

May 24, 2022

**RESULT REPORT Q4 FY22** | Sector: Consumer Staples

# Jyothy Labs

**All efforts on maintaining growth momentum despite margin pressures; maintain BUY on inexpensive valuations**

## Our view

JYL delivered lower than expected volume growth of 3.6% on a base of 24% owing to subdued performance from HI and Personal care. Dish wash posted strong performance aided by consistent double-digit growth in LUPs and premiumization through larger tub packs leading to share gains for Exo. Ujala Supreme and Ujala IDD also gained market share in FY22 led by increased focus on new markets. While a 2-yr CAGR growth stood at 18% (3-yr CAGR growth is mere 2%) for the quarter, a sharp 400bps dip in margins despite a 7% price hike remains a key headwind. HHI was impacted by seasonality and extreme weather conditions in Q4 and its performance remain a key monitorable going forward. While company's focus on driving volumes at the expense of margins to gain scale and operating leverage will keep margins in the range of 12-13% in the foreseeable future vs historical range of ~15-16%, JYL's strategy of differentiated product positioning and aggressive marketing behind power brands is driving share gains in key categories. Its focus on new launches, high A&P spends, and technology-led distribution enhancements should be key drivers to drive double-digit earnings growth. At current valuations of 21x, valuations remain inexpensive and therefore, we maintain our BUY rating despite the margin-led cut in our earnings estimates.

## Result Highlights

- Topline** - 3.6% volume growth, 2-yr revenue CAGR at 18%. Fabric care/Dishwashing/HI/Personal care registered 18%/12.2%/-9%/11.7% growth respectively. Laundry services grew 23% on a low base of 28% decline YoY. Fabric care growth momentum continued aided by opening of workplaces/institutions and acceleration in sales at Modern Trade and Canteen Store Department however growth is still in mid-single digit on 3-yr CAGR basis. Dish wash growth registered strong growth driven by focus on distribution, consistent double-digit growth in Exo and Pril LUPs. HI disappointed owing lower coil sales impacted by extreme weather conditions however liquids performed well. Personal care and Other segment which includes T-shine and Maya grew moderately on a high base.
- Segmental performance** - Fabric care revenue growth of 18% and 11.9% EBIT margin vs 18.3% YoY, Dishwashing revenue growth of 12.2% and 12.3% EBIT margin vs 17% YoY, HI revenue decline of 9% and 0.4% EBIT margin, Personal care revenue grew 11.7% with 12.7% EBIT margin vs 17% YoY.

## Valuation

We build in revenue/EBITDA/PAT growth of 11%/21%/28% over FY22-24E, with expectations of strong earnings growth post the sharp dip in FY22. We trim our estimates to incorporate slightly lower volume growth and margins in the near-term. We revise our TP to Rs 181 and maintain our BUY rating based on 25x FY24E earnings.

## Exhibit 1: Actual vs estimate

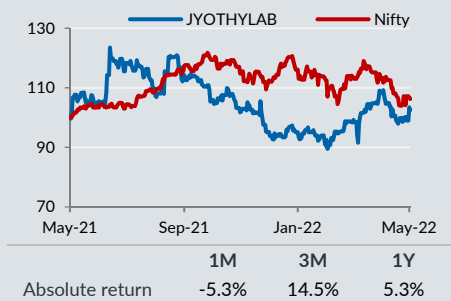
Rsmn	Actual	Estimate		% Variation		Remarks
		YES Sec	Consensus	YES Sec	Consensus	
Sales	5,467	5545	5385	(1.4)	1.5	Revenue and margins lower than expectation dragged by muted HI and Personal care performance
EBITDA	573	610	637	(6.1)	(10.1)	
EBITDA Margin (%)	10.5	11.0	11.8	(52.9) bps	(135.7) bps	
Adjusted PAT	369	401	398	(7.9)	(7.2)	

Reco	: BUY
CMP	: Rs 151
Target Price	: Rs 181
Potential Return	: +20%

## Stock data (as on May 24, 2022)

Nifty	16,125
52 Week h/l (Rs)	187 / 130
Market cap (Rs/USD mn)	55338 / 713
Outstanding Shares (mn)	367
6m Avg t/o (Rs mn):	59
Div yield (%):	1.7
Bloomberg code:	JYL IN
NSE code:	JYOTHLAB

## Stock performance



## Shareholding pattern (As of Mar'22 end)

Promoter	62.9%
FII+DII	28.2%
Others	8.9%

## Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	181	193

## Δ in earnings estimates

	FY23e	FY24e
EPS (New)	5.8	7.3
EPS (Old)	6.4	7.7
% change	-9.4	-5.2

## Financial Summary

(Rs mn)	FY22	FY23E	FY24E
Revenue	21,965	24,451	27,078
YoY Growth (%)	15.1	11.3	10.7
EBIDTA	2,482	3,008	3,610
Margins (%)	11.3	12.3	13.3
PAT	1,620	2,124	2,663
YoY Growth (%)	(27.3)	31.1	25.4
ROE	11.3	14.3	17.0
ROCE	13.4	16.4	19.4
EPS	4.4	5.8	7.3
P/E	34.2	26.1	20.8
EV/EBITDA	22.2	17.9	14.6

## HIMANSHU NAYYAR

Lead Analyst

himanshu.nayyar@ysil.in

+91 22 6885 0521

Ankit Mahajan, Associate



- **Margins** – Gross margin declined 20bps/420 QoQ/YoY due to persistent inflation in input costs. EBITDA margin came in at 10.5% vs 14.3% and 11.3% YoY and QoQ respectively. Lower margin QoQ due to higher other expenses.
- **Earnings growth and Dividend** – PAT declined by 28% YoY and came in at Rs 38cr due to lower profitability. Declared final dividend of Rs 2.5/share.

## Exhibit 2: Quarterly snapshot (Consolidated)

Particulars (Rs mn)	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	% yoy	% qoq	FY22	FY21	% yoy
Sales	4,951	5,254	5,854	5,390	5,467	10.4	1.4	21,965	19,091	15.1
EBITDA	709	633	666	612	573	(19.3)	(6.4)	2,482	3,145	(21.1)
EBITDA Margin %	14.3	12.0	11.4	11.3	10.5	(384.8) bps	(87.5) bps	11.3	16.5	(517.3) bps
Depreciation	153	144	139	145	154	0.9	6.7	582	556	4.6
EBIT	556	489	527	467	418	(24.8)	(10.4)	1,901	2,589	(26.6)
EBIT Margin %	11.2	9.3	9.0	8.7	7.7	(358.3) bps	(101.4) bps	8.7	13.6	(490.9) bps
Interest charges	34	31	29	30	29	(14.9)	(5.0)	118	192	(38.6)
Other Income	40	46	48	36	57	42.2	57.9	187	185	1.2
PBT	563	503	545	473	447	(20.6)	(5.6)	1,969	2,581	(23.7)
Tax	55	101	106	93	78	40.8	(16.6)	378	440	(14.1)
Effective Tax Rate (%)	9.8	20.1	19.4	19.7	17.4			19.2	17.0	
PAT	508	402	440	380	369	(27.3)	(2.8)	1,591	2,142	(25.7)
PAT Margin %	10.3	7.7	7.5	7.1	6.8	(350.0) bps	(29.7) bps	7.2	11.2	(397.3) bps
EPS (Rs)	1.4	1.1	1.2	1.0	1.0	(27.3)	(2.8)	4.3	5.8	(25.7)

Source: Company, YES Sec

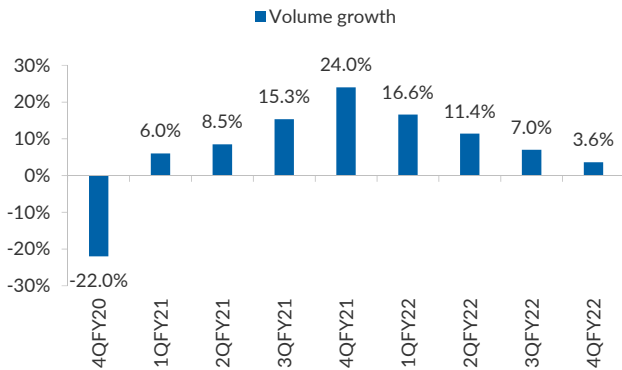
## PRESENTATION HIGHLIGHTS

- **Fabric Care** – Fabric care grew 18% vs 16% growth in base quarter driven by opening of workplaces/institutions and acceleration in sales at Modern Trade and Canteen Store Department selling higher large packs. EBIT declined by 23.6% to Rs 252mn. Market share in post wash category increased from 83.6% in Q4FY21 to 84.1% in Q4FY22. Double digit growth in Ujala IDD powder and bar whose market share increased from 19.3% to 21.9% during the same period. Ujala Crisp & Shine grew in double digits with focus on new markets. Henko continue to witness traction in MT and E-comm with launch of Henko matic liquid detergent in key states and e-com platforms.
- **Dish Wash** – Revenue growth of ~12% on a base of 33% with EBIT decline of 19%. Dish wash registered robust performance driven by Exo gaining market share from 13.3% in FY21 to 13.7% in FY22 on the back of double-digit growth in LUPs, aired TVC to bolster saliency of the brands. Pril market share decreased 100bps to 14.3% during the same period while it grew in double digit in Q4 and introduced 3 liter pack.
- **Household Insecticides** – Revenue growth of -9% vs 36% growth YoY owing to weak demand for coils while liquids grew in double digit. Market share increased by 70bps YoY to 8.9% however down QoQ.
- **Personal Care and Other segment** – Revenue grew 6% on 3-yr CAGR basis while EBIT declined 16% YoY. Laundry services revenue growth of 23% and EBIT decline of 34% YoY. Other segment including T-shine and Maya was flat YoY. Margo grew in double digits

## CONCALL HIGHLIGHTS

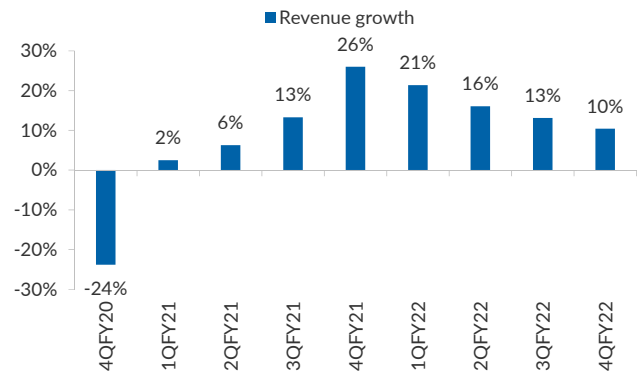
- **Quarter commentary** - Solid 15.4% revenue growth in FY22 and 13% 2-yr CAGR growth crossing 2000crs sales for first time with market share growth across categories, direct reach has now crossed 1mn outlets, significant scale up in manufacturing, operations and distribution capabilities, exciting new launches should help keep up the momentum, margins remain a key concern, taken appropriate price hikes and grammage reductions to counter material inflation, price hikes have started impact demand to some extent but portfolio remains broadly insulated despite mixed consumer sentiment, marginal decline in rural (40% salience) vs urban growth, continue to add rural stockists and increase in van/moped operations, media spends increased by 30% yoy where aggression will continue especially in focus geographies, believe RM prices have peaked, will need more price hikes if prices don't cool-off from here, RM prices increased by 14% while price hikes of 8% taken which impacted GMs by 6% for FY22, Outlook - will focus on volume-led growth in FY23 and higher distribution/marketing/technology spends despite margin pressures.
- **Segmental highlights** - Fabric care doing well with 18% growth in 4Q and 22% in FY22, large packs doing well across channels especially e-com and MT, post wash products also back to pre-COVID levels like Ujala Supreme and Crisp n Shine; Dishwash momentum continues with double-digit growth led by consumer focus on hygiene and strong distribution initiatives by the company, LUPs helping in Exo with recruitment of new customers, Exo bar crossed 500crs sales; Household Insecticides impacted by extreme weather conditions in key Mar-April period, sales decline in coils, LVs still doing well; Personal care grew 12% despite frequent price hikes led by on ground initiatives.
- **Current inflation and price hikes** - Commodity inflation has sustained in April and May, so have taken minor price increases post 4Q as well in line with competitor actions, scope to take further price increases is limited post taking 4-5 price increases in FY22; LUPs are 35% of portfolio.
- **Exo gel** - Had launched only in South markets, currently tracking progress there, but main liquid offering remains Pril.
- **Volume growth in 4Q** - Volume growth for 4Q is 3.6% and balance 7% is pricing growth.
- **Fabric wash** - 6-7% price hike for FY22 in fabric wash, balance 15% volume growth.
- **Increase in other expenses** - Have increased in-line with topline growth, key focus areas to reduce costs include areas like depot rationalization, direct distribution etc.
- **Gross margin outlook** - 2/3rd of portfolio is detergents and dish wash where key RMs are LABSA and soda ash where prices have moved up very sharply, therefore GMs will not recover till prices cool-off; eventually want to get back to historical margin levels but dependent on market conditions.

**Exhibit 3: Volume growth moderated to 3.6%/9% in Q4FY22/FY22**



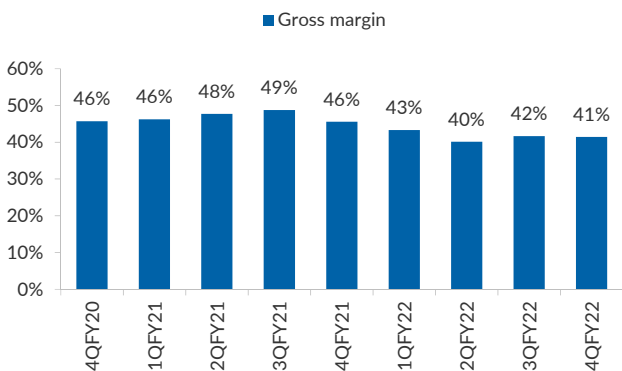
Source: Company, YES Sec

**Exhibit 4: Revenue growth of 10.4% led by ~7% price increase**



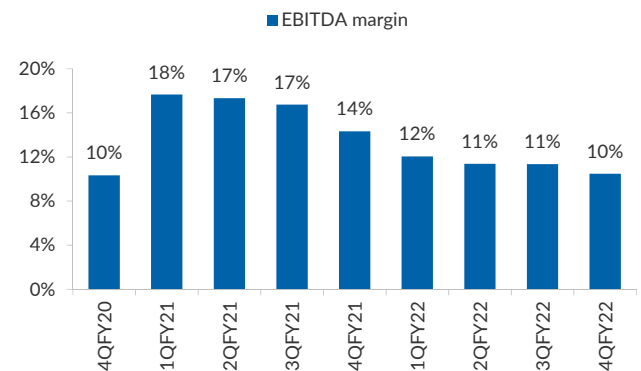
Source: Company, YES Sec

**Exhibit 5: Gross margin lower QoQ and YoY at 41.4%**



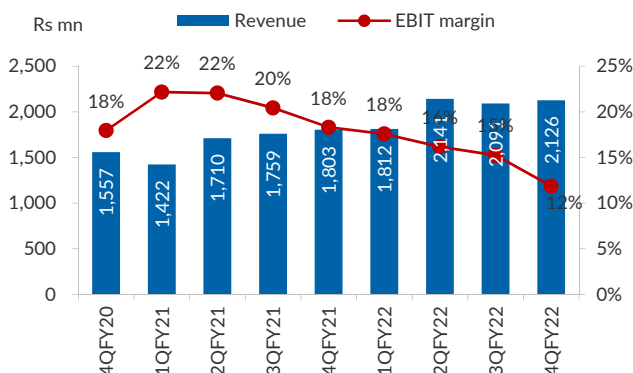
Source: Company, YES Sec

**Exhibit 6: EBITDA margin further falls to 10.5% due to higher other expenses**



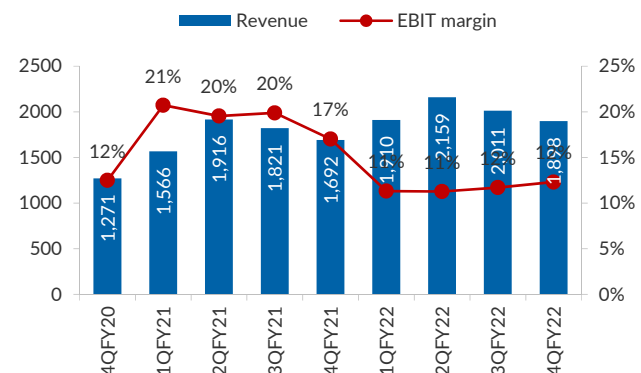
Source: Company, YES Sec

**Exhibit 7: Fabric care grew moderately with decreasing margins**



Source: Company, YES Sec

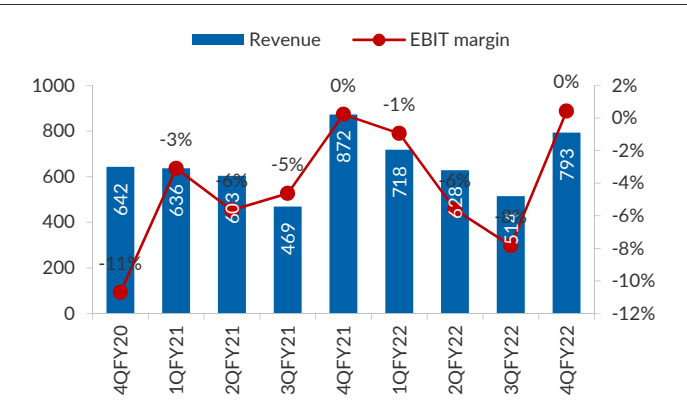
**Exhibit 8: Dishwashing revenue grew 12.2% on a high base**



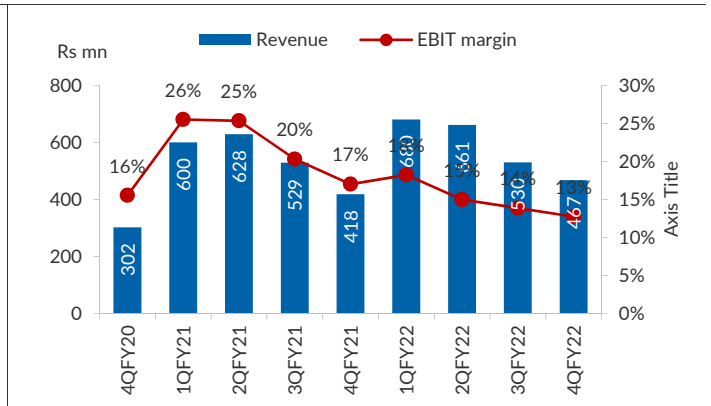
Source: Company, YES Sec

**Exhibit 9: Disappointing performance from HHI with 9% revenue decline led by seasonality and unfavorable weather conditions**

**Exhibit 10: Personal care revenue grew 12% on a high base at the expense of margins**



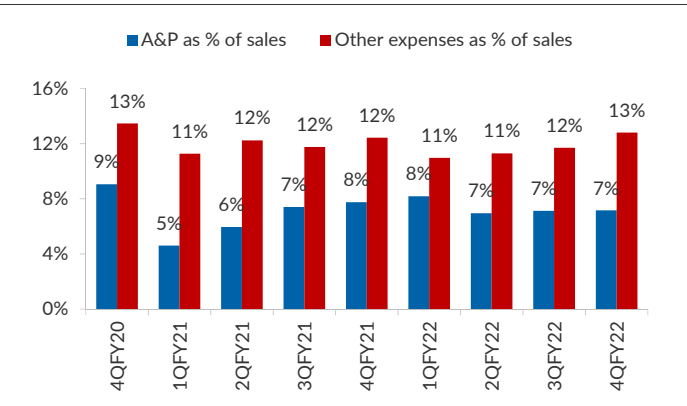
Source: Company, YES Sec



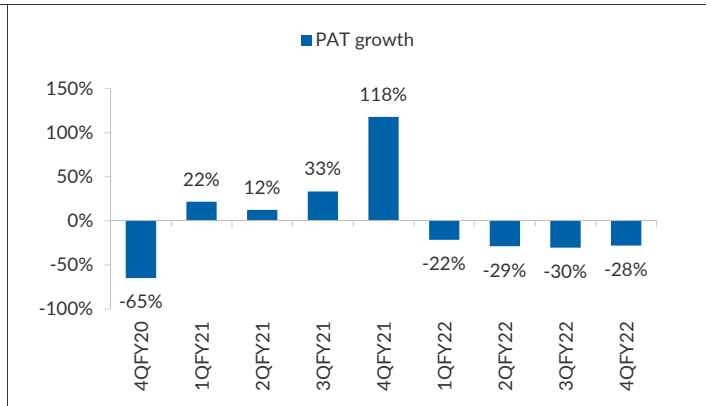
Source: Company, YES Sec

**Exhibit 11: A&P spends remain rangebound while other expenses increased**

**Exhibit 12: PAT declined 28% during the quarter due to margin contraction**

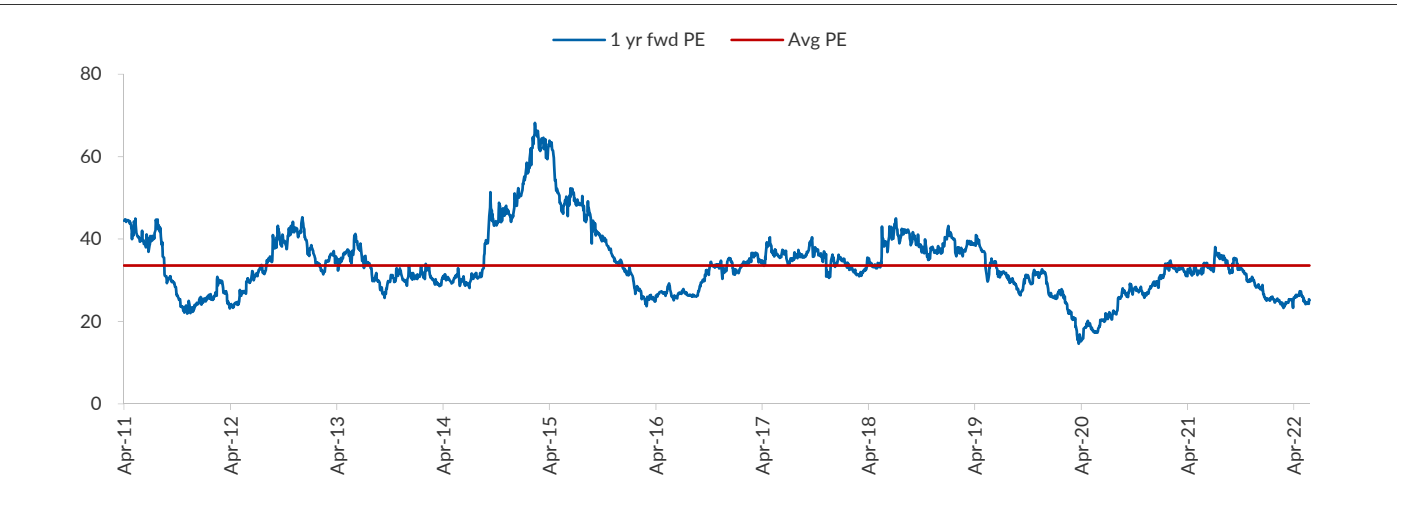


Source: Company, YES Sec



Source: Company, YES Sec

**Exhibit 13: Currently trading at 25x one-yr fwd earnings**



Source: Company, YES Sec

## FINANCIALS

### Exhibit 14: Balance Sheet

Y/e 31 Mar (Rs m)	FY20	FY21	FY22	FY23E	FY24E
Equity capital	367	367	367	367	367
Reserves	11,919	13,918	14,068	14,907	15,733
Net worth	11,995	13,907	14,029	14,868	15,694
Debt	2,212	1,169	1,265	1,265	1,265
Other non current liabilities	918	926	991	1,029	1,068
Total liabilities	15,125	16,002	16,286	17,162	18,027
Fixed Asset	11,737	11,569	11,484	11,124	10,782
Other Non-current Assets	2,014	1,633	1,582	1,615	1,651
Net Working Capital	1,085	862	1,500	1,596	1,756
Inventories	2,251	2,786	2,972	3,014	3,338
Sundry debtors	1,224	943	1,431	1,340	1,484
Loans and Advances	37	38	62	68	75
Sundry creditors	1,298	1,920	2,364	2,144	2,374
Other current liabilities	1,707	1,429	1,201	1,337	1,481
Cash & equivalents	289	1,938	1,720	2,826	3,839
Total Assets	15,125	16,002	16,286	17,162	18,027

Source: Company, YES Sec

### Exhibit 15: Income statement

Y/e 31 Mar (Rs m)	FY20	FY21	FY22	FY23E	FY24E
Revenue	17,112	19,091	21,965	24,451	27,078
Operating profit	2,511	3,145	2,482	3,008	3,610
Depreciation	529	556	582	609	643
Interest expense	329	192	118	128	137
Other income	200	185	187	242	323
Profit before tax	1,853	2,581	1,969	2,512	3,154
Taxes	189	440	378	458	561
Minorities and other	(77)	(88)	(29)	(70)	(70)
Adj. profit	1,741	2,230	1,620	2,124	2,663
Exceptional items	38	235	-	-	-
Net profit	1,703	1,994	1,620	2,124	2,663

Source: Company, YES Sec

## Exhibit 16: Cash flow statement

Y/e 31 Mar (Rs m)	FY20	FY21	FY22	FY23E	FY24E
PBIT	2,182	2,774	2,087	2,640	3,291
Depreciation	529	556	582	609	643
Tax paid	(189)	(440)	(378)	(458)	(561)
Working capital Δ	(541)	223	(638)	(96)	(160)
Other operating items					
Operating cashflow	1,980	3,112	1,653	2,696	3,212
Capital expenditure	(1,117)	(388)	(497)	(250)	(300)
Free cash flow	864	2,725	1,156	2,446	2,912
Equity raised	(1,393)	1,723	(396)	-	(0)
Investments	1,044	0	-	-	-
Debt financing/disposal	38	(1,043)	96	-	-
Interest Paid	(329)	(192)	(118)	(128)	(137)
Dividends paid	(1,289)	(1,719)	(1,074)	(1,285)	(1,836)
Other items	390	154	118	74	74
Net Δ in cash	(674)	1,649	(218)	1,106	1,013

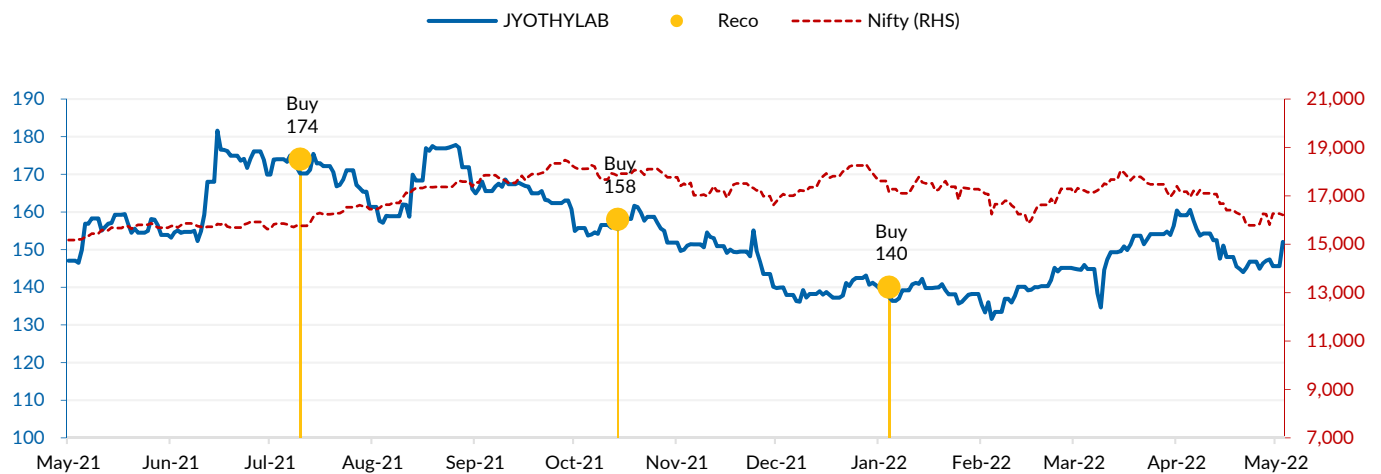
## Exhibit 17: Growth and Ratio matrix

Y/e 31 Mar	FY20	FY21	FY22	FY23E	FY24E
<b>Growth matrix (%)</b>					
Revenue growth	(5.6)	11.6	15.1	11.3	10.7
Op profit growth	(10.7)	25.3	(21.1)	21.2	20.0
EBIT growth	(21.6)	27.1	(24.7)	26.5	24.6
Net profit growth	(15.1)	28.1	(27.3)	31.1	25.4
<b>Profitability ratios (%)</b>					
OPM	14.7	16.5	11.3	12.3	13.3
EBIT margin	12.7	14.5	9.5	10.8	12.2
Net profit margin	10.2	11.7	7.4	8.7	9.8
RoCE	14.6	18.5	13.4	16.4	19.4
RoNW	13.6	16.8	11.3	14.3	17.0
RoA	9.2	11.8	8.2	10.4	12.4
<b>Per share ratios</b>					
EPS	4.7	6.1	4.4	5.8	7.3
Dividend per share	3.5	4.7	2.9	3.5	5.0
Cash EPS	6.2	7.6	6.0	7.4	9.0
Book value per share	33.5	38.9	39.3	41.6	43.8
<b>Valuation ratios</b>					
P/E	31.9	24.9	34.2	26.1	20.8

Y/e 31 Mar	FY20	FY21	FY22	FY23E	FY24E
P/CEPS	24.4	19.9	25.2	20.3	16.8
P/B	4.5	3.9	3.8	3.6	3.4
EV/EBIDTA	22.8	17.4	22.2	17.9	14.6
<b>Payout (%)</b>					
Dividend payout	74.0	77.1	66.3	60.5	69.0
Tax payout	10.2	17.0	19.2	18.2	17.8
<b>Liquidity ratios</b>					
Debtor days	26	18	24	20	20
Inventory days	48	53	49	45	45
Creditor days	28	37	39	32	32

Source: Company, YES Sec

## Recommendation Tracker



Source: Company, YES Sec – Research



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Name of the Research Analyst : Himanshu Nayyar, Ankit Mahajan

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**Correspondence Address:** 4<sup>th</sup> Floor, AFL House, Lok Bharti Complex, Marol Maroshi Road, Andheri East, Mumbai - 400059, Maharashtra, India.

☎ +91 22 68850521 | ✉ research@ysil.in  
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**Details of Compliance Officer:** Name: Vaibhav Purohit, Email id: compliance@ysil.in, Contact No: +91-22-6885 0278