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Consumer Staples & Discretionary

Q4FY21 result review and earnings revision

Target price Rs190

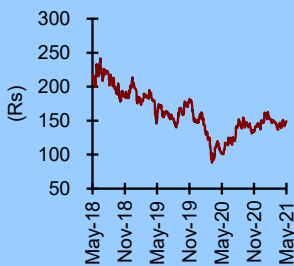
Earnings revision

(%)	FY22E	FY23E
Sales	↓ 1.3	↓ 1.2
EBITDA	↓ 1.6	↑ 0.1
PAT	↑ 0.1	↓ 1.2

Shareholding pattern

	Sep '20	Dec '20	Mar '21
Promoters	62.9	62.9	62.9
Institutional investors	29.9	29.2	29.3
MFs and other	14.7	14.9	14.8
FIs/Banks/Ins	2.0	1.8	1.4
FII	13.2	12.5	13.1
Others	7.2	7.9	7.8

Price chart



Jyothy Labs

BUY
Maintain
Rs151

Facing the challenges well

Channel inventory rationalization exacerbated the weakness in some of JYL's existing categories leading to 2-year CAGR revenue decline of 2% in 4Q (adj. growth up ~3% as it implemented continuous replenishment system which had an ~8% impact on primary sales in 4Q). High margin post-wash business was impacted for most of the year; ex-post-wash FY21 revenue growth was ~6% higher (18%). Focus on rural expansion (adding sub-stockists, driving LUPs), rationalising channel inventory and continued media intensity are positive steps despite near-term challenges. Improvement in cash generation due to better working capital management (WC days improved to 21 in FY21 from the range of 38-55 days in FY16-20), if sustained, is a rerating trigger. We continue to like the potential of JYL's brands. **BUY; TP Rs190.**

- ▶ **Adj. revenue growth of 14% in FY21:** In 4Q, consolidated revenues grew 26% (volume: +24%), - 2% on a 2-year CAGR basis. Channel inventory rationalization and CRS implementation had a Rs500mn impact on primary sales for the quarter; adjusted 2-year revenue CAGR was ~3%. Margins print was subdued due to weak product mix (post-wash continued to be impacted) and inflationary RM. Dishwash continued to perform well; other segments of HI and Personal care were slightly weak.
- ▶ **Focus on rural expansion and business efficiency.** JYL has strengthened rural focus by (1) expanding distribution (added new sub-stockists), (2) thrust on LUPs to drive trials (expects good conversion) and (3) driving van sales. It has also increased focus on new product launches/refreshes and media spends to drive growth. Lastly, financial prudence helped (1) lower channel inventory (down to 8-10 days from 25 days) and SKU rationalisation and (2) achieve net cash position (after many years). JYL is taking technology initiatives to improve efficiency and decision making.
- ▶ **Looking at multiple levers to offset RM pressure:** Management indicated 5-6% inflation for its RM basket. Besides taking some price hikes, it is looking to maintain margins through other levers: (1) lower trade schemes, (2) improving product mix – revival of post-wash and higher share of LVs in HI should help and (3) calibrated portfolio-approach for price hikes.
- ▶ **Valuation and risks:** We fine-tune our estimates – marginal cut in EBITDA is offset by lower ETR. We model revenue / EBITDA / PAT CAGR of 10 / 12 / 17 (%) over FY21-23E. We maintain BUY with an unchanged DCF-based target price of Rs190. At our target price, the stock will trade at 23x P/E multiple Mar-23E. Key downside risks are high competitive pressure and RM inflation impacting margins.

Market Cap	Rs55.4bn/US\$755mn	Year to Mar (Std)	FY20	FY21P	FY22E	FY23E
Reuters/Bloomberg	JYOI.BO/JYL IN	Revenue (Rs mn)	17,112	19,091	20,885	23,165
Shares Outstanding (mn)	367.2	Net Income (Rs mn)	1,740	2,229	2,551	3,032
52-week Range (Rs)	166/100	EPS (Rs)	4.7	6.1	6.9	8.3
Free Float (%)	37.1	% Chg YoY	(15.1)	28.1	14.4	18.9
FII (%)	13.1	P/E (x)	31.8	24.8	21.7	18.3
Daily Volume (US\$/000)	1,385	CEPS (Rs)	6.1	6.9	8.5	9.9
Absolute Return 3m (%)	49.2	EV/E (x)	22.6	18.0	16.4	14.4
Absolute Return 12m (%)	(1.8)	Dividend Yield (%)	2.0	2.7	3.3	3.6
Sensex Return 3m (%)	(2.1)	RoCE (%)	12.0	15.8	17.4	19.7
Sensex Return 12m (%)	69.0	RoE (%)	13.9	17.2	17.7	19.6

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Table 1: Q4FY21 result review (consolidated)

(Rs mn, year ending March 31)

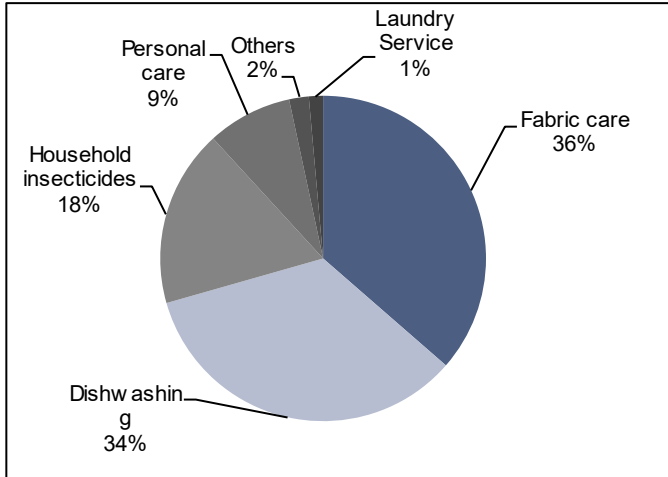
	Q4FY21	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	FY21	FY20	YoY (%)
Net Revenue	4,951	3,930	26	4,766	4	19,091	17,112	12
COGS	(2,694)	(2,134)	26	(2,443)	10	(10,104)	(9,009)	12
Gross profit	2,257	1,796	26	2,324	(3)	8,987	8,103	11
Staff cost	(548)	(506)	8	(613)	(10)	(2,325)	(2,193)	6
A&SP	(384)	(356)	8	(353)	9	(1,236)	(1,227)	
Other opex	(616)	(529)	16	(560)	10	(2,281)	(2,171)	5
Total opex	(1,548)	(1,391)	11	(1,526)	1	(5,842)	(5,592)	4
EBITDA	709	406	75	798	(11)	3,145	2,511	25
Other income	40	46	(12)	64	(37)	185	200	(8)
Finance cost	(34)	(78)	(57)	(42)	(21)	(192)	(329)	(42)
D&A	(153)	(142)	8	(139)	10	(556)	(529)	5
PBT	563	232	142	681	(17)	2,581	1,853	39
Tax	(55)	34	(264)	(148)	(63)	(440)	(189)	132
PAT	508	266	91	532	(5)	2,142	1,664	29
Minority Interest	20	22	2	21	(1)	88	77	
Recurring PAT	528	288	83	553	(4)	2,229	1,741	28
Extraordinary items	(235)	-		-		(235)	(38)	
Net profit (reported)	293	288	2	553	(47)	1,994	1,703	17
EPS	1.4	0.7	91	1.4	(5)	5.8	4.5	29
Costs as a % of sales								
COGS	54.4	54.3	12 bps	51.2	317 bps	52.9	52.6	27 bps
Gross margin (%)	45.6	45.7	-13 bps	48.8	-318 bps	47.1	47.4	-28 bps
Staff cost	11.1	12.9	-180 bps	12.9	-178 bps	12.2	12.8	-64 bps
A&SP expense	7.8	9.1	-131 bps	7.4	34 bps	6.5	7.2	-70 bps
Other opex	12.4	13.5	-103 bps	11.8	67 bps	11.9	12.7	-75 bps
EBITDA margin (%)	14.3	10.3	399 bps	16.7	-242 bps	16.5	14.7	180 bps
Income tax rate (%)	9.8	(14.5)	2426 bps	21.8	-1199 bps	17.0	10.2	682 bps
Segment revenue								
Fabric care	1,803	1,557	16	1,759	3	6,694	7,080	(5)
Dishwashing	1,692	1,271	33	1,821	(7)	6,995	5,667	23
Household insecticides	872	642	36	469	86	2,580	1,814	42
Personal care	418	302	38	529	(21)	2,175	1,804	21
Others	97	62	57	126	(23)	443	365	21
Laundry Service	70	96	(28)	64	9	205	382	(46)
Total net revenues	4,951	3,930	26	4,766	4	19,091	17,112	12
Segment EBIT								
Fabric care	330	280	18	359	(8)	1,382	1,425	(3)
Dishwashing	288	159	81	362	(20)	1,349	797	69
Household insecticides	2	(69)	(103)	(22)	(109)	(74)	(164)	
Personal care	71	47	52	107	(34)	491	478	3
Others	(13)	(13)	2	(15)	(10)	(27)	(41)	(34)
Laundry Service	(23)	(37)	(37)	(23)	0	(126)	(83)	
Total EBIT	654	367	78	769	(15)	2,995	2,413	24
Segment EBIT margin (%)								
Fabric care	18.3	18.0	34 bps	20.4	-214 bps	20.6	20.1	51 bps
Dishwashing	17.0	12.5	452 bps	19.9	-287 bps	19.3	14.1	521 bps
Household insecticides	0.2	(10.7)	1091 bps	(4.6)	484 bps	(2.9)	(9.1)	621 bps
Personal care	17.0	15.5	147 bps	20.3	-330 bps	22.6	26.5	-395 bps
Others	(13.8)	(21.3)	748 bps	(11.7)	-208 bps	(6.0)	(11.1)	506 bps
Laundry Service	(33.6)	(38.4)	484 bps	(36.5)	294 bps	(61.6)	(21.7)	-3996 bps
Total	13.2	9.3	388 bps	16.1	-293 bps	15.7	14.1	158 bps

Source: Company data, I-Sec research

Q4FY21 Concall takeaways

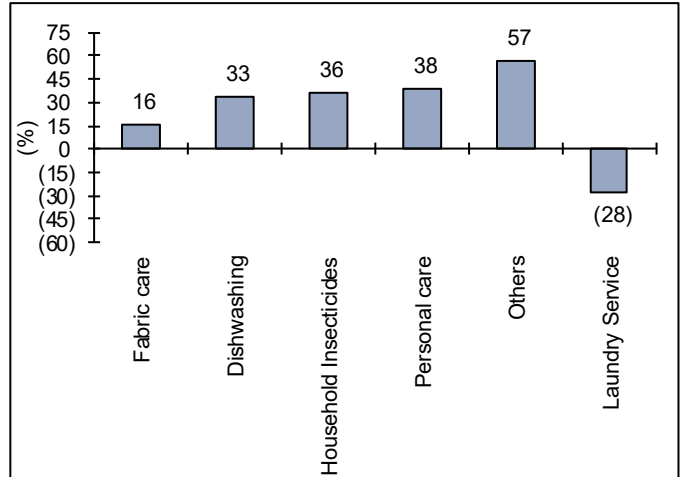
- **Demand scenario:** Management stated that they witnessed healthy consumer demand trends across Home and Personal Care categories. Rural growth sustained while urban recovered. All the channels were back to pre-covid levels including MT and CSD. Essential and hygiene category are delivering superior growth.
- **Outlook:** Management believes with its core essentials and hygiene portfolio, focus on consumer driven brand innovation & investment, technology and distribution it will be able to gain market shares leading to profitable volume growth. Inflationary pressure will be managed with strategic price increases (~2-3% price hike taken), cost optimization and balancing of trade schemes (~50% of inflationary pressure managed through this). Implementation of continuous replenishment system (CRS) impacted growth by 8-10% in Q4FY21.
- **Margin Guidance:** Management expects to maintain the operating margins at current levels driven by cost saving initiatives. The company is currently witnessing ~5-6% weighted inflation in its input basket.
- **Fabric Care:** JLL fabric care portfolio grew by 16% (2-year CAGR of -2%) as the category recovered sequentially with normalcy returning in Q4. However, with the second wave the segment is likely to be impacted again.
- **Dishwash:** Dishwash segment revenue grew 33% (2-year CAGR of +2%) benefitting from people staying at home with very few eating out opportunities leading to greater usage of utensils at home.
- **Household insecticides:** HI revenue grew 36% (2-year CAGR of -7%) as the segment was most impacted from CRS system in Q4. However, the segment is likely to gain traction with consumer shifting towards prevention of diseases. Going forward, JLL continues to focus towards growing salience of LV in HI (currently ~35-38% of HI from ~30% earlier) by increased ad-spends in LV format to drive penetration. *Maxo Genius* contributed ~10% of LV for JYL. Management expects the segment to be profitable in once LV contributed ~45-50% of HI segment. Launched *Maxo Fits All Machine* LV to further drive penetration.
- **Personal Care:** Personal care grew 38% (2-year CAGR of -6%) during the quarter. Demand is driven by focus on distribution and consumer looking for natural alternatives.
- Jyothy Labs added 500+ stockits to expand reach in rural and plans to improve the productivity of urban outlets driven through data analytics from recent digital initiatives.
- **Working capital days** improved significantly driven by inventory management (CRS), tight credit management and tight control between primary and secondary sales. CRS also has led to channel inventory decline from 25 days to 8-10 days.
- **New launches and innovations:** Management will focus on scaling up the recent innovations with few more innovations coming in FY22. NPD contributes ~3% of revenues currently.
- **Management expects dividend payout to be similar to FY21** in the near term as it currently does not see any inorganic opportunities and also believes that this is not the right environment to do any acquisitions. However, the management is always open to acquire any regional or national brand in its core categories.
- Jyothy Labs is now a net debt free company at consolidated level.
- **Exceptional item of Rs235mn** due to one-time write off of expected excise duty refund from setting up a plant in Guwahati which is not expected anymore.
- **Tax rate** is expected to be ~18% for FY22 and FY23.

Chart 1: Segment wise revenue split (Q4FY21)



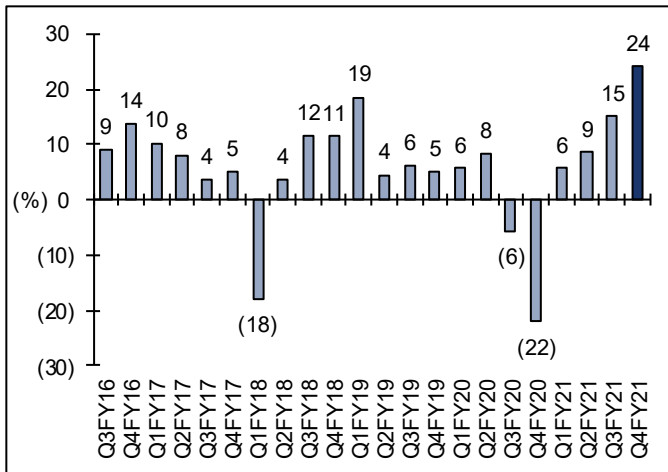
Source: Company data, I-Sec research

Chart 2: Segment wise revenue growth (Q4FY21)



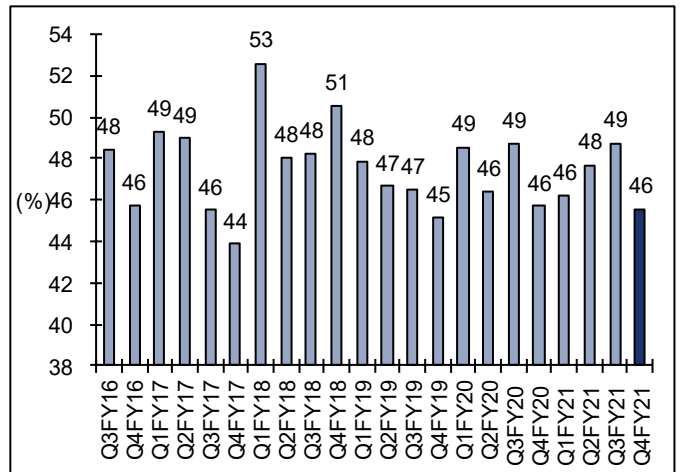
Source: Company data, I-Sec research

Chart 3: Volume growth



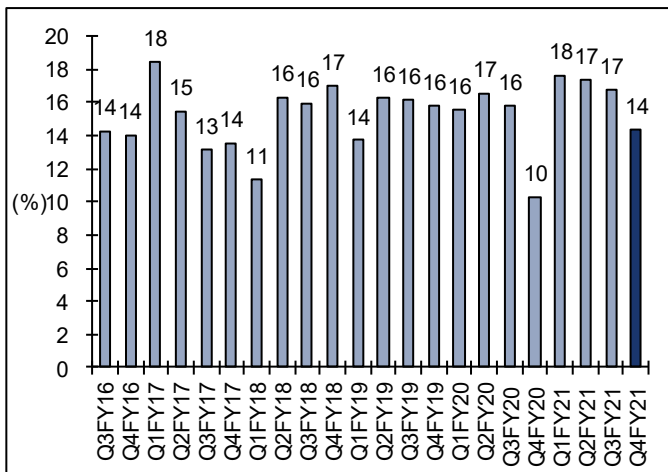
Source: Company data, I-Sec research

Chart 4: Gross margin



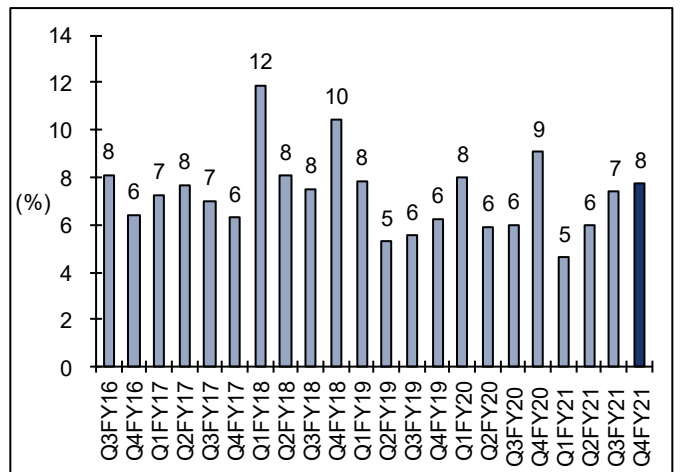
Source: Company data, I-Sec research

Chart 5: EBITDA margin



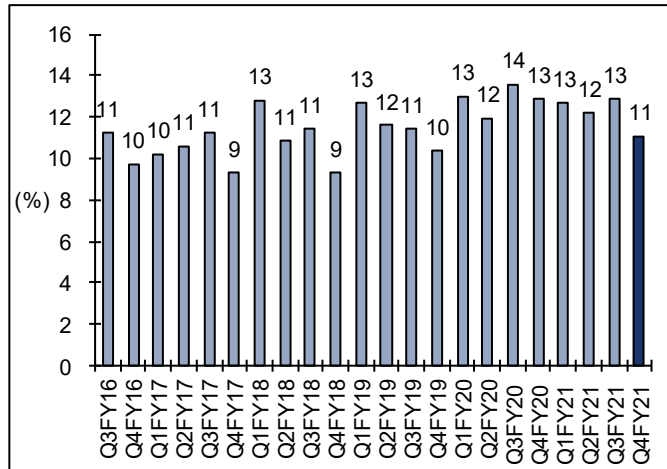
Source: Company data, I-Sec research

Chart 6: A&SP/ sales



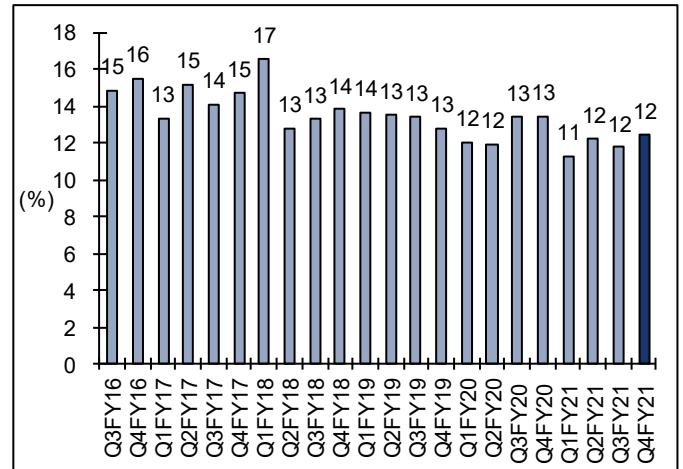
Source: Company data, I-Sec research

Chart 7: Staff cost/ sales



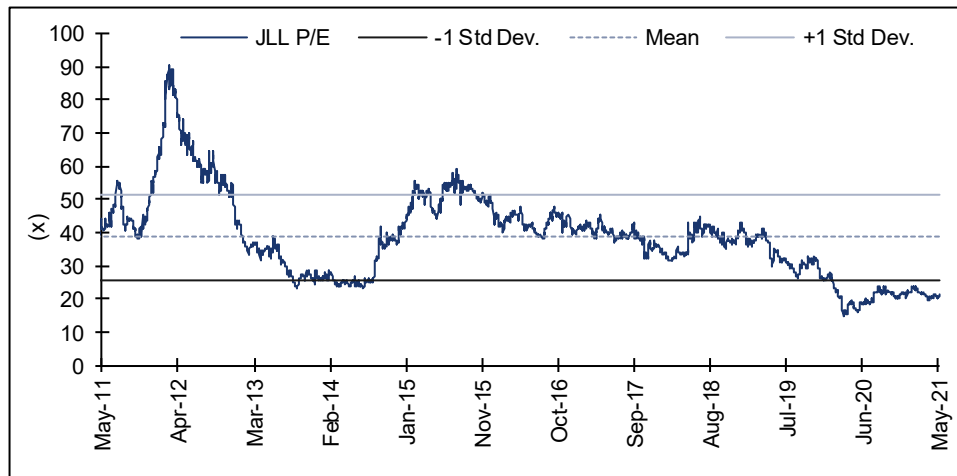
Source: Company data, I-Sec research

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)

	FY20	FY21P	FY22E	FY23E
Net Sales & Operating income	17,112	19,091	20,885	23,165
Operating Expenses	14,601	15,946	17,428	19,220
EBITDA	2,511	3,145	3,457	3,945
% margins	14.7	16.5	16.6	17.0
Depreciation & Amortisation	529	556	587	614
Gross Interest	329	192	88	31
Other Income	200	185	217	279
Recurring PBT	1,853	2,581	2,998	3,579
Less: Taxes	189	440	540	644
Less: Minority Interest	(77)	(88)	(92)	(97)
Net Income (Reported)	1,703	1,994	2,551	3,032
Extraordinaries (Net)	(38)	(235)	-	-
Recurring Net Income	1,740	2,229	2,551	3,032

Source: Company data, I-Sec research

Table 3: Balance sheet

(Rs mn, year ending March 31)

	FY20	FY21P	FY22E	FY23E
Assets	2,427			
Total Current Assets	4,487	6,248	6,818	8,044
of which cash & cash eqv.	289	1,938	2,411	3,177
Total Current Liabilities & Provisions	2,065	3,084	3,380	3,755
Net Current Assets	2,422	3,164	3,438	4,288
Investments	2,138	1,743	1,817	1,910
Net Fixed Assets	11,492	11,467	11,193	10,922
Capital Work-in-Progress	245	101	101	101
Total Assets	16,297	16,476	16,549	17,221
Liabilities				
Borrowings	4,302	2,569	1,652	1,225
Deferred Tax Liability	-	-	-	-
Minority Interest	(291)	(379)	(471)	(568)
Equity Share Capital	367	367	367	367
Face Value per share (Rs)	1	1	1	1
Reserves & Surplus*	11,919	13,918	15,000	16,196
Less: Misc. Exp. n.w.o.				
Net Worth	12,286	14,286	15,368	16,564
Total Liabilities	16,297	16,476	16,549	17,221

Source: Company data, I-Sec research

Table 4: Quarterly trends

(Rs mn, year ending March 31)

	Jun 20	Sep 20	Dec 20	Mar 21
Net sales	4,329	5,045	4,766	4,951
% growth (YoY)	2.5	6.2	13.3	26.0
EBITDA	765	874	798	709
Margin (%)	17.7	17.3	16.7	14.3
Other income	40	40	64	40
Extraordinaries (Net)	-	-	-	(235)
Adjusted Net profit	523	626	553	528

Source: Company data, I-Sec research

Table 5: Cashflow statement

(Rs mn, year ending March 31)

	FY20	FY21P	FY22E	FY23E
Operating Cashflow	2,101	4,349	3,639	3,842
Working Capital Changes	(527)	1,055	182	(104)
Capital Commitments	(420)	(259)	(313)	(343)
Free Cashflow	1,153	5,145	3,508	3,395
Cashflow from Investing Activities	725	(1,291)	(96)	(63)
Issue of Share Capital	-	-	-	-
Inc (Dec) in Borrowings	(382)	(2,161)	(1,062)	(531)
Dividend paid	(2,203)	-	(1,469)	(1,836)
Chg. in Cash & Bank balance	(599)	569	473	767
Closing cash & balance	149	719	1,191	1,958

Source: Company data, I-Sec research

Table 6: Key ratios

(Year ending March 31)

	FY20	FY21P	FY22E	FY23E
Per Share Data (Rs)				
EPS	4.7	6.1	6.9	8.3
Cash EPS	6.1	6.9	8.5	9.9
Dividend per share (DPS)	3.0	4.0	5.0	5.5
Book Value per share (BV)	32.7	37.9	40.6	43.6
Growth (%)				
Net Sales	(5.6)	11.6	9.4	10.9
EBITDA	(10.7)	25.3	9.9	14.1
PAT	(15.8)	28.7	14.8	19.4
DPS	(0.0)	33.3	25.0	10.0
Valuation Ratios (x)				
P/E	31.8	24.8	21.7	18.3
P/CEPS	24.8	21.7	17.6	15.2
P/BV	4.6	4.0	3.7	3.5
EV / EBITDA	22.6	18.0	16.4	14.4
EV / Sales	3.3	3.0	2.7	2.4
Operating Ratios				
Raw Material / Sales (%)	52.6	52.9	52.9	52.4
Employee cost / Sales (%)	12.8	12.2	12.0	12.0
Other exps / Sales (%)	19.9	18.4	18.5	18.6
Other Income / PBT (%)	-	-	-	-
Effective Tax Rate (%)	10.4	18.7	18.0	18.0
Working Capital (days)	49.6	20.7	15.7	15.8
Inventory Turnover (days)	48.0	53.3	48.0	47.8
Receivables (days)	26.1	18.0	17.9	17.8
Payables (days)	27.7	36.7	36.8	36.9
Net D/E (x)	(0.3)	0.8	0.9	0.5
Profitability Ratios (%)				
Net Income Margins	10.2	11.7	12.2	13.1
RoACE	12.0	15.8	17.4	19.7
RoAE	13.9	17.2	17.7	19.6
Dividend Payout	63.3	65.9	72.0	66.6
Dividend Yield	2.0	2.7	3.3	3.6
EBITDA Margins	14.7	16.5	16.6	17.0

Source: Company data, I-Sec research

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