Jyothy Laboratories Ltd. (JLL) – Henkel's turnaround to drive growth…

Date	**2nd July, 2012**
NSE/BSE Code	**JYOTHYLAB/532926**
Promoter's holding	65.25%
FV	Re. 1
Equity Share Capital (Rs. in mn)	80.63
Market Capitalization (Rs. in mn)	18544.9
52 week high/low	Rs. 252 (20th July, 2011)/Rs. 125 (8th Nov, 2011)
CMP	230
Recommendation	**Hold and Accumulate at lower levels of Rs. 180-200**

Financial Highlights (Consolidated)–Rs. mn

Particulars	FY 10	FY 11	FY 12	FY13E	FY14E
Revenue	5,940	6,100	9,130	13,150	15,680
EBITDA	915	714	840	1,131	1,740
OPM (%)	15.4	11.7	9.2	8.6	11.1
Profit after Tax	740	690	450	510	880
PAT Margin (%)	12.5	11.3	4.9	3.9	5.6
EPS (Rs.)	10.3	8.5	5.5	6.4	10.9
P/E (x)	22	27	42	36	21
RoE (%)	20.3	13.5	7.2	8.4	13.9
RoCE (%)	0.2	0.1	0.1	0.1	0.1

Source: Company, Ajcon Research, FY13E and FY14E are street estimates

About Jyothy Laboratories

Key Milestone

Year	Event
1983	a) Jyothy Laboratories started as a proprietary concern in Kerala b) Launch of Ujala
1992	a) Chennai factory to make Ujala commissioned b) Jyothy Laboratories incorporated
1997	Launch of Ujala all over India
2000	a) Maxo launched in West Bengal b) Exo launched in Kerala, Karnataka, Andhra Pradesh and Tamil Nadu c) Private Equity investment by Barings India
2002	Private Equity by Actis and CLSA
2003	Awarded the "AAA" Brand Performance Award" for Maxo
2007	Listed with BSE and NSE
2009	FABRIC SPA services launched in Bangalore – November 2009
2011	a) Acquired controlling stake in Henkel India Ltd. b) Group Turnover crossed 1,000 crore mark

Source: Company, Ajcon Research

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Q4FY12 performance

Financial Performance – Rs. mn (Standalone)

Particulars	Q4FY12	Q3FY12	Q4FY11	YoY (%)	QoQ (%)	FY12	FY11	YoY (%)
Revenue	2,188	1,664	1,585	38.09	31.5	6,630	6,068	9.3
EBITDA	364	280	182	99.6	30	827	860	(3.8)
OPM (%)	16.6	16.9	11.7	490 bps	(30) bps	12.5	14.3	(180) bps
Depreciation	34	62	16	112.5	(45.16)	170	108	57.4
Interest	134	23	24	458	483	194	3	-
Other Income	152	145	80	90	4.8	570	207	175
Profit before Tax	348	340	244	42.6	2.35	1,032	956	7.9
Tax	69	50	14	392.8	38	197	153	28.8
Profit after Tax	279	291	230	21.3	(4.12)	835	803	3.9
PAT Margin (%)	12.7	17.4	14.5	(180) bps	(470) bps	12.6	13.2	(60) bps
EPS	3.46	3.61	2.85	21.4	(4.15)	10.36	10.35	0.09

Source: Company, Ajcon Research

In Q4FY12, the Company's topline witnessed a growth of 37.5% on yoy basis to Rs. 219 crores. On qoq basis, the growth stood at 31.4%. There was a sharp increase in raw material costs especially crude and guar gum prices. However, employee cost which witnessed a decline of 30.2% on qoq basis because of the reversal of incentives on underperformance to sales staff offset the raw material price hike. Operating Profit registered a strong growth of 99.6 percent to Rs. 36 crores. On a qoq basis, the growth stood at 30%. PAT was under pressure owing to higher interest costs. Interest cost for Q4FY12 stood at Rs. 13 crores on account of debt of Rs. 430 crores at a rate of 11.25% taken for providing loan to HIL. On a qoq basis, PAT declined by 4% to touch at Rs. 28 crores.

In terms of segment wise performance, Fabric care segment witnessed yoy growth of 34%, Maxo increased by 32% and Exo increased by 84% for the quarter on yoy basis. After witnessing pressure for a long time, Maxo reported sales qoq increase of 121.4% to Rs. 62 crores in Q4FY12. The Company with its new advertisement featuring Bollywood actor R. Madhavan, it is focusing on Maxo liquid and expects growth momentum to continue. The management also expects that recently acquired Henkel India Ltd. would add synergies in terms of distribution of Fabric Care and Exo.

About Maxo

Maxo is a Household Insecticide – Mosquito Repellant. Maxo A Grade Coils have been developed to offer total protection from mosquitoes. While other mosquito coils tackle mosquitoes only when they come in proximity to the coil, the unique action of Maxo A Grade Coils smokes out mosquitoes from their hideouts and destroys them - providing corner to corner protection and a peaceful sleep all through the night.

Besides having a pleasing fragrance, Maxo is specially designed to avoid breakage while separating the coils from the packaging. Maxo A Grade Coils are available in Regular, XL and Giant sizes and provide protection for 8, 10 and 12 hours respectively.

Category wise Net Sales (Rs. in mn)

Category	FY12	FY11	% growth
Fabric	3,150	2,998	5
% of total	48	50	
Mosquito Repellent	1,477	1,459	1
% of total	22	24	
Dishwashing	1,632	1,139	43
% of total	25	19	
Other Products	367	401	(8)
% of total	5	7	
Total	**6,626**	**5,997**	**10.5**

Source: Company, Ajcon Research

Investment Rationale:

Combined entity of Jyothy Labs and Henkel India (HIL) to provide operational and financial synergies

Recently Jyothy Labs controlling stake in Henkel India Ltd. The Board was reconstituted on May 31, 2011. The Open offer closed on August 22, 2011.

Henkel's Acquisition (Rs. cr)

Seller	% of shares	Value
TPL	16.66	67.9
Henkel AG	50.97	143
Open Market	3.97	18.9
Open Offer	12.05	57.8
Other Transaction Cost		27.88
Preference Capital		42.6
Loan Repayment		425
Total	**83.65**	**783**

Source: Company, Ajcon Research

With the acquisition of HIL, the company has access to a combined basket of 10 brands, three of its own (Ujala, Maxo and Exo) and seven brands of HIL (Henko, Pril, Fa, Margo, Mr. White, Neem and Cheek. In addition, the Company would get a strong footing in the urban market as HIL's ratio of rural and urban presence is 30:70, which is 75:25 for JLL. Thirdly, the group as a whole would enjoy the strong distribution network as a combined entity.

Henkel's turnaround to be the major trigger

With the merger of Jyothy Labs and Henkel India, operational and fuinacial synergies would help JLL to turnaround. Street expects Henkel India Ltd. to report a profit of about Rs. 100 million by FY14E. After the merger, consolidated revenues are expected to touch Rs. 15 bn. Once Henkel India gets into the profit mode, JLL profitability is set to register a significant jump of 70% on yoy basis to touch Rs. 80 crores.

Henkel's Quarterly Performance – Rs. crores (Consolidated)

Particulars	Q4FY12	Q3FY12	% QoQ	Q4FY11	% YoY
Net Sales	101	77	30.8	119	(15.6)
Operating profit	4	2	85.4	(8)	154.7
OPM (%)	4.4	3.1	130 bps	(6.8)	1,124 bps
Adj. PAT	(8)	(11)	24.5	(18)	54

Source: Company, Ajcon Research

Henkel Turnaround – Impact (Rs. cr)

Period	Net Sales	EBITDA (%)
Jan-Dec 2010 (12 months)	534	(3.2)
Jan-Mar 2011 (3 months)	119	(6.4)
Apr-Jun 2011 (3 months)	123	8.8
Jul-Sep 2011 (3 months)	107	10.6
*Oct-Dec 2011 (3 months)	77	1.6
# Jan-Mar 2012 (3 months)	111	14.2

Source: Company, Ajcon Research

Note: * Due to temporary shut down of Karaikal plant on account of Labour unrest from September 26, 2011 to December 26, 2011, 61 days. Sales of Henko detergent lost 27 crores and thereby loss of Rs. 7 crores in EBITDA (10%).
Jan-Mar 2012: Provisions made for past claims Rs. 9 crore (eliminated for calculating EBITDA).

Henkel Turnaround Plan – 120 days (Phase I)

Commitment	Status
Shifted corporate office from Chennai to Mumbai	Done
Production – taken control keeping only key important manufacturing location – Karaikal/Ambattur	Done
Outsourcing arrangements shifted to JLL manufacturing facilities	Uttaranchal -Henko Salem – Henko & Pril Liquid
Purchase/Supply chain shifted to Mumbai	Done w.e.f. August 2011
Marketing – New Campaign to start from February 2012 on select brands like Margo and Pril. Rest from April 2012.	Margo and Pril new creative is ready

Source: Company, Ajcon Research

Henkel Turnaround Plan – 180 days (Phase II)

Commitment	Status
Management team to be in place	S. Raghunandan – Wholetime Director and CEO w.e.f May 23, 2012
Takeover of sales – weaker zone	Taken over All India beginning May, 2012
Synergize distribution network of JLL and Henkel	Underway
Revisit positioning and pricing of Henkel products	Pril and Margo completed other brands - underway

Source: Company, Ajcon Research

Company's turnaround plan for the business

Clean up (Mar 31,2012)

a) Change top management – retain select middle managers handling brands and distribution – **Executed**
b) Remove all sales promotions and offers – **Underway**
c) Increase retail prices across products appropriate to their positioning – **Underway**
d) Remove current advertising agencies **– Executed**

Revitalize

a) Recruit a fresh field force of 200 sales persons.
b) Appoint a Special Task Force at key positions including CEO, Marketing head and Supply Chain.
c) Transfer a few best-in-class sales heads from Jyothy to drive transformation.
d) Focus on South & East based stockists/distributors in the first phase and increase their productivity based incentives.
e) Transfer all manufacturing to single low-cost contract manufacturer/Jyothy's tax free facilities.
f) Re-launch brands with new creative and positioning in a phased manner.

Advertisement of key products and price hike to drive topline growth

JLL plans to have new advertisements for its key products like Margo, Pril and Maxo which was much needed. The Company is expected to spend Rs. 580 mn and Rs. 670 mn in FY13E and FY14E respectively. It will start focusing on its other brands (Fa and Henko), after launching TV commercials of Margo and Pril. In addition, the management is also increasing the prices of all Henkel products by 15%, the effect of which would be visible from Q1FY13E.

Jyothy Fabricare Services(JFSL) to drive growth in long term

JFSL is now country's biggest laundry chain with 122 retail outlets with operation in cities like Bangalore, Delhi, Mumbai, Pune and Chennai. The Company's Hyderabad operations would start by Mar 2013. IL&FS is making an investment of Rs. 100 crores for 25 percent equity at an Enterprise Valuation of Rs. 100 cr. It has already invested Rs. 50 crores and balance Rs. 50 crores will come post setting up of Chennai and Hyderabad plants. JFSL has bagged prestigious Western Railways at Ahmedabad-BOOT contract for 10 years (Minimum guaranteed business Rs. 65 crores). It has also bagged prestigious DIAL project (BOOT) for 15 years. According to management's forecast, JFSL's revenue is expected to reach Rs. 193cr, with operating margin of 26.1% and profit of `30cr by FY2014E. Also, JSFL will now have only two brands under its umbrella – *FabricSpa* (premium category) and *Wardrobe* (economy category).

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