

August 13, 2013

## Talwalkars Better Value Fitness (TALWAL)

₹ 130

### WHAT'S CHANGED...

PRICE TARGET ..... Changed from ₹ 214 to ₹ 172

EPS (FY14E) ..... Unchanged

EPS (FY14E) ..... Unchanged

RATING ..... Unchanged

### Growth led by value-added services...

Talwalkars Better Value Fitness (TBVF) performed better than our expectations on the topline front in Q1FY14. Operating revenues grew 31% YoY to ₹ 37.4 crore (I-direct estimate: ₹ 35.5 crore) mainly attributable to new initiatives such as NuForm, Zumba® and Reduce, accounting for ~18-22% of the turnover. Operating margins were in line with our estimates while employee costs moderated ~200 bps during the quarter. However, one-time administration expenses incurred on the launch of Reduce kept the EBITDA flat YoY. Though finance costs increased ~18% YoY, PAT has increased ~22.6% YoY to ₹ 3.2 crore due to various cost efficiencies. Despite the bad monsoons taking a hit on member additions the company was able to meet expectations. We feel there will be a renewed stimulus in demand from the next quarter for both its value-added and flagships products.

### New initiatives by company drive topline growth

In the current quarter, the company has expanded its presence in different segments like Reduce, Zumba and NuForm. The company has extensively increased the number of Reduce centres to 44 from 17 in the last quarter, increasing administrative expenses this quarter. Zumba centres have increased to 31 from 29 on a QoQ basis with over 300 certified Zumba trainers. The new initiatives with premium pricing have helped the company to leverage on its current asset and enhance its member base without incurring any major capex.

### Growth momentum to continue; maintain BUY rating

We expect revenue and PAT CAGR of 25.9% and 36.9%, respectively, during FY13-15E on the back of its aggressive expansion plans aided by new high-end service offerings. Also, we believe the industry still has a good potential to absorb new capacities. However, increasing competition from other players remains a concern for company. Hence, we lower our target multiple and revise our target price to ₹ 172 (i.e. at 8.0x FY15E EPS, 5.0x FY15E EV/EBITDA). We maintain **BUY** rating.

### Exhibit 1: Financial Summary

(₹ Crore)	Q1FY14	Q1FY14E	Q1FY13	Q4FY13	QoQ (Chg %)	YoY (Chg %)
Total Operating Income	37.4	35.5	28.5	55.8	-33.1	31.1
EBITDA	12.4	11.7	9.2	27.9	-55.4	35.1
EBITDA Margin (%)	33.2	33.0	32.3	49.9	-1666 bps	97 bps
Depreciation	5.0	0.0	3.3	4.1	24.4	53.8
Interest	3.0	0.0	2.5	2.1	39.7	17.8
Other Income	0.0	0.0	0.0	0.5	-100.0	NA
Reported PAT	3.2	4.0	2.6	12.1	-73.6	22.6
EPS (₹)	1.2	1.5	1.1	4.6	-73.6	12.9

Source: Company, ICICIdirect.com Research

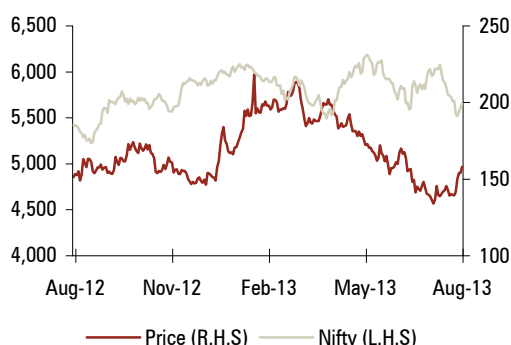
Rating matrix	
Rating	: Buy
Target	: ₹ 172
Target Period	: 12-15 months
Potential Upside	: 32%

Key Financials				
₹ crore	FY12	FY13	FY14E	FY15E
Net sales	130.5	168.8	212.3	267.8
EBITDA	54.3	72.6	93.6	119.2
EBITDA Margin (%)	41.6	43.0	44.1	44.5
Net Profit	22.0	30.1	42.0	56.4
EPS (₹)	9.1	11.5	16.0	21.5

Valuation summary				
	FY12	FY13	FY14E	FY15E
PE (x)	14.2	11.3	8.1	6.0
Target PE (x)	18.8	15.0	10.7	8.0
EV to EBITDA (x)	8.5	6.5	5.1	4.0
Price to book (x)	2.2	1.6	1.4	1.1
RoNW (%)	15.3	14.4	16.8	18.4
RoCE (%)	14.6	15.5	17.7	20.2

Stock data	
Mcap	₹ 340 crore
Debt (FY13)	₹ 157 crore
Cash & Invest(FY13)	₹ 23 crore
EV	₹ 474 crore
52 week H/L	₹ 223 /120
Equity cap	₹ 26.2 crore
Face value	₹ 10
MF Holding(%)	9.6
FII Holding(%)	11.3

### Price movement



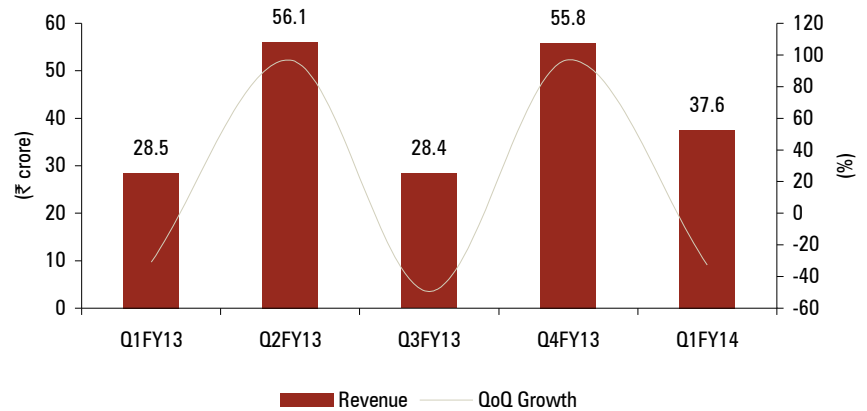
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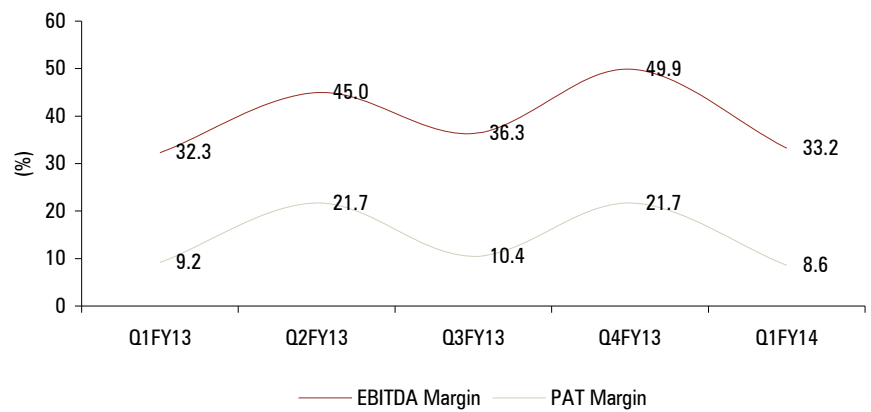
Net sales for Q1FY14 grew 31.1% YoY driven by premium priced value-added products contributing ~18-22% to its topline

**Exhibit 2: Consolidated revenue and QoQ growth trend**



Source: Company, ICICIdirect.com Research

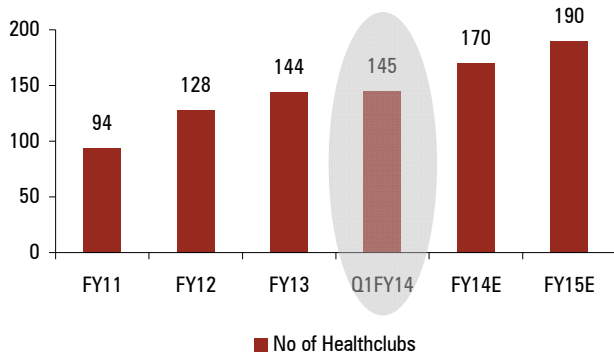
**Exhibit 3: EBITDA & PAT margin trend**



Source: Company, ICICIdirect.com Research

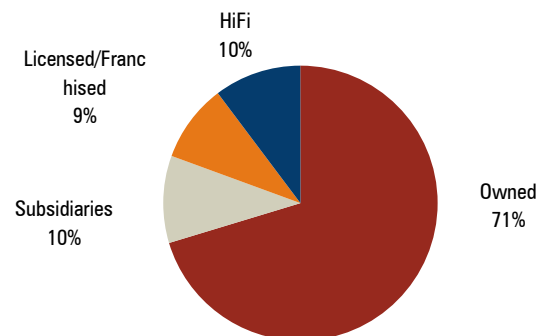
The EBITDA margin improved 97 bps YoY due to a decline in employee costs by ~7% on a YoY basis

**Exhibit 4: Number of health clubs**



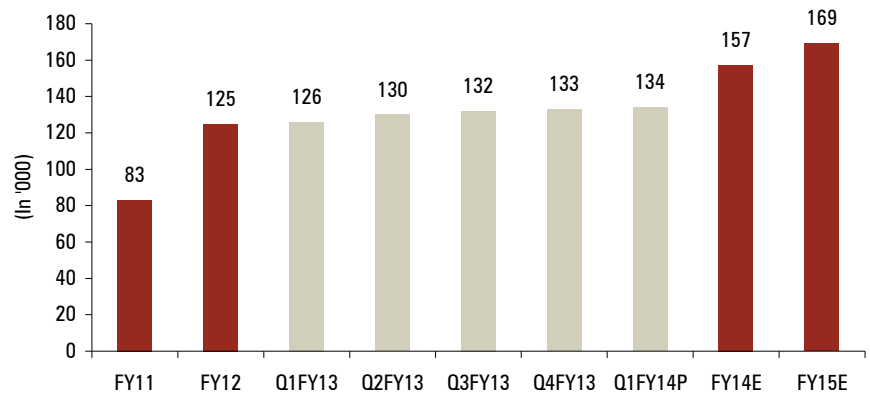
Source: Company, ICICIdirect.com Research

**Exhibit 5: Number of health clubs by ownership**



Source: Company, ICICIdirect.com Research

**Exhibit 6: Members growth trend**



Source: Company, ICICIdirect.com Research

### Recent initiatives taken by company

In the current quarter, the company has expanded its presence in different segments of fitness like weight loss (Reduce), alternate form of fitness (massage & Zumba). These initiatives are earnings accretive for the business due to its low dependence on capex. Some of these activities can also be developed as standalone services outside the fitness centre.

TBVF has increased the number of Zumba centres to 31 from 29 since the last quarter result. The company currently has over 300 certified Zumba trainers. Currently, large corporates, including MNCs, are availing the Zumba programme and NuForm. The company is actively looking at other avenues like schools, colleges, home based services, etc.

TBVF has also extensively increased the number of Reduce centres to 44 from 17 in the last quarter. Reduce is also offered as "Home based Reduce", primarily catering to HNI and corporates at their door step. This requires minimal capex. Hence, it has an incremental positive impact on the profitability of the fitness centre.

These new initiatives have helped the company to leverage on its current asset and enhance the member base without incurring any major capex. Pricing for new initiatives is at a significant premium. We believe this would help the company to improve its margins, going forward.

Total gyms for the quarter increased marginally QoQ. Owing to seasonality, we believe the quarter has flat YoY trends in member additions and would have only reached about ~1,34,000 members

## Financial summary

### Profit and loss statement

	(₹ Crore)			
(Year-end March)	FY12	FY13	FY14E	FY15E
Total operating Income	130.5	168.8	212.3	267.8
Growth (%)	27.6	29.3	25.8	26.1
Employee Expenses	24.8	31.2	38.5	48.5
Marketing Expenses	4.1	47.0	55.2	67.9
Administrative Expenses	36.2	0.0	0.0	0.0
Rent	0.0	0.0	0.0	0.0
Other Exp	11	18	25	32
Total Operating Expenditure	76.2	96.1	118.7	148.6
EBITDA	54.3	72.7	93.7	119.2
Growth (%)	35.5	33.9	28.8	27.2
Depreciation	11.8	14.6	18.3	20.9
Interest	9.1	10.8	11.6	11.7
Other Income	1.6	1.3	1.2	1.3
PBT	34.9	48.6	65.0	88.0
Others	2.5	2.7	2.4	2.5
Total Tax	10.4	15.8	20.6	29.0
PAT	22.0	30.1	42.0	56.4
Growth (%)	37.5	36.4	39.6	34.4
EPS (₹)	9.1	11.5	16.0	21.5

Source: Company, ICICIdirect.com Research

### Balance sheet

	(₹ Crore)			
(Year-end March)	FY12	FY13	FY14E	FY15E
Liabilities				
Equity Capital	24.12	26.2	26.2	26.2
Reserve and Surplus	119.9	182.0	224.0	280.4
Total Shareholders funds	144.1	208.2	250.2	306.6
Total Debt	141.2	156.6	163.6	167.0
Deferred Tax Liability	14.3	19.2	20.5	21.7
Minority Interest / Others	5.0	8.1	10.3	12.9
Total Liabilities	304.7	392.1	444.7	508.1
Assets				
Gross Block	261.5	377.4	422.4	487.4
Less: Acc Depreciation	37.0	51.6	70.0	90.8
Net Block	224.5	325.8	352.5	396.6
Capital WIP	27.4	27.4	32.4	32.4
Total Fixed Assets	251.9	353.2	384.9	429.0
Intangibles	4.6	4.6	4.6	4.6
Investments	18.4	22.7	26.7	30.7
Long term Loans and Adv	0.0	0.0	0.0	0.0
Debtors	20.1	17.8	26.2	33.0
Loans and Advances	22.6	29.3	36.0	44.3
Cash	19.8	22.8	29.7	36.5
Total Current Assets	62.5	69.8	91.9	113.8
Creditors	22.6	42.8	46.5	51.4
Provisions	10.1	15.5	16.9	18.6
Other current liabilities	0.0	0.0	0.0	0.0
Total Current Liabilities	32.7	58.3	63.4	70.0
Net Current Assets	29.8	11.6	28.5	43.9
Application of Funds	304.8	392.2	444.7	508.2

Source: Company, ICICIdirect.com Research

### Cash flow statement

	(₹ Crore)			
(Year-end March)	FY12	FY13	FY14E	FY15E
Profit after Tax	22.0	30.1	42.0	56.4
Add: Depreciation	11.8	14.6	18.3	20.9
(Inc)/dec in Current Assets	1.9	-4.4	-15.1	-15.2
Inc/(dec) in CL and Provisions	4.1	25.5	5.1	6.6
CF from operating activities	39.8	65.9	50.3	68.6
(Inc)/dec in Investments	-9.8	-4.3	-4.0	-4.0
(Inc)/dec in Fixed Assets	-62.4	-116.0	-50.0	-65.0
Others	6.2	8.0	3.6	3.7
CF from investing activities	-65.9	-112.3	-50.4	-65.3
Issue/(Buy back) of Equity	0.0	2.1	0.0	0.0
Inc/(dec) in loan funds	20.1	15.3	7.0	3.4
Dividend paid & dividend tax	0.0	0.0	0.0	0.0
Inc/(dec) in Sec. premium	0.0	27.2	0.0	0.0
Others	-4.8	4.8	0.0	0.0
CF from financing activities	15.3	49.4	7.0	3.4
Net Cash flow	-10.8	3.0	6.9	6.8
Opening Cash	30.6	19.8	22.8	29.7
Closing Cash	19.8	22.8	29.7	36.5

Source: Company, ICICIdirect.com Research

### Key ratios

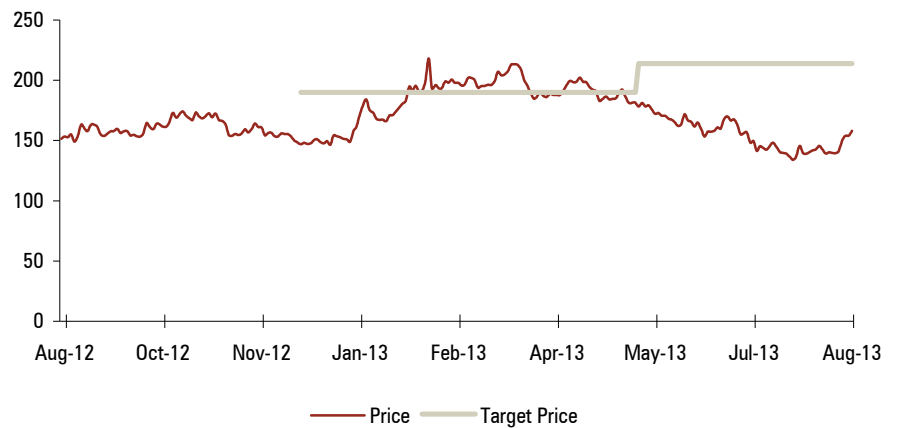
(Year-end March)	FY12	FY13	FY14E	FY15E
Per share data (₹)				
EPS	9.1	11.5	16.0	21.5
Cash EPS	14.0	17.1	23.0	29.5
BV	59.8	79.5	95.6	117.1
DPS	0.5	0.0	0.0	0.0
Cash Per Share	9.5	14.0	17.1	23.0
Operating Ratios (%)				
EBITDA Margin	41.6	43.0	44.1	44.5
PBT / Total Operating income	16.9	17.8	19.8	21.1
Asset Turnover	0.5	0.5	0.5	0.6
Debtor days	56.2	38.4	45.0	45.0
Creditor days	63.2	92.5	80.0	70.0
Return Ratios (%)				
RoE	15.3	14.4	16.8	18.4
RoCE	14.6	15.5	17.7	20.2
RoIC	10.5	10.6	12.4	14.0
Valuation Ratios (x)				
P/E	14.2	11.3	8.1	6.0
EV / EBITDA	8.5	6.5	5.1	4.0
EV / Net Sales	3.5	2.8	2.2	1.8
Market Cap / Sales	2.6	2.0	1.6	1.3
Price to Book Value	2.2	1.6	1.4	1.1
Solvency Ratios				
Debt/EBITDA	2.6	2.2	1.7	1.4
Debt / Equity	1.0	0.8	0.7	0.5
Current Ratio	1.9	1.2	1.4	1.6
Quick Ratio	1.3	0.8	1.0	1.1

Source: Company, ICICIdirect.com Research

## Company Description

Talwalkars Better Value Fitness (TBVF) is a fitness chain offering a suite of solutions, including gyms, spa therapy, nutrition counselling, physiotherapy guidance, aerobic activity classes and yoga sessions under the brand Talwalkars. Its other products and services include spinning studio, pilates and weight loss regimen. The company has an 8,000 sq ft residential training academy at Thane. The training academy offers a training programme of four to six weeks for its staff joining at the new centres. As of December 2012, it operated 137 health clubs in 73 cities and has more than 132,000 members. Its health clubs and training centres are located in Andhra Pradesh, Gujarat, Karnataka, Kerala, Maharashtra, Madhya Pradesh, Punjab, Rajasthan, Tamil Nadu, Uttar Pradesh and West Bengal. In April 2012, the company, through its subsidiary, opened a health club in Gandhinagar.

### Exhibit 7: Recommendation History



Source: ICICIdirect.com Research

### Exhibit 8: Recent Releases

Date	Event	CMP	Target Price	Rating
13-Feb-12	Initiating coverage	157	190	BUY
24-May-12	Q4F12 Result update	163	190	BUY
14-Aug-12	Q1F13 Result update	156	190	BUY
19-Oct-12	Q2F13 Result update	173	219	BUY
11-Feb-13	Q3FY13 Result update	198	219	BUY
9-May-13	Q4FY13 Result update	178	214	BUY

Source: ICICIdirect.com Research

### Exhibit 9: Assumptions

Year	FY12	FY13	FY14E	FY15E
New Gym additions	20	13	26	20
Members per Gym	1011	1083	924	889
Revenue per member (₹)	13813	14227	14938	15835
Average revenue per gym (₹ cr)	1.3	1.5	1.2	1.3

Source: ICICIdirect.com Research

## RATING RATIONALE

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**Buy:** >10%/15% for large caps/midcaps, respectively;  
**Hold:** Up to +/-10%;  
**Sell:** -10% or more;



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