Stock Update

Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Jyothy Labs Ltd

Double-digit growth momentum sustained

Consumer Goods	Sharekhan code: JYOTHYLAB
Reco/View: Buy ↔	CMP: **Rs. 156** / Price Target: **Rs. 190** ↓

↑ Upgrade ↔ Maintain ↓ Downgrade

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		↔	

ESG Disclosure Score NEW

ESG RISK RATING 30.07

Updated Oct 08, 2021

High Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

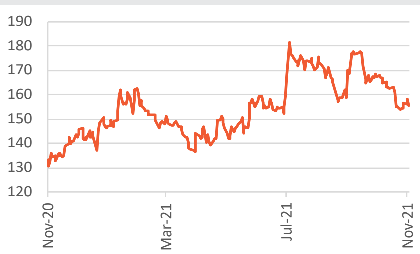
Company details

Market cap:	Rs. 5,703 cr
52-week high/low:	Rs. 187 / 128
NSE volume: (No of shares)	8.2 lakh
BSE code:	823857
NSE code:	JYOTHYLAB
Free float: (No of shares)	13.6 cr

Shareholding (%)

Promoters	62.9
FII	12.7
DII	16.4
Others	8.0

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-7.4	-10.2	9.5	18.6
Relative to Sensex	-8.2	-19.9	-13.3	-29.8

Sharekhan Research, Bloomberg

Summary

- Q2FY2022 numbers were mixed, with consolidated revenues rising 15% y-o-y (led by an 11.4% volume growth); gross margins decreased by ~800 bps affected by sharp increase in some of key input prices.
- All key categories registered double-digit revenue growth on a two-year CAGR basis. Fabric wash category registered a strong comeback with a 25% growth as mobility improved.
- Raw material inflation stood at 12% in Q2FY22. Price hikes and efficiencies would help in mitigating pressures. We expect OPM to recover to 16-17% by FY2024.
- Better cash flows, management's focus on driving double-digit volume growth, better dividend payout and discounted valuation of 20.3x/16.5x its FY2023E/24E EPS makes it a good mid-cap pick. We maintain Buy with a revised price target of Rs. 190.

Jyothy Labs Limited (JLL) posted mixed numbers in Q2FY2022 with revenues growing by strong 15% to Rs. 578.4 crore (on a normalised base of 6.2% revenue growth) while OPM declined by 572 bps to 11.6%, thereby dragging the bottom line (PAT fell by ~30% to Rs. 42.1 crore). The strong double-digit revenue growth can be attributed to a strong volume growth of 11.4% (versus high single digit volume growth in Q2FY2021). All key categories registered double-digit revenue growth on two year CAGR basis.

Key positives

- Domestic volumes grew by 11.4% (vs. 8.5% volume growth in Q2FY2021); the fourth consecutive quarter of double-digit volume growth.
- The company gained market share in categories such as fabric whiteners, detergent, household insecticides and dishwash bars.
- Working capital days reduced to 12 days from 17 days in September 20; Company remains net cash positive.

Key negatives

- Gross margins decreased by 800 bps y-o-y and 361 bps on a q-o-q basis.

Management Commentary

- The company expects double-digit growth momentum to sustain with stable demand across markets in India, sustained improvement in market share of key categories and strong traction on channels such as modern trade and canteen stores department (CSD).
- Raw material inflation stood at 12% in Q2 and remains high. The company has undertaken price increase of 5% and efficiency led cost savings of 2% to mitigate the pressure on margins in the quarters ahead. The company will increase the prices if required, in the coming quarters. It will also focus on increasing the contribution of high margin products.
- Working capital days would remain at 12-15 days. Higher cash generated will be utilised for growth prospects of core portfolio and expansion of reach in new markets.

Revision in estimates – We have reduced our earnings estimates for FY2023 and FY2024 to factor in lower OPM, affected by substantial input cost inflation.

Our Call

View – Maintain Buy with a revised price target of Rs. 190: We like JLL's focus on achieving double-digit revenue growth in the medium term with relevant strategic initiatives undertaken in recent times. Product innovation, availability of relevant product assortment for general trade/e-commerce/modern trade and distribution enhancement will help JLL compete with large domestic players and gain market share from unorganised players. We have introduced FY2024 earnings estimates through this note. The stock currently trades at attractive valuations of 20.4x/16.6x its FY2023E/24E earnings. Improving cash flows, a focus on achieving double-digit volume growth, better dividend payout and attractive valuations make it a good mid-cap pick. We maintain a Buy on the stock with a revised price target of Rs. 190.

Key Risks

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

Valuation (Consolidated) Rs cr

Particulars	FY21	FY22E	FY23E	FY24E
Revenues	1,909	2,214	2,549	2,892
OPM (%)	16.5	13.6	15.8	16.8
Adjusted PAT	208	197	281	346
% YoY growth	*30.5*	*-5.2*	*42.3*	*23.2*
Adjusted EPS (Rs.)	5.7	5.4	7.6	9.4
P/E (x)	27.5	29.0	20.4	16.6
P/B (x)	4.0	4.0	3.8	3.4
EV/EBIDTA (x)	18.2	19.3	14.4	11.7
RoNW (%)	15.7	13.7	18.9	21.7
RoCE (%)	14.2	13.3	17.7	20.3

Source: Company; Sharekhan estimates

Strong volume-led revenue growth of 14.6% y-o-y, Margins impacted by raw material inflation

Revenue grew by 14.6% y-o-y and 10.1% q-o-q to Rs. 578.3 crore, ahead of our expectation of Rs. 552.2 crore, driven by double-digit volume growth of 11.4% in Q2FY22 on the normalised base of mid-single digit volume growth in Q2FY21. The fabric care & dishwashing categories reported strong growth of 25.2% and 12.7% y-o-y, respectively. Gross margins slumped by 800 bps y-o-y to 39.7%. Advertising & Promotion spends stood at Rs. 40.7 crore (6.9% of net sales) versus Rs. 30 crore (5.9% of net sales) in the same period last year, rising by 35.5% y-o-y. OPM was down by 572 bps to 11.6% (against our expectation of 12.6%). Operating profit decreased by 23.2% y-o-y to Rs. 67.2 crore. PAT decreased by 30.0% y-o-y to Rs. 42.1 crore, lagging our expectation of Rs. 47.1 crore.

Strong performance across all categories

The fabric care segment clocked a revenue growth of 25.2% to Rs. 214 crore with 2-year CAGR at 5.1% as offices resumed offline work and educational institutions opened up in many states leading to increased mobility. Dishwashing revenue increased by 12.7% y-o-y to Rs. 216 crore in Q2FY2022, registering a 2-year CAGR of 18%. The growth is on the back of superior brand promise and product delivery. Focused work on consumer relevant packs enabled the brand to reach new consumers. Household insecticides segment's revenue increased by 4.1% y-o-y to Rs. 63 crore, reporting a 2-year CAGR of 12.9% aided by a robust strong double-digit growth in Liquid Vaporiser. The market share of liquid vaporiser also increased from 8.6% in March 21 to 9.8% in September 2021. The personal care segment's revenue grew by 5.3% y-o-y and 9.8% on 2-year CAGR basis to Rs. 66 crore in Q2FY2022 led by consistent growth in brand performance.

Key conference call highlights

- The company witnessed stabilization of demand with increased mobility. The growth was seen across all the distribution channels with modern trade and CSD channels returning to pre-COVID level during the quarter. New users drove growth in lower penetration categories of Dishwash and Household Insecticides. Government initiatives aimed at rural India are expected to drive consumption offtakes in the coming period.
- Prices of most key raw materials increased sharply in the last few quarters. Between March 20 and October 21, price of crude palm oil rose upwards of 121%, price of polypropylene increased by 70%, prices of Linear Alkyl Benzene, Caustic Soda LYE, LDPE-Laminate Grade, PET-Bottle Grade and Diesel rose upwards of 50%. The company has undertaken price hikes of 4-5% and savings from efficiencies due to large scale are to the extent of 2%. The management has guided that the inflationary input price environment will be partially balanced with strategic price hikes, cost optimisation initiatives and rationalisation of trade schemes.
- Fabric care category registered a strong growth of 25% in Q2 on back of improvement in the mobility and strong recovery in the trade channels such as CSD and Modern trade. The post wash category recovered to almost pre-COVID levels while Ujala Crisp and Shine is yet to achieve normalcy. Improvement in the mobility and expansion of Crisp and Shine in other southern states will help brand to recover to pre-covid levels in quarter or two.
- Under the household insecticide category, the contribution of liquid vaporisers (LV) has increased to 40% from 35% earlier. The company is focusing on improving the HI products through LV in key markets.
- The management will continue to focus on brand building and relevant innovations, gaining market share across brands and strengthening distribution with aid of technology and addition of manpower to enhance market execution.
- The company is taking a digital approach to capture secondary sales with enhancing function to provide a lead to its sales team to generate demand and implemented a continuous replenishment system across India to manage inventory at optimum level.
- The net working capital days stand at 12 days and the company is debt-free as at quarter end. Management expects net working capital to remain at 12-15 days in the near term.

Results (Consolidated) Rs cr

Particulars	Q2FY22	Q2FY21	Y-o-Y %	Q1FY22	Q-o-Q %
Total Revenue	**578.3**	**504.5**	**14.6**	**525.4**	**10.1**
Raw material cost	348.7	263.8	32.2	297.9	17.1
Employee expenses	58.8	61.5	-4.5	63.7	-7.8
Advertisement expenses	40.3	30.0	34.4	43.0	-6.1
Other expenses	63.4	61.7	2.8	57.6	10.1
Total operating cost	511.2	417.1	22.6	462.1	10.6
Operating profit	**67.1**	**87.4**	**-23.2**	**63.3**	**6.1**
Other income	5.2	4.0	30.3	4.6	15.2
Depreciation	20.6	13.4	53.7	14.4	42.8
Interest expenses	1.8	5.2	-65.8	3.1	-41.8
Profit before tax	**50.0**	**72.8**	**-31.4**	**50.3**	**-0.7**
Tax	7.9	12.7	-38.0	10.1	-22.6
Adjusted PAT	42.1	60.1	-30.0	40.2	4.8
Extraordinary item	0.0	0.0		-17.2	
Reported PAT	**42.1**	**60.1**	**-30.0**	**40.2**	**4.8**
EPS (Rs.)	1.1	1.6	-30.0	1.1	4.8
			BPS		**BPS**
GPM (%)	39.7	47.7	-800	43.3	-361
OPM (%)	11.6	17.3	-572	12.0	-44
NPM (%)	7.3	11.9	-464	7.7	-37
Tax rate (%)	15.7	17.4		20.1	

Source: Company; Sharekhan Research

Category wise performance Rs cr

Particulars	Q2FY22	Q2FY21	Y-o-Y %	Q1FY22	Q-o-Q %
Revenue (Rs. crore)					
Fabric care	214.0	171.0	25.1	181.2	18.1
Dish washing	216.0	191.6	12.7	191.0	13.1
Mosquito Repellant	63.0	60.3	4.5	71.8	-12.2
Personal care	66.0	62.8	5.0	68.0	-3.0
Other Products	20.0	14.8	35.6	10.6	89.0
Total Consumer	**579.0**	**500.5**	**15.7**	**522.6**	**10.8**
Laundry Services	6.0	3.2	87.5	2.8	111.3
Total Revenue	**585.0**	**503.7**	**16.1**	**525.4**	**11.3**
PBIT Margins (%)			**bps**		**Bps**
Fabric care	16	22	-586	18	-139
Dish washing	11	20	-828	11	-5
Mosquito Repellant	-6	-6	-	-1	-
Personal care	15	25	-	18	-322
Other Products	-5	-1	-	-27	-
Total Consumer	**11**	**17**	**-638**	**12**	**-82**

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector view – Demand trends will improve ahead

After disruption amid the second wave of COVID-19 in April-May 2021, companies witnessed a faster recovery in performance in June-July 2021. With improving mobility, the demand for out-of-home categories is increasing. Rural demand has softened a bit in past few weeks due to higher inflationary pressure but is expected to come back with better agricultural production and government support. Thus, we expect consumer goods companies to post better sales volumes in the quarters ahead. Raw material inflation would sustain in the medium term and would put pressure on margins of consumer goods companies. However, improving revenue mix and better operational efficiencies would help in mitigating the inflationary pressures. Lower penetration in key categories, improving per capita income, shift to branded products and improving penetration in the rural India are some of the key growth drivers in the medium term.

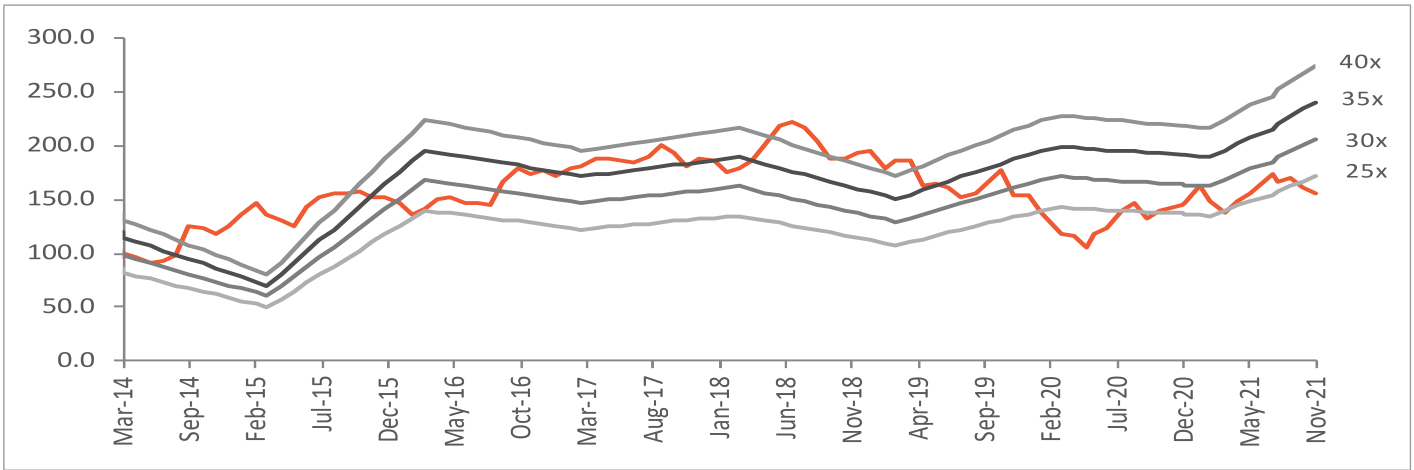
■ Company outlook – Focus on achieving double-digit volume growth

Q2 was fourth consecutive quarter of double-digit revenue growth. New product addition, optimal utilisation of existing distribution reach (eight lakh direct/three million in-direct outlets), and improving rural penetration (currently 40% of overall revenue) remain key revenue growth drivers in the near term. Raw material inflation stood at 12% in Q2 and it continues to remain high. The company has undertaken price increase of 5% and efficiency-led cost savings of 2% to the pressure on margins in the quarters ahead. The company will increase the prices if required in the coming quarters. It will also focus on increasing the contribution of high-margin products.

■ View - Retain Buy with a revised PT of Rs. 190

We like JLL's focus on achieving double-digit revenue growth in the medium term with relevant strategic initiatives undertaken in recent times. Product innovation, availability of relevant product assortment for general trade/e-commerce/modern trade and distribution enhancement will help JLL compete with large domestic players and gain market share from unorganised players. We have introduced FY2024 earnings estimates through this note. The stock currently trades at attractive valuations of 20.4x/16.6 its FY2023E/24E earnings. Improving cash flows, a focus on achieving double-digit volume growth, better dividend payout and attractive valuations make it a good mid-cap pick. We maintain a Buy on the stock with a revised price target of Rs.190.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Particulars	P/E (x)			EV/EBITDA (x)			RoCE (%)		
	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21E	FY22E	FY23E
Godrej Consumer Products	55.6	49.7	41.0	40.9	36.6	30.9	18.3	20.6	22.8
HUL	69.6	61.7	50.2	49.6	43.7	36.2	36.5	25.2	31.1
Jyothy Labs	27.5	29.0	20.4	18.2	19.3	14.4	14.2	13.3	17.7

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. 1,800 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 demand:** Slowdown in household insecticide segment's growth would affect demand.
- **Higher input prices:** Sharp rise 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
Sanjay Agarwal	Chief Financial Officer
Shreyas Trivedi	Company Secretary

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 (Old data)

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

Sharekhan

by BNP PARIBAS

Know more about our products and services

For Private Circulation only

Compliance Officer: Mr. Joby John Meledan; Tel: 022-61150000; email id: compliance@sharekhan.com;

For any queries or grievances kindly email igc@sharekhan.com or contact: myaccount@sharekhan.com

Registered Office: Sharekhan Limited, 10th Floor, Beta Building, Lodha iThink Techno Campus, Off. JVLR, Opp. Kanjurmarg Railway Station, Kanjurmarg (East), Mumbai – 400042, Maharashtra. Tel: 022 - 61150000. Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE / MSEI (CASH / F&O / CD) / MCX - Commodity: INZ000171337; DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669; Research Analyst: INH000006183;