PDS/SE/2024-25/56 July 31, 2024

Listing Department **National Stock Exchange of India Limited** Exchange Plaza, C-1 Block G, Bandra Kurla Complex, Bandra (E), Mumbai -400 051 **Scrip Symbol: PDSL**	**Corporate Relationship Department** **BSE Limited** Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai- 400001 **Scrip Code: 538730**

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, please find enclosed transcript of the Company's Conference Call held on Thursday, July 25, 2024 at 4:00 PM (IST) wherein the Company's Q1-FY25 financial results were discussed.

This transcript can also be accessed on the website of the Company at below given link:
https://pdsltd.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

ABHISHEKH KANOI

Digitally signed by ABHISHEKH KANOI
Date: 2024.07.31 14:17:53 +05'30'

Abhishekh Kanoi
Head of Legal & Company Secretary
ICSI Membership No.: F-9530

Encl.: As above

"PDS Limited Q1 FY25 Conference Call"

July 25, 2024

MANAGEMENT: **MR. PALLAK SETH - EXECUTIVE VICE CHAIRMAN**
MR. SANJAY JAIN - GROUP CEO
MR. RAHUL AHUJA - GROUP CFO
MS. REENAH JOSEPH – DEPUTY GROUP CFO

Moderator: Ladies and gentlemen, good day and welcome to the PDS Limited Q1 FY25 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 Mr. Diwakar Pingle from EY. Thank you and over to you, sir.

Diwakar Pingle: Thank you, Lizanne. A warm welcome to all the participants to the PDS Limited Q1 FY25 Earnings Call.

Investor Presentation and the Financial Results are available on the Company website and the stock exchanges. Please note that anything said on this call which reflects our outlook for the future, or which can be construed as a forward-looking statement must be viewed in conjunction with the risk of the Company faces. This conference call is being recorded and the transcript along with audio of the same will be made available in the website of the Company as well as exchanges.

Please also note that the audio of the conference call is a copyright material of PDS Limited and it cannot be copied, rebroadcasted or attributed in press or media without specific and written consent of the Company.

To give you a brief business update and take you to the Results from the Management Team, we have Pallak Seth - Executive Vice Chairman, Sanjay Jain - Group CEO, Rahul Ahuja - Group CFO, and Reenah Joseph – Deputy Group CFO.

I would now request Mr. Sanjay Jain to provide you with a Brief Update in the quarter. Over to you, Sanjay.

Sanjay Jain: Thank you, Diwakar. A very warm greetings to everyone joining us from around the world. A very warm welcome to our Quarter 1 FY25 Earnings Call.

I am pleased to report a good start to the fiscal year. The Quarter 1 has come out strong with 24% topline growth backed by improvement across various geographies as well as the categories. This achievement underscores our ongoing effort to reach our vision brick by brick every quarter. We clocked gross merchandise value of approximately Rs. 3,898 crore, which is a 28% increase compared to Quarter 1 last year. And this translated into 24% increase in the topline. Further, as we stand today, our order book is at Rs. 4,813 crore, which is approximately 24% higher as compared to same period last year. So, as we started the year amidst uncertainties across various parts of the world, we had foreseen that on an average, there could be 10% growth throughout the year. But Quarter 1, we stand at 24%. The order book is currently 24% up as compared to same period last year. So, at this juncture, we believe we should be able to nearly double the original growth rate that we had foreseen for ourselves for the entire year.

Our gross margin expansion journey continued as value-accretive businesses contributed 15% to total revenue. If we go back same time last year, these value-accretive activities were approximately 10% to 12%, and now the percentage has gone to 15% of the total revenue. In addition, the margins of our existing business are also an upward trajectory. Happy to report that the manufacturing operations achieved a growth of 54% over the same period last year. And as we are talking to you today, the capacities for quarter 2 are running full and the outlook for Quarter 3 is also in a similar direction. During the quarter, we continued to invest in new verticals, allocating approximately Rs. 48 crore to fund these new activities, new verticals. At our end, we are closely monitoring their performance and are pleased to report that some of the benefits that we had foreseen are beginning to come.

Our sales from these new segments in the first quarter were approximately Rs. 93 crores, which is almost 4x increase from the new vertical sales in the same quarter last year. Our strategy of expanding our geographies and wallet share with existing customer is gaining traction with the US now significantly contributing to our overall revenue. And if we talk about growth, the sales from US are 50% up as compared to the same period last year. As part of the new vertical investments that we have been making, investment in North America has been a key part of it. And somewhere this 50% growth in Quarter 1 in terms of sales from North America as compared to same period last year is a step making us increasingly feel more and more positive about these investments that we are making. Additionally, our US business has expanded through a strategic sourcing arrangement with a large US online fashion player. As their strategic sourcing partner across regions including China, Myanmar, Cambodia, Vietnam, Morocco, Pakistan, Bangladesh, India, Turkey, and Egypt, we aim to leverage our existing global sources network and expertise to meet these dynamic demands that are coming in from a large US retailer. As this business unfolds, we believe as the next step, there should be a $50 million annualized revenue and then we should be able to scale up this relationship to circa $100 million revenue. The business has already started. With these encouraging factors at play, we are more driven than ever to achieve our vision living no-stone unturned. By utilizing technology and digitization, we are enhancing decision making and creating higher synergies across various raw material and operations.

I would like to emphasize here that on one hand, we had taken initiatives to invest into new verticals to hasten the growth of the Company, but in the same time, we have also now accelerated our efforts for cost optimization and cost synergies. We believe at the current size and scale of the organization within the GMV that we are handling is almost touching $2 billion. At the backend, there's a lot of potential to synergize the procurement, to synergize the basic cost to shared service centers. And also we are looking at optimizing our factory network. And I am happy to report that this plan of action has already been put under play, and we should also start now, in one quarter from now will start getting the benefits of this cost optimization underway. This is a parallel activity, in addition to the growth agenda that we are pursuing.

We're also pleased to mention that a very senior industry person, Dan Coen, who's been working with AlixPartners as a retail sector expert, he brings on board an extensive experience working in the retail sector and at the same time, an extensive network of relationship across the global retailers. So, from a president strategy and market position, he should be able to enable us leverage more and more the new initiatives that we have taken by investing across various markets.

To sum up, we are excited about the opportunities that lie ahead and we are feeling confident in our strategy to deliver long-term value to our shareholders, customers, and our stakeholders. Our achievements in Q1, wherein the growth of 24% is visible, is just the beginning. We believe in one or two quarters from now, the investments that we have been making will start tapering off on one hand, and at the same time, the contribution from these investments will start becoming visible in later part of the year as well. We are committed to building on this momentum as we navigate through the financial year.

I would now pass on to our Group CFO – Rahul Ahuja. I am requesting him to provide you an overview of the financial performance for the quarter.

Rahul Ahuja: Thanks, Sanjay. Good afternoon, everyone.

In continuation with our Q4 FY24 momentum, we witnessed strong growth during this quarter. We achieved a topline of Rs. 2,621 crores, clocking a growth of 24% year over year, with a gross margin of 20.8%, which is an expansion of about 211 basis points. Our employee costs and other expenses increased mainly due to new business verticals and the inclusion of businesses like Ted Baker and Gerry Weber into our group, which were not part of our portfolio in Q1 of last year. Increase in other expenses also increased due to an increase in freight cost, travel and marketing expenses, resulting in an EBITDA of Rs. 73 crores, a growth of 8% year-over-year. Given the incubation phase of new businesses being 18 to 24 months, our investments in new verticals continued throughout P&Ls during the quarter.

Our operating profit included the impact of Rs. 48 crores invested in new verticals during the quarter. And our EBITDA, when normalized for these investments, stands at Rs. 121 crores as compared to Rs. 86 crores in the same quarter last year. Normalized EBITDA margin has increased from 4.1% last year to 4.8% this year. EBIT recorded a growth of 38%, clocking Rs. 70 crores in this quarter versus Rs. 51 crores in the same quarter last year. Profit after tax increased by 34% to Rs. 31 crores versus Rs. 23 crores in the same quarter last year.

Talking about our segmental performance, our sourcing business delivered around 23% growth in quarter ended June 30, 2024 generating Rs. 2,505 crore in revenue. Our gross capital employed in this segment stands at Rs. 1,112 crores, delivering a return on capital employed of

30%. Our manufacturing segment demonstrated growth with a topline of Rs. 180 crores during the quarter, marking a year-over-year increase of 54%.

Moving to the balance sheet, our net debt as of June 30th 2024 stands at Rs. 245 crores, down from Rs. 258 crores as at the end of March 31, 2024. Our leverage ratios remain strong, with net debt to EBITDA at 0.6x and net debt to equity at 0.2x. We have further been able to reduce our net working capital days from 7 to 2.

In conclusion, our performance this quarter underscores the strength of our business model. We are focused on maintaining our momentum and delivering value through the years.

With this, I request the moderator to open the floor for questions and we will reply to those amongst us. Thank you.

Moderator: Thank you. Ladies and gentlemen, we will now begin with the question-and-answer session. The next question is from the line of Shrinjana Mittal from RatnaTraya Capital. Please go ahead.

Shrinjana Mittal: Hi, thank you for the opportunity can you give the breakup of Ted Baker sales and the sourcing as a service sales in this quarter?

Sanjay Jain: So, this sourcing as a service in terms of the revenue that we booked in Quarter 1, if I tell you in rupees crores, it has been approximately Rs. 31 crores in terms of revenue booked, which is approximately 49% growth as compared to the same period last year. So, that's the answer to your question. Rs. 31 crore with 49% growth over same period last year.

Shrinjana Mittal: Right. And on Ted Baker?

Sanjay Jain: Ted Baker, we have done $12.3 million, which is approximately Rs. 100 crores, Rs. 102 crores, and which is approximately 240% growth over the same period last year. Last year, of course, is not a like to like because it was only towards the end of the quarter that we acquired. So, Rs. 30 crore number last year in the Q1 and approximately Rs. 100 crore number in the first quarter this year.

Shrinjana Mittal: So, I was saying that in the last 2 quarters the run rate was around Rs. 160 crores for Ted Baker, so it has come off a little bit. Is there some seasonality or what would be the reason for that?

Sanjay Jain: So, there are two factors to it. One of course is seasonality, quarter four and the later half of the year, the winter and then the spring summer collection, the sales are always better. So, one should see improved traction in the later part of this year as well. That's the first factor. The second factor is that the retail operations of Ted Baker have been under a little bit of turbulence, they're stabilizing. But the wholesale growth momentum continues. So, that's the two reasons.

Shrinjana Mittal: Understood. And the second question, I have a bookkeeping question. So, our increased cost has increased sequentially, even though the gross debt has come down. So, is it because of some early payment discounts and bank charges? What would be the reason?

Sanjay Jain: So, what you see in our books is the loans that we take on the supplier side or in the payment side. Besides that, we also do insurance-backed factoring. Given that the Quarter 1 has been a growth of almost 24% over the same quarter last year, we have been adding more customers to our factoring facility. So, our overall factoring facility in the Q1 over the sequential quarter of March has gone up by about $8 to $9 million, which is translating into a large part of the interest cost going up.

Shrinjana Mittal: So, in terms of the investments that we have done for the new verticals, this quarter is around Rs. 48 crores. So, we should be assuming that that's more of a run rate number, or how should we think about this new vertical investment?

Sanjay Jain: I think the process got accelerated in Q3, Q4 of last year and somewhere it is peaking out in the current and the next quarter. So, now, this should not be taken as a run rate. I think as I mentioned in the opening remarks from Quarter 3 onwards, we should see this number coming down to nearly half and we should actually start seeing value coming back towards the end of the year. So, this is not the run rate. This is closer to the peak investment in a quarter. It's slowly coming down.

Shrinjana Mittal: Understood. And just one last question on the tax rates. So, our effective tax rate has reduced, and that's mainly because of the mix, is it now that because the Ted Baker business contributed little less compared to last quarter? Is that the reason?

Sanjay Jain: So, that's one of the reasons. Also, we have certain new verticals which are currently loss making, but we are sure that in the near future they will be delivering profits. So, we have made deferred tax asset to the extent of about $400,000 to $500,000 to capture the real tax for the quarter.

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

Rishi Modi: Rahul, just wanted to check on the debt that we have against the Ted Baker working capital. Has that been factored in this quarter?

Rahul Ahuja: No, it hasn't been till now. As we have said in the last call as well, that our IT integration, which is SAP, would be completed by mid to end of July. So, that has been done now. In UK, the banks, once the integration is done, come to check the systems. They do a kind of an audit to ensure that end to end everything is getting generated from SAP or whatever ERP systems you are using. So, our banker, which is HSBC, which has already sanctioned lines on this aspect, is coming for this inspection or discussion around the end of first week of August and post that the limit should be available to us. So, maybe the second fortnight of August is when we should see the limits getting operational.

Rishi Modi: So, effectively in the Q2 balance sheet, our debt should come down?

Rahul Ahuja: Correct. So, what is the OD facility should get translated into an insurance backed factoring facility. And to that extent, debt should come down.

Rishi Modi: In the other comprehensive income, there's an expense that I am seeing which, if you could just explain that amount to me, it would be of great help. I'll just point out the line item to you once, I think.

Rahul Ahuja: We are just taking a look at what you are referring to.

Rishi Modi: I will just highlight it. So, there are Rs. 26 crore items that will be reclassified to profit or loss in the other comprehensive income/loss for the period. So, what is that Rs. 26 crore amount that will be reclassified to profit or loss?

Rahul Ahuja: This actually refers to we are just translating the foreign currency, our balance sheet, especially balance sheet related to Bangladesh, where the currency has been depreciated more than 7% in reference to this quarter, right? BDT to US dollars. So, that is the only the FCTR in the system.

Rishi Modi: Understood. Alright. And the receivable days coming down in the quarter, all factoring or something else out there?

Sanjay Jain: It's a mix of both. As I said, we are increasingly, every month trying to ensure that we do more and more factoring of our receivables to ensure that there is better working capital cycle. And, if you compare it sequentially, March is always the biggest quarter for us. There is a lot of pressure or focus on sales towards the last fortnight. So, both these factors do result in Q1 showing better.

Moderator: The next question is from the line of Gautam Trivedi from Nepean Capital. Please go ahead.

Gautam Trivedi: The question I had was with respect to the entire China Plus One unfolding. The government of India in particular has been coming up with various PLI schemes etc. to attract manufacturing back into India. From that standpoint and from us, India being a sourcing point, how important has it become for your customers as they diversify away from China? Or are we facing serious competition from a host of other countries?

Pallak Seth: I think definitely with even Trump potentially coming in as the president of US, there is going to be accelerated decoupling with China happening. And people have already now exhausted between Vietnam and Bangladesh or established sourcing countries and people go and want to expand the sourcing matrix there. So, definitely the two or three growth areas we are seeing are

Central America, Africa, and more Middle East, but India being at the top of the list for most global retailers as a sourcing destination. The challenge the retailers are facing that the amount of business to be placed is so large that there are not enough factories with scale which can take up that level of business. That's also the raw material base. A lot of the Chinese businesses are synthetic raw material with polyester and nylon in this course and India is lacking fabric in this raw material base. So, if India is able to build in scale of manufacturing plus also the raw material base with fabric capacities of polyester and synthetic, then a large part of the business potentially could be moving into India in the next 3 to 5 years.

Sanjay Jain: I am sorry, just to add to what Pallak said, two real-time cases that we are experiencing, the world's largest physical retailer because of the reasons you mentioned, China Plus One has been looking at sourcing 10 billion plus from India. So, while there are large factories, that can come up to meeting the various ESG and quality and delivery requirements. But then there are large medium-sized factories. And that is where PDS brings a lot of value in our ability to aggregate and also represent. So, what that translated into, that besides the large factories, they also shortlisted PDS as a prospective party with whom they want to engage and take the discussion to the next level. So, we are progressing well on that track. Secondly, a UK and Ireland based $10 million plus retailer has been recently in India, focusing on their sourcing strategy from India and their host for their visit was PDS. But as a trusted existing partner for their sourcing from locations beyond India, they are bringing that relationship of PDS and the retailer to India as well. So, we are seeing to answer your question very specifically, such opportunities that are getting into the funnel, and in about 2 to 3 quarters, but you should see conversion of those into actual revenue coming in.

Pallak Seth: Yes, for most of the retailers, India is doing 5% to 7% of their current sourcing on apparel or the global sourcing mix, India is 5% to 7%. Indication we have got that this number could become easily 15% in the next 2 to 3 years. So, that means 5% to 15% it is 3x growth, 7% to 15% is doubling up the business. So, there is a huge amount of potential and PDS being a Company that originated from India, obviously, we are one of the first point of choice for most of our customers wanting to look at India's sourcing manufacturing deals to become the port of call like Sanjay just mentioned two examples or the many more that are under discussion with us.

Gautam Trivedi: Currently you said India is 5% to 7% of global sourcing. Is that right?

Pallak Seth: I mean if I look at a major global retailer, India is 5% to 7% apparel, Bangladesh is 30, China is 20, Turkey is 15. So, it's global sourcing, right? If you want to be in this industry after you're a global player, you survive and sustain and grow. So, India is 5% to 7% for most retailers today and anyone looking at 15% minimum in the next 2-3 years.

Gautam Trivedi: So, what I wanted to share with you was that I was in the US in the month of May this year, and I always make a trip to Costco just to see how many more products actually made and how much of that diversification in the US is moving away from China. So, just want to share this with you guys that I found garments and I went specifically to look at garments and I found now increasingly Cambodia, Vietnam, Thailand, Nicaragua, Guatemala and India of course and by the way some also increasingly made in the USA so again that's very limited stuff, but I was surprised to find still at least 40% of the stuff made in China. This is specific to the Costco that I went to. So, I am not generalizing, but just wanted to give you some feedback.

Pallak Seth: Yes, I think, you know, with China decoupling, Trump has clearly said that he might take the import duty to 60%. That 20% level still China can be competitive because government subsidies given to manufacturers is huge there. But at 60% import duties, it will be uncompetitive and unsustainable. And all the other countries you have mentioned, they are all run by Chinese manufacturing groups having plants in different parts of the world. So, raw material is still potentially coming from China into all these countries. Only the CMT factor is done there. It's all the manufacturers. It's all order to Hong Kong or Shanghai-based companies. And they make all the raw material from China, ship it to these countries to just do CMT, which is around 20% to 30% of the value chain. 70% is still captured in China, Thailand, Cambodia, Vietnam, Nicaragua, and all these countries. That is the reality.

Moderator: Thank you . The next question is from the line of Krunal Shah from ENAM Investments. Please go ahead.

Krunal Shah: I have two questions. The first is on Gerry Weber. Can you describe what has the progress been made there and the outlook over there? And the second question is on the new US customer that you mentioned in the presentation. Can you describe the scope of work that will be doing there?

Sanjay Jain: Let me take the first one on Gerry Weber. In the first quarter this year, we have actually clocked in US $22 million of revenue, which is approximately Rs. 182 crores, and whereas the contribution was zero in the same period last year because we actually got into quarter 2 into Gerry Weber relationships. So, somewhere, if I have to analyze the first quarter, then the account is shaping up very well into annualized Rs. 700 crore plus account. So, we have started on a good note in Q1, and we believe this trend should continue. Our subsidiary, Techno, has become more and more strategic to their global operations. In fact, amongst our top 10 verticals, if I have to name the vertical that has fastest growth last year was actually Techno, backed by Gerry Weber, and the momentum is continuing on that as well. And on the second one, I would request Pallak to talk more about the deal that we have recently signed with the US e-commerce Company.

Pallak Seth: Yes, so the US e-commerce Company is based out of LA. And they are around the US $2.5 billion online retailer and the largest in the US for online business and fashion. So, their main competitor currently is Shein. And the conviction of this owner of this business is still a single owner-owned business. So, there is no sort of public Company. Company of 2.5 billion is making almost 400-500 million net profit because of the lack of competition in online retail in the space they're operating there. But they see a huge growth delta from where they are currently in the next 5 years, especially with, for example, the US politics. Shein and Temu are seen as two big Chinese companies trying to dominate the US retail space. And if the politics was happening, especially if some comes in, there's a big talk how US ban TikTok, they will also ban these two online retailers. So, this online business is talking about going from $2.5 to $10 billion annualized revenue in the next few years because they have the customer base engaged with them on the website. But currently they do not have any structure supply chain. So, the entire owner of the business is a genius on internet marketing, customer acquisition and customer engagement. But I met him in a few months back and he'd never even been to China to source garments. So, the entire sourcing currently was done through agents based out of LA and New York. So, it's all agents sitting there making 30%, 40% margin and obviously not giving them the value they require. So, the contract we have assigned with them, we set up a new team, a Company called PDS Online Enterprise. One of the most competent teams in our industry, a guy called Andrew Rini who runs the sourcing of Boohoo, one of the largest online retailers in the world, has joined us. He was the Sourcing and Commercial Director there to lead this initiative. So, yes, first year we are considering almost $30 million of business in the financial year, but the numbers we have been given could go up to 300, 400 million easily in the next 2 to 3 years, once the supply chain is set up. So, we're introducing to them around 50 factories across the world, all of that only 20% will be China, 80% will be in other parts of the world, which will be plugged and played into the supply chain and they'll all come under PDS as an aggregator. So, we are very bullish on this account. Their sales are growing fast. Temu and Shein factor is going to help us. And having the most competent team in the industry now representing PDS with this customer, we see no reason this could not become a $300-$400 million account for us in the next few years, if not faster.

Krunal Shah: Yes. Thanks Pallak for the detailed explanation. So, this is more like a design-led sourcing deal or is there a…?

Pallak Seth: Yes. It's a design-led sourcing more or less. It's not sourcing with service, but our arrangement with them is we are going to be getting $400-$500 million business, is we are going to cap our profit at 4%, right? So, what we have mentioned that we will have a Company after all expenses, we will be looking at around a 4% net profit at PDS level. If there's any further profit on top of that, we will give them back in form of marketing contribution on rebate. So, I think it's a win-win situation for both parties. If you can get 400-500 million at 4% net profit after all costs, I think it's a positive situation for the group and give the customer the confidence that they can grow with PDS with a lot of turnover because they are not being ripped off like they are currently done by their current agents, small agency in New York and LA supplying them.

Krunal Shah: And just one question on Gerry Weber. What is the profitability there right now?

Sanjay Jain: Yes, on a blended basis, the profitability of Techno design for the entire year, we're looking at close to 4% PBT margin. And wherein Gerry Weber would be, I can't answer for now the profitability from a single account, but on a whole on a blended basis, we're looking at circa 4% PBT margin for Techno on the whole, which is where the Gerry Weber is now.

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

Mohammed Patel: Can you please break up the new vertical incubation operating cost of Rs. 48 crores in Q1 FY25?

Rahul Ahuja: So, we have two cuts of the breakup here. So, basically, our design led, so the total is about Rs. 48 crores, $5.8 million that we just mentioned. Of this, our design led sourcing business is about Rs. 7 crores. Brand management business is about Rs. 18.5 crores. Manufacturing is about Rs. 2.5 crores. What goes into the new verticals for expansion of geography wherein we are entering new markets like North America and others, that's about Rs. 11 crores, and into product, new product categories about Rs. 3.5 crores. As far as expanding our services business is concerned which is our design services and sustainability, both put together are about Rs. 5 crores. So, that pretty much will sum up to about Rs. 48 crores.

Mohammed Patel: If this to go down so which component will be reducing broadly?

Sanjay Jain: I think the North America related investment are expected to continue for 2 more quarters, whereas the design led sourcing commitments and the brand management related, they would actually start tapering off slowly now. But the North America investment will be there for two more quarters.

Mohammed Patel: My next question is we expecting this to come down and H2 is usually a good quarter for PDS. So, are we expecting to beat our guidance of bottomline growth of FY25?

Sanjay Jain: I think at this stage for the entire year, what we had originally seen, we remain well poised to meet our profit guidance for the entire year. The answer is yes.

Mohammed Patel: Like we have given the geography-wise sales blend, what is the geography-wise sourcing mix for PDS on TTM basis FY24?

Sanjay Jain: See, at present, circa 55% to 60% is coming in from Bangladesh in terms of sourcing on the whole. And then Sri Lanka is about 8% or so, China is about 6% to 8%, and Turkey is about 8% or so. Then India and rest of the markets is the remaining piece of it. Yes, that's the geographical mix.

Mohammed Patel: How is the situation in Bangladesh affecting our vendors?

Sanjay Jain: I think the country went in the pain for 4 or 5 days, but normalcy is restoring. Our factories opened up today with partial attendance and tomorrow we are expecting full attendance. I think if at all two things there from a behavioral pattern one has observed in this country, there are such small spurts after a gap of 2-3 years, but then the normalcy comes back soon, which has happened here as well. And it's really up to quantify, we may have a delay of about $15 to $20 million of shipments because of these last 4-5 days of whatever happened. And we would be catching up on that. So, I think it's something that we want to put it quickly behind and our teams are working overnight to see that this snag of about 20 million is accelerated in terms of pushing out.

Mohammed Patel: My last question is so the wages are increased in Bangladesh. So, has that affected our profitability?

Sanjay Jain: If you look at in silo, the answer is yes. But at the same time, there has been a lot of focus, a) on running the factory 100% capacity utilization. Last year in first two quarters, because of a change in management in our factory, there was a bit of impact of that. So, a) we are running 100%. I am working towards seeing that our factory efficiency levels, they've already crossed 65. So, we want to touch 70% efficiency levels. So, that has also happened. So, I think thirdly, we are focused more and more of strategic engagement to migrate to more larger runs and as a result, get more efficiency. So, therefore, to summarize answer to your question, yes, the labor cost and as a result, the wages cost went up, but because of the efficiencies, because of better capacity utilization, we believe our factories on the whole in terms of the earnings profile should do better. And in fact, what we have reported in Quarter 1, our factories achieved EBIT margin of 5.7%. And last year in the same quarter, the EBIT margin was 3.5%. The wage increase happened from December. Notwithstanding the wage increase, our EBIT margins have actually gone up 2.2% quarter over quarter.

Pallak Seth: I think Sanjay also the currency devaluation in Bangladesh being heavy, that takes care also of some of the inflation?

Sanjay Jain: That is right.

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

Yash Bajaj: Sir, you had mentioned about the retail operations of Ted Baker being slightly muted. So, can you expand on it a little further in terms of what are the reasons behind it? And I mean, in terms of the kind of take rates we have, is it intact? That's my first question.

Pallak Seth: I think, Sanjay, I can take a little bit of it. Yes. So, basically, the retail operator of Ted Baker was ABG, the license holder, had given the retail operation to UK and US companies to run the retail. Both of the companies were unable to get the working capital limits required to run the business effectively. So, unfortunately, they were not able to run those businesses. So, as a result of that, we were basically getting a 10% agency fee. So, if the retail buying was say $40 million, PDS is getting 10%, which is $4 million, as our fee to basically supply those businesses. What has happened as a result of that, the retail business is not performing at this stage, but the wholesale business is going very rapidly now. Because if Ted Baker not available at retail through its own shops and e-commerce currently in the UK and US, the only way a direct consumer can buy those goods are through wholesale. So, PDS current wholesale at customers like Frasers Group, Next, Bury, John Lewis are now increasing their buys with us. So, once the product is looking good, second their customer demand is huge. So, as a case example, Next in the UK has a license of Ted Baker Kids. That license alone for them got 30 million pounds sale a year whereas the agile business is only three million at this stage. Next is coming to PDS saying that there's a huge demand from its customers from a direct customer, the consumer in the UK for Ted Baker Adult Wear, and they want to expand the business rapidly with us because customer cannot buy that through the online channel anymore, through Ted Baker website. The Next becomes the platform from where the customer is able to buy those goods. So, every crisis brought an opportunity. So, yes, the retail who are not performing, it did not have a big impact on PDS much because we were only getting agency commission, but the wholesale account started firing and growing much rapidly as well. We are quite confident that this business will become stronger for us in the next, this financial year will be a little bit restructuring but still will be profitable. But next year onwards it will be on track to be a highly profitable and growing business based on customer reaction.

Yash Bajaj: Just a follow up on that. So, the wholesale business is growing at a strong double digit?

Pallak Seth: Yes.

Yash Bajaj: So, I mean, when it comes to the agency side of the business, for PDS, it's a much more margin-accretive business. So, it kind of impacts our earnings to that extent.

Pallak Seth: No. On the wholesale, we are getting 35% to 40% gross margin. On agency, we get 10%. Obviously, the wholesale account increase is much better for us. Wholesale is at 35%, 40% gross margin whereas the agency is only 10%.

Yash Bajaj: Yes, but on agency, we don't take any kind of inventory risk, right?

Pallak Seth: Here also we don't take inventory risk, no? Wholesale was pre-sold make-to-order goods. In PDS as a principle, we do not take inventory risk, we do not take credit risk. So, if the customer wants to place orders, either payments are secure or if there's any business, then we have to work through it before we start manufacturing. We are not taking any risk across the globe on buying any inventory where we don't have purchase orders at hand. If it is, it is a 0.05%, 0.03% of our turnover., minute.

Yash Bajaj: And just a last question on the sourcing as a service piece. I mean, at what rate are we expecting the GMV to grow for the next 2-3 years? Is it on track or?

Pallak Seth: I think, we have given a triple-side guidance in PDS which is we feel very confident based on the market dynamics that are happening in the industry right now. We see acceleration of restructuring in the global fashion and supply chain business. We see a big consolidation happening. We see less and less value of just being a factory in middle of Asia, being able to connect with the customers. So, definitely, we see that what is happening in the industry and the globe is definitely going to help PDS accelerate its growth in the next 6 to 12, 24 months to its triple 5 target**.**

Moderator: Thank you. The next question is from the line of Rishabh Gang from Sacheti Family Office. Please go ahead.

Rishabh Gang: Thank you, sir. So, your employee cost has been on a rising trend, right? It was around Rs. 273 crores this quarter. A year ago, it was Rs. 200 crores. So, wanted to understand what could be the general trend of growth in employee cost? And I understand you are also building capacity for growth. So, has that phase passed away or it's still going on? And when will the operating leverage come into play on this, some guidance?

Sanjay Jain: Yes, I think if you permit me to answer in USD millions. On the whole, last year Q1 employee cost was US $24.4 million. This year Q1, it is 32.7. So, on the whole, we see an increase of 34%. But then we have to take into account that Ted Baker was there part of the year last year at about 0.4 million. This year it is full year 2.7. Gerry Weber was there part of the year at 1.9. They said it is full more than 2 million. The new verticals that we accelerated towards the end of the year. Last year, the employee cost was 1.1. It is 4 million. And manufacturing we discussed in response to one of the earlier questions. There was a wage increase that went up from 3.9 to 5.3. So, if I take Ted Baker, Gerry Weber, new verticals and manufacturing on one side, on a like-to-like basis, the employee cost was US $17.2 million last year and it has gone up to 18.6. So, there is a 9% increase, which is a mix of an average merit increase of 5% to 6%, and the rest increase in the headcount. So, that's the explanation for this, but on the operating leverage, two things here. I think these new strategic initiatives of Ted Baker, Gerry Weber, and also we talked about new verticals. We believe that from very, Gerry Weber is already running full operations; Ted Baker, we just had a comprehensive discussion; new verticals Q3, Q4, we should start seeing benefits coming in from them. Manufacturing, we already addressed operating leverage. So, as a result, in the later part of the year, you should see more leverage clicking in. That's transactionally moving. But as I said in the opening remarks, Company has identified leverage areas improvement in terms of a) procurement synergies. And also, a lot of our backend activities which are being carried out in our verticals, we clearly have identified a room for consolidation of those backend activities. For example, which is akin to a share service center in a low cost location like Gurgaon, Bangalore or Bangladesh. We already have existing offices here. We just need to start performing these activities. From a change management perspective in terms of buy-in of the senior leadership, that all has happened. And we have already put a plan of action in place. So, in the later part of the year, both the new vertical benefit and also the initiative of cost optimization should start kicking in. So, I think you should see in H2, benefits of that pouring in.

Rishabh Gang: Also, so you have 132 subsidiaries and then there are JVs and associates. I understand that's the business model, like business model requires that, but ultimately what percentage of share of PAT, that will flow down to shareholders after adjusting for minority interest. Like, you might not have specific answer, but some direction of sense on that front?

Sanjay Jain: So, before specifically answering your point, yes, having legal entities is integral part of the way we function. But every organization in its journey always have points of reflection and areas of improvement. So, internally, we have identified close to 17 entities which we believe can be consolidated. That is number one. Secondly, our existing verticals, top 10 are independently become sizable. So, more and more we are encouraging that can the new initiative be parked more with them so that the need to have independent legal entities keep coming down. So, in fact, you asked the previous question on operational synergies. We are putting this also into an area of operational synergy that can we start optimizing our existing legal entities to do more business. That is part one of your question. Part two, in a steady state, we believe 75% to 80% should be the profit that should get attributable to public market shareholders and approximately 20% to 25%. If you take the last 1-1.5 years out, somewhere that has been the trend. And it is at the platform level wherein we feel positive, we feel that there is growth opportunity we need to capitalize on, and that is where we invest. But as these investments start generating results, you will see the restoration of 75% to 80% profits attributed to public market shareholders and the rest being minority interest.

Rishabh Gang: Very nice. Thank you. Just one question. If you have already answered it previously on the concall, I will read it in transcript. If not answered, if you can answer that, it's very good. So, what is the update on the CAPEX and what's the status on working capital data? Have you seen any improvement on that?

Sanjay Jain: So, I think very quickly answering, as Rahul mentioned in his opening remarks, our working capital days were 7 days on March 24. They have come down to 2 days on June. And 7 days was somewhere a combination of Ted Baker, business acquired, and second, a combination of quarter 4 sales being high. It is always our endeavor of our CFO and his team to try and keep the Company around 0 to 2 days working capital. So, therefore, answering the second part, improvement has happened. On the first one on CAPEX, Rahul, you want to answer in terms of the outlook for the entire year?

Rahul Ahuja: So, our CAPEX is usually to the tune of within $4 to $5 million is what we budget across our different verticals. And I guess that is where it should be for this financial year as well. Barring the property that we purchased in London last year, excluding that, our routine CAPEX should be in this level.

Moderator: Thank you. The next question is from the line of Krunal Shah from ENAM Investments. Please go ahead.

Krunal Shah: Just one question on the cost synergy or the cost savings that you're targeting. Are you sharing a number to that?

Sanjay Jain: So, let us talk about potential. I think somewhere one has to work with a blue side thinking as a potential and then work towards it. We have an EBITDA of about US $55 to $60 million. I am just speaking broad number. And the synergies that have been identified can lead to a $15 million annual savings and they are expected to largely come from procurement savings. In fact, somebody asked a question, where is the Rs. 48 crore? A small part of it has also gone into, I have set up a central procurement team in Gurgaon and Hong Kong. These are subject matter experts in yarn, in fabric, in trims who have come in. Our CIO, Saurabh Saxena, who is the Head of IT, has set up IT systems of costing tool. We are bringing all our vendors onto Project Weave, which is where in all vendors would be on an e-commerce platform with the Company. So, vendors being on e-commerce, costing to implement it, subject matters being there, we believe we will commence the journey to convert this potential $15 million into our P&L. If you ask me at this juncture, Sanjay, what is the time horizon? Maybe I can't tell it right now, but one quarter down the line, we should be more confident. But I know this is the number, I know the plan has been initiated, and we will be working towards converting this potential to numbers.

Krunal Shah: Second question is on this market conditions. What are the market conditions like, your sense on the market conditions in UK and Europe? We have done well, no doubt. Just how is the market doing, and is it supportive enough?

Pallak Seth: I think the market conditions in UK, Europe, and US in all three markets seem to be consolidating further. So, as I used to mention, if in Europe, they were like 50 retailers who are controlling the fashion market, out of the 50, maybe 20 will survive. So, either out of those 50, 30 have gone out of business or will go out of business in the next 1, 2, 3 years. But the 20 who are surviving are going to become stronger. So, on overall basis, the market is not shrinking, still growing 2%-3%, but is getting consolidated in fewer hands, which will then have a growth in their own business. So, those retailers who are growing are strategic customers of PDS. So, from their point of view also, they're seeing a consolidating on the vendor base. So, market conditions tough, consolidating if you have, those consolidated players looking at further having trading relationship with fewer partners, which can provide them solutions. So, PDS evolved from a product Company to a solutions Company is seeing the benefit of the market trends that are happening currently in this whole global industry. And then PDS setting up this new vertical PDS Online Enterprise, starting with the US retailers. So, I mentioned during the conference call earlier. The team we have bought in place is currently in the large job of sourcing close to 10,000 crores of fashion from 50 factories across the world, making 300 to 400 units per style. Now we have the capability to engage with a global customer base, being able to offer them also smaller quantity runs, which our current teams are not able to handle. So, from a Company point of view, business moving from too fast fashion, now we established this arm also opens up a new customer base, which is also a growing segment of the market.

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

Yash Bajaj: Just one question on our design as a service piece. I mean, our order books have grown significantly at 25% this quarter. So, just wanted to check on, I mean, for the rest of the year, are our factories in Bangladesh filling up, where then does it help us in better negotiations versus the previous one? That's all.

Sanjay Jain: So, I think if I have to speak of our own factories, as I said, they are running full capacity. Outlook is positive. But in general, if you talk about all factories filling up, therefore, what is the impact on us. PDS and its vertical to any factory in Bangladesh or any part of the world bring in stability of revenue, bring in stability of payment track records. So, to that extent, we have enjoyed a preferred status by all our factories. So, as a result, we believe we should continue to get a hands-on allocation of capacity by the partner factories that we work with. And if at all, I am saying, there are any pressures that come in. We operate in an industry wherein there's always average selling price pressure, but augmentation through value-added services. And secondly, as I just mentioned in response to previous question, we believe there is potential for us to synergize our cost efficiencies. So, these are the multiple levers that I think are eventually going to have an impact on the margin profile.

Yash Bajaj: Just for understanding it better, I mean, there is a scope of improving the margins which we are seeing in the design as a service in the future, I mean, in the next 3, 4, 5 years?

Sanjay Jain: Yes, the answer is yes; aided by value-added services, aided by our existing verticals getting benefit of synergies, and also aided by the early payment discounts that we get. Thanks to business lines. Yes, the answer is that our margins, in fact our existing mature sourcing verticals were operating at 15.5% gross margin in Quarter 1 last year, they're actually operating at 16.7. Our new verticals that we started they were working at 23% gross margin and also operating at the same level So, new verticals are actually in the margin accretive, but the existing one also have expanded 1.2% gross margins.

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

Sanjay Jain: Thank you so much to all our stakeholders across the world for participating. I also want to thank EY team for helping us organize. Thank you and we look forward to staying in touch with you and look forward to your participation at the end of quarter 2 earnings call. Thank you and stay safe all of you.

Moderator: Thank you members of the management team. Ladies and gentlemen, on behalf of PDS Limited, that concludes this conference call. We thank you for joining us and you may now disconnect your lines. Thank you.