

12st August 2020

CMP – ₹139/-

View – **POSITIVE****Company Background and Business Model**

Jyothy Labs Ltd. is a fast moving consumer goods (FMCG) company founded by Mr. M P Ramachandran in 1983. Over years, Jyothy has evolved from a single product company into a multi-product company. It is the largest player in the fabric whitener space. The company's business divisions are Fabric Care (41%), Dishwashing (33%), Personal care (11%), Household Insecticide (11%) and Laundry services (2%). JLL's manufacturing units are strategically present across India to maintain a lower logistics cost. It has 26 manufacturing facilities across 22 location and has a distribution network comprising of 6,100 stockists.

Important Statistics

M.Cap (₹crs)	₹5,104
52 Week H/L (₹)	₹185/₹86
NSE Code	JYOTHYLAB
BSE Code	532926

Product Portfolio

Category	Brand	Sales in FY20	New Product Launched	Market Share (FY20)	Outlook
Fabric Care	Ujala	₹708	Ujala Fast Wash in a new packaging design launched	82%	It continue to focus on extending its dominant position by premiumisation, developing new markets and strengthening existing ones
	Henko, Mr. White and More Light			11% 5 year CAGR growth	
Dishwashing	Exo Bar	₹567	Exo Super Gel	11.20%	Push for affordable smaller packs will help reach more consumers and sales
	Pril			16%	
Personal Care	Margo	₹180	Margo Neem Face Wash, Margo Hand Wash, Margo Sanitize	7.5% 5 year CAGR growth	Prioritizing supply of Margo Hand Sanitizer to states with higher COVID-19 case
	Neem, Fa				
Household Insecticides	Maxo A Grade	₹181		21%	Increasing footprint with innovation
	Maxo Genius			8%	

(₹crs)

Performance in Q1FY21 – Sales grew by 3% YoY on the back of 6.1% volume growth. The household insecticide category grew 151%, dishwashing by 17% while fabric care declined by 24%. The dishwashing segment (36 percent of total revenues) grew mainly due to increased consumption of food at home. The household insecticide grew sharply because of a lower base last year. Jyothy also saw healthy growth in the sales of coils, liquid vaporisers. Rural demand is strong on the back of reverse migration, higher spend from the government and good monsoons. JLL generates around 40 percent of sales from rural areas which will drive growth.

Investment Rationale

- **Backed by a diverse portfolio to address all opportunities and challenges ahead** – JLL has a wide basket of products marketed under six power brands that cater to diverse household requirement – Ujala and Henko in the fabric care, Exo and Pril in the dish-wash segment, Maxo in the household insecticides, and Margo in the personal care. Its flagship brand Ujala enjoys a leading market position in the fabric whitener space and its Exo and Pril brands together enjoy the second position in the dishwashing bar and liquid category. This makes them relatively non-discretionary in nature and hence create steady order flow. The increasing demand for these products and the company's aggressive marketing initiatives would be key drivers for the brand's performance.
- **Improvement in margin though sales growth has been subdued** – The revenue growth for the company has been sluggish around 2% CAGR during fiscal 2016-2020 which is in-line with average sales CAGR of peers. However, the margins during the same period has steadily improved from 13.9% to 15.5% in FY19. Further sharp correction in crude prices also augurs well for JLL's gross margin as ~40% of the raw material basket is crude or crude derivative.

Financials

(₹ crs)

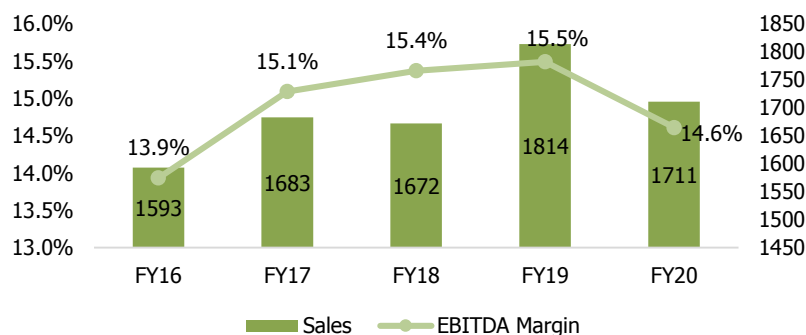
Particulars	FY19	FY20
Revenues	1,814	1,711
EBITDA	281	251
EBITDA Margin (%)	15.5	14.7
Net Profit	198	163
EPS (₹)	5.4	4.4
RoE (%)	15.5	13.9
RoCE (%)	20.5	16.9
P/E (x)	25.7	31.6
EV/EBITDA (x)	22.0	13.3
P/BV (x)	5.1	2.8

Source: Company Data, Way2Wealth Inst Equity

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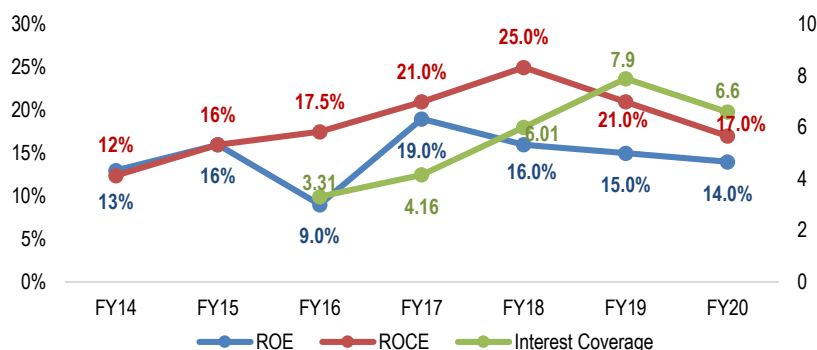
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Source: Company Data, Way2Wealth Inst Equity

- **Reduction in Debt to drive profitability growth and return ratio improvement** – Borrowings has reduced from ₹451crs in FY16 to ₹337crs in FY20. JLL's interest cost has reduced by 12% CAGR over five year (FY16-20). Interest cost as a % of sale reduced from 4% in FY16 to 2% in FY20. JLL's Debt-Equity ratio have also improved to 0.18x. The return ratio for the company have increase steadily during the last five years. Dip in ROE in FY16 was due to one-off tax related expenses. However, going ahead, incremental earnings would improve ratio.



Source: Company Data, Way2Wealth Inst Equity

- **Growth expected to accelerate** – In FY20, JLL had several product launches - two of them were in response to the need for hygiene products with the outbreak of COVID-19. The company has already launched many new products over last few years but distribution has been restricted to Kerala and 2-3 other states. The recent innovations of T-Shine Toilet Cleaner, Maxo Agarbatti, Margo Facewash with neem paste, Margo natural antibacterial Handwash and Margo Sanitizer with neem extract poised well in current environment. Going ahead on the back of the resurgent economy and enhanced rural consumption we expect revenue to grow with decent rate.

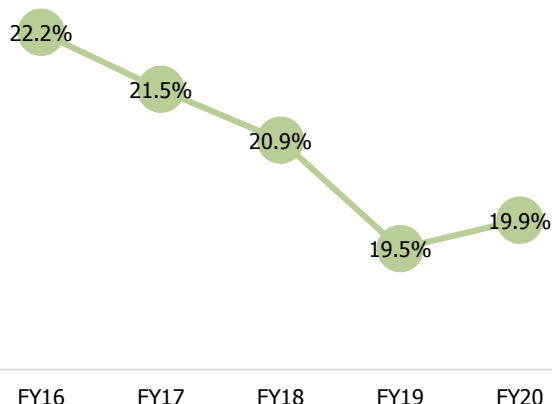
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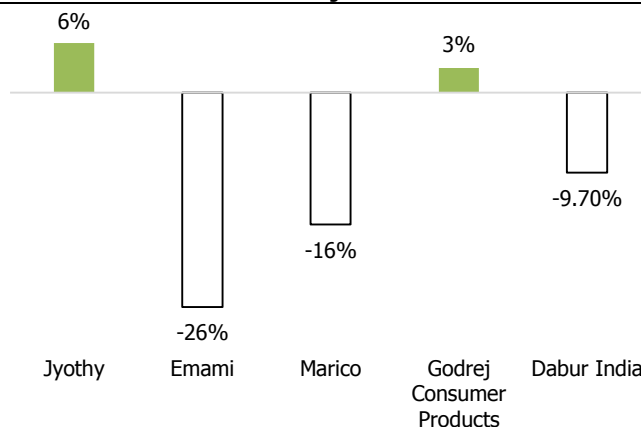
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Story in Charts

Cost saving (as % of sales) in other overheads would be invested in advertising and promotion spend



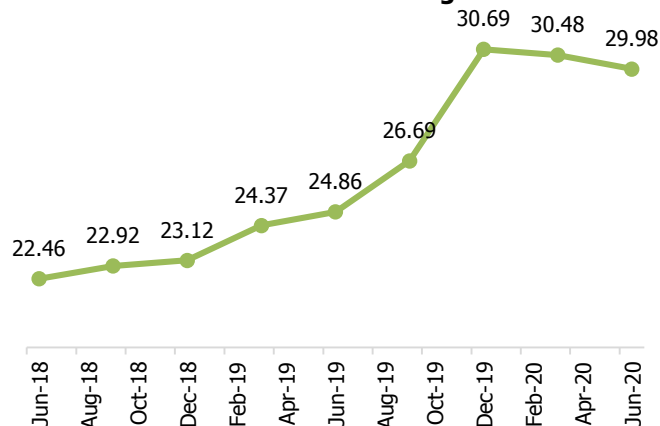
Robust volume growth in Q1FY21 as compared to FMCG majors



Source: Company Data, Way2Wealth Inst Equity

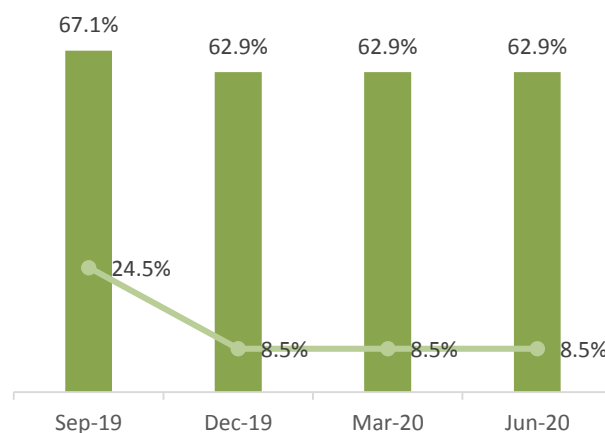
Increase in institutional shareholding boosts confidence about growth prospects of the company:

Institutional Holding



Source: Company Data, Way2Wealth Inst Equity

Promoters pledging reduced to 9% in Jun20 from 25% in Sep19.



View

Solid branding, distribution and wide portfolio would help Jyothy labs to overcome these COVID situation and JLL is in a sweet spot with majority of the portfolio tilted towards essentials and hygiene products. Sharp correction in crude prices also augurs well for JLL's gross margin as ~40% of the raw material basket is crude or crude derivative. Input cost savings coupled with interest and tax savings would further drive PAT growth. **At CMP ₹139, Jyothy Labs Ltd is trading at PE of 31.6 times to its FY20 EPS of 4.4 which is at an about 20% discount to average PE of FMCG majors. The stock's relative under-performance and rock bottom valuation in an overheated market presents good tactical opportunities to investors. Hence we have a positive view on the stock.**

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Consolidated Financials

(₹ Crs)

	Q1FY21	Q1FY20	VAR	Q4FY20	VAR	FY20
Net Sales	432.9	422.5	2.5%	393.0	10.2%	1711.17
Other Income	4.0	4.9	-17.6%	4.6	-12.4%	20
TOTAL INCOME	436.9	427.4	2.2%	397.6	9.9%	1731.17
Total Raw Material Cost	232.9	217.3	7.2%	213.4	9.1%	900.92
<i>Total Raw Material Cost % to Sales</i>	<i>53.8%</i>	<i>51.4%</i>	<i>4.6%</i>	<i>54.3%</i>	<i>-0.9%</i>	<i>52.6%</i>
Employee Cost	54.9	54.9	-0.1%	50.6	8.5%	219.33
<i>Employee Cost % to Sales</i>	<i>12.7%</i>	<i>13.0%</i>	<i>-2.5%</i>	<i>12.9%</i>	<i>-1.5%</i>	<i>12.8%</i>
Advertisement & Sales Promotion Expenses	19.9	33.7	-40.9%	35.6	-44.0%	122.71
<i>Advertisement & Sales Promotion Expenses % of Sales</i>	<i>4.6%</i>	<i>8.0%</i>	<i>-42.3%</i>	<i>9.1%</i>	<i>-49.2%</i>	<i>7.2%</i>
Other Expenses	48.8	51.0	-4.3%	52.9	-7.7%	217.13
<i>Other Expenses % of Sales</i>	<i>11.3%</i>	<i>12.1%</i>	<i>-6.6%</i>	<i>13.5%</i>	<i>-16.2%</i>	<i>12.7%</i>
TOTAL EXPENDITURE	356.4	356.9	-0.1%	352.4	1.1%	1460.09
EBIDTA	76.5	65.6	16.6%	40.6	88.5%	251.08
<i>EBIDTA Margin %</i>	<i>17.7%</i>	<i>15.5%</i>	<i>13.8%</i>	<i>10.3%</i>	<i>71.1%</i>	<i>14.7%</i>
Finance Costs	6.5	8.0	-19.4%	7.8	-17.1%	32.88
PBDT	74.0	62.5	18.5%	37.4	98.1%	238.2
Depreciation, Ammortization & Impairment	13.1	12.5	4.6%	14.2	-7.6%	52.92
PBT before Exceptional Items	61.0	50.0	22.0%	23.2	162.5%	185.28
Exceptional Items		3.8	-100.0%	0.0	-	3.78
PBT after Exceptional Items	61.0	46.2	31.9%	23.2	162.5%	181.5
Tax	11.0	8.8	24.5%	-3.4	-426.2%	18.92
<i>Tax Rate %</i>	<i>18.0%</i>	<i>19.0%</i>	<i>-5.6%</i>	<i>-14.5%</i>	<i>-224.3%</i>	<i>10.4%</i>
Reported Profit After Tax	50.0	37.4	33.7%	26.6	88.1%	162.58
<i>PAT Margin %</i>	<i>11.6%</i>	<i>8.9%</i>		<i>6.8%</i>		<i>9.5%</i>
Other Comprehensive Income (net of tax)	-0.2	-0.1	81.8%	-3.2		-2.71
Total Comprehensive Income	49.8	37.3	33.5%	23.4	112.7%	159.87
Basic:						
EPS	1.36	1.02	33.7%	0.72		4.43
Equity	36.7	36.7		36.7		36.7
Face Value	1.0	1.0		1.0		1

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Consolidated Segmental

(₹ Crs)

	Q1FY21	Q1FY20	VAR	Q4FY20	VAR	FY20
REVENUES						
Revenue from Operations	432.9	422.5	2.5%	393.0	10.2%	1711.17
Dishwashing	156.6	134.3	16.6%	127.1	23.2%	566.7
% Mix	36.2%	31.8%		32.3%		33.1%
Fabric Care	142.2	186.6	-23.8%	155.7	-8.7%	708
% Mix	32.9%	44.2%		39.6%		41.4%
Household Insecticides	63.6	25.3	151.1%	64.2	-0.9%	181.36
% Mix	14.7%	6.0%		16.3%		10.6%
Personal Care	60.0	59.7	0.4%	30.2	98.5%	180.42
% Mix	13.9%	14.1%		7.7%		10.5%
Laundry Service	3.2	9.9	-68.1%	9.6	-67.3%	41.26
% Mix	0.7%	2.3%		2.5%		2.4%
Others	7.4	6.8	8.6%	6.2	19.5%	33.43
% Mix	1.7%	1.6%		1.6%		2.0%
Total Segment Revenue	432.9	422.5	2.5%	393.0		1711.17
Profit/Loss Before Interest and Tax						
	73.4	63.4	15.7%	36.7		241.33
Margin %	17.0%	15.0%		9.3%		14.1%
Dishwashing	32.5	16.1	101.9%	15.9	104.5%	79.74
Margin %	20.7%	12.0%		12.5%		14.1%
Fabric Care	31.5	36.8	-14.2%	28.0	12.7%	142.53
Margin %	22.2%	19.7%		18.0%		20.1%
Household Insecticides	(2.0)	(5.2)	-62.0%	(6.9)	-71.3%	-16.44
Margin %	-3.1%	-20.4%		-10.7%		-9.1%
Personal Care	15.3	18.4	-16.8%	4.7	226.2%	47.83
Margin %	25.5%	30.8%		15.5%		26.5%
Laundry Service	(4.1)	(2.3)	84.0%	(3.7)	11.9%	-10.15
Margin %	-131.4%	-22.8%		-38.4%		-24.6%
Others	0.2	(0.4)	-164.9%	(1.3)	-118.3%	-2.18
Margin %	3.3%	-5.5%		-21.3%		-6.5%
Less : Interest	6.5	8.0	-19.4%	7.8	-17.1%	32.88
Other Un-allocable Expenditure	7.5	7.1	4.9%	6.8	9.7%	28.52
Add : Other Income			-	1.2	-100.0%	5.35
Extra-Ordinary Income/Expense		(3.8)				-3.78
Net Profit/Loss Before Tax	59.5	44.5	33.6%	23.2	156.2%	181.5

Source: Company Filing

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Disclosure of Interest Statement Jyothy Labs Ltd. as on August 12th, 2020

Name of the Security	Jyothy Labs Ltd.
Name of the analyst	Ashwini Sonawane
Analysts' ownership of any stock related to the information contained	NIL
Financial Interest	
Analyst :	No
Analyst's Relative : Yes / No	Yes
Analyst's Associate/Firm : Yes/No	No
Conflict of Interest	No
Receipt of Compensation	No
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