April 05, 2023

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	100.0	100.0	[ICRA]A1+; reaffirmed
Total	**100.0**	**100.0**	

**Instrument details are provided in Annexure-I*

Rationale

The rating reaffirmation continues to favourably factor in the established position of Jyothy Labs Limited (JLL) in the domestic fast-moving consumer goods (FMCG) industry, its diversified product portfolio spanning four major categories of fabric care, dishwashing, household insecticides (HI) and personal care and its established market position in the post-wash (under Ujala brand) and the dishwashing segments (under Pril and Exo brands). Despite some slowdown in the demand sentiment on account of impact of inflation on consumer demand, it has continued to expand its revenue base in FY2022 and 9M FY2023, supported by price hikes and some modest volume growth. Going forward, ICRA expects the company to sustain its market position by leveraging its diversified brand presence across the segments. The ratings also drive comfort from the company's strong financial profile, characterised by robust capitalisation and coverage metrics and a strong liquidity profile.

ICRA notes that the FMCG industry is characterised by intense competition across JLL's product categories. While it has a dominant market presence in the post-wash and dishwashing segments, its market position in detergents and personal care segments is relatively modest, thereby limiting the pricing flexibility to an extent. The ratings also factor in the subdued performance of the company in the HI segment over the past few years, largely on account of seasonality factors and intense competition from other players as well as the unorganised segment, which has led it to report operating losses in the category over the past couple of fiscals. Coupled with a disproportionate rise in raw material prices, given the linkage to crude oil (for detergents) and palm oil (for personal care), which could not be entirely passed on to the consumers, the company reported a sharp decline in its operating profit margin (OPM) to 11.8% in FY2022 from 17.1% in FY2021. Nevertheless, the softening in raw material prices visible in the current fiscal, and the price hikes undertaken in line with industry trends, should offer some respite over the near to medium term, as visible in the margin improvement to 12.0% in 9M FY2023. However, given the competitive intensity under which it operates, a full pass on of rise in input costs will continue to remain a challenge. 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 and established position in the 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 ~7,300 stockists and sub-stockists and retail reach of 2.8 million outlets (as per FY2022 annual report), where JLL has a direct reach. The company enjoys prominent market positions in some of the product categories, namely fabric care, dishwashing and HI segments, through its power brands, Ujala, Henko, Exo, Pril and Maxo, and has been focussing on product development and innovation to cater to evolving customer needs and protect its market shares across categories. 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.

Diversified product portfolio – JLL has a diversified product portfolio of fabric care, dishwashing, HI and personal care products, reducing its dependence on a single category. While JLL 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 the Henko, Mr. White, Pril, Fa, Margo and Neem brands to its portfolio. In 9M FY2023, the company derived ~43% of its consolidated revenues from fabric care, ~35% from dishwashing, ~7% from HI, ~11% from the personal care segment, ~2% from laundry services, and ~2% from other products (like incense sticks, floor and toilet cleaners), and is expected to continue to maintain a well-balanced product portfolio going forward as well.

Healthy financial profile characterised by comfortable gearing and debt protection metrics as well as strong liquidity – Being an established player with a strong product portfolio, JLL's cash flow from operations have remained healthy. Accordingly, its cash accruals have been sufficient to fund its annual capex requirements with minimal dependence on external borrowings, despite a consistent high dividend pay-out of ~60%. Total debt, which was restricted to Rs. 126.5 crore (excluding lease liability) at the consolidated level, has been fully repaid during Q4 FY2023, and the company is currently long-term debt free. With nil debt levels and relatively stable operations, coverage indicators are expected to further improve, going forward. The company also has a strong liquidity position with healthy cash balances (Rs. 162.9 crore as on September 30, 2022) and unutilised fund-based working capital limits of Rs. 385 crore, despite the consistent track record of high dividend pay-outs.

Credit challenges

Intense competition in the domestic FMCG industry – The domestic FMCG industry is characterised by intense competition from established players as well as new entrants in the organised space. Furthermore, the company faces some competition from unorganised players, especially in the HI segment. As a result, despite its leading positions in certain categories (such as fabric whitener, dishwashing bar and mosquito repellent coil), there is limitation on its ability to pass on input cost increases to consumers. Moreover, the competitive intensity also exerts pressure on profitability, as at times the company has to offer additional benefits through sales promotional schemes to stimulate demand during slowdown or gain/retain volume share in product category/area keeping in line with overall prevailing competition. 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 30% 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 off-take of FMCG products and thus JLL's revenues remain exposed to seasonality risks to this extent. Coupled with competition from unorganised players in the incense stick market, the impact of the seasonality risks is reflected in the subdued performance of JLL's HI segment over the recent past. Furthermore, besides the sales mix, the company's OPM is exposed to fluctuations in the raw material prices. The impact of raw material price increase was visible in FY2022, where the OPM dropped to 11.8% from 17.1% in FY2021. The prices of raw materials, which are linked to crude oil as well as usage of palm oil for the personal care division, have witnessed a significant rise over the last few quarters. Due to limited ability of JLL to pass on the rise in input costs, despite successive price increases, JLL's OPM has witnessed a sharp decline. Going forward, the ability of the company, to pass on such rise in input costs across different product categories as per the product offering and market share standing, will remain a key monitorable.

Environmental and Social Risks

Environmental considerations: FMCG companies remain exposed to the impact of changes in environmental norms with respect to treatment of manufacturing residual discharge/waste. Accordingly, companies could face operational disruptions if regulatory norms are not complied with. Further, with increasing awareness and restrictions on usage of different grades of plastics for packaging and finding environment-friendly solutions, the cost structure may be impacted. However, plastic waste management remains a key focus area for the company, with it taking initiatives to support policies to reduce, reuse, recycle and recover plastic wastes and collaborating with partners for innovative solutions for the same. Even as there is an increasing focus on carbon neutrality, the likelihood of sudden impactful developments on this front for the FMCG industry remains low. There is also a trend towards using organically grown input materials. Such developments can potentially increase costs for FMCG companies like JLL. In this respect, the company is increasingly conceptualising organic and natural products whereby most of the raw materials required are produced in environment-friendly ways. Overall, entities in the FMCG industry have a low exposure to environmental risks, buttressed further by their better pricing power reflected in their ability to pass along the increase in costs over time.

Social considerations: The FMCG sector has a prominent dependence on human capital, in terms of direct and indirect employees as well as contractual labour. Being an interplay of manufacturing and service business, maintaining healthy employee relations and retaining talent by an issuer as well as the supplier ecosystem is essential for disruption-free operations. Also, there could be quality concerns that FMCG entities like JLL could face in certain product categories, which could adversely impact its brand, or risks that an entire product category could face out of the social considerations that pertain to health consciousness. While these risks are product category-specific, the overall exposure of the FMCG sector to social risks remains low to moderate.

Liquidity position: Strong

With its business expected to continue on a growth trajectory in the medium term, the company's cash flow from operations (Rs. 150-180 crore annually) are estimated to remain robust, relative to its repayment obligations (nil from FY2024), on the back of stable working capital intensity and absence of any major capital expenditure plans. The liquidity position is further supported by free cash and bank balance and liquid investments of Rs. 162.9 crore as on September 30, 2022 and working capital limits of Rs. 385 crore, which remained largely unutilised over the recent past. However, higher-than-estimated dividend outflows and/or significant acquisitions or investments may impact JLL's liquidity position and, thus, will remain a key rating 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 pay-outs, stretching JLL's liquidity position and pressurising its coverage metrics, will also be a negative rating factor.

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 December 31, 2022, JLL had two 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), household insecticides (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.

The company also provides laundry and dry-cleaning services to large corporate and retail clients, which was managed by its subsidiary, Jyothy Fabricare Services Ltd. (JFSL), has now been merged into JLL.

Key financial indicators (Audited)

JLL– Consolidated	FY2021	FY2022
Operating income	1923.3	2207.5
PAT	190.7	159.1
OPBDIT/OI	17.1%	11.8%
PAT/OI	9.9%	7.2%
Total outside liabilities/Tangible net worth (times)	0.3	0.4
Total debt/OPBDIT (times)	0.5	0.7
Interest coverage (times)	17.1	22.0

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of Sept 30, 2022 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Apr 05, 2023	Apr 27, 2022	Apr 30, 2021	-
1	**Commercial Paper**	Short-term	100.0	--	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Short Term, Commercial Paper	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA’s website: Click Here

Annexure-1: Instrument details

ISIN	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*	100.00%	Full Consolidation
Jyothy Kallol Bangladesh Limited	75.00%	Full Consolidation
JFSL-JLL (JV) - Partnership Firm	100.00%	Full Consolidation

**merged with the company in February 2023*

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