Jyothy Laboratories Limited

November 13, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	400.00 (Rs. Four hundred crore only)	**CARE AA; Stable [Double A; Outlook: Stable]**	**Assigned**
Commercial Paper	100.00 (Rs. One hundred crore only)	**CARE A1+ [A One Plus]**	**Reaffirmed**

Details of instruments/facilities in Annexure-1

Detailed Rationale& Key Rating Drivers

The assignment/reaffirmation of the ratings assigned to the facilities/instruments of Jyothy Laboratories Ltd. (JLL) takes into account the long track record of the company, diversified portfolio of established brands, strong distribution network leading to its nationwide presence, consistent growth in revenue and cash accruals, improvement in profitability margins as well as healthy financial profile characterized by comfortable gearing levels and coverage ratios.

The rating, however, is constrained by JLL's modest size of operations, 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.

Going forward, JLL's ability to sustain growth through higher penetration of its products amidst increasing competition, further improve its operating profitability margins as well as maintain the gearing levels remain the key rating sensitivities.

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 and the Managing Director 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 segment of the FMCG industry. 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 FY18, JLL derived around 41% of its revenues from Fabric Care, followed by 30% from Dishwashing, 14% 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. KGaA. 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 1,700 stockists and 1,500 sub stockists, thus enabling the company to cater to the pan India demand in a timely and cost effective manner.

Consistent growth in revenue and cash accruals during FY18 and H1FY19

On a consolidated basis, the income from operations grew by 7% on a y-o-y basis (on a GST adjusted basis) to Rs. 1,764 crore in FY18 as compared to FY17 on the back of volume and value growth aided by new product launches. The revenue from the six power brands (Ujala, Exo, Maxo, Henko, Margo and Pril) accounted for 86.5% of the total revenue in FY18. GCA levels also grew by 38% to Rs. 231 crore in FY18 (as compared to Rs.167 crore in FY17).

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

During H1FY19, revenue (on a GST comparable basis) grew by 13% on a y-o-y basis to Rs. 830 crore supported by broad based growth across categories (on a low base of H1FY18 that was impacted by de-stocking across trade channels, due to apprehensions ahead of GST implementation).
Going forward, sustaining growth through higher penetration of its products amidst increasing competition will be crucial.
Healthy financial risk profile characterised by comfortable gearing levels, debt coverage indicators and comfortable liquidity position
On a consolidated basis, the overall gearing levels marginally increasedto0.48x as on March 31, 2018from 0.46x as on March 31, 2017. The increase was mainly on account of a short term debt availed of Rs. 75 crore, for the purpose of refinancing an existing debt (refinanced in April 2018).Interest coverage ratio improved from 4.68x in FY17 to 6.10x in FY18 on account of improved profitability and lower finance cost outgo as a result of refinancing the long term NCDs at a lower cost.
As on March 2018, on a consolidated basis, JLL had current investments lying in the form of liquid mutual funds aggregating to Rs.113.15 crore and free cash and bank balance of Rs.78 crore resulting into total of Rs.191 crore (as compared to Rs.98 crore as on March 31, 2017), while it maintained a cash and cash equivalent balance of Rs. 94 crore as on September 30, 2018. The company has been able to maintain the liquidity profile at healthy levels.

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
FMCGis an extremely competitive and price sensitive business segment wherein JLL's 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 wherein it launched T-Shine (toilet cleaning product) in Kerala and Maxo Genius (Liquid repellant) during FY18 while Pril Tamarind was launched in October 2018.
Accordingly, JLL's ability to maintain and improve its market share amidst the increasing competition faced from the large MNCs forms a key rating monitorable.

Analytical approach:
The consolidated financials of Jyothy Laboratories Limited have been considered for analytical purposes. The consolidated financials include financials of the following subsidiaries:

Company	% of Equity Interest
(A) Direct Subsidiaries	
- JyothyFabricare Services Limited	75.10
- JyothyKallol Bangladesh Limited	75.00
(B) Indirect Subsidiaries	
- SnowaysLaundrers and Drycleaners Pvt. Ltd.	36.80
- Four Seasons Dry Cleaning Co. Pvt. Ltd.	75.10
- JFSL - JLL (JV) – Partnership firm	81.32

Applicable Criteria
Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology: Factoring Linkages in Ratings
Rating Methodology-Manufacturing Companies
Financial ratios – Non-Financial Sector

About the Company
Jyothy Laboratories Limited (JLL), a Mumbai based FMCG Company, was founded in 1983. The company commenced its operations as a proprietary concern selling a single product in South India and over the years has diversified from being a single product to a multi-product, multi-brand company having presence across varied segments such as Fabric Care

(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. During FY13, JLL has 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)*. During FY18, on a consolidated basis, JLL derived around 41% of the overall revenues from fabric care, followed by 30% from dishwashing, 14% from household insecticides (mosquito repellent) and remaining 14% from personal care products (soaps) and laundry services.

Besides, JLL provides laundry services to large corporate and retail clients under the name of ***Fabric Spa*** managed by its wholly owned subsidiary JyothyFabricare Services Ltd. (JFSL). Currently, it is the largest laundry chain in India with 93 operational units.

Brief Financials (Rs. crore)	**FY17 (A)**	**FY18 (A)**
Total operating income	1692	1754
PBILDT	264	279
PAT	204	179
Overall gearing (times)	0.46	0.48
Interest coverage (times)	4.68	6.10

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

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.*

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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 - LT-Term Loan	-	-	FY24	150.00	CARE AA; Stable
Fund-based - LT-Cash Credit	-	-	-	250.00	CARE AA; Stable
Commercial Paper	-	-	-	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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Debentures-Non Convertible Debentures	LT	-	-	-	-	1)Withdrawn (06-Apr-16)	1)CARE AA- (20-Oct-15)
2.	Debentures-Non Convertible Debentures	LT	-	-	-	-	-	1)Withdrawn (13-Oct-15)
3.	Debentures-Non Convertible Debentures	LT	-	-	-	-	1)Withdrawn (11-Jan-17) 2)CARE AA; Stable (13-Dec-16) 3)CARE AA (21-Oct-16)	1)CARE AA- (20-Oct-15)
4.	Commercial Paper	ST	100.00	CARE A1+	-	1)CARE A1+ (29-Nov-17)	1)CARE A1+ (13-Dec-16)	-
5.	Debentures-Non Convertible Debentures	LT	-	-	1)Withdrawn (29-May-18)	1)CARE AA; Stable (29-Nov-17)	1)CARE AA; Stable (13-Dec-16)	-
6.	Fund-based - LT-Term Loan	LT	150.00	CARE AA; Stable	-	-	-	-
7.	Fund-based - LT-Cash Credit	LT	250.00	CARE AA; Stable	-	-	-	-

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