The Curious Case of Manpasand Beverages

Building strong consumer brands is hard. Building them at scale is even harder. Especially in the food and beverages market, building a new brand can be exceptionally difficult. A new player must garner market share from incumbents that have (1) a high brand loyalty amongst consumers, (2) a large distribution footprint built over decades, and (3) benefits of scale due to a portfolio of brands (distribution, advertising, overheads etc.). This explains the resilience of brands like Maggi and Coca Cola which survived the lead and pesticide controversy respectively. Over the last 10 years, the number of new brands built in the food and beverages segment are quite low.

There have been a few exceptions though. For instance, Paper Boat by Hector Beverages has been quite successful. However, Paper Boat's success was driven by its creation of an entirely new product category of ethnic drinks. Paper Boat did not directly compete with any existing player. It has built a loyal customer base by targeting a latent consumer need which was not served by incumbent players. However, Paper Boat is still a niche product and generated less than 100 crs in revenue in FY16. Other success stories (like that of DS Group's Pulse candy) have primarily been in segments with higher market share churn.

However, there is one company which is truly an exception – Manpasand Beverages ("Manpasand"). Manpasand is a Baroda based company which sells fruit drinks/juices under the Mango Sip and Fruits Up brands. In a short period, the company has seen rapid growth in revenues and profits. In FY16, Manpasand generated 557 crs in revenues and 51 crs in profits. This growth was achieved despite fierce competition from incumbent players like Coca Cola (Maaza), Pepsi (Slice/Tropicana), Parle Agro (Frooti) and Dabur (Real).

Manpasand Financial Summary

in Crs	FY12	FY13	FY14	FY15	FY16	CAGR
Revenue	85.7	239.8	294.3	359.8	556.7	60%
PAT	6.1	22.4	20.5	30.0	50.6	70%

Manpasand's growth has attracted a lot of interest from both private equity and public market investors. Over 2011-2015, the company raised 116 cr from private equity investors. In July 2015, it went public with a 400 cr IPO. Manpasand's stock has delivered a 90%+ return over its IPO price. Manpasand seems to have done the impossible by building a large and highly valued beverage brand despite competing head-on with entrenched foreign and Indian players.

But, there's a catch.

It's not clear how the company generates its 550 crs in revenues (650 crs if you consider the trailing 12 months' performance). There are several other red flags as well. Read on.

1. The curious case of Manpasand's (surprisingly) high market share

The packaged fruit juice market in India is estimated to be in the range of 9,000 to 12,000 crs in value terms (including retailer and distributor margins). Mango juice is the largest category accounting for ~85% of fruit juice sales. Maaza, Slice and Frooti dominate the fruit juice market with over 60% market share in volume terms.

Fruit Juice Volume Market Share

Brand	Company	2015 Market Share %
Maaza	Coca Cola	28.8%
Slice	Pepsi Co	19.4%
Frooti	Parle Agro	15.5%
Real	Dabur India	8.8%
Tropicana	Pepsi Co	5.8%
Others	–	21.7%
Total		**100.0%**

Source: Manpasand QIP Document, Euromonitor

In FY16, Parle Agro (Frooti owner) and Manpasand generated 1270 crs and 550 crs in revenues respectively from fruit juice. Considering Manpasand's higher trade margins (35% vs Parle Agro's 25%), it was already 50% the size of Parle Agro in FY16 (in volume terms). It also has a negligible presence in South India which accounts for ~25% of the fruit juice market. So essentially, in North, West and East India, Manpasand was 60%+ of Frooti's scale in volumes.

This is a phenomenal achievement considering Parle Agro's Frooti is a 30-year old brand with a large advertising budget and extensive distribution reach. On the other hand, Manpasand spends precious little in terms of advertising and has a limited retail reach. How then did this company achieve such a large scale in such a short time? Manpasand claims that it focuses on rural and semi-urban markets which are underserved by larger players. This is clearly an exaggerated claim. The likes of Coca Cola, Pepsi and Parle Agro have a retail presence in every nook and corner of the country (either directly or through the wholesale channel). Manpasand does not have any advantage that allows it to better serve semi-urban or rural markets compared to a Parle Agro.

To check Manpasand's claims on its distribution strengths, we did a telephonic survey of 100+ retailers across states like Gujarat, Punjab, UP, Uttarakhand and Bihar. These states are considered Manpasand's core markets as the company has plants in Baroda, Varanasi and Dehradun and has a higher distributor density in these states (as per its IPO documents).

The survey results show that Manpasand has negligible retail penetration in even its core markets. Less than 10% of the retailers carried Manpasand's products while the number was ~50% for Frooti (NOTE: Most retailers stock multiple fruit juice brands. The survey was conducted before the demonetization event). It can be reasonably concluded that Manpasand's retail presence would be even weaker in its non-core markets (like North East, MP and Orissa). How has Manpasand reported more than 50% of Parle Agro's volumes despite a significantly lower retail presence in even its core markets?

The company claims to generate a part of its sales from the Indian Railways/IRCTC vendors. Could this explain Manpasand's large scale? Seems unlikely. All large players have similar tie-ups with IRCTC. As of 30th Sept 2016, Fruits Up (accounts for ~20% of Manpasand's revenues) had not yet been approved by IRCTC. Additionally, Mango Sip is only classified as a "Category A" supplier by IRCTC while Maaza, Slice and Frooti are all classified as "Category A Special" suppliers. This means that Manpasand is not allowed to sell its products on premium trains while competition can. Clearly, Manpasand's competitors are better placed in selling on the Indian Railways.

Manpasand's claims of market growth rates also seem to widely differ from those of competition.

> "… the Indian packaged juice industry whose size is about Rs. 8,000 crore and it has been growing at more than 30% per annum in last few years and will maintain that pace in future as well."
>
> – Manpasand Q2 FY17 Press Release
>
> "Last year, while the category grew at only about 1%, Frooti grew at 12% and went from Number 3 to Number 2 in the market."
>
> – Nadia Chauhan, JMD & CMO, Parle Agro

All the above data points are inconsistent with Manpasand's reported numbers. Where does the company sell its products that leads to such a high market share? Why is its retail penetration so weak in even its core markets? How has the company achieved this scale without any significant advertising spend? Why are category growth estimates of Manpasand and Parle Agro so widely different?

2. The curious case of Fruits Up's market leadership

In July 2014, Manpasand launched its non-Mango products under the Fruits Up and Manpasand ORS brand. Fruits Up comprises (1) fruit-based carbonated drinks (think Appy Fizz, not Mirinda) in grape, orange and lemon flavors (2) fruit drinks with higher fruit content in apple, litchi, guava, orange and mango flavors. Fruits Up and Manpasand ORS together generated over 115 crs in revenues in FY16 (i.e. in less than 2 years of launch). In Q2 FY17 alone, Fruits Up is reported to have generated revenues of over 40 crs.

While Mango Sip's success has been remarkable, that of Fruits Up is stunning as it comes in a niche product category of fruit-based carbonated drinks. Parle Agro's Appy Fizz (launched in 2005) was largely responsible for creating this category and is considered the clear market leader. However, if Fruits Up's numbers are to be believed it is already larger than Appy Fizz. This has been again done without any advertising support while Appy Fizz has run national TV ad campaigns featuring Priyanka Chopra. As per a sell-side analyst report, Fruits Up was present only in Gujarat and Maharashtra till mid-2015. This raises an important question – How did Fruits Up become larger than Appy Fizz without investing in advertising and with a much smaller geographical footprint? That too within 2 years of launch.

3. The curious case of Hansraj Agro Fresh

Manpasand's IPO documents had an interesting disclosure which was missed by the analyst community.

> The Promoter Group of our Company does not include Mr. Satyendra Singh and Mr. Gyanendra Singh, brothers of Mr. Dhirendra Singh and Ms. Renu Singh, sister of Ms. Sushma Singh, or any entity or entities in which Mr. Satyendra Singh, Mr. Gyanendra Singh or Ms. Renu Singh may have an interest since we have been unable to obtain any information pertaining to themselves or any such entities.

SEBI requires companies to disclose if they or their family members have any interests in competing businesses. This ensures that investors are aware of any conflict of interest of the Promoters/Managers of a company. Companies with Promoters having competing interests is considered negative from a governance standpoint.

Mr. Satyendra Singh (MD's brother) and Ms. Renu Singh (MD's wife's sister) are the Directors of Hansraj Agro Fresh (started in 2014) which manufactures the same products as Manpasand.

This information should have been disclosed in the IPO offer documents. This information was not disclosed in even the recent QIP documents. Promoters choosing to not disclose the existence of a competing business run by immediate family members is a serious red flag. A LinkedIn search shows that ex-employees of Manpasand now work for Hansraj Agro Fresh. As such, it is unlikely that the company was unaware of the existence of Hansraj Agro Fresh. The company claims that "we have been unable to obtain any information pertaining to themselves or any such entities". Maybe, the company has not yet heard of Google or ROC search (see here – https://goo.gl/dtVh4o)

4. The curious case of the 500-cr QIP

In September 2016, Manpasand raised 500 crs through a Qualified Institutional Placement (QIP). This was after it had just raised 400 crs through an IPO in July 2015. Companies rarely need to raise additional capital so soon after an IPO. As per SEBI data, Manpasand had the smallest time gap ***ever*** between its IPO and its QIP. There must have been good reasons why the company needed to raise such a large amount of capital in such a short time after its IPO. The "Use of Proceeds" outlined in the QIP document was as follows:

> We intend to deploy our issue proceeds on enhancing our Company's competitiveness by investing in growth opportunities, funding expansion plans and for general corporate purposes, and we may not apply the proceeds in ways that yield a favourable result to us.
>
> Our management will have broad discretion to use the proceeds from this offering, and the Investors will be relying on the judgment of our management regarding the application of these proceeds.

Well, that seems a bit vague. Basically, the company is saying they can do whatever they want. Just give us the money.

Such a large fundraise so soon after the IPO is odd for several reasons. The company used 100 crs of the 400 cr fundraise in the IPO for repaying its debt. This suggests that, till a few months back, the company considered debt repayment a better use of proceeds than investing in growth opportunities. As of 31st March 2016, the company still had over 90 crs in cash to continue to invest in growth and expansion. In case that was not sufficient, it could very well have raised debt again. With this QIP, Manpasand has raised over 1000 crs in equity capital over a 5-year period!!

5. The curious case of Manpasand's low employee compensation

Building a large business is rarely a one-man show. While the company can be led by a visionary CEO, it still needs a strong management team to execute the CEO's plans. Compensation ends up playing the most important part in hiring and retaining a good senior management team. This does not seem to apply to Manpasand which has abysmally low

senior management compensation.

Name	Designation	Age	Tenure	Annual Compensation (in lakhs)[1]
Paresh Thakker	Chief Financial Officer	40	Inception	6.5
Bhavesh Jingar[2]	CS & Compliance Officer	30	2014	4.2
Vijay Panchal	Chief Controller of Operations	43	Inception	9.8
Shaunak Bhavsar	Finance Manager	47	Inception	7.0
Chintan Chokshi	Regional Sales Manager	28	Inception	4.6
Praharsh Vaccharajani	General Administrator/PR Officer	34	2013	5.1
Girishkumar Pandya	Credit Monitoring/Collection Manager	32	Inception	3.3
Surender Sharma	Logistics Manager	54	Inception	3.6
Dipan Thakkar	Product Manager (Fruits Up)	33	2014	3.5
Sardul Pandit	Plant Head	28	2015	–
Median				**4.6**

[1]For FY15 [2]Annualized figure

In FY15, Manpasand's median senior management compensation was 4.6 lakhs!! Such low compensation for senior management of a company of this scale is completely unheard of. At these compensation levels, how could Manpasand retain these executives who have led a 6x growth in revenues over the last 4 years? Given their performance, wouldn't competitors look to hire them for even 4-5 times their current compensation? We are unable to comprehend why that hasn't happened yet.

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At first glance, Manpasand appears to be an exceptional business operating in an attractive industry. However, a deeper review raises several concerns as discussed above.

Finding good investment ideas in the small and midcap space in India is hard work, especially given the history of poor corporate governance standards. Using screeners on the reported financial statements to find high growth businesses with high ROEs may seem to be the easiest way to find good ideas. However, investors would be better off spending their time understanding the source of high growth. Blindly relying on the company's reported financials and/or management commentary can be injurious to portfolio returns.

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