Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Stock Update

Result Update

Jyothy Labs Ltd

Good performance in a tough environment

Consumer Goods	Sharekhan code: JYOTHYLAB

Reco/View: Buy	↔	CMP: **Rs. 193**	Price Target: **Rs. 225**	↑

↑ 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 Oct 08, 2022	

High Risk

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

Source: Morningstar

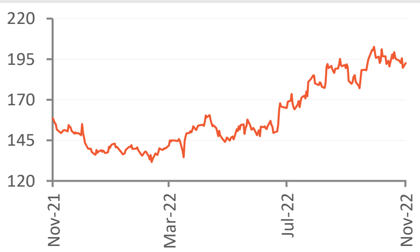
Company details

Market cap:	Rs. 7,076 cr
52-week high/low:	Rs. 208 / 130
NSE volume: (No of shares)	5.0 lakh
BSE code:	532926
NSE code:	JYOTHYLAB
Free float: (No of shares)	13.6 cr

Shareholding (%)

Promoters	62.9
FII	13.1
DII	17.5
Others	6.5

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-1.6	7.6	32.9	21.4
Relative to Sensex	-8.0	4.6	16.6	19.9

Sharekhan Research, Bloomberg

Summary

- Jyothy Labs Limited (JLL) posted good operating performance in a tough demand environment with revenue growing by 12.6% y-o-y; volume growth of 1.4%; gross margins and OPM expanded by 37 bps and 83 bps, y-o-y respectively; PAT grew by 33% y-o-y to Rs. 58.3 crore.
- Excluding household insecticide (HI), volume growth stood at 5.8% (fabric care achieved 20% volume growth). Management expects sales volume to recover in the coming quarters with inflationary pressure receding.
- Reduction in raw-material prices and better operating leverage through scaling up of the operations will help in achieving consistent improvement in OPM in the coming quarters.
- The stock is currently trading at discounted valuation of 31.4x/23.1x its FY2023E/FY2024E EPS. We maintain Buy with a revised PT of Rs. 225.

Jyothy Labs Limited (JLL) posted good operating performance in a tough demand environment with mid-single digit volume growth (ex-HI) and improvement in the gross margin & OPM helping bottom line to grow in strong double digits. The company posted eight consecutive quarters of double-digit revenue growth in Q2FY2023. Revenue grew by 12.6% y-o-y (volume growth of 1.4%) to Rs. 659.2 crore. Growth was largely driven by price hikes of around 11% undertaken in various categories. Strong portfolio of brands in the fabric care and dish wash category, good traction to lower unit packs (LUPs), and distribution expansion aided good revenue growth during the quarter. Revenue of the fabric care, dishwashing, and personal care categories grew by 34%, 10% (largely price-led growth), and 5.6% y-o-y, respectively. Gross margin improved by 37 bps y-o-y to 40.5%, while OPM improved by 83 bps y-o-y to 12.2%. Adjusted PAT grew by 33% y-o-y to Rs. 58.3 crore. For H1FY2023, JLL's revenue and PAT grew by 13.1% y-o-y and 34.3% y-o-y to Rs. 1,256.4 crore and Rs. 106.1 crore, respectively. The company has maintained its target of achieving double-digit growth in the medium to long term, driven by mix of volume and value.

Key positives

- Fabric care category registered strong growth of 34%, driven by a mix of volume and value of 20% and 14%, respectively.
- OPM improved by 83BPS to 12.2%; management expects margins to sequentially improve.

Key negatives

- Household insecticide (HI) revenue decreased by ~30% y-o-y due to extreme weather conditions in key markets of North and East (together contribute 75% to the category's revenue).

Management Commentary

- Management expects revenue growth momentum to sustain in the quarters ahead with a 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 performance is expected to be a lull in FY2023 due to a decline in sales during the key season, 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 in the quarters ahead as inflation in palm oil is receding.
- 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.
- The company currently sells its products through one million direct outlets and three million indirect outlets. It targets a consistent increase in the distribution reach in the coming years.
- 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).
- Effective tax rate is expected to be 16-17% in the near term. Working capital days in H1 have gone up due to higher unsold inventory of HI products and higher inventory of raw material. However, the company will maintain working capital days of 20-22 days in the medium term.

Revision in estimates – We have broadly maintained our earnings estimates for FY2023 and FY2024 and introduced FY2025 earnings estimates through this note.

Our Call

View: Maintain Buy with a revised PT of Rs. 225: JLL posted resilient performance in Q2 in the backdrop of a tough demand environment in the domestic market (especially in rural India). The HI category is expected to come back in FY2024, while fabric care will maintain its strong growth momentum due to distribution expansion and good traction on key channels. 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 31.4x/23.1x 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. 225.

Key Risks

Any late recovery in the 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	FY25E
Revenues	1,909	2,196	2,472	2,821	3,233
OPM (%)	16.5	11.3	13.1	14.9	15.5
Adjusted PAT	208	159	226	307	372
% YoY growth	30.5	-23.5	42.0	36.1	21.0
Adjusted EPS (Rs.)	5.7	4.3	6.2	8.4	10.1
P/E (x)	34.1	44.5	31.4	23.1	19.1
P/B (x)	5.0	4.9	4.8	4.5	4.1
EV/EBIDTA (x)	22.5	28.2	21.9	16.7	13.7
RoNW (%)	15.7	11.1	15.5	20.2	22.4
RoCE (%)	14.2	10.7	14.6	18.5	20.6

Source: Company; Sharekhan estimates

Good Q2 in tough times

JLL's revenue grew by 12.6% y-o-y to Rs. 659.2 crore (in line with our as well as average street expectation of Rs. 650-652 crore). Growth is driven by 33.7% y-o-y growth in the fabric care segment, 5.5% y-o-y growth in the dishwashing segment, and 11% y-o-y growth in the personal care segment. The HI segment declined by 31% y-o-y due to impact of adverse seasonality. Gross margins improved marginally by 37 bps y-o-y to 40.5% as impact of input cost inflation was mitigated through price hikes. OPM was up by 83 bps y-o-y to 12.2% (slightly higher than our expectation of 11.5% and street expectation of 11.8%). Operating profit increased by 20.8% y-o-y to Rs. 80.4 crore. Strong revenue growth, higher other income, and lower depreciation led to 32.6% y-o-y growth in PAT to Rs. 58.3 crore, largely in line with our expectations of Rs. 58 crore and marginally higher than street expectation of Rs. 55 crore.

Mixed Q2 - Robust growth in fabric care offset by weak performance in HI

- **Fabric care category – Double-digit sales volume maintained:** JLL's fabric care category reported y-o-y revenue growth of 34% to Rs. 286 crore with good sales across key brands and key channels. Volume growth in the category stood at 20% 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. LUPs (constitutes 35% of the detergent category) registered strong traction in general trade, while large pack units gained good traction in modern trade. Different products catering to distinct markets aided the company to achieve strong growth in the fabric care category. PBIT margin for the category declined by 104 bps y-o-y to 15.2% due to higher input costs compared with the previous year. Expanded distribution (especially in key markets), focus on mid-price products, and good traction to newly launched liquid detergent will help the fabric care category to grow in double digits.
- **Dishwash category – Maintained the growth momentum:** JLL's dishwashing sales grew by 5.6% y-o-y to Rs. 228 crore (grew by 9% on a sequential basis). Both Exo and Pril continued to gain good traction across the market. JLL's relentless drive on LUP's and strong investment behind the brand, including the use of digital mediums, has helped to reach out more consumers and consistently gain market share. PBIT margin of the dishwashing category improved by 418 bps y-o-y to 15.4% during the quarter.
- **HI category – Performance affected by weather vagaries:** The HI category declined by 30% y-o-y to Rs. 44 crore, impacted by less rains, which impacted demand in the strong areas of North and East of India. Management has guided that despite seasonality, growth outlook for the category is positive in the medium-long term. FY2023 is expected to be a lull for the HI category. However, the same is expected to improve in FY2024 with the company's focus on improving penetration of liquid vaporisers in tier-2 and tier-3 towns.
- **Personal care category – Flat sales volume; Price-led growth:** The personal care category grew by just 11% y-o-y to Rs. 73 crore. Sales volume in the personal care category stood flat. 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 10.1% from 15% in Q2FY2022 and 3.6% in Q1FY2023.

Results (Consolidated) Rs cr

Particular	Q2FY23	Q2FY22	y-o-y (%)	Q1FY23	q-o-q (%)
Total Revenue	**659.2**	**585.4**	**12.6**	**597.2**	**10.4**
Raw-material cost	392.2	350.4	11.9	359.2	9.2
Employee expenses	69.7	61.6	13.0	63.9	9.0
Advertisement expenses	41.5	40.7	2.2	45.0	-7.8
Other expenses	75.4	66.1	14.1	69.2	9.0
Total operating cost	578.8	518.8	11.6	537.4	7.7
Operating profit	**80.4**	**66.6**	**20.8**	**59.8**	**34.4**
Other income	5.3	4.8	12.2	13.2	-59.6
Depreciation	13.0	13.9	-6.3	13.0	-0.2
Interest expenses	3.5	2.9	19.3	3.3	4.8
Profit before tax	**69.3**	**54.5**	**27.0**	**56.7**	**22.1**
Tax	11.0	10.6	3.8	9.0	21.9
Adjusted PAT	**58.3**	**44.0**	**32.6**	**47.7**	**22.2**
EPS (Rs.)	1.6	1.2	32.6	1.3	22.2
			bps		**Bps**
GPM (%)	40.5	40.1	37	39.9	66
OPM (%)	12.2	11.4	83	10.0	218
NPM (%)	8.8	7.5	134	8.0	85
Tax rate (%)	16.0	19.4	-337	15.8	15

Source: Company, Sharekhan Research

Segmental performance Rs cr

Particulars	Q2FY23	Q2FY22	y-o-y (%)	Q1FY23	q-o-q (%)
Revenue					
Fabric care	286.0	214.0	33.6	251.1	13.9
Dish washing	228.0	216.0	5.6	209.3	8.9
Household insecticides	44.0	63.0	-30.2	44.8	-1.9
Personal care	73.0	66.0	10.6	69.4	5.1
Other Products	17.0	20.0	-15.0	11.8	44.4
Total Consumer	**648.0**	**579.0**	**11.9**	**586.5**	**10.5**
Laundry Services	11.0	6.0	83.3	10.7	2.6
Total revenue	**659.0**	**585.0**	**12.6**	**597.2**	**10.3**
PBIT Margins (%)					
Fabric care	15.2	16.2	-104	12.3	287
Dishwashing	15.4	11.3	418	13.2	229
Mosquito Repellent	-18.0	-5.6	-	-10.0	-
Personal care	10.1	15.0	-489	3.6	654
Other Products	0.7	-5.0	566	5.5	-482
Total Consumer	12.1	11.1	94	9.7	233
Laundry Services	-14.8	-39.3	-	-15.2	39
PBIT margin	**11.6**	**10.6**	**101**	**9.3**	**233**

Source: Company, Sharekhan Research

Outlook and Valuation

Sector View – H2FY2023 to be relatively better compared to H1

Consumer goods companies would start seeing the benefit of correction in key input prices from Q3FY2023. The recent sharp correction in some of the key input prices helped companies to pass on benefits to customers in the form of price cuts in highly penetrated categories (such as soaps). This along with good monsoon in most parts of the country (except for some parts in the North and East) will aid good recovery in sales volumes in the coming quarters. A decline in commodity prices has also helped inflationary pressures to ease out, thus boosting consumer sentiments. Hence, some tailwinds are building up for the sector to improve its growth in the coming quarters. Overall, we expect H2FY2023 will be much better compared with H1FY2023 with expected recovery in sales volumes and OPM is also expected to improve from Q3FY2023. Low penetration in key categories (especially in rural India), lower per capita consumption compared with 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.

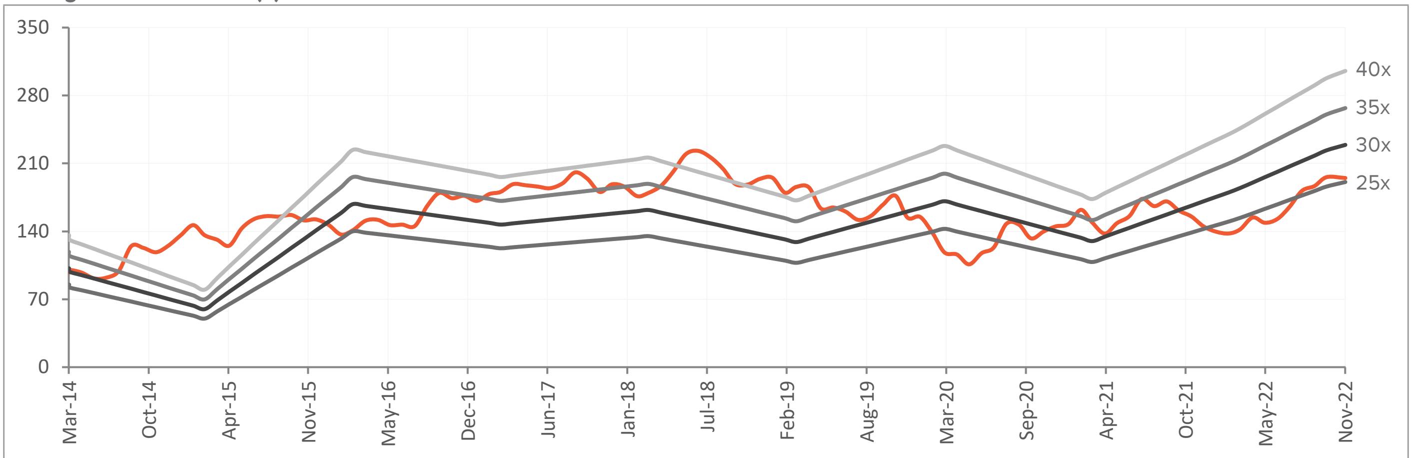
Company Outlook – Focus remains on achieving double-digit revenue growth

JLL posted resilient performance in H1FY2023 with revenue growth in double digits and volume growth standing at low single digit. The company 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 historical levels of 14-15% by the end of FY2023.

Valuation – Retain Buy with a revised PT of Rs. 225

JLL posted resilient performance in Q2 in the backdrop of a tough demand environment in the domestic market (especially in rural India). The HI category is expected to come back in FY2024, while fabric care will maintain its strong growth momentum due to distribution expansion and good traction on key channels. 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 31.4x/23.1x 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. 225.

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	48.2	49.4	38.9	35.3	36.6	29.2	17.3	15.6	18.5
HUL	65.3	59.4	50.0	45.7	41.5	35.1	24.1	26.3	30.6
Jyothy Labs	44.5	31.4	23.1	28.2	21.9	16.7	10.7	14.6	18.5

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. A large presence in the essential and hygiene category will help JLL drive near-term growth in the pandemic situation. A resurgence in the HI category will help drive growth in the medium term.

Key Risks

- **Slowdown in demand:** A 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	6.60
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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