September 03, 2024

Pearl Global Industries Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term - fund based term loans	115.15	73.49	[ICRA]A- (Stable); reaffirmed
Short-term fund-based working capital facilities	210.00	210.00	[ICRA]A2+; reaffirmed
Short term - non-fund based	180.00	180.00	[ICRA]A2+; reaffirmed
Long term/ short term - unallocated limits	-	41.66	[ICRA]A- (Stable)/ [ICRA]A2+; reaffirmed
Total	**505.15**	**505.15**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings reaffirmation for Pearl Global Industries Limited (PGIL) factors in the healthy operating and financial performances in FY2024 and the expectation of its sustained revenue growth and comfortable return metrics over the medium term. In FY2024, the consolidated revenues grew by ~9% on a YoY basis to Rs. 3,441 crore on the back of increase in sales volumes. The operating margins moderated by 40 bps to 10.7% in FY2024 due to an increase in labour costs. In Q1 FY2025, PGIL's consolidated revenues grew by ~18% on a YoY basis, supported by an increase in overseas revenue (primarily Bangladesh). ICRA expects the company to sustain a healthy revenue growth with the likely shift in procurement by large customers from China to markets like India, led by its operational strengths, which provide it with a competitive edge, including long-term relationships with renowned international retailers, which have been facilitating repeat business. The company raised Rs. 149.5 crore in July 2024 through a Qualified Institutional Placement (QIP). The money raised is proposed to be utilised towards reducing its existing borrowings by Rs. 97.5 crore and the balance towards inorganic growth initiatives and general corporate purposes. This fund raise coupled with an increase in retained earnings, would improve the entity's coverage indicators over a medium term. PGIL's total debt/operating profit improved to 1.6 times in FY2023 from 3.6 times in FY2022, with an increase in the operating margins, and remained healthy at the same levels in FY2024. The experience of its promoters, spanning over three decades in the garment exports, large scale of operations and an established track record provide additional comfort. PGIL's geographically diversified manufacturing base across leading apparel-exporting regions of India, Bangladesh, Vietnam, Indonesia and Guatemala keep it more favourably placed than its peers to benefit from the said potential shift, however, this also exposes its operations to geo-political risks. Besides, increased adoption of an asset-light model for expansion is expected to reduce reliance on debt and keep PGIL's financial profile comfortable with healthy return metrics, a conservative capital structure and adequate coverage metrics.

The ratings also consider the vulnerability of PGIL's earnings to any demand-linked factors, any adverse change in the export incentive rates / structure, volatility in raw material prices and exchange rate fluctuations. Around 70% of the company's manufacturing facilities (in terms of capacities) is located outside India, with a large part of the same located in Bangladesh, thus exposing its operations to geopolitical risks. ICRA notes that the ongoing geo-political issues had a relatively minimal impact on its operations as PGIL's Bangladesh facilities were suspended for six days between July and August 2024. Nevertheless, as the situation evolves, ICRA will continue to monitor for any impact on its operations. The ratings also factor in the high geographical concentration risk, as more than 70% of the company's revenues is derived from the US markets and PGIL's high dependence on its top five customers. These apart, PGIL's operations are susceptible to intense competition, which limits the scope for bargaining power/ pricing ability. PGIL has plans to increase its manufacturing capacity with a proposed debt-funded capacity expansion of Rs.400-500 crore over FY2025-FY2027.

The Stable outlook reflects ICRA's expectation that PGIL's credit profile will remain supported by its stable revenue growth, which together with improving utilisation of enhanced capacities and focus on asset-light expansion model, is likely to lead to a gradual improvement in its return, capitalisation and coverage metrics.

Key rating drivers and their description

Credit strengths

Established track record and long relationships with leading global apparel retailers – PGIL's promoters, the Seth family, has more than three decades of experience in manufacturing and exporting 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. Further, in FY2024, PGIL, through its subsidiary, diversified its manufacturing base to Guatemala (Central America) with an installed capacity of 2 million units per annum. With this being a near-shore company, it would aid in servicing the US customers with key orders in shorter transit times. Diversified manufacturing presence provides competitive advantages across regions such as low labour costs / low tariffs / duty-free access and reduced transit time in some cases. Further, 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 expansions (Rs.550-560 crore in the last five years) undertaken by the company 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 is reflected in Total Debt/ TNW of 0.7 times and TOL/TNW of 1.4 times as of March 31, 2024, compared to 0.8 times and 1.4 times, respectively, as on March 31, 2023. Further, in the current fiscal, its net worth improved further as it raised ~Rs. 149.5 crore in July 2024 through QIP. PGIL has plans to increase its manufacturing capacity with a proposed debt-funded capacity expansion of Rs.400-500 crore over FY2025-FY2027. Going forward, the company is expected to continue to report a gradual improvement in its financial risk profile on the back of healthy revenue growth, driven by its plans to widen its product portfolio, client portfolio and geographical diversification over the medium-to-long-term.

Credit challenges

Moderate 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 60-65% of consolidate sales from its top-five customers. This exposes the company to client concentration risk. 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.

Vulnerable to volatile raw material prices, demand trends in key export markets, forex rates and changes in export incentive structure – Like 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, PGIL faces concentration risk with its sales, which are primarily concentrated in the US region (accounted for ~79% of standalone sales in FY2024). This makes the company's performance vulnerable to any adverse demand trend or development that affects consumer spending and preferences in the US markets. Further, like 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.

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

Exposure to geopolitical risks with a large share of business generated from overseas operations – As ~70% of the company's manufacturing facilities is located outside India, PGIL derives 65-70% of its revenues through its overseas operations. Thus, the overseas operations remain exposed to the risks of geopolitical environment, climatic conditions, changes in duty tariff etc. Further, due to ongoing geopolitical disruptions and resultant curfew, operations at PGIL's Bangladesh facilities remained suspended for six days between July and August 2024, exposing its operations to the economic conditions prevalent in the domiciled country of operations. Nevertheless, as the situation evolves, ICRA will continue to monitor for any impact on its operations.

Environmental and Social Risks

Environmental considerations: The sector remains exposed to the risks of elevated input costs owing to increased compliance expenses faced by suppliers amid tightening environmental regulations. The industry is exposed to environmental risks, primarily through water, land use, and the impact of climate on production as well as post-consumer waste. While these risks have not resulted in any material implication, policy actions towards waste management like recycling textiles could have cost implications for companies like PGIL. Any disruption in measures taken for appropriate treatment of wastewater/effluents could result in significant penalties, while also having a prolonged, adverse impact on operations, if the authorities take any strict action.

Social considerations: Being a labour-intensive sector, garment manufacturing entities are exposed to the risks of disruptions caused by their inability to manage human capital in terms of their safety and overall wellbeing. Besides, human rights issues and the inability to ensure diversity, while providing equal opportunity, could pose social risks for the company. Further, any significant increase in wage rates may affect the cost structure of apparel manufacturers, impacting their margins. Shortage of skilled workers could also affect operations/growth plans and remains a key concern. Measures taken by the company towards employee welfare have not resulted in any material impact on its performance from the above-mentioned risks. Further, garment manufacturers are exposed to the risks of conflicts with local communities. Entities also remain exposed to major shifts in consumer preferences or developments, affecting discretionary consumer spending in key markets.

Liquidity position: Strong

At the consolidated level, PGIL's liquidity profile is strong, with fund flow from operations expected to remain adequate against its debt repayment obligations, and margin funding for working capital. Further, funds raised through QIP in July 2024 for Rs.149.5 crore and non-operating income (mainly interest income and rentals) and sizeable free cash balances across the entities (aggregating to ~Rs.510 crore as on July 16, 2024, post QIP) support its liquidity. PGIL has repayment obligations of ~Rs. 68.9 crore in FY2025 (including prepayment of Rs.13.2 crore and repayment of Rs.9 towards proposed new loans), against projected net cash accrual of ~Rs.251 crore. ICRA also notes the fungibility of surplus cash flows across the entities through dividend payouts (from international subsidiaries to the domestic entity), unsecured loans, etc., which can help manage liquidity across various entities in the Group.

At the standalone level, the company's liquidity position is strong, reflected in the healthy free cash and liquid balances of ~Rs. 236 crore (including QIP funds kept in fixed deposits) as on July 16, 2024, and a cushion in the fund-based working capital limits, which stood at ~44% of the sanctioned lines on an average during the last 12 months ending in July 2024 (equivalent to ~Rs.101 crore). Further, the liquidity is supported by the flexibility in the working capital limits in the form of interchangeability of non-fund-based and fund-based limits worth ~Rs. 172 crore out of total combined sanctioned limits of Rs. 410 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 better return indicators, debt coverage metrics and liquidity profile.

Negative factors – Sustained pressure on revenues and profitability, or a sizeable capex/stretch in the working capital cycle, which affects the company's debt coverage metrics and liquidity position, may trigger a downward rating action. A specific credit metric for ratings downgrade includes an interest coverage below 4 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Textiles (Apparels)
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/denim/non-denim/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, Indonesia and Guatemala, with a total capacity to manufacture ~82 million pieces of garments per annum. PGIL also has nine partnership factories as on March 31, 2024. PGIL is an approved vendor of renowned international brands and retailers like GAP, Kohl's, Macy's, Tommy Hilfiger, Ralph Lauren among others.

Key financial indicators (audited)

Consolidated	FY2023	FY2024	Q1 FY2025*
Operating income	3,167.8	3,441.0	1,062.4
PAT	153.0	169.1	61.9
OPBDIT/OI	11.1%	10.7%	10.2%
PAT/OI	4.8%	4.9%	5.8%
Total outside liabilities/Tangible net worth (times)	1.4	1.4	-
Total debt/OPBDIT (times)	1.6	1.6	-
Interest coverage (times)	4.3	3.7	4.7

*Source: Company, ICRA Research; *Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. crore*

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2025)			Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	
				Sep 3, 2024	Aug 30, 2023	Aug 11, 2022	Aug 30, 2021	Aug 12, 2021
1	Fund-based term loans	Long Term	73.49	**[ICRA]A- (Stable)**	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
2	Fund-based working capital facilities	Short Term	210.00	**[ICRA]A2+**	[ICRA]A2+	[ICRA]A2	[ICRA]A3+	[ICRA]A3+
3	Non-fund-based	Short Term	180.00	**[ICRA]A2+**	[ICRA]A2+	[ICRA]A2	[ICRA]A3+	[ICRA]A3+
4	Unallocated	Long Term / Short Term	41.66	**[ICRA]A- (Stable)/ [ICRA]A2+**	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term - fund based term loans	Simple
Short-term fund-based working capital facilities	Very simple
Short term - non-fund based	Very simple
Long term/ short term - unallocated limits	Not applicable

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: Click Here

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 term loans	FY2015	NA	FY2029	73.49	[ICRA]A- (Stable)
NA	Short-term fund-based working capital facilities	NA	NA	NA	210.00	[ICRA]A2+
NA	Short term - non-fund based	NA	NA	NA	180.00	[ICRA]A2+
NA	Long term/ short term - unallocated limits	NA	NA	NA	41.66	[ICRA]A- (Stable)/ [ICRA]A2+

Source: Company

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
Pearl Global Kausal Vikas 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
Sead Apparels Private Limited	100.00%	Full Consolidation
Pearl GT Holdco Limited*	55.00%	Full Consolidation

^liquidated in FY2023

**with effect from FY2024*

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

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