Jyothy Laboratories

Price band : Rs 620 – 690 SUBSCRIBE

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IPO fact sheet

Particulars	
Issue opens	22 November 2007
Issue closes	27 November 2007
Price band (Rs)	620 – 690
Number of shares (mn)	4.4
Issue size (Rs bn)	2.7 – 3.1
Pre-issue equity (Rs mn)	22.2
Post-issue equity (Rs mn)	22.2
Financial year ending	June
Face value (Rs)	10

Issue details

Number of shares	(mn)
Net issue to public	4.4
Employee reservation	-
QIB portion	2.2
Non Institutional portion	0.6
Retail portion	1.6

Financial snapshot

Particulars	FY05	FY06	FY07
Sales	2,653.5	3,019.3	3,619.4
Growth (%)	(9.9)	13.8	19.9
Net Profit	324.5	467.1	483.4
Growth (%)	242.5	43.9	3.5
EPS (Rs)	22.4	32.2	33.3
Growth (%)	278.2	43.9	3.5
P/E (x)	30.9	21.4	20.7
ROE (%)	15.9	19.8	19.0

Shareholding pattern

(%)	Pre-issue	Post-issue
Promoters	68.5	68.5
Others	31.5	31.5

Company website	www.jyothylaboratories.com

On the fast track…

…led by a significant brand presence and distribution network in rural markets

Investment rationale

- India's FMCG sector estimated at Rs 700bn, with household care products constituting Rs 96.6bn. Laundry care, insecticides and dishwashing products account for 69%, 7.5% and 8% of the total household care segment respectively.

- JLL is a significant player in these segments with branded products including fabric whitener, mosquito repellent, dishwashing, bath and incense products. Key brands comprise Ujala, Maxo, Exo, Jeeva and Maya. Ujala fabric whitener holds 69% of the domestic market while Maxo mosquito coils command a 20% share.

- Products manufactured through 21 facilities in 14 locations across India; production facilities and sales offices strategically located to ensure a local presence in key markets. Extensive distribution network with a sales staff of over 1,500 people servicing approximately 2,500 distributors. Field staff reach of ~1mn retail outlets.

- Significant brand presence and distribution network in rural markets will enable the company to capitalise on the burgeoning demand and low penetration of rival branded products.

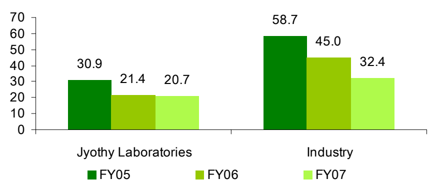
Key concerns

- Slowdown in business segments, increased competition, concentration in terms of geography (south India) and product segments are key concerns.

Valuation

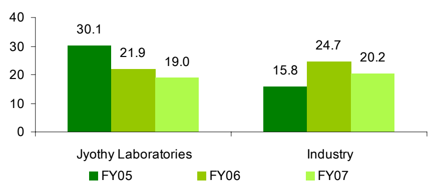
- Available at 20.7x on FY07 earnings of Rs 33.3.
- While we do not expect significant P/E re-rating due to the presence of other diversified FMCG players, we recommend a Subscribe to the offer keeping in mind Jyothy's niche brand presence, its large scope for growth, strong rural presence and effective distribution network.

P/E multiple (x)



Source: Religare Research

EV/EBITDA multiple (x)



Source: Religare Research

Industry overview

FMCG is India's fourth largest sector

Fast Moving Consumer Goods (FMCG) constitute the fourth largest sector in the Indian economy with a present market size of ~Rs 700bn. The sector is a key component of the country's GDP and a significant direct and indirect employer, accounting for 5% of the total factory employment in India.

Set to triple in size to US$ 33bn by 2015

The domestic FMCG industry is characterised by a well-established distribution network, intense competition between organised and unorganised players and low operation costs. Currently, rural India contributes just about 50% of the overall revenues of FMCG majors despite accounting for 70% of the country's population. Brand choices in the rural market are also significantly fewer than that available to the urban consumer.

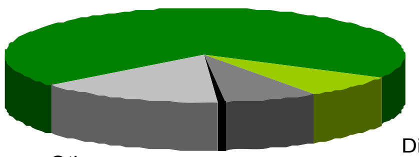
Market for FMCG products set to increase from US$ 11.6bn in 2003 to US$ 33.4bn in 2015

FMCG players are now seeking to exploit this large opportunity by ramping up their presence in rural markets. As rural penetration rises and urban consumers continue to wield strong spending power, the market for FMCG products is expected to increase from US$ 11.6bn in 2003 to US$ 33.4bn in 2015.

Household care products form a large chunk of FMCG pie

Household care goods constitute the core business of Jyothy Laboratories (JLL) and are a major segment of the FMCG industry, standing at Rs 96.6bn in 2005. Products in this category include household cleaners, laundry care, toilet cleaners, air fresheners, insecticides, mosquito repellents, polishes and other related products.

Industry revenue share of household care product segments



Source: Company RHP, Religare Research

Laundry care products contributed a bulk of household care sales at Rs 66bn

Laundry care: India's laundry care product segment recorded sales of Rs 66bn in 2005, accounting for ~68% of the overall sales in the household care sector. Laundry care comprises laundry detergents, laundry aids, fabric softeners and carpet cleaners. Of these, laundry detergents accounted for 92% of the segment's sales in 2005 at Rs 61bn. Laundry aids came in at second place, accounting for 7.6% of revenues. Laundry aids comprise laundry boosters such as fabric whiteners, spot and stain removers, starch and ironing aids and other products used in laundry.

The laundry care product segment includes Hindustan Unilever's *Wheel, Surf* and *Rin* brands, the *Nirma* brand as well as *Ariel* and *Tide* from Procter & Gamble Home Products. Over the past five years, laundry detergents and aids have grown at a CAGR of 4.7% and 8.7% respectively, while the overall laundry care market has grown at 5%.

Insecticides: The principal types of insecticides in India include coils and electric insecticides, spray and aerosols. The segment has posted a sales CAGR of 7.2% over 2001–05 to Rs 12.8bn in 2005, amounting to 7.5% of household product sales. Insecticide coils and electric insecticides accounted for 43.5% and 42.6% of the segment's sales respectively.

Dishwashing products: At present, the vast majority of sales in this segment comprise hand dishwashing products since automatic dishwashing is negligible (penetration of dishwashing machines is below 1% in India and 2% in urban India). Hand dishwashing products come in various forms including powders, bar soaps and liquids. At present, bar soap is the dominant form in most parts of India. In 2005, dishwashing product sales stood at Rs 7.7bn or 8% of total household product sales.

Air care: Air care products include spray and aerosol air fresheners. Sales of these products are stronger in urban areas, fuelled by aspirational consumer demand amongst an increasingly affluent urban consumer class. Air care product sales contributed 0.5% of household care sales in 2005.

Investment rationale

Strong brand presence

Key brands include Ujala, Maxo, Exo, Jeeva, and Maya

JLL operates in the fabric care, household insecticide, surface cleaning, personal care and air care segments of the Indian market. The company offers branded products including fabric whitener, mosquito repellent, dishwashing, bath and incense products. Its key brands are *Ujala* (laundry care), *Maxo* (insecticide and air care), *Exo* (dishwashing), *Jeeva* (personal care), and *Maya* (air care). JLL has also entered into joint ventures to market and distribute coffee and dhoop (a variety of agarbatti).

Branded product line

Brand	FMCG segment	Product line
Ujala	Fabric care	Fabric whiteners, fabric stiffeners and washing powder
Maxo	Insecticide, Air care	Mosquito repellent coils, liquid vaporisers and aerosol sprays
Exo	Dishwashing	Dishwashing bars, liquid and powder, dish scrubbers
Jeeva	Personal care	Soap etc
Maya	Air care	Air freshening incense sticks

Source: Company, Religare Research

JLL's brands command significant market share…

The company's branded products are marketed throughout urban and rural India, and are especially strong in southern India (Kerala in particular). Ujala fabric whitener and Maxo mosquito repellent coils occupy leading positions and have significant market shares in their respective product segments.

Ujala held a 68.9% share of the domestic market in value terms in FY07, which has risen to close to 72% for June 2007. The company's Maxo mosquito repellent coils commanded a market share of 19.7% in FY07, which has risen to 20.7% in June. Its Exo dishwash bar achieved a 15.5% market share in southern India in FY07 which touched 16.6% in June. The company now plans to launch Exo across India in FY08.

…and provide a strong platform for growth

Well placed to leverage on its strong brand equity, especially for the Maxo range

We believe JLL is well placed to leverage on the strong brand image and consumer associations with its products to grow revenues substantially. We are particularly bullish on Maxo as scope exists to considerably expand its market share considering the company's plan to establish a stronger pan-India presence and move production in-house as opposed to the current outsourcing model. In the case of Ujala, however, we believe the brand has matured and already achieved a significant market presence, leaving limited scope for further growth.

Extensive production and distribution network

21 production facilities across 14 locations

JLL manufactures its products through 21 manufacturing facilities in 14 locations across India, eight of which are eligible for tax breaks, as well as excise duty and VAT/sales tax exemptions. JLL is planning to put up new tax efficient manufacturing facilities in Uttaranchal as well.

In addition to its own facilities, the company outsources the manufacture of a significant portion of its Maxo products. It now plans to invest Rs 170mn in setting up two plants at Jammu and Guwahati to produce all Maxo products in-house. The company also maintains an in-house engineering research and development and machinery manufacturing facility at Pondicherry.

Local flavour provides marketing edge

Local presence reduces the time-to-market for new products

JLL has developed a strong local focus for the production, sale and distribution of its products. Its manufacturing facilities and sales offices are strategically located to ensure a local presence in key markets. JLL hires local production, sales and distribution employees with knowledge of the area's languages and customs. This gives it an advantage in terms of understanding and communicating with customers. Its local presence also greatly reduces the time for new product launches and extensions to reach shop levels.

Widespread distribution network

JLL has established a distribution network across India with a sales staff of over 1,500 people servicing approximately 2,500 distributors. Its field staff have a direct reach of approximately 1 million retail outlets.

Focus on rural markets

Rural markets hold key to FMCG growth

The market for FMCG products in rural India is growing due to the effect of a monetary trickle-down arising from increased urbanisation. Improved rural economic conditions have resulted in consumers shifting to branded and packaged products from unbranded goods. In addition, a good agricultural performance over 2003-2006 has given a boost to rural household incomes and generated greater demand for packaged household care products. For example, dishwashing bars, detergents, household antiseptics and hand dishwashing liquid have benefited notably from this trend.

Existing brand presence lends JLL a first-mover advantage

One of the few players with a strong focus on the fast-growing rural markets

The range of branded FMCG products on offer in rural areas is very limited due to the challenges encountered in marketing and distribution to these areas. JLL is among the few players to have a strong focus on the rural markets, with its Ujala, Maxo and Exo brands having achieved a large presence. We expect the company to capitalise on its existing presence in rural India to tap into the burgeoning demand and low penetration of rival branded products.

Clear business growth strategy

Plans to launch Ujala Stiff & Shine nationally in 2007; JVs for new product distribution forays

Plans to leverage on brand equity for new launches

JLL plans to leverage the dominant market leadership of the Ujala brand to launch its fabric stiffener (Ujala Stiff & Shine) nationally in 2007. The company launched Ujala washing powder in Kerala in FY05 and would launch this product in other southern states in FY07.

JLL is also looking to increase the market share and presence of its Maxo products in a three-pronged manner – 1) introducing new liquid vaporisers and aerosol sprays, 2) ramping up of sales and marketing efforts in Bangladesh where it can leverage the strength of its Maxo brand, and 3) the acquisition of local brands in select markets. JLL's board has approved a proposal to establish a joint venture (with at least 75% of the equity owned by the company) to manufacture and market its Ujala and Maxo products in Bangladesh with an investment of Rs 75mn.

New product distribution forays through strategic partnerships

The company intends to utilise its wide distribution network and marketing expertise to attract joint venture partners with existing branded products as well as new and innovative product ideas. The company has entered into a JV with Shobha Kapoor and Ekta Kapoor to market and distribute *Karyasidhi Graha Shanti* dhoop (agarbatti), aimed at customers with astrological interests and beliefs. The company has also formed a JV with CCL Products for the marketing and distribution of coffee under the brand *Continental Speciale*. In addition, JLL has an agreement with Godrej Tea to distribute the latter's brand of the same name in India.

Objects of the offer

The objects of the offer are to achieve the benefits of listing and to carry out the divestment of 4.4mn equity shares by the selling shareholders.

Valuation

Upper band represents P/E of 20.7x on FY07 EPS

At the upper end of the price band, JLL is quoting at 20.7x its FY07 earnings of Rs 33.3. Since JLL is a June year-ending company, we have undertaken a comparative analysis of peer group players based on the trailing four quarters (July '06 – June '07).

Comparative valuation for July '06 – June '07

Particulars (Rs mn)	CMP	Sales (Rs mn)	PAT	EPS (Rs)	P/E (x)	RONW (%)
Marico	67.4	14,715.0	1,358.0	2.2	30.6	58.9
Godrej Consumer Products	130.0	8,305.0	1,450.0	6.4	20.3	155.0
Dabur India	109.0	18,738.0	2,773.0	3.2	34.1	65.0
Emami	277.0	4,874.0	679.0	10.9	25.4	23.9
Jyothy Laboratories	690.0	3,619.4	483.4	33.3	20.7	19.0
Average					27.6	75.7

Source: Religare Research; Capital Line

Niche brand presence and rural focus to fuel growth; Subscribe

Set to leverage on strong rural presence; Subscribe

From the table above, we see that JLL is available at a discount to peers on the basis of FY07 P/E multiples. However, the lower-than-industry RONW is a cause for concern considering the presence of bigger and more diversified players like Marico, Dabur and Godrej Consumer who also have a strong brand presence. Although we do not expect a significant P/E re-rating for the JLL stock, we recommend that investors Subscribe to the issue keeping in mind the company's niche brand presence, its large scope for growth, strong rural presence and effective distribution network.

Financials

Profit and Loss statement

(Rs mn)	FY04	FY05	FY06	FY07
Revenues	2,944.0	2,653.5	3,019.3	3,619.4
Growth (%)	4.2	(9.9)	13.8	19.9
EBITDA	(147.2)	332.7	457.4	527.0
Growth (%)	(163.5)	326.0	37.5	15.2
Depreciation	52.1	45.2	51.7	61.7
EBIT	(199.3)	287.5	405.7	465.3
Growth (%)	(196.5)	244.2	41.1	14.7
Interest	20.1	0.8	1.4	1.8
Other income	57.1	60.3	121.1	126.3
EBT	(162.3)	347.0	525.4	589.8
Growth (%)	(174.9)	313.8	51.4	12.3
Tax	(32.2)	71.6	90.0	73.7
Effective tax rate	19.8	20.6	17.1	12.5
Adj net income	(227.7)	324.5	467.1	483.4
Growth (%)	(314.8)	242.5	43.9	3.5
Shares outstanding (bn)	14.5	14.5	14.5	14.5
FDEPS (Rs)	(12.6)	22.4	32.2	33.3
DPS (Rs)	-	1.5	6.2	6.2
CEPS (Rs)	(9.7)	25.5	35.7	37.6

Source: Company, Religare Research

Balance sheet

(Rs mn)	FY04	FY05	FY06	FY07
Cash and cash eq	599.3	891.6	1,277.2	767.8
Accounts receivable	261.1	334.1	322.0	407.4
Inventories	193.1	180.4	236.0	396.5
Others current assets	244.8	244.1	144.2	227.4
Current assets	1,298.3	1,650.2	1,979.5	1,799.1
LT investments	31.0	26.1	17.1	17.4
Net fixed assets	627.7	748.4	824.1	1,028.3
CWIP	204.4	94.1	83.8	573.0
Total assets	2,161.3	2,518.8	2,904.4	3,417.8
Payables	201.6	270.3	225.8	373.5
Others	20.2	40.2	72.0	49.8
Current liabilities	221.8	310.5	297.8	423.2
LT debt	33.7	0.3	1.2	1.7
Other liabilities	-	27.0	57.4	65.3
Equity capital	72.6	72.6	72.6	72.6
Reserves	1,833.3	2,108.3	2,475.4	2,855.0
Net Worth	1,905.9	2,180.9	2,548.0	2,927.5
Total liabilities	2,161.3	2,518.8	2,904.4	3,417.8
BVPS (Rs)	131.3	150.3	175.6	201.7

Source: Company, Religare Research

Cash flow statement

(Rs mn)	FY04	FY05	FY06	FY07
Net income	(227.7)	324.5	467.1	483.4
Depreciation	52.1	45.2	51.7	61.7
Other adjustments	-	-	-	-
Changes in WC	246.8	29.1	43.7	(203.7)
Operating cash flow	71.2	398.8	562.5	341.4
Capital expenditure	(164.5)	(55.7)	(117.1)	(755.2)
Investments	3.3	4.9	9.0	(0.3)
Other investing inc/(exp)	-	-	-	-
Investing cash flow	(161.3)	(50.8)	(108.1)	(755.5)
Free cash flow	(90.0)	348.1	454.5	(414.1)
Issue of equity	964.0	(24.8)	3.4	0.1
Issue/repay debt	(993.8)	(33.3)	0.8	0.6
Dividends paid	-	(24.7)	(103.4)	(104.0)
Others	(33.2)	27.0	30.3	8.0
Financing cash flow	(63.0)	(55.8)	(68.8)	(95.3)
Beg. cash & cash eq	752.3	599.3	891.6	1,277.2
Chg in cash & cash eq	(153.0)	292.3	385.6	(509.4)
Closing cash & cash eq	599.3	891.6	1277.2	767.8

Source: Company, Religare Research

Financial ratios

	FY04	FY05	FY06	FY07
EBITDA margin (%)	(5.0)	12.5	15.1	14.6
EBIT margin (%)	(6.8)	10.8	13.4	12.9
Net profit margin (%)	(7.7)	12.2	15.5	13.4
FDEPS growth (%)	(186.1)	278.2	43.9	3.5
Receivables (days)	32.4	46.0	38.9	41.1
Inventory (days)	23.9	24.8	28.5	40.0
Payables (days)	8.9	9.5	6.4	11.8
Current ratio (x)	5.8	5.3	6.6	4.2
Interest coverage (x)	(9.9)	363.9	281.7	261.4
Debt/equity ratio (x)	0.0	0.0	0.0	0.0
ROE (%)	(14.8)	15.9	19.8	19.0
ROCE (%)	(6.8)	16.8	21.9	22.7
ROAE (%)	(8.5)	12.3	15.0	14.7
EV/Sales (x)	3.4	3.8	3.3	2.8
EV/EBITDA (x)	(68.3)	30.1	21.9	19.0
P/E (x)	(55.0)	30.9	21.4	20.7
P/BV (x)	5.3	4.6	3.9	3.4
P/CEPS (x)	(71.3)	27.1	19.3	18.4

Source: Company, Religare Research

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Recommendation parameters

Large-caps*	> 10%	< - 5%	Absolute Returns
	BUY	SELL	
Mid-caps**	> 25%	< 10%	

**Market cap over US$ 1bn **Market cap less than US$ 1bn*

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