Alok Industries Limited

March 06, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating1	Rating Action
Long term Bank Facilities	5,555.00	Provisional CARE AA (CE); Stable [Provisional Double A (Credit Enhancement); Outlook: Stable]	Assigned
Total facilities	5,555.00 (Rupees five thousand five hundred and fifty five crore only)		

Details of instruments/facilities in Annexure-1

Unsupported Rating [2]	**Provisional CARE A+ (Provisional A Plus)**

Note: Unsupported Rating does 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) factors in credit enhancement in the form of Letter of Comfort (LoC) to be extended by Reliance Industries Limited (RIL). The above rating is based on the CARE's view on LoC provider's credit profile and business linkages of AIL with RIL. The LoC primarily states that RIL will maintain its shareholding of 26% in AIL during the tenure of the external debt and will assist AIL in arranging funds to meet its debt repayment obligations in a timely manner. The rating assigned is provisional and will be converted into a final rating post the implementation of the approved Resolution Plan and submission of copies of relevant executed documents, which include the Offtake agreement with RIL as well as the LoC, backed by RIL's board resolution, to the new lenders.

Detailed Rationale& Key Rating Drivers of Reliance Industries Limited

The credit profile of RIL factors in the immensely experienced and resourceful promoter group, highly integrated nature of operations with presence across the entire energy value chain, diversified revenue streams, massive scale of downstream business with one of the most complex refineries, established leadership position in the petrochemical segment as well as strong financial risk profile characterized by robust capital structure, stable cash flows and healthy liquidity position. The credit profile also factors in the increasing wireless subscriber base which has led its digital services business to attain a leadership position in the industry as well as the various steps announced by the management to reduce the debt on a consolidated level.

The above strengths are partially offset by the exposure of RIL to risks relating to declining gas volumes from KG-D6 basin, inherent cyclicality and volatility in crude oil prices and global refining margins as well as competitive intensity associated with the telecom segment.

The ability of the company to further improve its financial risk profile by increasing the cash flows from its consumer-facing businesses, reduce the group debt as envisaged as well as sustain its market share at reasonable ARPU (Average Revenue per User) levels for its telecom venture are the key rating sensitivities.

Key Rating Drivers of Alok Industries Limited (Unsupported Rating)

The rating derives strength from well-established, resourceful and experienced management, off-take agreement in the nature of 'take-or-pay' with RIL, operational synergies as well as assured raw-material availability from RIL and presence of AIL in various segments of the textile value chain in cotton as well as polyester products.The above rating strengths are however tempered by the cyclical and commoditized nature of textile business as well as current low capacity utilization of the plant, which is expected to ramp-up in the near future on account of change in the ownership and management.

Rating Sensitivities

Positive Factors

- Increase of shareholding by RIL in the company
- Successful implementation of the Resolution Plan

Negative Factors

- Weakening of the credit risk profile of the LoC provider

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[1] *Complete definition of the ratings assigned are available at www.careratings.com and other CARE 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).*

- Any substantial decline in RIL's holding in AIL from the proposed level (26% as per the Resolution Plan)

Detailed description of the key rating drivers
Key Rating Strengths
Well-established, experienced and resourceful promoters: After the implementation of the Resolution Plan, RIL will hold 26% equity stake in AIL. Further, RIL will have an indirect holding of 19.6% through JMFARC – March 2018 – Trust (ARC Trust), wherein Reliance Ventures Limited (RVL), a 100% subsidiary of RIL holds an equity stake of 40%. Thus, upon implementation of the Resolution Plan, ultimate shareholding of RIL Group in the company will amount to 45.60%. On February 20, 2020, RIL has infused its equity commitment of Rs. 250 crore as well as optionally convertible preference shares of Rs.250 crore in AIL (as defined in the Resolution Plan).
RIL is the flagship company of the Reliance group - the largest private sector enterprise in India with businesses across the energy and materials value chain, along with a significant and growing presence in retail and telecom sectors. The promoters of RIL are resourceful and the management represented by the Board of Directors comprises of eminent personalities with vast experience in their respective fields.

Off-take agreement in the nature of Take-or-pay, ensuring sufficient cash flows for debt servicing: AIL will enter into an off-take agreement with RIL for a period of 8 years which will be in the nature of 'take-or-pay'. As per the agreement, RIL will ensure minimum guaranteed off-take which will be sufficient for AIL to meet its debt repayment obligations. This arrangement will ensure sufficient cash flows for debt servicing of the company.
As per the off-take agreement, RIL shall also provide marketing support to AIL to market and sell its products to any other third parties other than RIL. Further, 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.

Operational synergies with RIL: With the acquisition of an integrated textile manufacturing facility like AIL, RIL will be able to combine its own textile business with that of AIL, thereby resulting into economies of scale in the near future. This acquisition would also help RIL in increasing sales of its petrochemical products like PTA (Purified Terepthalic Acid) and Monoethylene Glycol (MEG) in the domestic market. Since AIL is also into garmenting, there is a direct synergy with RIL's retail ventures where textile products manufactured by AIL will be marketed through Reliance Retail's Fashion and Lifestyle segment.

Assured raw material availability: For AIL's polyester yarn operations, PTA and MEG are the major raw materials that are required in manufacturing various grades of polyester yarns. These components form a major constituent of raw material costs and will be supplied entirely by RIL since these are produced by RIL's petrochemical division. This will ensure uninterrupted availability of major raw materials for AIL. Moreover, RIL would also extend its assistance and expertise in procuring other raw materials.

Integrated presence across the textile value chain in cotton as well as polyester segments: AIL has 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.

Key Rating Weaknesses
Lower capacity utilization: Currently, due to lack of working capital funds, the plants have been operating at a lower capacity utilization of around 30%. The same is expected to improve on account of infusion of funds, proposed capital expenditure for ramp-up of operations, RIL's strong project implementation skills, efficiency in procurement of raw materials and marketing support from RIL**.**

Cyclical and commoditized nature of business: The two key segments of AIL viz. Textiles & Polyesters are commoditized with intense competition and cyclical in nature, making them vulnerable to demand and supply dynamics and restricts AIL's pricing power. However, once the implementation of the resolution plan is complete, the company would be well positioned on account of its integration with RIL group and will be able to regain its market share aided by improvement in capacity utilization as well as integrated nature of operations.

Detailed description of the key rating drivers of RIL:
Key Rating Strengths
Resourceful promoter group and experienced management: The top management team, including Mr. Mukesh Ambani, has significant knowledge in the field of petrochemicals and oil & 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.

Massive scale of downstream business with highly complex refinery asset which leads to better GRMs: RIL operates two of the largest and most complex refineries in the world with a crude processing capacity of almost 1.24 million metric barrels per day (MMBPD). RIL has been consistently operating at a capacity utilization of more than 100%.

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

Strong financial risk profile characterized by robust capital structure: RIL has consistently maintained healthy capital structure. As on March 31, 2019, consolidated gearing stood at 0.78x as compared to 0.81x as on March 31, 2018.

Various steps being undertaken by the company for debt reduction: The company has announced various steps which provide visibility for debt reduction and deleveraging as well as further improvement in the financial risk profile of the company.

Key Rating Weaknesses
Uncertainty in KG-D6 gas production ramp-up: Gas output from RIL's KG-D6 basin continues to decline mainly on account of natural decline in the fields coupled with water and sand ingress as well as cessation of production from MA field. The declining output from KG-D6 basin may affect RIL's return on investments in the E&P segment in the medium term, although the revenues from this segment form a small part of the total revenue on a consolidated level. Moreover, the volumes from KG-D6 are expected to ramp-up owing to ongoing field developments which are expected to come on-stream from mid-2020.

Risks due to industry cycles and volatility in crude oil prices: Crude oil price are a function of many dynamic market 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 existing or future excess industry capacity may adversely impact the revenues and profitability of the company.

Liquidity: Strong
RIL has consistently maintained healthy capital structure with a gearing level of less than 1 time. The company also exhibits a very strong liquidity profile with total cash and equivalents including liquid/marketable investments of Rs. 1,53,719 crore as on December 31, 2019. Moreover, the company has unutilized working capital limits, providing additional liquidity cushion. Further, the company has superior financial flexibility, given its ability to easily access capital markets and raise funds at highly competitive interest rates.

Analytical approach:
Unsupported Rating: CARE has adopted a standalone approach. Further, financial and operational linkages in the form of off-take agreement of the nature of 'take-or-pay' with RIL, have been taken into consideration.

Credit Enhanced Rating: The rating is based on expected credit enhancement in the form of letter of Comfort to be extended by RIL in favor of the lenders of AIL. For credit enhanced ratings, CARE has applied its criteria on rating of credit enhanced debt.

Applicable Criteria
Criteria on assigning rating outlook and credit watch
CARE's Policy on Default Recognition
Criteria for Credit enhanced debt
CARE's Policy on Assignment of Provisional Ratings
Rating methodology- Consolidation and Factoring Linkages in ratings
Rating Methodology: Manufacturing Companies
Rating Methodology: Cotton Textile Manufacturing
Financial ratios – Non-Financial Sector

About the Company – Reliance Industries Limited

Reliance Industries Ltd. (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 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 Fortune Global 500 list of 'World's Largest Corporations' and has been consistently featuring in it for the last 14 consecutive years. The key business segments of RIL include Oil and Gas Exploration, Petroleum Refining, Petrochemicals, Retail and Telecom. RIL's manufacturing facilities are spread across the country at Allahabad (UP), Barabanki (UP), Dahej (Gujarat), Hazira (Gujarat), Hoshiarpur (Punjab), Jamnagar (Gujarat), Nagothane (Maharashtra), Nagpur (Maharashtra), Naroda (Gujarat), Patalganga (Maharashtra), Silvassa and Vadodara (Gujarat).RIL is one of the leading private petroleum refining companies in the country; operating two highly complex refineries with crude processing capacity of 1.24 million metric barrels per day (MMBPD), located at Jamnagar, Gujarat, on the west coast of India. RIL's petrochemical businesses broadly include polyesters, polyolefin, chemicals and elastomers. The petrochemical business is fully integrated with a focus on specialty products and commands amongst the lowest operating costs in the industry. RIL runs a combination of gas,naptha and ethane-based crackers and enjoys a dominant leadership position in almost all the product segments it operates in. RIL's global upstream portfolio includes 10 blocks, which includes 6 conventional blocks (5 domestic blocks and 1 international block), 2 CBM blocks in India and 2 Shale gas blocks in USA.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	3,95,804	5,72,643
PBILDT	68,636	89,828
PAT	36,080	39,837
Overall gearing (times)	0.81	0.78
Interest coverage (times)	8.52	5.45

A: Audited; Classified as per CARE 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 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 Silvassa, Gujarat and Maharashtra.

Pursuant to the order dated March 08, 2019, National Company Law Tribunal (NCLT) approved the resolution plan which was submitted jointly by JM Financial Asset Reconstruction Company Limited, JMFARC –Trust and Reliance Industries Limited. The implementation of the approved Resolution Plan is in process.

Brief Financials: Not Applicable since the Resolution Plan is under implementation process

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

Annexure-1: Details of Instruments/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	5140.00	Provisional CARE AA (CE); Stable
Fund-based - LT-Cash Credit	-	-	-	415.00	Provisional 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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Term Loan	LT	5140.00	Provisional CARE AA (CE); Stable	-	-	-	-
2.	Fund-based - LT-Cash Credit	LT	415.00	Provisional CARE AA (CE); Stable	-	-	-	-
3.	Un Supported Rating-Un Supported Rating (Long Term)	LT	0.00	CARE A+	-	-	-	-

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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About CARE Ratings:
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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