**No. CARE/HO/RR/2023-24/1209**

**Shri Apurva Mehta**
**Finance Manager**
**Jyothy Labs Limited**
Jyothy Laboratories Ltd, UJALA House,
Ramakrishna Mandir Road
Mumbai
Maharashtra 400059

September 22, 2023

Dear Sir,

**Credit rating for bank facilities and instruments**

Please refer to our letter dated September 14, 2023 on the above subject.

2. The rationale for the rating(s) is attached as an **Annexure-I**.

3. We request you to peruse the annexed document and offer your comments, if any. We are doing this as a matter of courtesy to our clients and with a view to ensure that no factual inaccuracies have inadvertently crept in. Kindly revert as early as possible. In any case, if we do not hear from you by September 27, 2023 we will proceed on the basis that you have no comments to offer.

If you have any further clarifications, you are welcome to approach us.

Thanking you,

Yours faithfully,

**Himanshu Mahlyan**
Analyst
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**Arti Roy**
Associate Director
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Encl.: As above

**Annexure-1**

**Rating Rationale**
**Jyothy Labs Limited**

| Facilities/Instruments | Amount (₹ crore) | Rating[1] | Rating Action |
|---|---|---|---|
| Long-term bank facilities | 250.00 | CARE AA; Stable | Reaffirmed |
| Long-term bank facilities (Term loan) | - | - | Withdrawn |
| Commercial paper | 100.00 | CARE A1+ | Reaffirmed |

Details of instruments/facilities in Annexure-1.
*Withdrawal in facility on account of facility being repaid.

## Rationale and key rating drivers

The reaffirmation of the ratings for the bank facilities and debt instruments of Jyothy Labs Limited (JLL) is driven by its well-established market position in the domestic fast moving consumer goods (FMCG) market, particularly within the detergents and dishwashing segments, showcased by its renowned brands – Ujala, Pril, and Exo. It continues to operate with a diversified portfolio of established brands while leveraging its strong and well-penetrated distribution network. The ratings also factor in the company's robust financial and liquidity profile, evident through the strong debt coverage metrics.

During FY23, JLL reported a healthy operating performance with a revenue growth of 13.16% and healthy operating margins at 12% driven by higher volume sales and increase in prices. The company has further bolstered its market share by introducing smaller product units in rural areas, showcasing its adaptability. Moreover, the company continues with prudent working capital management and robust cash inflows, which has enhanced its overall financial risk profile.

That said, the ratings are tempered by JLL's limited presence in product categories in the FMCG industry. Despite its growing presence, its market position in the detergent and personal care segments continue to remain modest. Furthermore, the household insecticide segment continues to remain subdued with increasing losses at profit before interest and tax (PBIT) level. The concentrated focus on a limited range of products, exposes the company to potential fluctuations in profit margins stemming from competitive pressures and market volatility within the FMCG industry.

## Rating sensitivities: Factors likely to lead to rating actions

### Positive factors

- Sustained increase in the overall revenue and securing a dominant market share of 40% or more in at least four different product categories.
- Sustained improvement in the return on capital employed (ROCE) over 25%.

### Negative factors

- Decline in the profit before interest, lease rentals, depreciation and taxation (PBILDT) margin on a sustained basis below 11%.
- Any debt-funded project, resulting in the overall gearing increasing above 0.5x.

**Analytical approach:** Consolidated
CARE ratings has adopted a consolidated approach as there are operational linkages between the parent company and its subsidiaries. The list of entities which have been consolidated is placed in Annexure-6.

**Outlook:** Stable
The stable outlook reflects JLL's ability to maintain its established market position in select brands, improving its operating performance coupled with the stable demand scenario and robust financial position.

[1]Complete definition of the ratings assigned are available at www.careratings.com and other CARE Ratings Ltd.'s publications

## Detailed description of the key rating drivers:

**Key strengths**

**Experienced management and long track record**

MP Ramachandran, the Founder and Promoter of JLL, is a first-generation entrepreneur and the current Chairman Emeritus. He has extensive expertise spanning several decades in the FMCG sector. Under his guidance, the firm has evolved from being a single-brand, single-product company ('Ujala' – fabric whitener) to a multi-product, multi-brand corporation with a pan-India presence and a high brand recall in a span of 40 years. MR Jyothy, a second-generation entrepreneur, joined the organisation in 2020 and was appointed as the Managing Director. For more than 15 years prior to this, she served as the Chief Marketing Officer, overseeing the marketing division. The management is assisted by competent individuals leading various verticals, who have sufficient and pertinent expertise in their domains. The management competence is demonstrated by the successful acquisition and integration of Henkel India and other smaller subsidiaries. In the detergent or brightener and utensil care area of the FMCG business, JLL has been able to position itself as one of the well-known companies.

**Diversified portfolio of established brands:**

JLL initiated with a single product item namely Ujala – a fabric whitener but gradually over a span of 40 years progressed into a multi brand multi product line. However, Ujala (blue liquid), its flagship product under fabric care has always dominated the market with a market share of 84%. JLL has the No. 2 position in the utensil care segment under the brands 'Exo Bar' and 'PRIL Liquid', No. 2 position in household insecticide coils and No.3 in insecticide liquid vaporisers. In FY23, the company derived around ~42% of its consolidated revenues from fabric care, around ~35% from dishwashing, around ~9% from household insecticides, ~10% from the personal care segment, around ~4% from laundry services and 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. CARE Ratings expects JLL to continue maintaining its market position in the FMCG sector in India driven by its growing presence and evolving products.

**Robust financial profile:**

JLL demonstrates exceptional financial strength, primarily attributed to its debt-free status and minimal lease obligations totalling ₹ 44 crore. This stability is further bolstered by a well-established product portfolio, consistently generating robust cash flow from operations, which reached ₹ 306.83 crore in FY23. This substantial cash flow not only sustains the day-to-day operations but also covers the annual capex, without relying on external financial support. The company's unutilised working capital facilities of ₹ 445 crore throughout the year, coupled with negligible external liabilities, resulted in a low gearing ratio of 0.06x and an interest coverage ratio (ICR) of 24.13x as on March 31, 2023. Additionally, JLL maintained a consistent dividend payout ratio of around 60% and a large cash reserve of ₹ 283.47 crores as on March 31, 2023. These financial indicators collectively highlight JLL's strong financial position.

**Key weaknesses**

**Volatility in raw material prices:**

JLL is exposed to a variety of commodities, such as crude palm oil, linear alkyl benzene sulfonic acid (LABSA), low-density polyethylene (LDPE), caustic soda lye which surged by 50-90% between FY21and FY23. However, the prices have started to moderate post Q4FY23 and Q1FY24. These raw materials account for a major part - about 50-70% of detergent, fabric care and personal care (soap). In light of the intense competition with conglomerates and a market sensitive to pricing, passing on these escalated costs to customers presents a significant challenge.

**Presence in a highly competitive and price sensitive FMCG industry:**

JLL functions in a highly competitive and price-sensitive market segment of the FMCG industry and competes with huge multni-national companies (MNCs) like Hindustan Unilever (HUL), Godrej, Procter & Gamble (P&G), Marico, Reckitt Benckiser, SC Johnson, etc. Due to the large market size and giant players, there is limited flexibility for a company in the sector to increase the selling price, and the company must absorb most of the price fluctuation before passing it down to the customers.

**Liquidity**: Strong

JLL's strong liquidity profile is demonstrated by its large cash and bank balance of ₹ 283.47 as on March 31, 2023 crores with no term debt repayments. The consistent healthy cash accruals annually with prudently managed working capital allow for debt free financials and unutilised working capital facilities amounting to ₹ 445 crores for the last 12 months ended March 31, 2023. The company is expected to remain debt-free in the near term with the absence of any debt funded capex.

## Environment, social, and governance (ESG) risks

| ESG | Risk Factors |
|---|---|
| Environment | JLL's focus on lowering carbon footprint and sustainability initiatives may face risks such as technological challenges and changing regulations. To mitigate these risks, the company invests in energy-efficient technology and renewable energy sources, maintains a commitment to carbon neutrality by 2040, and adopts sustainable sourcing practices. Additionally, efforts to reduce plastic usage demonstrate proactive |

| | |
|---|---|
| | steps in waste reduction and environmental sustainability, reducing the exposure to plastic-related risks and enhancing the company's reputation. |
| Social | JLL's commitment to human rights and employee well-being mitigates the risks associated with discrimination and workplace safety issues, reducing legal and reputational risks. Its emphasis on chemical safety in manufacturing mitigates health and environmental risks, protecting consumers and complying with regulations. This proactive approach safeguards against potential legal liabilities and negative publicity. |
| Governance | 1. Risks associated with business ethics and codes include potential misconduct, legal issues, and damage to reputation. Sound business ethics and codes (Code of Conduct, Zero Tolerance Policy, Corporate Governance Code) are in place to promote fair and credible structure for promoting utmost transparency and enhancing stakeholders' wealth.<br>2. Promote diversity in the board in terms of gender age and independence to maintain integrity, sound business decisions, and enhanced credibility within the company. |

## Applicable criteria

Policy on default recognition
Consolidation
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Manufacturing Companies
Policy on Withdrawal of Ratings

## About the company and industry

### Industry classification

| Macro- economic Indicator | Sector | Industry | Basic Industry |
|---|---|---|---|
| Fast Moving Consumer Goods | Fast Moving Consumer Goods | Household Products | Household Products |

JLL is a Mumbai-based FMCG company founded in 1983. With an existence of over four decades, it has diversified itself from being a single-product, single-brand company to a multi-product, multi-brand company, having a presence across fabric care (detergents and soaps for clothes), household insecticides (repellent coils and liquid vaporisers), dishwashing products and toilet cleaners, personal care and others (toilet soaps and incense sticks). During FY12, JLL acquired 83.66% of Jyothy Consumer Products (JCPL); formerly known as Henkel India Limited along with its 96% subsidiary, Jyothy Consumer Products Marketing Limited. (JCPML); formerly known as Henkel Marketing India Limited [HMIL], which enabled it to transform itself to one of the leading and dominant players in the mid and economy segments in the FMCG industry, having a wide range of products along with a healthy basket of brands, such as Henko, Mr. White, Pril, Fa, Margo and Neem from Henkel's acquisition. In FY23, Jyothy Fabricare Services Limited & JFSL-JLL(JV) are merged with JLL. The company is well known for its flagship brand Ujala along with various other brands, such as Henko (fabric detergent), Maxo (mosquito repellent), Margo (personal care), Exo and Pril (dish washer and surface cleaner).

| For the period ended / as at March 31, 2023 | 2021 (12m, A) | 2022 (12m, A) | 2023 (12m, A) |
|---|---|---|---|
| **Working Results** | | | |
| Net Sales | 1907.98 | 2195.10 | 2486.02 |
| Total Operating income | 1909.76 | 2,196.97 | 2,486.02 |
| PBILDT | 315.48 | 248.87 | 315.87 |
| Interest | 19.23 | 11.81 | 13.09 |
| Depreciation | 55.59 | 58.17 | 50.12 |

| For the period ended / as at March 31, 2023 | 2021 | 2022 | 2023 |
|---|---|---|---|
| | (12m, A) | (12m, A) | (12m, A) |
| PBT | 258.02 | 196.88 | 292.19 |
| PAT (after deferred tax) | 190.65 | 159.13 | 239.73 |
| Gross Cash Accruals | 252.58 | 222.94 | 295.29 |
| **Financial Position** | | | |
| Equity Capital | 36.72 | 36.72 | 36.72 |
| Networth | 599.66 | 612.65 | 758.60 |
| Total capital employed | 1,460.99 | 1,483.50 | 1,513.06 |
| **Key Ratios** | | | |
| **Growth** | | | |
| Growth in Total income (%) | 11.58 | 15.04 | 13.16 |
| Growth in PAT (after deferred tax) (%) | 17.27 | -16.53 | 50.65 |
| **Profitability** | | | |
| PBILDT/Total Op. income (%) | 16.52 | 11.33 | 12.71 |
| PAT (after deferred tax)/ Total income (%) | 9.98 | 7.24 | 9.64 |
| ROCE (%) | 17.57 | 14.17 | 20.86 |
| **Solvency** | | | |
| Debt Equity ratio (times) | 0.08 | 0.07 | 0.06 |
| Overall gearing ratio(times) | 0.28 | 0.28 | 0.06 |
| Interest coverage(times) | 16.40 | 21.08 | 24.13 |
| Term debt/Gross cash accruals (years) | 0.20 | 0.20 | 0.16 |
| Total debt/Gross cash accruals (years) | 0.66 | 0.77 | 0.16 |
| **Liquidity** | | | |
| Current ratio (times) | 1.26 | 1.32 | 1.89 |
| Quick ratio (times) | 0.76 | 0.82 | 1.15 |
| **Turnover** | | | |
| Average collection period (days) | 20 | 19 | 20 |
| Average inventory (days) | 68 | 63 | 54 |
| Average creditors (days) | 36 | 40 | 37 |
| Operating cycle (days) | 52 | 43 | 37 |

A: Audited UA: Unaudited. Note: The above results are the latest financial results available.

**Status of non-cooperation with previous CRA:** Not applicable
**Any other information:** Not Applicable

**Rating history for the last three years:** Please refer Annexure-2

**Covenants of the rated instruments / facilities:** Detailed explanation of the covenants of the rated instruments/facilities is given in Annexure-3

**Complexity level of the various instruments rated**: Annexure-4

**Lender details**: Annexure-5

## Annexure-1: Details of instruments/facilities

| Name of the Instrument | ISIN | Date of Issuance (DD-MM-YYYY) | Coupon Rate (%) | Maturity Date (DD-MM-YYYY) | Size of the Issue (₹ crore) | Rating Assigned along with Rating Outlook |
|---|---|---|---|---|---|---|
| Commercial Paper-Commercial Paper (Standalone) | | - | - | 7-365 days | 100.00 | CARE A1+ |

| | | | | | | |
|---|---|---|---|---|---|---|
| Fund-based - LT-Cash Credit | | - | - | - | 250.00 | CARE AA; Stable |
| Fund-based - LT-Term Loan | | - | - | February 2023 | 0.00 | Withdrawn |

**Annexure-2: Rating history for the last three years**

| Sr. No. | Name of the Instrument/Bank Facilities | Current Ratings | | | Rating History | | | |
|---|---|---|---|---|---|---|---|---|
| | | Type | Amount Outstanding (₹ crore) | Rating | Date(s) and Rating(s) assigned in 2023-2024 | Date(s) and Rating(s) assigned in 2022-2023 | Date(s) and Rating(s) assigned in 2021-2022 | Date(s) and Rating(s) assigned in 2020-2021 |
| 1 | Commercial paper-Commercial paper (Standalone) | ST | 100.00 | CARE A1+ | - | 1)CARE A1+ (19-Sep-22) | 1)CARE A1+ (29-Sep-21) | 1)CARE A1+ (21-Dec-20) |
| 2 | Fund-based - LT-Term loan | LT | - | - | - | 1)CARE AA; Stable (19-Sep-22) | 1)CARE AA; Stable (29-Sep-21) | 1)CARE AA; Stable (21-Dec-20) |
| 3 | Fund-based - LT-Cash credit | LT | 250.00 | CARE AA; Stable | - | 1)CARE AA; Stable (19-Sep-22) | 1)CARE AA; Stable (29-Sep-21) | 1)CARE AA; Stable (21-Dec-20) |

*Long term/Short term.

**Annexure-3: Detailed explanation of covenants of the rated instruments/facilities:**

**1. Long Term / Short Term Facilities**

**1.A. Fund Based /Non Fund Based Limits**

| Sr. No. | Name of Bank | Rated Amount (Rs. Crore) |
|---|---|---|
| 1 | HDFC Bank Limited | 250 Crores |

**Annexure-4: Complexity level of the various instruments rated**

| Sr. No. | Name of the Instrument | Complexity Level |
|---|---|---|
| 1 | Commercial paper-Commercial paper (Standalone) | Simple |
| 2 | Fund-based - LT-Cash credit | Simple |
| 3 | Fund-based - LT-Term loan | Simple |

**Annexure-5: Lender details**

| |
|---|
| To view the lender wise details of bank facilities please click here |

**Annexure-6: List of subsidiaries which are consolidated**

| Sr. No. | Name of the Company | % of shareholding |
|---|---|---|
| 1 | Jyothy Kallol Bangladesh Limited (Bangladesh)* | 75.00% as on March 31, 2023 |

*Kallol Limited, is a Bangladesh based company holding minority stake in JKBL

**Note on the complexity levels of the rated instruments:** CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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**(This follows our Press Release for the entity published on September 18, 2023)**

**About us:**
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.



**For the detailed Rationale Report and subscription information,**
**please visit www.careedge.in**

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