

## Rating Rationale

### Coffee Day Natural Resources Pvt Ltd

10 Sept 2019

Brickwork Ratings revises the rating for the NCDs of Rs. 128.90 crs 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)		Tenure	Rating*	
	Previous	Present^		Previous (23 Aug 2019)	Present
NCD	128.90	128.90	Long Term	<b>BWR BB-(SO) Credit Watch with Negative Implications Downgraded</b>	<b>BWR C(SO) Credit Watch with Negative Implications Downgraded</b>
<b>Total</b>	<b>128.90</b>	<b>128.90</b>	<b>Rupees One Hundred Twenty Eight Crores and Ninety Lakhs Only</b>		

\*Please refer to BWR website [www.brickworkratings.com/](http://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;

*The rating for 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 the Coffee Day Group) by the promoters/promoter entities/Coffee Day group entities. In addition, the NCDs were secured by the personal guarantee of Mr V G Siddhartha, Founder of the Coffee Day Group and and interim real estate security cover of a land parcel at Panvel.*

### Rating Action

The revision in rating takes into account the increased likelihood of the company not meeting its impending coupon obligations due on September 23 2019 due to its significantly deteriorated liquidity and financial flexibility and absence of any demonstrable plan for servicing the NCDs as per terms, indicating a very high risk of default.

The previous rating action taken by BWR on August 23 2019, had factored 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. The steep decline in the prices and market capitalization of the shares of CDEL had resulted in fall in security cover below the



stipulated threshold and in view of the inability of the company to arrange for topup of security cover, over half of the pledged shares have been invoked and transferred to the debenture holders. Coupon obligations till date on the rated NCDs are reported to have been met.

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, as stated earlier by BWR, 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%). The company has not shared any 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 significant uncertainty surrounding the company's liquidity position, its deteriorated ability to service the rated NCDs and significantly strained refinancing ability. BWR would continue to follow up with the company regarding timely servicing of the NCDs and shall take appropriate rating action as and when information is available in this regard.

### **Key Rating Drivers**

Please refer our latest rationale [Rating Rationale\\_Aug23\\_2019](#)

### **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).

### **Rating Sensitivities**

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

**Positive triggers:** Timely servicing of NCD obligations and improvement in liquidity through probable funding support from promoters by way of their share of the proceeds from the ongoing divestments and proposed assets monetisation of the Coffee Day group may result in positive rating action.

**Negative triggers:** Any delays in servicing the coupon and principal payments of the rated NCDs on the due dates would result in negative rating action.

### **Liquidity: Poor**

Liquidity is poor and there is an absence of clarity on the sources of funding for servicing of the coupon on NCDs due in September 2019 or the redemption amount due in December 2019. 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. As such, debt servicing by the company remains dependent on funding from the promoters or refinancing, with both options being severely jeopardised presently.

### 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.

For other details, please refer to our latest press release [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

**Key covenants of the rated facilities:** 2x Security Cover by way of pledge of shares of Coffee Day Enterprises Ltd

**Status of non-cooperation with previous CRA:** NA

**Any other information:** Not applicable

### Rating History for the last three years

Sl. No.	Instrument	Current Rating (10 Sep 2019)			Rating History					
		Type	Amount (Rs Crs)	Rating	22 Aug 2019	31 July 2019	02Jan2019	31-Dec-2018	28-Dec-2017	19 Dec 2016
1	NCD	Long Term	128.90	<b>BWR C(SO) Credit Watch with Negative Implications</b>	BWR BB-(SO) Credit Watch with Negative Implications	BWR BBB (SO) Credit Watch with Negative Implications	BWR A- (SO)/ Stable	Rating Not Reviewed	BWR A- (SO) /Stable	BWR A-(SO) /Stable
<b>Total</b>			<b>128.90</b>		<b>Rupees One Hundred Twenty Eight Crores and Ninety Lakhs Only</b>					

### Complexity levels of the Instrument

For more information, visit [www.brickworkratings.com/download/ComplexityLevels.pdf](http://www.brickworkratings.com/download/ComplexityLevels.pdf)

### Hyperlink/Reference to applicable Criteria

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

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## ANNEXURE I INSTRUMENT DETAILS

Instrument	Issue Date	Amount (Rs Crs)	Coupon	Maturity Date	ISIN
NCD	23-Dec-2016	128.90	6% p.a (XIRR 12%)@	23-Dec-2019	INE634N07075

*@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*

Additional information is available at [www.brickworkratings.com](http://www.brickworkratings.com). The ratings above were solicited by, or on behalf of, the issuer, and therefore, Brickwork Ratings has been compensated for the provision of the ratings.

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