ALOK INDUSTRIES, PRE & POST CORPORATE INSOLVENCY RESOLUTION PROCESS

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Abstract. *If I asked a stock trader to put their money in a company which has just come out of the insolvency resolution proceedings, they'd probably just ignore me. But who knew back in February 2020 that this multibagger, 'Alok Industries' a bankrupt company taken over by Mukesh Ambani' Reliance Industries, would give returns more than 300 % within 3 months, hitting 17 consecutive upper circuits. Little do the people who come into stock market for these rallies know the reality behind such su rge. This study aims to discuss the history, fall and the rapid comeback of this company, which would be impossible if it would not have been for legislations like IBC, 2016 The study aims to give a brief about the background and birth of the company, factors that led to its fall, the process under IBC, and its acquisition by Reliance Industries Limited and J M Finance.*

Key Words*: Independent Advisory Committee, NPA, Indolvency*

Introduction

The Insolvency and Bankruptcy Bill was introduced by the NDA government in 2015, but got the assent of the President by the end of May 2016, and became effective in December 2016. This was introduced as a reform focused towards fastening the long insolvency process and to cure the tremendously spreading diseases of Bad Debts in our Banking sector.

In June 2017, an Independent Advisory Committee for the Central Bank of India, identified 12 Bad Debt Accounts totaling about 25% of the Gross NPA's of the banking system. The RBI even made a plea to the Hon'ble NCLT to prioritize these cases. Alok Industries was one of these 12 companies.

Research methodology

The research methodology to conduct this study was majorly secondary research or desk research, involving the already existing data. The author has referred to articles, reports and research papers widely available. Some trend analysis has been done with the help of data available on Stock Exchange regulator websites.

The Rise of Alok Industries

Established in 1989, Alok Industries Ltd. is an integrated textiles solution company, based in Mumbai, India. The company got listed in the Bombay Stock Exchange and the National Stock Exchange of India in 1993. The major dealings of the company involve Cotton

Yarn, Garment Fabric, Home Textiles and Polyester Yarn. Its 27th annual report shows a 26% of total product exports in about 90 countries around the globe.[1]

Up till 15 years since its incorporation the company carried on its business in readymade garments, Polyester yarns and Spinning & weaving. In 2005 company wanted to expand, as a result they opted for 2 expansion plans. ***First***, they wanted to increase their spinning capacity for which they invested around 10,000 Crore rupees. These funds for investment were raised through debts. The company was very confident about their expansion plans, but there were major managerial flaws, the resources and assets of the company were underutilized, due to which there was not much rise in the profits of the company. ***Second***, they wanted to open retail stores, both in India and outside. They launched a garment retail chain under the name '*H & A Store'* in India, they opened around 350 stores within a period of 3 years. Simultaneously they launched similar stores in U.K as *'Store 21*', they opened around 220 stores in U.K as well. All these expansions were done with the help of debts from banks. The borrowings of the company took a whooping jump of 800% from the year 2007 to 2017. The borrowing of INR 3337 crore in the financial year 2007 increased to 25,506 crore in 2017.[2]

Due to poor management, these huge scale investments went in vain, both the strategies of the company failed, the profits from the retail outlets were also very poor. The company was eventually left with no other choice but to close these stores, they gradually closed almost all the stores across India and abroad.

The Fall of Alok Industries

By the end of 2012 the closure process of the retail stores had started,[3] almost 500 stores both in India and U.K. were shut down, it was evident that the company's expansion plans had failed tremendously, but an even bigger issue was still awaiting the attention of the company- It's Debts. Irrespective of the success or failure of the company's strategies and plans, the company was bound to pay back the debts along with the interest. By 2017 the company was so burdened under the weight of its enormous financial debt that it took no time for the company to reach a point where the second biggest expense of the company, after raw material cost, was the interest cost. Till 2007 because the borrowings were low, the interest cost was 142 crore, but this amount took a disastrous increase, by 2015 the interest on debt increased to 3,513 crore. This amount was unimaginably huge as compared to the size of the company. Till 2015 the Net profits of the company ranged from 200 to 300 Crore, but due to the burden of Debts and Interest on them, the company started booking huge losses, within 1 year the company moved from a profit of 258 crore (2015) to a loss of 4357 crore (2016) and another loss of 3083 crore (2017).

Reasons that led to Alok Industries into Insolvency

Textile industry, by nature is very volatile, sometimes there is huge demand, and suddenly there is none. At the time when Alok industries were already trying to make up for its past mistakes, it went on to make blunders. This company entered into the real estate

[1] https://www.bseindia.com/bseplus/AnnualReport/521070/5210700913.pdf
[2] https://www.screener.in/company/ALOKINDS/consolidated/
[3] https://fashionunited.in/v1/apparel/alok-to-shut-45-haa-stores/201208212784

sector in 2007. The set foot in the retail markets through H&A and Store 21.[4] This trail of losses, market competition, operational inefficiency, & internal mismanagement led to shutting down of most of the retail sector. When the company actually realized that it is making losses, it was deeply drowned by debt. Alok industries due to mismanagement was blindly borrowing huge amounts and investing.

It is pertinent to understand what led to the company defaulting their loans, borrowing money from banks and investing them into operations is not a big problem, but it becomes a huge problem when such investments do not yield good sales thereby leading to profits. If we analyze the data below in *Table 1*, it will be evident that the sales of the company on March 2007 was 1,806 Cr. It kept on increasing steadily till March 2017, but just the next year in 2018 we see a huge drop. The Sales dropped from 24,153 Cr. in 2015 to 12,924 Cr. in 2016, and further to 8,723 Cr. in 2017. Simultaneously we see the borrowings increase from 3,337 Cr. in 2007 to 25,506 Cr. in 2017. This had a major impact of the profitability of the business. The profits drastically fell from 165 Cr. in 2007 to a loss of 3,083 Cr. in 2017. This led to continuous default in loan installment payments. The company was not even in a position to pay back the interest amount of the loan let alone the principle amount. This was basically a case of extremely high expansion, not backed by a strong revenue growth. The lenders were definitely not going to be quite.

MARCH	BORROWINGS	INTEREST	SALES	NET PROFITS
2007	3,337	142	1,806	165
2008	5,834	252	2,234	190
2009	6,956	418	3,021	74
2010	9,673	599	4,327	138
2011	12,123	782	6,615	312
2012	16,050	1,235	9,785	93
2013	19,932	2,814	21,388	297
2015	18,009	3,513	24,153	258
2016	22,037	2,874	12,924	-4,357
2017	25,506	3,442	8,723	-3,083
2018	27,415	4,711	5,514	-18,580

Table 1- Source: www.screener.in

Insolvency Resolution Process

On the 12th of June 2017, the Internal Advisory Committee of the RBI identified 12 accounts that covered about 25% of the banking systems non-performing assets, for immediate resolution under the Insolvency and Bankruptcy Code. The IAC directed the lender Banks to refer to the Insolvency and Bankruptcy Court for all accounts with total outstanding loans amounting to more than INR 5,000 crore, with at least 60% classified as non-performing by banks as on March 31, 2016.[5]

[4] https://blog.finology.in/success-stories/alok-industries-and-its-revival-story

[5] https://economictimes.indiatimes.com/news/economy/policy/rbi-identifies-12-accounts-with-25-per-cent-of-bank-npas-for-insolvency/articleshow/59130725.cms?from=mdr

SBI the lead bank in the case initiated the insolvency proceedings against Alok Industries in June 2017. The company owed the lenders a total of 30,000 crore. The Ahmedabad bench of the National Company Law Tribunal (NCLT) admitted the State Bank of India's insolvency petition, appointing Ajay Joshi as the Interim Resolution Professional (IRP) for insolvency proceedings. A case for liquidation was already pending before the Bombay HC, prior to SBI's application. Industrial and Commerce Bank of China (ICBC) even seeked dismissal of the insolvency proceedings, but to no avail, as Section 238 of the Insolvency and Bankruptcy Code (IBC), 2016, prevailed over the former as a subsequent Act.[6] By December 2017, the Insolvency Professional supervising the bankruptcy process of the company had to call for fresh bids to resolve the 29,000 Cr. default. Among the 12 NPA Accounts listed by the RBI's IAC, Alok Industry was the only company that did not receive any bids when the insolvency professional invited Expression of Interest (EoI).

By June 2018 Reliance Industries Ltd. along with JM Financial Asset Reconstruction Company (ARC) managed to get the approval of the lenders, striking the deal for INR 5,050 Cr. 4,550 Cr. were supposed to be given to the lender banks, and 500 Cr. to be invested in the company. RIL acquired a stake of 37.7% and JM Financial 6.15% in Alok Industries. The Banks had to take a haircut of 86%.

The CoC had no intentions to accept such an offer, one of the earlier joint resolution plan had been rejected by the CoC in April 2018. This second round of voting was done because 270 day deadline to resolve insolvency causes under the IBC had passed, and the company was set to be sent for liquidation. [7] Fearing that liquidation would lead to erosion of value and a loss of livelihood, the employee's trust of the company and other operational creditors had filed an interlocutory petition in NCLT Ahmedabad. Thereafter on the direction of the tribunal the Resolution Professional asked the CoC to reconsider the new resolution plan.[8] The company had got delisted after the NCLAT order dated 26th July 2019, but was relisted on 27th February 2020, at a share price of 14 Rupees.

Performance of the company Before, During and Post CIRP Process

The table below highlights the financial performance of Alok Industries in the last five years.

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[6] https://www.financialexpress.com/india-news/rs-4000-cr-alok-industries-debt-case-insolvency-case-filed-by-sbi-accepted-by-nclt/769143/

[7] https://bsmedia.business-standard.com/_media/bs/img/article/2018-06/23/full/1529699936-2253.jpg

[8] https://www.thehindubusinessline.com/todays-paper/tp-news/article23723805.ece

PARTICULARS (IN CRS.)	POST CIRP 2021	POST CIRP 2020	DURING CIRP 2019	DURING CIRP 2018	PRE-CIRP 2017
REVENUE	3,735.32	3,166.34	3,128.76	5,381.95	8,326.06
OTHER INCOME	21.66	85.19	124.32	236.31	165.69
TOTAL INCOME	3,756.98	3,251.53	3,253.08	5,618.26	8,491.75
EXPENDITURE	-7,903.43	-1,499.62	-438.69	-23,294.87	-13,605.10
INTEREST	-472.72	-98.57	-4,158.00	-4,682.87	-3,273.52
PBDT	-4,146.45	1,751.91	2,814.39	-17,676.61	-5,113.35
DEPRECIATION	-285.43	-529.45	-533.17	-527.81	-512.62
PBT	-4,431.88	1,222.46	2,281.22	-18,204.42	-5,625.97
TAX	-1,423.11	0.73	0.91	-11.19	2,123.54
NET PROFIT	-5,854.99	1,223.19	2,282.13	-18,215.61	-3,502.43
EQUITY	496.53	221.08	1,368.64	1,368.63	1,357.87
EPS	-15.68	8.45	16.67	-134.14	-25.80
CEPS	--	--	20.57	-129.24	-22.02
OPM %	-111.01	55.33	89.95	-328.44	-61.41
NPM %	-156.75	38.63	72.94	-338.46	-42.07

Source: BSE

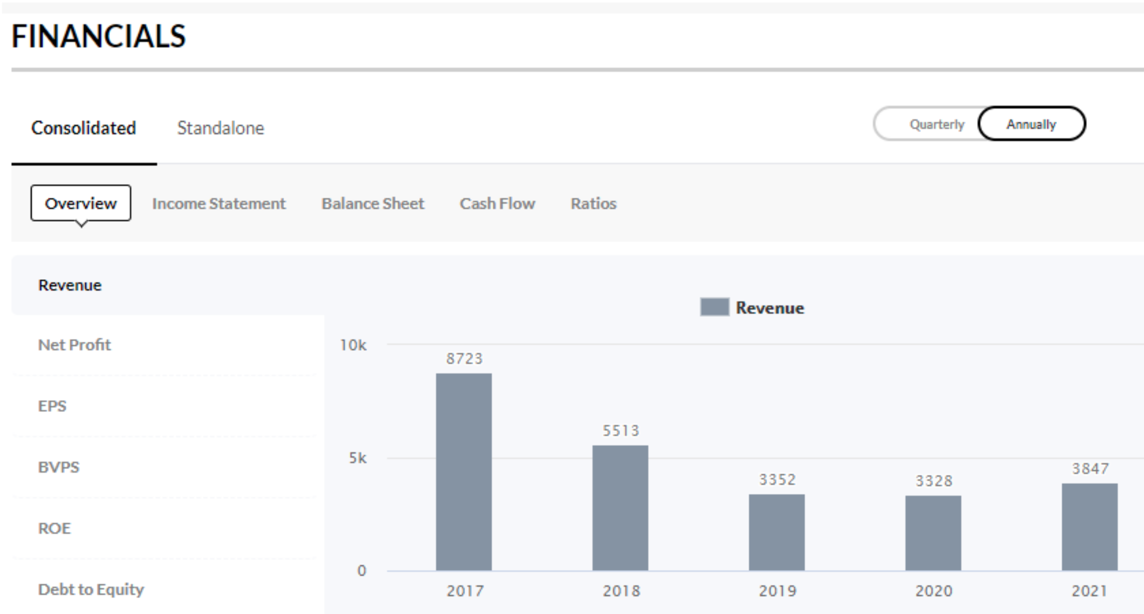
During CIRP-2019[9]

After the Approval of the Resolution plan, a monitoring committee was formed w.e.f 12th march, 2019 to manage the affairs of Alok Industries as a Going Concern. The resolution plan proposed reduction of the Company’s share capital without any payout to the shareholders, by reducing the face value of each Issued and outstanding equity share. The Resolution Plan for the Company had been approved by the Adjudicating Authority. Interest on the borrowings accrued for the period from 2017-2019, amounting to INR 7045.19 crore was derecognized. Arising out of this adjustment the Company recorded a total comprehensive Income of INR 2283.02 Crore for the year ended 31st March, 2019. The Company’s accumulated losses amounted to Rs. 15658.54 Crore. Total liabilities of the Company as on 31st March, 2019, exceeded total assets by Rs. 12922.11 Crore.

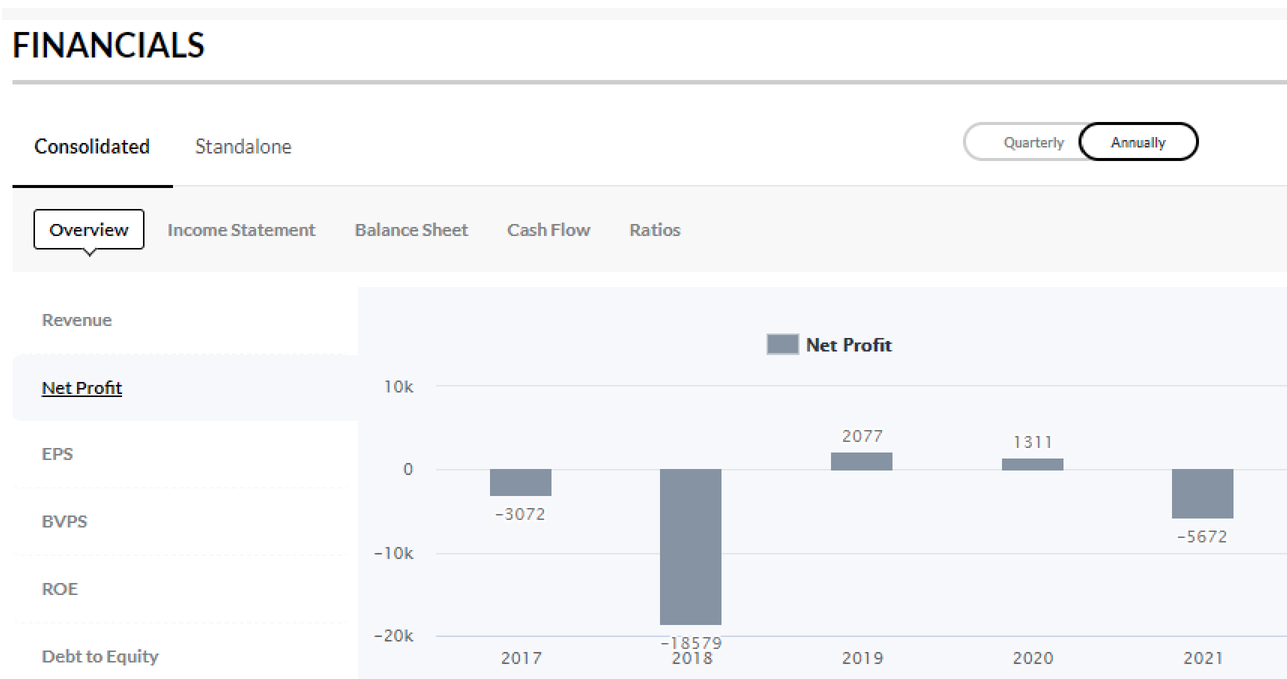
Revenue from operations for the period up till June, 2017 included excise duty, which is discontinued with effect from 1st July, 2017 upon Implementation of Goods and Service

[9] https://www.bseindia.com/corporates/resultNotes.aspx?Scrip_cd=521070&scripName=ALOK%20INDUSTRIES%20LTD.&qtrcode=101.50

Tax (GST) Act. The Revenue in 2019 saw a steep fall since 2017 as the company's level of operations during that time period was at 30 % capacity only. The Net profits did see a positive figure during this period even during the Company went through the CIR Process. The Return on equity also saw a great positive change from -183 in 2017 to -14 in 2019. For better understanding please refer to the Graphical representation of Revenue, Net Profits and ROE.

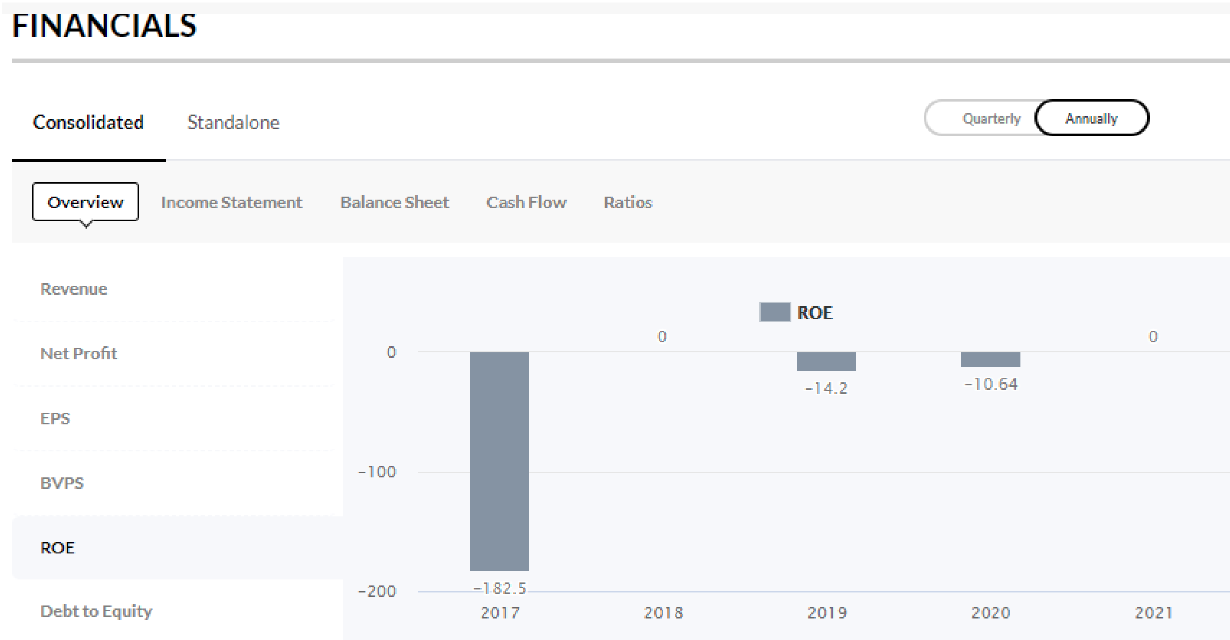


Source: moneycontrol.com[10]



Source: moneycontrol.com

[10] https://www.moneycontrol.com/india/stockpricequote/textiles-weaving/alokindustries/AI54



Source: moneycontrol.com

Post CIRP- 2020- 21[11]

The Company recorded a total comprehensive income of Rs. 1224.55 Crore for year ended 31st March, 2020. During the quarter and year ended, Alok Infrastructure Limited (“Alok Infra”) a wholly owned subsidiary of the company incurred a net loss of Rs. 4.50 Crore and of Rs. 13.50 Crore respectively. The Alok Infra's accumulated losses amounted to Rs. 1010.01 Crore. Total liabilities as on 31st March, 2020, exceeded total assets by Rs. 933.27 Crore.

Further, due to the outbreak of Corona virus Disease (COVID-19) the Company had to temporarily suspend operations. But after the production resumed after 17th March 2020, at some places of production the company did see increased revenue generated in the year, Net profits also increased considerably. The Company's operations and revenue during the period were impacted due to Covid-19 and also due to the fact that the capacity utilization over the past few years have been in the range of 25-30%. With the new business plan in place, there is an focus to increase the capacity utilization gradually in a phased manner. Also due to the nature of business being in textiles, the company had a great business opportunity of use its resources in the production of PPE Kits and Masks being greatly in demand as an essential tool to fight against the Covid-19 Pandemic.[12]

To gather a better understanding of the performance of the Company, a comparative chart of some financial ratios is produced below:

	Post CIRP	During CIRP	Pre-CIRP

[11] https://www.bseindia.com/corporates/resultNotes.aspx?Scrip_cd=521070&scripName=ALOK%20INDUSTRIES%20LTD.&qtrcode=105.50
https://www.bseindia.com/corporates/resultNotes.aspx?Scrip_cd=521070&scripName=ALOK%20INDUSTRIES%20LTD.&qtrcode=109.50

[12] https://www.business-standard.com/article/companies/ril-diverts-alok-industries-for-making-ppe-says-will-cut-cost-to-one-third-120060100183_1.html

	2021	2020	2019	2018	2017
Basic EPS	**-15.68**	**8.45**	**16.67**	**-134.15**	**-25.79**
Revenue from Operations/Share (Rs.)	7.52	14.32	22.86	38.97	59.87
PBDIT/Share (Rs.)	-0.87	-0.91	-0.53	-94.95	-13.55
PBIT/Share (Rs.)	-1.45	-3.31	-4.43	-98.81	-17.32
PBT/Share (Rs.)	-8.93	5.53	16.67	-133.02	-41.43
Net Profit/Share	**-11.79**	**5.53**	**16.67**	**-133.11**	**-25.79**
Enterprise Value (Cr.)	32,604.37	28,426.84	23,402.78	24,634.48	22,669.61
EV/EBITDA (X)	-75.36	-140.68	-321.47	-1.90	-12.32
MarketCap/Net Operating Revenue (X)	2.68	0.27	0.19	0.08	0.05
Price/Net Operating Revenue	2.68	0.27	0.19	0.08	0.05
Earnings Yield	**-0.59**	**1.41**	**3.75**	**-44.52**	**-8.68**

Table 2- Source: www.screener.in

Looking at the aforementioned ratios, it is evident that Earnings Per Share since 2017 has definitely travelled a path towards betterment the profitability of the company has drastically increased since 2018 from -134 EPS to 2020 recording 8.45 EPS. The Net operating Revenue has also increase from 0.08 in 2017 to 2.68 in 2021. The earning yield has also increased from a negative 44.5 in 2017 to a positive 1.4 in 2020. This is definitely due to the increase in revenue and Net Profits during that period.

March of law:

As per the table produced below, the flow of events and the march of law have been described according to the orders passed in the Insolvency Process of Alok Industries by the NCLT.

Order Dated	*Order Passed by*	*Brief of the Order*
18th July, 2017	NCLT, Ahmedabad	A Petition under Section 7 of the IBC was filed by the State Bank of India against Alok Industries on the direction of the RBI via its letter dated 15th June 2017. One of the controversies in this order of admission was whether the tribunal can entertain the petition despite the pendency of a winding up petition before the Hon’ble High Court of Bombay. But Section-238 of the code came to a rescue, it was held that the provisions of this code have overriding effect over any law which is inconsistent with the provisions of the code. Also since no winding up order had been passed by the concerned High Court, the Tribunal deemed it fit to maintain the application before it. The AA after observing that the application admitted the same under Section 7 sub-section 5(a), appointing Mr. Ajay Joshi as the IRP.
1st November, 2018	NCLT, Ahmadabad	An I.A filed for withdrawal of 298/2018 in vie of the NCLAT order wherein the hon’ble appellate court observed that Clause (b) and

		(c) of the regulation 38(1) are inconsistent with section 240(1) of the IBC, 2016. Further it was observed that any resolution plan which provides liquidation value to the Operational / Financial Creditor(s) in view of the said regulations without any other reason to discriminate between two set of creditors similarly situated cannot be approved being illegal. In this view the prayer for withdrawal of IA 298/2018 was allowed. It was further ordered that all the dissenting financial creditor shall be paid in proportion to their respective value of the outstanding debts, in the same manner as the assenting member.
4th January, 2019	NCLT, Ahmedabad	An application was filed under Section 60(5) of the Code, by IDBI Bank (one of the financial creditors), against the provisions Resolution Plan stating the same to be self-contradictory. The applicants had voted against 2 resolution plans earlier. After the Amendment to the Code whereby required majority of voting share was reduced to 65%, the Employee’s Welfare Trust of the Corporate Debtor filed an Interim Application requesting to reconsider the Resolution Plan. In the 16th Meeting of the CoC the said Resolution Plan was Approved on 21.06.2018 by 73.19%. IDBI Bank had alleged that the Plan seeks to curtail the rights of IDBI over the securities created by the third party security provider as the amount to be recovered is restricted to Rs. 10 Crore only, thereafter it would be assigned to the ARC Trust. It was later held that Section 3.7, does not amount to a waiver by Financial Creditor of any of their claims against subsidiaries. It was observed that there is no ambiguity in the resolution plan and INR 10 Crore is just a commercially agreed cap in terms of enforcement of security over immovable properties of the 3rd party.
8th March, 2019	NCLT, Ahmedabad	An Interim Application No. 259 of 2018 was filed for approval of the Resolution Plan under Section 30(6) r/w 31(1) of the Code r/w Reg. 39(4) of the IBBI (Insolvency Resolution Process for Corporate Persons) Regulation, 2016. A lot of Intervention/ Interlocutory Applications were filed with various grievances. It was observed that these applications were filed after the application for approval of Resolution Plan was filed by the Resolution Applicants. These applications were filed at such a belated date, that their claims did not seem bonafied. The court while rejecting these applications observed that these applicants were well aware of their fate and position but none of them approached the AA on the date of Approval of the Plan. This application approved the Resolution Plan with immediate effect, allowing IA 259/2018 and dismissed all the other IAs.

26th July, 2019		An I.A. No. 320/2019 was filed by the Applicant under section 60(5) of the Code, seeking clarifications/ rectifications of the typographical errors in the Order dated 8th March 2019. The court found that there are certain typographical errors due to inadvertence, which were rectified, vide the said order.
24th October, 2019	NCLAT	A Company Appeal (AT) no. 1093/2019 was filed after 191 days. It was brought to the notice of the court that the said appeal is barred by limitation. The appellants did not appear before the court during the previous hearings. The court resultantly held that it cannot condone the delay beyond 15 days, and are not inclined to adjourn the matter.

Literature Reviews

In the article ‘*Alok industries and the Story of its Revival’*[13] by Varishika Dinesh the author has discussed about the rise and sudden fall of Alok industries. The author has written the article with an investors point of view. She opines that the company even after all the ups and downs, is a money bagger for most of the investors. It went from Rags to riches after its acquisition by the Giant Reliance Industries (RIL), and JM Finance an asset Reconstruction company. The name of RIL itself has hyped the whole scenario, further the industry is sure to climb the ladder of success again in near future.

In the case study on Alok Industries by Sanjay Dongre[14] the author aims to bring to light the point about the huge Haircuts. The Case study highlights the Protests by the All India Bank Officers Confederation (AIBOC) against the COC’s decision of accepting Reliance Industries-JM Financial ARC’s resolution plan with a deep 83 per cent haircut. The resolution plan was valued at 5000 crore, of which 4000 crore was to be used to repay financial creditors while the claimes submitted by the Financial Creditors was worth over INR 29,000 crore. A recovery of only 17% was done.

Conclusion and Recommendation

The Adjudicating Authority is quite clear in its terms when it comes to the compliance with the objectives of the Insolvency and Bankruptcy Law in India. It was By April 2020, that the lenders received their monies for Alok Industries Resolution from RIL and JMFARC. Looking at this case it is evident how serious our Tribunals are about long term aims and essence of the Code. Very efficiently the AA highlighted the importance of Resolution above liquidation, taking the Apex Courts decision in the matter of K Sashidhar vs. Indian Overseas Bank & Ors. as the precedent. The NCLT in this matter very efficiently accentuated the fact that priority is to be given to the resolution and not liquidation. Liquidation is never in the

[13] https://blog.finology.in/success-stories/alok-industries-and-its-revival-story
[14] https://taxguru.in/corporate-law/insolvency-case-study-alok.html

larger interest of public, workmen and stakeholders directly related to the corporate debtor, it should always be the last resort. Resolution is a Rule and Liquidation is an Exception.

The Resolution Process of Alok Industries was quite a roller coaster ride for everyone related to the process, it brought about better understanding of the IBC and resulted in the achievement of its aims. It is the result of this that we are witnessing a betterment in the health of the company. The company had seen days as bad as getting delisted from the BSE, it got relisted at 14 Rs per share and dipped to 4 Rs per share in March 2020, due to the Covid 19 Outbreak.

The Pandemic has affected everyone globally, Indian economy has also seen major turbulences and slowdown of the economic activities. After the Government ordered a nationwide lockdown to prevent the community spread of the disease various economic activities have come to a standstill. Most of the manufacturing units of Alok Industries had to be shut down during this time but later the management decided to produce PPE Kits, which are still high in demand due to the ongoing deteriorating situation of the pandemic. This was an opportunity for the management, before January 2020 the PPE Kits that were available in India were being imported from china at very high costs and poor quality. The Management employed 10,000 workers at their Silvasa Palnt just focused on Manufacturing PPE Kits. The Share Prices of the company has seen a sudden jump within a very short period, there was an upper circuit also imposed by the Market Regulator. At present the Share Price is at an average 20 Rs per share. The company is indeed in better health despite all the unfavorable circumstances in the economy.

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