

August 08, 2019

Coffee Day Enterprises Limited: Ratings downgraded to [ICRA]BB+(Negative) from [ICRA]BBB+@ and removed from Rating Watch with Negative Implications

Summary of Rated Instrument:

Instrument*	Rated Amount (Rs. Crore)	Rating Action
Term Loans	315.00	[ICRA]BB+ (Negative); downgraded from [ICRA] BBB+ @ and removed from Rating Watch with Negative Implications
Total	315.00	

@ - Under rating watch with negative implications

The rating revision considers the heightened refinancing risks for CDEL and the group companies following the developments due to unexpected demise of the group's promoter – Mr. V G Siddhartha. ICRA notes that the standalone entity as well as the group are exposed to refinancing risks due to high leverage, despite some reduction in consolidated debt from proceeds of stake sale in Mindtree Limited. While earlier, ICRA had considered the group's past track record in refinancing backed by pledging of shares of listed and unlisted entities and personal guarantee extended by the promoter; post the recent development and the subsequent steep decline in share prices of CDEL and listed group entity - Sical Logistics Limited of more than 50%, the financial flexibility of the group has been severely constrained. Further, ICRA also takes note the statements in the purported letter from Mr. V.G. Siddhartha relating to financial transactions outside the knowledge of senior management, auditors and the Board and while the authenticity of the letter is unverified, the Board has decided to investigate the matter and the outcome of the same will be a key monitorable. ICRA notes that the CDEL group is trying to deleverage by selling certain assets and is in talks with investors, however the timelines and quantum of deleveraging remains uncertain and remain a sensitivity factor. Moreover, imposition of any additional tax liability by the IT department leading to further stress in the group's liquidity position also remain a rating sensitivity factor.

Outlook: Negative

The Negative outlook reflects the increased uncertainties post the demise of Mr. V G Siddhartha, which includes constrained financial flexibility and increased refinancing risk, following steep erosion in share prices of CDEL and group entities. ICRA also note that the operations of the group may also be adversely impact in the near to medium term, as the management handles the fallout and focuses on deleveraging through asset sales. The ratings may be downgraded further, if there is significant decline in financial performance of the group, significant delays in deleveraging process, imposition of large tax liability or any adverse outcome of the board investigation. The outlook may be revised to Stable, if there is material deleveraging and improvement in the liquidity position of the group.

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]BB+/negative/[ICRA]A4+); is also engaged in real estate segment with two SEZ/tech

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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 over ~50% of consolidated revenue followed by logistics segment. Both the segments witnessed steady growth in the last few years, backed by café network expansion and increased contribution from mining segment on the back of execution of new contracts. The average sales per day (ASPD) and same store sales growth have also remained healthy during FY2019. Nonetheless, the improvement in profit margin remained subdued on account of high depreciation and interest expenses. The consolidated entity including the other businesses has also witnessed revenue growth in the last few years but margin improvement has been limited.

Credit challenges

Increase in refinancing risk and reduced financial flexibility– Due to high repayment obligations in the near to medium term, the group is exposed to refinancing risk. While the risk was partly mitigated in the past by the group’s refinancing track record backed by share pledges of listed and unlisted group entities and personal guarantee extended by promoter, the recent development and subsequent steep decline in share prices of CDEL and other listed group entities have resulted in significantly reduced financial flexibility.

Financial risk 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 debt protection metrics due to large debt funded capex incurred under coffee, logistics and real estate businesses. The consolidated entity had gearing of 2.4 times as on March 31, 2019 (total debt of Rs. 7653 crore), increased sharply from 1.7 times as on March 31, 2018. Further, the coverage indicators like interest coverage and TD/OPBDITA have also been stretched at 1.3 times and 13.3 times respectively during FY2019. However, subsequently there has been some reduction in consolidated debt by ~Rs. 2100 crore raised from stake sale in Mindtree Limited.

Investigation into purported letter from promoter and any potential tax liability – ICRA has taken note of the statements in the purported letter written by Mr. V G Siddhartha relating to financial transactions outside the knowledge of senior management, auditors and the Board and while the authenticity of the letter is unverified, the Board has decided to investigate the matter. The developments will be monitored and outcome of the same remains a sensitivity factor. Further, ICRA notes that in September 2017, IT department had conducted raids on the properties owned by Mr. Siddhartha and on the offices of Coffee Day Group, of which Coffee Day Enterprises Limited (CDEL) is the flagship entity. On 26th January 2019, Coffee Day Enterprises Limited (CDEL) disclosed to the Stock Exchanges that the Income Tax (IT) Department had provisionally attached 22,00,000 shares of Mindtree Limited held by the company in addition to shares belonging to the promoter Mr. V.G. Siddhartha. This share attachment was done to safeguard the Department in case of any future tax claims arising out of the assessment which is still open. Subsequently, the promoter had got the attachment of the Mindtree stake removed and offered alternate security (including shares of CDEL) to the IT Department. Any large outgo towards this tax demand would stress the liquidity of the promoter /group and hence would remain a key rating sensitivity.

Liquidity Position:

The company (standalone and consolidated) is exposed to heightened refinancing risks given the high repayment obligations in relation to anticipated cash accruals and while the liquidity profile is supported by cash balance held by various group entities; the recent development and the subsequent steep decline in share prices of CDEL and listed group entities will have adverse impact on the group’s financial flexibility and its ability to refinance the loans. In order to

mitigate the liquidity pressure, timely deleveraging will be important and ICRA will be monitoring the management's efforts to do the same.

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 had 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).

Key financial indicators (audited)

Consolidated	FY2018	FY2019
Operating Income (Rs. crore)	3788.0	4264.5
PAT (Rs. crore)	49.0	60.3
OPBDIT/OI (%)	16.6%	13.5%
RoCE (%)	7.7%	7.5%
Total Debt/TNW (times)	1.7	2.4
Total Debt/OPBDIT (times)	8.0	13.3
Interest coverage (times)	1.8	1.3

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Current Rating (FY2020)					Chronology of Rating History for the Past 3 Years				
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2020		Date & Rating in FY2019			
				August 2019	July 2019	Mar 2019	Feb 2019	Nov 2018	
1 Term Loans	Long Term	315.00	315.00	[ICRA]BB+ (Negative)	[ICRA]BBB+ @	[ICRA]BBB+ &	[ICRA]BBB+ &	[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]BB+ (Negative)

Source: CDEL

Annexure-2: List of entities considered for consolidated analysis

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

Company Name	Ownership (%)	Consolidation Approach
Way2Wealth Commodities Private Limited	99.99	Full consolidation
Alphagrep Commodities Private Limited	100.00	Full consolidation
Way2Wealth Illuminati Pte. Limited	100.00	Full consolidation
AlphaGrep Holding HK Limited	100.00	Full consolidation
AlphaGrep UK Limited	100.00	Full consolidation
Shanghai Dao Ge International Trading Limited	100.00	Full consolidation
Girividhyuth India Limited	100.00	Full consolidation
Wilderness Resorts Private Limited	100.00	Full consolidation
Karnataka Wildlife Resorts Private Limited	100.00	Full consolidation
Magnasoft Consulting India Private Limited	77.88	Full consolidation
Magnasoft Europe Limited	100.00	Full consolidation
Magnasoft Spatial Services Inc.	100.00	Full consolidation
Associates		
Ittiam Systems Private Limited	21.91	Equity method
Mindtree Limited	17.11	Equity method
Barefoot Resorts and Leisure India Private Limited	27.69	Equity method
Global Edge Software Private Limited ¹	26.50	Equity method
Joint Ventures		
Coffee Day Schaerer Technologies Private Limited	49.00	Equity method
PSA Sical Terminals Limited	37.50	Equity method
SICAL Sattva Rail Terminal Private Limited	50.00	Equity method

¹ Till 25 Sep 2017

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About ICRA Limited:

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