

Margins to partly recover; crude inflation still persists

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. It has leading brand Ujala in fabric whitener with 83.7% market share and a sizeable dish washing & HI business with mid-teens market share.

- The company has 23 manufacturing facilities in India. Its pan-India distribution reach is close to 3.0 million outlets with direct reach of 1.0 million. Its major brands include Ujala & Henko in fabric care, Exo & Pril, in dishwashing, Margo in soaps and Maxo in HI categories

Q2FY23 Results: JLL posted sales growth of 11.8% led by 10% pricing growth.

- Sales were up 11.8% YoY with strong growth in the fabric care segment
- EBITDA was at ₹ 80.2 crore, up 19.5% YoY, with margins at 12.4%
- Consequently, adjusted PAT was at ₹ 69.8 crore (up 64.7% YoY)

What should investors do? JLL's share price has underperformed the FMCG index with mere 17% return (from ₹ 168 in November 2017 to ₹ 193 in November 2022).

- We raise our FY23E & FY24E EPS estimate by 11.7% & 22.5%, respectively
- We maintain our **HOLD** rating on the stock

Target Price and Valuation: We value the stock at ₹ 205, valuing the business at 26x FY24 earnings.

Key triggers for future price performance:

- With softening of palm oil and polypropylene prices, gross margins are likely to improve. However, crude and related commodity still remain at elevated levels. We expect margins to partly recover to 14% levels by FY24 (against average of ~16% during FY17-20)
- Dish washing & fabric wash segment driving growth with sustainable revenue growth (three-year CAGR of ~14%). We expect single digit volume growth in these segment, going forward
- Despite efforts to shift sale from coils to liquid vaporisers in the HI segment, coils still remain 60% of the total volumes of the company. Growth as well as margins remain lacklustre in this segment

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

- Strong innovation & premiumisation strategy in salt, tea, Sampann & Soulful in the Indian market are expected to drive sales & margins
- We value the stock at ₹ 950 with a BUY rating



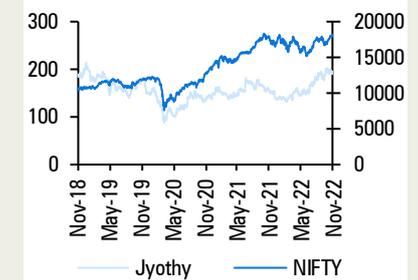
Particulars

Particulars (₹ crore)	Amount
Market Capitalization	7,075.9
Total Debt (FY22)	0.0
Cash and Investments (FY22)	206.1
EV	6,869.8
52 week H/L (₹)	208 / 130
Equity capital	36.7
Face value (₹)	1.0

Shareholding pattern

(in %)	Dec-21	Mar-22	Jun-22	Sep-22
Promoter	62.9	62.9	62.9	62.9
FII	9.9	10.9	11.5	12.8
DII	18.3	16.9	18.1	17.5
Others	8.9	9.3	7.5	6.8

Price Chart



Recent event & key risks

- HI segment saw 30% sales dip due to lack of rains in North & East India
- Key Risk:** (i) Elevated crude prices keep gross margins under check (ii) Growth momentum in fabric, dish wash can drive higher than expected sales growth

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Key Financial Summary

Key Financials	FY20	FY21	5 Year CAGR (FY17 to FY22)		FY23E	FY24E	CAGR (FY22-24E)
			FY22	FY23E			
Net Sales	1665.4	1885.0	2166.3	5.9	2482.0	2689.4	11.4%
EBITDA	249.8	316.7	249.5	-0.8	307.9	385.1	24.3%
EBITDA Margin %	15.0	16.8	11.5		12.4	14.3	
Adjusted Net Profit	161.3	190.3	156.1	-5.0	229.1	284.9	35.1%
Adjusted EPS (₹)	4.4	5.2	4.3	-5.0	6.2	7.8	35.1%
P/E	43.9	37.2	45.3		30.9	24.8	
RoNW %	21.7	20.4	16.6		23.0	26.8	
RoCE (%)	24.3	26.0	18.7		26.2	31.3	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter

Q2FY23 results: Margin uptick with commodity prices softening; fabric & dish wash continuing growth momentum...

- JLL witnessed sales growth of 11.8% to ₹ 646.4 crore led by pricing growth of ~11% and volume growth of ~1%. The de-growth in HI sales was due to lack of rains in north & east India adversely impacted overall volume growth. Excluding HI, volume growth was 5%
- The high inflation is adversely impacting consumer sentiments specifically in rural regions. Given sales are largely driven by LUPs in rural regions, grammage reduction would have also impacted volumes in Q2
- Fabric wash segment saw growth of 33.7% led by 20% volume growth & ~13% price hike. The company saw strong growth across portfolio of detergents, post wash as well as Ujala crisp & shine. Moreover, the company took a steep price hike in the last one year to pass on high inflation in crude & related products. On a three-year CAGR basis, segment sales grew 13.9%
- Dish washing segment grew at slower pace of 5.6%. However, on a three-year CAGR basis, segment sales grew 13.7%. The company is gaining market share in the segment in both brands Exo & Pril. JLL has not taken a steep price increase in the dish washing brand (not as high as fabric care segment)
- Personal care segment sales grew 10.8% in Q2 with similar growth on a three-year CAGR basis. The growth was led by 1% volume growth and ~10% pricing growth in Q2. LUPs are sustaining volumes in the segment
- Frequent price hikes in the last one year adversely impacted volume growth. However, some commodities like soap, noodles prices have softened recently. The company is looking to pass on the benefit. JLL is trying to leverage tailwinds of naturals in this segment with Margo brand
- Household insecticide (HI) segment witnessed a steep fall of 30.7% in sales mainly on account of less rains in the north and east of India during peak monsoon period. On a three-year CAGR basis, the segment sales have de-grown 4%
- We believe the company is unable to drive overall sales of the HI segment, specifically coils sales. Coils still contributes 60% of volumes whereas liquid vaporisers (LVs) contribute 40%
- The HI category witnessed 8% de-growth during the quarter. Given JLL's HI sales is more skewed from north & east regions, the impact was more prominent for the company. Both coils and LVs sales were impacted
- The company is continuously making losses in the HI segment. However, it is trying to drive growth of LVs and high ad-spends towards this leading to losses at the segment operating level
- JLL is driving growth largely through LUPs in detergent with the contribution of ~35%. The price point of ₹ 10 is working well in the rural region while larger packs are doing well in Modern stores. Moreover, increase in direct distribution network is also benefiting. The company is also driving sales of mid-price brands like 'Mr white' & 'More light'
- It is difficult to recoup lost business in the HI segment given Q2 along with Q4 is a large quarter for HI product sales. However, the company would be making efforts to drive growth in Q4
- The commodity inflation trend has been mixed with a steep decline in palm oil and some packaging material (LDPE, Polypropylene) prices. However, caustic soda, soda ash & Linear Alkyl Benzene (LAB) prices remain elevated

- The company was able to maintain its last year’s gross margin with some relief in commodity costs and price hikes taken in the last one year. JLL cut marketing spends by 63 bps and overhead spends by 13 bps during the quarter
- Operating profit grew 19.5% to ₹ 80.2 crore with 80 bps jump in operating margin to 12.4%. Led by higher operating profit & exceptional income of ₹7 crore (write back of one-time settlement due to extinguishing indemnity pertaining to an erstwhile business transaction), net profit grew 64.7% to ₹ 69.4 crore
- Income tax rate is likely to remain at ~16-17% in FY23
- Working capital days increased from 12 days in September 2021 to 28 days in September 2022 mainly due to higher inventory of HI products due to lower sales and overall high cost inventory due to price hikes. However, it is expected to remain at ~20-22 days in the long run

Exhibit 1: Peer Comparison

Sector / Company	CMP	TP	M Cap	Sales growth (%)			EBITDA Margins (%)			P/E(x)			RoE (%)			RoCE (%)		
	(₹)	(₹) Rating		(₹ Cr)	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E
Jyothy Lab (JYOLAB)	193	205 Hold	7076	14.9	14.6	8.4	11.5	12.4	14.3	45.3	30.9	24.8	16.6	23.0	26.8	18.7	26.2	31.3
Hindustan Unilever (HINLEV)	2458	2800 Hold	623766	11.3	14.8	8.5	24.8	24.1	24.5	65.5	57.9	52.8	18.1	20.3	22.0	20.2	22.8	25.1

Source: Company, ICICI Direct Research

Jyothy Labs has been worst impacted by commodity inflation in the last 18 months with margin shrinkage of 400 bps (compared to FY21). The company has been trying to drive growth through increasing distribution reach in rural regions. Moreover, it is also focusing on LUPs to increase rural penetration. We believe the company would continue to grow with single digit volume growth in the long run given its presence in highly penetrated and competitive categories. Softening of palm oil and some other commodities have helped in curbing a dip in gross margins. Though crude and related commodity costs have remained elevated, we believe a further dip in RM prices could come as a relief to the company with a partial reversal of gross margins and, in turn, operating margins to ~14% level. We maintain our HOLD rating on the stock with a revised target price of ₹ 205/share (earlier ₹ 145/share).

Exhibit 2: Variance Analysis

	Q2FY23	Q2FY23	YoY (%)	Q1FY23	QoQ (%)	Comments
Net Sales	646.4	578.3	11.8	585.8	10.3	Revenue witnessed growth of 11.8% led by strong growth in fabric wash segment on account of higher pricing as well as volume growth
Raw Material Expenses	390.2	348.7	11.9	357.8	9.0	Gross margins remain flat given inflation impact in the base quarter was also prominent as the company delayed price hikes in the base quarter
Employee Expenses	65.1	58.8	10.7	59.8	8.7	
SG&A Expenses	41.0	40.3	1.7	44.3	-7.5	Marketing spends were sustained at ₹ 40 crore level
Other operating Expenses	70.1	63.4	10.5	64.0	9.5	
EBITDA	80.2	67.1	19.5	59.8	34.0	
EBITDA Margin (%)	12.4	11.6	80 bps	10.2	219 bps	Operating margins saw jump of 80 bps with flat gross margins & savings in advertisement & overhead spends
Depreciation	11.2	20.6	-45.5	11.3	-1.1	
Interest	1.2	1.8	-33.1	1.3	-5.6	
Other Income	5.5	5.2	5.5	13.9	-60.3	
Exceptional Income/(Expenses)	-7.0	0.0	NA	0.0	NA	Exceptional income of ₹ 7 crore due to write-back of one-time settlement due to extinguishing indemnity pertaining to an erstwhile business transaction
PBT	80.3	50.0	60.7	61.2	31.3	
Tax Outgo	10.9	7.9	39.2	9.0	21.7	
PAT	69.4	42.1	64.7	52.2	32.9	Net profit grew on higher operating profit and one exceptional income
Segment wise sales (in Cr)						
Dishwashing	227.9	215.9	5.6	209.3	8.9	Dish washing sales grew at a slower pace with estimated volume dip from high base quarter sales
Fabric Care	286.2	214.1	33.6	251.1	14.0	Strong volume as well as pricing growth in fabric wash business due to low base quarter and price hike taken to pass on commodity inflation
Household Insecticides	43.5	62.8	-30.7	44.8	-3.0	HI segment witnessed lacklustre performance due to lack of rains in North & East India
Personal Care	73.3	66.1	10.8	69.4	5.5	Personal care segment growth was steady with Margo brand growing in specific geographies

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

(₹ Crore)	FY23E			FY24E			Comments
	Old	New	% Change	Old	New	Change	
Sales	2,430.4	2,482.0	2.1	2,636.6	2,689.4	2.0	We slightly raise our sales estimate with strong fabric care segment sales
EBITDA	307.7	307.9	0.1	348.9	385.1	10.4	We increase our operating margin estimate for FY24 given commodity prices are expected to softened in next few quarters
EBITDA Margin (%)	12.7	12.4	-26 bps	13.2	14.3	109 bps	
Adjusted PAT	205.2	229.1	11.7	233.5	284.9	22.0	We increase our profit estimate given lower depreciation provisioning taken by company in H1FY23
EPS (₹)	5.6	6.24	11.7	6.4	7.8	22.0	

Source: ICICI Direct Research

Exhibit 4: Assumptions

	Current						Earlier		Comments
	FY19	FY20E	FY21E	FY22	FY23E	FY24E	FY23E	FY24E	
Dishwashing	577.1	566.7	689.7	824.2	890.0	993.7	890.0	993.7	We change our fabric care sales estimate given higher volumes due to increased mobility after two years & sharp price hikes taken in last one year
Fabric Care	740.2	708.0	668.4	797.3	1,013.1	1,064.8	907.5	953.9	We cut our HI sales estimate according to performance of H1
Household Insecticides	233.3	181.4	258.0	283.8	249.8	269.7	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	59.1	56.9	58.8	57.3	We cut FY23 gross margin estimate according to performance in H1 & increase FY24 estimate given commodity prices are expected to softened in few quarters
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	10.5	10.5	11.0	

Source: ICICI Direct Research

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

Category	Key Brands	Q2FY23	Q2FY22	Growth
Fabric Care	Ujala, Henko, Mr. White, Ujala Crisp & Shine	286	214	33.6%
Dishwashing	Exo, Pril	228	216	5.6%
HI	Maxo	43	63	-30.7%
Personal Care	Margo, Neem	73	66	10.8%
Other Products	Maya, T Shine	17	20	-15.8%
Total		646	578	11.8%

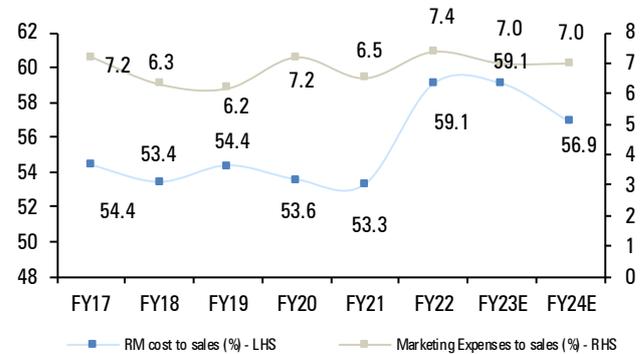
Source: Company, ICICI Direct Research

Exhibit 6: Revenue trend (standalone)



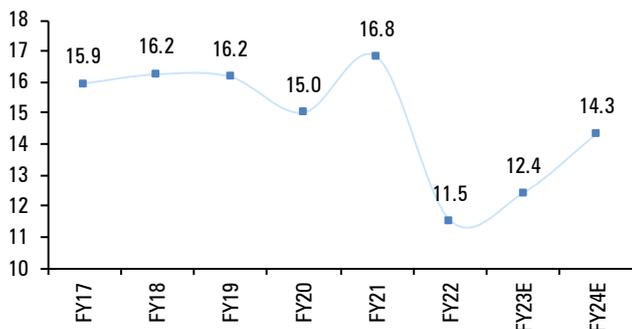
Source: ICICI Direct Research, Company

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



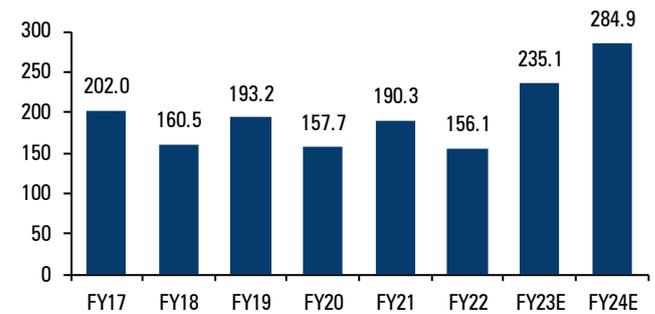
Source: ICICI Direct Research, Company

Exhibit 8: EBITDA growth trend (%)



Source: ICICI Direct Research, Company

Exhibit 9: PAT trend (₹ crore)



Source: ICICI Direct Research, Company

Exhibit 10: Valuations

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY21	1885.0	13.2	5.2	20.7	37.2	20.7	20.4	26.0
FY22	2166.3	14.9	4.3	-17.9	45.3	26.2	16.6	18.7
FY23E	2482.0	14.6	6.4	50.5	30.1	20.8	23.0	26.2
FY24E	2689.4	8.4	7.8	21.2	24.8	16.6	26.8	31.3

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	2482.0	2689.4
Growth (%)	13.2	14.9	14.6	8.4
Raw Material Expenses	1,004.3	1,279.4	1,466.8	1,529.7
Employee Expenses	220.9	235.4	260.6	282.4
Marketing Expenses	122.8	159.9	173.7	188.3
Administrative Expenses	0.0	0.0	0.0	0.0
Other expenses	220.3	242.2	273.0	303.9
Total Operating Expenditure	1,568.3	1,916.8	2,174.2	2,304.3
EBITDA	316.7	249.5	307.9	385.1
Growth (%)	26.8	-21.2	23.4	25.1
Depreciation	77.9	78.5	55.5	53.4
Interest	11.7	6.7	6.6	6.4
Other Income	19.8	19.0	27.0	22.1
PBT	246.9	183.2	272.8	347.4
Exceptional income	23.5	0.0	-7.0	0.0
Total Tax	33.2	27.1	44.8	62.5
PAT	190.3	156.1	235.1	284.9
Growth (%)	20.7	-17.9	50.5	21.2
EPS (₹) - Diluted	5.2	4.3	6.4	7.8
EPS (₹) - Adjusted	5.7	4.3	6.2	7.8

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	235.1	284.9
Add: Depreciation	77.9	78.5	55.5	53.4
(Inc)/dec in Current Assets	-24.6	-75.8	-32.7	-44.3
Inc/(dec) in CL and Provisions	112.9	48.6	178.0	49.4
Adjustments	30.6	-0.5	0.0	0.0
CF from operating activities	386.3	202.5	435.9	343.4
(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	-118.8	-20.9
CF from investing activities	-127.2	-5.1	-218.8	-120.9
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	34.7	3.5
Opening Cash	6.9	69.7	73.2	107.9
Bank Balance	121.1	132.9	132.9	132.9
Closing Cash	199.0	208.6	240.8	244.4

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	958.8	1,024.7
Total Shareholders funds	933.8	942.9	995.5	1,061.4
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	1,066.3	1,131.3
Assets				
Gross Block	1,097.6	1,134.0	1,234.0	1,334.0
Less: Acc Depreciation	640.3	718.9	774.4	827.7
Net Block	457.2	415.1	459.6	506.2
Capital WIP	10.0	7.4	7.4	7.4
Total Fixed Assets	467.2	422.6	467.0	513.7
Goodwill on Consolidation	0.0	0.0	0.0	0.0
Inventory	276.6	294.5	312.8	338.9
Debtors	87.3	136.4	170.0	184.2
Loans and Advances	0.0	0.0	0.0	0.0
Other Current Assets	84.8	66.9	47.6	51.6
Cash	190.8	206.1	240.8	244.4
Total Current Assets	639.5	703.9	771.2	819.1
Creditors	190.3	233.7	204.0	221.0
Provisions & Others	211.5	180.0	387.6	420.0
Total Current Liabilities	401.8	413.6	591.6	641.0
Net Current Assets	237.7	290.2	179.6	178.0
Others Assets	317.0	323.9	419.7	439.5
Application of Funds	1,022.0	1,036.7	1,066.3	1,131.3

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	6.2	7.8
Cash EPS	7.3	6.4	7.9	9.2
BV	25.4	25.7	27.1	28.9
DPS	0.0	4.0	5.0	6.0
Cash Per Share	5.2	5.6	6.6	6.7
Operating Ratios (%)				
EBITDA Margin	16.8	11.5	12.4	14.3
EBIT / Net Sales	12.7	7.9	10.2	12.3
PAT Margin	10.1	7.2	9.5	10.6
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	23.0	26.8
RoCE	26.0	18.7	26.2	31.3
RoIC	47.4	34.2	63.3	75.4
Valuation Ratios (x)				
P/E (Diluted)	37.2	45.3	30.1	24.8
P/E (Adjusted)	37.2	45.3	30.9	24.8
EV / EBITDA	20.7	26.2	20.8	16.6
Market Cap / Sales	3.8	3.3	2.9	2.6
Price to Book Value	7.6	7.5	7.1	6.7
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)	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
Colgate (COLPAL)	1,577	1,610	Hold	43,606	39.6	38.6	42.3	39.8	40.8	37.3	8.6	8.2	7.5	77.8	82.6	92.7	62.2	62.9	70.8
Dabur India (DABIND)	553	700	Buy	97,076	9.9	10.9	12.7	56.1	50.9	43.7	8.9	8.2	7.2	24.9	24.6	26.5	20.8	21.4	22.6
Hindustan Unilever (HINLEV)	2,458	2,800	Hold	6,23,766	37.5	42.4	46.5	65.5	57.9	52.8	12.4	10.8	9.9	20.2	22.8	25.1	18.1	20.3	22.0
ITC Limited (ITC)	348	405	Buy	4,29,858	12.4	14.2	16.7	28.1	24.4	20.9	7.3	6.1	5.7	31.4	35.3	38.8	24.5	27.1	29.7
Jyothy Lab (JYOLAB)	193	205	Hold	7,076	4.3	6.2	7.8	45.3	30.9	24.8	3.3	2.9	2.6	18.7	26.2	31.3	16.6	23.0	26.8
Marico (MARLIM)	500	560	Hold	69,587	9.7	10.2	11.2	51.4	48.9	44.4	7.3	7.1	6.5	41.2	43.6	46.7	37.5	38.3	41.0
Nestle (NESIND)	20,065	22,400	Hold	1,90,912	222.4	255.8	301.1	90.2	78.4	66.6	13.0	11.4	10.3	58.7	57.1	63.0	111.3	103.6	110.3
Patanjali Foods (RUCSOY)	1,264	1,750	Buy	50,721	27.3	30.9	43.5	46.4	40.9	29.1	2.1	1.7	1.5	13.2	15.6	17.3	13.1	11.3	14.2
Tata Consumer Products (TAT)	768	950	Buy	70,169	11.0	13.9	17.1	69.7	55.2	44.8	5.6	5.1	4.6	8.4	9.2	10.8	7.0	8.2	9.7
Varun Beverage (VARBEV)	1,084	1,235	Hold	71,889	17.2	23.2	26.8	62.9	46.7	40.5	8.1	5.6	5.0	17.1	30.3	33.5	18.3	29.0	29.4
VST Industries (VSTIND)	3,489	3,725	Hold	5,615	207.4	228.7	248.3	16.8	15.3	14.0	4.8	4.4	4.0	39.2	43.7	49.9	30.0	33.3	37.5
Zydus Wellness (ZYDWEL)	1,584	2,100	Buy	10,308	48.5	56.5	70.3	32.6	28.0	22.5	5.1	4.5	4.1	6.1	7.0	8.3	6.4	7.2	8.6

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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