

# Talwalkars Better Value Fitness (TBVF)

Sector: Miscellaneous /Small Cap



Cholamandalam Securities Ltd.

Earnings Update – Q2FY12

August 14, 2012

Sensex 17,728      Nifty 5,380      Price: INR156.25      Target Price: INR 193      Buy

**Background:** TBVF is one of the India's largest fitness chains and holds ~10% market share. TBVF has over 130 health club and gyms across 69 cities and towns of India and member base of over 126,000. They have 92 owned gyms, 11 gyms under JV, 10 licensed gyms, 7 Franchisee gyms and 10 HI-FI format gyms. TBVF's 39% of gyms are located in Western part of India, 30%, 25% and 5% are located in Northern, Southern and Eastern India. Tier wise distribution of gyms; Tier I, II and III are 31%, 45% and 25% respectively. During FY06-12, TBVF's Sales, EBIDTA and PAT grew at CAGR of 52.36%, 55.46% and 80.04% respectively.

52 Week High/Low	INR 208.9/108.00
Bloomberg / Reuters	TALW IN/TALW BO
Equity (shares in mn)	24.1
Mkt. Cap in mn	INR 3760/ \$ 67.5
Avg. Daily Vol. ('000)	87.38
Avg. Daily Vol. (mn)	INR 13.7/\$ 0.24

## Seasonally weak quarter

- Revenue up 23% YoY at INR 284.97mn and down 30.8% on QoQ basis due to seasonality in the business.
- Net Profit increased by 39.6% YoY to INR 28.11mn and down 71% on QoQ basis.
- Operating margins remains stable at 32.25%
- Company has opened 15 gyms during the quarter taking the count to 130 gyms

Shareholding	Jun 11	Mar 12	Jun 12
Promoters (%)	59.49	59.49	59.47
FII (%)	9.61	11.89	11.91
DII (%)	9.93	9.02	9.81
Others (%)	20.97	19.60	18.81
Pledge (% of promoter holding)	0.00	0.00	0.00

## Valuation Summary (INR bn)

Y/E March	2012	2013E	2014E
Revenue	1.31	1.83	2.20
EBIDTA	0.54	0.75	0.91
Adj PAT	0.22	0.32	0.39
Adj EPS	9.0	13.2	16.1
% growth	32.3	46.7	21.7
P/E	17.4	11.8	9.7
P/ BV	2.6	2.2	1.9
EV/EBIDTA	9.4	6.7	5.3
EV/Sales	3.9	2.7	2.2
Div Yield (%)	0.8	1.3	1.6
ROE (%)	15.3	18.7	19.1
Net Debt/Equity	0.94	0.74	0.53

## Revenue growth of 23% YoY and Stable operating margin

Revenue grew 23% YoY to INR 284.97mn and the growth was primarily on account of gym addition. Operating margins remain stable at 32.25% in 1QFY13 compared to 32.14% in 1QFY12. Personal cost & administrative cost as a percentage of sales were down by 95 bps and 59 bps respectively; however, the benefit was diluted by increase in service tax by 143bps YoY. PAT grew 39.6% YoY to INR 28.11mn on account of lower provisioning of taxes due to tax write back during the quarter.

## New Initiatives: NuForm and ZUMBA® to improve price realization

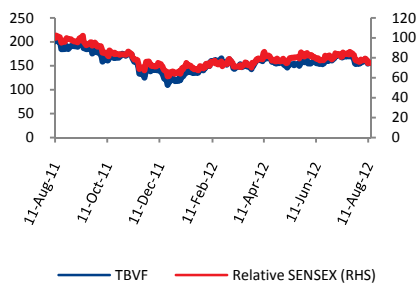
During the 4QFY12, TBVF has launched a new category of health and fitness studio 'NuForm' which focuses primarily on weight loss and caters to the affluent class with a membership fee of INR 42,000 p.a. Currently 6 NuForm studios are operational with member base of ~400 in Mumbai and Thane. In 1QFY13, TBVF has launched ZUMBA fitness program (a dance based fitness program) in India, currently the program is offered in 11 gyms and charges a fee of ~ INR 2,500/month (3X of normal aerobic fee). Both these initiative will help to improve TBVF price realization.

## Valuation:

At CMP the stock trades at 11.8X and 9.7X to FY13&14 earnings respectively. We rate TBVF as Buy with a target price of Rs.193. We assign a multiple of 12X FY14 EPS. We believe the valuation is justified given the strong execution capability of TBVF, favorable demographics, scalable business model and the growth prospects.

**Risks:** The downturn in economy leading to a cut in consumer spending, competition from both foreign and domestic player and delay in launching new gyms.

Performance %	1M	3M	12M
TBVF	-8.23	1.93	-23.1
Sensex	2.44	8.23	4.71



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Y/E March ( INR mn)	1QFY13	1QFY12	YoY Growth	4Q FY12	QoQ Growth
Revenue	284.97	231.73	23%	411.71	-31%
EBIDTA	91.91	74.49	23%	208.36	-56%
Depreciation	32.80	27.98	17%	28.52	15%
Interest	25.46	22.4	14%	28.48	-11%
Other Income	2.05	4.59	-55%	5.30	-61%
Tax	5.02	5.64	-11%	44.68	-89%
PAT	28.11	20.14	40%	95.35	-71%
Adjusted PAT*	28.11	20.14	40%	91.60	-69%
EBIDTA Margin (%)	32.25	32.14		50.61	
Effective Tax Rate (%)	14.10	19.60		27.86	
Adj PAT Margin (%)	9.86	8.69		22.25	

\* Adjusted for one-offs in the previous representing period





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