

CASE STUDY 1

Introduction

MBlend Pvt. Ltd., based in South India, is a mid-sized packaged food manufacturer with a focus on ready-to-eat products such as instant mixes, snack items, and spice blends. Established over two decades ago, the company initially built a strong regional presence through distributor-led retail sales and an extensive dealer network. However, in recent years, the business has struggled due to increasing competition, margin pressures, and operational inefficiencies.

This financial due diligence (FDD) was initiated by a potential investor group interested in a controlling stake as part of a strategic acquisition and turnaround proposal. The investor's interest was driven by the underlying brand value, market potential of MBlend's core SKUs, and the company's extensive physical distribution network in Tier 2 and Tier 3 cities. However, before committing capital, the investor commissioned a full-scale diagnostic review to assess financial sustainability, operational bottlenecks, and compliance health.

The review was structured into three phases: desk-based financial diagnostics, on-site plant and warehouse visits, and key personnel interviews. The objective was to understand historical financial performance, identify red flags, assess statutory compliance, and propose a realistic turnaround plan with phased capital infusion.

MBlend's current situation is a classic case of a legacy brand with declining profitability but strong recall. The due diligence highlights not only issues in pricing strategy and receivables management but also governance gaps and working capital stress. This case study presents a holistic view of MBlend's business challenges and the roadmap proposed for revival.

Business Model and Operations

MBlend Pvt. Ltd. operates a traditional B2B2C model, manufacturing and distributing a range of processed and packaged food products, including spice mixes, instant dosa/idli batters, fryums, pickles, and ready-to-cook blends. Its manufacturing facility is located in Tamil Nadu and is equipped with semi-automated lines for blending, roasting, and packing. The plant runs single-shift operations, with peak capacity utilization touching 65% during the festive season.

The company primarily sells its products under its own brand through a widespread distributor network spanning Tamil Nadu, Andhra Pradesh, Karnataka, and Kerala. Products are stocked in general trade outlets, Kirana stores, and select regional modern trade chains. Secondary sales are driven by a van-sales model and ground sales executives (GSEs) assigned cluster-wise.



MBlend was supposed to maintain a short value chain — sourcing raw materials such as pulses, spices, and edible oils from local mandis and converting them into packaged SKUs at its facility. Packaging material is procured from approved vendors on a credit cycle.

Despite a loyal customer base for select products like its sambar powder and instant rava dosa mix, the portfolio lacks premium variants and has limited e-commerce presence. Distribution dependency on credit-driven dealers and absence of a central warehouse have affected working capital turnover. A digitally integrated supply chain is also missing, with manual dispatch logs and unoptimized routes contributing to inefficiencies.

Due to its scale of operations and limited reach over the years, the company has been increasing its B2B sales (institutional sale) in bulk of its products wherein the white labelled products were being on-sold by the customers to large institutional opportunities such as flight kitchens, catering contractors, and regional wholesalers etc.,

Ownership and Governance

MBlend Pvt. Ltd. is a closely held private limited company, originally founded in the early 2000s by Mr. Karthik R., a first-generation entrepreneur with a background in food distribution and supply chain. Over time, the company was joined by two extended family members, who together now constitute the full promoter group. The shareholding is split approximately as follows: Mr. Karthik (51%), his cousin Mr. Rajesh (29%), and Mr. Karthik's sister (20%). All shares are held privately, with no institutional or external investor involvement to date.

The company does not have a professionalized board and the two male promoters act as directors. Strategic and financial decisions are largely centralized in the hands of Mr. Karthik, who is also the authorized signatory for all bank and vendor dealings. Mr. Rajesh oversees procurement and factory management but is not actively involved in financial oversight or long-term planning.

No external advisors, independent directors, or governance structures are currently in place. There is also no formal succession plan, and company records show limited documentation around board resolutions or meeting minutes, which raises concerns on compliance, transparency, and institutional readiness — especially in the context of potential investor onboarding or exit planning.

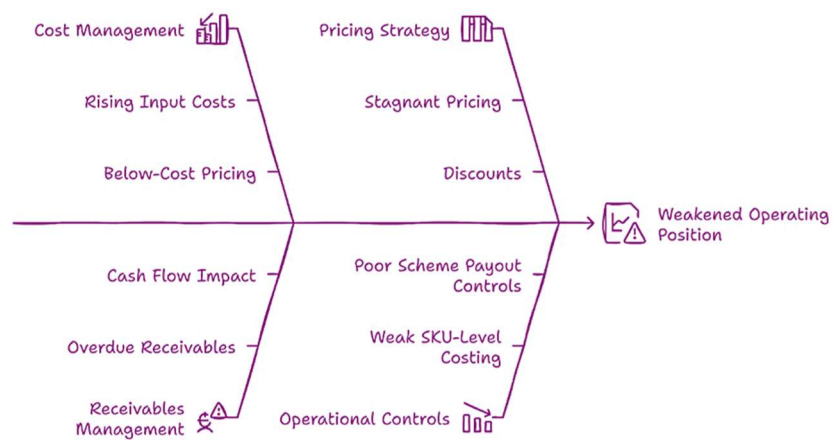
Financial Red Flags & Risk Areas

The financial analysis of MBlend reveals several persistent red flags that contributed to its weakened operating position and the need for a turnaround. Over the past three years, the company has reported consistent operating losses, with negative EBITDA margins averaging between -5% to -8%. The primary cause is the inability to pass on rising input costs to institutional buyers, resulting in gross margin compression and below-cost pricing for key SKUs.

Receivables are significantly overdue, with over ₹1.4 crore outstanding beyond 90 days — primarily from modern trade and B2B clients. This has impacted cash flows, resulting in delayed vendor payments. As of the last reported period, over ₹2 crore in payables were pending, including several local vendors who have now paused further supply due to lack of clarity on settlement timelines.

The company's pricing strategy has remained stagnant despite increasing raw material costs, and discounts offered to retain customers have further eroded margins. In addition, lack of proper SKU-level costing and weak controls on scheme payouts have contributed to profitability erosion.

Overall, working capital stress, high credit risk, poor margin management, and lack of timely course correction make these financial issues central to the risk assessment and turnaround planning.



Operational Bottlenecks

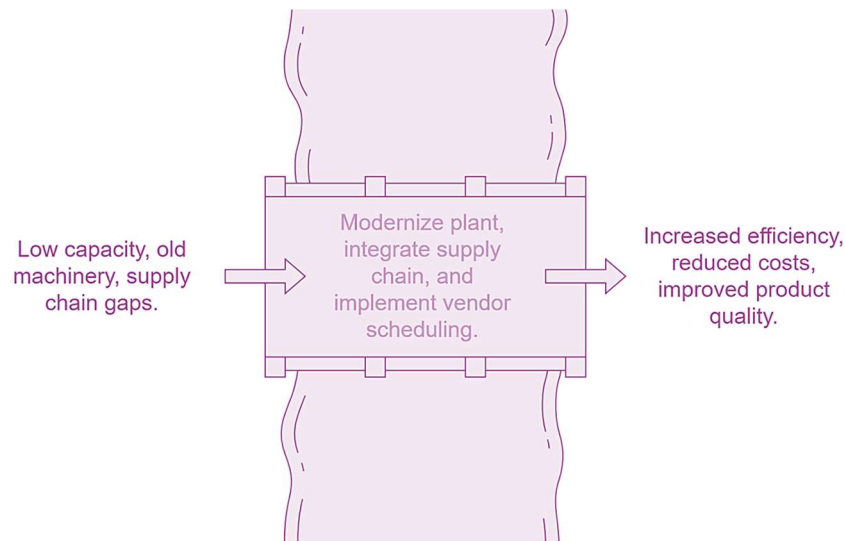
The on-ground due diligence of MBlend's manufacturing unit revealed several critical operational challenges that have significantly impacted efficiency, cost control, and scalability. The company's current plant in the Madras food park is operating at only 40–45% capacity utilization, despite infrastructure capable of handling 12+ MT of daily output. This underutilization is largely due to demand volatility, lack of consistent orders, and supply-side disruptions.

A major operational concern is the **age and condition of machinery**. Many of the packaging and processing units are 6–8 years old and lack modern automation. Frequent downtimes, manual interventions, and inconsistent batch output have affected product quality, particularly for SKUs with high precision requirements such as baked snacks and premixes. Equipment breakdowns have also led to production backlogs and delayed deliveries.

Supply chain gaps further compound the problem. The company lacks a robust vendor scheduling system, often leading to raw material stockouts or overstocking. Procurement remains ad hoc, with minimal price benchmarking or vendor consolidation, leading to high input cost variability.

Storage and final-mile logistics are partially outsourced, with inadequate control on dispatch tracking. Without plant modernization and supply chain integration, MBlend risks continued inefficiencies and reputational impact in B2B segments.

Overcoming Operational Bottlenecks through Modernization and Integration



Sales & Distribution Challenges

MBlend faces critical challenges in its sales and distribution ecosystem, stemming from an unbalanced channel strategy and weak institutional retention. While the company operates in both retail and institutional (B2B) markets, over **65% of its revenue is skewed towards institutional sales**, including supply to flight kitchens, catering contractors, and regional wholesalers. This leaves the business vulnerable to demand fluctuations and contract renewal risks.

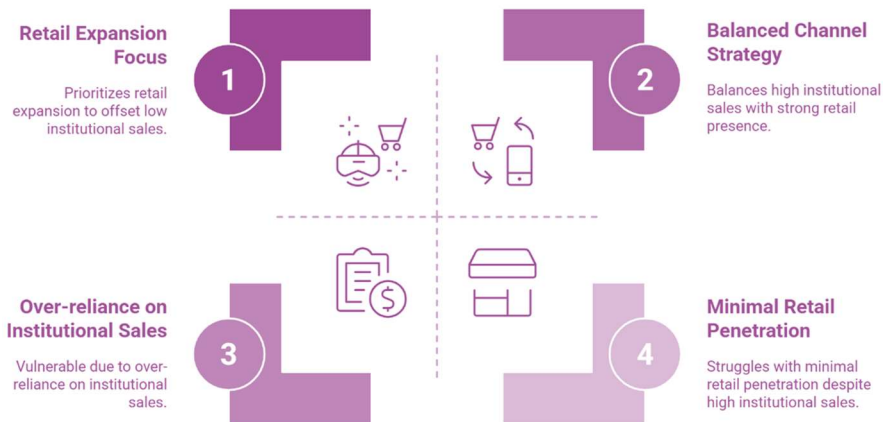
In the **retail space**, MBlend has limited penetration beyond Tier 2 cities. The brand lacks a strong shelf presence, with most SKUs concentrated in fewer than 1,000 general trade outlets. Modern trade placements are minimal, and the absence of a distributor-driven expansion plan has hindered scale.

Receivables management poses another serious concern. A large share of **institutional debtors are on 90+ day credit cycles**, with several accounts flagged as overdue. Follow-ups remain irregular, and no dedicated credit control team is in place to monitor payment timelines.

Additionally, **logistics and secondary distribution remain fragmented**, with limited last-mile visibility. The lack of performance tracking by region or distributor leads to revenue leakage and missed growth opportunities.

To unlock sustainable scale, MBlend must rebalance its channel mix, invest in retail expansion, and deploy tighter credit control and route-to-market systems.

Sales and Distribution Challenges



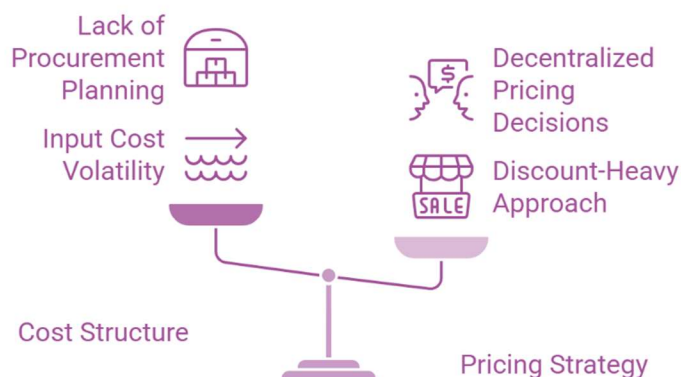
Cost Structure & Pricing Issues

MBlend's cost structure reveals critical inefficiencies driven by input price volatility and ad-hoc pricing strategies. The company sources key raw materials and packaging materials, all of which are prone to severe price fluctuations. However, MBlend lacks a structured procurement planning model or forward purchase contracts to hedge against input cost inflation, resulting in high cost variability quarter-on-quarter.

On the sales side, MBlend follows a **discount-heavy pricing strategy**, especially in the institutional channel, to retain bulk buyers and foodservice clients. Margin dilution has been evident, with contribution margins falling below **15% for several SKUs**, significantly lower than the industry benchmark of 25–30%. Retail prices have remained stagnant despite rising costs, leading to under-recovery.

Moreover, pricing decisions are not centralized — with sales teams often offering discretionary discounts without finance team oversight. This lack of alignment has contributed to margin leakage.

To restore financial health, MBlend must adopt a centralized pricing framework, enforce invoice discipline, and implement structured procurement to manage cost volatility effectively.



Balancing Costs and Pricing for Financial Health

Compliance & Legal Observations

The due diligence exercise uncovered multiple areas where **MBlend has not maintained robust compliance** with statutory and regulatory obligations. While the company has generally filed GST returns and complied with FSSAI standards, delays and inconsistencies were noted in income tax filings and **employee-related statutory dues** such as PF and ESI contributions in certain months. In some cases, TDS deductions were made but not remitted within the due dates, exposing the company to interest and penalty risks.

On the **legal front**, MBlend has **four ongoing cases**—two civil suits related to packaging disputes with a third-party vendor, and two employment-related matters filed by former senior executives alleging wrongful termination and pending dues. While the monetary exposure from these cases is not significant (estimated below ₹25 lakhs), the reputational risk and potential settlement liabilities cannot be ruled out.

Additionally, during the factory walkthrough, **labelling discrepancies** were found on Institutional cartons that may breach FSSAI labeling norms, which if flagged, could result in non-compliance penalties or product recalls in certain jurisdictions.

There is also a lack of documented SOPs for statutory compliance monitoring, and no in-house legal team to track or review exposure. Going forward, MBlend will require a **compliance calendar**, internal legal tracker, and periodic audits to mitigate further risks.

Working Capital & Cash Flow Constraints

MBlend is currently facing **acute working capital stress**, primarily driven by elongated receivable cycles, excessive inventory holding, and mounting trade payables. The average **receivable days stand at 92 days**, significantly higher than the industry norm of 45–60 days. A closer analysis shows that key institutional clients delay payments beyond agreed credit terms, impacting the company's liquidity position. Some distributors are also holding back payments due to unresolved claims or expired schemes.

On the inventory side, the company holds an average of **78 days of raw materials and finished goods**, reflecting inefficient demand planning and procurement mismatches. This is especially evident in the slow-moving SKUs across certain rural and B2B segments. Overstocking of packaging materials and low shelf-life products adds further pressure on cash flows.

Creditor buildup is equally concerning. The company owes substantial dues to raw material suppliers and packaging vendors, with **creditor days rising to over 100 days**. Several vendors have already shifted to advance payment terms or partial deliveries, choking production cycles.

MBlend has been **bridging cash gaps through ad hoc working capital loans and short-term borrowings**, increasing its interest burden. Without better receivable collection, inventory optimization, and vendor negotiation, the cash flow crunch may escalate into a solvency concern.

Turnaround Strategy Proposed

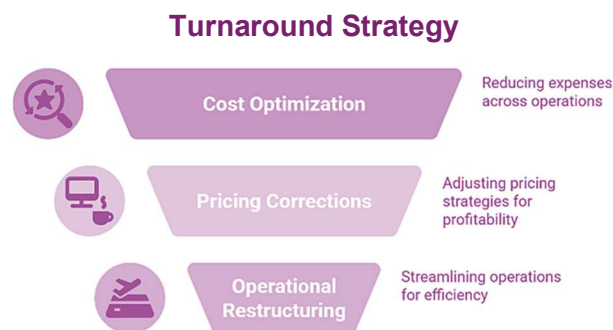
The proposed turnaround strategy for MBlend focuses on restoring profitability and liquidity through **cost optimization, pricing corrections, and operational restructuring**. The first priority is to implement **strict cost control** across procurement, packaging, and logistics. Vendor renegotiation, bulk procurement of core ingredients, and rationalization of underperforming SKUs are expected to deliver 8–10% in material cost

savings. Overheads—especially related to distribution schemes and promotional spends—will be brought under a centralized budget with real-time monitoring.

On the pricing front, the company plans to move away from deep discounting, especially in the institutional and B2B channels. Instead, **value-based pricing** will be adopted, leveraging strong brand recognition in certain regional markets. Low-margin contracts will be discontinued to ensure consistency between price realization and actual cost incurred.

Operationally, a phased **plant modernization plan** is recommended to address bottlenecks and improve output consistency. Unproductive assets will be monetized – either sold or leased to third-party processors. Additionally, the company is exploring **channel restructuring**—focusing more on high-yield retail and e-commerce distribution while pruning low-volume rural distributors.

These initiatives, if executed diligently, are projected to improve MBlend's EBITDA margins by 6–8% over the next 12–18 months and restore positive cash flows.



Strategic Lessons

The MBlend due diligence presents key takeaways for investors, consultants, and business decision-makers. One of the foremost lessons is the **importance of early red flag tracking**—especially around receivable cycles, vendor dues, and pricing dilution. Many of MBlend's current issues, such as strained cash flows and eroded margins, could have been pre-empted if **quarterly MIS reporting**, debtor aging analysis, and sales incentive tracking had been more stringent from the start.

A critical insight is the **risk of over-dependence on promoters for strategic and financial decisions**. MBlend's decision-making was concentrated with the founding team, with limited professional governance and weak board oversight. This led to unchecked product launches, non-standard pricing practices, and ad-hoc distributor selection—all of which contributed to business instability.

The due diligence also highlights the need for **continuous compliance vigilance**, particularly in high-volume FMCG setups where multiple operational sites, vendor contracts, and GST/tax exposures exist. Delayed statutory payments and informal pricing arrangements increased regulatory risks.

Lastly, the importance of aligning **business scalability with process maturity** stands out. As MBlend grew in topline, it failed to evolve its controls, costing models, and working capital processes proportionately—leading to unsustainable operations. A data-driven, professionalized approach is vital for long-term resilience.

Strategic Lessons for Business Resilience

