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Consumer Staples & Discretionary

Q1FY23 result review and TP revision

Target price Rs200

Earnings revision

(%)	FY23E	FY24E
Sales	↑ 0.9	↑ 0.9
EBITDA	↓ 9.4	↓ 2.6
PAT	↓ 8.5	↓ 0.6

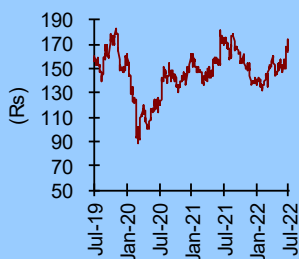
Target price revision

Rs200 from Rs180

Shareholding pattern

	Dec '21	Mar '22	Jun '22
Promoters	62.9	62.9	62.9
Institutional investors	28.2	27.8	29.6
MFs and other	15.8	14.4	15.1
FIs/Banks/Ins	1.3	1.3	1.8
FII	11.1	12.1	12.7
Others	8.9	9.3	7.5

Price chart



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Jyothy Labs

BUY
Maintain
Rs167

Sustaining (volume) outperformance

JYL's underlying performance continues to be good – (1) +5% YoY volume (+22%, ex-Household Insecticides) and (2) focus on laying (medium-term) building blocks – rural & LUP focus along with distribution expansion. The good performance was led by Fabric Care and Dishwashing (despite a high base). Weak season impacted HI. Personal Care (mainly Margo) had a soft quarter considering the price hike benefit. Gross margin decline of 350bps YoY and EBITDA margin print of 10% were weak but is likely to have bottomed out.

In terms of categories, the two (larger) segments of dishwashing and fabric care (a multi-brand approach should allay concerns on scalability) continue to perform well and present good visibility in the medium term. We have been highlighting improved volume trajectory in Jyothy – the gross margin weakness is masking improved financial performance. Amongst the value stocks (in our consumer universe), Jyothy continues to be our top pick ([link](#)). BUY maintained.

- Continued good volume performance:** Jyothy Labs reported revenue growth of 13.7% YoY to Rs6bn with volume growth of 5%. Ex of HI, volume growth was 21.8%. On 3-year CAGR basis, revenue growth was 12.2%. In terms of segments, Fabric Care recovered well (weak base), with 39% YoY growth while HI had a dull quarter (down 37.5% YoY) due to high base and weak season in markets of North and East. On Fabric Care it highlighted (1) Sales in fabric whitener is back to pre-covid level, (2) Henko performance continues to be good, (3) Smaller brands of More Light and Mr White are doing well in the current (inflationary) environment. Other segments had decent performance: Dishwashing (+9.6% YoY, increased LUP focus to drive penetration), Personal Care (+2.1%) and others (+11.4% YoY).
- Significant gross margin contraction:** Gross margin contracted 350bps YoY to 39.9%. On QoQ basis, it is down 160bps. EBITDA margin was down 200bps YoY to 10%. Management highlighted that (1) 2/3rd of the key raw materials are seeing 40-60% inflation, (2) margins are likely to have bottomed out (some RM softening seen), (3) 8-9% price hikes have been taken with ~2% taken in 1Q. EBITDA was down 5% YoY to Rs598mn. Ad-spends were up 5% YoY. Net profit was up 18.7% YoY to Rs477mn led by higher other income (asset sale).
- Focus on strengthening distribution:** Management believes that direct distribution is a critical source of competitive advantage and will continue to ramp-it up. Besides, it is also driving increased brand building initiatives and category development measures. JYL has strengthened rural focus (both urban and rural had positive growth in the quarter) by (1) expanding distribution and (2) driving van sales to improve reach. Lastly, increased use of technology and digital capabilities are signs of great execution in the current challenging environment.

Market Cap	Rs61.4bn/US\$769mn	Year to Mar (Std)	FY21	FY22	FY23E	FY24E
Reuters/Bloomberg	JYOI.BO/JYL IN	Revenue (Rs mn)	19,091	21,965	24,574	27,037
Shares Outstanding (mn)	367.2	Net Income (Rs mn)	2,229	1,620	2,213	3,080
52-week Range (Rs)	178/132	EPS (Rs)	6.1	4.4	6.0	8.4
Free Float (%)	37.1	% Chg YoY	28.1	(27.3)	36.6	39.2
FII (%)	12.7	P/E (x)	27.5	37.9	27.7	19.9
Daily Volume (US\$/'000)	1,086	CEPS (Rs)	6.9	6.0	7.5	10.0
Absolute Return 3m (%)	5.9	EV/E (x)	19.9	25.2	20.2	15.4
Absolute Return 12m (%)	(2.3)	Dividend Yield (%)	2.4	1.5	2.4	3.0
Sensex Return 3m (%)	(0.7)	RoCE (%)	15.8	11.5	14.9	19.0
Sensex Return 12m (%)	6.6	RoE (%)	17.2	11.6	15.1	19.2

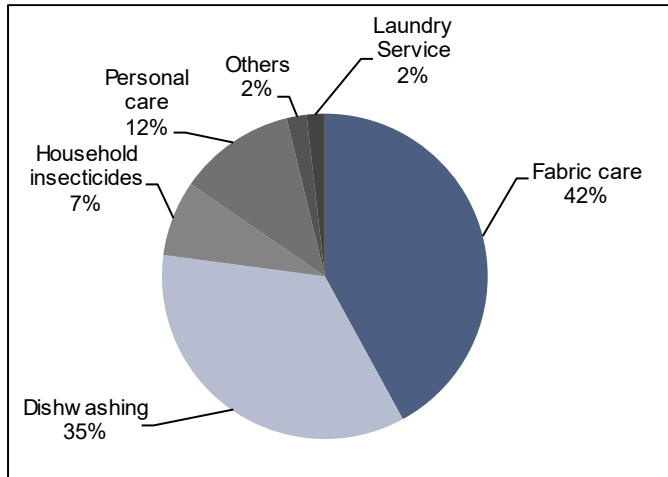
- **Valuation and risks:** Our earnings estimates are largely unchanged for FY24E. We model revenue / EBITDA / PAT CAGR of 11 / 28 / 38 (%) over FY22-24E. We maintain **BUY** with revised DCF-based target price of Rs200 (was Rs180). At our target price, the stock will trade at 24x P/E multiple Mar-24E. Key downside risks are high competitive pressure and RM inflation impacting margins.

Table 1: Q1FY23 result review (consolidated)*(Rs mn, year ending March 31)*

	Q1FY23	Q1FY22	YoY (%)	Q4FY22	QoQ (%)	FY22	FY21	YoY (%)
Net Revenue	5,972	5,254	14	5,467	9	21,965	19,091	15
COGS	(3,592)	(2,979)	21	(3,201)	12	(12,830)	(10,104)	27
Gross profit	2,380	2,276	5	2,266	5	9,135	8,987	2
Staff cost	(639)	(637)	0	(602)	6	(2,475)	(2,325)	6
A&SP	(450)	(430)	5	(391)	15	(1,611)	(1,236)	
Other opex	(692)	(576)	20	(700)	(1)	(2,568)	(2,281)	13
Total opex	(1,782)	(1,643)	8	(1,693)	5	(6,653)	(5,842)	14
EBITDA	598	633	(5)	573	5	2,482	3,145	(21)
Other income	132	46	191	57	131	187	185	1
Finance cost	(33)	(31)	8	(29)	16	(118)	(192)	(39)
D&A	(130)	(144)	(10)	(154)	(15)	(582)	(556)	5
PBT	567	503	13	447	27	1,969	2,581	(24)
Tax	(90)	(101)	(11)	(78)	16	(378)	(440)	(14)
PAT	477	402	19	369	29	1,591	2,142	(26)
Minority Interest	7	8	2	10	(31)	29	88	
Recurring PAT	485	410	18	380	28	1,620	2,229	(27)
Extraordinary items	-	-		-		-	(235)	
Net profit (reported)	485	410	18	380	28	1,620	1,994	(19)
EPS	1.3	1.1	19	1.0	29	4.3	5.8	(26)
Costs as a % of sales								
COGS	60.1	56.7	345 bps	58.6	159 bps	58.4	52.9	548 bps
Gross margin (%)	39.9	43.3	-346 bps	41.4	-160 bps	41.6	47.1	-549 bps
Staff cost	10.7	12.1	-143 bps	11.0	-32 bps	11.3	12.2	-92 bps
A&SP expense	7.5	8.2	-64 bps	7.2	38 bps	7.3	6.5	85 bps
Other opex	11.6	11.0	61 bps	12.8	-122 bps	11.7	11.9	-26 bps
EBITDA margin (%)	10.0	12.0	-203 bps	10.5	-46 bps	11.3	16.5	-518 bps
Income tax rate (%)	15.8	20.1	-430 bps	17.4	-153 bps	19.2	17.0	215 bps
Segment revenue								
Fabric care	2,511	1,812	39	2,126	18	8,171	6,694	22
Dishwashing	2,093	1,910	10	1,898	10	7,978	6,995	14
Household insecticides	448	718	(38)	793	(43)	2,652	2,580	3
Personal care	694	680	2	467	49	2,339	2,175	8
Others	118	106	11	97	21	556	443	25
Laundry Service	107	28	277	86	25	270	205	32
Total net revenues	5,972	5,254	14	5,467	9	21,965	19,091	15
Segment EBIT								
Fabric care	308	319	(3)	252	22	1,236	1,382	(11)
Dishwashing	275	216	27	234	18	929	1,349	(31)
Household insecticides	(45)	(7)	557	3	(1,455)	(79)	(74)	
Personal care	25	124	(80)	60	(58)	356	491	(27)
Others	7	(28)	(123)	15	(55)	(32)	(27)	21
Laundry Service	(16)	(37)	(55)	(15)	6	(87)	(126)	
Total EBIT	554	587	(6)	548	1	2,322	2,995	(22)
Segment EBIT margin (%)								
Fabric care	12.3	17.6	-530 bps	11.9	42 bps	15.1	20.6	-552 bps
Dishwashing	13.2	11.3	183 bps	12.3	84 bps	11.6	19.3	-765 bps
Household insecticides	(10.0)	(0.9)	-903 bps	0.4	-1039 bps	(3.0)	(2.9)	-13 bps
Personal care	3.6	18.2	-1466 bps	12.7	-917 bps	15.2	22.6	-735 bps
Others	5.5	(26.7)	3217 bps	15.0	-949 bps	(5.8)	(6.0)	21 bps
Laundry Service	(15.2)	(128.5)	11331 bps	(18.0)	276 bps	(32.2)	(61.6)	2943 bps
Total	9.3	11.2	-190 bps	10.0	-75 bps	10.6	15.7	-512 bps

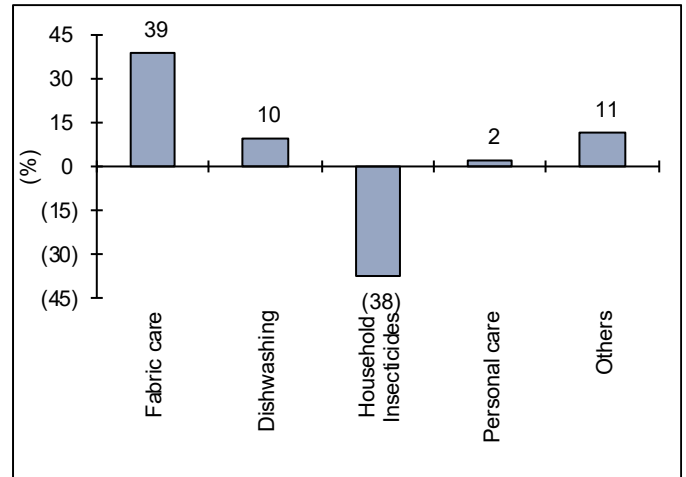
Source: Company data, I-Sec research

Chart 1: Segment wise revenue split (Q1FY23)



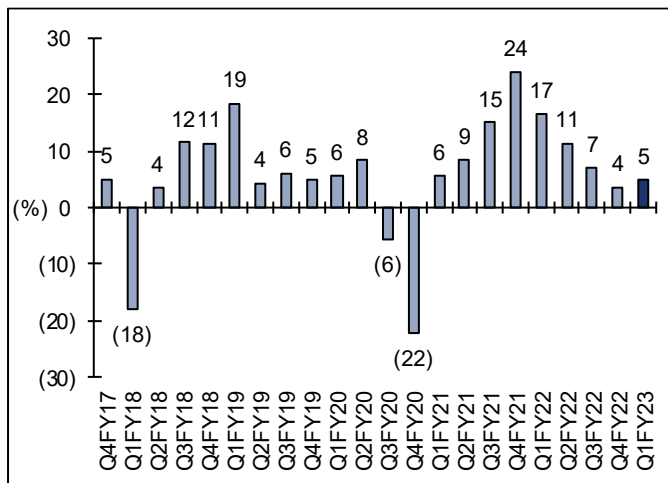
Source: Company data, I-Sec research

Chart 2: Segment wise revenue growth (Q1FY23)



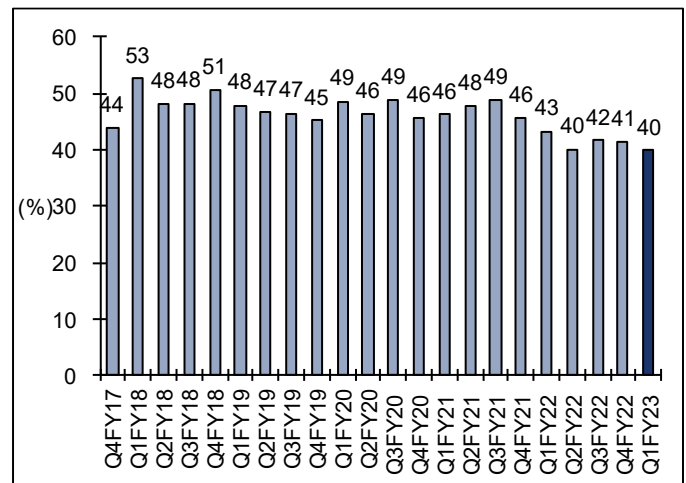
Source: Company data, I-Sec research

Chart 3: Volume growth



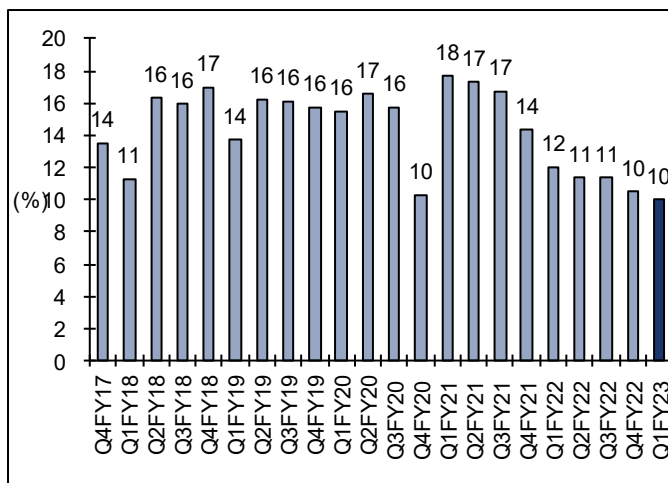
Source: Company data, I-Sec research

Chart 4: Gross margin



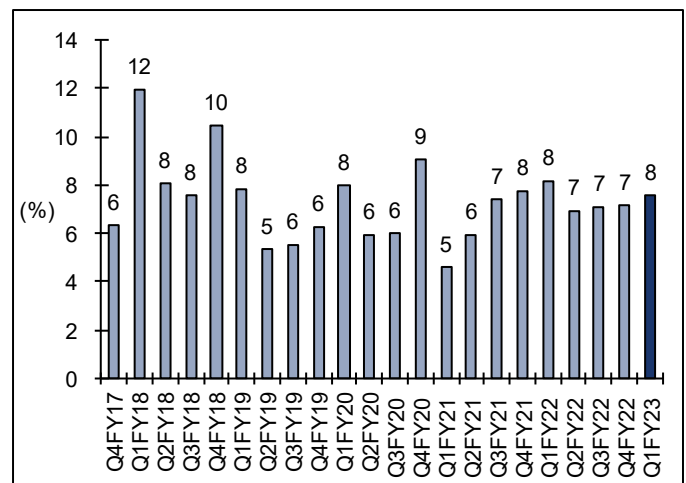
Source: Company data, I-Sec research

Chart 5: EBITDA margin



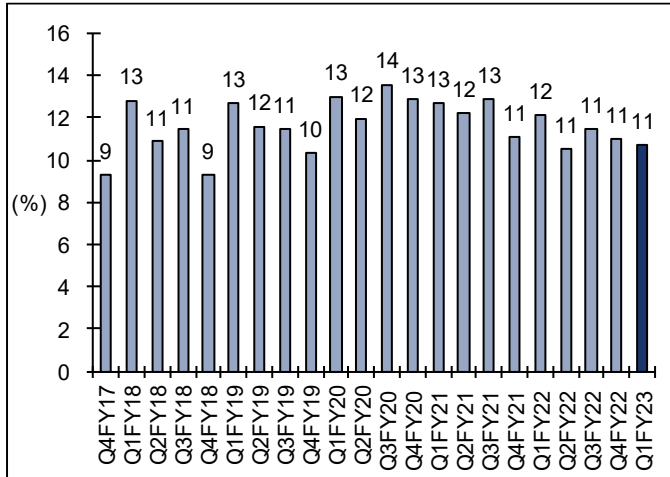
Source: Company data, I-Sec research

Chart 6: A&SP/ sales



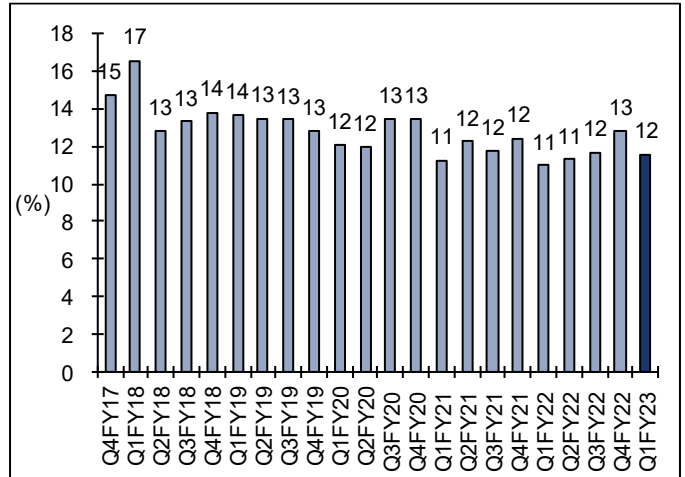
Source: Company data, I-Sec research

Chart 7: Staff cost/ sales



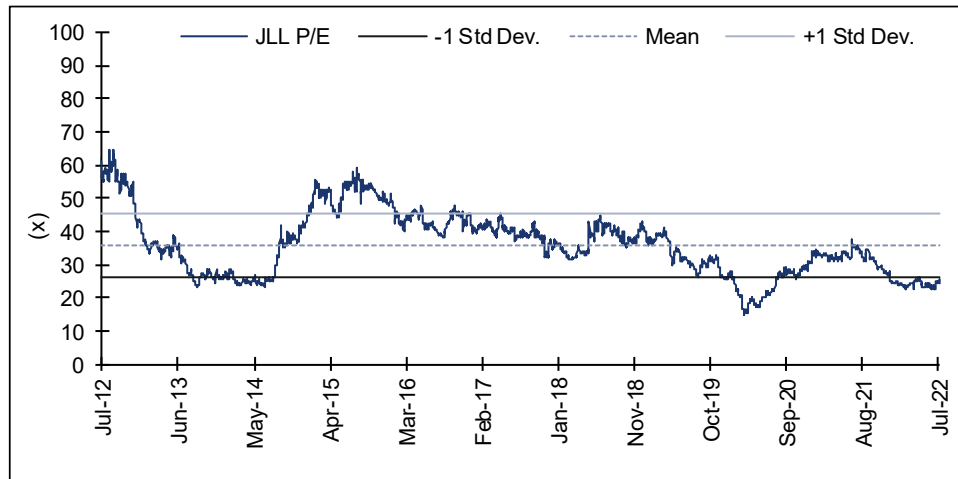
Source: Company data, I-Sec research

Chart 8: Other expense/ sales



Source: Company data, I-Sec research

Chart 9: Mean P/E and standard deviations



Source: Bloomberg, I-Sec research

Financial summary

Table 2: Profit & Loss statement
(Rs mn, year ending March 31)

	FY21	FY22	FY23E	FY24E
Net Sales & Operating income	19,091	21,965	24,574	27,037
Operating Expenses	15,946	19,483	21,478	22,981
EBITDA	3,145	2,482	3,097	4,056
% margins	16.5	11.3	12.6	15.0
Depreciation & Amortisation	556	582	555	590
Gross Interest	192	118	114	89
Other Income	185	187	267	387
Recurring PBT	2,581	1,969	2,695	3,764
Less: Taxes	440	378	512	715
Less: Minority Interest	(88)	(29)	(30)	(31)
Net Income (Reported)	1,994	1,620	2,213	3,080
Extraordinaries (Net)	(235)	-	-	-
Recurring Net Income	2,229	1,620	2,213	3,080

Source: Company data, I-Sec research

Table 3: Balance sheet
(Rs mn, year ending March 31)

	FY21	FY22	FY23E	FY24E
Assets				
Total Current Assets	6,248	7,241	8,942	10,967
of which cash & cash eqv.	1,938	2,112	3,227	4,705
Total Current Liabilities & Provisions	3,084	3,740	4,191	4,618
Net Current Assets	3,164	3,502	4,752	6,349
Investments	1,743	1,692	1,786	1,874
Net Fixed Assets	11,467	11,218	10,970	10,691
Capital Work-in-Progress	101	76	76	76
Total Assets	16,476	16,488	17,583	18,989
Liabilities				
Borrowings	2,569	2,459	2,289	2,115
Deferred Tax Liability	-	-	-	-
Minority Interest	(379)	(407)	(436)	(468)
Equity Share Capital	367	367	367	367
Face Value per share (Rs)	1	1	1	1
Reserves & Surplus*	13,918	14,068	15,363	16,975
Less: Misc. Exp. n.w.o.				
Net Worth	14,286	14,436	15,730	17,342
Total Liabilities	16,476	16,488	17,583	18,989

Source: Company data, I-Sec research

Table 4: Quarterly trends
(Rs mn, year ending March 31)

	Sep 21	Dec 21	Mar 22	Jun 22
Net sales	5,854	5,390	5,467	5,972
% growth (YoY)	16.0	13.1	10.4	13.7
EBITDA	666	612	573	598
Margin (%)	11.4	11.3	10.5	10.0
Other income	48	36	57	132
Extraordinaries (Net)	-	-	-	-
Adjusted Net profit	446	384	380	485

Source: Company data, I-Sec research

Table 5: Cashflow statement
(Rs mn, year ending March 31)

	FY21	FY22	FY23E	FY24E
Operating Cashflow	4,349	2,339	2,949	3,924
Working Capital Changes	1,055	(259)	(148)	(132)
Capital Commitments	(259)	(261)	(307)	(311)
Free Cashflow	5,145	1,820	2,494	3,482
Cashflow from Investing Activities	(1,291)	(317)	(40)	77
Issue of Share Capital	-	-	-	-
Inc (Dec) in Borrowings	(2,161)	(198)	(364)	(339)
Dividend paid	-	(1,469)	(918)	(1,469)
Chg. in Cash & Bank balance	569	42	1,115	1,478
Closing cash & balance	719	760	1,875	3,353

Source: Company data, I-Sec research

Table 6: Key ratios
(Year ending March 31)

	FY21	FY22	FY23E	FY24E
Per Share Data (Rs)				
EPS	6.1	4.4	6.0	8.4
Cash EPS	6.9	6.0	7.5	10.0
Dividend per share (DPS)	4.0	2.5	4.0	5.0
Book Value per share (BV)	37.9	38.2	41.6	46.0
Growth (%)				
Net Sales	11.6	15.1	11.9	10.0
EBITDA	25.3	(21.1)	24.7	31.0
PAT	28.7	(25.7)	37.2	39.7
DPS	33.3	(37.5)	60.0	25.0
Valuation Ratios (x)				
P/E	27.5	37.9	27.7	19.9
P/CEPS	24.1	27.9	22.2	16.7
P/BV	4.4	4.4	4.0	3.6
EV / EBITDA	19.9	25.2	20.2	15.4
EV / Sales	3.3	2.9	2.5	2.3
Operating Ratios				
Raw Material / Sales (%)	52.9	58.4	57.9	53.9
Employee cost / Sales (%)	12.2	11.3	10.8	11.0
Other exps / Sales (%)	18.4	19.0	18.7	20.1
Other Income / PBT (%)	-	-	-	-
Effective Tax Rate (%)	18.7	19.2	19.0	19.0
Working Capital (days)	20.7	16.3	16.8	17.0
Inventory Turnover (days)	53.3	49.4	49.1	48.9
Receivables (days)	18.0	23.8	23.7	23.6
Payables (days)	36.7	39.3	39.4	39.5
Net D/E (x)	0.8	0.9	0.5	0.4
Profitability Ratios (%)				
Net Income Margins	11.7	7.4	9.0	11.4
RoACE	15.8	11.5	14.9	19.0
RoAE	17.2	11.6	15.1	19.2
Dividend Payout	65.9	56.7	66.4	59.6
Dividend Yield	2.4	1.5	2.4	3.0
EBITDA Margins	16.5	11.3	12.6	15.0

Source: Company data, I-Sec research

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