

Retail Equity Research (South India Focus)

Jyothy Labs Ltd

FMCG

BSE CODE : 532926

NSE CODE: JYOTHYLAB

BLOOMBERG CODE: JYL:IN

SENSEX : 34,371

Accumulate

12M Investment Period

Rating as per Small Cap

CMP Rs117 TARGET Rs135 RETURN 15 %

(Closing: 08-06-20)

KEY CHANGES:

TARGET ↓

RATING ↔

EARNINGS ↓

Covid-19 impacted year end seasonal sales...

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

- We revise down our target to Rs135 on account of COVID-19 led disruption but maintain Accumulate due to drop in stock price.
- For Q4FY20, revenue de-grew by ~24%YoY. ~Rs.150cr impacted due to COVID-19 led disruption in year end seasonal sales.
- EBITDA margin declined sharply by 550bps YoY due to fall in sales along with fixed costs (staff and committed advertisement costs).
- Despite lock-down restrictions, April and May have seen positive sales growth as ~85% of the product portfolio are in essential & hygiene category.
- JLL launched liquid hand-wash & sanitiser under Margo brand which will also support growth during this COVID period.
- We factor revenue/earnings to grow at ~7%/14% CAGR over FY20-22E and value JLL at 23x FY22 P/E.

Topline declined due to COVID-19 led lockdown...

For Q4FY20, revenue de-grew by ~24% YoY on account of nationwide lockdown due to COVID-19 pandemic. ~Rs.150cr sales was impacted due to this lockdown as generally the dealers stock House Hold Insecticides (HI) products in anticipation of onset of high mosquito infestation season from April and stocks of 'Soaps' anticipating a higher demand with the arrival of Summer season. HI and Personal segment segments declined by the most (~36% YoY each) while Fabric and Dish wash segments de-grew by 17% YoY and 21% YoY respectively. As per the company, despite this lockdown led restrictions, April and May have seen positive growth. This is because, ~85% of the product portfolio comprises of essential and hygiene products which is supporting sales. The company continue to focus on its innovation strategy and has launched liquid hand-wash and Sanitiser under the Margo brand during this COVID period. The strong focus on hygiene products coupled with strong penetration in rural markets will also help the company to support growth. The expectation of normal monsoon will support the rural demand. We revise downgrade our revenue estimates to factor demand slowdown due to the impact of COVID-19 on the economy and expect ~7% CAGR in revenue over FY20-22E.

Margins declined but to recover in current fiscal...

EBITDA margin declined by 550bps YoY in the quarter to 10.3% and EBITDA de-grew by 50%YoY. This was largely due to the drop in sales along with fixed nature cost like staff cost (80% of the production from own plants) and pre-committed advertisement spends. Now, with sales are back to pre-COVID levels along with reduction in crude prices, the company expects the EBITDA margins to be in the range of 15%-16% for FY21E. Focus on lower unit packs which do not have any trade schemes (higher margins) now contributes ~35% of total revenue which will also support margin improvement. The company has decided to opt for concessional income tax rate from FY27 onwards once the benefits under 80IE are utilised (till FY26). The company has guided for effective tax rate of 15%. We expect PAT to grow by 14% CAGR over FY19-22E.

Valuations & outlook...

The COVID-19 led disruption in the economy is expected to have impact on consumption demand. However, the essential and hygiene nature of products will be beneficial to the company. JLL continuously invest in brand building for its power brands through advertisements and promotions which results in market share gains. Additionally, the expectation of normal monsoon will support rural demand. Currently the stock is trading at 24x 1Yr Fwd P/E. We lower our valuations to factor the slowdown in the economy, value JLL at 23x to arrive at a revised Target of Rs135 but maintain Accumulate rating due to recent sharp drop in stock price.

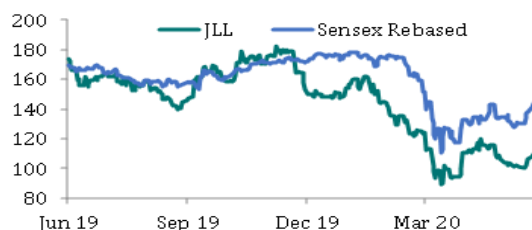
Company Data

Market Cap (cr)	Rs.4,296
Enterprise Value (cr)	Rs.4,442
Outstanding Shares (cr)	36.7
Free Float	33%
Dividend Yield	2.1%
52 week high	Rs.185
52 week low	Rs.86
6m average volume (cr)	0.04
Beta	1.06
Face value	Rs1

Shareholding (%)	Q2FY20	Q3FY20	Q4FY20
Promoters	67.11	62.89	62.89
FII's	15.7	15.28	14.70
MFs/Insti	10.95	15.41	15.78
Public	6.2	6.42	6.63
Total	100.0	100.0	100.0
Promoter Pledge (%)	25.0	8.5	8.5

Price Performance	3 month	6 Month	1 Year
Absolute Return	-5.3%	-21.4%	-30.2%
Absolute Sensex	-3.2%	-14.9%	-13.2%
Relative Return*	-2.0%	-6.5%	-17.0%

over or under performance to benchmark index



Consolidated (cr)	FY20A	FY21E	FY22E
Sales	1,711	1,773	1,960
Growth (%)	-5.6	3.6	10.5
EBITDA	251	256	311
EBITDA Margin(%)	14.7	14.5	15.8
PAT Adj.	166	167	215
Growth (%)	-15.8	0.4	28.3
Adj.EPS	4.5	4.5	5.9
Growth (%)	-15.8	0.4	28.8
P/E	25.8	25.7	20.0
P/B	3.5	3.4	3.2
EV/EBITDA	17.9	17.3	13.8
ROE (%)	13.0	13.4	16.5
D/E	0.2	0.1	0.1

Vincent Andrews
Research Analyst

Quarterly Financials (Consolidated)

Profit & Loss

Rs cr)	Q4FY20	Q4FY19	YoY Growth %	Q3FY20	QoQ Growth %	FY20	FY19	YoY Growth %
Sales	393.0	516.0	-23.8%	420.8	-6.6%	1711.2	1813.6	-5.6%
EBITDA	40.6	81.3	-50.1%	66.3	-38.8%	251.1	281.1	-10.7%
EBITDA margins %	10.3%	15.8%	(550bps)	15.8%	(550bps)	14.7%	15.5%	(80bps)
Depreciation	14.2	10.0	41.9%	13.2	7.2%	52.9	30.6	73.1%
EBIT	26.4	71.3	-63.0%	53.1	-50.3%	198.2	250.5	-20.9%
Interest	7.8	9.4	-17.4%	8.9	-12.3%	32.9	250.5	-86.9%
Other Income	4.6	11.8	-61.1%	5.0	-8.7%	20.0	27.8	-27.9%
Exceptional Items	0.0	0.0	NA	0.0	NA	3.8	0.0	NA
PBT	23.2	73.7	-68.5%	49.3	-52.9%	181.5	243.0	-25.3%
Tax	3.0	15.3	-80.7%	7.2	-59.1%	27.3	45.4	-40.0%
Reported PAT	26.6	66.8	-60.2%	45.0	-40.9%	162.6	197.6	-17.7%
Adjustments	0.0	0.0	NA	0.0	NA	3.8	0.0	NA
Adj PAT	26.6	66.8	-60.2%	45.0	-40.9%	166.4	197.6	-15.8%
No. of Shares	36.7	36.7	0.0%	36.7	0.0%	36.7	36.7	0.0%
EPS (Rs)	0.7	1.8	-60.2%	1.2	-40.9%	4.5	5.4	-15.8%

Change in Estimates

Year / Rs cr	Old estimates		New estimates		Change %	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Revenue	1960	2159	1773	1960	-9.5%	-9.2%
EBITDA	308	345	256	311	-16.7%	-10.0%
Margins (%)	15.7%	16.0%	14.5%	15.8%	(120bps)	(20bps)
Adj. PAT	224	252	170	221	-24.3%	-12.3%
EPS	6.2	6.9	4.6	6.0	-25.5%	-12.8%

Consolidated Financials

PROFIT & LOSS

Y.E March (Rs Cr)	FY18A	FY19A	FY20E	FY21E	FY22E
Sales	1672	1814	1711	1773	1960
% change	-0.6	8.4	-5.6	3.6	10.5
EBITDA	257	281	251	256	311
% change	0.2	9.2	-10.7	2.1	21.1
Depreciation	31	31	53	54	53
EBIT	226	251	198	203	258
Interest	48	35	33	27	27
Other Income	62	28	20	21	24
PBT	241	243	182	197	254
% change	34.7	1.0	-25.3	8.5	28.9
Tax	62	45	19	30	39
Tax Rate (%)	25.7%	18.7%	10.4%	15.2%	15.3%
Reported PAT	179	198	163	167	215
Adj.*	-26	0	4	0	0
Adj. PAT	153	198	166	167	215
% change	8.1	29.2	-15.8	0.4	28.8
No. of shares (cr)	18	37	37	37	37
Adj EPS (Rs)	4.2	5.4	4.5	4.5	5.9
% change	8.1	29.2	-15.8	0.4	28.8
DPS (Rs)	7.2	3.6	3.6	3.6	3.6

CASH FLOW

Y.E March (Rs Cr)	FY18A	FY19A	FY20E	FY21E	FY22E
Net inc. + Depn.	210	228	216	221	268
Non-cash adj.	37	25	9	27	27
Changes in W.C	-4	-95	-53	-84	-21
C.F. Operation	243	159	171	163	274
Capital exp.	4	-40	-42	-11	-20
Change in inv.	-85	0	112	0	0
Other invest.CF	5	7	2	0	0
C.F - Investment	-75	-32	72	-10	-20
Issue of equity	-426	19	0	0	0
Issue/repay debt	412	-64	4	4	-41
Dividends paid	-131	-132	-266	-132	-132
Other finance.CF	0	63	-21	-27	-27
C.F - Finance	-145	-114	-304	-156	-201
Chg. in cash	23	12	-60	-3	53
Closing cash	63	75	15	12	66

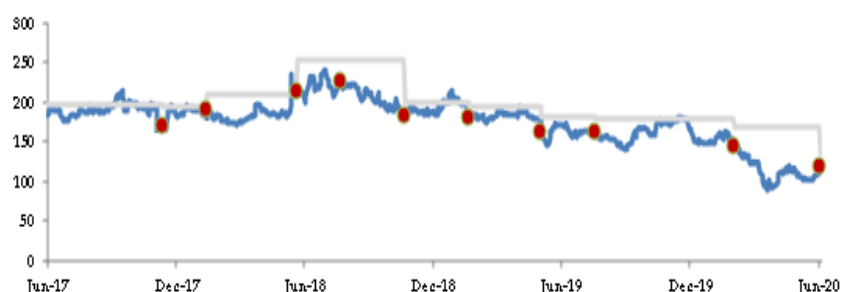
BALANCE SHEET

Y.E March (Rs Cr)	FY18A	FY19A	FY20E	FY21E	FY22E
Cash	63	75	15	12	66
Accounts Receivable	161	153	122	146	161
Inventories	188	202	225	195	213
Other Cur. Assets	249	190	86	174	191
Investments	0	0	0	0	0
Gross Fixed Assets	384	425	527	547	567
Net Fixed Assets	298	308	357	323	290
CWIP	15	14	25	15	15
Intangible Assets	793	793	792	792	792
Def. Tax (Net)	90	93	103	103	103
Other Assets	0	0	0	0	109
Total Assets	1857	1828	1725	1761	1941
Current Liabilities	498	348	334	339	370
Provisions	66	68	79	61	67
Debt Funds	285	221	224	228	187
Other Liabilities	0	0	0	0	0
Equity Capital	18	37	37	37	37
Reserves & Surplus	1112	1290	1192	1227	1309
Shareholder's Fund	1130	1305	1200	1234	1317
Total Liabilities	1979	1942	1836	1862	1941
BVPS	31	36	33	34	37

RATIOS

Y.E March	FY18A	FY19A	FY20E	FY21E	FY22E
Profitab & Return					
EBITDA margin (%)	15.4	15.5	14.7	14.5	15.8
EBIT margin (%)	13.5	13.8	11.6	11.4	13.2
Net profit mgn.(%)	9.1	10.9	9.7	9.4	11.0
ROE (%)	13.8	16.1	13.0	13.4	16.5
ROCE (%)	12.9	15.4	13.3	13.2	16.1
W.C & Liquidity					
Receivables (days)	30.9	31.6	29.4	27.6	28.6
Inventory (days)	42.0	39.3	45.6	43.3	38.1
Payables (days)	126.1	85.1	72.7	69.2	66.0
Current ratio (x)	1.2	1.5	1.1	1.3	1.4
Quick ratio (x)	0.4	0.7	0.4	0.5	0.6
Turnover & Leverage					
Gross asset T.O (x)	4.5	4.5	3.6	3.3	3.5
Total asset T.O (x)	0.9	0.9	0.9	1.0	1.0
Int. covge. ratio (x)	4.7	7.1	6.0	7.5	9.4
Adj. debt/equity (x)	0.3	0.2	0.2	0.2	0.1
Valuation					
EV/Sales (x)	2.7	2.4	2.6	2.5	2.2
EV/EBITDA (x)	17.5	15.8	17.9	17.3	13.8
P/E (x)	28.1	21.7	25.8	25.7	20.0
P/BV (x)	3.8	3.2	3.5	3.4	3.2

Recommendation summary (last 3 years)



Dates	Rating	Target
2 nd February 2016	Accumulate	164
1 st November 2016	Reduce	158
24 th May 2017	Hold	197
17 th November 2017	Buy	194
19 th January 2018	Accumulate	208
29 th May 2018	Buy	252
27 th July 2018	Accumulate	252
26 th October 2018	Hold	198
25 th January 2019	Hold	193
08 th May 2019	Accumulate	182
25 th July 2019	Accumulate	178
06 th February 2020	Accumulate	169
09 th June 2020	Accumulate	135

Source: Bloomberg, Geojit Research.

Investment Criteria

Ratings	Large caps	Midcaps	Small caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10% - 15%	Upside is between 10% - 20%
Hold	Upside is between 0% - 10%	Upside is between 0% - 10%	Upside is between 0% - 10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated	-	-	-

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note.

Accumulate: Partial buying or to accumulate as CMP dips in the future.

Hold: Hold the stock with the expected target mentioned in the note.

Reduce: Reduce your exposure to the stock due to limited upside.

Sell: Exit from the stock.

Not rated : The analyst has no investment opinion on the stock.

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

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