

ANNUAL REPORT

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# the lifestyle brew!

Coffee Day Enterprises, on the back of the iconic Café Coffee Day lifestyle brand, is expected to emerge as a significant beneficiary of revival in India's urban discretionary consumption space.

Today, with 1,682 stores spread across 241 Indian cities and towns (as on 31 March 2017), Café Coffee Day is not only India's largest chain of coffee stores but also an integrated 'bean-to-cup' group model that ensures that only the finest and most delectable coffee reaches our consumers.

With a solid track record of having reported a 15% CAGR gross retail revenue growth of coffee business over the last five years, the Company is well-positioned to capitalise on prevailing opportunities and grow stronger value-creation platforms.





## message from the chairman



*Dear Shareholders*

I am delighted to share the progress made in the last year on the occasion of our second year as a public listed company.

Since the inception of our brand Café Coffee Day in 1996, we have continued in our pursuit of turning coffee into a social idea. In a fast-changing world, our drive to promote a coffee drinking culture and offer a space for people to connect over a cup has remained constant. Today, with over 2500 cafés, express outlets, coffee points and over 41,500 vending machines in a vast majority of corporates, we are touching the hearts of millions of Indians each day across more than 1000 cities and towns.

Today, India is going through an important phase of transition, with GST and Digitisation revolutionising the way business is conducted, and we are gearing up to deliver in this New Age.

### **FY17: THE YEAR IN A NUTSHELL**

With strong business fundamentals and a slew of innovative Food & Beverage launches, our coffee retail business reported a robust gross operational revenue growth of 14% and retail EBIDTA growth of 8% over the last year. While the Food & Beverage retail market landscape continues to look challenging, I am pleased to share that Café Coffee Day recorded another year of positive same-store-sales growth of 5.02% in FY17. The performance is a testimony of our strongly focused consumer engagement model built over the years.

FY17 was another interesting year with a healthy mix of new initiatives and expansion based on strong fundamentals.

Our home delivery business expansion continued and we got closer to our consumer than ever before by delivering across 7 major cities. Based on strong consumer insights, we kept delighting the market with refreshing launches like Inverted Cappuccino, Filter Coffee, wellness range of coconut drinks, sugarcane juice, international burgers and sundaes at the café, alongside our new energy drink 'Storm', 'Soul' mineral water, and our cold coffee 'Frappe Chill' in the packaged products category.

The response to our mobile app has been heartening, with over 3 million downloads in a year. This drive towards a data-rich organisation is helping us build superlative loyalty, and the app has further shrunk the distance between our brand and consumers.

Beyond cafés, we are strengthening the reach to our customers by expanding proactively into the corporate segment. With unique smart solutions, our vending machines have made steady inroads into the corporate sector in FY17. With an eye on growing this business, we are deepening our focus on hotels, restaurants and non-traditional channels as business verticals.

#### THE COFFEE INDUSTRY: A LOT CAN HAPPEN OVER COFFEE

As a group which goes beyond coffee, our core remains intact. While the category is still nascent, the café chain market has been growing at a CAGR of 20% since 2014, and our belief in its huge potential is supported by the robust Indian consumption story:

- **Consumer market of the future:** This is fuelled by favourable demographics of a young India with the median age at 27 years.
- **Increasing per capita consumption over the years:** Our GDP has been growing at over 7%, and this augurs well for the economy. Consistent growth will ensure increase in disposable incomes and aspirations beyond metros, and a new Indian consumption story will emerge.

#### AN EXPANDED PORTFOLIO: OUR RESILIENT SELF-PROPELLED BUSINESSES

Our diverse businesses are charting their own course successfully. They continue to be self-sustaining, with robust internal revenue generators in place. At the group level, our consolidated gross revenue increased by 15% and achieved a profit after tax of Rs. 46.2 Cr in FY17. I am pleased to share key performance highlights:

#### SICAL

With the implementation of 'Make in India' and other government initiatives, the logistics industry is set to become more centralised, efficient and tax compliant. Third party logistics and supply chain management are gaining traction and are set to consolidate in the coming years, especially in industries such as automobiles, pharmaceuticals, consumer durables and FMCG.

The Company's growth (Gross revenues growth of 21% and EBITDA growth of 43%) has been propelled by new business initiatives and additional contract gains. SICAL Iron Ore Terminals Limited, a subsidiary of SICAL Logistics Limited, has executed the License Agreement with Kamarajar Port for the modification of the existing iron ore terminal to handle common user coal. The financial closure and approval of the Detailed Project Report have been cleared, and the Company is in the process of implementing the project.

#### TANGLIN DEVELOPMENTS

The growth of commercial real estate technology parks depends on the service and industrial sectors, where India continues to be an attractive destination for major international players. Tanglin offers customised facilities in infrastructure for various technology enterprises in Bengaluru and Mangaluru. Here, our gross revenue continues to increase steadily and has touched Rs.139.2 Cr in FY17. Our 3.3 million square feet on offer continue to yield rental returns, while another 7,50,000 square feet will be occupied by our clients within the forthcoming year.

#### WAY2WEALTH

Our investment advisory and financial intermediation enterprise focuses on qualitative financial products and long-term wealth creation. Following regulatory initiatives by the government, our financial markets have seen greater participation and economic activity. We expect a continuation of these trends going forward.

#### WE ARE A PART OF SOCIETY

With a commitment to strengthen the communities with whom we work, our coffee is selected and purchased ethically, ensuring that it protects the ecological balance of our UTZ certified plantations and surrounding forest areas, while safeguarding the interests of coffee growers.

We also contribute to society with the following long-term initiatives:

**Yuva - Harnessing youth potential:** Yuva, our vocational training college, is managed by the SVGH Trust, offering a fully funded programme for rural youth from underprivileged backgrounds to learn hospitality and life skills. Over a period of 12 years, our team at Yuva has trained and helped 6000 youth become self-sufficient.

**Encouraging 'Silent Brewmasters':** We are engaged in a partnership with NGOs 'Enable India' and 'Gram Tarang' to employ youth with disabilities. We have employed more than 150 professionals with speech and hearing impairment – our Silent Brewmasters – and are committed to increasing this count over the years.

### THE ROAD AHEAD

As we look towards the future, I would like to reiterate our commitment to enhancing shareholder value for Coffee Day Enterprises Limited. We aspire to deliver sustainable growth, which is ahead of the country's GDP and sets up good performance benchmarks in the industry.

While considerable groundwork is yet to be done, the group is making good headway, with certain key factors that will ensure our success on the road ahead:

**Exciting Innovations:** In response to an increase in consumer preferences for a healthier lifestyle, we are continuously evolving our menu.

**Going Digital:** Technology has disrupted our way of life like never before, and we will keep investing in it to engage with young consumers through apps, thus getting nuanced insights into customer behaviour.

**Great Consumer Connect:** Incomparable reach across the country with good value has ensured that we become an inseparable part

of consumer lives. New age products and contemporary cafés will further strengthen this relationship.

### THE POWER OF HUMAN CAPITAL

Our ability to scale up has been possible due to significant additions to our middle management, including women in leadership roles. I am proud of our seasoned leadership and the foundation they are creating for a promising future. The aim has been to deepen our expertise in two main areas:

- **Growth Mindset:** Through sales capability across businesses
- **Innovation Mindset:** Through design capability (across new product development, store design and the corporate design team)

We are also building strength at the base of the pyramid through our Management Trainee Programme, expanding capacity and capability to create a pipeline of future leaders.

As always, I would like to thank you, our shareholders, for reposing your trust in us. As a performance-driven company at the cusp of exponential growth, with lots of coffee and conversations, we will create greater value for stakeholders and society.

Lets keep brewing new possibilities!

Best regards,



**Mr. V.G. Siddhartha**

*Chairman and Managing Director*









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*coffee day enterprises, the parent company of the coffee day group, has diversified business interests in the areas of coffee retailing and trading, technology parks, logistics, investments, hospitality and financial services.*

#### OUR VISION

We are where coffee is today and where it's going next. We bring coffee from the bean to the cup. Over time we've developed the science of nurturing the yield, how to roast it to coax just the right flavor from it and how to extract that flavor into the brew. Yet, we do more than please the palate. In every bean, we see the potential of each day ready to be released.

Coffee is our purpose. It inspires us because we can see the boundless possibilities in the lives of our guests.

#### OUR MISSION

To find and extract the boundless potential in all that we do—just as we have for every cup of coffee.

#### ABOUT US

Coffee Day Enterprises, through its subsidiaries, operates in the chained café segment in India under its flagship business, Café Coffee Day. The Company opened its first Café Coffee Day outlet in Bengaluru in 1996 and currently has a network of 1,682 café outlets across 241 cities and 537 Coffee Day Xpress kiosks across 22 cities in India. The Company possesses the largest network of cafés compared to any other player in the segment. With a rapidly sprawling network, the Company is better positioned than its competitors to capture the benefits of rising middle-class income levels, which would aid in increasing discretionary consumer spending.

#### SUBSIDIARIES (MAJOR)

- Sical Logistics Limited; logistics and warehousing; primed to capture the benefits arising out of GST
- Way2Wealth Securities Private Limited; financial services; extensive network which makes it well-positioned to capture growth in financial services penetration in India
- Tanglin Developments Limited; Tech Park in Bengaluru and Mangaluru; assets well-placed in high-growth micro-markets
- Coffee Day Hotels and Resorts operates under the brand name 'The Serai' in Chikmagalur, Bandipur, Kabini and Barefoot Resort in the Andamans; growing need for leisure and downtime among hectic lifestyles

**Coffee business:** The Company is engaged in the coffee business through its subsidiary, Coffee Day Global Ltd and its subsidiaries. Besides, it has the largest chain of cafés in India. The Company is also into the vertically-integrated coffee business, which ranges from procuring, processing and roasting coffee beans to retailing coffee products across various formats. In the retail café business, Café Coffee Day, The Lounge and The Square constitute the café network outlets.

**Logistics:** Sical Logistics, a listed entity on the BSE and NSE, is a subsidiary of CDEL and is in the business of providing integrated logistics solution. The Company has an equity holding of 52.83% in Sical Logistics.