April 27, 2022

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-1*

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 across the four major categories of fabric care, dishwashing, household insecticides (HI) and personal care and 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 revenue growth across all segments in 9M FY2022, supported by recovery in demand in the rural markets, supported by increased disposable income due to various government programs. While due to inflationary conditions, the entire industry is facing pressure on profit margins, JLL has been able to strengthen its market position in key categories in 9M FY2022 driven by its diversified product offering and growing brand awareness among its key consuming markets. Going forward, ICRA expects the company to sustain its healthy revenue growth in line with the industry trends by leveraging its diversified brand presence across the segments. The company's financial profile is strong, characterised by robust capitalisation and coverage metrics and strong liquidity profile.

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. Moreover, the company has witnessed a sharp decline in its operating profit margin (OPM) to 11.6% in 9M FY2022 from 17.2% in 9M FY2021 due to disproportionate rise in raw material prices, given the linkage to crude oil (for detergents) and palm oil (for personal care). The increase in raw material prices continued in Q4 FY2022 as well and is continuing in the current fiscal too. While the company has been taking price hikes in judicious manner to counter the rise (majorly in categories where it enjoys leading market share), 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 support 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 ~7,200 stockists and sub-stockists and retail reach of 2.8 million outlets, 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. ICRA notes that JLL has largely improved its key market share[1] across categories in 9M FY2022, aided by its consistent efforts to innovate and refresh its product portfolio for catering to the evolving consumer needs.

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 9M FY2022, the company derived ~37% of its consolidated revenues from fabric care, ~37% from dishwashing, ~11% from HI, ~11% from the personal care segment, ~1% from laundry services, and ~3% from other products (like 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 as well as strong liquidity – With moderate consolidated debt of ~Rs. 117 crore as on March 31, 2021 and ~Rs. 110 crore as on September, 2021, JLL's gearing witnessed improvement to 0.1 times, as on March 31, 2021, compared to 0.3 time as of March, 31, 2020. As on September 30, 2021, the company had total cash and balance and liquid investments of ~Rs. 149 crore. JLL also had cushion available in form of undrawn working capital limits of ~Rs. 385 crore as on March 31, 2022. With healthy cash accruals and low debt levels, ICRA expects the company's capital structure to remain robust.

Further, the company's coverage indicators remain healthy. Interest coverage remained healthy at 17.1 times in FY2021 as against of 8.1 times in FY2020 and improved further to 21.8 times in H1 FY2022. The company's debt service coverage ratio (DSCR) stood at 2.7 times in FY2021 and 4.3 times in H1 FY2022. With expectation of healthy sustenance of OPBDITA and modest repayments obligation (excluding lease liability) in the range of Rs. 50-75 crore in the next two years, the company's DSCR and interest coverage is expected to remain at strong levels.

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 also 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 the full increase in input cost to consumers.

Moreover, the competitive intensity also exerts pressure on profitability, as at times the Company has to give additional benefits through sales promotional schemes etc 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 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 and thus JLL's revenues remain exposed to the 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 past few fiscals, which has in turn constrained JLL's 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. The impact of raw material price increase was visible in 9M FY2022, where the OPM dropped to 11.6% from 17.2% in 9M FY2021. The prices of raw materials, which are linked to crude oil as well as usage of palm oil for personal care division, have witnessed a significant rise over the last six 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

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

decline. Going forward, the ability of the company, to pass on such rise in different product categories as per the product offering and market share standing, will remain a key monitorable.

Liquidity position: Strong

In FY2022, the JLL had reduced reliance on working capital debt and its working capital limits of Rs. 385 crores remained largely unutilised. The company had free cash and bank balance and liquid investments of Rs. 149 crore as on September 30, 2021. 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 working capital intensity and absence of any major capital expenditure plans. However, higher-than-estimated dividend outflows and/or significant debt-funded acquisitions may pressurise 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 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 March 31, 2021, 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, Jyothy Fabricare Services Limited, subsidiary of JLL, provides laundry services to large corporate and retail clients under the brand, Fabric Spa. 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)

Jyothy Labs Limited - Consolidated	FY2020 Audited	FY2021 Audited
Operating Income (Rs. crore)	1726.1	1923.3
PAT (Rs. crore)	162.6	190.7
OPBDIT/OI (%)	15.4%	17.1%
PAT/OI (%)	9.4%	9.9%
Total Outside Liabilities/Tangible Net Worth (times)	0.3	0.1
Total Debt/OPBDIT (times)	1.3	0.5
Interest Coverage (times)	8.1	17.1

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 (FY2023)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31, 2022 (Rs. crore)	Date & Rating on	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					27-April-22	30-April-21	-	27-Mar-20
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: www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance	Coupon Rate	Maturity	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	84.18%	Full Consolidation
Jyothy Kallol Bangladesh Limited	75.00%	Full Consolidation
JFSL-JLL (JV) - Partnership Firm	88.14%	Full Consolidation

**As on March 31, 2022.*

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About ICRA Limited:

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Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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