

Jyothy Laboratories

Estimate change	↔
TP change	↔
Rating change	↔

Bloomberg	JYL IN
Equity Shares (m)	367
M.Cap.(INRb)/(USDb)	70.8 / 0.9
52-Week Range (INR)	208 / 130
1, 6, 12 Rel. Per (%)	-8/14/20
12M Avg Val (INR M)	87

Financials & Valuations (INR b)

Y/E March	2022	2023E	2024E
Net Sales	22.0	24.9	27.6
Sales Gr. (%)	15.1	13.1	11.0
EBITDA	2.5	2.9	3.9
EBITDA Margins (%)	11.3	11.7	14.0
Adj PAT	1.6	2.0	2.7
Adj.EPS (INR)	4.3	5.4	7.5
EPS Gr. (%)	-25.7	25.1	38.0
BV/Sh (INR)	39.3	41.2	43.9

Ratios

RoE (%)	11.1	13.5	17.6
RoCE (%)	10.8	13.2	17.4
Payout (%)	69.8	67.0	64.7

Valuation

P/E (x)	44.5	35.6	25.8
P/BV (x)	4.9	4.7	4.4
EV/EBITDA	28.2	23.8	17.6
Div. Yield (%)	1.3	1.6	2.1

Shareholding pattern (%)

As On	Sep-22	Jun-22	Sep-21
Promoter	62.9	62.9	62.9
DII	17.5	18.1	16.4
FII	12.8	11.5	12.2
Others	6.8	7.5	8.5

FII Includes depository receipts

CMP: INR193 **TP: INR190 (-1%)** **Neutral**

In line, margin to recover with a lag

- JYL reported an in line operating performance in 2QFY23. While standalone sales growth was 11.8%, overall volume growth was low ~1%.
- Three-year EBITDA CAGR continues to be in low single digits and is likely to remain at a similar rate over the next couple of quarters.
- We maintain our Neutral rating on the stock.

In line operating performance; lower depreciation led to a PAT beat

- Standalone net sales grew 11.8% YoY to ~INR6,464m (in-line).
- EBITDA grew 19.5% YoY to INR802m (in-line).
- PBT grew 46.6% YoY to INR733m (est. INR629m) on account of lower depreciation, which stood at INR112m v/s INR206m in 2QFY22.
- Adjusted PAT grew 48% YoY to INR624m (est. INR531m).
- Gross margin remained flat YoY at 39.6%. EBITDA margin expanded by 80bp YoY to 12.4%.
- Consolidated segmental performance:** Fabric Care/Dishwashing/Household Insecticides/Personal Care grew by ~33.6%/5.6%/(30.7%)/10.8% YoY to INR2,862m/INR2,279m/INR435m/INR733m in 2QFY23. Margin in the Fabric Care/Household Insecticides/Personal Care segment contracted by 100bp/1260bp/490bp YoY to 15.1%/(18.2%)/10.1%, but expanded by 420bp to 15.4% in the Dishwashing segment.

Highlights from the management commentary

- The management expects volumes to recover gradually from here on, with sales growth likely to be in double-digits in 2HFY23 as well.
- JYL is experiencing a mixed trend in material costs, with an inflation in some raw materials and a deflation in others. The management expects gross margin to improve from 4QFY23.
- Working capital increased due to higher inventory. Higher cost of inventory and FG and some unsold stock of Household Insecticides led to a higher inventory.
- Tax rate will be around 16-17% on an annualized basis in FY23.

Valuation and view

- Gross margin pressure was more severe than expected, with a recovery expected only from 4QFY23. Given lower than expected depreciation and reduction in the guided tax rate for FY23, there is no material change to our EPS forecast.
- For a company that has a far lower sales base of INR22b in FY22 (v/s its peers), its performance over the past five years has been consistently lackluster (at 5.5%/-0.5% sales/operating profit CAGR).
- RoCE at 11% in FY22 remained far inferior to its peers, with its medium-term prospects of catching up with its peers not looking too bright either. We assign a 17x EV/EBITDA target multiple to our Sep'24E EBITDA, resulting in a TP of INR190. **We maintain our Neutral rating.**

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Standalone Quarterly Performance

(INR m)

Y/E March	FY22				FY23				FY22	FY23E	FY23	Var. (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE				
Net Sales	5,219	5,783	5,287	5,374	5,858	6,464	5,762	6,448	21,663	24,851	6,361	1.6
YoY change (%)	21.8	15.7	12.6	10.3	12.2	11.8	9.0	20.0	14.9	14.7	10.0	
Gross Profit	2,250	2,296	2,170	2,154	2,280	2,563	2,307	2,707	8,869	10,145	2,576	-0.5
Margins (%)	43.1	39.7	41.0	40.1	38.9	39.6	40.0	42.0	40.9	40.8	40.5	
EBITDA	650	671	605	568	598	802	703	903	2,495	2,913	789	1.6
EBITDA growth %	-16.9	-24.5	-24.2	-18.6	-8.0	19.5	16.2	58.8	-21.2	16.8	17.6	
Margins (%)	12.5	11.6	11.4	10.6	10.2	12.4	12.2	14.0	11.5	11.7	12.4	
Depreciation	206	206	210	164	113	112	136	156	785	629	185	
Interest	17	18	18	14	13	12	18	17	67	106	21	
Other Income	48	52	43	46	51	55	48	51	190	220	47	
PBT	476	500	420	437	524	733	596	781	1,832	2,398	629	16.4
Tax	75	79	66	52	90	109	101	145	271	408	99	
Rate (%)	15.7	15.7	15.7	11.8	17.1	14.9	17.0	18.5	14.8	17.0	15.7	
Adjusted PAT	401	421	354	385	434	624	495	637	1,561	1,990	531	17.5
YoY change (%)	-20.5	-30.6	-32.2	-23.7	8.2	48.0	39.8	65.3	-27.0	27.5	26.0	

E: MOFSL Estimates; Quarterly numbers are on standalone basis while yearly number are on consolidated basis

Key Performance Indicators

Y/E March	FY22				FY23	
	1Q	2Q	3Q	4Q	1QE	2QE
2Y average growth %						
Sales	12.9	11.7	13.9	18.9	17.0	13.8
EBITDA	1.2	-6.1	-0.8	27.6	-12.4	-2.5
PAT	10.0	-8.3	-4.7	35.1	-6.1	8.7
% sales						
COGS	56.9	60.3	59.0	59.9	61.1	60.4
Other expenditure	30.6	28.1	29.6	29.5	28.7	27.2
Depreciation	3.9	3.6	4.0	3.0	1.9	1.7
YoY change %						
COGS	28.1	32.9	28.5	20.3	20.5	11.9
Other expenditure	34.9	9.5	6.3	5.8	5.1	8.4
Other income	14.2	33.0	-32.6	-12.8	6.2	5.5
EBIT	-25.4	-33.1	-34.1	-18.7	9.2	48.2



Highlights from the management commentary

Operating environment

- Overall volume growth stood at 1.4% YoY, ex-HI it was 5% YoY.
- They have strengthened market share in all categories.
- Rural India demand has been weaker in recent months.
- The management expects volumes to recover gradually from here on, with sales growth likely to be in double-digits in 2HFY23 as well.

Cost and Margin

- JYL is experiencing a mixed trend in material costs, with an inflation in some raw materials and a deflation in others. The management expects gross margin to improve from 4QFY23.

Segmental details

- Detergents, dishwash and personal care experienced stable demand.
- Detergents witnessed good volume growth despite sharp price increases. Lower unit packs (35% of sales) are doing better. Larger packs in modern trade are also doing better.
- HI was affected by weak season. Category declined by ~8% because of lesser rains. JYL's HI sales declined by 33%.
- Coils are 60% and LVs are 40% of HI business. Both categories were affected. JYL also has higher salience to North and East in HI where broader demand was also affected.

Other points

- Current distribution reach is ~1m outlets directly and a total of ~3m outlets.
- Working capital increased due to higher inventory. Higher cost of inventory and FG and some unsold stock of Household Insecticides led to a higher inventory.
- Tax rates will be around 16-17% on an annualized basis.

Key exhibits

Exhibit 1: Consolidated quarterly performance

Category sales (INR m)	2QFY22	1QFY23	2QFY23
Fabric Care	2,141	2511.2	2861.6
Dishwashing	2,159	2093.2	2279.1
Household Insecticides	628	448.3	434.8
Personal Care	661	694.4	732.7
Other Products	264	224.9	283.8
Total	5,854	5,972	6,592
Category salience (%)			
Fabric Care	36.6	42.0	43.4
Dishwashing	36.9	35.1	34.6
Household Insecticides	10.7	7.5	6.6
Personal Care	11.3	11.6	11.1
Other Products	4.5	3.8	4.3
Total	100.0	100.0	100.0
Category growth (%)			
Fabric Care	25.2	38.6	33.6
Dishwashing	12.7	9.6	5.6
Household Insecticides	4.1	(37.5)	(30.7)
Personal Care	5.3	2.1	10.8
Other Products	41.3	67.6	7.3
Total	16.0	13.7	12.6
Category results (INR m)			
Fabric Care	347	308.4	433.3
Dishwashing	243	275.3	352.1
Household Insecticides	-35	-44.7	-79.2
Personal Care	99	24.8	73.8
Other Products	-34	-9.8	-15.1
Total	620	554	765
Result salience (%)			
Fabric Care	55.9	55.7	56.6
Dishwashing	39.2	49.7	46.0
Household Insecticides	(5.7)	(8.1)	(10.4)
Personal Care	16.0	4.5	9.6
Other Products	(5.4)	(1.8)	(2.0)
Total	100.0	100.0	100.0
EBIT margin (%)			
Fabric Care	16.2	12.3	15.1
Dishwashing	11.3	13.2	15.4
Household Insecticides	(5.6)	(10.0)	(18.2)
Personal Care	15.0	3.6	10.1
Other Products	(12.7)	(4.4)	(5.3)
Total	10.6	9.3	11.6

Source: Company, MOFSL

Valuation and view

What has happened over the past 10 years?

- Given its size (INR9.1b/INR22.0b in FY12/FY22), which is much smaller than its peers, JYL’s financial performance has been disappointing over the past 10 years.
- While it has reported ~9.2% sales CAGR over this period, EBITDA/PAT CAGR has been tepid at ~11.4%/~15.3%, respectively. Sales/EBITDA/PAT CAGR at 5.5%/-0.5%/-4.9%, respectively, for the last five years has not been much better.
- Growth has been restricted by: a) higher penetration and regional dependence of its largest brand Ujala, and b) limited success in terms of achieving profitable growth in other categories/geographies outside South India.
- The expiry of the Henkel option, which could have added more brands to its portfolio, has also been a setback.
- Given the above factors, it is not surprising that the stock has been an underperformer in recent years.

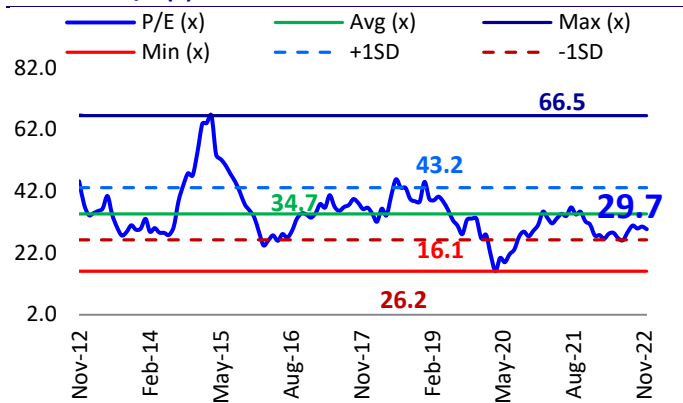
Our view on the stock

- Gross margin pressure was more severe than expected, with a recovery expected only from 4QFY23. Given lower than expected depreciation and reduction in the guided tax rate for FY23, there is no material change to our EPS forecast.
- For a company that has a far lower sales base of INR22b in FY22 (v/s its peers), its performance over the past five years has been consistently lackluster (at 5.5%/-0.5% sales/operating profit CAGR).
- RoCE at 11% in FY22 remained far inferior to its peers, with its medium-term prospects of catching up with its peers not looking too bright either. We assign a 17x EV/EBITDA target multiple to our Sep’24E EBITDA, resulting in a TP of INR190. **We maintain our Neutral rating.**

Exhibit 2: We change our FY23E/FY24E EPS by 3.6%/1.4%

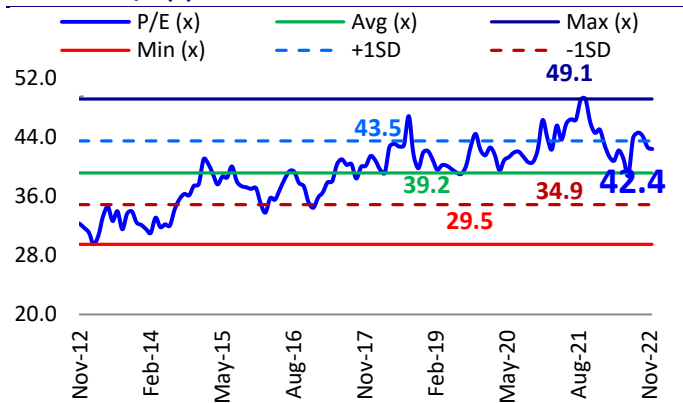
	New estimates		Old estimates		Change (%)	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Sales	24,851	27,596	24,851	27,596	0.0%	0.0%
EBITDA	2,913	3,850	3,063	4,078	-4.9%	-5.6%
PAT	1,990	2,746	1,921	2,707	3.6%	1.4%

Exhibit 3: P/E (x) for JYL



Source: Company, MOFSL

Exhibit 4: P/E (x) for the Consumer sector



Source: Company, MOFSL

Financials and valuations

Consolidated - Income Statement						(INR m)	
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Total Income from Operations	16,724	18,136	17,112	19,091	21,965	24,851	27,596
Change (%)	-0.6	8.4	-5.6	11.6	15.1	13.1	11.0
Cost of Materials Consumed	8,753	9,707	9,009	10,104	12,830	14,706	15,467
As a percentage of Sales	52.3	53.5	52.6	52.9	58.4	59.2	56.0
Gross Profit	7,971	8,429	8,103	8,987	9,135	10,145	12,129
Margin (%)	47.7	46.5	47.4	47.1	41.6	40.8	44.0
Personnel Expenses	1,908	2,076	2,193	2,325	2,475	2,783	3,201
As a percentage of Sales	11.4	11.4	12.8	12.2	11.3	11.2	11.6
Other Expenses	3,488	3,542	3,398	3,517	4,178	4,448	5,078
% of Sales	20.9	19.5	19.9	18.4	19.0	17.9	18.4
Total Expenditure	14,149	15,325	14,601	15,946	19,483	21,938	23,746
As a percentage of Sales	84.6	84.5	85.3	83.5	88.7	88.3	86.0
EBITDA	2,575	2,811	2,511	3,145	2,482	2,913	3,850
Margin (%)	15.4	15.5	14.7	16.5	11.3	11.7	14.0
Depreciation	311	306	529	556	582	629	638
EBIT	2,263	2,505	1,982	2,589	1,901	2,284	3,212
Int. and Finance Charges	481	352	329	192	118	106	96
Other Income	625	278	203	185	187	220	233
PBT after EO Exp.	2,407	2,430	1,818	2,346	1,969	2,398	3,349
Current Tax	619	454	189	440	378	408	603
Tax Rate (%)	25.7	18.7	10.4	18.7	19.2	17.0	18.0
Less: Minority Interest	73	75	77	88	29	29	29
Adjusted PAT	1,789	1,976	1,667	2,142	1,591	1,990	2,746
Change (%)	-12.4	10.5	-15.6	28.5	-25.7	25.1	38.0

Consolidated - Balance Sheet						(INR m)	
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Equity Share Capital	182	367	367	367	367	367	367
Total Reserves	11,260	12,898	11,919	13,918	14,068	14,754	15,751
Net Worth	11,442	13,265	12,286	14,286	14,436	15,121	16,119
Minority Interest	-139	-215	-291	-379	-407	-407	-407
Deferred Liabilities	-902	-928	-1,027	-962	-907	-907	-907
Total Loans	5,441	2,809	2,830	1,169	1,265	596	596
Capital Employed	15,841	14,932	13,798	14,114	14,388	14,405	15,402
Gross Block	11,762	12,046	13,050	13,556	13,889	14,089	14,289
Less: Accum. Deprn.	855	1,040	1,558	2,089	2,670	3,300	3,938
Net Fixed Assets	10,907	11,006	11,492	11,467	11,218	10,789	10,350
Capital WIP	153	143	245	101	76	123	123
Total Investments	1,132	1,044	0	0	0	0	0
Curr. Assets, Loans&Adv.	6,695	6,301	5,598	7,029	8,027	9,056	11,415
Inventory	1,836	1,974	2,251	2,786	2,972	3,479	3,863
Account Receivables	1,674	1,534	1,224	944	1,431	1,243	1,380
Cash and Bank Balance	1,367	964	289	1,938	2,112	1,996	3,574
Loans and Advances & Others	1,818	1,830	1,834	1,361	1,512	2,339	2,597
Curr. Liability & Prov.	3,045	3,563	3,537	4,483	4,933	5,563	6,486
Account Payables	1,720	2,134	1,450	2,143	2,364	2,485	2,760
Other Current Liabilities	663	715	1,299	1,520	1,767	2,208	2,760
Provisions	663	715	788	820	802	870	966
Net Current Assets	3,650	2,738	2,061	2,546	3,094	3,493	4,929
Appl. of Funds	15,841	14,932	13,798	14,114	14,388	14,405	15,402

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Basic (INR)							
EPS	4.9	5.4	4.5	5.8	4.3	5.4	7.5
Cash EPS	5.7	6.2	6.0	7.3	5.9	7.1	9.2
BV/Share	31.2	36.1	33.5	38.9	39.3	41.2	43.9
DPS	0.5	6.0	0.0	4.0	2.5	3.0	4.0
Payout (%)	12	134	0	83	70	67	65
Valuation (x)							
P/E	39.6	35.8	42.5	33.0	44.5	35.6	25.8
Cash P/E	33.7	31.0	32.2	26.2	32.6	27.0	20.9
P/BV	6.2	5.3	5.8	5.0	4.9	4.7	4.4
EV/Sales	2.3	3.9	4.3	3.7	3.2	2.8	2.5
EV/EBITDA	14.7	25.5	29.2	22.3	28.2	23.8	17.6
Dividend Yield (%)	0.3	3.1	0.0	2.1	1.3	1.6	2.1
FCF per share	13.6	7.2	3.5	10.3	4.9	4.7	8.7
Return Ratios (%)							
RoE	16.0	16.0	13.0	16.1	11.1	13.5	17.6
RoCE	13.1	13.7	12.6	14.7	10.8	13.2	17.4
RoIC	12.7	15.7	13.6	16.6	12.7	15.5	22.0
Working Capital Ratios							
Asset Turnover (x)	1.1	1.2	1.2	1.4	1.5	1.7	1.8
Debt/Equity	0.5	0.2	0.2	0.1	0.1	0.0	0.0

Consolidated - Cash Flow Statement

(INR m)

Y/E March	FY18	FY19E	FY20	FY21	FY22	FY23E	FY24E
OP/(Loss) before Tax	2,407	2,430	1,815	2,346	1,969	2,398	3,349
Depreciation	311	306	529	556	582	629	638
Interest & Finance Charges	413	314	304	161	82	106	96
Other income	-409	-25	-21	232	-36	-220	-233
Direct Taxes Paid	-251	-418	-386	-327	-313	-408	-603
(Inc)/Dec in WC	-38	409	-527	1,055	-259	-515	143
CF from Operating incl EO	2,434	3,016	1,715	4,022	2,025	1,990	3,390
(inc)/dec in FA	43	-383	-415	-257	-214	-247	-200
(Pur)/Sale of Investments	-807	112	1,061	0	0	0	0
Others	115	37	4	45	29	249	261
CF from Investments	-649	-234	650	-212	-185	2	61
Issue of Shares	600	4	0	0	0	0	0
(Inc)/Dec in Debt	2,276	-610	41	-1,669	100	-669	0
Interest Paid	-600	-342	-212	-281	-74	-106	-96
Dividend Paid	-1,090	-182	-2,656	0	-1,469	-1,333	-1,777
Others	-2,639	-2,055	-211	-212	-224	0	0
CF from Fin. Activity	-1,453	-3,185	-3,039	-2,161	-1,667	-2,108	-1,873
Inc/Dec of Cash	332	-403	-674	1,649	174	-116	1,578
Opening Balance	1,034	1,367	964	289	1,938	2,112	1,996
Closing Balance	1,367	964	289	1,938	2,112	1,996	3,574

E: MOFSL Estimates

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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