

# IPO Note: Coffee Day Enterprises Ltd.

Industry: Beverages

Recommendation: Neutral

Date: October 09, 2015

## Issue Snapshot

Company Name	Coffee Day Enterprises Ltd.
Issue Opens	October 14, 2015 to October 16, 2015
Price Band	Rs. 316 to Rs. 328
Bid Lot	45 Equity Shares and in multiples thereof.
The Offer	Public issue of 3.51 – 3.64 Crores Equity shares of Face value Rs.10 each, (Comprising of fresh issue).
Issue Size	Rs. 1150 Crore (Public Issue: 1135 Crores + Employee Reservation: 15 Crores)
IPO Process	100% Book Building
Face Value	Rs. 10.00
IPO Grading	NA
Exchanges	NSE & BSE
BRLM	Axis Capital Limited, Edelweiss Financial Services Limited and Yes Bank Limited.
Global Coordinators & BRLM	Kotak Mahindra Capital Company Limited , Citigroup Global Markets India Pvt. Limited and Morgan Stanley India Company Pvt. Limited
Registrar	Link Intime India Private Limited

## Objects of the Offer

The objects of the Issue are:

- Setting-up of new Café Network outlets and Coffee Day Xpress kiosks;
- Manufacturing and assembling of vending machines;
- Refurbishment of existing Café Network outlets and vending machines; and
- Setting-up of a new coffee roasting plant facility, along with integrated coffee packing facility and tea packing facility.

## Issue Break up

Issue Size	Allocation	Equity Shares*
QIB	75%	25,952,744
HNI	15%	5,190,549
RII	10%	3,460,366
<b>Total Public</b>	<b>100%</b>	<b>34,603,659</b>
Employee		457,317
<b>Total</b>		<b>35,060,976</b>

\* Based on higher price band @ Rs. 328

## About the company

Coffee Day Enterprises, is a holding company having business interest in coffee retailing, logistic services, hospitality services, development of IT-ITES technology parks, financial services and investment in IT-ITES. The top four business segments, namely coffee business, logistics, financial services and technology parks contributed 50.1%, 36.9%, 7.5% and 3.3%, respectively to the revenue. The company operates the coffee business in the name of Café Coffee Day and as per the management the focus would be fully on the coffee business going ahead. Café Coffee day which started its business in 1996, by establishing its first outlet in Bengaluru, is the largest coffee retail chain in India with a network of 1472 café outlets spread across 209 cities. In terms of the number of chained café outlets, the company has a market share of 46% in India, nearly four times larger than the cumulative footprint of the next four competitors. Company's coffee business comprises of café coffee day stores, setting up of vending machines in offices and institutions, setting up of coffee day xpress kiosks and exports of coffee beans. India is generally tea preferring country, thus the coffee consumption in India is lowest at 110 g per capita/year as compared with 8 kg in developed countries. Consumption in India is estimated at 0.125 million MT/ year against a production of 0.315 million MT and thus India is among the largest coffee exporters across the globe. As per the Industry, the size of the organized café market is estimated at Rs 67 billion in 2014 and is projected to grow Rs 151 billion by 2020 at a CAGR of 15%.

Company will issue 3.51 crore of equity shares, thus taking the total equity base to 20.60 crore shares with equity dilution of 17.02%. At higher price band, company will raise Rs 1150 crore and about Rs 500 crore would be utilized to reduce its mounting debt, including debt of Coffee and Sical logistics. Further, about Rs 289 crore from IPO proceed would be spent on setting up of new café network, manufacturing of vending machines and also setting up of a new coffee roasting plant facility. Management conveys that, they will add 135 stores every year for next three years and going to add 5,000 coffee vending machines in the corporate. CCD is also expanding coffee roasting facility from 8,000 tonne to 16,000 tonne. For the past 3 years, company's sales and EBITDA has shown healthy growth, amid growing awareness of quality life among the people especially from young generation. However, due to high indebtedness, company has not been able to earn profit at net level, thus incurring losses in the past years. Currently, company has total debt of Rs 3549 crore, thus carrying high leverage in the balance sheet with debt/equity ratio close to 5x. For long time, company has been doing the coffee retail business in India but still has been unable to earn profit at net level, though company has been earning cash profit. All the coffee retail outlets of the company are taken on lease basis (operating lease) and for renovating the stores company incurs huge capex, resulting in higher requirement for borrowed fund. Thus, high interest expenses and elevated depreciation charges are eroding the net profitability of the company. Further, company has complex capital structure and has too much diversified its business which is a drag on its financial performance. However, on asset front company has been developing 91 acres of land (nearly about 9.7 million sq ft.) for technological park at Bengaluru which would be leased out to technological companies. Further, it is also holding 16% in Mindtree whose current valuation is at Rs 2100 crore and it has given IRR of 40% in last 16 years. Although, the management has no plans to monetize the assets given the sector's strong potential going ahead.

At higher price band the company's total equity valuation stand at Rs 6756 crore with EV/EBITDA multiple of 26x. As there are no other listed players in the industry so it can't be comparable. Given, its complex holding structure, too much business diversification and leveraged balance sheet, we are casting Neutral stance on the Issue.

## Consolidated Financial Statement

(In Rs. Cr)	FY11	FY12	FY13	FY14	FY15	Q1FY16
Share Capital	15.4	15.4	15.9	15.9	16.2	118.1
Net Worth	625.6	617.8	649.8	556.0	532.3	456.2
Long Term Borrowings	1452.6	2311.6	2390.5	3326.5	3046.2	3214.6
Other Long Term Liabilities	178.4	227.0	237.5	249.3	275.2	281.5
Short-term borrowings	531.4	270.9	456.5	251.4	503.4	659.6
Other Current Liabilities	313.2	459.7	1030.5	813.2	1144.9	1058.8
Fixed Assets	1072.5	2413.9	3135.9	3327.9	3475.6	3517.0
Non Current Assets	809.6	879.8	1040.3	1100.8	1099.9	1116.2
Current Assets	1483.5	1227.3	1077.0	1265.6	1438.3	1551.5
Total Assets	3365.6	4521.0	5253.2	5694.3	6013.8	6184.7
Revenue from Operations	1024.4	1565.3	2099.6	2287.0	2479.4	623.1
Revenue Growth (%)		52.8%	34.1%	8.9%	8.4%	
EBITDA	132.3	189.2	299.6	319.0	375.2	102.2
EBITDA Margin (%)	12.9%	12.1%	14.3%	13.9%	15.1%	16.4%
Net Profit	17.5	19.3	-21.4	-77.0	-87.2	-20.0
Net Profit Margin (%)	1.7%	1.2%	-1.0%	-3.4%	-3.5%	-3.2%
Earnings Per Share (Rs.)	11.34	12.50	-13.47	-48.49	-53.75	-1.70
Return on Networth (%)	2.8%	3.1%	-3.3%	-13.8%	-16.4%	-4.4%
Net Asset Value per Share (Rs.)	405.3	400.2	409.0	349.9	327.9	38.6

Source: RHP, Ashika Research

## Comparison with listed industry peers

The company is the parent company of the Coffee Day Group which currently operates in businesses such as coffee, development and management of IT-ITES technology parks, providing integrated logistics solutions, financial services, hospitality and investing in technology companies. The company believes that none of the listed companies in India are engaged in a portfolio of businesses similar to the company .

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