Sharekhan
by BNP PARIBAS

Jyothy Laboratories

Q1 beats estimates led by stellar growth in household insecticide

Sector: Consumer Goods
Result Update

	Change
Reco: **Buy**	↔
CMP: **Rs. 140**	
Price Target: **Rs. 170**	↑

↑ Upgrade ↔ No change ↓ Downgrade

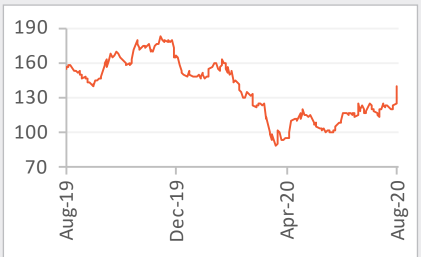
Company details

Market cap:	Rs. 5,156 cr
52-week high/low:	Rs. 185/86
NSE volume: (No of shares)	3.5 lakh
BSE code:	532926
NSE code:	JYOTHYLAB
Sharekhan code:	JYOTHYLAB
Free float: (No of shares)	13.6 cr

Shareholding (%)

Promoters	62.9
FII	14.1
DII	15.9
Others	7.1

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	12.2	30.8	-3.0	-9.6
Relative to Sensex	9.0	11.1	5.5	-12.2

Sharekhan Research, Bloomberg

Jyothy Laboratories Limited (JLL) posted better performance in Q1FY2021 with consolidated revenue and PAT growing by 2.5% and 25%, respectively (better than our as well as street expectation). The domestic consumer business grew by 4%, driven by 6% volume growth. Higher contribution from low unit packs (LUP) led to lower realisation sales. The household insecticide (HI) and dishwashing segments registered growth of 150% and 17%, respectively, in sales due to higher demand. Unfavourable mix due to lesser sales of fabric whitener and higher contribution of LUPs led to a 235 bps decline in gross margins. However, lower ad spends led to 215 bps improvement in OPM to 17.7% (excluding one-off Rs. 5 crore of COVID-19 related donation; OPM stood at 18.8%). The company is currently operating at 100% utilisation in terms of production and supply chain. June 2020 saw double-digit growth; and the growth momentum continued in July 2020 as well. Driving sales through LUP, expanding reach (especially in rural markets), and focus on gaining strong traction to new product launches are near-term growth drivers. The HI and dishwashing segments will continue to deliver good growth, while the personal care segment (consisting of Margo) will see recovery in Q2. Management is confident of maintaining OPM at around 16%.

Key positives

- Revenue of the HI and dishwashing segments grew by 150% and 17%, respectively, led by strong demand.
- OPM expanded by 215 bps to 17.7%.
- The company managed to reduce debt by Rs. 100 crore on a sequential basis.

Key negatives

- Fabric care revenues decreased by 24%.
- Canteen store department and modern trade witnessed significant decline in revenue.

Our Call

View: Maintain Buy with a revised PT of Rs. 170 - We have revised upwards our earnings estimates by 8-9% for FY2021 and FY2022 to factor in higher-than-earlier-expected growth in the HI and dishwashing segments. Distribution expansion, increasing reach of new product launches, and strong growth in the HI and dishwashing segments are near-term growth catalysts for JLL. The company has also focused on strengthening its balance sheet by maintaining stable working capital and reducing debt on books. The stock is currently trading at discounted valuations of 22.2x its FY2022E earnings. Better growth visibility in the near term and reduction of promoter pledging to zero are key re-rating triggers. We maintain our Buy recommendation on the stock with a revised price target (PT) of Rs. 170.

Key Risks

Any disruption in sales due to frequent lockdown in key markets such as Kerala, Tamil Nadu, and Karnataka would act as key risks to our earnings estimates in the near term.

Valuations (Consolidated) Rs cr

Particulars	FY18	FY19	FY20	FY21E	FY22E
Revenues	1,690	1,814	1,711	1,848	2,091
OPM (%)	15.2	15.5	14.7	15.9	16.3
Adjusted PAT	179	198	159	187	232
% y-o-y growth	-12.4	10.5	-19.3	17.6	23.9
Adjusted EPS (Rs.)	4.9	5.4	4.3	5.1	6.3
P/E (x)	28.8	26.1	32.3	27.5	22.2
P/B (x)	2.2	3.9	4.2	3.9	3.5
EV/EBIDTA (x)	10.5	19.2	21.9	18.6	15.8
RoNW (%)	16.0	16.0	12.5	14.6	16.5
RoCE (%)	16.8	14.9	11.8	13.3	14.7

Source: Company; Sharekhan estimates

Standalone revenue grew by 4%, volumes were up by ~6%: Standalone revenue in Q1FY2021 grew by 4.1% y-o-y to Rs. 428.7 crore (better than ours as well as the street's expectations), from Rs. 411.6 crore in Q1FY2020, largely driven by exceptional growth in the HI segment and good demand for dishwashing products. Domestic sales volumes increased by 6.1% in Q1FY2021. July 2020 also delivered positive sales growth. Growth was largely driven by JLL's core essential and hygiene portfolio (comprises 80-85% of the total portfolio) and cost-saving initiatives. Gross margin declined by 182 bps to 45.9% because of unfavourable product mix. However, lower ad spends (down ~350 bps as a percentage of sales) helped OPM to expand by 233 bps to 18.3%. Operating profit grew by 19.4% y-o-y to Rs. 78.2 crore. Lower interest costs resulted in profit before tax (PBT) to grow by 28% y-o-y to Rs. 58.7 crore (better than our expectation of Rs. 36.8 crore). Adjusted PAT increased by 31.2% y-o-y to Rs. 50.4 crore in Q1FY2021 from Rs. 38.4 crore in Q1FY2020, driven by slightly lower tax incidence. Reported PAT increased by 40.4%.

Decent consolidated revenue, margins expand: Consolidated revenue grew by 2.5% y-o-y to Rs. 433 crore in Q1FY2021 from Rs. 422.5 crore in Q1FY2020. The laundry services segment's revenue declined significantly to Rs. 3 crore from Rs. 10 crore. Gross margin fell by 235 bps to 46.2%. OPM expanded by 215 bps to 17.7%, driven by efficiencies. Operating profit increased by 16.6% y-o-y to Rs. 76.5 crore, whereas adjusted PAT came in at Rs. 50 crore in Q1FY2021 from Rs. 40 crore in Q1FY2020, registering 25.3% y-o-y growth.

Exceptional growth in HI; Good performance in dishwashing but fabric care was subdued: Revenue of the HI segment witnessed strong growth of ~150% from Rs. 25 crore in Q1FY2020 to Rs. 64 crore Q1FY2021, driven by healthy growth in coils, liquid vapourisers, and combi machines. Increased sales in the HI segment accelerated due to extended mosquito infestation season this year and consumers adopting a preventive approach. The company continued to emphasise on digital campaigns and media support. Revenue from the personal care segment stood flat y-o-y at Rs. 60 crore. Margo witnessed growth driven by unique proposition of 'neem' and extended summer. Newly launched Margo hand sanitiser and hand wash are gaining good traction. The company continued investment behind the brand through media and digital campaigns. The dishwashing segment registered 16.6% revenue growth to Rs. 157 crore, driven by heightened focus on hygiene. With higher number of people staying at home and increased in-home consumption, there is a higher demand for dishwashing products. Focus on smaller packs/low-unit SKUs is driving growth in rural markets. The fabric care segment declined by 23.8% y-o-y to Rs. 142 crore as the use of fabric whiteners has reduced during the lockdown with more people staying at home affecting the sales of Ujala. Henko continued to register good growth in general trade. Ujala fabric whitener gained market share as of December 2019. Media campaigns continued for Ujala crisp and shine. Aggressive retail visibility was undertaken in key markets for Henko.

Other conference call highlights:

- General trade has been performing better than modern trade and canteen stores department (CSD). Rural recovery is faster, driven by good monsoon and government support, whereas localised lockdowns are impacting urban recovery.
- Gross margin in Q1FY2021 was affected by unfavourable revenue mix due to lower contribution from post-wash segment. However, post un-lockdown, some recovery was seen in the post-wash segment. This along with controlled trade scheme and managing the input cost volatility would aid JLL to post sequential improvement in gross margins in the coming quarters. Advertisement spends might gradually increase with overall normalisation in the business environment. Management is confident of maintaining OPM of 15-16% in the near to medium term.
- The company has focused on detailed SKU and plant-specific sales planning for a smooth supply of products to end-consumers. More emphasis on driving sales through LUP of Rs. 5/Rs. 10 in rural markets (currently contributes 25-30% to overall sales). JLL's primary sales are equal to secondary sales; and it is maintaining lower inventory with distributors to improve distributors' returns profile.
- On the distribution front, the company is focusing on strengthening direct delivery through retailer's app and enhanced focus on e-commerce platforms to improve sales in the urban market. In the rural market, the company is focusing on adding more sub-stockists to enhance the distribution reach.
- T-shine, 100% organic floor cleaner, was launched in all states in South India. T-shine toilet cleaner was extended to Bangalore and focus is on gradually extending it to other southern states.

- To grab the opportunity under Atma Nirbhar initiative, driven by the government, JLL launched #VocalforLocal Campaign covering all its brands in one shot in eight languages in TV and print media. The company has commenced operations of a new dishwashing manufacturing plant at Pithampur, Madhya Pradesh, to improve the reach of Exo dishwashing bar in and around central India.
- The HI segment is expected to maintain the good run in the coming quarters due to strong demand from consumers and reduction in competitive intensity from illegal incense sticks. Coils and liquid vaporisers (LV) are gaining strong traction in the domestic market. The company's ultimate aim is to increase the salience of LVs in overall sales in the coming years. LV contributes 35-40% of JLL's HI sales.
- Laundry services business has recovered to 50-60% of pre-COVID levels with Bangalore stores becoming fully operational.

Revenue Snapshot (Standalone) Rs cr

Particulars	Q1FY21	Q1FY20	Y-o-Y %	Q4FY20	Q-o-Q %
Total Revenue	428.7	411.6	4.1	382.3	12.1
Total operating cost	350.4	346.1	1.3	342.1	2.4
Operating profit	78.2	65.5	19.4	40.2	94.8
Other income	4.2	4.8	-12.2	4.5	-4.7
Depreciation	18.7	18.5	1.5	19.1	-2.1
Interest cost	5.1	6.1	-16.3	5.8	-12.8
PBT	58.7	45.8	28.0	19.6	-
Tax	8.3	7.4	11.7	-6.4	-
Adjusted PAT	50.4	38.4	31.2	26.0	93.7
Exceptional item	**0.0**	**-2.5**	**-**	**0.0**	**-**
Reported PAT	50.4	35.9	40.4	26.0	93.7
EPS (Rs.)	1.4	1.0	31.2	0.7	93.7
			bps		**bps**
GPM (%)	45.9	47.7	-182	44.7	120
OPM (%)	18.3	15.9	233	10.5	775

Source: Company; Sharekhan Research

Revenue Snapshot (Consolidated) Rs cr

Particulars	Q1FY21	Q1FY20	Y-o-Y %	Q4FY20	Q-o-Q %
Total Revenue	432.9	422.5	2.5	393.0	10.2
Operating profit	76.5	65.6	16.6	40.6	88.5
Profit before tax	61.0	50.0	22.0	23.2	-
Adjusted PAT	50.0	39.9	25.3	26.6	88.1
			bps		**bps**
GPM (%)	46.2	48.6	-235	45.7	50
OPM (%)	17.7	15.5	215	10.3	734

Source: Company; Sharekhan Research

Segmental revenue Rs cr

Particulars	Q1FY21	Q1FY20	Y-o-Y %	Q4FY20	Q-o-Q %
Revenue					
Fabric care	142	187	-23.8	156	-8.7
Dish washing	157	134	16.6	127	23.2
Household Insecticide	64	25	151.1	64	-0.9
Personal care	60	60	0.4	30	98.5
Other Products	7	7	8.6	6	19.5
Total Consumer	**430**	**413**	**4.1**	**383**	**12.1**
Laundry Services	3	10	-68.1	10	-67.3
Consolidated revenue	**433**	**423**	**2.5**	**393**	**10.2**
PBIT Margins (%)			**bps**		**bps**
Fabric care	22	20	247	18	421
Dish washing	21	12	875	12	824
Household Insecticide	-3	-20	-	-11	-
Personal care	26	31	-530	16	-
Other Products	3	-5	-	-21	-
Total Consumer	**18**	**16**	**213**	**11**	**752**
Laundry Services	-131	-23	-	-38	-
Consolidated	**17**	**15**	**195**	**9**	**763**

Source: Company; Sharekhan Research

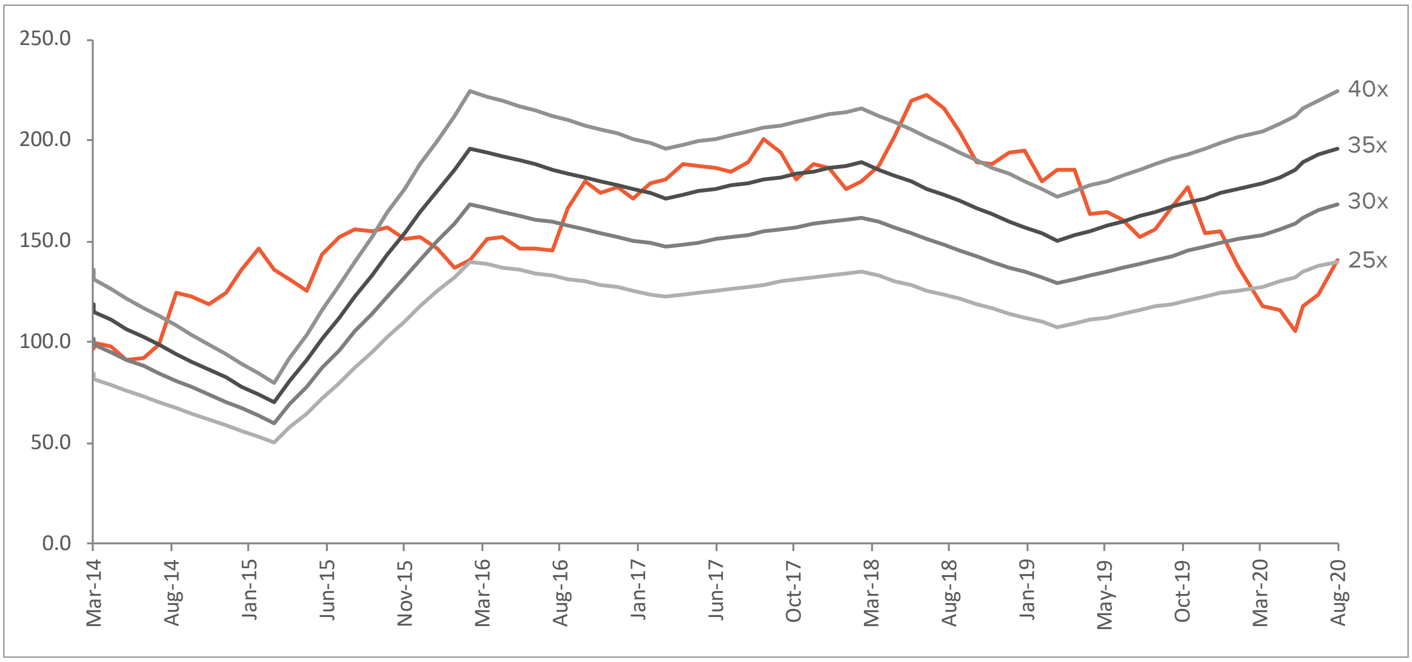
Outlook

FY2021 to see high single-digit revenue growth; OPM to stand at 15-16%: JLL's Q1FY2021 performance was better with sequential improvement in sales in May and June. July continues to be in the positive trajectory; and with strong demand for HI, hygiene and dishwashing products, we believe JLL is expected to post much better revenue growth in the remaining quarters of the fiscal. Driving sales through LUP, expanding reach (especially in rural markets), and focus on gaining strong traction to new product launches are near-term growth drivers. Management is confident of achieving OPM close to 16% in FY2021.

Valuation

Maintain Buy with a revised PT of Rs. 170: We have revised upwards our earnings estimates by 8-9% for FY2021 and FY2022 to factor in higher-than-earlier-expected growth in the HI and dishwashing segments. Distribution expansion, increasing reach of new product launches, and strong growth in the HI and dishwashing segments are near-term growth catalysts for JLL. The company has also focused on strengthening its balance sheet by maintaining stable working capital and reducing debt on books. The stock is currently trading at discounted valuations of 22.2x its FY2022E earnings. Better growth visibility in the near term and reduction of promoter pledging to zero are key re-rating triggers. We maintain our Buy recommendation on the stock with a revised price target (PT) of Rs. 170.

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	47.3	42.2	36.0	34.0	31.8	27.9	16.6	17.1	18.8
Dabur India	58.3	54.1	43.0	48.7	43.8	34.5	27.0	26.5	29.5
Jyothy Labs	32.3	27.5	22.2	21.9	18.6	15.8	11.8	13.3	14.7

Source: Company, Sharekhan estimates

About company

JLL 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, dishwash, 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 segment since its launch, with an ~80% market share.

Investment theme

JLL has a leadership position in the fabric whitener segment 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. Large presence in the essential and hygiene segment will help JLL drive near-term growth in the pandemic situation. A resurgence in the HI segment will help drive growth in the medium term.

Key Risks

- **Slowdown in the demand environment:** Slowdown in the HI segment's 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

Ramakrishnan Lakshminarayanan	Chairman
Jyothy Ramchandran	Managing Director
K Ullas Kamath	Joint Managing Director
Shreyas Trivedi	Company Secretary
Sanjay Agarwal	Chief Financial Officer

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Franklin Resources Inc	5.2
2	Mirae Asset Global Investments Co	3.5
3	Standard Life Aberdeen PLC	2.7
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	1.6
8	UTI Asset Management Co Ltd	1.3
9	ICICI Lombard General Insurance Co Ltd	1.2
10	FMR LLC	1.1

Source: Bloomberg

Sharekhan

by BNP PARIBAS

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