

December 16, 2024

**COMPANY UPDATE** | Sector: Consumer Staples

# Jyothy Labs Ltd.

## Expect subdued EBITDA growth in 3Q even while volume growth improves

We recently met the management of Jyothy Laboratories Ltd. (JYL). Management re-emphasized about the soft demand environment & pressure on margins in the near-term. Beyond the next few quarters, JYL is confident of improving its growth trajectory with high-single digit volumes supported by come-back of pricing, premiumization and addition of category next year. Maintain BUY with unchanged target price (TP) of Rs500.

### Near-term comments

Soft consumer demand visible especially in the general trade channel stays in the near-term. It continues to expect mid-to-high single volume growth in 3QFY25. To combat inflation, JYL has already implemented grammage reduction in select SKU's in the current quarter. Price increases are also anticipated in soaps portfolio at the end of 3QFY25.

### Direct reach improvement – key reason for growth enhancement

Direct reach improvement has been one of key reasons for improvement in its growth trajectory leading to better throughputs per store. JYL's direct reach now stands at 1.2-1.3mn outlets, which is almost 35-40% of its overall reach. After *Ujala*, *Exo* has helped in the reach expansion of rest of portfolio. There are still portfolios within the business which are regional, for e.g., *Ujala* IDD and *Ujala Crisp & Shine* are largely present in South India.

### Driving premiumization across lower price points now within detergents

Detergents continue to see premiumization (to liquids) led growth driven by increase in washing machine penetration, issue related to powder patches and better fragrance retention through liquids. Matic powder category for the industry is not growing while liquid is growing 40-50%. JYL initially started with liquids in the premium segment but now through *More Light* and *Mr. White*, it intends to play the premiumization story in lower price points as well. *Margo* portfolio has done well in recent years, but the management is aware of the fact that the brands growth is restricted to consumers preferring a particular ingredient. Thus, going forward JYL aims to utilize the brand equity of *Margo* to venture into new formats and categories. Within the Household Insecticides (HI) category, JYL has experienced a consumer shift towards incense sticks, affecting *Maxo Coil* sales. It continues to focus on liquid vaporizers (LV's) and convert the mix within HI in favour of LVs over the medium-term.

### Product development

After successful introduction of the 5-litre bulk pack of *More Light* liquid detergent, JYL also introduced *Mr. White* liquid detergent in key markets in October 2024. JYL remains committed about introduction of new category next year leveraging its current distribution set-up. It aims to use third-party manufacturers in the initial phase of the new category. This will bring the mix of in-house manufacturing below 95%.

### Margin to remain under pressure in the very near-term

Management has maintained its EBITDA margin guidance of 16-17% in FY25 as 2HFY25 margins will be under pressure due to higher brand investments and inflation in key inputs.

### View and Valuation

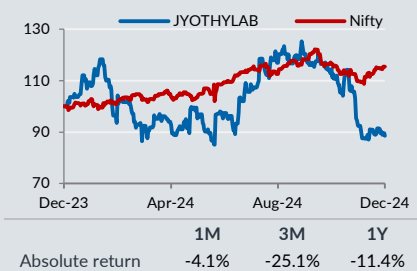
Our medium-term view is pinned on the following arguments: (1) Sticking to broader strategy which over last 3 years has helped deliver superior revenue growth. (2) Distribution improvement and focus on rural markets should help sustain growth. (3) Ongoing portfolio rebalancing aimed at reducing dependence on Fabric Care (FC) & Dishwashing over medium-to-long term. (4) Cost optimization, operating leverage, loss reduction in Household Insecticides (HI) and Personal Care (PC) profitability reverting to earlier levels should aid margins over the next 3-5 years. Growth rate should pick up starting next quarter but might not see market leading double-digit growth. With minor changes in our estimates, we now build revenue, EBITDA and APAT CAGR of 9.1%, 11.5% and 11.2%, respectively. The stock is currently trading at ~39x/33x/30x FY25E/ FY26E/ FY27E EPS. Due to valuation comfort, we maintain our BUY rating and an unchanged TP of Rs500 (targeting ~36x FY'2027E EPS). Reclaiming double-digit growth and details around new category are key to re-rating.

Reco	: BUY
CMP	: Rs 410
Target Price	: Rs 500
Potential Return	: +22.1%

### Stock data (as on Dec 16, 2024)

Nifty	24,668
52 Week h/l (Rs)	596 / 367
Market cap (Rs/USD mn)	152153 / 1792
Outstanding Shares (mn)	367
6m Avg t/o (Rs mn):	481
Div yield (%):	0.8
Bloomberg code:	JYL IN
NSE code:	JYOTHYLAB

### Stock performance



### Shareholding pattern (As of Sep'24 end)

Promoter	62.9%
FII+DII	30.4%
Others	6.7%

### Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	500	500

### Δ in earnings estimates

	FY25e	FY26e	FY27e
EPS (New)	10.6	12.3	13.8
EPS (Old)	10.8	12.5	14.0
% change	-2.2%	-1.3%	-0.8%

### Financial Summary

(Rs mn)	FY25E	FY26E	FY27E
Net Revenue	29,184	32,516	35,790
YoY growth (%)	5.9	11.4	10.1
EBITDA	5,118	5,916	6,658
EBITDA margin (%)	17.5	18.2	18.6
Adjusted PAT	3,883	4,514	5,083
EPS (Rs)	10.6	12.3	13.8
YoY change (%)	5.2	16.3	12.6
Pre-tax ROCE (%)	25.5	26.5	26.9
ROE (%)	19.1	19.8	20.0
P/E (x)	38.7	33.3	29.6
EV/EBITDA (x)	13.7	11.6	9.9

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## STORY IN TABLES & CHARTS

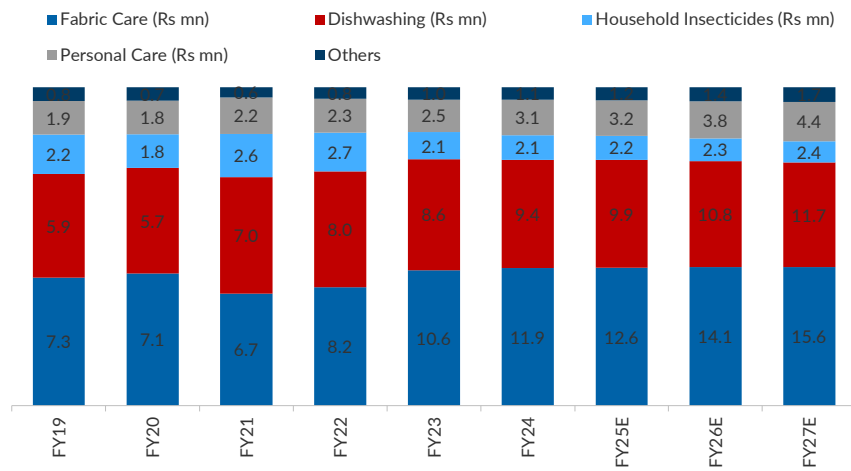
**Exhibit 1: Consolidated segmental performance**

Segmental Performance	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
<b>Volume growth (%)</b>	12.6	9.9	3.0	9.1	7.1	8.5	8.0
<b>Segment revenue (Rs mn)</b>	19,080	21,951	24,842	27,550	29,162	32,492	35,764
Fabric care	6,694	8,170	10,561	11,890	12,608	14,133	15,556
-Post wash	2,016	2,235	2,786	2,936	2,984	3,306	3,538
-Main wash	4,678	5,936	7,775	8,954	9,624	10,827	12,018
Dish washing	6,995	7,978	8,648	9,366	9,903	10,822	11,742
Household insecticides	2,580	2,652	2,117	2,123	2,197	2,301	2,393
Personal care	2,175	2,339	2,542	3,078	3,235	3,797	4,405
Others	636	812	974	1,093	1,219	1,438	1,668
<b>Segment revenue growth (%)</b>	11.6	15.0	13.2	10.9	5.9	11.4	10.1
Fabric care	(5.5)	22.1	29.3	12.6	6.0	12.1	10.1
-Post wash	(15.2)	10.9	24.7	5.4	1.7	10.8	7.0
-Main wash	(0.5)	26.9	31.0	15.2	7.5	12.5	11.0
Dish washing	23.4	14.1	8.4	8.3	5.7	9.3	8.5
Household insecticides	42.3	2.8	(20.2)	0.3	3.5	4.7	4.0
Personal care	20.5	7.5	8.7	21.1	5.1	17.4	16.0
Others	(13.1)	27.6	20.0	12.3	11.5	18.0	16.0
<b>Segment revenue mix (%)</b>	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Fabric care	35.1	37.2	42.5	43.2	43.2	43.5	43.5
-Post wash	10.6	10.2	11.2	10.7	10.2	10.2	9.9
-Main wash	24.5	27.0	31.3	32.5	33.0	33.3	33.6
Dish washing	36.7	36.3	34.8	34.0	34.0	33.3	32.8
Household insecticides	13.5	12.1	8.5	7.7	7.5	7.1	6.7
Personal care	11.4	10.7	10.2	11.2	11.1	11.7	12.3
Others	3.3	3.7	3.9	4.0	4.2	4.4	4.7
<b>Segment EBIT (Rs mn)</b>	2,995	2,322	3,061	4,752	5,280	5,998	6,596
Fabric care	1,382	1,236	1,726	2,874	3,082	3,464	3,812
Dish washing	1,349	929	1,327	1,804	1,907	2,083	2,260
Household insecticides	(74)	(79)	(202)	(341)	(126)	(2)	(2)
Personal care	491	356	259	397	384	418	485
Others	(153)	(119)	(48)	18	32	36	42
<b>Segment EBIT growth (%)</b>	24.1	(22.5)	31.8	55.3	11.1	13.6	10.0
Fabric care	(3.1)	(10.6)	39.7	66.5	7.2	12.4	10.1
Dish washing	69.2	(31.2)	42.9	36.0	5.7	9.2	8.5
Household insecticides	(55.2)	7.5	155.6	68.8	(63.0)	(98.2)	4.0
Personal care	2.6	(27.4)	(27.3)	53.4	(3.2)	8.6	16.0
Others	24.0	(22.0)	(59.4)	(136.2)	83.0	12.3	16.0
<b>Segment EBIT margin (%)</b>	15.7	10.6	12.3	17.2	18.1	18.5	18.4
Fabric care	20.6	15.1	16.3	24.2	24.4	24.5	24.5
Dish washing	19.3	11.6	15.3	19.3	19.3	19.2	19.2
Household insecticides	(2.9)	(3.0)	(9.6)	(16.1)	(5.7)	(0.1)	(0.1)
Personal care	22.6	15.2	10.2	12.9	11.9	11.0	11.0
Others	(24.0)	(14.7)	(5.0)	1.6	2.6	2.5	2.5
<b>Segment EBIT mix (%)</b>	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Segmental Performance	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Fabric care	46.1	53.2	56.4	60.5	58.4	57.8	57.8
Dish washing	45.0	40.0	43.3	38.0	36.1	34.7	34.3
Household insecticides	(2.5)	(3.4)	(6.6)	(7.2)	(2.4)	(0.0)	(0.0)
Personal care	16.4	15.3	8.5	8.4	7.3	7.0	7.3
Others	(5.1)	(5.1)	(1.6)	0.4	0.6	0.6	0.6

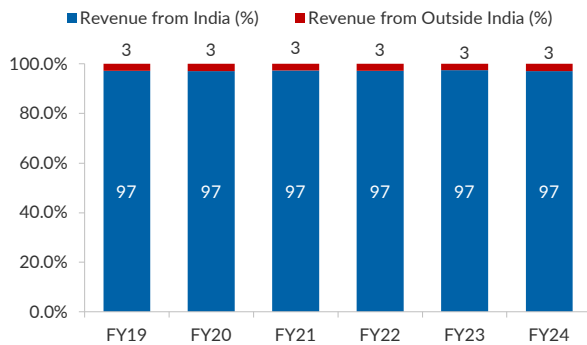
Source: Company, YES Sec

**Exhibit 2: Fabric Care (~43% of FY24 revenues) and Dishwashing (~34% of FY24 revenues) contribute to >3/4<sup>th</sup> of JYL's revenue; 6 power brands (Ujala, Exo, Maxo, Henko, Margo, Pril) contributed 83% of FY24 revenues**



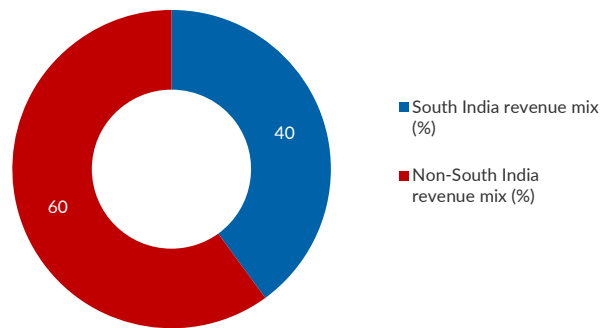
Source: Company, YES Sec

**Exhibit 3: Revenue from India has grown at a CAGR of 8.7% over the last five years forming ~97% of revenues**



Source: Company, YES Sec

**Exhibit 4: South India forms ~40% of JYL's revenue**



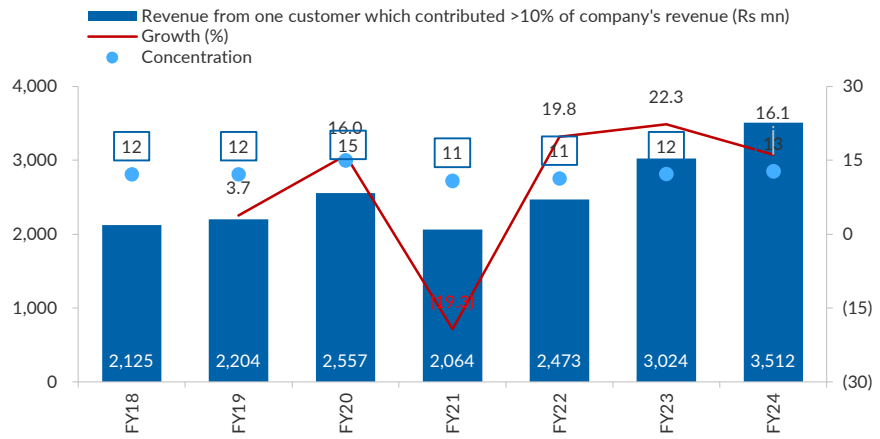
Source: Company, YES Sec

**Exhibit 5: Schemes, discounts, rebates and price adjustments as a % of sale of goods stood at 23.1%, highest in last few years**

March 31st (Rs mn)	FY19	FY20	FY21	FY22	FY23	FY24	3yr CAGR	5yr CAGR
Gross sales	21,289	20,171	23,034	26,346	29,684	33,206	13.0	9.3
growth (%)		(5.3)	14.2	14.4	12.7	11.9		
Schemes, discounts, rebates and price adjustments	3,568	3,486	4,195	4,664	5,329	6,233	14.1	11.8
as % of gross sales	16.8	17.3	18.2	17.7	18.0	18.8		
as % of sale of goods	20.1	20.9	22.3	21.5	21.9	23.1		
Sale of goods	17,722	16,685	18,839	21,682	24,355	26,973	12.7	8.8
growth (%)		(5.8)	12.9	15.1	12.3	10.8		
Sale of services	402	412	241	268	487	577	33.7	7.5
growth (%)		2.3	(41.4)	11.1	81.6	18.5		
Net Sales	18,124	17,097	19,080	21,950	24,842	27,550	13.0	8.7
growth (%)		(5.7)	11.6	15.0	13.2	10.9		

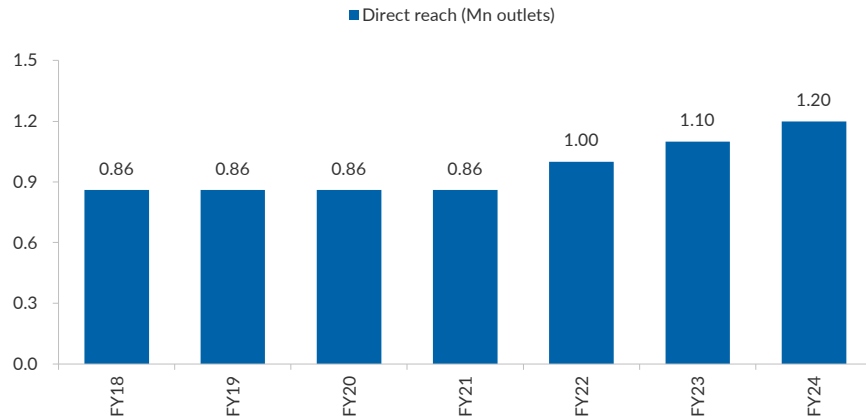
Source: Company, YES Sec

**Exhibit 6: "Revenue from one customer which contributed >10% of company's revenue"/ "CSD" grew by 16.1% in FY24 and stood at ~13% of revenues**



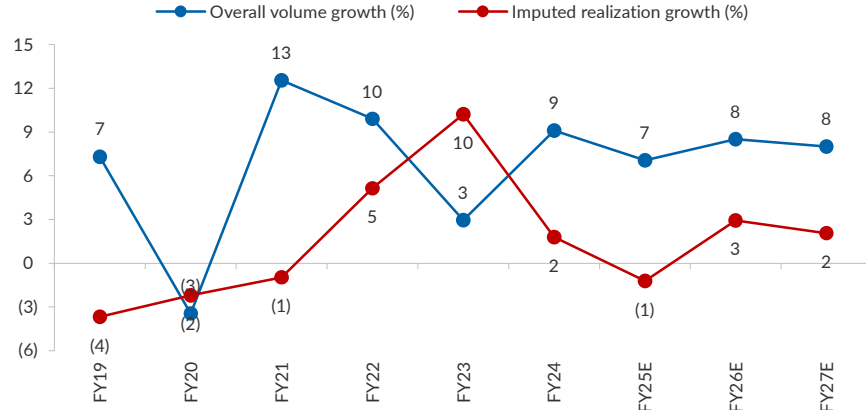
Source: Company, YES Sec; \*CSD

**Exhibit 7: JYL's direct reach now stands between 1.2-1.3mn outlets**



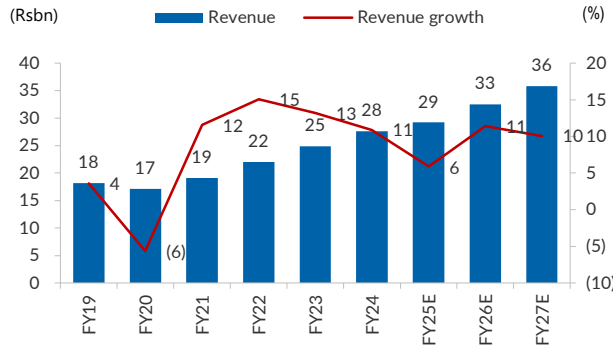
Source: Company, YES Sec

**Exhibit 8: We expect volume growth to remain in high single digits along with positive realization growth led by price hikes and premiumization**



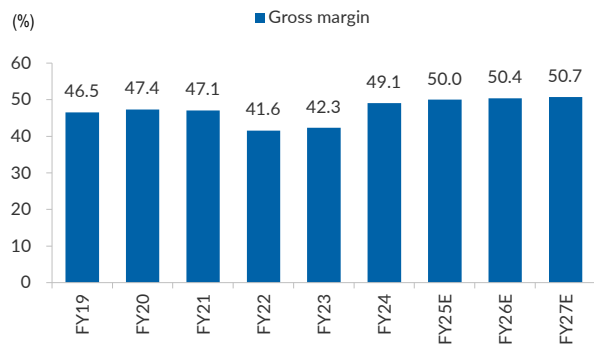
Source: Company, YES Sec

**Exhibit 9: JYL's revenue is projected to grow by 9.1% CAGR over FY24-27E largely led by volumes**



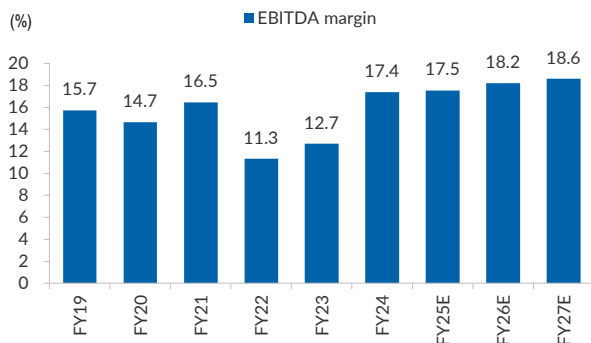
Source: Company, YES Sec

**Exhibit 10: We expect gross margins to see stable improvement to ~50.7% by FY27E**



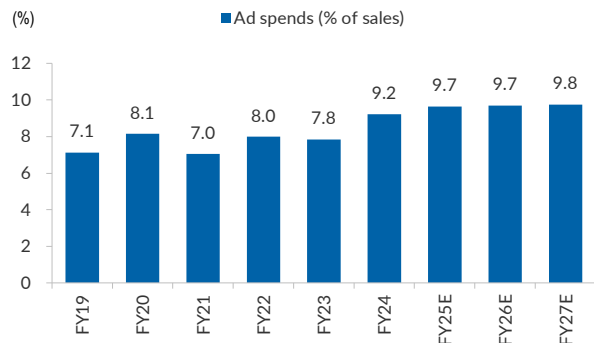
Source: Company, YES Sec

**Exhibit 11: EBITDA margins to reach >18.5% by FY27E**



Source: Company, YES Sec

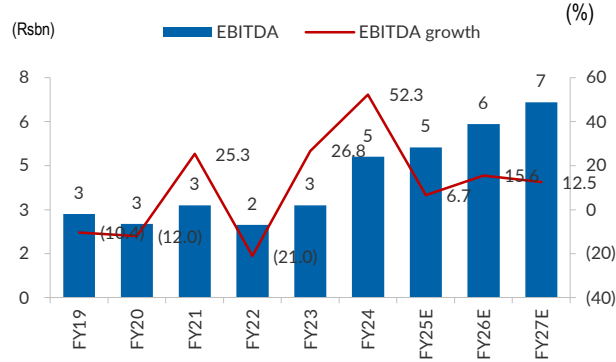
**Exhibit 12: JYL would increase ad spends to drive volume growth and support category/variant additions**



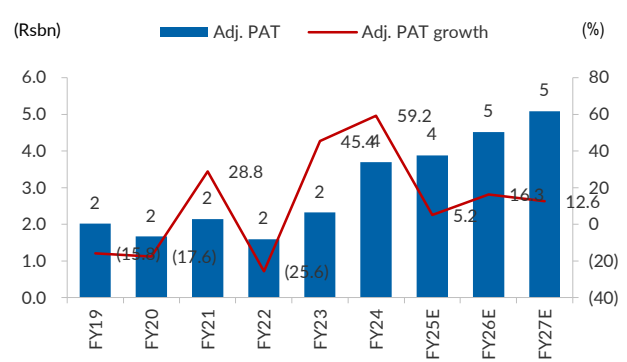
Source: Company, YES Sec

**Exhibit 13: JYL's EBITDA expected to grow at a CAGR of 11.5% over FY24-27E**

**Exhibit 14: APAT is expected to cross Rs5bn by FY27E**



Source: Company, YES Sec

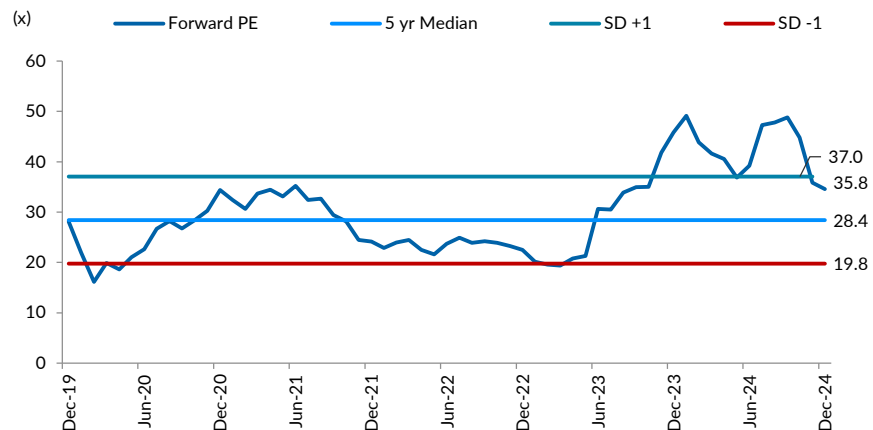


Source: Company, YES Sec

## View & Valuation

- The latest quarter (2QFY25) was a disappointment as growth rate decelerated sharply impacted by high base, impact of floods in South India (40% of revenues) and muted demand across the country. We believe growth rate should pick up starting next quarter but might not see market leading double-digit growth. With the already announced price actions, JYL revenue growth should be near to double digits starting 4QFY25.
- JYL has delivered double-digit revenue growth in the last 3-4 years superior versus the industry, and this is coupled with increasing operating margins, a debt-free balance sheet and a healthy cash position. Higher base and subdued consumption environment has put a pause on the robust growth rates which has also impacted the stock performance.
- Over FY24-27E, we build revenue CAGR of 9.1% led by ~8% volume growth, supported by price hikes and premiumization. Within the categories, we expect:
  - Fabric Care (~43% of FY24 revenues) to grow at 9.4% CAGR led by 10.3% CAGR in Main wash).
  - Dishwashing (~34% of revenues) to grow at 7.8% CAGR.
  - Household Insecticides (HI; ~8% of revenues) to grow at 4.1% CAGR.
  - Personal Care (~11% of revenues) to grow at 12.7% CAGR.
- We expect JYL to see stable gross margin improvement over FY24-27E on the back of premiumization and near-term price hikes. Growing consistently in double digits will also drive operating leverage. Majority of this savings would be used in Above the line (ATL) and Below the line (BTL) activities to drive growth and remain competitive. Expect EBITDA margin to improve by ~120bps to 18.6%. Thus build EBITDA and APAT CAGR at 11.5% and 11.2%, respectively.
- The stock is currently trading at ~39x/33x/30x FY25E/FY26E/FY27E EPS. We maintain our BUY rating with an unchanged target price of Rs500 (targeting ~36x FY'2027E EPS).
- Announcement regarding the details of new category expected to be added next year and recovery of double-digit market leading growths would be key for re-rating in the near-term.

### Exhibit 15: Currently trading at ~36x 1-yr forward earnings



Source: Company, YES Sec

## FINANCIALS

### Exhibit 16: Income statement

Y/E March (Rsmn)	FY23	FY24	FY25E	FY26E	FY27E
Net revenue	24,860	27,569	29,184	32,516	35,790
<b>% Growth</b>	<b>13.2</b>	<b>10.9</b>	<b>5.9</b>	<b>11.4</b>	<b>10.1</b>
COGS	14,349	14,038	14,592	16,128	17,644
Staff costs	2,644	3,005	3,239	3,577	3,937
A&P	1,949	2,542	2,816	3,154	3,490
Other expenses	2,767	3,186	3,418	3,741	4,062
Total expenses	21,709	22,771	24,065	26,599	29,132
EBITDA	3,151	4,798	5,118	5,916	6,658
<b>% growth</b>	<b>26.8</b>	<b>52.3</b>	<b>6.7</b>	<b>15.6</b>	<b>12.5</b>
<b>EBITDA margin (%)</b>	<b>12.7</b>	<b>17.4</b>	<b>17.5</b>	<b>18.2</b>	<b>18.6</b>
Other income	395	537	554	618	680
Interest costs	131	47	56	60	65
Depreciation	501	500	574	573	585
Exceptional items	70	0	0	0	0
Profit before tax (before exceptional items)	2,914	4,788	5,043	5,901	6,688
Tax	595	1,095	1,160	1,387	1,605
Rate of Tax (%)	20.4	22.9	23.0	23.5	24.0
PAT	2,390	3,693	3,883	4,514	5,083
Adj PAT	2,319	3,693	3,883	4,514	5,083
<b>Adj PAT margin (%)</b>	<b>9.3</b>	<b>13.4</b>	<b>13.3</b>	<b>13.9</b>	<b>14.2</b>
<b>% Growth</b>	<b>45.4</b>	<b>59.2</b>	<b>5.2</b>	<b>16.3</b>	<b>12.6</b>

Source: Company, YES Sec

### Exhibit 17: Balance Sheet

Y/E March (Rsmn)	FY23	FY24	FY25E	FY26E	FY27E
Share capital	367	367	367	367	367
Reserves	15,128	17,716	19,948	22,444	25,049
Minority interest	21	19	19	19	19
Net worth	15,516	18,102	20,334	22,830	25,435
Total debt	468	0	0	0	0
Other long-term liabilities	-102	754	846	940	1037
<b>Total liabilities</b>	<b>15,882</b>	<b>18,856</b>	<b>21,180</b>	<b>23,770</b>	<b>26,472</b>
Gross block	14,125	14,509	14,909	15,259	15,509
Depreciation	2,962	3,256	3,830	4,403	4,988
Net block	11,163	11,253	11,079	10,856	10,521
Capital work-in-progress	155	134	134	134	134
Investments	-	1,915	2,394	2,992	3,890
Inventories	3,019	2,835	3,198	3,563	3,922



Debtors	1,378	2,014	2,399	2,673	2,942
Cash	2,835	1,661	2,538	3,664	5,585
Loans & advances	449	2,643	3,171	3,805	3,805
Other current assets	773	962	1,154	1,380	1,380
<b>Total current assets</b>	<b>8,454</b>	<b>10,114</b>	<b>12,460</b>	<b>15,085</b>	<b>17,634</b>
Creditors	2,144	2,761	2,998	3,314	3,626
Other current liabilities & provisions	1,747	1,798	1,888	1,983	2,082
<b>Total current liabilities</b>	<b>3,890</b>	<b>4,559</b>	<b>4,887</b>	<b>5,297</b>	<b>5,707</b>
<b>Net current assets</b>	<b>4,564</b>	<b>5,555</b>	<b>7,573</b>	<b>9,789</b>	<b>11,927</b>
<b>Total assets</b>	<b>15,882</b>	<b>18,856</b>	<b>21,180</b>	<b>23,770</b>	<b>26,472</b>

Source: Company, YES Sec

## Exhibit 18: Cash flow statement

Y/E March (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
PAT	2,426	3,995	3,883	4,514	5,083
Depreciation	501	500	574	573	585
Interest	54	(171)	56	60	65
(Inc./dec. in working capital)	502	387	(1,141)	(1,089)	(217)
Other items	(196)	(132)	(554)	(618)	(680)
<b>Cash flow from operations</b>	<b>3,286</b>	<b>4,579</b>	<b>2,817</b>	<b>4,058</b>	<b>5,515</b>
Capital expenditure (-)	(122)	(144)	(400)	(350)	(250)
<b>Net cash after capex</b>	<b>3,236</b>	<b>4,648</b>	<b>2,972</b>	<b>3,708</b>	<b>5,265</b>
Inc./dec. in investments and other assets	71	(4,261)	168	114	(122)
<b>Cash flow from investments</b>	<b>(51)</b>	<b>(4,405)</b>	<b>(232)</b>	<b>(236)</b>	<b>(372)</b>
Inc./dec. in total borrowings	(1,485)	(247)	0	0	0
Other items	(104)	0	(56)	(60)	(65)
<b>Cash from investing and financial activities</b>	<b>(2,512)</b>	<b>(1,348)</b>	<b>(1,708)</b>	<b>(2,079)</b>	<b>(2,542)</b>
Change in Cash Balance	724	(1,174)	878	1,126	1,921
Opening cash balance	2,111	2,835	1,661	2,538	3,664
Closing cash balance	2,835	1,661	2,538	3,664	5,585

Source: Company, YES Sec

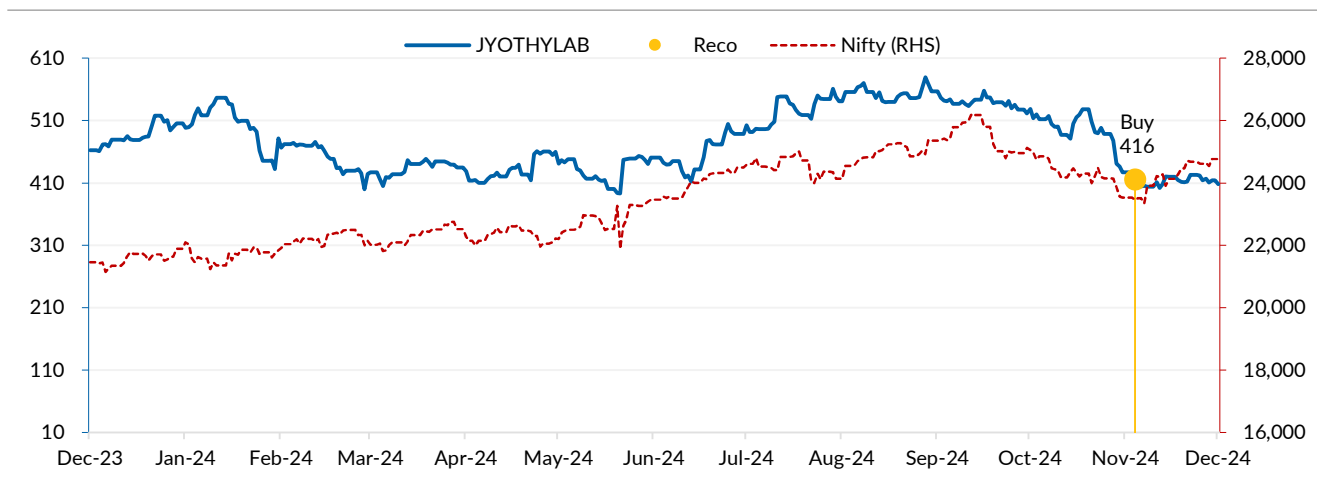
## Exhibit 19: Ratios

Y/E March	FY23	FY24	FY25E	FY26E	FY27E
<b>Per share (Rs)</b>					
EPS	6.3	10.1	10.6	12.3	13.8
Book value	84.5	98.6	110.8	124.3	138.5
<b>Valuation (x)</b>					
EV/sales	1.3	2.8	2.4	2.1	1.8
EV/EBITDA	10.6	15.9	13.7	11.6	9.9
P/E	30.8	43.4	38.7	33.3	29.6
P/BV	2.3	4.4	3.7	3.3	3.0

Return ratios (%)					
RoCE *	19.4	27.8	25.5	26.5	26.9
RoE	14.9	20.4	19.1	19.8	20.0
ROIC *	20.2	30.7	29.1	32.3	35.9
Profitability ratios (%)					
Gross margin	42.3	49.1	50.0	50.4	50.7
EBITDA margin	12.7	17.4	17.5	18.2	18.6
Adj PAT margin	9.3	13.4	13.3	13.9	14.2
Liquidity ratios (%)					
Current ratio	2.2	2.2	2.5	2.8	3.1
Quick ratio	1.4	1.6	1.9	2.2	2.4
Solvency ratio (%)					
Debt to Equity ratio	0.0	0.0	0.0	0.0	0.0
Turnover ratios					
Total asset turnover ratio (x)	1.6	1.5	1.4	1.4	1.4
Fixed asset turnover ratio (x)	2.2	2.5	2.6	3.0	3.4
Debtor days	21	22	28	28	29
Inventory days	76	76	75	77	77
Creditor days	57	64	72	71	72

Source: Company, YES Sec

## Recommendation Tracker



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Analyst signature

Analyst signature

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