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Acumen at work

DISRUPTION SERIES
(VOL 11: Amrutanjan Healthcare)

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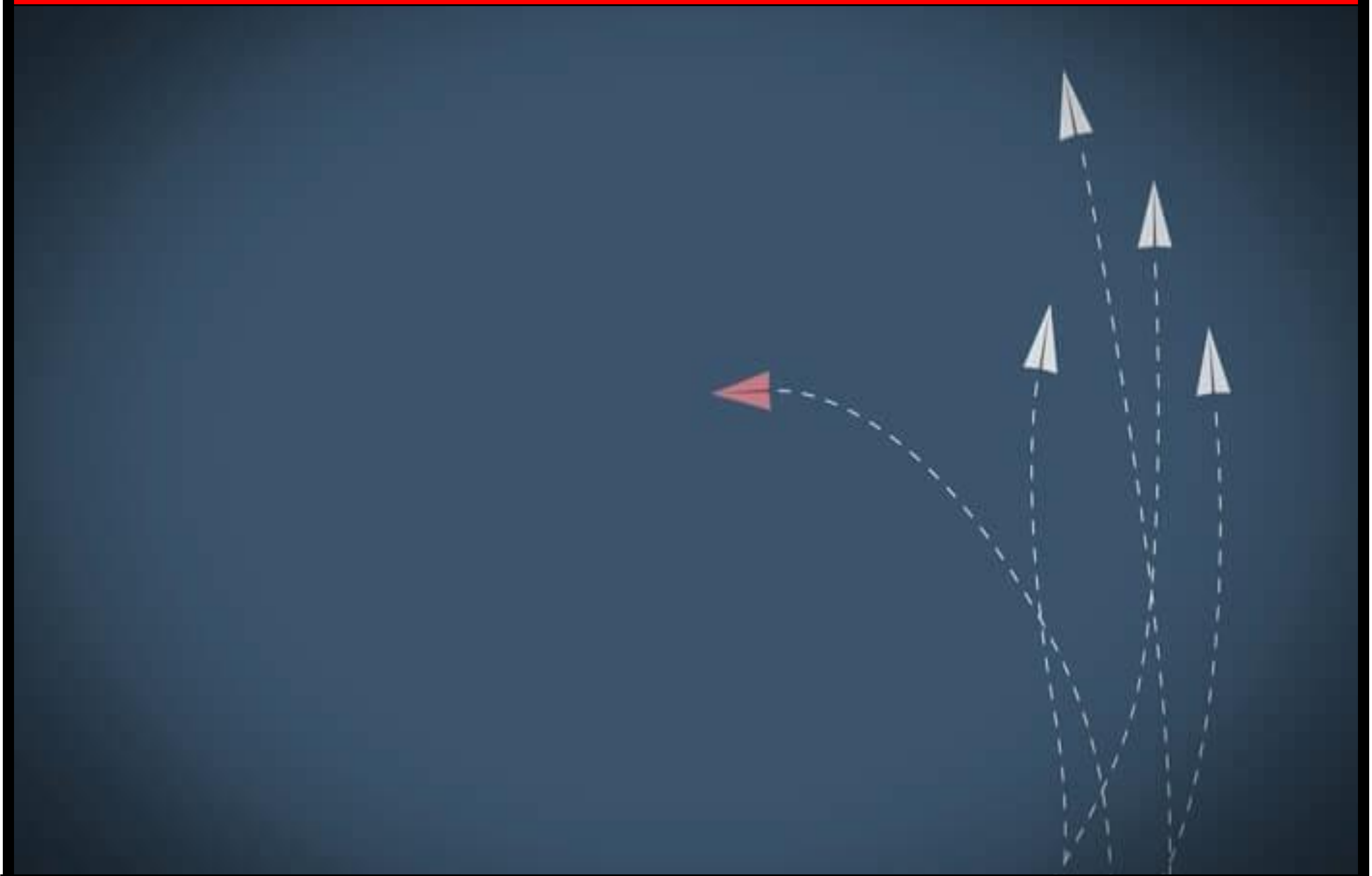

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Disruption is inevitable: We are prepared

We at Ambit are constantly trying to stay ahead of the curve by drowning out the noise and looking ahead. In keeping with our long term investment thesis, we like to stay up to date with not just the present impediments faced by your portfolio companies but also long term disruptions which can hit these companies. Hence we will regularly come out with our thoughts on disruptions in your portfolio companies/ sectors and for the eleventh volume of this series we have chosen **Amrutanjan Healthcare**

A disruptive technology/ innovation is one that helps create a new market and value network, and eventually goes on to disrupt an existing market and value network (over a few years or decades), displacing conventional wisdom or technology. This note takes a closer look at Amrutanjan Healthcare with a main focus on its feminine hygiene business which we believe holds the greatest potential. We look at the industry, Amrutanjan's positioning and the possible disruptors that may lie ahead for the company over the longer term.

Amrutanjan Healthcare: 100+ Years of Legacy

Pre-Independence Era roots

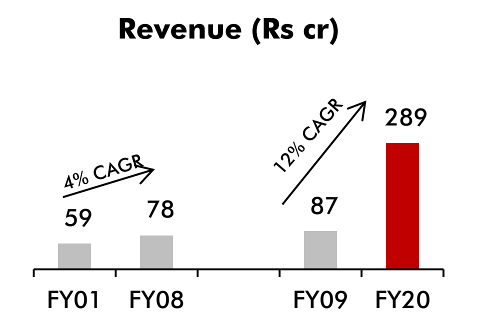
Amrutanjan Healthcare traces its roots back to the 19th Century when Kasinadhuni Nageswara Rao – Freedom fighter and Journalist – developed the iconic balm. Born in Andhra Pradesh's Krishna district in 1867, Rao studied many books on Ayurveda during his College days in Madras. He combined this knowledge with the experience he gained while working for a medical shop in Calcutta and prepared some medicines. In 1893, he prepared a medicine (balms) for headache and other pains – Amrutanjan. It quickly became popular as a pain-killer and KN Rao formed a company to manufacture the same on a large scale.

Bobby Fischer, the late chess legend, is believed to have asked Viswanathan Anand for Amrutanjan pain balm, complaining that he could not get it in Iceland!

The Current Avatar – Trying to find the right product mix

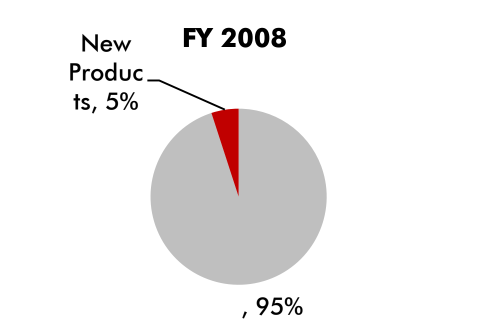
Amrutanjan became a Public Limited company in 1936. Since then, it launched a variety of other products like Cold Rub, Cough Candy, Inhaler, etc while building on the Pain Balm offerings. It also forayed into other business segments like Chemicals. But the company was unable to grow any of these meaningfully and diversify revenue base away from Pain Balm. In 2005, 30 year old Sambhu Prasad Sivalenka, grandson of the founder Nageshwara Rao, took charge of the company and brought about some key changes to revamp the company. He focused on **(1)** Re-Branding the company **(2)** Expanding Distribution **(3)** Focused entry into new but complimentary product categories. Results of these efforts are visible in improved growth over the last decade with increased contribution from new products ***(Refer to Exhibit: 1, 2 and 3)***.

Exhibit 1: Improved revenue momentum over the last decade



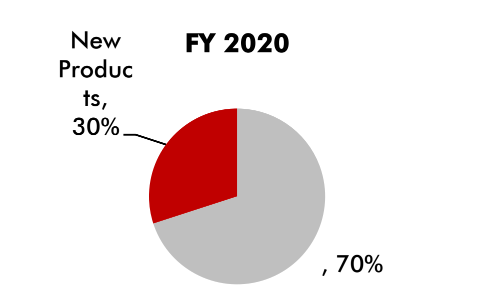
Source: Ambit Asset Management, Company presentation

Exhibit 2: Led by improved contribution from new product…



Source: Ambit Asset Management, Company

Exhibit 3: … which now contributes 30% of sales



Source: Ambit Asset Management, Company

An Overview of the current products and operations

Manufacturing

Amutanjan has three manufacturing facilities – two for OTC (one each in Tamil Nadu and Telangana) and one for Beverages in Tamil Nadu. The company is an advocate of government's Make-In-India initiative and believes in in-house manufacturing once the product attains the required scale. Therefore, most of the OTC products, barring De-corn caps, Sanitary Napkin and Joint Muscle Spray are manufactured in-house.

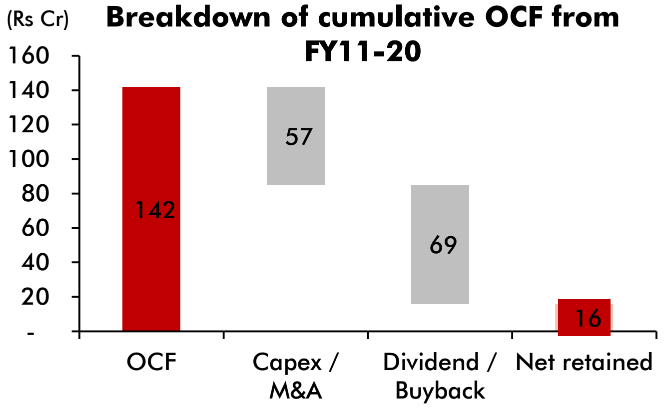
Products and Offerings

1. **Pain Management (Head and Body):** Being a manufacturer of Ayurvedic balm since inception, the company enjoys a strong brand recall in this segment. Over the years, it has stayed loyal to its roots of Ayurveda, Naturalness and usage of herbs in its products and thus refrains from using chemicals like Diclofenac that have harmful side-effects.
2. **Congestion Management:** Cough syrup, lozenges, cold rub and nasal inhaler are the categories catering to Congestion portfolio. Amrutanjan Relief Inhaler is the second most used brand in the nasal inhaler category.
3. **Sanitary Products (Comfy):** Amrutanjan entered this segment in 2013 as they were scouting for new products in a Healthcare related category which is low penetrated and has high growth potential. They conducted an initial study, worked with a scientist from Israel and ex-brand manager of a leading brand to understand the category better. Initial supply side issues from the vendor resulted in choppy growth, following which they switched to Bella Hygiene (part of European company TZMO group). Targeted at 1st time cloth users, Comfy has 80% better absorption than the leading brands. It is currently available in 9-10 big FMCG and has done exceedingly well in terms of market share in E. UP and Orissa (13-14% market share).
4. **Beverages:** Amrutanjan entered the Beverages segment with the acquisition of Siva's Soft Drink Pvt Ltd for Rs26.2Cr, thus acquiring the 'Fruitnik' brand. However, they were unable to scale it up meaningfully due to lack of distribution. This acquisition, however, helped the company understand the beverages industry which they leveraged to launch Electro+ ORS in Nov-2016. This time they used their core channel strength – the chemists. For 9MFY21, Electro+ posted revenue of Rs6Cr, up 48% YoY

Financials

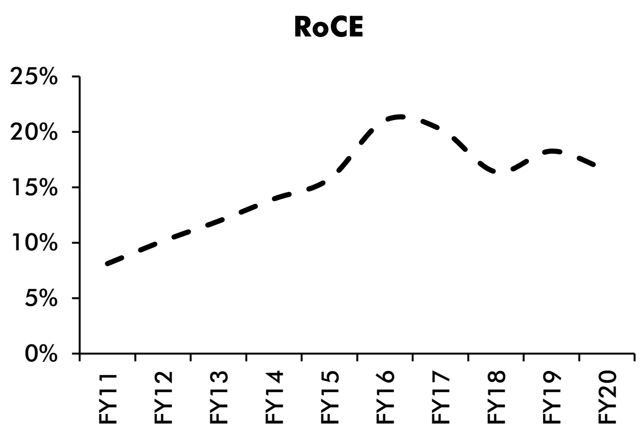
The company has been judicious in its capital allocation over the last decade. Effort has been made in scaling-up profitable businesses and improving RoCE. The management has not shied away from shutting down or discontinuing unprofitable ventures.

Exhibit 4: Pre-Tax cash conversion during the period was 95%



Source: Ambit Asset Management, Company

Exhibit 5: FY20 saw a dip due to Rs33Cr revenue loss which impacted the financials



Source: Ambit Asset Management, Company

Exhibit 6: OTC is further divided into 5 sub-categories with pain management continuing to be the key product

Source: Ambit Asset Management, Company

Amrutajan: Past Innovations

Rebranding of the company

For a long time, Amrutanjan had been among India's 100 most trusted brands. In FY11, the company underwent a face-lift with a new brand identity to rebrand itself. The idea was to remove the earlier mono-dimensional perception of the company on the lines of Ayurveda only and position it as more of a holistic healthcare / FMCG company and enable foray into other categories.

Exhibit 7: Old Logo, Pre-2011

Source: Ambit Asset Management, Company

Exhibit 8: New logo to modernize the perception of the company

Source: Ambit Asset Management, Company

Distribution re-vamp: A combination of expanding direct and in-direct distribution

Along with re-branding, distribution re-vamp was also undertaken starting 2009. Over the years, the company moved from Pharma to FMCG distribution model-

1. Strategic Transformation of Amrutanjan Redistribution (S.T.A.R) was launched with emphasis on expanding direct distribution which facilitated the distribution of other products in the retail outlets which earlier used to sell only 9 ml balm.
2. Emphasis on balancing both wholesale and direct distribution routes to balance reach and costs. From the highs of 50%, the wholesale contribution is currently at 30% which the company feels is a healthy level

As of FY20, the company had an overall reach of 1.06mn outlets with direct distribution reach to 250,000 outlets and 4,510 towns. It has a vision of appointing 5,000 distributors / sub-distributors (974 in FY20) which will help expand its reach in West and Northern India where the business is relatively weak.

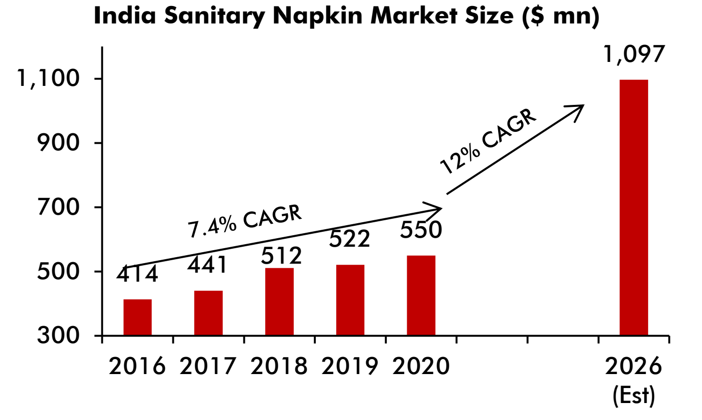
Expanding product portfolio while rationalizing old offerings

The company discontinued past ventures / offerings which did not yield desired returns and narrowed down focus on a few high-potential product categories. At present, the products can be divided into (1) OTC Products – Pain Management, Congestion Management and Feminine Hygiene (2) Beverages – Fruit Drink and ORS ***(Refer to Exhibit: 6)***.

Of all these offerings, Feminine Hygiene (Comfy) holds the greatest long-term potential in our view. It contributes ~15% of the overall sales and in this note we will focus on this segment in greater detail.

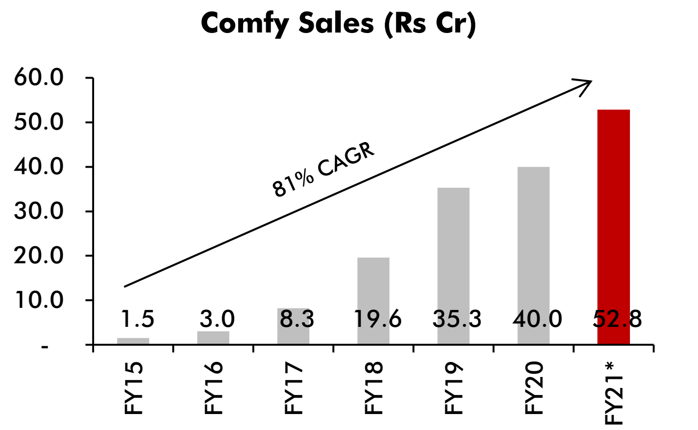
Amrutanjan: Future in feminine hygiene

Exhibit 9: A perspective of the current market size…



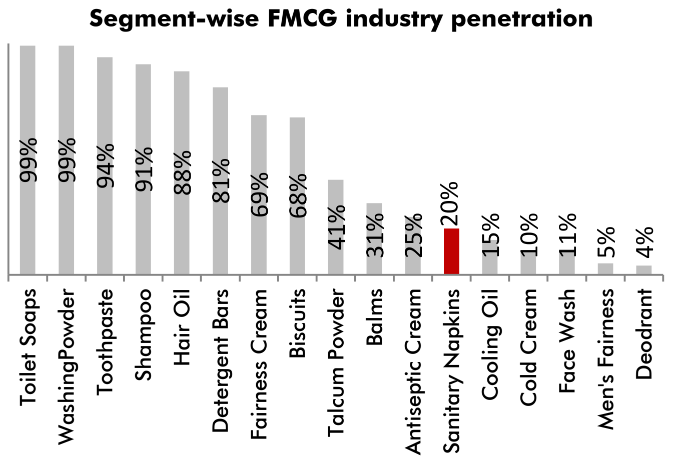
Source: Ambit Asset Management, imarc group, PR Newswire, Google

Exhibit 10: …and Comfy's size within that (~1%)



*Source: Ambit Asset Management, Company, * 9MFY21 sales annualized*

Exhibit 11: Sanitary Napkin market is still small due to very low category penetration…



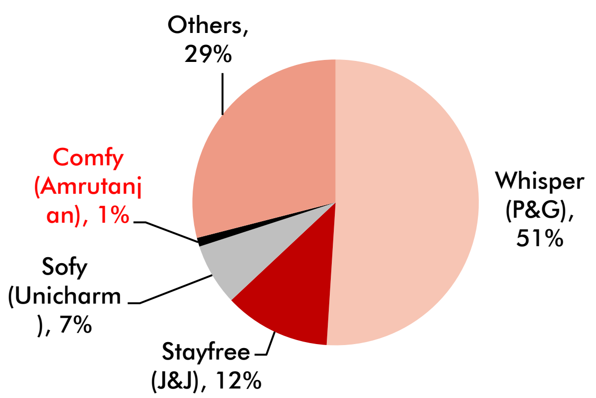
Source: Ambit Asset Management, MOSL, Figures as of 2016 except Sanitary Napkin

Exhibit 12: … even when compared to other developing / developed markets historically

Country	Penetration
India 2011	11%
India 2016	16%
India 2020	**20%**
Thailand*	50-60%
Indonesia*	>80%
Kenya*	>30%
Uganda*	~16%
Tanzania*	~16%
Developed Countries	90-95%

*Source: Ambit Asset Management, MOSL *As of 2016*

Exhibit 13: Top 3 players have 70% market share…



Source: Ambit Asset Management, MCA

Exhibit 14: …with the rest being shared by a long tail of emerging players

Brand	Manufacturer	Price / unit	MS ~
Whisper	P&G	3.9	51%
Stayfree	J&J	3.63	10-12%
Sofy	Unicharm	6.3	7%
Comfy	**Amrutanjan (Bella)**	**3.67**	**1-2%**
heyday	HEYDAY Care LLP	12.6	
Niine	Shudh Plus Hygiene	3.75	
Paree	Soothe Healthcare	3.21	
PeeSafe	Redcliffe Hygiene	22.5	

Source: Ambit Asset Management, Amazon

The Pain points for this *'Pain-manager'*?

1. Changing consumer preferences and aesthetics

a) Losing preference of Balms – Pain Balms lose out on the aesthetic component as the iconic strong smell – due to Ayurvedic and herbal ingredients – can sometimes be unpleasant. Ayurvedic brands have lost share to other OTC products due to fast acting allopathic formulations and aggressive marketing. Amrutanjan, has tried to address this by launching new variants like Spray, Roll-On and Pain-Patch (one of the 1st to launch in India), while not compromising on the natural and ayurvedic roots. During the COVID Pandemic, the company witnessed increased enquiry for exports of its products. Over the years, people are realizing the harmful long-term side effects of allopathic formulations and opting for more 'natural' treatments.

Exhibit 15: Pain patches...

Source: *Ambit Asset Management, Big Basket*

Exhibit 16: ...Pain lotion...

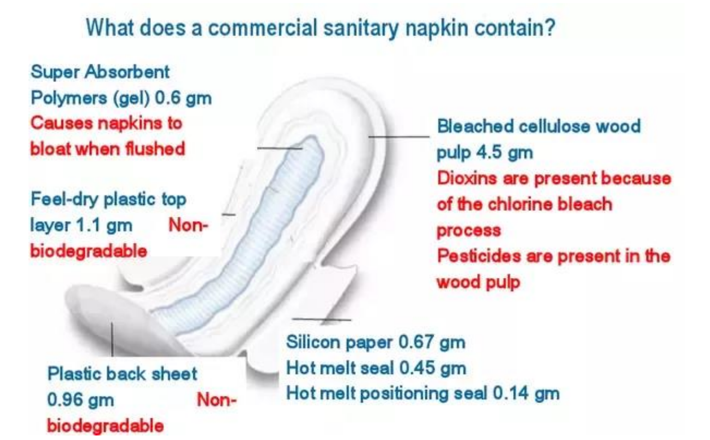
Source: *Ambit Asset Management, Company*

Exhibit 17: ... and Roll-On are some new launches

Source: *Ambit Asset Management, eBay*

b) Environment friendly feminine hygiene products - A typical sanitary pad is made of ~90% plastics and could take up to 500 years to decompose thus having a huge environmental impact. Cloth Pads, Period Underwear / Panty and menstrual cups are alternatives that provide an environment-friendly option as these can be washed and re-used and last for over a year. However, sanitary napkins provide much better ease of use and mobility to women, especially in todays on-the-go lifestyle, and therefore constitutes >90% of all feminine hygiene products. The environment friendly alternatives are finding increased acceptance, but they will not pose a big disruption until they can match the 'ease quotient' of commercial sanitary napkins.

Exhibit 18: A typical sanitary napkin is made up of ~90% plastic



Source: Ambit Asset Management, Quora

Exhibit 19: Companies like EcoFemme and Thinx are coming up with environment friendly, re-usable products

Source: Ambit Asset Management, EcoFemme,

2. Entry into other products and businesses

The management is always on the look-out for new ideas or products with **(1)** High gross margin potential (50-60% range) that will facilitate marketing spend **(2)** High growth potential **(3)** Low penetration. Over the years, Amrutanjan has ventured into other segments and product categories – ranging from Chemicals to Ready-To-Eat Food and Sanitizers – in order to diversify its revenues ***(Refer to Exhibit: 20)***. While some of these did not work out and were eventually discontinued; the two high potential products at present – Sanitary Pad (Comfy) and Electro+(ORS) are a result of such experimentation.

Being an innovator, the company will continue to innovate and keep exploring new avenues for growth. If a category clicks, it could boost the company's performance. Entry into any such category at a big scale, which makes it too-big-to-fail and drags return ratios, could be a huge disruption. But the company has refrained from doing this in the past and we do not think that will change.

Exhibit 20: Some new products launched by Amrutanjan over the years

Up till 1980	1980 - Early 2000	2007-2010	2011	2012 onwards
Maha Inhaler	Dragon Liquid Balm	Cough Candy	Relief Range	APMC
Cold Rub	Swas Mint	Joint Ache Cream	Fruitnik	Body Pain Gel
Dermal Ointment	Diakyur Capsules	Hot & Cold	Ready To Eat	Electro + ORS
Strong Pain Balm	Dr. Sugam Granules	Cutis Olive Oil	Comfy	
		Orange Guard	Body Pain Cr□me	
		Nogerms Hand Sanitizer		
		Muscular Pain Spray		

Source: Ambit Asset Management, Company

3. Scale related challenges in each of the product categories

a) Amrutanjan is among the Top-3 players in the Head Balm, while in all other categories it is still an upcoming player ***(Refer to Exhibit: 21)***. 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). Each of these also have an established Children Diaper brand which we feel may provide economies of scale as the product composition is not much different from Sanitary Pads.

b) The other significant competition that Amrutanjan faces is from companies and start-ups backed by big strategic or financial investor. These investors also bring with them domain expertise and help attract a strong management team which may be difficult for an investee to accomplish on their own. The funds invested provide much needed growth capital as the nature of consumer business is such that huge spends need to be incurred on Ad & Marketing, in addition to product quality. While these pose a challenge to Amrutanjan's prospects in each product category, we believe the company in-turn could partner with one such investor which will not only address these challenges but propel itself into another orbit.

Exhibit 21: Most of Amrutanjan's new products are in categories which can be scaled

Source: Ambit Asset Management, Google

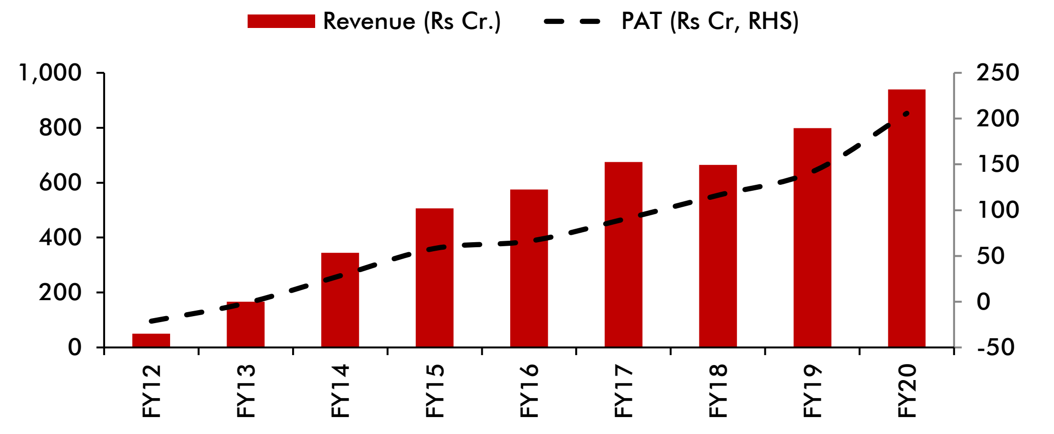
Case Study Vini Cosmetics – Friend Of Good Guys / Girls (FOGG)

Vini Cosmetics, known for the brand 'Fogg' disrupted the deodorant category in India, which, like Sanitary pads, is hugely under-penetrated. Mr. Darshan Patel started Vini in 2009 post a successful stint at family business Paras Pharma, where he turned around brands like *MOOV*, *Itch Guard* and *Krack*, primarily using his marketing acumen. Leveraging the same and backed by funds from two large PE Funds – Sequoia and Bay Capital – it took Fogg just two years to become the largest selling deodorant brand, surpassing HUL's Axe. One may ask what stood out? While competition was marketing Deodrant based on fragrance, FOGG was being marketed on its longevity.

The company is similarly planning to expand to other product categories like face creame, body lotion and shower gel. A few years back, the company acquired strategic stake in a feminine hygiene startup Soothe Healthcare that manufactures sanitary napkins and diapers under the brand Paree.

***Indulekha** – a hair oil brand - was acquired by Hindustan Unilever (HUL) for Rs330Cr in 2015. In just 3 years HUL turned it into a Rs2,000Cr brand in terms of valuation with revenue of Rs400Cr, up 4x since acquisition*

Exhibit 22: Vini Cosmetics Pvt Ltd standalone financials



Source: Ambit Asset Management, MCA

4. Possibility of Supply Chain Disruption in current business operations

a) Distribution – Currently Comfy is available in Top 9-10 FMCG states in India. While the product is of superior quality, its future success will depend on expanding reach within these states by expanding distribution. The company is currently going through Balm Distributors while appointing new ones in Orissa, West Bengal and Parts of Tamil Nadu, with an idea to replicate the success of Orissa and Eastern UP. Expanding distribution in Rural and Tier-3/4 towns is not the same as it is for Metros. Traditional distribution has its own challenges in the hinterland with steep costs. Even prominent FMCG companies have struggled to penetrate these areas in the past ***(Refer side callout)***.

HUL's way of cracking Rural Distribution -

As the traditional distribution model didn't work in the hinterland, HUL came-up with Project Shakti. It is a rural, direct-to-consumer retail distribution initiative that employs women (called Shakti Amma) self-help groups to sell its product by training them on basic principles of distribution management and familiarisation with the company's products. Men (called Shaktimaan) from Shakti-Amma's family were roped to distribute in villages with <2,000 people, which otherwise would be expensive to reach through its redistribution stockists. Project Shakti has been replicated in Pakistan and Sri Lanka.

b) Manufacturing – Comfy is being currently outsourced to a factory of Bella Hygiene at Madurai, of which Comfy utilizes >90% of capacity. They 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.

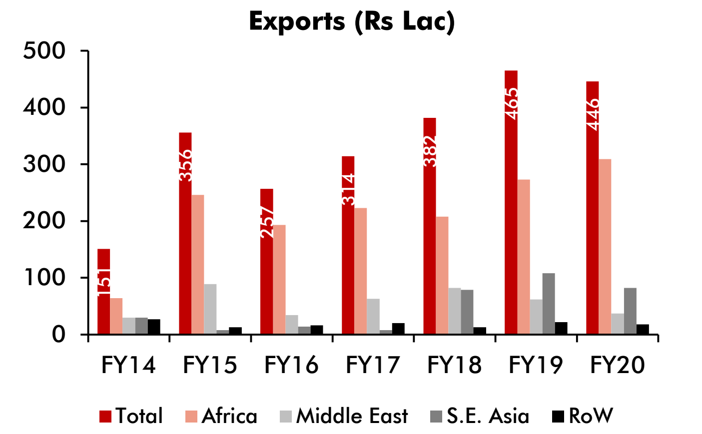
Post COVID, Amrutanjan has started to pay more heed to such issues. They will be incurring capex to bring its two manufacturing plants in Tamil Nadu and Telangana on-par with each other so that in an un-usual scenario where on state goes under lockdown of any sorts, the other facility can be utilized.

5. Overambitious M&A and expansion into other smaller Emerging Markets-
Consumer companies in India have a history of making large M&A at exorbitant prices backed by cheap debt availability ***(Refer to Exhibit: 24)***. However, very few of these have worked out as they bring with them integration challenges – both cultural as well as operational. The bigger Indian companies however have learned their lesson the hard way and are now trying to consolidate their operations, but if the smaller upcoming players embark on the same M&A spree in-search of growth, it could impact their long-term performance and returns.

In our view, a wiser approach would be to expand existing product reach to these emerging markets, like how Marico built a strong market for Parachute in

Bangladesh. While results of such organic growth are visible only over the longer term, we feel it is often a better and safer strategy than inorganic ventures. Amrutanjan currently exports to countries in Africa and SE Asia ***(Refer to Exhibit: 23)*** and has plans to expand their reach.

Exhibit 23: Africa is the main export destination for the co



Source: Ambit Asset Management, FY20 Annual Report

Exhibit 24: A few big brand M&A in consumer sector in last 2 years

Brand	Buyer	Year
Vwash	HUL*	2020
Ruchi Soya	Patanjali	2019
The Man Company	Emami	2019
Beardo	Marico	2019
Cr□me 21 Gmbh	Emami	2019
Prabhat (Dairy business)	Lactalis**	2019
Heinz India	Zydus Wellness	2018
GSK Consumer Healthcare (India)	HUL*	2018
Bombay Shaving Company	Colgate Palmolive India	2018
Avadh Snacks	Pratap Snacks	2018

*Source: Ambit Asset Management, *HUL – Hindustan Unilever, ** Through its local arm Tirumala Milk Products*

6. **Building and developing 2nd line management**

The business is currently being run by the promoter family with Mr. Sambhu Prasad Sivalenka acting as the Chairman and MD of the company who has been instrumental in its performance since he took over. Going ahead, we feel that strengthening the 2nd line management of the company will further add depth and experience to the company. That would also relieve the company of a key man risk. While Amrutanjan is still relatively small and it will continue to grow. We believe that companies that have focused on building management depth over the years have grown into another orbit in the long run, while those that have not managed to so have plateaued.

The management has repeatedly highlighted the importance of the same and emphasised on hiring talented individuals and building a strong team.

"Today, half of all leaders who have taken new sales or functional assignments are internal hires. Going forward, human resource development would dictate the probability of us achieving our goals. This is a challenge for smaller companies as they struggle to attract talent. This does not mean we do not infuse new blood and new ideas into the management team. We have an efficient blend of new and existing talent in the company that promotes diversity of thought and action." – ***FY 14 Annual Report***

7. **Government subsidized products in the feminine hygiene segment**

The Central government is planning to launch a Rs12,000Cr scheme to ensure access to sanitary napkins across India, pegged on its popular Re 1/pad Suvidha brand, sold at the Janaushadhi stores set up by the government. There are suggestions that high net worth individuals (HNIs) and corporates could be asked to adopt villages and help with the distribution of sanitary napkins to under-privileged women across the country. Some countries have come up with laws to provide free access to sanitary pads, especially in schools and colleges ***(Refer to Exhibit: 25)***.

Exhibit 25: Any similar policy by the Indian government on a larger scale will only help expand the category

Country	Law
Scotland	Law that provides free, universal access to sanitary products for women of all age groups
New Zealand	Launched initiative to offer free sanitary products at schools (all primary, intermediate, secondary and kura, or Maori-language immersion schools)
England	Government will provide free sanitary products in secondary schools and colleges
France	Government aiming to make period protection "completely free of charge" for students
Sri Lanka	Will provide free, locally made pads to about 800,000 school girls

Source: Ambit Asset Management, Google

At Ambit we believe in wealth creation by long term equity investment and through the power of compounding. We constantly try and stay ahead of the curve on what may possibly impede the growth of our portfolio companies. We do a long term scenario analysis on what could be the possible disruptions to Amrutanjan. ***In our view, possibility of : (1) Change in consumer preference and perception of balms and single-use Sanitary Pads (2) Challenges in building Management depth (3) Supply chain disruption (4) Overambitious M&A and aggressive product launches*** *will be the things to watch out for in the case of Amrutanjan Healthcare over the next decade.*

Appendix

The real life 'Pad-Man' story

The famous 2018 Bollywood movie named 'Pad-Man' was based on the real life story of a person named Arunachalam Muruganatham. His effort and innovations helped tackle 3 problems in Rural India at the same time – **(1)** Providing affordable sanitary pads **(2)** Generating employment for women in Rural areas **(3)** Spreading awareness on the importance of menstrual hygiene, and thus increasing penetration.

After his marriage in 1998, Muruganatham, discovered that his wife was using newspapers and filthy rags during her menstrual cycles. Sanitary napkins, mostly manufactured by MNCs back then, were very expensive (~40x the raw material which cost Rs10). Despite being a school dropout he started designing pads on his own. It took him two years to discover that sanitary pads used cellulose fibers derived from pine bark wood pulp, which helped in absorption. Imported machines to manufacture the same, however, cost Rs3.5Cr. Muruganatham devised a low cost machine that cost just Rs65,000 (0.20% of the imported ones) that could be operated with minimal training. Currently, these machines have been installed in 23 of the 29 states of India with plans to expand the production of these to 106 nations.

This has inspired more entrepreneurs, Social Enterprises and NGOs to focus on feminine hygiene in rural area. While one may argue that this could be a threat to Organized players, the fact remains that Indian market is immensely underpenetrated ***(Refer to Exhibit: 11, 12)*** and these efforts will only increase the market size

Exhibit 26: Mr. Arunachalam Muruganatham...

Source: Ambit Asset Management, ED times

Exhibit 27: ... and the mini-machine devised by him

Source: Ambit Asset Management, Indiamart, Jayashree Industries

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