

**Jyothy Laboratories Limited (JLL)**

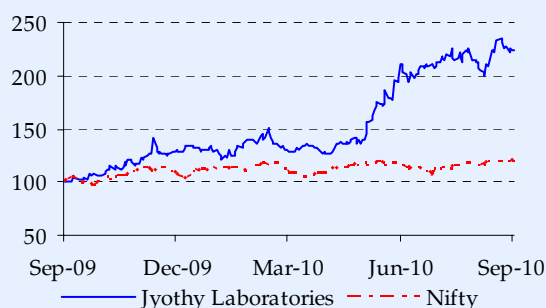
23<sup>rd</sup> Sept, 2010

**CMP ₹ 289**
**Stock Info**

Face Value (₹)	1
Shares O/S (mn)	72.6
Market Cap (₹ bn)	23.3
52-Week Range(H/L)	312/127
1-Year Avg Vol (mn)	0.2
Nifty	5,991
Reuters Code	JYOL.BO
Bloomberg Code	JYL IN
Year End	Mar

	(₹mn)			
Key Financials	9MFY09	FY10	FY11E	FY12E
Net Sales	3,635	6,048	7,548	9,525
Growth rate (%)	(4)	66	25	26
EBITDA	488	985	1,340	1,691
EBITDA Margin (%)	13.4	16.3	17.8	17.8
PAT	374	741	1,002	1,244
PAT Margin (%)	10.3	12.2	13.3	13.1
Growth rate (%)	(23)	97	35	24.2
EPS (₹)	5.29	10.24	13.8	17.1

Key Ratios	9MFY09	FY10	FY11E	FY12E
ROCE(%)	12	21	25	28
ROE(%)	11	19	22	24
P/E (x)	52.4	27.1	20.1	16.2
FCF/Share (₹)	0.7	2.8	1.6	1.9
P/BV (x)	5.8	5.2	4.5	3.8
EV/EBITDA (x)	39.1	19.3	14.1	11.1

**Relative Price Performance**

**KEY TAKEAWAYS**

- *Maxo coils might see low volumes in 2QFY11 due to below average monsoons in UP and Bihar.*
- *Ad-spends will be ₹ 100 mn+ in 2QFY11 due to new initiatives like Title Sponsorships for Ujala Detergent on TV and launch of ads featuring a top cricket celebrity.*
- *Raw material costs especially those of Maxo have seen 14-15% hike on y-o-y basis. Price of active ingredient in coils remains flattish, saw dust and coconut shell dust rise by 15-20%.*
- *No volume dip seen in 2QFY11 after the price hike of Ujala Supreme (75 ml) bottles. Maxo sales haven't seen a volume dip as well after the reduction of trade discounts in 1QFY11.*
- *The company is contemplating a price hike on Maxo coils in 3QFY11 in order to preserve margins as raw material costs increase 15% y-o-y.*
- *Effective tax rate will rise by 200 bps in FY12 due to increase in MAT rates.*

**Valuation**

JLL has in recent past attained our price target of ₹ 290. We still maintain our positive outlook about the fundamentals of the company as the recent head winds in the form of high ad-spends and raw material costs were factored into our estimates. The only addition to our estimates will be the higher effective tax rate for FY12. We feel that the company is well on track to achieve our FY11 target.

At the CMP of ₹289, JLL is trading at a P/E multiple of 20x on FY11 EPS and 16x on FY12 EPS. We still remain optimistic about the company as they are growing at a 20+ % in the top line, and it has recently made an EPS accretive acquisition. Apart from this, the company will also reduce ad-spends on Exo and Maxo in FY13, which will again improve profitability of the company, offering a valid reason for re-rating the stock. However, we would want to incorporate the 2QFY11 figures before deciding upon the new target price.

**Below average monsoons in Maxo's main markets (UP & Bihar) could weaken sales in 2QFY11.**

Below average monsoons in UP and Bihar which are strong markets for Maxo coils (>50% market share) could weaken the sales in 2QFY11 as the mosquito menace will not be as pronounced as previous years. Fortunately, the monsoon season comprises only 15% of Maxo's yearly sales; hence the bad monsoons don't pose a threat to our yearly forecasts. 60% of Maxo's sales actually come in 4Q every year; hence it's not a cause of concern as of now.

**Heavy ad-spends on Ujala detergent in 2QFY11 to gain visibility. Ad-spends to reduce in FY13, hence improve margins going ahead.**

JLL spent ₹ 96 mn in 1QFY11 and we had mentioned in our 1QFY11 review that ad-spends will pick up heavily in the following quarters due to new launches and roll-outs. The company has launched new ads featuring a top cricket celebrity and has also done Title Sponsorship for a relatively popular TV show. According to the reviews, the company feels it has helped them gain abundant visibility and has reached the target audience (home-makers).

We expect ad-spends to be ₹ 100 mn + in this quarter and have already factored in high ad-spends in our yearly forecast for FY11 (₹ 640 mn) and FY12 (₹ 857 mn). So there are no changes in our overall assumptions for ad-spends.

**Raw material costs of MAXO remain a concern in 2QFY11 as well.**

45% of raw materials for JLL is crude based which has seen a hike of 15% in the past few months. Maxo's main raw materials namely saw dust and coconut shell dust are 15-20% up on y-o-y basis.

The price hike taken by Ujala will just about take care of the raw material inflation; hence the gross margins in 2QFY11 will be the same as it was in 2QFY10. LAB prices have also risen by 15% on y-o-y basis; overall we expect raw material basket to inflate by 10% at least.

**No volume dip seen in Ujala Supreme after price hike.**

As per the company the volumes of Ujala Supreme (75 ml) bottles which comprises 60% of total Ujala sales, hasn't seen a drop after the prices were increased by 16% in 1QFY11. The company didn't raise the prices of smaller SKUs i.e. 9ml and 30 ml bottles as they cater to a very price sensitive market. The effect of price hike will be completely evident in 2QFY11.

**JLL might raise the prices of Maxo coils in 3QFY11 due to high input costs.**

The company reduced the 30% trade discounts it was giving on Maxo coils to 20% only in 1QFY11 and the action was followed by GCPL and Reckitt Benkizer. The volumes have not suffered because of that in 2QFY11 and the company is contemplating a price hike as well in 3QFY11 in order to preserve margins as input costs have been inching upwards.

**Effective tax rate to increase by 200 bps to 24% in FY12**

Due to increase in MAT rates by 200 bps the effective tax rate will be higher than our forecasts by the same amount. We have changed the EPS estimates for FY12 in order to account for the same. Our EPS estimates for FY12 will now be ₹17.1 per share revised downwards by 3%.

**Profit and Loss Statement**

(₹mn)

Year Ending in Mar	FY09A(9mths)	FY10A(12mths)	FY11E(12mths)	FY12E(12mths)
Net Sales	3,635	6,048	7,548	9,525
Growth rate (%)	-4.2%	66.4%	25%	26%
COGS	2,002	3,190	4,001	5,048
<b>Gross Profit</b>	<b>1,633</b>	<b>2,858</b>	<b>3,548</b>	<b>4,477</b>
Employee Costs	473	754	849	1,072
AS&P	185	380	604	857
Other Expenses	487	740	755	857
<b>EBITDA</b>	<b>488</b>	<b>985</b>	<b>1,340</b>	<b>1,691</b>
<b>EBITDA Margin %</b>	<b>13.4%</b>	<b>16.3%</b>	<b>17.8%</b>	<b>17.8%</b>
Depreciation	75	124	128	143
<b>EBIT</b>	<b>413</b>	<b>861</b>	<b>1,212</b>	<b>1,548</b>
Investment Income	76	111	92	101
Interest & Finance Charges	7	17	11	11
<b>PBT</b>	<b>482</b>	<b>955</b>	<b>1,293</b>	<b>1,637</b>
Tax	108	215	291	393
Tax Rate %	22%	22%	22%	24%
<b>PAT</b>	<b>374</b>	<b>740</b>	<b>1,002</b>	<b>1,244</b>
<b>PAT Margin</b>	<b>10.3%</b>	<b>12.2%</b>	<b>13.3%</b>	<b>13.1%</b>
EPS	5.29	10.24	13.8	17.1
Growth rate %	-23%	97%	35%	24%
Cash EPS	6.3	12	16	19
Dividends Paid	145.00	290.28	393	488
Nos Outstanding	72.57	72.57	73	73
Dividend Payout Ratio	39%	39%	39%	39%
DPS	2.00	4.00	5	7
Transfer To General Reserve	200.00	450.11	609	756

Source: Company, SBICAP Securities Research

**Balance Sheet**

(₹mn)

Year	FY09	FY10	FY11E	FY12E
<b>Sources of Funds</b>				
<i>Shareholder's Funds</i>				
Share Capital (FV Re 1)	72.6	72.6	72.6	72.6
Reserves and Surplus	3396	3805	4414	5171
Minority Interests	3	5	5	5
Loan Funds	5	130	130	130
Deferred Tax Liability, Net	105	133	133	133
<b>Total Liabilities &amp; Equity</b>	<b>3581</b>	<b>4146</b>	<b>4755</b>	<b>5511</b>
<b>Application of Funds</b>				
<i>Fixed Assets</i>				
Investments	2114	2377	2616	2905
	2	0	0	0
<i>Current Assets</i>				
Cash & Bank Balances	1019	1227	1340	1480
Inventories	470	730	925	1165
Sundry Debtors	429	707	890	1111
Other current assets-Sales Promotion items	3	11	11	11
Loans and Advances	218	340	424	551
<b>Total Current Assets (A)</b>	<b>2140</b>	<b>3016</b>	<b>3590</b>	<b>4318</b>
Current Liabilities (B)	422	786	990	1250
Provisions( C )	253	462	462	462
<b>Net Current Assets (A-B-C)</b>	<b>1464</b>	<b>1768</b>	<b>2139</b>	<b>2606</b>
Miscellaneous Expenses	1	0	0	0
<b>Net Assets</b>	<b>3581</b>	<b>4146</b>	<b>4755</b>	<b>5511</b>

Source: Company, SBICAP Securities Research

**Cash Flow Statement**

(₹mn)

Year	FY09	FY10	FY11E	FY12E
<b>Net Profit</b>	<b>374</b>	<b>740</b>	<b>1,002</b>	<b>1,244</b>
Depreciation	75	124	128	143
Deferred Taxation	22	-	-	-
Interest & Finance Charges	7	11	11	11
Investment Income	(76)	(111)	(92)	(101)
Others	(1)	30	-	-
Operating Cash Flow bef Wcap Changes	401	794	1,049	1,298
Inc. in Wcap	(111)	(96)	(258)	(328)
<b>Cash Flow From Operations</b>	<b>290</b>	<b>698</b>	<b>791</b>	<b>970</b>
Capex	(142)	(387)	(366)	(432)
Investment Income	76	111	92	101
Change in Investments	3	2	-	-
<b>Cash Flow From Investing</b>	<b>(63)</b>	<b>(274)</b>	<b>(274)</b>	<b>(331)</b>
Increase in Equity	4	(29)	-	-
Dividend Paid	(170)	(306)	(393)	(488)
Interest Paid	(7)	(11)	(11)	(11)
Debt (Payments)/Received	-	125	-	-
<b>Cash Flow from Financing Activities</b>	<b>(173)</b>	<b>(220)</b>	<b>(404)</b>	<b>(499)</b>
<b>Net Change in Cash</b>	<b>54</b>	<b>204</b>	<b>113</b>	<b>140</b>

Source: Company, SBICAP Securities Research

**Ratios**

	FY09A(9mths)	FY10A(12mths)	FY11E(12mths)	FY12E(12mths)
<b>Profitability Ratios</b>				
EBITDA Margin (%)	13%	16%	18%	18%
Operating Profit Margin (%)	11%	14%	16%	16%
PAT Margiin (%)	10%	12%	13%	13%
ROCE(%)	12%	21%	25%	28%
ROE(%)	11%	19%	22%	24%
IC( Rs mn)	2584	3107	3541	4070
ROIC(%)	12%	21%	27%	29%
EV /IC (x)	7.4	6.1	5.3	4.6
<b>Valuation and Yield</b>				
EPS (Rs)	5.29	10.2	13.8	17.1
Earnings Yield (%)	2%	4%	5%	6%
P/E (x)	52.4	27.1	20.1	16.2
Operating Cashflow/Sh (Rs)	4.0	9.6	10.9	13.4
Operating Casflow Yield (%)	1%	3%	4%	5%
FCF/Share (Rs)	0.7	2.8	1.6	1.9
FCF yield (%)	0%	1.0%	0.6%	0.7%
BVPS (Rs)	47.80	53.43	61.83	72.25
P/BV(x)	5.80	5.18	4.48	3.83
EV(Rs mn)	19087	19005	18892	18752
EV/EBITDA (x)	39.1	19.3	14.1	11.1
P/Sales(x)	5.5	3.3	2.7	2.1
<b>Balance Sheet Ratios</b>				
Fixed Asset T/O(x)	1.72	2.54	2.89	3.28
Inventory Days	86	84	84	84
Sundry Debtor Days	43	43	43	42
Loans and Advances	22	21	21	21
Receivable Days	65	64	64	64
Payable Days	77	90	90	90
Cash Conversion Cycle (Days)	139	121	122	121

Source: Company, SBICAP Securities Research

## Recent Reports

Date	Company Name	Recommendation	Recommended Price	Target Price
15-Sep-10	Colgate-Palmolive (India) Ltd (Update)	Buy	819	980
15-Sep-10	Yes Bank	Buy	327	386
14-Sep-10	Mundra Port and Special Economic Zone Ltd	Marketperform	790	825
1-Sep-10	Ultratech Cement Limited	Outperform	910	1025
24-Aug-10	Shipping Corporation of India Limited	Marketperform	163	175
23-Aug-10	Ranbaxy Laboratories Ltd	Buy	493	579
10-Aug-10	India Cements Limited	Sell	108.4	80.6
10-Aug-10	Cipla Ltd	Underperform	322	-
6-Aug-10	Marico Ltd	Buy	121	150
27-Jul-10	Biocon Ltd	Underperform	319	280
27-Jul-10	GlaxoSmithKline Pharmaceuticals Ltd.	Underperform	2,065	1,900
19-Jul-10	Sun Pharmaceuticals	Underperform	1,750	1,650
13-Jul-10	Colgate-Palmolive (India) Ltd	Buy	849	1,020
12-Jul-10	Shree Cement Ltd	Buy	1,931	2,397
30-Jun-10	Ashok Leyland Ltd	Outperform	64	70
29-Jun-10	Aban Offshore Limited (Update)	Underperformer	750	700
15-Jun-10	Jyothy Laboratories Ltd	Buy	230	290
15-Jun-10	Torrent Pharmaceuticals Ltd (Update)	Buy	547	645
8-Jun-10	TVS Motor Company Ltd.	Buy	104	130
22-Apr-10	Steel Authority of India Ltd	Buy	226	264
1-Apr-10	Pipavav Shipyard Ltd	Sell	73	50
28-Mar-10	Aban Offshore Limited (Update)	Buy	1,200	1,410
23-Mar-10	GE Shipping Co (Update)	Buy	285	330
22-Mar-10	Camson Bio Technologies Ltd	Buy	134	280
22-Mar-10	Deccan Chronicle Holdings Limited (Update)	Buy	173	215
22-Feb-10	Sadbhav Engineering Ltd	Buy	1,170	1,568
20-Feb-10	Aban Offshore Limited	Buy	1,190	1,410
6-Feb-10	Bharati Shipyard Ltd (Update)	Buy	297	530
6-Feb-10	ABG Shipyard Ltd (Update)	Sell	310	265
2-Feb-10	Himadri Chemicals and Industries Ltd	Buy	400	520

**Key to investment Ratings:** Guide to the expected return relative to market over the next 12 months. 1=Buy (expected to outperform the market by 15 or more percentage points); 2=Outperform (expected to outperform the market by 5-15 percentage points); 3=Marketperform (expected to perform in line with the market); 4=Underperform (expected to underperform the market) by 5-15 percentage points); 5=Sell (expected to underperform the market by 15 or more percentage points)

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