

Stock Idea



AMRUTANJAN HEALTH CARE LTD.

BUY

RS 288

13th November 2014

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Amrutanjan - Snapshot

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Industry: Pharmaceuticals & Drugs

Market Cap: INR 421 Crore

Bloomberg Code: ARJN IN

Listed on BSE and NSE

Shares Outstanding: 1.46 Cr.

Reuters Code: AJAN.BO

Particulars	FY14	FY13	FY12
Sales (INR Cr.)	144	142	140
Gross Margins (%)	59.7	56.3	54.72
Operating Margins (%) (Exc. OI)	14.7	12.6	12.7
PAT Margins (%)	8.8	7.3	6.7
Cash Flow From Operations (INR Cr.)	17.45	8.62	3.62
RoE (%)	15.72	14.36	14.4
RoCE (%)	22.63	19.9	18.65
LT Debt (INR Cr.)	0	0	6.11
Cash & Equivalents (INR Cr.)	48.63	44.8	45.1

Source: Ace Equity

Management Structure

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- Mr. Shambhu Prasad, the present CMD, took charge of the company 8 years ago after the sad demise of his father.



Board

- Mr. S. Sambhu Prasad, CMD
- Dr. H.B.N. Shetty
- Mr. D. Seetharama Rao
- Dr. Pasumarthi S.N. Murthi
- Mr. A. Satish Kumar
- Dr. Marie Shiranee Pereira

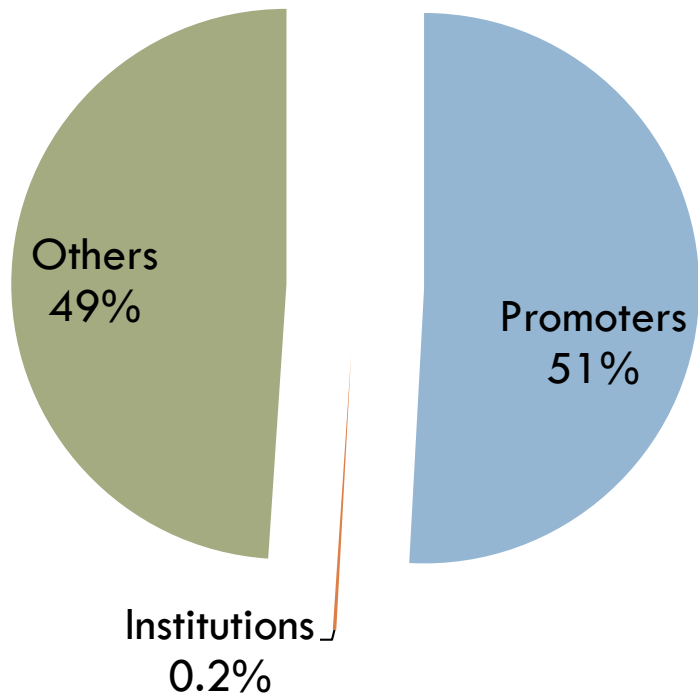


Management

- Mr. S. Sambhu Prasad, CMD
- Mr. Kannan K., GM - Finance
- Mr. Joydeep Chatterjee Business Head - Sales & Distribution
- Mr. Jeyakanth S., GM - Supply Chain Management
- Mr. Avichandran J. DGM – R&D and Quality

Shareholding (%)

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- Shareholders with significant holding:
 - Dipak Kanayalal Shah 1.49%
 - Rajashekar Swaminathan Iyer 2.97%

Source: Ace Equity
As on Sep 2014

Journey started in 1893

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- Set up in 1893 by Sri K Nageswara Rao Pantulu, Chennai-based AHCL produces and sells ayurvedic over-the-counter (OTC) healthcare products.
- AHCL's wholly-owned subsidiary, APPL, manufactures fine chemicals.
- The Amrutanjan group's operations are managed by Mr. Sambhu Prasad. The group's products primarily focus on pain relief, congestion management and personal hygiene under the Kick out Pain, Relief, and Purity brands, respectively.

The original Amrutnajan

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- Started with a yellow pain relieving balm
- Started in 1893, its a brand which is now in existence for more than 120 years
- Pioneer in the industry by catering to consumers pain free living with Ayurvedic products

The 'PAIN' point –

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- Very small product portfolio;
- Mainly just an all-purpose balm
- And little spent on advertisement
- No youth connect
- Considered old and traditional



The first impression

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- Anybody looking at Amrutanjan for the first time would likely feel its a dull company.
- And rightly so, as it took close to 120 years to cross Rs 120 Cr. turnover.
- Though the company had enormous first mover advantage it did not leverage it.
- However finally we see things changing – leadership change, realisation that competitors who were late entrants made it so big have put the company on a new trajectory

Phase II (2010-14) - A new Avatar

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1. A brand new identity
2. Launched a new White Balm (based on the changing preferences)
3. Significant A&P Spends
4. Better connect with youth

Foray into beverages

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- Forayed into beverages by acquiring Tamil Nadu based Siva's Soft Drink Pvt. Ltd. (SSD), which owns the *FruitNik* brand of fruit juices, for Rs 26 Cr.

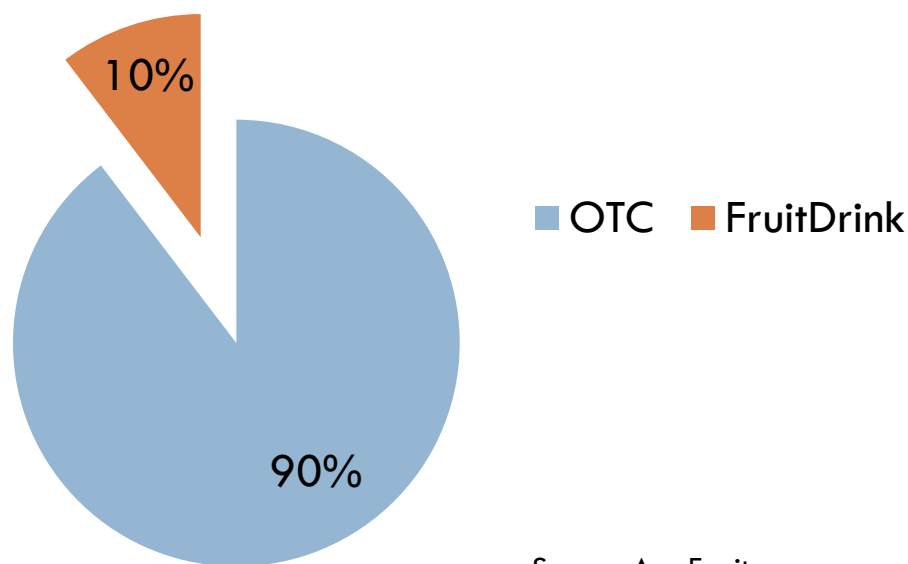


- Over the last few years, they have got rid of various unrelated loss-making businesses and got their capital allocation right.

FY14 Snapshot

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- Clocked a net sales of Rs 144 Cr.
 - ▣ Over-the-counter products constitutes 130 Cr.
 - ▣ And Fruit Drink 14 Cr.

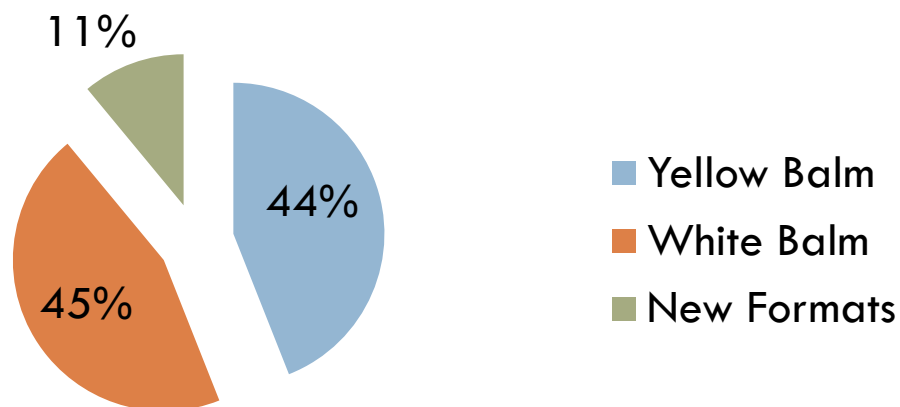


Source: Ace Equity

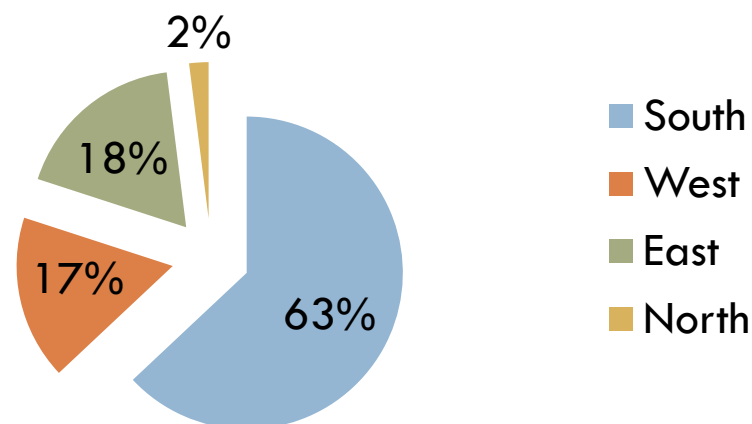
Revenue break-up FY14

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Product-wise revenue break-up



Geography-wise revenue break-up



Its the leading brand in
Tamil Nadu with a
35% market share

Source: Annual
Report FY14

Year 2014

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- We believe the current year will be a landmark year in Amrutanjan's history as this year is witnessing significant pick up in the sales of new products that were launched over the last few years. (Specially in the body pain category)
- Entry into body pain management category has already trebled the addressable market for the company and thereby substantially increased the growth prospects.
- Further, they have successfully experimented with the existing head balm category by scaling up new formats like Roll on and white balms.

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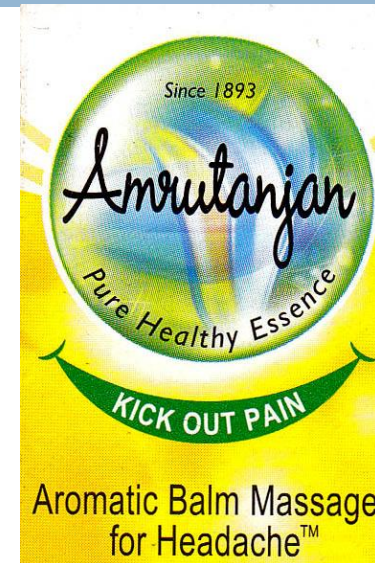
Entering Phase III

The New Products and Formats

For Headache –

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1. Aromatic Balm Massage



2. Roll-on



3. Faster Relaxation Balm massage



Body Pain

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- Body Pain Creme
- Body Pain Roll-on
- Body Ache Gel Pad



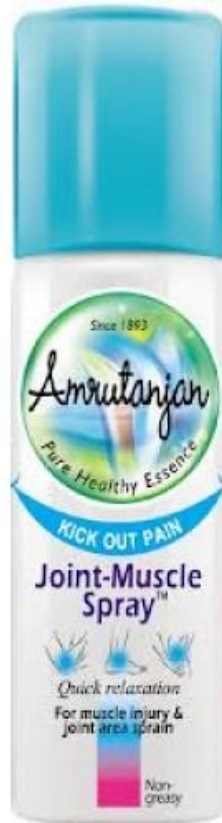
Body Ache
BODY ACHE GEL PAD



Joint & Muscle pain

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□ Joint & Muscle Spray



Congestion management

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- ❑ Cold Rub
- ❑ Nasal Inhaler
- ❑ Cough Syrup
- ❑ Swas Mint



Healthcare Management

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□ Decorn Corn Caps

□ NoGerms Hand Sanitizer

□ Xpert Dermal Ointment



Healthcare Management

CNTD.

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- Comfy Sanitary Napkins



- Diakyur – Controls Blood Sugar



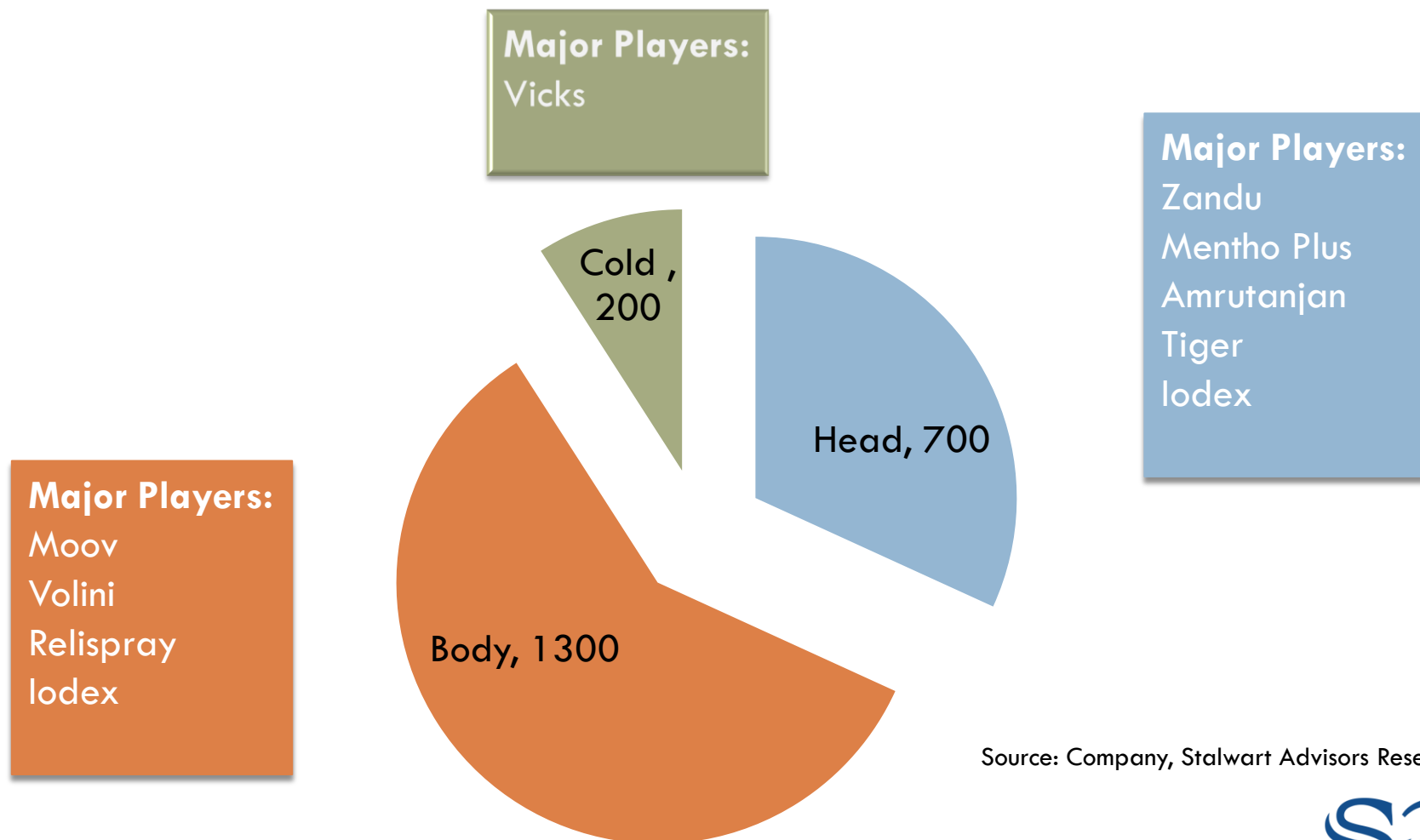
Amrutanjan now has a decent product portfolio in categories that are expanding rapidly

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Total Addressable market now – Rs 2,200 Cr.

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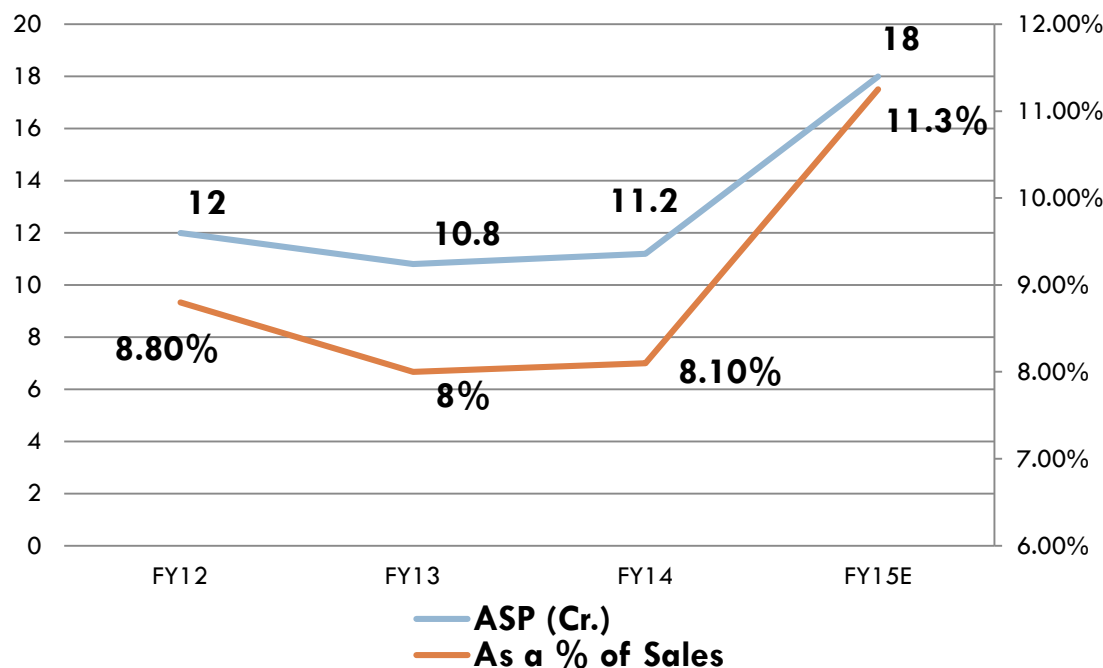
Source: Company, Stalwart Advisors Research

And what about visibility?

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- Management seems serious about getting its act together.
- Budgeted Ad & Promotion spend in FY15 is ~18 Cr. which is a healthy ~12% of FY15E revenues and a 65% jump over FY14's A&P spend

Ad and Sales Promotion Expense



“This industry is driven by investments in the brand and this is a fact. Share of Voice and Share of Market are correlated strongly”
Mr. Prasad, CMD
Annual Report FY14

Source: Ace Equity

Distribution

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- For any FMCG company two most important factors are brand pull (ASP) and reach (distribution).
- Amtrunjan today has over 1,800 Distributors and reach of 2,50,000 Retail Outlets
- Strategy is to keep pushing traditional head/balm products in towns with population of less than 5 lacs and newer formats for towns with more than 5 lacs population.
- Balm and Fruitnik are on cash & carry, whereas for newer formats some credit is being offered.
- Year-to-date company has already added 190+ towns.
- In metros and Tier I, Modern trade is doing well for the company.

Exports

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- Currently, exports constitute only ~2% of revenues.
- Management sees decent potential in the export market.
- Uganda is currently a major contributor to exports.
- Distribution agreement has been signed with distributors at UAE, Qatar, Saudi Arabia and Kenya. The export to these nations will commence in current fiscal (FY15)
- Targeting entry in US where FDA approval is in final stages and is likely to be received by Mar 2015.
- US has a market equivalent to that of India.

OTC Industry

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- India's OTC Industry stands at Rs 15,000 Cr.
- And is part of Rs 2.3 lac Cr. FMCG Industry
- The Rubefacient segment of the OTC category contributes to 16% of the category and is growing steadily due to increased consumption of allopathic balms.

Source: Stalwart Advisors Research

Balm Category

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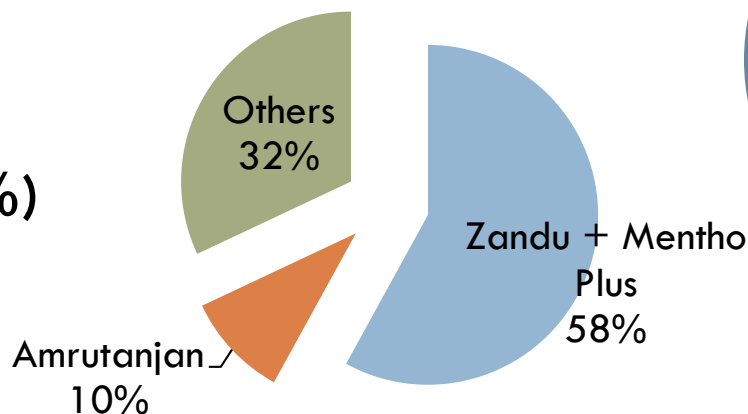
Balm market size in India is Rs ~700 Cr.

The market is dominated by Emami's two leading brands; Zandu and Mentho Plus commanding market share of 58%.

Amrutanjan is a distant second with a 10% market share.

The rest of the pie is over crowded with over 800 SMEs.

Market Share (%)



When Emami bought Zandu in 2008, it had sales of 137 Cr. In less than 6 years, Zandu now clocks more than Rs 400 Cr. in the topline – a CAGR of whopping 24%

Source: Company, Stalwart Advisors Research

Management Guidance

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- Expects to grow at 33% CAGR over the next 3 years
- Targeting Rs 200 Cr. turnover in FY16
- Expect sustainable operating margins to be in the ~20%
- See gross margins getting back to the 60% level in 2014-15 year , which is a level that they last saw in 2009
- Open to acquisitions

On Beverage Business

- Last 18-24 months went into plant stabilization and setting up distribution.
- Company's focus will be on healthy drinks (the likes of Slice and Maaza).
- Currently, present only in South. Targeting entry in East
- Segment may break-even at Rs 25 Cr. of sales.
- In FY14 it clocked Rs 14 Cr. in sales, FY15E is Rs 24 Cr. It is targeting Rs 100 Cr. by FY18
- No more capacity expansion here as incremental production will be outsourced.

Management Guidance

cntd.

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- On Capex: There is enough installed capacity to take care of incremental growth over the next 3-4 years. Also, Fruitnik's production will be outsourced going forward. So there will be hardly any capex, which implies the business is going to generate a lot of free cash.
- On Dividends: The company generally distributes 30-40% of its profits as dividends and they expect to continue doing that.

Numbers reflecting improvement: Q2FY15 & H1FY15

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	Q2FY15	YoY Change	H1FY15	YoY Change
Net Sales (Rs Cr.)	40.9	24%	66.4	21.4%
Gross Margin (%)	64.4	50 bps	60.7	73 bps
OPM* (%)	14.9	111 bps	9.7	21 bps
PAT-M (%)	10.0	100 bps	7.3	155 bps

*Exc. Other Income

Source: Ace Equity

Balance Sheet Strength

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- Amrutanjan has a very strong balance sheet which reflects the strong underlying economics of the business.
- Company is debt-free and in fact holds Rs ~50 Cr. in cash and cash equivalents
- Reported RoE is 16%, however if one adjusts for low-yielding cash and equivalents, its ~25% as cash accounts for more than half of the net worth.
- Debtor days outstanding have seen a jump in FY14 as new products are supported by 2-3 months credit period initially. Inventory days stand at 17, whereas days payable outstanding stand at 25.
- We foresee improvement in net working capital as new products start performing leading to a fall in debtors days assuming payable days and inventory days remain stable.

Valuation

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Valuation	TTM Valuations	FY16E [#]
Market Cap* (INR Cr.)	420	
EV (INR Cr.)	370	
EV/EBITDA	13.36	9.25
EV/Sales	2.48	1.85
Price/Earnings	25.89	16.8
Price/Book	4.3	3.4

Very reasonable multiples - In Nov 2008 Emami paid over 5 times sales for Zandu which had a stretched balance sheet.

Source: Ace Equity

*As on 13th Nov 2014, TTM-Trailing Twelve Months

[#]Based on expected revenue of 200 Cr. in FY16, 20% OPM and Payout of 30%

Given the growth prospects, balance sheet strength, free cash flows and margin expansion potential, we feel that the current valuations are reasonable and offer promise of a good return with limited downside.

Surplus Land – Likely Jackpot

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- The 2.5 Acre Chennai plant is at a prime location in Mylapore. At Rs 100 Cr./acre, the land parcel would be valued at Rs 250 Cr
- The company is shifting this plant to the outskirts of Chennai at an investment of only Rs ~5 Cr. Relocation is to be completed by Q4FY15 without any loss of revenue.
- We hope sometime in future, the company might monetize this land and share special dividend with the shareholders.
- Previously in year FY09, they sold a land parcel for ~ Rs 84 Cr. Out of which a special dividend of Rs 17 Cr. was given and Rs ~6 Cr. were utilized for buy-backs.

Triggers & Upside

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- Product extensions are expected to contribute 20%+ topline growth
- With expanding gross margins, beverage business breaking even and loss-making subsidiary being shut, earnings are likely to grow much faster
- Company has been getting its capital allocation strategy right
- Valuations have decent scope for re-rating
- Company has negligible institutional holding
- Surplus asset (real estate) offers margin of safety

Risk Factors

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- Product failure rates are high in FMCG industry. If their new products fail to win consumers, the expected growth would not materialize. So, the company performance is to be closely monitored and any deviations from the stated strategy for long period of time shall lead us to change our views on the stock.
- Being a distant follower, the company faces tough competition from both market leader Zandu on one side and over 800 SMEs on the other. If competitive intensity increases, the anticipated margin expansion might not happen.
- If company makes an expensive acquisition, related or unrelated business, it might lead to value erosion and drag the return on capital employed.

Summary – What's the story?

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- **Business:** B2C Business - Strong brand with increasing addressable market, a quasi-FMCG play.
- **Management:** Competent and ethical.
- **Margin of Safety:**
 - ▣ Valuations: Reasonable at less than 2 times FY16 sales considering growth prospects and rising margins/ RoE.
 - ▣ Possibility of land monetization gives further comfort in the valuations.

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