TGB Banquets and Hotels Limited

December 11, 2019

Rating

Facilities	Amount (Rs. Crore)	Rating[1]	Rating Action
Long Term Bank Facilities	11.00	**CARE BB; Stable (Double B; Outlook: Stable)**	Reaffirmed
Total	**11.00 (Rupees Eleven Crore Only)**		

**Details of facilities in Annexure-1*

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of TGB Banquets and Hotels Limited (TGB) continues to be constrained on account of high working capital intensity marked by elongated operating cycle coupled with high amount of loans and advances extended by TGB, large outstanding disputed statutory liabilities and its presence in a competitive and inherently cyclical hospitality industry. The rating is further constrained on account of decline in its scale of operations during FY19 (refers to the period April 01 to March 31) along with significant losses incurred due to write-off of long overdue debtors and advances.

The rating, however, continues to derive strength from the established track record of operations of TGB in hospitality business, strong presence in food & Beverage (F&B) and banqueting business and its healthy net worth base.

Rating Sensitivities

Positive Factors

- Meaningful improvement in liquidity of the company followed by timely realization of loans and advances along with realization of long pending other current assets.
- Significant improvement in scale of operations beyond Rs.50 crore while maintaining PBILDT margin in the range of 15-18%.

Negative Factors

- Any adverse outcome of long pending disputed statutory liabilities impacting the liquidity of the company.
- Sizable erosion in net worth base due to any further write-offs.

Detailed description of the key rating drivers

Key Rating Weaknesses

Decline in scale of operations and significant losses during FY19: During FY19, TOI of TGB declined significantly at Rs.81 crore as against Rs.119 crore during FY18 post sale of Surat property and discontinuation of room revenue from Indore property. Moreover, the company had written off its obsolete inventory from the Ahmedabad and Surat property during FY19 along with writing off the long over-due debtors and advances which led to net loss of Rs.54.24 crore. The net loss was further widened during FY19 due to loss on sale of assets and earlier years' tax provision written back aggregating to Rs.13.35 crore. Moreover, debt coverage indicators continued to remain weak on account of losses incurred by the company at PBILDT level and cash loss during FY19. However, during H1FY20, debt coverage indicators improved with PBIDLT interest coverage of 3.69 times and total debt to GCA of 3.52 years largely backed by improved profitability during H1FY20 after discontinuation of loss making operations.

High statutory disputed liabilities: TGB has disputed statutory dues of Rs.42.38 crore (approximately 41% of net-worth) as on March 31, 2019 (Rs.44.52 crore as on March 31, 2018) which includes statutory dues related to PF, ESIC, Income tax, Sales tax, GST, VAT, service tax, etc. Among these total disputed statutory dues, major Rs.21.35 crore pertains to service tax and Rs.7.82 crore for VAT as on March 31, 2019. As informed by the company, it has applied for one time settlement under the Legacy Dispute Resolution Scheme announced by the government in Budget 2019 with respect to disputes under service tax, Central excise and other duties. However, final order is awaited.

Large size exposure to subsidiary and associate concerns*:* TGB has exposure to its subsidiary/associate concern in terms of unsecured loan to support their operations. TGB had invested in the form of unsecured loan/deposit of Rs.18.71 crore as on March 31, 2019 towards its subsidiary Lov Kush Properties Private Limited. Further, TGB also has exposure of Rs.11.54 crore towards one of the associate company TGB Bakers & Confectionaries Limited. It is to be noted that TGB had total exposure of around Rs.30 crore as on March 31, 2019 towards subsidiary/associate concern and around Rs.26 crore towards other long pending current assets aggregating to nearly Rs.56 crore of exposure (approximately 54% of net-worth) as on March 31, 2019.

[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 operating performance of the industry players. One of the biggest challenges hoteliers will face in upcoming years is sustaining growth as online private accommodation aggregators flood the marketplace with new inventory. Further, Average Room Revenue (ARR) is also expected to remain subdued due to increase in room inventory with more players entering the market. The market for banqueting and outdoor catering has attracted many organized players which have led to the increase in competition and pricing pressure.

Key Rating Strengths

Established track record of operations in hospitality industry: The overall operations of TGB are managed by Mr. Narendra Somani along with Mr. Hemant Somani and Mr. Devanand Somani. Mr Narendra Somani, Chairman & Managing Director, has an experience of more than two decades in the hospitality industry; in 1990 with a restaurant and subsequently, expanding to outdoor catering, hotels and banqueting. He also serves on the board of various recognized professional body such as he was the ex-president of All Gujarat Caterers Association & the current president of Hotels & Restaurants Association of Gujarat.

Strong presence of TGB in F&B segment: During FY19, TGB derived its major revenue from F&B and banquet segment contributing 88% of total operating income. Further, the prime revenue generating segment of TGB is banquet services consisting of managing various events, weddings, exhibitions and parties whose contribution to total sales grew to 45% in FY19 as compared to 37% in FY18 and continues to grow in H1FY20. The revenue from the operations of the hotel segment declined to 4% of total sales in FY18 post sale of Surat property. Presently, room revenue comes only from the Ahmedabad property thereby increased share of banquet segment in total gross sales. Moreover, H1FY20 onwards, TGB is managing operations only at Ahmedabad property which is growing steadily in terms of revenue and profitability.

Healthy net worth base and low debt level: Despite erosion in net-worth base due to significant losses incurred during FY19, TGB had healthy net-worth base of Rs.103.67 crore. Moreover, the total debt of company also stood low at around Rs.11.32 crore as on March 31, 2019 resulting into comfortable overall gearing ratio of 0.11 times as on March 31, 2019. However, on an adjusted basis (excluding long pending large size loans and advances from net worth), the overall gearing ratio stood moderate at 0.29 times as on March 31, 2019.

Liquidity: Stretched

Liquidity of TGB continued to remain stretched marked by low cash accruals and high gross current assets including loans and advances which results into high utilization of fund based working capital limits for the trailing twelve months ended October 2019. Despite net loss and cash loss during FY19, the company had positive cash flow from operation of Rs.7.38 crore which supported its liquidity. Moreover, the company had cash and bank balance of Rs.3.72 crore as on March 31, 2019 and Rs.2.79 crore as on September 30, 2019 which provides cushion to liquidity. However, any adverse outcome of the existing disputed statutory liabilities or increase in the exposure towards the subsidiaries/associate concern may impact the liquidity of the company.

Analytical Approach: Standalone

Applicable Criteria:

Criteria on assigning outlook and credit watch to Credit Ratings
CARE's Policy on Default Recognition
Financial ratios – Non-Financial Sector
CARE's methodology for Service Sector companies
CARE's Rating Methodology Hotel Industry

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. Presently, TGB owns a hotel property at Ahmedabad. TGB also provides outside catering service and operates restaurants & food courts at Ahmedabad, Surat & Indore. It has restaurants at Surat and Jamnagar under franchisee agreement. 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, operates restaurants at YMCA Club, Karnavati Club, and Patang (the revolving restaurant at Ahmedabad) in Ahmedabad on management contract basis.

(Rs. Crore)

Brief Financials of TGB	FY18 (A)	FY19 (A)
Total Operating Income	118.90	81.12
PBILDT	(17.21)	(33.87)
PAT	0.54	(54.24)
Overall Gearing (times)	0.07	0.11
Interest Coverage (times)	(5.08)	(22.03)

A: Audited

During H1FY20 (UA), TGB earned PAT of Rs.0.77 crore on a total operating income (TOI) of Rs.15.53 core as against TOI of Rs.38.78 crore and PAT of Rs.0.86 crore earned in H1FY19 (UA).

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History (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- 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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Cash Credit	LT	7.00	CARE BB; Stable	-	1)CARE BB; Stable (13-Dec-18)	1)CARE BB; Stable (03-Nov-17) 2)CARE B+; Stable (07-Apr-17)	1)CARE B+ (11-Apr-16)
2.	Non-fund-based - LT-Bank Guarantees	LT	4.00	CARE BB; Stable	-	1)CARE BB; Stable (13-Dec-18)	1)CARE BB; Stable (03-Nov-17) 2)CARE B+; Stable (07-Apr-17)	1)CARE B+ (11-Apr-16)
3.	Fund-based - LT-Term Loan	LT	-	-	-	-	1)Withdrawn (03-Nov-17) 2)CARE B+; Stable (07-Apr-17)	1)CARE B+ (11-Apr-16)

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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