

Jaipur Rugs Company Private Limited

October 07, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	2.43	CARE BB+; Stable; ISSUER NOT COOPERATING* (Double B Plus; Outlook: Stable ISSUER NOT COOPERATING*)	Rating continues to remain under ISSUER NOT COOPERATING category and Revised from CARE BBB+; Stable; (Triple B Plus; Outlook: Stable)
Long Term / Short Term Bank Facilities	75.00	CARE BB+; Stable / CARE A4+; ISSUER NOT COOPERATING* (Double B Plus ; Outlook: Stable/ A Four Plus ISSUER NOT COOPERATING*)	Rating continues to remain under ISSUER NOT COOPERATING category and Revised from CARE BBB+; Stable / CARE A3+; (Triple B Plus ; Outlook: Stable / A Three Plus)
Total Bank Facilities	77.43 (₹ Seventy-Seven Crore and Forty-Three Lakhs Only)		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

CARE Ratings Limited (CARE) had, vide its press release dated April 04, 2022 placed the ratings of Jaipur Rugs Company Private Limited (JRCPL) under the 'Issuer non-cooperating category' on account of un-availability of requisite information for monitoring the ratings. Moreover, CARE has been seeking information from JRCPL to monitor the rating vide e-mail communications/ letters dated October 03, 2022, October 04, 2022, October 06, 2022 and October 07, 2022 and numerous phone calls. However, despite our repeated requests, JRCPL did not provided the requisite information for monitoring the ratings. In line with the extant Securities and Exchange Board of India (SEBI) guidelines, CARE has reviewed the rating on the basis of the best available information which however, in CARE's opinion is not sufficient to arrive at a fair rating. The rating of JRCPL's bank facilities will now be denoted as CARE BB+, Stable, ISSUER NOT COOPERATING*/ CARE A4+; ISSUER NOT COOPERATING*.

Users of this rating (including investors, lenders, and the public at large) are hence requested to exercise caution while using the above ratings.

The revision in the ratings of JRCPL is pursuant to the SEBI circular no. SEBI/HO/MIRSD/CRADT/CIR/P/2020/2 dated January 3, 2020, regarding 'Strengthening of the rating process in respect of Issuer Non-Cooperation (INC) ratings'. In this circular SEBI has mentioned that "If an issuer has all the outstanding ratings as non-cooperative for more than 6 months, then the CRA shall downgrade the rating assigned to the instrument of such issuer to non-investment grade with INC status."

Detailed description of the key rating drivers

At the time of the last rating on April 04, 2022 following were the rating weaknesses and strengths:

Key Rating Strengths

Experienced promoters with established track record and brand image:

JRPL was initially established as a proprietorship firm in 1978 by Mr Nand Kishore Chaudhary. He has long standing experience of more than 4 decades in rugs and carpet manufacturing. Mr. Nand Kishore Chaudhary looks after overall functions of the company. He is supported by his son Mr Yogesh Chaudhary along with his daughter Ms. Kavita Chaudhary. Mr Yogesh Chaudhary is a Management graduate from Boston University and has experience of over a decade in carpet industry and looks after the sales and marketing functions of the company while Ms. Kavita Chaudhary is design director at JRPL and looks after the overall product design. Further the promoters are supported by qualified team of fashion designers, artisans and other management professional. Promoters have further set up the Jaipur Rugs Foundation (JRF) to provide better livelihood to artisans through Corporate Social Responsibility (CSR) activity.

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications. *Issuer did not cooperate; Based on best available information.

Strategically located manufacturing units with strong artisan base:

JRPL's carpet processing facilities are located in Mirzapur (Uttar Pradesh), Jaipur, Dharampur (Gujarat), Gaya (Bihar), Deoghar (Jharkhand) and Bikaner (Rajasthan). These areas are approachable to major rug artisans and designers which allows effective control and oversight on manufacturing process. Moreover, geographically diversified operations ensure continuity of production in case of unrest in any geography. As on March 31, 2020, the company had annual dyeing, tufting and packing capacity of 15 lakh kg, 4 lakh sqft (Square Feet) and 5.5 lakh sqft respectively at Mirzapur plant. JRPL has strong artisan base of 40,000 spread across 5 states in India.

In-house research and design activity:

JRPL has set up in-house research and design unit at its facility located in Jaipur, where it carries out research for new design and development of carpets, which is recognized by Department of Scientific and Industrial Research, India (DSIR).

Strategic shift with increased focus on domestic sales in Hand knotted segment:

Earlier JRPL's major portion of revenue was derived from sale through B2B mechanism, where the company sold its products to carpet traders across the world, including India. However, the company has gradually diversified its sales and distribution channels for direct sale under B2C channel where margins are comparatively higher. Further, the company has increased its focus on domestic sales through B2C segment with tie-ups with reputed interior designers (Gauri Khan, Kavi, Luli Sanchez, Jeniffer Adams, Artemis etc.) and through other marketing channels to get business from large Indian corporate houses. Moreover, the company has retail stores in Jaipur, Delhi, and Mumbai under Company Owned and Company Operated Model (COCO) while it plans to start new showroom at Bengaluru and Delhi to further increase its presence in retail segment. Further to increase its product visibility, the company takes part in marketing events such as carpets and rugs expo, exhibitions, carpet fairs etc. organized in various countries from time to time. Revenue from domestic sales grew by around 25% on y-o-y basis to Rs.20.45 crore during FY20 while revenue from B2C segment grew by around 66% on y-o-y basis to Rs.16.02 crore during FY20 despite moderation in TOI of the company during FY20 over FY19. Furthermore, revenue from e-com (online sales) also increased from Rs.4.24 crore in FY19 to Rs.5.62 crore in FY20. Moreover, revenue from hand knotted carpet sales also improved during FY20 on y-o-y basis.

Healthy profitability margins though the same moderated in FY20:

PBILDT margin improved by 2.80% on y-o-y basis to 15.73% during FY21. PAT margin improved to 8.07% during FY21 as against 3.14% for FY20 on y-o-y basis. The company's GCA improved from Rs.9.54 crore in FY20 to Rs. 17.33 crore in FY21. As per provisional results for 9MFY22, the company has reported TOI of Rs.211.88 crore. JRPL is One Star rated Export house certified by Director General of Foreign Trade, India. The company receives MEIS (Merchandise Exports from India Scheme) Certificates and duty drawback on export sales, the MEIS certificates are marketable and are thus sold in open market, while the duty drawback is received within 30-40 days from submission of bills

Moderate capital structure and debt coverage indicators:

The company has lower reliance on long term debt to fund its capex which along with accretion of profit to reserves has resulted to comfortable long-term debt to equity of 0.02 times as on March 31, 2021 as against 0.04 times as on March 31st 2020. However, the company has a higher working capital cycle which results to higher reliance on working capital borrowings resulting to moderate overall gearing of 0.40 times on March 31, 2021 (0.80 times as on March 31, 2020). Further, debt coverage indicators stood moderate with PBILDT interest coverage of 7.97 times in FY21 which improved from 5.82 times during FY20. However, total debt to GCA improved to 2.26 times as on March 31, 2021 as against 7.06 times as on March 31, 2020.

Strong MIS System to track the process of Rugs:

During FY18, JRPL implemented Management Information System (MIS) which integrates whole supply chain from end to end, with primary focus on integration of all its artisans, improved quality control and tracking the carpet making process on real time basis. Further, as a part of its marketing strategy JRPL also provides real time status of carpets to its customers. As articulated by the management, post implementation of MIS the company has witnessed improvement in productivity of artisans, lower defect rate and timely delivery of products.

Key Rating Weaknesses**Moderate scale of operations:**

The total operating income of the company improved by around 16.50% on y-o-y basis to Rs.166.69 crore during FY21 as against Rs. 143.09 crore for FY20.. Export sales moderated by around 15% on y-o-y basis in FY20 while domestic sales grew by

around 25% on y-o-y basis in FY20. Revenue from sale of hand knotted carpets grew marginally by around 2% in FY20 over FY19 while revenue from sale of hand tufted carpets moderated by around 32% over the same period.

Customer and geographical concentration risk:

JRPL's revenue stream is exposed to customer concentration risk since it derives major portion of revenue from sales to its US based group company- Jaipur Living Inc (JLI). However, the proportion of sales revenue from JLI as percentage of net sales has declined over the past few years. Sales to JLI moderated by around 28% in FY20 over FY19; although the same constituted around 38.31% of net sales during FY20 as against 47.8% of net sales in FY19. Moreover, the percentage of sales to top five customers to net sales has also reduced marginally and sales to top 5 customers constituted around 53% of net sales in FY20 as against 54% of net sales in FY19. Revenue from US alone constituted around 61.7% of net sales of the company in FY20 as against 61.40% of net sales in FY19 depicting geographical revenue concentration.

Susceptibility of profitability to raw material and foreign exchange fluctuation risks:

JRPL's business model is largely order based supply to its distributors along with sales through its B2C / online platform and small portion being trading sales. Volatility in price of raw material has little impact on the profitability of the company as the prices are determined considering the market price of raw materials at the time of receipt of order. However, any significant volatility in prices of raw material can impact the profitability considering buffer inventory being maintained by the company. The company's profitability margin is also susceptible to the extent of net receivables un-hedged in case of adverse foreign exchange fluctuations as majority of its revenue (84% of net sales in FY20) is derived from exports against small imports. However, the company is hedging majority of its foreign currency exposure by entering into forward contract. However, there remains risk of impact on profitability to the extent of exposure remaining un-hedged. JRPL reported foreign exchange gain of Rs.6.27 crore in FY20 as against Rs.0.07 crore in FY19.

Competitive and fragmented nature of the industry:

The Indian carpet industry is characterized by numerous small players and is concentrated in the northern part of India which includes Kashmir, Jaipur, Mirzapur, Bhadohi and Agra contributing significant portion of India's total carpet production. As per carpet export and promotion council of India, India Carpet Industry (ICI) derives nearly 85-90% of revenue from exports. Further, exports have increased from Rs.4.42 Crore in 1961- 62 to Rs.11,799.46 Crore (prov.) in 2019-20. USA accounts for nearly 55% of the total exports. Low entry barriers and low investment requirement makes the hand knotted/tufted carpet industry highly lucrative and thus competitive. The company also faces stiff competition from cheaper carpet imports from China and Pakistan in the same product segment. However, JRPL has long track record of operations, strong artisan network along with strong clientele base which mitigates these risks to certain extent. Further, Government of India is providing export incentives (duty drawback of around 3.4% and MEIS certificate providing return of 5%) to the carpet industry and any change in the same would be crucial with regard to credit perspective. Further, MEIS incentive scheme has been now replaced by Remission of Duties or Taxes on Export Products (RoDTEP) w.e.f. January 01, 2021.

Large working capital requirement:

JRPL's operations are working capital intensive due to higher inventory requirements for its key raw materials i.e. various types of wool, silk and yarns. Wool is the primary raw material for JRPL's product and the quality of wool depends upon time of the year when it is sheared. The company procures wool periodically as per the requirement and generally maintains higher quantum of the same which leads to elongated inventory holding. Moreover, average time (120-180 days) taken by the weaver to make hand knotted carpet depending upon the coloring and design is also considered as raw-material inventory period. Further, the company gets credit of around 30-45 days from its suppliers except few suppliers wherein it makes cash payment to get discount. Against this, the company provides credit period of 90 days to the dealers/traders excluding its group entity-JLI whose payment term has been reduced to 10 days. For export customers, JRPL takes ECGC cover being one star export house to safeguard the export receivables. Operating cycle of the company improved from 286 days in FY20 to 227 days in FY21 on account of reduction in average collection and inventory period.

Liquidity Analysis – Adequate

JRPL's liquidity stood adequate marked by sufficient cushion in accruals vis-à-vis debt repayment obligations and moderate cash and bank balance (including free mutual fund investments) of Rs. 2,66 crore as on March 31, 2021. Its capex requirements are modular and are expected to be funded largely through internal accruals. Average utilisation of fund based working capital limit stood around 70% during past 12 months ended January 2021. Further, cash flow from operating activities stood around Rs. 36.16 crore during FY21 as against Rs. 15.66 crore during FY20

Analytical approach: Standalone

Applicable Criteria

[Policy in respect of Non-Cooperation by Issuer](#)

[Policy on default recognition](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Manufacturing Companies](#)

[Policy on Withdrawal of Ratings](#)

About the Company

Jaipur Rugs Company Private Limited (JRPL), one of the India's largest manufacturers of hand knotted rugs, is promoted by Mr Nand Kishore Chaudhary and is based out of Rajasthan. Initially promoters had set up as a sole proprietorship firm in 1978. In the year 1999, the constitution of firm was changed to partnership concern named as M/s Jaipur Carpets (JC), subsequently in June 2006, JRPL was incorporated to take over the running operations of JC. Currently JRPL has established network of nearly 40,000 artisans having more than 7000 looms across 5 states covering 600 villages across India. JRPL is selling products across 40 countries through B2B, B2C and online sales channel. JRPL is One Star rated Export house certified by Director General of Foreign Trade, India.

Brief Financials (Rs. crore)	31-03-2021 (A)	31-03-2022 (A)	30-09-2022 (Prov)
Total operating income	166.69	NA	NA
PBILDT	26.14	NA	NA
PAT	13.40	NA	NA
Overall gearing (times)	0.40	NA	NA
Interest coverage (times)	7.95	NA	NA

A: Audited, NA: Not Available, Prov: Provisional

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History: 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 for this company: Annexure 4

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based/Non-fund-based-LT/ST		-	-	-	75.00	CARE BB+; Stable / CARE A4+; ISSUER NOT COOPERATING*
Fund-based - LT-Term Loan		-	-	December 2023	2.43	CARE BB+; Stable; ISSUER NOT COOPERATING*

*Issuer did not cooperate; Based on best available information

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 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based/Non-fund-based-LT/ST	LT/ST*	75.00	CARE BB+; Stable / CARE A4+; ISSUER NOT COOPERATING*	1)CARE BBB+; Stable / CARE A3+; ISSUER NOT COOPERATING* (04-Apr-22)	1)CARE BBB+; Stable / CARE A3+ (06-Apr-21)	1)CARE BBB+; Negative / CARE A3+ (21-May-20)	1)CARE BBB+; Stable / CARE A3+ (23-Jan-20)
2	Fund-based - LT-Term Loan	LT	2.43	CARE BB+; Stable; ISSUER NOT COOPERATING*	1)CARE BBB+; Stable; ISSUER NOT COOPERATING* (04-Apr-22)	1)CARE BBB+; Stable (06-Apr-21)	1)CARE BBB+; Negative (21-May-20)	1)CARE BBB+; Stable (23-Jan-20)

*Long term/Short term. *Issuer did not cooperate; Based on best available information.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: Not Applicable**Annexure-4: Complexity level of various instruments rated for this company**

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-Term Loan	Simple
2	Fund-based/Non-fund-based-LT/ST	Simple

Annexure-5: Bank lender details for this company

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

Note on 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.

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About us:

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