Consumer - Thematic

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We saw large consumer staple companies reporting an average mid to high single-digit volume growth (Top staple companies) between FY20-24 unlike few smaller size FMCG companies which have on an average delivered low to mid-teens kind of a volume growth which clearly shows that these companies are notably gaining market share and are growing atleast by 1-2x than their larger peers. With this, we have identified companies with robust volume growth, presence in bigger TAM (Total Addressable Market), ability to compete with large companies strong fundamentals, Thus we are calling them "THE SFMCGs" (Super Fast Moving Consumer Goods) companies.

Mrs. Bectors Food Specialities Limited — Page 7
The Bakers hack!

Jyothy Labs Limited — Page 17
Winning the FMCG game!

CCL Products (India) Limited — Page 26
Brewing long-term sustainable growth

Valuation summary

Company	M Cap (₹ bn)	Reco	CMP (₹)	12M Target (₹)	Potential Return	EPS (₹)			P/E (x)			EV/EBITDA (x)		
						FY24	FY25E	FY26E	FY24	FY25E	FY26E	FY24	FY25E	FY26E
Mrs. Bectors Food	110	BUY	1,785	2,100	18%	23.8	28.4	38.2	75.4	63.1	47.0	43.9	36.9	30.4
Jyothy Labs	201	BUY	547	702	28%	10.0	12.1	14.4	54.5	45.3	38.0	41.5	36.4	31.2
CCL Products	95	BUY	714	881	23%	17.7	24.8	32.4	40.3	28.8	22.1	24.6	19.9	15.4

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Consumer

The Unstoppable SFMCG's (Super-Fast Moving Consumer Goods)

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The companies in the FMCG sector (largely staple companies) have been struggling to improve their volume growth in the last couple of years due to sluggish demand growth especially in the rural areas. We saw large consumer staple companies reporting an average mid to high single-digit volume growth (Top staple companies) between FY20-24 unlike few smaller size FMCG companies which have on an average delivered low to mid-teens kind of a volume growth which clearly shows that these companies are notably gaining market share and are growing atleast by 1-2x than their larger peers. With this we have identified companies with robust volume growth, presence in bigger TAM (Total Addressable Market), ability to compete with large companies and strong fundamentals. Thus we are calling them "THE SFMCGs" (Super Fast Moving Consumer Goods) companies. Our companies include Mrs.Bector Food Specialities, CCL Products and Jyothy Laboratories.

Consumer Sector Overview

Most staple companies posted mid to high single-digit revenue growth despite facing challenges such as severe heatwaves in the northern region, heightened competitive intensity, and the general election impact. The growth was primarily led by a rural recovery, with rural markets outpacing urban growth. Rural demand continues to show steady improvement, with the rural market now surpassing urban areas, largely due to distribution expansion and region-specific launches. The sector has witnessed growth in rural consumption in volume terms outpacing urban consumption for the first time in five quarters, in the January-March period. According to Nielsen, rural consumption grew at a rate of 7.6% year-on-year (YoY) in Q1CY24, overtaking that in urban areas which stood at 5.7%. Additional factors like higher government spending, a favorable monsoon, and an upcoming strong festive season are expected to further drive rural demand in the coming quarters. High inflation over the last two years has significantly affected consumption in the mass segment. FMCG products have the highest penetration in rural areas and have been impacted the most compared to other consumer baskets. The mass segment has a large user base, but the income growth is the slowest. Hence, such high inflation has significantly reduced the affordability to consume more. Additionally, households are over-indexed on food in their cost mix. With softer general inflation and price cuts for FMCG, the income-to-cost mix has been gradually stabilizing over the last 6-12 months.

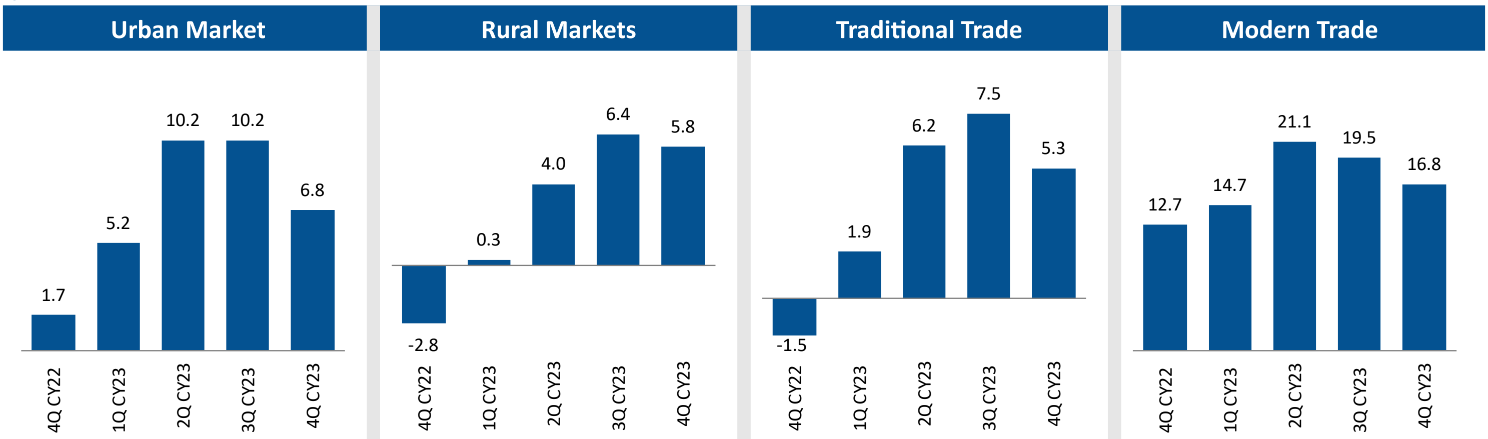
Despite significant challenges, including extreme heatwaves in the northern regions, rising competition, and the disruptions caused by the general election, many staple companies have managed to record mid- to high-single-digit revenue growth. This resilience is largely attributed to the strong performance of rural markets, which have begun to outpace urban areas in terms of growth. Rural demand has been steadily improving, driven by robust distribution expansion and the introduction of region-specific product launches tailored to local needs. As a result, the rural market has now surpassed the urban market in size, reflecting a notable shift in consumption patterns. For the first time in five quarters, rural consumption grew faster than urban consumption in volume terms, particularly from January to March.

According to Nielsen, rural consumption increased by 7.6% YoY in Q1CY24, significantly outpacing the 5.7% YoY growth seen in urban areas. This growth can be attributed to multiple factors, including government initiatives aimed at improving rural livelihoods, better agricultural output, and the success of regionalized marketing strategies. Additionally, an increase in disposable income, driven by wage increases in the agricultural sector, has contributed to this rise in consumption. Looking ahead, rural demand is expected to remain strong, supported by several key factors. First, higher government spending, particularly on rural infrastructure and welfare programs, is likely to bolster rural incomes and consumer confidence. Second, a favorable monsoon is expected to boost agricultural output, further supporting rural income levels. Lastly, the upcoming festive season promises to increase consumption as rural households typically spend more during these periods, providing a boost to FMCG companies. However, the mass segment of the rural market has been slow to recover from the high inflation experienced over the last two years. Inflation has had a pronounced impact on mass segment consumption, particularly for FMCG products, which have the highest penetration in rural areas.

Despite having a large consumer base, income growth in the mass segment has been sluggish, limiting the ability of households to increase consumption. Moreover, rural households tend to allocate a larger portion of their budget to food, leaving less room for discretionary spending on other FMCG products. Encouragingly, in the past six to twelve months, there has been a gradual stabilization in the income-to-cost mix for rural households. Lower general inflation and a reduction in FMCG prices have provided some relief, improving affordability. This stabilization, combined with price cuts in certain key FMCG categories, suggests that the sector is well-positioned for a recovery in mass segment consumption, particularly in rural areas. This renewed optimism for rural demand is expected to play a significant role in driving overall growth in the FMCG sector in the coming quarters.

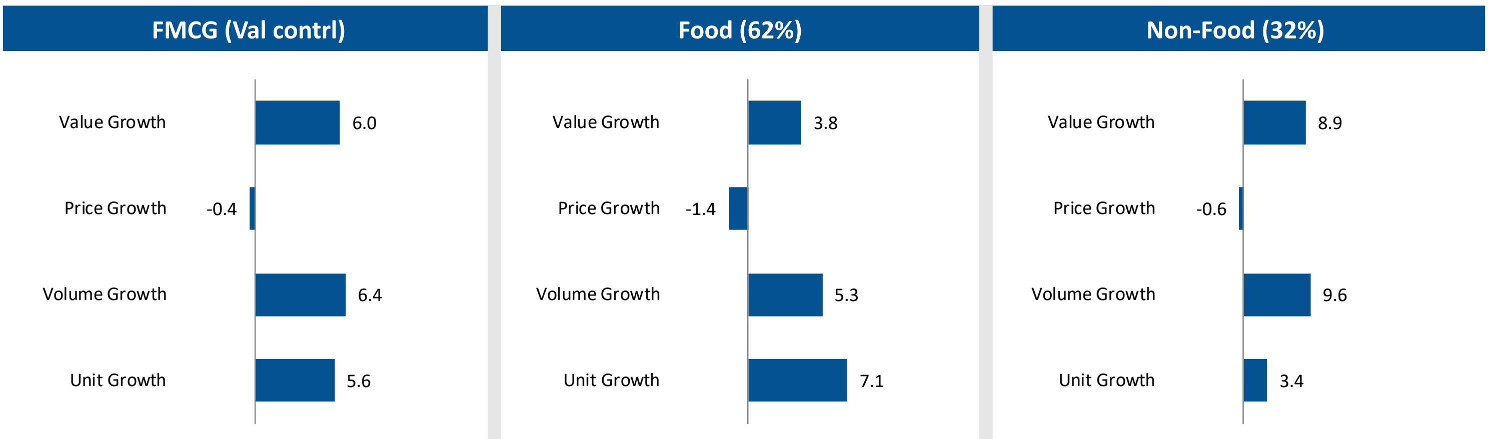
Key Growth Drivers for Indian FMCG Sector

Volume growth across urban and rural markets, as well as within Modern Trade and Traditional Trade, observed during the fourth quarter of CY 2023.



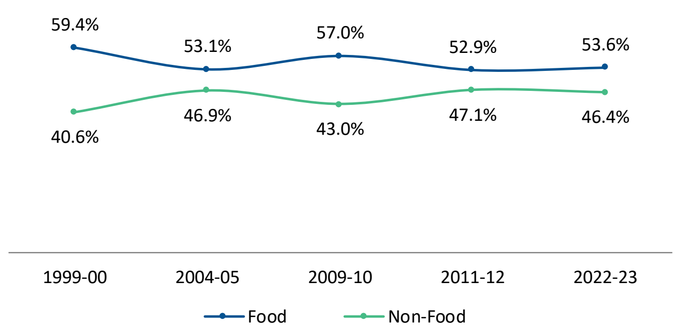
Source: Industry:

FMCG Market Dynamics across food and non-food categories - 4Q CY 2023

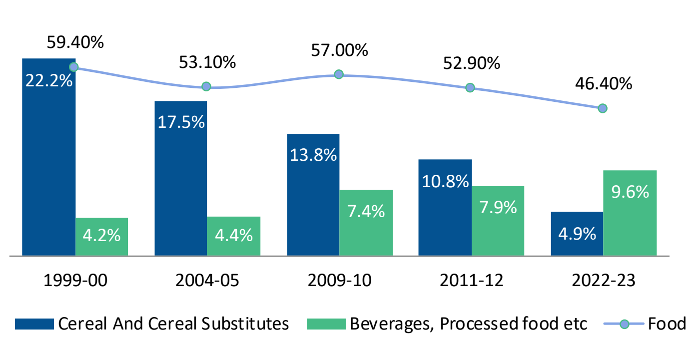


Source: Industry:

Rural Monthly Per Capita Consumption Exp (MPCE)

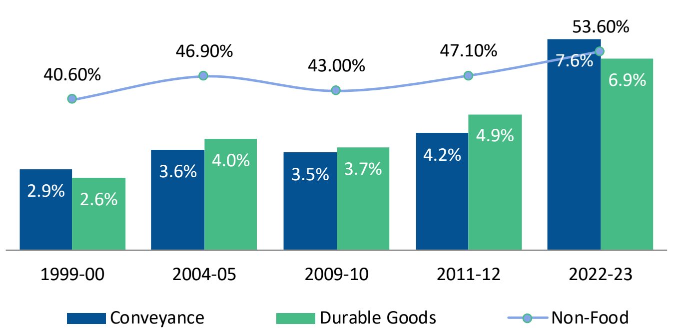


Divergence in Rural MPCE - Food

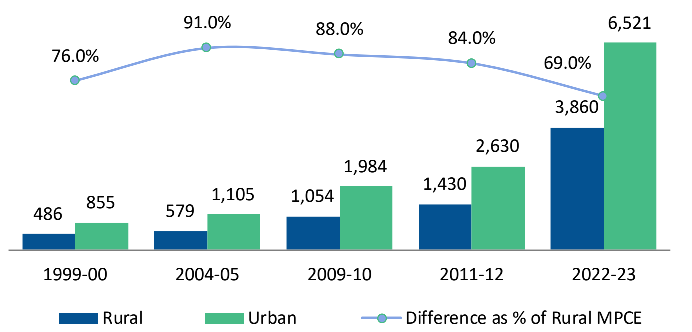


Source: Industry, Company & LKP Research

Divergence in Rural MPCE - Non - Food



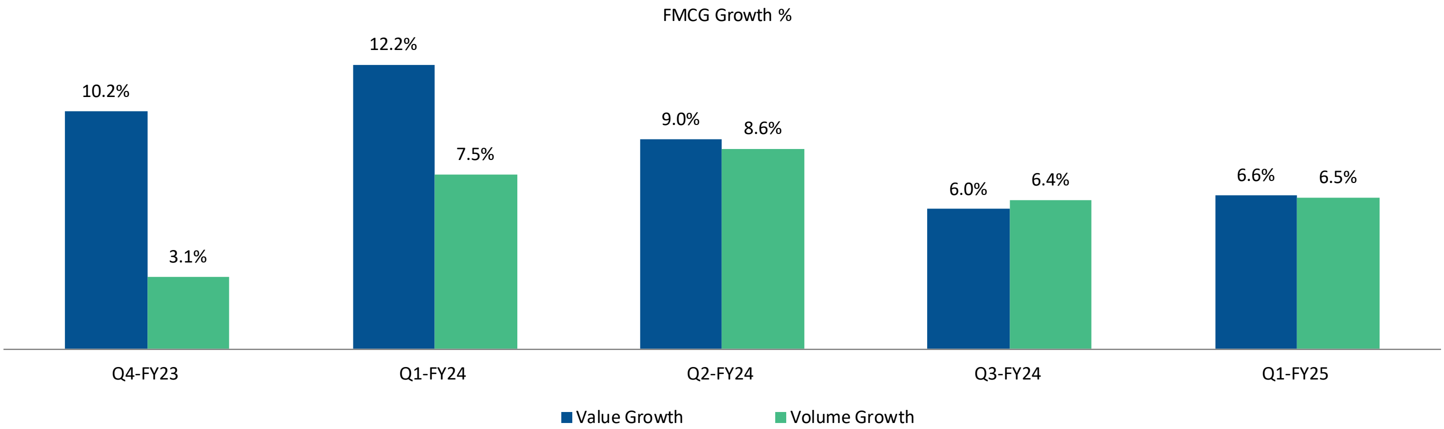
Consumption Gap between Rural & Urban reducing



Source: Industry, Company & LKP Research

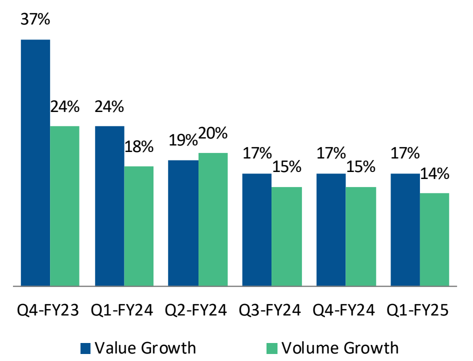
Top FMCG companies showing consistent mid to high single-digit Volume & Value (VV) growth

FMCG Growth

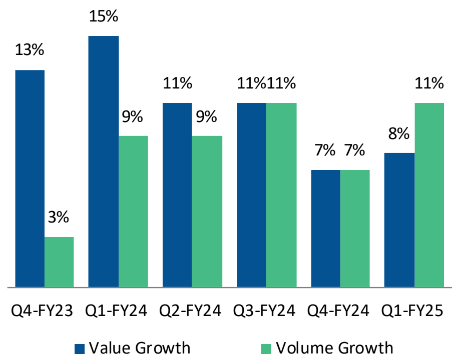


All three SFMCG Co's consistently beating industry growth rates; Between Q4FY23 to Q1FY25 average Volume & Value growth stood at 14% & 20% resp.

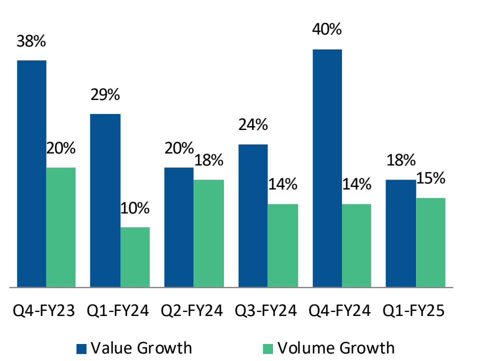
Mrs. Bectors Food - Growth



Jyothy Labs - Growth



CCL Products - Growth



Source: Industry, Company & LKP Research

Top Ideas

Mrs. Bectors Food Specialities Limited

Mrs.Bectors Food Specialities Ltd (MBFSL) has established itself as a leading player in northern India's non-glucose biscuits and premium brands segment, despite facing stiff competition. The company is expanding its distribution reach and strategically growing its presence with new facilities in Rajpura, Khopoli, and an upcoming biscuit plant in Dhar. This expansion gives MBFSL a competitive advantage over unorganized players as it aims to become a pan-India player. We believe MBFSL will benefit from a) Premiumisation trends in the underlying sector supported by structural tailwinds b) Strategic expansion of capacities in key areas and enhancing distribution reach c) New product innovations across categories d) continued market share gains in the export business. We initiate coverage with a 'BUY' rating on the company and a TP of ₹ 2,100.

Jyothy Labs Limited

Jyothy Labs Ltd (JLL) has undergone a substantial transformation from a promoter-driven, south-centric, single-product entity to a professionally managed, and multi-product Company operating nationwide. It has achieved consistent Rev/EBITDA/PAT CAGR of 13%/19%/24% respectively between FY20-24 as against muted CAGR of 2%/9%/7% respectively over FY15-20. a) adopting Above the Line marketing strategy from Below The Line spending strategy b) strategic Pan-India expansion in distribution network c) focusing on low-unit packs across product lines to enter into basket of consumers especially in rural areas. We Initiate coverage on JLL with a 'BUY' rating and a TP of ₹702.

CCL Products (India) Limited

CCL Products (CCL) has been consistent in performance despite severe volatility in coffee prices, intense competition, supply chain disruptions etc, It has maintained its volume growth trajectory and profitability on a per kilo basis. The supply chain disruptions across the globe has forced several coffee companies globally to diversify their supplies and therefore are seeking to acquire new alliances with manufacturers having global presence like CCL. We believe CCL will continue to clock mid-teens volume growth going ahead owing to a) doubling of capacity from 38,500 MT in FY22 to ~77,000 MT by FY25 across Vietnam and India in its value-added products especially Freeze Dried Coffee and small packs b) addition of high margin products like speciality coffee (5% of sales) c) cost-efficient business model. We Initiate coverage on CCL Products Ltd with a 'BUY' rating and a TP of ₹881

Mrs. Bectors Food Specialities Limited

The Bakers hack!

Mrs.Bectors Food Specialities Ltd. (MBFSL) is one of the leading biscuits player catering to premium and mid-premium segment of the ever-growing biscuits market under the popular brand "Mrs.Bector's Cremica". It is also a leading premium bakery player under the "English Oven" brand, which is also amongst the fastest growing premium bakery brand in India. The biscuit and bakery maker is banking on the overall premiumization trend and is well-poised to gain from the large opportunity in the biscuits and bread and institutional bakery businesses. Further, with a strong presence in North India, the company is well-positioned to scale up its distribution and expand its footprint to other regions and geographies, thus capitalizing on the growth upturn in the consumer and food services space in the country.

Fastest growing player in the industry

MBFSL emerged as one of the fastest-growing consumer goods companies between FY18-24, achieving a remarkable revenue/EBITDA/PAT CAGR of 15%/19%/26%. This impressive growth was driven by the increased penetration of its premium and mid-premium brands, coupled with a significant rise in market share for premium biscuits in the northern market, growing from 4.5% to 5.4% in FY23. In comparison, Britannia Industries, a leading player with a well-established footprint and extensive product lines, saw its Revenue/EBITDA/PAT grow at 9%/13%/13% over the same period. MBFSL's bakery segment has grown at a CAGR of 22% over FY18-24 (comparison between pre-covid and post-covid) faster than the growth achieved in its biscuits business which has grown at a 13% CAGR over FY18-24 (22% CAGR between FY20-24).

MBFSL's success can be attributed to several strategic initiatives. The company capitalized on changing consumer preferences, introducing innovative products that resonated well with the market. Additionally, it strengthened its distribution network, ensuring better product availability across various regions. The company also leveraged effective marketing campaigns that bolstered brand recognition and loyalty. Despite starting from a lower base, MBFSL's faster development was fueled by industry tailwinds during and after the Covid-19 pandemic. The pandemic highlighted the importance of strong supply chains and adaptable business models, areas where MBFSL excelled. The company quickly adapted to the new normal, ensuring continuity in production and distribution, which helped in maintaining and even growing its market presence. Looking ahead, MBFSL plans to continue its growth trajectory by further expanding its product portfolio and exploring new markets. The company is also investing in technology and innovation to enhance operational efficiency and meet the evolving demands of consumers. With these strategies in place, MBFSL is well-positioned to sustain its growth momentum and further solidify its position in the competitive consumer goods market.

BUY		
Current Market Price (₹)	:	1,785
12M Price Target (₹)	:	2,100
Potential Return (%)	:	18

Stock Data		
FV (₹)	:	10
Total Market Cap (₹ bn)	:	110
Free Float Market Cap (₹ bn)	:	54
52-Week High / Low (₹)	:	2,009 / 925
BSE Code / NSE Symbol	:	543253/BECTORFOOD
Bloomberg	:	BECTORS: IN

Shareholding Pattern

(%)	Jun-24	Mar-24	Dec-23	Sep-23
Promoter	51.18	51.18	51.18	51.17
MF's	20.22	20.42	17.18	17.83
FPIs	8.22	8.39	9.32	9.10
AIF's	0.28	0.64	0.78	0.70
Others	20.10	19.37	21.54	21.20

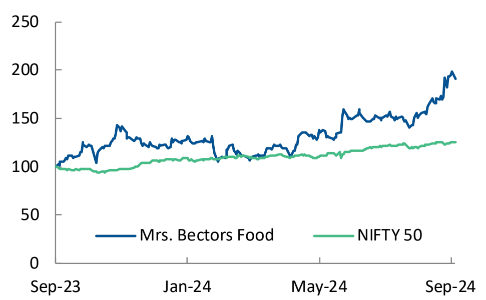
Source: BSE

Price Performance

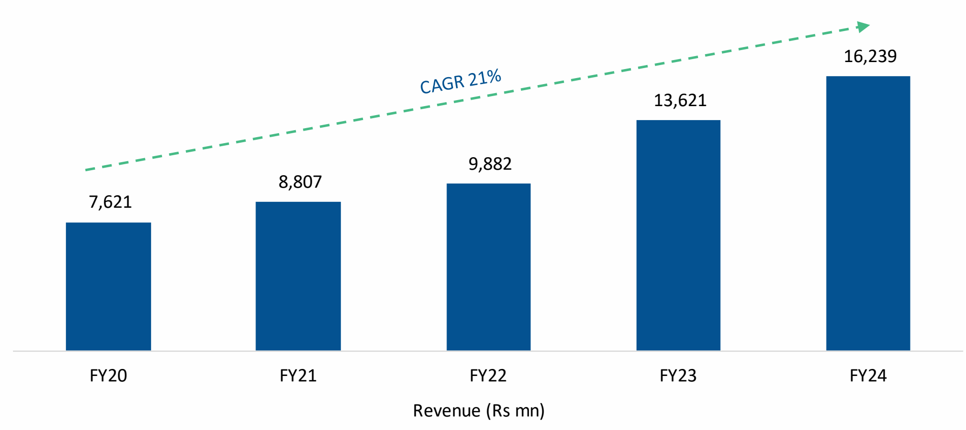
(%)	1M	3M	6M	12M
Mrs. Bectors	22.9%	28.3%	72.6%	91.4%
Nifty 50	3.4%	8.2%	15.3%	26.1%

** To date / current date : September 16, 2024*

Mrs. Bectors vs Nifty 50



MBFSL's revenue grew at a robust 21% CAGR between FY20-24



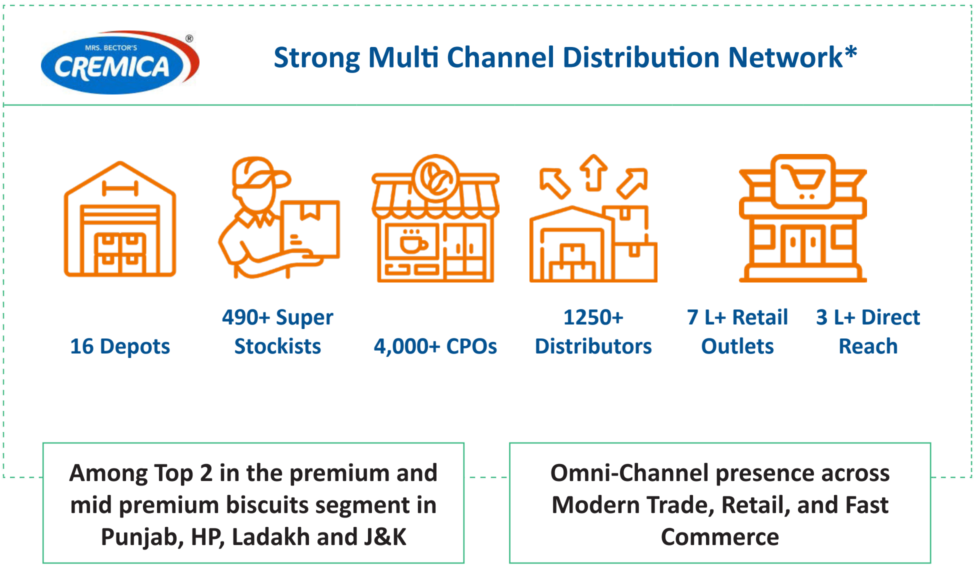
Source: Company, LKP Research

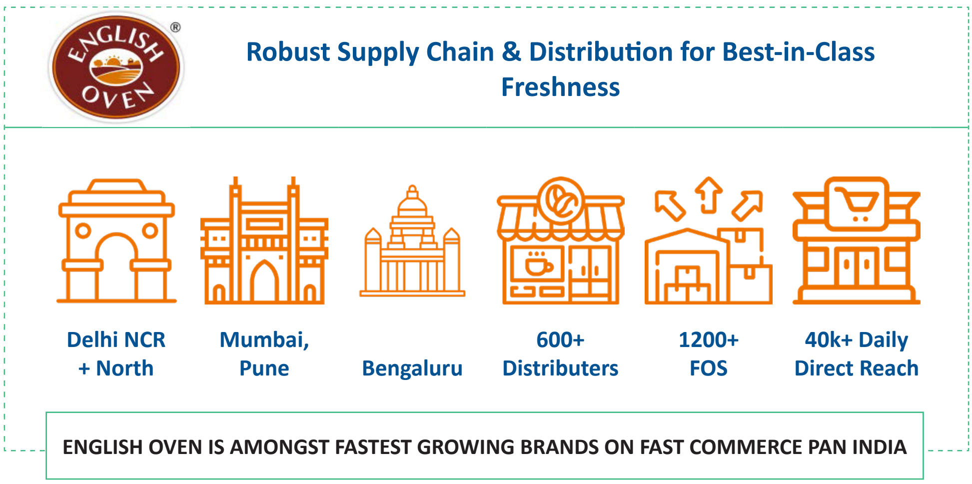
Calibrated expansion remains key

The company has recently announced capex plans of ₹3.5 bn out of which ₹2.7-2.8 bn will be going towards setting up Biscuit factory in Madhya Pradesh and remaining amount is expected to be spent on existing bakery facility in Noida including some maintenance capex. MBFSL's currently serves 7,00,000 retail outlets across 28 states and 4 Union territories through 1,180 distributors and 490 stockists, it plans to increase its outlet reach to 1 million in next 2-3 years. While MBFSL's has a strong presence in the Northern market, it is making efforts to expand in the Southern and Western regions. To strengthen its network, the company offers better trade margins to its retailers and distributors. MBFSL's has also developed an internal automation solution called "Peri" to enhance the productivity of super stockists and distributors. Given the addressable market of nearly two million outlets in the North, we see significant potential for MBFSL's to expand its distribution reach. In key Delhi-NCR states such as Delhi and Uttar Pradesh, its market share is currently less than 2-3%. However, by leveraging its brand equity, MBFSL's can easily target a ~5% market share in these areas.

Products

Source: Company, LKP Research



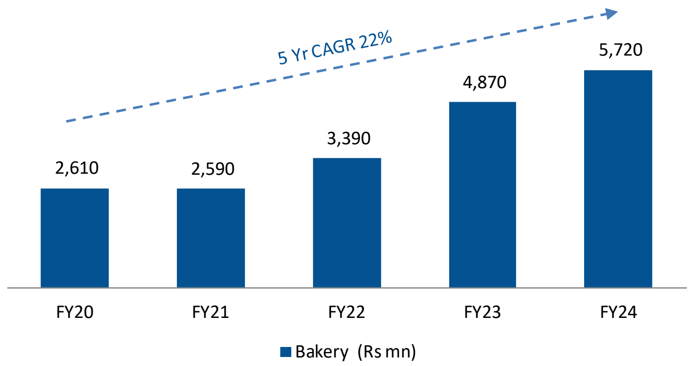


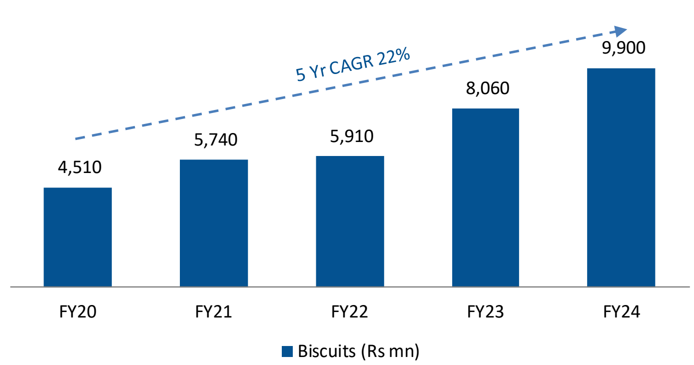
Source: Company, LKP Research

Crafting its own path among the biggies

Among the biscuit heavyweights like Parle, Britannia, MBFSL has crafted its own path while growing its product categories, focusing on premium to mid-premium product baskets and expanding not only Pan-India but also in the International markets. MBFSL's revenue from biscuit segment has grown by 22% CAGR over FY20-24. During FY24, Biscuit segment recorded a growth of 23% led by capacity addition in biscuit segment and territory expansion across different parts of India as well as exports. In exports side its Cremica brand has a footprint across 65 countries it is currently aggressively expanding in Middle East, North & South America. Over the past few years, MBFSL's introduced several products in the biscuit category to improve its offerings and choices for the end customers and emerged as a strong player in the mid to premium biscuit segment. The revenue share from biscuits has gone up from 59% in FY20 to 61% in FY24 mainly due to growth in exports and revenue contribution from bakery segment has gone up from 27% in FY20 to 35% in FY24.

Robust growth in both Biscuits & Bakery segment



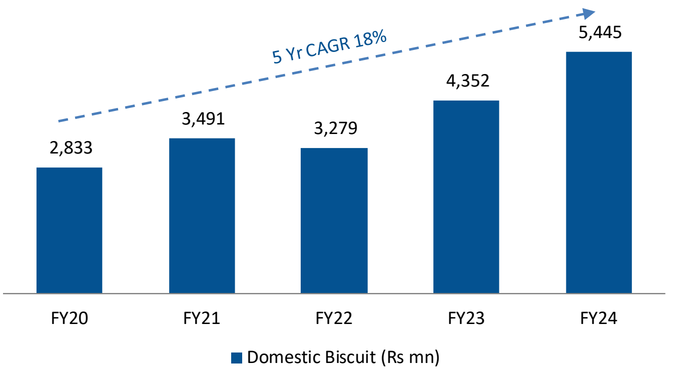


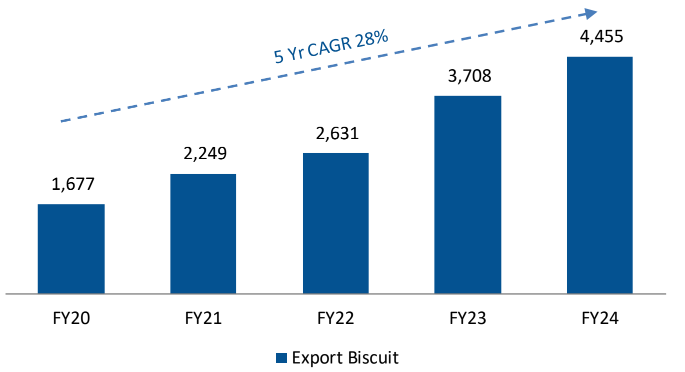
Source: Company, LKP Research

Formidable presence in Biscuit Exports

MBFSL is a prominent exporter of biscuits in India, with a presence in over 70 countries, commanding a 12% market share in India's total biscuit exports as of CY19. Exports account for approximately 45% of MBFSL's biscuit sales and 27% of its overall revenue. Notably, the company holds a 25%+ market share in Indian biscuit exports to Canada. MBFSL supplies to a wide range of global retail chains, distributors, and buying houses, with key clients including Monteagle International (UK) Limited, Lulu Hypermarket Trading Co, E-Mart Inc., Atlas Global (HK) Limited, Omni Trade Services Limited, Universal Trade Limited, and World Wide Imports (2008) Ltd. The company is strategically focusing on expanding its export footprint in select developed and emerging markets, such as Australasia, Europe, East and South Africa, the MENA region, and North America. To support this, it has established a subsidiary in the UAE to better serve the MENA and African markets. Additionally, MBFSL is working closely with Walmart, the largest retail chain in the US with a 35% market share and around 5,000 stores, presenting a significant growth opportunity for its biscuit exports. Given that the export business yields higher margins compared to its other segments, an increased contribution from exports is expected to further enhance the company's overall profitability in the coming years.

Exports outperformed Domestic Biscuits





Source: Company, LKP Research

Premiumization to drive future growth

MBFSL boasts a diverse product portfolio under its Cremica and English Oven brands, offering unparalleled choices to consumers and enabling effective positioning in a competitive market. The company is well-positioned to capitalize on the domestic market's premiumization trend, where customers are increasingly opting for premium and mid-premium branded products. This trend offers continuous product and market development potential for MBFSL's niche and differentiated varieties. MBFSL caters to a wide variety of retail customers in the bread and buns segment. The introduction of new niche product variants, such as rusk under the English Oven brand and gourmet breads like Focaccia and Sourdough, has enhanced its market appeal. The company is focusing on expanding its distribution network by enhancing penetration in Tier-1 and Tier-2 cities, which are major consumption centers for premium and artisanal bakery products. The company's strategic initiatives have yielded positive results. For instance, MBFSL reported a revenue growth of 19% in FY24, driven by increased demand for its premium products. The Cremica brand, known for its innovative offerings, saw a 23% YoY increase in biscuit sales in FY24, while English Oven, with its focus on artisanal and gourmet breads, recorded a 17% YoY growth in Bakery Segment in FY24.

MBFL's premium biscuits contribution has gone up from 28% in FY22 to 39% as of Q1FY25 similarly on the Bakery side premiumisation has gone up from 56% to 62% and the company clearly remains focused on improving its premium portfolio its new launches in frozen desserts and premium export biscuits could help improving its premiumisation mix further.

Furthermore, MBFSL is one of the largest and preferred suppliers to leading food chains. The company is set to benefit significantly from the robust demand in the Quick Service Restaurant (QSR) sector. The QSR market is experiencing a boom, driven by changing consumer habits, including more frequent eating out and social dining in group settings. By continuously innovating and expanding its product range, MBFSL is well-positioned to leverage the growing demand for premium bakery products. The company's strategic focus on market expansion and product differentiation ensures that it remains competitive and continues to capture a significant share of the market. With strong growth projections and a clear strategy, MBFSL is poised for sustained success in the evolving consumer goods landscape.

Quick view on Biscuits & Bakery industry

According to Technopack The Indian retail biscuit and bakery market size currently stands at Rs.570 bn is projected to grow at a CAGR of ~10.5% to Rs.770 bn by FY26. Technopack said, the overall market is expected to grow at a CAGR of 4.13% between 2023-2029, with a projected value of about $4 bn by that year. The primary drivers of the market's expansion include consumer desire for clean-label, health-conscious products, such glutenfree, low-calorie, low-fat and high-fibre biscuits. India is the second largest producer of biscuits after USA.

Apart from biscuits, breads are also a product category witnessing high growth, with adoption of breads in the diet of rural regions in the country. Growing at a CAGR of 5%, the Indian retail breads and buns market was valued at ₹62 bn in FY2024, up from ₹47 bn in FY2019. Throughout FY2024, the market expanded by 7% annually. In FY2025, the market is projected to grow to ₹67 bn and in FY2029, to ₹103 bn, registering a CAGR of 11%. In Breads and buns mid-premium and premium segments are expected to grow faster than the Mass-economy segments, By 2029 the mid-premium and premium plus segments are anticipated to grow at a CAGR of 16% and 20%, respectively. Due to variables like a shift in customer demand for healthier and specialty products, increased disposable income, and a tendency to spend, the categories are predicted to develop faster than the market as a whole. In addition to this, growth in the fast-food chains further stimulates the demand for breads as they are used in sandwiches, burgers, soups, snacks, etc. Apart from this, busy lifestyles, changing eating habits and western influence has reflected in a strong demand for bakery products in India.

The following factors can be attributes as major growth drivers for the baked goods sector in the country.

Demographics: India has the largest population in the world. With rising preference for baked goods in dietary intake, the demand is expected to increase over the years. Many companies are trying to reach out to rural and semi-urban demographic by innovatively offering products in smaller and affordable packages to deepen brand's penetration and increase the volume in the country.

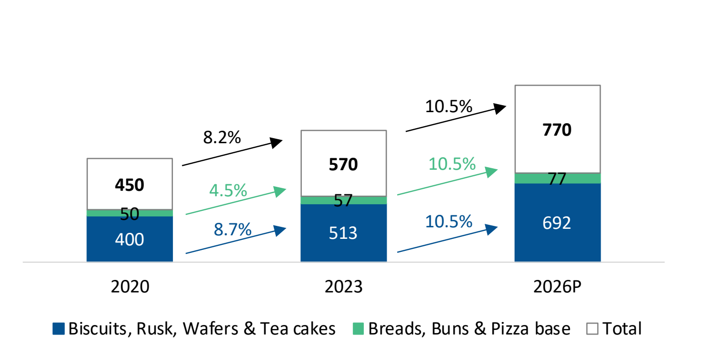
Structural changes in consumption pattern: Convenience is the primary driver for the bakery market. The fast-paced lifestyle increases the need to adopt convenient solutions in all aspects of life. Long working hours make it difficult for consumers to spend more time in cooking. Thus, a hectic lifestyle boosts the consumption of ready-to-eat food products such as bread, cookies, cakes, tortillas, frozen pizza, and biscuits. Furthermore, high spending capacity and growing urbanisation that result in a fast-paced lifestyle also plays an essential role in surging the demand for convenient food.

Rising Disposable Incomes: The household level disposable incomes have risen in India over the years, aided by dual income households and rapid urbanisation. This has lead to increase in preference for bakery products.

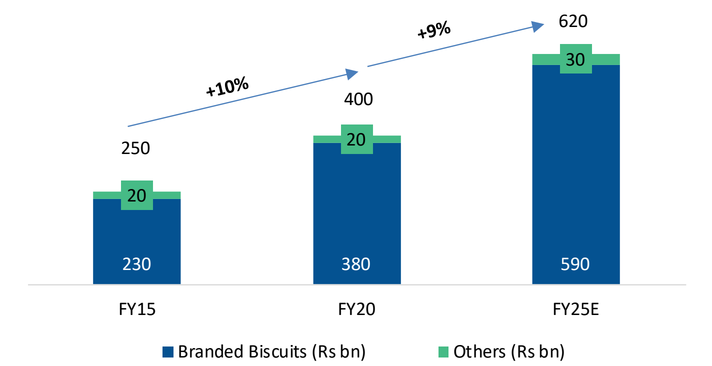
Growing Consumer Preference Towards Healthy Snacks: As Indian consumers increasingly turn to healthier snacking options like whole wheat and multi-grain bakery products, healthy snacking is gradually spreading throughout the country. Baked goods are therefore, launching healthy bakery products to gain market share in response to this growing demand.

Quick view on Biscuits & Bakery industry

Indian Biscuit and Bakery Industry

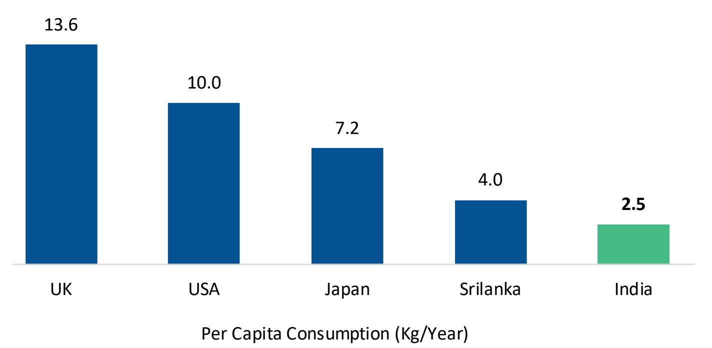


Growth in Biscuit Market

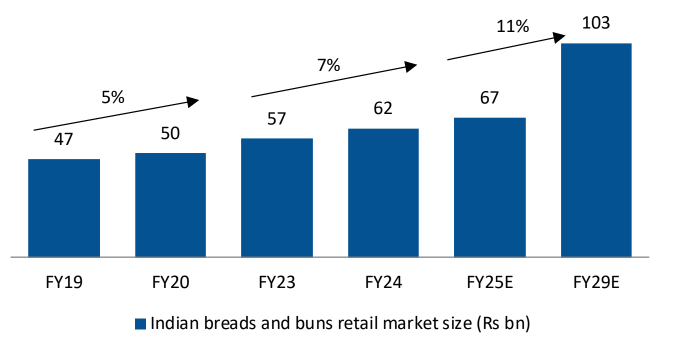


Source: Company, LKP Research

Low per capita spending on biscuits

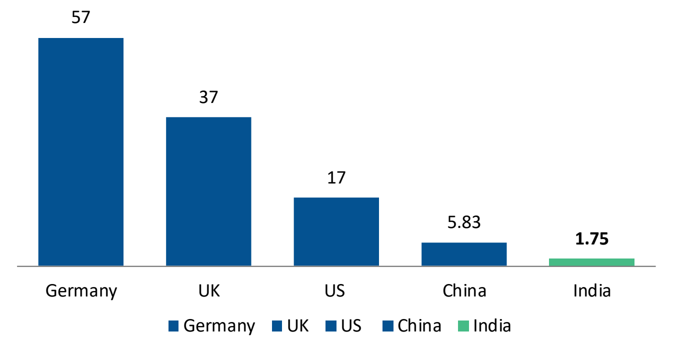


Indian breads and buns retail market size

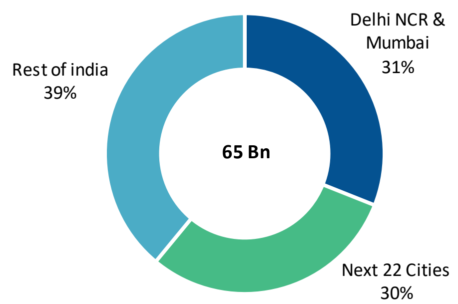


Source: Company, LKP Research

Country-wise per capita consumption of bread



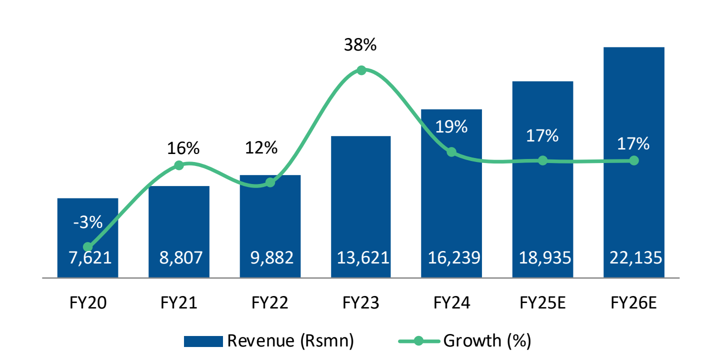
Branded breads and buns: City-wise market share (FY 24)



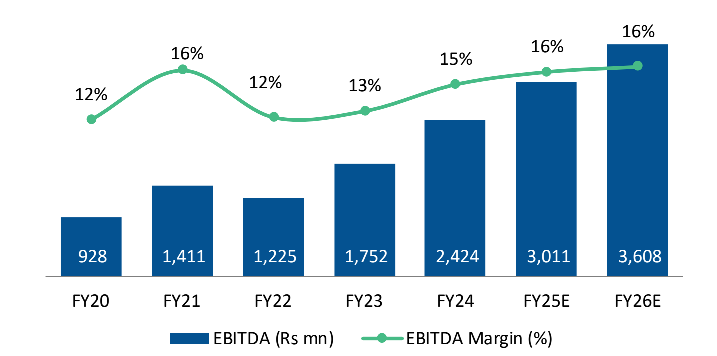
Source: Company, LKP Research

Financial Charts

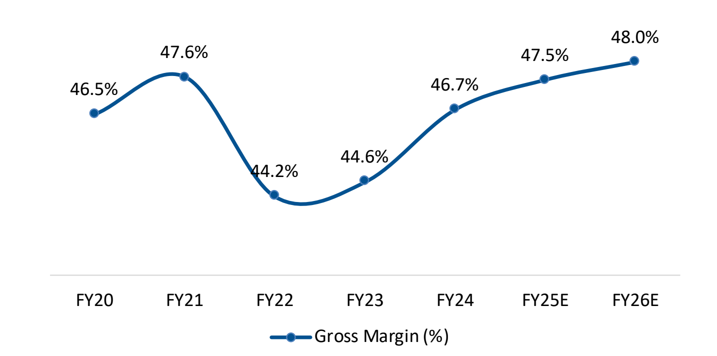
Revenue Trend



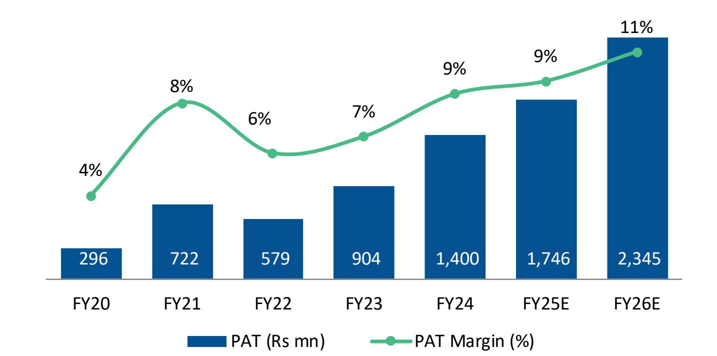
EBITDA and Margin Trend



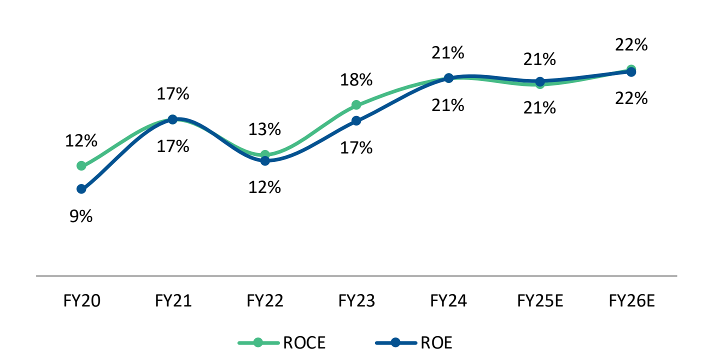
Gross Margin Trend



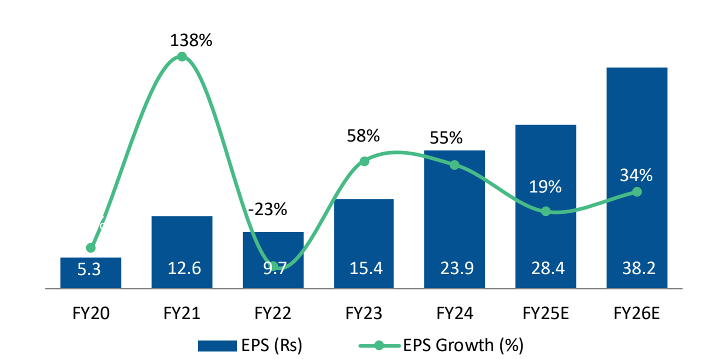
PAT & PAT margin trend



ROE & ROCE trend



EPS Growth Trend



Source: Company, LKP Research

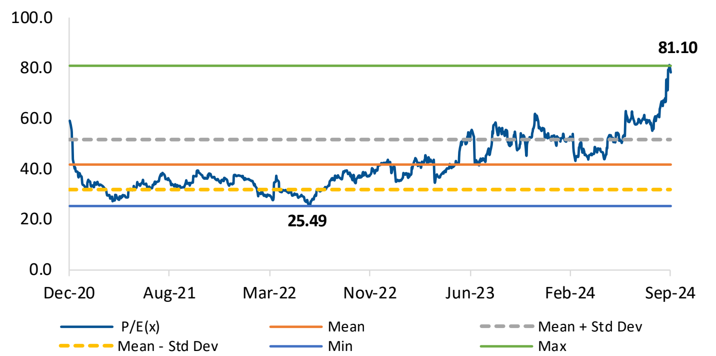
Valuation & View

Despite facing stiff competition MBFSL has made its presence felt in the biscuits and bakery market becoming northern India's leading players in the non-glucose biscuits and premium brands segment further it continues to expand into other geographies by effectively doubling its distribution reach. MBFSL's rapid expansion in strategic areas like Rajpura (Punjab), bakery facility in Khopoli (Maharashtra) and upcoming Greenfield biscuit plant in Dhar (Madhya Pradesh) shall give them a competitive edge over their unorganized players as it aims to scale its operations pan India. We believe MBFSL's focused approach on premiumisation across categories coupled with healthy growth in its Institutional Bakery and Biscuit export business will continue to support its double-digit volume growth. Post commissioning of ₹3.5bn capex by H2FY25 the company is aiming to increase its direct reach to 1 million from 7 lakh outlets currently. We initiate coverage with '**BUY**' rating on the company and a TP of ₹2,100 at a PE of 55x of FY26 EPS of ₹38. We believe MBFSL will benefit from a) Premiumisation trends in the underlying sector supported by structural tailwinds b) Strategic expansion of capacities in key areas and enhancing distribution reach c) New product innovations across categories d) continued market share gains in the export business. We expect MBFSL to clock a Revenue/ EBITDA/PAT CAGR of 17%/22%/29% respectively over FY24-26E.

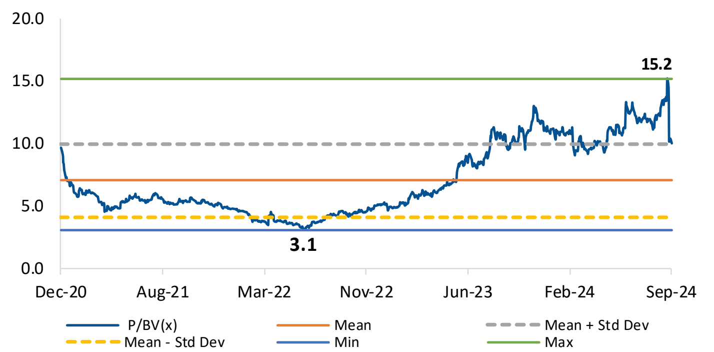
Key Risks

- Slowdown in the Premiumisation Trend in Biscuits and Bakery.
- Breach of any safety standards may lead to negative publicity.

P/E(x) mean and standard deviation



P/BV(x) mean and standard deviation



Source: ACE Equity, LKP Research

Income Statement

(₹ mn)	FY 23	FY 24	FY 25E	FY 26E
Revenue	**13,621**	**16,239**	**18,935**	**22,135**
Raw Material Cost	7,541	8,661	9,941	11,510
Employee Cost	1,630	2,182	2,556	2,988
Other Exp	2,699	2,972	3,427	4,029
EBITDA	**1,752**	**2,424**	**3,011**	**3,608**
EBITDA Margin(%)	12.9%	14.9%	15.9%	16.3%
Depreciation	533	614	748	538
EBIT	**1,219**	**1,810**	**2,263**	**3,070**
EBIT Margin(%)	9.0%	11.1%	11.9%	13.9%
Other Income	120	190	228	274
Interest	129	118	160	196
Profit Before tax (PBT)	**1,210**	**1,882**	**2,331**	**3,147**
PBT margin (%)	8.9%	11.6%	12.3%	14.2%
Tax	306	479	585	802
Profit After Tax	**904**	**1,403**	**1,746**	**2,345**
PAT Margins (%)	6.6%	8.6%	9.2%	10.6%
Other comprehensive income/loss	-1	-3	0	0
Rep PAT	**904**	**1,400**	**1,746**	**2,345**
RPAT Margins (%)	6.6%	8.6%	9.2%	10.6%

Key Ratios

YE Mar	FY 23	FY 24	FY 25E	FY 26E
Per Share Data (Rs)				
Adj. EPS	15.4	23.8	28.4	38.2
CEPS	24.4	34.2	40.6	47.0
BVPS	92.5	112.7	136.4	174.6
Growth Ratios(%)				
Revenue	37.8%	19.2%	16.6%	16.9%
EBITDA	43.0%	38.4%	24.2%	19.8%
EBIT	59.4%	48.5%	25.0%	35.7%
Adj.PAT	56.0%	55.0%	24.7%	34.3%
Valuation Ratios (X)				
PE	116.8	75.4	63.1	47.0
P/CEPS	73.5	52.4	44.2	38.2
P/BV	19.4	15.9	13.2	10.3
EV/Sales	7.8	6.6	5.9	5.0
EV/EBITDA	60.5	43.9	36.9	30.4
Operating Ratios (Days)				
Inventory days	21.5	23.0	22.0	23.0
Receivable Days	23.9	29.5	27.0	26.0
Payables day	20.5	23.6	22.0	22.0
Debt to Equity (x)	0.22	0.34	0.35	0.32
Performance Ratios (%)				
AROA (%)	10.9%	12.7%	12.7%	13.9%
AROE (%)	16.6%	21.1%	20.8%	21.9%
AROCE (%)	18.3%	21.2%	20.5%	22.1%
Asset Turnover(x)	2.07	2.02	1.90	1.95
Inventory Turnover(x)	16.7	15.7	16.4	18.3

Balance Sheet

(₹ mn)	FY 23	FY 24	FY 25E	FY 26E
Equity and Liabilities				
Equity Share Capital	588	588	588	588
Reserves & Surplus	4,855	6,041	7,787	10,131
Total Networth	**5,443**	**6,629**	**8,375**	**10,719**
Long term Borrowings	940	1,490	2,140	2,640
Deferred tax liability	98	95	105	81
Other Non-Current liabilities	186	341	411	478
Total non-current liab & provs	**1,224**	**1,926**	**2,656**	**3,199**
Current Liabilities				
Short term Borrow & Provisions	327	806	830	819
Trade Payables	775	1,067	1,157	1,353
Other current & fin. liabilities	545	575	724	756
Total current liab and provs	**1,647**	**2,448**	**2,711**	**2,928**
Total Equity & Liabilities	**8,314**	**11,003**	**13,742**	**16,847**
Assets				
Gross block	**6,586**	**8,041**	**9,966**	**11,351**
Net block	4,076	4,916	6,094	6,941
Capital WIP	487	944	794	594
Other non current assets	810	1,050	1,250	1,401
Total fixed assets	**5,373**	**6,910**	**8,137**	**8,936**
Inventories	814	1,037	1,157	1,210
Trade receivables	903	1,331	1,420	1,368
Cash & Bank	749	1,271	2,071	3,941
Other current assets	475	454	956	1,392
Total current Assets	**2,941**	**4,093**	**5,604**	**7,911**
Total Assets	**8,314**	**11,003**	**13,742**	**16,847**

Cash Flow

(₹ mn)	FY 23	FY 24	FY 25E	FY 26E
PBT	1,207	1,883	2,331	3,147
Depreciation	533	614	748	538
Interest	129	118	160	196
Other Adjustments	613	614	908	735
Operating CF before WC changes	2,482	3,229	4,147	4,617
Changes in working capital	118	-472	-156	120
Tax paid	-298	-490	-585	-802
Cash flow from operations (a)	1,641	1,534	2,498	3,200
Capital expenditure	-1,095	-2,152	-1,925	-1,386
Other investing activities	-415	-84	561	-193
Cash flow from investing (b)	-1,510	-2,235	-1,364	-1,578
Free cash flow (a+b)	131	-701	1,134	1,621
Proceeds/Repayments from short term borrowings	-80	454	561	99
Proceeds/Repayment of long term borrowings	1	585	650	500
Other flows in financing activities	-287	-351	-350	-350
Cash flow from financing (c)	-366	688	861	249
Net chng in cash (a+b+c)	-235	-14	1,994	1,870
Closing cash & cash equivalents	749	1,271	2,071	3,941

Jyothy Labs Limited

Winning the FMCG game!

LKP
Since 1948
Trust • Invest • Grow

Jyothy Labs Ltd (JLL) was once known as underperformer has been winning the FMCG game since COVID-19 as the company continued its growth momentum despite headwinds in the FMCG sector during post COVID owing to consistent expansion in distribution network (2020 direct reach-0.9 mn to 1.2 mn in FY24), Strategic initiatives under the new management post FY20 (MR Jyothy as MD & CEO) like increase in Ad spends from 6.2% in FY19 to 8.3% in FY24 and moving away from inorganic growth opportunities etc, these initiatives boosted JLL's volume growth in the past few years and helped it achieve consistent Rev/EBITDA/PAT CAGR of 13%/19%/24% respectively between FY20-24 as against muted CAGR of 2%/9%/7% respectively over FY15-20.

JLL has undergone a substantial transformation from a promoter-driven, south-centric, single-product entity to a professionally managed, and multi-product Company operating nationwide. Founded in 1983.Jyothy Labs holds a significant presence in the Home Care and Personal Care segments, contributing to an impressive 50% share in the Indian FMCG industry. It maintains a strong national presence and operates 23 state-of-the-art plants. Jyothy Labs specialises in the manufacturing of a diverse range of products including fabric care, household insecticides, personal care, and dishwashing items, catering to the needs of consumers seeking cleaning and hygiene solutions. JLL owns power brands like Ujala, Maxo, Exo, Henko, Pril, and Margo. These brands contribute ~83% of its total revenues with fabric care, dishwashing and personal care growing at a CAGR of 14%/13%/14% in the last five years.

Power Brands

UJALA | EXO | MAXO | Henko | Margo | Pril

Key Product Categories

Fabric Care | Dish Wash | Household Insecticides | Personal Care

Source: Company

BUY

Current Market Price (₹)	:	547
12M Price Target (₹)	:	702
Potential Return (%)	:	28

Stock Data

FV (₹)	:	1
Total Market Cap (₹ bn)	:	201
Free Float Market Cap (₹ bn)	:	74
52-Week High / Low (₹)	:	596 / 333
BSE Code / NSE Symbol	:	532926 / JYOTHYLAB
Bloomberg	:	JYL IN

Shareholding Pattern

(%)	Jun-24	Mar-24	Dec-23	Sep-23
Promoter	62.89	62.89	62.89	62.89
MF's	13.76	12.25	12.22	12.28
FPIs	15.10	16.43	14.65	14.62
Insurance	0.46	0.89	1.44	1.66
Others	7.79	7.54	8.80	8.55

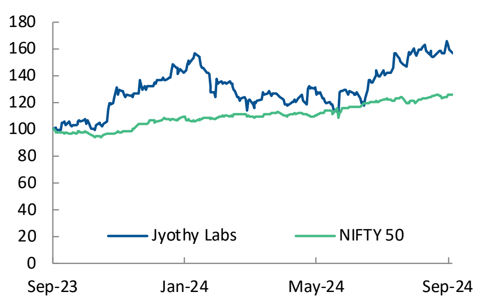
Source: BSE

Price Performance

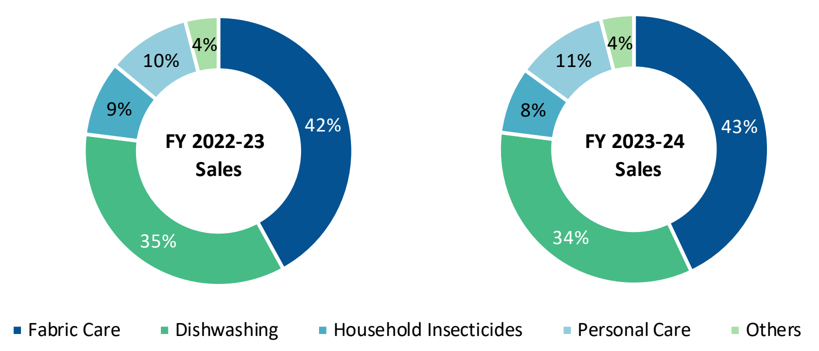
(%)	1M	3M	6M	12M
Jyothy Labs	-1.7%	21.3%	27.9%	56.3%
Nifty 50	3.4%	8.2%	15.3%	26.1%

** To date / current date : September 16, 2024*

Jyothy Labs vs Nifty 50



Category-Wise Business Share (%)



Source: Company, LKP Research

Revamped distribution network

On the distribution front, JLL has significantly expanded its reach, growing from 0.9 mn outlets in FY20 to over 1.2 mn outlets by FY24. The company's distribution network now spans more than 2.8 million retail outlets through a robust network of over 9,900 channel partners. JLL plans to continue expanding its direct distribution by 8-10% annually, adding around 100,000 outlets each year. A few years ago, JLL upgraded to the Distributor Management System (DMS), which greatly improved sales efficiency and boosted secondary sales, benefiting both the company and its distributors. Additionally, JLL implemented the Continuous Replenishment System (CRS) module, automating stock replenishment whenever inventory levels fall below a certain threshold. This automation enhances the company's ability to manage fluctuations in raw material availability, streamlining processes, accelerating operations, and reducing costs.

JLL's expanded distribution network is fueling growth across all product lines, including its mid-price detergent brands like More Light and Mr. White. The company has been actively launching new products, with Margo Neem Naturals and liquid detergents standing out among recent introductions. Alongside distribution expansion and product portfolio growth, JLL's management emphasizes the importance of digital acceleration in boosting sales productivity and enhancing consumer engagement. Given that most of JLL's brands are challenger brands in key segments, gaining shelf space in wholesale-serviced outlets—typically low-throughput—has been challenging. To address this, JLL introduced the "moped" distribution model, where sales representatives use mopeds to directly service these outlets, carrying the full product range and collecting cash on the spot, primarily through low unit packs (LUPs). To further incentivize these small shops, JLL offers higher margins and visibility pay-outs for prominently displaying its products, driving higher sales in these locations.

Strengthened brand equity and visibility

In a strategic shift that highlights her deep marketing acumen, M R Jyothy stepped into the role of Managing Director and CEO of Jyothy Labs on April 1, 2020. Before her appointment to this leadership position, she had served as the company's Chief Marketing Officer for an extended period, where she significantly influenced the firm's marketing direction. This influence is now clearly visible in the company's substantial increase in advertising and promotional (A&P) expenditures. Previously, the company allocated around 6.5% of its sales to advertising between FY16 and FY20, but under her guidance, this figure has grown to 8.3% of sales.

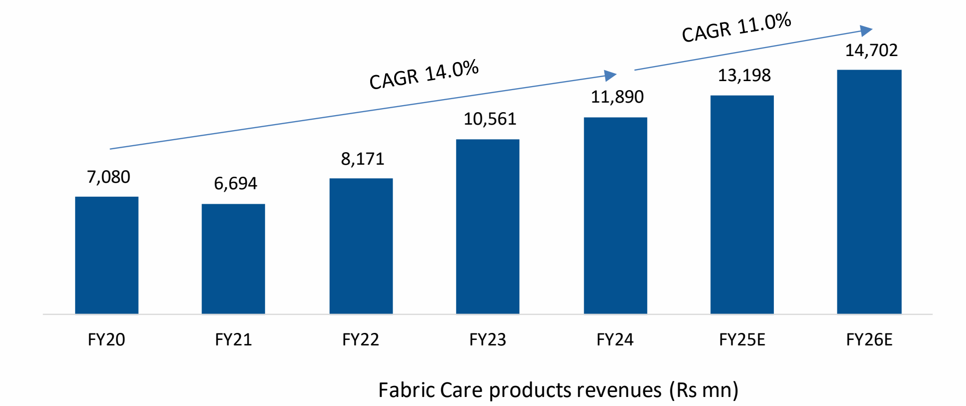
This shift indicates a deliberate strategy by the management to further increase advertising spending, with the aim of bolstering the company's long-term brand strength and market presence. In addition to the increased focus on advertising, JLL has made a notable decision to change its brand ambassador for the personal care and household insecticides segments. This change is a carefully considered move, intended to resonate with a wider audience and sustain the above-average revenue growth rates in these categories. By bringing a new face to these product lines, the company aims to not only reinforce its market position but also ensure continued success in an increasingly competitive environment. This approach reflects a broader commitment to driving sustained growth and innovation across its product offerings.

Fabric Care Remains at the Forefront

As of FY24, Fabric Care stands as the most crucial segment for JLL, contributing 43% of the company's total sales. Within this segment, detergents are the dominant force, making up 80% of Fabric Care sales, while the Fabric Whitener category (led by Ujala Supreme) accounts for the remaining 20%. Recognizing the potential in the detergent market, JLL has intensified its focus on expanding its detergent offerings, especially as this segment has demonstrated a stronger growth trajectory compared to Fabric Whiteners. Over the period from FY20 to FY24, JLL Fabric Care achieved an impressive CAGR of 14% in revenue. This sustained momentum is largely attributed to JLL's strategic initiatives to address key product gaps within its detergent business, particularly in both the economy and premium segments, which are crucial to capturing a larger market share. Before the COVID-19 pandemic, JLL faced a significant challenge: it lacked a competitive presence in the value-for-money detergent segment, which constitutes a substantial 55-60% of the overall market. This absence left a large portion of the market untapped. However, during the pandemic, JLL capitalized on the opportunity to enter this segment by launching the "Morelight" detergent. Despite the challenging market conditions and without resorting to a major marketing blitz, "Morelight" quickly gained traction and scaled to an impressive annual revenue of ₹1.5 bn by FY24. This success story underscores JLL's ability to innovate and meet consumer needs even in a highly competitive environment.

Sustained Margin Momentum: JLL's fabric care segment is expected to sustain the margin improvements observed in FY24. The EBIT margin in this segment saw a significant rise, improving from a low of 16% in FY23 to 24% in FY24. This positive trend is anticipated to continue, driven by several strategic initiatives and operational efficiencies.

Fabric Care products revenues



Source: Company, LKP Research

Key Drivers of Margin Improvement

Strong Detergents Business: The detergents segment, which forms a substantial part of JLL's fabric care sales, is experiencing robust growth. This growth is expected to drive operating leverage, as higher volumes will lead to better utilization of resources and fixed costs, further enhancing profitability.

Efficient Raw Material Procurement: A significant portion of the raw materials used in JLL's fabric care products is sourced from Gujarat. The proximity of these suppliers to the manufacturing facilities shortens the transportation distance, resulting in lower logistics and freight costs. This efficiency directly contributes to margin improvements by reducing operational expenses.

Strategic Manufacturing Location: The recent commencement of operations at JLL's plant in Pithampur, Madhya Pradesh, has strategically positioned the company closer to key consumption centers in central India. This location advantage reduces the distance between the production hub and the end markets, leading to faster delivery times and reduced transportation costs, providing an additional boost to the company's margins.

Growth Strategy in Fabric Care

Leadership in the Premium Segment: JLL is committed to maintaining its stronghold in the premium detergent market, where it has established itself as a key player. The company's focus on high-quality products and brand reputation continues to drive customer loyalty in this segment.

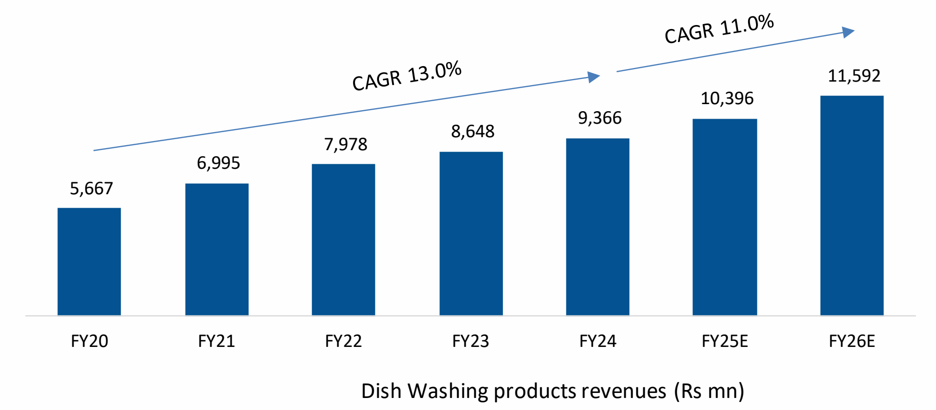
Penetration in the Value-for-Money Segment: Recognizing the vast potential in the value-for-money segment, which constitutes 55-60% of the overall market, JLL is deepening its efforts to penetrate this area. The introduction of the "Morelight" detergent, which quickly scaled to significant revenue without major marketing expenditure, exemplifies the company's strategic approach to capturing market share in this segment.

Dishwashing- Long runway of growth ahead

Dishwashing has become one of JLL's core business since it started its turnaround journey back in FY20. Exo Dishwash has remained resilient even after facing stiff competition from its counterparts. It has maintained its market share in double digits at 14% and is expected to maintain this level. During FY20-24, JLL delivered 13% revenue CAGR and we expect it to grow at 11% CAGR in FY24-26E. JLL's disciplined, uncluttered strategy for its brands Exo and Pril has helped this category to grow at an impressive rate over the last few years. Exo, which brings in 60% of the company's dishwashing sales, is transitioning from a primarily South Indian brand to pan-Indian one. These include a transformation of the trade itself by offering higher margins to the trade partners, high-decibel media campaigns, and payouts for visibility. Besides, Its the major "anti-bacterial" proposition element that adds to their market brand equity. Also critical are adjacent products, which make up 15% of JLL dishwashing sales. The management at JLL said that these are the consistency products —that is, a dishwasher product is not as functional without its "workhorse" corresponding scrubber. The company's marketing of the scrubber, based on its anti-bacterial features includes an altogether different advertisement campaign to set it apart in the market. The #1 brand in dishwashing, Pril accounts for 25% of its sales and yet has also been subject to considerable efforts to return it back into growth.

JLL has concentrated on driving share of low unit packs in metros to spur trials among bar & liquid users. The company has also addressed gaps in its product portfolio by launching 1.5/2.0-liter packs, particularly for modern trade, at highly competitive prices. Furthermore, innovation has been a key focus, exemplified by the launch of Pril Tamarind, which accounts for 10% of Pril's sales. This product taps into the traditional use of tamarind in Indian households to clean and shine brass and copper vessels, offering consumers a familiar and effective solution.

Dish Washing products revenues



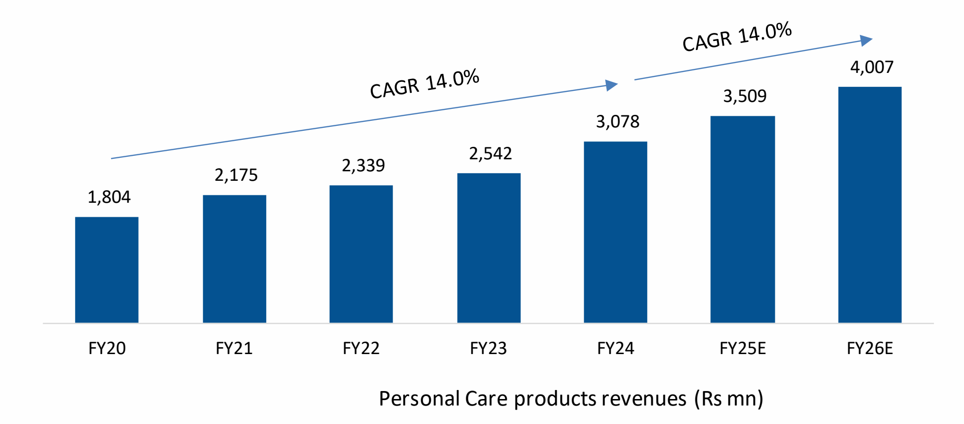
Source: Company, LKP Research

On Dishwashing Margins- During the last couple of years, the dishwashing division has been in a margin range of 13-14%, during the last few quarters it has moved up substantially to 19%. The company's management anticipates these EBIT margins to hold steady in the short term at this elevated level. Yet, there are some levers that could both sustain and make these margins even stronger. A crucial driver is the higher recognition of the liquids portfolio - 60% GPM (vs. bars at 40%). Moreover, rising scale in operations is leading to better operating leverage which can also fuel enhanced overall profitability in the dishwashing business.

Personal Care and Household Insecticides (11% & 8% of sales respectively)

On Personal care Portfolio- JLL has been able to grow its personal care segment at a 14% CAGR between FY20-24 with pandemic tailwinds, apart from that the growth has been subdued but with right strategic initiatives on distribution and marketing side. We expect this segment to continue to clock 14% CAGR over FY24-26E, mainly due to focusing on core portfolio of Neem based products with brand 'Margo', filling distribution gaps in key markets like West Bengal, Tamil Nadu & UP and foraying into the toilet soap category and aggressively pushing economical SKUs (₹10). The personal care segment's margins contracted from 27% in FY20 to 13% in FY24 as most of the earlier margin tailwinds were due to 30% decline in key raw materials prices which were reinvested in improving brand equity of personal care segments. We believe the margins are bottomed out and the benefits of brand equity investments will be seen in the upcoming years, we expect the margin to increase to the mid-teens (14-15%+) between FY25 and FY26 as operating leverage becomes more pronounced.

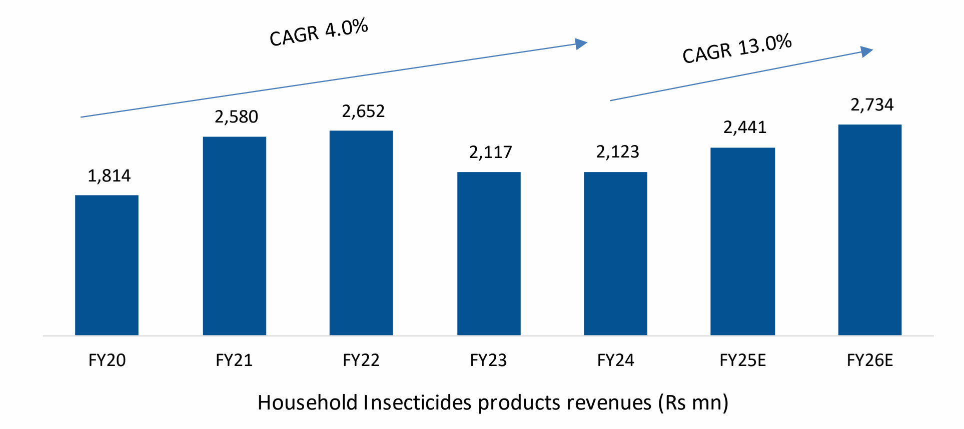
Personal Care products revenues



Source: Company, LKP Research

On Household Insecticides -This segment has been a laggard in terms of growth as it has grown at a CAGR of 4% over FY20-24 despite industry tailwinds owing to uncertain weather conditions and intense competition. This is the only segment where JLL has reported EBIT loss of ₹341mn and it has taken several steps to revive their Liquid Vaporizer business mainly by tweaking its product design as Maxo refills could not plug into Goodknight machines (which is a market leader, and so it has highest number of machines incubated in homes). With improvements to its product design, JLL achieved successful integration of its refills into Godrej Consumer's Goodknight machines and rolled out a high-profile media campaign in FY24 to promote this advancement.It has also hired Kareena Kapoor as the new brand ambassador with core audience in North and West for better reach. The benefits from this campaign are anticipated to become apparent in FY25E and FY26E. In parallel, JLL is focusing on expanding its presence in the more stable and higher-margin liquid vaporizer category, aiming to boost its share of HI sales from the current 30-35% to 50%. We estimate that the HI segment will attain EBIT breakeven by FY26, driven by a gradual increase in the proportion of high-margin liquid vaporizers, which is expected to grow to 50% of its HI sales. This shift is anticipated to significantly boost profitability and offset current losses.

Household Insecticides products revenues



Source: Company, LKP Research

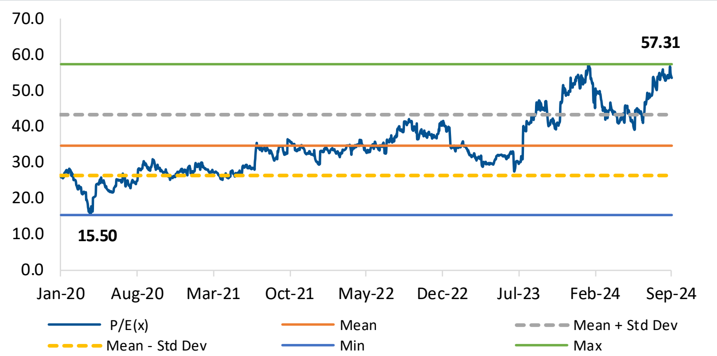
Valuation & Outlook- Poised for sustained growth!

JLL has undergone a substantial transformation from a promoter-driven, south-centric, single-product entity to a professionally managed, and multi-product company operating nationwide. It has achieved consistent Rev/EBITDA/PAT CAGR of 13%/19%/24% respectively between FY20-24 as against muted CAGR of 2%/9%/7% respectively over FY15-20. a) adopting Above the Line marketing strategy from Below The Line spending strategy b) strategic Pan-India expansion in distribution network c) focusing on low-unit packs across product lines to enter into basket of consumers especially in rural areas. We believe the new management team under MR Jyothy is streamlining the distribution network to improve sales and productivity across its product portfolio achieving an average 9% volume growth in the last 16 quarters. JLL's consistent performance in the last few quarters has re-rated its multiples (30-35x in FY19-20 to 45-50x in FY24-25) quite substantially and we believe JLL is currently undergoing a structural shift and expect it to continue to perform going ahead. We Initiate coverage on JLL with a '**BUY**' rating and a TP of ₹702 at a PE of 49x of FY26 EPS of ₹14. We expect JLL to clock a Revenue/EBITDA/PAT CAGR of 12%/15%/20% respectively over FY24-26E.

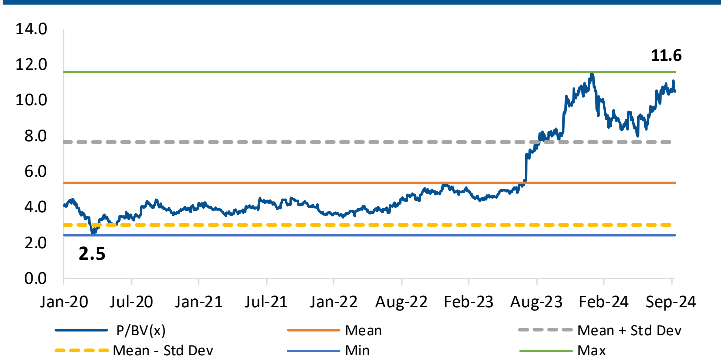
Key Risks

- Inability to maintain margins due to fierce competition from MNCs
- Inability to turn around loss-making segments like HI & Laundry Services.

P/E(x) mean and standard deviation



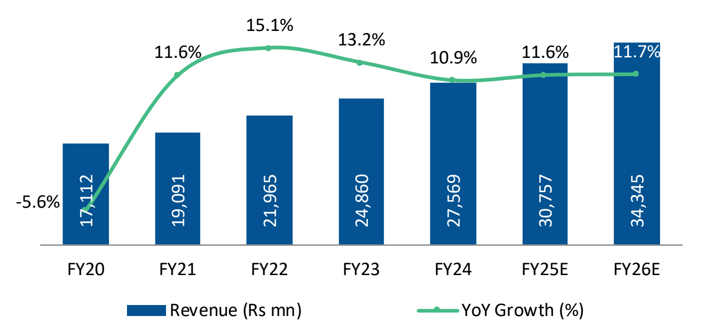
P/BV(x) mean and standard deviation



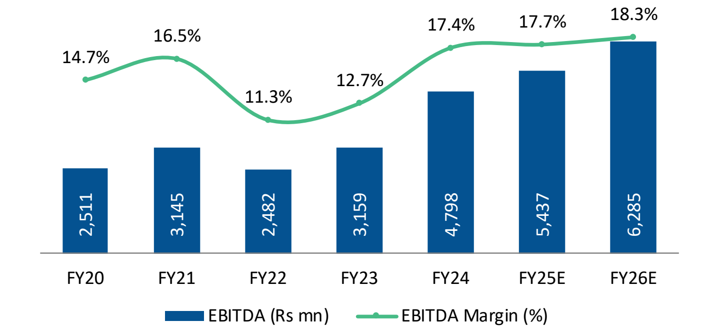
Source: ACE Equity, LKP Research

Story in Charts

Revenue Trend

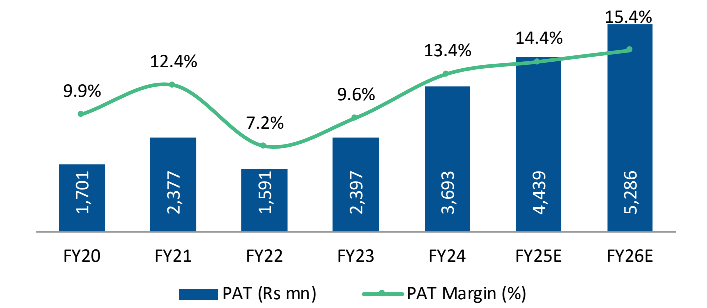


EBITDA and Margin Trend

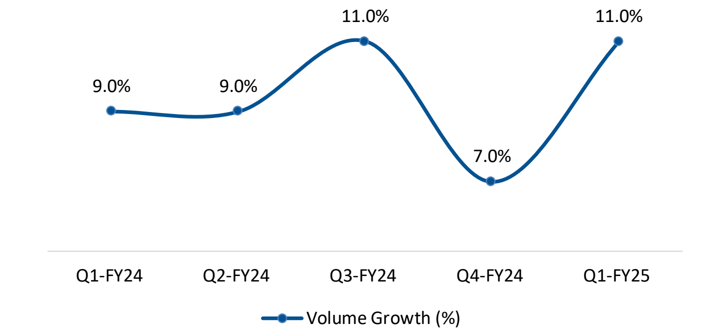


Source: Company, LKP Research

PAT & PAT margin trend

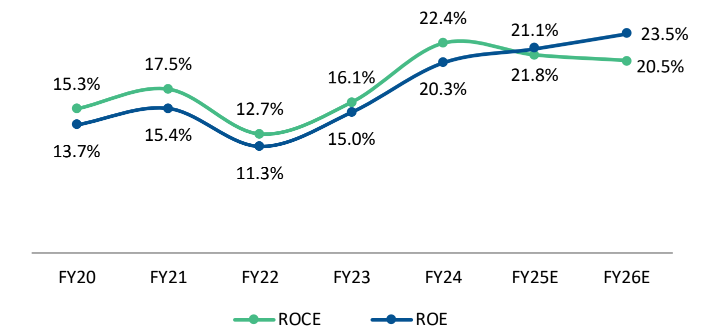


Quarterly Volume growth trend

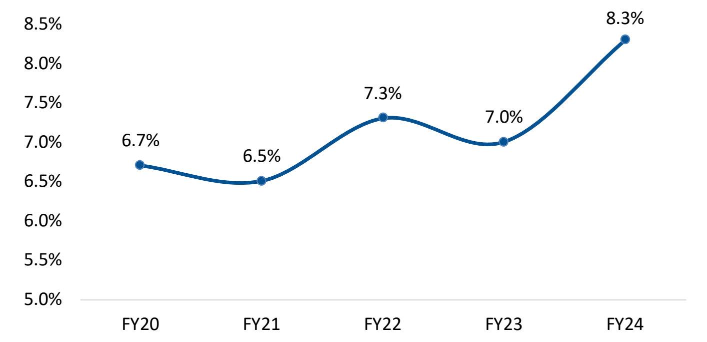


Source: Company, LKP Research

ROE & ROCE trend



Advertisement as % to Sales



Source: Company, LKP Research

Income Statement

(₹ mn)	FY 23	FY 24	FY 25E	FY 26E
Revenue	**24,860**	**27,569**	**30,757**	**34,345**
Raw Material Cost	14,349	14,038	15,539	17,241
Employee Cost	2,644	3,005	3,322	3,778
Other Exp	4,709	5,728	6,459	7,041
EBITDA	**3,159**	**4,798**	**5,437**	**6,285**
EBITDA Margin(%)	12.7%	17.4%	17.7%	18.3%
Depreciation	501	500	437	336
EBIT	**2,658**	**4,298**	**5,001**	**5,949**
EBIT Margin(%)	10.7%	15.6%	16.3%	17.3%
Other Income	395	537	618	741
Interest	131	47	0	0
Exceptional items	70	0	0	0
Reported PBT	**2,922**	**4,788**	**5,619**	**6,691**
Adj PBT	**2,992**	**4,788**	**5,619**	**6,691**
RPBT Margin(%)	11.8%	17.4%	18.3%	19.5%
APBT margin (%)	12.0%	17.4%	18.3%	19.5%
Tax	595	1,095	1,180	1,405
Rep PAT	2,397	3,693	4,439	5,286
Rep PAT Margins (%)	**9.6%**	**13.4%**	**14.4%**	**15.4%**
OC income/loss	2	-10	0	0
Adj PAT	2,402	3,685	4,439	5,286
Adj PAT Margins (%)	**9.7%**	**13.4%**	**14.4%**	**15.4%**

Key Ratios

YE Mar	FY 23	FY 24	FY 25E	FY 26E
Per Share Data (Rs)				
Adj. EPS	6.3	10.0	12.1	14.4
CEPS	7.7	11.4	13.3	15.3
BVPS	42.2	49.3	61.4	75.8
Growth Ratios(%)				
Revenue	13.2%	10.9%	11.6%	11.7%
EBITDA	27.2%	51.9%	13.3%	15.6%
EBIT	39.8%	61.7%	16.3%	19.0%
Adj.PAT	46.4%	58.1%	20.5%	19.1%
Valuation Ratios (X)				
PE	86.2	54.5	45.3	38.0
P/CEPS	71.0	48.0	41.2	35.7
P/BV	12.9	11.1	8.9	7.2
EV/Sales	8.0	7.2	6.4	5.7
EV/EBITDA	62.7	41.5	36.4	31.2
Operating Ratios (Days)				
Inventory days	43.7	37.0	38.0	38.0
Receivable Days	20.2	26.7	27.0	27.0
Payables day	31.0	36.0	33.0	30.2
Debt to Equity (x)	0.00	0.00	0.00	0.00
Performance Ratios (%)				
AROA (%)	11.3%	15.3%	15.6%	15.6%
AROE (%)	15.0%	20.3%	21.8%	23.5%
AROCE (%)	16.1%	22.4%	21.1%	20.5%
Asset Turnover(x)	5.06	5.46	5.60	6.10
Inventory Turnover(x)	8.2	9.7	9.5	9.5

Balance Sheet

(₹ mn)	FY 23	FY 24	FY 25E	FY 26E
Equity and Liabilities				
Equity Share Capital	367	367	367	367
Reserves & Surplus	15,143	17,735	22,174	27,459
Total Networth	**15,511**	**18,102**	**22,541**	**27,827**
Provisions	708	802	836	853
Other Non-Current liabilities	**335**	**299**	**295**	**297**
Total non-current liab & provs	**1,043**	**1,102**	**1,131**	**1,150**
Current Liabilities				
Short term Borrow & Provisions	218	283	301	308
Trade Payables	2,144	2,761	2,805	2,870
Other current liabilities	1,701	1,762	1,682	1,709
Total current liab and provs	**4,063**	**4,805**	**4,788**	**4,888**
Total Equity & Liabilities	**20,617**	**24,009**	**28,460**	**33,864**
Assets				
Gross block	**4,913**	**5,048**	**5,465**	**5,609**
Net block	2,808	2,869	3,115	3,197
Capital WIP	155	134	134	134
Other non current assets	9,903	9,615	9,802	9,708
Total non-current assets	**12,866**	**12,617**	**13,051**	**13,039**
Inventories	3,019	2,835	3,230	3,611
Trade receivables	1,378	2,014	2,275	2,541
Cash & Bank Balance	2,835	1,661	2,743	4,984
Other current assets	464	4,883	7,161	9,689
Total current Assets	**7,696**	**11,392**	**15,409**	**20,825**
Assets held for sale	**56**	**-**	**-**	**-**
Total Assets	**20,617**	**24,009**	**28,460**	**33,864**

Cash Flow

(₹ mn)	FY 23	FY 24	FY 25E	FY 26E
PBT	2,992	4,788	5,619	6,691
Depreciation	501	500	437	336
Interest	131	47	-	-
Other Adjustments	-280	-350	-	-
Operating CF before WC changes	3,344	4,985	6,055	7,027
Changes in working capital	509	387	-952	-975
Tax paid	-595	-1,095	-1,180	-1,405
Cash flow from operations (a)	**3,259**	**4,277**	**3,923**	**4,646**
Capital expenditure	-122	-144	-417	-144
Other investing activities	-362	-3,299	-792	-1,408
Cash flow from investing (b)	**-484**	**-3,444**	**-1,209**	**-1,552**
Free cash flow (a+b)	**2,775**	**834**	**2,715**	**3,095**
Repayment of short term borrow.	50	-	-	-
Proceeds of short term borrow.	-1,300	-	-	-
Other flows in financing activities	-1,257	-1,348	-815	-853
Cash flow from financing (c)	**-2,507**	**-1,348**	**-815**	**-853**
Net chng in cash (a+b+c)	**268**	**-515**	**1,899**	**2,241**
Closing cash & cash equivalents	**1,057**	**844**	**2,743**	**4,984**

CCL Products (India) Limited

Brewing long-term sustainable growth

CCL Products Ltd is globally the largest private label instant coffee manufacturers engaged in manufacturing of soluble instant spray dried coffee powder, spray dried agglomerated & granulated coffee, freeze dried coffee, roasted coffee, roast & ground coffee as well as freeze concentrated liquid coffee. CCL has been a consistent performer with decent return profile and earnings visibility. It has facilities in Vietnam and India, unlike Brazilian players who are present only in their home country. This has enabled CCL to establish a strong foothold in international markets, continue gaining market share, and access new businesses. Highly sticky customer base, strategic plant locations in India and Vietnam and its custom blending and superior technology have allowed it to create sustainable competitive edge over its peers. Despite high coffee prices, intense competition and supply chain disruptions due to geopolitical issues, CCL has maintained its volume growth trajectory and profitability on a per kg basis. CCL is on track to complete all the capacity expansion plans in its subsidiaries. Apart from enhancing capacity there has been dedicated efforts to increase the share of premium and value added products to strengthen the position in the market and laying foundation for future growth.

Robust expansion plans

Between FY13 and FY23, the company achieved a substantial capacity expansion, growing from 15,000 tonnes to 55,000 tonnes. Initially, by FY19, CCL's capacity in India included 6,000 tonnes for Freeze-Dried Coffee (FDC) and 14,000 tonnes for Spray-Dried Coffee (SDC). In FY20, the company further strengthened its position by establishing a new FDC plant with a 5,000-tonne capacity, elevating India's total capacity to 25,000 tonnes. Internationally, CCL ventured into Vietnam in FY14 with a 10,000-tonne SDC facility. Through strategic line balancing, the company increased this capacity by an additional 3,500 tonnes in FY22. Moreover, a significant Brownfield expansion in FY23 added another 16,500 tonnes, bringing Vietnam's total capacity to 30,000 tonnes. Looking ahead, CCL is on track to double its capacity from 38,500 tonnes in FY22 to approximately 77,000 tonnes by FY25, spread across its operations in Vietnam and India. The Indian facilities are currently running at full capacity, while the Vietnam operations are utilizing 65-70% of their capacity.

Competitive business model

Coffee ranks 10th in overall trading volume among food and beverage (F&B) commodities and holds the distinction of being the most traded beverage commodity globally, as highlighted by industry research. The inherent volatility in coffee prices is often driven by imbalances in supply and demand, which can be further exacerbated by unpredictable weather patterns affecting agricultural productivity. This volatility poses a significant challenge for coffee bean processors, whose margins are heavily dependent on the cost of coffee beans, their primary raw material.

The company's margins are protected from the volatility in green coffee (raw) prices because it operates under the presales business model. CCL places orders for green coffee only on receiving orders for instant coffee. CCL enters into individual supply contracts on the basis of spot prices of raw coffee beans (green coffee). CCL's profitability shall be supported in the medium term on the back of improved product mix with an increased focus on premium products as well as higher contribution from business-to-consumer (B2C) sales.

BUY	:	
Current Market Price (₹)	:	714
12M Price Target (₹)	:	881
Potential Return (%)	:	23

Stock Data		
FV (₹)	:	2
Total Market Cap (₹ bn)	:	95
Free Float Market Cap (₹ bn)	:	51
52-Week High / Low (₹)	:	855 / 552
BSE Code / NSE Symbol	:	519600 / CCL
Bloomberg	:	CCLP IN

Shareholding Pattern

(%)	Jun-24	Mar-24	Dec-23	Sep-23
Promoter	46.09	46.26	46.26	46.26
MF's	18.84	20.79	20.53	20.44
FPIs	9.76	8.12	7.77	7.75
AIF's	1.59	0.72	0.78	0.81
Others	23.72	24.11	24.66	24.74

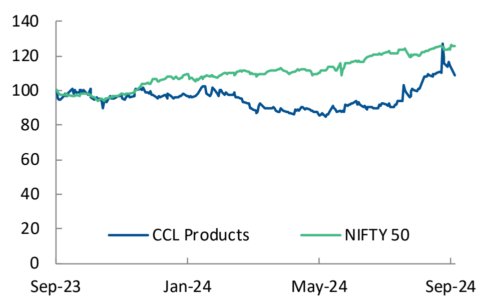
Source: BSE

Price Performance

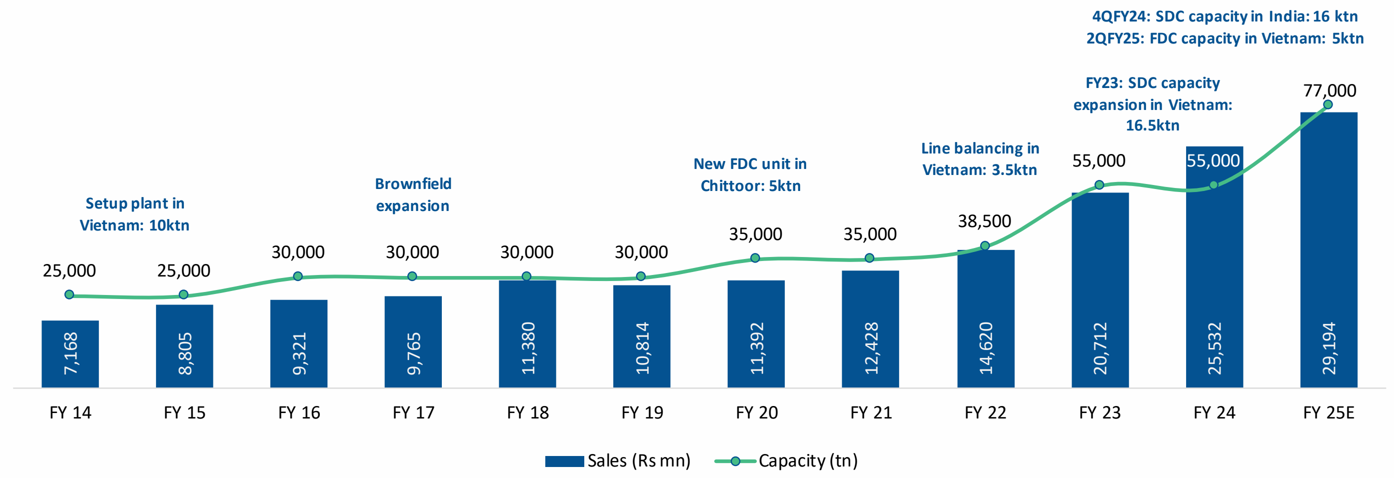
(%)	1M	3M	6M	12M
CCL Products	4.5%	17.8%	22.9%	9.0%
Nifty 50	3.4%	8.2%	15.3%	26.1%

** To date / current date : September 16, 2024*

CCL Products vs Nifty 50



CCL Products 10 year history



Source: Company, LKP Research

With over 25 years of experience in the industry, CCL has cultivated strong, long-term relationships with coffee bean suppliers across key growing regions. These relationships ensure a consistent and reliable supply of high-quality green coffee beans, even during periods of market stress or supply chain disruptions. By tying contract prices directly to the spot price of coffee beans, CCL effectively shields its margins from the volatility that often characterizes the global coffee market. Moreover, CCL's extensive industry expertise and established supplier network enables the company to secure favorable terms and conditions when purchasing raw materials, further enhancing its ability to maintain stable margins. This strategic approach not only protects CCL from market fluctuations but also positions the company as a reliable partner to its clients, capable of delivering consistent quality and value despite the inherent uncertainties of the global coffee trade. CCL predominantly sells coffee in bulk to resellers. However, the company has been increasing the share of small packs sold directly to the customers than to the packers, which aids in expanding its margins and deepen its relationships with the existing customers. To increase the share of small packs and improve the value addition by supplying agglomerated coffee, CCL has set up a fully automated packing (10,000MT) and agglomeration facility (5,000MT) in extension to the existing export-oriented unit at Kuvvakoli (Andhra Pradesh).

Multiple tailwinds in branded coffee business

The global instant coffee market has grown at a CAGR of 6%, from US$ 25 bn to US$ 34 bn, over CY18-23. India's total instant coffee market stands at ₹25 bn as of FY23. 70% of that market is in South India. CCL has reached ~4-5% market share in South India, as per Nielson. In some micro markets such as Andhra Pradesh and Telangana, the company has ~8-9% market share, while in Karnataka it has ~6% of share. Domestic business for CCL includes sales from branded business, institutional sales and private labels for Modern Trade. Domestic business stood at ₹3,200 mn in FY24 (₹2,500 mn in FY23), Approximately ₹2,100 mn of this turnover was derived solely from the branded business, including revenue from vending machines. CCL anticipates a doubling of its branded business over the next two years, driven by expanded distribution reach and market expansion in new territories, particularly in the North, West, and East markets.

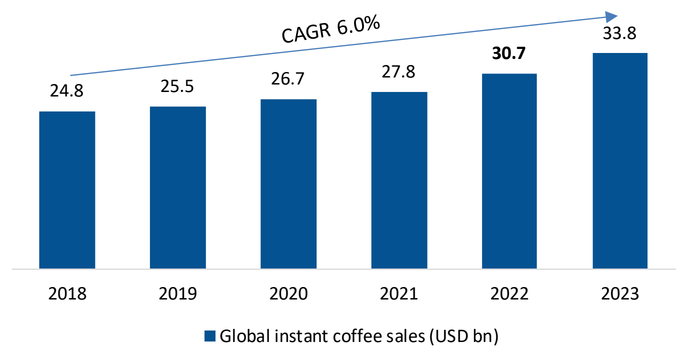
The company's presence in Kirana outlets is substantial, with a total of 130,000 outlets, of which 95,000 are located in South India and the remaining 35,000 in North, East, and West regions. However, the majority of sales come from the North and West regions, while the East market is comparatively weaker in the coffee segment. Regarding sales channels, Modern trade, E-commerce, and Quick Commerce collectively contributed 35% of the total business in FY24, and they are experiencing high double-digit growth rates. Apart from this vending business is a component of the branded business, generated total revenue ranging between ₹200-250 mn. Notably, the company has implemented a structured contract sales channel for vending machines in the current period.

Industry & Consumer Trends in coffee market

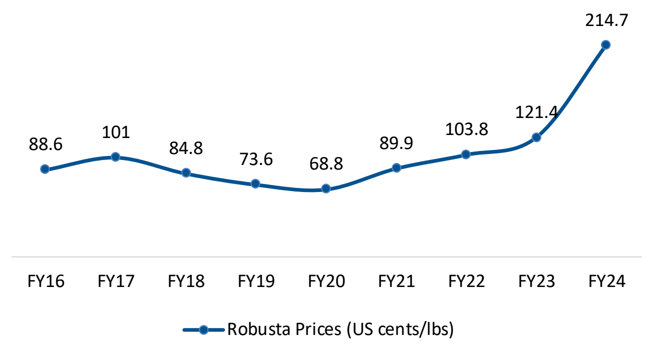
The global instant coffee market is currently expanding by 6% CAGR due to the shifting preferences of consumers worldwide, where instant coffee has not only retained its appeal but also gained momentum as a go-to beverage. Today, 30% of all instant coffee consumed globally is freeze-dried, and half of the world's coffee drinkers are choosing the convenience and speed that instant coffee offers. Companies in the instant coffee sector are strategically targeting the young, upwardly mobile generation—those at the start of their careers and with more modest incomes—fueling the rise of instant coffee as the preferred choice. The surge in demand has been consistent, with 2023 setting new records for instant coffee consumption. Despite a significant portion of the global population—approximately 4 bn people—consuming fewer than 20 cups of coffee annually, this group represents a vast untapped market that the industry is keen to capture.

The broader coffee industry continues to be an attractive and resilient sector, largely unaffected by economic downturns. It is steadily expanding in both volume and local currency terms, even as sales to retailers saw a dip in 2022. In India, the domestic coffee market is estimated to be growing at an impressive 10-15% annually. As the coffee culture deepens, consumers are increasingly exploring gourmet options and experimenting with various formats, supported by the quick delivery models offered by key e-commerce platforms. Rising coffee prices have presented challenges, but they also present opportunities for a shift in consumption patterns—from out-of-home to in-house coffee consumption-potentially benefiting the instant coffee industry. The evolving demographic landscape, particularly the early adoption of coffee among Millennials and Gen-Z, is driving significant innovation in the market. This younger generation is pushing the boundaries of coffee beverages, from varying temperatures and brewing styles to enhanced functionalities. Additionally, the trend towards convenience is spurring growth in ready-to-drink coffee, coffee pods, drip bags, mix formats, and app-powered coffee ordering, positioning the industry for sustained success.

Global Instant Coffee Market



Robusta Prices rose to all-time high



Source: Industry

Raw Material Sourcing

The main raw material used in manufacturing instant coffee is green coffee beans. Approximate conversion factor, i.e. amount of green coffee beans required to manufacture instant coffee, stands at 1.6 i.e. 1.6 kg of coffee beans are required to manufacture 1 kg of instant coffee. World production of green coffee is split between Arabica beans (60%) and Robusta beans (40%). According to information from the International Coffee Organization (ICO), the leading countries in the production of Arabica green coffee are Brazil, Colombia and Ethiopia; and the leading countries in the production of Robusta green coffee are Vietnam, Brazil and Indonesia. Green coffee is a commodity traded on world exchange and hence its prices are more transparent like any other globally traded commodity. The price of green coffee is affected by supply (weather, trading restrictions, etc.) and demand, as well as macroeconomic conditions. In 2022, Arabic and Robusta prices remained high following the uptrend that began in the second half of 2021 following the freak frost event in Brazil, which extensively damaged Arabica plantations. Commencing in the fourth quarter, prices began to fall from their 2022 peak levels, with the drop occurring mainly in Arabica.

Instant coffee manufacturing process

Green Coffee Beans

- Green Coffee beans are seeds from coffee fruits obtained after removing the pulp.
- Coffee beans are stored in silos for further processing.

Cleaning and blending

- Green Coffee beans are cleaned and impurities such as defective beans, dust particles, dirt, nails and stones are removed.
- Differentiated blends are created based on customer requirements.

Roasting

- Roasting process is the critical step which decides aroma and flavor.
- CCL has two roasters (India Plant) which roast - 500 kg of beans in 12-13 minutes.

Grinding

- Roasted beans obtained after the roasting process are sent for grinding.

Extraction

- Extraction is a continued process in a pressurized vessel where grounded beans are mixed with hot water.
- Extraction influenced by factors, such as type of green coffee bean, degree of roast, type of grind and ratio of coffee to water.

Centrifuge / Clarification

- Extracted solution is passed through centrifugal clarifier so as to separate insoluble solids

Evaporator

- Extract obtained from the above steps is passed through evaporators to obtain the thickened concentrate
- Concentrate obtained from the step further goes though two processes to obtain spray dried and freeze-dried coffee

Source: Company, LKP Research

Freeze dried coffee manufacturing process

Units

- Concentrated coffee obtained from evaporators is converted into instant coffee powder by freeze drying.
- CCL has two units for freeze drying coffee.
- One unit is batch and other is continuous

Freezing

- Coffee is freezed during this step at -50 degrees centigrade in a blast freezer.

Milling

- Sizing frozen coffee particles into granules

Drying

- Frozen coffee granules are dried to make sure there is no moisture.

Source: Company, LKP Research

Spray dried coffee manufacturing process

Source: Company, LKP Research

Products

Instant Coffee

Premium Coffee

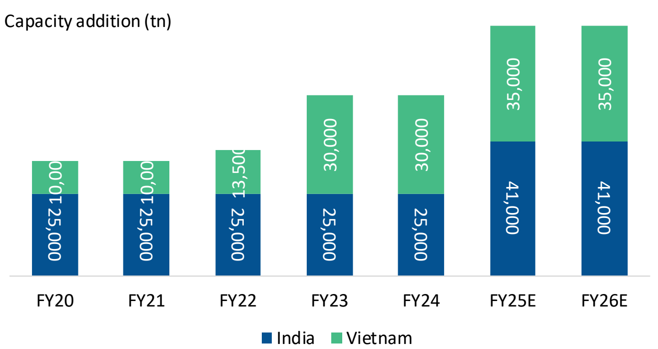
Roast & Ground Coffee

Premix Coffee

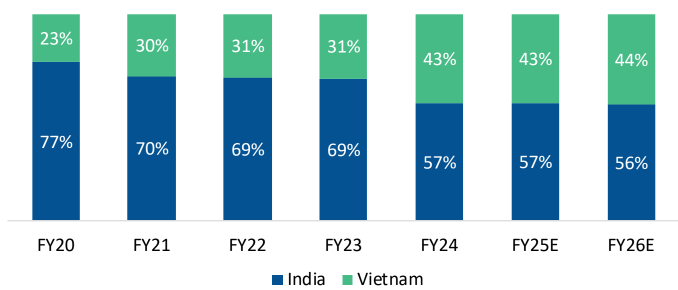
Flavoured Coffee

Source: Company, LKP Research

Capacity addition

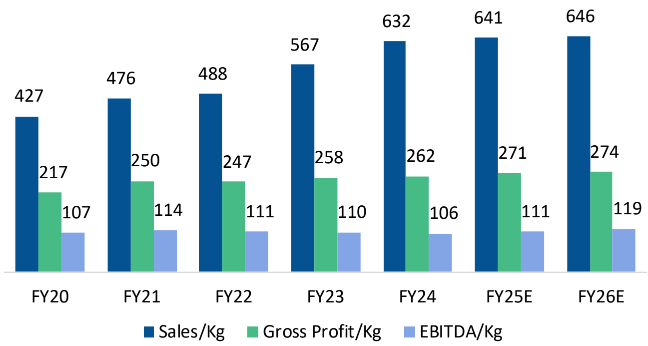


Segment Breakup

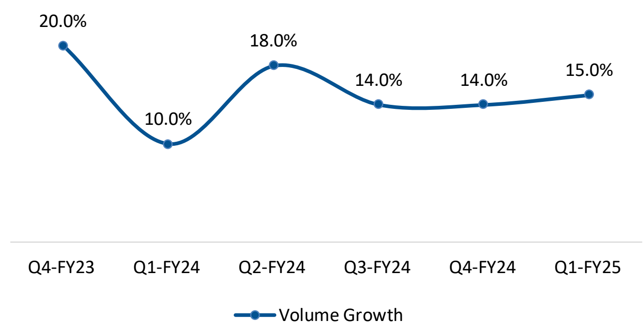


Source: Company, LKP Research

Per/Kg Assumptions



Volume growth trend



Source: Company, LKP Research

Valuation & Outlook

CCL has been consistent in performance despite severe volatility in coffee prices, intense competition, supply chain disruptions etc. It has maintained its volume growth trajectory and profitability on a per kilo basis. The supply chain disruptions across the globe has forced several coffee companies globally to diversify their supplies and therefore are seeking to acquire new alliances with manufacturers having global presence like CCL.

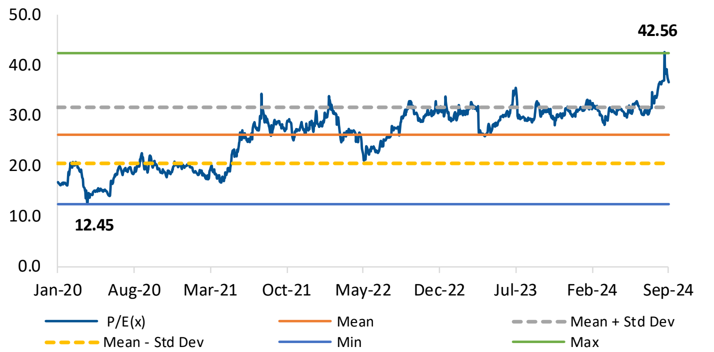
Rising coffee prices may present challenges for global market growth, but they also offer a potential shift from out-of-home to in-house coffee consumption, benefiting the instant coffee industry. Millennials and Gen Z are driving innovation, with preferences evolving towards convenience-focused products like ready-to-drink coffee, pods, and app-based ordering. Additionally, the upcoming EU Deforestation Regulations (EUDR) from December 2024 emphasize sustainability and ethical sourcing, aligning with the growing consumer demand for socially responsible brands. The coffee market is poised for continued growth, driven by expanding consumption in emerging markets, premiumization, and a rising preference for organic and fair trade products.

We believe CCL will continue to clock mid-teens volume growth going ahead owing to a) doubling of capacity from 38,500 MT in FY22 to ~77,000 MT by FY25 across Vietnam and India in its value-added products especially Freeze Dried Coffee and small packs b) addition of high margin products like speciality coffee (5% of sales) c) cost-efficient business model. Furthermore, it is looking to invest more in the UK and US markets to expand further. The company targets a 15% global market share in the next few years. We Initiate coverage on CCL Products Ltd with a '**BUY**' rating and a TP of ₹881 at a PE of 27x of FY26 EPS of ₹32. We expect CCL to post a Revenue/ EBITDA/PAT CAGR of 19%/25%/31% respectively over FY24-26E.

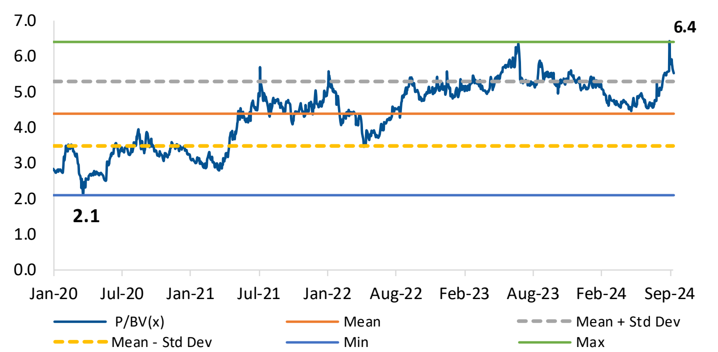
Key Risks

- Lower-than-expected ramp-up in the scale of operations
- Backward integration by clients of CCL
- Severe weather conditions in India & Vietnam can impact production

P/E(x) mean and standard deviation



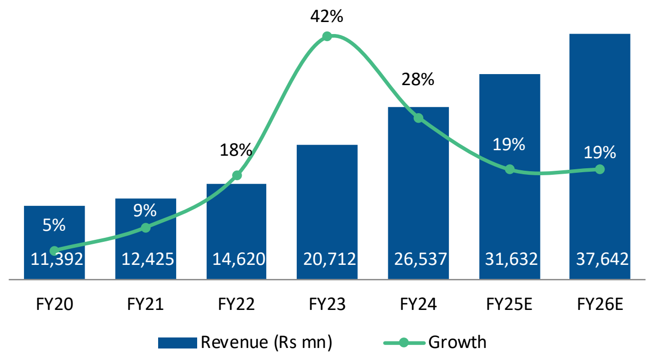
P/BV(x) mean and standard deviation



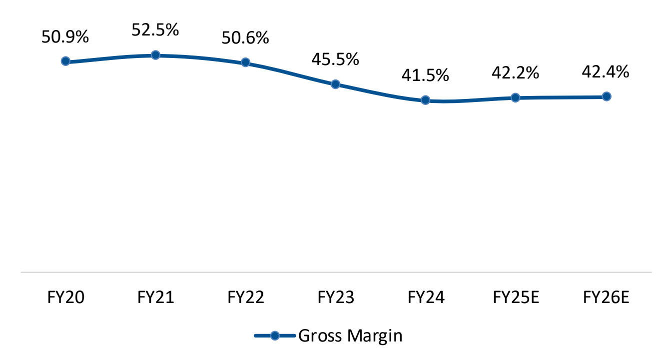
Source: ACE Equity, LKP Research

Financial Charts

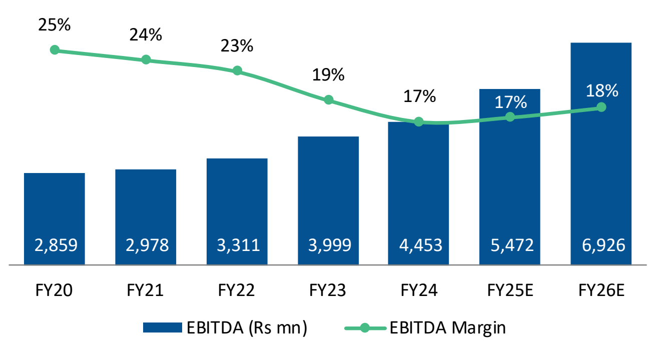
Revenue Trend



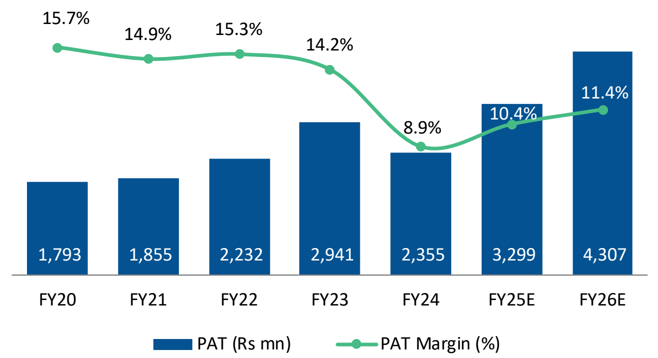
Gross Margin Trend



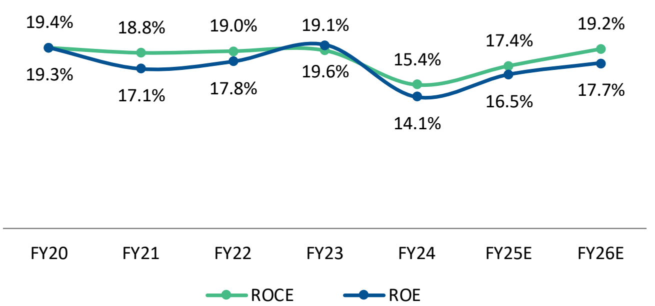
EBITDA and Margin Trend



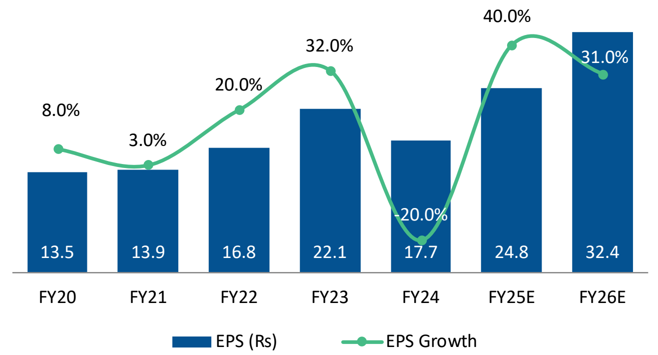
PAT & PAT margin trend



ROE & ROCE trend



EPS Growth Trend



Source: Company, LKP Research

Income Statement

(₹ mn)	FY 23	FY 24	FY 25E	FY 26E
Revenue	**20,712**	**26,537**	**31,632**	**37,642**
Raw Material Cost	11,296	15,520	18,283	21,682
Employee Cost	1,135	1,456	1,835	2,070
Other Exp	4,283	5,108	6,042	6,964
EBITDA	**3,999**	**4,453**	**5,472**	**6,926**
EBITDA Margin(%)	19.3%	16.8%	17.3%	18.4%
Depreciation	637	977	967	1,120
EBIT	**3,361**	**3,476**	**4,505**	**5,806**
EBIT Margin(%)	16.2%	13.1%	14.2%	15.4%
Other Income	33	63	76	91
Interest	344	777	874	946
Exceptional items	**0**	**0**	**0**	**0**
Reported PBT	**3,050**	**2,762**	**3,707**	**4,951**
RPBT Margin(%)	14.7%	10.4%	11.7%	13.2%
Tax	361	262	408	644
PAT	2,689	2,501	3,299	4,307
PAT Margins (%)	**13.0%**	**9.4%**	**10.4%**	**11.4%**
Other comprehensive income/(loss)	252	-146	0	0
Rep PAT	2,437	2,647	3,299	4,307
RPAT Margins (%)	**11.8%**	**10.0%**	**10.4%**	**11.4%**

Key Ratios

YE Mar	FY 23	FY 24	FY 25E	FY 26E
Per Share Data (Rs)				
Adj. EPS	22.1	17.7	24.8	32.4
CEPS	26.9	25.0	32.1	40.8
BVPS	112.6	125.8	150.6	183.0
Growth Ratios(%)				
Revenue	41.7%	28.1%	19.2%	19.0%
EBITDA	20.8%	11.4%	22.9%	26.6%
EBIT	22.9%	3.4%	29.6%	28.9%
Adj.PAT	31.8%	-19.9%	40.1%	30.5%
Valuation Ratios (X)				
PE	32.3	40.3	28.8	22.1
P/CEPS	26.5	28.5	22.3	17.5
P/BV	6.3	5.7	4.7	3.9
EV/Sales	5.0	4.1	3.4	2.8
EV/EBITDA	25.8	24.6	19.9	15.4
Operating Ratios (Days)				
Inventory days	313.3	107.0	100.0	95.0
Receivable Days	239.1	67.4	70.0	75.0
Payables day	40.0	13.5	14.0	14.0
Debt to Equity (x)	0.61	0.97	0.91	0.81
Performance Ratios (%)				
AROA (%)	11.3%	6.7%	8.1%	9.3%
AROE (%)	19.6%	14.1%	16.5%	17.7%
AROCE (%)	19.1%	15.4%	17.4%	19.2%
Asset Turnover(x)	0.42	1.57	1.44	1.54
Inventory Turnover(x)	3.6	3.4	3.8	4.4

Balance Sheet

(₹ mn)	FY 23	FY 24	FY 25E	FY 26E
Equity and Liabilities				
Equity Share Capital	266	266	266	266
Reserves & Surplus	14,707	16,472	19,772	24,079
Total Networth	**14,973**	**16,738**	**20,038**	**24,345**
Long term Borrowings	2,008	5,186	5,186	5,186
Deferred tax liability	588	620	599	616
Other Non-Current liabilities	50	43	43	43
Total non-current liab & provs	**2,647**	**5,849**	**5,829**	**5,845**
Current Liabilities				
Short term Borrow & Provs	7,194	11,076	13,092	14,596
Trade Payables	738	997	1,156	1,271
Other current liabilities	417	698	624	429
Total current liab and provs	8,350	12,772	14,872	16,297
Total Equity & Liabilities	**25,969**	**35,359**	**40,739**	**46,488**
Assets				
Gross block	**15,959**	**16,902**	**20,640**	**21,230**
Net block	12,537	12,502	15,274	15,710
Capital WIP	540	5,011	3,511	3,511
Other non current assets	420	436	529	544
Total fixed assets	**13,497**	**17,948**	**19,313**	**19,764**
Inventories	5,783	7,884	8,256	8,627
Trade receivables	4,414	4,968	5,779	6,811
Cash & Bank Balance	834	1,698	4,096	7,752
Other current assets	1,441	2,860	3,294	3,533
Total current Assets	**12,472**	**17,411**	**21,426**	**26,724**
Total Assets	**25,969**	**35,359**	**40,739**	**46,488**

Cash Flow

(₹ mn)	FY 23	FY 24	FY 25E	FY 26E
PBT	3,050	2,762	3,707	4,951
Depreciation	637	977	967	1,120
Interest	344	777	874	946
Other Adjustments	907	1,677	1,841	2,066
Operating CF before WC changes	4,938	6,193	7,389	9,083
Changes in working capital	-1,874	-3,596	-1,769	-1,574
Tax paid	-350	-290	-408	-644
Cash flow from operations (a)	**1,733**	**554**	**3,372**	**4,800**
Capital expenditure	-3,323	-5,133	-2,771	-436
Other investing activities	1	-4	-	-
Cash flow from investing (b)	**-3,321**	**-5,136**	**-2,771**	**-436**
Free cash flow (a+b)	**-1,589**	**-4,583**	**601**	**4,363**
Proceeds from LT borrow.	778	4,090	-	-
Proceeds/Repayment of ST borrow.	1,875	2,957	2,000	1,500
Other flows in financing activities	-1,017	-1,462	-195	-1,136
Cash flow from financing (c)	**1,636**	**5,585**	**1,805**	**364**
Net chng in cash (a+b+c)	**48**	**1,003**	**2,405**	**4,728**
Closing cash & cash equivalents	**826**	**1,691**	**4,096**	**7,752**

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