Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Jyothy Laboratories Limited

Q3 shines as essentials fuel growth

Consumer Goods	Sharekhan code: JYOTHYLAB	Result Update

3R MATRIX	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)	✓		

\+ Positive = Neutral - Negative

What has changed in 3R MATRIX

	Old		New
RS		⟷	
RQ		⟷	
RV		⟷	

Reco/View	Change
Reco: **Buy**	⟷
CMP: **Rs. 152**	
Price Target: **Rs. 188**	↑

↑ Upgrade ⟷ Maintain ↓ Downgrade

Company details

Market cap:	Rs. 5,569 cr
52-week high/low:	Rs. 165/86
NSE volume: (No of shares)	6.7 lakh
BSE code:	532926
NSE code:	JYOTHYLAB
Free float: (No of shares)	13.6 cr

Shareholding (%)

Promoters	62.9
FII	12.5
DII	17.2
Others	7.5

Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	2.3	9.0	24.8	-5.6
Relative to Sensex	2.2	-8.0	-0.2	-20.8

Sharekhan Research, Bloomberg

Summary

- Q3FY21 was yet another strong quarter for Jyothy Labs (JLL) with consolidated revenues growing by 13.3%yoy to Rs. 476.6 crore (led by a 15% volume growth) and OPM expanding by 100 bps to 16.8%; PAT growth stood at 18.5%.
- Personal care and dishwashing products clocked strong growth of 48% and 21% respectively, driving Q3 performance house hold insecticide (HI) segment too grew by ~10%.
- Higher demand for dishwashing and personal care products and expected improvement in growth of fabric care segment will help JLL post double-digit growth in coming quarters. OPM to sustain at 16-17% in the near to medium term.
- We raise our earnings estimates for FY2022/23 by 7-9% to factor in better-than-expected growth in personal care products and expected recovery in fabric care category. Stock trades at discounted valuation of 18.6x its FY2023E EPS; maintain Buy with revised PT of Rs. 188.

Jyothy Labs Ltd's (JLL's) Q3FY2021 performance beat our expectations, with revenues and PAT growing by 13.3% and 18.5%, respectively. Domestic FMCG business grew by 15.3% led to 15% volume growth which is better than 8.5% volume growth achieved in Q2FY2021. The essentials portfolio (constituting 80-85% of overall sales) continued to perform well. The steady operating performance was boosted by strong growth in personal cate products and dishwashing categories. HI category grew by 10% during the quarter. The fabric care category which was down till Q2 seen a slight growth of 2.3% led by revival in demand on the back of partial re-opening of schools and offices. Consolidated gross margins were flat at 48.8% (but improved 66bps on a standalone level to 48.3%). Operating margins expanded by 100 bps to 16.8% led by cost optimisation and controlled trade schemes. New product addition, optimal utilisation of existing distribution reach (8 lakh direct / 3million direct outlets) and improving rural penetration (currently 40% of overall revenues) remains key revenue growth drivers in the near term. Inflationary pressures in key raw materials will be balanced with strategic price increases (took 3-5% price increase in the Margo soaps), cost optimisation initiatives and balanced trade schemes to support healthy cash flow management. The company is focusing on becoming net debt-free by end of FY2021 through improved working capital management.

Key positives

- Domestic volume growth of 15% was better than 8.5% volume growth in Q2.
- Personal products and dishwashing category grew by 48.2% and 21.1%, respectively.
- Fabric care category grew by 2.3% led by revival in demand post easing of lockdown

Key negatives

- HI category continues to make losses at EBIT with Q3 loss stand at Rs.2.1crore.

Our Call

View - Retained Buy with revised PT of Rs. 188: We have raised our earnings estimates of FY2022/23 by 7-9% each to factor in the better than expected performance in Q3 and expected recovery in the core fabric-care category. We expect JLL revenues and PAT to grow at CAGR of ~12% and 20% over FY2020-23E. The stock is currently trading at attractive valuations of 19x its FY2023E earnings. We maintain our Buy recommendation on the stock with a revised price target of Rs. 188. Any sustained volume growth momentum with stable margins would help JLL's valuation multiples to improve from current levels.

Key Risks

Any slowdown in the categories or late recovery in the fabric care category along with sharp decline in the gross margins due to spike in the key input prices would act as a key risk to our earnings estimates.

Valuation (consolidated) Rs cr

Particulars	FY19	FY20	FY21E	FY22E	FY23E
Revenues	1,814	1,711	1,894	2,144	2,431
OPM (%)	15.5	14.7	17.0	16.9	17.1
Adjusted PAT	198	159	225	258	300
% YoY growth	10.5	-19.3	40.9	14.9	16.3
Adjusted EPS (Rs.)	5.4	4.3	6.1	7.0	8.2
P/E (x)	28.2	35.0	24.9	21.6	18.6
P/B (x)	4.2	4.5	4.1	3.6	3.2
EV/EBIDTA (x)	20.7	23.6	18.1	15.9	13.5
RoNW (%)	16.0	12.5	17.3	17.7	18.1
RoCE (%)	14.9	11.8	14.6	15.3	15.9

Source: Company; Sharekhan estimates

Standalone revenue grew by 15.3%, volumes were up by ~15%: Standalone revenue grew by 15.3% y-o-y to Rs. 469.4 crore in Q3FY2021 from Rs. 407.3crore in Q3FY2020, largely driven by strong growth in the dishwashing and personal care categories. Domestic sales volumes increased by 15% in Q3FY2021. Growth was largely driven by JLL's core essential and hygiene portfolio (comprises 80-85% of the total portfolio. Gross margins expanded by 66 bps to 48.3%, largely because of a favourable product mix. This, along with operating efficiencies helped OPM expand by 100bps to 17%. Operating profit rose by 22.5% y-o-y to Rs. 79.8 crore. Increase in other income and significant lower interest costs helped PAT grow by 22.6% y-o-y to Rs. 52.2crore.

Consolidated revenue grew by 13.3%; Strong growth in personal category: Consolidated revenue grew by 13.3% y-o-y to Rs. 476.6 crore in Q3FY2021 from Rs. 420.8crore in Q3FY2020. The laundry services category's revenues declined significantly to Rs. 7 crore from Rs. 12 crore. Gross margins stood flat at 48.8%. OPM expanded by 100bps to 16.8%, driven by cost optimisation and controlled trade scheme. Operating profit increased by 20.4% y-o-y to Rs. 79.9crore, whereas PAT came in at Rs. 53.3crore in Q3FY2021 from Rs. 45crore in Q3FY2020, registering an 18.5% y-o-y growth.

Personal care and dishwashing segments grow strongly; HI performs steadily; fabric care recovers: Personal care segment's revenues grew by 48.2% y-o-y at Rs. 53 crore largely driven by strong growth in Margo brand. Consumers' preference for natural ingredients aiding the growth momentum.The company continued investment behind the brand by extending TV and OTT platforms' reach. The dishwashing category registered robust revenue growth of 21.1% to Rs. 182crore, driven by households' focus on health &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.Strong distribution drive is undertaken with the help of promotions. Liquid pouches like Pril Tamarind Pouch helping the Pril liquid brand category to grow.Revenue of the household insecticides (HI) category grew strongly by 10% to Rs. 47 crore Q3FY2021, driven by healthy growth in coils, liquid vaporisers, and combi machines. Sustained growth in Genius Combi helped placement-driven activities. Fabric care categoryrevenue grew by 2.3% y-o-y to Rs. 176croreled by revival in demand post easing of lockdowns. Ujala Crisp &Shine performed better in Q3 led by Partial opening of offices and school is helping the demand revival. The brand is growing on sequential basis.Consistent brand investment done in Ujala supreme post detergent wash, Crisp & Shine and Ujala Instant dirt dissolver brand. In Henko brand, General sales channel continues to outperform with higher sales growth, Easing of restrictions at institutional sales (modern trade and canteen store department) has aided the brand to grow and e-Commerce continues to be a new high growth channel.

Other conference call highlights:

- In the HI segment, 65% of revenue is contributed by coils and balance 35% by liquids. The company intends to spend more on media for brand building and expects to improve the contribution of liquids to total HI revenue (liquids fetch higher margins than coils).
- The company is maintaining inventory levels of 2-3 weeks with trade partners as compared to 4-5 weeks prior to the pandemic. JLL's net working capital has improved significantly from 23 days in H1FY2020 to 17 days in H1FY2021. All goods are sold on cash-and-carry basis. With wholesale and CSD channels expected to come back on track the company expects working capital days to stay at 20-21 days in the near term.
- The company is focusing on optimising existing distribution reach and steady increasing it in the coming years. The company is focusing on increasing revenues per store (3 sale lines instead of 2 lines or sale 12 bottle of particular product from 6 earlier) and regularly following with the stores requirement of any product.
- Rural growth stood at 1.3x ahead of urban growth. Company is focusing on penetrating the rural markets through small pack SKU products priced at Rs. 5-10. The rural market contributes 40% to total revenue.
- New product launched under EXO brand, EXO all surface cleaner for germ protection and for clean surface. It kills virus, bacteria and fungi.These brand is launched in South India.
- JLL is focusing on increasing its E-commerce channel as well. As customer have shifting its preference towards omni channel. E-commerce contribution improved to 3% from 1.5% previous year.
- The tax rate is likely to be at 18-19% for FY21 & FY22.

Results (standalone) Rs cr

Particulars	Q3FY21	Q3FY20	y-o-y (%)	Q2FY21	q-o-q (%)
Total Revenue	469.4	407.3	15.3	499.6	-6.1
Total operating cost	389.6	342.1	13.9	410.8	-5.2
Operating profit	79.8	65.2	22.5	88.9	-10.2
Other income	6.3	5.3	18.6	3.9	60.2
Depreciation	19.8	19.3	2.5	19.3	2.4
Interest cost	2.0	6.9	-71.7	2.9	-31.5
PBT	64.3	44.2	45.5	70.6	-8.9
Tax	12.1	1.6	657.5	10.0	21.8
Adjusted PAT	52.2	42.6	22.6	60.7	-13.9
Exceptional item	0.0	0.0	-	0.0	-
Reported PAT	52.2	42.6	22.6	60.7	-13.9
EPS (Rs.)	1.4	1.2	22.6	1.7	-13.9
			bps		**bps**
GPM (%)	48.3	47.7	66	47.5	85
OPM (%)	17.0	16.0	100	17.8	-79

Source: Company; Sharekhan Research

Result (consolidated) Rs cr

Particulars	Q3FY21	Q3FY20	y-o-y (%)	Q2FY21	q-o-q (%)
Total Revenue	476.6	420.8	13.3	504.5	-5.5
Operating profit	79.9	66.3	20.4	87.4	-8.6
Profit before tax	68.2	49.3	38.3	72.8	-6.4
Adjusted PAT	53.3	45.0	18.5	60.1	-11.3
GPM (%)	48.8	48.7	4	47.7	107
OPM (%)	16.8	15.8	100	17.3	-56

Source: Company; Sharekhan Research

Segmental performance

Particulars	Q3FY21	Q3FY20	y-o-y (%)	Q2FY21	q-o-q (%)
Revenue					
Fabric care	176	172	2.3	171	2.8
Dish washing	182	150	21.1	192	-5.0
Mosquito Repellent	47	43	10.0	60	-22.3
Personal care	53	36	48.2	63	-15.9
Other Products	13	8	57.2	15	-14.8
Total Consumer	470	409	15.1	501	-6.1
Laundry Services	6	12	-47.8	4	61.1
	477	421	13.3	504	-5.5
PBIT Margins (%)					
Fabric care	20	21	-79	22	-161
Dish washing	20	16	404	20	34
Personal care	20	22	-149	25	-504

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector view - Growth momentum to sustain; stringent cost savings to support margins

Domestic FMCG market growth recovered to 5% in Q3FY2021 from 1% in Q2FY2021.We believe that shift in demand for branded products, rural demand exceeding urban demand, gradual recovery in out-of-home categories and new product launches remain key catalysts for revenue growth in the near to medium term. Some companies would benefit from improving penetration in categories such as HI products, floor cleaners and dishwashing in the near to medium term. Raw material prices have been rising in the recent past and sustenance of this trend will pressurise gross margins in the coming quarters. Consumer goods companies' ability to pass on input price hikes, sustained benefits of cost-saving initiatives and judicious media spends would determine profitability growth in the near term. Structural growth story of domestic consumer goods market is intact with lower per capita consumption of products compared with other international countries, lower penetration in the rural markets and opportunities to launch new differentiated products and gaining market share from small players.

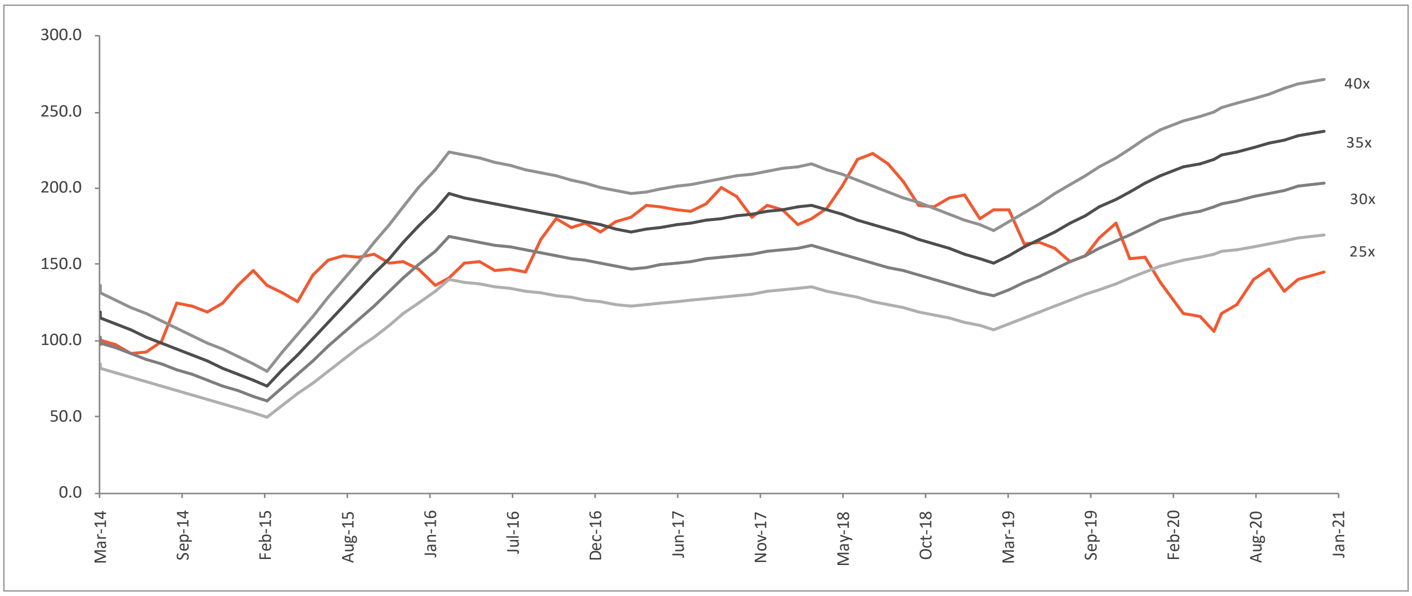
■ Company outlook - growth momentum to sustain; OPM likely to around 16% in FY2021

Consolidated revenues grew by 7.3% in 9MFY2021 with volume growth of ~9.8%. With double-digit growth likely to sustain in the dishwashing and personal care categories and a 100% recovery in the core fabric whitener category, the management is confident of maintain double digit revenue growth in Q4. Higher demand for household insecticide (HI) products will continue to add to revenues in the near term.Though gross margins are expected to come under pressure in Q4, cost-saving initiatives will help the OPM to remain stable on y-o-y basis. The company expects OPM to sustain at 16-17% in FY2021.

■ Valuation - Retained Buy with revised PT of Rs. 188

We have raised our earnings estimates of FY2022/23 by 7-9% each to factor in the better than expected performance in Q3 and expected recovery in the core fabric-care category. We expect JLL revenues and PAT to grow at CAGR of ~12% and 20% over FY2020-23E. The stock is currently trading at attractive valuations of 19x its FY2023E earnings. We maintain our Buy recommendation on the stock with a revised price target of Rs. 188. Any sustained volume growth momentum with stable margins would help JLL's valuation multiples to improve from current levels.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Particulars	P/E (x)			EV/EBIDTA (x)			RoCE (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Godrej Consumer Products	45.5	39.4	34.2	34.2	30.4	26.9	18.0	19.5	20.6
HUL	70.9	53.8	47.0	48.2	39.0	33.9	37.1	28.3	30.7
Jyothy Labs	24.9	21.6	18.6	18.1	15.9	13.5	14.6	15.3	15.9

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

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

Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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