

# Talwalkars Better Value Fitness Ltd.

Nifty	9,588
Sensex	31,056

## Key Stock Data

CMP	305
Market Cap (₹ mn)	9,060
52W High/Low	311/208
Bloomberg	TALW IN

## Shareholding Pattern Mar 2017

Promoters	37.99%
Institutions	20.38%
Non-institutions & Others	41.64%

(₹mn)

YEAR	FY17	FY18E	FY19E
Revenue	2,860	3,199	3,577
EBITDA	1,711	1,960	2,209
OPM(%)	59.8%	61.3%	61.8%
PAT	660	794	937
EPS (₹)	22.2	26.7	31.5
P/E(x)	13.7	11.4	9.7

Source: Company, Way2wealth Inst. Equity

## Key Result Highlights

Talwalkars has reported its Q4FY17 results which were in line with our estimates. We reiterate BUY recommendation on the stock.

## Q4FY17 Result Highlights

- Net Sales grew by 12.5% YoY to ₹900mn.
- EBITDA margins expanded by 149bp YoY to 70.2%.
- PAT grew by 21.6% YoY to ₹246mn.

## Growth Outlook

### ➤ Key Development in FY17:

- During the year Talwalkars opened 30 owned Power World Gyms 28 Zorba studios. It inaugurated 20 gyms on 8th November, 2016 in Bengaluru which has received an encouraging response.
- The Company has received good response to the rental negotiations in the current year resulting in reduction in rent in the coming quarters. It successfully managed to acquire properties at rentals of ₹18-25/sqft.
- The Company has signed an MoU to invest in equity shares of Force Fitness India Private Limited (FFIPL). FFIPL is India's third largest gym company and the exclusive master franchise in India of the international fitness chain Snap Fitness Inc.
- The company entered into a MOU for operating and owning 7 gyms owned by subsidiaries.

- **Restructuring (demerger) process at a fag end** – The Company management is currently executing restructuring process wherein current organization is likely to be divided into two entities i.e. Gym (Pure Gym business) and Lifestyle (Fitness club + Property + Zorba + Reduce + Nuform etc.). Post restructuring, both entities are likely to be listed. The Shareholders of the Company has approved the scheme with the requisite majority and the final approval by the NCLT is awaited. The Company has already received the approval from the stock exchanges and SEBI to the Scheme of Arrangement. Post the NCLT approval, the management expects the process of demerger will get completed in a short span of time.

- **Plans to increase its fitness club network to 250 over 2years** – As on 31st March 2017 Talwalkars had 211 fitness centers across India and Sri Lanka. By 2019 Talwalkars plans to increase its fitness club network to 250 with the combination of own and franchisee route. Based on its existing set up and cash generation, the Company has a potential to add 20+ own gyms each year without external funding support. Apart from this the Company has an opportunity to expand through franchisee route. With a favourable demography, we expect Talwalkars health club and membership base to grow with a healthy rate during FY17-19.

- **First Leisure club to become operational in FY20** – Currently the Company is in a process of setting up its first leisure club in Pune. Talwalkars has entered into 50:50 joint ventures with David Lloyd Leisure Limited for establishing and managing leisure clubs in India. The total cost of setting up first club is likely to be around ₹800mn. This club is likely to have ~8000 membership capacity with lifetime membership fees of around ₹8 lakh. This club is likely to become operational in FY20. The Company is awaiting the final clearances from Municipal and other authorities in Pune for the revised plans submitted to them. The Company is expected to open a field /marketing office in the next 3 months to showcase and sell the club membership.

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- **Equity Stake in Snap Fitness Inc**—The Company has Signed an MoU to invest in equity shares of Force Fitness India Private Limited (FFIPL). FFIPL is India's third largest gym company and the exclusive master franchise in India of the international fitness chain Snap Fitness Inc. FFIPL is predominantly a franchise concept which is cash positive, service oriented, highly scalable and profitable model. This investment will propel Talwalkars towards consolidation of the fragmented fitness industry in India. The Company is likely to initiate the process of integration of the Snap Fitness Centres with its own centres once the due- diligence process is over.
- **Medium Term Growth Strategy**
  - **Expansion** —Talwalkars plans to increase its presence in the top 10-12 cities in India with a mix of its PWG and Talwalkars fitness centres. The Company is likely to initiate the process of integration of the Snap Fitness Centres with its own centres once the due- diligence process is over. Also Zorba is expected to open 50 centres in coming 15-18 months.
  - **Cost Cutting** —The Company is relentlessly working towards reduction of its operating cost including the ongoing rental reduction drive. It has successfully managed to acquire properties at rentals of ₹18-25/sq ft.
  - **Streamlining Debt** — The Company plans to reduce its debt by ₹1-1.25bn in the next two years. It has already given a mandate to an investment banking company to unlock the value of properties of Market Value ₹1.2bn.
  - **Demerger** —The demerger will result in singular focus on the each of the resultant companies that will result in value enhancement of both entities.
- **Investment Rationale** —Demand for Fitness facilities in India is expected to go up due to a) rising young population b) increasing disposable income c) growing awareness of being fit and attractive and d) hugely under penetrated market in Tier II and Tier III cities. Talwalkars is well placed to capture increasing demand due to its a) Leadership position b) Strong brand and c) Sound operational and financial track record. We estimate Talwalkars sales and profits to grow at a CAGR of 12% and 19% over FY17-19E respectively.

### Valuations And Recommendations

At CMP of ₹305, Talwalkars is currently trading at a PE of 9.7x FY19E and EV/EBITDA of 5.0x FY19E. Given the Company's a) strong growth prospects given its leadership position in highly under penetrated and growing market b) 19% PAT CAGR over FY17-19E and c) average ROE of 15% through FY17-19E, we value the company at 12x FY19E EPS with a target price of ₹378. We reiterate a BUY rating on the stock.

	Demerged Entities	Current status
	<b>Gym Company</b>	
	core Gymming	Premium Gym - 9 Talwalkars - 122 HiFi - 26 Power World Gym - 50
	<b>Talwalkar Lifestyle Ltd.</b>	
1	Weighty Loss	Reduce (105) ,Nuform (43)
2	Club	Club JV with DLL
3	Group X	Zumba (48), Zorba (31)
4	Immovable Assets	Real Estate (8 Assets)
5	Future Arena	Beauty, Skin, Spa & Salon
6	Future Arena	Allied Lifestyle Services

**Quarterly Results**

	Q4FY17	Q4FY16	YoY%	Q3FY17	QoQ%
	(₹mn)				
Sales	900	800	12.5%	531	69.5%
Material Consumed	1	0	NA	2	-68.0%
Staff Cost	95	79	20.6%	88	8.1%
Other expenditure	173	172	0.6%	176	-1.8%
Total Expenditure	268	251	7.1%	266	1.0%
<b>EBITDA</b>	<b>631</b>	<b>549</b>	<b>14.9%</b>	<b>265</b>	<b>138.2%</b>
Depreciation	146	131	11.6%	107	35.7%
EBIT	485	419	15.9%	157	208.2%
Interest	46	54	-14.7%	58	-19.5%
Other Income	0	0	NA	0	NA
PBT	439	364	20.5%	100	339.7%
Tax	193	191	0.9%	25	672.5%
PAT	<b>246</b>	<b>173</b>	<b>42.1%</b>	<b>75</b>	<b>228.6%</b>
Exceptional Items	4	0	NA	0	NA
Minority Interest	5	(29)	-116.0%	15	-68.0%
Share of Associate profit	9	0	NA	2	480.1%
Reported Profit	246	202	21.6%	61.7	298.5%
EPS (₹)	8.28	6.81	21.6%	2.08	298.5%
<b>MARGINS</b>	<b>Q4FY17</b>	<b>Q4FY16</b>	<b>YOY (BPS)</b>	<b>Q3FY17</b>	<b>QOQ (BPS)</b>
EBITDA	70.2%	68.7%	149	49.9%	2023
PAT	27.3%	21.6%	570	14.1%	1324
Tax Rate	44.0%	52.5%	(853)	25.0%	1894

**FINANCIALS**

(₹mn)

Income Statement	FY15	FY16	FY17	FY18E	FY19E
Net sales	2,257	2,514	2,860	3,199	3,577
YoY (%)	20.5	11.4	13.8	11.9	11.8
Raw material cost	0	0	3	3	4
Employee Cost	355	394	430	477	530
SGA cost	641	685	716	759	834
Total expenses	996	1,079	1,149	1,239	1,367
EBIDTA	1,261	1,435	1,711	1,960	2,209
EBIDTA (%)	55.9	57.1	59.8	61.3	61.8
Depreciation	397	470	486	544	605
EBIT	864	965	1,225	1,416	1,605
Interest	144	177	194	198	172
Other income	9	68	5	13	12
PBT	729	856	1,037	1,231	1,445
(-) Tax	245	302	364	432	507
Tax/ PBT	33.6	35.3	35.1	35.1	35.1
<b>PAT</b>	<b>484</b>	<b>554</b>	<b>673</b>	<b>799</b>	<b>938</b>
MI + Associate Income	-23.0	3.4	12.9	5.4	1.1
Adjusted PAT	461	550	660	794	937
YoY (%)	21.7	14.5	21.5	18.7	17.4
PAT (%)	21.4%	22.0%	23.1%	24.8%	26.2%
Extraordinary	0	0.28	3.9	0	0
Reported PAT	461	550	656	794	937

(₹mn)

Balance Sheet	FY15	FY16	FY17	FY18E	FY19E
Equity capital	262	297	297	297	297
Reserves	2,509	3,974	4,628	5,357	6,217
Net worth	2,770	4,271	4,925	5,654	6,514
Loans	2,795	3,085	4,029	3,529	3,029
Minority Interest	135.553	137.671	164.282	164	164
Deferred Tax Liability	254	275	296	296	296
<b>Total Liabilities</b>	<b>5,954</b>	<b>7,769</b>	<b>9,415</b>	<b>9,643</b>	<b>10,003</b>
Gross block	5,500	7,185	8,185	9,042	10,104
Less: Acc. depreciation	1,070	1,540	2,025	2,569	3,174
Net block	4,430	5,645	6,160	6,473	6,929
CWIP	783	0	0	0	0
Investments	352	928	1,757	1,757	1,757
Inventories	0	0	3	0	0
Debtors	341	317	298	344	385
Cash	466	1,408	1,337	1,561	1,124
Other Current Assets	0	76	156	174	195
Loans and advances	292	433	612	684	765
Current assets	1,099	2,233	2,405	2,764	2,469
Current liabilities	550	873	787	1,216	1,001
Provisions	160	165	121	135	151
Net current assets	390	1,195	1,497	1,413	1,317
<b>Total Assets</b>	<b>5,954</b>	<b>7,769</b>	<b>9,415</b>	<b>9,643</b>	<b>10,003</b>

Key Ratios	FY15	FY16	FY17	FY18E	FY19E
EPS	17.6	18.5	22.2	26.7	31.5
Book value	106	144	166	190	219
DPS	1.5	1.7	1.5	1.8	2
P/E	17.4	16.5	13.7	11.4	9.7
EV/EBDITA (x)	9.1	7.5	6.9	5.6	5.0
P/B (x)	2.9	2.1	1.8	1.6	1.4
P/S	4.0	3.6	3.2	2.8	2.5
Yield	0.5%	0.5%	0.5%	0.6%	0.7%
ROCE (Post Tax)	11.5%	10.6%	9.9%	10.4%	11.3%
ROE	17.8%	15.6%	14.4%	15.0%	15.4%
Net Debt-equity (x)	1.0	0.7	0.8	0.6	0.5
Current Ratio	0.4	0.4	0.7	0.5	0.7
Gross Asset Turnover	0.4	0.4	0.4	0.4	0.4
Working Capital Days	-33	-21	-3	1	2
W/C % of sales	37	3	2	2	3

(₹mn)

Cash Flow	FY15	FY16	FY17	FY18E	FY19E
Net profit	461	550	656	794	937
Depreciation	397	470	486	544	605
Deferred tax	17	0	0	0	0
Change in working cap	(253)	137	(373)	309	(340)
Cash from Operations	622	1,157	769	1,647	1,201
Capex	(1,082)	(879)	(952)	(857)	(1,061)
Investments	(21)	(576)	(829)	0	0
Cash from Investments	(1,103)	(1,456)	(1,781)	(857)	(1,061)
<b>Free Cash Flow</b>	<b>(461)</b>	<b>278</b>	<b>(184)</b>	<b>789</b>	<b>140</b>
Dividend	(47)	(60)	(54)	(65)	(77)
Fresh equity	(48)	1,011	52	0	0
Debt	983	290	944	(500)	(500)
Cash from Financing	887	1,241	942	(565)	(577)
Net change in cash	406	942	(71)	224	(437)
Opening cash	60	466	1,408	1,337	1,561
Closing cash	466	1,408	1,337	1,561	1,124

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Name of the Security	Talwalkars Better Value Fitness Ltd.
Name of the analyst	Mahesh Bendre, Chintan Gupta
Analysts' ownership of any stock related to the information contained	NIL
Financial Interest	
Analyst :	No
Analyst's Relative : Yes / No	No
Analyst's Associate/Firm : Yes/No	No
Conflict of Interest	No
Receipt of Compensation	No
Way2Wealth ownership of any stock related to the information contained	NIL
Broking relationship with company covered	NIL
Investment Banking relationship with company covered	NIL

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