Jyothy Labs Limited

September 29, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long-term Bank Facilities	287.50 (Reduced from 312.50)	CARE AA; Stable (Double A; Outlook: Stable)	Reaffirmed
Total Bank Facilities	**287.50 (Rs. Two hundred eighty seven crore and fifty lakh only)**		
Commercial Paper	100.00	CARE A1+ (A One Plus)	Reaffirmed
Total Short-term Instruments	**100.00 (Rs. One hundred crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the facilities/instruments of Jyothy Labs Limited (JLL) continue to factor in its established position in Fast Moving Consumer Goods (FMCG) industry with increasing market share across majority of its product segments. It continues to operate with diversified portfolio of established brands with strong brand recall across fabric care, dishwashing, household insecticides and personal care segments, while leveraging its strong and well-penetrated distribution network across the nation. The management of JLL has vast experience of operating in the FMCG industry and has demonstrated their capability successfully in scaling up the operations both organically and inorganically.

The operating performance of JLL has remained steady in FY21 (refers to the period April 1 to March 31) owing to strong demand for its products. The pandemic has led to increased importance been placed on health and hygiene resulting in increased demand for personal care and home care products, the key revenue-driving segments for JLL. The PBILDT margins had improved in FY21 owing to change in the product mix with increase in the share of higher-margin products. However, the PBILDT margins have declined in Q1FY22 (refers to the period April 2021 to June 2021) owing to rising input prices. CARE Ratings believes that operating margins are likely to remain subdued for another 2 quarters.

The ratings positively factor in the improvement in cash flow from operations in FY21 thus, reducing JLL's dependence on working capital borrowings. JLL continues to operate at very low leverage and exhibit strong debt coverage indicators. CARE Ratings believes that both leverage and debt coverage are likely to remain comfortable going forward 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 a 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 are other factors which have a bearing on the ratings assigned to the company.

Rating sensitivities

Positives

- 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%

Negatives

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

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 and strong brand recall. JLL has been able to establish itself as one of the well-known players in the detergent/brightener and utensil care segment of the FMCG industry. In the fabric whitener segment, JLL's Ujala brand holds No.1 position with JLL having around 83% (CY 2020) market share in the segment (previous CY 81%). In the dishwash segment (bar and liquid), JLL has No. 2 position in value terms with its Exo (12.5% market share in CY2020) and Pril (17.4% market share in CY2020) brands and lastly in the mosquito repellent segment (Coils), JLL is second only to Good Night in volume terms.

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. 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

JLL is one of the leading and well-established companies having formidable position in the mid/economy segments of the FMCG industry. Its product portfolio is well diversified with products catering to various segments. During FY21, JLL derived around 35% of its revenues from Fabric Care, 37% from Dishwashing, 11% from Household Insecticides, 14% from personal care and the 2% from allied products (incense sticks). Also, the company derived around 1% 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'. Furthermore, 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 the revenue to Henkel AG & Co. 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.

Pan India presence with a strong distribution network

JLL has 27 manufacturing plants across 23 locations in India and has developed an extensive pan-India distribution network comprising of 7,200+ 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. Furthermore, 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 4% in FY21.

Healthy growth in operating income in FY21 and in Q1FY22

JLL's TOI (Total Operating Income) registered a 11% growth in FY21 and a 21% growth in Q1FY22 on a YoY basis. The growth in TOI was on the back of healthy demand in dishwashing and household insecticide segments and revival of demand in the fabric care segment from H2FY21 onwards. Steady demand from its power brands coupled with increase in market share in these brands has led the company to report the highest revenue in Q1FY22 in the past 9 quarters. Going forward, sustaining growth through higher penetration of its products amidst increasing competition will be crucial.

Marginal improvement in operating margins in FY21, although the same has declined in Q1FY22 owing to rising input prices

Operating margins improved marginally in FY21 owing to lower raw material prices and certain cost rationalization measures adopted by the company. However, rising input prices led to a decline in operating profitability in Q1FY22. All key input prices such as acid slurry, labsa, palm oil, HDPE, paper cost increased sharply during the period. Input prices as a percentage to turnover increased by approximately by 10% in Q1FY22. JLL passed on 50% of that price increase to their consumers by way of MRP increases or reduction in the trade schemes. Price increase was limited to higher value packs since lower unit pack (LUP) prices remained unchanged. Operating margins are expected to remain muted for the next 2 quarters with some improvement in Q4FY22 owing to high input prices.

Net debt free company as on March 31, 2021; coverage indicators also remain comfortable

JLL's overall gearing improved to 0.12x as on March 31, 2021 from 0.28x as on March 31, 2020 on account of prepayment of long term loans and reduced dependence on working capital borrowing. Significant increase in cash position led to lower reliance on external debt to support working capital requirements of the company as such average working capital utilization reduced to 1% in the 12 months ending August 2021 as compared with 33% in the 12 months ending November 2020. Reduction in debt levels have led to improvement in coverage indicators as well.

CARE Ratings believes that with no further major debt-funded organic or inorganic growth anticipated by the company in the near future, the overall gearing and debt coverage indicators are expected to remain comfortable.

Key Rating Weaknesses

Operating profitability susceptible to fluctuations in raw material prices

JLL has exposure to various commodities involved in the manufacturing of its final products. Any fluctuation in the prices of basic commodities like palm oil, LABSA/LDPE (Low Density Polyethylene) /HDPE (High Density Polyethylene) have a direct impact on the products falling under fabric care and dish wash category (constitutes around 70% of revenue earned). Similarly, volatility in prices of Polypropylene (PP) may lead to increase in prices of container. Any rise in Kraft paper prices may impact the secondary packaging cost for the products of JLL. 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 the impact of the same on the profitability.

In Q1FY22 key input prices as a percentage of turnover increased approximately by 10%. While the company was able to pass on 50% 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.

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.*

Liquidity: Strong

JLL's liquidity profile is marked by strong expected accruals of Rs.228 crore in FY22 against negligible repayment obligations of Rs.50 crore. JLL had significant cash and bank balance of Rs.187 crore as on March 31, 2021 although around Rs.150 crore was utilized in making dividend payments. With a gearing of 0.12 times as of March 31, 2021, JLL has sufficient gearing headroom, to raise additional debt for its capex if required. Low average utilization of bank lines of 1% in the past 12 months ending August 2021 are more than adequate to meet its incremental working capital needs over the next one year.

Analytical approach:

CARE Ratings has considered the consolidated financials of JLL while arriving at the ratings owing to strong operational and financial linkages with its subsidiaries. The consolidated financials include financials of the following subsidiaries:

Company	% of Equity Interest
(A) Direct Subsidiaries	
- Jyothy Fabricare Services Limited	84.18
- Jyothy Kallol Bangladesh Limited	75.00
(B) Indirect Subsidiaries	
- Snoways Laundrers and Drycleaners Pvt. Ltd.*	84.18
- Four Seasons Dry Cleaning Co. Pvt. Ltd.	84.18
- JFSL - JLL (JV) – Partnership firm	88.14

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. 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)*.

Brief Financials (Rs. crore) (JLL consolidated)	FY20(A)	FY21(A)	Q1FY22(UA)
Total operating income	1,729	1927	530
PBILDT	270	333	68
PAT	163	191	40
Overall gearing (times)	0.28	0.12	Not available
Interest coverage (times)	8.20	17.31	22.16

A-Audited; UA-Unaudited;
Financials have been calculated as per CARE Ratings' standards

Covenants of rated instrument / facility: *Detailed explanation of covenants of the rated instruments/facilities 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 Instruments/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 - LT-Term Loan	-	-	-	Repayable in half yearly instalments till Feb 2023	37.50	CARE AA; Stable
Fund-based - LT-Cash Credit	-	-	-	-	250.00	CARE AA; Stable
Commercial Paper-Commercial Paper (Standalone)	-	-	-	7-364 days	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 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.	Commercial Paper-Commercial Paper (Standalone)	ST	100.00	CARE A1+	-	1)CARE A1+ (21-Dec-20)	1)CARE A1+ (03-Jan-20)	1)CARE A1+ (13-Nov-18)
2.	Debentures-Non Convertible Debentures	LT	-	-	-	-	-	1)Withdrawn (29-May-18)
3.	Fund-based - LT-Term Loan	LT	37.50	CARE AA; Stable	-	1)CARE AA; Stable (21-Dec-20)	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 (21-Dec-20)	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: Not Applicable

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: Bank Lender Details

Click here to view Bank Lender Details

Note on complexity levels of the rated instrument: *CARE Ratings 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.*

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About CARE Ratings:
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