

No. CARE/ARO/RR/2018-19/1563

Mr. Narendra Somani
Chairman & Managing Director
TGB Banquets and Hotels Limited
301, Circle P, Prahladnagar Garden Road,
S. G. Highway,
Ahmedabad – 380 051

January 01, 2019

Dear Sir,

Credit rating of TGB Banquets and Hotels Limited for Rs.11 crore

Please refer to our letter dated December 07, 2018 on the above subject.

1. The rationale for the ratings is attached as an **Annexure-I**.
2. We request you to peruse the annexed documents and offer your comments, if any. We are doing this as a matter of courtesy to our clients and with a view to ensure that no factual inaccuracies have inadvertently crept in. Kindly revert as early as possible.

If you have any further clarifications, you are welcome to approach us.

Thanking you,
Yours faithfully,



[Ujjwal Patel]
Sr. Manager

Encl.: As above

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Rating Rationale

TGB Banquets and Hotels Limited

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)		

Rating Rationale

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

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. The revenue from F&B segment declined on account of increased competition in hospitality segment on account of new entrants and lower income from sale of liquor due to ban for seven months in FY18. However, TGB reported growth in revenue from banquet and catering segment in FY18.

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.
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Bifurcation of total revenue from operations is tabulated below:

Breakup of Sale	FY17 (A)	FY18 (A)	H1FY19 (Prov)
Room Revenue*	24.24	21.90	3.88
F&B*	68.11	48.02	20.56
Banqueting & catering Income	41.76	45.61	13.89
Income from Wind Mill	2.74	3.20	0.33
Gross Sales	136.85	118.73	38.66

*Does not include revenue from the Surat property in H1FY19

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. Further, the company has reported cash profit of Rs.2.19 crore during H1FY19 as against cash loss of Rs. 7.01 crore in H1FY18.

Comfortable capital structure

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, 2017. The improvement in overall gearing was on account of repayment of its entire term debt liability from the sale proceeds of its Surat property and reduced reliance on bank borrowings for working capital requirements. 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.

High amount of loans and advances to related parties

TGB has granted advances to its subsidiary/associates aggregating Rs.76.54 crore as on March 31, 2018 to support their operations. Out of the total advances of Rs.76.54 crore, TGB has granted Rs.10.68 crore as unsecured loan to its subsidiary TGB Bakers and Confectioners Private Limited. During FY18, TGB has recovered Rs. 1.72 crore from the loan extended to its subsidiaries.

High working capital intensity and modest liquidity profile

Unlike other players in the hospitality industry, TGB has an elongated working capital cycle of 141 days during FY18 (115 days in FY17) on account of high amount of receivables. As on March 31,

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2018, TGB's receivables increased to Rs.46.19 crore, translating into average collection period of 133 days (86 days as on March 2017).

TGB's liquidity position continued to remain stressed during FY18 marked by negative cash flow from operations and full utilisation of working capital facilities during the trailing 12-months ended October 2018. The promoters infused unsecured loans of Rs.3.65 crore to meet its debt obligations for the year. TGB had a comfortable current ratio and quick ratio at 1.91 times and 1.63 times respectively as on March 31, 2018. As on March 31, 2018, TGB had free cash and bank balance of Rs.5.62 crore.

Established track record of operations in the hospitality industry

The overall operations of TGB are managed by Mr Narendra Somani along with Mr Hemant Somani and Mr Devanand Somani. The promoter group possess more than two decades of experience in the hotel industry.

Strong presence in food & catering business though facing increased competition

During FY18, TGB derived its major revenue from the F&B and banquet segment contributing 81.05% of TOI. Further, TGB's prime revenue generating segment of banquet services, consisting of managing various events, weddings, exhibitions and parties, grew to 37.01% of TOI in FY18 as compared to 29.90% in FY17. The revenue from the operations of the hotel segment declined by 10% in FY18 however, the average room rates and occupancy rate has improved in FY18.

Details of percentage of segment-wise contribution to TOI is tabulated below:

Sr.No	Description of main product and services	% to total turnover of the company		
		2015-16	2016-17	2017-18
1	Hotels	15.77%	18.08%	18.95%
2	Restaurant	31.85%	50.78%	41.57%
3	Banquets & other income	52.89%	31.14%	39.48%

High level of competition and cyclical nature of the 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. The increased interplay between the formal hotel sector and informal hospitality establishments continued, with hotel disruptors becoming increasingly real and relevant competitors to the branded hotel sector, particularly in the budget segment. In line with this trend, hotels have stepped up their online



promotional efforts, loyalty programs and overall marketing efforts. The hotel F&B segment has also been impacted by the surge in independent outlets and hotels are under tremendous pressure to re-invent and possibly even scale down their F&B operations. One of the biggest challenges the hoteliers will face in the upcoming years is sustaining growth as online private accommodation aggregators have flooded the marketplace with new inventory. TGB's properties caters to social functions, business tourists and it also earns revenue from banqueting and catering orders. Cyclical nature of the hotel industry and increasing competition from already established hotels has impacted the performances of industry players. Furthermore, 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 has led to increase in competition and pricing pressure.

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 (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



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restaurant at Ahmedabad) on management contract basis. Further, during FY19 it has received the management contract for operating the restaurant at YMCA Club in Ahmedabad.



Financial Performance

<i>For the period ended on March 31,</i>	2016	2017	2018
	(12m, A)	(12m, A)	(12m, A)
<u>Working Results</u>			
Net Sales	132.66	134.11	115.54
Total Operating income	136.97	137.01	118.91
PBILDT	23.65	26.26	-17.21
Interest	18.72	15.75	3.19
Depreciation	20.51	19.46	4.94
PBT	-15.44	-7.89	-30.55
PAT (after deferred tax)	-15.24	-6.61	0.54
Gross Cash Accruals	4.57	11.57	-7.51
<u>Financial Position</u>			
Equity Capital	29.29	29.29	29.29
Net-worth	117.92	112.55	157.58
Total capital employed	245.57	229.03	170.13
<u>Key Ratios</u>			
<i>Growth</i>			
Growth in Total Op. Income (%)	-2.62	0.02	-13.85
Growth in PAT (after D.Tax) (%)	L	L	-ve
<i>Profitability</i>			
PBILDT/Total Op. income (%)	17.27	19.17	-14.47
PAT (after deferred tax)/ Total income (%)	-11.13	-4.82	0.46
ROCE (%)	1.26	3.31	-ve
<u>Solvency</u>			
Long Term Debt Equity ratio (times)	0.79	0.75	0.03
Overall gearing ratio(times)	0.94	0.91	0.07
PBILDT Interest coverage(times)	1.26	1.67	-5.08
PBIT Interest coverage (times)	0.17	0.43	-6.47
Term debt/Gross cash accruals(years)	20.36	7.3	-ve
Total debt/Gross cash accruals(years)	24.32	8.87	-ve
<u>Liquidity</u>			
Current ratio(times)	0.98	0.95	1.91
Quick ratio(times)	0.73	0.74	1.63
<u>Turnover</u>			
Average collection period (days)	69	86	133
Average creditors Period (days)	61	70	63
Average inventory Period (days)	96	98	71
Operating cycle (days)	105	115	141

A: Audited; L: Loss; -ve: Negative



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

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook 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.

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

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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)	-

Annexure-3: Details of Rated Facilities

1. Long-term Facilities

1. A. Fund-based limits

(Rs. Cr)

Sr. No.	Name of Bank	Fund-based Limits		
		Cash Credit	Others	Total fund-based limits
1	Indian Overseas Bank	7	-	7
	Total	7	-	7

Total long-term facilities as at (1.A.): Rs.7.00 crore

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2. Long-term Facilities

2. A. Non-fund-based limits

(Rs. Cr)

Sr. No.	Name of Bank	Non-fund-based Limits		
		Bank Guarantee	Others	Tenure as per sanction letter
1	State Bank of India	4	-	1 year
	Total	4	-	-

Total long-term facilities as at (2.A.): Rs.4 crore

Total facilities rated (1. + 2.): Rs.11 crore

(The brief rationale of the company has been published on December 13, 2018)

