Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Jyothy Labs Ltd

On a steady growth path

Consumer Goods	Sharekhan code: JYOTHYLAB

Reco/View: Buy	↔	CMP: **Rs. 238**	Price Target: **Rs. 275**	↑

↑ 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 Jun 08, 2023

High Risk

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

Source: Morningstar

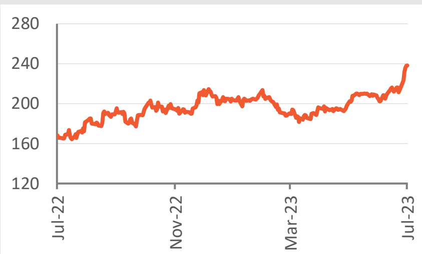
Company details

Market cap:	Rs. 8,740 cr
52-week high/low:	Rs. 243 / 163
NSE volume: (No of shares)	4.7 lakh
BSE code:	532926
NSE code:	JYOTHYLAB
Free float: (No of shares)	13.6 cr

Shareholding (%)

Promoters	62.9
FII	14.1
DII	16.8
Others	6.2

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	16.4	21.7	17.0	41.7
Relative to Sensex	13.1	12.6	8.0	21.2

Sharekhan Research, Bloomberg

Summary

- We retain a Buy rating on Jyothy Labs (JLL) with revised price target of Rs. 275. The stock is trading at 29.2x/24.3x its FY24E/FY25E earnings, which is at a discount to some large consumer goods stocks.
- JLL's earnings are expected to grow at CAGR of 25% over FY2023-25E with revenues expected to grow in low teens, while consistent EBIDTA margins expansion would drive strong double-digit earnings growth.
- The company remains debt free with cash on books at Rs. 283 crore, which it will be utilising for inorganic initiatives and higher investments behind brands.
- Return profile would improve with RoE/RoCE expected to rise to 20% and 24%, respectively in FY2025E versus 15.4% and 19.1% in FY2023 on back of consistent improvement in the profitability and better working capital management.

Jyothy Labs posted decent performance in FY2023 with revenues growing by 13.2% driven by mix of 10% price-led growth and volume growth of 3%, which was ahead of the industry growth. The company continued gain market share in fabric care and dishwashing categories, which along with enhanced distribution reach aided the company to achieve consistent low single-digit volume growth in past four quarters. JLL's revenues are expected to grow in low teens over the next two years with volume growth expected to improve to mid-to-high single-digits in the coming years. Building scale in fabric care category, focus on increasing share in the personal care category, expected recovery in the household insecticide (HI) and innovation in key categories will drive the growth in the near term. Last two years OPM was affected by high input cost inflation and stood at 11-13% (from 15-16% in earlier years). Management is confident of OPM recovering to 15-16% over the next two years through improved product mix and efficiencies. With cash flows expected to further improve the company will be investing the same in growth opportunities and rewarding shareholders with high dividend payout in the coming years.

- **Strategies in place to drive consistent growth in the coming years:** JLL aims to achieve growth by building scale in a highly competitive fabric care category. As guided by the management, Mr. White, Morelight and Ujala IDD each are Rs. 100 crore plus brands and will continue to scale-up in the coming years. It expects to achieve double-digit growth in dishwashing in FY2024 and gain market share in the fast-growing category. The company aims to strengthen the Margo franchise, which will to help increase share of personal care in the company's portfolio. In the household insecticide (HI) category, JLL plans to focus on liquid vaporisers and promote coils as a safer alternative to illegal incense sticks. The category has seen revival in past two quarters, which help JLL's HI business to post good performance in FY2024. Overall revenues are expected to grow at CAGR of 13-14% over FY23-25E.
- **OPM to improve to 15-16% in two years:** Inflation in the commodity prices such as palm oil, caustic soda and crude link derivatives led to 350-400 bps decline OPM in last two years. With recent correction in the commodity prices (palm oil down by 40%+), the management expects OPM to recover to 15-16% in two years. This will also be supported by cost saving and operating efficiencies to post consistent improvement in the OPM.
- **Strong cash generation; return ratios to improve:** JLL's net cash position has improved from negative Rs. 253 crore in FY2020 to Rs. 283 crore in FY2023. Working capital days reduced from 42 days in FY2020 to 29 days in FY2023 (remained consistent at 27-29 in last three years). With stable working capital management and expected improvement in the profitability, the company is likely to generate high cash in the coming years. With limited capex plan, the company will invest behind improving brand prospects and rewarding shareholders with higher dividend payout (stood at 47% in FY2023). JLL's return profile would improve with RoE/RoCE expected to increase to 20% and 24% respectively in FY2025E versus 15.4% and 19.1% in FY2023.

Our Call

View – Maintain Buy with a revised PT of Rs. 275: JLL posted relatively better broad-based performance in past few quarters despite inflation in input prices and a slowdown in volume growth (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 trades at 29.2x/24.3x its FY2024/25E earnings. 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 a Buy recommendation on the stock with a revised price target (PT) of Rs. 275.

Key Risks

A late recovery in HI category or a market share loss in some of the key categories would act as a key risk to our earnings estimates.

Valuation (Standalone) Rs cr

Particulars	FY22	FY23	FY24E	FY25E
Revenues	2,196	2,486	2,798	3,197
OPM (%)	11.3	12.7	14.5	15.1
Adjusted PAT	159	231	299	359
% YoY growth	-23.5	45.1	29.5	20.2
Adjusted EPS (Rs.)	4.3	6.3	8.1	9.8
P/E (x)	54.9	37.9	29.2	24.3
P/B (x)	6.1	5.6	5.3	4.8
EV/EBIDTA (x)	34.9	27.0	21.1	17.5
RoNW (%)	11.1	15.4	18.7	20.8
RoCE (%)	10.7	15.1	17.8	19.2

Source: Company; Sharekhan estimates

Outlook and Valuation

■ Sector Outlook – Rural recovery on cards; margin improvement to sustain

Rural demand bottomed out with sales returning to positive growth in Q4FY2023. With price inflation stabilising and a fall in key input prices, managements of most companies are confident of witnessing gradual pick-up in rural demand in the quarters ahead. Moreover, expectation of well spread-out monsoon and government offering some incentives prior to the budget might provide some boost to rural sentiments in the coming quarters. In FY2024, revenue growth is expected to be volume-led growth with companies focusing on passing on the benefits of the decline in input cost to customers in the coming quarters. A decline in input prices will drive gross margins in the coming quarters. Despite higher media spends, OPM would remain high on a y-o-y basis in the near term.

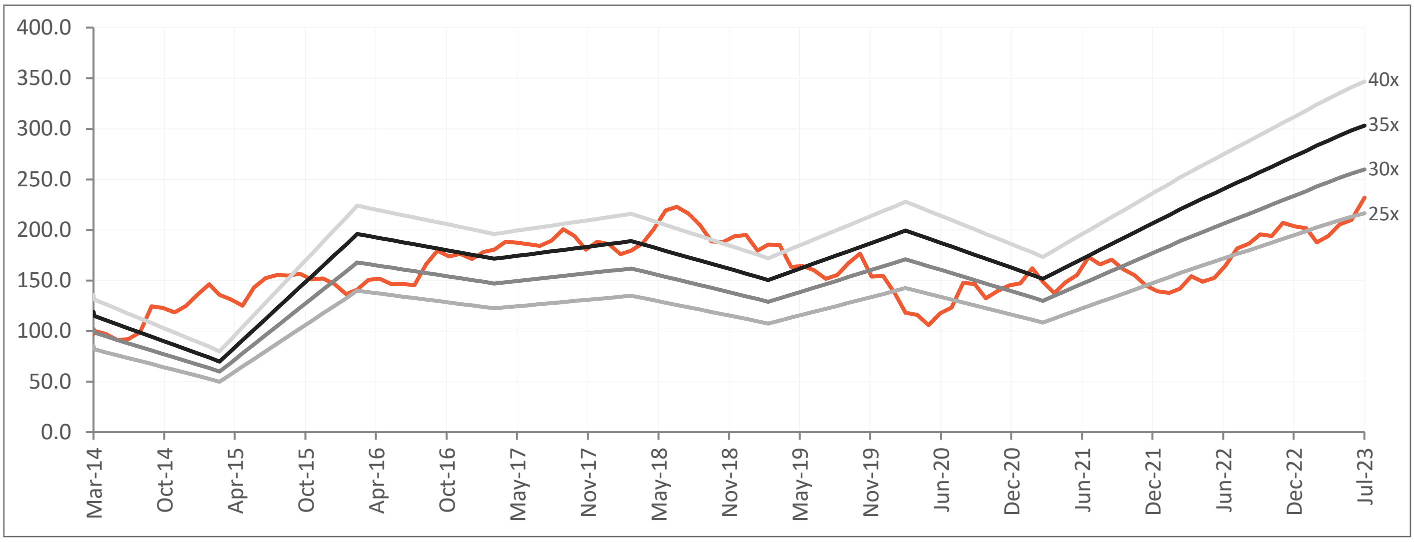
■ Company Outlook – Focus remains on achieving double-digit revenue growth

JLL posted resilient numbers for FY2023 registering double-digit revenue growth, while volume growth was at low single digits. 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 the recent correction in key input prices, the company expects OPM to reach historical levels of 15-16% in the next 1-2 years.

■ Valuation – Retain Buy with a revised PT of Rs. 275

JLL posted relatively better broad-based performance in past few quarters despite inflation in input prices and a slowdown in volume growth (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 trades at 29.2x/24.3x its FY2024/25E earnings. 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 a Buy recommendation on the stock with a revised price target (PT) of Rs. 275.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Particulars	P/E (x)			EV/EBITDA (x)			RoCE (%)		
	FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E
Godrej Consumer Products	62.2	47.9	40.9	42.2	35.8	30.5	15.2	16.9	18.1
HUL	63.2	58.1	50.0	46.1	41.1	35.1	25.6	28.0	31.6
Jyothy Labs	37.9	29.2	24.3	27.0	21.1	17.5	15.1	17.8	19.2

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 ~Rs. 2,500 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 sustained 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 9 shareholders

Sr. No.	Holder Name	Holding (%)
1	Franklin Resources	6.45
2	Nalanda India Equity Fund	6.02
3	ICICI Prudential AMC	3.39
4	Nippon Life India AMC	3.26
5	ICICI Lombard General Insurance Co Ltd	1.68
6	Pari Washington Company Pvt Ltd	1.67
7	abrdn plc	0.79
8	BlackRock Inc	0.63
9	Dimensional Fund Advisors	0.50

Source: Bloomberg (Old data)

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

Sharekhan

by BNP PARIBAS

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