



PEARL
Polymers Limited

PET
POLYETHYLENE TEREPHTHALATE
JARS
BOTTLES

Regd. Off. : A-97/2, Okhla Industrial Area, Phase-II, New Delhi-110020, India
CIN NO. : L25209DL1971PLC005535
Tel. No. : +91-11-47385300, Fax, +91-11-47480746
Email : pearl@pearlpet.net, Website: www.pearlpet.net

PPL/SD/LODR/CR/30/ 2020

28th August, 2020

National Stock Exchange of India Ltd. Exchange Plaza, 5 th Floor Plot No. C1, G Block Bandra, Kurla Complex Bandra (East), Mumbai- 400051 (Stock Code: PEARLPOLY)	Bombay Stock Exchange Limited Phiroze Jeejeebhoy Towers, 25 th Floor, Dalal Street, Mumbai-400001 (Stock Code: 523260)
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Sub: Rationale for downward Rating
Ref: NSE clarification mail dated 27.08.2020

Dear Sir/ Madam,

Pursuant to the mail dated 27.08.2020 received from your good office asking the Company to mention the reasons published by the India Ratings & Research Private Limited, the Rating Agency for downward rating intimated by the Company to the Stock Exchanges vide letter dated 26.08.2020 pursuant to Regulation 30 and other applicable provisions of the SEBI (Listing Obligations and Disclosure Requirement) Regulations, 2015.

The Rationale for such downward Rating as published by the India Ratings & Research Private Limited on its website is enclosed herewith for your information.

We request you to kindly take this information on record.

Thanking you,

Yours faithfully,

For Pearl Polymers Limited

Vineet Gupta
Company Secretary & Compliance Officer

Encl: As above



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KEY RATING DRIVERS

The downgrade reflects PPL's continued EBITDA losses due to volatility in the price of its raw material - polyethylene terephthalate (PET) resin –which is closely linked to crude oil price. The company's EBITDA turned negative to INR23.82 million in FY20 (FY19: INR36.80 million) and EBITDA margin contracted to negative 1.71% (2.06%) owing to the increased input prices, which couldn't be passed on to clients as the company doesn't have a price-escalation clause, along with increased employee and administrative expenses. The management plans to improve its EBITDA margin in FY21 by reducing its overhead cost and increasing its selling price.

The ratings are constrained by PPL's continued medium scale of operations, as reflected by a fall in revenue to INR1,395.32 million in FY20 (FY19: INR1,787.20 million) owing to decreased orders. The agency expects the company's revenue to decline further in FY21 owing to the COVID-19 led lockdown, coupled with the slowdown in the plastic industry.

The ratings factor in the company's modest credit metrics, which deteriorated significantly due to the operating loss. In FY20, the gross interest coverage (operating EBITDAR/gross interest expense + rents) stood at negative 0.57x (FY19: 0.74x) and net financial leverage (total adjusted net debt/operating EBITDA) at negative 10.87x (7.09x) due to the continued EBITDA losses. In FY21, Ind-Ra expects the credit metrics to improve on account of the marginal improvement in the absolute EBITDA.

Liquidity Indicator - Poor: PPL's average maximum utilisation of fund-based limits was over 90% for the 12 months ended July 2020. The company's net working capital cycle increased to 79 days in FY20 (FY19: 75 days) owing to increased inventory days of 83 (73). In FY20, PPL's cash flow from operations fell to INR13.34 million (FY19: INR28.40 million) due to the increase in inventory days, the EBITDA loss and early payments to creditors. In FY20, the free cash flows turned negative to INR1.02 million (FY19: INR 22.60 million) due to the maintenance capex incurred. As on 31 March 2020, PPL had cash and cash equivalents of INR4.53 million against a total debt of INR263.46 million. PPL has availed of the Reserve Bank of India-prescribed debt moratorium for six months starting March 2020.

The rating, however, is supported by PPL's well-known brand- Pearlpel and its promoter's extensive experience of four decades in the market. PPL has strong relations with principal customers such as Glaxo SmithKline Pharmaceuticals Ltd, Johnson & Johnson Pvt Ltd, Reckitt Benckiser India Limited, United Spirits Limited, Perfetti Van Melle India Private Limited.

RATING SENSITIVITIES

Negative: Continued EBITDA losses or any further stress in the liquidity position and further weakening of credit metrics will be negative for the ratings.

Positive: Improvement in the liquidity position, along with the EBITDA turning positive, leading to the interest coverage exceeding 1x, could lead to a positive rating action.