TGB Banquets and Hotels Limited

November 03, 2017

Rating

Facilities	**Amount (Rs. Crore)**	**Rating[1]**	**Rating Action**
Long-term Bank Facilities	11.00 (reduced from Rs.79.13 crore)	**CARE BB; Stable (Double B ; Outlook : Stable)**	**Revised from CARE B+ (CARE B plus)**
Total Facilities	**11.00 (Rupees Eleven crore only)**		

Details of instruments/facilities in Annexure-1

**Rating assigned to the term loan (Rs.57.13 crore) has been withdrawn since the company has repaid the entire amount.*

Detailed Rationale & Key Rating Drivers

The revision in the rating assigned to the bank facilities of TGB Banquets and Hotels Limited (TGB) takes into account substantial improvement in the capital structure of the company on account of repayment of its entire debt out of sale consideration received from its Surat property in May 2018. TGB repaid its entire long term loan and utilisation of fund-based facilities also remained nil September 2017 onwards. Consequently, TGB has become debt-free company.

However, the rating continues to remain constrained on account of its moderate scale of operations, elongated operating cycle coupled with high amount of loans and advances extended by TGB, geographical concentration of its operations along with its presence in a competitive and inherently cyclical hospitality industry. The ratings also takes cognizance of improvement in profitability during FY17 (refers to the period April 01 to March 31), marked by reduction in loss incurred during the year.

The rating, however, continues to derive strength from TGB's established track record of operations in hospitality business, strong presence in food & catering (F&B) business, though facing increased competition.

TGB's ability to increase its scale of operations along with further improvement in its profitability and recovery of advances extended by it would be the key rating sensitivities. Furthermore, utilisation of the balance sale proceeds in a profitable manner will also be crucial.

Detailed description of the key rating drivers

Reasons for revision in rating

Substantial improvement in leverage and liquidity: The capital structure of the company remained comfortable with overall gearing remaining below unity at 0.91 times as on March 31, 2017. Further, during FY18, TGB transacted the sale-cum-lease back transaction of its Surat hotel property in May 2017 for a total consideration of Rs.160 crore. The company will continue to run the property on lease rent basis under the brand TGB Surat. Part of the sale proceeds were utilized to repay TGB's entire long term debt of Rs.59.85 crore and meet working capital requirements. TGB also reduced its cash credit limit from Rs.18 crore to Rs.7 crore in August 2017, which remained unutilized from September 2017. Consequently, TGB has become a debt free company.

Key Rating Weakness

Modest scale of operations; albeit improvement in operating profitability: TGB's total operating income (TOI) remained stable at Rs.137.01 crore during FY17 (Rs.136.97 crore during FY16) due to stable occupancy rate, challenging economic scenario and increased competition in hospitality segment on account of new entrants. Although TOI remained stable, there is a shift of income base to F&B segment from banquet services. However, the profitability margins marginally increased to 19.17% in FY17 (17.27% in FY16) on account of lower operational expenses.

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

High level of competition and cyclical nature of hospitality industry: The Indian hotel industry is highly fragmented in nature with presence of large number of organized and unorganized players spread across various regions. Furthermore, cyclical nature of the hotel industry and increasing competition from already established hotels has impacted performances of industry players.

Key Rating Strengths

Established track record of operations in hospitality industry with strong presence in F&B segment: The overall affairs of TGB are managed by Mr Narendra Somani along with Mr Hemant Somani and Devanand Somani possessing more than two decade experience in hotel industry. TGB owns a three star hotel property at Ahmedabad and operates a five star hotel property at Surat and Indore. TGB also operates restaurants and party plots on management contract as well as franchisee basis at prominent places in Ahmedabad, Nadiad, Rajkot, Surat and Jamnagar.

Analytical approach: Standalone

Applicable Criteria

Criteria on assigning Outlook to Credit Ratings
CARE's Policy of Default Recognition
CARE's methodology - Service Sector Companies
Rating Methodology Hotel Industry
Financial ratios - Non Financial Sector

About the Company

Ahmedabad based TGB Banquets & Hotels Ltd (TGB; renamed on April 19, 2013) was incorporated in 1999 as Bhagwati Banquets & Hotels Ltd by Mr. Narendra Somani. TGB commenced its operations in June 2002 with a three star hotel property located in Ahmedabad, Gujarat.

TGB's economy hotel brand, TGB Express, is operational at Ahmedabad and Nadiad under franchisee arrangement on revenue sharing basis. Furthermore, TGB operates room facilities at Karnavati club and operates restaurants of Karnavati Club and Patang on management contract basis. Further, during FY18 it has received the management contract for operating restaurant at Rajpath Club in Ahmedabad.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	136.97	137.01
PBILDT	23.65	26.26
PAT	-15.24	-6.61
Overall gearing (times)	0.94	0.91
Interest coverage (times)	1.26	1.67

A: Audited; P: Provisional

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

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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About CARE Ratings:

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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	-	-	-	0.00	Withdrawn
Fund-based - LT-Cash Credit	-	-	-	7.00	CARE BB; Stable
Non-fund-based - LT-Bank Guarantees	-	-	-	4.00	CARE BB; Stable

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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Term Loan	LT	-	-	1)CARE B+; Stable (07-Apr-17)	1)CARE B+ (11-Apr-16)	-	1)CARE B+ (31-Mar-15) 2)Suspended (23-Mar-15) 3)CARE BB+ (08-Apr-14)
2.	Fund-based - LT-Cash Credit	LT	7.00	CARE BB; Stable	1)CARE B+; Stable (07-Apr-17)	1)CARE B+ (11-Apr-16)	-	1)CARE B+ (31-Mar-15) 2)Suspended (23-Mar-15) 3)CARE BB+ (08-Apr-14)
3.	Non-fund-based - LT-Bank Guarantees	LT	4.00	CARE BB; Stable	1)CARE B+; Stable (07-Apr-17)	1)CARE B+ (11-Apr-16)	-	1)CARE B+ (31-Mar-15) 2)Suspended (23-Mar-15) 3)CARE BB+ (08-Apr-14)

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