Growth of Swadeshi - A Case Study on Patanjali Ayurved Limited

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ABSTRACT
With a population of around 1.31 billion [1], India is the second largest market in the world in terms of consumers after China. This has resulted in an intensely competitive FMCG space, with many established domestic and multinational players vying for supremacy. Patanjali Ayurved has risen amidst this competition riding on innovation, alternate marketing techniques and cheap good quality products. The following report is an analysis of Patanjali Ayurved and its performance and impact in the Indian FMCG space. The report first analyses the FMCG Industry of India in terms of major players, segments, growth trends etc. The position of Patanjali Ayurved is then investigated with special focus on product range, market share, revenue trends, marketing strategies, distributor network, export analysis etc. It further highlights areas where the company needs to work on to sustain its growth and develop into a major force in the Indian FMCG space.

Keywords: Patanjali Ayurveda, Ayurvedic Goods industry, Indian FMCG industry, Consumer goods etc.

1. INDIAN FMCG INDUSTRY
1.1 Overview
The FMCG OR Fast Moving Consumer Goods industry is the fourth largest sector of Indian Economy with an estimated market size of around $49 billion or 2.5% of India’s GDP [2]. FMCG goods, popularly known as consumer packaged goods, include all consumables (other than groceries/pulses) that people buy at regular intervals. Most common household items including toilet soaps, detergents, shampoos, toothpaste, shaving products, shoe polish, packaged foodstuff, and household accessories and certain electronic goods belong to this category.

The break-up of the sector in terms product categories is [3]:

Fig 1. Indian FMCG Industry in terms of product categories
The organized FMCG sector of the country has shown a significantly high growth rate over the years with its size tripling in the past decade [4]. The focus till now, however, has only been urban FMCG sector. However as the urban market growth subsides, the focus is now shifting towards rural India which has largely remained untapped. The growth of the industry in Rural Areas has continuously trumped that in urban areas in the past few years and presents a golden opportunity in terms of increasing penetration across the country.

1.2 Major Players
The Indian FMCG sector is highly segmented with the presence of some major players and many minor players. Of the top 100 brands, 62 are owned by Multinational Corporations, while the rest are owned by Indian Companies.[9].

The top companies in terms of revenues in FY 2014-15 are:[10]

![Fig 2.Revenue of Major Indian FMCG Companies](image)

The Indian FMCG sector is characteristically, volume driven with low margins. Further, established traditional players, who’ve been in the business for a very long time, have dominated this market for a long time. However, the emergence of Patanjali in the FMCG scene has upset this trend. Riding on the popularity of its founder Baba Ramdev, it has not only established itself as a major player but has radically impacted the development of the sector with innovative products and strategies.

2. PATANJALI AYUURVED LIMITED

2.1 Overview
Patanjali Ayurved Limited is an Indian FMCG Company headquartered at Haridwar, Uttarakhand. The Company was established on 13th January, 2006 with Acharya Balkrishna as its majority state holder as well as managing Director with 92% stake, the rest being with an NRI family from UK.[5]

2.2 Product Portfolio
It is involved in manufacturing as well as distribution of products ranging from food, beverages to cosmetics and fabric care. Since its inception in 2006 the company has made rapid advances in expanding its reach across many segments and currently operates a plethora of brands. Its many products include. [6]
The company aims at providing natural ingredients and herbal cosmetic solutions to consumers at affordable costs. Clocking revenues of Rs 2000 Crore in FY 2014-15 [7], Patanjali has already established itself as a major player in the FMCG industry.

2.3.1 Revenue Trend.

The breakdown of its revenues on basis of product type is given below.

Table 1. Patanjali Product Catalogue

<table>
<thead>
<tr>
<th>Grocery and Staples</th>
<th>Ready Food</th>
<th>Beverages</th>
<th>Personal Care</th>
<th>Health Care</th>
<th>Households</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dals and Pulses</td>
<td>Confectionery</td>
<td>Juices &amp; Fruit Drinks</td>
<td>Face Care</td>
<td>Health Drinks, Chyawanprash, Nutrition &amp; Supplements, Digestives</td>
<td>Worship related, Cleaning &amp; Washing, Herbal Gulal</td>
</tr>
<tr>
<td>Edible Oil &amp; Ghee</td>
<td>Biscuits, Cookies, Candies</td>
<td>Apple, Amla, Litchi</td>
<td>Body Care</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Flour / Atta</td>
<td>Snacks &amp; Breakfast</td>
<td>Sharbat &amp; Squash</td>
<td>Hair Care</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Staples / Spices</td>
<td>Sauces &amp; Pickles</td>
<td>Squash, Sharbat</td>
<td>Shampoo, Conditioner, Hair Oil, Hair Color</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ghee, Mustard Oil</td>
<td>Ketchup, Pickles</td>
<td></td>
<td>Hand wash, soaps</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Atta, Besan, Others</td>
<td>Murabba, Soan Papdi</td>
<td></td>
<td>Tooth brush, paste</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Spices, Salt, Rice</td>
<td></td>
<td></td>
<td>Kajal</td>
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</tbody>
</table>

Source: Company, Edelweiss research

Fig 3. Revenue Composition

The revenue trends for the company for the past few years have been provided below.[8]
Patanjali has thus grown exponentially in terms of revenue in the past few years with a combined annual growth rate (CAGR) of 64.5% compared to the industry average of 17.5%, riding on innovation and brand visibility.

2.3.2 Net Income (EBITDA) Trend

Patanjali focuses on a low margin high revenue model. Yet its net profit before tax (EBITDA) has also increased with its revenues due to cost cutting measures, low advertisement costs and automation of manufacturing processes.

The growth of Patanjali is slated to continue reaching revenues of Rs5000 Crore in FY 2015-16 and 7000 Crore in FY 2016-17.

2.3.3 Market share Trend

The market share of Patanjali Ayurved over the past few fiscals can be calculated by taking the average CAGR of overall Indian FMCG business to be 17.5%. Thus the size of the market for previous years can be calculated.
Thus it is clear that Patanjali Ayurved has consistently been increasing its market share in the Indian FMCG space. The steepness of the curve indicates that it is on way to further solidify its position and create a dent in the market share of competitors such as HUL and P&G etc.

2.3.4 Future Revenue Projection
Patanjali is projected to continue to grow at its current rate of 64.5% annually riding on increased product portfolio and increase in distributor network in urban and rural areas. In this growth it is expected to reach revenues of 5000 Crore by 2016, 7500 crore by 2017 and 12500 Crore by 2018. This would propel Patanjali to the 2nd spot among all FMCG companies (assuming that all other major companies grow at the Industry average rate of 17.5%) in the country in terms of Revenues, behind only HUL.[11]

2.4 Business Principle/USP Analysis of Patanjali Ayurved
Patanjali though incorporated under the Companies Act, does not follow regular corporate ideologies. Rather than the top-line, the company focuses on revenues and customer base. The products of Patanjali have found widespread acceptance among consumers for three broad reasons [12]:

(1) Belief of the consumers on the products’ high quality in terms of ingredients as well as health benefits.
(2) Products from Patanjali are available at around 15-30% cheaper costs than similar products from peer companies.
(3) Marketing the products on the lines of Made in India.

Consumer Belief:
The Indian FMCG market especially the food and beverages segment has recently been flooded by adulterated goods which have severe detrimental effects on health of the consumers. Patanjali Ayurved, led by Baba Ramdev has since its inception stressed upon the pure and adulteration free nature of their products. [13]

This has bought them consumers looking for quality products with no detrimental effects on health. Further, the company’s insistence on using good quality fresh ingredients is also getting them new buyers.

Cheaper Costs:
Patanjali’s relatively newer production line has state of the art manufacturing and packaging facilities which allow it to be highly competitive in terms of production costs. Further, it works on low margin, high volume model and keeps advertisement costs to bare minimum. The products are thus available at a much cheaper costs as compared to its peers. A comparison of prices of similar goods is given below.
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2.5 Marketing Analysis of Patanjali Ayurved

Marketing is used as a tool to generate traction for any given product, commodity or service. Though Patanjali has traditionally shied away from mainstream advertisements, it has utilized alternative forms of marketing quietly to bolster its presence in the market.

- **Word of mouth publicity**: According to a study by Forbes, when a company makes a claim, its believability is merely between 20 – 49%. But when real people speak favorably about a brand – the believability jumps to 70%; when friends speak about a brand’s goodness the believability jumps to 90%. Patanjali’s products have been marketed by its customers for their benefits and advantages over other competition.

- **Publicity in Yoga Camps**: Baba Ramdev consistently organizes yoga camps across the country. These have been estimated to attract around 70 million people till date. Further many times this number also witness these shows on television. Many Patanjali products are marketed by Baba Ramdev in these yoga camps along with details of their benefits and usage. This has proved to be an excellent marketing tool.

- **Mainstream Advertisement**: The Company has lately shifted to conventional advertisements on national broadcasting networks. This further pushes the company’s products in the market.

2.6 Distributor Analysis

A good and wide distribution network plays a vital role in the sale of any company’s products, especially in a country as large as India. Patanjali is relatively new in the Indian FMCG space and thus has a comparatively smaller distributor and retailer base as compared to its peers. Currently Patanjali’s products are available through several channels:

1. **Exclusive Retail stores**: Around 15000 across the country.[15]
2. **Patanjali Chikitsalaya and Arogya Kendra**: 3000 across the country.[16]
3. **Retail Chains**: Patanjali products are available at Big Bazar, reliance Fresh, Big Basket etc.
4. **Future Group outlets**: Patanjali has a tie-up with Future group to retail products in 245 cities and towns of the country.[17]

5. **Online retail**: Patanjali products are available at patanjaliayurved.net as well as other e-commerce sites such as Flipkart, Amazon etc.

6. **Mobile Distribution**: the company maintains a fleet of tempos for selling its products in rural areas. As the demand of Patanjali’s products is increasing across the country, the company is making efforts to make Patanjali products available at general stores across the country.

### 2.7 Export Analysis

Patanjali has now made a name for itself on foreign soil as well for the quality of its products. This has culminated in its expanding export reach across the world.

Patanjali currently exports its products to most major countries by partnership with other companies. It aims to make India a sourcing hub for its product exports overseas. Around 1000 crore rupees have been earmarked for development of a manufacturing base in South India to bolster its export capabilities. It will start tapping export markets USA, Canada, UK, Mauritius in 2016-17 Fiscal with its new manufacturing facilities expected to be functional by that time.[18]

Currently the exports of Patanjali ayurved are limited with products being sold overseas in partnership with several other companies.

**USA**: Available online through ramdevmedicines.com .[19]

**Canada**: Available online through ramdevmedicines.com .

**Thailand**: Available in partnership with Singh Group of Companies[20]

### 2.6 Future Strategy

Patanjali Ayurved has grown strongly in the past decade. But to sustain its momentum, the company would have to tick a few boxes:

- **Rural Push:**
  
  Rural market accounts for over 70% of India’s 1.21 billion population but contributes only 9% in the FMCG Industry. Thus increasing distribution and support infrastructure in rural areas is a key area where the it needs to focus.

- **Increase in Research and Development:** FMCG brands would need to focus on R&D and innovation as a means of growth. In this age of extreme competition, companies that continue to do well would be the ones that have a culture that promotes using customer insights to create either the next generation of products or in some cases, new product categories. Thus Patanjali would have to invest a lot of capital and effort into significant research and development of newer product categories.

- **Focus on Exports:**
  
  Patanjali has largely focused to cater to the domestic market. Exports thus remain to be a very low fraction of the total sales. It is thus imperative to focus on exporting products using Indian operations as sourcing hub for the same.

### 3. References

[6] Patanjali Ayurved, waiting in the wings, Edelweiss Research
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