MARICO KAYA
ENTERPRISES LIMITED

Marico Kaya Enterprises Limited
Q3 Financial Year 2015 Results Conference Call

February 09th, 2015

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

Moderator: Ladies and gentlemen good day and welcome to the Marico Kaya Enterprises Limited i.e. MAKE Limited, Q3 FY15 post results conference call. As a reminder, all participant lines will be in the listen only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*"then "0" on your touchtone phone. Please note that this conference is being recorded. We have with us the senior management team of MAKE and its subsidiaries comprising Mr. S. Subramanian, CEO of Kaya India, Mr. Debashish Neogi, CEO, Kaya Middle East and Mr. Dharmendar B Jain, CFO, MAKE Limited. I would like to hand the call over to Mr. Dharmendar B Jain, who will take you through the highlights of MAKE performance during the quarter. Over to you Sir!

Mr. Jain: Good evening everybody. I welcome you to the conference call on our company's behalf. Let me begin the conference call with a very short introduction because most of the information regarding the quarter's performance is already in public domain including the quarter's performance that is uploaded in our website and I am sure you must have accessed the same.

MaKE Group performance, Marico Kaya Enterprise Limited posted revenue from operations of Rs.85.4 Crores for the quarter ended December 31, 2014, a growth of 22% over the corresponding quarter on a consolidated basis. Consolidated EBITDA was Rs.11.2 Crores which was 13% of the revenue as compared to Rs.2.8 Crores in Q3 FY 2014 last year, a growth of 304% over the last year.

Profit before tax and exceptional item for the quarter ended December 31, 2014 is Rs.12.1 Crores compared to Rs.1.5 Crores for the corresponding quarter of last year, December 31, 2013.

The company has added four clinics and three Kaya Skin Bars in Q3 FY 2015 and it now has total 92 clinics and seven Kaya Skin Bars in India. It has also added one unit in Middle East and operates over 19 clinics in Middle East.

Now I would update you on the performance of the Kaya in India. Net revenue same store growth (SSG) for Q3 FY 2015 is 15%. Overall growth of our PAT is 18%. Ticket size grew by 10% over Q3 FY 2014. Our EBITDA for Q3 FY 2015 for Kaya India was Rs.3.4 Crores, which was 8% of the revenue compared to EBITDA which were almost flat in the last year Q3 FY 2014. Q3 FY 2015 PAT was Rs.5.4 Crores, which is 12% of our revenue as against marginal loss of 0.3 Crores last year.

The e-commerce sales growth was 204% over the last year. This is now contributing almost 8% of our overall product sales.

The Kaya Middle East performance update: We had a net revenue growth of 21%. The EBITDA was 8.2 Crores, which was 20% of the revenue compared to Rs.2.9 Crores in the corresponding quarter last year.

The PAT of Kaya Middle East for the quarter was at 7.0 Crores, which was 17% of the revenue as against 1.8 Crores in the corresponding quarter last year.

The detailed information update is already with you. I now open the floor to questions to my colleagues and I will be glad to answer them. 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 “*” then “1” on your touchtone phone.

The first question comes from Mr. Jehan Bhadha from Motilal Oswal Securities, Mumbai. Mr. Bhadha, you may please ask the question now

Mr Jehan Bhadha: Good evening Sir. Sir my first question is regarding your Indian operations. The September quarter same store sales growth was 10% which has increased to 15% in the December quarter, so what caused this increase?

Mr. Subramanian: Subramanian here. I think thank you very much for the question. Basically, I think, we have made some few investments in clinic with respective to technologies and additional services. I think that has helped us to sort of build a strong FAG as per Q3 is concerned. So yes we had moved forward in terms of overall SSG for the quarter it is about 15% and overall growth of about 18%.

Mr Jehan Bhadha: My second question is on your average ticket size, which has gone down again on QoQ basis, So is there a peculiarity regarding the product mix or what caused this decline from 9000 levels to around 7000 levels?

Mr. Subramanian: Are you talking about sequential?

Mr Jehan Bhadha: Yes, sequentially.

Mr. Subramanian: Basically Q2 was actually the month where we would start from promotions and therefore the discounting was slightly higher than what you have seen in Q3. So that was the reason.

Mr Jehan Bhadha: Because the decline was around Rs.2000?

Mr. Jain: We had a good promo in Q2.

Mr Jehan Bhadha: And my last question is on Skin Bars. The operating matrix which you had earlier mentioned was at opening a bar cost around Rs. 15 lakhs or Rs. 20 lakhs and with a revenue potential of Rs. 50 lakhs. How much would be the inventory which would have to be stocked in one such Skin Bar?

Mr Subramanian: Basically four or five lakhs maybe in terms of inventory, yes.

Mr Jehan Bhadha: And my last question is on Skin Bars. The operating matrix which you had earlier mentioned was at opening a bar cost around Rs. 15 lakhs or Rs. 20 lakhs and with a revenue potential of Rs. 50 lakhs. How much would be the inventory which would have to be stocked in one such Skin Bar?

Mr Subramanian: Basically four or five lakhs maybe in terms of inventory, yes.

Mr Jehan Bhadha: So total investment would be on a 20 lakhs of capex?

Mr Subramanian: All put together not more than 18 to 20 lakhs of capex.

Mr Jehan Bhadha: That is all from my side. Thank you.

Moderator: Thank you Sir. I request participants who wish to ask questions may please press "*" "1". The next question comes from Ms. Sangeeta Tripathy from Sharekhan Limited, Mumbai. Ms. Tripathy, you may please ask the question now.

Ms Sangeeta Tripathy: Good evening Sir.

Mr Jain: Good evening.

Ms Sangeeta Tripathy: Sir, I would just like to understand this 15% same store sales growth that we have clocked for this particular quarter and last quarter also we did pretty well with double-digit 10% same store sales growth. Now when we peak and we listen to the other results, other consumer's results, their results have not been that good. So we are just trying to understand if this 15% or 10% double-digit kind of a same store sales growth for us sustainable for long-term timeframe or you can give some guidance as to what kind of same store sales growth are we looking?

Mr Subramanian: I think last as I spoke earlier, I think we are looking at SSG of close to 10% to 12% for the business. I think we will continue to work on that. That will also be led through various innovations that we are doing in terms of introduction of new services and products and investment in technology and driving the product mix.

Ms Sangeeta Tripathy: So we continue to drive for 10% to 12% same store sales growth?

Mr Subramanian: Yes.

Ms Sangeeta Tripathy: With the store opening guidance of around 4% to 6%?

Mr Subramanian: Overall we are looking at about 10 to 15 clinics in India and about three to four clinics in Middle East. This is on a yearly basis; however, gestation period in the Middle East can take about a year of course because of regulatory reasons because through various concern, I think, if you are looking at 10 to 15 you will look at about four to five clinics regularly on a product basis.

Ms Sangeeta Tripathy: 10 to 15 you say on an annual basis you are saying?

Mr Subramanian: Last quarter we opened about four clinics and three skin bars.

Ms Sangeeta Tripathy: Sir, what would be our cash on books as of till date?

Mr Subramanian: It is 180 Crores as of now.

Ms Sangeeta Tripathy: You were talking about various new services being added, the hair transplantation thing and that they were talking about that is already in?

Mr Subramanian: That is going to take some time. I had spoken about close to about 18 months, when I spoke last. I think we were looking at about Q1 of 2016 when we will actually be seeing a little bit more focus as per as hair is concerned.

Ms Sangeeta Tripathy: Sir, when I look at your India financials and the Middle East financials, no doubt India business has seen a good operating leverage play in the last two to three quarters with the improvement in the same store sales growth but the financials are quite different at the EBITDA level for Middle East and for India and I understand that there is a lot of differences in terms of transaction size, the growth and everything, but we were just wondering 18% to 19% EBITDA levels we are clocking on the Middle East business, so if in the long-term is that sustainable level if we look for let us say 24 to 36 months down the line for India business?

Mr Subramanian: I think Debashish can add for that Middle East on the sustainability. As far as we are concerned, I think you need to understand that as far as India is concerned there are lot of other things that we are doing here in terms of initiatives be it the services in through Kaya Skin Clinic and also the journey as far as the product is concerned. Also the pricing that we are talking about between the two geographies are widely different. So all these play an important role and actually the entire cost structure and you know the business etc., play out an important part in the margins that we are able to get out of the business, but having said that we see a lot of potential as far as the India business is concerned in terms of overall growth and we are looking at expansions in both the skin bar formats and the clinic formats. So in the long-term yes we tend to see these business margins going up as we start gestating and doing well in the established businesses.

Mr Debashish: Just to add to what Mr Subramanian had said. It is not fair to compare two markets as Subramanian said two markets are different. The pricing power and the propensity to spend in two markets, the two different markets that operates in a different way, in terms of execution, answering your question in terms of Middle East margin profile the skin capability issue there are two parts to it one is the current business, existing business and then there is expansion. Obviously expansion in Middle East breakeven takes a little longer time compared to India but having said that the existing business margin profile is much, much better. This is with our existing business the type of margin profile or anything between 15% and 18% we should be able to sustain for a very long time.

Ms Sangeeta Tripathy: Thank you.

Moderator: Thank you very much Ms. Tripathy. The next question comes from Mr. Deepen Shah from Kotak Securities, Mumbai. Mr. Shah you may please ask question now.

Mr Deepen Shah: I just had a couple of questions; firstly if you can just maybe throw some more light on any constraints, which you are seeing as far as the professional staff at Marico Kaya is concerned; how do you see the scenario out there and the second one is that is there any increase in the competitive scenario either in India or Middle East?

Mr Subramanian: I think as far as the Indian scenario is concerned, I think attrition to a large extent this year has been fairly under control. When I say that it is probably being one of the years where we have had a better retention question. Having said that I think there the competitive scenario is also you know not really widespread, but definitely they are in local pockets and time to time, I think we need to keep investing in people to be able to retain them over a long period of time.

Mr Deepen Shah: So are you contemplating any in-house kind of training facilities or anything of that sort that you can ensure a steady stream of professionals?

Mr Subramanian: We already have a training center, which is in-house, which actually caters to the training needs of the doctors, clinic managers, the executive and the beauty therapist and yes, what you are saying is right. We do need to have a steady flow of people trained professionals and to that extent I think we are investing in setting up training centers across the country to be able to cater our need for people in the expansion phase.

Mr Deepen Shah: And any increase in the competitive scenario. Have you seen any competition coming up or maybe over the last six months to nine months to one year?

Mr Subramanian: I think there are local competitions, each geography is slightly different as far as India is concerned, but yes I think people are quite excited about this space and we maybe seeing some competitions locally as certain pockets in the country, but as a national player, I think we are probably the only national player in the country and therefore to see somebody come up like that right now we have not seen any such movement.

Mr Deepen Shah: One last thing, we heard Mr. Mariwala in the morning saying that the growth which has come in is largely volume led. We are also seeing in the past that you have not taken many price increases on a like-to-like basis. When do you think would be an appropriate time for you to start taking price increases or when do you think that you will reach a stage where you can actually take up price increases with a view to either improve or sustain margins?

Mr Subramanian: I think the brand is fairly strong in the consumers mind and we have done increases in the past. It is not that we have not shied away from this, but you know we have to access each category and geography before we take a certain call. Even today, I think there have been instances where certain service clients and other clients have been increased to sustain the need for better realizations.

Mr Deepen Shah: Thank you very much and all the very best.

Moderator: Thank you very much Mr. Shah. The next question comes from Ms. Kinjal Desai from Reliance Mutual Funds, Mumbai. Ms. Desai, you may please ask the question now.

Ms Kinjal Desai: Congratulations on a good set of numbers. Sir, if you could just explain a bit on the category mix or the fluctuation that we have seen, is this seasonal or is there some anomaly at this time in India especially between Cure Care and Products.

Mr Subramanian: I think more or less, in the category mix some small changes that do take place across quarters depending on what we tend to sort of drive in terms of our own initiatives with respect to various campaigns and other investments in technology. Having said that I think what is good is that the core for the business which is the doctor led services which is cured has grown by almost close to about 20%. So that is exactly where we are seeing a good amount of movement in terms of overall contribution. So, that is one leading indicator and as far as the Care portfolio is concerned, which is basically facials and products etc., we have grown by about 5% but that it now keeping in mind that the focus currently and the investments currently are towards driving a stronger core of medical services, doctor led services.

Ms Kinjal Desai: Sir, we have also seen a sharp increase in other products part of it on a sequential basis. So is this what we are driving towards where we want to also increase that substantially. What would you consider to be the optimum mix between these three?

Mr Subramanian: It is very difficult to say optimum mix, but what you need to appreciate is that we are actually trying to expand both on the skin clinic and the skin bars. So as we start increasing the number of products retail stores, you will see a shift in contributions. We are hoping that with the new format coming in place and expansions coming in line we expect contribution of products to go from 20% onwards to 25% to 30% in the near future. Also one more thing which is contributing to the overall product growth is the e-commerce space, where we have actually invested in our own website and we have enough alliances with various channel partners. Today, contribution from e-commerce between last quarter to this quarter has actually moved from 6% to 8%. That is the other thing which is actually driving the overall business.

Ms Kinjal Desai: On the Middle East front, it is considerably more steady in terms of the product mix. So could you just give an idea that between these three which are Cure is the higher contribution in terms of margins versus Care and products?

Mr Debashish: In terms of Middle East business, our product contribution, we have consciously kept it lower and the way we sell the products is through the consulting. So actually it is recommended by the doctor and here in the Middle East business is much more advanced business in terms of technology, in terms of services, so our core portfolio which is actually heavy in skin concern where we bring in a lot of innovations, a lot of services in this bucket and we compete with the best of the world, so here we have a competitive advantage being deploying the largest number of dermatologist and these are all permanent doctors, no part-time doctors and they are industry veteran, so we are able to charge premium in compared to competition and we operate in a very unique space in Middle East where we are not alone, either we in hospital, we are somewhere in between where competitive intensity for us in this space is low and hence our ability to charge premium is higher compared to others and so which is why you know the product, obviously we would increase steadily, but we do not want to emphasize on the product part as of now. We are strengthening the whole portfolio which is anti-skin concern delivered through dermatologist.

Ms Kinjal Desai: We would not be looking to open something like a Kaya Skin Bar out there right now?

Mr Subramanian: No.

Ms Kinjal Desai: Am I right?

Mr Debashish: You are right. As of now we do not just intent to open Kaya Skin Bar in Middle East because anyway the product category mix if you look at India is at 19% to 20% and we are at only 10%. So till such we move to 15% 20% we do not intent to open the change the format here.

Ms Kinjal Desai: Thank you very much.

Moderator: Thank you very much, Ms. Desai. The next question comes from Ms. Devanshi Dhruva from Dolat Capital, Mumbai. Ms. Dhruva, you may please ask the question now.

Mr Amit Purohit: Thank you for the opportunity. This is Amit Purohit here Sir. Congratulations for good set of numbers. Sir, just one pointer I wanted to understand what attracts doctor or who is specialized dermatologist skin segment towards Kaya and how do you make sure you keep on getting these doctors?

Mr Subramanian: In terms of Middle East we have the largest chain out here and in terms of the expertise which we offer and the developments which we offer to the doctor's ongoing development program in addition to that the services, which we have, which is at par with the market and going forward possibly will be ahead of the market. Being a chain with 19 Clinics that itself is an advantage in this market because this market is highly regulated. So this helps us in attracting large doctor pool from the Middle East region, which is the doctors whom we hire are mainly as of from the Middle East region whether a lady doctor or a male doctor and we have Indian doctors. So it is a nice mix of doctors from the region with vast experience.

Mr Amit Purohit – Dolat Capital – Mumbai: Some of the stores probably would have some expert doctors who would be having her/his own clinic somewhere else and who would be coming to Kaya clinic also. So what is the incentive for her to actually come to Kaya Clinic and how do you attract in India also actually this?

Mr Subramanian: I think this space of Cosmo Dermatology is recent as far as India is concerned and to a large extent I think doctors have a good exposure to this set of services and practice through Kaya. So obviously it is a lot of excitement because Kaya does invest in technology. It invests in proprietary services and products, so a good amount of learning that a doctor gets when he or she joins Kaya. Having said that I think, we have our own internal processes of learning and development and also retaining doctors over a long period of time; however, I think on the private practice front, typically Kaya is specifically offering only cosmetic dermatology at this point in time, but a typical dermatologist would want to be associated with a lot more skin related issues and concerns, which are a part of any doctor's learning, which is why to a large extent as a fraternity is they do practice in one or two other centers, but when it comes to cosmetic dermatology most of them are restricted and they do find as lot of reason to join to work for it. Work culture is also fairly positive so people who have worked with us definitely are quite happy with the culture and it is a very open and transparent culture and there have been instances of people leaving us, but there have also been instances of people joining us back.

Mr Amit Purohit: Sir, just on the product side, this quarter saw a significant growth in product segment. I am talking about the India business specifically. So would it be largely attributed to the KSB stores that we opened because that would not be there last quarter or I mean just want to get a fair idea how is that because till first half the growth was not that strong as it has been in this quarter.

Mr Subramanian: I think overall we have been working towards the product journey within the clinic as well. I think Kaya Skin Bar is too small to really impact the overall business of products for the entire business. So, we are currently, I think, if there are one or two things, which are driving it positively, I think, we have looked at also enhancing the visibility of the products of the store so to a large extent customers are more aware about the range of products that Kaya has to offer. We have also invested in e-commerce route. E-commerce has grown by almost 200% for the quarter and it is contributing today to almost close to about 8% of the overall product sales. Of course Kaya Skin Bar is small. I mean we have about 92 centers through clinics where the products are sold and Kaya Skin Bar is just about six or seven at this point in time. So it is not really the Kaya Skin Bar, which has moved the journey for products, but yes it has its fair share of contribution as well going into the future.

Mr Amit Purohit: Thank you so much Sir. That is it from my side.

Moderator: Thank you very much Mr. Purohit. The next question comes from Mr. Harsh Mehta from HDFC Securities, Mumbai. Mr. Mehta you may ask your question now.

Mr Harsh Mehta: Congratulations on very good set of numbers. I have one question on customer count. Basically your customer count this quarter is 2% YOY growth. Can you please let us know whether it is like-to-like customer account growth or it is because the new store additions?

Mr Subramanian: It is an overall customer account that we are talking about yes.

Mr Harsh Mehta: Would you be able to share the like-to-like customer account growth? The thing that I am trying to figure out is it is not just the newer stores which are adding to the customers and also the older stores and then it would be more volume led and not price driven or expansion driven. That is what I am trying to figure out? Thanks.

Mr Subramanian: I can give you those numbers, but I do not think it will make a huge difference to the overall customer count growth because new stores take a good amount of time to ramp up when it comes to overall customers and if you see our expansion plans, I think Q2 we opened two stores and Q3 we opened four stores. So out of the 92 clinic operation and typically stores taking a good time to ramp up, I think the overall customer account even if I remove the new clinics it will be in the same vicinity only. It is not going to be very different.

Mr Harsh Mehta: Sir it would be positive?

Mr Subramanian: It will be positive.

Mr Harsh Mehta: On the same line the trajectory of the customer account has been very favourable from -2 to +2 where do you see this trajectory going in the coming quarters as the participant also mentioned that most of the companies have not or the mood on the street is not that great in terms of demand environment. So where do you think this growth trajectory would go going ahead?

Mr Subramanian: We are definitely looking at growing both counts in ticket size because we need to deliver a certain SSG expectation, so I think we will be working towards that. I think to a large extent most of our services that we offer are markets where people need to get exposed to a lot of consumer education awareness will actually lead to higher penetration. So we would want to see this move up. It is not a very saturated space, there is good amount of space for driving penetration amongst existing customers as well. So we would like to see this actually move up much better.

Mr Harsh Mehta: Thank you so much Sir. That is all from my side.

Moderator: Thank you very much Mr. Mehta. The next question comes from Mr. Pritesh Chheda from Emkay Global, Mumbai. Mr. Mehta you may please ask your question now.

Mr Pritesh Chheda: This is Pritesh here. If you could give some sense on the expansion plan? Second the extent of time that a typical store takes to cash breakeven? Third the operating leverage in the model?

Mr Subramanian: I think expansions we have spoken. Clinics in India we are looking at about 10 to 12 on a yearly basis. In Middle East maybe three to four, Kaya Skin Bar we maybe looking at 15 to 20 on a yearly basis. So these are the expansion plans. As far as the Clinic breakevens are concerned, I think, in India we are expecting them to sort of breakeven in about 18 to 24 but this is an average. So and each catchment or each opening could vary vary differently, but having said that we are expecting them to breakeven at about 18 to 24 months kind of a framework. The Kaya Skin Bar we expect them to sort of breakeven within about a year. So these are the two indications. On the operating leverage, I think finally at the end of the day, we are growing business of expansion and SSG. I think the topline is expected to do more better; however, I think we will be able to get leverage but typically it all depends upon how quickly the new clinics and the skin bars starts to breakeven and how quickly they do so because to that extent there will be a little bit of a drain than impact on the bottomline but once they stabilize I think we will be able to leverage the business much better.

Mr Pritesh Chheda: Considering that the category is nascent there is under penetration and whatever offering must be there in the markets it should be somewhat organized player should also be there in some form or the other, pardon my ignorance, it is slightly difficult to figure out what could be the SSG growth of models like this at this stage? So if I ask you what can be a fair assessment of an SSG out of the same store can be generated in this model at this stage or in this category at this stage?

Mr Subramanian: So we are saying that it is about where we are aspiring to do about 10% to 12% on SSG.

Mr Pritesh Chheda: Does that cover the cost associated, the incremental cost associated with the stores?

Mr Subramanian: Yes on an annual basis I think inflation and other people cost, etc., you can take. You can say about 6-8% would be the overall impact on overall cost. If you are doing about 10% to 12% you should be able to leverage the balance.

Mr Pritesh Chheda: Plans on the cash in the balance sheet Sir?

Mr Subramanian: Currently, we are using the cash to sort of drive expansions in the existing business. Expansions will come not just from opening new clinics but also investments in other areas like R&D, products, journey and technology for the clinics. So at the moment yes we are looking at the cash to be used for the current setup. That is where we see ourselves right now. Having said that I think in Middle East there has been one other part, which is basically there looking at expansions about three to four clinics so that is another thing that would also come in, in addition to India.

Mr Pritesh Chheda: So considering expansion at Middle East the earlier option on thought of encashing Middle East now is on the backburner?

Mr Subramanian: Sorry come again?

Mr Pritesh Chheda: Considering the intended expansion in Middle East the earlier idea of encashing or in Middle East is basically out of thought Sir.

Mr Subramanian: We are going to be invested in the Middle East business.

Mr Jain: We are going to invest in the Middle East business. We added one clinic last quarter in Middle East. So our intention going forward is to add up clinics in Middle East either through organic route or inorganic route given the regulations in the Middle East is very stringent. Now it takes entering a new country has its own time lag depending on the way the country operates. So we are looking at investments in Middle East whether it is in expansion or whether it is in new technologies which we have been doing for the last six months and we will continue to do and since Middle East business has turned around, so we are very hopeful about this business.

Mr Pritesh Chheda: If I can sneak in a last question. The skin bar as a business whom would you compete with typically?

Mr Subramanian: I think as far as the product retail stores, Skin Bar is concerned, I think the products are slightly upwards of premium with respect to brands like you know Olay and Ponds, but it is slightly lower than brands like Kiehl's and Clinique so we are somewhere in that space, where our average product retail price is anywhere between 1000 and 1200 and at the moment I think product retail format there are only high end options available in the country, which is Steels, Clinique and Clarence and we would be probably the only brand there in this space related to product retail stores.

Mr Pritesh Chheda: Sir none of these forest essentials and all?

Mr Subramanian: They are more basically into various Sensorial at this point in time. So medically I think giving solutions to skin care, diagnosis, consultations and recommendations, I think that kind of a format is only unique to what we are doing in Kaya.

Mr Pritesh Chheda: Thank you very much.

Moderator: Thank you very much Mr. Mehta. The next question comes from Mr. Naveen Bothra from Arch Finance Limited, New Delhi. Mr. Bothra you may please ask your question now.

Mr Naveen Bothra: Congratulations to team Kaya for the excellent set of numbers Sir.

Mr Subramanian: Thank you Naveen.

Mr Naveen Bothra: My question is to Mr. Dharmendar Jain. Regarding the likely impact of GST, which is to be introduced next year because right now we are charging around service tax 12.36%, so if you can give some clarity about this? Other question is regarding the merger with Kaya. There we have any hold in the trading or stock markets during that period or virtual merger?

Mr Jain: Let me clarify on the GST part. See majority of our service tax component. In terms of other parts, there is marginal impact for us actually. So as of the current understanding we have got on the GST there will be obviously a lot of clarity is expected from the GST at the moment. Upside also we see a very marginal impact in our model.

Mr Naveen Bothra: Even if there is some increase that will be passed on to the customer?

Mr Jain: That will be passed on to the customer, yes.

Mr Naveen Bothra: Regarding the merger impact on the trading,

Mr Jain: It will be done by the regulation to whatever minimum time required to have the trading halt & that will be as per the process.

Mr Naveen Bothra: My other question is regarding the advances from the customers from India and Kaya Middle East, if you can tell us the number and average R&D expenses if you can give a breakup?

Mr Jain: Customer advance is Rs 68 Crores on the balance sheet.

Mr Naveen Bothra: 68 Crores and that will be like second quarter two-third and one third? India and KSB?

Mr Jain: Yes.

Mr Naveen Bothra: Regarding the R&D expenses if you can explain?

Mr Jain: R&D expenses currently, the components have been ranging between the 0.52% to 0.8% revenues for us?

Mr Naveen Bothra: And you want to increase this R&D expenses going forward?

Mr Jain: Yes we are trying for some increase. So this is broadly say our topline is also increasing in terms of absolute value there will be increase but percentage will be still within the range.

Mr Naveen Bothra: Thank you. This is from my side.

Moderator: Thank you very much Mr. Bothra. The next question comes from Mr. Rajat Budhiraja from Banyan Capital Advisors, New Delhi. Mr. Budhiraja you may ask your question now.

Mr Rajat Budhiraja: Thanks for taking my question. This is Rajat Budhiraja from Banyan Capital Advisors. I missed the first part of the call. So I would like to ask the question again maybe. So as per your expansion plans what is the growth guidance if you had provided? If not then can you please give us some overview what will be the growth going forward?

Mr Subramanian: We had shared as far as India is concerned. We are looking at about 10% to 12% SSG and we are looking at expansions both from the clinics and Kaya Skin Bar. Kaya skin clinics we are looking at about 10 to 12 clinics and skin bars we are looking at about 15 to 20 on a yearly basis.

Mr Rajat Budhiraja: So expansion plus SSG this would be 20% growth or so?

Mr Subramanian: Depending upon where it is about 15% plus is what you can say.

Mr Rajat Budhiraja: I understand. In terms of number of stores, in retail format, people do bifurcate their thoughts into mature stores. So do you have some kind of bifurcations?

Mr Subramanian: Yes whatever the existing stores which probably have been with us for more than five years plus the business has been fairly good and the clinics are doing well on the EBITDA front. In fact we would be able to share with you certainly if you wish.

Mr Rajat Budhiraja: I would like to see the numbers, which you are doing right now. So, in terms of numbers like and just because you are saying these are mature stores so probably these would be all of them achieving the breakeven levels right?

Mr Subramanian: All of them are cash positive and second is that whatever you are seeing here today as far as the EBITDA is concerned, with a little bit of a drain because of the new stores opening that we have done in the last two quarters, which is almost close to six stores. So if you remove that I think the existing stores would be much better in terms of the delivery that we have shown so far.

Mr Rajat Budhiraja: In terms of margins what are the margins we can expect going forward and going to up and operating leverage that can come?

Mr Subramanian: See I do not think we give future guidance on this. What we are saying is we have given you an indication of the SSG growth. We have given you an indication of expansions and you are aware of the rest of the indicators in the P&L. I think as the clinic start to gestate better and the expansions come in line and the clinics start to gestate and deliver better I think we will be then able to see as a good amount of operating leverage on corporate overheads and ASP.

Mr Rajat Budhiraja: Thanks a lot. That is it from my side. I had few questions on stores front, stores format, so maybe I will take up those question in a separate forum.

Mr Subramanian: Thank you.

Moderator: Thank you very much Mr. Budhiraja. The next question comes from Mr. Dhawal Mehta from Emkay Global, Mumbai. Mr. Mehta you may please ask your question now.

Mr Pritesh Chedda: This is Pritesh again. Just a clarification; the SSG number that you referred in the press release how many stores would have been considered in this SSG number and the calculation of SSG number is based on what formula?

Mr Subramanian: Basically we are looking at 85 stores when we define the SSG number to you. So when we say SSG of 15% for the three in KSI, we are referring to the mature stores which are 85 in number and there are 18 such stores in Middle East as well. So these are the mature stores, which have been in existence for more than five years average. As far as the new stores are concerned, I think, we just started the expansions this year from July 2014 so those are the ones which are yet to sort of breakeven at a store level, but all the mature stores are already cash positive and they are doing well.

Mr Pritesh Chedda: Typical of a retail let us say these 85 stores are the stores, which have opened on or before FY 2013. So we are in FY 2015 today so all stores…?

Mr Subramanian: All are operating more than one year.

Mr Pritesh Chedda: In excess of one year.

Mr Subramanian: Yes. That is right.

Mr Pritesh Chedda: The stores, which have opened last year may or may not be a part of this store count in SSG this year?

Mr Subramanian: There is only one store, which is opened in the financial year last year and before that we did not open any stores for at least two years or three years before. So whatever you are seeing here is predominantly the stores, which are matured and which have done a good amount of business in the last quarter.

Mr Pritesh Chedda: Thank you very much.

Moderator: Thank you very much Mr. Chedda. The next question comes from Mr. Chetan Vohra from Value Research, Mumbai. Mr. Vohra you may ask your question now.

Mr Chetan Vohra: My question pertains to the same store sales growth again that you said was 15% during this quarter, and we have not opened stores like five years before this, right?

Mr Subramanian: There was one store, which we opened last year and before that I think for good three to four years we have not opened any store.

Mr Chetan Vohra: Can you give us any sense about what was the same store sales growth for the last two three years?

Mr Subramanian: We can share that with you. I think you will get all that in the investor presentation, but I think net revenue SSG if you look at it I think 2013 was about 8%, 2014 was about 7% and quarter-on-quarter I think last three 9%, 10% and 15%.

Mr Chetan Vohra: Sir my question is basically that what has changed the way we have reported a 15% same store sales growth vis-à-vis 7% to 8% that we are reporting two three years back?

Mr Subramanian: I think a few things have come together. I think we have worked on the product, the services and the brand. So predominantly, I think two years back we did take a sort of a slight deviation on strategy to get into facials as one of the source of acquisition of customers. I think that really did not do as well and we have focused our basically a back to basics kind of a strategy which has come in place and number two is I think we have looked at various offerings. We have plugged all the gaps that are there in the system and we also ensured that we are able to sort of leverage technology and give better services for higher efficacy and all this has together strengthened the core services and also delivered a much better result as far as the stores are concerned.

Mr Chetan Vohra: So the growth which we are seeing is totally led by the change in the strategy that we have implemented?

Mr Subramanian: Yes.

Mr Chetan Vohra: That was it. Thanks a lot.

Mr Subramanian: Thank you.

Moderator: Thank you, Mr. Vohra. The next question comes from Mr. Deepen Shah from Kotak Securities, Mumbai. Mr. Shah you may please ask your question now.

Mr Deepen Shah: Just had one question like we understand that we do not have any major competition or companies which can be told as direct competitors to us in India but globally, if we have to name a couple of companies, which one would be the companies which are similar to us?

Mr Subramanian: I think the model is slightly unique, but you will have some kind of a reference to say some categories so for example, there is a chain called American Laser in USA which specializes giving laser services to American consumers. There is also a chain called Skill in UK, which offers similar set of services. So these are one or two examples I can quote.

Mr Deepen Shah: Any companies in the Middle East or maybe in the Sahara and the Asia region?

Mr Debashish: In Middle East you know as I said before is that we operate in a unique space in between Laser, Tuniq and hospital. So that way we do not have a very direct competition, but when it comes to Laser we have a company from Lebanon called Silkor who is our competition where 80% to 85% of their turnover comes from Laser. On the other hand, when it comes to say a hospital kind of stuff our closest competition I would say where we operate is CosmoSurge. It is a US chain.

Mr Deepen Shah: Thank you very much.

Moderator: Thank you very much, Mr. Shah. I request participants who wish to ask questions may please press "*" "1". Now we will take up the last question that comes from Ms. Saloni Jain from NVS Brokerage, Mumbai. Ms. Jain, you may please ask your question now.

Mr Nalin Shah: Good evening this is Nalin Shah from NVS Brokerage. Mr. Subramaniam this product manufacturing do we have our own product manufacturing or do we get it through the giving up the formulas or this thing we get it manufactured outside outsourcing?

Mr Subramanian: We have a third party manufacturing working with us and the products are most of the products are developed and researched within the system and we have third party manufacturing who actually helps us back end sort of then we ship it to the market, yes.

Mr Nalin Shah: But this is only one party or do we get it done from various manufacturers?

Mr Subramanian: There are two to three parties, yes.

Mr Nalin Shah: Only two three parties and how are the margin situation on the services segment versus the product segment?

Mr Subramanian: I think overall the gross margins on the business is close to about 80% and primarily led by services. I think products is just a few notches below. So it is about 70% on products and 80% on services on a gross margin contribution.

Mr Nalin Shah: Okay and looking to the expansion, which you narrated in the short-term you said that there could be a pressure in the short-term on the margins because of the new stores expenditure etc., so looking at the current year where you know you have posted almost about I think 30% EBITDA and 12% PAT what is the kind of number we can expect?

Mr Subramanian: We do not give future guidance but typically when you are in the expansion phase, much depends, EBITDA margins for the overall business would be slightly impacted in the short-term but given the fact that we are rapidly expanding, I think it should also help us to build the topline and capture the market much better.

Mr Nalin Shah: Thank you very much.

Mr Subramanian: Thank you.

Moderator: Thank you very much Mr. Shah. As there are no further questions, I would now like to hand over the floor to Mr. Dharmendar B Jain for closing comments. Over to you Sir!

Mr Jain: Just to conclude, we will continue to drive journey of our sustainable growth expansion as well as same store growth. Thank you all for attending the conference call. Thank you very much.

Moderator: Thank you very much ladies and Gentlemen. That concludes this conference call. Thank you for joining us. You may now disconnect your lines. Thank you.
