

Rural penetration of smaller SKUs aid growth...

Jyothy Lab (JLL) reported healthy results with 15% volume growth led by robust growth in dishwashing & personal care segments. Standalone revenue grew 15.3% to ₹ 469.4 crore. Dishwashing, personal care & household insecticide (HI) segment revenue grew 21.1%, 48.2% & 10%, respectively, whereas fabric care business saw dismal 2.3% growth in Q3FY21. Though detergent segment has recovered fully, fabric whitener has only recovered to 90-95% of pre-Covid levels. We believe fabric whitener sales concentration is higher in south (specifically Kerala), which has been impacted by second wave of Covid cases & restricted out of home activity. The strong growth in most other segments was led by strong rural growth through smaller SKUs (₹ 5-10 sachet pack) penetration & specifically high demand of natural brands in personal care. The company increased media spends by 44% to ₹ 35.1 crore largely to spend behind Maxo, Margo & new launches. Gross margins improved 67 bps largely due to benign crude based raw material cost. Despite higher ad spend by 147 bps, saving in overhead spends & gross margin uptick led to operating margins expansion by 102 bps to 17%. Led by strong growth in operating profit & lower interest cost, PAT increased 22.8% to ₹ 52.2 crore.

New products, SKUs driving growth in dishwashing

Dishwashing is 38% of total sales and has seen robust growth of 20.6% in 9MFY21. We believe new variants & smaller pack in rural regions have been driving growth for the company. In last two years, JLL has launched two variants under Pril Brands (Tamarind & Lime). Further, it has launched dishwash gel, vegetable cleaner & disinfectant & smaller pouches. We believe the growth momentum would continue in the category given it is penetration led. Moreover, few scalable variants at other regions would result in sustainable growth in the category in medium term.

Higher ad spends to restrict margin expansion

Though the company has been reporting operating margins higher than its guided range of 15-16%, we believe margin expansion opportunities are limited given growth through new products, coil to liquid vaporisers shift in HI segment & scaling variants nationally or in larger regions would require increase in advertisement spends along with higher trade incentives. We expect marketing spend to increase 50-100 bps in the next two to three years, which would restrict margin expansion. We expect 17.4%, 17.3% operating margins in FY22E & FY23E, respectively.

Valuation & Outlook

The strong profitable growth in 50% of the product portfolio (dishwashing, personal care) would help JLL compensate for saturation in fabric care & long turnaround time for HI. However, presence in all those categories with much larger & stronger peers limits growth opportunities for the company. The stock is trading at 24.2x & 21.8x FY22E & FY23E earnings. We maintain our **HOLD** recommendation on the stock with a revised target price of ₹ 175 share (earlier ₹ 150/share).

Key Financial Summary (Standalone)

Key Financials	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY20-23E)
Net Sales	1768.9	1665.4	1852.5	2013.3	2199.8	9.7%
EBITDA	285.8	249.8	327.1	349.4	381.1	15.1%
EBITDA Margin %	16.2	15.0	17.7	17.4	17.3	
Net Profit	193.2	157.7	215.1	234.8	261.3	18.3%
Adjusted EPS (₹)	5.26	4.39	5.86	6.39	7.12	17.4%
P/E	29.5	36.1	26.5	24.2	21.8	
RoNW %	22.6	21.7	26.0	25.9	26.3	
RoCE (%)	28.6	24.3	30.6	31.1	31.6	

Source: Company, ICICI Direct Research



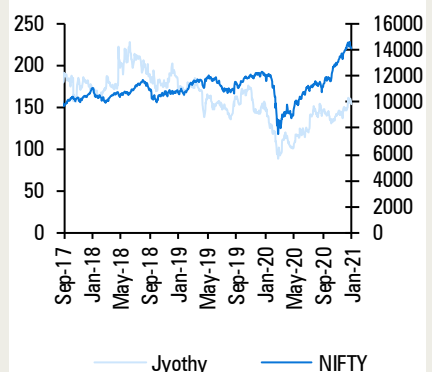
Particulars

Particulars (₹ crore)	Amount
Market Capitalization	5,691.6
Total Debt (FY20)	0.0
Cash and Investments (FY20)	20.1
EV	5,671.5
52 week H/L (₹)	165 / 86
Equity capital	36.7
Face value (₹)	1.0

Key Risk

- Faster than expected turnaround in HI & stronger recovery in fabric care segment could lead to stronger growth in medium term
- Any significant increase in crude based raw material would result in lower advertisement spends, which can impact the growth adversely

Price Chart



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Exhibit 1: Variance Analysis

	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	Comments
Net Sales	469.4	407.3	15.3	499.6	-6.1	Net sales increased 15.3% led by similar volume growth. The dishwashing, personal care segment witnessed robust growth during the quarter
Raw Material Expenses	242.5	213.1	13.8	262.4	-7.6	Gross margins expanded mainly on account of benign crude based raw material cost
Employee Expenses	58.2	52.1	11.7	58.7	-0.8	
SG&A Expenses	35.1	24.5	43.5	29.8	17.6	The company increased advertisement behind brands in Q3. The spends was higher by 43.5%
Other operating Expenses	53.8	52.5	2.5	59.9	-10.2	
EBITDA	79.8	65.1	22.6	88.9	-10.2	
EBITDA Margin (%)	17.0	16.0	102 bps	17.8	-79 bps	Operating margins expanded by 102 bps largely on account of savings in fixed overhead spends & gross margin expansion
Depreciation	19.8	19.3	2.5	19.3	2.4	
Interest	2.0	6.9	-71.7	2.9	-31.5	
Other Income	6.3	5.3	18.6	3.9	60.2	
Exceptional Income/(Expenses)	0.0	0.0	NA	0.0	NA	
PBT	64.3	44.1	45.8	70.6	-8.9	
Tax Outgo	12.1	1.6	657.5	10.0	21.8	
PAT	52.2	42.5	22.8	60.7	-13.9	Higher EBITDA & lower interest cost aided profitability by 22.8% to ₹ 52.2 crore
Segment wise sales (in Cr)						
Dishwashing	182.1	150.3	21.1	191.6	-5.0	Dishwashing category saw strong growth on account of introduction of small SKUs in rural regions
Fabric Care	175.9	172.0	2.3	171.0	2.8	Fabric wash grew by 2.3% given the category is saturated & growing at slower pace post pandemic
Household Insecticides	46.9	42.6	10.0	60.3	-22.3	
Personal Care	52.9	35.7	48.2	62.8	-15.9	The robust growth in the category due to increased demand of natural products & higher contribution of newly launched products (facewash, handwash, sanitisers)

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

	FY21E			FY22E			FY23E			Comments
(₹ Crore)	Old	New	% Change	Old	New	% Change	Old	New	% Change	
Sales	1,850.9	1852.5	0.1	1,978.5	2,013.3	1.8	2,158.1	2,199.8	1.9	The small change in our revenue estimate after the strong Q3 results
EBITDA	329.9	327.1	-0.8	331.6	349.4	5.4	364.1	381.1	4.6	
EBITDA Margin (%)	17.8	17.7	-16 bps	16.8	17.4	59 bps	16.9	17.3	45 bps	We expect uptick in margins with extended benefit of low raw material cost & substantial cost cutting measures
PAT	211.2	215.1	1.9	224.1	234.8	4.8	246.9	261.3	5.8	
EPS (₹)	5.8	5.9	1.9	6.10	6.39	4.8	6.7	7.12	5.8	

Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

	Current					Earlier			Comments
	FY19	FY20E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	
Dishwashing	577.1	566.7	689.7	745.6	822.7	626.5	660.2	728.2	We change our estimate upwards for the category given smaller packs & increased 'at-home' consumption has increased the demand for exo & pril
Fabric Care	740.2	708.0	668.4	721.1	772.4	738.2	790.1	845.9	We reduce our sales estimate for the category due to subdued sales witnessed post pandemic with substantial reduction in out of activity specifically in Kerala
Household Insecticides	233.3	181.4	216.8	238.4	262.3	245.0	269.5	296.5	
Personal Care	194.5	180.4	230.9	256.5	284.9	209.2	223.3	247.8	
RM Expenses to Sales (%)	54.4	53.6	52.5	52.4	52.7	52.9	52.8	53.1	
Ad Expenses to Sales (%)	6.2	7.2	6.5	7.3	7.0	7.5	8.0	8.0	
Employee Cost to Sales (%)	10.7	12.0	12.0	11.7	11.5	12.0	11.7	11.5	

Source: Company, ICICI Direct Research

Conference Call Highlights

- JLL witnessed strong 15.3% revenue growth led by 15% volume growth. The healthy growth was led by dishwashing, personal care & HI segments. However, fabric wash continued dismal growth trends during the quarter
- Fabric wash saw muted 2.3% revenue growth mainly on account of slower recovery in Ujala Supreme & Crisp & Shine due to restricted out of home activity (schools, offices are not fully functional) & higher concentration of these brands in Kerala, which has been witnessing second wave Covid-19 cases
- Dishwashing segment witnessed stronger 21.1% revenue growth led by rural penetration of smaller SKUs. The growth momentum in a post pandemic period continues for Pril with higher usage during at-home consumption. Further, new launches in last two years have also been contributing to the growth. In the series of new launches, the company launched Exo-disinfectant in Q3
- Household insecticide category has seen 10% revenue growth with the focus on preventive measures for diseases. However, the company is still making loss (₹ 2.2 crore in Q3FY21) in the segment mainly due higher advertisement & promotion spend behind brands. The company has 24% market share in coils & 8-9% in LV. It is cautiously trying to shift the sales from coil to LVs
- Personal care category witnessed strong 48.2% growth led by strong demand for natural products in the category. The company is investing behind brand through spends on TV & OTT platforms. Moreover, it is giving consumer offers on single packs, which has been driving growth in the category
- The company is expanding penetration of strong regional brands in other states. Further, the strategy of increasing the touch base with the retailers is working well. With the strong government stimulus led growth in rural India, the company is expanding its sub-stockist network
- JLL has increased marketing spends by 43.5% in Q3 with the clear intent of gaining market share in key categories. Further, media spends have been disproportionality high in HI & personal care category
- The growth through rural general trade has been gaining traction on a continuous basis whereas MT & CST channels sales is improving gradually. General trade has become completely cash & carry for the company whereas debtors day in MT is 21 days & even higher for CSD. Channel inventory is 14-20 days. CSD & MT channels contributes 20% to the sales whereas ecommerce contributes 3%
- Overhead spends have come down substantially post pandemic due to various cost cutting measures. Some of the cost saving would remain permanent. Cost related to travel has come down significantly
- In the long run, margins territory would be upwards with increasing proportion of high margins segments like personal care and dishwashing
- Gross debt for the company is ₹ 50-60 crore with less than 5% interest rate. It will reach net cash status by March 2021
- Income tax rate is likely to remain at 17-18% in FY22 with MAT benefits
- The company has guided for 15-16% operating margins despite current year operating margins are higher. It is looking to increase advertisement spends in the medium term

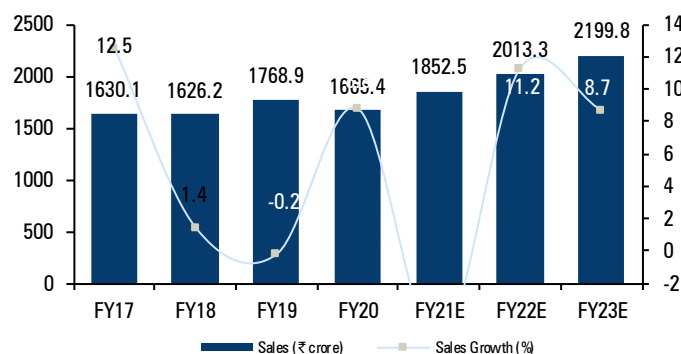
Key Metrics

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

Category	Key Brands	Q3FY21	Q3FY20	Growth
Fabric Care	Ujala, Henko, Mr. White, Ujala Crisp & Shine	176	172	2.3%
Dishwashing	Exo, Pril	182	150	21.1%
HI	Maxo	47	43	10.0%
Personal Care	Margo, Neem	53	36	48.2%
Other Products	Maya, T Shine	13	8	57.2%
Total		470	409	15.1%

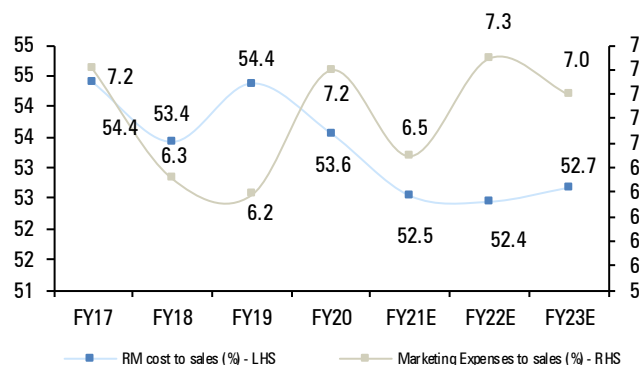
Source: Company, ICICI Direct Research

Exhibit 5: Revenue trend (standalone)



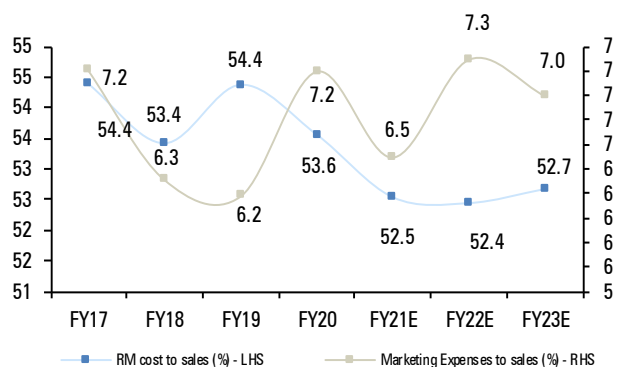
Source: Company, ICICI Direct Research

Exhibit 6: RM & A&P spend trends (standalone)



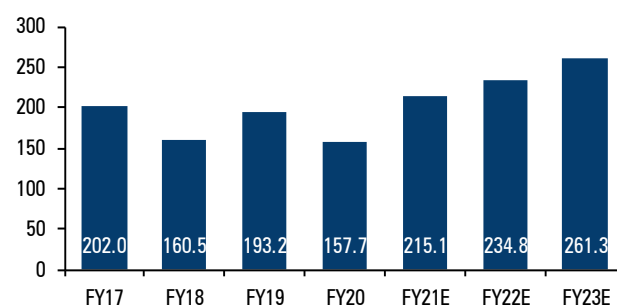
Source: Company, ICICI Direct Research

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 (%)
FY20	1665.4	-5.9	4.3	-18.4	36.1	21.3	21.7	24.3
FY21E	1852.5	11.2	5.9	36.4	26.5	16.0	26.0	30.6
FY22E	2013.3	8.7	6.4	9.1	24.2	14.9	25.9	31.1
FY23E	2199.8	9.3	7.1	11.3	21.8	13.5	26.3	31.6

Source: Company, ICICI Direct Research

Financial summary

Exhibit 10: Profit and loss statement ₹ crore				
(Year-end March)	FY20	FY21E	FY22E	FY23E
Total operating Income	1665.4	1852.5	2013.3	2199.8
Growth (%)	-5.9	11.2	8.7	9.3
Raw Material Expenses	892.0	973.3	1,055.9	1,158.8
Employee Expenses	200.3	222.3	235.6	253.0
Marketing Expenses	119.9	120.4	147.0	154.0
Administrative Expenses	0.0	0.0	0.0	0.0
Other expenses	203.3	209.3	225.5	253.0
Total Operating Expenditure	1,415.5	1,525.3	1,664.0	1,818.8
EBITDA	249.8	327.1	349.4	381.1
Growth (%)	-12.6	30.9	6.8	9.1
Depreciation	75.7	76.8	73.0	72.6
Interest	24.8	12.4	12.1	11.9
Other Income	20.1	19.6	22.1	22.1
PBT	169.4	257.6	286.4	318.7
Others	0.0	0.0	0.0	0.0
Total Tax	7.9	42.5	51.5	57.4
PAT	157.7	215.1	234.8	261.3
Growth (%)	-18.4	36.4	9.1	11.3
EPS (₹) - Diluted	4.3	5.9	6.4	7.1
EPS (₹) - Adjusted	4.4	5.9	6.4	7.1

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow statement ₹ crore				
(Year-end March)	FY20	FY21E	FY22E	FY23E
Profit after Tax	127.6	215.1	234.8	261.3
Add: Depreciation	75.7	76.8	73.0	72.6
(Inc)/dec in Current Assets	5.6	23.1	-34.4	-39.9
Inc/(dec) in CL and Provisions	-64.8	-19.4	38.3	44.5
Adjustments	21.2	0.0	0.0	0.0
CF from operating activities	165.4	295.6	311.8	338.5
(Inc)/dec in Investments	101.6	0.0	0.0	0.0
(Inc)/dec in Fixed Assets	-39.2	-50.0	-100.0	-100.0
Others	9.7	-68.3	-16.4	-18.9
CF from investing activities	72.1	-118.3	-116.4	-118.9
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	-11.0	0.0	0.0	0.0
Dividend paid & dividend tax	-265.6	-132.0	-154.0	-176.0
Finance cost paid	0.0	0.0	0.0	0.0
Others	-16.9	0.0	0.0	0.0
CF from financing activities	-293.5	-132.0	-154.0	-176.0
Net Cash flow	-56.1	45.3	41.4	43.7
Opening Cash	68.4	6.9	52.2	93.6
Bank Balance	13.2	13.2	13.2	13.2
Closing Cash	25.6	65.4	106.8	150.5

Source: Company, ICICI Direct Research

Exhibit 12: Balance sheet ₹ crore				
(Year-end March)	FY20	FY21E	FY22E	FY23E
Liabilities				
Equity Capital	36.7	36.7	36.7	36.7
Preference Capital	0.0	0.0	0.0	0.0
Reserve and Surplus	706.6	789.7	870.6	955.9
Total Shareholders funds	743.3	826.4	907.3	992.6
Total Debt	0.0	0.0	0.0	0.0
Deferred Tax Liability	0.0	0.0	0.0	0.0
Minority Interest / Others	84.9	54.9	53.9	52.9
Total Liabilities	828.2	881.3	961.2	1,045.5
Assets				
Gross Block	1,046.5	1,096.5	1,196.5	1,296.5
Less: Acc Depreciation	562.4	639.2	712.2	784.8
Net Block	484.1	457.4	484.4	511.8
Capital WIP	23.7	23.7	23.7	23.7
Total Fixed Assets	507.9	481.1	508.1	535.5
Goodwill on Consolidation	0.0	0.0	0.0	0.0
Inventory	222.6	233.5	253.7	277.2
Debtors	119.6	126.9	137.9	150.7
Loans and Advances	0.0	0.0	0.0	0.0
Other Current Assets	76.9	35.5	38.6	42.2
Cash	20.1	65.4	106.8	150.5
Total Current Assets	439.1	461.3	537.0	620.6
Creditors	126.8	152.3	165.5	180.8
Provisions & Others	334.2	289.3	314.4	343.5
Total Current Liabilities	461.0	441.5	479.9	524.3
Net Current Assets	-21.9	19.7	57.1	96.2
Others Assets	342.2	380.5	395.9	413.8
Application of Funds	828.2	881.3	961.2	1,045.5

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios ₹ crore				
(Year-end March)	FY20	FY21E	FY22E	FY23E
Per share data (₹)				
Adjusted EPS	4.4	5.9	6.4	7.1
Cash EPS	6.4	7.9	8.4	9.1
BV	20.2	22.5	24.7	27.0
DPS	6.0	3.0	3.5	4.0
Cash Per Share	0.5	1.8	2.9	4.1
Operating Ratios (%)				
EBITDA Margin	15.0	17.7	17.4	17.3
EBIT / Net Sales	10.5	13.5	13.7	14.0
PAT Margin	9.5	11.6	11.7	11.9
Inventory days	48.8	46.0	46.0	46.0
Debtor days	26.2	25.0	25.0	25.0
Creditor days	27.8	30.0	30.0	30.0
Return Ratios (%)				
RoE	21.7	26.0	25.9	26.3
RoCE	24.3	30.6	31.1	31.6
RoIC	39.4	60.8	63.6	67.4
Valuation Ratios (x)				
P/E (Diluted)	36.1	26.5	24.2	21.8
P/E (Adjusted)	35.3	26.5	24.2	21.8
EV / EBITDA	21.3	16.0	14.9	13.5
Market Cap / Sales	3.4	3.1	2.8	2.6
Price to Book Value	7.7	6.9	6.3	5.7
Solvency Ratios				
Debt/EBITDA	0.0	0.0	0.0	0.0
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	0.9	0.9	0.9	0.9
Quick Ratio	0.4	0.4	0.4	0.4

Source: Company, ICICI Direct Research

Exhibit 14: ICICI Direct coverage universe (FMCG)

	CMP	TP		M Cap	EPS (₹)			P/E (x)			Price/Sales (x)			RoCE (%)			RoE (%)		
	(₹)	(₹)	Rating	(₹ Cr)	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Colgate (COLPAL)	1,564	1,700	Buy	38,812	33.4	35.4	37.8	46.9	44.2	41.3	8.4	7.7	7.2	83.5	100.8	123.9	64.2	78.0	96.5
Dabur India (DABIND)	527	595	Buy	90,864	9.6	10.7	11.8	55.1	49.2	44.8	9.5	8.6	7.8	25.9	26.7	27.1	22.3	22.7	22.9
Hindustan Unilever (HINLEV)	2,304	2,600	Hold	561,507	33.6	40.5	45.0	68.5	56.9	51.2	12.4	10.8	10.0	25.3	29.4	31.7	19.1	22.5	24.3
ITC Limited (ITC)	207	225	Buy	213,884	11.2	12.0	13.4	18.5	17.2	15.4	4.7	4.2	3.8	27.2	30.5	35.7	20.9	23.4	27.5
Jyothy Lab (JYOLAB)	157	175	Hold	5,728	5.9	6.4	7.1	26.8	24.5	22.0	3.1	2.8	2.6	30.6	31.1	31.6	26.0	25.9	26.3
Marico (MARLIM)	413	440	Buy	46,834	8.8	9.5	9.9	46.9	43.3	41.8	6.2	5.6	5.4	42.3	45.1	46.0	36.3	38.5	39.3
Nestle (NESIND)	17,437	18,000	Hold	152,970	223.4	253.4	284.2	78.0	68.8	61.4	11.5	10.4	9.5	59.9	66.6	73.7	119.1	139.2	160.6
Tata Consumer Products (TATGLO)	564	605	Buy	52,158	12.0	13.5	15.1	47.1	41.7	37.3	4.8	4.4	4.1	9.8	10.5	11.1	7.8	8.6	9.3
VST Industries (VSTIND)	3,511	4,200	Hold	5,809	202.4	218.7	235.2	17.3	16.1	14.9	5.1	4.7	4.3	44.7	47.4	52.8	33.2	35.2	39.0
Varun Beverage (VARBEV)	868	730	Hold	19,429	11.3	21.7	26.6	76.8	40.0	32.6	3.0	2.5	2.3	12.3	18.6	20.7	10.1	16.7	17.6
Zydus Wellness (ZYDWEL)	1,930	2,300	Buy	11,359	27.8	65.7	71.7	69.5	29.4	26.9	6.1	5.4	5.0	6.9	8.3	8.9	5.9	8.6	9.2

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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