Amrutanjan Healthcare

History

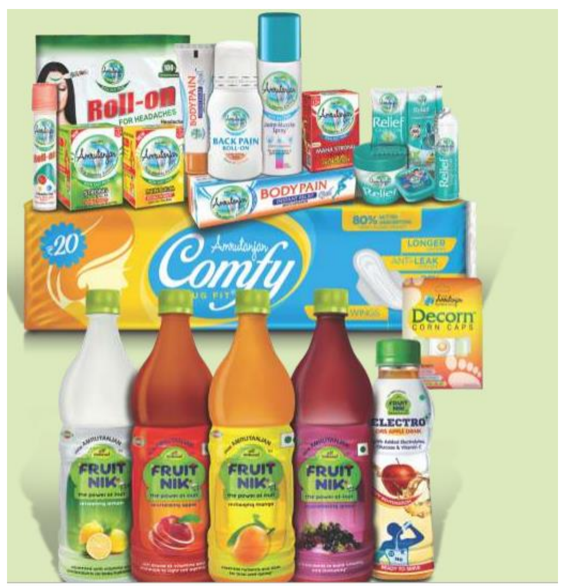
- Founded in 1893 by freedom fighter Sri Nageswara Rao Pantulu
- Flagship Amrutanjan Yellow balm was an instant hit
- 1970s- Maha-inhaler, Cold Rub and Dermal ointment
- 1980s & 90s- Strong Balm, Swas mint and Dragon liquid balm
- 2000 -2010 - Lots of products (Diakyur capsules, Dr Sugam granules, Cutis Olive oil, Orange Guard (Imported reseller) etc

History (Continued)

- 2010 onwards- Muscular pain spray, aromatic balm, ORS & beverages, Roll-on, Comfy, Ready to Eat products etc
- Current MD Sambu Prasad took over the in year 2006 at an young age of 30
- Observation- Many of the products have been discontinued or sold. The current product portfolio is relatively less in number.

Amrutanjan- Today

- Market Cap of 900 crores (At CMP 310 Rs)
- Last twelve months sales of 242 crores
- Last twelve months net profit of 16 crores
- Relatively simple product portfolio of Pain management and few other products
- 670 employees as on 31-March-2018. (554 employees in 2015)



Top Shareholders

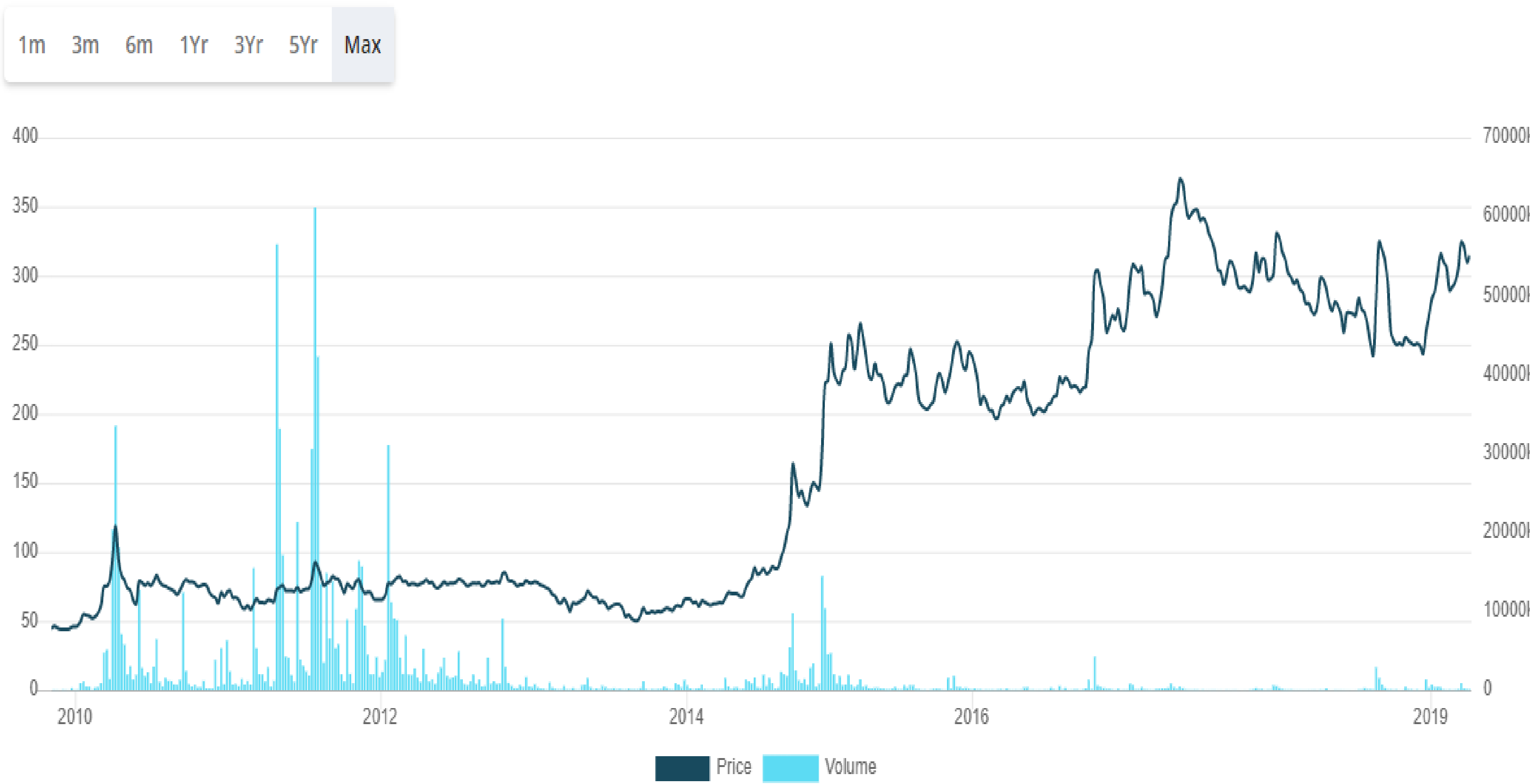
- Promoters- 50.02 %
- Sundaram Funds- 4.7%
- DSP Small Cap Fund- 2.9%
- Rajashekar S Iyer – 2.49%
- Dipak Shah- 1.44%
- Waswatch Emerging India fund- 1.06%

Financials

All Figures in Crores except EPS									Standalone since 2017		
	Mar-09	Mar-10	Mar-11	Mar-12	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	TTM
Sales	90.66	89.77	105.41	143.15	137.65	141.73	166.57	186.74	206.89	223.17	242.77
Operating Expenses	77.76	77.43	92.23	124.93	120.24	120.83	143	155.96	178.06	194.67	219.62
Operating Profit	12.9	12.34	13.18	18.22	17.41	20.9	23.57	30.78	28.83	28.5	23.15
OPM%	14.23%	13.75%	12.50%	12.73%	12.65%	14.75%	14.15%	16.48%	13.93%	12.77%	9.54%
Other Income	114.81	7.94	4.8	4.58	4.27	2	4.48	5.68	7.25	7.6	5.76
Interest	0.41	0.26	0.57	3.13	2.48	1.77	0.71	0.44	0.25	0.31	0.09
D&A	1.55	1.29	1.81	3.38	3.73	3.6	3.21	3.35	2.05	2.91	3.26
PBT	125.75	18.73	15.6	16.29	15.47	17.53	24.13	32.67	33.78	32.88	25.56
Net Profit	92.39	11.47	10.21	9.63	10.12	12.44	14.9	20.58	21.8	19.97	15.96
Growth %			-10.99%	-5.68%	5.09%	22.92%	19.77%	38.12%	5.93%	-8.39%	-20.08%
EPS	28.82	3.53	3.13	3.06	3.21	3.98	4.75	6.64	7.24	6.61	5.28
P/E (at 310)											58.71
The chemical division is planned to be sold and is currently not operational											

Financials

- Revenue has grown from 90 crores to 250 crores in the last 10 years
- Profits rose from 10 crores to 20 crores
- Current valuation pricing in above average growth in coming years
- P/E is 58 which looks a bit of overvaluation
- No debt except Working capital Loans
- Cash and cash equivalents of about 30 crores
- Decreasing debtor days and increasing inventory turnover. Stable receivables.



1m
3m
6m
1Yr
3Yr
5Yr
Max
400
350
300
250
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2010
2012
2014
2016
2019
Price
Volume

Segments

- Broadly OTC and Beverages
- OTC products- Pain management, congestion management and hygiene
- Beverages- Fruit juices and ORS
- Others- Pain Management Center
- Chemical division has been discontinued and planned to be sold.

Segment Results

FY 2018	Sales	% Sales	Operating Profit	Capital Employed	ROCE
OTC	19509.47	88.03%	3347.44	8637.50	38.75%
Beverages	2651.82	11.97%	-537.50	1037.11	-51.83%
Overall			2809.94	9674.61	29.04%

FY 2017	Sales	% Sales	Operating Profit	Capital Employed	ROCE
OTC	18653.64	86.72%	3622.38	6497.25	55.75%
Beverages	2856.57	13.28%	-320.90	1278.49	-25.10%
Overall			3301.48	7775.74	42.46%

- Roll on formats account for 10-15% of OTC revenues
- Comfy accounts for 10% of OTC revenue at sales of 19.62 crores in FY2018

OTC products

- Pain Balms- Yellow, White and Others
- Roll on formats, Muscle spray and decongestion products (inhalers, cold rub etc)
- Sanitary napkins- Comfy
- Corn Caps & Dermal Ointment

- Roll on formats and Comfy have been found to be successful

Beverages

- When Fruitnik was acquired from Siva beverages, the brand had a turnover of 14 crores (2012)
- As of March 2018, beverages division had revenues of 26 crores and a loss of 5.37 crores
- The beverage division has a focus of Fruitnik Electro+ (ORS) drink. There have been ad spends on this particular product recently.

Chemical Division

- During 2011-2013, management had plans to revive the chemical division and even had expressed plans of spinoff.
- The chemical division was bleeding cash and not much near success
- By 2018, the company decided to discontinue and sell this division
- Dec18 Quarter loss shown as 23 lakhs

Exports

Exports

(Rs. In lakhs)

Market	2013-14	2014-15	2015-16	2016-17	2017-18
Africa	64	246	193	223	208
Middle East	30	89	34	63	82
South East Asia	31	10	14	8	79
Other Markets	27	13	16	20	13
Total	151	358	257	314	382

In 2017-18 we have entered Thailand and also registered our products in Kenya and Zambia.

APMC

- Very small to say anything right now
- Just one center in Chennai is operating
- Revenue in 2017 was 2.5 crores and the center was at breakeven level with minor profit (2016 revenue was 1.27 crores)

Competition

- Formidable competitors in every segment
- Balms- Emami (Zandu, Menthoplus), Tiger Balm
- Pain Management products- Moov, Volini, Iodex etc
- Congestion Management- Vicks (P&G HH)
- Sanitary napkins- P&G Hygiene and Health, J&J
- There is a need to consistently spend on advertising as the competitors are companies with deep pockets and spend a great deal on ads

Other ventures

- Company ventured into many areas including Amrutanjan Infotech (2001), Chemical division (Currently discontinued), more recently into developing products in Ready to Eat segment
- Had been lacking focus
- Most of these have been exited
- Currently the chemical division has been discontinued and planned to be sold

- In spite of the mistakes, the company has been able to sustain due to the magnitude and the stable operations from the pain management products

Management Quality

- The current management has tried entering into various new products
- When they found it not to be worth pursuing, they have aborted the products
- Certain successful products (Comfy, Rollon back pain) have been result of such experimentation
- Failed/Aborted products include Ready to Eat, Diakyur, Sugam capsules etc

Strengths of the company

- Strong Balance sheet and brand
- Deep distributor network and a clear strategy to increase. *(Plans to increase direct distribution from 1.1 to 2 lakhs by 2021 and indirect from 2.64 to 3.5 lakhs)*
- Management is conservative, but also not laid back. There are always some new products in the pipeline
- Management is flexible to discontinue loss making or unviable ventures instead of allowing these to bleed cash
- Exports- Currently account for less than 2 % of overall sales. There is huge potential to increase this.

Weaknesses of the company

- Formidable competition in every segment
- Concentration towards southern states (Orissa & WB also are significant markets)
- Company has not been that successful in other areas apart from Pain Management (Balms/Spray/Roll-on)
- Need to maintain advertising spends due to strong competitors
- There are more than 100+ brands of balms available and stickiness of the customers might be limited

Basic Scuttlebut

- Sample size limited to Bangalore and a couple of nearby towns/villages
- Most pharmacy shops stock Pain Balm & Rollon. Sprays are not stocked by many
- De-Corn caps seem to be successful, though they address a relatively small market (no repeat customers)
- Comfy Snug it is available in many rural and tier-3 towns where it is found to be more moving compared to urban duopoly of whisper and stayfree
- Fruitnik has no visible presence in Karnataka (maybe concentrated in TN & Orissa/WB)
- Products absent in many supermarkets like Big Bazaar/Dmart etc

Risks

- Market factors a better growth rate going forward. In case of this not materializing, there can be a fall in stock price or the price can remain stagnant or range bound
- Company might again venture into unrelated ventures and drag-down the ROCE (unlikely)
- Increased intensity of competition can trigger increase in advertising expenses
- Company might undertake an acquisition which can be detrimental considering the fact that the management has not shown much ability in terms of making newer products work

Female Hygiene

Our main objective was to provide affordable sanitary napkins, thereby making menstrual hygiene accessible to every woman in India. Thus with that objective **Comfy** was launched at just **Rs. 20/-**.

In a short period of two years the product has grown 18 folds in sales and has gained 1.2% volume market share in economy category for the period ending Mar-18. In the Eastern region states like Orissa, the brand Comfy has achieved a volume market share of 10% in the first three years. This is a great success story for a non-core product for the

The company's foray into Sanitary napkins a few years ago is continuing to show signs of initial success with the brand Comfy clocking a revenue of 19.62 cr compared to 8.3 cr the previous year. The product has gained acceptance in states like UP and MP where our core OTC business has been traditionally weak.

- Sales has grown from 3 crores in FY16 to 19.62 crores in FY18. YTD Dec 18 sales is 23 crores
- Market dominated by P&G HH + J&J
- Competitors in similar price segment include smaller companies. Other players included Emami's She Comfort, Shapers (Gulfic Biosciences), Don't Worry (Mankind)- Now all these have limited to no presence
- Kimberly Klark (Kotex) is targeting the premium segment
- Unicharm Sofy also is gaining market share (overall >2% share)

Focus on Roll-on & Beverages

Another success for Amrutanjan in the recent years has been the roll-on format which in spite of intense competition from large players in the body pain space, has garnered a small but growing satisfied user base. Our Body roll-on and head roll-on are sought after due to their unique formulation and portability. This is an innovation success for the company.

Rehydration is a big area of focus for your company, in addition to pain management and women's hygiene. The ORS (oral rehydration salt) category which was dominated by one brand is seeing growth due to new entrants challenging the status quo. The category expansion is driven by consumer habit shift towards a more active lifestyle, propensity to self medicate etc. Our Electroplus ORS brand has shown robust sales growth by doubling sales to 6.5cr.

Beverages

- It is seen that the company has started advertising the Electrolyte version of Fruitnik. FY2018 sales of electrol plus (ORS) was 6.5 crores.
- YTD Sales of 13.3 crores (Dec18) versus 15.54 crores in Dec17
- Margins affected due to to increased advertising spend (3.1 crores versus 1.78 crores last year)
- The ORS is available on many online channels including Big Basket
- As per the recent update, the cash has been collected from pending distributors in Dec 18 and company expects the business to be healthy
- Chances of Fruitnik (fruit drinks) accounting for higher sales seems difficult unless the company is willing to increase sales by absorbing losses

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Strengths & Challenges (as per the company)

- Ability of the company to bring quality and innovative products to the market at a relatively fast clip.
- Ability of the company to invest in the brands and fight competition today, which was not the case a decade ago.
- Go to market: This is the biggest area of focus for the company (management) as this is the core process of any fmcg company. At the core of GTM (go to market) is distribution of the products. In Indian fmcg, organizations that excel in GTM (go to market) make it and the rest fail. This is the bottom line. The brand Amrutanjan is enjoying the highest equity (measured through Nielsen and surveys) and it is a mandate for the management team to ensure we make the products available at all channels: chemists, grocers, modern trade and online. We have signed up with Amazon and other online retailers to offer our range of products.
- First time right: We are working to build the culture of being a "first time right" organization.
- Challenges: The critical challenge in addition to distribution expansion (in new states) is the inflation experienced in key raw materials. The top three raw materials used in the pain business have seen prices increase 4-5 fold the last ten years! This has resulted in gross margin drop for two consecutive years and the immediate future also looks similar.

Future plans/concerns

- Company plans to increase exports. Currently exports contribute to less than 2% of the revenue
- Increasing distribution via online channels and traditional network
- Focus on new products and also focus on products that have shown good traction (Comfy, Roll on and Rehydration)
- Pain management centers – Currently a pain management center in Chennai has been operational
- Some concern areas include raw material price/packing material price inflation. Comfy (GST Input tax credits become costs and affecting margins)
- Focused on logistics cost reduction

Chennai Land

- Company possesses a 2.5 acre land in Prime area of Chennai which is valued at about 200-250 crores
- The company might sell this in future and market seems to be pricing that the company will distribute it as a special dividend or use it for further capex/acquisition
- The market is well aware of this possibility and factors a certain probability of this into current valuation

Sources/Additional Reading

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