Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Stock Update

Company Update

Jyothy Labs Ltd

Aiming for double-digit growth, steady margins

Consumer Goods	Sharekhan code: JYOTHYLAB
Reco/View: Buy ↔	CMP: Rs. 328	Price Target: Rs. 375 ↑

↑ 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 Aug 08, 2023

High Risk

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

Source: Morningstar

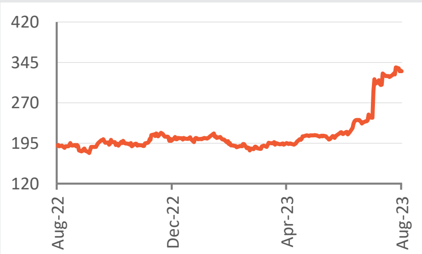
Company details

Market cap:	Rs. 12,033 cr
52-week high/low:	Rs. 347 / 175
NSE volume: (No of shares)	11.1 lakh
BSE code:	532926
NSE code:	JYOTHYLAB
Free float: (No of shares)	13.6 cr

Shareholding (%)

Promoters	62.9
FII	14.4
DII	15.4
Others	7.3

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	13.0	56.6	68.5	72.6
Relative to Sensex	14.6	52.1	58.9	62.0

Sharekhan Research, Bloomberg

Summary

- We retain a Buy on Jyothy Labs with a revised price target of Rs. 375. The stock trades at 37x/31x its FY2024E and FY2025E earnings. Consistent earnings growth visibility and relative stable valuations make it a good pick in the small-to-mid cap consumer good space.
- Management aspires to achieve consistent double-digit revenue growth (largely volume-led) in the coming years. Fabric care (detergents), Dish washing and personal care (soaps) to drive growth.
- OPM is likely to improve to 16% in FY2024 due to correction in the input prices. Operating efficiencies and scale benefits would help profitability improve steadily.
- The company had net cash of Rs. 283 crore as on March 31, 2023. Incremental cash flows will be utilized for inorganic initiatives or provide higher benefits to shareholders.

We met Mr. Sanjay Agarwal, Chief Financial Officer (CFO) of Jyothy Labs (JLL), to understand the current business environment and near to medium-term growth prospects. The company registered 11 consecutive quarters of double-digit revenue growth driven by a mix of volume and price-led growth. The management aspires to maintain double-digit revenue growth trajectory by growing ahead of industry in categories such as detergents, dishwashing and soaps through expansion in distribution reach, optimal utilisation of available reach, playing with product portfolio depending on demand in key markets and doing relevant launches in key categories. With large focus on achieving consistent volume led revenue growth, OPM will see steady improvement driven by operating efficiencies and scale in the medium term. We expect JLL's revenues and PAT to grow at a CAGR of 13% and 27%, respectively, over FY2023-26E. Cash position will consistently improve (net cash of Rs. 283 crore in FY2023) and management expects to utilize it for inorganic initiatives or reward shareholders with a higher dividend payout or buyback in the coming years.

- **Aspiration to maintain double-digit revenue growth:** JLL has maintained steady double-digit revenue growth for 11 consecutive quarters driven by a mix of value and price-led growth. A strong product portfolio, capacities available to cater to rising demand, distribution expansion and improving brand image would drive revenue growth in the coming quarters. Company aspires to achieve double-digit revenue growth in the medium-long term with higher focus on improving contribution from personal care and better than industry growth in detergent and dishwashing category. However, in the near term, H2FY2024 might see revenue growth in high-to-low double digit, which will be volume-led growth.
- **Liquid detergent gaining strong traction; detergents to grow faster due to value offering:** In detergents, Henko portfolio is gaining strong traction in the metro and urban markets. Its large packs are gaining strong preference in the modern trade, supermarkets and on e-commerce platform. Morelight and Mr. White expanded its presence in the North and East part of India leveraging on Maxo's distribution strength while Ujala deterrent is picking up pace in Kerala and West Bengal. The company is planning to expand presence of Ujala detergent to pan-India in the coming years. JLL's Henko liquid detergent is growing much faster than powder detergent category due to improving awareness done by an industry leader about the features of the product. With category in nascent stage and few brands available will help JLL to scale-up fast in the category. Overall detergent category is expected to grow at 15-20% in the coming years while fabric whitener will grow in mid-to-high single digit.
- **Margins to reach 16% in FY24 and then will gradually improve:** JLL's large focus is on achieving consistent double-digit revenue growth in the near to medium term. Hence, adequate investments will be done in distribution, building strong sales team and relevant media activities on various platforms. Improvement in the EBIDTA margins will be the function of operating efficiencies, increase in scale and leverage driven by higher sales volumes. In FY2024, the management expects OPM to expand by 300-350 bps y-o-y to ~16% due to correction in input prices. The company is likely to see gradual improvement in margins in the subsequent years.

Our Call

View – Maintain Buy with a revised PT of Rs. 375: Product innovation and availability of relevant product assortment for general trade/e-Commerce/modern trade and distribution expansion will help JLL gain market share in key categories. We expect JLL's revenues and PAT to grow at CAGR of 13% and 27% over FY2023-26E. The stock has seen a good run-up in the recent times and is trading at 37x/31x its FY2024E/FY2025E EPS, which is at discount to the valuation of some of the mid-large consumer good companies. Improving cash flows, a focus on sustaining double-digit revenue growth with decent volume growth and strong earnings visibility make it a good small-to-mid cap pick in the consumer goods space. We maintain a Buy on the stock with a revised price target (PT) of Rs. 375.

Key Risks

Delayed 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	FY22	FY23	FY24E	FY25E
Revenues	2,196	2,486	2,779	3,172
OPM (%)	11.3	12.7	15.7	16.1
Adjusted PAT	159	231	323	390
% YoY growth	-23.5	45.1	39.8	21.0
Adjusted EPS (Rs.)	4.3	6.3	8.8	10.6
P/E (x)	75.6	52.1	37.3	30.8
P/B (x)	8.3	7.8	7.2	6.5
EV/EBIDTA (x)	48.1	37.4	27.2	22.9
RoNW (%)	11.1	15.4	20.1	22.1
RoCE (%)	10.7	15.1	19.0	20.3

Source: Company; Sharekhan estimates

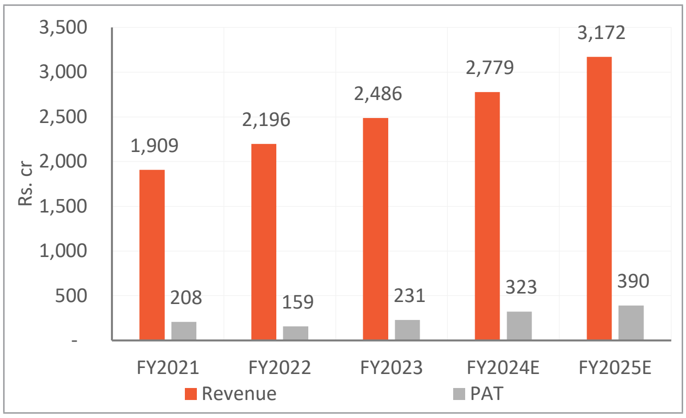
Key highlights of meeting with Mr. Sanjay Agarwal, CFO

- **Premiumisation and large packs drive growth in urban markets:** Urban demand has remained quiet resilient and driving the industry growth for past few quarters. For JLL urban demand is driven by premium products and large packs. Salience of large packs has increased as large packs are available at less per unit value compared to small packs and also due to convenience shopping as e-commerce and modern trade provides ease of payment/delivery options. Products which are doing good in the urban markets are Henko powder (large packs) and liquid detergent, Pril liquid, Margo premium extension and Exo round bar.
- **Value creation and distribution expansion aid rural growth:** With high consumer inflation, JLL's portfolio of mid-priced detergents Mr.White and Morelight picked up momentum as consumers continued to look for value products at reasonable price. Moreover, the company continued its distribution expansion strategy to improve penetration in rural markets. Both these factors helped the company to achieve good growth in the mid-priced detergent brands, 'Mr. White & Morelight'.
- **Liquids gaining strong traction; detergents to grow faster due to value offering:** In detergents, Henko portfolio is gaining strong traction in the metro and urban markets. Its large packs are gaining strong preference in modern trade, supermarkets and on e-commerce platform. Morelight and Mr. White expanded its presence in North and East India leveraging on Maxo's distribution strength while Ujala deterrent is pick-up pace in Kerla and West Bengal. The company is planning to expand presence of Ujala detergent to pan-India in the coming years. JLL's Henko liquid detergent is growing much faster than powder detergent category due to improving awareness done by industry leader about the features of the product. With category in nascent stage and few brands available will help JLL to scale-up fast in the category. Overall, the detergent category is expected to grow at around 15-20% in the coming years while fabric whiteners will grow in mid-to-high single digit.
- **Double-digit growth in dishwash to sustain:** Pan-India penetration of dishwash bar is 40-45%, while urban penetration is higher at 60-70%. The company is planning to improve the penetration of dishwash bar in rural markets through small packs of Rs. 5-10. The mix of dishwash bar:liquid is at 75:25 and the management expects both liquid & bar to grow parallel in the coming years. As per the management, double-digit growth momentum is expected to sustain in the dishwash category, which would be largely volume-led.
- **HI category recovering:** JLL's HI products have a strong presence in North and East. The category's growth is impacted due to factors like 1. Seasonal impact due to extreme weather conditions in the markets where the company has strong presence (North & East) and 2. Illegal incense sticks taking share of burning formats 3. The liquid format will take time to build. However, the management is taking various initiatives to improve the growth in the HI category. If weather is stable and mosquito infestation is on high, the HI category will see a good performance in FY2024.
- **Margo franchisee to lead growth in personal care:** JLL entered the toilet soap category with the launch of three new variants in April 2023 under Margo Neem Naturals to further leverage the natural benefit proposition of the Margo franchise. Extension priced at Rs43 per 100gm is in-line with some of the close peers. Management has indicated that the initial response is good and the traction is expected to improve in the months ahead with strong media support.
- **Distribution expansion to continue:** JLL's direct reach is currently at 1.1 million outlets and the company plans to add 1 lakh shops every year. The company's focus would be more on rural markets as penetration is less in rural markets. As per the management, the company's growth is largely driven by better throughput per shop.

- **Multiple divers in place for margin expansion and revenue growth:** The management expects to around 16% in FY2024 benefited from correction in the key input prices. Going ahead, economies of scale, higher sales by salesmen (operating leverage), stability in raw material prices and improving product efficiencies would drive consistent improvement in profitability. Moreover, strong portfolio of products, capacities available to cater to rising demand, distribution expansion and improving brand image would drive revenue growth in the coming quarters. The company aspires to achieve double-digit revenue growth in the medium-long term with higher focus on improving contribution from personal care. In the near term, management expects H2FY2024 growth to be volume-led as price-led growth is expected to taper off.
- **No major capex planned:** The management has indicated that apart from the nominal capex of Rs. 30-40 crore for maintenance purpose, the company does not have any plans to incur any major expenses towards capex.
- **Striving for consistent increase in cash kitty:** The company saw consistent reduction in the working capital days in past few years. This along consistent improvement in profitability and no major capex plan, the free cash flow on books has consistent improved. Net cash on books as on Mar,23 stood at Rs283crore. The same is expected to consistently improve in the coming years. Consistent increase in the cash will be utilised for inorganic growth opportunities or rewarding shareholders with higher dividend payout or buyback of shares in the coming years.

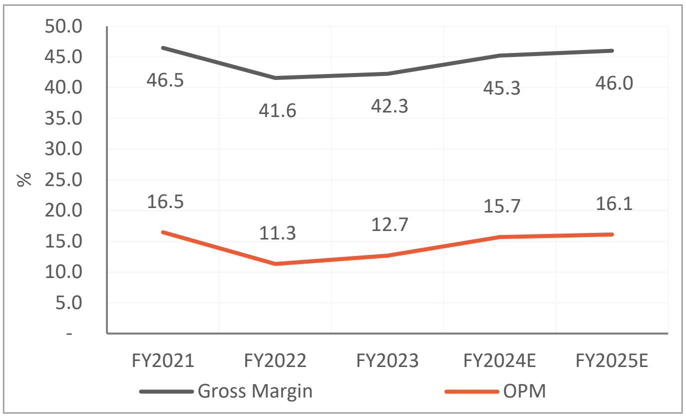
Financials in charts

Steady growth in revenue and PAT



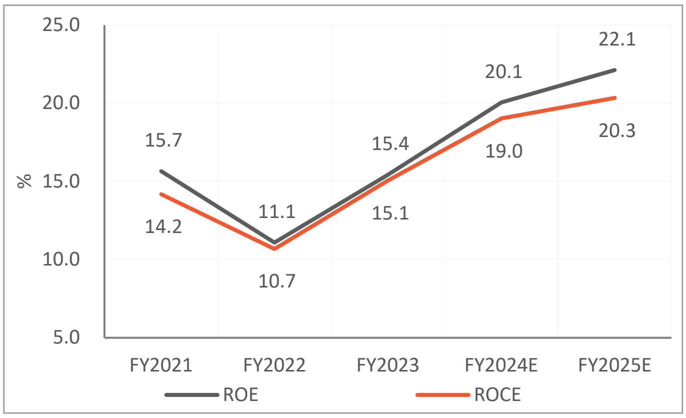
Source: Company, Sharekhan Research

Margins to recover post high input inflation



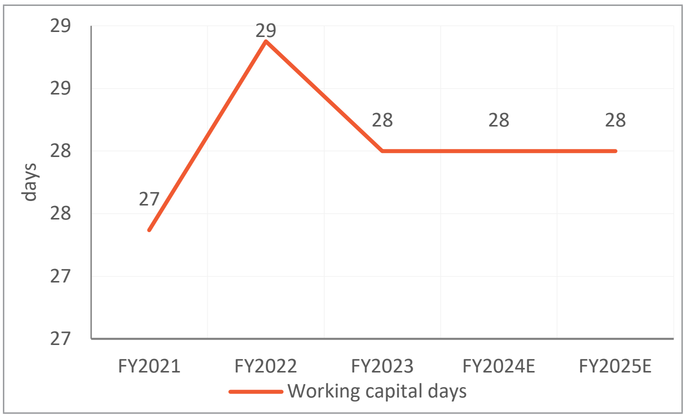
Source: Company, Sharekhan Research

Sharp improvement in return ratios



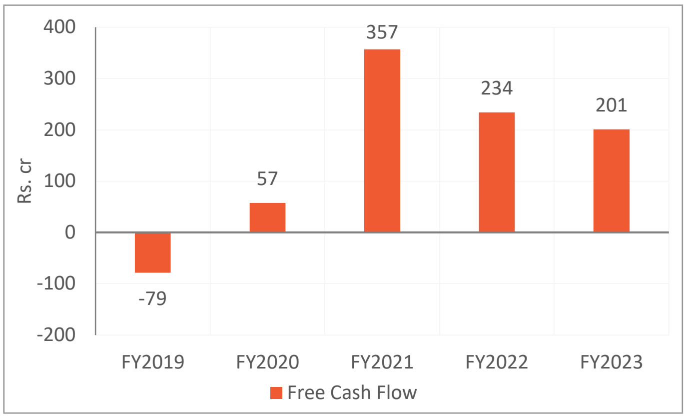
Source: Company, Sharekhan Research

Stable working capital days



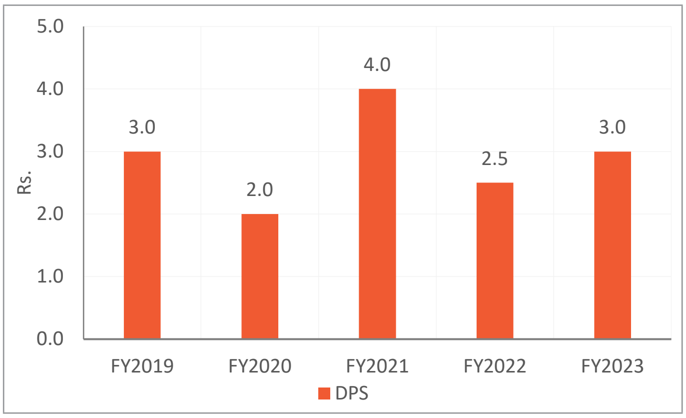
Source: Company, Sharekhan Research

Strong free cash flow generation



Source: Company, Sharekhan Research

Consistent dividend paypout history



Source: Company, Sharekhan Research

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, with companies focusing on passing on the benefits of the decline in input cost to customers in the coming quarters. A fall 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.

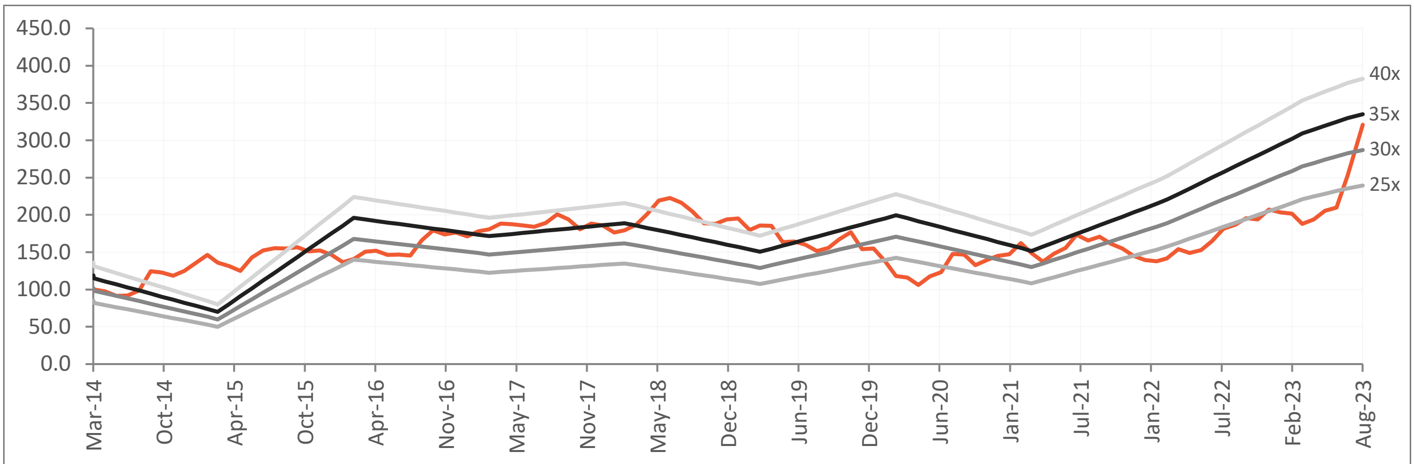
■ Company Outlook – Focus remains on achieving double-digit revenue growth

In Q1FY2024, revenues and PAT grew by 15% and 101% y-o-y, respectively (OPM expanded by 707 bps y-o-y to 17%). 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 a recent correction in key input prices, the company expects OPM to reach historical levels of 15-16% in the next 1-2 years.

■ Valuation – Maintain Buy with a revised PT of Rs. 375

Product innovation and availability of relevant product assortment for general trade/e-Commerce/modern trade and distribution expansion will help JLL gain market share in key categories. We expect JLL's revenues and PAT to grow at CAGR of 13% and 27% over FY2023-26E. The stock has seen a good run-up in the recent times and is trading at 37x/31x its FY2024E/FY2025E EPS, which is at discount to the valuation of some of the mid-large consumer good companies. Improving cash flows, a focus on sustaining double-digit revenue growth with decent volume growth and strong earnings visibility make it a good small-to-mid cap pick in the consumer goods space. We maintain a Buy on the stock with a revised price target (PT) of Rs. 375.

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	61.1	49.3	40.8	41.5	36.0	30.6	15.2	15.4	16.6
HUL	60.5	55.2	47.4	44.0	39.1	33.4	25.6	28.2	31.9
Jyothy Labs	52.1	37.3	30.8	37.4	27.2	22.9	15.1	19.0	20.3

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 & Compliance Officer

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Nalanda India Equity Fund	6.02
2	Franklin Resources	5.62
3	Nippon Life India AMC	3.02
4	ICICI Prudential AMC	2.24
5	ICICI Lombard General Insurance Company	1.95
6	Abrdn PLC	1.08
7	BlackRock Inc	0.69
8	Dimensional Fund Advisors	0.51
9	UTI AMC	0.35
10	Mirae Asset Global Investments Company	0.35

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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