

Jyothy Labs Ltd

NOT RATED

CMP Rs151

Strong share gains and WC improvement, but category headwinds for fabric care still impacting growth and margins

View - The stock is currently trading around 22x FY23E earnings, which is much cheaper than peers, but we don't see any immediate triggers for the stock to re-rate. While balance sheet has improved significantly in FY21, we believe a movement towards double-digit growth would be the key trigger for the stock. And for that to happen, we need to see a strong recovery for their key brand Ujala, sustained improvement in market shares and success in more states for their new launches.

Macro trends - Healthy demand seen across HPC categories, sustained rural demand with improvement in urban demand, strong market development efforts drove growth across trade channels; 1QFY22 has led to some disruption in supply chain and restricted mobility of sales team, online channel continues to witness strong traction.

4Q result highlights - Numbers look optically strong due to a very weak base quarter when revenue was down 24%, margins were down 500bps and PAT was down 61%; 4Q revenue up 26% with FMCG sales up 27% (24% volume growth), revenue impacted by 8-10% (45-50crs) due to CRS implementation which led to lower channel filling, GMs down 20bps to 45.6%, A&P spends higher by 8%, EBITDA margins up by 400bps to 14.3%, PBT growth of 142% PAT growth muted at 3% due to Rs 24crs one-off non cash item, dividend payout increased to 75% or Rs 4 per share; April has also seen double digit growth.

Segment wise growth - 16% growth in fabric care (post-wash fabric care still under pressure while main wash has recovered), 33% in dishwashing (driven by small packs and hygiene focus), 36% in HI (strong campaigns and product innovation drove share gains), 38% in personal care (strong demand and execution in Margo) and 56% in other products.

Market shares in CY20 over CY19 - CY20 saw share gains in many brands - 120bps in Exo bar, 130bps in Pril, 170bps in Maxo coil, 40bps in Maxo LV, 60bps in Ujala FB.

Strategic initiatives - Added sub-stockists and ramped up van coverage to drive rural growth, pipeline stock reduced to 10 days from 20-25 days; enhanced focus on digital advertising and micro-marketing initiatives; implemented CRS across India, launched retailer app for direct delivery, better visibility across E-com platforms; new innovative launches like Tshine floor cleaner, Exo Bioh Fresh vegetable cleaner, Exo all surface cleaner and Margo sanitizer and hand wash.

Improvement in cash generation - Started selling completely on cash basis, kept inventory levels low through CRS implementation which resulted in WC days reducing from 25 days to 15 days.

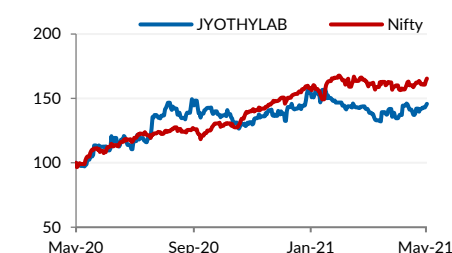
Sustainability of share gains - Gained from both local and large players; focus on LUPs, rural markets, increased distribution reach and strong activations drove share gains.

Distribution update - Added 500 sub-stockists and increased van operations to focus more on rural markets, improving sales team efficiency in urban markets; current direct reach of 9 lac outlets and 3mn total reach for Ujala FW.

Stock data (as on May 18, 2021)

Nifty	15,108
52 Week h/l (Rs)	166 / 100
Market cap (Rs/USD mn)	55393 / 758
Outstanding Shares (mn)	367
6m Avg t/o (Rs mn):	92
Div yield (%):	2.7
Bloomberg code:	JYL IN
NSE code:	JYOTHYLAB

Stock performance



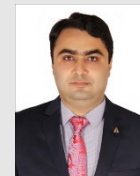
	1M	3M	1Y
Absolute return	8.3%	-0.8%	49.2%

Shareholding pattern (As of Mar'21 end)

Promoter	62.89%
FII+DII	29.23%
Others	7.88%

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Growth and margin outlook – 2-yr sales CAGR from FY19-21 at 2.5% looks much lower due to sales impact on post-wash fabric care category and CRS implementation; confident of growing ahead of market in future as well driving towards double-digit volume growth while maintaining margins at current levels.

Innovation – 5 new products contributing 3% of sales as of now; most success in new launches currently seen in key states, confident of replicating it on a national basis; more new launches also being planned.

Pricing action – RM basket has moved up 5-6% necessitating calibrated price hikes, taken 2-3% price hikes and reduced trade schemes to offset 60% of RM inflation.

Maxo LV/coil mix – Coil was 70% and LV 30% last year which has increased to 36-38% in FY21.

Digital initiatives – Multiple systems put in place to drive better WC management and more accurate SKU planning, demand planning, retail distribution.

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