

Talwalkars Better Value Fitness : High Priced Issue

IPO Note: PE Ratio 54 times on post IPO equity

Ranking: **

Issue details

Price band (Rs)	Rs.123 - 128
IPO Opening Date	21/04/2010
IPO Closing Date	23/04/2010
Issue Size	Rs. 74.40 - 77.4 crore

Valuations & Recommendation

The company has set a price band of Rs 123 to Rs 128 per equity share of Rs 10 face value. At the lower band of Rs 123 per share, the P/E would be 51.6 times the annualized EPS of Rs 2.4 for the nine months ended December 2009 (on post-IPO equity) and 82 times the EPS of Rs 1.5 (on post-IPO equity) for FY09. At the upper price band of Rs 128 per share, the P/E would be 54 times the annualized EPS for the nine months ended December 2009 and 85 times the EPS for FY09. There is no comparable listed company. **We recommend to avoid this issue but investors with high risk aptitude can take exposure in this issue because company is growing with high CAGR.**

Highlights:

- Revenues have grown at a compounded annual growth rate (CAGR) of 63% since fiscal year '05 to reach Rs 59.2 crore in FY09.
- Profits have grown at a CAGR of 118% since FY05 to hit Rs 5.7 crore at the end of FY09.
- It owns one of the largest and oldest fitness chains in India
- It owned 37 health clubs and operated 14 more through franchisee route across 24 cities in 11 states across the country
- Plans to open 38 clubs in FY11

Company Introduction

Promoters

Talwalkars Better Value Fitness is one of the largest fitness chains in India offering a diverse suite of services including gyms, spas, aerobics and health counseling under the brand "Talwalkars". It is promoted by Mr. Madhukar Talwalkar, Mr. Prashant Talwalkar, Mr. Vinayak Gawande, Mr. Girish Talwalkar, Mr. Harsha Bhatkal and Mr. Anant Gawande. "Talwalkars" has pioneered the concept of gyms in India and today is a recognized name in the health and fitness industry. Currently the company operates 58 health clubs out of which 44 health clubs are owned by the company, 9 health clubs are Joint Ventures (JV)/Associates and the rest 5 health clubs are run through franchisees. It is present in 24 cities belonging to 11 states of the country and serving over 55,000 members. The company has added 15 health clubs in FY09. In FY10, the company has added 9 health clubs. In the near term the company is going to start 7 health clubs, for which premises have been taken on lease and gym equipments have been ordered. Moreover for 4 clubs, the company has completed the planning phase and will commence execution very soon.

Developments

The company has also entered into arrangements with established local fitness operators to accelerate gym ramp-up in specific locations. Currently it owns 6 gyms named 'Fit & Active' through this JV viz, one each at Mumbai, NCR, Nagpur, Siliguri (WB) and two at Bangalore.

Moreover, the company through Denovo Enterprises owns health clubs at Indore and Jaipur while the company has also entered into an agreement with Equinox Wellness to own a health club at Kolkata. The company has five clubs under franchisee model with two each in Delhi and Nagpur and one in Mumbai.

The company has signed a Memorandum of Understanding (MoU) for a JV with Life Fitness India to set up 4 gyms in Pune. This gives the former a compulsory right to buy out these 4 gyms on March 31, 2013 and also an option to buy the existing 4 gyms currently operated by them.

Products & Services

The company offers three product/services: A) Fitness Training which includes personal exercise program, body sculpting and body shaping. B) Nutrition Centre which includes weight loss program, weight maintenance program and weight gain program. C) Value Add-ons which includes spa & massage, aerobics, spinning and steam & sauna bath.

IPO and Purpose

The company intends to enter capital market to raise money in the range of Rs 74.42 crore to Rs 77.44 crore by issuing around 60.5 lakh equity share of face value of Rs 10 each at the price range of Rs 123 to Rs 128 per share. The company is raising this money to add another 27 health clubs in FY11. Each health club has capital expenditure of approximately around Rs 1.86 crore which turn into Rs 50.22 crore for 27 clubs. The company also plans to repay its unsecured loan amounting to Rs 20.6 crore.

Financial Summary

Particulars	0912 (09)	0903 (12)	0803 (12)	0703 (12)
Net Sales	44.08	52.97	34.14	19.86
OPM (%)	39.7	32.2	39.4	30.5
PAT	4.29	5.69	4.52	1.09
EPS (Rs)	2.4	1.5	1.9	0.5

RANKING METHODOLOGY

WEAK	*
AVERAGE	**
GOOD	***
VERY GOOD	****
EXCELLENT	*****

DISCLAIMER

The information provided by or in this newsletter is generally from the press reports, electronic media, research websites and other media. The information also includes information from interviews conducted, analysis, views expressed by our research team. Investors should not rely solely on the information contained in this publication and must make their own investment decisions based on their specific investment objectives and financial position and using such independent advisors as they believe necessary. The material and the information provided by this newsletter are not, and should not be construed as an advice to buy or sell any of the securities named in this newsletter. SIHL may or may not hold positions in any of the securities named in this newsletter as a part of its business. Past performance is not necessarily an indication of future performance. SIHL does not assure for accuracy or correctness of information of reports in the newsletter.