Jyothy Labs Limited (Revised)

September 19, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	262.50 (Reduced from 287.50)	CARE AA; Stable (Double A; Outlook: Stable)	Reaffirmed
Total bank facilities	**262.50 (₹ Two hundred sixty-two crore and fifty lakh only)**		
Commercial paper	100.00	CARE A1+ (A One Plus)	Reaffirmed
Total short-term instruments	**100.00 (₹ One hundred crore only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The ratings assigned to the bank facilities and instruments of Jyothy Labs Limited (JLL) continue to factor in the well-established customer base and distribution network in fast moving consumer goods (FMCG) sector with increasing market share in its key brands, viz, Ujala, Exo, Pril, Maxo, etc. It continues to operate on a pan-India basis with a well-diversified portfolio in different price segments with its established brands that have a strong recall value across all the major brands. The management of JLL has vast experience of operating in the FMCG sector and has demonstrated its capability successfully in scaling up the operations both organically and inorganically. The ratings also factor strong financial risk profile with JLL being net debt free, robust debt coverage metrics and strong liquidity profile.

The ratings factor healthy revenue growth of 15% in FY22 (refers to period April 1 to March 31) driven by strong demand. The operating margins witnessed a sharp decline by 530 bps in FY22 despite the price hikes taken, owing to the sharp surge in raw material prices. The industry wide increase in crude palm oil prices and soda ash prices, which are the key ingredients in JLL products, have negatively impacted the PBILDT margins. Going forward, JLL is expected to maintain its growth momentum, and with raw material prices cooling, the margins are expected to recover FY24 onwards.

The above rating strengths, however, continue to be tempered by JLL's presence in limited product categories in the FMCG industry. Considerable dependence on its flagship brands across different segments, susceptibility of operating margins to volatility in the raw material prices and intense competition, especially in the domestic FMCG industry, are other factors having a bearing on the ratings assigned to the company.

Rating sensitivities

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

- Sustained improvement in the total operating income along with further revenue diversification across various product categories.
- Sustained improvement in return on capital employed (ROCE) over 20%.

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

- Decline in the PBILDT margin on a sustained basis below 11%.
- Any debt-funded project (organic/inorganic) resulting in the overall gearing increasing above 0.5x on a sustained basis along with adverse impact on its debt coverage indicators.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Detailed description of the key rating drivers

Key rating strengths

Well-established position in the FMCG industry: JLL has grown from being a single-brand, single-product company ('Ujala'- fabric whitener) to a multi-product and multi-brand company, having PAN India presence with strong brand recall. Ujala has become its flagship product with 84.4% market share in the fabric whitener market. JLL has the No. 2 position in the utensil care segment under the brand name 'Exo Bar', while 'PRIL' Liquid Dishwashing has a market share of 14% and 15%, respectively (CY 2021). JLL's range of mosquito repellent coil and liquid-vapour (LV), under the name of 'Maxo', have a market share of 23.4% and 9.4%, respectively. In FY22, the 'Margo' soaps under the personal care segment celebrated 100 years with healthy demand. In FY22, JLL launched two new products in line with the increasing consumer demand shift from detergent powder to liquid, which will be sold across all the major e-commerce websites. CARE Ratings Limited (CARE Ratings) expects JLL to continue maintaining its market position in the FMCG sector in India driven by growing presence and evolving products.

Well-diversified product portfolio with strong brand recall and PAN India presence: JLL has diversified product portfolio of fabric care, dish wash, household insecticides, and personal care segment, and is a market leader in several product categories. In FY22, the company derived around 37% of its consolidated revenues from fabric care, around 36% from dishwashing, around 12% from Household Insecticide (HI), around 11% from the personal care segment, around 1% from laundry services, and around 3% from other products. The fabric care segment witnessed sharp revenue growth of 22.12% in FY22 to ₹817 crore, driven by opening of institutions, schools, and workplaces. The dishwashing segment also saw a healthy growth of 14.16% through larger packs that were able to drive the premiumisation of the Exo dishwashing bar and Pril dishwashing liquid. In Q1FY23, growth momentum continued driven by extensive distribution drives for all detergent brands; a resurgence of demand post opening up of large format stores; and higher volume sales of mid-range detergent powder.
The company has a robust distribution network in place with 22 manufacturing plants and 2800+ sales teams, with a reach to 7,300+ channel partners, stockists, and sub-stockists, and has a presence in 2.8 million outlets, which helped them cross the mark of 1 million in direct reach. It has also created a presence across diverse channels, including traditional stores, canteen stores department, modern trade, and e-commerce and its products are available across 2.8 million outlets.

Experienced management: Founded in 1983, JLL is promoted by M.P. Ramachandran, a first-generation entrepreneur and the current Chairman Emeritus, who has an extensive expertise spanning many decades in the FMCG sector. The firm has evolved from being a single-brand, single-product company ('Ujala'- fabric whitener) to a multi-product, multi-brand corporation with PAN India presence and high brand recall under the capable leadership of M.P. Ramachandran. M.R. Jyothy, a second-generation entrepreneur, joined the organisation in 2020 and was appointed as the managing director. For more than 15 years prior to this, she served as the Chief Marketing Officer, overseeing the marketing division. The management is assisted by competent individuals leading various verticals, who have sufficient and pertinent expertise in their domains.

Strong financial risk profile remains net debt free: The pre-payment of long-term loans and reduced dependence on external working capital borrowing coupled with significant increase in the cash position has resulted in the company having net cash of ₹85 crore as on March 31, 2022. JLL's overall gearing remained constant at 0.28x as on March 31, 2022, with low reliance on debt. Average working capital utilisation levels have remained between 1% and 2% in the past 24 months ending August 2022, the lower utilisation is due to high cash available with the company. Improvement in the interest service ratio from 17.36x to 22.46x and the overall repayment of debt levels are sufficient to provide a comfortable cushion for the company in case of repayments. JLL's financial risk profile is expected to remain healthy on account of the healthy operational cash flows and no large debt-funded capex.

Key rating weaknesses

Operating profitability susceptible to fluctuations in raw material prices: JLL is exposed to a variety of commodities used in the production of its finished goods. Any changes in the cost of fundamental commodities like palm oil, linear alkyl benzene sulfonic acid (LABSA), low-density polyethylene (LDPE)/high-density polyethylene (HDPE), which account for around 70% of the total raw material, would directly affect the goods sold under the fabric care and dishwashing categories. Similarly, price volatility of polypropylene (PP) may cause container costs to rise. The business is vulnerable to changes in input pricing since it does not have any long-term contracts with its primary suppliers. The FMCG industry has taken the most hit from price increases throughout the reporting period. Two-third of the product portfolio is detergent and dish wash, where the key raw materials are LABSA and soda ash, where the prices have increased sharply by 42% and 79%, respectively, from March 2021 to July 2022. While the company was able to pass on 6%-7% of that price increase to its customers in the form of increased MRP, the balance was borne by the company, thereby impacting its operating margins which declined to 11.98% in FY22 (PY: 16.52%). Going ahead, the ability of the company, to pass on increase in the raw material prices while maintaining its market share holding will remain a key monitorable.

Operates in a highly competitive and price sensitive market: JLL functions in a highly competitive and price-sensitive market segment of FMCG industry, and competes with huge MNCs like Hindustan Unilever (HUL), Godrej, Procter & Gamble (P&G), Marico, Reckitt Benckiser, SC Johnson, etc. Due to the large market size and giant players, there is limited flexibility for a company in the sector to increase the selling price, and the company must absorb most of the price fluctuation before passing it down to the customers. Accordingly, JLL's ability to maintain its market share amidst the increasing competition faced from the large MNCs forms a key rating monitorable.

Liquidity: Strong

The liquidity is marked by strong accruals to the tune of ₹222.94 crore and the prepayment of long-term debt; the company is expected to be debt free by FY24 (the company continues to remain net debt free as on June 30, 2022). The overall gearing ratio has remained constant at 0.28x as on March 31, 2022 (PY: 0.28x), as the company's reliance on outside liabilities have been reducing over the years. The cash flow from operations has decreased from ₹402.15 crore to ₹202.55 crore due to increase in the debtor levels and decrease in the payable levels. However, the cash and liquid investments grew to ₹205.13 crore in FY22 (PY: 187.33) providing a comfortable cushion. Low average utilisation of bank lines of 1.45% in the past 12 months ending August 2022 are more than adequate to meet its incremental working capital needs over the next one year. The company used cash to pay dividend to the tune of ₹146.88 crore as on June 2022.

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

About the company

Jyothy Labs Limited (JLL) is a Mumbai-based FMCG company founded in 1983. With an existence of over 3.5 decades, JLL has diversified itself from being a single-product, single-brand company 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).

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	Q1FY23
Total operating income	1,927.21	2,213	610.43
PBILDT	332.93	265	73.06
PAT	190.65	159.13	47.73
Overall gearing (times)	0.28	0.28	Not available
Interest coverage (times)	17.31	22.46	22.14

A: Audited

Status of non-cooperation with previous CRA: Not applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: 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 - LT-Term loan		-	-	February 2023	12.50	CARE AA; Stable
Fund-based - LT-Cash credit		-	-	-	250.00	CARE AA; Stable
Commercial paper-Commercial paper (Standalone) (Proposed)		-	-	7-364 days	100.00	CARE A1+

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	Commercial paper-Commercial paper (Standalone)	ST	100.00	**CARE A1+**	-	1)CARE A1+ (29-Sep-21)	1)CARE A1+ (21-Dec-20)	1)CARE A1+ (03-Jan-20)
2	Fund-based - LT-Term loan	LT	12.50	CARE AA; Stable	-	1)CARE AA; Stable (29-Sep-21)	1)CARE AA; Stable (21-Dec-20)	1)CARE AA; Stable (03-Jan-20)
3	Fund-based - LT-Cash credit	LT	250.00	CARE AA; Stable	-	1)CARE AA; Stable (29-Sep-21)	1)CARE AA; Stable (21-Dec-20)	1)CARE AA; Stable (03-Jan-20)

*Long term/Short term.

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of 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: 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:
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 RBI. 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.

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