'Foods' For Thought

“What would you choose – food, or service?” was the only interview question asked decades ago to an eager 18-year-old. This very successful person today, had at the time applied to work with one of the best airline companies in the world. His dream was to travel to a hundred countries, and what better way for a young man to do that than as an air steward? After a few initial group-activity rounds that he breezed through, he faced just this one final “food or service?” interview question. It would seem like the most obvious Q&A for what is a business that thrives on providing the best service to its fliers. But this young man blurted out “food” and was immediately shown the door.

While it might appear to be interview sabotage, said gentleman was from a very modest background in India, with uneducated parents who had struggled to put food on the table. He had never even eaten at a restaurant till then. Of course, “food” would be the first thing on his mind!

Out of India’s 250 million households, over 80% of them still earn an annual income of ~USD 5,000 or less. So, despite all the progress that has been made, India is still largely a poor country. With a per-capita income of ~USD 2,000, and a population of 1.4 billion, there are a lot of mouths to feed. That is why the Indian Govt. resorted to providing free rations during Covid, rather than direct fiscal dole-outs to bank accounts. This was unlike the actions of most developed countries, and probably why Indian inflation at ~7% now (average rate of ~6.8% between 2010 to 2020) is lower than elsewhere. But the aspirations of Indians are sky high and reinforced by the proliferation of mobile internet which continuously serves brand awareness to one and all. Even if Indians in the lower end of economic strata cannot immediately upgrade to large-ticket branded gadgets or appliances or cars, they can certainly upgrade the quality of their food. And this would bode well for the various FMCG behemoths established decades ago in the country - subsidiaries of global players like Unilever and Nestle. These companies have taken their time and performed exceptionally – no doubt about that.

Imagine then, that one fine day, a son-of the-soil with yogic leanings, comes to the forefront and brazenly challenges these multi-national behemoths. In the span of a few years, he is beating them at their own game. His company is a 100% India born-and-bred manufacturer, packager, and retailer of a plethora of fast-moving consumer goods. From revenues of just ~USD 50m a decade ago to over a billion now, his company has witnessed incredulous growth. And this is still probably only scratching the surface. Who is this person? And how did he get here?

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His name is Baba Ramdev, and chances are, that if you ask any Indian about *yoga* or *ayurveda* (an ancient Indian alternative medicine system, like traditional Chinese alternative medicine), he will be the first person that comes to mind. Although it might seem to the rest of the world that yoga is commonplace in India, that is about as true as all Chinese knowing Kung-fu, all French being Michelin star-chefs or all Asians being math prodigies. There was a palpable gap for a traditional health offering, and Baba Ramdev dexterously delivered *Indianness* to Indians. He shot to fame in 2001 when he started appearing in a 20-minute yoga programme at 6 am on an Indian TV channel. Bare-chested, hirsute and a flowing beard in tow, his friendly demeanor, twisting and contorting body, deep-breathing exercises, and clear instructions in chaste Hindi on how to live a healthy *yogic* life led him to be an overnight (or rather early-morning) star. Cut to today, and the level of patriotism is probably even higher, and Baba Ramdev has continued to spread his message to millions in the country.

How did he do this? Apart from smartly packaging *yoga* and *ayurveda* into an instant, 20-minute remedy for all lifestyle ailments, he also launched and grew brand ‘Patanjali’, selling a suite of products like ayurvedic medicines, ghee (clarified butter), honey, personal care items, spices and condiments, dry fruits and others. The brand premise? 100% made-in-India, natural, pure, organic, authentic products that are bursting with medicinal *ayurvedic* herbs. Take any product of theirs, say Patanjali shampoo, and the back panel of ingredients will be full of well-known Indian herbs like *reetha* and *shikakai* which have been a part of traditional haircare wisdom in India for centuries. This never-before availability of healthy-yet-traditional products that were also priced 20% cheaper compared to incumbent "chemical and synthetic" products was a potent combination. The packaging itself is/was rudimentary at best – but that only reinforced the brand's 'pristine' and 'untouched-by-progress' positioning.

The name 'Patanjali' in Indian history/mythology is familiar to Indians as the sage who authored the 'Yoga-sutras' or 'Yogic-principles' back in the 2nd century BC. The house-brand positioning of this health-and-foods company soon took off like a rocket, while keeping marketing spends low (the Baba would influence viewers to buy his healthy products during his TV appearances). Much like everyone loves Apple products no matter whether iPad or Mac or iPhone, Indians too started flocking to Patanjali products across sub-categories. The difference of course was that Patanjali products were affordable, with tier 2, tier 3 and rural people being significant customers. One of their biggest initial successes was the herbal toothpaste 'Dant Kanti' or 'Beautiful Teeth', a term in Sanskrit, India's classical language of the ancients. Again, featuring numerous Indian herbs and flavors, everyone wanted a taste of it (literally!). It caused Colgate - the toothpaste market leader in India for 80 years - to not just lose market share, but to also quickly launch its own herbal version. From there being no herbal toothpaste on the market two decades ago, to ~30% of all toothpastes sold in India today being *ayurvedic*, Patanjali created a segment where none existed. While the competition has upped its game, Baba Ramdev who also knows a thing or two about 'cultural appropriation', says, "they can copy our products, but they do not understand the science behind Indian medicine." Irrespective of whether that is true or not, what do you think Indians are likely to believe, especially when trust and faith in tradition form an integral part of daily life?

Although Patanjali Group has several businesses like Patanjali Medicine, Patanjali Wellness, Patanjali Lifestyle and Patanjali Ayurveda, it is Patanjali Foods (PF) that is now not just a publicly listed company, but also the fastest growing FMCG firm in India. It has one of the widest product portfolios, with 500+ SKUs across 8 product categories. How PF came to be listed is a story in itself, and we will not get into the math here. But the Cliff-notes version is that Patanjali group bought an insolvent edible oils company called Ruchi Soya (RS) at a 65% haircut through the country's official bankruptcy process, then transferred a portion of the foods business on a slump sale basis in May'21, then conducted an FPO (Follow-on Public Offering) in Mar'22 to raise capital from public investors, then repaid all existing debt, then acquired the balance food business in May'22, and in Jun'22, changed the name of the entity from Ruchi Soya to Patanjali Foods. Today, Patanjali Foods has ~80% revenues coming from edible oils and only ~20% from foods. But the latter is likely to grow revenues at ~20-25% annually and the mix as well as margin of the overall business will likely improve dramatically. Overall, earnings growth for the company is likely to be 20-25% CAGR in the medium term. This is what we are playing for in our investment in the company, it being one of our largest positions in our flagship Indian Entrepreneur Strategy portfolio.

What really is the extent of the opportunity? The Indian packaged food retail market (including edible oils) today estimated at ~USD100bn contributes only 15% to the total food and grocery retail market of ~USD600bn. The former is growing at double the pace of the overall category, and Patanjali Foods is present squarely in this packaged-foods market. Cow ghee is their largest selling food item, and while ghee has always been a part of Indian cuisine, awareness of its benefits has increased manifold recently. Only 20% of the ghee market here is organized, and so the opportunity for formalization through established players is large. Patanjali's ghee offering is actually priced at a 10-15% premium to competitors, commands a high margin, enjoys widespread acceptance and in our view can still grow at ~20-25% CAGR for the next many years. In the Staples category (pulses, flour etc.), the market size is ~USD 50bn today, with less than 5% contributed by the organized sector. With PF's current sales of just ~USD 60m in this category, the opportunity to be a brand of choice is tangibly large. Only last year, the company entered a new high-margin (30-35%) category called 'Nutraceuticals'. At ~USD 40m in revenues, they are just half-a-percent of the market today. But with the increasing focus of the public on strengthening immunity post-Covid (dietary supplements, protein powders etc.), as well as Patanjali's unique positioning as being vegan, gluten-free, non-GMO and the like, we think they can grow this segment by 25-30% CAGR over the next several years. There are many other categories and sub-segments PF operates in, but suffice it to say that the company is not just likely to get a bigger share of various pies, but that the pies themselves should grow as the country grows.

Patanjali Foods' market cap is ~USD 6bn today, 1/3rd that of Nestle India and 1/10th that of FMCG leader Unilever India. In the past year, PF's operating profit grew nearly 50%, while that of Hindustan Unilever (HUL) grew 11%. As of FY20, PF had a distribution reach of 500k retail outlets. There is significant scope to further increase the reach given the leading edible oils player Adani Wilmar has a 3x reach, i.e 1.8 million retail outlets while HUL has a reach of ~8 million. PF though has access to Patanjali Group's distribution network which is an additional 550k touch points (including ~47k pharmacies), and PF aims to increase its reach significantly in the coming years. Their products are available on their own website (link – do check out their interesting product range!) and on leading ecommerce platforms like Flipkart, Amazon, Big Basket and others. Patanjali Group continues to have a strong mass appeal through Yoga. Its advertisements on cultural broadcasting TV channels and devout following on social media helps in promoting the brand with little advertising spends (less than 1% of sales versus the typical 8-12% for large peers).

The listed entity is owned ~81% by the promoter/entrepreneur clique, ~15% by retail/HNIs and less than ~5% by institutions. When we bought the name for the first time, it was trading at ~13x FY24E earnings. That number is ~28x today - higher - but still a far cry from the leaders in the FMCG pack who trade north of ~50-60x. As the premiumization story, the unorganized to organized story, and the wellness-movement story unfold, we believe PF would be a major beneficiary. Is there a key-man risk? Baba Ramdev is no doubt as big a brand as Patanjali itself, however we think that as the company continues to scale, and as customers get more habituated to its products, the impact of his charismatic figure should matter lesser and lesser to topline. Many foreign investors seek exposure to the "real" India - the India of the masses - the next 1 billion – the India that is colloquially known as *Bharat*, rather than purely to export stories like pharma or IT services. Patanjali Foods probably fits that bill well. Will it satiate investor appetite? That is some 'Foods' for thought.

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Prior Editions of Access India Equity Insights:
1. EV Wonder – Sep 2022 (link)
2. Forest or Trees – Aug 2022 (link)

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