

RM price declines; margins on uptrend...

About the stock: Jyothy labs (JLL) is an FMCG company with a presence in fabric whiteners, detergents, dishwashing products, household Insecticides (HI) & Personal care products. The company has leading brand Ujala in fabric whitener with 83.6% market share. It has a sizable dish washing & HI business with mid-teens market share. Large part of the revenue is generated from Kerala and Tamil Nadu.

- The company has 23 manufacturing facilities in India. Its pan-India distribution reach is close to 2.8 million outlets with direct reach of 1.0 million. Its major brands include Ujala & Henko in fabric wash, Exo & Pril in dishwashing, Margo in soaps and Maxo in HI categories

Q3FY23 Results: JLL posted sales growth of 13.2% led by 11% pricing growth

- Sales were up 13.2% YoY with strong growth in fabric care, dish washing
- EBITDA was at ₹ 84.4 crore, up 39.5% YoY, with margins at 14.1%
- Consequent adjusted PAT was at ₹ 61.7 crore (up 74.2% YoY)

What should investors do? JLL's share price has underperformed the FMCG index with mere 11.5% return (from ₹ 182 in January 2018 to ₹ 204 in January 2022).

- With the decline in palm oil, soda ash & other crude related commodities, margins are likely to improve in FY24E
- We continue to maintain our **HOLD** rating on the stock

Target Price and Valuation: We value the stock at ₹ 215, valuing the business at 25x FY25 earnings

Key triggers for future price performance:

- Palm Oil, Linear Alkyl Benzene (LAB) & crude based commodities have declined 10-50%. Soda ash prices still remain at an elevated level. We estimate gross margin to expand 310 bps in FY24E (over FY22)
- Fabric wash segment continuously growing mainly led by pricing growth & strong volume contribution from low unit packs (LUPs)
- The growth in household insecticide category has been adversely impacted by illegal incense sticks and unfavourable weather. The category has seen a de-growth of 12% during the quarter

Alternate Stock Idea: We like TCPL in our FMCG coverage.

- Strong innovation & premiumisation strategy in salt, tea, Sampann & Soulful in the Indian market are expected to drive sales & margins
- We value the stock at ₹ 950 with a BUY rating



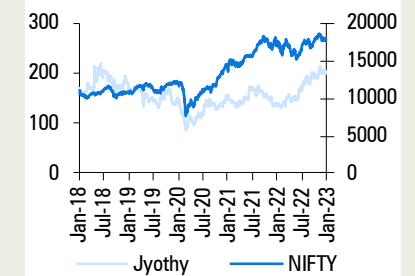
Particulars

Particulars (₹ crore)	Amount
Market Capitalization	7,485.4
Total Debt (FY22)	0.0
Cash and Investments (FY22)	206.1
EV	7,279.2
52 week H/L (₹)	208 / 130
Equity capital	36.7
Face value (₹)	1.0

Shareholding pattern

(in %)	Mar-22	Jun-22	Sep-22	Dec-22
Promoter	62.9	62.9	62.9	62.9
FII	10.9	11.5	12.8	13.4
DII	16.9	18.1	17.5	17.1
Others	9.3	7.5	6.8	6.6

Price Chart



Recent event & key risks

- Fabric wash segment has been witnessing strong growth through LUPs
- Key Risk:** (i) Volume growth tapers down due to highly competitive activity (ii) Operating margins expand back to historic levels quicker than our estimate

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Key Financial Summary

Key Financials	FY20	FY21	5 Year CAGR (FY17 to FY22)					CAGR (FY22-25E)
			FY22	FY23E	FY24E	FY25E		
Net Sales	1665.4	1885.0	2166.3	5.9	2437.7	2641.3	2853.6	9.6%
EBITDA	249.8	316.7	249.5	-0.8	312.6	386.1	421.6	19.1%
EBITDA Margin %	15.0	16.8	11.5		12.8	14.6	14.8	
Adjusted Net Profit	161.3	210.3	156.1	-5.0	244.5	285.7	311.6	25.9%
Adjusted EPS (₹)	4.4	5.7	4.3	-5.0	6.7	7.8	8.5	25.9%
P/E	46.4	35.6	47.9		30.6	26.2	24.0	
RoNW %	21.7	22.5	16.6		24.2	27.0	27.9	
RoCE (%)	24.3	26.0	18.7		27.5	31.4	32.6	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter

Q3FY23 Results: Margins improves sequentially as well as YoY

- JLL witnessed sales growth of 13.2% to ₹ 598.6 crore led by 11% pricing growth & 2.1% volume growth. Ex-HI segment volume growth was 3.9%
- Fabric wash segment continues to see strong 26% growth during the quarter. Dish washing & personal care segment also saw healthy 10% and 11.6% growth in Q3FY23, respectively
- HI segment saw a sales decline of 15.6% during the quarter mainly on account of off-season impact on the category. Moreover, illegal incense sticks again came into prominence post Covid period. The category saw 12% de-growth in Q3FY23
- Liquid HI only still only contributes 35% of HI sales. Higher contribution of coils for the company has been adversely impacting sales. HI segment is loss making for the company with ₹ 6.9 crore loss in Q3FY23
- On a three-year CAGR basis, fabric wash, dish washing & personal care segment grew 15.3%, 13.8% & 18.3%, respectively, whereas HI sales remained flat during the same period
- Most commodity prices have witnessed a steep decline in the last six months. Caustic soda, crude palm oil & LDPE prices have corrected by 34%, 44% & 29%, respectively, in the last nine months. Similarly, PET, LAB & Polypropylene prices dipped by 19%, 4% & 8%, respectively in the last nine months
- Soda ash prices still remain elevated at ₹ 39/kg compared to ₹ 35/kg in March 2022. It is up 63% since March 2021
- Within fabric wash segment, Ujala & Henko continue to witness strong growth with increase in mobility compared to base quarter. Moreover, price hikes taken in the last one year also contributed to the growth
- The company forayed into liquid detergents. Moreover, Ujala & Crisp & shine brands have been expanded in different geographies. Mid-price detergent brands like 'Mr White' & 'Morelight' are also growing in double digits supported by distribution expansion
- JLL holds market share of 83.6% in December quarter in Ujala post wash brand. Further, Ujala detergent holds 22.2% market share in Kerala. The company is looking to expand Crisp & Shine reach in a phased manner rather than launching it on a pan India basis
- In dishwashing segment, Exo Bar holds market share of 14%. The brand is growing consistently in double digits with distribution expansions & LUPs gaining prominence in rural region
- Pril in liquid dish wash holds market share of 14.8%. The brand is growing through larger pouch packs. JLL is continuously investing behind brands by higher spends on advertisement. It is focusing on e-commerce channels for the brands to increase traction in urban regions
- Both general trade & modern trade channels are growing similarly. GT contributes 80% of the company's sales whereas modern trade, E-commerce & CSD channels contributes 20% to the sales
- LUPs packs consists of ₹ 5, ₹ 10 price points packs. The company has also launched ₹ 20 pack recently. LUPs contributes 30-35% of the sales. During high inflation, rural regions sales switch to LUPs

Jyothy Lab - ESG Disclosure Score*

ESG Disclosure Score			
Score	FY20	FY21	FY22
Environmental	2.9	3.3	3.3
Social	14.1	21.0	21.0
Governance	78.6	78.6	78.6
Overall ESG Score	31.9	34.4	34.4

Source: Bloomberg, ICICI Direct Research, *Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures

- Gross margins expanded by 104 bps YoY & 260 bps sequentially. Employee, marketing & overhead spends were down (percentage to sales) by 78 bps, 29 bps & 55 bps, respectively
- Operating profit grew 39.5% to ₹ 84.4 crore whereas operating margin expanded by 266 bps to 14.1% in Q3FY23. Led by higher operating profit & lower depreciation provisioning, net profit witnessed growth of 74.3% to ₹ 67.1 crore

Exhibit 1: Peer Comparison

Sector / Company	CMP	TP	M Cap	Sales growth (%)			EBITDA Margins (%)			P/E(x)			RoE (%)			RoCE (%)		
	(₹)	(₹) Rating		(₹ Cr)	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E
Jyothy Lab (JVOLAB)	204	215 Hold	7485	14.9	12.5	8.4	11.5	12.8	14.6	47.9	30.6	26.2	16.6	24.2	27.0	18.7	27.5	31.4
Hindustan Unilever (HINLEV)	2622	2800 Hold	604971	11.3	16.3	9.5	24.8	23.5	24.0	69.9	62.4	56.2	18.1	20.3	22.4	20.2	22.9	25.6

Source: Company, ICICI Direct Research

With the softening of major commodity prices, JLL has started witnessing gross as well as operating margin improvement. The company saw ~500 bps contraction in operating margin in last two years. We believe the company would be able to recoup its operating margins to 15% levels with steep correction in RM prices. It has also been able to grow in rural regions through LUPs & distribution expansion. However, we believe detergents, dishwashing & soaps are highly penetrated categories with presence of big competitors. We believe the company would be able to grow only in single digit volume growth in future. Moreover, margin expansion possibility beyond 16% levels is limited given its focus on mass & rural segments. Though near term margin expansion would boost profitability in FY24E, growth prospects remain lacklustre over a longer period of time. We maintain our HOLD rating with a revised target price of ₹ 215/share (earlier: ₹ 205/share)

Exhibit 2: Variance Analysis

	Q3FY23	Q3FY23	YoY (%)	Q2FY23	QoQ (%)	Comments
Net Sales	598.6	528.7	13.2	646.4	-7.4	Net sales grew 13.2% led by 2.1% volume growth & 11% pricing growth
Raw Material Expenses	346.7	311.7	11.2	390.2	-11.1	Gross margins expanded by 104 bps YoY & 250 bps sequentially on account of softening of key raw material prices
Employee Expenses	61.7	58.6	5.3	65.1	-5.2	
SG&A Expenses	41.4	38.0	8.7	41.0	0.9	Marketing spends were down by 29 bps (percentage of sales)
Other operating Expenses	64.4	59.8	7.7	70.1	-8.1	Overhead spends were down by 55 bps (percentage of sales)
EBITDA	84.4	60.5	39.5	80.2	5.3	
EBITDA Margin (%)	14.1	11.4	266 bps	12.4	170 bps	Operating margins expanded by 266 bps led by gross margin expansion & cut in marketing, employee & overhead spends
Depreciation	10.6	21.0	-49.5	11.2	-5.5	
Interest	1.0	1.8	-47.2	1.2	-20.2	
Other Income	5.6	4.3	32.0	5.5	1.4	
Exceptional Income/(Expenses)	0.0	0.0	NA	-7.0	NA	
PBT	78.5	42.0	86.9	80.3	-2.3	
Tax Outgo	16.8	6.6	155.2	10.9	53.9	
PAT	61.7	35.4	74.2	69.4	-11.1	Led by higher operating profit & lower interest, depreciation, net profit grew by 74.2%
Segment wise sales (in Cr)						
Dishwashing	221.3	201.1	10.0	227.9	-2.9	Dishwashing segment continues to sustain growth momentum
Fabric Care	263.5	209.1	26.0	286.2	-7.9	Fabric wash segment grew by 26% led by price hikes taken in earlier quarter. LUPs saw strong growth in rural markets
Household Insecticides	43.4	51.4	-15.6	43.5	-0.2	HI segment remains laggard with illegal incense sticks increasing prominence post Covid
Personal Care	59.1	53.0	11.6	73.3	-19.3	Personal care segment growing at decent pace

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

(₹ Crore)	FY23E			FY24E			FY25E	Comments
	Old	New	% Change	Old	New	Change	New	
Sales	2,482.0	2,437.7	-1.8	2,689.4	2,641.3	-1.8	2,853.6	We slightly cut our revenue estimate due to lower HI segment sales
EBITDA	307.9	312.6	1.5	385.1	386.1	0.3	421.6	
EBITDA Margin (%)	12.4	12.8	42 bps	14.3	14.6	30 bps	14.8	We increase our margin estimates on account of cool down in crude & related commodities
Adjusted PAT	229.1	244.5	6.7	284.9	285.7	0.3	311.6	We change our depreciation estimate given the company has already down provision for trademark amortisation in the past
EPS (₹)	6.2	6.66	6.7	7.8	7.8	0.3	8.5	

Source: ICICI Direct Research

Exhibit 4: Assumptions

	Current						Earlier		
	FY20E	FY21E	FY22	FY23E	FY24E	FY25E	FY23E	FY24E	
Dishwashing	566.7	689.7	824.2	890.0	993.7	1,102.8	890.0	993.7	
Fabric Care	708.0	668.4	797.3	1,012.1	1,063.7	1,114.1	907.5	953.9	We increase our estimates for Fabric wash segment
Household Insecticides	181.4	258.0	283.8	212.9	229.9	248.3	303.7	328.0	We cut our HI revenue estimate according to current run rate
Personal Care	180.4	230.9	245.5	266.7	294.0	324.2	273.1	301.1	Slightly cut personal care segment sales estimate
RM Expenses to Sales (%)	53.6	53.3	59.1	59.2	56.7	56.2	58.8	57.3	We cut our RM costs estimate after softening of major RM prices
Ad Expenses to Sales (%)	7.2	6.5	7.4	7.1	7.3	7.5	7.2	7.5	
Employee Cost to Sales (%)	12.0	11.7	10.9	10.0	10.3	10.5	10.5	11.0	Change in employee spend estimates

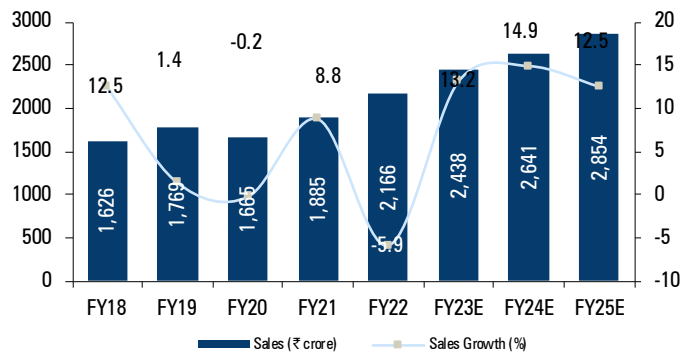
Source: ICICI Direct Research

Exhibit 5: Category wise performance for quarter (₹ crore)

Category	Key Brands	Q3FY23	Q3FY22	Growth
Fabric Care	Ujala, Henko, Mr. White, Ujala Crisp & Shine	263	209	26.0%
Dishwashing	Exo, Pril	221	201	10.0%
HI	Maxo	43	51	-15.6%
Personal Care	Margo, Neem	59	53	11.6%
Other Products	Maya, T Shine	12	15	-19.3%
Total		599	529	13.2%

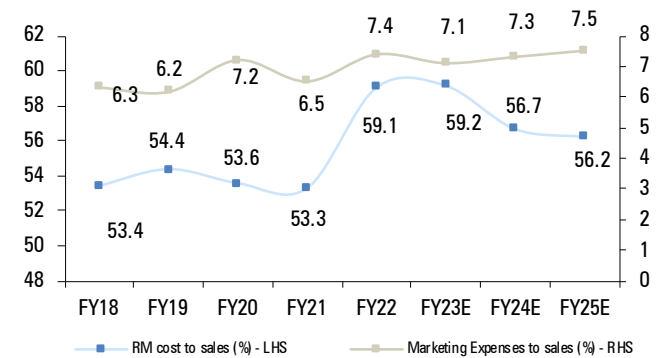
Source: Company, ICICI Direct Research

Exhibit 6: Revenue trend (standalone)



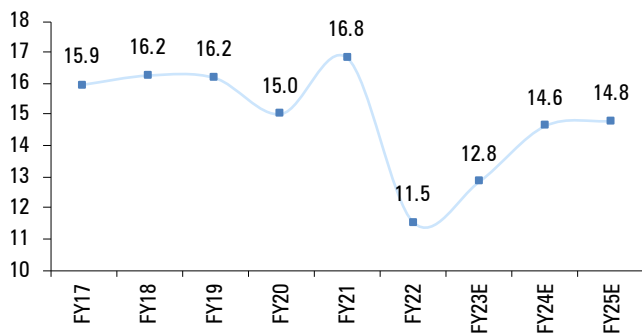
Source: ICICI Direct Research, Company

Exhibit 7: RM & A&P spend trends (standalone)



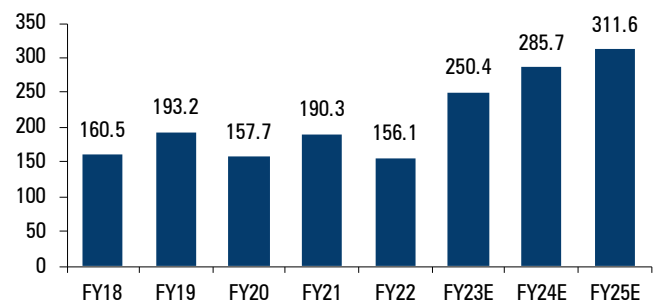
Source: ICICI Direct Research, Company

Exhibit 8: EBITDA growth trend (%)



Source: ICICI Direct Research, Company

Exhibit 9: PAT trend (₹ crore)



Source: ICICI Direct Research, Company

Exhibit 10: Valuations

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY22	2166.3	14.9	4.3	-17.9	47.9	27.9	16.6	18.7
FY23E	2437.7	12.5	6.8	60.4	29.9	21.8	24.2	27.5
FY24E	2641.3	8.4	7.8	14.1	26.2	17.6	27.0	31.4
FY25E	2853.6	8.0	8.5	9.1	24.0	16.1	27.9	32.6

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 11: Profit and loss statement				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
Total operating Income	2166.3	2437.7	2641.3	2853.6
Growth (%)	14.9	12.5	8.4	8.0
Raw Material Expenses	1,279.4	1,442.5	1,497.1	1,604.4
Employee Expenses	235.4	243.8	272.1	299.6
Marketing Expenses	159.9	173.1	192.8	214.0
Administrative Expenses	0.0	0.0	0.0	0.0
Other expenses	242.2	265.7	293.2	313.9
Total Operating Expenditure	1,916.8	2,125.1	2,255.2	2,432.0
EBITDA	249.5	312.6	386.1	421.6
Growth (%)	-21.2	25.3	23.5	9.2
Depreciation	78.5	46.9	53.4	57.4
Interest	6.7	6.6	6.4	6.3
Other Income	19.0	31.9	22.1	22.1
PBT	183.2	291.0	348.4	380.0
Exceptional income	0.0	-7.0	0.0	0.0
Total Tax	27.1	47.7	62.7	68.4
PAT	156.1	250.4	285.7	311.6
Growth (%)	-17.9	60.4	14.1	9.1
EPS (₹) - Diluted	4.3	6.8	7.8	8.5
EPS (₹) - Adjusted	4.3	6.7	7.8	8.5

Source: Company, ICICI Direct Research

Exhibit 12: Cash flow statement				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
Profit after Tax	151.6	250.4	285.7	311.6
Add: Depreciation	78.5	46.9	53.4	57.4
(Inc)/dec in Current Assets	-75.8	-23.2	-43.5	-45.4
Inc/(dec) in CL and Provisions	48.6	167.4	48.5	50.6
Adjustments	-0.5	0.0	0.0	0.0
CF from operating activities	202.5	441.5	344.1	374.2
(Inc)/dec in Investments	36.3	0.0	0.0	0.0
(Inc)/dec in Fixed Assets	-25.6	-100.0	-100.0	-100.0
Others	-15.8	-114.5	-20.5	-21.4
CF from investing activities	-5.1	-214.5	-120.5	-121.4
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	-44.5	0.0	0.0	0.0
Dividend paid & dividend tax	-146.9	-182.5	-237.2	-255.4
Finance cost paid	0.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0
CF from financing activities	-191.4	-182.5	-237.2	-255.4
Net Cash flow	6.0	44.5	-13.6	-2.6
Opening Cash	69.7	73.2	117.8	104.2
Bank Balance	132.9	132.9	132.9	132.9
Closing Cash	208.6	250.7	237.1	234.5

Source: Company, ICICI Direct Research

Exhibit 13: Balance Sheet				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
Liabilities				
Equity Capital	36.7	36.7	36.7	36.7
Preference Capital	0.0	0.0	0.0	0.0
Reserve and Surplus	906.2	974.1	1,022.6	1,078.9
Total Shareholders funds	942.9	1,010.8	1,059.4	1,115.6
Total Debt	0.0	0.0	0.0	0.0
Deferred Tax Liability	0.0	0.0	0.0	0.0
Minority Interest / Others	93.8	70.8	69.8	68.8
Total Liabilities	1,036.7	1,081.7	1,129.2	1,184.4
Assets				
Gross Block	1,134.0	1,234.0	1,334.0	1,434.0
Less: Acc Depreciation	718.9	765.8	819.1	876.5
Net Block	415.1	468.2	514.9	557.5
Capital WIP	7.4	7.4	7.4	7.4
Total Fixed Assets	422.6	475.7	522.3	565.0
Goodwill on Consolidation	0.0	0.0	0.0	0.0
Inventory	294.5	307.2	332.9	359.6
Debtors	136.4	167.0	180.9	195.4
Loans and Advances	0.0	0.0	0.0	0.0
Other Current Assets	66.9	46.7	50.7	54.7
Cash	206.1	250.7	237.1	234.5
Total Current Assets	703.9	771.6	801.5	844.3
Creditors	233.7	200.4	217.1	234.5
Provisions & Others	180.0	380.7	412.5	445.6
Total Current Liabilities	413.6	581.0	629.6	680.2
Net Current Assets	290.2	190.6	171.9	164.1
Others Assets	323.9	415.4	434.9	455.3
Application of Funds	1,036.7	1,081.7	1,129.2	1,184.4

Source: Company, ICICI Direct Research

Exhibit 14: Key ratios				
(Year-end March)	FY22	FY23E	FY24E	FY25E
Per share data (₹)				
Adjusted EPS	4.3	6.7	7.8	8.5
Cash EPS	6.4	8.1	9.2	10.0
BV	25.7	27.5	28.8	30.4
DPS	4.0	5.0	6.5	7.0
Cash Per Share	5.6	6.8	6.5	6.4
Operating Ratios (%)				
EBITDA Margin	11.5	12.8	14.6	14.8
EBIT / Net Sales	7.9	10.9	12.6	12.8
PAT Margin	7.2	10.3	10.8	10.9
Inventory days	49.6	46.0	46.0	46.0
Debtor days	23.0	25.0	25.0	25.0
Creditor days	39.4	30.0	30.0	30.0
Return Ratios (%)				
RoE	16.6	24.2	27.0	27.9
RoCE	18.7	27.5	31.4	32.6
RoIC	34.2	65.1	74.0	74.8
Valuation Ratios (x)				
P/E (Diluted)	47.9	29.9	26.2	24.0
P/E (Adjusted)	47.9	30.6	26.2	24.0
EV / EBITDA	27.9	21.8	17.6	16.1
Market Cap / Sales	3.5	3.1	2.8	2.6
Price to Book Value	7.9	7.4	7.1	6.7
Solvency Ratios				
Debt/EBITDA	0.0	0.0	0.0	0.0
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	1.2	0.9	0.9	0.9
Quick Ratio	0.5	0.4	0.4	0.4

Source: Company, ICICI Direct Research

Exhibit 15: ICICI Direct coverage universe (FMCG)

	CMP	TP	M Cap	EPS (₹)			P/E (x)			Price/Sales (x)			RoCE (%)			RoE (%)			
	(₹)	(₹) Rating		(₹ Cr)	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
Colgate (COLPAL)	1,451	1,440	Hold	39,473	39.6	37.7	40.3	36.6	38.4	36.0	7.8	7.6	7.1	77.8	79.3	84.2	62.2	60.4	64.1
Dabur India (DABIND)	563	700	Buy	97,076	9.9	10.9	12.7	57.2	51.8	44.5	8.9	8.2	7.2	24.9	24.6	26.5	20.8	21.4	22.6
Hindustan Unilever (HINLEV)	2,622	2,800	Hold	6,04,971	37.5	42.0	46.7	69.9	62.4	56.2	12.0	10.3	9.4	20.2	22.9	25.6	18.1	20.3	22.4
ITC Limited (ITC)	339	405	Buy	4,29,858	12.4	14.2	16.7	27.4	23.8	20.4	7.3	6.1	5.7	31.4	35.3	38.8	24.5	27.1	29.7
Jyothy Lab (JYOLAB)	204	215	Hold	7,485	4.3	6.7	7.8	47.9	30.6	26.2	3.5	3.1	2.8	18.7	27.5	31.4	16.6	24.2	27.0
Marico (MARLIM)	505	560	Hold	69,587	9.7	10.2	11.2	52.0	49.5	44.9	7.3	7.1	6.5	41.2	43.6	46.7	37.5	38.3	41.0
Nestle (NESIND)	19,236	22,400	Hold	1,90,912	222.4	255.8	301.1	86.5	75.2	63.9	13.0	11.4	10.3	58.7	57.1	63.0	111.3	103.6	110.3
Patanjali Foods (RUCSOY)	1,160	1,750	Buy	50,721	27.3	30.9	43.5	42.6	37.5	26.7	2.1	1.7	1.5	13.2	15.6	17.3	13.1	11.3	14.2
Tata Consumer Products (TAT)	740	950	Buy	70,169	11.0	13.9	17.1	67.2	53.2	43.2	5.6	5.1	4.6	8.4	9.2	10.8	7.0	8.2	9.7
Varun Beverage (VARBEV)	1,240	1,235	Hold	71,889	17.2	23.2	26.8	72.0	53.4	46.3	8.1	5.6	5.0	17.1	30.3	33.5	18.3	29.0	29.4
VST Industries (VSTIND)	3,114	3,300	Hold	4,807	207.4	214.1	229.4	15.0	14.5	13.6	4.1	3.6	3.4	39.2	41.8	49.1	30.0	31.9	36.9
Zydus Wellness (ZYDWEL)	1,448	2,100	Buy	10,308	48.5	56.5	70.3	29.8	25.6	20.6	5.1	4.5	4.1	6.1	7.0	8.3	6.4	7.2	8.6

Source: Bloomberg, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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