

INITIATING COVERAGE REPORT



Jyothy Labs



JYOTHY LABS LTD (JLL)

Market Cap.
Rs. 17,920 Cr.

52 Week H/L
Rs. 554 / 228

CMP
Rs.488

Target Price
Rs. 620

FMCG

STOCK DATA

BUY

Reuters Code	JYOI.BO	
Bloomberg Code	JYL IN	
BSE Code	532926	
NSE Symbol	JYOTHYLAB	
Face Value	1	
Shares Outstanding	36.7 cr.	
Avg. Daily Vol. (6m)	12,07,348	
Price Performance (%)		
1M	3M	6M
8	11	(2)
200 Days EMA Rs.418		

SHARE HOLDING (%)

Promoters	62.89
FII	15.10
FI/MF	14.22
Body Corporate	0.21
Public & Others	7.58

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Robust distribution network to help boost sales and market share

Jyothy Lab Ltd's (JLL) direct reach has crossed 1.2 million outlets in FY24 from 1.1 million outlets in FY23. The company will continue to increase its direct distribution by 8-10% in the coming years, adding up and around 1 lakh outlets every year. A few years ago, the company upgraded to the Distributor Management System (DMS), which substantially enhanced sales efficiency as well as led to an increase in secondary sales, thereby, benefitting both the company and the distributors. Additionally, JLL implemented the CRS (Continuous Replenishment System) module, which would help automatically replenish the required quantity of a stock whenever it would fall below a specified level. This much improved automation would enable effective streamlining and acceleration of processes, thereby, even reducing costs. The company recently migrated its DMS from Adhaar Software to Btree, which would produce better reports and have benefits that will be evident in FY25.

Strategic Initiatives to enhance brand awareness and boost visibility

JLL has been focusing extensively on advertising and promotion in order to enhance brand awareness. Some key drivers of their brand strategy include ATL (Above-The-Line) investments across states to maximize sales, change in SKU (Stock Keeping Unit) mix with sustained focus on small packs, and continued promotions on social media by renowned celebrities strategically selected as per the TG (Target Group). The company's biggest strength lies in its consumer focused brand equity, and have subsequently increased the level of consumer engagement through focus on various digital mediums.

Resurgence of Rural Demand

Consumer spending was influenced by inflation in the previous year, which has been reflected by consumers shifting to smaller packs. Therefore, JLL prioritizes increasing sales of low-unit packs to reach new customers, particularly in rural and relatively weaker parts of North and West India, which could potentially propel a volume-led growth in the coming years. Additionally, the FMCG industry has begun witnessing green shoots in rural demand recovery. Forecast of normal monsoons and softening of inflationary pressures bodes well for rural consumption uptick. The company has been continually focusing on improving 'van coverage' in rural markets. This rural marketing strategy not only enhances brand awareness, but is also extremely cost-effective for any company.

OUTLOOK & VALUATION

Factoring the various positive triggers for Jyothy Labs Ltd that will enhance top-line growth as well as margins, we expect FY27 revenue at Rs.3821.6 cr, EBITDA at Rs.718.5 cr at an EBITDA margin of 18.8% and Adjusted PAT of Rs.569.4 cr. Given the strong growth and margin outlook, we estimate FY27E EPS at Rs.15.5, and assign a PE multiple of 40x to arrive at a target price of Rs.620, which is an upside of ~27.1% from its last traded price of Rs.488. We initiate coverage on Jyothy Labs Ltd. with a BUY rating, over an investment horizon of 24-30 months.

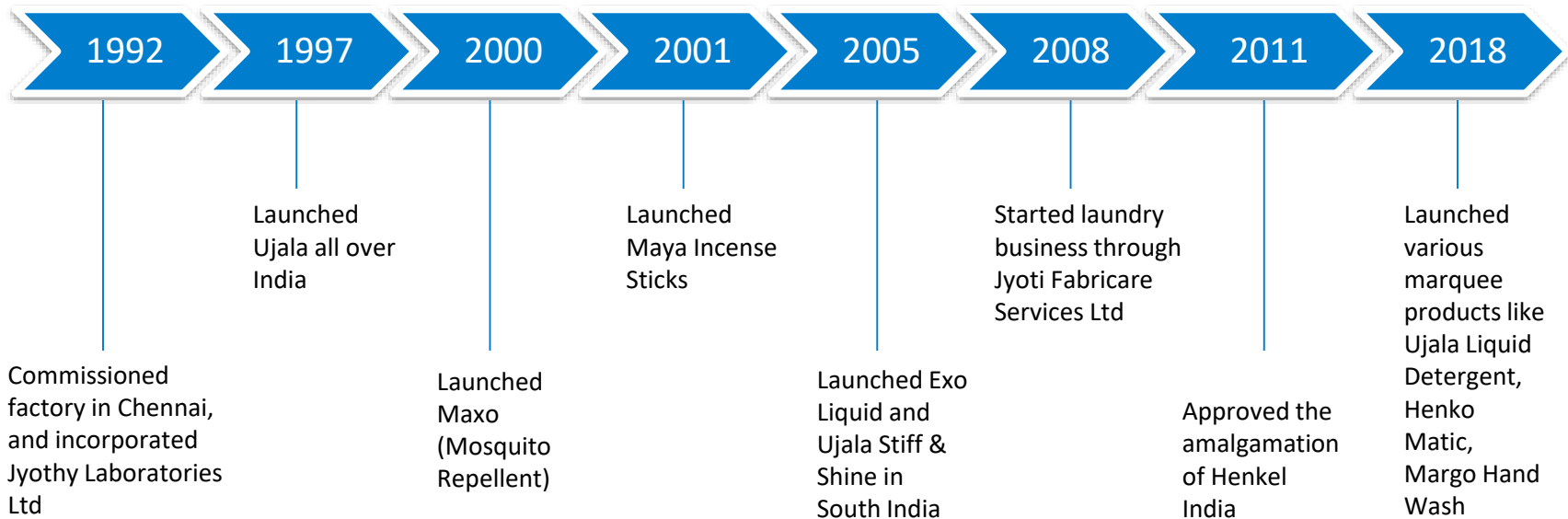
Y/E Mar	Revenue (Rs. Cr)	EBITDA (Rs. Cr)	EBITDA Margin (%)	A-PAT (Rs. Cr)	NPM (%)	A-EPS (Rs.)	P/E (x)	P/S (x)
FY24	2,756.9	479.8	17.4%	369.3	13.4%	10.1	48.5	6.5
FY25 E	3,074.0	531.8	17.3%	416.1	13.5%	11.3	43.1	5.8
FY26 E	3,427.5	613.5	17.9%	485.2	14.2%	13.2	36.9	5.2
FY27 E	3,821.6	718.5	18.8%	569.4	14.9%	15.5	31.5	4.7

COMPANY OVERVIEW



Jyothy Labs Ltd (JLL) is an Indian consumer goods company headquartered in Bangalore, India. It was founded in 1983 by M. P. Ramachandran as Jyothy Laboratories and initially focused on manufacturing solely fabric whitener products. Over the years, the company has expanded its product portfolio to include a wide range of household cleaning products, laundry detergents, personal care products, and insect repellents.

JLL's power brands 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 approximate market share of 84%. The company has also established a presence in various channels, such as traditional stores, canteen stores, department stores, modern trade, and e-commerce, and its products are available in over 2.8 million outlets. JLL has a pan-India presence and manufactures a wide variety of products at its 23 world-class facilities, with 90% of its products produced in-house and the remaining 10% outsourced.



PRODUCT PORTFOLIO



Fabric Care

- Ujala Supreme
- Ujala Crisp & Shine
- Ujala Instant Dirt Dissolver Detergent
- Ujala IDD Liquid Detergent
- Henko Stain Care Powder / Bar
- Henko Matic Liquid Detergent
- Mr.White Detergent Powder
- More Light Powder / Bar



Dishwash

- Exo Dishwash Bar
- Exo Dishwash Super Gel
- Exo Bactoscrub
- Exo Safai Steel Scrubber
- Exo Dishwash Powder
- Pril Liquid / Bar



Household Insecticides

- Maxo Genius Machine & Liquid Vaporiser
- Maxo Instant Action Machine & Liquid Vaporiser
- Maxo A-Grade Coil
- Maya Agarbathi
- Fabric Spa



Personal Care

- Margo Neem Original
- Margo Neem Naturals
- Margo Glycerine
- Margo Hand Wash
- Neem Toothpaste



INVESTMENT RATIONALE (1/2)

Robust distribution network to help boost sales and market share

On the distribution side, JLL's direct reach has crossed 1.2 million outlets in FY24 from 1.1 million outlets in FY23. The company will continue to increase its direct distribution by 8-10% in the coming years, adding up and around 1 lakh outlets every year. A few years ago, the company upgraded to the Distributor Management System (DMS), which substantially enhanced sales efficiency as well as led to an increase in secondary sales, thereby, benefitting both the company and the distributors. Additionally, JLL implemented the CRS (Continuous Replenishment System) module, which would help automatically replenish the required quantity of a stock whenever it would fall below a specified level. This much improved automation would help the company effectively manage fluctuations in raw material availability, leading to effective streamlining and acceleration of processes, thereby, even reducing costs. JLL recently migrated its DMS from Adhaar Software to Btree, which would produce better reports and have benefits that will be evident in FY25.

JLL's enhanced distribution is driving growth across all product lines, including its mid-price detergent brands: More Light and Mr. White. The company has been focusing on new launches, with Margo Neem Naturals and liquid detergents being the prominent ones in the recent year. Along with expanding their distribution reach and product portfolio, the management believes that digital acceleration will play a pivotal role to further enhance sales productivity and consumer engagements.

Strategic Initiatives to enhance brand awareness and boost visibility

JLL has been focusing extensively on advertising and promotion in order to enhance brand awareness. Some key drivers of their brand strategy include ATL (Above-The-Line) investments across states to maximize sales, change in SKU (Stock Keeping Unit) mix with sustained focus on small packs, and continued promotions on social media as per the TG (Target Group) usage. The company has recruited various celebrities to promote their brands, most prominently for Household Insecticides the company has recruited Kareena Kapoor in order to enhance visibility. JLL has strategically chosen select individuals to endorse their brands. For example:

- ❑ The youthful Raashii Khanna was recruited to endorse Margo, as the brand needed to connect with the younger TG while holding its core values and unique proposition of 'Goodness of 1000 neem leaves'.
- ❑ For Ujala Supreme, ATL support, led by TVC (Television Commercial) featuring Taapsee Pannu, is complemented by campaign promotions on social media driving the idea #SapneHoYaSafediNoSamjhauta. Trials among non-users as a promotional initiative are also helping to boost brand equity, apart from targeted BTL (Below-The-Line) activations in rural markets.
- ❑ For Henko, JLL is targeting new markets with LUP (Low Unit Packs) to drive trials, while maintaining an emphasis on large packs in Modern Trade chains. The brand is gaining traction due to ongoing ATL support and digital marketing featuring Kajal Aggarwal. To increase launch awareness, visibility has been increased in key category stores across many platforms.

Some of these pivotal measures adopted by JLL is expected to lead to enhanced brand awareness, accelerated sales and increased profitability going forward. Jyothy Labs Ltd's biggest strength lies in its consumer focused brand equity, and have subsequently increased the level of consumer engagement through focus on various digital mediums. In addition to the celebrities mentioned above, JLL has recruited various other strategically selected celebrities that would best suit the different target groups of the company.

What is ATL Marketing?

"Above the Line" marketing refers to a form of marketing that targets a wide audience through mass media such as newspapers, radio and television.

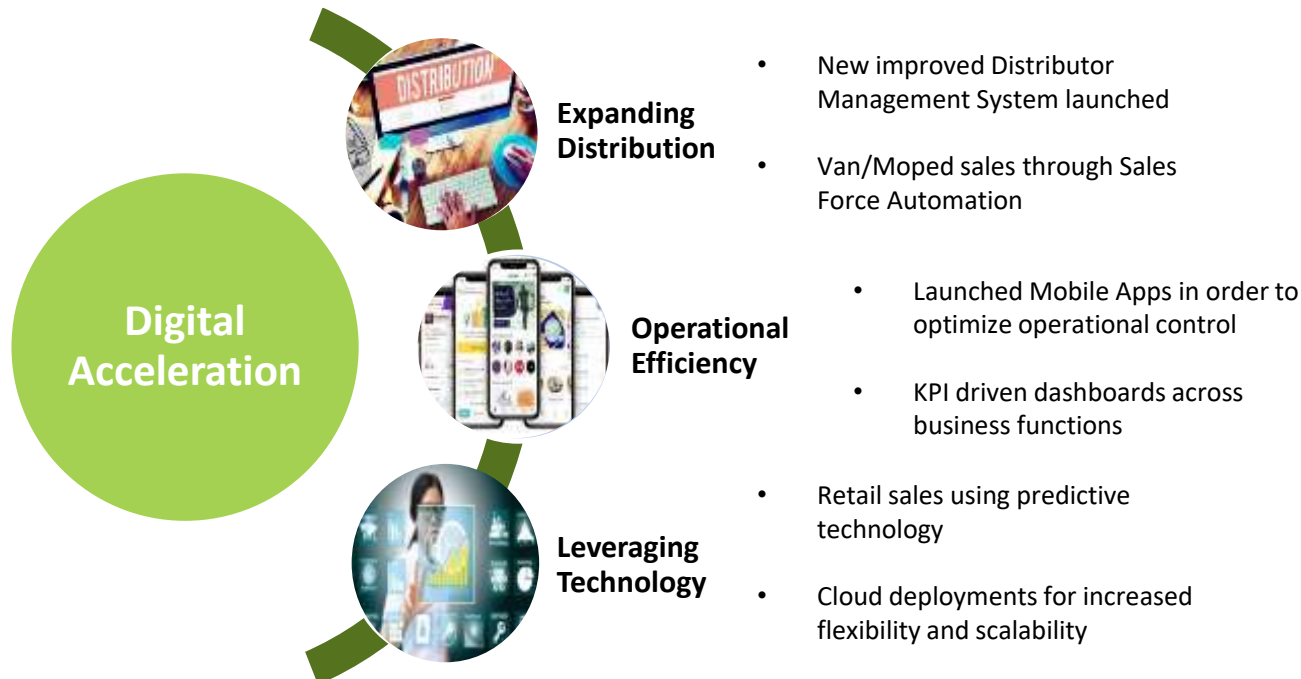
INVESTMENT RATIONALE (2/2)

Resurgence of Rural Demand

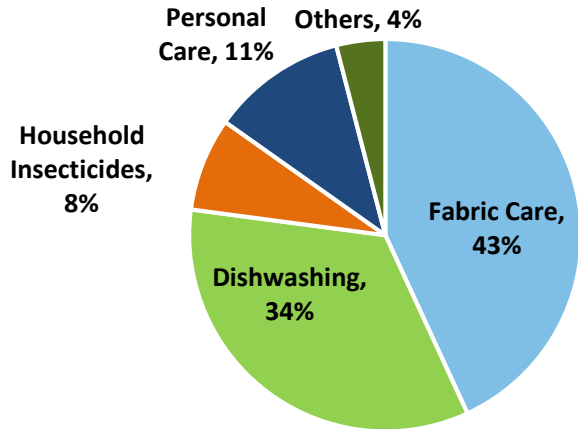
With the rural economy increasingly exhibiting signs of normalcy as a result of an improving labour market and rising terms of trade for rural production, the demand for FMCG products will increase in the coming times. Various government initiatives, such as the minimum support price (MSP) for all rabi crops, increased government spending on rural infrastructure projects, and increased credit to agriculture and other non-agricultural economic activities, will boost employment and income levels in rural areas, thereby, driving demand for FMCG products. Additionally, JLL has been continually focusing on improving 'van and moped coverage' in rural markets. This rural marketing strategy not only enhances brand awareness, but is also extremely cost-effective for any company

According to the management, consumer spending was influenced by inflation in the previous year, which has been reflected by consumers shifting to smaller packs. Therefore, JLL prioritizes increasing sales of low-unit packs to reach new customers, particularly in rural and relatively weaker parts of North and West India. This could potentially propel a volume-led growth in the coming years.

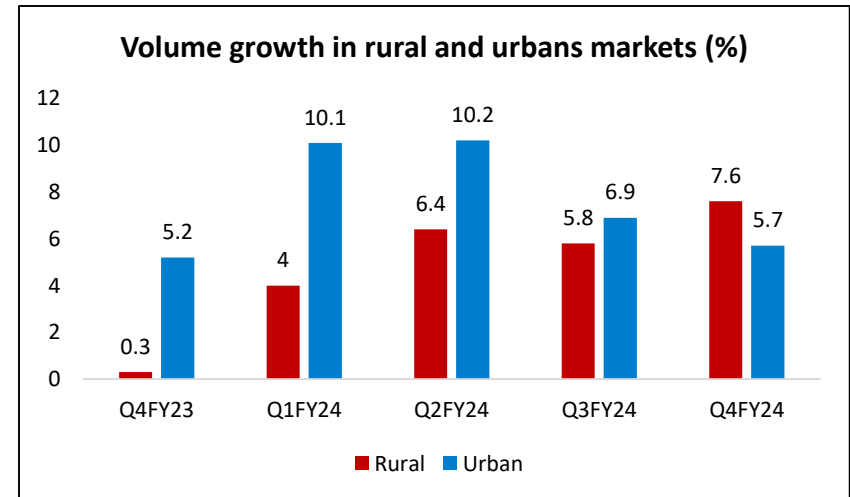
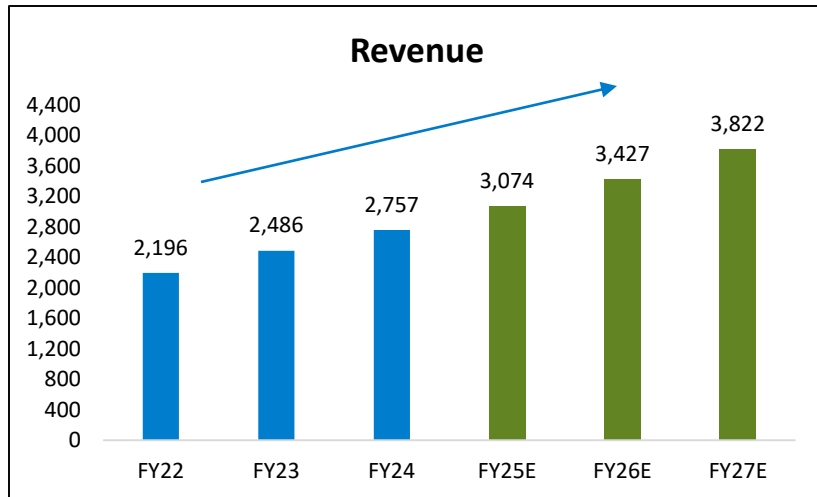
The FMCG industry has begun witnessing green shoots in rural demand recovery. Forecast of normal monsoons and softening of inflationary pressures bodes well for rural consumption uptick.



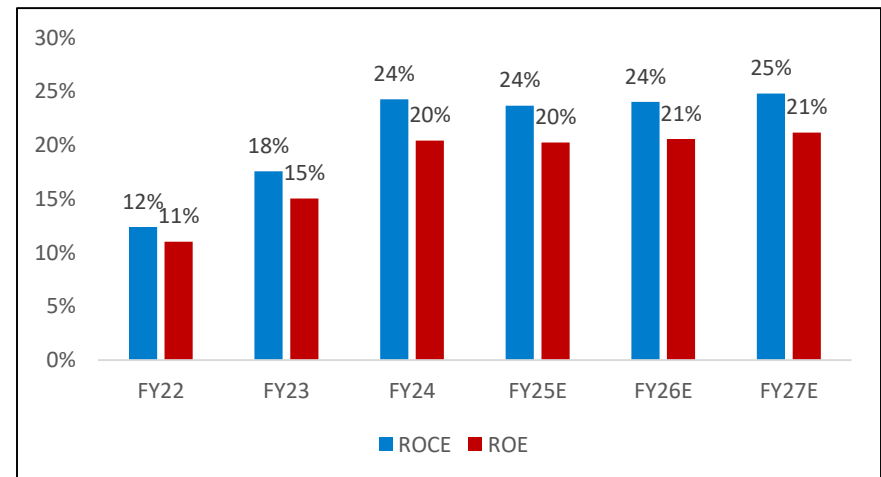
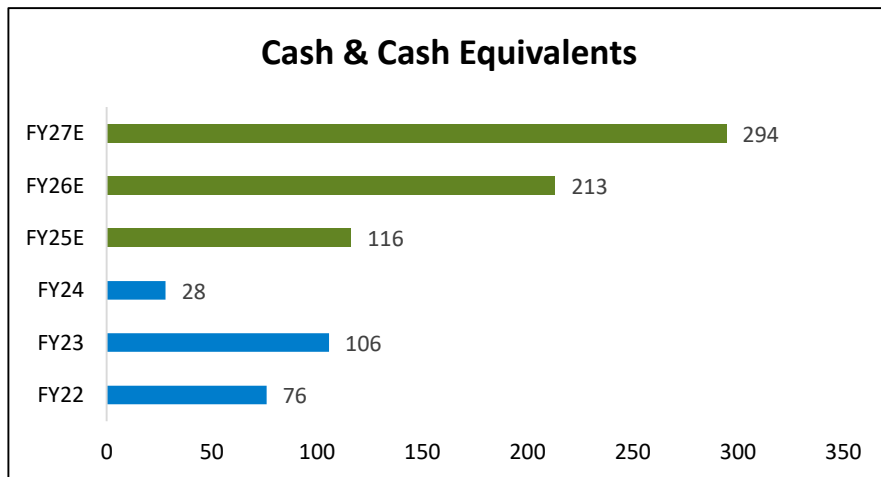
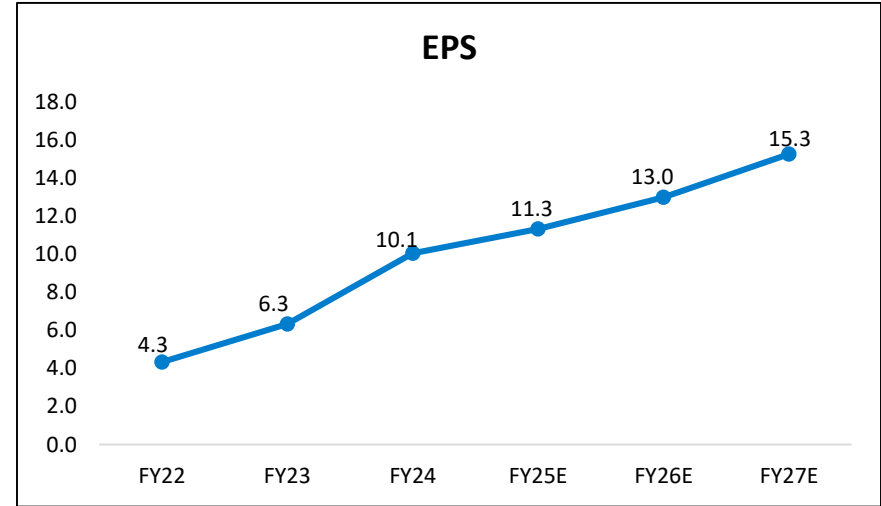
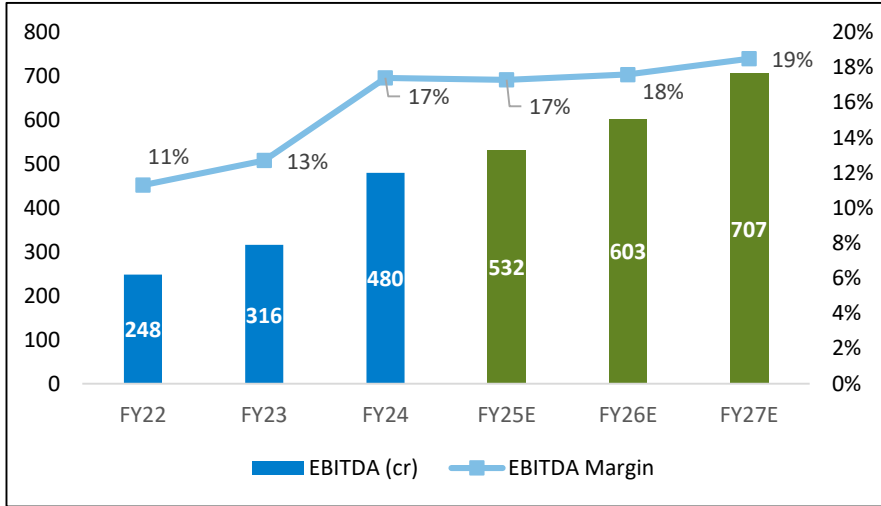
Segmental Revenue



<u>Key Products</u>	<u>Market Share</u>
Ujala Fabric Whitener	84%
Ujala Detergent	23%
Maxo Coil	24%
Maxo Liquid Vaporiser	8%
Exo Dishwash Bar	14%
Pril Liquid	14%



BUSINESS OVERVIEW: Financials



Source: Company, Sushil Finance Research

INCOME STATEMENT

(Rs. Cr.)

Y/E Mar.	FY24	FY25E	FY26E	FY27E
Revenue	2,757	3,074	3,427	3,822
Raw Material Cost	1404	1519	1686	1869
Employee Cost	301	320	360	401
Other Expenses	573	704	768	833
EBITDA	480	532	614	718
<i>EBITDA Margin (%)</i>	<i>17.4%</i>	<i>17.3%</i>	<i>17.9%</i>	<i>18.8%</i>
Depreciation	50	54	55	59
EBIT	430	478	559	659
<i>EBIT Margin (%)</i>	<i>15.6%</i>	<i>15.5%</i>	<i>16.3%</i>	<i>17.3%</i>
Finance Costs	5	4	2	1
Other Income	0	0	0	0
Profit before Tax	479	533	622	730
Tax Expense	110	117	137	161
Net Profit	369	416	485	569
<i>Net Margin (%)</i>	<i>13.4%</i>	<i>13.5%</i>	<i>14.2%</i>	<i>14.9%</i>
A-EPS	10.1	11.3	13.2	15.5

BALANCE SHEET STATEMENT

(Rs. Cr.)

Y/E Mar.	FY24	FY25E	FY26E	FY27E
PP&E (incl. CWIP+intangibles)	306	345	342	342
Right of Use Assets / Investment Property	47	47	47	47
Other Non-Current Assets	909	920	933	948
Inventories	284	320	356	394
Trade Receivables	201	236	272	304
Cash Balances	84	116	209	291
Bank Balances	82	122	196	323
Other Current Assets	488	565	631	705
Total Assets	2,401	2,671	2,985	3,354
Equity Share Capital	37	37	37	37
Reserves & Surplus	1,772	2,019	2,293	2,630
Borrowings (LT)	-	-	-	-
Other Non-Current Liabilities	111	115	115	115
Trade Payables	276	287	314	338
Other Financial Liabilities	34	31	31	31
Current Borrowings	-	-	-	-
Other Current Tax Liab & Provisions	170	181	194	203
Total Liabilities	2,401	2,671	2,985	3,354

Source: Company, Sushil Finance Research

CASH FLOW STATEMENT

(Rs. Cr)

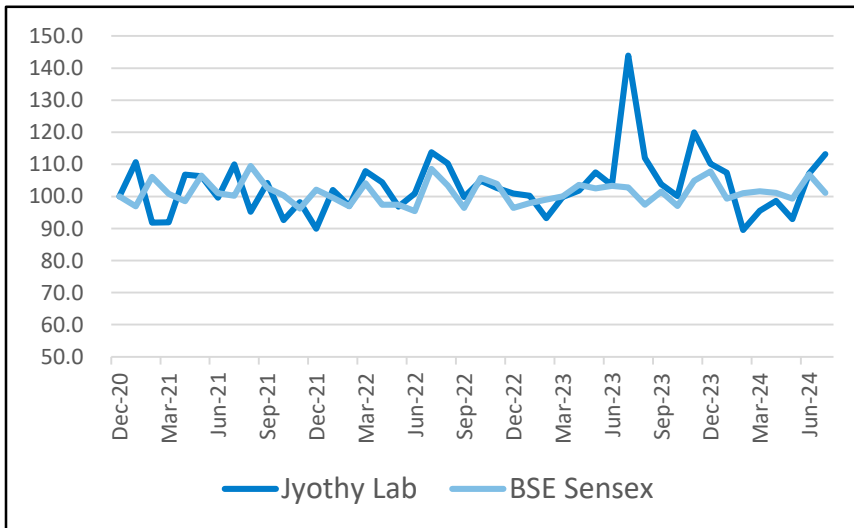
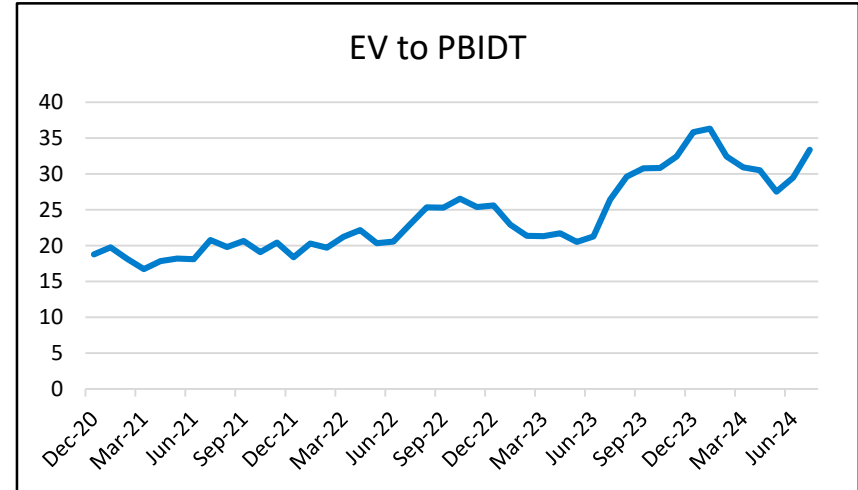
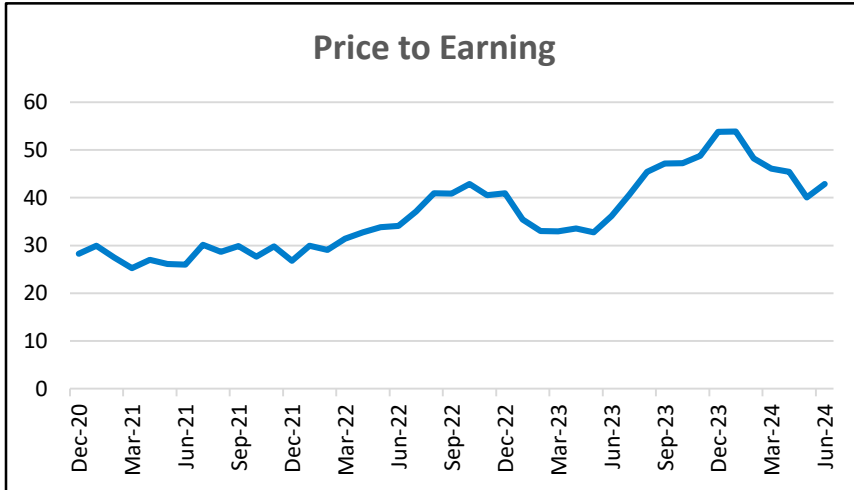
Y/E Mar.	FY24	FY25E	FY26E	FY27E
PBT	479	533	622	730
Depreciation	50	54	55	59
Interest	5	4	2	1
CFO before Working Cap chg	534	591	679	790
Chg in Inventories	18	(37)	(35)	(38)
Chg in Trade Receivables	(64)	(34)	(37)	(31)
Chg in Trade Payables	62	11	27	24
Chg in Current Assets & Liabilities	42	74	100	100
Income Taxes Paid	(110)	(117)	(137)	(161)
Cash Flow from Operations	482	487	596	683
Interest Paid	(5)	(4)	(2)	(1)
Dividend Paid	(127)	(169)	(211)	(232)
Other Adjustments	15	(85)	(93)	(99)
Cash Flow from Financing	(116)	(257)	(307)	(332)
Capital Expenditure	(110)	(37)	(51)	(59)
Current Investments	(192)	(19)	(21)	(23)
Other Financial assets	96	(41)	(73)	(127)
Other Adjustments	(255)	(45)	(52)	(59)
Cash Flow from Investing	(460)	(142)	(198)	(269)
Opening Cash	106	84	116	209
Closing Cash	84	116	209	291

FINANCIAL RATIO STATEMENT

Y/E Mar.	FY24	FY25E	FY26E	FY27E
<u>Growth (%)</u>				
Revenue	10.9%	11.5%	11.5%	11.5%
EBITDA	51.9%	10.8%	15.4%	17.1%
Net Profit	58.7%	12.7%	16.6%	17.4%
<u>Profitability (%)</u>				
EBITDA Margin	17.4%	17.3%	17.9%	18.8%
Net Profit Margin	13.4%	13.5%	14.2%	14.9%
ROCE	24.3%	23.7%	24.4%	25.1%
ROE	20.4%	20.2%	20.8%	21.4%
<u>Per Share Data (Rs.)</u>				
EPS	10.1	11.3	13.2	15.5
BVPS	49.2	56.0	63.4	72.6
CEPS	11.4	12.8	14.7	17.1
<u>Valuation (x)</u>				
P/E	48.5	43.1	36.9	31.5
P/BV	9.9	8.7	7.7	6.7
EV/EBITDA	37.2	33.5	29.1	24.8
P/Sales	6.5	5.8	5.2	4.7
<u>Turnover</u>				
Inventory days	74	77	77	77
Debtor days	27	28	29	29
Creditor days	72	69	68	66

Source: Company, Sushil Finance Research

MARKET INFORMATION



Source: Company, Sushil Finance Research

OUTLOOK & VALUATION

JLL's recent strategic initiatives have resulted in strong and consistent performances, indicating a promising future. The company's strategies include increasing value offerings through Low Unit Packs (LUPs) and premiumization in the Detergents and Dishwash segments, expanding into the larger Body Wash segment to broaden its product portfolio, and improving on-ground execution to expand its direct distribution reach. As of FY24 its total reach stands at 2.8 mn outlets.

The management strives to focus on driving double digit revenue growth through higher rural volume and increasing advertisements and promotions. The management further guided that the ad spends would be Rs.50-60 cr a year, which is a considerable jump from its previous budgets towards advertisement. The idea behind aggressive advertisements is to enhance brand awareness and create traction especially in the weaker parts of North and West India, where the brand is less prevalent. These initiatives will play a pivotal role in propelling the company's top-line growth. Additionally, technological upgradation and automation has been a major focus area for the management, in order to effectively streamline processes and reduce costs, which will gradually start reflecting in the bottom line as well.

Factoring the various positive triggers for Jyothy Labs Ltd that will enhance top-line growth as well as margins, we expect FY27 revenue at Rs.3821.6 cr, EBITDA at Rs.718.5 cr at an EBITDA margin of 18.8% and Adjusted PAT of Rs.569.4 cr. Given the strong growth and margin outlook, we estimate FY27E EPS at Rs.15.5, and assign a PE multiple of 40x to arrive at a target price of Rs.620, which is an upside of ~27.1% from its last traded price of Rs.488. We initiate coverage on Jyothy Labs Ltd. with a BUY rating, over an investment horizon of 24-30 months.

Risks & Concerns

- Prolonged recovery in rural demand
- Increasing competition

Rating Scale : This is a guide to the rating system used by our Institutional Research Team. Our rating system comprises of three rating categories.

Total Expected Return Matrix (Rating and Return)

BUY : Over 12%

HOLD : -12% to 12%

SELL : Below -12%

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Analyst Stock Ownership

No

Stock Recommended to Clients

Yes

Remuneration/Benefits received from company in 12 months

No

Merchant Banking Market Making activities / projects

No

Sushil Financial Services Pvt. Ltd and Group Companies Holding

No

Sushil Financial Services Pvt. Ltd and Group Directors Holding

No

Broking Relationship with the company covered

No