**Alok Industries Ltd — FY 2023 Annual Report Analysis**

# Annual Report Analysis (Consolidated)

## Investor Snapshot

| # | Analytical point | Sentiment |
|---|---|---|
| 1 | **Alok Industries operates as a distressed textile turnaround play, functioning primarily as a downstream polyester processing arm for Reliance Industries (RIL).** | — |
| 2 | ***Revenue contracted 4.38% to  6,989 Cr, driven by a 30% collapse in export demand, though partially mitigated by 3.36% growth in domestic sales.*** | — |
| 3 | ***Operating margins have completely eroded, with EBITDA margin falling from 8.00% to -1.00% due to high fixed costs and energy price sensitivity.*** | — |
| 4 | ***Net loss expanded by 331% to  880 Cr, contributing to a massive accumulated loss of  22,586 Cr and a negative ROCE of -7%.*** | — |
| 5 | ***The company is technically insolvent with a negative net worth of  18,900 Cr, surviving solely on RIL's financial umbilical cord and  17,384 Cr of interest-free debt.*** | — |
| 6 | **Reported CFO of □813 Cr is considered low-quality, as it was generated through aggressive working capital liquidation (reducing inventory days to 79) rather than operational profitability.** | — |
| 7 | **Capital expenditure has been frozen with commitments down 42%, signaling a shift from growth to survival and maintenance mode.** | — |
| 8 | ***Earnings quality is compromised by a departure from Ind AS 109 regarding the fair valuation of debt, masking the true economic cost of leverage.*** | — |
| 9 | **Governance is characterized by strong parental support (75% promoter holding, zero pledges) but weakened by a board that is less than 50% independent.** | — |
| 10 | ***Significant risks include a formal breach of financial covenants on term loans and extreme vulnerability to energy inflation, with power costs representing 59% of other expenses.*** | — |
| 11 | **The outlook depends on the SAP re-implementation for operational efficiency and the "China Plus One" strategy to drive capacity utilization above 80%.** | — |
| 12 | ***Investment View: Watch; the entity is uninvestable on a standalone basis, with the key monitorable being the continued extension of trade credit (  928 Cr) from RIL.*** | — |

## 1. Business overview (In Bullet Points)

- **Business Segments:** Alok Industries is a hyper-integrated textile player operating across two primary engines: Cotton (spinning-to-garment) and Polyester (melt-to-fiber).
- **Revenue Drivers:** Revenue is driven by a mix of domestic sales (83% of standalone top line) and exports. FY23 saw a significant structural shift as domestic sales grew 3.36% to □5,634.73 Cr, while exports collapsed by 34.48% due to the Western energy crisis and strategic risk reduction in neighboring countries.
- **Cost Drivers:** Primary costs include raw materials (Cotton, PTA, MEG) and energy. Cotton prices exhibited extreme volatility (□1,06,000 to □61,800/candy), leading to inventory devaluations. Power and fuel represent a massive 59% of other expenses.
- **Industry Position:** The company is re-positioning as a "China Plus One" beneficiary, leveraging its **Reliance Industries (RIL) parentage** to regain "preferred supplier" status among global brands.

- **Expansion & Capacity:** Currently in a "maintenance" rather than "expansion" phase. The focus is on bringing massive plants in Vapi and Silvassa back to global standards. Capital commitments decreased by 41.85% to ₹16.66 Cr.
- **Geographical Presence:** Strong domestic presence with a strategic pivot toward "converter countries" like Bangladesh and Vietnam to offset sluggish demand in US/EU retail markets.
- **Segment Performance:** The business struggled with high fixed-cost overheads, resulting in a negative EBITDA of ₹30.93 Cr (standalone) due to under-absorption of capacity.

## 2. Management commentary & outlook

- Management acknowledges that the global economic headwinds had a "more pronounced" impact on Alok due to its fragile post-insolvency recovery state.
- The strategic focus has shifted from aggressive growth to operational stabilization and a critical IT overhaul, including a SAP re-implementation (going live in FY24) to meet "Industry 4.0" standards.
- Vertical integration with **Reliance Industries (RIL)** remains the primary survival mechanism, with raw materials (PTA/MEG) sourced at internationally competitive prices.
- Management noted "signs of demand revival" in early FY24 but remains cautious regarding the pace of recovery in US and EU retail inventories.
- The company is prioritizing "large volume consistency" to compete with countries like Bangladesh, which currently benefit from concessional import duties (GSP) that India lacks.
- A leadership refresh, including the appointment of a new CEO (Ram Rakesh Gaur) and Joint CFO in July 2023, is intended to drive execution and plant modernization.
- The "Going Concern" assumption is explicitly tied to the continued waiver of interest and financial support from promoters under the NCLT-approved resolution plan.
- **Management Tone:** The commentary is cautiously resilient and sober, reflecting a "turnaround" mindset rather than growth rhetoric. Management is transparent about operational losses and technical insolvency, using the RIL association as a critical signaling tool to maintain the trust of lenders and customers. The outlook is heavily contingent on parental support and the successful execution of the domestic-first strategic pivot.

# 3. Financial analysis

## 3.1 Financial statements

### P&L statement (□Cr)

| Line item | Mar 2023 | Mar 2022 |
|---|---|---|
| Sales | 6,989 | 7,310 |
| Sales Growth % | -4.38 | 89.98 |
| Expenses | 7,068 | 6,745 |
| Material Cost % | 69 | 63 |
| Raw material cost | 4,597 | 4,884 |
| Change in inventory | 223 | -278 |
| Manufacturing Cost % | 22 | 21 |
| Employee Cost % | 7 | 6 |
| Other Cost % | 3 | 2 |
| Operating Profit | -79 | 564 |
| OPM % | -1 | 8 |
| Other Income | 65 | 45 |
| Exceptional items | 22 | 1 |
| Other income normal | 42 | 44 |
| Interest | 501 | 476 |
| Depreciation | 365 | 342 |
| Profit before tax | -880 | -209 |
| Tax % | 0 | 0 |
| Net Profit | -880 | -209 |
| Profit from Associates | 0 | 0 |
| Exceptional items AT | 22 | 1 |
| Profit excl Excep | -903 | -210 |
| Profit for PE | -903 | -210 |
| Profit for EPS | -880 | -209 |
| Profit Growth % | -331 | 93 |
| EPS (□) | -1.77 | -0.42 |
| Dividend Payout % | 0 | 0 |

**Balance sheet (□Cr)**

| Line item | Mar 2023 | Mar 2022 |
|---|---|---|
| Equity Capital | 497 | 497 |
| Reserves | -19,397 | -18,404 |
| Borrowings | 24,163 | 24,341 |
| Long term Borrowings | 21,831 | 22,435 |
| Short term Borrowings | 2,321 | 1,906 |
| Lease Liabilities | 11 | 0 |
| Preference Capital | 240 | 239 |
| Other Borrowings | -240 | -239 |
| Other Liabilities | 2,199 | 1,793 |
| Trade Payables | 1,625 | 1,326 |
| Advance from Customers | 0 | 0 |
| Other liability items | 574 | 468 |
| Total Liabilities | 7,461 | 8,228 |
| Fixed Assets | 5,520 | 5,820 |
| Land | 4,689.36 | 4,664.70 |
| Building | 3,286.91 | 3,280.02 |
| Plant Machinery | 9,549.35 | 9,557.24 |
| Equipments | 6.67 | 7.44 |
| Computers | 11.45 | 12.19 |
| Furniture n fittings | 102.09 | 109.06 |
| Vehicles | 10.84 | 11.14 |
| Intangible Assets | 12.45 | 12.45 |
| Other fixed assets | 860.28 | 860.34 |
| Gross Block | 18,529.40 | 18,514.58 |
| Accumulated Depreciation | 13,009.87 | 12,695.08 |
| CWIP | 15 | 8 |
| Investments | 0 | 0 |
| Other Assets | 1,927 | 2,400 |
| Inventories | 1,039 | 1,284 |
| Trade receivables | 345 | 504 |
| Receivables over 6m | 240 | 256 |
| Receivables under 6m | 344 | 471 |
| Prov for Doubtful | -240 | -223 |
| Cash Equivalents | 60 | 59 |
| Loans n Advances | -25 | -20 |
| Other asset items | 508 | 573 |

| Line item | Mar 2023 | Mar 2022 |
|---|---|---|
| Total Assets | 7,461 | 8,228 |

### Cash flow statement (□Cr)

| Line item | Mar 2023 | Mar 2022 |
|---|---|---|
| Cash from Operating Activity | 813 | 225 |
| Profit from operations | -22 | 607 |
| Receivables | 137 | -173 |
| Inventory | 245 | -320 |
| Payables | 299 | 238 |
| Loans Advances | 0 | 0 |
| Other WC items | 159 | -121 |
| Working capital changes | 841 | -377 |
| Direct taxes | -6 | -6 |
| Cash from Investing Activity | -129 | -108 |
| Fixed assets purchased | -44 | -107 |
| Fixed assets sold | 29 | 0 |
| Investments purchased | 0 | 0 |
| Investments sold | 0 | 0 |
| Interest received | 2 | 2 |
| Dividends received | 0 | 0 |
| Inter corporate deposits | 0 | 0 |
| Other investing items | -116 | -4 |
| Cash from Financing Activity | -687 | -293 |
| Proceeds from shares | 0 | 0 |
| Proceeds from borrowings | 113 | 156 |
| Repayment of borrowings | -340 | -2 |
| Interest paid fin | -458 | -447 |
| Dividends paid | 0 | 0 |
| Financial liabilities | -3 | 0 |
| Application money refund | 0 | 0 |
| Other financing items | 0 | 0 |
| Net Cash Flow | -3 | -177 |
| Free Cash Flow | 798 | 118 |
| CFO/OP | -1,044 | 41 |

### Key ratios

| Line item | Mar 2023 | Mar 2022 |
|---|---|---|
| Debtor Days | 18 | 25 |
| Inventory Days | 79 | 102 |
| Days Payable | 123 | 105 |
| Cash Conversion Cycle | -26 | 22 |
| Working Capital Days | -139 | -70 |
| ROCE % | -7 | 4 |

## 3.2 Financial analysis summary

- **Revenue** declined by 4.38% to □6,989 Cr, primarily driven by a sharp 29.99% contraction in Exports to □1,288.55 Cr due to subdued overseas demand, while Domestic Sales remained the mainstay at 81.43% of total turnover.
- **Operating Profit** collapsed from □564 Cr to -□79 Cr, resulting in an OPM % of -1.00%, as Material Cost % surged to 69% and Power and Fuel expenses reached □847.73 Cr, representing 58.99% of other expenses and highlighting a lack of operating leverage against energy inflation.
- **Net Profit** losses widened significantly by 331% to -□880 Cr, further deteriorating the Reserves to -□19,397 Cr and resulting in a consolidated Net Worth of negative □18,900.43 Cr, which renders the company technically insolvent.
- **Finance Cost** rose to □501 Cr on the P&L, linked to Total Debt of □24,163 Cr on the Balance Sheet; notably, □17,384.02 Cr of this debt is interest-free under the NCLT plan, but the company has departed from Ind AS by not fair-valuing this liability.
- **CFO** improved to □813 Cr despite the operational loss, driven by a massive □841 Cr release from Working Capital, specifically through a □245 Cr reduction in Inventory and a □299 Cr increase in Trade Payables.
- **Trade Payables** reached □1,625 Cr, with a significant □928.29 Cr owed to the promoter, Reliance Industries Limited, suggesting the parent entity is providing quasi-working capital support to manage the □2,605.07 Cr deficit in current liquidity.
- **Trade Receivables** fell to □345 Cr, improving Debtor Days to 18, yet Impairment for doubtful debts more than doubled to □20.83 Cr, signaling a deterioration in the credit quality of the remaining debtor book.
- **Gross Block** remained stagnant at □18,529.40 Cr as Fixed assets purchased in the Cash Flow Statement dropped to □44 Cr from □107 Cr, while Capital Commitments decreased by 41.85% to □16.66 Cr, indicating a freeze on expansionary Capex.
- **ROCE %** turned negative at -7.00%, reflecting the total erosion of EBIT, while the Cash Conversion Cycle improved to -26 days, though this is largely a function of stretching Days Payable to 123 days rather than operational efficiency.
- **Interest Coverage** fell to -0.89x, and management admitted to a breach of financial covenants in term loans, although they remain regular on the □458 Cr of Interest paid shown in financing cash flows.
- **Other Expenses** are dominated by Power and Fuel (□847.73 Cr), which is structural and volatile; the 27.3% drop in freight costs (□71.05 Cr) aligns with falling export volumes, while the doubling of bad debt provisions suggests increasing collection risks.
- **Other Assets** include Inventories of □1,039 Cr, which saw a liquidation of □245 Cr, providing cash but signaling slowing production and potential inventory devaluations due to cotton price volatility.

- The dominant financial theme of the year is **technical insolvency masked by aggressive working capital liquidation and extreme financial dependency on the promoter group to sustain operations amidst a total collapse in margins.**

### 3.3 Contingent liabilities & commitments

- **GAIL Take-or-Pay Claim:** GAIL raised demands of ₹**717.95 Cr** post-resolution. The company removed this from contingent liabilities following a Supreme Court dismissal of GAIL's appeal, viewing the liability as remote.
- **Tax Disputes:** VAT liabilities under arbitration stand at ₹**17.33 Cr**.
- **Customs Duty:** Contingent liabilities for export obligations under the EPCG scheme total ₹**17.72 Cr**.
- **Capital Commitments:** Contractual commitments for capital expenditure decreased to ₹**16.66 Cr** (from ₹28.65 Cr), reflecting a halt in expansion.
- **Legal Shield:** All claims against the company prior to the NCLT closing date (Sept 2020) are considered extinguished per the resolution plan.

## 3.9 Earnings quality & forensic checks

| # | Check | Impact | Status | Notes detail |
|---|---|---|---|---|
| 1 | PAT vs CFO trend | Profit ↓ — deep losses masked by aggressive working capital liquidation to generate operating cash. | — | CFO driven by □841 Cr working capital changes rather than core operational profitability. |
| 2 | Receivables & channel-stuffing signal | Neutral — receivables and inventory falling faster than sales indicates no channel stuffing. | — | Debtor days improved from 25 to 18; inventory days dropped from 102 to 79. |
| 3 | Revenue timing | Neutral — lack of customer advances or unbilled revenue suggests standard point-of-sale recognition. | — | Revenue recognized upon transfer of control; no significant contract assets or liabilities reported. |
| 4 | Revenue from related parties % | Revenue ↑↓ — high supply-chain dependence on promoter Reliance Industries for 44% of purchases. | — | Note 43: Purchases from RIL (□3,068 Cr) represent a massive portion of input costs. |
| 5 | Inventory vs revenue growth | Profit ↑ — inventory liquidation of □245 Cr provides cash but signals slowing production. | — | Note 30: Change in inventories of finished goods/WIP contributed □223 Cr to P&L. |
| 6 | Inventory valuation method change | Neutral — consistent application of lower of cost or net realisable value policy. | — | Valued at lower of cost and net realizable value using weighted average cost. |
| 7 | Exceptional items in operating profit | Profit ↑ — non-recurring gain of □22 Cr slightly reduces the reported net loss. | — | Note 33: Relates to adjustments following NCLT plan implementation and legacy asset settlements. |
| 8 | Depreciation rate vs useful life policy | Profit ↑ — low depreciation rate on massive gross block potentially understates economic wear. | — | Note 32: Company departed from Ind AS for interest-free debt, raising general accounting consistency concerns. |
| 9 | Provision reversals boosting PAT | Profit ↓ — doubling of bad debt provisions to □20.8 Cr hits the bottom line. | — | Note 30: Significant increase in ECL provisions indicates deteriorating credit quality of current debtors. |
| 10 | Tax rate consistency | Neutral — zero tax provision consistent with massive accumulated losses and negative net worth. | — | No tax liability due to current year losses and massive brought-forward tax losses. |
| 11 | CWIP age and stalling projects | Neutral — minimal capital work-in-progress suggests no major stalled projects or aggressive capitalization. | — | Note 39: Capital commitments decreased by 41.85%, indicating a slowdown in fresh capital expenditure. |
| 12 | Deferred tax asset recognition | Profit ↓ — conservative non-recognition of deferred tax assets despite massive carry-forward business losses. | — | Note 40: DTA not recognized as future taxable profits are not "reasonably certain" to materialize. |
| 13 | RPT quantum and trend | Profit ↑ — promoter extending credit terms (□928 Cr payable) provides vital quasi-working capital support. | — | Note 43(B): Reliance Industries is effectively financing operations by allowing significant growth in payables. |
| 14 | Dividend paid vs FCF adequacy | Neutral — zero dividends appropriate given negative net worth of □18,900 Cr and losses. | — | Note 31: Accumulated losses of □22,586 Cr legally and financially preclude any dividend distribution. |
| 15 | Ind AS Compliance | Profit ↑ — Departure from Ind AS 109; □17,384.02 Cr interest-free debt not fair-valued. | — | Failure to recognize imputed interest significantly inflates reported (though still negative) profit. |
| 16 | Subsidiary Health | Profit ↓ — Alok Infrastructure has negative net worth of □1,465.61 Cr and ongoing losses. | — | Real estate/infrastructure arms remain distressed and non-contributory. |

## 4. Management & governance

A. Auditor Report & Key Audit Matters * **Audit Opinion:** Unqualified, but includes significant "Emphasis of Matter" regarding Going Concern and Ind AS departures. * **KAM 1: Going Concern Assessment:** Auditor noted accumulated losses of □**22,586.03 Cr** and negative net worth of □17,320.72 Cr. Management relies on the NCLT resolution plan and projected cash flows. * **KAM 2: Departure from Ind AS (Debt Valuation):** The company did not fair-value □**17,384.02 Cr** of interest-free debt. Management claims the NCLT Resolution Plan has an "overriding effect" over Ind AS 109. * **KAM 3: Covenant Breaches:** Management admitted to a ***breach of financial covenants*** in term loans due to adverse market conditions. * **Auditor Fees:** Total fees of □**2.08 Cr** (~0.03% of revenue), which is relatively low given the restructuring complexity.

B. Related Party Transactions | Party | Relationship | Nature | Amount (□Cr) | Concern | | ------- | -------------- | -------- | ---------------- | --------- | | Reliance Industries Ltd | Promoter | Purchase of Goods | 3,068.25 Cr | ***High Dependency (44% of inputs)*** | | Reliance Industries Ltd | Promoter | Non-Current Borrowings | 2,866.58 Cr | ***Financial Reliance*** | | Reliance Industries Ltd | Promoter | Trade Payables | 928.29 Cr | ***Liquidity Support (114% of CFO)*** | | Reliance Retail Ltd | Group Entity | Sales of Goods | 335.07 Cr | Captive Channel | | Reliance Brands/Retail | Group Entity | Sales of Duty Credit Scrips | 76.36 Cr | Monetization of incentives |

C. Shareholding * **Promoters (RIL & jmfarc):** 75.00% * **FIIs:** 2.11% | **DIIs:** 0.32% | **Public:** 22.57% * **Pledged Shares:** 0.00%

D. Board Composition + KMP Compensation * **Total Directors:** 7 | **Independent:** 42.86% | **Women Directors:** 14.29%. * **KMP Compensation:** Independent Directors received sitting fees (□0.24–0.30 Cr). Executive KMP (Manager/CFO) remuneration was excluded from the version sent to members, preventing a full forensic check on pay-for-performance during a year where EBITDA collapsed by 102%. No family relations disclosed.

F. Capital Allocation & Capex | Action | FY current (□Cr) | FY prior (□Cr) | % of CFO | Signal | | ------- | -------------- | -------- | ---------------- | --------- | | Interest Payments | 458.00 Cr | 447.00 Cr | 56.33% | — | | Repayment of Borrowings | 340.00 Cr | 2.00 Cr | 41.82% | — | | Capex | 44.00 Cr | 107.00 Cr | 5.41% | **Positive** | | Asset Sales | 29.00 Cr | 0.00 Cr | 3.57% | **Positive** |

- **CAPEX Analytical Notes: CFO Coverage of Capex** is 18.47x, but this is poor quality as CFO stems from liquidating Inventory and Receivables rather than profits. Capital commitments decreased by 41.85% to □16.66 Cr, signaling a halt in expansion. ROCE is -7.00%, indicating that capital deployment is currently value-destructive.

H. Risks * ***Financial Solvency (High):*** Negative net worth of □**17,320.72 Cr**. Withdrawal of promoter support would jeopardize "Going Concern" status. * ***Raw Material Volatility (High):*** Cotton price swings (□1.06L to □61k/candy) cause massive margin compression and inventory hits. * ***Energy Costs (High):*** Power and fuel are 59% of other expenses; energy inflation directly erodes OPM. * ***Covenant Breach (Medium):*** Technical default on term loan covenants could lead to loan recalls, though payments are currently regular. * ***Litigation (Medium):*** GAIL "Take-or-Pay" claim of □**717.95 Cr** remains a tail risk despite recent legal victories.

## 5. Scorecard & verdict

### Part a: scorecard

| Dimension | Rating (1–5) | Delta | Key evidence | One-line rationale |
|---|---|---|---|---|
| Business quality | 2 | → | Export Sales -30%; OPM -1% | Commodity business with high fixed costs and weakening global demand. |
| Financial health | 1 | ↓ | Net Worth -₹18,900 Cr; D/E -1.28x | Technically insolvent; survives only on promoter-backed credit. |
| Earnings quality | 2 | ↓ | CFO from WC liquidation; Ind AS departure | Operating losses masked by stretching payables and ignoring imputed interest. |
| Management & governance | 3 | → | 75% Promoter holding; Clean RPT audit | Strong parental backing offsets transparency concerns regarding Ind AS departures. |
| Capital allocation & earnings visibility | 1 | ↓ | ROCE -7%; Capex halted | Value-destructive returns with limited visibility on a return to profitability. |

**Business positives (for this company this year)** * **Promoter Support:** Reliance Industries provides critical supply chain and liquidity support, with ₹**928.29 Cr** in extended trade payables. * **Working Capital Efficiency: Debtor Days** improved from 25 to 18, and Inventory Days reduced from 102 to 79 through aggressive liquidation. * **Domestic Resilience:** Domestic sales grew **3.36%** to ₹5,634.73 Cr, providing a stable base amidst the export collapse. * **Debt Structure: ₹17,384.02 Cr** of debt is interest-free for 8 years, providing a significant (though temporary) breather.

**Business negatives / concerns (for this company this year)** * **Technical Insolvency:** Accumulated losses of ₹**22,586.03 Cr** have resulted in a negative net worth of ₹18,900.43 Cr. * **Operational Collapse: EBITDA Margin** fell to -1.00% from 8.00%, with a net loss expansion of 331%. * **Accounting Deviation:** Departure from **Ind AS 109** regarding fair valuation of debt masks the true economic cost of leverage. * **Covenant Breach:** Management admitted to a ***breach of financial covenants*** in term loans. * **Energy Sensitivity:** Power and fuel costs represent **58.99%** of other expenses, making the company highly vulnerable to energy inflation.

**Overall scorecard summary** Alok Industries is currently a distressed asset recovery play that is technically insolvent and entirely dependent on the financial umbilical cord of Reliance Industries. While the company has successfully liquidated working capital to generate cash flow, its core operations are loss-making with negative ROCE and breached debt covenants. The governance posture is complicated by a significant departure from Ind AS debt valuation standards, which obscures the true depth of the financial distress. The business is on a stable but precarious trajectory, where survival is guaranteed by the parent, but a return to standalone viability remains distant.

## 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 | — |

**Total: 8/10 — Governance Rating: 3**

## Part c: investor verdict

**Thesis:** A distressed textile turnaround play whose survival is a bet on Reliance Industries' strategic need for a downstream polyester processing arm. **Overall stance:** Watch **Rationale:** Technical insolvency and operational losses make it uninvestable on a standalone basis, but RIL parentage provides a floor. **Re-evaluate when:** EBITDA Margin returns to >5% consistently for two quarters. **BULL CASE:** Successful SAP integration and "China Plus One" tailwinds drive capacity utilization above 80%, turning EBITDA positive. **BEAR CASE:** Withdrawal of RIL financial support or a sustained spike in energy costs leads to a liquidity crunch despite the NCLT shield. **Key monitorable:** Trade Payables to RIL: ₹928.29 Cr → Watch for any sudden contraction in credit terms.