

Sector: Consumer Goods  
Result Update

	Change
Reco: <b>Hold</b>	↔
CMP: <b>Rs. 161</b>	
Price Target: <b>Rs. 180</b>	↔

↑ Upgrade ↔ No change ↓ Downgrade

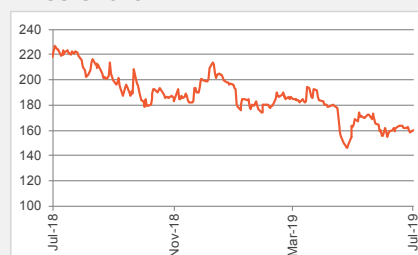
## Company details

Market cap:	Rs. 5,912 cr
52-week high/low:	Rs. 238/143
NSE volume: (No of shares)	3.1 lakh
BSE code:	532926
NSE code:	JYOTHYLAB
Sharekhan code:	JYOTHYLAB
Free float: (No of shares)	12.1 cr

## Shareholding (%)

Promoters	67.1
FII	16.6
DII	8.6
Others	7.7

## Price chart



## Price performance

(%)	1m	3m	6m	12m
Absolute	2.4	-12.0	-17.7	-25.1
Relative to Sensex	5.4	-11.1	-21.7	-29.0

Sharekhan Research, Bloomberg

Jyothy Labs Limited (JLL) registered a mixed performance in Q1FY2020, with revenue growing in low single digits (as household insecticide [HI] revenue declined by 22 %). However, operating margin (OPM) grew by 144 bps to 15.9%, mainly on account of lower other expenses, as the company shifted to Ind- AS 116. On a comparable basis, OPM was almost flat at 14.7% in Q1FY2020. The HI category will take time to revive, while the dishwashing and fabric care categories will continue to grow at a good pace, aided by new launches and a wider reach. The recovery in the HI category will be a key trigger for the company. We maintain our Hold rating on the stock.

## Key positives

- Domestic volumes grew by 5.6%, exactly in line with our expectations.
- Despite a decline in realisations, gross margins improved by 70 bps, largely on soft input prices.
- Key fabric care brands such as Ujala Crisp & Shine and Henko Franchisee, saw revenue grow by more than 20%, each aiding the fabric care category to post mid-single digit revenue growth.

## Key negatives

- HI category revenue declined by ~22%, higher than our expectation of a 10% decline, due to extreme summers and higher competition from illegal incense sticks.
- Dishwashing category registered flat revenue growth as de-stocking prior to re-launch of new Exo bar and muted growth in the liquids category affected performance.

## Our Call

**Valuation:** Overall, Q1FY2020 numbers were mixed, driven by a rise in margins, despite muted revenue growth. The HI category will take time to revive, whereas the dishwashing segment is expected to perform better in the coming quarters. Fabric care category revenue will continue to grow in mid-single digits. We broadly maintain our earnings estimates for FY2020E and FY2021E. Overall, we expect revenue and PAT to grow at a CAGR of 10.8% and 11% during FY2019-21. Improvement in the HI business remains key trigger for the company. We maintain a Hold rating with an unchanged price target (PT) of Rs. 180.

## Key Risks

Fast recovery in growth prospects of HI category and a rise in volume growth trajectory to 6-8% will be a key re-rating trigger in the near term.

## Valuation (Consolidated)

	Rs cr				
Particulars	FY17	FY18	FY19	FY20E	FY21E
Revenues	1,749	1,690	1,814	1,969	2,228
OPM (%)	14.5	15.2	15.5	15.9	16.3
Adjusted PAT	204	179	198	211	244
% YoY growth	176.5	-12.4	10.5	6.9	15.4
Adjusted EPS (Rs.)	11.2	9.8	5.4	5.7	6.6
P/E (x)	29.0	33.1	29.9	28.0	24.3
P/B (x)	2.7	2.6	4.5	4.1	3.7
EV/EBIDTA (x)	11.3	11.9	21.9	18.8	15.8
RoNW (%)	20.5	16.0	16.0	15.2	15.9
RoCE (%)	21.2	16.8	14.9	14.1	15.0

Source: Company; Sharekhan estimates

**Mixed standalone performance, volume growth stood at 5.6%:** Standalone revenue grew by just 2.3% y-o-y to Rs. 411.6 crore in Q1FY2020, lower than our expectation of Rs. 436.1 crore, as against Rs. 402.6 crore in Q1FY2019. The Q1 number was affected by an abnormal revenue mix and a more than 20% decline in the HI category's revenue. Volume growth was in line with our expectations, at 5.6%. Revenue (excluding HI) grew by 4.2% y-o-y driven by a 7.6% volume growth. Gross margins improved by 72 bps to 47.7% mainly on account of benign input costs. Other expenses as a percentage of sales fell by 143 bps, driving up OPM by 144 bps to 15.9%, mainly on account of a shift to Ind AS 116 (which led Rs. 5.14 crore of rent expenses to be reclassified as depreciation and finance costs). On a comparable basis, OPM stood almost flat at 14.7%. Operating profit grew by 12.4% y-o-y to Rs. 65.5 crore. Adjusted PAT grew by 18.7% y-o-y to Rs. 38.4 crore due to lower incidence of tax and lower interest costs. There was an exceptional item of Rs. 3.78 crore (Rs. 2.5 crore post-tax) related to the company's name change. Implementation of Ind AS 116 affected standalone profit before tax by Rs. 0.9 crore.

**Consolidated profit grew by ~19% y-o-y:** Consolidated revenue grew by 2.2% y-o-y to Rs. 422.5 crore from Rs. 413.3 crore in Q1FY2019. The laundry services segment's revenue grew by 4.5% y-o-y to Rs. 9.9 crore. Controlled raw material costs drove up gross margins by 68 bps to 48.6%. OPM improved by 182 bps to 15.5% due to lower ad spends and other expenditure. Operating profit grew by 15.8% y-o-y to Rs. 65.6 crore. Lower finance charges and tax led to a 19.2% growth in adjusted PAT to Rs. 39.9 crore.

**Decent show by fabric care and personal products, disappointing quarter for HI:** Revenue of the fabric care and personal products categories grew by 5.4% and 13.3% y-o-y, respectively. The HI category had a weak quarter, with revenue declining by 22% y-o-y whereas dishwashing category reported a flat growth. In terms of brands, Henko and Margo grew in double digits due to premiumisation strategies and strong support backed by new television commercials. Ujala revenue grew by 2.2% mainly led by double-digit growth in Ujala Crisp & Shine and the brand maintained its leadership position as the largest mid-priced detergent brand in Kerala. In the dishwashing space, Exo had a subdued quarter due to de-stocking of pre-launch stock owing to the introduction of the new Exo Ginger that lowered primary sales. A severe summer pulled down sales of Maxo by 21.6%. Illegal incense sticks and local/unbranded products also affected the HI category. The company launched new Maxo Genius LV with an 80% stronger formulation during the quarter.

#### Other key conference call highlights

- ♦ The value decline of 2.3% in Q1FY2020 was mainly on account of unfavorable revenue mix and higher promotional offerings due to competitive intensity during the quarter.
- ♦ Dishwashing category is expected to post revival in growth with Exo dishwash bar expected to recover post its re-launch and Pril liquid is expected to see gradual recovery in performance. Management expects the category to grow by 14-15% in FY2020.
- ♦ Henko registered strong growth mainly on account of strong performance by low-priced SKUs. Henko Rs. 10 pack contributes about 20% of Henko brand sales and will continue to grow in strong double digits.
- ♦ Margo will continue to gain strong traction with growth expected at 13-15% in FY2020.
- ♦ Effective tax rate for FY2020 is expected to be at 20-22%.

**Results (Standalone)**

	Rs cr				
Particulars	Q1FY20	Q1FY19	Y-o-Y %	Q4FY19	Q-o-Q %
Net Revenue	411.6	402.6	2.3	504.3	-18.4
Total Operating Cost	346.1	344.3	0.5	421.7	-17.9
Operating Profit	65.5	58.3	12.4	82.6	-20.6
Other income	4.8	4.9	-0.8	11.4	-57.4
Depreciation	18.5	13.8	33.9	16.7	10.7
Interest cost	6.1	7.7	-21.1	6.4	-5.0
Profit Before Tax	45.8	41.7	10.0	70.3	-34.8
Tax	7.4	9.3	-20.5	3.8	93.9
Adjusted PAT	38.4	32.4	18.7	66.5	-42.2
Exceptional item	-2.5	0.0	-	0.0	-
Reported PAT	35.9	32.4	10.9	66.5	-46.0
EPS (Rs.)	1.0	0.9	18.7	1.8	-42.2
GPM (%)	47.7	47.0	72 bps	44.5	325 bps
OPM (%)	15.9	14.5	144 bps	16.4	-46 bps

Source: Company; Sharekhan Research

**Revenue (Consolidated)**

	Rs cr				
Particulars	Q1FY20	Q1FY19	Y-o-Y %	Q4FY19	Q-o-Q %
Total Revenues	422.5	413.3	2.2	516.0	-18.1
Operating profit	65.6	56.6	15.8	81.3	-19.4
Adjusted PAT	39.9	33.5	19.2	66.8	-40.3
GPM (%)	48.6	47.9	68 bps	45.2	338 bps
OPM (%)	15.5	13.7	182 bps	15.8	-24 bps

Source: Company; Sharekhan Research

**Brand wise revenues (consolidated)**

	Rs cr				
Particulars	Q1FY20	Q1FY19	Y-o-Y %	Q4FY19	Q-o-Q %
Ujala	94	92	2.8	102	-7.8
Exo	100	99	1.5	125	-20.0
Maxo	25	32	-21.6	100	-75.0
Henko	56	46	23.3	45	24.4
Margo	55	48	14.5	42	31.0
Pril	34	34	0.2	37	-8.1
Total Power Brands	364	351	4.2	451	-19.3
Other	47	53	-11.1	53	-11.3
Laundry	10	9	4.5	12	-16.7
Total Revenues	421	413	2.2	516	-18.4

Source: Company; Sharekhan Research

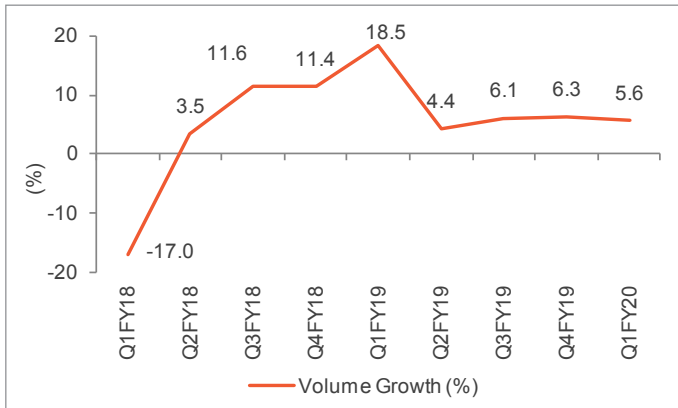
**Segment wise revenue (consolidated)**

	Rs cr				
Particulars	Q1FY20	Q1FY19	Y-o-Y %	Q4FY19	Q-o-Q %
Fabric care	187	177	5.4	186	0.1
Dish washing	134	133	1.1	162	-16.9
Mosquito Repellant	25	32	-21.6	100	-74.7
Personal care	60	53	13.3	47	25.9
Other Products	7	9	-28.3	9	-20.4
Total Consumer	413	404	2.1	504	-18.2
Laundry Services	10	9	4.5	10	-1.0
Total Revenues	423	414	2.1	514	-17.8

Source: Company; Sharekhan Research

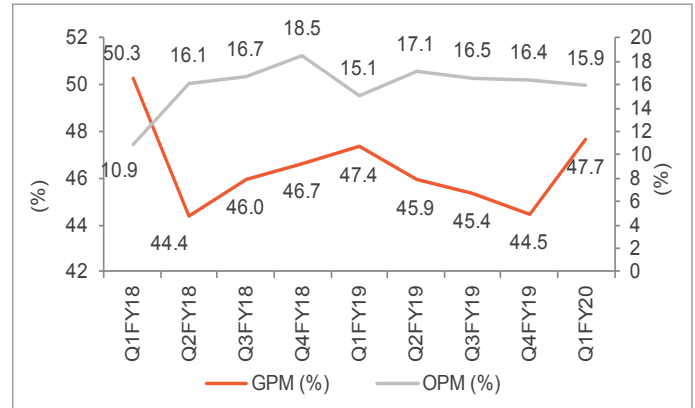
## Financials in charts

### Volume growth came in at 5.6%



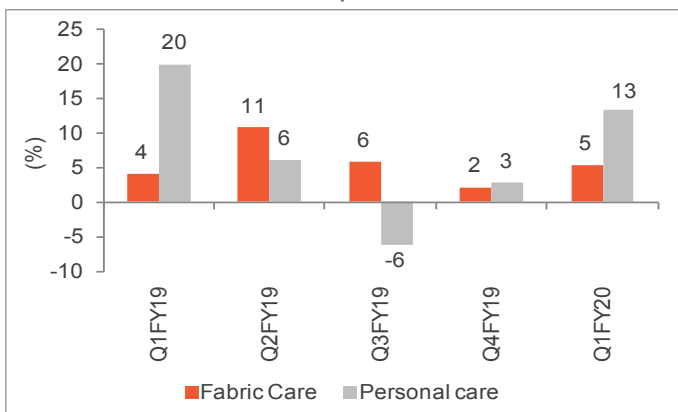
Source: Company, Sharekhan Research

### GPM and OPM improved by 72 & 142 bps y-o-y



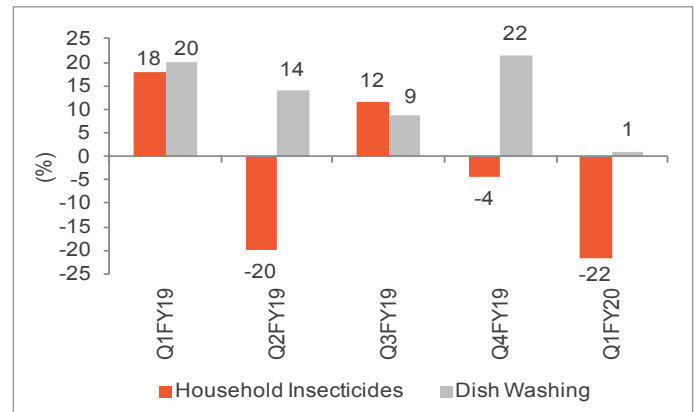
Source: Company, Sharekhan Research

### Fabric care and Personal care performed well



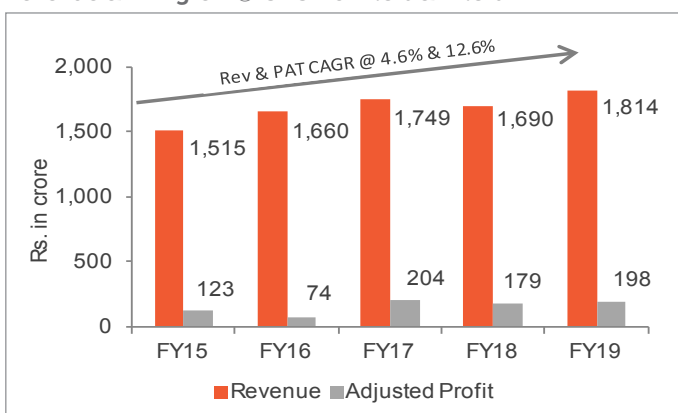
Source: Company, Sharekhan Research

### HI and Dish washing had a weak quarter



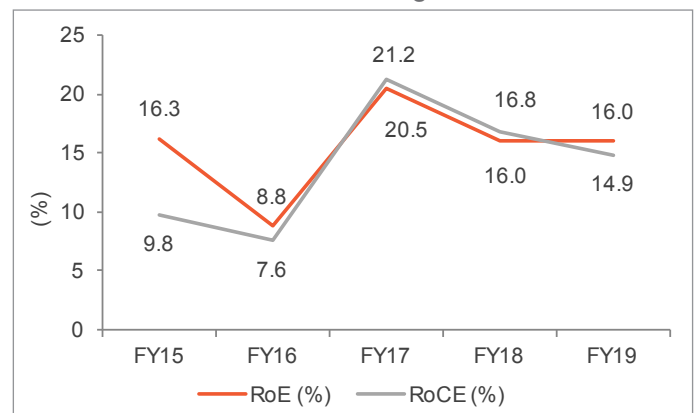
Source: Company, Sharekhan Research

### Revenue & PAT grew @ CAGR of 4.6% & 12.6%



Source: Company, Sharekhan Research

### Return ratios to remain in double digits



Source: Company, Sharekhan Research

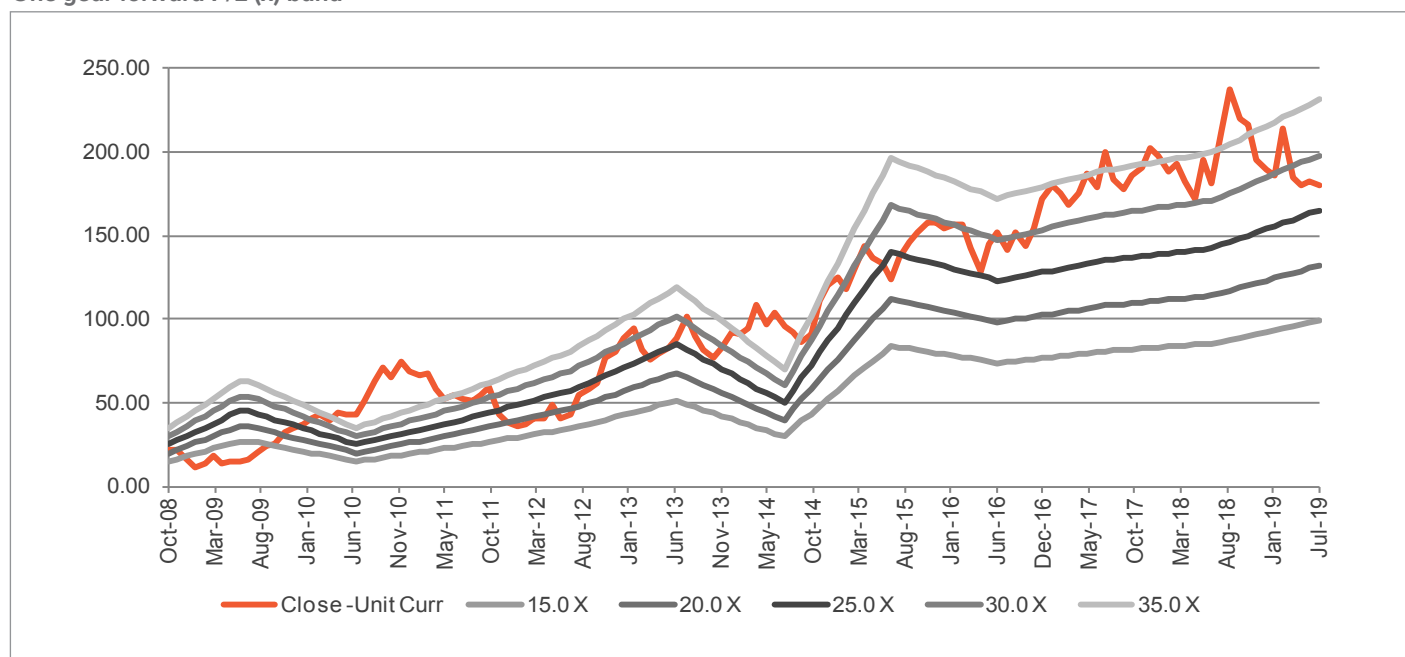
## Outlook - HI will take time to recover; Dishwashing will get back on track from Q2

Volumes grew by 5.6% in Q1FY2020. We expect volume growth to remain at 4-6% in the near term. Any improvement in the HI category's performance would help the volume growth trajectory improve to 6-8%. Re-launch of Exo with a ginger twist would help the company gain good traction in sales in the coming quarters. Ujala Fabric whitener will continue to grow in mid-single digits as usage of whiteners has reduced in India. However, sub-categories such as the Henko franchisee and Ujala Crisp & Shine will continue to grow in strong double digits on back of good traction and low base. This along with a revival in consumer demand, led by a better monsoon and improvement in the liquidity scenario would help JLL to post better revenue growth (likely in H2FY2020). The management is targeting the 10-12% revenue growth for FY2020, which will be largely a volume-led growth (we have factored-in about 9% growth for FY2020). The OPM is expected to remain at 15-16% as the company has maintained its thrust on higher spends behind advertisement and promotional spends to support new launches.

## Valuation - Recovery in HI category remains key for overall performance

JLL registered a mixed performance in Q1FY2020 with earnings growing in double digits, driven by margin expansion despite a muted revenue growth of just 2%. A revival in the HI category will take time, while the dishwashing segment is expected to see recovery in the performance in the coming quarters. The fabric care category will continue to grow in mid-single digit. We have broadly maintained our earnings estimates for FY2020E and FY2021E. Overall, we expect revenue and PAT to clock a CAGR of 10.8% and 11% over FY2019-21. The improvement in the HI business remains key trigger for the company. We maintain Hold rating on the stock with an unchanged price target of Rs. 180.

One year forward P/E (x) band



Source: Sharekhan Research

### Peer valuation

Particulars	P/E (x)			EV/EBIDTA (x)			RoCE (%)		
	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E
Marico	49.8	40.4	34.6	36.4	28.8	24.6	40.9	44.7	44.6
Godrej Consumer Products	43.4	36.7	30.8	31.9	28.3	23.9	17.5	18.7	20.6
Dabur India	49.8	44.2	37.0	41.5	35.6	29.7	28.1	30.6	31.1
Jyothy Labs	29.2	27.3	23.7	21.4	18.4	15.4	14.9	14.1	15.0

Source: Company, Sharekhan estimates

## About company

Jyothy Laboratories has evolved from being a promoter-driven, south-centric, single-product company to a professionally managed multi-brand, multi-product company with pan-India operations and a turnover of over Rs. 1,700 crore. JLL is present in key product categories such as fabric care, dish wash, household insecticides (HI) and personal care. JLL's power brands include Ujala, Henko, Exo, Maxo, Margo and Pril. The company's flagship brand, Ujala, has remained at the top of the fabric whitener category since its launch, with an ~80% market share.

## Investment theme

JLL has a leadership position in the fabric whitener category in India, whereas it ranks number two in the dishwash bar, liquid and mosquito repellent coil categories. Going forward, strategies undertaken by JLL to enhance growth in the long run include winning through innovations in the fabric wash segment, leveraging rural penetration in the dishwash segment, increasing footprint and relevant extensions in the HI and personal care segments. However, structural issues in the HI category and slowdown in the fabric whitener category will affect performance in the near term.

## Key Risks

- ♦ **Slowdown in the demand environment:** Further, slowdown in HI category growth would affect overall demand.
- ♦ **Higher input prices:** A significant increase in prices of key raw materials such as Brent crude oil would affect profitability and earnings growth.
- ♦ **Increased competition in highly penetrated categories:** Increased competition in highly-penetrated categories such as fabric whiteners would threaten revenue growth.

## Additional Data

### Key management personnel

Ramachandran M P	Chairman and Managing Director
K Ullas Kamath	Joint Managing Director
MR Jyothy	Whole Time Director & Chief Marketing Officer
Shreyas Trivedi	Company Secretary
Sanjay Agarwal	Chief Financial Officer

Source: Company

### Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Ramachandran M P	39.1
2	Sahyadri Agencies Ltd	8.2
3	Divakaran M P	5.0
4	Franklin Resources Inc	4.2
5	Sidharthan M P	3.6
6	Icici Prudential Life Insurance Company	3.0
7	Deepthi M R	2.8
8	Standard Life Aberdeen Plc	2.7
9	Jyothy M R	2.6
10	Mirae Asset Global Investments Company	2.0

Source: Bloomberg

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by BNP PARIBAS

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