

Talwalkars Better Value Fitness Ltd.

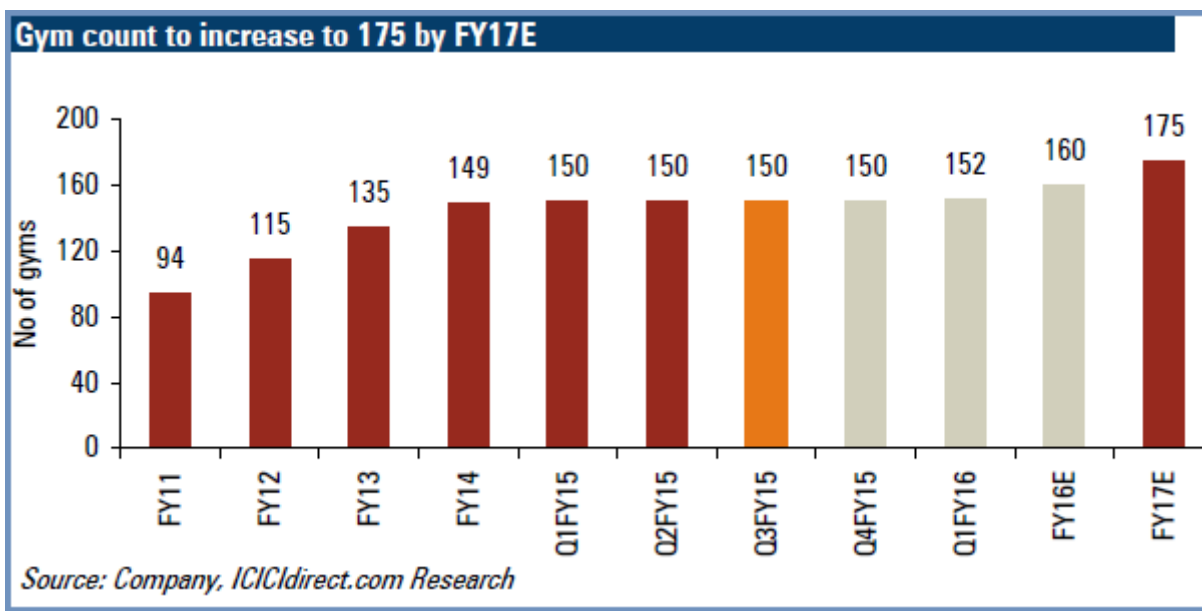
CMP: 233

Dear members,

The financial markets have been highly volatile so far this year due to global factors. Lot of the mid cap stocks have corrected significantly in this volatility and are trading at very cheap valuations. Talwalkars is one good stock which has corrected by more than 40% from its 52 week high of 409.

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 158000+ members.

Compared to developed economies, the fitness industry in India is at very nascent stage. Growing urban consumption and increasing disposable income of the people coupled with rising awareness of a healthy body augur well for the industry. The change in life style related to lack of physical activity and increased consumption of fast food among both affluent and working class population has led to greater need for healthy life styles.



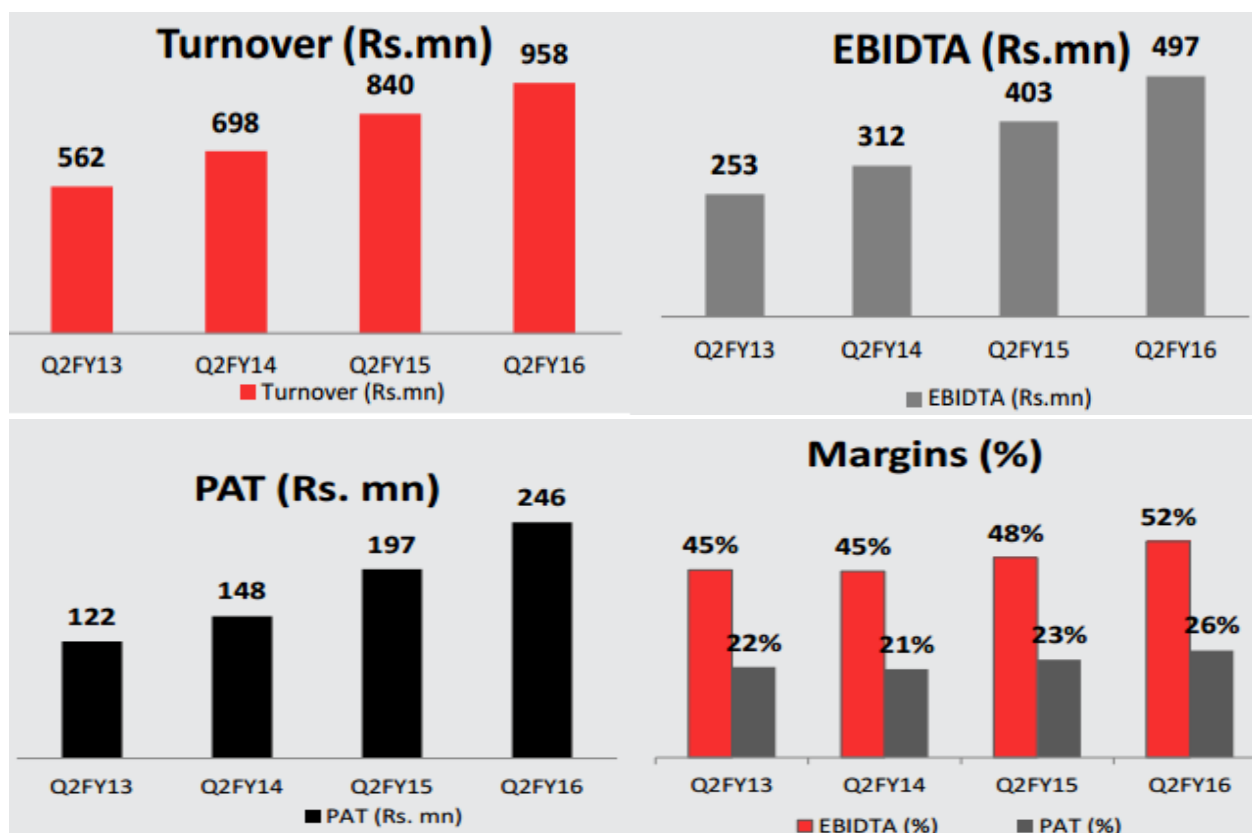
Talwalkars is well positioned to take opportunity from rising awareness and increased urban discretionary spending with its nationwide network. Its brand is visible across all the major

cities and it is expanding in to tier 1 and tier 2 cities also. The evolving industry from very nascent stage provides significant potential for company to grow in the coming years.

Key rationale behind Talwalkars:

Talwalkars with its quality business model and efficient operations is growing strongly in from past few years. While the first phase of transformation, the company is now further transforming itself to a wellness player with its entry into the spa and dietary supplements segments. The company has also entered into a joint venture with David Lloyd to develop 7-10 clubs across India in next five years. With this, it will have a presence across the value chain in the wellness industry.

Company is also adding more value added services in its existing centers. It has launched new programs such as NuForm, Zumba Fitness, Reduce and Transform which enable company to increase its customer base while using the team and infrastructure it already has in place.



During the second quarter of this fiscal year total sales grew 11.6% YoY to 93.4 crore mainly led by increase in realizations per member. The EBITDA margin increased 279 bps YoY to 50.6% led by improved same store sales growth and cost rationalization. As a result, it managed to clock net profit growth of 25.3% YoY during the quarter. The company has acquired 49.5% stake in Power World Gyms, Sri Lanka based fitness player in all cash deal.

Going forward company is looking to improve its same store sales by increasing member base, utilizing time slots more efficiently and widening bouquet of value-added services. Company is also open to more acquisition opportunities and it is also looking to open Hi Fi gyms. Being an early mover in the health club market in India with a strong brand name and quality services, we expect the growth momentum to continue, going forward.

Company's share price is trading at very attractive valuations after the recent correction. At the CMP of 233, it is trading at 13.3x of TTM P/E. and 6.68x EV/EBITDA. We expect the 23% to 30% upside from its current levels in next three to four quarters. We believe this is good price to enter with strong earning visibility and cheap valuation where risk reward is clearly in favor of investors.