

Jyothy Labs

Riding on liquification wave

We carried out comprehensive channel checks to better understand medium-term demand trends and what went wrong in 2QFY25, which led to muted volume growth. Our ground checks suggest that Jyothy Labs shall report minimum volume growth of 5-6%+ during 3QFY25, along with improved profitability on the back of the following: (1) Management taking an aggressive stance to be one of the meaningful players in the liquid detergent segment as this market transitions from powder to liquid. This is being done by setting the right price architecture and launching relevant SKUs for different channels. (2) Focus on winning back market share in the dishwashing business by passing higher value to end consumers and offering better trade schemes to customers (retailers). (3) Taking pricing action in the soaps portfolio to navigate the challenge of higher PFAD prices. (4) Driving conversion towards liquids from coils in the Household Insecticides segment with an enhanced product proposition. We continue to maintain a high-conviction BUY with a TP of Rs 600 (40x FY27 EPS), as it could be an outlier amongst our consumer coverage. However, we have reduced our target multiple from 42x to 40x, to account for the overall correction in consumer sector multiples and the gradual recovery in FMCG consumption.

Liquid detergent—helping fabric care to premiums faster: The liquid detergent category is approximately cRs35-40 bn and it has seen exponential growth in the past few years as (1) customers look out for products that can give a better quality of wash as well as better fragrance and (2) there is increasing penetration of automatic washing machine, which again is fuelled via easy availability of finance and upgradation from semi-automatic washing machine to automatic machine. Kantar, a global research agency, highlighted that liquid fabric softeners (13% YoY growth) and liquid detergent (20% YoY growth) were the fastest-growing categories within HPC in 2023. This growth is quite commendable, as the FMCG industry grew only 5% YoY. Moreover, these categories saw a maximum increase in penetration, adding 14/13 million new users respectively during CY23.

South India leading the move to liquid detergent: Our checks indicate that the liquid detergent category is more skewed towards South India (where Jyothy Labs has a strong distribution network) owing to (a) hard water, in which liquids provide better solution vs powders/bars, as premium detergents soften hard water very quickly, which gives a better quality wash and keeps washing machines in good condition; (b) higher washing machine penetration (40% in South India vs 20% pan-India); and (c) higher per capita income, with enhanced ability to pay for premium products.

Annual Financial Summary

(INR mn)	FY23	FY24	FY25E	FY26E	FY27E
Net Sales	24,842	27,550	29,084	32,041	35,305
EBITDA	3,159	4,798	5,220	5,959	6,764
APAT	2,327	3,693	4,081	4,719	5,454
Diluted EPS (Rs)	6.3	10.1	11.1	12.8	14.9
P/E (x)	61.5	38.8	35.1	30.3	26.2
EV / EBITDA (x)	44.4	29.5	26.6	22.8	19.5
Core RoCE (%)	15.0	21.2	20.7	23.8	27.2

Source: Company, HSIE Research

BUY

CMP (as on 31 Dec 2024)	INR 397
Target Price	INR 600
NIFTY	23,645

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 600	INR 600
	FY25E	FY26E
EPS %	0.0%	0.0%

KEY STOCK DATA

Bloomberg code	JYL IN
No. of Shares (mn)	367
MCap (INR bn) / (\$ mn)	146/1,703
6m avg traded value (INR mn)	539
52 Week high / low	INR 596/367

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(28.8)	(8.0)	(17.1)
Relative (%)	(21.5)	(6.9)	(25.2)

SHAREHOLDING PATTERN (%)

	Jun-24	Sep-24
Promoters	62.89	62.89
FIs & Local MFs	14.36	15.27
FPIs	15.10	15.10
Public & Others	7.65	6.74
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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Fabric care (43% of revenues)

Jyothy Labs made a late entry into this category in FY23 by launching liquid variants of Ujala (mid-end) and Henko (premium). Moreover, it gained further momentum during FY24 as (1) Ujala liquid detergent was extended from Kerala to other southern states; (2) a front-load variant was introduced; and (3) incrementally, low-unit packs of Henko Liquids were aggressively marketed by way of displays and POS visibility.

However, what has transpired during the past six months (i.e. July to December 2024) and more particularly over the past three months (October-December, 2024) instils a lot of confidence that Jyothy is set to grab meaningful market share within the fast-growing liquid detergent market.

JYL has taken the following steps over the past few months to grab a meaningful market share in the liquid detergent market:

- 1) Launched detergent liquids for two of its BTL-based brands (Morelight and Mr.White) at disruptive price points. Earlier, it was available only for Ujala and Henko brands.
- 2) **More light liquid detergent:** Extending Morelight Liquid detergent from Modern Trade channel to General Trade channel. As a result, it has launched a 1 Litre pouch pack for GT channel at a disruptive price point of Rs 99/Litre. Point to note that GCPL had also launched Fab liquid detergent at the same price point of Rs 99/Litre almost a year ago; however, Jyothy Labs is trying to beat the game via offering higher trade margins (offers Rs 20/Ltr vs Rs 15/Ltr offered by GCPL) and superior product proposition. Notably, only 25-30% Morelight liquid detergent is being distributed via direct reach-based outlets, signifying meaningful room for distribution expansion.
- 3) **Ujala liquid detergent:** The company has undertaken price correction in one of the mainstream brands—Ujala Liquid detergents, reducing its price from Rs 125/Litre to Rs 109/Litre and even in selected key trade outlets, it has reduced the price to Rs 99/Ltr. **We believe this could be a gamechanger, if Ujala liquid detergent is extended at this disruptive price point (Rs 99/ Ltr) across all outlets as the brand equity is much stronger in Southern India.**
- 4) **Henko liquid detergent:** a) The bulk packs are being offered again at highly mouth-watering prices i.e. Rs 125/Ltr—discount of almost 15-20% to mainstream brands of Surf Excel and Ariel; b) extending this brand to East and Central India, as this brand was not present in this area; c) tying with influencers who have a decent following, which is bringing a lot of new audience into the fold.

Jyothy Labs has tied up with following influencers :

- RJ Punitha Acharya (@rjpunitha_acharya - 0.2 mn followers)
 - Vijayalakshmi Ahathian (@itsvg - 0.8 mn followers)
 - Farina Azad (@farina_azad_official - 1.4 mn followers)
- 5) **Mr White liquid detergent:** Launched 2 Litre and 5 Litre packs predominantly, wherever the brand has strong brand equity i.e. mainly in the North (Punjab and the North East belt).

Liquid Detergent brand price points : Jyothy Labs has priced its products very competitively

Brand Name	Company	E-com Price	Qt. (litres)	Cost/Litre
Morelight	Jyothy	352	5	70
Fab	GCPL	197	2	99
Rin	HUL	213	2	107
Safewash	WIPRO	215	2	108
Ujala	Jyothy	224	2	112
Genteel	GCPL	249	2	125
Presto	Amazon	239	2	120
Henko	Jyothy	401	3.2	125
Tide	P&G	420	3.2	131
Ariel	P&G	461	3.2	144
Surf Excel	HUL	494	3.2	154

Source: Amazon, HSIE Research

Powder Detergent price points : With correction in liquid pricing, conversion from powder to liquids shall accelerate

Brand Name	Company	E-com Price	Qt. (KG)	Cost/KG
More Light	Jyothy	249	4	62
Ghadi	RSPL	194	3	65
Wheel	HUL	65	1	65
Mr. White	Jyothy	525	7	75
Tide Natural	P&G	250	3	83
Presto	AMZN	349	4	87
Rin	HUL	196	2	98
Henko	Jyothy	429	4	107
Surf Excel Easy Wash	HUL	561	5	112
Nirma	Nirma	140	1	140
Ariel	P&G	589	4	147
Sunlight	HUL	229	1	229

Source: Amazon, HSIE Research

Ujala Fabric whitener (20% of Fabric care business)

Management is aiming to drive revenue growth in the stagnating fabric whitener market on the back of price hikes and trial generation in rural areas. As a result, it raised the price of the top-selling SKU from Rs 32 to Rs 35 for a 75 ml pack in 3QFY25.

Dishwashing (34% of overall sales) – aiming to regain lost market share

- Our channel checks suggest that post market share loss in 2QFY25, JYL has taken an aggressive stance and is trying to offer better value to consumers (higher grammage) and customers (better trade schemes) At an aggregate level, grammage for Exo dishwashing bar has been increased 8-10% on a sequential basis.
- Trade response has been terrific post grammage increase, as it was first mover in southern states; which was later followed by Vim to a large extent.
- Pril large packs continue to do well in MT/E-commerce; whereas low unit packs of Pril are seeing decent traction in General Trade. However, our channel checks suggest that it has discontinued LUP of Rs 15, making the customers switch to the Rs 20 SKU.

Dishwashing market share data – lost decent market share ; trying to make comeback via offering better value to consumers / customers as well

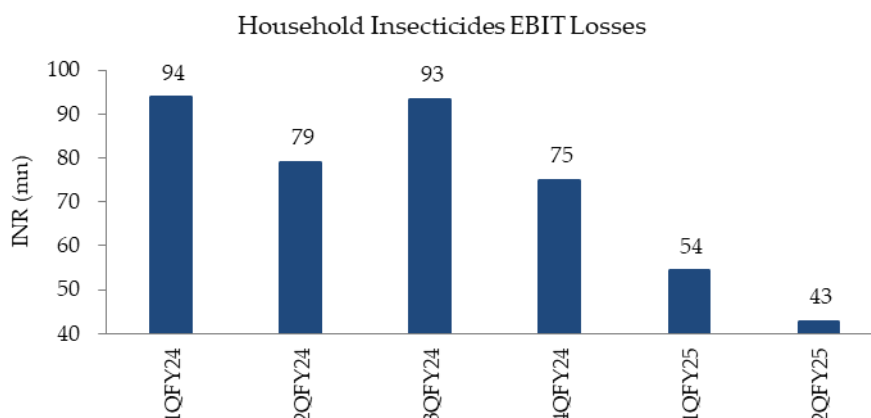
Market share (%)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25
Exo	13.7	13.9	14.0	13.8	13.8	13.8	13.8	13.7	14.7	13.6
Pril	15.1	15.1	14.8	14.8	NA	14.3	14	13.7	14.7	14.0

Source: Company, HSIE Research

Household insecticides (8% of overall sales)—focus on improving product mix

Our ground checks suggest that the coils (60-65% of HI sales) segment is having a tough time owing to (a) customers switching to incense sticks, where JYL does not have any product to compete with and (b) unfavourable weather conditions. However, on the other hand, Liquid (35-40% of HI sales) continues to see double-digit growth owing to a) improvement in product quality; b) distribution expansion; and c) better engagement with its new brand ambassador Kareena Kapoor.

Household Insecticides EBIT losses coming down on back of improved product mix



Source: Company, HSIE Research

Soap (12% of overall sales)—taking pricing action to tackle RM challenge

JYL has taken a low to mid-single digit hike in the core Margo portfolio in order to navigate higher PFAD price.

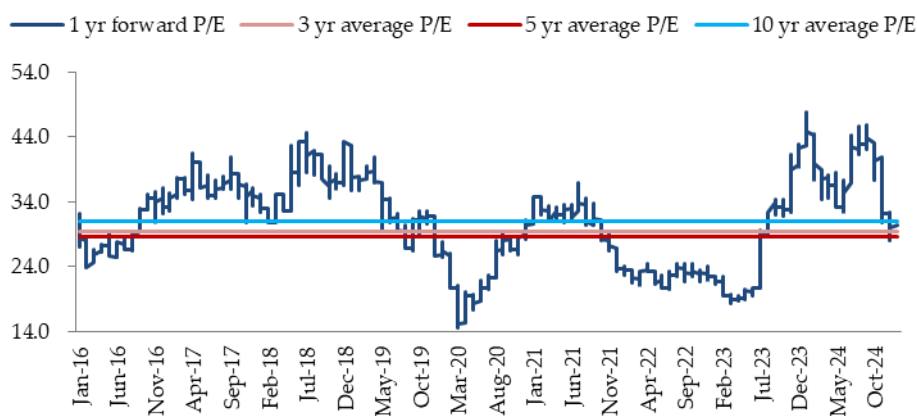
Jyothy Labs—*Sarva gunn sampan*; maintain high conviction BUY

We maintain Jyothy Labs (JYL) as a high conviction BUY idea, with a TP of Rs 600 (40x FY27 EPS), as it is one of the few FMCG companies structurally poised for high single-digit volume growth, low-teen EBITDA growth, and mid-teen net income growth. We pencil in revenue/EBITDA/PAT CAGRs of 9/12/14% for FY24-27, the second-highest amongst our coverage of consumer staple companies. Our confidence stems from the fact that (a) JYL operates in categories which have a higher Total Addressable Market and, despite being a challenger brand, it is trying to grab a pie of the same by making the product portfolio comprehensive, launching low unit packs, communicating product superiority vs. competition, and providing value-for-money offerings; (b) it has got the basics of FMCG right under its new leadership – i) increasing the distribution network and improving productivity; ii) shifting to Above the Line (ATL) spends, away from BTL; iii) focusing on low unit packs across the product portfolio, to align with its objectives; (c) competent key management personnel are ensuring smooth execution of the above strategy, which was not the case with the erstwhile management, who were more keen on M&A transactions. Reasonable valuation (25x FY27 EPS) provides a significant margin of safety. We call Jyothy Labs *sarva gunn sampan* as it is completely versatile and has enough weapons in its armoury to combat any challenge.

Valuation matrix – Jyothy Labs trades at reasonable valuations despite having second highest earnings CAGR amongst coverage universe

Name	Mcap (Rs bn)	CMP	Rating	TP	TP X	P/E (x)			EV/EBITDA (x)			% CAGR FY24-27E			ROE			Dividend Yield (%)
						FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	Rev	EBITDA	PAT	FY25E	FY26E	FY27E	FY27E
Large Caps																		
ITC	6,066	484	REDUCE	420	25	29	26	24	23	21	19	9	9	7	28	30	31	3.6
HUL	5,489	2,327	BUY	3,200	60	52	47	43	37	33	30	6	8	8	21	22	24	2.2
Mid Cap																		
CLGT	736	2,681	REDUCE	3,300	48	47	44	39	34	31	28	10	10	12	80	84	90	2.4
MRCO	830	640	BUY	760	50	52	46	41	37	33	29	10	11	11	40	42	43	2.0
HMN	263	601	ADD	750	30	29	26	24	24	22	19	8	11	12	31	30	30	2.1
DABUR	902	507	ADD	625	50	48	42	38	33	28	25	8	9	9	18	19	20	1.6
GCPL	1,106	1,082	BUY	1,450	50	50	41	36	34	30	26	9	12	17	17	19	19	1.4
JYL	147	397	BUY	600	42	36	31	27	27	23	20	9	12	14	21	21	21	1.3
Food companies																		
NEST	2,097	2,170	ADD	2,600	65	66	66	59	44	39	35	8	8	8	81	76	79	1.7
BRIT	1,157	4,763	ADD	5,650	50	52	46	41	35	31	28	9	9	10	53	54	55	2.0

Valuation rerating to play out as underlying business undergoes fundamental reset. Notably average 10 years 1 year forward P/E is at 31x



Source: Bloomberg, Company, HSIE Research

Consolidated P&L

(INR mn)	FY23	FY24	FY25E	FY26E	FY27E
Net Revenues	24,842	27,550	29,084	32,041	35,305
Growth (%)	13.2	10.9	5.6	10.2	10.2
Material Expenses	14,349	14,038	14,600	15,987	17,506
Employee Expense	2,644	3,005	3,216	3,473	3,785
Other Expenses	4,709	5,728	6,071	6,648	7,280
EBITDA	3,159	4,798	5,220	5,959	6,764
EBITDA Growth (%)	27.3	51.9	8.8	14.2	13.5
EBITDA Margin (%)	12.7	17.4	17.9	18.6	19.2
Depreciation	501	500	555	604	653
EBIT	2,657	4,298	4,664	5,355	6,111
Other Income	396	537	618	741	927
Interest	131	47	50	47	45
PBT	2,922	4,788	5,232	6,049	6,993
Tax	595	1,095	1,151	1,331	1,538
Profit from minority/associates	0	0	-	-	-
RPAT	2,398	3,693	4,081	4,719	5,454
Adjustment	70	-	-	-	-
Adjusted PAT	2,327	3,693	4,081	4,719	5,454
APAT Growth (%)	43.7	58.7	10.5	15.6	15.6
Adjusted EPS	6.3	10.1	11.1	12.8	14.9
EPS Growth (%)	43.7	58.7	10.5	15.6	15.6

Source: Company, HSIE Research

Consolidated Balance Sheet

(INR mn)	FY23	FY24	FY25E	FY26E	FY27E
SOURCES OF FUNDS					
Share Capital - Equity	367	367	367	367	367
Reserves	15,123	17,716	20,369	23,436	26,981
Total Shareholders Funds	15,490	18,083	20,736	23,803	27,348
Minority Interest	21	19	19	19	19
Long Term Debt	-	-	-	-	-
Short Term Debt	-	-	-	-	-
Total Debt	-	-	-	-	-
Net Deferred Taxes	(845)	(594)	(594)	(594)	(594)
Other Non-current Liabilities & Provns	1,044	1,102	1,102	1,102	1,102
TOTAL SOURCES OF FUNDS	15,709	18,610	21,262	24,329	27,875
APPLICATION OF FUNDS					
Net Block	11,163	11,253	11,197	11,093	10,940
CWIP	155	134	134	134	134
Other Non Current Assets	703	637	637	637	637
Total Non-current Assets	12,021	12,023	11,968	11,863	11,710
Inventories	3,019	2,835	3,028	3,336	3,676
Debtors	1,378	2,014	1,992	2,019	2,128
Other Current Assets	520	4,882	4,882	4,882	4,882
Cash & Equivalents	2,835	1,661	4,226	7,346	10,908
Total Current Assets	7,751	11,392	14,128	17,583	21,594
Creditors	2,143	2,761	2,789	3,072	3,385
Other Current Liabilities & Provns	1,920	2,044	2,045	2,045	2,045
Total Current Liabilities	4,064	4,805	4,833	5,117	5,430
Net Current Assets	3,688	6,587	9,295	12,466	16,164
TOTAL APPLICATION OF FUNDS	15,709	18,610	21,262	24,329	27,875

Source: Company, HSIE Research

Consolidated Cash Flow

(INR mn)	FY23	FY24	FY25E	FY26E	FY27E
Reported PBT	2,992	4,788	5,232	6,049	6,993
Non-operating & EO Items	(281)	(350)	-	-	-
Interest Expenses	131	47	-	-	-
Depreciation	501	500	555	604	653
Working Capital Change	509	387	(143)	(51)	(136)
Tax Paid	(567)	(793)	(1,151)	(1,331)	(1,538)
OPERATING CASH FLOW (a)	3,286	4,579	4,494	5,271	5,972
Capex	(355)	(371)	(500)	(500)	(500)
Free Cash Flow (FCF)	2,931	4,208	3,994	4,771	5,472
Investments	(433)	(3,512)	-	-	-
Non-operating Income	304	440	-	-	-
INVESTING CASH FLOW (b)	(483)	(3,444)	(500)	(500)	(500)
Debt Issuance/(Repaid)	(1,250)	-	-	-	-
Interest Expenses	(104)	-	-	-	-
FCFE	4,157	1,136	3,994	4,771	5,472
Share Capital Issuance	-	-	-	-	-
Dividend	(918)	(1,102)	(1,428)	(1,652)	(1,909)
Others	(235)	(247)	-	-	-
FINANCING CASH FLOW (c)	(2,507)	(1,348)	(1,428)	(1,652)	(1,909)
NET CASH FLOW (a+b+c)	296	(213)	2,565	3,120	3,563
EO Items, Others	-	-	-	-	-
Closing Cash & Equivalents	1,073	861	3,426	6,546	10,109

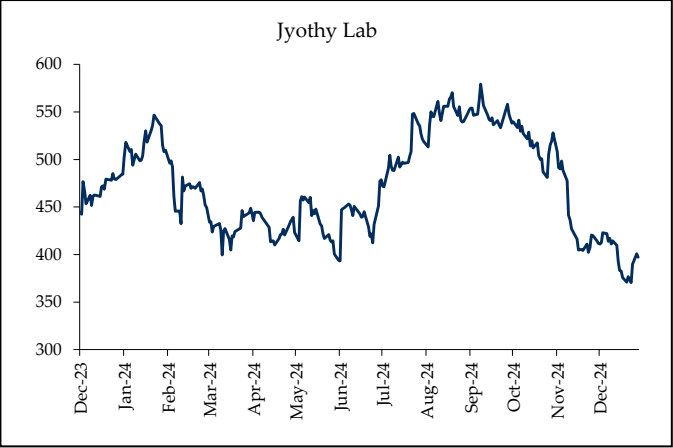
Source: Company, HSIE Research

Ratios

KEY RATIOS	FY23	FY24	FY25E	FY26E	FY27E
PROFITABILITY (%)					
GPM	42.3	49.1	49.9	50.2	50.5
EBITDA Margin	12.7	17.4	17.9	18.6	19.2
EBIT Margin	10.7	15.6	16.0	16.7	17.3
APAT Margin	9.4	13.4	14.0	14.7	15.4
RoE	15.6	22.0	21.0	21.2	21.3
RoIC (or Core RoCE)	15.0	21.2	20.7	23.8	27.2
RoCE	14.6	20.9	20.1	20.3	20.6
EFFICIENCY					
Tax Rate (%)	20.4	22.9	22.0	22.0	22.0
Fixed Asset Turnover (x)	4.91	5.30	5.11	5.17	5.27
Inventory (days)	44.4	37.6	38.0	38.0	38.0
Debtors (days)	20.2	26.7	25.0	23.0	22.0
Other Current Assets (days)	7.6	64.7	61.3	55.6	50.5
Payables (days)	31.5	36.6	35.0	35.0	35.0
Other Current Liab & Provns (days)	28.2	27.1	25.7	23.3	21.1
Cash Conversion Cycle (days)	12.5	65.3	63.6	58.3	54.3
Net D/E (x)	(0.2)	(0.1)	(0.2)	(0.3)	(0.4)
Interest Coverage (x)	20.3	90.9	93.9	113.5	136.3
PER SHARE DATA (Rs)					
EPS	6.3	10.1	11.1	12.8	14.9
CEPS	7.7	11.4	12.6	14.5	16.6
Dividend	3.0	3.5	3.9	4.5	5.2
Book Value	42.2	49.2	56.5	64.8	74.5
VALUATION					
P/E (x)	62.7	39.5	35.7	30.9	26.7
P/BV (x)	9.4	8.1	7.0	6.1	5.3
EV/EBITDA (x)	45.3	30.0	27.1	23.2	19.9
EV/Revenues (x)	5.8	5.2	4.9	4.3	3.8
OCF/EV (%)	2.3	3.2	3.2	3.8	4.4
FCF/EV (%)	2.9	0.8	2.8	3.4	4.1
FCFE/Mkt Cap (%)	2.9	0.8	2.7	3.3	3.8
Dividend Yield (%)	0.8	0.9	1.0	1.1	1.3

Source: Company, HSIE Research

1 Yr Price Movement



Rating Criteria
BUY: >+15% return potential
ADD: +5% to +15% return potential
REDUCE: -10% to +5% return potential
SELL: > 10% Downside return potential

Disclosure:

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