Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Jyothy Labs Ltd

Consistent play; risk-reward favourable

Consumer Goods	Sharekhan code: JYOTHYLAB

Reco/View: Buy	↔	CMP: Rs. 469	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		↔	

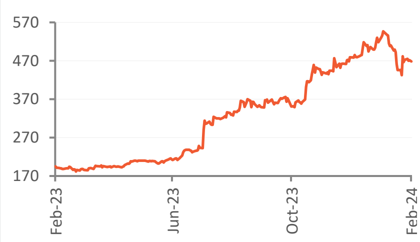
Company details

Market cap:	Rs. 17,222 cr
52-week high/low:	Rs. 554 / 180
NSE volume: (No of shares)	12.2 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	-11.4	8.5	42.4	141.0
Relative to Sensex	-15.4	-2.3	30.6	118.2

Sharekhan Research, Bloomberg

Summary

- We reiterate our Buy rating on Jyothy Labs Ltd (JLL) with an unchanged PT of Rs. 590. Favourable risk-reward ratio and consistent outperformance compared with peers makers it a preferred pick in the consumer goods space.
- The company delivered nine consistent quarters of industry-leading volume growth; lower input prices continued to drive margins heling JLL post strong double-digit earnings growth.
- Distribution expansion in new markets, product launches, market share gains in key categories and expanding into new segments would help JLL to achieve consistent double-digit revenue growth (largely volume-led) in the coming years.
- Stock has corrected by 15% from its recent high and is trading at 41x/35x its FY2023E and FY2024E earnings.

Jyothy Labs (JLL) has been a consistent performer within the FMCG pack delivering a steady volume growth of 9-11% for the past three quarters, beating industry volume growth. It continues to gain market share in the fabric care category, which along with an enhanced distribution reach aided the company to achieve consistent volume growth in past few quarters. Revenues are expected to grow in low double digits over the next two years, which will be largely a volume led growth. Building scale in fabric care category, focus on increasing share in the personal care category, expected recovery in the household insecticides (HI) and innovation in key categories will drive the growth in the near term. Management has maintained OPM guidance of 16-17% in the near term. The stock has corrected by 15% from its recent highs, providing a favourable risk-reward in the small-to-mid cap space.

- **Targets double-digit revenue growth in the coming years:** Strong growth in the post wash products such as Crisp & Shine and fabric whitener driven market share gains and distribution expansion along with expansion in the new markets aiding fabric care category to grow in double digits. Strengthening of the Margo franchisee with the launch of new variants aiding the brand to gain more traction. Thus, 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.
- **Premiumisation and large packs drive growth in urban markets:** Urban demand has remained quiet resilient and driving industry growth for the past few quarters. For JLL, urban demand is driven by premium products and large packs. Salience of large packs has increased as they are available at less per unit value compared to small packs and also due to convenience shopping as e-Commerce and modern trade channels provide an 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
- **OPM to remain at 16-17% in the near term:** Reduction in key input prices aided the gross margins and operating margins to see a consistent improvement in the past five quarters with OPM standing at 17-18% (ahead of the guided range of 15-16%). With raw material prices remaining stable management expects the OPM to remain stable at 16-17% in the near term. Further, an improvement in the mix, with the company planning to add more premium products in the portfolio and efficiencies will further add on to the margins in the coming years.

Our Call

View - Maintain Buy with an unchanged PT of Rs. 590: JLL has posted strong performance for the past few quarters in a tough consumer demand. 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 revenues and PAT to post a CAGR of 14% and 29%, respectively, over FY2023-FY2026E. The stock has corrected by 15% from its recent highs and is trading at 41x and 35x its FY2025E and FY2026E earnings. Consistent strong performance ahead of the industry and a favourable risk reward makes it a good pick in FMCG basket. We maintain our Buy recommendation on the stock with an unchanged price target of Rs. 590.

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

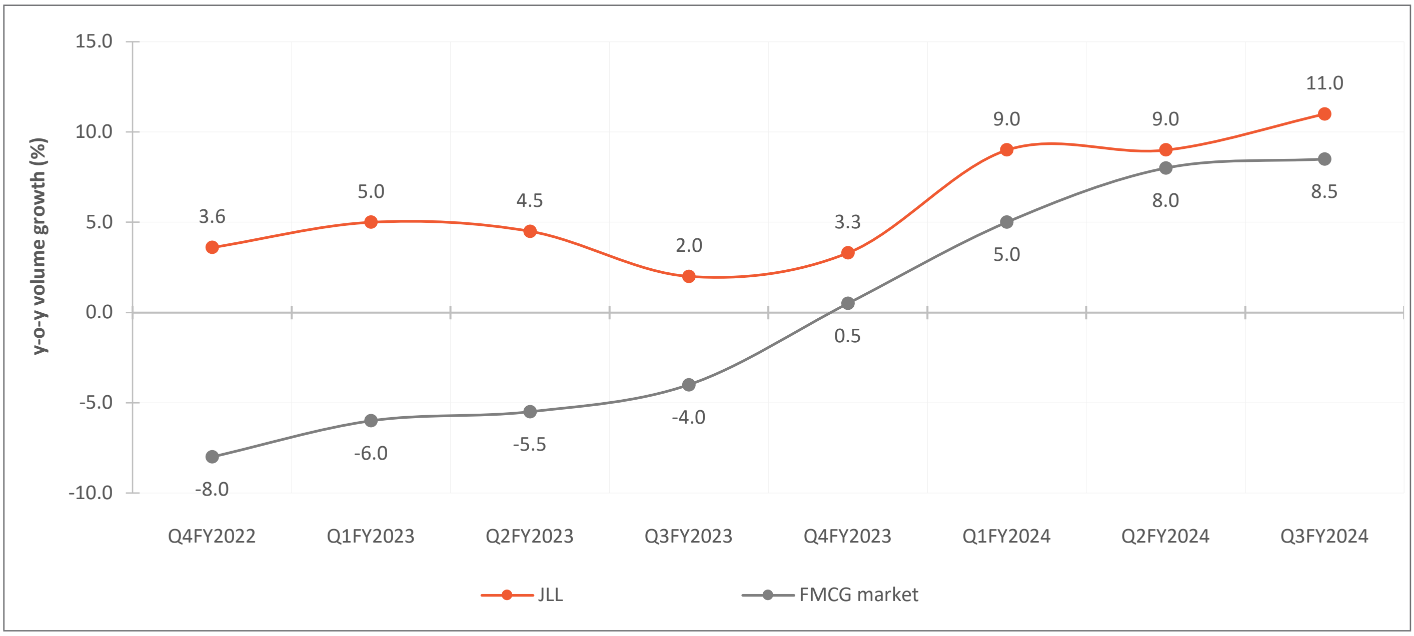
Particulars	FY23	FY24E	FY25E	FY26E
Revenues	2,486	2,792	3,191	3,644
OPM (%)	12.7	17.0	17.0	17.1
Adjusted PAT	231	357	417	490
% YoY growth	45.1	54.5	16.9	17.5
Adjusted EPS (Rs.)	6.3	9.7	11.4	13.4
P/E (x)	74.6	48.2	41.3	35.1
P/B (x)	11.1	10.1	9.0	7.8
EV/EBIDTA (x)	53.8	35.8	31.0	26.6
RoNW (%)	15.4	21.9	23.0	23.8
RoCE (%)	15.1	20.8	21.2	22.1

Source: Company; Sharekhan estimates

Consistent performer with steady volume growth

Jyothy Labs (JLL) has been consistent performer among the FMCG pack delivering a steady volume growth of 9-11% for last three quarter ahead of the industry's volume growth. It continues to gain market share in fabric care category, which along with enhanced distribution reach helped JLL to achieve consistent volume growth in past few quarters.

Volume growth consistently ahead of FMCG market

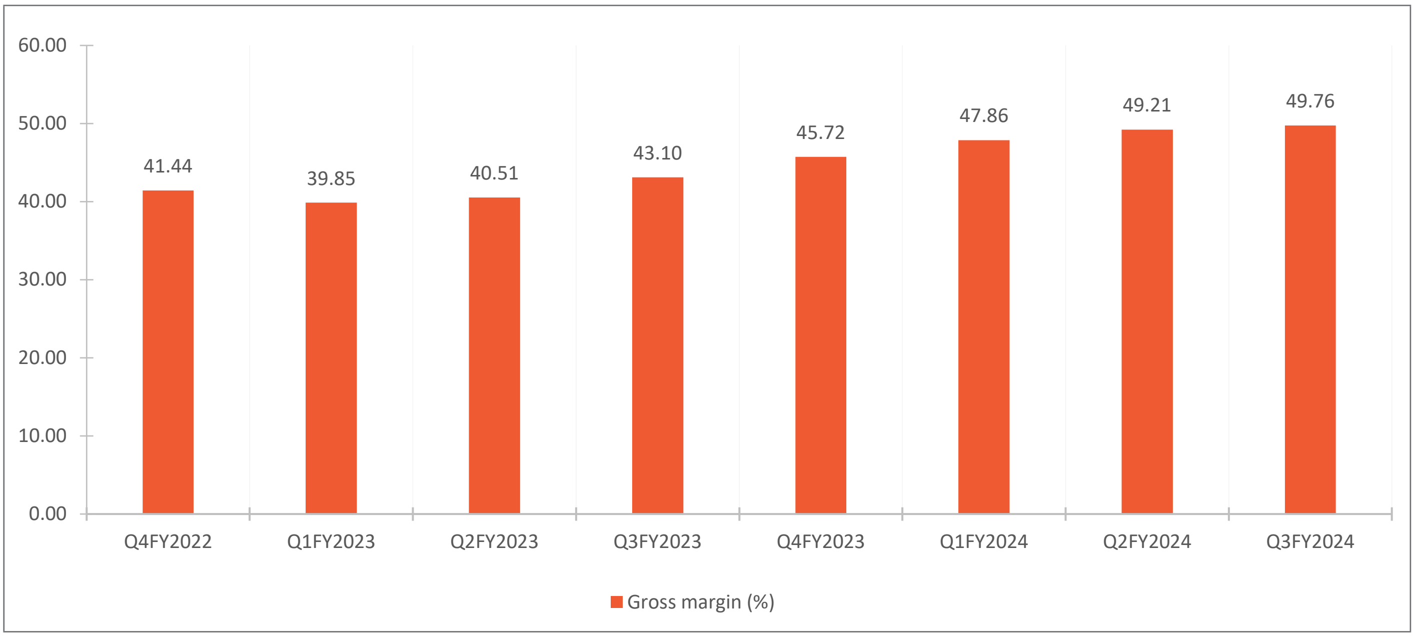


Source: Sharekhan Research

Lower input prices led to margin expansion

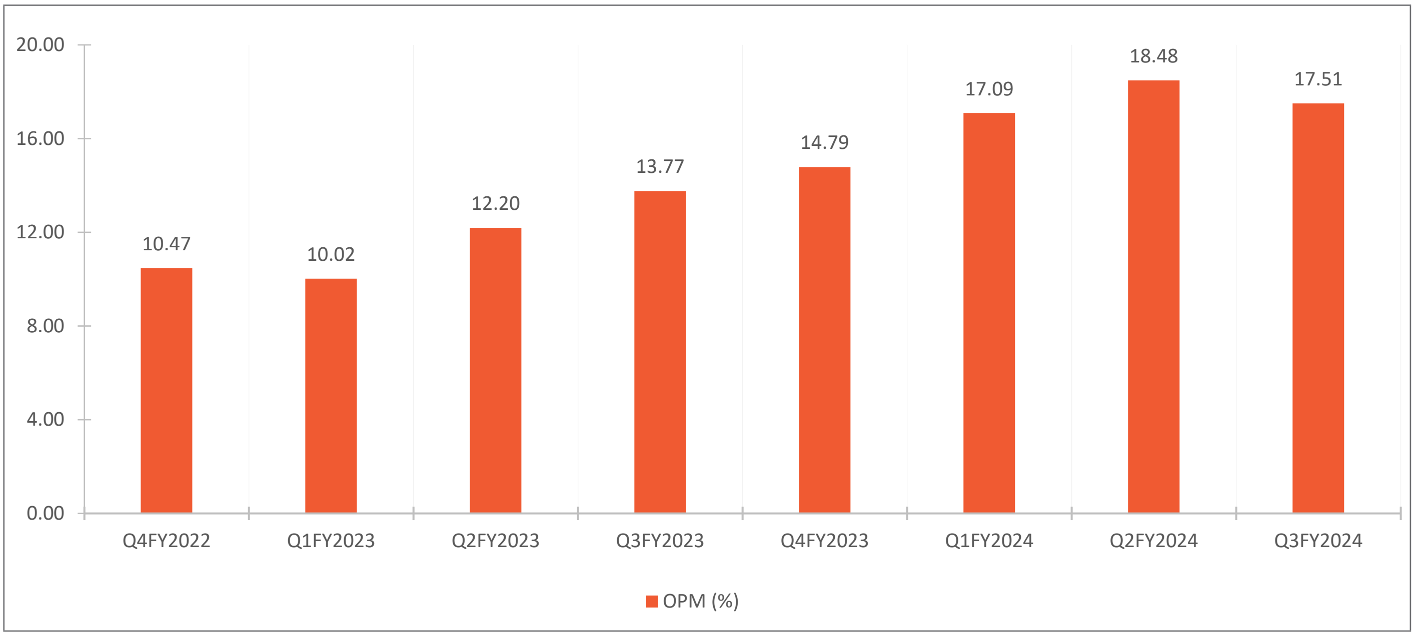
OPM improved to 17-18% with sharp decline in the key input prices. The management expects to around 16-17% benefited from a correction in prices of key inputs. Going ahead, economies of scale, higher sales by salesmen (operating leverage), stability in raw material prices and improving product efficiencies would drive consistent improvement in profitability.

Gross margin expanded with lower input prices



Source: Sharekhan Research

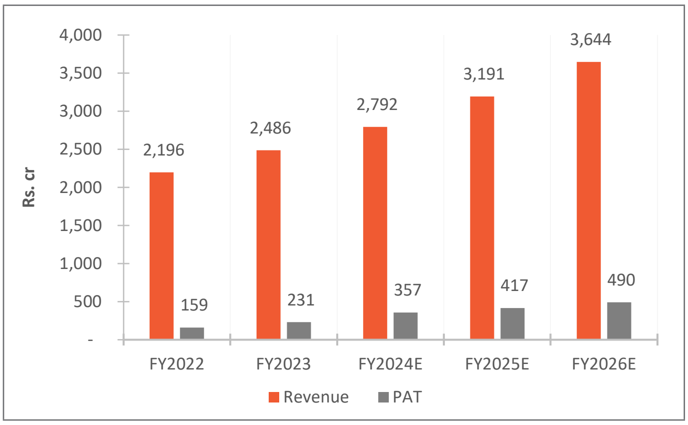
OPM improved to 17-18%



Source: Sharekhan Research

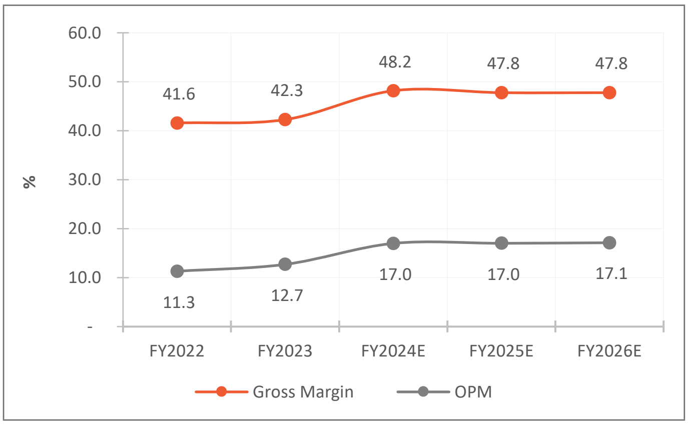
Financials in charts

Steady growth in revenue and PAT



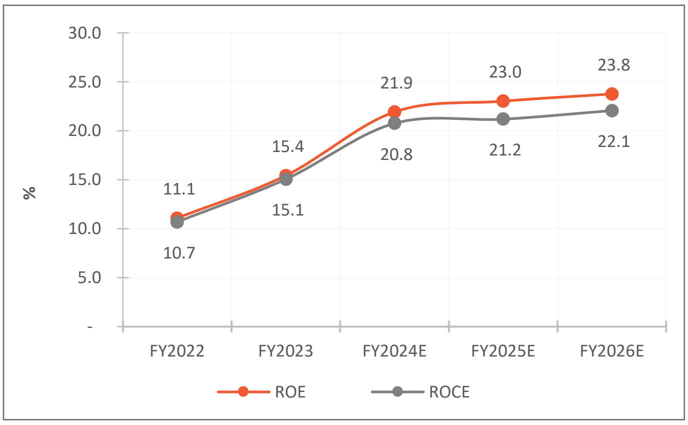
Source: Company, Sharekhan Research

Margins to recover post high input inflation



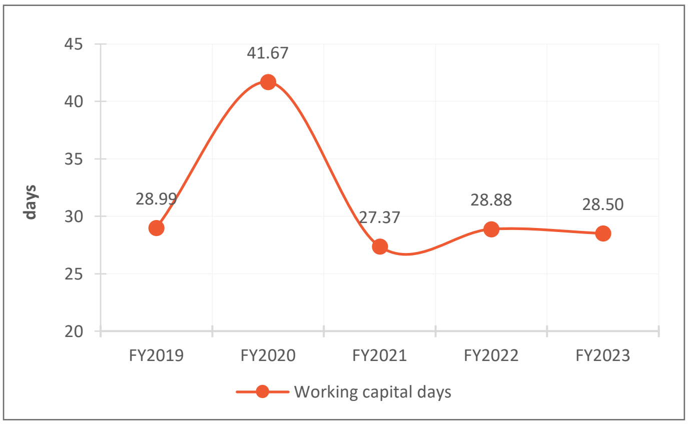
Source: Company, Sharekhan Research

Sharp improvement in return ratios



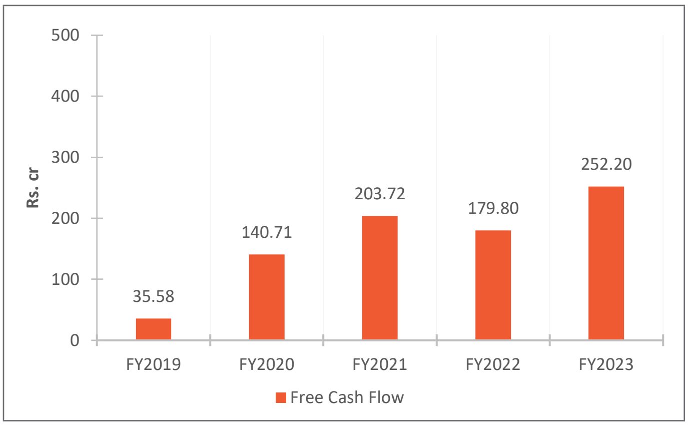
Source: Company, Sharekhan Research

Trend in working capital days



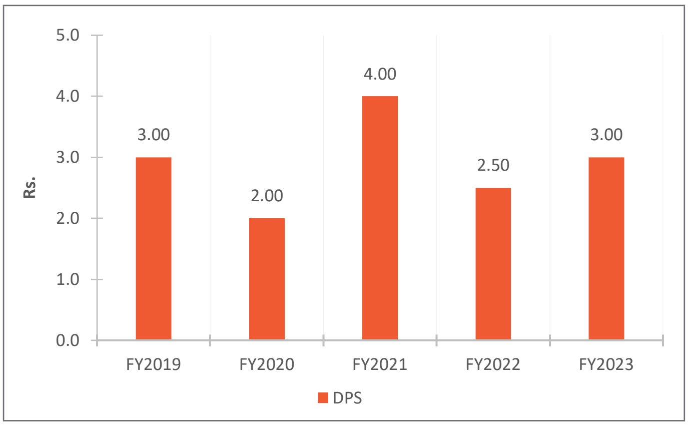
Source: Company, Sharekhan Research

Strong free cash flow generation



Source: Company, Sharekhan Research

Consistent dividend payout history



Source: Company, Sharekhan Research

Outlook and Valuation

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

Festive cheer and a moderation in inflation didn't bring a substantial boost in demand for consumer goods companies. Rural demand remains weak with the monsoon remaining lower, increasing the risk of a fall in agri-production. Delayed winters also led to lower offtake of winter care products. We expect rural demand to gradually pick-up with an 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.

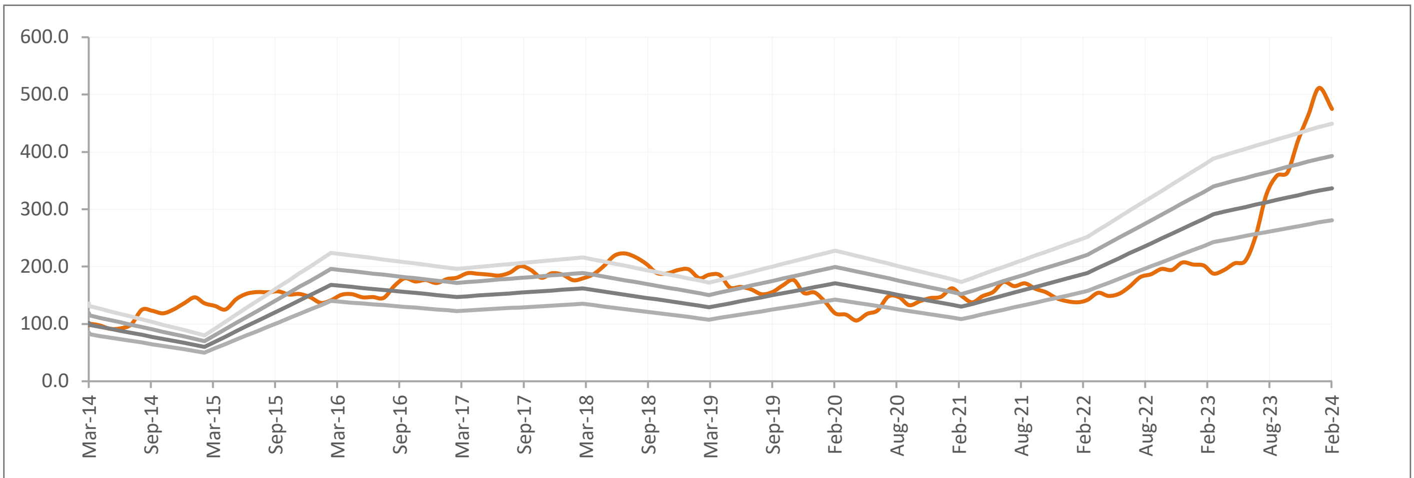
■ Company Outlook – Focus remains on achieving double-digit revenue growth

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 to drive sales efficiency in go-to-market initiatives, market share gains, distribution expansion and better penetration in 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 an unchanged PT of Rs. 590

JLL has posted strong performance for the past few quarters in a tough consumer demand. 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 revenues and PAT to post a CAGR of 14% and 29%, respectively, over FY2023-FY2026E. The stock has corrected by 15% from its recent highs and is trading at 41x and 35x its FY2025E and FY2026E earnings. Consistent strong performance ahead of the industry and a favourable risk reward makes it a good pick in FMCG basket. We maintain our Buy recommendation on the stock with an unchanged price target of Rs. 590.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Particulars	P/E (x)			EV/EBITDA (x)			RoCE (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Godrej Consumer Products	61.2	52.4	44.8	44.2	38.2	33.3	15.1	15.9	17.7
HUL	53.5	48.9	42.1	38.3	34.5	29.6	27.1	29.3	32.1
Jyothy Labs	48.2	41.3	35.1	35.8	31.0	26.6	20.8	21.2	22.1

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 Ltd	6.02
2	Franklin Resources Inc	3.49
3	Nippon Life India Asset Management Ltd	2.65
4	Canara Robeco AMC Ltd	1.57
5	Axis AMC Ltd	0.89
6	ICICI Prudential AMC Ltd	0.82
7	BlackRock Inc	0.78
8	Aberdeen Plc	0.74
9	Dimensional Fund Advisors	0.56
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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