

Stock Update

Another weak quarter

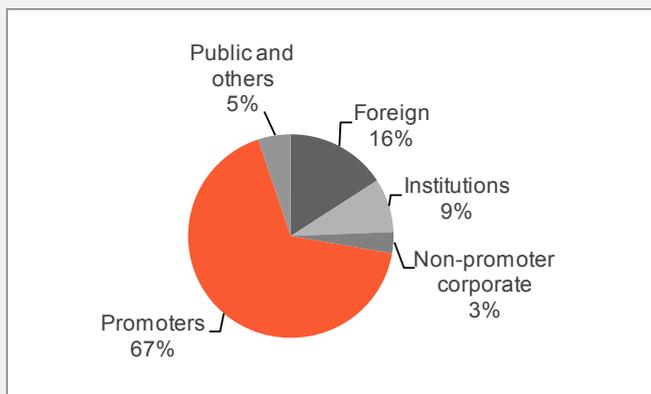
Jyothy Laboratories

Reco: Hold | CMP: Rs169

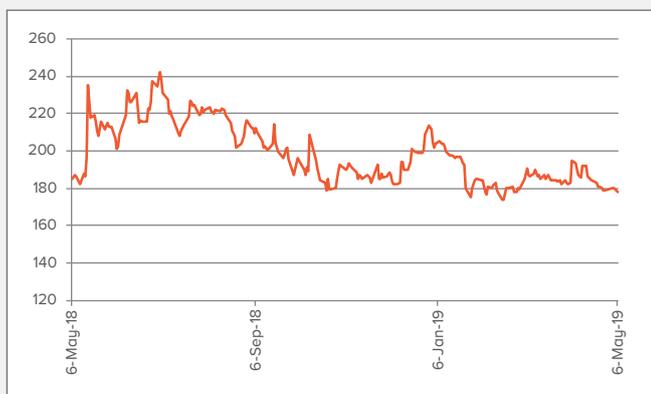
Company details

Price target:	Rs195
Market cap:	Rs6,206 cr
52-week high/low:	Rs249/171
NSE volume: (No of shares)	2.5 lakh
BSE code:	532926
NSE code:	JYOTHYLAB
Sharekhan code:	JYOTHYLAB
Free float: (No of shares)	12.1 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-8.9	-0.3	-7.9	-5.0
Relative to Sensex	-8.2	-4.6	-16.7	-15.1

Key points

- Another quarter of single-digit revenue growth:** Standalone revenue of Jyothy Laboratories Limited (JLL) grew by 6.3% y-o-y to Rs. 504.3 crore in Q4FY2019 as against Rs. 474.5 crore in Q4FY2018. The single-digit revenue growth was largely volume-led during the quarter. The gross margins declined by 218 BPS largely on account of higher promotional activities. The operating profit decreased by 6% to Rs. 82.6 crore due to higher advertisement and employee expenses with the OPM declining by 213 BPS. Despite a decline in operating profit and other income, the Adjusted PAT for Q4FY2019 increased by 10.2% to Rs. 66.5 crore due to a ~50% reduction in interest charges and lower incidence of tax.
- Strong growth in Dishwashing segment, other segments fail to perform:** The dishwashing segment registered revenue growth of 21.6% y-o-y to Rs. 162 crore in Q4FY2019. The fabric care and personal care categories registered a marginal growth of 2% y-o-y and 3% y-o-y respectively. The household insecticides business declined by 4.4% after three quarters of growth. In respect with brands, Exo performed well registering a 25% revenue growth while Pril grew by 12%. Maxo and Henko had disappointing quarter reporting revenue de-growth whereas Ujala posted a flat performance.
- Revenue to grow in low double digits; OPM to remain at about 16%:** JLL's management is confident of achieving 12-14% revenue growth (we have factored in 11% growth in our estimates as we expect HI will take some time to get back on track) and OPM to sustain at about 15-16% in FY2020. However, the company has intentions of doubling its advertisement expenditure from Rs. 100 crore in FY2019 to Rs. 180 crore in FY2020 and thus we expect slight deceleration in the margins in FY2020. The household insecticide category will take some time to recover as the category itself is going through a structural change. Increasing advertisement and promotional spends on other categories would lead to improved revenue growth but in a gradual manner. The new launches are expected to be pillar of growth in the near to medium term.
- Downgrade to Hold with a revised PT of Rs. 195:** We have reduced our earnings estimates for FY2020 and FY2021 by ~7% and 11% to factor

in the lower than earlier expected operating margins as the company intends to spend more on advertisements to improve the growth prospects of some of its key categories. We expect JLL's earnings to grow at a CAGR of 10% over the next

two years in view of slowdown in the HI category and near term demand headwinds, we have downgraded our recommendation on the stock to Hold with a revised price target (PT) of Rs. 195 (valuing it at 29x its FY2021E earnings).

Valuations (consolidated)

Particulars	Rs cr				
	FY2017	FY2018	FY2019	FY2020E	FY2021E
Net Sales (Rs cr)	1749.2	1690.3	1813.6	1990.2	2242.0
Adjusted PAT (Rs cr)	204.2	178.9	197.6	218.3	246.2
EPS (Rs.)	5.7	5.1	5.6	6.1	6.8
OPM(%)	14.5	15.2	15.5	15.2	15.5
PE(X)	29.8	33.3	30.3	27.8	24.7
EV/EBIDTA (X)	11.9	12.5	22.9	20.8	17.8
ROE(%)	20.5	16.0	16.0	15.6	15.9
ROCE(%)	18.6	22.7	18.3	17.5	18.4

Results (standalone)

Particulars	Rs cr				
	Q4FY19	Q4FY18	YoY %	Q3FY19	QoQ %
Total Revenues	504.3	474.5	6.3	434.3	16.1
Total operating cost	421.7	386.7	9.1	362.6	16.3
Operating profit	82.6	87.8	-6.0	71.8	15.1
Other income	11.4	24.9	-54.4	6.9	63.5
Interest cost	6.4	12.7	-49.8	6.7	-3.9
PBT	70.9	85.4	-17.0	58.1	22.0
Tax	3.8	25.0	-84.8	9.7	-60.6
Reported PAT	67.1	60.4	11.1	48.4	38.5
EPS (Rs.)	3.7	3.3	11.1	2.7	38.5
Gross margins (%)	44.5	46.7	-218	45.4	-91
OPM(%)	16.4	18.5	-213	16.5	-15

Segmental performance

- ◆ The fabric care category grew by 2.2% y-o-y to Rs. 186.5 crore. The Ujala Fabric Whitener gained market share in prominent states such as Maharashtra and Bihar with the overall market share increasing to 81.1% during the quarter from 80% in Q3FY2019. Ujala Detergents (Ujala IDD) grew by 24% in Q4FY2019 and maintains the leadership position as the largest mid-priced detergent brand in Kerala. Henko franchise declined by 4.7% y-o-y due to increased competitive intensity in the top brands. Henko is set to be launched in digital media in the next quarter and the company is leveraging the proposition of 'Clothes Care' to maintain price premium.
- ◆ The dishwashing category recorded a strong revenue growth of 21.6% y-o-y at Rs. 161.7 crore. The liquid dish wash and dish wash bars

category grew by 11.8% and 10.7% respectively. Exo bar was up 31.9%, while Pril liquid grew by 14.4% in Q4FY2019 driven by the newly launched Pril Tamarind liquid contributing ~9% incremental growth. The company expects product positioning, innovation, media presence and in store visibility to drive revenue growth for the segment.

- ◆ The revenue for household insecticides declined by 4.4% to Rs. 100.2 crore in Q4FY2019. Maxo Genius Combi was launched in January. The market share of Maxo LV and Maxo Coils declined by 160 BPS to 6.5% and 140 BPS to 19.7% respectively, in Q4FY2019. Maxo Agarbathi has increased visibility seen across outlets and a market share of over 2% in the states of Gujarat, Telangana and Karnataka. Management aims to garner 25% market share in the Rs. 500 crore agarbathi market with Maxo Agarbathi over the next 2 years.

- ◆ The personal care category increased by 2.8% y-o-y to Rs. 47.4 crore. Growth was impacted due to extended winters, winter being a weak season for Margo. Post Margo Glycerine's successful launch in West Bengal, it was rolled out in Kerala. We expect growth to pick up in Q1FY2020, which is typically a strong season for Margo.
- ◆ JLL's recent launch in Kerala, T-shine, which is an anti-staining toilet cleaner, gained a market share of 4.4% in Q4FY2019. T-Shine will be rolled out to other states once it reaches certain target (of 7-8% market share) in Kerala (mostly post H1FY2020).

Segmental revenue performance

Rs cr

Particulars	Q4FY19	Q4FY18	YoY %
Fabric care	186.5	182.6	2.1
Dish washing	161.7	133.0	21.6
Mosquito Repellant	100.2	104.9	-4.4
Personal care	47.4	46.2	2.8
Other Products	8.5	7.9	7.8
Total Revenues	504.3	474.5	6.3

Brand-wise revenue growth

Rs cr

Particulars (Rs cr)	Q4FY19	Q4FY18	YoY %
Ujala	102.0	101.0	1.0
Exo	125.0	100.0	25.0
Maxo	100.0	105.0	-4.8
Henko	45.0	47.0	-4.3
Margo	42.0	40.0	5.0
Pril	37.0	33.0	12.1
Other	53.0	48.0	10.4
Total Revenues	504.0	474.0	6.3

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