



3R MATRIX

	+	=	-
Right Sector (RS)	Green	Grey with check	Red
Right Quality (RQ)	Green with check	Grey	Red
Right Valuation (RV)	Green with check	Grey	Red
	+ Positive	= Neutral	- Negative

What has changed in 3R MATRIX

	Old		New
RS	Green	↓	Grey
RQ	Green	↔	Green
RV	Green	↔	Green

ESG Disclosure Score **NEW**

ESG RISK RATING  
Updated Feb 08, 2022

**31.95**

High Risk

NEGL	LOW	MED	<b>HIGH</b>	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

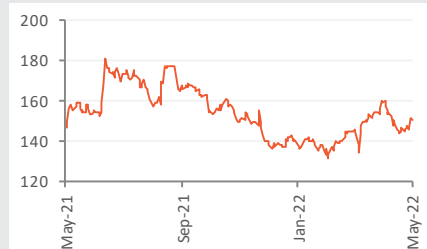
Company details

Market cap:	Rs. 5,655 cr
52-week high/low:	Rs. 187 / 130
NSE volume: (No of shares)	4.0 lakh
BSE code:	823857
NSE code:	JYOTHYLAB
Free float: (No of shares)	13.6 cr

Shareholding (%)

Promoters	62.9
FII	11.3
DII	16.9
Others	8.9

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-6.1	10.8	0.5	2.9
Relative to Sensex	-1.7	16.4	8.3	-3.8

Sharekhan Research, Bloomberg

Consumer Goods

Sharekhan code: JYOTHYLAB

Reco/View: Buy

↑ Upgrade ↔ Maintain ↓ Downgrade

CMP: Rs. 154

Price Target: Rs. 175

Summary

- Jyothy Labs Limited's Q4FY2022 operating performance was in-line with our expectation. Revenue grew ~10% to Rs. 546.7 crore, while OPM fell 180 bps to 12.5%; PAT grew 8.0% y-o-y to Rs. 48 crore (led by lower incidence of tax).
- All key categories except household insecticides registered double-digit growth in Q4. Fabric care, dishwashing, and personal products grew 18%, 12%, and 12%, respectively.
- Management is focusing on achieving double-digit revenue growth through market share gains, category development, and distribution expansion in the medium term. OPM would recover to 15-16% once raw-material inflation cools off.
- The stock is currently trading at discounted valuation of 22.6x/17.5x its FY2023E/FY2024E EPS. We maintain Buy with a revised PT of Rs. 175.

Jyothy Labs Limited (JLL) ended FY2022 with yet another quarter of double-digit revenue growth with 3.6% volume growth. Consolidated revenue growth in Q4FY2022 stood at 10.4% y-o-y (two-year CAGR stood at 18%), driven by strong 18% growth in the fabric care category, 12% growth in the dishwashing category, and 12% growth in the personal care category. All key categories (including fabric care, household insecticide, dishwashing, and personal care) registered double-digit growth on a two-year CAGR basis. Higher input prices led to a 209-bps decline in gross margins and operating profit margin (OPM) decreased by 180 bps to 12.5% during the quarter. Operating profit decreased by 3.5% y-o-y to Rs. 68.4 crore. Lower incidence of tax led to 8% y-o-y growth in PAT to Rs. 48 crore. For FY2022, JLL's revenue grew by 15.1% (with volume growth of 9%), while a sharp 520-bps decline in OPM led to a 24% dip in PAT to Rs. 159.1 crore.

Key positives

- Seventh consecutive quarter of double-digit revenue growth, driven by mix of volume (3.6%) and price hikes (6% price-led growth).
- Sustenance in market share gains in categories such as fabric whiteners, detergents, and dishwash bar during the quarter.
- Distribution reach has now expanded to one million outlets and is expected to further improve in the coming years.

Key negatives

- Household insecticide revenue decreased by ~9% y-o-y to Rs. 79.27 crore due to unfavourable weather conditions.

Management Commentary

- The company is focusing on achieving volume-led, double-digit revenue growth in the medium term through driving category development, increased brand-building initiatives, digital technology driving sales efficiency in go-to-market initiatives, market share gains, distribution expansion, and improving penetration for key categories in rural and urban markets.
- In the near term, raw-material inflation would lead to lower volume growth compared to price-led growth. Good monsoon and regular government interventions would help demand recovery in rural India.
- Raw-material inflation in FY2022 stood at 14% and the company has undertaken price increase of 7% to mitigate inflationary pressure in the form of price hikes and grammage reduction (largely done in lower price units). The company has undertaken a minor price increase in April/May 2022. If inflationary pressure persists, the company might take further price increase to reduce stress on margins.
- OPM is expected to remain under pressure in the near term. However, management targets to get back to a margin trajectory of 15-16% once input cost inflation stabilises in the quarters ahead.

**Revision in estimates** – We have reduced our earnings estimates for FY2023 and FY2024 to factor in the impact of higher raw-material inflation.

Our Call

**View: Maintain Buy with a revised PT of Rs. 175:** 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 expansion will help JLL to continue to gain market share in key categories. The stock is currently trading at attractive valuations of 22.6x/17.5x its FY2023E/FY2024E earnings. Improving cash flows, focus on achieving double-digit volume growth, and attractive valuations make it a good mid-cap pick in the consumer goods pace. We maintain Buy with a revised price target (PT) of Rs. 175.

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)

Particulars	FY21	FY22	FY23E	FY24E
Revenue	1,909	2,196	2,536	2,882
OPM (%)	16.5	11.3	14.5	15.8
Adjusted PAT	208	159	250	323
Adjusted EPS (Rs.)	5.7	4.3	6.8	8.8
P/E (x)	27.2	35.5	22.6	17.5
P/B (x)	4.0	3.9	3.8	3.5
EV/EBIDTA (x)	18.0	22.4	15.3	12.1
RoNW (%)	15.7	11.1	17.1	20.8
RoCE (%)	14.2	10.7	16.4	19.4
RoCE (%)	14.2	11.3	16.4	21.1

Source: Company; Sharekhan estimates

## Revenue grew by 10%; Margins impacted by raw-material inflation

JLL's revenue grew by 10.4% y-o-y to Rs. 546.7 crore (in-line with our expectation of Rs. 551 crore and street's expectation of Rs. 549 crore). Double-digit revenue growth was driven by 18% growth in the fabric care segment, 12% growth in the dishwashing segment, and 12% growth in the personal care segment. Gross margin declined by 209 bps to 43.5% due to higher raw-material inflation and OPM fell by 180 bps to 12.5% (in-line with our expectation of 12.5% and better than street expectation of 11.9%). Operating profit decreased by 3.5% y-o-y to Rs. 68.4 crore. Lower incidence of tax led to 8.8% growth in PAT to Rs. 48 crore, ahead of our as well as street's expectation of Rs. 43 crore.

## Most categories registered double-digit growth, barring household insecticide in Q4

- ◆ **Fabric care grew by 18%** - JLL's fabric care category reported revenue growth of 18%, with opening of workplaces/institutions and people resuming to regular life. Volume growth in the category stood at 12%, while rest of the revenue growth was price-led growth. Growth in the detergents category was higher compared to post wash category, as price hikes in detergent were higher compared to post wash. Mass end of detergent products are gaining good traction compared to premium brands. Further, large packs are gaining higher traction on the e-commerce/modern trade channel in the domestic market. Ujala detergent's market share improved to 21.9% in March 2022 compared to 19.3% in March 2021. The company expanded the brand in Tamil Nadu and West Bengal. The brand is gaining good traction in Tamil Nadu. Ujala Crisp & Shine was launched in the markets of Andhra Pradesh and Telangana.
- ◆ **Dishwash grew by 12%** – JLL's dishwash category reported 12% revenue growth in Q4. Exo bar maintained its double-digit growth, as consistent double-digit growth in low unit packs (LUPs) helped to recruit new consumer brands. Exo bar's market share improved to 13.7% in March 2022 from 13.3% in March 2021. The brand has crossed Rs. 500 crore revenue in FY2022. On the other hand, Pril recorded double-digit growth in large packs because of high consumer loyalty for the brand. The company has launched three-litre pack, which is likely to gain good traction in the modern trade channel.
- ◆ **Household insecticide decreased by 9%** – Household insecticides' Q4 performance was affected by extreme weather conditions impacting coil sales, which resulted in sales decline of 9% for the category. However, liquids continue to perform well with consistent double-digit revenue growth. Focus on distribution is aiding growth momentum in the liquids category. JLL's market share in the liquids category improved to 8.9% in March 2022 from 8.2% in March 2021.
- ◆ **Personal care grew by 12%** – Margo registered double-digit growth as demand for its authenticity continues to be the driving factor for the brand. The company is driving small packs in new markets to improve trials.

## Key Conference call takeaways

- ◆ Prices of most key raw material have increased sharply in the past few quarters. Between March 2021 and March 2022, price of crude palm oil rose upwards of 26%, price of polypropylene increased by 10%, price of linear alkyl benzene increased by 10%, caustic soda lye grew by 149%, and LDPE-Laminate Grade grew 86%. Around two-thirds of the product portfolio has seen a sharp increase in raw-material prices.
- ◆ Raw-material inflation in FY2022 stood at 14% and the company has undertaken price increase of 7% to mitigate the inflationary pressure in the form of price hikes and grammage reduction (largely done in lower price units). The company has undertaken a minor price increase in April/May 2022. If inflationary pressure persists, the company might take further price increase to reduce stress on margins.

- ◆ In terms of distribution, the company has expanded its direct distribution reach to 1 million outlets in March 2022 from 0.85 million outlets in April 2021. Further, it is also banking on van operations to improve its penetration in areas (largely in rural markets) where sub-stockiest find it difficult to reach.
- ◆ The company witnessed lower growth in rural markets (40% of revenue) compared to urban markets due to sustained high inflationary pressure.

#### Results (consolidated)

Particular	Rs cr				
	Q4FY22	Q4FY21	y-o-y (%)	Q3FY22	q-o-q (%)
<b>Total Revenue</b>	<b>546.7</b>	<b>495.1</b>	<b>10.4</b>	<b>539.0</b>	<b>1.4</b>
Total operating cost	478.3	424.2	12.7	477.9	0.1
Raw material cost	309.0	269.4	14.7	314.6	-1.8
Employee expenses	60.2	54.8	9.8	61.9	-2.7
Advertisement expenses	39.1	38.4	1.8	38.4	1.9
Other expenses	70.0	61.6	13.7	63.0	11.1
<b>Operating profit</b>	<b>68.4</b>	<b>70.9</b>	<b>-3.5</b>	<b>61.2</b>	<b>11.9</b>
Other income	5.7	4.0	42.2	3.6	57.9
Depreciation	15.4	15.3	0.9	14.5	6.7
Interest expenses	3.0	3.4	-10.4	3.0	0.0
<b>Profit before tax</b>	<b>55.7</b>	<b>56.3</b>	<b>-1.0</b>	<b>47.3</b>	<b>17.8</b>
Tax	7.8	11.9	-34.5	9.3	-16.6
<b>Adjusted PAT</b>	<b>48.0</b>	<b>44.4</b>	<b>8.0</b>	<b>38.0</b>	<b>26.2</b>
Extraordinary item	0.0	-17.2		0.0	
<b>Reported PAT</b>	<b>48.0</b>	<b>27.3</b>	<b>75.9</b>	<b>38.0</b>	<b>26.2</b>
EPS (Rs.)	1.3	1.2	8.0	1.0	26.2
			<b>BPS</b>		<b>BPS</b>
GPM (%)	43.5	45.6	-209	41.6	185
OPM (%)	12.5	14.3	-180	11.3	117
NPM(%)	8.8	5.5	327	7.1	172
Tax rate	13.9	21.1		19.7	

Source: Company, Sharekhan Research

#### Segmental performance

Particulars	Rs cr				
	Q4FY22	Q4FY21	y-o-y (%)	Q3FY22	q-o-q (%)
<b>Revenue</b>					
Fabric care	212.6	180.3	17.9	209.1	1.7
Dish washing	189.8	169.2	12.2	201.1	-5.6
Mosquito Repellent (HI)	79.3	87.2	-9.1	51.4	54.1
Personal care	46.7	41.8	11.7	53.0	-11.8
Other Products	9.7	9.7	0.8	9.3	5.1
<b>Total Consumer</b>	<b>538.1</b>	<b>488.1</b>	<b>10.2</b>	<b>523.9</b>	<b>2.7</b>
Laundry Services	8.6	7.0	23.0	15.2	-43.4
	546.7	495.1	10.4	539.0	1.4
<b>PBIT Margins (%)</b>					
Fabric care	12	18	-645	15	-339
Dish washing	12	17	-471	12	60
Mosquito Repellent (HI)	0	0	20	-8	825
Personal care	13	17	-427	14	-112
Other Products	15	-14	2879	-10	2462
<b>Total Consumer</b>	<b>10</b>	<b>14</b>	<b>-342</b>	<b>11</b>	<b>-58</b>

Source: Company, Sharekhan Research

## Outlook and Valuation

### ■ Sector View – Despite near-term weakness; Long-term growth prospects intact

Slowdown in rural demand, consumer inflation, and weakness in overall consumer sentiments will continue to impact overall consumption in the coming quarters. Intense summer season might push demand for summer products during the quarter. However, overall demand is expected to remain subdued. Revenue growth will largely be driven by price increases undertaken in the respective portfolio to mitigate input cost inflation for the next 2-3 quarters. Global uncertainties will lead to volatile commodity prices. Commodity inflation is expected to settle in the next 6-8 months. Thus, margin pressure is likely to sustain in the near term. Better monsoon will play a major role in regaining momentum in rural demand and help in cooling off agri-commodity inflation. Though near-term headwinds will have a toll on the performance of consumer goods companies, long-term growth prospects remain intact. Low penetration levels in key categories (especially in rural India), lower per capita consumption compared to other countries, a large shift to branded products, and emergence of new channels such as e-commerce/D2C provide a number of opportunities for achieving sustainable growth in the medium to long run.

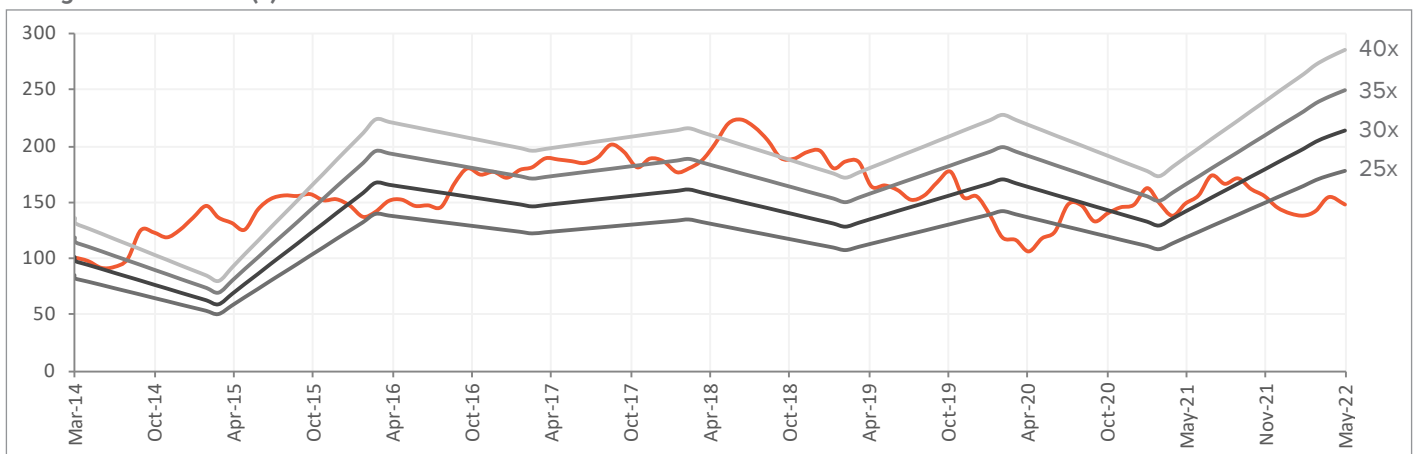
### ■ Company Outlook – Focus remains on achieving double-digit revenue growth

Q4FY2022 was the seventh consecutive quarter of double-digit revenue growth. In FY2022, JLL's revenue grew by 15% with volume growth of 9%. New product addition, optimal utilisation of existing distribution reach (1.0 million outlets), and improving rural penetration (currently 40% of overall revenue) remain key revenue growth drivers in the near term. Management targets to achieve OPM of 15-16% in the medium term. Raw-material inflation in FY2022 stood at 14% and the company has undertaken price increase of 7% to mitigate inflationary pressure in the form of price hikes and grammage reduction (largely done in lower price units). The company has undertaken minor price increase in April 2022/May 2022. If inflationary pressure persists, the company might take further price increase to reduce stress on the margins.

### ■ Valuation – Retain Buy with a revised PT of Rs. 175

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 expansion will help JLL to continue to gain market share in key categories. The stock is currently trading at attractive valuations of 22.6x/17.5x its FY2023E/FY2024E earnings. Improving cash flows, focus on achieving double-digit volume growth, and attractive valuations make it a good mid-cap pick in the consumer goods space. We maintain Buy with a revised price target (PT) of Rs. 175.

#### One-year forward P/E (x) band



Source: Sharekhan Research

#### Peer Comparison

Company	P/E (x)			EV/EBIDTA (x)			RoCE (%)		
	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
Godrej Consumer Products	43.5	37.9	32.2	32.0	28.0	24.0	17.3	18.2	19.7
HUL	61.3	56.1	46.6	42.9	39.3	32.7	23.8	26.2	30.8
Jyothy Labs	35.5	22.6	17.5	22.4	15.3	12.1	10.7	16.4	19.4

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. 2,000 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 the HI segment's growth would affect demand.
- ◆ **Higher input prices:** Sharp rise in key raw-material prices 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
Sanjay Agarwal	Chief Financial Officer
Shreyas Trivedi	Company Secretary

Source: Company Website

### Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Franklin Resources Inc.	6.60
2	ICICI Pru Asset Management Co Ltd	4.52
3	Nippon Life India Asset Management	2.60
4	Nalanda India Equity Fund Ltd	2.35
5	ABRDN PLC	2.18
6	Mirae Asset Global Investments Co.	2.06
7	Pari Washington Co Pvt Ltd	1.67
8	Emblem FII	1.66
9	ICICI Lombard General Insurance Co. Ltd.	1.18
10	Blackstone Asia Advisors LLC	0.85

Source: Bloomberg

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## 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 deteriorating 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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