Initiating Coverage Report

28th Aug 2020

Jyothy labs

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Brief Overview

CMP (INR) (As on 27th Aug 2020)	147
Target (INR)	179
Upside(%)	22
Recommendation	**Strong Buy**

BSE Code	532926
NSE Code	JYOTHYLAB
Reuters Ticker	JYOI.BO
Bloomberg Ticker	JYL IN

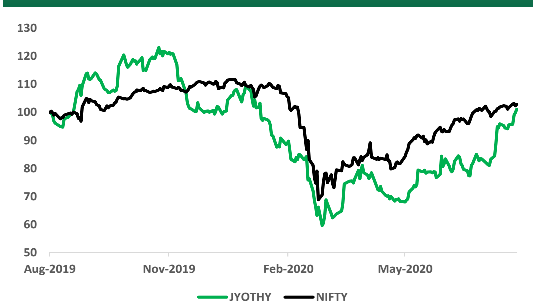
Stock Scan

Market cap (INR Cr.)	5,407
Outstanding Shares (Cr.)	36.8
Face Value (INR)	1.00
Dividend Yield(%)	2%
P/E (x) (Adjusted)	29.50
P/B (x)	4.1
Debt/Equity (x)	0.1
Beta vs. Sensex	0.73
52 Week High/ Low (INR)	185/86
Avg. Daily Volume (NSE)/1yr	558,355

Shareholding Pattern (%)

	Jun 2020	Mar 2020	Dec 2019
Promoters	62.89	62.89	62.89
Institutions	29.98	30.48	30.69
Non-Institution	7.13	6.63	6.42

Stock vs. Nifty (Relative Returns)



Source: NSE

Jyothy Labs Ltd.: A well-diversified consumer play

We initiate coverage on Jyothy Labs Ltd. (Jyothy) with a Strong Buy rating. Jyothy Labs Limited was founded in 1983 by Mr. M. P. Ramachandran in Thrissur, Kerala. With a humble beginning as a single-unit, single-product manufacturing company, Jyothy has grown significantly to become a leading FMCG player with a pan-India presence and several household brands.The key aspects which draw attention to Jyothy's business are:

- **Diversified product offering:** Jyothy has a well-diversified product offering within the categories of dishwashing, fabric care, household insecticides, personal care and laundry services. ***The product profile comprises of six power brands, viz., Ujala, Maxo, Exo, Pril, Margo and Henko within these categories.*** The well diversified product offering insulates the company against underperformance in one or more categories.
- **Minimal impact of Covid-19:** The FMCG sector has been relatively less impacted post the removal of Covid-19 lockdown as most of the products are daily essentials, especially in the case of Jyothy Labs. Jyothy's core portfolio of soaps, detergents, insecticides and dishwash continues to enjoy buoyant demand.
- **High dividend pay-out ratio:** Jyothy has been consistent in maintaining a high dividend pay-out ratio. The pay-out ratio including DDT has always been more than 60% since 2011 barring in 2018 when it was 18%.
- **Innovation and product launches:** Jyothy has always been at the forefront of innovation starting with Ujala Whitener, four drops of which still makes a white shirt as white as possible. The recent examples of innovation include ***Margo Face Wash, Margo Handwash and Margo Sanitiser***, all infused with neem extracts, ***T Shine*** - a completely organic, HCL acid free toilet cleaner, ***Exo Dishwash Gel***- another innovation with unique, powerful multi active concentrate and ***Maxo Genius LV*** - the first mosquito repellent to control the vapours automatically.

We have valued the stock at 25x FY23E EPS to arrive at a **Target Price of Rs 179**, which provides an upside of 22% based on the current market price. We thus recommend a **"Strong Buy"** rating on the stock.

Financial Performance at a glance (Consolidated)

Particulars (INR mln)	FY19	FY20	FY21E	FY22E	FY23E
Net Sales from ops.	18136	17112	19203	20355	21780
Growth %	4%	-6%	12%	6%	7%
EBITDA	2811	2511	2938	3135	3376
EBITDA Margin (%)	15.5%	14.7%	15.3%	15.4%	15.5%
Net Profit (Adjusted)	2051	1737	2094	2397	2631
Net Profit Margin (%)	11.3%	10.2%	10.9%	11.8%	12.1%
EPS (Adjusted)	5.57	4.72	5.69	6.51	7.15
BVPS	36.02	33.37	36.05	39.06	41.21
P/B (x)	4.1	4.4	4.1	3.8	3.6
P /E (x)	26.4	31.2	25.9	22.6	20.6
ROE (%)	15.5%	14.1%	15.8%	16.7%	17.3%
ROCE(%)	18.5%	15.3%	17.6%	17.8%	18.6%
ROE (%)(ex goodwill)	38.0%	39.3%	38.7%	36.8%	36.0%
ROCE(%)(ex goodwill)	44.0%	39.2%	40.4%	37.3%	36.9%

Source: Company Data, SMIFS Research

Investment Rationales

Sales CAGR Across All Categories

Categories	CAGR (FY17-FY20)	CAGR (FY17-FY19)
Dishwashing	3.6%	7.3%
Fabric care	-1.4%	-0.6%
Household insecticides	-11.4%	-7.3%
Personal Care	4.2%	9.7%
Laundry Services	-2.2%	-4.5%
Others	-2.3%	6.0%
Total	-0.7%	1.8%

Source: Company Data

The well-diversified product portfolio insulates the Company against underperformance in one or more categories. Jyothy primarily employs people who stay nearby its factories, for manufacturing purposes . This helped Jyothy in restarting its operations quickly during the lockdown phase as soon as Govt. permissions were obtained.

Diversified product offering revolving around six power brands

Jyothy has a well-diversified product offering within the categories of dishwashing, fabric care, household insecticides, personal care and laundry services. ***The product profile comprises of six power brands, viz., Ujala, Maxo, Exo, Pril, Margo and Henko within these categories.*** The well-diversified product offering insulates the Company against underperformance in one or more categories. The dishwashing segment saw a CAGR of 4% between FY17 and FY20, while the CAGR was 7% between FY17 and FY19 (CAGR between FY17 and FY19 is more meaningful as FY20 saw disappointing performance across categories because of lockdowns associated with Covid-19). The fabric care segment saw a CAGR of -1.4% between FY17 and FY20 and -0.6% between FY17 and FY19. The household insecticides segment saw a CAGR of -11% between FY17 and FY20 and -7% between FY17 and FY19. Personal care segment saw a CAGR of 4% between FY17 and FY20 and 10% between FY17 and FY19. Laundry services segment saw a CAGR of -2% and -4% between FY17 and FY20 and between FY17 and FY19 respectively.

The fabric whitener, Ujala Supreme has maintained its number 1 position in India since its launch three decades back. Pril and Exo are number 2 in dishwash (bar and liquid) category in value terms. Maxo coil enjoys the number 2 position in the mosquito repellent coil category in volume terms.

Jyothy's products are available across 2.8 mln retail outlets in India out of which 0.86 mln are direct reach outlets. There are 6,100+ stockists and sub-stockists in India who stock Jyothy's products and 3 mln+ units of Jyothy's products are sold daily.

Jyothy's products are manufactured across 27 factories in 23 locations. This also acts as a good diversification against any potential problem in any particular location besides aiding in a smooth supply chain. Jyothy primarily employs people who stay nearby its factories, for manufacturing purposes. This has been particularly handy during the lockdown situation enforced in the initial phase of Covid-19 in India – As soon as Jyothy obtained permission from the Government for reopening its factories during the lockdown phase, owing to the fact that Jyothy's products fall in the essential category, Jyothy was able to get all its

Investment Rationales

manufacturing employees up and running within the factories as they all resided nearby. Thus, production resumed seamlessly as soon as permissions were obtained from the Government.

Jyothy's core portfolio of soaps, detergents, insecticides and dishwash continues to enjoy buoyant demand. In addition, having plants spread across 23 locations provides Jyothy a significant competitive advantage in overcoming the supply chain disruptions.

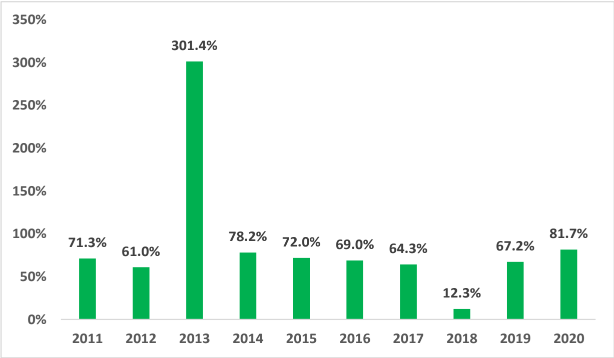
Minimal impact of Covid-19

The FMCG sector has been relatively less impacted post the removal of Covid-19 lockdown as most of the products are daily essentials, especially in the case of Jyothy Labs. Jyothy's core portfolio of soaps, detergents, insecticides and dishwash continues to enjoy buoyant demand. In addition, having plants spread across 23 locations provides Jyothy a significant competitive advantage in overcoming the supply chain disruptions.

Throughout FY20, while the urban economy was somewhat stable, the rural markets were weak due to the economic slowdown. This, along with the lockdown due to COVID-19 in the crucial month of March in which demand for soaps and insecticides peak, did impact Jyothy's sales. At the same time, Jyothy's ability to respond to the disruption has been noteworthy. Jyothy's leadership team, led by the Managing Director, M. R. Jyothy, has done a commendable job in terms of launching new products (Margo Hand Sanitiser and Margo Hand Wash), tapping alternate distribution channels and rolling out digital initiatives. It demonstrates the agility and flexibility with which Jyothy responds to the demands of consumers and trade partners.

High dividend pay-out ratio

Dividend Pay-Out Ratios



Jyothy has rewarded its shareholders handsomely by maintaining a high dividend pay-out ratio since many years. The dividend pay-out ratio has always been more than 60% since 2011 barring in 2018, when it was 18%. 2013 witnessed a very high dividend pay-out ratio of 301.4%. Our assumptions indicate that the Company would be able to maintain a dividend pay-out ratio of more than 50% between FY21E and FY23E with the Company becoming practically debt free in FY22E. The dividend pay-out ratio for FY23 is assumed to be 71%.

Investment Rationales

Innovation and product launches

In 2019-20, Jyothy had quite a few product launches - two of them were in response to the need for hygiene products with the outbreak of COVID-19. It exemplifies the agility of Jyothy's core team, which is always innovating to quickly respond to market developments.

Margo is the brand with the most authentic neem infusion into skin care products. Jyothy's face wash launch was led by the insight that younger consumers prefer face wash over soap. Margo Handwash and Margo Sanitizer were rolled out just as the demand for hand cleansing products was peaking in India.

Margo: Margo, one of Jyothy's power brands, saw the launch of Margo Facewash with authentic neem leaves, Margo natural antibacterial handwash with the authentic anti-germ properties of neem and Margo Sanitizer with alcohol and infused neem extracts. The facewash, coming in paste form is a product differentiator and first-of-its-kind in India, as all the other neem face washes in the market are gel-based. It is enhanced with Vitamin E to deliver optimal benefits to the user, backed by Margo's well-known proposition of 'Goodness of 1000 neem leaves'. Margo is the brand with the most authentic neem infusion into skin care products. Jyothy's launch was led by the insight that younger consumers prefer face wash over soap. Margo Handwash and Margo Sanitizer were rolled out just as the demand for hand cleansing products was peaking in India in view of the medical advisory to combat the novel coronavirus. As with the Margo range, they are both enhanced with neem, a unique proposition which no other comparable products have. These products are currently witnessing good demand.

T-Shine: Within the household products range, ***Jyothy introduced a lavender variant of T-Shine Toilet Specialist. It has the distinguishing characteristic of being the only toilet cleaner in the market with 100% Organic Compounds.*** The new variant is purple in colour and has lavender fragrance. In addition, it is a whiteness specialist variant.

Exo Dishwash Super Gel: It is a thick concentrated dishwash option. Its unique, powerful multi active concentrate provide the "Power of Bar and Shine of Liquid". Also, ***the Goodness of Ginger and Power of Cyclozan make Exo Dishwash Super Gel the preferred antibacterial option***. It comes in an ergonomically-friendly stylish packaging that not just helps in better dispensation but makes the kitchen look modern for the consumer who buys it.

Investment Rationales

Each of the sales representative now has a digital application on their mobile phones which enables them to capture data in real time and process sales order more efficiently.

Leveraging information technology in operations

Jyothy's information technology transformation began in 2019 and bore fruit in the year 2020. Each of the sales representative now has a digital application on their mobile phones which enables them to capture data in real time and process sales order more efficiently. These tools help Jyothy to assess the time spent on the field, identify the products moving the fastest, and look into related matters. ***Analysing data like this can lead to a significant increase in sales volumes and helps to grow Jyothy's presence in different zones, since sales heads have a better overview of all that is happening.*** Jyothy is looking at more ways to use emerging technology, especially at the plant level. Technology is being embedded in each and every function to create one uninterrupted network of information.

Jyothy has revamped its distribution strategy, with easier goods movement following the implementation of GST. Information technology, infrastructure, manpower, all are being used to augment distribution.

Revamped distribution strategy

Jyothy has revamped its distribution strategy, with easier goods movement following the implementation of GST. Information technology, infrastructure, manpower, all are being used to augment distribution, encompassing areas where Jyothy is present and where Jyothy is yet to establish a presence. ***Jyothy's transformed distribution strategy includes accessing as wide a consumer base as possible through tie-ups with major E-commerce platforms.*** Jyothy has been seeing notable success in this effort for the past one year. During the year, keeping in mind the safety of consumers and delivering products in their homes, Jyothy has partnered with alternate distribution partners which has been well received. Going forward, the Company expects E-commerce activity to increase.

Investment Rationales

Following the implementation of GST, it has become easier for manufacturers to reach distributors, because several transportation and paperwork hurdles have been removed.

The Government of India (GoI), in a bid to revive the languishing economy and tackle health crisis posed by the pandemic, announced a Rs 20 Lakh Crore special economic and comprehensive package, equivalent to 10% of Indian GDP.

Efficient working capital management

Following the implementation of GST, it has become easier for manufacturers to reach distributors, because several transportation and paperwork hurdles have been removed. Now, if the situation demands, Jyothy can change the frequency and volume of goods delivered to the distributors, who would then take those goods to the retailers. ***Jyothy Labs has always operated on a cash-and-carry model when dealing with distributors. In the post-GST era, Jyothy can move its stock faster by delivering smaller consignments of goods to distributors several times a month, rather than a few large consignments a month, and thus ensure more efficient working capital management.*** Besides, in the current challenging period, Jyothy is strongly focussed on enhancing the business hygiene by strictly refraining from giving additional credit.

Measures taken by the Central Government and RBI to boost the Indian economy

The Government of India (GoI), in a bid to revive the languishing economy and tackle health crisis posed by the pandemic, announced a Rs 20 Lakh Crore special economic and comprehensive package, equivalent to 10% of Indian GDP, under the Self-Reliant India Movement. It included:

- Rs 1.7 lakh crore relief package to alleviate hardships faced by the marginalised Indian population,

- Front-loading direct cash transfer benefits under PM-KISAN scheme to provide financial aid to 8.7 crore farmers,

- Rs 15,000 crore for Emergency Health Response Package,

- Significant liquidity enhancement boosters in the banking and NBFC segment to trigger credit growth,

- Rs 3 lakh crore package for Collateral-free Automatic Loans for business including MSMEs.

Investment Rationales

IMF projects strong recovery at 7.4% in FY 2021-22 on the assumption of successful containment of the pandemic. The fiscal and monetary stimulus provided by the government and RBI would assist greatly in this forecasted recovery.

The Reserve Bank of India (RBI), too, slashed key repo rate from 6.5% in February 2019 to 4% in May 2020, to provide monetary stimulus and trigger economic growth back to the earlier trajectory. The IMF, factoring in the loss of GDP output caused by the prolonged lockdown and challenging business conditions even after lockdown relaxations, forecasted India to grow by subdued 1.9% in FY 2020-21. It, however, projects strong recovery at 7.4% in FY 2021-22 on the assumption of successful containment of the pandemic. The fiscal and monetary stimulus provided by the government and RBI would assist greatly in this forecasted recovery. This would be further complemented by the government's revival measures announced in Union Budget 2020-21 such as:

- Reduction in the corporate tax rate by up to 10% to revive investment and job creation,

- Direct capital infusion of Rs 70,000 crore into public sector banks to alleviate liquidity concerns,

- Liberalising FDI norms for certain sectors to make India as an attractive global manufacturing hub, attract large foreign investments and spur high employment generation.

The long-term growth outlook of the country continues to remain positive in the backdrop of these growth measures and structurally reformative policies such as GST regime, Make in India, Skill India, and Direct Benefit Transfer schemes, among others. Additionally, subdued international oil prices are likely to support economic growth further by keeping the country's inflation rate in check and lowering current account and fiscal deficit.

Jyothy Labs—Portfolio

DISHWASH

Exo Bar, Gel Dishwash & Scrubber

Pril Liquid Dishwash & Bar

PERSONAL CARE

Margo (Neem Based)
Soap, Facewash,
Handwash, Sanitizer

DETERGENTS

Ujala Instant Dirt Dissolver &
Fast Wash Bar

Henko Stain Care & **Henko** Matic

HOUSEHOLD INSECTICIDE

Maxo Liquid Vaporiser

Coils and Incense Sticks

TOILET & FLOOR CLEANER

T-Shine Toilet Cleaner & Floor Cleaner

Source: Company Data

Jyothy Labs—Portfolio Strategy

Post Wash	Main Wash	Dish wash	Household Insecticide	Personal Care
• Extending Dominant position • Premiumisation • Targeted market development initiatives	• Establishing uniqueness • Building for future • Winning through Innovations	• Leveraging Two brand portfolio • Innovation • leverage rural category penetration of bars	• Increasing footprint • Winning through Innovations	• New Extensions • Differentiated propositions on naturals

Source: Company Data

Power Brands Market Share And Their Performance

UJALA

81.7%
Market share of Ujala Supreme Fabric Whitener

15.8%
Market share (Kerala) of Ujala IDD

EXO

11.2%
Market share of Exo Bar

MARGO

7.5%
5-Year CAGR growth

New category added during the year - Margo Handwash and Margo Hand Sanitizer

Category relaunch - Margo Face Wash

HENKO

11%
5-Year CAGR growth

MAXO

21.1%
Market share of Maxo Coil

8.1%
Market share of Maxo Liquid Vaporiser

PRIL

16%
Market share of Pril Liquid

(All India Market Share – as per AC Nielsen (calendar year 2019)

Source: Company Data

Industry Overview

India's FMCG sector is classified into three broad categories, namely Food and Beverages (F&B), Healthcare, and Household and Personal Care (HPC). HPC segment accounts for the largest share at 50% of total FMCG sales. In terms of market segmentation, rural accounts for a sizeable 36% of the total FMCG market. FMCG companies reach out to the final consumers primarily through two trade channels: general trade, comprising standalone Kirana stores; and modern trade, comprising supermarkets, hypermarkets, and E-commerce.

Basic background of the FMCG industry

India's FMCG sector is classified into three broad categories, namely Food and Beverages (F&B), Healthcare, and Household and Personal Care (HPC). HPC segment accounts for the largest share at 50% of total FMCG sales, followed by Healthcare segment at 31% and F&B at 19%.

In terms of market segmentation, rural accounts for a sizeable 36% of the total FMCG market. ***Valued at USD 23.6 billion in FY 2017-18, it is projected to grow to become USD 220 billion by 2025 in the backdrop of pro-farmer government schemes and direct cash transfer benefits*** with a consequent enhancement in rural disposable incomes and higher demand for consumption.

Additionally, ***organised FMCG companies are investing heavily in supply chain management to strengthen its distribution network as well as focussing more on lower sized stock-keeping units (SKUs)*** to ensure affordability. This is expected to fulfil rural aspirations and enhance its consumption levels even further.

FMCG companies reach out to the final consumers primarily through two trade channels: general trade, comprising standalone Kirana stores; and modern trade, comprising supermarkets, hypermarkets, and E-commerce. ***The traditional general trade still dominates India's FMCG markets and contributes around 90% of the total sales. Though, in recent times, modern trade channels are evolving fast and outpacing their traditional counterparts. According to the Nielsen India estimates, the share of E-commerce in FMCG sales stood at 2% in 2019, up from 0.5% in 2016. It is estimated to command 5% of the total FMCG market by 2022.***

The implementation of GST, large scale digitisation, a proliferation of smartphones with affordable data access, and advances in the digital payments have improved distributing infrastructure of the country. The convenience offered to a time-sensitive generation has augured well for modern trade and is altering the landscape of Indian retail along with its rapid growth.

Industry Overview

Even though consumption growth in the rural India has been low for the past few quarters, it is expected to display a strong revival.

Rural market to enhance FMCG growth

FMCG companies have been increasingly targeting rural India, to fuel growth. Even though consumption growth in the rural India has been low for the past few quarters, it is expected to display a strong revival. ***This revival will be led by reverse migration of 40 million migrants amidst the crisis posed by the pandemic, good monsoon projections announced by the India Meteorological Department (IMD) and government stimulus to revive rural economic activity.*** Pro-farmer government policies are improving the purchasing power of the rural population. Digital India movement and strengthening distribution infrastructure is widening FMCG industry's rural reach. ***Low ticket size by offering smaller packs and better brand awareness by higher promotional spends is likely to drive FMCG companies' growth in rural India.***

The implementation of GST has significantly streamlined the logistics of India by abolishing all check-posts.

Advancement in logistics

The implementation of GST has significantly streamlined the logistics of India by abolishing all check-posts. It has resulted in a significant reduction in transportation costs, time, and spoilage. ***The recent positive move by Union Transport Ministry of changing axle loading norms, permitting trucks to carry up to 20% more weight, as per the international standards will further enhance cost and time savings.*** Companies can invest these savings in improving distribution network and developing superior quality products, thus benefiting the final consumers.

By removing the tax barriers across states, GST has made India a single market, making it more business efficient.

Market share shift from unorganised to organised sector

By removing the tax barriers across states, GST has made India a single market, making it more business efficient and bringing the unorganised market under the tax gamut. This has curbed rampant tax evasion prevalent in the Indian economy and reduced the price gap between organised and unorganised market. ***As a result, consumers are shifting from unorganised to organised players owing to their better product quality and differentiation, price competitiveness and superior distribution strength.***

Industry Overview

E-commerce is reshaping the global retail market. It has opened up a whole new shopping world, providing millions of consumers with access to greater assortment and value.

Per capita FMCG consumption in India is amongst the lowest in the world, giving the industry a big headroom for growth.

Revolution in the digitisation of India and e-commerce

E-commerce is reshaping the global retail market. It has opened up a whole new shopping world, providing millions of consumers with access to greater assortment and value opportunities satisfying their increasing demand for convenience. ***The e-commerce industry in India is projected to grow to USD 4 billion by 2022, drastically higher than USD 1.2 billion in 2019.*** The growth would be largely driven by affordable internet access and proliferation of smartphones across the country. ***The ongoing digital transformation is increasing India's total internet user base to 829 million by 2021 from 687.6 million in 2019.*** This is supporting the growth of organised FMCG sector growth.

Increasing per capita consumption

Per capita FMCG consumption in India is amongst the lowest in the world, giving the industry a big headroom for growth. FMCG companies are offering smaller size packs along with effective promotional activities for better brand awareness to capture a larger share of rural consumption. ***On the urban side, the middle-class segment in India is expected to rise to 550 million by 2025, up from the current 483 million in 2019.*** This will boost the organised FMCG sale on account of better brand awareness of urban population along with purchasing power beyond their basic needs.

Growing demand for organic products

Increasingly, consumers are looking to buy brands that not only offer great quality at the right price but are also natural, organic, and eco-friendly. ***According to the International Lifestyles Survey 2019 by Euro Monitor, eco-friendliness of brands were ranked as the highest parameter influencing shoppers followed by natural and organic ingredients.*** FMCG companies that are catering to the health-conscious segment are well-positioned to benefit from this trend.

Premiumisation

Rising disposable income of aspirational youths, increasing urbanisation, a greater assortment of value products and easy availability of credit are driving growth for premium products. ***Premiumisation is helping companies to move up a value chain and earn better margins.***

Key Risks

- **Economic Risk –** Jyothy's performance and growth are linked to the consumption levels, which in turn is connected to the overall economic growth of the country.

- **Supply Chain Risk –** A robust supply chain infrastructure and its smooth functioning is key to Jyothy's successful operations. Any disruption in the supply chain can adversely impact production and finished goods distribution and thus impact its revenue.

- **Raw Material Risk –** Unavailability of key raw materials at the right time, in right quantity and at competitive prices may adversely impact sales margins.

- **Competition Risk –** FMCG sector's lucrative growth opportunity and low entry barriers have attracted several strong global players and new competition. Jyothy faces the risk of declining market share and profitability on account of rising competition intensity.

- **Seasonal Risk –** Unexpected seasonal changes remain an external risk that may impact Jyothy's operations and its performance.

- **Compliance Risk –** Failing to adhere to the statutory rules and regulations set forth by the Indian regulatory bodies may lead to cancellation of licence and materially hamper the business.

- **Risk with regard to our estimates—** We have assumed revenue growth rates of 5% YoY for Q2FY21E and Q3FY21E. For Q4FY21E, we have assumed 6% growth rate over Q4FY19 as Q4FY20 was deeply impacted by Covid-19 related lockdowns. For FY22E and FY23E, we have assumed revenue growth rates of 6% YoY and 7% YoY respectively. If in case our assumptions do not converge in actual terms, our estimated target price may not be reached.

SWOT Analysis

Strengths

- Strong brand position.
- Resilient business model with well-diversified portfolio.
- Own manufacturing facilities with employees connected with manufacturing and sales on own payroll.

Weaknesses

- Predominant presence in South India.
- Loss making laundry business.

Opportunities

- Innovative products like Margo Face Wash, Hand Wash and Hand Sanitiser, T Shine Organic Toilet Cleaner, Exo Dishwash gel and Maxo Genius Automatic LV.
- High number of under served and poorly served markets in terms of dishwash and household insecticides.
- Monetisation of land bank.

Threats

- Heightened competitive intensity.
- Illegal mosquito repellant incense sticks industry.

Company Overview

Jyothy Labs Limited was founded in 1983 by Mr. M. P. Ramachandran in Thrissur, Kerala. With a humble beginning as a single-unit, single-product manufacturing company, Jyothy has grown significantly to become a leading FMCG player with a pan-India presence and several household brands.

Jyothy Labs Limited was founded in 1983 by Mr. M. P. Ramachandran in Thrissur, Kerala. With a humble beginning as a single-unit, single-product manufacturing company, Jyothy has grown significantly to become a leading FMCG player with a pan-India presence and several household brands.

Jyothy has 27 state-of-the-art plants across 23 locations and an extensive distribution network of 0.86 million outlets directly reachable, through which it serves and delights millions of Indians every day. Jyothy has a wide basket of products marketed under ***six power brands that cater to diverse household requirement – Ujala and Henko in the fabric care, Exo and Pril in the dishwash segment, Maxo in the household insecticides, and Margo in the personal care.*** In August 2008, Jyothy forayed into a synergistic laundry services segment with the launch of Fabricspa in Bengaluru and currently operates 150 outlets across India.

Jyothy purchased Henkel AG's 50.97% stake in Henkel India in May 2011. Jyothy had already owned 14.9% in the Indian unit by purchasing this stake from Tamilnadu Petroproducts Ltd. ***The purchase of Henkel AG's stake gave Jyothy the ownership of six new brands, viz., Henko, Mr White, Fa, Pril, Margo and Neem.*** The loss making unit was turned around by Jyothy in less than two years.

Jyothy has created a distinct identity for itself with its ability to identify unaddressed consumer demands. It has also earned a reputation of catering to these evolving needs by delivering high-quality, innovative and affordable products developed at its state-of-the-art R&D facilities.

EBIT Margins Across All Categories

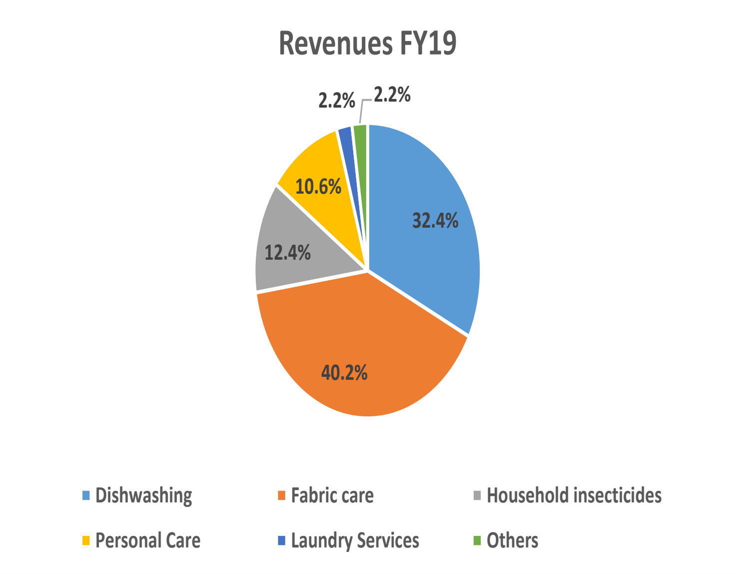
Categories	EBIT Margin FY19	EBIT Margin FY20
Dishwashing	12.5%	14.1%
Fabric care	22.3%	20.1%
Household insecticides	1.5%	-9.1%
Personal Care	29.6%	26.5%
Laundry Services	-23.9%	-24.6%
Others	-6.6%	-6.5%

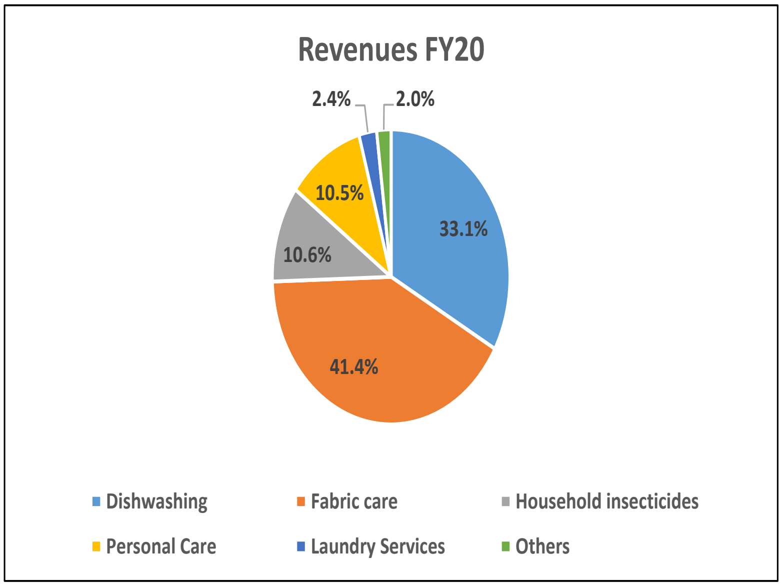
Source: Company Data

Revenues for Dishwashing, Fabric Care, Household Insecticides, Personal Care, Laundry Services and Others segments were Rs 5873 mln, Rs 7,297 mln, Rs 2,243 mln, Rs 1,919 mln, Rs 403 mln, and Rs 403 mln respectively for FY19. For FY20 the respective figures were Rs 5,667 mln, Rs 7,080 mln, Rs 1,814 mln, Rs 1,804 mln, Rs 413 mln and Rs 334 mln.

EBIT for Dishwashing, Fabric Care, Household Insecticides, Personal Care, Laundry Services and Others segments were Rs 731 mln, Rs 1,629 mln, Rs 33 mln, Rs 567 mln, Rs (96) mln, and Rs (27) mln respectively for FY19. For FY20 the respective figures were Rs 797 mln, Rs 1,425 mln, Rs (164) mln, Rs 478 mln, Rs (102) mln and Rs (22) mln.

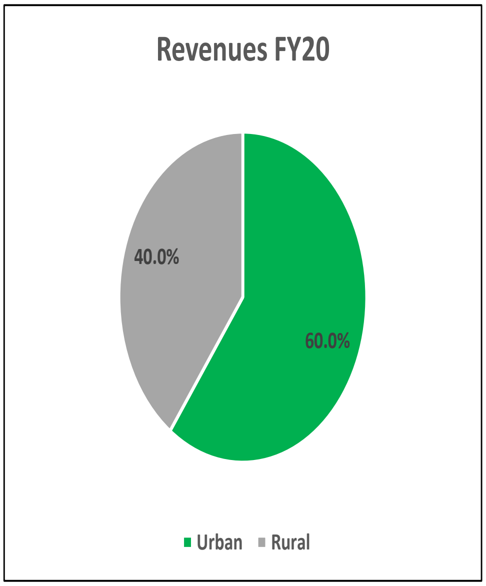
Revenue Components for FY19 and FY20

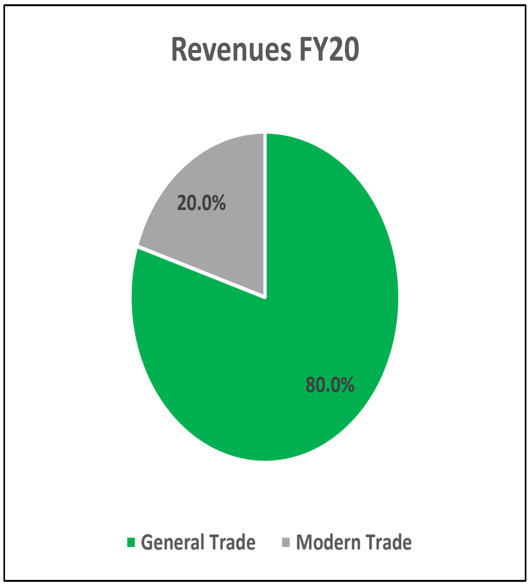


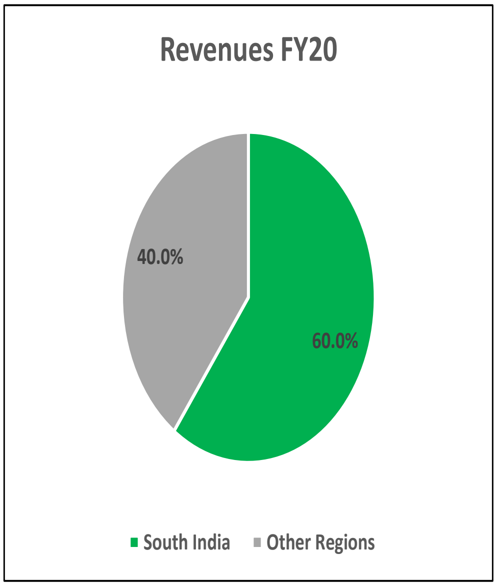


Source: Company Data

Revenue Split between Urban and Rural, General Trade and Modern Trade, South India and Other Regions







Source: Company Data

Examples of Innovation

Source: Company Data

Key Management Team

- **Mr. M. P. Ramachandran, Chairman Emeritus.**

  He founded the Company in 1983 and is the driving force behind Jyothy's progress. With his vision and understanding of the consumers' pulse, he has led Jyothy to its position as a formidable player in the FMCG segment.

- **Mr. R. Lakshminarayanan, Chairman and Independent Director.**

  He is a Master of Science in Industrial Chemistry from the Indian Institute of Technology, Delhi, and a Management Post Graduate (marketing specialisation) from Indian Institute of Management, Bangalore. In his professional career of over 40 years, he worked with leading FMCG companies across product categories and held eminent positions with reputed advertising & media companies in India. He has a keen interest in business strategy, brand equity, media plural communications and brand portfolio management.

- **Ms. M. R. Jyothy, Managing Director.**

  She is a Post Graduate in Management with an additional diploma in Family Managed Business Administration. She has also completed the Owner/President Management Programme from Harvard Business School. After a successful stint in the sales and marketing function of the company for over 15 years, she was unanimously chosen to lead the company as the Managing Director effective 1 April 2020. She has won several industry awards and recognition including 'Woman Entrepreneur of the Year' award from Zee Business, voted amongst 50 most influential women in Indian Media. She has been the principal architect behind all the product innovations from Jyothy labs since 2009.

- **Mr. K Ullas Kamath, Joint Managing Director.**

  He is a qualified Chartered Accountant (CA), a Company Secretary, a Law graduate and Master of Commerce. He completed Advanced Management Programme from Wharton Business School and Harvard Business School, USA, and the Global Master's in Management Programme from the London School of Economics, UK. He spearheaded Jyothy Labs evolution to a multi product FMCG Company and was instrumental in the setting up of Fabricspa and the Henkel (India) acquisition. He currently holds the position of FICCI, Chairman (Karnataka).

Key Management Team

- **Ms. M.R. Deepthi, Whole Time Director.**

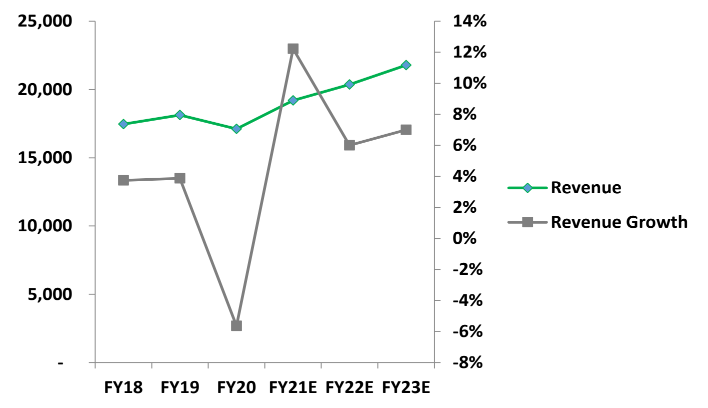
  She is a member of The Institute of Company Secretaries of India and The Institute of Cost Accountants of India. She is a Bachelor in Management Studies from Chinai College of Commerce affiliated with Mumbai University and Master of Management Studies from S.I.E.S. College, Nerul, Navi Mumbai. An expert in finance and secretarial function, she is a key player in budget formulation, strategy, treasury, business performance reviews, fund raising and other financial activities of the Company. She also guides Company's Taxation, Legal and Secretarial function.

- **Mr. Sanjay Agarwal, CFO.**

  He is a member of The Institute of Chartered Accountants of India and The Institute of Cost Accountants of India. He has also completed the Executive Management Programme from The Wharton School . Prior to joining Jyothy Labs as the CFO, he had fifteen years of experience in investment banking, commercial banking and insurance by working with reputed companies like Adani Capital, Macquarie Capital Advisors, Edelweiss Capital and HDFC Chubb .

Key Performance Indicators

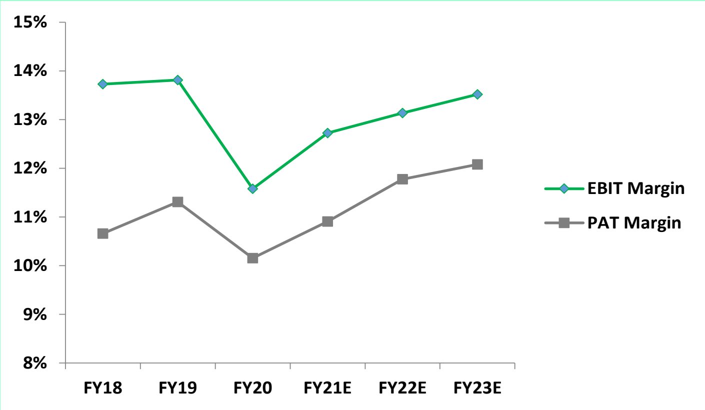
Revenue & Revenue Growth



Source: Company Data, SMIFS Research

Revenue from operations is expected to grow at a CAGR of 8% between FY20 and FY23E.

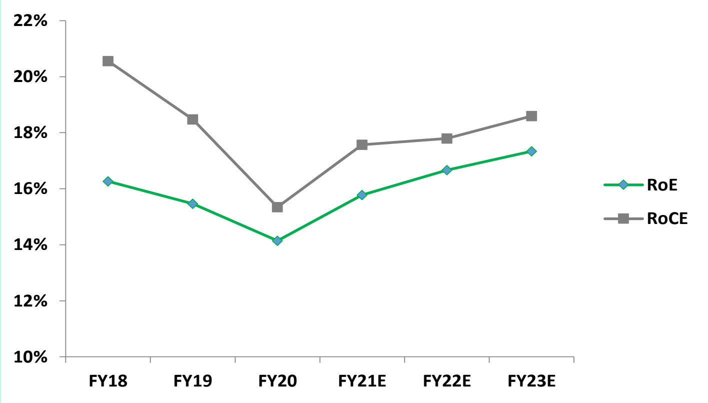
Profit Margins



Source: Company Data, SMIFS Research

EBIT Margin is expected to improve from 11.6% in FY20 to 13.5% in FY23E. PAT Margin is expected to improve from 10.2% in FY20 to 12.1% in FY23E.

RoE and RoCE

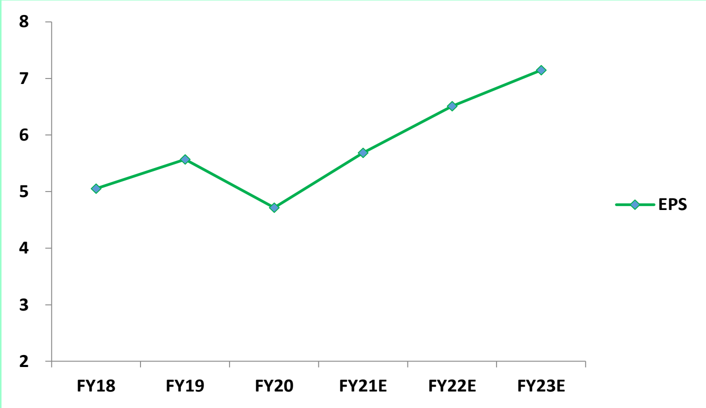


Source: Company Data, SMIFS Research

RoE and RoCE are expected to improve from 14.1% and 15.3% respectively in FY20 to 17.3% and 18.6% respectively in FY23E.

Key Performance Indicators

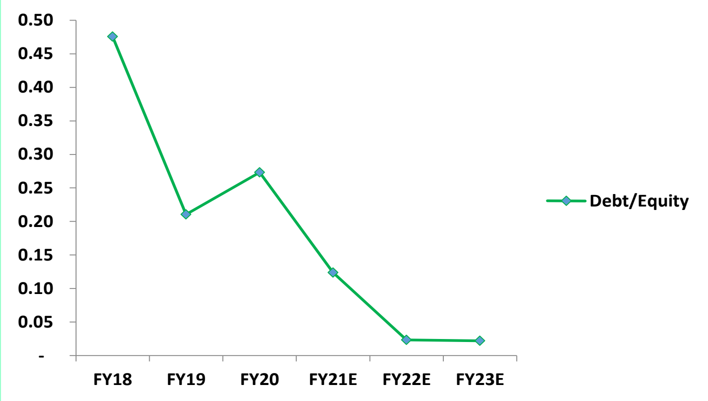
EPS Growth



Source: Company Data, SMIFS Research

EPS is expected to grow at a CAGR of 15% between FY20 and FY23E.

Debt/Equity Ratio



Source: Company Data, SMIFS Research

Our assumptions indicate a steady decrease in Debt/Equity ratio from 0.27 in FY20 to 0.02 in FY23E.

Free Cash Flow Generation

Source: Company Data, SMIFS Research

Due to strong generation of Cash Flow from Operations between FY21E and FY23E, Free Cash Flow should improve significantly to Rs 2,216 mln, Rs 2,534 mln and Rs 2,735 mln in FY21E, FY22E and FY23E respectively from Rs 1,300 mln in FY20.

Outlook and Valuation

Jyothy is a strong FMCG brand name and has a well-diversified product offering within the categories of dishwashing, fabric care, household insecticides, personal care and laundry services. ***The product profile comprises of six power brands, viz., Ujala, Maxo, Exo, Pril, Margo and Henko within these categories.*** The well-diversified product offering insulates the Company against underperformance in one or more categories. Besides, the Company's products are manufactured ***across 27 factories in 23 locations. This also acts as a good diversification against any potential problem in any particular location, besides aiding in a smooth supply chain.***

The fabric whitener, Ujala Supreme has maintained its number 1 position in India since its launch three decades back. Pril and Exo are number 2 in dishwash (bar and liquid) category in value terms. Maxo coil enjoys the number 2 position in the mosquito repellent coil category in volume terms.

The FMCG sector has been relatively less impacted post the removal of Covid-19 lockdown as most of the products are daily essentials, especially in the case of Jyothy Labs. Jyothy's core portfolio of soaps, detergents, insecticides and dishwash continues to enjoy buoyant demand.

Jyothy has always been at the forefront of innovation starting with Ujala Whitener, four drops of which still makes a white shirt as white as possible. The recent examples of innovation include ***Margo Face Wash, Margo Handwash and Margo Sanitiser, all infused with neem extracts, T Shine - a completely organic, HCL acid free toilet cleaner, Exo Dishwash Gel- another innovation with unique, powerful multi active concentrate and Maxo Genius LV - the first mosquito repellent to control the vapours automatically***.

Jyothy's dividend pay-out ratio has always been more than 60% since 2011 barring in 2018, when it was 18%. Our assumptions indicate that the Company would be able to maintain a dividend pay-out ratio of more than 50% between FY21E and FY23E. The dividend pay-out ratio for FY23 is assumed to be 71%.

Strong cash flow from operations would lead to significant free cash flow generation of Rs 2,216 mln, 2,534 mln and Rs 2,735 mln in FY21E, FY22E and FY23E respectively, and the Company would become practically debt free in FY22E. RoCE would improve from 15.3% in FY20 to 18.6% in FY23E.

We have valued the stock at 25x FY23E EPS to arrive at a **Target Price of Rs 179**, which provides an upside of 22% based on the current market price. We thus recommend a **"Strong Buy"** rating on the stock.

Peer Comparison

Peers	P/E			P/CF			P/B			RoE(%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Jyothy Labs	**25.9**	**22.6**	**20.6**	**21.9**	**19.4**	**18.1**	**4.1**	**3.8**	**3.6**	**15.8%**	**16.7%**	**17.3%**
Hindustan Unilever	61.3	51.3	43.7	52.3	46.6	40.3	14.0	13.7	12.5	43.2%	37.2%	35.1%
Godrej Consumer Products	43.0	37.9	33.4	38.9	34.8	30.3	8.2	7.5	6.6	19.6%	20.5%	21.2%

Source: SMIFS Research, Bloomberg.

Financial Details

Income Statement (Consolidated)					
Particulars (INR mln.)	**FY19**	**FY20**	**FY21E**	**FY22E**	**FY23E**
Revenue from operations	**18136**	**17112**	**19203**	**20355**	**21780**
Revenue Growth	4%	-6%	12%	6%	7%
Cost of goods sold	9707	9009	10331	10931	11674
Employee benefits expenses	2076	2193	2439	2585	2766
Other expenses	3542	3398	3495	3705	3964
EBITDA	**2811**	**2511**	**2938**	**3135**	**3376**
EBITDA Margin	**15.5%**	**14.7%**	**15.3%**	**15.4%**	**15.5%**
EBITDA Growth	4%	-11%	17%	7%	8%
Depreciation & Amortisation	306	529	495	461	432
EBIT	**2505**	**1982**	**2443**	**2673**	**2944**
Interest Cost	352	329	161	33	33
Other Income	278	200	160	180	200
PBT (Adjusted)	**2431**	**1853**	**2442**	**2821**	**3111**
PAT (Adjusted)	**2051**	**1737**	**2094**	**2397**	**2631**
PAT Margin	**11.3%**	**10.2%**	**10.9%**	**11.8%**	**12.1%**
PAT Growth (Adjusted)	10%	-15%	21%	14%	10%

Balance Sheet (Consolidated)					
Particulars (INR mln.)	**FY19**	**FY20**	**FY21E**	**FY22E**	**FY23E**
Share Capital	367	367	367	367	367
Reserves & Surplus	12684	11628	12526	13550	14260
Networth	**13051**	**11995**	**12893**	**13917**	**14627**
Long term Borrowings	**20**	**3**	**0**	**0**	**0**
Other Non-Current Liabilities	491	918	1013	1108	1203
Short term Borrowings	**2154**	**2209**	**1309**	**0**	**0**
Other Current Liabilities	3708	3237	3038	3154	3282
Total Equity & Liabilities	**19423**	**18362**	**18253**	**18180**	**19112**
Net Tangibile Asset	**3224**	**3814**	**3581**	**3381**	**3209**
Other Non Current Assets	9980	10060	10133	10129	10103
Inventories	**2023**	**2251**	**2208**	**2336**	**2495**
Trade Receivables	**1534**	**1224**	**1368**	**1450**	**1551**
Cash and Cash Equivalents	748	149	197	100	960
Other Current assets	1913	863	768	785	793
Total Assets	**19423**	**18362**	**18253**	**18180**	**19112**

Source: Company Data, SMIFS Research

Financial Details

Cash Flow Statement Extract (Consolidated)					
Particulars (INR mln.)	**FY19**	**FY20**	**FY21E**	**FY22E**	**FY23E**
PBT	**2430**	**1815**	**2442**	**2821**	**3111**
Depreciation & Amortisation	306	529	495	461	432
Interest expense	352	329	161	33	33
(Increase)/Decrease in CA	(106)	132	(80)	(226)	(245)
Increase/(Decrease) in CL	513	(659)	(104)	211	223
Taxes Paid	(418)	(386)	(440)	(508)	(560)
Cash Flow from Operating Activities	**3015**	**1715**	**2475**	**2793**	**2994**
Capital Expenditure	(383)	(415)	(259)	(259)	(259)
Cash Flow Investing Activities	**303**	**725**	**(259)**	**(259)**	**(259)**
Increase/(Decrease) in Borrowings	(2,628)	(170)	(903)	(1,309)	-
Dividend payments including tax	(219)	(2,656)	(1,105)	(1,289)	(1,841)
Cash Flow from Financing Activities	**(3185)**	**(3039)**	**(2168)**	**(2631)**	**(1874)**
Net Cash Flow	**133**	**(599)**	**48**	**(97)**	**861**
Closing Balance	**748**	**149**	**197**	**100**	**960**

Key Ratios (Consolidated)					
Particulars	**FY19**	**FY20**	**FY21E**	**FY22E**	**FY23E**
Margins					
Gross Margin	46.5%	47.4%	46.2%	46.3%	46.4%
EBITDA Margin	15.5%	14.7%	15.3%	15.4%	15.5%
PBT Margin (Adjusted)	13.4%	10.8%	12.7%	13.9%	14.3%
PAT Margin (Adjusted)	11.3%	10.2%	10.9%	11.8%	12.1%
DPS (INR)	3.00	3.00	3.00	3.50	5.00
Solvency Ratios					
Current Ratio	1.1	0.8	1.0	1.5	1.8
Debt/Equity	0.2	0.3	0.1	0.0	0.0
Net Debt/Equity	0.1	0.2	0.1	0.0	-0.1
Interest Coverage	7.1	6.0	15.2	82.0	90.3
Profitability Ratios					
RoE (ex goodwill)	38.0%	39.3%	38.7%	36.8%	36.0%
RoCE (ex goodwill)	44.0%	39.2%	40.4%	37.3%	36.9%
RoE	15.5%	14.1%	15.8%	16.7%	17.3%
RoCE	18.5%	15.3%	17.6%	17.8%	18.6%
Valuation Ratios(x)					
P/E	26.4	31.2	25.9	22.6	20.6
P/S	3.0	3.2	2.8	2.7	2.5
P/B	4.1	4.4	4.1	3.8	3.6
P/CFO	18.0	31.6	21.9	19.4	18.1

Source: Company Data, SMIFS Research

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