

## Coffee Day Enterprises Limited

February 05, 2019

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. Crore)	Rating Action
Term Loans	315.00	315.00	[ICRA]BBB+&; Rating placed on 'Rating watch with developing implications'
<b>Total</b>	<b>315.00</b>	<b>315.00</b>	

\*Instrument details are provided in Annexure-1

### Rationale

On 26<sup>th</sup> 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 (amounting to 1.35% of total paid up capital of Mindtree) in addition to shares belonging to the promoter Mr. V.G. Siddhartha. CDEL and the promoters in total own ~21% stake in Mindtree Ltd and of this ~4.7% of the shareholding has been provisionally attached by the IT Dept.

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. The recent share attachment has been done to safeguard the Department in case of any future tax claims arising out of the assessment which is still open. With a significant portion of the company's and promoter's shareholding in Mindtree having been pledged to lenders, this represents a key risk in case any large tax demand crystallises.

ICRA currently has outstanding ratings of [ICRA]BBB+ (Stable) on the bank facilities of CDEL. Based on the above development, the ratings are revised to [ICRA]BBB+ (&). The symbol '&' in parenthesis suffixed to a rating symbol indicate that the ratings are under watch with developing implications. ICRA would continue to monitor further developments on the demands raised by the IT officials / sale process of Mindtree Ltd and take appropriate rating action, as necessary.

### 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	<a href="#">Corporate Credit Rating Methodology</a>
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) <sup>1</sup>	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

## Rating history for last three years:

Current Rating (FY2019)					Chronology of Rating History for the Past 3 Years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2019	Date & Rating in FY2018	Date & Rating in FY2017
				Feb 2019	Nov 2018	-	-
1 Term Loans	Long Term	315.00	315.00	[ICRA]BBB+ (&)	[ICRA]BBB +(Stable)	-	-

& = 'Rating watch with developing implications'

## 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](http://www.icra.in)

<sup>1</sup> Does not include share of profit for equity accounted investees

## 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+ (&)

Source: CDEL

## Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership (%)	Consolidation Approach	
<b>Subsidiaries</b>			
Coffee Day Global Limited	89.94	Company has consolidated the subsidiaries/step down subsidiaries using full consolidation/proportionate consolidation and used equity method for associates and JVs	
Tanglin Developments Limited	100.00		
Coffee Day Hotel and Resorts Private Limited	100.00		
Coffee Day Trading Limited	88.77		
<b>Step-down Subsidiaries</b>			
Way2Wealth Securities Pvt. Ltd.	85.53		
Tanglin Retail Realty 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		
AlphaGrep Holding HK Limited	100.00		

Company Name	Ownership (%)	Consolidation Approach
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	
<b>Associates</b>		
Ittiam Systems Private Limited	21.91	
Mindtree Limited	17.11	
Barefoot Resorts and Leisure India Private Limited	27.69	
Global Edge Software Private Limited <sup>2</sup>	26.50	
<b>Joint Ventures</b>		
Coffee Day Schaerer Technologies Private Limited	49.00	
PSA Sical Terminals Limited	37.50	
SICAL Sattva Rail Terminal Private Limited	50.00	

<sup>2</sup> Till 25 Sep 2017

## ANALYST CONTACTS

**K. Ravichandran**  
+91 44 4596 4301  
[ravichandran@icraindia.com](mailto:ravichandran@icraindia.com)

**Sai Krishna**  
+91 44 4596 4304  
[sai.krishna@icraindia.com](mailto:sai.krishna@icraindia.com)

**T. Raghunath**  
+91 44 4596 4340  
[raghunath.t@icraindia.com](mailto:raghunath.t@icraindia.com)

## RELATIONSHIP CONTACT

**Jayanta Chatterjee**  
+91 80 4332 6401  
[jayantac@icraindia.com](mailto:jayantac@icraindia.com)

## MEDIA AND PUBLIC RELATIONS CONTACT

**Ms. Naznin Prodhani**  
Tel: +91 124 4545 860  
[communications@icraindia.com](mailto:communications@icraindia.com)

### Helpline for business queries:

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

[info@icraindia.com](mailto:info@icraindia.com)

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## 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](mailto:info@icraindia.com)

Website: [www.icra.in](http://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) 2556 0194/ 6606 9999

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