



Amrutanjan Ltd.

Stock Idea

MARKET DATA

| | |
|-------------------------------|------------|
| NSE TICKER | AMRUTANJAN |
| Networth H1FY17 (₹ Crs) | 131 |
| P/BV Ratio (FY17E) (x) | 6.4 |
| EPS (TTM) (₹) | 16.1 |
| Market Price (₹) | 616 |
| P/E Ratio (TTM) (x) | 37x |
| 52 Week High (21/10/2016) (₹) | 661 |
| 52 Week Low (29/02/2016) (₹) | 376 |
| Market Capitalisation (₹ Cr) | 838 |

AVERAGE MONTHLY VOLUME ('000)

| | |
|-----|---|
| BSE | 2 |
| NSE | 9 |

SHARE HOLDING PATTERN

| | |
|-----------|-------|
| Promoters | 50.2% |
| FII | 0.0% |
| DII | 2.7% |
| Public | 47.1% |

| RETURN (%) | 3M | 6M | 12M |
|------------|-----|-------|------|
| Amrutanjan | 13% | 35.6% | 23% |
| Sensex | -4% | -1% | 7.7% |

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Founded in the year 1893, Amrutanjan is a household name in South India. The company manufactures pain balms and has recently diversified into allied products. The company is a niche FMCG company with a focus on pain relief and other related products.

❖ Investment Rationale:

Structural Changes Visible

The company has transformed itself from a single product company to a multi-product FMCG company. The company has built a strong distribution network over the past 5 years and is now well poised to benefit from the same via new product launches.

A Brief Snapshot of how the company has evolved over the past 5 years

| Particulars | FY11 | FY16 |
|----------------------------|--------|--------|
| Yellow Balm | 51% | 41% |
| White Balm | 46% | 47% |
| New Products | 3% | 12% |
| Sales | 103 Cr | 184 Cr |
| Gross Margins | 55% | 64% |
| South Sales | 67% | 60% |
| Non-South Sales | 33% | 40% |
| South India Distributors | 85 | 152 |
| Non South Distributors | 93 | 362 |
| Sales via Modern Trade | 3 Cr | 11 Cr |
| Working Capital Cycle Days | 80 | 54 |
| A&P Spends | 6 Cr | 21 |
| EBITDA Margin (%) | 13% | 17% |

The company has been able to garner a modest ~12.3%, however the same has come with a huge focus on gross margins which have expanded by ~900bps. The company has also shrunk its working capital cycle by ~26 days thus freeing up sizable operating cash flows and improving the return profile.

The company has also sharply increased A&P spends three fold over the past 5 years. Despite the above brand investments the company has been able to expand EBITDA margins by ~400 bps showcasing the strength of the underlying business.

Market Share across Key Categories

Being a challenger brand provides the company a huge whitespace to leverage its strong brand which has been painstakingly built over the past century.

| Category | Head Pain Balms | Body Pain Balms | Nasal Blockage Balms | Sanitary Napkins |
|----------------------|------------------------|-----------------------------------|---------------------------------|--------------------------------|
| Category Size | 700 Cr | 1300 Cr | 200 Cr | 2000 Cr |
| Amrutanjan Share (%) | 20% | New Products Brand Extension | New Products Brand Extension | New Product Brand Extension |
| Key Competitors | Zandu, Tiger, Iodex | Moov, Volini, Relispray, Iodex | Vicks | Stayfree, Whisper |

Valuations

At CMP of ₹616, Amrutanjan trades at ~27.5x FY18 earnings which stands at a ~50% discount to Emami. Given the superior cash generation, and improving return ratios we assign the company a P/E of 30x FY18 Earnings which works out to a price of ~₹670/share. This however does not value the surplus land that the company intends to sell, which would be valued at ~₹150/share (Post discounting at ~30%). Thus a SOTP of the above would result in a target price of ₹820/share implying an upside of ~33% from the current market price.



Business Segments

The company has 3 primary business segments as under

- **OTC Products:-**
 - o Balms, White & Yellow (Focused on white balm, less sticky new product, Higher GM)
 - o New products:- Roll on, pain relief spray, sanitary napkins (Distribution push strategy)
 - o Pushing for volume growth by building presence in the Non South markets
- **Non-Carbonated Health Drinks:-**
 - o Fruitnik Brand, competes in the Real Juice category, currently EBITDA negative, losing 2.5 cr/year, management plans to turn around brand by FY18 or shut the business
- **Amrutanjan Pain-care Centers**
 - o Pain management centers (5 in number) EBITDA Break-even
 - o Helps get visibility for companies products in core markets, no fresh centres planned

Distribution

The company has heavily invested in growing its distribution reach.

- The company's products are available at ~350,000 retail outlets (medical stores) which is a decent coverage network given the total number of pharmacy stores in the country stand at ~850,000 implying a ~40% coverage
- The company aims to leverage this distribution reach and has launched brand extensions across key categories under pain management to help increase the target addressable market by 4x-5x

Key Upside Triggers:-

- Revenue growth of ~15% per annum fuelled by growth in distribution, launch of products across related categories
- Gross margin expansion to ~70%, inputs largely commodities with a lot of suppliers
- EBITDA margin expansion to ~20+% as advertising expenses & administrative expenses get better absorbed
- Further shrinkage in working capital as the company currently operates on 18 payable days (Sales), which can easily be increased to 30-45 days in line with peers and help crunch working capital further
- Land sale, the company shifted its factory away from Mylapore in the heart of Chennai city which freed up 2.5 acres now available for sale (Current valuation pegged at ~300+ Cr)
 - o Management had sold 1.5 acres in the same vicinity to LIC for ₹110 Cr, back in 2008
 - o The management then returned the cash to shareholders via dividends & buybacks

Porter's Five Force Analysis:

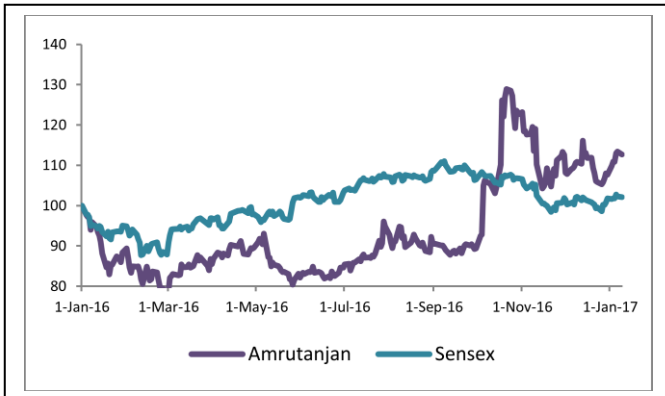
| | |
|-------------------------------------|---|
| Entry Barrier | High Difficult to build an FMCG brand and distribution network |
| Bargaining Power of Supplier | Low Large number of suppliers with just 3-4 large buyers. Depends to some extent on broader commodity prices |
| Bargaining Power of Customer | High The customer could choose between Amrutanjan and a competitor based on various factors, of which price would be one. The same does limit pricing power to some extent. |
| Competition | Low Just ~3 large established competitors in the core category namely Reckitt Benckiser, Emami, and Tiger Balm. Competition in other categories is limited as well with just ~2-3 dominant players in each category |
| Threat of substitutes | Moderate Local home grown remedies & allopathic medicine |



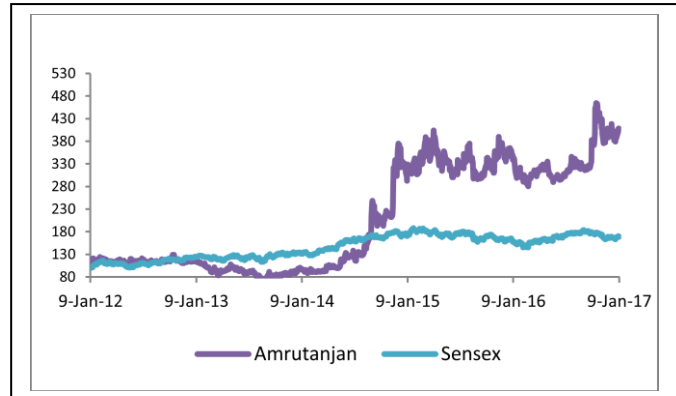
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Indexed Price Chart: 1 Year



Indexed Price Chart: 5 Years



Risks & Concerns:

- Consolidation of mom & pop chemists:-
 - Larger chains would have incremental bargaining power and could impact margins in the future if the pharmacy industry consolidates/is disrupted by tech companies
- Sharp increase in competitive intensity, especially if larger incumbents resort to predatory pricing to protect market share across key categories



Financials:

Profit & Loss

| (₹ Crs.) | FY13 | FY14 | FY15 | FY16 | FY17E | FY18E |
|------------------------|------------|------------|------------|------------|------------|------------|
| Net sales | 141 | 144 | 171 | 192 | 214 | 238 |
| YoY (%) | | 2% | 18% | 12% | 11% | 11% |
| Total expenses | | | | | | |
| Raw Material Cost | 64 | 60 | 67 | 77 | 85 | 92 |
| Employee Costs | 20 | 22 | 26 | 29 | 31 | 34 |
| A&P Costs | 17 | 17 | 27 | 30 | 30 | 34 |
| Other Expenses | 21 | 23 | 27 | 26 | 28 | 30 |
| EBITDA | 19 | 23 | 24 | 31 | 39 | 47 |
| YoY (%) | | 22% | 1% | 30% | 28% | 20% |
| EBIDTA (%) | 14% | 16% | 14% | 16% | 18% | 20% |
| Depreciation | 3 | 3 | 3 | 3 | 3 | 4 |
| EBIT | 16 | 20 | 20 | 27 | 36 | 44 |
| Interest | 2 | 2 | 1 | 0 | 0 | 0 |
| Other income | 4 | 3 | 5 | 6 | 5 | 7 |
| PBT | 18 | 21 | 24 | 33 | 40 | 50 |
| Less: Taxation | 6 | 7 | 9 | 12 | 14 | 17 |
| Effective tax rate (%) | 32.0% | 34.8% | 37.6% | 36.9% | 34.3% | 34.3% |
| Recurring PAT | 12 | 15 | 15 | 21 | 26 | 33 |
| YoY (%) | | 20% | 4% | 36% | 27% | 24% |
| PAT (%) | 9% | 10% | 9% | 11% | 12% | 14% |

Balance Sheet

| (₹ Crs.) | FY13 | FY14 | FY15 | FY16 | FY17E | FY18E |
|-----------------------|------------|------------|------------|------------|------------|------------|
| Equity capital | 3 | 3 | 3 | 3 | 3 | 3 |
| Reserves | 85 | 94 | 102 | 118 | 137 | 161 |
| Net worth | 88 | 97 | 105 | 120 | 139 | 164 |
| Total borrowings | 18 | 11 | 5 | 3 | 3 | 3 |
| Minority Interest | 0 | 0 | 0 | 0 | 0 | 0 |
| Non Curr Liabilities | 12 | 10 | 13 | 16 | 19 | 22 |
| Curr. Liabilities | 9 | 7 | 8 | 10 | 11 | 12 |
| Total liab. | 127 | 124 | 130 | 149 | 172 | 201 |
| Net block | 19 | 16 | 28 | 30 | 30 | 30 |
| Investments | 30 | 14 | 14 | 10 | 0 | 0 |
| Others | 34 | 37 | 22 | 29 | 25 | 21 |
| Current assets | | | | | | |
| Inventories | 7 | 7 | 9 | 9 | 11 | 12 |
| Debtors | 29 | 25 | 29 | 28 | 30 | 33 |
| Cash | 6 | 24 | 27 | 41 | 74 | 104 |
| Other Curr. assets | 2 | 2 | 2 | 2 | 2 | 2 |
| Total assets | 127 | 124 | 130 | 149 | 172 | 201 |



Cash Flow

| (₹ Crs.) | FY13 | FY14 | FY15 | FY16 | FY17E | FY18E |
|-----------------------|-------------|-------------|-------------|-------------|------------|------------|
| Pre Tax Profit | 18 | 21 | 24 | 33 | 40 | 50 |
| Depn and w/o | 3 | 3 | 3 | 3 | 3 | 4 |
| Change in working cap | 0 | 2 | (5) | 2 | (2) | (2) |
| Taxes Paid | (6) | (7) | (9) | (12) | (14) | (17) |
| Others | 0 | 0 | 0 | 0 | 0 | 0 |
| Op. Cash flow | 15 | 20 | 14 | 26 | 28 | 34 |
| Capex (Net) | 0 | (0) | (15) | (5) | (4) | (4) |
| Investments | 0 | 16 | 0 | 4 | 10 | 0 |
| Inv. Cash flow | 0 | 16 | (15) | (1) | 6 | (4) |
| Dividend | (5) | (6) | (6) | (7) | (7) | (8) |
| Fresh Equity | 0 | 0 | 0 | 0 | 0 | 0 |
| Others | (4) | (3) | 18 | 0 | 6 | 8 |
| Debt | 0 | (7) | (6) | (3) | 0 | 0 |
| Interest | (2) | (2) | (1) | (0) | (0) | (0) |
| Fin. Cash flow | (12) | (18) | 5 | (10) | (2) | (0) |
| Net change in cash | 4 | 18 | 3 | 14 | 32 | 31 |
| Opening cash | 2 | 6 | 24 | 27 | 41 | 74 |
| Closing cash | 6 | 24 | 27 | 41 | 74 | 104 |

Key Ratios

| | FY13 | FY14 | FY15 | FY16 | FY17E | FY18E |
|------------------------------|-------|-------|-------|-------|-------|-------|
| Reported EPS (₹) | 8.3 | 10.0 | 10.4 | 14.2 | 18.0 | 22.4 |
| Book value (₹) | 60.2 | 66.4 | 71.8 | 82.5 | 95.5 | 112.5 |
| Dividend per share (₹) | 3.0 | 3.3 | 3.5 | 3.8 | 4.2 | 4.5 |
| Net Debt Equity Ratio | 0.2 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 |
| Payable Days | 24 | 17 | 17 | 18 | 18 | 18 |
| Debtor Days | 74 | 63 | 62 | 54 | 52 | 50 |
| Inventory Days | 19 | 18 | 19 | 18 | 18 | 18 |
| ROCE (%) | 16% | 24% | 21% | 26% | 36% | 42% |
| Recurring ROE (%) | 13.8% | 15.1% | 14.5% | 17.2% | 18.9% | 19.9% |
| ROA (%) | 15.2% | 18.8% | 18.1% | 20.7% | 22.9% | 23.5% |
| Div Yield (%) | 0.5% | 0.5% | 0.6% | 0.6% | 0.7% | 0.7% |
| Valuation Ratios | | | | | | |
| PE (x) | 73 | 61 | 58 | 43 | 34 | 27 |
| Cash P/E (x) | 58 | 50 | 48 | 37 | 30 | 25 |
| Price/book value (x) | 10 | 9 | 8 | 7 | 6 | 5 |
| Market cap/sales (x) | 6 | 6 | 5 | 5 | 4 | 4 |
| EV/sales (x) | 6 | 6 | 5 | 4 | 4 | 3 |
| EV/EBITDA (x) | 43 | 35 | 35 | 27 | 21 | 17 |
| Surplus Land Value/Share (₹) | 171 | 171 | 171 | 171 | 171 | 171 |
| Earnings growth | | | | | | |
| EBITDA (%) | -6% | 22% | 1% | 30% | 28% | 20% |
| EPS (%) | -8% | 20% | 4% | 36% | 27% | 24% |
| PAT (%) | -8% | 20% | 4% | 36% | 27% | 24% |



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