PDS/SE/2022-23/186 November 10, 2022

Listing Department	Corporate Relationship Department
National Stock Exchange of India Limited	**BSE Limited**
Exchange Plaza, C-1 Block G,	Phiroze Jeejeebhoy Towers,
Bandra Kurla Complex, Bandra (E),	Dalal Street,
Mumbai -400 051	Mumbai- 400001
Scrip Symbol: PDSL	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, and with reference to our intimation letter dated November 1, 2022 regarding Conference Call held on Thursday, November 3, 2022 at 3:30 PM (IST) to discuss Company's H1 & Q2 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://www.pdsmultinational.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)

ABHISHEK H KANOI Digitally signed by ABHISHEKH KANOI Date: 2022.11.10 18:13:30 +05'30'

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

Encl.: As above

"PDS Limited
Q2 and H1 FY '23 Earnings Conference Call"
November 03, 2022

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

MODERATOR: **MR. SANDIP AGARWAL – NUVAMA**

Moderator: Ladies and gentlemen, good day, and welcome to the PDS Limited H1 and Q2 FY '23 Conference Call, hosted by Nuvama Wealth Management. 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 star then zero on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Sandeep Agarwal from Nuvama to make the introduction. Thank you, and over to you, sir.

Sandeep Agarwal: Thank you, Lizann. Good evening, everyone. On behalf of Edelweiss Securities, I welcome you all to PDS Limited Q2 FY '23 earnings call. We have with us today Mr. Sanjay Jain, Group CEO; Mr. Ashish Gupta, Group CFO; and Ms. Reenah Joseph, Head, Corporate Finance, M&A and Investor Relations Officer. Before I hand over the floor to Sanjay, I would like to highlight that the safe-harbor statement on the second slide of the presentation, please assume to be read and understood. With this, Sanjay over to you. Thank you.

Sanjay Jain: Thank you, Sandeep. Good afternoon to all of you who have joined from India, and very warm greetings to who all have joined from various parts of the world. Welcome to PDS Quarter 2 and H1 FY '23 Earnings Call. The H1 and quarter 2 investor update and financial results are available on the company's website and also on the stock exchanges. I would just like to draw your attention to the disclaimer that the discussions today may have forward-looking statements subject to certain risks, uncertainties, other factors that could cause the actual results to differ from those contemplated by the relevant forward-looking statements.

Ladies and gentlemen, we are very pleased to share that PDS has delivered 33% growth in the second quarter of this financial year 2023, with a top line of INR 2,921 crores. This was accompanied by a gross margin of 16.9%, which was almost 100 basis point improvement since our sequential quarter 1 for FY '23. We reported EBITDA of INR 119 crores, translating into a growth of 41% year-over-year and 63% growth as compared to the quarter 1 of this financial year. EBITDA margins increased by about 96 basis points from 3.1% in the first quarter of this financial year to 4.1% in the second quarter.

The EBITDA margins have also improved over the previous year, from 3.8% in quarter 2 last year to 4.1% in quarter 2 this year. This was largely driven both by the gross margin expansion and also by the sales growth over the quarter 2 last year. EBIT during the quarter increased by 76% as compared to last year. This included INR 36 crores gain from the sale of our real estate property Milton Keynes in UK.

However, if we adjust for these gains from real estate property, if you also adjust for the ESOP costs and the losses attributable to the new verticals, the profit before tax has increased by 34%. We've also witnessed an increase in finance cost, which is mainly attributable to the increase in borrowing costs. We are well aware that the borrowing cost has increased significantly with 3-month SOFR, having gone up from 0.67% in April 22 to 3.5% in September 22. At the same time, our company has also been availing the benefit of being able to get early payment discounts while dealing with its vendors. And during the first six months, the EPD, Early Payment Discount that the company has been availing while making payments have actually grown 34% over the same period last year as well. So the increase in finance cost is and attributable to both these factors. However, we continue to keep our working capital under control. The PAT for the company has increased by 70% in this quarter.

For the first half of FY '23, we achieved top line of INR 5,262 crores, which was a growth of about 38% in the six months. EBITDA in the first half has increased by 62% to INR 192 crores as compared to INR 119 crores in the first half of last year. This was accompanied by a gross margin of 16.5% and which was 35% growth since H1 FY '22. EBITDA margins increased by 55 basis points from 3.1% to 3.7% in the first half of this year. Again, the expansion in the EBITDA margin has been driven by operating efficiencies, wherein the employee expenses declined from 7.6% of the top line in first half last year to 7.2% this year. And the other expenses declining from 6.1% last year to 5.6% of sales this year.

In the first half of last financial year, and the first half of this financial year, the company has reported gains from the sale of real estate of INR 41 crores and INR 36 crores, respectively. If we adjust for this, in the H1 FY '23, the EBIT would actually grow by 54% with 3% margins versus 2.7% in H1 FY '22. So therefore, it is important to not only look at the overall various profit growth of the company EBITDA, EBIT or PAT, but what is more important also is that even if we exclude these gains from the real estate property, the inherent operating profitability of the company continues to grow in the first half of this year as compared to the same half of last year.

And if we further adjust the ESOP cost or the losses, while we use the word losses attributable to new business investment, these are basically investments wherein the new businesses take about 12 to 18 months at times 24 months to breakeven until such time, there are debits to P&L. So if we exclude such investments, the company PBT, the core PBT actually increased by 60% from INR 108 crores last year's six months to INR 172 crores in the first half of this year.

During the first half, the company reported an earnings per share of 10.03 per share, which grew by 24% as compared to H1 FY '22. In the investor release, we have tried to facilitate for our various stakeholders a comparison of income and profit from the core operations versus the one which is after including or excluding the likes of ESOP cost or the investment in new businesses or the onetime gain on real estate sales. But as I said earlier, most importantly, the growth in the core profitability continues to be very-very strong.

On the sourcing segment, now this whatever I covered was company on the whole. Now I would go a little deeper into each of these segments. On the sourcing segment, which accounts for 96% of our top line it clocked in a growth of 38% in the H1 FY23 as compared to the same period last year and achieved a top line of INR 5051 crores. Our sourcing business reported an EBIT of INR 168 crores, which was 37% growth as compared to the same half of last year. And the return on capital employed of our sourcing vertical in the first half has been strong at 44%. And this is a blend of the EBIT as of mature running businesses wherein if we look at these businesses, the EBIT that they generate, the return on capital employed could be to the north of 60%. But after adjusting the investments, which is the P&L debit we make in new verticals, the blended return on capital employed is closer to 44%.

It is very important to mention here that if you look at the contribution of new verticals then the sales from the new verticals was INR 85 crores in the first half of last year and it has actually increased to INR 288 crores in the first half of this year. So the new verticals contribution to the overall sales of the company on the whole was 2.2% in the first six months last year and has actually increased to 5.5% this year. That is also one of the contributing factor to the top line growth that we have been achieving.

And these businesses are still in incubation stage and incur a PBT loss of INR 23 crores. However, the same has declined from 12% of the sales of the new vertical last year to 8% of the sales in the first half of this year. So gradually, we are navigating these verticals ahead at a first stage to the point of breakeven and thereafter get them to the desired level of profitability.

Our Manufacturing segment reported a growth of 40% with a top line of INR 315 crores versus INR 225 crores in the first half of last year. The segment continues to maintain its profitability. As you recall, we turned profitable in quarter 4 FY '22 and quarter 1 as well, the manufacturing segment has made PAT positive and also in quarter 2 as well. On the whole, we have made 1.3% PAT to sales in the manufacturing segment in the first six months of this year. We remain positive that this trend and betterment would continue in terms of profit from the manufacturing operations.

And I'm also pleased to share some updates on our balance sheet, wherein the net debt of the company on the whole on a consolidated basis was INR 82 crores on 30th September this year versus INR 232 crores on 30th September last year. The net working capital days, if you compare September last year to this year, have reduced from 10 days last year to 3 days. The company continues to grow, continues to travel the path of profitability expansion and because of the effort on containment of capital employed, has managed to deliver 36% return on capital employed in the first half of this year versus 30% in the same period last year. And the return on equity of the company as a result in this year so far in the six months has been 33%. And because of the balance sheet effort related to containment and the EBIT expansion, the company's financial position on the whole continues to be at net debt-to-EBITDA level of 0.2x.

As we take our businesses ahead, I'm very pleased to share with you that we continue to expand the management bandwidth, especially at the senior leadership level, wherein on our business front, we have senior leaders who have joined us from very prominent large companies like Puma, George, Primark, Tesco, Marks & Spencer, C&A, Li and Fung, and at the same time, in the what we call as the corporate function of business enablement function, we have strong professionals who have joined us from Shahi exports to enable and propel company's procurement synergy agenda.

We have Head of Legal as a journal council, who has joined us from Allcargo, and he was earlier with Tata Motors. We have CFO for some of our offshore businesses joined us from Control Point. And lastly, the Deputy CFO of HDFC Ergo who was earlier the CFO of Max India and also Bharti Axa has joined on board, and has become our Director and CFO on the Board of the newly acquired company, DBS India. So our effort to take the strategy ahead continues to include having onboarding of senior leaders, both in the businesses as well as the corporate function.

Given the performance in the first half of this year, the company is scheduling a Board of Directors meeting to consider and approve an interim dividend basis the first half performance as for the dividend distribution policy adopted by the company. And the Board would accordingly take a decision basis the meeting that is getting scheduled in this regard. We are in an organization priding itself on the continuous focus on the governance and ethical standards and practices. We have again further taken two more steps augmenting a journey on the same work.

Firstly, our Vice Chairman, Mr. Pallak Seth, now has taken up the role of an Executive Vice Chairman. He was Hitherto, a Non-Executive Vice Chairman and now has taken the role of an Executive Vice Chairman. We believe Pallak has a lot more to offer to grow and strengthen the PDS businesses, the PDS platform. And we are very thrilled and feel very positive to have him take on this very important role as an Executive Director on the Board and as an Executive Vice Chairman.

Secondly, we have invited Ms. Pamela Mar to join the Board of Directors of our Hong Kong-based subsidiary, Norwest Industries Limited. Norwest is a key entity since the majority of our banking and treasury functions are undertaken through this entity in Hong Kong. Pamela comes from an illustrious background. She is currently the Managing Director of Digital Standards Initiative of ICC based out of Singapore.

And previously, she was associated with Fung Group of Hong Kong and also ran Greater China for the World Economic Forum. She’s also been named one of Asia’s 10 A-list sustainability leaders in 2019 and holds a degree of masters in M Sc management from London School of Economics. We believe Pamela coming on board at a key subsidiary level will help add a new dimension to our Board of Directors at Norwest. And over the last few quarters, as we have also covered in our investor release, step-by-step, we continue to take steps to augment the governance and the Board of Directors at our key subsidiary level as well.

We believe we are operating in an environment where macroeconomic factors are impacting the business. On one hand, we have seen an increase in the cost of borrowings, we have seen inflation. On the other hand, we are witnessing on a favorable trend that the freights, cotton costs are witnessing a decline though they keep fluctuating, but the trend is towards a declining one. We've also seen the dollar strengthening against the major currency in the world, and this, of course, have had an impact on the end consumers' discretionary spend. But given that PDS mainly operates in value and mass categories, we are at present benefiting from this down trading. Also, the retailers and brands are consolidating their vendor base, and we continue to garner wins in that direction. We have expanded our sourcing as a service offering to a wider base of customers. We've also won contracts to become the exclusive agent for some of the leading retailers of the world in terms of acting as an exclusive agent in various geographies.

It is also important to mention here that PDS carefully onboards its customer while choosing to do business, and many of these customers, although most of them have strong financial position. So therefore, as there are these macroeconomic trends in the interim of high inflation or high interest rates, but given that we continue to do business with strong, robust financial customers, basis our credit risk management process is in place. We continue to navigate the macroeconomic environment very well and somewhere the humble impact of all this is witnessed in the first six months growth.

We believe we have a robust platform and we will continue to face and navigate the current environment cautiously. And at this stage, we continue to be well poised on our **$**2.5 billion journey in terms of revenue that we have foreseen that from **$**1.2 billion last year, we had forseeing doubling our size over five years, and your company for now continues to be on track. I would be now happy to answer any questions that any one of you may have, please.

Moderator: Thank you. Ladies and gentlemen, we will now begin with the question-and-answer session. Anyone, wishing to ask a question may press star and one on their touchtone telephone. If you wish to remove yourself from the question queue, you may press star and two. Participants are requested to use handsets while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Parth Desai from Hirzel Capital. Please go ahead.

Parth Desai: Congratulations for the great set of numbers. Growing 38% in such an environment is a big achievement. So I had a quick question on the normalized PBT that I think will have defined in the presentation as well. Can we expect this percentage of PBT to continue in the following quarters? Or can there be any improvement or changes?

Sanjay Jain: With the growth momentum that we have been experiencing in the first six months with continuation of profitability in manufacturing operations Therefore, the benefit of economy of scale in terms of growth, turnaround in the manufacturing. Some of the initiatives that we have taken to derive procurement synergies, as I was mentioning earlier, that we have a senior person who is joined in from TRAI to drive our procurement initiatives. We believe we should keep gradually improving from the 3.6% PBT margin that we have made, there is year-over-year a 40 to 50 basis point potential at least gradually as we get to the 5% mark. Yes, the answer is we should, we will continue to endeavor to improve it on a trajectory to gradually get to 5%.

Parth Desai: And then in the presentation where we break down the capital employed, I see that there's $10 million in the real estate division or section, is that the book value? Or, is there any market evaluation that has been done?

Sanjay Jain: No, when we carry the assets in our books, we carry them at the book value. We don't do any revaluation and therefore, this is the book value.

Parth Desai: And then, are there any plans to, let's say monetize more of these real estate assets in the future?

Sanjay Jain: No, I think for now, with the modernization last year and this year, we're pretty much done. But in terms of maximization of profit from this real estate, like the largest piece out of this $10 million is actually our PDS tower in Gurgaon, wherein we have 2-3 floors that we are letting them out. So therefore, it's going to be a small in terms of the larger ROCE that we are generating, but every penny counts. So therefore, to summarize answer to your question, the modernize agenda is largely over, but there is room to harness more earnings when it comes to the real estate that will continue to be in the portfolio. But all of this is core real estate in terms of being the office infrastructure, etcetera.

Moderator: Thank you. The next question is from the line of Darshil Jhaveri from Crown Capital.

Darshil Jhaveri: Congratulations on a great set of numbers. So I just wanted to ask, is there some part of seasonality in our business? Could we see an H2 better than H1? That's my first question.

Sanjay Jain: Yes, Typically, there is a seasonality. On an average, if I talk about the top line of the company, normally, the first half is closer to 40% to 45% of the full year. In fact, it was last year about 43% in the first six months and 57% in the second half. That's broadly answering your question. 40% to 45% or 55% to 60% of the split in the first and second half in terms of sales. And therefore, there is a corresponding impact on the profitability as well.

Darshil Jhaveri: Yes. So we'll be able to see a better H2. So how would that impact our margin? Will we get some operating leverage or our current margins are sustainable or we have been better margins going forward?

Sanjay Jain: See if I restrict the answer to remaining six months of this year, I think given that quarter 3 last year, we had incurred losses in manufacturing. It was in quarter 4 that we turned around. So this year, we continue to be positive that in quarter 3 in manufacturing, we will have profits, our momentum of growth is continuing. So as a result, there is definitely an aspiration to derive the benefit of operating leverage, number one, get benefit from the turnaround that would be visible in quarter 3 as compared to quarter 3 last year.

And thirdly, the first half, while we have seen an improvement in margin in quarter 2, the first half has been soft on the margins as compared to the same period last year. But given the gradual trending downwards of the input prices and freight costs, etcetera, we remain positive that we should stay focused to derive better margins towards the end of quarter 3 and then quarter 4. So therefore, for all these three factors, at this stage, we remain positive to get better profitability in the second half of the year.

Darshil Jhaveri: Yes, thank you that that's a very detailed answer and that helps me a lot. And I just -- I was just listening to the opening commentary, on sort this might not how might sound like it's a stupid question, but you are thinking about INR 2.5 billion revenue in five years, but the rate of growth that we are seeing that we might be able to repay faster. So could you just say something about growth in the near term, maybe next 2-3 years? So could you just say what kind of rate are we expecting? Because doubling in 5 years as a way we are going, we'll probably achieve that faster

Sanjay Jain: So I think the, - when we talk about doubling, it was over a five year horizon. And one got to be exercising caution when we have an aspiration of five years because the macroeconomic factors keep changing, who would have foreseen six - nine months back that the world is going to witness a war and therefore, the spiraling impact of that on fuel and other aspects of the world. So what is important is an aspiration should get delivered devoid of any disturbances that happened in the macroeconomic environment. That is how we feel about this target.

For now, in the first six months, given the strategy we have chosen we are ahead of the curve. But I think Darshil, we will remain cautious in terms of the target, but allow us to keep achieving what we have achieved in the first six months, allow us to keep achieving for a few more quarters, then I think we will be in a better position to tell you that the $2.5bn is happening sooner than the five years, but we remain positive.

Darshil Jhaveri: Yes, because that number have been great and real.

Moderator: Thank you. The next question is from the line of Shrinjana Mittal from RatnaTraya Capital. Please go ahead. .

Shrinjana Mittal: Firstly, congrats on the good set of numbers. So like one of my question is that on the manufacturing side, so what is your normalized margin like since we've started to break even and manufacturing is doing well. So what should we expect in terms of margins?

Sanjay Jain: As I said, for the first six months for now, we are at 1.3% PAT margin. And I think we aspire to exit this financial year at closer to 3% PAT margin, but getting our factories to deliver 5% to 7% in about two years from now should be a steady state generation. So therefore, normalization, if I answer that question, is 5% to 7% PAT margin. In fact, one of our factories which operates in the export promotion zone, we just learned that there used to be 1% of the sales export incentive which caught actually effectuated from July 1st of this year. So therefore, to that extent, one of our factories, the larger one would actually also derive a 1% of sales as an export benefit as well.

Shrinjana Mittal: That's good to hear, sir. And my other question is on the sourcing as a service business, sir, what is your, like what is the revenue contribution in this quarter compared to the last quarter, if you can share those numbers, that would be great?

Sanjay Jain: So we are yet to see a meaningful contribution. So I think we are cautiously putting it under execution. All I can say, for example, as a [George], the latest one that we have signed under sourcing as a service, which is closer to a $350 million annual potential. The office just got commissioned two days back in Dhaka. So therefore, a part of it will come in quarter 3 and quarter 4 is a better quarter to start answering your question on the, in fact, we ourselves would actually make an effort to start,- make it as a separate mention. But what is important is that at present, we have orders in hand under sourcing as a service, wherein the annualized value of the business that we will be handling for retail customers is about $1 billion. And what would accrue to us as a revenue out of this is about 5% to 6%. It's $50 million to $60 million with a PBT margin of closer to 18% to 20%. That potential still remains, orders in hand have actually come, but give us one or two more quarters as these numbers start forming part of our P&L as well.

Shrinjana Mittal: So sir, what I was trying to understand is the gross margin side, we have seen like a 100 basis point increase this quarter. So like that that could accrue,- partly, it would accrue to some early payment discount benefit, right, that -- is that understanding correct also on sourcing as a service as a segment also is causing the increase in the gross profit side?

Sanjay Jain: So I think your observation is right that as we have got 34% more early payment discount in first half that definitely is getting reflected in better gross margins The answer is yes. Manufacturing growth of 40%, wherein on an average, manufacturing a 35% gross margin as compared to 15% to 16% in the design-led sourcing. So that is another factor. But whether sourcing as a service have started to contribute meaningfully and is the reason of the increase in gross margin, no, that is not the case. It will take us one or two more quarters for it to start meaningfully contributing

Moderator: Thank you. The next question is from the line of Apoorva Bahadur from Investec. Please go ahead.

Apoorva Bahadur: Sir, you highlighted that the early payment discount, this increase during this quarter year-on-year. Can you please quantify the amount? How much was the discount received in this quarter and also for same quarter last year?

Sanjay Jain: Yes. I think let's continue the Q&A and in about a few minutes, I should have this data with me, handy to explain it to you

Apoorva Bahadur: Sir, second question is we read in a couple of media articles, a lot of factories in Bangladesh, the manufacturers are actually facing order cancellations, right, given the financial situation, how it's panning out, especially in Europe. Are we seeing any impact of this on our business as well?

Sanjay Jain: So firstly, answering your question on the early payment discounts, is closer to a number of $4.5 million in the first half of this year and as compared to approximately $3.5 million in the same period last year, that's broadly the number of early payment discount. And on the second question that you mentioned about, I think the pushbacks or any price pressures as of now, have been more coming in from US but because it is about 16% of our top line, to that extent, on an overall portfolio basis, we are relatively insulated from the impact of that.

In terms of UK and Europe, I think some parts of Europe are experiencing the inflationary pressures. And as a result, the pressures on the demand side, but for now, given the low price segment that we operate in, we again are largely insulated. And thirdly, as a majority of our customers are financially strong retailers, so to that extent, they are insulated and as a result, we are. But to answer the question from US and from some part of Europe, there are pressures, and we for now, because of the larger strategic role that we have been playing with our customers, because of the strategic initiatives and the new business investments we are, as of now, are able to mitigate the impact of these adverse factors and for now have been actually growing faster than we anticipated for this year.

Apoorva Bahadur: And our order books are full for the remaining part of this year?

Sanjay Jain: Normally, for our kind of business the immediate next quarter and a large part of the quarter thereafter, we get visibility while the relationships have been in existence for many years. But given the seasonality, given that customers need to order for various seasons coming ahead. So typically, one can give guidance of the immediate quarter and the one thereafter. As of now, the visibility that we have been having in the past few quarters for the coming two, that visibility continues to be similar visibility in terms of the previous, so our order book as of now is positive for this quarter as well as the signals for the next quarter are positive as well.

Apoorva Bahadur: Also, sir, in Bangladesh, we are noting we have a lot of electricity supply issues due to grid collapse etcetera. So is that impacting us in any way, any of our vendors I mean, a lot of some are there manufacturing out of them, so increase the cost of production because moving towards gas and diesel gas and so on?

Sanjay Jain: Well, yes, the factory operations are somewhere getting impacted because of the interrupted power supply. In fact, in one of our factories, Green which is outside the export promotion zone, we have been contemplating rather we are investing into solar power. We are putting solar panels on top of our factory. And the Sri Lankan factory, which have been given on job work to a third party.They produce for us. And that factory has already went live in February, March, earlier this year in terms of solar power. So one factory is already having an alternate solar supply -- the second one is investing. As of now, our two factories in Bangladesh are operating closer to mid-60s, 64%, 65% efficiency levels. I think if the power supply become uniform, then there is a juice to extract more efficiency. So therefore, for now, it's an opportunity loss to extract more juice from the current factories.

So therefore, with Green becoming self-reliant to solar power, that's a second factory that may become kind of insulated to the impact of this. So yes, the answer is we did get impacted in terms of an opportunity loss, and we are taking steps to mitigate the operations getting impacted to our power supply situation.

Apoorva Bahadur: Sir, also for vendors, those who operate out of Bangladesh. So any impact on them as well both in terms of cost in and also in terms of time lines for meeting a supply commitment

Sanjay Jain: No, we haven't experienced any disruptions because of the two reasons that you mentioned, in terms of the supply schedules. I think they remain largely on track. And given the strong presence of various operating teams who work very closely with our partner factories -- now we haven't experienced any such disturbing trends or are supplies getting impacted because of this.

Moderator: Sorry to interrupt Mr. Badal had placed the call on hold. We'll move on to the -- we'll move on to the next question. That is from the line of Krunal Shah from Enam Investments. Please go ahead

Krunal Shah: The first question is in the line of the financials. So if I see the other expenses line item as a proportion of revenue has risen sharply from 5.2% to around 5.9%. So what would be the reason for that?

Sanjay Jain See, some of our businesses have actually invested into new office infrastructure, as a result, their expenses have actually gone up in terms of running the larger administrative setup because as the company is gearing up to double size, the infrastructure that we have been using for housing our employees, especially the ones in Bangladesh has actually been increased.

So these are investments that would for now getting absorbed in this quarter. But as the sales keep going up, the percentage will keep coming down. So that’s one of the larger factors that has impacted plus the travel costs have gone up as well. I think the world got used to operating offline through Zoom, off-line when I say, mean without travel through Zoom and other medium as well, and now the travel has increased. And I think we are using this opportunity to once again cement the relationship, sit across the table, I guess, with the customers. So somewhere, the normalization of the surge in the travel expenses would come as well. So these are some one or two reasons that are coming on top of my mind in terms of a potential increase.

And I think somewhere we are experiencing a high growth trajectory. But yes, for now, the expenses, which in view of the investments in office space, etcetera, have increased faster. And also, as I mentioned earlier that the new business that we have initiated somewhere that office infrastructure of the new businesses, the loss in the second quarter from the new business is about INR 11 crores, and it is spread across employee costs as well as the other costs as well. So to that extent, that is not yet generating the requisite amount of sales for now as it has the potential to generate

Krunal Shah: Second is what is the opportunity from the new customers like Woolworth and Zibra that you mentioned in the presentation?

Sanjay Jain: If I answer for one of the two that you mentioned, I think somewhere a Woolworth we aspire to handle about 10 million of pieces annually for this customer when the price point could range between $2.5 to $3. So therefore, full year potential for Woolworth is about $25 million to $30 million. And I think this is kind of an agency business. So as a result, about 3% to 4% of this is going to be the income from this contract annually for us.

Krunal Shah: And on Zibra, would you like to comment?

Sanjay Jain: Z**o**bra is would be at least half of the size of the Woolworth operations. So both put together, ballpark is about $15 million annualized volume of business on price.

Krunal Shah: And last question is, how much, so during the quarter, we expect,we saw cotton prices declining sharply. So how much would that have impacted our gross margins or maybe it will impact in Q3 going forward?

Sanjay Jain: As of now, the impact is not there in quarter 2. Pretty much, we are always locked in, as I was saying in response to one of the previous questions, for the next quarter and the second quarter thereafter, we're pretty much locked in. But that's where, there was another question wherein I said towards the end of third quarter and the fourth quarter is where we should see the benefit of the softening prices getting the reflected in the margins. So therefore, to summarize, No, quarter 2 as of now has not benefited. And of quarter 3 and quarter 4, if the prices remain soft, we should see the benefit of that in the margins.

Moderator: Thank you. The next question is from the line of Shrinjana Mittal from RatnaTraya Capital. Please go ahead.

Shrinjana Mittal: Yes. Sir, can you please explain the reason for the seasonality in the business, like the quarter four is supposedly the best quarter for us, right? So if you can just explain probably why is that? And how is that?

Sanjay Jain: Yes. I think Shrinjana, this is like the quarter 3 is, for example, given large part of our customer base is Western world. So you have Thanksgiving, then you have Christmas, and then the new year holidays before and after new year. So therefore, this leads to shopping and then when you come to Jan-Feb-March, then the spring season shopping start. There's a change of season that happen as well towards February, March, you at least start seeing shopping for that. There is also spring break for a lot of people in the world.

And as a result, there is travel and there is shopping as well. Then you have Easter ahead of you. So therefore, the inherent the festivals holidays around various part of the world is typically the way it is. And I think many of the professionals, who operate on a calendar year basis as the year, tend to get their bonuses towards the end of the year. So therefore, come the spend and who operate on calendar,- financial year basis tend to get their bonuses towards the end. So somewhere increasing the disposal income as well as the festivities chasing the disposable income is the combined impact that the seasonality comes in.

Shrinjana Mittal: Okay. So sir, that affects us like the top line, but from the margin point of view, like margins are a little better towards the second half, right? So what would explain that?

Sanjay Jain: I think though it's not a strict correlation, but there is. I think if the demand pull is strong because of the reason that we just discussed, the ability of a retailer and as well as the ability of a strategic supplier like us to a retailer, that ability to pass on is far more stronger in a robust demand two quarters as compared to other two relatively leaner quarters. That's the reason if at all, as to why one would experience slightly better margins in the later two quarters.

Shrinjana Mittal: So basically, we are saying that our pricing power is much more stronger in Q4 because of the demand?

Sanjay Jain: You can say that. I think, yes, there is a correlation. If as a consumer, you want to buy something, you're willing to pay more, therefore, the ability to get there. Yes, still, I can't say this statement as 8- 9 out of 10 in isolation, but whether this segment is appropriate, largely, the answer is yes.

Unknown Analyst: Okay. And in this year, too, as you have already indicated, the order books are full for H2, right? I mean you're relatively booked?

Sanjay Jain: Yes. As I said, in quarter 3, we are all fully sold out, booked in terms of our capacity to handle with the people that we have onboard. Factories, of course, we are fully full, for Q4 we are typically for a factory 70% to 75% full and that kind of visibility we also have for our sourcing business as well, which is the way it always has been. So as of now, the traction is continues to be positive.

Unknown Analyst: And if the demand overshoots whatever the ability of your contracted factories, what happens if you actually go and source from other factories also? Or you just put a limit somewhere.

Sanjay Jain: See there are two, three multiple factors, which are in play to give answer to your question, for you to see the impact of demand in our top line in terms of growth, it would be preceding by 6 to 9 months of engagement with the customer in terms of order booking, etcetera. So as a result, when we are engaged with the customer, then we have a two quarters headroom in terms of planning of capacity from our various partner factories. That's one factor. Second is, can I onboard a new factory on an overnight basis, the answer is no. It's a careful onboarding process, which on an average around six months to 12 months, within given the ESG compliance requirements given that we don't onboard a factory unless the customer approves the factory as well.

So as a result, given the past experience, given the technology we use in terms of anticipation of the expected order book that we are already in touch with our vendors. And I think these are the one, two factors. The third factor specific to PDS has been that with a lot of humility, we are becoming a very relevant player in the ecosystem wherein from the parts of the world where we largely operate like Bangladesh, Sri Lanka, etcetera.

Covid happened, our vendors have seen PDS as a large terrible company conducting itself with utmost standards of honoring all commitments to vendors, etcetera. They all are aware that some of the world leading retailers are actually entering into long-term contracts with $1 billion of annual business volume, and they're choosing us to be the exclusive sourcing agent, which means if a factory from Bangladesh, or for India for a specific customer, which is to work with that customer, they have to come necessarily to us. So as a result, my ability to make a factory allocate capacity to me is gradually increasing in terms of the revop effect of this on the ability of the company.

Unknown Analyst: And one last question. So on the inventory side, I mean, do you by any means track what are the secondary sales happening in the customer side? Or we just directly go by the orders which you have already stated, come almost like 6 to 9 months before the actual execution cycle happens?

Sanjay Jain: So if I get your question right, I think we don't carry any inventory risk post the sale to the customer.

Unknown Analyst: I'm not talking about your inventory -- what I'm trying to ask you is, your customer books, some material around 6 to 9 months back to you. But he has to ultimately make a sale, right? So do we, by any means, track what will track the secondary sales at the customer spend or no?

Sanjay Jain: Yes, we do our teams, our marketing intelligence teams do keep on track of, in fact, many of our customers, for example, run unlisted companies -- so therefore, they do operate and declare results. So we do track very carefully what is the sales growth, what is the inventory levels they are carrying, what is the guidance they are giving. So that is very well carefully tracked that enable us to do our internal planning. If the customer is not listed, then at a strategic level when we are engaged at the highest level or our mid-management level engagement is going on. Yes, this is a very, very important piece to track in terms of what's happening of inventory at the customer level. Because that, of course, has a strong bearing on the impact of that on my top line 6 to 9 months in future.

In fact, all of us have been talking about many US retailers carrying large inventories and somewhere that resulting into pushback, etcetera. I'm not talking specific to PDS, I'm answering in general. That has been resulting into piping to factories. Therefore, the answer is yes, we do keep a very close track. In fact, in our internal groups, we circulate information related to key customer operating and financial results, draw one page of influence and make it available to our internal team for interacting with the customer.

Unknown Analyst: And as of now, you are happy with whatever is the health of the customers in terms of their secondary sales?

Sanjay Jain: See, happy is a very happy word that you are talking about, we are cautious. I think it’s premature to say a little bit that the US is coming out of it, but all indicators are that end of quarter 3or early quarter 4, one would at least see that there should be normalcy in terms of inventory level and the order book level coming in from US, but that's about 16% of our top line.

In terms of U.K., which is about half of our top line, I think we are fairly fine, because of dealing with very strong retailers over there. In rest of Europe, which is about 20%, 25% of the top line, we are cautious yes, because Europe is getting impacted, etcetera, but the low price segment we operate were insulated.

So therefore, I would say we need to continue to be vigilant and cautious on the environment around us. There is no room for complacency. And I think if you asked me this question in April, May '23, hopefully, I can say that we are happy. It is all going good.

Moderator: Thank you. A reminder to the participants, anyone wishing to ask question may please press star and one. As there are no further questions, I now hand the conference over to the management for the closing comments.

Sanjay Jain: Thank you so much, ladies and gentlemen, for joining us today. It has been a pleasure to have an engaging audience like you to join our call. And we look forward to connecting with all of you once again after the end of quarter 3. Thank you so much and stay safe all of you. Thank you, teams for organizing this call, please. Thank you.

Ashish Gupta: Thank you, everybody.

Moderator: Thank you. 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.