



“PDS Limited
Q1 FY '26 Earnings Conference Call”
August 01, 2025



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Moderator: Ladies and gentlemen, good day, and welcome to the PDS Limited Q1 FY '26 Earnings 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 call, please signal an operator by pressing star, then zero on a touchtone phone. Please note that this call is being recorded.

With this, I now hand the conference over to Ms. Reenah Joseph, Deputy Group CFO. Thank you, and over to you, ma'am

Reenah Joseph: A warm welcome to all participants to PDS Limited Q1 FY '26 Earnings Call. Our presentation and financial results are available on the company's website and the stock exchanges. Please note that anything said on this call, which reflects our outlook for the future or which may be construed as a forward-looking statement must be viewed in conjunction with the risks that the company faces. The conference call is being recorded and the transcript along with the audio of the same will be available on the website of the company as well as the stock exchanges.

Today, we have with us the management, which includes Mr. Pallak Seth, Executive Vice Chairman; Mr. Sanjay Jain, Group CEO; Mr. Rahul Ahuja, Group CFO. I now hand over the call to Mr. Sanjay Jain to take the discussion forward.

Sanjay Jain: Thank you, Reenah. Greetings, everyone, and thank you so much for joining us as we walk you through our performance for the first quarter of FY '26. The first quarter has been one of measured progress delivered against a backdrop of a challenging and evolving global macroeconomic environment. Across key markets, we witnessed a cautious demand environment, elongated buying cycles and continued recalibration of sourcing strategies.

While headline inflation has moderated from the earlier peaks, the residual cost pressures persist, particularly in services, logistics and wage-linked categories. Central banks have maintained a cautious stance and current volatility continues to influence both sourcing decisions and margin structures. The U.S. tariff environment remains fluid, ofcourse, this morning, one has seen some clarities coming out. But while in Europe, customers are adopting a more measured approach, placing greater emphasis on flexibility and supply chain resilience. These external headwinds, though are likely to ease over time, have led to a greater caution in global retail and sourcing. Despite all of this, PDS has remained agile and responsive, leveraging our asset-light model, diversified sourcing footprint and deep customer relationships to stay relevant and create value.

In the U.S., shifting tariffs are driving sourcing realignment among several our customers. On the other hand, the India, U.K. FTA is opening up tremendous new opportunities for India-based manufacturing. We plan on capitalizing on this with our sourcing hubs in Mexico, Egypt and Turkey, which are expected to play a critical role in supporting near-shoring strategies for U.S. clients.

In the U.K., we are seeing early traction post FTA, particularly with our key strategic accounts. In such a dynamic scenario, we continue to support our customers and drive growth while there is pressure on margins in the near term for servicing the said customers.

It is our endeavour that we continue to participate with our customers because the global scenario is affecting our retail customers, and we have been and want to be seen as their strategic partners. And if it in the near term, there is any margin pressure, we want to be on board with them, and there would be opportunities in the coming few quarters to make the most of it. This participative approach with our customers have helped us with a gross merchandise value of ₹4,634 crores, reflecting a 19% increase year-over-year.

And I'm also happy to mention here that some of the very prominent and blue-chip customers who are among the top 10. For example, with Primark in quarter 1, our sales have grown 23%. With Next of U.K., our sales have grown 46%. With Tesco of U.K., our sales have grown 20%. So with very relevant important and blue-chip customers, we have made sure that we participate with them and maintain a healthy growth momentum in terms of our sales to them.

Looking ahead, while short-term headwinds persist, we remain focused on delivering sustained profitable growth. Our current order book stands at close to ₹5,200 crores, reflecting 8% year-on-year growth. The customers in today's environment are taking a little bit longer than normal course to close their orders. So therefore, we believe that the growth that we have achieved in Q1 for the entire year, that momentum should be maintained.

In the U.K., demand has strengthened post FTA, and we are actively working with clients to grow wallet share and onboarded the new accounts. I already shared with you the growth momentum with some of the large U.K.-based customers.

The U.S. at present remain cautious due to the ongoing tariff concerns, but we are adapting very quickly, supporting customers with flexible duty optimized sourcing solutions. That's where our asset-light model also becomes handy. In fact, we believe that whatever has happened is actually unfolding into tremendous opportunities for PDS.

That is where our acquisition recently in India and also the sourcing hubs, as I mentioned earlier, in Latin America, in Egypt and our strong presence in Turkey would actually enable fulfil 2 objectives; cater to the optimized sourcing solutions, both in terms of the near shoring as well as the duty optimization.

Our acquisition of Knit Gallery, therefore, has been timely and strategic. It enhances our ability to deliver scale from India and align with U.K. and EU customers. Internally, we continue to be very execution-focused and traveling a transformation journey, focusing on building a leaner, more agile and future-ready organization. We have made tangible progress on cost optimization agenda, organization streamlining and a portfolio realignment, all geared towards long-term value creation.

As we have shared with you earlier that we have taken help of Boston Consulting Group and almost all these initiatives are being taken with their help. We are working on a profitability augmentation agenda. Losses from the new verticals, which were about ₹160 crores last year, we had pursued an agenda to bring them down at least by 25-30%.

The first quarter has been a step in this direction. And with a stringent focus on execution, we believe that we should be able to meet our target and at least cut down these losses by about 25% to 30% and keep moving ahead in terms of making these initiatives profitable.

In fact, while our focus is to, on one hand, make these new investments convert into the sales and profitability that we had foreseen, at the same time, within our own portfolio, if there are some verticals that have been lagging behind, they are actually being either shut down or merged with other large existing verticals to get the benefit of synergies.

New Lobster which came into our portfolio about 2 years back. As you are aware, it got impacted by the retail partner bankruptcies on the agency business front. But we got our act together in terms of realigning the front-end approach. And therefore, today, we are very successfully leading a very lean and B2B wholesale-led model. And our customer relationships are very strong. We are feeling very positive that this should be a good growth year for New Lobster on the entire '25-'26. And at the bare minimum, we should be PBT positive this year with respect to New Lobster. And as I mentioned earlier, our cost transformation agenda with help of BCG is continuing very well and the initiatives across manpower and curtailing the nonessential spends are already spanning out.

In fact, BCG is also, along with our internal IT teams are also helping us with adoption of AI tech across the value chain from design, pricing, costing, sourcing, quality check and cutting and sewing & then finally, on the reporting systems. The first 2 priorities that we have chosen in this AI tech-driven value chain is number one, pricing and costing and number two, sourcing.

On pricing and costing, the AI-based pricing model, considering the macroeconomic trends, for example, the cotton index inflation are being put in place to predict optimum price for each of the tech-pak orders. In addition, we are also in dialogue with BlueKactus for AI-driven costing and planning. We believe this is going to tremendously help our efforts to synergize on the cost when it comes to fabric and trims.

Secondly, on the sourcing, we are working on adoption of e-auction platforms with AI capabilities to predict supplier scorecard, financial health and also take into account the regional and global prices, therefore, improve the efficiency of our procurement decisions and also the agility of it. So these 2 AI-based initiatives across pricing and costing and sourcing would further help our efforts to combat any impact on the gross margin from the external front and try and maintain steady momentum going forward.

Maintaining a strong balance sheet and cash discipline have been a priority for us. Our net working capital days have improved. They were about 17 days at the end of quarter 4, and they have come down to close to 10 days at the end of quarter 1. We continue to optimize our capex spend, which we believe should be half of what it was last year. And we are also aiming at least 25% to 30% reduction in the working capital that was deployed last year.

We believe curtailing spend, capex, working capital, all should generate good amount of cash, therefore, as a first step, try and arrest any increase in finance costs and then bring it down.

To summarize, we believe that the macroeconomic conditions now should slowly stabilize. Our well-diversified sourcing model, well-entrenched relationship with the customers, we believe that we are well placed to make the most of it.

Yes, in the near term, as we have been mentioning, there have been disruptions, but the medium-to long-term outlook remains very strong and backed up by the solid financial foundation and the trust of our partners and customers. With this, I would like to invite our Group CFO, Mr. Rahul Ahuja, to walk you through the financial highlights of the quarter.

Rahul Ahuja:

Thank you, Sanjay. Good evening, everyone. Let me now take you through the key financial highlights for the first quarter of FY '26. We reported a top line of ₹2,999 crores, almost ₹3,000 crores, registering a growth of 14% year-on-year. Existing businesses grew by 7% and new verticals delivered 85% growth year-on-year.

In spite of challenges faced due to U.S. tariffs, sales to Americas increased by 26% year-over-year, and the recently acquired Knit Gallery contributed approximately 1% to the total revenue during this quarter. That said, the gross margins declined by 139 basis points from 20.8% in Q1 FY '25 to 19.4% this quarter.

This was primarily due to the impact of market disruptions and implication thereof on customers. Further, impact of Ted Baker business and decline in high-margin business of Gerry Weber, which declined from \$18 million revenue in the same quarter last year to \$9 million in this quarter and Matalan, which declined from \$24 million to \$17 million as far as top line is concerned. And these are high-margin businesses for us which impacted our margins as well. In spite of various retailers facing bankruptcies and challenges, our credit recovery continues to remain robust, and our strategy of doing largely insurance-backed business has held us in good stead in these difficult times. EBITDA for the quarter stood at ₹51 crores, translating into an EBITDA margin of 1.7%

Other income increased to ₹40 crores compared to ₹20 crores in the same period last year, largely on account of foreign exchange gains given the volatility we have seen wherein U.S. dollar has depreciated against other prime currencies like GBP and euro at an unprecedented level in the last 3 to 4 months. The other income also includes a significant portion funds realized from sale of noncurrent assets and interest on QIP funds, which are lying with us. Finance costs increased primarily due to interest expenses related to large amount of factoring shifting from March to April, given EID was in the last week of March and debt consolidated following Knit Gallery acquisition.

However, an apples-to-apples comparison after adjusting for bank charges that were regrouped in Q4 FY '25, the interest cost has actually declined by 4% sequentially compared to the 14% increase on a reported basis.

Profit after tax came in at ₹20 crores with a PAT margin of 0.7% compared to 1.2% in Q1 FY '25. The decline is largely attributed to a higher effective tax rate this quarter due to the implementation of global minimum tax and that the same is applicable to most of the geographies where we operate, including Hong Kong and Dubai, Dubai came into effect this year.

Our effective tax rate increased from 13% in Q1 FY '25 to close to 25% in Q1 reflecting the impact of global minimum tax. We continue to work on optimizing tax to the best possible for our business. On the balance sheet side, we are pleased to report good progress. Like Sanjay mentioned, net working capital days have improved to 10 days from 17 in the previous quarter.

This is largely on account of very focused approach on working capital governance across our group and also the fact that Q1 is a relatively lower quarter in terms of volumes as compared to Q4. Our gross debt reduced by ₹252 crores compared to March 2025. However, due to consolidation of Knit Gallery, it increased by about ₹96 crores given the working capital Knit Gallery needs as a business.

Overall, the reduction in net debt was about ₹156 crores net of Knit Gallery, which is lower by about 14% compared to March '25 levels. As part of our QIP proceeds utilization, ₹278 crores was deployed towards debt repayment and ₹24 crores was used for Knit Gallery acquisition. The remaining funds are earmarked for strategic growth opportunities and general corporate purpose.

While we expect gross margin pressure to continue in FY '26, particularly in H1, we expect that with our various initiatives underway, we believe we would still be on track to achieve our outlook for the year. With that, we now open the floor for your questions.

Moderator: Thank you very much. The first question comes from the line of Deepak Ajmera from IG India. Please go ahead.

Deepak Ajmera: My first question to you is regarding market disruption, as you have highlighted in your opening remarks about shrinking your gross margin. Can you provide more color on the same?

Sanjay Jain: Yes. I think as later Rahul was covering, 2 of our customers, one in U.K., one in Germany. For example, Gerry Weber in Germany, which was nearly half of the top line of our German subsidiary, Techno. That customer went into administration. And as a result, the sales have significantly declined from that customer.

So that's the impact of market disruption. And Matalan, another U.K. based retailer, they had a lot of debt and the debt holder converted that to equity and that led to a change in management. And the current management is highly, highly price driven when it comes to procurement. So therefore, since they have been hammering too much on pricing, our sales to them have nearly halved. They are sustaining at that half level. So therefore, these are some kind of disruption in Germany and in U.K. on the customer front that led to this. But what is most important is that notwithstanding what happened with customer, our credit controls have led to a situation that all our dues have been fully recovered or are regular, when it comes to ongoing business with Matalan. So that's very well ongoing with respect to them.

And I think other than that, there have been uncertain times in terms of the duties, there's some lack of clarity. As a result, there have been slowness in terms of order release by the customers. And there have been from our customers in U.S. an ask, that while they grapple with the new duty impact on their procurement decisions, can we, to a limited extent, participate, which we have done as well.

So I think these 2, 3 factors with respect to specific customers and specific to the U.S. situation, while our growth has been steady at about 14%, order book is strong, but have led to some pressure on margins in the short term.

Deepak Ajmera:

Got it. And for the full year basis or in the medium-term perspective, how should we see the margins shaping up?

Sanjay Jain:

See, as Rahul mentioned, I think for Q1, Q2, this pressure could be there, hopefully, with the recent developments around stability of tariffs. But that's one thing, what is important for us is to pursue 2 things. Number one, that the value-added businesses that we kind of included in our offerings, sourcing as a service and selectively the brands piece that we want to be carefully doing these margin-accretive businesses as they keep shaping up.

Thirdly, and very, very importantly, our internal efforts on the sourcing front. I think when I talk about gross margin level, with the help of BCG, we are very confident that now we are into a stage wherein the impact of the effort on our fabric price procurements, on our trims price procurement. I touched upon the usage of AI-based enabled initiatives that are unfolding very well. That is on the gross margin front. So we feel in the H2, we should start benefiting from that.

On our EBITDA margin front, between gross margin and EBITDA, a lot of the fixed costs and opex-related initiatives that we have taken, not only at the corporate level but across the organization, they should also start benefiting from H2. So therefore, the H1 could be impacted, but I think we should bounce back on H2 front with respect to especially the EBITDA margins.

Deepak Ajmera:

Got it. And since now FTA with U.K. has been officially signed, so any kind of green shoots or any kind of commentary from your customer over there or excitement is coming up? Or how do you see that?

Sanjay Jain:

Yes, we are, super excited about it. I just covered how our sales have grown with respect to the 3 leading U.K.-based retailers. While these growth numbers are ahead of the FTA unfolding, but that only reflects the strong relationship and growing relationship. With all these customers, we are in active dialogue with respect to, on one hand, having Knit Gallery as an anchor factory, but at the same time, hastening the process of bringing the contractually taken factories on board as well. In fact, one of the 3 companies that I mentioned, the CEO of one of the firms is also visiting in the next 2 months, and we are taking them around to the parties that we have contracted. So we are very positive to the unfolding of FTA. And internally, there is a lot of optimism. But given the overall situation, one is extremely cautious at present, but it's unfolding very well.

Moderator:

The next question comes from the line of Dhwanil Desai from Turtle Capital. Please go ahead.

Dhwanil Desai:

So my first question is we saw this contraction in gross margin. So I do understand some of the customers, some events happened there. But if you can help us understand more in terms of this disruption, how it has translated into gross margin impact? That is one. And second, we talked about BCG initiatives helping us improve gross margin. So this ₹25 crores savings that we are

expecting in H2, is it more we should consider on the gross margin side or it is below gross margin?

Sanjay Jain:

So let's bucket a response to your question in 3 parts. I think on the first one, the decline in gross margin is not attributable to an overall pressure on average selling price. No, that's not the case. I think more or less, we have been there with respect to the ASPs to customers. Yes, with respect to a bit of North American sales, which in any case are about 14%, 15% of our portfolio. And when we break that up into FOB and duty delivered. So, to that extent, we did participate with the customer to enable them offset it. That's the first bucket of it.

The second bucket, which I think is relevant in our case, which cannot be generalized, is 2 relatively high-margin customers, Matalan and we mentioned about Gerry Weber. So, sales from them have reduced in the relative proportion. So that's more a question of mix wherein relatively high-margin customer sales reduced in Q1. That's the second bucket.

The third bucket to respond to your question on BCG, I think we've tried to split up the potential impact in 2 parts. I think the first part is on the opex, which is about ₹25 crores. That's something where already measures are taken. The second part, which is about ₹30 crores this year in H2 and minimum ₹60 crores next year is largely COGS driven. And this is a COGS-driven saving we don't want it to be in a way an ad hoc measure that we try and go and negotiate the prices. We want it to be institutionalized process, e-auction-based, costing tool-based, whereby we have taken on board fabric, trims and yarn experts. These people are able to see the huge volumes that PDS verticals are procuring all across, use the technology to try and drive healthy kind of competition among the suppliers. So that's where we are, and processes have been identified. They are being under implementation. Therefore, ₹30 crores this year, ₹60 crores next year is a benefit of COGS. That's about the BCG part of COG savings.

Dhwanil Desai:

Got it. Second question, Sanjay, is that there are a lot of things happening on the trade side of things. And one of the key drivers for growth for us was U.S. market. So, in the context of whatever tariff things are happening, do we see our scale up in U.S. either getting delayed by a few quarters? And do we again need to revisit the number that we were targeting based on whatever is happening? What are you hearing from customers? What is your internal assessment? If you can talk about that?

Sanjay Jain:

In fact, our Vice Chairman, Pallak Seth, is in Turkey at present and route to U.S. as well. So why don't I request him to take this one? So, Pallak, would you like to please address it?

Pallak Seth:

So. can you repeat the question again.

Sanjay Jain:

I think the question was with respect to sorry, you go ahead, Dhwanil. Why don't you repeat it?

Dhwanil Desai:

Yes. So, the question is that a lot of things are happening on the trade side across geographies, especially in U.S. Now given all that, we had one of the key growth driver for us was the U.S. market. So, in the context of changing scenario, how do we see the U.S. business for next 3 years? Do we need to recalibrate either the timeline or the quantum of the business that we are anticipating?

Pallak Seth:

Yes. So, I think my answer would have been different if you asked the question day before versus today because yesterday, Trump has finally come, we cannot say ever finally, but he's come with a final view, which is the 1 August deadline on tariffs, right?

So, tariffs are where the whole global industry will start shifting because the rates of tariffs is not 2%, 3%, 5%, they are quite high. So, what had initially started as a China-U.S. issue quickly became a global issue with U.S., the way Trump came up with the tariffs 3, 4 months ago.

So based on what has been declared yesterday, we were quite concerned till day before that Bangladesh, which is a big production country for us for U.S. market, was going up to 35% tariffs, right, which was going to make it unviable. And we started getting a lot of customer inquiries to shift the Bangladesh business out to other countries like Central America and Africa, where we have established strong presence.

But now finally, the tariff announcement that came is showing Bangladesh in line with other countries of like Vietnam is 20% Bangladesh is 20%, Indonesia is 19%. Pakistan is 19%, India is 25%. So, they're all -- Sri Lanka is 20%. So, they're all within the 5% difference reach from each other, right? Honestly, we were expecting India to be much less. It is quite shocking that Trump immediately moved from India being one of the most favoured trading partners to trying to do the India trade at 25%. And if anything, further they do with the whole Russia side of trade, that could impact the tariff rate from India as well, which is not really good news, to be honest, for India trade with U.S.

But saying that PDS' big business with U.S. is centered around Central America, Africa and Vietnam and Bangladesh. So, the 4 territories which have been announced, there, the tariffs are quite favorable as far as PDS is concerned. And we feel there will be a big positive trajectory for our growth of business there. In the last 3, 4 months, we've added, actually have added a lot of good customers because, as I said in my previous conference call, it takes time, 6 months, 9 months, 12 months to onboard a customer. But once the U.S. customer gets onboarded, they're going to do hundreds of millions of business.

I mean when I say it can grow to that in the next 3 to 5 years, it's not going to be a small account. So, from a Walmart U.S. to Target U.S., American Eagle, PVH, Ralph Lauren, Ross Stores, T.J. Maxx, all the biggest -- out of the top 10 biggest clothing retailers in the U.S., almost 7, 8 of them have opened the PDS account. So obviously, they saw value in what we did either in design or a global kind of offer or the kind of services we offer.

The retailers have opened the account in a scenario where they are not really adding new vendors. So it's been a very positive outcome based on the investment we started not more than 18 months ago to have so many big retailers open the account. So now sampling is going on, costing is going on, vendor account is open.

So it's moving in the right trajectory, right? So we feel very confident based on our production countries, our customer account open that we are in the right direction and U.S. business should pick up for us in the right way. So I think overall it is better than what we had expected, to be honest, based on the traction we got and also the kind of offer we're giving.

- Moderator:** The next question comes from the line of Bhavya Gandhi from Dalal & Broacha Stock Broking.
- Bhavya Gandhi:** My first question was regarding the tax rate. You mentioned that the tax rate is going to be higher going forward. Could you just elaborate something on that front as well? Because historically, it has been in the range of 10-odd percent.
- Pallak Seth :** Yes. So yesterday Trump has announced a new tariff, right? So for Bangladesh, we've done 20% tariffs, right? For Vietnam, it's 20% for India is 25% for China 55%. So more or less what is announced now is basically what is they're expecting to continue for the future.
- Bhavya Gandhi:** I am talking about the effective tax rate.
- Rahul Ahuja:** Yes. So basically, you would be aware that the whole world is moving towards what we call Pillar 2, which is a global tax regime, where the minimum tax in any geography would be 15%. A lot of countries till last year were evaluating adoption of this. However, there are geographies where we operate in 2 main countries, Hong Kong and UAE, where a large part of our business is booked adopted this. Hong Kong adopted this from the start of this year and UAE also has adopted the same global taxation.
- Now going forward, we will be subject to a minimum 15%. UAE earlier was close to 0. Hong Kong, depending on whether you are onshore or offshore, the tax rates were pegged accordingly. Onshore was 16.5%, offshore was again 0. So we have been saying in the quarterly calls in the past 1 year that we also are making our projections in line with the global tax regime, which is coming, particularly in the geographies we operate in.
- And this impact that you see of an additional almost like ₹2-2.5 crores in this quarter is largely on account of tax being levied in geographies where we make money. While that said, we continue to optimize tax within the rule books as much as possible, but this is something that was always factored in our projections.
- Bhavya Gandhi:** Okay. So can we expect like an effective tax rate to be around 24%, 25% going forward forever, right?
- Rahul Ahuja:** So I think like I said, there will be measures that we will take as time unfolds to optimize tax to its best possible. And we expect it to be anywhere around 15% to 18% range depending on where we make profits because, as I said, we operate in high tax jurisdictions like Germany and U.K. as well, which have adopted the global tax regime much earlier. And it all depends on the mix of profits which geographies is coming from.
- Bhavya Gandhi:** Okay. So is it possible to share the effective tax rate maybe for the next couple of years?
- Rahul Ahuja:** As I said, it will be in the range of, let's say, 15% to 18% is what we have we are projecting in our financials. But there could be a variance to that depending the assumptions we have taken on which geography, how much business and profit will come. If there's a variance to that, maybe it will move by, let's say, 50 basis points to 1%, but broadly, it will be in this range.

Bhavya Gandhi: Fair enough. And my second question was regarding -- although I understand that India has signed an FTA with U.K. But obviously, the demand shifts from one region, manufacturing or sourcing changes from one region to another. So I don't understand where will the incremental demand come from?

Or why so much positivity around maybe India, U.K. FTA because we are any which way are sourcing largely from Bangladesh and maybe we shift the base to India hypothetically. But on the overall revenue, how does it really impact, right? I mean the demand overall 100 -- suppose if the demand is 100 that is not going to incrementally change right? So if you can throw some light on that as well.

Pallak Seth : So I think the sourcing shift, people are trying to tap Bangladesh to a certain level. If a region already 45%, 50% of the sourcing is Bangladesh. They've been told to reduce it to 35%, right? So they don't have any complete dependency.

So because of which now a lot of retailers are coming to PDS you set up India operations, like Primark, we are talking about a joint venture, which could do \$100 million with Primark in next 3 years based on the specificity we have set up for them in 10 factories we have added. So that's basically movement of business from Bangladesh and China to India to derisk their geographical presence.

Rahul Ahuja: So, you have to see the FTA India signed with U.K. not in isolation, but what's happening in the world as well. There is this China Plus One, which we started happening 2 years back -- then unfortunately, things happened in Bangladesh. If you see all of this put together, the big retailers, the discussion in their boardroom is that they need to diversify their sourcing or mitigate their risk.

And hence, India is one of the countries which will stand to benefit. And the U.K. FTA comes at a very right time, which gives us an advantage as far as costing is concerned for the manufacturing entities, and hence, India could win in a big way.

Bhavya Gandhi: Fair enough. Just one more question, if I can squeeze in. Just on the U.S. tariff. I understand how are the retailers and brands approaching you? Are they asking you to share some burden? Or how is it like -- or you are also asking your manufacturers to share the burden? How is it like if you can just throw some light on the tariff sharing at least between the retailers and the manufacturers, how is it...

Rahul Ahuja: See, so the recent announcement, 25% has come barely 24, 36 hours back. So we are in dialogue with our customers given that we have a finite number that we can discuss now. But just to give you a flavor, when across the board 10% additional tariff was levied, we were -- we discussed this with our customers. And broadly, on a broad average basis across a wide spectrum of customers, the distribution was -- let's say, if the increase was \$10 around \$6 to \$7, the customer was willing to absorb. Our factories, we could discuss and negotiate with our factories around anywhere between \$3 to \$3.5 and maybe a small impact to us, which also over a period of time, we would extract from the yarn suppliers, fabric suppliers.

So given that we are a sourcing company, the impact on our P&L is almost negligible. And we expect the same conversation to happen in the next couple of weeks now that tariffs for each and every country have been announced. So that's broadly the mix. We don't expect our P&L to be hit in any significant way because of tariffs coming in because of customer absorbing and our supply chain absorbing the balance.

Bhavya Gandhi:

And just one more thing. Overall competitive intensity when it comes to the European markets and the U.K. market because I believe a lot of players have now shifted their base and started looking at Europe seriously versus U.S. considering the challenges of tariff and supply issues, demand impact as well. So are we seeing any competitive intensity scaling up in the European region or the U.K. region?

Sanjay Jain:

So as I mentioned, it differentiates from one customer to another. There was one customer, Matalan, which has been highly price sensitive and price driven. And there, let it be, we have allowed sales to go down because our motto is strategic relationships. And in such strategic relationships, therefore, we are part of their global sourcing strategy.

For example, in Primark, wherein we do about \$260 million of annual business, we are part of their strategic vendor council. And there, if they are looking beyond, say, Bangladesh, then we are well entrenched, well in place to discuss with them about their sourcing from India. As Pallak mentioned earlier, we are exploring a joint discussion with them.

Tesco, another customer, they wanted to increase sourcing from Turkey. We are well placed. So therefore, PDS model and PDS approach, number one, of strategic relationship and the model of having a global sourcing base allows us to make the most of it. But if there's any customer who is only approaching it from a price perspective, I think then let it be.

Moderator:

The next question comes from the line of Rohit from iThought PMS.

Rohit:

Sir, just a couple of questions. I think some of those questions were answered. So sir, you've outlined around ₹130 crores of cost savings in FY '26 in terms of the initiatives you mentioned and some of it is related to gross margin which you outlined. But the ones below the gross margin, like given there is so much of uncertainty in terms of growth as well, so how confident you are to sort of bake those in this financial year? That was my first question.

Sanjay Jain:

So, these if I understood it correctly, you're talking about cost benefits below the COGS level. So, they are largely opex related. And I think if we go in the order of what we have covered in our investor release, our new business initiatives. We have their budgets for this year with us. We have intensified our engagement with them to make sure that the budgets are delivered. So that gives us the confidence that there would at least be a 25% to 30% reduction versus the investment through P&L we made last year. That is number one. And number two, the ball is rolling. So therefore, in Q1, we are already 13% better. And I think as more quarters come by, this percentage would only improve. That is number one.

On the manpower, ₹25 crores benefit in Q3 and Q4, all of this has been executed. We've kind of taken measures, but these things, there is always a cost of getting rid of a cost. So all of that in compliant with laws of land have been initiated. And so therefore, in H2, the benefits will come.

This has been done at corporate level, and this has been done at vertical levels as well. And so therefore, these are underway. New Lobster, we have done 3 rounds of internal restructuring of manpower to align to a B2B kind of organization. So that I think SAP has stabilized. So therefore, more efficiency. So that is something that is going to unfold.

And lastly, while your question was more below the COGS, I think even on COGS as well, as I mentioned earlier, with the help of BCG, a lot of homework has been done and as the practices are being put into place. So we are confident, in fact, on the new & on the existing but loss-making verticals, the shutdown of one of them, merging one small one with a large one, merging a large one with another large one, all of that is already under execution. So, there is nothing that is futuristic here.

Rohit:

That's good to hear, sir. So, sir, on the gross margin side, so you mentioned that a couple of high-margin accounts sort of went away because of their own issues. So how do you see that recovering now given that they were -- they have now or they are struggling. So how do you see that recovering in terms of the gross margin for this year and probably going forward in the near term, let's say, FY '26, '27?

Sanjay Jain:

So, for a vertical, for example, like -- I think, firstly, the recovery, let us see in twofold in gross margin and EBITDA margin. I think eventually, yes, gross margin is important, but eventually, our aim is to maximize EBITDA margin. So, the trajectory of the 2 that should unfold I think the impact of Gerry Weber should be neutralized.

We have already started contracting new customers, but the benefits would only flow in H2, more specifically in quarter 4 in case of our business, Techno. Our model has been entrepreneurial. So therefore, Techno Germany realized that one of the large customer has gone. As a result, they have actually taken immediate measures to get rid of fixed cost on one hand, that is immediate benefit, but then started contracting new customers. So that should, therefore, start benefiting gross margin and more specifically EBITDA margin. That is number one.

New Lobster, I think, has been under pressure, but the measures that have been taken should start unfolding. So therefore, customer level inclusion into the overall sales mix should benefit. Our new verticals I think we are very closely working on them. We see them ramping up their sales in H2. That should be gross margin and more specifically EBITDA margin accretive. And thirdly, the initiatives on COGS supported by BCG. So therefore, these 3 things are giving us a lot of positivity in terms of being able to see a good trajectory.

And in fact, I mentioned about Techno vertical getting impacted by Gerry Weber. They have already got TCP as a new customer on board. And the documents have been signed and therefore, gearing up, ramping up sale would all start becoming in H2. So that's where we are on the margin trajectory.

Rohit:

Sure, sir. Just 2 more questions. One was -- so I mean, last year, we grew quite well in terms of top line. This year, also top line looks very good given the challenges that we are generally witnessing across the world. How do you see the growth this year? I mean, given that the uncertainty, of course, right now, it seems that at least we have some semblance of clarity?

But given that it's always shifting. So how do you see the growth this year? And in the context of the targets that you have outlined, I think the 3-3-3 and 5-5-5, what is your sense in the last call, I think you were sort of saying that probably we'll have some shift in that, but would love to hear that? And I have one more question after this.

Sanjay Jain: So, we had foreseen mid-teens as the growth for the entire year. We've been closer to that in quarter 1 at about 14-plus percentage. I think we continue to maintain that, notwithstanding that their customers are taking a little longer time, but I think we are well entrenched to get a mid-teens kind of growth for the entire year. And yes, so that's where we stand on the growth front.

Rohit: Got it. And very good improvement on the cash flows and working capital, sir, congratulations to the team. So, going forward, can we expect this trend to continue? Or this is like the -- we have sort of reached the optimum level here?

Rahul Ahuja: So to answer your question, the efforts obviously will continue through the year. We remain very, very focused on containing our balance sheet and working towards reducing working capital. But that said, it's also a factor of the top line growth because for us, the facilities are largely working capital in nature. But yes, we will continue to make efforts to ensure that our working capital moves to a single digit from, let's say, 16, 17 days level it was at the end of last financial year.

Rohit: Okay. And sir, just on the finance cost then. So do we see that like the finance cost at an absolute level probably will be around -- with the growth will probably be lower than what it was last year?

Rahul Ahuja: I wouldn't say it will be lower than last year. Like I said, our facilities are not term loans or overdrafts. It's all linked to trade finance, the flows and the order book that we have. But that said, the increase in, if any, in our finance cost will be marginal over the last year because we are, like Sanjay said, projecting a growth of almost mid-teens for the current financial year. Our order book tells us that, that should be possible. So there will be a marginal increase in our finance cost. But that said, if there is a rate cut and all, that could counterbalance that as well.

Moderator: The next question comes from the line of Rudraksh Raheja from iThought Financial Consulting. Please go ahead.

Rudraksh Raheja: Congrats and thanks for incorporating even more descriptive slides this time. It was very helpful for us. I think my question was briefly touched upon by you -- by the previous caller itself. I wanted to double check on the Sourcing as a Service business segment. You said we won a few more contracts on that to counter what we would lost on the Gerry Weber contract. But would we be able to neutralize it completely? Or will we be seeing a possible hit in that segment for this year?

Rahul Ahuja: So our sourcing as a service business has grown, so Gerry Weber firstly was not a sourcing as a service contract for us. The whole revenue, full revenue was booked through our counters. The business that we lost was that of Hanes of U.S.A., which was about \$35 million to \$40 million. And we have been able to largely replace it with the few contracts we have signed with ASDA

or even in our Turkey business, there have been some additions. So we expect a growth of closer to 20% year-over-year in our sourcing as a service business.

Rudraksh Raheja: Understood. And sir, we would be going ahead with that outlook in the future as well, if my understanding is correct?

Rahul Ahuja: Yes, that's -- so we are having some conversations. And like Sanjay mentioned, these are difficult times across the globe. Hence, the customer is taking much longer to make a decision or shift their business from one counterparty to the other or accept a new way of doing business. But that said, there are many conversations on, and we are hopeful that a few of them should convert, hence, enabling us to deliver 18% to 20%.

Rudraksh Raheja: Understood, sir. And sir, given that it is a very challenging environment, are we seeing any more cost-saving actions from any other prominent accounts like you have hinted about Matalan last fall or maybe even before that. So are we seeing any signs from any bigger clients of ours, something like that?

Sanjay Jain: So see, nothing that is of similar nature as the 2 customers that we talked about. I think the retail sector in general has been under tremendous pressure for the reasons we all know. So therefore, the customers expect us to strategically play a role with them in their price expectations. And we try and do that through, on one hand, an optimum sourcing strategy; and B, increasingly now driving efficiencies out of the COGS procurement processes. So, these are in the normal course of business. At this stage, as we are discussing with you, we are not expecting any such disruptions that happened across Gerry Weber. So I think the rest is all in normal course.

Rudraksh Raheja: Got it, sir. And sir, any updates on establishing new sourcing locations? Last call, you mentioned you were working on LatAm and Africa, something on that front?

Sanjay Jain: We already have a team now in Egypt. There is already a senior seasoned gentleman there helping us enter into partnership with local factories. And we already are also in Mexico as well trying to feed into U.S. from Latin America sourcing. And Turkey has been a presence for many years now. We, in fact, are putting a lot of our customers, I mentioned about Tesco as well are wanting to increase their sourcing from Turkey. Nearshoring has been on cards to mitigate the impacts of inventory. So therefore, we are trying, we are leveraging the presence; and B, trying to go even more broader to reach out to more factories. So, these 3 plus, of course, we have talked about India, Knit Gallery acquisition, we believe, has been very timely for us and therefore, should enable us get the benefits.

Moderator: The next follow-up question comes from the line of Dhwanil Desai from Turtle Capital.

Dhwanil Desai: Just one question. If I look at the investment in new initiatives, brand management still takes the lion's share. And given that kind of experience that we have had in Ted Baker, how you guys are looking at brand management business scale up? Are we recalibrating? Will this number significantly go down over this year, next year? If you can elaborate on that.

Sanjay Jain: So, I think the design-led sourcing, relatively speaking, is a low gestation business, wherein you have an existing identified customer and you set up a proper supply chain sourcing base, and

therefore, the time to make money is far lesser. Brands, relatively difficult, relatively longer gestation. And therefore, you see more money getting invested into it.

But I think what is important to note here is that we are not trying to do a B2C here. We are trying to leverage on our B2B relationships and see how in our existing distribution with our large retailers, we can try and push through brands. So to that extent, we feel positive. It's taking time, but we feel positive. New Lobster has been a learning.

I think somewhere New Lobster is the Ted Baker brand wherein one of the leading IPR ownership companies went ahead with Ted Baker brand. We counted on their diligence because at the end of the day, the franchisee partners that they had in U.K. and U.S. are appointed by them, and we counted on their diligence and therefore, went ahead and their own appointed partners went to administration.

That has been a learning. But quickly, we have tried to turn that from a B2C store-based model to more B2B. So, there are learnings alongside. So, to that extent, we will implement them in the future. But having said that, I think we are cautious. We are focused on balance sheet, but we are keeping an eye on the unfolding of opportunities.

There is a similar franchisee brand-based model, very active in the Middle East, having a license of some U.S. originated brands, profitable company. For example, just to talk about that there is an existing licensing companies focused on Middle East sales, good blue-chip set of customers, profitable. So, we're keeping an eye. And as we look ahead carefully to get some stake into them, all the learnings of New Lobster, all internal learnings would be put to practice.

Moderator: Ladies and gentlemen, we'll take this as the last question for today. I would now like to hand the conference over to the management for closing comments.

Sanjay Jain: Thank you so much, everyone, for taking time out to be part of our con call, and we wish everybody a good evening and a good weekend ahead. Thank you.

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