

Talwalkars Better Value Fitness Ltd

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Talwalkars Better Value Fitness Ltd (TBVF)

Precaution is Better than Cure

CMP INR 320	Target INR 442	Potential Upside 38.2%	Market Cap (INR Mn) 9498	Recommendation BUY	Sector Consumer Discretionary
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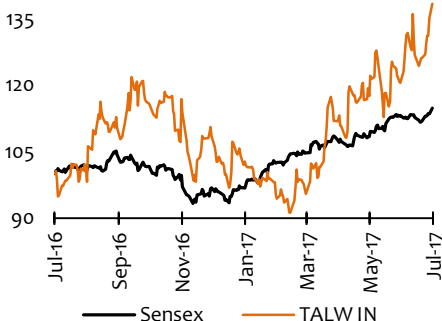
Company Background:

Talwalkars has pioneered the concept of gyms in India and Started in 1932 by Late Mr Vishnu Talwalkar, with first gym in Mumbai. Talwalkars listed itself in May 2010 on BSE. With promoter's experience over the period of time Talwalkars have been market leader in Indian fitness Industry with market share of 41% of the Indian organized market and 8-9% of the overall market. The company has increased its footprints and become the largest chain in south Asia with over 211 centres presence across 86 cities and Towns. The major brands of the company are Talwalkars, premium gyms, Power World, HiFi and value added services like Personal Training, Nuform, Reduce, Transform, Group-X, Zorba, Spa & Massage.

MARKET DATA

Shares outs (Mn)	30
EquityCap (INR Mn)	297
Mkt Cap (INR Mn)	9498
52 Wk H/L (INR)	322/209
Volume Avg (3m K)	153.9
Face Value (INR)	10
Bloomberg Code	TALW IN

SHARE PRICE PERFORMANCE



MARKET INFO

SENSEX	31747
NIFTY	9786

Investment Rational:

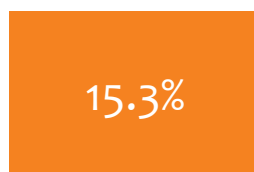
Industry scope and growth: The Indian fitness Industry has evolved from traditional fitness forms like yoga, ayurveda, mull-kushti (modern day wrestling) to Modern fitness forms like gym, zumba, group exercise, kickboxing etc. The Indian fitness market is estimated to be around INR 4,500 – 5,000 Cr. with only 25-28% being organized. It is expected to become INR 7,000 – 8,000 Cr. market with 18-22% CAGR between FY17 and FY20. The Indian fitness industry contributes only about 1% of the total global fitness industry revenue, which is estimated to be around INR 5,52,800 Cr. Europe stands largest continent by contributing around 36.4% followed by the U.S. and Canada contributing around 34.9% of the total global fitness industry revenue. In terms of number of clubs and fitness centers Latin America (LATAM) tops the list by having around 55,810 clubs followed by Europe and the U.S by having 51,200 and 42,300 clubs respectively; on the other hand India has only 3,800 - 4,000 clubs. Even the penetration level of fitness services and products in India is around 0.4% despite being the second largest populated country in the world. The penetration level in the U.S is 16%, highest across the globe. We believe that given the current market size and penetration level there is huge untapped market for Indian fitness industry to explore.

The only Solution to transform the Unhealthy Lifestyle is to be Fit: Thanks to today's fast paced, hectic modern lifestyle which seldom allows a person to workout actively or follow a well crafted fitness routine which ultimately leads to an unhealthy lifestyle and also it causes different types of diseases and health issues. In India people are now considering fitness activities as preventive measures to avoid serious medications, and along with growing disposable income the young generation is spending more on fitness in order to stay fit. However, still there is large section of India's population living unhealthy lifestyle as a result the rate of obese population is increasing day-by-day. Obesity is one of the common health issue for millions of people across the globe, which is the root cause of many harmful and dangerous diseases. In 2015, obesity affected nearly 2.2 billion children and adults worldwide, this includes nearly 108 Mn children and more than 600 Mn adults with Body Mass Index (BMI) exceeding 30 (the threshold for obesity). If we compare the obese crowd and the number of member enrollment in the fitness clubs and centers across the globe, we have noticed that there is a significant gap between the two figures which can be one of the growth driver for the industry. For instance, the U.S has nearly 20.3% obese crowd between age group of 15-54 years of the total population against 16.9% of the total population who have enrolled as a member in the fitness industry, which indicates growth opportunity of around 3.3% new enrollment of members. Given the fact that even though India has only 2.9% obese crowd between age group of 15-54 years of its total population, it has the lowest member enrollment in fitness industry of around 0.1% of its total population, which has further growth opportunity of around 2.9% new enrollment of members, given the current obese population.

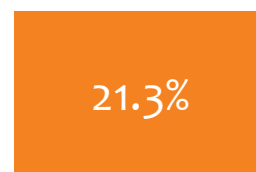
De-merge of business will help win-win for the company: TBVF is getting demerged into Gym business and lifestyle business, post demerger the EBITDA margins of Gym business is expected to be around 54.5 - 56% from FY17 to FY20E and PAT margins would keep on improving from 18.8% in FY16 to 22.6% in FY20E. While lifestyle company will bag margins between of 68% to 70% from FY17 to FY20E and PAT margins will be increasing from 29.8% in FY16 to 35.2% in FY20E. So we believe that margins are lucrative and improving for next 3 years. For Gym business we project D/E ratio to improve to 0.5x by FY20 from 0.7 in FY16 and expecting ROE and ROCE to improve for both the business, Gym business ROE will see improvement from 14.8% in FY16 to 16.8% in FY20 with 3.2% CAGR FY16-FY20 and from 9.8% in FY16 to 13.6% in FY20 with CAGR growth of 8.5% between FY16-FY20 for lifestyle business.

SHARE HOLDING PATTERN (%)

Particulars	Mar 17	Dec 16	Sep16
Promoters	37.99	37.99	37.99
FII's	13.32	14.78	14.58
DII's	7.05	7.09	7.26
Others	41.64	40.15	40.18
Total	100	100	100



Revenue CAGR between FY17 and FY20E



PAT CAGR between FY17 and FY20E

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Talwalkars Better Value Fitness Ltd

Outlook & Valuations:

Talwalkars better value fitness Ltd (TBVFL) is one of the largest, organized and listed health centre in India as well as in South Asia. Fitness in India is a must because it is the second largest populated country with nearly 20-22% obese people who needs to be fit, also people's day starts with a tea or a coffee which includes sugar which is unhealthy, people have fast day-to-day life, 9 am to 5pm office job (sitting and working on computers), intake of junk food, high stress levels and peer pressure, etc which is indeed leading a person to the grave of obesity. The role of TBVFL starts here, it offer around 211 number of gyms across India in Tier 1, Tier 2, Tier 3 and Tier 4 cities with various formats like Talwalkars gym, Premium gyms, Hi-fi Gyms, Power world Gyms (India & Sri-lanka). Also many Gyms include value added services like Nuform, Reduce, Transform, Group X exercise, Zumba, Zorba, etc. which are customized for customers under qualified trainers. TBVFL is the first one to introduce to these kinds of service to the customers in India. TBVFL got listed in 2010-2011, and it owned around 94 gym in FY11 and with CAGR of 14.4% from FY11-FY17 number of gym increased to 211 gym centre across India and Sri-lanka. In FY17 with consolidated revenue of around INR 2860.0 Mn. It showed revenue growth of 13.8% in FY17, we expect revenue growth to be on an average around 15.3%-15.5% for next 3 years. We also expect CAGR growth of 18.8% in between FY11-FY20 and around 15% in between FY16-FY20. We expect improvement in margins, EBITDA margins to improve from 59.8% in FY17 to 60.4% in FY20. PAT margins to improve from 22.9% to 26.7% from FY17-Fy20.

TBVFL is gradually transforming itself from a gymming company to wellness company as more and more is demanded from customers. Also the company is re-modeling its business by the way of de-merge. TBVFL is separating its gym business from value added segment and forming Talwalkars Gym company which will include all its Gym formats and personal training while other one is lifestyle business company which will include value added service, club house (upcoming in Pune and tie up with David Lloyd Leisure Ltd). With de-merging of business we expect improvement in financials like expansion in margins like EBITDA from 56.5% to 58.1% and PAT margins from 20.7% to 24.1%. Improvement in Debt-equity ratio, ROE and ROCE in Gym business to be around, 0.5x, 17.6% and 27.3% respectively, Also at the same time for Lifestyle business we expect EBITDA in range of 70% and PAT margin to improve from 32.1% to 37.4%, moreover Debt-equity ratio, ROE and ROCE would be 0.5x, 14.2% and 16.9%, respectively.

We remain positive on the growth of the company, assuming that more number of people look forward to get fit and enroll with TBVFL brand and also utilize it value added service. We are valuing the company by. At CMP of INR 320, we recommend "BUY" rating on the stock and value the company by taking an average of both the valuation PE (11x multiple) and by EV/EBIDTA (5x multiple) basis and arrive at the target price of INR 442, with potential upside of 38.2%

Key Financials:

YE March (INR Mn)	FY15	FY16	FY17	FY18E	FY19E	FY20E
Revenues	2,257	2,514	2,860	3,283	3,792	4,379
EBITDA	1,245	1,435	1,711	1,962	2,281	2,644
PAT	461	550	656	796	957	1,171
EBITDA margin (%)	55.2%	57.1%	59.8%	59.7%	60.2%	60.4%
Net margin (%)	20.4%	21.9%	22.9%	24.3%	25.2%	26.7%
EPS (Rs.)	17.6	18.5	22.1	26.8	32.2	39.4
RoE (%)	17.8%	15.6%	14.3%	15.1%	15.7%	16.5%

Source: Company Data, KRChoksey

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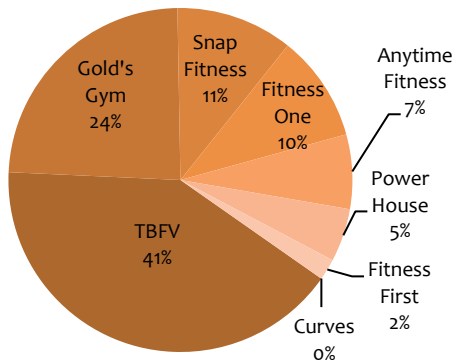
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Talwalkars Better Value Fitness Ltd

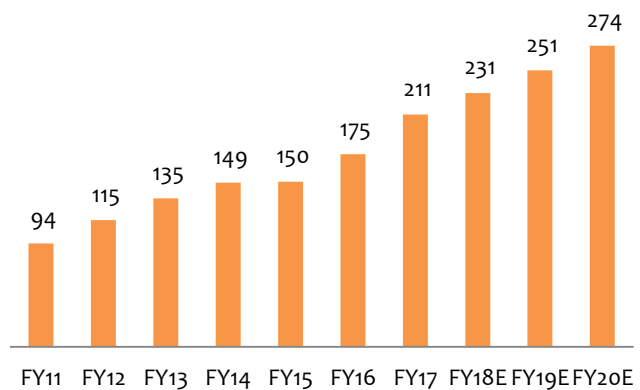
Peer Comparison:

Talwalkars is one of the largest fitness player in organized segment as compared to its peer group. Out of 25-28% organized gym segment Talwalkars share is around 40-41% of number of gym's, i.e. around 175 in FY16 which has been increased to 211 (growth of 20.6%) in FY17. We are expecting on an average growth of 9% in FY18-FY20 and CAGR growth of 11-12% in FY16-FY20 in number of Gym's which will reach TBFV gym number to 274 in FY20.

Exhibit 1: Organized segment market share % (no. of Gym)

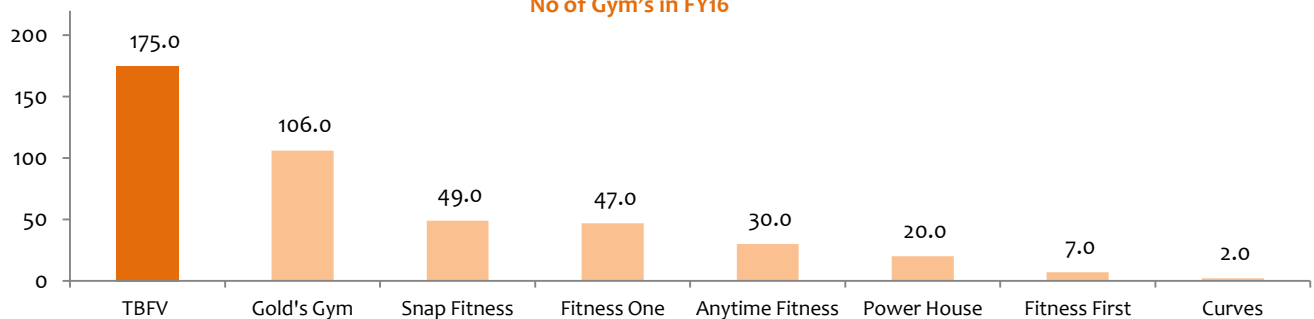


Talwalkars Total No. of Centers



Source: Company Data, KRChoksey

No of Gym's in FY16



Source: Company Data, KRChoksey

Also when we compare Talwalkars with other gym companies we believe that Talwalkars offer many service which are not offered by other gym's. Basic services like Gym and personal training is accessible across all small and large gym's, organized and unorganized Gym's. If we look at the price point of the Gym and personal training we believe on an average price is around INR 21500 p.a and INR 7500 p.m, respectively. Talwalkars offer these service at an average of INR 20000 p.a and INR 8500 p.m, respectively. Other service like Nuform, Transform, Zorba and Club, etc. Service like Reduce is offered by Talwalkars, snap, Fitness one, fitness first, etc. While service like Group X is offered by Talwalkars, Gold's Gym, Snap fitness, Fitness first. Also Gold's Gym offer spinning which is unique concept from other gym's.

Peer Comparison	Gym	Personal Training	Spinning	Nuform	Reduce	Transform	Group-X	Zorba	Clubs	Base Fees (p.a)	Personal Training (p.m)
TBFV	✓	✓	-	✓	✓	✓	✓	✓	✓	20,000	8,500
Gold's Gym	✓	✓	✓	-	-	-	✓	-	-	57,600	14,000
Snap Fitness	✓	✓	-	-	✓	-	✓	-	-	18,000	7,000
Fitness One	✓	✓	-	-	✓	-	-	-	-	14,000	6,500
Anytime Fitness	✓	✓	-	-	-	-	-	-	-	26,000	10,000
Power House	✓	✓	-	-	-	-	-	-	-	13,500	7,500
Fitness First	✓	✓	-	-	✓	-	✓	✓	-	15,000	7,000
Curves	✓	✓	-	-	-	-	-	-	-	7,500	-

Source: Company Data, KRChoksey

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Business Overview

TBVFL comprises of offerings like basic fitness which is Gym business (75-80% of revenue) and Lifestyle business (20-25% of revenue). Its business has pan India presence with Gym having different formats like Talwalkars Gym, Hifi Gym, Power world Gym, Premium Gym, etc. Also the company offers lifestyle or value added service like Nuform, Reduce, Yoga, Group X, Transform, Zorba, etc in addition to its Gym business. Company recently has tied up with David Lloyd leisure company for offering club chains in India. Its first club is in the process of setting up in Pune by FY18.

Business Model

Strategic Positioning

TBVFL is a proxy for organized fitness sector in India. It is the largest companies in south Asia and a market leader in Indian fitness industry. Around 40% of the market share in terms of number of gyms, is with TBVFL in the organized segment.

Competitive Edge

Only listed player,
First player to provide new services like Nuform, Transform, Reduce, etc.

Financial Structure

Consistent Revenue growth of around 14-15%, while EBIDTA and PAT margins to be around 60.0% and 23%, respectively. Debt-Equity be around 0.5x, ROE around 14.3% and ROCE around 9.6% in FY17.

Key Competitors

Unlisted players like Gold's Gym, Fitness first, Ozone Fitness & Spa and Fitness one, etc

Industry Revenue Drivers

Disposable Income, Rising urbanization, Young population, Peer influence, Increasing Diabetes and Obesity among population, Under Penetrated fitness industry etc.

Entry Barriers

Large number of unorganized players, competition from small players, lack of Skilled trainers, non-availability of large space

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Investment Rational:

Industry Analysis

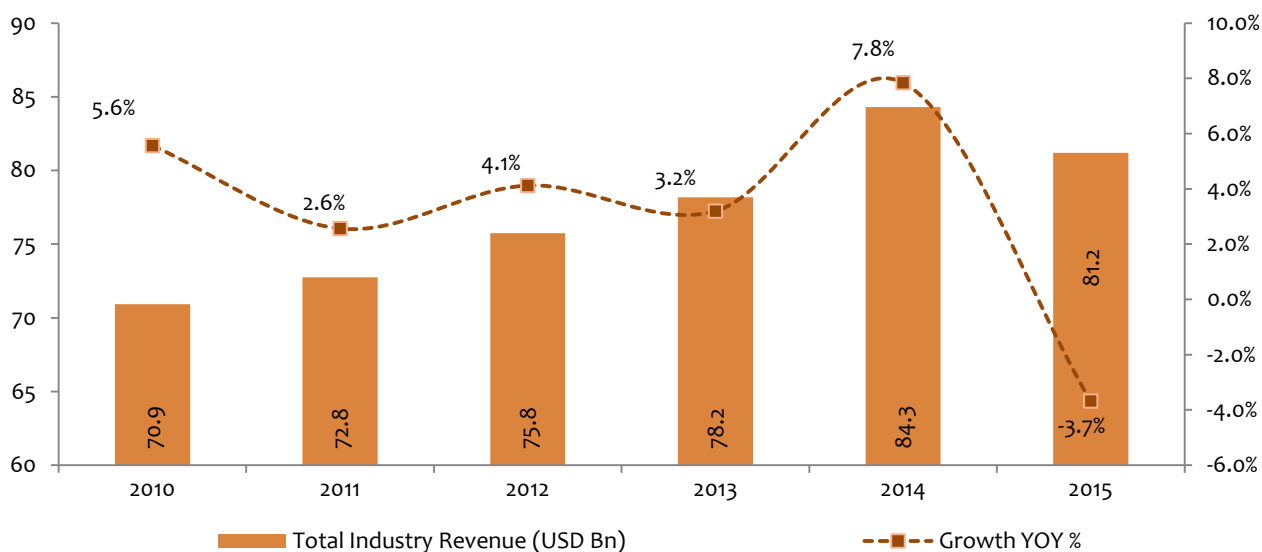
Fitness has been an essential part of human's life from past era and even before the concept of modern fitness like Gym's came into existence. Although the drivers of fitness means different to different people and also varied age group has diverse meaning for fitness. During ancient times, before the invention of wheels, luxury goods, etc had taken place, people used to travel long distance either walking or on animals which required stamina and fitness, also fitness was required for hunting and surviving, household work, etc. During the time of Kingdoms there was a desire of conquering different regions, establishing strong army to protect and expand ones own kingdom, which was otherwise difficult without fitness being part of the lifestyle. As time passed the concept of agriculture was invented which also required good amount of stamina as there were no automated machines for cultivating crops. During the era of Mahatma Gandhi, He rightly said "Health that is real wealth and not pieces of gold and silver." People always remain ignorant of taking care of themselves.

There came a time where people became intellectual and moved towards change drastically, which brought in revolutions like Industrial, economic and corporate, etc which led to change in the lifestyle. Gradually, changes came in where humans were replaced by machines (Automation), 9am -5pm office job became the routine and humans had very little to do to stay fit; junk foods along with new diseases started penetrating human life making the situation more vulnerable. Modern Fitness and wellness was than considered as one of the important activity of day-to-day life; this was the time when the modern fitness industry across the globe started emerging.

When we look at fitness industry as a whole we observe that be a developed or developing country like USA, UK, China, India, Brazil, Japan, Spain, etc fitness industry is highly fragmented and dominated with large number of mom and pop gyms. There is a huge demand and supply gap in the health, fitness and wellness industry. Players in health, Fitness and wellness segment have to be cautious at every step as the industry is unorganized. Players in the industry offers similar kind facilities subsequently lacks product differentiation and so it results in increasing competition. However the other factor is price, price at which the facilities are been offered to customers turn out to be competitive if not managed carefully at affordable price. (For Example: If 'A' and 'B' are in Gym business and both offer Annual Subscription of around INR 10000 for using Gym facility. Later after one year if the cost of subscription is increased by 15% of 'A' and by 10% of 'B', then 'A' customers are trend to move to 'B' due to hike in price of 5% more).

Fitness Industry revenue for FY15 stood at USD 81.2 Bn (Exhibit. 2), with CAGR of 3.2% between 2010-2015.

Exhibit 2: Industry revenue & Growth



Source: IHSA 2016 report, KRChoksey Research

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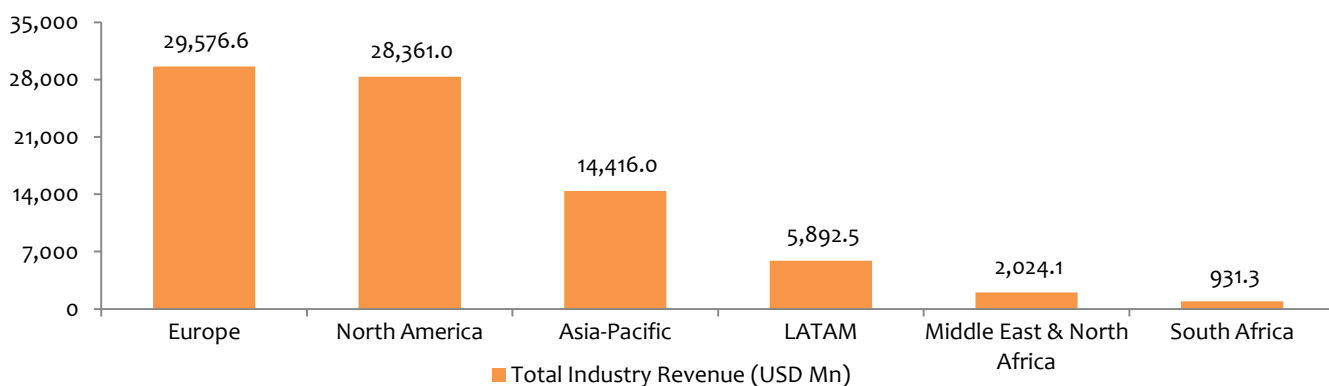
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As per the data in Exhibit 3, Total Industry revenue is estimated as around \$81,201 Mn with around 0.18 Mn clubs and around 151.5 Mn members enrolled in 2015. Out of which Europe remained the largest total industry revenue contributor at 36.4% and its revenue remained at USD 29,576.6 Mn followed by North America whose revenue comes from USA and Canada is around USD 28,361.0 Mn with contribution of 34.9% in total revenue. Developed nation contributes to 71.3% of total revenue while 28.7% is from emerging nations. We believe emerging nations is still at growing phase which leaves huge gap between developed and emerging in contribution to revenue.

Exhibit 3: Region wise industry revenue (USD Mn)



Source: IHRSA 2016 report, KRChoksey Research

Exhibit 4: Region wise industry revenue (%)

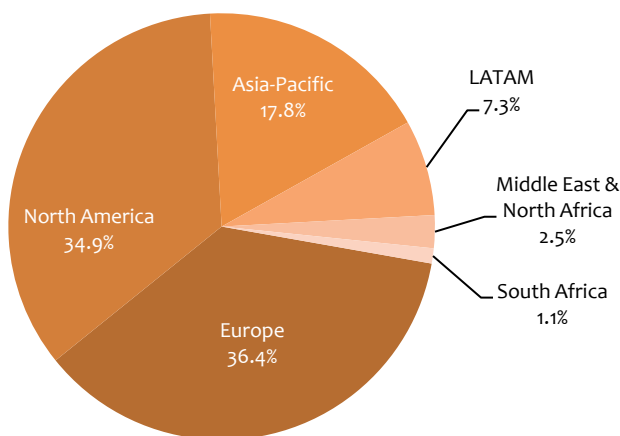


Exhibit 4: Emerging nations like Asia-pacific stands third and contributes around 17.8% with revenue of USD 14,416.0 Mn.

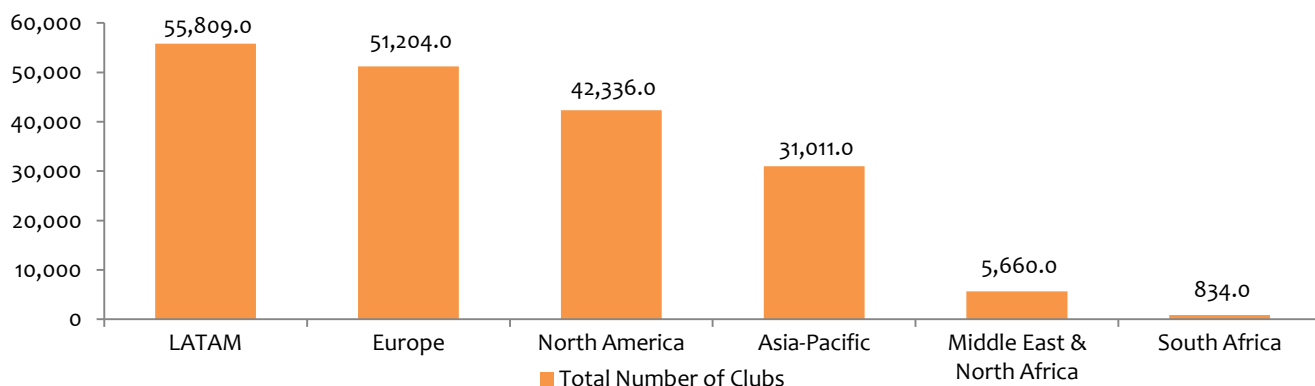
Latin America contributes around USD 58,92.5 Mn and contribute 7.3% of the total revenue.

Middle east & north Africa revenue is around USD 2,024.1 Mn with just 2.5% contribution.

Last but not least south Africa contributes around 1.1% of total revenue with USD 931.3 Mn

Source: IHRSA 2016 report, KRChoksey Research

Exhibit 5: Region wise Total Clubs (Mn)



Source: IHRSA 2016 report, KRChoksey Research

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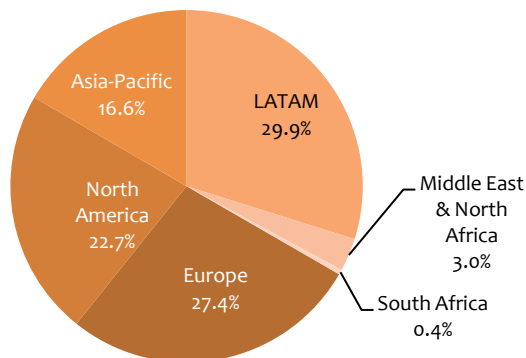
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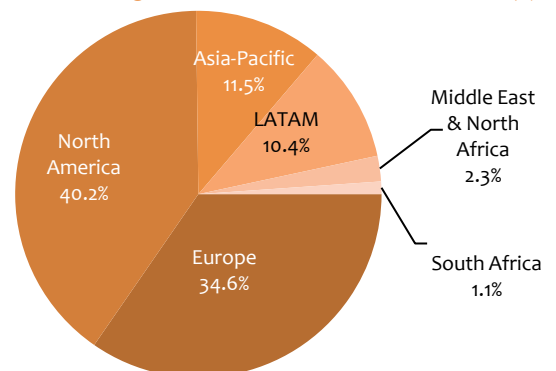
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Exhibit 6: Region wise contribution of Clubs (%)


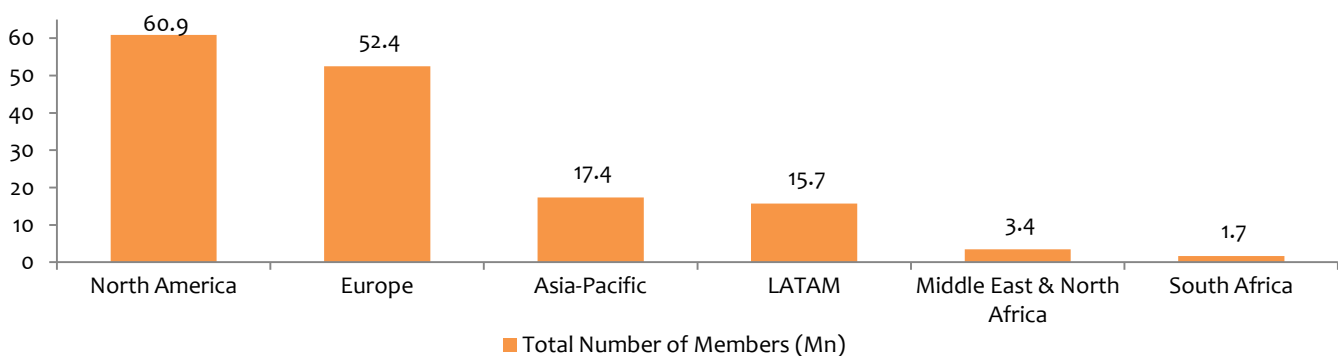
Source: IHRSA 2016 report, KRChoksey Research

As we can observe from the exhibit 5 & 6 that total number of clubs are highest in Latin America with around 29.9% share and around 55,809 clubs which is followed by Europe at 27.4% with 51,204 clubs and then North America with 42,336 clubs and share at 22.7% while Asia-Pacific has around 31,011 clubs with share of 16.6% and middle east, north and south Africa stands lowest with 5,660 clubs and 834 clubs respectively with share of 3.0% and 0.4%, respectively.

Exhibit 7: With respect to member enrollment in the region the highest number of enrollment is in North America as there are more obese people who need to be fit. Out of the total members in region enrollment from North America is the highest at 40.2% with 60.9Mn members, while Europe is second largest with 34.6% share with 52.4 Mn members. Asia-Pacific has around 17.4 Mn members with share of 11.5%, however Latin America with around 10.4% share with 15.7Mn members and middle east, north and south Africa stands lowest contribution with total of 5.1 Mn members and 3.4% share

Exhibit 7: Region wise Contribution of Members (%)


Source: IHRSA 2016 report, KRChoksey Research

Exhibit 8: Region wise total Members (Mn)


Source: IHRSA 2016 report, KRChoksey Research

From Exhibit 8, we are of the view that while Europe is contributing highest in terms revenue, it stands second largest by having 51,204 clubs contributing around 27.4% of the total clubs and 52.4 Mn members contributing around 34.6% of the total members as compared to other regions across the globe. LATAM tops the list for having highest number of clubs, the total number of clubs across the LATAM region is estimated to be around 55,809 contributing around 30% of the total clubs in the world, while LATAM's contributions is only 10.4% and 7.3% in total members and revenue respectively. On the other hand North America (USA and Canada) tops in total number of members with 60.6 Mn members and contributes around 40.2%. North Americas contribution towards total revenue is around 35% and towards total clubs is 22.7%, stands second largest and third largest respectively. We believe that developed countries contributes more in revenue as well as more number of members enrolled but developing regions the contribution is less and also number of members are lower due to less awareness for modern fitness like gym and other formats but on other side developing regions are fast adopting the western culture.

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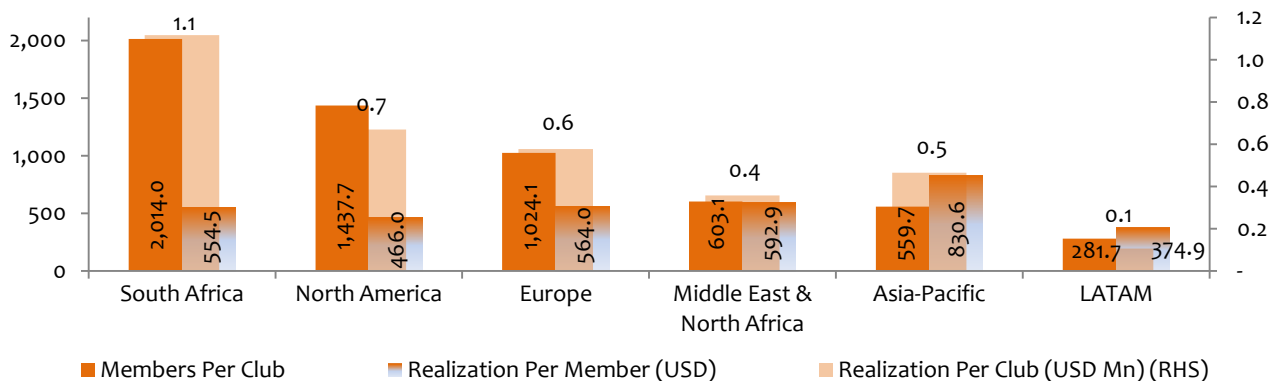
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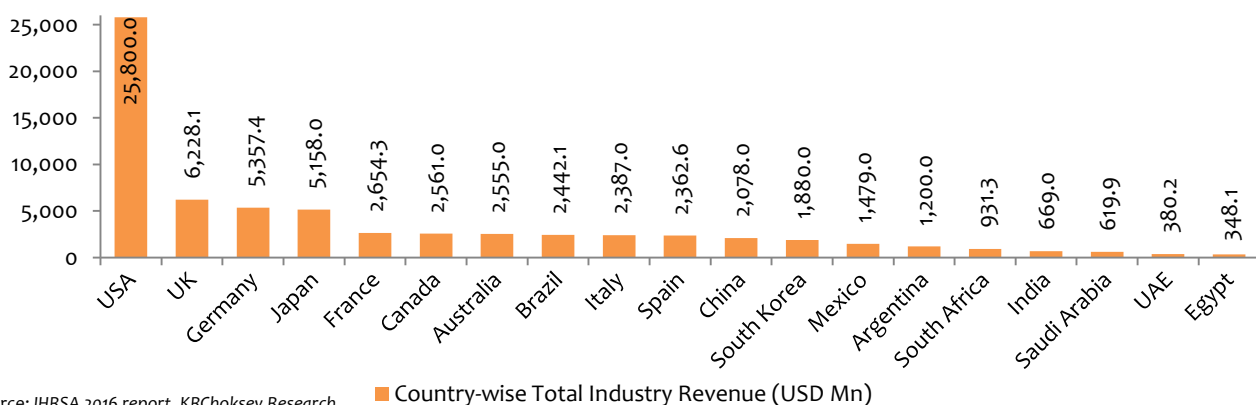
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Exhibit 9: Region wise Contribution (USD Mn)

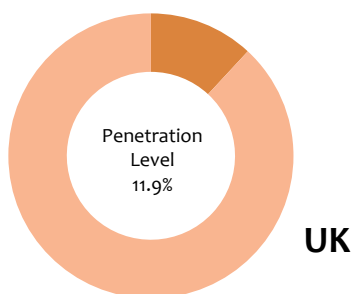


Source: IHRSA 2016 report, KRChoksey Research

Exhibit 10: Country Wise Revenue Contribution (USD Mn)



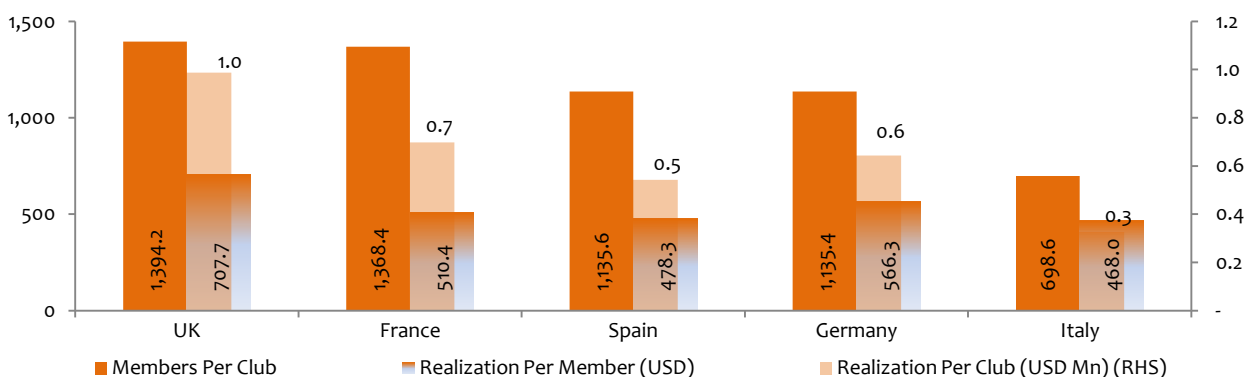
Source: IHRSA 2016 report, KRChoksey Research



Europe: The revenue of top five countries of Europe as shown in exhibit 11 namely UK, Germany, France, Italy and Spain is around USD 18,989 Mn contributing 64.2% of the total revenue of fitness industry in Europe. We expect that Europe has an average 1,024 number of members per club with an average realization per member and per club to be around USD 564 and USD 0.6 Mn respectively. UK's share in the revenue is USD 6,228.1 Mn contributing around 32.8% of the Europe's total revenue, UK's average number of members per club is expected to be around 1,394 with an average realization per member and per club to be around USD 707.7 and USD 1.0 Mn respectively. Penetration level of fitness industry in UK is expected to be around 11.9%.

Source: IHRSA 2016 report, KRChoksey Research

Exhibit 11: Europe's top 5 Countries Revenue Contribution (USD Mn)



Source: IHRSA 2016 report, KRChoksey Research

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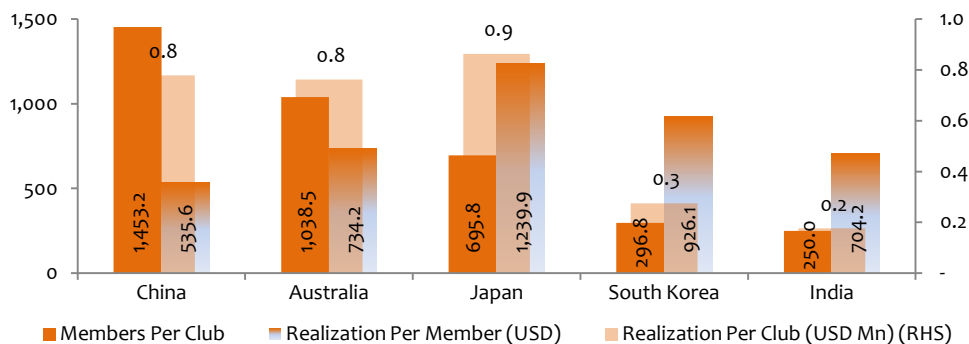
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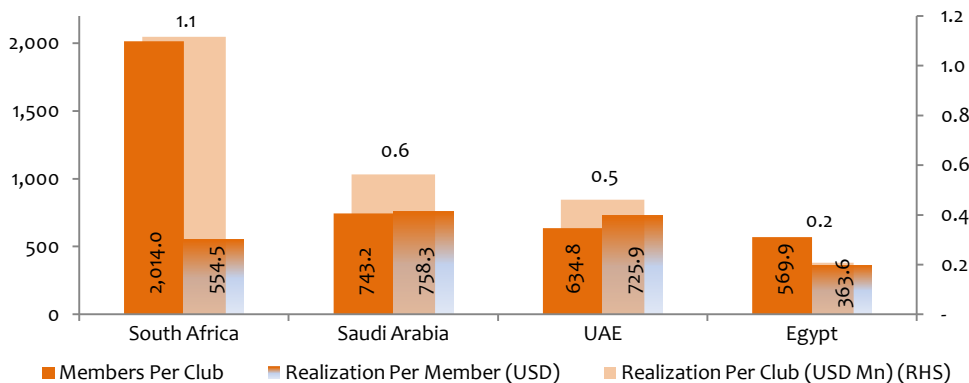
Exhibit 12: Asia Pacific's top 5 Countries Revenue Contribution (USD Mn)



Source: IHRSA 2016 report, KRChoksey Research

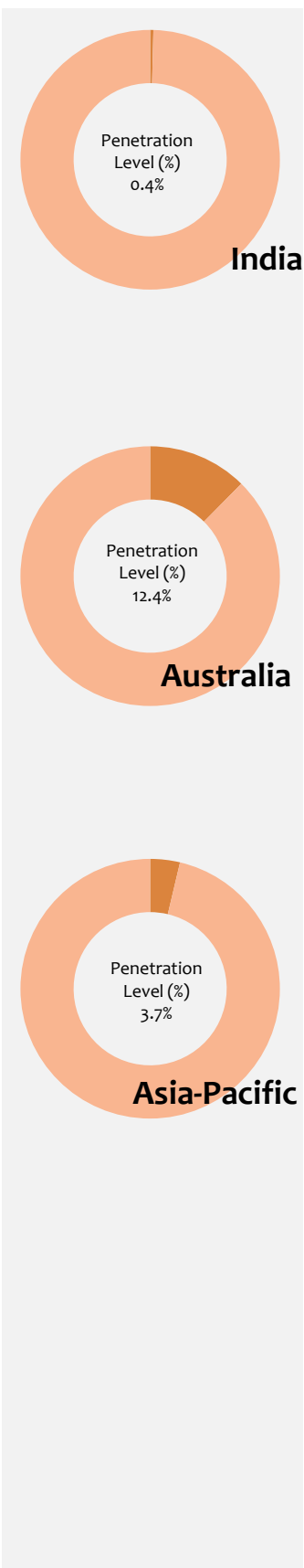
The revenue of top five countries of Asia-Pacific as shown in exhibit 12 namely China, Australia, Japan, South Korea and India is around USD 12,340 Mn contributing 85.6% of the total revenue of fitness industry in Asia-Pacific. We expect that Asia-Pacific has an average 559 number of members per club with an average realization per member and per club to be around USD 830 and USD 0.5 Mn respectively. Japan's share in the revenue is USD 5,158 Mn contributing around 41.8% and its average realization per member and per club is expected to be around USD 1,239.9 and USD 0.9 Mn respectively, highest of the Asia-Pacific's total revenue, while China has average 1,453 number of members per club, highest in the Asia-Pacific region. Penetration of fitness industry in Asia Pacific is minimal at 3.7%, however Australia's penetration of fitness industry remains at 12.4%. India's penetration of fitness industry is at lowest at 0.4% which means there is huge scope for India to grow in fitness and large potential to untap the market.

Exhibit 13: South Africa and Middle East Countries Revenue Contribution (USD Mn)



Source: IHRSA 2016 report, KRChoksey Research

The revenue of top four countries of Africa & Middle East as shown in exhibit 13 is expected to be around USD 2,279.5 Mn contributing 77.1% of the total revenue of fitness industry in Africa & Middle East. We expect that it has an average 1,308 number of members per club with an average realization per member and per club to be around USD 573.7 and USD 0.7 Mn respectively. South Africa's share in the revenue is USD 931.3 Mn contributing around 31.5% of the total revenue in the region, South Africa's average number of members per club is expected to be around 2,014 with an average realization per member and per club to be around USD 554.5 and USD 1.1 Mn respectively.



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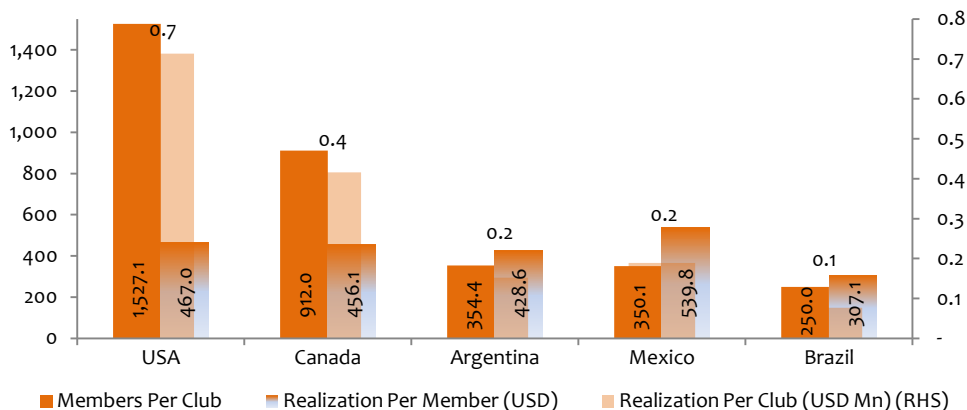
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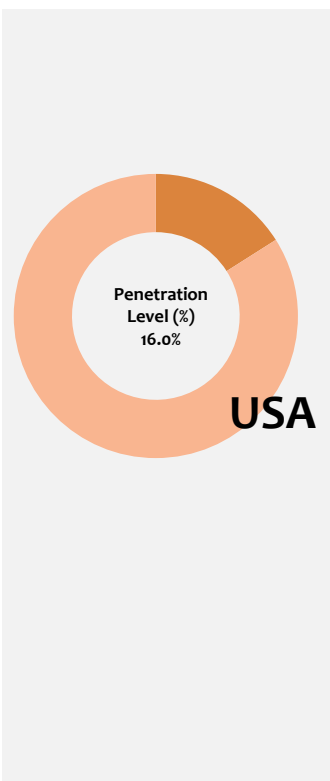
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Exhibit 14: North America and Latin America's Countries Revenue Contribution (USD Mn)


Source: IHRSA 2016 report, KRChoksey Research

The revenue of top five countries of North America & LATAM as shown in exhibit 14 is expected to be around USD 33,482.1 Mn contributing 97.7% of the total revenue of fitness industry in North America & LATAM. We expect that it has an average 860 number of members per club with an average realization per member and per club to be around USD 420.4 and USD 0.4 Mn respectively. USA's share in the revenue is USD 25,800 Mn contributing around 91% of the total revenue in the region, USA's average number of members per club is expected to be around 1,527 with an average realization per member and per club to be around USD 467 and USD 0.7 Mn respectively. Penetration of fitness industry in USA remains the highest at around 16.0%


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Indian Fitness Industry:

While the fitness story of India is bit different from rest of the world. When rest of the world was still under the darkness of uncivilized culture, India had already mastered the art of living healthy and fit life through different forms of fitness. It has move ahead from local adhadas, Yoga, Ayurveda, to Mull-Kushti (modern day wrestling) to taking part in many sports activity and international Olympics. Nonetheless India has always kept the doors open for new ideas which are beneficial to the mankind; despite of having traditional fitness forms, India adopted the modern fitness forms as well like Aerobics, advance Yoga or power Yoga, Group exercise or dance forms like Zumba, Salsa, etc, boxing, martial arts, wrestling, etc. Unlike modern fitness forms, the uniqueness of Indian traditional forms of fitness is that it provides mental as well as physical strength, it teaches the art of balancing emotions, physical and mental stability. Today, more and more younger generations in India are opting Athletics and sports as their career, also new sport formats like IPL, Pro-Kabadi etc are encouraging this young generations.

Currently in India, the total retail market for fitness category is expected to be valued at INR 4,500 Crs and growing at 16-18%. It is estimated that the market size would cross INR 7,000 crs by FY18 to FY20. Organized Fitness industry share as shown in exhibit 15 is around 25-28% of the total industry and it is expected to grow by 25-27% for next 3-5 years. While the remaining 72-73% share is from unorganized segment. The fitness industry in India is largely unorganized sector and also its is highly fragmented and unstructured sector. The fitness industry in India is at a turning point and scaling up to new heights. Big and established fitness chains and gyms are diversifying their products and services portfolio to tap the market in each and every possible way to reach out the potential customers. Many companies have acquired public equity to fuel their growth plans, while many companies are using franchising business model to scale up their operations and grab the larger market share. Today both Men and women are giving attention to their health. Undoubtedly, we believe that fitness industry has a great potential to grow at a CAGR of 20-30% in a country like India.

Exhibit 15: Distribution of Fitness market

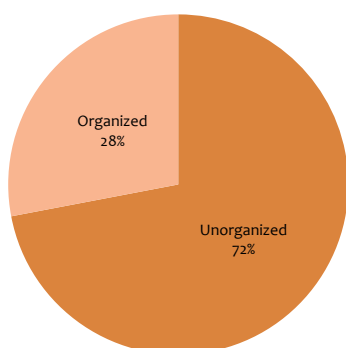
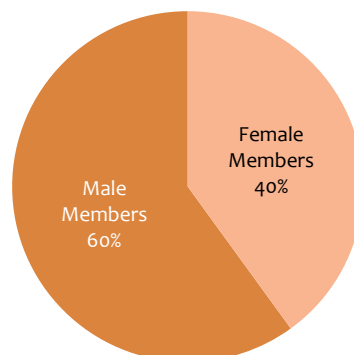


Exhibit 16: Gender-wise Distribution of fitness industry



Source: IHRSa 2016 report, KRChoksey Research

The main drivers for the growth of fitness industry are rising disposable income, unhealthy lifestyle, also people have started thinking towards living healthy life and trying to avoid medical interventions which has pushed people to prevention as a viable option rather than cure. Also the fitness oriented customers are mostly in the age group of 20-50 years who is mainly focused on looking good and having a fit and toned body. Apart from that the increasing incidences of obesity and diabetes in India is also driving the growth of fitness industry. Earlier spending on fitness was seen as luxury, but now it is a way of life, not just in urban areas but also in tier 1 and tier 2 cities, towns and villages, etc everyone wants to be fit. Also global corporations, community centers like residential societies and apartments nowadays have already started installing in-house gym and fitness centers within their premises. The trend seen before was usually the male population who were more inclined towards physical fitness but today more than 40-45% of the members are females (exhibit 16), mainly due to rising cases of obesity, diabetes, osteoporosis and lowering of bone density, health awareness have facilitated women to take up health, diet and fitness in a major way.

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Gym and fitness industry is flourishing today with lots of national and international players having emerged into the segment. The credit for this boom in the industry to some extent goes to bollywood actors and divas that flaunt their well groomed bodies and muscles on screen and inspire youngsters to allow them as a result young generation of age 20-40 years as well as people from age groups above 40 years have become more conscious regarding their health and physique. It is believed that fitness doesn't mean to have a good looking body but it is also to regain strength, stamina, flexibility, liveliness, speed, power, patience, coordination between mind & body, etc.



Current Trends/ scenario in 2016-2017

Fitness industry has observed to change from past 3-4 years, due to increasing demand for fitness and also awareness among consumers. Also we believe that people are waking up towards fitness. Currently fitness means just not only gym or exercise on equipments but the trend is been change, people are moving more towards add on service or value added services. One believe that to remove stress service like aerobics, Group exercise, Zumba, swimming, yoga classes, athletic training, Dance cardio, etc is essential.



Also we have noticed these days that there have been trend to use fitness tracker in form of wearable equipment like watch, counters, sleep monitors, wristband, etc. these wearable helps to monitor heartbeats, oxygen, calories burnt, and other fitness checks necessary. There are kind of sports wearable for fitness which help a person to wear it like a t-shirt for betterment of exercise and workout. In one of the International reports it was stated that in the next three-four decades there is probably a chance that people will be using gym bots/ drones as workout assistants.

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SWOT Analysis:

Strength

- Location
- Customer Base

Weakness

- Lack of Awareness
- Low Standardization
- Seasonality

Opportunities

- Growing Working Population
- Growing Consciousness for fitness
- Shift from unorganized to organized segment
- Facilities provided in Gym

Threats

- Talent Crunch
- Low entry Barriers for Small Players
- High Cost of equipments

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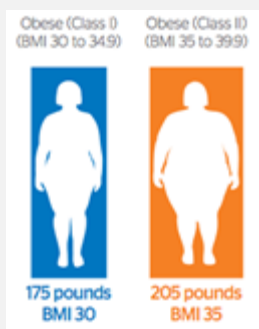
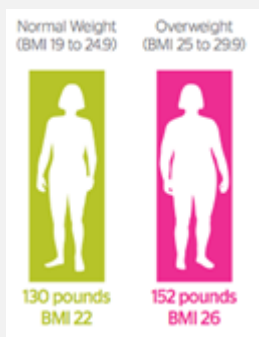
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The only Solution to transform the Unhealthy Lifestyle is to be FIT:

There are many other factors that contributes to an unhealthy life, thanks to today's fast paced, hectic modern lifestyle which seldom allows a person to workout actively or follow a well-crafted fitness routine. Apart from that our daily routine includes growing pollution, exposure to toxins and chemicals through food, water and air, junk / processed foods, smoking and drinking habits, lack of sleep, stress / work pressure, lack of exercise etc.

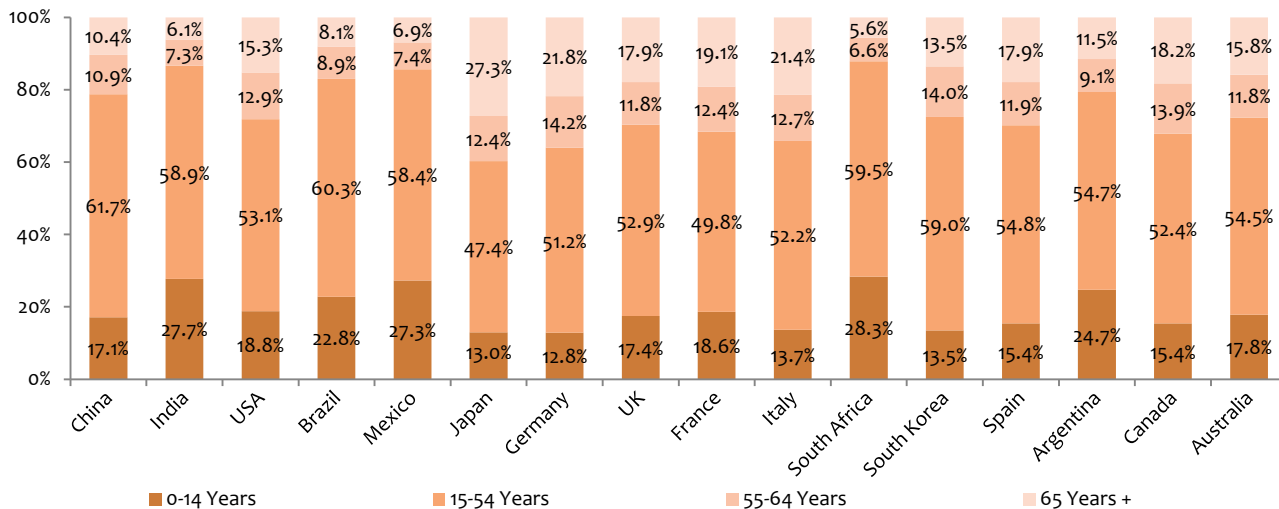
Now-a-days people are more exposed to toxins and chemicals not only through pollutions but also through water and food we take. As the disposable income of Indians is increasing the consumption pattern is also changing day-by-day. The proportion of expenditure on lifestyle / luxury products is increasing at a fast pace. Today young generation has cars and bikes for themselves, due to which there has been a significant growth in number of vehicles on road as compared to decade ago. A report suggest that, there has been almost 100% increase in number of vehicles which have resulted in rising pollution in metros, tier 1 and tier 2 cities which is leading to an unhealthy life. It has been witnessed in last few years in India that increasing pollution is becoming a major concern of the jurisdiction and the government; amid which various laws, rules and regulations are made to combat pollution. Also the consumption of junk / processed food like pizza, Pasta, breads, cheesy stuff have become trend from very early years of their childhood this significant change among children and young teens is leading to health problems and obesity among the crowd. Change in playing games like Play stations, new gadgets and Smart Phones has reduced the physical activity of children. Peer pressure and stress is commonly witnessed among all the age groups from Children and students (to score and perform well in exams as compared to their fellow students) to working professionals (peer pressure at work place because of highly competitive environment) Usually stress leads to smoking and drinking (alcohol) habits, perhaps this could be one of the reason but smoking and drinking has become a trend among teenagers and adults, even women have started smoking and drinking on regular basis. Excess smoking and drinking may cause lack of sleep and anxiety which leads to unhealthy life. This unhealthy lifestyle is the root cause for various physical / mental disorder and diseases.



Obesity is one of the common health issues for millions of people across the globe. In 2015, obesity affected 2.2 Bn children and adults worldwide, this includes nearly 108 Mn children and more than 600 Mn adults with body mass index (BMI) exceeding 30 (the threshold for obesity). According to the study, China and India were among the top two countries in obesity among children. China and India registered around 15.3 Mn and 14.4 Mn children with obesity, respectively. Among adults the U.S. topped the list with 79.4 Mn and China had 57.3 Mn people with obesity (Source: The New England Journal of Medicine). The prevalence of obesity has doubled since 1980 in more than 70 countries and had increased in most other nations. Although the prevalence in obesity among children has been lower than among adults, the rate of increase in childhood obesity in many countries is greater than that of adults. Medical professionals fears that the new generation is at risk of dying at a younger age than their parents due to obesity, despite a host of medical breakthrough in recent decades.

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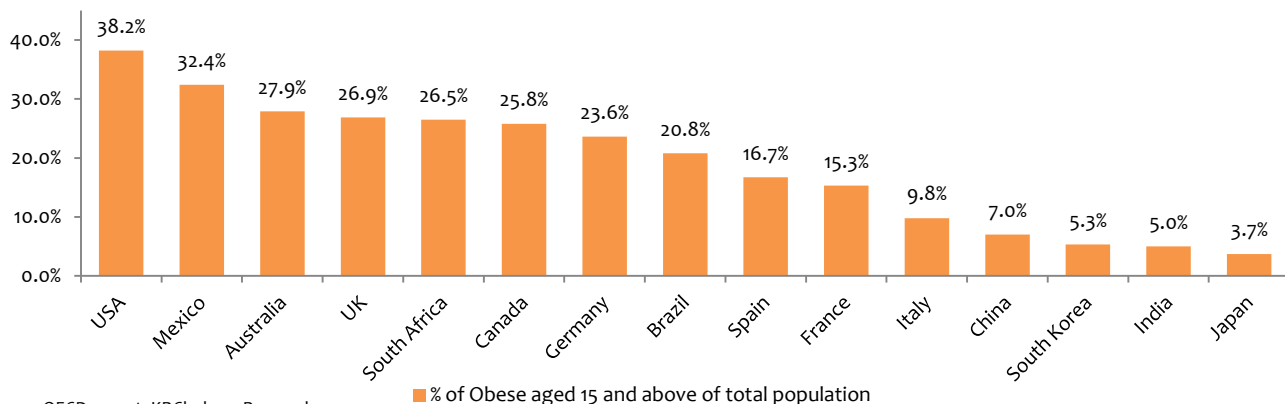
Exhibit 17: Population in different countries & age groups: (%)



Source: Worldometer, cia.gov, KRChoksey Research

With respect to **exhibit 17**: We believe that among total world population top Five countries are China which is rank highest and is followed by India, USA, Brazil and Mexico. Out of the total population of the country we have noticed that on an average around 55.1% population falls under the age of between 15-54 years. Also from the **Exhibit 18**: We see the percentage of obese adults in the age group between 15-54 years. We observe that top five countries have more obesity in age between 15-54 years are USA, Mexico, Australia, UK and South Africa. So we believe that with China being largest in population its obese adults in age group 15-54 years is just 7.0%. Also India with second largest population its obese crowd suffering from obesity is just 5% in this age group, while looking at USA its third largest in population and first largest with 38.2% of age group 15-54 years. With more obese crowd in the country, it is believed that the country has high risk of 20-30 other diseases like Heart disease and stroke, High blood pressure, Diabetes, cancers, Gallbladder disease and gallstones, Osteoarthritis, Gout, breathing problems, etc can take place. Obesity can be root cause of all this diseases. Rise of obesity is due to eating habits like junk foods, ready to eat packets, processed food, etc. No or Zero physical activity creates stress, unusual sleep, health condition, smoking and drinking, etc. So from these we can assume that in top 5 countries people are prone to this kind of routine life which leads to obesity.

Exhibit 18: Obesity among Adults, age between 15-54 years (%)



Source: OECD report, KRChoksey Research

In 2015, across the Organization for Economic Co-operation and Development (OECD) member countries, average 19.5% of the adult population was obese. The rate of obese population ranges from less than 6% in India, Japan and Korea to more than 30% in Hungary, New Zealand, Mexico and the United States of the total population of the respective countries. Despite policies put in place in OECD member countries to control and reduce obesity, the rate of success is very little. According to OECD report, obesity rates in 2030 are expected to increase further to 47%, 39% and 35% of the population of the United States, Mexico and England, respectively. Whereas in India it is expected that by 2025 it will have over 17 Mn overweight or obese children, with a growth of around 21.4%, standing second among 184 countries where the number of obese children are concerned.

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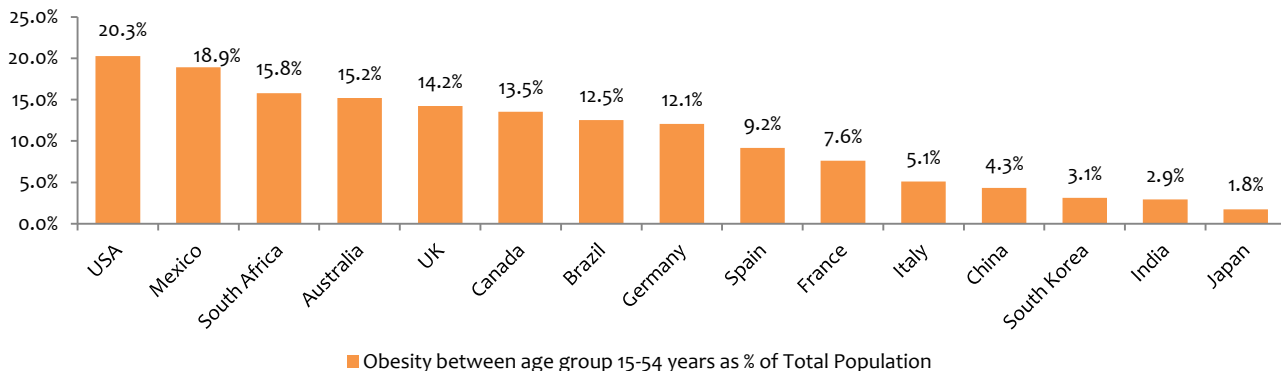
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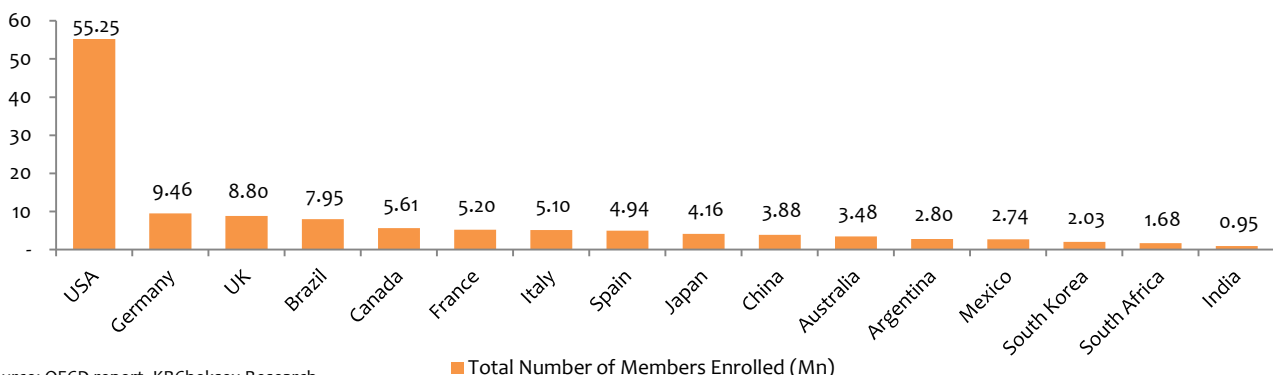
Exhibits 19: Obesity among age group 15-54 years of total population (%)



Source: OECD report, KRChoksey Research

If we compare the obese crowd between the age group of 15-54 years to the total population, the U.S. ranks on top of the list with around 20.3%, followed by Mexico, South Africa, Australia and UK having 18.9%, 15.8%, 15.4% and 14.2% respectively. While on the other hand Japan, India, South Korea and China has less than 5% obese crowd between 15-54 years of its total population.

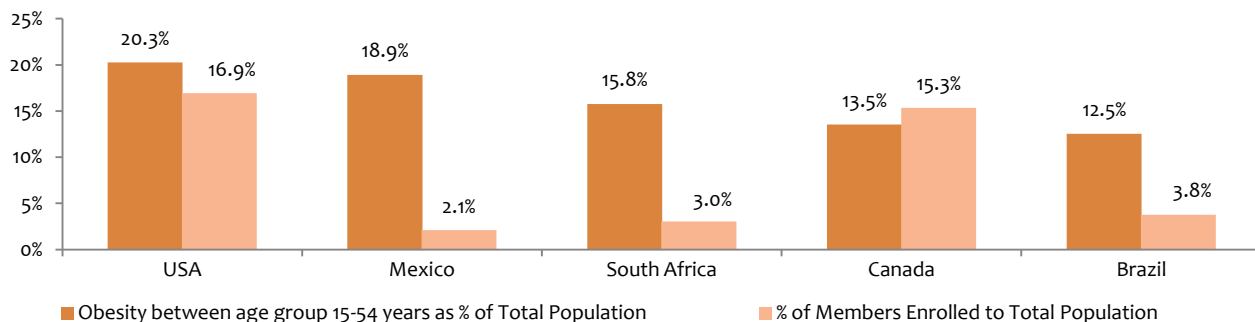
Exhibit 20: Country-wise Members enrolled in Fitness Industry



Source: OECD report, KRChoksey Research

As we have seen earlier that the U.S. contributes major revenue share of the total fitness industry across the globe and also the highest number of obese people, as shown in exhibit 20 it has around 55.25 Mn members enrolled in the fitness industry which is highest as compared to the other countries across the globe, with a penetration level of 16%, followed by Germany and UK with 9.46 Mn and 8.8 Mn enrolled members respectively. While India has the around 0.95 Mn enrolled members, with a penetration level of 0.4% which is lowest in the world.

Exhibit 21: Obese crowd V/s Members enrolled in Fitness Industry



Source: OECD report, KRChoksey Research

From the following exhibits 21 we can conclude that, the U.S. has only 16.9% of the total population who have enrolled as a member in the fitness industry as compared to 0.3% of the obese between age group of 15-54 years of the total population; which clearly indicates that still there is growth opportunity of around 3.3% new enrollment of members given the with current obese population.

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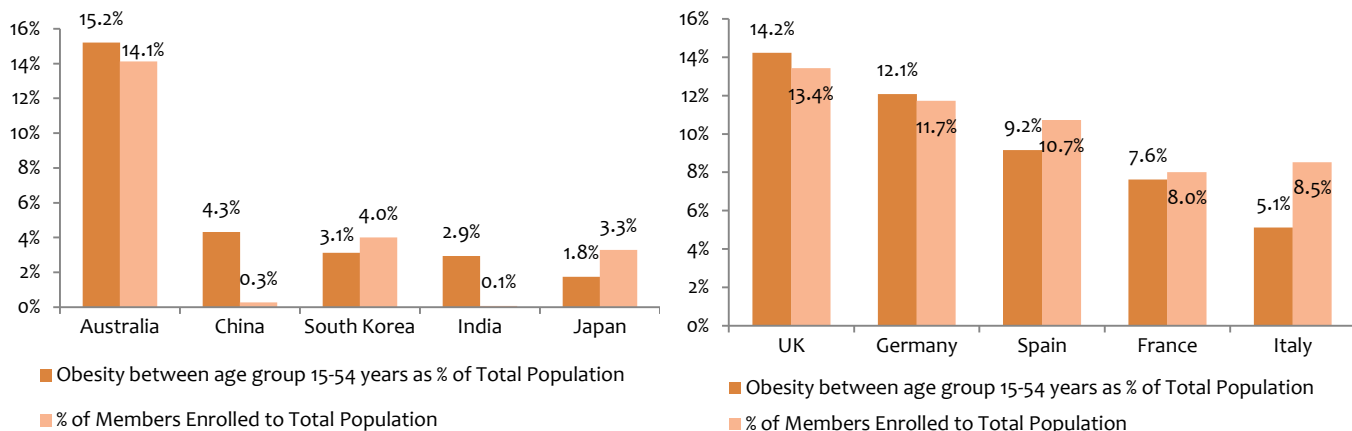
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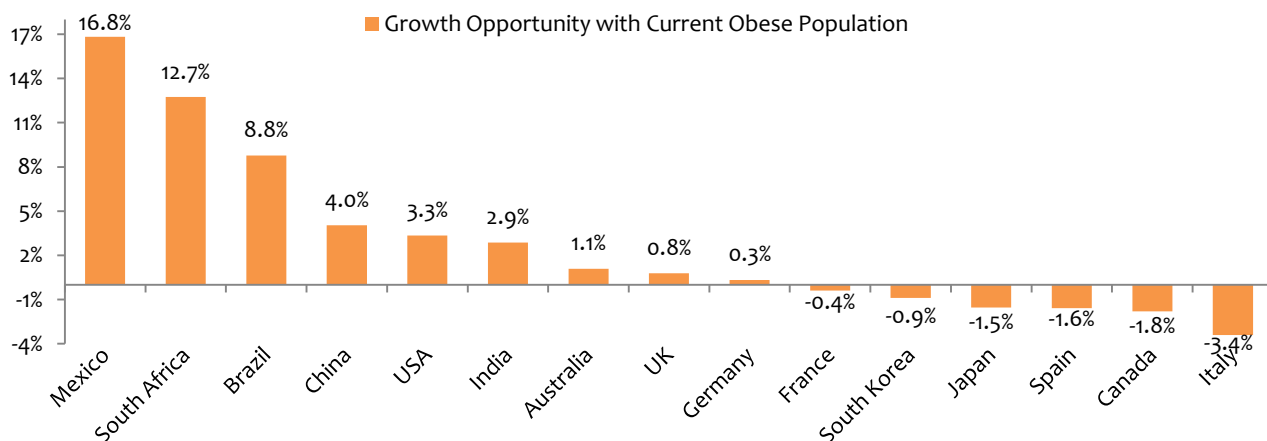
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Exhibit 22: Obese crowd V/s Members enrolled in Fitness Industry



Source: OECD report, KRChoksey Research

Exhibit 23: Growth Opportunity with current Obese Population



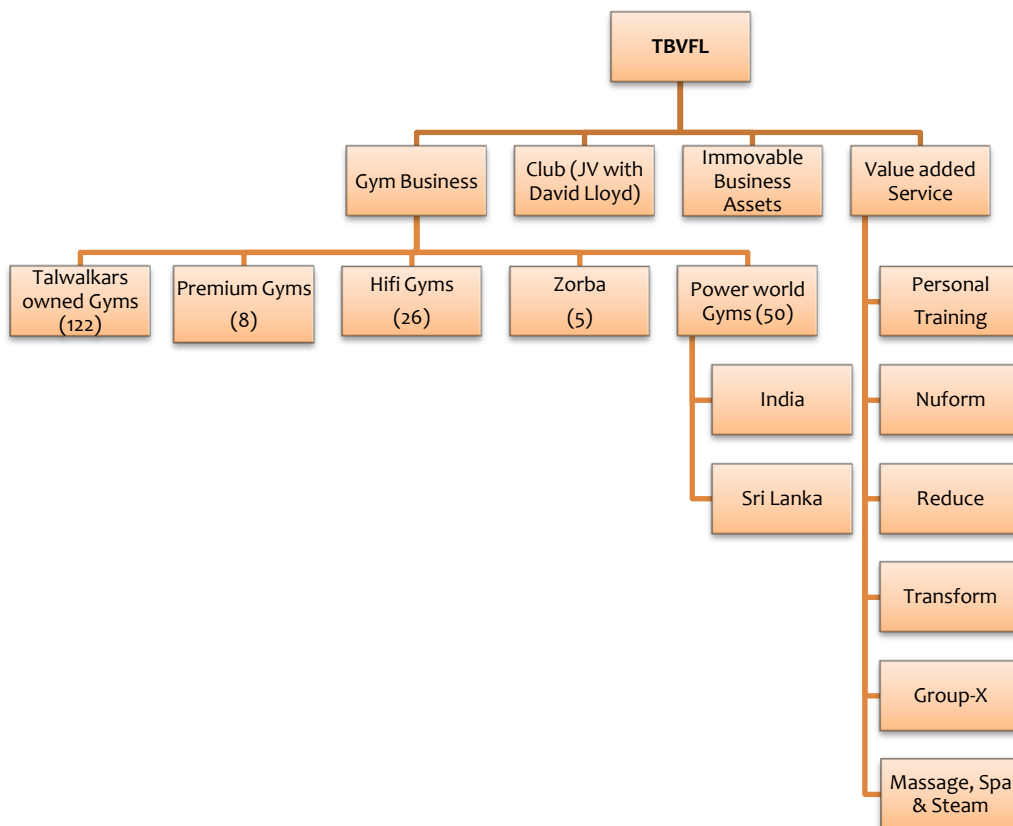
Source: OECD report, KRChoksey Research

If we look at other countries from exhibit 23, Mexico has the highest growth opportunity of 16.8% new enrollment of members followed by South Africa and Brazil of 12.7% and 8.8% respectively. As far as India is concerned, it has lowest member enrollment in the fitness industry of around 0.95 Mn which is as little as 0.1% of its total population. Given the fact that even though India has only 2.9% obese between 15-54 years of its total population, India still has potential and growth opportunity of around 2.9% new enrollment of members given the current obese population.

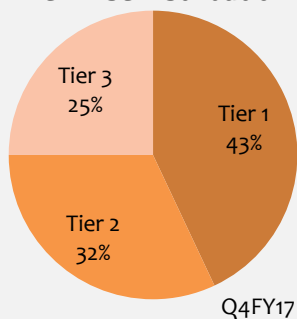
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De-Merger will lead to growth:

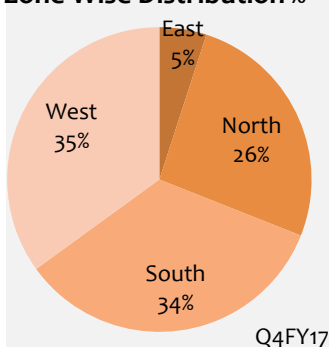
Exhibit 24: Existing structure of the TBVFL



Tier Wise Distribution %



Zone Wise Distribution %



Talwalkars started the journey with 1 gym in early 30's, with decades of experience TBVF came up with an IPO in 2010 with total 63 centers. Currently TBVFL manages around 211 Gyms in different formats like Talwalkars owned gyms, includes premium gyms, Talwalkars Subsidiary, and Talwalkars franchise, Zorba Studios, Power world India & Sri-lanka, Hi-Fi gym.

Talwalkars Owned Gym:

The business model of TBVF consist of TBVFs owned gym, Franchises and Subsidiaries. TBVF has 122 gyms, which are owned by themselves, the typical area of TBVF gym is around 5,000 – 6,000 Sq. ft. with average capacity of 1,100 to 1,350 members per gym. The capex required for setting up one gym is around INR 35 to 40 Mn, out of which 65 – 70% of cost is incurred for gym equipments and rest is incurred for other value added services and deposits for property. The average realization for basic membership fees is around INR 18,000 – 20,000 per member p.a., the basic gym membership fees contributes around 75 – 80% of the TBVFs total revenue, while personal training and value added service s contributes around 20 – 25% of the total revenue.

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Premium Gym's:

TBVF also owns 8 premium gyms which are large format categories with typical area size of 6,000 – 12,000 Sq. ft. this premium gym has an average capacity of 1,800 to 2,000 members per gym. The capex required for setting up premium gyms is around INR 500 – 600 Mn. The basic membership fees for premium gym is around INR 22,000 to 25,000 per member p.a. premium gyms have all facilities like personal training and other value added services which contributes around 24 – 30% of the total revenue from premium gyms.

HiFi Gym's:

Other centers includes HiFi (Healthy India Fit India) which are compact and affordable, targeting the audience of tier II, III and IV cities. These centers are in franchise format created to increase the reach and capture untapped market share. Talwalkars has 26 franchise of HiFi centers with typical area of 2,500 to 2,800 Sq. ft., it has an average capacity of 650 – 700 members and the capex required to set up HiFi gyms is around INR 10 to 15 Mn. The basic membership fees is around INR 12,000 to 15,000 per member p.a., other services includes only personal training which contributes around 10 – 12% of the total revenue from HiFi centers.

Power world Gym's: (PWG)

In 2015, Talwalkars entered into strategic partnership with Power World Gym (PWG) to penetrate in Sri Lanka, making its first global presence. TBVF acquired 49.5% of the total share capital of PWG which is biggest and leading health and fitness chain in Colombo, Sri Lanka. The total number of PWG gyms in Sri Lanka is 20, with around 3750-4000 sqft o area and member capacity of 800-1000 members per gym. TBVF has also opened 30 PWG gyms in India which are 100% owned by TBVF. Out of which 10 are opened in Delhi while 20 are open in Bangalore. The target audience for PWG is with lower income groups in Sri Lanka while in India it placed between Talwalkars formats which caters to upper middle class and HiFi gym formats which caters to tier II, III and IV cities. The area of PWG in India is around 4,000 to 5,000 Sq. ft. with an average capacity of 800 to 1,000 members per gym. The capital required to set up PWG gym is around INR 20 to 22 Mn.

Value added Services:

Other Value Added Services (VAS) includes Personal Training (PT), Nuform, Reduce, Transform, Group X and Zorba – Yoga studio chains.

Personal Training:

Each fitness centers have around 12 to 14 personal trainer, the average fees of PT is around INR 28,000 to 45,000. PT generates around INR 20 to 30 Mn revenue which contributes around 10 – 11% of the total revenue.

Nuform:

Nuform is a proven German technology introduced in India for the first time in the year 2013 by Talwalkars aiming at reducing fat and toning the body. This technology contains electrical muscle stimulation (EMS) training exercise that uses impulse current to increase fitness in just 20 minutes per week. People who cannot commit to daily workouts and want to reduce their weight fast can opt for this value-added service. It is offered within fitness centers and has convenience of servicing at the customers doorstep. 45% of the Nuform members are non-gym members. Nuform is present in 43 centers which requires area of around 150 – 200 sq. ft. The capex required to set up Nuform services is INR 4 – 5 Mn and has a potential to generate revenue of INR 3 – 4 Mn p.a. with an average ticket size of INR 36,000 to 42,000 per member p.a.



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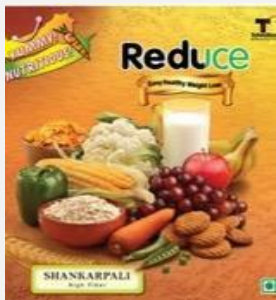
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Reduce:

Reduce is a value-added service offered for weight loss solutions by providing them with low calories hydrogenated ready-to-eat food packets. This program offers 3 meals daily which are high in fiber & low in fat yet nutritious (1 Snack, 1 Meal & 1 drink per day) to reduce the weight. More than 65 options of food packets are available that includes Upma, Dhokla, etc. around 70% of Reduce members are non-gym members. Convenience of doorstep services and online access option. Reduce is present in more than 100 centers The capex required for Reduce is INR 2 Mn and has a potential to contribute around 7 – 10% of the total revenue with an average ticket size of INR 20,000 to 28,000 per member per quarter.



Transform:

Transform is a brilliant value-added service that works on one’s weight loss programme and toning exercises simultaneously to give the desired results. Transform is a basically a combination of Reduce and Nuform value added services. It is an effective platform for speedy transformation of the body combining the benefits of weight training and calorie burning. Members who want to quickly reduce weight without much daily dedicated workout, this is deemed to be their ideal solution. Convenience of doorstep services are available. It is strategically marketed at a cost that can be used by higher number of customers.



Group-X:

Group-X activities include group exercises like Zumba, Yoga, Kette Bell, TRX, Aerobics, etc. Realizing the need to combine health with a fun-filled, exciting and energetic fitness regimen, the company invested in creation of free floor space. Group X activities were introduced to increase the age profile of its members and optimize utilization of free space. All the new upcoming gyms and the recently redesigned gyms have free floor space for Group-X activities. Group-X activity is present in more than 60 centers which requires area of around 300 – 400 sq. ft. The capex required to set up Group-X services is INR 1.5 – 2 Mn and has a potential to generate revenue of INR 1 – 1.2 Mn p.a. with an average ticket size of INR 1,500 to 2,000 per member p.m.



Zorba Studios:

Talwalkars entered into a strategic partnership with Zorba “A Renaissance Studio” in Q4FY16 by acquiring 51% stake, which has yoga based studios chain. Zorba provides a choice of comprehensive suite of six courses and eight alternative therapies – including hot yoga, pre and postnatal yoga, aerial yoga, aqua yoga and divinatory therapies employing holistic approach to get to the cause of ailments. It also offers specialized courses in healing ailments for certain diseases like asthma, diabetes, tantric meditation, weight loss, stress management and personality development. Zorba is available in 31 centers as on FY17.

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Clubs:

The company announced its JV with David Lloyd Leisure (DLL) in the financial year 2016. David Lloyd Leisure Limited is Europe's leading premium sports, health and leisure club. Envisaged development of 7-10 clubs across India starting with Pune, Maharashtra. It has already acquired a land parcel for their first club. This club will be able to accommodate 4,500 families. As soon as regulatory and statutory permissions are received by David Lloyd Leisure, they will become an equal partner. The Company is awaiting the final clearances from Municipal and other authorities in Pune for the revised plans submitted to them. Separately the Company is making efforts to open a field/marketing office in Pune at the earliest which will showcase and sell the club membership.



Gym model/ Space used by Talwalkars Gym were as follows

Gents Shower & Locker Area 500 sq.ft	Shower Area Shower Area WC/ Toilet	Ladies Shower & Locker Area 500 sq.ft	Shower Area Shower Area Toilet	Directors Cabin 150 sq.ft	Conference Room 150 sq.ft	Reception Area 200 sq.ft
Gym Hall 1,300 sqft	Cardio Section 5-6 Treadmills 2 Ellipticals 2 Cycles	Strength Section Strength - Indian and Imported Free Weight - Indian Equipments			Measurement Room 150 Sq.ft	Nutrition Section 150 sq.ft


BEFORE – GYM Size 3000-3500 Sqft
AFTER - GYM Size 5000-6000 Sqft


Gents Shower & Locker Area 800 sq.ft	Shower Shower Shower Toilet WC	Ladies Shower & Locker Area 800 sq.ft	Shower Shower Shower Toilet Toilet	Directors Cabin / Conference Room 100 Sqft	NuForm Section 100-150 sq.ft	Reception Area and Sitting Area 200sq.ft
Steam	Massage	Steam	Massage	Staff Area 100-150 Sqft	Int. Audit Section 100 Sqft	
Gym Hall 2200 sqft	Cardio Section 8 Treadmills 3 Ellipticals 3 Cycles	Strength Section Fully Imported		Accounts Dept 100 sq.ft	Reduce 100 Sqft	
				ZORBA 200 sqft	Nutrition 100 sq.ft	Measurement Rm 100 sq.ft
					Group X 300 Sq.ft	

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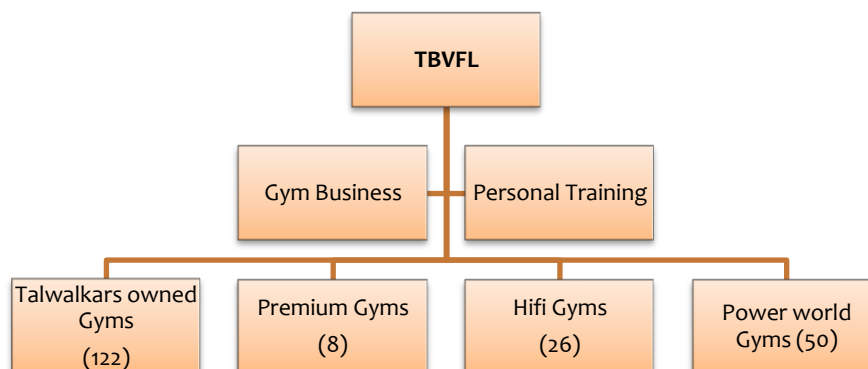
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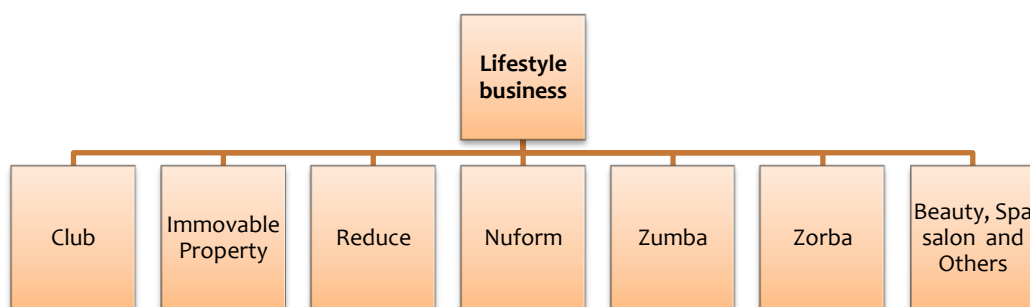
In order to focus on expansion and business operations management of TBVFL, Management have decided to re-model and De-merge the company into two separate companies one in which there will be all Gym business formats and personal training and other in which there will be lifestyle company which will include its immovable assets, Club house, Value added service like Reduce, Nuform, Transform, Group X, Zumba, Zorba, etc. The de-merger is in process and it has received shareholders approval and approval from NCLT (National company law tribunal) is yet to received. The share holders will receive equal number of shares of lifestyle company in the ratio 1:1.

De-merger and formation of two companies:



Gym Business:

TBVFL will continue to hold the Gym business and personal training which is operated by the Company or through its subsidiaries and franchisees. It has plan to expand its business organically and inorganically (acquisitions, Jv's & tie-up). Its plan is to open around 20-25 Gym's every year for next 3-4 years. With this move it wants to gain in and maintain leadership position in India and Sri-lanka. It's vision is to target and be a strong player among Asia.



Lifestyle Company:

With Lifestyle company management aims to enter wellness industry which will bring in the growth from the club business, the first club which it has already set up will be start in by FY18. Also with passage of time, recognition of its value added service will turn out to be positive. Currently Reduce is present in around 105 centers, Nuform is present in 43 centers, Zumba and Zorba are available in 48 and 31 centers respectively. Company aims to brand Nuform for working population and corporate who have no time for exercise and busy in their schedule. It aims to gain in top line of around INR 600 Mn in next 4-5 years. For Reduce it wants to increase top-line to INR 1000 Mn with increase distribution reach through online and offline mode and also introducing new and better products for diet. Group activities like Zumba, Zorba, etc will aim at earning revenue of around INR 450-500 Mn in next 4-5 years as today people like to exercise, yoga or perform activities in large group, also corporate events have been increasing which will be crucial for companies growth. So going ahead we believe as there will be more awareness about these value added services among consumers.

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De-Merger will be win-win for the company:

With de-merger companies financial position is likely to improve, we have assume that the gym company is around 80% of the total revenue while remaining 20% is lifestyle company. Further with respect to operating cost gym company has to bear the maximum cost of around 85% which will involve cost of rent, advertisements, electricity charges, employee cost, other expense as it is operated from morning till night on continuous basis, while in lifestyle business the activities will involve like Nuform, Reduce, Transform, Zumba, Group activity, etc and area is used at particular time and so its operating expense are minimum at around 15% of the total expense. With these EBIDTA margins of Gym company is between 54.5% to 56% from FY17 to FY20E and PAT margins would keep on improving from 18.8% in Fy16 to 22.6% in FY20E. While lifestyle company will bag margins between of 68% to 70% from FY17 to FY20E and PAT margins will be increasing from 29.8% in FY16 to 35.2% in FY20E. So we believe that margins are lucrative and improving for next 3 years.

Note: We have not taken into consider revenue or cost for the first upcoming club in Pune by Talwalkars lifestyle company.

After De-merger

Exhibit 25: Profit and Loss (INR Mn)

	FY16	FY17	FY18E	FY19E	FY20E
Gym Co.					
Revenue	2043.0	2288.0	2626.6	3033.4	3503.2
Operating Cost	974.0	976.6	1123.3	1284.1	1474.8
EBITDA	1069.0	1291.8	1490.9	1745.0	2035.8
EBITDA Margin	52.3%	56.5%	56.8%	57.5%	58.1%
PAT	384.0	472.5	573.5	688.9	843.3
PAT Margin	18.8%	20.7%	21.8%	22.7%	24.1%
Lifestyle Co.					
Revenue	506.0	572.0	656.6	758.4	875.8
Operating Cost	158.0	172.3	198.2	226.6	260.3
EBITDA	348.0	419.2	470.8	536.1	608.1
EBITDA Margin	68.8%	73.3%	71.7%	70.7%	69.4%
PAT	151.0	183.8	223.0	267.9	328.0
PAT Margin	29.8%	32.1%	34.0%	35.3%	37.4%

Source: Company Data, KRChoksey Research

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Exhibit 26: Balance Sheet: (INR Mn)

	FY16	FY17	FY18E	FY19E	FY20E
Gym Co.					
Networth	2588.0	3322.6	3819.0	4421.1	5165.6
Long term Liab.	2069.0	3030.1	2892.9	2742.1	2591.4
Current Liab. & Provision	374.0	612.6	715.7	825.4	955.3
	5031.0	6965.2	7427.5	7988.6	8712.3
Fixed Assets	2980.0	4156.5	4210.4	4224.7	4251.2
Cash Including Investments	750.0	1315.6	1626.7	1927.5	2340.5
Other Current Assets	318.0	720.9	808.4	933.3	1077.6
Non Current Assets	983.0	772.2	782.0	903.2	1043.0
	5031.0	6965.2	7427.5	7988.6	8712.3
Lifestyle Co.					
Networth	1544.0	1601.5	1840.8	2131.1	2489.9
Long term Liab.	1457.0	1460.6	1394.4	1321.8	1249.1
Current Liab. & Provision	0.0	295.3	345.0	397.9	460.5
	3001.0	3357.4	3580.2	3850.7	4199.5
Fixed Assets	1963.0	2003.5	2029.5	2036.4	2049.2
Cash Including Investments	450.0	634.2	784.1	929.1	1128.2
Other Current Assets	335.0	347.5	389.7	449.9	519.4
Non Current Assets	253.0	372.2	377.0	435.3	502.8
	3001.0	3357.4	3580.2	3850.7	4199.5

Source: Company Data, KRChoksey Research

With respect to Balance sheet we foresee, that the part of debt for the property, club and for the other non-gym business will be transferred to the Lifestyle and its debt to equity ratio would be around 0.5x by FY20. for Gym business we project debt to equity ratio to improve to 0.5x by FY20 from 0.7 in FY16

Exhibit 27: Ratios

	FY16	FY17	FY18E	FY19E	FY20E
Gym Co.					
Debt-to-Equity	0.7	0.9	0.8	0.6	0.5
RoCE	15.1%	23.5%	22.8%	25.2%	27.3%
RoE	14.8%	16.0%	16.1%	16.7%	17.6%
Lifestyle Co.					
Debt-to-Equity	0.9	0.9	0.8	0.6	0.5
RoCE	7.4%	13.8%	15.0%	16.0%	16.9%
RoE	9.8%	11.7%	13.0%	13.5%	14.2%

Source: Company Data, KRChoksey Research

Also with consistent growth we are expecting ROE and ROCE to improve for both the business, Gym business ROE will see improvement from 14.8% in FY16 to 16.8% in FY20 which is a CAGR growth of 3.2% from FY16-FY20. whereas ROCE will see improvement from 15.1% in FY16 to 26.5% in FY20 with CAGR growth of 15.1% from FY16-FY20. At the same time we would expect improvement in ROE from 9.8% in FY16 to 13.6% in FY20 with CAGR growth of 8.5% between FY16-FY20 and ROCE from 7.4% in FY16 to 16.4% in FY20 with CAGR growth of 22.1% between FY16-FY20 for lifestyle business .

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Key Management Personnel:



Mr. Madhukar Vishnu Talwalkar (Director) has over 5 decades of experience in the health and fitness industry. He was the Founder President of Greater Bombay Body Builders Association. He currently serves as the President of Maharashtra State Body Builders Federation. His guidance has been an indispensable asset, and he has significantly contributed towards our expansion and positioning as a leader in health and fitness.



Mr. Prashant Sudhakar Talwalkar (Director) Mr. Prashant Talwalkar has spearheaded the Talwalkars brand evolution as our Managing Director & CEO. He spearheads gym expansions across India and Sri Lanka. Handling corporate tie ups and other promotional activities, He has been honoured as one of the Top 30 Most Innovative CEOs of the country by Inc Magazine, 2015. Under his leadership Talwalkars has also been awarded as the “Best Under A Billion” by Forbes Asia, 2013



Mr. Girish Madhukar Talwalkar (Director) He has over 2 decades of experience in establishing and operating health clubs. Handling strategic planning, Human Resources function, corporate tie ups and other promotional activities, his expertise in project management and execution has taken Talwalkars a step ahead.



Mr. Vinayak Ratnakar Gawande (Director) He is backed by over 30 years of experience in the taxation, law and finance industry. Currently the head of tax and legal matters at Talwalkars, he also manages hospitality for a 3 star hotel at Khandala. Mr. Gawande is also on the board of Governing Council of Beauty & Wellness Skill Sector Council, Ministry of Skill Development, Govt of India.

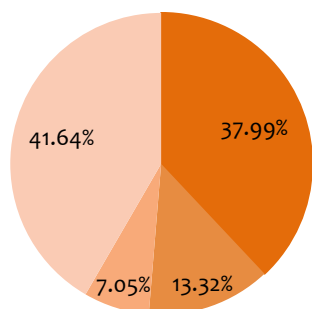


Mr. Anant Ratnakar Gawande (Director) is a fellow of the Institute of Chartered Accountants of India since 1989. With over 20 years’ experience he has promoted Anfin Investments Private Limited and has been associated with Better Value Leasing and Finance Limited, Vans Information Limited, Brainworks Learning Systems Private Limited and Popular Institute of Art Private Limited. He is currently head of finance operations at Talwalkars.



Mr. Harsha Bhatkal (Director) has over 25 years of experience in publishing and marketing. He worked as a business journalist for Update Magazine, a sales manager for Popular Prakashan Private Limited, and went on to create Vans Information, a pioneer in electronic information services in India. He received the Paul Hamlyn scholarship and the Award for Excellence in Publishing from the Federation of Indian Publishers. Today, he handles brand strategy, marketing & international tie-ups for Talwalkars.

Share Holding Pattern (%)



■ Promoters ■ FII ■ DII ■ Others

Fund Holding

Fund Holding in Talwalkars					
Fund	Market Value (May 2017) (Rs. Mn)	Market Value (Apr 2017) (Rs. Mn)	MKT VALUE CHANGE	SHARES IN May-2017	SHARES IN Apr-2017
Birla SL MF	12.4	11.7	0.7	43400	43400
Tata Mutual Fund	137.1	128.8	8.3	480000	480000
Grand Total	149.49	140.51	8.98	523400.00	523400.00

Source: Company Data, KRChoksey Research

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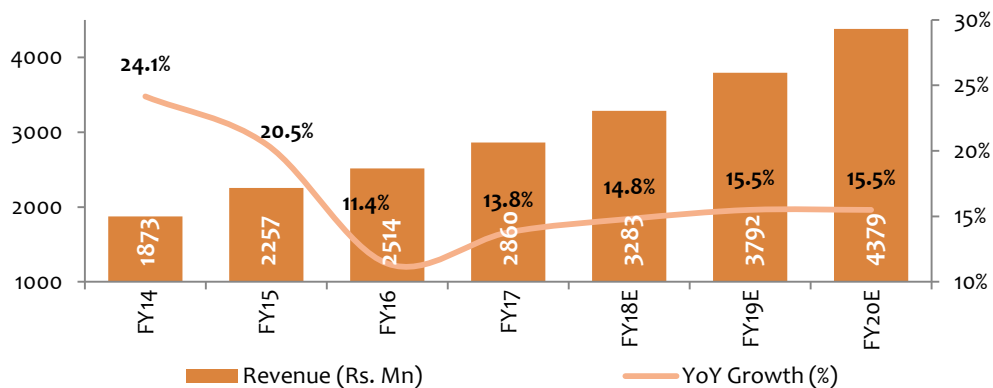
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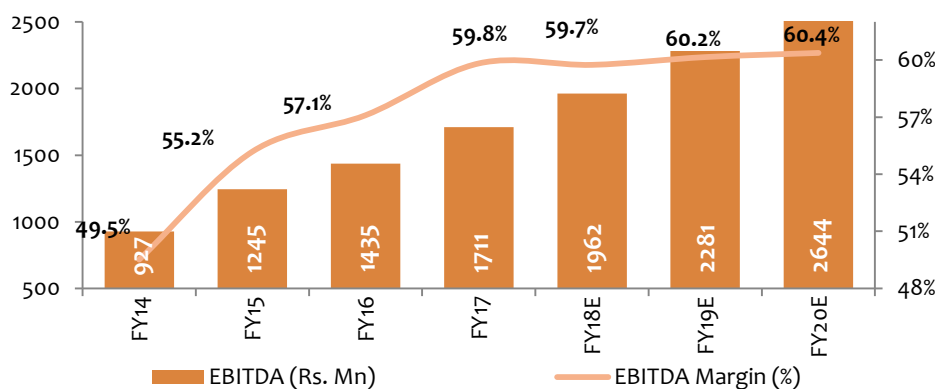
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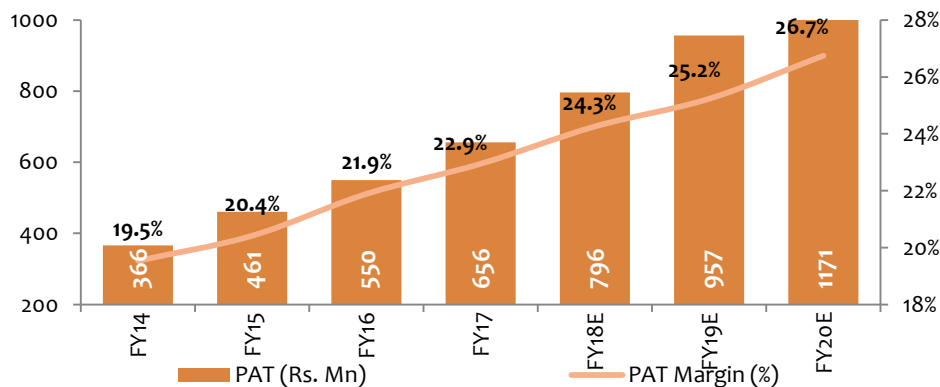
Financials:

Exhibit 29: Revenue & Growth (INR Mn & %)


Source: KRChoksey Research

Exhibit 30: EBITDA (INR Mn) & Margins (%)


Source: KRChoksey Research

Exhibit 31: PAT (INR Mn) & Margins (%)


Source: KRChoksey Research

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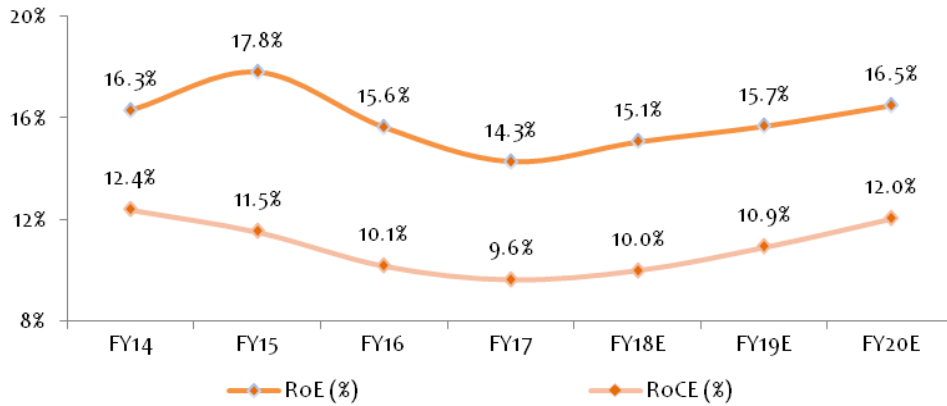
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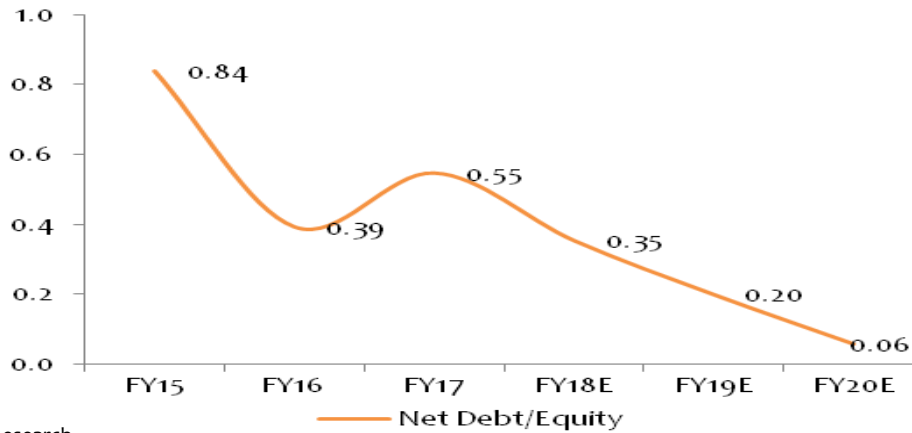
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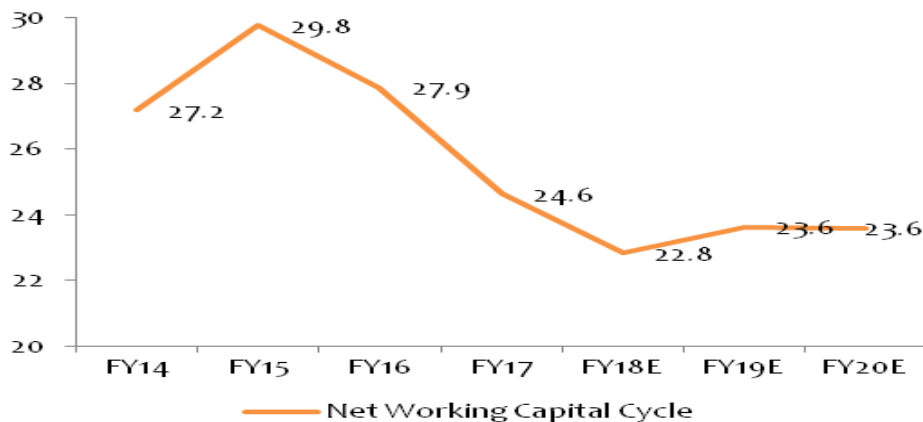
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Financials:
Exhibit 32: ROE & ROCE (%)


Source: KRChoksey Research

Exhibit 33: Net Debt-Equity (%)


Source: KRChoksey Research

Exhibit 34: Working capital Cycle (Days)


Source: KRChoksey Research

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Exhibit 35: Profit and Loss Statement: (INR Mn)

	FY15	FY16	FY17	FY18E	FY19E	FY20E
Total Revenue from Operations	2256.6	2513.7	2860.0	3283.2	3791.8	4379.0
Purchase of Stock-in-Trade	0.0	0.0	5.4	5.4	5.4	5.4
Changes in Inventory	0.2	0.0	-2.5	2.9	0.0	0.0
Cost of Goods Sold	0.2	0.0	2.9	8.2	5.4	5.4
Employee Benefits Expense	369.2	393.6	429.7	492.5	557.4	635.0
Other Expenses	641.8	684.8	716.4	820.8	947.9	1094.8
Total Expenses	1011.2	1078.4	1149.0	1321.5	1510.7	1735.1
EBITDA	1245.3	1435.4	1711.0	1961.7	2281.1	2643.9
EBITDA Margin	55.2%	57.1%	59.8%	59.7%	60.2%	60.4%
Other Income	8.5	67.6	5.2	5.2	5.2	5.2
Depreciation and Amortization Exps	397.3	470.0	485.6	527.8	613.0	658.4
EBIT	856.6	1033.0	1230.6	1439.1	1673.2	1990.7
EBIT Margin	38.0%	41.1%	43.0%	43.8%	44.1%	45.5%
Finance Costs	127.8	177.4	193.7	189.9	177.4	164.9
EBT before exceptional items	728.8	855.5	1037.0	1249.1	1495.8	1825.8
Exceptional Items	0.0	-0.3	-3.9	-3.9	-3.9	-3.9
EBT after exceptional items	728.8	855.2	1033.0	1245.2	1491.9	1821.9
Total Tax Expenses	245.0	301.6	363.8	435.8	522.1	637.7
Share of P&L in Associate Companies	0.0	0.0	13.7	13.7	13.7	13.7
Minority Interest	23.0	3.5	26.6	26.6	26.6	26.6
PAT for the year	460.8	550.2	656.3	796.5	956.8	1171.3
PAT Margin	20.4%	21.9%	22.9%	24.3%	25.2%	26.7%
Basic EPS	17.6	18.5	22.1	26.8	32.2	39.4

Source: Company Data, KRChoksey Research

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Exhibit 36: Balance Sheet: (INR Mn)

	FY15	FY16	FY17	FY18E	FY19E	FY20E
EQUITY AND LIABILITIES						
Shareholders' funds						
Share Capital	261.8	297.0	297.0	297.0	297.0	297.0
Reserves and Surplus	2506.6	3973.0	4627.0	5362.7	6255.1	7358.5
Net Worth	2768.4	4270.1	4924.1	5659.8	6552.2	7655.5
Minority Interest	135.7	139.0	164.3	190.9	217.6	244.2
	135.7	139.0	164.3	190.9	217.6	244.2
Non-Current Liabilities						
Long-Term Borrowings	2778.6	3073.0	4014.8	3784.8	3534.8	3284.8
Deferred Tax Liabilities	253.5	274.9	296.2	296.2	296.2	296.2
Other Long-term Liabilities	11.4	2.0	15.3	15.3	15.3	15.3
Long-Term Provisions	0.0	0.0	0.0	0.0	0.0	0.0
	3043.5	3349.9	4326.4	4096.4	3846.4	3596.4
Current Liabilities						
Short-Term Borrowings	7.0	11.9	13.9	13.9	13.9	13.9
Trade Payables	146.2	100.4	104.0	116.9	135.0	156.0
Other Current Liabilities	403.3	771.2	669.3	722.3	834.2	963.4
Short-Term Provisions	159.9	165.5	120.7	207.5	240.1	282.5
	716.4	1048.9	907.9	1060.7	1223.2	1415.7
Total	6663.9	8807.9	10322.6	11007.7	11839.3	12911.8
ASSETS						
Fixed Assets						
Tangible Assets	4395.3	4782.7	6160.0	6239.8	6261.1	6300.4
Intangible Assets	35.0	32.2	0.0	0.0	0.0	0.0
Capital Work-in-Progress	779.2	827.3	0.0	0.0	0.0	0.0
Intangible assets under development	3.3	3.3	0.0	0.0	0.0	0.0
	5212.8	5645.5	6160.0	6239.8	6261.1	6300.4
Goodwill on Consolidation	0.0	0.0	0.0	0.0	0.0	0.0
Non-Current Investments	50.5	98.6	612.9	612.9	612.9	612.9
Deferred Tax Assets (Net)	0.0	0.0	0.0	0.0	0.0	0.0
Long-Term Loans and Advances	299.6	828.9	992.8	985.0	1137.5	1313.7
Other Non-Current Assets	1.5	1.6	151.5	174.0	201.0	232.1
	5564.4	6574.6	7917.3	8011.8	8212.5	8459.1
Current Assets						
Current Investments	0.2	0.2	0.2	0.2	0.2	0.2
Inventories	0.4	0.4	2.9	2.9	2.9	2.9
Trade Receivables	341.0	316.8	298.1	359.8	415.5	479.9
Cash and Cash Equivalents	465.6	1407.6	1336.6	1797.6	2243.4	2855.5
Short-Term Loans and Advances	292.3	508.3	611.7	656.6	758.4	875.8
Other Current Assets	0.0	0.0	155.7	178.8	206.5	238.4
	1099.5	2233.3	2405.3	2996.0	3626.8	4452.7
Total	6663.9	8807.9	10322.6	11007.7	11839.3	12911.8

Source: Company Data, KRChoksey Research

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Talwalkars Better Value Fitness Ltd

Exhibit 37: Cash Flow Statement (INR Mn)

Particulars	FY15	FY16	FY17	FY18E	FY19E	FY20E
Net profit before tax	728.8	855.2	1033.0	1245.2	1491.9	1821.9
Adjustments for :						
Depreciation & Amortization	397.3	470.0	485.6	527.8	613.0	658.4
Finance cost (Net)	127.8	177.4	193.7	189.9	177.4	164.9
Cash from operating activities	913.1	699.1	1025.7	1971.5	2080.3	2416.6
Direct Taxes Paid	-223.6	-281.5	-363.8	-435.8	-522.1	-637.7
Net cash from operating activities (A)	638.1	320.3	661.9	1562.3	1584.7	1805.6
Capital Expenditure on Fixed Assets including Capital Advances	-1368.4	-1177.2	-1862.9	-607.6	-634.3	-697.7
Net cash used in investing activities (B)	-981.5	-1128.7	-1862.9	-620.5	-647.2	-710.6
Net cash flow from / (used in) financing activities (C)	748.4	1724.1	1165.9	-480.7	-491.8	-482.9
Net increase / (decrease) in cash and cash equivalents (A+B+C)	405.0	915.7	-35.1	461.0	445.7	612.1
Cash and cash equivalents at the beginning of the year	51.1	456.1	1371.8	1336.6	1797.6	2243.4
Cash and cash equivalents at the end of the year	456.1	1371.8	1336.6	1797.6	2243.4	2855.5

Source: Company Data, KRChoksey Research

Exhibit 38: Ratio Analysis:

Particulars	FY15	FY16	FY17	FY18E	FY19E	FY20E
EBITDA Margin (%)	55.2%	57.1%	59.8%	59.7%	60.2%	60.4%
EBIT Margin (%)	38.0%	41.1%	43.0%	43.8%	44.1%	45.5%
Net Profit Margin (%)	20.4%	21.9%	22.9%	24.3%	25.2%	26.7%
Net Debt/Equity	0.8	0.4	0.5	0.4	0.2	0.1
RoE (%)	17.8%	15.6%	14.3%	15.1%	15.7%	16.5%
RoCE (%)	11.5%	10.1%	9.6%	10.0%	10.9%	12.0%
EPS (Rs.)	17.6	18.5	22.1	26.8	32.2	39.4
BVPS (Rs.)	105.7	143.7	165.8	190.5	220.6	257.7
PE (x)	21.1	10.2	12.0	11.9	9.9	8.1
P/BV (x)	3.5	1.3	1.6	1.7	1.5	1.2
DPS (Rs.)	1.50	1.68	1.70	1.70	1.80	1.90
Dividend Yield(%)	0.4%	0.9%	0.6%	0.5%	0.6%	0.6%
EV/EBITDA (x)	9.6	5.0	5.9	5.6	4.6	3.6
EV/Sales (x)	5.3	2.9	3.6	3.4	2.7	2.2

Source: Company Data, KRChoksey Research

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Talwalkars Better Value Fitness Ltd

Exhibit 39: Trailing PE Band



Source: Company Data, KRChoksey Research

Exhibit 40: Trailing EV/EBITDA Band



Source: Company Data, KRChoksey Research

Talwalkars Better Value Fitness Ltd

Talwalkars Better Value Fitness Ltd				Rating Legend	
Date	CMP (INR)	TP (INR)	Recommendation	Our Rating	Upside
11-Jul-17	320	442	BUY	Buy	More than 15%
				Accumulate	5% – 15%
				Hold	0 – 5%
				Reduce	-5% – 0
				Sell	Less than – 5%

ANALYST CERTIFICATION:

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