

Jaipur Rugs Company Private Limited

April 06, 2021

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Rating Action
Long-term Bank Facilities	2.43	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Reaffirmed; Outlook revised from Negative
Long-term/Short term Bank facilities	75.00	CARE BBB+; Stable / CARE A3+ (Triple B Plus; Outlook: Stable / A Three Plus)	Reaffirmed; Outlook revised from Negative
Total facilities	77.43 (Rupees Seventy-Seven Crore and Forty-Three Lakh Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Jaipur Rugs Company Private Limited (JRPL) continue to derive strength from 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, though the same moderated in FY20 (refers to the period April 1 to March 31). 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 JRPL's overall financial performance in 9MFY21 with expectation of improvement in the same in FY21 on y-o-y basis.

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.

Key Rating Sensitivities

Positive Factors-Factors that could lead to positive rating action/upgrade:

- ✓ Substantial growth in total operating income and improvement in PBILDT margin to higher than 17% on sustained basis
- ✓ Improvement in capital structure with overall gearing of less than 0.5 times and improvement in debt coverage indicators
- ✓ Significant improvement in its operating cycle
- ✓ Significant decline in customer concentration and geographical concentration risk

Negative Factors-Factors that could lead to negative rating action/downgrade:

- ✗ Deterioration in PBILDT margin below 11% on sustained basis
- ✗ Deterioration in capital structure with overall gearing deteriorating beyond 1.25 times

Outlook: Stable

The revision in the outlook on the long-term rating of the bank facilities of JRPL from 'Negative' to 'Stable' is on account of improvement in JRPL's financial performance in 9MFY21 with expectation of improvement in the same in FY21 on y-o-y basis.

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.

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.

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

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 moderated by 218 bps on y-o-y basis to 13.09% during FY20 on account of higher employee cost as well as other operating and selling expenses. Moreover, lower PBILDT along with one time provision created for loss due to storm resulted to significant decline in PAT margin by 419 bps to 3.10% during FY20 on y-o-y basis. Due to decline in profitability, the company's GCA declined from Rs.15.61 crore in FY19 to Rs.9.54 crore in FY20.

As per provisional results for 9MFY21, the company has reported TOI of Rs.123.51 crore with PBILDT of Rs.25.05 crore as against TOI of Rs.111.64 crore and PBILDT of Rs.17.96 crore during 9MFY20. Further, the company has reported GCA of Rs.17.59 crore in 9MFY21.

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 0.04 times as on March 31, 2020 (0.05 times as on March 31, 2019). However, the company has a higher working capital cycle which results to higher reliance on working capital borrowings resulting to moderate overall gearing of 0.80 times on March 31, 2020 (0.94 times as on March 31, 2019).

Further, debt coverage indicators stood moderate with PBILDT interest coverage of 5.82 times in FY20 which improved from 5.35 times during FY19 on account of decline in interest expenses. However, total debt to GCA moderated to 7.06 times as on March 31, 2020 as against 4.80 times as on March 31, 2019 owing to one-time provision created for loss due to storm which impacted GCA during FY20. Further, the company's PBILDT interest coverage stood at 9.60 times in 9MFY21.

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 moderated by around 7% on y-o-y basis to Rs.143.44 crore during FY20 which can be mainly attributed to lower sales volume. The same was largely on account of lower sales during the month of March 2020 owing to disruption caused by covid-19 pandemic. 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 moderated from 234 days in FY19 to 286 days in FY20 on account of increase in average collection and inventory period with a decline in scale of operations.

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- 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.6.84 crore as on March 31, 2020 which stood at Rs.2.25 crore as on December 31, 2020. 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.15.89 crore (net of one-time provisioning for loss due to storm) during FY20 as against Rs.3.26 crore during FY19.

Analytical approach: Standalone

Applicable criteria

[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](#)
[Policy on Withdrawal of ratings](#)

About the Company

Jaipur Rugs Company Private Limited (JRPL) 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. JRPL is selling products across 40 countries through B2B, B2C and online sales channel.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	155.04	143.44
PBILDT	23.68	18.78
PAT	11.30	4.44
Overall gearing (times)	0.94	0.80
Interest coverage (times)	5.35	5.82

A: Audited

As per provisional results for 9MFY21, the company has reported TOI of Rs.123.51 crore with PAT of Rs.14.06 crore.

Status of non-cooperation with previous CRA: ICRA has continued to classify the ratings under Issuer Not Cooperating category vide press release dated June 25, 2020 on account of ICRA's inability to carry out a review in the absence of the requisite information from the company.

Any other information: Not Applicable

Rating History (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 for this company: Annexure 4

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	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+
Fund-based - LT-Term Loan	-	-	Dec-2023	2.43	CARE BBB+; Stable

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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based/Non-fund-based-LT/ST	LT/ST	75.00	CARE BBB+; Stable / CARE A3+	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	1)CARE BBB+; Negative (21-May-20)	1)CARE BBB+; Stable (23-Jan-20)	1)CARE BBB+; Stable (31-Dec-18)	-

Annexure-3: Covenants of rated instrument/facility: None

Annexure 4: Complexity level of various instruments rated for this Company

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

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

Contact us

Media Contact

Mradul Mishra

Contact no.: +91-22-6837 4424

Email ID - mradul.mishra@careratings.com

Analyst Contact:

Name: Harsh Raj Sankhla

Tel: 0141-4020213/214

Contact No: +91- 9413969100

Email ID: harshraj.sankhla@careratings.com

Relationship Contact

Name: Nikhil Soni

Contact no. : +91 - 95490 33222

Email ID: nikhil.soni@careratings.com

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Disclaimer

CARE's ratings 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. CARE's ratings do not convey suitability or price for the investor. CARE's ratings do not constitute an audit on the rated entity. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE or its subsidiaries/associates may also have other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is, inter-alia, based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo 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 is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE'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.careratings.com**