



The bad news.

There is a possibility that 98% of those reading this cannot touch their toes when standing, cannot get beyond 'five' when doing push-ups and cannot run three storeys without panting for five minutes thereafter.

Corporate Information

BOARD OF DIRECTORS

Madhukar Talwalkar	- Executive Chairman
Prashant Talwalkar	- Managing Director & CEO
Vinayak Gawande	- Whole-time Director
Girish Talwalkar	- Whole-time Director
Harsha Bhatkal	- Whole-time Director
Anant Gawande	- Whole-time Director & CFO
Manohar Bhide	- Independent Director
Raman Maroo	- Independent Director
Mohan Jayakar	- Independent Director
Avinash Phadke	- Independent Director
Abhijeet Patil	- Independent Director
Dinesh Atzulpurkar	- Independent Director

COMPANY SECRETARY

Avanti Sankav

STATUTORY AUDITORS

M.K. Dandekar & Company
Chartered Accountants

No. 244, Angappa Naicken Street
2nd Floor, Chennai - 600 001.

BANKERS

Union Bank of India

REGISTRAR & SHARE TRANSFER AGENTS

Link Intime India Private Limited

C-13, Pannalai Silk Mills Compound

L.B.S Marg, Bhandup (West)

Mumbai - 400 078.

REGISTERED OFFICE

801 – 813, Mahalaxmi Chambers

22, Bhulabhai Desai Road

Mumbai – 400 026.

10TH ANNUAL GENERAL MEETING

Thursday, 8th August, 2013 at 12.30 p.m.

Venue: M.C. Ghia Hall of Indian Textile Accessories & Machinery Manufacturer's Association, Bhogilal Hargovindas Building, 4th Floor, Kala Ghoda, 18/20, K. Dubash Marg Mumbai – 400 001.

Forward looking Statement

This annual report and other statements – written and oral – that we periodically make contain forward-looking statements that set out anticipated results based on the management's plans and assumptions. We have titled wherever possible to identify such statements by using suitable words in connection with any discussion of future performance.

We cannot guarantee that these forward looking statements will be realised, although we believe we have been prudent in our assumptions. The achievement of results is subject to risks, uncertainties and even inaccurate assumptions. Should known or unknown risks or uncertainties materialise, or should underlying assumptions prove inaccurate, actual results could vary materially from those anticipated, estimated or projected.

We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise.

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The good news.



Talwalkars has created an entire business to reverse this grim reality.

Talwalkars is India's largest – and only listed – fitness chain. The company is structured around the positioning of 'A fitness centre to suit every pocket and a fitness solution to suit every age group.' With 144 centres spread across 75 Indian cities and towns.

And over
133,000
members.

USP

A widely recognised pan-India health fitness chain providing world-class gymming experience facilitated by professional trainers. The Company also comprises a state-of-the-art training institute in Thane (Mumbai) that focuses on creating industry-ready professionals to man its pan-India outlets.

Outlet details

Of the 144 centres that the Company has, 129 are under the Talwalkars brand and 15 under HiFi. Of the 129 Talwalkars outlets, 101 were Company-owned, 15 under subsidiaries, seven under franchisee agreements and six under trademark license.

Promoters

The Promoters enjoy an experience of over five decades in the business and own an aggregate 54.78% of the Company's equity.

Listing

The Company's Equity Shares are listed on the Bombay and National Stock Exchanges with a market capitalisation of ₹3,753 million as on 31 March 2013.

Fitness services

Standard gymming and fitness, Zumba® programme, Spa, Massage, Aerobics, Yoga, NuForm and Reduce, two fitness centre formats of Talwalkars (large size formats mostly located in metro and Tier I & II locations) and HiFi (low-cost format located in non-metro locations).

Highlights 2012-13

- Reported a 29% growth in revenue to ₹1,688 million and 36% growth in net profit (after minority interest) to ₹301 million
- Average per member fee increased 6-8% to ₹15,000–18,000 p.a.

Key highlights 2012-13

Revenue	EBIDTA	Cash profit	Net profit
₹1,688 million	₹739 million	₹447 million	₹301 million

EBIDTA margin	Net margin	RONW	ROCE
49%	20%	14%	20%

Dear Shareholders,

Good morning! To a Healthy India. Fit India.

I am pleased to report that Talwalkars Better Value Fitness Limited delivered a robust performance in 2012-13 despite a challenging environment marked by slowing consumption and a widespread cutback in optional spending.

The fundamental dynamics driving the marketplace for our services comprise a growing recognition that health and fitness are critical to overall well-being as well as an effective counter to lifestyle-induced illnesses.

Fighting the sloth

Significant lifestyle changes reflecting a lack of physical activity and increased fast food consumption have led to a greater need for fitness centres and dietary counselling. India leads the world in the number of individuals suffering from diabetes; by 2030 nearly 9% of the country's population is likely to be affected by Type-II diabetes constituting about 85-95% of all diabetes cases in developed countries and an even higher percentage in developing countries (Source: *International Diabetic Federation*). IDF indicates that nearly 80% of all Type-II diabetes cases are preventable through a combination of a healthy diet and physical activity, opening up a huge opportunity for frontline players like Talwalkars.

Healthy demographics

The working and youth population in India has increased significantly. Higher disposable incomes will increase the enrollment for health-related services and products. In turn, this is expected to increase the demand for niche fitness services like personal training, massage, spinning and aerobics, among others. Gradually, the Indian health and fitness

industry is expected to evolve from a plain fitness regimen to value-added programmes (dance with aerobics or dance with exercises).

India – the right ‘fit’

The wellness market in India sustained its growth to reach ₹590 billion in 2011, representing a growth of 20% over the previous year. Out of this, the ₹50 billion fitness and slimming market grew at a robust pace of 25-30% over the past few years.

The Indian fitness industry is fragmented; the market share of the five leading players constitutes about a mere 25%. There is another numerical yardstick that indicates that India is at the cusp of rapid growth in this sector;

India accounts for less than 0.8% of the total health clubs worldwide and 0.3% of the total members worldwide, while China accounts for 1.7% of the health clubs and 2.7% of the total members worldwide (Source: *IHRSA 2013*). At Talwalkars, we believe that following an increase in disposable incomes, lifestyle aspirations and health awareness,

the penetration of health and fitness infrastructure will increase and the

country will soon emerge as one of the most attractive health club markets in the world.

Talwalkars – at the intersection of health and wealth

At Talwalkars, we are the market leaders in India's health and fitness industry enjoying a pan-India presence, the largest number of fitness centres spread across 75 cities, towns and Tier-III locations. The Company's membership represented a 29% CAGR over the five years leading to 2012-13, vindicating the attractiveness of its business model.

Talwalkars provides members a holistic fitness centre experience across locations, benchmarked to an international standard and customised around Indian needs. The Company's 25,000 sq. ft residential training academy in Thane (Mumbai) strengthens its captive resource pool availability, representing a competitive advantage in an industry marked by resource shortage.

Moreover, the Company's subsidiary model encompasses the full-services fitness centres under the Talwalkars

Chairman's communiqué



Right strategy for growth – Talwalkars subsidiary model

- Targets customers in Tier-I and II cities
- Low capex due to 51% holding
- Talwalkars receives royalty income and has buyout option of the subsidiary fitness centre

Talwalkars HiFi model

- Zero capex for Talwalkars and receives upfront royalty fee and ongoing amuity fee
- Faster roll out
- Strengthen affordability as the entry price point would be typically lower and hence net a large swathe of customers without incremental costs under franchisee format

brand with each fitness outlet spread across around 4,000 - 5,000 sq. ft, largely targeting customers in Tier-I and II cities. This prudently-structured model ensures lower capex outflows through a majority holding in subsidiary fitness centres and cash flow-accretive incomes through royalty receipt. This model also keeps open the buyout of the subsidiary fitness centre at any point of time through optimal valuations.

Besides, Talwalkars is present across the horizontal as well as vertical value chain in terms of the fact that we not only operate the full-service Talwalkars brand but also operate the cost-effective HiFi brand of fitness centres, which are largely located in Tier-II and III towns and appeal to this segment of the population. The 15 HiFi Fitness Centre are completely operated through franchisees, which has a high ROCE implication in terms of zero capex on

the one hand and the added advantage of an upfront royalty fee for brand usage, technical support and ongoing royalty of 6-8% per year on the other. We have also strategically diversified from our core gymming services business to also include value-added services as the Zumba® programme, NuForm, personal training, spa, aerobics and Reduce. Reduce was launched in Mumbai (Thane and Navi Mumbai included) on 19 June in 31 fitness centres. The proportion of revenue derived from these value added services increased from about 18-20% in 2011-12 to around 20-22% in 2012-13 with commensurately higher EBITDA margins and profit accretions.

Outlook

At Talwalkars, we have aggressive expansion plans over the coming years with fitness centre counts expected to

increase by over two times over FY10-14; from the current 144 fitness centres to 165-175 by FY14. The proportion of fitness centre under subsidiaries and franchisees is expected to rise, which will optimise the need for capital and protect the Balance Sheet. Moreover, we expect to roll out Zumba® programme, NuForm and Reduce across a growing number of centres, which will strengthen our EBITDA margins going forward. We are also scouting for sports club and we expect to come up with an announcement soon.

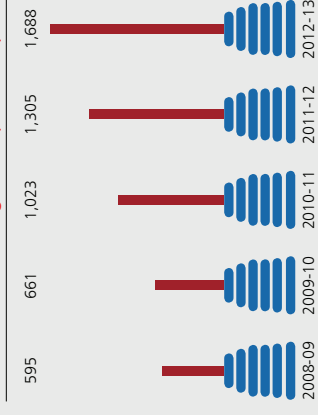
Namaste

To a Healthy India. Fit India

Madhukar Talwalkar, Chairman

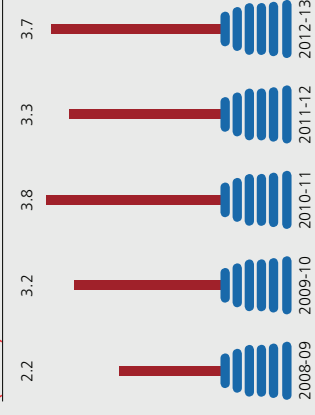
Health is wealth

Talwalkars Revenue growth (₹ million)...



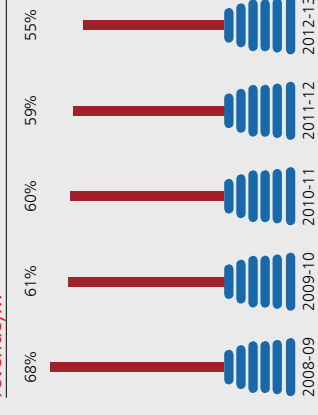
Five-year CAGR of 30% led by the establishment of new fitness centres, growing membership base and growing membership fees

... Which has enabled comfortable debt servicing through growing interest cover (times)...



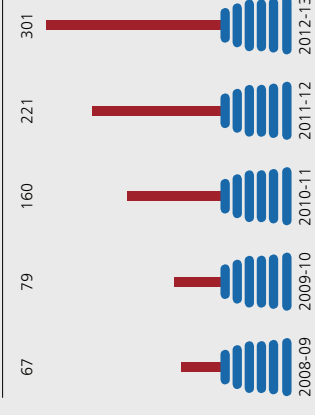
Interest cover has grown from 2.2 in 2008-09 to 3.7 in 2012-13

... And tight control on operating costs (operating costs as a percentage of gross revenue)...



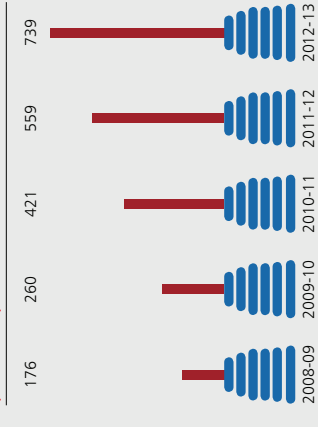
Led by operating leverage kicking in

Coupled with a tax rate of 32.45%, net profit (after minority interest) has reported robust growth (₹ million)...



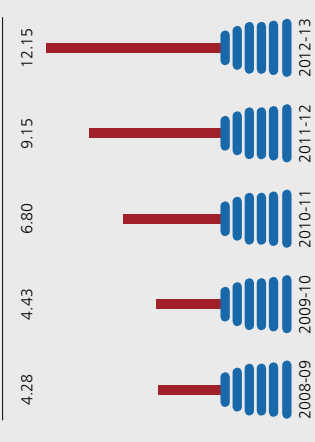
Five-year CAGR of 45% with healthy net profit margin growth – from 13% in 2008-09 to 20% in 2012-13

... Has led to a surge in operating profit (₹ million)...



Five-year CAGR of 43% with consistent operating profit margin growth – from 33% in 2008-09 to 49% in 2012-13

... And by protecting shareholder interest through minimal equity dilution, EPS has increased over the years (₹)



Five-year CAGR of 29.8% leading to attractive shareholder value creation

Do you think you really know Talwalkars?

An insight into the Company's unique business model

The big picture

How would you value a business with a potential not likely to be satiated at least in our lifetimes? How would you value a business that is likely to keep growing year-on-year, decade-on-decade due to a fundamental lifestyle shift considered irreversible?

This then is the basic argument: 70% of urban Indians are obese or overweight (Source: India Today); India is the diabetic capital of the world with 63 million affected individuals in 2012 (Source:WHO); the number of Indians with cardiac diseases had increased from 1% in 1960 to over 14% of the country's urban population in 2012 (Source: International Heart Protection Summit).

Even as the scenario is grim and likely to get worse, an encouraging counter-reality is beginning to emerge. India is beginning to move from cure to prevention; one of the biggest prevention measures lies in the simple initiative to wear track pants, sports shoes and head to a fitness centre; there is a growing recognition that just any fitness centre won't do; only a specialised fitness centre with the complement of qualified trainers, dietician and masseur will work.

When it comes to gym infrastructure, India is one of the most under-penetrated countries in the world. The Indian fitness industry is highly under penetrated compared with several developed and developing nations. For instance USA accounts for 38% of total health club members worldwide while this share of India is 0.3% (Source: IHRSA 2013). Interestingly India accounts for 17.6% of the world's total population while USA accounts for only 4.5% (Source: IMF, World Economic Outlook 2013).

At Talwalkars, we are tomorrow's gym today. India's only organised listed player.

Widening its business portfolio with the singular objective to make India healthy.

At Talwalkars, we are tomorrow's fitness centre today. India's only organised listed player.

Widening its business portfolio with the singular objective to make India healthy.



The Talwalkars brand

When you feel like going for a morning stretch, are you more likely to adjust your drawing room furniture and lay a mat on the floor? When you feel like shedding some weight are you likely to jog through evening streets dodging the traffic?

There is an increasing community of Indians who would rather sign in with Talwalkars instead. Because when it comes to fitness, Talwalkars is one of the first recalls.

Interestingly, Talwalkars is no longer the brand that it used to be. The brand has mutated with profitable implications.

For one, 'Talwalkars' is not just one brand; it has extended from a core gym brand to an umbrella brand comprising three sub-brands, each of which can be progressively monetised.

Two, 'Talwalkars' stands for more connotations than just fitness; the brand has evolved into different wellness forms without losing its core personality.

Three, 'Talwalkars' has enriched its appeal through international brand alliances with Zumba® Fitness and David Lloyd Leisure.

Zumba® Fitness, a Latin dance-inspired fitness plan, has 14 million people taking weekly Zumba® classes in more than 140,000 locations across more than 151 countries (Source: Zumba® Fitness website).

Talwalkars David Lloyd Leisure Consulting aims to progressively provide consulting for leisure and sports clubs in high-end residential developments, gated community townships and corporate campuses; the joint venture's focus areas will comprise consulting, execution, management and operations of leisure and sports clubs. David Lloyd Leisure has over 30 years worth of unmatched expertise and strategic knowledge on costs, implementation and execution of such clubs, which will now be available to Talwalkars in India.

What started out as a gym brand now stands for recalls like **'wellness', 'comfort level' and 'more than just gyms'.**

Sheer scale

You see the name of a gym each day you go to work. When you go to another city, you see the same brand there. When you go to yet another city, you see the same brand. When you read the morning papers, you see an ad by the company. Finally, you see the same company set up a gym in your neighbourhood. Are you likely to see this and say 'Ho hum' or are you likely to say 'Wow, the same company!'

Talwalkars is India's largest organised gym brand where the Company owns about 47% of the domestic organised fitness market and a share of about 12% of the country's overall fitness market (*Source: company websites as on May, 2013 and IHRSA 2013*). This makes the Company a compelling partner for intending alliance partners.

The result: Talwalkars is as much an urban Indian brand as it is semi-urban, with the proportion of the latter rising. What makes this widely semi-urban spread fascinating is that the Company is present in places that most people have probably not heard of – Bhimavaram, Ongole, Guntur and Bhilai to name a few.

This reality emphasises the point that Indians have a growing budget for personal health and fitness on the one hand, and that given the supply, gym demand is a large, growing and latent pan-India market on the other.

Talwalkars fitness centres are expected to increase from 144 in 2012-13 to 165-175 by 2013-14 under all formats. The number of fitness centres providing the dietary plan –cum- weight loss (Reduce) to increase from 17 fitness centres to 75; the numbers of centres offering Zumba® programme is estimated to increase from 29 to 100.

what the Company is likely to put into it.

The Capex spending in 2013-14 is expected to decline substantially.

This decline is not expected to be derived from a slower rollout; on the contrary, this moderated spending is expected to be derived from increasing lightness in asset creation and the synergic diversification in adjacent business where product development has already been expensed.

So even as the Company's capex is likely to decline, the base from which the Company expects to generate higher revenues is increasing. Talwalkars fitness centres expected to increase from 129 to 140-145 in 2013-14, HIFI gyms expected to increase from 15 to 20-25, the number of gyms providing the dietary plan-cum-weight loss (Reduce) to increase from 17 fitness centres to 75; the numbers of centres offering Zumba® programme is estimated to increase from 29 to 100.

The result: A cross-over is imminent at which point surplus generation will exceed or equal capital expenditure, graduating the Company to a virtuous cycle of profitability and sustainability.

Towards cash-positive

Would you be seduced by increasing revenues, profits and market share or would you rather see how much is going into the business and how much the company is extracting from it

At Talwalkars, we are moving towards a sweet spot in our business existence from which point it will become increasingly possible to generate a surplus higher than



Beyond gymming

When you need to seek dietary advice, lose weight and enhance fitness, are you more likely to go to different advisors or would you prefer to go to someone who can provide you with an effective holistic solution?

At Talwalkars, we started as a core gymming company that has since extended into adjacent spaces and emerged as a health-oriented lifestyle organisation.

So we are not just about gyms; we are about offering dietary and weight loss programmes; we are about entertainment-based dance forms (Zumba® programme) that combine fitness with fun; we are about extending a gym-centric business to a club-centric model which fuses gyms, weight loss, Zumba® programme, hospitality, spa, massage, aerobics and yoga into a composite offering.

This extension will do a number of things for Talwalkars: supplement annuity membership fees with pay-per-use revenues; extend standalone individual-based memberships to family memberships; enhance membership fees from relatively small ticket to large ticket.

At Talwalkars, we started as a core gymming company that has since extended into adjacent spaces and emerged as a health-oriented lifestyle organisation.

Asset-light

Would you rather see a company growing its fitness centre outlets with furious speed but straining its Balance Sheet in the process or would you rather see a company growing attractively through an asset-light approach that makes it possible to expand in a sustainable way?

At Talwalkars, each time we commission a fitness centre anywhere in India, we are required to put down 100% of the investment for it.

In a business with a simultaneously large, under-addressed and growing potential, there is a premium on our ability to commission as many fitness centres as possible on one hand and a restriction on the number we would have ideally liked due to limitations imposed by our Balance Sheet size on the other.

However, at Talwalkars, we have arrived at a suitable alternative, providing us with the room to expand faster, utilise less cash and report profitability higher than the prevailing fitness centres average.

This franchisee-led initiative revolves around fitness centres being commissioned in smaller Indian towns where Talwalkars bears zero capex and provides the Company with attractive revenues (upfront engagement fee and ongoing royalty payment) and makes it possible to expand at a quarter of the cost of the conventional approach. This growth has already proved margins-accrue.

At Talwalkars, the HIFI-driven growth will only accelerate; from an estimated 15 in 2012-13 to 20-25 in 2013-14.

Governance

Would you merely glance at the promoters of the company or also factor the value brought by the members on the Company's Board as an index of its deep governance commitment?

Over the years, Talwalkars selected to invest in governance-driven growth, which has progressively reflected in the running of the business in an ethical way, compliance with the laws of the land, corporate transparency, respect for merit and focusing on the enhancement of shareholder value.

One of the initiatives in which this commitment is showcased is the company's Board of Directors, which comprises several members of repute.

At Talwalkars, even as most individuals were increasingly hesitant about parting with their cash in a challenging 2012-13, the Company continued to strengthen the profitability of its core business.

Rising core profitability

When you look at the business of Talwalkars, are you more likely to judge the Company on the basis of which sector it belongs to or whether the profitability of its core business model is on the rise?

At Talwalkars, even as most individuals were increasingly hesitant about parting with their cash in a challenging 2012-13, the Company continued to strengthen the profitability of its core business.

This increased profitability was derived from a large member base, a high renewal rate of about 70-76% and high service orientation.

The chemistry translated into attractive realities: most fitness centres had achieved operational efficiencies during the year under review, the delta between per fitness centre income and costs is widening and fitness centre payback period (which should have risen in an inflation-hit environment) has declined by 12 months to three-and-a-half to four years today.

So at Talwalkars, the big story is not just that we are growing our fitness centres population across the country: the highlight is that our profitable core business model has inspired a reverse flow of interested franchisees and subsidiary partners keen to start more fitness centres across the country, a foundation of sustainable and profitable growth into the future.