

Visible slowdown across categories...

Jyothy Labs' (JLL) revenues during Q1FY20 grew 2.3% YoY to ₹ 411.6 crore impacted by slower growth in the dishwashing segment and de-growth in household insecticides (HI) segment. Volume growth was slower at 5.6% due to high base and tapering growth in rural regions. However, personal care segment YoY growth of 13% was impressive whereas fabric care grew 5.4% for the quarter. EBITDA margins expanded 144 bps to 15.9% driven by 72 bps saving in gross margins and 143 bps saving in other overheads to sales. Net profit increased 10.9% to ₹ 35.9 crore impacted by one-off exceptional expense of ₹ 3.8 crore related to a change in brand identity. Adjusting for exceptional item, net profit increased 20.9% YoY.

Personal care shines backed by Margo's Naturals' proposition

After three quarters of muted growth, JLL's strategy to focus on naturals space has started yielding results with personal care segment outperforming other segments (13.3% growth YoY) in an otherwise lacklustre market. Through its brands *Margo soap*, *Fa*, *Neem* toothpaste, the company has a substantial presence in the naturals' category in a few southern states and West Bengal. With Margo growing at 18% CAGR in the last few years, we believe strong growth will continue due to the structural trend of Naturals' product demand with distribution network. We believe focused marketing in select states with low market share currently can help increase market share. We expect personal care segment to grow at 11.4% CAGR in FY19-21E.

Strong distribution, higher A&P to increase market share

The dishwashing segment had a soft quarter with 1.1% YoY growth in Q1FY20 owing to 10-15 days vacuum created before the launch of new 'Exo Ginger Twist'. Its two power brands in the segment: *Exo* & *Pril*, have a strong footing in south India with ~30% market share whereas north India is a growth opportunity with a market share in mid-single digits. Exo has 11.3% market share in bars while Pril has 16.1% market share in liquids. Pril's market share in modern trade is significantly higher (~27%) than overall market share. We believe higher distribution, A&P spend in ex-south market can lead to market share gains. We expect the dishwashing segment to grow at 8.5% CAGR in FY19-21E.

Valuation & Outlook

JLL aggressive A&P spend in last few years have yielded results with healthy growth in dish washing segment & relatively stable performance in fabric care. However, Household Insecticide (HI) category has been negatively impacted by unorganised Incense stick market, which has grown from less than ₹ 100 crore to ₹ 550 crore in last three years. Moreover, lower presence in high growing north India market also put company in relatively disadvantageous position. We downgrade our recommendation on the stock from BUY to HOLD with a revised target price of ₹ 180 per share.

Key Financial Summary

Key Financials	FY17	FY18	FY19	FY20E	FY21E	CAGR (FY19-21E)
Net Sales	1630.1	1626.2	1768.9	1907.1	2112.6	9.3%
EBITDA	260.2	264.1	285.8	308.3	347.7	10.3%
EBITDA Margin %	16.0	16.2	16.2	16.2	16.5	
Net Profit	202.0	160.5	193.2	213.3	233.8	10.0%
Adjusted EPS (₹)	5.56	4.42	5.31	5.87	6.51	
P/E	28.8	36.2	30.1	27.3	24.9	
RoNW %	30.9	23.5	22.6	22.3	23.3	
RoCE (%)	32.1	35.1	28.6	29.3	30.7	

Source: Company, ICICI Direct Research



Particulars

Particulars (₹ crore)	Amount
Market Capitalization	5,817.4
Total Debt (FY19)	0.0
Cash and Investments (FY19)	187.7
EV	5,629.7
52 week H/L (₹)	237 / 144
Equity capital	36.7
Face value (₹)	1.0

Key Highlights

- Dishwash segment grew 1.1% YoY. Exo bar grew 6.6% whereas Pril liquid grew 1.4%
- Fabric care grew 5.4% YoY as Henko franchise grew 23.3% YoY. However, Ujala franchisee grew a tad slower at 2.8% YoY
- HI performance was weak for the quarter – sales down 21.6% YoY
- Downgrade to HOLD with the revised target price of ₹ 180 per share

Research Analyst

Sanjay Manyal
sanjay.manyal@icicisecurities.com

Kapil Jagasia, CFA
kapil.jagasia@icicisecurities.com

Exhibit 1: Variance Analysis

	Q1FY20	Q1FY20E	Q1FY19	YoY (%)	Q4FY19	QoQ (%)	Comments
Net Sales	411.6	431.2	402.6	2.3	504.3	-18.4	Net sales grew 2.3% YoY due to slower growth in dishwashing segment and de-growth in HI segment
Raw Material Expenses	215.2	229.8	213.3	0.9	280.0	-23.2	
Employee Expenses	50.2	48.6	47.3	6.0	48.8	2.8	
SG&A Expenses	33.4	33.3	31.5	5.8	31.4	6.3	A&P to sales ratio increased 27 bps to 8.1% on a YoY basis
Other operating Expenses	47.4	54.6	52.1	-9.0	61.5	-22.9	
EBITDA	65.5	64.9	58.3	12.4	82.6	-20.6	
EBITDA Margin (%)	15.9	15.0	14.5	144 bps	16.4	-46 bps	Operating margins expanded 144 bps YoY to 15.9% driven by 72 bps saving in gross margins and 143 bps saving in other overheads to sales
Depreciation	18.5	15.8	13.8	33.9	16.7	10.7	Depreciation increased 33.9% YoY as rent expenses of ₹ 5.14 crore has been reclassified
Interest	6.1	6.7	7.7	-21.1	6.4	-5.0	
Other Income	4.8	7.9	4.9	-0.8	11.4	-57.4	
Exceptional Income/(Expenses)	3.8	0.0	0.0	NA	0.0	NA	
PBT	42.1	50.2	41.7	0.9	70.9	-40.7	
Tax Outgo	6.1	9.7	9.3	-33.9	3.8	61.2	
PAT	35.9	40.5	32.4	10.9	67.1	-46.4	Net profit increased 10.9% impacted by one-off exceptional expense of ₹ 3.8 crore relating to change in brand identity. Adjusting for exceptional item, net profit increased 20.9% YoY
Segment wise sales (%)							
Dishwashing	134.3		132.8	1.1	161.7	-16.9	Dishwashing segment posted muted growth of 1.1% YoY on account of muted growth in <i>Exo</i> (1.5% YoY) and <i>Pril</i> (flat growth)
Fabric Care	186.6		177.0	5.4	186.5	0.1	Ujala franchisee saw muted growth of 2.8% whereas Henko franchise saw strong growth of 23.3%
Household Insecticides	25.3		32.3	-21.6	100.2	-74.7	Maxo recorded sales decline of 21.6%
Personal Care	59.7		52.7	13.3	47.4	25.9	Margo recorded robust growth of 14.5%

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

	FY20E			FY21E			Comments	
	(₹ Crore)	Old	New	% Change	Old	New		% Change
Sales	1,984.5	1907.1		-3.9	2,198.7	2,112.6	-3.9	We change our estimates considering muted growth from dishwashing and HI segments
EBITDA	324.2	308.3		-4.9	362.4	347.7	-4.1	
EBITDA Margin (%)	16.3	16.2		-17 bps	16.5	16.5	-2 bps	
PAT	215.6	213.3		-1.1	243.7	233.8	-4.1	
EPS (₹)	5.93	5.87		-1.1	6.70	6.43	-4.1	

Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

	Current				Earlier				Comments
	FY17	FY18	FY19	FY20E	FY21E	FY20E	FY21E		
Dishwashing	510.5	542.8	577.1	621.9	690.7	641.1	712.1	We revise segment wise estimates on account of weak performance in some powerbrands: Pril, Ujala, Maxo	
Fabric Care	731.4	744.6	740.2	790.6	886.5	830.0	930.7		
Household Insecticides	261.4	222.2	233.3	235.6	247.4	246.1	258.4		
Personal Care	159.9	172.7	194.5	214.3	237.9	219.3	243.6		
RM Expenses to Sales (%)	54.3	53.4	54.4	51.9	50.9	51.9	50.9		
Ad Expenses to Sales (%)	7.2	6.3	6.2	7.1	7.1	7.1	7.1		
Employee Cost to Sales (%)	9.3	10.3	10.7	9.0	9.0	9.0	9.0		

Source: Company, ICICI Direct Research

Conference Call Highlights

- Jyothy Labs reported muted 2.2% sales growth backed by 5.6% volume growth and ~3% price cut/mix change. Excluding household insecticide business, sale & volume growth has been 4.2% & 7.6%, respectively
- Fabric care segment witnessed growth of 5.4% led by strong 23.3% growth in Henko. However, lead brand Ujala witnessed dismal 2.8% growth
- Dishwashing segment also recorded sales growth of 1.1% on a high base and 15 days shelf vacuum created before the launch of new product 'Exo ginger twist'. Revenue from *Pril* was also flat during the quarter. The impact of water crisis was limited for mass brands. *Pril* & *Exo* were not impacted by the crisis
- Household insecticide continues to remain a laggard on the back of late arrival of monsoon & intense competition from unorganised incense sticks market. Incense sticks market has grown at 100% CAGR in the last three year reaching a ₹ 550 crore industry
- Personal care segment grew 13.3% on account of 14.5% growth in *Margo* brand led by strong naturals' tailwind
- The company has maintained a strong market share of 81.9% in the fabric care segment. JLL witnessed strong growth of 21.8% in *Ujala Crisp & Shine*. It plans to rollout *Crisp & Shine* in stages – Andhra Pradesh in Q2, West Bengal in Q3 & Karnataka in Q4. Moreover, the company expects *Crisp & Shine* to contribute 20% to the *Ujala* Brand in future
- The strong growth in *Henko* brand was led by premiumisation trend. Moreover, the company witnessed 17% & 113% growth in Kerala & Tamil Nadu
- EBITDA margins expanded 144 bps led by 70 bps gross margins expansion & savings of 160 bps overhead expenditure, which was partly offset by advertisement spend
- Net profit increased 10.9% YoY to ₹ 35.9 crore (I-direct estimate: ₹ 40.5 crore) impacted by one-off exceptional expense of ₹ 3.8 crore relating to change in brand identity. Adjusting for exceptional item, net profit increased 20.9% YoY

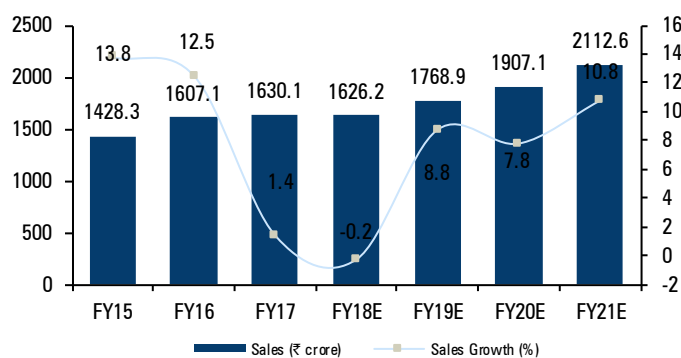
Key Metrics

Exhibit 4: Power brands performance for quarter (₹ crore)

Brand	Q1FY20	Q1FY19	Growth
Ujala	94.0	92.0	2.2%
Exo	100.0	99.0	1.0%
Maxo	25.0	32.0	-21.9%
Henko	56.0	46.0	21.7%
Margo	55.0	48.0	14.6%
Pril	34.0	34.0	0.0%
Total Power Brands	364.0	351.0	3.7%

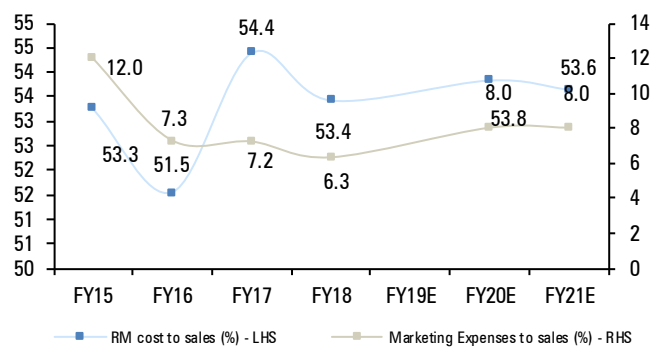
Source: Company, ICICI Direct Research

Exhibit 5: Revenue trend (Standalone)



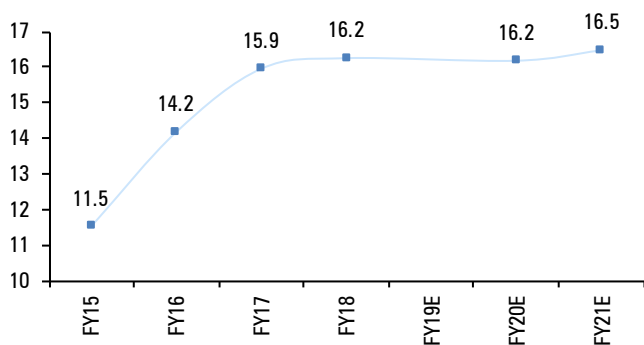
Source: Company, ICICI Direct Research

Exhibit 6: A&P to remain elevated (standalone)



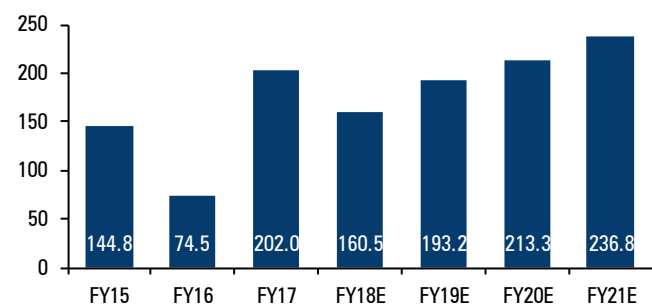
Source: Company, ICICI Direct Research

Exhibit 7: EBITDA growth trend (%)



Source: Company, ICICI Direct Research

Exhibit 8: PAT trend (₹ crore)



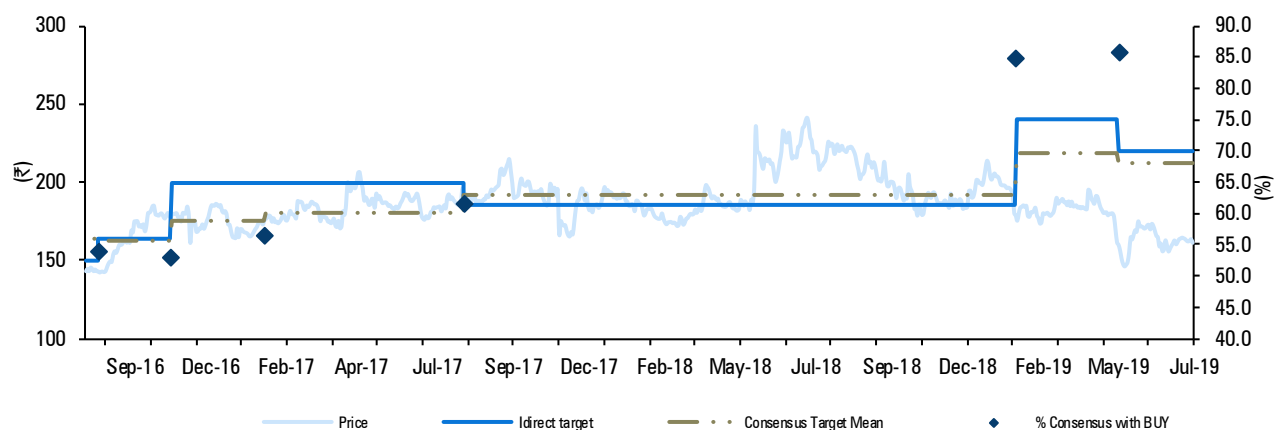
Source: Company, ICICI Direct Research

Exhibit 9: Valuation

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY18	1626.2	-0.2	8.8	-20.6	36.2	20.3	23.5	35.1
FY19	1768.9	8.8	5.3	-39.8	30.1	18.9	22.6	28.6
FY20E	1907.1	7.8	5.9	10.4	27.3	17.1	22.3	29.3
FY21E	2112.6	10.8	6.4	9.6	24.9	15.3	23.3	30.7

Source: Company, ICICI Direct Research

Exhibit 10: Recommendation History vs. Consensus



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 11: Top 10 Shareholders

Rank	Name	Latest Filing Date	% O/S	Position (m)	Change (m)
1	Ramachandran (M P)	30-Jun-19	39.12	143.6	0.0
2	Sahyadri Agencies, Ltd.	30-Jun-19	8.17	30.0	0.0
3	Franklin Templeton Asset Management (India) Pvt. Ltd.	30-Jun-19	4.24	15.6	0.0
4	Divakaran (M P)	30-Jun-19	3.94	14.5	0.0
5	Sidharthan (M P)	30-Jun-19	2.84	10.4	0.0
6	Deepthy (M R)	30-Jun-19	2.82	10.4	0.0
7	Jyothy (M R)	30-Jun-19	2.60	9.5	0.0
8	Shanthakumari (M G)	30-Jun-19	1.97	7.2	0.0
9	Beena (U B)	30-Jun-19	1.88	6.9	0.0
10	Aberdeen Standard Investments (Asia) Limited	30-Jun-19	1.85	6.8	0.1

Source: Reuters, ICICI Direct Research

Exhibit 12: Recent Activity

Buys			Sells		
Investor name	Value	Shares	Investor name	Value	Shares
Caisse de Depot et Placement du Quebec	9.79m	3.19m	Stewart Investors	-12.58m	-4.76m
Mirae Asset Global Investments (India) Pvt. Ltd.	3.12m	1.35m	ICICI Prudential Life Insurance Company Ltd.	-9.90m	-4.29m
The Blackstone Group	2.21m	0.96m	BlackRock Asset Management North Asia Limited	-6.50m	-2.11m
Aberdeen Standard Investments (Asia) Limited	0.32m	0.14m	Sundaram Asset Management Company Limited	-1.56m	-0.59m
Aberdeen Asset Management (Edinburgh)	0.32m	0.12m	BNP Paribas Asset Management India Pvt. Ltd.	-0.42m	-0.17m

Source: Reuters, ICICI Direct Research

Exhibit 13: Shareholding Pattern

(in %)	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19
Promoter	66.9	66.9	67.1	67.1	67.1
FII	16.2	15.9	15.9	15.8	16.3
DII	6.2	7.0	7.3	8.6	8.6
Others	10.7	10.2	9.8	8.5	8.0

Source: Company, ICICI Direct Research

Financial summary

Exhibit 14: Profit and loss statement				
	₹ crore			
(Year-end March)	FY18	FY19	FY20E	FY21E
Total operating income	1626.2	1768.9	1907.1	2112.6
Growth (%)	-0.4	8.8	7.8	10.8
Raw Material Expenses	868.8	961.8	1,026.6	1,133.2
Employee Expenses	168.0	188.6	190.7	209.2
Marketing Expenses	102.8	109.3	152.6	169.0
Administrative Expenses	54.6	0.0	0.0	0.0
Other expenses	165.1	223.4	228.8	253.5
Total Operating Expenditure	1,359.2	1,483.1	1,598.7	1,764.9
EBITDA	267.1	285.8	308.3	347.7
Growth (%)	1.5	7.0	7.9	12.8
Depreciation	56.6	58.3	60.9	68.4
Interest	42.4	27.8	25.0	27.5
Other Income	43.3	27.8	44.2	44.2
PBT	211.5	227.5	266.6	296.0
Others	0.0	0.0	0.0	0.0
Total Tax	47.9	34.3	53.3	58.4
PAT	163.5	193.2	213.3	237.6
Growth (%)	-20.2	18.1	10.4	11.4
EPS (₹) - Diluted	8.8	5.3	5.9	6.4
EPS (₹) - Adjusted	4.4	5.3	5.9	6.5

Source: Company, ICICI Direct Research

Exhibit 15: Cash flow statement				
	₹ crore			
(Year-end March)	FY18	FY19	FY20E	FY21E
Profit after Tax	183.4	193.2	213.3	233.8
Add: Depreciation	56.6	58.3	60.9	68.4
(Inc)/dec in Current Assets	-45.9	-6.3	126.2	-41.7
Inc/(dec) in CL and Provisions	43.1	-223.3	91.2	37.0
Adjustments	13.9	0.0	0.0	0.0
CF from operating activities	251.2	21.8	491.6	297.4
(Inc)/dec in Investments	-91.5	0.0	0.0	0.0
(Inc)/dec in Fixed Assets	5.6	-39.1	-259.8	-150.0
Others	4.7	0.3	-41.9	-20.7
CF from investing activities	-81.1	-38.8	-301.7	-170.7
Issue/(Buy back) of Equity	0.0	18.5	0.0	0.0
Inc/(dec) in loan funds	25.8	0.0	0.0	0.0
Dividend paid & dividend tax	-131.2	-128.7	-21.7	-130.0
Finance cost paid	-43.8	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0
CF from financing activities	-149.2	-110.2	-21.7	-130.0
Net Cash flow	20.9	-127.1	168.2	-3.3
Opening Cash	34.1	55.0	-72.1	96.1
Bank Balance	72.2	159.7	70.9	27.6
Closing Cash	127.2	87.5	167.0	120.4

*calculated, Source: Company, ICICI Direct Research

Exhibit 16: Balance sheet				
	₹ crore			
(Year-end March)	FY18	FY19	FY20E	FY21E
Liabilities				
Equity Capital	18.2	36.7	36.7	36.7
Preference Capital	0.0	0.0	0.0	0.0
Reserve and Surplus	665.3	817.2	920.1	980.5
Total Shareholders funds	683.5	854.0	956.8	1,017.2
Total Debt	0.0	0.0	0.0	0.0
Deferred Tax Liability	0.0	0.0	0.0	0.0
Minority Interest / Others	32.1	38.0	37.0	36.0
Total Liabilities	715.5	892.0	993.8	1,053.3
Assets				
Gross Block	917.7	1,067.7	1,217.7	1,367.7
Less: Acc Depreciation	428.4	486.7	547.6	616.0
Net Block	489.3	581.0	670.1	751.7
Capital WIP	15.3	14.2	14.2	14.2
Total Fixed Assets	504.6	485.3	684.3	765.9
Goodwill on Consolidation	0.0	0.0	0.0	0.0
Inventory	187.0	200.6	209.0	231.5
Debtors	156.1	148.3	125.4	138.9
Loans and Advances	0.0	0.0	0.0	0.0
Other Current Assets	59.6	63.8	36.6	40.5
Cash	127.2	87.6	167.0	120.4
Total Current Assets	633.7	600.4	553.6	548.7
Creditors	167.2	174.8	156.7	173.6
Provisions & Others	576.3	345.3	454.6	474.6
Total Current Liabilities	743.4	520.1	611.3	648.3
Net Current Assets	-109.7	80.3	-57.7	-99.6
Others Assets	320.7	326.4	367.3	387.0
Application of Funds	715.5	892.0	993.8	1,053.3

Source: Company, ICICI Direct Research

Exhibit 17: Key ratios				
	₹ crore			
(Year-end March)	FY18	FY19	FY20E	FY21E
Per share data (₹)				
Adjusted EPS	4.4	5.3	5.9	6.5
Cash EPS	6.0	6.9	7.5	8.3
BV	18.8	23.5	26.3	28.0
DPS	3.0	0.5	3.0	4.0
Cash Per Share	3.5	2.4	4.6	3.3
Operating Ratios (%)				
EBITDA Margin	16.2	16.2	16.2	16.5
EBIT / Net Sales	12.8	12.9	13.0	13.2
PAT Margin	9.9	10.9	11.2	11.1
Inventory days	42.0	41.4	40.0	40.0
Debtor days	35.0	30.6	24.0	24.0
Creditor days	37.5	36.1	30.0	30.0
Return Ratios (%)				
RoE	23.5	22.6	22.3	23.3
RoCE	35.1	28.6	29.3	30.7
RoIC	82.2	39.6	55.5	52.5
Valuation Ratios (x)				
P/E (Diluted)	36.2	30.1	27.3	24.9
P/E (Adjusted)	36.2	30.1	27.3	24.6
EV / EBITDA	20.3	18.9	17.1	15.3
Market Cap / Sales	3.6	3.3	3.1	2.8
Price to Book Value	17.0	6.8	6.1	5.7
Solvency Ratios				
Debt/EBITDA	0.0	0.0	0.0	0.0
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	0.7	1.0	0.6	0.7
Quick Ratio	0.4	0.6	0.3	0.3

Source: Company, ICICI Direct Research

Exhibit 18: ICICI Direct coverage universe (FMCG)

Sector / Company	CMP	TP	M Cap	EPS (₹)			P/E (x)			Price/Sales (x)			RoCE (%)			RoE (%)			
	(₹)	(₹)		Rating	FY19E	FY20E	FY21E	Y19E	FY20E	Y21E	Y19E	FY20E	FY21E	Y19E	FY20E	FY21E	FY19E	FY20E	FY21E
Colgate (COLPAL)	1,165	1,250	Hold	32,502	28.5	30.9	33.8	40.9	37.7	34.5	7.3	6.7	6.2	70.7	71.6	71.0	52.2	50.7	50.1
Dabur India (DABIND)	425	500	Buy	74,651	8.2	9.0	9.9	51.9	47.4	42.8	8.7	7.9	7.1	29.6	27.6	28.1	25.7	23.6	24.0
GSK CH (GLACON)	7,310	8,340	Buy	30,028	166.5	233.7	244.1	43.9	31.3	29.9	6.9	6.3	5.8	29.8	36.1	33.4	20.1	24.0	22.8
Hindustan Unilever (HINLEV)	1,690	1,900	Hold	378,000	28.5	32.9	37.9	59.2	51.4	44.6	9.9	8.7	7.6	100.8	123.7	162.3	87.2	106.9	141.3
ITC Limited (ITC)	270	340	Buy	352,275	10.3	11.3	12.6	26.3	24.0	21.4	7.9	7.2	6.6	30.8	32.7	33.3	21.5	22.2	22.6
Jyothy Lab (JYOLAB)	162	180	Hold	5,817	5.3	5.9	6.4	30.5	27.6	25.2	3.3	3.1	2.8	28.6	29.3	30.7	22.6	22.3	23.3
Marico (MARLIM)	360	425	Buy	46,963	8.8	8.7	9.8	40.9	41.5	36.9	6.4	5.5	4.9	38.0	42.6	41.7	31.6	35.8	34.6
Nestle (NESIND)	11,470	12,000	Buy	100,277	166.7	199.7	238.9	68.8	57.4	48.0	8.9	8.0	7.0	42.9	44.5	47.6	45.6	45.9	47.0
Tata Global Bev (TATGLO)	250	250	Buy	12,622	7.2	7.9	8.7	34.5	31.7	28.7	1.7	1.7	1.6	8.4	9.1	9.5	6.5	7.2	7.6
VST Industries (VSTIND)	3,250	3,900	Hold	5,348	146.9	164.4	178.8	22.1	19.8	18.2	4.9	4.4	4.0	51.4	51.1	50.3	34.2	34.4	33.9
Varun Beverage (VARBEV)	940	1,040	Hold	17,530	11.7	16.4	18.6	80.2	57.3	50.5	4.4	3.4	2.5	12.7	14.2	13.3	12.1	15.0	11.0

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

**ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com**

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