April 30, 2021

Jyothy Labs Limited: Rating Reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial Paper Programme	100.00	100.00	[ICRA]A1+; Reaffirmed
Total	**100.00**	**100.00**	

**Instrument details are provided in Annexure-1*

Rationale

The rating reaffirmation continues to favourably factor in the established position of Jyothy Labs Limited (JLL, erstwhile Jyothy Laboratories Limited) in the domestic fast-moving consumer goods (FMCG) industry, and its diversified product portfolio spanning the four major categories of fabric care, dishwashing, household insecticides (HI) and personal care. JLL has continued to sustain its established market position in the post-wash segment (under Ujala brand) and the dishwashing segments (under Pril and Exo brands). Moreover, it has demonstrated healthy growth in its personal care (under Margo, Fa brands) and detergent segment (under Henko brand), albeit with relatively modest market share in these segments (personal care and detergents). Going forward, ICRA expects the company to sustain its healthy long-term revenue growth in line with the industry trends by leveraging its diversified brand presence across the segments. The rating continues to favourably note the company's strong financial profile characterised by robust capital structure and healthy debt protection metrics. ICRA notes that JLL was able to pare its debt significantly in FY2021 on account healthy free cash flows generation.

Nonetheless, ICRA notes that the FMCG industry is characterised by intense competition across the product categories wherein JLL operates. While it has a dominant market presence in the post-wash and dishwashing segment, its market position in detergents and personal care segments is relatively modest, thereby limiting the pricing flexibility to an extent. Its operating profit margins (OPMs) are exposed to fluctuations in the raw material prices. However, the company's ability to pass on the increase in input prices across the product categories, wherein it enjoys a leading market position, mitigates the risk to some extent. Further, any sizeable debt-funded organic or inorganic expansion would remain an event risk. The impact of the same on the company's business and credit profile would be monitored on a case-to-case basis.

Key rating drivers and their description

Credit strengths

Brands with strong recall value support established position in domestic FMCG industry – With an extensive track record spanning over three decades, the company enjoys an established position in the domestic FMCG industry, supported by brands with strong recall value and a strong pan-India distribution network of ~6,100 stockists and sub-stockists and retail reach of 2.8 million outlets, including 0.9 million outlets (as on March 2020) where JLL has a direct reach. The company enjoys prominent market positions in product categories such as fabric care, dishwashing and HI segments, through its power brands, Ujala, Henko, Exo, Pril and Maxo. ICRA notes that despite the slowdown in growth, JLL has maintained its market share[1] across categories, aided by its consistent efforts to innovate and refresh its product portfolio for catering to the evolving consumer needs.

[1] *Based on market share details disclosed in JLL's quarterly presentations*

Diversified product portfolio reduces dependence on single category – JLL has a diversified product portfolio of fabric care, dishwashing, HI and personal care, reducing its dependence on a single category. While it already enjoyed a presence in fabric care, dishwashing and HI segments (through its Ujala, Exo and Maxo brands, respectively), the acquisition of Henkel India Limited (HIL) in FY2012 enabled it to further diversify its offerings by adding Henko, Mr. White, Pril, Fa, Margo and Neem brands to its portfolio. In 9M FY2021, the company derived ~41% of its consolidated revenues from fabric care, ~33% from dishwashing, ~11% from HI, ~11% from the personal care segment, ~2% from laundry services, and ~2% from other products (such as incense sticks, floor and toilet cleaners). While its flagship brand, Ujala, enjoys a leading market position in the fabric whitener space, its Exo and Pril brands together enjoy the second position in the dishwashing bar and liquid category.

Healthy financial profile characterised by comfortable gearing, and debt protection metrics – With moderate consolidated debt of ~Rs. 281 crore as on March 31, 2019 and Rs. 283 crore as on March 31, 2020, JLL's gearing remained healthy at 0.3 times, respectively, as on March 31, 2020. In FY2021, due to sustenance of healthy profitability and stable working capital intensity and nil dividend declaration, the company pared its debt significantly and currently has only long-term loan of around Rs. 115 crore. With modest near-term capex plans, ICRA expects JLL's capital structure to remain robust.

Further, aided by steady OPM of 15-17% in the recent past and significant reduction in debt levels, the company's coverage indicators continue to remain healthy. The interest coverage remained healthy at 8.1 times in FY2020 against of 8.5 times and improved further to 14 times in H1 FY2021. Further adjusted for operating leases, the interest cover stood at 8.9 times in FY2020. While its DSCR was earlier constrained (0.64 times in FY2019 and 1.64 times in FY2020) due to the short-term working capital loan availed, ICRA notes that these loans are working capital loans from bank and were regularly revolved. The company's DSCR excluding short-term loans stood at 3.5 times as on FY2020. With expectation of healthy sustenance of OPBDITA and modest repayments obligation during next two years (Rs 25 crore per annum), the DSCR and interest coverage are likely to remain healthy.

Credit challenges

Intense competition in domestic FMCG industry – The domestic FMCG industry is characterised by intense competition from the established players as well as new entrants in the organised space. Furthermore, the company faces some competition from the unorganised players, especially in the HI segment. As a result, although it enjoys leading positions in certain categories (such as fabric whitener, dishwashing bar and mosquito repellent coil), the intense competition limits its pricing flexibility and, thus, its ability to pass on the increase in input prices of its products, to a certain extent. Moreover, the competition restricts profitability, either because of price cuts being undertaken to stimulate demand during slowdown or volume decline in case it does not participate in price cuts, as customers may have the tendency to shift to competitor brands offering lower prices. Nonetheless, JLL enjoys healthy brand equity because of its long track record and constant product innovation, coupled with effective marketing efforts. The company's ability to augment its scale of operations, by maintaining market share in the categories where it currently enjoys leading positions and improving market share in the other categories, remains a key monitorable.

Profitability exposed to fluctuations in raw material prices – Considering that the rural segment contributes around 40% to JLL's revenues, which in turn is predominantly dependent on agriculture as the source of income, adverse agro-climatic conditions resulting in subdued rural income can impact the offtake of FMCG products. Therefore, its revenues remain exposed to the seasonality risks. The impact of the seasonality risks, coupled with competition from unorganised players in the incense stick market, is reflected in the subdued performance of the HI segment over the past few fiscals, which has constrained the overall growth in revenues and profitability, to an extent. Furthermore, besides the sales mix, the company's OPM is exposed to fluctuations in the raw material prices. While it benefitted from subdued raw material prices in H1 FY2021, higher raw material prices in Q4 FY2021 is expected to result in moderation in profitability in Q4 FY2021 and in the near term. JLL has limited ability to pass on the price hikes in the product categories, wherein it does not hold a leading position, owing to the intense competition.

Liquidity position: Adequate

In H2 FY2021, the JLL had reduced reliance on working capital debt and its working capital limits of Rs. 250 crores largely remained unutilised. Further, in Q4 FY2021, the company's total consolidated debt likely reduced to ~Rs. 115 crore from ~Rs. 170 crore as on March 31, 2020. The reduction in debt levels was primarily on account of healthy free cash flows in FY2021. With its business expected to chart a moderate growth trajectory in the medium term, the company's cash flow from operations are estimated to remain robust, relative to its repayment obligations, on the back of stable margins and working capital intensity. The liquidity position remains adequate. ICRA does not foresee any liquidity concerns, given the calibrated approach in gradual debt reduction and absence of major capacity expansion plans. However, higher-than-estimated dividend outflows and/or significant debt-funded acquisitions may pressurise JLL's liquidity position and, thus, will remain key monitorable.

Rating sensitivities

Positive factors – Not Applicable

Negative factors – Downward pressure on the rating could emerge if JLL cedes significant market share to its competition, resulting in growth slowdown and pressure on profitability and liquidity, on a sustained basis. Furthermore, any significant debt-funded expansion or significant dividend payouts, stretching JLL's liquidity position and pressurising its coverage metrics, will also be negative factors. Furthermore, any decline in interest coverage to less than 8.0 times (excluding impact of IND AS 116 on operating leases), on a sustained basis, would also result in negative pressure on JLL's rating.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Fast Moving Consumer Goods Industry
Parent/Group Support	Not Applicable
Consolidation/Standalone	The rating is based on the company's consolidated financial profile. As on March 31, 2020, JLL had two subsidiaries, two step-down subsidiaries and one joint venture, which are listed out in Annexure-2

About the company

JLL, founded in 1983, commenced its operations as a proprietary concern to manufacture and sell a single product (Ujala fabric whitener) in a single district (Thrissur, Kerala). Over the years, it has grown and diversified to become a multi-brand, multi-product company with operations across the country. With its initial public offer in December 2007, wherein it raised an equity capital of Rs. 306.7 crore, the company was listed on the Bombay and National Stock exchanges.

The company now enjoys a presence across diverse segments, such as fabric care (detergent powder and bars), dishwashing (bars and liquid), HI (liquid vapouriser and machine, coil, magic card and incense sticks), personal care (soap, toothpaste and deodorants), laundry services and others (floor cleaner, incense stick and toilet cleaner). Its product portfolio includes reputed brands, such as Ujala, Henko, Mr. White, Maxo, Exo and Margo, among others.

In addition, JLL provides laundry services to large corporate and retail clients under the brand, Fabric Spa, which is managed by its subsidiary, Jyothy Fabricare Services Limited. At present, it is the largest laundry chain in India with outlets spread across six major cities of Mumbai, Pune, Bangalore, Chennai, Delhi and Ahmedabad.

Key financial indicators (audited)

Prabha Industries	FY2019	FY2020
Operating Income (Rs. crore)	1831.8	1726.1
PAT (Rs. crore)	198.7	163.8
OPBDIT/OI (%)	16.4%	15.4%
RoCE (%)	17.3%	14.0%
Total Outside Liabilities/Tangible Net Worth (times)	0.4	0.4
Total Debt/OPBDIT (times)	0.9	1.3
Interest Coverage (times)	8.5	8.1
DSCR (times)	0.6	1.6

Source: *Company*

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net Worth + Deferred Tax Liability - Capital Work in Progress); DSCR: (PBIT + Mat Credit Entitlements - Fair Value Gains through P&L - Non-cash Extraordinary Gain/Loss)/(Interest + Repayments made during the Year)

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31, 2021 (Rs. crore)	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					Apr 30, 2021	-	Mar 27, 2020	Feb 22, 2019
1	Commercial Paper	Short term	100.00	-	**[ICRA]A1+**	-	**[ICRA]A1+**	**[ICRA]A1+**

Source: *Company*

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website click here

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA*	Commercial Paper	-	-	-	100.0	[ICRA]A1+

Source: *Company, * yet to be placed*

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership*	Consolidation Approach
Jyothy Fabricare Services Limited	75.10%	Full Consolidation
Jyothy Kallol Bangladesh Limited	75.00%	Full Consolidation
Snoways Laundrers and Drycleaners Private Limited	75.10%	Full Consolidation
Four Seasons Dry Cleaning Company Private Limited	75.10%	Full Consolidation
JFSL-JLL (JV) - Partnership Firm	81.32%	Full Consolidation

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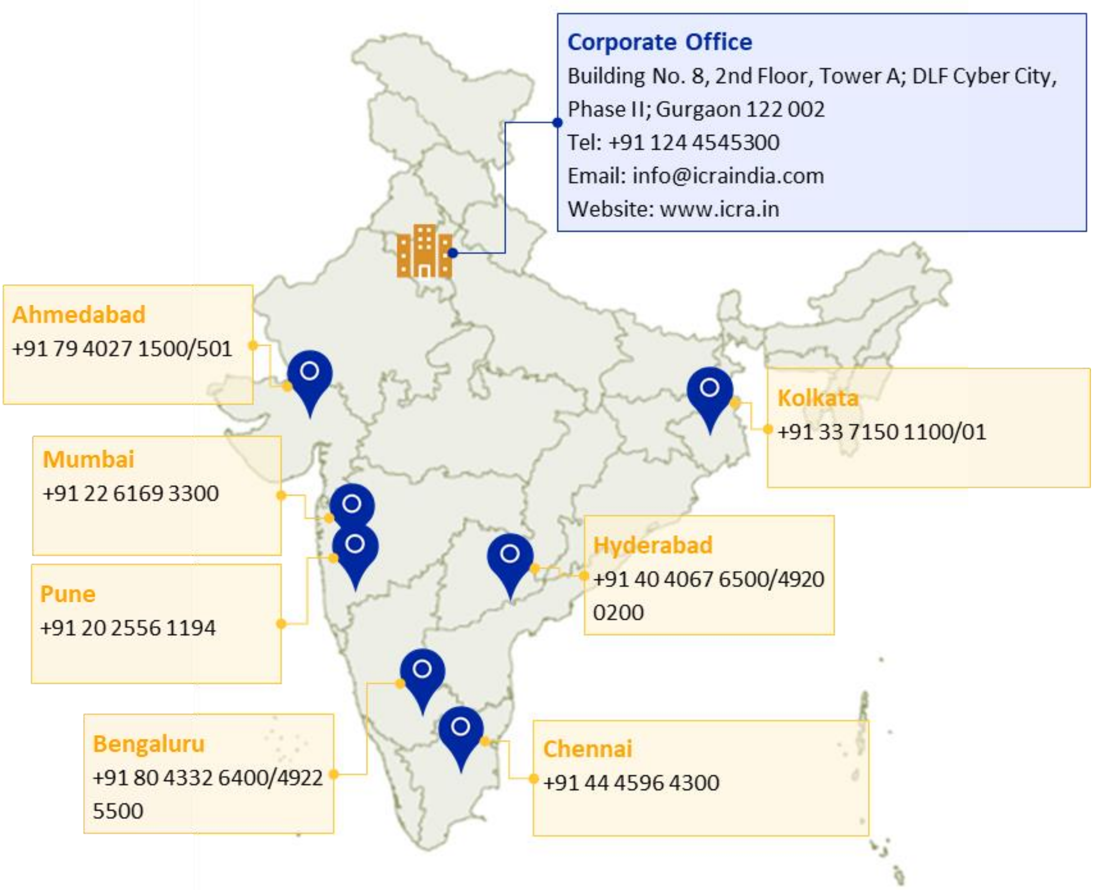

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