



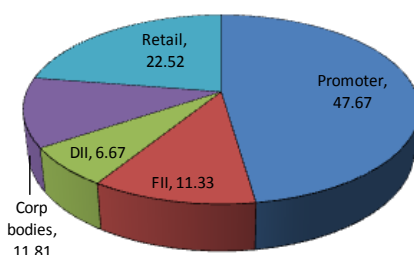
ACCUMULATE

BSE Code	533200
NSE Code	TALWALKARS
Bloomberg Code	TAWL:IN
Current Price	317
Target Price	331
Mcap ₹ bn	8.3
Mcap US\$ bn	0.13
52 wk H/L	375/135
Face Value	10
2 wk avg vol (000)	212

Financial Snapshot

₹ Mn	FY14	FY15E	FY16E
Net sales	2095	2507	2962
% ch	24.1	18.0	18.0
EBIDTA	938	1133	1354
%ch	27.0	20.8	19.5
PAT	398	445	542
%ch	22.0	11.7	21.9
EPS	15.2	17.0	20.7
BV	91.9	106.5	124.3
P/E	20.9	18.7	15.3
EV/EBIDTA	10.5	8.7	7.1
ROE	16.5%	16.0%	16.7%
ROCE	17.0%	16.7%	17.8%

Shareholding Pattern



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Growth to revive over the next couple years

Talwalkars posted a robust growth of 29% Yoy while the quarterly numbers show a decline of 43.7% on account of seasonality in the business operations. The third quarter included the festive season, due to which many discount schemes and value added services had been introduced to attract membership and boost revenues. Revenues for the quarter had been aided by the Value added services like Reduce, Nu-form and Transform along with the renewal membership business which stood at 70-75%. TBVFL has addressed the growing needs of the members by introducing a newer format of its fitness center in Banjara hills which is located in Hyderabad. The management announced that this format of the Fitness gym has received a good response from its existing members. We believe that the pricing in terms of the services offered would be at a premium and would take time before the new initiative starts to contribute significantly to the revenue and profitability. EBIDTA margins stood at 41.9% sequentially compared to 41.3% of the previous year. Employee, admin and services tax cost have been higher substantially compared to Q2FY14, as most of its cost are fixed in nature any increase in the revenues would be margin accretive and would see a gradual pick up in profitability. The company intends to add to another 100 fitness centers within 2-3 years. The overall results have been good and we continue to remain positive on the prospects of TBVFL.

Value added services to drive profitability: Value added services have enabled it to attract members and rope in the existing members to use additional facilities which have led to higher earnings per member. Here to we are seeing a bigger roll out of services like Nu-form and Reduce to more centers. The expenditure incurred on the introduction to these services is minimal as compared to the revenues that would accrue. We believe that there would be gradual shifts to these services as they gain recognition among its members. However one has to realize that since these products are more result oriented and once these outcomes have been achieved by the members they would discontinue the usage of such services.

Margins expected to trend: EBITDA margins have been flat at 41.9% vs 41.3% YoY we expect the overall EBITDA margins would improve further given increase in memberships at its fitness centers. With this we will see the overall revenues rise per center while the cost per center will rise only marginally. We believe the newer centers would take time before they reach break-even while the older fitness centers would compensate for the lower revenues and memberships in the new centers. With increased membership the operating margins will see an increase over the next few years. Higher membership renewal ratio along with higher additions, increased value added services are likely to lead to better margins and cash flow.

Leisure club to add to the revenues: TVBFL has consummated the purchase of the land in Pune for the development of leisure club. However there are still a few formalities that are needed to comply with before they get operational with the club. The estimated time delay would be around 3-4 months as mentioned by the management. The target market for this club would be corporate as the membership would also be premium pricing. The cost for setting up this club is around ₹50cr and we believe that this would have an effect on the cash position of the company.



Higher profitability due to lower tax: Higher profitability has been witnessed on account of lower taxes by 8.3% YoY while the management has not stated of any one off resulting in lower taxes. Increase in profitability was 28% YoY however with taxes to normalize we believe profitability would taper down going ahead.

Valuation: At present TBVFL Ltd is trading at a P/E multiple of 18.7x & 15.3x, a P/BV of 3.0x & 2.6x and an EV/EBITDA of 8.7x & 7.1x for FY15E & FY16E respectively. Given the fitness industry is in a nascent stage and TBVFL has been expanding its fitness clubs with an increase in membership. The increase in value added services by TBVFL would contribute gradually and be more accretive in nature going ahead. While fitness industry is still under penetrated market with a flux of fitness players, we believe that TBVFL has been constant in efforts for capturing a larger market share and creating a brand value which would bode well for it in the coming years. We believe a 16x P/E multiple 15 month forward is justifiable arriving at a target of ₹331. We retain our recommendation of ACCUMULATE on corrections as the upside potential is just 4%. Further we believe in the longer term returns would be much higher.

Financials

Profit & Loss					Balance Sheet				
In ₹ million	FY13	FY14	FY15E	FY16E	In ₹ million	FY13	FY14	FY15E	FY16E
Net sales	1,509	1,873	2,209	2,606	Equity capital	262	262	262	262
YoY (%)	26.4	24.1	18.0	18.0	Reserves	1,823	2,143	2,525	2,991
Total expenses	783	946	1,086	1,277	Net worth	2,085	2,405	2,787	3,253
EBIDTA	726	927	1,123	1,330	Total borrowings	1,400	1,681	1,849	2,034
YoY (%)	33.7	27.8	21.1	18.4	Non current Liabilities	166	132	145	159
EBIDTA (%) of total sales	48.1	49.5	50.8	51.0	Current Liabilities	583	689	736	842
Other income	13	11	10	24	Minority interest	81	113	113	113
PBITD	739	938	1,133	1,354	Deferred tax	192	238	238	238
Depre/ Amor	146	242	357	413	Total liabilities	4,506	5,257	5,867	6,638
PBIT	592	696	776	941	Net block	3,153	4,052	4,120	4,382
Interest	108	120	141	155	CWIP	422	450	763	763
PBT	484	576	635	786	Investments	227	88	250	550
(-) Tax	158	178	191	244	Intangible assets	3	3	3	3
Tax/ PBT	32.7	31.0	30.0	31.0	Current assets	448	421	488	697
Share of loss of associates					Non current assets	254	243	243	243
PAT	326	398	445	542	Total assets	4,506	5,257	5,867	6,638
Minority interest	0	0	0	0					
Net Profit	326	398	445	542					
YoY (%)	30.9	22.0	11.7	21.9					
Cash Flow					Key Ratios				
In ₹ million	FY13	FY14	FY15E	FY16E		FY13	FY14	FY15E	FY16E
Net profit	326	398	445	542	EPS (₹)	12.5	15.2	17.0	20.7
Depn and w/o	146	242	357	413	CEPS (₹)	18.1	24.4	30.6	36.5
Deferred tax	-50	-45	0	0	Book value (₹)	79.6	91.9	106.5	124.3
Change in wrkg cap	277	-35	-9	38	DPS (₹)	1.5	1.5	2.0	2.5
Other income	-13	-11	-10	-24	Debt-equity (x)	0.7	0.7	0.7	0.6
Operating cash flow	686	548	782	969	ROCE	17.0%	17.0%	16.7%	17.8%
Other income	13	11	10	24	ROE	15.6%	16.5%	16.0%	16.7%
Capex	-1,145	-1,161	-738	-675					
Investments	-52	139	-162	-300	Valuations				
Investing cash flow	-1,184	-1,011	-890	-951	PE (x)	25.4	20.9	18.7	15.3
Dividend	-46	-46	-62	-76	Cash PE (x)	17.6	13.0	10.4	8.7
Equity	0	0	0	0	Price/book value (x)	4.0	3.5	3.0	2.6
Debt	281	168	185	203	Dividend yield	47.3%	47.3%	64.3%	78.4%
Financing cash flow	235	122	122	127	Market cap/sales	4.9	4.0	3.3	2.8
Others	751	82	0	0	EV/sales (x)	5.5	4.7	3.9	3.2
Net change in cash	489	-259	14	145	EV/EBDITA (x)	5.5	4.7	3.9	3.2

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