

August 13, 2019 ^{Revised}

Magnasoft Consulting India Private Limited: Rating downgraded to [ICRA]BB+(SO)(Negative) from [ICRA]BBB+(SO)@; rating removed from watch with negative Implications

Summary of Rated Instrument:

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based- Cash Credit	13.00	13.00	[ICRA]BB+(SO)(Negative); downgraded from [ICRA]BBB+(SO)@; removed from watch with negative implications
Fund based- Term Loan	2.00	2.00	[ICRA]BB+(SO)(Negative); downgraded from [ICRA]BBB+(SO)@; removed from watch with negative implications
Total	15.00	15.00	

@ - Under rating watch with negative implications

Rationale

The rating is based on unconditional and irrevocable guarantee provided by Coffee Day Trading Limited (CDTL) for the Rs. 15.0 crore bank facilities of Magnasoft Consulting India Private Limited (MCPL) and an undertaking from the guarantor to ensure that the debt obligations are serviced on or prior to the due date, irrespective of the invocation of the guarantee by the beneficiary.

The rating revision reflects the deterioration in the credit profile of the guarantor, following the revision in the rating of the group holding company Coffee Day Enterprises Limited (CDEL).

The letters SO in the parenthesis suffixed to a rating symbol stands for Structured Obligation. An SO rating is specific to the rated issue, its terms and its structure. SO ratings do not represent ICRA’s opinion on the general credit quality of the issuers concerned.

Outlook: Negative

The Negative outlook reflects the increased uncertainties at the group level post the demise of the promoter Mr. V G Siddhartha, which includes constrained financial flexibility, and increased refinancing risk for the group, following steep erosion in share prices of CDEL and group entities. The ratings may be downgraded further, if there is significant decline in financial performance of the Coffee Day 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

Corporate Guarantee from Coffee Day Trading Limited – CDTL has provided corporate guarantee for all sanctioned bank lines of MCPL. The strong strategic support provided by the guarantor also provides comfort on the rated facilities. CDTL is the holding company for MCPL and has 77.9% stake.

Long standing experience of the promoters in the industry – The company has a long-standing track record of operations spanning over 18 years in the information technology industry.

Credit weaknesses

Weakened financial flexibility of the Coffee Day group – Following the unexpected demise of the its promoter, the group’s financial flexibility has weakened. The steep decline in the share prices of CDEL has exposed the group to increased refinancing risks and these developments have resulted in revision of ratings of CDEL to [ICRA]BB+ (Negative). Consequently, the group’s ability to provide support to its subsidiaries and group companies stand constrained.

Liquidity position

The group 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 Rating Methodology – Information Technology (Services) Industry Approach for rating debt instruments backed by third-party explicit support
Parent/Group Support	Parent company: Coffee Day Trading Limited Group: Coffee Day Group Group holding company: Coffee Day Enterprises Limited <ul style="list-style-type: none"> • The rating of MCPL is based on unconditional and irrevocable guarantee provided by its parent Coffee Day Trading Limited • The rating also factors in the implicit support enjoyed by Coffee Day Trading Limited, from its parent and group holding company, Coffee Day Enterprises Limited.
Consolidation / Standalone	<ul style="list-style-type: none"> • The rating of MCPL is based on unconditional and irrevocable guarantee provided by Coffee Day Trading Limited. • For arriving at the ratings of Coffee Day Trading Limited, ICRA has considered its standalone financials, along with implicit support from Coffee Day Enterprises Limited

About the company:

Incorporated in 2000, Magnasoft Consulting Private Limited (MCPL) is a small-sized Information Technology (IT) company offering Geographic Information System (GIS) based solutions across service and product offerings such as laser scanning, and 3D modelling, spatial solutions development, digital photogrammetry, spatial data management and engineering services primarily to aid engineering & consultancy firms in aerial & land survey, GIS mapping, etc. (which in turn cater to end customers such as Government, oil & gas, telecom and mining companies). The company primarily caters to clients based in Americas, Europe, Africa and Middle East among others across vertical sectors such as energy, transportation and water & land administration. The company also has its presence in product lines: NorthStar - which is an integrated school bus & child safety system that uses a hybrid of technologies including GPS, GPRS, RFID, webcam and CCTV that works on cloud computing platform, and Toggr – which is a wearable child wrist watch currently in POC phase.

Headquartered in Bangalore (with one marketing office, one training center and two delivery centers), the company has two wholly owned subsidiaries in USA (marketing office) and London (marketing office). The company was founded by Mr. Bobbie H Kalra and is a subsidiary of Coffee Day Trading Limited (CDTL; erstwhile Global Technology Ventures Limited), a Bangalore-based venture investment company, which is part of the Coffee Day Group that operates the coffee retail chain under the brand name “Café Coffee Day”. CDTL holds 77.88% stake in Magnasoft Consulting India Private Limited.

Key Financial Indicators (Audited)

	FY2017	FY2018P
Operating Income (Rs. crore)	41.4	52.5
PAT (Rs. crore)	5.6	7.2
OPBDIT/ OI (%)	27.1%	30.5%
RoCE (%)	21.9%	25.7%
Total Debt/ TNW (times)	0.3	0.2
Total Debt/ OPBDIT (times)	1.0	0.5
Interest coverage (times)	7.1	7.3
NWC/ OI (%)	34.8%	30.4%

P - Provisional

About the guarantor:

Coffee Day Trading Limited (CDTL) is a venture capital holding company based in Bangalore, engaged in identifying and mentoring Indian companies engaged in cutting edge technologies. CDTL has set up a 59-acre technology incubator park in Bangalore, which provides office space, communication links, recreational facilities and even a commercial centre. Coffee Day Enterprises Limited holds 88.8% stake in CDTL.

Key Financial Indicators (Audited)

	FY2017	FY2018
Operating Income (Rs. crore)	23.2	167.4
PAT (Rs. crore)	9.8	72.4
OPBDIT/ OI (%)	41.9%	48.7%
RoCE (%)	9.3%	33.3%
Total Debt/ TNW (times)	-	-
Total Debt/ OPBDIT (times)	-	-
Interest coverage (times)	-	-
NWC/ OI (%)	-	-

About the ultimate parent:

Coffee Day Enterprises Limited (CDEL) is the parent company of the Coffee Day Group. It owns and operates a resort and offer consultancy services apart from trading of coffee beans. Originally incorporated as a partnership firm, was converted into private limited company in 2008 and subsequently went public in November 2015. The company operates the coffee business through its subsidiary, Coffee Day Global Limited and its other subsidiaries.

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		Date & Rating in FY2019		Date & Rating in FY2018		Date & Rating in FY2017
				Aug 2019	July 2019	Jul 2018	Dec 2017	Sept 2017	Jun 2016	
1 Fund Based: Cash Credit	Long Term	13.00	-	[ICRA]BB+ (SO)	[ICRA]BBB+ (SO)@	[ICRA]BBB+ (SO) (Stable);	[ICRA]BBB+ (SO); & ISSUER NOT COOPERATING*	[ICRA]BBB+ (SO); &	[ICRA]BBB+ (SO)	
2 Fund Based: Term Loan	Long Term	2.00	0.0	[ICRA]BB+ (SO)	[ICRA]BBB+ (SO)@	[ICRA]BBB+ (SO) (Stable)	[ICRA]BBB+ (SO); & ISSUER NOT COOPERATING*	[ICRA]BBB+ (SO); &	[ICRA]BBB+ (SO)	

@ placed on watch with negative implications

* moved to non-cooperation category due to NDS non-submission

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	Cash Credit	20-Oct-2015	-	-	8.00	[ICRA]BB+(SO)(Negative)
NA	Cash Credit	27-Jul-2016	-	-	5.00	[ICRA]BB+(SO)(Negative)
NA	Corporate Loan	20-Oct-2015	-	Oct 2021	2.00	[ICRA]BB+(SO)(Negative)

Source: MCPL

Corrigendum

The document dated August 13, 2019 has been corrected with revision as detailed below:

Correction on page 1 under the section 'Summary of Rated Instrument': The '(SO)' suffix has been added to the previous rating.

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