Jyothy Labs Limited

January 03, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	380.35 (Reduced from Rs.400 crore)	**CARE AA; Stable (Double A; Outlook: Stable**	**Reaffirmed**
Total Facilities	**380.35 (Rs. Three hundred eighty crore and thirty five lakhs only)**		
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 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, and leverages its strong and well penetrated distribution network across the nation.

Management has vast experience of operating in FMCG industry and has demonstrated their capability successfully scale up the operations both organically and inorganically. Second generation of promoter group are already inducted in business.

Despite the weak consumption demand witnessed in recent past, JLL continued to report the sales volume backed growth in its Total Operating Income for both FY19 and H1FY20. The consistent growth in income was largely on account of its presence in value segment and relatively well established distribution presence in tier 2 and tier 3 markets. The PBILDT margin too witnessed improvement during the period on account of moderation in some of the key material prices which have linkages to crude, improved economies of scale on back of higher sales volume and stable sales realization.

JLL continues to operate at very low leverage and exhibit strong debt coverage indicators. CARE believes, both leverage and debt coverage would remain comfortable as there is no debt funded capex plan in medium term.

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 to over Rs.2500 crore along with further revenue diversification across various product categories.*
- *Sustained improvement in ROCE over 20%*
- *Maintaining its comfortable leverage along with improvement in its TD/PBILDT to below 1.0x on 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 definition of the ratings assigned are available at www.careratings.com and 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 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 FY19, JLL derived around 41% of its revenues from Fabric Care, followed by 32% from Dishwashing, 12% 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 5400 stockists and sub stockists, thus enabling the company to cater to the pan India demand in a timely and cost effective manner.

JLL continue to exhibit stable performance marked by moderate growth in TOI and continued healthy PBILDT margins in FY19 and H1FY20

JLL's TOI (Total Operating Income) grew by 5% and 6% on a y-o-y basis to Rs. 1,836.80 crore and Rs.907.74 crore in FY19 and H1FY20 respectively. The growth in TOI was primarily on the back of volume growth of 7.3% aided by new product launches and campaigns across brands. The revenue from the six power brands (Ujala, Exo, Maxo, Henko, Margo and Pril), which continued to account for majority share of total revenue (i.e., 86.31% of the total revenue in FY19) grew by 7.30%. 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 improved debt coverage indicators

JLL's overall gearing on a consolidated basis improved to 0.22x as on March 31, 2019 as compared to 0.48x as on March 31, 2019, led by accretion of profits to networth as well as prepayment of debentures in FY19 exercising put option. During FY18 (i.e., on in Feb.2018) the company had repaid Rs.200 crore and further during FY19 (i.e., on Apr. 27, 2018) the company has repaid balance Rs.200 crore by exercising the Put option. Also, during FY19 (i.e., on July 26, 2018), the company has rapid Rs.75 crore short term debt which the company had availed for the purpose of refinancing then existed debt in FY18. The afore said repayment has been done out of its internal accruals consequent to stable performance. The company had also raised Rs.140 crore for meeting its capex expenditure during FY18 and FY19. . Thus led by stable performance coupled with lower interest expense the interest coverage improved to 8.79x in FY19 as against 6.10x in FY18. The interest coverage further improved to 9.52x led by improved PBILDT margins led by better cost management despite sluggishness in overall economic growth. The total debt to GCA (Gross Cash Acruals) also showed an improvement as on March 31, 2019 as compared to as on March 31, 2018.

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 wherein it launched Ujala Crisp and Shine gold collection and Pril Tamarind in FY19 and Pril Tamarind Rs.20/ Pouch in H1FY20.

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 continues to remain strong on the back drop of expected GCA of Rs.243 crore projected in FY20 coupled with large unencumbered cash and liquid investment of Rs.168.74 crore as on Sep.30.2019. Furthermore, JLL has a committed capex of Rs.45 crore for its routine expansion in FY20 and debt repayment of Rs.108 crore. The average of maximum fund based utilisation including commercial paper (standalone) for last 12 months ended Nov.2019 was about 49%. JLL's unutilized bank lines (Rs.127.5 crore) are more than adequate to meet its incremental working capital needs over the next one year. Further, with a gearing of 0.22 times as of March 31, 2019, the issuer has sufficient gearing headroom, to raise additional debt for its capex.

Analytical approach: Consolidated
CARE has considered the consolidated financials of JLL while arriving at the ratings owing to financial support in the form of corporate Guarantee for NCD issuance of 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, 2018, Jyothy Fabricare Services Limited had 49% share in Snoways Laundrers & Drycleaners Private Limited and has entered into agreement which enables it to control the composition of the Board of Directors of the latter, making it a subsidiary company of Jyothy Fabricare Services Limited. As at 31st March 2019, Jyothy Fabricare Services Limited has 100% share in Snoways Laundrers & Drycleaners Private Limited.*

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 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)*.

Brief Financials (Rs. crore) (JLL)	FY18 (A)	FY19 (A)	H1FY20(UA)
Total operating income	1,754.17	1,836.80	907.74
PBILDT	279.13	304.74	154.57
PAT	178.87	197.60	90.97
Overall gearing (times)	0.48	0.22	0.24
Interest coverage (times)	6.10	8.79	9.52

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	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	Oct.2023	130.35	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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Debentures-Non Convertible Debentures	LT	-	-	-	-	-	1)Withdrawn (06-Apr-16)
2.	Debentures-Non Convertible	LT	-	-	-	-	-	1)Withdrawn (11-Jan-17)

	Debentures							2)CARE AA; Stable (13-Dec-16) 3)CARE AA (21-Oct-16)
3.	Commercial Paper	ST	100.00	CARE A1+	-	1)CARE A1+ (13-Nov-18)	1)CARE A1+ (29-Nov-17)	1)CARE A1+ (13-Dec-16)
4.	Debentures-Non Convertible Debentures	LT	-	-	-	1)Withdrawn (29-May-18)	1)CARE AA; Stable (29-Nov-17)	1)CARE AA; Stable (13-Dec-16)
5.	Fund-based - LT-Term Loan	LT	130.35	CARE AA; Stable	-	1)CARE AA; Stable (13-Nov-18)	-	-
6.	Fund-based - LT-Cash Credit	LT	250.00	CARE AA; Stable	-	1)CARE AA; Stable (13-Nov-18)	-	-

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not Applicable

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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