

PDS/SE/2022-23/216

February 2, 2023

<b>Listing Department</b> <b>National Stock Exchange of India Limited</b> Exchange Plaza, C-1 Block G, Bandra Kurla Complex, Bandra (E), Mumbai -400 051 <b>Scrip Symbol: PDSL</b>	<b>Corporate Relationship Department</b> <b>BSE Limited</b> Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai- 400001 <b>Scrip Code: 538730</b>
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**Re: ISIN - INE111Q01021****Sub: Transcript of Conference Call pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements), Regulations, 2015**

Dear Sir/ Madam,

Pursuant to the Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, and with reference to our intimation letter no. PDS/SE/2022-23/207 dated January 23, 2023 regarding Conference Call held on Wednesday, January 25, 2023 at 12:00 PM (IST) to discuss Company's 9M & Q3 FY23 Financial Results, please find enclosed herewith the transcript of the aforesaid Conference Call for your kind reference.

The link to access the said transcript is mentioned hereinbelow:

[https://pdsitd.com/investors/financial\\_reports/#investor-updates-and-call-transcripts](https://pdsitd.com/investors/financial_reports/#investor-updates-and-call-transcripts)

We request you to kindly take the above on record for the purpose of dissemination to the Shareholders.

Thanking you,

Yours faithfully,

**for PDS Limited***(Erstwhile PDS Multinational Fashions Limited)*

**ABHISHEKH KANOI**  
Digitally signed by  
ABHISHEKH KANOI  
Date: 2023.02.02  
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**Abhishekh Kanoi**  
**Head of Legal & Company Secretary**  
ICSI Membership No.: F-9530

Encl.: As above



**“PDS Limited**  
**Q3 FY '23 and 9M FY '23 Earnings Conference Call”**  
**January 25, 2023**



**MANAGEMENT:** **MR. SANJAY JAIN – GROUP CHIEF EXECUTIVE OFFICER – PDS LIMITED**  
**MR. ASHISH GUPTA – GROUP CHIEF FINANCIAL OFFICER – PDS LIMITED**  
**MS. REENAH JOSEPH – HEAD, CORPORATE FINANCE, M&A AND CHIEF INVESTOR RELATIONS OFFICER – PDS LIMITED**

**MODERATOR:** **MR. NIHAL JHAM – NUVAMA**

**Moderator:** Ladies and gentlemen, good day, and welcome to the PDS Limited Q3 FY '23 and 9 months FY '23 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star and then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Nihal Jham from Nuvama to make the introduction. Thank you, and over to you, sir.

**Nihal Jham:** Yes. Thank you so much. On behalf of Nuvama, I would like to welcome you to the Q3 FY '23 Earnings Conference Call of PDS Limited. From the management today, we have Mr. Sanjay Jain, Group CEO; Mr. Ashish Gupta, Group CFO and Ms. Reenah Joseph, Head, Corporate Finance, M&A and Chief Investor Relations Officer.

I would now like to hand over the call to Mr. Sanjay Jain for his opening remarks. Over to you, sir.

**Sanjay Jain:** Thank you so much. A very warm welcome to all of you for the quarter 3- and 9-months FY '23 earnings call. The 9 months and the quarter 3 investor update and financial results are available on the company's website and the stock exchanges. And allow me to draw your attention to the disclaimer that the discussions today may have forward-looking statements, which are subject to certain risks, uncertainties and other factors that could cause actual results to differ from those contemplated by the relevant forward-looking statements.

And before I get into the results and the financial performance update, allow me to welcome on board, Mr. Rahul Ahuja, who has resumed -- rather taken over as a Group CFO for PDS Group. The current CFO, Mr. Ashish Gupta is moving on to pursue further opportunities for him. I believe he's joining CEO for another business outside PDS.

So we are wishing him good luck for his new venture, and we are very pleased to have Mr. Rahul Ahuja with about 27 years of experience across leading multinational banks and across some of the leading Indian companies, namely Max Group, Bharti AXA and his last assignment being Deputy CFO at HDFC Ergo. So we are very pleased that Rahul is taking over this role. And for a smooth transition, there would be an overlap of about 3 months between Mr. Ashish Gupta and Mr. Rahul Ahuja. That's why I wish good luck to both gentlemen.

And now coming to the results. We are pleased to share that PDS has delivered 29% growth in the 9 months ended December '22 and reported a top line of INR 7,835 crores. With this and based on the last 12-month top line of INR 10,611 crores, we are pleased to share that PDS has carved itself as India's largest multinational B2B apparel company in terms of the size of business, along with it being a very unique asset-light global platform built to achieve growth and scalability.

So your company in terms of the -- acting as a principal basis trailing last 12 months has a top line of close to \$1.5 billion. And given the sourcing as a service, orders which are in hand, it's another \$1 billion. So there is approximately \$2.5 billion of gross merchandise value that PDS as an important service provider to its retail customers shall be influencing in the ecosystem.

We believe India is going to play a pivotal role in the global apparel space, and this shall be further reinforced by the various initiatives undertaken by the government of India. PDS has been gradually fortifying its footprint in India, and we have signed exclusive sourcing arrangements with some of the leading brands. And as a result, besides its partner factory network and our own factories in Bangladesh, Sri Lanka plus the partner factories, Bangladesh, Sri Lanka, China, Turkey, we believe PDS would be keen to pursue expanding its partner factory network furthermore in India.

And also, given the focus that we're having in the US market, we're also actually pursuing expanding such a network in Egypt as well. And in the meanwhile, in our existing factories, we have actually invested in terms of augmentation of the existing facilities and the favorable impact on profitability thereof.

Coming back to financial results. In the 9 months ended December '22, we reported gross margin of 16.8% with an EBITDA of INR 327 crores, representing 4.2% operating margin which have expanded by 48 basis points over the same period last year. EBIT during the 9 months increased 34% compared to last year. And this included INR 36 crores gain from the sale of our real estate property in Milton Keynes and around INR 41 crores gain from the sale of real estate property in UK in the last 9 months of the previous financial year.

The profitability of the company also includes the operating cost of our new businesses as we have tried to explain to you earlier that the company as part of its growth strategy keep investing into newer verticals, whether they are in the geography or customer addition or category augmentation and any gestation losses, it takes an average 2 years or so for a new vertical to make money. Any such investment or loss incurrence is actually a charge to P&L of the company.

And if we adjust the onetime gains, which came in from the sale of property or the losses, which I would say is akin to investments in the new verticals, the profit before tax has actually increased 40% versus 25% that one see on the face of it. So the core profits of the company has actually grown 40%. And in line with the first half of the year, the increase in finance costs that you have observed is mainly attributable to the increase in borrowing costs.

During the third quarter of FY '23, we achieved the top line of INR 2,574 crores, with gross margin of 17.5%, which actually expanded 86 basis points over the same quarter last year. And our EBITDA has, in the quarter, increased by 27% from INR 132 crores -- sorry, 27% increase to INR 132 crores this year versus INR 104 crores last year. So the top line expanded by 15%. The gross margin increased by 0.86%.

The EBITDA growth has been 27%. And as a result, there has been a more than commensurate increase in the operating profitability of the company in this quarter as compared to the previous quarter. And if we take normalized PBT margin, wherein the only adjustment primarily related to the investment in new businesses, then it translates to 4.4% PBT margin in quarter 3 this year versus 3.9% margin in the previous -- last -- quarter 3 of previous year. So in a nutshell, for quarter 3, we have a 15% top line growth. We have a 15% PAT growth, and there is expansion in the gross margin as well as the operating margin as well.

Our sourcing segment, which accounts for 96% of our top line has clocked 29% growth compared to previous year, with a top line of INR 7,497 crores. Our sourcing business reported an EBIT of INR 274 crores with a 26% growth as compared to the 9 months of the previous financial year. On the whole, the sourcing segment achieved 47% return on capital employed.

The new verticals contributed INR 484 crores to the top line compared to INR 196 crores in the 9 months of the previous financial year. So the new vertical sales was INR 196 crores, close to INR 200 crores and it's INR 484 crores in the 9 months this year. So the contribution from the investment in new verticals in terms of top line is actually increasing.

Given the gestation phase, these businesses had a PBT loss of about INR 37 crores in this 9 months period. As these businesses grow and achieve size and scalability, they shall meaningfully contribute to the bottom line of the company as well.

And I'm also pleased to share with you that we continue to win large strategic contract in terms of sourcing as a service we had reported earlier about Hanes contract, about S. Oliver, about Sainsbury, Ralph Lauren. And now we have added a very meaningful sourcing as a service contract with an important customer Asda in UK which, when come to full scale, we give company \$370 million of revenue that we would be handling for our customer.

Now we'll come to the manufacturing segment. Our manufacturing segment reported a growth of 32% with the top line of INR 502 crores versus INR 382 crores in the 9 months of the previous financial year. The segment continues on its profitability journey with a PAT margin of 3% in 9 months this year versus a loss of 6% in the same period last year.

In the month of January, we announced the launch of our wash plant in Bangladesh facility, which is our Progress facility. And this wash plant is funded by Netherlands-based Good Fashion Fund, which in a way, our Progress facility has actually been the first recipient to get a funding from Good Fashion Fund. And this fund provides financial assistance to projects which have significant potential in terms of preservice of natural resources and the water that was getting consumed in washing of the garments earlier versus the water that we get consumed now, they'll be close to 50% reduction.

So this not only is augmentation of the profitability of the company in terms of having set up the wash plant, we believe this also is a big certification and testimony to Progress facility of PDS

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*January 25, 2023*

achieving though or coming close to the highest ESG standard. And therefore, we believe our positioning via-a-vis our large retail customer should significantly improve as a result of this.

We've also launched a centralized cutting plant in Sri Lanka, which will create efficiency on one hand, have an augmentation on the profitability. But at the same time, in the existing facility that we have given on job work, there'll be a vacation of space. And as a result, our Sri Lankan operations, which are doing close to \$100 million revenue at present. As we are looking at driving more growth, the setting up of cutting plant would free up space in the existing facility, and therefore, we will be able to extract 20%, 25% more output from the existing facility. So therefore, this cutting plant is once again an augmentation of the capacity and of the profitability.

As I said, these investments are therefore a step in enhancing the capability and should lead to margin improvement. We remain positive that given the order book position in our manufacturing facilities, given the stabilization that we have got with the mix, given the stabilization that we have got with respect to the efficiency norms, we believe step by step, gradually, we would be aiming towards improvement in the profit after tax from a current level up close to 3% to our next aim in a couple of quarters to 5% and then thereafter work towards further improvement.

Talking about our balance sheet, while our company has grown 29% in the entire 9 months period and close to 15% in quarter 3 that we managed to achieve net working capital of zero days as on December '22. And as a result, our net debt which was about INR 82 crores on September '22 has actually come down to about INR 27 crores.

The company also declared an interim dividend up close to \$4 million, approximately circa INR 32 crores. After that as well, there is a reduction in the net debt of the company with working capital days being zero days. It shall be our constant endeavor that we keep our working capital -- well, under control as we aspire to keep growing but managing our working capital around zero days or plus/minus to two -three days or so shall continue to be endeavor.

And this has actually resulted into company being able to achieve a return on capital employed of about 38% for the 12-month period ended December '22 and on equity of about 31%, and with the net debt that we have and with the EBITDA that we have clocked in, our net debt to EBITDA is close to about 0.06x.

And before we get into Q&A session, I would like to add here that the macro factors that are impacting demand in general are still volatile. There is inflation. There is high interest rates, and there is high inventory position, and the consumer demand on one hand, is impacted by inflation or interest rates and the retailers position is getting impacted by the inventory in hand. But PDS, in terms of the medium- and long-term outlook continues to be very positive and is aiming towards doubling its size over the 5-year horizon. This last quarter 3 was a building block, a step in that direction.

In the near term, we are cautious, on one hand, while I spoke to you about some of these headwinds, which are around us at the same time, two of the leading retailers in the UK, which has been our main market, has actually reported strong sales coming out of the Christmas season. So there are flows around positive news coming in. There is a bit of impact of inflation, interest rates, et cetera. So as a result, we will be cautious for the next 2, 3 quarters.

Given that your company is an asset-light platform, therefore, our relative fixed costs are far lower as compared to a manufacturing-oriented company doing sale of garments. So as a result and given that our orientation is providing services to our customer, we believe we should be in a good position to navigate ahead, but we would continue to be cautious for the next two, three quarters.

And with this, I would be very happy to take any questions that you may have, please.

**Moderator:** We'll take the first question from the line of Mohammed Patel from Care Portfolio Managers.

**Mohammed Patel:** Yes. I just wanted to confirm the Q-on-Q fall in sales is expect to seasonality?

**Sanjay Jain:** Yes. I think business is seasonal. While there has been a strong robust demand in the first 6 months, a large part of it coming out of the pent-up demand as the world opened up as well. So I would say the normalcy is kind of setting in in quarter 3, plus, of course, as I touched upon some headwinds around us being there. So there is an element of seasonality, and there's an element of the recent headwinds around us, which I touched upon.

**Mohammed Patel:** Can you provide the breakup of Q3 FY '23, 15% growth by geography?

**Sanjay Jain:** Well, we can come back to you in terms of the growth geography-wise, but at present, the data points that are handy with me to answer your question that for the 9 months period FY '23, we have close to 46% sales from UK and about 26% in Europe and was 15% coming in from North America. And we are experiencing growth across all three at present. But I would say the impact of the headwinds has been more in terms of sales from US market, relatively speaking, as compared to sales from UK market or so. But we can come back to you with respect to geography-wise growth factors as well, please.

**Mohammed Patel:** Sir, I have some questions related to manufacturing. So what is the capacity utilization for Q3 FY '23? And what was the capacity utilization for Q2 FY '23?

**Sanjay Jain:** Well, our manufacturing operations are running nearly 100% in quarter 2 as well as in quarter 3 as well. So -- and the outlook for quarter 4 in terms of the order book in hand is again closer to 100% for both the factories.

**Mohammed Patel:** So what explains the Q-o-Q growth of 25%?

**Sanjay Jain:** Pardon me, can you reiterate your question?

**Mohammed Patel:** What explains the Q-o-Q growth of 25% in the manufacturing segment, if the capacity utilization was 100% for both quarters?

**Sanjay Jain:** Actually, at times, manufacturing operations have this element of Ramzan coming in. So one has to see there is a 10, 15 days production loss that particularly happens in a particular quarter. So one really have to see where the placement of that in the last year and where was it in this year as well. But I think on the whole, barring any fluctuations that you may have observed, the factories are coming into a steady and stable position, wherein they have crossed an efficiency level of 60%. And they have an order book, which is 95% to 100% and the quarter 4 visibility is also there. And quarter 1 is filling up fast as well.

So in terms of our own factories, there is stability, and there is order book which is nearing to 100%. And with the improvement in the customer profile constantly. The larger mix should keep improving; therefore, efficiency should keep improving as well. But there are no out-of-the-routine reasons for any fluctuations that you may observe.

**Mohammed Patel:** Okay. Did you help with the volume value breakup of the growth of manufacture?

**Sanjay Jain:** I think there is not, whatever growth you are observing is pretty much the growth in the underlying number of pieces as well. So you can -- there is a small fluctuation that happened in the average selling price, but it's almost the same.

**Mohammed Patel:** So I just wanted to understand the capacity increase or capex for the manufacturing segment going forward?

**Sanjay Jain:** For the next few quarters, we do not anticipate to spend on any capacity expansion per se in our existing facilities. We are investing, for example, we talked about the wash plant. We are investing into solar power in our Green factory, which is for the tops. So these are the kind of investments we will make. We believe for the last 4, 5 quarters, we have started to make money. Our focus for the next 3, 4 quarters is actually enhancement in the profit that we made from the manufacturing operations.

And once we get to that position, and we believe in the next 2, 3 quarters, the global headwinds should also settle down. And that is where PDS would actually aim at, adding more lines to our existing facilities. In one of our facilities, we have land parcel, one within the premises, one adjoining premises but allow us a few more quarters, allow us to enhance the profits from the existing manufacturing and then add capacity. In the meanwhile, some small capex of wash plant or cutting plant or so, the capex would be the investment in normal course of business.

**Moderator:** Mr. Patel, I am sorry to interrupt. May we request you to return to the queue, please? There are other people waiting. We'll take our next question from the line of Amit Chordia from World Foods LLP.

**Amit Chordia:** I had my question about the long-term contracts. Any new brands that are coming in 2023? Could you update us something on the long-term contracts?



**Sanjay Jain:**

One, as I talked about is the Asda contract, which we signed up, which has an annual gross merchandise value of \$350 million. The partnership -- the contract that we got from Asda. It has got operationalized. We have got an office up and running now in Dhaka, we have onboarded 25 people. So we have started now gradually unfolding the potential into real numbers for us. That is a large, big win that we've got.

There are similar such dialogues and engagement underway. As I mentioned earlier, given the size scale, given our service orientation and given the compliance standards that we always aspire to, there are more and more customers engaging with us for the long-term contracts. So this is one that we have recently added, plus US effort that we accelerated over the last 4 to 6 quarters is also seeing us aiming at more business from marquee customers like Walmart, Kohls, T.J. Maxx, JCPenney. So we will keep working towards getting more business from these customers.

**Amit Chordia**

And a little bit on the US market, so Europe is facing the same headwinds in terms of the economy like North America, but we've done marginally better in Europe. So I mean, for the US strategy, what can we be done better? And where are we winning? Could you just highlight a little bit on the North American market?

**Sanjay Jain:**

Yes. So I think before I specifically come to North America, as I touched upon earlier, that two of the leading retailers in UK actually reported robust sales around the Christmas time. So as a result, our company, while it continues to be cautious, should benefit from that.

In terms of North America, traditionally, one has seen that US markets are always the resilient ones and the first one to bounce back. So therefore, I would say we probably should give about two more quarters of the inventory, excess inventory that they have in hand, should actually kind of lead to normalcy coming in. And therefore, in the second half of the next financial year, one should at least see normalcy coming in, in terms of sales from US market.

But what is more important for us is that with certain customers, some of the names that I mentioned below, we made an entry to by doing fashion business, which is relatively smaller in terms of number of pieces order. As we get entrenched into a relationship with the large customer, as we establish a track record, our engagement with these US customers has also now gone into core supplies, the value segment that we specialize in. So therefore, on the whole of almost 2 quarters probably a potential wait as the inventory normalizes. In the meanwhile, company would keep aiming at getting a larger share of wallet of the customers by extending the offering to value segment as well.

**Amit Chordia**

All right. And apart from closing the home segment and all, any traction on there on that front?

**Sanjay Jain:**

That is what I mentioned in terms of the increase of about INR 200 crores in the 9 months as the sales from the new verticals, versus about INR 490-odd crores sales from new vertical in the 9 months this year, we actually got a large agency contract in the Home segment, from a UK-based retailer, which is almost about \$150 million of annual value of that contract.

As we are acting as an agent, we would actually earn a percentage of this revenue as our income, which should lead to almost a straight addition to bottom line of the company. But to specifically answer your question, our foray into home as a segment have enabled us to win a \$150 million annual business value as a potential contract with one of the large UK retailer. So it's a beginning. We act as an agent, and as we establish credentials, we'd get into acting as a principal as well.

**Moderator:** Our next question is from the line of Keshav from RakSan Investors.

**Keshav:** In an interview, we had mentioned about supporting our manufacturers with the working capital, so there was a mention of free of cost raw material. So could you expand a bit on that? And if it is a sustainable practice because our creditors fund the debtor. So does it not expose us to any demand side risk?

**Sanjay Jain:** I think there is -- what we have been saying is that when we have partner factories who are associated with us, we, in a way facilitate working capital for them. We never give anything at a zero cost. There's a communication gap that has not been a case at all. And when I say facilitate, I mean if to a partner factory, given my strong customer base, given my track record, if I'm able to give them a visibility of business that is coming their way through me, that in turn allows them to go to their banks and get working capital. That is number one.

Number two, from our banking partners, we also get vendor supply chain financing lines which allows my partner factories to go to my banks once the sale is completed and get money faster than in the normal course of business. So these are one or two things that I'm so -- giving a better visibility, and PDS financial credentials, I shared with you in terms of financial position. So if I'm a banker to my vendor and there is a counterparty, PDS with strong credentials, giving a visibility of business is the facilitation we provide. There is never a case, never I repeat, that I'm actually giving free cost raw material.

In fact, in our Sri Lankan operations, for example, which is about \$100 million that we do, there, we facilitate them getting raw material into their factories. So it is, in a way, owned by me. I'm giving it to them for performing cutting operations for performing finishing operations and then dispatching it to me. So that's, yes, to that extent of, if I talk about \$1.5 billion approximately top line to the extent of approximately 6% to 7% of our business in Sri Lanka we buy raw materials, we give it to my partner factory, they value add and sell it to me. And that is very much reported as part of our inventory in the balance sheet that we report.

**Keshav:** Understood, sir. Sir, secondly, I think there was a mention in the annual report about resale market growth expected to be exponential in the next few years. So where do we fit in the scheme of things for that?

**Sanjay Jain:** I think it's a very good observation you made. When we talk about resale, PDS covers this segment of the market from the perspective of our contribution or adherence to ESG agenda. Whenever to retailers in UK and European market, there is even an end-of-season sale and their leftover goods, in a normal course, they might get into a landfill because there is no alternate

usage, but PDS invested into a company called Yellow Octopus. And this company's main business is, that it could actually take over those goods and channelize them, bring them to those parts of the world, which there is still a market at relatively a low-price market, but they are preventing them getting into a landfill.

In fact, our Yellow Octopus operations, at present, approximately are running at around annualized sales of about \$12 million to \$13 million and a profit of close to about \$1 million. So it's a profitable operation. But it's a PDS commitment to the ESG agenda. And what this helps is, which is where I need to request your attention is that when I'm pitching to my main retailers, and I pitch to them that besides quality, price, I am also as a conscious counterparty investing into such avenues. I tend to be -- getting a due consideration for this. That's the context in which this would have come in the Annual Report.

**Moderator:**

Our next question is from the line of Kuber Chauhan from IDBI Capital.

**Kuber Chauhan:**

I would like to ask about the segmentary breakup. I can see a 14% decline on a quarter-on-quarter basis for sourcing part. So what could be the reason behind that? And secondly, are we witnessing any kind of a margin pressure going ahead?

**Sanjay Jain:**

So I think what is important, there is seasonality in our business. Typically if everything else remains same, the second half of the year tends to be better than the first half. Normally, 55%, 60% sales come in the second half of the year, when I say 55%, 60% of the entire year. That's in the normal scenario, but all of us are aware that in the first 6 months, there was a huge surge of demand, the world was coming out of COVID, and now suddenly, there is these headwinds that are around us as well. So these are some factors which have led to what you're observing. But as the normalcy, we anticipate, comes in 2 to 3 quarters, one should again start witnessing the normalized trends of 55%, 60% sales coming in the second half of the year. That's one.

And I think when I talk about these fluctuations, what is also important is that PDS being a service provider being a platform relatively far lower cost, our ability and given that we operate in the value segment, so our ability to navigate these headwinds is very much intact. And now coming to margins, there are mix of factors before I conclusively give you an answer.

The mix of factors is that the retailer, especially in US, for example, has inventory. So there is - they are going slow in terms of picking up orders that there is excess capacity with manufacturers in general. Well I mentioned earlier that our factories are running nearly full, there is excess capacity in general. So factories are chasing orders as well.

So therefore, these are two factors if you look at them, then they are dampening on the margins. But at the same time, the input prices have declined in terms of cotton, yarn, and then freight costs have also actually declined as well. So a mix of these two would be the factors going forward.

We believe that in the near term, there are possibilities that PDS can continue to aim at slight improvement in the margins. And I think given what we are able to handle as \$1.5 billion given the merchandise value of sourcing as a service, our ability to get procurement efficiencies, our contribution of sales from higher category segment in the near term should enable us keep while the headwinds are a little sluggish in terms of top line. But in the near term, our margins should continue to be slightly better.

**Kuber Chauhan:** And last question is on the front of ballpark number. If you can just give some ballpark number about what could be our achievement in next -- in FY '24 and FY '25, given the fact that we have a robust top line and everything?

**Sanjay Jain:** So I guess we have mentioned earlier our aspiration to double from less than INR 9,000 crores to INR 18,000 crores over 5 years. So if you're asking me where would be two years from now, I think we should be well on track to get there. These are minor fluctuations here and there for a couple of quarters. We should be well on track. So therefore, that outlook of an average 14%, 15% grade, two years down the line, you should observe us more or less on the track for a 5-year horizon that we would have given.

**Moderator:** We'll take our next question from the line of Shirish Pardeshi from Centrum Broking.

**Shirish Pardeshi:** Sir, two questions. You mentioned about Asda service contract of \$350 million. Can you help me how you look at year 1, year 2, year 3 from now? And when would you realize this \$350 million in the due course of time?

**Sanjay Jain:** So I would say it will take us about close to two years or so to get to full potential. And -- but as we have clarified earlier, we have sourcing as a service contracts. So the entire -- while we handle this for the customer, but what comes to our revenue is -- these are typically cost-plus contracts, wherein there is full visibility that we give to our customer on the cost-getting incurred and you make a margin on top of it. So that's something that comes as a revenue.

So relatively speaking, a 4% to 5% of this is something that would come as a revenue. And out of that 15%, 20% of that would actually come to a profit margin. So to answer your question, in about two years' time, we should be coming to a full scale up.

**Shirish Pardeshi:** Okay. My second question is on the Hanes deal last year, same quarter, we announced Hanes deal. So where we are in terms of revenue breakup, if you can help and what is it that we can expect? Because the world -- UK world...

**Moderator:** Mr. Pardeshi, sorry to interrupt. If you're on a speaker mode, can you switch to a handset? Your volume is really very low, sir.

**Shirish Pardeshi:** I'm not on the speaker phone. So let me repeat the question. Last year, in the third quarter, we announced the Hanes deal. So in terms of revenue contribution, 9 months, where we are and what are the things we can expect in '24?

**Sanjay Jain:** Yes. So again, the Hanes contract should be assessed that while there is a \$400 million potential in terms of gross merchandise value on an annualized basis. Where are we on that? We believe at the present; we have a run rate of handling \$150 million of the annual merchandise value for the contract. So we have traveled close to 40% in terms of our ability to convert the potential of the contract into real numbers that we give on an annualized basis handling for the customer.

**Shirish Pardeshi:** So did you mean to say that in 9 months FY '23, we are averaging at \$150 million?

**Sanjay Jain:** No, I would say that take the last quarter that we have behind us. And if I annualize that, then we are actually handling about \$150 million. So prospective three quarters from there and the past quarter is giving me a run rate of \$150 million.

**Shirish Pardeshi:** Okay. Wonderful. And the last question on the -- your take on the current scenario because, yes, UK and Europe is under pressure and inflation is going to settle, so maybe a quick word on the margin. How should we look at the next quarter and maybe where -- I mean I'm not looking from the current level, but I'm saying that where would these all contracts when it gets matured? Where the margins would settle, maybe some color on the gross margin and EBITDA margin?

**Sanjay Jain:** Yes. I think for the entire year next year, for example, PDS believes there would be growth over this year. The growth could be lesser than the average that we are aspiring for the next five years, but the growth is expected to be here. That is number one. And therefore, the benefit of operating leverage, we should observe for the entire year next year, a small improvement in the operating margin as well as the PAT margin of the company as well. That is number one, answering your question.

But in the near term, for the next two, three quarters, given the global headwinds, there could be an impact on the sales of the company. But we believe, as I responded in respect to our previous question earlier that our ability to continue with the trajectory of a small improvement in gross margin is expected to be there. So that's where we stand.

**Shirish Pardeshi:** I got that. This question is more refined in the context of the volatility into the foreign exchange. And I think that's what the question which I'm saying. I do agree that directly operating leverage will kick in. And that's why I asked that, where would we settle?

**Sanjay Jain:** Well, when I -- firstly, forex, for example, if I pick that particular point, we largely have a natural hedge to closer to about 90% of the top line that we operate and our liability in terms of the P&L items that we have. So we're largely hedged to -- forex as much does not impact us.

But in terms of answering your question as to where do we see the margins settling in, in the medium-term or so, so we are -- for example, we locked in about 5%, 5.1% operating margin in quarter 3. And on the whole, we are at 4.2%. So we had foreseen this gradually improving and somewhere settling closer to 5.5% or so. So I believe that's where we believe we should be able to settle down. And that should 5.5% or maybe 6% as we further improve the profitability of manufacturing operations as we get sourcing as a service contract, getting into full scale.

So to summarize, 5.5% to 6% EBITDA margin, and as a result, the PAT margin of the company gradually scaling up from current levels of about 3.5%, to upwards of 4.5% to 5%. That's where we are aiming to stabilize in about a few quarters from now. In a normal scenario, barring the next two, three quarters, that's the medium-term outlook.

**Moderator:** We'll take our next question from the line of Shrinjana Mittal from RatnaTraya Capital.

**Shrinjana Mittal:** Just two questions. The first one, if you can help us understand between the two geographies, what kind of channel inventory do you think the partners or the retailers are holding at this point in time? And what is your expectation of a more normalized inventory at the channel level, if you can help us understand that both geographies, both UK and US? That would be the first question.

**Sanjay Jain:** So I would say the inventory holding on the whole is relatively much more with US customers. We understand this is what we have been reading through the results of normally one would have 60 to 90 days in a normalized scenario of the apparel clothing as an inventory, 60 to 90 days of sales. We believe the current levels are almost double of that with the US retailers. That is where we are foreseeing two to three quarters for normalization, and the level of inventory in UK retailers is not as much. While US I talked about almost double. I would say in UK, it's slightly more. I would say the UK is more a word of caution than actually really high inventory levels or so. So UK and Europe is more caution.

And I would say, UK specially, one can -- if I have to put a number, it will be 25% to 40% more than the average inventory that one should be holding.

In Europe, the impact is a little more 50% to 60% more than the normal inventory that one would be holding. So in our main market of UK, which is almost 50% of our sales, the inventory hold up is 25%, 30% more than the normal one as compared to much larger than US and as compared to Europe, which is slightly more than UK.

**Shrinjana Mittal:** Understood. And for UK, what is the general average days of inventory? Would you -- I mean, just an estimate of what UK would hold typically?

**Sanjay Jain:** So it's a very broad estimate basis, my experience of observing -- it's again, closer to what, 60-odd days. 60 to 75 days is normally the inventory that is there on an average basis with a retailer.

It's similar across the world, across -- in the retailer, for their apparel fashion segment, they tend to hold about 60 days to 75 days of inventory on an average.

**Shrinjana Mittal:** And currently, that would be around 80 to 90 days. That's what you meant by saying 25%, 30% more. Is that broadly right?

**Sanjay Jain:** Yes, that's, as I said, that's a broad assessment basis the observation. I'm not answering your question basis an empirical analysis done, but that's a broad assessment.

**Shrinjana Mittal:** Understood. And for the excess inventory, if there is some excess inventory that gets left over, is there any liability for PDS at any point in time for that inventory or for any of our channel factories?

**Sanjay Jain:** No, PDS, close to 92%, 93% of our sales are on FOB basis. So we do not carry any inventory risk. So especially when it comes to sales to UK markets, no, there are no such liabilities that potentially come to PDS in terms of inventory not getting sold. That's not the case.

**Shrinjana Mittal:** Understood, sir. If I can squeeze in one more question just on the working capital debt. Most of our or all of our borrowings are basically short term in nature. Are they basically working capital debt? And could you share broadly what the annual rate of interest on that would be?

**Sanjay Jain:** Yes, largely our entire set of borrowings are working capital in nature, trade facilities or so. And our average spread in terms of borrowing on the SOFR, which is the base rate, is ranging from 1.5% to about 2.5% in terms of borrowing costs.

**Shrinjana Mittal:** 1.5% to 2% in SOFR...

**Sanjay Jain:** Sorry, I'll answer. There is SOFR the base rate, which was earlier LIBOR that all of us resonate with and then there is spread on top of it. And the average SOFR has been about two years back closer to about 0.7%. And is actually increased 2.5%, 3% in the last two years. That's the base rate.

On top of it, the spread that company pays is 1.5% to 2%. So therefore, to simply answering your question, it would be average around 5%-dollar cost on the whole -- on an average into the working capital lines.

**Shrinjana Mittal:** Understood. And all of this debt is, or most of it is dollar denominated. Is that the right way to think of that?

**Sanjay Jain:** Yes. Largely, it is dollar denominated. The answer is yes.

**Shrinjana Mittal:** So the interest cost would have an element of interest as well as whatever is the FX movement in that quarter, especially when you're reporting it in the rupee terms? Is that right?

**Sanjay Jain:** So the borrowings are in dollars. The rate of interest is in dollar, that's the underlying currency in which the operations are done. But while reporting, there is, of course, the rupee depreciation that has happened, for example, in the last 9 months is about 9% or so. Yes, your observation is right. What gets reported eventually in rupee also captured an impact of dollar-to-rupee conversion.

**Moderator:** We'll take our next question from the line of Anirudha Jain from HU Family Office.

**Anirudha Jain** So my first question is on competition side. So can you just elaborate on who are the competitors?

**Sanjay Jain:**

So interesting question. I think with a lot of humility, our competition actually is the sourcing office of the retailer, which is typically in the geography from where we are sourcing. For example, if 50%, 60% of what we sell is being sourced for Bangladesh, then we would have offices of the retail customers over there as well. And they would also be reaching out to the factories. So that's where -- so our ability to add value vis-a-vis the whole sourcing office is the number one factor on which we tend to win business.

But some of the other factors are that increasingly, retailers are focused on core operations. And when they are observing that there is a counterparty, financially stable ESG compliant like PDS, they are willing to let go their office and give PDS as an exclusive sourcing point of contact for them to source from Bangladesh. And this theory when applied to practice have seen PDS getting a Hanes contract, has seen PDS getting a Sainsbury's, Ralph Lauren contract, has seen PDS getting now an Asda contract. And somewhere, again, with lot of humility, Asda was early owned by Walmart.

And when -- now there's a new ownership. So Walmart through their global network was catering to the global sourcing requirement of Asda. So when the -- in new ownership, Asda was wanting to enter into a new counterparty and PDS was found fit to be able to take over the sourcing arrangement. So this piece is -- this is where we are -- if I have to answer the question in terms of competing that one is able to win business, given the changing need of the retailer.

The other thing is that -- very important again. I need to mention here that PDS need to be seen as a service provider. We have close to 3,000 plus people who are working across -- these are qualified designers. These are qualified merchandisers. These are qualified compliance professionals. These are qualified logistics professionals. These are qualified chartered accountants.

So PDS is actually aggregating production capacities of various factories and all these specialists qualified people are putting it together, bundling it together as a service to the customer. So that's something that's got to be seen in perspective when I reflect on competing. There are, given the size and scale that we operate, there are no such large companies barring Li & Fung, which has been doing this. There are some small, small sourcing companies in various part of the worlds, which are doing 50 million, 60 million, but somebody to be able to scale up to this level, PDS has been very humbly able to get there.

**Anirudha Jain**

Okay. Because my particular question was from the perspective that I was just looking at one of the companies named Dhakai, Bangladesh-based company. So they had multiple -- the sports brands and other things has declined. So I was just wondering why PDS cannot onboard those clients considering the size which we got?

**Sanjay Jain:**

See, PDS is constantly onboarding. What is important for us is that as we take our growth agenda ahead, we would always be very cautious of the credit risk of the customer. We really won't add growth to us unless we feel good about it that we're dealing with B2B customers. It is all vendor controlled. We want to keep our working capital well intact as well. So calibrated growth, which



allows us to be in line with our high ROCE expectation is where we are. I mean honestly, there is so much humungous potential to double much faster than the 5-year horizon that we have given ourselves. But then we wanted not to be done at the expense of our return profile to our stakeholders declining. So we don't want to win business on price. We want to win business on price, on compliance, on quality. Therefore, a more calibrated approach than actually going there and start winning business at prices.

**Anirudha Jain**

Okay. And just a last question. So in this design-like sourcing vertical, so do you have any high-end brands onboarded? And what is the typical margin difference between sourcing as a service and design-led sourcing vertical?

**Sanjay Jain:**

So we continue to do more business with our existing customers in design led sourcing, whether it is Primark, whether it is Tesco, whether it is Asda, whether it is NEXT whether it is Matalan. So PDS continue to be more and more relevant, therefore, gradually getting larger share of wallet of these customers. That's answering your first point.

I think it may not be an apple-to-apple when you talk about the margin profile, design-led sourcing, I act as a principal wherein I actually buy and then sell to the customer. And on an average, since given that design-led sourcing is about 90% of our business. So 16% to 17% gross margin that we get is largely coming in influenced by the design-led sourcing. But now if I talk to you about the margin profile of sourcing as a service, so when we're handling \$1 billion of annual merchandise value, what would come to me as my top line is approximately 5% to 6% of it, where \$50 million, \$60 million would be accretion to my top line.

And on that, we anticipate to make 18% to 20% PBT margin. So my blended PBT margin is 3.5%. So the more we add sourcing as a service, the accretion to top line might be relatively lower, but the accretion to bottom line in terms of margin would be much better.

**Anirudha Jain**

So sourcing-led businesses, which is earning us a good amount of profit than the design-led sourcing. That's what you are saying?

**Sanjay Jain:**

In terms of a margin profile, the sourcing as a service would have a better margin profile. But in terms of absolute size, the design-led sourcing would continue to be 80%, 85% of the top line of the company overall 5-year horizon as well.

**Moderator:**

Our next question is from the line of Vishal Prasad from VP Capital.

**Vishal Prasad:**

I have two questions. So in previous calls, we have talked about our preference for meeting with the discount retailers and avoid the middle segment of the market. So could you share your thought process behind this approach?

**Sanjay Jain:**

Yes. So that continues to be our approach as well to largely operate in the value segment. I think that somewhere comes in from the fact that when we talk about working capital being operated closer to zero days or minus two days, et cetera. So that is where the larger run orders, the large

run orders coming from the core business from the value-added segment and the order value is much, much larger than the fashion business and our aspiration will do more FOB.

So when you want to do FOB business, then we want to operate at a low working capital, lower risk. A core business is always lower risk. So it is with these thought process in mind that we want to stay focused largely on the value segment. And in fact, as we -- in this business, there are cyclicalities from time to time. So the ability to withstand the cyclicalities when we are largely operating in the value segment is also even far more.

And therefore, the calibrated approach to growth keeping a return ratio, our balance sheet in mind is leading to our selection to remain more closer to value segment than actually trying to get into fashion segment.

**Vishal Prasad:**

Okay. Sure. Second question is, I mean, in the past, there has -- I mean, these companies which are our preference, the kind of companies that we do business with and the geography that we have chosen, so they used to source from China. And now there is a gradual shift happening from China. So if we consider the geography that you prefer, the kind of companies that you prefer and the segment that you prefer, what would be the sourcing market, I mean what will be the size of it?

**Sanjay Jain:**

So if I get your question right, the current sourcing footprint...

**Vishal Prasad:**

Addressable market is what I'm trying to understand across the world based on the geography segment and the kind of companies we would like to work with.

**Sanjay Jain:**

We believe we are there in the addressable market where we got to be present, whether it is UK, Europe and US. So we caught a foot in the door with US being a relatively new entrant. So that presence is there. We need to harness it more. We need to get larger share of wallet of the customer. I don't think one is looking at adding much more customers to what we operate in, our inspiration would be to do more business with existing customers.

And some of the recent wins in the US customers, are small amount of businesses that we have started doing with large retailers, so whether I would spend energy on thinly spreading myself for doing small, small business, no, we got to our foot in the door with relevant retail customer that we wish to aspire. So therefore, to answer the question, we are there in the addressable markets, but we have a lot of headroom to do much more business than what we are doing with the customer at present.

And I believe, given our strengths that we have built should enable us to do more business with these customers. But one point to add here is that these customers as part of your sourcing strategies, our customers, India is becoming important for them. A market like Egypt is becoming important for them from the global sourcing. That's where PDS want to make sure that when I'm positioning my strength, I'm positioning both these markets as well as equally of strength as well.

**Vishal Prasad:** Right. So if we talk about the quantitative terms, like our revenue would be \$1.25 billion, but our customers are similar kind of companies across the geographies that we are in. Probably they would be spending maybe \$10 billion or \$50 billion. So is there some ballpark figure that you are aware of, which can give me the idea of the size of the market.

**Sanjay Jain:** See, what customers are we talking about, for example, Primark, annual sales of about \$6 billion to \$8 billion. Tesco, a large amount of sale. NEXT, a multibillion-dollar sales company. And Primark is primarily fashion. NEXT is primarily fashion. So these are very, very -- and our annual sales to, for example, these customers are hovering around, for example, Primark is potentially \$150 million of sales. And NEXT is closer to \$100 million of sales.

So given the business we are doing, given the business our customers are doing, there is a lot of potential to actually grow in terms of business with the existing customers.

**Vishal Prasad:** Right. And the last question that I have is in the typical contract where we signed, who is the responsible for getting the raw material like cotton and all? Do we have a raw material risk that suddenly price goes up and we are facing challenges in terms of our margins?

**Sanjay Jain:** Typically, it's a hybrid. At times, the customer may have a nominated fabric or a trim supplier that they would expect us to work with or there could be a fabric or a trim supplier recommended or nominated by us to the factory. Or in the third case, the factory to whom we work good business would be at liberty to go to the fabric or trim supplier. These are three scenarios that exist on a case-to-case basis.

Once our price is locked in, typically, we have a visibility of order book closer to 2 quarters always. It's kind of locked in. We don't carry any risks into the order book, which is in hand. It is when we are engaged with the prospective order book, which is 3 quarter from now, 4 quarters from now, that is where one has to bear in mind any increase or decrease that would have happened into the cotton or yarn prices. So that's where we are.

We don't get into locked-in position. And therefore, we don't go into any kind of forward contract, et cetera, et cetera. It is a negotiation that goes from time to time basis the 2 quarter, 3 quarter headroom that we have. The risk of, we having entered into long-term contracts is not there, but we have to remain in discussion with the customers to be able to have pricing, which are reflective of the input price that prevail at that moment of time.

**Vishal Prasad:** So yes, I get that. So once, let's say, you have the final purchase order, then you do the buying of the raw materials then and there back-to-back. Is that how we deal with it?

**Sanjay Jain:** So when we do the costing when we give the costing to the customer, our merchandiser is already in touch with the fabric mill or the trim supplier. They take the prices and that is where we actually get the order in. In fact, once we have got the order, then we actually sit and try to get a better price. So normally, we don't get into a situation whereby I have got myself locked up into the price of the customers. And I'm settled with a situation that I have got my input prices that

have gone up. No. We are pretty much taken care of at the time of getting a contract from the customer. There is an ability to actually go back and try and get some discounts. But the reverse risk is not there.

**Moderator:** Thank you. Ladies and gentlemen, that was the last question. I now hand the floor back to Mr. Sanjay Jain for closing comments.

**Sanjay Jain:** Thank you so much, ladies and gentlemen, for joining the call today, and it's a pleasure always to have an engaging audience like you. And we look forward to connecting with you again and stay safe and take care all of you. Thank you.

**Management:** Thank you.

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