

Jyothy Laboratories

Result Update

JLL's 4QFY2015 highlights (Consolidated)

Y/E March (₹ cr)	4QFY16	4QFY15	% chg. (yoy)	3QFY16	% chg. (qoq)
Net Sales	445	401	11.1	385	15.6
Operating profit	63	39	60.1	51	23.1
OPM (%)	14.1	9.8	431bp	13.2	86bp
Adj. PAT	36	27	32.0	39	(8.7)

Source: Company, Angel Research

For 4QY2016, Jyothy Laboratories (JLL) reported a top-line growth of 11.1% yoy to ₹445cr. On account of lower raw material and employee expenses as a percentage of sales, the EBITDA margin expanded by 431bp yoy to 14.1%. Interest expenses declined by 83.7% yoy to ₹1cr while the tax rate was higher at 35% vs 11.4% in 4QFY2015. On account of good top-line growth and higher operating profitability, the net profit grew by 32.0% yoy to ₹36cr.

Continued focus on power brands and potential acquisitions to drive growth: JLL has a strong product portfolio post the Henkel acquisition with key brands like Henko, Margo and Pril coming under its portfolio in addition to its own successful brands like Ujala, Exo and Maxo. These power brands have been the driving factor for the company's growth. The company has relaunched some products and introduced newer products within these brands which has yielded positive results. Going forward, the company has guided for revenue target of ₹5,000cr by FY2020 and it is open to acquisitions in order to meet the target.

Henkel may potentially re-rate the stock: Effective April 2016, Henkel has an option to purchase 26% stake in JLL (the option is valid to be exercised before 31st March 2017). The promoters of JLL prefer the stake sale to materialize at a mutually agreeable valuation. We believe Henkel will likely choose to exercise the option, given the prospects of the Indian growth story. Our belief draws its basis from the fact that Henkel's agreement with Asian Paints for tapping the latter's distribution channel for promoting its consumer adhesives business ("Loctite") in India is some indication of Henkel's faith in the India growth story. We believe that JLL would then be able to fall back on Henkel to launch new products in the Indian market.

Outlook and valuation: We have switched over from valuing the company on standalone numbers to consolidated numbers. The CEO, Mr Raghunandan is stepping down from the leadership post but will make himself available for the company to figure out big-ticket acquisitions and actively participate in strategic planning. He will be replaced by Mr Rajnikant Sabnavis who was previously in charge of sales & marketing in the company and has valuable industry experience with HUL. The company has laid out an aggressive revenue target of ₹5,000cr by FY2020 which would be a monitorable as the company has indicated at scouting for suitable acquisitions. We expect the company's revenue to grow at a CAGR of 11.6% over FY2016-18E to ₹2,052cr while net profit is expected to grow at a CAGR of 7.0% over the same period to ₹181cr. At the current market price, the stock trades at 29.2x its FY2018E earnings. **We have a Neutral view on the stock.**

Key financials (Consolidated)

Y/E	Sales	OPM	PAT	EPS	RoE	P/E	P/BV	EV/EBITDA	EV/Sales
March	(₹ cr)	(%)	(₹ cr)	(₹)	(%)	(x)	(x)	(x)	(x)
FY2016	1,647	13.4	158	8.7	19.4	33.4	6.2	26.1	3.5
FY2017E	1,845	13.0	162	8.9	18.6	32.6	5.9	23.7	3.1
FY2018E	2,052	12.9	181	10.0	19.3	29.2	5.4	21.3	2.7

Source: Company, Angel Research, Note: CMP as on May 26, 2016

NEUTRAL

CMP	₹290
Target Price	-

Investment Period	-
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Stock Info

Sector	FMCG
Market Cap (₹ cr)	5,278
Net debt (₹ cr)	465
Beta	0.9
52 Week High / Low	342 / 240
Avg. Daily Volume	21,000
Face Value (₹)	1
BSE Sensex	26,654
Nifty	8,157
Reuters Code	JYOI.BO
Bloomberg Code	JLY IN

Shareholding Pattern (%)

Promoters	66.7
MF / Banks / Indian Fls	9.3
FII / NRIs / OCBs	14.5
Indian Public / Others	9.5

Abs.(%)	3m	1yr	3yr
Sensex	15.1	(3.1)	32.2
JLL	11.4	9.0	57.8

3 year price chart



Source: Company, Angel Research

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Exhibit 1: 4QFY2014 – JLL's Performance highlights (Consolidated)

Y/E March (₹ cr)	4QFY16	4QFY15	% chg. (yoy)	3QFY16	% chg. (qoq)	FY2016	FY2015	% chg
Net Sales	445	401	11.1	385	15.6	1,647	1,515	8.7
Net raw material	223	206	8.2	183	21.6	799	777	2.8
(% of Sales)	50.0	51.3	(135)bp	47.5	248bp	48.5	51.3	(279)bp
Employee Cost	40	48	(17.7)	44	(10.1)	184	179	2.6
(% of Sales)	8.9	12.1	(312)bp	11.5	(254)bp	11.2	11.8	(66)bp
Other Expenses	120	108	11.7	107	12.3	444	395	12.2
(% of Sales)	27.0	26.8	16bp	27.8	(79)bp	26.9	26.1	85bp
Total Expenditure	383	362	5.8	334	14.4	1,426	1,352	5.5
Operating Profit	63	39	60.1	51	23.1	220	163	35.0
OPM (%)	14.1	9.8	431bp	13.2	86bp	13.4	10.8	261bp
Interest	1	3.2	(83.7)	1	(34.2)	6	14	(56.2)
Depreciation	10	8	23.4	7	35.0	31	33	(3.5)
Other Income	3	3	-	2	2.4	15	10	47.2
Extraordinary item	-	-	-	-	-	-	2	-
PBT	55	30	79.9	45	21.0	197	125	58.4
(% of Sales)	12.3	7.6	-	11.7	-	12.0	8.2	-
Tax	19	3	-	6	-	39.3	3.5	-
(% of PBT)	35.0	11.4	-	13.8	-	19.9	2.8	-
Reported PAT	36	27	32.0	39	(8.7)	158	121	30.6
Minority Interest	(0)	(0)	-	-	-	-	(0)	-
Exceptional Item	-	(2)	-	-	-	-	2	-
Adjusted PAT	36	29	23.8	39	(8.8)	158	119	32.6
PATM (%)	8.0	7.2	-	10.1	-	9.6	7.9	-

Source: Company, Angel Research

Exhibit 2: Actual vs. Angel Estimates

Y/E March (₹ cr)	4QFY16	Angel est.	% diff
Net sales	445	446	(0.2)
EBITDA	63	58	9.0
EBITDA margin (%)	14.1	12.9	119bp
Reported PAT	36	38	(6.3)

Source: Company, Angel Research

Mixed set of numbers

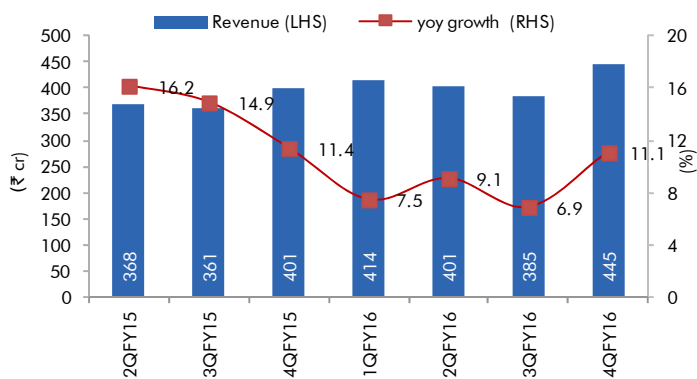
JLL reported a mixed set of numbers for 4QFY2016,. Its consolidated top-line for the quarter increased by 11.1% yoy to ₹445cr, which is in-line with our estimate of ₹446cr. The Home Care segment grew by 18.7% yoy to ₹142cr while the Soaps & Detergent segment grew by 10.1% yoy to ₹289cr. Power brands grew by 10.3% yoy with volume growth of 9.5%.

Exhibit 3: Category break-up

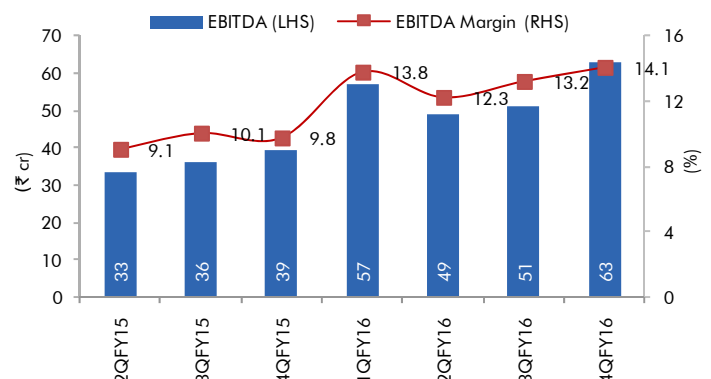
	4QFY16	4QFY15	% chg	FY2016	FY2015	% chg
Fabric Care	171	152	12.6	688	647	6.4
Dishwashing	115	103	11.6	466	417	11.8
Mosquito repellent	114	97	17.9	273	236	15.5
Personal care	28	29	(3.3)	148	141	5.1
Others	6	5	17.0	26	23	15.9
Total	434	386	12.5	1,602	1,463	9.5
Laundry Services	11	11	7.2	43	42	2.4
Grand Total	445	396	19.7	1,645	1,505	11.8

Source: Company, Angel Research

On the operating front, the company benefitted from lower input costs which declined by 135bp yoy to 50.0% of sales, thus resulting in gross margin expansion. Gross margins also expanded on account of change in sales mix. However, on a qoq basis, gross margins dipped by 248bp yoy. Employee expense declined by 312bp yoy to 8.9% of sales owing to ESOP cost write backs while other expenses were flat. The Home Care segment reported a profit of ₹10cr (vs a loss of ₹0.8cr in 4QFY2015) while the EBIT for the Soaps & Detergent segment came in at ₹53cr as against ₹42cr in 4QFY2015.

Exhibit 4: Revenue Growth


Source: Company, Angel Research

Exhibit 5: EBIDTA margin expands on lower RM cost


Source: Company, Angel Research

On account of a better operational performance, the EBIDTA margin expanded by 431bp yoy to 14.1% of sales which is higher than our estimate of 12.9%. The company's tax rate was higher at 35% in comparison to the past where it was availing benefits from the Henkel merger. As a result, the net profit after minority interest grew by 23.8% yoy to ₹36cr which is lower than our estimate of ₹38cr.

Investment arguments

Continued focus on power brands and potential acquisition to drive growth

JLL has a strong product portfolio post Henkel's acquisition with key brands added to its portfolio like Henko, Margo and Pril in addition to its own successful brands like Ujala, Exo and Maxo. These power brands have been the driving factor for the company's growth post the acquisition. The company has relaunched some products and introduced newer products within these brands which has yielded positive results. Going forward, the company has guided for a revenue target of ₹5,000cr by FY2020 and is open to acquisitions in order to meet the target. Since the Henkel acquisition, the acquired power brands have helped the company expand its geographical presence. The non-south contribution for the company has increased to 60% from ~50% in FY2013.

Exhibit 6: Power Brands Performance

Brand	4QFY16	4QFY15	% chg	FY2016	FY2015	% chg
Ujala	93	87	6.3	392	372	5.3
Exo	86	79	9.4	348	315	10.7
Maxo	114	97	17.9	273	236	15.5
Henko	46	34	37.2	169	152	11.3
Margo	25	25	(1.1)	131	121	8.3
Pril	29	24	19.0	118	102	15.5
Total Power Brand	393	346	13.6	1,430	1,297	10.3
Others	41	40	3.1	171	166	3.3
Total	434	386	12.5	1,602	1,463	9.5

Source: Company, Angel Research

Henkel may potentially re-rate the stock

Effective April 2016, Henkel has an option to purchase 26% stake in JLL (the option is valid to be exercised before 31st March 2017). The promoters of JLL prefer the stake sale to materialize at a mutually agreeable valuation. We believe Henkel will likely choose to exercise the option, given the prospects of the Indian growth story. Our belief draws its basis from the fact that Henkel's agreement with Asian Paints for tapping the latter's distribution channel for promoting its consumer adhesives business ("Loctite") in India is some indication of Henkel's faith in the India growth story. We believe that JLL would then be able to fall back on Henkel to launch new products in the Indian market.

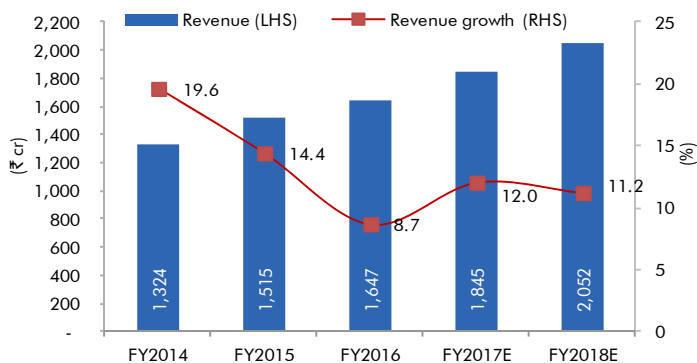
Financials

Exhibit 7: Sales growth assumption for JLL

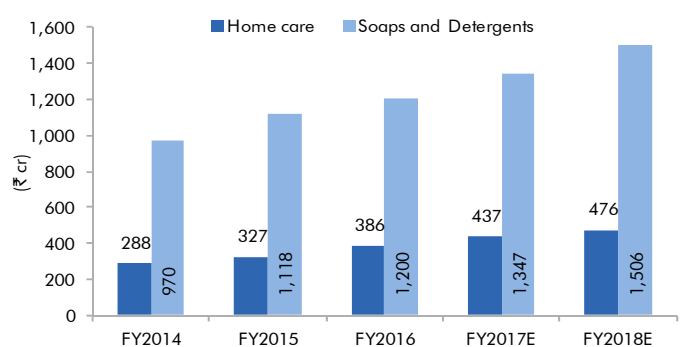
Y/E March	FY2017E	FY2018E
Home care	437	476
(% Growth)	13.3	8.8
Soaps and Detergents	1,347	1,506
(% Growth)	12.2	11.8
Others	16	17
Laundry Services	43	45
Total Sales	1,843	2,044

Source: Company, Angel Research

We expect the top-line to post a revenue CAGR of 11.6% over FY2016-18E to ₹2,052cr. This will be on the back of strong focus on power brands as well as greater distribution reach.

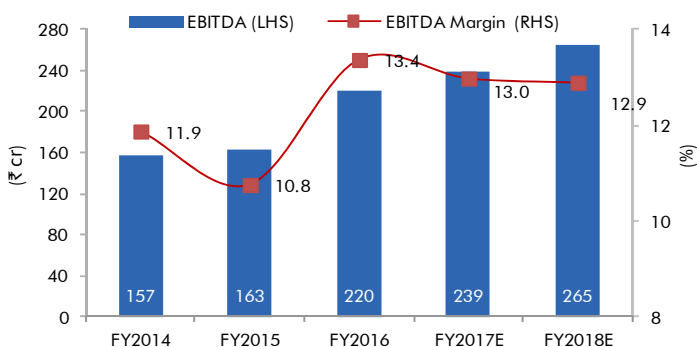
Exhibit 8: Brand building to result in healthy sales


Source: Company, Angel Research; Note: * Merged numbers of JLL and JCPL

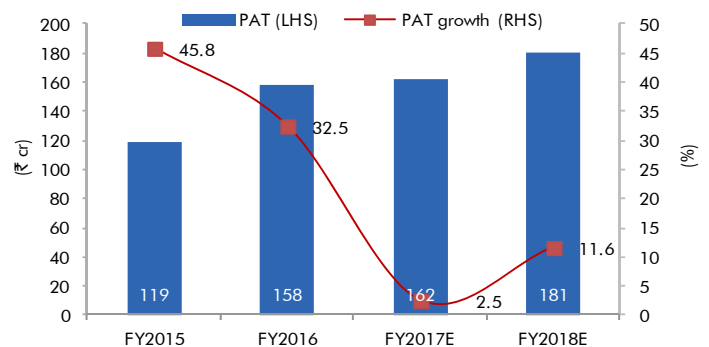
Exhibit 9: Segmental sales contribution


Source: Company, Angel Research, Note: * Merged numbers of JLL and JCPL

With raw material prices expected to have bottomed out, we expect gross margins to witness slight contraction. Also, the company has targeted the advertisement spend to remain at current levels of ~12%. We expect EBITDA margin to be at 12.9% in FY2018E. The company will be amalgamating with its subsidiary JCML which will lead to JLL paying minimum alternate tax over the next two years. We expect the net profit to post a CAGR of 7.0% over FY2016-18E to ₹181cr.

Exhibit 10: Margin expansion to correct


Source: Company, Angel Research; Note: * Merged numbers of JLL and JCPL

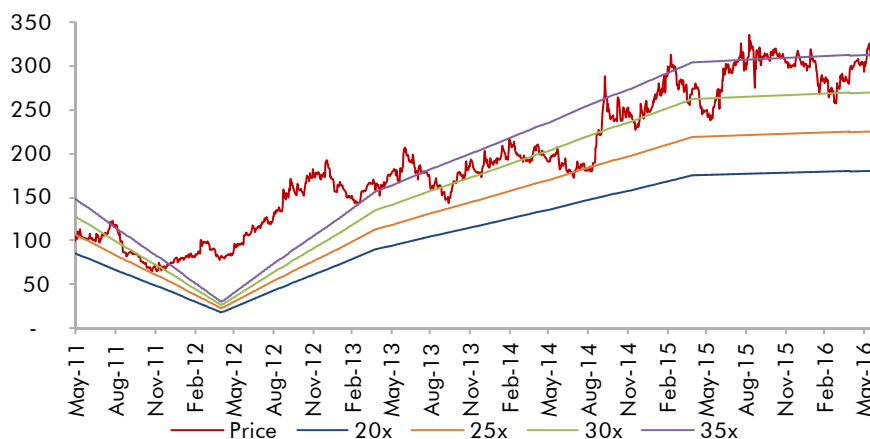
Exhibit 11: Profit growth subdued


Source: Company, Angel Research; Note: * Merged numbers of JLL and JCPL

Outlook and valuation

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Exhibit 12: One-year forward PE band



Source: Company, Angel Research

Risk factors

Raw-material cost & economic slowdown: The company's raw material costs are exposed to fluctuations in the price of crude and rupee exchange rate, and inflationary pressure. Any substantial depreciation in the rupee, rise in the price of crude oil, inflation and slow down in overall economy may pose risk to the company's business.

Profit and Loss (Consolidated)

Y/E March (₹ cr)	FY2014	FY2015	FY2016	FY2017E	FY2018E
Total operating income	1,324	1,515	1,647	1,845	2,052
% chg	19.6	14.4	8.7	12.0	11.2
Net Raw Materials	694	777	799	904	1008
% chg	18.8	12.0	2.8	13.2	11.4
Personnel	138	179	184	212	236
% chg	5.9	29.5	2.6	15.6	11.2
Other	334	395	444	489	544
% chg	27.9	18.3	12.2	10.2	11.2
Total Expenditure	1167	1352	1426	1606	1788
EBITDA	157	163	220	239	265
% chg	20.4	3.7	35.0	8.8	10.5
(% of Net Sales)	11.9	10.8	13.4	13.0	12.9
Depreciation & Amortisation	24	33	31	33	35
EBIT	133	130	189	206	230
% chg	22.9	(1.8)	44.6	9.4	11.3
(% of Net Sales)	10.6	9.1	12.2	11.7	11.7
Interest & other Charges	55	14	6	9	9
Other Income	8	10	15	5	6
(% of Net Sales)	0.7	0.7	0.9	0.3	0.3
Recurring PBT	78	117	183	198	221
% chg	94.7	50.3	56.5	8.2	11.7
Extra ordi. item/Prior period items	4.0	2.1	0.0	0.0	0.0
PBT (reported)	82	125	197	203	226
Tax	1	4	39	41	46
(% of PBT)	0.8	2.8	19.9	20.2	20.2
PAT (reported)	81	121	158	162	181
Minority Interest	0	0	0	0	0
Extraordinary Expense/(Inc.)	(1)	2	0	0	0
ADJ. PAT	82	119	158	162	181
% chg	472.6	45.8	32.5	2.5	11.6
(% of Net Sales)	6.5	8.3	10.2	9.2	9.2
Basic EPS (₹)	4.5	6.6	8.7	8.9	10.0
Fully Diluted EPS (₹)	4.5	6.6	8.7	8.9	10.0
% chg	409.8	45.8	32.5	2.5	11.6

Balance Sheet (Consolidated)

Y/E March (₹ cr)	FY2014	FY2015	FY2016	FY2017E	FY2018E
SOURCES OF FUNDS					
Equity Share Capital	18	18	18	18	18
Reserves & Surplus	716	762	828	881	953
Shareholders' Funds	734	780	846	899	971
Minority Interest	2	1	2	2	2
Total Loans	681	730	609	562	561
Other Long Term Liabilities	0	1	5	5	5
Long Term Provisions	11	14	18	18	18
Deferred Tax (Net)	1	1	25	25	25
Total Liabilities	1,428	1,526	1,505	1,510	1,581
APPLICATION OF FUNDS					
Gross Block	505	507	532	559	587
Less: Acc. Depreciation	173	198	229	262	297
Less: Impairment	25	22	22	22	22
Net Block	307	287	281	275	268
Capital Work-in-Progress	4	16	8	8	8
Goodwill	787	787	787	787	787
Investments	61	194	83	83	83
Long Term Loans and adv.	135	176	237	266	295
Other Non-current asset	1	3	1	1	1
Current Assets	358	354	370	402	485
Cash	70	77	61	83	126
Loans & Advances	38	32	26	29	32
Inventory	174	185	183	203	230
Debtors	67	57	94	81	90
Other current assets	10	3	7	7	7
Current liabilities	225	290	262	311	346
Net Current Assets	133	64	108	91	139
Misc. Exp. not written off	-	-	-	-	-
Total Assets	1,428	1,526	1,505	1,510	1,581

Cash Flow (Consolidated)

Y/E March (₹ cr)	FY2014	FY2015	FY2016	FY2017E	FY2018E
Profit before tax	82	125	197	203	226
Depreciation	24	33	31	33	35
Change in Working Capital	5	77	(60)	39	(4)
Direct taxes paid	(1)	(4)	(15)	(41)	(46)
Others	(8)	(10)	(15)	(5)	(6)
Cash Flow from Operations	103	220	139	228	206
(Inc./)Dec. in Fixed Assets	(52)	(14)	(17)	(27)	(28)
(Inc./)Dec. in Investments	(59)	(133)	110	-	-
(Incr)/Decr In LT loans & adv.	(38)	(43)	(59)	(29)	(30)
Others	8	10	15	5	6
Cash Flow from Investing	(142)	(179)	49	(50)	(52)
Issue of Equity	2	-	0	-	-
Inc./)Dec.) in loans	51	49	(112)	(48)	(1)
Dividend Paid (Incl. Tax)	(64)	(87)	(109)	(109)	(109)
Others	73	4	18	-	-
Cash Flow from Financing	62	(34)	(204)	(157)	(110)
Inc./)Dec.) in Cash	24	7	(16)	22	44
Opening Cash balances	46	70	77	61	83
Closing Cash balances	70	77	61	83	126

Key Ratios (Consolidated)

Y/E March	FY2014	FY2015	FY2016	FY2017E	FY2018E
Valuation Ratio (x)					
P/E (on FDEPS)	64.5	44.3	33.4	32.6	29.2
P/CEPS	49.7	34.8	27.9	27.1	24.5
P/BV	7.2	6.8	6.2	5.9	5.4
EV/Net sales	4.4	3.8	3.5	3.1	2.7
EV/EBITDA	37.1	35.2	26.1	23.7	21.3
EV / Total Assets	4.1	3.8	3.9	3.8	3.6
Per Share Data (₹)					
EPS (Basic)	4.5	6.6	8.7	8.9	10.0
EPS (fully diluted)	4.5	6.6	8.7	8.9	10.0
Cash EPS	5.9	8.4	10.5	10.8	11.9
DPS	3.0	4.0	5.0	5.0	5.0
Book Value	40.5	43.0	46.7	49.6	53.6
DuPont Analysis					
EBIT margin	10.0	8.6	11.5	11.2	11.2
Tax retention ratio	1.0	1.0	0.8	0.8	0.8
Asset turnover (x)	0.9	1.0	1.1	1.2	1.3
ROIC (Post-tax)	9.2	8.3	10.2	11.1	11.8
Cost of Debt (Post Tax)	8.4	1.9	0.7	1.2	1.3
Leverage (x)	0.7	0.6	0.5	0.4	0.4
Operating ROE	9.9	12.1	15.4	15.5	15.6
Returns (%)					
ROCE (Pre-tax)	0.1	0.1	0.1	0.1	0.2
Angel ROIC (Pre-tax)	27.2	27.2	38.0	38.8	42.7
ROE	11.9	15.8	19.4	18.6	19.3
Turnover ratios (x)					
Asset TO (Gross Block)	2.7	3.0	3.2	3.4	3.6
Inventory / Net sales (days)	48	43	41	38	38
Receivables (days)	20	15	17	16	16
Payables (days)	72	70	71	71	71
WC cycle (ex-cash) (days)	18	(3)	10	2	2
Solvency ratios (x)					
Net debt to equity	0.7	0.6	0.5	0.4	0.4
Net debt to EBITDA	3.5	2.8	2.1	1.7	1.3
Int. Coverage (EBIT/ Int.)	2.4	9.5	31.3	23.3	24.9

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1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below ₹1 lakh for Angel, its Group companies and Directors

Ratings (Based on expected returns over 12 months investment period):	Buy (> 15%)	Accumulate (5% to 15%) Reduce (-5% to -15%)	Neutral (-5 to 5%) Sell (< -15)
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