

2 March 2021

Jyothy Labs–BUY

CMP :Rs.152.0
Target Price :Rs.182.0
Upside : 20%+
Stop Loss :Rs.132.0 (Closingbasis)

Investment Thesis

Recently, the stock price of Jyothy LabsLtd. (Jyothy Labs) corrected by ~8% from 52-week high of Rs.166.00 as detergent segment has recovered fully, fabric whitener has only recovered to 90-95% of pre-Covid levels.

Jyothy Labs has evolved from being a promoter-driven, south-centric, single-product company to a professionally managed multi-brand, multi-product company with pan-India operations. It has presence in key product categories such as fabric care, dish wash, household insecticides (HI) and personal care. Over the year, it has developed 6-strong power brands, which include Ujala, Henko, Exo, Maxo, Margo and Pril. The company's flagship brand, Ujala, has remained at the top of the fabric whitener category since its launch, with an ~80% market share. Its products are available across 2.8mn retail outlets. Low penetration in some categories in which it operates provides scope for market share gain. For future growth, Jyothy Labs has kept innovation agenda on top priority with roll outs into newer geographies and brand extensions.

After three quarters of muted growth, Jyothy Labs' strategy to focus on naturals space has started yielding results with personal care segment outperforming other segments in an otherwise lacklustre market. Through its brands Margo soap, Fa, Neem toothpaste, Jyothy Labs has a substantial presence in the naturals' category in a few southern states and West Bengal. With Margo growing at 18% CAGR in the last few years, we believe strong growth will continue due to the structural trend of naturals' product demand and wide distribution network. We believe focused marketing in select states with currently lower market share in natural space can help increase its market share. We expect, on the back of demands for natural products, personal care segment to grow at healthy double digit CAGR in FY21-22E.

Financials

- During the past 5 years, revenue of Jyothy Labs grew at a CAGR of 2.5% while PAT grew at a CAGR of 7.1% in the same period.

Consol. (Rs. Mn)	FY18	FY19	FY20	FY21E	FY22E
Revenue	16,724	18,136	17,112	19,678	22,630
EBITDA	2,575	2,812	2,511	2,888	3,321
% growth	1.2	9.2	-10.7	15.0	15.0
PAT	1,861	2,051	1,703	1,966	2,270
EPS (INR)	5.1	5.6	4.6	5.4	6.2
P/E (x)	29.7	27.2	32.8	28.4	24.6
RoE (%)	16.5%	15.5%	13.9%	14.6%	15.4%

- Jyothy Labs has reported 15.3% YoY growth in revenue to Rs.4,694mn in Q3FY21led by 15% YoY growth in volume on account of robust personal care and dishwashing segment.

Stock Data

Market Cap (Rs. Mn)	55,872
Market Cap (\$ Mn)	765.4
Shares O/S (in Mn)	367.2
Avg. Volume (3 month)	7,60,000
52-Week Range (Rs.)	166.00/ 85.00

Shareholding Pattern

Promoters	62.89%
FIIIs	12.08%
Institutions	17.15%
Others (incl. body corporate)	7.88%

Performance (%)	1M	6M	1Yr
Absolute	-9.0%	4.5%	19.9%
BSE FMCG	-2.8%	5.3%	10.3%

Key Ratios

Div Yield	2.0%
TTM PE	28.1x
ROE	14.6%
TTM EPS (Rs.)	5.4/-

- Jyothy Labs' dishwashing, personal care and household insecticide (HI) segment revenue grew 21.1%, 48.2% and 10.1% YoY, respectively, whereas fabric care business saw dismal 2.3% YoY growth in Q3FY21. Though detergent segment has recovered fully, fabric whitener has only recovered to 90-95% of pre-Covid levels.
- Jyothy Labs' EBITDA grew by 22.6% YoY to Rs.798mn in Q3FY21 led by benign crude based raw material cost and savings in fixed overhead spends. As a result, EBITDA margins also expanded by 102 bps to 117.0% in Q3FY21.

Key Business Highlights

- Jyothy Labs is a pan India play FMCG company, which is the largest player in the fabric whitener space with a market share of 80%. Its business divisions are Fabric Care, Personal care, air care, Household Insecticide, Utensil Cleaners, Toilet cleaners and Laundry services.
- Since its inception, Jyothy Labs has focused on research and development, product designing and superior customer service. As a result, it has developed 6 strong power brands; Ujala, Henko, Maxo, Margo, Exo and Pril.
- Jyothy Labs has 27 manufacturing units along with a distribution network comprising of over 6,100 stockists and sub stockists.

Valuation

- Jyothy Labs has a leadership position in the fabric whitener category in India, whereas it ranks number two in the dishwash bar, liquid and mosquito repellent coil categories. Going forward, strategies undertaken by Jyothy Labs to enhance growth in the long run include winning through innovations in the fabric wash segment, leveraging rural penetration in the dishwash segment, increasing footprint and relevant extensions in the HI and personal care segments. However, structural issues in the HI category and slowdown in the fabric whitener category will affect performance in near term.
- Jyothy Labs' two power brands in dishwashing segment are Exo & Pril, which have a strong footing in south India with ~30% market share whereas north India is a growth opportunity with a market share in mid-single digits. Exo has over 11% market share in bars while Pril has 16% market share in liquids. Pril's market share in modern trade is significantly higher (~27%) than overall market share. We believe higher distribution and A&P spend in ex-south market can lead to market share gains. We expect the dishwashing segment to grow at high single digit growth rate in FY21-22E.
- Jyothy Labs has made an entry into the Rs.16.0bn toilet cleaner markets with launch of T-shine. Unlike its competitors' products Domex (HUL) and Harpic (Reckitt Benckiser), which are toxic by virtue of HCL, T-shine has used an organic acid for safe use. It is marketed as acid free and has received good receptivity in the market having already gained 5% share in Kerala.
- With professionally managed multi-brand, multi-product company, strategy to focus on naturals space has started yielding results, leadership position in the fabric whitener category, higher distribution and A&P spend in ex-south market and entry into toilet cleaner markets, we value Jyothy Labs at 29.5x FY22E EPS of Rs.6.20 to arrive at target price of Rs.182.00, an upside of ~20%.

Risk & Concern

- With any further slowdown in the demand environment may affect HI category growth for Jyothy Labs.
- Any significant increase in prices of key raw materials such as Brent crude oil may affect profitability and earnings growth of Jyothy Labs.
- With increase in competition in highly-penetrated categories such as fabric whiteners may threaten revenue growth of Jyothy Labs.

Graphs & Charts

Figure 1: Net Sales Trend

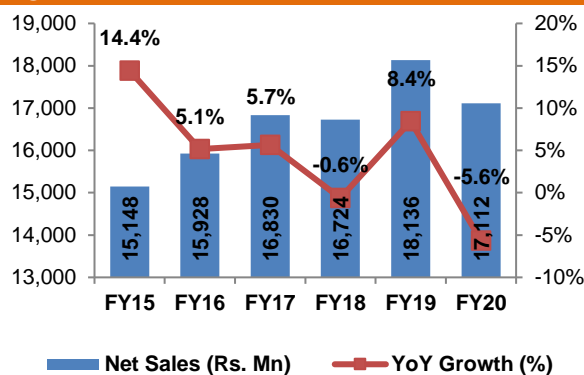


Figure 2: EBITDA & EBITDA Margin Trend

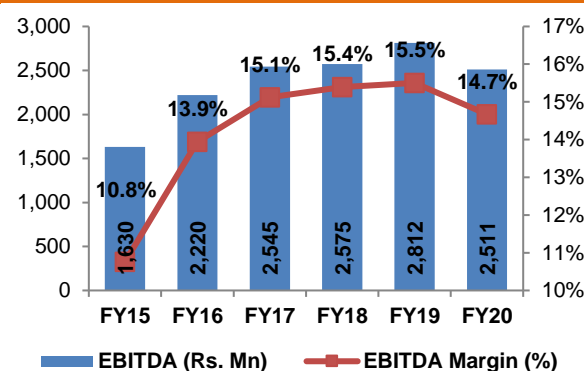


Figure 3: PAT Trend

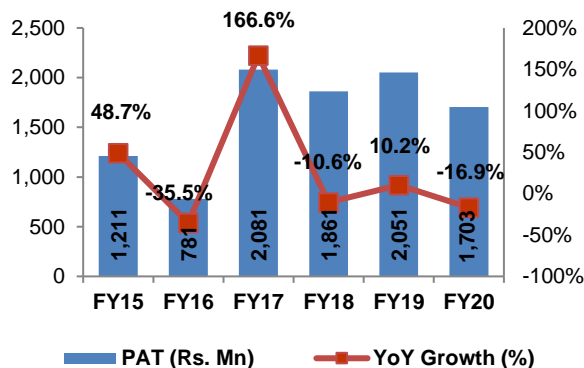
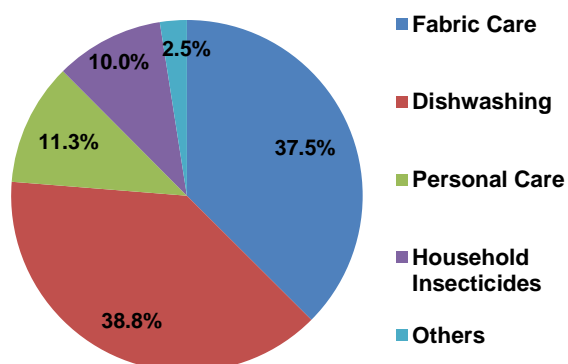


Figure 4: Segment-wise Revenue Break-up



Name
Jitendra Upadhyay

Designation
Research Analyst

Disclosure:

Bonanza Portfolio Ltd here by declares that views expressed in this report accurately reflect view point with subject to companies/securities. Bonanza Portfolio Ltd is responsible for the preparation of this research report and has taken reasonable care to achieve and maintain independence and objectivity in making any recommendations. Bonanza Portfolio Ltd or its associates or Analyst or his relatives may or may not hold beneficial ownership of 1% or more in the subject company at the end of the month immediately preceding the date of publication of this research report.

Bonanza Portfolio Ltd operates under the regulation of SEBI RegnNo.INM000012306

Disclaimer:

This research report has been published by Bonanza portfolio Ltd and is meant solely for use by the recipient and is not for circulation. This document is for information purposes only and information / opinions / views are not meant to serve as a professional investment guide for the readers. Reasonable care has been taken to ensure that information given at the time believed to be fair and correct and opinions based thereupon are reasonable, due to the nature of research it cannot be warranted or represented that it is accurate or complete and it should not be relied upon as such. If this report is inadvertently send or has reached to any individual, same may be ignored and brought to the attention of the sender. Preparation of this research report does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Past performance is not a guide for future performance. This Report has been prepared on the basis of publicly available information, internally developed data and other sources believed by Bonanza portfolio Ltd to be reliable. This report should not be taken as the only base for any market transaction; however this data is representation of one of the support document among other market risk criterion. The market participant can have an idea of risk involved to use this information as the only source for any market related activity. The distribution of this report in definite jurisdictions may be restricted by law, and persons in whose custody this report comes, should observe, any such restrictions. The revelation of interest statements integrated in this analysis are provided exclusively to improve & enhance the transparency and should not be treated as endorsement of the views expressed in the analysis. The price and value of the investments referred to in this report and the income from them may go down as well as up. Bonanza portfolio Ltd or its directors, employees, affiliates or representatives do not assume any responsibility for, or warrant the accuracy, completeness, adequacy and reliability of such information / opinions / views. While due care has been taken to ensure that the disclosures and opinions given are fair and reasonable, none of the directors, employees, affiliates or representatives of Bonanza portfolio Ltd shall be liable. Research report may differ between Bonanza portfolio Ltd RAs and other companies on account of differences in, personal judgment and difference in time horizons for which recommendations are made. Research entity has not been engaged in market making activity for the subject company. Research analyst has not served as an officer, director or employee of the subject company. Research analyst have not received any compensation/benefits from the subject company or third party in connection with the research report

Bonanza Portfolio Ltd. Bonanza House, Plot No. M-2, Cama Industrial Estate. Walbhat Road, Goregaon (E), Mumbai – 400063

Web site: <https://www.bonanzaonline.com>

SEBI Regn. No.: INZ000212137

BSE CM: INB 011110237 | BSE F&O: INF 011110237 | MSEI: INE 260637836

| CDSL: a) 120 33500 | NSDL: a) IN 301477 | b) IN 301688 (Delhi) | PMS: INP 000000985 | AMFI: ARN -0186

