KAYA LIMITED

Q3 Financial Year 2016-2017
Conference Call
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Management: - Mr. Rajiv Nair – CEO-Kaya India
Mr. Debashish Neogi – CEO-Kaya Middle East
Mr. Dharmendra Jain –CFO-Kaya India

Moderator: Ladies and gentlemen, good day and welcome to the Kaya Limited Q3 FY17 post result conference call. As a reminder all participants’ lines will be in Listen Only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference please signal an operator by pressing * then 0 on your touch phone. Please note that this conference is being recorded. We have with us today the senior management team of Kaya and its subsidiaries comprising Mr. Rajeev Nair CEO Kaya India, Mr. Debashish Neogi CEO Kaya Middle East and Mr. Dharmendra Jain CFO Kaya Limited. I would like to hand over the call to Mr. Dharmendra Jain who will take you through the highlights of Kaya performance during the quarter, over to you sir.

Mr. Jain: Good evening everybody. I welcome you to the conference call. I will just give you the update on quarter 3 which is already in the public domain and it has been uploaded on our website. So Kaya Group posted consolidated revenue from operations of 97.2 crores for the quarter ended 31st December 2016, a growth of 2% over the corresponding quarter last year. Kaya India has achieved net revenue de-growth of 4% and there was same store de-growth of 7%. Kaya Middle East has actually grown by 8% and the same store growth was 6% and constant current basically it was 1% for the Kaya Middle East. On a consolidated basis EBITDA was (-) 0.7 crores which was (-)1% of the revenue as compared to last year 4.9 crore which was 5% of the revenue in quarter 3 FY16. Operating profit after tax for the quarter ended 31st December 2016 is (-) 3.4 crores compared to (+) 3.5 crores for the corresponding quarter last year. Kaya India closed one clinic during the quarter, overall currently Kaya India operates 102 clinics and 127 Kaya Skin Bars and Kaya Middle East operates 21 clinics. So now I open the floor for the question and answer sessions. I would like to invite Mr. Rajeev Nair the Kaya India CEO who has recently joined two months back, so he will also be there in the session. He is currently facing a throat problem, so he may not be able to fill all the questions but he will attempt to give whatever is possible from his side. Over to you.

Moderator: Thank you sir, thank you Mr. Dharmendra for the opening comments. We will now begin the question and answer session. At this time if you would like to ask a question please press * and 1 on your touch phone. If you decide you want to withdraw your question from the questioning queue please press * to remove yourself from the queue. Participants please press * and 1 for questions. We have a first question from Mr. Jain Zaveri from J& J Holdings, please go ahead sir.

Mr. Zaveri: Thanks for taking my question. I just wanted to know what are the kinds of growth prospects both in India and the Middle East that you all are seeing now and how much has demonetization affected you guys and are you seeing that in this quarter also?

Mr. Jain: Just to give in terms of the impact of the demonetization, I think November was very bad for us and so also December. Half of December we had a major impact actually but in the last week of December we have seen the uptake happening actually and again January I think we have seen the good uptake actually. So there is already a positive momentum in terms of the top line what we are seeing at the moment. So I think demonetization impact is behind us actually what we actually think from the January numbers. In terms of Middle East I think obviously from UAE perspective I think we are still able to have the positive growth traction there and we are seeing a 5-7% growth in the Middle East market. Only I think we have got a big challenge in the Saudi Arabia market. So that market is still having the challenge and we are seeing a de-growth there. So ideally we should sense that Saudi Arabia will have some challenge for next couple of quarters, otherwise overall I think Dubai as a KME market we still see the positive momentum of 5-7% SSG growth plus we have other acquisitions going on, we just acquired last quarter, so that will come on board from this quarter onwards. Overall I think the momentum is quite positive at the moment.

Mr. Zaveri: What kind of growth can we expect on a total consolidated level year on year say from this quarter or even for the next year, what is it that you are expecting?

Mr. Jain: See, if you see the India market obviously we see on the SSG we still think that okay we should have high single digit growth going forward. So currently we are in the phase of consolidation in the Indian market, so we are focusing more on profitable growth actually. So I think India we still feel that there is a positive momentum happening and still once we are into the more positive traction then we will start our expansion phase going forward. On the second side, on the product side also already I think we are seeing a good growth in terms of the current expansion what we have done over last couple of quarters. So there also I think we are consolidating on the KME format. Third I think the hair category what we are focusing on actually that should also drive a good number going forward in a couple of quarters. So, that will become a big category in the next couple of years for us. So India I think as such on the current base I think it should see the high significant growth happening and the profitable growth is the momentum what we are driving. On the Middle East I will just hand over to Debashish, he will give some more perspective on that.

Mr. Neogi: On Middle East market we should get a SSG growth of 5-7% and revenue growth of around 15% going forward.

Mr. Zaveri: Okay, I am just trying to understand that why is India growth lower than Middle East growth when it is such a nascent stage in India, is this how the business works or when do we actually see higher growth?

Mr. Rajeev Nair: I am sorry my voice is a little out. Without giving a forward looking statement I think what is important is the fact that we are doing lot of actions within the India business to actually drive top line growth. So we have seen some initial successes in the current month itself, in the month of January and we hope to keep that momentum in this quarter and going forward for the coming year. Last year was a little difficult year for us with certain quarter especially the last quarter really being a little tougher especially because of the demonetization issue but we have yet to see a lot of levers that we are creating within the business to be able to increase the level of top line growth in India. We have seen some initial success in January and I hope we can keep that up for this quarter and the next year.

Mr. Zaveri: When do you expect to turn profitable at the operational and then profitable at the PAT level also, like by when is the internal target that we want that you will start actually seeing profits?

Mr. Jain: See, on the consolidated level obviously there is profit on the India and on the Middle East level, only during the last quarter it was actually the bad quarter, otherwise if you see on a continued basis as a consolidated level we have been having the profitability.

Mr. Zaveri: But it is very small, it is mainly due to your other income, not so much due to operations. So, if I am looking at even last year quarter 68 lakhs, last quarter 6 lakhs, this is operational I am talking about.

Mr. Jain: I think our focus is to actually make the India profitable, so I think over next couple of quarters we should see the EBITDA positive momentum happening actually. So I think over next couple of quarters we should see that traction happening. The way the new initiatives have been taken and a new leadership team coming on board, so we feel that we are hopeful on getting on to the positive traction.

Mr. Zaveri: In terms of your sales can you give us a breakdown of what is coming from your products and then what is coming from the services?

Mr. Jain: Here the product business in India is around 21% across all the channels.

Mr. Zaveri: 21% from products of the standalone business.

Mr. Jain: Yes.

Mr. Zaveri: And on the consolidated business?

Mr. Jain: Consolidated business our overall business will be around 15% will be coming from the products.

Mr. Zaveri: So mainly it is all India products only is showing up in the consolidated also.

Mr. Jain: Major is India 21% and international is 11% only.

Mr. Zaveri: Okay sir thanks, I will come back if I have more questions.

Mr. Jain: Thank you.

Moderator: Thank you for your question Mr. Zaveri. We have one next question from Mr. Sethi, please go ahead Mr. Sethi from Premji Investments, and please go ahead.

Mr. Sethi: Good evening sir, thanks for taking my question. In your presentation you mentioned that there was some disruption of two clinics in the Middle East which impacted sales and margins. So, could you give some more color on that?

Mr. Neogi: We had two clinics which were not operational. One of the clinic was in Saudi for two months and one of the clinic in Abu Dhabi region for one month. So, if you actually add back those two clinics non-operational period on an average sales basis then we have had a growth of 8.5 to 9% of the EBITDA.

Mr. Sethi: So these have not yet opened or…

Mr. Neogi: It has opened in the last week of December, both the clinics are functional now so which is why in January we are having a very good high double-digit growth in January.

Mr. Sethi: The Q3 numbers would reflect the cost for these clinics.

Mr. Neogi: Absolutely, since it is a high operating leverage business when you keep the clinic closed you incur all the fixed cost for it.

Mr. Sethi: And these were already operating clinics which were closed for a month or were these clinics which were underway to opening and you had to pause for a month?

Mr. Neogi: It was operating clinic, so now all the clinics are operational including these two clinics from the month of January.

Mr. Sethi: What was the reason for the disruption?

Mr. Neogi: What is happening is the entire market is moving towards more regulation forward in terms of Middle East market given that we fall under healthcare. So as and when clinics are coming for renewal in terms of licensing we are putting the new infrastructure and the new rules in terms of getting the new licenses. So here in these two clinics we had to take time to be compliant which is why we had to keep the clinic closed for that period.

Mr. Sethi: That is all from my side, thanks.

Mr. Neogi: Thanks.

Moderator: Thanks for your question Mr. Sethi. We have our next question from Mr. Manish from Solitary, please go ahead Mr. Manish.

Mr. Manish: Hi, this is Manish from Solidarity. Kayo set up over ten years ago and the India operation is still less than a 200 crore operation. So…

Moderator: Hello, Mr. Manish?

Mr. Manish: Still you are there, right?

Mr. Manish: Yes, I am here.

Moderator: Okay, go ahead with your question.

Mr. Manish: Okay, I will start once again. So, my question was now Kaya has been in business for over 13 years. I think Kaya was founded in 2003 and the India business still is less than a 200 crore business, it is still not profitable even at EBITDA level and over the last six or seven quarters where the company has been independent and has got lot more focus, I may be wrong here but one gets a sense that still there is a lot of experimentation that is happening. The core business model I dont know, so this is the question that is the core business model proven and it is just a question of ramping up so then the clinic EBITDA will grow and the overhead can be amortized over a larger revenue and hence the profit will come or are we still at a stage where we are still experimenting at the clinic level with the value proposition to the customer because it is not you know the growth past the past to profitability of the company, past to 25 whatever you know the management target is for return on capital that does not seem to be very obvious. So, I would appreciate your comments on this.

Mr. Jain: Hi Manish, I will just answer this in two parts. One, just to give the background on the profitability part. So, if I just go back to some eight quarters back I think March ’15 there was a turnaround and I think the company achieved a EBITDA of 6% and post that I think also we immediately started ramping our expansion plan. So what happened is we expanded 24 clinics within a span of 18 months. So what happened I think it was a double whammy obviously we were actually on the breakeven level and we started expanding obviously considering the potential of the Indian markets, but suddenly last year I think overall retail sentiments were down actually, so that also added to the overall flawless of the business. So that was I think a couple of points actually that pulled us back to our profitability journey actually. Third is our expansion to the product category also where we started expanding on to the KSB model in terms of Shop in Shop and COCO model. So all these things also had its own justification impact on the numbers, so that is one part of the last five to six quarter judgment, but what we actually did three quarters back actually to consolidate the position and actually was towards the profitability part. So I think you see the first quarter and quarter 2 where we are seeing the operating matrix getting better in terms of the customer calls which was a challenge actually for us. So there was a positive traction happening on that matrix but obviously the last quarter again we went into bad shape because of the overall macro situation in India. So, as we are moving forward I think the potential being still I think we are quite hopeful on the potential side and we are currently I think consolidating the whole operations and we are obviously with a new dimension of the action in today’s happening. So what we are seeing I think January we are already seeing the low hanging action being taken, so we are seeing the good numbers on January already and good customer count again going up the trajectory. So we are quite hopeful on the model, I think we do not have the question about our model, in terms of if you see the cure it is in the focus which is a high ticket spend item and also on the product generally we are quite focused on that and the third party is the higher category which we have invested and now we have scaled up the higher category also. So going forward I think this all should add up to the top line numbers and also includes profitability.

Mr. Manish: Thanks for that Mr. Jain but again I am not asking for guidance, I am just taking a slightly longer term trajectory. I am saying let us say three years, five years out do we believe that the India business can be a 10% EBITDA margin business in three years and so can the business be 10% EBITDA margin in three years.

Mr. Jain: Just a caution here, I do not want to give the number at the moment, but I think we are quite hopeful on the terms of the takeoff of the model and also the potential in the country and that is why see though you may be feeling that okay we are doing lot of experiments but it is the innovation approach we are using to add or be the lead in the Dermatology space, but I will just give two – Rajeev I think you also add on to this.

Mr. Rajeev Nair: Sorry my throat is a little bad, this is Rajeev here. So, if you actually look at it Kaya continues to be an innovator, Kaya continues to be in a space which is not just pure cosmetics, beauty care business. It is a business of innovation and as consumption increases in the country, as affluence increases in the country this kind of a business model keeps expanding and Kaya has never stuck to only one format or business, it has always tried something new. So just to give you a sense right now being a pure skin care clinic till now for so many years, we are actually adding a very large dimension which is there to Dermatology which is also hair as a business and in a very short time just about 1% mix to business coming from hair, we have already reached 5% mix in hair by December. We are also introducing hair transplants as a service for customers which is also a new innovation that we are actually bringing in with the quality of Kaya assured, so we are also not talking only to the men consumers here, we are also talking to the large base of women consumers who are looking for preventive care as far as hair is concerned. So as far as the business model is concerned there is nothing iffy about it. There is nothing that is being done at the stores which are piloting activities without actually getting results, but obviously it is an innovation game and we are here to invest on innovation. So, one of the things that we are not doing is going for rapid expansion in the next six months time trying to consolidate the business but keep up the innovation track for consumers and actually drive more from dermat itself within the clinic. So that is our current approach which we are following for the India business.

Mr. Manish: Thank you.

Moderator: Thank you for your question Mr. Manish. We have a next question from Mr. Trilok Agarwal from Kaya, please go ahead sir.

Mr. Agarwal: Sir, in the opening remarks you mentioned that the demonetization impact is now almost over and given that hair as a percentage of category makes only 5% of the revenues in India. What is your like to like growth excluding the price hike because member has de-growth in this quarter? Could you just explain why the members would have de-grown and why have you shut store because I guess your stores were typically – apart from the few stores you opened in last 15-18 months most of them would be very matured, right?

Mr. Neogi: Yes, almost 80 stores are matured stores.

Mr. Jain: This is more of a relocation we do actually, we will close down and get new clinic actually. So this is an ongoing process, wherever it is required to be relocated we relocate or we actually wherever we open a new clinic then the close by clinics get merged with the new clinic. So that is on the close down side, yes.

Mr. Agarwal: Sure and what is the kind of price hike, will you actually not take price hike even the situation if pretty weaker this time, how does it go about?

Mr. Rajeev Nair: See, honestly we are taking a little different approach, right now we are actually focusing on higher price pitch for customer without increasing the average selling price actually by reducing the quantum of discounting that we do in the business. So there is an effort that is being made very consciously towards giving good service at a good price and not really going with a discount model. So, while we will not hike the prices, we will reduce the discount and that will actually fetch us better ATVs in the business, that is the focus and Kaya has definitely got an edge as far as product quality is concerned, service quality is concerned. So obviously we do not want to be seen as a discounter in the market and yes so that is basically the only way we are going to be increasing our price fetch and not really by increasing price for consumer.

Mr. Agarwal: Could you also share your thoughts on why the members actually number is so down?

Mr. Jain: Obviously this is impact of the November-December slowdown, we got impacted badly in November and the part of the December, so that is one of the impact.

Mr. Agarwal: What I understand is majority of the members having an annual membership is that correct?

Mr. Jain: No, no, not really, they actually buy some packages based on their need. So that is the only impact on the consumption side. When the new customer walks in so they were impacting members and new customer walk in or the existing customer or repeat customer walk in was impacted and finally the major impact happened on the categories like facials and products that immediately impacted.

Mr. Agarwal: And sir your hair care services which you have launched across three cities now, so the traction in line with your expectations?

Mr. Rajeev Nair: This is Rajeev here, let me correct you. We have only three transplant centers but we have 72 hair care centers within our existing clinic. So, what we have done is invested on about 72 rooms within existing clinics to give hair care preventive services and curative services. In addition to that we have launched three hair transplant centers which were relatively a new business. We have actually launched these transplant centers as late as end December. We have already seen some traction, we have already done some procedures and we are waiting for the efficacy results to come out of that but we are very hopeful of the hair transplant business as well, but when I am saying it has become 1% to 5% it is also coming from other services that we are giving in the hair preventive and curative spaces which is something that we are doing within 72 clinics with special hair care rules that have been developed and special expertise and doctors for hair care services.

Mr. Agarwal: Sir, 5% of the total India business revenue is it correct?

Mr. Rajeev Nair: Yes, for the India business.

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

Moderator: Thank you Mr. Trilok for your question. We have a next question from Mr. Rajat, please go ahead Mr. Rajat.

Mr. Rajat: Thanks a lot for taking my question. I had few questions on the capacity utilization. I understand that the utilization of a mature store is around 55-60%, so I want to understand what is the scope of improvement for 60% to 70% or should we take it as a ceiling for any mature store?

Mr. Jain: See on the mature store our best utilization is around 65-68% and a very best of utilization. So that is where we can see as a peak and whenever the peak happened actually either we look into the new space with the larger rooms, so we manage that, so also when there is a filling issue or capacity issues.

Mr. Rajeev Nair: This is Rajeev here. I think couple of other points is the fact that we are also looking at overall productivity parameters of people ongoing. So as we speak we also look at the number of hours of people utilization within clinics and obviously trying to drive more training for people especially also dermats to ensure the fact that the number of services that we can offer to customers within existing capacity can be improved. Machine utilization is another thing that we keep tracking from time to time. So, new services are built around the same machines to be able to improve capacity utilization. So, lots of efforts are taken on an ongoing basis but can it be made 80-100%, not really. Is the current number at 68 or 70, the highest that we can achieve, we have to try harder but I think our effort is to move the clinics which have the lower productivity benchmark to higher productivity benchmark and that is what we are working on.

Mr. Rajat: Okay and so my next question is as per geography Mumbai, Delhi and Bengaluru these contribute around 65-70% and you can correct the number. So, if you compare a mature store in these territories as compared to a mature store in other territories apart from these top cities or I would say tier 2 cities, then what is the difference in the capacity utilization of a mature store on an average. I am not talking about one store but on an average mature store versus tier 1 city as compared to tier 2 city.

Mr. Jain: So I think the tier 2 cities, the utilisation would be around 32% and in my metro cities where the metro clinics are there it will be around between 48 to 55%.

Mr. Rajat: Okay, I understand. How many stores do you have in metro cities as compared to other cities?

Mr. Jain: See, metro Bombay, Bangalore and Delhi is around 67-68 clinics.

Mr. Rajat: Fine, okay got it. My next question is what is the capacity utilization in Middle East, utilization of a mature store?

Mr. Jain: See, there also I think broadly the utilisation levels will be around – average will be around 45 to 48% but a peak it will be slightly better because obviously the through put are much better there and the utilisation levels are high. So, I think the peak clinic they will be around 65 to 68%.

Mr. Rajat: What is the reason behind there is a difference of utilization in India as compared to Middle East for both average and maximum?

Mr. Jain: See, I think it is also driven through the category mix, laser hair free category it takes actually lot of time in terms of service delivery. The hair care category is very high in Middle East compared to the India market. So that also actually drives the utilization.

Mr. Rajat: Okay, I understand. My next question is basically you are learning from different things that you have tried in the past. For example, you shifted your focus from cure to care and then care to cure and then in between you closed the stores, reorganized your structure and then you have entered into the skin bars and now you are into hair business. So it seems like we are trying so many things, right? So, what are your learning complete experiences and second thing is now going through all these things what is the success formula that you think is the right way to approach going forward so that we can achieve a breakeven in the Indian business.

Mr. Jain: See, just to give I think a perspective on that. See, over the last three years we were quite focused on our cure care, cure approach. The doctor led has been the domain of Kaya.

So, I think we have been continuously investing on the doctor led off the services and products. So this has been for the last three years and we are quite focused on that. Second is the KSB opening as the part of the product portfolio, expansion within the clinic and out of the clinic has been the approach. So that also we have built up over the last six quarters now. So that also we are continuing to pursue as part of our approach. Third I think the hair category obviously also goes as a very clear adjunctively to the skin category and again it is leveraging the same consumers and the same assets. So as hair t we are building up pricing and also last two quarters we are seeing the good response on the hair care services and the hair transplant service which we launch in the last month only. So I think that has been the focus area, I think we are just expanding the domain of the Dermatology range primarily from a skin and hair space. So I think we are quite focused on this and I think over the next couple of years I think it will be just driving this category forward and leverage the current chain of clinics actually.

Mr. Rajeev Nair: And also very clearly I think our focus is on dermat led curative services and we are not really dabbling with the cosmetics and beauty segment. Sorry for my voice but I think our focus is very clearly in dermat led business and focusing on services which give them dermatological proven benefits to consumers. So I think that we will definitely see in this business over the next few years and if we look at the dermatology spaces, skin, hair and nails are the three areas where dermatologists specialize in and we believe after skin the biggest opportunity is actually hair.

Mr. Rajat: Is there anything apart from these things which we are introducing, is there anything else remaining which we may see in next one or two years?

Mr. Neogi: See, from Middle East perspective we will be getting into not only hair, we will be getting into body. India has done a very good work on hair, which we are going to adapt given the consumer need in Middle East, so that will be a plus to us. Similarly for last six months in Middle East we have been prototyping getting into body and we have done six months of trial and after successful trials we are actually launching body in March in one of our clinics and post successful prototype of this clinic will be rolling out probably all over Middle East in staggered manner and India will learn from body as a category from us and subsequently going to launch after few quarters.

Mr. Rajat: Okay and I have last two questions if you will allow me to take. First one is basically we are saying this is an operating leverage story, so we need to have good number of stores as well as revenue to show basically into the bottom line. Now if you are smart enough you would have done the calculation, what is the ballpark figure of number of stores for the revenue, I am talking about India business that you should have so that you are at EBITDA of 8-10% in Indian business.

Mr. Neogi: See, it is not the store which will matter; it is given the ideal capacity when you get into new services how you leverage the idle capacity to grow and once you grow you know because of the high operating leverage it will slow down. So, currently as Dharmendra said and Rajeev said the focus in India business is actually to consolidate not to expand and wait for six months. The objective is sustainable profitable growth going forward for the India business and not just to expand for the sake of expanding. So, in six months time we will know what is the operating leverage which is flowing down in terms of positive EBITDA and then only we will decide if at all to expand in future, but currently India business is focused on delivering sustainable profitable growth.

Mr. Rajat: Let me reframe my question. So for example hypothetically that we have all the stores which are mature more than say three years or five years, then as per the calculation what are the number of stores that you should have all matured so that your EBITDA level at a corporate level is around 8-10%.

Mr. Jain: See, at the current level of the numbers what you have seen on the fixed cost basis I do actually grow my business at the level of 14-16% to get to the level of 5-6% EBITDA.

Mr. Rajat: So how many years you are saying, like to grow for next two to three years, five years and then you will add 5-6% EBITDA?

Mr. Jain: On the current base only, current level of operations and my current fixed cost basis if I had to make the 5% EBITDA then I have to grow at the rate of 14-16%.

Mr. Rajat: And assuming that you are not opening new stores.

Mr. Jain: Yes, assuming that there is no other expansion.

Mr. Rajat: And if you are going to go by 14-16% then in how many years are you going to achieve 5-6% of EBITDA?

Mr. Jain: Next 18 months to 24 months.

Mr. Rajat: Very helpful, very helpful. Now this is my last question.

Mr. Jain: Sorry just a caution, this is not a guidance from our side.

Mr. Rajat: Yes, I said hypothetically these are the numbers.

Mr. Jain: Okay.

Mr. Rajat: Now my last question is more on a consumer behavior, so one of the guys previously asked about the business model, so which is related to business model that are we in right industry, do we understand the consumer behavior, because a year back you were saying that the lower end of the consumers they were not getting a conversion. So, I want to understand from that perspective that what the kinds of surveys that you have done are and what are the key learning's from that. For example, if there is a kind of penetration that has been happening in the industry and why do you think that it should continue for long and what are you doing to increase the penetration so that your consumer count is increasing every year?

Mr. Jain: Just to give a perspective our various research what we do and our focus, and in terms of various premium positioning and services what we offer. See, we cater to typically A class consumers only. This is the type of consumer what we get actually internally aligned, that is all our service and the products what we sell, but what happened is as the aspiration, the consumer aspiration is changing in the country and the affluency is changing though people at entry level try to actually come and drive away the entry point service of the facials or some products. So we see the entry point, this new consumer set also coming inside but obviously the retention level actually is quite different when the profile is quite different but we assume that this type of consumer actually come as a part of a trial or they come and do some lower level entry point of products or some during the campaign they try to take some facial, that way but typically we see on the majority of our doctor lead services which are really our high price point, so there I think they are still able to see the good customer profile and there is a good level of retention also. So the retention level is almost 46% at the top end of our consumers. So, I think we are seeing the good level of retention has been into the HNI category or the class A consumers in the high ticket size services. So primarily we are still focused on that positioning only and that type of services we are. So, we do not see any concern or positioning at the moment.

Mr. Rajat: If you want to get more of customers in HNI category itself, so is it more of an educational barrier that they do not know about dermatologist or is it something else that your brand is not reaching exactly to them or some other issue?

Mr. Rajeev: Sorry for my voice. See, India is still an evolving market as far as Dermatology and Dermatology based beauty treatments. Indian consumers are still getting to learn a lot of things because today for example we do complex procedures within our own clinics like botox and fillers and stuff like that which for an Indian consumer even today is not something that is a very easy, it is not an entry level for an Indian consumer unlike in the West or for that matter even in the case of Middle East. So I think we have to continuously as a market leader keep evolving these categories. We have to build certain segments for entry level consumers. For example, when we do things like Laser Hair free that is an entry point for new consumers into our business but then slowly, slowly we evolve them into other services that are there in the business. So, is it a very mature market and is Kaya not a market leader in this space? Kaya is still a market leader, the market has to mature and it is our job as a market leader to communicate this to the consumer. So one of our efforts in the next one year would be also towards creating communication for consumers both through digital and print media which actually gives them information about our services, a little bit more detail about our services and it makes our brand more salient for them in certain spaces like anti-ageing for example, hair care for example and things like that put together. So, Kaya undoubtedly even today is a market leader in this space. Actually it is not competed directly by any other clinic in the country today but I think we also have a job as a market leader to communicate our services and new innovations to our consumer because the market has largely been a product driven market, so it has not really been a very strong service driven market and we are probably one of the first players in this market and we continue to lead this market.

Mr. Rajat: Okay, that is fair enough. Thanks a lot, very helpful, that is it from my side.

Mr. Rajeev Nair: Thanks.

Moderator: Thank you Mr. Rajat for your question. We have our next question from Mr. Shreyas Shah, Capital 72 Advisors, please go ahead sir.

Mr. Shreyas: Thank you for answering the question and it has been really nice of you Mr. Rajeev to attend the call despite a bad throat. Regarding my query sir I wish to understand about the acquisition of the Minal clinics. If you can give us an idea of how old the clinics are, number of customers, etc, I can understand the acquisition strategy of the company.

Mr. Neogi: Actually there are two clinics under Dr. Minal's brand. One is in Dubai and other is in Sharjah. One is operational from 1997; the other is only five-six years old. We had acquired these two clinics, one is because of they operate in a not in a very exactly similar space. They are into Cosmetic Dermatology but their main business is actually Medical and Clinical Dermatology which we actually do not participate in. So from that perspective it brings lot of value to our business from learning perspective, how we can scale it up to all the other Kaya clinics, that is one. Second is this is attractive financially, so we know it has come at a good valuation. Third, from a client perspective if you look at they have two clinics with a customer base of 13,000 and we have 21 clinics with a customer base of 150,000. So, this adds to the overall customer base.

Mr. Shreyas: What are the revenues and EBITDA of the clinics?

Mr. Neogi: The revenue of these two clinics from annualized base is around 20 crores and clinic EBITDA is around 42%.

Mr. Shreyas: And sir finally what is the price that we have paid for these two clinics?

Mr. Neogi: I think that…

Mr. Jain: See, the process is still on, currently we have not disclosed the price.

Mr. Shreyas: No problem. The other question was regarding this, that Kaya is more a skin clinic in India, so are we planning a brand makeover to promote this hair category, etc?

Mr. Rajeev Nair: Okay, so what we have done is we have actually created 72 hair care rooms within our clinics, so 72 rooms within 72 clinics which are actually not just makeovers, they are specialized rooms for hair care. So we are not going to be changing the brand name in any sense for this new category. The thing will be under the umbrella of Kaya but we will be dong specialized advertising for this category which will be coming very soon in the market and we will be actually promoting this category as a standalone new category for Kaya.

Mr. Shreyas: And sir finally regarding this product I have been personally trying to use this. They appear to be bit expensive, like I paid Rs. 650 for a 50 ml moisturizer while others in market could be selling it for half the price. So how can this we sustain this in the longer run?

Mr. Rajeev Nair: Can I suggest, you actually go for a skin consultation with us because you know we are not just an ancient bottled FMCG product. It is actually dermatological proven products but it is taken as part of a treatment, the effectiveness is far better than being used as purely standalone product. So once you have done a consultation you know what is good for your skin and if you use it for a long period of time you will see the benefits on your skin.

Mr. Shreyas: Okay, so that should sustain it, right. Fine that is it, thank you sir.

Mr. Rajeev Nair: Thanks.

Moderator: Thank you for your question Mr. Shreyas. We have a next question from Mr Amit Purohit r from Emkay Global, please go ahead.

Mr. Purohit: Hi Sir, Amit Purohit here.Just two things from my side, One is you indicated that hair services now are around 5% of total sales in India, so now just for that the other services witnessing a significant pressure, was it largely because of demonetization or is it more to do with competition in the other services.

Mr. Rajeev Nair: I think the last quarter most of the expensive services, this is Rajeev here sorry. Last quarter some of the more premium services in Dermatology did take a hit because of the monetization but as we speak in January we see some recovery already happening. So, there is a positive thing coming back and we are not doing one against the other, so we are not looking in hair cannibalizing to these services. So it will be standalone growth area for us in future.

Mr. Purohit: And when you say positivity is getting witnessed in January it is largely to do with – are you saying the collection number has turned positive or you are saying that the decline is now reduced?

Mr. Rajeev Nair: Collection number has turned positive, yes.

Mr. Purohit: And if you could help us with the collection trend between October, November, December and how has been the exit in December that would also help.

Mr. Jain: So December obviously we were very marginally declined, as compared to November we are seeing very high double-digit climb. So December was very marginally declined actually.

Mr. Purohit: Okay.

Mr. Jain: And October was better, because of the Diwali October was better actually. That way see overall I think we see only single digit negative.

Mr. Purohit: With respect to the transplant thing you indicated centers, are you saying the separate or in the same clinic you have set up a transplant?

Mr. Rajeev Nair: We have within the same facility created special rooms for transplant. We have specialized rooms that have been created, almost OT quality rooms where these transplant actually happens and we have specialized doctors who run this service which are there. So we have taken also care in terms of the skill of the doctor. So we are not just going into this business as like a mass expansion. We are first building the right skill and the right infrastructure and then going into the business.

Mr. Purohit: Okay thank you, that is it from my side.

Mr. Rajeev Nair: Yes, thanks.

Moderator: Thank you for your question sir. We have a next question from Mr. Manjit from Solidarity, please go ahead sir.

Mr. Manjit: Hi, I have got few questions. This is Manjit here from Solidarity. The first one was in the call earlier it was mentioned the SSC for Middle East the target is 5-7%, so is that the constant currency target you guys are looking at?

Mr. Neogi: Yes, that is constant currency target.

Mr. Manjit: The other question I had was what is your maintenance capex per clinic per annum as of now in India?

Mr. Jain: See, it is not actually maintenance capex is not every year, actually we do in a block of four to five years. So we spend typically around 15-20% of the typically new clinic cost actually which will be around 10-15 lakh rupees per clinic as a maintenance capex.

Mr. Manjit: And this Middle East would also be 15-20%?

Mr. Jain: No, no, Middle East will be around…

Mr. Neogi: In Middle East obviously because of the cost reason the capex is higher but normally it is two to three times the cost of India.

Mr. Manjit: But maintenance capex would be 15-20% of that cost as well in a block of four to five years?

Mr. Neogi: Yes.

Mr. Manjit: And you know my last question was couple of questions back it was mentioned that the products are priced much higher because they have proven dermatological value to it. So what I was wondering was the staff at the kiosk in the stores, so I am talking about the outlets which are not-clinic in nature which sell products, is that staff trained enough to bring across that message to the consumer finally that why the rates are so high is because it gives a certain value? I am just trying to think because when you walk into a Shopper's Stop or something and you see a kiosk I am not really sure whether the staff can bring out the message.

Mr. Rajeev Nair: Good question, what we are doing now is to support the effort of the staff who is obviously trained by us we also put in some technology behind this selling.. We have got in a product called the Derm Consult, in fact Derm Rx which is actually being used to ask consumers a few questions about their skin type and it automatically suggests the kind of product that they can buy. So based on your skin type, based on your age maturity, based on your sun exposure you can put a few queries on the system and you can actually figure out the right product solution that you can get, it is obviously the cost of a single manpower. For example today if I pay Rs. 15,000 to 16,000 to an employee, if I count them with one tablet which cost almost similar to a month's salary for the staff I can actually sell to consumers in a little bit more expertise orientated format. So we are actually using technology, so most of the new SIS counters have been provided with a tablet based system which can help customers buy better.

Mr. Manjit: Okay thanks, I had one more question because you have been mentioning this demonetization impact, how much of your sales were cash sales basically before the demonetization took place?

Mr. Jain: It was around 45% was the cash business.

Mr. Manjit: Okay, that is it from my side.

Mr. Jain: Thanks.

Moderator: Thanks for your question sir. Next question in the queue is Mr. Rajat, please go ahead sir.

Mr. Rajat: Thanks a lot. My question is in the skin bar. I understand that you opened your first KSB in March 2013. So you have almost two years of experience in this category. So, I want to understand about those mature KSBs, so what is the kind of revenue they had generated?

Mr. Jain: See, in terms of KSB as a COCO model, obviously we started with a COCO model actually initially two years back and we expanded to around 15 to 17 centers on the COCO model. So after that we actually shifted our focus on the Shop in Shop model and the Modern Trade or Wellness Change basically. So COCO obviously as a format was not viable for us, so I think we have slowly closed down all the CCOC models. Only we are just continuing around four to five COCO stores, so that has not been a viable model for us. Our focus has been more on Shop in Shop for the channels and more of a wellness change and the clinic.

Mr. Rajat: Which one of your Shop in Shop is the oldest, is it like one and a half years?

Mr. Jain: Actually all are basically one year only now.

Mr. Rajat: Okay and are they always breakeven?

Mr. Jain: Not all are breakeven, actually it is a mix of that but overall I think the format is moving towards the breakeven traction. I think we can see the breakeven on the EBITDA level, store EBITDA level over next few months.

Mr. Rajat: Okay, normally how much time do you take for these Shops in Shop to breakeven?

Mr. Jain: See, again it moves from market to market actually but then also we have seen typically around 9 to 15 months it may take actually as a breakeven, but some markets are still flow actually. We are not responding to that squad.

Mr. Rajat: Okay and what is the maximum revenue your back store is generating right now, that Shop in Shop store is generating?

Mr. Jain: We have got different formats in the various department store channels actually. So, it ranges from different Shop in Shop channel partners. It ranges from 2.5 lakh,1.5 lak,1 lakh also. So it is not that all are having very closer range, it is very wide range.

Mr. Rajat: Okay thanks and one more question on the regulation issues that you are talking about in Middle East, you closed down one of your clinics, so did you foresee the same issue with the other clinics where the license is going to get renewed or this is only one-of problem?

Mr. Neogi: What we are doing now is we are proactively – before it comes to our renewal we proactively three to six months before we are making it infrastructure compliant because this regulation has come recently where not only us, all the clinics in Middle East, I am talking competition clinics will also face this and given in our category single clinics is the real competition whether in India or in Middle East, so from that perspective being a chain you will be better prepared to be fully compliant on infrastructure than those single clinics. So short term we may have to incur capex to be compliant but over long term I think when single clinics will not be able to do it this will be a competitive advantage.

Mr. Rajat: In how many years will you have to renew the license?

Mr. Neogi: The license actually you know this comes when you are actually relocating a store or when you are opening a new store. Normally we do not change a store before five years.

Mr. Rajat: Okay, I understand. Thanks a lot.

Moderator: Thank you for your question Mr. Rajat. Thank you participants, to ask question please press * and 1 now. As there are no questions I would now like to hand over the call to Mr. Dharmendra Jain for closing comments, over to you sir.

Mr. Jain: I would like to thank all the participants for attending the conference call. Thank you very much.

Moderator: Thank you very much ladies and gentlemen. This concludes your conference call for today. You may please disconnect your line now. Thank you.