Initiating Coverage

Amrutanjan Healthcare Ltd.

September 27, 2021

RETAILRESEARCH

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Amruntanjan Healthcare Ltd.

Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
FMCG	Rs.827	Buy in the band of Rs.820-830 & add more on dips of Rs.732	Rs.900	Rs.970	2 quarters

HDFC Scrip Code	AMRUTANJAN
BSE Code	590006
NSE Code	AMRUTANAJAN
Bloomberg	ARJN:IN
CMP Sept 24, 2021	827
Equity Capital (Rs cr)	2.92
Face Value (Rs)	1
Equity Share O/S (cr)	3
Market Cap (Rs cr)	2417
Book Value (Rs)	73.7
Avg. 52 Wk Volumes	110,000
52 Week High	883
52 Week Low	400

Share holding Pattern % (Jun, 2021)	
Promoters	50
Institutions	9
Non Institutions	41
Total	100

* Refer at the end for explanation on Risk Ratings

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Our Take:

Amrutanjan Healthcare ltd (AHCL) is one of the oldest ayurvedic and OTC Indian brand. The core focus of the company is to create a niche for itself with a strong portfolio of affordable healthcare, personal and hygiene care products in a highly competitive market dominated by premium brands. Amrutanjan Pain Balm (Yellow Balm) is the flagship brand of the company; apart from this it has been constantly expanding its product portfolio with a range of pain management products (aromatic balms, creams and sprays for headaches, body aches). AHCL also has presence in premium category products under its sub brand "Roll-on" and has also launched brand "Relief" which caters to congestion related issues (cold rubs, nasal inhalers, lozenzes and cough syrups).

AHCL in 2015 had also diversified into sanitary napkins under the Brand "Comfy" which has been positioned as an affordable alternative for larger target audience. Comfy been a key revenue growth driver for the company over last 6 years. It has recorded a revenue growth of CAGR 91% over FY15-21. As on FY21, it reported a revenue of Rs. 54Cr. Also in 2011, AHCL has acquired Siva's Soft Drink Pvt Ltd along with its flagship pulp-based flavored fruit drink brand "Fruitnik". Its revenue as on FY21 stood at Rs. 17Cr.

AHCL as per its M5K distribution plan, is in the process of expanding its distribution network in rural and semi urban areas to strengthen its footprint. It aims to ramp up its distribution network appointing 5,000 distributors and sub-stockists. The company also plans to scale-up its presence in the e-com channel and aims to increase its contribution to 1.3% from ~0.5% currently of overall revenues. In the OTC domestic market as on FY21, segment-wise Head contributed 72.9% followed by Body 7.3%; congestion 2.5%; H&H 1.4% and women's hygiene contributed 16% of overall revenues. Amrutanjan was ranked No.33 among top 50 brands in the "Health and Personal Care" segment according to the Economic Times Brand Equity (Most Trusted Brands) 2018 Survey.

Valuation & Recommendation:

AHCL's earnings grew at a CAGR 17% FY17-21. Going forward, we are positive on the future growth prospects and expect AHCL to be ahead of the category performance mainly in the OTC segment. In our view, AHCL's revenue and PAT is likely to record a growth of 17.5% and 16.7% CAGR over FY21-23E. Along with this we expect the company to generate consistent FCF with consistent high ROEs. The Comfy brand is expected to be the key growth driver for AHCL. We expect, "Comfy" revenues to grow at CAGR 28% while other OTC products are expected to grow at CAGR 13.2% over FY21-23E. Though AHCL is in branded personal are segment, it may not get the valuations that other FMCG players get due to its single brand and single segment concentration, though it has been working to diversify that and has succeeded to some extent so far. However we feel that there is a scope for some upward valuation re-rating in the stock currently.

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We feel investors can buy the stock in the band of Rs. 820-830 and further ad on dips at Rs. 732 (26x FY23E) for a base case fair value of Rs. 900 (32x FY23E) and bull case fair value of Rs. 970 (34/5x FY23E) for a time horizon of 2 quarters.

Financial Summary

Particulars (Rs cr)	Q1FY22	Q1FY21	YoY-%	Q4FY21	QoQ-%	FY19	FY20	FY21	FY22E	FY23E
Total Operating Income	78	47	66%	94	-17%	253	261	333	395	459
EBITDA	14	10	44%	12	17%	31	30	75	83	101
Depreciation	1	1	-4%	1	-10%	3	4	4	4	5
Other Income	3	2	37%	3	2%	7	8	11	13	14
Interest Cost	0	0	100%	0	-78%	0	0	1	1	1
Tax	4	2	25%	3	20%	10	9	21	23	27
PAT	12	10	23%	10	18%	25	24	61	68	82
Diluted EPS (Rs)	4.1	2.2	87%	3.5	18%	8.4	8.6	20.9	23.4	28.1
RoE						18%	16%	32%	28%	26%
P/E (x)						96	99	40	35	29
EV/EBITDA						74	80	32	29	23

(Source: Company, HDFC sec)

Q1FY22 Result Review

- In the midst of Covid-19 pandemic, Amrutanjan Health care Ltd in Q1FY22 reported decent performance. Overall revenues stood at Rs. 78 Cr which grew by 66% on YoY and fell 16% on sequential basis while EBITDA stood at Rs.15 Cr registering a growth of 44/17% on YoY/QoQ basis. Consequently, PAT grew 87% on YoY and 18% on QoQ basis.

- In OTC division EBIT margin improved by 380 bps on QoQ while the Beverage business had generated break-even with positive EBIT margin of 7.9% after a consistent loss for over 7 quarters.

- Going forward, we expect, AHCL to strengthen its beverage business. “Fruitnik” reported highest ever revenue of Rs. 10.8Cr for the quarter up 1.68x on a YoY basis while sequentially revenue grew by 20%.

Long Term Triggers

Strong focus on being a market leader in the affordable healthcare and personal hygiene space:

AHCL for more than century has been a household brand catering to both classes and masses. Despite high competition intensity from premium international brands, it has been consistently growing in the pain management and OTC space on the back of its strong market positioning in the affordable pricing space. It has been constantly launching new SKUs and has been expanding its product portfolio in adjacent categories at competitive pricing. Apart from the traditional balms, AHCL had also ventured into newer categories like “Rollon”, joint muscle sprays, “Decorn” corn caps and congestion “Relief” products.

Pain Management Balm- AHCL Price positioning in INR

	Amrutanjan Healthcare			Emami		Glaxo Smithline
Size	Extra Power	Strong Power	Maha Strong	Zandu Regular	Zandu Ultra Power	Iodex
8Ml	30	38	42	40	45	40

Source- 1mg.com

Congestion- AHCL Price positioning in INR

	AHCL	P&G
Size	Relief	Vicks
5Ml	10	21
30Ml	50	102*

Source- 1mg.com

*30Ml Vicks price adjusted as per the pricing of 25Ml pack

“Comfy” one of the fastest growing women sanitary pad brand catering to a large untapped opportunity

As per Research and Markets, Indian sanitary pads market was valued at Rs, 25.02 billion in 2018 and was expected to reach Rs. 58.62 billion by 2024, expanding at a compounded annual growth rate (CAGR) of ~14.92%, during the 2019-2024 period. Out of the 365 million menstruating women in India, only ~18% of them use sanitary napkins and the rest ~82% of them, live in semi-rural and rural India. As per Euro monitor, per capita consumption of sanitary napkins is just four units in India compared to 69 units in North America and 72 units in Western Europe. The market for sanitary protection in India is dominated by international companies like Procter and Gamble’s Whisper and Johnson and Johnson’s Stayfree, which have a retail market share of 50.4% and 24%, respectively.

AHCL has been aggressively looking at a sizeable presence in the women’s personal hygiene space by supplying high quality sanitary pads at affordable prices under the “Comfy” brand. It has partnered with TZMO Europe to obtain the latest technology. The objective is to capture the pie of larger market size which is still underpenetrated due to affordability and accessibility related barriers and challenges. It has roped in actress Shraddha Kapoor to drive awareness campaign about women's personal hygiene.

Starting at price of Rs. 20, AHCL was the first company to launch a high quality napkin at a price point that was affordable to larger audience. The rural markets contribute to around 50% of Comfy's sales.

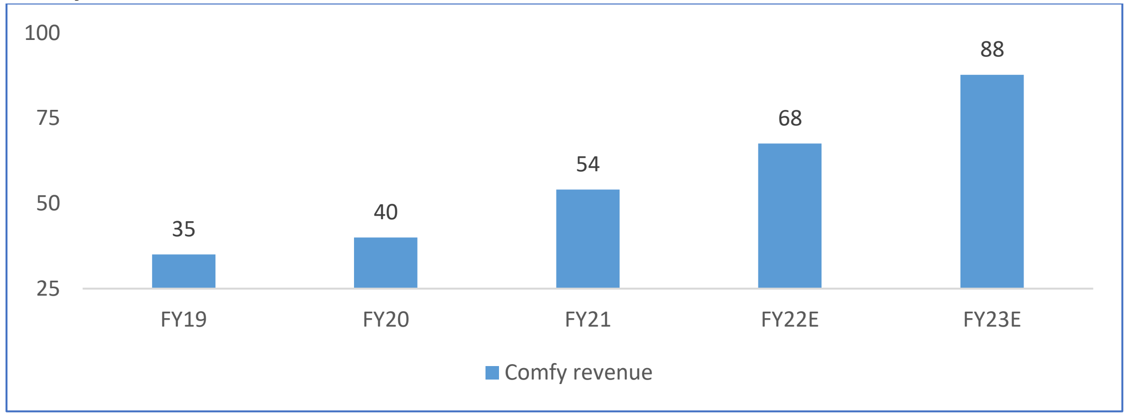
Comfy Price positioning in INR

	AHCL	P&G	Unicharm	J&J	Soothe
Pack size	Comfy- XL	Whisper- XL+	Sofy -XL+	Stayfree-XL	Paree-XL
7 pcs	34	80	85	42	64

Source- 1mg.com

AHCL aims to be amongst top prominent brands in India over next 2-3 years in the sanitary napkins space. In FY21, it had added 30K outlets nationwide (total reach of 2.88 Lakh outlets) and has currently presence across major nationwide chains like D Mart, Reliance and also on Amazon, Flipkart and Pharmeasy to service consumers shopping online.

Comfy revenue trend



Source- Company, HDFC Securities; Fig in Rs. Cr

Comfy sales have grown at 91% CAGR over FY15-21 and has immense growth potential ahead. Comfy has done exceedingly well in terms of market share in Eastern UP and Orissa (13-14% market share). In FY21, the contribution of women's hygiene category has increased to 16.2% of the total sales. Going forward, we expect its revenue to grow at CAGR 28% over FY21-23E.

Strong brand recall with focus on geographical expansion and deeper penetration

AHCL has been manufacturing ayurvedic balm for pain management since 1893, and is currently managed by the third-generation of promoters. It has a long track record in the industry and has an established market position with strong brand recall in the pain management segment. The established distribution network is being leveraged to expand into new geographies and product categories. On the pain management side, channel-wise, the General Trade (GT) format continues to have a lion share of overall revenue, contributing 87% of the overall turnover. AHCL retains No.1 market share in Modern Trade channel. Currently Southern India contributes almost 60% of AHCL's revenue. Going forward, it aims to scale-up its presence in western and northern zones which is at ~3% and ~8% respectively in FY21. In FY21, AHCL had increased its total distribution reach from 10.81 lakh outlets to 11.48 lakh outlets as per IQVIA data.

Increase business through E-commerce space

Amrutanjan products are currently available in E-commerce channels viz. Amazon, Flipkart, Sasta sundar, Big Basket, Netmeds, PharmEasy, Medlife, Jio Mart, Medplus, Apollo, D Mart, Walmart, Fresh-to-home, Shop X. The company also plans to scale-up its presence in the e-com channel and aims to increase its contribution to 1.3% from ~0.5% of overall revenues. The company is investing in digitization and e-commerce in a big way. As part of its digital drive, company is working on launching an app around its sanitary napkin brand Comfy, which would help women track their periods, read about menstrual and feminine health, besides ordering the Comfy range of sanitary napkins and related products from home.

Key Financial Summary

- AHCL has delivered a revenue growth of CAGR 10% over FY12-21 aided by new product launches and expansion of its distribution reach. The OTC segment contributed ~94% of overall revenues in FY21. Going forward, we are expecting the company to report revenue CAGR of 17.5% over FY21-23E. Despite Covid-19 related challenges, AHCL registered a robust 27% revenue growth in FY21.

- In FY21, AHCL margins improved due to the price reduction of key raw material Menthol crystal. During the lockdown, strategic plans were made and implemented to keep sufficient stock for OTC products wherever available to avoid stock-out situation. Company was able to contain overall spend on packing material despite increase in prices of packing material due to the long-term relationship with suppliers. Going forward, we expect its EBITDA and PAT to record a growth of CAGR 16.5/16.7% respectively over FY21-23. Also AHCL continues to operate a debt free cash rich balance sheet with Rs. 193Cr of surplus cash and cash equivalents in the company.

What could go wrong?

Sharp rise in Competition Intensity

AHCL has stiff competition from brands like Vicks, Whispers which is owned by FMCG gaint P&G. Other brands are Iodex, moov, Zandu, Emami and Volini in the pain and congestion management segment. In the feminine hygiene segment, Amrutanjan (Comfy) faces competition from Industry leaders like J&J, P&G and Unicharm that control ~70% of the market (share).

Inability to grow with new launches or expand beyond South India

Historically, AHCL has been able to scale-up its successful launches and has been able to constantly expand its product portfolio. Going forward, we expect the management to further expedite its focus on new launches and geography expansion strategy. Incase if the execution of this strategy becomes lengthier and more tedious than earlier anticipated than there can an impact on its overall growth and earnings trajectory in short to medium term.

Sharp rise in Raw Material Inflation

Margins in Q1FY22 improved due to the lower prices of key raw material menthol crystal. The cost of packing will increase going forward as there is an increase in the price of input material like plastic resins, poly films, kraft paper and paper board.

Source- Investing.com

Covid-19 related slowdown

Due to the pandemic, there is a strain in the entire supply chain in terms of raw material availability and delivery of goods on time. Logistics spend during the lockdown was high. The beverage division has lost the season due to the lockdown during the second wave.

Supply Chain Disruption in current business operations

Comfy is being currently outsourced to a factory of Bella Hygiene at Madurai, of which Comfy utilizes >90% of capacity. AHCL switched to Bella after facing quality issues with their partner Royal Hygiene (Brand 'SHE' which was acquired by Emami) in the initial years of launch. Amrutanjan has been an advocate of in-house manufacturing and will shift manufacturing in-house once the product attains required scale and size (Rs100Cr+). Till then, the company will be vulnerable to any quality or supply side disruption at this factory.

Fruitnik slow growth trend

Amrutanjan's beverage business has shown a subdued growth before recording strong numbers only in the June 2021 quarter. The ORS and beverage industry is highly competitive and Fruitnik faces competition from other globally well established brands. AHCL has not been able to breakeven in this business segment. The industry leader is FDC's Electral followed by Gatorade and Glucon D. AHCL's beverage business shown a de-growth at 5% CAGR between FY16 - FY21

Stiff competition from Allopathic balms

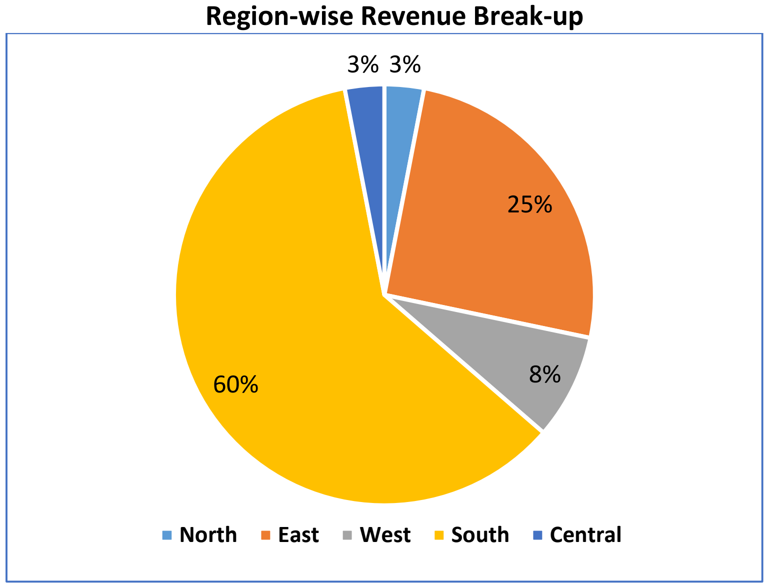
AHCL manufactures balms from ayurvedic and herbal component which has a strong smell. Ayurvedic brands have lost market share to fast acting allopathic balms and products. AHCL had tried to counter this by launching new variants like sprays, Roll-On and Pain patch without compromising on the ayurvedic roots. During the pandemic the company witnessed increased enquiry for exports of its products. People are realizing the harmful effects of allopathic formulations and opting for more natural treatments. In FY21, the head segment under the balm business contributed 73% of the overall sales and it will continue to lead the revenue in the future.

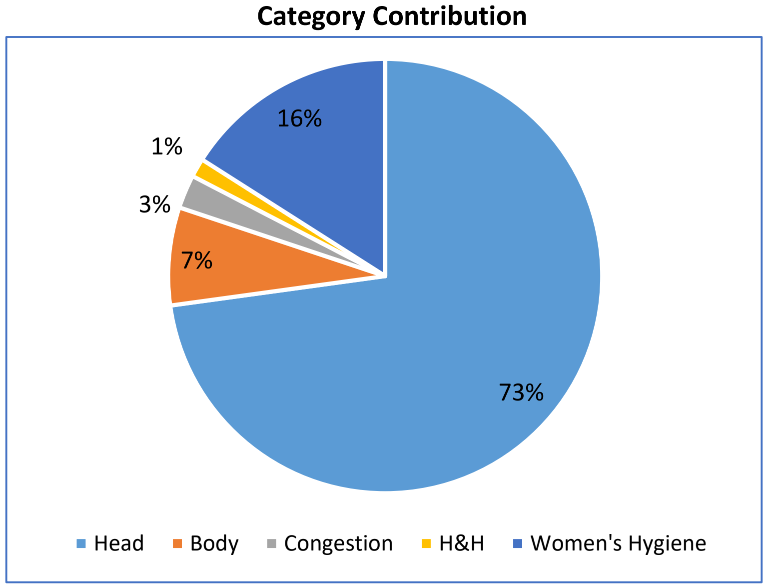
Overdependence on Amrutanjan balms for margins

Despite the fall in the proportion of balms in the recent times, even now a large proportion of margins still come from balms while the newer categories are still scaling up and require expenses to further penetrate markets and price products competitively against the existing players. However the management has in the past gone for new ideas or products with High gross margin potential (50-60% range) that will facilitate marketing spend, high growth potential and low penetration. While some of these did not work out and were finally discontinued; the two high potential products at present – Sanitary Pad (Comfy) and Electro+(ORS) are a result of such experimentation. The company will continue to innovate and keep exploring new avenues for growth. If a category clicks, it could boost the company's performance.

Company Profile:

AHCL is a pioneer of pain and congestion management since 1893 and is one of the leading player in ayurvedic OTC healthcare products with three manufacturing facilities – two for OTC (Tamil Nadu and Telangana) and one for Beverages in Tamil Nadu.





Source- Company, HDFC Securities

Financials

Income Statement

(Rs Cr)	FY19	FY20	FY21	FY22E	FY23E
Net Revenues	253	261	333	395	459
Growth (%)	15%	3%	27%	19%	16%
Operating Expenses	222	232	258	312	358
EBITDA	31	30	75	83	101
Growth (%)	10%	-5%	149%	11%	22%
EBITDA Margin (%)	12%	11%	22%	21%	22%
Depreciation	3	4	4	4	5
EBIT	28	26	71	79	96
Other Income	7	8	11	13	14
Interest expenses	0	0	1	1	1
PBT	35	34	81	91	110
Tax	10	9	21	23	27
RPAT	25	24	60	68	82
APAT	25	24	60	68	82
Growth (%)	35%	-3%	149%	13%	20%
EPS	8.4	8.6	20.9	23.4	28.1

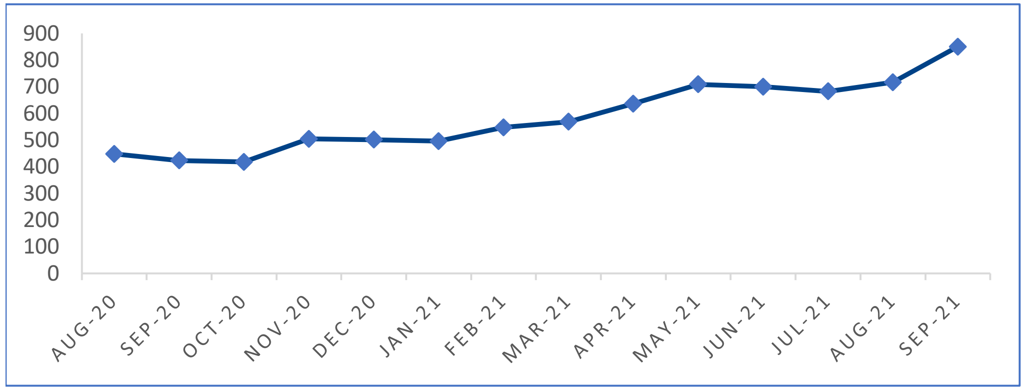
Balance Sheet

As at March	FY19	FY20	FY21	FY22E	FY23E
SOURCE OF FUNDS					
Share Capital	3	3	3	3	3
Reserves	143	157	213	274	348
Shareholders' Funds	146	159	216	277	351
Total Debt	0	0	0	0	0
Net Deferred Taxes	0	0	0	0	0
Other Liabilities	6	7	7	7	7
Minority Interest					
Total Source of Funds	152	166	223	284	359
APPLICATION OF FUNDS					
Net Block & Goodwill	26	6	22	24	30
CWIP	0	0	0	0	0
Other Non-Current Assets	4	54	10	32	37
Total Non-Current Assets	30	60	32	56	67
Current Investments	18	19	18	18	18
Inventories	15	24	18	27	28
Trade Receivables	33	26	18	38	52
Cash & Equivalents	82	37	140	151	205
Other Current Assets	11	39	49	49	52
Total Current Assets	158	145	242	283	354
Trade Payables	30	31	41	43	50
Other Current Liab & Provisions	6	8	11	11	11
Total Current Liabilities	36	39	51	54	62
Net Current Assets	122	106	191	228	292
Total Application of Funds	152	166	223	284	359

Cash Flow Statement

(Rs Cr)	FY19	FY20	FY21	FY22E	FY23E
Reported PBT	35	34	82	91	110
Non-operating & EO items	-1	1	2	0	0
Interest Expenses	-5	-7	-9	1	1
Depreciation	3	4	4	4	5
Working Capital Change	-1	-4	29	-27	-10
Tax Paid	-10	-11	-19	-23	-27
OPERATING CASH FLOW (a)	21	18	89	46	78
Capex	-2	-3	-2	-5	-12
Free Cash Flow	19	16	87	41	65
Investments	-14	-17	0	0	0
Non-operating income	0	0	-86	-24	-5
INVESTING CASH FLOW (b)	-16	-20	-88	-29	-18
Debt Issuance / (Repaid)	0	-1	0	0	0
Interest Expenses	0	0	0	0	0
FCFE	19	15	87	41	65
Share Capital Issuance	0	-1	0	0	0
Others	-7	-9	-5	-8	-8
FINANCING CASH FLOW (c)	-7	-10	-5	-8	-8
NET CASH FLOW (a+b+c)	-2	-12	-4	10	53

One Year Price Chart



Key Ratios

	FY19	FY20	FY21	FY22E	FY23E
EBITDA Margin	12%	11%	22%	21%	22%
EBIT Margin	11%	10%	21%	20%	21%
APAT Margin	10%	9%	18%	17%	18%
RoE	18%	16%	32%	28%	26%
RoCE	20%	16%	36%	31%	30%
Solvency Ratio					
Net Debt/EBITDA (x)	-3.2	-1.9	-2.1	-2.0	-2.2
Net D/E	-0.7	-0.3	-0.7	-0.6	-0.6
PER SHARE DATA					
EPS	8.4	8.6	20.9	23.4	28.1
CEPS	9.7	9.8	22.1	24.8	29.8
Dividend	2.2	2.1	4.2	2.6	2.6
BVPS	50	55	74	95	120
Turnover Ratios (days)					
Debtor days	44	41	24	35	41
Inventory days	18	27	23	25	22
Creditors days	33	41	43	39	40
VALUATION					
P/E	96	99	40	35	29
P/BV	17	15	11	9	7
EV/EBITDA	74	80	32	29	23
EV / Revenues	9	9	7	6	5
Dividend Yield (%)	0	0	0	0	0
Dividend Payout (%)	26	24	20	11	9

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 cyclicality 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.

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