

Rating Update

July 23, 2021 | Mumbai

Alok Industries

Update as on July 23, 2021

This update is provided in continuation of the rating rationale below.

The key rating sensitivity factors for the rating include:

Upside Scenario

- Sustenance of revenue at above Rs 4250 million, along with a steady operating margin
- Favourable movement in raw material prices leading to an increase in operating margin

Downside Scenario

- Decline in revenue to below Rs 2750 million
- Significant stretch in the working capital cycle weakening liquidity

CRISIL Ratings has a policy of keeping its accepted ratings under constant and ongoing monitoring and review. Accordingly, CRISIL Ratings seeks regular updates from companies on the business and financial performance. CRISIL Ratings is, however, awaiting adequate information from Alok Industries (AI) which will enable us to carry out the rating review. CRISIL Ratings will continue provide updates on relevant developments from time to time on this credit.

CRISIL Ratings also identifies information availability risk as a key credit factor in the rating assessment as outlined in its criteria 'Information Availability Risk in Credit Ratings'.

About the group

AMPL, incorporated in 1995, and AI, established in 1993, manufacture masterbatches for the plastic industry. AMPL has facilities in Ranipet, Tamil Nadu, and Surangi, Dadra and Nagar Haveli, while AI has facilities in Delhi and Bhiwadi, Rajasthan. Mr Vikram Bhadauria, Mr Aditya Bhadauria and Mr Amit Puri are the promoters of the group.

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Rating Rationale

June 29, 2020 | Mumbai

Alok Industries

Rating Reaffirmed

Rating Action

Total Bank Loan Facilities Rated	Rs.2 Crore
Long Term Rating	CRISIL A-/Stable (Reaffirmed)

1 crore = 10 million

Refer to annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL has reaffirmed its 'CRISIL A-/Stable' rating on the long-term bank facilities of Alok Industries (AI; a part of the Alok group).

The rating continues to reflect the Alok group's strong market position in the masterbatches industry, backed by panIndia presence with a well-diversified clientele, and a healthy financial risk profile. These strengths are partially offset by exposure to intense competition and fluctuations in raw material prices.

Analytical Approach

For arriving at the rating, CRISIL has combined the business and financial risk profiles of Alok Masterbatches Private Limited (AMPL) and AI. This is because the two entities, together referred to as the Alok group, have business synergies and a common management.

Unsecured loans of Rs 93.57 crore extended to the Alok group by the promoters as on March 31, 2019, have been treated as neither debt nor equity, as the loans are subordinated to bank debt and are likely to remain in the business.

Please refer Annexure - List of entities consolidated, which captures the list of entities considered and their analytical treatment of consolidation.

Key Rating Drivers & Detailed Description

Strengths:

* Strong market position

The Alok group is a large organised player in the masterbatches industry in India. The group's product portfolio comprises filler, colour and industry-specific masterbatches, such as polyethylene terephthalate and agriculture masterbatches. The two-decade-long experience of the promoters, their strong understanding of the local market dynamics and healthy relationships with customers and suppliers should continue to support the business.

* Healthy financial risk profile

Networth and gearing were comfortable at Rs 93.60 crore and 0.68 time, respectively, as on March 31, 2019, and are estimated at Rs 105 crore and 0.46 time, respectively, as on March 31, 2020. Debt protection metrics are adequate, with net cash accrual to adjusted debt and interest coverage ratios estimated at 0.50 time and 3.0 times, respectively, in fiscal 2020.

Weakness:

* Exposure to intense competition

More than half of the overall masterbatches segment comprises the unorganised sector. Although organised players such as the Alok group offer superior quality products, local players are able to cater to regional customers with ease.

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In addition, profitability is contingent upon product mix. The group generates a bulk of its revenue via sale of filler and black and white masterbatches. It sells a low proportion of high-end masterbatches, such as those used in the agriculture industry. Intense competition may continue to constrain scalability, pricing power and profitability.

*** Susceptibility to fluctuations in raw material price**

Since the cost of procuring the major raw materials (polymers, additives and pigments) accounts for a bulk of the production expense, even a slight variation in price can drastically impact profitability. Operating margin was stable at 11.1-13.8% over the three fiscals through 2018; however, it dipped to 8.90% in fiscal 2019 and is estimated at 10% in fiscal 2020. Despite comfortable profitability and the ability to pass on price hike to a certain extent, the group will remain vulnerable to any sharp volatility in raw material prices.

Liquidity Strong

Cash accrual, expected at Rs 21-22 crore in fiscal 2021, should sufficiently cover maturing debt of Rs 4 crore. Utilisation of fund-based limit averaged 70% over the 15 months through April 2020. Liquidity is further supported by unsecured loans from the promoters.

Outlook: Stable

CRISIL believes the Alok group will continue to benefit from its strong market position and a healthy financial risk profile.

Rating Sensitivity Factors

Upward factors

- * Sustenance of revenue at above Rs 425 crore, along with a steady operating margin
- * Favourable movement in raw material prices leading to an increase in operating margin

Downward factors

- * Decline in revenue to below Rs 275 crore
- * Significant stretch in the working capital cycle weakening liquidity.

About the Group

AMPL, incorporated in 1995, and AI, established in 1993, manufacture masterbatches for the plastic industry. AMPL has facilities in Ranipet, Tamil Nadu, and Surangi, Dadra and Nagar Haveli, while AI has facilities in Delhi and Bhiwadi, Rajasthan. Mr Vikram Bhadauria, Mr Aditya Bhadauria and Mr Amit Puri are the promoters of the group.

Key Financial Indicators - The Alok Group

As on/for the period ended March 31	Unit	2019	2018
Revenue	Rs.Crore	424.42	324.39
Profit After Tax (PAT)	Rs.Crore	9.65	13.54
PAT Margin	%	2.30	4.2
Adjusted debt/adjusted networth	Times	0.68	0.39
Interest coverage	Times	3.00	3.42

Any other information: Not applicable

Note on complexity levels of the rated instrument:

CRISIL complexity levels are assigned to various types of financial instruments and are included (where applicable) in the Annexure -- Details of Instrument in this Rating

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Rationale. For more details on the CRISIL complexity levels, please visit www.crisil.com/complexity-levels.

Annexure - Details of Instrument(s)

ISIN	Name of Instrument	Date of Allotment	Coupon Rate (%)	Maturity Date	Issue Size (Rs.Crore)	Complexity Levels	Rating Assigned with Outlook
NA	Cash Credit	NA	NA	NA	2.00	NA	CRISIL A-/Stable

Annexure - List of Entities Consolidated

Names of Entities Consolidated	Extent of Consolidation	Rationale for Consolidation
AMPL	Full Consolidation	Common management and line of business, in addition to financial fungibility
AI	Full Consolidation	Common management and line of business, in addition to financial fungibility

Annexure - Rating History for last 3 Years

Instrument	Type	Current		2020 (History)		2019		2018		2017		Start of 2017
		Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund-based Bank Facilities	LT/ST	2.00	CRISIL A-/Stable			04-03-19	CRISIL A-/Stable	30-04-18	CRISIL A-/Stable	25-01-17	CRISIL A-/Stable	CRISIL A-/Stable

All amounts are in Rs.Cr.

Annexure - Details of various bank facilities

Current facilities			Previous facilities		
Facility	Amount (Rs.Crore)	Rating	Facility	Amount (Rs.Crore)	Rating
Cash Credit	2	CRISIL A/Stable	Cash Credit	2	CRISIL A/Stable
Total	2	--	Total	2	--

Links to related criteria

[CRISILs Approach to Financial Ratios](#)

[CRISILs Bank Loan Ratings - process, scale and default recognition](#)

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