



“PDS Limited
Q3 FY ‘26 Earnings Conference Call”
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Moderator: Ladies and gentlemen, good day, and welcome to the PDS Limited Q3 FY '26 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I would now like to hand the conference over to Ms. Shirley Rodrigues from PDS Limited for the opening remarks. Thank you, and over to you, ma'am.

Shirley Rodrigues: A warm welcome to all participants to PDS Limited's Q3 and 9 months FY '26 earnings call. Our presentation and financial results are available on the company's website and stock exchanges. Please note that anything said on this call, which reflects our outlook for the future, or which may be construed as forward-looking statements must be viewed in conjunction with the risks that the company faces. The conference call is being recorded and the transcript, along with the audio will be available on the company website and stock exchanges.

Today, we have with us the management, which includes Mr. Pallak Seth, Executive Vice Chairman; Mr. Sanjay Jain, Group CEO; and Mr. Rahul Ahuja, Group CFO. I now hand over the call to Mr. Sanjay Jain to make the opening remarks.

Sanjay Jain: Thank you, Shirley. Hi, everyone. Good morning, good afternoon, and evening across the time zones. This quarter reflects a disciplined execution in a market that is continuing to be extremely volatile, but I would also say, at the same time, structurally constructive for a scaled platform player like PDS.

The global apparel environment is continuing to be very, very restrained and measured. Consumer demand across U.S. and Europe is still value-led. In fact, in value led as well, customers are restraining spending for now. Beyond that, the discretionary spending is very selective, and at retailer's end, they continue to operate with shorter order visibility and tight inventory control.

In addition to that, the trade dynamics, and the tariff-related uncertainties, particularly around U.S. policy direction and sourcing shifts are also influencing behaviour of the buyer. The order placements for now are calibrated and retailers and brands are also focused increasingly on risk mitigation, speed, and compliance.

However, beneath this near-term caution, the structural shifts are clearly underway. And some of them, to point out, are the vendor consolidation within the given retailer is accelerating. Global brands are reducing supplier bias and partnering with scaled and compliant platforms. This actually enables a retailer to keep their cost structure well under control. In fact, before this, even a given market, for example, U.K. is almost 43% of where we sell, there is a consolidation happening amongst our retailers as well, wherein the existing large players are becoming more large. And as a result, PDS on one hand is getting an opportunity to have a larger wallet to aim

for a larger share. But within a given retailer, there are these cost pressures leading to vendor consolidation.

The sourcing diversification, that's the second point, is continuing. The concentration risk in a given geography is now being actively measured and are trying to be managed by the retailer. The trade agreements are reshaping competitiveness of a given geography. The India-EU Trade deal and the U.K. FTA are strengthening our steps in the right direction and from any India-led exports are steps in the right direction and therefore, should strengthen the medium-term growth visibility.

What is important here to add is that while I covered about the challenges and that has led to our 9 months growth at about 6% and the quarter 3 growth at about 1.5%. But if for argument's sake, we exclude 2 impacted vendors like Gerry Weber and Matalan, then the growth that PDS on the whole has achieved in the 9 months is actually 11.2% despite the global challenges that have been existing.

Continuing, the recent tariff developments are structurally very favourable to our platform. The U.S. reciprocal tariff framework has resulted in India's effective tariff exposure reducing from a peak level of 50% to 18%, materially improving India's competitiveness in the U.S. market. At the same time, Bangladesh has subsequently benefited now from a recently announced zero reciprocal tariff position, further strengthening its relative advantage in global apparel sourcing.

Your company, PDS has established and scaled presence in both India and Bangladesh. Therefore, we are structurally well positioned to capture the incremental sourcing flows that are going to come to the geographies arising from the tariff realignments. Our diversified manufacturing and sourcing footprint enable us to respond dynamically to customer reallocation decisions, and we expect these developments to progressively support our order visibility and growth momentum over the medium term. While in the near term, we continue to be cautious, but we believe all these changes are auguring well for a good recovery and good medium-term visibility in 1 or 2 quarters from here onwards.

In Bangladesh, notwithstanding whatever we all are hearing or reading on ground, reality is that the production in our own 2 factories and also in our partner factories and beyond production, the movement of goods continue to be almost smooth and on track. And therefore, on ground, we are keeping a close watch, but we are not experiencing any kind of adverse impact to supply chain and that is smoothly functioning at present.

Our approach remains calibrated wherein we aim at diversification, but without dilution of a given geography from where we source. And of course, we need to be completely ready as we all would aim for a recovery to happen in about 1 or 2 quarters.

Our acquisition and integration of Knit Gallery has been on track and has meaningfully strengthened India manufacturing presence. The factory is looking to be in a good shape. We have strengthened the founder, Vijay, with good able management team. There are existing customers focused on U.K. and EU markets. The factory is also partly catering to U.S. as a customer. And at present, given the developments that are unfolding on the tariff front, this

factory is actually aiming at almost about 40% to 50% growth in terms of its internal planning for next year. And this kind of growth should be able to come in from the internal operating efficiencies that are embedded into the current factory locations of Knit Gallery.

And besides this, we have also invested into our sourcing teams who are now in touch with our existing customers and trying to help them in their effort to source more from India. So our own factory as a showcase, our own factory as a stand-alone viable factory plus our sourcing teams on ground, similar to what we have been doing in Bangladesh, China and Sri Lanka and Turkey. We also have strengthened on-ground teams and therefore, are well placed to make the most of it.

Our Manufacturing business, if I shift to this segment, has transitioned from a stand-alone asset to an integrated strategically aligned model. We started this business sometime around 2017. The path to profitability has been longer. It takes about 2 years, 3 years for getting it to a PBT breakeven, then we were hit by COVID. But now after all these efforts, the business is profitable, making closer to 3.5% to 4% margin, and we believe there is potential to scale up to next level.

And it is with this context that we strengthened the leadership with Abhishek Nawani as CEO of Manufacturing business, who will be supported by our CFO, Mansi Agrawal, for the Manufacturing business. Both of them are internal elevations and Abhishek Nawani had earlier work with leading retailer Gap and also worked with one of the leading manufacturing companies in Indonesia called Busana. So he brings a mixed experience of both manufacturing and working with retail. And Mansi has been in the system for 2 years. And prior to that, she was with EY. We believe this team should be able to bring results in terms of 3 priorities: Deeper customer program alignment. We need to move up the value chain to have fewer customers but more value-added customer in terms of earning per minute. We believe there is potential now to do cost synergies. These 3 factories have been pretty much running independent P&L units without disturbing the operational independence. There is a room to synergize. And also as a third and important that as we aim for growth, try and extract as much operational juice as possible from the existing factories. We believe this evolution enhances long-term partnership relevance of our factory with customers rather than a transactional interface to try and fill factories. More fewer customers for more important strategic relationship.

Throughout the year, our focus at PDS has been consistent around enhancing profitability. We are beginning to see impact in gross margins, therefore, beginning to see impact in EBITDA margin. We have been immensely focused during these turbulent times on cash generation, trying to bring our working capital from 17 days to down to 7 days and have a strong operating cash flow position.

And while we are keeping a watch on the global ecosystem, but we are not refraining from selectively investing into digital, AI and cost transformation. We believe PDS with its customer connect have got a lot of meaningful role to play in terms of its investment in AI related to designs, related to emerging trends, designs and further into the supply chain, we have a very selective program, which is being taken ahead.

We are transiting from cost stabilization to structural efficiency improvement. Our enterprise-wide cost transformation and digital backbone initiatives, some of them that I just touched upon are, as I said, are already beginning to add into margin expansion.

And therefore, as the recovery happens in a quarter or 2, we believe we should start seeing a meaningful benefit of stronger operating leverage. We have experienced close to 40% decline in the first half. We are bringing it down to about 14%, 15% in quarter 3. And we believe we are now heading towards a quarter wherein we should arrest any decline and thereafter, look at profitability augmentation.

Lastly, as you have seen in our communication, Mr. Rahul Ahuja, who has been our Group CFO for over 3 years, is now transiting into the role of a strategic adviser. Rahul has immensely added value to PDS profitability and process and systems. And therefore, we want to continue to benefit from his strategic inputs.

And at the same time, as part of an internal transition management and successfully executing that, Mr. Sadik Sunasara, who has been last 2 years as Head of Banking and Treasury Operations based in Hong Kong, who was earlier Head of Special Projects and M&A, would now be relocating to Mumbai from Hong Kong and is being elevated to a Group CFO role.

We believe this change of strategic inputs from Rahul and Sadik as a Group CFO should further strengthen our credit risks framework, our liquidity management, our working capital efficiencies and are successfully managing counterparty exposure and therefore, enabling PDS to profitably grow at the same time, ably manage balance sheet.

With this, I now hand over to Rahul to make you walk through the financial performance in more details. Thank you, Rahul.

Rahul Ahuja:

Thank you, Sanjay. Good evening, everyone. Let me take you through the key business and financial highlights for the quarter and the 9-month period. For the 9-month period, GMV reached ₹14,760 crores, reflecting a 7% year-on-year growth and revenue grew 6% to ₹9,591 crores. Top line growth was largely impacted by Matalan and Gerry Weber business, excluding which the growth, as Sanjay mentioned, is around 11.2%, demonstrating steady throughput across our platform.

Our plans for curtailing our losses in new verticals is on track and are expected to achieve our target. Our Manufacturing segment is showing strong growth momentum, supported by the integration of Knit Gallery and operational improvements across our manufacturing platform.

On the profitability front, we continue to see gradual improvement driven by procurement efficiencies, operating discipline, and better mix. Gross margin expanded 236 basis points year-over-year in Q3 and 45 basis points in the 9-month period. This is driven by procurement efficiencies, mix and cost discipline. This translated into EBITDA for Q3 increasing 11% year-over-year with margin expansion of 28 basis points. PAT for the quarter stood at ₹37 crores, which was a decline of 18% year-over-year.

From a cost perspective, employee expenses increased by 9% year-over-year in Q3 FY '26, which include impact of Knit Gallery acquisition. Other expenses increased by 21% year-over-year in Q3, primarily due to Knit Gallery and increase in license fees from our brand business across our verticals like Ted Baker and Poeticgem. Finance costs were higher year-on-year due to factoring and Knit Gallery related borrowing. However, on a sequential basis, interest cost has reduced by about 15%, reflecting improving working capital efficiency.

Our balance sheet continues to strengthen. Net debt reduced sharply to around ₹70 crores as of December from ₹374 crores in March '25, despite the addition of debt of ₹98 crores from Knit Gallery acquisition. Net working capital remains tightly managed at around 7 days, supporting strong operating cash flow generation of ₹644 crores for the 9-month period. Leverage ratios of the company remain comfortable with net debt-to-EBITDA at around 0.2 and normalized return on capital employed at approximately 28%, reflecting improving capital efficiency.

Overall, our financial performance reflects disciplined execution, steady growth, improving margins, strong cash flow generation and significantly deleveraged balance sheet. We remain focused on enhancing profitability, maintaining tight working capital control, and ensuring prudent capital allocation as we move forward. With that, we can now open the floor to questions. Thank you.

Moderator: Thank you. Our first question comes from the line of Rudraksh Raheja from ithought Financial Consulting. Please go ahead.

Rudraksh Raheja: My first question is regarding the gross margins. This is the highest quarterly number that we have seen in like ever. So could you help us understand how did we get here? What are the levers that did we pull? And how sustainable is this going forward?

Rahul Ahuja: So you're right. Our gross margins are one of the highest in the recent many quarters. And like Sanjay mentioned, one of the few reasons for this increase or for these levels are that given the disruption in the market, every disruption presents an opportunity. About 3 to 4 of our top verticals had better gross margins largely because the factories across the world are facing the challenge of the headwinds in the industry, which meant that they are not operating at anywhere close to the desired capacity, which is an opportunity for a player like PDS, which has marquee customers and a robust order book.

And it helps us negotiate better with our factories when we give them business in such times. So this was one of the main reasons why we posted better gross margins. Also in the current quarter, there is the results of Knit Gallery as well. Knit Gallery, as you know, is a manufacturing operation where the gross margins are much higher than our traditional sourcing. So these 2 reasons put together largely constitute expansion in our gross margin.

Sanjay Jain: Plus, we've been last 9, 12 months working on structurally augmenting our procurement processes. I think they're beginning to show results. So a combination of 1, 2, 3 things is what has resulted into this high margin I think you also asked in terms of the sustainability of it. I think what is quarter-by-quarter may not be the best indicator, but what is important is that in the 9 months period, we have a 45 basis point improvement in gross margin. I think that is what

we would aim to target that can be year-over-year through efficiencies, through a better mix of our offerings to customers, we can actually aim at 50 basis points. So to answer your point, that's something more sustainable in terms of year-over-year improvement.

Rudraksh Raheja:

Understood, sir. That helps. And sir, on the operational cost front, what I mean by that is employee cost and other expenses. We were expecting that H2 would witness some impact of the cost saving measures that we have talked about in the last 6 to 9 months. But sequentially, if I see employee costs have risen considerably and opex, while it has been flat, but since the revenue quarter-on-quarter has decreased, the impact of that seems a bit high on our P&L. So could you help us understand why this has taken place?

Rahul Ahuja:

So if you talk about sequentially, yes, our employee costs have gone up, but there are 2 or 3 very clear reasons for these. One is, as I had earlier mentioned, Knit Gallery does not appear -- sorry, I was talking year-over-year. So as far as sequentially is concerned, it is largely on account of the variable payout that has happened in Q3 largely.

This is more of a timing thing than anything else, which has been, I guess, the biggest contributor as far as the sequential movement is concerned. Also, there are some ESOP expenses, which adequate disclosures have been made, which have hit us in the Q3. So these 2 put together account for almost 90% of the increase that you see in our employee cost sequentially.

Sanjay Jain:

But we want to add that what we have mentioned in previous calls about initiatives being taken. I think they have been implemented. It takes on an average 3 to 6 months' notice period. Some of these employees are in jurisdictions like U.K., et cetera, wherein there are severance-related aspects that step in. But whatever we had planned at the platform level has all been acted upon.

The Design Arc vertical, which was handling Matalan as a client, we are merging that vertical with Poeticgem and that merger is underway. It's an internal merger, operational merger internally. That would lead to kind of optimization of manpower. Some of our large verticals have assessed a reallocation of resources between high-cost location in the front end versus more skilled and low cost in Eastern part of the world. To summarize, what we have mentioned, initiatives are under implementation, you should clearly, barring the 1 or 2 fluctuations of ESOP or bonus payouts in quarter 4 and thereafter, you should clearly see the benefit of this coming in.

Rudraksh Raheja:

Got it. Sir, just to double check, these numbers does reflect the savings measure that we were planning for H2. I think that was around ₹25 crores that we were expecting. Does that saving is being reflected in these numbers as of now? Or is it still to come?

Sanjay Jain:

See, as I said, savings is the net number that we were expecting for full year post the severance or redundancy cost, et cetera. So therefore, the full benefit of savings is not yet captured here. The benefit will be more visible in coming quarter. We can offline also try, our teams can help you break up that out of 25, how much has got captured in quarter 3. And how much would you see in Q4 and Q1 next year. We'll be very happy to provide that clarity.

Moderator:

The next question comes from the line of Kiran Gadge from Knightstone Capital Management LLP. Please go ahead.

Kiran Gadge: Hi Good Evening, what percent of total sourcing is from Bangladesh? And are we trying to dilute it?

Sanjay Jain: Sorry, could you repeat the question?

Kiran Gadge: What percentage of our total sourcing is from Bangladesh? And are we trying to dilute it?

Sanjay Jain: It is closer to 55% to 60% of the overall sourcing that comes from Bangladesh. No, we are not trying to dilute. As I said in my opening remarks, we are adding more jurisdictions to serve our customers, but not at the expense of dilution. I think, as I said, Bangladesh to us appears to be very stable. And India, we are adding more in terms of our capability to serve customers. Egypt, we are adding more. Turkey, we have seen more flow of business, but nothing is at the expense of business moving away from Bangladesh at all.

Kiran Gadge: Okay. And secondly if you could provide revenue split geographically for this quarter?

Sanjay Jain: Sure. I think there was an inadvertent error that the slide got missed out. Subsequently, our team did a corrigendum and added that slide. And I will just request Rahul to read through the numbers. They are very much now part of the investor deck disclosure that has been made. Maybe I'll only tell you it is handy. We had 43% of our revenue came in from U.K. in terms of the 9 months this year as compared to 37% last year. There's a 24% growth in absolute terms and the share going up from 37% to 43%. Europe, it came down from 38% to 31% in terms of share, a 12% decline. Gerry Weber is one case that is there. But in general, we believe EU has been far more hit by the subdued customer sentiment. Germany has been a key market for us. So that also got impacted. So that's why the sales in EU have a 12% decline. Sales to America are at about 20% of the overall revenue. This was 18% last year 9 months. There's a growth of about 20% in Americas. And Asia and Middle East are at about 7%, in line with what they were last year.

Moderator: The next question comes from the line of Madhur Rathi from Counter Cyclical Investments.

Madhur Rathi: Thank you for an opportunity, Sir, I wanted to understand regarding this growth slowdown because I understand that sir, we as a platform business, we constantly keep on adding new customers and this growth slowdown shouldn't affect us in an industry which is much huge than our current GMV. So I'm just trying to understand where are we lacking? Are we lacking on the customer addition front or increasing our wallet share with the existing customers? Because on one hand, you say that there is a vendor consolidation happening. So if you could just help us understand?

Sanjay Jain: Yes. I think what we all are witnessing last 9 months of this year, especially the last 3, 4 months is absolutely unprecedented. The geopolitical disturbances, customer sentiment were already there. Then on top of that came the tariff situation. So as I said in the opening remarks, the customer has also become extremely cautious. So these are some overall factors.

But coming specific to us, we mentioned that, yes, we are absolutely doing new initiatives. And out of the ₹9,000 crores circa turnover in the first 9 months, the business from new vertical is

close to ₹700 crores, and it is almost a 45% growth over the same period last year. The Manufacturing business is 35% growth over the same period last year.

So where did it get impacted? It actually got impacted in our largest mature verticals because of 2 reasons. One, Gerry Weber and Matalan situation. But even in very established, mature creditworthy, financially stable customers, there has been a request towards the end of last quarter to hold sales and shipment for some time. The customers, as we said, are being cautious and not wanting to be in a situation wherein they are sitting on inventory that otherwise they don't want to hold. Their risk appetite with respect to this is also kind of cautious, they can be in a situation of inventory out, but don't want to hold it.

The orders are well intact. It is just this request for deferment. In fact, in our top 10 large verticals, if I have to broadly recall, approximately \$15 million, that's almost like ₹140 crores, ₹150 crores of sales that got pushed out. Had those sales happened in this quarter, one would have seen the impact of that through gross margin flowing to bottom line. So therefore, we believe everything is in place. The environment is leading to what it is. Mr. Pallak Seth is also on the call, and I'll also request him to share his inputs, especially on the customer addition point that you mentioned.

Pallak Seth:

Hi Sanjay, hi everyone, I think with the U.S. tariffs, what we've been speaking to the customers, there has been a 5% to 10% price increase in the market, which has led to some reduction in quantity and demand, what they are buying. So because of tariff increase, definitely price, retail prices have gone up and it's causing a reduction in demand and number of units being sold in the U.S. market. Saying that, PDS has added a lot of new customers in the last 6 months, some of them in our new verticals and some in our existing verticals. So customers like Walmart, Target, PVH, T.J. Maxx, some of the largest retailers in the U.S. have now onboarded PDS as a vendor.

Today, to get a vendor account from these established players is almost next to impossible. So it's saying that if the vendor account is open, it's a cycle because first 6 months, you do product development, you get your factories onboarded, and then the orders start flowing in. So it's a 2-year cycle by the time the volumes start reaching substantial scale, some of the new additional customers we have done. And on the existing customers, where we are seeing already consolidation happening in the vendor base, there, we are continuing to gain more market share from their side.

The only risk we face in the system, not only us, but every company in our industry faces is the creditworthiness of the customers, certain customers. So Gerry Weber if you look at, unfortunately, the retailer went bankrupt. We didn't have any direct hit on our margin because end of the day, we were secured on our payments. But obviously, the gross margin that was there linked to that business doesn't continue into the future. So that issue happened.

And also similarly, Matalan, they're going through restructuring that at one time was one of our largest customers. Today, they are almost meaningless to our system, right, after us derisking them with some of the other companies we have grown within the U.K. And like Mr. Sanjay

mentioned also, we merged Design Arc with Poeticgem. That is also helping us to mitigate some of the costs we were carrying in the Design Arc vertical to manage the Matalan account.

So it's a cycle, existing customer consolidating where we gained market share, a lot of new accounts we have opened, which is great. But if the customers -- some of the customers are going bankrupt in this environment due to tariffs or due to macroeconomic challenges, as long as PDS doesn't have a credit hit or a direct hit on financials, but we have to replace that turnover, which we are doing within this financial year.

So we feel very confident about the huge pipeline of customers that have been onboarded in the last 12 months and the potential of growth we are seeing them in the next couple of years. Hope it answers your question.

Madhur Rathi:

Yes, sir. Sir, just a sub-question would be, sir, on our sourcing as a service business segment, how are we seeing it scaling up with the tariffs and differential tariffs with differential countries? So maybe home textiles from India maybe we could supply them?

Pallak Seth:

75% of our business is apparel, 25% other categories, 3-4 years ago, other's category was almost zero. So we are very fortunately have added based on certain kind of customers like Asda giving home business and a few others, we've now benchmarked, and we've basically positioned PDS as a sourcing company not only for apparel for other categories as well.

So there are 3 or 4 very large contracts for which we have put in the pitch decks. And the good news is that there are only 2 or 3 companies globally now which retailers can go to whenever these sourcing as a service opportunities come up. So it's PDS again, Li & Fung against maybe new kinds of autos who see other companies. But the final 2 players left in the industry is PDS and Li & Fung. And Li & Fung is a 125-year-old company, PDS is a 25-year-old company. So there's a huge gap between where they are positioned, where we are positioned. But today, our scale and size is almost similar, right? They've had a huge contraction based on their business model last few years. So PDS and Li & Fung scale and size is almost similar, and there are 2 players left pitching for the sourcing as a service deals when these offerings come up.

The only thing we have to strengthen is having the ecosystem and network between the consultants like the likes of BCG, Bain, McKinsey, they are the one who bring in these opportunities. And all of them know Li & Fung quite well. That's why PDS has to do a bit more lobbying in the future that came up with all these global restructuring and consulting firms, when they work with the retailers to bring in sourcing efficiency opportunities, PDS is also pitched against Li & Fung in those. So wherever we are pitching against Li & Fung, I would say, 7 out of 10 we are winning, right, which is great for a newcomer to disrupt a global industry player. But if we are not known and heard in the industry by certain players, then obviously, Li & Fung has a clean run. So we are trying to now address that also going forward that more and more we pitch on these opportunities.

But a very large contract in France, we are working on, one large contract in the U.S. and one in the U.K. So we see between them have almost \$1 billion potential that we put in a bid for running

sourcing. So no working capital is employed, day 1 profitability, customer paying the costs and our margins are secured by the cost-plus model we've implemented.

So we disrupted the industry. PDS came with cost plus before that was a fixed agency. So obviously, our existing sourcing agents don't like it because they used to be able to charge a fixed margin and be opaque about it, where PDS being radically transparent in our business model. The customers really like that, and the existing incumbent competitors can't really compete because they already have a very high cost base when they are working on the sourcing as a service model, whereas we are going from a low base cost-plus model. So once they are done, we'll make some announcement, but we need 1 or 2 months more to finalize. The discussion started pre-Christmas.

Moderator: The next question comes from the line of Samvit Patel from dT! Partners.

Samvit Patel: I just have one going on the same line. Within our top 10 customers, I think Gerry Weber and Matalan were there, how much longer do you think do we have to suffer because of these 2 accounts because as you mentioned, this quarter also, we had a bump.

Pallak Seth: I would say like there are 2 things, right? One, once this Gerry Weber went out of business, we didn't have any hit on our payment. So we got 100% payments through our risk management framework. We got 100% payment from those customers. The only thing that we have to now replace with the gross margin against the revenue we were doing with these customers.

So within 12 months, the company Techno, which is handling this customer has been largely able to replace that through some cost cutting because the margin, some has gone to cost cutting and others through revenue growth and focus on other client relationships. So I would say probably Techno with Gerry Weber by next financial year, they'll be recouping at least 60%, 70% of the profit they have lost from this customer within '26- '27 financial year.

And as far as Matalan is concerned, we have taken the decision to merge 2 of our large businesses, Design Arc with Poeticgem. They were both profitable businesses in their own right. But with Matalan situation being there, we decided to merge them. So there's a lot of cost saving between the merger as well and then Poeticgem will onboard another ~\$50-60 million Matalan account onto their books. So as two merged entities with the Matalan turnover flowing into one entity instead of being handled by exclusive entity, hopefully, we'll be able to get back to the profit we required as well. So a combination of cost cutting and a combination of replacing that turnover with focus on new client relationships.

Samvit Patel: Understood. And just one more thing within our top 10 customers, you used to disclose the growth in terms of how much we've expanded our wallet share. Any sense on that in these coming quarters as you said consolidation?

Sanjay Jain: Yes. So Pallak, we have a practice of sharing it every 6 months, H1, we did. So by March, we will do that as well. But we can answer it right now in terms of broadly and very happy to take it offline with specific numbers. But we have, I've mentioned that if I take Gerry Weber and Matalan account, there is, as Rahul said, 11.2% growth in the first 9 months of this year.

And that's largely a growth being visible across the key clients of Primark, Tesco, Next, Sainsbury in terms of accounts. One was hoping to have much more growth. But while we were benefiting from the vendor consolidation, they initiated the benefit coming away, but dampened demand towards the end of December led to some partial, as I said, deferment of sales.

So on the whole, we have done well in all key accounts, grown our share of wallet. And I think that should continue. In fact, Primark, which is our single largest customer, basis a recent discussion that we were internally having our vertical simple approach, which is largely focused on serving them, continues to be conservative, continues to keep -- be cautious when it comes to managing working capital and opex, but clearly seeing a visibility of growth within 10% to 15% with this customer next year. And they feel that the customer is doing a consolidation, and that's on one hand, that he should get a larger share. He's an important one of the top 3 strategic vendors.

Secondly, Primark is also focused on sourcing more from India, and we have positioned our factory and our sourcing teams very well. So this is one case in example that as the current uncertainties go behind us, a 10% to 15% growth in the number one account of the company is what we are aiming at next year.

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

Prakash Diwan: Congratulations to the team for doggedly getting to manage growth even in this tough environment. My question is 2 parts. The first one is related to manufacturing and more specifically on the Knit Gallery. We have invested a significant amount of capital in manufacturing now, it's almost 32%. And that's one of the reasons why, of course, manufacturing, we understand is a capital hungry front-ended kind of function vertical?

But by what time do you feel apart from Bangladesh becoming profitable, would the Knit Gallery venture start showing a lot of traction where the ROCs could start moving up beyond this 6%, which currently, I guess, because it's fairly new and decent. But what's the timeline that you are seeing for that?

Because it's got 40 million pieces of capacity, and in terms of space also, if compared to Bangladesh, if you look at both the units in Bangladesh it is almost as big as that. So it's a significant asset. And given the EU, U.K. FTA that we are all very excited about, where do you see this happening in terms of timeline?

Sanjay Jain: Yes. Thank you, Prakash, for your question. I think on the larger manufacturing segment, yes, it is closer to \$90 million of capital employed in this business. And there is a P&L debit balance of about \$55 million or so, which has been the past losses that we funded. And in fact, it is a well-established practice that as and when the business turns profitable, one could even think of a capital reduction wherein this is just nothing but a P&L debit.

But on the residual \$35 million of capital that has gone into fixed assets and working capital, we believe we are now in a state wherein we should keep augmenting our profitability and return

on this real capital employed in the business. On that we mentioned in the opening remarks, the initiatives taken of strengthening the management team and the focus areas given to them.

On your question specific to Knit Gallery, we are looking at current year somewhere around ₹250 crores plus of sales from Knit Gallery this year and a profit at this juncture about 4% to 5% of PBT margin from this factory. But from the current position, given what is happening on the FTA with India, given the factory's own design strengths that as post 9 months into the acquisition, we have observed, we are looking at a 50% growth next year in this factory.

We believe that is pretty much doable. And one really does not need to do any significant capex. There is inherent potential built in by bringing in PDS-established process systems from Bangladesh factories into Knit Gallery, we should be able to scale up. So therefore, a 40%, 50% growth next year and commensurate improvement in the margins of Knit Gallery.

Prakash Diwan:

Excellent. So my follow-up question on this, Sanjayji, was in case the manufacturing thing, it started to get profitable at Bangladesh and so Knit Gallery will also start contributing significantly. Do you see this to be a foot in the door kind of an initiative to also start sourcing from other factories, which we don't know from international market so much in terms of sourcing from India, we may not necessarily need to own manufacturing setup, right? I mean we've never had sourcing in a significant way. But does this change, does this U.K. FTA, the EU FTA change the environment to make that possible?

Sanjay Jain:

Absolutely. That's the model with which we work. Our 2 factories in Bangladesh on an average, the annualized turnover is about \$100 million, about ₹900 crores. But what we source from Bangladesh from partner factories is 8 to 10x of that. So that and our Knit Gallery is doing about, as I said, ₹250 crores and potential to scale up to ₹300 crores next year. Even in fact, 45%, 50% means it actually becomes ₹375 crores or so next year.

Clearly, given our track record of how we leverage 1 or 2 factories that we invest into and through partnership factories, should we multiply Knit Gallery 8 to 10x in terms of being able to source from third-party factories, the answer is big, yes. In fact, in the opening remarks, I mentioned Knit Gallery on its own plus the investment into our own sourcing teams, the way we did in Bangladesh, in Sri Lanka, in China, in Turkey, we have already invested into that.

In fact, as part of our disclosure in terms of new business initiatives, we have mentioned the amount that is right now getting devoted to P&L. But all this is investment. And therefore, it may take us 3, 4 years to get to that level of the number that I mentioned. But clearly, we feel positive that what we could successfully execute in other geographies, we should be able to do that in India. And I must thank government for the FTAs that have got signed. It only hastens the process.

Moderator:

The next question comes from the line of Rohit from iThought PMS.

Rohit:

So just a few questions. Actually, first of all, a couple of clarifications. So Knit Gallery, we have only included in this quarter, or I thought we had started including in from the beginning of this year. So if you can just clarify that first.

- Pallak Seth:** Q1.
- Sanjay Jain:** I think it was sometime in mid-May that we did the closing. So therefore, to answer your point, sometime from mid-May, it is getting consolidated.
- Rohit:** Got it. So it's not like this quarter only we have Knit Gallery. So Knit Gallery has been around for at least 2 quarters now fully, right?
- Sanjay Jain:** Yes.
- Rohit:** Okay. So in terms of the U.S. business, so I think the direct business that we had there, we were planning to sort of get to a breakeven this year. So any update on that, that would be useful. So that was my first question.
- Sanjay Jain:** Yes. So yes, we are looking at, hopefully, fingers crossed, making money first time in our U.S. business in quarter 4. The business internally is targeting \$1 million plus of profit. So cumulatively, for the entire year, we would still be into a loss. But I think this quarter 4, which is underway, we are, I think, somewhere middle of the quarter, feeling very positive that the business should make money this quarter. Yes. So 1 or 2 quarters of lag. But clearly, this quarter onwards, the U.S. should make money.
- Rohit:** Got it. And sir, just on the growth bit. So of course, like both you and Pallak also mentioned that a lot of work has been done in the last couple of years, especially in the U.S. market. And in general, our positioning, especially in a time like this, would be ideal to get growth. So you mentioned like about \$15 million worth of sale got deferred. So one part was that is it like a missed sale, I mean the sale will not happen? Or is it like it will get deferred or because I'm assuming these are specific to seasons, right? So I mean, if this goes, if you miss the season, then it's like a missed sale or is it like a deferred sale? That was one.
- And second is, I mean, you mentioned that the order book is very good, which is sort of going back to that earlier question that I've just asked that. So if the order book is good, you can't sort of hold on to inventory for a very long period of time, right? And this even for your customers. So just wanted to understand like is it like -- you said a quarter or 2. So does the order book stay that? I mean because the orders will then go away and you will get newer orders? Or how is it? If you can just maybe explain that.
- Sanjay Jain:** Sure. It is not a missed sale. It is not a lost opportunity. It is sales deferred. That's number one. Yes, you are right. There is an element of seasonality. But at the same time, we largely operate in value segment, and there is a large part, which is core, which is pretty much an assortment which stays in for 12 months. And it is in these kinds of assortments that the customers are now trying to feel that, okay, let me not fill up inventories. We said in the opening remarks that customers are taking time, deciding on orders at a much shorter span. They are expecting more agility from the vendor ecosystem. So we don't see that there is going to be any pile up of inventory because of this deferment that has happened.
- But having said that, on the order book, what was in the mid of the year, a 14%, 15% growth in the order book, it actually right now a 6%, 7% growth in the order book. So therefore, at this

juncture, the order book, 6%, 7% is the visibility ahead. But this is, on one hand, numerically looking at it. But in terms of our engagement with the customer, as we said, they are cautious. We are engaged. Accounts have been opened up.

I gave you Primark as an example. So we will hold on to where we are in terms of 6%, 7% order book, but we are positive, as I said, that all goes fine in terms of our engagement with the customers. There is a 10%, 15% clear growth visibility for next year. But whatever has happened to the sector in the last few months, continue to keep us cautious. Two days back, everybody felt it is India's way, yesterday, Bangladesh announcement happened. Of course, somebody like PDS is well placed to make the most of it, but things are changing. To summarize, 6%, 7% order book growth, but the individual dialogue with customers is looking at a double-digit growth for next year.

Moderator: The next question comes from the line of Kushal Goenka from Mangal Keshav Financials LLP.

Kushal Goenka: My first question is, I would love Pallak to answer that. Pallak, so the world has become...

Pallak Seth: Can you repeat the question?

Kushal Goenka: Yes. So I think the world has eventually become volatile and random mainly due to the geopolitical issues. However, in such a chaotic world, we had carved out the plan for the 333 and 555 strategies. But slowly, we did realize it and gradually started to drop it out from our presentation for the 333 and 555. Also since the apparel industry is highly cyclical one, it should be very unlikely to predict the unforeseen.

My question is now that we stand here today, is there a plan to make our company more robust and less cyclical in nature? Or it's just the nature of the business and with the growth in the apparel industry and with your single-digit order book growth, we cannot see any positive and huge upside in growth and the growth would be in tandem with the industry? Yes. That's the first question.

Pallak Seth: Yes. I think internally, we are still very much looking at 333 and 555. But it's just that we want to make sure that we don't take any decisions because last 12 months, there's been so many changes in volatility, especially like from the U.S. side where Trump targeting and disrupting the whole world orders. We want to make sure that we don't take any short-term hard decision, again, learning from the lessons of Li & Fung. They used to declare the 3-year plans, and they used to go all out to achieve everything no matter what those 3-year plans. But after 2 or 3 cycles of those 3-year plans because of the wrong decision they ended up making just to hit the plans, they collapse as a business.

So we want to make sure that PDS is building this company for the long term and taking the decisions, keeping everything in mind in terms of geopolitics and the customer sentiment and the good thing is that a lot of investments we had made in the last 2, 3 years through our P&L many of them have worked out to a large extent, especially the sourcing as a service, we invented that.

That's worked out well. Design-led sourcing businesses are doing reasonably well. Some of the brand initiatives we took, we are actually taking a decision, except barring 1 or 2, which we see a turnaround to basically shut them down into next financial year and cut our cost and not carry on any further losses.

So we feel very positive based on customer traction, the sound we have from our customers about wanting to partner with PDS and the new customer account that we are opening or we have opened in the last 12 months, the quality of the management team, which have joined us in the last 24 months, I think we are probably the strongest company in the industry positioned in a way that we'll continue to gain and from the volatility coming up.

And on the other side, we feel we are a highly diversified business. We have no customer dependency. We have no people dependency. We have no brand dependency. We don't have any long-term debt. So we are in a very financially strong position, and we enjoy a strong reputation with all stakeholders. So I don't see any reason not to hit the 333, 555. So I think I made the point if any further clarification required, let us know.

Kushal Goenka:

So actually, my question was specifically as we stand here today, so what incremental steps are we taking to make it more robust and less cyclical so that we can, in the future, fight these kinds of challenges. And since our order book growth has been, I guess, in the low single digit, so do we see -- do you see any positive surprises on the upside going forward?

Pallak Seth:

As I said, we have given a lot of large sourcing as a service contract that are under negotiation as we speak in the next like 1 month, 2 months, we'll have the outcome. So customers are contacting us, engaging with us to talk strategically, how they plan their own future on sourcing and design. So all the positive discussion is happening.

Only thing we don't have control if customers are going bankrupt. But in our kitty of customers, I would say 90% plus customers are financially secured and having insurance from all the top insurance providers and are able to factor those invoices. So the insurance companies pre-warn us 12 -- 6 months in advance at least. So we don't have any of those warnings in existing customer base. So I see no big reason for big hits like Gerry Weber probably is one of the largest ones PDS ever experienced in terms of volume being grown and then the turnover coming down. But there's predictability in terms of new opportunities converting some of the new verticals we have set up last 2 years now becoming more mature and starting to give positive results in the next financial year. And existing customers still engaging with us in a very, very strategic manner. So that is all we can predict at this stage.

And 333, 555 is still on the horizon, right. It's more a timing issue in terms of how suddenly there was so much disruption. Someday, India got hit by tariff, other day the U.S., Bangladesh got tariffs. So there's a lot of volatility there. But in spite of that, many new supplier customer accounts have been able to open like Walmart, Target, PVH, T.J. Maxx, some of the largest American retailers have opened a PDS supplier account, which is great.

Moderator:

Ladies and gentlemen, in the interest of time, we would take that as the last question. I would now like to hand the conference over to the management for their closing remarks.

Sanjay Jain:

Thank you so much, everyone, for taking the time out to participate in our con call. The management team members are available to meet you and offer any further clarifications that you may need with respect to our results. Thank you, everyone, and have a good day ahead, good evening ahead. Thank you.

Moderator:

Thank you, sir. Ladies and gentlemen, on behalf of PDS Limited, that concludes this conference call. Thank you for joining us, and you may now disconnect your lines.