

NOT RATED**PATANJALI FOODS**Consumer Staples and
Discretionary

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Home and Personal Care: Rising competition on the horizon

- Patanjali Foods acquired Patanjali Ayurved's HPC business for Rs 11bn. It expects to close the transaction by 15 Aug 2024
- Patanjali Foods shared its plan to increase FMCG sales exposure and the implied sales CAGR target for 3 / 4 years is 22% / 16%
- Recovery in rural will partially offset intensifying competition in HPC in FY25E. However, PF has a multi-year plan of aggressive sales growth

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Patanjali Foods (PF) acquires Patanjali Ayurved's HPC business: The deal is valued at Rs 11bn, plus 3% royalty or Rs 0.83bn (whichever is lower) for 20 years on Home and Personal Care (HPC) sales. It is an arm's length transaction with FY24 multiples of 0.4x on sales (Rs 27bn) and 2.2x on EBITDA (Rs 4.96bn). The acquisition is internal cash-funded with settlement in five tranches of which the last payment is scheduled on the complete transfer of assets. See pages 2-4 for details on the acquired business (sales, distribution, margins, categories, brands, etc.) and combined entity key financials.

PF continues to reduce exposure to edible oils: PF derived 70% of FY24 sales from the edible oils business, which has a volatile earnings base. This acquisition increases PF's annualised FMCG sales exposure to 36% from the current 30%. By maintaining sales in the edible oils business while accelerating FMCG, PF intends to get its FMCG share of sales to 50% in 3-4 years. For the FMCG division, this implies a targeted 3-year sales CAGR of 22% or 4-year sales CAGR of 16%.

PF strategy on track with the HPC acquisition: The HPC business is critical to PF achieving its FMCG sales exposure target of 50%. PF intends to increase the HPC sales growth run rate to at least 14% from the current 7%. In its prior acquisitions (food, biscuits), PF was able to accelerate sales growth. The biscuits business, acquired in FY22, grew at 19% in 10M23 and 22% in FY24. In HPC, the key focus is to increase distribution in low penetration states of Punjab, Haryana, Bihar, West Bengal, Odisha, Chhattisgarh and Karnataka. PF's store penetration is 2mn on direct and 2mn-3mn on indirect. Population penetration is at 1bn.

Rural will help but competition to intensify beyond FY25: If the acquisition closes by mid-Aug, the overall HPC category may witness an increase in competitive intensity by late Sep'24 with the full effect visible from the Dec 2024 quarter. Rural is a partial offset to these competitive pressures as recovery is likely this year on favourable monsoons and slower inflation. However, PF expects to achieve its targeted FMCG sales contribution over the next 3-4 years. For this reason, we expect the overall HPC category to have an intensely competitive environment even beyond FY25.

Ticker/Price	PATANJALI IN/Rs 1,638
Market cap	US\$ 6,900mn
Free float	26%
52wk high/low	Rs 1,764/Rs 1,165
Promoter/FPI/DII	74%/11%/0%

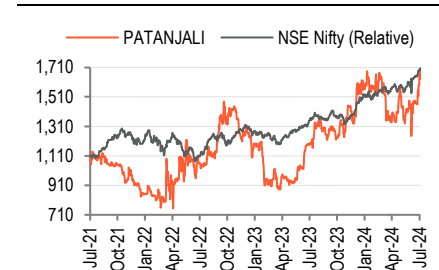
Source: NSE | Price as of 3 Jul 2024

Key financials

Y/E 31 Mar	FY22A	FY23A	FY24A
Total revenue (Rs mn)	242,054	315,247	317,213
EBITDA (Rs mn)	15,660	15,774	15,188
EBITDA margin (%)	6.5	5.0	4.8

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

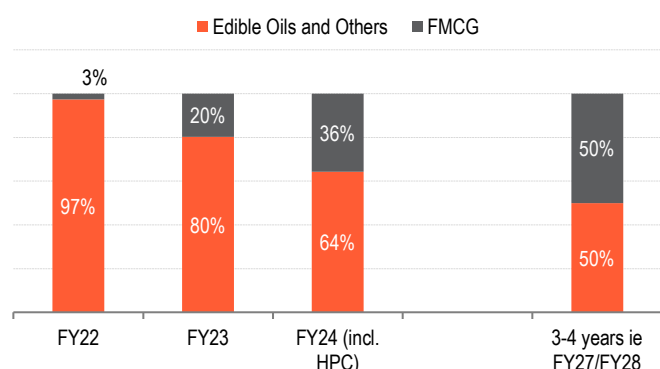


Fig 1 – Patanjali Foods: Pre vs post acquisition of Patanjali Ayurved’s HPC business (FY24)

(Rs mn)	Patanjali Foods (pre acquisition)	Patanjali HPC (acquired business)	Patanjali Foods proforma (post acquisition)	Change (%)
Group				
Sales	319,620	27,710	347,330	9
Gross profit	41,560	13,220	54,780	31.8
Gross margin	13.0	47.7	15.8	277bps
EBITDA	15,190	4,961	20,151	32.7
EBITDA margin (%)	4.8	17.9	5.8	105bps
Ex Edible Oils				
Sales	96,980	27,710	124,690	29
EBITDA	14,990	4,961	19,951	33
EBITDA margin (%)	15.5	17.9	16.0	54bps

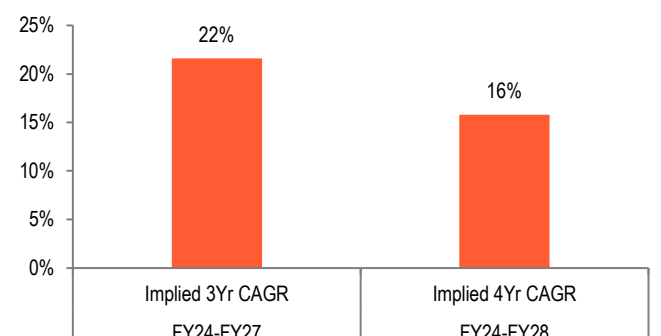
Sources: Company reports, BOBCAPS Research

Fig 2 – FMCG sales exposure targets of Patanjali Foods to FY27 / FY28



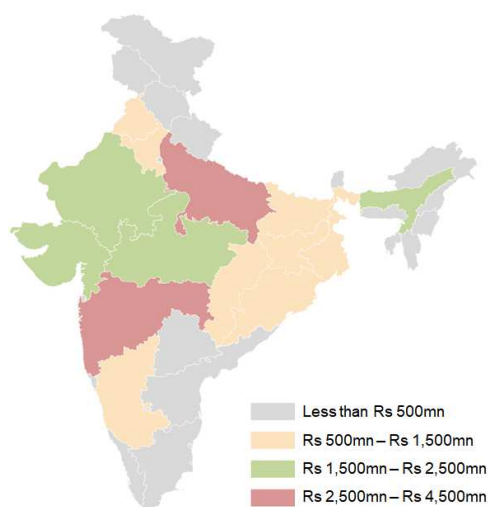
Sources: Company reports, BOBCAPS Research

Fig 3 – Patanjali Food’s implied targeted sales CAGRs in FMCG – 3Y and 4Y CAGR vs FY24



Sources: Company reports, BOBCAPS Research

Fig 4 – Patanjali HPC regional penetration (FY24): PF is focusing on increasing distribution in low penetration areas (<Rs 1,500mn) of the HPC business



Sources: Company reports, BOBCAPS Research

Fig 5 – Sales growth profile since acquisition: Biscuits & Confectionary (acquired in FY22) and Foods (acquired in FY23)

Biscuits & Confectionary sales - (Rs mn)	10M22*	10M23**	YoY (%)	FY23	FY24	YoY (%)
Biscuits	9,060	11,670	29	13,520	16,480	22

*10M sales, Business acquired in Jun'21

**Jun'22 sales estimated based on monthly run rate in Apr-Jun 2022

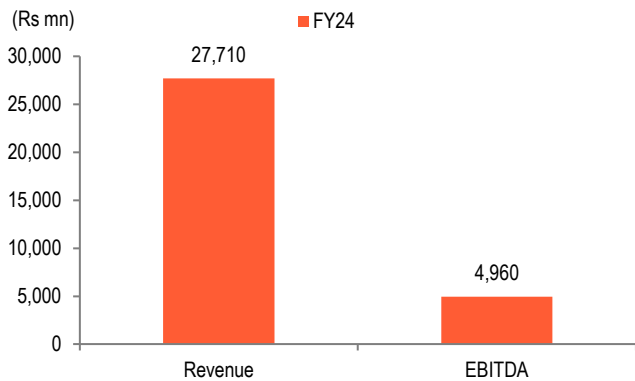
Foods sales (Rs mn)	FY23	FY23	FY24	FY24 vs FY23
Sales	37,910 [^]	50,547 ^{^^}	72,960	44%

[^]9M sales (Jul'22 – Mar'23)

^{^^}Annualised sales based on 9M run rate

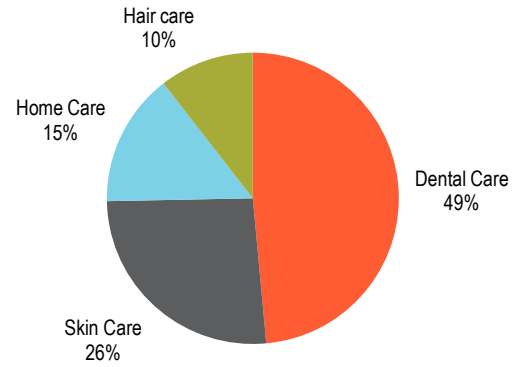
Sources: Company reports, BOBCAPS Research

Fig 6 – Patanjali Ayurved’s HPC business has an EBITDA margin of 18%. PF has identified synergies to get the HPC margin to 20%. More details to come in the Mar’25 quarter



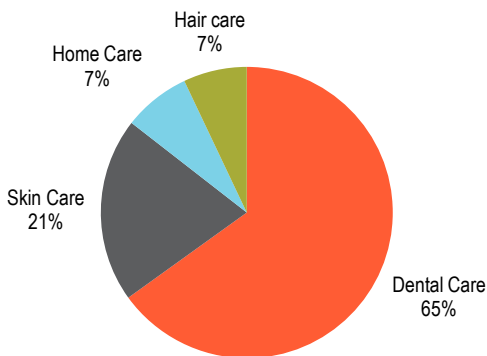
Sources: Company reports, BOBCAPS Research

Fig 7 – Dental care is the largest category in HPC with 49% of total sales in FY24...



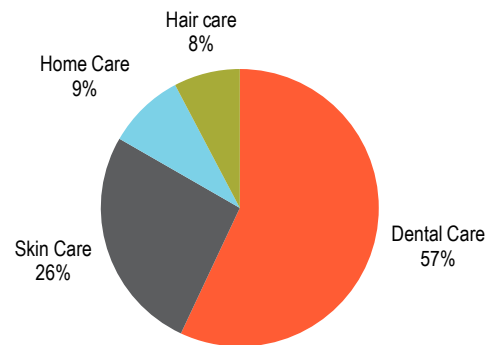
Sources: Company reports, BOBCAPS Research

Fig 8 – ... and 65% of gross profit on 56% gross margins in FY24...



Sources: Company reports, BOBCAPS Research

Fig 9 – ... and 57% of EBITDA on 24% EBITDA margin in FY24



Sources: Company reports, BOBCAPS Research

Fig 10 – Key brands: Patanjali HPC (1) – FY24

FY24: (Rs mn)	Annual sales	% split
Oral care	13,450	100
Dant Kanti	13,230	98
Others	220	2
Skin care	7,250	100
Body Cleanser	3,537	49
Aloevera Gel	1,772	24
Facewash	1,052	15
Cream	633	9

Sources: Company reports, BOBCAPS Research

Fig 11 – Key brands: Patanjali HPC (2) – FY24

FY24: (Rs mn)	Annual sales	% share
Hair care	2,910	100
Shampoo	1,948	67
Hair Oil	547	19
Others	415	14
Home care	4,100	100
Dishwash Bar	2,380	58
Detergent Powder	1,012	25
Floor Cleaner	394	10
Others	314	8

Sources: Company reports, BOBCAPS Research

Fig 12 – HPC business split (FY24)

(Rs mn)	Dental Care	Skin Care	Home Care	Hair care	HPC - Total
Revenue	13,450	7,250	4,100	2,910	27,710
Gross profit	7,532	3,480	1,189	1,019	13,220
Gross margin (%)	56	48	29	35	48
EBITDA	3,228	1,015	369	349	4,961
EBITDA margin (%)	24	14	9	12	17.9
Products	9	45	18	20	92
SKUs	31	84	38	33	186

Sources: Company reports, BOBCAPS Research

Fig 13 – Key financials for Patanjali Foods

(Rs mn)	FY21	FY22	FY23	FY24
Group financials				
Sales	163,830	242,054	315,247	317,213
YoY (%)	-	48	30	1
EBITDA	10,184	15,660	15,774	15,188
EBITDA margin (%)	6.2	6.5	5.0	4.8
YoY	-	25bps	(147bps)	(22bps)
FMCG share of sales (%)	-	7	20	30
FMCG share of EBITDA (%)	-	12	72	84

Segment financials (Rs mn)	FY21	FY22	FY23	FY24
FMCG				
Sales	-	16,832	62,181	96,433
YoY (%)	-	-	269	55
EBITDA	-	1,890	11,366	12,710
EBITDA margin	-	11.2	18.3	13.2
YoY	-	-	705bps	(510bps)
Edible oils + Others				
Sales	-	225,222	253,066	220,780
YoY (%)	-	-	12	(13)
EBITDA	-	13,770	4,408	2,478
EBITDA margin (%)	-	6.1	1.7	1.1
YoY	-	-	(437bps)	(62bps)

Sources: Company reports, BOBCAPS Research

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