Operator: Good morning everyone. This is the second day of the Bharat Connect conference. I welcome you all to the call of PDS Limited. Today, from the management side, we have Mr. Sadique Sunsara, Group CFO; Mr. Naresh Sharma, Head of Strategy and IR; and {? Hansel Rodrigues ?}, Lead IR. Before I hand over the call to management, I will lay out the flow of the event. We will first start with brief introductory remarks by management, followed by a Q&A session. Over to you, sir.

Sadique Sunsara – Group CFO: Thank you, Deepali. Thank you to the Arihant Capital team for inviting PDS to this Bharat Connect conference, and thank you to all the participants.

To the new members who have joined us for the first time, PDS is a global fashion supply chain solutions company. We offer design-led sourcing, sourcing as a service, manufacturing, and brand management.

As a business, we connect ready-made garment manufacturers with consumers or buyers. We source from Bangladesh, India, Sri Lanka, Turkey, China, and Vietnam, and sell to countries such as the UK, Europe, and the US.

For financial year 2026, we achieved a GMV, or gross merchandise value, of almost 20,000 crore. Our revenue was 13,000 crore, with an EBITDA of around 2.9%, or approximately 385 crore.

For Q1 FY27, we achieved impressive growth of around 15% in our top line and 43% growth in our PAT.

We are seeing a rebound in our business, and Q1 was evidence of that. Our order book was up by more than 23% in Q1, and we are seeing good traction in executing that order book in the current quarter. We achieved a significant improvement in working capital last year, and that trend is continuing in Q1 and going forward.

I will go straight into the questions, Deepali, because from my experience last year, I think all the participants were already very familiar with PDS. We will open the floor for questions.

Operator: Okay, sir. Any participant who would like to ask a question can raise their hand or put it in the chat box. The first question is from Dhwanil Desai. Please go ahead, sir.

Dhwanil Desai: Good morning, Sadique, sir. Am I audible?

Sadique Sunsara – Group CFO: Yes, Dhwanil.

Dhwanil Desai: The first question is regarding the opening remarks, where you briefly mentioned that the order book momentum continues. In the Q1 release, we had stated that the order book had increased by 23% year-on-year. Could you give us some idea of how the environment is shaping up compared to what we had expected at the start of the year? Is it better than what we had expected? Order book growth and revenue guidance are not converging. As we progress through the year, do we expect that to improve, with better conversion of the order book into revenue and, therefore, better revenue growth than what we had anticipated?

Report is AI-generated and may contain inaccuracies.

Sadique Sunsara – Group CFO: Yes, absolutely, Dhwanil. We are seeing good growth. We had achieved good growth in our order book, and that is now converting into revenue. The markets of the UK and Europe represent approximately 70-75% or more of PDS. We are seeing good traction in demand. The top customers from the UK, including Primark, ASDA, Tesco, and Sainsbury's, are all showing good demand. The numbers that we had provided in our Q1 results presentation for the order book are being executed well.

Dhwanil Desai: We had guided for high single-digit revenue growth. However, looking at the order book traction, should we expect our historical revenue growth of 13-15%?

Sadique Sunsara – Group CFO: It would be very forward-looking for me to say that today. However, based on the Q1 results, the Board will definitely discuss this in the Q2 Board meeting. Based on the discussion with the Board, we may provide a different guidance number. Again, I am not making any forward-looking statement today, but the Board will take a call on these numbers based on the Q2 results.

Dhwanil Desai: You also talked about good traction in the UK and Europe. Until last year and even in Q1, we had been seeing softness in Europe, while the UK was still doing reasonably well. Do you see that changing materially? What has happened in the last 3-4 months that has led us to think slightly more positively about Europe and the UK? The US was growing well in any case.

Sadique Sunsara – Group CFO: Correct. The US was growing and continues to grow. I have my colleague Naresh on the call with me, and he looks after strategy for PDS. I am inviting Naresh to provide more insights on the markets and some of our top customers.

Naresh Sharma – Head Strategy & IR: Hello, this is Naresh. You might have already seen that in Q1 we shared that there was good traction in Europe as well as the US. The US recorded more than 45% year-on-year growth in Q1, while the EU recorded more than 20% growth. This traction is coming from two very strategic areas that we are also currently focused on penetrating further.

Europe, particularly Germany and other markets, had been struggling in the past because of its own economic burden and related issues. However, there is now some government support and incentives, and the countries are trying to emerge from that difficult situation. That is one factor.

The other factor is that we are also expanding our customer base there. It is not the case that we have the same presence everywhere as we do in the UK, but Europe is a large market for us.

The US is also a very large market for us, where we do not yet have a significant presence. Whatever we have been doing in the US over the last few years is now providing us with benefits.

Dhwanil Desai: If I can ask one more question and then come back in the queue, regarding the US, we had become profitable in Q4. Our total new vertical investment last year had declined by 35-40 crore, and we were expecting a similar reduction. Do we expect the US to become profitable this year? Are we on course to reduce the new vertical investment, including the brand management component, by 35-40 crore this year? How is the path to that number looking for us?

Sadique Sunsara – Group CFO: Yes, our investment in new verticals is an area for which we had provided guidance that we would reduce the number by around 40 crore every year. There may be

Report is AI-generated and may contain inaccuracies.

a quarter-to-quarter fluctuation, but for the year as a whole, we are on track to meet those numbers.

Dhwanil Desai: And regarding the US?

Sadique Sunsara – Group CFO: The US should definitely be profitable this year.

Dhwanil Desai: I will come back in the queue. Thank you.

Operator: Thank you, sir. We have the next question from Ankit Gupta. Please go ahead, sir.

Ankit Gupta: Thank you for the opportunity. Regarding our 3-3-3 and 5-5-5 strategies that we had presented some time ago, how should we view those guidance targets given the current situation? I think we have fallen short both on revenue growth and on margin improvement. How realistic are those targets now, especially since growth has been somewhat lackluster for the past 4-5 quarters?

Sadique Sunsara – Group CFO: We are well on track. Internally, those remain our guidance points for the top management. The only difference is that we may need an additional year to reach the final number under 3-3-3, or perhaps a couple of additional years to reach 5-5-5.

For management, that goal remains unchanged. Due to our investments in new verticals, and because the growth we anticipated from those new verticals did not materialize over the last couple of financial years, there has been a delay. Even after that setback, we are on track to achieve those numbers. We may need some additional time to reach them.

Our goal is to reach a 5 billion dollar GMV in 5 years with a 5% PAT margin. It may happen in 6 or 7 years instead.

If you look at my fundamental design-led sourcing business, we publish those numbers in our investor decks every half-year. If you look at those entities, they have reached a scale where some of my verticals are achieving 7% PBT or 6% PBT. Our established businesses have reached that level in terms of profitability.

If you combine PDS as a whole, I may not be at 3% PAT today, for example, but some of my mature businesses have demonstrated that scale, and it is possible. Internally, we remain guided by those numbers and definitely want to achieve them. However, in terms of timing, it may take us some additional time to get there.

Ankit Gupta: On the balance sheet, at least in the March quarter, we reduced our net debt by 105 crore. The increase in debt over the past 2 years had been highlighted, so it was good to see that in March 2026 we were able to reduce our net debt by around 100 crore. How should we look at this number going forward, given our ambitions to grow at a faster rate, particularly now that the order book has also seen a very strong increase after a long time? If we are able to grow at double-digit rates, how should we expect our net debt to develop over the next 1-2 years?

Management: Growth in revenue should not lead to a similar growth in debt or net debt. That is what I can say today.

Report is AI-generated and may contain inaccuracies.

We are monitoring our working capital. If you look at our debt, it has 3 components. There is a small amount of long-term debt, and then there is working capital. Working capital has 2 parts. One is the purchases that I finance using my banking lines, and the other is the receivables that I finance using my banking lines. That is the composition, or the breakup, of my working capital debt.

The receivable financing that we undertake is entirely off-balance sheet. As revenue increases, purchase financing also increases. However, as you would have seen in our last couple of quarterly numbers, we have cash available in the system. Therefore, the use of banking limits is reducing as we move into Q2 and Q3. This is helping us, and will help us, reduce debt and interest costs going forward.

In terms of long-term debt, I have only 2 very small pieces, totaling around 15 million dollars on the balance sheet. There are 2 facilities: one taken in the UK for the office property and one taken in India. The India facility has been repaid in this quarter. Therefore, you will see a reduction in long-term debt going forward.

Ankit Gupta: One final question before I come back in the queue. The issue has been that the reduction in debt is not actually translating into a reduction in finance costs. Even in this quarter, we saw an increase in finance costs both year-on-year and quarter-on-quarter. This is primarily because we have been trying to improve our working capital days by increasing factoring. Overall, finance costs have not declined. How should we look at this number, and what efforts are being made to reduce it as well?

Management: You will see finance costs declining as a percentage of revenue going forward. If revenue is increasing and there is a given finance cost, then the ratio of interest to revenue should decline, and it will definitely decline going forward.

Ankit Gupta: The absolute number will increase because of the increase in scale?

Management: My view is that, and I have given this consistent guidance, even the absolute interest cost for this year should not increase.

Ankit Gupta: Despite the increase in scale?

Management: Absolutely. We should be able to achieve this year's scale with last year's interest cost.

Ankit Gupta: Thank you, sir. I will come back in the queue.

Operator: Thank you very much, sir. We have the next question from Vivek. Please go ahead, sir.

Vivek: Yes. Sir, am I audible?

Management: Yes, Vivek. Please go ahead.

Vivek: My question is about the economics of the SaaS business. I have 2 clarifications, if you do not mind. First, a large number of the orders we are winning in Europe and the US, are they mostly SaaS orders? Second, Sanjay Jain was explaining the economics of one order, where 1,700 crore converts into 10 crore of PBT for us. From an ROE perspective, that may be very good, but the

Report is AI-generated and may contain inaccuracies.

magnitude is important to us as a company. How does the GMV-to-PBT conversion in SaaS differ from DLS and design-led sourcing?

We would then have to win very large amounts. Even 5 billion may not convert into the kind of profits we are targeting because ROCE is secondary; the primary consideration would be the amount of profit we are adding. On 1,700 crore, Sanjay Jain was explaining that PBT would be close to 10 crore. I do not understand how we scale or where the scale of profits will come from if that is the economics, unless something was wrong in the conference call.

How will future growth toward 5 billion GMV look? Will it be more DLS or SaaS? What are the economics of SaaS in terms of the absolute profit it adds to our PBT?

Management: The growth target of 5 billion dollars has 2 components. When we initially envisaged this 5 billion dollar number, we had in mind approximately 1.5 billion dollars of GMV coming from the SaaS business and approximately 3-3.5 billion dollars coming from design-led sourcing plus manufacturing.

Manufacturing is very small in the overall scheme of things, so it is largely design-led sourcing. The economics of design-led sourcing is very clear. Some of my mature verticals, as I mentioned earlier, have achieved profitability of 5% or more. You make a 100 dollar sale and achieve approximately 5% PBT or PAT margin. That is very straightforward.

Sourcing as a service is a slightly different model. In sourcing as a service, I receive a fee on the GMV or value that I handle. The fee is 2-2.5% that I charge the retailer. I have costs in my P&L, and approximately 40-50% of this revenue is my cost. Therefore, half of it goes into my PBT. That is the mechanics of the sourcing-as-a-service business.

Vivek: In the sourcing-as-a-service business, do we receive 2.5% of GMV as revenue? Can we understand it that way? And half of it is PBT?

Management: Correct, approximately 2-2.5% is the revenue, half of it is the cost, and half of it goes into my PBT.

Vivek: If we do 1,000 crores, we will receive around 50, 60, or 70 crores as revenue, correct?

Management: Correct. If you do 1,000 crore, then 2.5% will be my revenue, which is 25 crore.

Vivek: 25 crore. Then half of it, 12 crore, will be our PBT? That was my question. Will it not take a lot of time?

Management: Vivek, this is an ROCE game. The SaaS business is an ROCE game. My capital employed here is zero. I am not employing or investing anything into this. I am only employing a team of people, which is again charged to the retailer on a cost-plus basis.

Whatever addition takes place in my PBT straightaway goes into ROCE. I do not have any depreciation or anything on that amount. Therefore, it is a direct addition to my ROCE.

Vivek: Even to achieve a certain scale, that was my concern. Will growth in PBT be mostly contributed by DLS? Are you confident about that? The deals we are winning in the US and Europe,

Report is AI-generated and may contain inaccuracies.

are they mostly biased toward design-led sourcing or SaaS? That is what will move our absolute PBT growth. ROCE may be high in SaaS, but absolute PBT growth will be a function of doing more DLS, correct?

Management: No, it is both. My growth in PBT will come from both of these segments.

Vivek: Over the next 2, 3, or 4 years, will more growth come from DLS or SaaS? I am not referring to growth percentage, but to the absolute amounts. Will DLS continue growing at, or at least be expected to achieve, double-digit growth? Regarding the new wins in the US and Europe, are they more biased toward DLS or SaaS? That was my first question.

Management: The pace of adding new deals or business in these 2 segments is different.

In DLS, I have a set of customers and receive more orders from them. That is an order-to-order business, and these are very small orders.

In sourcing as a service, the orders are bulky and large. For example, we recently added a French supermarket as a customer. That is a 250-260 million dollar annual contract that will be executed over a 5-year contract. Therefore, it represents a billion-dollar-plus opportunity to be executed over 4-5 years. That is a large addition when it happens.

Similarly, we won a small sourcing-as-a-service order from a US customer. It is a 50 million dollar contract. On an annual basis, I will deliver goods worth 50 million dollars to them. These are also very large orders.

Vivek: I am not trying to interrupt you, but you understand where I am coming from. To add 100 crore of PAT, we would have to do close to a billion dollars of SaaS, correct?

If it were DLS, we would add much more PAT than if we were doing SaaS. Therefore, we should understand which segment is contributing because GMV becomes a different measure. We can achieve 5 billion, but that was my point. I am trying to understand it.

Management: If you break 5 billion dollars into 2 parts, there would be 3 billion dollars of design-led sourcing and 2 billion dollars of sourcing as a service. The 2 billion dollars of sourcing as a service gives me approximately 1% in PBT, which would be 200 crore of PAT, assuming that.

Vivek: Assuming the entire 200 crore is PAT.

Management: Correct. A 3 billion dollar DLS business gives me approximately 4-5% PAT. That is the economics.

Actually, my design-led sourcing capability is giving me the sourcing-as-a-service business.

Vivek: Going forward, as we move from 3 to 5 to 8, should we expect more SaaS additions or more DLS? Will it be at least 50-50? The economics is very different, which is why I was asking.

Operator: Thank you very much, sir. I would request all participants to restrict their questions to 2 each. The next question is from Rohit Balakrishnan. Please go ahead, sir.

Report is AI-generated and may contain inaccuracies.

Rohit Balakrishnan: Good morning, sir. Picking up from the last couple of questions, you mentioned that finance costs as a percentage of sales should decline. Over the last 5-6 quarters, we have been tracking at around 1-1.1% as a percentage of sales. What rate are you looking at as a percentage of sales that you would be comfortable with, and what is your target for this year and next year?

Management: There is no specific target as such. However, this year we definitely had a target that our interest cost should not increase compared to last year.

We generated a significant amount of cash internally, and we are using that cash to finance our purchases. This is helping us reduce interest costs. I do not have a specific target, but we expect good revenue growth this year. If interest costs do not increase, then mathematically they should decline as a percentage of revenue.

Rohit Balakrishnan: Regarding working capital, one thing we have done really well is tightening it. The number of days has come down. In the past, we have also seen negative working capital days. Where do you see this evolving during this financial year? We are currently at approximately 4-5 days, or perhaps close to 6-7 days, based on the last reported number.

Management: Barring some disturbances here or there, we should maintain working capital in the low single digits. We have improved working capital in all areas except New Lobster.

If I exclude the New Lobster acquisition that we made a couple of years ago, we were at negative working capital days in FY23. If we had not made that acquisition, today you would have seen negative or zero working capital days for PDS excluding New Lobster operations.

We have returned to that level, excluding {? nit- ?} New Lobster. The goal is to maintain working capital in the low single digits.

There may be some pressure on working capital at present because our sourcing partners are facing certain challenges. We need to provide them with advances and help them make early payments. That is what we are doing.

Otherwise, we are aiming for zero or negative working capital, but the guidance would be to maintain it in the low single digits.

Rohit Balakrishnan: What is the progress on New Lobster? We were trying to turn it around. At the 2025 Analyst Day, we had also said that we would turn it around, but it has taken, and is taking, more time. What is the forward path on that?

Management: We are actively engaged with ABG and its advisors on multiple plans.

Plan A is to reduce the scale of the business so that it reaches break-even or becomes profitable. That is Plan A.

There is also Plan B, under which ABG is evaluating its strategy for the New Lobster or Ted Baker business. I will not be able to provide many details, but we are definitely working on Plans A and B. As soon as there is some clarity or an action approved by the Board, we will announce it to all of you.

Report is AI-generated and may contain inaccuracies.

Rohit Balakrishnan: What is the current loss run rate? How much was the loss in Q1, in million dollars or crores?

Management: I do not have that number readily available. I think it was around 2 million dollars, if I am not mistaken, but I will provide it to you very shortly.

Rohit Balakrishnan: The New Lobster loss for Q1. My final question is regarding the partnership we signed with the Indonesian company Busana International. Is it primarily related to taking up their manufacturing, or is it more about client acquisition together? We had also shared that we would undertake client acquisition together.

Could you share some details about that? Is there any business that you expect to sign up from there this year, and is any order book coming from it? How do you view the profitability of this arrangement?

Management: The partnership joint venture is structured such that any new orders coming to Busana, or any additional orders coming Busana's way, will be diverted to our factories.

Busana has to help us upgrade the skill set of our people there. At present, I believe a team from Busana has come to Bangladesh, and they are helping us train our people.

New orders may start flowing from the new financial year. It is too early at this stage. We are forming a joint venture entity in Hong Kong so that we can park the economics from this arrangement and share them with Busana.

In terms of numbers, I think we will see them from Q1 of next year onward.

Rohit Balakrishnan: Q1 onward, understood. My final question is on costs. If we look at the quarterly employee costs and other expenses, employee costs are around 340-350 crores and have remained sticky at that level for the last 3 quarters. Similarly, other expenses have also been around 255-260 crores.

As we scale, a large part of the issue has been that we front-loaded these costs while revenue growth was not commensurate. Now, as revenue growth begins to come through, as you indicated in your earlier answers, how will these costs move, specifically these 2 costs?

We have done reasonably well on gross margins and have been able to expand them somewhat. Could you discuss these 2 costs, since they have been steadily rising? Year-on-year, they have perhaps been somewhat flat over the last 2-3 quarters, but I wanted to understand how you see these costs moving.

Management: Regarding your earlier question, the loss from New Lobster in Q1 was approximately {? 2.5 million dollars ?}, or INR 24 crore, to be precise.

Coming back to employee and other costs, they have been flat for the last 2-3 quarters, and we intend to keep them flat. We are not expecting much increase in employee and other costs this year compared to FY26.

Report is AI-generated and may contain inaccuracies.

We should see operating synergies coming through this year. We are definitely seeing traction and growth in revenue, but the cost element should not increase. We should largely maintain these quarterly run rates.

Rohit Balakrishnan: That is it from my side. Thank you.

Operator: Thank you very much, sir. We have the next question from Komal. Please go ahead.

Komal: Thank you for the opportunity. What percentage of income is currently classified as other income? Is it operational, or is it coming from the cash on the books?

Management: In Q1, we had approximately 9 crore as other income. That is around 0.3% of income from operations or revenue.

Komal: Is all of the other income regular income? What can I expect as the steady state in a year?

Management: This is largely the interest income that we earn. We have approximately 12 million dollars from the QIP, which is parked in bank balances, fixed deposits, and similar instruments.

If we utilize that 12 million dollars, this steady state of income will go away. Therefore, you can assume that 8-9 crore will be there every quarter.

Komal: Three years ago, we achieved a 3% PAT margin on 10,000 crore of order revenue and generated 330 crore of PAT. Over the last 3 years, we have struggled to sustain PAT. We understand that we were investing, but as investors, we follow the ROI and the PAT journey.

Can we surpass that number this year? What are your thoughts for this year and next year, and where do you see the PAT margin going?

Management: In FY26, we were at approximately a 1.4% PAT margin. Moving to 3% would represent an increase of almost 160 basis points in a year. I would not like to comment on a particular number. This year may be difficult, but definitely next year it is achievable.

Komal: When we guided for 3-3-3, I think it was for FY27, correct? Or was it FY26?

Management: As I mentioned earlier in response to one of the questions, we may reach 3-3-3 or 5-5-5, but the last digit, which represents the year, may take 1 or 2 additional years.

Whatever mistakes or poor capital allocation decisions we made over the last couple of years, we are correcting them.

Komal: When you say 3% next year, are you expecting that on a consolidated basis or on a run-rate basis?

Management: Please do not hold me to that. I am saying that it is achievable. On a run-rate basis, I definitely think it is achievable.

Komal: Can we expect 2% at the consolidated level this year?

Report is AI-generated and may contain inaccuracies.

Management: Please wait for the Q2 results. After the Q2 results, we may be able to provide more clarity.

Komal: Regarding DLS, if you are going to increase revenue to 3 billion dollars or achieve 10-12% growth, we are not seeing more DLS orders or new customers signing up. Will this come only from existing customers?

I see that we are able to win SaaS orders with the new team and expand well. For DLS, do you expect to open major accounts and see major volumes coming in? Is it a negotiation, or is it part of our business model? Are we pitching to them? What is the level of interest in DLS?

Management: I will answer this, and perhaps Naresh can also provide additional input.

In DLS, if you look at the UK and Europe, we are already well established. In DLS, we are adding new customers in the US. There are {? Michael E ?} and other business heads focused on the US market, and they are opening new accounts with new customers.

In the UK and Europe, where I have proven my DLS skill set, I am targeting more SaaS customers. If you look at my recent wins, they are again in France. We were already doing business with ASDA, which is a large supermarket in the UK, and now we have added another French company. This is giving us significant traction in those markets to discuss new deals.

The only challenge we face is credit. Typically, when retailers are under cost pressure, they consider SaaS deals. We need to ensure that we do not enter into a deal when the retailer is under financial pressure and the supplier is directly supplying to them.

PDS may not have significant credit risk, but the ultimate supplier would take that hit, and in the process we would lose our credibility. If I approach my supplier for the next SaaS deal, they may not be interested in supplying.

There are definitely deals available, including in the US, but they involve entities where credit is an issue. We will not deal with counterparties where credit is an issue.

Typically, when companies are acquired by private equity firms, we engage with them for SaaS deals. In those discussions, we ask for a corporate guarantee or a large bank guarantee from their banking partners. Private equity firms typically avoid providing this.

In a DLS business, when I am dealing directly with a counterparty, there is a high chance that even if there is a credit issue, the company will provide me with a bank guarantee or something else to cover my credit risk.

However, with companies working on SaaS deals or owned by private equity firms, this is becoming a challenge. We do not want to deal with any counterparty where credit is a risk.

Over to you, Naresh, if you want to add anything regarding how we will expand DLS orders.

Naresh: Komal, that is a very pointed question, and we have been deliberating on the same issue.

Report is AI-generated and may contain inaccuracies.

In DLS, what we are currently focusing on is expanding our share of wallet through existing customers. That is one of the pillars we have already assigned ourselves internally, and we are working toward it.

It is a very targeted key account management approach. We have identified our top and strategic customers, and we are working with these strategic customers to expand our share of wallet with them.

The second part is more interesting. We have also identified new customers. However, it is a long journey. As you know, it takes approximately 12–24 months to scale with a new customer.

This process has already been initiated, and we are working on it. As Sadique mentioned, we are considering different territories and geographies.

We believe that the UK is almost saturated, although we still see some focused and selected opportunities there. The EU is an area we are now targeting. As we said, the US is almost a free-flowing opportunity for us. We have made inroads and achieved good traction there over the last couple of years.

While building our capabilities in the US, we will look to obtain more business from existing customers and open more doors there. There are several business models operating in the US. For example, companies work directly with new customers or with customers that are retailers and brands. There are also many importers, including large importers, that work directly with companies such as Walmart. That is what we are currently working on.

Komal: We may have started on this path, but execution and the time required to generate business is a longer-term journey. That is what I understand.

Management: There are 2 parts to it. First, acquiring a new customer naturally involves a lead time. You may realize the orders over a period ranging from a couple of months to a year.

The other part is working with existing customers and expanding our share of wallet with them.

Komal: How receptive are existing customers to expanding their wallet share with us? They have many partnerships, and we are only one of them.

When you look at an account in the US, what kind of traction are you seeing? Are customers leaning more toward PDS, or is it difficult because they also consider the risk that if PDS faces some difficulty, it could affect the supply chain? Since we are supplying only a small portion, I thought gaining more share would be easy for us, but I am not able to see that translation.

Management: That is true. Sarthak, you made the right point. We cannot do the same thing with all customers because of the constraints involved.

From our side, we do not want to take that risk, whether it is concentration risk or credit risk. Just as customers believe they need to diversify, we also believe that we should not have concentration risk arising from one geography or one customer.

Report is AI-generated and may contain inaccuracies.

However, the market is still very large. The apparel market is 1.5 trillion dollars. Even at the FOB level, it is still a 600–700 billion dollar market. The market is very large, while our revenue would be 1.5 billion dollars. Therefore, the runway is available.

We have discussed repeatedly that the trends in the market are favorable. For example, there is consolidation not only on the retail side but also in the vendors used by retailers.

The one vendor, supplier, or partner that can provide retailers with that kind of diversification and has the capability and wherewithal to do so will be a winner.

We believe that, with our diversified operations, we will be able to provide the kind of support they need in their own strategic journey.

Komal: That is all, sir. Thank you. We are waiting for PDS to thrive again. The last 3 years have been very disappointing, but we are waiting for that recovery again.

Management: Thank you, Sarthak.

Operator: Thank you very much, sir. We can take our last question from Parth Desai. Please go ahead, sir.

Parth Desai: Am I audible?

Management: Yes, Parth, we can hear you.

Parth Desai: Thank you for the opportunity. I had one question regarding the BCG project that we had discussed last year for cost savings. There was no mention of the BCG project in the Q1 presentation. What is happening with it? Do we not see the sourcing opportunities or cost-saving opportunities from the project?

Management: Naresh, would you like to take this?

Naresh: Yes. Parth, thank you for drawing attention to this. We have been on the call for 50 minutes and have not spoken about it.

Regarding BCG, the project is currently in the institutionalization phase, as we may have discussed last time. We are internalizing everything we learned from BCG in terms of processes.

We are now conducting e-auctions. We have already onboarded the Coupa platform, and some of the verticals are already using it. That process is underway.

I think the outcome is what you are asking about, and you may have seen some indication of it in our gross margins. Some part of the benefit is already being realized, and that is with only 1 or 2 verticals at present.

Parth Desai: My second question is about the operating model. We are growing quite well, but as most participants have said, we are concerned about profitability.

Report is AI-generated and may contain inaccuracies.

For some of these verticals, such as Poetic Gem or Technodesign, what is the incentive for them to improve profitability? I understand the incentives for them to grow, but how do we hold them accountable for delivering PAT margins of 5–7%, for example? This question applies to all verticals.

Management: The incentive for them is very straightforward. Unlike divisions in a large company, where results are not seen very quickly unless there is a divisional P&L, each of my subsidiaries, including the ones you mentioned, Poetic Gem and Techno, has business heads with direct equity ownership and minority shareholding in their respective subsidiaries.

Their incentive is therefore directly aligned with the PBT or PAT of the company. They are responsible for achieving the numbers, and if they do not perform, they do not receive dividends. There is a complete correlation with the performance of their subsidiary.

Parth Desai: My understanding was that at the corporate level, you might conduct a cash sweep, but these subsidiaries also pay dividends to their shareholders.

Management: Absolutely. Every subsidiary has a minority shareholder. For example, Anuj Banaik has approximately 20–25% shareholding in Poetic Gem.

Whatever profits the subsidiary makes at the end of the year, we distribute as dividends from the subsidiary entity. In proportion to his shareholding in the company, Anuj will receive his dividend, and the balance 75% will come to PDS.

Parth Desai: Is there any plan or discussion to align their equity shareholding with PDS? For example, converting the Poetic Gem equity into PDS equity?

Management: That discussion may arise only when someone has to exit. You are asking how subsidiary equity can be converted into PDS equity, meaning whether I can buy out Anuj or another minority shareholder.

Parth Desai: Exactly. You could give them shares in PDS so that the incentives are more aligned.

Management: The incentives will be more aligned if they remain partners or equity shareholders in the subsidiary.

We also have an ESOP structure internally within PDS, under which our business heads, their direct reports, and the key management teams of the subsidiaries are incentivized based on how PDS has performed or will perform overall.

That scheme is also in place. A few years ago, we had another system called Joint P&L, under which we incentivized 2 verticals or 2 subsidiaries to work together. All of these structures are already in place within PDS.

Parth Desai: Good to know. Thank you.

Operator: Thank you very much, sir. Due to time constraints, we will have to close the call. On behalf of Arihant Capital, I would like to thank the management for sparing time and sharing insights about the company. If any participant has further questions, they can get in touch with the Arihant Capital team. Any closing comments, sir?

Report is AI-generated and may contain inaccuracies.

Management: Thank you, Deepali. Thank you to the Arihant Capital team for inviting us. Thank you to all the participants for actively tracking PDS and communicating with management.

We are available if you have any further questions. If you would like to meet us, please let us know. Shirley from my team will be in touch with any participant who would like to meet us and discuss further.

Thank you, my colleagues, and thank you, everyone.

Operator: Thank you.

Note: {? ... ?} indicates a figure or name where audio clarity was insufficient for confident transcription. Verify against the source audio or the company's published filings.

Report is AI-generated and may contain inaccuracies.