

RETAIL EQUITY RESEARCH

JYOTHY LABORATORIES LTD(JLL)

Fast Moving Consumer Goods

BSE CODE: 532926

NSE CODE: JYOTHYLAB

Bloomberg CODE: JYLIN

SENSEX 18,946

BUY

CMP Rs 168 TARGET Rs 202 RETURN 20%

13th August 2013

Margin expands 370bps...upgrade to BUY

Jyothy Laboratories Ltd (JLL) has reported a strong Q1FY14 with 370bps YoY improvement in EBITDA margin on a sales growth of 13%. Bulk of the margin expansion has come through gross margin improvement of 700bps to 47.3% lead by business restructuring (pls refer our Initiating coverage report dated 2nd July'13). Improvement in margins amidst a slower sales growth show the possibility of further upside in margin as sales are expected to recover in coming quarters. We maintain our sales projection of 23.4% & 18.9%, EBITDA margins of 13.5% and 14.3% for FY14E and FY15E with a positive bias.

Sales growth to gather momentum...

JLL reported a lower than expected sales growth of 13% in Q1FY14. The sales growth was lead by key brand Ujala which grew by 37%. The combined Soaps & Detergent segment grew by 17%. The slump in sales growth was mainly due to subdued growth in Maxo (household insecticide) and some non core products. Maxo sales are likely to pick up in the coming quarters lead by breakthrough product innovations and key advertisement initiatives. The management sounded very optimistic and have maintained its 20%-25% sales growth guidance for FY14E. We maintain our consolidated sales growth target of 23% for FY14E and 19% FY15E as investments on brands and advertisement are set to yield benefits in the upcoming quarters.

Investing on brand building...

Q1FY14 witnessed a significant increase in advertisement & promotion spend (A&P) to 12% of sales from 8%, a YoY growth of 69%. This is lead by nation-wide advt. undertaken during last 4-6 weeks of Q1FY14, and includes an initial one-off investment of Rs50mn. These higher A&P spend will reflect better sales growth in the coming quarters. Aggressive A&P spends are likely for brands such as Maxo and Henko. Advt. spend as a percentage to sales will increase to 10% of sales from 7%-8% earlier.

Market share to be regained...

JLL witnessed marginal fall in market share in key products like Ujala Fabric whitener, Maxo coil and Pril dishwash. Management sounded optimistic on regaining this lost market share with investments on brands to yield results from the next quarter.

Valuation & Recommendation

We maintain our valuation for JLL with an upward bias, as we foresee scope to increase our EBITDA margin estimates. JLL is currently trading at 27x (1yr fwd P/E) which is 22% premium to its historic average P/E. We maintain our earnings growth target of 40% for FY14E and 47% for FY15E, which is based on 21% CAGR growth in sales during FY13-15E and margin expansion to 14.3% FY15E. We assign JLL a P/E of 26x on FY15E EPS and value the company at Rs 202, and upgrade it to BUY from Accumulate.

Company Data

Market Cap (mn)	27,892
Enterprise Value (mn)	33,428
Outstanding Shares (mn)	166
Free Float	36%
Dividend Yield	1.5 %
52 week high	211
52 week low	128
6m average volume (BSE+NSE)	3,254,000
Beta	0.58
Face value	1.00

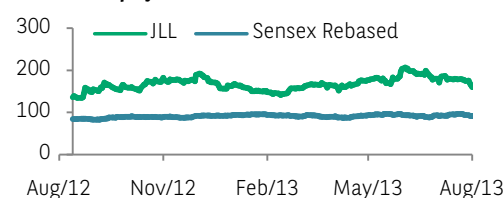
Shareholding %

	Q3 FY13	Q4 FY13	Q1 FY14
Promoters	65.46	65.57	63.69
FII's	16.27	16.46	17.00
MFs/Insti	10.05	9.56	9.13
Public	4.30	4.58	6.25
Others	3.92	3.83	3.93
Total	100.00	100.00	100.00

Price Performance

	3mth	6mth	1year
Absolute Return	-5.2 %	17.3 %	23.4 %
Absolute Sensex	-6.3 %	-2.8 %	7.4 %
Relative Return*	1.2 %	20.7 %	14.9 %

*over or under performance to benchmark index



Y.E Mar (Rs mn)

	FY13A	FY14E	FY15E
Sales	11,060	13,651	16,229
Growth (%)	21.1	23.4	18.9
EBITDA	1,297	1,847	2,327
Growth (%)	53.7	42.4	26.0
PAT Adj	626	879	1,289
Growth (%)	40.5	40.4	46.7
EPS	3.8	5.3	7.8
Growth (%)	40.5	40.4	46.7
P/E	44.5	31.7	21.6
P/B	4.6	4.5	4.0
EV/EBITDA	25.8	17.8	14.0
RoE (%)	10.5	14.6	19.5
D/E	0.9	0.7	0.5

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Savings & Investments

Standalone Financials

Profit & Loss Account

Y.E Mar (Rs mn)	FY11A	FY12A	FY13A*	FY14E	FY15E
Sales	6,068	6,635	10,187	12,471	14,948
% change	5.6	9.3	53.6	22.4	19.9
EBITDA	860	831	1,237	1,722	2,152
% change	-8.5	-3.3	48.8	39.1	25.0
Depreciation	88	144	152	168	175
EBIT	752	661	621	1,089	1,512
Interest	3	194	661	610	560
Other Income	207	565	498	550	600
PBT	956	1,032	440	1,029	1,552
% change	-5.4	8.0	-57.3	133.6	50.9
Tax	153	197	0	195	295
Tax Rate (%)	16	19	0	19	19
Reported PAT	803	835	440	833	1,257
Adj	0	0	18.3	0	0
Adj PAT	803	835	459	833	1,257
% change	0.3	4.0	-45.1	81.7	50.9
No. of shares (mn)	80.6	80.6	161.3	166	166
EPS (Rs)	4.8	5.0	2.8	5.0	7.6
% change	0.3	4.0	-47.3	89.2	50.9
DPS (Rs)	5.8	2.9	2.9	2.9	2.9
CEPS (Rs)	11.3	12.5	6.7	8.8	11.4

*From FY13 standalone numbers are including JCPL (the amalgamated entity)

Quarterly Financials

Profit & Loss Account

(Rs mn)	Q1FY14A	Q1FY13A	YoY Growth %	Q4FY13A	QoQ Growth %
Sales	2815	3192	13.4	2725	17.1
EBITDA	486	325	50	338	44
Depreciation	152	154	-	158	-
EBIT	334	172	94.2	180	85.6
Interest	167	149	12.1	175	-4.6
Other Income	129	119	8.4	131	-1.5
PBT	287	141	103	118	143
Tax*	-	-	-	-	-
Reported PAT	287	141	103	118	143
Adjustment	-	-	-	-	-
Adj PAT	287	141	103	118	143
No. of shares (mn)	166	161.3	-	161.3	-
EPS (Rs)	1.8	0.9	103	0.7	143

*The company comes under MAT hence no tax for Q1FY14, we have factored 20% effective tax rate for FY14E.



Consolidated Financials

Profit & Loss Account

Y.E Mar (Rs mn)	FY11A	FY12A	FY13A	FY14E	FY15E
Sales	6,264	9,133	11,060	13,651	16,229
% change	3.8	45.8	21.1	23.4	18.9
EBITDA	793	844	1,297	1,847	2,327
% change	-18.0	6.4	54.2	42.4	26.0
Depreciation	109	216	203	213	236
EBIT	663	594	1,072	1,603	2,061
Interest	20	238	682	630	580
Other Income	169	227	52	60	70
PBT	812	583	12	1,033	1,551
% change	-15.0	-28.1	-97.9	8239.3	50.1
Tax	154	199	-149	176	275
Tax Rate (%)	0.2	0.3	-12.0	0.2	0.2
Reported PAT	688	446	196	879	1,289
Adj*	0.0	0.0	-430	0.0	0.0
Adj PAT	688	446	626	879	1,289
% change	-7.2	-35.2	40.5	40.4	46.7
No. of shares (mn)	81	81	161	166	166
EPS (Rs)	4.1	2.7	3.8	5.3	7.8
% change	-7.2	-35.2	40.5	40.4	46.7
DPS (Rs)	5.8	2.9	2.9	2.9	2.9
CEPS (Rs)	10.1	8.6	5.3	6.8	9.4

Balance Sheet

Y.E Mar (Rs mn)	FY11A	FY12A	FY13A	FY14E	FY15E
Cash & Bank	1,103	439	193	1,065	1,172
A/C receivable	1,053	807	808	935	1,112
Inventories	694	1,220	1,722	2,081	2,474
Other Cur. Assets	626	1,142	1,617	1,776	2,112
Investments	622	15	15	15	15
Gross fixed assets	2,900	4,530	4,637	4,987	5,337
Net fixed assets	2,257	3,210	2,996	3,133	3,247
CWIP	126	31	73	50	50
Intangible assets	133	7,093	7,628	7,598	7,567
Def. tax net	-163	-161	-9	-29	-49
Other assets	1,705	242	284	284	284
Total assets	8,157	14,038	15,327	16,909	17,984
Cur. liabilities	577	1,828	2,344	3,072	3,629
Provisions	560	376	1,013	1,122	1,334
Debt funds	704	5,643	5,536	5,052	4,579
Other liabilities	5	67	49	27	14
Equity capital	81	81	161	166	166
Reserves	6,230	6,044	5,671	6,046	6,839
Total Equity	6,311	6,124	6,386	7,636	8,429
Total liabilities	8,157	14,038	15,327	16,909	17,985
BVPS (Rs)	40	38	36	37	42

Cash flow

Y.E Mar (Rs mn)	FY11A	FY12A	FY13A	FY14E	FY15E
Net inc. + Deprn.	766	600	364	1,092	1,525
Non-cash adj.	28	48	25	8	17
Changes in W.C	-645	589	-877	191	-137
C.F.O	-119	1,246	278	1,881	1,936
Capital exp.	-272	-234	-274	-327	-350
Change in inv.	-1,358	-1,833	-43	0	0
Other invest.CF	103	-4,085	32	60	70
C.F - investing	-1,527	-6,042	-285	-267	-280
Issue of equity	2,214	0	2,191	876	0
Issue/repay debt	560	4,744	68	-484	-474
Dividends paid	-338	-469	-234	-483	-483
Other finance.CF	-328	-584	-2,999	-1,135	-1,076
C.F - Financing	2,446	4,132	-239	-742	-1,549
Chg. in cash	801	-664	-246	872	106
Closing cash	1,104	439	193	1,065	1,172
No. of shares(mn)	81	81	161	166	166

Ratios

Y.E Mar (Rs mn)	FY11A	FY12A	FY13A	FY14E	FY15E
Return ratios					
EBITDA margin (%)	12.7	9.2	11.7	13.5	14.3
EBIT margin (%)	10.6	6.5	9.7	11.7	12.7
Net profit mgn.(%)	11.0	4.9	5.7	6.4	7.9
ROE (%)	13.5	7.2	10.5	14.6	19.5
ROCE (%)	9.8	4.7	8.9	9.9	11.8
W.C & Liquidity					
Receivables (days)	51.3	37.2	26.7	23.3	23.0
Inventory (days)	41.5	38.2	48.5	50.8	51.2
Payables (days)	38.4	48.1	68.8	72.4	75.4
Current ratio (x)	3.1	1.6	1.3	1.4	1.4
Quick ratio (x)	3.7	0.7	0.4	0.7	0.6
T/O & Leverage.					
Gross asset T.O (x)	2.2	2.5	2.4	2.8	3.1
Total asset T.O (x)	0.9	0.8	0.8	0.8	0.9
Int. coverage. (x)	33.3	2.5	1.6	2.5	3.6
Adj. debt/equity (x)	0.1	0.9	0.9	0.7	0.5
Valuation ratios					
EV/Sales (x)	1.4	2.0	3.1	2.4	2.0
EV/EBITDA (x)	11.4	21.4	26.0	18.0	14.1
P/E (x)	12.1	27.9	45.1	32.1	21.9
P/BV (x)	1.3	1.9	4.7	4.5	4.0



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Recommendation Criteria:

The recommendations are based on a 12 month horizon, unless otherwise specified. The recommendations 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 between the analyst recommendation and the actual absolute returns based on the current market price.

BUY	-	Absolute return of more than 18%.
Accumulate	-	Absolute returns between 10% - 18%.
Hold	-	Absolute returns between 0% - 10%.
Sell	-	Absolute returns of less than 0%.

* Accumulate is a better rating than SELL and HOLD, but lower than BUY recommendation. Clients are advised not to sell their holding in the stock and buy the stock whenever the stock provides a suitable price correction. The Analyst has a positive outlook about the company's business model; hence the stock is recommended to be brought over a period in a SIP (Systematic Investment Plan) fashion. Analyst has not given a BUY rating for reasons of premium valuations/clarity/events etc and may revisit rating at appropriate time. Please note that the stock always carries the risk of being downgraded to a HOLD or SELL recommendation on outcome of adverse events.

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