



**“PDS Limited Q2 & H1 FY-26 Earnings Conference
Call”**

October 28, 2025



MANAGEMENT: **PALLAK SETH – EXECUTIVE VICE CHAIRMAN**
SANJAY JAIN – GROUP CHIEF EXECUTIVE OFFICER
RAHUL AHUJA – GROUP CHIEF FINANCIAL OFFICER

Moderator: Ladies and gentlemen good day and welcome to PDS Limited Q2 FY26 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 the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Reenah Joseph. Thank you and over to you.

Reenah Joseph: A warm welcome to all participants to PDS Limited's Q2 FY26 and H1 FY26 Earnings Call. Our Presentation and Financial Results are available on the Company's Website and Stock Exchanges.

Please note that anything said on this call which reflects our outlook for the future, or which may be construed as forward-looking statements 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 will be available on the company website and stock exchanges.

Today we have with us the management which includes Mr. Pallak Seth – Executive Vice Chairman, Mr. Sanjay Jain – Group CEO and Mr. Rahul Ahuja – Group CFO.

I now hand over the call to Mr. Sanjay Jain to make the opening remarks.

Sanjay Jain: Thank you, Reenah. Good afternoon and good evening, everyone and thank you for joining us for PDS Limited's Earnings Call to discuss our performance for the 2nd Quarter and First Half of Financial Year 2025-26.

Let me start by saying that we are pleased to report another quarter of steady progress, a quarter where we sustained top-line growth notwithstanding the overall global challenges and challenges specific to the industry. We have sustained top-line growth and continued executing on our profitability and cash flow improvement agenda. Our gross merchandise value stood at ₹5,461 crores in Quarter 2 and has crossed ₹10,000 crores mark for H1 and therefore is up 8% year-over-year. Encouragingly, our business pipeline remains strong as our order book as of early October stands at about ₹5,300 crores, a 15% year-over-year increase, demonstrating the continued trust of our global retail partners notwithstanding the macroeconomic pressures.

During the first half of the year, our focus has been on profitability, cost optimization, and cash generation. We have rolled out a series of structural initiatives from competitive reverse bidding for materials to tighter cost controls across corporate and business units. These actions we feel positive should start delivering somewhere in Quarter 3 and then should deliver more in Quarter 4 and thereafter would benefit flowing the entire year of FY27.

We have taken decisive steps to address underperforming verticals and also established, clearly defined guardrails for any new investments. We have put in place clear financial and process guardrails for any future investments in new business, ensuring that profitability, cash flow and internal benchmarks are met before any additional capital deployment. We are streamlining our existing investment portfolio under PDS Ventures wherein we have visibility of two investments being identified for potential sale in the near future. So, on one hand, there is a 15% growth in the order book, we are continuing to remain buoyant in terms of our engagement with the customer. But at the same time, given these turbulent times, notwithstanding the growth in order book, we are trying to take measures in terms of enhancement of profitability and careful deployment of further capital.

Our efforts on working capital optimization are beginning to give results. The net working capital days have reduced from 17 days in March '25 to about 6 days at the end of September '25, significantly releasing the cash and helping us generate ₹593 crores of cash flow from operations in the first half of the year as compared to a cash outflow in the entire of last year. And this is notwithstanding that the Quarter 2 sales was the best ever Quarter 2 in the last 5 years of the company in terms of revenue generation.

We continue to see the inherent strength of our asset light demand responsive business model, which remains the corner store of PDS growth journey. This model enables us to stay agile, scale efficiently and manage volatility across markets while maintaining cost discipline and financial prudence. Despite ongoing global headwinds, our diversified sourcing network and customer centric execution continue to drive steadily business momentum across regions. As an illustration, our single largest customer in UK and Ireland, wherein we have been so far serving them largely from Bangladesh or from Sri Lanka, post the signing of FTA between UK and India this customer is very deeply engaged with us, whereby on one hand, our Knit Gallery factory has been onboarded. But at the same time, our sourcing teams are engaged to have multiple factories beyond Knit Gallery onboarded with the customer. So therefore, this approach of asset light and hence highly networked through partner factories is making us feel very positive that we should be in a good position to make the most of the unfolding of UK and India FTA.

The global trade environment continue to evolve and as I said, the anticipated FTA now beyond India, UK with Europe as well should continue to benefit us while we are trying to navigate the position of tariffs with the US. Notwithstanding that, our top line in terms of what we sell to US, which should touch about 2,500 crores this year, is actually 25% up in the first half compared to the same period last year. And once again, while on one hand, there is US and India 50% tariff issue, but our ability to feed into US market from Vietnam, from China and increasingly now from Egypt and Latin America is helping us maintain this growth momentum of 25%.

In this dynamic geopolitical landscape, our diversified multi-country sourcing, as I said, is continuing to help us and leading to more and more opportunities. With a footprint spanning Bangladesh, Vietnam, Sri Lanka, Turkey, Egypt and expanding presence in India and Latin

America, we believe we are well-placed to mitigate the concentration risks and support our customers with flexibility and speed. As part of our strategic roadmap, as I mentioned earlier, we are strengthening our India sourcing capabilities and that is beginning to show some early results. We are accelerating digital transformation across our ecosystem. On one hand, we are implementing S4 HANA to revamp our existing processes, but at the same time, we are looking at revamping the costing and master data management tools and deploy Coupa e-Auction, and building dynamic pricing platforms. So, as you know, that biggest part of our cost structure is cost of goods sold, containing fabric and trims procurement post BCG recommendations, we have already started rolling out of the eAuction processes and thereby benefit from price advantages. These should drive stronger analytics, better cost control, and improved compliance across all our verticals.

And lastly, I am pleased to announce that we have declared an interim dividend of Rs 1.65 per share, which is the same as last year at the same time. With this, I would like to invite Mr. Rahul Ahuja; our Group CFO, to walk you through the financial highlights for the quarter. Over to you, Rahul.

Rahul Ahuja:

Thank you, Sanjay. Good evening, everyone. Let me take you through the key financial highlights for the first half of FY26. Our reported top line in Q2 FY26 was Rs 3,419 crores, which is a growth of 14% compared to Q1 of the same year. During H1 FY26, we reported an 8% growth in top line of Rs 6,419 crores. During H1, our existing verticals grew 6%, while our new verticals clocked 46% growth with a top line of ₹469 crores. During the 2nd Quarter, gross margins expanded from 19.4% in Q1 FY26 and 19.6% in Q2 FY25 to about 19.9%. Employee expenses, which is our largest OPEX cost, has been flat compared to Q1 at ₹312 crores. Other expenses have seen an increase, mainly due to increase in license fees, given increase in our branded business, selling and marketing expenses and freight cost to some extent and shutting down of a few verticals like we have mentioned in the past few meetings, wherein we are closely looking at verticals which are not in line with our expected performance. All of this translated into an EBITDA of 3% in Q2 versus 1.7% in Q1.

While we have witnessed some margin pressures in some of our top 10 businesses, at the same time we have also witnessed Spring Near East, which focuses on sourcing from Turkey, Zamira, which largely specializes in Denim, Norlanka, which operates out of Sri Lanka and Krayons, largely Bangladesh sourcing, which have shown much better performance as compared to similar periods. The pressure on other verticals is mainly a timing gap and we should expect a rebound in the next few quarters.

Our profitability includes the impact of our investment in new verticals, which happens through the P&L. From a capital allocation standpoint, we continue to remain disciplined. As per our stated guidance, we have not made any new investments through P&L. Investment in new verticals increased marginally by 3% due to the impact of getting Foundry business onto our platform. This is a business in Hong Kong, which caters to the US market. We are closely

monitoring new verticals and are focused on ensuring reduction of losses by 25%. Excluding the impact of new investments, our EBITDA margin is 4%. Further depreciation has seen an increase mainly on account of our investment in the UK property, getting Knit Gallery, the manufacturing operations in Tirupur onto our platform during towards the end of Q1 of this year. Other income includes mark-to-market gains of ₹14 crores in H1 and gains from Forex.

Finance costs increased due to increased factoring during the quarter, which is also visible in reduction of our receivables by ₹436 crores in first half of FY26. The increase in finance costs was offset by getting more early payment discounts given the reduction in receivables that we witnessed. We used the cash to negotiate better payment terms with our vendors so this increase in finance cost were largely offset by getting more early payment discounts.

Our PAT is ₹48 crores during the quarter, an increase of 142% versus Q1 FY26. During H1, we reported a PAT of ₹68 crores, which has declined by 41% versus the same period last year. On the balance sheet side, net working capital days have improved from 17 in March 2025 to 6 days during this quarter. While receivables have reduced as mentioned earlier, we witnessed increase in inventory from ₹483 crores in March 2025 to ₹542 crores in September 2025. This is largely due to increased DDP business and improvement in the order book position of our manufacturing units. Gross debt of ₹1,102 crores include around ₹100 crores of debt from the consolidation of the Knit Gallery business, which came to our fold in Q1 of this year. Excluding this, our gross debt has declined by around ₹110 crores in the first half. Our net debt was reduced by ₹279 crores compared to March 2025. This was mainly due to robust cash flow generation from our operations. Basis the above, our return on capital employed stood at 20% with healthy leverage ratios of 0.1 net debt to equity and 0.2x net debt to EBITDA.

With this, we open the floor for questions from all of you.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question comes from the line of Kaushik, AK Investment. Please go ahead.

Kaushik: My first question is to Pallak. Pallak, where your most amount of time is going into the business? That's my broader question to you. And secondly, the question is on, we are investing into some of the brand management on those stuffs and it is taking time to be executed at par. So, how do you see that? It is a gap in execution, or it is the gestation period in this business. So, these are my broader level two questions.

Pallak Seth: Thank you for the question. So, most of the time in the last 4-5 months has been going on making sure the existing businesses we have, either they are old established businesses or some of the new businesses we have started in the last 2-3 years are turning around and making sure that they are generating income, enough to be able to become profitable. And a lot of time is also going into the customer meetings and discussions, how to make them more sticky with PDS and bringing the revenue to our existing verticals or some of the new verticals that we have started.

I think overall the situation; there is a lot of stickiness with the customers. A lot of US businesses started which we have been investing for the last 2 years. Some large European accounts like M&S, which we are not working with, are beginning with PDS. So, there's a lot of big customers which are coming into the group. And a lot of that is a result of constant meetings and discussions and showcasing the PDS value proposition to these retailers. That's where most of the time is going. We are not really looking at any new businesses till the time all existing businesses turn around and start becoming profitable or if they are not working, then we take the call to either restructure or merge them with some of our larger entities. So, that's where most of the time is going and is bearing good results. And hopefully we will see the turnaround in profitability in the next H2 of this year and a strong financial year coming next year as well.

In terms of the brand business, if you look at, there are two brand businesses we are doing. One is with partnership with existing retailers. We are offering them category management that is profitable from day one because we have a co-retailer already in place getting us orders and then there is no inventory and there is no stock position there as well. That's the bulk of our brand business. There are a few businesses that we have started in the last couple of years where there was more direct-to-consumer through website. So, there we are taking a very careful consideration if they are really scaled up or not. Otherwise, we are trying to also see what to do with those businesses. And Ted Baker Brand is on the turnaround we are seeing a lot of traction coming from even Marks and Spencer and a few other retailers that are talking about being shopping shops. So, the brands is now rebounding, I think we have turned the corner and we are going to see good results in H2 as well. So, overall, the focus is on existing businesses, stringent customer interactions and also meeting our commercials with banks in Hong Kong and making sure we have enough working capital limits to support the growth of the turnover of this business. Hope that answers your question.

Kaushik:

Yes. So, currently, whatever the margins we have, it is because of we are investing that is why it is dragging down, or it is also a tariff effect. Both have come into picture because it is one of the lowest quarters we have reported.

Pallak Seth:

I think the tariff also had a big issue, like the American tariffs, a lot of the business in the US that was supposed to grow at a much faster pace, including business like Fashion Nova. Customers have held back the orders because there was so much uncertainty where with the tariff rate, a lot of retailers were not wanting to ship the goods. So, that also had some impact on the margins and it turned around some of the US-focused businesses. But overall, the margin of the industry is stabilizing. I don't think there is any massive pressure because there is a lot of depletion on fabric and trims coming as well. So, there is a customer pressure on one side of the price. The raw material prices are also adjusting accordingly. And there is a lot of excess capacity right now. If there is a factory group without a serious customer base, the excess capacity is sitting in many parts of the world. So, PDS being an asset-light model is able to negotiate those capacities and the depletion in fabric and trim costs, we are able to then go about maintaining or securing our margins.

Kaushik: And do you see this margin for upcoming quarter also a little distressed? How do you see for FY27? That is my last question.

Pallak Seth: For 27?

Kaushik: Yes, '27 and the second half also. How do you see the margins?

Pallak Seth: Overall, the thing is, my concern would be if a company is having decline of turnover in order book, which is healthy for PDS for the same time last year, we are almost up 15%. So, the order book is strong, customer traction is strong, business is being booked. Once the orders are in place, using the leverage of fabric trim procurement and also the factory base we have, we can negotiate and squeeze in the profits we require or even increase the profits. So, I do not think there is any big issue. If the turnover was declining and there was an issue on the traction with the customer, in any business in our industry, that is where I think the problem starts. But that is least of our worries. Big ticket customers have opened the account in the last 2-3 months alone, TK Maxx - US, Ross Stores, Target, Walmart, some of these existing accounts have grown in a good pace. PVH, which is the owner of Tommy and Calvin, is onboard with one of our subsidiaries as a vendor. So, customer attraction being there a lot of new businesses, having the revenue they require to turn around is coming in. So, overall, we are seeing the situation as quite positive going into the next 6 months and pressing to next year.

Kaushik: Thank you so much. All the best.

Pallak Seth: Thank you.

Moderator: Thank you. The next question comes from the line of Rudraksh Raheja, ithought Financial Consulting. Please go ahead.

Rudraksh Raheja: Thanks for the opportunity and congratulations on the good set of numbers, especially on the cash flow and I would say the gross margin front. My question is, we plan for around ₹40 crores reduction in P&L investments, which roughly translates into ₹120 crores, if I take the annual figure. And till H1, we have already incurred around ₹80 crores. So, do we still see this happening for us, which means we would see around ₹20 crores of quarterly run rate in terms of P&L investments for the H2?

Sanjay Jain: We continue to be positive on what we have foreseen that we may have about close to 25% reduction. While we are flat, even after factoring in Foundry acquisition and there is about ₹8 crores loss because of that. But overall, as well, we remain positive that we should be able to bring down close to ₹40 crores reduction for the entire year.

Rudraksh Raheja: Got it. In terms of regional mix of revenues, we have seen some decline in Europe and UK has seen some pickup. So, could you throw more light on that?

Sanjay Jain: I think when it comes to growth in UK, as Pallak was mentioning, these are tough times. So, our ability to strategically engage with key customers like Primark, Sainsbury's, Next, Tesco, and Asda through sourcing service contracts, we have seen a good traction. Customers see us bringing value, customers see us agile, customers see us understanding. That is why in a flattish market like UK, we are able to grow. In Europe, there is a specific case of Gerry Weber that we mentioned to you that we did about \$70 million of business last year. That business is gone. So, we have subsidiary Techno in Germany, which focuses on Germany for EU customers. It has already signed up new customers, but the revenue buildup is only going to start from December-January onwards. So, that is an interim decline that you see. While German market on the whole also has been under pressure, I believe the government has rolled out the package to revive the economy. So, we remain positive that A, we should benefit from the overall demand surge expected next year and B, we are replacing Gerry Weber with alternate customers.

Pallak Seth: Gerry Weber had a bankruptcy. So, unfortunately, the revenue has gone. So, Rajive Ranjan, the business head in Techno is actually looking at replacing and having very good traction. So, hopefully, as Sanjay Said December onwards, it should be taking back.

Rudraksh Raheja: Understood. So, the whole impact can be attributed majorly to the Gerry Weber case, right?

Sanjay Jain: Yes.

Rudraksh Raheja: On the US front, should we expect some substantial growth in H2? Like we have been talking about a lot of big clients that we have been onboarded in last 6 to 12 months. So, the big hockey stick impact that we have been discussing, would that reflect in FY27 numbers or something could be seen in H2 of FY26 as well?

Pallak Seth: I think FY'26 H2 will show steady growth, but the biggest growth will come in '27 because the cycle of starting a business, when you start onboarding new clients like a PVH, the owner of Tommy and Calvin Klein, they will try and order, sampling goes on. So, most important is opening the vendor account. So, the vendor account, a big retailer opens, they do not open to do 1 million, 2 million, they open to do substantial business. So, when the build-up happens, it is a 12-to-18-month cycle. But if you see a big account like TK Maxx, Ross Stores, PVH, some of the largest American retailers, Walmart and Target, they are the 5 biggest American retailers that have opened the PDS account in the last 6 to 9 months and continue to build business and show traction. So, the intent is there, the teams are in place to build that business. Now, it is about the cycle because the business is 6 months seasonal, spring, summer, autumn, winter. If you enter one season, next season it builds and then the third season it scales up. So, that is where we are in the cycle right now.

Rudraksh Raheja: Understood, sir.

Pallak Seth: If you look at the Fashion Nova business, currently, our order book for this customer is almost up to \$30-35 million and next year we could cross \$50 million. So, it is a build-up, but the

customer that we started probably 18 months back, first year it was slow, but this full financial year, which is the first full financial year, we will end up doing around \$30 million to \$35 million and next year, it could almost double either between \$50 to \$70 million away in development. Khol's is another account, that is also an account we started 3 years ago. Currently, we might end up doing around \$60 million, but next year's projections are even more robust. So, once you are in the retailer, your teams are engaged, teams are set, then within 18 to 24 months, the business starts scaling up and ramping up. And American accounts are much more strategic, with Europe it is product to product, like style to style, but US is more strategy between a company to company. So, once they start the account, they have a strategic plan and then they build around that plan.

Rudraksh Raheja: Understood, sir.

Pallak Seth: I hope it answers your question.

Rudraksh Raheja: So, we have seen some profitability decline in our top two verticals, Poetic Gem and Simple Approach.

Rudraksh Raheja: Could you help us understand that part?

Sanjay Jain: Why don't you take the lead, Pallak? I will then chime in.

Pallak Seth: So, I think Poetic Gem, overall, the business is turning around and H2 we are seeing the customer traction increasing again. So, we have engaged BCG and in both these businesses, Poetic Gem, and Simple Approach to look at the organization design of the company. So, there is a big operation of Poetic Gem in UK and in Bangladesh. We are trying to see how to streamline both and having one office in UK, which will be more customer focusing and the teams in Bangladesh then dealing directly with the customer, rather than having a huge layer of people in UK as well. So, that exercise of cost cutting has happened and H2, we are hoping to see the results of more streamlined operations. But on the other side, the customer traction from the core customers, like Asda, Tesco, Sainsbury, Next, and Primark is strong and that's building momentum. So, overall, we are not too worried about that business. And similarly, Simple Approach, Primark saw some reduction volumes because of tough economic conditions. But Simple Approach, order book remains stable, going on a year-on-year basis. So, overall, also, the business is quite stable for both of these companies. They are strategic with their customers, they are having those discussions and by either improved procurement through BCG's efforts that we are seeing good traction or streamlining operations, I think both these businesses should be able to become profitable and turn around. The business that is the one that has the biggest setback is Techno because of Gerry Weber's bankruptcy last year. So, that business is the one that we feel is taking a bit longer. But the other two ones you mentioned, it's quite in hand to get the profitability that is required.

Rahul Ahuja: Actually, Simple Approach, in the last year, there was, if you guys recall, in December of 2023, there was a huge wage increase in Bangladesh. And the largest customer of Simple Approach, which is Primark, after intense negotiations, gave us an upcharge of close to a million dollars, which was part of the process in H1 last year. So, if you were to normalize for that, I think Simple Approach is growing very well. They have done about \$4.9 million of PBT in this year and their H2 will be better than this. So, on a BAU basis, Simple Approach will be doing better than what they did last year if you were to normalize for the one-off upcharge that they got from the largest customer. And Poetic Gem restructuring is behind us, as Pallak mentioned. So, they should also have a better H2. So, these were one-offs in the two largest verticals.

Rudraksh Raheja: Got it, sir. Could you give more clarity on sustainable gross margins for us? This quarter saw a 0.5% improvement. So, going forward what should we model for that?

Sanjay Jain: I think as Pallak mentioned, the current order book in hand that we have, factories in general, partner factories having spare capacities, the benign input prices on fabric and trims, we believe the margins should be steady for coming two quarters and on one hand, while we expect them to be steady, and as the processes like e-auctions, etc., start unfolding, we should see the benefit of that coming in margins as well.

Moderator: Thank you. The next question comes from the line of Manoj Dua from Geometric. Please go ahead.

Manoj Dua: Coming back to the last participant's question about Poetic Gem and Simple Approach, as a broader picture, we see the results, our 150-143 bps were down in EBITDA margin and my understanding was that according to the last con-call that our margins are falling, even taking care of the new investment as a separate thing in accounting, that because of the Germany, Matalan and Gerry Weber, and the tariffs confusion. I couldn't get that Poetic Gem and Simple Approach, even the modest growth in sales, more than double-digit growth, profitability has fallen. I understand that now BCG will improve it, and we are confident about H2. What were the reasons, particularly for this UK thing where the margins fell?

Rahul Ahuja: So, the margins are factor of 2-3 things that have played out. For example, in the case of Simple Approach, like I said, if you were to compare apples to apples, in the previous years, there was an upcharge that the largest customer, Primark, had given to them, which was a one-off. If you were to adjust for that, the margins that have been earned by Simple Approach are largely in line with that of last year. But that said, last 1 year has been pretty challenging as far as the whole industry has been concerned and hence, there has been pressure on margin across customers. Like Pallak said, what our endeavor has been to ensure that we remain with our customers and continue to get orders from them. Margin is something which we can address as the market stabilizes. Also, margins is a factor of what product you sell in what season. So, typically, it is the winter season where the margins are better because of the nature of the product. If Simple Approach is making a key line product in H1, which is spring-summer season, then those by

definition are lower margin products. So, these 2-3 reasons played out as far as Simple Approach was concerned as far as margin profile is there. But like I said, Simple Approach as a business, we expect them to deliver similar or slightly better performance for the full financial year, both in absolute terms and hopefully in margins as well.

Manoj Dua: Okay. I understand that. There the product profile is different. Sometimes, there is one of good year also. So, going forward in FY27, this is where the confusion is, because in the last year, we were expecting higher margin because of the higher sales and more new initiatives. Which has actually gone to the south side. So, let us assume normalized case, FY27, how to look at a base margin of a company, including BCG. Can you give us some picture from where we take a base and how to grow from there?

Sanjay Jain: I think, Manoj, before I specifically answer your point, I think what is also noticeable that our Spring business, which is run out of Turkey, the margins are up from 1.3% to 4%. And our Norlanka business from Sri Lanka, up from 4.7% to 5%. Our Krayons business catering to US from Bangladesh margins are up from 6.6% to 7.2%. So, there are cases, as you can see in the disclosure we made in the top 10, our Zamira, Denim business, the margin up from 0.1% to 3.8%. So, there are four or five such businesses like we have Kleider, margin up from 7.3% to 7.6%. The two specific Poetic Gem and Simple Approach case, as Rahul clarified, Simple Approach, if you take out the 1 million upcharge we are okay on margins and H2, we are looking good. Poetic Gem, we took bold steps to restructure as Pallak mentioned the costs. And that all happened in the Quarter 2 towards the end of it, we should see a traction building up. And I think we are somewhere hovering near the bottom. On one hand, we are trying to see that P&L related investments in new verticals start bearing fruits. That is on one hand, but there is a gestation underway. On the other, we got squeezed by Gerry Weber and Matalan sales impact. So, these two things plus, of course, the overall tariff situation. So, I guess, somewhere closer to bottom, we should look at better performance going forward, because of multiple factors spanning out. But it is a timing issue that everything, the last thing one wanted is tariff hitting our customers and therefore indirectly getting passed on to us. So, that is where we are. I think somewhere closer to bottom, and we should only get better from here.

Manoj Dua: So, coming to tariff, US part, how things are going? I understand that you have taken good clients, which we will get to see in the future. But how is the demand from the retailer side in general because they are also struggling with tariff, demand in terms of volumes that you see USA going forward?

Sanjay Jain: Pallak, you want to take that and then we will add in some numbers.

Pallak Seth: So, from the US, it is a huge consolidation. A lot of the department store businesses are under pressure. A lot of the luxury businesses also is under pressure. The sectors are just continuing to grow, which is where what is happening in the last 10 years is the discount and value sector. So, businesses like Walmart, Target, Costco, TK Maxx, Ross Stores, Burlington, all the discount

sector, seems to be stable and growing. Anything in the Middle market or specialty brands or luxury is struggling. So, the focus of PDS is on the value sector and the clubs and the discounters. And that sector is still robust because the consumer is still buying, but they are buying for value. They are not buying expensive product. So, now the specialty brands are going bankrupt. They are being acquired by people like ABG and becoming IP. So, that is increasingly the trend. But then once the IP is available, the discounters can sell them in their stores and then generate sales. It is becoming a highly discounted market, a bit like what Europe has been in the last 10 years. That is the trend we are seeing. If you are with the right customers, you are still okay. If you have the wrong customer base, then you struggle. That is the overall general trend in the US we are seeing right now.

Sanjay Jain:

I also covered earlier, we have seen about 25% growth in sales to North America and more specific to US as a geography, the sales are up 36% in the first half as compared to the same half last year. Accounts opened, teams stabilized. So, Manoj, the traction should only improve thereafter when it comes to sales to US.

Manoj Dua:

Congratulations on improvement in some key metrics and I really liked the presentation because so many disclosures. Thank you.

Sanjay Jain:

Thank you, Manoj.

Moderator:

Thank you. The next question comes from the line of Prakash Diwan from Matterhorn Investment Advisors. Please go ahead.

Prakash Diwan:

Thank you for letting me ask the question. Sanjayji, Pallak, congratulations on a brilliant set of numbers, particularly, I think the gross margin number is very encouraging for sure. And what's very heartening to see is the financial guardrails that you finally articulated because that's been the bugbear in all the investments going through the P&L that people have been worried about or also have been concerned about. I just wanted to focus on that part. Last year and this year, you have been investing a lot in new businesses, and they will take some time as the industry dynamics are to start reflecting into improvement in the metrics. But this year, you said you spent about ₹80 crores for the Michael Yee-Foundry business in the U.S. And going forward, this would mean that you still have some pending investments. But once this stops, as in once it gets within those guardrails that you have defined, what would this number come to? That is part A. Part B is the bleed that we had in the previous year through some of the new investments that it took longer than what was anticipated, like Ted Baker and now Gerry Weber going into administration. That will also start kind of, somewhere it stops and starts getting ploughed back into the P&L. So, what kind of contours could we anticipate or pencil in for that? And I am talking about '27, possibly not H2 '26 maybe, that is too early. I just wanted to get a color on that.

Sanjay Jain: Pallak, I will take that question. I think, firstly, the amount of ₹80 crores, that number is for all new verticals put together, not just Foundry. So, that is the aggregate of all the new P&L. And as in response to previous question, we said that about ₹160 crores got incurred last year and we are working towards close to ₹40 crores reduction this year. That means we expect more profit generation or lesser loss. On your second point, which is an important one, I think somewhere in our investor presentation on slide #8, we have endeavored to cover a 5 year horizon, wherein in the first 3 years of this 5 year horizon, when we were focused on harnessing what we invested earlier and kind of slowly scaling up, our margins went up from about 2.5% to about 3.5% gradually at the PBT level. And the net debt of company kept coming down and return on capital employed went up from 27% to 44%. And it is in the last 2 years that we made a conscious decision to invest. I think investment in growth is important. Our's is a unique company as an asset light company, where investment growth is through P&L. So, therefore, as we work towards bringing this P&L investment to normalcy, then I think what we achieved in the past is a 3.5% PBT margin is what we should be the first step looking at from a current level of close to 2% inching up to 3.5%. That is answering your one part of your question. And in the first 3 years of the 5 year journey, we invested close to ₹30-35 crores each in investment in new vertical. So, we expect that going forward as well, once we have come to steady state, an amount of ₹40-50 crores, this was close to ₹160 crores. But an amount of ₹40-50 crores is an important investment that we will continue to make into growth initiatives, whether it is adding a new category or new customers. But we accelerated that to ₹160 crores and we should come down to a steady state of ₹40-50 crores. And that is where in line with the past, we see our margin trajectory should inch up to closer to 3.5% in terms of PBT margin.

Prakash Diwan: That is very encouraging. Thank you, Sanjay.

Sanjay Jain: Thank you.

Moderator: Thank you. The next question comes from the line of Hitendra Pradhan from Maximal Capital. Please go ahead.

Sarvesh: This Sarvesh. So, I had one question on the translation of PBT to PAT for the owners of the company. Now, because of the ETR increase as well as the higher share of the non-controlling interest, this has come down to almost 50% now. So, and what we are also seeing that there are these cost initiatives which are being taken probably at the central level. So, now these savings when they occur for each of these decentralized businesses, would that advantage be retained by the parent company or how will it be shared with the entrepreneur at the subsidiary level? Because, of course, earlier we were assuming that, because this is a decentralized structure, so the cost would be probably taken, cost saving measures would be done to the best possible extent at the decentralized level itself. But now, it is looking like there was a lot of scope to reduce such costs and now those have to be done from a centralized perspective. So, how should we see these benefits percolating to the shareholders of PDS?

Sanjay Jain:

I will put it very simply. The ₹160 crores P&L investment to a very large extent has been from the platform level. So, as we turn it around, it should straightaway flow without any minority leakage, a large part of it, should actually flow to the PAT attributable to public market shareholders. So, that is the one significant part of it and which we should see as we keep bringing this P&L impact down, we should see the percentage of PAT attributable to public market going up. And secondly, which is most structural, which Pallak also mentioned that it is a learning curve, ours is an entrepreneurial model. And as in terms of our guardrails, in terms of the MoUs that we are now signing with our new partners, we are putting in more and more stricter controls in terms of partner funding their share of loss. So, firstly, a partner selection now, it has to be basis an identified clear customer, so that I can reduce my gestation. Right now, it is 18-24 months gestation, I should have a clear visibility of revenue, not a promise, that is number one. Secondly, if the losses are exceeding, beyond what has been there in the budget plan, then I think the partner has to fund the losses. And I think that is where we are seeing benefit. And also lastly, just to clarify, the BCG initiatives is at a vertical level, we have three separate contracts, which have been executed directly by our subsidiary Poetic Gem, Simple Approach and Techno, it is not at the platform level.

Sarvesh:

Understood. And secondly, you have mentioned a lot of cost reductions, which may occur in second half as well as FY27. But broadly, since you mentioned number of 3.5%, so is that the guidance for FY27 PBT margin or how should we look at it?

Rahul Ahuja:

Sorry, what 3.5% are you referring to?

Sanjay Jain:

When I explained that, as we come to steady state on investment through P&L, what we have achieved in the past is closer to 3.5%. Currently, we are at 2.1%, post the full P&L debit of the investment in new verticals. That is the trajectory. To answer your point that 1.4%, 1.5% trajectory, it is something that will span out. You will see in FY27 and in FY28, you will see us inching in that direction. As we keep bringing the P&L investment down, as we keep getting benefits of the initiatives that we have mentioned, you should see us in that trajectory. That we believe is the first set of goals in about 12 to 18 months that we are surely aiming at.

Sarvesh:

And finally, one question related to the tariff situation. So, how quickly are we able because this is an ever-changing sort of a scenario. So, how quickly are we able to adjust to the US, the tariff suddenly is announced and there are some countries where the tariffs are lower. So, are we able to quickly readjust to the new realities and maybe shift from the lowest tariff location? How easy or difficult it is and how much time? Is it even practical that we are able to switch between geographies and be able to export all of these from the manufacturing locations across the world in the most optimum manner? Is it even practical and can it be done and how quickly it can be done?

Rahul Ahuja:

So, as far as tariffs in the US is concerned, I will give you a little bit of background. US is our smallest market and we do about \$200-\$225 million of business in US every year. Now, tariffs

impact only a part of our business. 60% of this number that I told you is on FOB basis, 40% is on LDP-DDP basis, which is where the hit of tariffs comes in. Now, as far as, at any point of time, we did this analysis when the first round of tariffs came and the second round of tariffs came, our exposure from a confirmed order book or goods that were selling were later exempted by the US government, but the order book was roughly in the range of around \$50-odd million, of which, let us say, half was FOB, half was LDP. So, on LDP, which is \$25-\$30 million, one, given our long-standing relationship with these customers, customers also understand that this is something which they need to, they are part of the burden. If you are watching the US market very closely, the prices at a retail level have started going up, which means, eventually, this is getting passed on to the customer. So, if the increase is \$10 on a particular export order, about 60%-70%, depending on the customer, is absorbed by the customer. About 35%-40%, we are able to pass on to the supply chain, which is the factory because a retailer and the factory, these are the two people who have maximum profit margin in this whole supply chain. We are a sourcing company, working on thin margins and hence we are usually able to hedge any such increase, either with customer taking part of it or supply chain surely taking part of it. Whatever hit comes to us is more or less maybe 0.5% to 1%, which is also on that particular order because from the next order onward, we factor that tariff as part of our pricing. So, to give you a very back of the envelope, 65% usually the customer absorbs, 30%-35% supply chain absorbs and maybe a timing difference, a 0.5% hit comes to PDS for those particular orders. So, that has been how we have seen the last three quarters turn out. And it is not easy to relocate or shift sourcing from one country to the other, while PDS has this unique ability, given that we have vendors spread across seven or eight countries, which are competitive. And we have for US customers, pivoted by way of increasing our sourcing arrangements in countries like Egypt or Central America but that is something which takes anywhere between two to four quarters to happen. But that is also something that we actively have been working on and successfully now, incremental orders could go into these geographies rather than everything going into a Bangladesh or a China or India.

Sarvesh: Understood, sir. Thank you and all the best.

Moderator: Thank you. The next question comes from the line of Sahil Sharma from Dalmus Capital Management. Please go ahead.

Sahil Sharma: Wanted to know what would be the YOY, GMV and revenue growth on a constant currency basis? If you can help me with that number.

Sanjay Jain: I think the dollar rupee appreciation is closer to 3.5%-4% percent. So, to that extent, if the order book has grown 15%, so if I take the currency impact out, it will be about 10% to 12% growth over the same period last year. And the GMV, if it is growing 8%, then if you take the rupee depreciation out, it will be closer to about 4% to 5% growth.

Sahil Sharma: But I think three-fourths of our business comes from UK and Europe and there the depreciation has been quite significant if I compare it with the last year. So, in that context, if I see the growth, so then it looks like in terms of number of pieces, we might not have grown. Actually, we might have de-grown. So, is my understanding correct?

Sanjay Jain: I think what is important as a data point here to reflect is in the first 6 months, despite all the depreciations that we are talking about, the growth to UK has been 31% over the same period last year. So, this clearly reflects our deep-end engagement. This is not because of adding new customers. This is because of selling more to existing customers. So, I think while we can offline engage with you to see how we break the currency impact geography by geography, but what is important is UK has 31% growth, to America 25% growth, to rest of the world (+100%) growth. That is what we have witnessed in terms of engagement with the customers. Europe is the only reason because of Gerry Weber that we have declined. But our team would be happy to engage and facilitate your understanding. But last point, I think we are nearing towards the end of the call. What is also important is our natural hedge. On one hand, 90% of what we sell is denominated in dollars, irrespective of the geography to where we sell. Likewise, almost (+90%) of what we buy is all dollars denominated. So, we have a currency hedge from that perspective as well.

Sahil Sharma: Sure. Thank you. That was my question.

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

Sanjay Jain: So, thank you so much, all of you for taking the time out to participate in our earnings call. The members of the management team would be available offline to engage with you and try and answer that. And I want to thank the EY team as well to help us in terms of coordination. Thank you and stay safe, all of you.

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