Indiabulls

JYOTHY LABORATORIES LIMITED
IPO NOTE

EQUITY RESEARCH November 21, 2007

IPO Note

IPO Details	
Face Value	Rs. 5
Price Band	Rs. 620-690
Issue Opens	22-Nov-07
Issue Closes	27-Nov-07
BRLM	Kotak Mahindra Capital/ ENAM Securities
Registrar to issue	Intime Spectrum Registry Ltd
Shares on offer for sale	4.4 mn

Pre issue shareholding pattern

Shareholders	% Stake
Promoters	68.5
Institutional	30.5
Public & Others	1.0

Post issue shareholding pattern

Shareholders	% Stake
Promoters	68.5
Institutional	0.0
Public & Others	31.5

Segmented Allocation	
QIBs	2,215,130
Non-Institutional	664,540
Retail	1,550,590

IPO Details (In mn)	Lower End	Upper End
Price Band (Rs.)	620	690
Equity Shares prior to issue	14.5	14.5
Fresh Issue of shares	0.0	0.0
Total Equity Shares	14.5	14.5
Share Capital (mn)	Rs. 72.6	Rs. 72.6
Implied market cap (mn)	Rs. 8,998.5	Rs. 10,014.5
Debt (mn) (as on 30/06/07)	Rs. 6.4	Rs. 6.4
Cash (mn) (as on 30/06/07)	Rs. 769.6	Rs. 769.6
Implied EV (mn)	Rs. 8,235.3	Rs. 9,251.2

Jyothy Laboratories Limited — Do not subscribe

Jyothy Laboratories Limited (JLL) is a fast moving consumer goods (FMCG) company and caters to the fabric care, household insecticide, surface cleaning, personal and air care segments of the Indian market. JLL's products include fabric whitener, mosquito repellent, dishwashing, bath and incense products. With 21 manufacturing units in 14 locations across India, JLL has a distribution sales network of over 1,500 people catering to approximately 2,500 distributors.

The Company's future plans include launching of Ujala Stiff and Shine product, increasing Maxo's market presence, entering into joint ventures for sales and marketing of branded products, pursuing selective acquisitions and concentrating on supermarket and hypermarket sales.

Valuation and Recommendation

At a price band of Rs. 620-690, JLL is valued at a P/E of 18.7x and 20.8x at the lower and upper price band, respectively. Though the Company is at a discount when compared with its peers, we believe that JLL's long term growth plans are not concrete. The Company has not disclosed any new major investment plan to utilize its substantial cash reserves. Moreover, as JLL will not get any additional proceeds from the issue, no monetary benefit will accrue to the Company from listing. Factors such as over dependence on few products, rising raw material cost, stiff competition from FMCG majors and uninsured manufacturing units, raise concerns over the Company's future financial performance.

Based on our analysis, we recommend the investors not to subscribe to the issue; however considering the discount at which the issue is available we believe that there is a possibility of listing gain.

Peer group comparison

Valuation	Market cap	PE Ratio	EV/EBITDA	EV/Revenue
Godrej Consumer Products Ltd	37,226	23.0x	24.3x	4.8x
Dabur India Ltd	95,386	36.7x	31.4x	5.3x
Emami Ltd	17,137	25.5x	25.3x	3.3x
Marico Ltd	40,712	31.2x	21.5x	3.0x
Peer group average		**29.1x**	**25.6x**	**4.1x**
JLL				
Lower price band	8,999	18.7x	15.6x	2.3x
Upper price band	10,014	20.8x	17.5x	2.6x

IPO

Issue details

JLL is coming up with an IPO of 4.4 mn equity shares, through which the institutional shareholders will offload their stake in the Company. The promoters hold 68.5% of the issued and paid-up share capital of the Company which will remain the same post issue. The Company has reserved 2.2 mn shares for QIBs, 0.7 mn shares for non-institutional buyers, and 1.5 mn for the retail applicants.

Issue objective

The Company will not receive any proceeds from the offer. The IPO is being carried out for

- Enabling the disinvestment of 4.4 mn equity shares by the Company's selling shareholders and
- Achieving the benefits of listing the equity shares on the stock exchanges

Promoters

The promoter of the Company is Mr. M. P. Ramachandran. Aged 60 years, he is the Chairman and the Managing Director of JLL. Mr. Ramachandran established the Company in 1983 and has over 36 years of experience in sales, production and general management.

Rationale

High dependence on Ujala and Maxo brands

The flagship brand of the Company i.e. Ujala contributed 49.5% and 43.6%, to the net sales, in FY06 and FY07, respectively. Though the revenue contribution from this key brand has been successively declining over the past three years, it still forms a major chunk. Moreover, Ujala and Maxo brands together accounted for 86.9% and 85.5% of the net sales in FY06 and FY07, respectively. Such a high dependence on two brands limits the business model of the Company and any decline in the sales of these products will adversely affect the financial performance.

Spiraling raw material costs

Raw material cost as a percentage of sales increased from 47.4% in FY06 to 52.4% in FY07, which led to a decline in EBITDA margin from 15.3% in FY06 to 14.6% in FY07. As the Company depends on third party suppliers for procuring raw materials without any long term contracts, it does not have any significant control on price fluctuations.

Significant dependence on production outsourcing

For FY06 and FY07 approximately 36.6% and 36.8% of sales of Maxo Maya and Exo Safai were manufactured by third parties. Production at the outsourced units is beyond the control of the Company and any significant loss of production from these facilities will negatively impact the business operations of JLL.

Seasonal business of the Maxo brand

The Maxo product line contributes more than one-third to the revenues and its share has been increasing successively. However, sales of the Maxo mosquito coils are seasonal with higher demand in the months of January to April and August to September. The business model of JLL is not diversified enough to garner revenues from other product lines during the period when demand shrinks for the Maxo product.

Uninsured production facilities

Barring JLL's 2 manufacturing units, which are insured against fire and shock, all the other 19 production facilities are uninsured. This implies that the Company's results of operations can get severely affected if one or many of these plants are damaged as JLL will not be adequately covered against the losses incurred.

Outlook

JLL has registered revenue and net profit CAGR of 16.9% and 10.7%, respectively, over the period FY05-07, while the operating and net profit margins of the Company have been fluctuating over the same period. The Company derives around 81% of the revenues from two products viz. Ujala and Maxo, which makes JLL's product portfolio highly concentrated. Factors such as dependence on third party for the supply of raw materials without any long term contracts and no insurance for most of the Company's manufacturing facilities pose a risk to JLL's results of operations. Though JLL has been a cash-rich company, it has not effectively utilized its reserves. In the absence of any concrete expansion plans there remains uncertainty over future utilization of the cash reserves and the Company's growth trajectory.

At a price band of Rs. 620-690, JLL is valued at a P/E of 18.7x and 20.8x at the lower and upper price band, respectively. Based on our analysis, we recommend the investors not to subscribe to the issue; however considering the discount at which the issue is available we believe that there is a possibility of listing gains.

Company Background

Established in 1983, Jyothi Laboratories is a fast moving consumer goods (FMCG) company and caters to the fabric care, household insecticide, surface cleaning, personal and air care segments of the Indian market. JLL's products include fabric whitener, mosquito repellent, dishwashing, bath and incense products. Ujala, Maxo, Exo, Jeeva, and Maya are some of the Company's key brands. The Company has 21 manufacturing units in 14 locations across India. JLL has a distribution network across India with a sales staff of over 1,500 people catering to approximately 2,500 distributors.

Disclaimer

This report is not for public distribution and is only for private circulation and use. The Report should not be reproduced or redistributed to any other person or person(s) in any form. No action is solicited on the basis of the contents of this report.

This material is for the general information of the authorized recipient, and we are not soliciting any action based upon it. This report is not to be considered as an offer to sell or the solicitation of an offer to buy any stock or derivative in any jurisdiction where such an offer or solicitation would be illegal. It is for the general information of clients of Indiabulls Securities Limited. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. You are advised to independently evaluate the investments and strategies discussed herein and also seek the advice of your financial adviser.

Past performance is not a guide for future performance. The value of, and income from investments may vary because of changes in the macro and micro economic conditions. Past performance is not necessarily a guide to future performance.

This report is based upon information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied upon as such. Any opinions expressed here in reflect judgments at this date and are subject to change without notice. Indiabulls Securities Limited (ISL) and any/all of its group companies or directors or employees reserves its right to suspend the publication of this Report and are not under any obligation to tell you when opinions or information in this report change. In addition, ISL has no obligation to continue to publish reports on all the stocks currently under its coverage or to notify you in the event it terminates its coverage. Neither Indiabulls Securities Limited nor any of its affiliates, associates, directors or employees shall in any way be responsible for any loss or damage that may arise to any person from any error in the information contained in this report.

The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject stock and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report. No part of this material may be duplicated in any form and/or redistributed without Indiabulls Securities Limited prior written consent.

The information given herein should be treated as only factor, while making investment decision. The report does not provide individually tailor-made investment advice. Indiabulls Securities Limited recommends that investors independently evaluate particular investments and strategies, and encourages investors to seek the advice of a financial adviser. Indiabulls Securities Limited shall not be responsible for any transaction conducted based on the information given in this report, which is in violation of rules and regulations of National Stock Exchange or Bombay Stock Exchange.