Talwalkars Better Value Fitness Ltd.	
No. of shares (crore)	2.62
Mkt cap (Rs crs)	893
Current price (FV. 10)	341
Price target (Rs)	425
52 week H/L (Rs.)	373.4/130.3
Book Value (Rs.)	100.9
P/BV (FY15e/16e)	3.2/2.7
P/E (FY15e /16e)	18.7/15.2
BSE Code	533200
NSE Code	TALWALKARS
Bloomberg	TALW IN
Daily volume (avg. weekly)	155655

Shareholding pattern	%
Promoters	47.67
MFs / Banks / FIs	6.67
Foreign	13.45
Govt. Holding	0.00
Non-Promoter Corp.	11.81
Total Public	20.40
Total	**100.00**

As on Dec 30, 2014

Recommendation

BUY

Analyst

VIPUL SANGHANI

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Company Background

Talwalkars Better Value Fitness Limited (TBVFL), commonly known as Talwalkars, is one of India's largest chain of health centers. It has over 150 fitness centers with presence across 78 cities & towns in India, with over 150000 members.

Highlights

- India's fitness industry is a highly underpenetrated market with less than 1% of the population using fitness centers. TBVFL is a direct play on rising fitness awareness in India and is India's largest fitness service provider. We believe fitness industry will see significant traction going ahead which in turn will provide huge scope for TBVFL, the only listed player in the fitness space.
- TBVFL's revenue has grown at a CAGR of 26% over the last 3 years largely driven by volume growth of 17%,while its net profit has grown at a CAGR of 32% over the same period on account of margin expansion. We expect company's revenue to grow by 20% in FY15 on account of better realization and product mix and by 22% in FY16 which we believe will be volume driven growth on account of opening of new centers.
- TBVFL has progressively diversified into value added services like Zumba program, NuForm, Reduce etc. by strengthening the quality of offerings through alliances with prominent international brands. These are high margin businesses which according to us will play substantial role in driving the company's profitability going ahead. The share of value added services in overall revenue has increased from 18-20% in FY12 to 22-23% in FY14. We believe the contribution of value added services would rise by 300-400bps in the next 2-3 years, which will expand company's margins going ahead.
- ***The stock is currently trading at 18.7x FY15e earnings and 15.2x FY16e, which seems to be reasonably valued. Nonetheless, with regards to its growth prospects we recommend "buy" with a target of Rs 425 based on 19x FY16e earnings, in 9-12 months.***

Figures in Rs crs	FY12	FY13	FY14	FY15e	FY16e
Income from operations*	119.36	150.85	187.27	224.73	274.17
Other income	1.57	1.31	1.08	0.90	0.90
EBITDA (other income included)	55.85	73.88	93.79	121.84	150.53
Net Profit	22.06	30.05	36.59	47.69	58.55
EPS - Basic	9.15	11.48	13.98	18.22	22.36
EPS growth (%)	38.9	25.5	21.8	30.3	22.7

*Income from operations includes other operating income

Company Overview

Talwalkars Better Value Fitness Limited (TBVFL), commonly known as Talwalkars, is one of India's largest chain of health centers providing world-class gymming equipment facilitated by professional trainers. It has over 150 fitness centers with presence across 78 cities & towns in India, with over 150000 members. The company possesses a state-of-the-art training institute in Thane that creates industry ready professionals providing seamless services at fitness centers across India. The current employee strength is around 4000. TBVFL is a market leader with around 44 % share in the organized market and 13 % share in the total Indian fitness industry. The company faces major competition from Golds gym whose market share roughly stood at 26% in the organized sector and 8% in the total Indian fitness industry.

TBVFL was promoted by Mr. Madhukar Vishnu Talwalkar and the first gymnasium was started by him in 1932 in Mumbai, since then it has been at the forefront of spreading fitness in India. For over 80 years, TBVFL has dominated and led the gymming business in India. The company has further widened fitness concepts into areas beyond gyms and spas. Till a few years back the business was a family run enterprise which was run and owned by Talwalkar family. In 2003, TBVFL was co-promoted by Talwalkar and Gawande group with 5 gyms. The number of health clubs went up to 54 between 2003 and 2009. Post IPO in 2010, the number of clubs has continued to grow and now stand at 150. TBVFL has been recognized in the 'Best under a Billion' list of 200 companies by Forbes Asia in August 2013 – 'Talwalkars sells punishment and gets India in shape'.

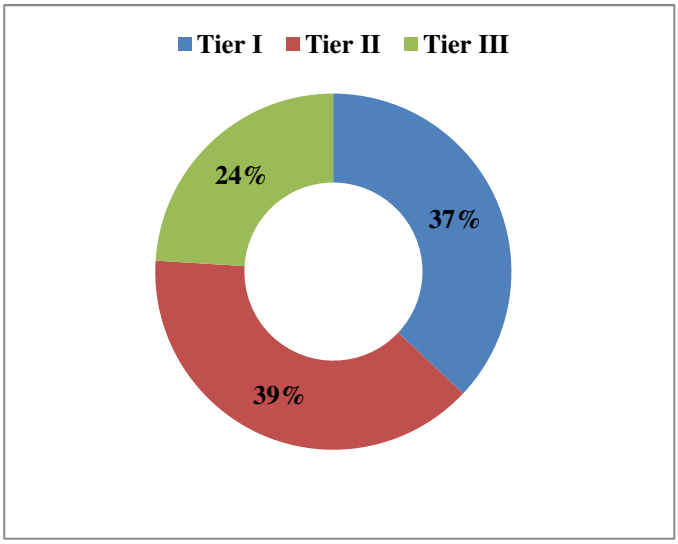
TBVFL offers diverse fitness services which includes standard gymming and fitness and value added services like Zumba program (aerobics and Latin dance inspired fitness program), NuForm (time efficient weight loss program), Transform (holistic fitness program), spa, yoga and massage services. The value added services contributes 23-24 percent of the total turnover of TBVFL. Out of 150 gyms, 104 are owned by the company (largely on lease basis), 16 are under subsidiaries, 13 are franchise and licensed gyms and 17 are HiFi (Healthy India Fit India) gyms. HiFi gyms model is a low cost strategy brand of fitness centers largely located in tier III and tier IV cities. It was introduced in 2011-12, which is a pure franchise owned and run model. The company earns royalty and turnkey fees from its franchise (upfront royalty of Rs 20 lakhs and ongoing royalty of 6% for first 3 years and 8% thereafter.

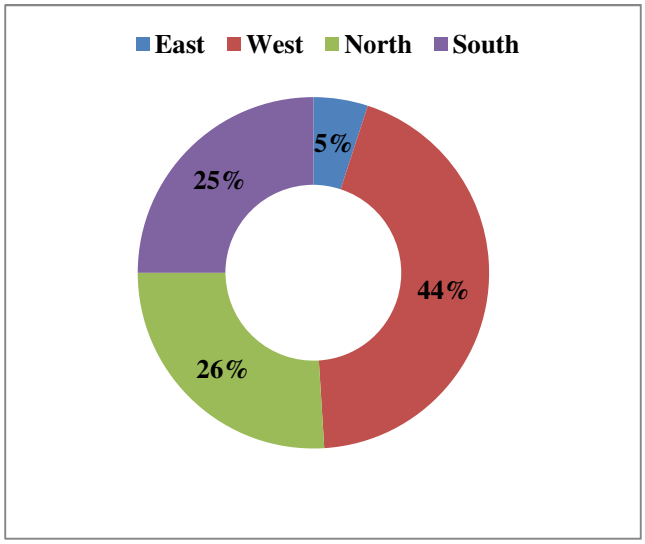
A typical 100% owned gym would be about 4000-5000 sq feet, while average space for HiFi gym would be around 2000-2500 sq feet. A franchise strategy has been adopted by the company to position itself as an affordable brand addressing the fitness industry in India which seems to be hugely underpenetrated. The concept of HiFi gyms does not offer value added services and it is generally priced at 40- 50% lesser than a price of full service gym, making it affordable for middle class section of society. This strategy also enables company to compete with other unorganized players present in the fitness industry and it must be noted that share of unorganized players is quite high as compared to the share of organized players. The competition is immense from unorganized players too as they have a greater chunk of market share and also on account of the fact that their membership fees is quite low as compared to Talwalkars or Golds gym. Typical roll out time for Talwalkars full service gym is 16 weeks while for HiFi gym is 8-10 weeks.

Multi-format asset ownership

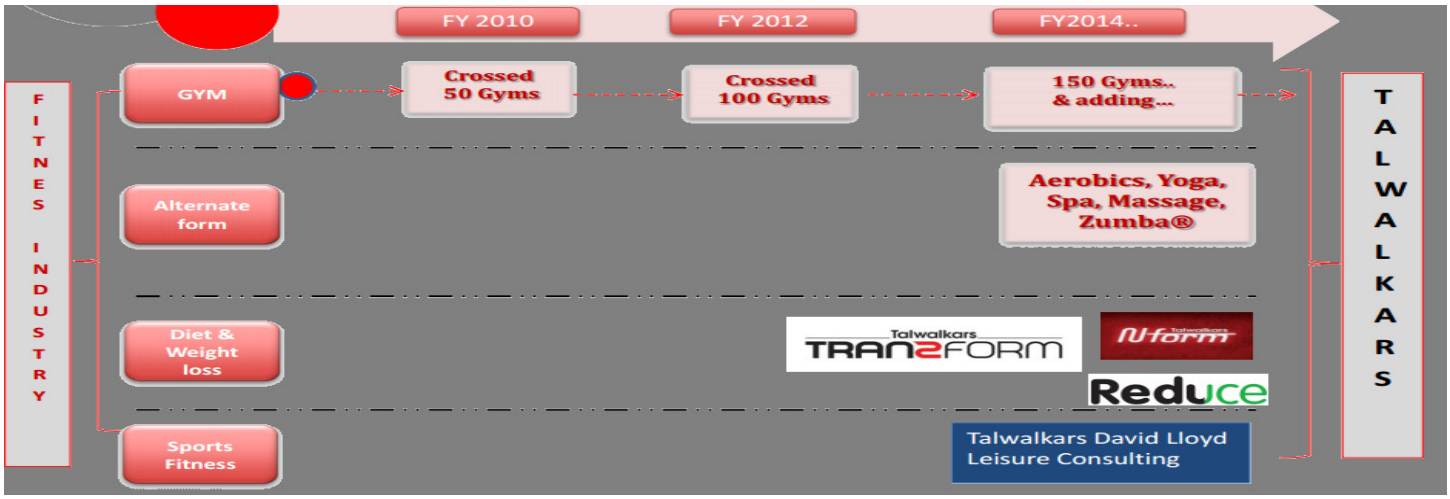
Talwalkars	FY 2012	As of Sept 2014
Owned	90	104
Subsidiary	13	16
Franchise and licensed gyms	17	13
HiFi	8	17
TOTAL	**128**	**150**

Out of the total fitness centers owned by the company, 37% of the outlets are situated in Tier I cities, while 39% and 24% in Tier II and Tier III cities and towns respectively. In terms of region wise distribution the company has majority of fitness centers in Western India at 44% followed by North and South at 26% and 25% respectively, while least presence in East at mere 5%. The company has a solid presence in Tier II and Tier III cities which stood at 63%.





Source – Company, CD Research



Subsidiaries

In several geographies, TBVFL has marked a presence by partnering with local master franchise. A separate 51% subsidiary has been floated and the capex is shared. The partner pays royalty to the parent for the brand name and management of health club. There are 16 such clubs under operation. Subsidiary format provides higher ROI due to lower capex. This 51% subsidiary approach on a franchise basis has proved successful. Further, TBVFL recently floated Talwalkars Club Private Limited as its wholly-owned subsidiary company to own and manage recreational/lifestyle clubs by providing all kinds of sports, games, recreational and hospitality facilities.

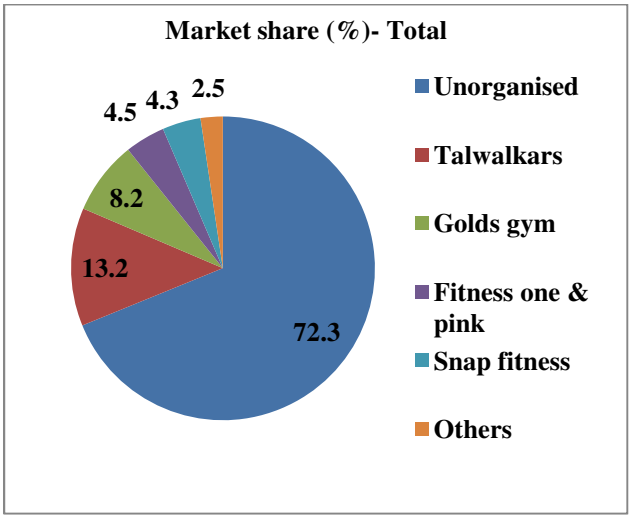
Denovo Enterprises Pvt Ltd, a subsidiary of TBVFL, is sharing 38% of the total gym count under the subsidiaries head. Denovo's health clubs are operational in Northern and Western India.
Equinox Wellness Pvt Ltd, a step down subsidiary of TBVFL (direct subsidiary of Denovo Enterprises Pvt Ltd). Equinox has its health club operational in Eastern India.
Aspire Fitness Pvt Ltd, a subsidiary of TBVFL, is sharing 38% of the total gym count under the subsidiaries head. Aspire's health clubs are operational in Western India.
Jyotsna Fitness Pvt Ltd is a relatively new entrant in the list of TBVFL's subsidiaries; it is following the same quality footsteps as that of Talwalkars. Jyotsna Fitness health clubs are operational in Western India.

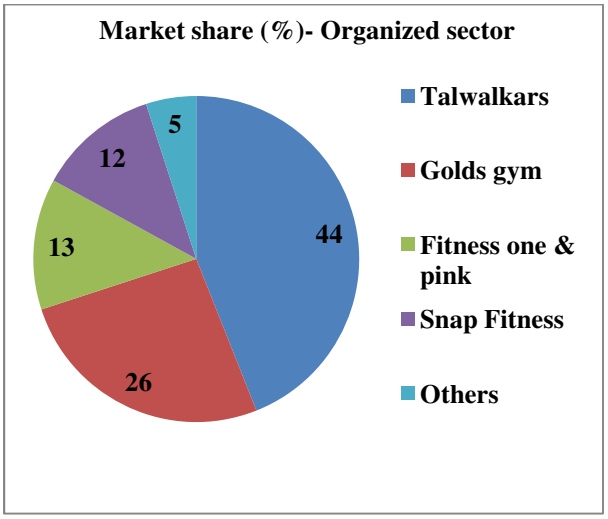
			FY 14 Rs in cr	
Name	Country of Incorporation	% ownership interest at 31st March 2014	Turnover	PAT
Denovo Enterprises Pvt Ltd	India	50.10	12.16	4.92
Equinox Wellness Pvt Ltd	India	33.33*	1.20	0.05
Aspire Fitness Pvt Ltd	India	50.001	10.67	0.94
Jyotsna Fitness Pvt Ltd	India	50.1	3.14	0.47

*effective ownership due to 66.67% holding of Denovo Enterprises Pvt Ltd in Equinox Wellness Pvt Ltd

Alliances

To strengthen the quality of company's value-added offerings TBVFL has entered into alliances with prominent international brands like Zumba Fitness, a global lifestyle brand which is a Latin dance-inspired fitness plan, which fuses varied rhythms and easy-to-follow dance moves to create a one-of-a-kind fitness class. David Lloyd Leisure Limited (DLL): Started operations in 1982, DLL is Europe's leading premium sports, health and leisure group and Premier Training Institute for providing world-benchmarked training to gym instructors.





Source: Company, CD Research

Investment Rationale

India's fitness Industry to Witness Buoyant Growth

The wellness industry in India is poised to touch Rs 100000 cr (Rs 1 trillion) by 2015, with a CAGR of 15-17%, from about Rs 70000 cr in 2012. Despite having the world's second largest pool, less than 1% of the urban Indian population holds health membership. This is paltry as compared to 3.11% in the Asia-pacific and about 17.5% in the US, which demonstrates a huge scope for growth. Interestingly, wellness industry has resisted the economic slowdown and has shown stable growth. An IHRSA Global Report 2014 indicates that the global health club industry generated about USD78 billion in revenues with a total club base of 165,300 units and over138 million members in 2013. The same report pegs the total industry size (revenue) in India at over USD 535 million, growing at about 5% over the previous year, with a total base of 1234 clubs and a shade over 440,000 members.

The emergence of a new middle class that is more educated and aware of the importance of health and wellness and, interestingly, possesses a higher share of disposable income is driving the growth in the wellness segment. The importance of this demographic pool can be accurately appraised when one considers the fact that around 40% of the Indian population will be between the age groups of 20 and 44 by 2016 (Source: FICCI-PwC, IHRSA, Business Today). With increasing global and media exposure, for many consumers today to look good equals to feel good and hence an increasing emphasis on a healthy and wholesome lifestyle has been springboard for the wellness industry in India. Wellness today is not just a metro phenomenon but consumers across Tier II and Tier III cities are also seeking wellness solutions to meet their lifestyle challenges. The wellness industry is a field of healthcare focused on improving everyday health and state of well being, rather than simply treating a disease or curing illness. With the new government at the centre, the Indian GDP growth is expected to improve significantly over the next two to three years. Improved economic growth will lead to better lifestyle and benefit the wellness industry going ahead.

Countries	Total Industry Revenue (USD in mn)	Total Clubs	Total members (mn)
China (Mainland), Taiwan, Hong Kong)	2628.36	4115	6.39
Brazil	2572.01	30767	7.69
India	**535.50**	**1234**	**0.44**
Poland	421.58	2200	0.80
Portugal	302.61	1200	0.50
Egypt	25.55	924	0.57
Vietnam	89.00	937	0.08

Source : Company, CD Research

Rising population

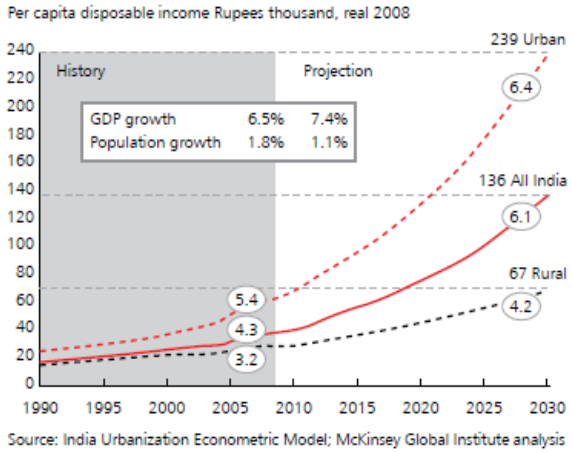
The chunk of the population aged 40 years and above is expected to rise from 33% in 2012 to 43% by 2041. With increasing disposable income and clear fitness aspirations, this set of consumers is more inclined to spend on health, fitness and wellness services. Moreover, the youth population is expected to rise to 427 million by 2015, creating a strong potential market for alternative sources of fitness like aerobics, yoga, Zumba program and holistic dietary regimes.

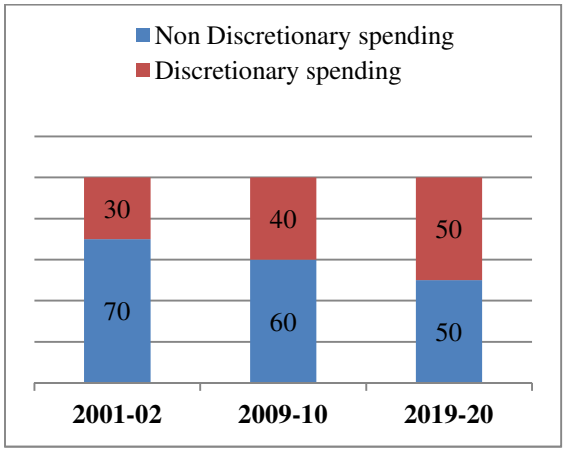
Unexplored markets

With recorded industry penetration levels of less than 1% of the Indian population, there exists massive headcounts to be approached by the health industry over the coming years towards raising fitness awareness and driving enrollments.

Rising disposable income

Rise in the number of employed individuals coupled with rapid urbanization and rising disposable income, has driven awareness and spends on a perceived 'otherwise-not-so important' service. This has created a new market segment to cater to through innovative services like Reduce, Zumba program, spa and massage, among other services. (Chart source- Pwc, Ficci wellness Report).





High prevalence of lifestyle diseases in India

In no measure is India's relative unfitness more clearly visible than in its obesity. India, with 41 million obese, ranks third after the US and China in the highest number of overweight people in the world. India and China cumulatively account for a seventh of the world's obese.

The prognosis is alarming:

• India could have the largest cardiovascular disease burden in the world.

• A fifth of all deaths in India are from coronary heart disease and could by 2020 account for a third of all deaths with heart disease in India occurring 10 to 15 years earlier than in the west.

• Some 51 million Indian diabetics make it the highest across any country, with Indians tending to be diabetic from a relatively young 45 years and about 10 years earlier than in the west.

• Hypertension prevalence is rising with 25-30% urban and 10-15% rural population suffering from the ailment.

Hence, there is an urgent need for health awareness in the country, which can mitigate the prevalence of certain diseases and ailments to a large extent.

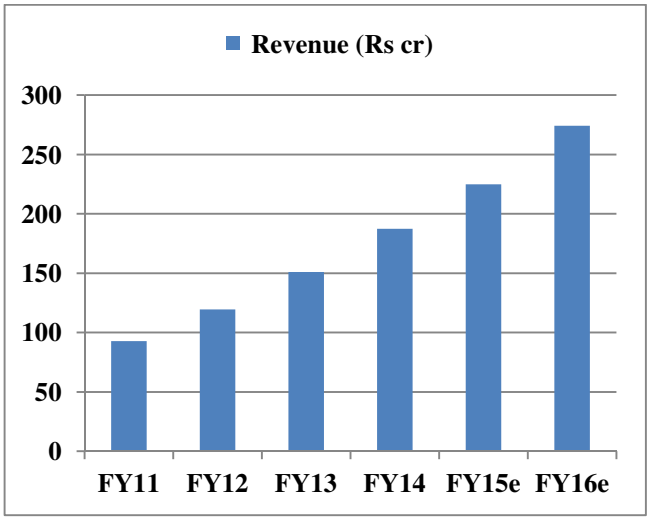
Rising urbanization along with rising fitness concern among people

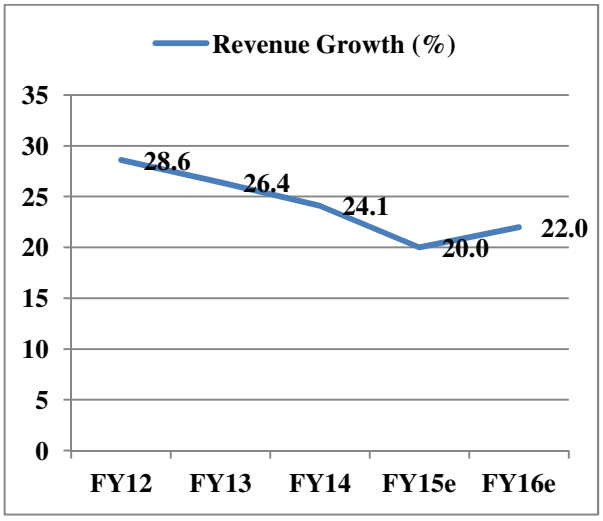
The rate of urbanization in India is on an exponential rise. Cities hold tremendous potential as engines of economic and social development, creating jobs and generating wealth. Almost 300 million Indians currently live in towns and cities. As per reports within 20-25 years, another 300 million people will get added to Indian towns and cities. Thus, more people are to adopt urban lifestyles in the coming years, broadening the market for the health and fitness industry in the country. With the hectic work schedule, sedentary lifestyle and shortage of open area for physical activities majority of the population are developing lifestyle diseases at an early age. This population also has high income levels and propensity to spend on their fitness and personal care services, creating a huge opportunity to tap on.

Healthy Revenue Visibility Going Ahead

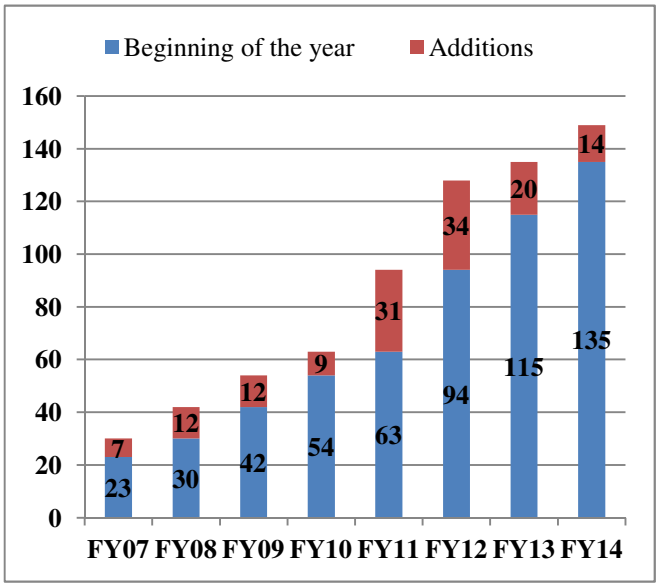
TBVFL's revenue has grown at a CAGR of 26% over the last 3 years largely driven by volume growth of 17% , while its net profit has grown at a CAGR of 32% over the same period on account of margin expansion. We expect company's revenue to grow by 20% in FY15e and by 22% in FY16e.

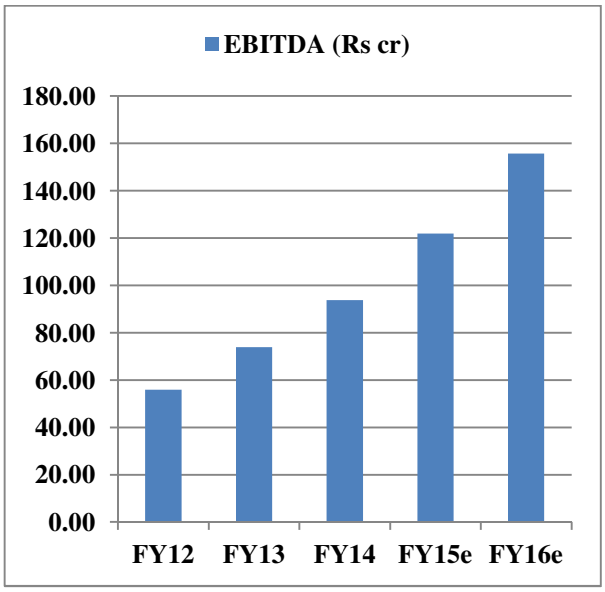
TBVFL increased its fitness centers significantly from 30 in FY07 to 149 in FY14 leading to a CAGR growth of 26% over the period of 7 years. However, the company has slowed down a bit over the last 2 years in opening up of new centers. In H1FY15 the company has added only one gym, taking the total number to 150. It seems that company wants to ensure its buoyancy in same stores sales and focus on annual august discount scheme, which is a major boost for the company. The Company plans to open 20-25 fitness centers within the next 2 quarters and 100 fitness centers over the next three years (plans to reach 100 towns in three years). This includes the plans to expand the HiFi gyms to 30 over the next three years. In FY15 we expect the growth would be driven by better realization by focusing on same stores sales and better product mix, while we expect to see a traction in volume growth in FY16 along with better realization on account of increasing value added services.





Source: company, CD Research

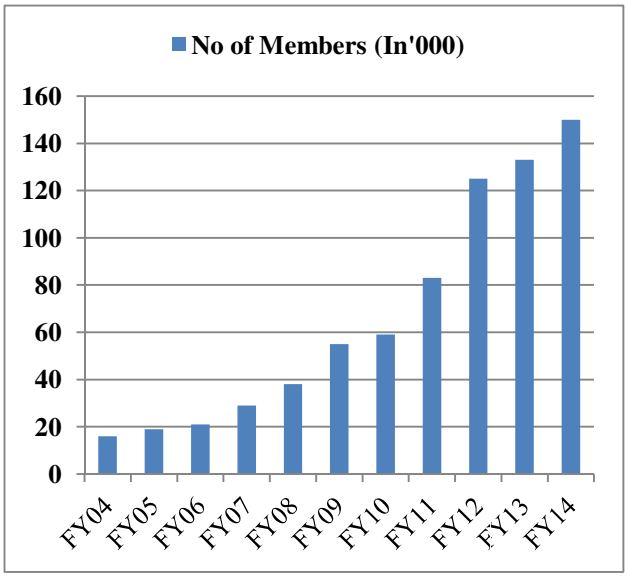


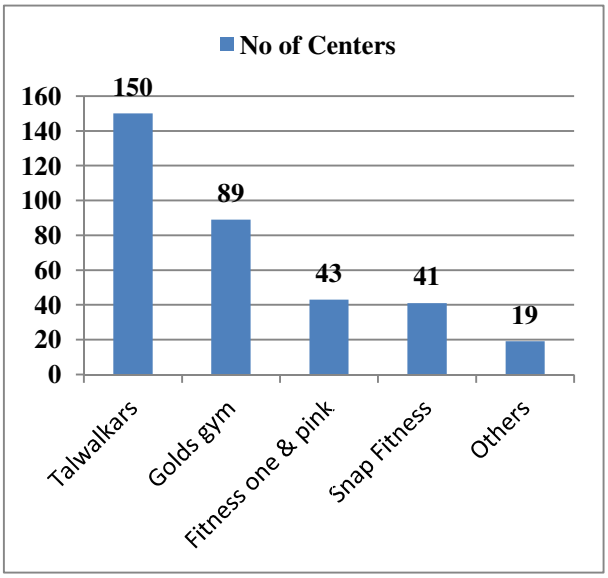


Source: company, CD Research

Diverse revenue stream to augur well

The company is focused on addressing the fitness deficit in India, an area marked by relevance. Over the years, TBVFL has enriched its brand through a conscious positioning around fitness, training knowledge, diverse offerings and uplifting health club environment. Company has been prudently positioned as an affordable brand addressing a growing customer base with increasingly diverse requirements. We believe that this strategy has paid off in terms of company's ability to reach out to a large potential customer base and attract more members. Nowadays fitness is not only about gymming; it is also about peripheral areas comprising a health diet, dance-based fitness program, spa, massage, aerobics and yoga and that is where company is also focusing on, since in a country like India there seems to be huge market for such services. Over the years, TBVFL has diversified and branded these offerings, helping enhance the proportion of these value-added services from 18-20% in 2011-12 to 22-23% in 2013-14. Going ahead, they expect to enhance the proportion of these value-added offerings, widening company's brand appeal and strengthening profitability. The company has also been able to retain its renewal rate at 70-76% at a time when there is a fear of membership attrition.





Source: company, CD Research

Consumer confidence in India picking up

A Nielsen survey puts consumer confidence in India at a 5-year high, making it one of 17 countries that have seen an uptick in confidence. India leads the 60 countries polled by Nielsen for the survey leaving Indonesia and Philippines to share the second spot. While China is trailing at number 6, US is at number 8 spot and UK comes in at number 21. Survey indicates a higher willingness to spend. We believe that India will see a significant jump in discretionary expenditure on account of higher increase in consumer confidence, higher disposable income and lowering of inflation. A new government, easing inflation and growth recovery will augur well for the company as it revives consumer optimism.

Aggressive marketing strategies and widening brand reach

The marketing team develops innovative ideas keeping in view the changing dynamics of the internal and external environment. This has helped the Company not only to enhance revenues and widen the reach of the brand but has also created awareness for the new services launched by the company. Going ahead we feel the company will continue with its aggressive marketing strategies to further penetrate the fitness market in India. The table below gives an overview of key marketing strategies undertaken by the company in FY14 and HIFY15:

FY14	Held Talwalkars Classique 2013, a body-building competition in association with the Maharashtra Body Building Association (under the Indian Body Builders Federation).
	Lead fitness partner for Miss Hyderabad Event, lead fitness partner at college festivals, launched Investothon a run organized by the NSE and CNBC TV 18 across few cities.
	Launched Annual August Discount scheme and various other themes (New Year, EMI scheme, Women's Day and Valentines's day to name a few) which aided renewals and new enrollments.
	Launched Reduce program in Mumbai, Commenced offering Reduce as an online program in order to enhance membership base and convenience; also initiated online merchandising of Zumba products. Reduce and Zumba program promotions actively marketed in colleges and corporates.
	Increased visibility through social media, print media among others by organizing a contest on Twitter with www.fashionmostwanted.com, embraced other modes of promotion comprising webinars,medianet articles and through the social media platforms, among others.
H1FY15	Launched the 4-month Summer Fitness Programme (one month free on the purchase of a 3-month membership)
	Launched the national marketing campaign for Transform under the positioning of 'Keen to be lean?'
	Launched fitness campaigns on Mothers' Day, Fathers' Day, World Environment Day, World Health Day and World No Tobacco Day.
	Launched the Annual August Scheme across the country
	Activated the July Scheme ('fitness for less') which reduced the entry barriers for consumers
	Engaged in health promotions on World Heart Day, Independence Day and Ganesh Chaturthi
	Launched a promotional (with Talent Promoters) for members to be featured on the cover of a Mills & Boon novel
	Introduced Zumba® at college festivals
	Enhanced social media and print media visibility; Transform was highlighted on Medianet
	Offered corporate employee wellness programs (Zumba®, aerobics, diet and nutrition counselling, fitness test and fitness activation) by internationally- certified trainers and dieticians.

Source: company, HDFC Research

Strategy to Increase Value Added Services and Improve same stores sales

TBVFL has progressively diversified into value added services like Zumba program, NuForm, Reduce etc. by strengthening the quality of offerings through alliances with prominent international brands. These are high margin businesses which according to us will play substantial role in driving the company's profitability going ahead. The share of value added services in overall revenue has increased from 18-20% in FY12 to 22-23% in FY14. We believe the contribution of value added services would rise by 300-400bps in the next 2-3 years, which will expand company's margins going ahead.

TBVFL's newer asset-light business ventures - Zumba fitness dancing studios and Reduce weight loss centers has gained significant momentum, which would aid in generating higher margins and return on capital as indicated by the chart below:

Particulars	NuForm	Zumba Program	Reduce	Transform
Capex	Rs 9-10 mn	Rs 1.5-2 mn	Rs 0.7-0.8mn	Rs 10-11 mn
Revenue/ centre	Rs 8-9 mn	Rs 1-1.2 mn	Rs 2 mn	Rs 10-11 mn
EBITDA	42-48%	57-62%	40-45%	40-45%
ROCE	27-33%	29-32%	75-80%	33-37%
Pricing	Rs 36000-42000/ annum	Rs 2000-2500/ month	Rs 20000-28000/ quarter	Rs 50000-64000/ annum

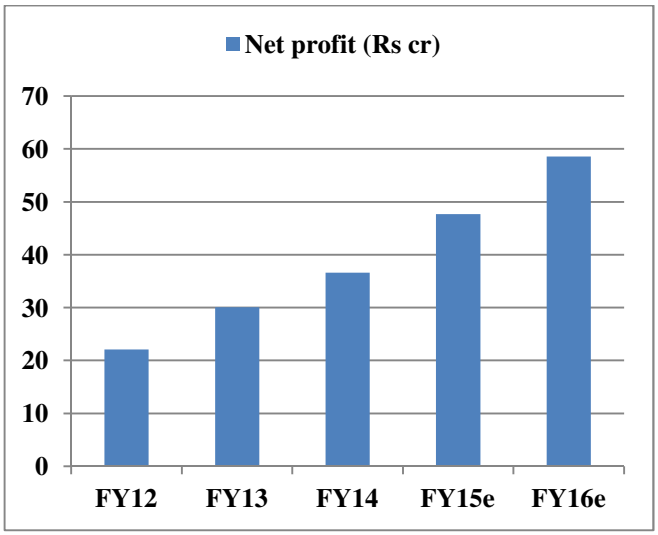
Source: company, CD Research

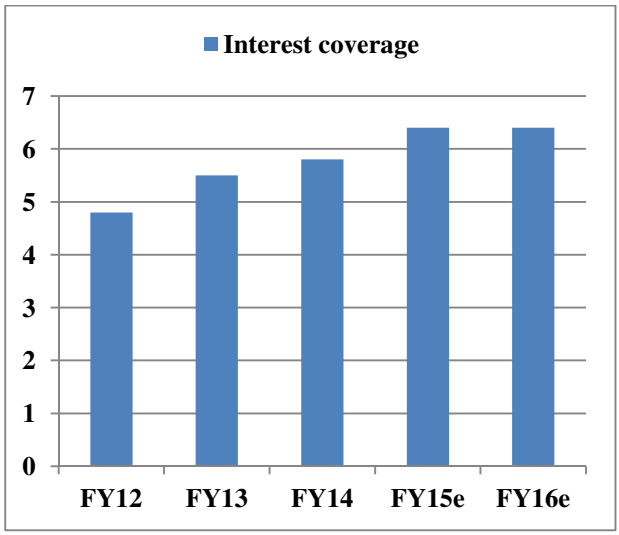
The company has refrained from establishing new fitness centers in HIFY15 in a bid to consolidate operations and ensure buoyancy in same stores sales and to focus on annual august discount scheme which is one of the major events for the company. Apart from the core business of gymming, company has embarked on new initiatives like Nuform, Zumba programme, Reduce diet programme, David Lloyd Leisure consulting as referred earlier which all will act in complement to the core activity of gymming and would increase same store revenues as well as overall revenues. Talwalkars is leading from the front in this space of these fitness solutions and services. In line with this, company expects to increase same-store sales to 8-10%.

Plans to set up First Recreation and Sports Club

TBVFL has an existing alliance with DLL that was entered into in 2012. The Company has sustained this relationship with DLL, offering consultancy services for setting-up clubs in townships and gated communities. TBVFL has plans to set up clubs in India (having facilities like Gym, Sports Training, Entertainment Zone, Banquet Hall, Recreation centre, Restaurant, Swimming Pool & Racquet Sports). The target audience for Clubs would be gated communities, high end residential townships, corporate campuses.

The Company has identified land near Baner, Pune to start the first recreation and Sports Club. This will be part of a prestigious town ship by a reputed builder in the city. Target audience for Club would be gated communities, high end residential townships, corporate campuses. A club, if positioned at a reasonable membership cost could become a great business proposition. The capital investment for the club is around Rs 53 cr. It will be set up in area of 45000-50000 sq feet with a built up area of 80000-90000 sq feet. Set up time for the same would be around 18 months with members capacity of 7000-8000.





Source: company, CD Research

Risks & Concerns

Competition Risks

The growing awareness for the fitness services has led to entry of new domestic and international players. Entry of a new player helps to create awareness in a market that is highly underpenetrated with less than 1% of the population using fitness centers. Also the fitness industry in India (which is highly fragmented) is not significantly capital intensive and possesses low entry barriers. This in turn will provide scope for new business opportunities. Emergence of any strong player in the market may pose a risk for the company going ahead.

Regulatory Risks

The Indian fitness industry is at a nascent stage. Any adverse government policy and reforms like higher tax rate on fitness equipment; levy of any fresh tax or hike in existing tax rates, etc may impact the industry and company's financials.

Inflationary Pressure

Business confidence in India is improving and inflation has been steadily declining from the last few months. There exist an inverse relationship between inflation and discretionary spend, so factors like high inflation, lowering of income, recession may affect consumer discretionary spending in a big way. Any slowdown in consumption pattern could negatively impact the industry and in turn the company.

Availability and Retention of Skilled Manpower

To meet customer expectations, the company needs to focus on quality service offerings and availability of skilled manpower. Skilled employees play a pivotal role in the success of fitness industry where attrition rate of trainers is quite high.

Financial Risks

The Company is exposed to risks in terms of timely availability of funds at effective interest rates. In order to sustain its visibility and growth, TBVFL will have to continuously expand the number of its gyms. This could force the company to resort to additional borrowings which may deteriorate its debt-equity ratio and increase its interest liability going ahead. Also the company's business is seasonal in nature, which leads to lower revenues in Q1 and Q3, thus leading to high volatility on quarterly basis.

Financials

Quarterly Results - Consolidated

Rs in cr

	Q2FY15	Q2FY14	%chg.	FY14	FY13	%chg.
Income from operations	75.06	62.38	20.3	187.27	150.85	24.1
Other Income	0.00	0.00	-	1.08	1.31	-17.5
Total Income	75.06	62.38	20.3	188.35	152.16	23.8
Total Expenditure	34.72	31.14	11.5	94.56	78.28	20.8
PBIDT	40.34	31.24	29.1	93.79	73.88	27.0
Interest	2.93	2.16	35.6	11.97	10.79	10.9
Depreciation	10.35	7.75	33.5	24.18	14.65	65.1
PBT	27.06	21.33	26.9	57.65	48.44	19.0
Tax Expense	6.02	5.21	15.5	17.84	15.82	12.7
Net profit	21.04	16.12	30.5	39.81	32.62	22.1
Minority Interest	1.37	1.36	0.7	3.19	2.57	24.4
Net profit after MI	19.67	14.76	33.3	36.62	30.05	21.9
Extra-ordinary Item	0.00	0.00	-	-0.03	-	-
Adjusted Net profit	19.67	14.76	33.3	36.59	30.05	21.8

Income Statement- Consolidated

Rs in cr

	FY12	FY13	FY14	FY15e	FY16e
Income from Operations	119.36	150.85	187.27	224.73	274.17
Growth (%)	28.6	26.4	24.1	20.0	22.0
Other Income	1.57	1.31	1.08	0.90	0.90
Total Income	120.94	152.16	188.35	225.63	275.07
Total expenditure	65.08	78.28	94.56	103.79	124.54
EBITDA	55.85	73.88	93.79	121.84	150.53
Interest	9.13	10.79	11.97	13.50	16.88
EBDT	46.73	63.08	81.82	108.34	133.65
Depreciation	11.77	14.65	24.18	35.35	43.13
Tax	10.40	15.82	17.84	21.90	28.06
Net Profit	24.55	32.62	39.81	51.09	62.46
Minority Interest	2.86	2.57	3.19	3.40	3.91
Net profit after MI	21.69	30.05	36.62	47.69	58.55
Exceptional Item	0.37	-	-0.03	0.00	0.00
Adjusted Net profit	22.06	30.05	36.59	47.69	58.55

Balance Sheet - Consolidated

	FY12	FY13	FY14	FY15e	FY16e
SOURCES OF FUNDS :					
Share Capital	24.12	26.18	26.18	26.18	26.18
Reserves Total	120.22	182.32	214.31	251.71	299.96
Total Shareholders Funds	**144.34**	**208.50**	**240.49**	**277.89**	**326.14**
Minority Interest	5.03	8.06	11.25	12.95	14.89
Total Debt	145.96	166.13	200.35	235.00	250.00
Other Liabilities	9.23	16.59	13.17	8.31	8.31
Total Liabilities	**304.56**	**399.28**	**465.26**	**534.15**	**599.34**
APPLICATION OF FUNDS :					
Gross Block	266.85	360.82	474.08	559.08	658.64
Less: Accumulated Depreciation	30.90	45.55	68.89	104.24	147.37
Net Block	**235.95**	**315.27**	**405.19**	**454.84**	**511.27**
Capital Work in Progress	21.62	42.51	45.33	49.86	54.85
Investments	17.51	22.68	8.80	5.07	5.07
Current Assets, Loans & Advances					
Inventories	0.00	0.16	0.06	0.00	0.00
Sundry Debtors	20.10	17.75	32.05	28.51	34.78
Cash and Bank	19.85	22.92	6.00	28.58	28.58
Loans and Advances	2.44	3.92	3.92	7.37	7.37
Total Current Assets	42.38	44.74	42.03	64.46	70.73
Less : Current Liabilities and Provisions					
Current Liabilities	8.64	16.62	18.96	25.00	27.50
Provisions	10.14	15.49	17.70	15.59	15.59
Total Current Liabilities	18.78	32.11	36.66	40.59	43.09
Net Current Assets	**23.60**	**12.63**	**5.37**	**23.87**	**27.64**
Net Deferred Tax	-14.28	-19.21	-23.75	-28.50	-28.50
Other Assets	20.16	25.39	24.32	29.01	29.01
Total Assets	**304.55**	**399.27**	**465.26**	**534.15**	**599.34**

Key Financial Ratios

	FY12	FY13	FY14	FY15e	FY16e
Growth Ratios					
Revenue (%)	28.6	26.4	24.1	20.0	22.0
Net Profit (%)	36.0	36.2	21.8	30.3	22.8
EPS (%)	38.9	25.5	21.8	30.3	22.7
Margins					
Operating Profit Margin (%)	45.5	48.1	49.5	53.8	54.6
Net Profit Margin (%)	18.5	19.9	19.5	21.2	21.4
Return					
ROCE (%)	14.1	14.8	14.7	15.8	17.5
ROE (%)	15.3	14.4	15.2	17.2	18.0
ROA (%)	7.2	7.5	7.9	8.9	9.8
Valuations					
Market Cap / Sales	3.1	2.3	2.1	4.0	3.3
EV/EBIDTA	8.8	7.0	6.5	9.0	7.4
P / E	17.1	12.8	24.4	18.7	15.2
P / BV	2.6	1.8	3.7	3.2	2.7
Other Ratios					
Debt-Equity Ratio	1.0	0.8	0.8	0.8	0.8
Current Ratio	2.3	1.4	1.1	1.6	1.6
Interest Cover Ratio	4.8	5.5	5.8	6.4	6.4
Turnover Ratios					
Fixed Asset Turnover	0.5	0.5	0.4	0.4	0.5
Total Asset Turnover	0.4	0.4	0.4	0.4	0.5

Recommendation

Talwalkars Better Value Fitness Limited (TBVFL) is one of India's largest chain of health centers providing world-class gymming equipment facilitated by professional trainers. It has over 150 fitness centers with presence across 78 cities & towns in India, with over 150000 members. The company possesses a state-of-the-art training institute in Thane that creates industry ready professionals providing seamless services at fitness centers across India. The current employee strength is around 4000. TBVFL is a market leader with around 44 % share in the organized market and 13 % share in the total Indian fitness industry. The company faces major competition from Golds gym whose market share roughly stood at 26% in the organized sector and 8% in the total Indian fitness industry.

India's fitness industry is a highly underpenetrated market with less than 1% of the population using fitness centers. TBVFL is a direct play on rising fitness awareness in India and is India's largest fitness service provider. We believe fitness industry will see a significant traction going ahead which in turn will provide huge scope for TBVFL, the only listed player in the fitness space. 37% of the outlets are situated in Tier I cities, while 39% and 24% in Tier II and Tier III cities and towns respectively. In terms of region wise distribution the company has majority of fitness centers in Western India at 44% followed by North and South at 26% and 25% respectively, while least presence in East at mere 5%. The company has a solid presence in Tier II and Tier III cities which stood at 63%. The emergence of a new middle class that is more educated and aware of the importance of health and wellness and, interestingly, possesses a higher share of disposable income will drive the growth in the wellness segment. The importance of this demographic pool can be accurately appraised when one considers the fact that around 40% of the Indian population will be between the age groups of 20 and 44 by 2016.

TBVFL's revenue has grown at a CAGR of 26% over the last 3 years, while its net profit has grown at a CAGR of 32% over the same period on account of margin expansion. We expect company's revenue to grow by 20% in FY15 on account of better realization and product mix and by 22% in FY16 which we believe will be volume driven growth on account of new gym openings as well as better product mix.

TBVFL has progressively diversified into value added services like Zumba program, NuForm, Reduce, spa and massage services by strengthening the quality of offerings through alliances with prominent international brands. These are high margin businesses which according to us will play important role in driving the company's profitability going ahead. The share of value added services in overall revenue has increased from 18-20% in FY12 to 22-23% in FY14. We believe the contribution of value added services would rise by 300-400bps in the next 2-3 years, which will expand company's margins going ahead. We believe that India will see a significant jump in discretionary expenditure on account of traction in consumer confidence, higher disposable income and lowering of inflation. A new government, easing inflation and growth recovery will augur well for the company as it revives consumer optimism.

The stock is currently trading at 18.7x FY15e earnings and 15.2x FY16e, which seems to be reasonably valued. Nonetheless, with regards to its growth prospects we recommend "buy" on the stock with a target of Rs 425 based on 19x FY16e earnings, in the ensuing 9-12 months.

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