PDS Multinational Fashions Limited

Global, Collaborative, Ethical

PDS/SE/2021-22/74 November 11, 2021

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**

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 November 8, 2021, regarding Earnings/Conference Call on Wednesday, November 10, 2021 at 4:00 PM (IST) to discuss Company's Q2-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 Multinational Fashions Limited**

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

PDS MULTINATIONAL FASHIONS LTD. ★

Encl.: As Above

"PDS Multinational Fashions Limited Q2 FY-22 Earnings Conference Call"

November 10, 2021

MANAGEMENT:	**MR. SANJAY JAIN – GROUP CEO, PDS MULTINATIONAL FASHIONS LIMITED** **MR. ASHISH GUPTA – GROUP CFO, PDS MULTINATIONAL FASHIONS LIMITED** **MS. REENAH JOSEPH – HEAD CORPORATE, FINANCE M&A AND INVESTOR RELATIONS, PDS MULTINATIONAL FASHIONS LIMITED**
MODERATOR:	**MR. SANDIP AGARWAL – EDELWEISS SECURITIES**

Moderator: Ladies and gentlemen good day and welcome to PDS Multinational Fashions Limited Q2 FY22 Earnings Conference Call hosted by Edelweiss Securities. 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. Sandip Agarwal from Edelweiss Securities. Thank you and over to you sir.

Sandip Agarwal: Hi good evening, everyone. Thank you. On behalf of Edelweiss, I would like to welcome you all to that Quarter q FY22 conference call for PDS Multinational Fashions Limited. From the management today we have Mr. Sanjay Jain – Group CEO, Mr. Ashish Gupta – Group CFO, and Ms. Reenah Joseph – Head Corporate, Finance M&A and Investor Relations. Without further ado I would now like to hand over the call to Mr. Sanjay Jain for his opening remarks. Over to you Sanjay.

Sanjay Jain: Thank you Sandip. Hi everyone, a very warm welcome to all of you to the second quarter and the first half FY22 earnings call of PDS Multinational Fashions Limited. In the first half of this fiscal year, we continued the strong growth trajectory and have surpassed the pre-COVID levels in terms of both top-line and margin achievement. We have reported 35% growth in the first half of FY22, a top-line achieving 3821 crores versus 2822 crores in the same period of six months last year. We reported EBIT of Rs.144 crore and PAT growth of 6.2 times from 20 crores to 126 crores, largely driven by the top line growth maintaining healthy margins and a cut down in the losses of manufacturing operations and due to profitability. This has translated into an expansion in our EPS to Rs. 40.52 in the first half of this financial year as compared to the last year's full EPS of Rs. 32.37. The second quarter of FY22 has been our strongest quarterly performance in the last 5 years with the top-line of 2195 crores. This quarter witnessed EBITDA growing by 138% from 35 crores last year Quarter 2 to 84 crores. This translated into a 3.1-time growth in PBT to 71 crores from 23 crores last year.

With strong performance being delivered quarter-on-quarter PDS is leveraging its robust platform to propel itself into the next growth phase. We are strategizing a way forward by unlocking potential in untapped geographies, untapped categories. We are building teams, we are collaborating with marquee customers, increasing the wallet share with existing customers, and also at the backend very much strengthening our vendor network. We believe that we are well geared for furthering growth and profitability during this fiscal year.

If I now go further into our various verticals, our sourcing business which accounts for close to 96% of our top line has clocked 32% growth in the first half of this year with the top line of 3662 crore, further, this business reported an EBIT of 123 crores and a very healthy ROCE of 49%. As we had mentioned in the last earnings call and in line with our strategy to expand beyond the predominant markets of the UK and Europe where we have been largely operating, we have deepened our presence in the North American markets in the first half. While we continue to strengthen and grow in our key markets, the two of UK and continental Europe. We are accelerating our presence in North America and I'm very happy to report that what we have achieved in the first half of this financial year is almost equivalent to the sales in the entire year in the US market in the last full year were close to about 15% of our current top line is coming in from the US as a market and it used to be 9% about 2 years back and we believe we are well on track for the North American market to cross the target 20% share that we had foreseen as part of our overall top line.

As mentioned previously, in the last quarter we have onboarded new business heads like Eric Leddel, Gaurav Pandey, and Russell Wyeth who come in from strong industry backgrounds providing us access to newer geographies, helping us introduce new categories. Now we are very happy to welcome UK-based Charlie Rudge to our platform. Charlie along with his team will focus on lifestyle tech products, consumer products, and accessories. He has been a founder and leader in consumer products for the last 19 years. With this association, PDS gets an opportunity to further add to its product offering with its existing customers and develop a relationship with new customers. However, we are excited about the potential that these teams bring on board, there is also a gestation period. While on one hand, we are very positive that as these new business heads, new vertical heads who bring in access to geographies, customer categories would help propel the growth journey, propel the profitability. There is a gestation period that is always there till these verticals bring the optimum performance and therefore the first six months of performance that we have reported had an impact of 14 crores of the expenses or the loss that has gone into these new businesses. I would rather term this as an investment that we are making into pursuing newer part of growth and profitability but from a stringent accounting principles perspective what we have reported to you as a sourcing vertical performance and overall PDS’ P&L is after expensing of the 14 crores that have gone into investment into new verticals as part of the gestation phase.

Further, in the last quarter, our organic award-winning British kids-wear brand Lilly & Sid was launched in India through an exclusive tie-up with Reliance Retail Fashion Marketplace, ajio.com in an outright model. PDS has recently launched another brand Turtledove London from its global portfolio in India. This launch is happening through our digital-first format in association with firstfive.com as well as it's also happening on its own platform turtledovelondon.co.in. Turtledove London, this reportedly created stylish unisex clothing for children is housed in over 400 stores worldwide. Therefore, we continue to also follow carefully a path of introducing newer brands. As I said they are largely on an outright model basis so that we are carefully launching them with keeping an eye on our balance sheet.

PDS continues to broaden its reach to major markets by strengthening the vendor network in strategic locations such as Vietnam which provides integrated solutions and Turkey that benefit from shorter lead times. Friends so far, I covered with you the initiatives that we are taking in our top line ahead with engagement with our existing customers, newer customers, new geographies, new categories, newer brands but at the same time PDS is also putting equal efforts at the backend wherein Bangladesh continues to be our key sourcing location. We are paying equal emphasis to Turkey which today contributes about 6% of our global sourcing. We have an active network in place with (+60) factories and we are paying a lot of emphasis so that it continues to cater very efficiently to our shorter lead time requirements. Vietnam at present is about 2% of our global sourcing. We have got on board a very senior industry professional who would now help us actively source from Vietnam as a market as well. As PDS is positive about continuing the accelerated part of growth, it is also strengthening its partnership with its vendor factories. Likewise in Sri Lanka, PDS through its subsidiary Norlanka has entered into a strategic exclusive partnership with two manufacturing facilities for the production of baby and knitwear catering to markets in North America and Europe. That was about our sourcing verticals in terms of front end and the backend partnership with factories.

Now coming to the next; in our manufacturing segment, we continue to see strong top-line growth of 84% clocking in 225 crores in the first half of FY22 which is primarily driven through near full capacity utilization. I'm very pleased to inform to you that our factories are full in this current quarter as well and we'll continue to be full for the fourth quarter as well. We should now keep running our factories at near 100% capacity utilization. This has resulted in operating losses declining by 70% as compared to the same period last year. Our efforts on collaboration and increasing operational efficiencies are enabling us to reach a near-term target of achieving profitability. As I said our factories are fully booked and we are also at the same time strengthening our management team to kind of hasten a path to profitability. As of now friends, we are on track, the factory is full. The 70% reduction in the loss in the first six months gradually inch towards a PBT positive in our two factories.

With regard to our third vertical Venture Tech Investment portfolio; during this quarter we have invested in two interesting and dynamic opportunities as part of the Venture Tech portfolio. Before I go deeper into it, I want to emphasize here that while PDS actively operates through its sourcing verticals, through its partnership with vendors, through its factories, we are very responsibly conducting ourselves in the ecosystem wherein we operate that how can we contribute to the sustainability agenda that got to be pursued by a company like ours. And therefore in that direction, we made two small investments in the last quarter, the first one being Filkor UK-based entity that developed a patented collection and processing method through product destruction processes, allowing high-end fashion houses to transform based and surplus stocks into granules. These granules can then be 100% upcycled into brick slips, into shop fittings, and other artistic and functional objects. This is our effort from a linear to a circular economy and we have acquired a 50% stake in Filkor. This allows the PDS platform to offer complete sustainability and end-of-life solutions from take-back, to resell, to upcycle for all fashion products. The second is LOOP Digital Wardrobe in which we have picked up a 34% stake. LOOP Digital Wardrobe is a sustainability and marketing solution that empowers the newest technology to have a positive impact on the environment and business performance. PDS is consciously working towards circularity as I said and we are glad to announce that PDS is now a member of the Sustainability Apparel Coalition, a global multi-stakeholder nonprofit alliance for the fashion industry. We will keep carefully pursuing this agenda. I'm very pleased to inform you that close to six months back, we have acquired a 50% stake in Yellow Octopus, a company engaged in the circularity agenda. After we did this acquisition one of our key customers Primark has also chosen Yellow Octopus as a partner to pursue their circularity agenda and True which is one of our partners in the Venture Tech investments whose investment expertise, we use to channelize our investments into our sustainability and digital brand agenda. Marks & Spencer has tied up with True to take further their circularity and compliance agenda ahead. Therefore, two of our one investee company and one partner that we have been associated with in channelizing Venture Tech investments they've also been acknowledged by two of our customers.

Moving ahead, allow me to now come to some of the financials related to the balance sheet and capital employed. We continue to operate ourselves in a relatively asset-light balance sheet and a stringent interest management mechanism. We've been able to operate at comfortable gearing ratios with net debt to equity of 0.31 and net debt to EBITDA of 0.8 with insignificant long-term debt, our long-term debt to EBITDA is close to 0.01, almost insignificant, and whatever short-term debt we have is in a way self-amortizing in through the realization of the receivables. We've been able to demonstrate strong discipline despite our North American operation witnessing high growth in H1, it operates on a relatively longer working capital cycle as compared to our business in other regions. We continue to give utmost importance to our return metrics and the increase in top-line, increase in the profitability, and also a reduction in losses of our manufacturing operation have enabled a higher operating margin and resulted in a 30% return on capital employed in the first half and return on equity of 34%.

Lastly, as part of our journey to further strengthen our governance framework and also benefit from the presence of global and experienced professionals, we are pleased to have Mr. Mungo Park, who has been very actively associated with sustainability and related technologies agenda who was earlier as the global lead of Nomura Investment Banking has joined our board of directors. We also have Mr. Robert Sinclair who's based in Singapore, who's been in the industry that we operate in for close to 25-30 years. He's also come on board and brings extensive industry experience and extensive network across the space that we operate. Both these gentlemen bring in the case of global experience enriching the PDS platform. We're also pleased to inform you that Mr. Tarun Khanna, who is a senior professor at Harvard Business School has also joined the PDS advisory board. So as a management team we continue to seek the guidance of our strong board of directors as well.

We have grown from strength to strength and try to demonstrate the resilience of the PDS platform even during the most challenging times in human history. We're gearing ourselves for the next phase of growth driven by our long-standing relationship with our customers, our integrated network of vendors, and most importantly our human capital which truly makes our foundation stronger. With this, I'll be very happy to answer any questions that you all may have.

Moderator: Thank you very much. We will now begin the question-and-answer session. First question is from the line of Chirag Lodaya from ValueQuest.

Chirag Lodaya: My first question was on sourcing business. If you can just help us understand what is our edge or the USP in this business and why large retailers choose us? At the same time if you can also throw about who are our competitors etc. that will be helpful?

Sanjay Jain: I think our USP is around a few key points. Number one is proximity to the customer. We have 50 offices across 22 locations across the world. We have a team of designers, (+150) designers who sit for example in London very close to a location of our key customers. That proximity is very important. Also, we have as I said a strong team of designers, our usage of technology can impart an experience of designing, sampling to the customer, and therefore come to an efficient and faster decision. We have a global supply chain arrangement in place that gives full visibility to our customers. Therefore, they feel very confident and our ability to source from various parts of the world. So, as I said we have our own two factories in Bangladesh, our own two exclusive partnerships in Sri Lanka, but we also have many more partnership factories in Bangladesh, Sri Lanka, Vietnam, China, and India. Of course, the important partnership in Turkey to cater to the fast fashion needs. Therefore, the ability to source through a vast global network, the ability to source various kinds of requirements of the customer is another USP as well. Another couple of aspects important are that to our large customers, the conduct of a partner like ours in a form and manner which is also catering to the sustainability agenda. If you recall the happenings over the last few years in the sector the customer is very wary that is the counterparty fully compliant in terms of size, scale, stature? That's where PDS's commitment to sustainability gives comfort to our customers as well. As a financial strength, given our balance sheet, given our size and scale, given our partner banks that we have is also able to give a lot of confidence to our customers. Therefore, a successful track record of conduct also gives immense confidence to our customers that PDS has been conducting itself in a form and manner which meets their requirements. That's answering the first part of your question.

The second one, is interestingly our competition is actually the sourcing teams of the customer, who also have a presence in the locations where we have a presence. Therefore, our agility, our cost competitiveness, our proximity as to how are we able to demonstrate to the customer that we can score well as compared to their teams, it's helping us win business. I'm very pleased to inform you that from the current arrangement of doing business, we are engaged in a conversation with our customers for potential strategic partnerships wherein customers are actually considering us acting for a given sourcing location as their exclusive partner that you deal with all the vendors with whom they have been dealing with. This is the direction in which our current engagement with a customer is going and as part of our sustainability agenda, Besides the designer that I mentioned, besides the supply chain, we have invested in 41 senior professionals from the industry who have been pursuing a sustainability agenda. The recent one is Mr. Leslie a Sri Lankan gentleman who used to earlier work for Walmart and C&A Associates, who has come on board to support our verticals in demonstrating to the customer that we understand sustainability and compliance. I think these are some of our humble strengths which are enabling us to win the business.

Chirag Lodaya: So, there is no like to like company which would be in the similar business which you can name?

Sanjay Jain: Now, I think as I said with a lot of humility, we have been a pioneer of the way we have been operating. As of now in our sector that we operate we haven't come across, I think, what's also interesting is that for generating a billion-dollar top line which is what we are geared towards this year, one would have typically invested 400-500 million in assets to generate around two times the turnover of the assets whereas the capital employed is far lower. This unique model we've been able to implement successfully.

Chirag Lodaya: Is there any change you are seeing in the overall business post-COVID in terms of sourcing or supply chain etc., is there any change you are witnessing?

Sanjay Jain: One is of course the newer category evolution, there is still a tendency of casual wear, smarter wear, functional wear from the traditional categories there's been migration to newer categories that has happened as well. Of course, the trend is a little bit towards faster fashion And I think that the customer because of the COVID restrictions not able to travel all the way to the Eastern world where the sourcing locations are. To that extent the partner with whom they are engaged for sourcing is a partner in close proximity to where the customer is located, using technology to a large extent whereby, they can not only represent but also impart that experience to the customer. Where the customer feels confident that while I'm not able to travel, the designing and the sampling and the final product selection I'm able to seamlessly get it done through my vendors nearby to me. I think these are important changes. As I mentioned one change that we see, is evolving is the strategic sourcing wherein it's like the retail sector has been under pressure in the COVID time. Therefore, when there is pressure, you have to make strategic choices about what is core to your business and what you can let go. So a B2C interface, your store experience, your visual merchandise, your assortment, your digital strategy to cater through the e-commerce need is core to a retail business. Whereas the backend sourcing is important but if there are credible companies, can I let go, can I consider letting go of my sourcing to credible parties who can meet my quality compliance standards and then and cater to my need?

Chirag Lodaya: Is it fair to assume that all the transactions would be back-to-back? When I say this you don't carry any inventory risk on your books, all the inventory would be based on orders, right?

Sanjay Jain: Yes. We don't, whatever we have inventory on our books is basis the order that we receive from the customer. Yes.

Chirag Lodaya: Just lastly on the manufacturing side, if you can throw some light, how many locations do you have currently and what kind of profitability you envisage maybe in 1 or 2 years down the line?

Sanjay Jain: In terms of our own manufacturing which is being run through the balance sheet of PDS is two locations in Bangladesh. We have factories named Green which is for the tops and Progress factory which is for the bottoms. And in kind of a full-scale operation, as we take them to not only full capacity but also full efficiency levels, I think somewhere $80 to $100 million that's approximately 600 to 700 crores is the top line that we should be able to generate from our factories. As I said by increasing capacity and efficiency utilization, we achieved 225 crores. If I just analyze we are at 450 to 500 crores number. We would extract more through efficiencies. We should be able to generate close to about 35% gross margin levels from our factories while our near-term target is getting to PBT breakeven but I think 6% to 7% in 2-3 years from now as we extract maximum efficiency. So, therefore, to answer your question $80 to $100 million of turnover that we will generate from our factories 35% gross margin and closer to 6% to 7% PBT to sales ratio.

Chirag Lodaya: Just lastly what is the CAPEX guidance for this year as well as next year and how much you would let go to manufacturing?

Sanjay Jain: So, as I mentioned in my opening remarks, we are relatively an asset-light company. In fact, in our first six months, our purchase of property plant equipment is close to about $1.5 million or about 10 crores or so in six months. The last full year was $3.6 million or about 27 crores. We don't anticipate CAPEX to go beyond this 20 to 25 crores range per annum because our motto is to be asset-light and that's the first part to answer your question. In terms of our manufacturing investments for the foreseeable future, we do not have any plans to further expand our manufacturing. I think we have a job cut out to get the maximum throughput from our existing factory factories and we are actively pursuing that strategic partnership agenda. Therefore 20-25 crores per annum year-over-year are where we foresee. You can add a million dollars more in terms of our investment towards technology but that's the maximum amount that we foresee and the current juncture investing every year.

Moderator: The next question is from the line of Sameer Shah from Value Quest.

Sameer Shah: Just one question, in terms of the visibility and the stickiness, if you can give some color on what is the repeat purchase or how your sale cycle moves, and how sticky is your relationships with your customers?

Sanjay Jain: Relationship has been highly sticky, some of the customer logos that we have been disclosing as part of our investor releases, these customers have been there for the last many years. If I have to just stick to the last 5-7 years then I would say that two-thirds of the top line has been coming from relationships that have been continuing for many years. I think it's growing from strength to strength. We are adding newer relationships with large retailers in the US market. It is very tough to get in. They are large retailers, they have their own SOP that one has to meet therefore getting in is tough and we are getting in there which is visible through our numbers and given a stickiness in the UK and European market we aim to get the same stickiness in the US market as well. Therefore, that's the first part of answering your question in terms of pretty much everything is stickiness continuing we have been able to meet requirements of our customer. We are very vigilant, very careful of the credit risk that we take. Therefore, while there are opportunities but we take a calibrated approach to not have a single large customer taking a very large portion of our top-line. We got to manage a credit risk well. If I take top 10 customers, they may not be more than on an average 6% to 7% of the top line of the company. That's on the stickiness and also on our own calibrated approach. I think in terms of the cycle, it's a seasonal business. So as the season changes, two quarters in advance or three quarters in advance you're engaged with the customers, planning for that cycle. So that's very much I think going on, for example, if I have to talk about Quarter 3, what we could achieve in Quarter 2, we have a similar order book well in hand for our Quarter 3 as well. Therefore, stickiness on the past quarterly behaviors in line with industry seasonality, we are very comfortable with the relationships that we have with the customers. Of course, we have to be on our toes, be agile, cost-competitive, compliance-oriented but it's a strong and healthy relationship built over the years.

Sameer Shah: Typically, your customer also approves the manufacturer or he trusts you and the billing happens through you I presume. So, you bill the customer and then you source it which will be like an expense in your books. Does the customer also approve the manufacturing or do they just give you the guidelines and then you are free to source from anywhere?

Sanjay Jain: Firstly, we largely act as a principal. There we take goods on our books and then it is sold to the customer. That's largely the way we operate. It's a mix in terms of customer approval, for example, in our manufacturing location we have to get customer approval. The customer's local representative in the location or the region comes and visits the factory and provides certification. So that is typically how our factory is selected. We also give representation in terms of how we have onboarded a factory but there is 100% transparency being maintained with the customer. So if a customer wishes to visit a factory and wishes to visit a particular line from where the goods are being assembled, tailored put together it's 100% visible. It's a mix of the two, to answer the question and with 100% visibility to our customer 100% open access to visit the partner factory.

Moderator: The next question is from the line of Parth Desai from Horizon Capital.

Parth Desai: My first question was more around waiting on the momentum that you've gathered in the first half because historically if I see the second half is actually much stronger because of the Christmas and whatever winter season etc. Can we expect the same kind of momentum as the 25%-30% year-on-year growth rate in the second half as well or is there any guidance on that?

Sanjay Jain: Well, it's a good question but a tough one for me to answer. But the basis on where we stand, we earlier had foreseen and as part of our indication, we have mentioned that we foresee a 12% to 15% growth rate for the entire year. I think at the beginning of the year while the world was coming out of COVID we all were very cautious. We continue to be cautious therefore the 12%

to 15% aspiration was also having an element of caution built into it. So far the growth has been 35% in the first six months and if I broadly recall, we did about 1630 crores in Quarter 3 and about 1765 in Quarter 4 last year. I think our order books are healthy in terms of maintaining that momentum. It's on a higher base as compared to last year. If I have to speak about it very specifically, we did about 1626 crores. You have to pardon me for trying to recollect the number of Quarter 3 last year and our Quarter 2 sales itself is about 2195 crores. As I said earlier in response to one of the questions at our Quarter 3 order book enables us to see a similar kind of momentum that we achieved in Quarter 2. To summarize I think the risk of maintaining the momentum of 12%-15% continues to be lower. The order book continues to be strong and the company is aspiring that it should continue to maintain the momentum in Quarter 3-Quarter 4 as well.

Parth Desai: Then my second question was more around some of the trends that we are seeing in the sourcing industry. So, I just wanted to confirm that. So, for example, moving from project-by-project sourcing to something that is in your annual contract value so for example, your customers will tell you that I don't want to deal on a project-by-project basis. You just source 100 or whatever 200 million worth of women's tops for the next fiscal year. Are you seeing any changes in the way that your customers are basically either changing in contracts or structuring these contracts?

Sanjay Jain: Every industry passes through its own evolution. You tend to study history; you tend to study the ecosystem around you and seek some inspirational guidance. I remind myself of what happened in the IT sector wherein from a basic rudimentary need of connecting your phone to the audio-video conference through networking, through actually strategic sourcing whereby third-party companies, reputed companies emerged and you started outsourcing your entire IT network, even your server storage, your connectivity, everything to third party vendors. Because you felt there are credible parties who can cater to you and your need. I think in my humble view I see that trend emerging here as well, wherein the customer from a project-by-project engagement to a strategic sourcing engagement. In response to the first question about our USP versus anybody else. The USP that we have been developing in a way is allowing us to position ourselves before the customer as that credible party whom they can consider doing strategic sourcing you please take the end-to-end responsibility of sourcing this. So yes, to answer your question with that backdrop, with that context, I see things moving in that direction gradually.

Parth Desai: If I may just rephrase my question slightly. Are you seeing the average contract value increase, is that the trait that you are seeing as well?

Sanjay Jain: Yes, the answer is yes that I think the COVID also led to consolidation. Consolidation on the front end in the retail sector, consolidation on the back end. Few companies do not exist on both the front end and back end as a result, the existing customers are doing more business and the existing partner suppliers are also getting to do more business as well. So that's one trend that has happened and as I mentioned in response to your previous question. Responsible sourcing in a compliant manner, on time, end-to-end representation of a responsible value chain are increasingly the important criteria besides price and quality as well. With this happening rather than fully spreading, the customer is considering more credible and fewer partners as compared to doing business with too many people.

Moderator: The next question is from the line of Nihal Jham from Edelweiss Securities.

Nihal Jham: First is, is the expansion in North America mainly on the back of the manufacturing facility that we have created and would it be possible just to give a sense of who are these clients that we have onboarded?

Sanjay Jain: Yes, Nihal what are the other two questions, please?

Nihal Jham: The second one was obviously from the perspective of when you see a performance there's obviously been a significant turnaround that has happened over the last 4-5 years both in terms of improvement in gross margin and obviously the scale has also helped seen a significant improvement to the margins, we used to make 3-4 years back. If you could just specify or get into the specifics so what is driven both these aspects? The last question was more from the industry side that considering you obviously have a top-down view of how sourcing globally is moving. Are you seeing any shift specifically happening out of China to into other geographies? And you have also focused on the Vietnam partner in your presentation. So, if you could highlight that?

Sanjay Jain: Yes, I think on the first part North America inroads are increasing from 9% in 2 years to close to 15% is not just driven by our own manufacturing. Our manufacturing has been a key part of positioning ourselves to our customers that we have our manufacturing as well and North America is a more SOP-driven market. Therefore, they really want to assess and understand that the partner they are onboarding understands what it takes to manufacture. So, therefore having our own manufacturing has been an important part of the position to our customers but does that mean that catering to North America is entirely coming in from our own factories, the answer is no. As I said we have sold about $70 million which is almost like 500 crores in the first 6 months whereas our own factories have done 225 crores in the first 6 months in the top line. What we are selling to North America is more than double of our own manufacturing. Our manufacturing is not just America, to other markets as well. That's answering the first part but manufacturing capability and demonstration is very key and I am once again emphasizing that and some of our relationship and the tailor brands is Maurices, American Eagle, Fred Meyer, TKO, Walmart, these are relationships that we are continuously building, strengthening. That's the first part of your question. I think in terms of the margin trajectory as one has been pursuing in terms of a larger share of wallet to a customer but I think what is important is that henceforth as we are adding in newer categories whether it is home or accessories, they relatively give better margins as compared to apparel that we have been hitherto trading in as we are working on digital brands, which are on a pre-sold basis in terms of inventory risk. As we are supporting our customers and taking their agenda ahead of having a private label wherein, they are choosing us as a partner to develop a label for them wherein they also allow us to sell these brands to other retail chains as well. I think these are some steps and also as manufacturing increases its size in the overall top line of the company, currently we have close to 225 crores out of 3821 crores in the first 6 months but as and typically manufacturing in response to other question I said is relatively 35% gross margin. So as manufacturing, it's not, of course, going to be too large in our overall proportion continue to be less than 10% as part of the overall top line. These three-four factors, newer categories, digital brands, and also manufacturing slowly increasing the size in the overall pie, are some of the indicators as to how we take our margin trajectory ahead and of course as we do strategic sourcing where the margins could be relatively lower but then it will be a huge throughput that is typically going to go through our existing fixed costs and these are all blue-chip customers. Therefore, to the extent to manage our working capital as well to be careful that if at all we are contracting more business with these larger volumes but then it should be value accretive from a ROCE perspective for our stakeholders. And the third question that you asked yes, one is witnessing that moment of business from China to other markets as well. On the other side, Bangladesh continues to be a key market from the value fashion side. The Indian government has announced important attractive measures, Vietnam is also an important market, therefore yes, to answer specifically your question, one is seeing that other geographies benefiting from that moment.

Moderator: The next question is from the line of Sandip Agarwal.

Sandip Agarwal: I have couple of questions. What is your sense, how this industry has been impacted by the COVID wave because when we speak to the largest retailers globally for our IT services channel check and other things, what we gather from them is that most of the large retailers are now continuously considering or already has considered to outsource their procurement department because they firmly believe that 4% to 5% of cost if it goes in for procurement it gives them lot of management bandwidth to focus on the core business because their management bandwidth is right now more prioritized or required on making their front end ready to compete with the online players like the Amazons and others. The management and their team want to focus more on concentrating to gain market share and retain market share. They really don't want to focus too much on the procurement side. That is one feedback which we have been getting in last 12 to 18 months from different large brands. I just wanted to reconfirm with you whether this is a trend which you are witnessing and if yes then who will be the biggest beneficiary in that. So, that is one question and I have another question which is again linked and based on our continuous discussion with the global brand. Is that most of these brands also suggest that this is just a beginning and it looks like to them that it can really become a much bigger wave where it will, this procurement itself will be looked at as an external function versus the internal functions because of the countries from where it could be done at a cheaper or affordable cost and the compliances and other complications which come into picture because of those geographies and they really want a stable platform or a stable mediator who can execute it for them so that is question number two. I have one more but I will come back in queue.

Sanjay Jain: Sandeep firstly before I respond to your question, thank you for the compliments on the results. We will continue to strive to keep delivering good performance to our stakeholders and the feedback that you have been getting is the right feedback, and I also mentioned in response to a couple of questions earlier, that one is seeing the trend wherein the customer is choosing to focus more on the frontend interface with the customers, choosing to channelize energy alongside the physical stores into digital stores as well and therefore they want the backend part of it or the sourcing part of it not to be sitting in their balance sheet. Yes, that has started to emerge into our interface with some of our customers. I see this trend getting converted into tangible business opportunities in the near term. It's a serious possibility and who's going to win; to answer your part, the credibility of the counterparty to whom the customer is letting go. Credibility is a very simple word but it has many connotations. Credibility in terms of financial credibility is the partner having a decent size scale or balance sheet? The governance part of it is that the partner is running on the pillars of strong governance, compliance, sustainability, and compliance of the factories from whom my partner is sourcing whether through own manufacturing or the partnership. What are the processes, systems, internal strengths that my partner has invested into? That's what I mentioned about 41 people in our own internal compliance team. Therefore, in terms of governance structure, in terms of financial stability, in terms of compliance and the global reach, and the fact that is my vendor not only has a front-end proximity to where I am, at the same time, also have a strong presence to that part of the world from it is sourced and it is not just a rep office. Do they have the right kind of people on the ground in Bangladesh, in other parts of the world where manufacturing is done? So, these are some important criteria that are being chosen. That is part of the dialogue part of the engagement that is on with the customers, as this feedback that you got as an emerging trend hopefully is going to soon get converted into some tangible business.

Sandeep Agarwal: One last question which is again getting from our discussions is that because of the COVID many brands which we are very concentrated into particular parts of the world are concentrated into few geographies and were not accessible by some of the countries like Africa and some other nations where people are not able to find those brands and buy those brands because of the COVID and the digital wave which is coming and the smart stores and digital stores which have replaced the physical stores they are seeing that basically world has become a store for them because of the online mode. If that is true then there are two things, one obviously you know it reemphasizes their focus to be online on the digital store and management bandwidth needs to be reallocated there. Secondly it also implies that the brands that are not able to sell in those parts of the world earlier now can sell in every part of the world which also implies that the sales of this global brand can now get a booster shot because of this change in business dynamics and if that holds true then obviously the procurement and other aspects of the business may actually go out as a support function and can witness a very strong wave of being outsourced this challenge which I am not able to figure out in the goal story is that, is it be a volume game or it will be a value game for player like you and yourself. If you can help me on that front will be great.

Sanjay Jain: I think yes once again the feedback or that you are getting, observations that you're getting that for certain brands the entire globe is a market piggybacking on the e-commerce channels. Yes, that is very clear and to that extent, what it also implies is that when a brand is thinking of global as a market, does a brand have partners also have a global supply chain network in place through their partner factories, through their partner logistics network. PDS has been building its strength in that direction to that extent if what you observe as an emerging trend we are very much prepared to convert that trend into a business opportunity for us. That's where I mentioned in my opening remarks that we continue to besides Vietnam, Sri Lanka, Bangladesh, India, and China we continue to lay equal emphasis on Turkey as well as a location. Because when we come to e-commerce digital channel if it moved fast, therefore, Turkey has a location in the central part of the world allows me to kind of meet the quicker turnaround time requirements of our customer. Therefore, in my opening remarks mentioning Turkey as a key strategic location enhancing a presence is a very important part of it.

Now answering your second question in terms of whether it will be a value trajectory or a margin trajectory. I would say typically when you have high volume it on a historical observation basis across industries it comes at a relatively well-negotiated price. On a standalone basis, one could feel that it could be a low-margin item, but I think what is important is that how that gross margin is able to transform or translate that into EBITDA margin? Are you contracting OPEX in line with your growth? I think for such large opportunities one should be able to translate the lower gross margin to a better EBITDA margin by operating leverage that is going to come alongside the business and as PDS carefully is evaluating taking this path ahead, it is also channelizing its resources and energy into newer categories which are augmented in terms of margin. I think it's a blended approach going forward but what is important are two performance metrics that are important to our internal decision-making. One is operating margins, as we move ahead when I say operating means EBIT margins and secondly how much capital, how efficiently am I able to use my capital to generate EBIT margin, so that's ROCE. So, I think these are the two important yardsticks that are going to be key as we contract into new emerging opportunities.

Moderator: The next question is from the line of Chirag Lodaya from ValueQuest.

Chirag Lodaya: If you can just help us with one basic thing, how would transaction take place in sourcing business from a retailer to PDS to vendor and again final goods when we send to a brand, if you can simplify this?

Sanjay Jain: So, let's start from the customers. Let's start with leading retailers in London. I have my on-ground engagement team present in London and who are engaged with the customers, in terms of engagement, in terms of sitting together, visualizing what is going to be the expected trends, what is the category emergence that is going to happen? So the customers feel there is somebody who is thinking alongside me, that is step number one, and when that engagement is leading to some kind of tangible visualizations, I have my designer team sitting next to the engagement team in London and they start engaging with my engagement team and engagement team is able to take the designs to the customer. Then we are able to convert design into samples and the usage of technologies allows me to convert into digital sampling and impart almost like an in-person experience that the second part of it. That sampling is then leading to a decision to be taken by the customer in terms of yes this is what I like. Then the customer engages us for the spring season beginning next year, so asking what is the lead time, from how are you going to what is the lead time you need? Then I'm able to indicate because the moment I have a design selection done, the same team which is the front-end team has also got a corresponding sourcing team in Bangladesh and Sri Lanka. So they're able to at the backend engage in a dialogue with my sourcing team.

Therefore, having selected the design the customer is asking me what is the lead time, when are you able to deliver the goods, X works with FOB basis in Bangladesh as a location. I have my team in Bangladesh (Dhaka) who will be indulged with my partner factories and is able to give an answer. That is where the contract gets signed off. Of course, the financial controller, the CFO who is also based for that sourcing team in London also is sitting next door to the design engagement team. It's only the sourcing team that is actually sourcing from the factory is sitting in Bangladesh, Sri Lanka or other locations and that's how the contracts are stitched up and there is a standard template. If we have any deviations, then they come to a central team. If the terms and conditions etc. are agreed upon, the contract is then passed on to the relevant sourcing team. Just say, Dhaka as an example and where I have a quality inspection team, I have a planning team who now in turn work with the factory. In case there's a nominated fabric and team supplier by the customer then that is how the contract is executed, otherwise, I have a sourcing team that comes into action.

I have a Hong Kong-based global sourcing head that channelizes the pricing benefits. It's a long answer to your short question, but that's how typically the cycle works. The on-ground team, visits the factory and carries out the inspection, clears the goods. Once the inspection is done and then the FOB shipment is executed and that's how the cycle goes.

Chirag Lodaya: So basically, these finished goods from vendor and directly shipped to a brand owner or a retailer, you don't need to keep an inventory with you. So, it's a direct transfer, right? I mean you don't have any warehouse as such to carry or own the inventory?

Sanjay Jain: I think to give you a very clear answer if you've done $ 540 million top-line, I would say 85%-90% is FOB in the manner you're saying is that last 10%-15% which is duty delivered paid or our responsibility to bring the goods to the warehouse of the customer.

Chirag Lodaya: And you don't take any currency risk or inventory risk etc. or everything is back-to-back, right?

Sanjay Jain: Yes, we don't keep inventory. If we have an order that is all leads to us having inventory. And yes there is a natural hedge or to a large extent but wherever there is a cross-currency involvement especially on the opex side for example in the UK we bill in US dollar, but our expenses are in GBP. I have an active internal treasury team that keeps an eye on it and manage it effectively.

Chirag Lodaya: Is there a scope to improve margins substantially from here with the scale going up or this is the band which you're maintaining this?

Sanjay Jain: I think I responded to it earlier as well that there are two-three factors, one is on as is where is basis, in the industry we operate there is always the ask to keep improving prices to how agile and flexible we are to introduce new streams that lead to better margins. Then manufacturing includes and to an extent, if there is a large strategic sourcing deal, that Sandip was asking earlier, then how one is able to derive the fixed costs operating leverage and it will translate to better EBITDA margin. So these are some of the three-four factors which will continue to be relevant in terms of the evolution of margin trajectory going forward.

Moderator: Thank you. That was the last question; I hand the conference over to the management for closing comments.

Sanjay Jain: Thank you so much ladies and gentlemen for participating in our conference. Thank you so much Edelweiss team to organize it and we wish you all the best. All of you stay safe and take care. Thank you so much.

Moderator: Thank you very much. On behalf of Edelweiss Securities Limited we conclude this conference. Thank you for joining us and you may now disconnect your lines.