

PDS/SE/2021-22/101

February 1, 2022

Listing Department National Stock Exchange of India Limited Exchange Plaza, C-1 Block G, Bandra Kurla Complex, Bandra (E), Mumbai -400 051 Scrip Symbol: PDSMFL	Corporate Relationship Department BSE Limited Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai- 400001 Scrip Code: 538730
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Re: ISIN - INE111Q01013

Sub: Transcript of Earnings Conference Call pursuant to Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements), Regulations, 2015

Dear Sir(s) and Madam,

Pursuant to the Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, and with reference to our intimation letters dated January 27, 2022, regarding Earnings Conference Call on Monday, January 31, 2022 at 6:00 PM (IST) to discuss Company's Q3 FY22 & 9M FY22 Financial Results, please find enclosed herewith the transcript of the aforesaid Earnings Conference Call for your kind reference.

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

Thanking you,

Yours faithfully,
for **PDS Limited**
(*Erstwhile PDS Multinational Fashions Limited*)



Abhishek Kanoi
General Counsel & Company Secretary
ICSI Membership No.: F-9530



Encl.: As Above

PDS Limited (Erstwhile PDS Multinational Fashions Limited)

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CIN: L18101KA2011PLC094125



PDS

Global | Collaborative | Digital | Ethical

PDS Limited
Q3 FY2022 Earnings Conference Call

January 31, 2022



ANALYST: MR. SHIRISH PARDESHI - CENTRUM BROKING LIMITED

**MANAGEMENT: MR. SANJAY JAIN - GROUP CHIEF EXECUTIVE OFFICER
- PDS LIMITED**

**MR. ASHISH GUPTA - GROUP CHIEF FINANCIAL
OFFICER - PDS LIMITED**

**MS. REENAH JOSEPH - HEAD CORPORATE FINANCE,
M&A & INVESTOR RELATIONS - PDS LIMITED**



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Moderator: Ladies and gentlemen, good day and welcome to PDS Limited Q3 FY2022 Earnings Conference Call hosted by Centrum Broking 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 the conference call, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Shirish Pardeshi from Centrum Broking. Thank you and over to you, Sir!

Shirish Pardeshi: Thank you Nirav. Good evening everyone. Thanks for taking out time. We have with us PDS Management headed by Mr. Sanjay Jain - Group CEO; we also have joined by Mr. Ashish Gupta - Group CFO and of course, Ms. Reenah Joseph (Head Corporate Finance, M&A, Investor Relations) is also there on the call.

We have an absolute pleasure hosting. On behalf of Centrum Broking we have a positive view on this unique platform model which is there and in front of you. You have the presentation which is also showing up how the quarter looks like.

Without any further delay I will hand over to Mr. Sanjay Jain. Sir, over to you!

Sanjay Jain: Thank you so much. A very good evening to all of you who have joined us today and we welcome you all to the third quarter and nine months ended December 2021 earnings call.

First and foremost, we are happy to share that almost two months back we had set the ball rolling for simplifying the company name from PDS Multinational Fashions Limited to PDS Limited. We have received the requisite approvals from our board, shareholders effective from January 28, 2022. So, from now on we would be known as PDS Limited with global collaborative, digital, and ethical being our key fundamental pillars underlying of doing business.

In the nine months ended for the fiscal 2022 PDS has reported 36% growth with a topline of ₹6053 Crores versus ₹4448 Crores last year. We have reported an EBITDA of ₹220 Crores in the nine months with a 3.6% margin and that is a 65% growth as compared to ₹133 Crores EBITDA in the previous year. So, in the nine months while the sales have grown 36% the EBITDA has grown 65% over the same nine months period last year.

The profit after tax has increased 162% in the nine months with ₹207 Crores achieved this year in the nine months versus ₹79 Crores achieved in the nine months last year. The PAT margins have expanded from 1.8% last year to 3.4% this year.

We are pleased to share that in the nine months period we have nearly achieved our full-year numbers of last fiscal and we are on track to reach a \$1 billion topline in FY2022. With what we have achieved in the nine months and the order book that we have for quarter four gives us confidence that we should be able to surpass the \$1 billion topline in FY2022.

Touching upon the key highlights for the third quarter of this financial year in this quarter we reported a topline of ₹2232 Crores the 37% growth over last year. We continued to report our strongest quarterly performance in the last five years in terms of topline along with PAT margins. This quarter our profit before tax increased with a 37% growth to ₹85 Crores as compared to ₹62 Crores last year.

Now that was for the company on the whole, for nine months and three months period if I move to our sourcing business which accounts for 96% of our topline that business has grown 34% in the nine months up to December 2021 with a topline of ₹5,807 Crores and our sourcing business with an EBIT of ₹213 Crores reported and return on capital employed of 51%.

Over the last few months, we have been talking about expanding into new categories, new geographies by not only hiring but also setting up new teams with strong industry experts. These investments which are basically the initial setup costs and funding support that these businesses need till they become cash breakeven are actually part of our operating expenditure.

Allow me to clarify once again that in a typical model when one is investing for growth it would be a capex going into the balance sheet, but for us when we look at new categories and geographies we set up new verticals and the entire funding that is provided is actually going off as an expense. What we have reported to you as the segmental results for sourcing business and also for the company, on the whole, is expensing off the investments we have made.

If we do a like-to-like comparison of our existing business excluding the new setups then the EBITDA margin has actually increased by 48 basis points in the quarter, and I also want to add that what is the potential of these investments or expenses that we are incurring a) they would start generating a return in terms of surplus generation on an average from 18 months onwards and typically in about three years from the date of initial investment that they come to their full potential of topline as well as the PBT generation.

In fact, we have invested close to \$3 million in the 9 months period is approximately ₹23 Crores and the potential of this \$3 million investment that we have made, in about three

years from now we would have succeeded in our endeavor to add home as a category, accessories as a category that they are offering to our existing customers and further augment the fast fashion and further increase our presence in the US market. Somewhere we believe from this \$3 million investment that has happened and we will probably have another \$1.5 to \$2 million that we may invest over the next year as we get closer to breakeven. There is a potential of \$300 million annualized topline at the end of three years in terms of the run rate and a PBT margin of 4% plus and we believe from this investment as they come to their full potential the return on capital employed would be about 60%. That is correlating the investment we are making for the newer revenues that we are adding and the financial outlook that we expect from these investments. As I mentioned earlier, if I exclude these investments then there is close to a 48 basis point improvement in EBITDA margin.

Further, we have seen a shift in the way brands and retailers are currently operating they are more inclined to focus on customer-facing operations and exploring outsourcing of their sourcing function. So, they want to focus as I said on the core business of frontend earnings and leave the sourcing part to third parties who can actually come forward and take this responsibility.

We have successfully tapped into these opportunities and have seen good traction with leading brands and retailers. We are offering “sourcing as a service” to large brand retailers who are exploring outsourcing options that are exclusive to pre-agreed territories. One such arrangement that was recently concluded was by our Germany-based subsidiary Techno Design that signed an exclusive agreement with a leading German brand, s.Oliver. As part of this arrangement, Techno Design shall have exclusive sourcing rights from India and Sri Lanka for the s.Oliver group and this sourcing arrangement were signed through acquiring their associate company in India.

The integration with the PDS platform has been largely completed and this partnership has the potential to translate into annualized revenue of about \$50 million which is close to about ₹375 Crores sourcing opportunity for one retail customer originating from Germany. Secondly, we are happy that we have entered into an arrangement with Hanes Brands of US under which PDS will operate as a sole and exclusive vendor for Bangladesh and further PDS can also source, merchandise, shirting from a factory network in Pakistan, Egypt, India on a non-exclusive basis. So there is exclusivity for Bangladesh and there are other geographies where we can source on a non-exclusive basis. We have created an exclusive team along with an independent office infrastructure in Bangladesh to provide services under this contract. This arrangement I mentioned about \$50 million from the s.Oliver

earlier has an annualized potential to earn and we can scale up this arrangement with Hanes which has the potential to translate into \$400 million opportunity over 5 years.

Similar to this setup we are carefully taking this forward and are in a good state of discussion with leading brands and retailers in our key markets. On another note, the momentum of expanding our footprint to North America continues to be strong. We had ended the last financial year with North America contributing close to 8% of our topline and we are currently at 19% of our topline in the third quarter with year-to-date sales already clocking over 120 million from the North American market. The arrangement with Hanes brands will further boost our expansion plans in North America and we are at this stage positive and excited about the opportunities that are unfolding for us in the geography.

Coming now to the next segment of manufacturing. In our manufacturing segment near full capacity utilization has resulted in topline doubling to ₹382 Crores in the nine months period and at FY2022 as compared to last year a rigorous focus on execution and driving higher efficiencies have translated into the loss before tax-reducing by 74% in the nine months this year versus the last year. So almost doubled up topline and 74% reduction in the losses in the nine months and in fact in quarter three, the losses have come down by 85% as compared to the same quarter last year. So, our efforts are bringing us very close to achieving profitability and we are very happy to state that we are at the cusp of profitability in our manufacturing business and we are targeting internally that we would be in both our facilities making profits in the fourth quarter.

Allow me to now talk about the balance sheet and some of the key ratios. With our rigorous review mechanisms that are currently in place along with the process improvement initiatives that have been undertaken during the quarter I am very happy to inform you that we have successfully achieved negative working capital of two days. So the power of the PDS platform that we have been carefully building has enabled us to come to a stage of minus two days in terms of working capital. This has been reduced from 10 days in our second quarter ended September 2021. This along with our strong operating performance has enabled us to reduce our net debt from about ₹206 Crores to about ₹26 Crores now. This has translated into leverage ratios of net debt to equity of 0.03x and net debt to an EBITDA of 0.08x and very insignificant long-term debt EBITDA. It is pretty much insignificant long-term debt and whatever net debt that we have is short-term, self-amortizing in nature in terms of our inventory and receivable realization and as a result of the operating performance on the EBIT on the profit side and as a result of the stringent control on capital employed, I am very happy to inform you that this has translated into a return on capital employed on a net basis of 38% and return on equity of about 33%. On an

ending note, the last two years have witnessed severe disruptions across the globe. PDS has been resilient and agile to not only withstand the strong headwinds faced by the industry, but we believe we as an organization have got our act together even during this tough time and come out strong. With the investment that we have been making with our persuasion of strategic “sourcing as a service” we are well prepared for the next phase of growth.

With that, I would be very happy to answer any questions that you may have.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Apoorva Bahadur from Investec India. Please go ahead.

Apoorva Bahadur: Hi! Sir, thank you so much for the opportunity and congratulations on a good set of numbers. Sir, you highlighted the opportunity from Hanes and s.Oliver tie-up would be really helpful if you could guide us as to the strategy over the years, how do you see this opportunity and now what type of time lag will be there between the investment and start generating revenues?

Sanjay Jain: Apoorva I think there was noise, but I think I got the gist of your question. Let me take s.Oliver as an example I mentioned about \$50 million as the size. So, it will take us about three years to get to an annualized run rate of \$50 million at this stage we have taken charge of the operations in the month of November, December in the last quarter and we are internally targeting that we should be doing \$7 to \$8 million before the end of March 2022 and then scale up to a \$50 million annual number in about three years. And on the Hanes deal as well we are operationalizing, and we have got a dedicated management team on the ground in Bangladesh as well when we talk about a \$400 million potential, I think it would be a gradual ramp-up and it will take us about five years. To get to an annual run rate we will try and do it sooner, but about three years to a peak run rate of \$50 million s.Oliver and about five years to get in Hanes and we are operationalizing both the s.Oliver should start contributing has already started contributing and Hanes may take about a few months to start contributing to the topline and the bottom line of the company.

Apoorva Bahadur: Sure Sir it is very helpful. The second question and please pardon, my ignorance on this one, but I assume that the new business expenditure which we are incurring is not a part of gross margin, right?

Sanjay Jain: Allow me to answer in this manner that typically when you start a new venture you actually incur an infrastructure expense and admin expense which is below the gross margin then you also have people alongside employee expense and then you have the initial proof of concept of sales so to that extent you are selling wherein we are not recovering to the extent

of the full price realization that you would usually do so. Therefore, to answer your question, is to a large extent the investment is below the gross margin but to some extent in the initial incubation phase of our zero to 18 months as we get to the full potential there would be an impact on the gross margin as well. It is a natural learning curve.

Apoorva Bahadur: Which is why I believe there was a slight reduction in our gross margin year-on-year?

Sanjay Jain: I think that is one reason the second also is that we had last year a portion of PPE in our income as well because as the retail sector got hit last year we look for this additional opportunity working with our customers and that has been relatively high gross margin item and this year the PPE has been zero as well so that is also another reason.

Apoorva Bahadur: Sir, one bookkeeping question and I think this is on the minority interest side. I think there has been a meaningful reduction over there it has almost hit us almost half right despite a significant increase in profitability which we are seeing so what could be the reason behind this?

Sanjay Jain: See if I am getting a question right there is a reduction in the minority interest here because in our manufacturing operations, Progress wherein the losses are more is 100% owned by PDS and our other factory Green is 75% owned by PDS. So in your consolidated profits, if minority interest partnership is not there in one then therefore to that extent when the losses are coming down then the minority share portion in terms of proportionate percentage keep going lower that is one reason. Second is that as part of our optimization of the third segment which is the Venture Tech in Others wherein we are trying to optimize the capital employed we sold off one of the real estate properties in London and realized close to about \$5 million of profit that is of course 100% owned, There is no minority interest participation in that so higher portion of income coming in from a sale, therefore, lesser minority interest and of course reduction in losses which are hitherto absorbed largely by PDS. These are the two reasons that come to my mind in terms of the question that you asked.

Apoorva Bahadur: Okay and Sir in this gain from the sale of real estate is part of other income or a part of revenue itself this quarter?

Sanjay Jain: No it is part of the other income and it happened in quarter one.

Apoorva Bahadur: Sir, last question if I may this is on the math behind the stock appreciation right so if I am getting this right Sir as the stock price increases I think PDS will have to provide on this so



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what is the conversion ratio how much say for every percentage or a unit of increase in PDS's share price will be the provisioning required.

Sanjay Jain: I think all the results that we report are after fully capturing the piece of the cost. I think there is a Black Scholes formula in accounting that always captures the movement between the grant price and the price that has got achieved on the period closing for which the financials are getting reported. So therefore whatever results that you are seeing for the quarter, for the nine months, and going forward as well, the full ESOP impact would be part of the employment expense.

Apoorva Bahadur: Sure Sir, very useful. Thank you so much.

Moderator: Thank you. The next question is from the line of Riken Gopani from Capri Global Capital. Please go ahead.

Riken Gopani: Thank you for the opportunity. At the outset, I would like to congratulate the team for the great results that you have reported right from the P&L and also a great outcome on the balance sheet with the negative working capital. Now coming to the questions that I had firstly if you could give some color on this contract that you are sort of discussing with Hanes, I am just trying to understand the overall global landscape in terms of who was Hanes earlier dealing with for the exclusive Bangladesh relationship and what are the factors which are now driving large players like Hanes to now sort of start working with PDS and therefore what does it mean in terms of opportunity for us if you could first take us throw some color on that.

Sanjay Jain: Yes, I think it is a good question. So as I mentioned as part of the opening remarks that the one trend that is emerging is that our retail customers are choosing to focus more on the front-end activity in terms of direct engagement with the retail customers, in terms of the loyalty programs or the technology interface, in terms of serving to the customers, the visual merchandise at the store level this has been if you are permanently relatively speaking a back-end activity. So therefore strategically they are choosing to focus on core and frontal activity that has led to, them being open about it. Now when you are letting go of your back-end sourcing you will look for a credible counterparty you can actually take care of it. Price is important, quality is important but compliance is equally important as well. Financial stability is important, the global reach is important. I think PDS has been brick-by-brick kind of preparing itself in a formal manner. It can actually present that: Yes, I am there to meet and take care of all these requisite parameters. It is a customer himself who has had a team in-house sitting in the headquarters and also in-house sitting at the destination from where they have been sourcing and therefore they are. And if you permit

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me to speak on their behalf that for example, it is s.Oliver I mentioned that they had their associate company in India which we have taken over. So in a way, they had people who have had the expertise. I took them over and that is how now they will be working for me as part of PDS similar is the arrangement. In Hanes where I am setting up, of course, we are taking people on board to service Hanes and doing it in full consultation with them in terms of their requirements providing full transparency to our customers as well. So this is answering the initial two, three points that you raised in terms of prospects I think it is a trend that we felt is emerging and as of now we have converted two of the potentials into real opportunities for us. We are of course also carefully evaluating at our end that as we plan for the next three, four years strategic sourcing should be how much part of our topline. There is enough opportunity that is emerging and so to carefully take it ahead. The credibility of the customer is very important as you know PDS has been operating itself in a manner of managing its risk. So if I have to give a ballpark answer to your question at this stage, three, four years from now 20%-25% of the topline of the company on a consolidated basis coming in from strategic sourcing that is a first-glance response that I am providing to you. We are carefully internally evaluating but that is my reflection on the points that you have asked.

Riken Gopani:

Understood just a little bit of follow-up on this from the comments that you have made so given that this is the relationship which Hanes is now for the first time from sourcing themselves to bringing it on board with PDS how long has been discussion been in the pipeline and what are the key deliverables here in terms of could there be any sort of risks or are we well mitigated in terms of the risk profile in such contracts and does strategic sourcing offer similar return ratios at the aggregate for you similar to what you would make in the smaller contracts you could broadly help us understand that.

Sanjay Jain:

I think such arrangements typically go six to nine months from the initial concept stage to actually becoming a reality. Anywhere between six to nine months and there is an extensive diligence process that is underlying which is performed by the customer on us as a counterparty. Because some of the aspects that I mentioned in terms of the capability for us to deliver are extensively assessed by the customer and I think the risks I would say is first and foremost I think when we are initiating a dialogue we have to answer to ourselves about the creditworthiness of the customer with whom we are engaging. We have been very cautious about our working capital. So that is risk number one, now second is our own execution capabilities. If I am becoming an exclusive partner for India and Sri Lanka for s.Oliver and for Bangladesh for Hanes do I have the wherewithal in the knowledge base of these markets do I have the partner factory network onboard and then have my own presence of the on-ground teams. While of course there will be incremental spending I will

do towards a dedicated sourcing deal but there is a large franchise I already have. Can I leverage the knowledge base and the franchise as well? So I think this is answering the first part of your question.

In the second part in fact we are evaluating facilitating our stakeholders in terms of getting better visibility. In terms of reporting as this business scales up. In terms of throughput and that higher output, you are generating from a given franchise. So when I think the yardstick that is coming to mind is twofold: firstly, how much profit I am generating when I say profit is the net profit I am generating from a transaction leveraging the existing network that I have. Second and most importantly what is the return on capital employed that I am generating from this business that is the power of the platform. Sourcing your service means you have actually got a platform for onboarding a customer and a platform is successful. So that is the answer to your question am I further augmenting my ROCE when I am doing business with these customers and then the profitability.

Riken Gopani:

Understood Sir, that is very great here and just one more point which you alluded to during your comments regarding the manufacturing business which you do expect to now start becoming profitable going forward if you could help us get some view on this one is obviously utilization is improving as you said but we as a trend we are seeing that the domestic garment players basically have started seeing improving prospects and demand is great so what are your thoughts on the domestic manufacturing capacity and whether there is with the improvement in profitability do you see yourself putting up further Capex in this particular area and what kind of profitability can you expect in the medium-term here.

Sanjay Jain:

So if I am hearing you there are three different points that you have mentioned here so allow me to first answer for our own manufacturing. I think a better capacity utilization in terms of a strong order book and now we would be of course going deeper into the order book that we are going to take which allows me to improve my EPM earnings per minute and allow me to enhance my efficiency levels so that I can get better profitability. So operational rigor of execution coupled with the capacity filled up has allowed us to come into a situation wherein we are now sensing profits in the fourth quarter. And going forward I think larger orders and careful selection of orders and more operational throughput more efficiency level improvement. So, therefore, answer your question and then in the near-term allow us to cross a 3% of PBT to sales ratio say over the next one year or so and then thereafter in the next one year allow us to get to 5% PBT to sales ratio from the manufacturing business that is what we are internally aspiring for. I think PDS is always open whenever there are opportunities around to look at manufacturing but our core is a platform, our core is an asset-light model and so, therefore, we would, primarily to answer

the question be inclined to continue the sourcing as our main deployment of capital and resources as we take our business ahead at the same time we will have our eyes and ears open if there are some interesting opportunities that come our way into looking at the manufacturing assets. But there are no concrete plans per se for now. On your first point, I think China Plus One plus the package of incentives that the government of India is very kindly put together has made the domestic manufacturing very attractive and to that extent, when I am signing in a sourcing deal with exclusive sourcing from India and Sri Lanka, I am pleased to get the most of it so that is the immediate benefit that we wish to get from India's attractiveness, But on a larger strategic front there is a two- three-year horizons about we investing for now into newer geographical locations, new category additions than actually into capacities. We had to get our act together to turn around our manufacturing now we have eyes and ears open to evaluating. And this cannot be and will not be a significant part of what we do, it is going to be a smaller part of what we do.

Riken Gopani: Understood Sir that is quite useful. Thank you for elaborating on all the aspects. Thank you so much, I have done with my questions.

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

Apoorva Bahadur: Sir, thank you for the opportunity again. Just wanted to know if there is any guidance from you on say FY2022 or 2023 numbers what are we aiming for in terms of topline and bottomline and how do we see this close this year and then what is your target for next year. Very helpful.

Sanjay Jain: I think we had witnessed for this year a 12% to 15% growth rate and we have been fortunate to have achieved 35% plus I think the COVID is around they are still variants that keep coming. So as a result we are cautious we expect the next year also to be a growth year and with our order book in hand we expect the current momentum to continue in quarter four as well. But to specifically answer your question I think 12% to 15% percent is what we are still maintaining for next year as well. I guess we need to have COVID totally behind us then we can actually talk with much more confidence on a higher number. , but for now, we need to be cautious. On the other part of profitability, I think as we grow even at 12%, 15% we got to now focus on operating leverage. We have an existing franchise of cost we got to get more throughput out and manufacturing has turned around but it should start now contributing profits. I think from where we are at 3.6% in quarter three and 3.4% PAT margin in nine months I guess the minimum we should aim for is 40 to 50 basis point improvement on the net margin in the next year.

- Apoorva Bahadur:** Yes, Sir. Thank you very much, all the best.
- Moderator:** Thank you. The next question is from the line of Amit Chordia from World Foods LLP. Please go ahead.
- Amit Chordia:** Sir can you explain the opportunity in the South of America and the Pacific region is the model similar can this become global in the next three, four years.
- Sanjay Jain:** So at this stage, I think our focus is not on South America our focus is more than North America as a market. In, the US and Canada, primarily the US, is where we are focusing on. But we do have South America on our radar because when you are catering to a US customer then the US customer is not just procuring from Vietnam, India, or Bangladesh's locations. It also is carefully evaluating the Middle East as well as the near geographies in South America for sourcing as well. So PDS has been evaluating expanding its factory partnership to South America as well. So to that extent, catering to customers in North America and expanding my manufacturing footprint to South America is the relevance of South America.
- Amit Chordia:** And with our sourcing getting stronger would there be a chance of building our own brand in a few high-margin products or we would just stay as a sourcing partner.
- Sanjay Jain:** We would largely stay as a sourcing partner, but at the same time two things to add here are, retail customers are working on their we call it a private label or brands wherein they want that x percentage of their sales from their stores should come in from these and we are supporting them in that effort. We are once again careful of our capital employed here so we are trying to work on pre-sold basis. Secondly is we did do a small acquisition, in the UK in terms of sustainable brands for kids and that is a good brand that has got good traction we have tried to bring that brand into India as well using the Reliance Ajjio platform to that extent if there are such niche opportunities we would be very open to that but net, net both first and second put together I think it will continue to be a single-digit percentage of our topline.
- Amit Chordia:** And could you share the number of clients that increased in North America you set the volume and the percentage what are the net number of clients that we bought on board.
- Sanjay Jain:** So I can come back to you with the exact number but what I can tell you for example as an immediate answer for example Kohls is an important customer that we have brought on board and then we have signed up with TJ Maxx as an important customer for us as well their increasing presence with the Wal-Mart one of the business heads that I got on board as

part of the new verticals is focused on that as well. Another customer that we brought on board Hanes. So, we have TJ Maxx, Kohl's, Hanes, and then further strengthening relationship with Wal-Mart so we are not looking at thinly spreading across too many customers. But I have not very specifically answered the question I think I do not have the number handy which we can surely make available to you.

Amit Chordia: And you must have answered this before so were these guys sourcing on their own they had their purchase managers or what were they sourcing from another company and they are moving to us now.

Sanjay Jain: So something like Hanes which I mentioned is a US customer wherein they had their own teams that were doing the sourcing activity and this sourcing contract we have signed now we are taking over that responsibility. So to that extent answering the question, it is moving from in-house sourcing to us as a third party performing the sourcing activity for them. Secondly, I think it is a mix of both wherein the customers are growing so as a result, they are participating in their growth. Second is as the customer is becoming increasingly more and more vigilant careful about the entire aspects of sustainability, compliance, financial stability of the counterparty having a global supply chain reach that is where I think the customer is getting motivated to shift from the companies which are relatively not ranking on these aspects to somebody like PDS, who are very humbly scoring well so it is a mix. Our strategy is not to try and get our foot in the door in terms of price I think it is more in terms of the service and the gamut of service and the strength that we bring on board that is how we try and win the business rather than winning the business on price and that is not the deciding factor.

Amit Chordia: As an investor the daily volumes are quite low on the BSE and NSE so is there a possibility for some stock split or some bonus so just buying and selling kind of eases out for retail investors.

Sanjay Jain: I think at this stage for the last few quarters it has been a sincere endeavor to try and improve our communication with the investors through our investor presentations and in our investor calls take your feedback in terms of the data needs and try and come back in our next release with deeper and wider reporting so I think we only believe this engagement should lead to more interest. Some of the reputed research houses like Edelweiss, Investec have also written management visit notes so that I think should also facilitate the understanding of our existing and prospective stakeholders. Regarding any possible split etc. I hear you I think I take it as a welcome input. We will internally evaluate we have not been working on this thing but through these interactions I am also looking forward to some valuable inputs that I can take back. So I hear your point here.

- Amit Chordia:** All right, thank you.
- Moderator:** Thank you. The next question is from the line of Apurva Sharma from PGIM Indian Mutual Fund. Please go ahead.
- Apurva Sharma:** Thank you for the opportunity and congrats for a good set of numbers. Sir I just wanted to understand in terms of manufacturing since we have stabilized the operations at our own manufacturing plants. Going forward since we are looking at newer geographies was deepening into newer geographies would that entail manufacturing facilities our own manufacturing facilities in the future maybe in the medium-term or again are we still intend to follow asset light approach?
- Sanjay Jain:** I think in the very immediate future we have got to stay focused on getting our manufacturing to the desired level of profitability that is number one. Secondly, with the global span or geographical coverage with success realized in North America, we have also started evaluating beyond our existing presence. There was an earlier question asked about South America and the Middle East as well in terms of the proximity of location. So that is also on the radar as well. Now allow me to answer with that backdrop specifically now the choices are that I continue with my existing model of partnerships and remain asset-light and all otherwise I look at some exciting opportunity of buy to build, buy to scale up. So I would say to answer the question we would be largely oriented towards sourcing and remaining asset-light, but in the medium-term, I think I do not rule out that we will carefully keep evaluating and I am not ruling it out that we do a part allocation. Of course, we have stated policy of dividend distribution to our shareholders we have a very vary of our balance sheet so keeping all these aspects in mind we would evaluate that if we need to put in some part of the cash generation into manufacturing asset side. But I am telling you the guiding principles, basis which we will arrive at the decision.
- Apurva Sharma:** Thanks for that. Thank you.
- Moderator:** Thank you. The next question is from the line of Tarang from Old Bridge Capital Management. Please go ahead.
- Tarang Agarwal:** Good evening. Three questions from my side. One typically in your manufacturing business what are the fixed costs that are associated maybe for the year or on a quarter basis?
- Sanjay Jain:** I can answer on a percentage basis basically this manufacturing setup when you can expect an average of around 35% gross margins and then any exceptional cost for example if there is any air freight incurrence etc. it is netted off so we arrive at 35 and any good run facility

come to 7% to 10% PBT margin. Therefore in between is 25% to 28% is the cost of operations and this is typically breaking up across manpower which is a large chunk of the cost. A good component of operating costs is labor, of course, the administrative cost of running a factory, the utility cost, and then in the journey of ramping up. You do land up incurring overheads and if there are any delays there is an increase of freight element as well. So in the efficiency journey one that is where you draw more profitability when you improve the efficiency when you improve the EPMs that is where you start bringing your overhead cost down. If I have to answer your question further on an average typically the number varies between 12% to 15% of the sales could be employee cost and then the remaining could be other costs that I just mentioned to you.

Tarang Agarwal: As you scout for an engagement generally who are your peers who probably scout for a similar engagement which your client chooses from?

Sanjay Jain: The kind of model we are running, with a lot of humility, is a unique model, so as a result, we compete, as I answered some other questions earlier, with the own sourcing teams of the customer. I mentioned s.Oliver an example wherein they did not give me business from any other vendor they gave me business from their own sourcing teams. So that is how we have been kind of winning business of course in my manufacturing I have done close to about, for example, \$50 million of sales in the nine months so if I annualize it \$62-\$63mn this year but of course, I will try and draw \$75- \$80 million next year. But this will be a very small percentage in terms of our overall sourcing, therefore I do not portray my manufacturing as much to get the topline that I am doing. So in terms of my strength is my partner network of factories across the geographies. For example, if the retailer/brand has fast fashion needs I have Turkey as a location, for kids as a category I am manufacturing in Sri Lanka, if it comes to mass Fashion there is a presence in Bangladesh. So, when a customer is looking at it, they know that I can cater to their various needs, assortment needs because of my presence as well. Now somebody asked a question earlier that if I have to increase my sales in North America further North American customer is looking beyond the very obvious destinations because of the proximity and other factors as well. So, we are therefore actively trying to expand our footprint into these locations also.

Tarang Agarwal: Sir if I wanted to get a broad split of your revenues in terms of how much of it could be from apparels how much of it could be from peers kids apparels how much will be from say accessories and how much would become footwear is that a broad split that I could probably get?

Sanjay Jain: Yes, so I think at this stage what I can answer is that nearly about 90% plus is that from ladies, men, and childrenswear. Then essential is about 5% and then there are others which

are home and others is about 2% or so. That is where things stand in the nine months. Now this 2% should increase because of home and accessories we have invested; we actually won a large 15 million contract from another big retailer in the UK this is beside the two that I mentioned. We are expecting to see the home as a category getting traction and accessories as a category getting traction as well. So therefore, from a 2% in the next two, three years we should be able to get it to about 7% to 9% of the topline.

Tarang Agarwal: Got it sir. Thank you so much, that is really helpful.

Moderator: Thank you. The next question is from the line of Harsh Kumar from MIV Investments. Please go ahead.

Harsh Kumar: I had just one question, if you look at your segment results the profit before tax for the sourcing business has come down on a year-on-year basis for quarter three so any specific reason for that?

Sanjay Jain: As I said we have invested into the new verticals and this is the accounting policy it gets expensed off so last year was a resource containment year because of COVID. So there were no investments and this year \$3 million got invested in the nine months period and a large part of that has been into the third quarter that is the reason that they could be, but if you exclude it they should have a growth.

Harsh Kumar: Right and for FY2023 do we have any ballpark number one how much are we going to invest?

Sanjay Jain: I think we have started 10 plus new verticals and we are carefully nurturing them to bring them to break even situation and now I will try and answer that question with that backdrop. The full-year investment this year could be \$3.5 to \$4 million, and I think next year as well we would be investing up to this amount not exceeding this amount while we expect to generate more profits but \$3.5 to \$4 million is what you are also looking at more categories as well to add. Therefore, to answer the question \$3.5 to \$4 million this year and \$3.5 to \$4 million at max next year.

Harsh Kumar: Thank you so much and all the best.

Moderator: Thank you. The next question is from Amit Chordia from World Foods LLP. Please go ahead.

Amit Chordia: My other question was is there seasonality in the sourcing business or once you finish your autumn orders there is spring orders and vice versa?

Sanjay Jain: There is a seasonality with typically the fourth quarter which is primarily catering to the summer collections is usually the best quarter. I would have a lead time of three, four months in my quarterly data for the expected season. Therefore, to answer the question that quarter-four typically is always the best because it caters to the summer collection requirements.

Amit Chordia: Got it. Thank you.

Moderator: Thank you. I now hand the conference over to Mr. Shirish Pardeshi.

Shirish Pardeshi: Sanjay Ji, I will not let you go I have three questions. So the first question is on the domestic business what we have understood that we have partnered with Reliance for Lilly & Sid and we have also done Turtledove London with the First Cry. Can you give us some update how this is sell is it up to your expectation beyond expectation and what kind of opportunity we can expect maybe in another say in medium-terms in about a year or so and maybe two to three years?

Sanjay Jain: We are very cautious about it I think we have launched it and so I would not portray a very large potential here in terms of what we could do. We are beyond the specific things that you mentioned, we are doing business with Myntra, we are doing business with Reliance Retail, we are doing the business with Aditya Birla when it comes to our own manufacturing and my sourcing is also doing the business with Reliance Retail and Myntra as well. Specifically, to the two points, you are mentioning as mentioned twice earlier with respect to allocating capital employed we are very careful. I would not portray this as becoming any meaningful part of my overall topline going forward. Our geographical in about two, three years about 2-3% of sales on an average is expected to come from India.

Shirish Pardeshi: My second question is on the last call you did mention that we are now developing Vietnam and Mr. Fernando is on board and also we are looking Turkey business to be developed so in the next two to three year quarters how this business will shape up and what kind of sourcing we will try and get from these two locations?

Sanjay Jain: I think Vietnam if you analyze individually, has been catering largely to the US market so as our sales are increasing in that market the fact that we have invested into Vietnam as a sourcing hub we start getting more traction. In fact, somebody asked a question again as well that we are going beyond our existing location and Vietnam investment was a step in

that direction keeping the US as a market in mind and that is number one. What was the other question that you asked sorry I missed it you asked two points in this one question?

Shirish Pardeshi: Yes, Turkey.

Sanjay Jain: Yes, Turkey I think fairly it is shaping up very, very well. I think with Russell coming on board in terms of fast fashion, Turkey is getting more traction in fact our sourcing operation is one of the largest exporters of apparel from Turkey and that is another market wherein we are engaged with the customer on strategic sourcing as a transaction as well. Turkey would become important from two folds as the fast fashion business gains traction and with Turkey signing up with customers for sourcing as a service is also something that we are seriously taking ahead.

Shirish Pardeshi: Sir that is helpful but if just one follow-up out of this 500-plus vendor what we have how many are now located in Turkey and Vietnam.

Sanjay Jain: At present, about 7-8% of what we sell gets procured from Turkey. Vietnam is kind of not yet there in terms of gaining traction it is like about 1% or 2% so it just got started three, four months back, and the answer to specifically answer your point is we may have about close to 60 partner factories out of the global 500 partner factory network when it comes to Turkey should be there.

Shirish Pardeshi: My last question is on the Hanes deal you said that within the next two to three years we should reach to about \$400 odd million but in the short-term I mean I am just asking from the modeling perspective how much you think in next one quarter we can add and maybe next to one year because I think we will have to develop at the back end and sourcing and the model will take some time to get it stabilized?

Sanjay Jain: I would say next full year we should be able to do \$50 million-plus is what we achieve in Haines and s.Oliver transaction we should be about \$7-8 million this year by March and next year we should be doing \$20 million-plus. Both put together \$70 million-plus from the sourcing should be achievable in the next financial year.

Shirish Pardeshi: Wonderful and just last one question I think it is, I mean, the things are very, very volatile and the inflation is taking its own speed and time to settle, I am not saying guidance but in the near middle-term say maybe another two to three quarters is there any labor we have and we can go to maybe about 5% EBITDA margin or the gross margin can inch up to maybe 17%, 18%?



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Sanjay Jain: See from my sourcing business if you exclude the investment I made I am already at 5.1% EBITDA margin in quarter three so I have already crossed 4% and therefore in the next few quarters from a blended basis wherein I am at 4.5% approximately right now in quarter three yes I think in about two, three quarters you see that potential to have a 50 basis point improvement through the combination of growth in the normal course, benefit of operating leverage on the existing cost structure plus of course as we draw more throughput from our factories which are typically higher gross margin and higher EBITDA margin items. So a combination of these two, three things have a potential of closer to 50 basis point improvement in next few quarters.

Shirish Pardeshi: Thank you. On behalf of Centrum, Sanjay Ji, I thank you, Ashish Ji and even Reenah for helping us to organize this call. I thank all the participants for taking out their time and I hope most of the questions got answered. With that I will hand over to Mr. Jain for closing remarks. Over to you, Sir!

Sanjay Jain: Thank you Centrum team for helping us to organize this and thank you to all our listeners for joining us. I wish you all a great week ahead and let us all hope to our people-friendly budget tomorrow. I think that is all of us hope that we soon see that this pandemic is coming to you and then so please stay safe all of you and take care. Thank you so much.

Moderator: Thank you very much. On behalf of Centrum Broking Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines. Thank you.