

Stock Update

Sunshine ahead: Performance to improve in H2FY2018

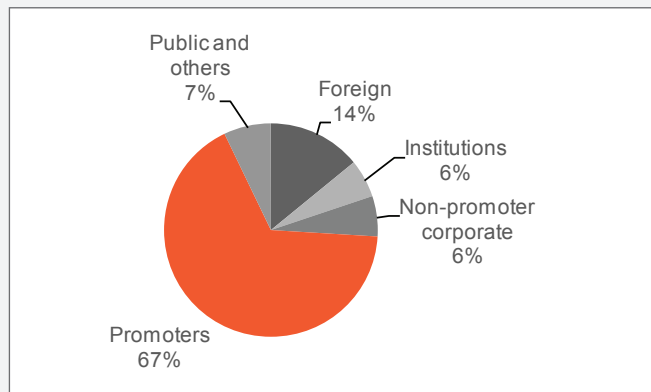
Jyothy Laboratories

Reco: Buy | CMP: Rs390

Company details

Price target:	Rs435
Market cap:	Rs7,086 cr
52-week high/low:	Rs427/281
NSE volume: (No of shares)	1.5 lakh
BSE code:	532926
NSE code:	JYOTHYLAB
Sharekhan code:	JYOTHYLAB
Free float: (No of shares)	6.0 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	7.2	-2.8	9.5	33.9
Relative to Sensex	1.7	-11.1	-5.7	13.9

Key points

- Q1FY2018 performance marred by GST led de-stocking:** Like other FMCG companies, Jyothy Laboratories Ltd (JLL) performance for Q1FY2018 was marred by GST led de-stocking undertaken by various trade channels in the month of June 2017. The consolidated revenues declined by 14.8% to Rs385.8 crore with its key categories such as Fabric Whitener, Dishwash and household insecticide witnessing a dip of 15-20% in sales. The overall sales volume declined by 17% during the quarter. The gross margins improved by 261BPS yoy to 50.3% mainly on account of price hikes undertaken in FY2017. Higher advertisement spend and other fixed costs led to a 694BPS decline in OPM to 10.9% in Q1FY2018. The operating profit and the PAT was down by 47.9%yoy and 47.7%yoy respectively during the quarter.
- Outlook – 10-12 % revenue growth for the rest of the fiscal and OPM likely to be maintained in the range of 15-16%:** JLL's management has indicated that with South India and west India recovering, about sixty percent of the business has attained normalcy. Billing with the canteen store department has resumed and modern trade is also back in trade post the negotiation on trade margin front. It expects revenues to grow in high single in Q2FY2018 and expect it to improve to 10-12% in H2FY2018. The gross margins at consolidated levels are expected to sustain at about 50% and the OPM will be maintained in the range of 15-16%.
- Regional benefits to mark early recovery; Retain Buy:** We have reduced our earnings estimates for FY2018 and FY2019 by 6% and 2% to factor in the below par performance in Q1FY2018. JLL has a strong portfolio of brands, which can be key revenue drivers in a normal business environment. Further, the company will be one of the key beneficiaries of improvement in demand in the rural India. The stock is currently trading at discounted valuation 28.3x its FY2019E earnings to some of the large FMCG stocks. Thus in view of future growth prospects and decent valuations, we maintain our Buy recommendation on the stock with the unchanged price target of Rs435.

Valuation (Consolidated)				Rs cr
Particulars	FY16	FY17	FY18E	FY19E
Net sales	1659.5	1749.1	1873.2	2216.3
Operating profit	222.1	254.4	278.6	335.1
Adjusted PAT	73.8	204.1	260.1	250.0
EPS (Rs.)	4.3	11.3	14.3	13.8
OPM (%)	13.4	14.5	14.9	15.1
PE (x)	91.5	34.5	27.2	28.3
EV/EBIDTA (x)	34.1	29.5	26.5	21.3
RoE (%)	8.8	20.5	22.0	18.4
RoCE (%)	14.8	16.5	17.3	21.2

Result (Consolidated)					Rs cr
Particulars	Q1FY18	Q1FY17	YoY%	Q4FY17	QoQ%
Total Revenues	385.8	452.9	-14.8	446.2	-13.5
Total expenditure	343.7	372.0	-7.6	385.6	-10.9
Operating profit	42.2	80.9	-47.9	60.6	-30.5
Other income	2.1	2.9	-26.3	2.1	0.0
Depreciation	7.8	7.1	9.9	8.3	-6.5
Interest cost	10.1	15.7	-36.0	9.9	1.6
PBT	26.5	61.0	-56.7	44.6	-40.6
Tax	2.2	14.6	-85.2	-62.9	-103.5
Reported PAT	24.3	47.4	-48.7	107.4	-77.4
EPS (Rs.)	1.3	2.6	-47.7	5.9	-77.4
Gross margins (%)	50.3	47.7	261BPS	43.9	-
OPM(%)	10.9	17.9	(694) BPS	13.6	(266) BPS

Other key highlights

- ◆ **Issue with Kerala wholesalers association resolved; business to get back to normalcy:** Kerala is amongst the top markets for Jyothy (contributing 17% of general trade business). The All Kerala Distributors Association (AKDA) claimed an increase in their cost of business after the implementation of GST for demanding a higher margin. AKDA issued a diktat to all members in the first week of June to stop purchase. These distributors under their association unilaterally decided on up-charging — increasing their selling price to retailers — as a condition to resume billing. The distributors were demanding an increase in margins, which would be ultimately detrimental to consumers. This issue resulted in sales loss of Rs40 crore to Jyothy during Q1FY2018, but is now getting back to normalcy.
- ◆ **Most of the categories/brands in portfolio saw double digit dip:**
 - ◆ The fabric care category de-grew by 15.1% to Rs. 175.8 crore. All the products under this category declined due to the de-stocking

effect. Ujala Fabric Whitener, having pan India presence was down by 12.6% YoY, Ujala Fabric Stiffener which is available only in Kerala and Tamil Nadu was down by 45.2% YoY and Ujala Detergent which is available only in Kerala was down by 34.4% YoY.

- ◆ In the premium laundry segment, the Henko franchisee de-grew by 5.7% to Rs. 46.2 crore. The contribution from Modern Trade is higher in this product and hence the decline in sales was lesser than the other categories.
- ◆ The dish wash category recorded de-growth of 14.2% YoY to Rs. 115 crore. The Exo franchisee was down by 16.8% to Rs. 84.2 crore while Pril was down by 5.7% YoY at Rs. 31.2 crore (as the brand is largely a modern trade/retail brand).
- ◆ The home insecticide category de grew by 19.2% YoY to Rs. 30.1 crore in Q1FY2018. The performance of Maxo is expected to revive due to favourable season in north and east during August/September prior to the onset of winter
- ◆ The personal care category de-grew by 18.8% YoY to Rs. 45.3 crore.

Segment-wise - revenue growth					Rs cr
Particulars	Q1FY18	Q1FY17	YoY%	Q4FY17	QoQ%
Fabric care	175.8	207.0	-15.1	182.0	-3.4
Dish washing	115.0	134.1	-14.2	120.9	-4.9
Mosquito Repellent	30.1	37.3	-19.2	111.1	-72.9
Personal care	45.3	55.8	-18.8	33.2	36.3
Other Products	8.8	8.1	8.6	7.2	22.4
Total Consumer	375.0	442.3	-15.2	454.4	-17.5
Laundry Services	10.2	11.1	-8.4	11.3	-10.1
Total Revenues	385.0	452.6	-14.9	465.7	-17.3

Product-wise revenue growth				Rs cr
Particulars	Q1FY18	Q1FY17	YoY %	
Ujala	93.2	118.2	-21.2	
Exo	84.2	101.2	-16.8	
Maxo	30.1	37.3	-19.3	
Henko	46.2	49.0	-5.7	
Margo	40.4	49.7	-18.7	
Pril	31.2	33.1	-5.7	
Other	49.5	53.0	-6.6	
Laundry	10.2	11.1	-8.1	
Total Revenues	385.0	452.6	-14.9	

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