"Kaya Limited Q4 FY2018

Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Q4 FY2018 Earnings Conference Call of Kaya Limited hosted by Dolat Capital. 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 an operator by pressing "*"then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Sachin Bobade from Dolat Capital. Thank you and over to you Sir!

Sachin Bobade: Good evening. On behalf of Dolat Capital, I welcome you all in Kaya Limited 4Q FY2018 post result conference call. From management, we have with us Mr. Rajiv Nair, Chief Executive Officer - Kaya India, Mr. Naveen Duggal, Chief Financial Officer and Mr. Vikas Agarwal, Chief Executive Officer – Kaya Middle East. Now I hand the floor over to Mr. Naveen Duggal for his opening remarks and then we will have question and answer session. Over to your Sir!

Naveen Duggal: Good evening everybody. I welcome you all to the conference call on our company's behalf. Let me begin the conference call with a short update on fourth quarter performance, which is already in public domain and uploaded on our website www.kaya.in.

Kaya group posted consolidated revenue from operation of Rs.97.4 Crores for the quarter ended March 31, 2018, a decline of over 15% over corresponding quarter ending March 31, 2017 on a consolidated basis. Kaya India net revenue declined by 5%, Kaya Middle East revenue has declined by 23%. Consolidated EBITDA has break even as compared to minus 9.1 Crores EBITDA loss in Q4 FY2017.

Profit after tax items for quarter ended March 31, 2018 is minus 8.3 Crores compared to minus 4.9 Crores for corresponding quarter last year. Overall, in India, Kaya has 103 clinics and 151 Kaya outlets and operates 24 clinics in Middle East. The detailed information update is already with you. I now open the session for questions and answers and we will be glad to answer them. Thank you.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Trilok Agarwal from Birla Sunlife. Please go ahead.

Trilok Agarwal: Good evening Sir. Thanks for the opportunity. Actually there are two, three questions that I have, one is how should we read into and how are you looking at the SSG growth in the Indian market, secondly there is a big decline in the Middle East market, can you just throw some light on that and third is with respect to the product contribution, which is nearly 19% now in the Indian market, what is your medium term targets if so to say that you can share and you have mentioned in the slide that couple of products have been very, very strong contributors. Could you throw light on that and finally with respect to your new introduction of categories in hair care, how is the traction going up? Can you please highlight these three?

Rajiv Nair: This is Rajiv here. So couple of things, I think what we will have to do as far as India is concerned for the last quarter is we will have to compare the sales line alongside the margin line, which is the gross margin line of the last quarter, so if you see the sales there is a minus 3% SSG decline in terms of net revenue, but there is also a fairly different gross margin percentage versus last year. So last year we had a 71% gross margin and we had a 77% gross margin this year. Basically because of the way we traded during the last quarter during the January and February months where we have been doing heavy discounting in the last financial year and that has probably pulled down margins while it has inflated the revenue, so on the complete financial year currently we have about a 4% growth in terms of revenue, but margins have actually grown on the back of probably more profitable sales that we have actually done. So if I have to read the last quarter from 71% gross contribution it has moved to 77% gross contribution and even if you look at the cost lines also there have been a fair bit of rationalization in terms of cost and if you see the entire fixed overheads, while it has grown by about 4%, employee costs and incentive in the case of our clinics have actually come down over last year by minus 3% and minus 2% respectively. The ASP line has come down by about minus 13% and corporate overheads have come down by minus 24%, so if you actually read the entire number from a minus 2.8 Crores EBITDA loss last year, we had a breakeven this year in terms of EBITDA, so that is the level of improvement, could the number have been higher obviously since we did not follow the same level of discounting this quarter we did not show the same amount of volume and value growth, but last quarter if you compare to this quarter where we had steady sales last year and this year on full margin, our growth was close to about 13%, so that is how I would read the numbers in terms of the last quarter.

As far as the product sales are concerned, it is a focus area for us. I think we touch this year about Rs.39 Crores worth of business from product. Our ambition is to reach about Rs.50 Crores in the coming year for which we have also started setting up distribution channel for our product. We have started supplies to general trade, modern trade across multiple cities now, so you have Bengaluru, you have Mumbai, you have Hyderabad, you have Chennai, and slowly we are moving into Delhi and Kolkata towards general and modern trade through distributor route. There are a lot of new products as you mentioned in the case of product. We have also launched an entire range of hair care within the segment, so we have seen about 5% mix of product sales coming out of hair care. The channel mix also includes e-commerce, which has been growing by almost 60% over the last year in terms of product and that is a new area of development. Over the last two years, we have been growing steady at almost about 60% growth for the last two years, so we will continue our journey as far as the product is concerned and the last one that you mentioned was new introduction of services.

So hair care still accounts for about 5% of our total mix. We have done about Rs.11.8 Crores worth of rupees business in hair care for the last financial year. We are aiming to double this number in the coming financial year because we are focusing on core services like hair transplant, which we did not do very large numbers last year and have inducted specialized doctors into the business both in Mumbai and in Delhi who are fulltime doctors with hair transplant experience and they will conduct these services for us. So obviously we have a long way to go as far as hair transplants are concerned, but if you see the core hair care business, which is the other segments that we do, we have done more than 10.8 Crores last financial year, the whole of the year. So those are the various indications.

As far as Middle East is concerned, I would actually ask Vikas to give you a light on the market and the environment. It has been a subdued year across Middle East so it is not something unique to Kaya, the environment has been slow, the retail environment has been slow, but I leave it to Vikas to give you some more details on this segment.

Vikas Agarwal: Mr. Trilok, Vikas here. You would be aware that UAE and KSA government implemented VAT in the month of January, this is the first ever tax structure in the Middle East market. There was a last minute call on many things related to VAT implementation. We did pre-empt a shakeup happening but not to this level. The shakeup happened not just for us, not just for our category across retail, across categories in the Middle East, not because of the amount of VAT that it meant, I think it was just a consumer sentiment for the first tax structure to be implemented. So January and February actually are the two months, which did have a huge setback from there. The good news is March did bounce back for us in terms of collections. We expected the impact to last longer, but our brand I think stood stronger there and March did come back and April looks good. So I think overall it is a onetime impact that we got because of VAT. It is not coming back. Yes Oman and Kuwait will be implementing VAT next year, there are smaller markets for us, but we will be much more prepared for it. So that was one part of the degrowth. Another part was last year we did have an exceptional NR gain because of which also you see degrowth to be much higher than what you see today. Actually on collections we have degrown by around 18%, 19% while the NR looks at 23%. Like Rajiv was saying across the year, apart from Q4, yes there was a lot of news from the environment that impacted us over the year. We are in future better prepared, but be cautious because ultimately the environment is not something we can predict, what we can predict is our story, our input. We have some pretty good inputs lined up, which we have actually planned a lot in advance, so this year is going to be about those inputs yielding output from the things lined up, so we are actually very positive about this input for us in the coming year.

Trilok Agarwal: So, given that March has seen better recovery compared to January and February, would you still assess that going ahead also or may be in the first half would be negative Y-o-Y basis in Middle East?

Rajiv Nair: Again, we do not give an exact guidance, but given that March has bounced back means the impact of VAT has gone away, within the two months the consumer sentiment is back. In the first quarter, yes there is a Ramadan, there is Eid, there is going to be a seasonal fluctuation, but we are very positive on the story for this year, so we do not see the shakeup happening of VAT again in the year unless some other environment news comes in and shocks us.

Trilok Agarwal: Do you have any plans to add stores in Middle East this year?

Rajiv Nair: No, this year actually we are not planning to add any stores. Last year we added two stores, one in Muscat and one in Dubai. They are yielding very well for us, but this year we plan to consolidate, turnaround our P&L, go forward and may be in the future years look at things. Also within UAE we are very well penetrated, we have clinics across Emirates already; we are covering the network very well. There are opportunities in other countries, but like I said in this year we are not looking at expanding, we are looking at consolidating and making sure our P&L comes back to its potential.

Trilok Agarwal: Sure, thanks and one last if I may squeeze in, out of the total clinics in India, this is to the other gentleman, how many would have been already mature and how many are new in the last two years?

Rajiv Nair: There are about 23 clinics, which are in that phase of last two, two-and-a-half and three years, so that is the number of clinics out of 103 clinics that we had in the business. So about 23 clinics are the ones that have been there for about three years, the rest of them are more than three years and some of them have a vintage of may be more than 10 years also.

Trilok Agarwal: Thank you very much. I will come back in queue.

Moderator: Thank you. The next question is from the line of Aditya Bagul from Axis Capital. Please go ahead.

Aditya Bagul: Good evening gentlemen and thank you for taking my question. Rajiv if I heard you correctly while you were answering your earlier question, you mentioned that A&P expenditure has come off by about 12%, if that is so, is there a change in our marketing strategy because we are seeing some benefits from our online intensive advertising?

Rajiv Nair: Yes, so what we have done is as we mentioned I think in previous calls as well about 60% to 70% of spends that we are doing currently in marketing is through online. Last year during the same quarter because we were launching hair as a new segment we did do some above the line marketing through newspaper advertising, but as a conscious strategy what we are doing is we are focusing more on online and most of the customer acquisition that we do today is largely from the online group, so that kind of a change will be there may be for the coming financial year as well. Our dependency would be more on digital, social media rather than going through plain newspaper advertising. Our penetration is fairly large in the market in most of the major cities we have like Mumbai, Bangaluru, Delhi more than 12 to 15 clinics and some cities like Delhi we have more than 20 clinics now. So there is no need for newspaper advertising I think what we are doing is more focused on digital.

Aditya Bagul: Right, Sir just taking off I think is there a way where we can probably add a little more colour on this as to how much lower would online advertising cost per new customer acquired vis-à-vis traditional format?

Rajiv Nair: Honestly, there is no direct metric between mainline and digital. Digital obviously you are able to see the cost of acquisition, which is between about Rs.1600 to Rs.1800 a customer, but on a mainline media it is very difficult to actually capture how many customers came through the newspaper, add route and came into the clinic, but going forward I think as most companies would think and also looking at the age profile of the consumers that we are talking about today I think it is crucial for us to be digitally first. Obviously during specific tactical launches that we do we will go mainline, but we also using a lot of PR in these days, so if you may have observed I think we have used a lot of blogger based marketing, a lot of influencer marketing recently we did a hair care launch in Mumbai where also we used the influencers to actually market, but it is largely mostly digital communication.

Aditya Bagul: Sir, second question is when I just ran through your presentation, I found that within the India segment we have seen that the share of cure in your product mix has increased, there is difference in strategy because if I remember correctly, our focus was to shift towards the care segment rather than the cure?

Rajiv Nair: So, actually this change we initiated the way back last year and for some years I think our mainline of business has been the cure business. We did take some strategic shifts some years ago I would say may be 2012, 2013 where we wanted to shift more into the beauty space only. I believe our core strength that we bring to the business is a doctor-led business. We have strength of more than 160 doctors working with us. Each clinic is manned by a doctor about 60% of our turnover in the business is influenced by doctors. So obviously cure is a strong area for us to work on. So if you look at antiaging as a segment, hair care as a segment or for that matter pigmentation as a segment all of these are very strong cure led categories. Of course we will have some hair spas and we will have some beauty facials and stuff like that, which are low-end services, but obviously looking at the competitive environment outside also and the salon environment like really mushrooming all corners of the city actually there is very little competitive advantage in being dominant on care. It is better for us to focus on our competency, which is good doctors, efficacious service and also technology. I think we have one of the largest pools of equipment right now in the market as far as dermatology is concerned and that is where I think our focus is going to be.

Aditya Bagul: Sir, what I was actually referring to was that over the last 12 months to 15 months we came out with the strategy that we want to go down the age curve of our traditional customers and also the ticket size, so while some of this might be playing out, I would assume that while doing so we would have a shift from care to cure or cure to care?

Rajiv Nair: The young consumer does not necessarily mean we have to shift the focus to beauty, so just to give you an example, there are two segments that I can talk about, and one is hair free, which is very large part of our business even today, is largely focused towards the younger acquisition orientated customer. Acne, acne scars is another segment, which may appear as cure, but it is also again a very high young consumer base service. Then there are technology based services like Q-Switch and stuff like that we call under pigmentation, which is again a form of an advanced facial that again young customers can do, so what we have done just to clarify strategy is the fact that while our focus is towards this area, our price per session has actually come down quite considerably. If you actually look at it while our average transaction value remain more or less the same, our price per session, price per service has actually come down over the last may be three to six months time. You see a large increase in pigmentation and large increase in the case of hair free is also because the overall cost per service is actually come down. So the whole idea is to reach out to more consumers and also attract more young consumers into Kaya, so that is basically the objective.

Aditya Bagul: That answers my question. Just one last question. We have had a renovation in about 19 stores that is about 20% of your total store count. If you can just take a representative sample and let us know how the economics of this new revamp stores are different than our traditional mature stores?

Rajiv Nair: As I mentioned these 20 clinics currently contribute between 34% to 36% of our total turnover of the Company, about roughly 34% comes out of these 20 clinics, 19 were renovated by the end of the financial year, which is March and about four or five clinics are currently under renovation. While we have seen an average NR growth of about 4% across the chain, we have seen a plus 10% and above growth in terms of these clinics and in specific clinics like Noida or Delhi for example where we have increased the capacity, we have seen almost a 30% growth from that clinic. It is not generalized to all clinics, but if I would have to just average out between mild renovations to extreme renovations, the overall growth would be more than 10%, but specific clinics have grown by more than 30% where we have also increased our capacity in the clinics where there was a need for a capacity increase and if you look at the investments actually, the investments are in most of the cases range between Rs.30 lakh to Rs.40 lakh going up to relocation clinics where we have spent about Rs.70 lakh to Rs.75 lakh, so if you look at it, it is not like the full cost of opening up a new clinic that we have invested on these clinics. These are largely refurbishments that have been done more from customer touch point's perspective.

Aditya Bagul: That is quite helpful. Just one last question, this is for Vikas. If you can just highlight what is the quantum of VAT increase that we saw in the Middle East business?

Vikas Agarwal: 5%.

Aditya Bagul: Sorry.

Vikas Agarwal: 5%.

Aditya Bagul: This was across all the services?

Vikas Agarwal: Across all the services.

Aditya Bagul: Thank you. That is it from my side.

Moderator: Thank you. The next question is from the line of Rupen Rajguru from Julius Baer. Please go ahead.

Rupen Rajguru: Good evening gentlemen. My question is to Rajiv. While you mentioned that your focus has been to increase the gross margin in this quarter, which has helped us to kind of breakeven, but if I were to act as a devil's advocate why do we want to do this with zero or negative SSG, why not focus on increasing the SSG or do you think that the demand is kind of inelastic and lowering gross margin will not help us get the incremental growth, which otherwise one can get?

Rajiv Nair: I think our objective is not to really focus only on the bottomline obviously it is topline and more customer acquisition is an important goal. What we are doing to that effect is the fact that a lot of the acquisition services that I was talking about just to give you a few examples is for example hair free as a service, which is a very democratic service available to a lot of customers, everybody can do a hair free service. There is also Q-Switch, which is a pigmentation service, which a large part of the population can do. There are hair care services, which are for example hair spa services, which are again acquisition services where we have actually dropped our prices to increase the count of customers who can come in. It is a little early days because we started off this action over the last quarter and you can almost see a 22% increase in the case of hair free and almost a 23% increase in the case of pigmentation, which has come out of a rationalization of pricing. We hope to do this across the country because we believe while we have high, I would say more premium clinics in some part of the country, we also have mid tier and low tier clinics available. We also are present in some of the second tier cities of the country, so obviously there is going to be a push towards acquisition, I would say rationalization of pricing are we going to be very cheap not really, but are we going to rationalize our pricing yes and on an average some of these acquisition services we have dropped our prices by about 15%. So that is the goal that we are doing, but this is going to take us a bit of time by the time we communicate to the larger masses, so if you see as we go into the month of April and May, a lot of our internet communication has started talking about efficacy and pricing, so it talks about outcome and it talks about price. These are the two things that we are talking about right now, so again I want to repeat it our strategy is not to become the cheapest in the market, our strategy is to make our prices more affordable and reachable to consumers. In addition to that we are also offering finance to customers, which means the fact that customers can pay in multiple installments, we are also focusing on selling single session services to consumers for example facial sold as a single unit rather than in the past we used to sell a lot of packages only, so 81% of our facials right now are selling a single session, which means that customer comes into the clinic, pays for a facial, takes the facial and walks out and that is how we believe we can add to the acquisition, but we have to keep communicating about all of these changes to a consumer. I think that effort has already started from our end.

Rupen Rajguru: Just overall what is the trend, which you are seeing because if I were to look into your Company for the last say many quarters or since the time it has got separately listed the India business is stuck at that overall Rs.200 Crores revenue mark, we have not been able to breach it, I agree there have been reasons in the past and if I were to see the general trend in the industry the discretionary spending definitely we are seeing some green shoots not necessarily in similar business, but some of the consumer discretionary spending we are seeing a very healthy SSSG growth at least in this quarter and just can you explain how come the care vertical SSSG is down almost by one third or 30%?

Rajiv Nair: I did not like to say the fact that, for us also SSG growth is a very important indicator. As I mentioned to you the past is not exactly comparable to the future as far as our business is concerned because we are looking at a lot of changes in the business as we speak. As I mentioned to you last time also the fact that while we are a skin orientated business we are actually focusing a lot more on building the hair care verticals. Hair care as we speak in the current month, we are trending at almost +60% growth in hair care, which is there, so we have made a lot of changes in these kind of verticals especially amongst making the services simpler and more affordable and reachable to customers, so if I were to compare our strategy over the last may be one to one-and-a-half years versus what we have done in the past, we want to make the brand more accessible to people, so when you ask how SSG can increase I think we need to reach out to more consumers. I think that is what our effort is actually going on right now. We are also increasing the quality of our clinics, so if you see the renovated clinics that we have actually done today and as I mentioned in the previous call as well that we have seen a +10% growth on the clinics, which are renovated in the relocated clinics like in the case of Noida we have seen almost a 30% growth that has actually happened. Now all of these things will take a little time for us to kick in because there is a lot of communication involved, getting the consumers to be aware of all of these kinds of changes that we are doing, but the action has already happened. Last quarter we made certain price changes and corrections and this quarter also we are making some price changes and corrections, so you will have to give us that much leeway that it takes some time for the consumers to get aware of all of these changes that we do.

Rupen Rajguru: I completely understand that, so if I were to just ask you not any guidance, but say five years down the line considering that hair also will by then reach certain critical scale and being our focus area, so say five years down the line do you expect hair to be about 20% to 25% of the total India revenue?

Rajiv Nair: I would say five years would be too long a place to actually look at, but the way we have looking at is to actually I would say in terms of balancing the business, we would like about 50% to 55% of the business to be skin. We would like about 25% of the business to be product and we would like the balance of the 25% to be a mix of hair and new innovations and new services. Now at this moment in time for example in our Middle East business, we already used a product known as body contouring, which is the next step, which is not purely slimming, but using technology to be able to shape body. Now that is a high end service. In India, I think from a price perspective it is a little early to launch, but we are doing some trials in India as well, so if I have to look at it we would like to balance the business between being a pure skin business to a product business and hair plus new services.

Rupen Rajguru: Just to mull more over the point on the customer acquisition side if you see the number of customers also this quarter has declined by

3% on a YOY basis, so at the customer behaviour side what are you reading Rajiv?

Rajiv Nair: I would read it differently because when we say customer count it is a converted customer count right, so that is basically what we report as customers, people who bought a product, bought a bill. We do not track footfalls like a typical retail outlet right. Now one of the reasons why this count decline happens in this particular quarter, which is July-August, and January-February quarter is basically because we also used to do a lot of discounting during these quarters to be able to sell products, which is selling a large number of packages to increase collections in the past. We have reduced the quantum of discounts there and that I can show you with the different line, which is the percentage gross margin increase during this particular quarter, so what we are doing is while we are right pricing the average transaction value is not going down much in fact it is almost flat over last year, so it is not going to really drop. We expect customers to not just come more frequently, but also buy more packages from us because the prices are right, but if I have to compare last year to this year just on a like-for-like basis, I think it is also because we traded at a much lower margin and we acquired a lot more customer during that period at a much lower price.

Rupen Rajguru: In the near term, next one year or so, what is your strategy on increasing the number of clinics say from 103 odd levels or you will be focusing on the current clinic and enhancing their overall productivity?

Rajiv Nair: Currently of course both ways. What you are saying is correct. As I mentioned that we have almost 19 clinics completed renovation, we will be completing another five to six clinics. While we are doing renovation, we are also doing some of the clinics as relocations because we need more capacity in those clinics, so we are getting into better locations in the same catchment and we are increasing the size of the clinic and giving more rooms in the clinic. A good example is in Noida. Recently, we did a change in Sadashivanagar, Bengaluru and now we are doing a change in Vashi in Mumbai, so we are doing better looking clinics more prominent to consumers. I have got better visibility and access for the clinics, so that is something, which is first priority and we are only touching the clinics where we believe there are numbers to be made where the investments will justify. We are not going into tier two, tier three or any other segments of clinics with this kind of investments. That is number one and as far as increase of stores is concerned, we are taking it as it comes from market opportunity perspective, so there are about 20 odd cities that we have lined up with an X number of clinics that we have identified through a study with Indicus, but we will go onto these markets on an opportunistic basis. First objective for us is to cluster the clinics in the same markets, so that for example we have cities like Pune, we have cities like Hyderabad, and Kolkata where we need to grow more, we will focus on those cities, but if there are good malls coming up in Mumbai, Bengaluru, Delhi or any other market we will also consider those, but that will be purely opportunistic based on how market behaves and how we are able to get new clinics into these locations. We have gone into a lot of mall clinics in the past. Our experience has been good on mall clinics, so if good malls come up in certain cities we will also consider those opportunities.

Rupen Rajguru: Sure. All the best for India and just one last question for Vikas, so I completely understand that over the last one or two years the Middle East business was facing headwinds earlier because of overall slowdown thanks to lower oil price and now since the oil price has recovered I think we got hit because of VAT, but the fact is that now oil is also at a reasonable level and VAT initial teething issues are over what is our growth plan as far as the Middle East is concerned again same question like what is the plan on increasing the number of clinics and what kind of growth are you anticipating, are you seeing that big revival on the customer sentiment side?

Vikas Agarwal: Like I was saying I think in March itself, we started seeing a revival. If you look at the quarter, you will see the ticket size not degrowing much it is degrowing only by -1%, client count was shaken, so the positive side on this is that even in the shakeup that happened, the customers that came to us did find value in our services to give us the same value and ticket size over years for us has actually been growing, which is a very positive sign for the business. Now if the VAT impact has gone and the client flow comes back on track and ticket size holding on we see a promising future and like I said also the inputs that are lined up, so there are few things that we have planned in the Middle East, so one of the things on innovation Rajiv was talking about is the body contouring. That is something we launched last year. In our clinic, we did really good output. It has been received well by customers, our employees are excited, doctors are excited with it and we are going to scale up the plans this year, so that will be multiple on the service. Then we have other innovations that are lined up this year. Specifically one thing that is a big change that we are creating in the Middle East, so within the cure there is anti-aging and skin concerns for us and over the last six months we have done some structural work in our skin concerns vertical, which is the acne, pigmentation dark circle. We believe that vertical is the vertical of the future to pull customers, to retain customers, and it has been working very well. We have seen actually a double digit growth even in the Q4 from that vertical, which means that the next year could be very promising for that vertical. We are seeing a good client flow, we are seeing a good ticket size on that and though the laser market and even an anti-aging market is getting more and more commoditized in the Middle East, this vertical will hold our ground there and keep our brand steady and strong. Apart from that there are two, three other things that we have been building in the past year. One is the brand identity that we released last year, we now have three clinics in the new identity, which is a complete, complete change of the brand, the way it looks, feels, customer experience, we are seeing some really excellent results in those clinics and next year those clinics will yield a full year output, so those are two clinics we expanded last year. We want to make sure that those clinics deliver very well. We are not looking at expansion, but if something comes up, which looks very promising during the year, we might be open for it, but as of now we are not looking at really expanding more because there is an opportunity lying in the expansion that we did and we want to make sure that we really take the potential out of it, so overall I think next year does look good to us given the inputs that we have. You are right VAT is not going to come back to UAE, KSA; it is going to be implemented in Oman and Kuwait. We will be better prepared for it. I do not see anything else as of now, which can really shake up the environment, so I think it looks good.

Rupen Rajguru: Great. Thanks a lot and all the best to both you and Rajiv and in your terminology we expect a makeover of this transformation, which you are seeing pretty soon. Thank you.

Moderator: Thank you. The next question is from the line of Eshit Sheth from Anvil Share & Stock Broking. Please go ahead.

Eshit Sheth: Thanks for taking my question. Sir I had a couple of questions on the India business. If I see the overall collection growth for this year it has been negative, now is it primarily to do with the fact that we have changed the way we treat cure patients and the care patients where you said that we are targeting the younger generation, which are actually coming in for just a onetime thing and going out, so is it because of that the collection has dropped because collection is generally a good indicator of how the demand outlook for our services is?

Rajiv Nair: Couple of things, one is Kaya India for the year, the collections are plus 2% and net revenue is +4%, so it is not a negative collection. The only difference is the fact that, you are talking about the year or you are talking about the quarter?

Eshit Sheth: I meant for the quarter.

Rajiv Nair: Quarter as I mentioned to you is the fact that I think I am repeating myself, but I think for the last year the same quarter, which is the January and February we did a strong bit of discount orientated sales, which is basically what we call as end of season sale where there is a massive amount of volume that we generated through discounting and that is a reason why if you see the percentage margin for last year same quarter is about 71% and this year is about 77%, so we have traded at better margins this quarter and obviously it is not highlighted too much of discounts in the clinics. A lot of our core clinics, the top clinics did not have any advertising around discounting this time and reasons of which obviously whatever sale we got during this period is mostly on full price. Obviously we do run promotions, so it is not like that we do not run promotions, but the whole intention is to talk about fair pricing and good pricing, so that is basically the reason I would say for this last quarter, but for the year, till last quarter especially the previous quarter where we did not have discount, our net revenue was growing at about 14%. This quarter last year we had discounting this year, we did have promotions, but we did not have that kind of discounting.

Eshit Sheth: Got it and Sir also on the India business as you mentioned that you are expecting the product category to do very well for us as we are going into different new distribution channel basically so what my question was that as a strategy for Kaya India are we looking at going towards product category and enhancing that as overall mix or because in Middle East what we see is that the more focus is towards basically the cure segment and the cure segment actually gives you the product business and over here in India is there some change in strategy where we are focusing like product category to be completely separate category?

Rajiv Nair: Yes so two things one is about 100 clinics plus we sell product, but we also have another set of stores, which are basically the general and the modern trade stores where we sell products in India because I think the market size is very large. The capacity to consume for customers only on services because quite a few of the customers are still in the product journey because not all of them have reached service journey where they are willing to spend Rs.10000, Rs.15000, Rs.20000 on services, so I think product is a good balance and since coming from the house of a Company, which has got dermatology experience and also lends creditability to the kind of product that we have and since modern retail is growing across the market today I think it is a great place for us to expand our presence outside of the Kaya Clinics into other locations through the product segment and so our aspiration is to become about 25% mix on product, currently we had about 20% mix of product and may be reach 25% mix and through a mix of our own clinics modern trade, general trade and may be some specialist pharmacies and stuff like that put together also.

Eshit Sheth: I got that and I think that makes sense for India probably and not made so much.

Rajiv Nair: India is more of a volume market, Middle East is a value market, it is a more premium market, a number of consumers are lower and products anyways in Middle East are very premium segment, so a lot of premium international brands are available, but in there I think services is are forte.

Eshit Sheth: How do you see the overall discretionary spend trend in India markets over the next few years especially?

Rajiv Nair: Again I am saying I would not look at it from just a future perspective, but what you can see right now is the fact that there is a lot more visible communication around skin care in both the internet media as well as above the line media there are lot of mini change, which are there in various cities, they are operating 8 clinics, 10 clinics, so I think awareness for the category is definitely growing in India. People are willing to spend a little bit more, there are lot of working women in India, there is a large population out there who wants to look good and I would not only say women may be men as well. So I think we are right in feeling the fact that India is a very value for money market. If you have perceived only premium and niche we will have that much of a smaller pie of the market, but if you have perceived as affordable accessible without being cheap we will probably be able to acquire a larger pie of that market and that is probably our objective.

Eshit Sheth: The kind of momentum that we are seeing say in terms of the overall cost initiatives that you have taken at Kaya India and with the way product business is likely to grow next year, is it a fair assessment to say that at least on India business, we will be breaking even?

Rajiv Nair: I think our goal for sure is towards making our bottomline stronger, which means any and all of all the activities have to be done, one is getting growth, getting new consumers, working on the cost optimization and improving our gross margin, I think that is an area that we will continue to work on the journey this year as well.

Eshit Sheth: Sure and this thing is probably that incremental turnover of maybe say Rs.7-8 Crores also in India, I think that is close to directly into the profits?

Rajiv Nair: I agree with you. There is also fixed cost element in this business so any variable increase leads to bottomline.

Eshit Sheth: Right and also one last question on the rent, how do you see the rent as a cost playing out in India I mean we have seen rental is all kind of they are hovering at about on the commercial side probably at about 4%-4.5% in India do you see rent cost actually going up in absolute terms if you do not add any clinics or we do not increase the size of our clinics?

Rajiv Nair: No about 4% to 5% average increase, 5% to 6% I would say on an average increase in rent is still happening in the markets where we operate today. Overall rent as a percentage mix to our business is still I would say on the higher side at about 17%, we have to bring that down, but that would happen through increase in turnover and not just rent negotiation because rent negotiation we are on a constant spree on that, so last year also we negotiated rent with quite a few of our clinics, but I think still the percentage of rent to total business is still 17% that I think will get cautioned if we have a higher turnover.

Eshit Sheth: So that is great and anyways I think what you mentioned also was that if not anything else, I mean where we see the SSG growth at least the product category we will at least get 5% to 6% incremental growth because of the product, so let me see some good spend I think topline can probably grow at 10% to 12% next year hopefully.

Rajiv Nair: Sure.

Eshit Sheth: Thank you so much and appreciate the efforts you are taking.

Moderator: Thank you. The next question is from the line of Shanu Bansal from SB Equity. Please go ahead.

Shanu Bansal: I had a few questions one was regarding client mining, you mentioned about customer acquisitions and so on, but I wanted to get an idea how do you look at clients in terms of the repeat clients that you have I mean you track or measures the repeat business that you are getting from clients and whether it is store wide or how do you exactly look at it, that was my first question.

Rajiv Nair: So what we do is the fact that across both the geographies, I think now we have a loyalty program and CLM, a customer lifecycle management program, which we run with a third party agency where complete analytics for the consumer right from the time that they place the first call to Kaya to become the first customer to Kaya to the journey that they do through the lifecycle is tracked and we look at what are the services that they take, what kind of adjacencies that they actually have. So there is a proper I would say analytical work that actually happens around retention of existing clients and developing new clients, so if you look at our HNI retention in the business is roughly about 60%, 65% of the people who have bought something last year have come this year and on average customer comes to the clinic comes visits about 6 times in year, which is there. About 35% to 40% of our business still comes from new client count, which comes in new clients who actually shopped in the business so. There is also a steady flow of new consumers, but whether it is new or whether it is old we track all the performance through the CLM method.

Shanu Bansal: Right and how do you take care of just 200 clients then in that case like I mean because bad publicity can actually be quite negative for you not worth the cost so then how exactly you will deal with that?

Rajiv Nair: Obviously that is entire grievance handling mechanism that we have. We have call centers right now, which actually talk to consumers in case they have some queries and complaints. We have an entire Kaya care system through which digitally customer can reach out to the Company and we do have our own turnaround time for these kind of services especially because it is an outcome orientated service, the expectation setting is important, which our doctors do, but sometimes if a customer is not happy we would offer them some re-services in the clinic and that is a normal grievance handling procedure.

Shanu Bansal: So far you have not had any cases, which have like kind of blown up?

Rajiv Nair: Not blown up, but obviously as a business where we are outcome orientated, there are no complaints of course there are complaints, there are complaints, which come, we have entire tracking mechanism both at the clinic level as well as at the head office level, but nothing that has been of any alarm or any large reputation risk or anything of that sort.

Shanu Bansal: Just my next question was about attrition in your clinics, I mean you measure like in terms of doctors or may be even the service technicians or whatever you call them, I mean what is the attrition like?

Rajiv Nair: So attrition in our business would be roughly about 4% to 5% a month so I think for the annualized basis I think the clinic attrition is about 40% for the entire year.

Shanu Bansal: Is that like I mean in line with what is your expectation in terms of your targets?

Rajiv Nair: Actually there are no targets for attrition generally one does not target attrition, but you want to keep attrition under control, but as you see we operate in a retail environment so if you actually see retail opportunities, there are lot of opportunities for people today in retail, but the good part is our doctor attrition is lower than our other clinic operations attrition because doctors have stayed back with us for a long period of time, we have tenure doctors about 40-50 doctors in the business who have spent more than 10 years in the Company. So our doctor attrition percentages are lower than our operations team attrition, which actually happens in the clinic, so obviously there is a bit of challenge in Indian market, but that is true for almost all the retailers in the country today.

Shanu Bansal: That is it from my side. Thank you so much.

Moderator: Thank you. We take the next question, which is a followup from the line of Rupen Rajguru from Julius Baer. Please go ahead.

Rupen Rajguru: Just one question, which I missed asking is you had earlier mentioned that you have also started using financing schemes or giving finance through some NBFCs to our clients, so how much percentage of our revenue comes from these financing kind of arrangement?

Rajiv Nair: It is very, very small. Right now unfortunately it is about 1% or 2% right now in terms of the total revenue. It is a very small percentage right now and currently according to the numbers that we have, it is even below 1% right now, but we are keeping it open, we are keeping it available for consumers, we are also informing the consumers for the fact that we provide finance, but then at this moment in time this is a very small percentage of the total.

Rupen Rajguru: So who provides finance?

Rajiv Nair: Third party, so we worked with companies like Snapmint, we work with Bajaj Finance, we work with credit card EMIs and like that.

Rupen Rajguru: Okay but don't you think that is a big opportunity out there in fact?

Rajiv Nair: It is not that we are not talking about it. It has been may be last four or five months' time that we started doing this and we are actively promoting finance in the clinics, but still the turnover that we are generating out of finance at this moment in time is very small.

Rupen Rajguru: But clearly my personal view is this actually can be really a big thing considering the kind of mindset change with Indians.

Rajiv Nair: We also believe and also there are some new technology tools right now available where you can actually do a credit rating within like 15 seconds.

Rupen Rajguru: Absolutely.

Rajiv Nair: We can upload the contact and your credit details and you can immediately get approval or so online so that is how it is.

Rupen Rajguru: Especially that some of those high ticket items, the services which we give I think clearly lot of people if financing is a deterrent, I think this can really help us?

Rajiv Nair: Even I can promote it for sure, we will actively promote it.

Rupen Rajguru: Great and all the best to you. Thank you.

Moderator: Thank you. That was the last question. I now hand the conference over to the management for closing comments. Over to you.

Naveen Duggal: Thank you everybody. Just to conclude we will continue to drive the journey of our sustainable profit growth through expansion as well as same store growth. Thank you all for attending the conference call.

Moderator: Thank you. On behalf of Dolat Capital that concludes this conference. Thank you for joining us. Now you may disconnect your lines.

(The Document has been edited for readable purposes)

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