

## Stock Note

# Jyoti Resins & Adhesives Ltd.

November 16, 2023





# Jyoti Resins & Adhesives Ltd.

Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Specialty Chemicals	Rs. 1638	Buy in Rs. 1621-1650 band and add more on dips in Rs. 1450-1475 band	Rs. 1806	Rs. 1936	3-4 quarters

HDFC Scrip Code	JYORESEQNR
BSE Code	514488
NSE Code	-
Bloomberg	JRA IN
CMP (Nov 15, 2023)	1638
Equity Capital (RsCr)	12
Face Value (Rs)	10
Equity Share O/S (Cr)	1.2
Market Cap (RsCr)	1966
Book Value (Rs)	113
Avg. 52 Wk Volumes (in '000s)	15
52 Week High	1780
52 Week Low	1055

Share holding Pattern % (Sept, 2023)	
Promoters	50.83
Institutions	0.49
Non Institutions	48.68
Total	100.0



\* Refer at the end for explanation on Risk Ratings

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### Our Take:

Jyoti Resins & Adhesives Ltd. (JRAL) offers a wide range of synthetic wood adhesives (white glue) under their flagship brand, Euro 7000. Euro 7000 has grown exponentially over last few years and is now the second largest selling wood adhesive brand in India's retail segment. While it has a sales footprint across 13 states, Gujarat, Madhya Pradesh, Rajasthan, Maharashtra, Karnataka and Telangana are the top volume contributing states. The company's proprietary brand, Euro 7000, commands superior recall and traction for consistency, quality, and service. JRAL is engaged in the manufacture of various types of wood adhesives with different formulations, such as waterproof, anti-termite, fast-drying, weather-proof and anti-fungal adhesives.

### Valuation & Recommendation:

JRAL adopts a low-cost manufacturing approach and operates with an asset-light strategy, focusing on efficiency and profitability. The company has successfully limited overall manpower costs to a commendable 15-16% of its revenues, demonstrating prudent cost management. Moreover, selling and distribution expenses are meticulously maintained below 13-14%, further optimising operational expenses. The company achieved an impressive asset turnover rate of 8x, indicating the company's ability to generate significant revenue relative to its asset base. In addition, the company stands out in the industry with one of the highest EBITDA per tonne compared to its peers, showcasing its exceptional profitability. The company's prudent working capital management has enabled it to operate without any debt, and it maintains a positive operating cash flow and free cash flow position. This financial strength underscores JRAL's prudent financial management and sustainable business practices.

**We think the base case fair value of the stock is Rs 1806 (28x FY25E EPS) and the bull case fair value of is Rs 1936 (30x FY25E EPS). Investors can buy the in stock Rs 1621-1650 band (25x FY25E EPS) and add more on dips in Rs 1450-1475 band (23x FY25E EPS).**



## Financial Summary

Particulars (in Rs Cr)	Q2FY24	Q2FY23	YoY-%	Q1FY24	QoQ-%	FY21	FY22	FY23	FY24E	FY25E
Operating Income	63	66	-4%	61	3%	101	182	261	299	350
EBITDA	21	13	60%	21	3%	10	24	61	92	102
APAT	16	9	84%	16	3%	12	20	46	69	77
Diluted EPS (Rs)	13.5	7.4	83%	13.1	3%	30.4	49.4	38.7	57.7	64.5
RoE-%						33.6	37.1	55.1	51.0	39.0
P/E (x)						54	33	42	28	25
EV/EBITDA						186	82	32	21	18

(Source: Company, HDFC sec)

## Key Pointers:

### Wide Product Portfolio

The company imports raw materials from several countries through local importers. The raw materials are then processed and white glue is manufactured in their plant at Santej. The finished product is then packaged into different sizes starting from 500 gm upto 70 kgs. The products are then sold through a mix of Distributors and Consignee & Sales Agents into the retail market (sold to dealers).

JRAL has a diverse portfolio catering to different substrates and customer requirements. It offers products with

### Diversified Product Portfolio

 Anti termite applications	 Water proof, Anti termite, Heat & fungal resistant	 Cold & Hot press applications	 Waterproof, Anti termite, Fast drying (2-3 hours)
 Waterproof, Anti termite, Heat & fungal resistance	 For PVC and Acrylic sheet bonding to wood; pre edge bending taps	 Waterproof, Anti termite, Fast drying (2-3 hours)	 Waterproof, Anti termite, Fast drying (2-3 hours), Weather Proof



**Product Launches (last 12 months)**



Extreme 3 Hi-Strong	EURO EWR	EWR D2+
		
<b>THREE BENEFITS IN ONE</b>	<b>COLD PRESS EXPERT</b>	<b>HOT PRESS EXPERT</b>
<ul style="list-style-type: none"><li>• Fast Drying Adhesive with 2-3 hours handling strength</li><li>• Waterproof adhesive</li><li>• Anti termite formula</li></ul>	<ul style="list-style-type: none"><li>• Suitable for cold press</li><li>• Economy grade with extra strength</li><li>• Use for furniture industry</li><li>• Packing: 50 kgs drum</li></ul>	<ul style="list-style-type: none"><li>• Suitable for Hot &amp; Cold Press</li><li>• D2+ Formula</li><li>• Fast Drying</li><li>• Powerful strength</li><li>• Packing : 50 kgs drum pack</li></ul>
	<small>Anti Termite formula water resistant adhesive</small>	<small>D2+ Grade Adhesive with Fast Drying Formula</small>

### Expanding reach:

At present, JRAL is operating in 13 states, with 50 distributors in smaller cities and 28 branches in major metropolitan areas. Based out of Gujarat, the company has a strong presence in home state and neighbouring states. Gujarat (~30% market share), Maharashtra (~20%), Rajasthan (~30%), Karnataka (~17%) and Madhya Pradesh contribute ~75% of JRAL's revenue. In recent past, company has forayed into new States/ UT namely New Delhi & Uttar Pradesh with 5 branches.

To enhance its reach and cater to the diverse needs of customers, JRAL has adopted a two-pronged strategy. JRL has strategically placed distributors in small cities and consignee agents/ own branches in large cities thereby removing any hurdles for growth in large markets.

This has enabled JRAL to increase penetration in existing states through branch expansions and growth of the distribution network. Simultaneously, it continues to explore opportunities for foraying into new states. The company is further evaluating foray into 2 or 3 more states in FY24 to increase its presence and tap into the available opportunity.

### Carpenter reward model:

JRAL's marketing initiatives feature a highly rewarding carpenter loyalty program. With state-wise programs and attractive incentives, the company prioritizes loyalty and product usage of carpenters. The company also has an efficient carpenter reward model system which is



a loyalty program for carpenters. On every bucket/drums purchased by carpenters, they receive certain amount of points, which are then recorded by downloading and logging into the app designed by the company. Post a certain threshold, the carpenters can then redeem these points in return for gifts in several forms / modes of awards.

This program has garnered significant participation, with carpenters benefiting from the initiative. By strengthening relationships, fostering brand loyalty, and building a robust support network, these initiatives enhance JRAL's market position.

Liability for expenses towards carpenter rewards is currently 35% of revenue vs earlier 90% of revenue. Going ahead, JRAL plans to pull this down further to ~25% by providing lower reward points in mature markets. This would further drive EBITDA margins higher.

#### **Financial Summary:**

Over the last 5 years, company has reported CAGR of 38%, 103%, 113% in its revenue, EBITDA and PAT respectively.

Management has set a target of 25% CAGR in revenue over FY23-26E and believes it can sustain EBITDA margins at 22%-23%.

JRAL has increased its capacity from 18,000 MTPA. in FY22 to 23,000 MTPA in FY23. Utilisation in FY23 stood at ~60%. The existing capacity can facilitate ~22% CAGR in volume over FY23-26E.

In FY23, JRAL's average realization stood at Rs 229/kg and EBITDA/Kg stood at Rs 50/kg. Going ahead, we expect the company to report 16% CAGR in revenue over FY23-25E led by robust volume growth.

We expect company to report 589 bps expansion in EBITDA margin over FY23-25E. PAT to grow by 29% over FY23-25E

Efficient management of working capital has led to a reduction in debtor days (to 109 in FY23 days from 190/117 days in FY20/21) which has further enhanced company's operational efficiency. Construction of warehouse will lead to further improvement in working capital cycle.

JRAL enjoys high return ratios aided by higher profitability and superior asset turnover (~8x).



## Industry Overview:

According to management's estimate, India's wood adhesive's market is pegged at ~Rs 7000 cr , and is expected to grow at 7-10% CAGR over next 5 years. Pidilite is dominant player in wood adhesives market with ~70% market share. JRAL is the distinct second with ~3.6% market share, indicating a presence of many small players.

The Indian wood adhesive industry's expansion has been propelled by the revival of the construction and furniture sectors. Furthermore, the industry gains momentum from the increasing urbanisation and the expanding middle class with higher disposable incomes. A noteworthy factor driving this growth is the anticipated surge in India's real estate and construction sectors. On top of that, Government initiatives focused on infrastructure development and housing have also stimulated the demand for wood adhesives, specifically white glue.

## Indian furniture market—large room to grow

Despite having a large and growing population, India has a low level of furniture manufacturing and consumption. The per capita consumption of furniture is much below that of many countries. Further, organised furniture players have only 20% market share and demand is also met through imports. However, the Indian furniture market is estimated to grow 3x from 2020 to 2035, implying a strong outlook for domestic manufacturers of plywood, laminates, MDF, and particle boards in India. In addition, many large players like IKEA, Pepperfry, Urban Ladder, and The Home Dekor are gaining traction. Hence, demand for quality wood panels will continue to accelerate, which should benefit companies with modern and large manufacturing infrastructures and a strong distribution network.

## Key Concerns

**Intense Competition:** The adhesive and resin industry is highly competitive, with a large established player – Pidilite (~70% market share), several mid to small existing players and new entrants vying for market share. Intense competition can lead to price wars, reduced profit margins, and increased marketing expenses, making it challenging for the company to maintain its profitability.

**Raw Material Price Volatility:** The prices of key raw materials (including Vinyl acetate monomer) used in manufacturing adhesives and resins, can be subject to fluctuations. Unpredictable price increases can strain profit margins and affect the Company's ability to remain competitive. Sharp fall in RM prices in H1FY24 has resulted in expansion in gross margins, which benefit may not sustain for long.

**Supply Chain Disruptions:** Disruptions in the supply chain, such as shortages of raw materials or transportation issues, can disrupt production schedules and lead to delayed deliveries, damaging customer relationships.





# Jyoti Resins & Adhesives Ltd.

**The topline growth of JRAL over the last few quarters has been mild while margins are showing an uptick.** Topline has to grow at a faster pace going forward.

## About the company

Jyoti Resins and Adhesives Ltd. (JRAL) is a manufacturer of synthetic resin adhesives. The company manufactures various types of wood adhesives (white glue) under the brand name of EURO 7000. The company has steadily increased its plant (at Santej, Ahmedabad) capacity to 2000 TPM (24,000 TPA) in Aug'22. Today, it services 14 states in India through 35 branches and 50 distributors, catering to 10,000 active retailers and 3 lakh carpenters across India. Promoters have raised their stake in the company by 85 bps to 50.82% in FY23.

## **Key milestones of JRAL:**

Year	Particulars
1994	Established in 1994 by Chairman and first generation entrepreneur Mr. Jagdish Patel
1995	Manufacturing setup at Santej, Ahmedabad over an area 8000 square yard
2006	Euro 7000 brand launched –white glue –premium adhesive for retail
2007	Expanded capacity to 250 TPM and enters new markets outside Gujarat
2010	Foray into Rajasthan markets
2012	Foray into Maharashtra and other key markets
2016-2017	Expanded production capacity to 500 TPM
2018-2019	Presence grows to 12 states & capacity to 1000 TPM
2022	Expanded capacity to 2000 TPM. Initiates process to setup warehouse



# Jyoti Resins & Adhesives Ltd.

## Financials

### Income Statement

Particulars (in Rs Cr)	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
<b>Net Revenues</b>	<b>69</b>	<b>74</b>	<b>101</b>	<b>182</b>	<b>261</b>	<b>299</b>	<b>350</b>
<b>Growth (%)</b>	<b>24.5</b>	<b>7.1</b>	<b>37.7</b>	<b>79.6</b>	<b>43.6</b>	<b>14.3</b>	<b>17.3</b>
Operating Expenses	66	63	91	158	201	207	248
<b>EBITDA</b>	<b>3</b>	<b>10</b>	<b>10</b>	<b>24</b>	<b>61</b>	<b>92</b>	<b>102</b>
<b>Growth (%)</b>	<b>83.6</b>	<b>270.3</b>	<b>1.0</b>	<b>127.9</b>	<b>155.1</b>	<b>51.8</b>	<b>10.8</b>
<b>EBITDA Margin (%)</b>	<b>4.1</b>	<b>14.0</b>	<b>10.3</b>	<b>13.1</b>	<b>23.2</b>	<b>30.8</b>	<b>29.1</b>
Depreciation	0	0	1	1	1	1	1
Other Income	1	1	6	3	2	2	4
<b>EBIT</b>	<b>3</b>	<b>11</b>	<b>16</b>	<b>27</b>	<b>61</b>	<b>93</b>	<b>104</b>
Interest expenses	0	0	0	0	0	1	1
<b>PBT</b>	<b>3</b>	<b>11</b>	<b>16</b>	<b>26</b>	<b>61</b>	<b>93</b>	<b>104</b>
Tax	1	3	4	7	15	23	26
<b>PAT</b>	<b>2</b>	<b>8</b>	<b>12</b>	<b>20</b>	<b>46</b>	<b>69</b>	<b>77</b>
Share of Asso./Minority Int.	0	0	0	0	0	0	0
<b>Adj. PAT</b>	<b>2</b>	<b>8</b>	<b>12</b>	<b>20</b>	<b>46</b>	<b>69</b>	<b>77</b>
<b>Growth (%)</b>	<b>156.6</b>	<b>279.8</b>	<b>50.2</b>	<b>62.7</b>	<b>134.9</b>	<b>49.1</b>	<b>11.9</b>
EPS	5.3	20.2	30.4	49.4	38.7	57.7	64.5

### Balance Sheet

Particulars (in Rs Cr) - As at March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
<b>SOURCE OF FUNDS</b>							
Share Capital	4	4	4	4	12	12	12
Reserves	4	24	40	59	94	154	219
<b>Shareholders' Funds</b>	<b>8</b>	<b>28</b>	<b>44</b>	<b>63</b>	<b>106</b>	<b>166</b>	<b>231</b>
Minority Interest	0	0	0	0	0	0	0
Total Debt	1	1	0	0	0	0	0
Net Deferred Taxes	0	0	0	0	0	0	0
<b>Total Sources of Funds</b>	<b>9</b>	<b>30</b>	<b>44</b>	<b>63</b>	<b>106</b>	<b>166</b>	<b>231</b>
<b>APPLICATION OF FUNDS</b>							
Net Block & Goodwill	5	19	39	46	47	48	48
CWIP	0	0	0	0	0	0	0
Investments	0	6	3	0	0	0	0
Other Non-Curr. Assets	0	4	6	0	28	32	37
<b>Total Non Current Assets</b>	<b>6</b>	<b>28</b>	<b>48</b>	<b>47</b>	<b>75</b>	<b>80</b>	<b>86</b>
Inventories	5	9	5	9	5	8	10
Debtors	54	53	52	64	91	106	125
Cash & Equivalents	8	8	24	24	31	78	133
Other Current Assets	10	22	15	8	8	10	12
<b>Total Current Assets</b>	<b>77</b>	<b>92</b>	<b>96</b>	<b>105</b>	<b>136</b>	<b>202</b>	<b>279</b>
Creditors	3	4	2	2	14	9	11
Other Current Liab & Provisions	71	87	98	87	90	107	123
<b>Total Current Liabilities</b>	<b>74</b>	<b>91</b>	<b>100</b>	<b>89</b>	<b>104</b>	<b>116</b>	<b>134</b>
Net Current Assets	3	1	-4	16	31	86	146
<b>Total Application of Funds</b>	<b>9</b>	<b>30</b>	<b>44</b>	<b>63</b>	<b>106</b>	<b>166</b>	<b>231</b>



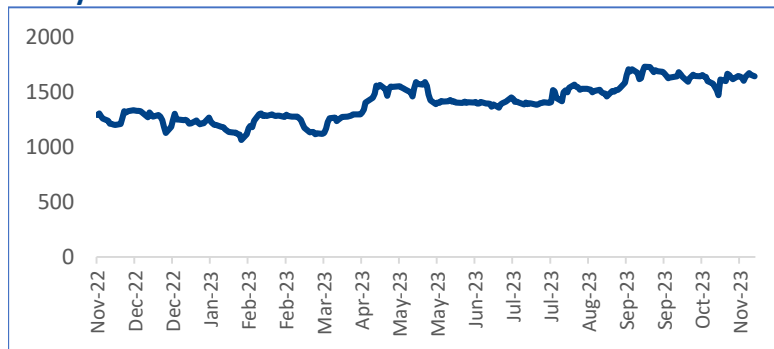


# Jyoti Resins & Adhesives Ltd.

## Cash Flow Statement

Particulars (in Rs Cr)	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Reported PBT	3	11	16	26	61	93	104
Non-operating & EO items	0	1	-3	-1	0	-4	-5
Interest Expenses	0	-1	-1	-1	-2	1	1
Depreciation	0	0	1	1	1	1	1
Working Capital Change	2	-2	1	-15	-46	-8	-4
Tax Paid	-1	-3	-3	-7	-14	-23	-26
<b>OPERATING CASH FLOW (a)</b>	<b>4</b>	<b>7</b>	<b>10</b>	<b>3</b>	<b>1</b>	<b>59</b>	<b>70</b>
Capex	-1	-2	-16	-8	-2	-2	-2
Free Cash Flow	3	5	-6	-5	-2	57	68
Investments	0	-6	6	4	0	0	0
Non-operating income	0	1	1	2	2	0	0
<b>INVESTING CASH FLOW (b)</b>	<b>-1</b>	<b>-7</b>	<b>-9</b>	<b>-2</b>	<b>0</b>	<b>-2</b>	<b>-2</b>
Debt Issuance / (Repaid)	0	0	-1	0	0	0	0
Interest Expenses	0	0	0	0	0	-1	-1
FCFE	3	0	0	0	1	57	68
Share Capital Issuance	0	0	0	0	0	0	0
Dividend	0	0	-1	-1	-3	-10	-12
<b>FINANCING CASH FLOW(c)</b>	<b>0</b>	<b>0</b>	<b>-2</b>	<b>-1</b>	<b>-3</b>	<b>-10</b>	<b>-13</b>
<b>NET CASH FLOW (a+b+c)</b>	<b>3</b>	<b>0</b>	<b>-1</b>	<b>-1</b>	<b>-2</b>	<b>47</b>	<b>56</b>

## One-year Share Price Chart



## Key Ratios

Particulars	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
<b>Profitability Ratios (%)</b>							
EBITDA Margin	4.1	14.0	10.3	13.1	23.2	30.8	29.1
EBIT Margin	4.5	15.2	16.0	14.6	23.5	31.1	29.7
APAT Margin	3.1	11.0	12.0	10.9	17.8	23.2	22.1
RoE	31.3	44.5	33.6	37.1	55.1	51.0	39.0
RoCE	41.8	58.6	43.9	49.6	72.9	68.5	52.4
<b>Solvency Ratio (x)</b>							
Net Debt/EBITDA	-2.4	-0.6	-2.2	-1.0	-0.5	-0.8	-1.3
Net D/E	-0.9	-0.2	-0.5	-0.4	-0.3	-0.5	-0.6
<b>PER SHARE DATA (Rs)</b>							
EPS	5.3	20.2	30.4	49.4	38.7	57.7	64.5
CEPS	5.9	21.4	31.9	51.2	39.9	58.8	65.7
BV	19.8	71.1	109.9	156.3	88.3	138.0	192.5
Dividend	0.0	0.0	0.0	7.5	6.0	8.0	10.0
<b>Turnover Ratios (days)</b>							
Debtor days	259	266	190	117	109	121	120
Inventory days	28	35	25	14	10	8	9
Creditors days	14	17	11	4	11	14	10
<b>Valuation (X)</b>							
P/E	308	81	54	33	42	28	25
P/BV	83	23	15	10	19	12	9
EV/EBITDA	702	189	186	82	32	21	18
EV / Revenues	29	27	19	11	7	6	5
Dividend Yield (%)	0.0	0.0	0.0	0.5	0.4	0.5	0.6

(Source: Company, HDFC sec)



## HDFC Sec Retail Research Rating description

### Green Rating stocks

This rating is given to stocks that represent large and established business having track record of decades and good reputation in the industry. They are industry leaders or have significant market share. They have multiple streams of cash flows and/or strong balance sheet to withstand downturn in economic cycle. These stocks offer moderate returns and at the same time are unlikely to suffer severe drawdown in their stock prices. These stocks can be kept as a part of long term portfolio holding, if so desired. This stocks offer low risk and lower reward and are suitable for beginners. They offer stability to the portfolio.

### Yellow Rating stocks

This rating is given to stocks that have strong balance sheet and are from relatively stable industries which are likely to remain relevant for long time and unlikely to be affected much by economic or technological disruptions. These stocks have emerged stronger over time but are yet to reach the level of green rating stocks. They offer medium risk, medium return opportunities. Some of these have the potential to attain green rating over time.

### Red Rating stocks

This rating is given to emerging companies which are riskier than their established peers. Their share price tends to be volatile though they offer high growth potential. They are susceptible to severe downturn in their industry or in overall economy. Management of these companies need to prove their mettle in handling cyclicity of their business. If they are successful in navigating challenges, the market rewards their shareholders with handsome gains; otherwise their stock prices can take a severe beating. Overall these stocks offer high risk high return opportunities.

### Disclosure:

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