Arex Industries Limited

June 27, 2025

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	5.25 (Reduced from 6.54)	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 alongwith 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 (CareEdge 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 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 57% of total operating income in FY25 (60% in FY24).

[1]Complete definition of ratings assigned are available at www.careratings.com and other CARE Ratings Limited's publications.

Healthy operating profit margin along with improvement in return ratios

AIL's operating profit (PBILDT) margin stood healthy during FY25, and on a y-o-y basis, it moderated marginally to 15.93% (P.Y. 17.78) mainly due to increase in employee costs. With reduction in capital due to buyback of shares, in spite of marginal decline in operating profitability, return on capital employed (RoCE) improved to 11.26% in FY25 as compared to 10.80% in FY24.

Moderate capital structure and debt coverage indicators

AIL's capital structure marked by its overall gearing stood at 0.48x in FY25 as compared to 0.33x in FY24, marginally deteriorated mainly with increase in working capital borrowings alongwith infusion of unsecured loans by directors. Further, networth base of the entity reduced from Rs.31.61 cr. in FY24 to Rs.25.67 cr. in FY25 on account of buy back of shares from profit reserves of the company. Debt coverage indicators remained moderate marked by PBILDT interest coverage of 7.45x (6.83x times in FY24) and total debt/ GCA of 1.87x (1.45x in FY24) in FY25.

Key weaknesses

Small scale of operations with moderate capacity utilization

During FY25, total operating income (TOI) of AIL stood stable at Rs.51.16 crore (Rs.51.01 cr. in FY24) with stable 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; Positive/ 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 4 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. However, actual offtake has been lower than the agreement in past years, though with an improvement in past two years ended FY25.

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 FY25, AIL's operating cycle improved and stood at 93 days (105 days in FY25) with decrease in inventory period of 68 days in FY25 as compared to 75 days in FY24. 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 which stood at around 0.49x during FY25. Improvement in fixed asset turnover ratio 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 and FY24 with slowdown in sales of key US retailers, with recovery in demand from Q4FY24 onwards. Home textiles industry has seen growth in demand in FY25 with increase in exports. Also, price of raw cotton, key input to AIL was significantly higher in past two years, which has corrected significantly 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 58.47% for the past 12 months ended April 30, 2025, on the back of positive cash flow from operations and absence of any major capex plan. Cash flow from operations remained positive at Rs.8.67 crore in FY25 (Rs.9.48 crore in FY24)

Applicable criteria

Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Financial Ratios – Non financial Sector
Cotton Textile
Short Term Instruments

About the company and industry

Industry classification

Macroeconomic 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, 2025 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, 2025. This apart, it has two windmills having an aggregated power generation capacity of 1.60 MW located at Porbandar, Gujarat.

Particular	March 31, 2023 (A)	March 31, 2024 (A)	March 31, 2025 (A)
Total operating income	45.05	51.01	51.16
PBILDT	6.83	9.07	8.15
PAT	0.70	2.54	2.63
Overall gearing (times)	0.61	0.33	0.48
Interest coverage (times)	3.76	6.83	7.45

A: Audited; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of 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 and Rating Outlook
Fund-based - LT-Term Loan		-	-	March 2027	5.25	CARE BBB; Stable
Fund-based - LT/ ST-Cash Credit		-	-	-	5.50	CARE BBB; Stable / CARE A3+

Annexure-2: Rating history for 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 2025-2026	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023
1	Fund-based - LT-Term Loan	LT	5.25	CARE BBB; Stable	-	1)CARE BBB; Stable (28-Jun-24)	1)CARE BBB; Stable (05-Jul-23)	1)CARE BBB; Stable (24-Aug-22)
2	Fund-based - LT/ ST-Cash Credit	LT/ST	5.50	CARE BBB; Stable / CARE A3+	-	1)CARE BBB; Stable / CARE A3+ (28-Jun-24)	1)CARE BBB; Stable / CARE A3+ (05-Jul-23)	1)CARE BBB; Stable / CARE A3+ (24-Aug-22)

LT: Long term; ST: Short term; LT/ST: Long term/Short term

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

Annexure-4: Complexity level of 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

Annexure-6: List of entities consolidated: Not Applicable

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

Contact us

Media Contact	Analytical Contacts
Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in	Kalpesh Ramanbhai Patel Director **CARE Ratings Limited** Phone: 079-40265611 E-mail: kalpesh.patel@careedge.in
Relationship Contact Ankur Sachdeva Senior Director **CARE Ratings Limited** Phone: 912267543444 E-mail: Ankur.sachdeva@careedge.in	Vipin Bardia Associate Director **CARE Ratings Limited** Phone: +91-79-40265671 E-mail: Vipin.bardia@careedge.in Twinkle Kishor Manglani Lead Analyst **CARE Ratings Limited** E-mail: twinkle.manglani@careedge.in

About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the Reserve Bank of India. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit. For more information: www.careratings.com

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