Alok Industries Limited (Revised)

January 05, 2023

Rating

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	5,301.17 (Reduced from 5,552.00)	CARE AA; Stable (Double A; Outlook: Stable)	Revised from CARE AA (CE); Stable [Double A (Credit Enhancement); Outlook: Stable]
Total Bank Facilities	**5,301.17 (₹ Five Thousand Three Hundred One Crore and Seventeen Lakhs Only)**		

Details of instruments/facilities in Annexure-1.

Unsupported rating [2]	**Withdrawn [Withdrawn]**

Note: Unsupported rating does not factor in the explicit credit enhancement.

Detailed rationale and key rating drivers

The revision in the rating assigned to the bank facilities of Alok Industries Limited (AIL) follows the Reserve Bank of India (RBI)'s guidance note on bank loan - credit enhanced ratings dated April 22, 2022 and subsequent FAQs dated July 26, 2022 w.r.to credit enhancement ratings based on Letter of Comfort (LoC). Accordingly, CARE Ratings has changed the analytical approach for AIL from credit enhanced rating to its standalone credit profile along with suitably factoring linkages with Reliance Industries Limited (RIL).

The rating of AIL continue to derive strength from experienced, strong and resourceful promoter group backing wherein the major stake is held by Reliance Industries Limited (RIL, rated 'CARE AAA; Stable/ CARE A1+') at 40.01%. The rating also continues to factor in the 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 AIL's external debt as well as LoC extended by RIL for bank facilities of AIL. The ratings also factor 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, which weakened further during H1FY23 (refers to the period April 1 to September 30) owing to weak operational performance due to subdued demand and increased input costs; however, the promoter group has extended adequate financial support in a timely manner to AIL. The commoditised nature of the textile business also constrains its ratings.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Increase in the shareholding by RIL in the company, resulting in the increase of its strategic importance to RIL.
- Improvement in the standalone performance of AIL, marked by significantly better profit before interest, lease rentals, depreciation and taxation (PBILDT), resulting in an improvement in its debt coverage indicators.

Negative factors – Factors that could lead to negative rating action/downgrade:

- Weakening of the credit risk profile of the major stakeholder, ie, RIL.
- Any substantial decline in RIL's holding in AIL from the current level.
- Delay in the timely need-based financial support by RIL.
- Weak operational performance of AIL on a sustained basis.

[1]Complete definition 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. As per this circular, the suffix 'CE' (Credit Enhancement) is assigned to the ratings with explicit external credit enhancement, against the earlier used suffix 'SO' (Structured Obligation).

Detailed description of the key rating drivers

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. RIL through its subsidiary holds 40% stake in JMFARC. 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 along-with LoC from RIL: 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. 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. In addition to this, RIL has provided LoC for the term loans as well as working capital facilities of AIL. In terms of RIL's stated stance to support AIL by virtue of off-take agreement and LoC, RIL has provided required financial support to AIL during H1FY23.

Improved capacity utilization levels: Over the period of last two years, the average capacity utilization of the plants has improved from just being at around 30% in FY20 to around 75% in FY22 led by gradual ramp-up of operations due to RIL's strong project implementation skills, efficiency in procurement of raw materials and marketing support from RIL. In the current year, the average capacity utilization of the plants has remained at around 70% during H1FY23 as the operations in the textile segment were impacted due to demand constraint. However, the polyester segment plants have been operating at around 90% capacity utilization.

Assured raw material availability: For AIL's polyester yarn operations, PTA (Purified Terepthalic Acid) and Monoethylene Glycol (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, as 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 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 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'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.

Liquidity: Adequate

AIL's liquidity profile is primarily driven by the support of its strong parent (i.e. RIL) which has been demonstrated by the latter through extension of credit period so as to support losses incurred by AIL in H1FY23, resulting in improved working capital cycle and timely debt repayment. Moreover, the RIL group has also extended LoC for the bank facilities of AIL, which provides additional support. In addition to this, offtake agreement with RIL is expected to ensure availability of adequate liquidity for timely debt servicing by AIL.

Key rating weaknesses

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 FY22, it incurred a net loss of Rs.184 crore. During various times in FY21 and FY22, 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.

Significant moderation in financial profile in H1FY23; likely to require support from RIL in short to medium term: Financial performance of AIL moderated significantly in H1FY23 on the back of demand slowdown along-with elevated raw material prices. It's operating profitability marked by PBILDT margin moderated from 8.33% in FY22 to 2.07% in H1FY23 with expansion in its net losses to Rs.334 crore in H1FY23 vis-à-vis net loss of Rs.184 crore in FY22. Expanded losses has resulted in further moderation in its capital structure marked by an overall gearing of 6.15 times as on Sept. 30, 2022 with weakening of its debt coverage indicators. The company had no term debt principal repayment obligation till FY22 but has ballooning repayments from FY23 onwards whereby it is expected to incur cash losses in FY23 necessitating timely financial support from RIL.

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: Standalone while factoring strong financial and operational linkages with RIL.
In compliance with the Reserve Bank of India's guidance note on Bank Loan – Credit Enhanced Ratings dated April 22, 2022 and subsequent FAQs dated July 26, 2022 w.r.t. credit enhancement ratings derived from LoC, CARE Ratings has not assigned a credit enhanced rating to the bank facilities of AIL and has instead assessed AIL basis its standalone credit profile along with suitably factoring its linkages with RIL in the form of offtake agreement which is in the nature of 'take-or-pay' with RIL and strong management linkages with RIL.

Applicable criteria

Criteria on assigning rating outlook and credit watch
CARE's Policy on Default Recognition
Rating Methodology- Factoring Linkages Parent Sub JV Group
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 entities
Policy on Withdrawal of Ratings

About the company

AIL, formerly promoted by the Jiwrajka family, is one of the largest fully integrated textile players having a presence across the value chain – right from cotton spinning, polyster yarn, apparel fabrics, home textiles, and garments. The company has more than 10 manufacturing plants located over Dadra and Nagar Haveli (Silvassa), Gujarat, and Maharashtra.

Pursuant to the order dated March 08, 2019, the National Company Law Tribunal (NCLT) approved the resolution plan, 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 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.

Brief Financials (₹ crore)	FY21 (A)	FY22(A)	H1FY23 (Prov.)
Total operating income	3752.31	7188.42	3614.27
PBILDT	402.40	620.68	74.84
PAT (before exceptional items)	-355.46	-	-
PAT (after exceptional items)	-5854.99	-184.18	-333.50
Overall gearing (times)	4.05	4.56	6.15
Interest coverage (times)	0.85	1.29	0.32

A: Audited, Prov: Provisional, NA: Not 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 the last three years: Annexure-2

Covenants of the rated instruments/facilities: Not applicable

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

Annexure-1: Details of facilities

Name of the Instrument	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-Cash Credit	-	-	-	415.00	CARE AA; Stable
Fund-based - LT-Term Loan	-	-	March 2028	4886.17	CARE AA; Stable
Un Supported Rating-Un Supported Rating (Long Term)	-	-	-	0.00	Withdrawn

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 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1.	Fund-based - LT-Term Loan	LT	4886.17	CARE AA; Stable	1)CARE AA; Stable (05-Jan-23)	1)CARE AA (CE); Stable (02-Feb-22)	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; Stable	1)CARE AA; Stable (05-Jan-23)	1)CARE AA (CE); Stable (02-Feb-22)	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.	Unsupported rating-Unsupported rating (Long Term)	LT	-	-	1)Withdrawn (05-Jan-23)	1)CARE A+ (02-Feb-22)	1)CARE A+ (06-Jan-21)	1)CARE A+ (31-Mar-20) 2)CARE A+ (06-Mar-20)

*Long term/Short term.

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.	Unsupported rating-Unsupported rating (Long Term)	Simple

Note on 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.

Annexure-4: Bank lender details for this company

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

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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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