

RETAIL EQUITY RESEARCH

Jyothy Laboratories Ltd

Fast Moving Consumer Goods

BSE CODE:532926

NSE CODE: JYOTHYLAB

Bloomberg CODE: JYL:IN

SENSEX: 37,337

27th July, 2018

Accumulate

Rating as per Midcap

12months investment period

CMP Rs.224 TARGET Rs.252 RETURN 13% ↑

Strong growth across segments...low base supported

Jyothy Laboratories Ltd (JLL) is an Indian FMCG player with products across Fabric care, Dishwashing, Mosquito repellents & Personal Care.

- JLL reported a stipulating earnings growth of 57%YoY supported by 18% growth in revenue and 240bps improvement in EBITDA margin.
- Revenue growth was driven by strong growth in volumes at 18.5%YoY.
- All categories witnessed strong growth, Fabric Care (13%), Dishwashing (28%), Household insecticides (28%) and personal care (28%).
- Demand outlook is very positive given good monsoon, strong government focus on rural and recent MSP hike. Management has guided for 15% revenue growth for FY19 and 16%-17% for EBITDA margin.
- We factor revenue/PAT growth of 12%/30% CAGR over FY18-20E, maintain our Target of Rs252 at 36x FY20E PE and recommend accumulate

Strong growth...low base supported

For Q1FY19, JLL reported standalone revenue growth of 18%YoY driven by strong volume growth of 18.5%YoY. Revenue growth was visible across all major categories on YoY basis. Fabric care (13%), Dish washing (28%), Household insecticides (28%) and Personal Care (28%) which altogether contribute 98% of total revenue. JLL's total power brands including Ujala and Exo have shown growth of 21%YoY. Management is very positive on the strong demand outlook given good monsoon, higher MSP and other rural initiatives of the government and has guided for 15%/12% growth in revenue for FY19E/FY20E. With JLL's strong focus on innovation & new launches, strengthening position in existing brands and gaining traction into newer geographies we expect strong volumes to continue and factor 12% CAGR in revenue over FY18-20E.

Guided for 16%-17% EBITDA margin...

EBITDA margins expanded by 240bps to 15.1% despite 240bps decline in gross margins to 47.4%. The higher crude oil price has caused 240bps increase in raw material cost (as % of sale) which was partially offset by cost efficiency measures as other expenses has reduced by 320bps (% of sales). Management has guided for 16%-17% EBITDA margins for FY19E supported by volume growth, improvement in mix and price increase. We factor 16.1%/16.9% EBITDA margin for FY19E/FY20E by considering strong rural demand outlook. GST is expected to structurally change the supply chain and bring efficiencies going forward.

Innovation & expansion strategy to continue...

JLL focuses on strong brand building and expansion across the country. JLL has dynamic push for its power brands through advertisements and promotions which observed notable results. JLL introduced Rs10 pack of Henko and volumes witnessed a splendid 18%YoY in the quarter. JLL has a special interest on natural products in personal care segment- Margo saw 29.5% growth in Q1FY19 and has been growing at 23% CAGR over the last six years. Further, entering into the toilet cleaner segment in Kerala through T Shine, they are now planning to expand to other states in southern region. JLL hopes for a big opportunity for its newly introduced product- antibacterial dish wash scrubber which saw ~35% growth in Q1FY19. Last year JLL has announced its plan to initiate into Ayurveda segment.

Valuations

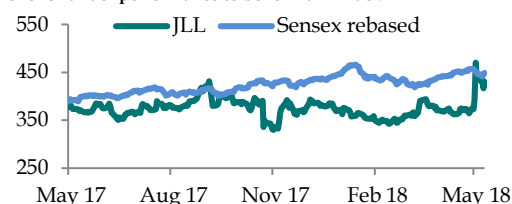
Strong volume growth to continue across power brands supported by strong pick up in rural demand. Surge in crude price can impact RM cost but cost efficiency measures and price hike is expected to support margins. We maintain our target price of Rs.252 by valuing at 36x on FY20E EPS and recommend Accumulate.

| Company Data | |
|-------------------------|-----------|
| Market Cap (cr) | Rs. 8,139 |
| Enterprise Value (cr) | Rs.8,361 |
| Outstanding Shares (cr) | 36.4 |
| Free Float | 33% |
| Dividend Yield | 0.2% |
| 52 week high | Rs. 249 |
| 52 week low | Rs. 163 |
| 6m average volume (cr) | 0.04 |
| Beta | 0.28 |
| Face value | Rs1 |

| Shareholding (%) | Q3FY18 | Q4FY18 | Q1FY19 |
|------------------|--------|--------|--------|
| Promoters | 66.9 | 66.9 | 66.9 |
| FII's | 15.2 | 16.4 | 16.2 |
| MFs/Insti | 6.1 | 6.5 | 6.2 |
| Public | 11.8 | 10.2 | 10.7 |
| Total | 100.0 | 100.0 | 100.0 |

| Price Performance | 3month | 6month | 1 Year |
|-------------------|--------|--------|--------|
| Absolute Return | 22.9% | 9.3% | 14.2% |
| Absolute Sensex | 2.4% | 4.7% | 13.3% |
| Relative Return* | 20.6% | 4.7% | 0.8% |

*over or under performance to benchmark index



| Consolidated (Rs.cr) | FY18A | FY19E | FY20E |
|----------------------|-------|-------|-------|
| Sales | 1,746 | 1,973 | 2,200 |
| Growth (%) | 3.7 | 13.0 | 11.5 |
| EBITDA | 271 | 317 | 373 |
| Margin(%) | 15.5 | 16.1 | 16.9 |
| PAT Adj | 153 | 208 | 255 |
| Growth (%) | 8.1 | 36.3 | 21.8 |
| Adj.EPS | 4.2 | 5.7 | 7.0 |
| Growth (%) | 8.1 | 36.3 | 21.8 |
| P/E | 53.2 | 39.0 | 31.9 |
| P/B | 7.2 | 6.7 | 6.1 |
| EV/EBITDA | 30.9 | 26.2 | 22.1 |
| RoE (%) | 13.8 | 17.8 | 20.0 |
| D/E | 0.3 | 0.2 | 0.2 |

Vincent Andrews
Analyst

Financials (Consolidated)

Profit & Loss Account

| (Rscr) | Q1FY19# | Q1FY18* | YoY Growth % | Q4FY18# | QoQ Growth % |
|-----------------------|---------|---------|--------------|---------|--------------|
| Revenue | 405.3 | 344.0 | 17.8% | 477.3 | -15.1% |
| EBITDA | 61.0 | 43.6 | 39.8% | 90.6 | -32.7% |
| Margin (%) | 15.1% | 12.7% | 240bps | 19.0% | (390bps) |
| Depreciation | 13.8 | 14.1 | -2.0% | 14.6 | -5.6% |
| EBIT | 47.2 | 29.6 | 59.6% | 76.0 | -37.9% |
| Interest | 7.7 | 8.6 | -10.2% | 12.7 | -39.5% |
| Other Income | 2.2 | 1.8 | 21.3% | 22.1 | -90.2% |
| Exceptional Items | 0.0 | 0.0 | NA | 0.0 | NA |
| PBT | 41.7 | 22.8 | 83.0% | 85.4 | -51.2% |
| Tax | 9.3 | 2.2 | 330.1% | 25.0 | -62.9% |
| Reported PAT | 32.4 | 20.6 | 57.1% | 60.4 | -46.3% |
| Adjustment | 0.0 | 0.0 | NA | -25.9 | NA |
| Adj PAT | 32.4 | 20.6 | 57.1% | 34.5 | -6.0% |
| No. of shares (cr) ** | 18.2 | 18.2 | 0.0% | 18.2 | 0.0% |
| EPS (Rs) | 1.8 | 1.1 | 57.1% | 1.9 | -6.0% |

* reported (pre- GST)

post GST

** pre bonus issue

Change in estimates

| Year / Rscr | Old estimates | | New estimates | | Change % | |
|-------------|---------------|-------|---------------|-------|----------|-------|
| | FY19E | FY20E | FY19E | FY20E | FY19E | FY20E |
| Revenue | 1959 | 2185 | 1973 | 2200 | 0.7% | 0.7% |
| EBITDA | 306 | 369 | 317 | 373 | 3.5% | 1.0% |
| Margins (%) | 15.6% | 16.9% | 16.1% | 16.9% | 50bps | 0bps |
| PAT | 203 | 254 | 208 | 254 | 2.8% | 0.3% |
| EPS | 5.6 | 7.0 | 5.8 | 7.0 | 2.8% | 0.6% |

Consolidated Financials

Profit & Loss Account

| Y.E March (Rscr) | FY16A | FY17A | FY18A | FY19E | FY20E |
|----------------------|-------------|-------------|-------------|-------------|-------------|
| Sales | 1593 | 1683 | 1746 | 1973 | 2200 |
| % change | 5.1 | 5.7 | 3.7 | 13.0 | 11.5 |
| EBITDA | 238 | 257 | 271 | 317 | 373 |
| % change | 24.3 | 7.8 | 5.4 | 17.0 | 17.7 |
| Depreciation | 30 | 29 | 31 | 32 | 33 |
| EBIT | 207 | 227 | 240 | 285 | 339 |
| Interest | 62 | 56 | 48 | 32 | 30 |
| Other Income | 14 | 11 | 49 | 8 | 9 |
| PBT | 143 | 179 | 241 | 261 | 317 |
| % change | 14.9 | 24.8 | 34.7 | 8.3 | 21.8 |
| Tax | 69 | -26 | 62 | 52 | 63 |
| Tax Rate (%) | 48.4% | -14.3% | 25.7% | 20.0% | 20.0% |
| Reported PAT | 74 | 204 | 179 | 208 | 254 |
| Adj* | 16 | -63 | -26 | 0 | 0 |
| Adj PAT | 90 | 142 | 153 | 208 | 254 |
| % change | -15.1 | 57.0 | 8.1 | 36.3 | 21.8 |
| No. of shares (mn)* | 18 | 18 | 18 | 18 | 18 |
| Adj EPS (Rs)* | 2.5 | 3.9 | 4.2 | 5.8 | 7.0 |
| % change | -15.1 | 57.0 | 8.1 | 36.3 | 21.8 |
| DPS (Rs) | 2.4 | 0.6 | 3.6 | 3.6 | 3.6 |
| CEPS (Rs) | 3.4 | 4.7 | 4.1 | 6.6 | 7.9 |

Cash flow

| Y.E March (Rscr) | FY16A | FY17A | FY18A | FY19E | FY20E |
|------------------------|-------------|-------------|-------------|-------------|-------------|
| Net inc. + Deprn. | 105 | 234 | 210 | 240 | 288 |
| Non-cash adj. | 84 | -5 | 37 | 25 | 22 |
| Changes in W.C | 3 | -66 | -4 | -100 | -37 |
| C.F.O | 192 | 163 | 243 | 164 | 272 |
| Capital exp. | -26 | -57 | 4 | -15 | -15 |
| Change in inv. | 118 | 60 | -85 | 0 | 0 |
| Other invest.CF | 4 | 7 | 5 | 8 | 9 |
| C.F - investing | 108 | -17 | -75 | -7 | -6 |
| Issue of equity | 0 | 49 | -426 | 0 | 0 |
| Issue/repay debt | -117 | -2 | 412 | -6 | -6 |
| Dividends paid | -174 | -22 | -131 | -131 | -131 |
| Other finance.CF | -10 | -156 | 0 | -32 | -30 |
| C.F - Financing | -302 | -130 | -145 | -170 | -168 |
| Chg. in cash | -2 | 16 | 23 | -12 | 99 |
| Closing cash | 24 | 40 | 63 | 51 | 149 |

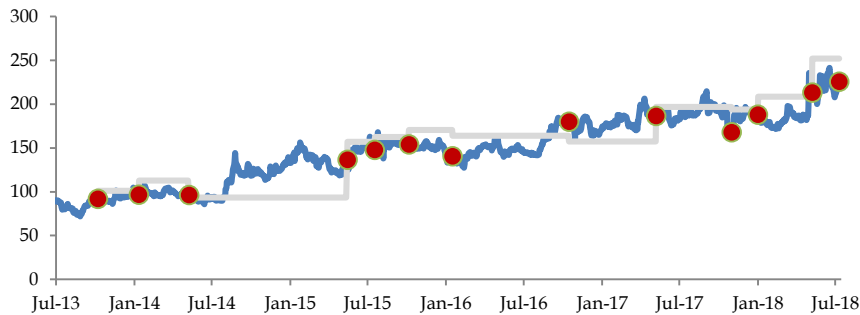
Balance Sheet

| Y.E March (Rscr) | FY16A | FY17A | FY18A | FY19E | FY20E |
|--------------------------|-------------|-------------|-------------|-------------|-------------|
| Cash | 24 | 40 | 63 | 50 | 149 |
| Accounts Receivable | 94 | 123 | 161 | 157 | 175 |
| Inventories | 185 | 196 | 188 | 207 | 227 |
| Other Cur. Assets | 391 | 395 | 461 | 495 | 514 |
| Investments | 0 | 0 | 0 | 0 | 0 |
| Gross Fixed Assets | 305 | 361 | 384 | 394 | 404 |
| Net Fixed Assets | 278 | 306 | 298 | 276 | 253 |
| CWIP | 6 | 9 | 15 | 15 | 15 |
| Intangible Assets | 792 | 791 | 793 | 798 | 803 |
| Def. Tax (Net) | -41 | -7 | 0 | 0 | 0 |
| Other Assets | 0 | 0 | 0 | 0 | 0 |
| Total Assets | 1729 | 1853 | 1979 | 1999 | 2135 |
| Current Liabilities | 769 | 658 | 498 | 448 | 460 |
| Provisions | 53 | 58 | 66 | 65 | 72 |
| Debt Funds | 7 | 55 | 285 | 279 | 273 |
| Other Liabilities | 0 | 0 | 0 | 0 | 0 |
| Equity Capital | 18 | 18 | 18 | 18 | 18 |
| Reserves & Surplus | 881 | 1064 | 1112 | 1189 | 1312 |
| Shareholder's Fund | 899 | 1082 | 1130 | 1208 | 1330 |
| Total Liabilities | 1729 | 1853 | 1979 | 1999 | 2135 |
| BVPS (Rs) | 50 | 60 | 62 | 66 | 73 |

Ratios

| Y.E March | FY16A | FY17A | FY18A | FY19E | FY20E |
|-------------------------------|-------|-------|-------|-------|-------|
| Profitab. & Return | | | | | |
| EBITDA margin (%) | 15.0 | 15.26 | 15.5 | 16.1 | 16.9 |
| EBIT margin (%) | 13.0 | 13.5 | 13.7 | 14.5 | 15.4 |
| Net profit mgn.(%) | 5.7 | 8.4 | 8.8 | 10.6 | 11.5 |
| ROE (%) | 9.6 | 14.3 | 13.8 | 17.8 | 20.0 |
| ROCE (%) | 11.4 | 15.0 | 12.9 | 16.2 | 18.0 |
| W.C & Liquidity | | | | | |
| Receivables (days) | 17.4 | 23.5 | 29.6 | 29.4 | 27.5 |
| Inventory (days) | 42.8 | 41.4 | 40.2 | 36.6 | 36.0 |
| Payables (days) | 128.6 | 154.7 | 120.8 | 87.4 | 75.3 |
| Current ratio (x) | 0.8 | 1.1 | 1.5 | 1.8 | 2.0 |
| Quick ratio (x) | 0.2 | 0.2 | 0.4 | 0.5 | 0.7 |
| Turnover & Levq. | | | | | |
| Gross asset T.O (x) | 5.4 | 5.1 | 4.7 | 5.1 | 5.5 |
| Total asset T.O (x) | 0.9 | 0.9 | 0.9 | 1.0 | 1.1 |
| Int. covge. ratio (x) | 3.3 | 4.0 | 5.0 | 8.8 | 11.2 |
| Adj. debt/equity (x) | 0.0 | 0.5 | 0.3 | 0.2 | 0.2 |
| Valuation ratios | | | | | |
| EV/Sales (x) | 5.4 | 5.1 | 4.8 | 4.2 | 3.8 |
| EV/EBITDA (x) | 35.8 | 33.4 | 30.9 | 26.4 | 22.2 |
| P/E (x) | 90.3 | 57.5 | 53.2 | 39.0 | 32.0 |
| P/BV (x) | 9.0 | 7.5 | 7.2 | 6.7 | 6.1 |

Recommendation Summary (last 3 years)



Source: Bloomberg, Geojit Research

| Dates | Rating | Target |
|--------------------------------|------------|--------|
| 24 th October 2013 | Hold | 101 |
| 28 th January 2014 | Accumulate | 113 |
| 26 th May 2014 | Reduce | 93.5 |
| 01 st June 2015 | Accumulate | 157 |
| 04 th August 2015 | Hold | 162.5 |
| 23 rd October 2015 | Accumulate | 170.5 |
| 2 nd February 2016 | Accumulate | 164 |
| 1 st November 2016 | Reduce | 157.5 |
| 24 th May 2017 | Hold | 197 |
| 17 th November 2017 | Buy | 194 |
| 19 th January 2018 | Accumulate | 208.5 |
| 29 th May 2018 | Buy | 252 |
| 27 th July 2018 | Accumulate | 252 |

Investment Rating Criteria

Large Cap Stocks;

| | | |
|--------|---|-----------------------------|
| Buy | - | Upside is above 10%. |
| Hold | - | Upside is between 0% - 10%. |
| Reduce | - | Downside is more than 0%. |

Mid Cap and Small Cap;

| | | |
|-------------|---|------------------------------|
| Buy | - | Upside is above 15%. |
| Accumulate | - | Upside is between 10% - 15%. |
| Hold | - | Upside is between 0% - 10%. |
| Reduce/Sell | - | Downside is more than 0%. |

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

The recommendations are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating.

For reasons of valuations/return/lack of clarity/event we may revisit rating at appropriate time. Please note that the stock always carries the risk of being upgraded to BUY or downgraded to a HOLD, REDUCE or SELL.

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