

**CMP: INR 1715**

**Outlook: Positive**

**Stock Info**

BSE	538730
NSE	PDSMFL
Bloomberg	PMFLIN
Reuters	PDSM.NS
Sector	Textiles
Face Value (INR)	10
Equity Capital (INR cr)	26
Mkt Cap (INR cr)	4,477
52w H/L (INR)	1,745 / 393
Avg Yearly Volume (in 000')	13

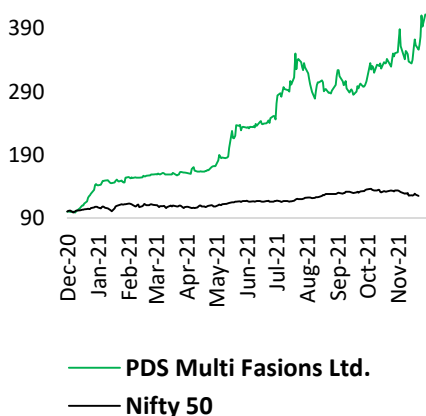
**Shareholding Pattern %**

(As on September, 2021)

Promoters & Promoter Group	66.65
FII	3.69
DII	0.55
Public	29.11

Stock Performance (%)	1m	3m	12m
PDSMFL	18.1	31.4	309
Nifty 50	-4.8	-0.8	27.1

**ICIL Vs Nifty**



PDS Multinational is a global company based and listed in India, but its presence in India is limited. 80 to 85% of its top line comes from the UK, US, Middle East, and the rest of Asia. They have a unique business model wherein they work with business heads that are situated near customers. The business heads do the innovation and work with PDS's network of vendors. PDS manages all functions for the business heads that join them; audit, finance, etc., centrally. The responsibility of customers and partners is just P/L management. PDS basically takes on the backend functions of the companies so that they can manage their front-end functions, and focus on customer satisfaction more. Basically, they take over the operations of the business heads and provide them access to an extensive vendor network. New business heads bring on their contacts into the vendor network when they are on boarded with PDS. They come with their entire team and vendor network contacts, and they usually agree to 3-year business plans. PDS already has the WC lines, HR, and CFOs. The business heads can start a business within 3-4 months of joining PDS. They also have the freedom to work with other groups companies and vendors within the PDS network. PDS currently has a Large portfolio in fashion and apparel. Consumer products and home products are also starting to expand.

**Investment Rationale:**

**Asset Light and extensive vendor network:** They are not very asset-heavy, as they are a platform. PDS themselves do not own factories and have only 2 of their own (they do not plan on setting up anymore). 95% of their business is from a vendor network from vendors all over the world.

**Clientele:** They work with big brands like supermarket and hypermarket brands like Walmart, Tesco and Primark also some bestseller brands like Jack Wills and Calvin Klein. A large chunk of their business comes from mass retail brands.

**Value proposition:** As a part of their Value proposition, they have an in-house team of designers too that work on the products they buy from vendors. They also offer sustainability and compliance that businesses would not have access to without the PDS name. They connect customers to vendor base- onboarding the vendors and keeping compliance and audit with them. It also helps them stay sustainable. Sustainability is their priority, pricing is not.

**Value Addition to Companies:** Though PDS is a buying house in a crude sense, they do not consider themselves a buying house because they innovate the product a lot and add value to it, which is far bigger than what a traditional buying house would do. They are not a business that can be centrally driven as the nature of the business is very relationship-based. The people who join their teams come with their own lines (legal, financial, etc.) and their own relationships. These businesses tend to plateau on their own after a certain point. This is when they decide to join the PDS platform- when their businesses grow so much that they plateau. Because their businesses are so huge, when they associate with the group, their buying power increases as they join the combined network of all customers and vendors. They can negotiate with customers and vendors better, and meet compliance needs better. There is a profit share mechanism that the business heads get a cut of. PDS supports them with this. It is a win-win situation for both PDS and business heads.

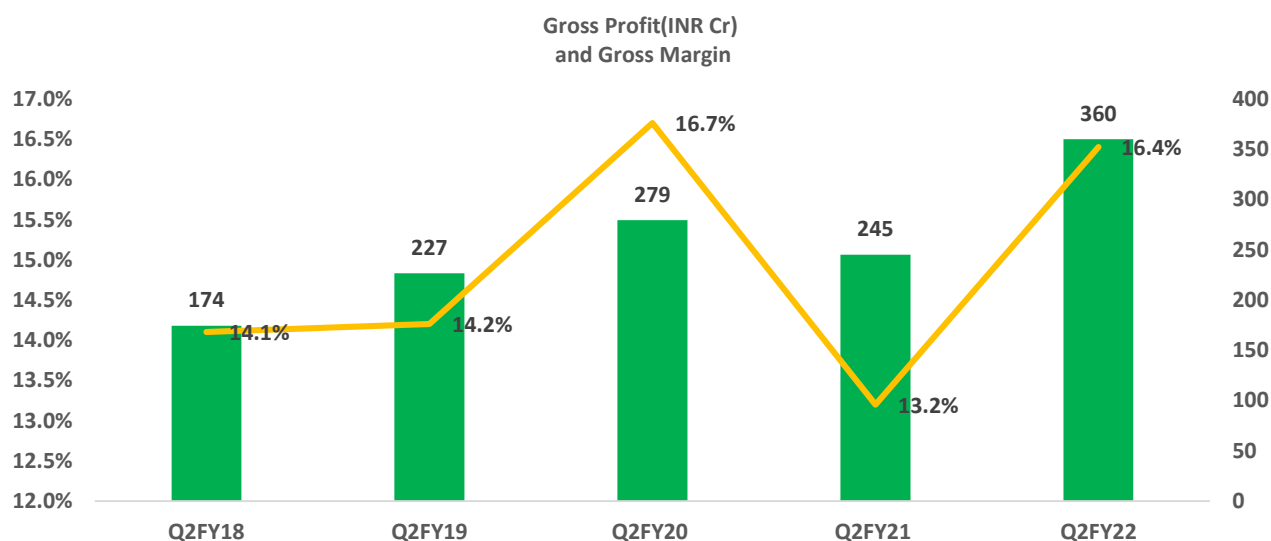
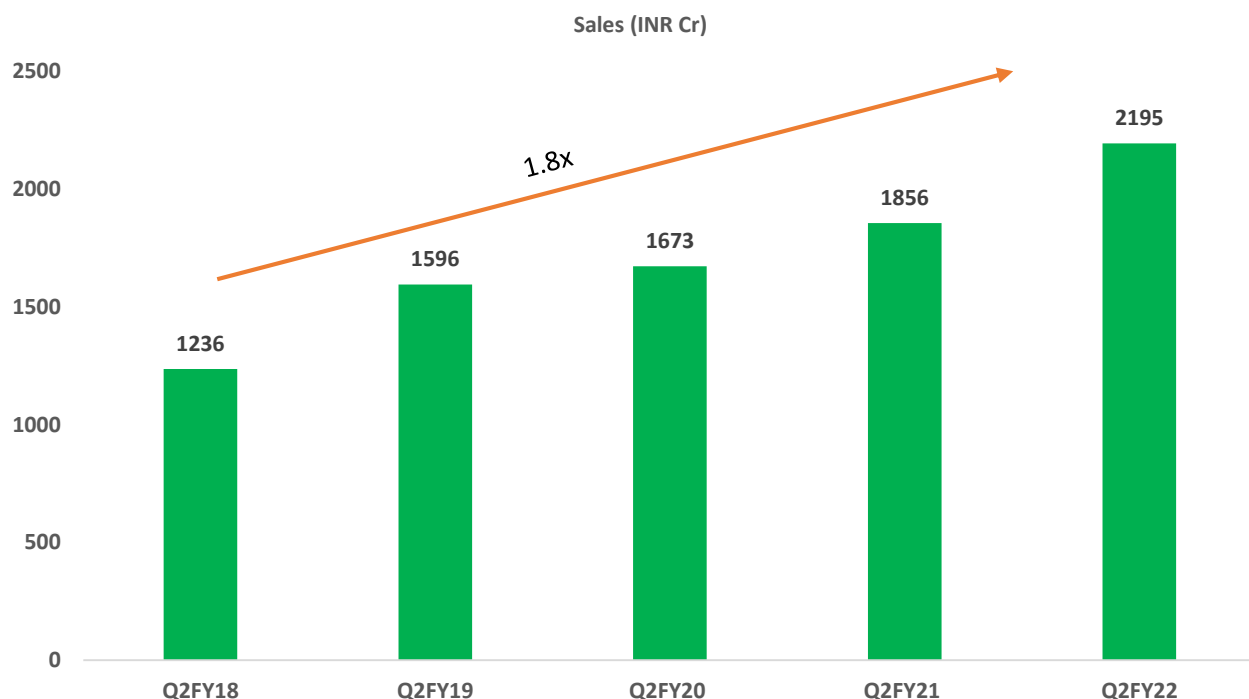
**Outlook and Valuation:** At the CMP of INR 1,715 the stock is trading at a P/E multiple of 22.45x its TTM EPS of INR 76.38. We have a positive view of the company, owing to its efficient risk management system and strict standards for its partners and customers. The company is also aggressively undertaking to make its business more sustainable through successful strategic partnerships. Their asset-light model also allows for them to maintain high levels of return on equity and capital.

**Management Meet Highlights:**

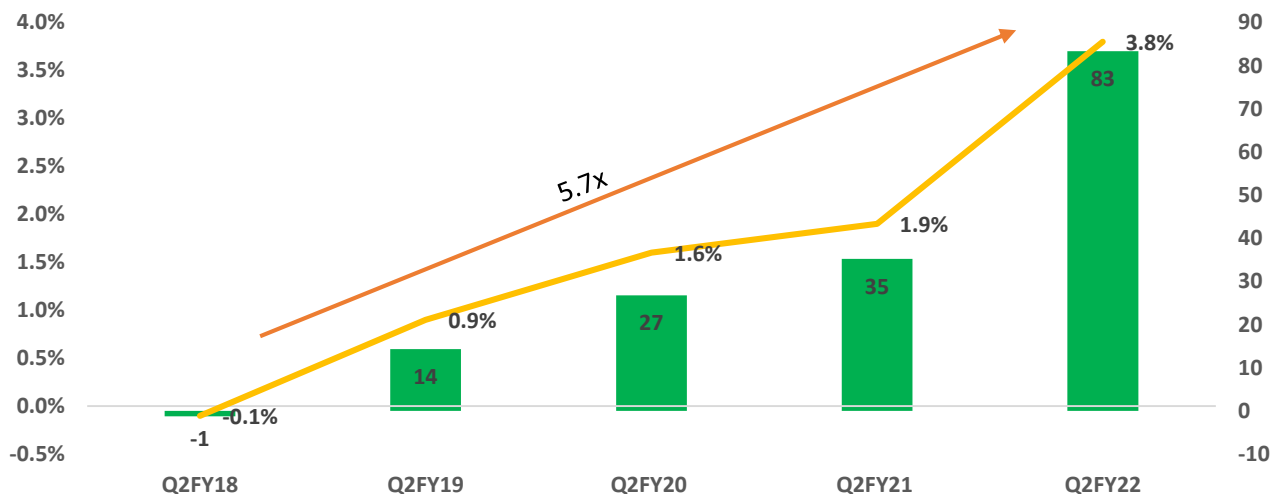
- **Business Changes Post COVID and Risk Management System:** Though most asset-heavy businesses went south (Realization went down because orders were canceled or pushed back), PDS did not face a relatively large negative impact on its operations. This is due to their strict requirements for Customer credit, compliance capacity, etc. none of their customers contribute singularly to more than 15% of revenue, and they have a very strong risk management network which enabled them to bring down operating costs very fast.
- **Strengthened Vendor Network:** Norlanka (Sri Lanka based subsidiary), entered into a strategic partnership with Rich Light Exports Pvt. Ltd and Rainbow Fashions Pvt. Ltd. They also expanded their vendor network into Vietnam and Turkey to tap into their skilled workforce.
- **Turnaround of manufacturing operations:** Their manufacturing operations are currently loss-making. The manufacturing-based out of Bangladesh. Majority of the PDS group depends on using the group of vendor network to fulfil capacities, rather than the manufacturing units. However, EBIT losses have already fallen in this segment. The company expects manufacturing to be breakeven by this year (FY22) and be profitable by next year (FY23).
- **UK and US markets:** They are currently working to crack the US market. The European and American markets are different- The US market is largely transaction-based and the UK market is relationship-based. On a run-rate basis, they have exceeded targets in the US and UK market, and have already exceeded pre-COVID levels. Especially in these markets, they follow an Inventory light mode with careful WC management. Low debt is also helping maintain margins and profitability in these markets.
- **Growth Guidance:** On a conservative basis, they expect 15% growth in the next few years (CAGR). Margins can grow by 5 to 5.5%.
- **Effect of the China+1 policy, the US ban on Chinese cotton by the US, and the depreciation of the currency in Turkey:** So far it's been a positive for the company with the China +1 strategy. The ban on Chinese cotton by the US will be positive but will not show overnight. If the shift is massive, PDS stands to benefit, if not they expect to operate as is. When it comes to currency depreciation in Turkey, since all the business is largely US-based, they buy and sell in USD. Only the operating costs like salaries and are impacted, which is not very significant.
- **PDS Venturetech:** They undertake to make small-ticket investments in early-stage companies. If it helps the platform benefit. They are currently focusing on reusing, and reselling products, and improving their value proposition on the sustainability front.
- **Revenue contribution:** Certain categories (it is difficult to pinpoint) like fashion-related products, home category, and accessories do better. Some of their products have better economies of scale- which gives them a cost-benefit. These are largely Consumer products and Lifestyle based products.
- **Brands:** Lily and Sid is their UK brand, which is pre-order based and is sold to retailers. They also license brands and sell them to retailers. Their direct consumer interaction is low due to its asset-light approach. In India, they sell Lily and Sid through tie-ups with firstcry and Ajio. This is also pre-sold, and they do not hold inventory for the same. Recently they also launched another Kidswear brand called Turtledove in the UK, which is also available in India through firstcry and Ajio.
- **Expectations for the manufacturing business:** It is currently worth 5% of the top line, at 100% capacity utilization. If used optimally, it can become a 100mn dollar business with an EBITDA of 6-8%, and contribute to 8% of PAT. No more lines or factories to be added here.
- **CAPEX for next 2-3 years:** They have planned only operational CAPEX- setting up offices, and so on. This will cost anywhere from USD 5 to 8mn. Nothing significant for the capital outlay- only the bare minimum.

**Financial Highlights :**

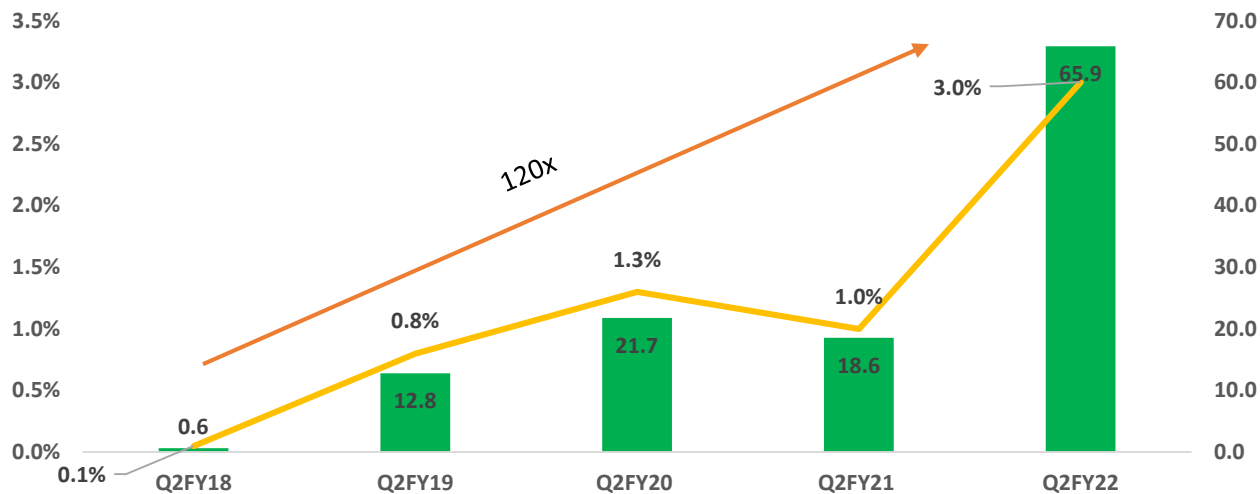
- In Q2FY22, PDS Multinational Fashions Ltd. achieved a Revenue of INR 2,195cr (+18% YoY).
- They attained Gross Margins of 16.4% (+321bps YoY) in Q2FY22.
- Their bottom-line performance bounced back well, with a Q2FY22 EBIT of INR 78Cr (2.7x YoY).
- The company’s profit position also improved, with a PAT of INR 67Cr (3.7x YoY) in Q2FY22.
- An asset light model allowed them to keep their profitability ratios high. In Q2FY22 the ROCE was 30% (+800bps YoY), and the ROE was 34% (+2,300bps YoY).



EBITDA (INR Cr) and EBITDA Margin

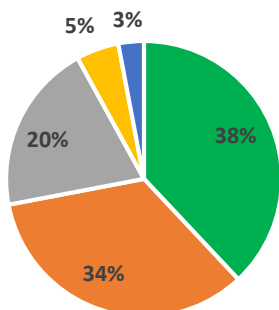


PAT (INR Cr) and PAT Margin

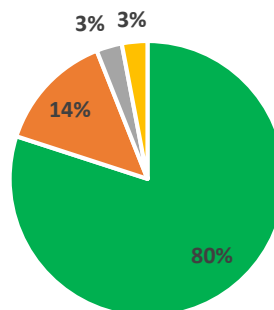


Revenue Break Up for H1FY22:

Category Wise



Geography Wise



- Ladies Wear
- Mens Wear
- Childrens Wear
- UK & Europe
- North America
- Asia & Middle East
- Others
- Essentials
- Others

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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