

Desi Hustle Vs MNC Muscle: The Case Study of Patanjali Ayurved Ltd

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Abstract

There is one unlisted company that is now on the radar of almost all the big brokerages; it is not burning cash and boasts of a loyal following, traits that are uncommon in the ecommerce space where profits are a distant dream. The company is Patanjali Ayurved Ltd (PAL). Patanjali Ayurved Ltd has, in a short span of less than a decade, recorded a turnover higher than what several companies have managed to achieve over several decades. There is no doubt that Patanjali is a disruptive force in the FMCG space and is a credible threat for the incumbents. The rise of Patanjali has been nothing short of meteoric, posing a challenge to the companies that have dominated the consumer scene for years. The success of Patanjali has raised investor concerns about the impact on established consumer names. The case study explores the strategies of Patanjali Ayurved Ltd and the tussle between the established FMCG players.

Introduction

In a time when yoga has captured the attention across the globe, and all things Indian whether it is our cuisine, culture, or commodities market, are finding an surge in global audience, it should come as no surprise that *sadhus* are taking over as businessmen. The most prominent of them is Baba Ramdev, a Haridwar-based yoga guru who has rarely strayed far from the spotlight since the Jan Lokpal drama of 2011. He later went on to declare support for Narendra Modi during the 2014 Lok Sabha elections. Having gained a substantial fan following through his televised yoga camps, Ramdev revitalized his Ayurveda firm Patanjali Ayurved, which he began in 2006. Nobody saw it coming but Patanjali is now heading towards a billion dollar sales turnover. Baba Ramdev's Patanjali, with more than 350 products ranging from noodles and biscuits to FMCG products, is giving captains of consumer goods reason to sit up and take stock.

Besides giving a sleepless nights to MNCs like Nestle, Colgate, ITC, and Indian brands such as Dabur and Godrej, Patanjali's business growth shows a lot of similarities with the new generation business models.

As per a report by CLSA Research in August 2015, Patanjali, which has seen its revenues quadruple in the last four years, made more than Rs 2,500 crore in revenue during the last fiscal. It is expected to double its revenue, reaching Rs 5,000 crore by the end of this fiscal. A recent report shows that they have already reached Rs 4,500 crore.

Acharya Balkrishna established Patanjali Ayurved Limited in 2006 along with Baba Ramdev with the objective of establishing science of Ayurveda in accordance and coordinating with the latest technology and ancient wisdom.

Patanjali's main promoter is Acharya Balkrishnan, who owns 93 per cent of the company; the remaining stake is owned by Sarwan and Sunita Poddar, an NRI couple. Yoga teacher and television personality 'Baba' Ramdev does not own any stake in the company, but he has played a huge part in the brand's gaining visibility, by marketing it in the numerous yoga camps that he holds across the country.

The posts which Balkrishna holds at Patanjali includes, that of general secretary of Divya Yoga Mandir Trust and Patanjali Yogpeeth Trust, managing director of Vedic Broadcasting Limited (Aastha) and Patanjali Food & Herbal Park Private Limited, and Vice Chancellor of University of Patanjali. Balkrishna, who holds a post-graduate degree in Sanskrit, Literature and Yoga from "Gurukul", describes himself as "a multi-faceted genius and personality with knowledge and experience in the managerial, administrative and engineering fields"

The Pedagogic Objectives of this case

- 1) To investigate the objective behind Patanjali Ayurved Limited venturing into FMCG market.
- 2) The case also aims at studying the competition between Patanjali Ayurved Limited and other MNC's in FMCG sector.

Background Note

Patanjali Ayurved Limited (PAL), the flagship company of the Patanjali group is an Indian FMCG company. Patanjali Ayurved was established in 2006 as a private limited company and subsequently converted into a public limited company in 2007. It has 03 manufacturing units located in Haridwar for manufacturing of its products with the retail sale of these products being carried through Patanjali Arogya Kendra, Patanjali Chikitsalya, Swadeshi Kendra and more than 177,000 retail outlets spread across the country. According to CLSA and HSBC, Patanjali is the fastest growing fast-moving consumer company in India. It is valued at Rs 13000crore (US\$1.9 billion) and some predicts revenue of Rs 5000 crore (US\$ 740 million) for the fiscal 2015-16.

Patanjali Ayurved produces products in the categories of personal care and food. The company manufactures 800 products including 45 types of cosmetic products and 30 types of food products. According to Patanjali, all the products manufactured by PAL are made from Ayurveda and natural components. Patanjali has now muscled into noodles, cornflakes and cookies. The group employs about 15,000 people in its units.

Apart from offering an array of products ranging from toothpaste to health drinks, Patanjali has also ventured into the e-commerce space.

Genesis of Patanjali Ayurved Limited (PAL)

Patanjali's Rs 3,000-crore FMCG journey began ten years ago, quite accidentally, with gooseberries. Acharya Balkrishna, the 43-year-old architect of Patanjali's growth from a cottage industry to the one that is giving MNCs sleepless nights, recounts how it all started in 2005, when a delegation of farmers met Ramdev.

They were going to destroy their gooseberry plantations as there was no demand for the fruit. To stop them, Ramdev started manufacturing *amla* juice. "At first, we had no clue how to go about it and outsourced the fruit to a food processing unit in Hoshiarpur in Punjab," says Balkrishna. The juice became a runaway hit, and Patanjali started sourcing gooseberries from all over the country to meet the demand. Today, 25 truckloads of gooseberry arrive at the Patanjali unit, where 6,000 litres of juice is processed per hour. "Now there are so many other *amla* juice manufacturers in the country. We created the category," says Balkrishna. Creating new product categories partly explains Patanjali's early success. After *amla* juice, it started making the sort of esoteric local food and personal care products (aloe Vera juice, *hing* (asafoetida) digestive *golis*, *shikakai* (acacia concinna) sherbets and spices that Indians otherwise shopped for at *khadi* or *gramudyog* outlets.

We suddenly saw a market gap that could be filled," says Balkrishna. "Whatever People demanded, we kept making," adds Ramdev, before taking a jibe at MNCs, "We don't bother with expensive market research." As the enterprise foster, Patanjali became ambitious and started getting into established FMCG categories. The change also seems to have coincided with Ramdev's growing political clout.

Ramdev says the business has grown 150 per cent this year, and may close this fiscal with a turnover of Rs. 5,000 crore. Though Ramdev claims that he and Balkrishna don't set targets, in the next breath, he envisages Rs 10,000-crore-turnover- in-three-years goal.

The growth, he adds, will come through expansions into everything from baby care to garments. "From bio-fertilisers to healthy food, to organic cotton clothes, we will produce anything that can make India and Indians beautiful.

Patanjali moving fast to overtake FMCG Giants

The numbers are out for the first time, and if Patanjali Ayurved Ltd (PAL) sustains its pace of growth, it will soon leave majors such as Dabur India, Emami and Marico by the wayside in terms of sales and profitability.

According to a rating rationale document issued by Brickwork rating, a credit rating agency, Patanjali Ayurved clocked a provisional turnover of Rs 3,266.97 crore in the first 10 months of the current financial year. This is more than double of Rs 1,587.51 crore reported in the corresponding period of the previous financial year. While Patanjali's turnover and profit are currently less than those of most FMCG majors, they are rising at a much faster pace.

According to Bloomberg, Emami reported a turnover of Rs 1,953.02 crore in the first nine months of FY16. Marico reported a turnover of Rs 4,819.61 crore between April 1 and Dec 31, 2015. Both Godrej Consumer products and Dabur registered turnovers in excess of Rs 6,000 crore in the first nine months of FY16.

On the profitability front, the company, which has yoga guru Baba Ramdev as its brand ambassador, almost doubled its profit in FY15 to Rs 308.79 crore from Rs 154.70 crore in FY14, according to Brickwork Ratings.

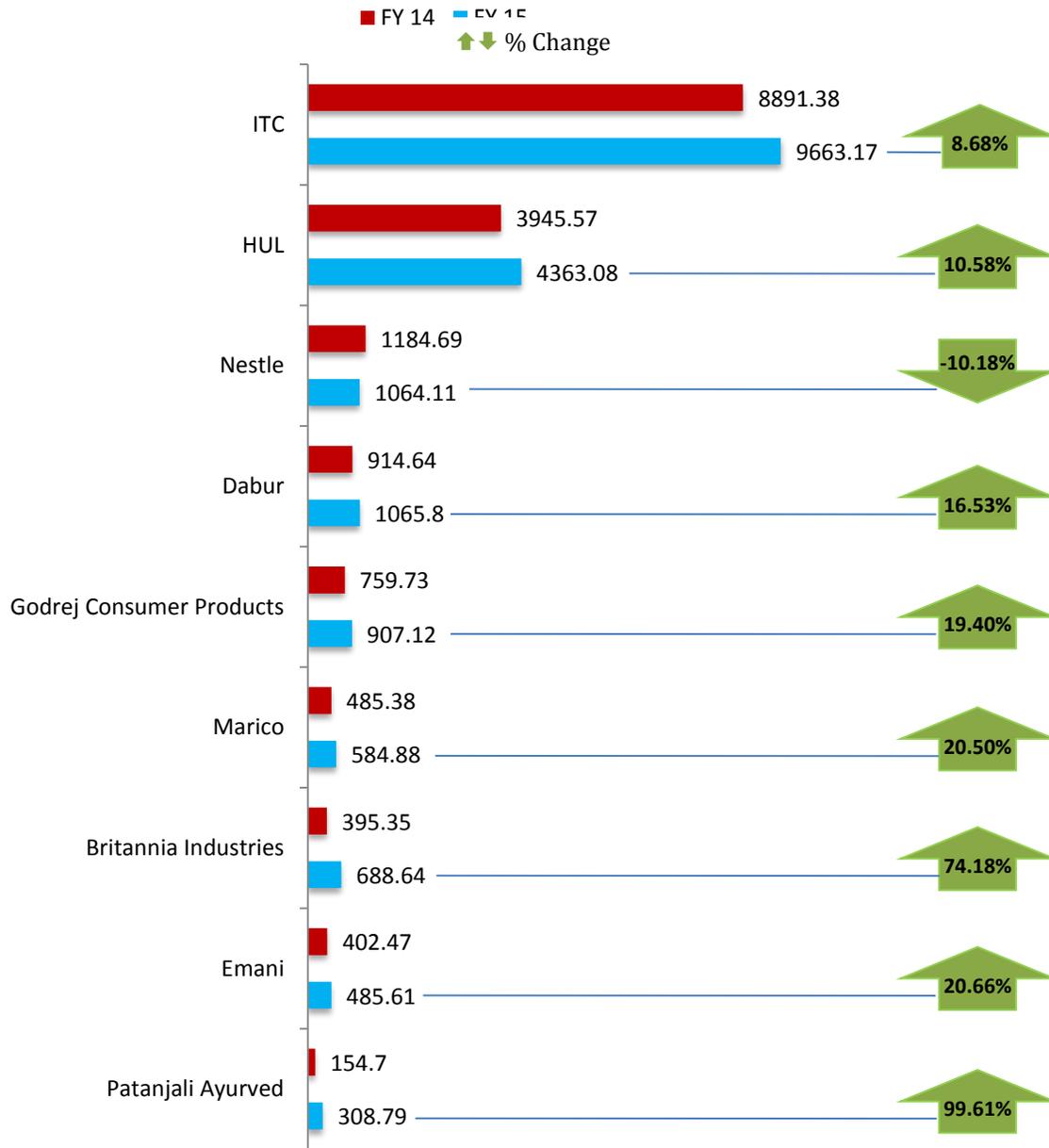
A team of analysts from Edelweiss, who went to Patanjali's Food and Herbal Park at Haridwar and met senior officials, said that the management is confident of achieving a revenue target of around Rs.5,000-6,000 crore by FY16. The resulting report said, "The Company is working on bridging the gaps in the supply chain and distribution with plans afoot to implement ERP (for better inventory management) and consolidate its online presence. Strong innovation and new products pipeline, pricing discounts to the peers (15-30%), ayurvedic and natural propositions with low A&P spends (leveraging Baba Ramdev's brand pull) lend Patanjali's products an edge over competition

The company intends to have Rs 320 crore bank loan facility to fund its expansion plans. The rating agency has assigned 'BWRAA' to the company's long-term working capital credit of Rs 300 crore that it plans to avail of from Punjab National Bank. The rating reflects a high degree of safety with a suitable outlook.

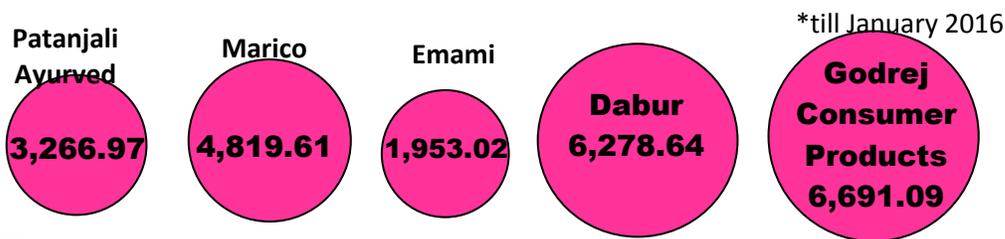
A Further Rs 20 crore short term bank guarantee has been rated as 'BWR A1+' by Brickworks, which denotes very strong degree of safety. The rating agency said, the rating reflects the wide variety of FMCG products brought out by the company under brand name 'Patanjali', strong growth in terms of sales and profitability registered over the last two years, absence of term debt, and low level of working capital facilities, and ambitious plans for future expansion and growth.

NET PROFIT (RS CR) OF FMCG GIANTS

Figure No. 1



COMPANIES FY16 SALES TILL 31ST DECEMBER (RS CR)



Source: BLOOMBERG, Brickwork Ratings, Graphic

Strategies of Patanjali Ayurved Ltd (PAL), According to leading Brokerages

Innovation:

- What makes Patanjali a credible threat is that it does not try to beat other FMCG companies at their game; it changes the game for them (IIFL)
- Patanjali's proactive moves have been crucial for its growth. Other consumer companies will need to step up Innovation (Edelweiss)

Pricing:

- Priced anywhere between 10% -30% cheaper than peers, Patanjali poses serious challenge to flagship products of many companies. (Reliance securities)
- The company is set to eat market share of some of the FMCG major in oral care, haircare and OTC products with its economical pricing across its brand portfolio. (Bonanza Portfolio)

The Brand, Marketing:

- Patanjali has the advantage of being associated with a personality, Baba Ramdev, a yoga guru with a following of millions who popularizes this brand through his camps. (IIFL)
- Patanjali will also be launching its mobile app, which will allow consumers to locate nearby outlets that are selling Patanjali products and also facilitate online ordering. (Edelweiss)
- It was one of the top three brands advertised on televisions in the last week of November, as per BARC(Broadcast Audience Research Council) TV commercials (TVCs) of products under the Patanjali brand outnumbered those from big consumer goods brands such as Cadbury , Parle and Pond's. A week prior to this latest release, BARC's TVC count showed Patanjali in the sixth rank. Baba Ramdev's brand came into the top ten only from November last year. Ramdev had said in 2015 that his company will be India's biggest fast moving consumer goods (FMCG) player in five years. (Reliance securities)

Revenue, Market Share:

- Patanjali could reach a net turnover of Rs 20,000 crore by FY20. (IIFL)
- Industry sources indicate that Patanjali's market share is likely to be around 5% by end 2015. This is a big success in this category, which had just three players until now. (Credit Suisse).
- Patanjali likely to more than double its revenue to Rs 5,000 crore in FY16 from Rs 2000 crore in FY15. (Reliance securities)

Sales and Distribution

- Patanjali Ayurved sells through nearly 4000 retail outlets as of 2015. Patanjali also sells its products online and is planning to open outlets at railway stations and airports. Patanjali Ayurveda has tied up with Pittie Group and Kishore Biyani's Future Group on 9 October 2015. As per the tie-up with Future Group, all the consumer products of Patanjali will be available for the direct sale in Future Group outlets.
- Patanjali Ayurveda products are also available in modern trade stores including Reliance retail, hyper city and Star Bazaar apart from online channels. Defense organization DRDO entered into licensing agreements with Patanjali Ayurveda for transfer of technology.

Conclusion

There is no doubt that Patanjali is a disruptive force in the FMCG space and is a credible threat for the incumbents, albeit Patanjali has its challenges. A political association with any political party is a double-edged sword as a change in political dispensation means bad news. For another, Patanjali lacks an army of B-school managers and marketers, at HUL (although one could argue that may be an advantage). A symptom of that gap was visible when, after the launch of the atta noodle, the Food Safety and Standards Authority of India said that Patanjali did not apply for approvals. Ramdev reckons all approvals are in place and it may be a conspiracy to

malign him. If he is serious, and it seems he is, it's probably time for Ramdev to get some management heft in his ranks.

The push for high growth comes with challenges. Sourcing of raw material, for instance, will be critical to cope with the volumes. Patanjali has already faced that with gooseberries. To reach online consumers faster (Grofers and Big Basket now stock Patanjali products), it must have manufacturing units and warehouses across the country. Patanjali's product portfolio is unwieldy. That's a challenge that Mudra and McKann Erickson, who have been roped in to handle advertising for Patanjali, will have to overcome. From a zero-advertising strategy, Patanjali has done a U-turn, emerging as the third biggest television advertiser in the country. Also, as Naresh Gupta, Managing Partner, Bang in the Middle, an advertising agency, points out, for the brand to move into the big league, it has to appeal to those who don't buy into Baba's personal belief system. He says, "Today Ramdev is also a political figure and to merge commerce with politics has not been easy or successful for anyone." But whether anyone can break Patanjali's record is yet to be seen. If Patanjali is to be compared with any player at all, it could be the e-commerce marketplace Unicorn Flipkart, which started a year after Patanjali, was incorporated, and hit \$1 billion in gross merchandise value (GMV) two years ago.

Now, the billion-dollar question is, will Ramdev be a case study for B-schools soon for having built a billion-dollar business from a town better known for its spiritual wealth?

Teaching Note

This case may be viewed as a strategic Marketing case, or as a business strategy case. Students may ask to discuss the following points in the classroom.

1. Outline the approach adopted by Patanjali Ayurved Ltd (PAL), to disrupt the FMCG Market in India. How different are the strategies adopted by Patanjali to gain the market share? How did Patanjali overcome the constraints and leverage the favorable factors.
2. What are the key success factors for Patanjali Ayurved? How Patanjali did leveraged the factors.
3. Innovation is one of the major ingredients for staying connected with the market. How has this aspect manifested in this case?

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