A CASE ANALYSIS ON THE FINANCIAL CRISIS OF CAFÉ COFFEE DAY

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ABSTRACT

Café Coffee Day, popularly known as CCD is India’s most preferred and favourite hangout place for coffee and conversations. CCD is a part of Coffee Day Global Limited. It came up with its tagline ‘A lot can happen over coffee’ and turned the perspective of the people of tea loving country. The first CCD café was opened in 1996 at Brigade Road in Bangalore and it continues to be one of the most happening places in the city. CCD to the youth is a “hangout” spot where they meet people, make conversations, and have a whole lot of fun over steaming cups of great coffee. The journey was quite exciting since then and it became the largest organised retail cafe chain in the country. The founder V.G.Siddhartha was very successful in establishing Café Coffee Day. This study analyses the financial crisis faced by the company and its aftermath that eventually lead to the demise of the founder. The ultimate aim of the study is to find the causes that lead to the financial crisis and debt even though when the company was posting profits.

KEYWORDS: CCD, coffee, financial crisis, demise
INTRODUCTION

Café coffee Day (CCD) was the first-ever coffee chain opened in India. The owner and founder VG Siddhartha was the man behind making coffee popular in a nation of tea-loves. CCD owned Asia’s single largest coffee estate and India’s best coffee brand. CCD came up with the tagline ‘A lot can happen over coffee’, which touched the hearts of millions of Indian youth, assuring them that all they need is a cup of coffee and a peaceful place to talk it all out! India was strictly a tea-loving country and the brand successfully made coffee popular in a country. Coffee Day Global which is the parent of the Cafe Coffee Day chain was incorporated in 1993. The first CCD outlet was set up on July 11, 1996, at Brigade Road, Bangalore, Karnataka. The first CCD outlet was opened by V.G. Siddhartha with an initial investment of ₹ 1.5 crores.

Siddhartha comes across a German business owner, who was interested in buying coffee beans from him for his leading coffee brand in Germany “Tchibo”. The German businessman during a brief discussion and interaction told his story that how his brand has started in a small shop in Hamburg. This inspiring tale of the Tchibo gave Siddhartha an outlook of a different world altogether & opened his eyes and it also gave him a wonderful idea to start a coffee outlet in India. CCD founder, who feared of achieving a target of 500 tonnes, ends up selling 6,500-7,000 tonnes of branded coffee, exports about 28,000 tonnes of coffee and sells another 2,000 tonnes locally each year and has a curing capacity of 75,000 tonnes which is largest in the country. Additionally, his cafes attract at least 40,000 to 50,000 visitors per week.

REVIEW OF LITERATURE

Dr. S. Gayathry (2017) in the study “A lot can happen over Coffee (A study with special reference to Café Coffee Day” stated the journey of CCD in brewing fresh formulations to stay relevant in the market.

Sahil Khanna (2019) in the article “Café Coffee Day (CCD) Most detailed Case Study| Owner VG Siddhartha” mentioned the problems faced by CCD and the downfall of Café Coffee Day.

PTI (2019) report on “I-T dept. says CCD’s Siddhartha accepted holding black money, disputes his signature on letter” gave the details of the IT cases against the owner and CCD.


OBJECTIVE OF THE STUDY

This case study aims to analyse the financial crisis of the Café Coffee Day. The ultimate aim of the study is to find the reasons why the company was in crisis or debt even though it was posting profits. It also states the financial pressure and burden faced by the founder which ultimately led to his demise.

RESEARCH METHODOLOGY

Exploratory descriptive research was used for this case study analysis on the financial crisis faced by CCD. The research method involves comprehensive secondary study on Café Coffee Day and provides all the reasons and causes for the losses at CCD. This case study provides the qualitative information about the financial crisis of CCD through secondary market research. The data is collected by various resources such as news outlets, company website, newspapers and research papers.
The business idea of CCD was debt centric. The borrowed money from the market as a lot of money is required to run the business. To make the first store in 1996, it took around 1.5 crores since the investment on the assets were very high. CCD opened more than 1700 stores and because of this huge debt was accumulated. In 2015, CCD had accumulated a debt of ₹ 6328 crores. They launched an IPO of 1150 crores to raise money from the public to lower their debt. In 2018, they had a debt of 4411 crores which rose to ₹ 6547 crores in March, 19. Because they were in such a heavy debt, they started taking short term loans in the form of debentures with high-interest rates to pay off their long term debt. This resulted in a more heavy debt burden. The company however was posting profits. In March, 2019 the revenue of the company was ₹ 4264 crores and they made a profit of ₹ 143 crores. This profit was not sufficient to cover the huge debts of the company.

The major crisis started after an income tax raid on the company. The investigation arose in the case of V.G.Siddhartha and the Café Coffee Day after credible evidence of financial transaction done by CCD was unearthed in the case of a political leader of Karnataka. A person holding citizenship of Singapore was also covered in the search action by the IT team and he was found with unaccounted cash of ₹ 1.2 crores and admitted that the cash belonged to V.G.Siddhartha. The Income Tax (IT) department raided on Cafe Coffee Day (CCD) retail chains and found about ₹ 362 crores concealed income. The owner later admitted to the unaccounted income of ₹ 362.11 crores and ₹ 118.02 crores in the hands of him and Coffee Day Enterprise Ltd respectively. In January 2019, Siddhartha tried to sell his MindTree shares to gain capital but the deal was stopped by the IT dept. and it seized all his shares in the company. In March 2019, after negotiations with IT dept. he had sold his entire 20.32 per cent stake to L&T for around ₹ 3,200 crores, which had been utilised to pare some debt from Coffee Day Enterprises' balance sheet. The main auditor of the outlets BSR associates wrote a letter to the shareholders of CCD that they have not audited 40 subsidiaries of Cafe coffee day. This resulted in shareholders backing off and denied to provide further funds. The shareholders pressurized him to buy back his shares.

Coffee Day Enterprises, the holding firm of Coffee Day, had a total debt of around ₹ 6,550 crores as on March 2019. The group's coffee business, which includes some exports, reported revenues of ₹ 1,777 crores in FY18 and ₹ 1,814 crores in FY19. The IT raids and cases and the private body asking to buy back shares created a lot of pressure and ultimately V.G.Siddhartha had to over everything. On 29th July, 2019 he went missing and eventually three days later his body was found in the river. In September 2019, the company appointed auditing firm Ernst and Young to scrutinize their books of accounts.

In March 2020, Coffee Day Enterprises Limited announced that it has reached an agreement to sell Global Village Technology Park, a 90-acre tech park on the outskirts of Bengaluru, for a total consideration of ₹ 27 billion for repaying the debt of Cafe Coffee Day’s associate firms and their promoters.

**RECOMMENDATIONS**

The entrepreneurs must not look for borrowing money from lenders or market. Instead they must use their own money or loans from bank. The growth may be slow in the beginning but it will reward latter and the business will also be of the owner and no one could manipulate it. The investors generally buy shares and later became owner of the company. The investors buy 20-30% shares and the owner feels forced under him and is not able to do business according to him. It is also advised to file the IT returns correctly because the government can sooner or later find the discrepancy and file a case.

**LIMITATIONS**

There were few shortcomings faced in the study. All the data and information gathered are secondary in nature and company’s information of books of accounts are not included. It is a qualitative study and in order to acquire comprehensive information and explore in-depth situation, quantitative studies are recommended.
CONCLUSION

This report on “Financial crisis of Café Coffee Day” is a novel attempt to find out the reasons for the downfall of largest organised retail cafe chain in the country. This study analysed the causes that led to the financial loses for the company. There were IT raids and cases against the owner for financial fraud and hiding income which resulted in attachment of various shares and property and the mental pressure and the crisis could not be handled well by the owner VG Siddhartha, and ultimately he committed suicide.

After the initial foundation of the company, the major challenge faced by CCD was to make a revolutionary change in the Indian culture and in the people perspective where the majority of the people preferred drinking tea rather than coffee. To overcome the challenges by its competitors such as Costa coffee, Starbucks and other domestic players it came up with a 3A strategy namely Accessibility, Affordability and Acceptability. The company opened its first store in 1996 in Bengaluru, and is presently operating 1,740 CCD stores around 250 cities. The business model of CCD had a lot of drawbacks. The company was in a heavy debt, they started taking short term loans in the form of debentures with high-interest rates to pay off their long term debt. This resulted in a more heavy debt burden. The IT raids, cases and the private body asking to buy back shares created a lot of pressure and ultimately V.G.Siddhartha had to over everything. In September 2019, the company appointed auditing firm Ernst and Young to scrutinize their books of accounts. In March 2020, Coffee Day Enterprises Limited announced that it has reached an agreement to sell Global Village Technology Park, a 90-acre tech park on the outskirts of Bengaluru, for a total consideration of ₹27 billion for repaying the debt of Cafe Coffee Day’s associate firms and their promoters.

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