"PDS Limited Q4 FY24 & FY24 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to PDS Limited Q4 FY24 & FY24 Earnings Conference Call hosted by E&Y.

As a reminder, all participant 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 touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Ms. Reenah Joseph from PDS Limited. Thank you and over to you ma'am.

Reenah Joseph: Hello everyone. I welcome you all to PDS limited Q4 & FY24 earnings call. Today from the management we have Mr. Pallak Seth - Executive Vice Chairman, Mr. Sanjay Jain – Group CEO, Mr. Rahul Ahuja – Group CFO and me Reenah Joseph.

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With that, I would now like to hand over the call to Mr. Sanjay Jain – Group CEO for his opening remarks.

Sanjay Jain: Thank you, Reenah. A very warm welcome to all of you and thank you again for joining us today.

Before we go deeper into our "Operating and Financial Performance", let me provide some context regarding the challenges and opportunities we faced in 2023-24.

It's been a kind of tough year, significant headwinds, muted demand, high interest cost, geopolitical factors across various parts of the world impacting the demand. However, your company tried its best to minimize the impact of all of this and had a year wherein while the industry got severely impacted, but we prevented that and only had close to about 2% decline in revenue as compared to the previous year. While this could be continued to be seen as the year of challenges, PDS also saw this as a year of opportunities. So therefore we felt that this year would be a year wherein we would be preparing ourselves for the next phase of growth. On one hand, as I mentioned that we successfully navigated the challenges, but there were opportunities unfolding and we decided to capitalize on them and started investing into them. And these efforts not only position us for growth in the coming years but also solidify PDS as a global leader in the fashion value chain. And as I mentioned, it was a tough year, but somewhere in quarter three, we could as a first step neutralize the declining trend, we almost had a flat quarter, but in the quarter 4 we had a 25% growth over quarter 3. And as I am talking to you today, we have a healthy order book of about US $585 million which is almost close to Rs. 5000 crores and it is a 30% increase over the same period last year. Our aim this year is to maintain the momentum of growth and profitability.

Meaning of further growth, we made investment of approximately Rs. 100 crores through our P&L. In our company, which is an asset light company, any investment that we make into future revenues is primarily through P&L and that is where it aggregated to about Rs. 100 crores. Our investor presentation captures a slide on the specific areas where we decided to invest to pursue the opportunities. These are primarily focused on establishing new teams and expanding into new verticals across our business offering. For instance, under the leadership of Mark Green, a very senior industry professional who has had a long inning with PVH, which is the house which holds Tommy Hilfiger**,** he has come on board and under his overall guidance, we have formed a robust team to drive our North America strategy. We are beginning to see good traction and as have already made some headwinds in terms of getting on board with some very reputed clients like Target and also now having a visibility of increasing our business manifold with our existing customer Walmart. Additionally, recognizing the potential for higher margins, we also partnered with the gentleman, Damian Hopkins in UK to supplement our brand business.

Furthermore, our existing verticals like Poeticgem, Design Arc, Simple Approach while they continue to stay focused on the furtherance of design-led sourcing business, are also venturing into brand space. However, it is crucial to note that we remain committed to operating within the established guard rails including maintaining an asset-light approach, managing inventory risk through presold models and partnering with credit-worthy customers and mentioning about existing verticals also going the brand journey then they are carefully trying to leverage the existing network that they have with the retail customers and how in a very calibrated manner, they can also supply brands to them.

Looking back at our strategic tie-ups in the last 2-3 years and it gives a proof of concept to why we are pursuing these Rs. 100 crore opportunities, whether it is addition of category, addition of geography or addition of new service offerings to our existing customers. In fact we have tried to give in our investor presentation a deeper insight into three of our such investments that we have made in the last 2-3 years, one of them was with the gentleman called Eric Leddel in his previous innings with Li & Fung, he was handling close to 600 million plus of home category business and we brought him on board and it took about 2-2.5 years for the business to be where it has reached today that it has actually got multiple contracts in the home category starting from a test order of $16 million to at least sourcing the service contract of $250 million from Asda George and now this business is looking at eyeing on the US markets in terms of taking this product offering. So the business is already profitable. Business is already generating a handsome return on capital employed likewise with a gentleman Gaurav Pandey, who has earlier in his previous innings other companies have been successfully dealing with US retailers. He has come on board and has started building the Walmart business and we are very confident that this business will also be PBT positive in this year in about two years of its journey.

Likewise, the third example is the CSS vertical, which is a vertical we have started in Bangladesh and now the sourcing as a service for our retail customer Asda in UK. This business is profitable from day one. It has a gross merchandise value of approximately $210 million approximately about Rs. 1700 crores, as I said, day one profitable and it generates a very handsome return on capital employed, which is infinite. There is no capital that gets employed in the business and the returns are highly value added.

So, if I summarize, Casa Collective's Home Category business is generating an ROCE about 47% last year to be doubling up in FY25. PDS Far East profitable business at present in ROCE of mid-teens, but it's looking good. And CSS as a business is about infinite, so this Rs. 100 core investment that we have done in a business is at gestation wherein it leads to an immediate P&L impact, but as this unfolds into the real potential, these are the kind of numbers that is there as a potential.

Moving on, we achieved a gross merchandise value of about Rs. 15,000 crores during the year, marking a 25% increase over the same year last year. And notably, our sourcing as a service segment experienced remarkable growth with a staggering 240% increase in GMV totaling to approximately US $440 million. That's approximately about Rs. 3600 crores. While we generate service fee from these volumes, we continue to gain a larger share of wallets with the customer and continue to deliver customized solutions to meet the evolving needs. Our goal is to foster strategic engagements with key customers and continue to provide various solutions to address your specific requirements.

We built a robust model which has enabled us to navigate these challenging times as is reflecting in terms of just about 2% decline and about 25% growth now in quarter 4 over quarter 3. And not only we have kind of tried our best to navigate, but we believe now we are on a path of driving our growth and profitability upwards and at the same time, PDS is poised to make further strategic advancements by increasing its wallet share with existing customers, diversifying our service offerings and enhance our capabilities through strategic investments.

Now I will hand over to Rahul Ahuja to provide a detailed overview of our financial performance. Over to you, Rahul.

Rahul Ahuja: Thanks, Sanjay. Good day out to all on the call today. I will over the next few minutes inform you all about the financial performance for the quarter and 12 month ended March 31st 2024. As Sanjay was just mentioning, we witnessed recovery in the later part of the year. Gross merchandise value increased by 19% to Rs. 4,526 crores compared to the previous quarter. The consolidated topline of Rs. 3,215 crores was a 25% increase with gross margins of around 20%. While our EBITDA of Rs. 124 crores increased by 66% with EBITDA margin increase from 2.9% to 3.8%. However, when we normalize this for our business in the gestation phase, our EBITDA translates to Rs. 157 crores versus Rs. 107 crores in the previous quarter and a margin of 5.1% versus 4.2%. Our interest expenses were largely flat in spite of the increase in topline and increase in the base lending rate, which is so far from 4.9% to 5.3%. Profit after tax increased by 157% to Rs. 65 crores with 2% margin versus 1% in the previous quarter.

Talking about the full year, our gross merchandise value increased year-over-year by 25% to Rs. 15,048 crores. Our sourcing as a service business delivered around 240% growth in the financial year 24. With the consolidated topline of Rs. 10,373 crores, we arrested a decline to a mere 2% in spite of us being 8% lower in the first nine months of the last financial year. Gross margins continued on the expansion trajectory with us clocking 20.4% in FY24 an expansion of 360 basis points compared to the last year. Our EBITDA was Rs. 402 crores with EBITDA margin of 3.9%. However, when we normalized it for Rs. 100 crore investment in new initiatives, our EBITDA actually was Rs. 502 crores. It's important to note that we have pulled through this year with higher EBITDA of Rs. 502 crores versus normalized EBITDA of Rs. 489 crores in the same period last year. This was achieved despite an early single-digit decline in topline year-over-year. Similarly, our normalized EBITDA margin expanded from 4.7% last year to 5% this year. PAT amounted to Rs. 203 crores with 2% margin.

Moving on to our segmental performance; our sourcing segment clocked the topline of Rs. 10,080 crores with a gross margin of 18.6% and expansion of 352 basis points. Within sourcing, our design-led sourcing offering achieved a gross margin of 17% and an improvement of 179 basis points while sourcing as a service achieved a growth in topline of 125% with an EBIT margin of 38.5%. Brand management continued its growth trajectory registering a growth of 96% compared to last year with gross margin and EBIT margin of 33% and 5% respectively. Our manufacturing operations reported a topline of Rs. 597 crores with a gross margin of 38% and improvement of 206 basis points and EBIT of 4%.

Turning to our balance sheet, the net debt was Rs. 259 crores. However, in spite of the growth in Q4, we have managed to curtail our debt levels to the previous December quarter despite the industry dynamics, our balance sheet remains robust with strong leverage ratios of net debt to EBITDA at 0.61 and net debt to equity at 0.22. With regards to our working capital days, it decreased to seven days by the end of the year compared to 9 days in December. Excluding Ted Baker business, our net working capital days stand at one day. We are focused on bringing back the net working capital days to early single digit.

On the capital employed front in PDS Ventures and others, the capital employed stands at Rs. 254 crores. It is important to note that this includes Rs. 36 crores attributable to MTM gain. We are also pleased to announce that we have proposed a dividend of Rs. 3.15 per share. We had declared an interim dividend of Rs.1.6 per share in the first half. This makes the total dividend to Rs.4.75 per share for the year, a payout of 43%.

In conclusion, the resurgence of demand and the promising performance of our new ventures bolster our confidence in achieving growth in the upcoming quarters driving steady progress in quarters to come.

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

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Vishal Prasad from VP Capital. Please go ahead.

Vishal Prasad: Hi good evening! So Pallak when we talk about PDS Ventures, we report mark-to-market gains. So giving the background of us thinking in terms of mark-to-market, what is our thought process behind investing in so many companies and internally how do we measure our performance over a period of time for these investments?

Pallak Seth: Thank you for the question. So PDS Ventures was started around 7 years ago as an initiative from PDS Group to look at how the industry was moving forward. There is a lot of discussion around sustainability, circularity, and new material science in our industry. So we were seeing that some of our strategic customers were like really getting impacted. The business models are getting impacted because of all the regulatory pressure coming in and all the activist pressure coming in the West that were questioning the retailers' practices on their environmental footprint. So PDS took a conscious decision that we should be part of the solution going forward, not part of the problem. So the investment we made paid huge dividends by helping us position the company strategically with various customers. So like Sanjay mentioned, we opened the account with Target US which is one of the largest retail in the US with Walmart US, one of the largest leaders in US as well Ralph Lauren; IKEA so having this PDS Venture investment, had a two-pronged impact for PDS. One is we onboard a lot of new customers who typically are not looking to add any new vendors right now to the supply chain because there are enough vendors around the world. They're looking at PDS as an innovation provider. We got our accounts opened and these 4-5 customers alone could be a $500 million business for us in the next 3 to 4 years. And then with the existing customers, they solidify our position because fortunately in the global supply chain, PDS treasury is the only corporate treasury arm structurally investing in the future on innovation. So the impact on repetition, the impact on gaining new customers and solidifying our position with existing customers was a very strong outcome from our decision to get into this activity.

Now coming to why so many investments, we've identified around 4 or 5 buckets, one is material science. We are seeing that a lot of when garments go into store, they must come from a sustainable source for PDS invested in a hub in Portugal to basically invest in lot of material science, innovation, technology. Second is manufacturing process, how to make our manufacturing leaner and more efficient. Third is circularity in fashion. You know the biggest issue in the West is how millions and millions of tons of clothing are going into landfill. So the PDS is providing solutions to our customers making sure goods don't go into landfill, become the circular economy and then finally traceability & transparency into a supply chain, where while the US people are asking about the Xinjiang cotton issue. So having key investments into these four buckets with businesses and companies coming out of the top universities is really expanding our ecosystem globally. And one of the key players where any innovation coming in the fashion industry, PDS gets to see it and then we co-invest with our customers like Walmart, Target, IKEA, Patagonia. So when these people are looking at the innovation, they contact PDS Ventures so that a new guy look at it as well with them and our check size is then small. So companies are raising large rounds, our cheque size is going to be like 100 to $300,000 where the retailer puts in maximum money and the venture capitalist proceed in the larger cheque but then it makes a strategic with the customers makes us long term and differentiates us from the hundreds and thousands of suppliers out there, which no one is able to do this with these retailers the way we do it. I hope I answer your question. Sanjay, you want to answer on the mark-to-market side please.

Sanjay Jain: No, I think the mark to market is just our attempt to mention that this is the amount of gain that has already accrued on this investment, but from a conservative accounting policy, we are still holding this into the balance sheet and not yet taken to P&L. As and when we see an opportune time to disinvest, so then that is the time is MTM could potentially enter into P&L.

Pallak Seth: And most of the investments we have done, I would say are gaining in value only because they've been backed by the right venture capital, right retail partner and PDS. So all these investments have a very strong ecosystem around them of people that they are being used for not only from a seed stage or a lab stage but also into bulk production with the help of PDS and the retail customers that are backing them, which are some of the largest names around the world.

Vishal Prasad: Right. So you mentioned that we benefit out of our investments, but I understand we are not majority owners of all the investments that we do in our venture fund. So how are we able to use their IP for PDS's benefit?

Pallak Seth: That's exactly what I meant, because we don't want to be a majority for sure. We want to have small investments in various companies because we are co-investing with our customers. So if a retailer venture capitalist arm either from H&M, Best Seller or Walmart, or Target investing with PDS in these companies, then these companies to gain traction need to have a combination of people supporting them to move to the next level, right? So if it's important that they are backed by various stakeholders, then they can move forward. So if they're raising like a $2 million round, PDS will invest maybe $100, $200, thousand only right, but become part of the cap table but become part of the solution with the retailers to take these investments from startups stage to the next level based on combining strengths of the ecosystem of people who have invested in these opportunities.

Vishal Prasad: And the second question that I have is I remember we were planning to invest a lot of money in the US and then we talked about the QIP that we were supposed to do. But on our balance sheet, we have close to Rs. 600 crores and it has been lying on the balance sheet for a long time. I mean, it ranges between Rs. 400 to Rs. 700 crores over the last 4-5 years. So there are two questions here. We have a lot of money on our balance sheet. So why don't we use it for our investments rather than doing a QIP? That is one and second if we are not planning to use the cash, then what is the plan for us for using the cash and why it is sitting on the balance sheet for so long?

Sanjay Jain: Yes, I think the cash is about Rs. 680 crores on 31st March 24. And when we report net debt, we net it off. This is typically the cash that is spread across various legal entities of PDS and this is also the cash that is pending dividend distribution. What Rahul Ahuja, our CFO as a first step trying to do is that one hand if there is this cash, then there is borrowing on the other side. So can you minimize the borrowing by usage of this cash, so we save interest cost that is one. We also need to look into the fact that a decent part of this cash is the margin money that we give to banks because we are able to enjoy one-day working capital because we factor our receivable on a non-recourse basis and for setting up these lines we give margins, so this is cash margin a), this is cash across various entities of PDS wherein endeavor is to knock it off against the borrowing so that we can save some interest cost that is one and on the QIP that you mentioned, we did take an enabling resolution from the shareholders and but at the same time, we wanted to have this flexibility of having the requisite approvals in our hand but at the same time, our pursuit is continuing to be asset light and at present we do not have a very sizable opportunity that we feel we need to write a cheque. We do have many opportunity knocking our door, but there is no pressing need to start raising capital, enabling resolution helps and I think somewhere if in the near future this resolution is still December. If you feel the opportune time and also are wanting that this step would also enable us for the broad base or investor base by getting some good institutional investors through this process. So therefore these are the one or two reasons in terms of cash being there. And as I said, no pressing need to do a QIP, it's just enabling resolution.

Vishal Prasad: Yes. One last question on slide number I think 19, we have given revenue breakup for top ten verticals. So what's the currency that we have used here?

Sanjay Jain: It is USD millions, so thank you for pointing out, we will correct it and upload it again but it is USD millions.

Moderator: Thank you. The next question is from the line of Deven from Marcellus Investment Managers. Please go ahead.

Deven: My first question is to Rahul. Rahul, is there any delay in the factoring arrangement which we were trying with HSBC for Ted Baker?

Rahul Ahuja: So there is no delay in the factoring arrangement. HSBC has an approved line lying with them currently. We are in the process of still finalizing the integration from what the erstwhile Ted Becker used to use as their ERP system which was AX to SAP. I think another 3 to 4 weeks from now, the testing and all should be over and the process that is followed by the banks in the UK is that they release receivables purchase or factoring only once they do an audit of your system, that's not a practice that is followed at least in India. So they want everything to come end to end from the system. So let's say if they were either to go to them today and give them a list of my receivables, they would want to trace it back to the PO level from the system any manual step in between they don't do factoring, obviously the reasons are they don't want to spend too much time as far as analyzing that data is concerned or any manual touch is concerned. So we are starting our testing phase of the integration in a couple of weeks from now and that's why I said about 4 weeks from now we should be in a position to invite the bank to do their round of tests. Post which, they will take their internal accruals to disburse the facility.

Deven: And is there any impact of the restructuring which is going on at Ted Baker level?

Pallak Seth: Yes. So ABG is in the process of finding a new retail operator because PDS which has the wholesale business, which is more or less stable and the head office, but the UK and the US retail partners, they're trying to replace with some more financially stable companies. So hopefully in the next one week there will be announcements. We have indication with the UK partner is one of the largest retailers in UK with $5 billion turnover, who will be taking over the Ted Baker retail stores. So we're just waiting for them to sign the documents and the announcement should come shortly. So that will give us PDS a very strong partner on the retail side who will then invest in the business and more retail stores and concessions than e-commerce to take the business forward on a stronger footing. I think in the US, I think in the next one week they will have some announcement come in. So, ABG is one of the highest priorities and they are on it on a daily basis.

Deven: And my second question is to Sanjay. So Sanjay, last in Q3, if you remember, we had said that other expenses which had increased from Rs. 170 to Rs. 190 odd crores, midpoint of both like Rs. 180 crores is the sustainable number, but this quarter the number is close to Rs. 240 crores. So we are almost Rs. 60 crores higher than the budget. So what happened here?

Sanjay Jain: I think allow me to share of full-year context and that could also help answer your question on the quarter. For the full year on a consolidated basis, in FY24, we have Rs. 738 crores of other expenses and the last year same time was Rs. 551. So the increase is about Rs. 187 crores. Now, how do we break up this increase? There was no Ted Baker last year and this year in the other expenses, Ted Baker has contributed Rs. 111 crores. And then Gerry Weber complete sourcing solution business that we took over in Germany, it was not there last year. The Rs. 8 crores of other expenses got added up from Gerry Weber, that is Rs. 119 crores Ted Baker and Gerry Weber. The new verticals that we have mentioned that we have invested Rs. 100 crores, the corresponding previous year was Rs. 22 crores of other expenses in the new verticals. This year it is Rs. 69 crores. So the increase is 47. So 111 plus 8, 119 plus 47. That is the kind of not apple to apple, new verticals, Ted Baker and Gerry Weber. If I exclude this, then the light to like last year number FY23 was 529 and this year it is 550. So the increase is at least 4% in the other expenses, the number is looking higher because we have added two new verticals, Ted Baker and Gerry Weber and added numerous new verticals in terms of growth strategy, that is the like to like comparison.

Deven: And final question, sir in Q3, the employee cost was around Rs. 270 odd crores and that included I think a one-time bonus or incentive of roughly Rs.25 - Rs.30 crores, but we haven't seen a sequential decline in employee cost. So is there anything, what is the reason for this?

Sanjay Jain: Yes, in fact, some of these questions that you asked us have enabled us to kind of look deeper and as I answered on other expenses in the same manner, the employee cost is Rs. 984 crores in FY24 and was Rs. 761 last year. That is an increase of 223. Now in the increase of 223, there is Ted Baker, 65, there is Gerry Weber 20 and there are new verticals, the employee cost was Rs. 32 crores in FY23 and it is Rs. 95 crores in FY24. That is approximately 64 for increase. Then there is North America is about Rs. 7 to Rs. 8 crores. So if I exclude this Ted Baker 65, Gerry Weber 22, new vertical 64, North America about 7 to 8, the increase is Rs. 66 crores from 730 to 795, which is a 9% increase on an overall basis, which we believe is the normal increase given a small increase in headcount count and an overall inflation or so. So that is the answer to the question in terms of how we are explaining the employee cost increase.

Moderator: Thank you. The next question is from the line of Pritesh Chheda from Lucky Investments. Please go ahead.

Pritesh Chheda: Just to the continuation of the preceding question. So then this Ted Baker account, what margins is it making at the reported level for us?

Sanjay Jain: Ted Baker for the full year ended March 24, we did about Rs. 507 crores of topline. We had a gross margin of about 41%. And in terms of PBT margin, it is approximately about Rs. 28 crores of PBT that works out to a little less than 6% of PBT margin. So that is 41% of margin, 6% PBT margin.

Pritesh Chheda: Can you give the EBITDA margin?

Sanjay Jain: EBITDA margin of the business is about close to 6.5%.

Pritesh Chheda: And how much have you invested? Because when I am looking at your cash flow statement, I can see trade receivable Rs. 570 crores invested into, Rs. 160 crores invested into property plant and equipment and Rs. 158 crores invested into acquisition of non-controlling interest in subsidiary and all these places. So that is totaling about Rs. 160 plus Rs. 160 that is Rs. 120 crores that is about 800-900 crores, so how much did Ted Baker attract investment from your side?

Sanjay Jain: It is circa Rs. 150 crore. That is the amount of cheque we wrote to begin with, and subsequently, we did recover the part of the investment to working capital squeeze. So if I am giving an approximate number, I think the 150 is down to close to Rs. 110 crores, the 44 got squeezed. So today the answer is 150 is down to a little less than 110 and on that our EBIT is Rs. 33 crores. You are asking about EBITDA and the EBIT number is 33. So it is approximately 30% ROCE on the last year performance and I am counting 33 is from June end onwards for June beginning and May end, so therefore I am not annualizing it for the period that we were holding. It is Rs. 33 crores of EBIT on the business and the net investment as on date is approximately 110. That is the metrics of the investment decision.

Pritesh Chheda: So, I am looking at the cash flow, why has your trade receivable increased by the year end by Rs. 570 crore. What are the other two investments you have done 162cr in property plant and equipment, because you haven't done this type of capex earlier and consideration paid for acquisition of noncontrolling stake. What resides in these cash flow items?

Rahul Ahuja: So as far as receivables is concerned, a large part of the receivables increase is on account of the Ted Baker business as well as a few of our large customers increasing the number of days as far as payment days are concerned. So both these led to your increase in the overall receivables number as far as this year is concerned. As far as your second part of the question which is around investment in property. We last year had liquidated the property in the UK. Our three large businesses, which is Poeticgem, Design Arc and Ted Baker all work out of rented premises and particularly Poeticgem, which itself aspires to be a billion dollar business in the next 4-5 years. So there was a need for us to have a better office. We were operating out of more like a warehouse from industrial area in Watford in London and we invested about $10 million in acquiring a property which we feel will be appropriate for the size and shape of our businesses in the UK and also the customers that we handle in UK. So we thought that this investment was required during the year. So that is where we invested about $10 million in this property in Watford in London.

Pritesh Chheda: But that still explains out of Rs. 320 crore $10 million, which means about Rs. 80-Rs. 90 crore. So you have Rs. 162 crore investment purchase of property, plant, equipment, capital work in progress and investment in property that is Rs. 162?

Rahul Ahuja: So Pritesh $10 million as I said about Rs. 90 crores is this property and including tax and all that you have to pay it will overall come to about 11 to 11.5, so let us say Rs. 100 crores in this property. We do about every year across our vertical about anywhere between $6 and $8 million of CAPEX, this year it was slightly higher because one of our businesses, third largest business, this Simple Approach set up a sampling unit in Bangladesh, which led to a slightly higher CAPEX than what is routine. So about $9 to $10 went into CAPEX and our previous venture investments in any year are around $5 to $6 million, which is basically calls coming from the existing investments that we have done, plus any new opportunities, so these usually restricted to around that level. So all of these put together and including a small CAPEX in our Sri Lanka operation, all of these put together add up to another Rs. 180-Rs. 200 crores.

Pritesh Chheda: So this Rs. 158 crores in those PDS Venture investments, which is usually about $5 million to $6 million?

Sanjay Jain: I think in the order of the question that you asked. Firstly, the receivable as Rahul explained went up. While the receivables went up, the corresponding tables also went up. If Ted Baker, we exclude the networking capital in 1 day, typically we manage 0 days, 1 day networking capital. So in our business excluding Ted Baker, we are bang on there, any increase in receivables is also corresponding and we managed to payables. So no increase there. As Rahul answered that we had Rs. 60 crores CAPEX in year FY23 and we have a CAPEX of about Rs. 167 crores. That is almost close to about Rs. 110 crores increase and he answered that about 10 million which is about Rs. 85 to Rs. 86 crores including some taxes went into the UK property. But the remaining amount that is there is the CAPEX, the Rs. 10-Rs. 15 crores remaining is the CAPEX in the sampling room of Simple Approach in Dhaka is the CAPEX in Sri Lanka. So that is the explanation. So CAPEX is in line with what happened last year, except the investment in the UK property, and in fact we have invited our investor community to be part of the Investor Day on 11 June, wherein we have invited all the business heads from UK to also be present and they are very excited themselves to scale up the business to a billion dollar from about 400 million right now. In terms of the venture tech investment, we invested close to Rs. 70 crores in venture tech investment last year in FY23 and as we received for cash flow, the investment is about Rs. 29 crores in venture tech investment. And in respect to the Ted Baker we mentioned about Rs. 150 crores. That is part of the acquisition of Ted Baker 155. I think therefore the venture tech investments are down, the CAPEX is in line plus the addition of the UK property and the 150 as you asked earlier was in the Ted Baker business.

Pritesh Chheda: So that 157 that we see is all Ted Baker investment?

Sanjay Jain: The acquisition of TDG, Nobles and others that Rs. 155 crores number that you see it include Ted Baker. We also mentioned in one of our releases that in a factory in Sri Lanka which is making an EBITDA of about Rs. 15 crores. We invested about 1 million about Rs. 8 crores to get a 26% stake in that business. So that is also captured here that 8.5 crore to buy a 26% stake in a factory in Sri Lanka with EBITDA of Rs. 15 crores is also captured here.

Pritesh Chheda: And sir, from your opening remarks about this interpretation of adjusted and the reported margin, how should we interpret now this for FY25? And when you say that you have started your order book at $585 million, which is plus 30% Y-o-Y, how should we interpret it for your future for FY25, now this $585 will also have, I don't know whether it is a GMV value, how it is. How should we interpret this number with your revenue performance beyond your revenue performance and the margin adjusted reported for FY25?

Sanjay Jain: On the margin as we have mentioned by giving the three sample actual cases of CASA Collective and PDS East and CSS, it takes about two to three years from the investment phase to these businesses becoming to their full potential. And given that FY24 was a year of large investment, relatively large, so we will continue to report, normalized EBITDA to enable our stakeholders see this, but in about FY26, I think we should start seeing significant benefit coming in from these investments. It can be sooner, but that is therefore the normalization impact we have to capture in FY25 as well. That is answering your first point. In terms of the order book when we are talking about almost a 30% growth as compared to the same period last year, this is the order book, which is equivalent to the way we book revenue. This is not that we are saying that this is a $585 million, circa number is a GMV number. This is what actually is the number that gets booked into revenue. We have mentioned a 10% year-over-year kind of outlook that we are seeing ourselves. Currently, we are very positive with the order book in hand, 30% up, but I think we are a bit cautious given the overall environment, but at present in hand the order book is much better than the 10% that we are aspiring to grow the year with.

Pritesh Chheda: When you said normalized margin, you have the normalized margin of FY23 which was 4.5%?

Sanjay Jain: Yes, we have done apple to apple. So when we have given normalized EBITDA of 4.7% was in FY23 and the corresponding number is 5% in FY24 and the only newly exclusion to arrive at the normalization is the investment in new verticals, nothing else.

Pritesh Chheda: So if I have to understand your comment properly, you are saying that FY25 we go through the normalized margin number of FY24 as the reported number and then whatever increments we see thereafter?

Sanjay Jain: Yes, I think firstly we would request, we are very happy to get all your questions and we would really request if you can have one to one meeting to get deeper so that we can take more questions. But taking this as your last question, yes, our endeavor is that whatever is the normalized EBITDA for FY24, we should target to achieve that as the EBITDA from normal operations, post the investments.

Moderator: Thank you. The next question is from the line of Chirag Fialoke from Ratna Traya Capital. Please go ahead.

Chirag Fialoke: Just two clarifications, so Ted Baker this quarter was around Rs. 162 crores, is that correct?

Sanjay Jain: Yes.

Chirag Fialoke: And could you just share the same number for sourcing as a service for this quarter?

Sanjay Jain: Yes, we will. We will. Just that we will answer that in one minute. Sourcing as a service for the full year that we have booked as revenue and Reena will just help pull out the quarter number is Rs. 215 crores, out of the Rs. 10,373 crore revenue that we reported the sourcing as a service and agency is about Rs. 215 crore and was Rs. 66 crores in the same period last year. Quarter 4 number, I will just come back to you as we take more Q&A.

Chirag Fialoke: So Rs. 215 crores is the total for the full year for sourcing as a service as well, just to confirm, right?

Sanjay Jain: Just right, commission income from sourcing as a service and the agency income that we get otherwise first Rs. 215 crores for the full year against Rs. 66 crores in the previous year.

Chirag Fialoke: Just one clarification question, I think the previous participants also sort of were trying to get around to this. The page #31 which is the FY25 outlook on the presentation, you talk about 10% topline growth, which you are saying is sort of mildly being conservative a little bit based on the order book, but given the environment, what is puzzling to know is the profit growth, 15% PAT growth would mean a far lower margin still in FY25, is it a plan to continue investing through the P&L for new ventures or am I missing something? Could you just talk a little bit about sort of profitability for FY25 a little bit, is that possible?

Sanjay Jain: I think you have to permit us to be a bit conservative, we want to make sure that we are in a position to try and beat these estimates that we have for the year. And our endeavor is to improve the margins going forward as well. But as I said earlier, the verticals that Rs. 100 crores that we have invested would continue to be in the gestation, but on overall basis, to answer specifically your point, we achieved the PAT of about 2% and I think we will endeavor to improve it for the year on the whole, if that means more than 15% growth, then that is what we will strive towards. We are not anticipating the PAT margin will decline going forward.

Rahul Ahuja: And if I may add here, as we mentioned at the start of the call last year, the market conditions were very challenging, very tough in the markets we operate in and while we have seen good amount of recovery in Q4 and we expect the trend to continue, but we rather be conservative, wait and watch for a couple of more quarters for both topline recovery and bottomline margin expansion to start happening. So it is still not a situation where we can get aggressive and say that we will deliver an X amount of growth in the bottomline. We will rather be conservative and wait and watch for the market to bounce back.

Chirag Fialoke: Just so that my question is clear. So if I look at the page 21st of the presentation, if in general you guys think of Rs. 30 crores as an investment in new verticals in FY25, do you anticipate investing a lot more than that? Or is it going to be around the normalized range? I think that is the only thing that's kind of under our control. The rest of the environment, whatever happens, happens. But what do you anticipate as investments in the new verticals for FY25 broadly?

Sanjay Jain: I think 2 points to clarify. Firstly, on your previous observation question, 10% growth in topline, 15% targeted growth in profit when the profitability is improving at a higher percentage clearly indicates a better PAT margin. If we were at 2% with these kind of numbers, we should do better, that is point number 1. We have invested about Rs. 100 crores. I think our focus this year would be that let us retrieve more value from the investment we have made. So therefore at this stage we are anticipating to bring this number down. We will continue to keep investing, but if I have to prioritize, let us harness what we have invested into rather than committing more. So therefore this number should gradually, sequentially come down.

Moderator: Thank you. The next question is from the line of Lovish Soien from Phoenix Advisors. Please go ahead.

Lovish Soien: My first question is that despite the accelerated investments in the US market that we have made over the last two quarters, it seems like the revenue from North America business has declined 15% year-on-year in FY24, so what is the reason for such a degrowth despite these investment? And when would our efforts in US start to produce result?

Sanjay Jain: Allow me to first answer the number part and I will request Pallak to add in on the US strategy. I think hitherto we were catering to North American market sitting from where we are, whether we are in UK or Hong Kong or in Bangladesh, it is in this year that has just gone by that we actually curated a strategy and let us invest into senior resources with relevant experience. Let us have people on the board, whether it is at the Board of Directors or whether the senior people employed with us. So that is where we believe that it was a tough market for US. We all are aware of the inventory issues. We all are aware of the overall high-interest rate and low sentiment environment. But now that we have invested into these people, we have got, kind of camp on the ground that is where we are very bullish on scaling on this number and I will request Pallak to please add in terms of what is the game plan strategy, please.

Pallak Seth: So overall, US inventory levels are extremely high last 12 months, they started normalizing the last during the Christmas period. So this way we are seeing the bounce back of demand coming from customers. If I speak to most of our customers and the competitors, they were looking at all the 30%-35% decline on the buying they were doing last year versus the year before. So now situation has improved, but PDS in the last 12 months has onboarded some of the largest American retailers as customers, so Sanjay had mentioned about Target US which has got a $50 billion apparel business, Walmart US, Kohl's, Land's End so some very big American customers have now chosen PDS as strategic vendor and we feel that the investment in the quality of people we are making is going to facilitate huge growth of that business in the next 12 to 24 months. Walmart had a summit in India. They came to India and I think February, March this year and they met almost 65 vendors to talk about strategy and growth and only one vendor was invited back to Bentonville, which was PDS. So out of 65 evaluations of different companies, they did on the apparel side, PDS was the only company that was invited back to Bentonville where we went and met them last week and they are asking us what is our five year vision with them. So our five-year vision, we forecasted that we want to do US $400 million with Walmart in 5 years' time from now. So these are kind of discussion we are having with these retailers in a time where vendors are being consolidated and it takes time, right, everything takes time. Opening the account is the first step, and that is the discussion with senior leaders is the second and then investing in the right team to make sure that all the discussion happen gets into business that can be executed is the third. We have taken all the three steps and hopefully by H2, they say we will see a US business just start picking up and all is flowing in, so the real impact will come in next financial year, but this year already green shoots and all the positive news that started flowing in and actually we will see big upstream on the business from the US.

Lovish Soien: One just follow up on that given that these large customers you mentioned Walmart, Target and Kohl, already have their on-ground sourcing teams in Asia. So how big can PDS become as a part of their overall source?

Pallak Seth: Because the sourcing teams are the one who are putting PDS forward. Our interaction with Target US is through the Bangladesh office because they only work with four vendors in Bangladesh. Today, in my view, if you are a factory in the middle of Asia, be it in India, be it in Bangladesh, be in Indonesia, be it in Vietnam has zero value to the customer, with 10,000 factories globally, no one is interested, no retailer is interested to talk to another factory, another factory and do business in them. The only thing they are interested is every retailer is the pressure of margin, design, FOB, LDP, sustainability, circularity, so there are a lot of things that retailers are facing in the home market where they need to align with strategic suppliers to be able to fulfill those objectives, that is the Target said that they valued 180 vendors since COVID PDS is the only one that got out. PDS doesn't even own large factories, but because of the element of design and the entire investment we have done in our whole sustainability and circularity side, this is number one objective from Target how to make the supply chain more sustainable. They say PDS is a company based on all the investments they have made to provide them solutions on that journey and that is why I added as a vendor. If you look at Walmart in US, their key strategy from the CEO's office last two years, which they are now in their five-year plan, one is Made in India, other is Made in USA, third is sustainability your supply chain. So PDS was taking almost all three boxes, Made in India we did a partnership like joint venture with the factory in Mysore which we have put forward. Made in US, we through a venture arm we have a company called Unspun which now is putting plants in the US obviously. It is a small investment from PDS, but that company is now partnering with Walmart to set up some manufacturing plants in US and third on sustainability side, they see the solution we are providing is very important for how they are looking at their own supply chain going forward. So the local offices of these retailers are the ones talking to PDS and putting us forward as a solution provider to the head office in the US. So hope that answers your question.

Lovish Soien: Just one last question from my side, with 10% revenue growth in FY25, the ask rate for FY26 and FY27 to meet the 2.5 billion revenue target in FY27 like we said a couple of years back is very steep. So how confident that we will be able to achieve that 2.5 million target in FY27 or is there a deferment or are we deferring that plan for now?

Pallak Seth: I think as Sanjay mentioned, we already have a 30% uptake on order book compared to last year, which is very few companies can say this in our industry. Still the industry is highly challenging, there are a lot of suppliers going out of business, lot of retailers consolidating. So in that consolidation in PDS has seen 30% growth in our order book on H1 which is a positive sign, but as you said also to be conservative, we are giving guidance of numbers because we don't know what happens in H2, but overall situation looking quite positive. So hopefully we will obviously beat our guidance for this year as well.

Lovish Soien: And that means that we are continuing with that 2.5 billion revenue target for FY25?

Pallak Seth: Yes, this is the plan, but PDS will not take any unnecessary risk to this business model to force anything, but yes, the time of opportunities we are seeing and the customer engagement we are having, you can easily see a lot of those being projected by existing customers and strategic discussion happening in most of them.

Moderator: Thank you. Ladies and gentlemen, we would take that as our last question for today. I would now like to hand the conference over to Mr. Sanjay Jain for closing comments.

Sanjay Jain: Thank you so much, E&Y team. Thank you so much our stakeholders for joining this call. We would welcome that if anyone wishes to have a one-to-one conversation or group level, we are available. We also sent a save the date for June 11th in Jio Center, BKC, we are hosting our Investor Day. We are inviting our top 5-6 business heads who are flying in from various locations to get an opportunity to meet you and vice versa as well. So kindly do join us. Our Investor Day will be emailing the complete agenda by the end of this week and we look forward to your participation. Thank you so much. Thank you everyone.

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