

INITIATING COVERAGE

CMP: ₹300.20/-

13th July, 2015

ACCUMULATE ON DIPS

JYOTHY LABORATORIES LTD.



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JYOTHY LABORATORIES LTD.



DATE	13th July, 2015
CMP	₹300.20
BSE SENSEX	28,208.76
NSE-50	8,522.15
EQUITY CAP	₹18.1 crs.
FACE VALUE	₹1/-
MARKET CAPITALIZATION	₹5,433.6 crs.
BSE CODE	532926
NSE CODE	JYOTHYLAB
BLOOMBERG CODE	JYL IN
P/E (FY16E)	33.0x
52 WEEK HIGH/LOW	₹314 / 175.5

SHARE HOLDING PATTERN AS ON 31.03.2015	
PROMOTERS	66.78%
INSTITUTIONAL	23.92%
PUBLIC & OTHERS	9.30%

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13 July 2015

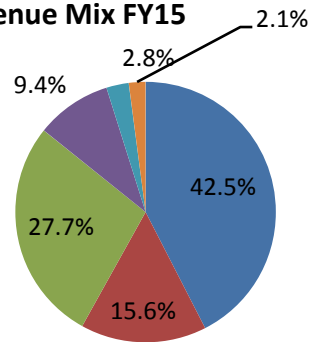
Jyothy Laboratories Ltd.



OVERVIEW

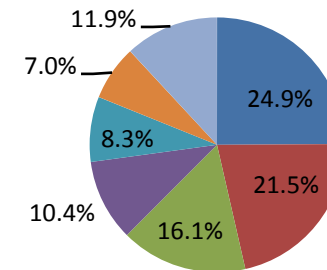
- Jyothy Lab is India's 4th largest FMCG company post acquisition of Henkel India in 2011. Apart from its organic brands of Ujala, Maxo, Exo, & Maya, the company now owns brands of Henko, Pril, Fa, Margo, Mr. White, & Chek post acquisition.
- With a strong brand portfolio the company's revenue mix is :

Revenue Mix FY15



■ Fabric Care ■ Mosquito Repellant ■ Dishwashing
■ Personal Care ■ Laundry Services ■ Others

Revenue Mix FY15



■ Ujala ■ Exo ■ Maxo ■ Henko ■ Margo ■ Pril ■ Others

- The company's endeavor is to grow the business on a strong sustainable profitability base on the back of
 - Focus on growing the power brands
 - Cost controls through leveraging on synergistic benefits
 - Drive volumes growth through increased penetration & premium pricing

VISION STATEMENT & BUSINESS FOCUS



2008-2010

Growing the Organic Brands

- The company's emphasis was on growing Maxo's liquid portfolio & hence improving profitability.
- Company planned Exo's nationwide launch.
- Company planned to leverage its flagship brand Ujala & launch brand extension like stiffness products & detergents.
- Company setup its laundry business.

2011 – 2014

In-Organic Growth

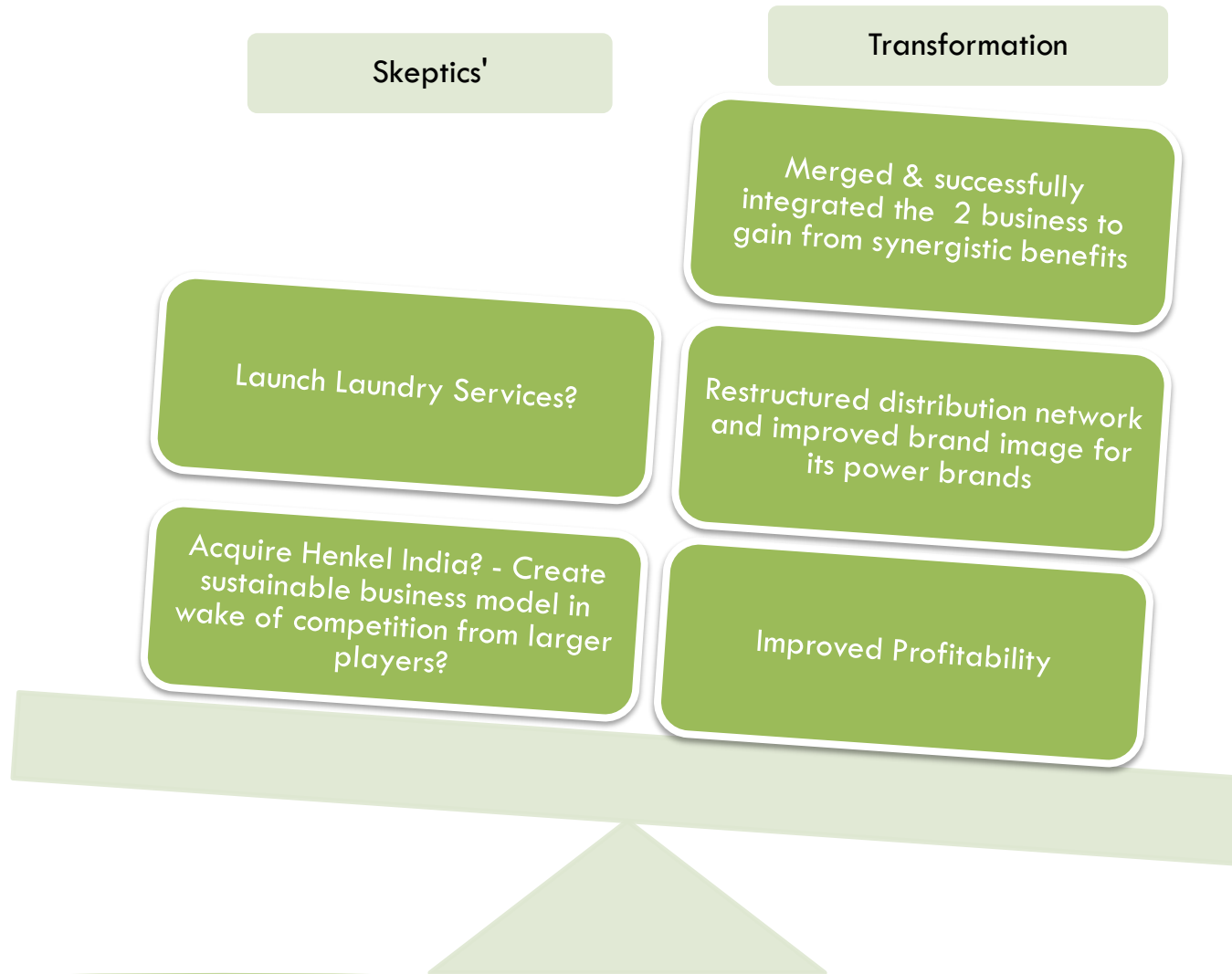
- Jyothy Laboratories acquired controlling stake in Henkel India
- A step towards corporatization of a family led business. The company appointed S.Raghu as CEO, with rich exposure in the consumer sector, Jyothy Laboratories set itself up for turnaround of Henkel & growth in business.
- Emphasis on brand building & increase in ad expense
- Restructuring of distribution network & organisation structure.
- Targeting profitable growth across brands.
- Successful merger of Henkel with JLL.
- Inorganic growth of laundry business.

2014- Onwards

Growth Execution & Business Consolidation

- Emphasis on premiumisation of fabric care offerings.
- Focus on increasing penetration to drive growth for its dishwashing brands Exo & Pril
- Margo growth to be driven on the back of brand extension launch & increased distribution
- Household insecticides focus on growing liquids portfolio to improve regional profitability.

SKEPTICS' V/S TRANSFORMATION



INVESTMENT THEME



- **Focus on growing the power brands** : The company has identified 6 brands as its power brands – **Ujala, Henko, Exo, Pril, Maxo & Margo** to drive growth into the future. Each brand has a strong intrinsic value with a position in the TOP 5 in their respective sub-segments. The company plans to **invest behind creating brand equity** and has hence launched various advertisements to push for increase in brand awareness. Apart from that the company plans to drive growth through New Product Development while leveraging on these 6 strong brands and **launching brand extensions**. Another source of push sales to come from launch in newer markets, hence **increased distribution reach**. Some of the broad-based strategies are:
- **Ujala** - Drive category growth through rise in relevance to non users by establishing a differentiated marketing mix on whiteness pre & post use of Ujala, coupled with focus on gaining market share from low cost competitors & low market share states through customer activation programs.
 - **Henko** - Positioned it as a premium offering with a clear focus to increase market share from 5% to 15% in the next 3 years, driven by increased penetration on the back on steps to drive improvement in brand equity.
 - **Exo** - To drive volume driven market expansion by entering newer markets. We believe this brand has the highest potential for growth.
 - **Pril** - A trend facilitator in the dishwashing segment where urban Indian's are seeking to change from bars to liquids. Complete the company's dishwashing portfolio in a liquid format positioned as a premium offering.
 - **Maxo** – The company intends to invest in brand building in newer markets and grow the more profitable vapouriser portfolio from current 25% to 40% in 3 years.
 - **Margo** - The company plans to invest in growing the brand in Non-South markets and launch brand extensions.

INVESTMENT THEME



- **Improving the operational efficiencies & leveraging on synergistic benefits in an endeavor to control cost**
 - : The company has since the acquisition of Henkel India operations initiated various cost control measures to ensure a healthy profitability. The company has leveraged on the strengths of both the companies individually to create synergistic benefits right from bulk raw material procurement, sharing of supply chain to geographical strengths. Some of the steps taken by the company, the benefits of which, will continue to flow to the profits over the next few years are:
 - **Manpower initiatives:** Reduced employee strength of the joint entity to ensure a lean team with clear cut chain of command with requisite specialization. A new management structure was built with a new CEO and brand specific managers and zonal sales managers. The corporatization of the Human Resource structure in the company enabled a much leaner, efficient & goal oriented team to meet the visions of the company.
 - **Supply chain initiatives:** Henkel's supply chain strength was in modern trade whereas Jyothy's was in rural India. The merged entity is leveraging on each others strengths and increasing distribution in regions where it is not present. This is a continued effort and the rollout of many brands in newer marketplaces will drive growth over the next 2 years. Consolidated distribution network strength of 1500 distributors in Urban and 220 super stockist & 4000 sub stockist in rural India. JLL moved from depot system to C&F cutting through to one level of intermediately. Also the company rationalized channel margins to bring it in line with Industry standards. Stockist margins were brought down to an average 6% vs. 8% and retailer margins were from 15% to an average of 10%.
 - **Production Management initiatives:** The company consolidated all the manufacturing units in a bid to improve capacity utilization and hence enjoy better fixed cost leveraging. Coupled with that debottlenecking of capacities helped improve productivity. The company took cost reduction initiatives like automation to reduce manpower cost by 25% and reduction in power & fuel cost by 15-20% in the coil manufacture process. These initiatives will help improve profitability in the long run.

INVESTMENT THEME



- **Raw material deflation to help improve gross margins :** The recent correction of ~ 60 percent in crude oil will help the FMCG industry as a whole. We believe not only will crude based derivatives cost deflation support gross margins we expect distribution costs to come down. In last one month the freight costs in major freight corridors has reduced by 3 to 4 percent as diesel prices have come off.
- **Drive volumes growth through increased penetration, premium pricing & increased brand equity :** The company is spending aggressively on advertisement to build brand equity for its brands nation wide through strong brand ambassadors and strong USP's creating a differentiated product feel for the consumer. This coupled with increased distribution reach in newer marketplaces & a pricing strategy to enable a consumer to have a Jyothy product at various price points to help drive volumes growth.
- **Company's strong future vision to leave room for future growth:** Post acquisition and consolidation of the Henkel's business the company strives to grow its international presence and is in the process of laying out a road map for the same.
- **Jyothy Fabric care services to grow at a steady state rate:** FY14 was a difficult year for the fabric care services as the company embarked on reorganizing its business structure. On the institution business front the company exited contracts which were loss making and endeavored to enter projects with a minimum gross margin of 15%. The company intends to bid aggressively for railway tenders which will drive growth. Private equity recently pumped in ₹40 crs. into JFSL . On the retail side of the business the company plans to invest behind brand creation and hence is doing away with all the different brands and renaming them to create one single brand of 'Fabric Spa". We believe these brand building efforts coupled with efforts to enter only profitable contracts will enable the subsidiary to become profitable over next 2 years.

POWER BRANDS : BRAND STORY & POTENTIAL

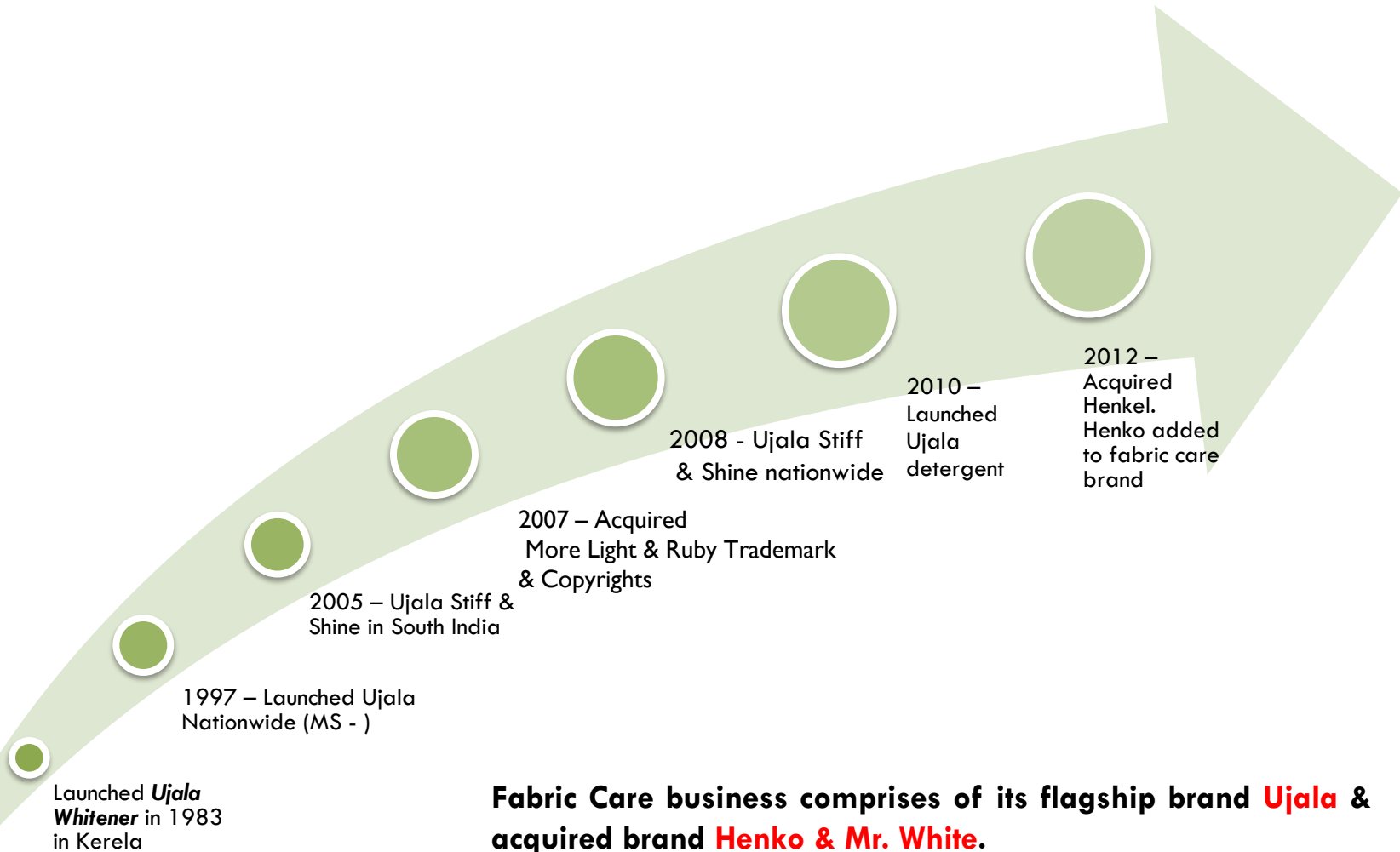
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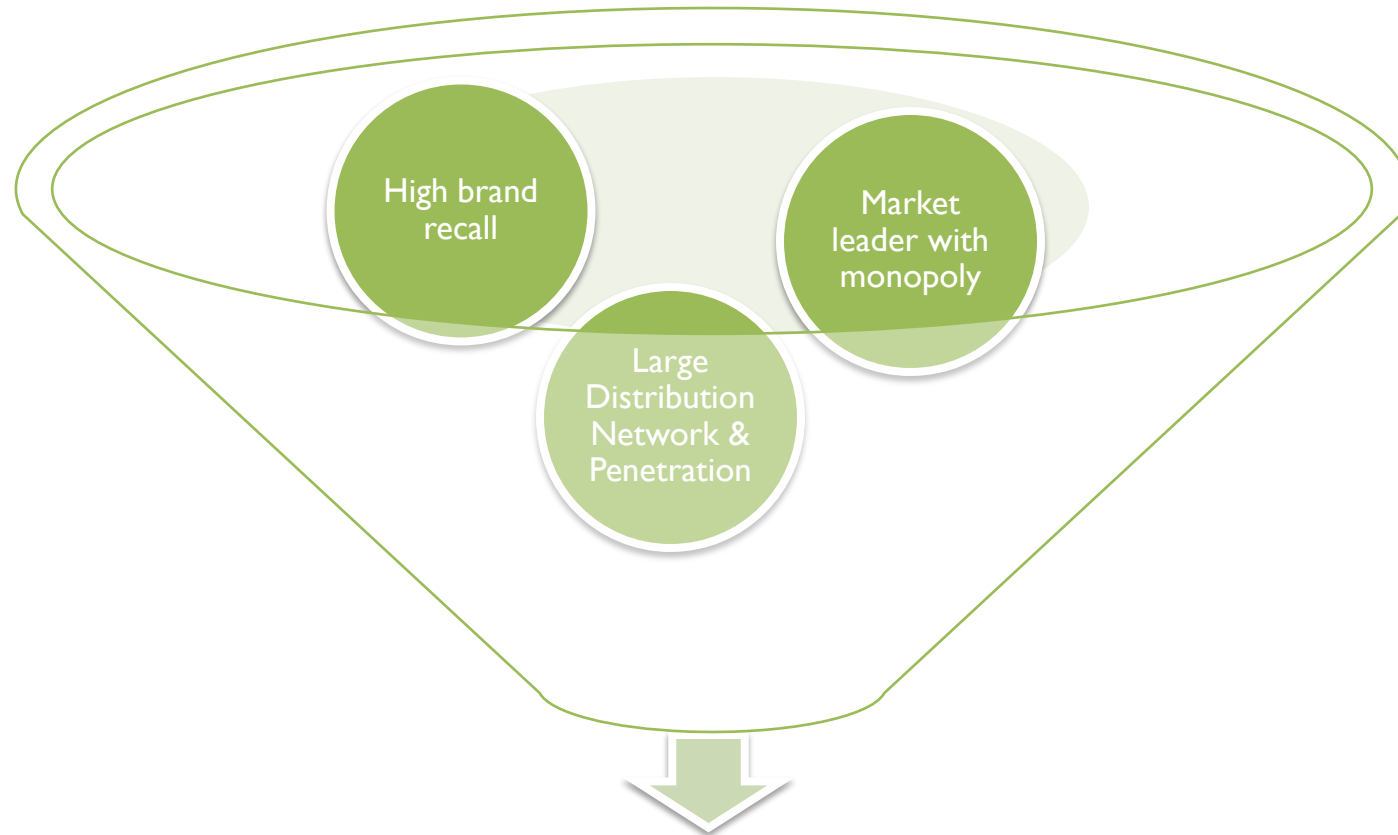
Jyothy Laboratories Ltd.

FABRIC CARE SEGMENT – MILESTONES



Fabric Care business comprises of its flagship brand Ujala & acquired brand Henko & Mr. White.

WHY UJALA IS A POWER BRAND?



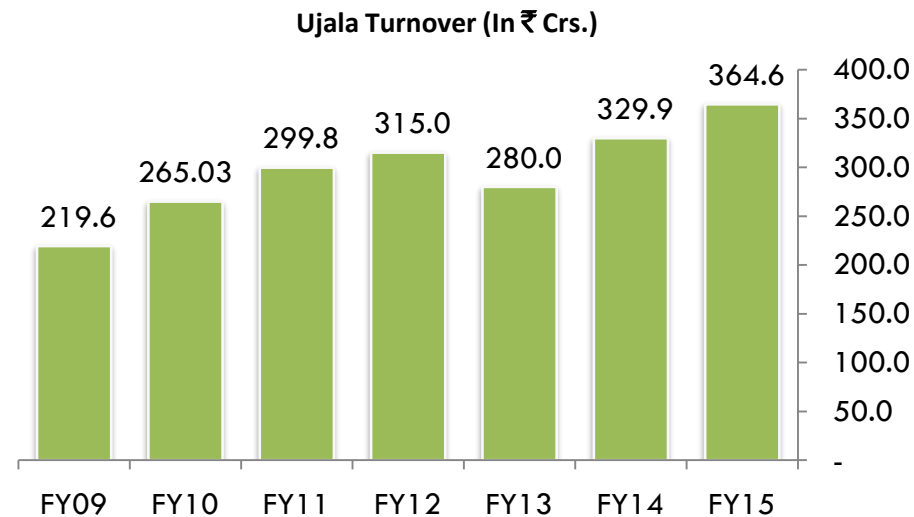
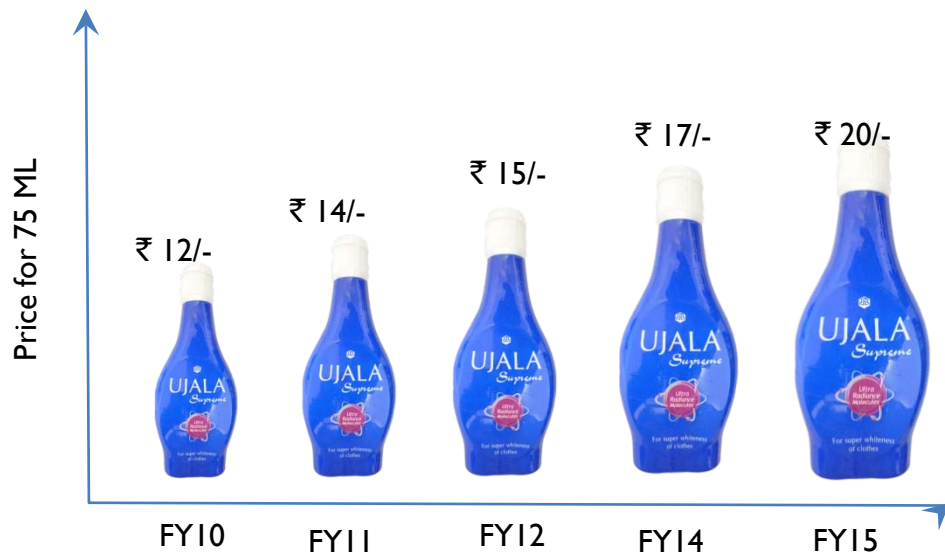
Created a strong brand value and hence a strong entry barrier in the Fabric Whitener Segment. Strong pricing power.



UJALA - THE KEY FOCUS

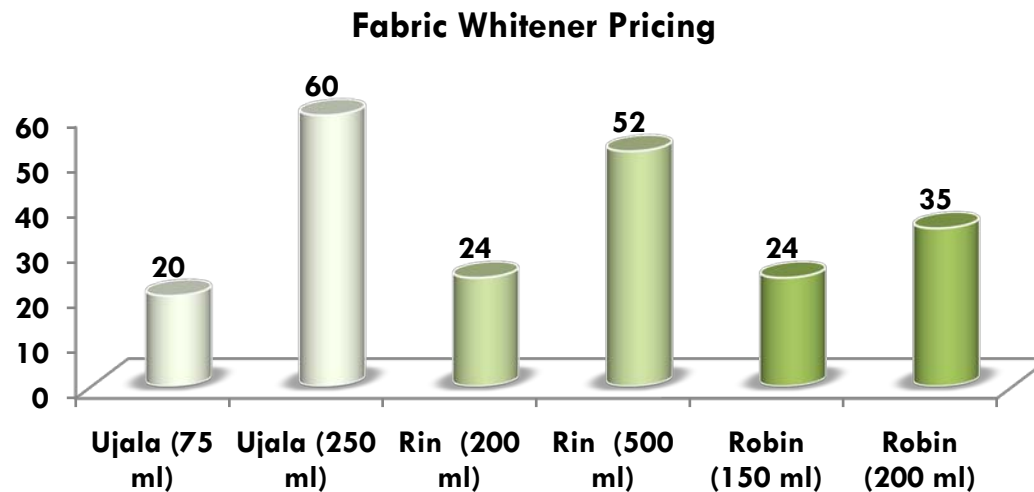


- Ujala is a 32 year old brand with a specific wash purpose of increasing whiteness (Fabric Whitener)
- Ujala currently contributes ~28% to the topline.
- Ujala is currently present in 4,00,000 (Direct) and 1.9 million (Indirect reach) retail outlets & has been growing at a rate of 9-10% CAGR over last 5 years.
- Over the years the brand was extended to stiff & shine product and then detergents.
- Over the years company has endeavored to improve the brand image of Ujala whitener through new packaging & higher pricing to leverage on its market leadership.

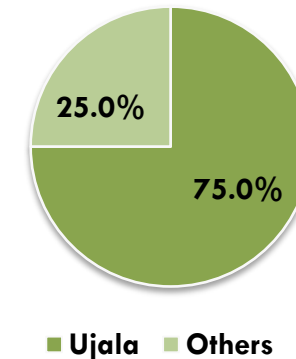


Two prolonged strategy

- **Gain Market Share:** Increase market share from low cost competitors as well as in low market share states to drive volumes growth across all markets. FY 14 saw Ujala's Non-South business grow by 47%.



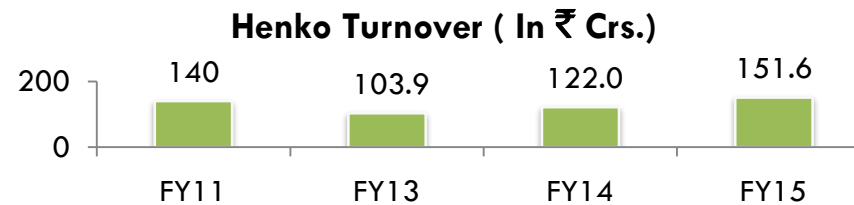
Market Share



- **Drive Category Growth :** Increase relevance to non users by establishing a differentiated marketing mix on whiteness pre & post use of Ujala. Drive media spend and consumer activation programs to reinforce brand value .

HENKO – THE POWER BANK

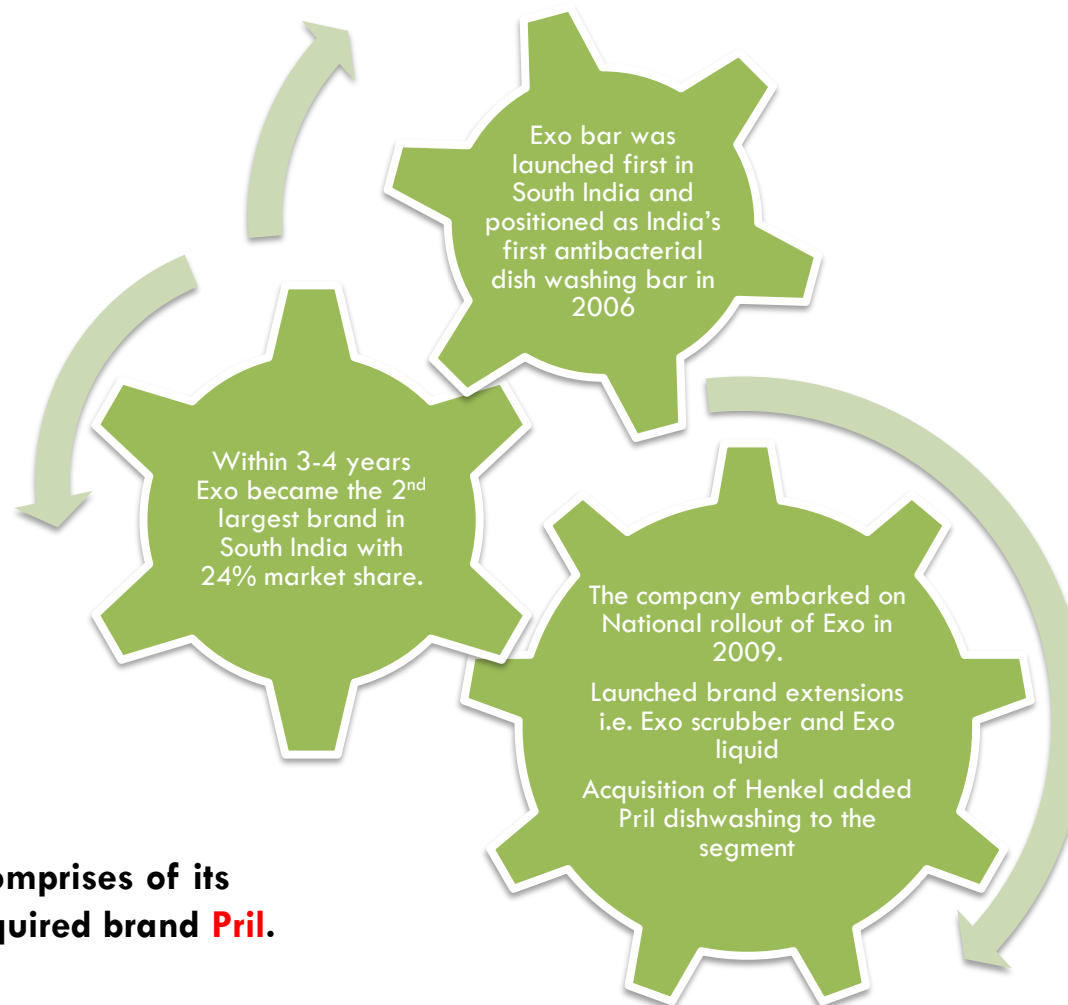
- The Henkel acquisition is synonymous with Henko, Henkel India's power brand.
- The brand is clearly positioned in the premium segment of the globally dominated detergent industry. Of the ₹12,000-15,000 crs. Detergent market the premium market is ~ ₹2,500 crs. of which Henko has 5% market share. JLL plans to take this to 15% over the next 3 years.



Company Strategy

- *The company intends to position it as a premium product and leverage on its technologically superior manufacturing process to brand the product as a special care product. The company has branded it as 'smart' detergent which helps reduce lint and hence intends life of clothes.*
- *Drive brand equity through improved quality & new and improved packaging.*
- *Drive penetration to increase its present market share of 5% to 15% over the next 3 years. Some key strategies to be applied include :*
 - *Trade engagement programmes*
 - *Trial sachet pack launches*
 - *Increase store visibility in both CSD & Modern Trade*
 - *Consume offer on bulk packs*
 - *Increase geographical reach. In FY14 Non South sales grew by 28%.*
- *The company plans to leverage on Henko's strong brand to launch line extensions going into the future.*

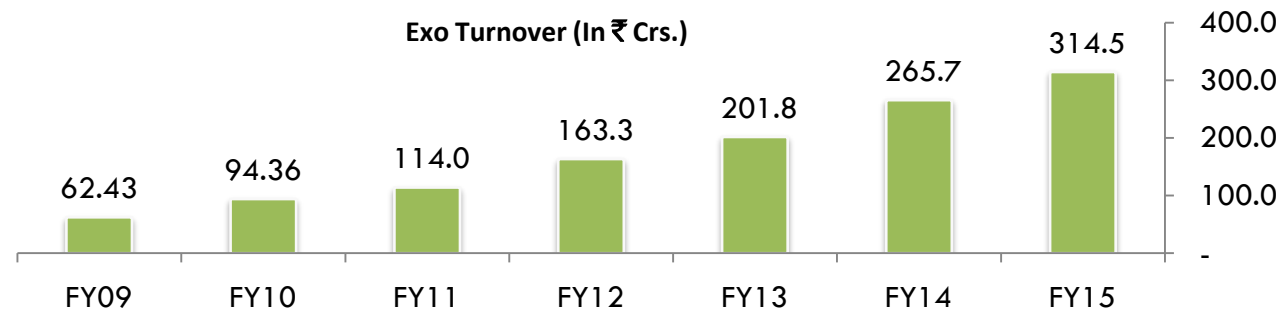
DISHWASHING SEGMENT – MILESTONES



Dishwashing business comprises of its flagship brand **Exo & acquired brand **Pril**.**

EXO – THE BRAND WITH THE HIGHEST POTENTIAL

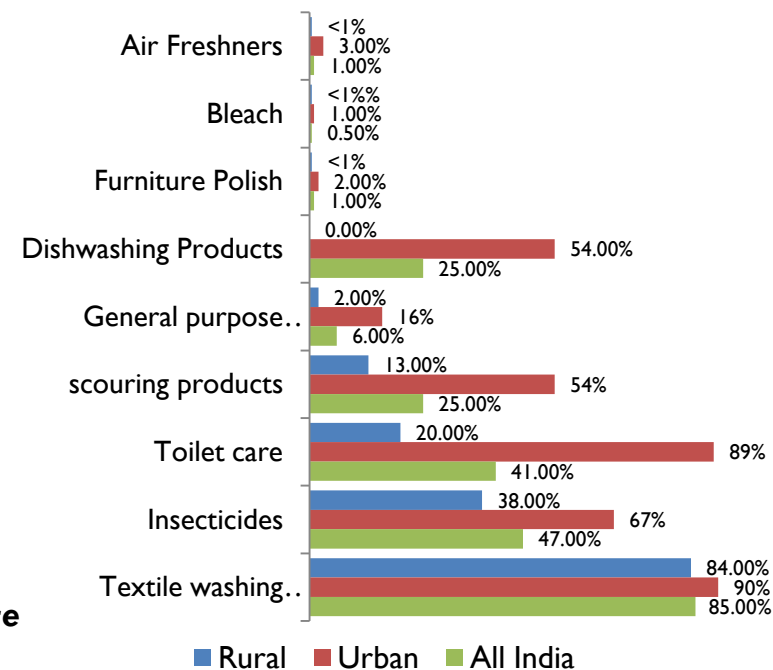
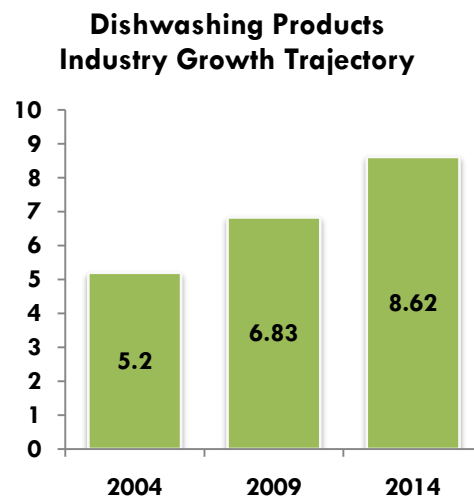
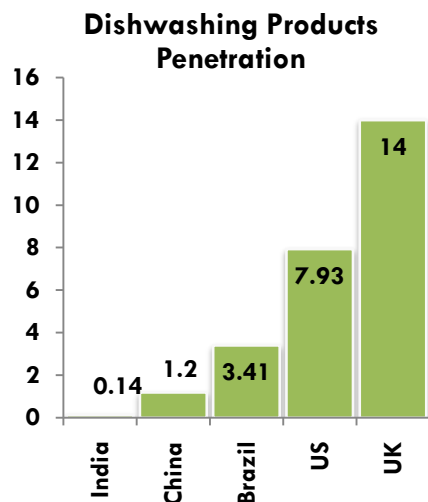
- Exo is Jyothy Labs flagship brand in the dishwashing segment which was launched in 2006. Exo bar was launched first in South India and positioned as India's first antibacterial dish washing bar in a round shape.
- Within 3-4 years of launch Exo became the 2nd largest brand in South India with 24% market share and revenue contribution went up from 7.3% in FY07 to 15% in FY09. Exo currently contributes ~21% to the topline.
- The company embarked on a national rollout in 2009. Post its national rollout Exo has grown at a healthy CAGR of 33%



- The company has launched brand extensions i.e. Exo scrubber and Exo liquid to give the segment another stream of growth.

EXO – THE BRAND WITH THE HIGHEST POTENTIAL

- The growth of Exo and Pril is based on 2 macro trends:
 - **For Bars:** The segment is still very underpenetrated. Rural India continues to use old age technique of mud to clean utensils. The scope for penetration driven volumes growth of this segment at an industry level is huge.
 - **For Liquids:** Apart from Urban India's trend of conversion from bars to liquid we see another trend shaping up. The rise in demand for dishwashers will also provide a fillip to the liquids portfolio.

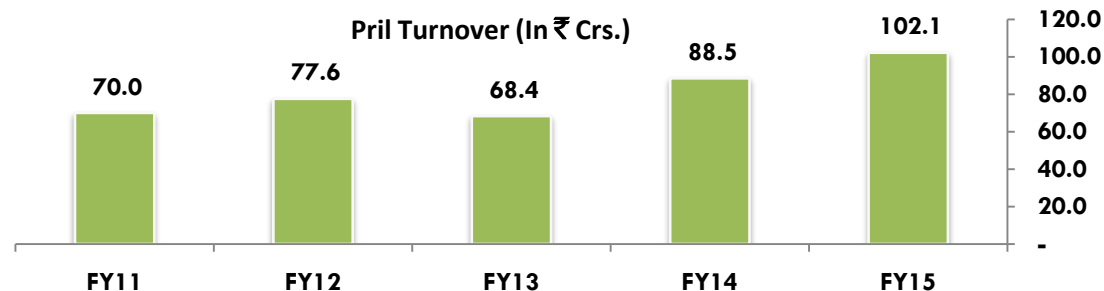


Company Strategy

- **To gain market share through higher penetration and increasing presence newer markets. The Non-South business grew by 74% in FY14.**
- **Differentiated product in terms of shape and bacterial fighting attributes which is made available at various price points to complement Pril.**

PRIL – TREND FACILITATOR

- Pril is a dishwashing brand added to the product bouquet of JLL through Henkel India's acquisition. Pril is on a 2% license royalty for technology support.
- Pril was introduced in India by Henkel in a liquid format only, post which it launched Pril dishwashing bar in 2003.



Company Strategy

- **Positioned as the premium offering from its dishwashing portfolio.**
- **Company intends to focus on showcasing Pril as a liquid format brand complementing Exo's presence in the bar segment.**
- **Trend facilitator in a time when dishwashers are gaining popularity.**
- **Focus on brand communication to increase brand awareness & brand equity.**



Remove tough stains easily

Pril is better than a bar soap – less quantity required, more efficiency

Not only cleaning, refreshing as well

Pril 'One drop' challenge – see it to believe it

99.99% Germs Eliminated

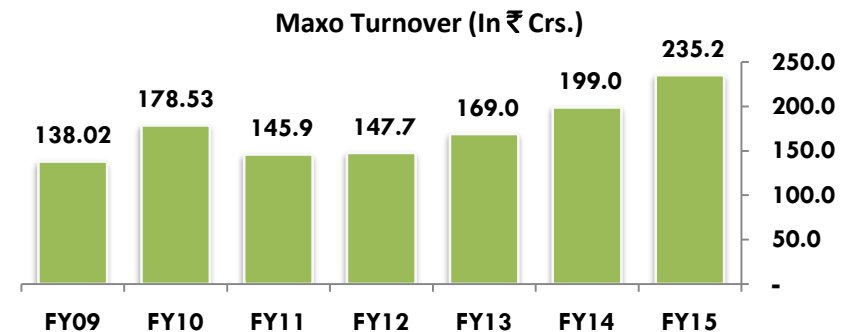
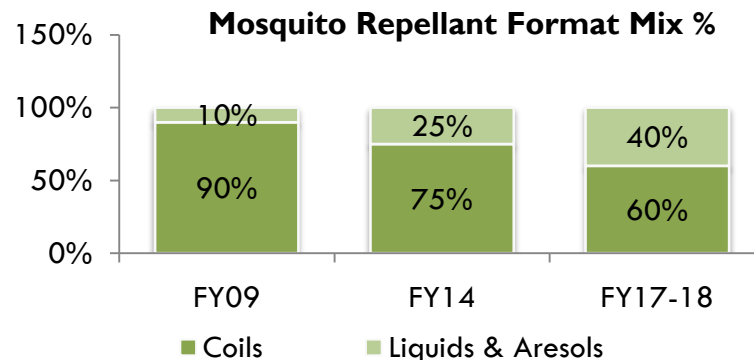
Superior De-greasing ability – Hence more free time

MAXO – POTENTIAL DARK HORSE

- Maxo is Jyothy Labs mosquito repellent brand which was launched in 2000 in the coil format. Since then in 2006-7 the company further expanded to liquids & aerosols format.
- This segment has over the years suffered on account of weather vagaries and low brand equity versus its competitors.

Company Strategy

- Currently about 75% of the ₹200crs. sales of Maxo are in coil format and the rest are from liquids & aerosols. **JLL envisages to expand its presence in the Liquid segment from current 25% to 40% of its repellent business in the next 3 years. A comparison between the liquid and coil segment shows that the former is growing at a much higher rate of ~18% and also enjoys higher margins. Vaporizers' segment grew by 95% in FY14.**



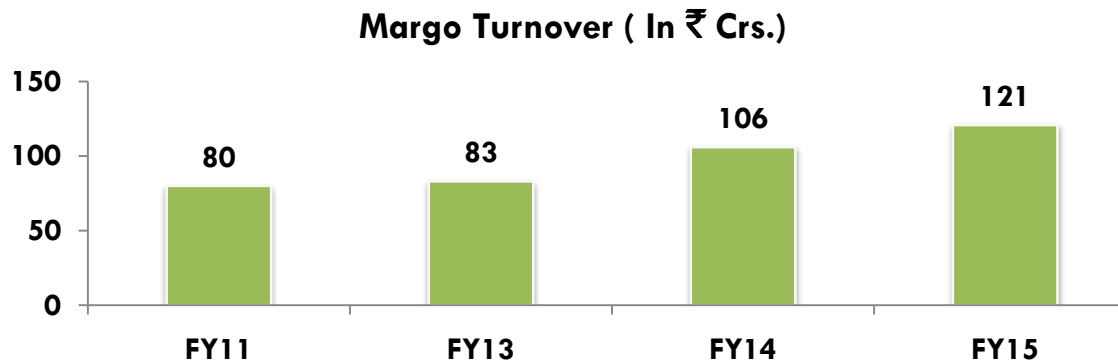
- **The company intends to invest behind building brand equity and creating a pan India presence coupled with innovation backed launches to garner higher market share. The company is soon expected to launch their version of the fast card.**

MARGO – GROWTH SPUR

- Margo was added to JLL's product portfolio when it acquired Henkel.
- An Indian born brand, Margo was acquired by Henkel India from Calcutta Chemicals & Detergents Company in 1999 for 60 crs. Henkel then tried to spur growth through various efforts like brand extensions, promotions & advertising. In spite of the efforts over the last decade Margo sales remained stagnant at ₹70- 80 crs.
- The Indian skin cleansing industry, pegged at ~₹13,000 crs. , is highly cluttered. Margo's unique selling point is it's Neem credentials.

Company Strategy

- **To grow Margo through geographical market expansion beyond its already strong presence in South & Eastern regions. Non-South business grew at 27% in FY14.**

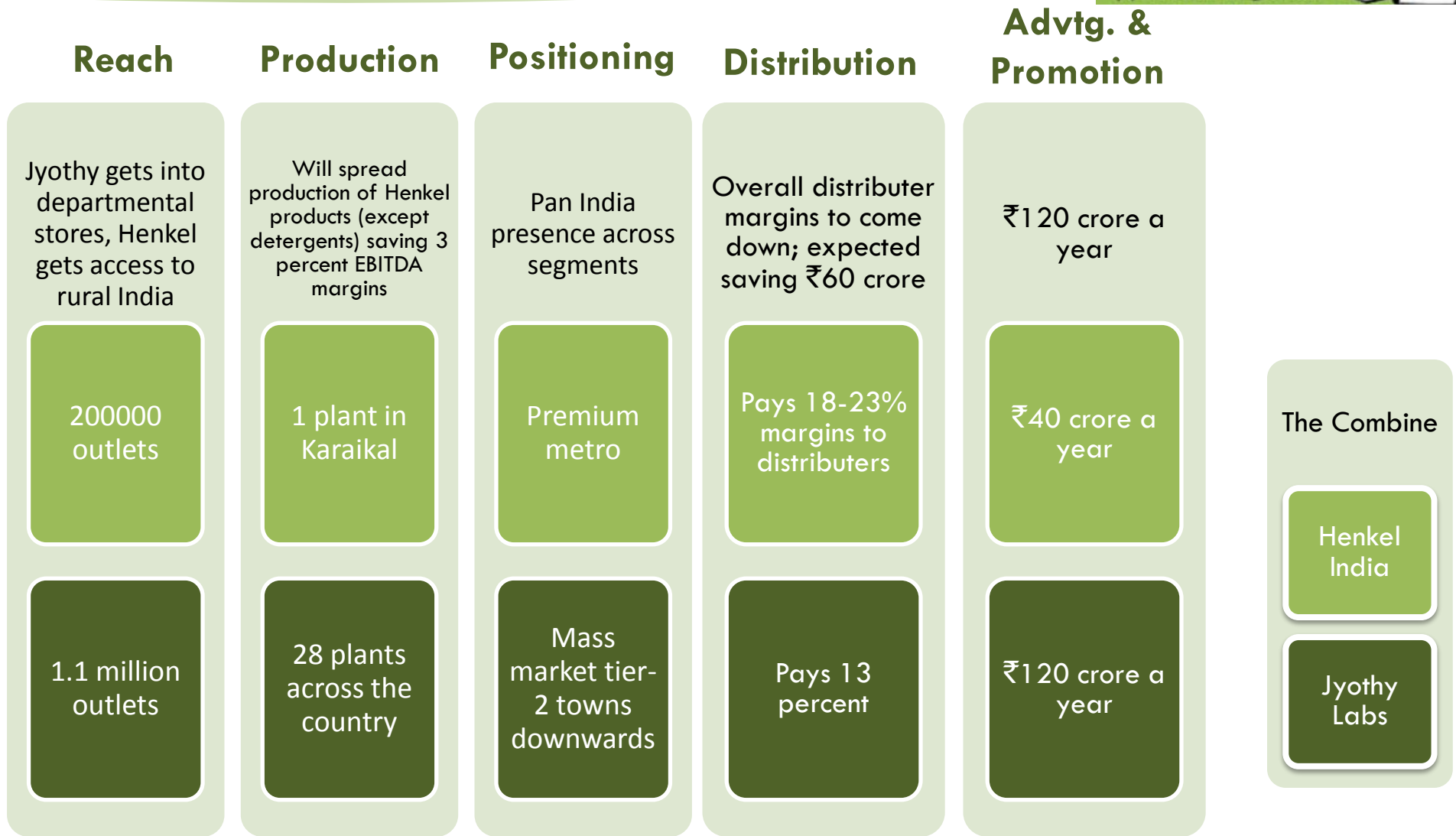


- **Leverage on its brand equity to extend offerings. The company recently launched Margo Glycerin and Margo face wash.**

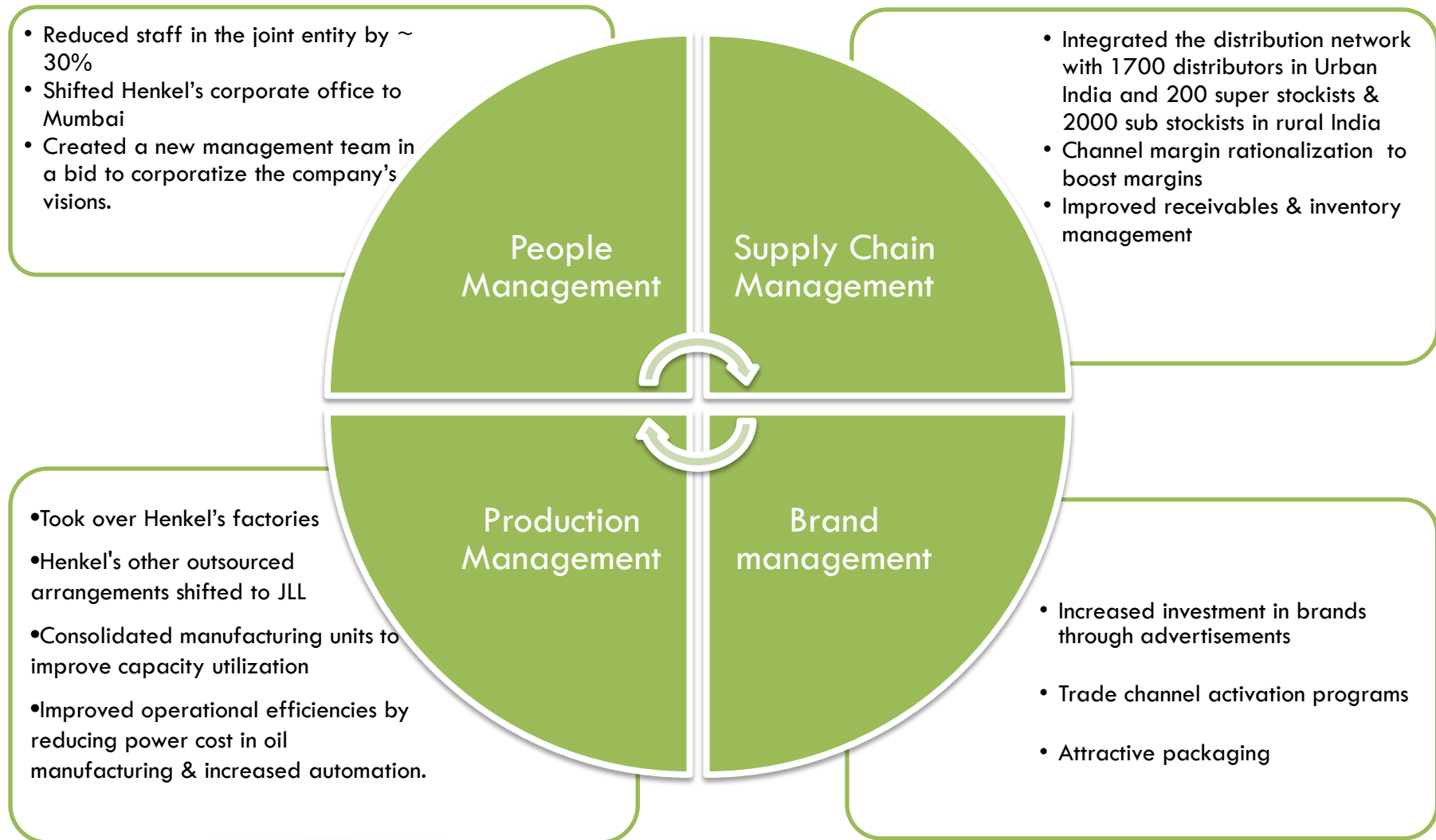
HENKEL DEAL HIGHLIGHTS

Brands Acquired	Category	Size (₹ In Crs.)	Market Share (By Value)	Rights
Margo	Body Care (Soap)	80	1.2% (of the overall soap market)	Indian Brands global rights
Fa	Personal Care (Deodorants)	25	~5.0%	License @ 2% royalty on Net Sales for Technology support
Neem	Personal Care (Oral)	10		Indian Brands global rights
Henko	Detergent (Premium)	140	5.1% (~1.1% of Overall Detergent Market)	Assignment of Trademarks for India, Bangladesh & Sri Lanka
Mr. White	Detergent (Mid-Premium)	55		Assignment of Trademarks for India, Bangladesh & Sri Lanka
Chek	Detergent (Value)	20		Indian Brands global rights
Pril	Dishwashing (Liquid)	70	31.9%	License @ 2% royalty on Net Sales for Technology support

SYNERGISTIC BENEFITS



EXECUTION FOR EXCELLENCE



RISKS & CONCERNS

- Delay in execution of growth strategy
- Economic slowdown to impact consumer demand
- Inadequate rainfall to impact rural demand
- Risk of consumer acceptability of product in newer markets.
- Volatility in raw material prices

OUTLOOK & VALUATIONS

Jyothy Lab's has over the last 4 to 5 years transformed from being a potential dark horse in the FMCG space to being in the top 4 FMCG companies in India taking on the leaders this space. There was a lot of skepticism over the acquisition of the Henkel operations. In retrospect, thought still in process, the company's plan to turnaround Henkel operations and growth of the merged entity profitably is starting to show in the numbers. With strong brands, an integrated distribution network and a growth strategy in place we believe Jyothy is poised for healthy growth of 15-18% over the next 2 to 3 years. Profitability is set to improve over the next 2 years on the back of brand investments resulting in higher sales, benign raw material scenario as well as many steps taken to improve operational efficiencies and productivity. **At the current price of ₹300.20/- the stock trades at 33x its estimated EPS of ₹9.1/- for FY16 respectively. We advise investors to ACCUMULATE THE STOCK ON DIPS with a medium term investment horizon.**

CONSOLIDATED FINANCIALS



(₹ in Cr)

PROFIT & LOSS ACCOUNT	FY11	FY12	FY13	FY14	FY15	FY16E
Net sales	626.4	913.0	1,106.6	1,323.9	1,514.9	1,744.5
Total Expenses	547.1	828.9	976.0	1,166.7	1,351.8	1,545.7
EBITDA	79.3	84.1	130.5	157.2	163.0	198.8
Other income	16.8	22.7	4.3	8.2	9.9	12.0
Depreciation, amortization and impairment	13.0	24.7	22.4	24.3	32.5	35.0
EBIT	83.1	82.2	112.4	141.1	140.4	175.8
Interest	2.0	23.8	68.2	55.3	13.8	9.0
PBT before Exceptional items	81.1	58.3	44.2	85.8	126.6	166.8
Prior Period items	-	-	(43.0)	(1.7)	-	-
Exceptional Item	-	-	-	(2.3)	(2.1)	-
PBT	81.1	58.3	1.2	81.9	124.5	166.8
Total Tax	15.4	19.9	(14.9)	0.6	3.5	1.7
Profit After Tax (PAT)	65.6	38.4	16.1	81.2	121.0	165.1
Minority Share (share in loss)	3.0	6.2	3.5	0.2	(0.1)	0.2
PAT After Minority Interest	68.7	44.6	19.6	81.4	121.1	164.9
EPS Basic and Diluted (₹)	8.5	5.5	1.2	4.5	6.7	9.1

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CONSOLIDATED FINANCIALS



(₹ in Cr)

BALANCE SHEET	FY11	FY12	FY13	FY14	FY15	FY16E
Share capital	8.1	8.1	16.1	18.1	18.1	18.1
Reserves and surplus	623.0	604.4	567.1	716.3	761.6	899.2
Minority Interest	0.5	6.7	4.9	1.6	1.4	1.6
Non-current liabilities	33.2	465.1	437.9	685.7	624.8	77.0
Current liabilities	167.3	335.2	436.8	231.8	410.8	834.6
Sources of Funds	832.0	1,419.3	1,518.1	1,653.5	1,816.7	1,830.5
Fixed assets	251.6	515.9	1,069.7	1,098.3	1,090.2	1,183.7
Other Non-Current assets	98.5	577.8	99.1	131.4	180.5	167.0
Current investments	-	-	-	59.5	192.0	65.0
Inventories	69.4	118.8	172.2	173.8	185.2	192.0
Trade receivables	105.3	80.7	80.4	66.8	57.4	84.0
Cash and Bank balances	279.6	66.2	46.3	69.8	76.7	82.8
Loans and advances	25.3	55.6	45.6	49.0	31.7	51.0
Other assets	2.4	4.3	4.9	4.9	3.0	5.0
Uses of Funds	832.0	1,419.3	1,518.1	1,653.5	1,816.7	1,830.5

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CONSOLIDATED FINANCIALS



Growth Ratios	FY11	FY12	FY13	FY14	FY15	FY16E
Net Sales		45.8%	21.2%	19.6%	14.4%	15.2%
EBIDTA		6.1%	55.2%	20.4%	3.7%	21.9%
PAT after Minority Interest		-35.1%	-55.9%	314.4%	48.8%	36.1%
Profitability Ratios						
EBIDTA Margins	12.7%	9.2%	11.8%	11.9%	10.8%	11.4%
EBIT Margins	13.3%	9.0%	10.2%	10.7%	9.3%	10.1%
PBT Margins	12.9%	6.4%	0.1%	6.2%	8.2%	9.6%
APAT Margins	11.0%	4.9%	1.8%	6.2%	8.0%	9.5%
ROCE	12.5%	7.6%	10.4%	9.9%	10.0%	17.6%
RONW	10.9%	7.3%	3.4%	11.1%	15.5%	18.0%
Valuation Ratios						
BV	78.3	76.0	36.2	40.6	43.1	50.7
CEPS	10.1	8.6	2.6	5.8	8.5	11.0
EPS	8.5	5.5	1.2	4.5	6.7	9.1
P/BV				7.4	7.0	5.9
P/CEPS				51.4	35.4	27.2
P/EPS				66.7	44.9	33.0
EV/EBIDTA				37.5	36.6	30.4
Debt/Networth	0.1	0.9	0.9	0.7	0.8	0.7
Working Capital Ratios						
Inventory Turnover Ratio	9.0	7.7	6.4	7.6	8.2	9.1
Inventory Days	40	47	57	48	45	40
Debtors Turnover Ratio	5.9	11.3	13.8	19.8	26.4	20.8
Debtor Days	61	32	27	18	14	18
Creditors Turnover Ratio	7.5	3.3	5.2	5.8	5.9	6.5
Creditor Days	49	111	70	63	62	56

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Name of the Security	Jyothy Laboratories Ltd.
Name of the analyst	Shivani Vishwanathan
Analysts' ownership of any stock related to the information contained	
Financial Interest	No
Analyst :	No
Analyst's Relative : Yes / NO	No
Analyst's Associate/Firm : Yes/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
Investment Banking relationship with company covered	NIL

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