



BP WEALTH



Talwalkars Better Value Fitness Ltd



Company Overview

Talwalkars Better Value Fitness Limited (TBVFL), is the largest chain of health centers in India having 115 health clubs spread across 56 cities and patronized by 113,000 members. Currently, it is promoted by the Talwalkar and Gawande groups together. Out of the total number of health clubs, 79 are owned by TBVFL, 10 are legacy gyms, 10 are part of subsidiary companies wherein TBVFL has a 51% holding, 6 are part of the JV with Pantaloon Retail and the remaining 10 are purely franchisee outlets operating under the HI FI brand targeting the Tier II and III cities.

Investment Rationale

Introduction of HI FI Gyms results in accelerated expansion at zero capex cost

TBVFL is well positioned to increase its penetration into various parts of the country with launch of the HI FI concept which is mainly targeting the middle income population in the Tier II and III cities. This has helped the company to promote its brand and create an awareness in the smaller cities and also increase the total number of health clubs at a faster rate. In case of the HI FI format, TBVFL does not require capex though the royalty component is similar to the subsidiary model and additional upfront income of Rs. 1mn resulting in higher revenue at zero capex and a faster roll out of health clubs.

Healthy sales growth supported by fast paced expansion and demographic mix

TBVFL is focused on increasing its total number of gyms particularly in HI-FI segment which is leading to faster expansion on account of its attractive business model. TBVFL being benefitted from a surge in the number of people aged 35-50 years who form a major portion of the population. We expect rising awareness of the need to be healthy and maintain one's physical appearance will be the major reason for increase in membership. As per our projections, the sales are expected to grow at a CAGR of 19% from FY11 to FY14.

Focus on franchisee Model to support RoCE going forward

TBVFL has a large gym base, in which the amount of capex varies depending on the level of ownership. This optimal mix of owned, subsidiaries and franchisees on a pan Indian basis would support RoCE going forward. As Franchisee model does not require capex, we believe the company's focus is on expanding its franchisee network to support RoCE.

Valuation and Outlook

The stock is currently trading at a P/E of 11.9x, P/BV of 2.1x and an EV/EBIDTA of 7.2x its FY13 estimates. We have taken a discount of 30% to the average EV/EBITDA (8.9x) of its international peers as TBVFL is in a growth phase and operates in an emerging market. Thus we have arrived at an EV/EBIDTA multiple of 6.2x for valuing the company. Considering the strong business model and expansion plans coupled with increasing awareness of health and fitness, TBVFL is well poised to deliver high growth rate in the coming years and we expect it to grow by 30% and 29.7% for FY12E and FY13E respectively. We initiate the company with a **'BUY'** rating arriving at a target price of Rs. 205 (an upside of 37%).

Key Financials					
YE March (Rs. mn)	FY10	FY11	FY12E	FY13E	FY14E
Net Sales	661	1,023	1,329	1,724	2,199
Sales Growth (Y-o-Y) %	11.1%	54.7%	30.0%	29.7%	27.5%
EBIDTA	259	422	528	707	885
EBIDTA Growth (Y-o-Y) %	47.0%	62.6%	25.1%	34.1%	25.1%
Net Profit	83	161	203	301	408
Net Profit Growth (Y-o-Y) %	23.0%	92.9%	26.3%	48.7%	35.3%
Diluted EPS	3.5	6.7	8.4	12.5	16.9
Diluted EPS Growth (Y-o-Y) %	24.6%	92.9%	26.3%	48.7%	35.3%
Key Ratios					
EBITDA Margin %	39.2%	41.2%	39.7%	41.0%	40.3%
NPM (%)	12.6%	15.7%	15.3%	17.5%	18.5%
RoE (%)	26.6%	18.8%	14.9%	19.0%	21.4%
RoCE (%)	11.3%	10.8%	9.7%	11.7%	13.2%
Book Value Per share (Rs.)	17.4	52.2	59.4	70.7	86.5
Valuation Ratios					
P/E (x)	43.2x	22.4x	17.7x	11.9x	8.8x
P/BV (x)	8.5x	2.9x	2.5x	2.1x	1.7x
EV/EBIDTA (x)	17.1x	10.7x	9.2x	7.2x	5.7x
EV/Sales	6.7x	4.4x	3.6x	3.0x	2.3x
Market Cap./ Sales (x)	5.4x	3.4x	2.7x	2.1x	1.6x
Dividend Yield (%)	0.0%	0.8%	0.8%	0.8%	0.8%

Source: Company, BP Equities Research

Stock Rating

BUY	HOLD	SELL
> 15%	-5% to 15%	< -5%

Sector Outlook

Bullish

Stock

CMP (Rs)	149
Target Price (Rs)	205
BSE code	533200
NSE Symbol	TALWALKARS
Bloomberg	TALW IN
Reuters	TALW.BO

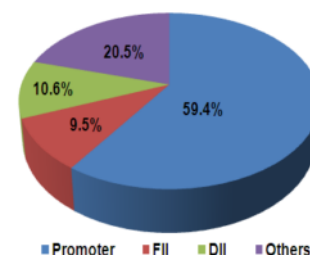
Key Data

Nifty	5429.50
52WeekHL(Rs)	267.0/108.0
O/S Shares (mn)	24.1
Market Cap (Rs bn)	3.6
Face Value (Rs)	10.0

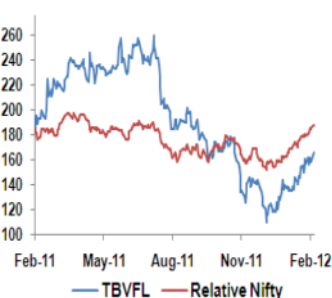
Average volume

3 months	113,726
6 months	122,562
1 year	202,405

Share Holding Pattern (%)



Relative Price Chart



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Investment Rationale

Brand Equity has given an edge over emerging players

TBVFL is one of the oldest fitness centers in India and maintains high quality standards by making use of imported exercise equipments from reputed international manufacturers flooring and air conditioners used in the health clubs which has given them an edge against emerging players in the fitness market. Thus the 'Talwalkars' brand has carved a niche for itself by consistently providing high quality offerings to its members.

TBVFL is one of the oldest fitness centers in India and has an extremely strong brand presence. The 'Talwalkars' brand has carved a niche for itself by consistently providing high quality offerings to its members.

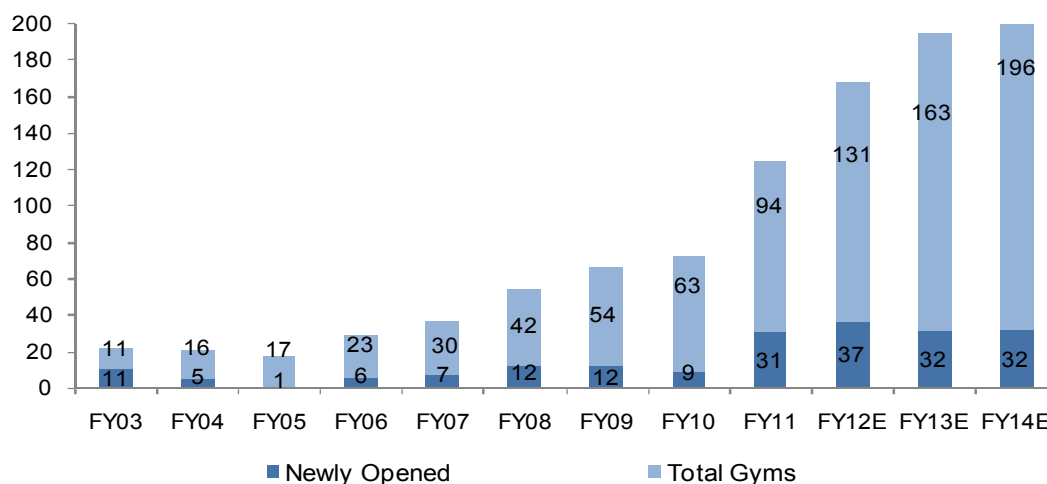
Hub and Spoke Model of operation has enabled rapid expansion

TBVFL believes in following a 'hub and spoke model' of operation which entails supervising day-to-day working by the respective local teams and they in turn, are managed by roaming managers who ensure that the operations match the necessary quality checks. This model has helped the company rapidly expand its footprint in smaller towns in India, where the local knowledge of customer profiles aided by a technical quality check and system control has ensured benefits for both the customer and the company.

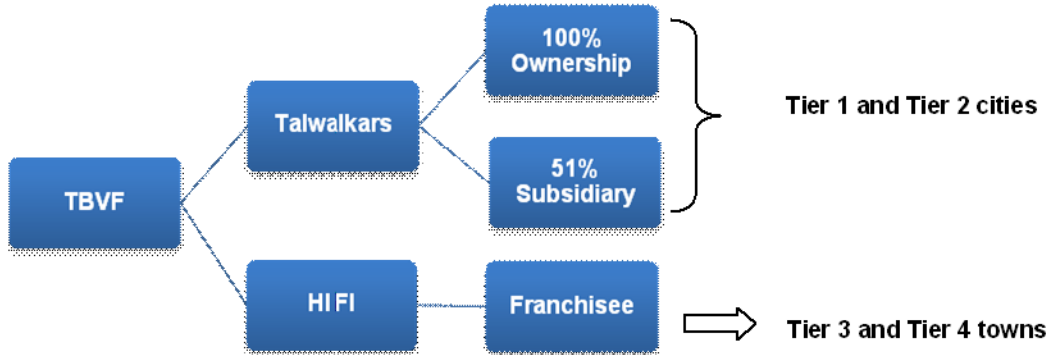
Introduction of HI FI Gyms has increased penetration and faster rollout

With the launch of the HI FI concept, which targets the middle income population in the Tier II and III cities, TBVFL is in a better position to increase penetration into various parts of the country. This has helped the company to promote its brand and create an awareness in the smaller cities and also increase the total number of health clubs at a faster rate.

Addition to No. of Health Clubs



Source: Company, BP Equities

Focus on Hi Fi Gyms to boost ROCE
Business Strategy → Subsidiary + Franchisee = High ROCE and Low Capex

Expansion Strategy

TYPE	OWNERSHIP	CAPEX	ROCE IMPLICATION
Talwalkar	100%	Full	Neutral
Talwalkar Subsidiary	51%	Half	Higher
HI FI	Nil	Nil	Highest

Source: Company, BP Equities Research
Subsidiary Model leading to lower capex and higher returns

The subsidiary model operates through the 'TALWALKARS' brand and provides the same facilities as any other regular TBVFL health club. However, in this scenario TBVFL holds a majority share of 51% which entails them a royalty of 6% of the total revenues for the initial 3 years and 8% starting from the fourth year resulting in higher returns at a lower capex cost. TBVFL also holds an option of buying back these subsidiaries at any time on a valuation of 3.5x the EV/EBITDA multiple.

HI FI model results in accelerated expansion at a lower capex cost

In case of the HI FI format, TBVFL does not contribute to the capex though the royalty component is similar to the subsidiary model plus an additional upfront income of Rs. 1mn resulting in higher revenue at zero investment of capex and a faster roll out of health clubs.

TALWALKARS vs HI FI - At a Glance

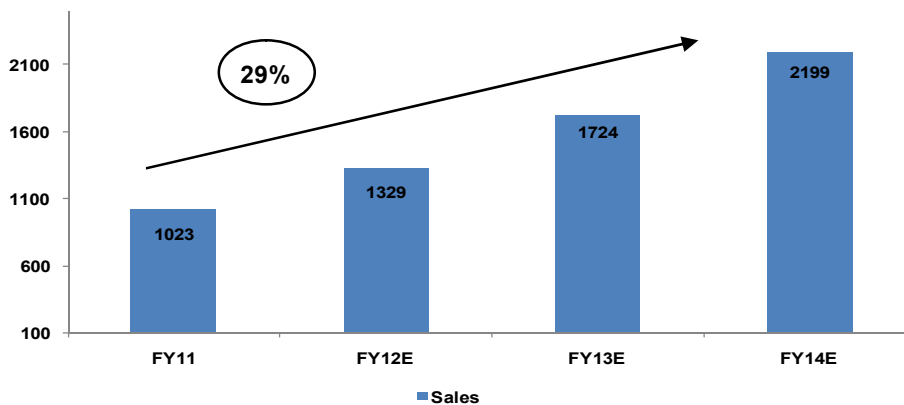
	Talwalkars	HI FI
Capex (Rs. Mn)	18.5 - 20	7.5 - 9.5
Business Model	Ownership	Franchisee
Royalty Earned (Rs. Mn)	Nil	1 (Upfront royalty) + 6% of revenues for 3 years and 8% thereafter
Area (Sq. Ft)	5000	2500
Basic Fees (Rs)	15000	9000
Facilities Provided	Gym + additional	Only Gym

Source: Company, BP Equities Research

Healthy sales growth supported by fast paced expansion and demographic mix

As per our projections the sales are expected to grow at a CAGR of 19% from FY11 to FY14E as TBVFL is focused on increasing its total number of gyms particularly in the franchisee segment which is leading to faster expansion on account of its attractive business model. This is due to TBVFL being benefitted from a surge in the number of people aged 35-50 years of age who form a major portion of the population. Rising awareness of the need to be healthy and maintain one's physical appearance particularly for this age group, will be the major reason for the high sales.

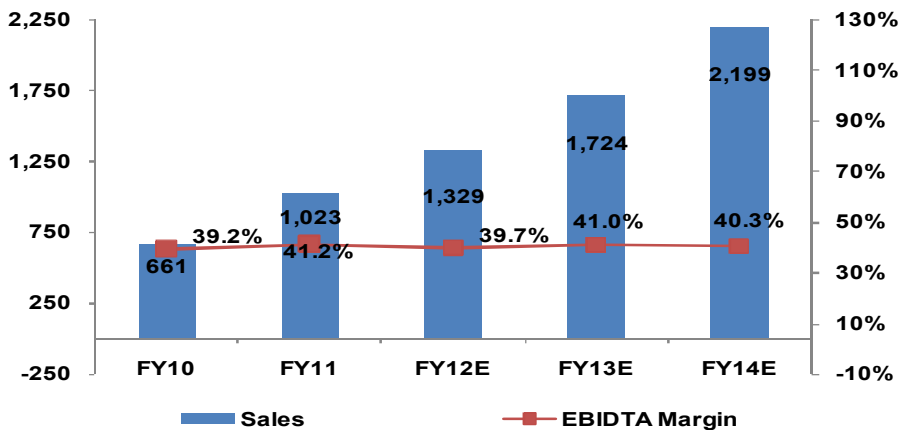
Sales Growth at a CAGR of 29%



Sales projected to grow at a CAGR of 29% and from FY11 to FY14E led by rapid expansion especially in the franchisee segment.

Source: Company, BPEquities Research

Sales & EBITDA Margin Trend

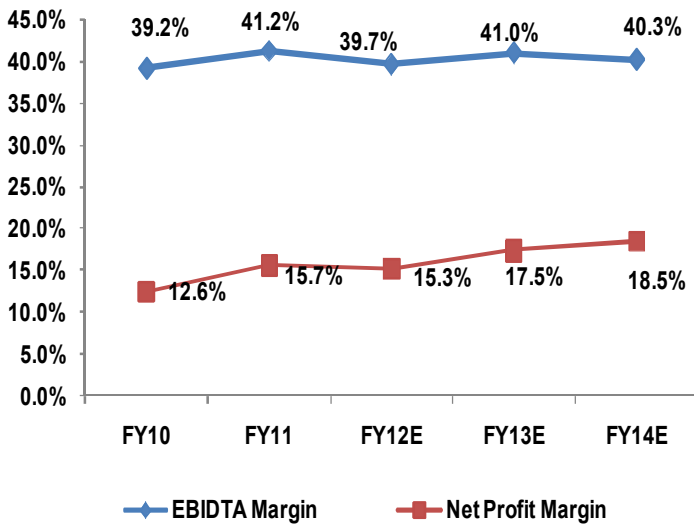
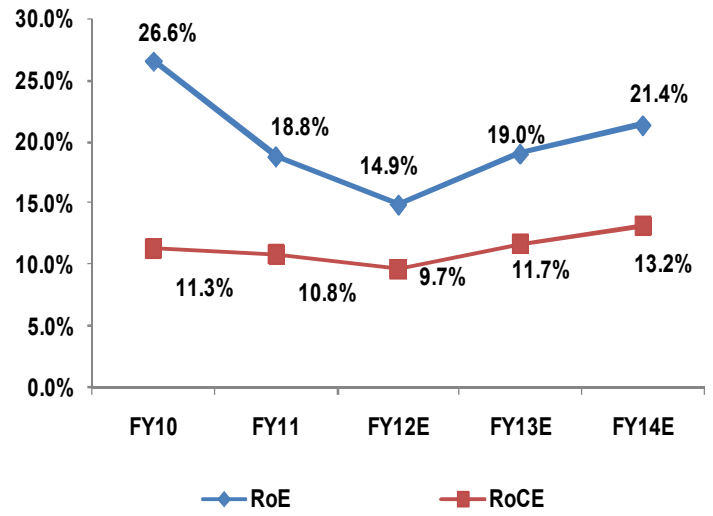


Focus on franchisee model would support RoCE going forward due to zero capex

Source: Company, BPEquities Research

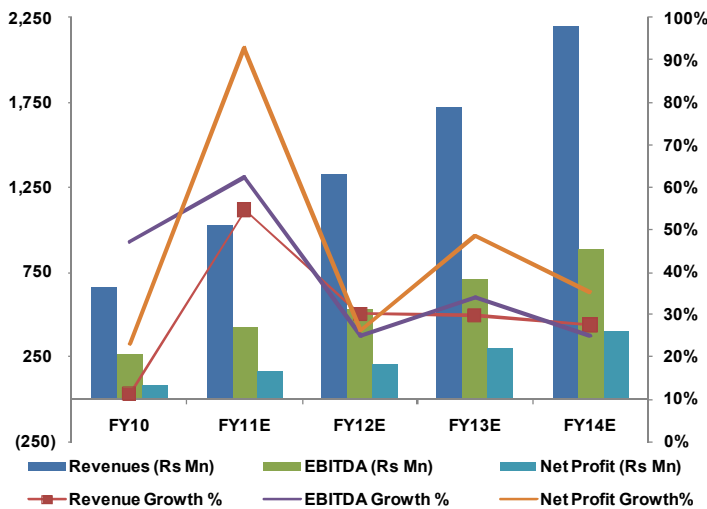
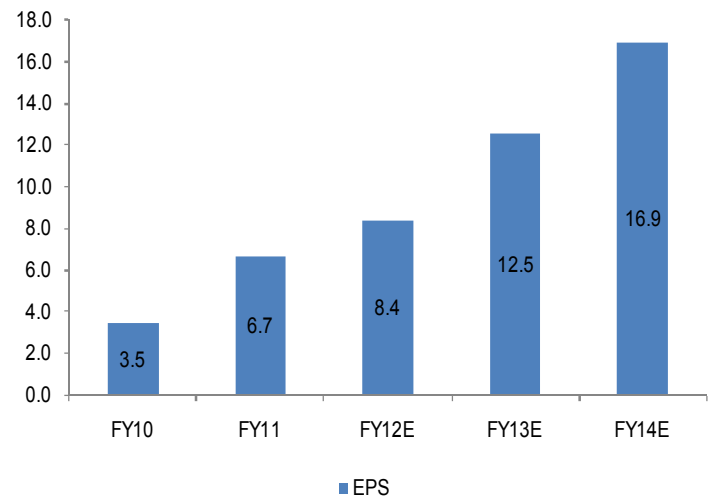
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EBIDTA & NPM Margin Trend

ROE & RoCE Trend


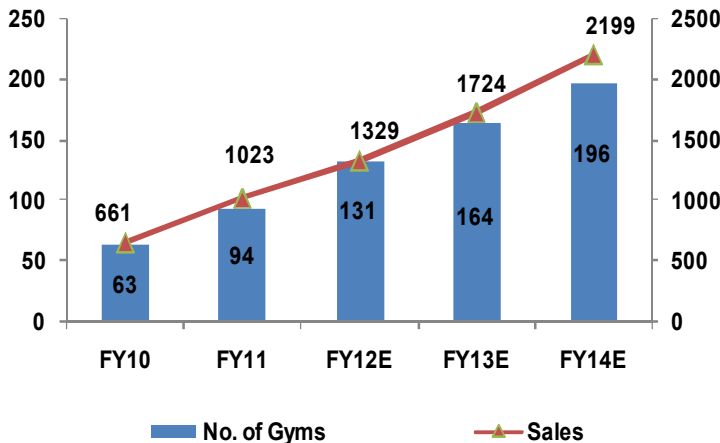
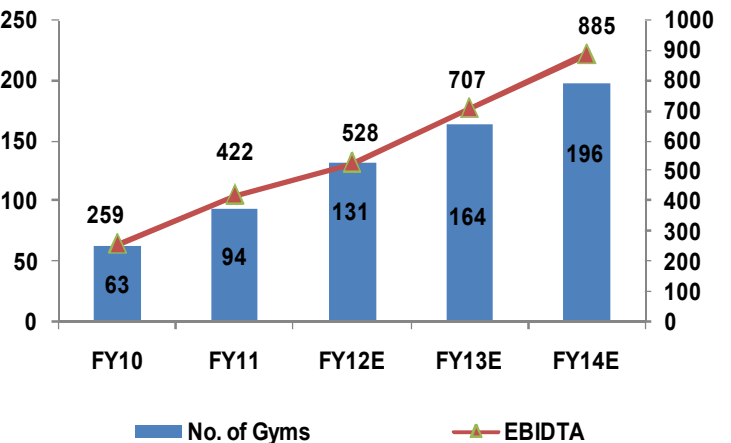
Source: Company, BP Equities Research

Source: Company, BP Equities Research

EBIDTA & Net Profit Trend

Diluted EPS


Source: Company, BP Equities Research

Source: Company, BP Equities Research

Projected Sales Growth

Projected EBIDTA Growth


Source: Company, BP Equities Research

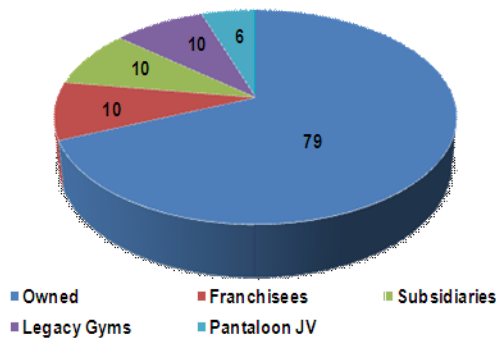
Source: Company, BP Equities Research

Company Description

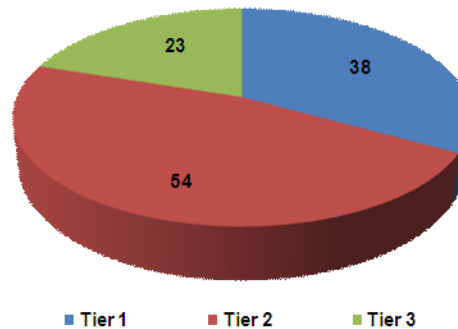
TBVFL, a pioneer in the Indian Fitness Industry, is India's largest chain of health centers in India. The company currently operates 115 health clubs including owned, franchisees, subsidiaries and legacy gyms across 56 cities as on date with a customer base of more than 113,000 members. Every health club has been installed with the latest imported equipments and consists of a staff that has been provided with the necessary training in TBVFL's own training centre located at Thane, Mumbai.

TBVFL is a pioneer in the Indian Fitness Industry operating 115 health clubs in 56 cities and a customer base of over 1 lakh members

Health Club Composition

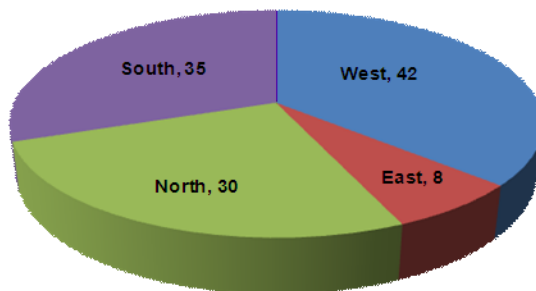


Tier-wise Health Club Distribution



Total of 115 Health Clubs across India

Zonal Distribution

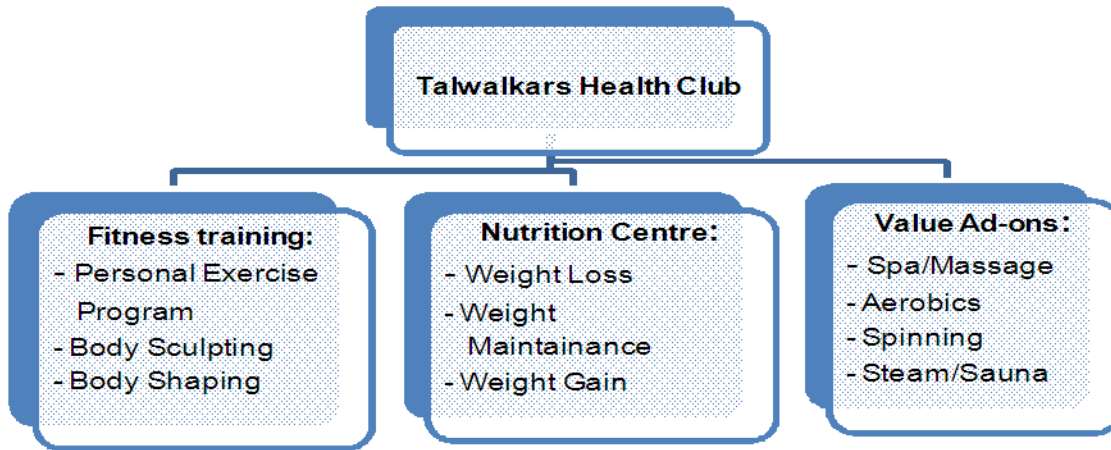


A typical TBVFL health club is spread over approximately 5000 sq. ft. with an employee strength of 35 to 40 employees

Source: RHP, BP Equities Research

A Typical Talwalkars Health Club

A TBVFL health club generally occupies an average area of over 5,000 square feet and is divided into areas like the gym hall consisting of cardio facility, free weights, physical training, massage, steam/sauna, nutrition counseling, changing rooms with locker and juice bar. The health clubs are kept open for members from 6 am in the morning to 10 pm in the evening with the footfall being significantly higher during 6-8 am and 7-9 pm. The fee structure is around Rs. 12500 to Rs. 14000 with additional charges for personal training, aerobics, spa and other services. Setting up a health club is a two phase process, the Planning stage and Set-up Stage. The planning stage involves finalizing of the site location after which it typically takes ~14-16 weeks for setting up the health club. Every club has a staff of approximately 35-40 employees consisting of general trainers, personal trainers, dieticians, masseur, aerobics instructor, spa therapist, yoga trainer and operational staff. Trainers have to undergo a compulsory 6 week training at the company's residential training academy.

Product/Service Offerings


HI FI is a franchisee based model requiring lower capex cost of Rs. 750mn to Rs. 950mn and generating a revenue of Rs. 15mn which is marginally less than the regular health club

Source: RHP, BP Equities Research

Introduction of HI FI - A Franchisee based model targeted in Tier II and Tier III cities

TBVFL has indentified a unique franchisee based business model with a view to expand in smaller towns and cities with the middle income population being their main target and enabling them to avail of high quality gyms at reasonable prices. Membership fees range from RS. 9000 to Rs. 10000 p.a. The first gym under the HI FI brand was opened on 9th June, 2011 at Pune. The main purpose of the HI FI Gym is to provide the key facilities of the existing health clubs including imported equipment, air-conditioning, generator back up, excellent ambience, high quality personal trainers etc though at a lower capex cost between Rs. 7.5 mn - Rs. 9.5 mn. In terms of revenue generation, TBVFL will earn an upfront of Rs. 10 lakhs from every franchisee being set up coupled with 6% of the total revenues in the first 3 years of operation and 8% thereafter. A HI FI Gym typically earns a revenue of 10-15 mn which is marginally less than the regular health club.

Membership charges range from Rs. 9000 to Rs. 10000 for HI FI gyms and Rs. 12500 and Rs. 14000 for regular health clubs.

Joint Venture with Pantaloon Retail

TBVFL had entered into a joint venture with Pantaloon Retail India Ltd on 5th October 2006 in order to promote the idea of mall based gyms in India. TBVFL owns 6 gyms named "Fit & Active" through this joint venture, one each at Mumbai, NCR, Nagpur, Siliguri and two at Bangalore. However this joint venture has ceased to exist with TBVFL currently being only an 8.33% shareholder.

Talwalkars Training Academy

TBVFL has its own 7,500 square feet training academy at Thane which was established in 2009 for training newly recruited as well as existing fitness trainers for a period of 45 days. The training incorporates practical as well as theoretical aspects covering weight training, cardio vascular fitness, special cases and nutrition along with on the job training at various gyms. The centre has 10 residential flats adjoining this academy to accommodate 40-60 recruits at a time during the course duration. In order to generate profits from this entity, the company has begun providing spa services to outsiders under the brand name 'Sparsh' and also intend introducing fitness courses to outside trainees for a fee.

Management Profile

Name	Designation	Brief Profile
Mr. Madhukar Talwalkar	Executive Chairman	He holds Bachelors degree in Textile and has 50 years of experience in health and fitness industry. He has been driving force of the Company, in terms of expansion and positioning and has significantly contributed in making Talwalkars a leader in the industry of health and fitness.
Mr. Prashant Talwalkar	MD & CEO	He holds Bachelors degree in Science from University of Mumbai and has 25 years experience in marketing of health clubs. He has been a key person to expand the brand-name of the Company in events like the Pantaloons Femina Miss India 2009 and Standard Chartered Mumbai Marathon 2008 and 2009. He is also responsible for corporate tie ups and other promotional activities.
Mr. Girish Talwalkar	Whole-time Director	He holds Masters Degree in Physiotherapy from Mumbai University and has 20 years experience in handling the task of setting up and running health clubs. He is responsible for strategic planning, corporate tie ups and human resource (HR) function of our Company and other promotional activities.
Mr. Vinayak Gawande	Whole-time Director	He holds Bachelors Degree in Commerce from Mumbai University and has 30 years experience in taxation, law and finance industry. He also manages a section of hospitality sector of the group, managing a 3 star hotel at Khandala. He is currently in charge of direct and indirect tax and legal matters of our Company.
Mr. Harsha Bhatkal	Whole-time Director	He holds a Bachelors Degree in Commerce and a Masters Degree in Business Administration with 25 years experience in publishing and marketing industry. He is responsible for brand strategy and overall marketing of the brand of our Company.
Mr. Anant Gawande	Whole-time Director and CFO	He is a fellow member of the Institute of Chartered Accountants of India since 1989 and has 20 years experience in the finance industry. He is actively in charge of the entire finance operations including budgets and controls of the Company.

Source: RHP, BP Equities

Major Milestones

April 2003	Incorporated as Talwalkars Better Value Fitness Pvt Ltd
June 2003	Acquired the entire business of Talwalkars Health Unlimited, a partnership firm of the promoters.
August 2005	Executed franchisee agreements with Kandarkar & Shinde Associates and Equinox Wellness Private Limited for gymnasiums located at Navi Mumbai and Kolkata
October 2005	Entered into a joint venture agreement with Pantaloon Retail (India) Ltd to promote mall based gyms
April 2010	Became a Public Ltd via IPO and raised Rs. 77mn
June 2011	Opened first HI FI Gym in Pune

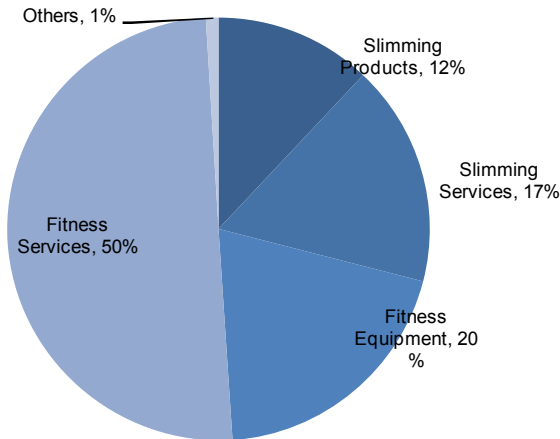
Source: Capital Line, BP Equities

Industry Overview

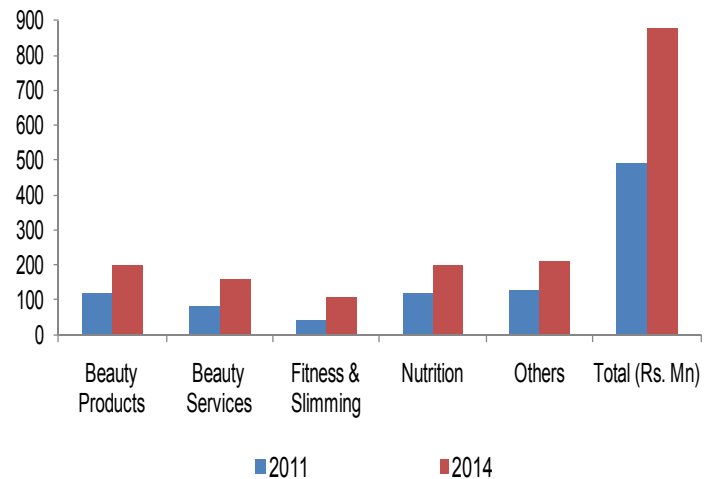
For a long time, India has been the second-fastest growing major economy in the world and according to World Bank data, the economy is expected to grow at a faster rate than that of China. The multilateral agency's World Economic Outlook has projected that India will grow at 8.7% in 2012 compared to China's 8.4% driven strongly by the increase in domestic demand and a revival in investor and consumer sentiment. The Indian Wellness Industry has over the years, evolved into a comprehensive ecosystem consisting of consumers, providers adjacent industries, facilitators and the Government (*Source: PWC Report FICCI Sept 2011*).

Indian wellness market is currently estimated at Rs.490bn and poised to double in the next 3 years

Break up Indian Health & Fitness Market



Expected Growth in Wellness Industry from 2011-14



Source: PWC Report FICCI Sept 2011, BP Equities

The Indian Wellness Industry

The Indian wellness market is currently estimated at Rs. 490bn with the fitness segment comprising of ~10% and is poised to reach approximately Rs. 875bn in the next three years. Out of the total fitness segment, only 20% is organized, which means the market is highly under penetrated with numerous growth opportunities available to new and existing players. Taking advantage of this opportunity many players are considering expansion in the Tier II and III cities on account of a higher middle class population coupled with lower real estate prices than in the metros. Most of the leading players have adopted 'franchising' as the preferred model to boost business operations and are always on the look out for public and private avenues to help fund their expansion plans. (*PWC Report FICCI Sept 2011*)

Franchising is fast gaining popularity as it helps scale up business at a faster rate



- **SEGMENT:** Beauty & Slimming
- **TOTAL OUTLETS:** 160
- **PROPORTION OF FRANCHISEE:** 20%
- **FUTURE OUTLOOK:** To increase number of franchisee three fold by 2013



- **SEGMENT:** Fitness
- **TOTAL OUTLETS:** 115
- **PROPORTION OF FRANCHISEE:** 25%
- **FUTURE OUTLOOK:** To increase number of franchisee via HIFI brand



- **SEGMENT:** Fitness
- **TOTAL OUTLETS:** 50
- **PROPORTION OF FRANCHISEE:** 25%
- **FUTURE OUTLOOK:** To focus on a 75:25 franchisee to company model of operation

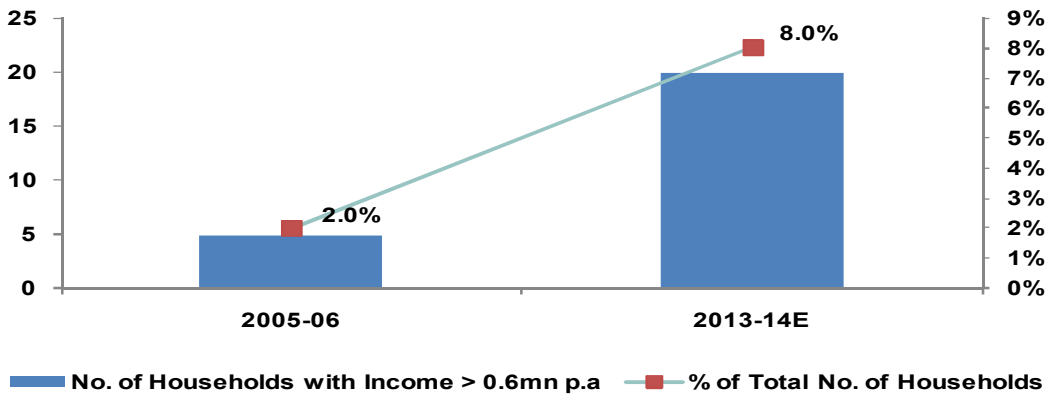
Players are keen to explore Tier II and III cities, which show great potential for expansion on account of higher middle income population

Source: PWC Report FICCI Sept 2011, BP Equities

Main Industry Drivers

Increasing disposable income among middle class population

An increase in wealth in the top metros of India coupled with an overall rise in the income levels of the middle class population, has led to a higher amount of disposable income being available with people. Both these factors provide a highly profitable market for fitness centers and related services like spas, aerobics and nutrition centers.



Increasing disposable income and higher frequency of life-style diseases has created greater need for fitness centers and related services

Source: NCAFR, company, BP Equities Research

High frequency of lifestyle diseases and growing realization to adopt a healthy lifestyle

Significant changes in lifestyle, related to lack of physical activity and increased consumption of fast food among both affluent and working class population has led to the greater need for healthy lifestyles through sports, fitness centers and counseling on dietary habits. India leads the world in the number of people suffering from diabetes and by 2030, nearly 9 per cent of the country's population is likely to be affected from the disease. There is a huge emphasis on regular exercise to prevent obesity and diabetes, which can be prevented by an increase in physical activity and a nutritious diet. (Source: International Diabetic Federation Report, October 2009)

Higher composition of target group in total population creating awareness

The target population in the age group of 15 -35 years comprises of a significant portion of the total population in India and is further expected to increase in the next 5 years. This has led to an increased awareness about fitness and driving growth in allied products and services.

Future Outlook

India's total wellness market is estimated at Rs. 490bn of which the fitness services comprise of 65%. According to estimates, this market is likely to grow at a 20% CAGR totaling to Rs. 875bn in the next 3-4 years due to:

- ⇒ Increase in the number of domestic players and new international entrants,
- ⇒ Diversification in the products and services offered and expansion in Tier II and III cities
- ⇒ Popularity of the franchisee model of operation,
- ⇒ Strong growth expectations in the otherwise under penetrated industry.
- ⇒ In addition to the above, increasing consciousness about personal appearance among the younger generation coupled with high motivation for a healthier lifestyle has made the Indian consumer across the country demand better facilities in improving their health and fitness levels.

Key Risks**Entry of global players to increase competition leading to possible decrease in market share**

The organized market accounts for only 20% of the total wellness industry in India thereby presenting a lot of growth opportunities in the Indian market. Although TBVFL has a market share of ~50% in the organized market, various strategies adopted by these new entrants could affect business and reduce TBVFL's market share. Pricing is also a significant factor and if the competitors are successful in providing their services at lesser and more competitive rates than TBVFL, then this could have an adverse effect on the company's overall profitability.

Although TBVFL makes up for 50% of the total organized wellness industry, entry of new players in the otherwise under-penetrated segment could hamper business prospects and reduce TBVFL's market share

Challenges faced during selection of employees

Being a service based company, human resource is an indispensable factor in determining the success of the company. But many factors make it difficult to procure the right kind of staff. Firstly, in India, people are still skeptical of disclosing the fact that they are working in a gym though majority of these employees belong to the less affluent section of population. It is also difficult to find women trainers as very few women coming from this section of society would be allowed to consider such a job. Secondly, TBVFL is considering a high level of expansion in the Tier II and III cities, selecting the appropriate people in small cities and towns could prove challenging. Lastly, recruiting senior management with the requisite skills is also a problem as this business entails looking after customers 365 days a year, which very few people are willing to do.

Delay in rollout of proposed health clubs could hamper growth & revenue projections

On an average TBVFL takes around 14-16 weeks to set up a health club after the planning phase. However, if TBVFL is unable to find a suitable location, then it would mean delay in setting up the health club or not being able to open it at all thereby not being able to meet the projected growth and revenue numbers.

Lack of availability of suitable locations could lead to delay in setting up the proposed health clubs, resulting in TBVFL's inability to meet the projected growth and revenue numbers.

Failure to employ and retain trainers could result in poor service quality

Majority of the trainers and other professional staff at TBVFL are outsourced from agencies with whom they have an exclusive agreement for recruiting employees. Considering the demand for such staff is greater than the supply, inability to attract trained staff could prove hazardous to business operations.

Seasonal nature of business due to lesser memberships in Q1 and Q3

The first quarter generally sees a moderate growth in revenues as the footfall is lower due to summer vacations of children beginning in April and the monsoon season in June. Similarly the third quarter is also subdued with a various festivals from October until the New Year. The number of memberships reduces in these quarters leading to decrease in revenues.



Revenue Projections of TBVFL

Particulars	FY12E	FY13E	FY14E
Existing Health clubs (Starting of the Period)			
Owned -Gyms			
Members per Gym	1,032	1,083	1,137
Beginning	79	84	95
Addition	5	11	12
Ending	84	95	107
Members in Owned Gyms	86,666	107,817	139,651
Membership Fees	13,000	13,650	13,650
Revenue from Owned Gym	1127	1472	1906
Subsidiary Gyms			
Members per Gym	964	1013	1063
Beginning	10	15	21
Addition	5	6	6
Ending	15	21	27
Members in Subsidiary Gyms	14,466	21,265	28,707
Membership Fees	13000	13650	13650
Revenue from Subsidiaries	188	290	392
Upfront Fees	1,000,000	1,000,000	1,000,000
TBVFL Revenue from Subsidiaries	26	38	51
Franchisee Gyms			
Members per Gym	964	1,013	1,063
Beginning	10	16	32
Addition	6	16	14
Ending	16	32	46
Members in Franchisee Gyms	15,430	32,403	48,908
Membership Fees	9975	9975	9975
Revenue from Franchisees	154	323	488
Upfront Fees	1,000,000	1,000,000	1,000,000
TBVFL Revenue from Franchisees	25	51	75
Legacy Gyms			
Members per Gym	964	984	1,003
Beginning	10	10	10
Addition	0	0	0
Ending	10	10	10
Members in Legacy Gyms	9,644	9,837	10,033
Membership Fees	13,000	13,650	13,650
Revenue from Legacy	125	134	137
Pantaloony Gyms			
Members per Gym	662	695	729
Beginning	6	6	6
Addition	0	0	0
Ending	6	6	6
Members in Pantaloony Gyms	3969	4168	4376
Membership Fees	13,000	13,650	13,650
Revenue from Pantaloony	52	57	60
TBVFL Revenue from Pantaloony- 50% of Total	26	28	30
Total Gyms			
Beginning	115	131	164
Addition	16	33	32
Ending	131	164	196
Total Members	126,333	175,489	231,676
Growth in No. of Members	62%	34%	25%
Membership Fees- Average	10,523	9,825	9,491
Total Revenue Earned by TBVFL	1329	1724	2199

Source: Company, BP Equities Research

Valuation and Outlook

We have used the EV/EBITDA model for valuation of the TBVFL stock. Since the company does not have any listed peers in the India market, the stock has been compared with respect to internationally listed players. In order to arrive at a multiple for calculating the enterprise value of TBVFL, the average of the EV/EBIDTA of peers has been taken for the year FY13E.

Peer Comparison

COMPANY NAME	EBITDA %			Adj. PAT %			EPS			EV/EBITDA		
	FY11A	FY12E	FY13E	FY11A	FY12E	FY13E	FY11A	FY12E	FY13E	FY11A	FY12E	FY13E
Life Time Fitness	26.8	28.5	28.8	9.1	10.2	10.6	2.3	2.8	3.1	10.4	8.8	7.9
Weight Watchers	31.2	31.8	32.9	16.7	18.0	16.6	4.1	4.6	5.2	15.7	10.7	9.8
TBVFL	40.4	49.6	48.3	15.4	27.3	27.1	6.7	14.4	15.5	10.6	7.3	7.1

Source: Bloomberg, BP Equities Research

Valuation Methodology	
International Peers	
Life Time Fitness (US) (EV/EBITDA)	7.9
Weight Watchers (US) (EV/EBITDA)	9.8
Average Multiple of Peers	8.9
Discount to International peers (%)	30%
EV/EBITDA Multiple for TBVFL	6.2
EBIDTA (FY13E)	707
Enterprise Value	4,382
Less: Debt (Q3 FY12)	1,150
Add: Cash (Q3 FY12)	1,730.0
Less: Minority Interest	23.8
Equity Value	4,939
Total No. of Shares (mn)	24
Target Price (Rs)	205
Upside (%)	37.4%

Source: Company, BP Equities Research

The methodology to be followed for valuation should be able to assess a fair value of the equity of an enterprise after factoring its earning power, its future projections and performances of a peer group that has an operating business model which is very close to that of the company. To create a valuation model for TBVFL we have taken an EV/EBIDTA model. We have seen that TBVL does not have any listed players in the Indian market. But if one looks at the overseas sphere, there are two companies which have a business model similar to that of TBVFL. Hence in our opinion, using them as a base would be the most appropriate method of predicting the future target price of TBVFL. In the course of our estimation, we have computed the average EV/EBIDTA multiple for both the companies using published statistics of FY13E and discounted it at 30% considering TBVFL is in a growth phase and operates in an emerging economy. The average EBIDTA multiple so worked out is 6.2x. Applying this multiple to the FY13E EBIDTA of TBVFL, the enterprise value has been computed at Rs. 4382mn for FY13E. The projected debt for FY13E is Rs. 1150mn. After factoring these values, the equity valuation of TBVFL on a projected basis has been estimated at Rs. 4939mn for FY13E respectively. Based upon the issued equity shares of 24mn, we have arrived at a **target price** of **Rs. 205** as per FY13E which is an upside of 37%. Considering the strong business model and expansion plans of the company coupled with the high growth potential in an industry which is still in the initial growth stage we recommend investors to **BUY** this stock.

Income Statement

YE March (Rs. mn)	FY10	FY11	FY12E	FY13E	FY14E
Net Sales	661	1,023	1,329	1,724	2,199
Other Operating Income	4	21	21	21	21
Total Revenue	665	1,043	1,350	1,745	2,220
% change (YoY)	11.3%	56.9%	29.4%	29.2%	27.2%
Less:					
Personnel Cost	157	202	304	383	496
Administrative and other expenses	173	290	372	471	600
Selling & marketing	15	35	45	52	67
Service Tax collected and paid	61	94	101	132	172
Total Operating Expenditure	406	622	822	1,038	1,334
EBIDTA	259	422	528	707	885
% change (YoY)	47.2%	62.6%	25.1%	34.1%	25.1%
Less: Depreciation	61	90	119	145	157
EBIT	198	332	408	563	728
% change (YoY)	52%	67%	23%	38%	29%
Interest Paid	81	86	102	112	122
Non-operating Income	2	(4)	0	0	0
Extraordinary Income	0	0	0	0	0
PBT	120	242	306	450	606
% change (YoY)	53%	102%	26%	47%	35%
Tax	21	46	95	140	188
Deferred Tax	15	28	0	0	0
Minority Interest	0	8	9	9	10
Net Profit	83	161	203	301	408
% change (YoY)	23.0%	92.9%	26.3%	48.7%	35.3%
Adjusted Profit	83	161	203	301	408
% change (YoY)	25%	93%	26%	49%	35%
Diluted EPS	3.5	6.7	8.4	12.5	16.9
% change (YoY)	24.6%	92.9%	26.3%	48.7%	35.3%

Source: Company, BPEquities Research

Key Ratios

YE March (Rs. mn)	FY10	FY11	FY12E	FY13E	FY14E
Key Operating Ratios					
EBITDA Margin (%)	39.0%	40.4%	39.1%	40.5%	39.9%
Tax / PBT (%)	30.5%	30.4%	31.0%	31.0%	31.0%
Net Profit Margin (%)	12.5%	15.4%	15.0%	17.3%	18.4%
RoE (%)	26.6%	18.8%	14.9%	19.0%	21.4%
RoCE (%)	11.3%	10.8%	9.7%	11.7%	13.2%
Current Ratio (x)	1.5x	2.6x	2.1x	1.7x	2.0x
Dividend Payout (%)	0.0%	17.4%	13.8%	9.3%	6.9%
Book Value Per Share (Rs.)	17.4	52.2	59.4	70.7	86.5
Financial Leverage Ratios					
Debt/ Equity (x)	2.3x	1.0x	0.5x	0.5x	0.4x
Interest Coverage (x)	3.2x	4.9x	5.2x	6.3x	7.3x
Interest / Debt (%)	9.1%	7.9%	7.7%	7.3%	7.3%
Growth Indicators %					
Growth in Gross Block (%)	19.2%	54.9%	29.3%	9.4%	8.6%
Sales Growth (%)	11.1%	54.7%	30.0%	29.7%	27.5%
EBITDA Growth (%)	47.2%	62.6%	25.1%	34.1%	25.1%
Net Profit Growth (%)	23.0%	92.9%	26.3%	48.7%	35.3%
Diluted EPS Growth (%)	24.6%	92.9%	26.3%	48.7%	35.3%
Turnover Ratios					
Debtors (Days of net sales)	18	72	72	72	72
Creditors (Days of Raw Materials)	32	73	73	73	73

Source: Company, BPEquities Research

Balance Sheet

YE March (Rs. mn)	FY10	FY11	FY12E	FY13E	FY14E
Liabilities					
Equity Capital	181	241	241	241	241
Reserves & Surplus	240	1,015	1,189	1,463	1,843
Equity					
Preference Share Capital	0	0	0	0	0
Net Worth	421	1,258	1,432	1,706	2,086
Minority Interest	0	22	23	24	31
Net Deferred tax liability/(Asset)	48	109	109	109	109
Total Loans	972	1,211	1,461	1,601	1,741
Capital Employed	1,441	2,600	3,026	3,440	3,967
Assets					
Gross Block	1,322	2,048	2,648	2,898	3,148
Less: Depreciation	161	263	382	145	157
Net Block	1,161	1,785	2,266	2,753	2,991
Capital WIP	130	274	274	274	274
Investments	49	50	50	50	50
Current Assets					
Sundry Debtors	33	203	262	340	434
Cash and Bank Balance	125	292	218	89	324
Loans and Advances	109	243	284	366	466
Total Current Assets	266	737	763	796	1,224
Less: Current Liabilities & Provisions					
Current Liabilities	118	173	227	293	373
Provisions	56	113	141	180	238
Total Current Liabilities & Provisions	174	286	368	473	611
Net Current Assets	92	451	396	323	613
Miscellaneous Assets	0	0	0	0	0
Capital Applied	1,441	2,600	3,026	3,440	3,967

Source: Company, BPEquities Research

Free Cash Flow Analysis

YE March (Rs. mn)	FY10	FY11	FY12E	FY13E	FY14E
EBITA	198	332	408	563	728
Less: Adjusted Taxes	61	101	127	174	226
NOPLAT	138	231	282	388	502
Plus: Depreciation	61	90	119	145	157
Less: Increase in Working Capital	38	221	39	82	87
Operating Cashflow	161	100	362	451	573
Less: Net Capex	327	858	600	632	395
Less: Increase in Net Other Assets	(53)	(102)	(9)	(12)	(20)
FCF From Operation	(113)	(656)	(229)	(169)	198
Less: Inc./(Dec.) in Investment	8	1	0	0	0
FCF after Investment	(122)	(657)	(229)	(169)	198
Total FCF	(122)	(657)	(229)	(169)	198

Source: Company, BPEquities Research

Valuation Ratios

YE March (Rs. mn)	FY10	FY11	FY12E	FY13E	FY14E
P/E (x)	43.2x	22.4x	17.7x	11.9x	8.8x
P/BV (x)	8.5x	2.9x	2.5x	2.1x	1.7x
EV/EBIDTA (x)	17.1x	10.7x	9.2x	7.2x	5.7x
EV/Sales	6.7x	4.4x	3.6x	3.0x	2.3x
Market Cap./ Sales (x)	5.4x	3.4x	2.7x	2.1x	1.6x
Dividend Yield (%)	0.0%	0.8%	0.8%	0.8%	0.8%

Source: Company, BPEquities Research

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