Alok Industries Limited

February 06, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	3,500.00	CARE AA+; Stable	Assigned
Long-term/ Short-term bank facilities	190.00	CARE AA+; Stable/ CARE A1+	Assigned
Short-term bank facilities	10.00	CARE A1+	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of Alok Industries Limited (AIL) derive strength from its strong and resourceful promoter wherein the majority stake is held by Reliance Industries Limited (RIL; rated 'CARE AAA; Stable/ CARE A1+') at 40.01%. The ratings also factor the demonstrated financial support from RIL by infusing funds and extending unconditional and irrevocable corporate guarantees (CGs) for the entire term debt facility of AIL, indicating the strategic importance of AIL to RIL. The ratings also take cognisance of the operational synergies in the form of assured raw material availability and the strong marketing support from RIL, and AIL's presence across various segments of the textile value chain in cotton and polyester products. The ratings also consider a reduction in external term debt with refinancing of debt at a lower interest rate and cushion in the form of two years of moratorium period for term debt servicing, providing headroom to improve the performance. CARE Ratings Limited (CARE Ratings) expects a gradual increase in AIL's capacity utilisation on the back of improvement in export demand along with an improvement in operating profitability margin due to implementation of the Bureau of Indian Standards (BIS) for polyester yarns and benefits of operating leverage.

The above rating strengths are, however, tempered by AIL's weak operational performance in FY23 (FY refers to period from April 1 to March 31) and 9MFY24 owing to subdued export demand, disparity between international and domestic cotton prices in FY23, and dumping of polyester yarn by Chinese players; however, the promoter group has extended adequate financial support in a timely manner to AIL. The commoditised nature of the textile business also constrains AIL's ratings.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Increase in the shareholding by RIL in the company to more than 51%, along with majority representation on the entity's board.
- Improvement in the standalone performance of AIL with realisation of expected synergies with RIL, resulting in significant improvement in its debt coverage indicators and return on capital employed (ROCE).

Negative factors

- Weakening of the credit risk profile of the major stakeholder, RIL.
- Decline in RIL's holding in AIL from the current level.
- Delay in the timely need-based financial support by RIL.

Analytical approach

Standalone while factoring the strong management, financial, and operational linkages with RIL. CARE Ratings has also applied its parent notch-up framework to factor the support available from RIL.

Outlook: Stable

CARE Ratings believes that AIL will continue to benefit from the extensive experience of its promoter, operational synergies, and continued financial support from RIL. The company's financial risk profile is also likely to improve in the medium term with an expected increase in capacity utilisation and improvement in profitability.

Detailed description of the key rating drivers

Key strengths

Demonstrated support from RIL

Post the implementation of the Resolution Plan, RIL holds 40.01% equity stake in AIL whereas JM Financial Asset Reconstruction Company (JMFARC) – Trust holds 34.99% equity stake in AIL, with the balance equity stake is held by the public and other shareholders. AIL's operations are managed and supervised by RIL through its three nominee directors appointed on the board of AIL. RIL has also supported AIL's operations by providing required credit. In January 2024, RIL infused ₹3,300 crore by way of 9% non-convertible cumulative redeemable preference shares in AIL. AIL also tied up ₹3,500 crore of new term

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

loans which is backed by unconditional and irrevocable CGs extended by RIL. These proceeds were utilised to repay outstanding term loans and working capital limits aggregating about ₹4,800 crore the balance amount was utilised to retire outstanding creditors.

Integrated presence of AIL across the textile value chain

AIL has a presence across the entire textile value chain, i.e., cotton yarn, polyester yarn, apparel fabric, garments, and home textiles. Over the years, through continuous backward or forward integration and capacity expansion, AIL has established itself as one of the largest integrated players in the domestic textile industry. The company also has a diversified clientele both, in the domestic as well as export markets, ensuring risk mitigation.

Operational synergies with RIL

By acquiring an integrated textile manufacturing facility like AIL, RIL has been able to synergise its own textile business (polyester segment) with that of AIL, thereby resulting into economies of scale. This acquisition has also helped RIL in increasing sales of its petrochemical products such as purified terepthalic acid (PTA) and monoethylene glycol (MEG) in the domestic market. RIL is among the largest integrated polyester companies and with its extensive experience in the industry, it provides marketing support to AIL to sell its polyester products. Since AIL is also engaged in garmenting, there is a direct synergy with RIL's retail ventures, where textile products manufactured by AIL are also marketed through Reliance Retail's Fashion and Lifestyle segments.

Assured raw material availability

For AIL's polyester yarn operations, PTA and MEG are major raw materials required in manufacturing various grades of polyester yarns. These components form a major constituent of raw material costs and are being supplied largely by RIL, as these are produced by RIL's petrochemical division. AIL has also started procuring cotton yarn from Sintex Industries Limited, a subsidiary of RIL, for its home textiles division. Thus, AIL has assured availability of major raw materials.

Liquidity: Adequate

AIL's liquidity is primarily driven by support from its strong parent, RIL which has been demonstrated by the latter through extension of liberal credit period for supporting losses incurred by AIL in FY23 and 9MFY24. This has resulted in positive cashflow from operations for ensuring timely debt repayments. Post refinancing in December 2023, there was a reduction in external debt, having a lower interest rate and two years of moratorium period, thus providing liquidity cushion until sufficient cash accruals are built. With expected improvement in the operating performance, CARE Ratings expects AIL to generate adequate cash accruals for servicing its external debt obligations.

RIL has also extended CGs for the term debt of AIL, which provides additional support. RIL exhibits a superior liquidity profile with total cash and equivalents of ₹177,960 crore as on September 30, 2023. RIL also has large unutilised working capital limits, providing additional liquidity cushion. RIL also has superior financial flexibility, given its ability to easily access capital markets and raise funds at highly competitive interest rates.

Key weaknesses

Delay in turnaround of operations from originally envisaged timelines albeit expected improvement in operating performance in medium term

Although the order from the H'ble National Company Law Tribunal (NCLT) for resolution of AIL was received on March 8, 2019, RIL's management acquired complete control over AIL's operations from September 2020 (when its Board of Directors was reconstituted), which led to lower-than-previously envisaged performance in FY21 as there was a delay in ramp-up of the capacity utilisation of AIL's plants. The average capacity utilisation of the plants improved from about 30% in FY20 to about 75% in FY22, led by gradual ramp-up of operations due to RIL's strong project implementation skills, efficiency in procuring raw materials, and marketing support from RIL. This, in turn, led to improvement in the profit before interest, lease rentals, depreciation, and taxation (PBILDT) margin. However, AIL's operations were adversely impacted by the COVID-19 pandemic in FY21 and FY22, which led to significantly lower than its previously envisaged performance at the time of its takeover by RIL. In FY23 and 9MFY24, AIL's performance was further impacted by the disparity between international and domestic cotton prices in FY23, dumping of polyester yarn by Chinese players, and slowdown in export demand. However, AIL's operations were supported by extension of credit period by RIL.

The company derived more than 60% of its revenue from polyester yarn over the last two years ended FY23. Post BIS implementation for polyester yarn in October 2023, average sales realization is expected to improve, leading to improvement in the spread of polyester yarn. Moreover, capacity utilisation is expected to gradually increase backed by improvement in export demand. Consequently, CARE Ratings expects AIL's operating profitability to significantly improve backed by higher spreads of polyester yarn, lower input costs, and benefits of operating leverage, thereby generating sufficient cash accruals for the timely servicing external debt obligations.

Commoditised nature of textile business with profitability susceptible to volatile commodity prices
Major raw materials required by AIL's polyester yarn business are PTA and MEG, which being derivatives of crude oil, are susceptible to volatility in crude oil prices. Its cotton yarn business is also susceptible to volatility in raw cotton prices. Textile products are commoditised in nature and the industry is characterised by intense competition and cyclicality, thereby making it vulnerable to demand-supply dynamics, which restricts AIL's pricing power.

Environment, social, and governance (ESG) risks

Parameter	Compliance and Action by the company
Environment	• AIL has undertaken efforts for conserving energy and for environmental sustainability. These include recycling of more than 60% waste and 86% water. AIL is also in the process of utilising hybrid power through open access route as a renewable energy source. • The company aims to reduce the carbon intensity of its operations by 50% by 2025 from the base of 2019 and continue increasing its share of good and green products in its overall portfolio by adopting greener manufacturing processes.
Social	• AIL continues to provide adequate training to its employees and workers on skill upgradation. • As part of health and safety measures, every employee and associate is provided with an overview of the company's safety policies and procedures, with necessary safety awareness trainings, information on emergency protocols, use of personal protective equipment (PPE) and teachings on potential safety hazards, among others.
Governance	• Of seven directors, the company has three independent directors on board. • There are separate Codes of Conduct for directors and senior management. • Various policies including whistle blower policy is in place, in line with the requirement. In FY23, AIL did not receive any whistleblower complaints and five complaints received from the shareholders were resolved amicably.

Applicable criteria
[Policy on default recognition]
[Factoring Linkages Parent Sub JV Group]
[Financial Ratios – Non financial Sector]
[Liquidity Analysis of Non-financial sector entities]
[Rating Outlook and Credit Watch]
[Short Term Instruments]
[Cotton Textile]
[Manmade Yarn Manufacturing]
[Manufacturing Companies]

About the company and industry
Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Consumer discretionary	Textiles	Textiles and apparels	Other textile products

AIL is among the largest fully integrated textile players having a presence across the value chain – from cotton yarn, polyester yarn, apparel fabrics, home textiles, and garments. The company has more than 10 manufacturing plants located at Dadra and Nagar Haveli (Silvassa), Gujarat, and Maharashtra.
Post the order dated March 08, 2019, the NCLT approved the resolution plan, which was submitted jointly by JMFARC, JMFARC-Trust, and RIL. Post implementation of the approved Resolution Plan, RIL holds a 40.01% equity stake whereas JMFARC (acting in its capacity as trustee of JMFARC-Trust) holds a 34.99% equity stake in AIL and the balance equity stake is held by the public shareholders.

Brief Financials (₹ crore)	FY22 (A)	FY23 (A)	9MFY24 (UA)
Total operating income	7,177	6,776	3,919
PBILDT	598	-41	64
PAT	-184	-875	-607
Overall gearing (times)	4.56	16.73	NA
Interest coverage (times)	1.29	-ve	0.15

A: Audited; UA: Unaudited; NA: Not available. Note: The above results are the latest financial results available.
Financials classified as per CARE Ratings' standards.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term loan	-	-	-	31-12-2032	3500.00	CARE AA+; Stable
LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	-	-	-	-	190.00	CARE AA+; Stable/ CARE A1+
Non-fund-based - ST-Loan equivalent risk	-	-	-	-	10.00	CARE A1+

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/ Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Fund-based - LT-Term loan	LT	3500.00	CARE AA+; Stable	-	-	-	-
2	LT/ST Fund-based/Non-fund-based-CC/WCDL/ OD/LC/BG	LT/ ST*	190.00	CARE AA+; Stable/ CARE A1+	-	-	-	-
3	Non-fund-based - ST-Loan equivalent risk	ST	10.00	CARE A1+	-	-	-	-
4	Fund-based - LT-Term loan	LT	-	-	1)Withdrawn (29-Jan-24)	1)CARE AA; Stable (05-Jan-23)	1)CARE AA (CE); Stable (02-Feb-22)	1)CARE AA (CE); Stable (06-Jan-21)
5	Fund-based - LT-Cash credit	LT	-	-	1)Withdrawn (29-Jan-24)	1)CARE AA; Stable (05-Jan-23)	1)CARE AA (CE); Stable (02-Feb-22)	1)CARE AA (CE); Stable (06-Jan-21)
6	Unsupported rating-Unsupported rating (Long-term)	LT	-	-	-	1)Withdrawn (05-Jan-23)	1)CARE A+ (02-Feb-22)	1)CARE A+ (06-Jan-21)

*Long term/short term.

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Term Loan	Simple
2	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	Simple
3	Non-fund-based - ST-Loan Equivalent Risk	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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