

## Jaipur Rugs Company Private Limited

April 04, 2022

### Rating

Facilities/Instruments	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	2.43	CARE BBB+; Stable; ISSUER NOT COOPERATING* (Triple B Plus; Outlook: Stable ISSUER NOT COOPERATING*)	Rating moved to ISSUER NOT COOPERATING category
Long Term / Short Term Bank Facilities	75.00	CARE BBB+; Stable / CARE A3+; ISSUER NOT COOPERATING* (Triple B Plus ; Outlook: Stable/ A Three Plus ISSUER NOT COOPERATING*)	Rating moved to ISSUER NOT COOPERATING category
<b>Total Bank Facilities</b>	<b>77.43</b> <b>(Rs. Seventy-Seven Crore and Forty-Three Lakhs Only)</b>		

\*Issuer Not Cooperating: Based on Best Available Information  
Details of facilities in Annexure-1

### Detailed Rationale & Key Rating Drivers

CARE has been seeking information from Jaipur Rugs Company Private Limited(JRCPL) to monitor the rating vide e-mail communications dated February 04, 2022, February 08, 2022, March 01, 2022, March 05, 2022, March 08, 2022, March 09, 2022 & March 10, 2022 and numerous phone calls. However, despite our repeated requests, the firm has not provided the requisite information for monitoring the ratings.

In line with the extant SEBI guidelines, CARE has reviewed the rating based on the publicly available information which however, in CARE's opinion is not sufficient to arrive at a fair rating. The rating on JRCPL bank facilities will be denoted as CARE BBB+; Stable /CARE A3+; ISSUER NOT COOPERATING.

Rating factors in vast experience of its promoters and management in the carpet industry, established brand image, moderate capital structure and debt coverage indicators. The ratings also factor in its strong artisan base, strategically located manufacturing units along with healthy profitability margins. Furthermore, the ratings also take cognizance of the group's strong commitment towards up-liftment of artisans through training and skill development programmes. The ratings also factor in improvement in JRCPL's overall financial performance in FY21 & 9MFY22. The ratings, however, remain constrained due to moderate scale of its operations, vulnerability of profitability margins to volatility in raw-material prices and foreign exchange fluctuations and highly competitive nature of carpet industry. The ratings are also constrained on account of customer and geographical concentration risk and risk associated with changes in government regulations with respect to export incentives for the carpet industry

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

The ratings has been revised on account of non-availability of latest financials and latest operational data. CARE views information availability risk as a key factor in its assessment of credit risk.

### Detailed description of the key rating drivers

At the time of the last rating on March 15, 2021 following were the rating weaknesses and strengths: (Updated from Annual Report of FY21)

### Detailed description of the key rating drivers

#### 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.

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### **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:**

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 31 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, coverage indicators stood moderate with PBILDT interest coverage of 7.97 times in FY21 which improved from 5.82 times during FY20 and the 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

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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.

#### **Impact of Covid-19:**

The outbreak of Covid-19 pandemic halted the business operations of the company with closure of office, halting of transportation and movement of goods resulting in disruption of operations. The company's operation was partially operational with artisans working from their homes; however, with limited work and raw material on account of temporary disruptions. Partial relief was given from May 04, 2020 by the state government (Rajasthan) post which the company has resumed partial operations from administrative office; though, the same returned to normalcy in some time. The dyeing unit at Mirzapur has commenced operations from May 02, 2020 after obtaining approval from the local authority. Due to this reason, the company's sales got impacted during April and May 2020. However, despite disruption caused due to outbreak of covid-19 pandemic, the company's TOI improved to Rs.123.51 crore during 9MFY21 as against TOI of Rs.111.64 crore during 9MFY20 on account of healthy demand for its products. Owing to this, the company expects improvement in its scale of operations, profitability and debt coverage indicators in FY21 on y-o-y basis. The company has availed moratorium from one of its lenders for term loan limit while it has availed extension in case of pre-shipment limit from one of its lenders. The company has not availed any enhancement being allowed under covid-19 relief circular.

#### **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.

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## Analytical approach: Standalone

### Applicable Criteria

[Policy in respect of Non-cooperation by issuer](#)

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Rating Methodology- Manufacturing Companies](#)

[Rating Methodology- Short Term Instruments](#)

[Financial ratios – Non-Financial Sector](#)

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

### 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)	31-03-2020 (A)	31-03-2021 (A)	9MFY22
Total operating income	143.09	166.69	211.88
PBILDT	18.42	26.14	NA
PAT	4.44	13.40	NA
Overall gearing (times)	0.80	0.40	NA
Interest coverage (times)	5.71	7.95	NA

A: Audited, NA: Not Available

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

**Disclosure of Interest of Independent/Non-Executive Directors of CARE:** Not Applicable

**Disclosure of Interest of Managing Director & CEO:** 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 Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based/Non-fund-based-LT/ST		-	-	-	75.00	CARE BBB+; Stable / CARE A3+; ISSUER NOT COOPERATING*
Fund-based - LT-Term Loan		-	-	December 2023	2.43	CARE BBB+; Stable; ISSUER NOT COOPERATING*

\*Issuer did not cooperate; Based on best available information

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**Annexure-2: Rating History of last three years**

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based/Non-fund-based-LT/ST	LT/ST*	75.00	CARE BBB+; Stable / CARE A3+; ISSUER NOT COOPERATING*	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)	1)CARE BBB+; Stable / CARE A3+ (31-Dec-18)
2	Fund-based - LT-Term Loan	LT	2.43	CARE BBB+; Stable; ISSUER NOT COOPERATING*	1)CARE BBB+; Stable (06-Apr-21)	1)CARE BBB+; Negative (21-May-20)	1)CARE BBB+; Stable (23-Jan-20)	1)CARE BBB+; Stable (31-Dec-18)

\*Issuer did not cooperate; Based on best available information

**Annexure 3: Detailed explanation of covenants of the rated 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 instrument:** CARE Ratings Ltd. 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 CARE Ratings Limited:

Established in 1993, CARE Ratings Ltd. is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India (SEBI), it has also been acknowledged as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). With an equitable position in the Indian capital market, CARE Ratings Limited provides a wide array of credit rating services that help corporates to raise capital and enable investors to make informed decisions backed by knowledge and assessment provided by the company.

With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

### Disclaimer

The ratings issued by CARE Ratings Limited are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. These ratings do not convey suitability or price for the investor. The agency does not constitute an audit on the rated entity. CARE Ratings Limited has based its ratings/outlooks based on information obtained from reliable and credible sources. CARE Ratings Limited does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions and the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE Ratings Limited have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE Ratings Limited or its subsidiaries/associates may also be involved with other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE Ratings Limited is, inter-alia, based on the capital deployed by the partners/proprietor and the current financial strength of the firm. The rating/outlook may undergo a change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CARE Ratings Limited is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE Ratings Limited's rating.

Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

**\*\*For detailed Rationale Report and subscription information, please contact us at [www.careedge.in](http://www.careedge.in)**

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