

Jyothy Laboratories Ltd.

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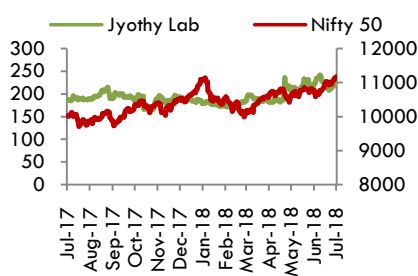
Key Stock Data

CMP	₹224.3
Market Cap (₹Cr.)	₹8224.6
52W High/Low	₹249/163
Shares o/s (crs.)	36.36
Bloomberg	JYL:IN
NSE Code	JYOTHYLAB
BSE Code	532926

Shareholding Pattern

Promoters	66.85%
FII & DII	22.46%
Public & Others	10.68%

Comparison Chart



	FY18	FY19E	FY20E
Net sales	1,745.9	1,972.8	2,249.02
% Growth	3.7%	13.0%	14.0%
EBITDA	270.8	325.5	386.8
EBITDA Margins	15.5%	16.5%	17.2%
PAT After	186.1	210.3	238.8
Minority Interest			
EPS (Post-bonus)	5.0	5.8	6.6
P/EPS	44.9	38.7	34.0

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Summary

Jyothy Laboratories Ltd. (Jyothy Lab) declared its Q1FY19 results recently. The key highlights are as follows:

1. The company reported a GST comparable topline growth of 20.6% in Q1 with underlying volume growth of 18.5%. The growth was driven by the Dishwashing, Personal Care and Household Insecticides categories. Power brands GST comparable growth was at 21.3%.
2. Operating profit in Q1 grew by 40% to ₹61 crs. with margins expanding from 12.7% to 15.1% YoY. Reported net profit for the quarter was at ₹32.4crs. vs. ₹20.6crs. registering a growth of 57%.

Standalone Financials

- Reported standalone revenues stood at ₹405.3crs in Q1FY19, registering a GST comparable growth of 20.6% backed by growth across all its categories and strong rural growth.
- Gross margins stood at 47.4% vs. 51% in the same period last year. EBITDA grew by 40% Y-O-Y to ₹61crs in the quarter. EBITDA margins stood at 15.1% vs. 12.7% in the same period last year.
- Reported PAT increased by 57% Y-O-Y to ₹32.4crs in PAT margins stood at 8% vs. 6% in the same period last year.

Key Highlights from Conference Call

- **Power Brands** – The Power brands (87% of net sales) of the company, which comprises of Ujala, Exo, Henko, Pril, Maxo and Margo reported a GST comparable growth of 21.3% YoY for Q1FY19. Margo and Exo continue to be star of power brands. It has delivered robust growth of 29.5 and 29.6% yoy respectively.
- **Gross Margin** – Gross margins in Q1 reduced by ~360 bps to 47.4% Y-O-Y on GST adjusted sales. Gross margin is reduced by 1.8% due to regrouping of sales promotion expenses to sales under IND AS 115. Raw material prices have increased due to inflation in commodity prices.
- **A&P Spend** – Advertisement expenses increased by 2.6% on account of new campaigns. Company ploughed back profitability in brand building activities. New campaigns were launched in fabric care and dishwash segment.
- **Distribution Network** – Currently direct reach stand at 8.5 lacs and this will continue to increase further.
- **Guidance & Outlook:**
 - The Company expects 12-14% topline growth with volume growth of 10-12% for FY19-20.
 - Investment behind brands to continue.
 - Company guided for 16-17% operating margins with gross margin of 51% in FY19-20.
- With good monsoons, trade channels are getting back on track. The company continues to innovate and plough back profits for investment in brand building. The revival in rural demand has enabled the company to achieve strong growth and increase market share across categories. Market share growth was witnessed across the portfolio in Q1FY19.

Segmental Highlights

Dish Washing – Dish Wash Scrubber and Scrubber Steel, Dish Wash Bar, Liquid and Powder

- Dishwashing segment which is 33% of overall sales reported GST comparable growth of 27.9% YoY in Q1 led by robust performance of Pril and Exo franchise.
- Exo recorded overall growth of 29.6%. Exo Franchise continues to grow on the back of new communication and improved distribution. Dishwash bars category on an industry level grew by 9.3% in Q1 while Exo bar recorded a growth of 26.5%.
- Pril grew by 23.2% in Q1FY19. Pril liquid continued to gain market share which stood at 17.1% in Jan-quarter compared to 16.4% in 2017.
- Exo dish wash scrubber and steel grew by 50% & 34.6% respectively. JLL received good response from new launches (Pril Dura scrub and Pril Dura wipe). New campaign of antibacterial Exo steel went on air from April 2018.
- Management expressed that the dishwashing segment has seen the highest traction due to GST rollout and hence the company has witnessed market share gains.

	Q1FY 19	Q1FY 18	GST Comparable Growth
Exo	99	77	29.6%
Pril	35	28	23.2%

Fabric Care – Fabric Whitener, Fabric Enhancer, Bar Soap, Detergent Powder

- The fabric care segment which has contributed 44% to overall sales, grew by 13.4% YoY in Q1.
- Henko franchise delivered growth of 10.9% with strong volume growth of 18.1% backed by ₹10 pack in Q1. Ujala as an overall brand grew by 12.2%.
- Ujala IDD became the largest brand in the mid segment category in Kerala. Market share gained in Jan- 2018 to 17% vs.16.8% in 2017.
- Post wash category also gained market share. Ujala Supreme gained market share by 50 bps to 80.9% in H12018 vs. 80.4% in 2017.

	Q1FY 19	Q1FY 18	GST Comparable Growth
Ujala	91	81	12.2%
Henko	46	42	10.9%

Household Insecticides – Mosquito Repellent Coil, Liquid and Card

- Household Insecticides segment (8% of sales), reported GST comparable growth of 28% yoy. Maxo LV grew by 41.9% yoy backed by Genius innovation. Mosquito Repellent liquid category grew by 13% according to AC Nielsen.
- Management continues to invest behind Maxo brand. Going ahead management sees more contribution from Maxo LV compared to Maxo coil. Currently Maxo LV contributes 31% to HI business.
- Maxo LV and Maxo Coil both continued to gained market share. Maxo LV gained market share by 110 bps to 8.7% in Jan-quarter compared to 7.6% in 2017 and Maxo coil gained by 100 bps to 21.9% in Jan-2018.

	Q1FY 19	Q1FY 18	GST Comparable Growth
Maxo	33	25	28%

Personal Care – Body Soap, Face Wash, Toothpaste, Deo Classic, Talcum Powder, After Shave, Moisturizer

- The personal care segment registered comparable growth of 29.5% YoY in Q1.
- Margo, which is the main brand of the segment, showed a robust growth of 29.5% YoY in Q1 on the back of relaunch and active presence on social media through innovative consumer engagement activities.
- This segment has delivered robust CAGR growth of 23% over FY12-18.
- JLL intends to add variants to existing Margo soap and toothpaste portfolio. Face wash is expected to become the biggest personal care category for the company.

	Q1FY 19	Q1FY 18	GST Comparable Growth
Margo	48	37	29.5%

- **Margo – well placed in company's expansion plan** – Since the naturals/Ayurveda wave has caught up with the FMCG industry, JLL would be building up this business further with a target to reach ₹500 crore of business by 2021. Margo toilet soap brand has a turnover of ₹175 crore and there are extensions like facewash and handwash that have been planned. JLL is drawn to the thriving market around Ayurveda, especially in hair care, cosmetics and oral care. According to a Nielsen report (June 2017), the natural segment contributed 41 per cent to total sales in the personal care category and products made of natural, herbal and ayurvedic ingredients are a ₹185 billion market. JLL wants a 10 per cent share of this market by 2021 and it is extending the Margo and Neem brands within their respective segments while developing a slew of new products under new labels. Neem in oral care and Margo in beauty and personal care will play a crucial role in the company's expanded portfolio. Margo has a market share of around 1.1 per cent in the soap category, which is estimated to be around ₹150 billion. Margo and Neem are seen as homegrown brands made with local ingredients and are best placed to drive the company's expansion plans. The management expects the ayurvedic range of products to contribute about 10 per cent of total revenues by 2021. Ayurveda will raise JLL's revenues from personal care to around ₹4-5 billion by 2020-21 from around ₹1.8 billion now. The new range will be largely aimed at the beauty segment. JLL will roll out body, face and hair care products by 2020.

Risks

- Volatility in raw material prices. The recent run up of crude prices has led to increase in crude derived raw materials (~30% of raw materials are crude linked). The company intends to pass on the cost increases in subsequent quarters.
- The company is present in highly penetrated and competitive categories.

Outlook & Valuation

Jyothy Labs' continued focus on leveraging rural growth opportunities through on-ground initiatives, continued investments behind their brands and improvement of manufacturing and supply efficiencies should be a good growth driver for the quarters to come. The company had guided volume growth of 10%-12% with EBIDTA margins of 16-17%. The company aims at driving distribution led growth through higher direct reach. JLL is drawn to the thriving market around Ayurveda, especially in hair care, cosmetics and oral care. Margo and Neem are well poised to drive growth from this segment. **At the CMP of ₹224.3/- the stock trades at 38.7x & 34.0x its estimated EPS of ₹5.8/- & ₹6.6/- for FY19 & FY20 respectively. Acceleration of growth across portfolios bodes well for the future prospects of the company over the next few years. We advice investors with a long-term investment horizon to HOLD the stock.**

Standalone Reported Financials

(₹ Crs)

	Q1FY19	Q1FY18	VAR [%]	Q4FY18	VAR [%]	FY18
Net Sales (Net of Excise Duty)	405.3	344.0	17.8%	505.4	-19.8%	1699.0
Other Operating Income	0.0	0.0	-	0.0	-	0.8
Total Operating Income	405.3	344.0	17.8%	505.4	-19.8%	1699.8
Other Income	2.2	1.8	21.3%	22.1	-90.2%	30.0
TOTAL INCOME	407.4	345.8	17.8%	527.5	-22.8%	1729.7
Total Raw Material Cost	213.3	172.8	23.5%	253.1	-15.7%	868.8
Cost of Raw Material & Components Consumed	147.8	145.0	1.9%	172.2	-14.2%	566.6
(Increase)/ Decrease in Inventories	-1.4	-59.3	-97.7%	12.5	-111.0%	3.6
Purchase of Traded Goods	66.9	87.1	-23.1%	68.4	-2.2%	298.6
Total Raw Material Cost % to Sales	52.6%	50.2%		50.1%		51.1%
Employee Cost	47.3	41.4	14.4%	42.7	10.7%	168.0
Employee Cost % to Sales	11.7%	12.0%		8.5%		9.9%
Employee Stock Option Expenses	0.0	0.2	-100.0%		-	-0.1
Employee Stock Option Expenses % of Sales	0.0%	0.1%		0.0%		0.0%
Advertisement & Sales Promotion Expenses	31.5	30.7	2.6%	53.1	-40.6%	162.9
Advertisement & Sales Promotion Expenses % of Sales	7.8%	8.9%		10.5%		9.6%
Other Expenses	52.1	55.3	-5.8%	65.9	-20.9%	222.7
Other Expenses % of Sales	12.9%	16.1%		13.0%		13.1%
TOTAL EXPENDITURE	344.3	300.3	14.6%	414.8	-17.0%	1422.3
EBIDTA	61.0	43.6	39.8%	90.6	-32.7%	277.5
EBIDTA Margin %	15.1%	12.7%		17.9%		16.3%
Finance Costs	7.7	8.6	-10.2%	12.7	-39.5%	42.4
PBDT	55.5	36.8	50.6%	100.0	-44.5%	265.1
Depreciation, Ammortization& Impairment	13.8	14.1	-2.0%	14.6	-5.6%	56.6
PBT before Exceptional Items	41.7	22.8	83.0%	85.4	-51.2%	208.5
Exceptional Items						0.0
PBT after Exceptional Items	41.7	22.8	83.0%	85.4	-51.2%	208.5
Tax	9.3	2.2	330.1%	25.0	-62.9%	47.9
Tax Rate %	22.3%	9.5%		29.3%		23.0%
Reported Profit After Tax	32.4	20.6	57.1%	60.4	-46.3%	160.5
PAT Margin %	8.0%	6.0%		11.9%		9.4%
Other Comprehensive Income (net of tax)	0.1	-0.3	-143.8%	1.5		0.5
Total Comprehensive Income	32.5	20.3	60.3%	61.8	-47.4%	161.1
Basic:						
EPS	1.8	1.1	60.3%	3.4	-47.4%	8.9
Equity	18.1	18.1		18.1		18.1
Face Value	1.0	1.0		1.0		1.0

Standalone Segmental Financials

(₹ Crs)

	Q1FY19	Q1FY18	VAR [%]	Q4FY18	VAR [%]	FY18
REVENUES						
Revenue from Operations	405.3	362.1	11.9%	505.4	-19.8%	1,657.8
Dishwashing	133.5	110.8	20.5%	143.0	-6.7%	512.4
% Mix	32.9%	30.6%		28.3%		30.9%
Fabric Care	176.7	170.1	3.9%	192.3	-8.1%	695.0
% Mix	43.6%	47.0%		38.0%		41.9%
Household Insecticides	32.6	27.8	17.1%	111.6	-70.8%	228.4
% Mix	8.0%	7.7%		22.1%		13.8%
Personal Care	53.4	44.1	21.1%	49.3	8.3%	185.7
% Mix	13.2%	12.2%		9.8%		11.2%
Others	9.1	9.3	-2.0%	9.2	-1.2%	36.3
% Mix	2.2%	2.6%		1.8%		2.2%
Less : Inter Segment Revenues	-	0.2	-100.0%		#DIV/0!	0.4
Total Segment Revenue	405.3	361.8	12.0%	505.4	-19.8%	1,657.5
Add : Other Unallocable Income						-
Net Revenue from Operations	405.3	361.8	12.0%	505.4	-19.8%	1,657.5
PROFIT						
Profit/Loss Before Interest and Tax	51.5	34.4	49.5%	80.8	-36.3%	239.6
Margin %	12.7%	9.5%		16.0%		13.9%
Dishwashing	14.1	6.7	109.1%	25.2	-44.1%	69.8
Margin %	10.5%	6.1%		17.6%		13.2%
Fabric Care	32.9	30.1	9.5%	46.3	-28.9%	146.7
Margin %	18.6%	17.7%		24.1%		20.4%
Household Insecticides	(4.7)	(5.5)	-13.9%	7.5	-163.2%	3.8
Margin %	-14.5%	-19.7%		6.7%		1.5%
Personal Care	9.8	1.6	504.3%	1.6	519.6%	20.4
Margin %	18.3%	3.7%		3.2%		10.7%
Others	(0.6)	1.5	-140.8%	0.3	-281.8%	(1.0)
Margin %	-6.6%	15.8%		3.6%		-2.7%
Less : Interest	7.7	8.6	-10.2%	12.7	-39.5%	42.4
Other Un-allocable Expenditure	4.2	4.8	-11.2%	4.5	-6.6%	18.3
Add : Other Income	2.1	1.7	26.6%	21.8	-90.2%	25.7
Extra-Ordinary Income/Expense						3.8
Net Profit/Loss Before Tax	41.7	22.8	83.0%	85.4	-51.2%	208.5

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Disclosure of Interest Statement in Jyothy Laboratories Ltd. as on July 27, 2018

Name of the Security	Jyothy Laboratories Ltd.
Name of the analyst	Shivani Vishwanathan & Ashwini Sonawane
Analysts' ownership of any stock related to the information contained	NIL
Financial Interest	
Analyst :	No
Analyst's Relative : Yes / No	No
Analyst's Associate/Firm : Yes/No	No
Conflict of Interest	No
Receipt of Compensation	No
Way2Wealth ownership of any stock related to the information contained	NIL
Broking relationship with company covered	NIL
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