

TGB Banquets and Hotels Limited
 December 13, 2018

Rating

Facilities	Amount (Rs. Crore)	Rating ¹	Rating Action
Long-term Bank Facilities	11.00	CARE BB; Stable (Double B ; Outlook : Stable)	Reaffirmed
Total Facilities	11.00 (Rupees Eleven crore only)		

Details of instruments/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 its modest scale of operations during FY18 (refers to the period April 01 to March 31), high working capital intensity marked by elongated operating cycle coupled with high amount of loans and advances extended by TGB and its presence in a competitive and inherently cyclical hospitality industry. Further, the rating also takes cognizance of decline in profitability in FY18 on account of increase in lease rent cost.

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 and comfortable leverage position.

The ability of TGB to increase its scale of operations along with improvement in its profitability and recovery of advances extended by it would be the key rating sensitivities.

Detailed description of the key rating drivers**Key Rating Weakness**

Modest scale of operations and declining profitability: TGB's total operating income (TOI) moderated to Rs.118.90 crore during FY18 as against Rs.137.01 crore during FY17 on account of reduction in the revenue from the F & B segment in FY18 owing to ban on liquor sale for seven months in FY18 and increased competition in hospitality segment on account of new entrants. However, TGB reported growth in revenue from banquet and catering segment in FY18.

During FY18, TGB reported loss at operational level primarily on account of additional lease rent expense of Surat property. The PAT margin (post including gain on sale of Surat property) remained low at 0.46% during FY18.

During H1FY19 (Provisional), TGB reported the total sales of Rs. 38.78 crore (including only the revenue from the sale of liquor from the Surat property) with a PBILDT and PAT margin of 7.63% and 2.22% respectively.

Working capital intensive nature of operations: The operations of TGB has high working capital intensity as reflected by elongated operating cycle of 141 days during FY18 due to higher collection period of 133 days. TGB had a comfortable current ratio and quick ratio at 1.91 times and 1.63 times respectively as on March 31, 2018.

Modest liquidity profile: During FY18, TGB reported negative cash flow from operations. The average working capital utilisation remained almost at 100% during the trailing 12-months ended October 2018 and the promoters infused unsecured loans to meet its debt obligations for the year. However, during H1FY19 (Provisional), TGB reported the gross cash accruals (GCA) of Rs. 2.19 crore. As on March 31, 2018, TGB had free cash and bank balance of Rs.5.62 crore.

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.

Key Rating Strengths

Established track record of operations in hospitality industry with strong presence in F&B segment: The overall operations of TGB are managed by Mr Narendra Somani along with Mr Hemant Somani and Devanand Somani. The promoter group possess more than two decade experience in hotel industry. F&B and banquet segment is the main revenue contributing segment in TGB of approximately 81.05% of TOI in FY18

Comfortable leverage and moderate debt coverage indicators: The overall gearing of TGB remained comfortable at below unity and had improved further to 0.07 times as on March 31, 2018 as compared to 0.91 times as on March 31,

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

2017 on account of repayment of its entire term debt from the sale proceeds of its Surat property. Further, the company also reduced its sanctioned fund-based working capital limits from Rs.18 crore to Rs.7 crore from August 2017. However, the debt coverage indicators deteriorated on account loss at PBILDT level during FY18.

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. Presently, TGB owns a hotel property at Ahmedabad and have operations in three hotel properties: A three star hotel property at Ahmedabad, five star hotel property at Surat and a five star hotel property at Indore under the franchisee arrangement of its brand name of 'TGB Palace Indore'.

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 of Karnavati Club, Rajpath Club and Patang (the revolving restaurant at Ahmedabad) on management contract basis. Further, during FY19 it has received the management contract for operating restaurant at YMCA Club in Ahmedabad.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	137.01	118.90
PBILDT	26.26	-17.21
PAT	-6.61	0.54
Overall gearing (times)	0.91	0.07
Interest coverage (times)	1.67	-5.08

A: Audited

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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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	NA	NA	NA	7.00	CARE BB; Stable
Non-fund-based - LT-Bank Guarantees	NA	NA	NA	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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Term Loan	LT	-	-	-	1)Withdrawn (03-Nov-17) 2)CARE B+; Stable (07-Apr-17)	1)CARE B+ (11-Apr-16)	-
2.	Fund-based - LT-Cash Credit	LT	7.00	CARE BB; Stable	-	1)CARE BB; Stable (03-Nov-17) 2)CARE B+; Stable (07-Apr-17)	1)CARE B+ (11-Apr-16)	-
3.	Non-fund-based - LT-Bank Guarantees	LT	4.00	CARE BB; Stable	-	1)CARE BB; Stable (03-Nov-17) 2)CARE B+; Stable (07-Apr-17)	1)CARE B+ (11-Apr-16)	-

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