

Nov 10, 2020

PICK OF THE MONTH

VOL-6, NO-20

Industry: Pharmaceuticals

Amrutanjan Health Care Limited

BUY

CMP: Rs435

TARGET PRICE: Rs500

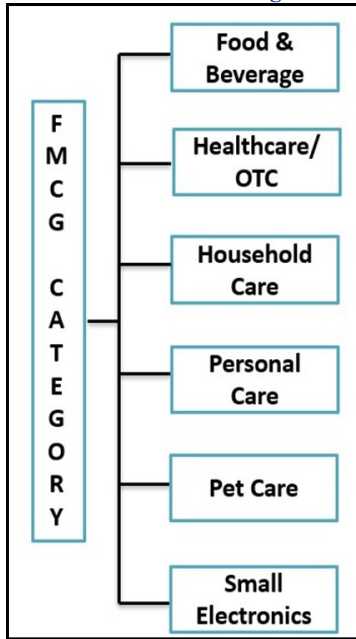
TIME : 12 months

**OVERVIEW:**

**FMCG Industry:** Products which are used by consumers in day to day routine i.e., FMCG (fast moving consumer goods) products constitute the 4th largest sector in the Indian economy while being valued at approximately Rs4 lakh-crores. Urban segment is the largest contributor while the rural and semi-urban segments too are growing at a faster pace. The broad category of products sold in the FMCG segment includes soap, shampoo, detergent, toothpaste, hair oil, deodorants, food & beverages etc. The key FMCG players in India include Hindustan Unilever, Colgate-Palmolive (India), ITC, Dabur, Britannia Industries, Nestlé India, Godrej Group, Tata Global Beverages, Parle Agro, Nirma, Pidilite, GCMF (Amul), Reckitt Benckiser, Cadbury India, Procter & Gamble, Henkel Spic, Johnson & Johnson, Himalaya Herbal Healthcare etc. Many of the FMCG players have adopted either one of the following strategies to grow for e.g., **multibrand strategy** involving marketing of two or more similar and competing products by the same firm; **product flanking** with introduction of different combinations of products at different prices in order to cover different market segments; **brand extension** to dominate the equity of successful brands; **building product lines** so that consumer can buy all the products under one umbrella; **new product development** via own R&D team or acquisition; and **innovations** in the core products via dealers feedbacks or technological expertise.

Of the categories mentioned above, the healthcare/ (over the counter) OTC segment / drugs also known as non-prescription drugs are used to treat conditions that do not require direct consultation of a doctor. The broad category of products sold in this market includes, analgesics & pain relievers, cough, cold and flu products, dermatological products, health supplements (vitamins and minerals), digestives, gastrointestinal products, sleep aids, skin treatment (medicated), weight loss products, smoking cessation aids, ophthalmic products etc. Analgesics & pain relievers, cough, cold and flu products, dermatological products and supplements are the major market segments. Main attraction is seen in the OTC segment/ drugs as the margins earned here could vary between 20-25% as compared to 12-15% in the FMCG segment. The key OTC players in India include Cipla, Dabur India, Emami, Glaxo Smith Kline, Heinz India, Himalaya Herbal Healthcare, Kopran, Amrutanjan Healthcare, Nicholas Piramal India, Novartis, Paras Pharmaceuticals, Procter and Gamble, Reckitt Benckiser Group Plc etc.

**Exhibit 01: FMCG Categories**



Source: careratings.com/upload/NewsFiles/Studies/FMCG

Many players are entering the modern OTC market where along with the nutraceuticals products, compound camphor ointment and the Ayurvedic OTC products are seen gaining immense traction. Some of the top global compound camphor ointment players include Amrutanjan Health Care, Caribe Natural, Llc, China Resources Sanjiu Medical & Pharmaceutical, Delon Laboratories, DLC Laboratories, GHC Group, LLC, Greenbrier International, Indiana Botanic Gardens, Vi-Jon Laboratories, World Perfumes, etc.

SNAPSHOT				
52 week H / L		Mcap (INR mn)		
559/251		12705		
Face value: 1				
BSE Code		NSE CODE		
590006		AMRUTANJAN		
Annual Performance				
(Rs mn)	FY18	FY19	FY20	FY21E
Total Revenue	2,200	2,532	2,615	2,671
EBITDA	281	313	307	326
EBITDA (%)	12.8	12.4	11.7	12.2
Other Income	60	71	83	86
Interest	1	1	2	0
Depreciation	29	32	44	44
PBT	311	352	345	368
PAT	200	250	251	268
Equity (Rs mn)	29	29	29	29
EPS (INR)	6.9	8.6	8.6	9.2
Quarterly Performance				
Parameters (Rs mn)	Sep-19	Dec-19	Mar-20	Jun-20
Sales (Net)	748	828	593	466
EBITDA	116	116	91	76
EBITDA (%)	15.5	14.0	15.3	16.3
Other Income	19	23	26	20
Interest	1	0	1	0
Depreciation	13	12	10	9
PAT	84	95	79	64
Equity (Rs mn)	29	29	29	29
Ratio Analysis				
Parameters (Rs mn)	FY18	FY19	FY20	FY21E
EV/EBITDA (x)	44.8	40.2	41.1	38.9
EV/Net Sales (x)	5.7	5.0	4.8	4.8
M Cap/Sales (x)	5.8	5.0	4.9	4.8
M Cap/EBITDA (x)	45.2	40.6	41.4	38.9
Debt/Equity (x)	0.01	0.01	0.02	0.01
ROCE (%)	25	25	22	21
Price/Book Value (x)	9.9	8.7	8.0	7.2
P/E (x) (TTM)	17.5	49.4	46.3	47.3
Shareholding Pattern as on 30th Sept, 2020				
Parameters	No of Shares	%		
Promoters	14,622,110	50.02		
Institutions	2,887,548	9.88		
Public	11,720,972	40.10		
TOTAL	29,230,630	100.0		

Source: Annual Report

Note: All the data is calculated as per Market Price on 09 Nov, 2020

**OVERVIEW: FMCG Industry (contd.)**

**Ayurveda:** is an ancient science and healthcare system, a form of alternative medicine which basically analyses and cures diseases after understanding an individual's body type, heartbeat patterns, appearance, vision, etc., with the help of various protocols and treatments to rectify/ remedy ailments with the use of herbs, plants, exercise, diet, changes in lifestyle etc. In India, the same is divided into a number of segments related to healthcare and personal care products, where the **personal care product** market is divided into oral care, skin care, make-up, hair care, fragrances etc; while the **healthcare range** is segmented into Ayurvedic nutraceuticals, Ayurvedic medicines and dietary supplements. As per ResearchAndmarket.com the market for Indian Ayurvedic products is expected to grow at a CAGR of 14% during 2019-2024. One of the key factors for driving the Ayurvedic products market is the growing popularity of natural and organic medicines (and their benefits), rising health concerns and awareness of side-effects of western medicines, expanding medical tourism, and other catalysts like economic growth, rising incomes, per capita expenditures on healthcare products, improved distribution network and GOI promoting the usage of Ayurvedic products through awareness programmes and subsidies. As per WiseGuyReports.com, nearly 75% of Indians use some form of traditional medicines, a category that includes Ayurveda. A number of players in this domain are concentrating on generating awareness among consumers as well as developing innovative Ayurvedic products. Organic skincare is the domain, where the products are achieving fast grip and this market is anticipated to expand even further. Needless to mention, the Ayurvedic products market is booming on a global level, and some of the top key players include Patanjali Ayurved Ltd, Dabur, Emami Group, Himalaya Drug, Maharishi Ayurveda, Baidyanath, Shahnaz Husain Group, Vicco Laboratories, Amrutanjan Healthcare, Charak Pharma, Botique, Herbal Hills, Basic Ayurveda, Natreon etc.

Some of the critical regions which have a potential ayurvedic market to flourish include,

**Asia Pacific and Australia-** China, Korea, Thailand, India, Vietnam, Malaysia, Indonesia and Japan

**Europe -**Austria, France, Finland, Switzerland, Italy, Germany, Netherlands, Poland, Russia, Spain, Sweden, Turkey, UK

**Middle East and Africa-** Saudi Arabia, South Africa, Egypt, Morocco, Nigeria

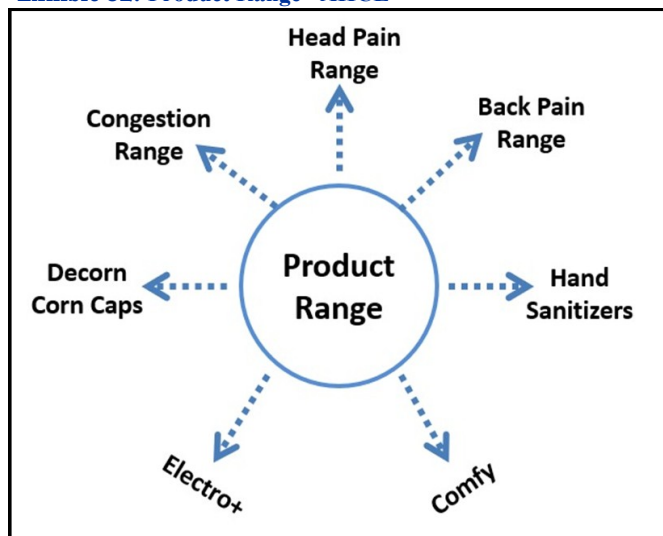
**North America-** Canada, Mexico and USA

**Latin America-** Brazil and Argentina

**About the Company:** Headquartered in Chennai and with a legacy of more than 125 years, Amrutanjan Health Care Ltd (AHCL) is a reputed name and a major player in the OTC market manufacturing popular pain-relief balms. Apart from this, the company is also involved in a number of other range of products for pain management (aromatic balms and roll-ons for headaches, creams and roll-ons for body aches, joint/muscle sprays), for congestion relief (cold rubs, nasal inhalers and cough syrups); sanitary napkins (sold under the brand name Comfy) and diversification into fruit-based beverages viz Fruitmik and Electro+. These products are available in more than 1.06 million outlets including chemists, supermarkets and kirana stores. The pain balm variants offered by the company are manufactured at AHCL owned units in Chennai and Hyderabad; whereas the women's hygiene products are manufactured in a GMP-certified unit owned by a strategic European partner; while the beverage manufacturing facility is located in the outskirts of Chennai. The company has been offering products (which are more than a century old) which are pure with natural ingredients with a blend of health, science, nature, youthfulness (appealing across all demographics) and the use/ application of which leads to a healthy lifestyle.

The manufacturing processes of the company comply with Quality Management System (ISO 9001 for OTC division), Food Safety Management Systems (ISO 22000 for Beverage Division) and six sigma methodology which guarantees quality and safety of the products. Amrutanjan has 3 factories and 6 branches spread across India. The company is powered with a total head count of 677 permanent employees, 440 employees hired on temporary or contractual basis and 29 permanent women employees. AHCL is headed by Mr. S Sambhu Prasad who is the Chairman as well as the Managing Director of the company. AHCL is not just committed towards striving better returns on investments for its shareholders and stakeholders, but also towards the betterment of the community and the society. The core values of the Management have always been with an approach not to compromise on ethics under any circumstances. The company has been successful in serving a number of markets where the products are distributed pan India and the same are also marketed on a global level mainly in the African, Middle East and South East Asian countries. AHCL currently is focused on growing the portfolio for pain management, health beverages and feminine hygiene. Being loyal to its roots in Ayurveda, **AHCL is India's leading pain specialist company.**

**Exhibit 02: Product Range– AHCL**

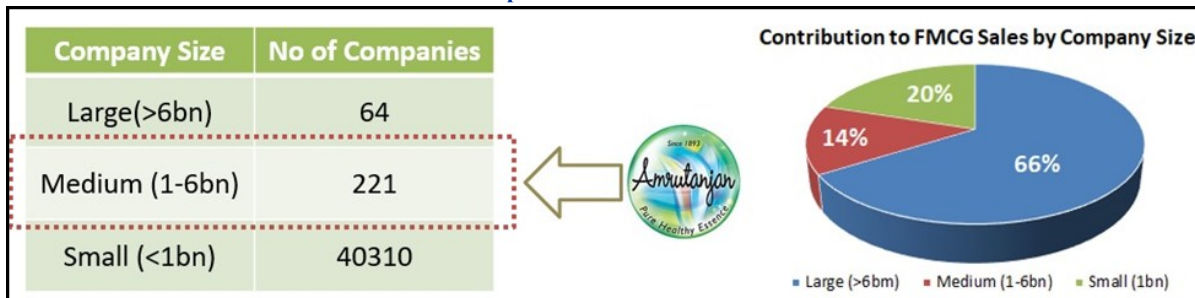


Source: AHCL Company Website, Progressive Research

**INVESTMENT RATIONALE:**

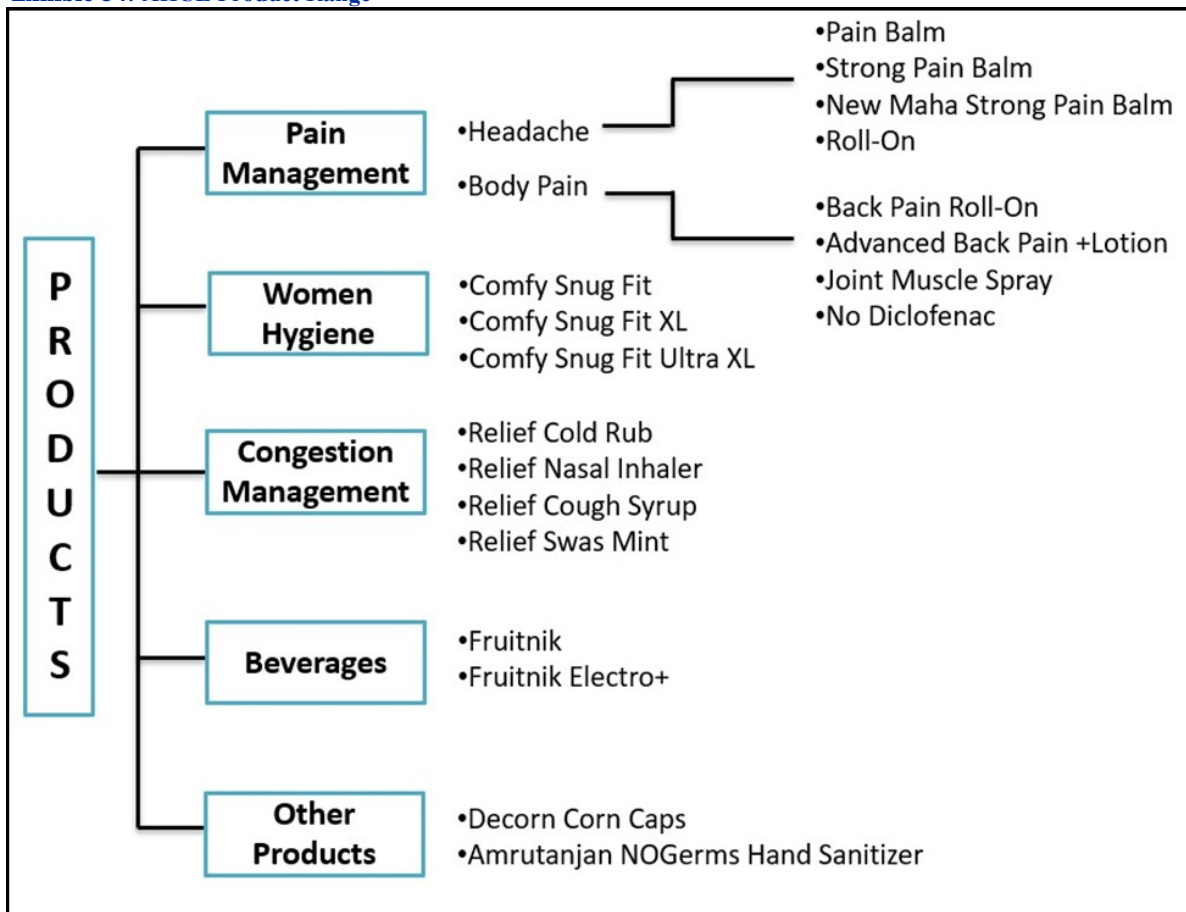
**(A) Portfolio Offerings:** AHCL has its wings spread across a number of offerings related to pain management, congestion management, women hygiene, other products and beverages. The company is essentially engaged in manufacturing Ayurvedic pharmaceutical preparations and fruit-based beverages where the top 3 key products/services include Ayurvedic pain balms, sanitary napkins and non-alcoholic beverages. The segment of Ayurvedic pain balms contributes approximately 78.24% of the total revenue while the growing segment of sanitary napkins is currently contributing 13.84% of the total revenue. If one carefully studies the entire FMCG landscape, then one would realize, that less than 1% of the companies garner 80% of the entire FMCG category sales. As per research reports, there are nearly 64 companies which have a company size greater than Rs6000mn, nearly 221 companies in the medium range of Rs1000mn to Rs6000mn and approximately 40310 companies in the smaller than Rs1000mn category. Amrutanjan lies in the mid range and has great potential to grow.

**Exhibit 03: AHCL Presence in FMCG Landscape**



Source: AHCL AGM PPT Sept 2020

**Exhibit 04: AHCL Product Range**



Source: AHCL Company Website, Progressive Research

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**INVESTMENT RATIONALE (contd.)**

**(i) Pain Management:** AHCL enjoys a very strong brand recall in the pain management segment. The company has been manufacturing ayurvedic balm for pain management since 1893 and has a very robust distribution network, which also sums up to the strong market position. The products offered in the pain management division are a combination of nature's pure extracts with scientific research to develop unadulterated, innovative and deep action products which guarantee instant and long-lasting relief with no side effects. The pain management segment continues to be the core area of focus of product portfolio of AHCL. This segment contributes nearly 79% of the total sales of the company and is anticipated to continue to fetch revenues as a cash-cow for future growth as well. After establishing its strong presence in the market, AHCL is currently trying to expand in new geographies and also improving the product categories offered.

**Exhibit 05: Pain Management Offerings**



Source: AHCL Company Website

**(b) Congestion Management:** Cough syrup, lozenges, cold rub and nasal inhaler are the products in this category. AHCL has been concentrating and continues to lay emphasis on natural solutions based on Ayurveda for congestion. As per AR2019-20, Amrutanjan relief inhaler is the second most used brand in the nasal inhaler category.

**Exhibit 06: Congestion Management Offerings**



Source: AHCL Company Website

**(c) Feminine Hygiene:** Sanitary napkins under the brand name Comfy was launched with a social objective of providing hygiene related products to Indian women at affordable prices. The market for sanitary napkins is highly competitive and dominated by premium brands. It is a difficult market to enter as few established players occupy the maximum market share. AHCL has been able to nibble some market share here, which is basically due to low price of the products offered, however without compromising on the quality aspect (having 80% better absorption). The target market of AHCL is the first-time users and cloth users in smaller town class where quality napkins with affordable price is a challenge. As per a report by Nielsen, the sales of Comfy (FY19-20) have grown manifold and has achieved 2% volume market share with a growth of nearly 35% in MAT March 2020 over the previous year. AHCL sells comfy at very competitive price as compared to other established brands. The brand Comfy has been growing consistently in the last 3-4 years. The sales have grown from nearly Rs190mn in FY18 to nearly Rs400mn in FY20 (where Uttar Pradesh is a good market) with growth rates of 138% in FY18; 80% in FY19 and 13% in FY20 (impacted by Covid-19). The distribution outlet has grown from nearly 0.15mn in FY18 to nearly 0.26mn in FY20 with growth rates of 150% in FY18; 40% in FY19 and 14% in FY20. The Management has been constantly evolving with respect to this product with focus on consumer insights.

**INVESTMENT RATIONALE (contd.)**

**Feminine Hygiene (contd.)**

Under the Make in India campaign, the success of AHCL's Comfy brand has been able to revive the fortunes of a dormant factory in south of Tamil Nadu and also created employment in the towns nearby. The company has been able to deliver world class product. The tie-up with EU zone partner (Bella- Source: Marcellus Research) has been beneficial to both the participants. This plant is running at almost full capacity, where AHCL occupies nearly 95% of the produce. Bellapremier Happy Hygienecare Pvt Ltd, registered in 2017, is located in Madurai, Tamil Nadu and is one of the leading sellers of listed products in women personal hygiene. The company is a part of the TZMO SA Group. Powered with the experience of the parent company, Bellapremier is capable of offering highest quality sanitary articles and hygiene solutions for the Indian market. The company has introduced modern production technologies to meet the needs of the customers and partners. It is estimated nearly 95% of the total produce of this plant is utilized by AHCL. To propel the growth further and strengthen the awareness/ distributions, AHCL has built a panel of global experts on women's hygiene. Management believes, the focus and growth of distribution channel was the key to the success of Comfy. Considering the potential of this category, AHCL has launched two more new variants i.e. Comfy XL and Comfy Ultra (in FY19-20). Management believes with these new variants; the company will be able to expand the reach of consumers and enable exponential growth on y-o-y basis in this category.

**Exhibit 07: Feminine Hygiene Offerings**



Source: sastasundar.com/amrutanjan-comfy-snugg-fit-ultra-xl-free-bella-intimate-wet-wipes-pack-of-10-pack

**(d) Other Products:** For more than 125 years, AHCL has been offering products that provide relief to the consumers and are effective. The company offers Decorn Corn Caps and Hand Sanitizer in the category of other products. **Decorn Corn Caps:** by Amrutanjan are Ayurvedic corn removal caps (easy to use bandage) which are fast acting, removes corn effectively while being completely natural, safe to use with no side effects.

**Amrutanjan NOGerms Hand Sanitizer:** helps maintain personal hygiene and are highly effective in destroying 99.9% invisible germs, bacteria, viruses etc. The company very smartly made use of the opportunity offered by the pandemic and introduced hand sanitizer variant.

**Exhibit 08: AHCL- Decorn Caps and Sanitizers**



Source: AHCL Company Website

**Exhibit 09: Beverages Offerings**



Source: AHCL Company Website

**(e) Beverages BRAND: ELECTRO+:** The beverages offered by AHCL are made in-house. In November, 2017 the company had implemented automation of secondary packaging for Fruitnik. In FY19, orange variant was launched in addition to the existing apple variant. The product contains fruit juice, vitamin c, glucose and electrolytes that helps rehydration, regain lost salts and fluids (due to diarrhea and or hot conditions). The product enjoys a gross margin of 60% which also brings in profitability to the overall beverage division. In FY19, the flavour Alphonso, the King of Mangoes, was launched in 200 ml ready-to-drink recyclable PET format. Recently, the brand Electro+ was launched with a view to capitalize the growing need for rehydration drinks. The current upgradation has a unique R3 formula which helps restoration of electrolytes, refills glycogen and reduces muscle stress. The targeted consumers for this segment include those involved in the sub category of active lifestyle consumers. In order to use the synergies, AHCL has very smartly used its core channel strength i.e. the chemists. In the current scenario, the company/ product is reaching the market through direct distribution strength of AHCL. During the pandemic, the beverage business had been impacted across the industry, however, the company has been benefitted due to lower cost of (mango) pulp.

**INVESTMENT RATIONALE (contd.)**

**APMC:** Amrutanjan Advanced Pain Management Center (APMC), a division of Amrutanjan Healthcare Ltd was launched in April 2011. This was Chennai's first and only comprehensive pain management center powered with specialists from different medical disciplines and the latest in diagnostic and treatment technologies. APMC has got the NABH Certification (National Accreditation Board for Hospitals & Healthcare providers) under pre accreditation entry level small healthcare programme for non-surgical pain management services. The hospital strictly adheres to the NABH guidelines. APMC, aims at identifying the root cause of pain and tries to eliminate it via diagnostic interventional pain management procedures like facet joint block, sacroiliac joint block, provocative discography, epidurogram, selective nerve blocks etc. Some of the key areas where the company focuses and offers treatments include, knee pain relief, back pain, headache relief, shoulder pain, heel & ankle pain relief, cancer pain, muscle pain and sports injury pain treatment.

**Exhibit 10: APMC Treatment- Focus Areas**



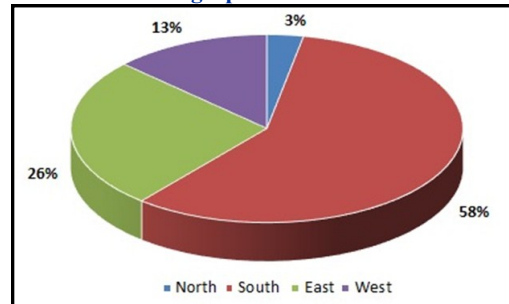
Source: AHCL Company Website

**(B) Creating Legacy:**

**(i) Triggers:** Modern day medical field and the medicines have made a lot of progress and one may ponder who uses balms anymore; however, allopathic medicines invite the fear of many unnecessary side effects. With the fast-moving life especially in the urban cities, lifestyle diseases are constantly on the rise where chronic headache and body pains are some of the prevalent ones. In this situation, balms offer Ayurvedic as well as herbal remedy through external application with no side effects. Such triggers and circumstances give a booster to the growth of this category though at a slow pace and in a single digit. The balm business is a cash cow for AHCL, wherein these products have no Diclofenac, which makes them very safe too. Some of the key factors which can contribute towards the growth in sales in the pain management segment include the ageing population, secular growth of certain OTC categories, frequent occurrence of stress related aches & pains, while a large population is not inclined to working out and exercising, many have a lifestyle involving exercise, fitness sports activities etc.

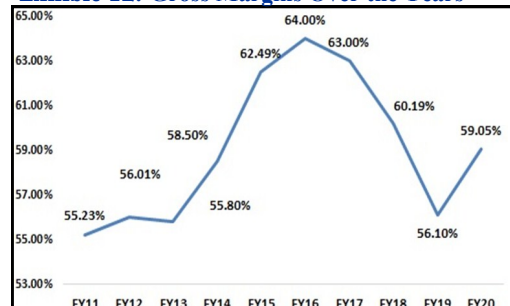
Health and hygiene conscious consumers have helped increased penetration of all hygiene products including hand sanitizers. A lot of consumers have started preferring e-com and modern trade channels over traditional markets; and this pattern appears to stay in the current world even after system returns to normal life (post Covid-19) or one must say, this is the new normal. The scope for newer opportunities in the FMCG sector and industry have been opened-up by the pandemic. These opportunities are basically seen in the personal care and health care segments which can yield good returns in the near future if utilized efficiently. Of course, in the same scenario, businesses that have been able to adapt and adopt the rapidly changing demands have been able to reap the benefits of the initial advantage and AHCL has been one of them.

**Exhibit 11: Geographic Distribution- India**



Source: AHCL AR 2020, Progressive Research

**Exhibit 12: Gross Margins Over the Years**



Source: AHCL AR 2020, Progressive Research

**INVESTMENT RATIONALE (contd.)**

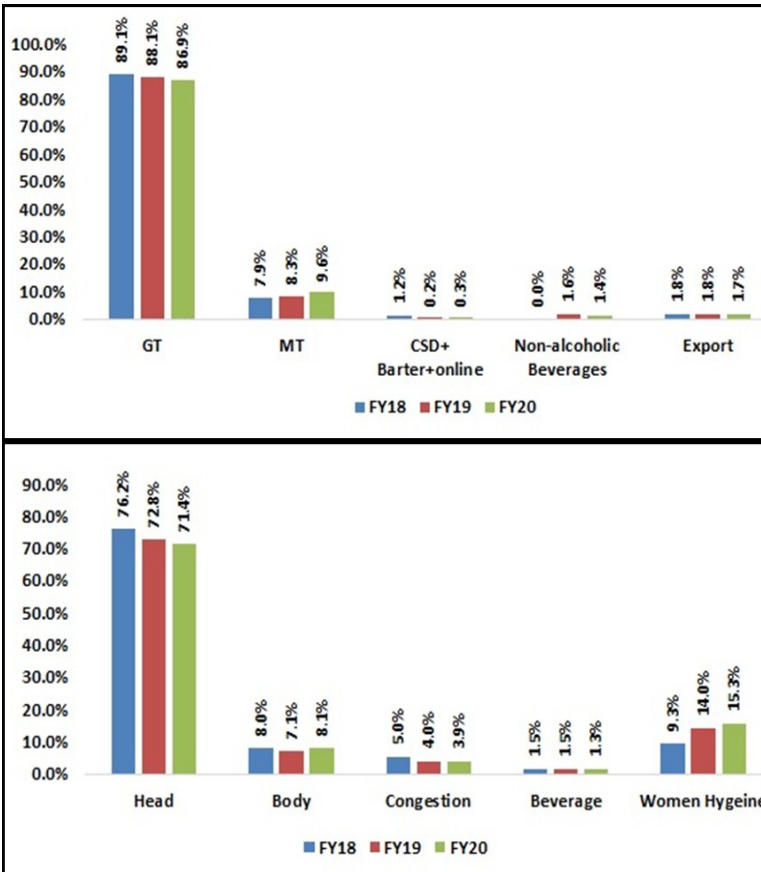
**(ii) Brand Investment:** Despite been a 12-decade old company, AHCL is dominated by young talents and is eager to attract more youth force in future. The employees in the age group between 19 and 45 constitutes 77% of the total strength of 677 employees while the balance 23% has crossed the age 46. AHCL has also maintained an excellent relationship with its affiliated Union i.e. Amrutanjan Health Care Limited Employees Union. AHCL has been consistently investing in its brand through various marketing activities related to investments in television media; improved digital campaigns; print media advertisements (in Odisha, Gujarat, Jharkhand, UP, Rajasthan, Andhra Pradesh, Telangana, Karnataka, Kerala etc.); radio campaigns; branding on public transport vehicles; sampling activities during marathons, pilgrimage points, IT parks to improve trials; in-store branding to drive point-of-purchase awareness and off take. AHCL strictly follows all activities based on quality management principles which not only safeguards consumer's well-being, but also helps deliver product performance. The company makes sure all manufacturing operations are of high standard that meets consumer's expectations for safety and efficacy. These processes are built on Quality Management System (ISO 9001 for OTC division), Food Safety Management Systems (ISO 22000 for F&B division) and six sigma methodologies. In addition to this, in order to achieve best quality output and consumer satisfaction the company also performs external providers (vendor) qualification, audits and continuous monitoring of inputs. The design (of the containers) and packaging process ensures AHCL exclusivity to avoid counterfeit products.

**Exhibit 13: Sustainable Growth Pillars**



Source: AHCL AGM PPT Sept 2020, Progressive Research

**Exhibit 14: Channel Performance Segment and Sub-segment**



Source: AHCL AR 2020, Progressive Research

**(iii) Product Strategies:** The company continues to reap the benefits from the cash cow i.e. the head category which contributes approximately 71.4% of the total domestic sales. AHCL is also concentrating at the expansion plans of Comfy, the sales of which are seen gradually increasing from 14.0% to 15.3% of the total sales. During the pandemic and changing market dynamics, AHCL was a smart opportunist and the company was benefitted by the hand sanitizers variants in the hygiene space. There has been increasing health consciousness among all sections of consumers which can boost growth and lead to greater scope for health and rehydration drinks. The growth of Electro+ increased from 31% in 2018-19 to 45% in FY2019-20. In the long run, considering the growing health consciousness among the consumers, Electro+ can expand its footprint across India via the well-established OTC channels of AHCL. Since its inception in 1893, AHCL has gradually grown to become a multi-million conglomerate via traditional legacy driven Ayurvedic remedies, as well as quality, innovative and technologically driven modern remedies and health care products offered to its customers. A number of new products have been developed and launched via the in-house R&D infrastructure (in the OTC and F&B division). The technology for manufacturing topical analgesic gel format has been developed by the R&D team and the same has also been transferred for production. Moreover, the R&D team is currently striving to develop as well as improve the efficacy of the existing pain balms. While efforts are also being made to expand the other products catalogue.

**INVESTMENT RATIONALE (contd.)**

(iv) **New Products:** AHCL always tries to experiment and launch new products. One such recent offering by the company is the Amrutanjan Advanced Pain Relief + Patch. This Pain Patch has high pure natural menthol which is another unique combination with Amrutanjan's Hot Action Heat Therapy for faster pain relief. With 5 key active ingredients, this product is significantly stronger, provides faster relief from intense (back, neck, shoulder and knee) pain with less effort and greater efficacy while reducing the recovery time. Moreover, the product has no Diclofenac, which makes it very safe too. The company is also planning on launching a range of Roll On, sprays and transdermal medication products in the near future.

**Exhibit 15: New Product– Pain Relief Patch**

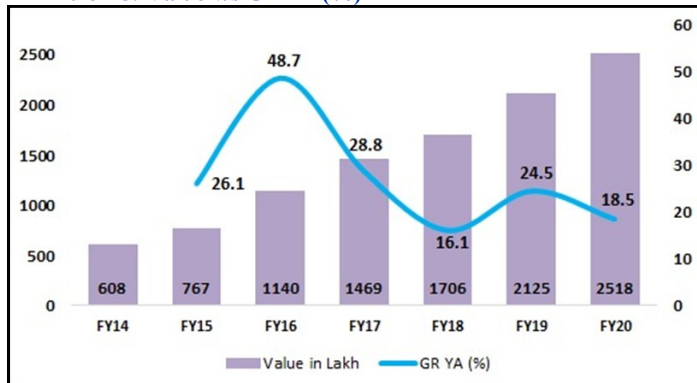


Source: [pharmeasy.in/health-care/products/amrutanjan-advanced-pain-relief-patch-508493](http://pharmeasy.in/health-care/products/amrutanjan-advanced-pain-relief-patch-508493)

**(C) Pillars to Growth:**

(i) **Distribution Channels:** The brand Amrutanjan is available in more than 1.06mn outlets as also in modern format including the online portals like Amazon. As per the presentation by the Management during the recent AGM, the company has a direct distribution reach of nearly 2.5 lakh outlets. In its efforts to digitalize the entire sales value chain, the company has launched a sales force automation project. AHCL is a major player in the southern states of India and has realized that there is enough scope for distribution led growth in the other non-south markets of the country. The Management has also chalked out a plan to grow the distribution products to regions in western and northern zones where the business of the company is relatively weak. Specific plans are put in place by the company to increase the share of revenues from western and northern zones which are currently low contributors to the overall revenue. The southern zone of the country contributes nearly 58% of sales volume, followed by eastern region at 26%, while the contribution from western and northern zone stand at 13% and 3% respectively. The company is following the plan and strategies mentioned in the past to continue to focus on building distribution via the M5K plan that targets a vision of appointing 5,000 distributors and sub-distributors. Last year, the company appointed 974 distributors and sub-distributors improving direct coverage from 3,953 to 4,510 towns. The focus of the Management is on growing its pain balm, health beverage and women's hygiene portfolio. Moreover, AHCL is also looking to further strengthen its existing markets by introducing new products. On the international front, the distributors of the company are present in more than 21 countries. The company has successfully obtained USFDA registration and is currently looking at exploring avenues in the US markets. AHCL has also been focusing to minimize its supply chain risk. The teams are trying to mitigate the same by developing new suppliers and engaging strategic partnerships with existing suppliers, distributors and other third-party logistic providers. Moreover, the company is also looking at strengthening its existing supply chain by ensuring cost controls, timely product availability, permitting the team with accurate sales and operational planning, improving product placement efficiency, prompt product SKUs availability etc. The Management has been constantly improvising and trying to achieve sustainable growth, for e.g., during the lockdown and Covid-19 issues, the company launched distribution revamp program via Strategic Transformation of Amrutanjan Redistribution (STAR), increased direct distribution, moved to a FMCG distribution from pre-existing Pharma model, added 300 sales people under direct and indirect roles, focused on daily sales reporting and other metrics driven sales etc. In addition to this, the company has increased its ad-to-sales ratio, is concentrating on high quality world class products, encouraging the supply chain partners and looking forward to better qualify function deployment (QFD).

**Exhibit 16: Value v/s Gr YA (%)**



Source: AHCL AR 2020, Progressive Research



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**TIME : 12 months**

**INVESTMENT RATIONALE (contd.)**

**(ii) Digitalization:** The black swan pandemic event has a lot to teach to the supply chain mechanism; it had disrupted the entire go-to-market system, stopped movement of goods to the distributor, retailers and end consumers etc., making the entire system realize the importance of the digital space. Amrutanjan was already investing in digitalization in a big way and the same is rising every year. The teams are extending the IT applications across many key functions and processes. Recently, the company has started using technology in the domain of sales and marketing via initiatives like SFA (Sales Force Automation), online consumer tracking and supply chain touch points. In 2018-19, SFA was introduced in the states of Karnataka, Tamil Nadu, Andhra Pradesh and Telangana and in 2019-20 it was further extended to Kerala, Maharashtra, Odisha and West Bengal. AHCL has planned to extend the SFA to other states in 2020-21 to enable the entire sales team to process retail orders via mobile app. Currently, retail orders of approximately 2.40 lac outlets are processed through the mobile app by 431 field staff in various states. Some of the significant advantages to the sales team by implementation of this programme were improvement in day-to-day operations (in terms of number of outlets covered), better productivity, check on number of lines sold and number of lines available in outlets, focus products performance, enabling tracking of performance of sales team by their managers (improving efficiency), plan and track marketing interventions at the outlets, enabling HRD in maintaining the attendance, planning incentives and making a bird's eye view available (on key sales and HR metrics for future planning) to the management. The company has built a data dashboard that seamlessly integrates data flow from various sources. The company is setting a target of garnering 1.3% of national sales through e-commerce; current sales (Sept 2020) from online contributes about 0.5%. A part of the digitization drive of the company aims to offer all the products for sale on the corporate website. Currently, a large of AHCL products are available online on Amazon, Pharmeasy, Netmeds, Apollo etc. The company also sells on Amazon's B2B site and is planning to enter StoreKing and ShopX etc. and is also working on launching a mobile application on its popular Comfy brand.

**Exhibit 17: Exclusive Store Offerings on Amazon.in**



Source: amazon.in/stores/AmrutanjanHealthCareLtd/AmrutanjanHealthCareLtd/page/B947C8CA-46C7-4979-B274-AE1C77F6FBE5

**(iii) Branding Further:** The Management is striving hard to bring in more awareness and in a first of its kind association the company emerged as a preferred official pain relief digital partner for Chennai Super Kings (CSK), for the 2020 edition of IPL. The ad campaign consisted of a concept of power of Amrutanjan yellow which is reflective of re-awakening spirit & energy which is in synergy with the trademark and unmissable yellow of the CSK team which in a number of ways reflects surge of energy among the millions who follow the game.

**Exhibit 18: AHCL Branding CSK**



Source: exchange4media.com/announcements

**Financials:**

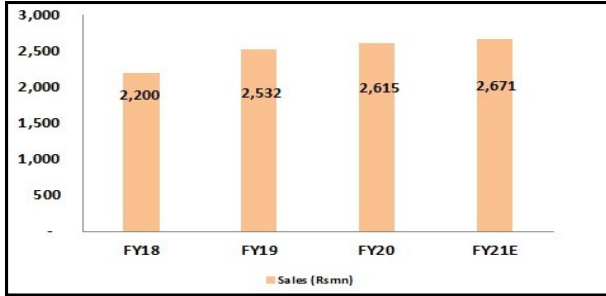
The company had registered sales of Rs2697mn in FY2019-20, where the new product sales were around 30% of total sales. In FY19-20, the brand Comfy earned revenues of around Rs400mn as compared to Rs350mn in the previous year. The sales from the Roll-On segment stood at Rs260mn as against Rs210mn. The gross margin has improved during FY2019-20 as compared to the previous year which is basically due to favorable cost trend/ price of key raw materials like menthol as well as upward price revision of some of the products by AHCL. If one breaks the revenue generated into 5 segments namely, head management, body management, congestion management, non-alcoholic beverages and women hygiene, then the approximate contribution from the revenue (FY19-20) stands at 67.11%, 7.52%, 4.01%, 7.22% and 14.13% respectively. If one reads well, the company has doubled its top line between 2014 and 2020. In the last 10-15 years, the company has started looking at sustainable growth via good management decisions and project execution. The same is confirmed by slow movement to double digit growth with a CAGR of 4% fetching Rs590-Rs780mn in FY01-08 to a CAGR of 12% fetching Rs870-Rs2890mn in the period from FY09-20. At the same time, the new products launched are generating approximate revenues of Rs790mn(FY20) as compared to Rs40mn (FY09).

The most essential raw material used in the manufacture of OTC Ayurvedic products i.e. menthol had reached a record high price in FY18-19 which has currently corrected a lot. This major drop in the key raw material prices is favoring the gross margins. Menthol prices, have fallen from Rs1500 (in Dec2018) to Rs950 (Nov2020) which favors the gross margins and as per the Management commentary in the recent AGM in September 2020, AHCL is levered for next two years. Management also believes, the margins can expand at a slow but steady pace. However, the other raw materials used in its OTC products, such as karpoor and eucalyptus oil, (which form 8% of raw material costs), gyrate etc. have shown a small uptick in the last fiscal year (in FY20).

AHCL is a virtually debt free, cash rich company generating around 20% ROCE. The company has been rewarding its shareholder with 20% dividend payout. The cash reserve as on 31st March 2020 stood at Rs1050mn. The robust operations and prudent capital allocation methods of the company enable the business to constantly generate free cash flow while being virtually debt free. *The impact of pandemic in March 2020 was approximately Rs330mn and the company sailed through easily through this issue due to strong liquidity positions.*

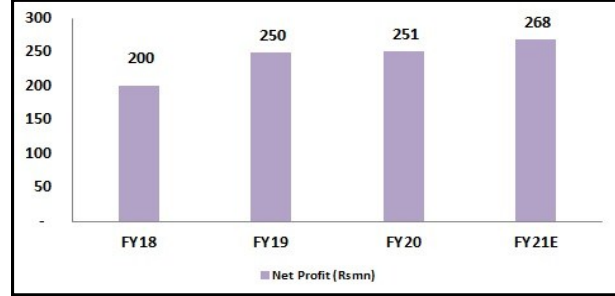
**Financials:**

**Exhibit 19: Revenue Trend (Rs mn)**



Source: Annual Report, Progressive Research

**Exhibit 20: PAT Trend (Rs mn)**



Source: Annual Report, Progressive Research

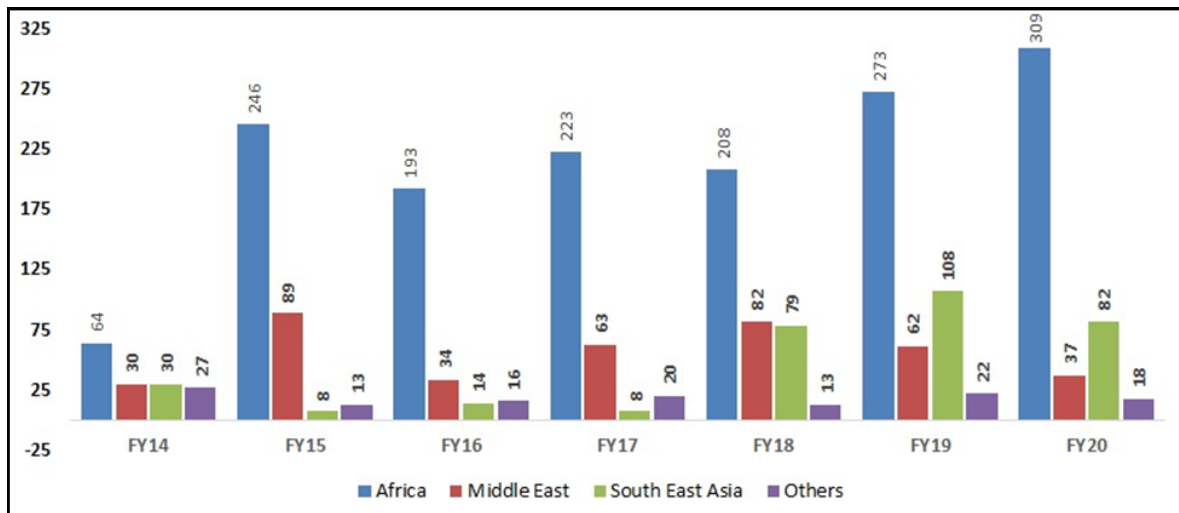
**Exhibit 21: Ebitda v/s Ebitda Margins**



Source: Annual Report, Progressive Research

**Exports:** For exports to some of the global consumers, AHCL focuses on manufacturing products with pure natural extracts via scientific research in order to offer products with deep action and having no side effects. In 2018-19, the company entered Mozambique and Zambia markets. In FY19-20 the company has exported products to the tune of Rs40mn which is also for the second consecutive year for similar number of sales. AHCL exports its products to Gulf, African, South East and Asian countries; while the company is also having plans to enter the US and European markets. As per articles in leading newspapers, Africa is one of the largest regions contributing to exports at 69.3% of total exports and it is estimated to have witnessed an increase of 13.2% in FY2019-20 over the previous year. In addition to the existing customers and countries, the company is also trying to make export arrangements to enter Philippines & Laos in South East Asian markets and Kenya in Africa.

**Exhibit 22: The Export Market**



Source: AHCL Annual Report2019-2020, Progressive Research

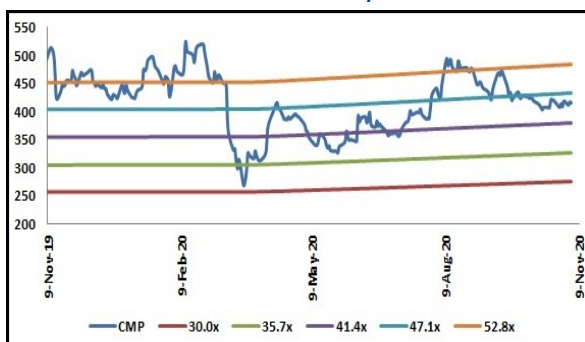
**Risks and Concerns:**

The prices of basic raw materials adversely impact the profitability margins of AHCL as the head and body pain management products contribute towards majority of the topline. In order to mitigate the same, the company has undertaken exhaustive field visits to understand the prevailing conditions and fair value for menthol; the company is also looking at identifying new potential manufacturers in addition to various special projects directed towards backward integration, etc. Besides, menthol prices, other raw materials like gandhapura, turpentine, karpur etc. also keep fluctuating and impact the gross margins and thus profitability. The company has limited pricing flexibility as the segment of pain and congestion face stiff competition from large established brands. In addition to this, the segment of beverages which is slightly high margin business too faces intense competition from local and international brands. Besides this, the company faces stiff competition in the segment of women's sanitary napkin and in the last few years has been able to nibble only 1.7% market share in terms of sales volume while the market and concentration has been the southern and eastern states of the country. Some of the other key risks or areas of concern in the short term could be the impact of the situation post pandemic or the second wave which can lead to another lockdown. The company keeps on experimenting and tries to roll out new products or adjacencies in the same product line with innovations which invites the risks of new product launch not panning out well, supply chain disruptions, etc. Some of the other long-term risks associated with the business includes any major changes in government policies and or regulations.

**Outlook and Recommendations:**

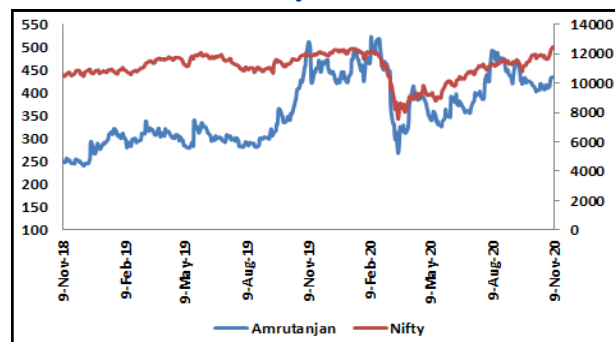
Amrutanjan has always been a conservative company which seems to be waking from the deep slumber of a century. The company has already started taking action to focus on the core capability of each product and its application; has started making aggressive investments for sustainable brand building; focusing on R&D to come up with more adjacencies and catalogue products; activating its retail strength; concentrating on advertising and trying to reposition itself as a specialist in its domain of expertise. Even though the Indian FMCG sector has taken a hit in the first quarter and will witness flat growth in 2020 (due to Covid-19 incited lockdowns), the second half of the year 2020 is anticipated to witness a significant improvement. In the last 3-5 months, AHCL has been focusing on executing its plan to get back the lost revenue of Q4FY20, controlling costs, expanding its distribution channels and expanding its e-commerce business. In the current scenario, the consumers preference of balms over tablets continues to show endurance and strengthen further. Management is seeing growing demand of the core products i.e. balms and women hygiene (Comfy) while the segment of health drink i.e. Electro+ with Vitamin-C is identified as a domain for brand investments in near and distant future. The company is eyeing to expand its distribution network in western and northern zones to strengthen its current footprint in the market. In FY21, the vision of the Management is to further strengthen the existing markets by introducing new products, expand distribution network, scale up new categories launched in the past three to five years and focus on maintaining the gross margin. The growth drivers for the company in the coming years include expansion of pain management business in western and northern zones, introduction of new products, improvement of distribution reach, vision to scaling up new categories, shift in consumer behavior towards Ayurvedic and health care products, rise in e-commerce, focus on maintaining the gross margins in the approximate range of 60% or so, continuous investment in brands and building on secular trends while focusing on the women's hygiene category, looking at 100% utilization for all plants related to balms and Comfy, thus we recommend a BUY on the stock with a target price of Rs500 with a horizon of 12 months, corrections if any must be capitalized aggressively.

**Exhibit 23: One Year Forward P/E**



Source: Ace Equity, Progressive Research

**Exhibit 24: Price v/s Nifty**



Source: Ace Equity, Progressive Research



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