

# Jyothy Laboratories

## Estimate changes

TP change

Rating change



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Bloomberg	JYL IN
Equity Shares (m)	367
M.Cap.(INRb)/(USD\$)	63 / 0.8
52-Week Range (INR)	187 / 119
1, 6, 12 Rel. Per (%)	12/-8/4
12M Avg Val (INR M)	123

## Financials & Valuations (INR b)

Y/E March	2021	2022E	2023E
Net Sales	19.1	20.7	22.3
Sales Gr. (%)	11.6	8.3	8.0
EBITDA	3.1	3.0	3.5
EBITDA Margins (%)	16.5	14.7	15.8
Adj PAT	2.1	1.9	2.3
Adj.EPS (INR)	5.8	5.1	6.3
EPS Gr. (%)	28.7	-11.7	22.5
BV/Sh (INR)	38.9	38.9	40.0

## Ratios

RoE (%)	16.1	13.2	16.0
RoCE (%)	14.7	13.1	16.1
Payout (%)	92.6	104.9	85.6

## Valuation

P/E (x)	29.4	33.3	27.2
P/BV (x)	4.4	4.4	4.3
EV/EBITDA	19.8	20.3	17.1
Div. Yield (%)	3.1	3.1	3.1

## Shareholding pattern (%)

As On	Jun-21	Mar-21	Jun-20
Promoter	62.9	62.9	62.9
DII	16.6	16.9	15.9
FII	11.9	12.5	14.1
Others	8.7	7.8	7.1

FII Includes depository receipts

CMP: INR172

TP: INR168 (-2%)

Neutral

## Weak results trend persists; material costs to weigh on margins

- Jyothy Laboratories (JYL)'s 1QFY22 sales came in above expectations, despite a higher COVID impact in the company's largest market, i.e., Kerala. Nevertheless, gross and EBITDA margins were significantly lower than expectations due to a higher material cost impact and higher-than-anticipated ad spends. Material cost inflation is unlikely to see any considerable respite, affecting performance in subsequent quarters as well.
- While improvement was seen in net WC days in FY21 and the company is now net debt free, topline growth is key for a company with sales of just INR19b. The likelihood of 15% sales growth (essential for any re-rating) continues to appear difficult. The sales CAGR has been 3.7% for the preceding five years.
- With margins likely to remain under pressure due to material cost increases, earnings growth prospects remain weak. Maintain **Neutral**.

## Double-digit volume growth benefit; high input cost impacts profitability

- Standalone net sales grew 21.8% YoY to ~INR5.2b in 1QFY22 (est. INR4.8b).
- Gross margins contracted ~280bp YoY to 43.1% in 1QFY22.** High RM cost YoY as a percentage of sales (+280bp YoY), high ad spends at 8.2% (+360bp), marginally lower staff costs at 11.7% (-30bp), and lower other expenses at 10.8% (-30bp) led to **EBITDA margin contraction of 580bp YoY to 12.5%.**
- EBITDA declined ~17% YoY** to INR650m (est. INR 787m). PBT declined ~19% YoY to INR476m (est. INR626m). Adj. PAT declined 20.5% YoY to INR401m (est. INR514m).
- The two-year average quarterly sales / EBITDA / adj. PAT growth stood at 13%/1.2%/10%.
- Consolidated segmental performance:** Fabric Care / Dishwashing / Household Insecticides / Personal Care grew ~27%/22%/13%/13.5% YoY to INR1.8b/INR1.9b/INR718m/INR680m in 1QFY22.
- Margins for Fabric Care / Dishwashing / Household Insecticides / Personal Care contracted by 460bp/-940bp/+215bp/-730bp YoY and stood at-17.6%/11.3%/(0.9)%/18.2%.

## Highlights from management commentary

- The second COVID wave impacted JYL's service and distribution activities. However, no major disruption was seen due to adequate stock maintained in the pipeline.
- Strong overall double-digit growth resulted in market share gains across categories.
- The General Trade (GT) and e-commerce channels led growth, with e-commerce now contributing ~4% to total sales. Modern Trade (MT) and Canteen Stores Department (CSD) remained weak further weighing down detergent sales recovery

- Weighted inflation in the key RM basket was ~10%. MRP increase, reduction in trade schemes, and enhancing manufacturing efficiencies helped to offset 70% of RM inflation cost
- The management has guided to achieve EBITDA margins of 17–18% once the current volatile scenario returns to normal.

#### Valuation and view

- We lower our FY22E/FY23E EPS by 8.9%/1.3% due to a tepid sales growth outlook and rising material costs.
- For a company that has a far lower sales base of INR19.1b in FY21 (v/s peers), its performance over the past five years has been consistently lackluster (at 3.7%/7.2% sales/operating profit CAGR).
- RoCE at 15% in FY21 remains far inferior v/s peers. No marked uptick is visible over the medium- to long-term horizon. We maintain our 16x EV/EBITDA target multiple (~50% discount to peers) even as we roll forward to September 2023 targets, resulting in TP of INR168 per share. Maintain **Neutral**.

#### Standalone Quarterly Performance

Y/E March	FY21				FY22					FY22	Var.	
	1Q	2Q	3Q	4Q	1QE	2QE	3QE	4QE	FY21	FY22E	1QE	(%)
Net Sales	4,287	4,996	4,694	4,873	5,219	5,546	4,929	4,708	18,850	20,402	4,844	7.7
YoY change (%)	4.1	7.6	15.3	27.5	21.8	11.0	5.0	-3.4	13.2	8.2	13.0	
Gross Profit	1,968	2,373	2,269	2,197	2,250	2,495	2,259	2,180	8,807	9,184	2,175	
Margins (%)	45.9	47.5	48.3	45.1	43.1	45.0	45.8	46.3	46.7	45.0	44.9	
EBITDA	782	889	798	698	650	820	739	773	3,167	2,982	787	-17.4
EBITDA growth %	19.4	12.4	22.6	73.9	-16.9	-7.7	-7.4	10.7	26.8	-5.9	0.6	
Margins (%)	18.3	17.8	17.0	14.3	12.5	14.8	15.0	16.4	16.8	14.6	16.3	
Depreciation	187	193	198	200	206	193	208	210	779	818	150	
Interest	51	29	20	18	17	29	24	22	117	91	53	
Other Income	42	39	63	53	48	39	57	48	198	192	42	
PBT	587	706	643	533	476	637	565	588	2,469	2,266	626	-24.1
Tax	83	100	121	28	75	115	102	117	332	408	113	
Rate (%)	14.1	14.1	18.8	5.3	15.7	18.0	18.0	19.9	13.4	18.0	18.0	
Adjusted PAT	504	607	522	505	401	523	463	471	2,138	1,858	514	-22.0
YoY change (%)	40.4	14.0	22.8	93.9	-20.5	-13.8	-11.3	-6.7	35.5	-13.1	1.9	

E: MOFSL Estimates

#### Key Performance Indicators

Y/E March	FY21				FY22			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
<b>2Y average growth %</b>								
Sales	3.2	8.1	4.5	1.6	12.9	9.3	10.1	12.0
EBITDA	15.9	10.2	6.6	11.2	1.2	2.3	7.6	42.3
PAT	25.7	15.7	5.3	16.3	10.0	0.1	5.7	43.6
<b>% sales</b>								
COGS	54.1	52.5	51.7	54.9	56.9	55.0	54.2	53.7
Other expenditure	27.7	29.7	31.3	30.8	30.6	30.2	30.8	29.9
Depreciation	4.4	3.9	4.2	4.1	3.9	3.5	4.2	4.5
<b>YoY change %</b>								
COGS	7.8	4.0	13.8	26.6	28.1	16.3	10.1	-5.5
Other expenditure	-9.4	11.7	14.0	14.6	34.9	12.9	3.3	-6.1
Other income	-12.2	-27.7	18.6	19.6	14.2	0.0	-10.0	-10.0
EBIT	26.4	15.4	31.1	136.7	-25.4	-9.9	-11.4	12.9

E: MOFSL Estimates



## Highlights from management commentary

### Operating environment

- The second COVID wave impacted JYL's service and distribution activities. However, no major disruption was seen due to adequate stock maintained in the pipeline.
- In 1QFY22, the company achieved volume growth of 16.6% and value growth of 5% (via an MRP increase and a reduction in trade schemes).
- Strong overall double-digit growth resulted in market share gains across categories.
- GT and e-commerce led growth during the quarter, with e-commerce now contributing ~4% to total sales. MT and CSD remained weak, impacting Detergent sales.
- The Fabric Care category (Ujala / Detergent / Crisp & Shine) picked up sequentially, but is yet to reach pre-COVID levels.

### Financial highlights

- GM was impacted due to a sharp rise in key input prices (palm oil, HDP, and paper costs). Weighted inflation for the RM basket was ~10%.
- It passed on 50% of the inflation (i.e., 5% of inflation) through an MRP increase and a reduction in trade schemes. Furthermore, 2% gains were achieved by enhancing manufacturing efficiencies; the balance 3% impacted gross margins.
- Ad spends were higher YoY and would remain at 7–8% of sales annually.
- It expects to achieve EBITDA margins of 17–18% post normalcy.
- The effective tax rate would be around 18% within the next two years.
- Maintenance capex would be INR250–300m per annum in FY22 and FY23.

### Other points

- Further price hikes would depend on consumers and market dynamics.
- It is working on further enhancing manufacturing efficiencies to bring down costs.
- JYL would focus on achieving growth over margins in the short term, and it would continue to focus on its existing high margin businesses over NPD

## Key exhibits

## Exhibit 1: Consolidated quarterly performance

Category sales (INR m)	1QFY21	4QFY21	1QFY22
Fabric Care	1,422	1,803	1,812
Dishwashing	1,566	1,692	1,910
Household Insecticides	636	872	718
Personal Care	600	418	680
Other products	105	166	134
<b>Total</b>	<b>4,329</b>	<b>4,951</b>	<b>5,254</b>

## Category salience (%)

Fabric Care	32.9	36.4	34.5
Dishwashing	36.2	34.2	36.3
Household Insecticides	14.7	17.6	13.7
Personal Care	13.9	8.4	13.0
Other products	2.4	3.4	2.6
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>

## Category growth (%)

Fabric Care	(23.8)	15.8	27.4
Dishwashing	16.6	33.2	22.0
Household Insecticides	151.1	35.8	12.7
Personal Care	0.4	38.4	13.5
Other products	(37.0)	5.3	27.7
<b>Total</b>	<b>2.5</b>	<b>26.0</b>	<b>21.4</b>

## Category result (INR m)

Fabric Care	315	330	319
Dishwashing	325	288	216
Household Insecticides	-20	2	-7
Personal Care	153	71	124
Other products	-39	-37	-65
<b>Total</b>	<b>734</b>	<b>654</b>	<b>587</b>

## Result salience (%)

Fabric Care	42.9	50.4	54.3
Dishwashing	44.2	44.0	36.8
Household Insecticides	(2.7)	0.3	(1.2)
Personal Care	20.8	10.9	21.1
Other products	(5.3)	(5.6)	(11.0)
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

## EBIT margin (%)

Fabric Care	22.2	18.3	17.6
Dishwashing	20.7	17.0	11.3
Household Insecticides	(3.1)	0.2	(0.9)
Personal Care	25.5	17.0	18.2
Other products	(37.1)	(22.1)	(48.2)
<b>Total</b>	<b>17.0</b>	<b>13.2</b>	<b>11.2</b>

Source: Company, MOFSL

## Valuation and view

### What has happened over the past 10 years?

- Given its size, which is much smaller v/s peers (INR6b/INR17.1b in FY10/FY20), JYL's financial performance has been disappointing over the past 10 years.
- While it has reported a ~11% sales CAGR over this period, the EBITDA/PAT CAGR has been tepid (~11%/~8%).
- The sales/EBITDA/PAT CAGR at 2.5%/9%/5.5% for the last five years has not been much better.
- Growth has been restricted by a) the higher penetration and regional dependence of its largest brand Ujala and b) limited success in terms of achieving profitable growth in other categories/geographies outside of South India.
- The expiry of the Henkel option – which could have added more brands to its portfolio – has also been a setback.
- Given the above factors, it is not surprising that the stock has been an underperformer in recent years.

### Our view on the stock

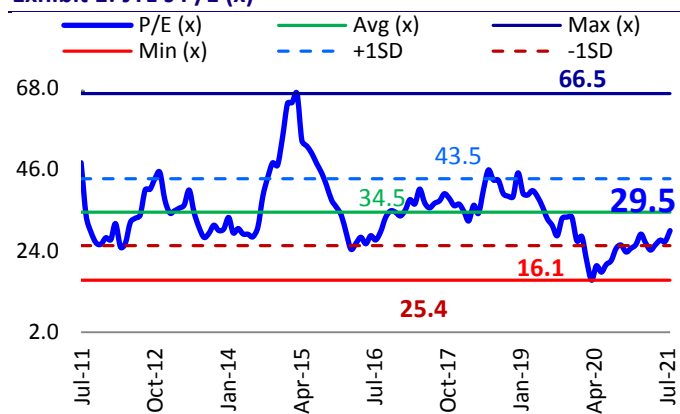
- We lower our FY22E/FY23E EPS by 8.9%/1.3% due to a tepid sales growth outlook and rising material costs.
- For a company that has a far lower sales base of INR19.1b in FY21 (v/s peers), its performance over the past five years has been consistently lackluster (at 3.7%/7.2% sales/operating profit CAGR).
- RoCE at 15% in FY21 remains far inferior v/s peers. No marked uptick is visible over the medium- to long-term horizon. We maintain our 16x EV/EBITDA target multiple (~50% discount to peers) even as we roll forward to September 2023 targets, resulting in TP of INR168 per share. Maintain **Neutral**.

**Exhibit 2: Change our FY22E/FY23E EPS estimate by -8.9%/-1.3%**

	New		Old		Change (%)	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Sales	20,670	22,324	20,237	21,856	2.1%	2.1%
EBITDA	3,048	3,535	3,148	3,489	-3.2%	1.3%
PAT	1,891	2,317	2,075	2,348	-8.9%	-1.3%

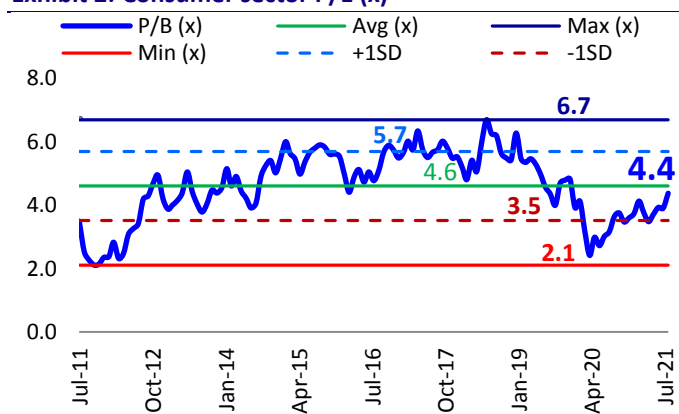
Source: Company, MOFSL

**Exhibit 1: JYL's P/E (x)**



Source: Company, MOFSL

**Exhibit 2: Consumer sector P/E (x)**



Source: Company, MOFSL

## Financials and valuations

### Consolidated - Income Statement

(INR m)

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
<b>Total Income from Operations</b>	<b>16,830</b>	<b>16,724</b>	<b>18,136</b>	<b>17,112</b>	<b>19,091</b>	<b>20,670</b>	<b>22,324</b>
Change (%)	5.7	-0.6	8.4	-5.6	11.6	8.3	8.0
Cost of Materials Consumed	8,941	8,753	9,707	9,009	10,104	11,338	11,980
% of Sales	53.2	52.3	53.5	52.6	52.9	54.9	53.7
<b>Gross Profit</b>	<b>7,889</b>	<b>7,971</b>	<b>8,429</b>	<b>8,103</b>	<b>8,987</b>	<b>9,332</b>	<b>10,344</b>
Margin (%)	46.9	47.7	46.5	47.4	47.1	45.1	46.3
Personnel Expenses	1,752	1,908	2,076	2,193	2,325	2,480	2,567
% of Sales	10.4	11.4	11.4	12.8	12.2	12.0	11.5
Other Expenses	3,591	3,488	3,542	3,398	3,517	3,803	4,242
% of Sales	21.4	20.9	19.5	19.9	18.4	18.4	19.0
<b>EBITDA</b>	<b>2,545</b>	<b>2,575</b>	<b>2,811</b>	<b>2,511</b>	<b>3,145</b>	<b>3,048</b>	<b>3,535</b>
Margin (%)	15.1	15.4	15.5	14.7	16.5	14.7	15.8
Depreciation	301	311	306	529	556	821	833
<b>EBIT</b>	<b>2,245</b>	<b>2,263</b>	<b>2,505</b>	<b>1,982</b>	<b>2,589</b>	<b>2,227</b>	<b>2,702</b>
Int. and Finance Charges	565	481	352	329	192	115	81
Other Income	107	625	278	200	185	194	204
<b>PBT after EO Exp.</b>	<b>1,787</b>	<b>2,407</b>	<b>2,430</b>	<b>1,815</b>	<b>2,346</b>	<b>2,306</b>	<b>2,825</b>
Current Tax	-255	619	454	189	440	415	509
Tax Rate (%)	-14.3	25.7	18.7	10.4	18.7	18.0	18.0
Less: Minority Interest	40	73	75	77	88	88	88
<b>Adjusted PAT</b>	<b>2,042</b>	<b>1,789</b>	<b>1,976</b>	<b>1,664</b>	<b>2,142</b>	<b>1,891</b>	<b>2,317</b>
Change (%)	176.6	-12.4	10.5	-15.8	28.7	-11.7	22.5

### Consolidated - Balance Sheet

(INR m)

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
Equity Share Capital	182	182	367	367	367	367	367
Total Reserves	10,708	11,260	12,898	11,919	13,918	13,914	14,336
<b>Net Worth</b>	<b>10,890</b>	<b>11,442</b>	<b>13,265</b>	<b>12,286</b>	<b>14,286</b>	<b>14,281</b>	<b>14,703</b>
Minority Interest	-67	-139	-215	-291	-379	-379	-379
Deferred Liabilities	-1,115	-902	-928	-1,027	-962	-962	-962
Total Loans	4,983	5,441	2,809	2,830	1,169	669	0
<b>Capital Employed</b>	<b>14,691</b>	<b>15,841</b>	<b>14,932</b>	<b>13,798</b>	<b>14,114</b>	<b>13,610</b>	<b>13,362</b>
Gross Block	11,541	11,762	12,046	13,050	13,582	13,782	13,982
Less: Accum. Deprn.	571	855	1,040	1,558	2,114	2,935	3,768
<b>Net Fixed Assets</b>	<b>10,970</b>	<b>10,907</b>	<b>11,006</b>	<b>11,492</b>	<b>11,467</b>	<b>10,846</b>	<b>10,214</b>
Capital WIP	88	153	143	245	101	123	123
<b>Total Investments</b>	<b>285</b>	<b>1,132</b>	<b>1,044</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Curr. Assets, Loans&amp;Adv.</b>	<b>6,073</b>	<b>6,695</b>	<b>6,301</b>	<b>5,598</b>	<b>7,029</b>	<b>7,610</b>	<b>8,764</b>
Inventory	1,925	1,836	1,974	2,251	2,786	2,894	3,125
Account Receivables	1,228	1,674	1,534	1,224	944	1,034	1,116
Cash and Bank Balance	1,034	1,367	964	289	1,938	1,738	2,422
Loans and Advances & Others	1,886	1,818	1,830	1,834	1,361	1,945	2,101
<b>Curr. Liability &amp; Prov.</b>	<b>2,725</b>	<b>3,045</b>	<b>3,563</b>	<b>3,537</b>	<b>4,484</b>	<b>4,970</b>	<b>5,738</b>
Account Payables	1,490	1,720	2,134	1,450	1,920	1,964	2,232
Other Current Liabilities	654	663	715	1,299	1,744	2,180	2,725
Provisions	581	663	715	788	820	827	781
<b>Net Current Assets</b>	<b>3,348</b>	<b>3,650</b>	<b>2,738</b>	<b>2,061</b>	<b>2,546</b>	<b>2,640</b>	<b>3,026</b>
<b>Appl. of Funds</b>	<b>14,691</b>	<b>15,841</b>	<b>14,932</b>	<b>13,798</b>	<b>14,114</b>	<b>13,610</b>	<b>13,362</b>

E: MOFSL Estimates

## Financials and valuations

### Ratios

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
<b>Basic (INR)</b>							
<b>EPS</b>	<b>5.6</b>	<b>4.9</b>	<b>5.4</b>	<b>4.5</b>	<b>5.8</b>	<b>5.1</b>	<b>6.3</b>
Cash EPS	6.4	5.7	6.2	6.0	7.3	7.4	8.6
BV/Share	29.7	31.2	36.1	33.5	38.9	38.9	40.0
DPS	3.0	0.5	3.0	3.2	5.4	5.4	5.4
Payout (%)	64	12	67	84	93	105	86
<b>Valuation (x)</b>							
P/E	30.9	35.2	31.9	37.9	29.4	33.3	27.2
Cash P/E	26.9	30.0	27.6	28.7	23.4	23.2	20.0
P/BV	5.8	5.5	4.8	5.1	4.4	4.4	4.3
EV/Sales	2.1	2.0	3.5	3.8	3.3	3.0	2.7
EV/EBITDA	13.7	13.3	22.7	26.1	19.8	20.3	17.1
Dividend Yield (%)	1.7	0.3	1.7	1.8	3.1	3.1	3.1
FCF per share	5.9	13.6	7.2	3.5	10.3	5.8	8.5
<b>Return Ratios (%)</b>							
RoE	20.5	16.0	16.0	13.0	16.1	13.2	16.0
RoCE	18.3	13.1	13.7	12.5	14.7	13.1	16.1
RoIC	20.0	12.7	15.7	13.6	16.6	15.3	19.6
<b>Working Capital Ratios</b>							
Asset Turnover (x)	1.1	1.1	1.2	1.2	1.4	1.5	1.7
Debt/Equity	0.5	0.5	0.2	0.2	0.1	0.0	0.0

### Consolidated - Cash Flow Statement

(INR m)

Y/E March	FY17	FY18	FY19E	FY20	FY21	FY22E	FY23E
OP/(Loss) before Tax	1,787	2,407	2,430	1,815	2,346	2,306	2,825
Depreciation	301	311	306	529	556	821	833
Interest & Finance Charges	493	413	314	304	161	115	81
Other income	18	-409	-25	-21	232	-194	-204
Direct Taxes Paid	-309	-251	-418	-386	-327	-415	-509
(Inc)/Dec in WC	-656	-38	409	-527	1,055	-295	298
<b>CF from Operating incl EO</b>	<b>1,633</b>	<b>2,434</b>	<b>3,016</b>	<b>1,715</b>	<b>4,022</b>	<b>2,338</b>	<b>3,325</b>
(inc)/dec in FA	-567	43	-383	-415	-257	-222	-200
(Pur)/Sale of Investments	598	-807	112	1,061	-1,048	0	0
Others	56	115	37	4	1,093	282	292
<b>CF from Investments</b>	<b>87</b>	<b>-649</b>	<b>-234</b>	<b>650</b>	<b>-212</b>	<b>60</b>	<b>92</b>
Issue of Shares	4,001	600	4	0	0	0	0
(Inc)/Dec in Debt	492	2,276	-610	41	-1,669	-500	-669
Interest Paid	-1,555	-600	-342	-212	-281	-115	-81
Dividend Paid	-181	-1,090	-182	-2,656	0	-1,983	-1,983
Others	-4,054	-2,639	-2,055	-211	-212	0	0
<b>CF from Fin. Activity</b>	<b>-1,298</b>	<b>-1,453</b>	<b>-3,185</b>	<b>-3,039</b>	<b>-2,161</b>	<b>-2,598</b>	<b>-2,733</b>
<b>Inc/Dec of Cash</b>	<b>422</b>	<b>332</b>	<b>-403</b>	<b>-674</b>	<b>1,649</b>	<b>-201</b>	<b>684</b>
Opening Balance	612	1,034	1,367	964	289	1,938	1,738
<b>Closing Balance</b>	<b>1,034</b>	<b>1,367</b>	<b>964</b>	<b>289</b>	<b>1,938</b>	<b>1,738</b>	<b>2,422</b>

E: MOFSL Estimates

NOTES



Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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