SMART SYNC SERVICES

Jyothy Labs Q2FY21

Financial Results & Highlights

Introduction

Jyothy Laboratories Ltd is a Mumbai-based fast-moving consumer goods company founded in 1983. It has 6 business divisions namely Fabric Care (Ujala -. market leader), Household Insecticide (Maxo), Utensil Cleaners (Exo), Fragrances, Personal Care (Margo) and Fabric Care Service. Ujala, Maxo, Exo, Jeeva and Maya are some of the brands it owns under these divisions. The company is the largest player in the fabric whitener space in India with a market share of 72%.

Standalone Financials (In Crs)								
	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %	H1FY21	H1FY20	YoY
Sales	504	470	7.23%	433	16.40%	937	886	5.76%
PBT	71	60	18.33%	59	20.34%	129	102	26.47%
PAT	61	53	15.09%	50	22.00%	111	89	24.72%
Consolidated Financials (In Crs)								
	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %	H1FY21	H1FY20	YoY
Sales	509	480	6.04%	437	16.48%	945	908	4.07%
PBT	73	63	15.87%	61	19.67%	134	109	22.94%
PAT	60	54	11.11%	50	20.00%	110	91	20.88%

Detailed Results:

1. Standalone and Consolidated quarterly revenues were up at 7% & 6% YoY respectively. (volume up by 8.5%)
2. The gross margin for the quarter increased from 46.4% last year to 47.7%.
3. Operating EBITDA at 17.3% (Rs 87.4 Cr) Vs 16.6% (Rs 78.7 Cr) in the same period last year.
4. PAT at Rs 60 Cr as against Rs 54 Cr last year, up by 11% YoY.
5. In H1, consolidated revenues were up 4.5% YoY while volumes were up 7.3% YoY.
6. Gross Margin in H1 was 47% from 47.4% in the same period last year.
7. Operating EBITDA in H1 improved to 17.5% vs 16.1% last year.
8. Category wise break-up of Q2 YoY Revenue Growth:
    1. Fabric Care: Down 11.7% (34% of sales)
    2. Dishwashing: Up 23.6% (38% of sales)
    3. Household Insecticides: Up 22.6% (12% of sales)
    4. Personal Care: Up 14.5% (12% of sales)

   5. Others: Up 17.8% (3%)
   6. Laundry Services: Down 60% (1% of sales)

9. A&P expenses to sales were flat at 5.9% in Q2.
10. WC improved to 17 days in Q2FY21 vs 23 days last year and 35 days in March quarter.
11. Net debt to equity was reduced to 0.04 from 0.26 a year ago.
12. ROCE improved to 16.8% in Q2 vs 14.4% last year.

Investor Conference Call highlights:

1. Consumers are shifting to Kirana stores and e-commerce from large format stores thus showing a shift towards the general trade channel.
2. Rural demand has been better than urban demand due to good monsoons and government support.
3. The company has been focusing on low unit packs across brands of INR 5 and INR 10 across markets.
4. Ecommerce sales have risen 1.7 times YoY in Q2.
5. The company launched a new product Exo Bioh Fresh, 100% organic vegetable and fruit cleaner, in Kerala in Q2.
6. The company has done across-the-board salary increments and incentive payouts to boost the morale of the entire organization.
7. Media spends have been increased by 6.4%, keeping in line with sales growth.
8. The improvement in EBITDA in Q2 was mainly from the improvement in gross margins.
9. The management expects demand for Ujala to start coming back slowly as schools and offices become functional.
10. The company is initiating a pan-India national rollout with TV campaigns and spends for Henko.
11. The dishwash segment has seen sustained demand from rising in-home consumption of food and a renewed focus on hygiene. The company expects the small packs in this segment to help penetrate rural markets and keep growth sustained for the segment.
12. Household Insecticides has seen good growth due to the good rainy season and consumers adopting a more cautious approach to health.
13. The increase in gross margins is expected to be sustainable as it arises from soft RM prices which are expected to remain at current levels going forward.
14. The management keeps its earlier guidance of EBITDA margins in the 15-16% range as it provides them with some room for strategic marketing for brand growth.
15. The sales breakup in the HI segment is 70-30 for coils and liquid respectively. The company is aiming to scale up on the liquid side with its unique offerings and media spending on the products.

16. The company's portfolio is currently at 40% rural and 60% urban. The management expects rural to outpace urban growth going forward.
17. The increasing awareness of hygiene and the availability of small packs should drive the acceleration of discretionary products like dishwash liquid, detergent, and personal care products in rural regions.
18. The management has stated that the company has managed to consolidate its market share in the dishwash segment mainly on the back of unique offerings like Exo being the first antibacterial and Pril Tamarind, the shift from older dishwashing methods of using ash to branded products, and focus of the company on increasing distribution in West and North India.
19. The management expects the HI segment to turn EBIT positive in the coming few quarters.
20. The trade channel breakup was 20-80 for modern trade and general trade respectively.
21. The company has Rs 120 Cr of contingent liability out of which Rs 80 Cr is a loan to its subsidiary.
22. The management expects the demand for the vegetable cleaner to remain even after the pandemic is over.
23. The contribution of low unit packs of Rs 5-10 to sales is around 25-30% and this is expected to rise going forward.
24. The company launched the Exo gel to capitalize on the strong brand of Exo and to appeal more to the value-conscious consumer with a thicker gel as compared to liquid dishwash soap.
25. The brand focus for Exo gel is mostly in the South currently as the brand is relatively known here and liquid usage is higher in the South as compared to any other area.
26. The Exo gel is to appeal to customers in the middle of the spectrum of bar and liquid who want to move on from bar but do not want to go into the liquid segment as it is expensive and can have instances of wastage happening from improper usage.
27. The margin profile for Exo bars and gels are roughly the same.
28. In distribution, the company is focusing on helping increase the productivity of sales agents through the use of data analytics and technology. They are also looking to focus on selling more lines in the same shop or improving productive calls.
29. In rural zones, the company is focusing on increasing brand coverage and adding sub stockists.
30. The company has now more than 10,000 villages under rural coverage.
31. The gross margins for coils are much lower than liquid which has margins close to the company average.
32. The company has a net cash position of Rs 30-40 Cr on a standalone basis. On a consolidated basis, it has net debt of Rs 40 Cr.
33. The company is not focusing on high numbers for sanitizers as they are low margins and it is much more preferable to focus on other products with more durable demand like the Exo Bioh vegetable cleaner.

34. The management expects the fabric care segment to come back to the growth of 5-10% once the pandemic issues are resolved.
35. The management expects to see increased investments in media spend across its brand portfolios in H2 while keeping EBITDA margins within the guided range.
36. The average tax rate for H1 was at 17.5-18%. This range is expected to continue even in the next financial year.
37. The company doesn't have any plans to increase any prices in the personal care segment.
38. The company's immediate focus will be on market share gains, leaving room for only 50 bps or 100 bps EBITDA expansion in each quarter.

Analyst's View:

Jyothy Labs is a consistent performer in the FMCG segment in India. They have successfully carved out a niche for themselves and have established themselves as market leaders in the fabric care and dishwashing segment. The performance of the company was very encouraging in this quarter mainly on the back of good performance of dish wash segment and increasing rural penetration. The company has done well to be able to achieve good growth in its prime dish wash segment and in the revival of the HI segment. The company still faces the issue of a fall in demand in the post-wash segment which is the company's biggest earner. It remains to be seen how long will it take for the post-wash segment to revive and how the company will fare in the increasingly competitive environment in the health hygiene space. Nonetheless, given the renewed focus on health and hygiene going forward and the company's good distribution reach and resilient product portfolio, Jyothy Labs may turn out to be a pivotal FMCG stock to watch out for.