Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Stock Update

Result Update

Jyothy Labs Ltd

Strong Q3 with double digit volume growth

Consumer Goods	Sharekhan code: JYOTHYLAB

Reco/View: Buy	↔	CMP: **Rs. 514**	Price Target: **Rs. 590**	↑

↑ 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		↔	

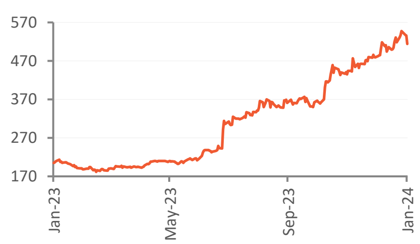
Company details

Market cap:	Rs. 18,882 cr
52-week high/low:	Rs. 554 / 180
NSE volume: (No of shares)	15.9 lakh
BSE code:	532926
NSE code:	JYOTHYLAB
Free float: (No of shares)	13.6 cr

Shareholding (%)

Promoters	62.9
FII	15.1
DII	13.9
Others	8.2

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	6.6	43.4	69.6	150.8
Relative to Sensex	7.3	31.4	60.5	130.3

Sharekhan Research, Bloomberg

Summary

- Jyothy Labs Limited (JLL) posted yet another quarter of stellar performance in Q3FY24 with revenue and PAT growing by 11% and 35% y-o-y, respectively; OPM standing high at 17.5%.
- Domestic volume growth of 11% is ahead of some large peers; management is confident of maintaining volume-led double-digit revenue growth in FY2024. It targets OPM of 16-17%.
- Distribution expansion in new markets, product launches, market share gains in key categories and expanding into new categories would help JLL to achieve consistent double-digit revenue growth in the coming years.
- Stock trades at 45x/39x its FY2025E/FY2026E earnings. In view of consistent delivery of strong operating performance versus peers and good growth prospects ahead, we maintain a Buy with revised PT of Rs. 590.

Jyothy Labs (JLL) posted yet another quarter of stellar performance amid weak demand environment with domestic volume growth of 11% compared to flat to low single-digit volume growth achieved by some of the large consumer goods companies in the home and personal care category. Consolidated revenues grew by 10.6% y-o-y to Rs. 677.5 crore. Fabric care and personal care categories registered robust performance delivering 12% and 23% y-o-y revenue growth respectively. Lower input prices led to a sharp 666 bps y-o-y expansion in the gross margin to 49.8%, while consolidated OPM expanded by 374 bps y-o-y to 17.5%. Operating profit grew by 40.6% y-o-y to Rs. 118.3 crore and reported profit grew by 35% y-o-y to Rs. 90.9 crore. For 9MFY2024, revenues grew by 12.2% y-o-y to Rs. 2,096.9 crore, OPM rose by 570 bps y-o-y to 17.7%, and reported PAT grew by 61.3% y-o-y to Rs. 291.2 crore.

Key positives

- Domestic volumes grew by 11% y-o-y in Q3 versus 9% y-o-y in Q2FY24.
- Personal care category grew by 23% y-o-y.
- Gross margin/OPM rose by 666 bps/374 bps y-o-y to 49.8%/17.5%, respectively.
- *Ujala Detergent* market share (Kerala) improved to 22.2% in CY23 from 20.9% in CY22.

Key negatives

- HI category's revenue grew by 5.4% y-o-y; EBIT loss widened to Rs. 9.3 crore versus loss of Rs. 6.9 crore in Q3FY2023.
- Dishwash category grew by just 6.7% y-o-y.

Management Commentary

- The management has maintained its guidance of achieving double-digit revenue growth, largely driven by volume growth in FY2024.
- JLL is targeting to achieve consistent double-digit revenue growth (largely volume-led) in the medium term led by distribution expansion in new markets, entry into new categories, innovation in existing portfolio and market share gains in key categories.
- Management has maintained its OPM guidance of 16-17% for FY2024. Raw material prices have stabilised. Hence, JLL expects pricing competition to reduce in the coming quarters.
- Dishwash category's growth was affected by competition intensity from small players and slowdown in the rural market. The company expects category growth to recover to low-double digit once rural demand is back on track.
- Double-digit growth in the fabric care category was largely driven by strong growth in post wash products such as Crisp & Shine and fabric whiteners, driven by market share gains in the existing markets. Further ground activities in newer markets are also helping the post wash products to achieve good growth.
- In the detergent space, expansion in newer markets is helping achieve strong growth, while liquid detergent is growing ahead of category growth due to good traction.
- Product launches under the Margo brand gaining strong traction and help overall brand to achieve strong growth.
- Profitability of household insecticide category will improve with a better mix and increase in scale of the business.
- Advertisement spends as percentage to sales will remain at 8-9% in the near term.

Revision in estimates – We have revised upwards our earnings estimates by 2-3% for FY2024E, FY2025E and FY2026E to factor in higher OPM than earlier estimated.

Our Call

View - Maintain Buy with a revised PT of Rs. 590: JLL has posted a strong performance for the past few quarters in a tough consumer demand environment. Management has aspiration of achieving revenues of Rs. 5,000 crore over the next four years through its focused strategies and inorganic initiatives. We expect JLL's revenue and PAT to post a CAGR of 14% and 29%, respectively, over FY2023-FY2026E. The stock has seen a good run-up in recent times and is trading at 45x/39x its FY2025E/FY2026E EPS. Consistent strong performance ahead of industry and focus on achieving good growth in the coming years makes it a good pick in FMCG basket. We maintain our Buy recommendation on the stock with revised price target of Rs. 590 (rolling it over FY2026E earnings).

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	FY23	FY24E	FY25E	FY26E
Revenues	2,486	2,792	3,191	3,644
OPM (%)	12.7	17.0	17.0	17.1
Adjusted PAT	231	357	417	490
% YoY growth	45.1	54.5	16.9	17.5
Adjusted EPS (Rs.)	6.3	9.7	11.4	13.4
P/E (x)	81.8	52.9	45.2	38.5
P/B (x)	12.2	11.1	9.8	8.6
EV/EBIDTA (x)	59.1	39.3	34.1	29.2
RoNW (%)	15.4	21.9	23.0	23.8
RoCE (%)	15.1	20.8	21.2	22.1

Source: Company; Sharekhan estimates

Good Q3 – Revenue grew by 11% y-o-y; OPM up by 374 bps y-o-y

JLL's revenues grew by 10.6% y-o-y to Rs. 677.5 crore, largely in line with our as well street average expectation of Rs. 667-675 crore. Growth is driven by 11.7% y-o-y growth in the fabric care segment, 6.8% y-o-y growth in the dishwashing segment, 5.4% y-o-y growth in household insecticide segment and 22.5% y-o-y growth in the personal care segment. Softening of raw material prices aided in 666 bps y-o-y expansion in gross margin to 49.8%. Higher advertisement expenses (up by 213 bps y-o-y) led to 374 bps y-o-y expansion in OPM to 17.5% (in line with our and street average expectation of 17.3-17.6%). Operating profit increased by 40.6% y-o-y to Rs. 118.6 crore and PAT grew by 34.9% y-o-y to Rs. 90.9 crore, in line with our and street average expectations of Rs. 91 crore. In 9MFY2024, revenue grew by 12.2% y-o-y to Rs. 2,097 crore, OPM improved by 570 bps y-o-y to 17.7% and PAT grew by 61.3% y-o-y to Rs. 291 crore.

Fabric Care – Double-digit revenue growth coupled with sharp EBIT margin expansion y-o-y

- Revenue grew by 11.7% y-o-y to Rs. 294.8 crore driven by healthy growth across post wash and main wash brands.
- Ujala Detergent market Share (Kerala) improved to 22.2% in CY23 from 20.9% in CY22.
- Jyothy's focus on the fast-growing liquid detergents category has witnessed good results. Further, the company's mid-price detergent powder segment is witnessing good demand.
- PBIT margin improved by 685 bps y-o-y to 25.2%.

Dishwash – Revenue growth at 7% y-o-y; margin improved by 268 bps y-o-y

- Revenue grew by 6.8% y-o-y to Rs. 236.1 crore led by initiatives undertaken towards strengthening brands and making them future ready.
- Company would continue to focus on driving LUP's enabling wider consumer recruitment. Moreover, OFOs and E-commerce would support offtake of premium SKUs.
- PBIT margin improved by 268 bps y-o-y to 18%.

Household insecticides – Revenues grew by 5% y-o-y; EBIT loss widened y-o-y

- Revenue grew by 5.4% y-o-y to Rs. 45.7 crore impacted by continued industry headwinds.
- The company would continue to focus on Liquid Vaporiser (LV) format and drive brand communication highlighting automatic feature of the machine, which is unique in the category.
- EBIT loss widened to Rs. 9.3 crore against loss of Rs. 6.9 crore in Q3FY2023.

Personal care – Revenue up 23% y-o-y; margins 242 bps lower y-o-y

- Revenue grew by 22.5% y-o-y to Rs. 72.3 crore, aided by double-digit growth in the Margo brand.
- Neem-based Margo portfolio of Soaps along with new variants of Rose, Lemon and Jasmine has seen good acceptance with consumers.
- For personal care, the company plans to continue to focus on brand investment across mediums along with focus on distribution expansion.
- PBIT margins declined by 242 bps y-o-y to 12.9%.

Results (Consolidated) Rs cr

Particular	Q3FY24	Q3FY23	y-o-y (%)	Q2FY24	q-o-q (%)
Total Revenue	**677.5**	**612.7**	**10.6**	**732.3**	**-7.5**
Raw material cost	340.4	348.6	-2.4	371.9	-8.5
Employee expenses	75.2	66.4	13.2	76.9	-2.3
Advertisement expenses	60.7	41.8	45.1	57.4	5.7
Other expenses	82.7	71.5	15.7	90.7	-8.9
Total operating cost	558.9	528.3	5.8	597.0	-6.4
Operating profit	**118.6**	**84.4**	**40.6**	**135.4**	**-12.4**
Other income	10.6	15.3	-30.6	13.2	-20.0
Depreciation	12.8	12.2	5.5	12.3	4.2
Interest expenses	1.2	3.2	-63.6	1.2	0.0
Profit before tax	**115.2**	**84.3**	**36.8**	**135.1**	**-14.7**
Tax	24.3	16.9	44.0	31.1	-22.0
Reported PAT	**90.9**	**67.4**	**34.9**	**104.0**	**-12.5**
EPS (Rs.)	2.5	1.8	34.9	2.8	-12.5
			bps		**bps**
GPM (%)	49.8	43.1	666	49.2	55
OPM (%)	**17.5**	**13.8**	**374**	**18.5**	**-97**
NPM (%)	13.4	11.0	242	14.2	-78
Tax rate (%)	21.1	20.0	106	23.0	-197

Source: Company; Sharekhan Research

Category-wise performance

Particulars	Q3FY24	Q3FY23	y-o-y (%)	Q2FY24	q-o-q (%)
Revenue (Rs cr)					
Fabric care	294.8	264.0	11.7	316.6	-6.9
Dish washing	236.1	221.0	6.8	250.7	-5.8
Household insecticides	45.7	44.0	4.0	45.0	1.7
Personal care	72.3	59.0	22.5	89.6	-19.3
Other Products	28.6	12.0	-	30.4	-5.9
Total Consumer	**677.5**	**600.0**	**12.9**	**732.3**	**-7.5**
Laundry Services	-	13.0	-	-	-
Total revenue	**677.5**	**613.0**	**10.5**	**732.3**	**-7.5**
PBIT Margins (%)			**bps**		**bps**
Fabric care	25.2	18.4	685	26.1	-91
Dish washing	18.0	15.3	268	20.9	-288
Household Insecticide	-20.4	-15.7		-17.6	-
Personal care	12.9	15.3	-242	10.9	197
Other Products	5.3	0.1	522	0.2	514
	17.5	**13.5**	**394**	**18.7**	**-124**

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector View – Volume growth likely to pick-up from H2FY2025

Festive cheer and moderation in inflation didn't bring a substantial boost in demand for consumer goods companies. Rural demand remains weak with monsoon remaining lower increasing the risk of lower agri-production. Delayed winters also led to lower offtake of winter care products. We expect rural demand to gradually pick-up with expected stimulus coming in the post-election budget. This along with better monsoon might help in a good recovery in the demand for consumer goods companies (especially in rural markets). Margins stay high with raw material prices remaining benign. Further, mix improvement and operating efficiencies will consistently add on the margins in the coming years. Most companies are optimistic about medium-term growth outlook of consumer goods sectors with low penetration in most categories, emerging distribution channels, and improving per-capita income. We expect smaller consumer good companies to continue to perform well compared to large companies with major focus on market share gains with enhanced penetration and portfolio expansion in the near to medium term.

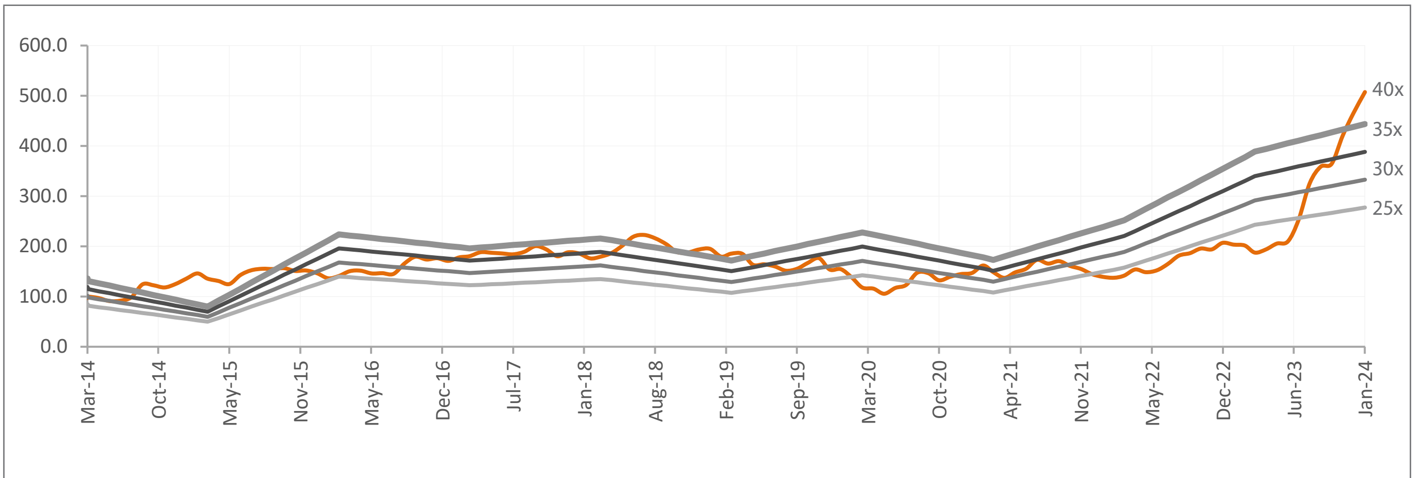
■ Company Outlook – Focus remains on achieving double-digit revenue growth

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 16-17% in FY2024 and consistently improve in the subsequent years.

■ Valuation – Maintain Buy with a revised PT of Rs. 590

JLL has posted a strong performance for the past few quarters in a tough consumer demand environment. Management has aspiration of achieving revenues of Rs. 5,000 crore over the next four years through its focused strategies and inorganic initiatives. We expect JLL's revenue and PAT to post a CAGR of 14% and 29%, respectively, over FY2023-FY2026E. The stock has seen a good run-up in recent times and is trading at 45x/39x its FY2025E/FY2026E EPS. Consistent strong performance ahead of industry and focus on achieving good growth in the coming years makes it a good pick in FMCG basket. We maintain our Buy recommendation on the stock with revised price target of Rs. 590 (rolling it over FY2026E earnings).

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	58.1	56.4	51.1	42.3	39.9	36.0	25.6	27.0	29.1
HUL	68.3	56.9	48.7	46.4	41.1	35.5	15.2	15.1	15.9
Jyothy Labs	81.8	52.9	45.2	59.1	39.3	34.1	15.1	20.8	21.2

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 & Compliance Officer

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Nalanda India Equity Fund	6.02
2	Franklin Resources	4.00
3	Nippon Life India AMC	2.69
4	Canara Robeco AMC	1.57
5	Axis AMC	0.91
6	ICICI Prudential Life Insurance Co Ltd	0.87
7	abrdn plc	0.84
8	BlackRock Inc	0.77
9	Dimensional Fund Advisors	0.55
10	L&T Mutual fund trustee Ltd	0.52

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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