Alok Industries Limited

February 02, 2022

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	5,552.00	CARE AA (CE); Stable [Double A (Credit Enhancement); Outlook: Stable]	Reaffirmed
Total Facilities	5,552.00 (Rs. Five thousand five hundred fifty-two crore only)		

Details of facilities in Annexure-1

Unsupported Rating [2]	CARE A+ (Single A Plus)

Note: Unsupported Rating do not factor in the explicit credit enhancement

Detailed Rationale & Key Rating Drivers for the Credit Enhanced Debt

The rating assigned to the bank facilities of Alok Industries Limited (AIL) is based on the credit enhancement in the form of a Letter of Comfort (LOC) extended by Reliance Industries Limited (RIL; rated 'CARE AAA; Stable / CARE A1+').

Detailed Rationale & Key Rating Drivers of the LOC provider, RIL

The ratings of Reliance Industries Limited (RIL) continue to factor-in the immensely experienced and resourceful promoter group, highly integrated nature of operations with presence across the entire energy value-chain, diversified revenue streams, established leadership position in the O2C (Oil-to-Chemicals) segment, as well as the strong financial risk profile characterised by robust capital structure, stable cash flows and a healthy liquidity position. The ratings also consider the increasing wireless subscriber base, which has led its digital services business to attain a leadership position in the industry, a dominant market position in the organised retail sector as well as the induction of various strategic partners in the digital services and retail businesses. The stake sale in digital services and retail businesses, coupled with rights issue in FY21 (refers to the period April 1 to March 31) & 9MFY22, has helped in deleveraging and improving the financial risk profile of the company.

Rating Sensitivities (of the LOC provider, RIL)

Positive Factors *(Factors that could lead to positive rating action/upgrade)*: Not Applicable

Negative Factors *(Factors that could lead to negative rating action/downgrade)*:

- *Any major debt-funded capex which will deteriorate the financial risk profile.*
- *Deterioration in net debt to EBITDA beyond 2.5x on a sustained basis.*

Detailed description of the key rating drivers (of the LOC provider, RIL)

Key Rating Strengths

Resourceful promoter group and experienced management

RIL is the flagship company of the Reliance group – the largest private sector enterprise in India. The top management team, including Mr Mukesh Ambani, has significant knowledge in the field of petrochemicals and oil and gas along with a proven track record of successfully implementing large-scale complex projects.

Highly integrated product line and operations

RIL operates along the entire energy value-chain, starting from oil and gas production up to manufacturing of petrochemicals, imparting higher value addition and making its production line substantially cost-efficient, thereby allowing it to place its products at a competitive price.

Dominant leadership position in the O2C segment

RIL has maintained its leadership position in various product segments of the domestic petrochemicals market. A dominant and diverse presence across the petrochemicals segment, coupled with feedstock flexibility, de-risks RIL's revenues from sluggishness in any particular product and enables the company to command better pricing terms in the industry.

RIL operates two of the largest and most complex refineries in the world, with the Jamnagar site having a Complexity Index of 21.1 and crude processing capacity of almost 1.4 million metric barrels per day (MMBPD). With such high complexity, the refinery is capable of processing low-cost, heavy and ultra-heavy crude to produce clean fuels, and thereby, commanding higher margins.

Dominant market position in organised retail segment

Reliance Retail Limited (RRL; rated CARE AAA (FD); Stable/CARE A1+), the organised retail venture of the RIL group, is the largest retailer in the country; and enjoys a leadership position both, in terms of revenue as well as profitability. The growth is driven by new store expansions, especially in Tier-2, Tier-3 and Tier-4 cities, favourable product mix and increasing footfalls.

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

[2]*As stipulated vide SEBI circular no SEBI/ HO/ MIRSD/ DOS3/ CIR/ P/ 2019/ 70 dated June 13, 2019.*

Reliance Jio's leadership in telecom sector
As on December 31, 2021, there were approximately 421 million subscribers on the Jio network. It is the largest telecom operator in the country in terms of subscriber base. In terms of broadband subscriber base, Reliance Jio Infocomm Limited (RJIL; rated CARE AAA; Stable/CARE A1+) has a leading market share of 54.01% (as on November 30, 2021), as per the latest Telecom Regulatory Authority of India (TRAI) report. The Average Revenue Per User (ARPU) for Q3FY22 improved to Rs.151.60 per subscriber per month from Rs.143.60 during Q2FY22, led by better subscriber mix and recent tariff hike.

Strong financial risk profile characterised by robust capital structure
RIL has consistently maintained a healthy capital structure. As on March 31, 2021, the consolidated overall gearing stood at 0.34x, as compared to 0.77x as on March 31, 2020.

Various steps undertaken by the company for deleveraging
During FY21, the company inducted various strategic partners in its digital business. These strategic partners hold an equity stake of around 33% in Jio Platforms Ltd. (JPL) and brought-in funds amounting to Rs.1,52,056 crore in FY21. Moreover, the company raised Rs.53,124 crore by way of rights issue in FY21. The company also divested 10.09% stake in its retail business, which garnered funds to the extent of Rs.47,265 crore in FY21. All these investments have helped in deleveraging and improving the financial risk profile of the company on a consolidated basis.

Liquidity: Strong
RIL has consistently maintained a healthy capital structure with an overall gearing level of less than unity. The company also exhibits a very strong liquidity profile, with total cash and equivalents of Rs.2,41,846 crore as on December 31, 2021. The company has a repayment obligation of around Rs.28,000 crore, for which the cash accruals (of around Rs.76,000 crore in 9MFY22) as well as cash balances would be more than adequate. Furthermore, the company has superior financial flexibility, given its ability to easily access capital markets and raise funds at highly competitive interest rates.

Key Rating Weaknesses
Competitive intensity associated with the telecom segment
RJIL's network is engineered for seamless services delivery using Long-Term Evolution (LTE) technology in 800 MHz, 1,800 MHz and 2,300 MHz bands through an integrated ecosystem. The combined spectrum footprint across frequency bands provides significant network capacity and deep in-building coverage. However, the company is exposed to competitive as well as regulatory risks associated with the telecom industry.

Risks due to industry cycles and volatility in crude oil prices
Crude oil price is a function of many dynamic markets and fundamental factors such as global demand-supply dynamics, geo-political stability in countries with oil reserves, OPEC policies, USD exchange rate, etc. Any upward revision in the prices of feedstock as well as any downturn resulting from the existing or future excess industry capacity may adversely impact the revenues and profitability of the company. However, RIL's presence across the entire petrochemical value-chain helps the company counter the effect of these volatilities and cyclicality. Furthermore, most of the payables and receivables of this business are denominated in USD, minimising the cash flow risk on account of fluctuations in foreign exchange rates.

Key Rating Drivers of AIL for unsupported rating
The unsupported rating of AIL derives strength from its well-established, resourceful and experienced management, operational synergies in the form of assured raw-material availability and strong marketing support from RIL, off-take agreement in the nature of 'take-or-pay' with RIL to ensure adequate cash flows for timely servicing of its external debt, and the presence of AIL across various segments of the textile value chain in cotton as well as polyester products.
The above rating strengths are, however, tempered by AIL's moderate financial risk profile, delay in turnaround of operations from originally-envisaged timelines, mainly due to the adverse impact of the COVID-19 pandemic, which resulted in lower capacity utilisation of its plant in FY21; albeit the same has gradually ramped up during 9MFY22, resulting in improvement of operational efficiencies. The commoditised nature of the textile business further constrains its ratings.

Rating Sensitivities of AIL for unsupported rating
Positive Factors *(Factors that could lead to positive rating action/upgrade*):

- Increase in shareholding by RIL in the company such that it becomes a subsidiary resulting in increase of its strategic importance to RIL.
- Improvement in performance of AIL marked by significantly better PBILDT resulting in improvement in its debt coverage indicators.

Negative Factors *(Factors that could lead to negative rating action/downgrade):*

- Any substantial decline in RIL's holding in AIL from the minimum level (26% as per the LoC).
- Weakening of the credit risk profile of the LoC provider (i.e. RIL).
- Significant deterioration in debt coverage indicators of AIL

Detailed description of the key rating drivers of AIL for its unsupported rating
Key Rating Strengths
Well-established, experienced and resourceful promoters
After 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 and balance equity stake is held by public & other shareholders.

The operations of the company are managed and supervised by RIL through its three nominee directors appointed on the board of AIL.

Off-take agreement in the nature of 'take-or-pay' with RIL for ensuring availability of adequate cash flows for debt servicing
AIL has entered into an offtake agreement with RIL for a period of eight years from February 2020, which is in the nature of 'take-or-pay'. As per the agreement, RIL will ensure minimum guaranteed offtake, primarily for AIL's polyester products, for ensuring adequate cashflows for AIL to meet its debt repayment obligations. This arrangement will ensure sufficient cash flows for debt servicing of AIL.
As per the off-take agreement, RIL will also provide marketing support to AIL to market and sell its polyester/non-polyester products to any other third-parties other than RIL. Furthermore, RIL will also make advance payments to AIL, to the extent required to meet its debt service obligations, during the subsistence of force majeure events.

Assured raw material availability
For AIL's polyester yarn operations, PTA and MEG are the major raw materials required in manufacturing various grades of polyester yarns. These components form a major constituent of raw material costs and is being supplied largely by RIL, since these are produced by RIL's petrochemical division. This ensures uninterrupted availability of major raw materials for AIL.

Operational synergies with RIL
With the acquisition of an integrated textile manufacturing facility like AIL, RIL has been able to combine 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 PTA and MEG in the domestic market. 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 being marketed through Reliance Retail Limited's Fashion and Lifestyle segment.

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

Key Rating Weaknesses
Moderate financial risk profile along with delay in turnaround of operations from originally envisaged timelines
Although the order from the honourable National Company Law Tribunal (NCLT) for resolution of AIL was received on March 8, 2019, however, RIL's management could acquire complete control over the operations of AIL only from September 2020 (when its Board of Directors was reconstituted), which had led to lower-than-previously envisaged performance during FY21, as there was delay in ramp-up of the capacity utilisation of AIL's plants. Consequently, the company incurred loss at operating PBT level during FY21, which was further exacerbated by an exceptional loss arising from taking a large asset impairment during the year, resulting in high leverage with an overall gearing of 4.05x as on March 31, 2021. Even during 9MFY22, it incurred a net loss, despite profitable operations in Q3FY22. During various times in FY21 and 9MFY22, AIL's operations were also adversely impacted by the COVID-19 pandemic, which led to significantly lower than its previously envisaged performance at the time of its takeover by RIL.
As per the terms of the Resolution Plan, the company did not have any term-debt instalment repayment till FY22; however, it has ballooning instalment repayments starting from FY23 onwards, whereby there would be large term debt repayments especially from FY25 onwards, which would require significant improvement in the PBILDT of the company, so as to enable it to service all its debt obligations from its operational cash flows and without reliance on any external support from the group.

Lower capacity utilisation during FY21; albeit improved in 9MFY22
AIL's plants were shut down for almost half of the first quarter of FY21 during the COVID-19 induced lockdown, which led to lower capacity utilisation. Moreover, few machines were non-operational for want of spare parts or critical parts, which were received in the latter part of the year. As a result, the average capacity utilisation of the plants was around 50% during FY21. During 9MFY22, the average capacity utilisation of the plants improved to around 75%. The capacity utilisation is expected to further improve going forward due to various debottlenecking initiatives undertaken by the new management for improving its operational efficiency. Moreover, the demand for textile products is also expected to increase in the near-term, which is expected to result in better capacity utilisation going forward.

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

Analytical Approach:
Credit Enhanced (CE) Rating: The CE rating of AIL is based on credit enhancement in the form of Letter of Comfort (LOC) extended by RIL in favour of the lenders of AIL. The credit assessment of RIL has been done on a consolidated approach on

account of the strategic importance of its group companies in view of significant investments made in various businesses as well as operational linkages with some of its group companies.

Unsupported Rating: CARE Ratings Limited has adopted a standalone approach. Furthermore, financial and operational linkages in the form of offtake agreement in the nature of 'take-or-pay' with RIL, along with strong management linkages with RIL, have been taken into consideration.

Applicable Criteria
Criteria on assigning rating outlook and credit watch
CARE's Policy on Default Recognition
Criteria for Credit enhanced debt
Rating Methodology- Notching by factoring linkages in Ratings
Rating Methodology: Manufacturing Companies
Rating Methodology: Cotton Textile Manufacturing
Rating Methodology: Manmade Yarn Manufacturing Sector
Financial ratios: Non-Financial sector
Liquidity Analysis of Non-financial sector

About the LOC Provider – Reliance Industries Limited
RIL is India's largest private sector enterprise with businesses across the energy and materials value-chain, along with a significant and growing presence in the retail and telecom sectors. RIL is the flagship company of Reliance (Mukesh D. Ambani) group. It is the first Indian private sector company to feature in the Fortune Global 500 list of 'World's Largest Corporations' and has been consistently featuring in it for more than a decade.
The key business segments of RIL include oil and gas exploration, petroleum, refining, petrochemicals, retail and digital services. RIL's manufacturing facilities are spread across the country, at Allahabad (Uttar Pradesh), Barabanki (Uttar Pradesh), Dahej (Gujarat), Hazira (Gujarat), Hoshiarpur (Punjab), Jamnagar (Gujarat), Nagothane (Maharashtra), Nagpur (Maharashtra), Naroda (Gujarat), Patalganga (Maharashtra), Silvassa and Vadodara (Gujarat).

Brief Financials of RIL – Consolidated (Rs. crore)	FY20 (A)	FY21 (A)	9MFY22 (Prov.)
Total operating income	6,09,164	4,83,281	5,60,217
PBILDT	1,01,170	96,774	91,719
PAT	39,880	53,739	46,988
Overall gearing (times)	0.77	0.34	0.29
Interest coverage (times)	4.59	4.57	8.32

A: Audited, Prov.: Provisional, Financials classified as per CARE Ratings Limited Standards

About the Company – Alok Industries Limited
Alok Industries Ltd. (AIL), formerly promoted by Jiwrajka family, is one of the largest fully-integrated textile players, having a presence across the value-chain, right from cotton spinning, polyester yarn, apparel fabrics, home textiles and garments. The company has more than 10 manufacturing plants located across Silvassa, Gujarat and Maharashtra.
Pursuant to the order dated March 08, 2019, the honourable NCLT approved the resolution plan for AIL, which was submitted jointly by JM Financial Asset Reconstruction Company Limited (JMFARC), JMFARC-Trust and RIL. Post implementation of the approved Resolution Plan, RIL holds 40.01% equity stake whereas JMFARC Trust holds 34.99% equity stake in AIL.

Brief Financials of AIL – Standalone (Rs. crore)	FY20 (A)	FY21 (A)	9MFY22 (Prov.)
Total operating income	3225.23	3752.31	5208.67
PBILDT	-30.60	402.40	441.04
PAT (before exceptional items)	-678.39	-355.46	-154.91
PAT (after exceptional items)	1223.19	-5854.99	-154.91
Overall gearing (times)	0.42	4.05	NA
Interest coverage (times)	NM	0.85	1.27

A: Audited, Prov.: Provisional, NM: Not Meaningful, NA: Not Available, Financials classified as per CARE Ratings Limited Standards

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating History for last three years: Annexure-2

Covenants of rated instrument/facility: Not applicable

Complexity level of various instruments rated for this company: Annexure-3

Annexure-1: Details of Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	March 2028	5137.00	CARE AA (CE); Stable
Fund-based - LT-Cash Credit	-	-	-	415.00	CARE AA (CE); Stable
Un Supported Rating-Un Supported Rating (Long Term)	-	-	-	0.00	CARE A+

Annexure-2: Rating history of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Term Loan	LT	5137.00	CARE AA (CE); Stable	-	1)CARE AA (CE); Stable (06-Jan-21)	1)CARE AA (CE); Stable (31-Mar-20) 2)Provisional CARE AA (CE); Stable (06-Mar-20)	-
2	Fund-based - LT-Cash Credit	LT	415.00	CARE AA (CE); Stable	-	1)CARE AA (CE); Stable (06-Jan-21)	1)CARE AA (CE); Stable (31-Mar-20) 2)Provisional CARE AA (CE); Stable (06-Mar-20)	-
3	Un Supported Rating-Un Supported Rating (Long Term)	LT	0.00	CARE A+	-	1)CARE A+ (06-Jan-21)	1)CARE A+ (31-Mar-20) 2)CARE A+ (06-Mar-20)	-

Annexure-3: Complexity level of various instruments rated for this company

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Un Supported Rating-Un Supported Rating (Long Term)	Simple

Annexure-4: Bank Lender Details for this Company

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

Note on complexity levels of the rated instrument: CARE Ratings Ltd. 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 CARE Ratings Limited:

Established in 1993, CARE Ratings Ltd. is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India (SEBI), it has also been acknowledged as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). With an equitable position in the Indian capital market, CARE Ratings Limited provides a wide array of credit rating services that help corporates to raise capital and enable investors to make informed decisions backed by knowledge and assessment provided by the company.
With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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