Jyothy Labs Limited

Ratings

Instrument / Facilities	Amount (Rs. Crore)	Rating[1]	Rating Action
Long-term Bank Facilities	312.50 (Reduced from Rs.380.35 crore)	**CARE AA; Stable (Double A; Outlook: Stable)**	**Reaffirmed**
Total Facilities	**312.50 (Rs. Three hundred twelve crore and fifty lakhs only)**		
Commercial Paper	**100.00 (Rs. One hundred crore only)**	**CARE A1+ (A One Plus)**	**Reaffirmed**

Details of instrument / facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the facilities/instruments of Jyothy Labs Limited (JLL; CIN No.L24240MH1992PLC128651 formerly known as Jyothy Laboratories Limited) continue to factor in its established position in Fast Moving Consumer Goods (FMCG) industry with consistent market share in its key segment i.e. fabric care. It continues to operate with diversified portfolio of established brands with strong recall value across fabric care, dishwashing, household insecticides and personal care, while leveraging its strong and well penetrated distribution network across the nation.

The management of JLL has vast experience of operating in FMCG industry and has demonstrated their capability successfully in scaling up the operations both organically and inorganically. Second generation of the promoter group is now leading the business.

Operating performance was adversely impacted in FY20 on account of weak consumption demand as well as lockdown announced due to CoVID-19 in the month of March 2020. However, once the lockdown was relaxed, the operations gradually returned to pre- CoVID levels with marginal growth in operating income in H1FY21 on a y-o-y basis. Strong product profile with focus on safety and hygiene has aided the company's performance in H1FY21. Operating margins have also shown improvement in H1FY21 driven by change in product mix with increase in share of higher margin products. Further, JLL has been able to reduce its working capital cycle over the same period, leading to improved cash flow from operations thus, reducing its dependence on external debt. Going forward, the company's endeavor to penetrate further in the rural markets, which have shown higher growth visa-a-vis urban markets and increase market share in the liquid household insecticide and dishwashing segments is likely to support future growth. JLL continues to operate at very low leverage and exhibit strong debt coverage indicators. CARE believes that both leverage and debt coverage would improve going forward on the back of improved cash generation as well as in the absence of any debt funded organic or inorganic expansion plan.

The above ratings are however, tempered by JLL's presence in limited product categories in FMCG industry which limits its size to certain extent. Considerable dependence on its flagship brands across different segments, susceptibility of operating margins to raw material price volatility and intense competition especially in the domestic FMCG industry.

Rating sensitivities

Positives

- *Sustained improvement in total operating income along with further revenue diversification across various product categories.*
- *Sustained improvement in ROCE over 20%*
- *Maintaining comfortable leverage sustained basis*

Negatives

- *Decline in PBILDT margin on a sustained basis below 12%*
- *Any debt-funded project (organic / inorganic) resulting in to overall gearing increasing above 0.5x on sustained basis along with adverse impact on its debt coverage indicators.*

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

Detailed description of the key rating drivers

Key Rating Strengths

Well established position in the FMCG industry and experienced management

Established in 1983, JLL is promoted by Mr. M.P Ramachandran, a first generation entrepreneur and the present Chairman Emeritus, who brings in rich experience of several decades in the FMCG industry. Since its inception, under the able guidance of Mr. M.P Ramachandran along with Mr. Ullas Kamath (Joint Managing Director), the company has grown from being a single brand single product company (‘Ujala’- whitener) to a multi-product company having pan India presence and strong brand recall in most of the business segments it operates. The company has been able to establish itself as one of the well- known dominant players in the fabric care and dishwashing segments of the FMCG industry. In 2020, Ms. M.R. Jyothy (second generation entrepreneur) was appointed as the Managing Director of the company. Prior to this, she was heading the marketing department as the Chief Marketing Officer for more than one and a half decade. The management is supported by qualified professionals heading various verticals with adequate and relevant experience in their respective fields.

Well-diversified product portfolio having strong brand recall and pan-India presence

JLL is one of the leading and well established companies having formidable position in the mid/economy segments of the FMCG industry. JLL’s product portfolio is well diversified with products catering to various segments. During FY20, JLL derived around 41% of its revenues from Fabric Care, followed by 33% from Dishwashing, 11% from Household Insecticides, 11% from personal care and the 2% from allied products (incense sticks). Also, the company derived around 2% of its total income from rendering laundry service to both retail and corporate clients.

Over the years, its flagship brand ‘Ujala’ has become a generic name for fabric whiteners. Besides, the company has well established brands viz. ‘Maxo’ and ‘Exo’. Further, post the acquisition of Henkel India Limited, JLL has obtained an access to various brands such as Henko, Pril, Margo and Fa wherein Henko and Margo brands are owned by JLL while JLL sells Pril and Fa by paying a royalty at 2% of revenue to Henkel AG & Co. In H1FY21, JLL launched new products under personal care and dishwashing segments such as Margo neem face wash (paste form), Margo antibacterial neem hand sanitizer, Margo antibacterial neem hand wash, Exo dishwasher in gel form and Exo Biofresh which is a fruit and vegetable cleaner. Accordingly, the product portfolio of the company is well diversified, having a strong brand recall. However, considerable dependence on its flagship brands across different segments constitutes a key rating sensitivity.

JLL has developed an extensive pan-India distribution network comprising of 6,000 stockists and sub stockists, thus enabling the company to cater to the pan India demand in a timely and cost effective manner. In the aftermath of the pandemic, JLL had scaled up its partnership with e- commerce players such as Flipkart, Amazon, Big Basket, Grofers etc., to increase its reach to the urban populace. It has also tied up with alternative distribution channels such as Udaan, Jumbotail and Elastic Run to ensure availability of its products across all platforms. Further, to ensure last mile connectivity it has tied up with Swiggy, Zomato and Dunzo to ensure delivery at the doorstep of the consumers. While in the past e- commerce accounted for 2% of the business, it has increased to 3% in the current financial year.

In terms of demand, historically urban demand has accounted for 60% of the total demand with the balance 40% coming from rural markets. However, in the current financial year, rural demand has demonstrated higher growth as compared to urban on the back of good monsoons, government support and good social security measures, which have helped increase the consumption of various goods in the rural markets. As such, JLL is also introducing smaller SKU’s to cater to this demand.

Marginal decline in total operating income and moderation in operating profitability in FY20, although performance in H1FY21 has been healthy despite the impact of CoVID-19

JLL's TOI (Total Operating Income) declined by 6% on a y-o-y basis in FY20 on account of weak demand for products as well as lost sales in March 2020 due to complete lockdown imposed to control the spread of CoVID-19. March is typically a crucial month for the company as demand for personal care and household insecticides peaks towards the end of the month as stockists stock up products in anticipation of the upcoming summer season. Further, as both manufacturing and sales team are on the payrolls of JLL and the advertisement expenses were fully committed in anticipation of summer season, the lost sales adversely impacted the operating profitability in Q4FY20 which resulted in overall decline in the operating profitability for the year.

Consequent to essential nature of the products manufactured by JLL, its operations stabilised shortly after the initial lockdown was relaxed in April 2020. Further, increased importance placed by consumers on hygiene, protection and sanitization resulted in healthy growth in revenue in H1FY21. JLL's timely launch of products such as sanitizers, hand wash etc. also aided revenue growth. Going forward, sustaining growth through higher penetration of its products amidst increasing competition will be crucial.

Healthy financial risk profile marked by low gearing levels and healthy debt coverage indicators

JLL's overall gearing on a consolidated basis marginally deteriorated to 0.28x as on March 31, 2020 as compared to 0.22x as on March 31, 2019, on account of increased working capital borrowing towards the end of the financial year. Further, the company paid dividend of Rs. 265.61 crore in FY20 which comprised Rs. 3 per share of final divided for FY19 and interim dividend of Rs. 3 per share for FY20. This had a depleting impact on the networth of the company as on March 31, 2020.

CARE notes that healthy cash accruals in the current financial year on the back of better working capital management has led to reduced working capital borrowings and prepayment of long term loans. With no further, major debt funded organic or inorganic growth anticipated by the company in the near future, the overall gearing is expected to improve going forward. Debt coverage indicators remain comfortable in FY20 and have shown improvement in H1FY21 on the back of lower working capital borrowing as well as prepayment of term loans.

Liquidity: Strong

JLL's liquidity profile continues to remain strong on the back of healthy cash accruals visa-a-vis its debt repayments. CARE notes that, improved cash flow from operations have allowed the company to prepay its debt obligations in the current financial year and also reduce dependence on working capital borrowing. The average of maximum fund based utilization including commercial paper (standalone) for last 12 months ended November 2020 was about 40%. JLL's unutilized bank lines (Rs.195 crore) are more than adequate to meet its incremental working capital needs. Presence of unencumbered cash and bank balance of Rs. 121.23 crore as on September 30, 2020 provides additional liquidity support to the company.

Key Rating Weaknesses

Volatility in raw material prices

JLL has exposure to various commodities involved in the manufacturing of its final products. Any fluctuation in the prices of the basic commodities may have a direct impact on the gross margins earned. In absence of any long term contracts with its major suppliers, the company is exposed to fluctuations in input prices. JLL on an average maintains an inventory for 60 days wherein it closely monitors the prices of key raw materials and its impact on the profitability.

Operates in a highly competitive and price sensitive market

FMCG is an extremely competitive and price sensitive business segment wherein its peers are mostly large MNCs. As a result, it has limited flexibility in terms of increasing the selling price and has to absorb any input price fluctuation. JLL has been able to maintain its share as a market leader in the fabric care (Liquid Blue) segment and has been growing sequentially in the remaining segments. As per the changing preferences of customers, JLL has also been launching new products in the existing categories. *Accordingly, JLL's ability to maintain its market share amidst the increasing competition faced from the large MNCs forms a key rating monitorable.*

Analytical approach:
CARE has considered the consolidated financials of JLL while arriving at the ratings owing to financial support in the form of corporate guarantee for loans availed by Jyothy Fabricare Services Limited, which is 75.10% subsidiary of JLL and also are in under the same management. The consolidated financials include financials of the following subsidiaries:

Company	% of Equity Interest
(A) Direct Subsidiaries	
- Jyothy Fabricare Services Limited	75.10
- Jyothy Kallol Bangladesh Limited	75.00
(B) Indirect Subsidiaries	
- Snoways Laundrers and Drycleaners Pvt. Ltd.*	75.10
- Four Seasons Dry Cleaning Co. Pvt. Ltd.	75.10
- JFSL - JLL (JV) – Partnership firm	81.32

**As at 31st March 2020, Jyothy Fabricare Services Limited has 100% share in Snoways Laundrers & Drycleaners Private Limited.*

Applicable Criteria
Criteria on assigning Outlook and credit watch to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology-Manufacturing Companies
Financial ratios - Non-Financial Sector
Rating Methodology: Consolidation
Liquidity analysis of non- financial sector companies
Criteria for rating credit enhanced debt

About the Company
Jyothy Labs Limited (JLL) is a Mumbai based FMCG (Fast Moving Consumer Goods) company founded in 1983. JLL with existence of over 3.5 decades, has diversified itself from being a single product to a multi-product, multi-brand company having presence across Fabricare (Detergents/soaps for clothes), Household Insecticide (Repellent coils/liquid or spray), Dishwashing products/Toilet cleaners, Personal care and Others (Toilet soap/Incense sticks). During FY12, JLL acquired 83.66% of Jyothy Consumer Products (JCPL) - (formerly known as Henkel India Ltd) along with its 96% subsidiary Jyothy Consumer Products Marketing Ltd. (JCPML) - (formerly known as Henkel Marketing India Limited (HMIL) which enabled it to transform itself to one of the leading and dominant players in the mid and economy segments in the FMCG industry, having a wide range of products along with a healthy basket of brands such as Henko, Mr. White, Pril, Fa, Margo and Neem from Henkel's acquisition. During FY13, JLL amalgamated its wholly owned subsidiary JCPL, while during FY17, JCPML was amalgamated with JLL.
The company is well known for its flagship brand ***Ujala*** along with various other brands such as ***Henko*** *(fabric detergent),* ***Maxo*** *(mosquito repellant)*, ***Margo*** *(personal care)****, Exo and Pril*** *(dish washer/surface cleaner)*.

Financial Performance – Jyothy Labs Limited (Consolidated)

(Rs. Crore)

For the Period Ended / as at March 31,	2018 (12m, A)	2019 (12m,A)	2020 (12m, A)
Working Results			
Net Sales	1,730.99	1,812.40	1,709.72
Total Operating Income	1,754.17	1,836.71	1,729.47
PBILDT	279.13	304.74	269.70
Interest	45.73	34.68	32.88
Depreciation	31.13	30.57	52.92
PBT	244.51	243.54	181.51
PAT	178.87	197.60	162.58
Gross Cash Accruals	230.99	226.20	207.14
Financial Position			
Equity Capital	18.18	36.72	36.72
Net-Worth	1,130.26	1,305.06	1,199.52
Total Capital Employed	1,584.14	1,493.20	1,434.09
Key Ratios			
Growth			
Growth in Total Income (%)	3.68	4.71	(5.84)
Growth in PAT (after deferred tax) (%)	(12.38)	10.47	(17.72)
Profitability			
PBILDT/Total Op. Income (%)	15.91	16.59	15.59
PAT (after deferred tax)/Total Income (%)	10.20	10.76	9.40
ROCE (%)	18.94	17.99	14.47
Solvency			
Debt Equity Ratio (times)	0.33	0.16	0.19
Overall Gearing Ratio (times)	0.48	0.22	0.28
Interest Coverage (times)	6.10	8.79	8.20
Term Debt/Gross Cash Accruals (years)	1.59	0.91	1.08
Total Debt/Gross Cash Accruals (years)	2.36	1.24	1.63
Term Debt/PBILDT (years)	1.32	0.67	0.83
Total Debt/PBILDT (years)	1.95	0.92	1.25
Liquidity			
Current Ratio (times)	0.93	1.32	1.01
Quick Ratio (times)	0.66	0.91	0.55
Turnover			
Average Collection Period (days)	30	32	29
Average Inventory Period (days)	58	54	63
Average Creditors Period (days)	39	41	38
Operating Cycle (days)	48	45	53

A: Audited

Note: Financials have been classified as per CARE's standards

Covenants of Rated Instrument: Detailed explanation of covenants of the rated instrument is given in **Annexure-3**

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

Annexure-1: Details of Instrument / Facilities

Name of the Instrument / Bank Facilities	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	-	Feb.2023	62.50	CARE AA; Stable
Fund-based - LT-Cash Credit	-	-	-	-	250.00	CARE AA; Stable
Commercial Paper (Standalone)	-	-	-	-	100.00	CARE A1+

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.	Commercial Paper-Commercial Paper (Standalone)	ST	100.00	CARE A1+	-	1)CARE A1+ (03-Jan-20)	1)CARE A1+ (13-Nov-18)	1)CARE A1+ (29-Nov-17)
2.	Debentures-Non Convertible Debentures	LT	-	-	-	-	1)Withdrawn (29-May-18)	1)CARE AA; Stable (29-Nov-17)
3.	Fund-based - LT-Term Loan	LT	62.50	CARE AA; Stable	-	1)CARE AA; Stable (03-Jan-20)	1)CARE AA; Stable (13-Nov-18)	-
4.	Fund-based - LT-Cash Credit	LT	250.00	CARE AA; Stable	-	1)CARE AA; Stable (03-Jan-20)	1)CARE AA; Stable (13-Nov-18)	-

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities - NA

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

Sr. No.	Name of the Instrument	Complexity Level
1.	Commercial Paper-Commercial Paper (Standalone)	Simple
2.	Fund-based - LT-Cash Credit	Simple
3.	Fund-based - LT-Term Loan	Simple

Annexure 5: Details of Rated Facilities

1. Long Term Facilities
1.A. Term Loans

Sr. No.	Name of Bank / Lender	Rated Amount (Rs. crore)	Debt Repayment Terms
1.	HDFC Bank Ltd.	62.50	Includes 3 term loan, with quarterly repayment with last instalment due on Oct.2023
	Total	**62.50**	

1.B. Fund Based Limits (Cash Credit/ Working capital demand loan)

Sr. No.	Name of Bank / Lender	Rated Amount (Rs. crore)
1.	HDFC Bank Ltd.	250.00
	Total	**250.00**

Total Long Term Facilities : Rs.312.50 crore

Total Facilities (1.A+1.B) : Rs.312.50 crore

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-1
Group Head Name – Ms. Arti Roy
Group Head Contact no. - 9819261115
Group Head Email ID – arti.roy@careratings.com

Analyst Contact 2
Mr. Sudarshan Shreenivas
Contact no.- 91-22-67543566
Email ID- sudarshan.shreenivas@careratings.com

Relationship Contact
Name: Mr. Saikat Roy
Contact no. : 91-22-67543404
Email ID: saikat.roy@careratings.com

(This follows our brief rationale for the entity published on December 21, 2020)

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.

CONTACT

CARE Ratings Ltd.
Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern
Express Highway, Sion (East), Mumbai - 400 022.
Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457
E-mail: care@careratings.com
Website: www.careratings.com

REGIONAL OFFICE

AHMEDABAD
32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015.
Tel: +91-79-4026 5656

BENGALURU
Unit No. 205-208, 2nd Floor, Prestige Meridian 1,
No. 30, M.G. Road, Bengaluru, Karnataka - 560 001.
Tel: +91-80-4662 5555

CHANDIGARH
SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Chandigarh, Mohali – 160 062.
Tel: +91-172-490 4000 / 01

CHENNAI
Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.
Tel: +91-44-2849 7812 / 0811

COIMBATORE
T-3, 3rd Floor, Manchester Square,
Puliakulam Road, Coimbatore - 641 037.
Tel: +91-422-433 2399 / 450 2399

HYDERABAD
401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.
Tel: +91-40-4010 2030

JAIPUR
304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.
Tel: +91-141-402 0213 / 14

KOLKATA
3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.
Tel: +91-33-4018 1600

NEW DELHI
13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.
Tel: +91-11-4533 3200

PUNE
9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 016.
Tel: +91-20- 4000 9000

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