Jyothy Laboratories (JYOLAB)

ICICI direct Research

CMP: ₹ 151 | Target: ₹ 145 (-4%) | Target Period: 12 months | HOLD

May 25, 2022

Result Update

Margin pressure continues…

About the stock: Jyothy labs (JLL) is an FMCG company with a presence in fabric whiteners, detergents, dishwashing products, household insecticides (HI) & personal care products. The company has leading brand Ujala in fabric whitener with 84.1% market share. It has a sizable dish washing & HI business with mid-teens market share. Large part of the revenue is generated from Kerala and Tamil Nadu.

- The company has 23 manufacturing facilities in India. Its pan-India distribution reach is close to 2.8 million outlets with direct reach of 1.0 million. Its major brands include Ujala & Henko in Fabric wash, Exo & Pril, in dishwashing, Margo in Soaps & Maxo in HI categories

Q4FY22 Results: JLL posted dismal result with 501 bps dip in operating margin.

- Sales were up 10.3% YoY, aided by 3.6% volume growth
- EBITDA was at ₹ 56.8 crore, down 18.6% YoY, with margins at 10.6%
- Consequent adjusted PAT was at ₹ 38.5 crore (down 20.1 % YoY)

What should investors do? JLL's share price have underperformed FMCG index with negative 18% return (from ₹ 185 in January 2017 to ₹ 151 in January 2022).

- We cut our FY22E & FY23E earnings estimate by 10.3% & 2.5%, respectively
- We continue to maintain our **HOLD** rating on the stock

Target Price and Valuation: We value the stock at ₹ 145, valuing the business at 23x FY24 earnings

Key triggers for future price performance:

- High commodity prices continue to adversely impact gross margins. Price hikes not sufficient to protect gross margins; marketing spends require for volume growth
- Strong growth momentum to continue in dishwashing with expected market share gains with distribution expansion
- Increasing proportion of liquid vaporisers to turn HI segment profitable on full year basis. Margo to grow on naturals tailwind

Alternate Stock Idea: We like TCPL in our FMCG coverage.

- Strong innovation & premiumisation strategy in salt, tea, Sampaan & Soulful in the Indian market are expected to drive sales & margins
- We value the stock at ₹ 910 with a BUY rating

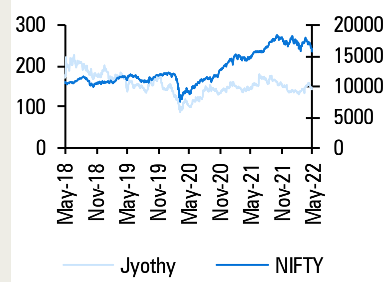
Particulars

Particulars (₹ crore)	Amount
Market Capitalization	5,544.7
Total Debt (FY22)	0.0
Cash and Investments (FY22)	206.1
EV	5,338.6
52 week H/L (₹)	187 / 130
Equity capital	36.7
Face value (₹)	1.0

Shareholding pattern

(in %)	Jun-21	Sep-21	Dec-21	Mar-22
Promoter	62.9	62.9	62.9	62.9
FII	11.9	12.2	9.9	10.9
DII	16.6	16.4	18.3	16.9
Others	8.6	8.5	8.9	9.3

Price Chart



Recent event & key risks

- It has launched Henko Matic liquid detergent in key states & all major ecommerce platform
- **Key Risk:** (i) Elevated commodity inflation to keep gross margins under pressure (ii) Stronger than expected market share gains can impact sales positively

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ICICI Securities – Retail Equity Research

Key Financial Summary

Key Financials	FY20	FY21	FY22	5 Year CAGR (FY17 to FY22)	FY23E	FY24E	CAGR (FY22-24E)
Net Sales	1665.4	1885.0	2166.3	5.9	2430.4	2636.6	10.3%
EBITDA	249.8	316.7	249.5	-0.8	307.7	348.9	18.3%
EBITDA Margin %	15.0	16.8	11.5		12.7	13.2	
Net Profit	157.7	190.3	156.1	-5.0	205.2	233.5	22.3%
Adjusted EPS (₹)	4.39	5.18	4.25	-5.0	5.59	6.36	22.3%
P/E	35.2	29.1	35.5		27.0	23.7	
RoNW %	21.7	20.4	16.6		21.2	23.8	
RoCE (%)	24.3	26.0	18.7		24.2	27.7	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter

Q4FY22 Results: Incessant commodity inflation warrant further price hikes to recover margin territory

- Revenue witnessed growth of 10.3% to ₹ 537.4 crore led 6-7% price hikes and 3.6% volume growth. The company has taken price hikes to pass on inflation in crude & palm based raw material. Demand environment is adversely impacted by high inflationary pressure on households. Further competitive intensity is increasing

- Fabric wash segment (Ujala & Henko) saw 18% revenue growth whereas dish-washing (Exo & Pril) witnessed 12.2% growth during the quarter. Personal care segment (Margo, Neem & Fa) saw 11.7% sales growth during the quarter. Household Insecticide segment saw 9.1% de-growth in sales during the quarter on a high base & extreme weather conditions

- Sales increased across all brands and at modern trade and canteen store department. Ujala Supreme's market share increased from 83.6% in Q4FY21 to 84.1% in Q4FY22. This has been supported by opening up of work places and institutions

- Rural sales saw slight de-growth, which adversely impacted overall volumes growth given 40% of the company's sales is contributed by rural regions. Overall E-Com sales is growing at 30-35%

- In fabric care, large packs are doing well across channels specifically in e-commerce & modern trade. Opening of institutions, workplace spurred post wash product range. Ujala IDD saw double digit growth with market share gains 260 bps to 21.9% in Kerala

- Extreme weather conditions impacted coil sales in HI segment sales. However, liquid vaporisers saw double digit growth

- In dish wash, double digit growth in LUPs helped gain new consumer for the brand. Pril & Exo continued the growth momentum with double digit growth. Large tub packs of Exo helping drive premiumisation. Pril 3 litre pack was introduced

- In personal wash category, Margo maintained double digit growth. The company continued pan India ATL investment. It is focusing on smaller pack to increase trials. Using social media influencers to promote brand

- There has been an incessant commodity inflation in last one year. Caustic soda, PET bottle, crude palm oil, Linear Alkyl Benzene (LAB) prices are up 149%, 28%, 26% & 10%, respectively. Gross margins continue to remain under extreme pressure with 501 contraction in Q4

- The company was able to save 63 bps in marketing spends & 47 bps in overhead spends during the quarter. Operating profit was down 18.6% to ₹ 56.8 crore. Operating margins contracted 375 bps to 10.6% in Q4

- Net profit witnessed growth of 42.9% to ₹ 38.5 crore given base quarter included one off spend of ₹ 23.5 crore. Adjusting for one-off, net profit was down by 20.1%. The company proposed a dividend of ₹ 2.5/share

- The company has taken ~7% price hike. However, this is not sufficient to pass on the entire commodity inflation. It will take further price hikes if commodity prices remain at elevated levels

- JLL is looking to drive volume growth through category development & increased brand building initiatives. However, near term inflation challenges would result in only price led growth. The company expects good monsoon & government welfare schemes to result in pick up in rural growth

Exhibit 1: Peer Comparison

Sector / Company	CMP (₹)	TP (₹)	Rating	M Cap (₹ Cr)	Sales growth (%) FY22E	FY23E	FY24E	EBITDA Margins (%) FY22E	FY23E	FY24E	P/E(x) FY22E	FY23E	FY24E	RoE (%) FY22E	FY23E	FY24E	RoCE (%) FY22E	FY23E	FY24E
Hindustan Unilever (HINLEV)	2310	2200	Hold	503770	11.3	9.8	7.5	24.8	24.3	24.7	57.1	54.3	49.1	18.1	19.1	21.2	20.2	21.9	24.2
Dabur India (DABIND)	502	680	Buy	93515	13.9	10.2	11.2	20.7	20.5	20.9	53.7	45.6	40.6	20.8	22.5	22.8	24.9	25.5	26.4
Jyothy Lab (JYOLAB)	151	145	Hold	5545	14.9	12.2	8.5	11.5	12.7	13.2	35.5	27.0	23.7	16.6	21.2	23.8	18.7	24.2	27.7

Source: Company, ICICI Direct Research

Jyothy Lab has been adversely impacted by inflation in crude based derivatives in the last three quarters. The company has not taken price hikes to pass on entire commodity cost. Moreover, similar to other FMCG companies, Jyothy has also seen pressure on volumes as rural consumers are down trading to the economy brands or smaller SKUs. Though, the company has slightly increased its advertisement spends in FY22, it is still not insulating volumes. We believe the company is worst impacted by raw material price inflation among FMCG companies given its competition with FMCG behemoth & high concentrate of crude based commodities in its raw material basket. We remain cautious on future growth outlook & margin territory. We maintain our HOLD rating with a revised target price of ₹ 145 / share (earlier ₹ 150 / share).

Exhibit 2: Variance Analysis

	Q4FY22	Q4FY21	YoY (%)	Q3FY21	QoQ (%)	Comments
Net Sales	537.4	487.3	10.3	528.7	1.6	Net sales witnessed a growth of 10.3% led by 3.6% volume growth & 6-7% pricing growth
Raw Material Expenses	322.0	267.6	20.3	311.7	3.3	With high commodity inflation, gross margins continue to remain under pressure with
Employee Expenses	57.0	52.5	8.6	58.6	-2.7	
SG&A Expenses	38.7	38.2	1.4	38.0	1.7	The company saved 60 bps on marketing spends
Other operating Expenses	62.8	59.3	6.1	59.8	5.1	It saved 50 bps on overhead spends
EBITDA	56.8	69.8	-18.6	60.5	-6.1	
EBITDA Margin (%)	10.6	14.3	-375 bps	11.4	-87 bps	Operating margins contracted by 375 bps due to gross margin pressure
Depreciation	16.4	20.0	-18.3	21.0	-21.9	
Interest	1.4	1.8	-22.1	1.8	-21.7	
Other Income	4.6	5.3	-12.8	4.3	9.2	
Exceptional Income/(Expenses)	0.0	23.5	NA	0.0	NA	
PBT	43.7	29.8	46.7	42.0	4.0	
Tax Outgo	5.2	2.8	NA	6.6	-21.5	
PAT	38.5	27.0	42.9	35.4	8.8	Net profit grew by 42.9% due to one-off spend in base quarter
Segment wise sales (in Cr)						
Dishwashing	189.8	169.2	12.2	201.1	-5.6	Dishwash segment continue to see strong growth even on high base
Fabric Care	212.6	180.3	17.9	209.1	1.7	Fabric was saw growth was driven by ~7% price hijes & 10% volume growth
Household Insecticides	79.3	87.2	-9.1	51.4	54.1	HI segment witnessed dip in sales due to extreme weather
Personal Care	46.7	41.8	11.7	53.0	-11.8	

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

	FY23E			FY24E			
(₹ Crore)	Old	New	% Change	Old	New	Change	Comments
Sales	2,376.7	2,430.4	2.3	2,580.3	2,636.6	2.2	We expect further price hikes to pass on commodity inflation
EBITDA	339.9	307.7	-9.5	360.0	348.9	-3.1	
EBITDA Margin (%)	14.3	12.7	-164 bps	14.0	13.2	-72 bps	We cut our operating margin estimates due to incessant inflation in crude based commodity prices
PAT	228.7	205.2	-10.3	239.4	233.5	-2.5	
EPS (₹)	6.2	5.59	-10.3	6.5	6.4	-2.5	

Source: ICICI Direct Research

Exhibit 4: Assumptions

	Current						Earlier		
	FY19	FY20E	FY21E	FY22	FY23E	FY24E	FY23E	FY24E	Comments
Dishwashing	577.1	566.7	689.7	824.2	890.0	993.7	890.0	993.7	We change our fabric care sales estimates due to additional price hikes
Fabric Care	740.2	708.0	668.4	797.3	907.5	953.9	853.9	897.6	
Household Insecticides	233.3	181.4	258.0	283.8	303.7	328.0	303.7	328.0	
Personal Care	194.5	180.4	230.9	245.5	273.1	301.1	273.1	301.1	
RM Expenses to Sales (%)	54.4	53.6	53.3	59.1	58.8	57.3	55.7	56.0	RM costs continue to pressurise gross margins
Ad Expenses to Sales (%)	6.2	7.2	6.5	7.4	7.2	7.5	7.2	7.5	
Employee Cost to Sales (%)	10.7	12.0	11.7	10.9	10.5	11.0	11.5	11.5	

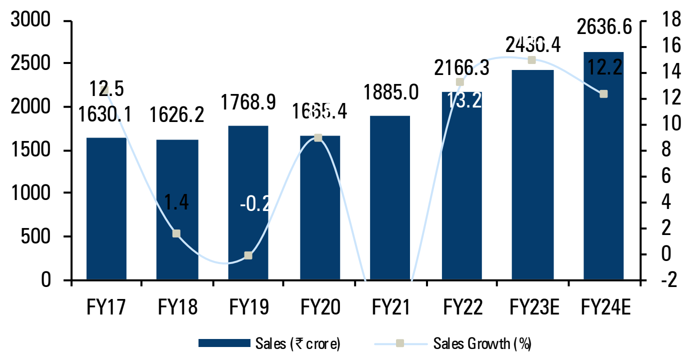
Source: ICICI Direct Research

Exhibit 5: Category wise performance for quarter (₹ crore)

Category	Key Brands	Q4FY22	Q4FY21	Growth
Fabric Care	Ujala, Henko, Mr. White, Ujala Crisp & Shine	213	180	17.9%
Dishwashing	Exo, Pril	190	169	12.2%
HI	Maxo	79	87	-9.1%
Personal Care	Margo, Neem	47	42	11.7%
Other Products	Maya, T Shine	10	10	0.8%
Total		**537**	**487**	**10.3%**

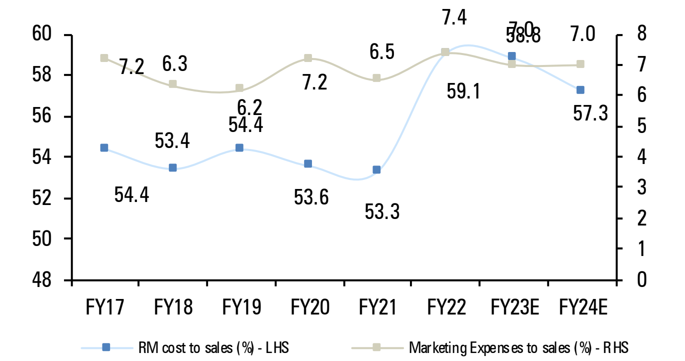
Source: Company, ICICI Direct Research

Exhibit 6: Revenue trend (standalone)



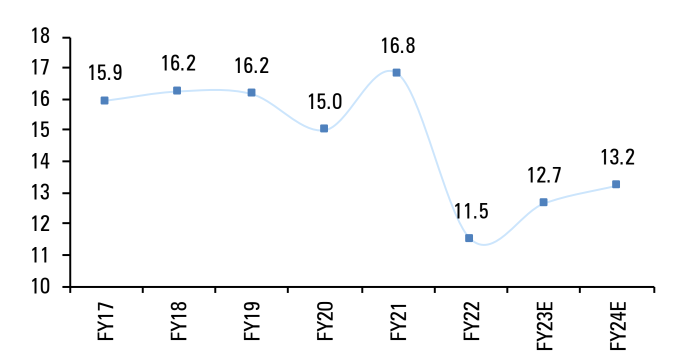
Source: ICICI Direct Research, Company

Exhibit 7: RM & A&P spend trends (standalone)



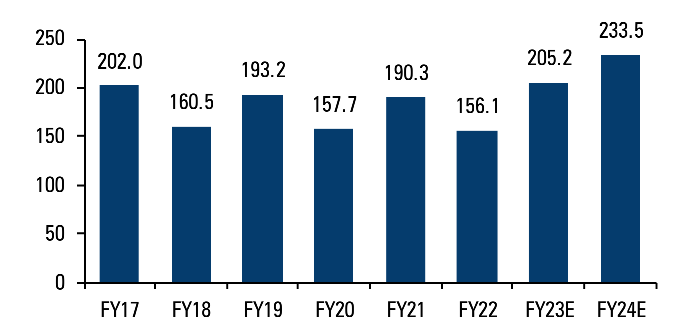
Source: ICICI Direct Research, Company

Exhibit 8: EBITDA growth trend (%)



Source: ICICI Direct Research, Company

Exhibit 9: PAT trend (₹ crore)



Source: ICICI Direct Research, Company

Exhibit 10: Valuations

	Sales	Growth	EPS	Growth	PE	EV/EBITDA	RoNW	RoCE
	(₹ cr)	(%)	(₹)	(%)	(x)	(x)	(%)	(%)
FY21	1885.0	13.2	5.2	20.7	29.1	15.9	20.4	26.0
FY22	2166.3	14.9	4.3	-17.9	35.5	20.1	16.6	18.7
FY23E	2430.4	12.2	5.6	31.4	27.0	15.9	21.2	24.2
FY24E	2636.6	8.5	6.4	13.8	23.7	14.0	23.8	27.7

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 11: Profit and loss statement ₹ crore

(Year-end March)	FY21	FY22	FY23E	FY24E
Total operating Income	**1885.0**	**2166.3**	**2430.4**	**2636.6**
Growth (%)	13.2	14.9	12.2	8.5
Raw Material Expenses	1,004.3	1,279.4	1,430.0	1,509.9
Employee Expenses	220.9	235.4	255.2	290.0
Marketing Expenses	122.8	159.9	170.1	184.6
Administrative Expenses	0.0	0.0	0.0	0.0
Other expenses	220.3	242.2	267.3	303.2
Total Operating Expenditure	1,568.3	1,916.8	2,122.7	2,287.7
EBITDA	**316.7**	**249.5**	**307.7**	**348.9**
Growth (%)	26.8	-21.2	23.3	13.4
Depreciation	77.9	78.5	76.5	77.4
Interest	11.7	6.7	6.6	6.4
Other Income	19.8	19.0	19.6	19.6
PBT	246.9	183.2	244.3	284.8
Others	0.0	0.0	0.0	0.0
Total Tax	33.2	27.1	39.1	51.3
PAT	**190.3**	**156.1**	**205.2**	**233.5**
Growth (%)	20.7	-17.9	31.4	13.8
EPS (₹) - Diluted	5.2	4.3	5.6	6.4
EPS (₹) - Adjusted	5.2	4.3	5.6	6.4

Source: Company, ICICI Direct Research

Exhibit 12: Cash flow statement ₹ crore

(Year-end March)	FY21	FY22	FY23E	FY24E
Profit after Tax	189.5	151.6	205.2	233.5
Add: Depreciation	77.9	78.5	76.5	77.4
(Inc)/dec in Current Assets	-24.6	-75.8	-21.6	-44.1
Inc/(dec) in CL and Provisions	112.9	48.6	165.7	49.2
Adjustments	30.6	-0.5	0.0	0.0
CF from operating activities	**386.3**	**202.5**	**425.7**	**316.0**
(Inc)/dec in Investments	0.0	36.3	0.0	0.0
(Inc)/dec in Fixed Assets	-25.0	-25.6	-100.0	-100.0
Others	-102.3	-15.8	-113.8	-20.8
CF from investing activities	**-127.2**	**-5.1**	**-213.8**	**-120.8**
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	-188.0	-44.5	0.0	0.0
Dividend paid & dividend tax	0.0	-146.9	-182.5	-218.9
Finance cost paid	0.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0
CF from financing activities	**-188.0**	**-191.4**	**-182.5**	**-218.9**
Net Cash flow	71.1	6.0	29.5	-23.8
Opening Cash	6.9	69.7	73.2	102.7
Bank Balance	121.1	132.9	132.9	132.9
Closing Cash	**199.0**	**208.6**	**235.6**	**211.9**

Source: Company, ICICI Direct Research

Exhibit 13: Balance Sheet ₹ crore

(Year-end March)	FY21	FY22	FY23E	FY24E
Liabilities				
Equity Capital	36.7	36.7	36.7	36.7
Preference Capital	0.0	0.0	0.0	0.0
Reserve and Surplus	897.1	906.2	928.9	943.5
Total Shareholders funds	933.8	942.9	965.6	980.2
Total Debt	0.0	0.0	0.0	0.0
Deferred Tax Liability	0.0	0.0	0.0	0.0
Minority Interest / Others	88.2	93.8	70.8	69.8
Total Liabilities	**1,022.0**	**1,036.7**	**1,036.5**	**1,050.0**
Assets				
Gross Block	1,097.6	1,134.0	1,234.0	1,334.0
Less: Acc Depreciation	640.3	718.9	795.4	872.7
Net Block	457.2	415.1	438.6	461.3
Capital WIP	10.0	7.4	7.4	7.4
Total Fixed Assets	467.2	422.6	446.1	468.7
Goodwill on Consolidation	0.0	0.0	0.0	0.0
Inventory	276.6	294.5	306.3	332.3
Debtors	87.3	136.4	166.5	180.6
Loans and Advances	0.0	0.0	0.0	0.0
Other Current Assets	84.8	66.9	46.6	50.6
Cash	190.8	206.1	235.6	211.9
Total Current Assets	639.5	703.9	755.0	775.3
Creditors	190.3	233.7	199.8	216.7
Provisions & Others	211.5	180.0	379.5	411.7
Total Current Liabilities	401.8	413.6	579.3	628.5
Net Current Assets	237.7	290.2	175.7	146.8
Others Assets	317.0	323.9	414.7	434.5
Application of Funds	**1,022.0**	**1,036.7**	**1,036.5**	**1,050.0**

Source: Company, ICICI Direct Research

Exhibit 14: Key ratios

(Year-end March)	FY21	FY22	FY23E	FY24E
Per share data (₹)				
Adjusted EPS	5.2	4.3	5.6	6.4
Cash EPS	7.3	6.4	7.7	8.5
BV	25.4	25.7	26.3	26.7
DPS	0.0	4.0	5.0	6.0
Cash Per Share	5.2	5.6	6.4	5.8
Operating Ratios (%)				
EBITDA Margin	16.8	11.5	12.7	13.2
EBIT / Net Sales	12.7	7.9	9.5	10.3
PAT Margin	10.1	7.2	8.4	8.9
Inventory days	53.6	49.6	46.0	46.0
Debtor days	16.9	23.0	25.0	25.0
Creditor days	36.8	39.4	30.0	30.0
Return Ratios (%)				
RoE	20.4	16.6	21.2	23.8
RoCE	26.0	18.7	24.2	27.7
RoIC	47.4	34.2	61.0	68.5
Valuation Ratios (x)				
P/E (Diluted)	29.1	35.5	27.0	23.7
P/E (Adjusted)	29.1	35.5	27.0	23.7
EV / EBITDA	15.9	20.1	15.9	14.0
Market Cap / Sales	2.9	2.6	2.3	2.1
Price to Book Value	5.9	5.9	5.7	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	1.1	1.2	0.9	0.9
Quick Ratio	0.4	0.5	0.4	0.4

Source: Company, ICICI Direct Research

Exhibit 15: ICICI Direct coverage universe (FMCG)

	CMP	TP		M Cap	EPS (₹)			P/E (x)			Price/Sales (x)			RoCE (%)			RoE (%)		
	(₹)	(₹)	Rating	(₹ Cr)	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Colgate (COLPAL)	1,551	1,575	Hold	37,937	38.5	40.8	45.0	40.3	38.0	34.5	7.4	6.8	6.2	109.6	112.7	116.7	84.9	86.6	89.7
Dabur India (DABIND)	502	680	Buy	93,515	9.9	11.6	13.0	51.0	43.2	38.5	8.6	7.8	7.0	24.9	25.5	26.4	20.8	22.5	22.8
Hindustan Unilever (HINLEV)	2,310	2,200	Hold	503,770	37.5	39.5	43.6	61.5	58.5	52.9	10.0	9.1	8.5	20.2	21.9	24.2	18.1	19.1	21.2
ITC Limited (ITC)	271	310	Buy	327,587	12.4	14.0	15.5	21.8	19.3	17.5	5.5	5.1	4.6	31.4	34.9	36.6	24.5	26.7	28.1
Jyothy Lab (JYOLAB)	151	145	Hold	5,545	4.3	5.6	6.4	35.5	27.0	23.7	2.6	2.3	2.1	18.7	24.2	27.7	16.6	21.2	23.8
Marico (MARLIM)	529	530	Hold	64,929	9.7	10.6	11.7	54.4	50.0	45.1	6.8	6.3	5.8	41.2	46.8	52.9	37.5	41.4	47.4
Nestle (NESIND)	17,187	19,050	Hold	175,243	222.4	252.9	291.6	77.3	67.9	58.9	12.0	10.8	9.8	58.7	58.8	62.9	111.3	110.4	111.8
Tata Consumer Products (TAT	715	910	Buy	71,514	11.0	15.0	17.5	64.9	47.8	40.9	5.8	5.2	4.8	8.4	10.3	11.3	7.0	8.8	9.8
VST Industries (VSTIND)	3,270	3,425	Hold	4,986	229.3	252.9	290.5	14.3	12.9	11.3	4.2	3.9	3.6	39.2	44.6	50.6	30.0	33.4	37.8
Varun Beverage (VARBEV)	1,109	1,300	Buy	45,860	17.2	25.9	30.3	64.4	42.8	36.6	5.2	4.2	3.8	17.1	25.6	29.7	18.3	22.8	23.0
Zydus Wellness (ZYDWEL)	1,512	2,200	Buy	10,299	48.5	62.6	72.5	31.2	24.2	20.8	5.1	4.6	4.1	6.1	7.8	8.8	6.4	8.1	9.2

Source: Bloomberg, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%

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