The Liquidity Problem: A case of Café Coffee Day Enterprise

Devarapalli Suman, PhD Scholar, SRM University-AP, India
Dr. Sasikanth Tripathy, Assistant Professor at SRM University-AP, India
Dr. Abdul Rahman Shaik*, Assistant Professor, Prince Sattam Bin Abdulaziz University, Saudi Arabia.

Abstract-Café Coffee Day (CCD) founded by VG Siddhartha, the Visionary who brought revolutionary change in the coffee product in Indian market. This study evaluates the CCD on various components such as its growth, journey of V.G. Siddhartha; marketing strategies for its excellent brand image. Besides, it also focuses on some issues related to his suicide. Reasons are not accurate but these reasons had lot of impact on Siddhartha’s suicide, such as cash flow position he faced during last one and half year. Some of the reasons are debt trap from some of his employees in the organization, money lenders pressure for their payment of debt before the actual date or a political pressure from IT department or a complex organizational structure. However, these reasons severely disturbed him.

His life leaves lot of unclarified questions for every corporate in India, where people have to learn something from his life style.

Keywords- CCD, liquidity, debt, capital structure.

Introduction

India's largest coffee network, initiator of the café culture and the first to launch the ‘coffee bar’ concept in India. It had a great Network strength of Over 1,722 cafés in 245+ cities/towns across India, 47,747 Vending Machines, 532 Xpress kiosks, 403 Fresh and Ground outlets, over 2.0 Billion cups of beverages consumed per year and growing regular customer pace is expected to be 200 per café per day. The number of CCD branches in most popular cities such as has 185 cafés’ in Delhi, 64 cafés’ in Kolkata, 172 cafés’ in Mumbai, 191 cafés’ in Bangalore and remaining in rest of India and abroad.(cafecoffeeeday.com). It was noted that at CCD, average time spent by the customers was estimated to be 35-50 minutes in a day, feels that it’s a best place for the age group of 15-40 years. These customers feel that it was the one place to hangout mostly after their college, work place and home. They make CCD as their meeting spot. CCD runs a foundation called ShankarakudigeVeerappaGangaiahHegde Education Trust (SVGH), Commenced in the year 2002 as a non-profit trust with the mission of “Education for All” it also runs two esteem institutions called Amber Valley Residential School and SVGH Vocational Training College, this college was incorporated in the year 2015 by the Trust with a main objective of providing training facility to economically unprivileged youth in rural area and make sure they were trained and placed in different organizations, nearly 1,300 students utilized this grand opportunity to transform themselves as a personal and professional skilled employees in this dynamic environment, besides the Trust also provide course in Certificate in Hospitality Management and Micro Finance.(cafecoffeeeday.com). V.G. Siddhartha started his career as strong young and courageous stock broker in Mumbai in the 1980s to India’s largest coffee conglomerate, Amalgamated Bean Coffee. His death has left some unthinkable and unclarified questions for politicians, and Business People in India but also about his business performance, which was facing solid cash flow problems and was highly leveraged, these seems little reason for V.G. Siddhartha to have taken such a decision to put an end to his life.

How it all started?

Around 1996 CCD journey began and none expected that to see such an astounding growth in the company. V.G. Siddhartha, founder of Café Coffee Day, is a genius; he combined technology and coffee to start Café Coffee Day, the first café was commenced at Bangalore city in the year 1996.Siddhartha was an analyst with JM Financial and Investment Consultancy and had an interest in technology. He also inherited the skills from his childhood to deal with coffee farms. Tchibo was the main reason for his inspiration; he was admired by skills and achievements of Tchibo’s business. This inspiration was the root cause for starting a café coffee concept in India. This café concept gave him a magnificent scope and an idea of cup by cup, he made his Billion-dollar empire.

The Road Map of V.G. Siddhartha’s Business:

VeerappaGangaiah Siddhartha Hegde popularly known as V.G. Siddhartha was a one of the famous business personality from India hails from Karnataka State. He was the founder of cafe chain called CCD and served as its Chairman and MD. He was also served as one of the board of director to Mindtree, GTV, Liquid Krystal,
Way2wealth Brokers, Coffee day Natural Resources and Way to wealth securities. (Wikipedia). On 6th December 1993 he found Amalgamated Bean Coffee Trading Company. In the year 1995 Coffee day Group opens stores to sell coffee powder and beans under titled called “Fresh and Ground”. In the Year 1996 the inauguration of first Café Coffee day (CCD) outlet was launched on Bridge road in Bangalore’s central business district. On 8th May 2000 Way2Wealth Securities was started to provide financial intermediary services by revolving off the securities broking division of Sivan Securities. In the year 2005 CCD moves global with first international café in Vienna. In the year 2010 it has taken a step to expand the business operations with a plan of Standard Chartered Private Equity (Maturities) II Limited, KKR Maturities PE, Investments II Limited and NLS Maturies& LLC invest worth of $210 million.In the year 2011 his group acquires Sical Logistics of Rs 200 crore deals. On 20th March 2015 it was proposed to change the name of ABC to Coffee Day Global On November 2015 CCD goes for its IPO’s of Rs 1,150 crores, where it has received overhauling response from the investors in the market. On September 2017, it was unpredictable day for V.G Siddhartha, to hear I-T Ride at CCD Headquarters and his estate along with his house. On Jan2019, I-T Department attaches his company’s 20% stake in Mindtree, and blocking his sale of shares, which made Siddhartha little worried about his company’s performance. He was taken a decision on March, 2019, L&T was agree to buy CDEI’s and Siddhartha share for a whooping price of Rs 980 per share. On May, 2019 he has decided to retire his debt of Rs 2,100 crores from sale of Mindtree. On July 29th, 2019 reports says that he is been missing near a bridge in Mangalore. On July 31st 2019 his body was found by three fishermen near Netravali River.

The Growth Story: Bean to Cup

The Indian coffee market is rapidly growing due to trends in socio and cultural environment and the demand for readymade coffee keeps up trending so coffee has become a part of a being’s daily activity for drinking partner. CCD is one of the market leader among the large retail shops, number of cafes around 2,000, in different cities across Indian states, with multiple formats according to taste and preference of young customers and 600+ kiosks called Value Express.CCD with high reputed brand value has entered in international market to expand its business through opening CCD café outlets at different parts of the world. It has Revenue worth of $200 million as per their financial positions, men at CCD’s work place is expected to be almost 40,000. The reports discloses that nearly 7,000 tons of coffee products been sold, CCD’s exports range has grown up to 28,000 tons, it also sells some quantity of tones locally every year. CCD pulls the visitors around 50k per week.

Marketing Mix:

It was one of the major components for every business to increase revenue. Efficient and effective marketing mix brings best output for every business person. The Founder of CCD was the one who used outstanding marketing strategies, to be as one of leading brand in Indian Market. His ideologies, creative ideas, made CCD as most liked brand in the hearts of younger generations if India. Let’s see how marketing mix has more influence on CCD’s business or performance?

Product and its range:

Coffee: Espresso, Cappuccino and Latte; Tea: Some flavors’ in tea at CCD are Plain Tea, Assam Tea, Ginger Tea, Cardamom Tea, Masala Tea, Lemon Tea, Green Tea and Organic Darjeeling Tea; Soups: Some notable menu in soups at CCD, Hot and Sour Soup, Veg Corn Soup, Tomato Soup and Spicy Tomato Soup; Other Beverages: Which are available at CCD spot, Hot Chocolate Drink, Badam Drink and Badam-Pista Drink

Quality of the product and Brand

CCD always consider the product quality through specialized add features to keep its brand value in the market which makes the product availability to the ultimate customers and their retention. CCD tries to give freshest experience in cup of coffee. Quality Management always focus the quality control through proper channels of monitoring which make sure planning coffee to dispensing the beverage in customers table. High quality with best grade of roasted coffee beans used with a well-equipped machines which makes coffee always freshness. Product quality is always first priority through Vertical integration and sustainable practice helps CCD to maintain consistency in the product through the year.

Marketing & Promotional Strategy

Increasing the sale value and to reach wide area of customers is not so easy in 21st Century where technology plays a crucial role. In order to stand in the market against their rivals, CCD need have exceptional and outstanding marketing & promotional. CCD’s complete and pure marketing and promotional strategy is fully devoted towards young generation in other words teenagers. CCD was strong in social media for promoting the brand and its products through paid form of communication and non-paid form of communication. As reports of CCD, it tries to
invest 2% of its top line on marketing and promotional strategies, having a marketing budget of Rs 8-12 crores. So far it is assumed that 90% was spent on for the future marketing, with effective marketing accounting for the remaining 10% was been spent. (V.G. Siddhartha)

Effective use of social media for marketing the product:

It’s one of means of effective cost saving scheme for the companies and individuals to publish their related information. Communicating to the targeted customers regarding their product is very essential. Even CCD was utilized this flat form effectively to promote its brand and to reach mass of audience through proper conversations posting certain good clicks, they just like full of images, which attracts the teenagers. As CCD has a strong and solid presence on social media, it has witnessed more than 53.6 k followers on instagram, 53K followers on twitter and whopping count of 4.9milion fan base following on Facebook. Facebook (FB): Due to redefining the prices of Smartphone in Indian Market, which was shown massive impact on social media especially with Facebook. It keeps check-in feature to attract the users and to maintain social network whom their loved more updating the where they are and how they are. CCD keeps minimum 2 updates every day for which it seems to receive pretty and good terrific response from their users. As CCD brand was having massive fan base in FB, they claim a strong 9% fan traffic for a month. It was the most outstanding brands on FB. It displays a very well- aimed, innovative images, correlated to the brand attitude on FB to give impressive to its users.CCD uses other types of social media sites like Twitter, YouTube where it has 1,222 subscribers and no of views for its YouTube Channel had almost 4,48,201. For Increasing the Sales Promotions CCD offers special ‘Café Citizen Card’ for heartwarming its customers. It was purely a customer loyalty program to increase new customers and retain the existing customers. CCD App: It was launched to track behavior of consumer, personalize offers & promotions and tries to allow cashless transaction through built in wallets and built loyalty.

Price:

CCD fixes its prices according to its divisional structure, squares and lounge are premium and it had priced by comparing the competitor’s price. It focused to follow value based pricing strategy by offering the product based on size, quality and quality like small, medium and large. For a premium product service it adds extra ingredients like chocolate, sauce or some extra cheese with cream. The pricing strategy changes happen based on outlets which are placed in urban, semi urban and rural India. The prices at CCD are not much rigid in nature but they seem to be flexible and affordable to the youngsters, students and corporate employees. CCD also involves in selling of vending machines to other business clients and advertising space as its outlets for other revenue sources. CCD Marketing President Ramakrishnan K. says pricing at outlets differ from one outlet to another outlet, even pricing also depends on consumer capacity, and at CCD retail outlets follow different pricing strategies considering cost and rental of outlets

Place:

Place is another important marketing strategy for expanding the business. It was wish of a founder that for every two kilometers CCD’s outlets need to be opens besides on national high ways. Since the brand was very much familiar customers, had no limited geographical, but focused mainly some places like shopping malls, multiple complex, and its own outlets. It also follows supply chain management effectively to reach customers on time.

Logistics:

SICAL Logistics Ltd is a subsidiary of CCD established in 1955. It has over 60 years of expertise in logistic solutions and stands as leading logistic provider in India. With high quality technological knowledge in maintaining mass merchandise over the years, the company has made a space in mining and offers cargo and mining maintenance at present. Further, the company has facilities, such as warehousing and cold chain service.

Review of literature

Meg Whitman and eBay (1998) case study examined and analyzed Cafe Coffee Day’s brand strategy in India, its challenges in facing success and failure, and also the coffee consumption position in India, Milk production In India, coffee production in India, CCD’s international Expansion Strategy and growth of café market in India. Bansal and Joshi (2011) studied case analysis of CCD and tried to explain the growth of CCD, corporate profile, SWOT analysis of the company and a comparative explanation of SWOT analysis of CCD with its rival Barista. This case also highlights the marketing mix of CCD.

Rao (2019) investigated the death of Cafe Coffee Day’s founder VG Siddhartha. What went terribly wrong? She tried to elaborate the growth of CCD, financial position of company, sale off, segment wise risk of company,
corporate debt, complex corporate structure of the enterprise, take overs of the company, several reasons for the
death of VG Siddhartha. According to Nagaraj, B., a marketing official of Café Coffee Day, CCD is termed as an
assembler of future generation, and in a marketing framework, the growth of CCD is based on Accessibility,
Affordability and Acceptability. Further, Gupta, S.S., the marketing head of CCD says that, even though the
definition of youth is different in demographics for male or female in the age of 16 to 29 years and belonging to
different classes, we call the customers of CCD youth at their heart. Hence, we look for those products that enhance
the inspiration of youth to a large extent.

Due to the demand for ready-to-drink coffee, there is a growth of coffee market in India and it had become part
of the daily necessaries for an individual. It is the CCD that understands the dynamics of consumers’ tastes and
preferences. The CCD is just no longer a spot for coffee cookies and art. In a brand equity (economic time) survey,
consumption. The coffee market in India was been growing due to the demand for ready to drink coffee and it had
become a part of an individual’s daily concepts basket. It is cafe coffee day that understand the changing trends in
the tastes and preferences of the consumers. Café coffee day is no longer the place for just some coffee cookie and
music. In a survey done by brand equity (economic times), the consumers ranked CCD to be the 22nd place and
most trusted service brand of the country during 2014 compared to that of 2013. The CCD’s key strength was in the
coffee service retailing while also carrying out the corporate business. For the success of any service organization,
the role of service employees was very critical, particularly those that process people and internal marketing would
help firms deliver service excellence. Service excellence means delivering what the customer wants at the coffee
day's first meeting, as there has been a lot of competition in the leverage industry. TATA Starbucks Ltd Starbucks,
a newly emerged player, expanded its presence to Delhi in January 2013 by opening two outlets at Indira Gandhi
International Airport Terminal 3.

Some interesting facts about his company financial statements:

Gross Revenue was increased by 22% compare to financial year 31st March, 2017 to 31st March, 2018 (35,519
million to 43,305 million). Earnings before interest and tax, Depreciation and amortization (EBITDA) also raised by
21% compare to FY 17 and 18 (6,812 million and 8,253 FY 18, in which there was an exceptional gain of Rs 532
million on sale of equity stake in GES Ltd, in order to have better performance at CCD business). Depreciation for
the year under review stood at Rs.2,604 million, compared with Rs. 2,268 million recorded in the previous year, up
15% on a y-o-y basis. Finance cost for the year under review increased by 10% from Rs. 3,172 million to Rs. 3,491
million because of increase in the gross debt. Net Profit of the business for the year stood at Rs. 1063 million over
Rs 470 million compare to previous year, in which there was exception gain on sale of equity stake of Rs 532
million. The company’s net worth stood at Rs 30,155 million as on 31st 3, 2018, increased by 6% compared with Rs
28,483 million as on 31st March, 2017. Paid-up-equity capital amounting to Rs 2,113 million as on 31st March,
2018 of a company and there was non-controlling interest of Rs 6,379 million.

What made VG Siddhartha’s to get suicide?

VG Siddhartha’s suicide made lot of un-clarified assumptions with several un-clue reasons for his death. The
Note worried corporate India in a strange manner. Coffee day enterprises, the holding firm of Coffee Day, expected
to have a total debt of amount Rs 6,550 Crores as on 31st March, 2019. CCD’s business which includes some
exports of beans and products, reported revenue of Rs 1,777 crore in Financial Year 2018 and Rs 1,814 crore in
Financial Year 2019. Due to some dynamic environmental conditions CCD’s business was badly hit a 13 year low of
coffee prices in international market which caused Indian prices also to multi-year low despite of several problems
in production which was under targeted margin. During this Indian coffee exports too are expected to be down by
10% current year in the 1st Quarter.

Corporate Debt of CCD:

The total Consolidated Debt of enterprise was estimated at Rs 6,547 of which Rs 1,028 crore debt seems to be on
personal guarantee and the remaining debt Rs 3,537 on Siddhartha’s promoter group’s four private holding firms (a
CMIE estimate). The time of massive expansion also saw the piling up of debt. For both maintenance and capex, the
company needed capital. Standard Chartered Private Equity (Mauritius) II Ltd, KKR Mauritius PE Investments II
Ltd, and Arduino Holdings Ltd (which subsequently sold the debentures to NLS Mauritius LLC) spent nearly $149
million in 2010. Compulsorily convertible preferential shares held by Standard Chartered Private Equity (Mauritius)
II Ltd and the obligatory convertible debenture held by KKR Mauritius PE Investments II Ltd and NLS Mauritius
LLC at the time of listing were converted into equity shares. The consolidated debt was around Rs 2,700 crore by
June 2015 (Adhikari, A. and Kiran, N., 2019). The period that saw massive expansion, also saw debt piling up. The
company needed funds for both operations and capex. In 2010, Standard Chartered Private Equity (Mauritius) II Ltd,
KKR Mauritius PE Investments II Ltd, and Arduino Holdings Ltd (which later transferred the debentures to NLS
Mauritius LLC) invested close to $149 million. Compulsorily convertible preference shares held by Standard Chartered Private Equity (Mauritius) II Ltd and the compulsory convertible debenture held by KKR Mauritius PE Investments II Ltd and NLS Mauritius LLC was converted into equity shares at the time of listing. By June 2015, the consolidated debt was of around Rs 2,700 crore.

**Cash Flow:**
CCD faced severe cash flow conditions for meeting its working capital requirement of the business. Especially on payment of interest on debts that was borrowed from the bankers and financial institutions. He was running out of collateral.

**The Mindtree and other Enterprises**
Some internal information’s says that the debt level of CCD had significantly reduced after Founder’s conversion stake in Mindtree. He was preparing to sell most of his stake to cut of his firm’s debt. In the beginning of March, 2019 VG Siddhartha had sold his entire 20.32% stake in the Bangalore- headquarter IT service firm to L&T for a whooping price of 3,200 crore, which had been utilized pay some debt of CCD. There was equity sale flagship of CCD valuation of around Rs 10,000 crore to global beverage maker Coca-Cola. There was a internal reports that Blackstone was in talks to buy a majority stake in VG Siddhartha’s real estate venture Tanglin Development for around Rs 2,800 crore.

**Giant Capital Structure of the Firm:**
The structure of the CCD was very much complicated, it was difficult to estimate and understand position of firm. The auditor’s note states that they did not audit the financial statements of 40 subsidiaries included in the consolidated annual reports which shows total assets of Rs 12,140 crore as on 31st March, 2019 and total revenue of Rs 4,092 crore. (BSR and Associates, 2019)

**Pressure from IT Department:**
In the year 2017, IT Department first raided CCD’s headquarter, main branch offices and some premises in his estates, they found Rs 650 crore secret incomes from the documents seized while concluding the search and seize operations. IT Department also seized the shares of Mindtree later they were released. He was extremely humiliated with the treatment of tax officials, which was mentioned in his suicide letter. The above said might be some reasons for his suicide, yet there were no proper evidence regarding these issues. His life, journey, growth, achievements, legacy, ups and downs everything was tasted by him, a weak decision made to wind-up his like in Indian Business.

**The Last Letter:**
The letter says: “I have failed to create the right profitable business model despite my best efforts. I would like to say I gave it my all. I am very sorry to let down all the people that put their trust in me. I fought for a long time but today I gave up as I could not take any more pressure..."I could not take any more pressure from one of the private equity partners forcing me to buy back shares, a transaction I had partially completed six months ago by borrowing a large sum of money from a friend. Tremendous pressure from other lenders leads to me succumbing to the situation. There was a lot of harassment from the previous DG income tax in the form of attaching our shares on two separate occasions to block our Mindtree deal and then taking position of our Coffee Day shares... This was very unfair and has led to a serious liquidity crunch."


**Conclusion:**
The current case study aims to quote some important points regarding CCD’s growth, expansion, besides making a brand value among the younger generations in India. V.G. Siddartha, founder with an ambitious vision conquered café market in India, raising standards for exports of café beans from India. He is the man behind the revolution in beverage coffee market in India. The marketing strategies, which was followed at CCD was something unique compare with other rivals in the market. Besides all what might cause CCD founder to get suicide himself? Cash problems at CCD? Payment of interest on short and medium debt? Pressure from the money lenders for settlement of their debt in advance than the expected date to repay? Or political pressure from the IT department employees? The letter written by him gives answer to all these questions. Reasons might be huge, but the Indian sub-continent has lost a business tycoon, who created empire in coffee industry in India. Siddhartha’s life teaches may things for the entrepreneurs, corporate India and younger generations, may be in the area of stress management, management

*Corresponding Author: Dr. Abdul Rahman Shaik, Email : a.shaik@psau.edu.sa*
Article History: Received: September 14, 2019, Revised: October 25, 2019, Accepted: November 21, 2019
control, decision making at top level. It’s a best opportunity for the younger scholars to have deep research on this case, with different dimensions in a topic. It can have wider scope to evaluate on Marketing strategies followed compare with other rivals in the market, capital structure of a company and impact of financial performance of a company. It was an attempt to draw some notable points on marketing mix and strategies besides financial cries of a CCD founder faced before his death.

References