

Differentiated business Model

We interacted with Reena Joseph, Head Corporate Finance, M&A & investor relations of PDS Ltd, to get a detailed overview of PDS’s differentiated business model, highlighting its scaleable opportunity. PDS business model stands out due to its entrepreneur-led structure, which combines the agility of independent ventures with the resources of a larger organization. This structure empowers entrepreneurs with autonomy in customer relationships and operations, incentivized by a 25% stake in their business, while PDS provides financial and operational support.

Rating

NOT RATED

Market data

Current price	Rs	424
Market Cap (Rs.Bn)	(Rs Bn)	60
Market Cap (US\$ Mn)	(US\$ Mn)	684
Face Value	Rs	2
52 Weeks High/Low	Rs	659 / 355
Average Daily Volume	('000)	114
BSE Code		538730
Bloomberg		PDSL.IN

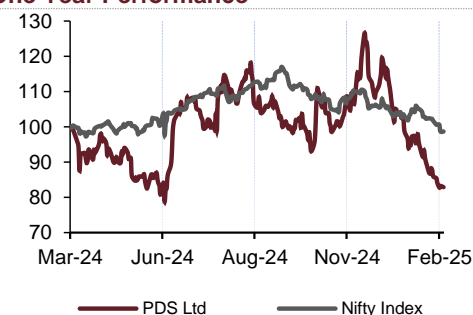
Source: Bloomberg

Financial Summary

Y/E (Rs.Mn)	FY19	FY20	FY21	FY22	FY23	FY24
Sales	64,859	66,480	62,129	88,282	1,05,770	1,03,727
Expenses	63,503	64,438	59,721	84,945	1,01,025	99,591
EBITDA	1,356	2,043	2,408	3,337	4,745	4,135
EBITDA Margin (%)	2%	3%	4%	4%	4%	4%
Other Income	161	129	374	857	515	405
Depreciation	263	522	677	699	802	934
Interest	563	744	405	394	891	1,282
Profit before tax	690	905	1,699	3,101	3,568	2,324
Tax	1	95	215	173	300	297
Net profit	689	811	1,484	2,928	3,268	2,027
EPS	3.4	3.5	6.5	19.1	20.2	10.9
PE (x)	140	134	73	25	23	43

Source: Company, Dalal & Broacha Research

One Year Performance



Source: Bloomberg

% Shareholding	Dec-24	Sep-24
Promoters	61.52	61.69
Public	38.32	38.14
Total	100	100

Source: Bloomberg

I. Business Model & Growth Strategy:

- **Core Business:** PDS operates with an asset-light model, focusing on design, sourcing, and supply chain management for retailers and brands. The business aims for pre-sold merchandise, often on an FOB (Free on Board) basis.
- **Entrepreneur-led Structure:** PDS works with various entrepreneurs who bring in their expertise and customer relationships. These entrepreneurs operate with significant autonomy, focusing on customer relations, order delivery, and factory selection. PDS provides financial backing and a streamlined corporate structure.
- **Hands-on Approach:** PDS emphasizes the importance of a "ground hand to hand" approach, where personal relationships and understanding customer needs are essential for success.
- **Emphasis on De-centralization:** Unlike traditional corporate structures, PDS actively avoids replacing entrepreneurial teams with corporate teams because that can damage crucial relationships. PDS focuses on empowering individual leaders while maintaining centralized support functions.

Key Risks:

- Geographical concentration
- Retailer Financial Distress
- Dependence on Key Personnel/Entrepreneurs
- Tax and Regulatory Changes

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- **Guidance/Growth Plan:** PDS is aiming for a "333 Plan," which means reaching close to \$3 bn GMV, with around \$2.1 bn recognized in their books with a 3% PAT margin within 3 years.
- **Partnership Structure:** PDS typically holds a majority stake (ideally 75%) in these ventures, with the entrepreneur holding the remaining equity (25%). PDS ensures it holds at least 51% to maintain financial control.
- **Geographic Focus:** While having a global presence, a significant portion of revenue comes from the UK and Europe.
- **Scaling Strategy:** The ability to add entrepreneurs allows for easy scaling, especially in the textile business where industry growth is limited.
- **Exit Strategy:** PDS has levers in place for underperforming or stagnant businesses, including merging, buying out at a nominal value, or offering a fairer value based on net asset value.

II. Key Business Segments:

- **Four Revenue Categories:** PDS generates revenue through design-led sourcing, sourcing as a service, brand management and manufacturing. The core activity remains the same, but the packaging is different for different customers.
- **Design-Led Sourcing** - Involves designing and manufacturing private labels for retailers. This segment focuses on the private labels of retailers, such as those found in department stores. Gross Margins for design-led sourcing are around 15-16%.
- **Sourcing as a Service** - PDS manages the sourcing operations for retailers, often taking over existing teams and offices. In this model, a dedicated team works exclusively for a client, managing factories and ensuring compliance. This operates on a cost-plus model.
- **Brand Management** - This segment focuses on licensing third-party brands and selling merchandise to retailers. PDS presents curated collections to retailers, who then place orders. An example is Ted Baker, where PDS handles the wholesale business. Gross Margins can be higher, such as 35%+ for Ted Baker.
- **Manufacturing** - Only a small percentage of the top line comes from owned manufacturing. PDS is generally not focused on expanding into manufacturing.
- **Commission Agency Model:** Very small part of the business where PDS earns 1-2% for finding factories.

III. Operational Aspects:

- **Costing Tool:** A costing tool has been implemented within SAP to ensure better cost control and data-driven decision-making.
- **Factory Onboarding:** While entrepreneurs identify factories, PDS handles the onboarding process to ensure compliance and alignment with customer standards.

- **Limited Manufacturing:** Only a small percentage of the top line comes from owned manufacturing. PDS is generally not focused on expanding into manufacturing.
- **Fast Fashion:** PDS is working with a fast-fashion company, adapting its model to suit the need for faster turnaround times.
- **Central Procurement:** PDS is trying to establish a central procurement team to negotiate better pricing on fabrics, yarns, and trims. They are working with BCG to optimize costs across three verticals.

IV. Organizational Structure & Decision Making:

- **Decentralized Operations:** Entrepreneurs have significant autonomy in running their businesses, focusing on customer relationships and operational efficiency.
- **Centralized Support:** Key functions like finance, HR, and IT are centralized to provide support and ensure compliance.
- **Reporting Structure:** CFOs in each entity report to the group-level CFO.
- **Business Enabling Team (BET):** A central team that focuses on enabling the businesses, including risk management and treasury functions.
- **ESOPs:** ESOPs are provided to both corporate and business-level employees.

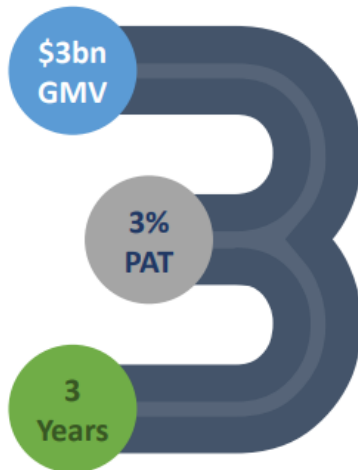
V. Financial Structure:

- **Complex Structure:** PDS uses a complex structure with entities in Mauritius, Hong Kong, the UK, and other locations.
- **Hong Kong Entity:** The Hong Kong entity is used for financing and invoicing. It allows for tax-free income if the team is based there.
- **Profit Sharing:** Profit sharing occurs at the entity level, with entrepreneurs receiving their share after certain retentions for taxation and contingencies.
- **Taxation:** The average tax rate at the company level is around 10-12%.

333 Goal

Working towards an Intermediate Goal: 333

Enroute to 555



WHAT WE NEED TO ACHIEVE:

1. Achieve a GMV growth rate of 18% CAGR to reach \$3 billion
2. Translate this into a projected topline of approximately \$2.1 billion
3. Achieved through a combination of organic & careful choice of inorganic opportunities
4. Attain a PAT margin of 3%

KEY STEPS FROM TODAY TO 333:

1. **Strengthen Partnerships:** Deepen relationships with existing customers and build new ones across geographies to capitalize on growth opportunities
2. **Expand Offerings:** Diversify into high-value categories and enhance service offerings to meet evolving customer needs
3. **Drive Operating Leverage:** Optimize operational efficiency to improve profitability as the business scales
4. **Transform Costs:** Implement strategic cost initiatives to drive margin improvements and support long-term sustainability

Source: Company, Dalal & Broacha Research

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