

# Setting a precedent



*Deepak Seth: A visionary behind the PDS' unique model*

that now work in synergy towards the Group's goals. They all operate independently, but follow the Group's newly articulated core values. Additionally, PDS has four joint ventures.

In the last 5 years, the listed company's revenue has grown 1.8 times to ₹8,828 crore and its profit after tax has increased 15 times to ₹293 crore. Over the 9 months ended December 2022, PDS recorded a 29 per cent increase in revenue at ₹7,835 crore and a 21 per cent increase in PAT to ₹250 crore.

The uniqueness of PDS's business derives from the fact that the company is looking to more than double its revenue in the next 4-5 years, has built a design and innovation-led, plug-and-play platform that not only performs in an asset-light manner – infusing scalability and robustness into the business – but also promotes a large entrepreneurial ecosystem alongside its entire value chain. PDS offers a compelling proposition for the best talents from around the world through its global consumer-driven manufacturing and sourcing platform. In fact, today, PDS offers a trend-setting platform for entrepreneurs who want to set up and run their businesses on its platform.

Joining PDS as collaborators, these individuals, aspiring to start their entrepreneurial journey, become an integral part of its unique business and leverage the PDS brand name and its other capabilities and resources towards meeting the company's ultimate goals of providing innovative

fashion solutions to its global customers and partners in the most ethical and trusted way. Following this collaborative model, the company has built the largest apparel platform which daily ships one million pieces of garments. PDS boasts a network of 550+ compliant partner/vendor manufacturing facilities and over 150 designers in customer locations. Besides sourcing from its partner factories, the company has recently also set up three facilities: two in Bangladesh and one

## PDS has been transformed into one of the most innovative and efficient fashion infrastructure companies

**P**DS Ltd, formerly known as PDS Multinational Fashion Ltd, is a transformed entity. The Mumbai-headquartered company has evolved from being a simple garment outsourcing business to a global fashion infrastructure enterprise that offers a range of services such as product development, sourcing, manufacturing and supply chain management. These services cater to leading global apparel brands and retailers, including Ralph Lauren, Hanes Brands, Kohl's, Calvin Klein, Mango, Walmart, Tesco, Target, Carrefour, and many others. The company has over 85 subsidiaries (across 40 different verticals)

in Sri Lanka, since many of its large global customers prefer to work with companies that also own factories.

Backed by over 3,300 employees and 5,800+ associates as well as factory staff, PDS today has offices in around 50 locations in over 22 countries, catering to over 200 retailers and apparel brands. Importantly, on an average, each of its top 10 customers contributes less than 7 per cent to the topline, thus strengthening the resilience of the business. The fast-evolving company has also tried to expand its geography. In the last couple of years, instead of depending predominantly on the UK/EU market (which contributes 72 per cent to its revenue) the company has diversified to the US market which currently contributes around 15 per cent to the topline. PDS is also exploring opportunities in markets like Australia and New Zealand.

**The PDS platform model**

“From a single entity to a federation of entrepreneurs to a collaboration platform, we have undergone significant transformation over the past 2 decades. We provide a flexible, globally-scaled platform for aspirational collaborators, which helps them achieve their true worth. We strive to be an organisation where integrity, transparency, customer satisfaction and courage guide us to become the most preferred business partner and employer,” says Pallak Seth, 46, vice chairman, PDS Ltd.

The PDS platform model has been so fascinating that Harvard Business School has included it in its case study: ‘PDS: Ring-Fencing the Ranch’ as part of its curriculum.

“My idea was to incubate these businesses,” Pallak recalls. “I thought PDS could act as a platform for supply chain companies. I could acquire talent in this way.” As he grew the group, rather than acquiring companies in the way competitors like Li & Fung did, he targeted successful individuals with extensive industry experience. They were often independently running sizeable P&Ls within a larger competitor firm. He brought them in to set up individual subsidiaries under the PDS umbrella, offering compensation and group support, including financing, information technology and other best practices.



Pallak: offering a trend-setting platform for entrepreneurs

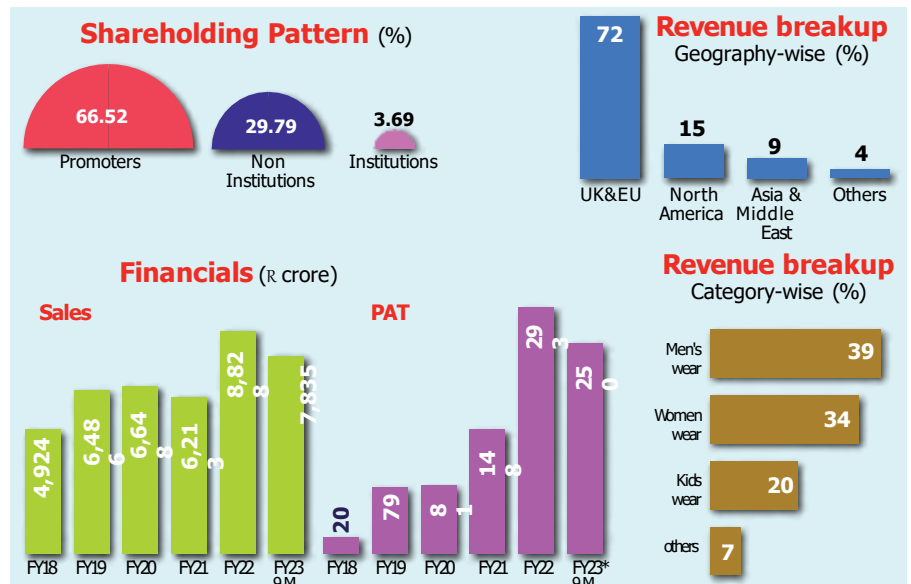
“I match their existing remuneration, and offer equity and/or profit sharing of 15-30 per cent, depending on the size or value of their network and experience. We fund their new effort. We expect their first year to be a loss. Their second year might also be a loss, but somewhat less. In their third year they see breakeven and a small profit. By their fourth year, we see profit that generally pays back the first three years’ investment. We spread the payback on the loss over 4 years. We have been successful in establishing an innovative business model without acquisition and long-term debt,”

explains Pallak.

Following this model, PDS has grown steadily over the last decade even as many of its global competitors have struggled from time to time to meet the rapidly-changing requirements of the global fast fashion supply chain. The company has adjusted quite well to emerging market trends, organically bringing on experienced entrepreneurs over time to build subsidiaries that open new sourcing markets, bring PDS new client segments, and introduce new product categories to existing and new retail clients. Each subsidiary has its own CEO and a network of relationships to customers, suppliers, and other business partners on the ground in its home country, says the case study.

In the last decade or so, experts say that a fast-fashion approach has dominated the fashion industry. Fast fashion attempts to produce current, on-trend pieces much more quickly than on the traditional seasonal timeline, and at lower prices. The fashion supply chain’s speed and responsiveness has to increase continuously to meet these demands.

There are many players in the fashion supply chain competing for dominance and offering brand services including sourcing, design, manufacturing, and distribution. PDS has peers such as New Times and William E Connor as well as the industry behemoth, China’s Li & Fung, with comparable market capitalisations. Supply



chain players have become intensely competitive.

“Starting out as a single entity, PDS has gradually progressed into a hub and spoke model with a strategy to onboard entrepreneurs and their teams based on product specialisation, geographical advantage and existing customer base. With our asset light business model, rather than acquiring companies, we partnered with them to ensure mutual growth. We then transitioned into a platform model where new partners were onboarded to the PDS Group in a plug and play format. This gave them the opportunity to work closely with the biggest brands in the fashion industry and learn industry-best practices. This, in turn, accelerated our expansion process and strengthened our operational capabilities. Today, we have evolved to operate on a unique collaborative model, with refined processes and a solution-based approach. We continue to meet customer requirements using an efficient team and inter-business unit collaborations to leverage our strengths and economies of scale,” states Sanjay Jain, 52, Group CEO, PDS Ltd.

### Surpassing milestones

“Having revamped and become future-ready, we strive to achieve inclusive growth with our efficient and asset-light business model, creating long-term value for all our stakeholders. Together with our partners



*Jain: creating a long-term value*

and clientele, we continue to surpass milestones and are charting the next phase of growth and profitability, with a highly focused and exhaustive strategic play,” adds Jain.

“PDS’s business model is truly unique. It requires a whole lot of courage on the part of promoters as they have to repose trust in these individual entrepreneurs. Moreover, it should be done in a transparent manner. Most of these entrepreneurs are attracted by the freedom they enjoy to create a business from scratch. The Seths have done

something that many in this industry cannot even think of doing. They have put up one of the most robust and fast-evolving fashion platforms in the business,” says Rahul Mehta, past president, Clothing Manufacturers of India and director of Mumbai-based Creative Group of Companies.

“Today, PDS is consolidating its position as a globally trusted, end-to-end player in the fashion value chain. This is enabled by the strong and winning culture we have been able to foster within the organisation. Our journey till today has been possible due to the support of our key stakeholders including customers, employees, vendors, business partners, bankers, creditors, investors, governments, and my fellow board members. As we take the next leap in our growth journey, we solicit continued cooperation from every stakeholder,” says Deepak Seth, 72, founder & chairman, PDS Ltd.

Having built this foundation, PDS is all set to explore the opportunities emerging in the highly dynamic marketplace with changing consumer preferences. The company has put up a strategic roadmap to achieve a \$2.5 billion topline in the next 4-5 years.

As part of this strategy, the company focusses on geographical and categorical expansion. It is deepening its presence in the US, which is one of the top five apparel markets globally. It is already witnessing significant rise in its North American sales, contributing to around 16 per cent of its topline, with a potential to cross 20 per cent in the near to midterm. To facilitate this, the company is strengthening its team in the US and is leveraging the group network for servicing customers. To service the US markets, it is also evaluating sourcing locations in Central and South America, aiming at achieving shorter design to market lead times. Apart from the US, the company is also closely looking at markets like Australia and New Zealand, and is entering Scandinavia as a prospective market.

The company is also expanding its sourcing footprint, which is at present predominantly concentrated in Bangladesh. As part of its new strategy, it is evaluating and increasing its presence in Vietnam, which is a good sourcing location, considering the availability

## Journey of promoters

**D**eepak Seth, the father of Pallak, is a visionary who is regarded as one of the pioneers of apparel manufacturing in India. An Economics graduate from St Stephens College, Delhi University with an MBA degree from Jamnalal Bajaj Institute of Management Studies, Mumbai, he entered the garment business way back in 1977 by supplying his first order of 6,000 garment pieces to the US. Later, as the business grew, he set up in 1989 a formal entity which later rechristened to House of Pearl Fashions Ltd in 2006 and Pearl Global Industries Ltd (PGIL) in 2012. Seth also founded the famous, Pearl Academy of Fashion in 1993.

In 2014, PDS which till then was the subsidiary of PGIL was carved out into a

separate company to be managed by his elder son Pallak who joined PGIL in 1998. PDS’ genesis goes back to 1999, when Pallak having graduated from Northwestern University, Chicago with BA in Economics and in International business and working with a consulting firm in Chicago, joined its father’s business and established two entities- Norwest Industries Ltd in Hong Kong and Poeticgem Ltd in the UK. It was Pallak who saw the value in entrepreneurial model. He multiplied it aggressively with full support from his father and today the model has emerged as a trend setting platform which is even respected by its competitors. On the other hand, his younger brother Pulkit, who joined the family business in 2002, went on to manage PGIL, another listed company (revenue FY2022: ₹2,714 crore).



of a skilled and established workforce, vertically integrated vendor options, centralised location, competitive costs and complicated wash and dry process capabilities, along with a full range of sustainability offerings in washed products.

With an aim to strengthen its near-shore sourcing capabilities, PDS is focussing on further strengthening its capabilities in Turkey and the surrounding regions including Jordan and Egypt. The company's targeted categories will include jersey, knitwear, swimwear, woven, denim, casual, lingerie, seam-free, home, active wear, etc

The company is now also evaluating India, which is turning out to be an attractive sourcing destination following opportunities presented by government initiatives such as the Production-linked Incentive (PLI) scheme, and the realignment of global supply chains led by the 'China plus 1' strategy of marquee brands and organisations. Together, these will offer shorter lead times and increased speed and agility, lower freight costs, better predictability, and a lower carbon footprint.

### Fortifying its footprint

"We believe India is going to play a pivotal role in the global apparel space. PDS has been gradually fortifying its footprint in India, and we have signed exclusive sourcing arrangements with some of the leading brands. And as a result, besides its partner factory network and our own factories in Bangladesh and Sri Lanka plus the partner factories in Bangladesh, Sri Lanka, China and Turkey, we believe PDS will be keen to pursue expanding its partner factory network further in India. And also, given the focus that we're having in the US market, we're also pursuing expanding such a network in Egypt as well. And in the meanwhile, in our existing factories, we have actually invested in terms of augmentation of the existing facilities and the favourable impact on profitability thereof," explains Jain.

PDS has already started building up its outsourcing and manufacturing capabilities in India. It recently acquired a 51 per cent stake in Delhi-based end-to-end design solutions company, DBS Lifestyle. DBS Lifestyle LLP, founded by Divya Suri and Bhawnish Suri, is a design-led company



*PDS is ramping up its outsourcing and manufacturing capabilities*

which caters to fashion and home categories. DBS owns over 20,000 original textile designs and patterns and adds nearly 2,500 artworks and samples to its library every month.

On the category expansion front, PDS is deepening its relationship with existing customers by expanding into new categories, offering them variety, while increasing the scale of its options. Further, it is entering other categories such as home fashion and accessories, across operating locations. The company is expanding its brands and licensing portfolio to drive margin accretion. Further, it is collaborating with retailers to create in-house brands. To enable expansion of consolidated margins, it is increasing its efficiency in manufacturing, and is continuously monitoring and optimising its operating costs.

In recent years, in order to meet the changing demand of its customers, the company has also set up its own garment manufacturing facilities. Currently, it has two manufacturing facilities in Bangladesh (Green Smart Shirt Ltd, Gazipur, Bangladesh, employs 3,150 people, 90 per cent of whom are women) and Progress Apparels (Bangladesh) Ltd (Narayanganj, Dhaka, employs 3,600 people; 90 per cent of whom are women) and one in Sri Lanka (Norlanka, Malwana, Sri Lanka). Across these three state-of-the-art manufacturing facilities, there are 130 distinct production lines specialising in formal tailoring, blazers, school wear, shirts, softs and children's

wear. With a total capacity of 5,000 machines, these LEED Platinum & Gold certified factories, produce 35 million pieces of garments annually.

As part of ramping up its own manufacturing capability, PDS recently commissioned a state-of-the-art wash plant at Progress Apparels Bangladesh. The wash plant (capacity: six million garments per annum) has been installed in partnership and funding from the Netherlands-based Good Fashion Fund which is a one-of-its-kind impact investment fund initiated by Laudes Foundation, aimed to drive systemic change in the textile & apparel industry, by financing the implementation of state-of-the-art and disruptive technologies and innovations delivering good fashion practices.

"This investment in PDS's manufacturing facility is a testimony of its pledge in making the apparel manufacturing value chain sustainable and environmentally ethical for all stakeholders. Progress Apparels will be one of the first companies in Bangladesh to receive funding from Good Fashion Fund. With this investment in the wash plant, we have not only equipped Progress Apparels to further amplify their capabilities in apparel manufacturing but also benefit from Good Fashion Fund's expertise in sustainable practices and implementation of best-in-class technologies," says the Group CEO, PDS.

In another major development, PDS has installed a Centralised Cutting Plant (CCP) at its subsidiary in Sri Lanka,

Norlanka. The plant is now fully operational with an integrated and digitalised system that covers everything from mill and fabric inspections to the cutting process. The CCP will serve manufacturing facilities in Sri Lanka and has the capacity to cut around 8 million metres of fabric, equating to 33 million pieces per year. Additionally, the cutting plant includes a centralised printing facility, and plans are underway to introduce an in-house embroidery facility as well.

Experts say the apparel industry has seen retailers move steadily closer to manufacturers to squeeze more value from the supply chain, including designing, sourcing and manufacturing. Some of the big retailers like Gap, Levi's and H&M prefer to work with companies that own factories. This has pushed PDS and other supply chain companies to develop additional capabilities, including design and development, and to build their own factories.

PDS's manufacturing business has recently been turned around. In FY2022, manufacturing contributed around ₹547 crore (6 per cent) to the overall revenue as compared to ₹285 crore in FY2021. There has been a focus on increasing efficiencies, driving bulk orders, and disciplined execution. The investment (PDS has invested around ₹540 crore) to enhance capabilities is expected to result in an enhancement of margins. In the next 4-5 years, PDS is looking to take its manufacturing share to around 8-10 per cent from the present 6 per cent.

### 'Sourcing as a Service' model

In another strategic decision, the company is further bolstering its sourcing business, which continues to be its mainstay, with around 91 per cent share in the revenue. PDS has recently also come up with an innovative 'Sourcing as a Service' model where it is pioneering highly integrated and specialised sourcing services for its customers who, in the fast-fashion market, are focusing on the core business to drive earnings. The Sourcing as a Service offering is already witnessing strong traction with leading global brands. In FY2022, the company tied up with marquee global brands such as Hanes Brands, s.Oliver, Ralph Lauren and Sainsbury and is exploring newer partnerships in the space. In the next



*A modern apparel factory in Bangladesh*

4-5 years, PDS expects the Sourcing as a Service model to contribute 8-10 per cent of the overall revenue, even as design-led sourcing's share will come down to 75-80 per cent.

Besides its long-established sourcing business, the company has also been developing a host of new inhouse brands and steadily growing its licensing portfolio. Some of its purpose-led and successful brands include Lilly + Sid, Turtledove London, Made4Mama, Kindred, Alesha Dixon, Adapt, -9° Peak, Union Works, SO Trend and Reákt. The company's licensing vertical specialises in the supply, design and manufacture of licensed apparel products that are trusted and endorsed by major retailers. Currently, the brand business contributes around 3 per cent and going forward it aims to increase its share to around 5 per cent in the next 4-5 years.

"We are bolstering our business by adding verticals like manufacturing, Sourcing as a Service and developing an inhouse brand. All these new functions have added significant value to our offering. Adjusting to market needs, we are positioning ourselves as a one-stop shop for our customers," says Jain who in his capacity as Group CEO since January 2021, has been responsible for the company's recent growth trajectory. A science graduate with an MBA degree in finance, he is a dynamic professional with rich experience in the retail, media & entertainment

industries. For close to three decades, he has been instrumental in leading transformation across various leading conglomerates.

"We continue to implement various cost-optimisation measures (eg choosing the right partner manufacturer for the right order) and efficient logistics to maximise returns. With the help of our asset-light model, the maturing of our new business verticals over the next 2-3 years, and the turnaround of manufacturing, we are set to generate higher returns on the capital employed. We are expecting to enhance long-term value for our shareholders through our investments in sustainable and tech-backed ventures," says Pallak.

"PDS's platform-based business model provides it the flexibility to operate across categories and geographies. With the aim of serving customers better, over the last two decades PDS has sharpened its capabilities with its design team, through market intelligence, expertise in technical aspects and scalability. PDS's business model's risk is covered through credit and currency. It is also cash generating and nearly debt-free," says an Edelweiss report.

"We believe that PDS's integrated global business model positions it to take advantage of synergies in product design, development, marketing, distribution and sourcing of ready-to-wear apparel products. Most importantly, it runs a super-efficient and low-risk model from an inventory, currency and credit risk perspective. PDS is distinctly positioned with all the key ingredients required to fill the gap that may exist in a value chain," states an HDFC Securities report.

With all these developments in place, PDS has further consolidated its position in the global market. The company has proactively transformed itself in the fashion industry which has been dominated by a fast-fashion approach. Over the years, the company has built a strong sourcing and manufacturing platform focused on delivering great quality with operational excellence. It has recently also made strategic investments across its value chain, expanding capabilities and new business verticals. All these will further enhance its expertise as a design to delivery platform. ♦

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