

TALWALKARS BETTER VALUE FITNESS

14 October 2016

Initiating Coverage (BUY)

CMP

INR 267

Target Price

INR 329

Stock Details

Industry	FITNESS CENTRES
Bloomberg Code	TALW:IN
BSE Code	533200
Face Value (Rs.)	10.00
Market Cap. (Rs. mn)	493.21
52wk. High/Low (Adjusted) ((Rs.))	182 / 302

Shareholding Pattern Jun '16

Promoter (%)	37.99
FII (%)	14.42
DII (%)	0.00
Public - Other (%)	42.14
No. of Share Outstanding (mn)	28.90

Valuation Summary

	FY 15A	FY 16A	FY 17P	FY 18P
P/E (x)*	21.11	14.14	16.00	18.00
EV/EBITDA (x)	9.67	5.79	6.17	6.58
P/BV (x)	3.51	1.65	1.51	1.73

*TTM for Current Year

Based on Market Price as on 1st Apr is taken for Each FY

Key Financial

Rs. Mn	FY 15A	FY 16A	FY 17P	FY 18P
Net Sales	2525	2862	3320	3785
EBITDA	1245	1503	1457	1664
Net Profit	461	550	469	528
EPS (Rs.)*	17.6	19.0	16.2	18.3

*Un adjusted

Key Ratios

	FY 15A	FY 16A	FY 17P	FY 18P
EBITDA Margin (%)	55.2	59.8	51.6	51.7
EBIT Margin (%)	37.6	41.1	32.2	32.1
Net Pro. Margin (%)	20.4	21.9	16.6	16.4
Debt/Equity (x)	1.00	0.72	0.64	0.56
RoNW (%)	17.8	15.6	10.7	11.2
RoCE (%)	9.0	8.0	7.4	8.0

We recommend 'BUY' on TALWALKARS BETTER VALUE FITNESS for a target of INR 329 - valuing the company at P/E of 18x FY18E Earning.

INVESTMENT RATIONALE:

- **Market leader:** The Company is one of the largest organized fitness companies in South Asia.
- **Value:** 5632mn market capitalization that the company enjoyed as on 31 March 2016, making it India's most valuable fitness brand by far.
- **Geographic diversity:** The business has been marked by 176 fitness centres across prominent locations in 85 cities.
- **First-mover advantage:** the business is the largest in its space across India enjoying high brand recall.
- **Economies of scale:** This business (176 fitness centres) generates attractive economies of scale in the form of standardised fitness centre formats and stronger negotiation power with suppliers.

VALUATIONS AND VIEW:

It is a company focused on health and fitness. It has Gyms all over the country and in foreign countries too. **We value the business at 18x FY18E EPS and recommend a BUY rating on the stock with a target price of INR 329 per share.**



RISK & CONCERNS:

- **Economic risk:** An economic downturn could affect the Company's profitability and reduce spending on fitness on an individual level.
- **Competitive risk:** Competition is a part of any business, and the potential of the fitness industry has attracted many players.
- **Personnel risk:** The lack of skilled instructors could weaken the quality of services offered at the fitness centres.
- **Financial risk:** Non-availability of funding at competitive rates and a shortage of liquid funds may affect the Company.

COMPANY BACKGROUND:

Talwalkars Better Value Fitness Limited, commonly known as Talwalkars, is one of India's largest chain of health centers. It has over 146 ultramodern branches across 80 cities in the country, with over 1,25,000 members.

Talwalkars growth can be attributed directly to the trust customers have in us, and the benefits they derive from expert advice, personalized supervision, result-oriented approach, and Talwalkars know-how and experience in this field since the first gym being set up in Mumbai in 1932 and now offering a diverse set of services including gyms, spas, aerobics and health counseling of Talwalkars which made us brand name in the fitness industry.

INDUSTRY OVERVIEW:

Fitness industry in India is worth Rs.4,500 crore and is growing at 16-18% annually and is expected to cross Rs.7,000 crore by 2017. The industry is fragmented with majority of the market dominated by unorganized and independent gyms outlets. The organized or modern fitness retail is around 28% currently but growing a 22-27% yearly growth rate. There are over 21,000 health and wellness centers across India as of 2014.

Peer Comparison

Company	CMP (Rs)	P/E*	Mcap (Rs Cr)	Div. Yld (%)	NP Qtr. (Rs Cr)	Qtr. Profit Var (%)	Sales Qtr. (Rs Cr)	Qtr. Sales Var (%)	CMP/BV
Wonderla Holiday	400	41.6	2,257.5	0.50	22.5	(19.90)	88.9	32.23	5.31
Talwal.Better	166	20.3	659.0	0.63	5.3	16.89	46.0	13.02	5.24
Nicco Parks	30	28.7	142.5	0.98	1.5	(4.35)	10.2	(7.29)	5.12
Powerhouse Gym	13	110.9	8.9	-	NaN	NaN	NaN	NaN	2.13
Funworld & Tour	NaN	NaN	NaN	NaN	0.1	50.00	0.6	(44.64)	NaN
South Asian Ent.	8	19.4	3.1	-	(0.3)	(293.33)	0.3	(57.81)	0.26
Ajwa Fun World	16	14.5	7,042.4	-	0.3	520.00	1.5	22.22	3.51

*TTM

FINANCIAL OVERVIEW

Q4 FY16 Performance Highlight

(in Million)	1Q FY16	2Q FY16	3Q FY16	4Q FY16	1Q FY17	YoY (%)	QoQ (%)
Revenue	40.71	77.12	42.53	75.59	46.00	12.99%	-39.15%
Other Income	--	--	--	--	--		
Total Income	40.71	77.12	42.53	75.59	46.00	12.99%	-39.15%
Expenditure	-19.54	-32.06	-21.75	-20.88	-21.51		
As a % of Sales	48.00%	41.57%	51.14%	27.62%	46.76%		
Interest	-2.84	-3.76	-4.32	-4.66	-3.41	20.07%	-26.82%
PBDT	18.33	41.3	16.46	50.05	21.09		
As a % of Sales	45.03%	53.55%	38.70%	66.21%	45.85%		
Depreciation	-12.67	-10.63	-9.02	-11.25	-12.97		
PBT	5.66	30.67	7.43	38.8	8.12	43.46%	-79.07%
As a % of Sales	13.90%	39.77%	17.47%	51.33%	17.65%		
Tax	-1.1	-7.67	-2.16	-18.25	-2.79	153.64%	-84.71%
Net Profit	4.56	23.01	5.28	20.55	5.33	16.89%	-74.06%
As a % of Sales	11.20%	29.84%	12.41%	27.19%	11.59%		
Equity	29.71	29.71	29.71	29.71	29.71	0.00%	0.00%
EPS (Rs)	1.54	8.19	1.84	7.11	1.8	16.88%	-74.68%
CEPS (Rs)	5.8	11.32	4.81	10.7	6.16		
OPM %	52	58.43	48.85	72.38	53.24		
NPM %	11.21	29.83	12.41	27.18	11.59		

Income Statement (Consolidated)

Y/E Mar (Rs mn)	FY 12A	FY 13A	FY 14A	FY 15A	FY 16A	FY 17E	FY 18P
Net Sales	1,194	1,509	1,873	2,257	2,514	2,822	3,217
Other Operating Income	-	-	-	-	-	-	-
Expenditure	651	783	946	1,011	1,078	1,397	1,591
EBITDA	543	726	927	1,245	1,435	1,425	1,626
Depreciation	118	146	242	397	470	548	630
EBIT	425	579	685	848	965	878	995
Interest Expenses	91	108	120	128	177	180	216
PBT	334	471	566	720	788	698	780
Tax	104	158	178	245	302	261	289
Other Income	16	13	11	9	68	32	38
Extraordinary Items	4	-	(0)	-	(0)	-	-
Net Income Before Adjustment	249	326	398	484	554	469	528
Minority Int./Income from Assoc.	29	26	32	23	3	-	-
Adjusted PAT	221	301	366	461	550	469	528

Balance Sheet (Consolidated)

Y/E Mar (Rs mn)	FY 12A	FY 13A	FY 14A	FY 15A	FY 16A	FY 17E	FY 18P
Equity share capita	241	262	262	262	297	297	297
Reserves & surplus	1,202	1,823	2,143	2,507	3,973	4,199	4,682
Share Warrants	-	-	-	-	-	-	-
Misc. Expenditure	-	-	-	-	-	-	-
Net worth	1,443	2,085	2,405	2,768	4,270	4,496	4,980
Minority Interest	50	81	113	136	139	174	199
Share Application Money	-	-	-	-	-	-	-
Loan Funds	1,220	1,352	1,373	2,779	3,073	-	2,777
Net deferred tax liability	143	192	238	253	275	275	275
Other Long-term Liabilities	92	166	132	11	2	15	17
Long-term Provisions	-	-	-	-	-	-	-
Total Liabilities	2,949	3,876	4,261	5,949	7,760	4,962	8,250
Net block	2,576	3,578	4,505	5,213	5,646	6,371	6,904
Investment, Loan & Adv.	375	481	331	352	929	495	550
Total Current Assets	426	448	421	1,099	2,234	(1,414)	1,298
Current Liabilities & Provisions	427	630	997	716	1,049	493	505
Net Current Assets	(2)	(183)	(576)	383	1,185	(1,907)	794
Total Assets	2,949	3,876	4,261	5,949	7,760	4,962	8,250

Cash Flow (Consolidated)

Y/E Mar (Rs mn)	FY 15A	FY 16A	FY 17P	FY 18P
Operating Cash Flow	44	340	335	236
Cash Flow from Investments	(81)	16	(12)	(12)
Cash Flow from Financing	(14)	(36)	(45)	(49)
Net Changes in Cash	(51)	320	278	174
Opening Cash	28	(51)	269	547
Closing Cash Balance	(23)	269	547	722

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