Stock Update

Result Update

Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

# Jyothy Labs Ltd

## Mixed performance; improved outlook

| Consumer Goods | Sharekhan code: JYOTHYLAB |
|---|---|

| Reco/View: Buy | ↔ | CMP: Rs. 167 | Price Target: Rs. 200 | ↑ |
|---|---|---|---|---|

↑ 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 | 31.95 |
|---|---|
| Updated July 08, 2022 | |

**High Risk**

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

*Source: Morningstar*

**Company details**

| | |
|---|---|
| Market cap: | Rs. 6,143 cr |
| 52-week high/low: | Rs. 183 / 130 |
| NSE volume: (No of shares) | 4.6 lakh |
| BSE code: | 532926 |
| NSE code: | JYOTHYLAB |
| Free float: (No of shares) | 13.6 cr |

**Shareholding (%)**

| | |
|---|---|
| Promoters | 62.9 |
| FII | 11.8 |
| DII | 18.1 |
| Others | 7.1 |

**Price chart**


**Price performance**

| (%) | 1m | 3m | 6m | 12m |
|---|---|---|---|---|
| Absolute | 8.3 | 5.5 | 21.1 | -4.4 |
| Relative to Sensex | 2.5 | 8.3 | 24.1 | -9.6 |

*Sharekhan Research, Bloomberg*


**Summary**

- Jyothy Labs' Q1FY2023 operating performance was mixed with revenue growing by 13.7% to Rs. 597.2 crore, while OPM declined by 202 bps y-o-y to 10%; PAT grew by 18.7% y-o-y to Rs. 48 crore (due to higher other income and lower tax).
- All key categories except household insecticides and personal care registered good growth. Fabric care and dishwashing grew by 38.6% and 9.6%, respectively (household insecticide decreased by 37.5% y-o-y). Volume growth excluding the household insecticide business stood at 22% y-o-y.
- Management is focusing on achieving volume-led revenue growth in the medium term on back of distribution expansion, good traction to lower unit packs in key categories, and market share gains. OPM has bottomed-out and is expected to improve from Q3FY2023.
- The stock is currently trading at discounted valuation of 26.2x/19.1x its FY2023E/FY2024E EPS. We maintain Buy with a revised PT of Rs. 200.


**Jyothy Labs Limited (JLL) posted the seventh consecutive quarter of double-digit revenue growth in Q1FY2023. Revenue grew by 13.7% y-o-y (three-year CAGR of 12%) to Rs. 597.2 crore. Growth was largely driven by price hikes undertaken in various categories of around 9%, while volume growth stood at 5%. Leveraging on its expanded distribution platform, the company registered mid-single digit volume growth by focusing on increasing sales of its existing products in newer geographies. Revenue of the fabric care and dishwashing categories grew by 38% and 10% (largely price-led growth), respectively. Higher input prices led to a 346-bps y-o-y decline in gross margins and OPM decreased by 202 bps y-o-y to 10% during the quarter. Operating profit decreased by 5.4% y-o-y to Rs. 59.8 crore. Strong revenue growth along with higher other income (one-time gain of Rs. 8.8 crore from land sale) and lower incidence of tax led to 18.7% y-o-y growth in PAT to Rs. 47.7 crore.**

**Key positives**

- Fabric care category registered strong growth of 38.6%, driven by mix of volume and value of 24% and 14%, respectively.
- Sustenance in market share gains in categories such as fabric whiteners, detergents, household insecticides, and dishwash bar during the quarter.
- Dishwash category grew by ~10% (16% on a three-year CAGR basis) with lower unit packs gaining good traction in key markets.

**Key negatives**

- Household insecticide (HI) revenue decreased by ~38% y-o-y due to extreme weather conditions in key markets of North and East (together contribute 75% of category revenue).
- LAB, soda ash, and palm oil prices increased by 40-50% in Q1, resulting in 346 bps y-o-y decline in gross margins and 202 bps y-o-y decline in operating profit margin (OPM) to 10%.

**Management Commentary**

- Management expects revenue growth momentum to sustain in the quarters ahead with larger focus on expanding the distribution of key brands in newer markets, improving the saliency of liquids in the HI category, and improving traction for lower unit packs in the dishwashing category.
- On the category front, HI is likely to post subdued performance in Q2 due to drought-like situation in Bihar and some of the other key states, while fabric care will continue its growth momentum due to strong traction in the premium portfolio. Dishwash will grow in double digits, while personal care revenue growth will improve if inflation cools off in the coming quarters.
- It is focusing on achieving volume-led, double-digit revenue growth in the medium to long 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.
- Raw-material inflation in Q1FY2023 stood at 14-15% and the company has undertaken price increase of 9% to mitigate inflationary pressure in the form of price hikes and grammage reduction. It took price increase of 2% in Q1 and will take further price hikes if required in the coming months.
- With recent correction in key input prices, including palm oil and crude derivatives, management expects OPM to improve in H2FY2023 (with OPM reaching 14-15% by Q4 if there is no significant increase in input prices).

**Revision in estimates –** We have marginally reduced our earnings estimates for FY2023 to factor in little lower margins than earlier expected while we have broadly maintained them for FY2024.

**Our Call**

**View: Maintain Buy with a revised PT of Rs. 200:** 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 and 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 discounted valuations of 26.2x/19.1x its FY2023E/FY2024E earnings compared to some of the large peers. 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 our Buy recommendation on the stock with a revised price target (PT) of Rs. 200.

**Key Risks**

Any late recovery in the of HI category or market share loss in some of the key categories would act as a key risk to our earnings estimates.

**Valuation (consolidated)** Rs cr

| Particulars | FY21 | FY22 | FY23E | FY24E |
|---|---|---|---|---|
| Revenues | 1,909 | 2,196 | 2,514 | 2,856 |
| OPM (%) | 16.5 | 11.3 | 13.3 | 15.3 |
| Adjusted PAT | 208 | 159 | 234 | 321 |
| % YoY growth | 30.5 | -23.5 | 47.0 | 37.2 |
| Adjusted EPS (Rs.) | 5.7 | 4.3 | 6.4 | 8.7 |
| P/E (x) | 29.5 | 38.5 | 26.2 | 19.1 |
| P/B (x) | 4.3 | 4.2 | 4.2 | 3.8 |
| EV/EBIDTA (x) | 19.5 | 24.4 | 18.4 | 13.8 |
| RoNW (%) | 15.7 | 11.1 | 16.0 | 20.9 |
| RoCE (%) | 14.2 | 10.7 | 15.0 | 19.1 |

*Source: Company; Sharekhan estimates*

**Mixed performance; Strong revenue; Miss on margins**

JLL's revenue grew by 13.7% y-o-y to Rs. 597.2 crore, led by volume growth of 5% (excluding HI – volume growth stood at 22%). Three-year revenue CAGR came in at 12.2%. Growth during the quarter is driven by 38.6% y-o-y growth in the fabric care category, 9.6% y-o-y growth in the dishwashing category, and 2.1% y-o-y growth in the personal care category. The HI category declined by 37.5% y-o-y due to impact of adverse seasonality. Gross margin declined by 346 bps y-o-y to 39.9% due to higher raw-material inflation. In-line with the decline in gross margins, OPM was down by 202 bps y-o-y to 10%. Operating profit decreased by 5.4% y-o-y to Rs. 59.8 crore. Strong revenue growth, higher other income, lower depreciation, and lower incidence of tax led to 18.7% y-o-y growth in PAT to Rs. 47.7 crore. Other income for Q1FY2023 is higher at Rs. 13.2 crore, against Rs. 4.6 crore in Q1FY2022 and Rs. 5.7 crore in Q4FY2022 as other income for the quarter includes Rs. 8.8 crore received from the sale of factory.

**Mixed Q1 - Robust growth in fabric care offset by weak performance in HI**

- **Fabric care category – Strong revenue growth boosted by price hikes and sales volume:** JLL's fabric care category reported y-o-y revenue growth of 38.6% to Rs. 251 crore, aided by resurgence of demand for detergent products post opening up of large format stores coupled with extensive distribution drives for all detergent brands. Volume growth in the category stood at 24% and price-led growth stood at 14-15%. The company's mid-price detergent powder brands of Mr. White and MoreLight delivered overall high growth momentum. Market share of Ujala Supreme remained stable at 84.1% as compared to Q4FY2022. Ujala detergent delivered double-digit growth, led by improvement in distribution. Market share of Ujala detergent (detergent powder in Kerala) declined to 20.3% in Q1FY2023 from 21.9% in Q4FY2022. Henko portfolio registered double-digit growth across variants. PBIT margin for the category declined by 530 bps y-o-y to 12.3% due to higher input costs. Margins slightly improved by 42 bps q-o-q, led by price hikes undertaken.

- **Dishwash category – Maintained the growth momentum:** JLL's dishwash category reported 9.6% y-o-y revenue growth to Rs. 209.3 crore. For Exo dishwash, consistent marketing drive, and higher offtake on lower unit packs (LUPs) drove penetration and enabled the brand to reach out to new consumers. This coupled with superior value for money in the tub category helped the brand to grow at a higher rate. Market share of Exo was maintained at 13.7% as compared to Q4FY2022. Pril reported double-digit growth, backed by high brand loyalty in the higher price point pack. Moreover, focus on lower unit packs helped the brand to reach the highest-ever number of outlets (on those packs). Market share of Pril increased to 15.1% from 14.3% in Q4FY2022. Margins improved by 184 y-o-y/85 bps q-o-q to 13.2%, aided by price hikes and improved distribution reach.

- **HI category – Performance affected by weather vagaries:** The HI category declined by 37.5% y-o-y to Rs. 44.8 crore impacted by higher base of Q1FY2022 along with lower sales of coil and liquid due to extreme weather conditions in North and East India. North and East contribute ~75% to the HI category and bad weather conditions in these regions impacted the category during the quarter. Three-year CAGR for Q1FY2023 is at 20.9%. Management has guided that despite seasonality, growth outlook for the category is positive in the medium-long term. JLL's market share in the liquids and coil category improved to 10% and 24.2% in June 2022 from 8.9% and 22% in March 2022, respectively. Liquid category's share is currently at 30-35%, which the company aims to increase to 50%. Management has stated that as the share of liquid increases, profitability of the HI category will improve in the next two to three years. The category reported loss of Rs. 4.5 crore versus loss of Rs. 0.7 crore in Q1FY2022. Performance of the category is expected to be muted in Q2 as the drought-like situation in Bihar and some of the eastern states might affect the category's growth prospects.

- **Personal care category – Performance affected by frequent price hikes:** Personal care category grew by just 2.1% y-o-y to Rs. 69.4 crore. Demand was impacted during the quarter due to price increases undertaken to mitigate the impact of higher input costs. PBIT margin of the category sharply declined to 3.6% from 18.2% in Q1FY2022 and 12.7% in Q4FY2022.

**Key conference call highlights**

- **Demand environment was better for JLL versus the industry:** Both rural and urban markets continued to perform well and have delivered positive volume growth during the quarter compared to volume decline for the industry. Going ahead, rural offtake is expected to pick up, led by expectations of good monsoon and government welfare measures.

- **Calibrated price increases undertaken:** During the quarter, JLL undertook price increase of 8-9% across the product portfolio. The company took price increase of 2% in Q1FY2023. In the fabric care category, price increase stood at 14-15%. The company might opt for incremental price hikes if some of the key commodity prices continue to increase in the quarters ahead.
- **OPM to improve in H2FY2023:** With recent correction in key input prices, including palm oil and crude derivatives, management expects OPM to improve in H2FY2023 (with OPM reaching 14-15% by Q4, if there is no significant increase in input prices).
- **Distribution channel performance:** The company registered double-digit growth in e-commerce and retail channels. Modern trade currently contributes 10-12% to the topline. Exo, Pril, and Henko brands are performing well in the modern trade channel.
- **Other key highlights:** Cash position at June 2022 end is Rs. 80 crore. Effective tax rate is expected at 17-18% for FY2023.

**Results (Consolidated)** Rs cr

| Particulars | Q1FY23 | Q1FY22 | y-o-y (%) | Q4FY22 | q-o-q (%) |
|---|---|---|---|---|---|
| **Total Revenue** | **597.2** | **525.4** | **13.7** | **546.7** | **9.2** |
| Total operating cost | 537.4 | 462.1 | 16.3 | 489.5 | 9.8 |
| Raw material cost | 359.2 | 297.9 | 20.6 | 320.2 | 12.2 |
| Employee expenses | 63.9 | 63.7 | 0.3 | 60.2 | 6.2 |
| Advertisement expenses | 45.0 | 43.0 | 4.9 | 39.1 | 15.2 |
| Other expenses | 69.2 | 57.6 | 20.1 | 70.0 | -1.2 |
| **Operating profit** | **59.8** | **63.3** | **-5.4** | **57.2** | **4.5** |
| Other income | 13.2 | 4.6 | - | 5.7 | - |
| Depreciation | 13.0 | 14.4 | -9.5 | 15.4 | -15.4 |
| Interest expenses | 3.3 | 3.1 | 7.8 | 2.9 | 15.8 |
| **Profit before tax** | **56.7** | **50.3** | **12.7** | **44.7** | **26.9** |
| Tax | 9.0 | 10.1 | -11.3 | 7.8 | 15.7 |
| **Adjusted PAT** | **47.7** | **40.2** | **18.7** | **36.9** | **29.2** |
| EPS (Rs.) | 1.3 | 1.1 | 18.7 | 1.0 | 29.2 |
| | | | **bps** | | **bps** |
| GPM (%) | 39.9 | 43.3 | -346 | 41.4 | -159 |
| OPM (%) | 10.0 | 12.0 | -202 | 10.5 | -45 |
| NPM (%) | 8.0 | 7.7 | 34 | 6.8 | 124 |
| Tax rate (%) | 15.8 | 20.1 | -429 | 17.4 | -153 |

*Source: Company, Sharekhan Research*

**Segmental performance** Rs cr

| Particulars | Q1FY23 | Q1FY22 | y-o-y (%) | Q4FY22 | q-o-q (%) |
|---|---|---|---|---|---|
| **Revenue** | | | | | |
| Fabric care | 251.1 | 181.2 | 38.6 | 212.6 | 18.1 |
| Dish washing | 209.3 | 191.0 | 9.6 | 189.8 | 10.3 |
| Household insecticides | 44.8 | 71.8 | -37.5 | 79.3 | -43.4 |
| Personal care | 69.4 | 68.0 | 2.1 | 46.7 | 48.6 |
| Other Products | 11.8 | 10.6 | 11.2 | 9.7 | 21.0 |
| **Total Consumer** | **586.5** | **522.6** | **12.2** | **538.1** | **9.0** |
| Laundry Services | 10.7 | 2.8 | - | 8.6 | 25.1 |
| **Total Revenue** | **597.2** | **525.4** | **13.7** | **546.7** | **9.2** |
| **PBIT Margins (%)** | | | | | |
| Fabric care | 12.3 | 17.6 | -530 | 11.9 | 42 |
| Dish washing | 13.2 | 11.3 | 184 | 12.3 | 85 |
| Household insecticides | -10.0 | -0.9 | - | 0.4 | - |
| Personal care | 3.6 | 18.2 | - | 12.7 | -916 |
| Other Products | 5.5 | -26.7 | - | 15.0 | -948 |
| Total Consumer | 9.7 | 11.9 | -221 | 10.5 | -74 |
| Laundry Services | -15.2 | - | - | -18.0 | 276 |
| **PBIT Margins** | **9.3** | **11.2** | **-190** | **10.0** | **-74** |

*Source: Company, Sharekhan Research*

## Outlook and Valuation

### ■ Sector view - Deflating commodity prices augur well; Good monsoon key for rural demand

High consumer inflation and slowdown in rural demand will keep pressure on sales volume in the near term. However, a normal monsoon, cool-off in commodity prices, and improved consumer sentiments will help volume growth to recover in H2FY2023. Margins of consumer goods companies are expected to be lower on a y-o-y basis in Q1FY2023 with raw-material prices remaining high during most of the quarter. However, the scenario has changed in the past 15-20 days with commodity prices cooling from their high, providing some breather for consumer goods companies. Companies are expected to see margin expansion from H2FY2023. Overall, we expect H2FY2023 to be much better compared to H1FY2023 with expected recovery in volume growth and likely expansion in margins in Q3/Q4 FY2023. 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.

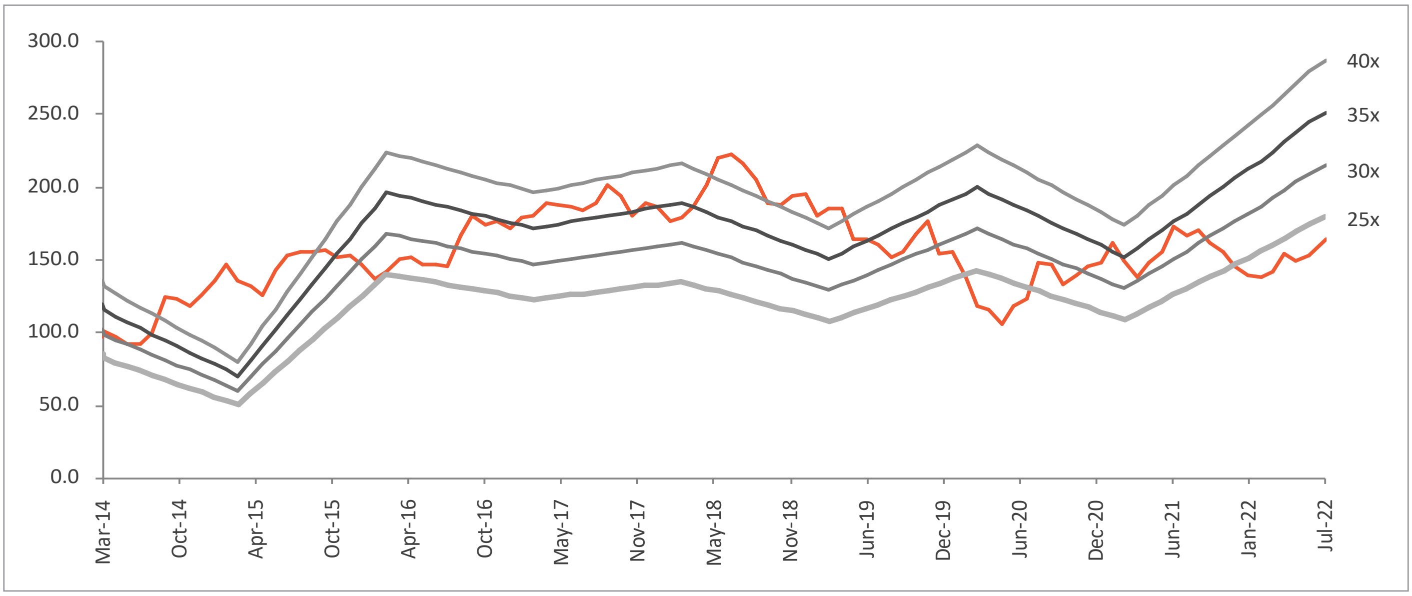
### ■ Company outlook - Focus remains on achieving double-digit revenue growth

JLL started FY2023 on an encouraging note with volume growth of 5% as against the industry's volume decline of mid-single digit. JLL is focusing on achieving volume-led, double-digit revenue growth in the medium to long 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. With recent correction in key input prices, the company expects OPM to reach to historical levels of 14-15% by the end of FY2023.

### ■ Valuation - Retain Buy with a revised PT of Rs. 200

We like JLL's focus on achieving doubles-digit revenue growth in the medium term with relevant strategic initiatives undertaken in recent times. Product innovation and 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 discounted valuations of 26.2x/19.1x its FY2023E/FY2024E earnings compared to some of the large peers. 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 our Buy recommendation on the stock with a revised PT of Rs. 200.

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




*Source: Sharekhan Research*

**Peer Comparison**

| Companies | P/E (x) | | | EV/EBITDA (x) | | | RoCE (%) | | |
|---|---|---|---|---|---|---|---|---|---|
| | FY22 | FY23E | FY24E | FY22 | FY23E | FY24E | FY22 | FY23E | FY24E |
| Godrej Consumer Products | 49.4 | 42.9 | 36.9 | 36.2 | 31.7 | 27.5 | 17.3 | 18.2 | 19.5 |
| HUL | 69.6 | 61.2 | 50.7 | 48.8 | 42.8 | 35.7 | 24.1 | 27.1 | 31.8 |
| Jyothy Labs | 38.5 | 26.2 | 19.1 | 24.4 | 18.4 | 13.8 | 10.7 | 15.0 | 19.1 |

*Source: Company; Sharekhan Research*

## 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 category since its launch, with an ~80% market share.

## Investment theme

JLL has a leadership position in the fabric whitener category 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 category, leveraging rural penetration in the dishwash category, increasing footprint, and relevant extensions in the HI and personal care categories. Large presence in the essential and hygiene category will help JLL drive near-term growth in the pandemic situation. Resurgence in the HI category will help drive growth in the medium term.

## Key Risks

- **Slowdown in demand:** Slowdown in the HI category'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*

**Top 10 shareholders**

| Sr. No. | Holder Name | Holding (%) |
|---|---|---|
| 1 | Franklin Resources | 6.60 |
| 2 | Nalanda India Equity Fund | 5.06 |
| 3 | ICICI Prudential AMC | 4.51 |
| 4 | Nippon Life India AMC | 2.62 |
| 5 | abrdn plc | 1.94 |
| 6 | Pari Washington Company Pvt Ltd | 1.67 |
| 7 | EMBLEM FII | 1.66 |
| 8 | Mirae Asset Global Investments Co | 1.27 |
| 9 | ICICI Lombard General Insurance Co Ltd | 1.18 |
| 10 | BlackRock Inc | 0.79 |

*Source: Bloomberg*

## 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*

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by BNP PARIBAS

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