PDS Ltd. | BUY

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PDS investor roadshow takeaways

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We recently hosted the management of PDS Ltd for an investor roadshow, represented by Mr. Pallak Seth (Promoter), Mr. Sanjay Jain (Group CEO) and Mr. Rahul Ahuja (Group CFO). The company provided insights on the growth strategy to achieve its 3-3-3 vision (USD3bn GMV over 3 years and delivering a 3% PAT). Company plans to achieve this via a) maintaining a sustainable growth rate of mid-teens to reach a GMV of USD3bn, translating into a projected top-line of ~USD2.1bn b) moving from investment stage to extraction stage – past investments in employee costs to translate into lower fixed costs, in turn aiding margins (3% PAT by FY27) and c) diversify into high-value categories and build new customers across geographies to capitalize on the growth opportunities. PDS expects 4Q demand to be subdued but expects significant growth in FY26 and FY27. Company's recent acquisition of 55% stake in Knit Gallery India Pvt Ltd. (KGIPL) for an equity consideration of INR410mn at ~6x EV/EBITDA and ~4x P/E is expected to consummate by May'25, helping PDS diversify its sourcing footprint and enhancing company's manufacturing capabilities in India. The company remains committed to its long-term 5-5-5 vision targeting USD5bn GMV over 5 years and delivering a 5% PAT. Going forward structural drivers in terms of a) increased out-sourcing by global retailers b) turnaround in manufacturing operations c) newer revenue streams - SAAS/Brand management d) increasing penetration in US markets is likely to act as strong base for top line growth. Maintain BUY.

- **Strategic investments to drive growth; outlook optimistic:** PDS remains committed towards achieving its 3-3-3 vision, an intermediate step towards the 5-5-5 vision, targeting USD5bn GMV over 5 years and delivering a 5% PAT. Company plans to achieve this via a) maintaining a sustainable growth rate of mid-teens to reach a GMV of USD3bn, translated into a projected topline of ~USD2.1bn b) moving from investment stage to extraction stage – investment in employee costs to aid margins (3% PAT by FY27) and c) diversifying into high-value categories. Company expects 4Q demand to be subdued but expects significant growth in FY26 and FY27.

- **Enhancing manufacturing footprint through acquisitions:** PDS recently acquired 55% stake in Knit Gallery India Pvt Ltd. (KGIPL) for an equity consideration of INR410mn at ~6x EV/EBITDA and ~4x P/E. Part of Knit Gallery business will be transferred from its existing firm to KGIPL for a Business Transfer Consideration of INR340mn, which will be payable from KGIPL cash flows over 3 years, subject to achievement of pre-defined targets. The combined business clocked around INR2.9bn in FY24 with EBITDA of INR360mn. The transaction is expected to consummate by May'25, helping PDS diversify its sourcing footprint and enhancing company's manufacturing capabilities in India.

Recommendation and Price Target	
Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	790
Upside/(Downside)	77.7%
Previous Price Target	790
Change	0.1%

Key Data – PDSL IN	
Current Market Price	INR445
Market cap (bn)	INR62.8/US$0.7
Free Float	38%
Shares in issue (mn)	141.0
Diluted share (mn)	141.0
3-mon avg daily val (mn)	INR84.2/US$1.0
52-week range	659/355
Sensex/Nifty	74,340/22,545
INR/US$	87.1

%	1M	6M	12M
Absolute	-11.2	-16.3	-12.5
Relative*	-6.8	-8.6	-12.8

* To the BSE Sensex

Financial Summary					(INR mn)
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E
Net Sales	1,05,770	1,03,727	1,28,662	1,47,989	1,69,343
Sales Growth (%)	19.8	-1.9	24.0	15.0	14.4
EBITDA	4,742	4,131	4,711	5,748	6,823
EBITDA Margin (%)	4.5	4.0	3.7	3.9	4.0
Adjusted Net Profit	2,650	1,442	1,661	2,797	3,471
Diluted EPS (INR)	20.3	10.9	12.6	21.2	26.3
Diluted EPS Growth (%)	6.2	-46.0	15.2	68.4	24.1
ROIC (%)	34.1	20.5	18.9	22.0	22.9
ROE (%)	25.1	12.4	12.9	18.6	19.7
P/E (x)	22.0	40.7	35.3	21.0	16.9
P/B (x)	5.5	5.0	4.5	3.9	3.3
EV/EBITDA (x)	12.5	15.3	13.3	11.0	9.4
Dividend Yield (%)	1.1	1.1	0.7	1.2	1.5

Source: Company data, JM Financial. Note: Valuations as of 03/Jun/2025

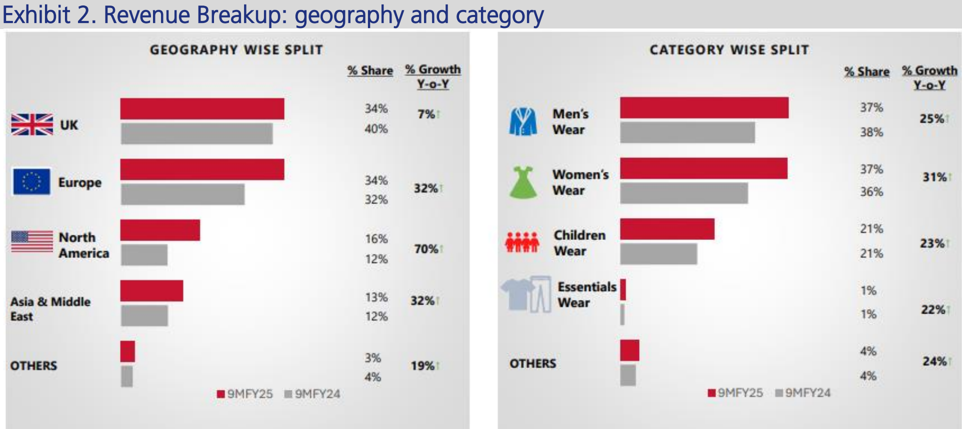
- **Brighter story ahead:** Company's medium term outlook (FY25-FY27E) already bakes in demand fluctuations arising out of global economic slowdown. Overall structural positives in terms of increased outsourcing from global retailers (owing to cost savings and reduced efforts to deal with local market complexities), entry into newer markets (i.e. US), improved capacity utilisation at manufacturing segment, increasing contribution from SAAS is likely to act as triggers for growth implying a revenue CAGR of ~18% over FY24-27E.

Exhibit 1. Target price

	FY27E
EPS (INR)	26.4
P/E multiple	30
Fair value (INR/share)	790

Source: JM Financial

Exhibit 2. Revenue Breakup: geography and category



Source: Bloomberg, JM Financial

Exhibit 3. Growth trajectory across customers

Source: Bloomberg, JM Financial

Exhibit 4. India emerging as key sourcing destination

Source: Bloomberg, JM Financial

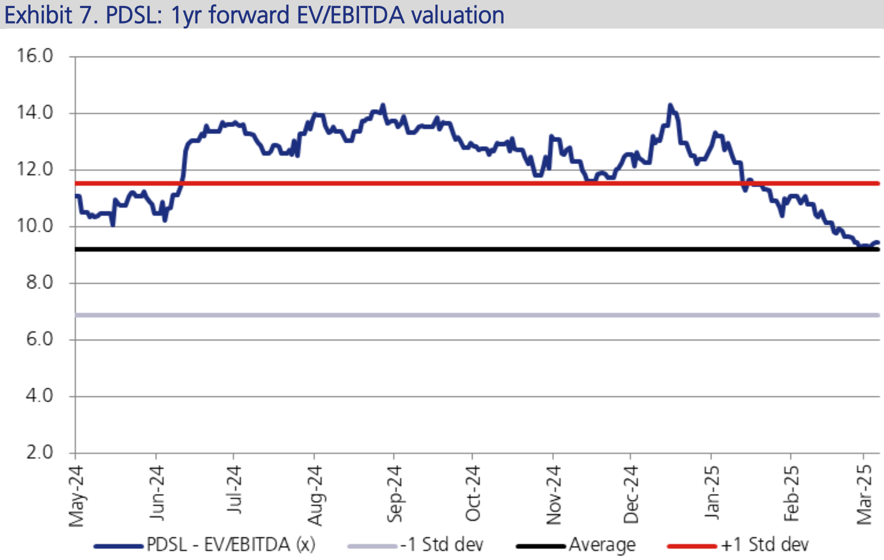
Exhibit 5. New sourcing regions coming up

Source: Bloomberg, JM Financial

Exhibit 6. PDSL: 1yr forward P/E valuation

Source: Bloomberg, JM Financial

Exhibit 7. PDSL: 1yr forward EV/EBITDA valuation



Source: Bloomberg, JM Financial

Financial Tables (Consolidated)

Income Statement (INR mn)

Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E
Net Sales	1,05,770	1,03,727	1,28,662	1,47,989	1,69,343
Sales Growth	19.8%	-1.9%	24.0%	15.0%	14.4%
Other Operating Income	0	0	0	0	0
Total Revenue	**1,05,770**	**1,03,727**	**1,28,662**	**1,47,989**	**1,69,343**
Cost of Goods Sold/Op. Exp	88,055	82,618	1,05,494	1,21,251	1,38,660
Personnel Cost	7,613	9,795	9,790	11,010	12,484
Other Expenses	5,361	7,183	8,667	9,980	11,376
EBITDA	**4,742**	**4,131**	**4,711**	**5,748**	**6,823**
EBITDA Margin	4.5%	4.0%	3.7%	3.9%	4.0%
EBITDA Growth	42.2%	-12.9%	14.0%	22.0%	18.7%
Depn. & Amort.	802	934	1,036	1,057	1,134
EBIT	3,940	3,197	3,676	4,691	5,689
Other Income	519	409	319	351	330
Finance Cost	891	1,282	1,317	823	783
PBT before Excep. & Forex	3,568	2,324	2,677	4,219	5,236
Excep. & Forex Inc./Loss(-)	0	0	0	0	0
PBT	3,568	2,324	2,677	4,219	5,236
Taxes	300	297	402	633	785
Extraordinary Inc./Loss(-)	0	0	0	0	0
Assoc. Profit/Min. Int.(-)	-618	-585	-614	-789	-979
Reported Net Profit	2,650	1,442	1,661	2,797	3,471
Adjusted Net Profit	**2,650**	**1,442**	**1,661**	**2,797**	**3,471**
Net Margin	2.5%	1.4%	1.3%	1.9%	2.0%
Diluted Share Cap. (mn)	130.8	131.8	131.8	131.8	131.8
Diluted EPS (INR)	**20.3**	**10.9**	**12.6**	**21.2**	**26.3**
Diluted EPS Growth	6.2%	-46.0%	15.2%	68.4%	24.1%
Total Dividend + Tax	667	672	418	703	873
Dividend Per Share (INR)	5.1	5.1	3.2	5.3	6.6

Source: Company, JM Financial

Balance Sheet (INR mn)

Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E
Shareholders' Fund	10,537	11,665	12,909	15,002	17,601
Share Capital	262	264	264	264	264
Reserves & Surplus	10,275	11,402	12,645	14,739	17,337
Preference Share Capital	0	0	0	0	0
Minority Interest	589	792	1,406	2,195	3,174
Total Loans	7,190	10,539	10,539	10,039	9,539
Def. Tax Liab. / Assets (-)	-84	-108	-108	-108	-108
Total - Equity & Liab.	**18,233**	**22,888**	**24,746**	**27,129**	**30,206**
Net Fixed Assets	4,913	6,189	5,953	5,746	5,487
Gross Fixed Assets	8,357	9,549	11,410	12,255	13,130
Intangible Assets	0	0	0	0	0
Less: Depn. & Amort.	3,520	4,506	5,542	6,599	7,733
Capital WIP	77	1,146	85	90	90
Investments	4,184	4,571	4,971	5,171	5,371
Current Assets	21,910	29,752	30,151	34,606	40,024
Inventories	2,557	3,286	5,640	6,487	7,423
Sundry Debtors	9,784	16,771	13,042	16,218	19,486
Cash & Bank Balances	7,291	6,841	7,944	7,846	7,547
Loans & Advances	2,277	2,854	3,525	4,054	5,567
Other Current Assets	0	0	0	0	0
Current Liab. & Prov.	12,774	17,623	16,328	18,393	20,675
Current Liabilities	11,249	15,042	13,747	15,812	18,094
Provisions & Others	1,526	2,581	2,581	2,581	2,581
Net Current Assets	9,136	12,129	13,823	16,212	19,349
Total – Assets	**18,233**	**22,888**	**24,746**	**27,129**	**30,206**

Source: Company, JM Financial

Cash Flow Statement (INR mn)

Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E
Profit before Tax	3,568	1,739	2,063	3,430	4,257
Depn. & Amort.	802	934	1,036	1,057	1,134
Net Interest Exp. / Inc. (-)	0	0	0	0	0
Inc (-) / Dec in WCap.	485	-2,208	-606	-2,487	-3,435
Others	0	0	0	0	0
Taxes Paid	-300	-297	-402	-633	-785
Operating Cash Flow	**4,555**	**169**	**2,091**	**1,367**	**1,170**
Capex	-593	-1,665	-800	-850	-875
Free Cash Flow	3,962	-1,497	1,291	517	295
Inc (-) / Dec in Investments	-990	-387	-400	-200	-200
Others	-1,449	-1,246	630	789	979
Investing Cash Flow	**-3,031**	**-3,298**	**-570**	**-261**	**-96**
Inc / Dec (-) in Capital	1	2	0	0	0
Dividend + Tax thereon	-667	-672	-418	-703	-873
Inc / Dec (-) in Loans	-215	3,349	0	-500	-500
Others	0	0	0	0	0
Financing Cash Flow	**-881**	**2,679**	**-418**	**-1,203**	**-1,373**
Inc / Dec (-) in Cash	**643**	**-450**	**1,103**	**-98**	**-299**
Opening Cash Balance	6,648	7,291	6,841	7,944	7,846
Closing Cash Balance	7,291	6,841	7,944	7,846	7,547

Source: Company, JM Financial

Dupont Analysis

Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E
Net Margin	2.5%	1.4%	1.3%	1.9%	2.0%
Asset Turnover (x)	6.1	5.0	5.4	5.7	5.9
Leverage Factor (x)	1.8	1.9	1.9	1.9	1.8
RoE	27.5%	13.0%	13.5%	20.0%	21.3%

Key Ratios

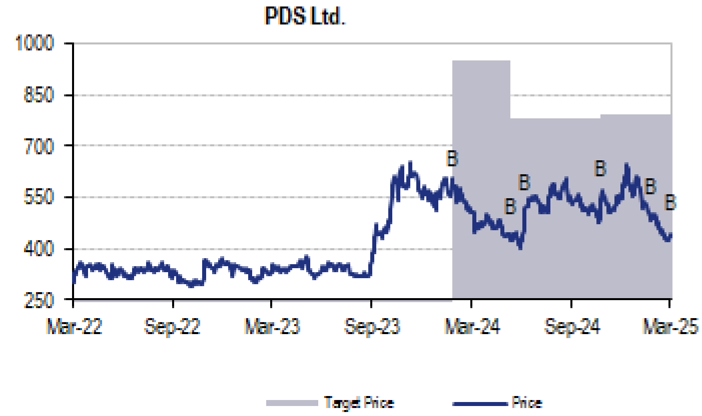
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E
BV/Share (INR)	80.6	88.5	98.0	113.9	133.6
ROIC	34.1%	20.5%	18.9%	22.0%	22.9%
ROE	25.1%	12.4%	12.9%	18.6%	19.7%
Net Debt/Equity (x)	0.0	0.3	0.2	0.1	0.1
P/E (x)	22.0	40.7	35.3	21.0	16.9
P/B (x)	5.5	5.0	4.5	3.9	3.3
EV/EBITDA (x)	12.5	15.3	13.3	11.0	9.4
EV/Sales (x)	0.6	0.6	0.5	0.4	0.4
Debtor days	34	59	37	40	42
Inventory days	9	12	16	16	16
Creditor days	41	55	40	41	41

Source: Company, JM Financial

History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
30-Jan-24	Buy	950	
16-May-24	Buy	780	-17.9
12-Jun-24	Buy	780	0.0
30-Oct-24	Buy	790	1.2
29-Jan-25	Buy	790	0.1
6-Mar-25	Buy	790	0.0

Recommendation History



APPENDIX I

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Rating	Meaning
Buy	Total expected returns of more than 10% for stocks with market capitalisation in excess of INR 200 billion and REITs* and more than 15% for all other stocks, over the next twelve months. Total expected return includes dividend yields.
Hold	Price expected to move in the range of 10% downside to 10% upside from the current market price for stocks with market capitalisation in excess of INR 200 billion and REITs* and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
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