Dimensional Securities Pvt Ltd.

Date: 22nd May, 2017

Recommendation:	Buy
CMP:	712
Target Price:	820

Amrutanjan Healthcare Ltd.

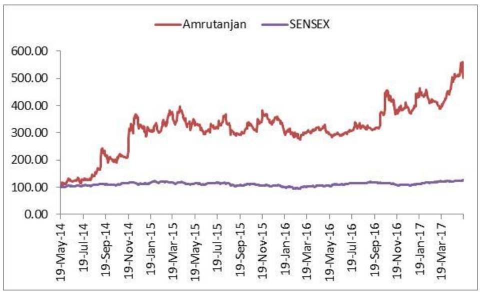
Q4 FY17 Quarterly Update

MARKET DATA	
Net worth FY17 (₹ Crs)	126
P/BV Ratio (FY17) (x)	8
EPS (FY17)(₹)	13
Market Price (₹)	712
P/E Ratio (TTM) (x)	49
52 Week High (₹)	790
52 Week Low (₹)	385
Market Capitalisation (₹ Cr)	1,041

AVERAGE MONTHLY VOLUME ('000)	
BSE	4.3
NSE	31.2

SHAREHOLDING PATTERN % (Mar-17)		
Promoters	Institutions	Others
50.1	3.1	46.8

3 YEAR STOCK PRICE CHART



RETURN	3M	6M	12M
Stock	21.8	30.3	69.6
Sensex	6.9	16.4	18.4

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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.

Structural Changes Continue

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.

Key Quarterly Updates

- **Sales Growth**:- The quarter saw healthy revenue growth of 17% Q-o-Q to ₹69.7 Cr. (+23% y-o-y)
    - q-o-q growth is significantly higher because of a low base effect due to the effect of demonetization on Q3FY16 sales
- **Gross Margins**:- Gross margins for Q4 dropped sharply (~-500bps y-o-y, -1000bps Q-o-Q) thereby driving overall profitability sharply lower
    - The drop is due to a sharp increase in Fruitnik (beverage sales)
    - Fruitnik grew by ~350% Q-o-Q, +52% Y-o-Y to ₹13.7 Cr thereby impacting overall gross margins due to a shift in product mix
    - The high gross margin OTC product sales were flat on a Q-o-Q basis at ₹55.2 Cr which implied a growth of 16% on a Y-o-Y basis
    - Further clarity on the same and future business strategy would emerge during the AGM
- **Operational Expenses:-** Operational expenses were broadly in line with expectations. Employee expenses grew by ~14% y-o-y, while advertising and sales expenses posted a sharp 45% year on year jump but were largely flat on a sequential basis (q-o-q)
- **Segmental Profitability:-** The quarter saw a drop in OTC products EBIT by ~40% Q-o-Q. However the quarter also saw the first profitable quarter for Fruitnik the beverage business with an EBIT of ₹30 Lac as compared to a Loss of ₹1 Cr in the quarter ago
    - This would imply that the Fruitnik brand seems to have achieved a critical mass and would here on be incrementally profitable rather than being a drag on overall profitability
    - The sharp drop in OTC products profitability however is a matter of concern

■ Outlook and Valuation

We value the business at ~40x LTM P/E (~20% Discount to large cap FMCG companies) thereby arriving at a valuation of ₹624 per share.

We also value the surplus land that the company has in Chennai at ₹200/ share after applying a 30% discount to prevailing land prices. We value the land parcel because the management has a history of sharing proceeds from large one-time asset- sales with shareholders as observed in FY09. We thereby value the company at ~₹820 a share, implying a 15% upside from CMP and retain our Buy rating on the Company.

Quarterly Performance:

Particulars ₹Crs	Q4 FY17	Q4 FY16	% YoY	Q3 FY17	%QoQ	FY17	FY16	% YoY
Net Sales	69.7	56.7	23%	59.4	17%	222	192	9.3%
RM Cost	29.9	21.5	39%	19.4	54%	87	77	13.0%
Gross Margins %	57%	62%	(500bps)	67%	(1000bps)	61%	60%	100bps
EBITDA	5.6	8.7	-35.6%	9.2	-39.1%	29	31	-6.5%
EBITDA Margin %	8.0%	15.3%	(730bps)	15.5%	(750bps)	13%	16%	(300bps)
PBT	7.9	9.5	-17%	12.3	-36%	35	34	2%
PAT	3.1	4.7	-34%	9.6	-67%	22.8	22.4	1.7%

Business Description
The company has 3 primary business segments as under

- **OTC Products:-**
  - Balms, White & Yellow (Focused on white balm, less sticky new product, Higher GM)
  - New products:- Roll on, pain relief spray, sanitary napkins (Distribution push strategy)
  - Pushing for volume growth by building presence in the Non South markets
- **Non-Carbonated Health Drinks:-**
  - 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**
  - Pain management centers (5 in number) EBITDA Break-even
  - 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)
  - Management had sold 1.5 acres in the same vicinity to LIC for ₹110 Cr, back in 2008
  - The management then returned the cash to shareholders via dividends & buybacks

Valuations
The company remains one of the few small FMCG companies with clean corporate governance. The small base with a strong brand and distribution network allows for a prolonged period of above industry growth rates.

We value the business at ~40x LTM P/E (~20% Discount to large cap FMCG companies) thereby arriving at a valuation of ₹624 per share. We also value the surplus land that the company has in Chennai at ₹200/ share after applying a 30% discount to prevailing land prices. We value the land parcel because the management has a history of sharing proceeds from large one-time asset- sales with shareholders as observed in FY09. We thereby value the company at ~₹820 a share, implying a 15% upside from CMP and retain our Buy rating on the Company.

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

Key Financials

Profit & Loss

(₹ Crs.)	FY13	FY14	FY15	FY16	FY17
Net sales	**141**	**144**	**171**	**192**	**222**
YoY (%)		**2%**	**18%**	**12%**	**16%**
Total expenses					
Raw Material Cost	64	60	67	77	87
Employee Costs	20	22	26	29	34
A&P Costs	17	17	27	30	37
Other Expenses	21	23	27	26	37
EBITDA	**19**	**23**	**24**	**31**	**29**
YoY (%)		**22%**	**1%**	**30%**	**-6%**
EBIDTA (%)	**14%**	**16%**	**14%**	**16%**	**13%**
Depreciation	3	3	3	3	3
EBIT	**16**	**20**	**20**	**27**	**26**
Interest	2	2	1	0	0
Other income	4	3	5	6	5
PBT	**18**	**21**	**24**	**33**	**31**
Less: Taxation	6	7	9	12	12
Effective tax rate (%)	32.0%	34.8%	37.6%	36.9%	38.7%
Recurring PAT	**12**	**15**	**15**	**21**	**19**
YoY (%)		**20%**	**4%**	**36%**	**-9%**
PAT (%)	**9%**	**10%**	**9%**	**11%**	**9%**

Balance Sheet

(₹ Crs.)	FY13	FY14	FY15	FY16	FY17
Equity capital	3	3	3	3	3
Reserves	85	94	102	118	123
Net worth	**88**	**97**	**105**	**120**	**126**
Total borrowings	18	11	5	3	5
Minority Interest	0	0	0	0	0
Non Curr Liabilities	12	10	13	16	17
Curr. Liabilities	9	7	8	10	14
Total liab.	**127**	**124**	**130**	**149**	**162**
Net block	19	16	28	30	31
Investments	30	14	14	10	9
Others	34	37	22	29	20
Current assets					
Inventories	7	7	9	9	10
Debtors	29	25	29	28	36
Cash	6	24	27	41	60
Other Curr. assets	2	2	2	2	4
Total assets	**127**	**124**	**130**	**149**	**162**

Cash Flow

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

Key Ratios

	FY13	FY14	FY15	FY16	FY17
Reported EPS (₹)	8.3	10.0	10.4	14.2	13.0
Book value (₹)	60.2	66.4	71.8	82.5	86.3
Dividend per share (₹)	3.0	3.3	3.5	3.8	3.9
Net Debt Equity Ratio	0.2	0.1	0.0	0.0	0.0
Payable Days	24	17	17	18	23
Debtor Days	74	63	62	54	59
Inventory Days	19	18	19	18	16
ROCE (%)	16%	24%	21%	26%	31%
Recurring ROE (%)	13.8%	15.1%	14.5%	17.2%	15.3%
Div Yield (%)	0.5%	0.5%	0.6%	0.6%	0.6%
Valuation Ratios					
PE (x)	73	61	58	43	49
Cash P/E (x)	58	50	48	37	46
Price/book value (x)	10	9	8	7	8
Market cap/sales (x)	6	6	5	5	5
EV/sales (x)	6	6	5	4	4
EV/EBITDA (x)	43	35	35	27	21
Surplus Land Value/Share (₹)	171	171	171	171	171
Earnings growth					
EBITDA (%)	-6%	22%	1%	30%	28%
EPS (%)	-8%	20%	4%	36%	27%
PAT (%)	-8%	20%	4%	36%	27%

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