March 27, 2020

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, 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 to an extent. ICRA notes the slowdown in JLL’s revenue growth in the current fiscal, as reflected in modest YoY growth of 1.6% in revenues in 9M FY2020, which is attributed to the general economic slowdown, particularly the rural areas, working capital constraints faced by JLL’s channel partners and continued subdued performance of its HI segment due to seasonality issues and competition from unorganised players selling illegal incense sticks. JLL has also been witnessing some stretch in its receivables from one of its major institutional customers in the current year. Nonetheless, the company’s financial profile remains healthy, as characterised by comfortable capital structure (0.3 time as on December 31, 2019; excluding impact of IND AS 116), moderate interest coverage (9.3 times; excluding impact of IND AS 116) 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 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 ~5,400 stockists and sub-stockists and retail reach of 2.8 million outlets, including 0.8 million outlets (as on December 31, 2019) 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 despite the slowdown in growth, JLL has largely 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.

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 FY2020, the company derived ~42% of its consolidated revenues from fabric care, ~33% from dishwashing, ~9% from HI, ~11% from the personal care segment, ~2% from laundry services, and ~2% 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 moderate interest coverage and liquidity position – With reduction in consolidated debt from Rs. 544.1 crore as on March 31, 2018 to ~Rs. 281 crore as on March 31, 2019, JLL's gearing witnessed an improvement to 0.2 time from 0.5 time, respectively, as on March 31, 2018. Aided by steady OPM (16.4% in FY2019; 16.1% in FY2018), the company's coverage indicators also improved as reflected in interest coverage of 8.5 times in FY2019 (5.6 times in FY2018) and debt/OPBDITA of 0.9 time as on March 31, 2019 (2.0 times as on March 31, 2018). Furthermore, while JLL's debt witnessed some increase to Rs. 362 crore as on December 31, 2019 on account of stretch in some receivables and inventory stocking ahead of HI season in Q4 FY2020, its capital structure remained comfortable (0.3 time as on December 31, 2019) and coverage indicators remained moderate as reflected in interest coverage of 9.3 times (excluding impact of IND AS 116) in 9M FY2020 and debt/OPBDITA of 1.3 times (excluding impact of IND AS 116) as on December 31, 2019. Furthermore, besides the company's healthy cash accruals, JLL's repayment obligations are supported by its moderate liquidity position with free cash and liquid investments of ~Rs. 126 crore, as against the total debt of ~Rs. 362 crore as on December 31, 2019. However, ICRA notes that the company's long-term loans/NCDs have embedded call/put options, enabling it as well as its banker to retire the outstanding debt before the due date.

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, 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 competitive intensity also exerts pressure on 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.

Susceptibility of revenues to seasonality risks; profitability exposed to fluctuations in raw material prices – Considering that 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. Moreover, particularly JLL's

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

revenues from its HI segment remain susceptible to a high degree of seasonality, given that the demand for mosquito repellant products would largely vary with the extent of mosquito breeding, which in turn depends on the normalcy of seasons. The impact of the seasonality risks, coupled with competition from unorganised players in the incense stick market, 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. 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 remain comfortable, aided by healthy cash accruals and moderate debt levels, any large 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: Adequate

On a consolidated basis, JLL had a total debt of ~Rs. 362 crore as on December 31, 2019, which comprised non-convertible debenture (NCD) of Rs. 60 crore (due for repayment in FY2021) and term loans of ~Rs. 120 crore, with scheduled repayments of ~Rs. 15 crore in Q4 FY2020 and ~Rs. 33 crore each over FY2021 to FY2023 and ~Rs. 6 crore in FY2024. Besides cash and liquid investments of ~Rs. 126 crore, JLL had cushion available in the form of undrawn working capital limits of ~Rs. 89 crore as on December 31, 2019. However, ICRA notes the interim dividend announced by the company on March 12, 2020, which will result in an incremental dividend pay-out (including dividend distribution tax) of ~Rs. 132 crore in FY2020, taking the total dividend pay-out to ~Rs. 264 crore in FY2020. Nonetheless, JLL's cash flow from operations are estimated to remain healthy, relative to its repayment obligations and capital expenditure requirements, on the back of stable OPM and working capital intensity. However, higher than estimated dividend outflows and/or significant debt-funded acquisitions may pressurise JLL's liquidity position and, thus, will remain key monitorable. Furthermore, exercise of put option by JLL's banker/NCD investor, prior to the due dates, may have an impact on its liquidity position.

Rating sensitivities

Positive triggers – Not applicable

Negative triggers – 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. Furthermore, any significant debt-funded expansion or significant dividend payouts, which stretch JLL's liquidity position and pressurise its coverage metrics, will also be negative factors. Furthermore, interest coverage of less than 8.0 times (excluding impact of IND AS 116) or net debt/OPBDITA of more than 1.0 time (excluding impact of IND AS 116), 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, 2019, 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 ~140 outlets spread across six major cities of Mumbai, Pune, Bangalore, Chennai, Delhi and Ahmedabad.
In 9M FY2020, JLL (consolidated) reported a profit after tax (PAT) of Rs. 136.0 crore on an operating income (OI) of Rs. 1,318.2 crore, as against a PAT of Rs. 130.8 crore on an OI of Rs. 1,297.6 crore in 9M FY2019.

Key financial indicators (audited, consolidated)

	FY2018	FY2019
Operating Income (Rs. crore)	1685.7	1831.8
PAT (Rs. crore)	178.9	198.7
OPBDIT/OI (%)	16.1%	16.4%
RoCE (%)	17.9%	17.3%
Total Outside Liabilities/Tangible Net Worth (times)	0.7	0.4
Total Debt/OPBDIT (times)	2.0	0.9
Interest Coverage (times)	5.6	8.5
DSCR	0.8	0.6

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2020)				Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding	Rating	FY2019	FY2018	FY2017
					27-Mar-2020	22-Feb-2019	-	-
1	Commercial Paper Programme	Short-term	100.0	0.0	[ICRA]A1+	[ICRA]A1+	-	-

Amount in Rs. crore

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	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 Labs 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	75.10%	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, 2019*

Analyst Contacts

Subrata Ray
+91 22 6114 3408
subrata@icraindia.com

Kinjal Shah
+91 22 6114 3442
kinjal.shah@icraindia.com

Rushit Doshi
+91 22 6114 3422
rushit.doshi@icraindia.com

Relationship Contact

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries:

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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.

For more information, visit www.icra.in

ICRA Limited

Corporate Office
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

Registered Office
1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87
Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore + (91 80) 2559 7401/4049
Ahmedabad+ (91 79) 2658 4924/5049/2008
Hyderabad + (91 40) 2373 5061/7251
Pune + (91 20) 2556 0194/ 6606 9999

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents