

A Study on  
**A Study of Financial crises on Café Coffee Day**

Kondhukuri Jyothi

Student

Department of Management [MBA Finance]

Anurag University, Hyderabad, Telangana, India.

**Mrs. P. Kalpana**

(Assistant Professor)

Department of Management

Anurag University, Hyderabad, Telangana, India.

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## Abstract

Café Coffee Day, or CCD, is the most well-known and preferred hangout for coffee and conversations in India. CCD is part of Coffee Day Global Limited. It succeeded in influencing many people who preferred tea in a country that is known for its love of tea with the slogan "A lot can happen over coffee." In 1996, the first CCD cafe opened on Brigade Road in Bangalore, and it is still one of the coolest places in the city. For the youth, CCD is a place to "hang out" where they can get to know people, start conversations, and have a great time while enjoying steaming cups of top-notch coffee. The journey has been quite exciting since, and the chain has expanded to become the greatest organized chain of retail cafés in the country. The company's founder, V.G. Siddhartha, started Café Coffee Day with considerable success. This study looks at the company's financial issues and their effects, which led to the founder's passing in the end. The final objective of the study is to pinpoint the elements that, even though the company was making a profit at the time, contributed to the financial crisis and debt. The capital structure, the current state of CCD, failure, crisis, and other factors are all evaluated in this study. Most of the study technique has been incidental in nature. The importance of the future scope of actions is also covered in the study.

**Keywords:** CCD, Coffee, financial crises, demise

## Introduction

In India, Cafe Coffee Day was the first coffee establishment to open. The idea to increase the popularity of coffee in a nation where tea is preferred was developed by the owner and founder, VG Siddhartha. CCD was the owner of the biggest coffee estate in Asia and the most well known coffee brand in India. The catchphrase of CCD, "A lot can happen over coffee," which comforted them that all they needed to talk things out was a cup of coffee and a quiet setting, attracted millions of Indian youngsters. Because most people in India drink tea, the brand was

effective in boosting the popularity of coffee there. the primary activity of the café chain, Coffee Day Global, which was founded in 1993. The first CCD store debuted on Brigade Road in Bangalore, Karnataka, on July 11, 1996. For the first CCD store, V.G. Siddhartha invested Rs. 1.5 crore. The German businessman Siddhartha met was keen to buy coffee beans from him because "Tchibo" is the most well-known coffee brand in Germany. The German businessman spoke briefly and described how his organization got its start in a small Hamburg shop. The Tchibo's amazing story affected Siddhartha and offered him new insight into the world as well as the bright idea to open a coffee shop in India. In actuality, the creator of the CCD sells between 6,500 and 7,000 tonnes of branded coffee yearly, exports around 28,000 tonnes, sells an additional 2,000 tonnes locally, and has the biggest national curing capacity of 75,000 tonnes. Despite his initial trepidation, he has succeeded in reaching his goal of 500 tonnes. 40,000– 50,000 additional people use his cafés each week. On July 29, 2019, Siddhartha vanished, and two days later, his body was found in the Nethravathi River backwaters. In a letter that was made public and is said to be addressed to the board of directors and personnel, Siddhartha apologizes for not creating a successful business plan

## Data Analysis

### Objectives: -

- To study the profitability of CCD before and after crises (Two years before and two years after crisis)
- To analyse the capital structure of CCD before and after crises
- To identify the major reasons behind the failure of CCD
- To evaluate the present scenario of CCD.

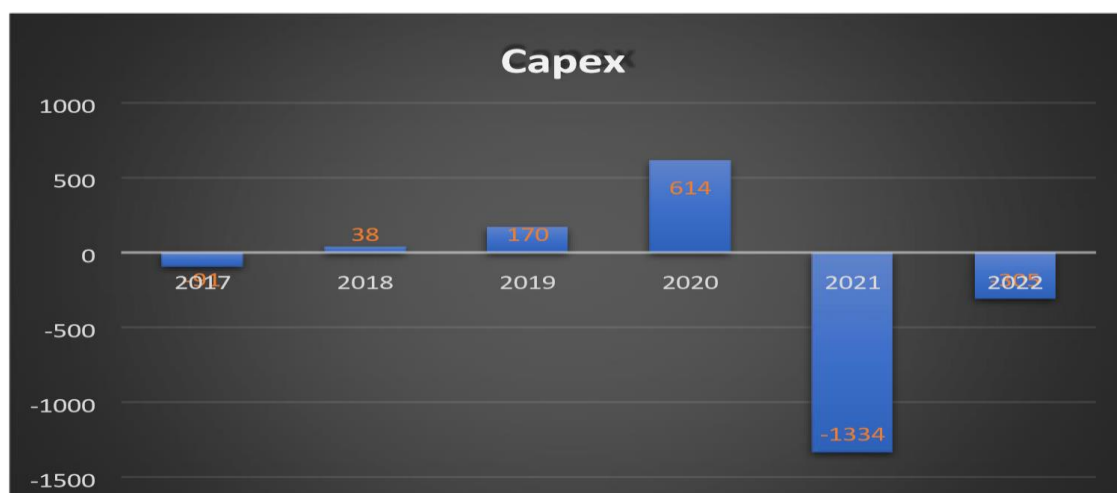
This analysis mainly focuses on the financial criteria on different segments likely Capital Expenditure, Revenue, Cash Flows, Financial Position and also the Profitability criteria. And the analysis mainly considered from the financial year 2017 to financial year 2022 and like wisely the updates of the financial year 2023 "3rd quarter".

- 1. Capex (Capital Expenditure)-** The money an organization or business body spends on its fixed assets, such as buildings, cars, equipment, or land, is known as capex. When an item is newly purchased or when funds are used to increase the useful life of an existing asset, like fixing the roof, it is regarded as a capital expenditure.

The calculation of capex is  $\text{Net increase in PPE} + \text{Depreciation expenses}$

Capex	2017	2018	2019	2020	2021	2022
PPE	-66	5	160	454	-1,304	-53
Depreciation	-25	33	10	160	-30	-252
T-Capex	-91	38	170	614	-1334	-305

### 1.1 Figures of Capex



### 1.2 Graphical representation of Capex (Capital Expenditure)

**Interpretation-** In comparison of all the six financial years that are 2017,2018,2019,2020,2021 and 2022 of the café coffee day as in aspects of analysis. In the financial year after the crises occurred the assets as the value of the total capex 2019 170 crores. And in the financial year 2020 the PPE was 454 crores and the total capex is 614 crores in following financial year. In the year 2021 the total capex was -1334 crores where the management has spent all the assets in clearing all the debts of the café coffee day company. In the financial year 2022 the value capex is -305 crores and as the total PPE was reduced to -53 crores.

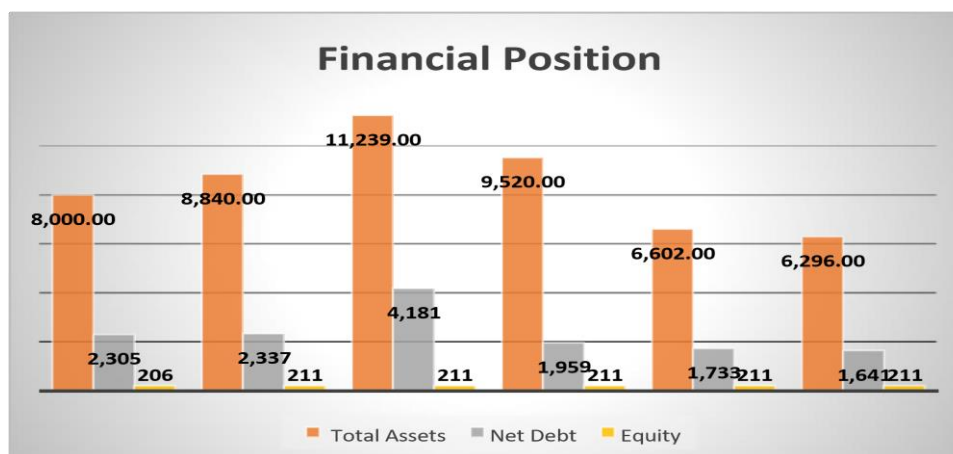
As the capex is generally is used to measure the strength of the company as in the market for the future estimations in terms of profits and incomes

- 2. Financial Position** - Financial Position is a measure that it includes all the data and financial information of all the aspects of the business organisation where it states the entire position of the company with inclusion of different aspects and with different dimensions of the different accounting line items. The major financial aspects which are considered as Total Assets, Net Debt and the Equity in terms to analysis the financial position.

Formula of the Financial Position calculation is  $\text{Assets} = \text{Liabilities} + \text{Owner's equity}$

Years	2017	2018	2019	2020	2021	2022
Total Assets	8,000.00	8,840.00	11,239.00	9,520.00	6,602.00	6,296.00
Net Debt	2,305	2,337	4,181	1,959	1,733	1,641
Equity	206	211	211	211	211	211

### 2.1 Figures of Financial Position



## 2.2 Graphical representation of Financial Position

**Interpretation** - In all the financial years with comparison of six financial years as respectively 2017,2018,2019,2020,2021 and 2022. As before the crisis occurred to the café coffee day company till the financial year 2019 the total assets were in a better state and from the financial year of 2020 – 2021 decreased to 6,602 crores as most of assets are used to clear all the liabilities and debt of the company. And as similarly, the net debt is decreased to the value 1,959 crores in the financial year, from 4,181 crores in the financial year 2019 and in the latest year 2022 the net debt is 1,641 crores rupees. And the equity in the financial years as following respectively 2018,2019,2020,2021 and 2022 the value of the Equity is 211 crores as it stated with consistency. In the end there are also many other line items which plays a significant role in the financial report as accordingly to the financial year to measure to company, Assets and the liabilities plays a vital role in any business organisation and corporate industries.

**3. Trend Analysis** - Financial statements are used in the technique of trend analysis, which identifies market patterns and predicts future performance. In order to find economic patterns, data is gathered from records and plotted on a graph.

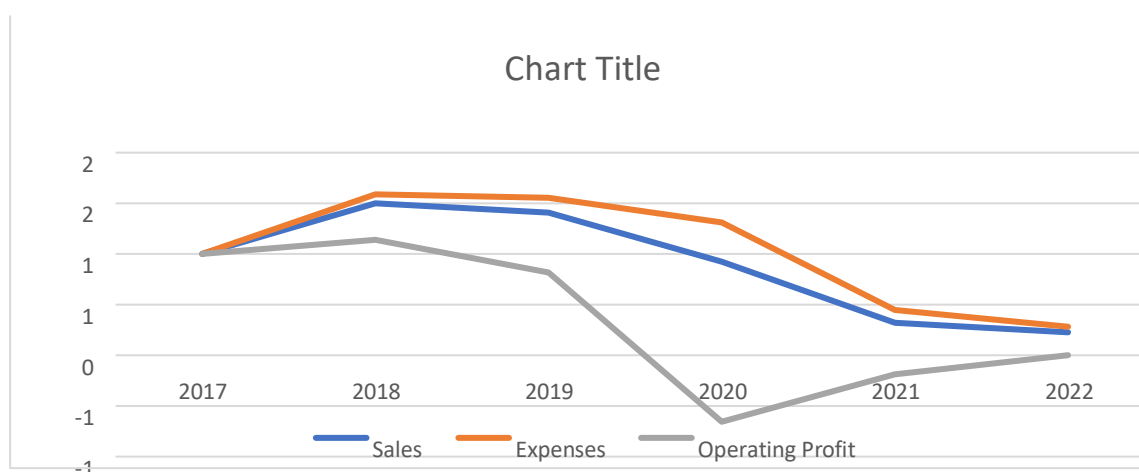
For the below analysis sales, expense and operating profit are considered to know the current position of the company

Years	2017	2018	2019	2020	2021	2022
Sales	2,761	4,142	3,889	2,552	888	626
Expenses	2,217	3,522	3,445	2,909	991	625
Operating Profit	544	620	444	-357	-102	1

## 3.1 Figures of trend analysis (before calculating)

Years	2017	2018	2019	2020	2021	2022
Sales	1	2	1	1	0	0
Expenses	1	2	2	1	0	0
Operating Profit	1	1	1	-1	0	0

### 3.2 Figures of trend analysis (after calculating)



### 3.3 Graphical representation of Trend Analysis

**Interpretation** - In all the financial years with comparison of six financial years as respectively 2017, 2018, 2019, 2020, 2021 and 2022. As before the crises occurred to the café coffee day company till the financial year 2019 the sales, expenses and profits are performing well. Therefore, the crises started in the year of 2019 the sales, expenses and profits has reduced and these leads to huge losses and crises. (Profits are in negative – no profits) From the year 2020 there are slight changes in profits and reduction in expenses and also increase in sales. Profits are increasing slowly.

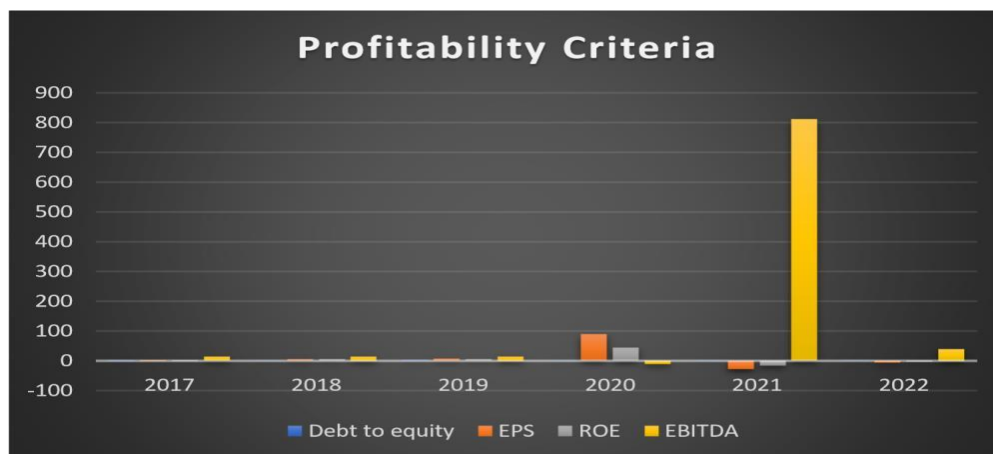
- Profitability Criteria** is a measure where we can state the company in particular financial position by making an analysis on the ROE of the company and as well as the Debt to equity and also the EBITDA as simply by analysing the companies some of the key aspects in a particular financial year as accordingly and respectively, where as a company has different dimensional expenses and incomes which also plays a significant role in yearend audit forming and from that all aspects the assets and the liabilities plays a vital role in every business organisation.

**Return on Equity (ROE)** The return on equity (ROE) is a metric used to assess a company's profitability in relation to its equity. The formula below can be used to compute shareholder's equity, which is equal to the sum of all assets minus all obligations. ROE can also be thought of as the return on assets less liabilities.  $(\text{Net income} / \text{Common equity on average})$ .

**EPS** The company's net income is divided across each outstanding common share to calculate earnings per share (EPS). The formula shown below is used to determine the earnings per share. (EPS) is calculated as Net Income divided by the Average Outstanding Shares of the Company.

Profitability Criteria	2017	2018	2019	2020	2021	2022
Debt to equity	1.75	1.68	2.59	0.48	0.2	0.47
EPS	2.24	5.03	6.03	89.16	-27.64	-5.71
ROE	2.19	4.46	5.04	43.76	-15.71	-3.34
EBITDA	12.63	13.76	14.07	-11.11	810.73	39.13

#### 4.1 Figures of Profitability Criteria



#### 4.2 Graphical representation of Profitability Criteria

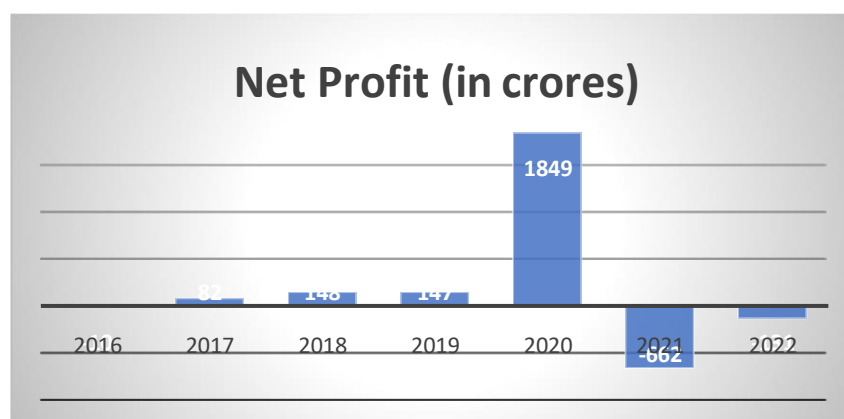
**Interpretation-** In the above graphs and table, the particular financial years 2017, 2018, 2019, 2020, 2021 and year 2022 defines that the different frictions accordingly to the financial aspects and to the years respectively. In the year 2020 slight next year after the crises occurred the EPS was 89.16 crores in the state of market. And when compared to all the financial years after the crises occurred to the café coffee day company that in the year 2021 EBITDA is 810.73 crores higher and the return on earnings are quite low. The debt to equity from all the years as after the crises the Debt to equity was decreased to the value of 0.48 crores in the financial year 2020 and in the year 2021 it was 0.2 crores. Return on Earnings in the financial year 2019 was 5.04 crores and in the year 2020 its was 43.76 crores as the reason behind the sudden increase in the return, the company café coffee day had not performed accordingly to the government rules and regulations and also to their manifestations as accordingly to the Indian country financial budget of the particular financial year.

- 5. Net Profit** is the sum amount of a consolidated income which is gained the from the sale of goods and services to the customer on the net income and after deducting expenses, taxes, interests, amortisation in an organisation at a particular financial year is known as Net Profit.

Net Profit = Net Revenue – Net Expenses.

S. No	Year	Net Profit (in crores)
1	2016	-10
2	2017	82
3	2018	148
4	2019	147
5	2020	1849
6	2021	-662
7	2022	-131

#### 5.1 Figures of Net Profit



#### 5.2 Graphical representation of Net Profit

**Interpretation-** In the year 2018 the crises have occurred to the café coffee day company as which is one of the famous coffees houses these days the Net Profit in the financial year 2018 was 148 crores and as in the financial year 2019 the Net Profit of the company was 147 crores. And in the financial year 2020 there was a massive change in the financial supplements of the company, whereas the margin towards up is far different when compared to the financial year 2018 and 2019, as the value of Net Profit in the financial year was 1,849 crores. In the year 2021, mainly due to negligence in maintaining proper audit in the company and as well as illegal aspects against government there is drastic change in the financial year 2021, the value of the Net Profit in year 2021 was -662 crores, where the

company is in the full of debt position and looking forward to revamp the whole café coffee day manifestations and also the entire management systems. In the financial year 2022 the value of the Revenue debt was slight decreased to -131 with many adjustments by the new crew of the café coffee day coffee house company.

### **Latest news of Café Coffee Day as financial year 2022 – 2023**

- In Wednesday's trading, shares of Coffee Day Enterprises increased 11% after an ET NOW article citing sources claimed that 1.01 million of the company's shares were traded.
- On the NSE, the stock increased by almost 11% to Rs 73.5 per share. The stock gained more ground later in the day before trading nearly 5% higher.
- In the previous seven days, Coffee Day Enterprises' stock price in New Delhi has increased by 70%. Following the gains from the previous week, the stock started the week off with strong gains of 6% throughout the trading day on Monday, according to Good Returns.
- The current price of the company's shares, Rs 72.35, is extremely near to its 52-week high. The stock rose a staggering 6% on Monday, and it rose another 3% on Tuesday morning.
- The upcoming book "Coffee King: The Swift Rise and Sudden Death of CCD Founder V.G Siddhartha" will be adapted for the screen by production companies T-Series and Almighty Motion Picture, it was revealed on Friday.
- Sisal Logistics was recommended by Coffee Day Enterprises and received four competitive bids during insolvency proceedings.
- The worst is over since we have lessened the debt load, said the new CEO of Coffee Day Enterprises. (Malavika Hegde).

### **Findings –**

- There is no proper debt management
- No proper control over financing decisions
- Recurringly borrowing money from banks and private equity funds at absurdly high interest rates of 18 to 20 percentage points
- There were IT raids and cases against the owner for financial fraud and disguising revenue, which led to the attachment of various shares and property.
- There are no legitimate IT returns being filed. (362 crores)



**Suggestions –**

- Constructing a strong strategy to overcome the debt
- Building a new business model for better revenue growth
- Maintaining proper IT return filing according to the terms
- Removing some of the coffee vending machines which are in not use
- Avoiding unnecessary contracts in certain areas which are not profitable.

**Conclusion –**

This case study aims to identify the factors that led to the collapse of the biggest organized retail café chain in the nation. The causes of the company's financial losses were examined in this investigation. The owner, VG Siddhartha, was unable to handle the stress and circumstances effectively and ultimately committed suicide. There were IT raids, cases of financial fraud against the owner, and revenue concealing, which resulted in the attachment of various shares and assets. Because most Indians preferred tea to coffee when the company was started, CCD's largest challenge was to bring about a fundamental change in Indian culture and people's attitudes. In order to counter the dangers faced by domestic businesses and overseas competitors like Costa Coffee, Starbucks, and Costa, it established a 3A strategy, which stands for accessibility, affordability, and acceptability. Since opening its first site in Bengaluru in 1996, the company has expanded to operate 1,740 CCD outlets throughout 250 different cities. The business plan of CCD was quite flawed. The corporation began taking out debentures, which were short-term, high-interest loans, to pay down their long-term debt because they had a lot of debt. Thus, the debt load increased. Due to pressure from the IT raids, litigation, and requests from a private organization to buy back shares, V.G. Siddhartha ultimately gave in to everything. The corporation selected Ernst and Young as its auditing firm to examine its financial records in September 2019. Coffee Day Enterprises Limited stated in March 2020 that it has struck an agreement to sell Global Village Technology Park, a 90-acre tech park outside of Bengaluru, for a total of \$27 billion. This is done in order to pay off the debt of the promoters and affiliate companies of CCD.

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