"PDS Limited
Q2 FY '24 and H1 FY '24 Earnings Conference Call"
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MODERATOR: MR. DIWAKAR PINGLE - ERNST & YOUNG

Moderator: Ladies and gentlemen, good day and welcome to the PDS Limited Q2 FY '24 and H1 FY '24 conference call. As a reminder, all participant lines will be in listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star and then zero on your touch-tone phone. Please note that this conference is being recorded.

From the management team, we have Mr. Sanjay Jain, Group CEO, Mr. Rahul Ahuja, Group CFO, Ms. Reenah Joseph, Head Corporate Finance, M&A, Investor Relations.

I now hand the conference over to Mr. Diwakar Pingle from Ernst & Young. Thank you and over to you, Mr. Pingle.

Diwakar Pingle: Thank you so much. Welcome, everyone, to the Q2 and H1 FY '24 earnings call of PDS Ltd. The financial results are available on the company website in the stock exchanges. Please note that anything said on this call that reflects outlook for the future or that can be construed as a forward-looking statement must be viewed in conjunction with the risk factors. This conference call is being recorded and the transcript along with audio of the same will be made available on the website of the company as well as Exchanges.

Please also note that the audio of the conference call is a copyright material of PDS Limited. It cannot be copied, rebroadcasted, or attributed to the press or media with the specific and written consent of the company. With that said, I hand over the call to Mr. Sanjay Jain, Group CEO of PDS, for his opening remarks. Over to you, Sanjay.

Sanjay Jain: Thank you, Diwakar. A very warm welcome to all of you for the Q2 FY '24 earnings call. Before we delve into our quarterly and half-yearly performance, let me provide a quick backdrop of the current economic conditions and the industry outlook. The global economy continues to navigate through somewhat of turbulent waters. There is inflation around, we are going through a geopolitical crisis in some parts of the world, and all this put together has created a bit of uncertain environment around us.

However, if we look at some specific economies, the US witnessed growth in the third quarter that apparently was propelled by a resurgence in personal consumption expenditure. This recovery from a mere 0.8% to 4% rise compared to the preceding quarter is an indicator that consumer spending is beginning to show signs of revival and therefore it somewhere has a bearing that maybe now there is beginning of positivity on the sector in terms of customer spend and therefore the retail sales benefiting from it.

Turning towards the United Kingdom, this economy also has the global cues impacting in terms of inflation impact and notably in the clothing sector. Even though in the recent past there has been some marginal easing, Europe on the other hand presents a mixed pack with headline inflation demonstrating somewhere of a declining trend where the core inflation is persisting.

A silver lining however is that the wage growth is catching up to the inflation and could be a precursor to a revival in consumer purchasing power, potentially giving a boost to domestic

demand. Moving our attention to the fashion industry, predominant challenges such as inflated channel inventories, deepened consumer demand have continued to cast shadows somewhere in the first six months of this financial year.

However, there is optimism now with signs of a demand rebound and also vendor consolidation as retailers and brand and that is beginning to provide strategic tailwinds. To sum it up, while there has been an impact of the factors that I mentioned in the beginning on the demand, on the revenue in the first six months, we believe these trends are beginning to bottom out in various parts of the world and as a result we should see that the sector in general and companies specifically should start benefiting from it in the second half of the year.

There is one more trend that given the pain that has been somewhat there in the retail sector, there has been from a retail customer side an effort to let go a part of their value chain activities to credible counterparties and that is where we believe that PDS should keep benefiting from this in terms of our order book beginning to be strong from the new line of activities that we started, whether it is brand management or sourcing as a service.

So, on the whole, we are positive about the remaining six months of the year and we believe there should be a reversal of the trend that has been there in the last two- three quarters. Moving to PDS performance for the quarter, we have demonstrated resilience despite a challenging external environment. Though the demand pressures have impacted the top line, we saw a 13% increase in the gross merchandise value coupled with gross margin expansion.

The increase in GMV is because of an improved service mix with sourcing as a service and brand management business, particularly Ted Baker, Wholesale and Design Business now being a lion part of or a decent part of our total order inflow. So when you see a 13% growth in GMV, whereas you are seeing a decline in sales, the GMV growth is coming in largely from sourcing as a service business and these are pretty much long-term contracts and as a result, slowly the company is building a steady stream of revenue, while the order comes in and it actually gets built over a period of longer horizon as compared to the short-term contracts of design-led sourcing.

We are further exploring and expanding our portfolio of brands and brand management services. Our subsidiary, Poeticgem in London, recently acquired the intellectual property rights to design, source and distribute the Little Mistress brand globally.

We've also curated brands in collaboration such as Oh Me Oh My for Tesco, F&F Clothing. We are expanding our brand licensing portfolio with the licenses of Snoop Dogg, Elvis Presley, Marvin Monroe. Though the industry is going through a rough patch, we continue to evaluate our pipeline of strategic opportunities and long-term collaborations.

We aim to capitalize on the prevailing market conditions which present numerous assets at very lucrative valuations. So, when I am touching upon the fact that there have been these opportunities around brand management solutions or getting some brands into our fold, we are sensitive to the fact that we will continue to pursue these opportunities wherein B2B shall be our focus area rather than we are channelizing an energy in terms of retail brand distribution. We

want to capitalize on our relationships with other existing retail customers and see how we get B2B rights for various brands, whether we develop them in-house or we get a global license for some well-known brands.

It is noteworthy to mention that even these turbulent times, our unique model consistently allows us to generate free cash flow from operations, keeping our balance sheet strong and steady. In line with our dividend distribution policies, we have declared an interim dividend of 25% of the distributable PAT, which has resulted into a ₹1.60 dividend per share.

Drawing from our track record of collaborating with industry experts, that's how PDS has been getting experts onboard in its platform to pursue various, you know, new verticals that we are adding. We have onboarded Mr. Harold Tillman, CBE, as a global ambassador for PDS, and Mr. Mark Green on PDS U.S. Advisory Board. Mr. Tillman is a renowned luminary in the British fashion scene and was a former chairman of the British Fashion Council with relationships spanning across continents and industries.

Mr. Mark Green has been a leading professional in global supply and value chain operations over the past 23 years. Previously, he was associated with leading retailers and brands, including Walmart, Victoria's Secret, and PVH. His focus will be on the North American growth strategy, representing PDS across industry forums and exploring new opportunities with US retail and brands. To conclude, I believe there are reasons to be optimistic that the industry is turning the corner, and we should be beginning to see some growth from quarter 3 onwards.

With this, I will now hand over to our group CFO, Mr. Rahul Ahuja, who will take you through the financial performance for the quarter and for the first half of the year.

Rahul Ahuja: Thanks, Sanjay, and good evening, everyone. Coming to our financial performance, we reported a topline of ₹4,578 crores for H1-FY '24 with a gross margin of 20.4% for the half year ended September '23. As Sanjay mentioned, top line was mainly impacted by dampened consumer demand, which seems to be on the road to recovery as we speak.

Despite the headwinds, we achieved gross margin of 20.4% for the half year ended September '23, an expansion of 394 basis points compared to H1 last year. This was mainly driven by better service mix with high margin services such as brand management and service fees from sourcing and service business. EBITDA for H1-FY '24 was ₹204 crores with an EBITDA margin of 4.5% and increase of 80 basis points compared to the same period of last year.

EBIT for the first half of the year stood at ₹173 crores with an EBIT margin of 3.8%. Last year's EBIT included gains from sale of real estate. If we normalize that income, our EBIT in H1-FY '24 has witnessed a growth of 8.4% with 74 basis points margin expansion. We continued to operate with higher interest costs primarily due to increase in the base rates. Average SOFR increased from 1.42% for H1-FY '23 to 5.14% for H1 of the current year. While the average limit utilizations have decreased, interest costs have increased due to higher base rates of interest costs.

Tax flow also increased by 5% as compared to the same period last year. One of the main reasons is taxability of companies in higher tax regions, mainly Ted Baker, which operates in the UK

jurisdiction. As a result, profit after tax declined to ₹112 crores while we have maintained our margins at 2.4%.

Moving on to the segmental performance, our sourcing segment which comprises of design-led sourcing, sourcing as a service and brand management reported a top line of ₹4,443 crores with an EBIT of ₹165 crores.

While our core existing business verticals witnessed contraction due to demand pressures, new verticals driving sourcing as a service and brand management services delivered growth. Overall, this segment achieved a return on capital employed of 34%. Our manufacturing segment reported a revenue of ₹214 crores with EBIT of ₹9 crores, margin expansion of 104 basis points to 4.1% compared to H1 of last year. As demand pressures ease, we expect this segment to grow in the coming quarters.

With regards to the quarter, we were able to garner healthy GMV which increased by 13%, gross margins expanded by 496 basis points to 21.9%, EBIT adjusting for last year's real estate gain was up 17.5% with margins increasing by 140 basis points to 5%. Normalized PAT also expanded by 5% with margins expanding 71 basis points to 3.6%. Speaking of our balance sheet, you must have seen a slight jump in our net debt and working capital. It's important to note here that this was mainly attributable to the acquisition of Ted Baker Wholesale and Design Business.

We completed the acquisition in the later part of June of this year by taking over the working capital which mainly consisted of inventory, trade payables and receivables. Currently, we are in the process of integration of this business and setting up the required bank lines which will enable us to streamline the working capital requirements.

Our agile business model continues to help us deliver strong 30% return on capital employed and a return on equity of 24% in the first half of this year. The Board of Directors have declared an interim dividend of ₹1.60 per share, a pay-out of 25% which is in line with our dividend distribution policy.

To conclude, we continue to evaluate and monitor the global markets and the demand scenario. Our model enables us to have the agility to pivot based on market conditions which makes us believe we are well poised to capitalize on the unfolding opportunities. We are still cautiously optimistic about the demand scenario stabilizing in the second half of this year.

With this, I request the moderator to open the floor for questions and answers session. Thank you.

Moderator: Thank you very much. The first question we have got from the line of Sagar from Sameeksha Capital. Please go ahead, sir. I think we have lost Sagar. The next question is from the line of Mr. Aditya Jawa from AJ Capital. Please go ahead.

Aditya Jawa: Thanks for the opportunity. I have a question on our top ten verticals Firstly, if I see the Poeticgem and the Twins Stars and the ten other joint ventures we have, the margins here are fluctuating from year-on-year if I compare quarter-on-quarter. So, could you throw some light

here? What are the sustainable margins for some of the top five if you can name them? That would be helpful. That is my first question.

Sanjay Jain: I think an average maintainable margin is 5% PBT to sales ratio. That we should see across the top ten verticals. And some of them, for example, in Norlanka, which is operating in Sri Lanka, should be upwards of 7% to 8% because they are very close to the source and low cost of operation. Something like Kleider, which is actually also operating in Bangladesh, should also be upwards of 8% to 9%. And Poeticgem, at the same time, which is largely centered in UK, they should be getting closer to 5% or so.

So, on the whole, I would say if I just take design-led sourcing verticals, because given the size of Ted Baker, wherein we are trying to bill ₹50 crores to ₹60 crores a month, that actually would clearly start coming under the top ten verticals. But taking that vertical out, to answer the question, an average 5% PBT to sales ratio is what we should be seeing across top ten verticals.

Aditya Jawa: Okay. Now this is totally the sourcing as a service business, right? Whatever the top ten verticals you have shared?

Sanjay Jain: The top ten verticals we have shared is design-led sourcing business, which has been continuing for many years. The sourcing as a service business is something that we started in the last 12 months to 18 months in the Hanes JV, in Bangladesh, and also ASDA. So that is not yet in terms of size in the top ten verticals across.

And there, the margin profile, if I have to talk about that, for example, this year, we believe, we should be getting closer to from a ₹7,000 crores of the gross merchandise value, About ₹350 crores to ₹400 crores should at least get added into the topline of the company for the entire year. And on that, we should be getting somewhere closer to 18% to 20% PBT margin. So that's where, it is not yet in the top ten. That's a new line of activity. We have added ₹350 crores to ₹400 crores of annual revenue and about 15% to 20%, 18% to 20% PBT margin.

Aditya Jawa: But the Ted Baker business is part of brand management, right? That is another vertical.

Sanjay Jain: So, yes, it is a brand management for now in terms of the segment within which we have reported. We have reported three segments, sourcing, manufacturing, and others. So for now, it is all clubbed under the sourcing segment. The sourcing as a service, the brand management, design-led sourcing is all clubbed under that segment.

Aditya Jawa: So for this full year, what can be the Ted Baker total contribution? And for the next three years, what can be the total contribution?

Sanjay Jain: As we have mentioned, this is a little above three months of getting Ted Baker into our fold. At present, it is generating ₹50 crores to ₹60 crores of revenue on a monthly basis. So therefore, to answer your question, if I take almost nine months of Ted Baker into our fold, it should be somewhere around ₹500 crores, in terms of its contribution to the topline of the company.

And we are on an average making 10% PBT margin. That has been a performance in a little over three months that it is in our fold. And we anticipate that to continue. So, ₹500 crores topline contribution, around 10% PBT margin.

To give you an answer to the second question that you asked, somewhere next year we're aiming at, can be scaling up to ₹700 crores annualized revenue contribution and try and maintain or slowly augment the PBT margin from upwards of 10% to about 11%. So that's the outlook for next year.

Aditya Jawa: So when you say income, it is not GMV, it is just the income or the gross profit, you're saying?

Sanjay Jain: So when I'm talking about this year, ₹500 crores, this is actually the revenue that you will see the topline. For our Ted Baker business, there is nothing like a GMV. It is whatever is in my order book, it's actually getting to my topline. The main difference that you see in our GMV and the revenue from operations is sourcing as a service contracts, wherein, as we had said, a billion-dollar worth of contracts are in a fold. So therefore, answering your question specifically, the ₹500 crores aspiration from Ted Baker should be a revenue and 10% PBT should be the straight addition to the PBT bottom line of the company.

Aditya Jawa: My last question is on the broader perspective for two years to three years or five years. When you say that, we will, on a consol level, we'll be 2.5, so basically ₹20,000 crores of revenue in some three years to five years and 5% PAT margin, right? So, this change, what is your short-term goal like three years? That is my first question in that. And the second one is, in this mixed change, how much of the contribution will be coming from the new verticals? Because I think the new verticals will be contributing a larger chunk to the PAT margin, so that is one Ted Baker that we understood, and there is, Hanes, that is another part and what are the other contributors currently we have? So that you are guiding that we will be reaching 5% PAT margin. Because that is huge currently, whatever we are at current stage. Basically, 3x PAT jump you are envisaging here. So, I wanted to, a little colour or deeper insights here. Thanks.

Sanjay Jain: See, in terms of when we finished our Financial Year '22, we internally aspired, we did about ₹9,000 crores turnover that time. Internally aspired that can be aimed to double. So that's where we set a goal that let's try and channelize our efforts towards the $2.5 billion, which is what you said about ₹20,000 crores, and can be slowly inched to getting closer to 5% PAT. So now that is the goal that we thought we should all aspire for. And we felt that there are two new lines of activities within sourcing as a service. And as we have clarified earlier, whatever is my gross merchandise value, 5% of that comes to my revenue.

So on that 5% coming to my revenue, we had foreseen that in about five years, 8% to 10% of my top line may actually coming in from sourcing as a service contract. That was one. And from a brand, whether it is brand management, the way we described earlier, we believe somewhere there is a 5% to 8%, 8% plus kind of contribution that we anticipate should come in from managing brands.

So that put together these two new lines of activities has a potential of getting 18% to 20% of our revenue that time. Manufacturing is about circa 5%, 6%. And we believe that is the way it should be in about five years.

So that's answering your point on the broad breakup. I think it will be tough to draw a picture where are we in an intermediate goal. What is important is that on a every six-monthly basis, if not quarterly, we should be progressing in that direction.

And somewhere the quarter two performance seems to be reflecting that we are benefiting from the journey wherein a better margin sourcing as a service contribution has led to better gross margins. And also brand management has led to better gross margins. So that's why I would say, we are poised on the long-term goal. And I think you should see us making incremental movement in that direction.

Aditya Jawa: Thank you.

Moderator: Thank you. The next question is from the line of Pallavi Deshpande from Sameeksha Capital. Please go ahead.

Pallavi Deshpande: Yes, thank you for taking my question. I just wanted to understand again just to clarify the number. So SaaS is looking at it contributing to ₹350 crores to the topline. Is that right? ₹7,000 crores GMV?

Sanjay Jain: I think the answer is, yes. We have got orders worth about ₹7,000 crores of annual GMV. And as we scale up to its full potential, so somewhere when we exit this financial year, we would have internally tried to scale it up to the entire annual value clocking in. So therefore, by the end of the financial year, the quarter one, we should be in a position wherein we are having a run rate of it contributing ₹7,000 crores annual GMV and about ₹350 crores circa contribution to the topline.

Pallavi Deshpande: And in the first half, we've already seen ₹2,000 crores come in. So, yes?

Sanjay Jain: Yes. I think in the first half, yes, one has seen that close to about ₹1800 crores, ₹1900 crores, sourcing as a service has actually come in. So I think that if at all I mathematically double it up for the sake of argument, it's about ₹4,000 crores. That's where I'm telling you that allow us another two quarters to three quarters to scale it up to a level wherein the annualized value is actually about ₹5,000 crores- ₹7,000 crores.

Pallavi Deshpande: I will do that. If I do the numbers there, so that's ₹100 crores of revenue contribution. That's in the first half?

Sanjay Jain: Yes, that's broadly in place. That approximately, that is the contribution. Just about 5% of ₹1,800 crores, yes.

Pallavi Deshpande: And then 20% of that is the contribution to PBT margin at that time?

Sanjay Jain: Yes, I think, as I said, that's the broad, maybe Rahul can add here. That's the broad aim that thery all were 18% to 20% but Rahul, you want to mention the exact amount?

Rahul Ahuja: I guess, like Sanjay mentioned, the range could be anywhere between 14%, 15% to 20% depending on the contract and at the point of time that we have signed it.

Pallavi Deshpande: And that's the PBT margin you're referring to?

Rahul Ahuja: Yes.

Pallavi Deshpande: Right. So, if I take this out, then the margin for the rest of the business sales are muted, if I do the numbers for the first half. We just wanted to understand?

Sanjay Jain: Yes, the margin profile, for example, we reported in say quarter two, approximately 21.9% gross margin. And I think the main core business design led sourcing has also given us close to 17% gross margin as compared to what, 15% or so. While the sales have declined in design led sourcing, but our ability to get better margins from the value chain, we have been mentioning.

So, the better margin, to answer the question, the better margin position that we have achieved in the first half and second quarter is actually being contributed by all line of activities at the gross margin level.

Pallavi Deshpande: Right. And so, in the Ted Baker side of the business, so the revenue of ₹500 crores would be, what kind of inventory turns are we looking at and what's the kind of inventory we need to hold for that?

Rahul Ahuja: So, in the Ted Baker business, if you would have seen, our working capital has gone up largely on account of our receivables and inventory periods going a little up given the nature of this business. And talking specifically about the future, as this business stabilizes and we are able to establish, our working capital lines, which is the factoring lines, this is, you know, likely to come down a bit in let's say a couple of quarters from now.

Sanjay Jain: Just to add, sorry, just to add, let's just allow us to put Ted Baker in a larger perspective. We wrote a cheque of circa ₹150 crores approximately to get Ted Baker into a fold. We're looking at this year in the nine-month-plus period about ₹500 to ₹600 crores of topline getting added and about 10% PBT.

That's about ₹50 to ₹60 crores PBT is what we're looking at on an investment of about ₹160 crores to begin with. So, it turns out to be an healthy investment to begin with, given the PBT we expect and given the cheque we wrote. And now, as Rahul mentioned, PDS always aspires towards squeezing out the working capital optimally through operational efficiency and to use this over non-recourse factoring lines.

So, we just got Ted Baker into a fold, and I think as we try and put these two tools into practice within a few quarters, we should also see that we try and bring down the net working capital in Ted Baker and thereafter return the, improve the return ratios further.

Pallavi Deshpande: So just lastly, because Ted Baker I think revenues globally last year was around ₹4,000 crores roughly. I just wanted to understand. We would be exclusive suppliers for that business. For excluding Europe, I believe you would be doing it as a design led sourcing operation excluding

Europe. So does this whole ₹4,000, do we at some point service the entire ₹4,000 crores of revenue of Ted Baker?

Rahul Ahuja: No. So, ₹4,000 is the total revenue of Ted Baker as a brand globally. We only have a part of it which is Europe and UK markets. The rest is by our different stakeholders and parties who have tied up with ABG who owns the license. As Sanjay mentioned, we are currently clocking about ₹60 crores a month in Ted Baker which on an annualized basis takes this up to about ₹700 crores. We can expect a growth in the short to medium term of anywhere around 10% year-over-year on this brand. So that will be the contribution of Ted Baker in our topline.

Pallavi Deshpande: I'll come back in the queue for further questions. Thank you.

Moderator: Thank you. The next question is from the line of Darshil from Crown Capital. Please go ahead.

Darshil: Good evening, sir. Thank you so much for taking my question. Am I audible?

Sanjay Jain: It's not very clear, Darshil, but we'll try and understand.

Darshil: Just a second.

Sanjay Jain: Yes.

Darshil: Yes. Thank you so much for taking my question, sir. I just wanted to get a sense of guidance for our current year. I think you were mentioning about single digit growth in the current year. What kind of is that true and what margins would we expect? Because with Ted Baker coming in, we should at least get a boost of nearly ₹500 crores with just Ted Baker, right? So how much growth are we currently expecting sir?

Sanjay Jain: Yes, I think before I specifically answer your point on the full year guidance and the margin impact, I think there have been questions around Ted Baker sourcing a service. Just allow me to put everything in full perspective.

Last year, we did about ₹10,500 crores topline. That's the last year number. Management is trying to see that despite the difficult times, can we try and get a low single digit growth. And we have done about ₹4,600 crores topline in the first year. If I benchmark it to last year, that's about 40% of what we did in last year we have actually achieved in H1. Can we try and do 60% plus a small growth in the second half. I think if the global situation remains stable, it's doable. So that's putting things in a larger perspective.

And another larger perspective I wanted to share that if we did about ₹10,500 crores last year, aiming at a low single digit growth, for the entire year, we talked about that ₹500 to ₹600 crores could come in from Ted Baker. We talked about, assuming we did ₹1,800 crores sourcing as a service contract in first year, we do circa about ₹5,000 crores annually. I said we'll get to a run rate of ₹7,000cr. We're talking about ₹250 crores revenue approximately that number. I'm just trying to put things in perspective from sourcing as a service. And manufacturing could be about ₹500, ₹600 crores on a full year basis.

So, we're talking about approximately ₹1,300, ₹1,400, ₹1,500 crores coming in from these bunch of activities wherein the gross margins are relatively much higher as compared to design-led sourcing, which should be about 85% or so. So therefore, as we are scaling up these three lines of activities, we should continue to maintain the, leave the quarter-by-quarter movement apart. But I think we're heading in the direction wherein we should get a gross margin trajectory improving onwards.

And secondly, the design-led sourcing, the main business, you know, got impacted because of the global clues. And as we are, we believe we are bottoming out, that should also fire back to bring the growth. So that's where I am trying to put answer to your question that, we've given 40% of what we did last year is achieved in the first half. We believe we should aim for a low single-digit growth. That is number one. So that there is 60% plus in the second half of the year.

And secondly, the margin trajectory, I just spanned out the full year number on just for a hypothetical basis that this is what it is looking like. So therefore, the margin trajectory should continue to be healthy.

Darshil: Thank you, sir. That's a very detailed answer. So maybe, sir, if I can put it like this, sir, with the current scenario that our new initiatives are compensated for maybe the decline in our design-led business. So, FY'25 as a year, if things go alright, -- there'll be growth in our design-led business as well as growth in our newer verticals. So, can we expect maybe both years compressed growth to come and some kind of higher growth rate than average in FY'25? Would that be a proper way to look at it? Would that maybe get us maybe more than 20% growth in FY'25? And with our margins moving slowly towards 5%, so maybe around 3%, 3.5% in FY'25 with the newer verticals contributing more? Is that a correct way to look at it, sir?

Sanjay Jain: I would be guided by you here. If you all believe that sometime in the near term this inflation is bottoming out, the interest rates, the Fed has refrained from increasing the rates further. If you all believe in about one-two quarters, the inflation is bottoming out, the interest rates are bottoming out, then I think from the year of FY'23, '24 which got impacted and the next year is then starting on a good note, getting into a healthy growth rate, yes, that's doable.

I think we all remain very positive that all these things in about six months should bottom out. So, we are internally charged up, geared up, very positive that let's quickly put this year behind us and get back into a high growth rate year next year. And in the meanwhile, carefully adding more and more margin accretive revenue generating activities into our portfolio in line with the overall strategic intent.

Darshil: Okay. So, any like, in terms of numbers in FY'25 high growth rate would be maybe more than 25% and what kind of margin trajectory would be with, our design led also coming back so maybe some operating leverage in that. So, any kind of a range would also do maybe around 3% if you can, sir?

Sanjay Jain: I guess at this stage I can talk about the factors that should have a bearing on the growth. The factors are all beginning to look positive. In the next few months. we would be doing our annual budgeting exercise so somewhere when we get an opportunity to interface with you at the end

of quarter three results, we would be in a better position to talk about what kind of growth rates we are looking at. But for now, I can say is, we are very positive that there should be good growth next year. Specific numbers just kindly bear with me till we interface again at the end of quarter three.

Darshil: No worries. No worries. I think that I have no worries. Thank you so much sir. Most of my questions have been answered. Thank you.

Moderator: Thank you. The next question is from the line of Mohammed Patel from Care PMS. Please go ahead.

Mohammed Patel: Can you give us the rationale for the QIP of ₹625 crores?

Sanjay Jain: Yes. The motivation to look at this is two-fold. On one hand we believe this QIP should help us in further institutionalization of shareholding of the company. It should also help us further strengthening our balance sheets. These are two motivations on one hand. And at the same time, I think as we have been mentioning earlier, there are a lot of growth opportunities ahead for us, wherein retailers are looking at complete sourcing solutions to be given to companies like PDS.

There are companies looking at us to handle exclusive geographies like two contracts we signed ASDA and Hanes, similar to Ted Baker, there are more such opportunities to be pursued for complete brand management. And the world has, when I say world I'm keeping our customers in mind, there have been conversations around near shoring and therefore we have set up our manufacturing in Bangladesh and in Sri Lanka while we'll continue to be asset light but to a small extent should we look at manufacturing in Egypt or in India. For example, originating from India we believe there should be good prospects. So, if I bundle up all these opportunities the PDS is facing it's a nice situation to be in that there are a lot of immense growth opportunities around us. So it's because of these twin objectives the second bucket of objectives of the growth that I mentioned to you.

In fact, interestingly, things like brand management or sourcing as a service we're also now witnessing inquiries coming in from Indian retailers, that can we now support their back-end activity. The model that PDS has been trying to build and pitch to our customers is receiving an acknowledgement by the Indian retailers as well.

So therefore, being positive about the growth. We feel a suitable capitalization of the company by way of an equity would enable us to meet the two bucket of objectives that I just mentioned to you.

Mohammed Patel: Would this go towards reducing the gross debt or investing in working capital for the new businesses that you mentioned?

Sanjay Jain: I think it's broad based, of course, you know from a theoretical perspective as soon as the money comes in the first thing you do is you try and reduce your debt so it's pending utilization you know and allow me to use the phrase this equity should enable the balance sheet. You know PDS has been trying to navigate its balance sheet to keep it asset light, you know, low leverage,

you know and therefore it should enable our balance sheet to pursue these growth opportunities with a lot of confidence that's how I would seek your liberty to put it.

Mohammed Patel: So, we already have a very strong balance sheet. My second question is can you please give me the GMV SaaS contribution to top line activities for FY23 just wanted to understand the base.

Sanjay Jain: I think there was a question earlier as well wherein we had mentioned that in the GMV we have in the second quarter close to ₹1,800 crores you know coming in from the sourcing as a service, so if we annualise it, it's about ₹4,000 crores as in terms of GMV of the sourcing as a service contracts but we should keep improving it. So, assuming we are just repeating our first half then we are talking about ₹4,000 crores and at circa 5%, we are looking at minimum ₹200 crores but upwards of that coming in as revenue from sourcing as ae service operations into our overall revenue bucket. This was the question earlier as well.

Mohammed Patel: No, I wanted to get this number for FY '23?

Sanjay Jain: '23 was miniscule. I think, it was less than about ₹600 crores- ₹700 crores in terms of the sourcing as a service GMV that we handled. So, if I apply the same 5%, then we would have just got ₹25 crores- ₹30 crores into our topline from sourcing and the service last year. Sorry, if I misunderstood. I thought you were also asking about FY '24.

Mohammed Patel: Okay. And this ₹25 crores to ₹30 crores topline, the contribution to PBT will be 15% to 20% for FY '23 as well.

Sanjay Jain: Yes, that's right. These are broad estimates that we are giving to you but should be around in the same vicinity.

Mohammed Patel: Okay. What is the potential of Gerry Weber for FY '24 and beyond?

Sanjay Jain: We just took charge sometime in September- October. And, if I count 12 months from here, we think there is a potential to do about ₹700 crores-plus of annual handling of sourcing for the customer that will be billing through us. So that's what we are looking at. ₹700 crores is the annual value starting effective the second half of this year.

Mohammed Patel: Okay. And my last question. What should we take as ETR for FY '24 and beyond?

Sanjay Jain: Rahul, do you want to answer the question on Effective Tax Rate that we should be taking '24 onwards?

Rahul Ahuja: So effective tax rate will marginally inch up, given that we have the likes of Ted Baker operating out of UK. So, I would say, maybe a couple of percentages it will go up in the next financial year. But post-'25, there is the global minimum taxation coming in which is 15%. So we should be closer to that a few years from now.

Mohammed Patel: Thank you.

Moderator: Thank you very much. The next question is from the line of Akshay Chheda from Canara Robeco Mutual Funds. Please go ahead.

Akshay Chheda: Yes. Sir, just one question from my side, since the things are gradually improving, sir, how do you see the retailers placing their orders? Is there a change in their style of working? I mean are they little more cautious while placing orders or they are just the way they were working previously also? Just on the retailers, how are they working out? So just if you can comment on this? Thank you.

Sanjay Jain: I think the retailer, our given retailer is more cautious now. So therefore, they are closing orders as much close to the date that they can hold on. Everybody is wearing off not allowing themselves to get again into a situation of high inventory. So therefore, it is taking a little longer time for the orders to come in and the retailers have also slowly been squeezing their global span of office spaces. For example, the retailers earlier were having active offices in the region, and they are collapsing them and taking it back to the head offices structure so as to keep the cost low. So therefore, taking more time trying to go back to more decision making in the head office.

And number three, now the retailers are beginning to see value in companies like PDS wherein they can take responsibility on behalf of retailers for sourcing. That's why one is seeing increasingly more traction of sourcing as a service contracts or sourcing solution contracts. So, the third is the most structural shift that is happening. And the first and second is a more responsive shift of the retailer to the current situation.

Akshay Chheda: And sir, on the sourcing side like is it that China Plus One is happening are you seeing that are they looking out for other geographies except China? Are they preferring India or Vietnam or Bangladesh also? Do you see that also happening?

Sanjay Jain: Yes, I think that's also happening as well. Whether the motivation is China Plus One, or the motivation is nearshoring, therefore reducing the lead times, so as a result, yes, the other locations as I mentioned earlier Egypt, for example, Turkey, while the costs have been rising in Turkey, but still there continue to be good strong interest in sourcing from Turkey. Sri Lanka and India are also benefiting, Bangladesh is also benefiting from a China Plus One scenario.

So, two factors, yes, China Plus One and the nearshoring. And I think somewhere when governments, like government in India is paying a lot of attention to Make in India and giving lot of benefits to manufacturing of garments. That is also improving the attractiveness and ability of the Indian manufacturer to be able to meet the global demands.

Akshay Chheda: Understood sir. This was very helpful sir. Thank you.

Sanjay Jain: Thank you.

Moderator: Thank you. The next question is from the line of Sagar from Sameeksha Capital. Please go ahead.

Sagar: So, my question was, as we know that textile industry has a demand subdue and that's our design has a higher gross margin. Do you think that once the demand comes back, our margins, our gross margins will reduce?

Sanjay Jain: There are few factors that always are bearing. Yes, in a scenario wherein there are lesser orders so therefore our ability to sit across the factories and get a better margin, yes, that ability exists.

12 months back, all of us were adversely impacted by input price increase on cotton and yarn, which has now been at a low level. So therefore, the demand has a bearing on the ability to get better prices. The input prices were bearing.

And the third thing which is specific to our company is that are you able to get the benefit of size and scale? At the end of the day, you are somewhere procuring commodities when it's come to cotton and yarn or fabric. So therefore, when we are very humbly getting bigger in size, our ability to then get better prices. So, combination of these three things. But in a silo, I have to answer the question, yes, a strong demand tend to the benefit that we got in the gross margin a strong demand should lead to growth in sales.

The margins could be again a bit on pressure but then I think on a portfolio basis, our other engines are already beginning to fire in terms of sourcing as a service, in terms of complete brand management. So I wish there was one single factor correlated, but this is a mix of factors that would, but on a silo basis, yes, stronger demand may mean that somewhere a benefit that we got on margin may a little bit vain away.

Sagar: And also, my last question is that as we know that interest rates are increasing, so our account is visible financing costs is higher. What would be our strategy on this front?

Rahul Ahuja: Sorry, I didn't get your question, could you repeat that?

Sagar: Like, our financing costs are, interest cost higher, so what will be our strategy on that? Will we still continue with the account which is our factory?

Rahul Ahuja: So, see we need to understand what constitutes our debt. Our debt is working capital, right, which is trade-based. And currently the interest rates are at a all-time high, in due course of time maybe let's say, anywhere between two quarters to four quarters from now, if there is a downward trend given that this is largely working capital linked to market benchmarks and if there is a downward trend, we should stand to benefit from a reduced rate of interest on an absolute basis.

Given the growth that we are projecting, yes, our, if you talk about a number, it will increase in line with our growth but if you're talking about the percentage to sales, as interest rates come down, the interest should come down for us in the P&L.

Moderator: Thank you. The next question is from the line of Madhur Rathi from Counter Investments. Please go ahead.

Madhur Rathi: Thank you so much. Sir, I just wanted to understand, why would have client shift from design led sourcing to sourcing as a service and what kind of benefit does he have for like onboarding of the sourcing, providing of the sourcing segment of his operations?

Sanjay Jain: Sorry, what's the last sentence? What kind of benefit?

Madhur Rathi: So, what kind of benefit does your client will have for like on-boarding of sourcing, providing of the sourcing segment of his operations?

Sanjay Jain: So if I get your question right and try and answer it from the lens of a customer, wherein they have been using our services for design-led sourcing and wherein customer feels that while they would keep engaging with PDS, keep taking their designs and therefore keep placing orders, they have also been dealing with many other factories. They have also been having their own office in Bangladesh, other parts of the world, they don't want to run those offices. They want to bring down their cost structures and as they do that, they were looking at credible counterparties. So therefore, they are looking at now PDS to run those operations.

So, one this new sourcing service is in a way helping me get a larger share of wallet of the customer. And the other thing is that design-led sourcing is for me is, like I'm designing and I'm taking it, I'm taking the complete responsibility, I'm acting as a principal. But in a sourcing as a service, I'm running the office of the retailer. In any factory, who wishes to do business with the retailer, while they will bill it directly to the retailer, but they would all I'm the nodal agency managing that traffic. So therefore, I would say that just to put numbers in perspective, I was trying to handle say 60 million, 70 million-plus of design-led sourcing for ASDA as my customer that is the business I was doing.

Now they have given me another contract that we were procuring 400 million from the eastern region, can you please run our office in the eastern region and manage this 400 million worth of procurement. I said okay, I will do that and that's where circa between 3% to 5% I get. So, it's an additional wallet share.

Madhur Rathi: So sir in future is there a demand like, is there an outlook where most of our design-led sourcing, there will be few that will get converted into this high margin segment for us?

Sanjay Jain: No. These are for us; we would always aim them to be mutually exclusive and in fact in response to one of the questions we had said that at the end of FY '22 we aspired that can we aim for doubling ourselves. And then I said that even at that state of time we would in close to 80%-plus of our revenue would keep coming in from design-led sourcing. And it's about 8%, 10% that would come in from sourcing as a service. So, it would be a new line of activity which is being scaled up but our main core business of design-led sourcing would continue to be existing and thrive and grow as well.

Madhur Rathi: Okay, sir. Thank you. That's very helpful and all the best.

Moderator: Thank you. We take this as the last question. So, I would like to now hand over the conference to over to Mr. Sanjay Jain for his closing comments. Please go ahead, sir.

Sanjay Jain: Thank you, E&Y to help us coordinate this call. And thank you ladies and gentlemen for participating. And we have lot of festivities ahead Diwali and wish you all and everyone at home Happy Diwali. And we look forward to connecting with you at the end of quarter 3 and the earnings call thereof. Thank you and stay safe all of you.

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