



Powered by the Sharekhan 3R Research Philosophy

3R MATRIX

| | | | |
|----------------------|------------|-----------------|------------|
| | + | = | - |
| Right Sector (RS) | Green | Grey with check | Red |
| Right Quality (RQ) | Green | Grey | Red |
| Right Valuation (RV) | Green | Grey | Red |
| | + Positive | = Neutral | - Negative |

What has changed in 3R MATRIX

| | | | |
|----|-------|---|-------|
| | Old | | New |
| RS | Grey | ↔ | Grey |
| RQ | Green | ↔ | Green |
| RV | Green | ↔ | Green |

ESG Disclosure Score **NEW**

ESG RISK RATING
Updated Oct 08, 2022 **31.95**

High Risk

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

Source: Morningstar

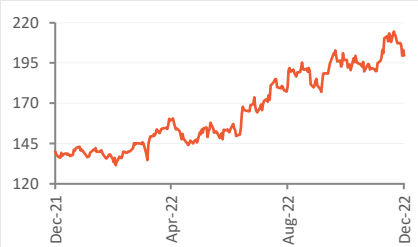
Company details

| | |
|-------------------------------|---------------|
| Market cap: | Rs. 7,329 cr |
| 52-week high/low: | Rs. 218 / 130 |
| NSE volume: (No of shares) | 5.2 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 | 5.1 | 10.3 | 29.9 | 42.6 |
| Relative to Sensex | 7.8 | 7.3 | 16.4 | 38.2 |

Sharekhan Research, Bloomberg

Jyothy Labs Ltd

Growth momentum to sustain; Margins to gradually improve

| | | | |
|-----------------------|----------------------------------|---------------------|--------------------------------|
| Consumer Goods | Sharekhan code: JYOTHYLAB | | |
| Reco/View: Buy | ↔ | CMP: Rs. 200 | Price Target: Rs. 240 ↑ |
| ↑ Upgrade | ↔ Maintain | ↓ Downgrade | |

Summary

- We retain our Buy rating on Jyothy Labs Limited with a revised price target of Rs. 240. The stock is trading at 23.9x/19.7x its FY2024E/FY2025E earnings, which is at a discount to large consumer goods stocks.
- The company is one of the better-performing companies in the small-cap consumer goods space with eight consecutive quarters of double-digit revenue growth, driven by a mix of price and volume growth.
- Although pricing will lead growth in the near term, the company endeavours to achieve consistent double-digit revenue growth (largely driven by volumes), banking on its growth levers in the long run.
- The company's OPM is expected to remain at 12-13% in FY2023. However, the same is expected to improve with a significant reduction in raw-material inflation.

Jyothy Labs Limited (JLL) has posted eight consecutive quarters of double-digit revenue growth, driven by a mix of volume and value (with pricing growth remaining higher compared to volume growth for the past few quarters). The company has been consistently delivering mid-single digit volume growth of 4-5% for the past three quarters. Most of the categories are performing well except for the decline in the household insecticide (HI) category impacted by industry headwinds. We expect double-digit revenue growth momentum to sustain in the quarters ahead. However, with the expected pick-up in rural demand, the volume growth trajectory should improve in the next one to two quarters. We expect OPM to stand at around 12% in Q3 and improve to 13-14% in Q4 if palm oil and crude oil prices remain at the current level (both have corrected from their high). However, the recovery to historical OPM of 16-17% will take time as the company will also incur ad-spends and promotional activities to gain better volumes in the long run.

- Revenue to grow in double digit in H2; Volume growth trajectory likely to improve in FY2024:** JLL's consolidated revenue grew by 13% y-o-y in H1FY2023 (CAGR of 12% over H1FY2020). Volume growth in H1 stood at 5%, while the rest of the growth was price-led growth. Most of the company's key categories are performing well, barring household insecticide. 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 falling consumer inflation, rural demand is expected to improve, which will aid in JLL's volume growth to improve to high single digit in the coming quarters (expected from Q1FY2024).
- New product launches and distribution expansion will support overall growth:** The company's main focus remains 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 to deliver consistent growth in the long run. The company currently sells its products through one million direct outlets and three million indirect outlets. JLL targets a consistent increase in the distribution reach in the coming years. Further, the company is planning to launch new products and take some of its recent launches to new markets in the coming years.
- OPM to stand at 13% in FY2023; Will gradually improve in the coming years:** JLL's consolidated OPM stood at 11.2% in H1FY2023 (declined by 50 bps y-o-y). We expect OPM to stand at around 12% in Q3 (in-line with 12.1% achieved in Q2FY2023) and improve to 13-14% in Q4 if palm oil and crude oil prices remain at the current level (both have corrected from their high). However, the recovery to historical OPM of 16-17% will take time as the company will also incur ad-spends and promotional activities to gain better volumes in the long run.

Our Call

View: Retain Buy with a revised PT of Rs. 240 – JLL has posted a resilient performance in the past few quarters on the backdrop of a tough demand environment in the domestic market (especially in rural India). 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 32.5x/23.9x/19.7x its FY2023E/FY2024E/FY2025E 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. 240 over the next 12 months.

Key Risks

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

Valuation (consolidated)

| 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) | 35.3 | 46.2 | 32.5 | 23.9 | 19.7 |
| P/B (x) | 5.1 | 5.1 | 5.0 | 4.7 | 4.2 |
| EV/EBIDTA (x) | 23.4 | 29.2 | 22.7 | 17.3 | 14.2 |
| 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

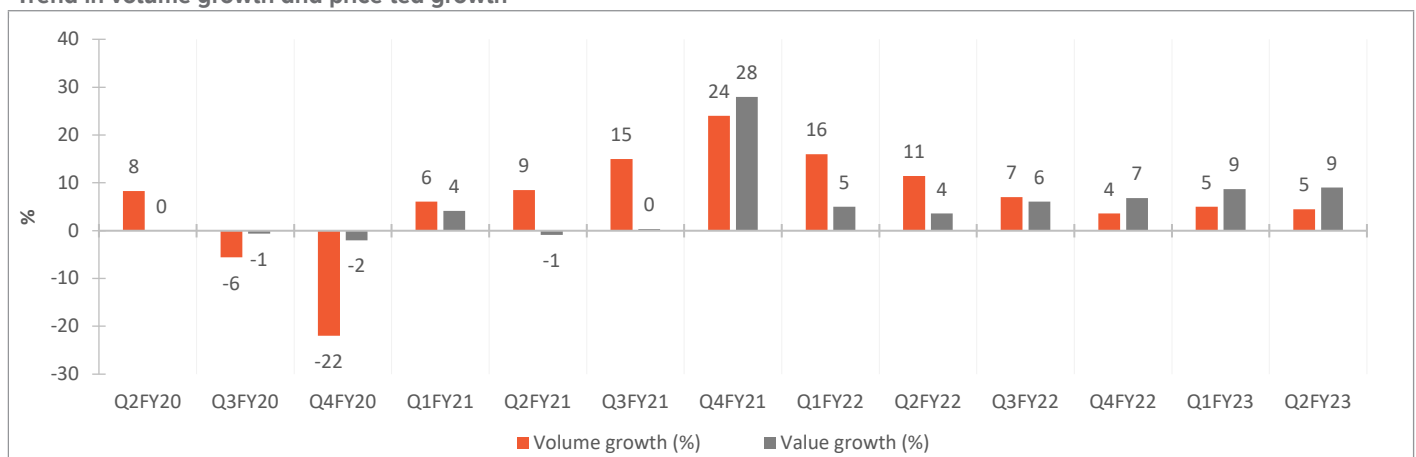
HI to recover in FY2024; Other categories will continue to perform well

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 because of strong traction in the premium portfolio. In the absence of any weather vagaries, the HI category is expected post good growth in FY2024. The dishwash category will continue to grow in double digits, while personal care revenue growth will improve in the quarters ahead as inflation in palm oil is receding.

Revenue to grow in double digits in H2; Volume growth trajectory likely to improve in FY2024

JLL's consolidated revenue grew by 13% y-o-y in H1FY2023 (CAGR of 12% over H1FY2020). Volume growth in H1 stood at 5%, while the rest of the growth was price-led growth. Key categories of most companies are performing well, barring the HI category. 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 falling consumer inflation, rural demand is expected to improve, which will aid in JLL's volume growth to improve to high single digit in the coming quarters (expected from Q1FY2024).

Trend in volume growth and price-led growth



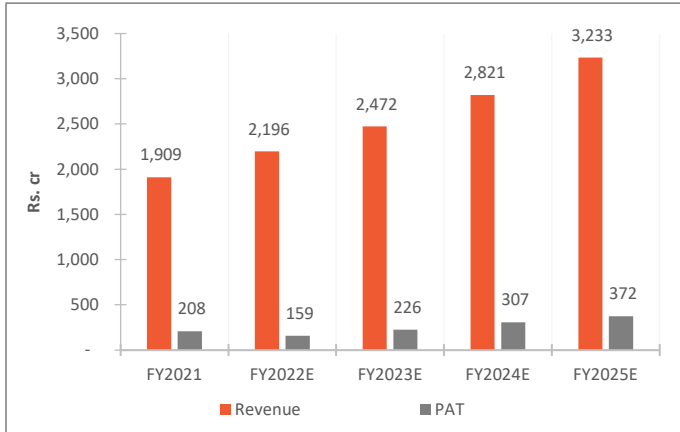
Source: Company; Sharekhan Research

OPM to stand at 13% in FY2023; Will gradually improve in the coming years

JLL's consolidated OPM stood at 11.2% in H1FY2023 (declined by 50 bps y-o-y). We expect OPM to stand at around 12% in Q3 (in-line with 12.1% achieved in Q2FY2023) and improve to 13-14% in Q4 if palm oil and crude oil prices remain at the current level (both have corrected from their high). However, the recovery to historical OPM of 16-17% will take time as the company will also incur ad-spend and promotional activities to gain better volumes in the long run.

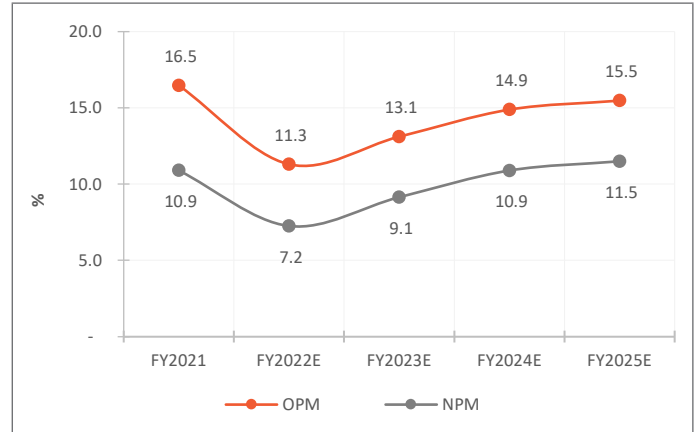
Financials in charts

Steady growth in revenue and PAT



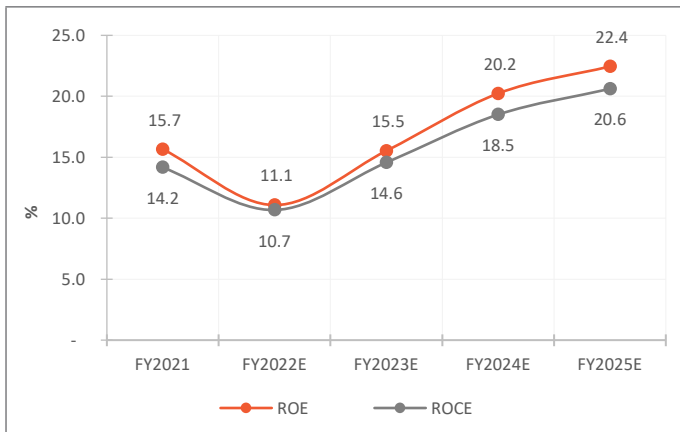
Source: Company, Sharekhan Research

Trend in margins



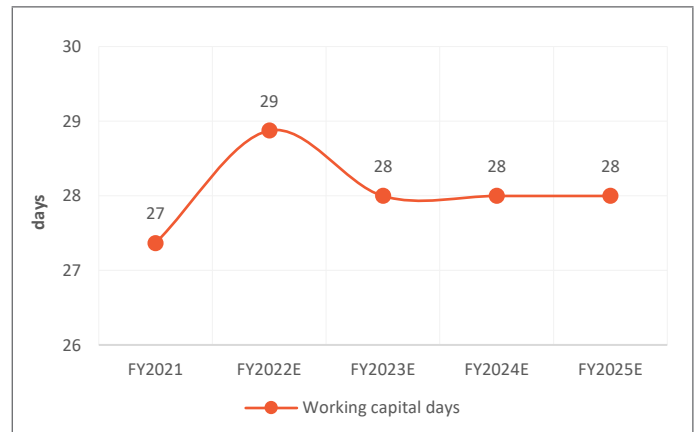
Source: Company, Sharekhan Research

Return ratios to improve



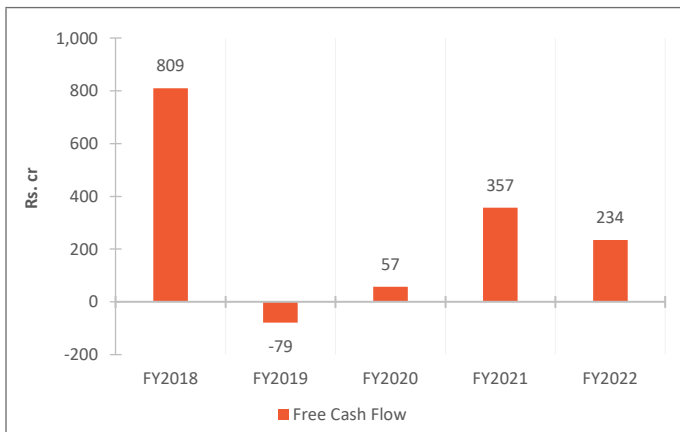
Source: Company, Sharekhan Research

Working capital days to remain stable



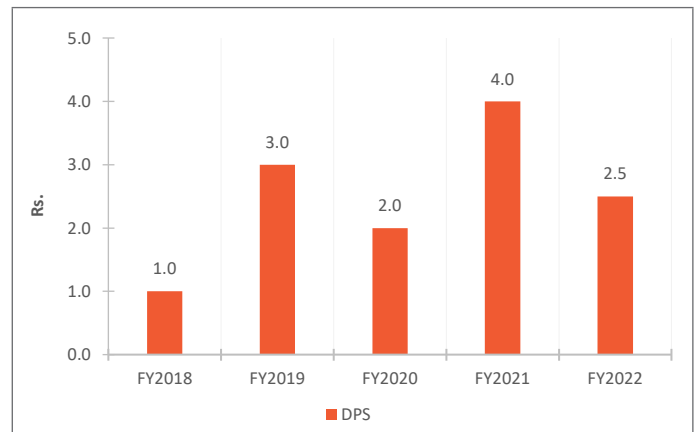
Source: Company, Sharekhan Research

Trend in free cash flow



Source: Company, Sharekhan Research

Trend in dividend per share



Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector View – H2FY2023 to be 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 to be much better compared with H1FY2023 with expected recovery in sales volumes and OPM is 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.

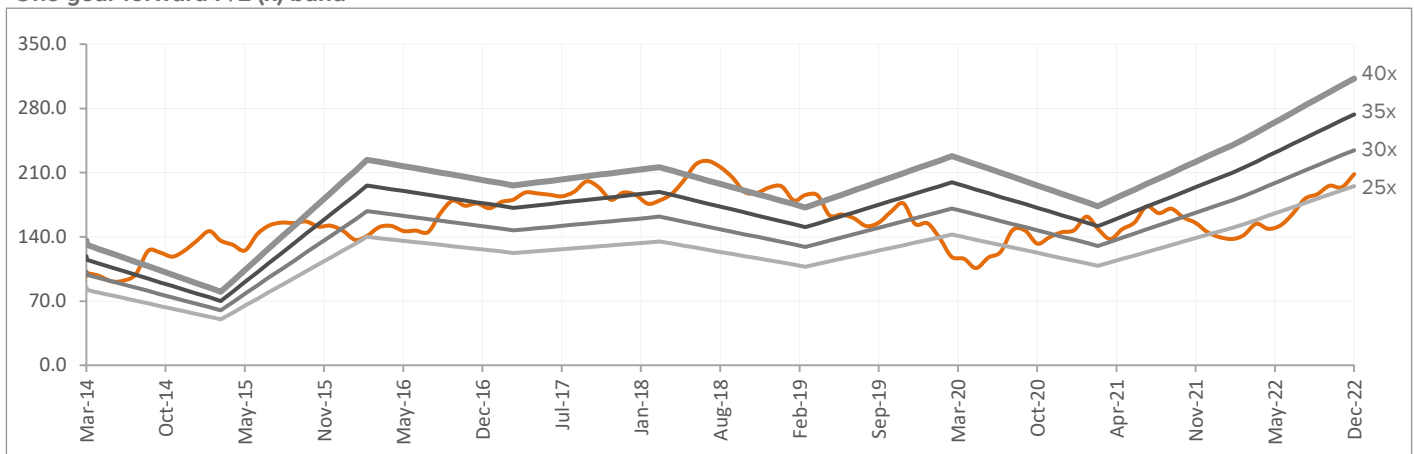
■ Company Outlook – Focus remains on achieving double-digit revenue growth

JLL posted resilient performance in H1FY2023 with revenue growth in double digits and volume growth 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. 240

JLL has posted a resilient performance in the past few quarters on the backdrop of a tough demand environment in the domestic market (especially in rural India). 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 32.5x/23.9x/19.7x its FY2023E/FY2024E/FY2025E 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. 240 over the next 12 months.

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 | 49.9 | 51.1 | 40.2 | 36.5 | 37.9 | 30.2 | 17.3 | 15.6 | 18.5 |
| HUL | 69.6 | 63.3 | 53.3 | 48.7 | 44.2 | 37.5 | 24.1 | 26.3 | 30.6 |
| Jyothy Labs | 46.2 | 32.5 | 23.9 | 29.2 | 22.7 | 17.3 | 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 (old data)

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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 deteriorating 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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