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## Techno Funda Stock Pick – Alok Industries Ltd

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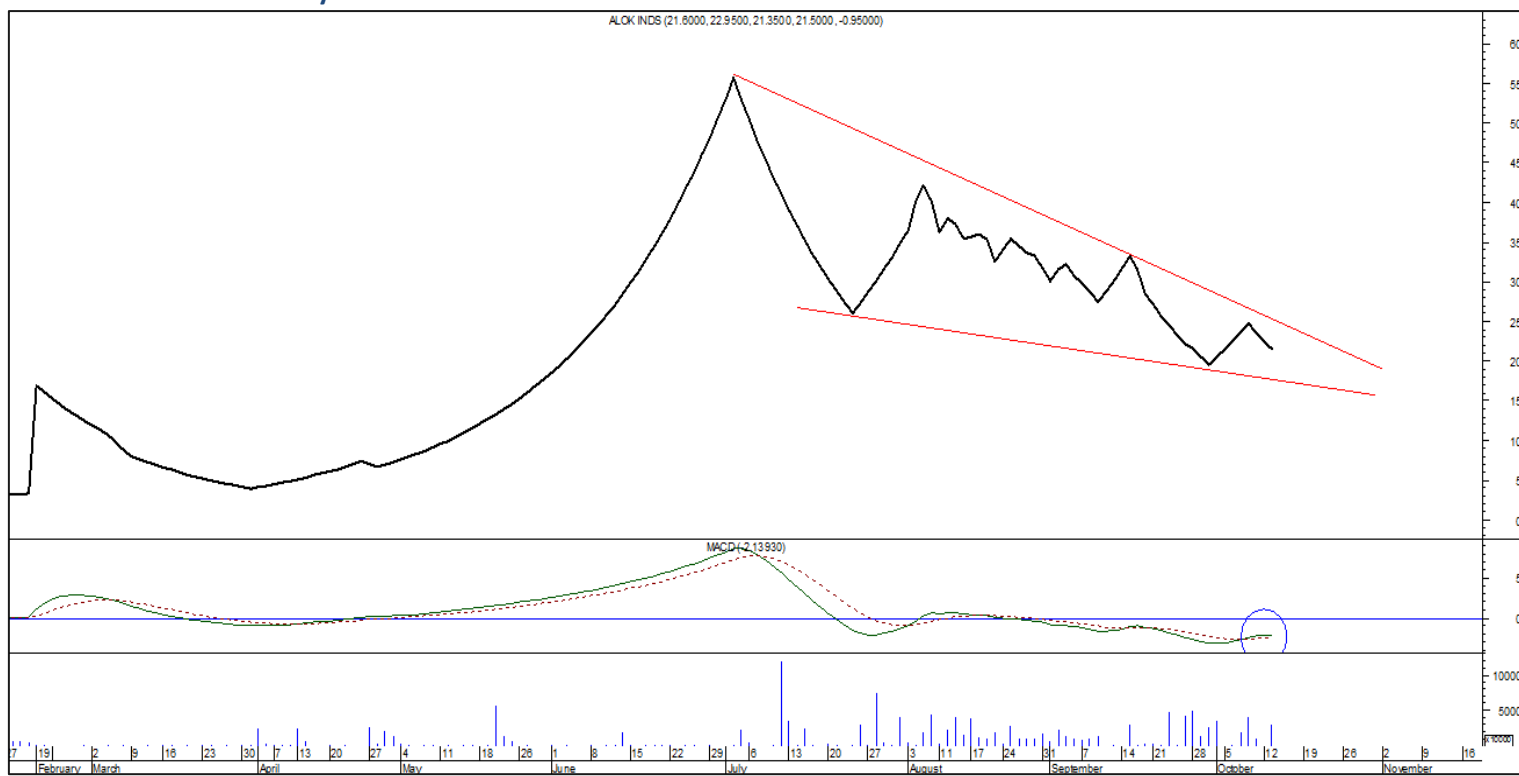
# Techno Funda Pick – Alok Industries Ltd

## (For high risk traders)

Stock	CMP	Buying Band	Adding band	Targets	SL *	Time Horizon
ALOKINDUS	Rs 21.50	Rs 21 - 19	Rs 16 - 14	Rs 25-Rs 27 & Rs 33	Rs 12.50	2 quarters

Note: \* Excluding Freak Trades lasting less than a minute. SL on closing basis

### Alok Industries Ltd – Daily Chart



### Technical Observations:

- The attached daily chart of ALOKINDUS is showing bullish evidences as per medium to large degree.
- The stock price has been retracing the last sharp rise which is a downward retracement before next rise.
- The current bearish structure could take some more time to change to bullish.
- The falling leg from key top of 58.50 has started to lose momentum so the stock could turnaround in coming weeks.
- We have given wider range due to volatility in the stock price.
- The MACD oscillator is placed with buying signal after a long time which is also a positive signal for the stock.

### Our Fundamental Take:

- A large and integrated set up gives Alok Industries Ltd (AIL) competitive advantage in terms of capability to expand and fulfill customer demand across the value chain. The company would now be well positioned on account of its integration with Reliance group and will be able to regain its market share aided by improvement in capacity utilization as well as operational synergies.
- Post the completion of restructuring, issues concerning huge debt pile and the associated high finance cost is out of the way. The current focus of the company in manufacturing PPE kits is opportune given the health crises; expansion plans of Reliance Industries Ltd (RIL) to capitalise on AIL's presence in various textile segments would be a key monitorable and could transform the company to become a marquee player in textile sector. Backing by RIL would provide comfort to lenders to fund capital expansion and higher working capital needs. Due to the debt restructuring, interest outgo will fall from Rs 1,100cr per quarter to Rs 120cr per quarter, while post the latest impairment of assets the depreciation charges will also fall from Rs 132cr per quarter to less than half of that. With these two costs under control, revenue jumps will lead to a larger impact on the bottomline.

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- The management is hopeful of improving the performance of the Company by the implementation of Approved Resolution Plan and exploring various avenues of enhancing revenues. The said measures are expected to improve the performance of the Company. One can take a bet on Reliance Industries as a promoter to turnaround the fortunes of the company. As the allotment of additional shares to RIL has happened in Sept 2020, we can now expect higher involvement of RIL in turning around the operations of AIL.
- The market cap of AIL is ~Rs 11,000cr and the EV will be ~Rs.16,000cr. For a company that had sales of Rs 24,000cr in FY15 and Operating profit of Rs 5,000cr, there could be some upside in the stock price if the new promoter succeeds in turning around the operations.

### Triggers:

- Change in Ownership and Management: After the implementation of the Resolution Plan, RIL holds 40.01% equity stake in AIL and JM Financial Asset Construction holds 35% stake. Reliance group - the largest private sector enterprise in India has businesses across the energy and materials value chain, along with a significant and growing presence in retail and telecom sectors. Well-established, experienced & resourceful promoters and RIL's strong project implementation skills can help navigate Alok Industries to recapture market share and be an established player across the entire in the textile value chain.
- Easy access to Raw Materials: The Company's operations and profitability are significantly dependent on the timely availability and price of raw materials used in production process. The primary raw materials for textile operations are cotton and PTA (Purified Terephthalic Acid) & MEG (Monoethylene Glycol) which are the major raw materials that are required in manufacturing various grades of polyester yarns. These components which form a major constituent required in manufacturing of various grades of polyester yarns will be supplied by RIL's petrochemical division ensuring uninterrupted supply of major raw material for AIL.
- Presence in the textile value chain: Alok Industries Ltd has presence across the entire textile value chain i.e. 'from fibre to fashion' involving cotton spinning, polyester yarn, home textiles, garments and apparel fabric. Over the years, through continuous backward/forward integration and capacity expansion, the company has established itself as one of the largest integrated players in the Textile industry. Although it is working at 30-35% of its capacity and much of its focus currently is in preparation of PPE kits; its integrated presence in the entire textile value chain can be capitalised with the help of operational synergies of RIL. 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.
- PPE kits and expansion plans: Indian producers ramped up the production of PPE (personal protective equipment) kits during this pandemic to become 2nd largest PPE Manufacturers in the world. RIL has deployed Alok Industries manufacturing facilities in Silvassa (Gujarat) for exclusive manufacture of PPE kits. Capacity has been scaled up to produce more than 100,000 PPE kits per day and cost has been slashed to nearly Rs 650 per unit from the about Rs 2,000 apiece imported price. As per reports, kits manufactured by Alok Industries account for nearly a fifth of India's total PPE production capacity. The global PPE market was valued at \$52.7 billion in 2019 and is expected to reach \$92.5 billion by 2025, growing at a CAGR of 8.7% during 2020-2025 (Investindia estimates). The company can capitalise on this opportunity with the expertise of RIL's management and related synergies. Although the production of PPE kits is in full throttle currently, it is expected to shrink once we come out this health crisis. Expansion plans and capacity utilisation in other textile divisions will be a key monitorable.

### Concerns:

- Lower capacity utilization: The plants have been operating at a lower capacity utilization of around 30-35% mainly towards production of PPE kits. Post implementation of the resolution plan, the company has not managed to generate positive operating profit. Proposed capital expenditure for expanding production in other textile divisions and RIL's strong project implementation skills could alleviate these concerns over medium term.
- Cyclical nature of business: India's textile exports and companies were grappling with muted growth even before COVID-19. The virus-triggered global lockdowns, especially in key EU and US markets, are bound to impact growth, at least till end of FY21. The two key segments of viz. Textiles & Polyesters are commoditized with intense competition and are cyclical in nature, making them vulnerable to demand and supply dynamics and restricts pricing power.

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- AIL had a huge debt of ~Rs.29,000cr as of end FY20. However as per reports the lenders have taken an 83% haircut and hence only Rs 5,050cr of debt will remain on books. Its accumulated loss of Rs 24,500cr as on June 30, 2020 will be setoff against the debt that will be written back. AIL has taken an impairment loss of Rs 8,263cr on tangible assets in the June 2020 quarter.
- Alok Infrastructure Limited a wholly owned subsidiary of AIL, was admitted under the corporate insolvency resolution. During the quarter ended, Alok Infra has incurred a net loss of Rs. 4.54cr and its accumulated losses amounted to Rs 1,014.56cr. Total liabilities as on 30th June, 2020 exceeded total assets by Rs. 937.82cr. Further, Alok Infra has not carried out any impairment testing of investment property and therefore the correct carrying value of investment property in the consolidated result is unascertainable.

### About the Company:

- Alok Industries Ltd. is an integrated textiles company with a product suite comprising of cotton and polyester products. It has presence in entire value chain of textile industry from yarn to finished products and has four major divisions - Spinning Division, Polyester Division, Home Textiles Division and Apparel & Fabric Division. The company has more than 10 manufacturing plants located over Silvassa, Gujarat and Maharashtra.
- The company had undergone a Corporate insolvency resolution where JM Financial Asset Reconstruction Company Limited, JMFARC –Trust (34.99%) and Reliance Industries Limited (40.01%) picked up majority of the stake. RIL has infused its equity commitment of Rs 250cr as well as optionally convertible preference shares of Rs 250cr in the company.

### Financial Highlights

Particulars (Rs cr)	Q1FY21	Q1FY20	YoY-%	Q4FY20	QoQ-%	FY17	FY18	FY19	FY20
Total Operating Income	369.2	866.6	-57.4	748.1	-50.7	8,723.1	5,513.8	3,352.2	3,328.8
EBITDA	-68.9	843.3	-108.2	-101.1	-31.8	-1,455.9	-13,569.5	-129.2	-127.2
APAT	-9936.8	-120.9	8116.3	1790.9	-654.9	-3,083.1	-18,579.8	2,076.2	1,310.2
Diluted EPS (Rs)	-44.9	-0.9	5019.0	8.1	-654.9	-22.4	-134.9	15.1	5.9

(Source: Company, HDFC sec)

### Income Statement

(Rs Cr)	FY18	FY19	FY20
<b>Net Revenues</b>	<b>5513.8</b>	<b>3352.2</b>	<b>3328.8</b>
Growth (%)	-36.8	-39.2	-0.7
Operating Expenses	19083.3	3481.4	3456
<b>EBITDA</b>	<b>-13569.5</b>	<b>-129.2</b>	<b>-127.2</b>
Growth (%)	<b>832</b>	<b>-99</b>	<b>-1.5</b>
<b>EBITDA Margin (%)</b>	<b>-246.1</b>	<b>-3.9</b>	<b>-3.8</b>
Depreciation	544.6	549.5	541.8
<b>EBIT</b>	<b>-14114.2</b>	<b>-678.7</b>	<b>-669.1</b>
Other Income	256.6	18.5	39.1
Interest expenses	4711.3	4308.7	113.6
<b>PBT before exceptional items and investments</b>	<b>-18568.9</b>	<b>-4968.9</b>	<b>-743.6</b>
Share of Profits/Loss of investments	-0.5	-1.0	-1.0
Exceptional items	0.0	7045.2	2052.6
<b>PBT</b>	<b>-18569.4</b>	<b>2075.3</b>	<b>1307.9</b>
Tax	10.4	-0.9	-2.3
<b>PAT</b>	<b>-18579.8</b>	<b>2076.2</b>	<b>1310.2</b>
Minority Interest	0.0	0.0	0.0
<b>APAT</b>	<b>-18579.8</b>	<b>2076.2</b>	<b>1310.2</b>
Growth (%)	502.6	-111.2	-36.9
EPS	-134.9	15.1	5.9

### Balance Sheet

As at March	FY18	FY19	FY20
<b>SOURCE OF FUNDS</b>			
Share Capital	1368.6	1368.6	221.1
Reserves	-18045.8	-15985.6	-12529
<b>Shareholders' Funds</b>	<b>-16677.2</b>	<b>-14617</b>	<b>-12307.9</b>
Long Term Debt	7367.2	6125.3	28304.2
Net Deferred Taxes	0.0	40.7	27.6
Long Term Provisions & Others	157.3	121.6	6.9
<b>Total Source of Funds</b>	<b>-9152.8</b>	<b>-8329.4</b>	<b>16030.8</b>
<b>APPLICATION OF FUNDS</b>			
Net Block & Goodwill	16062.8	15572.4	15033
CWIP	4.5	0.5	0.4
Other Non-Current Assets	1572.6	1544.3	1440.3
<b>Total Non Current Assets</b>	<b>17639.8</b>	<b>17117.2</b>	<b>16473.6</b>
Inventories	508.9	420.8	420.4
Trade Receivables	309.9	239.9	241.9
Cash & Equivalents	66.8	37.6	489.1
Other Current Assets	175.0	199.1	283.2
<b>Total Current Assets</b>	<b>1060.6</b>	<b>897.3</b>	<b>1434.6</b>
Short-Term Borrowings	17845.9	17674.8	782.7
Trade Payables	1063.1	1057.7	464.4
Other Current Liab & Provisions	8944.2	7611.4	630.4
<b>Total Current Liabilities</b>	<b>27853.2</b>	<b>26344</b>	<b>1877.5</b>
Net Current Assets	-26792.6	-25446.7	-442.8
<b>Total Application of Funds</b>	<b>-9152.8</b>	<b>-8329.4</b>	<b>16030.8</b>

(Source: Company, HDFC sec)

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## (For high risk traders)

### Cash Flow Statement

(Rs Cr)	FY18	FY19	FY20
Reported PBT	-18,569.4	2,075.3	1,307.9
Non-operating & EO items	12,829.8	-7,052.9	-2,074.1
Interest Expenses	4,691.1	4,349.5	102.3
Depreciation	544.6	549.5	541.8
Working Capital Change	407.3	198.4	-137.1
Tax Paid	-1.4	-4.3	-1.6
<b>OPERATING CASH FLOW ( a )</b>	<b>-97.9</b>	<b>115.4</b>	<b>-260.7</b>
Capex	72.7	-11.3	-4.4
Free Cash Flow	-25.2	104.1	-265.1
Investments	21.2	-3.8	0.0
Non-operating income	117.1	53.0	-259.4
<b>INVESTING CASH FLOW ( b )</b>	<b>211.0</b>	<b>37.9</b>	<b>-263.8</b>
Debt Issuance / (Repaid)	366.7	-307.2	194.0
Interest Expenses	-515.7	0.0	-95.0
FCFE	-174.2	-203.1	-166.1
Share Capital Issuance	0.0	0.0	500.0
Dividend	0.0	0.0	0.0
Others	0.0	127.0	0.0
<b>FINANCING CASH FLOW ( c )</b>	<b>-149.0</b>	<b>-180.1</b>	<b>599.0</b>
<b>NET CASH FLOW (a+b+c)</b>	<b>-35.8</b>	<b>-26.8</b>	<b>74.5</b>

### Key Ratios

	FY18	FY19	FY20
EBITDA Margin	-246.1	-3.9	-3.8
EBIT Margin	-256.0	-20.2	-20.1
APAT Margin	-337.0	61.9	39.4
RoE	111.4	-14.2	-10.6
RoCE	-163.6	-7.2	-3.9
<b>Solvency Ratio</b>			
Interest Coverage (x)	-2.9	-0.2	-5.5
Net D/E	-1.5	-1.6	-2.4
<b>PER SHARE DATA</b>			
EPS	-134.9	15.1	5.9
CEPS	-130.9	19.1	8.4
BVPS	-121.1	-106.1	-55.7
<b>Turnover Ratios (days)</b>			
Inventory days	33.7	45.8	46.1
Debtors days	20.5	26.1	26.5
Creditors days	70.4	115.2	50.9
<b>VALUATION</b>			
P/E	0.0	0.3	0.7
P/BV	0.0	0.0	-0.1
EV/EBITDA	-1.9	-189.0	-232.0
EV/Revenue	4.6	7.3	8.9

(Source: Company, HDFC sec)

One Year Price Chart





# Techno Funda Pick – Alok Industries Ltd

## (For high risk traders)



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