*	*10*	*-*	*-*
Volume (Mn Pieces)	**41**	**36**	**33**	**54**	**51**	**57**	**73**	**80**	**93**	**103**	**18**	**16**
YoY	*-*	*-12*	*-9*	*65*	*-6*	*12*	*28*	*9*	*17*	*10*	*-*	*-*
Realisation per piece (Rs)	**429**	**467**	**456**	**503**	**621**	**604**	**581**	**593**	**605**	**617**	**0.1**	**0.5**
YoY	*-*	*9*	*-2*	*10*	*23*	*-3*	*-4*	*2*	*2*	*2*	*-*	*-*
Revenue (Rs.Mn)	**17,575**	**16,851**	**14,909**	**27,135**	**31,584**	**34,362**	**42,446**	**47,291**	**56,527**	**63,424**	**18**	**17**
YoY	*-*	*-4*	*-12*	*82*	*16*	*9*	*24*	*11*	*20*	*12*	*-*	*-*

Source: Company, Dalal & Broacha Research

PGIL aims to achieve a CAGR of 16%/0.5%/17% in volume/realization/revenue over FY24-28e, targeting a turnover exceeding Rs.63bn (DnB est) by shipping >100 mn pieces annually, up from FY24's 57 mn pieces. To support this growth, the company plans to expand its installed capacity from 83.9 mn pieces in FY24 to 120-140 mn pieces, with an ~75% utilization rate. PGIL primarily aims to drive revenue growth through higher volumes by increasing penetration with new customers added over the past 4-5 years. To meet the increased demands, PGIL has outlined a capex plan of Rs.4.5bn-5bn over the next four years, which includes establishing ~9-10 new factories. The funding for this expansion will involve a mix of internal accruals, debt, and growth capital.

Average realization: The company's average realization has gone up from Rs.450 in FY21 to Rs.604 in FY24 due to a shift in **product mix and customer mix**. The company has moved towards higher-priced products in countries like Vietnam and Indonesia, where the realization per piece is higher compared to Bangladesh. Bangladesh's contribution to overall sales has increased significantly, and the product mix within Bangladesh has also shifted towards higher-priced items. Vietnam ranks highest in both average realization and EBITDA per piece, followed by Indonesia and then Bangladesh and India (roughly equal).In terms of return on capital employed (ROCE), Vietnam ranks first, followed by Bangladesh, then Indonesia (expected to catch up), and finally India.

Exhibit 2: EBITDA margin increased from 4% to 9%, with management targeting 10-12% by FY28.



Source: Company,Dalal & Broacha Research

PGIL's EBITDA margins have improved from ~4% in FY20 to ~9% in FY24 due to enhanced operational efficiency, strategic customer partnerships, a focus on higher-value products, and disciplined financial management.

5 Drivers to Achieve Double-Digit EBITDA:

1. **Improving India's Performance:**

   India operations currently operate at mid-single-digit EBITDA margins. Targeting high single-digit margins through operational optimization and customer mix adjustments.

2. **Unlocking Indonesia's Potential**

   Indonesia's in-house capacity is underutilized but commands higher FOB prices (~$12-$15) vs company average of ~$7. Aiming for double-digit EBITDA margins by increasing capacity utilization.

3. **Turning Around Guatemala**

   Guatemala is currently loss-making. Plan to achieve break-even within a year and transition to profitability.

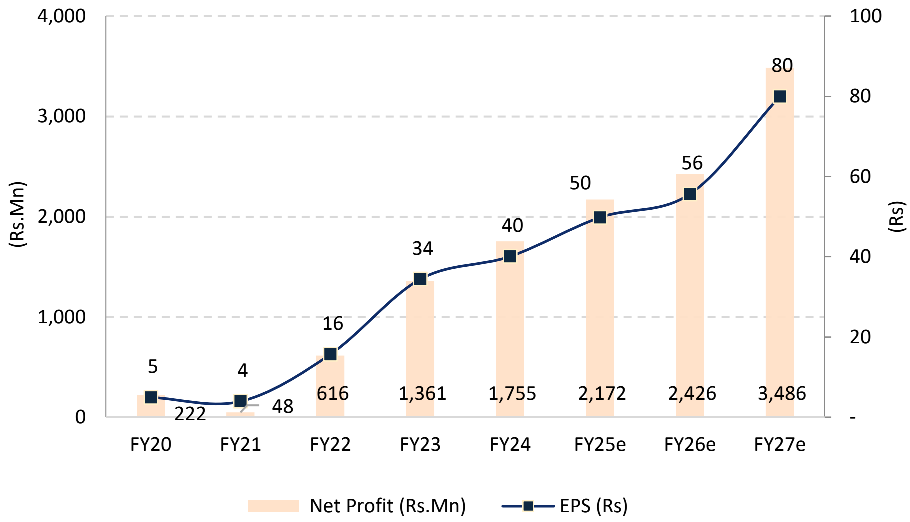
4. **Continued Growth in Vietnam and Bangladesh**

   Vietnam operates at double-digit EBITDA margins, with strong performance in both regions. Both regions expected to remain key contributors to overall profitability.

5. **Operational Leverage from Increased Production**

   Higher production volumes will drive operational efficiencies and economies of scale. Lower per-piece margins can still yield stable overall margins through better utilization of production capacity.

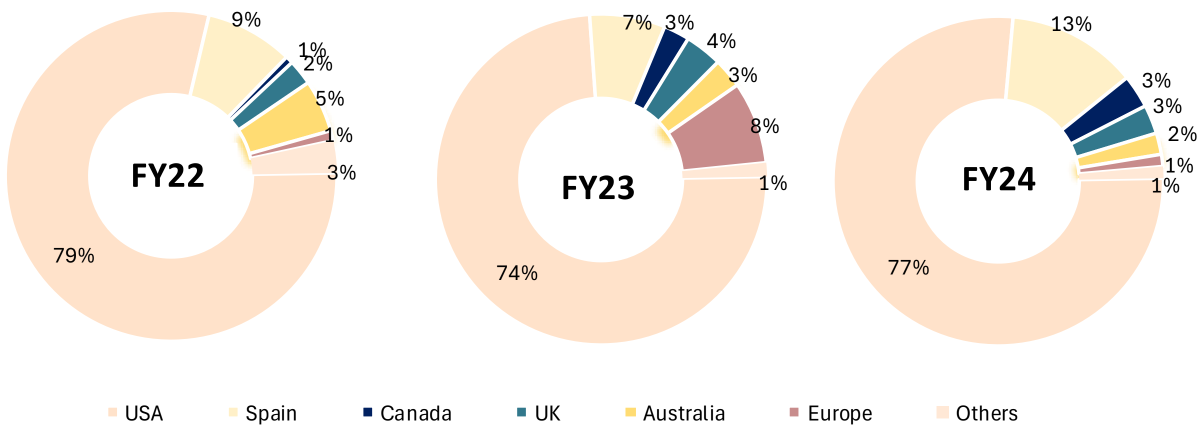
Exhibit 3: Net profit & EPS to grow at 26% CAGR over FY24-27e



Source: Company, Dalal & Broacha Research

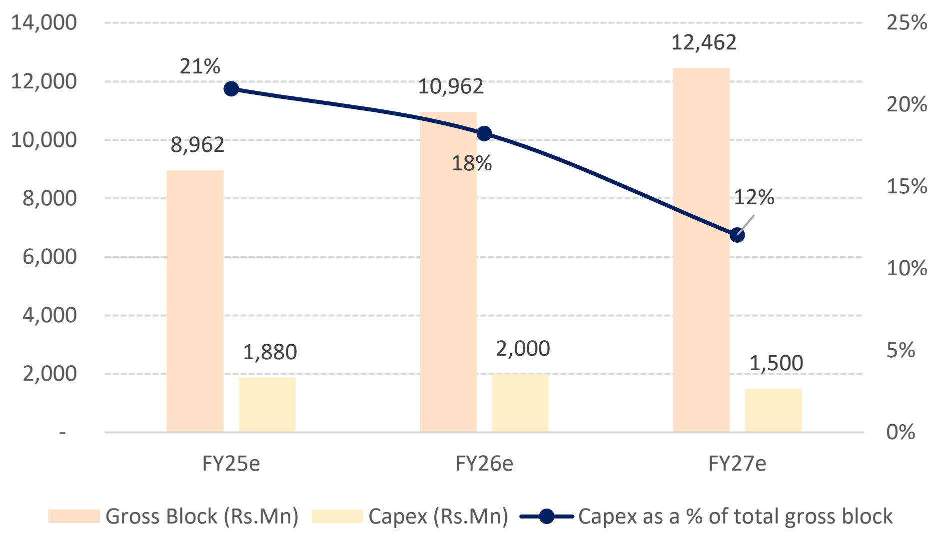
PGIL focuses on balancing growth with returns to shareholders. They follow a dividend policy of distributing 20% of profits while ensuring that growth remains uncompromised, maintaining a balanced approach for sustainable development.

Exhibit 4: Countrywise revenue contribution



Source: Company, Dalal & Broacha Research

Exhibit 5: PGIL has planned a capex of Rs.4.5-5bn over the next 3-4 years to fuel growth, while also exploring an asset-light partnership model that requires no capex.



Source: Company, Dalal & Broacha Research

- **FY25 (H1):**
  - **Rs. 630-650 mn** were spent in H1, primarily on capacity enhancement in Chennai, a washing and laundering facility in Bangladesh, machine replacement, and some capital expenditure in Vietnam.
- **FY25 (H2):**
  - **Bihar, India:** Rs. 300-350 mn. Purchase orders are expected to be released by January 2025, with machine delivery expected before the end of the fiscal year. This will add ~800 machines, though utilization will initially be lower due to the recent installation.
  - **Bangladesh:** A capex commitment of Rs. 700 mn is anticipated.
  - **Indonesia/Vietnam:** Capex commitment for expansion expected by Dec-24.
  - **Total H2 Capex: Rs. 1.25 bn**
- **FY26e:**
  - **Total Capex: ~**Rs. 2bn is targeted for commitment, with potential allocation across **Vietnam, Bangladesh, and India**.
  - **Indore (Madhya Pradesh, India):** The company has acquired 9 acres of land but will only initiate construction after observing the performance of the Bihar facility. They aim to avoid building capacity that remains unutilized.
- **FY27 - FY28e:**
  - **Capacity Growth:** The company aims to reach a total capacity of ~110 mn pieces by FY26, ~125 million by FY27, and ~130-135 million by FY28.
  - **Partnerships:** While the company will continue to invest in its own facilities, it recognizes the value of partnerships and will continue to leverage them for capacity expansion. The strategy involves initially utilizing partner factories and gradually shifting production to in-house facilities as new capacity comes online, ensuring optimal utilization from the outset.

Internationally, they have formed a joint venture in Guatemala and are in discussions for expansions in Bangladesh and Vietnam. Their focus is on acquiring factories rather than brands, as they aim to expand production capacity. Over the past year, PGIL has expanded its capacities in Haryana, Karnataka, and Tamil Nadu. The company is now focusing on expanding in geographies closer to low-cost labor areas, with new investments and production initiatives in states like Bihar, Orissa, and Madhya Pradesh, where labor is more readily available, and costs are lower compared to current production sites.

PGIL's Capex Investment Approach: Focus on ROCE

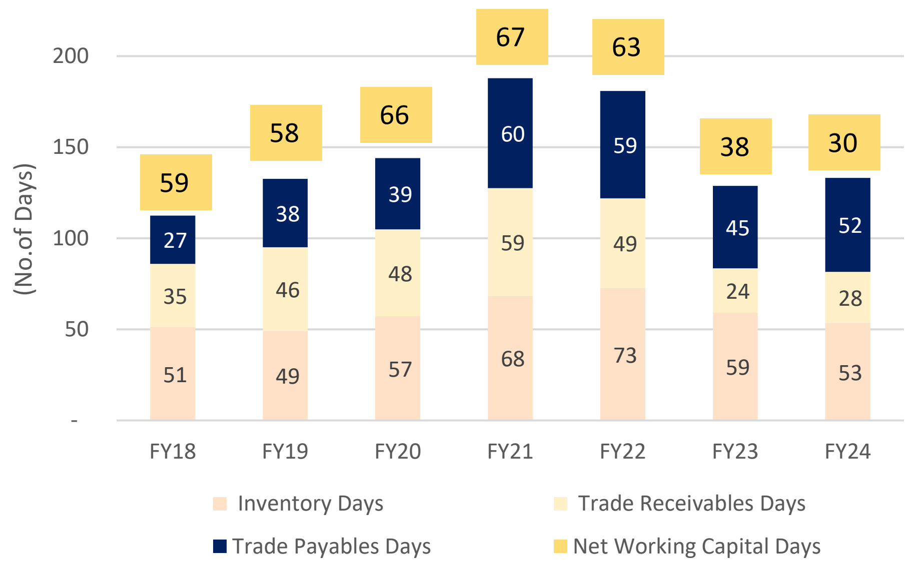
PGIL's capital expenditure (capex) decisions are driven by a rigorous return on capital analysis. The company carefully evaluates potential investments based on achievable ROI and how quickly returns can be realized, ensuring strategic financial growth amidst industry fluctuations. PGIL aims for a minimum >20% RoCE on all capex investments, based on full capacity utilization.

FAQS

▶ Why is Pearl continuing to add capacity when current utilization is below full capacity, particularly with some factories underutilized, and can this be improved instead of expanding?

In the garment manufacturing industry, getting factories and regions approved by international clients is a major challenge, often taking 6 to 18 months due to compliance norms. Pearl proactively builds infrastructure to meet these requirements.

Exhibit 6: Efficient working capital drove overall efficiency



Source: Company, Dalal & Broacha Research

PGIL optimized working capital by focusing on three areas:

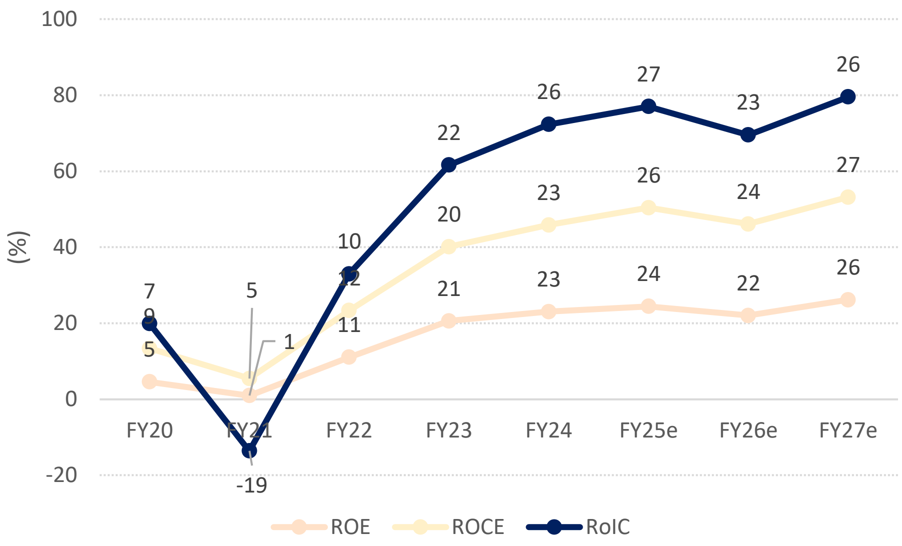
[1] Reducing net working capital days from 65-67 to 30-35 days through enhanced digitization,

[2] Securing 95% of receivables via financing arrangements, and

[3] Maintaining creditor days at 45-50 through effective credit term negotiations.

PGIL has digitized its processes to trace turnaround times across each production phase, enabling the identification and correction of inefficiencies. This has led to a sustainable inventory delivery timeline of 30-35 days, achieved through consistent monitoring over the past eight to nine quarters. Additionally, their digitized tracking mechanism has streamlined the entire supply chain, reduced working capital days and enhanced operational efficiency across geographies. Leveraging just-in-time fabric procurement and non-recourse factoring for receivables, the company has enhanced cash flow and reduced credit risk. These sustainable practices free up resources for growth while ensuring financial stability.

Exhibit 7: Various strategies focused on operational efficiency have driven improved EBITDA margins, resulting in enhanced returns on capital. The management's long-term goal is to maintain ROCE above 20%.

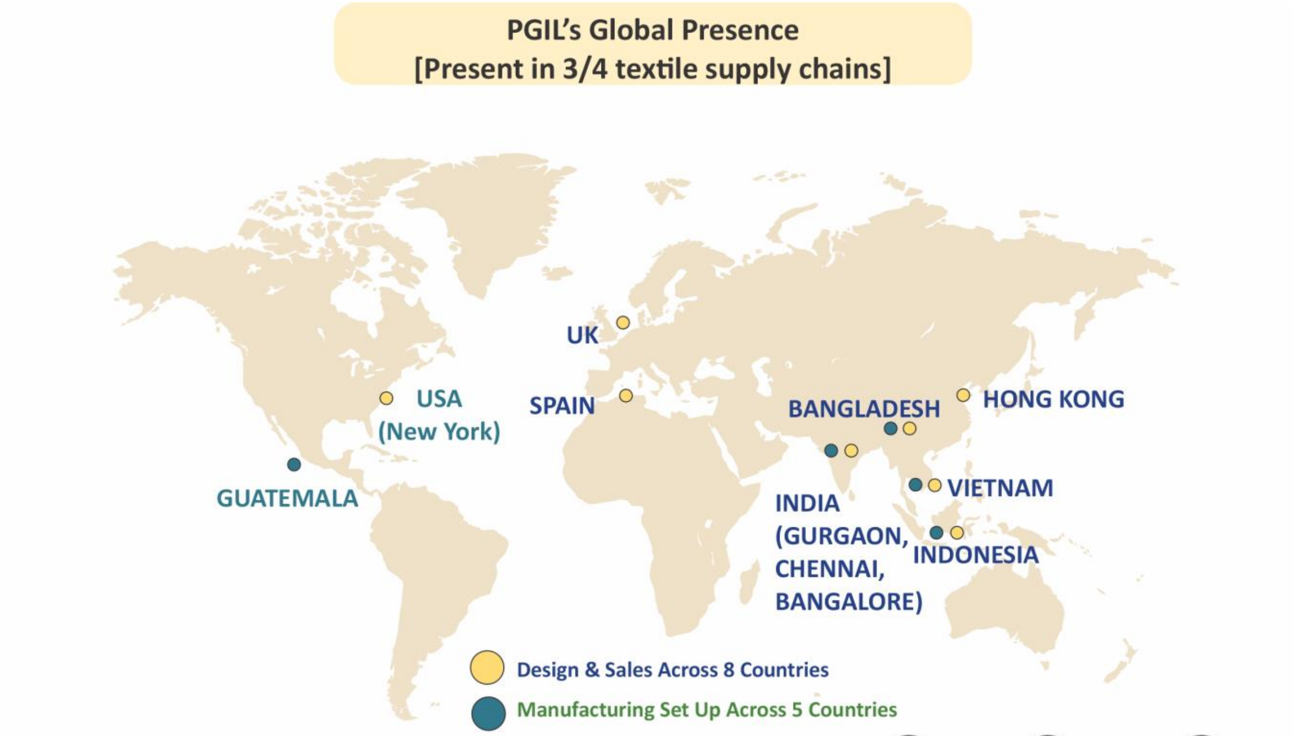


Source: Company, Dalal & Broacha Research

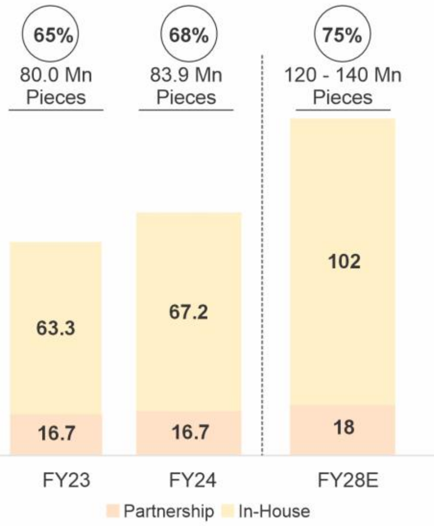
Note : ROCE, ROE, and ROIC are calculated using internal formulas and may slightly differ from the company's reported figures.

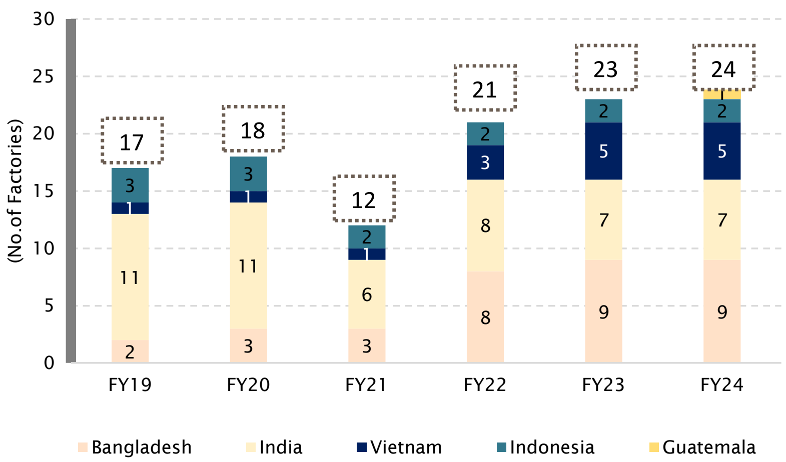
PGIL's ROCE has improved drastically from lows of FY20 to 23% in FY24. PGIL aims to sustain it between 20% and 25% as they continue to grow, with a long-term goal of maintaining it above 20%. For PGIL, return on capital employed (ROCE) is more important than geography. They prioritize areas with the most opportunities, considering each geography with its own strategy, while their CEOs continuously push for projects that can deliver strong returns.

Exhibit 8: PGIL's global manufacturing presence spanning in 3 out of 4 textile supply chain



Country (as on FY23)	In-house		Partnership		Total Capacity (in Mn. Pieces)
	No. of units	Capacity (in Mn. Pieces)	No. of units	Capacity (in Mn. Pieces)	
India	7	26.4	-	-	26.4
Bangladesh	4	33.5	5	11.5	45.0
Vietnam	1	1.3	4	5.2	6.5
Indonesia	2	4.0	-	-	4.0
Gautemla	1	2.0	0	-	2.0
Total	**15**	**67.2**	**9**	**16.7**	**83.9**





Source: Company, Dalal & Broacha Research

Pearl aims to compete in the supply chains of Southeast Asia, South Asia, the Mediterranean, and Central America.

The apparel industry has **four major supply chains**: Southeast Asia for mass merchandise, South Asia for low-cost production, the Mediterranean for high-value garments, and Central America for additional capabilities. Pearl aims to compete in all these regions to enhance its global market position.

Countrywise Strategy:

Bangladesh: The textile industry is the backbone of Bangladesh's economy:

Despite the political unrest in Bangladesh, PGIL was able to resume operations within six days, demonstrating the company's resilience and strong management capabilities in navigating disruptions and swiftly recovering from productivity losses. For PGIL, Bangladesh presents a highly competitive and advantageous manufacturing hub due to its lower costs, good productivity levels, and efficient workforce. The country's robust textile sector, representing **84% of its exports and 15% of its GDP**, along with improvements in logistical infrastructure and favorable trade agreements, positions Bangladesh as a strategic location for PGIL to enhance its operations and supply chain efficiency.

Strategic Growth in Vietnam: Focus on High-End Customers

PGIL is steadily expanding its presence in Vietnam, targeting high-end customers and enhancing its product value. After acquiring a company in Vietnam in 2016-17, the 2019-20 strategy, developed through a SWOT analysis, successfully identified specific customer segments and higher-value products. This approach has built a strong customer base, delivering significant benefits this year, while Indonesia is set for performance recovery after a two-year decline.

Strategic Focus on Premium Brands and Expansion in Indonesia

PGIL's Indonesia operations focus on upmarket brands like **Talbots and Madewell**, producing high-quality garments retailing **above $100**. Specializing in technical outerwear and intricate synthetic fabric garments, PGIL differentiates itself through craftsmanship and premium pricing.

India Business:

In India, Pearl's management has addressed inefficiencies by ending partnerships with certain factories and bringing operations fully under its control. The company is committed to expanding its capacities in India, supported by **government initiatives like the PLI scheme and state incentive programs that encourage domestic manufacturing and growth.** Pearl has successfully added **two to three new customers in India**, a strategic move anticipated to enhance the company's order book growth in the coming years.

Europe Business:

Pearl has opened an office in Spain, strategically positioning the company closer to the European textile value chain. This move aims to acquire new customers and strengthen collaboration with existing clients, particularly near their design offices. With Europe's strong value chain, the company expects continued growth in the region.

USA Business:

In the USA, Pearl has established a **separate division focused on branding and licensing, led by a newly appointed CEO with relevant experience.** While this opportunity will take time to develop, it is expected to become a growth engine. Additionally, **Pearl is exploring nearshore manufacturing in Central America, driven by customer interest during and after the pandemic when logistics challenges made proximity to production more important.** Final decisions on this opportunity are expected in the coming months.

Guatemala Business:

PGIL has acquired a 55% stake in Pearl GT Holdco for $550,000 to expand nearshore manufacturing in Central America, enhancing its global reach. Post-acquisition, a $2 mn capex will expand capacities, targeting ~$20 mn annual revenue.

DID YOU KNOW?

There are **four major textile supply chains globally—South East Asia, South Asia, the Mediterranean, and Central America—where the majority of textile trade occurs.** These regions dominate textile exports largely due to the availability of affordable labor, as ready-made garment (RMG) manufacturing is highly labor-intensive.

Remarkably, **PGIL is the only Indian listed entity with manufacturing bases in three of these four key supply chain regions.** Each region offers unique advantages or specialties that make it a preferred partner for brands and retailers worldwide.

DID YOU KNOW?

Bangladesh was set to graduate from its **Least Developed Country (LDC)** status on November 24, 2026! This major milestone follows years of impressive economic and social progress, as the country met key criteria in income, human development, and economic stability. However, the transition comes with challenges, like losing preferential trade benefits and concessional loans. **But no worries—Bangladesh will still enjoy some LDC perks until 2029 to ensure a smooth shift!**

Exhibit 9: Key products manufactured by PGIL

Gender-wise Split

Gender	Wovens	Knits
Women	Tops, Shirts, Long Shirts, Dresses, Sleepwear, Hoodies, Leggings	Dresses, Tops, Skirts, Sweaters, T-Shirts, Joggers
Men	Shirts, Polo T-Shirts, Sleepwear, Pyjamas	T-Shirts, Hoodies
Boys	Shirts	T-Shirts, Two-piece Sets
Girls	Tops, Skirts, Dresses	T-Shirts, Skirts, Dresses, Rompers, Tank Tops
Toddlers		Rompers

Customer	Categories
MANGO	Knits, Kids wear
American Eagle Outfitters	Knits
Tommy Hilfiger	Tommy Hilfiger
KOHL'S	Woven, Sleepwear, Lounge
TJ maxx	Woven
NORDSTROM	Woven, Activewear, Athleisure
TARGET	Denim
Walmart	Denim, Sleepwear, Lounge
ASDA	Denim, Kids wear
macy's	Sleepwear, Lounge
jcpenney	Kids wear
next	Kids wear
IDEOLOGY Clothing	Activewear, Athleisure
Bershka	Denim

Source: Company, Dalal & Broacha Research

PGIL co-creates products with customers, working closely with their design teams and using market intelligence. In regions like India and Japan, Pearl Global emphasizes zero-defect quality and high-end craftsmanship to meet customer demands.

India: High end fashion products with intricate detailing and handwork.

Bangladesh: Primarily core, basic items such as polos, hoodies, denim, and children's wear.

Vietnam: Outerwear, technical athletic garments, and high end outerwear.

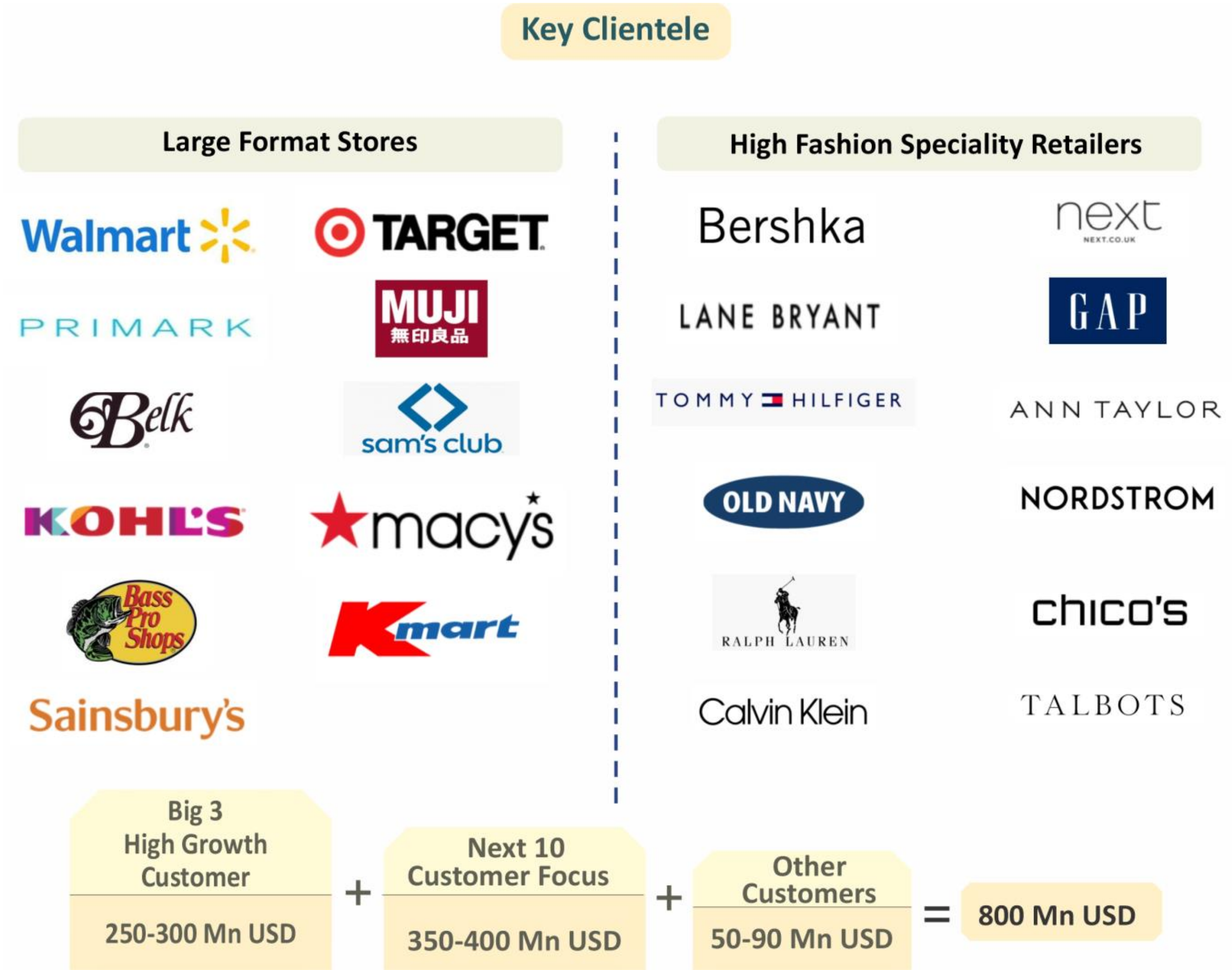
Indonesia: Dresses and outerwear for upmarket brands.

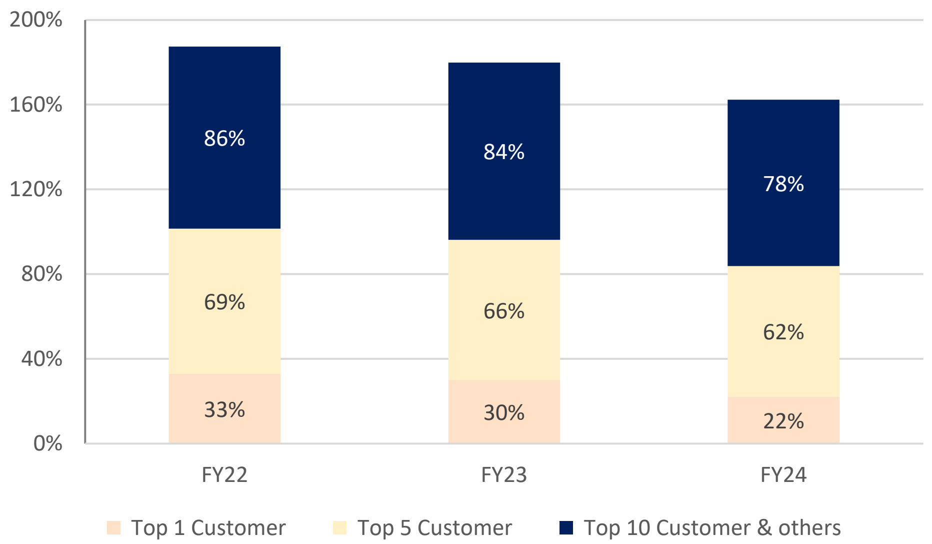
Guatemala: Basic knitwear like polos, hoodies, and other jersey fabrics.

PGIL's Diverse Apparel Categories Maintain Stable Sales Across Seasons: PGIL manufactures **seven different categories**, including outerwear, knits, woven, tops, bottoms, and children's wear. While demand for outerwear in Western countries can push up prices during certain seasons, overall sales don't fluctuate much because stronger sales in other regions, like India in spring-summer or Vietnam and Bangladesh in fall, balance things out.

PGIL has forged partnerships with several retail format stores, including **Kohl's, Macy's, Inditex, Muji and PVH,** among others. Additionally, the company has formed collaborations with retail format stores including **Bershka, GAP, and Old Navy**. In the knits category, it has customers including **Mango, American Eagle, Tommy Hilfiger.** In the woven category it serves **Kohl's, TJ Maxx, and Nordstrom.** It supplies denim to **Target, Walmart, ASDA George, and Bershka,** sleepwear and lounge to **Macy's, Kohl's**, and **Walmart,** activewear and athleisure to **Ideology and Nordstrom**, and kids wear to **JCPenny, Next, Mango, and ASDA George**.

Exhibit 10: Key Clientele of PGIL
(Optimum mix of large format stores & speciality retailers to balance during challenging times)





Source: Company, Dalal & Broacha Research

PGIL has forged partnerships with several retail format stores, including **Kohl's, Macy's, Inditex,Muji and PVH,** among others.

PGIL Customer acquisition strategy: PGIL adopted a strategic customer acquisition approach starting in 2019, targeting new clients that have now become major contributors, with some evolving into top two or three clients. This strategy involves continuously identifying and partnering with financially strong global customers. While fluctuations are expected, the impact of the 2019-2020 customer wave will persist for at least five years, ensuring steady growth.

PGIL's top customer contributes ~22% of its overall revenue. Within this customer's vendor base of 15-16 critical suppliers, PGIL ranks as the 2nd or 3rd largest. The customer's total annual procurement is ~1.7-1.8bn USD, of which PGIL accounts for only ~6% (~100mn USD). In contrast, the largest Taiwanese or Korean vendors for this customer contribute upwards of 300mn USD, highlighting a significant opportunity for PGIL to expand its share with existing clients.

However, growth potential varies across brands, as each customer adopts distinct procurement strategies to avoid over-dependence on any single vendor. This procurement cap can influence the scale of PGIL's engagement with individual clients.

PGIL's top three customers contribute around 50% of its revenue, with the top five accounting for ~60-65%. They aim for each of the top three customers to contribute about $100 mn, totaling $300 mn. The next ten customers are expected to generate $350 mn to $400 mn, while smaller customers will add another $50 mn to $90 mn, bringing the total to roughly $750 mn (~Rs.6 bn).

DID YOU KNOW?

In the garment industry, the **Acceptable Quality Level (AQL)** is a key quality control benchmark that defines the maximum allowable number of defective items in a production batch. While European and Western markets typically permit up to **180 defects per million units**, **the Japanese market demands zero defects**, making it a particularly challenging target. PGIL is strategically positioning itself to penetrate this market, taking advantage of India's Free Trade Agreement (FTA) with Japan. However, achieving the **stringent zero-defect** requirement is where many Indian garment manufacturers fall short. To stand out, PGIL is making significant investments to meet these exacting standards, leveraging its differentiated approach to gain a competitive edge.

PGIL, one of only three Indian vendors chosen by Muji, stands out for its exceptional ability to meet the stringent standards demanded by Japanese customers.

The ready-made garment (RMG) industry is typically cyclical, experiencing periodic ups and downs that impact large brands as discretionary spending declines. However, consumption doesn't stop entirely; during downturns, consumers often adjust by shifting from brand-name purchases to more budget-friendly retailers.

To mitigate cyclicality and remain resilient during challenging times, PGIL maintains a balanced mix of partnerships with both brands and retailers. This approach helps the company stay stable through market fluctuations.

FAQS

▶ **What is the brand procurement strategy for retailers**

Retailers/Brands sourcing or procurement share typically remains in the single-digit range, occasionally fluctuating between high and low single digits but rarely reaching double digits.

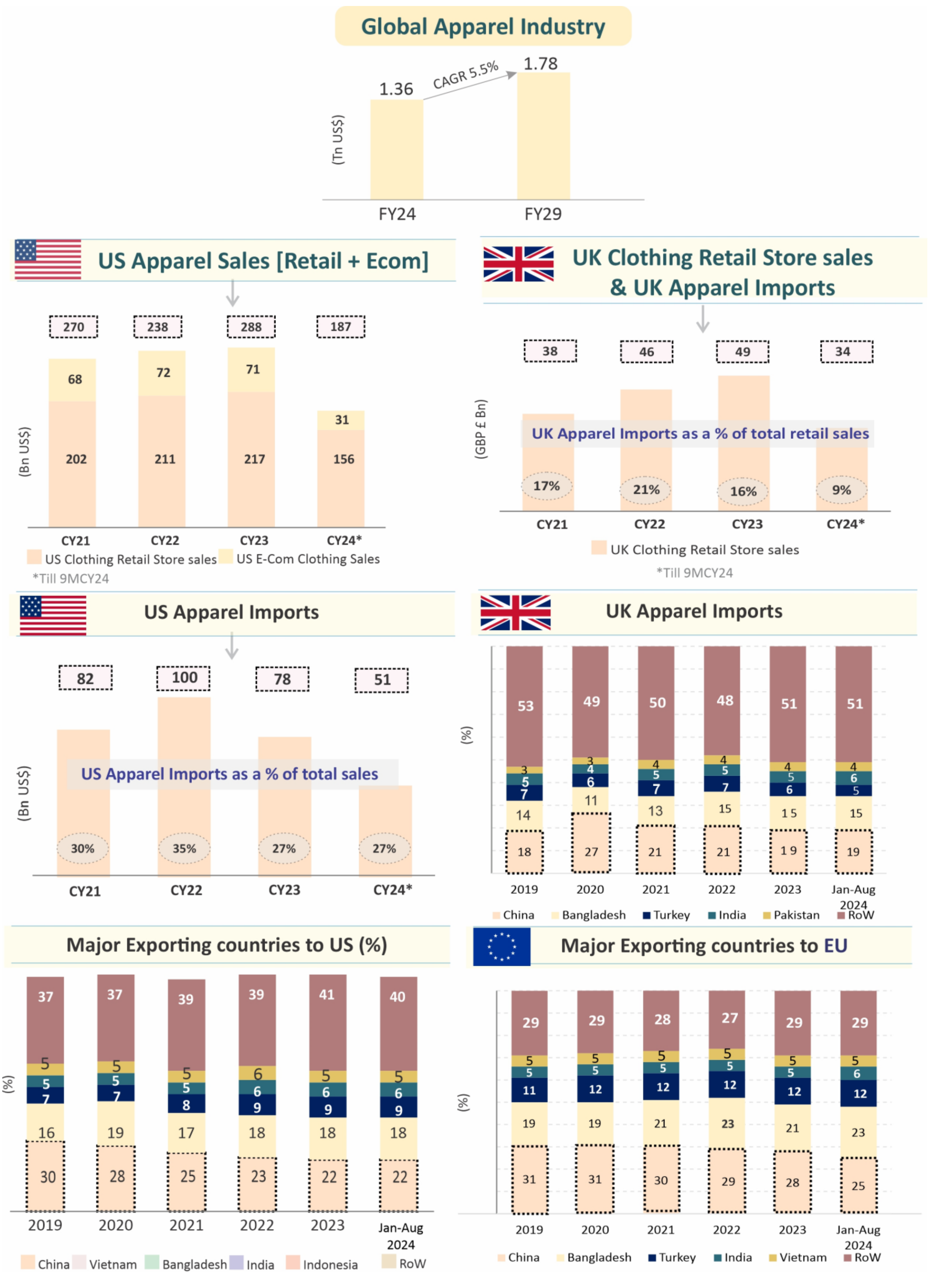
DID YOU KNOW?

Tech-Driven Inventory Management in Fashion Retail

Fashion retailers are leveraging technology to streamline inventory management:

- **Zara:** Uses predictive analytics to align production with real-time sales and trends, reducing overstock.
- **Nike:** Employs RFID tags for real-time inventory tracking, optimizing stock levels.
- **Macy's, Target, Walmart:** Focus on lean inventory practices; Macy's integrates data analytics to maintain margins amid revenue challenges.

Exhibit 11: China losing market share over other countries ; Major beneficiaries are Bangladesh,Indonesia & Vietnam



Source: US Census Bureau, Office of National Statistics, Otexa,Eurostat, Dalal & Broacha Research

The global textile market is currently worth USD 1.36 tn, which is equivalent to 2% of the global GDP. The US, the EU, and China are the 3 biggest apparel marketplaces in the world with a combined share of ~54%.

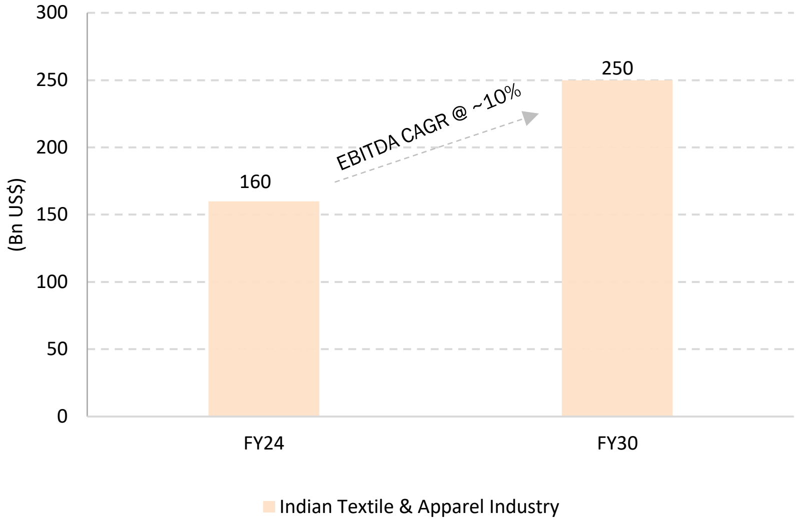
Reducing Dependence on China:

Apparel brands have historically relied heavily on China for imports and large-scale textile and apparel production. **However, rising costs, concerns over working conditions, and geopolitical tensions between the West and China have prompted many Western brands to reassess their dependence on Chinese factories.**

Brands like Mango, Dr. Martens, Marc O'Polo, Adidas, and Nike are moving manufacturing operations out of China, while PVH Corp (owner of Tommy Hilfiger and Calvin Klein) has significantly reduced sourcing from the country. Retail giants Walmart and Target are also diversifying their supply chains by cutting imports from China.

The shift gained momentum during the severe supply chain disruptions caused by the COVID-19 pandemic, which resulted in **high freight costs and shipping delays**.

Exhibit 12: Industry Sizing of textiles & Apparel Industry in India



Source: ibef.org, Dalal & Broacha Research

Indian Apparel & textile industry : The Indian apparel and textile industry contributes around ~2.3% to the country's GDP, ~13% to industrial production and ~12% to exports, according to government data. The country's share of the global trade in textiles and apparel stands at 4%. The industry is the second largest employer in the country and a source of earning to 45 mn people and 100 mn individuals in allied industries. With its favourable demographics and industry trends, India is poised to become a global textiles hub. Textile exports are projected to grow at an 11% CAGR, reaching around $65 bn by 2026, up from $36 billion in 2019. In 2024, the average volume per person is estimated to be 24.2 pieces. **India is targeting to reach $250 bn in textiles production and $100 bn in exports by 2030.**

The prospects for Indian apparel exports are favorable, aided by enhanced product acceptance in end markets, evolving consumer demands and a boost from the production-linked incentive (PLI) scheme, export incentives, and duty-free trade agreements with the UK and the EU, among others.

DID YOU KNOW?

The apparel sector currently represents less than 40% of India's textile and garment trade, compared to ~60-61% globally. Increasing apparel exports holds significant potential for growth and job creation. Investing in the apparel sector has significant employment potential, with ~Rs.20 mn capable of generating ~2,000 jobs.

Exhibit 13: Consolidation of supplier base to benefit large organised multi-product,multi-country vendors like PGIL

Top 6 Customers of PGIL	Brands	2010	2015	2020	2023
		No of Vendors			
KOHL'S	American Beauty, Apt. 9, Croft & Barrow, Jumping Beans, So, Tek Gear, and Urban Pipeline.	N.A.	N.A.	1,253	1,153
PVH	CK, Tommy Hilfiger	N.A.	1,300	1,200	1,000
RALPH LAUREN	Ralph Lauren, Ralph Lauren Collection, Ralph Lauren Purple Label, Polo Ralph Lauren, Double RL, Lauren Ralph Lauren, Polo Ralph Lauren Children and Chaps	400	500	500	300
GAP	Gap, Old Navy, Banana Republic, GapFit, GapBody, GapKids, babyGapy and Athleta	1,020	1,000	800	250
MUJI		N.A.	N.A.	N.A.	60
INDITEX	Zara,Bershka,Massimo Dutti,Pull&Bear,Stradivarius,Oysho, Uterqüe,Lefties	1,337	1,725	1,805	1,733

Largest Vendor as a % of total procurement

	2010	2015	2020	2023
Kohl's	N.A.	N.A.	N.A.	10%
PVH	N.A.	N.A.	N.A.	N.A.
Polo Ralph	8%	4%	4%	8%
Gap	3%	5%	7%	9%
Muji	N.A.	N.A.	N.A.	N.A.
Inditex	N.A.	N.A.	N.A.	N.A.

No of Supplier Factories

Brand								Total
Ralph Lauren		Italy	China	Turkey	India	Vietnam	Others	
	Ralph Lauren	58	31	28	26	22	92	257
GAP		Vietnam	India	Indonesia	Combodia	China	Others	
	GAP	124	96	58	49	49	174	550
MUJI		Vietnam	China	Thailand	Combodia	Japan	Others	
	MUJI	16	14	10	9	4	7	60
PVH		Brazil	India	Vietnam	Turkey	China	Others	
	PVH	63	52	49	48	45	199	456
INDITEX		China	Morocco	Turkey	Bangladesh	Spain	Others	
	Inditex	367	216	186	150	138	318	1,375

Main textile exporting countries

Source: Annual Reports, Company Websites, ESG Reports, Dalal & Broacha Research

Exhibit 14: Recent QIP of Rs.1.5bn

QIP Allocation	Rs.Mn
Working Capital	837
Repayment of borrowings	135
Inorganic growth initiatives & general corporate purpose	523
Total Net proceeds	**1,495**

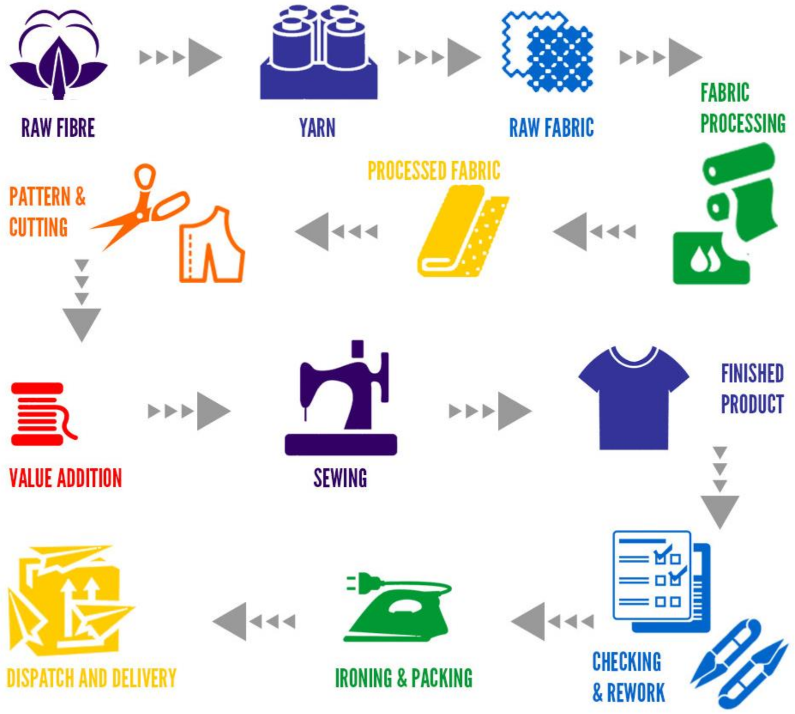
Name of Allottees >5% of QIP	% of total issue size
Goldman sachs fund	33
ICICI MF	20
Bandhan MF	15
Tata MF	15
HDFC MF	7
HSBC MF	7

Source: Company, Dalal & Broacha Research

QIP Placement of Rs.1.5bn: In July 2024, PGIL completed a Qualified Institutional Placement (QIP) of 2,045,143 shares, raising Rs. 1.5 Bn at an issue price of Rs. 731 per share. The primary purpose of the funds raised was to meet a working capital requirement of Rs. 840 Mn, repay borrowings amounting to Rs. 135 Mn and allocate the remaining Rs. 525 Mn to support inorganic growth initiatives.

Reference link of QIP Placement: https://www.pearlglobal.com/wp-content/uploads/2024/07/Placement-document.pdf

Exhibit 15: Ready made garment (RMG) manufacturing process



Source: Dalal & Broacha Research

PGIL co-creates products with customers, working closely with their design teams and using market intelligence. In regions like India and Japan, Pearl Global emphasizes zero-defect quality and high-end craftsmanship to meet customer demands.

Exhibit 16: PGIL's standing vs global peers

Peers	China Peer 1	China Peer 2	South Korean Peer	Taiwan Peer 1	Taiwan Peer 2	Indian Peer (Shahi Exports Pvt Ltd)
Manufacturing Locations	-	Vietnam, China, Cambodia, Bangladesh and Sri-Lanka	Vietnam , Nicargua, Guatemala, Indonesia, Haiti and Myanmar	-	Vietnam, Cambodia and Indonesia Small Manufacturing - China, Philippines, Africa	50+ Factories present across 8 states in India (Haryana,Delhi,UP,Odisha ,Telagana,Andhra Pradesh,Tamil Nadu & Karnataka)
Fabric Mills Base	China, Cambodia and Vietnam	-	-	Taiwan and Vietnam	-	-
Garment Factories	China, Cambodia and Vietnam	-	-	Vietnam, CambodiaChina Le Sotho & Indonesia	-	India
Revenue	**27,781,412 (In RMB '000) ($3.9 Bn) CY22**	**2,490,966 (In US$000) ($2.5 Bn) CY22**	**1,712.88 (In US$Mn) ($1.7 Bn) CY22**	**$39.615 (In NT $billion) ($1.3 Bn) CY22**	**32,082,917 (In NT$ '000) ($1.0 Bn) CY22**	**Rs.80bn ($1.0 Bn) FY22**

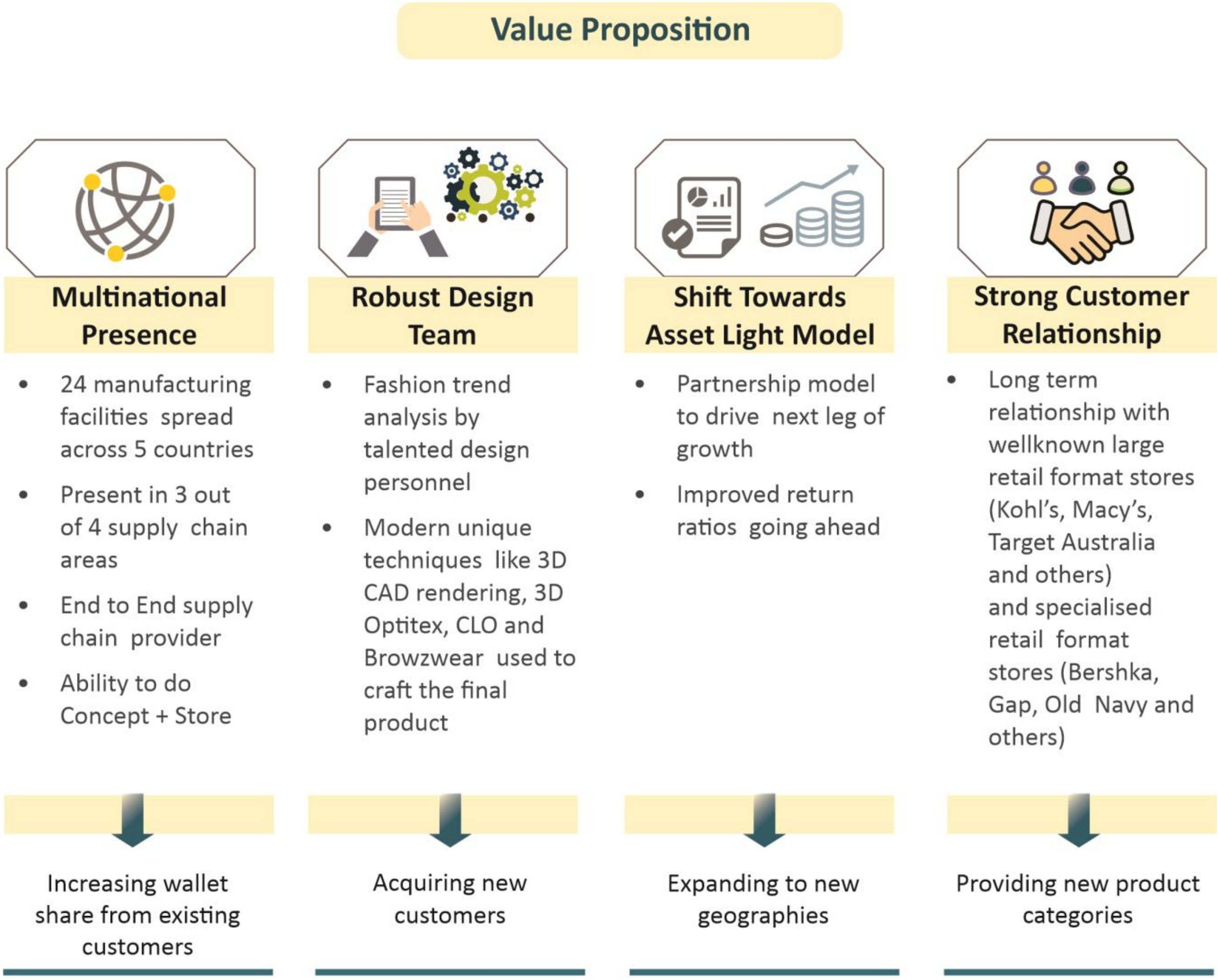
Source: Company, Bloomberg, Dalal & Broacha Research

PGIL's global peers, with multi-location operations and diverse product offerings, generate revenues ranging from $1bn to $3bn, underscoring significant growth potential for PGIL, which currently operates at ~0.5bn in revenue. Key benchmarks include **Shenzhou International (HK), Makalot Industrial (Taiwan), and Sae-A Trading (Korea)**, each at a $1bn to 3bn revenue scale with 13-14% EBITDA margins. These peers share a similar customer base, offering valuable insights to enhance PGIL's strategy and close the gap in scale and profitability.

Shenzhou International (HK) : FY24 revenue : ~$3.7bn with EBITDA margin of 25% (Not directly comparable as company is backward integrated as well)

Makalot Industrial (HK) : FY24 revenue : ~$1.1bn with EBITDA margin of 17% (Directly comparable as company is not backward integrated like PGIL)

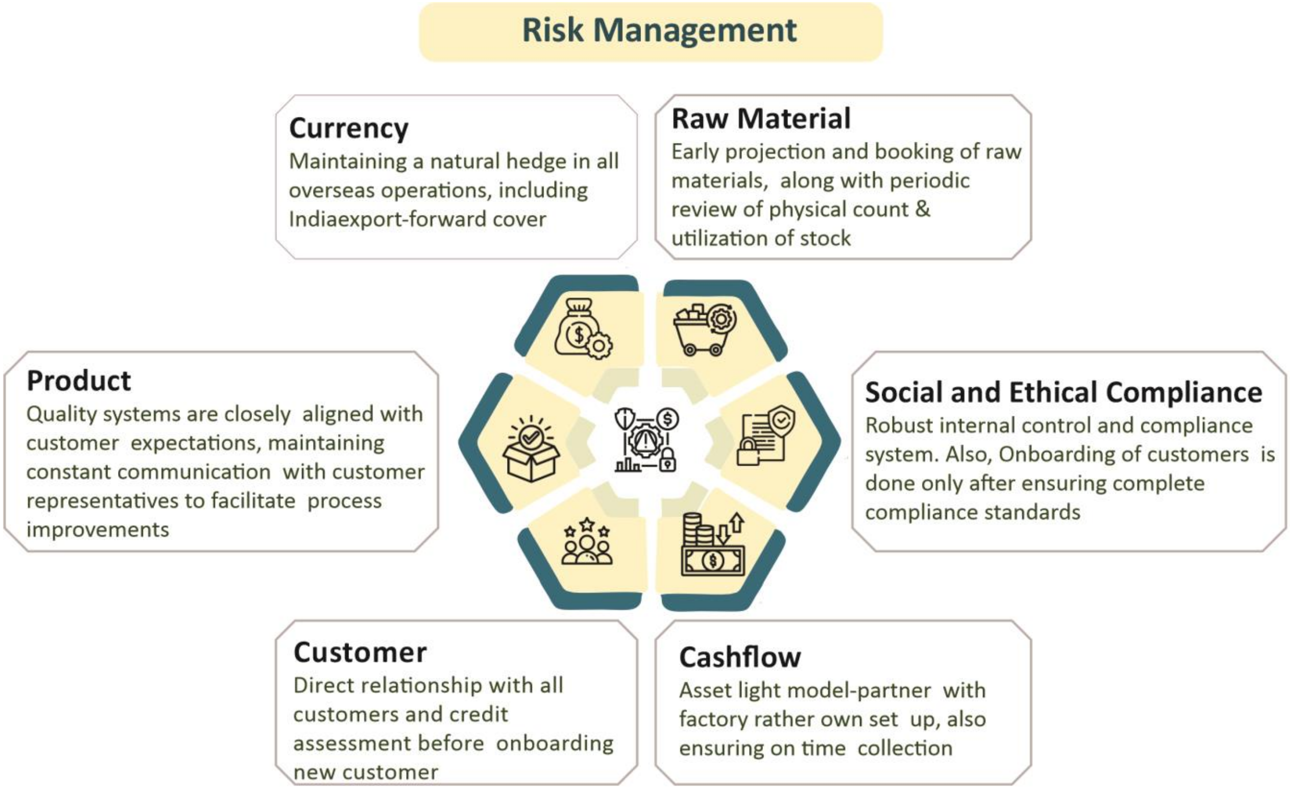
Exhibit 17: PGIL's unique value proposition



Source: Company, Dalal & Broacha Research

PGIL leverages its diversified regional production capabilities, combining insights from major fashion hubs like Spain, the US, and the UK, to meet customer demand for varied sourcing options. This strategic approach, coupled with adopting industry best practices, sets PGIL apart as a leading exporter, filling a gap in India where large, diversified exporters remain limited.

Exhibit 18: PGIL's various risk management strategies



Source: Company, Dalal & Broacha Research

PGIL faces significant risks due to its high geographical concentration, with over 70% of its revenue coming from the US market and a heavy reliance on its top five customers. Additionally, around 70% of the company's manufacturing capacity is located outside India, mainly in Bangladesh, exposing its operations to geopolitical risks in that region. PGIL focuses on key areas such as raw material pricing, inventory management, currency exposure, and compliance with social and product standards. Their **currency risk** is managed through a natural hedge and calibrated hedging policies, ensuring effective risk mitigation.

PGIL's Non-Recourse Financing allows it to maintain healthy cashflows

PGIL is leveraging non-recourse **financing** as part of its broader financial strategy, particularly through the factoring of receivables. This type of financing allows the company to sell receivables without retaining liability for the debt if the customer defaults, mitigating financial risk.

Exhibit 19: Various government schemes are set to provide a strong boost to the sector

Government Initiatives

1 PLI Scheme

- Scheme was approved with a total outlay of Rs.107bn
- Likely to provide incentives,~3-11% on incremental revenue YoY for 5 years on greenfield as well as brownfield investments

2 PM MITRA Scheme

- Under the scheme, 7 mega parks will be set up in the country over the upcoming three years with plug and play facilities in a bid to create global champions in exports

3 Extension of RoSCTL scheme

- The extension is likely to benefit exporters of Apparel/Garment and Home Textiles products since the extension till 31st March 2024 ensures a stable and predictable policy regime for three years.

4 Notification of RoDTEPrates

- The announcement is likely to benefit the entire value chain of textiles since exporters can now claim rebate either under Rebate of State and Central Levies and Taxes (RoSCTL) or Remission of Duties and Taxes on Export Products (RoDEP) theme.

5 Free Trade Agreement

- With the India Australia Economic Cooperation and Trade Agreement (ECTA) and the upcoming India UK Economic Cooperation and Trade Agreement (ECTA), India's exports of textiles and apparels are expected to go up to in the next 3 years

Source: Company, Dalal & Broacha Research

The Indian government has set an ambitious target for the textiles and apparel sector to grow at a 10% CAGR, reaching US$350 bn by 2030, with exports projected at US$100 bn. To achieve this, it has introduced initiatives like the PLI scheme, PM MITRA (dedicated textile parks), and FTAs.

The PM Mega Integrated Textile Regions and Apparel Parks (PM MITRA) scheme is a significant initiative by the Indian government aimed at transforming the textile sector. This scheme is designed to develop large-scale, integrated industrial infrastructure facilities that encompass the entire textile value chain, from spinning and weaving to processing and garment manufacturing, all within a single location. The initiative is inspired by Prime Minister Narendra Modi's 5F vision: Farm to Fibre to Factory to Fashion to Foreign. India's government aims to attract Rs.950 bn in investments in the textiles sector over next 3-5 years through the PM MITRA parks (~Rs.75 bn) and PLI scheme (~Rs.25 bn), focusing on man-made and technical textiles. Seven mega textile parks across various states are expected to drive this investment, supported by FDI and export incentives.

The seven mega textiles parks under PM MITRA scheme are coming up in Tamil Nadu (Virudhunagar), Telangana (Warangal), Gujarat (Navsari), Karnataka (Kalaburagi), Madhya Pradesh (Dhar), Uttar Pradesh (Lucknow/Hardoi) and Maharashtra (Amravati).

PLI can significantly enhance PGIL's competitive edge. However, it's crucial for this perspective to be embraced by officials across states, particularly in workforce-rich regions like UP, Bihar, Bengal, and Odisha.

Free Trade Agreements (FTAs) : India recently had FTAs with Mauritius and Australia, which have borne positive results for RMG exports. The Economic Cooperation and Trade Agreement (ECTA) between India and Australia was signed in April 2022 and has been a win-win for both nations since the trade between them is significantly complementary. India imports raw material and intermediate goods from Australia and exports finished consumer products. Custom duty advantage under the FTA is highly advantageous to Indian apparel exporters. The country is now heading towards concluding an FTA with the UK after resolving certain differences by arriving at a midpoint.

India is also in discussions with the EU on free trade deals. EU levies high import duties, ranging between 10-12% on textile products, which impacts the country's competitiveness vis-à-vis Bangladesh and China. Bangladesh benefits significantly because of its Least Developed Country (LDC) status.

DID YOU KNOW?

Generating a **government job costs ~Rs.30k-35k**, government can create the same job with a **subsidy of ~Rs.4k**. If this approach is adopted across states, it could drive significant growth in textile industry in India over the next 5-6 years.

FAQS

▶ How has Pearl's exposure to Australia and the UAE changed since India signed FTAs with these countries, and what is the current demand from these regions?

Australia is a focus market, but it's much smaller compared to the US. Even with significant growth from new customers, the numbers are still relatively small compared to the US market. However, there is notable growth in **Australia, as well as in Japan**. Europe and the UK are also seeing increased traction, especially with the potential FTA with the UK. Pearl has been doing a lot of business in Europe and the UK through Bangladesh, but now there's renewed interest from customers in India production, which is benefiting the company.

Exhibit 20: PGIL's key differentiators across regions

Metrics	Bangladesh	Vietnam	Guatemala	Indonesia	India
Population	174 Mn	~98 Mn	~17 Mn	273 Mn	1.428 Bn
GDP	$1.131 Tn	~$411 Bn	$85.99 Bn	$1.186 Tn	$3.73 Tn
RMG Exports (2022-23)	$47 Bn	$44 Bn (2024 projected)	$1.6 Bn	$13 Bn	$16 Bn
Employment in RMG	4.5 Mn, 80% women	N/A	2,00,000	~4 Mn	~45 Mn (textiles sector)
GDP Growth Rate	~6.5%	6.02%	3.60%	5.17%	6.30%
RMG Export as % of Total	82%	~80%	5.40%	10%	13%
Top Export Product	Trousers (32%)	N/A	Knitted apparel	Knitted apparel	Cotton garments
Cost Competitiveness	High (Low labor costs)	High, but higher than Bangladesh	Moderate	High	Moderate
Sustainability Focus	Low, but improving	High (Shift towards green production, eco-friendly)	Low	Moderate	High (Shift towards green manufacturing)
Strengths	Trade agreements, cost competitiveness, large workforce	Free trade agreements, innovation in sustainability	Proximity to US markets, low tariffs	Large workforce, low labor cost, diverse production	Strong textile base, design capabilities, export experience
Challenges	Environmental impact, raw material imports	Inflation, sustainable fashion, high input costs	Small workforce, political challenges	Sustainability adaptation, high input costs	Supply chain inefficiencies, raw material imports

Source: Company, Dalal & Broacha Research

PGIL believes Vietnam and Bangladesh offer stronger manufacturing bases and better efficiency, which have enabled them to capture business faster than India, though they expect India to become more competitive in the next four to five years.

Impact of Bangladesh's LDC Status on Export Growth and Future Challenges

Bangladesh's status as a Least Developed Country (LDC) has provided significant benefits to its export sector, primarily through preferential trade agreements that offer duty-free and quota-free access to various international markets. This status has been particularly advantageous for the country's ready-made garment (RMG) industry, which constitutes a substantial portion of Bangladesh's exports.

Benefits of LDC Status for Bangladesh's Exports

Duty-Free Access: As an LDC, Bangladesh has enjoyed duty-free and quota-free access to major markets such as the European Union (EU), Canada, Australia, and Japan under initiatives like the EU's Everything But Arms (EBA) arrangement. This has allowed Bangladesh to significantly increase its market share in these regions

Trade Preferences: Over 70% of Bangladesh's merchandise exports benefit from LDC-specific trade preferences, which have been crucial for the growth of its export sector

Market Share Growth: The preferential market access conditions have enabled Bangladesh to expand its share in key markets. For instance, its market share in the EU and Canada increased to almost 13%, while it reached 11% in Australia and 4% in Japan

India vs. Bangladesh: Workforce Dynamics and Industry Shifts in Garment Manufacturing

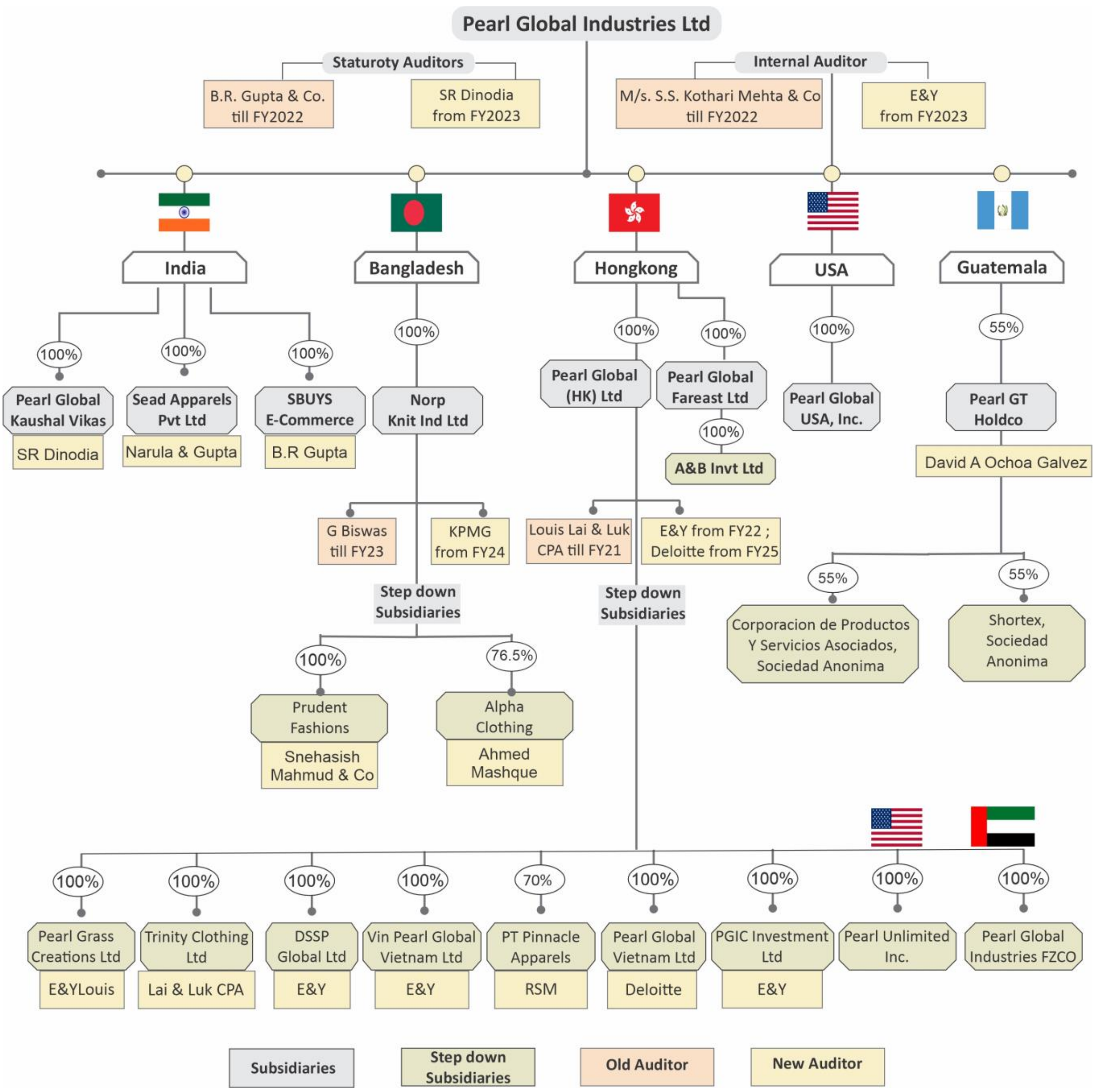
PGIL sees potential for India's garment industry to shift towards northern states like Bihar, Odisha, and Madhya Pradesh, driven by the migration of labor from these regions to southern states such as Karnataka and Tamil Nadu. This shift could lead to industry growth in workers' home states, supported by government interest in promoting manufacturing in these areas.

However, PGIL finds Bangladesh more straightforward in terms of workforce management and cost structure, with simpler calculations involving wages, overtime, and pension funds. In contrast, India faces complexities with wage revisions, DA adjustments, and broader regulatory challenges, although it remains competitive in costs. Despite these challenges, Bangladesh outperforms India in productivity, efficiency, and the strength of its middle management, making it a more robust ecosystem for garment manufacturing. PGIL factors these elements into its long-term strategic planning.

DID YOU KNOW?

Bangladesh has announced a hike in the minimum wage for garment workers, increasing it from **8,000 BDT to 12,500 BDT (~$114/~Rs.8.8k) per month**, effective December 1, 2023. **This 56.25% increase marks the first adjustment since 2019.** Additionally, workers will receive an annual increment of 5% under the revised structure. For PGIL, the overall wage impact is estimated at ~12-15%, as the company already offered wages above the previous minimum levels, compared to the industry-wide hike of ~56%. **Despite this increase, India's minimum wage rate remains higher at ~Rs.10.5k per month**

Exhibit 21: PGIL's Holding structure



Source: Company, Dalal & Broacha Research

The structuring of entities across Vietnam, Bangladesh, Hong Kong, and Dubai is designed to align with retailer needs, optimize banking consolidation, and leverage tax benefits. Vietnam and Bangladesh focus on manufacturing with local tax incentives, while Hong Kong supports supplier consolidation. Dubai serves the Middle East, benefiting from Free Trade Zone regulations.

Auditor Transition (PGIL's enhanced governance framework):

Appointment of Big4 auditor to enhance corporate governance: PGIL demonstrates strong corporate governance by appointing Deloitte Touche Tohmatsu for the year ending 31st Mar' 25 as the statutory auditor for its material subsidiary, Pearl Global Hong Kong Limited, ensuring robust oversight and transparency.

In Vietnam, Deloitte serves as the statutory auditor, while Ernst & Young is the auditor in Hong Kong. In Indonesia, the firm Topper, a tier two auditor, is used. With the recent engagement of KPMG in Bangladesh, Pearl now has Big Four auditors in its overseas locations, reflecting the company's significant revenue and capacity abroad. This shift aims to strengthen the governance framework, prompting changes in auditors as their terms expire to enhance oversight and compliance.

Exhibit 22: PGIL's right to win customers

1. Evaluation of Existing Customer Base:

- New Mgmt upon joining Pearl, evaluated the existing customer base across regions like **Indonesia, Bangladesh, India, and Vietnam** was evaluated for financial strength and sustainability.

2. Targeted Approach to Acquiring New Customers:

- Instead of acquiring numerous new clients randomly, PGIL adopted a **targeted strategy** focused on specific, financially strong, and stable customers.
- PGIL provided **strategic solutions** aligned with clients' diversification and sourcing strategies, enhancing appeal and engagement.

3. Leveraging Global Trends:

- The **China plus one strategy** played a crucial role in attracting new clients, as many companies sought to diversify their supply chains beyond China.
- PGIL positioned itself as a key player by offering a **multi-country supply chain solution** with operations in five different regions.

4. In-Country Design Services:

- A significant advantage offered by PGIL is **real-time, in-country design collaboration**, where its design teams work directly with the customers' design teams in their offices.
- This service differentiates PGIL and builds deeper integration with clients, improving efficiency and responsiveness.

5. Multi-Product Offering:

- PGIL's ability to supply **seven different product categories** allows clients to source multiple products from a single supplier, improving the cost-efficiency of working with PGIL.
- This **multi-product, multi-country approach** has become a cornerstone of PGIL's strategy, reducing the complexity of sourcing for clients.

6. Long-Term Client Relationships:

- While some client acquisitions can occur quickly if the need is urgent, PGIL recognizes that in many cases, **building relationships** can take time, sometimes over a year.
- Success with new customers is achieved by showcasing PGIL's advantages and waiting for the **right opportunity** to align on both sides.

7. Successful Client Onboarding:

- Many of PGIL's new clients were previously aware of the company but had not worked together. Through **strategic engagement**, PGIL successfully onboarded them, leading to **steady growth** over the last 4-5 years.

Source: Company, Dalal & Broacha Research

Exhibit 23: Annual Report Analysis

Particulars	FY19	FY20	FY21	FY22	FY23	FY24
Year of Incorporation	1987					
KMP Remuneration (Rs Mn)						
Pulkit Seth	12	16.5	8.4	9.0	-	-
Pallab Banerjee (DOJ - 01-Jun-19)	-	8.3	8.6	16.2	26.7	91.3
CFO	Raj Kumar Chawla	Amit Mohan	Sanjay Gandhi	Sanjay Gandhi	Sanjay Gandhi	Sanjay Gandhi
Sanjay Gandhi	5.4	6.1	5.4	5.9	8.4	N.A.
LT Credit Rating	**BBB**	**BBB**	**BBB**	**BBB +**	**BBB +**	**A-(Stable)**
ST Credit Rating	**A3+**	**A3+**	**A3+**	**A2**	**A2**	**A2+**
Dividend per share	**3**	**0**	**0**	**5**	**7.5**	**17.5**
Dividend Distributed (Rs Mn)	**65**	**0**	**0**	**108**	**162**	**381**
Permanent Employees	**6200**	**6840**	**5126**	**5996**	**8452**	**9116**
Contractual / Temporary Employees	**0**	**7360**	**7103**	**3334**	**0**	**0**
Corp Office	**Gurugram**	**Gurugram**	**Gurugram**	**Gurugram**	**Gurugram**	**Gurugram**
Total Employees	**6200**	**14200**	**12229**	**9330**	**8452**	**9116**
Countries Present	**8**	**8**	**8**	**8**	**8**	**10**
Designers	**75+**	**75+**	**75+**	**75+**	**75+**	**75+**
Statutory Auditor	**B.R.Gupta & Co.**	**B.R.Gupta & Co.**	**B.R.Gupta & Co.**	**B.R.Gupta & Co.**	**S.R. Dinodia & Co**	**S.R. Dinodia & Co**
Period	FY17-18 to FY22-23	FY17-18 to FY22-23	FY17-18 to FY22-23	FY17-18 to FY22-23	FY22-23 to FY26-27	FY22-23 to FY26-27
Statutory Audit Fees (Rs Mn)	2.1	2.9	3.0	3.2	4	4
Payment made to Auditors	5.8	8.2	9.9	13.4	19.2	21.26
Internal Auditor	**M/s. Narula & Gupta**	**SS Kothari Mehta & Co**	**SS Kothari Mehta & Co**	**SS Kothari Mehta & Co**	**SS Kothari Mehta & Co till 30.9.22 M/s. Ernst and Young LLP from 01.10.22 for 2 years**	**M/s. Ernst and Young LLP**
Revenue Contribution from customers added in last 5 years	**4.70%**	**5.30%**	**10.40%**	**21.20%**	**24.50%**	**44%**

Source:Company, Dalal & Broacha Research

Exhibit 24: Board of Directors

Name of the Director	Designation	Description
Deepak Seth	Chairman	Deepak Seth is an Economics Graduate from St. Stephens College, Delhi University, an MBA from Jamnalal Bajaj Institute of Management Studies, Mumbai, India. He is an active member of the Apparel Export Promotion Council of India. He was awarded the "Udyog Ratna" Award by the Haryana Government in 2006 for his entrepreneurial skills.
Pulkit Seth	Vice Chairman	Pulkit Seth holds a Bachelor of Business Management from Leonard N. Stern School of Business, University of New York, USA. He began his journey in the apparel industry in the early 2000s. He has been overseeing the domestic & overseas operations of the Company and has played an important role in streamlining business processes and enhancing relationships with leading retailers in the U.S.
Shifalli Seth	Non - Executive Director	Shifalli Seth holds a Bachelor of Science in Business Administration from the University of Bradford, UK. She has international experience in trading and marketing readymade garments and has good knowledge of the South East Asia region.
Pallab Banerjee	Managing Director	Mr. Pallab Banerjee brings a wealth of experience and expertise to the Company, with an extensive background in apparel manufacturing and marketing spanning over 29 years. Holding a B. Sc (Hons) degree, as well as Post Graduate qualifications in Apparel Manufacturing and Marketing from NIFT, and Financial Management from eCornell, his educational foundation is solid. His career trajectory highlights significant roles, including his tenure as Vice President-Global Sourcing (Wovens) at GAP and his leadership as Managing Director at GAP International Sourcing (India) Private Limited. These positions have likely equipped him with a deep understanding of global sourcing dynamics and operational management within the apparel industry.
Abhishek Goyal	Independent Director	Graduate in Finance and Economics from the University of Virginia. Former Senior Analyst at Andor Capital Management, specialized in technology
Madhulika Bhupatkar	Independent Director	B.Sc. in Dietetics, M.A. in Education, focused on educational management and advisory for institutions.
Neha Khanna	Independent Director	Experienced in investment banking, financial advisory, and risk management. Previously worked at PwC and ANZ.
Shailesh Kumar	Executive Director	Bachelor's in Science from Magadh University, Post Graduate Diploma in Personnel Management, with 26 years of HR and administrative experience.
Deepak Kumar	Executive Director	Bachelor's in Science from MDU Rohtak, MBA from Symbiosis Pune, with 20+ years in corporate governance and strategic direction.
Rajiv Kumar	Independent Director	Expertise in governance, policy formulation, and academia with a Ph.D. from Lucknow University.
Sanjay Kapoor	Independent Director	Founder of Genesis Luxury Retail Pvt Ltd, bringing over two decades of experience in luxury brand retailing.
Ashwini Agarwal	Independent Director	Seasoned equity investor with experience in emerging markets, managing investments in South Asia and Africa.

Source: Company, Dalal & Broacha Research

DID YOU KNOW?

PGIL's compensation system is incentive-driven, with **performance-based pay linked to PAT, free cash flow, and top-line metrics, with a significant portion for the CEO and CFO tied to free cash flow generation.**

Exhibit 25: Peer Valuation Check

Company Name	CMP (₹)	Mcap (₹ Bn)	Revenue (₹ Mn)					EBITDA (₹ Mn)					PAT (₹ Mn)				
			FY23	FY24	FY25e	FY26e	FY27e	FY23	FY24	FY25e	FY26e	FY27e	FY23	FY24	FY25e	FY26e	FY27e
Indian Peers																	
Gokaldas Exports Ltd	958	66	22,222	23,789	40,085	46,353	51,649	2,710	2,540	5,341	6,317	7,493	1,730	1,310	2,945	3,792	4,629
KPR Mill Ltd	997	324	61,860	61,269	66,715	74,145	81,807	12,740	12,367	13,905	16,731	19,205	8,140	8,054	10,224	11,993	12,656
SP Apparels Ltd	948	21	10,810	10,874	13,440	15,322	17,363	1,460	1,578	2,044	2,462	2,906	850	896	920	1,184	1,480
PDS Ltd	560	76	10,577	1,03,730	1,29,276	1,51,925	1,87,027	4,750	5,020	5,045	7,352	9,622	3,270	1,442	2,158	3,027	4,513
Pearl Global Industries Ltd*	**1,222**	**54**	**31,584**	**34,362**	**42,446**	**47,291**	**56,527**	**2,555**	**3,078**	**4,080**	**4,804**	**6,423**	**1,361**	**1,755**	**2,172**	**2,426**	**3,486**

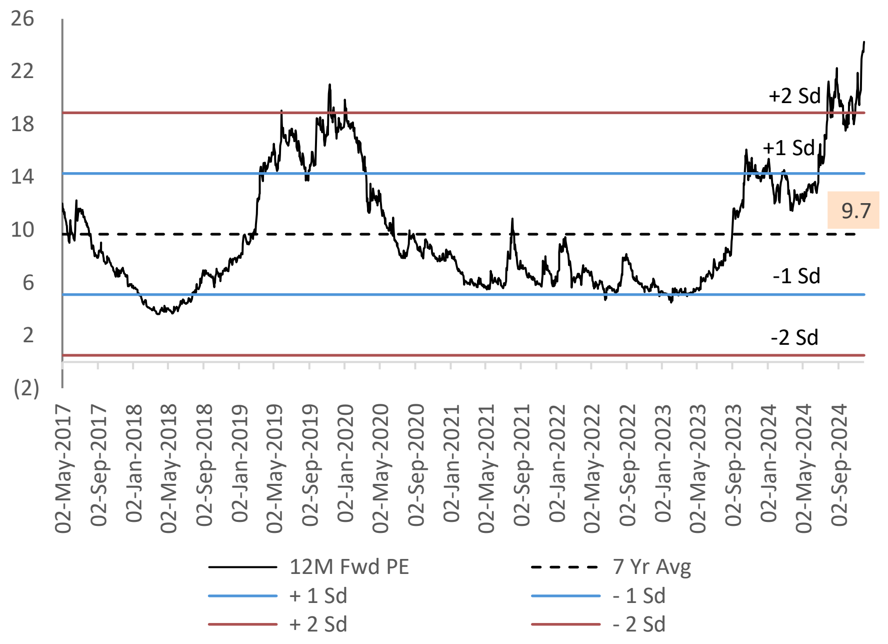
International Peers	CMP (TWD/ CNY)	CMP (TWD Bn/CNY Bn)	Revenue (TWD/CNY Mn) FY23	FY24e	FY25e	FY26e	FY27e	EBITDA (TWD/CNY Mn) FY23	FY24e	FY25e	FY26e	FY27e	PAT (TWD/CNY Mn) FY23	FY24e	FY25e	FY26e	FY27e
Makalot Industrial Co Ltd (TWD)	325	79	32,459	36,092	39,874	42,817	N.A.	5,388	5,956	6,540	7,107	N.A.	3,991	4,089	4,461	4,916	N.A.
Shenzhou International Ltd	59	90	24,970	27,714	31,025	34,494	38,176	5,847	7,947	9,009	10,028	11,926	4,557	5,877	6,641	7,472	8,576

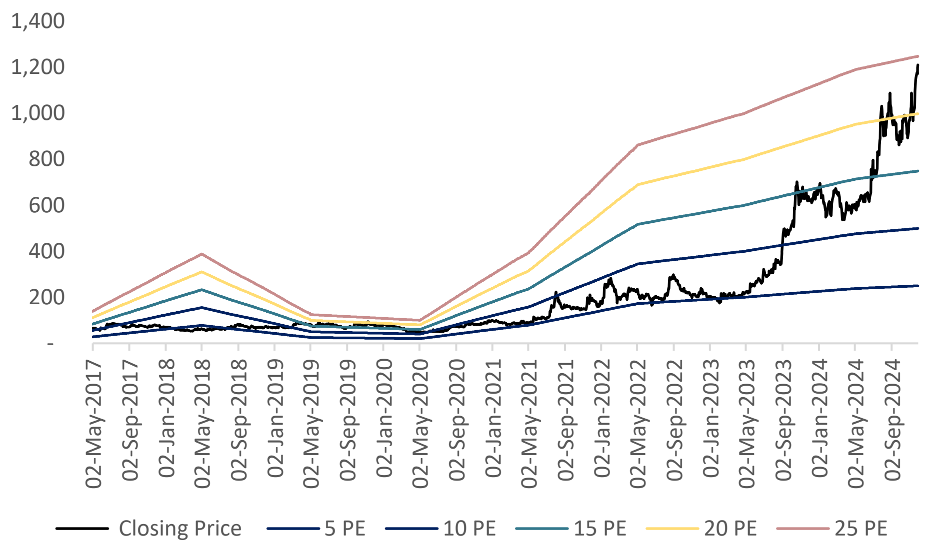
Company Name	Adj EPS (₹)					PE					Revenue CAGR (FY24-27e)	EBITDA CAGR (FY24-27e)	EPS CAGR (FY24-27e)
	FY23	FY24	FY25e	FY26e	FY27e	FY23	FY24	FY25e	FY26e	FY27e			
Indian Peers													
Gokaldas Exports Ltd	28.6	20.7	41.9	54.8	63.5	33.6	46.4	22.9	17.5	15.1	29%	43%	45%
KPR Mill Ltd	23.8	23.6	27.1	33.1	38.1	41.8	42.3	36.8	30.1	26.1	10%	16%	17%
SP Apparels Ltd	32.9	35.7	36.7	47.2	59.0	30.3	27.9	27.2	21.1	16.9	17%	23%	18%
PDS Ltd	20.2	10.8	17.5	21.2	N.A.	27.7	52.0	32.0	26.4	N.A.	22%	24%	N.A.
Pearl Global Industries Ltd*	**34.4**	**40.1**	**49.8**	**55.7**	**80.0**	**35.5**	**30.5**	**24.5**	**22.0**	**15.3**	**18%**	**28%**	**26%**

International Peers	Adj EPS (TWD/CNY) FY23	FY24e	FY25e	FY26e	FY27e	PE FY23	FY24e	FY25e	FY26e	FY27e	Revenue CAGR (FY23-26e)	EBITDA CAGR (FY23-	EPS CAGR (FY23-26e)
Makalot Industrial Co Ltd (TWD)	16.2	16.8	18.6	20.0	N.A.	20.1	19.3	17.4	16.2	N.A.	10%	10%	7%
Shenzhou International Ltd	3.0	3.9	4.5	5.0	5.9	107.1	83.1	72.8	64.6	55.3	11%	20%	18%

Source*:* Bloomberg, Dalal & Broacha Research,TWD = New Taiwan Dollar, CNY = Chinese Yuan

Exhibit 26: 12 Month Forward PE Chart & Multiple PE band Chart





Source: Dalal & Broacha Research,Bloomberg

Valuation and Outlook

Pearl Global Industries Ltd (PGIL) stands as a leading global manufacturer and exporter of readymade garments to global brands & retailers. PGIL is the only Indian listed entity with a diversified manufacturing footprint across India, Bangladesh, Vietnam, Indonesia, and Guatemala (covering three of the four major textile supply chains), is well-positioned to benefit from the anticipated shift in procurement by large global brands and retailers from China to these markets. PGIL's multi-stream business model enables the company to offer multi-country and multi-product solutions across knit and woven clothing categories, efficiently serving its global customers. Global vendors in this category typically operate within the $1 bn to $3 bn revenue range (~2x to 6x size of PGIL), whereas PGIL is currently positioned at ~0.5 bn, merely scratching the surface of its potential.

In 2019, PGIL transformed its corporate structure by bringing in seasoned industry professionals to lead the company. This strategic move has strengthened its operational capabilities and market positioning. With ambitious plans to nearly double its revenue from Rs.34 bn in FY24 to Rs.63 bn by FY28, PGIL has added new clients, significantly increasing their revenue contribution.

To support its growth, PGIL plans to invest Rs.4.5-5 bn in key geographies, leveraging its multi-country, multi-product capabilities. This investment is expected to generate additional revenues of Rs.18-20 bn. PGIL stands out as the only listed multi-product, multi-country manufacturer from India, positioning itself as a key player in the global apparel industry.

We initiate coverage on Pearl Global Industries Ltd (PGIL) with a "BUY" rating and recommend that investors consider adding the stock during any corrections in the midcap and smallcap sectors. We project a revenue/EBITDA/PAT/EPS CAGR of 18%/28%/27%/26% over FY24-27e. Despite being one of the most efficient garment exporters, PGIL trades at 15x FY27e EPS of Rs.80. PGIL boasts superior return ratios >20%, compared to peers trading at ~20x multiples with lower returns ratios. Given improved industry dynamics, enhanced execution capabilities, new professional management, strategic business improvements, and government support for the textiles sector, we expect a re-rating of PGIL's historical PE multiple from 10-12x to 20x. At this valuation, the stock's FY27e EPS of Rs.80 translates to a target price of Rs.1,600, offering a 31% upside to CMP of Rs.1222. The valuation implies a <1 PEG ratio, which we consider reasonable in the context of the broader market.

Why readymade garments (RMG)?

Garmenting stands out as the least cyclical and most challenging segment in the textile value chain due to its high entry barriers. Leading brands and retailers typically work with a select group of trusted vendors, creating a competitive moat. Being closest to the brands and end customers, garmenting offers superior return ratios compared to other segments within the textile value chain.

Why Pearl Global Industries Ltd (PGIL)?

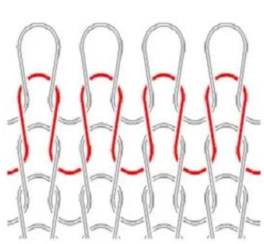
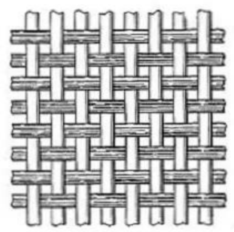
PGIL is the only Indian listed entity with multi-product, multi-location manufacturing facilities spanning 3/4 of the global textile supply chain. This unique positioning makes PGIL a preferred vendor partner and a key beneficiary of the ongoing value migration in the textile supply chain from China to countries like Bangladesh, Indonesia, Vietnam, and India. With a presence in all these strategic locations, PGIL meets the diverse requirements of global brands, leveraging the distinct advantages each region offers.

Pearl Global Industries Ltd related FAQs

▶How does PGIL protect its designs and trade secrets, and what are the risks associated with it?

PGIL takes precautions like confidentiality agreements, but unauthorized disclosure or inadequate protection could adversely affect its business and operations.

▶ What is the difference between knit and woven garments?

Features	KNIT 	WOVEN 
Structure	Interlocking loops of yarn	Crisscrossed yarns
Stretch	Naturally stretchy and flexible	Less stretch, more structured
Texture	Soft and smooth, often used for casual wear	Firmer and more rigid, used for formal clothing
Examples	T-shirts, sweaters	Dress shirts, trousers
Durability	Less durable over time due to stretching	More durable and retains shape longer

▶ What are the four major textile supply chains covering the majority of the global textile market?

The Four Major Textile Supply Chains Covering the Global Market

- South East Asia: Countries such as Vietnam, Indonesia, and China.
- South Asia: India, Bangladesh, Pakistan, and Sri Lanka.
- Mediterranean: Including Egypt, Turkey, and Morocco.
- Central America: Countries like Peru, Brazil, Colombia, and Guatemala.

▶ What are the top garment exporting countries in 2022 and 2023?

The top garment exporters are China, followed by the EU, Bangladesh, and then Vietnam.

▶ What has happened to China's garment exports in recent years?

China’s garment exports have decreased from ~$182 bn around 2017-18 to about ~$153 bn now, with much of this loss benefitting Bangladesh and Vietnam.

▶ How does Pearl position itself compared to major global competitors?

Pearl competes with large manufacturers from China, Taiwan, and Korea. Many of these competitors operate across multiple countries to offer flexibility and efficiency in production.

▶ What type of products are manufactured in different regions by PGIL?

- **India:** High end fashion products with intricate detailing and handwork.
- **Bangladesh:** Primarily core, basic items such as polos, hoodies, denim, and children's wear.
- **Vietnam:** Outerwear, technical athletic garments, and high end outerwear.
- **Indonesia:** Dresses and outerwear for upmarket brands.
- **Guatemala:** Basic knitwear like polos, hoodies, and other jersey fabrics.

▶ Can PGIL shift manufacturing of customer products between different geographies?

At PGIL, the factories they use to manufacture for their customers must be approved by them to meet compliance requirements, meaning each customer's orders can only be produced in certified countries.

Pearl Bangladesh (Key geography) related

▶ What is the current state of Bangladesh's economy and its apparel industry?

Bangladesh has a population of 174 mn and a GDP of $1.13 tn. The apparel industry contributes 60% to the country's industrial development and employs 4.5 million people, with a large portion being women. Bangladesh is the second-largest apparel exporter globally, after China, with a total garment export of $47 bn in 2022-2023. In the U.S. market, Bangladesh's market share is more than double that of India, and Vietnam's is triple. Bangladesh also holds a strong position in Europe and the UK due to its duty-free status.

▶ What are the main products Pearl Bangladesh manufactures?

Pearl Bangladesh primarily manufactures casual trousers, t-shirts, knitted shirts, and denim, which are among the top garment categories exported from Bangladesh.

▶ What are the main strengths of Bangladesh's Ready-Made Garment (RMG) sector?

The RMG sector benefits from competitive labor costs, industry experience, technological advancements, and strong trade agreements with major markets like the EU, UK, and ASEAN countries. The sector is growing steadily, with strong adaptability to various types of clothing and a young, skilled workforce.

▶ What are some of the weaknesses and challenges faced by the sector?

Major weaknesses include environmental monitoring issues and high dependence on imported raw materials, although there are steps being taken to address these. Labor issues and supply chain disruptions are additional challenges, particularly due to global factors like economic uncertainty and shipping difficulties.

▶ What are the current threats to the RMG industry in Bangladesh?

Threats include global economic uncertainty, intense competition from countries like China and Vietnam, supply chain disruptions, and migration of Bangladesh to developed country status, which could impact trade benefits. However, these challenges are being monitored, and the country is negotiating extensions of favorable trade agreements.

▶ What is the outlook for the apparel industry in Bangladesh?

In the mid-term, Bangladesh is expected to shift toward man-made fiber products, which will bring higher margins. In the long-term, the infrastructure growth and global trade agreements will continue to drive the sector's expansion.

▶ What is the current operational setup of Pearl Bangladesh & its future goals?

Pearl Bangladesh has several key factories, including Norp Knit Industries, Prudent Fashion, and Alpha Clothing. These facilities produce millions of pieces monthly, focusing on efficiency and design to provide comprehensive solutions to global brands. Pearl Bangladesh aims to continue expanding its manufacturing capacity, improve its sustainability efforts, and strengthen its market position as a one-stop solution provider for global apparel brands.

▶ What is the current operational setup of Pearl Bangladesh & its future goals?
Pearl has fully digitized its factories. Each garment has a unique QR code that tracks its production history, from fabric sourcing to manufacturing stages, allowing for complete traceability, inventory control, and quality control.

▶ What challenges has the U.S. import market faced in 2023?
The U.S. market experienced flat growth, with imports down nearly 15% compared to the previous year due to excess inventory. However, fresh inventory orders are expected to increase moving forward.

▶ What challenges has the U.S. import market faced in 2023?
The U.S. market experienced flat growth, with imports down nearly 15% compared to the previous year due to excess inventory. However, fresh inventory orders are expected to increase moving forward.

▶ How did the European market perform in 2023?
The European market faced a conservative purchasing strategy due to ongoing geopolitical issues, leading to about 20% lower imports in the last month and an overall 13% decrease for the year.

▶ How is Japan's market trend compared to others?
Japan has been conservative post-pandemic, with a 4% decrease in imports compared to 2022.

▶ What strategy did Pearl adopt in 2023 to maintain growth?
Pearl diversified into other markets in anticipation of reduced orders from the U.S. due to inventory issues, focusing on growth in regions less affected by current geopolitical concerns.

▶ How does Pearl position itself compared to major global competitors?
Pearl competes with large manufacturers from China, Taiwan, and Korea. Many of these competitors operate across multiple countries to offer flexibility and efficiency in production.

Important websites for reference to track the company

Corporate Video	https://www.youtube.com/watch?v=PHPdhkAa0dc
Inside garment factory in Bangladesh	https://www.youtube.com/watch?v=uZW-nuQp9Z0
Complete Process of Textile Manufacturing Fiber to Garments	https://www.youtube.com/watch?v=5nUjGNDImlk
Ralph Lauren Vendor/Factory List	https://corporate.ralphlauren.com/cs-factory-list.html
GAP Vendor/Factory List	https://www.scribd.com/document/661654734/gap-inc-factory-list-march-2023
PVH Vendor/Factory List	https://www.pvh.com/-/media/Files/pvh/responsibility/PVH-Suppliers-Disclosure.xlsx
Muji Vendor/Factory List	https://www.ryohin-keikaku.jp/eng/sustainability/supply-chain/partners
Inditex Vendor/Factory List	https://annualreport2023.inditex.com/en/centro-de-descarga (Pg 372)
Peer 1 (Hongkong)	https://www.shenzhouintl.com/investor-relations/reports
Peer 2 (Taiwan)	https://www.makalot.com.tw/investor/financial/annual-report

Financials

P&L (Rs mn)	FY20	FY21	FY22	FY23	FY24	FY25e	FY26e	FY27e
Net Sales	16,851	14,909	27,135	31,584	34,362	42,446	47,291	56,527
Operating Expenses	-8,083	-7,689	-15,106	-16,295	-16,979	-21,011	-23,173	-27,698
Gross Profit	**8,768**	**7,220**	**12,029**	**15,289**	**17,383**	**21,435**	**24,118**	**28,829**
Employee Cost	-3,933	-3,253	-4,586	-5,615	-6,704	-7,953	-9,178	-10,593
Other Expenses	-4,166	-3,361	-6,038	-7,119	-7,601	-9,401	-10,136	-11,814
Operating Profit	**669**	**606**	**1,405**	**2,555**	**3,078**	**4,080**	**4,804**	**6,423**
Depreciation	-420	-441	-483	-508	-642	-781	-946	-1,122
PBIT	249	165	921	2,048	2,436	3,299	3,858	5,300
Other income	491	235	335	228	324	324	324	324
Interest	-420	-413	-465	-652	-833	-1,135	-1,395	-1,590
PBT	319	-13	791	1,624	1,927	2,488	2,787	4,034
Profit before tax	312	114	858	1,758	1,921	2,488	2,787	4,034
Provision for tax	-95	61	-157	-229	-229	-373	-418	-605
Profit & Loss from	-	-	-	-	-	-	-	-
Reported PAT	217	175	701	1,530	1,691	2,115	2,369	3,429
MI	-2	-2	-20	-37	57	57	57	57
Owners PAT	216	173	681	1,493	1,748	2,172	2,426	3,486
Adjusted Profit	**222**	**48**	**616**	**1,361**	**1,755**	**2,172**	**2,426**	**3,486**

Balance Sheet (Rs mn)	FY20	FY21	FY22	FY23	FY24	FY25e	FY26e	FY27e
Equity capital	217	217	217	217	218	218	218	218
Reserves	4,789	4,956	5,773	7,008	7,802	9,540	11,481	14,270
Net worth	**5,006**	**5,172**	**5,989**	**7,225**	**8,020**	**9,758**	**11,699**	**14,488**
MI	130	129	159	203	154	97	40	-17
Non Current Liabilites	2,254	2,445	2,548	2,210	2,849	4,396	6,063	7,407
Current Liabilites	5,133	5,193	9,110	8,168	8,831	9,804	10,485	11,777
TOTAL LIABILITIES	**12,523**	**12,940**	**17,806**	**17,806**	**19,855**	**24,056**	**28,288**	**33,655**
Non Current Assets	5,431	5,332	5,339	6,195	7,065	8,801	10,604	11,790
Fixed Assets	3,507	3,395	3,511	3,995	4,847	6,269	7,682	8,492
Right of Use Assets	1,073	980	1,117	1,339	1,617	1,925	2,274	2,623
Financial Assets	689	812	621	625	442	442	476	496
Deferred Tax Asset	9	47	9	14	25	25	25	25
Long Term Loans and	-	-	-	-	-	-	-	-
Other Non Current	154	98	81	221	133	140	147	154
Current Assets	**7,092**	**7,608**	**12,467**	**11,612**	**12,789**	**15,254**	**17,684**	**21,865**
Current investments	69	75	53	56	-	-	-	-
Inventories	2,639	2,788	5,396	5,133	5,027	5,814	7,774	10,067
Trade Receivables	2,204	2,422	3,666	2,094	2,654	3,489	3,887	4,646
Cash and Bank Balances	881	947	1,169	2,561	3,280	3,861	3,776	4,606
Short Term Loans and	173	171	346	254	226	226	226	226
Other Financial Assets	228	232	388	465	491	491	491	491
Other Current Assets	897	973	1,449	1,049	1,111	1,373	1,530	1,828
TOTAL ASSETS	**12,523**	**12,940**	**17,806**	**17,806**	**19,855**	**24,056**	**28,288**	**33,655**

Cashflow (Rs mn)	FY20	FY21	FY22	FY23	FY24	FY25e	FY26e	FY27e
PBT	312	114	858	1,758	1,921	2,488	2,787	4,034
Depreciation	420	441	483	508	642	781	946	1,122
Net Chg in WC	-444	381	-2,392	1,577	445	-672	-1,694	-1,787
Taxes	-171	-35	-77	-231	-210	-373	-418	-605
Others	519	45	212	36	723	892	1,258	1,312
CFO	**637**	**946**	**-915**	**3,648**	**3,521**	**3,116**	**2,879**	**4,077**
Capex	-703	-209	-837	-703	-1,275	-2,202	-2,360	-1,932
Net Investments made	5	-137	-88	-121	322	-	-34	-20
Others	-147	85	528	567	-328	-	-	-
CFI	**-845**	**-260**	**-396**	**-257**	**-1,281**	**-2,202**	**-2,393**	**-1,952**
Change in Share capital	-	-	6	-	38	-	-	-
Change in Debts	485	-189	1,985	-1,158	-32	1,222	1,300	975
Div. & Div Tax	-336	-260	-257	-627	-1,184	-1,569	-1,880	-2,287
Others	-3	-171	-201	-214	-344	15	9	17
CFF	**146**	**-619**	**1,533**	**-1,998**	**-1,521**	**-332**	**-571**	**-1,295**
Total Cash Generated	**-63**	**66**	**221**	**1,393**	**718**	**581**	**-85**	**830**
Cash Opening Balance	**943**	**881**	**947**	**1,169**	**2,561**	**3,280**	**3,861**	**3,776**
Cash Closing Balance	**881**	**947**	**1,169**	**2,561**	**3,280**	**3,861**	**3,776**	**4,606**

Ratios	FY20	FY21	FY22	FY23	FY24	FY25e	FY26e	FY27e
OPM	4.0	4.1	5.2	8.1	9.0	9.6	10.2	11.4
GPM	52.0	48.4	44.3	48.4	50.6	50.5	51.0	51.0
NPM	1.3	0.3	2.2	4.3	5.1	5.1	5.1	6.1
Tax rate	-30.4	54.0	-18.3	-13.0	-11.9	-15.0	-15.0	-15.0
Growth Ratios (%)								
Net Sales	-4.1	-11.5	82.0	16.4	8.8	23.5	11.4	19.5
Gross Profit	-0.8	-17.7	66.6	27.1	13.7	23.3	12.5	19.5
Operating Profit	-24.0	-9.5	132.0	81.9	20.5	32.6	17.7	33.7
PBIT	-23.1	-33.9	460.1	122.2	19.0	35.4	16.9	37.4
PAT	-67.6	-19.5	301.0	118.2	10.5	25.1	12.0	44.7
Per Share (Rs.)								
Net Earnings (EPS)	5.0	4.0	15.7	34.4	40.1	49.8	55.7	80.0
Cash Earnings (CPS)	14.7	14.2	26.9	46.2	54.8	67.8	77.4	105.7
Dividend	-	-	2.5	7.5	8.7	9.5	10.6	15.3
Book Value	115.5	119.4	138.2	166.7	184.0	223.9	268.4	332.4
Free Cash Flow	-6.7	-7.1	-56.7	70.2	40.8	23.7	12.2	53.7
Valuation Ratios								
P/E(x)	246	307	78	35	30	25	22	15
P/B(x)	11	10	9	7	7	5	5	4
EV/EBIDTA(x)	83	92	41	21	18	13	12	9
Div. Yield(%)	-	-	0.20	0.61	0.71	0.78	0.87	1.25
FCF Yield(%)	-0.55	-0.58	-4.64	5.74	3.34	1.94	1.00	4.40
Return Ratios (%)								
ROE	5%	1%	11%	21%	23%	24%	23%	27%
ROCE	9%	5%	12%	20%	23%	26%	25%	27%
RoIC	7%	-19%	10%	22%	26%	27%	24%	27%

Source : Company,Dalal & Broacha Research

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