Kaya Limited

Q1 Financial Year 2016 Results
Conference Call

August 04th, 2015

MANAGEMENT: Mr. S. Subramanian - CEO of Kaya India
Mr. Neogi - CEO of Kaya Middle East
Mr. Dharmendar Jain - CFO of Kaya Limited

Moderator: Ladies and Gentlemen, good day and welcome to the Kaya Limited Q1 FY16 post-results conference call. As a reminder all the participant's line will be only in the Listen Only mode. There will be an opportunity of you to ask questions after the presentation concludes. Please note that this conference is being recorded. We have with us the senior management team of Kaya and its subsidiaries comprising of Mr. S Subramanian CEO Kaya India, Mr. Debashish Neogi CEO of Kaya Middle East and Mr. Dharmendar Jain CFO Kaya Limited. I would now like to hand over the call to Mr. Dharmendar Jain who will take you through the highlights of Kaya performance during the quarter. Over to you sir.

Mr. Jain: Good evening everybody. I welcome you all to the conference call on our company behalf. Let me begin the conference call with a short update on the first quarter performance which is already in the public domain.

On the Kaya Group performance, Kaya Group posted revenue from operations of rupees 81.4 crores for the quarter end at 30 June 2015. A growth of 12% over corresponding quarter ended 30th June 2014 on a consolidated basis. The consolidated EBIDTA was 53.3 crores which was 4% on revenue and compared to last year of rupees 4.5 crores. The EBIDTA is excluding the non-recurring expenses. Operating profit before tax and exceptional items for the quarter ended 30th June 2013 is rupees 2.5 crores compared to rupees 5.9 crores for the corresponding quarter last year.

In the current quarter company added two clinics and 14 Kaya Skin bars. Kaya India operates over 102 clinics and 78 Kaya Skin Bars and operates 19 clinics in Middle East.

I would like now to update on the Kaya India performance. Kaya India had a pinch of growth of 4% in the first quarter. Overall growth was 10%. Quarter 1 EBIDTA at rupees -2.8 crore compared to EBIDTA of (0.1) crore last year. Like to like EBIDTA is -1.2 crore; it is excluding the nonrecurring expenses. Overall PAT for Kaya India was (2.4) crores compared to 2.1 crores last year Quarter 1 FY15. Like to like PAT excluding non-recurring was (0.6) crore. Ecommerce sales in India were 91% over last year which is now contributing 7% of overall product sales.

On Kaya Middle east performance, the net revenue SSG was grown by 14%. The SSG was at 11%. Quarter 1 EBIDTA of Kaya Middle East was 6 crores which was 21% growth compared to last year. These again excluding the non-recurring expenses; Quarter 1 PAT for entire Middle East was 3.8 crores. SSG last year of 8 crore again, it was a flat growth. These are again excluding nonrecurring expenses therefore impacted by the higher depreciation in the first quarter.

There is one more update I would like to give on the listing side. We have made the application for listing of Kaya Limited and we have got in-principle approval from NSE already. We are waiting the approval from SEBI and we are likely will be listed by the month end.

So now I open the floor to questions. Thank you.

Moderator: Thank you Mr. Dharmendar for the opening comments. We will now begin the question and answer session. At this time if you would like to ask a question please press * and then 1 on your touch tone phone. If you decide you want to withdraw your request from the questioning queue please press 1 to remove yourself from the queue.

We have our first question from Mr. Vivek Joshi from Delhi.

Mr. Vivek: Mr. Dharmendar, I have a couple of questions. One, I wanted to know, what is the status of the relisting of Kaya Limited and another one I want to know is that the results are usually portrayed with a lot of figures such as without exceptional items and with exceptional items, so is there any particular reason why that is done and not just a simple PAT and PBT mentioned?

Mr. Jain: We have already applied for the listing and we have got in principle upload from NSE already so we are waiting approval from SEBI. It is most likely to get in two weeks and by the end of this month we should get listed. This is the listing part. On the second part, why we actually give this clarification, because there are some exceptional expenses which are non-recurring and which are purely exceptional. Like last year we had one exceptional transaction which was compensation we have to pay which was a one off line item. So the idea is to give clarification upfront rather than keeping quite on the same else a lot of questions unnecessarily arise post that number.

Moderator: Thank you for your question. We have our next question from Mr. Pritesh Vohra . Please go ahead sir.

Mr. Pritesh: I just want to know sir these results are not available on your site as well as the BSE; is there any particular way you have filed it?

Mr. Jain: Yes it is uploaded to our site www.Kaya.in. Regarding uploading on BSE and NSE, till the time we are not listed, we can't upload on those sites. However, we uploaded on our Kaya India site.

Mr. Pritesh: Okay sir, I will then come in the queue after reviewing results.

Moderator: We have a question from Mr. Amit from Dolat Capital. Please go ahead.

Mr. Amit: Thank you for the opportunity. Just want to check about the new stores, how they are doing? I understand same store sales growth in India is 4% and you indicated reasons of two of the products that got discontinued and are being re-launched. What about the new stores? How are they doing? Whether we are experiencing some slowdown in sales?

Mr. Subramanian: I think just to answer your question as far as the overall SSG is concerned we have reported a 4% SSG in total in our terms. I think two reasons which have contributed to a slight slowdown from what it was earlier in the previous quarter i.e. 8 to 10%. I think that we lost out on two key product SKUs which is almost 15-16% of the overall product contribution, which we were not in a position to import into India. So there was an issue related to that which impacted the run on products. Second is that internally keeping a long term perspective in delivering a better customer centricity culture in the system we have actually merged the region and the area to form one zone. So we actually removed the regional layer completely and today we have a very flat structure so that it helps us going forward to be able to more responsive to our customers and at the same time be able to drive our agendas much better. So that actually took some time to stabilize as far as Q1 FY 16 is concerned. So obviously with that there has been a little bit of impact also on the EBIDTA front but I think it is a matter of time before we catch up on this and put this in place.

You spoke about new stores. Overall last year we opened about 15 stores and basically we are yet to complete even one year as far as the business is concerned for new store openings, because openings happened actually in Q2 last year. We started three stores. I think initial responses have been positive. We are looking forward to continue our expansion run in fact from 85 clinics which we started in the beginning of the financial year last year we have added close to about 15 last year and this first quarter we added two. Our commitment stays in terms of investments in the business to grow clinics by about 10 to 12 on the yearly basis in India.

Mr. Amit: Right. So why I asked actually since you started in Q2 it will probably have some benefits on the ROI basis?

Mr. Subramanian: We opened in August-September so I think yes, but the bigger openings actually happened for us in Q4 last year where we opened about close to eight stores. Out of the 15 I think the 2-3 were done in the second quarter and none in the first quarter and then remaining we did about four stores or something and then eight stores in Q4.

Mr. Amit: You gave this explanation of merging of regional geography; how does that impact the revenue side?

Mr. Subramanian: No actually we went into a complete change in terms of people and positions and roles so basically there was an up gradation in terms of roles. So, that took some time to stabilize. Going into a very flat structure keeping the long term aspirations in terms of being more responsible to our customers.

Mr. Amit: But that doesn't lead to any loss in service consumption?

Mr. Subramanian: No, it just took some time to stabilize in first quarter.

Mr. Amit: What has been your experience? Generally are you witnessing some slowdown and hence will probably have some more promotional offers in the coming quarter or you think at the industry level not specifically for this quarter, but generally to understand this better?

Mr. Subramanian: See primarily I think whatever we have said in terms of say our expectations on SSG I think on an annual basis we should be somewhere close to it. I think whatever you have seen in Quarter 1 is more from the internal realignment that has happened. We should probably be able to catch up in the coming quarters, because in terms of investment and commitment what we have made earlier, our commitment to the business continues. We have invested in technologies, in fact last quarter we have scaled up technology across almost 24 centers and in another both in pigmentation and hair free. So overall there is investment in the business, commitment to overall numbers in both KSB and both clinics are also there. We will continue to operate. I think this is more of a realignment to be able to drive business going forward.

Mr. Amit: Something on the Middle East side especially when the product segment over there has grown significantly so what is the initiatives taken or is there a lot many products in those stores compared to earlier?

Mr. Neogi: In Middle East we have got 19 products and in Middle East we don't have KSB so we sell the products through our clinic so in Quarter 1 we have got a 26% growth on products and going forward we expect a healthy growth on products currently because there is a lot of headroom for growth for products in Middle East. Currently Middle East is only about product contribution is only about 11% of total sales.

Mr. Amit: What about your Cure product portfolio there? What actually resulted in muted growth?

Mr. Neogi: In cure portfolio, Part of the portfolio is hair free. We are moving to a new technology in Hair free category and that technology we have invested in the month of May. So in April and May we didn't want our clients to get an experience on the old technology so we were waiting clients to convert to the new technology which got in place in May so we got only one month so that is the reason you see a muted growth in the Cure portfolio. Going forward in Q2 onwards we see double digit growth on this Cure portfolio.

Mr. Amit: So this would actually also include your Ticket size in coming quarters? The new technology you tend to charge it at a higher price?

Mr. Neogi: Yes.

Mr. Amit: Is it a similar kind of scenario in India business also?

Mr. Neogi: This technology is specific to the Middle East market and hence this will not get a ticket in India.

Mr. Amit: Thank you so much.

Moderator: Thank you for your question. We have our next question from Mr. Naveen from Arch Finance. Please go ahead.

Mr. Naveen: Good afternoon sir. I would like to ask a question to Mr. Dharmendar Jain regarding the promotional expenses during this quarter. How much we have spent on ASP?

Mr. Jain: ASP I think we have spent almost close to 8% on the global level. Last year was 9%. It comes out to be Rs 6.6 crores. We have not increased substantially spends on A&P side in the quarter

Mr. Naveen: It is overall 8% of the at the Group level?

Mr. Jain: Yes it is at 7.8%.

Mr. Naveen: What about the share of the digital media? If we can bifurcate this?

Mr. Jain: 30% of the total ASP. My other question is regarding the customer advances at the end of 30th June and the growth level?

Mr. Jain: We are seeing a growth of 5% in that. There is a trend of 4-5%. The same value is seen in the casual growth.

Mr. Naveen: The number at the end of March was 70 crores roughly?

Mr. Jain: It was 70.4crores – It has gone to 72.6 crores.

Mr. Naveen: My last question is to Mr. Subramanian. Regarding the new services or we have seen in healthcare so what is the response about the services.

Mr. Subramanian: Actually, we are giving certain set of services in our clinics, but then whatever you are referring to in healthcare I think we have done some testing in Q2 in July and only in one market and we are looking at that closely and then we will look at it in terms of scale up you know in some time in the next year.

Mr. Naveen: So full scale we have not yet launched new services?

Mr. Subramanian: No.

Mr. Naveen: Only in Delhi you have launched?

Mr. Subramanian: Yes in Delhi we have launched it in select services in select centers and just trying to understand before we decide to scale up.

Moderator: Thank you for your question. We have the next question from Mr. Pritesh Chedha from Lucky Investment. Please go ahead sir.

Mr. Chedha: Thank you for the opportunity. Just wanted to check, I was looking at the past numbers and the margins used to be about 8 or 10%, which we have reported. I couldn't get an access to the copy of the result, but just wanted to know is there any exceptionals in the quarter or is it just a function of a retail type of a business, which would have resulted in these negative EBIDTAs which you mentioned in the conference call?

Mr. Subramanian: Yes I think for the India business, the low SSG has actually impacted by the EBIDTA, but like I said it is a realignment within and also the fact that some of the two SKUs which was in the peak of the season was not available for us. It has impacted not just top line but it has also impacted customer count and hopefully this will be fixed and in the subsequent quarters. In terms of other commitments in the business and being able to build the business forward I think all the commitments given earlier we are sticking to and we are investing in the business. On the KME front I think I would like Debashish to the question, I think there has been a positive traction there.

Mr. Chedha: I will just ask here; inability to offer product in sense is it a function of demand not being there or was there some challenge on our side?

Mr. Subramanian: No, we actually could not get there were two products that were important which was contributing about 15% of our sales in the products and it was import related. We were not able to import it from the supplier and so it internationally impacted us even Q4 also. It started from late Q4 to Q1, but it will get fixed going forward into say Q2-Q3.

Mr. Neogi: Regarding Middle East business actually the EBIDTA has grown by 24%.

Mr. Chedha: Pardon my ignorance, but I didn't understand that bit on the corporate action process on Kaya Limited and MaKE so what happens now and second; what happens to the number of shares outstanding? Does it remain the same? If you could just recap that corporate action as to why it is happening and what is it?

Mr. Jain: The holding company has actually merged into the operating company. Already we have applied for the listing with the NSE and SEBI. We have got approval from NSE already. We are waiting for approval from SEBI and most probably we should get it in third week or fourth week. In terms of number of shares, the number of shares is same as it was in the MaKE Limited. The balance sheet structure also remains the same. Only it gets much better now.

Mr. Chedha: So Kaya Limited gets merged into MaKE?

Mr. Jain: No. MaKE got merged into Kaya Limited.

Mr. Chedha: So MaKE which is a holding company gets merged into operating company?

Mr. Jain: Yes. Kaya Limited was an unlisted company. It took 10-12 weeks to get that procedure done and by the end of the month we should get listed back.

Mr. Chedha: You all made one comment in one of the Exchange filings that we have done about reduction in operating expenses on account of this so could you quantify the extent, what could be the extent benefit after this?

Mr. Jain: Where we have made a comment on this? Is this on account of merger?

Mr. Chedha: It is in one of the Exchange filings sir.

Mr. Jain: No, I am not able to get exactly what you are referring to.

Mr. Chedha: No problem. We can take it offline. My last question is on the SSG front. For this business model since its listed and the numbers available or lets say the past numbers which we could get access to there is this huge variations in SSG from double digit to single digit. Hopefully your opinion should be looked at from a near term on SSG, because that's a very important number to make any estimate about the future forecast. And second what would be your assessment on a longer term SSG for this kind of a business model?

Mr. Subramanian: I think since listing it's about fourth quarter right now and we've been open about sharing information prior to this as well. So if you take the business in the last 8 to 10 quarters I think we've been able to demonstrate the kind of SSG commitments that we have given for the future. So if you look at India I think we have done subsequently for every quarter we have done 9%, 10% 15%, 12% in last few quarters and this quarter at 4% has been a little bit submerged, but I think overall we managed to do close to about 10% on a consistent basis. So if you looking at maybe a few years before, then maybe there would be this one, but in the last 10-12 quarters if you see its very consistent as far as the business is concerned.

Even in KME I think the numbers are fairly robust. It's about 16%, 21%, 23%, 5% and 5% which has happened in Q1 FY 16, but I think overall you can look at the kind of estimate that we have given earlier, what we have predicted and sort of given in terms of a guidance is about 10-12% for India. For Middle East it's more in the coming years.

Mr. Chedha: Many thanks for answering all these questions. Thank you and all the best.

Moderator: Thank for your question. We have our next question from Mr. Bhavesh Shah from CLSA. Please go ahead sir.

Mr. Bhavesh : Good evening everybody. My first question is on your product category growth for India business. It grew 7% whereas SSG is (8) %. You also had a very strong growth on your Skin Bar outlets. You have added almost 14 during that quarter. So could you explain that why overall revenue growth for this segment is 7%?

Mr. Subramanian: See basically I said there were two set of SKUs where we had an issue. These two SKUs were critical. They were about 15% of the overall product of the revenue. So we ran into an import issue in this and it actually impacted us in Q4 as well as in Q1. We expected to fix it maybe by somewhere in Q3, because we have been able to do some internal arrangements and sort of worked this out ourselves. That's been the reason why the SSG of the product front is subdued and because these two SKUs were critical it has impacted the overall business also by close to about 2% on the overall business for India or SSG front. Second is that as far as KSB is concerned I think most of the touch points we are talking about you need to also take note that in June while in Q2 we opened about 14 Touch points, 8 of them were actually Health and Glow and about 3 in Religare so these are basically modern trade chains. So they have touch points. Basically two chains, but 8 and 3 Touch points. And there was a shop-in-shop and two product stores that we opened. So overall I think this impacted that as well because those are also two key SKUs which are important as an overall portfolio to the offering. But once we fix the issue which is expected to happen in the next subsequent quarter by Q3 or so I think we should see better traction there.

Mr. Bhavesh: How do you think the initial response of KSB if you exclude these two products which were almost 16% of your portfolio, it will exclude these products? How do you think the overall response in your view for the KSB outlets?

Mr. Subramanian: I think it is initial days, but having said that I think we are experimenting with three or four different formats at this point in time so one is essentially the products store the kiosk in malls. Number three is Shop-in-shop in departmental stores like Shoppers Stop, Lifestyle etcetera. Number four is through counters in Wellness chains like Health and Glow and Religare. We have just opened the Shop-in-shop in the month of June. I think it is going to take some time to evaluate this. Products sold in kiosks; obviously the kiosks are smaller footprints and they generate better. Overall we are looking at a better payback within about a breakeven within about 12 months of operation.

Mr. Bhavesh: My second question is on if we just compare the Care and the Cure portfolio which you have; Care has done quite well I mean across both in India and across Middle East. So I just wanted to understand, how does your margin profile for these two segments work? Is it that Care has got higher margin or say relatively lower margin compared to Cure? How does it really work for a business?

Mr. Subramanian: See, Care portfolio is simple because they constitute only one service line, which are basically high end beauty facials. Whereas Cure is a mix of various other categories like anti-ageing, lazer so the mix could change depending upon the sales mix that is generated for Cure portfolio. Having said that I think the reason why Care has done well in both geographies is I think one; we have relaunched a set of facials which was done sometime in the second half of last year, which is actually given a boost to the category. In terms of margin profiles I think the services are fairly in line. It is about 75 to 80% of the service front and about 70% plus of the product front on the gross margin side.

Mr. Bhavesh: My last question with respect to your Middle East business, considering the overall pressure those Middle East countries are facing especially with decline in crude oil prices, how do you really see, what is your outlook for these geographies going forward? Do you think the overall consumer sentiment could be muted for next say for some coming months so how is it really seeing Middle East business to shape up over next year or two?

Mr. Neogi: See, in Middle East if you see our current clinics we have 14 clinics in UAE out of 19. So there are 4 clinics in Saudi and one in Oman. So actually the UAE economy doesn't depend on crude oil you know the way Saudi would be dependent on. Given the crude oil prices and given the segment which we operate which doesn't directly correlate; I am seeing the past also so we don't feel any impact definitely not in UAE and in Saudi other sectors will get impacted earlier and then we will have a lag effect. So we don't see any issue in the next 3-4 quarters for sure in Saudi also.

Mr. Bhavesh: Thank you very much and all the very best.

Moderator: Thank you for your question. We have our next question from Farhana Lambej from NVS Brokerage. Please go ahead.

Ms. Farhana: Good afternoon sir. I wanted to know whether the company has added any new clinics or skin bars this quarter? Also I wanted to know how much time does it take to breakeven for a new clinic or a skin bar both in India and in Middle East?

Mr. Neogi: In Middle East we don't have skin bars.

Mr. Subramanian: In terms of expansions what we have done in Q1 of this year is we opened two clinics and we opened one shop-in-shop format and two product stores and about two outlets in two chains in Health and Glow and Religare. Having said that in terms of breakevens I think

KSB is expected to do a breakeven at a store level by about a year or so. It is expected to do it in about 18 to 24 months.

Ms. Farhana: Could you please give some guidance for FY16?

Mr. Subramanian: We don't get into giving guidance, but I think we have given broad indications on the overall business expectations. These consist of two things; one is on an annual basis we are looking at about 10 to 12% for India and 6 to 7% for KME. This is SSG. We are talking about expansions we are saying about 10-12 clinics in India and about 2-3 in Middle East. More like 3 a year on the horizon on an annual basis. So these are the two indications basically. We are giving you the SSG indication and we are giving you the kind of course we are looking at our investments in the immediate term to build pipelines for the future. This would include investments in technology, infrastructure etcetera, which will basically give the brand a better image and connect with the customers.

Ms. Farhana: Fair enough, thanks a lot sir.

Moderator: Thank you for your question. We have our next question from Mr. Zaki from Nasser Investment. Please go ahead.

Mr. Zaki: Good afternoon sir. I would like to do a small enquiry about the product range. Your product range as of now is available in your clinic and your Touch points. Would there be any plan to get this on the supermarket shelves? Point number two; what portion of these products are manufactured in-house and what kind of manufacturing facility do we have and what is outsourced?

Mr. Subramanian: So first of all currently we have only two different routes to the product. Three different routes I would say; one is the clinics where we are present with the complete range. The second is basically the KSB the Kaya Skin Bar where we have 3-4 different types of formats we are looking at, but we are all at looking at consultative selling so which means that it's not going to be supermarkets per se immediately. What we are toying with is with select chains in the Health and wellness category which typically have a distributed network in India through whom we can actually sort of represent ourselves and connect with our customers. Of course departmental stores like Shoppers Stop, Lifestyle and of course company owned stores and product stores and kiosks in malls and high streets. So having said that I think this is the way forward as far as the product range in concerned. In terms of where are we manufacturing etcetera; all our products are actually developed by our dermatologists. We have an R&D center which we have invested in which is sort of going to deliver certain products and services in terms of the innovation pipeline that we want to create. Number two; in terms of sourcing and we have a third party manufacturing tie-ups with them to be able to patch up products for the use in clinics and skin bars. All of them are under the Kaya brand.

Mr. Zaki: The packaging is really amazing; I think it compares with any good international product. At the end of this current year how many additional KSBs and clinics would you increase?

Mr. Subramanian: For Clinics; I told you about 10 to 12 clinics in India. For current year. That is the average we are doing on a yearly basis. Last year we committed 10-12, but we ended up doing 15. But of course we will end up doing another 10-12 for India this year. As far as skin bars are concerned I think it would be close to about 10-12 again. Then there will be these chains where we will representation in counters. So the touch points will increase, but overall stores from kiosks and product stores would be 10 to 12 again.

Mr. Zaki: The reverse merger of Marico Kaya with Kaya they would be some kind of a loss on the books; when will that be lifted?

Mr. Jain: No, there is no loss because of this merger.

Mr. Zaki: Some unabsorbed depreciation or something is there?

Mr. Jain: No, we had got a carry forward loss on our books so that will take I think another currently the loss is of Rs 55 crores so I think we will be able to absorb in next 2-3 years.

Mr. Zaki: Okay so 2.5 years. One last questions sir; whatever broad guidance you gave would it be good to assume that the overall Top line would increase by around 15% with the same growth sales and the additional openings?

Mr. Subramanian: See, I think the business is almost evenly divided right now between KSI and KME. KME we are talking about 6% to 7% kind of SSG. In India we are talking about 10% SSG. Of course the inorganic addition that is going to come along with it. So, I think not necessarily in that range, but a few points here and there.

Mr. Zaki: 12-15% kind of growth?

Mr. Subramanian: Yes.

Moderator: Thank you for your question. We have our next question from Mr. Jehan Bhadha from Motilal Oswal.

Mr. Jehan : Good evening gentlemen, my first question is on the utilization rates for new stores, new clinics so typically at the end of year one year two what would be the utilization rate for a new store and when will a new store reach, in how much time does it reach the company level utilization rate of say 35-40%?

Mr. Subramanian: So we are yet to complete a full year and we had actually had not expanded for almost four years before this. So having said that I think some broad benchmarks I can give you because one is that in terms of breakeven for a clinic we can look at about 18 to 24 months at a store level and utilization is not necessarily a key indicator. I think what is important is that the kind of revenue that we generate. Services are of different types. Catchments will react differently for different categories of services so it's very difficult to pen down and say what will be an average at this point in time but what is more important is that whether we are hitting the break even number then how quickly we are able to do it. Services could vary in terms of ticket size.

Mr. Jehan : Sir, second question is basically on the strategy front. Our focus of the company right now is to go ahead and expand and maintain margins where they are so am I right in this assumption or how do you want to take it forward. Growth at the cost of margins or calibrated kind of growth, if you could just throw some light on how do you see the numbers shaping up in the

Mr. Jain: See just to give our expansion plan, then we have actually designed the plan, I think on the base of entire clinics we are trying to add 10 to 12 clinics. So it is more of calibrated growth we are planning to do and obviously we are going to maintain the margin and coverage also. It is more of a profitable growth and that is only going forward path. So I think we have just designed, we do not want to get into the overboard situation and take the hit on the bottom-line. We are doing some amount of investment which will go away for future growth but I think our focus will still be on the profitable growth.

Mr. Jehan : So the margins which you achieved in FY15, I think we achieved 10% margins so those could be maintained going forward, right, for the current year and next year.

Mr. Subramanian: That will be target but there will be some percentage points hot especially on account of expansion that we are adding on but otherwise I think we will get better as we as store gets matured and clinics are maturing. So in next 24-30 months you can see the number getting better.

Mr. Jehan : Next question is on the goodwill that we are carrying in the book so post relisting are we looking at writing of this goodwill from the balance sheet? If so when will that happen?

Mr. Jain: If you see our revised Balance sheet post merger, substantial amount of goodwill has been were cleared.

Mr. Jehan : If I am not mistaken, the goodwill amount that you are supposed to be write off of was Rs 143 crores, is that right?

Mr. Jain: It is 150 crores which has been cleared on that because of the merger process.

Mr. Jehan : So that was not reflected in the June quarter because the merger process happened after that.

Mr. Jain: You have to see the balance sheet of March 15 only.

Mr. Jehan: But the effect will also be on the right of effect well under P and L also right? In the September quarter.

Mr. Jain: As far as merger proposal, it was effective by April 2014 so we have to give the effect on March 15 balance sheet only.

Mr. Jehan: Okay.

Mr. Jain: So already we have filed the March 15 balance sheet and it is there on the website where you can see the effect

Mr. Jehan: Okay. Last question is on the cash levels, what are the cash levels you have and what is the strategy for utilizing cash because I believe that our business will be self sufficient in generating cash flows and so we will not ideally be requiring this much of cash which is lying in the balance sheet sir?

Mr. Jain: I think suddenly we are holding close to 165 crores cash. Some part is as a part of expansion plan, there will be cash generation that will be happening so we are still evaluating some options as to how we can deploy the cash. So in terms of option of giving it as a dividend there is a current constrain as Kaya India has some carry forward loses on the balance sheet, so till the time we are able to utilize the carry forward losses we will be constraint by law to issue the dividend. Otherwise there are plans to utilize, however we are still evaluating the options to how do we actually invest the money.

Mr. Jehan : That is all from my side sir, thank you.

Moderator: Thank you for your question. We have the next question from Mr. Naveen from Arch Finance. Please go ahead sir.

Mr. Naveen: My next question is regarding the store level EBITDA, if you can broadly tell about India and KME store level EBITDA.

Mr. Jain: Yes Naveen we are able to maintain store level EBITDA at last year levels only, and hence we are close to 34% to 36% range at store level EBITDA.

Mr. Naveen: In India?

Mr. Jain: India and KME together.

Mr. Naveen: In KME we are doing around 38% in the last quarter and in India we are doing at around 33% in the last quarter.

Mr. Jain: Ya because of expansion this has gone down as new clinic are not at the same level of margins as matured stores.

Mr. Naveen: My next question is regarding the overall share of company's topline from major markets like, Mumbai, Delhi and Bangalore, if you can quantify that and also in relation to the total number of clinics Kaya has in these markets

Mr. Jain: Already Mumbai, Delhi are big markets for us which contributes almost close to 50% of the business so they still continue to hold that contribution.

Mr. Naveen: Delhi, Mumbai and Bangalore.

Mr. Jain: No Mumbai and Delhi is 60% and Bangalore is another 10%.

Mr. Naveen: So we are getting 70% revenue from all these three markets?

Mr. Jain: Yes.

Mr. Naveen: And going forward we will be maintaining the same levels or our dependence on these three markets will be coming down in the coming quarters?

Mr. Jain: Still they are a big market for us because our expansion has been going to the distant market funding. So still they are a big market for us.

Mr. Naveen: You are not going to any new cities, right now?

Mr. Jain: Currently we are not focusing on new cities. We will be focusing on the top 10 cities then we will move to other markets where we are present today.

Moderator: Thank you for your question. We have the next question from Mr. Pritesh Vohra . Please go ahead sir.

Mr. Pritesh: Hello sir, thank you for the opportunity. Can you tell me how do we view the expense side, I understand the manpower, rent and other expenses have grown because of expansion, so how do we look at I understand it is still early to call this business but how do you look at the expense side? How it will shape up?

Mr. Jain: You are talking about the elements of expenses of India Business

Mr. Pritesh: India business.

Mr. Pritesh: If you can, I just want to arrive at what can be the steady state EBITDA once this whole business stabilizes.

Mr. Subramanian: If you look at our numbers, I think rent is about 15%, the running cost at store level is about 8% and the manpower cost and incentive is close to about 25% which is basically the doctor and the clinic manager and the beauty therapist who are there in the system.

Mr. Pritesh: Manpower is how much you said?

Mr. Subramanian: 25%.

Mr. Pritesh: So will it grow, what kind of inflation you have to consider in the expense side?

Mr. Subramanian: If you see quarter to quarter I think on this front I think we are fairly consistent and we have been fairly focused on productivity as a measure to be able to ensure that this cost really does not go up and shoot up. So I think 5-8% is what you can assume as far as this is concerned. On a steady state business, of course today you might, if you see the overall picture it will be slightly higher because we are setting up new clinics so this I am saying more steady state matured clinics.

Mr. Pritesh: So basically to sum it up, it will be SSG of 10-12% and cost going up by 4-5%. Is it a right assumption?

Mr. Subramanian: Cost will be about 5-8% depending on because there is then overall cost if you take for a business will be about 5-8%.

Mr. Pritesh: Okay sir, thank you very much.

Moderator: Thank you for your question. We have the next question from Mr. Vivek Joshi from Individual Investor. Please go ahead sir.

Mr. Vivek: Good evening gentlemen. I have a slightly strategic question, could you just throw color on what is the strategy between KSB versus not having them in UAE and what proportion do you see of your revenues coming from KSB versus to skin clinics. Second I want to know the broad positioning of the company has changed the number of times from Cure to Care that Care that to Cure? So what is the current thrust, is it a Cure with the plus of Care or is it a Care to Cure company. Lastly, on the import issue which you highlighted for certain SKUs which contributes to 15% of product, can you elaborate on the issue because we have four quarters of running problems with the top leading product, is it that a manufacturer not able to manufacture or is it some regulatory that is imposed? These are our basic three questions.

Mr. Subramanian: Let me take one by one. I will take your second question first which is basically the question you asked on strategy from Cure to Care and Care to Cure and all that. Fundamentally Kaya is a dermatology lead skin care solutions provided and we have to work at the core of the business. That is how started this business but 12-13 years back and it was just somewhere in between for a small period of time for a year or so, year and a half where we actually moved into nothing more than a set of customers through the beauty care route. However having done that we realized that it was not the right way and we have ever since stuck to the core of being a dermatologist based skin care solutions provided to the customers both in India and abroad which includes Middle East markets as well. So I think in the last two three years if you see that core is become strengthened and the various inputs have been put in the business that is the kind of medical offerings and doctor lead services that we have launched in the last three years. If you also look at the kind of technology that we have incorporated, we have a very good offering in the areas of fairness, pigmentation, anti-aging and laser etcetera and we have really scaled it up across geographies including tier one tier two cities in India. So our

focus continues to remain this and there will not be any shifts that you can expect or anticipate as far this is concerned. This what is the brand positioned for and that is how the brand will continue to work towards strengthening the core positioning.
I will take the question one now which is you said why is Skin bar as a product store format is there in India and not in KME. I think as far as India is concerned, there is a large expansive market available where the customers can be reached and engaged with. Not necessarily which can be catered through only a clinic format, so we have looked at a shallow footprint to be able to reach out and engaged to our customers because India does possess a large geographical spread unlike the Middle East markets where it is very cohesive and densely populated. Therefore the route to market has been through products and services and even looking at the consumer journey, the customer is first introduced into category through products and then towards services and therefore the reason for KSB as far as India is concerned. On KME I think it is more of a thing that it is a very densely populated and the clinics are itself a good touch points to be able to do and I would leave Debashish to answer a little bit more on that.

Mr. Neogi: As what Subramanian said in KME actually the product contribution to total is sales is around 11% vis a vis in KSI it is around 20% so there is a huge head room for growth in KME. So first you know we need to stay focused and utilize the opportunity there and then expand it to KSB otherwise focus gets diluted. So that is the reason we do not want to get into KSB in KME for the next two years because there is a huge head room for growth.

Mr. Subramanian: Point number 3 which you raised about 2 SKUs which we actually had a problem as far as the product is concerned, I think it was more to do with import regulations and we are anyway having gone through that, we are sort or putting that in place. It started impacting us to at the end of quarter four, therefore Q1 you are seeing a big impact and more so because the seasonal impact of these two products are very high in April, May and June which is why this quarter is more affected and I think we are in control of the matter from now and we will see that coming back in shape by Q3.

Mr. Vivek: Just a little bit on the KSB thing again. When you say you are a dermatology based brand, does not KSB kind of dilute it because then there is only consultative selling there. So you think the doctor based selling that you do, don't you become just another cosmetic brand in a store?

Mr. Subramanian: Our principle to skin care solutions have been through the root of consultative selling so we follow the three step mechanism of diagnosis, experience and then recommendation. So the same principle is being followed in the KSB as well. So the only thing is that dermat is being replaced by a diagnostic tool which is sort of getting created for an Indian skin which will actually analyze and tell in simple words as to what exactly the issue is and what kind of recommendations can go for a customer. So basically the principle remains the same. Yes, the dermat is not physically present in the store but all the products that we sell are actually researched and developed by the dermatologist. So we still have the brand which is very strong and have very strong connotation towards dermatologist. Going forward we also see this as a important strategic tool because it is in open and inviting format, self convenience stores where people can actually walk in and therefore end use is the brand, experience the product and then may also move into at some point into services in nearby clinics. So strategically we see a lot of opportunity to cross pollinate amongst these two formats and in order to keep that I think we have also integrated the loyalty program which is specific to clinics in India to also the KSB customers.

Mr. Vivek: Thanks a lot.

Mr. Subramanian: Thank you.

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Moderator: Thank you for your question. We have the next question from Mr. Mayur from Wealth Manager. Please go ahead sir.

Mr. Mayur: Good evening gentlemen and thank you for taking my question. The clinic once it reaches the mature stage that is after a break say 18-24 months, what kind ROC can it generate at that point in time and once it reaches the mature stage, what kind of ROC does it have the potential to reach?

Mr. Subramanian: See I think we are going with an overall ROCE close to about 20% in five year period.

Mr. Mayur: At the company level?

Mr. Subramanian: Yes.

Mr. Mayur: But if one wants to remove the product side which would be definitely a high ROCE segment, what could be the clinic side of it? And at the store level, I was actually trying to understand at the one clinic level, at one same store, how one should look at ROCE level rather than at the company level. Just an understanding on the conceptual basis.

Mr. Jain: See at the store level if you see purely at the clinic level basis our EBITDA margin is earning at 35%. If you take 35% on the national basis and ROC will be much higer there.

Mr. Mayur: And that would be how much?

Mr. Jain: It will be between about 35-45%.

Mr. Mayur: In the EBITDA level?

Mr. Jain: EBITDA level of the individual clinic.

Mr. Mayur: So when you are assuming an EBITDA margin of 35% or an ROC of the same level what kind of basically utilization are we assuming here, is it one of the, what kind of utilization levels or rather what kind of revenue will that store be broadly be generating on an average?

Mr. Jain: In India it would be turnover of around Rs 2.2 to Rs 2.5 crores.

Mr. Mayur: 2.2 to 2.5 crores?

Mr. Jain: Yes.

Mr. Mayur: Okay. The second question I had was the dermatology segment is very sensitive as it pertains to the look and the outward of the skin and hence what I was interested in understanding is how are you training the dermatologists though they are obviously it comes from a scientific background and the academics is there but then in terms of because this is a very sensitive in terms of one small thing and it can just dilute the brand and the risk which is associated so from your perspective, from a company side what kind of precautions or processes are we taking in terms of training, in terms of seeing to it as to kind of such issues, when we are handling with the skin does not take place. Is there any historical percentage of any kind of issues that has come up in terms of that?

Mr. Neogi: What they do is that as you rightly said, they are dermatologists so they know what they are doing. Coming to specific treatments, when you get to the dermatologists and how you acclimatize the dermatologists to the systems and the processes we follow, we have two ways of operating. In India we have decentralized training structure to that and our regional medical head, the training is done. Regarding Middle East what we do is that we have center of excellence amongst the 19 clinics so when it comes to a particular technology, a particular doctor trained, when it comes to processes, there is another doctor who trains so we have structured way of training. Coming to your point of incidents happening, again we measure this in a structured way to SMS and to feedback over mail and the incidents compared to the industry is definitely minuscule and our satisfaction level is more than 90% if you click top two box in both the regions.

Mr. Mayur: Last question to understand, are the dermatologists employable ready in the terms of the moment they are out you have to do certain training before they can be out in the stores. Are there capabilities or in terms of the practicality are they ready or is there a training and cost which is involved in them?

Mr. Neogi: In Middle East they are practically ready. We get them for an induction for 10-15 days so the cost is really insignificant and in Kaya India Subramanian will answer that question.

Mr. Subramanian: Since the business we are actually we are dealing with the customer skin it is definitely a very important to focus on quality and training to deliver safety, efficacy and basic hygiene in the centers. So if you look at it as a business we have never compromised on the extent and amount of training that needs to be given certified even before the people are actually deployed in the centers. So just to give you a rough indication in India, a beauty therapist does 60 days of training before he or she is actually put into a clinic. A doctor does about 21 days of training and the CM a clinic manager and customer executive does 45 days of training before he or she is actually put into the clinic. So this is definitely a ongoing process and we do not compromise training and knowledge sharing to any extent because end of the day it has a huge impact on the brand. Having said that, our processes are fairly robust in terms of being able to be more responsive to our customers. We evaluate that and we evaluate customer satisfaction, we also proactively look at incidents and conduct process audits to be able to ensure that art. So the standards are met and executed in the right manner in every clinic.

Mr. Mayur: Is there any number which can be assigned on a store level, what could be spending on this kind of training or is it really very miniscule to be not going into that. I was just trying to understand, the training will be for the upper high skilled people, so will the cost be also relatively higher or will it be that it is not so high. Any number to it whether at the store level or overall in FY15 how much we must have incurred on that. Any kind number just to understand the perspective.

Mr. Jain: Just to clarify on that part, we have a lot of training centers to carry out these trainings. So I take the total infrastructure cost and people cost in training, then goes to 1.5 to 2%.

Mr. Mayur: Including all. That is charges to P&L every year.

Mr. Jain: Yes. And one more thing, is what I told you 35%, it is without our advertising cost. If I add that will be 9-10% in that.

Mr. Mayur: So it will fall down to 25%.

Mr. Jain: Yes, if do not add the advertising cost.

Mr. Subramanian: When we say store level EBITDA, two heads are not counted. One is the advertising and sales promotion expenditure and the other is the corporate heads which is the back office cost.

Mr. Mayur: I understand. So at the company level overall we are targeting 20% and at the store level it will be around 25%.

Mr. Jain: EBITDA will be 25% and then ROC will be according to that number.

Mr. Mayur: Thank you very much.

Moderator: Thank you for your question. We have the last question from Mr. Zaki. Please go ahead sir.

Mr. Zaki: Sir you said in this current quarter, there is lot of onetime expenses.

Mr. Jain: Yes.

Mr. Zaki: What would be PAT look like without these onetime or exceptional items in the current quarter?

Mr. Jain: It is Rs 2.5 crores.

Mr. Zaki: Rs 2.5 crores. Against previous June quarter of 5.9 and this is primarily due to the slowdown in the imported equipment and stuff like that.

Mr. Jain: Top line and expansion impact. There was expansion in the quarter added new clinics last year and for that also created in the expansion only.

Mr. Zaki: The onetime cost in expanding the clinic, it will be written off in the same quarter?

Mr. Jain: All preoperative expenses we write off in the same quarter only.

Mr. Zaki: Same quarter only? Furniture and all the basic advertisement and all that stuff.

Mr. Jain: All Pre operative expenses and also the new clinics take its own time to gestate, till initial phase of scale up happening.

Mr. Zaki: Thanks lot.

Moderator: Thank you for your question. Sir we do not have any more question sir.

Mr. Subramanian: Okay we will wind up. I would like to thank you all for the engaging conference call. Thank you very much and thanks for participating.

Moderator: Thank you ladies and gentleman. That concludes your conference for today. Thank you for joining us. You may please disconnect your lines now.
