Talwalkars Better Value Fitness Ltd.	
No. of shares (m)	31.00
Mkt cap (Rs crs/$m)	963/151.1
Current price (Rs/$)	311/4.9
Price target (Rs/$)	396/6.2
52 W H/L (Rs.)	359/210
Book Value (Rs/$)	194/3.0
Beta	1.0
Daily NSE volume (avg. monthly)	283170
P/BV (FY18e/19e)	1.5/1.3
EV/EBITDA (FY18e/19e)	6.9/6.0
P/E (FY18e/19e)	11.3/9.4
EPS growth (FY17/18e/19e)	16.2/24.4/19.5
OPM (FY17/18e/19e)	59.8/60.6/62.2
ROE (FY17/18e/19e)	14.5/15.0/14.9
ROCE(FY17/18e/19e)	9.1/9.9/10.2
Net D/E ratio (FY17/18e/19e)	0.6/0.7/0.6
BSE Code	533200
NSE Code	TALWALKARS
Bloomberg	TALW IN
Reuters	TALW.BO

Shareholding pattern	%
Promoters	37.4
MFs / Banks / FIs	3.8
Foreign Portfolio Investors	12.5
Govt. Holding	-
Public & Others	46.3
Total	**100.0**

As on Dec 31, 2017

Recommendation

BUY

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Quarterly Highlights

- Going strong on large rollout of fitness gyms and centres, Talwalkars opened 10 Power World Gyms, 1 HiFi gym and 1 gym under the Talwalkars franchise model in H1FY18. It added Zorba to 47 Talwalkars centres in Q2FY18, making it one of the largest yoga chains in India with presence in 78 Talwalkars centres in total. All this helped it post a topline growth of 11.2% (y-o-y) in first half of current fiscal. Expansion of EBITDA accretive Power World Gym models and de-growth of 17.4% in employee benefit expenses largely owing to bonus paid last year improved OPM by ~224 bps to 57.2% against 55.0% in H1FY17. Profit surged by 24.7% (y-o-y) due to higher other income because of increase in treasury income and lower taxes.
- It launched the 'Annual August Scheme' in Q2FY18, offering services worth Rs 125,000 for Rs 20,000, which was well received, and catalyzed renewals and new additions. It introduced complete health complete fitness (CHCF) facilities, offering a range of services under the same roof, which has increased footfalls and has added ~200-300 members per gym. Tie-ups with Mickey Mehta and Snap Fitness will help Talwalkars widen its value added services and customers reach.
- Talwalkars has obtained approval of demerger of its business into Gym Co. and Lifestyle Co. from NCLT, which is expected to power business growth with focused initiatives. Financial parameters of the Gym Company will improve significantly as debt for property, club and other non-gym business will be transferred to the Lifestyle Company, which will help it post lower debt equity ratio. Sustainable growth in profitability would further result in healthier return ratios.
- The stock currently trades at 11.3x FY18e EPS of Rs 27.58 and 9.4x FY19e EPS of Rs 32.97. Talwalkars is well positioned to grow its business, given its financial restructuring and focus on expanding its footprint through alliances and low cost Power World Gyms. Massive ongoing capex has doubtlessly increased its leverage, but has also helped in strengthening its wellness and fitness services, transforming Talwalkars into a global force. With good traction witnessed in both core gym and value added services, plans are afoot to add ~20 fitness centres, driving up its earnings by ~22% next fiscal. We therefore maintain 'buy' rating on the stock with target price of Rs 396 (previous target Rs 373) based on 12x FY19e EPS of Rs 32.97 over a period of 9-12 months.

Consolidated (Rs crs)	FY15	FY16	FY17	FY18e	FY19e
Income from operations	225.66	251.37	286.00	319.05	366.87
Other Income	0.85	6.76	0.52	10.90	9.91
EBITDA (other income included)	125.38	150.27	171.23	204.22	238.07
PAT after MI and EO	46.07	55.04	65.88	83.73	102.23
EPS*(Rs)	17.60	19.09	22.18	27.58	32.97
EPS growth (%)	25.8	8.5	16.2	24.4	19.5

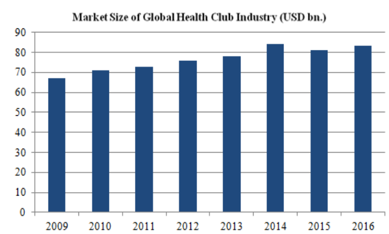
*on weighted average equity

Outlook & Recommendation

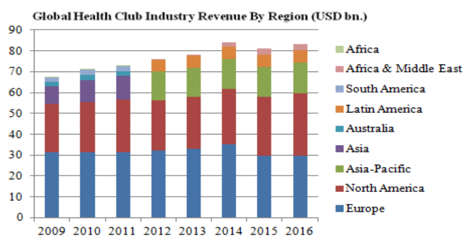
Wellness Industry

Global health club industry is on a growth trajectory with estimated revenue of ~USD 83.1 billion with 2 lakh clubs and 162 million members across the world in 2016, according to IHRSA Global Report, 2017. North American and European markets continued to grow, while impressive performance was witnessed in Latin American markets. With approximately 3800 health club facilities in 2016 with ~1 million members, IHRSA expects Indian wellness industry to thrive, serving consumers with a gamut of health and fitness needs. The sector has a promising outlook and club operators are well positioned to benefit from increasing consumer interest in maintaining and improving health to ensure healthy lives for as long as possible.

The Indian wellness industry, estimated at Rs 85,000 crs in FY15 is expected to grow at a CAGR of 12% for five years to reach Rs 1.5 trillion by FY20, posits EY consulting and FICCI, an association of business organizations in India. The industry is considered a huge business opportunity with significant scope for penetration, especially in areas of nutrition, rejuvenation and fitness. India's fitness and wellness industry is burgeoning, all thanks to the country's young population ready to invest more on themselves with rising disposable income and an increase in the occurrence of both communicable and non-communicable diseases.



Source: Industry reports

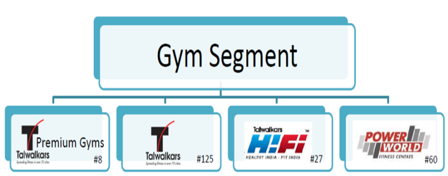


Source: Industry reports

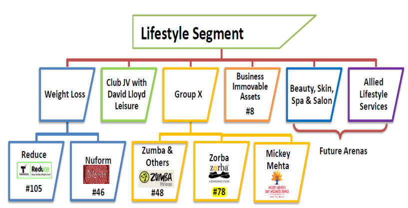
Globalization and greater awareness of the need for wellness among individuals have revolutionized the Indian fitness industry which is expected to nearly double by 2020. Wellness players have accordingly responded by offering preventive health care, luxury products and personalized services compared to their traditional offerings like curative health care and value-oriented mass products. The industry is heading in the right direction, yet it is largely unorganized. It stands at an inflection point, with high fragmentation, attractive market potential and robust growth.

Demerger

The demerger of Talwalkars into gym and lifestyle segments intends to simplify its business structure and channelize strategies to produce long term sustainable development goals. It would enable the company to effectively utilize its resources and grow through initiatives and acquisitions, enhancing its brand value. Following the demerger, the company intends to engage in sale and leaseback arrangement which will make its conventionally asset heavy lifestyle business asset light. The scheme has been approved by NCLT last quarter and Talwalkars is expected to complete the process of demerger soon.



#no. of centres
Source: TBVF Ltd.



#no. of centres
Source: TBVF Ltd.

Gym segment: Under the gym segment, Talwalkars intends to add 20-25 gyms mainly in top 10-12 cities in the country in near term. It plans to introduce 8-10 HiFi gyms and 3-4 Talwalkars franchise gyms in the current fiscal. The gym segment is expected to grow through its partners and associates in existing markets, establishing Talwalkars as a strong brand name to reckon with.

Lifestyle segment: To grow its lifestyle segment which will consist of wellness segments like Reduce, Nuform, Zorba, Mickey Mehta to name a few, the company will tie up with online and offline retailers to increase its Reduce offerings, expand Zorba to over 100 centres and ramp up the construction of its first leisure club in Wakad, Pune, a 50:50 JV with David Lloyd Leisure. Membership of this club is expected to be launched in current fiscal. Wellness offerings of Mickey Mehta across existing and new network of fitness centres will further provide room for value addition.

Tie-ups & Initiatives

Talwalkars has recently entered into strategic alliance with Mickey Mehta Health Beyond Fitness Pvt. Ltd, a renowned fitness chain run by Mickey Mehta which will enable it widen its basket of value added services and tap customers from age group of 6 to 90 years. The arrangement will open 80-100 new stores with a capex of Rs 80-100 crs in the next twelve months. 70-80 stores out of Talwalkar's 220 existing fitness centres will be upgraded to incorporate some of Mickey Mehta's signature wellness offerings like 'learn swimming in 24 hours' and 'grow tall with Mickey Mehta'.

It has acquired exclusive right from Snap Fitness, a leading global provider of fitness and health care services, to set up and operate fitness clubs in Bangladesh, Malaysia, Singapore, Sri Lanka, Thailand and Vietnam through its subsidiary overseas which will help Talwalkars expand its reach globally through low capex franchisee models. It plans to implement skills and technical know-how learnt in these countries overseas and perk up its performance in India.

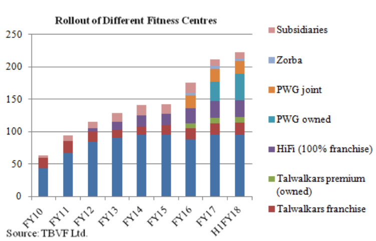
It has partnered with online retailers like Growfitter, Paytm, Nykaa, American Express Offer Page, Free Charge, Cheep Mobile App, etc to endorse Reduce, a diet based weight reduction program. It also initiated online associations with Kaya Skin Clinic, Lakme, Ritebite and Zapmart. Tying up with MTV Splitsvilla 9 was also a part of its various marketing strategies undertaken in recent times.

Capex

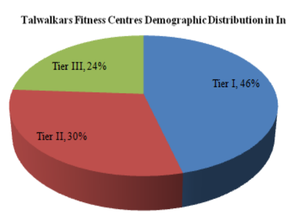
To become a niche player in the fitness and wellness industry, Talwalkars has extensively incurred capital expenditure in recent years to accelerate gym rollouts and add value added services like Reduce, Nuform, Transfor, Zorba and Zumba, among others. It's JV with David Llyod Leisure to open around 7-10 clubs in India required purchase of land with market value of Rs 120 crs. It incurred total capex of Rs 90.5 crs ($13.5m) in FY17 and has invested nearly Rs 60 crs ($9.3 m) in H1FY18. With plans to add another 20-25 gyms, total capex for the current fiscal is expected to be ~Rs 100-110 crs ($15.7m-$17.3m).

Financials & Valuations

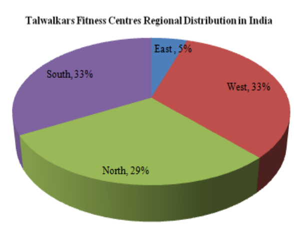
Talwalkars, one of India's leading fitness providers, has continued expansion of its chain of fitness centres offering diverse set of fitness services which stood at 222 at the end of first half of current fiscal compared to 211 in FY17. This was mainly led by expansion of low capex and opex model of Power World Gyms (owned) which are opened in clusters and has increased to 40 in H1FY18 vs 30 last fiscal. Incessant expansion and introduction of value added services has aided in topline growth at a CAGR of 20.6% in last six years ending FY17. Going forward, we expect Talwalkar's gym rollouts and brand associations to aid its revenue growth of 11.6% and 15.0% in FY18 and FY19 respectively.



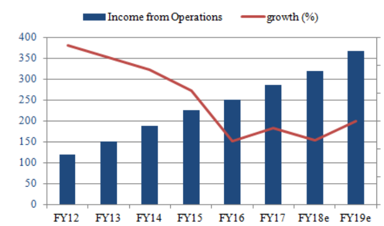
Source: TBVF Ltd.



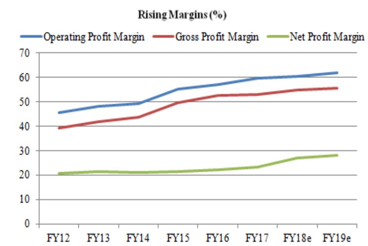
Source: TBVF Ltd.; as on 30th September, 2017



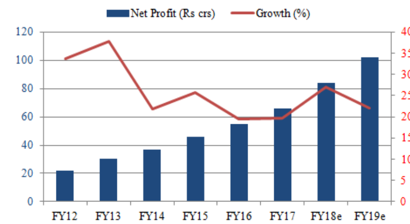
Source: TBVF Ltd.; as on 30th September, 2017



Sources: TBVF Ltd; CD Equisearch

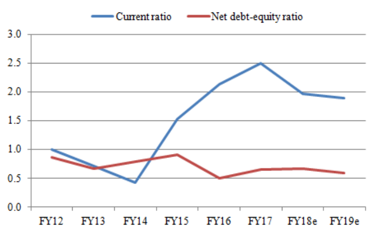


Sources: TBVF Ltd; CD Equisearch

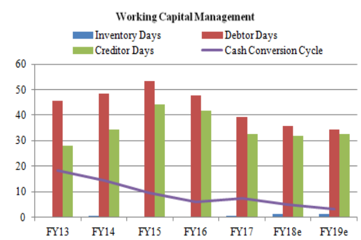


Sources: TBVF Ltd; CD Equisearch

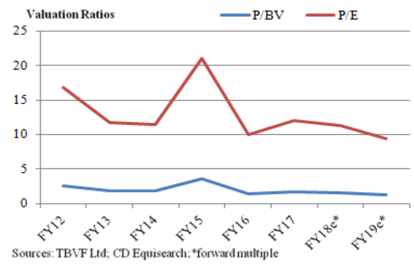
Cashless transactions have witnessed an uptick since demonetization. Cash collected has reduced to 20-25% vs ~35% earlier, owing to new payment modes and digital payment platforms. GST impact has been largely neutral for Talwalkars- previously it was paying service tax of 15% and now, being under 18% tax bracket in the new tax regime, it passes on the hike to its customers. There has not been any reduction in the membership base and Talwalkars has been able to sustain its sales to sales growth of ~6% in Q2FY18.



Sources: TBVF Ltd; CD Equisearch

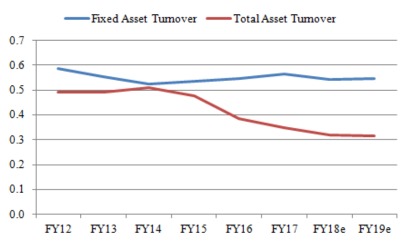


Sources: TBVF Ltd; CD Equisearch



Sources: TBVF Ltd; CD Equisearch; *forward multiple

Despite QIP of Rs 41.38 crs, the company has witnessed a significant increase in debt in H1FY18- long term borrowings has shot up to Rs 487.40 crs ($74.6m) from Rs 401.48 crs ($61.9m) in FY17 as it has consistently invested across new centres, infrastructure and equipment rejuvenation – it added 10 Power World Gyms last quarter, entered into a venture with Dr Mickey Mehta and enhanced its value added services – introduced Zorba in 47 centres in Q2FY18, revised rentals, introduced a range of new products to expand Reduce and upgraded technology and gyming equipment of Nuform.



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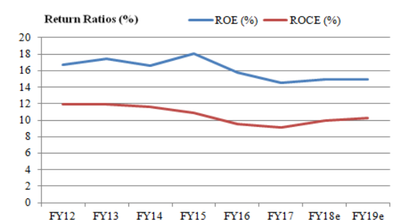
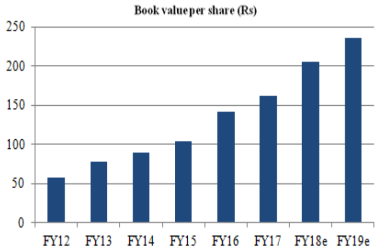


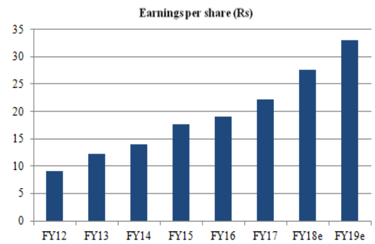
Sources: TBVF Ltd; CD Equisearch

Interest expense would rise by ~52% (y-o-y) to Rs 29.40 crs ($4.6m) in FY18 from Rs 19.37 crs ($2.9m) in FY17 due to increase in debt – to Rs 531.48 crs ($83.4m) and Rs 553.35 crs ($86.8m) in FY18 and FY19 respectively - to meet capital expenditure and investment requirements. However, with most of the gym expansion directed towards low opex Power World Gyms and franchisee models, its profit would rise by 27.1% and 22.1% in the current and next fiscal, leading to improved NPM's and return ratios.

The stock currently trades at 11.3x FY18e EPS of Rs 27.58 and 9.4x FY19e EPS of Rs 32.97. Relentless expansion of Talwalkars in India has enhanced its brand value and made it one of the largest fitness providers in the continent. Higher youth proportion, income growth, rise in lifestyle ailments and sedentary living has increased the need to remain fit and Talwalkars is prepared to capitalize on these opportunities. Its acquisitions and associations with Power World Gyms Ltd. (leading Sri Lankan health and fitness chain), online fitness portal Growfitter, Chennai based yoga studio chain Zorba, strategic alliance with Snap Fitness and JV with David Llyod and Mickey Mehta will help it expand its presence and provide new business prospects. Competence in moderating gym expenditure, reduction in rentals and widening basket of value added services should boost margins and earnings in the coming years. Split of business into Gym and Lifestyle Co. should help it achieve growth both organically and inorganically and lead to focused initiatives. Yet, increase in debt due to aggressive expansion strategy cannot be overlooked. More or less we retain our EPS estimates for FY18 and FY19 respectively and we maintain 'buy' rating on the stock with target price of Rs 396 (previous target Rs 373) based on 12x FY19e EPS of Rs 32.97 over a period of 9-12 months. For more information, refer to our June report.



Sources: TBVF Ltd; CD Equisearch



Sources: TBVF Ltd; CD Equisearch

Financials

Consolidated Quarterly Results

Figures in Rs crs

	Q2FY18	Q2FY17	% chg.	H1FY18	H1FY17	% chg.
Income From Operations	**97.16**	**88.21**	**10.1**	**153.89**	**138.45**	**11.2**
Other Income	5.98	1.35	343.9	6.52	2.46	165.1
Total Income	**103.13**	**89.55**	**15.2**	**160.41**	**140.91**	**13.8**
Total Expenditure	37.27	36.33	2.6	65.91	62.36	5.7
EBITDA (other income included)	**65.87**	**53.23**	**23.8**	**94.50**	**78.55**	**20.3**
Interest	6.96	5.01	39.0	12.22	8.76	39.4
Depreciation	10.66	6.38	67.0	23.34	20.41	14.4
PBT	**48.25**	**41.84**	**15.3**	**58.94**	**49.38**	**19.4**
Tax	12.02	12.95	-7.2	15.75	14.97	5.2
PAT	**36.23**	**28.89**	**25.4**	**43.19**	**34.40**	**25.5**
Share of profit	-0.78	0.23	-438.4	-0.43	0.50	-186.7
Minority Interest	-0.56	0.35	-260.4	0.03	0.64	-95.2
PAT after MI & Associate Profit	**36.01**	**28.77**	**25.2**	**42.73**	**34.26**	**24.7**
Extraordinary item	-0.03	-	-	-0.03	-	-
Adjusted Net Profit	**36.04**	**28.77**	**25.3**	**42.77**	**34.26**	**24.8**
EPS(Rs)	11.62	9.68	20.0	13.79	11.53	19.6

Consolidated Income Statement

Figures in Rs crs

	FY15	FY16	FY17	FY18e	FY19e
Income From Operations	**225.66**	**251.37**	**286.00**	**319.05**	**366.87**
Growth (%)	20.5	11.4	13.8	11.6	15.0
Other Income	0.85	6.76	0.52	10.90	9.91
Total Income	**226.50**	**258.14**	**286.52**	**329.95**	**376.78**
Total Expenditure	101.12	107.86	115.29	125.72	138.71
EBITDA (other income included)	**125.38**	**150.27**	**171.23**	**204.22**	**238.07**
Interest	12.78	17.74	19.37	29.40	33.82
Depreciation	39.73	47.00	48.56	52.40	56.06
PBT	**72.87**	**85.53**	**103.30**	**122.42**	**148.19**
Tax	24.50	30.16	36.38	36.73	44.46
PAT	**48.37**	**55.37**	**66.92**	**85.69**	**103.73**
Share of profit	-	-	1.37	-1.50	-1.00
Minority Interest	2.30	0.35	2.66	0.50	0.50
PAT after MI & Associate Profit	**46.07**	**55.02**	**65.63**	**83.69**	**102.23**
Extraordinary item	-	-0.02	-0.25	-0.03	-
Adjusted Net Profit	**46.07**	**55.04**	**65.88**	**83.73**	**102.23**
EPS *(Rs)	17.60	19.09	22.18	27.58	32.97

*on weighted average equity

Consolidated Balance Sheet

Figures in Rs crs

	FY15	FY16	FY17	FY18e	FY19e
Sources of Funds					
Share Capital	26.18	29.70	29.70	31.00	31.00
Reserves	250.66	397.30	462.71	616.47	713.11
Total Shareholders' Funds	**276.84**	**427.00**	**492.41**	**647.48**	**744.12**
Minority Interest	13.56	13.90	16.56	17.06	17.56
Long Term Debt	277.86	307.30	401.48	453.35	463.90
Total Liabilities	**568.25**	**748.20**	**910.45**	**1117.89**	**1225.58**
Application of Funds					
Gross Block	549.98	638.32	743.68	898.86	1022.99
Less: Accumulated Depreciation	106.95	156.83	203.88	256.28	312.34
Net Block	**443.03**	**481.50**	**539.80**	**642.59**	**710.65**
Capital Work in Progress	78.25	83.06	76.20	75.00	75.00
Investments	5.07	9.88	61.32	131.29	150.28
Current Assets, Loans & Advances					
Inventory	0.04	0.04	0.29	0.48	0.55
Trade receivables	34.10	31.68	29.81	32.79	36.07
Cash and Bank	46.56	140.76	133.66	94.73	103.87
Short term loans (inc. other current assets)	29.23	50.83	76.75	105.09	112.87
Total CA	**109.92**	**223.31**	**240.51**	**233.09**	**253.37**
Current Liabilities	55.65	88.34	78.72	100.89	114.02
Provisions-Short term	15.99	16.46	12.07	12.06	14.38
Total Current Liabilities	**71.64**	**104.80**	**90.79**	**112.94**	**128.40**
Net Current Assets	38.28	118.51	149.72	120.15	124.97
Net Deferred Tax Asset	-25.35	-27.49	-29.63	-46.67	-49.67
Net long term assets (net of liabilities)	28.97	82.76	113.04	195.54	214.35
Total Assets	**568.25**	**748.20**	**910.45**	**1117.89**	**1225.58**

Key Financial Ratios

	FY15	FY16	FY17	FY18e	FY19e
Growth Ratios (%)					
Revenue	20.5	11.4	13.8	11.6	15.0
EBITDA	33.7	19.9	14.2	19.0	16.5
Net Profit	25.8	19.5	19.7	27.1	22.1
EPS	25.8	8.5	16.2	24.4	19.5
Margins (%)					
Operating Profit Margin	55.2	57.1	59.8	60.6	62.2
Gross Profit Margin	49.9	52.7	53.2	54.8	55.7
Net Profit Margin	21.4	22.0	23.5	26.9	28.3
Return (%)					
ROCE	10.9	9.6	9.1	9.9	10.2
ROE	18.1	15.8	14.5	15.0	14.9
Valuations					
Market Cap/ Sales	4.3	2.2	2.8	3.0	2.6
EV/EBITDA	9.9	5.2	6.5	6.9	6.0
P/E	21.1	9.9	12.0	11.3	9.4
P/BV	3.6	1.3	1.6	1.5	1.3
Other Ratios					
Interest Coverage	6.7	5.8	6.4	5.2	5.4
Debt Equity	1.1	0.8	0.9	0.8	0.7
Net Debt-Equity Ratio	0.9	0.5	0.6	0.7	0.6
Current Ratio	1.5	2.1	2.5	2.0	1.9
Turnover Ratios					
Fixed Asset Turnover	0.5	0.5	0.6	0.5	0.5
Total Asset Turnover	0.5	0.4	0.3	0.3	0.3
Inventory Turnover	1935.4	2679.1	707.0	328.8	269.6
Debtors Turnover	6.8	7.6	9.3	10.2	10.7
Creditor Turnover	8.3	8.7	11.2	11.5	11.2
WC Ratios					
Inventory Days	0.2	0.1	0.5	1.1	1.4
Debtor Days	53.5	47.8	39.2	35.8	34.3
Creditor Days	44.1	41.7	32.5	31.8	32.5
Cash Conversion Cycle	9.6	6.2	7.3	5.1	3.1

Cumulative Financial Data

	FY11-13	FY14-16	FY17-19e
No. of fitness centres opened*	69	44	101
Income from operations	363	664	972
Operating profit	167	361	593
EBIT	137	259	457
PBT	108	216	374
PAT after MI & Associate Profit	68	138	252
Dividends	11	15	17
OPM (%)	46.0	54.3	61.0
NPM (%)	20.5	21.6	26.4
Interest coverage	4.8	6.1	5.5
ROE (%)	-	14.6	14.5
ROCE (%)	-	9.7	9.9
Debt Equity (Net)	0.7	0.5	0.6
Fixed asset turnover	-	0.6	0.5
Debtors turnover	-	9.0	9.6
Inventory turnover	-	1043.0	429.1
Creditors turnover	-	11.2	10.9
Debtor days	-	40.7	38.2
Inventory days	-	0.3	0.9
Creditor days	-	32.6	33.6
Cash conversion	-	8.5	5.5
Dividend payout ratio (%)	16.0	11.1	6.6

FY11-13 implies three year period ending fiscal 13;*subsidiaries included

Fitness industry in India, which is largely unorganized, offers a huge opportunity and Talwalkars has been the market leader in this industry with centres across India offering gymming and fitness programs for quite some time now. Its vigorous expansion strategy with total number of gym count of 176 at the end of FY16 compared to 129 in FY13 has helped garner topline growth 1.8x in FY14-16 period from the previous three year period ending FY13. Cost rationalization initiatives and addition of high margin businesses have improved its margins during FY14-16 (see table).

With the fitness industry undergoing a boom, Talwalkars offers a vast range of value added services apart from core gymming and this should surge its cumulative revenue by 46.3% in FY17-19 period (see table). We expect its total number of fitness centres to rise to 277, largely led by expansion of Power World Gyms, which should sustain accretion in margins- OPM and NPM of 61.0% and 26.4% respectively in the ensuing period. Better working capital management will reduce the cash conversion cycle to 5.5 days. Rise in debt to fund required capex would further raise interest expense, thus reducing interest coverage ratio to 5.5.

Financial Summary- US Dollar denominated

million $	FY15	FY16	FY17	FY18e	FY19e
Share capital	4.2	4.5	4.6	4.9	4.9
Shareholders' funds	43.7	63.9	74.3	99.9	115.1
Total debt	49.4	54.6	70.2	83.4	86.8
Net fixed assets (incl. CWIP)	82.7	84.6	94.2	111.8	122.5
Investments	0.8	1.5	9.5	20.6	23.6
Net Current assets	6.1	17.9	22.3	18.0	18.7
Total Assets	90.2	112.3	138.8	173.7	190.7
Revenues	36.9	38.4	42.6	50.0	57.5
EBITDA	20.5	23.0	25.6	32.0	37.3
EBDT	18.4	20.2	22.7	27.4	32.0
PBT	11.9	13.1	15.5	19.2	23.2
PAT	7.5	8.4	9.8	13.1	16.0
EPS($)	0.29	0.29	0.33	0.43	0.52
Book value ($)	1.67	2.15	2.50	3.22	3.71

Income statement figures translated at average rates; balance sheet at year end rates; projections at current rates (Rs 63.75/$).
All dollar denominated figures are adjusted for extraordinary items.

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buy: >20%	accumulate: >10% to ≤20%	hold: ≥-10% to ≤10%	reduce: ≥-20% to <-10%	sell: <-20%

Exchange Rates Used- Indicative

Rs/$	FY14	FY15	FY16	FY17
Average	60.5	61.15	65.46	67.09
Year end	60.1	62.59	66.33	64.84

All $ values mentioned in the write-up translated at the average rate of the respective quarter/ year as applicable. Projections converted at current exchange rate. Cumulative dollar figure is the sum of respective yearly dollar value.