

PGIL/SE/2022-23/33

Date: August 12, 2022

**THE GENERAL MANAGER,**  
DEPARTMENT OF CORPORATE SERVICES - CRD  
BSE LIMITED  
1<sup>ST</sup> FLOOR, NEW TRADING RING  
ROTUNDA BUILDING, P. J. TOWERS  
DALAL STREET, FORT,  
MUMBAI - 400 001

**THE GENERAL MANAGER,**  
LISTING DEPARTMENT  
NATIONAL STOCK EXCHANGE OF INDIA LTD.  
"EXCHANGE PLAZA", PLOT NO. C- 1,  
G- BLOCK,  
BANDRA - KURLA COMPLEX,  
BANDRA ( E ),  
MUMBAI - 400 051

**Reg: Scrip Code: BSE-532808;**

**NSE - PGIL**

**Sub: Announcement under Regulation 30-Revision in Credit Ratings**

Dear Sir/ Madam,

Pursuant to Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, read with SEBI Circular CIR/CFD/CMD/4/2015 dated September 09, 2015, please find enclosed revision in credit ratings on Long-Term and Short-Term fund-based limits of the Company, issued by ICRA on August 11, 2022.

You are requested to take the same on your records.

Thanking you,

Yours faithfully,  
for **Pearl Global Industries Limited**



**(Narendra Kumar Somani)**  
**Chief Financial Officer**

Encl: As above

**Pearl Global Industries Limited**

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August 11, 2022

## Pearl Global Industries Limited: Ratings upgraded; rated amount enhanced

### Summary of rating action

| Instrument*                                         | Previous Rated Amount<br>(Rs. crore) | Current Rated Amount<br>(Rs. crore) | Rating Action                                                                       |
|-----------------------------------------------------|--------------------------------------|-------------------------------------|-------------------------------------------------------------------------------------|
| Long-term fund-based limits<br>(Term Loans)         | 100.94                               | 107.09                              | [ICRA]BBB+ (Stable); upgraded from [ICRA]BBB (Stable) / assigned to enhanced limits |
| Short-term fund-based<br>working capital facilities | 195.00                               | 210.85                              | [ICRA]A2; upgraded from [ICRA]A3+/ assigned to enhanced limits                      |
| Short-term non-fund-based<br>limits                 | 160.00                               | 180.00                              | [ICRA]A2; upgraded from [ICRA]A3+/ assigned to enhanced limits                      |
| <b>Total</b>                                        | <b>455.94</b>                        | <b>497.94</b>                       |                                                                                     |

\*Instrument details are provided in Annexure-1

### Rationale

The ratings upgrade factors in the robust performance of Pearl Global Industries Limited (PGIL) in FY2022, and the expectation of sustained comfortable revenue growth and return metrics over the medium term. ICRA expects the company to sustain a comfortable growth led by its operational strengths, which provide it a competitive edge, including long-term relationships with renowned international retailers, which have been facilitating repeat business. This is despite the evolving demand slowdown in its key market, the US, in the near term amid inflationary pressures, which is adversely affecting discretionary spending by the consumers. The experience of its promoters spanning over three decades in the garments exports industry, provides comfort. The impact of a possible demand slowdown is likely to be partially offset for Indian exporters by the business being re-routed from China, amid concerns on China's major cotton variety, and the China plus one policy proposed to be followed by the large buyers. It is pertinent to note that PGIL's geographically diversified manufacturing base across leading apparel-exporting regions of India, Bangladesh, Vietnam and Indonesia, place it more favourably compared to its peers to benefit from the potential shift, besides its large scale of operations and an established track record. Further, adoption of an asset-light model for expansion, going forward, is expected to reduce reliance on debt and help keep PGIL's financial profile comfortable with healthy return metrics, a conservative capital structure and adequate coverage metrics.

The ratings, however, continue to be constrained by the company's modest operating profitability (margins of ~6%), which together with high working capital requirements of the business, keep return and debt protection metrics moderate. Further, the ratings factor in the vulnerability of PGIL's profitability to any adverse changes in the export incentive rates/ structure, volatility in raw material prices and exchange rate fluctuations. In this context, ICRA notes that extension of the Rebate of State and Central Levies and Taxes (RoSCTL) scheme till March 2024 has provided visibility to exporters, enabling them to price their products more efficiently. This would keep risks related to changes in export incentive schemes low over the next 18-20 months. The ratings also factor in the high geographical concentration risk, with more than ~90% of the company's revenues derived from the US markets, high dependence on its top-five customers and seasonality in revenues. This apart, PGIL's operations are susceptible to intense competition, which limits the scope for bargaining power/ pricing ability.

The Stable outlook reflects ICRA's expectation of a sustained comfortable revenue growth, which together with improving utilisation of enhanced capacities and focus on asset-light expansion model, is likely to support a gradual improvement in PGIL's return, capitalisation and coverage metrics.

## Key rating drivers and their description

### Credit strengths

**Established track record and long-standing relationships with leading global apparel retailers** – PGIL’s promoters, the Seth family, have more than three decades of experience in the manufacture and export of apparels. Over the years, the promoters have fostered relationships with leading global apparel retailers, establishing a strong and diversified client base. The company enjoys a preferred long-term vendor status with most leading global brands and has been getting repeat business from these clients, on a sustained basis, which has facilitated a healthy growth in its scale of operations. This also reflects favourably on its track record and competitive positioning in the apparel sector.

**Strong operational profile with large, diversified production capacities and product offerings** – Over the years, PGIL has established a geographically strong manufacturing base in leading global apparel export hubs of India, Bangladesh, Vietnam and Indonesia. Besides offering competitive advantages of these regions (low labour costs/ low tariffs/ duty-free access), its manufacturing presence across geographies mitigates the risk of regulatory changes for the company. Therefore, PGIL benefits from its large scale, presence across the garment segments (men’s, women’s as well as children’s wear) and established relationships with leading global brands/ retailers.

**Comfortable and improving financial risk profile** – Despite the sizeable debt-funded capital expenditure undertaken by the company in the recent years towards enhancement in capacities and consolidation of the existing capacities across locations, PGIL has a comfortable capital structure, backed by a strong net worth position. This was reflected in a consolidated gearing (Total Debt/ Tangible Net Worth) of 0.7 times as on March 31, 2021. The capital structure remained comfortable with gearing of 0.9 times as on March 31, 2022. Further, the coverage metrics improved in FY2022, reflected in the interest cover of 2.9 times in FY2022 compared with 1.7 times in FY2021. Going forward, the company is expected to continue to report a gradual improvement in its financial risk profile on the back of expected improvement in profitability and reduced dependence on external debt with adoption of an asset-light model for expansion.

### Credit challenges

**Seasonality inherent in operations** – The seasonality inherent in the company’s revenues, with ~55-60% of revenues being reported in Q1 and Q4 every financial year, exposes the company to earnings and cash flow volatility during the year. In FY2022, due to the pandemic-led disruptions in Q1 FY2022, ~58% of the revenues were reported in H2 FY2022.

**Vulnerability to volatile raw material prices, demand trends in key export markets, forex rates and changes in export incentive structure** – Similar to other apparel exporters, PGIL’s profitability is vulnerable to the volatility in raw material prices (mainly cotton), which have historically accounted for ~50-55% of its cost of goods sold, as well as variations in foreign exchange rates. The forex risk is, however, mitigated to a large extent by the company’s stated hedging policy as per which the near-term exposure (less than three months) is largely hedged. Nevertheless, in terms of end-destination, PGIL faces concentration risk with its sales, which are primarily concentrated in the US region (~90% of standalone sales in FY2022). This makes the company’s performance vulnerable to any adverse demand trends or developments that affect consumer spending and preferences in the US markets. Further, similar to other apparel exporters, high dependence on export incentives in the Indian operations exposes its profitability and competitiveness in the international markets to any adverse change in the export incentive structure.

**High client concentration risk** – Even though the company enjoys a preferred long-term vendor status with several renowned global brands and deals with a large set of customers, it derives ~65-70% of its sales (at a standalone level) from the top-five customers. This exposes the company to client concentration risks. The risk is heightened with the long-drawn approval process prevalent in the sector to get an approved vendor status from a renowned buyer. However, comfort can be derived

from the strong profile of PGIL's customers and long associations with these customers, along with an established track record of repeat orders.

**Limited bargaining power due to significant competition in garment exports business** – The intense competition from other textile exporters based in India and other low-cost garment exporting countries, limits PGIL's bargaining power/ pricing ability, thereby constraining its margins.

### Liquidity position: Adequate

At a consolidated level, PGIL's liquidity profile remains adequate, with fund flow from operations expected to remain adequate against its debt repayment obligations, and margin funding for working capital. Besides, the liquidity profile is supported by non-operating income (mainly interest income and rentals), as well as sizeable free cash balances across entities (aggregating Rs. 139 crore as on March 31, 2022, against scheduled repayment obligations of Rs. 35.65 crore in FY2023). ICRA also notes the fungibility of surplus cash flows across entities, by way of dividend pay-outs (from international subsidiaries to the domestic entity), unsecured loans, etc., which can help manage liquidity across various entities in the Group.

At a standalone level, the company's liquidity position is adequate, reflected in the healthy free cash and liquid balances of ~Rs. 48 crore as on March 31, 2022 and a cushion in the fund-based working capital limits averaging ~Rs. 25 crore on sanctioned lines during the last six months ending June 2022 (equivalent to ~14% of the drawing power available). Further, the liquidity is supported by flexibility in the working capital limits in the form of interchangeability of non-fund-based and fund-based limits to the extent of ~Rs. 173 crore.

### Rating sensitivities

**Positive factors** – The ratings may be upgraded if PGIL reports a sustained improvement in its profitability and working capital cycle, resulting in an improvement in its return indicators, debt coverage metrics and liquidity profile. A specific credit metric for an upgrade is if DSCR is more than 2 times, on a sustained basis.

**Negative factors** – Sustained pressures on revenues and profitability, or a sizeable capex/stretch in the working capital cycle, which exerts a pressure on the company's debt coverage metrics and liquidity position, may trigger a downward rating revision. A specific credit metric for a downgrade is if interest coverage is below 3 times, on a sustained basis.

### Analytical approach

| Analytical Approach             | Comments                                                                                                                                                                              |
|---------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Applicable Rating Methodologies | <a href="#">Corporate Credit Rating Methodology</a><br><a href="#">Rating Methodology for Entities in the Indian Textiles Industry- Apparels</a>                                      |
| Parent/Group Support            | Not applicable                                                                                                                                                                        |
| Consolidation/Standalone        | For arriving at the ratings, ICRA has considered the consolidated operational and financial profiles of PGIL; the details of the subsidiaries (consolidated) are given in Annexure II |

### About the company

PGIL (including its subsidiaries), established in 1989 by Mr. Deepak Seth, manufactures readymade garments, across categories (knits/woven/denims/non-denims/outerwear) and segments (men's wear, women's wear as well as children's wear). The company (along with its subsidiaries) has its manufacturing base in India (Gurugram, Chennai and Bengaluru), Bangladesh, Vietnam and Indonesia, with a total capacity to manufacture ~80 million pieces of garments per annum. PGIL is an approved vendor of renowned international brands and retailers, e.g., GAP, Banana Republic, PVH Corp., Kohl's, Macy's, Primark, Target, Next, etc.

### Key financial indicators (audited)

| PGIL Consolidated                                    | FY2021  | FY2022  |
|------------------------------------------------------|---------|---------|
| Operating Income (Rs. crore)                         | 1,490.9 | 2,713.5 |
| PAT (Rs. crore)                                      | 17.5    | 69.9    |
| OPBDIT/OI (%)                                        | 5.3%    | 6.5%    |
| PAT/OI (%)                                           | 1.2%    | 2.6%    |
| Total Outside Liabilities/Tangible Net Worth (times) | 1.4     | 1.9     |
| Total Debt/OPBDIT (times)                            | 4.5     | 3.2     |
| Interest Coverage (times)                            | 1.7     | 2.9     |

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Source: PGIL

### Status of non-cooperation with previous CRA: Not applicable

### Any other information: Not applicable

### Rating history for past three years

| S. No | Instrument                        | Type       | Current rating (FY2023)  |                                                    | Chronology of Rating History for the past 3 years |                              |                         |                              |
|-------|-----------------------------------|------------|--------------------------|----------------------------------------------------|---------------------------------------------------|------------------------------|-------------------------|------------------------------|
|       |                                   |            | Amount rated (Rs. crore) | Amount outstanding as of June 30, 2022 (Rs. crore) | Date & rating in FY2023                           | Date & rating in FY2022      | Date & rating in FY2021 | Date & rating in FY2020      |
|       |                                   |            |                          |                                                    | Aug 11, 2022                                      | Aug 12, 2021<br>Aug 30, 2021 | --                      | May 16, 2019<br>Mar 30, 2020 |
| 1     | Fund-based limits (Term Loans)    | Long-term  | 107.09                   | 107.09                                             | [ICRA]BBB+ (Stable)                               | [ICRA]BBB (Stable)           | --                      | [ICRA]BBB (Stable)           |
| 2     | Fund-based working capital limits | Short-term | 210.85                   | --                                                 | [ICRA]A2                                          | [ICRA]A3+                    | --                      | [ICRA]A3+                    |
| 3     | Non-fund-based limits             | Short-term | 180.00                   | --                                                 | [ICRA]A2                                          | [ICRA]A3+                    | --                      | [ICRA]A3+                    |

### Complexity level of the rated instrument

| Instrument                                       | Complexity Indicator |
|--------------------------------------------------|----------------------|
| Long-term fund-based limits (Term Loans)         | Simple               |
| Short-term fund-based working capital facilities | Very simple          |
| Short-term non-fund-based limits                 | Very simple          |

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [www.icra.in](http://www.icra.in)

## Annexure I: Instrument details

| ISIN | Instrument Name                                  | Date of Issuance | Coupon Rate | Maturity | Amount Rated (Rs. crore) | Current Rating and Outlook |
|------|--------------------------------------------------|------------------|-------------|----------|--------------------------|----------------------------|
| NA   | Long-term fund-based limits (Term Loans)         | Apr 2015         | NA          | Dec 2028 | 107.09                   | [ICRA]BBB+ (Stable)        |
| NA   | Short-term fund-based working capital facilities | NA               | NA          | NA       | 210.85                   | [ICRA]A2                   |
| NA   | Short-term non-fund-based limits                 | NA               | NA          | NA       | 180.00                   | [ICRA]A2                   |

Source: PGIL

[Please click here to view details of lender-wise facilities rated by ICRA](#)

## Annexure II: List of entities considered for consolidated analysis

| Company Name                   | Ownership | Consolidation Approach |
|--------------------------------|-----------|------------------------|
| Norp Knit Industries Limited   | 99.99%    | Full Consolidation     |
| Pearl Apparel Fashions Limited | 100.00%   | Full Consolidation     |
| Pixel Industries Limited       | 100.00%   | Full Consolidation     |
| Pearl Global Fareast Limited   | 100.00%   | Full Consolidation     |
| Pearl Global (HK) Limited      | 100.00%   | Full Consolidation     |
| SBUYS E-Commerce Limited       | 100.00%   | Full Consolidation     |
| Pearl Global USA, Inc          | 100.00%   | Full Consolidation     |

Note: The consolidated financials of above-mentioned entities capture the financials of their respective subsidiaries, i.e. indirect/ step-sub-sidiaries of PGIL (not listed in the table above).

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## About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit [www.icra.in](http://www.icra.in)

## ICRA Limited



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### Branches



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