Jyothy Laboratories Limited

February 22, 2019

Summary of rating action

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

**Instrument details are provided in Annexure-1*

Rationale

The assigned rating favourably factors in the established position of Jyothy Laboratories Limited (JLL) in the domestic fast moving consumer goods (FMCG) industry, supported by its promoters' extensive experience, brands with strong recall value and broad distribution reach across the country. The rating also considers JLL's diversified product portfolio spanning the four major categories of fabric care, dishwashing, household insecticides (HI) and personal care, which reduces dependence on a particular category. The rating further factors in JLL's healthy financial profile characterised by comfortable capital structure, healthy coverage metrics and liquidity position.

The FMCG industry is characterised by intense competition across the product categories wherein JLL operates. JLL's revenues in the HI segment remain susceptible to a high degree of seasonality. Its operating profit margins (OPMs) are also 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. Any sizeable debt-funded inorganic expansion would remain an event risk, whose impact on the company's business and credit profile would be monitored on a case-to-case basis. The company's ability to turn around past acquisitions also provides some comfort.

Key rating drivers

Credit strengths

Brands with strong recall value support established position in FMCG industry - With an extensive track record spanning over three decades, the company enjoys an established position in the FMCG industry, supported by brands with strong recall value and a strong pan India distribution network (of ~1,700 stockists and 1,500 sub-stockists). 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. JLL's consistent efforts to innovate and refresh its product portfolio and cater to the evolving consumer needs are expected to improve its market position.

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 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 FY2018, the company derived ~41% of its consolidated revenues from fabric care, ~30% from dishwashing, ~14% from HI, ~11% from the personal care segment, ~2% from laundry services, and ~2% from other products (like incense sticks and floor cleaner). While its flagship, Ujala, brand 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 healthy debt coverage indicator and liquidity position - The company's leverage (TD/TNW) and debt coverage indicator (TD/OPBDITA) remained healthy and more or less stable at 0.5 time and 2.0 times, respectively over the last three years. JLL's interest coverage also improved over the last three years to 5.6 times in FY2018 from 3.6 times in FY2016 on the back of improvement in the OPMs and lower finance costs. Furthermore, besides the company's healthy cash accruals, the debt repayments are supported by its healthy liquidity position with free cash and liquid investments of ~Rs. 97 crore, against the total debt of ~Rs. 375 crore on a consolidated basis, as on September 30, 2018.

Credit challenges

Intense competition in domestic FMCG industry - The domestic FMCG industry is characterised by intense competition from the established players as well as the new entrants in the organised space. Furthermore, the company faces competition from the unorganised players, especially in the HI segment. However, its competition is primarily from the large multi-national companies. As a result, although it enjoys leading positions in certain categories (such as fabric whitener, dishwashing bar, and liquid and mosquito 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. 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, will remain a key monitorable.

Susceptibility of revenues to seasonality risks; profitability exposed to fluctuations in raw material prices - JLL's revenues in the HI segment remain susceptible to a high degree of seasonality. Furthermore, besides the sales mix, the company's OPM is exposed to fluctuations in the raw material prices. Accordingly, any adverse movement in the input prices could have an impact on the OPM. This is because the ability to pass on the price hikes would be limited in case of the product categories where JLL does not hold a leading position, owing to the intense competition.

Sizeable debt-funded acquisition may pressurise capital structure and debt coverage metrics - JLL had adopted the inorganic route for growth by acquiring HIL in FY2012 for a total acquisition value of ~Rs. 783 crore, which was partly (~51%) funded by debt. Although the company's capital structure and debt coverage metrics remained stable over the last three years, any such debt-funded expansion may pressurise its credit metrics. The impact of such investments on the company's business and credit profile would be monitored on a case-to-case basis. JLL's track record of turning around HIL's operations provides some comfort.

Liquidity position

The company had a healthy liquidity position with cash and liquid investments of ~Rs. 97 crore, against the total debt of ~Rs. 375 crore on a consolidated basis, as on September 30, 2018. It is expected to incur regular maintenance capital expenditure of Rs. 30-40 crore per annum, which will be funded through internal accruals. High dividend outflows and/or significant debt-funded acquisitions may pressurise JLL's liquidity position and, thus, are key monitorables.

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, 2018, 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, JLL 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.

In FY2011 and FY2012, JLL acquired ~84% of HIL (later renamed as Jyothy Consumer Products Limited or JCPL) and its subsidiary, Henkel Marketing India Limited (HMIL, later renamed as Jyothy Consumer Products Marketing Limited or JCPML), respectively. In FY2013, JLL amalgamated its subsidiary, JCPL; and in FY2017, JCPML was amalgamated with JLL. 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). The company's 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. Currently, it is the largest laundry chain in India with ~200 outlets spread across the five major cities of Mumbai, Pune, Bangalore, Chennai and Delhi.

Key financial indicators (audited; consolidated)

	FY2017	FY2018
Operating Income (Rs. crore)	1,683.0	1,745.9
PAT (Rs. crore)	204.2	178.9
OPBDITA/OI (%)	15.2%	15.5%
RoCE (%)	16.0%	17.9%
Total Debt/TNW (times)	0.5	0.5
Total Debt/OPBDIT (times)	1.9	2.0
Interest Coverage (times)	4.5	5.6

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

	Instrument	Current Rating (FY2019)				Chronology of Rating History for the Past 3 Years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)*	Date & Rating February 2019	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016
						-	-	-
1	Commercial Paper Programme	Short term	100.00	0.0	[ICRA]A1+	-	-	-

As on January 31, 2019

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 www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating
NA	Commercial Paper Programme	NA	NA	7-365 days	100.00	[ICRA]A1+

Source: Jyothy Laboratories Limited

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	36.80%^	Full Consolidation
Four Seasons Dry Cleaning Company Private Limited	75.10%	Full Consolidation
JFSL-JLL (JV) - Partnership Firm	81.32%	Full Consolidation

**As on March 31, 2018*

^Jyothy Fabricare Services Limited holds a 49% stake in Snoways Laundrers and Drycleaners Private Limited and has entered into an agreement, which enables it to control the composition of the board of directors of the latter, making the latter its subsidiary.

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