

Jyothy Labs

Keeping the faith alive

JYL's 2QFY25 results were below our expectations, owing to broad-based performance slowdown across segments. Volume growth of 3% was a bit disappointing and management alluded subdued performance to floods in South India (40% of Jyothy's sales). However, volume growth has bounced back in September and the company is gunning for mid to high single digit volume growth in 2HFY25 on account of enhanced focus on increasing direct reach, pushing LUP in low market share markets. We expect JYL to see 8% volume growth in 2HFY25, which shall be far better than mid-tier consumer companies.

- 2QFY25 result summary:** Jyothy Labs' 2QFY25 results were actually a mixed bag—although company disappointed on volume growth front, but operating margin expansion came in as surprise. Gross margin expanded c100bps to c50.2% YoY despite price correction undertaken in selected SKU owing to moderation in the RM index and improved product mix. Notwithstanding higher ad spends (up 6% YoY), EBITDA margin expanded c40bps YoY only to 18.9% owing to a sharp cut in operating overheads (down 3% YoY). Management guided for EBITDA margin to be upwards of 17%+ in FY25 despite delivering EBITDA margin of 18.5% in 1HFY25
- Valuation and outlook:** We cut our EPS estimates by 5-6% for FY25-26 to account for consumer slowdown and maintain Jyothy Labs (JYL) as a high conviction BUY idea, with a TP of Rs 600, (42x Dec-26 EPS), as it is one of the few FMCG companies structurally poised for high single-digit volume growth, low-teen EBITDA growth, and mid-teen net income growth. We pencil in revenue/EBITDA/PAT CAGRs of 9/12/14% for FY24-27, the second-highest amongst our coverage of consumer staple companies. Our confidence stems from several factors: (a) JYL operates in categories with a higher Total Addressable Market and, despite being a challenger brand, is capturing market share by making its product portfolio comprehensive, launching low unit packs, communicating product superiority versus the competition, and providing value-for-money offerings; (b) under its new leadership, JYL has mastered the fundamentals of FMCG with initiatives such as i) increasing the distribution network while improving productivity; ii) shifting marketing spend from Below the Line (BTL) to Above the Line (ATL); and iii) focusing on low unit packs across the product portfolio to align with its objectives; (c) competent key management personnel are ensuring the smooth execution of this strategy, a significant improvement over the previous management, which was more focused on M&A transactions.

Quarterly/annual financial summary

(INR mn)	2QFY25	2QFY24	YoY (%)	1QFY25	QoQ (%)	FY24	FY25E	FY26E	FY27E
Net Sales	7,338	7,323	0.2	7,418	(1.1)	27,550	29,084	32,041	35,305
EBITDA	1,385	1,354	2.3	1,335	3.7	4,798	5,220	5,959	6,764
APAT	1,050	1,040	1.0	1,017	3.3	3,693	4,081	4,719	5,454
Diluted EPS (Rs)	2.9	2.8	1.0	2.8	3.3	10.1	11.1	12.8	14.9
P/E (x)						47.5	43.0	37.2	32.2
EV/EBITDA (x)						36.2	32.8	28.2	24.3
Core RoCE (%)						21.2	20.7	23.8	27.2

Source: Company, HSIE Research

BUY

CMP (as on 12 Nov 2024)	INR 441	
Target Price	INR 600	
NIFTY	23,883	
KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 600	INR 600
EPS %	FY25E	FY26E
	-5.3%	-6.3%

KEY STOCK DATA

Bloomberg code	JYL IN
No. of Shares (mn)	367
MCap (INR bn) / (\$ mn)	162/1,920
6m avg traded value (INR mn)	540
52 Week high / low	INR 596/367

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(21.3)	(4.1)	5.3
Relative (%)	(20.1)	(12.4)	(15.2)

SHAREHOLDING PATTERN (%)

	Jun-24	Sep-24
Promoters	62.89	62.89
FIs & Local MFs	14.36	15.27
FPIs	15.10	15.10
Public & Others	7.39	6.74
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

Vishal Gutka

vishal.gutka@hdfcsec.com

+91-22-6171-7324

2QFY25 con call takeaways

Business Outlook

- Focus on driving volume-led high single revenue growth in FY25 1) with a specific focus on rural areas and 2) distribution expansion program. Moreover, the company has taken price correction to pass on the benefits of benign input costs across dishwashing/fabric care categories in the wake of increased competitive intensity and to drive up volume growth.
- Management expects operating margins to hover around 16-17% in FY25 with an upward bias. Moreover, the margin profile shall further improve in the medium term owing to the improved scale of operations and reduced losses from household insecticides.
- Ad spends to inch up from the current 8.3% of sales in FY24, as it plans to further strengthen brand equity across categories.
- NPD calendar shall accelerate from CY25 onwards;

Fabric Care (43% of sales)

Fabric care revenue remained flattish on account of broad based slowdown across sub-segments. During 2Q, it also expanded its liquid detergent line to include the Mr. White brand, reinforcing its commitment to innovation and offering products at varied price points to meet diverse consumer needs.

- **Ujala IDD** – achieved a market share of 23.9% in 2QFY25 the company is taking the following initiatives to ramp-up its growth;
 1. sustaining multimedia campaign featuring Manju Warrior,
 2. enhancing consumer engagement through on-ground collaborations,
 3. continued emphasis in the digital medium to create awareness about the benefits of the product.
 4. Expanding distribution reach from Tamil Nadu, Kerala, West Bengal to Pan-India basis
- **Ujala Whitener:** 84% market share; Strategy to drive growth – a) Driving trials amongst non-users; b) Winning market share amongst low-cost blues and arrest lapses; c) Increased emphasis on digital medium to increase user awareness and d) recently hired Vidya Balan as new brand ambassador
- **Henko:**
 1. Sustained multimedia campaign for Henko Matic featuring Kajal Aggarwal in key markets.
 2. Henko Stain Care Liquid Detergent was launched in a strategically planned bulk pack exclusively for the e-commerce platform. The brand expanded to the East and Central zones along with sampling in premium locations across Delhi-NCR.

BTL brands

Morelight and Mr White are doing sales of more than Rs2bn+ on an annualised basis, with specific emphasis put on rural areas, as they are more value-for-money brands.

- **Mr. White:** Launched Mr. White liquid detergent through major newspapers to increase brand awareness for Mr White in key North and East markets.
- **Morelight liquid detergent** is focused on the conversion of consumption from powder detergent to liquid detergent. Priced to attract the low-income group/mid-

income group to swap from powder detergent to liquid (priced 5 ltr bulk pack at Rs 350 i.e Rs 70 / per ltr). Our checks indicate Jyothy has recently introduced 1 Ltr pack for INR 99 for general trade channel and is receiving good response for the same

Dishwashing (34% of sales)

- Dishwashing segment revenue grew 1% YoY with sustained brand investments and promotions of low-unit packs (LUPs).
- Jyothy Labs has intensified its efforts in brand promotion, focusing on high-demand LUPs, which offer greater accessibility to consumers across various demographics.
- **Exo Dishwashing bar:** The management has indicated their focus to gain market share through trials in under-penetrated markets. Continues to do well on the back of decent traction in LUP (Rs 10 price point), focused drive in MT channel (especially recent angle format), emphasis on combo packs (Steel + Green) – which is helping recruit new customers.
- **Pril dishwashing liquid:** However, the brand continued to excel in the modern trade and e-commerce channels through larger SKUs. along with a focused drive on offline stores
- **Premiumization:** Pril Tamarind (premium variant), owing to superior delivery has been able to grow quickly. As of now, it contributes to c10% of brand sales. Moreover, large packs have now started contributing meaningfully to overall sales through the MT channel.

HI (8% of sales)

- Household Insecticides remained flat YoY. However, losses reduced substantially owing to improved product mix i.e. higher share of liquid vaporizer. Mgmt stated that to improve profitability, the contribution from liquids shall move to 50-60% of overall sales vs 35-40% of overall sales as of now. Moreover, electrification efforts taken by govt in the states of UP, Bihar and West Bengal shall further support the cause of increased salience of liquids portfolio, since JYL has a much higher market share in these markets.
- **Maxo Coil:** The brand lost 80 bps of market share QoQ to 24%, the sales were impacted owing to a shift in consumer preference toward incense sticks.
- **Maxo liquid vaporizer:** Reported robust double-digit growth in liquids owing to the action plan mentioned in earlier quarters paying off. Growth revival strategy; a) change in brand ambassador from Rajkumar Rao to Kareena Khan shall support growth, as she will be portrayed as a mother who takes care of the entire family; b) emphasis on the “Our machine fits all re-fills” campaign, etc.

Personal care (11% of sales)

- Personal care business declined 4% YoY given elevated base (grew 22% YoY in 2QFY24).
- The management is increasing focus on Margo Neem Naturals to enhance brand visibility and contribution by targeting non-core users of Margo.
- Management intends to take price hikes in 3QFY25 in order to combat palm oil inflation

Overall

- The focus remains on deepening distribution networks in rural markets and expanding direct retail presence
- Direct reach – 1.2 mn; plans to add 100,000 outlets every year
- The focus is on building laundry service more profitably; as of now it is breaking even
- MT + E-commerce contributes c15% of sales vs 10% of sales, 3 years prior.
- Revenue mix: South – 40%; Non- South – 60%
- Liquid detergent growing at 40-50% on per annum basis and in order to capture such high growth rate, idea is to be present across every possible price point, so that it can attract larger audience

Segmental Summary

Segment Revenue	2QFY24	2QFY25	% YoY	1QFY25
Fabric care	3,166	3,168	0.1	3,228
Dishwash	2,507	2,540	1.3	2,480
HI	450	451	0.3	503
Personal care	896	856	-4.5	933
Other	304	323	6.1	274
Total	7,323	7,338	0.2	7,418
Segment EBIT				
Fabric care	828	789	-4.6	802
Dishwash	523	484	-7.5	495
HI	(79)	(43)	-45.9	(54)
Personal care	98	116	18.5	103
Other	1	24	4,720.0	(5)
Total	1,370	1,371	0.0	1,341
Segment EBIT Margin				
Fabric care	26.1	24.9	-123bps	24.9
Dishwash	20.9	19.1	-181bps	20.0
HI	(17.6)	(9.5)	810bps	(10.8)
Personal care	10.9	13.6	263bps	11.0
Other	0.2	7.5	730bps	(1.6)
Total	18.7	18.7	-3bps	18.1

Source: Company, HSIE Research

Consolidated P&L

(INR mn)	FY23	FY24	FY25E	FY26E	FY27E
Net Revenues	24,842	27,550	29,084	32,041	35,305
Growth (%)	13.2	10.9	5.6	10.2	10.2
Material Expenses	14,349	14,038	14,600	15,987	17,506
Employee Expense	2,644	3,005	3,216	3,473	3,785
Other Expenses	4,709	5,728	6,071	6,648	7,280
EBITDA	3,159	4,798	5,220	5,959	6,764
EBITDA Growth (%)	27.3	51.9	8.8	14.2	13.5
EBITDA Margin (%)	12.7	17.4	17.9	18.6	19.2
Depreciation	501	500	555	604	653
EBIT	2,657	4,298	4,664	5,355	6,111
Other Income	396	537	618	741	927
Interest	131	47	50	47	45
PBT	2,922	4,788	5,232	6,049	6,993
Tax	595	1,095	1,151	1,331	1,538
Profit from minority/associates	0	0	-	-	-
RPAT	2,398	3,693	4,081	4,719	5,454
Adjustment	70	-	-	-	-
Adjusted PAT	2,327	3,693	4,081	4,719	5,454
APAT Growth (%)	43.7	58.7	10.5	15.6	15.6
Adjusted EPS	6.3	10.1	11.1	12.8	14.9
EPS Growth (%)	43.7	58.7	10.5	15.6	15.6

Source: Company, HSIE Research

Consolidated Balance Sheet

(INR mn)	FY23	FY24	FY25E	FY26E	FY27E
SOURCES OF FUNDS					
Share Capital - Equity	367	367	367	367	367
Reserves	15,123	17,716	20,369	23,436	26,981
Total Shareholders Funds	15,490	18,083	20,736	23,803	27,348
Minority Interest	21	19	19	19	19
Long Term Debt	-	-	-	-	-
Short Term Debt	-	-	-	-	-
Total Debt	-	-	-	-	-
Net Deferred Taxes	(845)	(594)	(594)	(594)	(594)
Other Non-current Liabilities & Provns	1,044	1,102	1,102	1,102	1,102
TOTAL SOURCES OF FUNDS	15,709	18,610	21,262	24,329	27,875
APPLICATION OF FUNDS					
Net Block	11,163	11,253	11,197	11,093	10,940
CWIP	155	134	134	134	134
Other Non Current Assets	703	637	637	637	637
Total Non-current Assets	12,021	12,023	11,968	11,863	11,710
Inventories	3,019	2,835	3,028	3,336	3,676
Debtors	1,378	2,014	1,992	2,019	2,128
Other Current Assets	520	4,882	4,882	4,882	4,882
Cash & Equivalents	2,835	1,661	4,226	7,346	10,908
Total Current Assets	7,751	11,392	14,128	17,583	21,594
Creditors	2,143	2,761	2,789	3,072	3,385
Other Current Liabilities & Provns	1,920	2,044	2,045	2,045	2,045
Total Current Liabilities	4,064	4,805	4,833	5,117	5,430
Net Current Assets	3,688	6,587	9,295	12,466	16,164
TOTAL APPLICATION OF FUNDS	15,709	18,610	21,262	24,329	27,875

Source: Company, HSIE Research

Consolidated Cash Flow

(INR mn)	FY23	FY24	FY25E	FY26E	FY27E
Reported PBT	2,992	4,788	5,232	6,049	6,993
Non-operating & EO Items	(281)	(350)	-	-	-
Interest Expenses	131	47	-	-	-
Depreciation	501	500	555	604	653
Working Capital Change	509	387	(143)	(51)	(136)
Tax Paid	(567)	(793)	(1,151)	(1,331)	(1,538)
OPERATING CASH FLOW (a)	3,286	4,579	4,494	5,271	5,972
Capex	(355)	(371)	(500)	(500)	(500)
Free Cash Flow (FCF)	2,931	4,208	3,994	4,771	5,472
Investments	(433)	(3,512)	-	-	-
Non-operating Income	304	440	-	-	-
INVESTING CASH FLOW (b)	(483)	(3,444)	(500)	(500)	(500)
Debt Issuance/(Repaid)	(1,250)	-	-	-	-
Interest Expenses	(104)	-	-	-	-
FCFE	4,157	1,136	3,994	4,771	5,472
Share Capital Issuance	-	-	-	-	-
Dividend	(918)	(1,102)	(1,428)	(1,652)	(1,909)
Others	(235)	(247)	-	-	-
FINANCING CASH FLOW (c)	(2,507)	(1,348)	(1,428)	(1,652)	(1,909)
NET CASH FLOW (a+b+c)	296	(213)	2,565	3,120	3,563
EO Items, Others	-	-	-	-	-
Closing Cash & Equivalents	1,073	861	3,426	6,546	10,109

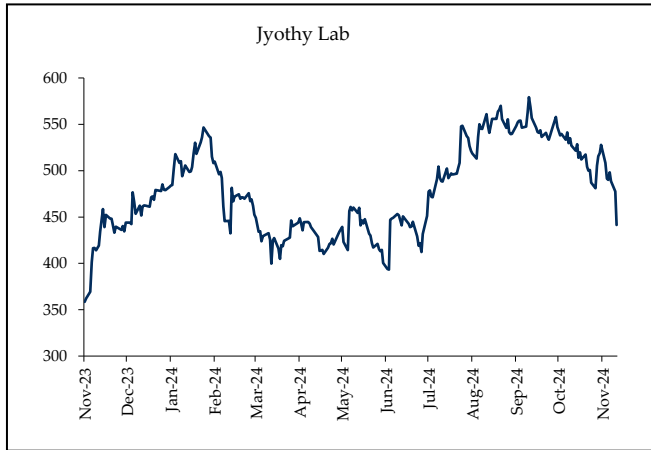
Source: Company, HSIE Research

Ratios

KEY RATIOS	FY23	FY24	FY25E	FY26E	FY27E
PROFITABILITY (%)					
GPM	42.3	49.1	49.9	50.2	50.5
EBITDA Margin	12.7	17.4	17.9	18.6	19.2
EBIT Margin	10.7	15.6	16.0	16.7	17.3
APAT Margin	9.4	13.4	14.0	14.7	15.4
RoE	15.6	22.0	21.0	21.2	21.3
RoIC (or Core RoCE)	15.0	21.2	20.7	23.8	27.2
RoCE	14.6	20.9	20.1	20.3	20.6
EFFICIENCY					
Tax Rate (%)	20.4	22.9	22.0	22.0	22.0
Fixed Asset Turnover (x)	4.91	5.30	5.11	5.17	5.27
Inventory (days)	44.4	37.6	38.0	38.0	38.0
Debtors (days)	20.2	26.7	25.0	23.0	22.0
Other Current Assets (days)	7.6	64.7	61.3	55.6	50.5
Payables (days)	31.5	36.6	35.0	35.0	35.0
Other Current Liab & Provns (days)	28.2	27.1	25.7	23.3	21.1
Cash Conversion Cycle (days)	12.5	65.3	63.6	58.3	54.3
Net D/E (x)	(0.2)	(0.1)	(0.2)	(0.3)	(0.4)
Interest Coverage (x)	20.3	90.9	93.9	113.5	136.3
PER SHARE DATA (Rs)					
EPS	6.3	10.1	11.1	12.8	14.9
CEPS	7.7	11.4	12.6	14.5	16.6
Dividend	3.0	3.5	3.9	4.5	5.2
Book Value	42.2	49.2	56.5	64.8	74.5
VALUATION					
P/E (x)	75.4	47.5	43.0	37.2	32.2
P/BV (x)	11.3	9.7	8.5	7.4	6.4
EV/EBITDA (x)	54.6	36.2	32.8	28.2	24.3
EV/Revenues (x)	6.9	6.3	5.9	5.2	4.7
OCF/EV (%)	1.9	2.6	2.6	3.1	3.6
FCF/EV (%)	2.4	0.7	2.3	2.8	3.3
FCFE/Mkt Cap (%)	2.4	0.6	2.3	2.7	3.1
Dividend Yield (%)	0.6	0.7	0.8	0.9	1.1

Source: Company, HSIE Research

1 Yr Price Movement



Rating Criteria

- BUY: >+15% return potential
- ADD: +5% to +15% return potential
- REDUCE: -10% to +5% return potential
- SELL: > 10% Downside return potential

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HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066

Compliance Officer: Murli V Karkera Email: complianceofficer@hdfcsec.com Phone: (022) 3045 3600

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Unit No. 1602, 16th Floor, Tower A, Peninsula Business Park,

Senapati Bapat Marg, Lower Parel, Mumbai - 400 013

Board: +91-22-6171-7330 www.hdfcsec.com