

Coffee Day Enterprises

IPO Note – Valuation expensive

Coffee Day Enterprises Ltd (CDEL) owns the coffee chain - Café Coffee Day, and is the largest coffee retail company in India. The company also has diversified business interests through its subsidiaries across segments like logistics, financial services, hospitality, and technology parks.

Strong brand equity with a substantial market presence: The company has strong brand equity through its retail coffee chain - Café Coffee Day, which was ranked second in the Most Trusted Brands in the food service retail category in India by The Economic Times, BE Survey, 2014. Café Coffee Day outlets enjoy wide preference and loyalty among the youth in the country, ie people in the age profile of less than 35 years. Considering that this age group constituted ~65% of the overall population of India as of FY2013 (source: Technopak, March 2015), the company is in an advantageous position to leverage its business. Over the years, the company has been successfully able to create a strong brand on its own without any international tie-ups. Its market share in terms of number of chained café outlets as of December 31, 2014, stood at ~46%.

Strong pan-India coffee retail network targeting multiple consumption points and customer segments: Since the opening of the first outlet in 1996 in Bengaluru, the Café Coffee Day network has expanded to 1,538 outlets, covering over 219 cities. In addition, the company has 561 Coffee Day Xpress kiosks across 12 cities and 412 fresh & ground (F&G) outlets across five states in India (as of June 30, 2015). The company also has 30,916 vending machines (as of June 30, 2015) which serve corporate and institutional clients all over India. Through multiple consumption points, the company covers high street malls, petrol stations, highways, airports, hospitals, educational institutions and tourist attractions.

Outlook and Valuation: CDEL, on a consolidated basis, has reported ~30% CAGR in revenue over FY2010-15 to ₹2,479cr. On the EBITDA front, the company reported a ~26% CAGR over the same period. However, on account of higher depreciation and interest costs, the company incurred a consolidated net loss of ~₹87cr in FY2015. CDEL has diversified across other businesses, which however have failed to deliver impressive financial performances so far.

Considering negligible profits/reported losses of subsidiaries and the complex holding structure of the company, we are of the view that the IPO is priced at a slightly higher valuation. **Thus, we recommend a NEUTRAL on the issue.** Investors having conviction in the long term growth prospects of the company and wanting to tap this perceived opportunity could consider waiting for a possible correction in the stock price post the listing of the IPO.

Key Financials

Y/E March (₹ cr)	FY2013	FY2014	FY2015	1QFY16
Net Sales	2,100	2,287	2,479	623
Net Profit/(Loss)	(21)	(77)	(87)	(20)
OPM (%)	14.3	13.9	15.1	16.4
P/BV (x)	6.0	7.0	7.3	-
RoCE (%)	2.8	1.7	2.7	-
EV/Sales (x)	2.9	2.8	2.5	-
EV/EBITDA (x)	20.0	20.4	16.4	-

Source: Company, Angel Research; Note: *The above numbers are considering subscription at the upper end of the price band

NEUTRAL

Issue Open: October 14, 2015
 Issue Close: October 16, 2015

Issue Details

Face Value: ₹10

Present Eq. Paid up Capital: ₹170.9cr

Fresh Issue**: 3.5cr Shares

Post Eq. Paid up Capital: ₹206.0cr

Market Lot: 45 Shares

Fresh Issue (amount): ₹1,150cr

Price Band: ₹316-328

Post-issue implied mkt. cap ₹6,510cr* - 6,757cr**

Note: *at Lower price band and **Upper price band

Book Building

QIBs	50%
Non-Institutional	15%
Retail	35%

Post Issue Shareholding Pattern(%)

Promoters Group	52.6
MF/Banks/Indian Fls/FIIs/Public & Others	47.4

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Company background

Coffee Day Enterprises Ltd (CDEL) is the parent company of the coffee chain - Cafe Coffee Day. It is the largest coffee retail company in India and in operation since 1996. It owns a network of 1,538 cafe outlets, spread across 219 cities in India. In addition to having the largest chain of cafes in India, the company operate a highly optimized and vertically integrated coffee business which ranges from procuring, processing and roasting of coffee beans to retailing of coffee products across various formats. The company is one of the largest exporters of Indian coffee beans, primarily to Europe, Japan and the Middle East.

In addition to the coffee business, the company operates select other businesses that are aimed at leveraging India's growth potential, namely, development of IT- ITES technology parks, logistics, financial services, and hospitality.

Exhibit 1: Café Network outlets across various cities in India

City in India	FY2013	FY2014	FY2015	1QFY16
Bengaluru	207	220	201	200
Chennai	84	92	94	95
Hyderabad	76	78	74	76
Kolkata	67	77	83	85
Mumbai	187	202	202	204
New Delhi*	208	225	207	211
Pune	74	78	75	74
Others	551	596	582	593
Total	1,454	1,568	1,518	1,538

Source: Company, Angel Research

Exhibit 2: Number of kiosks outlets in India

	FY2013	FY2014	FY2015	1QFY16
Company Owned and operated	844	873	546	528
Franchised	75	72	33	33
Total	919	945	579	561

Source: Company, Angel Research

Exhibit 3: Vending machines placed at client premises

	FY2013	FY2014	FY2015	1QFY16
Placed at clients premises	21,594	25,561	29,760	30,916

Source: Company, Angel Research

Exhibit 4: Revenue Mix of Café Network outlets

	FY2013	FY2014	FY2015	1QFY16
Food	36.7%	36.5%	36.0%	32.7%
Beverages	56.5%	57.5%	59.1%	60.7%
Merchandise	6.8%	6.0%	4.9%	6.7%

Source: Company, Angel Research

Issue details

The company is raising money through an IPO via the book building process aggregating to ₹1,150cr. Shares could be subscribed to in the price band of ₹316-328 (face value of shares: ₹10/- each). The fresh issue of shares will constitute ~17% (at the upper end of the price band) of the post-issue paid-up equity share capital of the company.

Exhibit 5: Shareholding pattern

Particulars	Pre-Issue		Post-Issue	
	No. of shares	(%)	No. of shares	(%)
Promoter group	1082,67,296	63.3	1082,67,296	52.6
Others	626,73,448	36.7	977,34,424	47.4
Total	1709,40,744	100.0	2060,01,720	100.0

Source: Company, Angel Research

Objects of the offer and proposed utilization of IPO proceeds

- Setting-up of new Cafe Network outlets and Coffee Day Xpress kiosks: ~₹88cr
- Manufacturing and assembling of vending machines: ~₹97cr
- Refurbishment of existing Cafe Network outlets and vending machines: ~₹61cr
- Setting-up of a new coffee roasting plant facility, along with integrated coffee packing facility and tea packing facility: ~₹42cr
- Repayment of loans of the company and subsidiaries: ~₹633cr
- The balance amount would be utilized towards general corporate purposes

Key investment rational

Strong brand equity with a substantial market presence

The company has strong brand equity through its retail coffee chain - Café Coffee Day, which was ranked second in the Most Trusted Brands in the food service retail category in India by The Economic Times, BE Survey, 2014. Café Coffee Day outlets enjoy wide preference and loyalty among the youth in the country, ie among people in the age profile of less than 35 years. Considering that this age group constituted ~65% of the overall population of India as of FY2013 (source: Technopak, March 2015), the company is in an advantageous position to leverage its business. Over the years, the company has been successfully able to create a strong brand on its own without any international tie-ups. Its market share in terms of number of chained café outlets as of December 31, 2014, stood at ~46%.

Strong pan-India coffee retail network targeting multiple consumption points and customer segments

Since the opening of the first outlet in 1996 in Bengaluru, the Café Coffee Day network has expanded to 1,538 outlets, covering over 219 cities. In addition, the company has 561 Coffee Day Xpress kiosks across 12 cities and 412 fresh & ground (F&G) outlets across five states in India (as of June 30, 2015). The company also has 30,916 vending machines (as of June 30, 2015) which serve corporate and institutional clients all over India. Through multiple consumption points, the company covers high street malls, petrol stations, highways, airports, hospitals, educational institutions and tourist attractions.

Other business segments

Logistics

The company's subsidiary, Sical Logistics (SLL), in which it holds 53% stake, is one of the leading logistic service providers with experience of over five decades. The subsidiary is listed on the BSE and the NSE and has a market cap of around ₹937cr. SLL's surface logistics business encompasses pan-India transportation over railways and roads, combined with value-added services viz. container freight station facilities, warehousing, custom clearances and documentation, and specialized cargo handling facilities.

Financial Services

CDEL holds 85% stake in Way 2 Wealth Securities Pvt Ltd. The subsidiary has presence in the retail investment advisory business, and provides retail broking, portfolio management services and wealth management services to its customers.

Hospitality

CDEL owns and operates three luxury resorts in the state of Karnataka. In addition, it holds a minority stake in and manages a luxury resort in Andaman and Nicobar islands.

Technology Parks

CDEL's wholly owned subsidiary - Tanglin Development Ltd is engaged in the development and management of technology parks and related infrastructure, offering bespoke infrastructure facilities for ITITES enterprises. The company has two technology parks, one in Bengaluru (Global Village) spread over an area of 114 acres (clear title of 91 acres) and another in Mangalore (Tech Bay) spread over 21 acres. In Bengaluru, the company has developed and leased 2.8mn sq ft and can further develop approximately 12.3mn sq ft of built-up office space. While in Mangalore, it has developed and leased 0.3mn sq ft of space and can further develop 1.8mn sq ft of office space.

Investments

The company also has investments in certain IT-ITES and other technology companies such as Mindtree, Ittiam, Magnasoft, and Global Edge. It holds 16.8% equity in Mindtree Solutions, which is listed on the BSE and the NSE.

Valuation

Coffee Day Enterprises Ltd (CDEL) is the parent company of the coffee chain - Cafe Coffee Day, and is the largest coffee retail company in India. It owns a network of 1,538 coffee outlets across 219 cities in India. In addition to the coffee business, the company operates in areas aimed to leverage on India's growth potential, namely, development of IT- ITES technology parks, logistics, financial services and hospitality.

CDEL, on a consolidated basis, has reported ~30% CAGR in revenue over FY2010-15 to ₹2,479cr. On the EBITDA front, the company reported a ~26% CAGR over the same period. However, on account of higher depreciation and interest costs, the company incurred a consolidated net loss of ~₹87cr in FY2015. CDEL has diversified across other businesses, which however have failed to deliver impressive financial performances so far.

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Risks to upside

- (a) Faster execution in terms of opening new retail outlets.
- (b) Subsidiary companies turning profitable sooner than expected.

Consolidated Profit & Loss Statement

Y/E March (₹ cr)	FY2013	FY2014	FY2015	1QFY16
Total operating income	2,100	2,287	2,479	623
% chg		8.9	8.4	-
Total Expenditure	1,800	1,968	2,104	521
Raw Materials	606	575	645	164
Cost of integrated logistic services	602	689	673	120
Cost of traded commodities sold	11	47	13	0
Personnel Expenses	205	226	254	77
Others Expenses	376	431	519	160
EBITDA	300	319	375	102
% chg		6.5	17.6	-
(% of Net Sales)	14.3	13.9	15.1	16.4
Depreciation & Amortisation	203	249	266	67
EBIT	97	70	110	35
% chg		(27.4)	55.7	-
(% of Net Sales)	4.6	3.1	4.4	5.7
Interest & other Charges	210	278	326	83
Other Income	50	66	69	12
Recurring PBT	(64)	(142)	(147)	(36)
% chg		122.0	4.0	-
Prior Period & Extraordinary Exp./ (Inc.)	-	-	-	-
PBT (reported)	(64)	(142)	(147)	(36)
Tax	10	(3)	12	4
(% of PBT)	(15.8)	2.5	(8.3)	(12.2)
PAT (reported)	(74)	(138)	(159)	(40)
Less: Minority interest (MI)	(7)	(14)	(18)	(2)
Add: Share in profit / (loss) of asso.	60	75	90	23
PAT after MI (reported)	(21)	(77)	(87)	(20)

Consolidated Balance Sheet Statement

Y/E March (₹ cr)	FY2013	FY2014	FY2015	1QFY16
SOURCES OF FUNDS				
Equity Share Capital	16	16	16	118
Reserves & Surplus	634	540	516	338
Shareholders Funds	650	556	532	456
Minority Interest	488	498	512	514
Total Loans	2,847	3,578	3,550	3,874
Deferred Tax Liability	30	27	29	26
Total Liabilities	4,015	4,659	4,622	4,870
APPLICATION OF FUNDS				
Net Block	1,890	1,995	1,981	1,990
Capital Work-in-Progress	749	841	997	1,029
Goodwill	496	492	498	498
Investments	381	431	516	532
Current Assets	1,735	1,934	2,019	2,133
Inventories	162	175	126	110
Sundry Debtors	313	280	334	290
Cash	346	521	743	886
Loans & Advances	766	788	649	665
Other Assets	149	170	168	182
Current liabilities	1,238	1,036	1,392	1,315
Net Current Assets	497	899	628	819
Deferred Tax Asset	1	2	3	3
Mis. Exp. not written off	-	-	-	-
Total Assets	4,015	4,659	4,622	4,870

Consolidated Cash Flow Statement

Y/E March (₹ cr)	FY2013	FY2014	FY2015	1QFY16
Profit before tax	(64)	(142)	(147)	(36)
Depreciation	203	249	266	67
Change in Working Capital	(50)	(2)	88	67
Interest / Dividend (Net)	170	245	285	75
Direct taxes paid	(47)	(17)	(21)	(10)
Others	(0)	(27)	1	1
Cash Flow from Operations	212	306	471	163
(Inc.)/ Dec. in Fixed Assets	(930)	(292)	(168)	35
(Inc.)/ Dec. in Investments	(52)	(50)	(85)	(16)
Cash Flow from Investing	(982)	(341)	(253)	20
Issue of Equity	101	-	100	-
Proceeds from / (redemption of) preference shares	-	-	-	(71)
Inc./(Dec.) in loans	799	362	191	237
Dividend Paid (Incl. Tax)	(3)	(3)	-	-
Interest / Dividend (Net)	(198)	(272)	(303)	(79)
Cash Flow from Financing	700	87	(12)	87
Inc./(Dec.) in Cash	(70)	51	205	270
Opening Cash balances	277	207	258	463
Closing Cash balances	207	258	463	733

Key Ratios

Y/E March	FY2013	FY2014	FY2015
Valuation Ratio (x)			
P/CEPS	30.1	35.1	36.5
P/BV	6.0	7.0	7.3
EV/Sales	2.9	2.8	2.5
EV/EBITDA	20.0	20.4	16.4
EV / Total Assets	1.1	1.1	1.0
Per Share Data (₹)			
Cash EPS	10.9	9.4	9.0
Book Value	55.0	47.1	45.1
Returns (%)			
ROCE	2.8	1.7	2.7
Angel ROIC (Pre-tax)	3.5	2.2	3.9

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