Stock Update

Company Update

Powered by the Sharekhan 3R Research Philosophy

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 Jul 08, 2022

High Risk

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

Source: Morningstar

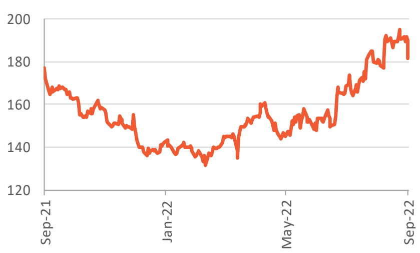
Company details

Market cap:	Rs. 6,680 cr
52-week high/low:	Rs. 198 / 130
NSE volume: (No of shares)	5.1 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	0.6	16.6	23.8	7.9
Relative to Sensex	1.5	4.0	21.8	6.8

Sharekhan Research, Bloomberg

Jyothy Labs Ltd

Double-digit revenue growth to sustain; margins to improve gradually

Consumer Goods	Sharekhan code: JYOTHYLAB
Reco/View: Buy ↔	CMP: Rs. 182	Price Target: Rs. 215 ↑

↑ Upgrade ↔ Maintain ↓ Downgrade

Summary

- We retain a Buy on Jyothy Labs (JLL) with revised a price target of Rs. 215. The stock trades at 30.8x/22.9x its FY2023/24E earnings. Better growth prospects and a strengthening balance sheet make JLL a good pick in the mid-cap space.
- Management retained double-digit revenue growth guidance for medium to long term which will be largely led by higher sales volume driven by defined strategies of distribution expansion, product launches and higher consumer connect.
- As raw material prices fall and volume growth is set to recover, OPM is expected to bounce back to 15% in FY2024. Better revenue mix with increase in contribution of high margin products (including LVs in household insecticide category) will further drive margins.
- Company had net cash of Rs. 85crore in FY2022. Consistent improvement in cash with stable working capital and improved earnings growth, the cash flows will improve in the coming years. RoE/RoCE likely to reach at around 20% in FY2024.

We talked to Mr. Sanjay Agarwal, Chief Financial Officer (CFO), of Jyothy labs (JLL) to understand the company's current business environment and future growth prospects. Q2FY2023 is expected to be another quarter of price led double digit revenue growth with sales volume expected to grow in mid-single digit. Higher inventory of key raw material (maintains 6-8 weeks of key inputs) would delay in flow of benefits of sharp correction in the key input prices in the recent times. Margins should start improving from Q3FY2023. The company is likely to undertake price cuts/reinstate of grammage to pass on the benefits of lower input prices to consumers in the quarters ahead. This will help volumes to gradually recover in key categories. However, the price actions will depend on competitors' actions and momentum in the key input prices. Working capital days will continue to remain at around 20 days and cash flows will consistently improve in the coming years.

- **Double digit revenue growth to sustain; volume growth to gradually improve:** The company is targeting to achieve volume led double digit revenue growth in medium to long term through category development, increased brand building initiatives, digitalisation and higher consumer connect. JLL's market share in key categories (except for Pril Liquid) has seen consistent improvement of 150-300 bps in the past three years. Its products are currently available 2.8mn stores (direct reach expanded to 1 million outlets). Overall, JLLs revenues are expected to grow at CAGR of 14% over FY2022-24. In Q2FY2023, revenue growth will be in double digits, which will be largely driven by price hikes (9% in Q1FY2023) undertaken to mitigate the impact of raw material inflation.
- **OPM to recover to 15% by FY2024; raw material inflation cooling off:** Raw material inflation in Q1FY2023 stood at 14-15%. Recent correction in the crude oil (24% correction in last six months), palm oil and crude derivatives prices will help JLL to post better OPM in H2FY2023. With expected stable raw material prices and expected recovery in the volume growth, we expect OPM to recover to 15% by FY2024. Better revenue mix led by improvement in revenue contribution of some of high margin products such as liquid vaporisers in household insecticide (HI) category, premium detergent and post wash products will help further improvement in the margins in the coming years.
- **Strong cash flows; return profile to improve consistently:** JLL's net cash flows stood at Rs. 85crore with consistent improvement in the operating cash flows led by stable working capital. With working capital expected to remain at around 20 days and no major capex on books (capacity utilisation stood at 65% in Q1FY2023) in the coming years, the cash flows are set to consistently improve in the coming years. With an expected improvement in the profitability and no-debt on books, the return profile will improve strong by FY2024. We expect RoE and RoCE to stand at 19.4% and 21.6% in FY2024 as compared to 11.1% and 13.2% in FY2022.

Our Call

Valuation – Retained Buy with revised PT of Rs. 215

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. We expect JLL's revenues and PAT to grow at a CAGR of 14% and 35% over FY2022-24. The stock is currently trading at discounted valuations of 30.8x/22.9x its FY2023E/24E earnings compared to some of the large peers. We maintain a Buy on the stock with a revised price target of Rs. 215.

Key Risks

Any late recovery in the recovery 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

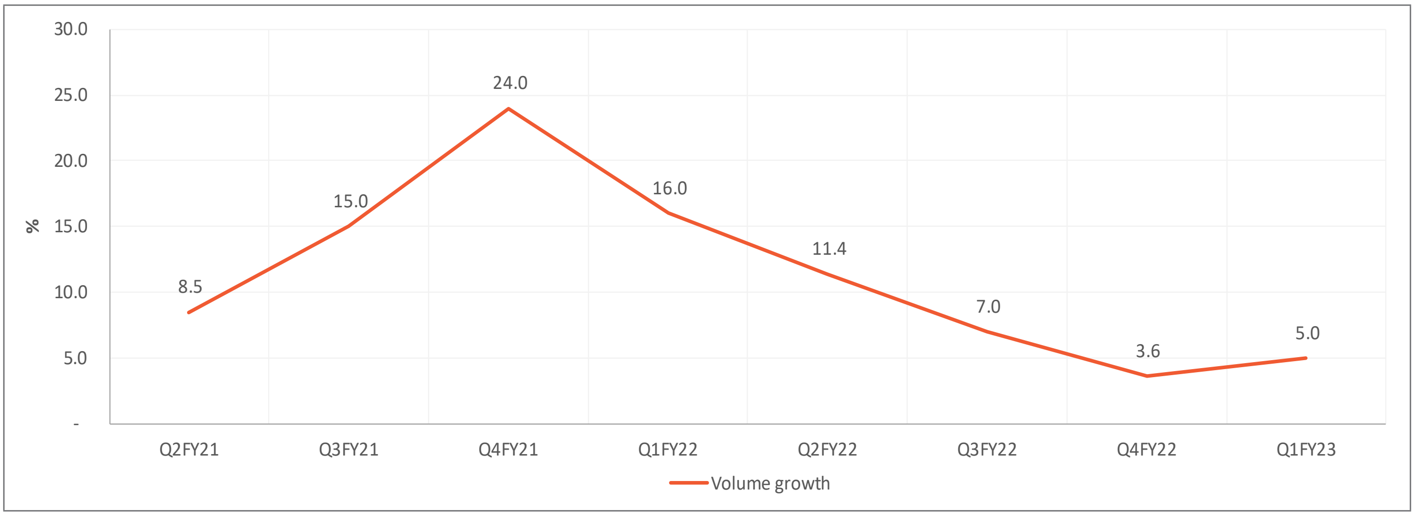
Particulars	FY21	FY22	FY23E	FY24E
Revenues	1,909	2,196	2,514	2,856
OPM (%)	16.5	11.3	12.4	14.0
Adjusted PAT	208	159	217	292
% YoY growth	*30.5*	*-23.5*	*36.2*	*34.5*
Adjusted EPS (Rs.)	5.7	4.3	5.9	7.9
P/E (x)	32.1	42.0	30.8	22.9
P/B (x)	4.7	4.6	4.6	4.3
EV/EBIDTA (x)	21.2	26.6	21.4	16.5
RoNW (%)	15.7	11.1	14.9	19.4
RoCE (%)	17.6	13.2	17.2	21.6

Source: Company; Sharekhan estimates

Key highlights of interaction with Mr.Sanjay Agarwal, CFO of JLL

- JLL's management expects double digit revenue growth to sustain in the coming quarters. The revenue growth in the near term will be largely driven by price hikes undertaken to mitigate raw material inflation. With greater focus on expanding distribution of key brands, improving saliency of liquids in the household insecticides (HI) category and improving traction for lower unit packs in the dishwashing category, the company expects improvement in the sales volume, which will help in maintaining double-digit revenue growth.
- Key growth levers in the medium term would be driving category development, increased brand building initiatives, digitalisation, market share gains, distribution expansion and improving penetration for key categories in rural and urban market.
- Household insecticides (HI) category declined by 37.5% y-o-y to Rs. 44.8 crore in Q1FY2023 impacted by 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. The management expects the performance to remain subdued in Q2FY2023 as lower rainfalls in key states of Bihar and West Bengal will continue to impact the sales in the near term. Overall, the HI category is likely to post decline in revenues in FY2023.
- Contribution of coils to overall HI category stands at 65-70% while LV contribution stands at 30-35%. The management eyes a 50:50% contribution from coils and LV in the medium term. Increase in salience of LV to the overall sales will be done through improving penetration of HI products in the rural markets and launching more and more value of money products under the LV category.
- Raw material inflation in Q1FY2023 stood at around 14-15%. Recent correction in the crude oil (24% correction in the past six months) and crude derivatives prices will help JLL to post better OPM in H2FY2023. With expected stable raw material prices and expected recovery in the volume growth, we expect the OPM to recover to 15% by FY2024.
- Better revenue mix led by improvement in the revenue contribution of some of high margin products such as liquid vaporisers in household insecticide (HI) category, premium detergent and post wash products will help further improvement in the margins in the coming years.

Trend in the volume growth in the domestic business



Source: Company, Sharekhan Research

Consistent improvement in market share of key brands

In the past few years, JLL has managed to increase market share of most of its products which is aided by multiple factors such as improved distribution, digital transformation, higher brand investment and relevant innovation.

Increased market share of key products Rs cr

Product	Market share (%)				Change in market share over CY19 (bps)
	CY19	CY20	CY21	JQ22	
Ujala fabric Whitener	81.8	82.2	84.4	84.1	230
Exo Bar	11.2	12.5	14.0	13.7	250
Pril Liquid	16.3	17.3	15.0	15.1	-120
Maxo Coil Value	21.2	23.0	23.4	24.2	300
Maxo Liquid Vaporizer	8.2	8.6	9.4	10.0	180
Ujala IDD (Kerala)	18.7	19.7	20.3	20.3	160

Source: Company; Sharekhan Research

Sustained focus on improving distribution

JLL has significantly added to its distribution capabilities to ensure that the company's products are easily available for the consumers at times of uncertainties brought on by the pandemic in last two years. The company's products are now available across over 2.8 million outlets through a network of over 7,300 stockists and sub-stockists. During FY2022, JLL crossed the milestone of 1 million direct-reach outlets and with it, widened the company's penetration in its key markets. In terms of channels, general trade neighbourhood grocery stores led the growth in FY2022. E-commerce channel sales have also shown rapid growth, due to increased adoption of internet, and contributed ~3% of the total sales in FY2022.

To increase the availability of all products, a continuous replacement model (CRS) was implemented for the company's distributors. Further, a retailer app was launched to enable retailer order through app. Over the past two years, JLL has evolved a Permanent Dispatch Plan (PDP) to ensure there is constant availability of the company's products with the lowest freight cost. Further, the company has automated the tasks of assigning transporters to ferry its products to their destinations with the help of IT systems. As a part of its strategy to enhance rural reach and accelerate distribution, JLL has adopted van and moped-led sales model which carry smaller unit packs which finds greater acceptance in these regions. The company has also implemented several digital solutions which is enabling better control over distribution for ensuring sustained availability of products.

Digital transformation aids capacity expansion, boosts sales

Digital transformation in JLL has taken a leap during the two years of the pandemic. Technology is embedded in every key aspect of the company's processes pertaining to manufacturing, packaging, distribution, and marketing. While most of the company's plants are fully automated, JLL undertook efforts to enhance automation of its detergent manufacturing plants during FY2022 to further increase capacity, helping the company to support its sales and distribution teams. Automation of the company's Karaikal plant which manufactures detergent and dishwash bar, has upped its efficiency by ~35% helping JLL to grow its presence in the south market. Similarly, for its Pithampur plant in central India, which services markets in the west and central India as well as the lower part of eastern India, JLL achieved a ~25% increase in the output of dishwash bar.

High consumer connect aided by brand investment

During the pandemic, the company focussed on staying on top of the consumer's mind and did not curtail its advertising and promotion spends to bring down costs. Instead, JLL increased its marketing spends which helped the company to retain its connect with the consumers and engage with them in the times of lockdowns and lowered physical mobility through print, electronic, and digital media. The company invested significantly in undertaking various advertising and promotion activities including TV and OTT promotion, running campaigns (including digital) and brand activation activities at stores. It also roped in eight celebrities to endorse brands namely - Taapsee Pannu - Ujala Fabric whitener, Shilpa Shetty - Exo, Nayanthara - Ujala Crisp & Shine, Rajkumar Rao - Maxo, Ritesh & Genelia Deshmukh - Pril, Manju Warrier – Ujala Detergent and Kajal Aggarwal – Henko. With social media becoming an important channel, several engagement and brand promotion activities are undertaken. All these strategies helped the company to consistently convey its brand proposition, which may have significantly contributed to the increased uptake.

Innovation trough R&D

JLL's R&D team continually engages in developing new products as per evolving trends, improving production processes, and refining ingredients of the existing products through its three R&D facilities. This enables the company to build a competitive edge in the industry. In the recent years, JLL has been increasingly focussing on developing sustainable products such as organic and natural products which use environment-friendly raw materials. In FY2022, given a steep rise in input prices and an uncertain operating context, the company undertook a calibrated approach to product launches. Two liquid detergents were launched which were in line with the ongoing trend of consumers shifting from detergent powder to liquid. These included:

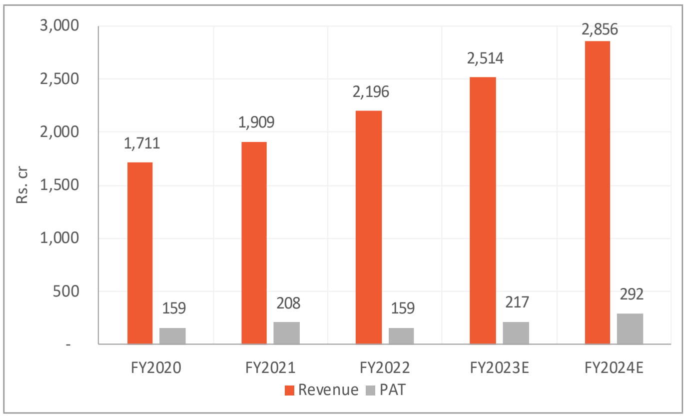
- **Henko Matic Liquid Detergent** which was launched in the premium category across key states and in all major e-commerce platforms. Multiple branding and activation initiatives were undertaken to establish its unique proposition of – The Machine Specialist.
- **Ujala Liquid Detergent** was launched in the midsize segment, in south India and focussed measures were undertaken to enhance its penetration.

Strong cash flows; return profile to improve consistently

JLL's net cash flow stood at Rs. 85crore with consistent improvement in the operating cash flows led by stable working capital. With working capital expected to remain at around 20 days and no major capex on books (capacity utilisation stood at 65% in Q1FY2023) in the coming years, the operating cash flows are consistently improve in the coming years. With the expected improvement in the profitability and no-debt on books, the return profile will improve strong by FY2024. We expect RoE and RoCE to stand at 19.4% and 21.6% in FY2024 as compared to 11.1% and 13.2% in FY2022.

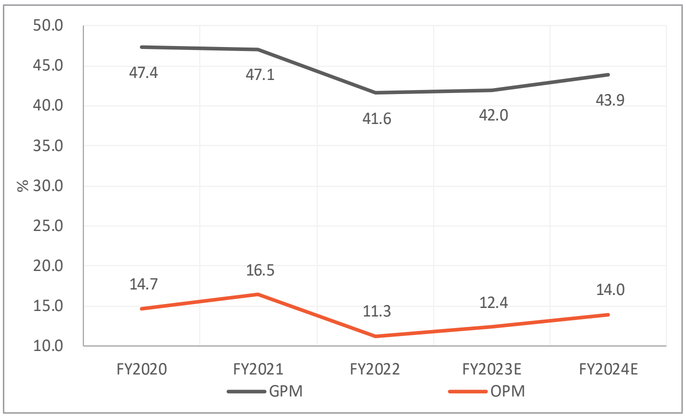
Financials in charts

Steady growth in revenue and PAT



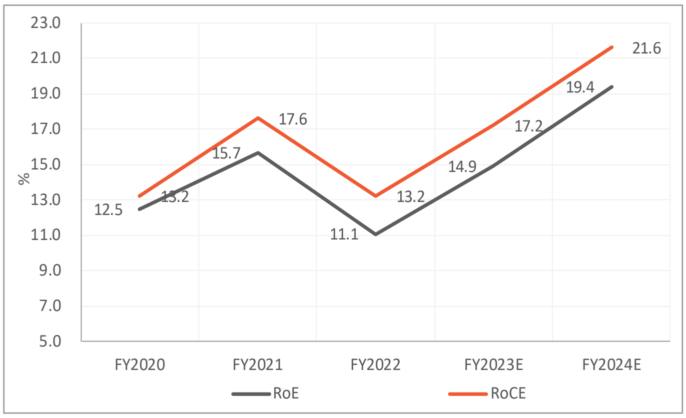
Source: Company, Sharekhan Research

Margins to improve from current level



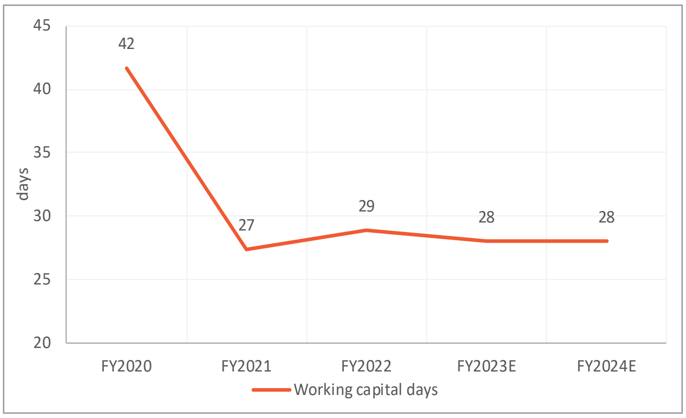
Source: Company, Sharekhan Research

Return ratios to rise sharply



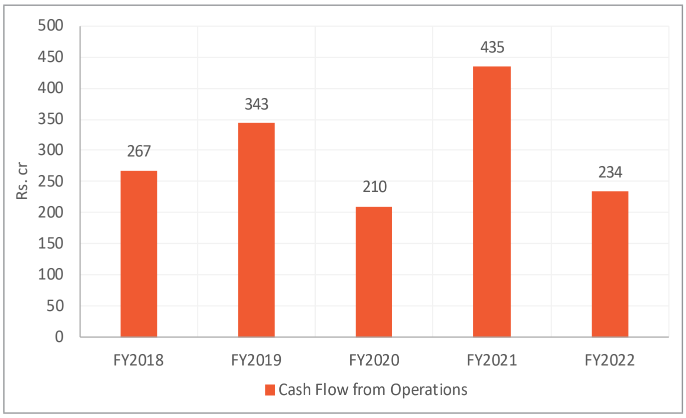
Source: Company, Sharekhan Research

Stable working capital days



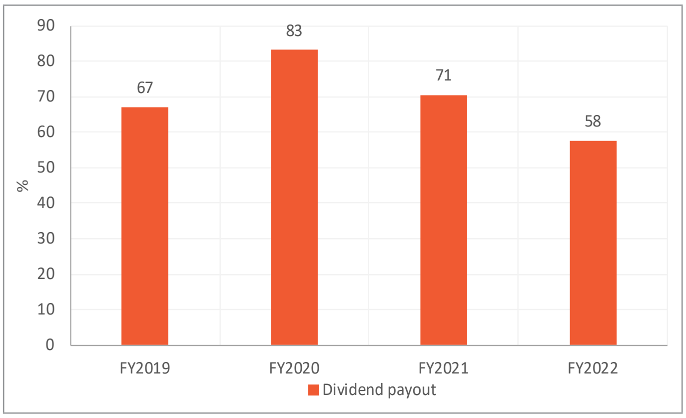
Source: Company, Sharekhan Research

Trend in operating cash flow generation



Source: Company, Sharekhan Research

Consistent dividend payout



Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector Outlook – Deflating commodity prices augurs well; good monsoon key for rural demand

High consumer inflation and slowdown in the rural demand will keep pressure on the sales volumes in the near term. However, a normal monsoon, cool-off in the commodity prices and improved consumer sentiments will help volume growth to recover in H2FY2023. Consumer goods companies' margins were lower in Q1FY2023 with raw material prices remaining higher. However, the scenario has changed in the past 1.5 months with commodity prices cooling from its high providing a breather for consumer goods companies. Companies are expected to see expansion in margins from H2FY2023. Overall, we expect H2FY2023 to be much better as compared to H1FY2023 with expected recovery in the volume growth and expansion in the margins in Q3/Q4FY2023. Low penetration 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 several opportunities for achieving sustainable growth in the medium to long run.

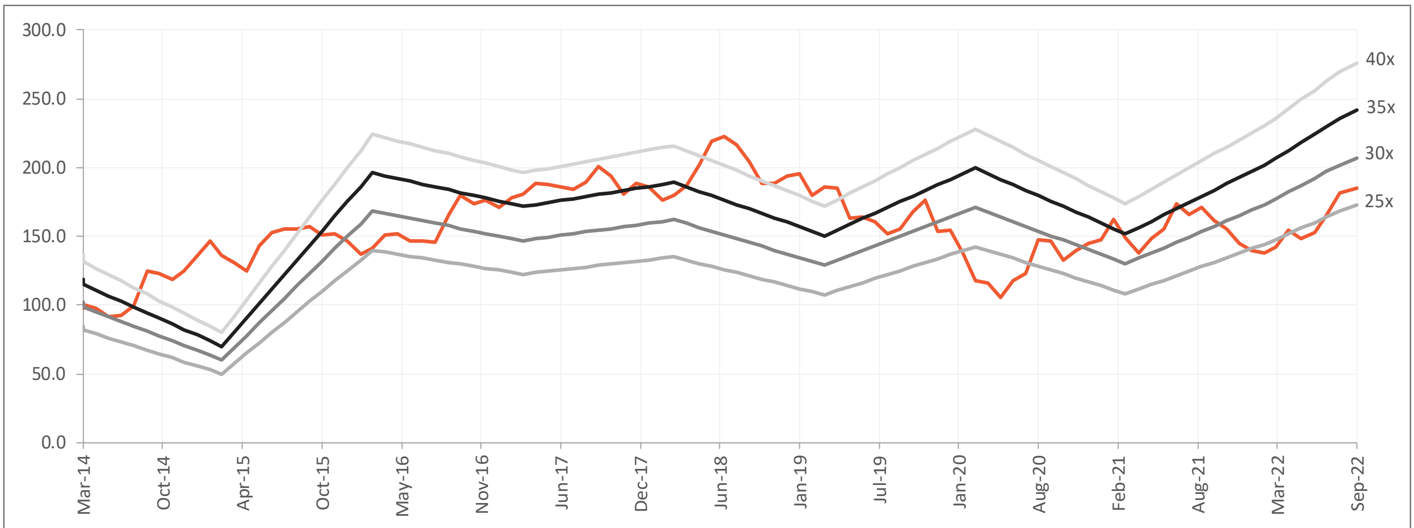
■ Company outlook – Focus remains on achieving double-digit revenue growth

JLL started FY2023 on an encouraging note with volume growth of 5% as against the industry's volume decline of mid-single digits. 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. 215

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. We expect the company's revenues and PAT to grow at a CAGR of 14% and 35% over FY2022-24. The stock is currently trading at discounted valuations of 30.8x/22.9x its FY2023E/24E earnings compared to some of the large peers. We maintain a Buy on the stock with a revised price target of Rs. 215.

One-year forward P/E (x) band



Source: Company, Sharekhan Research

Peer Comparison

Particulars	P/E (x)			EV/EBITDA (x)			RoCE (%)		
	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
Godrej Consumer Products	52.7	46.7	39.9	38.6	34.6	29.9	17.3	17.9	19.3
HUL	68.6	60.2	50.0	48.0	42.1	35.1	24.1	27.1	31.8
Jyothy Labs	42.0	30.8	22.9	26.6	21.4	16.5	10.7	14.0	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. 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. The company's products are available across over 2.8 million outlets through a network of over 7,300 stockists and sub-stockists with a direct reach of 1 million outlets.

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 Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Franklin Resources	6.6
2	Nalanda India Equity Fund	5.16
3	ICICI Prudential AMC	4.37
4	Nippon Life India AMC	2.98
5	Pari Washington Company Pvt Ltd	1.67
6	ICICI Lombard General Insurance Co Ltd	1.59
7	Abrdn plc	0.85
8	BlackRock Inc	0.58
9	UTI AMC	0.44
10	Dimensional Fund Advisors	0.31

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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