"PDS Limited Q4 & FY23 Earnings Conference Call"

May 12, 2023

MANAGEMENT:	**MR. PALLAK SETH – EXECUTIVE VICE-CHAIRMAN, PDS LIMITED;** **MR. SANJAY KUMAR JAIN – GROUP CEO** **MR. RAHUL AHUJA – GROUP CFO** **MS. REENAH JOSEPH – HEAD OF CORPORATE FINANCE, M&A, AND CHIEF OF INVESTOR RELATIONS**
MODERATOR:	**MR. NIKHIL CHOUDHARY – NUVAMA WEALTH MANAGEMENT LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the PDS Limited Q4 and FY2023 Conference Call.

As a reminder, all participants' lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Nikhil Choudhary from Nuvama Wealth. Thank you and over to you, sir.

Nikhil Choudhary: Good afternoon everyone. On behalf of Nuvama, I welcome you all to PDS Limited quarter 4 FY23 earnings call. We have with us today Mr. Pallak Seth – Executive Vice Chairman, PDS Limited; Mr. Sanjay Jain – Group CEO; Mr. Rahul Ahuja – Group CFO; and Ms. Reenah Joseph – Head Corporate Finance, M&A, and Chief IR.

Before I hand over the floor to Pallak, I would like to highlight that the safe-harbor statement on the second slide of analysts' presentation is assumed to be read and understood.

With this, Pallak, over to you.

Pallak Seth: Good morning and good afternoon everyone. A warm welcome to you all to our 4th Quarter and Full Year 2023 Earnings Call. The "Investor Update and the Financial Results" are available on the Company's website and the stock exchanges.

I would like to draw to your attention that the discussion today may have forward-looking statements which are subject to certain risks, uncertainties, and other factors that could cause actual results to differ from those contemplated by the relevant forward-looking statements.

The 2023 Financial Year has been an intriguing year for us. In the first 2 quarters, we have achieved high growth while during the second half we have witnessed some slowdown. The impact of the macroeconomic and geopolitical factors had a bearing on our operations. We have witnessed some customer push-backs due to lower demand and high level of inventory with brands and retailers. The impact of these factors is expected to continue in the first half of the financial year 2024.

However, as the saying goes, every cloud has a silver lining. Similarly, for us, during these times of muted demand, we are also witnessing a huge amount of new opportunities and the pipeline of opportunities is better now than we have ever seen in the last 25 years of the Company's formation. As our customers continue to focus on their front-end operations, customer acquisition, and visual merchandising among others, they see a credible partner such as PDS to manage their sourcing operations. The credibility here refers to the ability to provide global sourcing solutions with full governance standards with financial stability and almost a debt-free balance sheet. In order to tap into these opportunities, 18 months back, we launched sourcing as a service which has witnessed good traction with PDS signing contracts with a potential to handle merchandise value over $1 billion. As part of the ramp-up, we should be clocking closer to 50% levels of the merchandise value during the current year. We are also pleased to share that John Lewis has entered into an agreement with PDS subsidiary in Turkey called Spring Near East, to help us manage their sourcing. John Lewis owns and operates departmental stores, supermarkets, and convenience stores in the UK. The Company conducts its business operations under John Lewis and Waitrose and has reported a top line of $10 billion with $5 billion derived from John Lewis alone.

Also, I am happy to announce that just before this call, PDS has got into a strategic partnership with a large German retailer called Gerry Weber. PDS will be taking over their sourcing operations in Asia through its subsidiary Techno Design in Germany and managing their business. This business also has a potential sourcing volume of over $100 million which will be added to our top line in the next couple of years. The traction of our SaaS model enables us to curate more customized solutions. We have also recently signed a strategic partnership with one of the US's largest I.P. Authentic Brand Group which has over $30 billion retail sales, and their acquisition of Ted Baker in UK, PDS has become a strategic partner with them managing Ted Design Group which will run the Ted Baker head office plus also the wholesale business both in UK and Europe.

The focus is on driving business through long-term strategic partnership which significantly enhances medium- to long-term visibility into the business and drives the annuity stream of revenue for PDS. Further, this is enabling us to transition from low-margin transactional orders and focus on value-accretive businesses driving higher margins along with better return ratios in the long-term nature of contracts.

It is interesting to note that globally there is no single platform in the fashion industry like PDS because of which we are getting immense opportunities. If a retailer has to do strategy, PDS is emerging as a point of choice for them to engage and discuss strategically their plans. As a Company we are not interested in selling to retailers but become part of their strategy. So, that is opening a huge amount of opportunities for us on the whole sourcing business that retailers need to restructure their operations and let specialist players handle their back end.

Also, I am pleased to mention that our manufacturing business reported its first year of profitability. We are focusing on driving our profitability journey in this segment. During the year, we expanded our capabilities across our manufacturing vertical. Our Bangladesh facility launched a washing plant which was funded by the Good Fashion Fund. Good Fashion Fund is one-of-its-kind impact fund initiated by the Laudes Foundation founded by C&A Family. Aiming to drive systematic challenges in the textile and apparel industry by financing the implementation of state-of-the-art and disruptive technologies, innovation, and delivering good fashion practices.

Further, we have also launched a centralized cutting plant in Sri Lanka. These investments are key steps forward enhancing the PDS manufacturing vertical capabilities to state-of-the-art machinery and digitized processes.

PDS is also now pursuing expanding its manufacturing footprint in new geographies like Egypt and India. Egypt is duty-free to the US while 12 days selling plus India also is seeing increased demand. So, we are considering to make potential acquisitions in India to enhance our own manufacturing footprint. With an aim to expand its supplies and capabilities in the fashion value chain, PDS has also announced acquisition of a logistics Company called Transport Partner Limited. They are based in Bangladesh and are already working with some large retailers and brands. PDS being a platform Company not only is offering its customers to their design led sourcing but also running their offices, complete brand management, manufacturing options as well as ability to handle their logistics. So, these all factors of being a platform is increasing our stickiness with our customers who are looking to us more and more as a solution provider. And as I had mentioned earlier, globally, we are probably one of the only companies who can have strategic discussions with large retailers who are Fortune-100, S&P 500, and DAX 50 companies and be aligned to their strategy and their future roadmap.

We continue to focus on building a robust platform where our businesses and verticals can thrive and grow. As a platform, we are working effortlessly to strengthen our digital capability initiatives and to drive process improvements and efficiencies. These initiatives are driven by our Group CIO – Saurabh Saxena who is Ex-IBM. Further, we have augmented our teams by hiring experts in fabric and trim procurement which will enable us to drive more procurement synergies.

We are pleased to share during the year, PDS Indian and Sri Lankan subsidiaries are certified also as Great Place to Work. It gives me also a great pleasure to announce that Mr. BG Srinivas has come to PDS Board as a Board of Director. Mr. Srinivas is a well known and respected member of India. Incorporated with over 30 years of experience in the information technology sector and was previously the President and Whole-time Director of Infosys Limited. With his global expertise and strategy, operations, finance, especially his experience in the technology sector makes Mr. BG a vital addition to our Board. PDS is going towards a full 100% compliance journey and having Mr. BG guiding us in this process is also a great testament of our future plans as a Company.

As a global platform, our outlook for the long-term is strong and robust. We are very much geared to continue to aspire to achieve more than $2.5 billion of top line in the next couple of years along with a gradual increase in the profitability. However, we do see some headwinds in the next few quarters of 2024, and as I said that we are focusing on building a pipeline of curated business opportunities which I had mentioned earlier with existing and new customers, which will drive our growth and profitability in the years to come.

Thanks very much for joining our call today. I would like to hand over the call to Rahul Ahuja, our Group CFO.

Rahul Ahuja: Good afternoon everyone. We are pleased to share that PDS has delivered a 20% growth in the financial year ended 31st March 2023 and reported a top line of Rs. 10,577 crores. We reported gross margins of 16.7%, an expansion of 53 basis points compared to the last year. Our EBITDA grew by 40% from Rs. 327 crores in FY22 to Rs. 459 crores in FY23. EBITDA margins also expanded by 64 basis points to 4.3% in FY23. EBIT during the year increased by 25% compared to last year, which includes Rs. 36 crores gain from the sale of our real estate property in Milton Keynes in FY23, and around Rs. 41 crores of gain from the sale of real estate investment property in the UK in FY22. Our profit before tax has increased by 15% which included the impact of the increase in interest cost during the year. Our total gross debt decreased from Rs. 623 crores last year to Rs. 601 crores this year. However, the interest cost increased from Rs. 33 crores in FY22 to Rs. 74 crores in FY23. This is mainly attributable to the increase in borrowing cost with SOFR/ LIBOR increasing from 0.08% in March 2022 to 4.16% in March 2023. We continue to be in a comfortable position with net debt being negative.

Our sourcing segment which accounts for 96% of our top line has clocked 19% growth compared to the previous year with a top line of Rs. 10,105 crores. Our sourcing business reported an EBIT of Rs. 366 crores which is an 18% growth compared to FY22 and a Return on Capital Employed of 48%. The new verticals contributed Rs. 614 crores to the top line compared to Rs. 321 crores in FY22. Given their gestation phase, these businesses had a PBT loss of Rs. 51 crores. As these businesses grow and achieve size & scale, they will contribute to the bottom line of the Company.

Our manufacturing segment reported a growth of 28% with a top line of Rs. 703 crores versus Rs. 547 crores in FY22. This segment achieved its first full year of profitability journey with a PAT margin of 2.6% in FY23 versus a loss of around 3.6% in last year.

Talking about our balance sheet, our net debt was negative with net cash of Rs. 128 crores versus Rs. 41 crores reported last year. Notwithstanding the 20% growth, we continue to operate with negative 2 days of net working capital days and we would focus on staying on this journey. However, our new ventures into brand management might expand the working capital requirement temporarily going forward. We would focus on driving working capital optimization as the business comes into our fold.

The Company continues the growth and profitability journey and delivered 44% Return on Capital Employed and Return on Equity of 29% in FY23.

We would now be happy to answer questions that you might have.

Moderator: Thankyou very much. We will now begin the question and answer session. Anyone, who wishes to ask a question may press star and one on their touchtone telephone. If you wish to remove yourself from the question queue, you may press star and two. Participants are requested to use handsets while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles.

We have our first question from the line of Vishal Prasad from VP Capital. Please go ahead.

Vishal Prasad: Hi Goodafternoon. Pallak, I am trying to understand how sourcing as a service is different from design as a service. If you could help me understand that, that would be great.

Pallak Seth: Basically, design-led sourcing is a vendor model where we are working with retailers providing a full solution of design & development and sourcing from third-party factories. In design-led sourcing, there is no long-term contract. Every 6 months, we are presenting a new product. There is a strategic relationship with the customers, but still we need to start business every 6 months on getting new revenue streams with them. This is a higher margin business because obviously it's order to order and then we are basically giving them the design & development and then we are doing the business with the customers. Whereas sourcing as a service is totally different because it is actually running the retailers' offices for them where the entire business of the retailer in a particular market is run through that office. We did a deal with Hanes then also with ASDA and today we announced with Gerry Weber as well, another German brand, where retailers today don't want to have the headache and the ESG governance issues of having offices around Asia and many of these emerging market countries. PDS is being seen as a platform which gives high governance standards and our ability to attract the best talent and open offices for the retailers in these markets where everything the retailer sources from a particular geography will come through the PDS office very often under joint branding between the retailer and PDS. For example, with ASDA, they were running their own offices earlier with Walmart. They decided to not continue with the Walmart relationship, and PDS came in as one of the options. So, the entire $500 million business of ASDA which is UK's largest supermarket, between home & general merchandise and clothing, PDS took over the existing teams between China, Bangladesh, India, and other geographies wherever they are present and those teams became part of the PDS platform servicing them on an open transparent cost plus basis model. Again, differentiating design-led sourcing is order to order, season by season, starting again, but sourcing as a service is actually representing the retailer in the market, the entire business goes through that operation through the offices we set up with the customer. So, today, retailers either they want to enter new geographies where they don't have offices, PDS is becoming their office instead of them opening themselves or where they are currently already running the operation and they don't want the headache of having teams across Asia to be managing by themselves because their focus is now more on the retail and customer side, PDS is taking over retailer operations in these parts of the world and running it for them. So, margin structure is different and the volume of business quantum is different in both these options. Have I been able to answer your question?

Vishal Prasad: Yes. After that, is it possible for you to elaborate on our roles and responsibilities in a sourcing as a service contract? What things we generally do in that?

Pallak Seth: Sourcing as a service basically we start from…. The design comes from the customer in this part of the business. Customers send their tech pack. Our team on the ground in countries like Asia, in Bangladesh, India, or wherever we have these offices, we will get the tech pack; then we will source the best, most compliant, cost effective vendor base. We will get into price negotiation, product development, quality control, and order followup merchandizing. So, our role is basically not design but basically managing the office for the customer in that part of the world in these functions. Sometimes we will get involved in financing, other times we will not. Like Mr. Jain and I just also mentioned, we have signed over a billion US dollar of sourcing-as-a-service contract. We are not going to be invoicing a billion on our top line. Our income is going to be the service fee we are going to be taking for this business and the profit is the percentage of the service fee. So, sourcing-as-a-service model has infinite Return on Capital Employed because our capital employed is not coming as much, because we are just running the overhead of the office. The downside is low because the retailers are also paying the cost of the operation on a monthly basis and our profitability is clear. For example, on a billion dollars, I am just giving an example, we charge a 4% management fee, so, our gross revenue is $40 million and our profit is on a cost plus model, we say, for example, we are going to be running on a 2% profit of this business, so $40 million is our top line which will be added and $20 million will be the bottom line that will be added in this vertical. The gross merchandise value we will handle is a billion dollars in that case but we are not invoicing a billion dollars; we are invoicing only the gross margin and the profit is a percentage of the gross margin. So, there is no capital employed in this basis but given its immense power in the markets we operate – because then PDS is representing the retailers with some of the biggest factories in Asia. So, our vendor base in this model are some of the biggest manufacturers even in India or Bangladesh or other geographies we operate who are taking orders from these offices which are run by PDS.

Vishal Prasad: Is it possible for us to get sourcing as a service as well as design as a service?

Pallak Seth: Yes, with the same retailer, there are various cases because retailers have certain part of their business managed through third-party design and certain part of their business which is sourced directly from them with their own design services. Normally, I would say, 60% is sourcing as a service. Normally, they do their own design and source to their own offices now which PDS is taking over. And 40% is they look at third-party vendor for design input. So, it's not uncommon that with the same retailer when we start offering them a menu of services, they look at PDS for both options. So, it's quite possible. PDS today is a product Company. We are offering 4 products to our customers; one is our own manufacturing, which is small but is important to keep to make sure that we have the credibility in our industry and also certain customers who only work with manufacturing process. Second is the vendor model which is basically design-led sourcing which we are offering full complete design services. Third is running the retailer's offices. And fourth is brand management. With the same customer, we are offering them 4 menu of services and then they are picking and choosing what they want. But there is a role for each four of them within the same retailer to be able to work. That is how our penetration and stickiness with the retailers is increasing because they see us as a solution provider rather than just a factory in the middle of Asia trying to sell to them, which is, as I feel, there is no future in that business in our industry.

Sanjay Jain: Just to add to what Pallak said, with one UK-based customer, our design-led sourcing annual business is about Rs. 800 crores plus. This sourcing-as-a-service contract that we have signed is approximately Rs. 3,200 crores of gross merchandise value. This is one in two. And very recently, from the same customer, we also got a contract for the home category that we are getting toto and that contract would give us an annual potential of about Rs. 1,000 crores worth of home merchandise being handled for the same customer. So, with one customer, 3 kind of revenue streams are currently already there in terms of contract we have signed.

Pallak Seth: Based on strategic discussion, when we talk to our customers today, we have a Board-level discussion and we all want to discuss what are their pain points, what are their next 5 years' strategy, and how PDS can be a solution provider to their pain points in the strategy. So, we are not interested to sell garments to anyone or consumer goods. We are only interested to be part of their strategy and align with them to provide solutions.

Moderator: We have our next question from the line of Keshav from RakSan Investors. Please go ahead.

Keshav Kumar: Sir, just to understand demand-side risks a bit better; in times when the demand goes down, the garmenters typically get squeezed. Then, there could be some sourcing shift from country to country. So, if, say, the demand sees a sizable reduction and if the retailers face difficulty passing on the costs, in the entire supply chain right from fabric to garmenters to us who are handling the merchandise, do we all have to take some price readjustments or we are relatively insulated?

Pallak Seth: I would say we are relatively insulated but at the same time if we take a strategic view that we need to support our customer to continue gaining market share, that's the strategic view we will take if we have to take. For example, if a customer you are doing $50 million but they need support and they are saying they are willing to grow with us to $150 million but we need to help and partner with them on the margin challenge, we are going to take a not a quarterly view but a 6- to 12-month view and partner with them to achieve their objectives. Today, it is important to partner with people, understand their strategy, raw material prices go up and down and making sure that we are collaborative in our working but at the same time protecting our own interests. But again, being an asset-light model, we can pass on a lot of the costs. If we are getting squeezed, we can squeeze the yarn, fabric, trim, manufacturing partner, everyone, at the end of the day, we are not sitting on huge open capacities of hundreds and thousands of machines to feed. So, we are able to then power that to the factories which have huge capacities to feed. They will also want to get the business. So, PDS is seen as a platform to many manufacturers in Asia to make sure that capacities don't go idle and they get feeding from our Company, so they will also take a view on pricing.

Keshav Kumar: Sir, secondly, we have had some exclusive and non-exclusive relationships for sourcing out of Turkey. What has been the impact? What has been our response? And what's the value address there?

Pallak Seth: Turkey, one of the markets, now the election is just happening I think this week. The thing is that many of the emerging countries like Sri Lanka, Egypt, India, Pakistan, or wherever the rupee-dollar trend is there, normally the dollar is becoming stronger and these emerging market countries are becoming weaker. Even there is huge inflation coming, but in export sector because the devaluation most of it is getting nullified, that is one advantage we have being in the export business. Turkey, as a country, is a little bit under pressure right now because of geopolitical situation and the earthquake that happened but the thing is, many small- and medium-size businesses disappear. It's only consolidation and survival of the fittest. So, PDS is seen as a safe pair of hands with high governance standards, financial stability, ability to attract the best people, so retailers continue to partner with us in that journey. So rather than them trying to work with other small- and medium-size companies, PDS has now gained enough critical mass and has got enough goodwill in the industry that we are seen as the Company of choice for them to partner even if the macroeconomic situation is getting tougher.

Keshav Kumar: Sir, lastly, what would be the reason for a decline in manufacturing margin quarter-on-quarter?

Sanjay Jain: I think this is just barely seasonal in terms of the mix that we have had for the particular quarter. There are no permanent inferences to be drawn. For the year over year, we see the gross margin trajectory keeps improving. To specifically answer your question, it’s just a mix that we had for the particular quarter and no other specific reason. That’s one; and from our own efforts side, given the fact that we clocked in $1.4 billion top line in the last 12 months and have got a billion dollar plus of sourcing-as-a-service order plus the recently signed Ted Baker, Gerry Weber deal as a group, the amount of fabric and amount of trims that we are handling should give us humongous purchasing efficiencies. They should also start getting reflected in our gross margins of manufacturing as well. I think it's just a mix for a particular quarter and nothing otherwise.

Moderator: We have our next question from the line of Mohammed Patel from Care Portfolio Managers. Please go ahead.

Mohammed Patel: How is the demand scenario in the current quarter as compared to the last 2 quarters?

Sanjay Jain: As we mentioned in the last con-call as Mr. Pallak Seth touched upon that the global situation has a bearing on the last quarter and the next two quarters, but we see signals of on-ground activity increasing now. If we talk about the locations like Bangladesh, Sri Lanka, India, or Turkey from where we source in terms of manufacturing, the buyers are now coming into active discussion. Therefore, for the spring summer collections of '24 February-March, typically the orders get placed by September-October of '23. Therefore, while the immediate quarter and the next quarter are a bit soft impacted by the global situations, but the signals are coming in good that the second half of the year should be considerably better than the first half. And this is commenting on or reflecting on the continued design-led sourcing business. But as Mr. Seth earlier touched upon, as we keep signing into more long-term annuity based contracts, then our longevity of revenue would keep improving. But on as-is-where-is basis, we see traction improving and the second half to be considerably better.

Mohammed Patel: Consolidated EBITDA margins are better, but the segment margins are both down Y-o-Y and Q-o-Q in sourcing segment. Can you explain that?

Sanjay Jain: I think one reason is that for us, new verticals which as our CFO Rahul Ahuja mentioned, for the entire year, we have incurred Rs. 51 crores of loss which is akin to an investment into the gestation phase. So, the loss in the 9 months figure was 37 and in the quarter 4 alone, it is about Rs. 14 crores because we are starting new verticals. Therefore, it's more an impact of the new verticals' loss going up in quarter 4, but we anticipate again in the current year PBT break-even in the new verticals. That's one of the reasons for any margins being softer sequentially in this quarter versus last year.

Mohammed Patel: So, you will be doing PBT break-even in FY24 on the new verticals?

Sanjay Jain: I think two things here. One is for the verticals that we already have which incurred Rs. 51 crores loss, we anticipate a break-even, but at the same time, selectively, carefully, we would keep committing to new verticals as well going forward. That's the investment into growth, but to answer your question, we are targeting towards a PBT break-even in the current year.

Mohammed Patel: Other Income has also fallen Y-o-Y and Q-o-Q. What is the specific reason?

Sanjay Jain: The other income, in fact, the agency contracts, agency business part of the revenue of our agency and typically that doesn't go through the turnover. Any agency commission goes into the Other Income. That's one thing that actually declined during this quarter. Plus, I think there were, for example, some of the scrap sales that we had as part of our inventory cleanup in the previous quarter of last year, that reduced as well. And then there was Rs. 3 crores profit on one of our venture tech investments as well in the quarter 4 last year. There are some 2-3 reasons because of which you see a lower Other Income in this quarter but any recurring kind of income is well intact.

Mohammed Patel: Also, if you can throw some light on the potential of the recent deals like Ted Baker and Gerry Weber, what can be the GMV, top line or bottom line potential if you can just help us understand?

Sanjay Jain: I think, for Ted Baker, there are two kind of revenue streams that would come to us. One is that as we are handling the global design, then the merchandise value that we would be handling under this, we would be having about 90 million pounds to 100 million pounds which means in terms of dollars, it is 1.2x more and we should get about 10% commission on that and then there is wholesale for which we are the chosen partner for Ted Baker. That has an annual potential of 60 million pounds to 70 million pounds with anticipated 35% margin. Therefore, if I have to summarize the 2 revenue streams of Ted Baker, it's about 80 million pounds or about $100 million annually which means about Rs. 800 crores coming in from Ted Baker. It may take us 2-3 quarters to get to the full relevant potential. That's Ted Baker alone. In terms of Gerry Weber, that's approximately a $100 million of annual sourcing that we would be handling for customer. Here, we are acting as a principal. That's another Rs. 800 crores. These put together is about Rs.1,600cr. John Lewis is about circa $10 million to $15 million that we would be handling and we would be getting an agency commission there as well. These two contracts is about Rs. 1,600 crores. The $1 billion sourcing-as-a-service that we already reported we signed up, we are aiming that we should be able to get to 50% levels. That means around Rs. 4000 crores to Rs. 5000 crores is what we would be handling, and on that as Mr. Seth said, 4% will come to us. So, Rs. 160 crores is my revenue. Now, add up everything, Rs. 800 crores plus of Ted Baker, Rs. 800 crores worth of Gerry Weber, and about Rs. 160 crores coming as in terms of revenue to our books; that's about Rs. 1,600 crores to Rs. 1,800 crores visibility on a per annum basis as we scale up the new contracts that we have signed, which is 15% to 16% more than the current annualized top line that we are having at present.

Pallak Seth: And Sanjay, we have 10 more discussions. The amount of opportunities PDS is getting now we have not got in the last 25 years of our existence. The Company has been listed in 2007 or 2008 but the restructuring happening in the industry, the consolidation happening, there being no other global player strategically being able to engage with the retailers, having a platform model, offering variety of services, many of services, is just immense the opportunity that we are finding for the mid- to long-term. So, the short-term demand slowdown is honestly not a concern to us much, but yes, 6 months, there is going to be some softening in demand, but all the new things we are currently doing are not even being budgeted in our next financial year. So, it's going to have a very big impact hopefully in the next couple of years.

Mohammed Patel: I have one last question, in one of the interviews, you said that FY24 you are expecting a single-digit growth in revenues and we have a lot of deals that we have signed. So, are you being conservative on that guidance?

Sanjay Jain: We are trying to be, if you permit me to use the word prudent here, cautious here as well. Yes, we are very positive, very confident, feel good about the contracts we are signing and the funnel of such contracts, but low single digit growth is coming out of a bit of caution. So, yes, we are a bit cautious and careful. We really hope that we should be able to do better, but that's where we stand as of now.

Pallak Seth: The testament in our industry is the support we get from our commercial banks. The banking partner PDS has got has a very diversified portfolio with banking partners for working capital limits. We just onboarded DBS Singapore, Hang Seng in Hong Kong, and few others who are in the pipeline. I met them in Hong Kong recently and their comment was that in the last 2 years, they have got many of the small- and medium-size apparel, fashion, consumer goods accounts out of their portfolio. PDS is the only one they have added and they have a huge amount of appetite to grow with us. So, consolidation is not only happening in the retail but also in the banking for support to the sector. All these are good factors that are supporting our buildup of the business, which are going to enable us to capture more market share as the industry basically consolidates.

Moderator: We have our next question from the line of Sarvesh Gupta from Maximal Capital. Please go ahead.

Sarvesh Gupta: Sir, on the P&L, I had a few questions. You alluded to the profitability being lower this time because of the new investments in the new verticals, but when I am seeing your P&L, I am not able to reconcile that with a high increase in employee or the other expenses. It is more linked with our own revenues not growing as much.

Sanjay Jain: I think it's a good observation. As I said, one of the prime reasons is an extra Rs. 4 crores loss but then there is a recurring cost at which we run the entire enterprise and typically in quarter 4, one derives much more revenue than the one we have achieved right now. It is flattish quarter as compared to the same quarter last year. So, you are expensing of the recurring cost – employee cost and other cost – the revenue base could have been much higher. And in a scenario wherein we would have a low belief in the future, one would have gone into cost optimization and cost restructuring. But we believe it's a temporary phenomenon and therefore the investments we have made into getting our designers, merchandisers, our compliance ESG professionals on board, we will remain put with that because of the things that we mentioned that it's just a temporary blip of 1 or 2 quarters.

Yes, your observation is smart that we are in a way expensing of the cost in a quarter wherein the revenue could have been more higher being a quarter 4.

Sarvesh Gupta: Earlier, we had alluded to doubling of our top line by FY27. Are we still on that path or we would want to change it given the market scenario?

Sanjay Jain: I think we remain positive and confident on that path. Such fluctuations will keep happening and what Pallak mentioned and what we have also touched upon in our investor release that even the current tough environment is throwing up exciting opportunities which is what we are converting into long-term contracts. Therefore, we remain positive about doubling up our turnover in a 5-year horizon from FY22 to FY27.

Sarvesh Gupta: On your finance cost and Other Income, we have a significantly lower debt as such. In fact, we have net cash. So, how much is the non-interest linked finance cost in your Finance Cost line item? And what is your normalized sort of Other Income excluding all these one-offs from the sale of properties, etc.?

Sanjay Jain: On the first one, I think what I can best answer at this stage is while the finance cost for the full year has gone up from Rs. 33 crores to Rs. 74 crores which is kind of Rs. 40 crores increase, we have analyzed out of this Rs. 40 crores increase, 25% is attributable to an average gross debt increase this year versus last year. 25% is attributable to that and 75% as the CFO Rahul Ahuja mentioned that the LIBOR or the SOFR base rate has gone from less than half a percent to more than 4%. Why did we consciously allow the gross debt average utilization to go up by 25%? We felt that there was an opportunity to get an early payment discount from our vendors. And in fact, if you see year over year, we have a 50 basis points improvement in the gross margin as well. It's a coincidence that when we were doing a mathematical analysis that nearly 25% of this gross margin increase is coming in because they've got EPD. So, my early payment discount is up 30%. My gross utilization is up 25%. Therefore, if you all believe that the interest rates are peaking out maybe now or in the next 3 months and they should head southwards, then 75% of my interest cost should get favorably impacted; that is one. And the second factor which we have touched upon in the previous 1 or 2 quarters and with Rahul coming on board would be a key focus area that we carry cash and bank balances which are more than debt. That's why the net debt is negative. So, we've got to make sure as a management team that we are able to optimally utilize the cash to reduce the borrowings as well. That's the analysis on the interest cost wherein there is a 3/4th potential to benefit if the interest rate cycle reverses.

On the Other Income, I would say that what you witnessed in the quarter 4 which is an other income of approximately while it was low, for the entire year, we had Rs. 52 crores as the Other Income and I think nearly about 50% of that – at least 50% plus – is a recurring income. The balance 50% about Rs. 25 crores or so came in from the profit from the sale of the Milton Keynes assets. So, the recurring income is about Rs. 25 crores to Rs. 30 crores year over year.

Moderator: We have our next question from the line of Ravindar G, an individual investor. Please go ahead.

Ravindar G: Overall, the business model looks good with respect to sourcing as a service. But the thing is how do we ensure the quality part? Quality in the sense, in your industry, there might be some rejections when we are sourcing from other people. How do you ensure the quality? Second point, as we are becoming a larger organization as the sales grow and the business model kicks and the industry is also changing, when we take all those points into perspective, we need large personnel to handle those kind of activities. In the sense, initially, the promoters might be active and driving the business to this level, but going forward, we need others also. So, how do we ensure the human resources point of view? These are the 2 points I have.

Pallak Seth: If you look at the quality rejection side, our quality rejection is 0.0001%. We work with the right vendor and right factories and we have the best quality professionals in our industry working for us. So, that's a very small part of our concern. We don't have concern on quality plus if any quality rejection is there or the factory doesn't produce goods to the right quality, normally it stays back in the factory. But we have enough risk management done at the pre-production stage that we make sure our factories also don't get impacted and also have very little rejection. So, PDS is quite protected from the quality aspect.

When it comes to people, PDS is a Company built on people. We have the ability to hire the best-in-class talent. And if he wants to, Mr. Sanjay can also later share; the quality of people who have joined us have left some of the most largest brand companies in our industry and joined PDS. So, our ability to attract best-in-class talent from some of the best companies in the world because the culture we have, because the values on which we operate and the platform and the incentives we give our team, we are finding that as one of our least challenges right now. I am one of the only family members in the Company. We are a completely professionally run business. It's a completely 100% professionally run business with an independent board and our CEO Sanjay who is running it as well.

Sanjay Jain: Just to add, Pallak, one more aspect, I think we have invested into the best talent in terms of experience to take care of the anticipated growth. For example, our Head of HR who joined us about 18 months back has come from a diverse, multinational background. Our Head of IT who has come from IBM; our current Group CFO was earlier with HDFC a year ago. So, all of l these heads of the key functions are now in fact already there. We do not anticipate any such additions going forward in terms of the backend of the platform to support the growth of the business. And another important thing to add here is that beyond a point, technology and digital interface need to play a much more active role. Very humbly, we manage 20% growth with negative working capital of 2 days. A lot of that is aided by, yes, a careful selection of FOB business model, but if you see our balance sheet, our inventory days are down, our receivable days are down, our payable days are down as well. So, we are using a lot of technology and working capital is one of our key investments. So, we are investing into technology to optimize working capital. We have recently invested into technology in terms of costing tool to enable our fabric and trims expert get a visibility into entire fabric that gets procured across all our verticals. This combination of technology and combination of people we have invested into, we believe we are geared up as a platform now to handle more business going forward.

Moderator: We have our next question from the line of Krunal Shah from Enam Investment. Please go ahead.

Krunal Shah: A couple of questions from my side. One is that you mentioned that you plan to invest in manufacturing in India and Egypt. If you can share the pure CAPEX that we are envisaging for that?

Sanjay Jain: Egypt, for example, we are in close communication with an existing manufacturing setup there, fully backward integrated, doing about $100 million of revenue. We believe we have a potential to bring in marquee customers to them and therefore be able to use their capacities much more better. And there, the partnership is two-fold. We anticipate forming a joint venture wherein we would channelize business for them; at the same time, take a small equity stake. So, strategic cooperation arrangement and small equity stake. The small equity stake to begin with may not be an investment of more than $1 million to $2 million but the strategic cooperation arrangement allows me to showcase this factory as one of my investee companies. That's on Egypt. In a similar manner, there are opportunities in India wherein the companies have reached on themselves a size and scale of Rs. 200 crores to Rs. 500 crores, wherein an association with a group like PDS allows it to be taken to the next level. Therefore, rather than an outright buyout – that is never our belief – we are a Company wherein the entrepreneur has a significant minority stake. While Egypt is our first priority because it is our conduit to the US, in India which is the second priority in due course of this year's later part, we do not anticipate anywhere more than about $5 million to $8 million of investment to go in there. All put together, both these investments, India carefully being assessed, is about $10 million outlay.

Pallak Seth: Sanjay, I just want to add, if you are a standalone manufacturing business, any part of the world – Yes, India currently has a lot of positivity going because of China plus one and everything, but many of these assets are creating like a deep discount on net asset value and the valuation even 3 to 4 years ago – for them to flourish and survive a standalone business is like a factory group even in certain part of India like concentrated in one part of India or in Egypt is very difficult for them to have huge size and scale to be able to talk strategically to global customers. Very small percentage of them have the ability to do it. As soon as they become part of the PDS platform, they will get access to few hundred customers, access to working capital investment from our banks, and best practice of ESG governance. So, PDS doesn't plan to invest in manufacturing into greenfield projects. There are enough good assets created by people in different parts of the world if you are actually available to us at a deep discount and we want to have strategic partnership with those entrepreneurs who are running them, and it's a great value to become part of our group which is like Rs. 15,000 crores Company in the making in the next few quarters and partner them in that journey. Our strategy is clear. We will have manufacturing assets which are available, become part of the platform, but don't go greenfield from scratch. Like in Egypt, we went and analyzed the situation. If we have to put $10 million to set up our own manufacturing, it would have taken us 5 years to break even and maybe reach a revenue of $25 million to $30 million whereas in this care, asset already exists, doing over $100 million in sales, having very very strong customers like Decathlon, Levis, Benetton already working with them for last many years; have a huge asset base vertical integration; if you have to set up the same setup these people have got, it would have cost us close to $70 million to $80 million to do it. But because of the valuation of the business being low because the industry how a standalone manufacturing business currently in any part of the world is valued, we feel that by putting small investment, taking a small stake to begin with but with an option to increase it to almost majority, we have the ability to onboard assets and become part of the platform which would be a win-win both for that Company and for PDS which is apparently what Mr. Sanjay had mentioned.

Krunal Shah: My second question is on the lines of sourcing as a service. What was our sourcing as a service merchandise value that we did for Q4 and also for the full year?

Sanjay Jain: We did approximately $125 million worth of merchandise value that we handled. That's approximately Rs. 1,000 crores is what we handled out of the total Rs. 8,200 crores worth of contract, so that's what we handled. And as we mentioned earlier, we are now targeting it to scale up and come closer to 50% level in the current financial year.

Moderator: We have our next question from the line of Vishal Prasad from VP Capital. Please go ahead.

Vishal Prasad: I have a request before I get into the questions. Pallak, probably if you guys can plan to have the physical AGM this year, that will be really helpful. That's just a suggestion and a request from my side.

Pallak Seth: Mr. Jain will have to plan.

Sanjay Jain: Well noted, Vishal, your suggestion.

Vishal Prasad: And I read your father's book and it's really wonderful. There are a very few books available in India on entrepreneurs; and the story is very fascinating. And there is a lot of literatures available based on your interview. I got a sense that we generally admire Li & Fung and we have fashioned ourselves on Li & Fung with basic difference being we focusing on partnership model. Could you talk about the learnings that we have from Li & Fung, especially in the area of risk management? And what have we done to ensure that what happened with them doesn't happen to us for a long period of time?

Pallak Seth: Recently someone spoke to the current second and third generation family member of Li & Fung's family and their word was PDS turbocharge with what they have been trying to do for last many years. They are a 100-year-old Company; we are 1/4th their age, even though we are going to be 25 years next year. But we don't consider Li & Fung as a competitor anymore. Even the customers don't consider us as a competitor for Li & Fung. When I started the business in Hong Kong almost 24-25 years back, there were 2 key differences. Li & Fung was telling people to exit plus buying businesses on huge valuation. Neither did we see any value to say people to exit because what you are really acquiring is relationships and order book. Our idea was clear. Instead of telling people to exit, lets partner with people to grow together. We started getting talent from around our industry, very strong motivated individuals who wanted to partner and become part of our growth journey, and then people who were already at the end of their career want to retire and offload their business to someone else. We started bringing in people and partnering with them rather than telling people to exit. So that’s how the initial journeys of Li & Fung and PDS were very different. One of our Board members, Rob Sinclair, was one of the Presidents of Li & Fung before as well, and the only reason we bought him on is not to do what Li & Fung is doing but continue to make sure that we do not fall into the trap that as a company grows falls into. Li & Fung then became a very hierarchical organization. Once they said people to exit, then they started bringing President, Executive Vice President, Senior Vice President, just hierarchy of people how a typical organization grows. We were very clear. We are a platform neither can be merged, neither can be acquired. Our job is to enable and support entrepreneurs who join us to grow but govern and control them when it comes to risk and reputation management. PDS being a value-driven Company, if we find any of our entrepreneurs – we have enough checks and balances placed, this is going to website globally which is sent to all our vendors and to all our employees to make sure they report any unethical practices. Find a single issue, we give the exit to a person, We don't care how big or small business they run. We are a value-driven Company, and the reason all these big retailers partner with PDS today is because they believe that our governance standards are in line with Fortune 100, S&P 500, and DAX 50 retail companies. So, managing risk and reputation is center and heart to how we operate and zero tolerance policy around it. Li & Fung came to exit, we partnered with people to grow. Li & Fung after exit getting a hierarchical organization. PDS being a platform highly entrepreneurial and agile in its nature were the key differences in how we both evolved in our journeys as different organizations. If you think about other platform, we can onboard 10 talented individuals and not have worry about integration issues. If you see why many companies fail today, when then bring in very strong management team, after 2 years, there is politics between people and then half of them end up leaving or playing 70% politics and 30% doing the job. But because of the organization design of PDS which is also a Harvard University case study, we are able to onboard the people, give them a clear road map, enable and support them, but govern and control when it comes to risk and reputation management. In PDS, compliance is controlled centrally and cash & treasury is controlled centrally, but the entrepreneur has a free hand to handle all the customer needs based on their own customer portfolio they are matching.

Vishal Prasad: Usually when we go and bid for design as a service, is there competitive bidding there or it's generally through negotiations?

Pallak Seth: On design-led sourcing which is a vendor model, PDS has seen probably the most finances stable player in the industry doing that business; finances are stable and having the best design team. The rest are the small- and medium-size specialists who were competing, but customers today not only are buying product, they are buying governance, they are buying financial stability, they are buying a global vendor base, right product, right country, right factory.

Yes, there will always be small – Rs. 50 crores, Rs. 100 crores, Rs. 200 crores – companies competing against us but more and more we are finding them disappearing and customers are trying to work with more structured player which not too many exist in the world.

Vishal Prasad: It's more relationship driven or strength driven rather than competitive bidding?

Pallak Seth: Yes, completely relationship driven. When I say in Technology is the enabler in our industry, not a disruptor. Even if I look at Amazon, some of the most sophisticated buying organization, buying apparel, it still has individuals who are running their sourcing. Individual will place business to companies based on their trust and transparency they have with their vendor base. Even a Company like Amazon is not doing digitized or let's say online billing to procure product. The advantage of the industry is that if you see the garment, if you go to a store, there are thousands and thousands options coming every month. It's a designed product, it's a bit touchy feely product, their relationship. It's art and science. Art is very important along with science. Maybe some very core volume line they try to do bidding but I would say that's a small part of the business.

Sanjay Jain: Just one point to add to what Pallak was saying, when we walk in into the room, it's not just about design, commercials, or governance, but the fact that PDS has been carefully building a venture tech investment portfolio wherein we spot and we nurture some new age processes and technologies which are aimed at improving the carbon footprint or preventing the garments in terms of getting into landfills. So, to all the large retail customers, such commitment to the environment and such commitment to sustainability and circularity becomes a big big important factor for them to consider PDS as a counterparty to give business.

Pallak Seth: PDS is a platform, a venture arm is our ecosystem. The ecosystem is driving innovation both to the platform but to our customer base as well. For example, Walmart, one of the key initiatives was to do onshore manufacturing in the US plus also become on sustainability. One of the PDS venture investments is fitting perfectly into their goal, and because of that, we have a meeting with one of the Presidents of Walmart global sourcing in the US just because they see the innovation PDS is bringing. So, big organizations rather work and partner with companies which would bring in them innovation and partnering with them on their strategic journey rather than just being a supplier sitting in one part of Asia trying to do design and supplying them apparel. Today, if you are not part of a platform, a standalone business in any part of the world has a very limited future. PDS has organically created this in the last 20-25 years. And as I said before at starting of the call the cyclone of opportunities we see now coming is more than we have ever seen in the last many years of our existence. My last point would be if people are going to look at PDS on a quarter-on-quarter basis and will make a decision, probably there are better other companies you guys can invest in. If you believe in the next few years' journey, PDS is going to become one of the largest companies in our industry and a force that every retailer today wants to partner with, so if someone needs to have a bit of a vision and make some gold plan to become part of their journeys if they really want to be invested in our business.

Vishal Prasad: We have got BGS on our Board. And BGS given his background in Infosys and he used to head retail there, he will be having a lot of CXO level relationships with a lot of retailers in the US and Europe. Is there a thought process behind bringing him onboard that he will help us in getting some of the customers?

Pallak Seth: Currently we have not even discussed with but Sanjay also if you can mention that with Bain Consulting, Alex partners some of the top 4 global consulting firms. We are being approached by big retailers for strategy and restructuring and for them, PDS has become one of the partners like Bain is closely discussing working with PDS. We have a kickoff meeting soon where they are also saying they don't want to have any upfront fee with us but align with our next 3- to 5-year objective and partner with us in that journey. Long referrals are coming through the global top 4 consulting firms as well. I think reaching the right clients is not a big issue for us. It's basically managing our own growth based on our own internal cash flows, making sure that we are not taking any inventory risk, not taking any credit risk is a key factor, limiting factor we have currently in PDS. I see all these venture companies getting this big $50 million or $100 million cheque and go and spend it and see what happens after the next 5 years. In PDS, we basically reinvest our own profit into growth and we do it in a very cautious manner making sure we don't take any inventory risk or credit risk because that's only the limiting factor we have got. We are seeing in the Company that whatever profits we make, we are investing and we are not taking any debt. The Company has no long-term debt. Its long-term debt-equity ratio is almost zero. And we are not tapping the capital market for further expansion.

Moderator: Ladies and gentlemen, that was the last question for today. I would now like to hand the conference over to the management for closing comments. Over to you.

Sanjay Jain: Thank you so much, Nuvama, for organizing this. Thank you to all the listeners who joined the call and we wish you a good weekend ahead and stay safe all of you. Thank you so much.

Moderator: On behalf of PDS limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.