Talwalkars Better Value Fitness Limited

Instruments	Amounts	Ratings
	(Rs. Crore[1])	**March 2016**
Term Loans	227.00	[ICRA] AA (Stable) / *reaffirmed*
Non-Convertible Debentures (NCD)	125.00	[ICRA] AA (Stable) / *reaffirmed*
Non-Convertible Debentures (NCD)	50.00	[ICRA]AA (Stable) / *assigned*

ICRA has reaffirmed the long-term rating at [ICRA]AA (pronounced ICRA double A)[2] for the Rs.227.0 crore term loan facilities and the Rs. 125.00 crore non-convertible debenture programme of Talwalkars Better Value Fitness Limited ("TBVFL"/" the company").

ICRA has also assigned a long-term rating of [ICRA]AA (pronounced ICRA double A) to the Rs. 50.0 crore non-convertible debenture (NCD) programme of TBVFL. The outlook on the long term rating is stable.

The rating favourably factors in the improvement in TBVFL's capital structure and liquidity position through equity infusion of Rs. 107 crore into the company by way of qualified institutional placement (QIP) in June 2015, the proceeds of which will be utilised for organic and inorganic expansion of gymnasiums, expansion of the weight loss (NuForm) and diet programme (Reduce) and setting up a leisure club in Wakad, Pune. The rating also factors in the recent acquisition done by the company to diversify geographically by acquiring 49.5% stake in a gym chain in Sri Lanka. While the company has a long standing presence in the Indian fitness industry coupled with an established brand, a strong pan-India presence and market leadership with an estimated market share of about 12.3% the rating favourably takes into account the increase in contribution of value added services and alternative forms of gym to the revenue which aided in an increase of operating margin. The rating continues to take into account TBVFL's multi-ownership format comprising of premium as well as low cost operating models which aids in deepening its geographical penetration and widening its network of fitness centres which in turn provides significant competitive advantage in terms of economies of scale, together with high client acquisition and retention rates in the range of ~72%-78%. ICRA also takes note of the healthy industry drivers with improving penetration of gyms in the domestic market aided by rising disposable income levels and awareness about lifestyle diseases among the adult age group supporting its long-term business prospects.

The rating is however constrained by TBVFL's moderate scale of operations, highly fragmented nature of the industry and its vulnerability to high seasonality of the industry and high incidence of discount schemes for client acquisition and retention. The credit strengths are also partially offset by the capital intensive nature of operations wherein TBVFL requires regular capex to support the scale up of its business operations which may have an impact on the credit profile going forward.

The company's ability to scale up its operations while maintaining its financial profile supported by healthy accretions coupled with the launch of the leisure club and the response towards the same will be the key rating sensitivity going forward.

Company Profile

Co-promoted in the year 2003 by the Talwalkar family and the Gawande family, Talwalkars Better Value Fitness Limited (TBVFL/"Talwalkars"/the company) is engaged into the business of running fitness centres under "Talwalkars" brand. The history of the brand "Talwalkars" can be traced back to the year 1932 when the first gym was set up by late Mr. Vishnu Talwalkar in Mumbai. Currently the operations are managed by Mr. Prashant Talwalkar, Managing Director and CEO while the finance and administrative function is overlooked by Mr. Anant Gawande, Executive Director & CFO. The company operates its gym and fitness centres under three ownership formats – Owned, Subsidiary and Franchise. As on December 31, 2015, the company operated 96 fitness centres under ownership format, 27 under the subsidiary format (including 10 in Sri Lanka), 17 under franchisee, 20 HiFi fitness centres with a presence in 83 cities and towns of the India and in Colombo, Sri

[1] 100 lakhs = 1 crore = 10 millions
[2] For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

Lanka. Talwalkars offers services across entire range of fitness and slimming industry spectrum from basic gym services to other alternate forms like Aerobics, Yoga, Spa, Massage, Zumba programs along with Diet &Weight loss programs like NuForm and Reduce.

Recent Results (Consolidated)
For nine months ending December 31, 2015 the company reported net profit of Rs. 38.1 crore on an operating income of Rs. 178.2 crore as compared to net profit of Rs. 31.3 crore on an operating income of Rs. 157.6 crore for the nine months ending December 31, 2014.

For the full year FY2015, the company reported net profit of Rs.48.4 crore on operating income of Rs.225.9 crore as against net profit of Rs.39.8 crore on operating income of Rs. 187.6 crore in FY2014.

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