

August 01, 2019

Talwalkars Better Value Fitness Limited: Rating downgraded to [ICRA]B-(Negative) based on best available information and continues to remain in 'Issuer Not Cooperating' category

Summary of rated instruments

Instrument [^]	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible Debenture Program	80.0	80.0	[ICRA]B- (Negative) ISSUER NOT COOPERATING*; Rating downgraded from [ICRA]BBB (Negative) and continues to remain in the 'Issuer Not Cooperating' category

**Issuer did not cooperate; based on best available information.*

^Instrument details are provided in Annexure-1

Rating action

ICRA has downgraded the rating for the Rs. 80.0 crore Non-convertible Debenture programme of Talwalkars Better Value Fitness Limited (TBVFL) to [ICRA]B- (pronounced ICRA B minus) from [ICRA]BBB (pronounced ICRA triple B). The outlook on the long-term rating continues to remain Negative. The rating continues to remain in the 'Issuer Not Cooperating' category.

The rating is based on limited information on the entity's performance. The lenders, investors and other market participants are thus advised to exercise appropriate caution while using this rating as the rating may not adequately reflect the credit risk profile of the entity.

As part of its process and in accordance with its rating agreement with Talwalkars Better Value Fitness Limited, ICRA has been trying to seek information from the entity so as to monitor its performance, but despite repeated requests by ICRA, the entity's management has remained non-cooperative. In the absence of requisite information and in line with SEBI's Circular No. SEBI/HO/MIRSD4/CIR/2016/119, dated November 01, 2016, ICRA's Rating Committee has taken a rating view based on the best available information.

Rationale

Current rating action is based on publicly available information, in the absence of any information from the company. The rating downgrade reflects the reduced financial flexibility of TBVFL and its promoters, following the significant decline in the share price of TBVFL and its group company- Talwalkars Healthclubs Limited (THL) in the last two weeks. Further, continued high level of pledged shareholding—76.1% of the promoters' shareholding was pledged as on June 30, 2019, has reduced the promoter's ability to support the company. The consolidated debt levels continue to remain high at Rs. 285.3 crore as on March 31, 2019, which has resulted in weak debt coverage indicators for the company. ICRA will continue to monitor the developments related to company's stock price movements/market capitalisation, promoter's pledged shareholding and asset monetisation plans which remains core to significantly lower the entity's overall debt levels and improve its debt coverage metrics.

The rating remains constrained by the capital intensity of the business, with significant capital expenditure incurred towards the expansion of its lifestyle and club businesses. The performance of the recently opened club in Pune will be a key rating monitorable.

The rating also factors in the established track record of the promoters in the Indian fitness industry, the company's brand image and its strong pan India presence.

Outlook: Negative

The negative outlook factors in the company's weak financial flexibility post the recent sharp decline in share price and delay in asset monetisation/deleveraging, which remains core to significantly lower the entity's overall debt levels and improve its debt coverage metrics. The rating may be downgraded further in case of a lack of meaningful progress in asset monetisation or decline in operating performance resulting in the deterioration of debt coverage indicators from the current levels. The outlook may be revised to Stable if the company is able to monetise its assets and improve its liquidity position and operating performance, thereby significantly improving its asset turnover and debt coverage indicators.

Key rating drivers

Credit strengths

Established track record of promoters in Indian fitness industry - Set up in 2003, the promoters enjoy an established operating track record in the fitness industry.

Strong pan India presence - The company offers various lifestyle activities, such as aerobics, yoga, spa, massage and zumba programmes, as well as diet and weight loss programmes.

Credit challenges

High capital intensity in business— TBVFL's lifestyle business has undergone considerable capex in the past with significant investments in its various services. This is reflected in the company's low operating income/gross block.

Performance of club business key monitorable - TBVFL has made significant investments in setting up its first club at Pune (Maharashtra) in collaboration with David Lloyd Leisure Limited. The club has been opened recently. The performance of the same will be a key rating monitorable.

Highly fragmented nature of fitness industry; susceptibility of revenues and profits to seasonality of industry - The fitness industry in India is highly fragmented with the unorganised sector comprising the major chunk of the industry's total market share, leading to intense competition. Further, the business remains seasonal with the second and fourth quarters typically being the peak revenue-generating quarters for the company.

Liquidity position

Aided by high operating margins and moderate working capital requirements, the company has maintained positive fund flow from operations. However, significant capex over the years strained the free cash flows and led to high debt levels. Significant delay in asset monetisation/deleveraging, which remains core to significantly lower the entity's overall debt levels has impacted debt coverage indicators and liquidity position of the company. ICRA notes the cash and bank balances of Rs. 41.1 crore as on March 31, 2019, maintained by the company. However, debt acceleration or cross default clauses in any of its loan agreements with lenders could adversely impact the company's liquidity position and consequently its repayment ability.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Policy in respect of non-cooperation by the rated entity
Parent/Group Support	Not applicable
Consolidation/Standalone	The rating is based on the consolidated financial statements of TBVFL

About the company

The company offers various lifestyle activities such as aerobics, yoga, spa and zumba programmes, as well as diet and weight loss programmes. It has also forayed into the segment of leisure and sports clubs, wherein it has set up its first club in Pune (Maharashtra) in collaboration with David Lloyd Leisure Limited. The club is expected to become operational soon.

Key financial indicators (audited)

Consolidated	TBVFL (Lifestyle Business)	
	FY2018	FY2019
Operating Income (Rs. crore)	57.5	112.7
PAT (Rs. crore)	8.8	14.6
OPBDIT/ OI	67.0%	46.2%
RoCE	6.3%	8.3%
Total Debt/ TNW(times)	0.9	1.2
Total Debt/ OPBDIT (times)	5.0	5.5
Interest Coverage (times)	3.7	2.8

OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, and Taxes; ROCE: PBIT/Avg (Total Debt + Tangible Net Worth (TNW) + Deferred Tax Liability - Capital Work in Progress - Capital advances)

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

Instrument	Type	Current Rating (FY2020)			Chronology of Rating History for the past 3 years														
		Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating August 2019	June 2019	April 2019	Date & Rating in FY2019					Date & Rating in FY2018			Date & Rating in FY2017				
				August 2019	June 2019	April 2019	March 2019	February 2019	January 2019	November 2018	August 2018	April 2018	January 2018	October 2017	September 2017	July 2017	January 2017	August 2016	April 2016
1	NCD	Long Term	80.0	80.0	[ICRA]B- (Negative) ISSUER NOT COOPERATING	[ICRA]BBB (Negative) ISSUER NOT COOPERATING	[ICRA]BBB + (Negative) ISSUER NOT COOPERATING	[ICRA]BBB+ (Negative)	[ICRA]A (Negative)	[ICRA]AA-(S) (Negative)	[ICRA]AA-(S) (Negative)	[ICRA]A- & (Stable)	[ICRA]AA- & (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]AA- & (Stable)	[ICRA]A- (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)
2	Term loans	Long Term	85.09	-			-	-	Withdrawn	[ICRA]AA-(S) (Negative)	[ICRA]AA-(S) (Stable)	[ICRA]A- & (Stable)	[ICRA]AA- & (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]AA- & (Stable)	[ICRA]A- (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)
3	Proposed NCD	Long Term	25.0	-			-	-	Withdrawn	[ICRA]AA-(S) (Negative)	[ICRA]AA-(S) (Stable)	[ICRA]A- & (Stable)	-	-	-	-	-	-	-
4	NCD	Long Term	150.0	-			-	-	-	-	Withdrawn	[ICRA]A- & (Stable)	[ICRA]AA- & (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]AA- & (Stable)	[ICRA]A- (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)
5	Term loans	Long Term	212.98	-			-	-	-	-	Withdrawn	[ICRA]A- & (Stable)	[ICRA]AA- & (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]AA- & (Stable)	[ICRA]A- (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)
6	NCD	Long Term	25.0	-			-	-	-	-	-	[ICRA]A- & (Stable)	[ICRA]AA- & (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]AA- & (Stable)	[ICRA]A- (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)

& denotes rating under Watch with Developing Implications

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE502K07096	NCD	8-Jul-16	9.85%	08-Jul-21	30.00	[ICRA]B- (Negative) ISSUER NOT COOPERATING*
INE502K07120	NCD	25-Oct-17	9.50%	25-Oct-24	50.00	[ICRA]B- (Negative) ISSUER NOT COOPERATING*

**Issuer did not cooperate; based on best available information.
Source: Talwalkars Better Value Fitness Limited*

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