

Sharp contraction in volumes, margins...

Jyothy Labs (JLL) posted a disappointing set of numbers with 24% revenue & 22% volume decline as the company lost last 10 days of sales. JLL lost ₹ 150 crore sales due to lockdown. Fabric care & dishwashing category revenues saw de-growth of 16.5% & 21.4%, respectively. Further decline in household insecticides (HI) & personal care category revenue was even sharper at 36% each. This was explained by the management as loss of pre-season stocking with trade channel. However, such a sharp decline in all categories seems to be more than 20-25 days sales loss, which depicts strategy of pushing inventory to trade at the end of quarter/year. Operating margins contracted 570 bps to 10.7% due to negative operating leverage as employee & other overhead cost is largely fixed. Further the company continued to incur marketing spend due to pre-commitments. Sharp decline in operating profit & other income led to the 60% decline in net profit.

Operations back to normal; competition intensifies

The company's manufacturing operations were back to normal in June with production coming back to 80% of pre-Covid levels. We believe these manufacturing & supply chain disruptions would negatively impact FY21 revenues. Though we believe HI and soaps category would see strong growth for the next two years with increased awareness about health & hygiene, it would be difficult for JLL to gain market share with increased competitive intensity by leaders in each category. Moreover, over the year, the company has been able to gain share only in a particular geography or a sub category. This can be seen in flat sales growth in revenues in last five years. However, we expect JLL to see healthy growth in dishwashing, personal care & floor cleaner segment in southern states by aggressively pushing new products. The company has launched liquid hand wash & sanitiser under Margo brand & increased media spends on T-Shine toilet cleaner. We expect revenue CAGR of 4.8% during FY20-22E.

Operating margins to witness uptick

With ~40% of raw material linked to crude based derivatives, we believe the sharp fall in crude prices would aid gross margins in future. Further, media spends & other overhead cost are expected to be curtailed in FY21. We expect 110 bps improvement in operating margins and 10.2% CAGR earnings growth in FY19-22E.

Valuation & Outlook

Though the company has been trying to drive growth through new product launches and increasing media spends, it is at a disadvantageous position against leaders in each category (HI, detergent, dishwashing). Hence, strong revenue growth is expected only in select geographies or sub categories. The stock is trading at 20x FY22E earnings, which is at a significant discount to other FMCG peers. However, slower revenue & earnings growth prospects justify current multiples. We maintain our **HOLD** recommendation on the stock with a revised target price of ₹ 115/share.



Particulars

Particulars (₹ crore)	Amount
Market Capitalization	4,296.2
Total Debt (FY20)	0.0
Cash and Investments (FY20)	20.1
EV	4,276.2
52 week H/L (₹)	185 / 85
Equity capital	36.7
Face value (₹)	1.0

Key Highlights

- January- 20th March revenue growth was 5%
- HI, personal care saw 36% decline each due to loss of sales as trade could not stock pre-season inventory
- Fabric care & dishwashing also saw de-growth of 16.5% & 21.4%, respectively
- Maintain HOLD with revised target price of ₹ 115/per share

Research Analyst

Sanjay Manyal
sanjay.manyal@icicisecurities.com

Key Financial Summary

Key Financials	FY18	FY19	FY20	FY21E	FY22E	CAGR (FY20-22E)
Net Sales	1626.2	1768.9	1665.4	1547.9	1919.1	4.8%
EBITDA	264.1	285.8	249.8	235.9	309.4	7.4%
EBITDA Margin %	16.2	16.2	15.0	15.2	16.1	
Net Profit	160.5	193.2	157.7	151.5	211.1	10.2%
Adjusted EPS (₹)	4.37	5.26	4.39	4.12	5.75	
P/E	26.5	22.2	27.2	28.4	20.4	
RoNW %	23.5	22.6	21.7	18.8	23.8	
RoCE (%)	35.1	28.6	24.3	23.3	28.8	

Exhibit 1: Variance Analysis

	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	Comments
Net Sales	383.0	504.3	-24.0	407.3	-5.9	Net sales declined sharply by 24% due to significant decline in HI, personal care segments as lockdown halted entire operations for 10-15 days of March 2020
Raw Material Expenses	211.4	280.0	-24.5	213.1	-0.8	
Employee Expenses	45.9	48.8	-6.0	52.1	-11.9	
SG&A Expenses	34.7	31.4	10.4	24.5	41.7	
Other operating Expenses	50.2	61.5	-18.3	52.5	-4.3	
EBITDA	40.8	82.6	-50.6	65.1	-37.3	
EBITDA Margin (%)	10.7	16.4	-573 bps	16.0	-533 bps	Operating margins declined sharply due to fixed cost remaining constant & pre-committed A&P spend during the quarter
Depreciation	19.1	16.7	14.8	19.3	-1.0	
Interest	5.8	6.4	-8.8	6.9	-15.7	
Other Income	4.5	11.4	-60.8	5.3	-16.4	
Exceptional Income/(Expenses)	0.0	0.0	NA	0.0	NA	
PBT	20.3	70.9	-71.4	44.1	-54.1	
Tax Outgo	-6.4	3.8	-267.7	1.6	-499.4	
PAT	26.7	67.1	-60.2	42.5	-37.3	Net profit down due to sharp dip in operating margins
Segment wise sales (in Cr)						
Dishwashing	127.1	161.7	-21.4	150.3	-15.5	
Fabric Care	155.7	186.5	-16.5	172.0	-9.5	
Household Insecticides	64.2	100.2	-35.9	42.6	50.7	Sales of HI & personal care decline sharply as trade could not lift pre-seasonal inventory at the end of March
Personal Care	30.2	47.4	-36.3	35.7	-15.3	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

	FY21E			FY22E			Comments
	(₹ Crore)	Old	New	% Change	Old	New	
Sales	2,015.3	1547.9	-23.2	2,230.0	1,919.1	-13.9	We revise our estimates downwards taking into account lockdown impact
EBITDA	250.1	235.9	-5.7	268.9	309.4	15.0	
EBITDA Margin (%)	12.4	15.2	283 bps	12.1	16.1	406 bps	Revise our margins estimates with sharp decline in RM cost & cost cutting measures taken by company
PAT	160.2	151.5	-5.4	169.6	211.1	24.5	
EPS (₹)	4.36	4.12	-5.4	4.62	5.75	24.5	

Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

	Current				Earlier				Comments
	FY18	FY19	FY20E	FY21E	FY22E	FY21E	FY22E		
Dishwashing	542.8	577.1	566.7	540.3	670.9	659.7	732.7	We revise our sales estimates downwards	
Fabric Care	744.6	740.2	708.0	644.9	823.8	840.5	937.2		
Household Insecticides	222.2	233.3	181.4	164.9	184.7	247.4	264.7		
Personal Care	172.7	194.5	180.4	165.8	203.9	221.4	243.9		
RM Expenses to Sales (%)	53.4	54.4	53.6	52.5	53.3	53.9	53.2		
Ad Expenses to Sales (%)	6.3	6.2	7.2	7.0	7.8	7.0	8.5		
Employee Cost to Sales (%)	10.3	10.7	12.0	12.8	11.5	9.9	9.9		

Source: Company, ICICI Direct Research

Conference Call Highlights

- Revenues witnessed a sales decline of 24% impacted by 36% sales dip in HI & personal care category. Fabric care & dishwashing category also witnessed de-growth of 16.5% & 21.4%, respectively. Overall volumes declined 22%
- The company lost ₹ 150 crore of sales & ₹ 50 crore PBT due to lockdown. The management, in its assessment, indicated that revenues were growing at 5% till 20th March 2020 during the quarter
- Manufacturing operations & supply chain were completely disrupted till April 12. The company was able to reach 40% of pre-lockdown production levels by end of April & ~80% by end of May 2020. The management has mentioned that sales growth in April & May is positive
- The company launched liquid hand wash under 'Margo' brand in all southern states. It also launched Margo hand sanitisers. Further, it has increased media spends behind toilet cleaner brand 'T-Shine'
- JLL has been witnessing high demand for ₹ 5 & ₹ 10 low unit packs across brands. LUPs contributes 25% of sales. These packs do not impact margins due to the absence of trade promotions
- The company did not stop media spends during the quarter due to pre-commitments. Marketing expense increased 10% in Q4. JLL focused media spends on Exo & Maxo, specifically on DD
- The company has a total distribution reach of 3.0 million and direct reach of 0.85 million retail outlets. JLL has also partnered with alternate distribution companies like JumboTail, Udaan, etc
- The company is focusing on rural markets, which are largely unaffected by Covid-19 to gain market shares. Rural growth has been higher than urban growth in the last two months
- Operating margins during the quarter were down 570 bps due to negative operating leverage and continued media spends due to prior commitments. Decline in sales & contraction in operating margins resulted in 60% decline in net profit
- With 40% of raw material cost beings crude based derivatives, the management expect lower crude prices to improve gross margins. This would further improve operating margins. The management has given a 15-16% operating margins guidance
- Effective tax rate for the next two years is expected to be ~15%
- The company has supported suppliers by hastening payments during the lockdown period
- The company has gained market share in fabric post wash category by 110 bps in CY19. Ujala Supreme holds 81.7% in post wash category. Similarly, it gained 80 bps market share in detergent category in Kerala. However, JLL has lost market share in Pril liquid dish wash by 70 bps in CY19. It commands 16% market share in the category

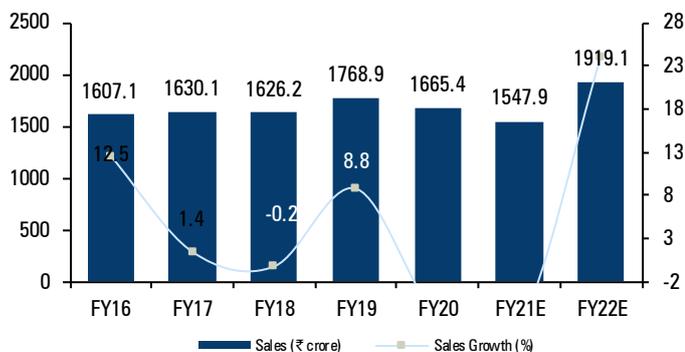
Key Metrics

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

Category	Key Brands	Q4FY20	Q4FY19	Growth
Fabric Care	Ujala, Henko, Mr. White, Ujala Crisp & Shine	156	186	-16.5%
Dishwashing	Exo, Pril	127	162	-21.4%
HI	Maxo	64	100	-35.9%
Personal Care	Margo, Neem	30	47	-36.3%
Other Products	Maya, T Shine	6	9	-27.7%
Total		383	504	-24.0%

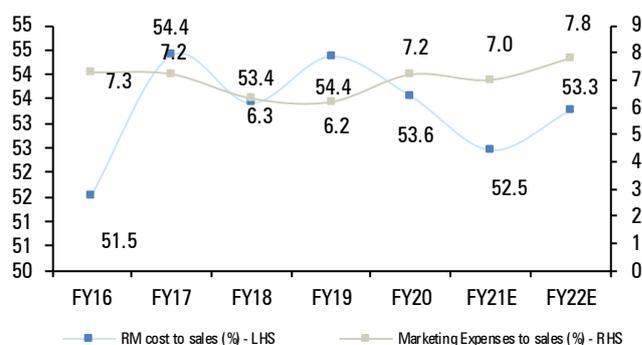
Source: Company, ICICI Direct Research

Exhibit 5: Revenue trend (standalone)



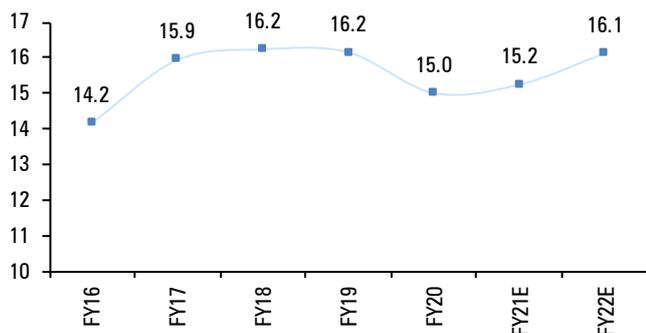
Source: Company, ICICI Direct Research

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



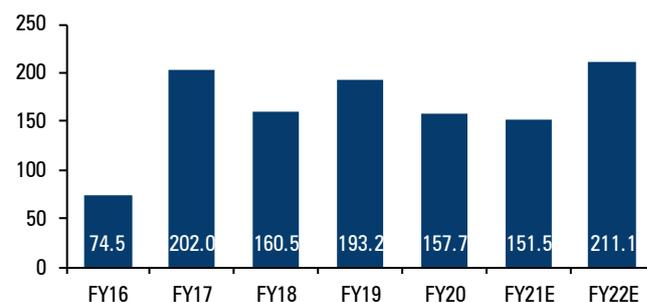
Source: Company, ICICI Direct Research

Exhibit 7: EBITDA growth trend (%)



Source: Company, ICICI Direct Research

Exhibit 8: PAT trend (₹ crore)



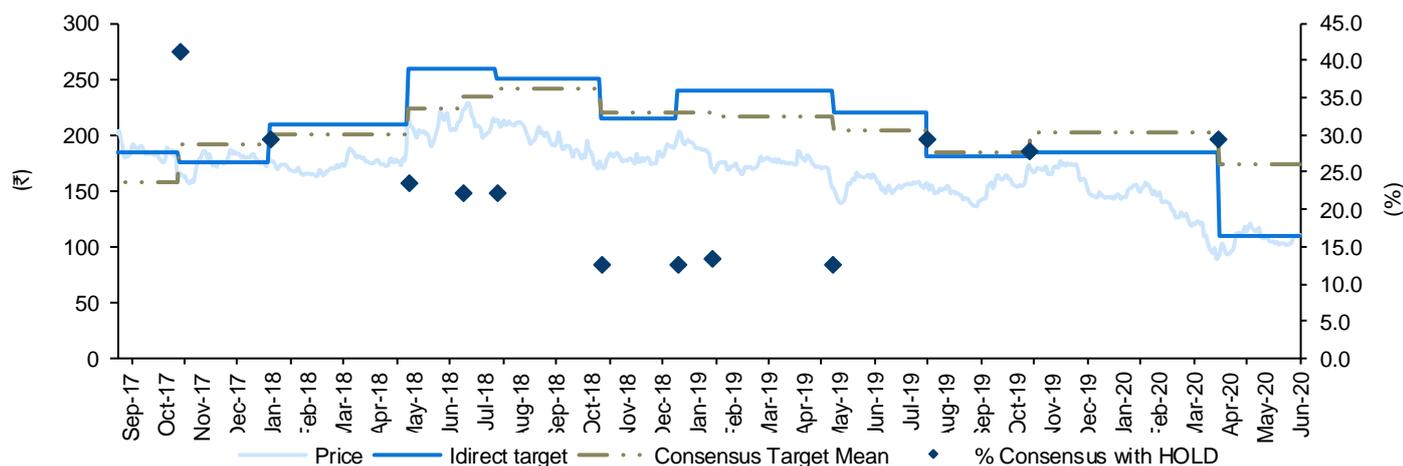
Source: Company, ICICI Direct Research

Exhibit 9: Valuation

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY19	1768.9	8.8	5.3	-40.4	22.2	13.6	22.6	28.6
FY20	1665.4	-5.9	4.3	-18.4	27.2	15.7	21.7	24.3
FY21E	1547.9	-7.1	4.1	-4.0	28.4	16.6	18.8	23.3
FY22E	1919.1	24.0	5.7	39.4	20.4	12.5	23.8	28.8

Source: Company, ICICI Direct Research

Exhibit 10: Recommendation History vs. Consensus



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 11: Top 10 Shareholders

Rank	Investor Name	Filing Date	% O/S	Position (%)	Change
1	Ramachandran M P	31-Mar-20	39.1	143.64m	0.00m
2	Franklin Resources	31-Mar-20	5.1	18.86m	1.00m
3	Sahyadri Agencies Lt	31-Mar-20	4.0	14.50m	0.00m
4	Divakaran M P	31-Mar-20	3.9	14.47m	(3.81)m
5	Mirae Asset Global I	31-Mar-20	3.0	10.99m	(0.93)m
6	Sidharthan M P	31-Mar-20	2.8	10.43m	0.00m
7	Deepthi M R	31-Mar-20	2.8	10.36m	0.00m
8	Jyothy M R	31-Mar-20	2.6	9.54m	0.00m
9	Nippon India Small Cap Fund	31-Mar-20	2.2	8.09m	1.04m
10	Shanthakumari M G	31-Mar-20	2.0	7.24m	0.00m

Source: Bloomberg, ICICI Direct Research

Exhibit 12: Shareholding Pattern

(in %)	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Promoter	67.1	67.1	67.1	62.9	62.9
FII	15.8	16.3	15.7	15.3	14.7
DII	8.6	8.6	11.0	15.4	15.8
Others	8.5	8.0	6.2	6.4	6.6

Source: Company, ICICI Direct Research

Financial summary

Exhibit 13: Profit and loss statement				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Total operating Income	1768.9	1665.4	1547.9	1919.1
Growth (%)	8.8	-5.9	-7.1	24.0
Raw Material Expenses	961.8	892.0	812.1	1,022.5
Employee Expenses	188.6	200.3	198.1	220.7
Marketing Expenses	109.3	119.9	108.4	149.7
Administrative Expenses	58.0	0.0	0.0	0.0
Other expenses	165.4	203.3	193.5	216.9
Total Operating Expenditure	1,483.1	1,415.5	1,312.0	1,609.7
EBITDA	285.8	249.8	235.9	309.4
Growth (%)	8.2	-12.6	-5.6	31.2
Depreciation	58.3	75.7	54.8	61.0
Interest	27.8	24.8	22.3	21.9
Other Income	27.8	20.1	19.6	22.1
PBT	227.5	169.4	178.4	248.6
Others	0.0	0.0	0.0	0.0
Total Tax	34.3	7.9	26.9	37.5
PAT	193.2	157.7	151.5	211.1
Growth (%)	20.3	-18.4	-4.0	39.4
EPS (₹) - Diluted	5.3	4.3	4.1	5.7
EPS (₹) - Adjusted	5.3	4.4	4.1	5.7

Source: Company, ICICI Direct Research

Exhibit 14: Cash flow statement				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Profit after Tax	186.5	127.6	151.5	211.1
Add: Depreciation	58.3	75.7	54.8	61.0
(Inc)/dec in Current Assets	-12.4	5.6	67.0	-84.4
Inc/(dec) in CL and Provisions	51.1	-64.8	-92.0	88.5
Adjustments	21.5	21.2	0.0	0.0
CF from operating activities	304.9	165.4	181.3	276.2
(Inc)/dec in Investments	57.5	101.6	0.0	0.0
(Inc)/dec in Fixed Assets	-37.8	-39.2	-50.0	-100.0
Others	4.9	9.7	-39.1	-36.6
CF from investing activities	24.7	72.1	-89.1	-136.6
Issue/(Buy back) of Equity	0.4	0.0	0.0	0.0
Inc/(dec) in loan funds	-261.0	-11.0	0.0	0.0
Dividend paid & dividend tax	-21.9	-265.6	-88.0	-132.0
Finance cost paid	0.0	0.0	0.0	0.0
Others	0.0	-16.9	0.0	0.0
CF from financing activities	-282.6	-293.5	-88.0	-132.0
Net Cash flow	47.0	-56.1	4.2	7.6
Opening Cash	55.0	68.4	6.9	11.1
Bank Balance	19.1	13.2	13.2	13.2
Closing Cash	121.1	25.6	24.3	31.9

Source: Company, ICICI Direct Research

Exhibit 15: Balance sheet				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Liabilities				
Equity Capital	36.7	36.7	36.7	36.7
Preference Capital	0.0	0.0	0.0	0.0
Reserve and Surplus	817.2	706.6	770.0	849.1
Total Shareholders funds	853.9	743.3	806.8	885.9
Total Debt	0.0	0.0	0.0	0.0
Deferred Tax Liability	0.0	0.0	0.0	0.0
Minority Interest / Others	38.0	84.9	54.9	53.9
Total Liabilities	892.0	828.2	861.7	939.8
Assets				
Gross Block	1,067.7	1,046.5	1,096.5	1,196.5
Less: Acc Depreciation	486.7	562.4	617.3	678.3
Net Block	581.0	484.1	479.3	518.3
Capital WIP	14.2	23.7	23.7	23.7
Total Fixed Assets	485.3	507.9	503.0	542.0
Goodwill on Consolidation	0.0	0.0	0.0	0.0
Inventory	200.6	222.6	195.1	241.9
Debtors	148.3	119.6	127.2	157.7
Loans and Advances	0.0	0.0	0.0	0.0
Other Current Assets	63.8	76.9	29.7	36.8
Cash	87.5	20.1	24.3	31.9
Total Current Assets	600.4	439.1	376.3	468.3
Creditors	174.8	126.8	127.2	157.7
Provisions & Others	345.3	334.2	241.7	299.7
Total Current Liabilities	520.1	461.0	368.9	457.4
Net Current Assets	80.3	-21.9	7.3	10.9
Others Assets	326.4	342.2	351.3	386.9
Application of Funds	892.0	828.2	861.7	939.8

Source: Company, ICICI Direct Research

Exhibit 16: Key ratios				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Per share data (₹)				
Adjusted EPS	5.3	4.4	4.1	5.7
Cash EPS	6.8	6.4	5.6	7.4
BV	23.3	20.2	22.0	24.1
DPS	0.5	6.0	2.0	3.0
Cash Per Share	2.4	0.5	0.7	0.9
Operating Ratios (%)				
EBITDA Margin	16.2	15.0	15.2	16.1
EBIT / Net Sales	12.9	10.5	11.7	12.9
PAT Margin	10.9	9.5	9.8	11.0
Inventory days	41.4	48.8	46.0	46.0
Debtor days	30.6	26.2	30.0	30.0
Creditor days	36.1	27.8	30.0	30.0
Return Ratios (%)				
RoE	22.6	21.7	18.8	23.8
RoCE	28.6	24.3	23.3	28.8
RoIC	39.7	39.4	39.2	49.9
Valuation Ratios (x)				
P/E (Diluted)	22.2	27.2	28.4	20.4
P/E (Adjusted)	22.2	26.6	28.4	20.4
EV / EBITDA	13.6	15.7	16.6	12.5
Market Cap / Sales	2.4	2.6	2.8	2.2
Price to Book Value	5.0	5.8	5.3	4.8
Solvency Ratios				
Debt/EBITDA	0.0	0.0	0.0	0.0
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	1.0	0.9	1.0	1.0
Quick Ratio	0.6	0.4	0.4	0.4

Source: Company, ICICI Direct Research

Exhibit 17: ICICI Direct coverage universe (FMCG)

Sector / Company	CMP	TP	Rating	M Cap	EPS (₹)			P/E (x)			Price/Sales (x)			RoCE (%)			RoE (%)		
	(₹)	(₹)		(₹ Cr)	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Colgate (COLPAL)	1,360	1,350	Hold	35,712	30.0	29.3	33.6	45.3	46.4	40.5	8.0	7.8	7.2	60.7	66.2	77.5	52.2	51.2	50.8
Dabur India (DABIND)	462	520	Buy	75,530	8.2	8.8	10.3	56.4	52.5	45.0	8.7	8.6	7.4	26.1	25.7	28.3	21.9	22.5	24.8
Hindustan Unilever (HINLEV)	2,087	2,250	Hold	468,000	31.2	33.5	41.3	66.9	62.2	50.5	12.2	11.6	9.7	82.5	24.4	30.3	85.7	20.2	25.0
ITC Limited (ITC)	200	230	Buy	225,942	12.8	12.0	13.7	15.6	16.7	14.6	4.7	4.9	4.3	30.4	27.0	28.3	24.1	20.7	21.7
Jyothy Lab (JYOLAB)	117	115	Hold	4,296	5.3	4.3	4.1	22.2	27.2	28.4	2.4	2.6	2.8	28.6	24.3	23.3	22.6	21.7	18.8
Marico (MARLIM)	326	300	Hold	36,513	8.1	7.8	9.5	40.3	41.5	34.4	5.0	5.2	4.4	41.0	40.1	46.9	34.5	33.8	40.3
Nestle (NESIND)	17,096	18,000	Hold	161,127	204.3	230.9	269.4	83.7	74.0	63.5	13.1	12.1	10.7	56.9	59.3	65.9	101.9	114.1	123.1
Tata Consumer Product (TATGLO)	379	440	Buy	33,433	5.0	8.7	10.9	75.9	43.7	34.8	3.5	3.2	3.0	6.9	7.9	8.8	4.6	5.9	7.1
VST Industries (VSTIND)	3,301	4,000	Buy	4,826	196.9	124.8	216.3	16.8	26.4	15.3	3.9	4.4	3.4	52.1	32.9	45.6	38.6	24.3	33.7
Varun Beverage (VARBEV)	632	580	Reduce	17,662	16.6	9.9	18.1	38.0	63.8	34.9	4.4	3.5	2.5	15.5	11.3	16.3	14.2	8.8	14.2
Zydus Wellness (ZYDWEL)	1,297	1,530	Buy	7,669	32.2	31.6	50.3	40.2	41.0	25.8	4.3	4.6	3.8	5.9	5.7	7.4	5.4	5.1	7.5

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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