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CARE ASSIGNS 'CARE AA-' RATINGS TO LONG TERM INSTRUMENTS OF TALWALKARS BETTER VALUE FITNESS LIMITED AND TALWALKARS CLUB PVT LTD

Talwalkars Better Value Fitness Ltd (TBVF)

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Remarks
Long term Non-Convertible Debenture [^]	25	CARE AA- (Double A Minus)	Assigned
Total Facilities	25		

[^]The proposed NCD has a tenure of six years with quarterly interest payment and repayment in equal yearly instalments at the end of fourth, fifth and sixth year from the date of allotment.

Based on the unconditional and irrevocable corporate guarantee provided by TBVF to its subsidiary Talwalkars Club Pvt Ltd (TCPL), CARE has assigned the following rating to the long term instrument of TCPL:

1. Talwalkars Club Pvt Ltd (TCPL)

Facilities	Amount (Rs. crore)	Ratings	Remarks
Long term Non-Convertible Debenture [^]	25	CARE AA- (SO) (In-Principle)* (Double A Minus) (Structured Obligation)	Assigned
Total Facilities	25		

[^]The proposed NCD has a tenure of six years with repayment in equal yearly instalments at the end of fourth, fifth and sixth year from the date of allotment.

^{*}Backed by unconditional and irrevocable corporate guarantee of Talwalkars Better Value Fitness Ltd. (yet to be executed)

Rating Rationale

The rating assigned to the long term instrument of Talwalkars Better Value Fitness Ltd (TBVF) derives strength from consistent growth in revenues, backed by healthy profitability margins, comfortable gearing levels and healthy interest coverage in FY14 and H1FY15 (refers to the period April 1 to Sept 30). Furthermore, the rating also factors in strength from TBVF's strong brand, nationwide presence, leadership position and rich experience of the promoters in the gym/fitness industry in India.

The rating, however, is constrained by the TBVF's modest size of operations, significant expansion & capex and cyclicity of business. Furthermore, the organized gym/fitness industry is still evolving with limited availability of skilled manpower and any further slowdown in the economy may impact the overall demand in the industry, given that expenditure on gyms/fitness centers is discretionary in nature.

The ability of the company to maintain comfortable liquidity amidst ongoing expansion and capex, in addition to sustaining its growth in operations, healthy profitability margins and capital structure are the key rating sensitivities.

Background

Incorporated in 2003, Talwalkars Better Value Fitness Limited (TBVF) 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

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

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 operates gyms/fitness centre on three models viz directly managed gyms, franchisee route and subsidiary model (wherein TBVF enters into an agreement with a master franchise, and TBVF owns around 51% equity and the brand). Over the last four years, TBVF has grown rapidly from operating 63 gyms/fitness centres as on March 31, 2010, to 150 gyms/fitness centres as on June 30, 2014 spread over 78 cities covering 18 states in the country and serving more than 150,000 members.

As on March 31, 2014, TBVF has three direct subsidiary companies, one joint venture and a step down subsidiary engaged in the same business of running the gyms/fitness centres.

Talwalkars Club Private Limited (TCPL) is a 100% subsidiary of Talwalkars Better Value Fitness Limited (TBVF) incorporated in 2014. TCPL is in planning stage to set up sports and recreation health club in Wakad, Pune on a 2.16 acre plot offering activities like Gym, Sports training, Swimming Pool, Racquet Sports, Restaurant/F&B, Banquet Hall, and Entertainment Zone. For the parent entity TBVF which is engaged in operating fitness centres, catering to lower and middle income group thorough its large format and affordable gyms (HiFi Franchisees), TCPL is a logical extension from fitness centres/gyms to health and recreation centres for the Talwalkars Group.

In FY14 (consolidated), TBVF reported PAT of Rs 39.77 crore (compared to PAT of Rs 32.62 crore in FY13) on a total income of Rs 188.22 crore (Rs 152.00 crore in FY13). Moreover, in H1FY15, the company reported a PAT of Rs 25.41 crore (Rs 20.05 crore in H1FY14) on a total income of Rs 115.19 crore (Rs 96.03 crore in H1FY14).

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****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

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In case of partnership/proprietary concerns, the rating assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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