

Sector: Consumer Goods

Result Update

	Change
Reco: Buy	↔
CMP: Rs. 117	
Price Target: Rs. 140	↑
↑ Upgrade ↔ No change ↓ Downgrade	

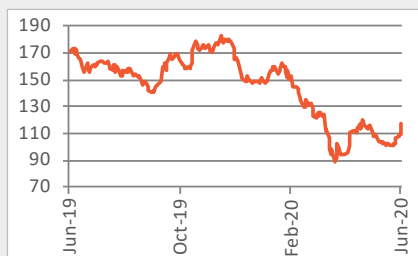
Company details

Market cap:	Rs. 4,313 cr
52-week high/low:	Rs. 185/86
NSE volume: (No of shares)	3.5lakh
BSE code:	532926
NSE code:	JYOTHYLAB
Sharekhan code:	JYOTHYLAB
Free float: (No of shares)	13.6 cr

Shareholding (%)

Promoters	62.9
FII	14.7
DII	15.8
Others	6.6

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	9.3	-7.1	-29.5	-32.4
Relative to Sensex	0.3	3.7	-13.6	-19.1

Sharekhan Research, Bloomberg

Jyothy Labs Limited (JLL) registered disappointing performance in Q4FY2020, with consolidated revenues and PAT declining by ~24% and 60%, (volumes fell by 22%). OPM dropped by 544 bps to 10.3% affected by lower operating leverage. The inventory filling of seasonal products such as household insecticides (Maxo mosquito repellents) and soaps (Margo) with distributors was affected by lockdown at the end of March 2020 (impact on revenues and PAT was Rs. 150 crore and Rs. 50 crore respectively). However, with strong leftover inventory, April and May saw sales growing y-o-y despite lower capacity utilisation. Post acquiring relevant approvals, the company operated at 45-50% capacity utilisation in April and 80% capacity utilisation in May. General trade is operating at 80-90%, while modern trade/CSD is operating at 50-60% for the company. With 85% of portfolio being essential in nature, the company expects good traction in categories such as household insecticide (HI), dishwashing, personal wash and hand sanitisers, while fabric whiteners will see lower sales in the near term. The fall in crude oil prices (that forms ~50% of input prices) and stringent cost saving measures (curtailing media spends) would help the company to post a 15% OPM. The working capital was affected by higher inventory days and advances paid to suppliers in Q4. However, the company is confident of improving working capital position post normalisation of business as it is not availing any credit terms to its trade channels.

Key positives

- ◆ April and May witnessed y-o-y rise in sales due to adequate stock of key products.
- ◆ Rural India is doing better than urban India; southern markets (except for Tamil Nadu) are back to normalcy.
- ◆ Categories such as fabric care, mosquito repellents (LV) and dishwashing bars have gained market shares y-o-y on a calendar year basis.

Key negatives

- ◆ Categories such as dishwashing, HI and personal care products witnessed a sharp decline in revenue of 21% to 37% in Q4.
- ◆ Operating cash flows were down to Rs. 171.5 crore in FY2020 from Rs. 301.4 crore in FY2019.

Our Call

View - Maintain Buy with revised PT of Rs. 140: We have reduced our earnings estimates for FY2021 and FY2022 to factor in the dismal performance in Q4 and muted performance in the fabric care space. The company is focusing on increasing its portfolio towards homecare and hygiene segment with new product launches under existing brands. We expect FY2021 to be a low growth year but expect earnings growth to recover to double-digits in FY2022. The stock has corrected by ~29% in past six months and trades at a discounted valuation of 20.8x its FY2022E earnings factoring the near term uncertainties. In view of the discounted valuation and expected recovery in the coming quarters, we maintain a Buy recommendation on JLL with a revised price target of Rs. 140 (valuing stock at 25x its FY2022E EPS).

Key Risks

Any slow recovery or fall in market share of some key categories will act as a risk to our earnings estimates.

Valuations (Consolidated)

	Rs cr				
Particulars	FY18	FY19	FY20	FY21E	FY22E
Revenues	1,690	1,814	1,711	1,767	1,998
OPM (%)	15.2	15.5	14.7	14.7	15.4
Adjusted PAT	179	198	159	161	207
% y-o-y growth	-	10.5	-19.3	1.3	28.1
Adjusted EPS (Rs.)	4.9	5.4	4.3	4.4	5.6
P/E (x)	24.0	21.7	27.0	26.6	20.8
P/B (x)	1.9	3.2	3.5	3.3	3.0
EV/EBIDTA (x)	8.8	16.1	18.5	17.8	14.9
RoNW (%)	16.0	16.0	12.5	12.7	15.1
RoCE (%)	16.8	14.9	11.8	11.8	13.6

Source: Company; Sharekhan estimates

Subdued standalone performance; volumes declined by ~22%: Standalone revenue in Q4FY2020 declined by 24.2% y-o-y to Rs. 382.3 crore (lower than ours as well as the street's expectations), from Rs. 504.3 crore in Q4FY2019 largely impacted by the sudden disruption of business operations after the announcement of the nationwide lockdown to contain the spread of COVID-19. Domestic sales volumes declined by 22.1% in Q4FY2020. However, sales grew by 5% y-o-y in the period of January 01 to March 20, 2020. The lockdown resulted in a negative impact of about Rs. 150 crore on revenue and about Rs. 50 crore on profit before tax (PBT). Revenue of the personal care and HI segments declined by ~36% each. Gross margins rose by 24 bps to 44.7% because of favourable input prices. However, higher employee costs (up by ~250 bps as a percentage of sales) and higher advertisement expenses (up by ~280 bps as a percentage of sales) dragged down OPM by 587 bps to 10.5%. Operating profit declined by 51.4% y-o-y to Rs. 40.2 crore. Lower other income and higher depreciation along with significantly lower revenue dragged down PBT by 72.3% y-o-y to Rs. 19.6 crore. Reported PAT came in at Rs. 26 crore in Q4FY2020 as against Rs. 67.1 crore in Q4FY2019.

Poor consolidated performance: Consolidated revenue declined by 23.8% y-o-y to Rs. 393 crore in Q4FY2020 from Rs. 516 crore in Q4FY2019. The laundry services segment's revenue stood flat at Rs. 10 crore. Gross margins improved by 53 bps to 45.7%. OPM declined significantly by 544 bps to 10.3%. Operating profit declined by 50% y-o-y to Rs. 40.6 crore whereas reported PAT came in at Rs. 26.6 crore in Q4FY2020 from Rs. 66.8 crore in Q4FY2019.

All key segments subdued by lockdown: Revenue of the fabric care, personal care, HI and dishwashing segments declined by 17.2%, 36.4%, 35.9% and 21.4% y-o-y, respectively. The fall in sales in HI category accelerated due to loss of sales in later part of March, which marks the onset of high mosquito infestation in North and East India. Season for personal care products (Margo) picks up in summer (in last couple of weeks of March), which got significantly affected. In terms of brands, Ujala Supreme grew by 5% before lockdown driven by marketing initiatives. Ujala Crisp and Shine achieved a 4% YTD growth prior to lockdown. Ujala maintained its leadership position as the largest mid priced detergent brand in Kerala. The Henko franchise performed well driven by initiatives to drive visibility in key markets. In the dishwashing space, strong presence in outlets, effective communication and heightened need for health and hygiene products resulted in market share gains for Exo. Personal care segment was affected as traders could not stock soaps due to lockdown. However, leveraging the health and hygiene trend the company launched Margo hand sanitiser during the quarter. Also, Margo hand wash was launched in all southern states. The HI segment was subdued, however, Maxo Genius automatic liquid vaporiser continued to gain market share (refill gained market share by 49 bps) driven by continuous media activities. Maxo Genius Combi saw good growth in key states.

Other conference call highlights:

- ♦ Growth was severely affected in Q4FY2020 due to severe disruption in operations amid the nationwide lockdown from mid-March. However, JLL witnessed positive growth in April and May 2020 as ~85% of the company's portfolio comprises of essential products and faster recovery was seen in Kerala. The growth in April and May was driven by sale of the piled-up inventory of March and early April despite half its original capacity utilisation.
- ♦ All manufacturing facilities and depots had become operational from mid-April. Production has been ramped up post relaxation of the lockdown. Production was at ~50% in April and is now at pre-COVID levels of ~80%. As ~85% of JLL's portfolio is essential in nature, the company will benefit from higher demand of health and hygiene products. To leverage this opportunity, the company had launched Margo hand sanitiser within 21 days in April, which is gaining good traction. Moreover, further new launches are expected in the hygiene space in the coming quarters.
- ♦ JLL has witnessed higher demand for low-unit packs in the current situation. Low-unit packs contribute ~25% to total revenue. Accordingly, the company has ramped up production and distribution of low-unit packs.
- ♦ The management expects products such as dishwashing bars/liquids (Exo/Pril), detergents (Henko), soaps and sanitisers (Margo) and HI products (Maxo) to perform well in the coming quarters. HI category has witnessed good pick up in the past two months. However, post-wash categories (Ujala) will take some time to revive.

- ♦ 85-90% of distributors are back on track and thus, general trade is normalising. Nearly 50-60% of stores under modern trade including CSD are now open. E-commerce channel is also picking up pace. The company has partnered with alternate distribution companies and last-mile delivery partners to enhance direct distribution. JLL's current direct reach stands at 8.5 lakh outlets. Ujala fabric whitener's reach stands at 3 million outlets.
- ♦ Rural has also seen pick-up and growing faster than urban markets which has also seen recovery in recent times. Further, rural markets are doing relatively better than the previous year.
- ♦ Nearly, 45-50% of raw materials are crude-linked. Consequent to the correction in crude prices, the management expects the benefits of the same to flow in with a lag, from Q2FY2021. With efficient cost controls and operating efficiencies, OPM for FY2021 is expected to sustain at FY2020 levels of ~15%. Going ahead, with recovery in revenue growth, we expect the margins to improve.
- ♦ The effective tax rate is expected to be at ~15% for the next two years.

Revenue Snapshot (Standalone)

	Rs cr				
Particulars	Q4FY20	Q4FY19	Y-o-Y %	Q3FY20	Q-o-Q %
Total Revenue	382.3	504.3	-24.2	407.3	-6.1
Total operating cost	342.1	421.7	-18.9	342.1	0.0
Operating profit	40.2	82.6	-51.4	65.2	-38.4
Other income	4.5	11.4	-60.8	5.3	-16.4
Depreciation	19.1	16.7	14.8	19.3	-1.0
Interest cost	5.8	6.4	-8.8	6.9	-15.7
PBT	19.6	70.9	-72.3	44.2	-55.6
Tax	-6.4	3.8	-	1.6	-
Adjusted PAT	26.0	67.1	-61.2	42.6	-38.9
Exceptional item	0.0	0.0	-	0.0	-
Reported PAT	26.0	67.1	-61.2	42.6	-38.9
EPS (Rs.)	0.7	1.8	-61.2	1.2	-38.9
	BPS			BPS	
GPM (%)	44.7	44.5	24	47.7	-297
OPM (%)	10.5	16.4	-587	16.0	-549

Source: Company; Sharekhan Research

Revenue Snapshot (Consolidated)

	Rs cr				
Particulars	Q4FY20	Q4FY19	Y-o-Y %	Q3FY20	Q-o-Q %
Total Revenue	393.0	516.0	-23.8	420.8	-6.6
Operating profit	40.6	81.3	-50.1	66.3	-38.8
Profit before tax	23.2	73.8	-68.5	49.3	-52.9
Adjusted PAT	26.6	66.8	-60.2	45.0	-40.9
	BPS			BPS	
GPM (%)	45.7	45.2	53	48.7	-303
OPM (%)	10.3	15.8	-544	15.8	-544

Source: Company; Sharekhan Research

Segmental revenue

	Rs cr				
Particulars	Q4FY20	Q4FY19	Y-o-Y %	Q3FY20	Q-o-Q %
Revenue					
Fabric care	156	188	-17.2	172	-9.3
Dish washing	127	162	-21.4	150	-15.5
Mosquito Repellant	64	100	-35.9	43	50.2
Personal care	30	47	-36.4	36	-15.9
Other Products	6	9	-27.7	8	-24.9
Total Consumer	383	506	-24.3	409	-6.3
Laundry Services	10	10	0.0	12	-18.2
Consolidated revenue	393	516	-23.8	421	-6.6

Source: Company; Sharekhan Research

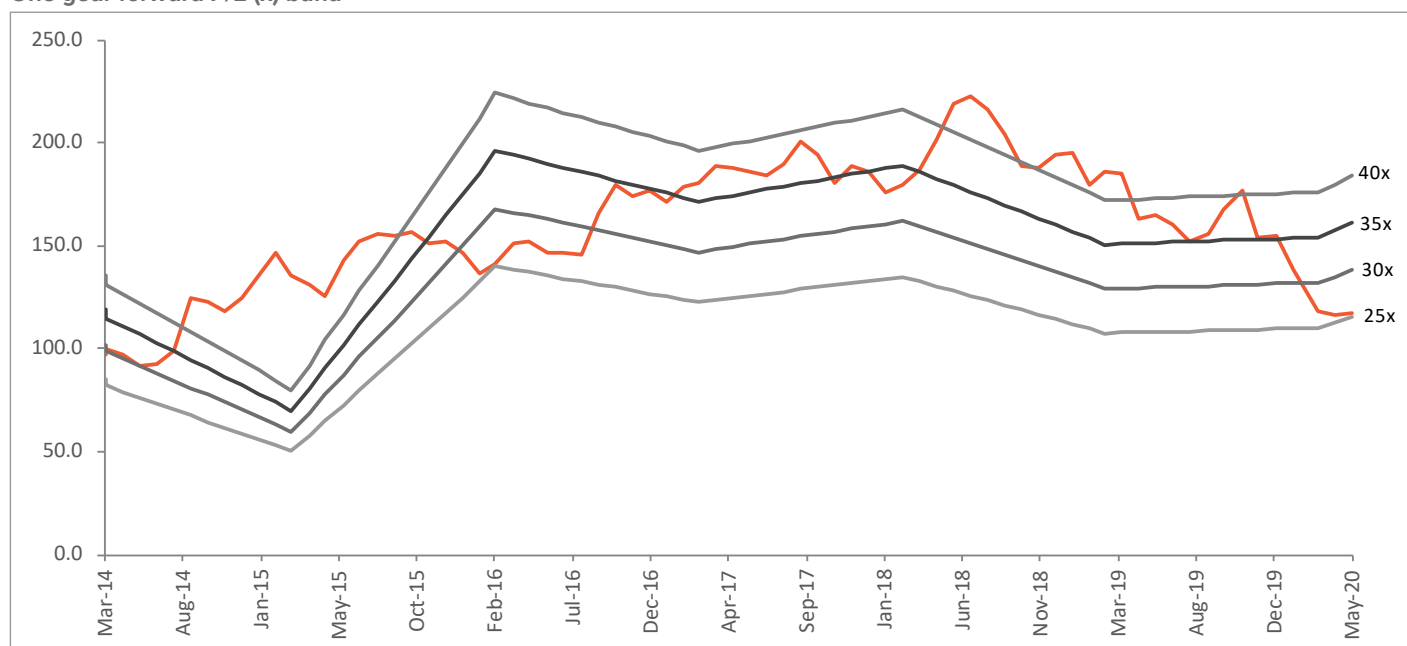
Outlook

FY2021 growth with lower; strong recovery expected in FY2022: FY2020 revenues declined by 5.6% (with volume decline of 4.4%) affected by a disruptive Q4, which saw more than 20% decline in sales. The company has seen recovery in sales with easing out of lockdown norms. April and May witnessed a positive growth in revenues. With categories such as personal wash, household insecticides and dishwashing products gaining good traction, we expect the company to end FY2021 with revenue growth in low single digit. OPM is expected to sustain at around 15% supported by drop in prices of key inputs such as crude oil. FY2022 will see strong recovery with expected recovery in rural demand, recovery in fabric care category and sustained growth in other key categories.

Valuation

Maintain Buy with revised PT of Rs. 140: We have reduced our earnings estimates for FY2021 and FY2022 to factor in the dismal performance in Q4 and muted performance in the fabric care space. The company is focusing on increasing its portfolio towards homecare and hygiene segment with new product launches under existing brands. We expect FY2021 to be a low growth year but expect earnings growth to recover to double-digits in FY2022. The stock has corrected by ~29% in past six months and trades at a discounted valuation of 20.8x its FY2022E earnings factoring the near term uncertainties. In view of the discounted valuation and expected recovery in the coming quarters, we maintain a Buy recommendation on JLL with a revised price target of Rs. 140 (valuing stock at 25x its FY2022E EPS).

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Particulars	P/E (x)			EV/EBIDTA (x)			RoCE (%)		
	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
Godrej Consumer Products	45.4	47.2	37.2	32.7	35.2	28.8	16.6	14.8	17.9
Dabur India	53.6	55.0	42.4	44.8	44.6	34.2	27.0	24.2	28.3
Jyothy Labs	27.0	26.6	20.8	18.5	17.8	14.9	11.8	11.8	13.6

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 categories such as fabric care, dish-wash, household insecticides (HI) and personal care products. 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, long-term strategies undertaken to enhance growth 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 a slowdown in the fabric whitener category will affect performance in the near term.

Key Risks

- ◆ Slowdown in demand environment: A 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 Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Franklin Resources Inc	5.1
2	Mirae Asset Global Investments Co	3.3
3	Standard Life Aberdeen PLC	2.8
4	Reliance Capital Trustee Co Ltd	2.2
5	ICICI Prudential Life Insurance Co	1.8
6	Emblem FII	1.7
7	Blackstone Asia Advisors LLC	1.4
8	UTI Asset Management Co Ltd	1.1
9	FMR LLC	1.1
10	Aditya Birla Sun Life Trustee Co P	1.1

Source: Bloomberg

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