

MANAGEMENT DISCUSSION AND ANALYSIS REPORT

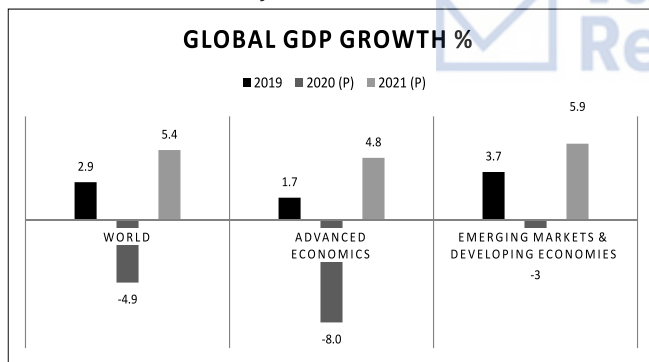
Global Economy

The global economy witnessed moderate growth in the year 2019, as a result of a slowdown across most advanced economies, emerging markets and developing economies. Increasing trade barriers, rising geo-political tensions and lower industrial output cumulatively impacted growth during the year. Economic activities in the European region deteriorated significantly during the year, with several economies teetering on the brink of recession. IMF estimates that global GDP grew by 2.9% in 2019.

The outbreak of the Covid-19 pandemic had an adverse impact across the global markets, with lockdowns and border closures paralyzing economic activity and laying off millions of workers globally. The economic downturn has further amplified disruptions around the globe. Global trade contracted by a significant margin in the first half of the year, reflecting weak demand, the collapse in cross-border tourism, and supply dislocations related to shutdowns & border controls. IMF expects 2020 global growth to be at negative 4.9% and expects the economy to stabilize with a pick-up from 2021 onwards.

Governments, globally, are announcing package of fiscal, monetary, and structural reforms to support demand and in order to minimize the impact of the pandemic on the financial system. As economic activity normalizes, the efforts taken by countries to contain the pandemic, along with the economic and financial assistance in order of magnitude will remain critical for accelerating growth recovery and improving demand scenario. In 2021, Global growth is set to recover at 5.4%

Global GDP Growth Projections, %



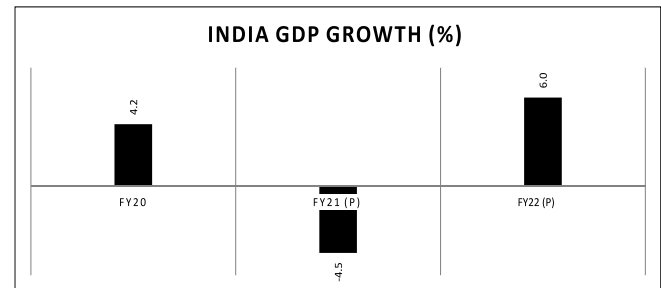
Source: IMF's World Economic Outlook Update, June 2020

Indian Economy

Over the last few years, India has evolved as one of the world's fastest growing major economies across the globe. In FY19, India registered a GDP growth rate of 6.1%, maintaining the tag of the fastest-growing major economy. However, a slowdown in economic growth in FY20 owing to the deceleration in investment and private consumption due to increased unemployment rates, rural stress, NBFC liquidity issues and slowdown in real estate and auto sectors resulted in a GDP growth rate of 4.2%. The outbreak of the Covid-19 pandemic further impacted GDP performance during the last quarter of the fiscal year.

Amidst a challenging macro-environment, the Government of India undertook several proactive initiatives aimed towards supporting and improving the Indian economy in the face of the ongoing pandemic. In order to minimize the impact of the crisis, the Government of India unveiled a ₹ 20 lakh crore economic stimulus package to benefit the salaried class, MSMEs, farmers, urban poor,

and to provide a reprieve to various sectors of the economy. The total stimulus also includes the measures announced by the Reserve Bank of India and Pradhan Mantri Garib Kalyan Package and is targeted to provide fiscal support, monetary support, ease of doing business, as well as other fundamental reforms. These measures should aim towards cushioning the impact of Covid-19 pandemic on the economy and should enable a steady and sustainable recovery post the containment of the pandemic in India.



Source: IMF's World Economic Outlook Update, June 2020

Company Performance

In January 2020, the Coronavirus pandemic emerged as a significant new uncertainty and threat to economies and industries, worldwide. Lockdown measures and restrictions on logistics in countries across the globe have severely disrupted movement of goods, supply chain systems and production processes. This, in combination with a freeze on discretionary spending and retail store closures has further impacted consumer demand and sales across the global retail landscape. As per an analysis by McKinsey, revenues for the global fashion industry, which includes the apparel and footwear sectors, is expected to contract by roughly 27 to 30% in 2020 on a year-on-year basis.

The fourth quarter of the year started amidst an extremely challenging operating environment for the Company, with its key markets, particularly the European markets, facing an unprecedented level of disruption due to the Covid-19 pandemic. Lockdown measures across European markets from mid-February onwards severely impacted the Company's business activities. In addition, growing concerns around the spread of Covid-19 followed by lockdowns across Americas and Asia from March onwards further derailed demand and supply chain operations. Despite these unprecedented industry-wide challenges, the Company has reported better-than-anticipated set of results in FY20.

On a consolidated basis, revenue from operations stood steady at ₹ 6,648 crore in FY20, higher by 3% YoY. Income (Gross Margin = Revenue Less COGS) during FY20 stood at ₹ 1,098 crore, recording a healthy growth of 16% YoY. On the profitability front, EBITDA stood at ₹ -192 crore and as a % to income stood at 17%. During the year Company has undertaken several measures to secure its business operations and rationalize operating expenses across its business model. This, along with improved resource utilization has resulted in a steady margin profile. Accordingly, EBITDA margins as a % of income grew by 510 bps during the year. Similarly, PAT stood at ₹ 81 crore, higher by 18% YoY as against ₹ 69 crore in FY19. Leveraging its financial strength, Company was also able to provide for longer payment terms to customers as long as they secured insurance, which helped enhance sales and market share amid a challenging market scenario.

On the operational front, the Company saw a severe impact on its business activities, manufacturing processes and logistics due to the Covid-19-led disruption. Adherence to social distancing norms

and the eventual lockdown in many of the Company's international geographies resulted in minimal sales in the month of February and March, thereby impacting performance in Q4 FY20. However, considering these impacts it is encouraging that the Company has not seen any major impact on existing customer contracts and wins during the period.

On the segmental front, Apparel business amounted to approximately 97% of the total sales and accessories and home furnishing business is at approximately 3%. In terms of geography, turnover of the UK & Europe business amounted to 86% for the year, America at 10% followed by Asia and Middle East at 3% and Australia at 1%, respectively.

The Company saw a strong contribution from repeat customers, thus highlighting upon the Company's well entrenched relations with its Retailers and clients. Despite growing pricing pressures and lower demand environment across key markets of Europe, UK and Asia, new customer additions during the fiscal stood strong at 18.

During the year Company increased its total employee strength and consequently employee cost of by ₹ 56.54 crore. The Company operates Design Hubs in the UK, Europe, Hong Kong, India, Sri Lanka which comprises of highly qualified designers, graphic specialists & product developers.

The Company's core commitment towards Compliance and Ethical Sourcing practices continues to be rock solid. PDS Groups network of factories is audited periodically, thereby ensuring that the highest level of transparency, ethics, and social compliance is followed across the supply chain system.

The Company's vast retail customer base is attended by dedicated teams across an array of operations of Sourcing, Manufacturing and Design & Development to deliver premium quality and confidentiality in services. Further, in order to mitigate the inventory risk associated with the business model, the Company ensures that certain checkpoints are met before commencing production, which essentially includes pre-selling all orders before processing production, securing credit payment terms and partnering with AAA rated customers.

On the balance sheet front, during the year Company streamlined debtors, renegotiated terms of payment with suppliers and maintained a healthy capital structure. The Company continued to enjoy comfortable cash position at ₹ 350 crore as on March 31, 2020. Total debt stood at ₹ 747 crore, with long-term debt at ₹ 5 crore and short-term debt at ₹ 742 crore. The receivables position during the fiscal stood at ₹ 832 crore. Consequently, Net worth increased from ₹ 499 crore in FY19 to ₹ 611 crore in FY20.

Despite the operating constraints, the Company's client base has broadly remained intact. The teams on ground are actively in discussion with all customers to continuously assess and be prepared for any change in the situation and are also undertaking necessary steps to ensure sustained supplies to clients. While the Company is currently witnessing muted demand across its key markets as a result of the ongoing macro-situation, from a longer-term perspective, there should be a gradual and steady bounce-back in the demand environment. These are uncharted times and while the Company does foresee some impact on revenues and profitability until the macro-circumstances normalize, it is undertaking all measures to secure its business operations and overall safeguard the interests of its customers to the best possible extent.

As an organization, PDS Multinational remains solid, with stable business operations. In light of the Covid-19 Pandemic

and disruptions in operating environment, the Company has outlined the following focus areas to minimize the impact of the macro-environment on business operations,

- **Health & Safety**
 - o More than ever, the management's primary focus is towards undertaking all necessary measures to ensure safety and well-being of its employees, business partners, communities and to safeguard the interests of its customers and distributors to the best possible extent
 - o In-line with this approach, the Company has implemented stringent safety measures & SOPs through manuals and training across its offices, plants and facilities.
- **Client Engagements**
 - o Realigning efforts and resources to ensure solid client engagements
 - o Teams are working closely with all business partners and distributors to ensure seamless deliveries and services to clients in these unprecedented times
- **Cost-optimization measures**
 - o The Company is undertaking several steps to drive savings in Direct, Indirect and Administrative costs
 - o A lean cost structure will further enable to improve margins and cash flows
 - o The Company's focus on hiring & retaining top talent continues to ensure the Group hits the ground running as soon as macro-situation normalizes
- **Balance Sheet**
 - o The Company is driving efforts towards cash conservation and ensuring accretive Cash Flows through margin improvement, cost reduction, capex rationalization and wastage elimination, thus enabling a Lean and Agile business model to meet 100% all banking commitments and debt obligations, statutory payments and supplier dues.
 - o Liquidity and cash flow position of the Group continues to be strong.
- **Safeguarding business operations and ensuring Business Continuity**
 - o **Operations:**
 - On the operational front, in compliance with government advisories, the Company temporarily suspended operations at its offices across India and implemented Work from Home from mid-march onwards
 - Similarly, on the international front as applicable in each country, PDS Group's offices in UK, Europe, Americas, Middle East, and Asia were temporarily shut and the Company implemented Work from Home option. In other cases, where employees were working on office premises, the Company deployed safety controls such as daily temperature checks, sanitization, social distancing, use of masks in offices, etc.
 - At PDS Group's manufacturing plants in Bangladesh, operations were temporarily suspended for roughly ~30 days from March 26th 2020 onwards. However, pursuant to requisite approvals from the concerned Government

PDS Multinational Fashions Limited

Authorities, manufacturing operations were resumed partially in the month of May 2020, albeit at significantly lower capacities. The Company expects to ramp-up utilization across manufacturing facilities as demand picks up in the coming months

- PDS Group is also exploring new product lines in Personal Protection Equipment (PPE) to widen its existing product portfolio and grow business with new product categories, customer segment and markets
- The Company witnessed disruption across the supply chain due to port closures and restrictions in movement across markets. This, in turn, impacted its supplies during the months of March, April and May.
- However, from July 2020 onwards, there has been a slight recovery in supply chain systems and all our employees and partners are undertaking measures to ensure continuity in operations with minimal disruption

Despite these disorderly and challenging times, the Company remains strong and stable. Company is a reliable partner, in such times, to its customers and continues to work with them to ensure smooth deliveries and supplies. It has taken all requisite initiatives to counter the impact of Covid-19 and is optimistic that with a healthy balance sheet and liquidity position, it is well-placed to tide over these extraordinary circumstances.

An analysis of the **Strengths, Weaknesses, Opportunities and Threats** that your Company faces is possibly the best way to discuss your Company's business operations

Strengths

Brand Saliency

PDS Multinational Fashions, a leading global strategic manufacturing partner to major brands and retailers has carved a niche for itself in the global market by offering quality products across price points. The Company operated on a global scale covering over 31 offices & 18 countries and has an employee base in excess of 1,800 apart from factory workers. With presence spanning across three decades, the Company has grown leaps and bounds achieving multiple milestones in its journey. Today, the PDS brand is resonated across global markets for its quality product offerings, higher transparency of service and reliability of operations.

Improving contribution from manufacturing arm

PDS multinational Fashions, transformed into an integrated player following setting up of two manufacturing factories in Bangladesh. In-house manufacturing adds incremental value at each step of the product development cycle and helps address specific requirements of the customer. High quality control, in-depth knowledge of the end-to-end process and better operational efficiency enables quicker responses to customer feedback and product layout changes. The Company is now better positioned to further its business in new markets. In FY20, the revenue contribution from manufacturing business stood at 4.9% as against 3.8% in FY19

Aristocratic management, the driving force behind Company operations

The Company has a strong and a balanced management team comprising promoter family and senior professionals with vast experience in areas ranging from design, manufacturing, sourcing

and distribution, finance, banking, risk management, IT, HR etc. The Company also supports a wide network of partner factories that run their own business units within the cultural and financial framework of the group.

Strong sourcing and distribution business

The Company has established an expansive integrated network across its key sourcing geographies such as Bangladesh, Cambodia, China, India, Morocco, Myanmar, Pakistan, Sri Lanka, and Turkey. Further, the Company also has a long term standing with some of the marquee retailers and brands. By entering into sourcing agreements, the Company is well placed compared to its peers who are subjected to sourcing and pricing uncertainties. The established and growing network offer a series of benefits such as multiple touch points, business scale, brand reach and elevation of business capabilities.

Deep Expertise

As one of the leading and widely chosen global supplier, PDS offers a host of benefits to its clients comprising of high-end retailers and brands. Backed by solid financials, the Company enjoys strong support from its bankers across the geographical areas it functions in. The Company continues to draw steady and unwavering support from its investors, partners, and bankers vindicating their support in Company's executing capabilities.

Weaknesses

Market Presence

PDS accrues bulk of its business from developed regions of EU & UK. For FY20, 86% of the Company's overall revenues came from these markets. Given that more than 86% of the Company's revenue is derived from EU & UK, it exposes the company to a large degree of concentration risk. As a means to lower its risk, the Company is consciously working towards diversifying its revenue mix both in terms of product mix and geographical presence. The Company has been gradually increasing its presence in untapped markets of US, Australia, Middle East by strengthening its presence and augmenting brand awareness. A combination of the above measures has enabled the Company to lower its dependence over its established markets in recent years.

Business Seasonality

The industry experiences seasonal demand wherein sales volumes are typically higher in the second half of the year. A clear spike is observed at the time of late autumn holiday and Christmas shopping season. To avoid seasonality impact, company has built expertise to supply products for specific seasons, usage occasions and multiple category of products. Like with any industry player, it is always challenging to correctly estimate and prepare for demand at a specific time of the year and hence there is variation in the performance of the company in first half of the year compared to the second half of the year.

Opportunities

Dynamic consumption patterns

Consumers taste, preference and pattern vary with time. The market keeps evolving and the Company needs to be in tune with the latest consumer trend. The Company has been successful in staying abreast with the changing demand over the years. PDS' unparalleled passion and desire to meet its customer's requirement has enabled it to stay ahead of its peers. The Company is well positioned to meet the growing demand fueled by increasing consumerism, emerging lifestyles, rising incomes.

Underserved Emerging Markets

The Emerging economies are expected to maintain its growth momentum if not better it aided to a large extent by improving global environment. While the developed economies may still be bigger in terms of absolute size and number, they are found wanting in terms of growth potential and growth rate. Sensing the next leg of growth phase will emanate from emerging markets, PDS has been proactively working towards augmenting its distribution spread in emerging nations like Brazil, India, Pakistan, Middle Eastern Countries and the LATAM region, which will also improve market share within existing and new customers.

Threats

Cyclical Nature of the Industry

Apparel Industry given its inherent quality, is to a large extent cyclical in nature given that its fortunes are dependent on varied factors ranging from disposable incomes, consumer spending, shifting consumption patterns, inflation and changing fashion trends. Challenging business environment coupled with uncertain economic prospects further adds to the overall volatility in the business.

Current Market Conditions

The Company's overall operational and financial performance is dependent on stable business environment. At present, the business is functioning in an uncertain and volatile environment characterized by the disruptions caused by the Covid-19 pandemic, heightened geopolitical and business uncertainty. Any slowdown in global economy could impact the purchasing power of the consumers, which in turn could curtail the discretionary spends by the customers leading to reduced business activity.

Outlook

The retail landscape across the globe, even before Covid-19 hit, was facing a slowdown as a result of weakened consumer sentiment and sluggish demand. This situation was then further amplified due

to the disruptions brought in by the proliferation of the Covid-19 pandemic. Across the industry, although manufacturing operations and supply chain activities have partially resumed from June 2020 onwards, broader-level of demand and sales across markets are yet to see a notable revival.

In such times of extreme ambiguity, PDS has made itself agile as an organization to efficiently adapt to any change in the operating environment and consumption patterns. The management has deployed a set of focused agendas to make the Company's operations and value-chain more resilient in these times. Our business partners and employees have also done a remarkable job in efficiently navigating through several operating constraints during this unprecedented period and have thus been able to ensure continuity in business operations with minimal disruption.

Across markets, PDS' client engagements continue to remain solid. The teams are ensuring that there is constant engagement with customers through frequent virtual interactions, thereby maintaining deliveries to existing customers and marking progress against new leads, even in an otherwise tough operating environment. While currently there is a slight uptick coming in from European markets, the Company will continue to monitor these developments closely through the course of fiscal year 2021. From an operating perspective as well, PDS has undertaken many proactive steps to rationalize costs, ensure steady cash flow generation and maintain sufficient liquidity in the system.

Looking ahead, the Company is hopeful that the demand scenario across markets will stabilize in the longer term. There are positive signs emanating as initial levels of activity are returning across US, UK and Europe economies. Once the macro-situation stabilizes, there is a significant opportunity for the Company to grow and we will be taking several steps in reinforcing our competitive advantages, while simultaneously adding substantial value to our resilient business model. The fundamentals of our business remain rock solid and as the operating environment improves, the Company remains optimistic of recording a steady and gradual recovery in operations in the times ahead.