

Volume growth shines on low base...

Jyothy Labs (JLL)'s revenue grew 8.5% to ₹ 464.2 crore fully led by 8.3% YoY volume growth as 13.1% YoY growth in fabric care and 8.6% YoY growth in dishwashing segment supported topline growth. However, household insecticides (HI) segment contracted by 1.2% YoY impacted by delayed monsoon in key states and high competitive intensity from unorganised incense stick players. EBITDA margins remained flat at 17% during the quarter as a decline in other overheads to sales (129 bps) on account of Ind-AS accounting, was offset by higher investment towards A&P spend to sales by 67 bps. PAT increased 17.4% YoY to ₹ 53.2 crore benefitting from lower tax rates.

Fabric care, dishwashing improves; HI continues to depress

Fabric care (40% of sales) witnessed growth of 13.1% YoY on account of strong performance of the Ujala brand. Ujala Supreme market share increased to 82.1% in Q2FY20 vs. 81.2% in Q4FY19 while Ujala IDD market share remained flat at 15.5% during the period. Ujala Crisp & Shine witnessed strong growth of 24.8% YoY during the quarter. The dishwash segment witnessed strong growth of 8.6% YoY on account of 9% YoY growth in Exo and Pril. HI segment declined 1.2% YoY mainly on account of competition from informal incense sticks players, delayed monsoon in key states for the company and loss of market share in liquid vaporisers. Personal care sales witnessed growth of 6.9% YoY on account of strong brand recall of Margo.

Increase in brand investments to drive future growth

JLL has stepped up brand investments as its marketing spend in H1FY20 has increased 13% over H1FY19 (much higher compared to previous years). The company's investments behind Henko Stain Care, Ujala Crisp and Shine, Maxo LVs, Margo and T-Shine is expected to drive growth. Further, continued share gain in Ujala, Pril, Margo and T-Shine would help support growth. Though there is a visible consumption slowdown and high competitive intensity in each of the above categories, a different proposition in each brand and willingness to invest in the same are key differentiators for the company, which, we believe, will likely aid growth. We expect earnings to grow at 10.7% over FY19-21E.

Valuation & Outlook

JLL's aggressive A&P spend in the last few years has yielded results with healthy growth in fabric care & dishwashing segment. However, HI category has been negatively impacted by unorganised incense stick market, which has grown from less than ₹ 100 crore to ₹ 550 crore in the last three years. Moreover, lower presence in high growing north India market also put the company in a relatively disadvantageous position. We maintain our **HOLD** recommendation on the stock with a revised target price of ₹ 185/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	312.1	347.7	10.3%
EBITDA Margin %	16.0	16.2	16.2	16.4	16.5	
Net Profit	202.0	160.5	193.2	214.3	236.7	10.7%
Adjusted EPS (₹)	5.56	4.42	5.31	5.90	6.59	
P/E	31.5	39.6	32.9	29.7	26.9	
RoNW %	30.9	23.5	22.6	22.4	23.5	
RoCE (%)	32.1	35.1	28.6	28.5	30.6	

Source: Company, ICICI Direct Research



Particulars

Particulars (₹ crore)	Amount
Market Capitalization	6,362.8
Total Debt (FY19)	0.0
Cash and Investments (FY19)	187.7
EV	6,175.1
52 week H/L (₹)	218 / 139
Equity capital	36.7
Face value (₹)	1.0

Key Highlights

- Dishwash segment grew by 8.6% YoY on account of robust growth in Exo & Pril
- Fabric care grew by 13.1% YoY on account of strong performance and market share gain in Ujala franchisee
- HI performance was weak as sales declined by 1.2% YoY on account of competition from incense sticks & delayed monsoon in key states
- Maintain HOLD with a target price of ₹ 185/per share

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Exhibit 1: Variance Analysis

	Q2FY20	Q2FY19	YoY (%)	Q1FY20	QoQ (%)	Comments
Net Sales	464.2	427.7	8.5	411.6	12.8	Net sales grew 8.5% YoY driven by 13.1% YoY growth in fabric care and 8.6% YoY growth in dishwashing segment
Raw Material Expenses	252.3	231.2	9.1	215.2	17.3	
Employee Expenses	52.1	46.3	12.6	50.2	3.8	
SG&A Expenses	27.5	22.5	22.3	33.4	-17.7	A&P to sales ratio increased 67 bps to 5.9% on a YoY basis
Other operating Expenses	53.2	54.6	-2.5	47.4	12.4	Other overhead to sales declined 2.5% on account of Ind-AS accounting change
EBITDA	79.1	73.2	8.1	65.5	20.7	
EBITDA Margin (%)	17.0	17.1	-7 bps	15.9	112 bps	Operating margins were flat as decline in other overheads to sales (129 bps) on account of Ind-AS accounting, was offset by higher investment towards A&P spend to sales by 67 bps and due to 40 bps & 29 bps increase in employee expenses to sales and material costs to sales, respectively
Depreciation	18.8	13.9	35.7	18.5	2.1	Depreciation increased 35.7% YoY as rent expenses of ₹ 5.41 crore has been reclassified
Interest	5.9	7.1	-15.9	6.1	-2.5	
Other Income	5.5	4.7	16.7	4.8	12.8	
Exceptional Income/(Expenses)	0.0	0.0	NA	3.8	NA	
PBT	59.8	56.9	5.1	42.1	42.1	
Tax Outgo	6.6	11.6	-43.3	6.1	6.7	
PAT	53.2	45.3	17.4	35.9	48.2	Net profit increased 17.4% YoY benefitting from lower tax rates
Segment wise sales (%)						
Dishwashing	155.1	142.7	8.6	134.3	15.5	Dishwashing segment posted strong growth of 8.6% YoY on account of robust growth in Exo & Pril
Fabric Care	193.7	171.2	13.1	186.6	3.8	Ujala franchisee saw impressive growth of 13.1% on the back of strong performance and market share gain in Ujala franchisee
Household Insecticides	49.2	49.8	-1.2	25.3	94.2	Maxo recorded sales decline of 1.3% impacted by competition from unorganised incense sticks and delayed monsoon in key states
Personal Care	54.9	51.3	6.9	59.7	-8.1	Margo recorded robust growth of 6.9% on account of strong brand recall

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

	FY20E			FY21E			Comments
	(₹ Crore)	Old	New	% Change	Old	New	
Sales	1,907.1	1907.1	0.0	2,112.6	2,112.6	0.0	We slightly change our estimates
EBITDA	308.3	312.1	1.2	347.7	347.7	0.0	
EBITDA Margin (%)	16.2	16.4	20 bps	16.5	16.5	0 bps	
PAT	213.3	214.3	0.5	233.8	236.7	1.3	
EPS (₹)	5.87	5.90	0.5	6.43	6.51	1.3	

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	621.9	690.7	No change in estimates	
Fabric Care	731.4	744.6	740.2	790.6	886.5	790.6	886.5		
Household Insecticides	261.4	222.2	233.3	235.6	247.4	235.6	247.4		
Personal Care	159.9	172.7	194.5	214.3	237.9	214.3	237.9		
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

- Revenue increased 8.5% YoY to ₹ 464.2 crore primarily driven by 13.1% YoY growth in fabric care and 8.6% YoY growth in the dishwashing segment. Overall volume growth was 8.3% for the quarter. Personal care segment grew 6.9% during the quarter. However, household insecticides (HI) segment witnessed de-growth of 1.2% during the quarter. Non-HI revenue grew 10% with volume growth of 9.1%
- Fabric care (40% of business) grew an impressive 13.1% YoY during the quarter. In the post wash segment, Ujala Supreme gained market share. The company intends to drive Ujala's growth through various company-wide initiatives and continued investments. Ujala Crisp and Shine will be extended to the markets of Karnataka. Ujala IDD is the largest mid-priced detergent brand in Kerala
- Dishwash segment (33% of business) witnessed strong growth of 8.6% YoY on account of 9% YoY growth in Exo and Pril and cut down in low growing scrubber business
- HI segment (13% of business) witnessed de-growth of 1.2% on account of intense competition from unorganised incense sticks market and due to delayed monsoon in key states for the company. JLL expects growth in HI business to be led by innovations. Liquids, which account for 30% of the overall business, are performing well in most markets while coils (remaining 70% of the business) are expected to witness a recovery from October
- Spurious incense sticks have been moved to the restricted list by the Government of India while all imports from China have been curbed. With prompt action by the Government of India, the management expects consumers to either shift to natural agarbatti or to coil segment
- Personal care segment (11% of business) witnessed growth of 6.9% during the quarter. JLL has not taken any price cuts in Margo despite price cuts taken by industry leaders
- Benign input cost prices helped to retain gross margins, which were invested towards higher promotional spend due to increased competition
- EBITDA margins remained flat at 17% during the quarter as a decline in other overheads to sales (129 bps) on account of Ind-AS accounting, was offset by higher investment towards A&P spend to sales by 67 bps and due to 40 bps & 29 bps increase in employee expenses to sales and material costs to sales, respectively
- Net profit increased 17.4% YoY to ₹ 53.2 crore benefitting from lower tax rates. Effective tax rate is likely to be 17% and 19% for FY20E and FY21, respectively. JLL is not opting for concessional tax rate due to 80IE benefits being available until FY27
- JLL has maintained its FY20E revenue growth guidance of 10-12%. The management has indicated that consumer sentiment is improving ahead of festive season and with good monsoon, rural offtake is expected to pick up

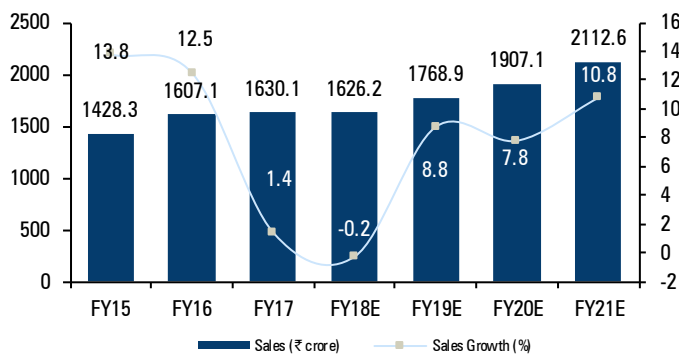
Key Metrics

Exhibit 4: Category wise performance for quarter (₹ crore)

Category	Key Brands	Q2FY20	Q2FY19	Growth
Fabric Care	Ujala, Henko, Mr. White, Ujala Crisp & Shine	194	171	13.1%
Dishwashing	Exo, Pril	155	143	8.6%
HI	Maxo	49	50	-1.2%
Personal Care	Margo, Neem	55	51	6.9%
Other Products	Maya, T Shine	13	13	0.0%
Total		466	428	8.6%

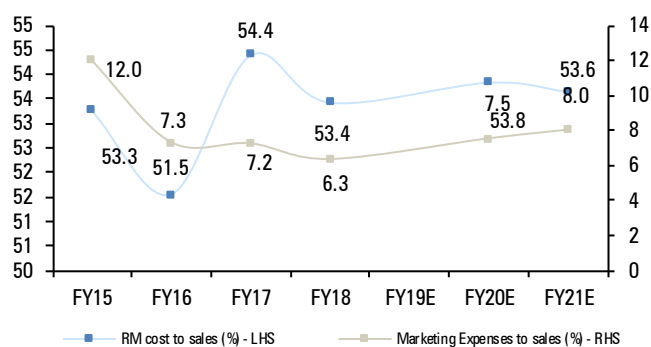
Source: Company, ICICI Direct Research

Exhibit 5: Revenue trend (standalone)



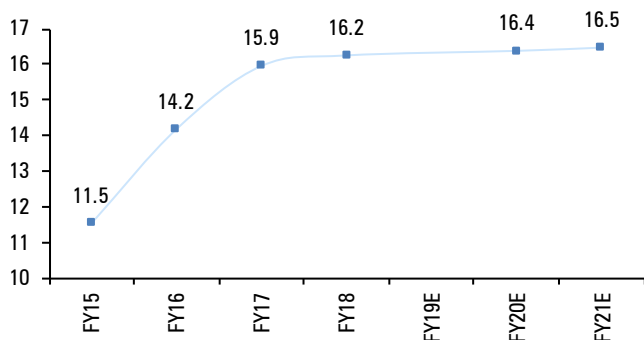
Source: Company, ICICI Direct Research

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



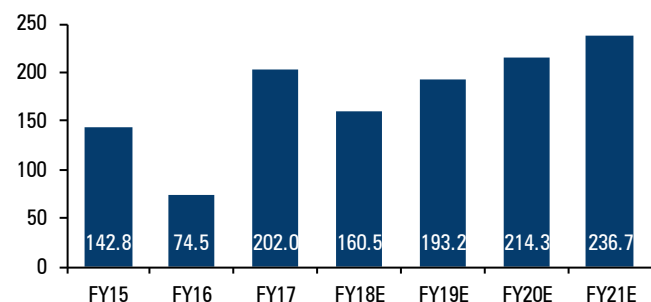
Source: Company, ICICI Direct Research

Exhibit 7: EBITDA growth trend (%)



Source: Company, ICICI Direct Research

Exhibit 8: PAT trend (₹ crore)



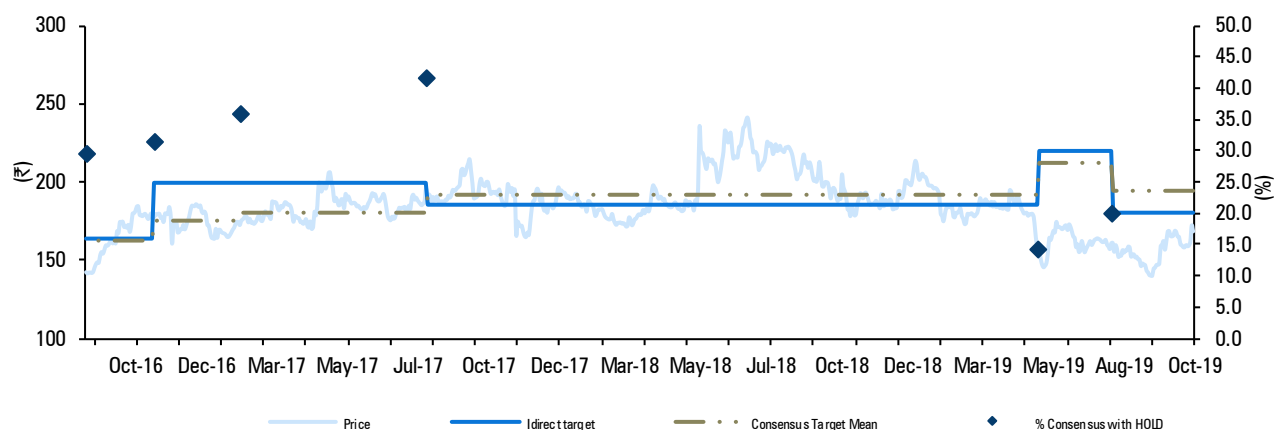
Source: Company, ICICI Direct Research

Exhibit 9: Valuation

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY18	1626.2	-0.2	8.8	-20.6	39.6	22.4	23.5	35.1
FY19	1768.9	8.8	5.3	-39.8	32.9	20.8	22.6	28.6
FY20E	1907.1	7.8	5.9	11.0	29.7	18.6	22.4	28.5
FY21E	2112.6	10.8	6.5	10.4	26.9	16.8	23.5	30.6

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-Sep-19	39.12	143.6	0.0
2	Sahyadri Agencies, Ltd.	30-Sep-19	8.17	30.0	0.0
3	Franklin Templeton Asset Management (India) Pvt. Ltd.	30-Sep-19	4.61	16.9	1.4
4	Divakaran (M P)	30-Sep-19	3.94	14.5	0.0
5	Sidharthan (M P)	30-Sep-19	2.84	10.4	0.0
6	Deepthy (M R)	30-Sep-19	2.82	10.4	0.0
7	Jyothy (M R)	30-Sep-19	2.60	9.5	0.0
8	Shanthakumari (M G)	30-Sep-19	1.97	7.2	0.0
9	Mirae Asset Global Investments (India) Pvt. Ltd.	30-Sep-19	1.95	7.2	0.5
10	Aberdeen Asset Managers Ltd.	30-Sep-19	1.90	7.0	0.0

Source: Reuters, ICICI Direct Research

Exhibit 12: Recent Activity

Buys				Sells			
Investor name	Value	Shares		Investor name	Value	Shares	
Franklin Templeton Asset Management (India) Pvt. Ltd.	3.23m	1.35m		ICICI Prudential Life Insurance Company Ltd.	-5.30m	-2.22m	
Samsung Asset Management Co., Ltd.	2.12m	0.80m		IDFC Asset Management Company Private Limited	-0.69m	-0.29m	
Mirae Asset Global Investments (India) Pvt. Ltd.	1.20m	0.50m		APG Asset Management N.V.	-0.32m	-0.12m	
Aditya Birla Sun Life AMC Limited	0.23m	0.10m		Edelweiss Asset Management Ltd.	-0.19m	-0.08m	
UTI Asset Management Co. Ltd.	0.20m	0.08m		RAM Active Investments S.A.	-0.10m	-0.04m	

Source: Reuters, ICICI Direct Research

Exhibit 13: Shareholding Pattern

(in %)	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19
Promoter	66.9	67.1	67.1	67.1	67.1
FII	15.9	15.9	15.8	16.3	15.7
DII	7.0	7.3	8.6	8.6	11.0
Others	10.2	9.8	8.5	8.0	6.2

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	200.2	209.2
Marketing Expenses	102.8	109.3	143.0	169.0
Administrative Expenses	54.6	0.0	0.0	0.0
Other expenses	165.1	223.4	225.0	253.5
Total Operating Expenditure	1,359.2	1,483.1	1,594.9	1,764.9
EBITDA	267.1	285.8	312.1	347.7
Growth (%)	1.5	7.0	9.2	11.4
Depreciation	56.6	58.3	73.1	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	258.2	296.0
Others	0.0	0.0	0.0	0.0
Total Tax	47.9	34.3	43.9	55.5
PAT	160.5	193.2	214.3	236.7
Growth (%)	-21.7	20.3	11.0	10.4
EPS (₹) - Diluted	8.8	5.3	5.9	6.5
EPS (₹) - Adjusted	4.4	5.3	5.9	6.6

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	214.3	236.7
Add: Depreciation	56.6	58.3	73.1	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	504.8	300.4
(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	181.4	-0.3
Opening Cash	34.1	55.0	-72.1	109.3
Bank Balance	72.2	159.7	70.9	27.6
Closing Cash	127.2	87.5	180.2	136.5

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	921.1	984.5
Total Shareholders funds	683.5	854.0	957.8	1,021.2
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	994.9	1,057.3
Assets				
Gross Block	917.7	1,067.7	1,217.7	1,367.7
Less: Acc Depreciation	428.4	486.7	559.7	628.1
Net Block	489.3	581.0	657.9	739.5
Capital WIP	15.3	14.2	14.2	14.2
Total Fixed Assets	504.6	485.3	672.1	753.7
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	180.2	136.5
Total Current Assets	633.7	600.4	566.8	564.9
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	-44.5	-83.4
Others Assets	320.7	326.4	367.3	387.0
Application of Funds	715.5	892.0	994.9	1,057.3

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	6.6
Cash EPS	6.0	6.9	7.9	8.4
BV	18.8	23.5	26.3	28.1
DPS	3.0	0.5	3.0	4.0
Cash Per Share	3.5	2.4	5.0	3.8
Operating Ratios (%)				
EBITDA Margin	16.2	16.2	16.4	16.5
EBIT / Net Sales	12.8	12.9	12.5	13.2
PAT Margin	9.9	10.9	11.2	11.2
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	22.4	23.5
RoCE	35.1	28.6	28.5	30.6
RoIC	82.2	39.6	55.2	53.8
Valuation Ratios (x)				
P/E (Diluted)	39.6	32.9	29.7	26.9
P/E (Adjusted)	39.6	32.9	29.7	26.5
EV / EBITDA	22.4	20.8	18.6	16.8
Market Cap / Sales	3.9	3.6	3.3	3.0
Price to Book Value	18.6	7.5	6.6	6.2
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		(₹ Cr)	FY19E	FY20E	FY21E	Y19E	FY20E	FY21E	Y19E	FY20E	FY21E	Y19E	FY20E	FY21E	FY19E	FY20E	FY21E
Colgate (COLPAL)	1,560	1,400	Hold	37,806	28.5	34.0	37.1	54.7	45.9	42.1	8.5	7.9	7.3	70.7	73.5	69.4	52.2	57.2	53.9
Dabur India (DABIND)	470	520	Buy	78,164	8.2	9.3	10.3	57.4	50.7	45.7	9.2	8.4	7.6	29.6	29.9	30.0	25.7	26.8	26.7
GSK CH (GLACON)	9,000	8,780	Hold	35,327	233.7	272.5	N.A.	38.5	33.0	N.A.	7.4	6.8	N.A.	36.1	32.6	N.A.	24.0	24.8	N.A.
Hindustan Unilever (HINLEV)	2,125	2,075	Hold	440,640	27.9	34.7	40.7	76.0	61.2	52.2	11.7	10.5	9.2	85.3	103.9	111.2	80.9	89.7	96.5
ITC Limited (ITC)	250	320	Buy	289,108	10.3	12.6	14.1	24.4	19.8	17.7	6.5	5.9	5.4	30.8	31.9	31.7	21.5	24.3	24.1
Jyothy Lab (JYOLAB)	175	185	Hold	6,363	5.3	5.9	6.5	32.9	29.7	26.9	3.6	3.3	3.0	28.6	28.5	30.6	22.6	22.4	23.5
Marico (MARLIM)	393	440	Buy	49,028	8.8	8.9	10.0	44.7	44.3	39.3	6.7	6.0	5.4	38.0	42.3	44.4	31.6	35.2	36.8
Nestle (NESIND)	15,000	14,575	Hold	129,685	166.7	223.9	267.9	90.0	67.0	56.0	11.6	10.3	9.1	42.9	43.0	44.6	45.6	48.8	47.7
Tata Global Bev (TATGLO)	280	300	Buy	16,409	7.2	7.9	8.7	38.7	35.5	32.1	2.3	2.1	2.0	8.4	9.1	9.5	6.5	7.2	7.6
VST Industries (VSTIND)	3,925	4,600	Buy	5,714	146.9	193.1	210.5	26.7	20.3	18.6	5.2	4.5	4.2	51.4	50.7	48.6	34.2	38.1	36.5
Varun Beverage (VARBEV)	627	700	Hold	17,464	11.7	16.4	16.4	53.5	38.2	38.3	4.4	3.4	2.4	12.7	14.2	14.5	12.1	15.0	13.4

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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