“PDS Limited

Q3 FY '25 Earnings Conference Call”

January 29, 2025

| | |
|---|---|
| **MANAGEMENT:** | **PALLAK SETH – EXECUTIVE VICE CHAIRMAN – PDS LIMITED**<br>**SANJAY JAIN – GROUP CHIEF EXECUTIVE OFFICER – PDS LIMITED**<br>**RAHUL AHUJA – GROUP CHIEF FINANCIAL OFFICER – PDS LIMITED**<br>**REENAH JOSEPH – DEPUTY GROUP CHIEF FINANCIAL OFFICER – PDS LIMITED** |
| **MODERATOR:** | **DIWAKAR PINGLE – E&Y** |

**Moderator:** Ladies and gentlemen, good day, and welcome to the Q3 FY '25 Earnings Conference Call for PDS Limited. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this 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. Diwakar Pingle from EY. Thank you, and over to you, sir.

**Diwakar Pingle:** Thank you, Rio. A warm welcome to all the participants to the PDS Limited Q3 and 9 Months FY '25 Earnings call. Our investor presentation and financial results are available in 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 forward-looking statements must be viewed in conjunction with the risk that the company faces.

This conference call is being recorded, and the transcript along with the audio of the same will be made available on 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 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 basis update and statements of the results from management team we have Mr. Pallak Seth, Executive Vice Chairman; Mr. Sanjay Jain, Group CEO; Mr. Rahul Ahuja, Group CFO; and Ms. Reenah Joseph, Deputy Group CFO. I now request Mr. Sanjay Jain to provide you with a brief update for the quarter. Over to you Sanjay.

**Sanjay Jain:** Thank you, Diwakar. A very good morning, afternoon, and evening to everyone. Thank you for joining us today. I'm pleased to share that PDS has sustained it’s growth momentum, delivering a 26% year-on-year increase in the revenue for the 9 months period ended December '24, and reaching a revenue of INR9,052 crores.

This performance underscores our ability to navigate an evolving global landscape and seize the emerging opportunities and reinforce a leadership in the industry. Rahul Ahuja will soon give you a deep dive into the performance but I would like to take this opportunity to highlight our key themes in line with our overall strategy.

In June last year, we had set forth an aspiration of 555, that in 5 years, starting from June last year, we would aspire to do 5 billion GMV, which would approximately mean a 3.5 billion turnover. And at that level, came a 5% PAT. So, 555 was the ambitious target. We feel positive that we are heading in the right direction. And as a step in that direction as an interim milestone we believe we should be touching 333. What this means is that in about 2 years from now, we're already 1 year into our journey when we started with 555, in about 2 years from now, we should have an order book in hand of about $3 billion. And at that level, we should do a turnover of close to US$2.2 billion and generate 3% PAT of the company.

So, this is not an introduction of any new aspiration or anything deviating from 555. This is to ourself a check that, yes, we should be on track on 555 and as an interim milestone, let's aim to get to 333 in about 2 years from now. And this aspiration, this milestone, we believe would be largely a combination of the organic growth, As you know, we've grown this year, 26% And as we are very close to entering the next year, we're also feeling positive about growth next year as well. So carefully growing on what we have built but there would be an element of some strategic acquisition opportunities that we shall be very, very carefully pursuing. So combination of these makes us feel confident to cross this interim milestone.

To reach this, we are driving, deepening of relationships with the existing customers. For example, with our largest customer, Primark, our growth in the 9 months has been 52%, so there has been growth, double of that of PDS with our single largest customer and also build the new customers across geographies to capitalize on the growth opportunities. And that's somewhere when we are investing into U.S., we have witnessed a 70% growth in North America sales.

We also want to diversify into high-value categories and enhanced service offerings to meet our evolving customer demands and our investments into general merchandise, our investment into home categories have all started firing and giving results. And therefore, that gives us the confidence that this also will be a key building block to our future.

While these two are going to be instrumental in driving the top line, we believe what we have built right now, if I take the 9-month sales and if you just extrapolate that is about INR18,000 crores of top line, and at this level, once we have got such a meaningful engagement with our customer, there is a lot of scope to now optimize on the operational efficiency to improve the profitability of the business. And as a result, the fourth lever is the strategic cost initiatives. That's where we have engaged with BCG to drive margin improvements and support the long-term sustainability. So the combination of these two factors should give us top line as well as margin improvement.

Before I discuss further on growth, I want to highlight we made the cost transformation initiative we have kick started with BCG. This 10-month engagement focuses on three of our key verticals, Poeticgem run out of U.K.; Simple Approach run out of Hong Kong; and Techno Design run out of Dusseldorf, Germany. And these three are almost about 50% to 55% of total cost base of the company.

And here, BCG is working on levers such as fabric, trims, materials, employees, sampling, couriering, just a few of these initiatives. And I think through operating efficiencies, synergies, cost optimization, we believe from the scale that we have built up, there is potential to get synergies on a high side of 3% to 4%, but surely about 1% to 2% savings from this cost base are surely achievable.

And the engagement with BCG actually is on a success fee basis, they feel very confident that they should be able to realize it and then only walk away with the fee. On the growth side, as I mentioned, we will continue our journey of deepening relationships with existing customers and also capitalizing on the growth and wherein I mentioned about 70% growth in North America, and currently we have an order book of about 425 million on an overall order book basis, while the order book has a growth of 16% overall.

But what is important is that in design-led sourcing, which is our main business contributing to more than 87% of revenue, the growth is actually 25% over the same period last year. So therefore, the main business, the sticky business is actually having a healthy 25% order book growth over the same period last year. The 16% is only because the agency business has been off, Ted Baker has shrunk a bit.

As part of our growth strategy, we're also pleased to announce our plans to acquire a 55% stake in Knit Gallery India Private Limited, a leading Tiruppur-based manufacturer and exporter of apparel specializing in baby wear, children wear, night wear and innerwear. Knit Gallery operates close to 14 manufacturing units along with warehouses and worker hostels, and has a production capacity of 40 million pieces per year catering to customers in Germany, U.S. and U.K. Some of their marquee customers are blue chip names like Ernsting's Family, Primark, T.J. Maxx, so they have a very healthy mix of customers. This acquisition is a significant milestone for PDS reinforcing India's role as a strategic manufacturing and sourcing hub.

It strengthens our expertise in apparel manufacturing in the region, aligns with the Make in India initiative and also in line with the changing geopolitical dynamics, whether it's China plus 1 or disruption in any other part of the world, we believe a very well-diversified manufacturing base and sourcing base should augur very well in terms of our offering to the customer.

We will continue to be asset light, so therefore, this is one very carefully chosen manufacturing acquisition in India, and we believe we are done with it in terms of acquiring a unit in India. This acquisition involves an equity investment of INR41 crores with some confirmatory diligences underway. And this investment is payable in tranches over 1 year. And as part of this transaction, Knit Gallery's existing business currently happening in a different entity will be transferred to the entity that we are acquiring and there will be a business consideration of INR34 crores payable over 3 years.

So, we have taken care that the consideration for the share purchase is built over 1 year so that the earnings are actually spanning, and payment is being made along with what we have believed and seen through to audit is the earning potential and the deferred consideration for the business is done over 3 years or so.

The combined business generated INR288 crores in revenue in FY'24 with an EBITDA of INR36 crores, and the transaction is expected to close by May 2025. Additionally, PDS is proud to be the fashion partner for BharatTex for the second consecutive year. And in this event, we will be showcasing our key verticals, Poeticgem, Techno Design, DBS Lifestyle, PDS Ventures and now Knit Gallery as well.

And as part of our effort to synergize on the cost area, we are hosting our first ever global suppliers meet. This first edition is in Delhi on the 18th of February, wherein we are bringing together domestic and international vendors. So far, the vendors have been individually dealing with the verticals, now we are showcasing that you are actually catering to an enterprise which is generating close to INR18,000 crores annual revenue and therefore, showcasing business, showcasing higher opportunity to our vendors and as a result, deriving on synergy benefits.

Looking ahead, the macroeconomic environment presents both opportunities and challenges. So far this year, we have stayed ahead of the initial 10% guidance. Global trade volumes are expected to rise, yet the geographical shifts may redefine some trade partners, but we believe our step in India is in the right direction in terms of showcasing us as a manufacturing sourcing base. At PDS, we remain focused on agility, resilience and strategic foresight to adapt any changes.

With this, I now hand over the call to our group CFO, for a further deep dive into our financial performance.

**Rahul Ahuja:** Thank you, Sanjay. Good day to everyone. Building on our strong momentum, I'm pleased to report that PDS has delivered another quarter of robust growth for the 9-month period of FY '25, we achieved the top line revenue of INR9,052 crores, reflecting a strong 26% year-on-year growth. Our GMV, gross merchandise value, grew by 16% year-on-year in Q3.

We reported a profit after tax of INR43 crores for Q3 FY '25, which is a 66% Y-o-Y growth and INR167 crores for the 9-month period ending December '24, reflecting a 22% year-over-year increase. Our normalized PAT after adjusting for new businesses, stood at INR78 crores for Q3 FY '25 and INR289 crores for the 9-month period, with margins of 2.6% and 3.4%, respectively.

Analysing our segmental performance. The sourcing segment expanded by 26% over the 9-month period, contributed by existing business expanding by 21% and sourcing as a service and the new verticals contributing to the rest. We witnessed a blip of around 40 bps in sourcing gross margins, which were mainly attributable to loss of Ted Baker agency business.

Our Manufacturing segment achieved a 42% year-over-year growth, generating INR532 crores in revenue. The segment reported an EBIT of 5.6% for the 9 months. Acquisition of Knit Gallery will further boost our capabilities in India and enable us to drive best practices and leverage scale.

Excluding our new business investments, we clocked a return on capital employed of 25% and net debt to equity of 0.21 and a net debt-to-EBITDA of 0.82. With this continued momentum, we are en-route to our 555 strategy and aspiration, and we shall get to the goal of 333 in another 2 years. We would now open the floor for questions.

**Moderator:** The first question is from Dhwanil Desai from Turtle Capital. Please go ahead.

**Dhwanil Desai:** Congratulations for a good set of numbers. Sir, my first question is the investment in new initiatives. I think there are two items that stand out are the U.S. and the brand management side of it. So how should we look at both these items going forward into FY '26 and overall investment, I think we will kind of we have alluded that it will start tapering off from second half and maybe it will go down significantly next year. So, are we on course to that? That's my first question.

**Sanjay Jain:** Yes. We have peaked out on the investment in new verticals in Q2. In Q3, they are about 10% lower as compared to Q2. And so we have peaked out that was 1 of the questions. And in terms of the outlook for next year, we are looking at investing half of what we have done this year. So, this should actually come down to about 50% to 60% of what we have done this year.

**Dhwanil Desai:** So essentially, I think probably this year, we will do INR130 crore, INR140 crore kind of a number. For next year, we should look at INR70 crores kind of a number, is that a right number to look at?

**Sanjay Jain:** Yes. I think broadly, yes. Yes, please.

**Dhwanil Desai:** Sir, second question is about this intermediate target that we have set for ourselves. If I look at net of investment on a 9-month basis, we are already at 3.4% PAT, and we are saying that in 3 years, we'll reach a 3% PAT and we are doing a lot of cost management initiatives and investment side also, we are saying that it will taper down. So, we're already there in terms of that number broadly if the investment part is not going to scale up significantly. So not able to understand whether the operating leverage benefit with scale, why it will not get reflected in that PAT number?

**Sanjay Jain:** I think your observations are in place. And we have also said that in about 2 years, which means FY '27 you should see us at full year 3% PAT. And right now, we are at 2%. Currently we're at about 1.5%. If I just talk about the full year, we should be closer to 2% or so approximately and then we have to add that 1% extra post our investment, so nothing to be excluded.

So yes, with the initiatives in hand, with the investments peaking out, the cost initiatives in place, we are confident we will get there. Your observation is in place. But allow me to be a bit conservative so that we should at least be working towards surpassing this rather than giving a very ambitious number and struggling to meet it. But we believe we are in the striking distance, and we're getting there.

**Dhwanil Desai:** Understood. And 1 last question, so sir, this $3 billion intermediate target, again, I think if I look at the numbers and even if we continue with the current run rate of INR3,000-odd crores, probably we'll hit the GMV of $2 billion this year. So, from $2 billion to $3 billion, how large the U.S. is going to play a part in that? And where are we in that journey from going from $400-$500 million to $1 billion, what are the key customers where we are seeing traction, scaling up of the business? If you can give some more color on that, that would be very useful.

**Sanjay Jain:** I think I will take the initial part of the question, and we also have Mr. Pallak Seth who is dialling in from London. I'll be soon requesting him on the later part of your question. I believe from $2 billion to $3 billion in terms of the extra $1 billion, we believe while North America would keep adding, you will see the exponential impact of U.S. takes time. So from the third, fourth and fifth year, there would be more and more meaningful impact of North America, and that should take up to 5 but for the intermediate aspiration, we believe whatever we have built in terms of our existing design-led sourcing business, the pace at which we are growing in North America, the acquisition of Knit Gallery that we have done, and the fact that my GMV of design-led sourcing is 25% up.

We believe we are well in shape on the current business we have built, to grow at, say about, 15% next year and therefore, be in a comfortable position to get to the $3 billion GMV. The U.S., as it fires exponentially is something that will come on top of it. For the next 2 years, we are building enough careful calibration, not building in any kind of exponential expansion from the U.S. business. So that's the math part of it. I'm just requesting Mr. Pallak Seth, as you asked about the customer engagement and which all customers are being engaged with.

Pallak, I request you to chime in please.

**Pallak Seth:** Yes, good morning, good afternoon, everyone. So, I think the fundamental difference between the U.S. and the U.K. and European businesses, in Europe, U.K. business starts small. It's engagement at our team with the buyer and the designer level and from there, orders are coming and trickling down and it takes a few years to grow to a sizable number.

Whereas the U.S. business takes a longer time to start because it has to be a company-to-company engagement, people below in our team versus a retailer's team cannot get the business started. But once those engagements are finalized between the CEO of a large retailer and PDS at the management level, the business flows very quickly and scales up very quickly.

So, it will take us 10 years to stay with the European retail of a similar size and scale. The same scale could be reached in 2 to 3 years in the American region because the strategic alignment that PDS is going to have or any supplier is going to have with an American retailer on a company-to-company basis. So, U.S. is going through a big transformation. They are I think 2 years or 3 years behind Europe in restructuring.

So, in Europe, we have seen a lot of SG&A cost cutting in the European retailers they're getting their own overhead down, they're coming to suppliers for services and asking them to take on more of the cost but also in return guaranteeing large businesses, a large volume to work with the supply base.

So, in U.S., that transition is just beginning to happen now, the last 6 to 12 months we are seeing, customers like Kohl's have gone through a big transformation, even yesterday they announced 15% to 20% cost cut at the head office level. Children's Place, another large American retailer is starting to engage with us and Walmart, Target, Fashion Nova, those conversations are quite strategic and moving in the right directionAnd the biggest retailer that we have just started conversation is Catalyst Brands, which is a merger of JCPenney, along with this brand Aeropostale, Brooks Brothers, Eddie Bauer and Forever 21. So I think the good thing is our U.S. investment at the strategic level started almost 18 months ago now. We have made inroads with the senior leadership of all relevant credit worthy American retailers as of now. They've started understanding our business model, they started opening our account and then they're talking about large business volumes.

In next 12, 24 months, we'll start seeing hockey stick impact into some of these large accounts as well. Our investment in people, have turned out to be good and they've had those relationships, they with their reputation, their network along with PDS branding and PDS infrastructure seems to be working well and these American retailers see value in what we offer them. I think U.S. could overtake our European business in the next 2 to 3 years if all these accounts that are talking numbers with us start firing the way they're supposed to. I hope I've answered the question.

**Moderator:** The next question is from Ankit Gupta from Bamboo Capital. Please go ahead.

**Ankit Gupta:** Congratulations for a good set of numbers. So, my question was on the brand management side, the way how things have shaped up on the Ted Baker side. How important is this piece of business for us to achieve 3 billion and finally, $5 billion GMV that we are targeting over the next 3 to 5 years? 3 and 5 years?

**Pallak Seth:** Sanjay, let me start by taking this.

**Sanjay Jain:** Yes, sure.

**Pallak Seth:** So, I think 1 thing we all need to be clear that for PDS, we are licensed brand owner and a company called the ABG, Authentic Brand Group, which is continuing to grow, continuing to expand. We just acquired Champion they're talking about taking more brands as well. So PDS is a license of Ted Baker, so we run the global design group servicing all the global franchises and then we also run the U.K. European wholesale business. So, some of the negative press we saw around Ted Baker in last 12 months was predominantly the retail partners ABG had selected in U.S. and Europe, which financially could not handle the working capital requirement and went out of business. So, as a result of that, the Ted Baker stores do not exist. But if anyone wants a Ted Baker brand, they have to come to PDS today for the wholesale. So, if you want to buy a Ted Baker earlier, you could go to a shop. But because the shop is not there, e-commerce side is now up and running. But only wholesale channel, the brand is available.

So, as a result of which PDS business has actually benefited from the demise of the retail shops, which is happening across the board in the whole thing, and our wholesale business has stabilized and continuing to grow because the product is right. Second, the company we have in U.K. it's called New Lobster, which is basically having Ted Baker as one of the brands. You must have seen the press announcement a few months ago, we signed Draper James which is Reese Witherspoon's brand as well to use the same team and infrastructure to add other licenses to distribute in the market. So, I think yes, so Ted Baker the whole situation restructuring actually benefited PDS because the wholesale business started growing. Any concessions were converted to pre-sold inventory, which also many, concessions existing in Europe and the U.K., yes, we don't want to take any inventory risk. So, we told those customers if you want to buy the Ted Baker product, you have to buy it outright from PDS, we will not give you on a sale or return on consignment basis.

So, I hope that answers your question. And that business will continue to grow and flourish. I think we are seeing a large, much larger growth momentum than the overall PDS growth into that New Lobster company because of Ted Baker growth next year, but also some of the other brands were onboarding utilizing the same team, to design, develop and market other brands in the similar mid-market segment.

**Ankit Gupta:** But a follow-up on your ambition to reach $5 billion GMV by FY '29. How important is this piece of business for us. Like as in your Investor Day, we did highlight that this is expected to become a big. This is expected to...

**Pallak Seth:** It's very important, very important. Like I said, the industry is changing. The New York IP companies between ABG, WHP, Marquis, Bluestar, Iconic, they are 5 big players. They have reached on $50 billion in retail, which has been closed down and become IP that is going to become $100 billion next 3 to 4 years. As soon as the demise of independent brands happens in the west, like I mean, I've just heard Dockers is on sale, Versace is on sale.

So, it's unbelievable, the amount of stand-alone fashion brands cannot survive with individual businesses are all being acquired by New York IP companies. So more that happens, the more these New York IP companies will require people to operate those businesses and pay them a royalty. So, for PDS, the opportunities are almost unbound. The reason we are a little bit slowed down the signing of new brands is because we are just trying to make sure that the whole Ted Baker model we had acquired because the disruption in retail last 12 months is stabilizing. So, we are seeing positive, definitely positive outshoots in our '24, '25, '26 budgets, what the CEO of that company has given us.

So, once we start seeing the profitability increasing and emerging to the level we require, we will then take on some of the other licenses because there's no upfront investment required. It's all variable. So, you take the brand right, you distribute, you utilize the entire existing resources like to help, respect your current asset of people and then offer your customers another brand rather than just one brand as an offering.

So, I mean the good thing is because of the PDS structure, you all saw that we acquired a manufacturing unit because it was required that we should have one manufacturing unit, right, as a base, like here, in Bangladesh we have 100 million owned manufacturing, we do over 1 billion outsourcing. So, in India if we have one manufacturing, we can do additional outsourcing.

So, in all the four segment periods operates manufacturing, design-led sourcing, sourcing with service and brands, there are opportunities emerging and with a very clear financial KPIs, we're evaluating what to do, what to restructure, what to invest in and take the whole thing forward.

So, all four segments are important, right? As long as there's no inventory risk, there's no credit risk, there's a scalable business within 2 to 3 years, which is profitable, carefully we're evaluating and seeing.

**Ankit Gupta:** So next year, can we expect some more brand engagements on this segment front, let's say, and not just from the European business, but even on the U.S. side as well?

**Pallak Seth:** Yes. As I said, there are a lot of American brands that are being acquired by the New York IP company, they come to PDS who operate, a lot of them keep getting offered to us for India, similarly, Southeast Asia, so around the world. But we have to be very careful. We're just evaluating the working capital requirements; we're evaluating the overhead structure. We don't want to get into physical shops. We just want to maintain wholesale, maybe some small e-commerce. So, the opportunities, I mean, the good thing is there is no other company like PDS in at least Europe and some of the bigger markets we operate, U.K., where there are other operators who can give the New York IP guys the services they require.

So, they all end up coming to us and almost fighting for attention like can PDS do it for them. So, we have to pick and choose the right partners and also the right opportunity. And next year for PDS about consolidation, making sure that all the investments we did last 12, 18 months start working, whatever did not work, we start cutting our costs and making sure that the focus towards the 333 journey and from there towards the 555 journey. So, there's no lack of opportunity, and there's no competition of other people pitching for those opportunities, right? So if you don't take it, they'll be still available in 6 months time. That's the good thing.

There's no other five PDS' around the world, which have been created based on our platform and entrepreneurial structure which any of these guys can go and pitch towards. We have that unfair advantage in our industry. And fortunately, there is no other scale-up platform that is able to work with these changes and dynamics in the industry to give the services to either the retailers or the brands or the New York IP companies, the way the industry has evolved. There's no scale company, I mean the other biggest competitor we have is now one third our size.

**Ankit Gupta:** Sure, sure. And my second question was on our intermediate target of 333. And if you look at its long-term target of around 555. There is a huge jump in the PAT margin that we are expecting as well as the sales in the later half of, let's say, the fourth year and the first year from $3 billion to $5 billion over the next 2 years, like in FY '28 and '29, and our PAT margin improving from of 3% to 5%. So, does it mean that a lot of the investments that we are doing currently and the efforts that we are putting up, a large part of that, the fructification of that will come in the fourth and fifth year?

**Pallak Seth:** I think first 333, Sanjay you want to answer, please?

**Sanjay Jain:** Yes, yes, yes. So just to put things in perspective, when we talk about the $3 billion, that should give us on a 70% conversion ratio, about $2.1 billion of U.S. revenue. And if I -- it's approximately INR18,000 crores of revenue. We are. if I just extrapolate the first 9-month performance, we are at INR13,000 crores this year. Our GMV overall is up 16%, our GMV in design-led sourcing business is up 25%. So therefore, company if it just grows at 15% next year and thereafter, it should clearly enable us to surpass the INR18,000 crores top line and approximately $3 billion GMV. So, it's a realistic number that we believe is achievable in about 2 years from now.

And as I mentioned earlier that we are taking a North America aspiration ahead. The teams are in place. The business has started clocking in good growth and one should see the exponential impact of that in the fourth and fifth year as well. So therefore, what we have set out as our ambition, I just did the math for the next 2 years. We believe we are getting there. The order book in hand is well in place. And the initiative on the synergies, cost optimization side also gives us positivity and confidence to touch the 3% PAT.

**Moderator:** The next question is from Shrinjana Mittal from RatnaTraya Capital.

**Shrinjana Mittal:** I have two questions. So first is if you can give some numbers on the Ted Baker sales and what is the sourcing as a service portion of the revenue?

**Sanjay Jain:** So Ted Baker in the 9 months period ended December, we did about INR355 crores of revenue. And in sourcing as a service in the 9 months period we did approximately 13 million into 87 approximately INR113 crores, we clocked in.

So, Ted Baker was flat if I talk about the same period of 9 months last year, as Mr. Pallak Seth explained, while we lost the agency business because of the stores shutting down, but we got our act together on the wholesale business, and the wholesale has got good traction. So, our top line is flat in Ted Baker as compared to last year, which I said is approximately INR355 crores.

And in terms of the sourcing as a service business, there, we have actually experienced a healthy growth in terms of -- over the same period last year, our growth is about 54% in terms of the top line growth, we were at 13 million last year, and we are -- sorry this year, and 8.5 million last year. So, 50% growth in sourcing as a service business and Ted Baker flat, the wholesale business overcompensating the decline of the agency business.

**Shrinjana Mittal:** Understood. That's very helpful. 1 more question that I had was, so I was just trying to understand the movement in the net debt. So, if I just look at last quarter versus this quarter, the net debt has increased by INR200 plus crores, INR250-odd crores. And if we look at the sales number, the sales is almost similar, right, compared to the last quarter.

So that would suggest that we have not made any operating cash. In fact, the operating cash would be on the negative side. So, what would be the reason for that? Like is it largely working capital, if yes, like which part of the working capital is contributing to this?

**Rahul Ahuja:** So, if you see our balance sheet for December '24 versus December '23 the corresponding period. You're right, we have seen an expansion in our balance sheet, particularly if I were to talk about core working capital, which is inventory, trade receivables and our payables. The net increase has been around INR338 crores. And if we were to just talk about trade receivables versus trade payables, the increase has been around INR230 crores. So, we did this to ensure that the growth that we were driving is achieved, and we let our balance sheet expand. However, that said, we have very clearly now identified from this quarter onwards, how are we going to contract the same, when I say contract the same, reduce our total outstanding debt.

For example, in Primark, which is our largest customer, we grew our business over the same period last year by almost INR550 crores. Now in Primark, we went to our bankers, and they have increased with effect from first of January the factoring that we do from 80% earlier to 90% now. So if the invoice of INR100, they used to give us INR80. Now they will give us INR90, this will lead to a release of about $3 - 3.5 million of working capital. We have also introduced vendor supply chain lines in our businesses, to 2 large businesses, particularly Norlanka.

We have got a $10 million line, which has already started getting utilized which means our vendors will get paid upfront, obviously, where there's interest and this goes off our debt and appears in the account payables. So that will release close to INR80 crores to INR90 crores in this quarter, given Norlanka is a large business for us. Similarly, for Ted Baker, we have a $10 million line in place for factoring their receivables.

Currently, our bankers have approved about 11 customers of Ted Baker, which we expect that in this quarter, about $4 million to $5 million of factoring will take place. Already, that number is at about $1 million as we receive and ship more and receive the documents, the banks will -- we expect about $4 million to $5 million, which is around INR35 crores to INR40 crores of factoring upfront, which again releases my working capital.

Similarly, to your question you would see an expansion in our inventory as well. Both our factories in Bangladesh are running a tad over capacity in this quarter. And close to $4.5 million to $5 million of goods, which were appearing in December balance sheet have already been shipped. So, to that extent, my working capital consumption will also come down, I will realize those inventory, getting converted into receivables and actual cash.

So, if you put all of these together, we expect that in this current quarter, we should reduce or contract our balance sheet close to about INR160 crores to INR175 crores and the corresponding impact on working capital as well.

**Moderator:** The next question is from Navin Vijay from NS Capital.

**Navin Vijay:** Congrats on the recent acquisition of Knit Gallery. I have a few questions on those. What would be the total consideration? You've mentioned the equity portion is INR41 crores. What would be the net debt that we have to take on our books?

**Sanjay Jain:** It is INR96 crores of debt that we are going to take on the balance sheet, and it is primarily working capital. And one more thing to be seen when we talk about this capital debt. The profile of the customers is blue chip. I mentioned about Ernsting Family, Primark, T.J.Maxx and these are creditable customers wherein nonrecourse factoring is available. So in due course of time, PDS would be bringing in its best practices here. But to answer your question, it is INR96 crores and almost 85% of that is working capital.

**Navin Vijay:** Got it. Got it. Also in the filing, you have mentioned part of Knit Gallery business will be transferred from existing firm. So, what portion would that be? So, there is a partnership firm and there is a private limited company. Is all of the partnership firm getting transferred into the private limited firm. And then in the combined entity, we are taking 55%. Is my understanding correct?

**Sanjay Jain:** Yes, you have summarized it well. They have been conducting business across 2 entities on the partnership firm under the business transfer arrangement. The entire business is moving into the company where we are acquiring 55%. There would not be any single rupee business of Knit Gallery related to garment that would be done outside the entity where we are getting the economic stake.

**Navin Vijay:** Great, great, great. Just want to feel of the net margin profile of the combined entity, sir, you mentioned EBITDA is INR36 crores. I just wanted to see if there is any net operating losses and if we can have any tax advantages out of it on the EV side, on the enterprise value side.

**Sanjay Jain:** So, I think what we have acquired is a profitable company, there has not been any loss carry forward. But having said that, at present we have net income margin, the PAT margins are better than that of our own manufacturing business. They are at about, EBITDA margin is 13% for FY '24, PAT margin is about 6%. Our own business that we have been running in Bangladesh, company makes 7% EBITDA and 1% PAT.

We believe there is room for adoption of best practices. And the combined turnover of both these companies, Knit Gallery and PDS Bangladesh entities is about INR900 crores. So, we see that let us adopt a path that from a combined 3% PAT, 7% Knit Gallery 1% PDS from a 3%. The next intermediate goal is 5%. So, in about 1.5 years from now, we feel very, very positive.

We're also getting a senior industry leader because there are two factories in Bangladesh. There is now one factory in India. There is 1 factory in Sri Lanka Nobles where we have a 26% stake, and we have an opportunity to step up to 50%. Now all this put together is approximately a business around INR1,200 crores and a senior person should be able to showcase the manufacturing progress to the customer. So, these are some synergies that we are going to realize in due course of time.

**Navin Vijay:** You have mentioned 14 factory buildings. What portion of this, how many numbers are owned and then how many are rented at least just to get an asset profile of the target entity?

**Sanjay Jain:** So, all of this would be rented. And the rental cost is kind of netted off from the EBITDA, and that's how we arrived at normalized and that's how the consideration got settled. So, all of this is rented premises. In fact, we've been very careful in response to 1 of the previous questions. I mentioned that almost 80% to 90% of debt is actually working capital. So therefore and for that, the inventory receivables all belong to the business.

**Moderator:** Next question is from Bharat Shah from ASK Investment Managers. Please go ahead.

**Bharat Shah:** First thing, we have taken upon ourselves very elegant business model of simplifying the pain points of our clients, be it manufacturing, be it sourcing, be it design and how we've been kind of branding and marketing services. But in the process, our own business model has become somewhat complicated given multiple clients, multiple brands, multiple manufacturing, our own efforts in that direction plus branding. So how far in the journey of simplifying our own business model where we have reached, why we have sought to simplify the business models of our clients.

**Sanjay Jain:** Bharat Bhai, thank you for your question. This is Sanjay Jain here. And I think we have chosen clearly 4 segments to pursue our growth. The design-led sourcing, the largest piece, then we added sourcing as a service, then brand management and manufacturing. We are into these 4 segments. And for the foreseeable future, we will continue to be in these 4 segments.

In fact, the India manufacturing that we have done has been a very carefully curated thought process that we have spelled out. Even one year back as well that in the retail headquarters of any of our customers, when they look at global sourcing strategy, India is definitely a destination from where they want to increase more sourcing.

In fact, a bit of disruption that happened in Bangladesh has further reinforced while Bangladesh has stabilized, but from a risk management perspective, customers want to diversify and add India as a base as well. So therefore, to demonstrate that PDS very well understands what it takes to manufacture in Bangladesh, I have two factories. What it takes to manufacture in Sri Lanka we have one factory, and now to demonstrate, every country has its own nuance of labor and managing the local nuances, so and Tiruppur is the base, therefore, we went ahead and carefully done an acquisition with blue chip customers. And I also mentioned earlier we're done with it.

So, I guess, we are very well remaining. Ted Baker, we have been very positive. Yes, it went into a bump, with the retail stores. But quickly, it is power of PDS that through our existing B2B relationship businesses, we could get the wholesale business into Ted Baker and have stabilized it. And as Pallak said, many opportunities are knocking my door to pursue the brand management direction, but we are going slow.

We want to make sure that the Ted Baker experiment should be fully successful. We're almost there. And lastly and very importantly, in fact, in our own investor presentation on Slide 20, we also verbalized our thought process that on a y-axis, we have talked about how we would pursue our growth through the carefully curated strategy, market services, but very importantly, on the x-axis, for everything in terms of cost synergies, people, practices, technology, we have said one PDS.

I think I need your attention to appreciate the fact that what we have built is about INR13,000 to INR14,000 crores top line company looking very well on track to INR18,000 crores. We've built that kind of engagement with the customer. The time has come also to start synergizing and reap the benefit of that. That's why we have taken up this cost transformation projects. I believe very humbly we are restricting ourselves to the 4 segments that we have chosen, and we have taken the task now on to ourselves. Yes, meaningful engagement has been done, meaningful size has been built, let us also synergize and augment our profitability.

**Pallak Seth:** Mr. Bharat, I just want to add a few points, what Mr. Jain said. I think the reality of the global industry is maybe India is going through a growth phase because of what's happening in the capital markets, the valuation for retailers is giving a lot of value to retail businesses. In the West, we've a huge consolidation. If there were 1,000 brands that were offering 15 years ago, today, that number is maybe 40 or 50 global retailers who are credit worthy and able to survive. But there are 20,000 suppliers out there who will chase these 50 retailers for business. So how you differentiate yourself from just being another supplier, just being another factory in the middle of Asia, will it be another agent or just being another design led company.

The way PDS is structured itself based on the professionals of management, the quality of people we have got and ability to provide them the services, understand their pain point is making us become closer to them. So they are saying we do we have to deal with 100 other people or 200 other companies if PDS has got the right calibre of management, right capital structure, right governance standards, right global infrastructure, and PDS on a transparent basis is willing to work with us, then we'll do more with PDS.

So the unfair advantage we have over those 20,000 SMEs in our industry is that these big 50 retailers are becoming bigger and bigger because the industry is not shrinking. The clothing industry globally is still growing 1% or 2% plus/minus every year, India maybe having 10-15% growth, in the west 1 or 2% growth or something in fewer hands.

So everywhere we meaningfully engage we are able to then get traction and do the business. So the investment we have to done to move from a product company to a services business by offering these 4 services, Mr. Jain has just mentioned, is bringing us closer to our customers and forecasting the larger opportunities and the business stickiness. They can't replace us. They can replace a factory, they can replace a manufacturing group, but they cannot replace PDS that easily today from their network and their service providers. I hope that answers your question, please.

**Bharat Shah:** And when we talk about brand clutter, which happened in Europe and America over time, and now it is disintegrating and consolidating. When these brands are acquired by PE firms, and they come to us, how exactly we are in a position to help them?

I mean if the PE firms are owning the brands, how do we ensure that these brands actually reach retail stores? Because somebody at their end needs to be helping in the brand nurturing and all that. So how exactly this happens at your end?

**Pallak Seth:** So the good thing, many of these PE firms are actually not retail specialist operators. They don't understand sourcing, they don't understand design, they don't understand digital. So, they rely on experts in the industry to provide them the services. So as I said, very few companies have a size scale, global reach, global presence to be able to offer that service on their doorstep around the world.

So they come to us, they lean on our expertise as a group, they lean on the quality of people we have hired in our company, to be able to provide them those services. So, one, they cannot hire those people. The reason PDS is able to hire the best talent is because we provide equity on the subsidiary we create.

So everyone in our industry today, be it a sourcing director or a buying director of a retailer, or a manufacturing person says we rather join PDS because there's no bureaucracy, no politics, no power center, there's equal offering, there's mutual respect, our culture is good. We have ability to intake people, bring people, give them ownership of businesses. So from being employed, they become owners of companies with us, so we become that platform. So the PE firms realize they cannot hire the people that PDS can hire because of the way we are structured, our culture and our incentive structure. That's also the deep expertise we have where we can share knowledge across 50 other customers we are working, so the PE guys trying to be more and more closer to us.

The amount of engagement we get now is much more than the retail summit or global retail, any global retail summit they want PDS to represent and talk about our business model today.

**Bharat Shah:** So essentially these PE firms consolidate many brands under their house, put some skeletal staff, which will help in reaching those brands to the stores and you do the rest?

**Pallak Seth:** Yes, we do the rest. So, IP company acquires a brand, then they find global partners who run the brand. So typically for U.K., Europe business, they come to PDS. They're coming towards increasingly for India opportunities that you want to take in India, the brand you can do as well. And then they go to someone else in the U.S., someone else in China. So there may be 10 global partners they try to work with for running the brand and paying them a royalty.

**Bharat Shah:** Also on the business model, we have built our business by partnering with many local entrepreneurs in different geographies in different arenas, be it manufacturing, or brands or whatever. The idea being that it keeps organization high on entrepreneurial talent and the individual entrepreneur solves the issues and problems and brings the value on the table.

Now that we are moving towards system level, technology level, sourcing level, consolidation, do you think there is some stress at margin in running more Laissez-faire kind of a model that we ran to a little bit more centralized model now we are seeking to run. And whether in the process of centralizing albeit not everything, but some of the core operations, but still when we seek to do it across many different partners in different geographies, it has potential to produce its own stress? Do you think this is more of a positive energy or we still are kind of trying to work through the situation?

**Pallak Seth:** The good thing is our model is proven and has been going on for 25 years, it's not that we came up in the last 1 or 2 years. So it's a proven model, other good thing is the global talent in the industry, every customer of PDS today comes and tells us if an opportunity comes, we will be honored to come join you and set up a business, right? So, the respect these global retail directors of sourcing a brand or buying director, they are our customers today. They come and say we want to become a part of the group because we've seen our colleagues who have joined who have succeeded in the right culture and the right incentive framework. So that is a huge positive and respect the global industry has for PDS today based on the culture and the incentive structure we have created.

So that is on one side, the positive. And then to attract the talent, ability to let the talent get on with the job without bureaucracy, politics, power center, that's the beauty of our model. On the consolidation side, what PDS wants to control centrally is risk and cash. So, these are the 2 things that are the most important. We can manage treasury centrally, we run risk management centrally, credit risk management, compliance centrally, finance, IT, legal, HR.

So all the common functions, which are back office or company running functions are run centrally, which is what Sanjay is running, I'm running along with them for growth initiatives, and then the entrepreneurs who are running the businesses, they focus on the client needs, they focus on sales, order execution. So we consolidate areas that are not required to be consolidated but we let our business partners do the areas where they can get on to the job without having too much bureaucracy or politics or power center that is created within large organizations.

So we created a procurement cell now, which is every entrepreneur within PDS can leverage for, during synergies in procurement that is reaching big scale is growing quite fast. You create a central design cell. There some of the new companies, they don't have to invest in their own design, they can use our design cell, but when they reach the scale, they can do their own design.

So, we're trying to consolidate areas that are having sense to consolidate that can bring cost saving and the biggest benefit our entrepreneurs see in our model is sharing of knowledge and best practices. So, every 2 months, the top 15, 20 businesses come together, sit in a room for 2 or 3 days, share best practices and ideas, share new business models, share the learnings and they take that back and implement in their businesses.

GE used to do that very effectively. They used to bring all their top CEOs around the world and share ideas at one time. So, we are trying to do the same. And that is the biggest value some of you can see from being part of the platform. They don't have to worry about cash flow, they don't have to worry about risk management, they don't have to worry about all the back-end functions. We have the leverage of scale of PDS with procurement, plus they have the best practice of idea sharing between each other.

**Bharat Shah:** One last bit. The way Trent in India succeeded in apparel retailing and fashion retailing, it has kind of shown that brands are a bit overrated, loyalty of the customers to the brand is somewhat more fickle and less enduring than it used to be in the past. And the younger people really don't have same notions of loyalty to a brand as perhaps people at different age brackets older people may think. And it has shown that how the store itself can become a strong brand by running the business model effectively and ensuring that refresh portfolio, fast-moving products are provided to the customers with the store becomes a brand and become the source of energy of consumption and growth. In that context, disintegration of the brands in Europe and America is not very surprising. And given the fact that many of them may just have been idiosyncratic names and somehow acquired brand status at a point of time, but are not able to live up to the underlying quality and other connotations, which a brand symbolizes. So, what are your thoughts in that in running your more complex global operation?

**Pallak Seth:** See, I mean our customers are the kind of stores you're talking about, right? Zara is not a brand. It's a store which is vertical. H&M is not a brand store, it's a store which is vertical. So I mean all our customers, Asda, Tesco, Sainsbury's, Primark, they're all verticals, and they have their own sub-brands. So with our design-led sourcing they still have a DNA. If you go into a Zudio, they've got 10 brands within their own, which is their own creative brand, men's, women's, ladies, kids. And some of those brands have their own DNA, own handwriting. For the person who will buy, a 16 to 20-year-old person will not want to buy the same brand as a 50 to 50-year-old will buy, right?

So, within Zara or H&M, they have sub-brands, so PDS design teams design into those sub-brands. And you're right, today, the young customer has no loyalty towards any platform, any retail, any website. They want the best quality design and product. So, as long as the product is good, price is right, the trend is right, they will buy the garment, right? So that is how PDS with these 300 designers globally are constantly looking where the new trend is coming and offering that to our customers and that's why the customers keep coming to us and buying more things. So yes, so I think unless you're a very well-known brand like Tommy or Calvin people see value, otherwise, a lot of these small, medium-sized brands don't really have a customer, and the loyalty can be questioned for sure.

**Moderator:** Thank you very much. We'll have to take that as the last question. I would now like to hand the conference back to the management team for closing comments.

**Sanjay Jain:** Thank you so much, everyone, for taking the time out to join our conference call. We shall be in touch with you and look forward to interaction with you at the end of quarter 4 earnings and extending our long wishes to everyone, please stay safe and take care. Thank you so much, and thank you, EY team, for your assistance in organizing today. Thank you.

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