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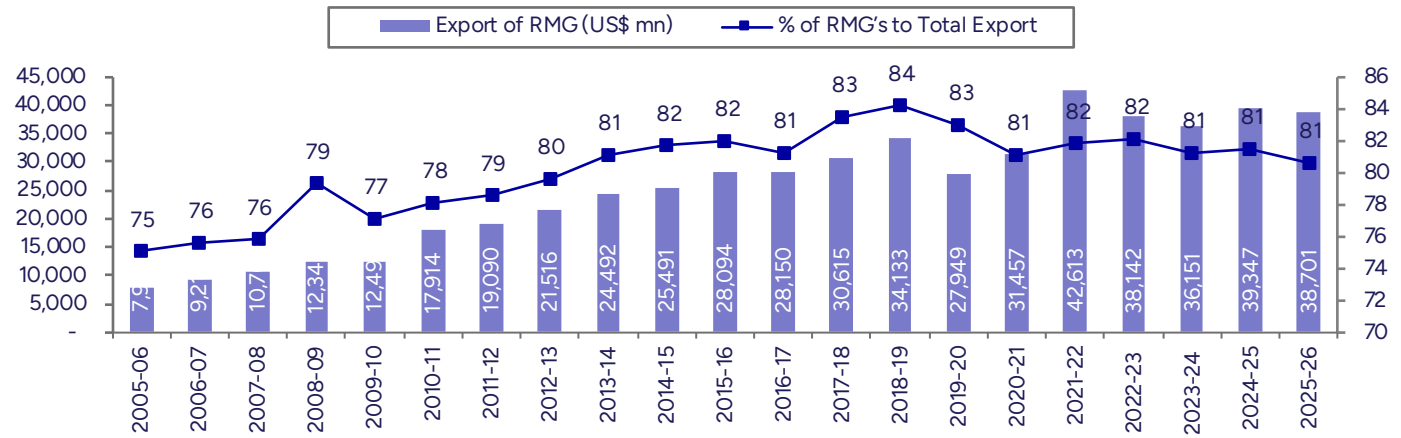
Bangladesh Wage Hike: Will Cost Arbitrage Erode?

RMG workers in Bangladesh step up demand for minimum wage hike

Bangladesh was set to graduate from the least developed country (LDC) category from Nov'26. Instead, the UN General Assembly recently extended its LDC status by 3 years to give it time to handle economic and political transition challenges. Over the years, the LDC status (assigned by the UN since 1975) has given Bangladesh's textile and ready-made garment (RMG) sector massive global cost and market advantage in the form of zero-duty access to key markets. This has been a key driver behind the phenomenal growth in the country's garment exports, propelling it ahead of India.

While the country has secured the preferential treatment for 3 more years, the advantage is likely to gradually fade away once it loses the LDC status. Meanwhile, India is fast securing multiple bilateral agreements with preferential tariffs, reducing the 10-12% duty gap in key markets such as the UK and EU. Along with the narrowing tariff differential, Bangladesh is facing challenges related to raw material and energy security – leading to the disruption of operations/increased costs, especially for smaller players. Despite these setbacks, the country's highly evolved textile ecosystem and low-cost labor market continue to give it an edge. However, the recent protests – with workers demanding more than double the current wages – threaten to reduce the country's advantage on the labor cost front.

Exhibit 1: RMG exports account for more than 80% of Bangladesh's total exports



Source: BGMEA

What is happening?

Garment workers in Bangladesh have been protesting for past few days across industrial hubs like Dhaka, Ashulia, Savar and Gazipur, demanding a higher minimum monthly wage to keep pace with soaring inflation and living costs. As a result, Bangladesh has formed a wage board to review garment workers' pay. Here are some key facts related to the minimum wage hike demand:

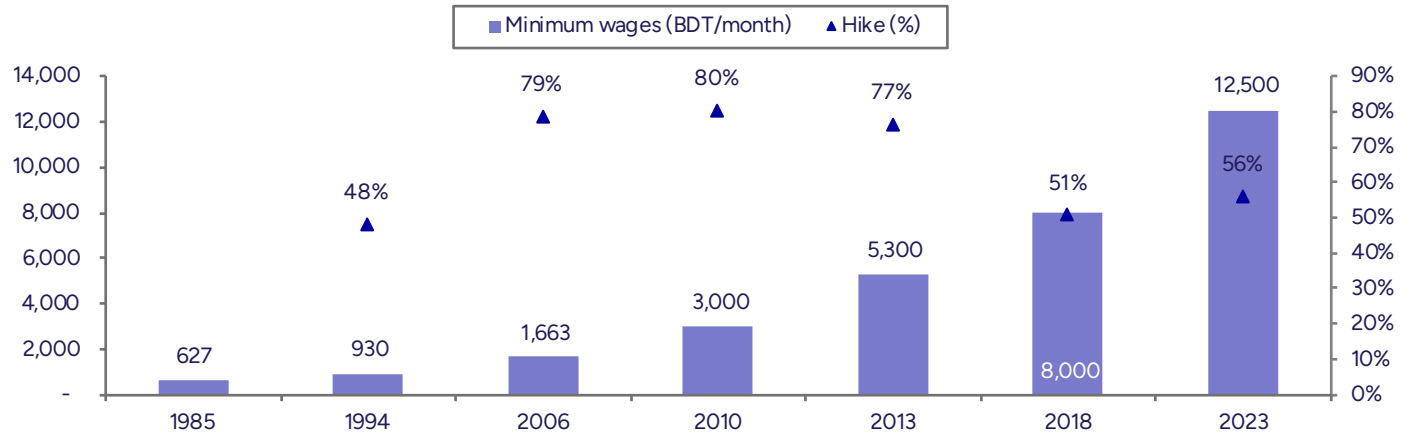
- Current and demanded wage: The minimum wage for garment workers is BDT12,500/month, and workers are demanding BDT30,000/month. That would be a jump of ~140%.
- Disruption: Protests have reportedly closed more than 500 factories. Protests had turned violent in few areas.

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- Response: The government has formed a 6-member wage board to set the minimum wage for garment workers. The last wage hike was announced in Nov'23.
- Precedent: The 2023 reset was 56.25%, to BDT12,500/month against the workers' demand of BDT23,000/month

Exhibit 2: Last wage hike came in 2023



Source: Industry

So, a 140% ask looks like an opening position. In 2023, the outcome was far below the union demand but still large. Going by history, the final settlement can be expected to be substantially below the 140% ask, but large enough to meaningfully impact the labor costs of garment companies (which are labor heavy).

Key takeaways for Indian companies

Rising wage costs in Bangladesh's RMG sector directly challenges the low-cost labor arbitrage that helped the country become the world's second-largest apparel exporter. Labor typically accounts for 15% to 22% of standard apparel manufacturing costs, and substantial wage hikes may trigger significant domestic restructuring and global supply chain rebalancing.

The minimum wage applies to the entry grade, and a large chunk of the employees would be already above the prescribed range. Hence, for higher grades, the costs may get pushed up through differentials but will be usually less than the headline. Assuming, average labor costs of ~18% (as % of selling price), ~60% increase (2023 hike was ~56%) would impact the FOB price by almost 11%, if nothing is offset through cost measures. The companies will, however, offset the costs by measures like automation and productivity enhancements. A 7-8% increase in costs in nevertheless on cards, further narrowing the competitiveness gap between India and Bangladesh.

Exhibit 3: Up to 25% price hike required to offset union wage demands

Scenario	Unit	Union demand	High	Base	Mild
New minimum wage (current 12,500)	BDT/month	30,000	23,750	20,000	17,500
Headline minimum-wage increase	%	140%	90%	60%	40%
Effective wage-bill increase (assuming 25% cost offsets)	%	105.0%	67.5%	45.0%	30.0%
Labor cost as % of selling price	%	18%	18%	18%	18%
Price hike required - without cost offset	%	25%	16%	11%	7%
Price hike required - with 25% cost offset	%	19%	12%	8%	5%

Source: PL

While the customers may not immediately switch over to other sourcing destinations, the resultant price increase may push them to look for alternatives to Bangladesh. A narrower cost gap, plus the risk of supply chain disruptions in Bangladesh, makes India an attractive destination for order diversification. Among Indian listed players, Pearl Global Industries Ltd has significant exposure to Bangladesh (more than 60% of the capacity). Wages accounted for ~17% of the company's revenue in FY26, roughly half of which can be attributed to Bangladesh. Final impact on the company's financials will depend on i) the actual increase in minimum wages, ii) number of employees already above the minimum wages, and iii) the company's ability to offset the increase in costs through other measures. PGIL is scheduled to report its Q2FY27 numbers on 5th Nov'26 and the concall is scheduled for the next day at 4:30pm.

Link to the Pearl Global Industries Ltd. Q2FY27 concall registration: Diamond Pass Registration

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (INR)	Share Price (INR)
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2	K.P.R. Mill	BUY	1289	1083
3	Pearl Global Industries	Buy	1500	1267

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