Coffee Day Enterprises Limited

November 29, 2018

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Term Loans	315.00	[ICRA]BBB+ (Stable); Assigned
Total	**315.00**	

*Instrument details are provided in Annexure-1

Rationale

The assigned ratings favourably consider Coffee Day Enterprises Limited's (CDEL) position as the holding company of the Coffee Day Group, which has a leading position in coffee retail segment under the "Café Coffee Day" brand and presence in integrated logistics, financial services and real estate businesses. The standalone entity's income mainly comprise of revenue from coffee trading and hospitality services and dividend and interest income from group entities, the latter two accounting for ~45% of revenue in the last two years. At the consolidated level, while there has been continued revenue growth in the last few years, the profit margin improvement has been constrained on account of high depreciation and interest expenses. The group has also been incurring high capex for its coffee , real estate and logistics businesses, which has been partly debt funded leading to pressure on the capital structure and coverage indicators. Going forward, with high capex plans in the medium term, the capital structure and coverage indicators are expected to remain under pressure. The holding company has also extended loans and advances to group entities and has in turn availed high debt compared to its scale of operations, leading to high debt service obligations in the medium term. Both the standalone entity as well as the group are exposed to high refinancing risk in the medium term , nonetheless the group has track record of successful refinancing in the past few years, which mitigates the risk to an extent. The liquidity profile of the group is also supported by healthy cash balance at several group entities. Further, the company's investments in listed entities have high market value compared to the book value, although the comfort from the same is limited as a large portion of it is already pledged to lenders. ICRA also notes that a significant share of promoters holding in group companies are also pledged, which constrains the group's financial flexibility.

ICRA also takes note of the group's plans to restructure its coffee and non coffee business, although the plans are in incipient stage and the developments on this front will be a key monitorable.

Outlook: Stable

The Stable outlook reflects that CDEL's position as the holding company for the Coffee Day group and the expectation of gradual improvement in consolidated financial profile of the group in the medium term. The outlook may be revised to 'Positive' if there is substantial revenue growth and improvement in profitability of the group, leading to moderation in gearing and strengthening of coverage indicators. The outlook may be revised to 'Negative' if there is substantial deterioration in financial performance of the group, or higher than expected debt funded capex leads to further stretch in capital structure and coverage indicators.

Key rating drivers

Credit strengths

Holding company of the Coffee Day group - CDEL is the holding company of the Coffee Day group, promoted by Mr. V G Siddhartha. The group has vertically integrated presence in the coffee business and has the largest network of cafes under the "Café Coffee Day" brand with pan India presence. The group also has presence in integrated logistics through Sical Logistics Limited (rated [ICRA]BBB+/stable/[ICRA]A2) ; is also engaged in real estate segment with two SEZ/tech parks in Bangalore and Mangalore respectively and provides financial services under the brand – "Way2Wealth" through several entities.

The Coffee Business is the flagship business of the group accounting for ~50% of consolidated revenue. The segment has witnessed steady growth in the last few years, backed by café network expansion and growth in installed base of vending machines. The average sales per day (ASPD) and same store sales growth has also witnessed improvement during the period. Nonetheless, the improvement in profit margin remained subdued on account of high depreciation and interest expenses. The consolidated entity including the other business has also witnessed revenue growth in the last few years but margin improvement has been limited.

Credit challenges

Modest scale on standalone basis - The standalone entity has modest scale of operations with revenues mainly comprising of income from coffee trading , hospitality revenue and other revenue apart from dividends and interest income from group companies, which accounted for ~45% of sales during the last two years. The profit margin has been constrained on account of high interest burden, since the company has availed high debt compared to its scale of operations to provide support to investee companies.

Financial profile of the group characterised by leveraged capital structure and stretched coverage indicators - The financial profile of the consolidated entity is characterized by leveraged capital structure and stretched coverage indicators due to debt funded capex incurred under coffee, logistics and real estate businesses. With high capex plans in the medium term, which will be partly debt funded, the capital structure and coverage indicators are expected to remain under pressure. The consolidated entity had gearing of 1.7x as on March 31, 2018 and has steadily increased from ~1.3x as on March 31, 2016. The coverage indicators like interest coverage and TD/OPBDITA have also been stretched at 1.8x and 8.0x respectively during FY2018.

Both standalone and consolidated entity exposed to refinancing risk - –Both standalone and consolidated entity have high repayment obligations in the near to medium term and are exposed to refinancing risk. The risk is however partly mitigated by track record of successful refinancing in the last few years. The debt availed by the company (standalone as well as consolidated) are typically backed by personal guarantee from promoters and pledge of shares of listed and unlisted group entities and associate companies.

Liquidity Position:

While, the company (standalone and consolidated) is exposed to refinancing risks, given the high repayment obligations in relation to the anticipated cash accruals; the track record of successful refinancing in the last few years mitigates the risk to some extent. The fund flow from operations have been positive in the last few years, although the free cash flows have been constrained due to high capex incurred by the group. The company's listed investments (mainly in Mindtree Limited) enjoy healthy market value compared to the book value of investments, however the comfort is limited as a major share of investments are already pledged to lenders. The liquidity profile of the group is also supported by cash balance held by various group entities.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	[Corporate Credit Rating Methodology](#)
Parent/Group Support	Not applicable
Consolidation / Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of Coffee Day Enterprises Limited . As on March 31, 2018 the company has 4 subsidiaries, 41 step down subsidiaries, 4 associates and 3 JVs, which are listed in Annexure-2.

About the company:

Coffee Day Enterprises Limited is the holding company for Coffee Day group, promoted by Mr. V G Siddhartha. The key companies of the group are – Coffee Day Global Limited (coffee business), Sical Logistics Limited (integrated logistics), Tanglin Development Limited (real estate), Way2Wealth (financial services) and Coffee Day Hotels and Resorts Limited (Hospitality).

In FY2018, on a consolidated basis the company reported net profit of Rs. 148.25 crore on an operating income of Rs. 3788.0 crore.

Key financial indicators (audited)

Consolidated	FY2017	FY2018
Operating Income (Rs. crore)	3119.6	3788.0
Adjusted PAT (Rs. crore)[1]	8.0	49.0
Reported PAT (Rs. crore)	81.6	148.3
OPBDIT/OI (%)	17.5%	16.6%
RoCE (%)	6.6%	7.7%
Total Debt/TNW (times)	1.6	1.7
Total Debt/OPBDIT (times)	8.1	8.0
Interest coverage (times)	1.7	1.8

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

[1] Does not include share of profit for equity accounted investees

Rating history for last three years:

	Instrument	Current Rating (FY2019)				Chronology of Rating History for the Past 3 Years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating Nov 2018	Date & Rating in FY2018 -	Date & Rating in FY2017 -	Date & Rating in FY2016 -
1	Term Loans	Long Term	315.00	**315.00**	**[ICRA]BBB+ (Stable)**	-	-	-

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loans	28-Dec-2016	9.90%	Dec 2021	315.00	[ICRA]BBB+ (Stable)

Source: CDEL

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership (%)	Consolidation Approach
Subsidiaries		Company has consolidated the subsidiaries/step down subsidiaries using full consolidation/proportionate consolidation and used equity method for associates and JVs
Coffee Day Global Limited	89.94	
Tanglin Developments Limited	100.00	
Coffee Day Hotel and Resorts Private Limited	100.00	
Coffee Day Trading Limited	88.77	
Step-down Subsidiaries		
Way2Wealth Securities Pvt. Ltd.	85.53	
Tanglin Retail Reality Developments Private Limited	100.00	
A.N Coffeeday International Limited	100.00	
Classic Coffee Curing Works	100.00	
Coffeelab Limited	100.00	
Coffee Day Gastronomie Und Kaffeehandles GmbH	100.00	
Coffee Day CZ a.s	100.00	
SICAL Logistics Limited	52.83	
SICAL Infra Assets Limited	53.00	
SICAL Iron Ore Terminal Limited	63.00	
SICAL Iron Ore Terminal (Mangalore) Limited	100.00	
Norsea Offshore India Limited	100.00	
SICAL Mining Limited	100.00	
SICAL Saumya Mining Limited	65.00	
SICAL Bangalore Logistics Park Limited	100.00	
SICAL Adams Offshore Limited	100.00	
Bergen Offshore Logistics Pte. Limited ('BOFL')	100.00	
Norsea Global Offshore Pte Ltd	100.00	
SICAL Multimodal and Rail Transport Limited	100.00	
PNX Logistics Private Limited	60.00	
PAT Chems Private Limited	51.00	
Develecto Mining Limited	51.00	
Mandi2Market Traders Private Limited	100.00	
Way2Wealth Capital Private Limited	99.99	
Way2Wealth Enterprises Private Limited	100.00	
Way2Wealth Brokers Private Limited	99.99	
Way2Wealth Insurance Brokers Private Limited	99.99	
AlphaGrep Securities Private Limited	51.00	
Way2Wealth Distributors Private Limited	100.00	
Way2Wealth Commodities Private Limited	99.99	
Alphagrep Commodities Private Limited	100.00	
Way2Wealth Illuminati Pte. Limited	100.00	

Company Name	Ownership (%)	Consolidation Approach
AlphaGrep Holding HK Limited	100.00	
AlphaGrep UK Limited	100.00	
Shanghai Dao Ge International Trading Limited	100.00	
Girividhyuth India Limited	100.00	
Wilderness Resorts Private Limited	100.00	
Karnataka Wildlife Resorts Private Limited	100.00	
Magnasoft Consulting India Private Limited	77.88	
Magnasoft Europe Limited	100.00	
Magnasoft Spatial Services Inc.	100.00	
Associates		
Ittiam Systems Private Limited	21.91	
Mindtree Limited	17.11	
Barefoot Resorts and Leisure India Private Limited	27.69	
Global Edge Software Private Limited[2]	26.50	
Joint Ventures		
Coffee Day Schaerer Technologies Private Limited	49.00	
PSA Sical Terminals Limited	37.50	
SICAL Sattva Rail Terminal Private Limited	50.00	

[2] Till 25 Sep 2017

ANALYST CONTACTS

K. Ravichandran
+91 44 4596 4301
ravichandran@icraindia.com

Sai Krishna
+91 44 4596 4304
sai.krishna@icraindia.com

T. Raghunath
+91 44 4596 4340
raghunath.t@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries:

+91-124-2866928 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Corporate Office
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

Registered Office
1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50

Branches

Mumbai	+ (91 22) 24331046/53/62/74/86/87
Chennai	+ (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata	+ (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore	+ (91 80) 2559 7401/4049
Ahmedabad	+ (91 79) 2658 4924/5049/2008
Hyderabad	+ (91 40) 2373 5061/7251
Pune	+ (91 20) 6606 9999