

Rating Rationale

Coffee Day Natural Resources Pvt Ltd

23 Aug 2019

Brickwork Ratings revises the rating for the NCDs of Coffee Day Natural Resources Pvt Ltd (hereafter referred to as CDNRPL or the company) and continues the rating on Credit Watch with Negative Implications

Particulars

Instrument	Amount (Rs Crs)	Coupon	Redemption Date	ISIN	Previous Rating (Jul 31 2019)	Present Rating
NCD	128.90 [^]	6% p.a (XIRR 12%) [@]	23-Dec-2019	INE634N07075	BWR BBB (SO) (Pronounced as BWR Triple B) Structured Obligation Credit Watch with Negative Implications	BWR BB-(SO) (Pronounced as BWR Single B) Structured Obligation Credit Watch with Negative Implications Downgraded
Total	128.90	Rupees One Hundred Twenty Eight Crores and Ninety Lakhs Only				

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings

[^]The Company had exercised the Call option on July 8 2019 and partially redeemed NCDs of Rs. 86.10 Crs out of issued amount of Rs. 215.00 crs;

[@]Redemption premium- A rate of return (calculated on XIRR basis) of 12% on the principal amount for the period commencing from the allotment date and expiring on the date on which the debentures are being redeemed

Rationale

The rating assigned to the NCDs is based on credit enhancement by way of pledge of shares of Coffee Day Enterprises Limited (CDEL - listed company and holding company of CDNRPL) by the promoters. In addition, the NCDs were secured by the personal guarantee of Mr V G Siddhartha, Founder of the Coffee Day Group and interim real estate security cover of a land parcel at Panvel.

The rating revision factors the significantly reduced financial flexibility of the company and heightened refinancing risk following the demise of its promoter, Mr V G Siddhartha, Founder of the Coffee Day group and guarantor for the NCDs. Recent developments have resulted in steep decline in the prices and market capitalization of the shares of CDEL, resulting in fall in security cover below the stipulated threshold. In view of the inability of the company to arrange for topup of security cover and comply with the NCD covenants, it is understood that the pledged shares have been invoked and transferred to the debenture holders. However, the coupon obligations till date on the rated NCDs are reported to have been met.

The demise of Mr V G Siddhartha, the associated developments and the high level of pledging of the promoters' holdings have impacted the Coffee Day Group's operations and financial flexibility. The



Coffee Day group has announced that it is in the process of deleveraging through monetizing various assets of the group so as to improve the liquidity position. However, the funds raised through monetisation of assets of the group entities would be used mainly to reduce the debt in the respective entities and balance for paring other group companies' debt. CDNRPL is a company owned by Mr VG Siddhartha (99.9995%) and his wife, Mrs Malavika Hegde (0.0005%). At this stage, there are no demonstrated sources of funding for meeting the coupon and redemption obligations due in September 2019 and December 2019 respectively.

The Rating is continued on Credit Watch with Negative Implications in view of the current uncertainty surrounding the company's liquidity position and lack of plan to service the NCDs as per terms. BWR would continue to engage with the management on these matters and shall take appropriate rating action as and when further clarity emerges in this regard.

The ability of the Company to service its NCD obligations on Sep 23 2019 and Dec 23 2019 as per stipulated terms is the key rating sensitivity and any delay in this regard would result in rating downgrade.

Analytical approach

For arriving at its ratings, Brickwork Ratings has applied its rating methodology as detailed in the Rating criteria below (hyperlinks provided at the end of this rationale).

Key rating drivers

- **Weakened financial flexibility at Coffee Day Group level:** The ability of the Coffee Day group to support its group entities is constrained under the current circumstances. CDEL has announced certain divestments and is reported to be working on monetisation of other group assets in the coffee and non coffee related businesses. Sale proceeds from such divestments are expected to ease liquidity at the group level and reduce the debt position. The extent of deleveraging and timelines are a key rating sensitivity factor. The Coffee Day group has announced that it would honour the debt obligations of the group.
- **High refinancing risk and promoter support for debt servicing:** Due to the NCD servicing obligations over the next 4 months, the company is exposed to refinancing risk as its ability to raise funds has been adversely impacted. As the company does not have any operations of its own, it is entirely reliant on support from the promoters or refinancing for meeting its debt obligations. However, in view of the recent material developments, refinancing options and the promoter support are significantly jeopardised. Funding support from promoters, if any, may be by way of their share of the proceeds from the ongoing divestments and proposed assets monetisation of the group, as and when the transactions are concluded. In order to mitigate the liquidity pressure, timely divestment will be important.
- **Steep erosion in market capitalisation of pledged shares and depletion of security cover:** The volatility and sharp decline in share prices of CDEL by around 62% since July 30 2019 have



contributed to a significant diminution in the value of security cover of the rated NCDs. As against 2x cover to be maintained, present security cover is around 0.5x only, which has triggered the invocation of pledged shares. However, it is learnt that the invoked shares are yet to be liquidated.

- **Lack of clarity on NCD servicing:** The coupon to be serviced on the rated NCDs of CDNRPL on Sep 23 2019 is around Rs 1.93 Crs and on Dec 23 2019, the amount payable on maturity is ~Rs 154 Crs. The company has not shared any demonstrable plan for servicing of the coupon on NCDs due in September 2019 or the redemption amount due in December 2019. It is understood that the company is in talks with the investors regarding servicing of the NCDs.
- **Weak Financial Risk Profile :** The company is essentially engaged in raising funds for group entities and as such, its financial risk profile is weak with no revenue, negative net worth, deteriorated capital structure and poor liquidity. Monetisation of assets is not an option as the company does not have any fixed assets of its own.

About the Company

Coffee Day Natural Resources Pvt Ltd (CDNRPL) was originally incorporated as Way2Wealth Holdings Pvt Ltd in 2008. Its name was changed to Coffee Day Natural Resources Pvt. Ltd. in Aug 2011. CDNRPL is owned by Mr. V G Siddhartha, the founder of Coffee Day Group. The Company is primarily involved in raising funds and supporting other entities of the Coffee Day Group.

The Board of Directors comprises Mr Deepak Ranganna and Mr Bharath Joldal Rajegowda.

[Previous Rating Rationale](#)

Financial Performance

Key Parameters	Units	31 Mar 2017	31 Mar 2018
Result Type		Audited	Audited
Total Operating Income	Rs. Crs	0.00	0.00
EBITDA	Rs. Crs	(3.95)	(0.10)
PAT	Rs. Crs	(3.30)	(0.07)
Tangible Net worth	Rs. Crs	(259.70)	(294.20)
Total Debt	Rs Crs	389.00	314.00



Rating History for the last three years

Sl. No.	Instrument	Current Rating (2019)					Rating History		
		Type	Amount (Rs Crs)	22 Aug 2019	31 July 2019	02-Jan-2019	31-Dec-2018	28-Dec-2017	19 Dec 2016
1	NCD	Long Term	128.90	BWR BB-(SO) (Pronounced as BWR Single B) Structured Obligation Credit Watch with Negative Implications Downgraded	BWR BBB (SO) (Pronounced as BWR Triple B Structured Obligation) Downgraded and placed on Credit Watch with Negative Implications	BWR A- (SO) (Pronounced as BWR A Minus) (Structured Obligation) Outlook:Stable Reaffirmed	Rating Not Reviewed	BWR A- (SO) (Pronounced as BWR A Minus) (Structured Obligation) Outlook:Stable Reaffirmed	BWR A- (SO) (Pronounced as BWR A Minus) (Structured Obligation) Outlook:Stable Assigned
Total			128.90	Rupees One Hundred Twenty Eight Crores and Ninety Lakhs Only					

Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Ratings Policy](#)
- [Structured Obligation \(SO\) Instruments](#)
- [Approach to Financial Ratios](#)

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Note on complexity levels of the rated instrument:

BWR complexity levels are meant for educating investors. The BWR complexity levels are available at www.brickworkratings.com/download/ComplexityLevels.pdf Investors queries can be sent to info@brickworkratings.com.

About Brickwork Ratings

Brickwork Ratings (BWR), a SEBI registered Credit Rating Agency, accredited by RBI and empaneled by NSIC, offers Bank Loan, NCD, Commercial Paper, MSME ratings and grading services. NABARD has empaneled Brickwork for MFI and NGO grading. BWR is accredited by IREDA & the Ministry of New and Renewable Energy (MNRE), Government of India. Brickwork Ratings has Canara Bank, a leading public sector bank, as its promoter and strategic partner.

BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations.

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