

JYOTHY LABORATORIES

FMCG

HOLD

Target Price: Rs 360

Margin under pressure

Net sales, EBITDA and Adj PAT grew 4%, -4% and 35%. Overall volumes grew 5.1% but ex-HI, the growth was higher at 9.7%. Personal wash and fabric care posted decent growth of 23% and 8% (given higher share of south). Dish wash recorded muted sales growth at 4%. HI, given high share of East (wholesale channel remained affected), registered 7% sales decline. Gross margin contracted 185 bps YoY on higher RM costs, but lower other expenses (down 83 bps YoY) restricted decline in OPM (down 114 bps YoY to 13.5%).

We expect sales CAGR of 11% over FY17-19 but estimate EPS CAGR to be 37% (lower interest cost and tax rate). Valuations at 33x for FY19 appear expensive but probably pricing in a favorable offer from Henkel. Maintain HOLD with TP of Rs 360 based on 30x forward P/E.

CMP : Rs 378
Potential Upside : -5%

MARKET DATA

No. of Shares : 182 mn
Free Float : 33%
Market Cap : Rs 69 bn
52-week High / Low : Rs 427 / Rs 270
Avg. Daily vol. (6mth) : 1,46,010 shares
Bloomberg Code : JYL IB Equity
Promoters Holding : 67%
FII / DII : 13% / 10%

Segment performance

- ◆ **Fabric care** (39% of sales and 69% of EBIT) posted decent sales and EBIT growth of 8.4% and 10.5% YoY respectively (EBIT margin up 40 bps to 22.8%). *Ujala Crisp & shine* sales grew 37%. *Henko* sales declined 3% YoY. For *Ujala* portfolio, the company took price hike of 8-10% in Q1 FY18
- ◆ **Dish wash** (26% of sales and 22% of EBIT) sales grew 4.2%, but EBIT declined 23% YoY as EBIT margin contracted 391 bps to 10.9%. *Exo bar* sales grew 5% YoY, while *Pril* liquid sales rose 2% YoY
- ◆ **Household Insecticides (HI)** sales remained impacted with sales and EBIT declining 6.5% and 69% YoY respectively (as EBIT margin contracted 347 bps YoY to 1.8%). The management highlighted that higher reliance on wholesale in North and East impacted coil sales (62% of HI sales, down 7.4% YoY). *Maxi* liquid vaporizer sales grew 11.5%
- ◆ **Personal care** sales grew strong 22.5% (on the back of *Margo* restage), with EBIT growing 46% YoY (as EBIT margin expanded 314 bps to 19.8%). The company is looking to widen *Margo* portfolio with extensions in naturals.

Guidance: Company is targeting volume growth of ~12% and EBITDA growth of ~15% for FY18

Financial summary (Consolidated)

Y/E March	FY16	FY17P	FY18E	FY19E
Sales (Rs mn)	16,447	17,356	19,205	21,340
Adj PAT (Rs mn)	1,140	1,143	1,638	2,148
Con. EPS* (Rs)	-	-	10.2	12.2
EPS (Rs)	6.2	6.1	8.8	11.5
Change YOY (%)	42.8	(1.2)	43.3	31.1
P/E (x)	60.9	61.7	43.1	32.8
RoE (%)	14.0	13.0	16.6	19.7
RoCE (%)	13.3	15.8	17.6	19.7
EV/E (x)	34.3	30.1	26.4	23.2
DPS (Rs)	4.9	6.0	5.0	6.0

Source: *Consensus broker estimates, Company, Axis Capital

Key drivers

(Rs mn)	FY17P	FY18E	FY19E
Revenue	5.5%	10.7%	11.1%
Gross margin (%)	51.3%	50.9%	50.6%
A&P spends (%)	12.0%	12.1%	11.9%
EBITDA margin (%)	14.4%	14.6%	14.9%

Price performance

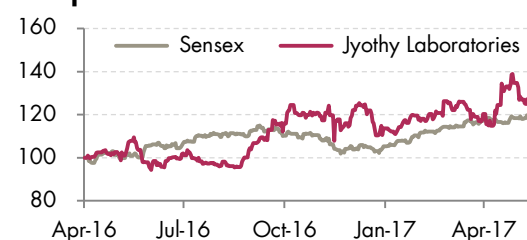
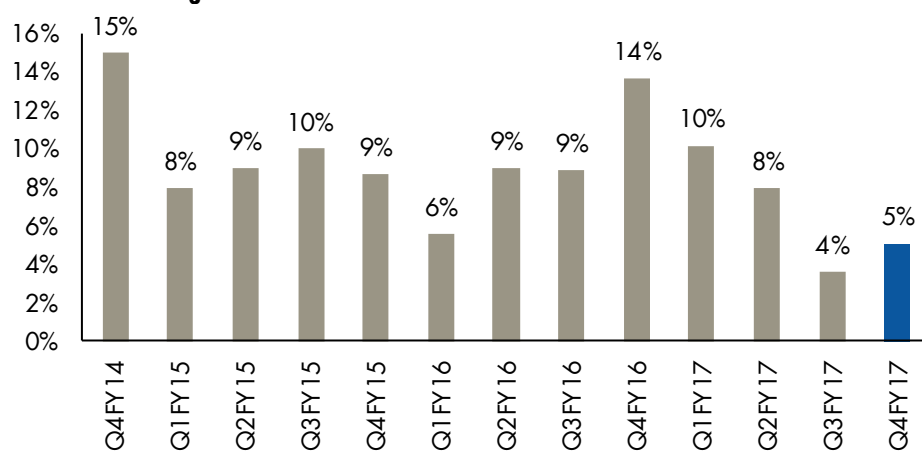


Exhibit 1: Result update (Consolidated)

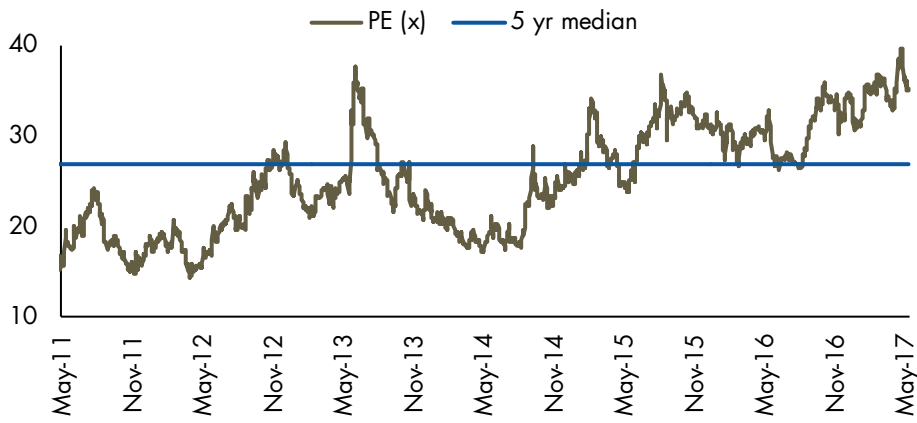
(Rs mn)	Mar-17	Mar-16	% Chg	Dec-16	% Chg
Net sales	4,457	4,282	4.1	3,834	16.2
Total revenue	4,457	4,282	4.1	3,834	16.2
Raw material cost	2,502	2,324	7.6	2,089	19.8
(% of net sales)	56.1	54.3	185 bps	54.5	164 bps
Staff expenditure	417	391	6.7	433	(3.7)
(% of net sales)	9.3	9.1	23 bps	11.3	-194 bps
A&P spends	281	275	2.3	269	4.5
(% of net sales)	6.3	6.4	-11 bps	7.0	-71 bps
Other expenses	656	665	(1.4)	541	21.1
(% of net sales)	14.7	15.5	-83 bps	14.1	59 bps
EBITDA	601	627	(4.0)	501	19.9
EBITDA margin (%)	13.5	14.6	-114 bps	13.1	42 bps
Other income	26	36	(27.7)	31	(14.9)
PBITD	628	663	(5.3)	532	17.9
Depreciation	83	100	(16.7)	73	13.4
Interest	99	153	(35.4)	144	(31.5)
PBT	446	410	8.7	315	41.7
Tax	291	302	(3.5)	108	170.1
Adjusted PAT	167	124	34.8	215	(22.5)
Extra ordinary income/ (exp.)	920	28	-	0	-
Reported PAT	1,087	152	616.9	215	405.3

Source: Company, Axis Capital

Exhibit 2: Volume growth trend


Source: Bloomberg, Axis Capital

Exhibit 3: 1-year forward PE



Source: Bloomberg, Axis Capital

Financial summary (Consolidated)

Profit & loss (Rs mn)

Y/E March	FY16	FY17P	FY18E	FY19E
Net sales	16,447	17,356	19,205	21,340
Other operating income	-	-	-	-
Total operating income	16,447	17,356	19,205	21,340
Cost of goods sold	(7,991)	(8,452)	(9,429)	(10,542)
Gross profit	8,456	8,904	9,775	10,798
<i>Gross margin (%)</i>	<i>51.4</i>	<i>51.3</i>	<i>50.9</i>	<i>50.6</i>
Total operating expenses	(6,273)	(6,400)	(6,971)	(7,629)
EBITDA	2,183	2,504	2,804	3,169
<i>EBITDA margin (%)</i>	<i>13.3</i>	<i>14.4</i>	<i>14.6</i>	<i>14.9</i>
Depreciation	(314)	(301)	(322)	(331)
EBIT	1,869	2,203	2,482	2,838
Net interest	(457)	(565)	(435)	(364)
Other income	121	125	155	160
Profit before tax	1,533	1,763	2,202	2,634
Total taxation	(393)	(660)	(604)	(527)
<i>Tax rate (%)</i>	<i>25.6</i>	<i>37.4</i>	<i>27.4</i>	<i>20.0</i>
Profit after tax	1,140	1,103	1,598	2,108
Minorities	-	40	40	40
Profit/ Loss associate co(s)	-	-	-	-
Adjusted net profit	1,140	1,143	1,638	2,148
<i>Adj. PAT margin (%)</i>	<i>6.9</i>	<i>6.6</i>	<i>8.5</i>	<i>10.1</i>
Net non-recurring items	440	-	-	-
Reported net profit	1,580	1,143	1,638	2,148

Balance sheet (Rs mn)

Y/E March	FY16	FY17P	FY18E	FY19E
Paid-up capital	181	182	182	182
Reserves & surplus	8,280	8,997	10,333	11,134
Net worth	8,461	9,179	10,514	11,315
Borrowing	6,116	5,179	4,490	3,590
Other non-current liabilities	253	253	253	253
Total liabilities	14,848	14,677	15,284	15,145
Gross fixed assets	13,104	13,697	14,097	14,497
Less: Depreciation	(2,426)	(2,726)	(3,048)	(3,379)
Net fixed assets	10,678	10,970	11,049	11,118
Add: Capital WIP	79	88	88	88
Total fixed assets	10,757	11,058	11,136	11,205
Total Investment	835	-	-	-
Inventory	1,827	1,964	2,105	2,222
Debtors	941	1,171	894	994
Cash & bank	612	358	1,074	703
Loans & advances	2,626	2,757	2,895	3,040
Current liabilities	2,825	2,706	2,895	3,094
Net current assets	3,256	3,619	4,148	3,940
Other non-current assets	-	-	-	-
Total assets	14,848	14,677	15,284	15,145

Source: Company, Axis Capital

Cash flow (Rs mn)

Y/E March	FY16	FY17P	FY18E	FY19E
Profit before tax	1,533	1,763	2,202	2,634
Depreciation & Amortisation	314	301	322	331
<i>Chg in working capital</i>	<i>32</i>	<i>(617)</i>	<i>187</i>	<i>(163)</i>
Cash flow from operations	1,915	2,147	3,207	2,479
<i>Capital expenditure</i>	<i>(274)</i>	<i>(601)</i>	<i>(400)</i>	<i>(400)</i>
Cash flow from investing	(456)	358	(245)	(240)
<i>Equity raised/ (repaid)</i>	<i>-</i>	<i>1</i>	<i>-</i>	<i>-</i>
<i>Debt raised/ (repaid)</i>	<i>(1,168)</i>	<i>(938)</i>	<i>(689)</i>	<i>(900)</i>
<i>Dividend paid</i>	<i>(1,743)</i>	<i>(1,346)</i>	<i>(1,122)</i>	<i>(1,346)</i>
Cash flow from financing	(3,024)	(2,759)	(2,246)	(2,610)
Net chg in cash	(1,566)	(254)	716	(371)

Key ratios

Y/E March	FY16	FY17P	FY18E	FY19E
OPERATIONAL				
FDEPS (Rs)	6.2	6.1	8.8	11.5
CEPS (Rs)	10.3	7.7	10.5	13.3
DPS (Rs)	4.9	6.0	5.0	6.0
Dividend payout ratio (%)	57.3	97.9	56.9	52.1
GROWTH				
Net sales (%)	9.3	5.5	10.7	11.1
EBITDA (%)	42.2	14.7	12.0	13.0
Adj net profit (%)	43.8	0.3	43.3	31.1
FDEPS (%)	42.8	(1.2)	43.3	31.1
PERFORMANCE				
RoE (%)	14.0	13.0	16.6	19.7
RoCE (%)	13.3	15.8	17.6	19.7
EFFICIENCY				
Asset turnover (x)	1.2	1.2	1.4	1.5
Sales/ total assets (x)	0.9	1.0	1.1	1.2
Working capital/ sales (x)	0.1	0.2	0.2	0.1
Receivable days	20.9	24.6	17.0	17.0
Inventory days	46.7	48.3	46.8	44.6
Payable days	41.2	36.6	37.4	37.7
FINANCIAL STABILITY				
Total debt/ equity (x)	0.8	0.6	0.5	0.3
Net debt/ equity (x)	0.7	0.5	0.3	0.3
Current ratio (x)	2.2	2.3	2.4	2.3
Interest cover (x)	4.1	3.9	5.7	7.8
VALUATION				
PE (x)	60.9	61.7	43.1	32.8
EV/ EBITDA (x)	34.3	30.1	26.4	23.2
EV/ Net sales (x)	4.6	4.3	3.8	3.4
PB (x)	8.2	7.7	6.7	6.2
Dividend yield (%)	1.3	1.6	1.3	1.6
Free cash flow yield (%)	2.4	2.2	4.0	2.9

Source: Company, Axis Capital

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HOLD	Between 10% and -10%
SELL	Less than -10%

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