Jyothy Laboratories Limited

November 29, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Non-Convertible Debentures	400.00	**CARE AA; Stable [Double A; Outlook: Stable]**	**Reaffirmed**
Commercial Paper	100.00	**CARE A1+ [A One Plus]**	**Reaffirmed**
Total Instruments	**500.00 (Rs. Five hundredcrore only)**		

Details of instruments in Annexure-1

Detailed Rationale& Key Rating Drivers

The reaffirmation of the ratings assigned to the 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, moderate 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, 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. UllasKamath (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 viz Fabric care, Dishwashing, Household Insecticides, Personal Care and others (incense sticks). During FY17, JLL derived around 42.23% of its revenues from Fabric Care, followed by 29.20% from Dishwashing, 14.95% from Household Insecticides, 9.13% from personal care and the remaining 2.05% from allied products (incense sticks). Also, the company derived around 2.52% 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. 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.

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

The network of the company comprises of 260 super-stockists, 1,400 stockists and more than 4,000 sub stockists covering smaller urban and rural towns thus enabling enhanced brand visibility on a pan India basis, leading to better competitive positioning in the Industry.

Growth in revenue and cash accruals during FY17 and H1FY18

On a consolidated basis, the income from operations grew by 5.76% to Rs. 1691 crore in FY17 (as compared to FY16), on the back of volume and value growth aided by new product launches. Revenues from the six power brands (Ujala, Exo, Maxo, Henko, Margo and Pril) accounted for 86.4% of the total revenue in FY17. The GCA levels also grew by 26% to Rs. 199.57 crore in FY17 (as compared to Rs.158.96 crore in FY16).The growth was achieved despite stiff sectorial competition, below par monsoons and the demonetization blow.

Revenue earned during H1FY18 declined by 7% to Rs. 822 crore (as compared to Rs. 891 crore in H1FY17) on account of the impact of adhering to the GST regulations. The performance of the company that was impacted during Q1FY18, however revived during Q2FY18. During Q2 FY18, the consolidated revenue from operations declined marginally by 0.46% on Y-o-Y basis to Rs.429.9 crore (as compared to Rs. 431.9 crore during Q2 FY17). On recomputing the revenues earned during Q2 FY17 in accordance with the GST regulations, the company reported a revenue growth of 9.6% on a Y-o-Y basis. 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 improved from 0.50x as on March 31, 2016 to 0.46x as on March 31, 2017. This has been achieved inspite of increase in total borrowings by Rs.47.44 crore, on account of increased accretion of profits to general reserves. Further, the net debt (considering debt as net of freely available cash and bank balance and liquid investments) to networth improved to 0.37x as on March 31, 2017 owing to healthy cash and bank balance (including liquid investments) of Rs. 104 crore. Interest coverage ratio improved from 3.71x in FY16 to 4.66x in FY17 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 2017, on a consolidated basis, JLL had current investments lying in the form of liquid mutual funds aggregating to Rs.28.46 crore and free cash and bank balance of Rs.75.54 crore cumulating to Rs.104 crore as compared to cash and bank balance (including liquid investments) Rs.115.86 crore as on March 31, 2016. The company has thus been able to maintain the liquidity profile at healthy levels.

Key Rating Weaknesses

Volatility in raw material prices

Prices of key raw materials are mostly linked to the international crude oil price and are subject to high volatility. In the absence of any long term contracts with its major suppliers, the company is exposed to fluctuations in input prices.

Operates in a highly competitive and price sensitive market

FMCGis an extremely competitive and price sensitive business segment and 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. However, the company has been able to identify business segments like liquid fabric whitener and insect repellants that are comparatively less penetrated, diversify its product offerings and create a portfolio of established brands.

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 had 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 andPril****(dish washer/surface cleaner)*. During FY17, on a consolidated basis, JLL derived around 42.23% of the overall revenues from fabric care, followed by 29.2% from dishwashing, 15% from household insecticides (mosquito repellent) and remaining 13.71% 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)	FY16 (A)	FY17 (A)
Total operating income	1599	1691
PBILDT	229	263
PAT	73	203
Overall gearing (times)	0.50	0.46
Interest coverage (times)	3.71	4.66

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
Debentures-Non Convertible Debentures	December 09, 2016	7.2% - 8%	November, 2018	400.00	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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Term Loan	LT	-	-	-	-	-	1)Withdrawn (20-Oct-14)
2.	Fund-based - LT-Cash Credit	LT	-	-	-	-	-	1)Withdrawn (20-Oct-14)
3.	Debentures-Non Convertible Debentures	LT	-	-	-	1)Withdrawn (06-Apr-16)	1)CARE AA- (20-Oct-15)	1)CARE AA- (20-Oct-14)
4.	Debentures-Non Convertible Debentures	LT	-	-	-	-	1)Withdrawn (13-Oct-15)	1)CARE AA- (20-Oct-14)
5.	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)	1)CARE AA- (20-Oct-14)
6.	Commercial Paper	ST	100.00	CARE A1+	-	1)CARE A1+ (13-Dec-16)	-	-
7.	Debentures-Non Convertible Debentures	LT	400.00	CARE AA; Stable	-	1)CARE AA; Stable (13-Dec-16)	-	-

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