

Jyothy Laboratories

Estimate change

TP change

Rating change



Bloomberg	JYL IN
Equity Shares (m)	367
M.Cap.(INRb)/(USDb)	57.8 / 0.8
52-Week Range (INR)	187 / 128
1, 6, 12 Rel. Per (%)	-8/-15/-33
12M Avg Val (INR M)	124

Financials & Valuations (INR b)

Y/E March	2021	2022E	2023E
Net Sales	19.1	20.9	22.5
Sales Gr. (%)	11.6	9.4	8.0
EBITDA	3.1	2.5	3.3
EBITDA Margins (%)	16.5	11.8	14.8
Adj PAT	2.1	1.4	2.1
Adj.EPS (INR)	5.8	3.8	5.9
EPS Gr. (%)	28.5	-34.0	52.1
BV/Sh (INR)	38.9	36.5	36.0
Ratios			
RoE (%)	16.1	10.2	16.2
RoCE (%)	14.7	10.2	16.2
Payout (%)	83.0	169.7	111.6
Valuation			
P/E (x)	27.0	40.9	26.9
P/BV (x)	4.0	4.3	4.4
EV/EBITDA	18.1	23.4	17.2
Div. Yield (%)	2.5	3.4	3.4

Shareholding pattern (%)

As On	Sep-21	Jun-21	Sep-20
Promoter	62.9	62.9	62.9
DII	16.4	16.6	17.1
FII	12.2	11.9	12.7
Others	8.5	8.7	7.2

FII Includes depository receipts

CMP: INR158

TP: INR160 (+2%)

Neutral

Steep material cost increase drives big profit miss

- Sales came in above our expectation in 2QFY22. Gross/EBITDA margin was significantly lower than our estimate due to a greater material cost impact and higher-than-anticipated ad spends. No respite is expected in material cost inflation, affecting performance in subsequent quarters as well.
- Topline growth is key for a company with sales of just INR19b. The likelihood of consistent 15% sales growth (essential for any re-rating) continues to appear difficult. Sales CAGR has been 3.7% for the preceding five years.
- With margin likely to remain under pressure due to material cost increases, earnings growth prospects remain weak. We maintain our **Neutral** rating.

Double-digit volume growth continues, high input cost impacted profitability

- Standalone net sales grew 15.7% YoY to INR5.8b (in line) in 2QFY22.
- **Gross margin fell ~780bp YoY to 39.7%.** As a percentage of sales, greater RM cost (+780bp YoY), higher ad spends at 7% (+100bp YoY), lower staff cost at 10.2% (-160bp), and lesser other expenses at 11%(-100bp) led to an **EBITDA margin contraction of 620bp to 11.6%.**
- EBITDA declined by ~25% YoY to INR671m (est. INR 820m). PBT fell ~29% YoY to INR500m (est. INR637m). **Adjusted PAT declined by ~31% YoY to INR421m (est. INR523m).**
- Sales/EBITDA/adjusted PAT growth was 19%/-21%/-26% YoY In 1HFY22.
- **Consolidated segmental performance:** Fabric Care/Dishwashing/Household Insecticides/Personal Care grew by ~25%/13%/4%/5% YoY to INR2.1b/INR2.2b/INR628m/INR661m in 2QFY22.
- Margin for Fabric Care/Dishwashing/Household Insecticides/Personal Care contracted by ~590bp/830bp/nil/1,040bp YoY to 16.2%/11.3%/(5.6%)/15% in 2QFY22

Highlights from the management commentary

- RM cost escalation of 12% was only partially mitigated through price hikes of 4-5% and cost rationalization through scale (1-2%), impacting overall GM by ~700bp.
- The management said it is difficult to achieve an EBITDA of 16-17% in the near term.
- The company has a strong Balance Sheet, with NWC at 12 days, and is debt free. The management is not targeting a negative NWC.

Valuation and view

- We lower our FY22E/FY23E EPS by 25.2%/7.1% due to rising material costs. We expect sales growth to be more challenging in the next two quarters.
- For a company that has a far lower sales base of INR19.1b in FY21 (v/s peers), its performance over the past five years has been consistently lackluster (at 3.7%/7.2% sales/operating profit CAGR).
- RoCE at 15% in FY21 remains far inferior v/s its peers. No marked uptick is visible over the medium- to long-term. We maintain our 16x EV/EBITDA target multiple (~50% discount to its peers) even as we roll forward to our Dec'23 targets, resulting in TP of INR160 per share. We maintain our **Neutral** rating.

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Standalone Quarterly Performance

(INR m)

Y/E March	FY21				FY22				FY21	FY22E	2QE	Var. (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE				
Net Sales	4,287	4,996	4,694	4,873	5,219	5,783	4,929	4,708	18,850	20,639	5,546	4.3
YoY change (%)	4.1	7.6	15.3	27.5	21.8	15.7	5.0	-3.4	13.2	9.5	11.0	
Gross Profit	1,968	2,373	2,269	2,197	2,250	2,296	2,013	2,180	8,807	8,739	2,495	
Margins (%)	45.9	47.5	48.3	45.1	43.1	39.7	40.8	46.3	46.7	42.3	45.0	
EBITDA	782	889	798	698	650	671	591	612	3,167	2,524	820	-18.2
EBITDA growth %	19.4	12.4	22.6	73.9	-16.9	-24.5	-25.9	-12.3	26.8	-20.3	-7.7	
Margins (%)	18.3	17.8	17.0	14.3	12.5	11.6	12.0	13.0	16.8	12.2	14.8	
Depreciation	187	193	198	200	206	206	208	210	779	830	193	
Interest	51	29	20	18	17	18	24	22	117	80	29	
Other Income	42	39	63	53	48	52	57	48	198	205	39	
PBT	587	706	643	533	476	500	417	428	2,469	1,820	637	-21.6
Tax	83	100	121	28	75	79	75	85	332	314	115	
Rate (%)	14.1	14.1	18.8	5.3	15.7	15.7	18.0	19.9	13.4	17.2	18.0	
Adjusted PAT	504	607	522	505	401	421	342	342	2,138	1,506	523	-19.4
YoY change (%)	40.4	14.0	22.8	93.9	-20.5	-30.6	-34.6	-32.1	35.5	-29.5	-13.8	

E: MOFSL Estimates

Key Performance Indicators

Y/E March	FY21				FY22			
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE
2Y average growth %								
Sales	3.2	8.1	4.5	1.6	12.9	11.7	10.1	12.0
EBITDA	15.9	10.2	6.6	11.2	1.2	-6.1	-1.6	30.8
PAT	25.7	15.7	5.3	16.3	10.0	-8.3	-5.9	30.9
% sales								
COGS	54.1	52.5	51.7	54.9	56.9	60.3	59.2	53.7
Other expenditure	27.7	29.7	31.3	30.8	30.6	28.1	28.8	33.3
Depreciation	4.4	3.9	4.2	4.1	3.9	3.6	4.2	4.5
YoY change %								
COGS	7.8	4.0	13.8	26.6	28.1	32.9	20.2	-5.5
Other expenditure	-9.4	11.7	14.0	14.6	34.9	9.5	-3.4	4.6
Other income	-12.2	-27.7	18.6	19.6	14.2	33.0	-10.0	-10.0
EBIT	26.4	15.4	31.1	136.7	-25.4	-33.1	-36.1	-19.3

E: MOFSL Estimates



Highlights from the management commentary

Operating environment

- Sales growth momentum continued in 2QFY22 as well, with FMCG volume growth of 11.4%.
- JYL's essential products saw stable demand, with complete portfolio scaling well and gaining market share.
- Essentials and household consumption saw stable demand. JYL is seeing growth from new users in lower penetration categories like Dish Wash and household products.
- The management raised prices across categories and SKUs in 2QFY22.
- Market normalization would have led to some rural slowdown for the industry (but not for JYL). The management said it needs a few more quarters before it can confirm any structural slowdown.

Financial highlights

- RM cost inflation of 12% was partially mitigated through 4-5% price hikes and cost rationalization through scale (1-2%), impacting overall GM by ~700bp.
- The company has a strong Balance Sheet, with NWC at 12 days, and is debt free. The management is not targeting a negative NWC.

Channels and network

- Both urban and rural markets continue to perform well.
- JYL is seeing stabilization across the distribution channel, with MT and CSD channel back to pre-COVID levels, and is favoring revenue growth.
- e-commerce continues to do well and is now contributing ~4% to sales.

Channels and network

- Both urban and rural markets continue to do well.
- The distribution channel has stabilized, with MT and CSD channel back to pre-COVID levels, and is favoring revenue growth. e-commerce continues to do well and is now contributing ~4% to sales.
- The management is focused on increasing its direct reach as well as throughput, with a higher focus on rural markets. Its direct reach stood at over 2.8m outlets.

Products and categories:

- All categories delivered double-digit growth on a two-year CAGR basis and gained market share.
- **Fabric Care:** Ujala Fabric Whitener is back to pre-COVID levels, whereas Crisp and Shine is yet to return to normal growth levels. Ujala IDD gained market share (up 190bp to 21.1%).
- **Dish Wash:** Exo gained market share (+90bp to 13.4%), with LUP doing well. It has increased A&P spends in the category.
- **Household Insecticides:** LV gained market share (+30bp to 9.8%). It is targeting double-digit growth in the category. HI portfolio is profitable at the pre-media spend level.

Going ahead

- The management said high inflation remains a concern, and it is difficult to achieve an EBITDA of 16-17% in the near term.
- It is aiming to improve mix by selling higher margin products (Personal Care, LV, and Fabric Care Post Wash) to counter inflation.
- Further price hikes will depend on continuity in RM inflation and market dynamics, while keeping volume growth under check. The management expects market share gains in key categories and will make price hikes easier.

Key exhibits

Exhibit 1: Consolidated quarterly performance

Category sales (INR m)	2QFY21	1QFY22	2QFY22
Fabric Care	1,710	1,812	2,141
Dishwashing	1,916	1,910	2,159
Household Insecticides	603	718	628
Personal Care	628	680	661
Other products	187	134	64
Total	5,045	5,254	5,653
Category salience (%)			
Fabric Care	33.9	34.5	37.9
Dishwashing	38.0	36.3	38.2
Household Insecticides	12.0	13.7	11.1
Personal Care	12.5	13.0	11.7
Other products	3.7	2.6	1.1
Total	100.0	100	100.0
Category growth (%)			
Fabric Care	(11.7)	27.4	25.2
Dishwashing	23.6	22.0	12.7
Household Insecticides	22.6	12.7	4.1
Personal Care	14.5	13.5	5.3
Other products	(15.0)	27.7	(66.1)
Total	6.2	21.4	12.0
Category result (INR m)			
Fabric Care	377	319	347
Dishwashing	375	216	243
Household Insecticides	-34	-7	-35
Personal Care	159	124	99
Other products	-39	-65	-24
Total	838	587	630
Result salience (%)			
Fabric Care	45.0	54.3	55.0
Dishwashing	44.7	36.8	38.6
Household Insecticides	(4.1)	(1.2)	(5.6)
Personal Care	19.0	21.1	15.7
Other products	(4.7)	(11.0)	(3.7)
Total	100.0	100.0	100.0
EBIT margin (%)			
Fabric Care	22.1	17.6	16.2
Dishwashing	19.5	11.3	11.3
Household Insecticides	(5.7)	(0.9)	(5.6)
Personal Care	25.3	18.2	15.0
Other products	(21.0)	(48.2)	(37.2)
Total	16.6	11.2	11.1

Source: Company, MOFSL

Valuation and view

What has happened over the past 10 years?

- Given its size, which is much smaller v/s peers (INR6b/INR17.1b in FY10/FY20), JYL's financial performance has been disappointing over the past 10 years.
- While it has reported a ~11% sales CAGR over this period, the EBITDA/PAT CAGR has been tepid (~11%/~8%).
- The sales/EBITDA/PAT CAGR at 2.5%/9%/5.5% for the last five years has not been much better.
- Growth has been restricted by a) higher penetration and regional dependence of its largest brand Ujala and b) limited success in terms of achieving profitable growth in other categories/geographies outside of South India.
- The expiry of the Henkel option – which could have added more brands to its portfolio – has also been a setback.
- Given the above factors, it is not surprising that the stock has been an underperformer in recent years.

Our view on the stock

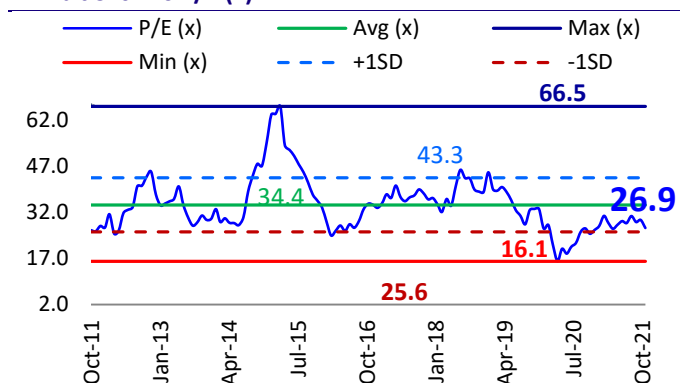
- We lower our FY22E/FY23E EPS by 25.2%/7.1% due to rising material costs. Sales growth base is also more challenging in the next two quarters
- For a company that has a far lower sales base of INR19.1b in FY21 (v/s peers), its performance over the past five years has been consistently lackluster (at 3.7%/7.2% sales/operating profit CAGR).
- RoCE at 15% in FY21 remains far inferior v/s peers. No marked uptick is visible over the medium- to long-term horizon. We maintain our 16x EV/EBITDA target multiple (~50% discount to peers) even as we roll forward to Dec'23 targets, resulting in TP of INR160 per share. Maintain **Neutral**.

Exhibit 2: Change our FY22E/FY23E EPS estimate by -25.2%/-7.1%

	New		Old		Change (%)	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Sales	20,876	22,546	20,670	22,324	1.0%	1.0%
EBITDA	2,472	3,332	3,044	3,531	-18.8%	-5.6%
PAT	1,414	2,150	1,889	2,315	-25.2%	-7.1%

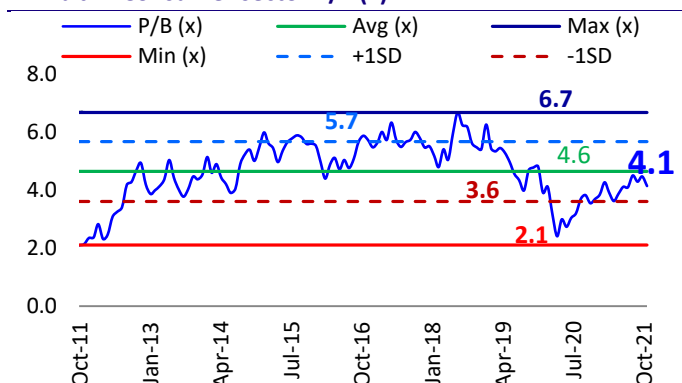
Source: Company, MOFSL

Exhibit 3: JYL's P/E (x)



Source: Company, MOFSL

Exhibit 4: Consumer sector P/E (x)



Source: Company, MOFSL

Financials and valuations

Income Statement - Consolidated

(INR m)

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
Total Income from Operations	16,830	16,724	18,136	17,112	19,091	20,876	22,546
Change (%)	5.7	-0.6	8.4	-5.6	11.6	9.4	8.0
Cost of Materials Consumed	8,941	8,753	9,707	9,009	10,104	12,017	12,428
% of Sales	53.2	52.3	53.5	52.6	52.9	57.6	55.1
Gross Profit	7,889	7,971	8,429	8,103	8,987	8,860	10,119
Margin (%)	46.9	47.7	46.5	47.4	47.1	42.4	44.9
Personnel Expenses	1,752	1,908	2,076	2,193	2,325	2,505	2,593
% of Sales	10.4	11.4	11.4	12.8	12.2	12.0	11.5
Other Expenses	3,591	3,488	3,542	3,398	3,517	3,883	4,194
% of Sales	21.4	20.9	19.5	19.9	18.4	18.6	18.6
EBITDA	2,545	2,575	2,811	2,511	3,145	2,472	3,332
Margin (%)	15.1	15.4	15.5	14.7	16.5	11.8	14.8
Depreciation	301	311	306	529	556	850	859
EBIT	2,245	2,263	2,505	1,982	2,589	1,622	2,473
Int. and Finance Charges	565	481	352	329	192	115	81
Other Income	107	625	278	203	185	218	229
PBT after EO Exp.	1,787	2,407	2,430	1,818	2,346	1,724	2,621
Current Tax	-255	619	454	189	440	310	472
Tax Rate (%)	-14.3	25.7	18.7	10.4	18.7	18.0	18.0
Less: Minority Interest	40	73	75	77	88	88	88
Adjusted PAT	2,042	1,789	1,976	1,667	2,142	1,414	2,150
Change (%)	176.6	-12.4	10.5	-15.6	28.5	-34.0	52.1

Consolidated - Balance Sheet

(INR m)

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
Equity Share Capital	182	182	367	367	367	367	367
Total Reserves	10,708	11,260	12,898	11,919	13,918	13,021	12,859
Net Worth	10,890	11,442	13,265	12,286	14,286	13,388	13,226
Minority Interest	-67	-139	-215	-291	-379	-379	-379
Deferred Liabilities	-1,115	-902	-928	-1,027	-962	-962	-962
Total Loans	4,983	5,441	2,809	2,830	1,169	669	0
Capital Employed	14,691	15,841	14,932	13,798	14,114	12,716	11,886
Gross Block	11,541	11,762	12,046	13,050	13,556	13,756	13,956
Less: Accum. Deprn.	571	855	1,040	1,558	2,089	2,939	3,798
Net Fixed Assets	10,970	10,907	11,006	11,492	11,467	10,817	10,158
Capital WIP	88	153	143	245	101	123	123
Total Investments	285	1,132	1,044	0	0	0	0
Curr. Assets, Loans&Adv.	6,073	6,695	6,301	5,598	7,029	6,494	7,023
Inventory	1,925	1,836	1,974	2,251	2,786	2,923	3,156
Account Receivables	1,228	1,674	1,534	1,224	944	1,044	1,127
Cash and Bank Balance	1,034	1,367	964	289	1,938	563	617
Loans and Advances & Others	1,886	1,818	1,830	1,834	1,361	1,965	2,122
Curr. Liability & Prov.	2,725	3,045	3,563	3,537	4,483	4,718	5,419
Account Payables	1,490	1,720	2,134	1,450	2,143	1,983	2,255
Other Current Liabilities	654	663	715	1,299	1,520	1,900	2,375
Provisions	581	663	715	788	820	835	789
Net Current Assets	3,348	3,650	2,738	2,061	2,546	1,776	1,604
Appl. of Funds	14,691	15,841	14,932	13,798	14,114	12,716	11,886

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
Basic (INR)							
EPS	5.6	4.9	5.4	4.5	5.8	3.8	5.9
Cash EPS	6.4	5.7	6.2	6.0	7.3	6.2	8.2
BV/Share	29.7	31.2	36.1	33.5	38.9	36.5	36.0
DPS	3.0	0.5	6.0	0.0	4.0	5.4	5.4
Payout (%)	64	12	134	0	83	170	112
Valuation (x)							
P/E	28.3	32.3	29.3	34.7	27.0	40.9	26.9
Cash P/E	24.7	27.5	25.3	26.3	21.4	25.5	19.2
P/BV	5.3	5.1	4.4	4.7	4.0	4.3	4.4
EV/Sales	1.9	1.9	3.2	3.5	3.0	2.8	2.5
EV/EBITDA	12.7	12.3	20.9	24.0	18.1	23.4	17.2
Dividend Yield (%)	1.9	0.3	3.8	0.0	2.5	3.4	3.4
FCF per share	5.9	13.6	7.2	3.5	10.3	3.6	7.9
Return Ratios (%)							
RoE	20.5	16.0	16.0	13.0	16.1	10.2	16.2
RoCE	18.3	13.1	13.7	12.6	14.7	10.2	16.2
RoIC	20.0	12.7	15.7	13.6	16.6	11.0	17.5
Working Capital Ratios							
Asset Turnover (x)	1.1	1.1	1.2	1.2	1.4	1.6	1.9
Debt/Equity	0.5	0.5	0.2	0.2	0.1	0.1	0.0

Consolidated - Cash Flow Statement

(INR m)

Y/E March	FY17	FY18	FY19E	FY20	FY21	FY22E	FY23E
OP/(Loss) before Tax	1,787	2,407	2,430	1,815	2,346	1,724	2,621
Depreciation	301	311	306	529	556	850	859
Interest & Finance Charges	493	413	314	304	161	115	81
Other income	18	-409	-25	-21	232	-218	-229
Direct Taxes Paid	-309	-251	-418	-386	-327	-310	-472
(Inc)/Dec in WC	-656	-38	409	-527	1,055	-605	226
CF from Operating incl EO	1,633	2,434	3,016	1,715	4,022	1,556	3,086
(inc)/dec in FA	-567	43	-383	-415	-257	-222	-200
(Pur)/Sale of Investments	598	-807	112	1,061	0	0	0
Others	56	115	37	4	45	305	317
CF from Investments	87	-649	-234	650	-212	84	117
Issue of Shares	4,001	600	4	0	0	0	0
(Inc)/Dec in Debt	492	2,276	-610	41	-1,669	-500	-669
Interest Paid	-1,555	-600	-342	-212	-281	-115	-81
Dividend Paid	-181	-1,090	-182	-2,656	0	-2,399	-2,399
Others	-4,054	-2,639	-2,055	-211	-212	0	0
CF from Fin. Activity	-1,298	-1,453	-3,185	-3,039	-2,161	-3,015	-3,149
Inc/Dec of Cash	422	332	-403	-674	1,649	-1,375	54
Opening Balance	612	1,034	1,367	964	289	1,938	563
Closing Balance	1,034	1,367	964	289	1,938	563	617

E: MOFSL Estimates

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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