Alok Industries Ltd — 23 May 2025 Credit Rating Summary

Section	Details
Agency	CARE Ratings Ltd.
Rating Change	**Reaffirmed** (CARE AA+ / CARE A1+); 0 notches moved.
Outlook (Current vs Previous)	**Stable** vs **Stable**
Key Drivers of Change	1. **Parental Support:** RIL (AAA rated) holds 40.01% and provides **unconditional & irrevocable corporate guarantees** for ₹3,500 Cr term debt. 2. **Business Model Pivot:** Shifted polyester segment to "Job Work" for RIL (March 2024); mitigates raw material risk but caused revenue to drop to ₹3,557 Cr (accounting for conversion income only). 3. **Operational Drag:** Standalone EBITDA turned negative (-₹30 Cr in FY25) due to Silvassa plant disruptions (power/tornado) and high fixed costs. 4. **Capital Infusion:** RIL infused ₹3,550 Cr via preference shares to sustain liquidity despite persistent losses.
Rated Instruments	• **LT Term Loan:** ₹3,500 Cr
Key Observations	1. **Credit Decoupling:** Rating is notched up significantly based on RIL's credit profile, not AIL's standalone financials. 2. **Strategic Synergy:** AIL serves as a captive manufacturing hub for Reliance Retail's fashion segment. 3. **Negative Profitability:** Sustained cash losses; Interest Coverage is "Not Meaningful" due to operating losses. 4. **Leverage Stress:** Overall Gearing worsened from 1.25x to **1.74x** in FY25. 5. **External Risks:** Ongoing dumping of cheap polyester yarn from China impacts domestic pricing power. 6. **Integrated Asset:** Maintains one of India's largest integrated textile value chains (Cotton & Polyester).
Investor Impact	• **Margins:** The "Job Work" model floors the downside risk of raw material volatility but caps the upside profit potential. • **Leverage:** Standalone debt is unsustainable; equity value is entirely dependent on RIL's willingness to provide liquidity. • **Dilution Risk:** Potential for equity conversion of preference shares in the future if RIL seeks >50% control (a positive rating trigger).
Agency / Cross Analysis	**Same Agency:** CARE maintained the high rating despite AIL swinging from a ₹75 Cr EBITDA profit (FY24) to a ₹30 Cr loss (FY25). The rationale has shifted focus from "standalone recovery" to "parental integration/job-work stability." **Conclusion: Inconsistency** between standalone deteriorating financials and the high-grade rating; the rating is a "proxy" for RIL credit risk.
Final Inference	**Pure Parent-Play:** The AA+ rating is a "Parental Shield." Standalone AIL is operationally fragile, but for equity holders, the shift to a Job-Work model for RIL effectively turns AIL into a captive utility, reducing bankruptcy risk but limiting speculative upside.