June 14, 2019

Talwalkars Better Value Fitness Limited: Rating downgraded to [ICRA]BBB(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]BBB (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]BBB (pronounced ICRA triple B) from [ICRA]BBB+ (pronounced ICRA triple B plus). 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 since the time it was last rated in March 2019. 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 significant increase in consolidated debt levels of the company to Rs. 285.3 crore as on March 31, 2019 from Rs. 193.1 crore as on March 31, 2018 and consequently weakened debt coverage indicators. ICRA will continue to monitor the developments related to asset monetisation, wherein the lack of a meaningful progress and any deterioration in operating performance would remain key rating triggers.

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. ICRA notes that the company's first club project in Pune (Maharashtra) is expected to commence operations soon.

The rating favourably factors in the established track record of the promoters in the Indian fitness industry and TBVFL's strong pan India presence. The rating also favourably factors in the company's healthy operating margins supported by the Talwalkars brand loyalty.

Outlook: Negative

The negative outlook factors in the company's weak financial metrics 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 return indicators or 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 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.

Consistently high operating margins - The operating margins of TBVFL (lifestyle business) remained healthy at ~46% in FY2019. The high operating margins in the lifestyle business are supported by value-added services in the lifestyle business and the Talwalkars brand loyalty.

Credit challenges

High capital intensity in business; ability to reduce debt levels – 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 is expected to become operational soon. The performance of the same in terms of member additions 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. ICRA notes the cash and bank balances of Rs. 41.1 crore as on March 31, 2019, maintained by the company.

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)

	TBVFL (Lifestyle Business)	
Consolidated	**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	Current Rating (FY2020) Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating June 2019	April 2019	Chronology of Rating History for the past 3 years Date & Rating in FY2019 March 2019	February 2019	January 2019	November 2018	August 2018	April 2018	Date & Rating in FY2018 January 2018	October 2017	September 2017	July 2017	Date & Rating in FY2017 January 2017	August 2016	April 2016
1	NCD	Long Term	80.0	80.0	[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]AA-(S) (Stable)	[ICRA]AA- &	[ICRA]AA- &	[ICRA]AA- (Stable)	[ICRA]AA-(Stable)	[ICRA]AA- &	[ICRA]AA- (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
2	Term loans	Long Term	85.09	-			-	-	Withdrawn	[ICRA]AA-(S) (Negative)	[ICRA]AA-(S) (Stable)	[ICRA]AA- &	[ICRA]AA- &	[ICRA]AA- (Stable)	[ICRA]AA-(Stable)	[ICRA]AA- &	[ICRA]AA- (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
3	Proposed NCD	Long Term	25.0	-			-	-	Withdrawn	[ICRA]AA-(S) (Negative)	[ICRA]AA-(S) (Stable)	[ICRA]AA- &	-	-	-	-	-	-	-
4	NCD	Long Term	150.0	-			-	-	-	-	Withdrawn	[ICRA]AA- &	[ICRA]AA- &	[ICRA]AA- (Stable)	[ICRA]AA-(Stable)	[ICRA]AA- &	[ICRA]AA- (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
5	Term loans	Long Term	212.98	-			-	-	-	-	Withdrawn	[ICRA]AA- &	[ICRA]AA- &	[ICRA]AA- (Stable)	[ICRA]AA-(Stable)	[ICRA]AA- &	[ICRA]AA- (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
6	NCD	Long Term	25.0	-			-	-	-	-	-	[ICRA]AA- & Withdrawn	[ICRA]AA- &	[ICRA]AA- (Stable)	[ICRA]AA-(Stable)	[ICRA]AA- &	[ICRA]AA- (Stable)	[ICRA]AA (Stable)	[ICRA]AA (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]BBB (Negative) ISSUER NOT COOPERATING*;
INE502K07120	NCD	25-Oct-17	9.50%	25-Oct-24	50.00	[ICRA]BBB (Negative) ISSUER NOT COOPERATING*;

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

Source: Talwalkars Better Value Fitness Limited

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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