

Q3 2023

1. Revenue diversification

- **Narrative:** The management has articulated a focused strategy on revenue diversification by aiming for substantial growth in both market penetration and cumulative sales. This approach underscores their intent to leverage existing capacities to drive top-line growth.

- **Management's Guidance:**

- The CFO stated that the company expects a 12% growth in net sales for the next fiscal year. The goal is to continue growing at a cumulative rate of 15% to 20%. The CFO stated that the company expects to achieve a revenue growth of 12% for the upcoming fiscal year. Sanjay Gandhi stated that the top-line is expected to grow at 20% for the next three years within the existing capacity.

- **Actual Results:**

['Q2', '2024']:

- In Q2 FY24, Pearl Global Industries Limited's consolidated revenue grew 12% year-on-year to Rs. 960.6 crores from Rs. 860.3 crores in Q2 FY23. This aligns with the management's guidance of 12% growth for the fiscal year. On a standalone basis, however, revenue for H1 FY24 stood at Rs. 476 crores versus Rs. 628.4 crores in H1 FY23, reflecting a decline of 24% year-on-year.

['Q1', '2024']:

- Pearl Global achieved the highest ever Quarter 1 revenue of Rs. 894.2 CRS, which is a 5% year-over-year increase. Pearl Global achieved a consolidated group revenue of INR 380.8 CRS in Q1FY24. The company achieved a revenue from operations of INR 894.2 crores in Q1 FY24. Pearl Global reported the highest ever first quarter revenue in Q1FY24 since inception. Total income for quarter 1 FY24 increased by 5% year on year to INR894 crores. Partnership factory contribution to the overall revenue stood at 16% for Q1 FY24.

['Q3', '2023']:

- On a consolidated basis, revenue for Q3 FY '23 grew 2% to INR 717 crores.

-

- Revenue for nine months FY '23 grew 42% year-on-year to INR 829 crores.

-

- Revenue from Operations showed a 1% year-on-year increase.

['Q4', '2023']:

- In Q4 FY23, Pearl Global's consolidated revenue declined by 18.5% to INR 730 crores compared to INR 896 crores in FY22. Despite the drop in the last quarter, the revenue for FY23 increased by 16.4% YoY to INR 3,158 crores. Revenue from operations was INR 730.0 Cr in Q4 FY23.

- **Evaluation:**

- {'evaluation': 'Expectations Met', 'evaluation_reason': 'The actual consolidated revenue growth of 12% year-on-year in Q2 FY24 aligned with the management's guidance for the fiscal year, and despite some decline in standalone results, the overall revenue growth met the company's stated targets.'}

2. Cost management strategies

- **Narrative:** Management highlighted their commitment to improving the company's financial health through significant debt reduction. This strategic focus is aimed at enhancing financial stability and reducing interest expenses, thereby improving overall profitability.

- **Management's Guidance:**

- The CFO mentioned that they plan to reduce debt by \$50 million over the next two years.

- **Actual Results:**

['Q1', '2024']:

- In Q1 FY24, the financial costs were reported as 8.1 INR CRS, which reflects the company's ongoing efforts in managing their debt and interest expenses. This is in line with their strategic focus on debt reduction to improve profitability.

['Q2', '2024']:

- Overall debt has come down short term by Rs.88 odd crores.

['Q4', '2023']:

- For the theme Revenue Growth and Financials, subtheme Cost management strategies, in Q4 FY23, the actual results reported by management included: Employee cost was INR 142.5 Cr. Other expenses were INR 168.3 Cr. Depreciation was INR 14.0 Cr. Finance cost was INR 16.3 Cr.

['Q3', '2023']:

- In Q3 FY23, the actual results for cost management strategies, particularly in financials, are as follows:

- - Cost of Goods Sold was 70.4 INR CRS in Q3 FY23.

- - Employee Cost was 52.5 INR CRS in Q3 FY23.

- - Other Expenses were 67.8 INR CRS in Q3 FY23.

- - Depreciation was 5.0 INR CRS in Q3 FY23.

- **Evaluation:**

- {'evaluation': 'Expectations Exceeded', 'evaluation_reason': 'The management aimed to reduce debt by \$50 million over two years, but actual results in Q2 FY24 show a substantial reduction in short-term debt by Rs.88 crores, surpassing the expected target in a shorter time frame.'}

3. Profitability metrics

- **Narrative:** Management discussed strategic measures focused on improving profitability metrics over the medium to long term. This includes targeting a stable state double-digit margin, enhancing returns on capital employed through strategic initiatives such as acquisitions, major capital expenditures, and operational enhancements in new facilities.

- **Management's Guidance:**

- - The management targets a return on capital employed between 15% to 20% in the first year for acquisitions or major capex, stabilizing around 18% to 20% over the next two to three years. - The speaker indicated an objective to achieve a stable state double-digit margin in the medium to long term. - Sanjay Gandhi, Group CFO, anticipates the full-year margins to be a high single-digit. - Sanjay Gandhi mentioned that the new factory, Prudent Fashion Limited, is generating a return on capital employed between 15% to 20% this year. - The management team anticipates achieving a double-digit margin in the long term through the development and implementation of their strategies. - Sanjay Gandhi stated that the company is targeting a return on capital employed of anywhere between 15% to 20% and expects to reach this in the first year of integration.

- **Actual Results:**

['Q2', '2024']:

- In Q2 FY24, the Adjusted EBITDA Margin stood at 8.3%, which was 220 basis points higher year-on-year. The Return on Capital Employed (ROCE) improved by 660 basis points to 30.8% in H1 FY24 from 24.2% in FY23. The company achieved a revenue of \$150 million in Q2 FY24.

['Q1', '2024']:

- Narrative: Management discussed strategic measures focused on improving profitability metrics over the medium to long term. This includes targeting a stable state double-digit margin, enhancing returns on capital employed through strategic initiatives such as acquisitions, major capital expenditures, and operational enhancements in new facilities.

-

- Management's Guidance:

- - The management targets a return on capital employed between 15% to 20% in the first year for acquisitions or major capex, stabilizing around 18% to 20% over the next two to three years.

- - The speaker indicated an objective to achieve a stable state double-digit margin in the medium to long term.

- - Sanjay Gandhi, Group CFO, anticipates the full-year margins to be a high single-digit.

- - Sanjay Gandhi mentioned that the new factory, Prudent Fashion Limited, is generating a return on capital employed between 15% to 20% this year.

- - The management team anticipates achieving a double-digit margin in the long term through the development and implementation of their strategies.

- - Sanjay Gandhi stated that the company is targeting a return on capital employed of anywhere between 15% to 20% and expects to reach this in the first year of integration.

-

- Actual Results for Q1, 2024:

- - EBITDA margins improved by 140 bps to 9.3% in Q1 FY24 from 7.9% in Q1 FY23.

- - Q1 FY24 revenue increased by 5.1% YoY.

- - Gross profit for Q1 FY24 was INR 441.5 crores.

- - PAT for Q1 FY24 was INR 47.4 crores versus a profit of INR 36.4 crores in Q1 FY23.

-

- These results indicate an improvement in profitability metrics and revenue growth, aligning with management's strategic focus, though the company has not yet achieved the double-digit margin target.

['Q3', '2023']:

- The board achieved a 2% year-over-year increase in revenue from operations in Q3 FY23 compared to Q3 FY22. The board achieved a 71% year-over-year increase in EBITDA in Q3 FY23 compared to Q3 FY22. ROCE improved from 12.4% at the end of financial year '22 to 22% in nine months of the financial year '23. These actual results indicate improvements in profitability metrics, with significant growth in EBITDA and ROCE aligning with the strategic measures discussed by the management.

['Q4', '2023']:

- Pearl Global's EBITDA margin was 4.4% in Q4 FY23. Pearl Global's adj PBT was 38.2 in Q4FY23. Pearl Global's PAT was 53.3 in Q4FY23. Gross profit was INR 373.6 Cr in Q4 FY23. EBITDA was INR 62.8 Cr in Q4 FY23. EBITDA margin was 8.6% in Q4 FY23. EBIT was INR 54.5 Cr in Q4 FY23. EBIT margin was 7.5% in Q4 FY23.

- Evaluation:

- {'evaluation': 'Expectations Exceeded', 'evaluation_reason': 'The management aimed for a ROCE of 15%-20% in the first year, with stabilization at 18%-20%, while the actual ROCE reached 30.8% in H1 FY24, significantly surpassing the target. Additionally, the EBITDA margin improved year-on-year, indicating better-than-expected profitability improvements.'}

4. Supply chain management

- **Narrative:** Management highlighted efforts to resolve ongoing inventory issues, which have been a significant concern for retailers. The focus is on addressing these challenges through strategic planning and efficient supply chain management to ensure smoother operations.

- **Management's Guidance:**

- Management expects that the current inventory issues faced by most retailers will be resolved in the upcoming fall booking for the fall of 2023.

- **Actual Results:**

['Q4', '2023']:

- Over 32,000 skilled workers ensure that your deliveries are done on-time without compromising quality.

['Q1', '2024']:

- In Q1 2024, large retailers like Walmart, Target, and Costco have successfully lowered and controlled their inventory much better than in previous years, indicating a resolution of some inventory issues as anticipated. This aligns with the management's guidance for resolving inventory concerns through strategic supply chain management. Additionally, Gap Inc. reported a 27% year-on-year decline in inventory for the latest quarter, further supporting the narrative of improved inventory management.

['Q2', '2024']:

- The inventory in India has been reduced by around 25% quarter-on-quarter.

['Q3', '2023']:

- Pallab Banerjee mentioned that last year, most of the retailers had some excess orders that they had booked, either cancelled, held, or were holding in the US itself.

- Evaluation:

- {'evaluation': 'Expectations Met', 'evaluation_reason': 'Management's guidance on resolving inventory issues through strategic supply chain management was met, as evidenced by large retailers like Walmart, Target, and Costco successfully lowering and controlling their inventory in Q1 2024, and a 27% year-on-year decline in inventory reported by Gap Inc.'}

5. Geographic diversification

- **Narrative:** Management emphasized the importance of expanding the company's geographic footprint as a core element of their market strategy. This includes both the opening of new retail outlets and diversifying their customer base to alleviate regional risks.

- **Management's Guidance:**

- The CEO announced a plan to open 5 new retail outlets by the end of the current calendar year, indicating their commitment to enhancing geographic diversification. Additionally, Pallab Banerjee highlighted the company's focus on maintaining a diversified customer mix globally to mitigate risk.

- **Actual Results:**

['Q1', '2024']:

- The CFO confirmed that they met their target of expanding into three new markets this year.

['Q2', '2024']:

- No specific data for the opening of new retail outlets was provided in the available actual results for Q2, 2024. However, Pearl Global Industries reported a geographical revenue split of Rs. 3,158 Crs in H1 FY24 and mentioned design and sales operations across 8 countries, which indicates ongoing efforts towards geographic diversification.

['Q3', '2023']:

- The board member noted that the company opened five new stores this year. India's contribution to the total numbers has been maintained at around 35%.

['Q4', '2023']:

- Unfortunately, the provided actual results data does not contain relevant information for the theme Market Strategy and Expansion, subtheme Geographic diversification for Q4, 2023. Therefore, I am unable to report on the specific outcomes related to the management's guidance or the narrative provided.

- Evaluation:

- {'evaluation': 'Expectations Met', 'evaluation_reason': 'The management's guidance to open five new retail outlets by the end of the year was met, as evidenced by the board member's confirmation of five new stores opening in Q3, 2023. Additionally, the company continued its geographic diversification efforts as indicated by the geographical revenue split and operations across eight countries in H1 FY24.'}

6. Market penetration strategies

- **Narrative:** Management discussed their strategic focus on increasing market share significantly by the end of the next fiscal year, signaling a proactive approach to penetrate deeper into existing markets.

- Management's Guidance:

- The CEO stated that the company aims to achieve a 20% increase in market share by the end of the next fiscal year.

- Actual Results:

['Q1', '2024']:

- There is no specific performance metric related to the market strategy and expansion or market penetration strategies for Q1 2024 provided in the actual results.

['Q2', '2024']:

- In Q2, 2024, management reported achieving a 15% increase in market share last year, which is below the original guidance of a 20% increase.

['Q3', '2023']:

- We achieved a 15% increase in market share last year.

['Q4', '2023']:

- In Q4 FY23, management reported a 15% increase in market share last year, which is below the original guidance.

- Evaluation:

- {'evaluation': 'Expectations Not Met', 'evaluation_reason': 'Management aimed for a 20% increase in market share by the end of the next fiscal year, but the actual results showed only a 15% increase, falling short of the original guidance.'}

7. Expansion under PLI scheme

- **Narrative:** Management discussed the potential for expansion under the PLI (Production Linked Incentive) scheme, which is a significant strategy for future growth. They highlighted the importance of strategic investments to leverage the benefits of the scheme.

- Management's Guidance:

- Management indicated that the direct benefits from the PLI scheme would materialize when new investments result in shipping goods worth more than INR 200 crores, which is projected to occur in a couple of years. There is also a mention of the potential for expansion under the PLI scheme or through existing units in India.

- Actual Results:

['Q2', '2024']:

- The PLI Scheme was approved with a total outlay of Rs 107bn.

['Q4', '2023']:

- The PLI Scheme was approved with a total outlay of Rs 107bn.

['Q3', '2023']:

- In Q3 2023, the PLI Scheme was approved with a total outlay of Rs 107bn.

['Q1', '2024']:

- The PLI Scheme was approved with a total outlay of Rs 107bn.

- Evaluation:

- {'evaluation': 'Insufficient Info', 'evaluation_reason': 'The management's guidance focused on future benefits from the PLI scheme, projected to occur when shipping goods exceed INR 200 crores, but the actual results only confirm the scheme's approval with no data on investment outcomes or shipping achievements, making it impossible to assess against the stated goals.'}

8. Management transparency

- **Narrative:** Management did not provide specific forward-looking statements or detailed guidance regarding future metrics, goals, or plans in the recent discussion.

- Management's Guidance:

- There is no specific guidance provided in the transcript regarding future metrics, goals, or plans with clear numbers, timelines, or actionable objectives.

- Actual Results:

['Q2', '2024']:

- Pallab Banerjee mentioned that big customers in the U.S. market are projecting a drop in numbers anywhere between 10% to 30%.

['Q4', '2023']:

- No specific data was provided in the transcript.

['Q3', '2023']:

- No specific data was provided in the transcript.

['Q1', '2024']:

- No specific actual results related to management transparency or guidance performance are reported for Q1 2024.

- Evaluation:

- {'evaluation': 'Insufficient Info', 'evaluation_reason': 'Management did not provide specific guidance or forward-looking statements, and actual results lacked detailed data, making it impossible to determine if expectations were met or not.'}

9. Macro-factor considerations

- **Narrative:** Management has emphasized their dedication to maintaining performance and delivering on commitments, even in the face of fluctuating conditions and adverse macroeconomic factors. This reflects a proactive stance on risk management and adaptability to external economic pressures.

- Management's Guidance:

- The company is committed to fulfilling its promises despite the challenges posed by fluctuating conditions and unfavorable macro factors.

- Actual Results:

['Q2', '2024']:

- In Q2 2024, Europe experienced a decline of about 20%, 25% immediately after the war, suggesting that adverse macroeconomic factors had a significant impact on performance, reflecting the challenges highlighted in management's guidance.

['Q4', '2023']:

- In Q4 FY23, Europe experienced a decline of about 20%, 25% immediately after the war.

['Q3', '2023']:

- Pallab Banerjee mentioned that at this point in time, there is an inflation of more than a couple of percent.

['Q1', '2024']:

- Europe experienced a decline of about 20%, 25% immediately after the war.

- Evaluation:

- {'evaluation': 'Expectations Not Met', 'evaluation_reason': "Despite the management's commitment to overcoming adverse macroeconomic conditions, the actual results showed significant declines in Europe, indicating that the external pressures were more impactful than anticipated, failing to meet the company's performance commitments."}