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## India

## Consumer



Tastes of India (ToI) series is an attempt to provide investors an insight into the Indian Consumption story. We would aim to capture different facets of consumption in our coming ToI series along with interesting tales of successful brands and products. The idea of ToI is more to pick up trends based on anecdotes, media reports, channel checks etc. For investors with a longer term commitment to Indian equities, we hope some of these insights will translate into profitable investment opportunity

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## Wish you were listed: Patanjali Ayurved

### Meteoric rise of yoga guru's outfit: a threat for peers?

Patanjali Ayurved Limited (PAL) perhaps lacks most ingredients for building a large-scale consumer goods business, be its negligible A&P spends or distribution network. Yet, the brand power of a yoga guru has brought PAL into the top league with topline reportedly in excess of Jyothy Labs and Emami. And all this has been within eight years since the inception of PAL. The plans are even more interesting as the company is now looking at 'traditional' ways to expand and targets to more than double the topline in coming years. While competition must be keeping its fingers crossed, all we can say is – 'Wish you were listed'.

#### Eight year old PAL is already in Rs20bn club!

- Within in a short timeframe of eight years since inception, PAL has created a splash in the Indian consumer market...
- ... as it has reportedly crossed Rs20bn in annual revenues in FY15 making it already bigger than the likes of Jyothy Labs and Emami!
- Interestingly, PAL was established as a small pharmacy in 1997 and is now perhaps the most diversified consumer goods firm in India.
- The company already has a strong-yet-evolving product portfolio which ranges from problem solution to personal care, home care and even packaged foods.

#### PAL rides on the brand equity of a yoga guru

- The man behind the company's meteoric rise is – Ramdev who left his home at the age of nine to study Sanskrit and yoga and is today a Yoga guru (preacher).
- He partnered with 'Acharya' Balkrishna in 1990s to manufacture medicines – Ramdev took responsibility of popularising yoga while Balkrishna focussed on product-side.
- The game-changer was when Aastha channel (spiritual TV) started featuring Ramdev's yoga in the morning slot in 2003, which attracted huge following.
- Yoga sessions and word of mouth has been instrumental in PAL's success.
- Of course, 'Baba' Ramdev, as he is popularly known, is its biggest brand ambassador and is widely seen with politicians, sportsmen, film actors etc.
- We understand that 92% of the PAL stake is held by Balkrishna while 8% is with Scotland-based NRI couple (Sarwan & Sunita Podar); Ramdev has no stake in PAL.

#### PAL is an offbeat outfit, at least for now

- PAL considers itself as a bridge between rural India, which supplies the produce and urban India, which faces lifestyle issues and hence consumes these product.
- While most consumer firms spend around 10-15% of revenues in A&P, PAL has done it without any meaningful A&P investments so far.
- The company has a network of 'dedicated' franchise stores unlike peers and is present in <0.2m outlets cf. 2-7m for peers (India has 8m in all).
- PAL products are typically at a 15-30% discount to competing brands which has been possible through its strong sourcing back-end.
- As per the objectives, PAL intends to plough back its profits into areas like healthcare, rural economy etc.

#### Aggressive growth targets ahead

- While the company has a limited distribution reach so far, PAL intends to expand its distribution reach and make products available through 25% of FMCG outlets...
- ... and even open outlets at railway stations and airports; modern trade is just 3% of its topline and plans are to push this up.
- PAL already has a dedicated website ([www.patanjaliayurved.net](http://www.patanjaliayurved.net)) to sell the products which are even available on marketplaces like Amazon!
- Ramdev in one of the interviews indicated that he targets to achieve a topline of around Rs50-100bn in next few years.
- The company intends to foray into several newer categories and expand the product basket to drive growth in the coming months and years.
- One distinct advantage PAL enjoys is category neutral brand – hence, all its products carry same brand, 'Patanjali' which allows for easier basket expansion.
- Interestingly, after the ban of Maggi by Indian regulators (FSSAI), Ramdev announced PAL's intend to foray into instant noodle segment.

**PAL is perhaps the fastest growing fast-moving-consumer-goods firm in India**

**PAL is already bigger than Jyothy Labs and Emami**

**Several products in pipeline**

**Baba Ramdev has popularised the brand he in an unconventional manner**

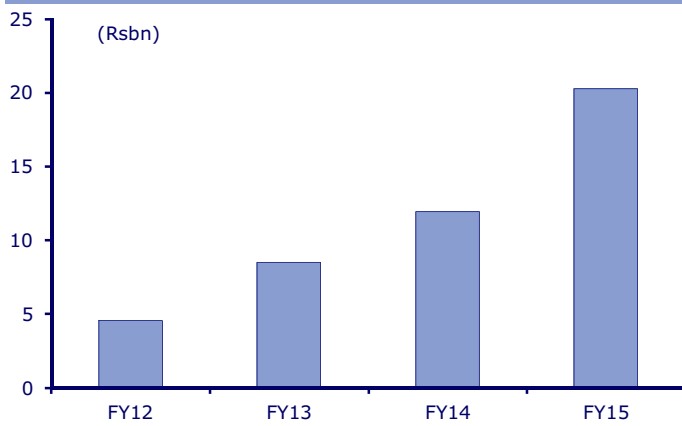
**High ambitions**

**PAL: among the fastest growing consumer outfits in India**

- ❑ PAL is perhaps the fastest growing fast-moving-consumer-goods firm in India with annual revenues reportedly at >Rs20bn. In fact, including the revenues of other firms within the group like pharmacy etc., the group revenues are in excess of Rs25bn.
- ❑ PAL was established as a small pharmacy in 1997 and was formally organised as a consumer goods firm in the year 2006.
- ❑ At its current revenues, PAL is already bigger than Jyothy Labs and Emami and all this has been achieved in less than a decade!
- ❑ PAL has a strong and a very well-diversified portfolio which encompasses home & personal care, packaged foods, nutrition, dairy and even medicinal products. The company arguably is the most diversified consumer goods company in India with a portfolio far more scattered than firms like Marico, Godrej Consumer, Emami etc.
- ❑ The company has several products in pipeline and intend to enter segments like malted food drinks, instant noodles, value added sensitivity oral care etc.
- ❑ The key value proposition for the company is 'Swadeshi' ie Indian products which are on 'Ayurveda' platform.
- ❑ Interestingly, Baba Ramdev has while popularised the brand Patanjali, he has done it in an unconventional manner. For example, instead of talking up about the brand, he has focussed on the evils of MNCs, need for buying Indian products, the corruption in corporates, high usage of chemicals etc. This has an indirect yet hugely positive impact on PAL products.
- ❑ Another USP is the healthy lifestyle and there is trend of an increasingly inclination towards ayurvedic or herbal products. PAL is just trying to target those consumers, particularly in the urban India.
- ❑ Interestingly, incorporation document of the company indicate that group may further diversify into categories clothing, wearing apparel, hosiery goods etc.
- ❑ Ramdev in one of the interviews indicated that he expects to achieve a topline of around Rs50-100bn in next few years itself.

Figure 1

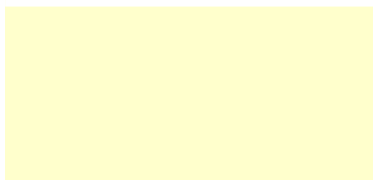
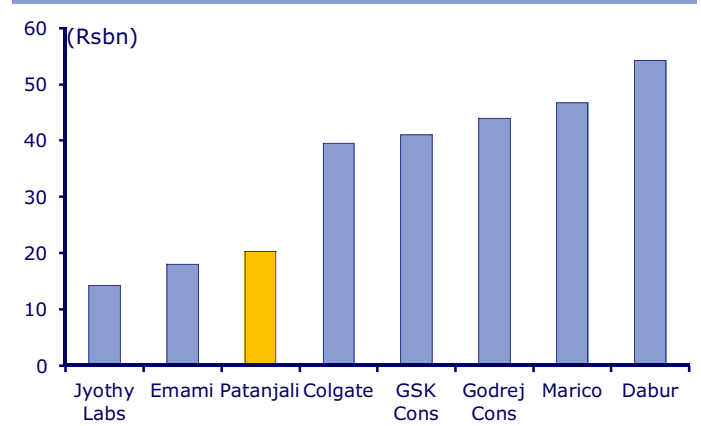
**Trend in PAL revenues over the years**



Source: Media, Companies, CLSA

Figure 2

**Comparison of FY15 revenues**



**PAL has a very well-diversified portfolio**

Figure 3

**Personal care range**

**Product range**



**Comments**

- Personal care includes soaps, shampoo, oral care, hand wash, skin care, hair oils etc.
- Oral care range includes toothpaste, toothbrush & tooth powder.
- Toothpaste 'Dant Kanti' is among the best-selling products.
- Skin care includes face wash, face pack, face cream, rose water, etc.
- Hair care has hair oils, dyes, shampoos & conditioners.

**Personal care range**

**Home care range**



- Home care range includes detergent care, powder & liquid, dishwashing bar, herbal gulal, agarbatti etc
- Detergent powders are available in various sizes, from Rs10 sachets to 2Kg packs. It also has a different laundry powder for machine use.
- Its dishwashing bar is one of Patanjali's strong products.

**Foods/ Nutrition/ supplements / Dairy range**



- Under Foods & nutrition, the range includes aata (flour), cereals, salt, spices, edible oil...
- ... and even corn flakes, muesli, biscuits, pickles, jams, ketchups, herbal tea and fruit juices.
- There are health and supplements like Chyawanprash, Badam pak (almond powder), health drinks as well as digestives.
- The dairy segment includes mainly cow ghee (clarified butter).



**Ayurveda formulations to treat various ailments**



- Blood pressure & related problems, memory related issues, diabetes related problems
- Skin and abdominal diseases
- Obesity & body fat, digestive issues
- Joint pains
- Everyday cough & cold, respiratory problems

**Specific health juices**



- Specific health juices offer a number of choices ranging from purely healthy juices like Aloe vera, Amla, etc to regular fruit juices and even Sherbets.

Source: Media, CLSA

**Serious investments in the back-end**

**A mix of own and contractor facilities**

**Back-end investments drive profitability**

- PAL has taken considerable efforts to build its back-end and has three facilities in Haridwar.
- Most of Patanjali products are available at an attractive discount to the peers and that has been possible also because of the significant investments in the back-end including direct sourcing from the farmers.
- This has however not come in the way of profitability as the company generated 20% Ebitda margins in FY14.
- In Jan-10, Patanjali reportedly commissioned one of the largest food parks in the world at a total investment of Rs5bn. The foodpark is spread across 100 acres and provides employment to over 6,500 people.
- For some products, the company has own facilities but it also gets a lot of its brands manufactured from outside. For example, PAL gets its ghee and apple juice manufactured under loan license agreement from GK Dairy in Haryana.
- In order to streamline its processes, PAL has even implemented SAP software.

Figure 4

**Patanjali Food and Herbal park...**



Figure 5

**... in Uttranchal**



Source: Media, CLSA

**Margins comparable to FMCG peers despite lower product prices**

**The company even pays taxes**

Figure 6

**Summary Income statement**

(Rsm)	FY13	FY14
<b>Total revenues</b>	<b>8,419</b>	<b>11,844</b>
Material		
<b>Gross profit</b>	<b>4,042</b>	<b>5,650</b>
% of net revenues	48.0	47.7
Staff	(456)	(500)
Other	(2,088)	(2,780)
<b>Ebitda</b>	<b>1,498</b>	<b>2,369</b>
% of net revenues	17.8	20.0
Depreciation	(330)	(314)
<b>Ebit</b>	<b>1,169</b>	<b>2,056</b>
% of net revenues	13.9	17.4
Finance cost	(287)	(180)
Other income	70	102
<b>PBT</b>	<b>951.99</b>	<b>1,978</b>
Tax	(196)	(416)
Tax %	20.6	21.0
<b>Pre-ex earnings</b>	<b>756</b>	<b>1,562</b>

Source: Company, Media, CLSA

**Unique distribution methodology as of now**

**Plans to expand into mom and pop stores**

**Focus on modern trade and E-commerce platform**

**While PAL products are mainly available in only specified formats...**

**... efforts are underway to expand into newer channels which should drive strong growth**

**Focused yet limited presence: huge expansion potential**

- ❑ Patanjali products are mainly available through: (a) Patanjali Chikitsalaya (clinics along with medical practitioner); (b) Patanjali Arogya Kendra (Health and wellness centre); (c) Swadeshi kendra (non-medicine outlets).
- ❑ The group has significantly scaled up its distribution over the past few years and today services ~15k exclusive outlets across India out of which 5k outlets are franchise operated. The group plans to expand this network to 100k outlets over next few years.
- ❑ Apart from specialised distribution format, Patanjali products are also available through ~177k general retail outlets across India which group intends to extend to ~2m over the next few years.
- ❑ In this context, it is useful to note that India has around ~8m retail outlets and hence, even if the company reaches out to 2m outlets, there would be enough potential.
- ❑ Its products are also available across 400 modern trade stores including that of Big Bazaar, HyperCity and Star Bazaar and the group plan to scale this up to 1,000 outlets over next few years.
- ❑ The company also has an exclusive arrangement with Reliance Retail to operate exclusive kiosks inside its stores, a privilege no one else has.
- ❑ The Group is also focussing on emerging e-commerce channel and has a dedicated portal [www.patanjaliayurved.net](http://www.patanjaliayurved.net). The website offers free delivery if order is above Rs499 and even cash on delivery if order is above Rs999.
- ❑ The group also has presence on third party e-commerce websites like Amazon, BigBasket etc. to retail their products.

Figure 7

**Patanjali clinics....**



Source: Media

Figure 8

**... and health & wellness centres**



Figure 9

**Swadeshi stores (no medicines)**



Source: CLSA

Figure 10

**Also available on ecommerce now**



**So far, PAL has not made much A&P investments**

**Word of mouth' also plays a very important role**

**Limited presence on Youtube as of now**

**Significant amount is spent by consumer companies on A&P but not PAL, as yet**

**And the company is yet to start A&P investments!**

- ❑ Patanjali has been able to build its impressive business without any significant investment on Advertisement and Promotion (A&P) spends.
- ❑ For brand and product awareness, the company relies mainly only on endorsement by Baba Ramdev and his disciples and instructors.
- ❑ During yoga sessions conducted by Baba Ramdev, the stage showcases various products under the Patanjali brand. There have been instances where Baba Ramdev has invited popular personalities or celebrities to the stage and have explained the product utility.
- ❑ For instance, in order to explain the efficacy of its product 'Badam Pak' he invited Indian wrestling champion Sushil Kumar.
- ❑ Through his yoga franchisee, Baba Ramdev reportedly could directly and indirectly (through yoga instructors across India) has potential to reach 200m people implying a sixth of Indian population!
- ❑ 'Word of mouth' also plays a very important role in creating consumer pull.
- ❑ There have been limited advertisements that are listed on YouTube website but these have seen limited subscriptions or views. There has not been any significant advertisement on television or in print so far.
- ❑ In this context, it is useful to note that FMCG industry typically spends 12-20% of their net revenues as A&P. This percentage is much higher in case of the company which is early in its evolution. The revenue achieved by Patanjali clearly is commendable with almost no media support.
- ❑ Interestingly, Patanjali seems to be cognisant of this fact and in order to prepare for its next phase of growth, it has recently hired India's top advertising agencies, McCann and Mudra.

Figure 11

**YouTube ad1**



Source: YouTube

Figure 13

**Ramdev baba with Sushil Kumar**



Source: Media, CLSA

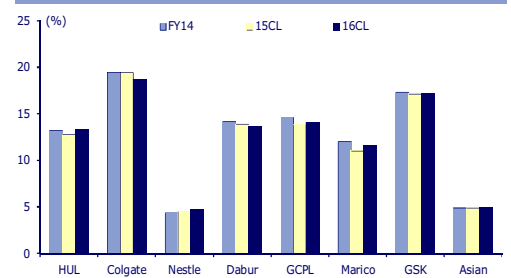
Figure 12

**YouTube ad2**



Figure 14

**A&P by various FMCG firms in India**



An interesting way of creating consumer pull

Product prices are generally 15-30% discount to peers

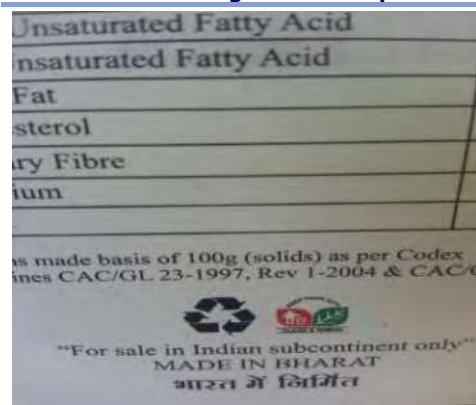
Product prices are typically 15-30% cheaper than peers

**'Make in India' an important proposition of Patanjali**

- While endorsement by Baba Ramdev is the biggest brand building exercise, the company has several other steps to strengthen the brand.
- The group primarily endorses three core propositions: (a) Swadeshi (Indian manufactured) products; (b) Ayurveda platform with no chemicals, preservatives and fertilizers etc.; (c) High value proposition.
- Every Patanjali product, whether detergent or shampoo or cornflakes has a bold tagline – *Made in Bharat (India)*. Baba Ramdev's swadeshi obsession can also be seen in some of his personal possessions like Mahindra Scorpio SUV, Micromax mobile and Videocon Television.
- Another strategy that the group has adopted for internal brand building is negative marketing of brands which are not based on Ayurveda platform and propagate harmful effects of chemicals, fertilizers and preservatives on health.
- Its focus on value proposition is visible from its pricing strategies as its products are at 15-30% discount to competition.
- Finally, Baba Ramdev promises that entire profit generated from the venture is for charity and for the welfare of farmers and poor people. This significantly differentiates the overall brand from others which are for-profit strategies.

Figure 15

**'Made in Bharat' tagline across products**



Source: CLSA

Figure 16

**Most products on Ayurveda platform**

Ayurvedic Proprietary Medicine			
Composition : Each 5 g contains Extracts of-			
पुतलकुमारी खरस	(Aloe barbadensia)	1000 mg	भा
गेहूँ का तैल	(Triticum sativum)	25 mg	री
दुग्ध	(Holopterna antioxyentrica)	2.5 mg	व
अमृतामूल	(Homidasmus indicus)	2.5 mg	
सर्पिण्ड	(Rubia cordifolia)	2.5 mg	
हल्दी	(Curcuma longa)	0.5 mg	
तुलसी	(Ocimum sanctum)	0.5 mg	
Base material		q.s.	

Figure 18

**PAL product at a discount to peers**

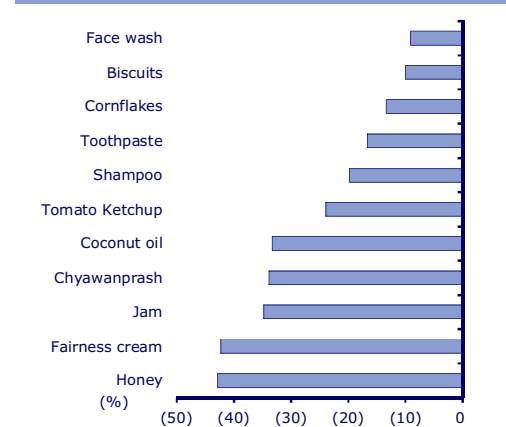


Figure 17

**Baba Ramdev promoting the brand**



Source: Media, CLSA

**Ramdev's journey started with Yoga classes which even continues today**

**Ramdev does not hold any stake**

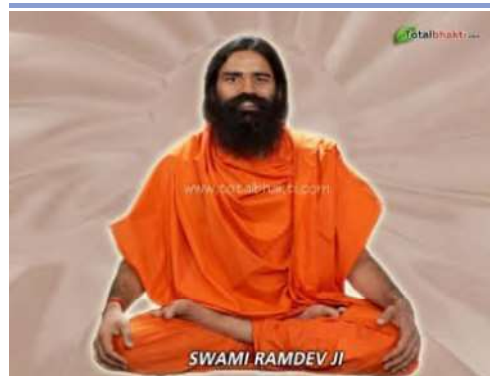
**While Ramdev focuses on Yoga, Balkrishna looks after PAL**

### How did it all start?

- ❑ Ramdev or 'Baba' Ramdev (Baba prefixed out of respect) is a spiritual guru (leader) and is popular for teaching yoga, especially Asana & Pranayama (ancient breathing exercises) and healthy way of living.
- ❑ When Ramdev was nine years old, he ran away from home and joined Aarsh (Arya) Gurukul, Kanpur and studied Sanskrit and Yoga under the guidance of Acharya Pradumn.
- ❑ He collaborated with Acharya Balkrishna, who is a scholar of Ayurveda, Sanskrit and Vedas in 1990s to manufacture ayurvedic medicines. Ramdev assumed responsibility of popularising Yoga while Balkrishna assumed responsibility of spreading Ayurveda system of medicine.
- ❑ Patanjali Ayurved was formed in the year 1997 by Ramdev.
- ❑ The game changer was in 2003 when Aastha TV (spiritual TV channel) began featuring baba Ramdev in its morning yoga slot and he gained massive following from there.
- ❑ While initially the company was mainly manufacturing medicinal products, they rapidly expanded to cosmetics and food products.
- ❑ Patanjali Food and Herbal Park was established in 2009 under the mega food park scheme of Ministry of Food Processing Industries, Government of India.
- ❑ Today, Patanjali is present in several categories of personal care and food products - soaps, shampoos, dental care, balms, skin creams, biscuits, ghee, juices, honey, atta, mustard oil, masala, sugar and much more.
- ❑ Interestingly, we understand that Ramdev does not hold any stake in Patanjali Ayurveda Ltd. Balakrishna reportedly holds 92% stake...
- ❑ ... while remaining 8% stake is held by Scotland-based NRI couple Sarwan and Sunita Poddar. Sunita reportedly lost some serious weight and since then, has been associated with Ramdev. The couple is also associated with UK Trust of Patanjali and in 2009 even donated 684 acre island in Scotland to establish first dedicated international yoga centre outside India.

Figure 19

**Baba Ramdev...**



Source: Media

Figure 20

**... and Acharya Bankrishna**





**We visited a few Patanjali stores in Mumbai**

**Average sales of around Rs20-30k**

**Focus on local advertisements**

**A typical centre sells over 100 Patanjali products**

**Insights from our market visits and channel checks**

- A typical Patanjali Arogya Kendra (medical centre) is around 500 to 1,500 square feet in size and markets over 100 Patanjali products, which excludes medicines.
- The look and feel and layout of the store is just like a typical general trade (Kirana) store, though, product assortments are way different.
- All the outlets which we visited had a poster of Baba Ramdev and Balkrishna right at the entrance as well as inside the store.
- Our interaction with a retailer highlighted that his store achieved an average gross daily turnover of Rs25k – this of course should vary depending on the location but in Mumbai, a typical outlet would do around Rs20-30k daily.
- We understand that the retailer margins are broadly in the range of 10-20% across products.
- Our channel checks indicate that for many retailers, toothpaste is among the fastest selling product followed by milk shampoo, anti-wrinkle free cream and detergent powder – this is across categories.
- Within foods, biscuits and chyawanprash have been gaining traction among consumers. Interestingly, one of the retailers even highlighted that while initially the store attracted value-seeking consumers but post Nestle’s Maggi crisis, the brand has also been attracting upper-middle class consumers. We are unsure if this could be extrapolated to other outlets as well.
- The company also encourages retailers to send pamphlets to local residents on spreading benefits of Ayurveda in a bid to connect with the consumers.

Figure 29

**Patanjali outlet from inside...**



Source: CLSA

Figure 30

**...from outside**



Figure 31

**A local distributor’s pamphlet...**

**PATANJALI PRODUCTS NOW IN JUHU SWADESHI ENTERPRISES "PASSION FOR THE NATION"**

FLOUR		KHAOYA		QUANTITY	PRICE
WHEAT DALIA	500 Gms.	20	DIVYA PEYA (HERBAL TEA)	1000ms.	35
AROGYA PUSHTAAHAR DALIYA	500 Gms.	35	SWASARI (PRAWARI) (COUGH SYR)	250Gms.	40
AROGYA BESAN	500 Gms.	45	GULJAND	400Gms.	45
WHEAT ATTA	2 Kg/5 Kg/10 Kg.	65/152/295	ISABGOL BHUSI	100Gms.	75
MAVRATNA ATTA	2 Kg.	130	SHILAJEET CAPSUL	300Pcs.	85
HNG	10 gm./25 gm.	20/40	ASHWASHILA	20Cps	70
CORN FLAKES	500 gm.	145	MADHURAM NATURAL SUGAR (BRAND)	1Kg.	80

Source: CLSA

Figure 32

**... distributors too share vision of anti-MNC products**

**APPLICATION FORM TO BECOME DISTRIBUTOR OF JUICES, WATER, SQUASHES, BISCUITS & BAKERY ITEMS OF PATANJALI AYURVED LTD.**

By the blessing of H.H. Param Pujya Swami Ramdev ji Maharaj and the determination of Patanjali Ayurved Ltd., cheap and best quality Swadeshi product is to be made available to each and every household, I am a well-wisher and supporter of this movement and is committed to get rid of the foreign MNCs loot to make the country self-reliant and economic super power.

Name of the Company/Firm: \_\_\_\_\_

Name of the Applicant: \_\_\_\_\_

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