

Talwalkars Better Value Fitness Limited

July 27, 2020

Rating

| Facilities | Amount (Rs. crore) | Rating ¹ | Rating Action |
|---|---|---|--|
| LT - Bank Facilities – Term Loan | 84.20 | CARE D; ISSUER NOT COOPERATING* (Single D; ISSUER NOT COOPERATING) | ISSUER NOT COOPERATING; Based on best available information |
| Total | 84.20 (Rs. Eighty four crore and twenty lakh only) | | |
| Non-Convertible Debenture Issue | 105.00 (Rs. One hundred five crore only) | CARE D; ISSUER NOT COOPERATING* (Single D; ISSUER NOT COOPERATING) | ISSUER NOT COOPERATING; Based on best available information |
| Proposed Non- Convertible Debenture Issue | 25.00 (Rs. Twenty five crore only) | | |

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE has been seeking information from Talwalkars Better Value Fitness Limited (TBVFL) to monitor the ratings vide e-mail communications July 9, 2020, July 8, 2020, July 7, 2020, July 6, 2020, June 3, 2020, June 1, 2020, May 29, 2020, May 26, May 14, 2020, May 6, 2020, April 30, 2020, April 16, 2020, April 7, 2020, April 1, 2020, March 6, 2020 and numerous phone calls.. However, despite our repeated requests, the company has not provided the requisite information for monitoring the ratings. In line with the extant SEBI guidelines, CARE has reviewed the rating on the basis of the best available information which however, in CARE's opinion is not sufficient to arrive at a fair rating. The rating on TBVFL's bank facilities and instruments will now be denoted as **CARE D; ISSUER NOT COOPERATING***.

Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above rating(s).

CARE has considered combined financials of Talwalkars Better value Fitness Limited (TBVFL) and Talwalkars Healthclubs Limited (THL, Erstwhile Talwalkars Lifestyle Limited) for analysis referred as TBVFL (combined) due to business and financial linkages along with common management.

The rating takes into account ongoing delays in debt servicing by the company.

Detailed description of the key rating drivers

Key Rating Weaknesses (As per PR dated Aug 02, 2019)

Deteriorating debt coverage indicators; asset monetisation remains key rating monitorable: As on March 31, 2019 (UA), the total outstanding debt stood at Rs. ~759 crore an increase of 45.30%. The debt was primarily on account of to fund its various expansion plans, predominantly for the David Lloyd Club in Pune. Consequently, the debt coverage metrics also deteriorated. As of March 31, 2019 (UA), the interest coverage ratio stood at 4.99x as against 7.10x as of March 31, 2018. Similarly, overall gearing as well as total debt to gross cash accruals deteriorated to 1.05x and 5.33x as against 0.89x and 3.91x respectively.

Furthermore, TBVFL (combined) has invested in other complementing ventures in the lifestyle segment such as 'Sarva'. As these investments are taking longer than expected to generate material returns, adjusting for the same (including goodwill), the overall gearing ratio as on March 31, 2019 stands at 1.57x as against 1.11x as on March 31, 2018.

The management is looking to raise funds by the end of calendar year 2019 through various avenues such as sale of equity, sale of stake in joint ventures/associate companies and to monetise some of its gym properties by entering in a sale and lease back transaction to partially retire its debt. The ability of the company to timely raise funds and subsequent debt reduction is a key rating monitorable.

Reduced financial flexibility: The financial flexibility of TBVFL (combined) has reduced on account of significant reduction in market capitalisation along with increase in promoters' pledged shares. The promoters' stake pledged has increased to

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.

*Issuer did not cooperate; Based on best available information

76.11% (TBVFL) and 77.30% (THL) as on June 30, 2019. The ability of the promoters' to reduce quantum of pledged shares continues to remain a key rating monitorable.

Relatively moderate scale of operations: TBVFL's scale of operations are moderate and seasonal in nature as second quarter and fourth quarter of the fiscal year together contribute almost 61% of its overall consolidated revenues in FY19. Hence, any adverse impact on the business in the peak season may adversely impact the profitability.

On-going significant capex towards existing line of business as well as towards newer business segments which have not generated returns in line with expectation: During FY19, on a combined basis, the company had incurred capex of Rs. 173.03 crore of which, Rs. 111.18 crore was for gym business and Rs. 61.84 crore was for the lifestyle business. The company's ability to improve its asset turnover and increasing turnover of higher value added segment is crucial to improve its credit profile. Further, the company is setting up a club in Pune in collaboration with David Lloyd Leisure Limited which got delayed and is expected to start operation shortly. The performance in terms of member addition remains a rating sensitivity.

Key Rating Strengths

Long track record and extensive experience of the promoters in the fitness industry: TBVFL and THL, promoted jointly by the Talwalkar and Gawande families in 2003 has well-established track record of operating gyms/fitness centres of over a decade and half in the fitness industry with presence across the country. The brand "Talwalkars" is in existence since 1932. The promoters, Mr Madhukar Talwalkar and Mr Prashant Talwalkar, have more than four decades of experience in various segments/aspects of fitness industry.

Diversified product portfolio; albeit higher dependence on revenues from gym services: TBVFL (combined) have a diversified product portfolio offering multiple products spanning from basic gym services to aerobics, yoga, diet-based weight reduction programs, massage, spa, and health counselling. While the contribution from its value added services is increasing the company continues to derive major share of revenues from basic gym services across its outlets.

Liquidity: Poor

There are ongoing delays in company's debt service obligations

Analytical approach: Combined Financials of THL and TBVFL have been considered for analysis; given the strong operational synergies along with common management.

Applicable Criteria

[Policy in respect of Non-cooperation by issuer](#)

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Financial ratios - Non-Financial Sector](#)

About the company

Incorporated in 2003, Talwalkars Better Value Fitness Limited (TBVFL) was jointly promoted by Mr. Madhukar Talwalkar, Mr. Prashant Talwalkar and Mr. Anant Gawande. The company is one of the leading fitness chains in India offering a wide range of services like weight loss, weight gain, and other fitness programs like body sculpting, shaping, general fitness, massage, spa and health counselling under the brand "Talwalkars". The company offers various value added fitness programs in its bouquet of fitness programs like Zumba (dance inspired fitness program), NuForm (Electric Muscle Simulation based Technology fitness program), Reduce (weight loss diet program), Transform (holistic fitness program). TBVFL (combined) operates gyms/fitness centre on three models viz directly managed gyms, franchisee route and subsidiary model (wherein TBVFL enters into an agreement with a master franchise, and TBVFL owns around 51% equity and the brand). Over the last seven years, TBVFL has grown rapidly from operating 63 gyms/fitness centres as on March 31, 2010, to 272 gyms/fitness centres as on March 31, 2019.

TBVFL has split its operations into lifestyle business and gym business and form two separate entities in the following manner:

- a) Lifestyle business: This business is housed under TBVFL. The business including various joint ventures/associate companies comprises of Nuform, Zumba Fitness, Mickey Mehta, Sarva (Yoga), Group X, Reduce, and sports club. As on March 31, 2019, there are 116 centers of Reduce, 80 centers of Nuform, 85 centers of Sarva Yoga and 19 centers of Mickey Mehta.
- b) Gym Business: This business is housed under Talwalkar Healthclubs Limited (THL); erstwhile Talwalkars Lifestyle Limited (TLL)

| Brief Financials - (Rs. crore) | FY18 (UA) | FY19 (UA) |
|--------------------------------|-----------|-----------|
| Total Income | 318.59 | 398.09 |
| PBILDT | 191.75 | 198.67 |
| PAT | 78.92 | 88.04 |
| Overall Gearing (times) | 0.89 | 1.05 |
| Adj. Overall Gearing (times)* | 1.11 | 1.57 |
| Interest Coverage (times) | 7.10 | 4.99 |

FY19 numbers are combined by CARE as per the abridged financials submitted by TBVFL and THL to the stock exchanges

*Adjusted gearing is calculated after deducting investments in joint ventures/associates and goodwill from the net worth.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

| Name of the Instrument | Date of Issuance | Coupon Rate | Maturity Date | Size of the Issue (Rs. crore) | Rating assigned along with Rating Outlook |
|--|------------------|-------------|---------------|-------------------------------|--|
| Fund-based - LT-Term Loan | - | - | Nov 2024 | 84.20 | CARE D; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information |
| Debentures-Non Convertible Debentures INE502K07096 | 08-07-2016 | 9.85% | 08-07-2021 | 30.00 | CARE D; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information |
| Debentures-Non Convertible Debentures INE502K07120 | 25-10-2017 | 9.50% | 25-10-2024 | 50.00 | CARE D; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information |
| Debentures-Non Convertible Debentures INE502K07138 | 04-10-2018 | 9.50% | 04-10-2025 | 25.00 | CARE D; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information |
| Proposed Non-Convertible Debentures | - | - | - | 25.00 | CARE D; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information |

Annexure-2: Rating History of last three years

| Sr. No. | Name of the Instrument/Bank Facilities | Current Ratings | | | Rating history | | | |
|---------|--|-----------------|--------------------------------|--------|---|---|---|---|
| | | Type | Amount Outstanding (Rs. crore) | Rating | Date(s) & Rating(s) assigned in 2020-2021 | Date(s) & Rating(s) assigned in 2019-2020 | Date(s) & Rating(s) assigned in 2018-2019 | Date(s) & Rating(s) assigned in 2017-2018 |
| 1. | Debentures-Non Convertible Debentures | LT | - | - | - | - | - | 1)Withdrawn (28-Apr-17) |
| 2. | Debentures-Non Convertible Debentures | LT | - | - | - | - | - | 1)Withdrawn (22-Mar-18) 2)CARE AA; Stable (18-Oct-17) 3)CARE AA; Stable (28-Apr-17) |
| 3. | Debentures-Non | LT | - | - | - | - | - | 1)Withdrawn 1)CARE AA; |

| | | | | | | | | |
|----|---------------------------------------|----|-------|--|---|---|--|--|
| | Convertible Debentures | | | | | | (16-Aug-18) | Stable (18-Oct-17) 2)CARE AA; Stable (28-Apr-17) |
| 4. | Debentures-Non Convertible Debentures | LT | - | - | - | - | 1)Withdrawn (16-Aug-18) | 1)CARE AA; Stable (18-Oct-17) 2)CARE AA; Stable (28-Apr-17) |
| 5. | Debentures-Non Convertible Debentures | LT | - | - | - | - | 1)Withdrawn (16-Aug-18) | 1)CARE AA; Stable (18-Oct-17) 2)CARE AA; Stable (28-Apr-17) |
| 6. | Debentures-Non Convertible Debentures | LT | 50.00 | CARE D; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information | - | 1)CARE D (02-Aug-19) 2)CARE B (Under Credit watch with Negative Implications) (30-Jul-19) 3)CARE A+; Stable (11-Jun-19) | 1)CARE AA; Stable (16-Aug-18) | 1)CARE AA; Stable (18-Oct-17) 2)CARE AA; Stable (28-Apr-17) |
| 7. | Fund-based - LT-Term Loan | LT | 84.20 | CARE D; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information | - | 1)CARE D (02-Aug-19) 2)CARE B (Under Credit watch with Negative Implications) (30-Jul-19) 3)CARE A+; Stable (11-Jun-19) | 1)CARE AA; Stable (03-Oct-18) 2)CARE AA; Stable (16-Aug-18) | 1)CARE AA; Stable (18-Oct-17) 2)CARE AA; Stable (28-Apr-17) |
| 8. | Debentures-Non Convertible Debentures | LT | - | - | - | - | 1)Withdrawn (16-Aug-18) | 1)CARE AA; Stable (18-Oct-17) 2)CARE AA; Stable (28-Apr-17) |
| 9. | Debentures-Non Convertible Debentures | LT | - | - | - | - | 1)Withdrawn (16-Aug-18) | 1)CARE AA; Stable (18-Oct-17) 2)CARE AA; Stable (28-Apr-17) |

| | | | | | | | | |
|-----|---------------------------------------|----|-------|--|---|---|-------------------------------|-------------------------------|
| 10. | Commercial Paper | ST | - | - | - | - | 1)Withdrawn (10-May-18) | 1)CARE A1+ (18-Oct-17) |
| 11. | Debentures-Non Convertible Debentures | LT | 30.00 | CARE D; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information | - | 1)CARE D (02-Aug-19) 2)CARE B (Under Credit watch with Negative Implications) (30-Jul-19) 3)CARE A+; Stable (11-Jun-19) | 1)CARE AA; Stable (16-Aug-18) | 1)CARE AA; Stable (18-Oct-17) |
| 12. | Debentures-Non Convertible Debentures | LT | - | - | - | - | 1)Withdrawn (10-May-18) | 1)CARE AA; Stable (22-Mar-18) |
| 13. | Debentures-Non Convertible Debentures | LT | 25.00 | CARE D; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information | - | 1)CARE D (02-Aug-19) 2)CARE B (Under Credit watch with Negative Implications) (30-Jul-19) 3)CARE A+; Stable (11-Jun-19) | 1)CARE AA; Stable (03-Oct-18) | - |
| 14. | Debentures-Non Convertible Debentures | LT | 25.00 | CARE D; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information | - | 1)CARE D (02-Aug-19) 2)CARE B (Under Credit watch with Negative Implications) (30-Jul-19) 3)CARE A+; Stable (11-Jun-19) | 1)CARE AA; Stable (08-Feb-19) | - |

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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