

Arex Industries Limited

July 05, 2023

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	13.61 (Reduced from 16.75)	CARE BBB; Stable	Reaffirmed
Long Term / Short Term Bank Facilities	5.50	CARE BBB; Stable / CARE A3+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of Arex Industries Limited (AIL) continue to derive strength from vast experience of its promoters in woven labels manufacturing business, long-standing track record of operations of AIL with well-established manufacturing setup, established relationship with reputed customers, healthy profitability, moderate capital structure as well as debt coverage indicators and its adequate liquidity. The ratings, however, continue to remain constrained by AIL's small scale of operation due to presence in product segment with a limited industry size, moderate capacity utilization, large working capital requirement, vulnerability of profitability to volatile raw material prices with limited ability to pass on the increase in cost to its customers and its presence in a competitive industry.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Increase in capacity utilization leading to increase in scale of operations along with maintaining healthy PBILDT margin of over 20% and improvement in return indicators with Return on Capital Employed (ROCE) at 12% on a sustained basis.
- Improvement in overall gearing below 0.30 times on a sustained basis along with augmentation of net worth base

Negative factors

- Any sustained decline in TOI and / or moderation in operating margin below 15% or any major debt funded capex, resulting in moderation in overall gearing beyond unity or total debt to PBILDT beyond 4 times on sustained basis
- Moderation in ROCE below 5% on a sustained basis.

Analytical approach: Standalone

Outlook: Stable

Stable outlook reflects CARE Ratings Limited's (CARE Ratings') expectations that the company will continue to benefit from vast experience of the promoters in label manufacturing industry and sustain its moderate financial risk profile in near to medium term.

Detailed description of the key rating drivers:

Key strengths

Vast experience of promoters in woven labels manufacturing business

The promoters of AIL have more than 30 years of experience in the woven label manufacturing business. Mr. Dinesh Bilgi, MD & CFO is the founder promoter of AIL and looks after the day-to-day operations of the company. He is well supported by his two sons, Mr. Neel Bilgi and Mr. Chirag Bilgi, who have more than 15 years of industry experience. Over the years, promoters have undertaken technological up-gradation and expansion projects to cater to increasing demand for labels from the textile industry.

Long-standing track record of operations and established relationship with reputed customers

AIL is one of the largest players in the organized sector in this niche segment of woven labels in the country with state-of-the-art manufacturing technology. The company has an established track record of operations of more than three decades. Also, AIL has a diverse and well-established clientele which includes some of the leading ready-made garment and home-textile manufacturers in India. Revenue concentration from top 10 customers stood moderate at 56% of total operating income in FY23 (55% in FY22).

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Healthy operating profit margin albeit moderation in return ratios

AIL's operating profit (PBILDT) margin stood healthy during FY23, however, on a y-o-y basis, it declined by 567 bps to 15.16%. The moderation was mainly due to decline in scale of operations, resulting in lower absorption of fixed overheads, along with increase in raw material prices i.e. yarn.

With decline in scale of operations as well as low profitability, return on capital employed (RoCE) also deteriorated to 5.54 % in FY23 from 12.16% in FY22.

Moderate capital structure and debt coverage indicators

AIL's capital structure marked by its overall gearing improved to 0.61 times as on March 31, 2023 as against 0.82 times as on March 31, 2022, mainly due to prepayment of term loans in FY22 and FY23 as well as increase in net worth base with accretion of profit to reserves. Debt coverage indicators continues to remain moderate with PBILDT interest coverage of 3.76 times (5.32 times in FY22) and total debt/ GCA of 3.50 times (2.79 times in FY22) in FY23.

Key weaknesses**Small scale of operations with moderate capacity utilization**

During FY23, total operating income (TOI) of AIL moderated by 16% y-o-y to Rs.45.05 crore with slowdown in demand from end user industries. The scale of operations has remained small over the years due to company's operations in a niche product segment having relatively limited market size.

Post expansion of manufacturing facilities in FY19, the utilization of installed capacity has remained moderate, in the range of 40-60%. Capacity utilization however remains dependent on machine settings and operating time which depend upon size, complexity, and intricacy of design of labels required.

AIL commenced commercial production at its Kutch unit from August 2018. This manufacturing facility is constructed on land taken on lease from Welspun India Limited (WIL: rated: CARE AA; Stable/ CARE A1+) and is adjoining to the manufacturing facility of WIL. AIL has entered into an agreement with WIL for a period of 10 years (balance remaining period 6 years), wherein WIL has agreed to off-take minimum 75% of the production capacity of Anjar Plant. In case WIL is unable to meet the off-take requirement and AIL's manufacturing facility remains un-utilized, WIL shall reimburse all fixed costs associated with AIL's Anjar facility. This arrangement reduces the saleability risk to certain extent, although results in high dependency on single customer.

Large working capital requirement apart from high fixed capital intensity

AIL has to maintain large inventory of various coloured yarns as demand for any particular colour may arise depending on the customer's requirement. Further, long order execution time on account of designing process involved before finalizing the order along with credit period required to be extended to its reputed clientele further elongates the operating cycle. In FY23, AIL's operating cycle stood at 126 days (115 days in FY22) with high inventory period of 90 days in FY23 as compared to 79 days in FY22.

This apart, the business of AIL also requires sizeable investment in fixed assets, which, coupled with moderate utilisation of capacities, restricts the fixed turnover ratio of the company to around 0.50x. Improvement in ROCE with increase in utilisation of manufacturing capacities shall remain crucial from credit perspective.

Vulnerability of profitability to volatility in raw material prices and limited ability to pass on the increase in cost to its customers

Synthetic and cotton tape/yarn is the key raw material for AIL, the price of which depends upon the raw cotton and crude oil prices. Over the years, the prices of this commodity have remained highly volatile mainly due to change in global demand supply scenario. Moreover, AIL has lower bargaining power vis-à-vis its customers as the labels account for a very low value of the final garment manufactured by its customers. In addition to this, presence of unorganized sector restricts company's ability to pass on fluctuations in input costs to customers.

Presence in a competitive industry with linkages to cyclical textile industry

Label industry in which AIL operates is highly fragmented and is dominated by many medium and small-scale unorganized players leading to high competition in the industry. Moreover, fortunes of this industry are closely linked to the growth prospect of the Indian textile industry which is cyclical in nature and closely follows the macroeconomic cycle.

AIL depends on both garmenting and home textile for majority of its revenue. Global demand for home textiles was impacted in FY23 with slowdown in sales of key US retailers, while demand for garments also remained muted owing to outbreak of geopolitical tensions. However, demand is expected to witness some traction from Q3FY24. Furthermore, adding to demand challenge is the price of raw cotton, a key input in textiles, which also defines the profitability of the players. Price of raw cotton rose significantly during FY23, though, it presently stands corrected with the arrival of new cotton crops

Liquidity: Adequate

Despite long operating cycle, the liquidity position of the company remained adequate with moderate average working capital utilization of 70% for the past 12 months ended April 30, 2023 on the back of positive cash flow from operations and absence of any major capex plan. Cash flow from operations remained positive at Rs.8.12 crore in FY23 (Rs.10.45 crore in FY22)

Applicable criteria

- [Policy on default recognition](#)
- [Financial Ratios – Non financial Sector](#)
- [Liquidity Analysis of Non-financial sector entities](#)
- [Rating Outlook and Credit Watch](#)
- [Short Term Instruments](#)
- [Cotton Textile](#)
- [Manufacturing Companies](#)
- [Policy on Withdrawal of Ratings](#)

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Consumer Discretionary	Textiles	Textiles & Apparels	Other Textile Products

Incorporated in 1989, AIL is promoted by Mr. Dinesh Bilgi. AIL manufactures various types of woven labels of Satin and Taffeta quality in white or black warp-base, of different shapes, sizes and colours depending on the customer's requirement. The demand for these labels mainly arises from apparels/ ready-made garments and home textile segment of the textile industry along with footwear industry. The company has total installed capacity of 27,015 million pick meters of woven labels as on March 31, 2023 spread across both its manufacturing facilities located in Kalol and Anjar in Gujarat. Company also manufactures printed labels, with an installed capacity of 15000 million pick meters as on March 31, 2023. This apart, it has two windmills having an aggregated power generation capacity of 1.60 MW located at Porbandar, Gujarat.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	March 31, 2023 (A)
Total operating income	40.92	53.78	45.05
PBILDT	6.86	11.20	6.83
PAT	(1.00)	3.70	0.70
Overall gearing (times)	1.26	0.82	0.61
Interest coverage (times)	2.30	5.32	3.76

A: Audited; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: None

Any other information: Not Applicable

Rating history for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	March 2027	13.61	CARE BBB; Stable
Fund-based - LT/ST-Cash Credit		-	-	-	5.50	CARE BBB; Stable / CARE A3+

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Fund-based - LT-Term Loan	LT	13.61	CARE BBB; Stable	-	1)CARE BBB; Stable (24-Aug-22)	1)CARE BBB; Stable (13-Sep-21)	1)CARE BBB; Stable (06-Aug-20)
2	Fund-based - LT/ST-Cash Credit	LT/ST*	5.50	CARE BBB; Stable / CARE A3+	-	1)CARE BBB; Stable / CARE A3+ (24-Aug-22)	1)CARE BBB; Stable / CARE A3+ (13-Sep-21)	1)CARE BBB; Stable / CARE A3+ (06-Aug-20)

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated instruments /facilities: Not Applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Term Loan	Simple
2	Fund-based - LT/ ST-Cash Credit	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please [click here](#)

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Contact us

<p>Media Contact</p> <p>Name: Mradul Mishra Director CARE Ratings Limited Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in</p> <p>Relationship Contact</p> <p>Name: Deepak Purshottambhai Prajapati Senior Director CARE Ratings Limited Phone: +91-79-4026 5656 E-mail: deepak.prajapati@careedge.in</p>	<p>Analytical Contacts</p> <p>Name: Kalpesh Patel Director CARE Ratings Limited Phone: +91-79-4026 5611 E-mail: Kalpesh.Patel@careedge.in</p> <p>Name: Nikita Akhilesh Goyal Associate Director CARE Ratings Limited Phone: +91-79-4026 5616 E-mail: nikita.goyal@careedge.in</p> <p>Name: Twinkle Manglani Lead Analyst CARE Ratings Limited E-mail: twinkle.manglani@careedge.in</p>
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About us:

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