"PDS Limited
Q2 & H1 FY '25 Investor Conference Call"
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MANAGEMENT:
PALLAK SETH – EXECUTIVE VICE CHAIRMAN
SANJAY JAIN – GROUP CHIEF EXECUTIVE OFFICER
RAHUL AHUJA – GROUP CHIEF FINANCIAL OFFICER
REENAH JOSEPH – DEPUTY GROUP CHIEF FINANCIAL OFFICER
DIWAKAR PINGLE – PARTNER E&Y

Moderator: Ladies and gentlemen, good day, and welcome to the PDS Limited Q2 and H1 FY 2025 Investor Conference Call. 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 this conference, please signal an operator by pressing star then zero on your touchtone phone. Please note that, this conference call is being recorded. I now hand the conference over to Mr. Diwakar Pingle from E&Y. Thank you, and over to you, sir.

Diwakar Pingle: Thank you, Siddhant. A very warm welcome to all the participants for the PDS Limited Q2 FY'25 Earnings Call. Our investor presentation and the financial results that are available on the company's website and the stock exchanges. Please note anything said on this call, which reflects our outlets of the future, which can be constituted in the forward-looking statements must be viewed in conjunction with the risk that the company faces.

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To give you a brief business update and take the of the results from management team, we have Mr. Pallak Seth, Executive Vice Chairman; Mr. Sanjay Jain, Group CEO; Mr. Rahul Ahuja, Group CFO; and Ms. Reenah Joseph, Deputy Group CFO.

I now request Mr. Sanjay Jain to provide you with a brief update for the quarter. Over to Sanjay.

Sanjay Jain: Thank you, Diwakar. A very good afternoon and good evening to our stakeholders across time zones and thank you for joining us. I also want to extend a very warm wishes to everyone for the Diwali festivities around us. And a very warm welcome to our Q2 and H1 FY 2025 Earnings Call.

Before discussing our quarterly performance, allow me to briefly touch on key economic and industry trends that may impact our business in the short to near term. On a positive note, the global efforts to control inflation are beginning to show results. Although some regions are still facing price pressures, but inflation is nearing central bank targets in many countries and thereby opening the doors for a potential monetary easing.

The global economy has proven resilient. One is witnessing growth in US, and modest recovery is expected in Europe. Emerging markets, especially in Asia, are holding a stable outlook. This provides a foundation that there could be more and more monetary easing supporting the spend, but if the high interest rate continued, geopolitical uncertainties in some part of the world and also some rising trade tensions, they remain as potential headwinds to growth and could exert upward pressure on inflation.

However, on the whole, we believe that there is positivity that is gaining traction. Now moving on to our performance for the quarter and the first half of FY25, I'm very pleased to share with you that the growth momentum has been strong, both over the previous year and also in terms of the previous quarter. Even going forward as well, at this stage, we are expecting the growth momentum to continue, which is getting reflected in our order book for the year. Our order for quarter-ended September stands at about $620mn, which is almost 20% higher as compared to the same period last year.

During our first half, the gross merchandise value crossed 1.1 billion US dollar, which is 39% higher than the same period last year. We also achieved a 29% growth in our income from operations compared to last year with a top line of ₹5,927 crores. In the second quarter, your company recorded the highest quarterly sales of ₹3,306 crores at a growth of 26% versus the first quarter. And as I mentioned earlier, with a strong order book in hand, we believe that the growth momentum of about 20% plus should continue.

And in fact, in our two factories in Bangladesh, we are pretty much fully sold for Quarter 3 and Quarter 4. And we are beginning to get good order tractions for the Quarter one of next financial year as well. The growth was broad based across categories and geographies. In line with our strategic initiatives, we have registered a remarkable 62% growth in sales coming in from North America customers.

Amongst our customer base, our top 20 customers reported overall a 30% growth, which is underscoring the strength of our relationships and the widened service offerings, thereby having a larger share of wallet for the customers as we move along. In terms of our business verticals, our top eight verticals, on one hand, delivered 33% year over year growth in first half of the year, and achieved profit margin expansion with profit before tax margins improving from 4.9 to 5.1%. Our investments in new verticals, which as you know, in our case, happens through our P&L, have also started to witness a downward trend.

We invested about $5.8mn, ~₹48 crores in Quarter 1, and it is now down to $4.3mn, ~ ₹36 crores in Quarter 2. We have also seen green shoots in our design led sourcing business new initiatives, wherein from a position of losses in the Quarter 1, losses I mean in terms of the investment phase in the design led sourcing business, these have actually turned profitable in Q2, largely driven by one of our recently launched knitwear businesses.

We continue to closely monitor and scale these initiatives or implement corrective actions to drive profitability enhancements. Regarding our acquisition of the Ted Baker Wholesale Business, while we started on a very strong footing, we encountered the challenges with some retail partners in the UK, Europe, and the US entering to administration. When I say retail partners, these are the franchisee chosen by Authentic Brands Group, wherein the partners that they had chosen in UK and Europe and US-faced administration.

Given our strong B2B relationships that have been in place, we laid more focus on wholesale revenue. We also took corrective actions at the cost front, quickly realigned our cost base so that while as ABG appoints new franchisee, we are in a way not laying too much dependence on that and we curated a plan in that line. With our own wholesale relationships, we actually, you know, are feeling positive that this year we should have a 10% plus growth in our Ted Baker business over the last year and should continue to be profitable. What is good is that while there was a bankruptcy or administration of the U.S. partner, subsequently ABG has announced a partnership with United Legwear and Apparel for the US and Canada operations and the online operations across UK and Europe. So this should be an upside to the internal measures that we have taken. So therefore, we believe the tough couple of quarters that happened are behind us, and we remain positive about sustaining close to 10% growth in the next one to three years, and also see a gradual augmentation of profitability.

During the quarter, we are very thankful to the support that we got from our existing stakeholders that have been there and the new investors who participated in our qualified institutional placement, enabling us to raise about ₹430 crores. We have allocated ₹84 crores to repay debt in a UK entity while the remaining ₹330crore has been lying in fixed deposit pending deployment. Looking ahead to summarize, we're enthusiastic about the opportunities before us and are confident in our strategy to deliver long-term value to our shareholders, customers, and our stakeholders. We started the year on a cautious note. We had put in a plan to remain ahead of the strong headwinds. We've been so far ahead of it in terms of what we had foreseen as top line growth for the entire year and we also believe that we should be in a position to achieve a better profitability than what we had foreseen in the beginning of the year. With this, I would like to turn the call over to our Group CFO, Mr. Rahul Ahuja, who will provide an overview of our financial performance for the quarter and for the half year.

Rahul Ahuja: Thank you Sanjay. Good afternoon to all. Building on the momentum we saw in Q1, FY25, I am pleased to report that this quarter has continued to reflect strong growth. We achieved a top line of ₹3,306 crores, making a sequential growth of 26% and a Y-o-Y growth of 34%. Our gross profit increased by 19% in Q2, FY25 compared to Q1. However, we did experience some pressure on gross margins. Despite this, the robust growth allowed us to capitalize on operating synergies with EBITDA margins expanding from 2.8% in Q1 to 4.5% this quarter.

Given the growth in top line and the cost optimization measures, as a percentage of income from operations, our employee expense declined to 8.8% from 10.4% in Q1. Our other expenses also declined to 6.3% from in Q2 from 7.6% in Q1. This clearly shows operating leverage sitting in our business, given the robust growth in top line.

When you look at the above, this translated into a 103% sequential increase in EBITDA, achieving margins of 4.5% this quarter with PAT increasing by 199%, resulting in PAT margin of 2.8%. When we look at the above, excluding our investments that happened through the P&L that Sanjay spoke about, normalized EBITDA margin rose to 6% in Q2 FY '25 and to 5.5% in H1 FY '25.

Adjusted for these new verticals, our PAT margin for Q2 FY '25 was 4.3% and 3.8% for first half. As we drive scale, synergies, and leverage, we anticipate that these new investments will start contributing positively to our bottom line over the coming quarters. On segmental performance, our sourcing business posted a year-over-year revenue growth of 29% for the half year ended September 30, 2024, generating ₹5,716 crores in revenue, with EBIT margins of 3.8% to 3.1% and delivering a strong return on capital employed of 30%.

Our Manufacturing segment delivered a robust growth of 71% year-over-year, achieving a top line of ₹366 crores with an EBIT margin of 4.7%. We continue to focus on margin expansion in our Manufacturing segment and are pleased with the performance in spite of various macro challenges that unraveled in Bangladesh over the last few months.

Moving to the balance sheet as of September 30, 2024, our net debt stands at ₹112 crores, which includes ₹330 crores of QIP proceeds which are yet to be deployed. As expected, with strong growth, our working capital has expanded. However, net working capital days remain steady at 10 days compared to the same period last year.

We expect this to normalize as a portion is due to timing differences in factoring. Our leverage ratios remain pretty robust with net debt to EBITDA at 0.3 and net debt to equity at 0.07. Lastly, we are pleased to declare an interim dividend of ₹1.65 per share, amounting to 25% of our profits allocated to equity shareholders, aligning with our dividend policy.

In summary, our performance this quarter reflects the resilience and scalability of our business. We are focused on maintaining this growth momentum to achieve sustainable, profitable growth, delivering value for all our stakeholders.

With that, I would like to invite the moderator to open the floor for questions, and we'll be happy to address that. Thank you.

Sanjay Jain: So, I just wanted to add, Rahul, that as we're opening for questions, our Executive Vice Chairman, Mr. Pallak Seth has also joined, who's is in Hong Kong. So, among the three of us we shall be taking the question, please.

Moderator: Thank you very much, sir. We will now begin the question-and-answer session. Our first question is from the line of Pritesh from Lucky Securities. Please go ahead.

Pritesh: Yes, sir, my question is on gross margins. So, if you look at the last eight, 10 quarters now, with about 300 basis points lower gross margin. Can you highlight the key reasons for these lower 300 bps? And what will be the future trajectory on this gross margin projection?

Sanjay Jain: Yes. Hi. This is Sanjay here. I think if I talk about our medium- to long-term horizon, then we are confident about the gross margin trajectory to improve on the factors like we've been investing into sourcing of a service business that is gaining good traction. So therefore, the contribution from that high-margin business, likewise manufacturing is growing rapidly.

Our brand initiatives, a lot of our new initiatives, new investments are in brands as they start firing in. Our Ted Baker business in the last few months got impacted because of the reasons we mentioned. So therefore, this is a high-margin business as it gains traction. So, we believe a portfolio that we are building in our medium to longer-term trajectory, the margin should head upwards.

But when you observe it over near-term quarters, then they may go a little up and down depending on how the market situation is. We have witnessed close to 15- 16% volume growth. We also witnessed close to 14-15% average sales price growth in the first six months. So, at present, I think the entire value chain, whether it is the retailer in the front end and we supporting them are focused on supporting the sales traction momentum that has got built in. Customer is coming back, sales traction momentum is built up, that has happened at the expense of in the price. But I guess, these are short-term quarterly phenomenon. In about two, three quarters, we should once again see upward trajectory of margin. And one more thing that I want to add here, which is that on our cost optimization with respect to procurement initiatives, we have started investing, and next quarter is going to be the first quarter wherein we believe we should significantly benefit from it. To summarize medium to long-term upward trajectory in the short term to support the growth, we may observe for one or two quarters and margin to be under pressure. At the gross margin level, not at the operating margin level.

Pritesh: Yes, I understand, first of all, why has it shrunk so, is it that the supply in the system is higher and hence, the brands are able to squeeze a lower GP number for the suppliers? Is it that way? Or is it that PDS themselves have taken some business at integral gross margin managerial?

Sanjay Jain: PDS, in terms of philosophy always believes that we are into a strategic relationship with our customers, and we should support their growth. And now the fastest account that we have seen in terms of growth in the first six months have been Primark as an account. And as you know, Primark is close to about $10 billion to $12 billion retailer, growing very, very efficiently going very strong.

They were growing and we decided to grow along with them. That means in my portfolio, a business which is very, very cost competitive and therefore, giving you high growth but for one or two quarters has put a pressure on margins. So therefore, I don't think PDS has kind of resorted to lowering prices. PDS have decided to go in line with this customer. One more factor, technical factor, as I mentioned about Ted Baker, which if I go a little deeper into that as well, that our in the last four, five months, as the retail franchise of ABG went into administration, they are the ones who were generating agency income for me while on one hand I have wholesale, which is my direct billing to retailer, but agency income was my commission about 10%, that I was getting from the retail franchise.

These operations almost ceased last three, four months. ABG have just announced the appointment of their partner for US market and also for the online market of UK. So, as we gained traction, I think what we lost as a margin on the agency commission should come back as well. So, we would not let the business go away. We would get it into our fold, and then we will work towards in the Quarter 1, Quarter 2, Quarter 3, how through my synergies cost optimization, I get my margin trajectory back.

Pritesh: Okay. And my last question is sourcing as a service. That piece of the business, what is it in half yearly in terms of revenue book in your P&L? And what is the growth on sourcing as a service?

Sanjay Jain: Yes. I'm just going to answer you in one minute in terms of the specific numbers. Yes, so our GMV in the first half has been at about $400mn which has been 100% growth over the same period last year. The revenue that we booked in SaaS over this $400mn GMV is about $9mn in the first half and the contribution that gives us generated to our bottom line is $3mn, almost 33%. So therefore, $400mn GMV with 100% growth, $9mn of revenue in the first six months and $3mn of PBT contribution, which is almost 33% of the revenue.

Pritesh: What is the growth of this $9mn? Is it also 100% or lower?

Sanjay Jain: It is also close to ~100%. The answer is yes.

Pritesh: Okay. Do you want to share the outlook on this sourcing as a service what we see as a revenue is $9mn, what you see in FY 2025 and FY 2026?

Sanjay Jain: So, I guess, as of now, when we are talking about 100% growth over the same period last year, I think a more sustainable number, if you talk about the next 2-year horizon is more in the vicinity of 30% to 40% because right now, we're going from a low base. The customers are beginning to see the benefit of that, some of the very, very large retail customer like Sainsbury's even Primark as well are beginning to engage with PDS to start evaluating sourcing as a service. So therefore, if these engagements turn into tangible results, one could at least see 100% growth year-over-year. But notwithstanding these engagements, we believe in the next two years, 35% to 40% is the maintainable growth rate for this new offering of ours.

Pritesh: Okay. Thank you very much and all the best and happy Diwali.

Sanjay Jain: Thank you.

Moderator: Thank you. Our next question is from the line of Ashutosh Somani from JM Financial. Please go ahead.

Ashutosh Somani: Thanks for taking my question, sir. My question is on the cash flow. So, I see a negative cash generated from operations with some clarification with regards to two line items. One is change in other assets and the other is the change in trade payables. So, can you specify what is there in change in other assets?

Rahul Ahuja: So, are you talking about a $33mn number?

Ashutosh Somani: You have published a cash flow statement in the result. And it says net cash generated from operating activities is a negative number. Just if you could clarify the change in other assets, which seems to be a larger amount and the other negative number again change in trade payables. Just some color would be great.

Rahul Ahuja: Yes, yes. So as far as change in current assets or other assets is concerned, this has three, four components. There is inventory, receivables and payables component of about $15mn, which is about ₹120-125 crores that is coming in there. And then there are advances to vendors given the robust increase in our order book and performance. So, there has been an uptick as far as engagement with our vendor is concerned.

So that's a number of about $14mn, which is again similar to about ₹115-120 crores. So, these are two large components. Another one being direct taxes paid during this period. Of close to ₹26 crores. So, these three are the key components of this line item.

Ashutosh Somani: Thank you, sir. That's answers my questions.

Moderator: Thank you. Our next question is from the line of Rahul Bhansali from Parami Capital. Please go ahead.

Rahul Bhansali: Yes. Hi. So, I wanted to ask about the SaaS contract with Hanes that was discontinued. So I just wanted to understand whether that will hamper any plans that we have in the design-led sourcing business?

Sanjay Jain: So, I think a bit of backdrop to this is Hanes sold off their Champion brand and therefore, the sales emanating from Champion went to a third party. And as a result, their own factories, Hanes's also own factories, there was probably an imperative need for them fill up their own factories. And as a result, they wanted to reduce dependence on third-party factories. Therefore, the sourcing of the service business that we were running for them in Bangladesh has been decided to discontinue.

And this in the first six months there has already been a declining trend that we have observed in the Hanes business. Going forward, as the partnership comes to an end in the H2 part of the year. On one hand, we would be fully recovering our costs that we have invested. Secondly if there is also a termination cost recovery more than the cost that we have incurred. So therefore, this relationship from our start to finish would be a profitable relationship.

We do not see that this is in any manner linked to a small design-led sourcing business that we do for Hanes. These are two de-linked activities. The Hanes sourcing as a service business is coming to end not because of relationship it is because the customer need to fill up their own factories. So these are two mutually independents. And in response to the previous question I mentioned, notwithstanding the Hanes contract.

We believe the traction that is building up in the sourcing as a service business shall continue going forward as well.

Rahul Bhansali: Got it. And sir, we also -- I think we had -- we also plan to get the Hanes brand in India. And I think we had also mentioned about the Champion brand coming to India or getting the brand management rights for the Champion brand. So, if you can give some update on these two deals, please?

Sanjay Jain: I'm going to request our Vice Chairman, Mr. Pallak Seth, to please give us initial views on this, please.

Pallak Seth: So, Sanjay just mentioned about the Hanes relationship with PDS. After the Champion brand was sold, we are in touch with the other operating partners they have got in Europe and US and Australia to continue some kind of relationship so that discussion is going on, in the next four to six weeks will have some conclusion. So, we'll probably end up becoming a vendor for Champion for other markets where the licenses having sold to third party.

Coming to our India license business, now we are evaluating several brands including Champion Hanes and few others. So hopefully, in the next six to eight weeks we'll make a decision, which is the right brand to go ahead with. We have done a Kantar report study in -- we get Kantar currently to do a market assessment.

And we've given them around four or five brand names, including Hanes and Champion to see the customer -- connecting customer preference which brand they feel would be the right one for PDS to launch under the essentials $ lingerie market in India. So once the study is out then we'll pick and choose, which is the right partner for us to take for the domestic distribution for underwear and essentials brand.

Rahul Bhansali: Got it. Okay, sir great. And just...

Pallak Seth: We have a term sheet in hand already which we have not signed. Pending the report coming in.

Rahul Bhansali: Understood. And so, you know, we are also having our own brands now, and I think we also partnered with certain brands, like ROKSANDA is, I think, one brand that we have partnered with. So I just wanted to understand, like how much do we plan to spend for this segment in particular? And what is our differentiation here? Because we've actually helped our customers to source garment, whereas, this seems to be a completely different segment altogether.

So how much do we plan to spend there? And what exactly is our differentiator here?

Pallak Seth: The thing is PDS will continue to remain a B2B business. We don't have any ambition to start opening shops and become direct to consumers. It’s a very different and very capital intensive business to be opening shops and selling direct to consumers. So any brand new strategy we have, either taking on licenses or acquiring brands like ROKSANDA which is one of the most respected brands in UK currently.

When we are acquiring the brand they have almost no value or very little net asset value. We're not paying huge goodwill and premium for these labels and brands that are available. Second, if you're acquiring any brand, it is with a clear wholesale strategy with a credit-worthy retailer. So for example, if you have Ted Baker or we have ROKSANDA, we have got credit-worthy retailers who we first consult with and taking their confirmation that they would like to wholesale this brand and buy from PDS or wholesale without any inventory risk, in terms of buying the product from us, then only to go about acquiring these brands. So any brand we do have a wholesale angle, pre-sold without an inventory risk. So we're not really digressing from our B2B strategy, we are actually becoming more strategic to our customers because on one side, we are designing into their private level and supplying them, on the other side, we are trying to run the sourcing operation in Asia and third, we're giving them a full solution through brands offering them strong brands, which they can then also retail in their shops.

Moderator: Thank you, sir. The line for the participant seems to be disconnected. We'll move on to the next question. Our next question is from the line of Shrinjana Mittal from Ratnatraya Capital. Please go ahead.

Shrinjana Mittal: Hi, thank you for the opportunity. Can you please give the sales number for the Ted Baker business for this quarter?

Sanjay Jain: Pardon me, we could not hear you clearly. Could you kindly repeat again?

Shrinjana Mittal: Yeah. So, I was asking that for the Ted Baker business, what would be the revenue in this quarter?

Sanjay Jain: Sorry, yeah, okay. So, I think right now, in the last quarter, it has been pretty much flat as compared to the same quarter last year. But for the entire year, as we said earlier, we feel positive that as compared to the revenue of FY23-24 we are positive that we could get closer to 10% growth for the entire year of FY24-25.

Shrinjana Mittal: Understood. And so it would be around ₹150-odd crores, that's what I remember from last quarter, and this would be entirely the wholesale business because the agency business, like you mentioned previously that part of the business has not come this quarter?

Sanjay Jain: So, I think the last full year revenue in Ted Baker was ~₹523 crores, and if you talk about the quarterly number, then in Quarter 2 of this financial year, it is approximately $13mn. And in Quarter 1, it was approximately $12mn. So, therefore, from a Q2 over Q1, it is about 10% up. But as I said, as compared to the same quarter last year, it is flat. So does it answer your question?

Shrinjana Mittal: Yeah, that does. Second, I wanted to understand the movement in the debt number. So we have raised some ₹400-odd crores in the QIP. And in the presentation, has mentioned that we have also repaid some long-term debt, right, ₹80-odd crores. But if I look at the balance sheet number, the long-term debt number has still increased a little bit by say 70-odd crores. Can you just throw some light on that?

Rahul Ahuja: Sure. So firstly, as far as QIP is concerned, we have utilized about $10mn of those proceeds to repay our working capital loan that we had taken for the Ted Baker business and that has been repaid with HSBC. So, no term loan that has been paid with those proceeds. The reason we see an increase in term debt from of about ₹65 crores, $6mn to $14mn is largely on account of the office property that we have bought in U.K. There we have taken a mortgage from State Bank of India, which we drew down during the quarters of this year. So that's what's reflected in the increase in the term loan.

Sanjay Jain : And we wanted to clarify to all our stakeholders that the QIP money that we have raised, 430 odd crores, ~$50mn. Rahul just mentioned $10mn has been used to repay the debt. The remaining $41mn is lying after the issue expenses, lying in the fixed deposits. As per the laws of land, PDS Limited, the Indian company, will be injecting these funds into overseas subsidiaries.

And we have insignificant borrowing, not too many borrowings in India. The borrowings are largely in our overseas operating subsidiary. But for this money to move from PDS India to the overseas subsidiary, this would be done basically with PDS Limited audited accounts for 30th of September. The audit has been done.

And in the next 10 to 15 days, this money under RBI regulation of ODI norms, basis the 400% of the networth, would now be injected. And then in line with the stated objectives, wherein a part of this money is going towards debt repayment, would be done. And the remaining would be kept in safe and liquid havens, eventually went into growth objectives. So therefore, it's not by choice that we've decided to park in fixed deposit. There is a technical process that underlays before it actually goes overseas to repay the debt.

Shrinjana Mittal: Understood. Thank you. That's very clear. Just one last question from my side. On the Gerry Weber contract, where are we currently? As far as I remember, it was about £90mn to £100mn is what we used to say, the potential of that contract. So currently, what are we done getting on that? And where do we see that going?

Sanjay Jain: Yeah. I think this business has actually shaped up, very well for us. And if I talk about in the first half, we have done US$33mn of sale. That is approximately close to ₹270 crores. And we believe the H2 should be better. So, what we had foreseen that this account in 2 years should do an annual run rate of $100mn. This is the H1 performance. We are confident that we should be ending the year at about $70mn plus for the entire year and then gradually scale it up to $100mn level. So, we are on track with respect to what we had foreseen on this account.

Shrinjana Mittal: Yeah, that's very good to hear. Thank you. Thank you for taking my questions and all the best.

Sanjay Jain: Thank you.

Moderator: Thank you. Our next question is from the line of Mohammed Patel from Care Portfolio Managers Private Limited. Please go ahead.

Mohammed Patel: Yeah. Thank you for the opportunity. So, I have a couple of questions. Can you give me some details on Fashion Nova and PDS Asia Star? What is the update and what could be the size for us in the next few years?

Sanjay Jain: Pallak, would you please like to take that?

Pallak Seth: Can you repeat the question, please?

Sanjay Jain: What is the outlook on Fashion Nova business and also on PDS Asia Star and this aspect going forward as well?

Pallak Seth: So Fashion Nova, we have got now. Fashion Nova is predominantly doing apparel currently, so on our apparel front, we have got two PDS subsidiaries supplying them. One is specializing on kids and lingerie, and the other on the fast fashion business. So we are seeing very fast traction and healthy margin coming from the Fashion Nova business because their current sourcing are all from domestic importers living in LA and New York with a very high order structure.

So having direct teams sitting in Asia servicing the Fashion Nova business we've seen a lot of traction and healthy order book trading. So I think in the first two months of our selling teams already more than ₹150 crores business has been booked. So the apparel continue to grow and it could reach that to $200mn potential in the next 2 years, Plus, we have now started adding new categories to them like home. They currently don't do any home business, so you set up a home business for them and also on the tech accessories and other accessories, which are not related to apparel. So it's a very strategic partnership to open all the doors, even now PDS teams are sitting in the Fashion Nova office and we've got three people from PDS, sitting in their office constantly working with the brand teams and helping drive business forward.

So PDS has set up a fast production business model like Shein, what Fashion Nova wanted was a fast production model. So, these companies like PDS online enterprise is actually a fast production business. And not only seeing the success of Fashion Nova, now other retailers are approaching PDS asking can you do a similar model for us also, no minimum quantities, high amount of SKUs from a global sourcing. So this new line of business is starting being an agile platform, we're able to set up a new business line and see a lot of tractions on Fashion Nova but it also excited many other customers wanting to use this service we have set up. Hope this answers your question.

Sanjay Jain: And if I may add, there was an angle of PDS Asia Star to it. So, as we all know that China has been a geography and there is a big fulfillment to online led demand. Our subsidiary in Shanghai PDS Asia Star has been largely into design-led sourcing. But given the proximity on ground, as we got this new line of activity created PDS Asia Star was able to quickly in a very agile manner get its act together to start fulfilling. So that's how PDS Asia Star and fashion nova relationship is enabling us to deliver this very fast.

Mohammed Patel: This $100mn in two years DLS?

Pallak Seth: Yes, design led sourcing.

Mohammed Patel: And my second question is, so what part of the business has contributed to the good growth in North America and Europe? And is this growth expected to continue in upcoming quarters?

Sanjay Jain: I think as we said, the overall global economic factors are being in to look good. I think all of us are keeping our fingers crossed for US elections. But in the near term, we believe this traction will continue at the 60% growth that we have witnessed. This trend should continue in the coming few quarters as well.

And we are as well in U.K., if at all, our growth is 10%, 12% that because one of our two accounts are like Matalan is putting a sluggish trend but we remain positive that on a portfolio basis, 20% plus growth and U.S. would still keep driving the pack for the coming few quarters. Yes.

Mohammed Patel: Okay. In the top 10 sourcing verticals, Norlanka, Spring, KSL, Twins Asia -- they have experienced negative PBT growth. So what explains that?

Sanjay Jain: So there have been some for example, Norlanka is more an internal matter that while we had a 20% growth, some inward supply chain snags led to some incurrence of freight costs and in our business, there is flexibility because all our contracts are back to back that we are able to recover these incurrence of freights from our partner factories. So pending that, these are the costs that we have incurred and we have done some internal corrections to fix the supply chain. So therefore, from this year onwards, Norlanka should put this behind itself.

On Spring, which is our business based in Turkey, there has been while they enjoy a very strong relationship with Ralph Lauren and Sainsbury, now we have opened up Tesco as an account. So therefore, from a relationship perspective, very well in place.

There have been tremendous cost pressures. As you know, in Turkey, the inflation is upwards of 60%. So therefore, there have been cost pressures. To offset these cost pressures we actually invested into a sampling room and a small cutting facility, whereby we felt that if we take our own designs to the factories, design in the sense that rather than working on tech-pack business, if I choose my own fabric, choose my own trims, then my ability to influence the value chain as a result, minimize the impact of cost increase on me.

So therefore, to answer your question, this impacted me in the past, but with good customer base with Tesco account recently opened up and the sampling room and a small cutting facility, allowing me a better handle on value chain, we believe we should be able to reverse this trend going forward.

Mohammed Patel: Okay. What about other two in Twins Asia and Zamira?

Sanjay Jain: Yes. Design Arc and Twins Asia has been serving the customer Matalan and Matalan has seen a change of management and ownership whereby the bondholders took charge of the company by converting debt to equity, and as a result, the entire focus shifted on cost, cost, cost. And thereby, they started engaging with us to keep driving down the price, in fact in one of the earlier questions, we said we would never let the sales go away. But when somebody tries to drive price too much down, then I think we also have to hold our ground. So therefore, there has been a 34% decline in the revenue, largely because of this account shrinking. And in the meanwhile, the Design Arc and Twins management have adopted twin strategy.

On one hand, they have realigned the cost structure, which will lead to benefits coming in the latter half of the year. Secondly, they have also hastened up the efforts to start doing business with more customers beyond Matalan as well. But in the interim, we have got hurt. Zamira another account, they lost business with one of the customers, they are into sustainable Denim and which I think, again, the management team is by the end of Quarter 4, beginning to get more orders from new customers. So these were some specific issues, the reason we wanted to highlight the first eight and the next two, these are two issues that are hurt. We are realigning the cost structure. We are getting more customers, and we believe in about two quarters, these businesses also should be back on track.

Mohammed Patel: Okay. My last question is, so you have pioneered green finance. So how much that can help in reduction of P&L interest costs in near term?

Rahul Ahuja: So, sustainability and green financing, I guess, is the new flavor with banks these days. Everybody wants to participate in the sustainable journey given this is a very sensitive topic. So we have partnered with our primary bank HSBC and also ENBD in UAE on green financing. Now as far as the specific questions of how much will it lead to reduction in interest costs. These guys usually set up certain KPIs, they will monitor over a period of time and in case we deliver, there is anywhere between 20 to 25 basis points is what can come as a way of reduction. So green facility should not be viewed as a facility which will lead to cheaper financing. But yes, it has many other benefits because it's fast track, we monitor it very closely and then there are those benefits attached to do something new that the bank is trying to do. But on a P&L basis, 20-25 basis points over 18 to 36 months.

Moderator: Our next follow-up question is from Rahul Bhansali from Parami Capital. Please go ahead.

Rahul Bhansali: Yes. Thank you. So our sourcing is skewed towards Bangladesh right now. So I think around 55-60% of our sourcing is from that country. So do we have plans to have a more diverse sourcing base, let's say, in two years to three years, let's say?

Sanjay Jain: So two things here. One is notwithstanding the disruption that happened in Quarter 2, especially on two occasions for consecutive three, four days, your company has been able to post a record high sales growth, highest sales quarter. We believe in Bangladesh, given that RMG exports are the single largest exporting item for the country and the country is heavily dependent on that. The country was able to quickly get its act together and put whatever happened behind. That's number one.

But on an incremental basis, we believe that we are working very carefully as we had also mentioned earlier when we met our investors at the time of QIP that we are looking at ownership of a manufacturing unit in India, wherein we believe the world is looking at India for increasing their sourcing and our relationships with customers are well in place. This ownership of small to midsized asset would allow us to have a base in India and thereby have more sourcing from India. That is number one. We are also carefully evaluating Latin America and Egypt. The American markets and some part of Europe are also looking at nearshoring. Egypt also gets the benefit of our duty-free access to the US market. So therefore, to answer a point, Bangladesh is stable, but from an incremental capital deployment perspective, we believe we're closer to taking a decision in India and keeping a close evaluation of Egypt and Latin America. That would automatically take care of diversification of our partners and sourcing base.

Rahul Bhansali: Sure. And do we also partner with some of the big players such as, let's say, Gokaldas Exports or KPR mills or such companies or do we generally partner with smaller company? And if there is a, let's say, a few years down the line, the bigger companies tend to get bigger, is that going to hurt our business? That's what I wanted to know.

Sanjay Jain: Pallak, would you like to take that?

Pallak Seth: On our design led sourcing business, we tend to partner with the medium to large players. Like, for example, in India, there are thousands of factories, maybe 10 large groups are capable of dealing with the large retailers, but another 50-60 manufacturing groups, which have similar facilities in terms of infrastructure, compliance standards and quality standards, but they do not have the front-end, SG&A costs or design teams and the customer reach to reach these customers. So, typically, they are the next 10 to 50 vendors in these countries tend to become PDS' vendors. So the point you made it ends up becoming bigger in manufacturing first business, the capex to do growth turnover is 1:2. So to grow to a $200mn top line for the garment manufacturer, they have to put $100mn capex almost, right? And it's a huge investment and their ability to scale up is very limited. Whereas PDS is known in the industry for business solutions companies, as soon as we find opportunities, we are able to get the vendors on a accelerated model, you see our turnover, how much we're kick-off without having to invest much in fixed assets and keeping asset-light nature of the business alive are still elementary factors and much more. Whereas the manufacturing group is limited to how it can scale, not only because of the capex requirement, but also because you have to hire huge amount of manpower and labor, creating future liabilities for themselves as well. I'm not too concerned as manufacturing is scaling up and becoming competitors as to be honest.

Rahul Bhansali: Got it. Okay. Thank you so much.

Moderator: Thank you. Our next question is from the line of Vivek Kumar from Bestpals Research & Advisory LLP. Please go ahead.

Vivek Kumar: Sir, am I audible, sir?

Sanjay Jain: Yes, please go ahead, sir. Yes. My question is on U.S., how are we taking it, I know it's going very well, so in the long run, how different it is from Europe in terms of clients' preferences and how easy or how challenging it is to crack here because U.S. is much, much larger than all other markets put together, so I just wanted to understand because if U.S. is cracked then like it's a very big opportunity for us. So, I just wanted to understand, it's easy or there are challenges? And what are your dialogue with your clients giving you indication on, how is it looking for you for the next three, four years? I'm not saying next, because base is low, you will grow, but to scale. I think I made myself clear.

Pallak Seth: I think US versus Europe is quite different markets. Europe is very product-driven and also very bottoms up. So you have to have relations with the buyers, the merchant and then the senior leadership can get the support. But in Europe, you have to have product-first approach and you have to have relationship with the teams-first, whereas in US to do the business, it comes from top down.

The relationship has to with the CEO of the company, then the directive is given below and then below teams have to be satisfied. So it's a different approach how you approve the US market versus the European market. Also US are very strategy driven, where Europe is product-driven. So PDS invested in resources currently, where we have the right people in place now. You have those relationships at the senior level at retail, so at least those are getting open, right? So most difficult thing today is to open a door.

As soon as we meet the CEO of a large American retailer, they see PDS group presentation, our business model, our venture fund fueling innovation. We ultimately end up opening our door, which is one of the hardest parts. Once the door is opened, then you must take one, two, three years to build a business to scale to a level, right? So the good thing is any customer you approach, nine out of 10 have agreed to open a PDS account, which is the biggest part where most companies fail.

So fundamentally different both markets. I think, you know, with Fashion Nova we have seen, we had the right, you know, discussion about senior leadership, owner to owner level. That business started building up. Target US is another retailer where you see the huge traction is building up. I say I'm sitting in Hong Kong meeting Walmart leadership also today. So that continues to grow, you know, in terms of traction what they're seeing in our business model. So it takes time, but I think the hard part is to open the door which PDS has succeeded in doing in the US market.

Vivek Kumar: So whether we'll be able to scale is, we will be more confident in one to three years. We will know whether we'll be able to scale, or you're very confident that you'll scale because the doors have opened.

Sanjay Jain: See, if a US retailer is opening your account, they are definitely looking at strategic relationship. If a European retailer is opening account, it's more a season product yearly and next season they might not buy. In US, if they're opening your account they want to plan three years, five years sort of growth. So it's a different approach. So I think with Kohl's, American Eagle, Walmart, you know Target-US, Fashion Nova. And some of the large retail accounts being open, we already feel there are big ways to do hundreds of millions of dollars of business in the next few years.

Vivek Kumar: But is this a function of time? Can I get it that way?

Pallak Seth: Yeah, it's a function of time. Because first, the account is open, they'll have to then approve the factory, which is currently ongoing. Then the product selection meeting happens twice a year. Whereas Europe is buying six times a year, eight times a year, the US predominantly buys two times a year. If you miss one season, then you are waiting for the next season to start.

Vivek Kumar: So you are not seeing any big challenges at all as such?

Pallak seth: No, we are seeing positive traction only.

Moderator: Thank you. Our next question is from the line of Aditya from AK Investments. Please go ahead.

Aditya: I just wanted to know regarding the brand management deals. It's been quite some time we have not heard many of the deals in the brand management. That is my first question. Can you throw some light what's happening there? Any US related deals?

Pallak Seth: We have recently signed a deal which probably is in the final stages of paperwork with one of Hollywood's largest actress called Reese Witherspoon. So with her, there is a back to back arrangement with Kohl's in the US. So Kohl's is running her shops and direct to consumer business also. So one New York private equity firm had acquired that business and now PDS is getting to complete Brand Management similar to Ted Baker for that business.

First year volume is around $20mn, but that is more the direct to consumer side, but the Kohl's business is a couple of $100mn right now. So in the next 18 months, that whole Kohl's business will transition to PDS as well. To be honest, every week, we're getting a New York IP company approaching us, like two days ago, Reebok, the entire European business was offered to us.

Another French sports brand called Le Coq Sportif was offered to us. So there is a lot of movement in the industry where brands are being sold to New York IP companies. So PDS is now getting the deal flow. Whenever some movement happens, we get to see the deals. We are carefully evaluating, you know, looking at the learning from Ted Baker also, which is the right way to afford them and what kind of exposure you want to take.

Our brands business is already at about $400mn between what we're doing on our current wholesale customers or proprietary brand given for our retailers as well. So there are a lot of activity, probably we're not putting announcements like we used to earlier, but all that data I think can be made available on the website, all the brands we own in terms of either ownership of brands or licensing of brands or proprietary brand deals we are doing with our customers. And then we can make that access given right in the start.

Aditya: Okay. And Sanjay, regarding the guidance for this year, when you talk about 20% growth on the revenue terms and some 15% terms growth on profitability, so on the base of ₹200 crores or what you're giving that guidance for FY '25? And how do you see FY '26 as a guidance in terms of revenue and profitability, both?

Sanjay Jain: So I think last year we were at ~205 or so in terms of PAT. We started the year at about 10% top line guidance and about 15%-20% PAT. We are ahead of curve, almost double in terms of top line growth. We should, therefore, see the benefit of that in much higher profitability than what we had foreseen in the beginning of the year. We are inching towards more 25-30% growth at this stage in terms of PAT as compared to 15% we had foreseen earlier.

We've been also into, as you know, investment mode this year. In terms of FY'26, we believe our mid-teens, I'm talking about a sustainable rate, mid-teens should be the top line growth and one should see a higher PAT growth in the next year because in FY'26, two things will happen, the investment that we made in FY'25 should start giving results plus the economy of scale of the existing running businesses. So therefore, the FY'26 PAT growth should be faster than the FY'25 PAT growth.

Aditya: That sounds good. And currently, the employee expenses, whatever we are incurring, it's more doors opening to the US side, right? And how do you see this panning out this whole year and next year? I mean, it's 290 right, we are currently having in the quarter?

Sanjay Jain: So right now, we have seen about 7% increase in headcount in the first half as compared to the same period last year. So this kind of headcount increase plus 6% to 7% merit increase is a sustainable number if we keep growing in mid-teens basis. We believe the heavy lifting, the heavy weights that we wanted to bring on aboard, I think the impact is fully captured. That could be slightly because one or two people we brought in towards the end of Quarter 2, but the heavy lifting has been done. So Quarter 4, you should see a kind of steady-state employee cost. That's where we are.

Rahul Ahuja: So just to add on that, what Sanjay mentioned on the numbers front, employee cost has gone up by 6% quarter-over-quarter. If we were to exclude the investments that we have made, which will bear fruit down the quarters for our existing businesses, this growth is only 1% quarter-over-quarter.

Aditya: So this whatever the investments we are doing, it will be, I mean, what should be the steady state we should take or it will be cooled off. I mean are these are onetime expenses or this is, how should we say, the ₹38 crores, whatever we have done?

Rahul Ahuja: So, like Sanjay mentioned, quarter-over-quarter its coming down more towards the end of this quarter and start of next financial year. This should be down to negligible levels.

Moderator: Thank you, sir. Our last question for today will be from the line of Deven Kulkarni from Marcellus Investment Managers. Please go ahead.

Deven Kulkarni: Hi. So how big was the Hanes contract in FY '24 and in Q2?

Sanjay Jain: So in terms of the contribution of Hanes was approximately it's about in $33mn in FY'24 Ms. Reenah do you want to add?

Reenah Joseph: So in FY '24, Hanes was around $24mn from a SAAS GMV perspective which in the first half is around $12mn.

Sanjay Jain: Is it reduced by half?

Reenah Joseph: That's for the full year vs H1

Deven Kulkarni: Okay. Sir, $12mn in H1 FY '25, right, compared to $24mn last year.

Reenah Joseph: That's correct.

Deven Kulkarni: Okay. Got it. And second question, sir, in your investor presentation on the Ted Baker slide, you have mentioned that you have moved your office to Fraser's office. So what's the deal here with Fraser?

Sanjay Jain: Pallak, would you like to take that, please?

Pallak Seth: Your voice is not clear. On the Ted Baker data what, can you repeat, please.

Sanjay Jain: The fact that we have got co-located ourselves at Fraser's office. So he wants to understand the rationale of that. Yes.

Pallak Seth: So basically, Fraser getting into a strategic partnership with PDS and they see Ted Baker as a great brand now, which unfortunately, doesn't have physical retail stores in the UK. But Fraser's themselves between their ownership of House of Fraser, USA, their own online platform and many other channels, they are like a $5.5 billion, almost $8 billion retail UK. They feel that Ted Baker business through their distribution channel can quadruple and do a lot of business.

So almost a strategic move that PDS goes into their head office into one of the separate floors soon after the independent companies there is no financial relation between them and us in this business, but there's a strategic relationship. And we've given some kind of indication that up to £25mn a year, you can buy from us the Ted Baker brand. So considering the current volume, you're buying a $3mn from us they desire to do $25mn.

There is huge upside where we think they can use the Ted Baker brands as a store don't exist in UK, which is the home market, but distribute through the channel and be closer to us through this deal. There is a strategic intent Ted Baker was the first brand that they are having many of their own brands also that Fraser owns. They want PDS to take some of their other brands that the Ted Baker team will get, and they will go help distribute to the Fraser network. These are all strategic relationships. Like as I mentioned, PDS team now sitting in Fashion Nova. PDS team sitting in Asda office. Now PDS team sitting in Frasers's office. It cannot get more strategic than that, where a retailer comes and says, come into my office, put your things and do as much business as you can with us. And that is the power of PDS as a company, which is respected and also trusted by global retailers to partner with them. So where no one else in the industry has this kind of reach or reputation like we have got.

Deven Kulkarni: Okay, understood. And finally, Sanjay, any impact of, let's say, the Bangladesh crisis you want to call out in Q2 numbers? Or was there no impact at all?

Sanjay Jain: As I said, we in our own factories, three to four days production got lost. But despite that, we had overall 70% growth from our own factories. From our partner factories, just three, four days got lost there as well. But I think the entire ecosystem later on then worked towards catching up. I would say is keeping a close watch on ground realities for now everything stable and under control.

Deven Kulkarni: Okay. Okay. Thank you.

Moderator: Thank you. Ladies and gentlemen, in the interest of time, that was the last question for the day. I would now like to hand the conference over to the management for closing comments.

Sanjay Jain: Thank you so much, everybody for taking the time out and participating in earnings call. And once again, we will have to extend to all of our stakeholders across geographies, Happy Diwali a lot of festivities still ahead to all of you out of the home. And we look forward to interacting with you for our Quarter 3 earnings call. Thank you, and stay safe all of you.

Pallak Seth: Thank you. Happy Diwali to everyone. Thank you.

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