"Kaya Limited Q4 FY20 Earnings Conference Call"

June 29, 2020

MANAGEMENT:	**MR. RAJIV NAIR – GROUP CEO, KAYA LIMITED** **MR. VIKAS AGARWAL – CEO, KAYA MIDDLE EAST** **MR. SAURABH SHAH – CFO, KAYA LIMITED**
MODERATOR:	**MR. ANIRUDDHA JOSHI – ICICI SECURITIES LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to Kaya Limited Q4 FY20 Earnings Conference Call hosted by ICICI Securities Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal the operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Aniruddha Joshi from ICICI Securities Limited. Thank you and over to you, sir.

Aniruddha Joshi: Thanks, Janice. On behalf of ICICI Securities, we welcome you all to Q4 FY20 and FY20 results conference call of Kaya Limited. We have with us today, Mr. Rajiv Nair – Group CEO; Mr. Vikas Agarwal – CEO, Kaya Middle East and Mr. Saurabh Shah – CFO. Now, I hand over the call to the management for the initial comments on the quarterly as well as the annual performance, also request them to update about the impact on Kaya's business model due to the ongoing coronavirus scare. Thanks and over to you, sir.

Saurabh Shah: Good evening everybody. My name is Saurabh Shah. I welcome you all to the conference call on our company's behalf. Let me begin the conference call with a very short update on the fourth quarter performance of Kaya Limited which is already in public domain and uploaded on the website www.kaya.in.

Kaya Limited posted consolidated revenue from operation of Rs. 87.1 crores for the quarter ended 31st March 2020, a decline of 17% for corresponding quarter ended 31st March 2019. Consolidated EBITDA is Rs. 9.9 crores as compared to 1 crore in Q4 financial year 20. Loss after tax and minority interest for the quarter ended 31st March 2020 is 15.2 crores compared to loss of 13 crores for the corresponding quarter last year. Overall, Kaya operated through 93 clinics in India and 23 clinics in Middle East as on 31st March 2020.

The beauty, wellness and retail industry has been adversely impacted by the spread of COVID-19. The group faces significant headwind due to COVID-19 which has impacted the operations of the group adversely starting from the month of March 2020 onwards, particularly by a way of clinic closure due to complete lockdown. This unprecedented disruption has had an adverse impact on the quarterly performance and continue to impact our business and our financial results. In this crisis, our priorities are to protect the employees with families from COVID-19, beside our customer visiting

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our clinic and the society associated with it. We do not anticipate material risks to business prospects over the medium to short term. The group has begun restoration of clinic operation in UAE from second fortnight of May 2020 and India from 8th June 2020 and now, we have 50 clinics operation in India as permitted by the government and the local regulatory authorities with controlled movement, maintaining social distancing, taking appropriate hygiene measures and following the direction of the regulatory authority. The group has evaluated impact on its business operation and financial position based on its review of current indicators of future economic condition. Management has created various pillars in response to COVID-19 for business such as business continuity, managing cost and cash flow, omni-channel e-commerce, accelerating technology, transforming work place and talent and safety measure. The detailed information update was already available with you. I now open the session for question and my colleagues and I would be glad to answer that. Thank you.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. We take the first question from the line of Chirag Patel from Adinath Shares. Please go ahead.

Chirag Patel: Sir, I have a few questions which I want to know from your side, first one, we almost completed two decades in this business, why we are not able to generate profit from the majority of quarters if you can see there and second, recently one of the renowned investor bought stake in our company as filed by you on 15th May in shareholding pattern, so is there any strategic plan going forward with them to present our business with their entity or retail arm, so we also get advantage of metro and used certain revenues from that?

Rajiv Nair: Can you just repeat the second question, just clarify what you want to know in the second question?

Chirag Patel: The question is that personality is very renowned in business as well as in stock market paternity, so is there any strategic plan with them to do business of Kaya with their retail presence of that particular investor like the network they have going forward?

Rajiv Nair: So first thing, first I think your question on profitability is quite valid. I think over the last 2 to 3 years, we have made considerable amount of shift to make our operation more productive and more profitable. Multiple actions have been taken including looking at clinic operations in terms of optimization of labor, optimization of rent, optimization of cost overheads within the clinic and also looked at the back office efficiencies. For eg You would have seen that we have taken decisions on under productive clinics, so we have almost taken a call to reduce 23 clinics and cost towards that has been booked in the last quarter. With the objective that we will keep profitable clinic and clinics which are likely to take mid to long term to actually achieve potential have been rationalized. Along with that, the operational cost of these clinics also come down. Similar actions are being taken at the back office to keep the back office of the business leaner. There are new business verticals or areas that we have explored for growth, so for example the product business I had been talking for quite a few quarters now has always taken precedent and we have actually looked at a lot of innovation in that area, spreading our distribution footprint and especially e-commerce. E-commerce has been quite a profitable business for us and we have been growing at the rate of between 35 to 40% consecutively over the last 3 years' time and we continue to grow and invest in that particular business. So that are the areas that we are actually focusing out, so one is obviously making the business more leaner, tighter and rather than expanding we have looked at profitability as the first criteria, first option and new business model in India. Middle East, I think we have taken a slightly different approach. Middle East is the market where the category is extremely aspirational and desirable, so over the last couple of years we have seen multiple clinics that have got renovated and upgraded in the business and it is a high value business and not a high volume business, so obviously we have looked at upgrading the clinics even at the time when the market and economy has been pretty tight. I would later ask Vikas to elaborate on that. So that is the two points as far as profitability. So just in summary if I have to say, I think all our efforts are towards making the business profitable and to that end we are doing all actions that are needed from the cost perspective as well as focusing on certain new topline generator.

As far as this investment that we are talking about, not really, it is just a market transaction, we have no strategic alliance with any particular group . It is just a pure market investment and nothing more.

Chirag Patel: And sir, when we separated our business from Marico, that time the clear interest was to focus on both businesses separately, as our promoter group did well post separation but somehow the story which everyone was anticipating from Kaya, earlier it was Marico

Kaya has not performed as per the expectation of market and so somehow the story is interesting but this story is somehow not able to meet the expectation of shareholder wealth creation point of view. So from that point of view, do we have any separate team or are we working on anything like merger on acquisition side like to merge our business with some big giant, so value unlocking can possible?

Rajiv Nair: Only one thing I would like to state the fact that this business model is very different from an FMCG business model. It is not a mass penetration business, in that sense quite a specialized area, a more niche area and obviously the growth of the clinics which is just about 93 clinics in the business is in keeping with the fact that it is a more premium segment in the market, so obviously it has its own set of challenges. It is a specialized business. If you look at all our competitors who are there in this space have not been able to go beyond one or two geographies in the market and we have covered almost 26 cities in the country. So if you look at it, in the dermatology space, we continue to be the number one player in the market today. There are only regional competitors in this particular market. If the heavy cost model, the investment required and also running operations of the business are based on fixed cost model, there is a large set of expenses towards employees and towards rent, so there is a level of turnover that is needed for clinics to breakeven. So today, if you look at it, even the clinics that we have closed down, some of them are turning EBITDA positive and quite a few of them are EBITDA positive. Despite of that we have cut it down just to make our operations leaner, so right now what we have kept are the clinics which are giving us more than 20% EBITDA. So at a unit operations level, all the clinics that we are currently running are more than 15 to 20% EBITDA. Same activities we need to do at the back office and which we are working on because again back office is a very expensive model because we also do manufacturing, we also do R&D, we also do all other business activities from the backend, but we are trying to keep our back office functions also pretty lean. I mean if you were to compare it, I don't think it is a pure comparison between an FMCG business and a specialized business and if you look at service sector business comparative across the landscape, I think we are probably the ones which have got the maximum penetration in the market today.

Chirag Patel: And recently promoter infused certain amount of capital in our business, so is it more related to promoter stake hike or just a normal capital or cash bought by promoter in the entity?

Saurabh Shah: It is basically infusion towards the operation.

Chirag Patel: Is that interest bearing or without interest?

Saurabh Shah: It is interest bearing.

Chirag Patel: And what is the interest charging on it?

Saurabh Shah: It is very normal in rate.

Chirag Patel: Earlier also during December time, Mr. Mariwala brought some capital, so is it also interest bearing or free of capital?

Saurabh Shah: It is interest bearing.

Chirag Patel: And both at same rate?

Saurabh Shah: Yes, both at same rate.

Moderator: Thank you. We take the next question from the line of Monika Arora.Please go ahead.

Monika Arora: I wanted to know that what is the borrowing cost as a percentage and also I would like to know the gross debt numbers of FY20 and FY19?

Saurabh Shah: Currently, on India's standalone perspective there is no outside borrowing except loan from director, while for Middle East, there is a loan from bank with outstanding as on March was around 20 crores.

Monika Arora: And why the interest cost has risen if I see?

Saurabh Shah: The interest cost has risen because of the lease adjustment, 116 impact.

Moderator: Thank you. Next question is from the line of Nikita Sharma from AB Capital. Please go ahead.

Nikita Sharma: First of all, I wanted to know what is the capacity, like is there a difference when it has been operating geography wise or has there been the same impact overall?

Rajiv Nair: Can you just explain that this is related to the current situation or related to last year?

Nikita Sharma: As far as COVID after that, which is post COVID?

Rajiv Nair: Post COVID, I think we are now back in operations in the whole of the Middle East. All clinics are in operations in the Middle East and in India from the 8th of June we started opening clinics. Now, we are at 50 clinics operating right now in India, so roughly about half of the clinics have opened up in India and progressively we are opening more clinics as we go forward in the month of July.

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Nikita Sharma: And has the response been good, like people are coming or is it like people are still very cautious?

Rajiv Nair: So since we are just about 3 weeks in operations and progressively have gone from 0 clinic to 50 clinics in 3 weeks, we have kept the number of customers coming into the clinic restricted purely on appointment. We have actually reduced the number of people coming into the clinic in an hour, so no clinic is allowed to take more than 4 customers an hour, earlier you could go as high as 8 to 10 customers an hour as well. So largely most of the clinics have restricted capacity to about 50% of the earlier capacity and we will continue to do so in the month of July as well till such time that we find it safe for more customers to come into the clinic at one time, so we have kept completely on appointment basis and we have consciously reduced capacity. Depending on the size of the clinics, I mean a clinic may have 2 to 3 customers an hour going up to about 4 to 5 customer an hour.

Nikita Sharma: I wanted to know about your other income, **it has gone up sharply** in quarter 4, so if you could throw some light on it?

Saurabh Shah: Yes, quarter 4 other income has risen, as we have shut down around 23 clinics, so the lease liability got reversed and that is why the other income at one time exceptional point of view has risen as compared to Q3 or previous year.

Moderator: Thank you. We take the next question from the line of Aniruddha Joshi from ICICI Securities. Please go ahead.

Aniruddha Joshi: Sir, just not keeping at immediate short term per se, but over a medium term so over next one year or may be three year perspective, how do you see the industry shaping up, so there are 2-3 thinking going in the market, one obviously this industry itself may suffer because when the income levels are impacted, secondly people are not moving out of their houses, so do they really need to get into so much of skin cleaning etc., that is one thinking. Second point is that probably unorganized low-end saloons or beauty parlors, etc., are low in such services, make it impacted more and so people may trust brands like Kaya relatively more than the unorganized sector per se, so how do we see the market over here? Also, whether the services itself may get impacted and probably the products may continue to grow at a relatively faster rate? And the third question which I want to use is that is there in certain industry, DIY culture is there i.e. do it yourself, so they provide all the goods or even all the things, so that the customer can work out most of the things on their own, so is there any such remote possibility that you see over here?

Rajiv Nair: I think you gave the questions and you also gave some answers as well. So if you actually look at it, I think all of your analysis is very correct. Obviously, in the short term, there is definitely some financial impact which is there in the economy and no business currently in the consumer space is expecting to normalize operations in the next one or two months. I would give about two quarter to become more or less stable but again as I am saying things may dynamically move as the infection rates changes in the country. So either things would improve by the fourth quarter or things may remain uncertain till the fourth quarter, so we don't have exact answers to that. There are lot of changes shaping this industry, any industry for that matter and one of the biggest changes there is technology. So one of the pivots that we are looking at completely is overhauling our technology with which we run the business. As our business stopped or shut down, we continued to engage our customers through technology. It could be simple things like video calls with customers, doctors meeting customers on video call, so we started off the system of web consultation over the last two months' time and we planned to make that business big for us over the next 1 year or 2 years. We are building an in-house capability for web consult using PWC as a partner and also using Microscope Dynamix 365 as a product. As of now, also we are doing web consult with rudimentary methods like Microsoft Teams where the doctors are meeting customers online, so customers who are hesitant to come to the clinic can talk to the doctor using web consult. We have in fact started charging for web consult, we are getting customers, new customers coming into the business through web consults as well. We have very recently tied up also with two partners MFine and Practo from Bangalore, for web consultation where they organize for consults for our doctors and we plan to tie up with the top 4 to 5 aggregators in this space and make this a different vertical for our business. The initial results show us that we have got customers from 27 different cities out of which 17 cities are where we do not even operate business where customers are talking to doctors online, so I would say online consulting will become a very large business. Second part is that as part of online business, the DIY opportunity also gets thrown up. So we are creating some DIY product opportunities where based on the consultation of the doctor, we

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would be able to prescribe a combination of products that will be created specifically for customer, so with a few combinations of basic serums and active, we could give customized solutions to customer. So I think by August-September of this year, we should have some product of this nature launched in the business, so that is point number two. Point number three is, e-commerce will become extremely strong, so your point, on product is extremely valid. We will be going much stronger on e-commerce and investing more on e-commerce both on partner ecosystem as well as rebuilding our online capabilities which means we are also investing on building a stronger e-commerce sites for Kaya, so in-house as well as partners like Nykaa and Amazon.. Product business definitely will have more traction, very recent trend, about 40% of our business in the last 3 weeks have been running on products because customers are hesitant to some extent of taking all services so that is something products will become easy means to get to customers. While saying all of this, I think we are probably the best prepared in Kaya for safety. I would say we have changed almost 60 processes in the business around safety, 60 plus safety measures have been taken, 100% of the clinic team have been trained on safety procedures of Kaya which are in line with WHO and probably best-in-class in the country at the moment. All appointments in the clinics are being done on pre-booking, temperature checks are being done at every stage, self-declarations are being done by customers. We have also done UVC, in fact if you see we are the only clinic across the country which has got UVC sanitization of clinic. It is quite an expensive proposition but we have gone ahead and invested in all clinic. The PPEs that we use are best in class, we are using only SITRA certified PPE kits which are certified to give protection against COVID. All customers are provided with disposable as they use. We are only using monodose kits which means a lot of services which are single use kits that are used in our services. All our systems have become digitized, so we are actually encouraging customers only to pay online and not even give their credit cards while making payments and obviously our clinics have been completely compliant with social distancing., I think Kaya would be pretty much ahead of competition and that brings me to your point of saying whether unorganized competitors will survive. The cost of doing all of this is fairly significant. If any of the unorganized players are not able to keep up to the safety requirements, customers will prefer more organized

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players than unorganized players. That is why we believe we will have more advantage than most of the competitors. So that is all my point. If I missed anything, please do ask.

Moderator: Thank you. We take the next question from the line of Chirag Patel from Adinath Shares. Please go ahead.

Chirag Patel: Sir, in near future any debt raising plan?

Saurabh Shah: No, currently I would not be able to comment. We are evaluating the options, we will take it on quarter to quarter basis, so currently we don't want to give any guidance.

Chirag Patel: Because in recent press release a few weeks back, you mentioned one of the points of that company evaluating, so I just asked.

Saurabh Shah: No, we are evaluating all the option but debt is not the preferred option currently from external parties but we are just evaluating all the options.

Chirag Patel: And what is current cash or liquidity situation of company?

Saurabh Shah: Currently, as on March the company overall India perspective is around 18 crores while in Middle East it had a cash around 7 crores, so till March the whole console would be around 25 crores.

Chirag Patel: And in this the recent infusion of promoter added or it is?

Saurabh Shah: No, it has not been added.

Moderator: Thank you. We take the next question from the line of Chintan Desai from PARAM Capital. Please go ahead.

Chintan Desai: Sir, out of the 23 stores, which we are planning to close down, what would be the revenue contribution from them and what would be the cash fund that they would be doing altogether?

Saurabh Shah: Overall, these 23 clinics, they would be on an EBITDA perspective or on a cash generation perspective, net-net on EBITDA perspective, we would have saved between 1 and 2 crores.

Chintan Desai: And on topline front, revenue?

Saurabh Shah: Topline would be around 25 to 30 crores.

Chintan Desai: And secondly sir, just going ahead, post normalization, what is our thinking in terms of adding clinics further once this period goes through, what would be our internal KPIs before adding new stores or new clinics?

Rajiv Nair: So obviously in the short to medium term at least for the next 1 year time we have no intention of opening new clinic. we believe there is a lot of digitization that is likely to happen in the market, so obviously reach to consumer doesn't necessarily need to be through physical clinics only. We believe online consultation or web consultation will become a very important way in which customers interacts with the brand, so what happened to product using e-commerce, the same thing will happen and customer will do a combination of talking to doctors online and using services offline. Consumers will do online consultation and come to offline clinic for services as well or buy products that are prescribed through consults. So the way we see is the business moving more online and we are building capabilities both technology wise and people wise right now to pivot towards more web consulting and e-commerce. We believe the property market is available at any point in time for the next 1 year, 1-1/2 year, property market is not going to really go up. So if we have opportunistic growth available in any particular mall or any particular location we look at it but not in the next 6 to 8 months' time.

Chintan Desai: And sir, lastly I missed on the promoter infusion amount, what would be that amount that would have infused, I have missed that amount?

Saurabh Shah: Post March, you are asking?

Chintan Desai: Yes, post March?

Saurabh Shah: Post March is 3 crores.

Moderator: Thank you. The next question is from the line of Suresh Agarwal from AB Capital Advisors. Please go ahead.

Suresh Agarwal: Sir, my question is regarding one of the questions is that what is the advertisement in R&D expenditure as a percentage of the sale for last year?

Saurabh Shah: Around 7%.

Rajiv Nair: Around 7% would be the advertising expense, so R&D would be roughly about 1.5-2%.

Suresh Agarwal: 1.5%?

Rajiv Nair: Yes.

Suresh Agarwal: And do you expect that this cost to be reduced in coming quarters and….

Rajiv Nair: Couple of things, I think I would not mix advertising with R&D, I think we continue to do some very good quality work in product and services development, so R&D would continue to be an area of focus for us. In fact, we are going to launch a lot of product lines over the next 6 months' time and for that reason, our R&D continues to be a focus area. Advertising, we definitely keep a very sharp control on advertising right now, all of our focus over the next 6 months' time would be towards safety and hygiene related advertising and driving e-commerce. So I think barring that brand building expenditure will definitely to a large

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Suresh Agarwal: What kind of percentage can we expect for financial year 21 for advertising expenditure?

Rajiv Nair: As a percentage, it may not reduce because there will be some impact on turnover, but our value contribution will reduce for advertising and marketing. We will continue to invest on Safety Advertising & Ecommerce

Suresh Agarwal: And what kind of margins can we expect for financial year 21 and 22, considering that there would be an initial expenditure for sanitization and safety kits?

Rajiv Nair: All of that have been factored into our cost, so in fact at this stage like most other retailers would do, we charged a marginal fee towards safety in the clinic to recover the cost towards the services that we have already sold for which customers come in and consume the services, so there is a marginal charge that we charge to customers as well as we have reduced the level of markdowns right now, so there will be a tremendous reduction of markdown this year versus last year, so prices will be a little higher but we believe that this will cover the cost of all the sanitization and others. So actually as far as clinics are concerned, I think Saurabh you can correct me, our margins would be in the region of about 83%.

Suresh Agarwal: And another thing, this is regarding, do you expect any aggressive promotion activities or discounted product when the market would completely open up or from next year or something?

Rajiv Nair: So there will be couple of things that can happen and we really can't anticipate completely what competitors would do because of the cash flow pressures, there could be a possibility that some of our competitors may go out and do all-out discounting which I think is happening both in products and services as we speak, but we are very clear saying that our priority over the next 6 months' time is not purely volume of consumer but quality of what we deliver to our customers. Our entire point of view as a brand will be towards safety and hygiene and I think we have done a stellar job in that respect. We created a COVID safety task force within the company. We built a new campaign called Kaya Safe, focusing on safety and hygiene. We do not really expect prices to crash and we don't really want to reduce the prices at all for the next 6 months' time.

Suresh Agarwal: I think there would be some consolidation happening among small players or may be even like if you have closed 23 stores, so some other brands might be looking into closing their stores also, so do you think you would be able to capitalize on these things or you

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might be looking for opening new stores in the areas that you expect that you can capture the market?

Rajiv Nair: As I mentioned earlier also, I think for the next 6 to 8 months' time, as a business focus, cash conservation and making sure that our cash flows remain stable, our cost remain under control is crucial. We would not spend CAPEX towards new clinic acquisitions or new clinic opening. We would evaluate that only after the first quarter and as the business comes back to normalcy, so at this stage we are not looking for this. In fact, the other way around, I would say that we are negotiating with almost all our landlords at the moment for further reduction in our rent value for the next 2 to 3 years, so in fact we will use this opportunity to discuss and negotiate our rentals and bring the rentals down and operate lesser number of clinics but more profitable clinic.

Suresh Agarwal: So we can expect that the CAPEX of financial 21 would be minimal, right?

Rajiv Nair: Minimal but one area that we are not compromising and we have already committed and we will continue to invest in is technology, the entire backend technology of Kaya is changing, we are moving into a Microsoft Dynamics 365 environment . That will help us support our digital initiatives for Kaya including a new website and progressive web app. All of these things will be supported by backend technology. We are in the final leg of completion of an implementation, so over the next 2-3 months' time we will see completion of that project as well.

Suresh Agarwal: Sir just one thing more, like in India there was complete lockdown for almost 3 months, so in the Middle East also, similar lockdown was incubated?

Rajiv Nair: Yes, it was, but it came up much faster but it did not continue. So I am going to leave it to Vikas to explain the trajectory over the last few months. So Vikas please, if you could explain?

Suresh Agarwal: Yes, just if I can get a brief picture and guidance for how the April-May month..?

Vikas Agarwal: This is Vikas, so yes, the lockdown in Middle East was for a shorter time. The lockdown started around the mid of March and we opened around end of April, not all clinics opened up at that point but within the month of May towards the end, all our clinics were opened up in all countries, Saudi, UAE and Oman. In terms of trajectory it has been an encouraging trend, so we did almost 25 to 30% in May and this actually gone up to almost 60-65% in June. This is not something we

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were expecting given the second month, also not expecting that the lockdown will get released so fast and everything will ease out fast, so the COVID situation is getting very good every day, in fact in UAE it is almost at 300-350 cases, so the situation and the environment has been good. We think our trajectory has been better than normal, more than the category has been, more than the businesses around that theme is almost around 30-40% of that business as of now. So that is another encouraging trend. I think somewhere what has really worked for us in the last 2 months is the time period of lockdown when we prepared ourselves for safety. So like Rajiv pointed out for India where 60 plus processes got input, so I think all those learning, all those processes, all those costs that we have taken and inbuilt into our pricing for the customer has really worked, so Kaya was always one of the most sought after brands in this category where now post the lockdown when consumers are looking for safety and quality the most, they are seeing Kaya as the preferred destination and it is having an impact on our trajectory, so I think things have been good. All our clinics are opened now, there is no restriction across the countries anywhere as of now and we don't see in the near future anything like that happening again unless a major revamp happens in any of the countries, so that is always a possibility across the world, but things look much better right now and we believe that we can bounce back to our business pretty soon.

Suresh Agarwal: Just one thing more on this only, what percentage of normal business have been there in Middle East if I compare to same quarter last year?

Vikas Agarwal: So if I look at May and June, so in May we did 30% of last year, in June, we are trending at 65% plus, so it has been a good trajectory over last year.

Moderator: Thank you. Next question is from the line of Monika Arora. Please go ahead.

Monika Arora: Sir, we are saying that many companies in this competitive scenario due to COVID-19 pandemic, have opted for cost rationalization like salary cuts and all, so have we done something like that in our business also?

Rajiv Nair: Yes, I think we have been pretty proactive on this and we have anticipated that there will be major disruption, so one large call that we took in the month of February and March was on clinic rationalization, so we said instead of keeping very large portfolio of clinics, we looked at our Clinics and look at probably the least profitable, the lowest potential clinics and we decided to take a shutdown, so that was a large rationalization of cost. Salary cuts and frontend, backends have been initiated right up from April and will continue for some more time till such things normalize, so we have taken those measures as well. Some of the under profitable businesses, like for example, we had manned counters in KSB which were typically health and glow counters in all where we used to have manpower. We have reduced the manpower in these counters, so almost 125 FTE we have reduced because we know that these stores will not be allowed full manpower or full labor over the next 3 to 6 months' time, so there is no point in engaging contractual staff to run these counters. We have looked at every single line of overheads that we have in the frontend and backend and looked at rationalizing all of them. Decisions have been taken, actions are already underway and it will continue for at least the next 6 months' time.

Monika Arora: And sir, also I wanted to know that depreciation cost has increased, so any particular reason for that?

Rajiv Nair: One part is the accelerated depreciation of about Rs. 3.2 crores which is towards the 23 clinic closure. Saurabh, any other reason?

Saurabh Shah: Earlier, we created the ROU asset because of the 116 IndAS and that is why on that asset, we had depreciated, it is a notional basically we do a fair valuation of that lease obligation, including previous year part of the off balance sheet because of the IndAS we have to create an asset on liability, so if you look at the note, there was an adjustment of 17 crores in reserve and on the assets, what we have created we are depreciating, so one is the movable and the immovable assets and other is ROU, that is why as compared to last year the depreciation has gone.

Monika Arora: Sir, and one more thing, you guys have taken very good initiative of starting online clinics, so I think that is a great idea, sir what kind of margins and cost, how it is different from the clinic model?

Rajiv Nair: Yes, actually the online model of web consult as we call it is basically using partner ecosystem and our ecosystem. With the partners like Practo, MFine and a few other partners that we will be tying up very soon are actually getting customers for web consult online and especially during COVID scenario, people do not want to step out into clinics, so two things happened. One is our doctors are able to talk to these customers online, at the same time recommend production services to these customers. Product sales are most likely to happen because we can also ship goods from our warehouse to these customers using our e-commerce portal, so that is something that we have, so as far as these models is concerned there is no additional cost of doing business. We already have certain fixed cost in the clinic, so in case some of these customers come into the clinic, we are not incurring any additional cost towards these customers and doctors are also using the current productive time in the clinic to do online consultation. There are no special doctors for only doing online consultation. So like you have seen in aggregation models like taxies and others where you can have multiple tools or portals running at the same time in the clinic and as and when an appointment happens, the clinic team fixes time with the doctor and the doctor does appointments for these customers. So we are using existing time of the doctor and we are using existing resources of the clinic, so the margin on this business will be significant. So that is how we see it.

Monika Arora: I think that is a very proactive thing you guys have done, so that will bring good results and it is very nice to hear from you.

Rajiv Nair: One point I will just like to also share is that we already have close to 130,000 customers under our Kaya Smiles Program, so we also believe some of the customers may be hesitant to come to clinics multiple times, so we also offer these services to our existing customers to interact with the doctors online. So while the customer is sitting at home, they can engage with the doctor at very nominal cost and that also gives us an opportunity to engage with our customers while they are not in the clinic.

Moderator: Thank you. We take the next question from the line of Anoop Nair from Equity Intelligence. Please go ahead.

Anoop Nair: I just wanted to know about online services potential as a segment, as you said that in 1 to 2 years it is becoming a new segment for us, so what kind of revenues can we expect from this segment as percentage of the total?

Rajiv Nair: I would not be able to give a revenue number right now on the business because we are in this business for the last may be a month, we have been building our plans for this business. What I can tell you is the fact that in backend we are building a technology which is going to support online consultation. We are building a specialized team of people in technology who specialize in this area, so we are also building resources, at the same time we have invested on technology towards online consultation. We are also participating and tying up with all the aggregators who are there in the space, at least the top ones. As of today, we already have tied up with the Mfine and with Practo on this particular area. All our 80 to 100 doctors will be listed on all these portals very soon.

Anoop Nair: Another question was regarding this closure of clinics, you closed down 23 clinics, so what would be the total write down due to this thing because you have written off 4 crores now?

Rajiv Nair: Rs. 3.2 crores.

Anoop Nair: There is nothing pending?

Rajiv Nair: Nothing pending.

Anoop Nair: And post closure of these clinics, we have around 93 clinics now or is it 70 clinics?

Rajiv Nair: No, it is going to be 72 clinics, in fact.

Anoop Nair: And the final question is on, can you quantify the cost rationalization that we have done including the fixed cost that thing and the rent negotiation that we have achieved in the current quarter, so how much would have we produced with respect to?

Rajiv Nair: It is difficult for me to give you next couple of quarter's guidance on all of these but we have taken calls in the first quarter, I probably won't be able to give you numbers for that but just to give you an example, in all the rental contracts what we are doing, for the first couple of months, which is April and May we are looking at almost 100% rent reduction, so no rent at all. In the month of June, we may have marginal rent coming out of some of the mall, so that is something that we are looking at but as far as April and May is concerned, we are looking at a 100% rent waiver. We are negotiating for Q2, Q3 rent reduction, so it could be a combination of percentage reduction of rent or it will be revenue share arrangements with the partner. We have 40 rent contracts up for negotiation right now and we will be also looking at how to reduce rent for the next year as well, I mean next couple of years as well, so that is what we are currently working on and as far as the back office and front reductions, yes April-May numbers I think we will be able to share closer to end of quarter, so we will only tell you after the Q2, Q1 results are declared.

Anoop Nair: So 23 clinics that you have closed, how is the geographical spread like which part have you closed these clinics?

Rajiv Nair: If you look at it, we have looked at largely clinics either where they are in peripheral locations in various cities, so most of these closures have happened in bigger cities and especially Mumbai as a region where the rent structure is the highest for us as a percentage to

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revenue. So what we have done is, we have not just reduced but we have looked at consolidation by area. So in any part of the city where there are more than 3 to 4 clinics serving the same geography, we have rationalized some of the clinics where the rent rate structure is either high or the revenue potential is very low, so quite a bit of the clinic reductions have happened in Mumbai, some of them have happened in Delhi, less in South because our South clinics are extremely profitable, very few in South and East also our clinics are very profitable, so just one clinic going down in the East.

Anoop Nair: So the point was, when you say about this hub-and-spoke model for this online, so it does not affect the geographical reach at all?

Rajiv Nair: No, not at all, so we have considered that. We have actually looked at clinic both from geography perspective, coverage perspective, at the same time potential and cost.

Anoop Nair: So finally on this capital raising, what are you planning for QIP or what are the options being considered?

Rajiv Nair: We have made a statement in the last financial, Saurabh you would like to just explain that?

Saurabh Shah: Anoop, currently based on the requirement, if you look at the post March scenario, I think there is a loan from director which has come around Rs. 3 crores, so as and when the scenario comes up, as and when the financial performance of cash requirement we evaluate, we will evaluate the option of raising fund.

Anoop Nair: So device is not decided yet?

Saurabh Shah: Currently, I don't want to comment on any other options, currently we are just the way we are going, the way in post March how we executed the transaction, will gauge on the scenario based and then we will take the call, so currently that is the status quo.

Moderator: Thank you. Ladies and gentlemen that was the last question for today. I would now like to hand the conference over to the management for their closing comments.

Saurabh Shah: Just to conclude, the growth is closely monitoring the developments and the plausible effect that may result from the current pandemic on its financial condition, liquidity and operation, and effectively working to minimize the impact of this unprecedented situation. Thank you very much. Be safe and take care.

Rajiv Nair: Thank you very much.

Moderator: Thank you. On behalf of ICICI Securities Limited, we conclude today's conference. Thank you all for joining, we may now disconnect your lines.

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