

CCD Cafe's Capabilities and Diversified Strategies

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India's alternative to Starbucks was intended to be Cafe Coffee Day. It promptly captivated the hearts of India's growing middle class when it opened business in 1996 with the tagline "A lot can happen over coffee." CCDs provided the ideal venue for everyone who wanted to be a part of the chic coffee culture. You may go out on dates, attend job interviews, or simply hang around with your buddies. India had almost 1,700 CCD outlets at one point, scattered across the countries, many cities and highways.

However, the last 7–8 years haven't exactly worked as planned for the company. Several coffee houses began to pop up all throughout India, and Starbucks also joined the race which in turn disturbed the velocity of CCD.

When parent firm Coffee Day Enterprises Ltd (CDEL) decided to go public in 2015, and it didn't exactly excite investors, either. Despite the support of Infosys founder Nandan Nilekani and renowned capitalist Rakesh Jhunjhunwala, it only received 1.64 times the amount of stock it sold. It indicates that there wasn't a lot of interest in the company's stock. CCD was losing market share, but it wasn't the only reason. It was also due to the company's overstraining of resources. It had cafes, vending machines, real estate, logistics, a major investment in Mindtree, and even its own broking and wealth management firm, Way2Wealth (what???). It had 49 branch offices. Quite a bit of it wasn't a core or central point of CCD's expertise. While the company's coffee business was doing well, several of its other diversification initiatives had previously failed. Because investors were sceptical of resurgence, the company's stock never floated above the IPO price.

Then there was the bombshell, in July 2019 V.G. Siddhartha, the founder of the coffee empire, committed suicide. Then there were accusations that CDEL had diverted over 3,500 crores into V.G. Siddhartha's company, Mysore Amalgamated Coffee Estates Limited (MACEL). CDEL had also accumulated a large amount of debt and had waited almost a year to file its yearly financial accounts. Finally, SEBI, India's stock exchange, had to halt trade in the shares for more than a year and things appeared to be terrible.

But then, seemingly out of nowhere, the stock price begins to rise. So, what's the deal? Especially given the company's current state of affairs.

We don't know for sure, but one notion is that it's all part of the storyline. For the past several days, social media has been buzzing with discussion on how Malavika Krishna, the late founder's wife, has brought the company around. It details how, despite the pandemic, she has been paying off CCD's debts, which have decreased from over 7,000 crores in 2017 to only 2,000 crores currently.

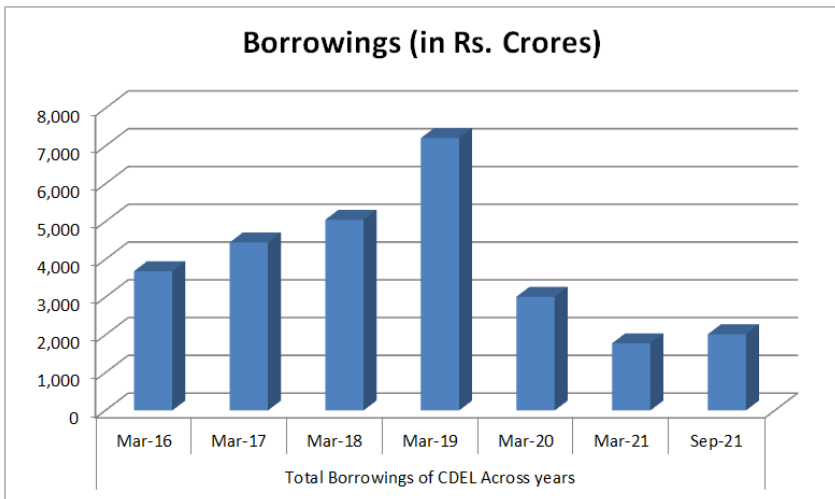


Figure 2.1: Total Borrowings of CDEL across Years

Source: screener.in

This storey has been picked up by a slew of social media and web outlets. According to one idea, ordinary investors have begun to chase because of all the great press coverage.

However, in answer to an enquiry from the stock exchange, the company stated:

We hereby notify that, to the best of our knowledge, we do not have any events, information, or other price sensitive information that has an impact on the company's operation/performance. As a result, any movement in the price of

the Company's shares is attributable directly to market dynamics and is completely market driven, and the Company's management is unconnected to such variations in price of share.

And they're partly correct. In the last two weeks, nothing has truly changed. Some speculate that it's due to the rumours of a possible sale of the coffee company to Coca-Cola. However, those rumours have been around for some time and nothing has come of them. What happened to the storey about all that debt being paid off?

That's simply the company's non-core business being sold off. This is exactly what they've been doing to pay off their debts. Again, it's public knowledge, and it's been in the works for at least two years (see the chart above again). They sold a tech park in Bangalore to private equity firm Blackstone Group for Rs. 2,700 crore in a deal that was completed in early 2020.

But wait, there's more. Despite paying off all of its debts, CDEL went into default in April 2021, and lenders were considering taking the company to bankruptcy court. Even potential suitors, such as the TATA Group, who had been considering purchasing CCD's vending business, were turned off by these developments. Sical, the company's logistics business, is currently going through the procedures in bankruptcy court.

Finally, CCD's financials do not inspire much optimism. Since the epidemic hit, revenues have remained stagnant for a while, and the company has been losing money.

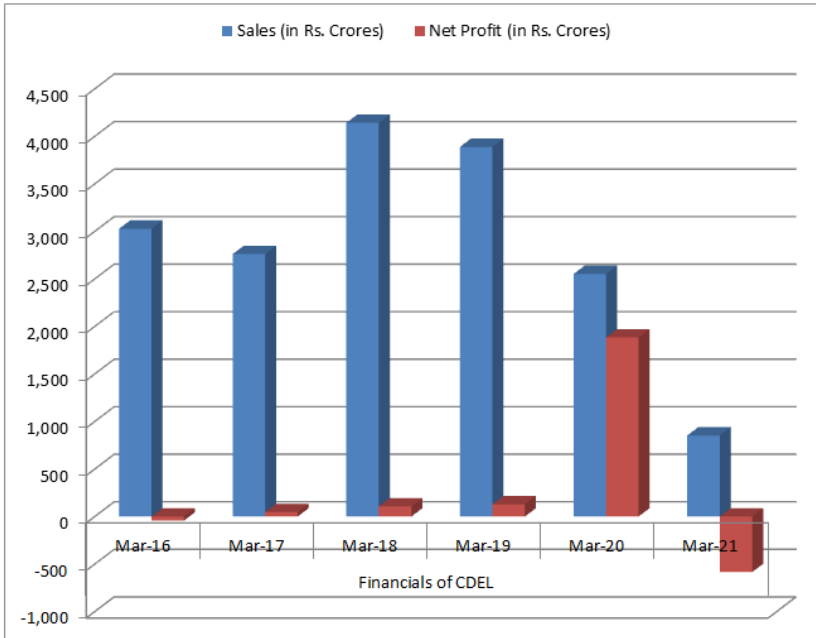


Figure 2.2: Financials of CDEL

QUESTIONS:

1. Why the company had many diversified initiatives while coffee business was doing reasonably well? Wasn't CCD unaware of its core or central competence? Why and why not?
2. Why there's sudden unexpected rally? Does something happen great to the company? Discuss.
3. Analyze the case and suggest an alternative strategy for turnaround of CCD.