

## Jyothy Laboratories Ltd

### Another disappointing quarter

Jyothy Laboratories (JYL's) results were below estimates with Sales/EBITDA/Adj PAT growth of 9.7%/(8.7%)/0.3% against our estimates of 15.3%/17.1%/15.8%. The impact was mainly led by the discontinuation of trade discounts on Maxo brand which affected Home care segment sales in Q3 as well. The profitability for the company was hit with operating margins declining by 230 bps mainly on account of higher A&P expenses used in the brand building of *Ujala*. The Adj. PAT was flat at Rs 169 mn, aided by the interest income on the QIP proceeds and reversal of sales incentives provisions. We have cut our earnings for FY11/FY12/FY13 by 8.8%/4.2%/2.2% to factor in earnings disappointment. Even though, we expect growth to pick up from Q4 onwards with *Maxo* stabilising, we expect consensus downgrades on the stock and see no re-rating triggers till we see good traction in *Maxo*, *Exo* or *Technobright*. We are also not too optimistic on value unlocking potential of fabric care business (laundry services) at this stage. Our price target on the stock is thus revised downwards to Rs 290 (previous target Rs 305)

**Revenue growth impacted by Maxo:** JYL's net sales for Q3FY11 increased by 9.7% YoY at Rs 1.48 bn, which were below our estimate. Fabric care reported 16% growth for the quarter largely led by price hikes in *Ujala*, with volumes remaining flat. *Ujala Techno Bright* volumes increased 52% for the quarter on a lower base, while *Stiff & Shine* sales increased by 38%. The de-growth in Home care revenues were mainly on account of the removal of trade discounts on the *Maxo* brand. *Maxo* reported sales degrowth of 16% for the quarter, with management not keen to give back the discounts (7% discounts rolled back till now at the trade level). Management expects *Maxo* sales to come back to positive territory from Q4FY11 onwards once the mosquito season starts. Dishwashing segment reported 40% sales growth for the quarter.

**Margins impacted as A&P costs increase significantly:** EBITDA showed a degrowth of 8.7% YoY to Rs 168 mn with operating margins of 11.3% (compression of 230 bps). The decline in margins was led solely by A&P expenses which increased by 220 bps YoY to 10.3%, which was a drag on margins. Majority of the increase in A&P expenses was on account of the increased investments in *Ujala*. Management expect full year A&P/Sales at 7% and stabilising around those levels for FY12. PAT was flat YoY at Rs 169 mn.

**Maintain Hold with a price target of Rs 290:** We have cut our earnings for FY11/FY12/FY13 by 8.8%/4.2%/2.2% to factor in lower sales growth for the company. Our price target based on 20x September '12 earnings for the stock works out to Rs 290 (previous price target Rs 305). We maintain our HOLD rating on the stock.

#### Financial highlights

(Rs mn)	FY10	FY11E	FY12E	FY13E
Revenue	5,981	7,091	8,450	10,208
Growth (%)	64.5	18.6	19.2	20.8
Adj net income	741	902	1,093	1,293
Growth (%)	98.2	21.8	21.1	18.3
FDEPS (Rs)	10.2	11.2	13.6	16.0
Growth (%)	98.2	9.6	21.1	18.3

#### Profitability and return ratios

(%)	FY10	FY11E	FY12E	FY13E
EBITDA margin	15.3	14.3	14.6	14.5
EBIT margin	13.3	12.7	13.1	13.1
Adj PAT margin	12.4	12.7	12.9	12.7
ROE	20.2	17.1	15.6	16.7
ROIC	20.5	21.3	24.6	26.4
ROCE	20.1	16.9	15.4	16.6

#### What's New? Target Rating Estimates

CMP	TARGET	RATING	RISK
Rs 268	Rs 290	HOLD	HIGH

BSE	NSE	BLOOMBERG
532926	JYOTHYLAB	JYL IN

#### Company data

Market cap (Rs mn / US\$ mn)	21,610 / 473
Outstanding equity shares (mn)	80.6
Free float (%)	36.9
Dividend yield (%)	1.5
52-week high/low (Rs)	323 / 151
2-month average daily volume	51,622

#### Stock performance

Returns (%)	CMP	1-mth	3-mth	6-mth
Jyothy Labs	268	5.1	(14.4)	(2.1)
BSE FMCG	3,488	(2.7)	(3.7)	8.4
Sensex	18,969	(5.5)	(6.6)	4.6

#### Valuation matrix

(x)	FY10	FY11E	FY12E	FY13E
P/E @ CMP	26.3	23.9	19.8	16.7
P/E @ Target	28.9	26.4	21.8	18.4
EV/EBITDA @ CMP	19.4	17.5	14.4	12.0

In the interest of timeliness this report has not been edited.





## Result highlights

**Fig 1 - Actual vs estimated performance**

(Rs mn)	Actual	Estimate	% Variance
Revenue	1,484	1,560	(4.9)
EBITDA	168	215	(22.1)
EBITDA margins (%)	11.3	13.8	(250bps)
Adj net income	169	195	(13.3)

Source: RCML Research

**Fig 2 - Standalone - Quarterly performance**

(Rs mn)	Q3FY11	Q3FY10	% Chg YoY	Q2FY11	% Chg QoQ
<b>Net sales</b>	<b>1,484</b>	<b>1,354</b>	<b>9.7</b>	<b>1,448</b>	<b>2.5</b>
Cost of revenues	791	720	9.8	771	2.6
Gross profit	693	633	9.5	677	2.3
A&P spends	153	110	39.4	172	(11.0)
Staff costs	186	173	8.0	175	6.7
Other operating expenses	186	167	11.3	175	6.4
<b>EBITDA</b>	<b>168</b>	<b>184</b>	<b>(8.7)</b>	<b>156</b>	<b>7.6</b>
EBITDA margin (%)	11.3	13.6	(230bps)	10.8	55bps
Other income	78	36	120.3	53	48.6
Interest	1	0	52.3	1	19.8
Depreciation & Amortization	30	26	18.1	29	6.4
PBT	215	193	11.4	180	19.8
Income taxes	46	25	87.0	25	83.6
<b>Adj. PAT</b>	<b>169</b>	<b>168</b>	<b>0.3</b>	<b>154</b>	<b>9.4</b>
<b>EPS (Rs)</b>	<b>2.1</b>	<b>2.3</b>	<b>(9.7)</b>	<b>2.0</b>	<b>3.8</b>

Source: Company, RCML Research

**Fig 3 - Estimate Revision**

Key parameters	FY11E			FY12E			FY13E		
	Old	New	% Chg	Old	New	% Chg	Old	New	% Chg
Revenue (Rs mn)	7,328	7,091	(3.2)	8,983	8,450	(5.9)	10,845	10,208	(5.9)
EBITDA (Rs mn)	1,152	1,017	(11.7)	1,325	1,236	(6.7)	1,560	1,484	(4.9)
EBITDA margin (%)	15.7	14.3	(138)	14.8	14.6	(12)	14.4	14.5	15
Net profit (Rs mn)	990	902	(8.8)	1,141	1,093	(4.2)	1,322	1,293	(2.2)
EPS (Rs)	12.27	11.19	(8.8)	14.15	13.56	(4.2)	16.40	16.04	(2.2)

Source: RCML Research



## Consolidated financials

### Profit and Loss statement

Y/E March (Rs mn)	FY10	FY11E	FY12E	FY13E
<b>Revenues</b>	<b>5,981</b>	<b>7,091</b>	<b>8,450</b>	<b>10,208</b>
Growth (%)	64.5	18.6	19.2	20.8
<b>EBITDA</b>	<b>918</b>	<b>1,017</b>	<b>1,236</b>	<b>1,484</b>
Growth (%)	88.3	10.8	21.5	20.0
Depreciation & amortisation	124	119	129	146
EBIT	413	794	898	1,107
Growth (%)	-	92.5	13.0	23.3
Interest	17	22	24	26
Other income	178	266	301	326
EBT	955	1,142	1,384	1,637
Income taxes	215	240	291	344
Effective tax rate (%)	22.5	21.0	21.0	21.0
Extraordinary items	-	-	-	-
Min into / inc from associates	(4)	-	-	-
Reported net income	744	902	1,093	1,293
Adjustments	4	-	-	-
<b>Adjusted net income</b>	<b>741</b>	<b>902</b>	<b>1,093</b>	<b>1,293</b>
Growth (%)	98.2	21.8	21.1	18.3
Shares outstanding (mn)	72.6	80.6	80.6	80.6
<b>FDEPS (Rs) (adj)</b>	<b>10.2</b>	<b>11.2</b>	<b>13.6</b>	<b>16.0</b>
Growth (%)	98.2	9.6	21.1	18.3
DPS (Rs)	4.0	3.9	4.7	5.6

### Cash flow statement

Y/E March (Rs mn)	FY10	FY11E	FY12E	FY13E
Net income + Depreciation	868	1,022	1,223	1,439
Non-cash adjustments	(75)	22	24	26
Changes in working capital	(292)	(91)	(134)	(174)
Cash flow from operations	502	952	1,113	1,291
Capital expenditure	(327)	(160)	(240)	(448)
Change in investments	(132)	-	-	-
Other investing cash flow	96	-	-	-
Cash flow from investing	(363)	(160)	(240)	(448)
Issue of equity	-	2,280	-	-
Issue/repay debt	127	15	15	15
Dividends paid	(170)	(368)	(446)	(528)
Other financing cash flow	(17)	(22)	(24)	(26)
Change in cash & cash eq	79	2,697	417	305
Closing cash & cash eq	303	3,000	3,417	3,722

### Balance sheet

Y/E March (Rs mn)	FY10	FY11E	FY12E	FY13E
Cash and cash eq	1,227	3,924	4,342	4,646
Accounts receivable	707	777	926	1,119
Inventories	730	824	981	1,202
Other current assets	351	389	463	559
Investments	0	0	0	0
Gross fixed assets	2,930	3,056	3,313	3,753
Net fixed assets	2,336	2,342	2,471	2,764
CWIP	41	76	59	67
Intangible assets	-	-	-	-
Deferred tax assets, net	(133)	(133)	(133)	(133)
Other assets	-	-	-	-
<b>Total assets</b>	<b>5,261</b>	<b>8,200</b>	<b>9,109</b>	<b>10,224</b>
Accounts payable	304	357	422	519
Other current liabilities	482	566	670	823
Provisions	462	434	512	598
Debt funds	130	145	160	175
Other liabilities	5	5	5	5
Equity capital	73	81	81	81
Reserves & surplus	3,805	6,611	7,258	8,024
Shareholder's funds	3,878	6,692	7,339	8,104
<b>Total liabilities</b>	<b>5,261</b>	<b>8,200</b>	<b>9,109</b>	<b>10,224</b>
BVPS (Rs)	53.4	83.0	91.0	100.5

### Financial ratios

Y/E March	FY10	FY11E	FY12E	FY13E
<b>Profitability &amp; Return ratios (%)</b>				
EBITDA margin	15.3	14.3	14.6	14.5
EBIT margin	13.3	12.7	13.1	13.1
Net profit margin	12.4	12.7	12.9	12.7
ROE	20.2	17.1	15.6	16.7
ROCE	20.1	16.9	15.4	16.6
<b>Working Capital &amp; Liquidity ratios</b>				
Receivables (days)	35	38	37	37
Inventory (days)	63	71	69	68
Payables (days)	22	30	30	29
Current ratio (x)	3.8	6.4	6.1	5.6
Quick ratio (x)	1.3	1.9	1.8	1.7
<b>Turnover &amp; Leverage ratios (x)</b>				
Gross asset turnover	2.2	2.4	2.7	2.9
Total asset turnover	1.3	1.1	1.0	1.1
Interest coverage ratio	46.9	41.5	46.4	51.1
Adjusted debt/equity	0.0	0.0	0.0	0.0
<b>Valuation ratios (x)</b>				
EV/Sales	2.8	2.4	2.0	1.6
EV/EBITDA	18.3	16.5	13.6	11.3
P/E	25.0	22.8	18.8	15.9
P/BV	4.8	3.1	2.8	2.5



### DuPont analysis

(%)	FY09	FY10	FY11E	FY12E	FY13E
Tax burden (Net income/PBT)	77.6	77.5	79.0	79.0	79.0
Interest burden (PBT/EBIT)	116.7	120.3	127.2	125.0	122.4
EBIT margin (EBIT/Revenues)	11.4	13.3	12.7	13.1	13.1
Asset turnover (Revenues/Avg TA)	90.9	127.1	105.4	97.6	105.6
Leverage (Avg TA/Avg equity)	119.0	128.1	127.4	123.4	125.2
<b>Return on equity</b>	<b>11.1</b>	<b>20.2</b>	<b>17.1</b>	<b>15.6</b>	<b>16.7</b>

### Standalone - Quarterly trend

Particulars	Q3FY10	Q4FY10	Q1FY11	Q2FY11	Q3FY11
Revenue (Rs mn)	1,354	2,132	1,513	1,448	1,484
YoY growth (%)	13.6	35.9	26.6	11.3	9.7
QoQ growth (%)	4.1	57.5	(29.0)	(4.3)	2.5
EBITDA (Rs mn)	158	233	286	127	137
EBITDA margin (%)	11.7	10.9	18.9	8.8	9.3
Adj net income (Rs mn)	168	212	257	154	169
YoY growth (%)	25.0	12.7	17.0	9.4	0.3
QoQ growth (%)	19.4	25.7	21.4	(39.9)	9.4

### Company profile

JYL has built a presence in the home care market with brands like Ujala, Maxo and Exo. The company started business with Ujala Supreme (liquid fabric whitener), building a strong 72% market share in the segment. Thereafter, it gradually entered into the mosquito repellent and dishwasher categories through its brands Maxo and Exo respectively.

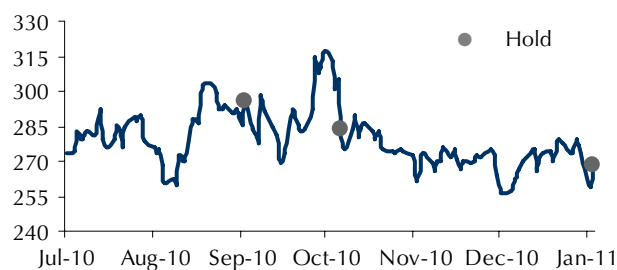
### Shareholding pattern

(%)	June-10	Sept-10	Dec10
Promoters	70.1	63.1	63.1
FIs	6.9	11.2	12.9
Banks & FIs	15.3	18.0	17.7
Public	7.7	7.7	6.3

### Recommendation history

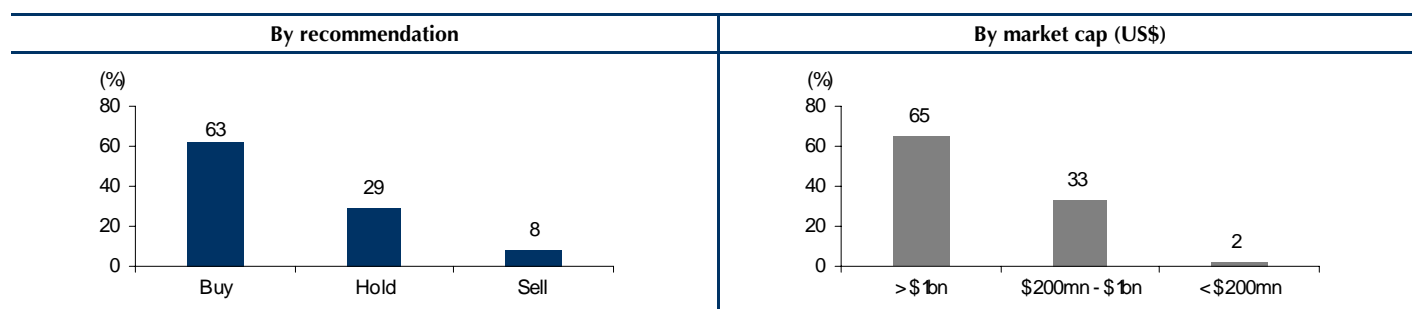
Date	Event	Reco price	Tgt price	Reco
27-Sep-10	Initiating Coverage	295	285	Hold
29-Oct-10	Results Review	284	305	Hold
25-Jan-11	Results Review	268	290	Hold

### Stock performance





### Coverage Profile



### Recommendation interpretation

Recommendation	Expected absolute returns (%) over 12 months
Buy	More than 15%
Hold	Between 15% and -5%
Sell	Less than -5%

Recommendation structure changed with effect from March 1, 2009

Expected absolute returns are based on share price at market close unless otherwise stated. Stock recommendations are based on absolute upside (downside) and have a 12-month horizon. Our target price represents the fair value of the stock based upon the analyst's discretion. We note that future price fluctuations could lead to a temporary mismatch between upside/downside for a stock and our recommendation.

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