# Alok Industries Ltd — FY 2026 Annual Report Analysis

# Annual Report Analysis (Consolidated)

## Investor Snapshot

| # | Analytical point | Sentiment |
|---|---|---|
| 1 | Alok Industries has transitioned into a captive textile utility for Reliance Industries (RIL), with 93.7% of service revenue now dependent on this single related party. | — |
| 2 | **Revenue remains stagnant at □3,715 Cr (+0.16% YoY) as the business pivots from independent manufacturing to a low-margin job-work model.** | — |
| 3 | **Operating margins are structurally suppressed by a 50% US reciprocal tariff wall, leading to a 15.59% collapse in standalone export sales.** | — |
| 4 | **The company is fundamentally value-destructive, reporting a negative ROCE of -3.0% with finance costs of □614.72 Cr exceeding operational returns.** | — |
| 5 | **Technical insolvency persists with a negative Net Worth of □21,527.79 Cr and staggering accumulated losses of □24,993.39 Cr.** | — |
| 6 | **Balance sheet survival is entirely contingent on □17,384.02 Cr of interest-free debt and □3,486.77 Cr in bank loan guarantees provided by RIL.** | — |
| 7 | **Cash Flow from Operations improved to □419 Cr, though this was primarily driven by aggressive working capital management and a 37.97% increase in trade payables.** | — |
| 8 | **Capital expenditure efficiency is poor, with □98 Cr locked in Capital Work-in-Progress (CWIP) for projects delayed by over two years.** | — |
| 9 | **Earnings quality is compromised by a departure from Ind AS 109, masking approximately □1,564 Cr in annual interest costs through non-fair valuation of debt.** | — |
| 10 | **Governance risk is elevated due to extreme KMP instability, evidenced by the resignation of the CEO and CFO, and a turnover of 4 CFOs in 24 months.** | — |
| 11 | **Future liquidity is threatened by "shadow debt" in the form of □804.27 Cr in accrued preference dividends representing a massive future cash obligation.** | — |
| 12 | **Investment View: Avoid; monitor RIL guarantee continuity and the potential □500 Cr revenue tailwind from Bangladesh's LDC status graduation in 2026.** | — |

## 1. Business overview (In Bullet Points)

- **Business Segments:** The company operates as an integrated textile manufacturer, now primarily functioning as a **captive manufacturing utility** for its promoter, Reliance Industries Ltd (RIL). Key divisions include Spinning, Polyester (Job-work), Home Textiles, and Fabrics.
- **Revenue Drivers:** Growth is stagnant (0.16% YoY), with 27.03% of revenue (□1,004.15 Cr) now derived from **Sale of Services (Job Work)**. The business is heavily reliant on RIL's internal procurement strategy.
- **Cost Drivers:** Operations are highly energy-intensive, with **Power and Fuel** accounting for 19.07% of total revenue (□708.43 Cr). Raw material costs (PTA/MEG) are a major factor, though the shift to job-work de-risks the polyester segment from price volatility.

- **Industry Position:** Alok is transitioning from an independent textile major to a specialized synthetic processing unit within the RIL ecosystem. It faces significant headwinds in exports due to global trade barriers.
- **Expansion Plans & Capacity:** The company is focusing on "subdued measures" and maintenance capex. However, **CWIP of ₹98.00 Cr** includes projects like the CP plant-ETP that have been delayed by over 2 years.
- **Acquisitions & Divestments:** The company completed the divestment of its 100% stake in the Czech subsidiary, **Mileta a.s.**, signaling a strategic withdrawal from international manufacturing to focus on the domestic RIL-integrated supply chain.
- **Segment Performance:** The Polyester business has pivoted to a **Manufacturing Capacity Booking (Job-work) model** as of March 2024. In the Spinning division, 55% to 60% of yarn is now consumed internally.
- **Geographical Presence:** There is a marked retreat from international markets; standalone export sales fell 15.59% YoY, primarily due to a **50% US reciprocal tariff wall** on Indian textile exports.

## 2. Management commentary & outlook

- Management confirms the structural pivot of the major polyester business to a job-work model to de-risk against raw material volatility, effectively turning the segment into a fixed-margin processing unit.
- The company is increasingly focused on internal consumption, with nearly 60% of yarn production used within the group, indicating a strategic retreat from the open market.
- Management highlights a deteriorating export environment, specifically citing the **50% US reciprocal tariffs** effective August 2025 as a catastrophic blow to the Home Textiles and Fabrics segments.
- Ongoing logistics disruptions in the Red Sea are identified as a persistent risk to lead times and freight costs, eroding the company's competitive reliability.
- The "Bangladesh Graduation" from LDC status in November 2026 is viewed as a potential opportunity, as it will remove their duty-free advantage in the EU/UK, potentially benefiting Alok’s integrated scale.
- Management notes that GST rationalization (MMF fiber/yarn reduced to 5%) corrects the long-standing inverted duty structure, providing some relief to the cost base.
- The company’s survival strategy is explicitly tied to "synergies in group operations," with management admitting that promoter support is the primary reason the company can sustain itself in the current environment.
- High KMP churn is evident: the CEO (Harsh Bapna) resigned in January 2026, and the company has seen **four CFO transitions in approximately 24 months**, alongside the resignation of the Company Secretary.
- **Management Tone:** The tone is one of survival and transition rather than independent growth. While management is clear about the strategic pivot to a captive RIL model, the high turnover of top-tier executives (CEO/CFO) suggests a "command and control" environment with limited local autonomy and significant internal friction regarding the company's distressed balance sheet.

# 3. Financial analysis

## 3.1 Financial statements

### P&L statement (□Cr)

| Line item | Mar 2026 | Mar 2025 |
|---|---|---|
| Sales | 3,715 | 3,709 |
| Sales Growth % | 0.16 | -32.69 |
| Expenses | 3,687 | 3,797 |
| Material Cost % | 51 | 52 |
| Raw material cost | 1,840 | 1,818 |
| Change in inventory | 47 | 101 |
| Manufacturing Cost % | 19 | 32 |
| Employee Cost % | 13 | 13 |
| Other Cost % | 16 | 6 |
| Operating Profit | 28 | -89 |
| OPM % | 1 | -2 |
| Other Income | 105 | 203 |
| Exceptional items | 31 | 92 |
| Other income normal | 74 | 111 |
| Interest | 615 | 628 |
| Depreciation | 263 | 298 |
| Profit before tax | -745 | -811 |
| Tax % | 0 | 1 |
| Net Profit | -744 | -816 |
| Profit from Associates | 0 | 0 |
| Exceptional items AT | 31 | 92 |
| Profit excl Excep | -775 | -909 |
| Profit for PE | -775 | -909 |
| Profit for EPS | -744 | -816 |
| Profit Growth % | 15 | -7 |
| EPS (□) | -1.50 | -1.64 |
| Dividend Payout % | 0 | 0 |

**Balance sheet (□Cr)**

| Line item | Mar 2026 | Mar 2025 |
|---|---|---|
| Equity Capital | 497 | 497 |
| Reserves | -22,024 | -21,127 |
| Borrowings | 26,106 | 25,963 |
| Long term Borrowings | 25,616 | 25,700 |
| Short term Borrowings | 489 | 261 |
| Lease Liabilities | 1 | 2 |
| Preference Capital | 0 | 3,543 |
| Other Borrowings | 0 | -3,543 |
| Other Liabilities | 1,897 | 1,397 |
| Trade Payables | 714 | 411 |
| Advance from Customers | 0 | 0 |
| Other liability items | 1,182 | 986 |
| Total Liabilities | 6,475 | 6,730 |
| Fixed Assets | 4,692 | 4,762 |
| Land | 0 | 4,618.46 |
| Building | 0 | 3,139.82 |
| Plant Machinery | 0 | 9,462 |
| Equipments | 0 | 70.95 |
| Computers | 0 | 11.50 |
| Furniture n fittings | 0 | 37.62 |
| Vehicles | 0 | 2.85 |
| Intangible Assets | 4.61 | 12.45 |
| Other fixed assets | 0 | 855.46 |
| Gross Block | 0 | 18,211.11 |
| Accumulated Depreciation | 0 | 13,449.40 |
| CWIP | 98 | 35 |
| Investments | 0 | 0 |
| Other Assets | 1,685 | 1,933 |
| Inventories | 886 | 866 |
| Trade receivables | 318 | 440 |
| Receivables over 6m | 0 | 297 |
| Receivables under 6m | 0 | 428 |
| Prov for Doubtful | 0 | -286 |
| Cash Equivalents | 123 | 72 |
| Loans n Advances | 4 | -19 |
| Other asset items | 354 | 574 |

| Line item | Mar 2026 | Mar 2025 |
|---|---|---|
| Total Assets | 6,475 | 6,730 |

### Cash flow statement (□Cr)

| Line item | Mar 2026 | Mar 2025 |
|---|---|---|
| Cash from Operating Activity | 419 | 115 |
| Profit from operations | 64 | -15 |
| Receivables | 118 | -29 |
| Inventory | -20 | 73 |
| Payables | 156 | 4 |
| Loans Advances | 0 | 0 |
| Other WC items | 120 | 109 |
| Working capital changes | 373 | 157 |
| Direct taxes | -18 | -27 |
| Cash from Investing Activity | -126 | 238 |
| Fixed assets purchased | -242 | -79 |
| Fixed assets sold | 122 | 132 |
| Investments purchased | 0 | 0 |
| Investments sold | 0 | 0 |
| Interest received | 5 | 7 |
| Dividends received | 0 | 0 |
| Inter corporate deposits | 0 | 0 |
| Other investing items | -10 | 179 |
| Cash from Financing Activity | -266 | -348 |
| Proceeds from shares | 0 | 0 |
| Proceeds from borrowings | 51 | 50 |
| Repayment of borrowings | -45 | -99 |
| Interest paid fin | -270 | -293 |
| Dividends paid | 0 | 0 |
| Financial liabilities | -2 | -5 |
| Other financing items | 0 | 0 |
| Net Cash Flow | 28 | 6 |
| Free Cash Flow | 298 | 168 |
| CFO/OP | 1,567 | -161 |

### Key ratios

| Line item | Mar 2026 | Mar 2025 |
|---|---|---|
| Debtor Days | 31 | 43 |
| Inventory Days | 171 | 165 |
| Days Payable | 138 | 78 |
| Cash Conversion Cycle | 65 | 130 |
| Working Capital Days | -101 | -19 |
| ROCE % | -3 | -5 |

## 3.2 Financial analysis summary

- **Revenue** from operations remained stagnant with a marginal growth of 0.16% YoY, totaling □3,715.00 Cr, where a significant 27.03% (□1,004.15 Cr) was derived from Sale of Services (Job Work); this segment carries extreme customer concentration risk as 93.70% of service income is sourced from a single related party, Reliance Industries Limited, which directly influences the reduction in Trade Receivables to □318.00 Cr through a captive manufacturing arrangement.
- **Operating Profit** improved to □28.00 Cr from a loss of □89.00 Cr in the previous year, primarily due to a sharp reduction in Manufacturing Cost % to 19.00% from 32.00%, although the business remains highly energy-intensive with Power and Fuel expenses of □708.43 Cr accounting for 19.07% of total Revenue.
- The company reported a deep **Net Profit (PAT)** loss of □744.00 Cr, largely driven by Finance Cost of □614.72 Cr, which includes a non-cash accrual of □320.77 Cr for Preference Dividend; this is linked to a massive Total Debt of □26,106.00 Cr, where □17,384.02 Cr is interest-free assigned debt held by promoters, representing a significant hidden subsidy that masks the true economic cost of capital.
- **Working Capital** efficiency improved as the Cash Conversion Cycle dropped to 65.00 days from 130.00 days, but this was primarily achieved by stretching Trade Payables to □714.00 Cr, a 37.97% increase that acted as the largest boost to CFO, which rose to □419.00 Cr despite the heavy accounting losses.
- **Fixed Assets** stood at □4,692.00 Cr, reflecting a net decrease as Depreciation of □263.29 Cr and an Impairment of Fixed Assets of □6.87 Cr outweighed the Capex of □242.00 Cr; furthermore, CWIP increased to □98.00 Cr with specific projects like the CP plant-ETP facing delays of over 2 years, indicating execution bottlenecks.
- **Net Worth** is severely eroded at negative □21,527.79 Cr due to accumulated losses of □24,993.39 Cr, rendering the company technically insolvent and entirely dependent on the Going Concern assumption, which is supported by promoter corporate guarantees for □3,486.77 Cr of bank term loans.
- **Cash Flow** quality is strained as CFO of □419.00 Cr is insufficient to cover the full structural requirements of the business if the interest-free debt were normalized, though it currently supports a positive Free Cash Flow (FCF) of □298.00 Cr after accounting for Fixed assets purchased of □242.00 Cr.
- **ROCE** remains negative at -3.00%, reflecting the inability of the current asset base to generate returns above the cost of debt, while Asset Turnover is hampered by stagnant Revenue and a legacy of underutilized or non-operational assets, such as the impaired CP plant line.
- **Other Income** of □105.00 Cr includes non-recurring exceptional gains of □31.00 Cr from insurance claims and scrap sales following tornado damage, which artificially cushioned the Profit before tax of -□745.00 Cr.
- The company's **Trade Receivables** quality is a concern as gross "Credit Impaired" receivables rose to □300.88 Cr, with □268.62 Cr overdue for more than 3 years, suggesting that while current Debtor Days improved to 31.00 days, the balance sheet still carries significant legacy collection risks.

- **Other Assets** analysis shows a sharp drop in non-current statutory balances (₹122.18 Cr reduction), suggesting recovery of tax credits, though the balance sheet still carries ₹155.19 Cr in fully provided doubtful advances to vendors.
- **Other Liabilities** include ₹206.55 Cr in Contract Liabilities (Advances), which grew 12.98% YoY, acting as a lead indicator for future revenue, while Salaries & Wages Payable stands at ₹147.22 Cr.
- **Other Expenses** are impacted by a large "Miscellaneous Expenses" bucket of ₹81.93 Cr (up 10.6% YoY) which lacks detailed transparency and accounts for 6.28% of other overheads.
- Alok Industries operates as a technically insolvent entity with a stagnant **Revenue** trajectory, surviving through a captive job-work model for its promoter and a subsidized debt structure that generates positive CFO via payable management but remains structurally incapable of achieving bottom-line profitability without further massive deleveraging or operational turnaround.

### 3.3 Contingent liabilities & commitments

- **Claims not acknowledged as debt:** ₹0.15 Cr.
- **Income Tax Matters:** ₹0.57 Cr.
- **GST Matters:** ₹0.61 Cr (increased from ₹0.06 Cr).
- **Capital Commitments:** ₹23.13 Cr (Net of Advances), down significantly from ₹121.59 Cr, indicating completion of revamping projects or a slowdown in new capex.
- **Litigation Note:** Most legacy claims and tax liabilities up to the NCLT closing date have been extinguished. However, any judicial reversal of these extinguishments poses a massive unprovided liability risk.

## 3.9 Earnings quality & forensic checks

| # | Check | Impact | Status | Notes detail |
|---|---|---|---|---|
| 1 | PAT vs CFO trend | Profit ↑ — non-cash finance costs and depreciation bridge the □1,163 Cr PAT-CFO gap. | — | Note 28: Finance costs include □320.77 Cr non-cash preference dividend accrual; Note 32: CFO exceeds PAT due to high non-cash charges. |
| 2 | Receivables & channel-stuffing signal | Neutral — receivables fell 27% while sales stayed flat; legacy impaired assets remain high. | — | Note 10: Gross "Credit Impaired" receivables rose to □300.88 Cr, with □268.62 Cr overdue for >3 years. |
| 3 | Revenue timing | Revenue ↑ — customer advances rose 13% providing visibility; suggests conservative revenue recognition timing. | — | Note 1(e): Revenue recognition tied to performance obligations; advances recorded as contract liabilities until satisfaction. |
| 4 | Revenue from related parties % | Revenue ↑↓ — high concentration risk; 28% of revenue depends on promoter group's captive model. | — | Note 43: 93.7% of "Sale of Services" (□940.93 Cr) is derived from a single related party (Reliance Industries Limited). |
| 5 | Inventory vs revenue growth | Profit ↓ — raw material build-up (16%) outpaces flat sales; potential margin pressure or hedging. | — | Note 9: Raw material inventory increased 15.89% (□298.52 Cr) while finished goods decreased 12.12%. |
| 6 | Inventory valuation method change | Neutral — consistent application of cost or NRV policy; no accounting-led profit manipulation. | — | Note 1: Inventories valued at lower of cost and net realizable value using weighted average method. |
| 7 | Exceptional items in operating profit | Profit ↑ — non-recurring gains of □31 Cr artificially reduce the reported net loss. | — | Note 31: Gains from insurance claims and tornado-damaged scrap sales cushion the bottom line. |
| 8 | Depreciation rate vs useful life policy | Profit ↑ — extended useful lives reduce annual depreciation charge, moderating the reported loss. | — | Note 1(g): Useful lives for key assets are higher than Schedule II norms, lowering annual depreciation expense. |
| 9 | Provision reversals boosting PAT | Neutral — no significant provision reversals found; credit impaired assets actually increased by □24 Cr. | — | Note 10: Receivables credit impaired increased from □276.89 Cr to □300.88 Cr; no reversal benefit taken. |
| 10 | Tax rate consistency + cash tax vs P&L tax | Profit ↓ — cash tax paid (□18 Cr) despite accounting losses; no tax benefit recognized. | — | Note 1(f): No Deferred Tax Assets recognized on □5,962 Cr losses due to lack of "reasonable certainty." |
| 11 | CWIP age and stalling projects | Profit ↓ — delayed projects (□8.41 Cr) risk future impairment and lack of productive return. | — | Note 3(b): Several projects (CP plant-ETP) are delayed by over 2 years from original target dates. |
| 12 | Deferred tax asset recognition adequacy | Neutral — conservative non-recognition of DTA prevents overstatement of assets amid technical insolvency. | — | Note 1(f): Management appropriately avoided DTA recognition given the negative net worth and history of losses. |
| 13 | RPT quantum and trend | Profit ↑ — interest-free debt of □17,384 Cr from promoters provides massive unrecorded interest subsidy. | — | Note 33: Debt measured at cost rather than fair value (Ind AS 109 departure) per NCLT plan overriding effect. |
| 14 | Dividend paid vs FCF adequacy | Neutral — no equity dividends paid; FCF insufficient to cover □804 Cr accrued preference obligations. | — | Note 21: Preference dividend is "accrued and due," representing a massive future cash outflow obligation. |
| 15 | Ind AS 109 Departure | Profit ↑ — Non-fair valuation of □17,384 Cr debt suppresses interest expense. | — | Note 33: Masks an estimated annual interest subsidy of ~□1,564 Cr (at 9% market rate). |
| 16 | | | — | |

| # | Check | Impact | Status | Notes detail |
|---|---|---|---|---|
| | Going Concern Uncertainty | Neutral — Auditor Emphasis of Matter regarding total erosion of net worth. | | Note 32: Survival is entirely predicated on continued financial support from Reliance Industries Limited. |
| 17 | KMP Instability | Neutral — High turnover in key finance and executive roles. | — | MD&A: Suggests potential lack of leadership autonomy or internal friction. |

## 4. Management & governance

A. Auditor Report & Key Audit Matters * **Audit Opinion:** Unqualified Opinion. * **KAM 1: Going Concern Assessment:** The auditor highlighted a consolidated net loss of □744.11 Cr and accumulated losses of □24,993.39 Cr. The "Going Concern" status is entirely predicated on the successful implementation of the NCLT resolution plan and continued financial support from the promoter (Reliance Industries Limited). * **KAM 2: Impairment of Property, Plant and Equipment:** Given the negative net worth and technical insolvency, the valuation of manufacturing units is a high-judgment area. An impairment of □6.87 Cr was recorded this year for a non-operational CP plant line. * **KAM 3: Litigation and Extinguishment of Claims:** The auditor noted the legal complexity regarding the extinguishment of legacy claims under the NCLT plan. Any judicial reversal of these extinguishments poses a massive unprovided liability risk. * **Emphasis of Matter:** Material uncertainty exists regarding the company's ability to continue as a going concern due to total erosion of net worth (Negative □21,527.79 Cr). * **Accounting Departure:** The company continues to measure □17,384.02 Cr of interest-free debt at cost rather than fair value. This is a significant departure from Ind AS 109, justified by management under the "overriding effect" of the NCLT Resolution Plan. * **Auditor Change:** M/s. Chaturvedi & Shah LLP were appointed for a 5-year term starting FY 2025-26. * **Auditor Fees:** Total fees paid on a consolidated basis amounted to □1.91 Cr.

B. Related Party Transactions | Party | Relationship | Nature | Amount (□Cr) | Concern | | :--- | :--- | :--- | ---: | :--- | | Reliance Industries Ltd | Promoter | **Assigned Debt (Interest-Free)** | 17,384.02 | ***Hidden Subsidy (Ind AS 109 Departure)*** | | Reliance Industries Ltd | Promoter | **Bank Loan Guarantee** | 3,486.77 | ***Survival Dependency (Going Concern Anchor)*** | | Reliance Industries Ltd | Promoter | **Sale of Services (Job Work)** | 940.93 | ***Captive Model (25.33% of Revenue)*** | | Reliance Industries Ltd | Promoter | **Preference Dividend Accrued** | 320.77 | ***Cash Drain (Accrued liability: 804.27 Cr)*** | | Reliance Industries Ltd | Promoter | Purchase of Goods | 205.77 | Vertical Integration | | Reliance Retail Ltd | Group Co | Sale of Goods | 97.73 | Integrated Supply Chain |

- **Dependency Risk:** 93.70% of all service revenue is derived from RIL.
- **Preference Dividend:** Unpaid dividends on preference shares held by promoters have ballooned to **□804.27 Cr**, representing a massive deferred cash obligation.
- **Debt Valuation:** The □17,384.02 Cr debt is interest-free; the lack of fair valuation masks an estimated annual interest subsidy of ~□1,564 Cr.

C. Shareholding | Shareholder category | Mar 2026 (%) | Mar 2025 (%) | | :--- | ---: | ---: | | Promoters | 75.00 | 75.00 | | FIIs | 2.15 | 2.19 | | DIIs | 0.35 | 0.32 | | Public | 22.50 | 22.49 | | Pledged Shares | 0.00 | 0.00 |

D. Board Composition + KMP Compensation * **Total Directors:** 7 | **Independent %:** 42.86% | **Women Directors:** 1. * **KMP Compensation:** * **A. Siddharth (Chairman):** □0.024 Cr (-93.68% YoY). * **Mumtaz Bandukwala (Ind. Dir):** □0.026 Cr (-93.50% YoY). * **Transparency Gap:** Remuneration for the CEO (Harsh Bapna) and CFO (Jinendra Kumar Jain) was excluded from the member version of the report. * **Independent Director Pay:** Remuneration crashed by >93% as the company shifted to a "sitting fees only" model (□20,000 per meeting). * **KMP Instability:** The CEO, CFO, and Company Secretary all resigned or were replaced within the last 12-14 months.

F. Capital Allocation & Capex | Action | FY current (□Cr) | FY prior (□Cr) | % of CFO | Signal | | :--- | ---: | ---: | ---: | :--- | | Interest Payments | 270.00 | 293.00 | 64.44% | — | | Capex (Fixed Assets Purchased) | 242.00 | 79.00 | 57.76% | — | | Asset Sales | 122.00 | 132.00 | 29.12% | **Positive** | | Repayment of Borrowings | 45.00 | 99.00 | 10.74% | — | | Impairments | 6.87 | — | 1.64% | — |

**CAPEX Analytical Notes:** * **CFO Coverage:** CFO (□419.00 Cr) is insufficient to cover the combined burden of Interest (□270.00 Cr) and Capex (□242.00 Cr), leaving a **□93.00 Cr funding gap** bridged by asset sales. * **Nature of Capex:** Primarily maintenance; however, **CWIP of □98.00 Cr includes projects delayed by over 2 years**, signaling execution bottlenecks. * **Deployment Efficiency:** Revenue grew only 0.16% despite a **206% surge in capex** (□242 Cr vs □79 Cr), indicating zero immediate top-line conversion.

H. Risks * ***Going Concern*** (High): Accumulated losses of □24,993.39 Cr; total reliance on RIL support. * ***Ind AS Departure*** (High): Non-fair valuation of □17,384 Cr debt masks true interest burden. * ***Captive Dependency*** (High): 93.7% of service revenue from RIL; loss of independent pricing power. * ***US Tariff Escalation*** (High): 50% reciprocal tariffs on Indian textiles erode export margins. * ***Energy Intensity*** (Medium): Power/Fuel is 19.07% of revenue; vulnerable to utility price hikes. * ***Project Delays*** (Medium): CWIP aging > 2 years for CP plant; capital lock-up in non-productive assets.

## 5. Scorecard & verdict

### Part a: scorecard

| Dimension | Rating (1–5) | Delta | Key evidence | One-line rationale |
|---|---|---|---|---|
| Business quality | 2 | → | 93.7% Service Rev from RIL; 50% US Tariffs | Transitioned to a low-margin captive utility with impaired export potential. |
| Financial health | 1 | → | Net Worth -□21,527 Cr; D/E N/A (Negative Equity) | Technically insolvent; survives solely on promoter guarantees and interest-free debt. |
| Earnings quality | 2 | ↓ | Ind AS 109 Departure; □31 Cr Exceptional Gain | Reported losses are moderated by non-fair valuation of debt and one-off gains. |
| Management & governance | 2 | ↓ | CEO/CFO Resignations; 4 CFOs in 24 months | High KMP instability and lack of transparency in executive compensation. |
| Capital allocation & earnings visibility | 2 | ↓ | ROCE -3.0%; CWIP delayed >2 years | Capex surge not translating to revenue; interest costs exceed operational cash. |

**Business positives (for this company this year)** * **[Operational Cash Flow]**: Generated **CFO of □419.00 Cr**, a significant improvement driven by working capital management (Trade Payables up 37.97%). * **[Promoter Support]**: Secured **□3,486.77 Cr in bank loan guarantees** from Reliance Industries Ltd, ensuring continued access to credit. * **[Debt Structure]**: Benefits from **□17,384.02 Cr of interest-free debt**, providing a massive liquidity cushion. * **[Asset Monetization]**: Realized **□122.00 Cr from asset sales**, helping bridge the funding gap for interest and capex. * **[Working Capital]**: Reduced **Cash Conversion Cycle to 65 days** from 130 days, primarily through payable stretching.

**Business negatives / concerns (for this company this year)** * **[Technical Insolvency]**: Consolidated **Net Worth is negative □21,527.79 Cr** with accumulated losses of □24,993.39 Cr. * **[Management Instability]**: Resignation of **CEO, CFO, and Company Secretary** within a single year; 4 CFOs in 24 months. * **[Export Impairment]**: Facing **50% US reciprocal tariffs**, leading to a 15.59% YoY collapse in standalone export sales. * **[Accounting Departure]**: Non-compliance with **Ind AS 109** for □17,384 Cr of debt, masking ~□1,564 Cr in annual interest costs. * **[Captive Concentration]**: **93.7% of service revenue** depends on a single related party (RIL), removing independent pricing power. * **[Execution Delays]**: **CWIP of □98.00 Cr** includes projects delayed

by over 2 years, signaling capital lock-up. * **[Shadow Debt]**: □**804.27 Cr in accrued preference dividends** represents a massive future cash outflow obligation.

**Overall scorecard summary** Alok Industries is currently a technically insolvent entity that has successfully transitioned into a captive manufacturing arm for Reliance Industries. While the company generates positive operating cash flow through aggressive payable management and promoter subsidies, its standalone financial health is poor, characterized by a massive negative net worth and value-destructive ROCE. Governance is clouded by extreme KMP instability and a significant departure from Ind AS accounting standards regarding debt valuation. The business is on a **stable but dependent trajectory**, where survival is entirely contingent on the promoter's willingness to subsidize the balance sheet.

## Part b: governance check matrix

| # | Check | Status |
|---|---|---|
| 1 | Audit opinion clean? | — |
| 2 | Promoter pledge = 0? | — |
| 3 | KMP pay < 5% of PAT? | — |
| 4 | RPT quantum < 5% of revenue? | — |
| 5 | Board > 50% independent? | — |
| 6 | At least 1 woman director? | — |
| 7 | No statutory dues outstanding? | — |
| 8 | No fraud reported? | — |
| 9 | Audit trail enabled? | — |
| 10 | Frequent Auditor change | — |

Final line: "Total: 6/10 — Governance Rating: 2"

## Part c: investor verdict

Thesis: Alok Industries is a distressed textile utility functioning as a captive, subsidized manufacturing arm for Reliance Industries' downstream integration.

## Overall stance: Avoid

Rationale: The company is technically insolvent with a 50% tariff wall in its primary export market and extreme management instability. Re-evaluate when: Net Worth turns positive or RPT concentration falls below 15% of revenue. BULL CASE: Bangladesh losing LDC status in Nov 2026 shifts EU/UK orders to Alok's integrated scale (+□500 Cr Revenue). BEAR CASE: RIL withdraws the corporate guarantee or demands settlement of the □804 Cr accrued preference dividends. Key monitorable: CFO Coverage of Interest: 1.55x → Watch threshold: <1.0x.

## 7. Year-over-year analysis

### 7.1 Changes

| Metric / theme | Summary a status | Summary b status | Forensic takeaway |
|---|---|---|---|
| Revenue Trajectory | Revenue collapsed by 32.69% as the company retreated from the open market. | Revenue flatlined at 0.16% growth, signaling a transition to a stagnant "utility" phase. | The company has hit a growth ceiling where its scale is now entirely dictated by the promoter's internal procurement needs. |
| Operating Margin (OPM) | Negative OPM of -2% due to severe negative operating leverage. | Marginally positive OPM of 1% driven by a sharp reduction in manufacturing costs. | Margin stabilization is a byproduct of the shift to a de-risked job-work model rather than a recovery in independent pricing power. |
| Working Capital Strategy | CFO of □115 Cr supported by inventory liquidation and liability write-backs. | CFO surged to □419 Cr primarily by stretching trade payables to 138 days. | Operating cash flow is being artificially sustained by delaying vendor payments to bridge the gap created by persistent accounting losses. |
| Capital Allocation | Capex of □79 Cr focused on maintenance and IT. | Capex surged 206% to □242 Cr despite stagnant revenue. | Management is aggressively increasing capital intensity in a technically insolvent entity with no immediate evidence of top-line conversion. |
| Management Stability | High churn noted with 3 CFO transitions in 11 months. | Extreme instability with the resignation of the CEO, CFO, and CS within a single year. | Chronic C-suite turnover suggests a "command and control" environment from the parent and potential internal friction regarding distressed financial reporting. |
| Earnings Quality | Bottom line supported by □82 Cr in liability write-backs and □92 Cr in asset sales. | Bottom line cushioned by □31 Cr in insurance claims and scrap sales from tornado damage. | The company remains structurally reliant on non-recurring gains and accounting adjustments to moderate its massive pre-tax losses. |

### 7.2 Persistent patterns

- **Technical Insolvency**: The company maintains a **massive negative net worth (exceeding □21,000 Cr)**, with accumulated losses continuing to grow annually.
- **Ind AS Non-Compliance**: Persistent **departure from Ind AS 109** by measuring □17,384 Cr of interest-free debt at cost, which masks the true economic interest burden.
- **Promoter Umbilical Cord**: Total and **sustained reliance on Reliance Industries** for financial guarantees (approx. □3,500 Cr), raw material supply, and the majority of the order book.
- **Going Concern Uncertainty**: Auditors consistently issue an **Emphasis of Matter regarding material uncertainty** over the company's ability to survive without parent support.
- **Structural Energy Drag**: Power and fuel costs remain a **volatile and disproportionate burden**, consistently consuming nearly 20% of total revenue.
- **Value-Destructive Returns**: Capital deployment remains **consistently value-destructive**, with ROCE trapped in negative territory across both reporting periods.
- **Shadow Debt Accumulation**: The **accrued preference dividend liability (now □804 Cr)** continues to balloon, representing a massive deferred cash drain for future periods.
- **Aggressive Depreciation**: Management continues to use **extended useful life estimates for machinery (up to 40 years)** to suppress annual depreciation charges and moderate reported losses.