

Talwalkars Better Value Fitness Limited

August 02, 2019

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Rating Action
Long-term Bank Facilities (Term Loan)	84.20	CARE D (Single D)	Revised from CARE B (Single B) (Credit watch with negative implications)
Total	84.20 (Rs. Eighty four crore and twenty lakh only)		
Long-Term Non- Convertible Debenture	50.00	CARE D (Single D)	CARE B (Single B) (Credit watch with negative implications)
Long-Term Non- Convertible Debenture	30.00	CARE D (Single D)	CARE B (Single B) (Credit watch with negative implications)
Long-Term Non- Convertible Debenture	25.00	CARE D (Single D)	CARE B (Single B) (Credit watch with negative implications)
Proposed Non-Convertible Debenture Issue	25.00	CARE D (Single D)	CARE B (Single B) (Credit watch with negative implications)

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

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 revision of TBVFL (combined) factors in delay in servicing of interest due on term loans on 31st July 2019. Consequently, the ratings for instruments have also been revised.

Key Rating Weaknesses (As per PR dated July 30,2019)

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 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.

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

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: Cash and cash equivalents position as on March 31, 2019 is Rs. 76.91 crore on combined consolidated basis (Please see analytical approach). The TBVFL (combined) repayments during FY20 are Rs.67.20 crore. The company also has rating trigger clauses (as specified by the management) in NCD's, which if exercised could severely impact liquidity and debt servicing ability of TBVFL (combined).

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

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

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

[Rating Methodology-Service Sector Companies](#)

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

[Rating Methodology: Factoring Linkages in Ratings](#)

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 TBVLF 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: ICRA has moved the long-term ratings for the non-convertible debenture program of Talwalkars Better Value Fitness Limited (TBVFL) to the 'Issuer Not Cooperating' category citing that the entity's management has remained non-cooperative.

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
Debentures-Non Convertible Debentures INE502K07096	08-07-2016	9.85%	08-07-2021	30.00	CARE D
Debentures-Non Convertible Debentures INE502K07120	25-10-2017	9.50%	25-10-2024	50.00	CARE D
Debentures-Non Convertible Debentures INE502K07138	04-10-2018	9.50%	04-10-2025	25.00	CARE D
Proposed Non-Convertible Debentures	-	-	-	25.00	CARE D

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-Term Loan	LT	-	-	-	-	-	1)Withdrawn (22-Dec-16) 2)CARE AA (13-Sep-16)
2.	Debentures-Non Convertible Debentures	LT	-	-	-	-	1)Withdrawn (28-Apr-17)	1)CARE AA; Stable (27-Dec-16) 2)CARE AA (13-Sep-16)
3.	Debentures-Non Convertible Debentures	LT	-	-	-	-	1)Withdrawn (22-Mar-18) 2)CARE AA; Stable (18-Oct-17)	1)CARE AA; Stable (27-Dec-16) 2)CARE AA (13-Sep-16)

							3)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)	1)CARE AA; Stable (27-Dec-16) 2)CARE AA (13-Sep-16)
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)	1)CARE AA; Stable (27-Dec-16) 2)CARE AA (13-Sep-16)
6.	Debentures-Non Convertible Debentures	LT	-	-	-	1)Withdrawn (16-Aug-18)	1)CARE AA; Stable (18-Oct-17) 2)CARE AA; Stable (28-Apr-17)	1)CARE AA; Stable (27-Dec-16) 2)CARE AA (13-Sep-16) 3)CARE AA (29-Apr-16)
7.	Debentures-Non Convertible Debentures	LT	-	-	-	-	-	1)Withdrawn (22-Dec-16) 2)CARE AA (13-Sep-16)
8.	Debentures-Non Convertible Debentures	LT	50.00	CARE D	1)CARE B (Under Credit watch with Negative Implications) (30-Jul-19) 2)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)	1)CARE AA; Stable (27-Dec-16)
9.	Fund-based - LT-Term Loan	LT	84.20	CARE D	1)CARE B (Under Credit watch with Negative Implications) (30-Jul-19) 2)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)	1)CARE AA; Stable (02-Feb-17)
10.	Debentures-Non Convertible Debentures	LT	-	-	-	1)Withdrawn (16-Aug-18)	1)CARE AA; Stable (18-Oct-17) 2)CARE AA; Stable (28-Apr-17)	-

11.	Debentures-Non Convertible Debentures	LT	-	-	-	1)Withdrawn (16-Aug-18)	1)CARE AA; Stable (18-Oct-17) 2)CARE AA; Stable (28-Apr-17)	-
12.	Commercial Paper	ST	-	-	-	1)Withdrawn (10-May-18)	1)CARE A1+ (18-Oct-17)	-
13.	Debentures-Non Convertible Debentures	LT	30.00	CARE D	1)CARE B (Under Credit watch with Negative Implications) (30-Jul-19) 2)CARE A+; Stable (11-Jun-19)	1)CARE AA; Stable (16-Aug-18)	1)CARE AA; Stable (18-Oct-17)	-
14.	Debentures-Non Convertible Debentures	LT	-	-	-	1)Withdrawn (10-May-18)	1)CARE AA; Stable (22-Mar-18)	-
15.	Debentures-Non Convertible Debentures	LT	25.00	CARE D	1)CARE B (Under Credit watch with Negative Implications) (30-Jul-19) 2)CARE A+; Stable (11-Jun-19)	1)CARE AA; Stable (03-Oct-18)	-	-
16.	Debentures-Non Convertible Debentures	LT	25.00	CARE D	1)CARE B (Under Credit watch with Negative Implications) (30-Jul-19) 2)CARE A+; Stable (11-Jun-19)	1)CARE AA; Stable (08-Feb-19)	-	-

Annexure-3: Name of the companies consolidated with TBVFL (Combined)

Sr. No.	Companies
1	Talwalkars Club Private Limited
2	Talwalkars Club System Private Limited
3	MidasTouch Private Limited
4	First Nutrition Private Limited
5	Rushzone Wellness Private Limited
6	Talwalkars Better Value Fitness (Singapore) PTE Limited
7	PWG Fitness (PVT) Limited (Sri Lanka)
8	Power World Gym Limited
9	Abhipray Enterprises Limited

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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