



**Marico Kaya Enterprises Limited**  
Q4 Financial Year 2015 Results  
Conference Call

**April 29<sup>th</sup>, 2015**

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

**Moderator:** Ladies and gentleman Good day and Welcome to the Marico Kaya Enterprise Limited i.e. MaKE Limited Q4 FY15 post results conference call. As a reminder all participants will be in the 'listen only' mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference please signal an operator by pressing "\*" and then "0" on your touchtone phone. Please note that this conference is being recorded. We have with us the senior management team of MaKE and its subsidiaries comprising Mr. Subramanian - CEO Kaya India, Mr Debashish Niyogi - Kaya Middle East and Mr. Dharmendar Jain - CFO MaKE Limited. I would like to hand over the call to Mr. Dharmendar Jain who will take you through the highlights of MaKE performance during the quarter. Over to you Sir!

**Mr. Dharmendar:** Good Evening everybody, I welcome you to the conference call that we are doing here. Let me begin the conference call with a very short update on the 4<sup>th</sup> quarter's performance, which is already in public domain & uploaded on our website.

First on the MaKE group: MaKE posted Revenue from Operations of Rs 86.9 crores for the quarter ended 31st March 2015, a growth of 12% over corresponding quarter ended 31st March 2014 on a consolidated basis. Consolidated EBIDTA was Rs. 8.2 crores (9% of Revenue) as compared to Rs 7.7 crores (10% of Revenue) in Q4 FY 14, a growth of 6% over last year.

Profit before Tax for the quarter ended 31st March 2015 is Rs 7.8 crores (9% of Net Revenue) compared to Rs 6.9 crores (9% of Net Revenue) for the corresponding quarter last year.

The company has added 8 clinics and 7 Kaya Skin Bar outlets in Q4 FY15 and has over 100 clinics & 14 Kaya Skin Bars in India and operates over 19 clinics in Middle East.

Now I would update you on the performance of the Kaya in India: Net Revenue same store growth (SSG) for Q4 FY15 is 12%. Overall growth at 15%. The ticket size growth was 9% over the Q4 FY 14. The EBITDA of Q4 was 2.8 crores compared to EBITDA of 3 crores of last year. If you compare a like to like EBITDA there is a growth of 17% in like to like EBITDA of Kaya India.

Q4 FY15 PAT at Rs 3.9 crores which was 9% on the revenue as compared to 3.3 crores of Q4 last year. Like to like PAT excluding new clinic impact was 4.8 crores It has grown by 46%.

On the e-commerce sale there was a growth of 49% over Q4 of the last year.

The update on the Kaya Middle East: The overall Net Revenue growth was 9% in Q4 FY 15 over Q4 FY 14, SSG was 5%. Ticket size grew by 6% over corresponding quarter last year. The EBITDA was 5.7 crores compared to 5.2 crores of corresponding quarter last year. The Kaya Middle East PAT was that 4.2 crores in Q4 FY 15 compared to 4.1 crores last year.

The detailed information is already with you. I now open the floor to the question and my colleague and I will be glad to answer them. Thank you.

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

Dear participants please press \* then 1 for your questions. The first question comes for Mr. Vivek from Tata Funds. Mr. Vivek please go ahead.

**Mr. Vivek:** I wanted to know in the current quarter about what expenses relate to the new opening of new store and clinic so that I can have some idea on quarter to quarter comparison of growth.

**Mr. Dharmendar:** See about the new clinic we have a EBIDTA loss of almost 0.7 crores.

**Mr. Vivek:** new clinic and the skin bar whatever.

**Mr. Dharmendar:** Yes.

**Mr. Vivek:** It is 0.7 crores. Up to what stage do you think you will be able to grow without raising any additional equity and how long when you have 180 crores in the balance sheet. I am trying to understand.

**Mr. Dharmendar:** See as we have growth plans over 10 to 12 clinics every year or the next year and around 2 to 3 skin clinics in Kaya Middle East and over 20 Kaya skin bar every year. So broadly this is the capex plan which we have over next few years.

**Mr. Vivek:** You are saying 10 clinics per year.

**Mr. Dharmendar:** 10 to 12 clinics per year in India. 2 to 3 clinics Middle East and 20 Kaya skin Bars in India. Around 25 to 30 crores per year investments on this expansion.

**Moderator:** Thank you sir. We have next question from Mr. Rajeev from Edelweiss. Mr. Rajeev please go ahead.

**Mr. Rajeev:** Thank you for the opportunity. My first question is cure versus care; Care seems to have grown much faster so if you go into reasons and margin profiles how this impacts and FY15/16 also do you think Care will grow much faster?

**Mr. Subramanian:** See I think one of the reasons why you are seeing Care portfolio growing is base of a new introduction of facials which have happened and scaled up in the quarter 4. As the positioning for the brand we have been, we are vastly focusing on the Cure Portfolio which is the center for business and that is where the investments are going to go but well as far as the Care portfolio is concerned, one of the reason of growths here we have seen is because of facials introduction and scale up. But our focus for the business will be to continue for the Cure portfolio and that is currently the largest portfolio in the business it is 65% contribution.

**Mr. Rajeev:** Sir when you say focus will be on cure, does it mean that growth from a one year two year perspective in cure should be faster because initially you had said that the change in strategy is clearly towards cure but care has gone faster but over a two year time we expect cure to grow fast.

**Mr. Subramanian:** See actually speaking in the sense the positioning is all about getting back to the core and working around the medical services. What we have seen right now is a small correction that has happened to the Care Portfolio. The Care Portfolio is of course 18-20% sometime back it was about 14-15% at this point of time. The correction that has happened in the Care Portfolio in terms of growth is primarily because of new launches. We

will have a bouquet of offering to our customers in terms of care and cure but our focus is to drive the categories that we are actually focusing on which is Cure.

**Mr. Rajeev:** Second question is on Kaya skin bar. The observation is you have opened in different cities the new openings so question is why spread it across so many cities and second is how will you get the footfall in the new cities because you will not be the part of any hypermarket so what will guide footfall because currently we see some other competition in malls in this space I see footfalls being quite low. When in a new city how will you find footfall? And if you could clarify this 20 skin bars how many cities it is planned for in FY 16 new cities?

**Mr. Subramanian:** See as far as skin bar is concerned we have opened 7 skin bars last quarter. Our focus has been primarily Bangalore where we have reached a scale of about 8 to 10 skin bars right now. In the next few months we would close to be 10+ skin bars. To answer your question how do we work on this generating footfalls I think we will be doing tests around certain markets where we have reached a certain scale of operation and then we will be looking at creating awareness for skin bar, especially now that Bangalore has 10 stores, we will be looking at kind of a test market in order to figure out the ATL route towards creating awareness in footfalls in skin bars.

On the second question related to expansion into other cities I think there is being two other cities which have got added which is basically a Mangalore and Cochin. Bombay yes I understand so in both these places Mangalore and Cochin, we have actually entered one of the best malls there Lulu Mall in Cochin and Forum mall in Mangalore. I think in terms of approach towards the expansion, yes we would like to take on more to existing cities and do complete scale up and then find creating awareness for the brand and creating footfalls. However, we are exploring the option of one or two cities here and there. This is a prototype to understand how this is fairing in the right place and right location as far as product is concerned.

**Mr. Rajeev:** Next question is on the same store growth that seems to have slowed down for both the key geographies verses what it was in the previous quarter so this is a sustainable growth rate especially middle east 5% as SSG, was there any issue because of any specific development there.

**Mr. Debashish:** I thank you for the question, this is Debashish. It is not to do with the macroeconomic environment there, it is basically the internal. One is the base effect, we have been turning around the business and since the last 5-6 quarters, though the base has come into play and added to that is operationally there was some man days loss because of some conferences and training, and this is daily business. So if we are losing 6-7 days, it impacts the revenue. So that is the reason why you see a 5%SSG growth going forward what

we have been telling and the guidance we have been giving 8-9 % SSG we will maintain the same in Kaya Middle East.

**Mr. Rajeev:** Just to verify you are saying some internal training led to loss of Man days.

**Mr. Debashish:** It is not just a training program, we are preparing ourselves for our future growth so it is a very focus concentrated business so for example there are 19 clinics and there are 29 full time dermatologists so if you are using 5-6 days where the doctor is not available in the clinic so you are not doing business for those days. It directly impacts the revenue. So we had such type of programs which we initially thought of phasing it but now we thought of preponing it and doing it so that so that we get benefit faster. We have front-loaded all those programs.

**Mr. Rajeev:** Lastly your loyalty program there is a 250 bps improvement so how does it sell in terms of margins and where do you see this number stabilizing?

**Mr. Subramanian:** See loyalty program we have contribution of close to 81% of our business are from the loyalty program and yes there has been a steady increase on this but going forward it will be marginal, the number of tiers has increased and we have now added close to about 2 lakhs customers to the program and this includes both KSB and clinics and my sense is that yes number base will go on but contribution will tend to be marginally moving up.

**Mr. Rajeev:** Thanks a lot.

**Moderator:** Thank you sir. We have the next question from Mr. Ritwick Naik from Kotak Securities. Mr. Ritwick please go ahead.

**Mr. Ritwick:** Sir I have two questions, I have been updating on your revenues over the past 3 quarters pretty much steady revenues between 84 and 87 crores. What trigger should one look for which will give you a decent growth when 2Q FY16 comes around. That is one and the second is about the other expenses that you could throw some more light what has been the key driver behind that for odd movement apart from the 0.7 crore that he has spoke about.

**Mr. Debashish:** See as far as the SSG I think what you are looking at is that India will be in a 10-12% SSG and in Middle East we are used to looking at about 8-9% SSG so that is the indication that we have in terms of overall growth rates and as far as the SSG is concerned of course we are adding new clinics expanding in both the geographies which will add up to the overall growth.

**Mr. Ritwick:** I feel you have been adding clinics & skin bars but actually the top line is roughly stagnant over the past three quarters so just wanted to understand what would be the mover for the top line going forward because to expect 15% odd kind of growth I am just wondering whether there should be some movement in the quarter by quarter comparison also because for three- quarters it is virtually flat.

**Mr. Subramanian:** See I think just to give you specific a few fold number the SSG for India is 12% and the overall growth is 15%. If you look at the number of clinics that we have added between the years, between the quarter and the years I think we just added about one or two clinics in quarter2, one in quarter1 and in q3 we added about 3-4 clinics and the majority of the clinics have actually happened in Feb-March in Q4.

**Mr. Ritwick:** So one should expect the impact of those clinics will come in the next quarter Q1. The other expenses if you could tell me about that.

**Mr. Dharmendar:** The other expenses I think there is a variance of Rs 4 crores. It is primary a bit of advertising, sales and promotion spends on account of promo month as well as new clinic openings. We run campaigns in Q4 in both the regions. Then there is 0.7 crs of additional FOH on account of new clinics and Rs 1.2 cr of COGS impact which is on account of increase in revenue.

**Mr. Ritwick:** The 1.2 crores what did you say?

**Mr. Dharmendar:** It is a cost of goods sold.

**Mr. Ritwick:** OK and sir in the 0.7 crores that you are speaking of these are like general expenses.

**Mr. Dharmendar:** we write off all the preoperative concerns.

**Mr. Ritwick:** OK preoperative expenses you write off but you do not have a policy of modestly cost furniture being written off or anything of that kind.

**Mr. Dharmendar:** No.

**Mr. Ritwick:** Fine, thank you very much.

**Moderator:** Thank you sir. We have the next question from Mr. Debanshu Madan from Locust investments. Debanshu please go ahead.

**Debanshu:** Good evening sir. My question is on the Skin bar product and I want to understand that from of the FMCG products perspective knowing that this is a bit premium, just wanted to understand what is value and volume growth in these products which you have seen in this year as compared to last year and secondly I wanted to understand the profitability profile of of the skin care products to Kaya.

**Mr. Subramanian:** Yes, overall as far as product growth is concerned, overall we have already grown the product just by 4% this year. This is as far as India is concerned Middle East by 18% and we see focus coming into products as far as expansion in skin bars. As we expand skin bars we would see this contribution of products also going up. On the margin front of the product I think we fairly in line, margins are as much as about 65 -70% of the products. Reasons why the products have grown by 4-5% as far as India is concerned is I think there has been some key critical SKUs which we have reworked on so I think there will be a re-launch going forward in the next quarter which will take care of the improvements going forward.

**Debanshu:** In general just looking at the company 4 to 5 year down the line what is the new target sort of contribution that you look from products given that these are more FMCG in nature and more fast moving, So these sort of tend to protect the footfall going down and that impacting the company so what is this contribution level you are thinking of from these products

**Mr. Subramanian:** See I think for the next immediate term, I think it will be marginal. Current product contribution is about 20% it will move by few notches but as we expand our skin bars in the next 2-3 years etc we are expecting that number to grow from 20-25 to 30%, in the coming years.

**Debanshu:** OK. I just wanted to understand what is the capacity utilization today for clinics in Q4 FI 16 and what is compared to last year.

**Mr. Subramanian:** In terms of capacity utilization I think we are hitting at about 45% at this point of time.

**Debanshu:** I just wanted to understand what can peak capacity utilization look like for you there would be benchmark for the clinics that you would have set up so what can that look like.

**Mr. Subramanian:** Actually it is a difficult thing to present because it is the function the capacity utilization is the function of the kind of services that you do and the time taken for each one of the services, so if there is change in technology I think the capacity utilization also could change. Ideally if you are looking at it the message for capacity utilization should

be more from the view of whether there is room for growth and expansion and I think to that extent I can newer the question and the answer is yes. Difficult to say that whether capacity utilization per say will have linkages to overall business growth contribution or anything else.

**Debanshu:** One last Question on the breakeven of stores in India so of 100 stores I understand that the bulk of clinics which we have opened in the last quarter and some in previous quarters so how many of clinics have started seeing breakeven in India

**Mr. Subramanian:** We were about 85 clinics in the beginning of the year 85 clinics and all of them are cash positive and at a store level. We have had few expansions this year, it was about 15 in number, spanning more towards quarter 4 where we have launched about 8 clinics right. And if I were to talk about Q2 and Q3 I think a fair number of clinics are showing traction to breaking in the coming quarters.

**Debanshu:** That is it thanks a lot.

**Mr. Subramanian:** Thank you.

**Moderator:** Thank you sir. We have the next question from Mr. Naveen Bothara from ARCH Finance. Mr. Naveen please go ahead.

**Mr. Naveen:** First of all let me congratulate team Kaya for setting up 100 Skin clinics in India.

**Mr. Debashish:** Thank you Mr. Naveen

**Mr. Naveen:** My first question is to Dharmendar Jain regarding the Kaya India, collection and net revenue in quarter 4 this year. Collection to net revenue ratio was 79% sir in Q2 and in the December quarter it was 98% and in the just concluded quarter 4 it was 85% so just wanted to know these variability

**Mr. Dharmendar:** Whenever we run the promo the ratios are different because the collections are very high in the month of promo and the consumptions level of the collections and that is why there is that gap.

**Mr. Naveen:** Collections in the March part was 54 crores

**Mr. Dharmendar:** Quarter 4 we had a promotion and we ran the campaign.

**Mr. Naveen:** This will be converted in the sales in the coming quarters. Because Kaya Middle East is having 98-99% collection to Net Revenue ratio.



**Mr Dharmendar:** That's correct. They do not have campaign this time but in India, we run the campaign twice a year and also there is a tax in India which is not there in Middle East.

**Mr. Naveen:** Average tax in India is around?

**Mr. Dharmendar:** Service tax impact of 12.36%.

**Mr. Naveen:** It is also included in the collection figures. The question is regarding the advances from the customers from the end of the quarter 4.

**Mr. Dharmendar:** 70 crores at a group level

**Mr. Naveen:** 70 crores

**Mr. Dharmendar:** Compared to last year of 66 crores.

**Mr. Naveen:** My last question is to Subramanian sir. Regarding the hair care services we have come to know that some clinics are offering hair care services over Rs. 80,000 is there any connection we are going to launch next year and these services are provided in clinics right now.

**Mr. Subramanian:** There is a category like I said we are planning may be by first quarter of next year but yes there are some very few services that we have actually looked at in certain pockets that is about it at this point of time.

**Mr. Naveen:** We have already started doing hair care services in India.

**Mr. Subramanian:** Very marginal way I mean it is insignificant. We will have bouquet of offering sometime later.

**Mr. Naveen:** In the first quarter of next year. You will be treating it in cure category or care category? Regarding the hair growth and hair fall.

**Mr. Subramanian:** It will be more towards cure right and non invasive.

**Mr. Naveen:** Non invasive. Thank you sir.

**Moderator:** Thank you sir. We have the next question from Mr. Karthik Mehta from Sushil Finance. Mr. Kathik please go ahead.

**Mr. Kathik:** Thanks for the opportunity gentleman. My question pertains to margin like if I knock off this 0.7 crores or adjust it in costing side probably we have reported with a margin of 10.24% versus the reported margin of 9% which is still very less than what we reported in third-quarter so am I missing some extra expense or we are actually having impact on margins genuinely

**Mr. Dharmendar:** Margin is mainly same it is only because of the increase in number of new clinics and the higher spend on the ASP as compared to Q3

**Mr. Kathik:** So going ahead what could be the new norm of the margins because we would be, let us say that 10 to 12 clinics will be adding in India and 2-3 in Middle East and probably if I am not wrong 20 skin bars you are targeting year ending. In that case you would be getting these extra ordinary expenses and obviously the newly launched stores and clinic taking sometime to break even, so obviously the margin profile what we saw in quarter 3 may not be repeated for quite a long time. Is it fair to say?

**Mr. Dharmendar:** If we see MaKE group on SSG basis we should be in the range of 11% to 14% EBIDTA depending on which quarter we fall because quarter revenues are also having the swing because of the seasonality or campaign impact, however on SSG basis it would range from 10% to 14%.

**Mr. Kathik:** So that's what, You reported closer to 13% in third quarter where most of the clinics were operating at cash positive and added bulk of the new clinic in fourth quarter which impacted your margin. So what would be the overall strategy we saw over 50% additions in the fourth quarter only. What could be the run rate is it going to be lumpy in terms of addition in a single quarter or will be more uniform.

**Mr. Dharmendar:** The plan is to phase out opening but sometimes what happens is because of the availability of property and the way the property moves out, it may lump up into the other quarter. But there is no plan to actually locate in one of the quarter but we normally phase out .

**Mr. Kathik:** We are looking out on the on an average 10% sort of minimum midterm margin even if we add up the new clinic. That is what we are looking at right.

**Mr. Dharmendar:** Obviously the current trend shows we will be able to maintain that trend.

**Mr. Kathik:** In terms of capacity utilization can you help me out with mature clinic capacity utilization because you said 44% at the console level right now which also includes the newly added ones.

**Mr. Subramanian:** Basically existing clinics there are clinics sitting over 60% capacity so the thing is that there is a limitation with an extent it can go up to because of the fact that it is led by the consumer behavior or consumer wanting to take the weekends over the week days. But we have seen in the good clinics we have seen capacity going as high as about 60%.

**Mr. Kathik:** So what could be the client loss ratio in the case of consumer asking for weekend you would be unable to meet - because I also personally noticed that few of the weekends are not available consecutively for 3-4 weekends and then customer moving away somewhere else. so any marketing plan we have designed to attract customer during the week days. Have you done any study on this customer loss ratio?

**Mr. Subramanian:** We know that weekend capacities are at least 30% higher than the weekday capacities. So we are aware of it so to a large extent given in the weekend ends there are certain hours that the capacity is very high. It is not that whole the weekend capacities are blocked. People prefer certain slots like before 4 pm on Saturdays etc. This is true of any service business whether you might compare this with even other beauty treatments which are given by saloons and parlors so it is a very common occurrence. What we keep a definite tab on is to understand whether our ability to service customers is getting impacted by the number of weekend capacities rooms that we actually have in a particular clinic. In cases where it is hitting a ceiling or whether it is close to hitting a ceiling we do take calls in terms of relocation or you know sort of commissioning further rooms. We are in the phase I do not think we are hitting a phase where we need to sort of worry about capacity as a means for growth.

**Mr. Kathik:** Sir my last question. In the mature clinic let us say you opened it 3 years ago or 4 years ago and today are you seeing any sense of change between the customer trending and behavior. Per capita is it increasing or value is moving in upward sort of premium wise category or is it still more of a capacity utilization and volume is driving your SSG.

**Mr. Subramanian:** See currently if I value mature clinics etc I think it is more to do with ticket size and less to do with overall count. If you look at the ticket size in the last year, overall business for India ticket size is grown by 9% and customer count is grown by 2%.

**Mr. Kathik:** For the last full year?

**Mr. Subramanian:** Yes.

**Mr. Kathik:** So have we done a price hike in a last full year or is it just the ticket size?

**Mr. Subramanian:** No when I say ticket size it is overall money paid by the customer so it does not necessary have to come from increase in price, it can also come from increase in number of services and moving into higher end services.

**Mr. Kathik:** So that is what I was asking, have you done any price hike in a last full year?

**Mr. Subramanian:** No.

**Mr. Debashish:** In KME we have done price hike, in Kaya Middle East not in India.

**Mr. Kathik:** Ok then essentially the entire 9% in India or the 9% was the console your number including Middle East.

**Mr. Debashish:** No this is only for India.

**Mr. Kathik:** So the 9% value uptake because the customer moving ahead. So in that case your new clinic would be probably turning around faster because the 9% is pretty good per capita.

**Mr. Subramanian:** At this point of time yes. We are expecting the gestations to be better and but like I said earlier I think it could vary anywhere between 18 to 24 months for India and 24 to 36 months for Middle East.

**Mr. Kathik:** Right now do you expect it to be shorter?

**Mr. Subramanian:** We just started expanding so it is very early to comment on this.

**Mr. Kathik:** No problem sir. Thank you very much and best of luck.

**Mr. Subramanian:** Yes.

**Moderator:** Thank you sir. We have the next question from Mr. Harsh from HDFC. Mr. Harsh please go ahead.

**Mr. Harsh:** thank you for taking my question sir. My first question is on the A&P spent you mentioned that you have increased you're A&P spent with impacted margins can you please share the numbers as A&P as a percentage of sales year on how much increase would that be?

**Mr. Subramanian:** See the A&P spent has gone up from I think 8-9% as far as India is concerned. You see the SSG growth of about 12% and overall is 15%. So while there has

been an increase in the campaign that we ran in the month of January and February, I think overall as a percentage of NR it is more or less in the same vicinity, it is about 7%.

**Mr. Harsh:** Year on year, so last year same quarter versus fourth quarter this year the percentage of sales A&P has been maintained at 7% level.

**Mr. Subramanian:** Yes, for the consolidated business I will give you India as a whole.

**Mr. Harsh:** Sure.

**Mr. Subramanian:** India has been maintaining about 8%, console is about 7%.

**Mr. Harsh:** So YOY there has been no expansion per se in the A&P for the company, so the entire YOY decline of 100 bips that we are seeing in the margins in India as well as in console level is because of new store expansion?

**Mr. Subramanian:** Come again actually, just repeat the question.

**Mr. Harsh:** See, at India level as well as at console level the EBITDA margin witnessed or that company delivered has – the EBITDA margin has been 100 bips lower YOY.

**Mr. Dharmendar:** That is because of the new clinic.

**Mr. Harsh:** So it is completely because of the new clinic and not ASP.

**Mr. Dharmendar:** That is correct, yes.

**Mr. Harsh:** Okay, that was my first question. Now second question is on the difference you have mentioned in your previous call that at store level EBITDA margin is 35% on an average and the reported India EBITDA margin is at 6% in this quarter. So if you can explain the difference, what all costs are there which actually fills up this gap, if you can help me out with that please?

**Mr. Subramanian:** You are talking about India level EBITDA and the corporate EBITDA?

**Mr. Harsh:** India level EBITDA that is 6% and the store level EBITDA of 35%, yes.

**Mr. Subramanian:** Yes, there is a cost of corporate overhead is there and ASP is there in that.

**Mr. Harsh:** Because when I looked at your annual report, ASP of around 7% and if you can just throw a number for corporate overhead it will not be more than 10%, so there is still 15% of gap, sorry not 15 but around 10-15% of gaps which still exists, so what would that be which – see my entire point is where can we actually, how can the India margin actually move towards the store level and that is the entire thesis. So, that 6% moving towards say 12-13%, so where all do you think can the leverage come in, operating leverage come in and what all cost can come down basically, that is what I would like to understand in the longer term, not in the near term, in the longer term, say three, four years.

**Mr. Subramanian:** Okay, first I will answer Q4 for India, the store level EBITDA is about 33% because we have had some new expansions, 35 is topped by 2% points because of new store additions. Other than this you have the ASP which is about 8% and the corporate overhead is about 20%. So company level EBITDA therefore is about 6%. Now what is the next question – in terms of operating leverage. Now operating leverage - in the initial quarters I think you should sort of look at the fact that we are investing more in the existing clinics and we will be sort of looking at an SSG 10-12%. Going forward in the long term yes you will have leverage of corporate overheads and ASP going forward as we keep expanding in India in both clinics and skin bars.

**Mr. Harsh:** If you can let me know India I understand that store level EBITDA is 33 at the end of Q4 and 6%, then what would that be in case of Middle East, store level versus at Middle East.

**Mr. Debashish:** Yes, I will answer that question, this is Debashish here. Total EBITDA for the year in the Middle East is 38% and we have ASP of 6%, corporate overheads of 15%, so that leaves the company level EBITDA of 17%.

**Mr. Harsh:** Okay, got it. So do you think in the longer run, anyone can take this question, see the differential at Middle East is around 20% between store level and at the Middle East level, so do you think in the longer run India business can achieve this differential, do you think that? Do you think it is possible?

**Mr. Debashish:** Just to clarify, the difference between the Middle East margin is not 20%.

**Mr. Harsh:** No, I think you misunderstood my question. My question is see, at Middle East the store level EBITDA is 38% and Middle East is delivering a margin of 17%, so the differential between store level and the company or business level is around 20%. In India right now the difference is to the tune of 30%. So can this 30% move towards 20% or I am being too ambitious over the longer term for sure.

**Mr. Debashish:** See, each market is different. For example Middle East, the ability for a consumer to pay is much higher than the India business. So different two markets, margin profiles are different but definitely there is an operating leverage where India will move up and over years, now it will move to a healthy margin but it is unfair to compare the Middle East margin with the India margin.

**Mr. Dharmendar:** Just to clarify see in terms of the structure of India and the Middle East. India is widely spread into so many states and cities so all organization structures and the way we operate here in India is quite different than in the Middle East. So the corporate cost is more than the Middle East part and so is the ASP which has to be more because geographic spread. So there will be a 4% to 5% gap broadly between two geographies because of this only.

**Mr. Harsh:** Got it sir.

**Moderator:** Thank you sir. We have the next question from Mr. Jehan Badaf from Motilal Oswald. Mr. Jehan please go ahead.

**Mr. Jehan:** Good evening. Sir my question is on ad spent you just mentioned that you ran a campaign in January and February so similarly which are the other months or the other quarter where bulk of your ad spends happens every year.

**Mr. Subramanian:** See, we normally run a promotion campaign during this time January and February and then July August quarter 2 to 1 quarter 4. These are the two big markets and typically when we look at advertising spends it is divided into two parts, digital spend which happens month on month for generating leads and footfalls to clinics and that is a big components of entire ASP which is consistent across all months in the markets. The second is when we do campaigns we specifically go into certain medias like print medias in certain months as that is completely based on what the business desire to work on. so I think we have certain key focus areas across quarters but one thing you need to know is 50% of that spend is into digital that is consistent across all months.

**Mr. Jehan:** My second question on seasonality of sales between quarters 1 to 4. Is there any weak quarter, stronger quarter can you throw some light on that?

**Mr. Subramanian:** I think the pattern typically that is there as you can see for the last one year is going to roughly reflect the same kind of a movement across unless-until something drastic. In terms of top line the largest quarter is basically the second quarter followed by the fourth quarter. In India quarter 2 to quarter 4 and then quarter 3 and quarter 1. Predominantly we will look at the same kind of a contributions going forward. I think better to look at it as H1-H2. H1-H2 is typically is nearly 49-51% in India and we see that happening and the only

different that could happen going forward if you have expansions coming in. The overall growth could be different depending on when we actually open the stores so at this point of time difficult to really predict movements across because it depends on when you open the stores and that also subject to practical availability on the ground and so that is how it will be going forward. But for the existing set of businesses clinic are already operational 85 of them, I think about 50: 50 would be a fair comparison between say H1:H2.

**Mr. Jehan:** My last question is whether you have evaluated any other international market because if we look at this way that India is still an underdeveloped economy and probably that is why the paying capacity of the customer is not that much. So have we evaluated any such markets internationally where we find the value, something similar to Middle East.

**Mr. Subramanian:** I think Middle East business expansion 2-3 clinics in a yearly basis that could come either through the organic route or through entering into say new markets, say certain acquisitions.

**Mr Debashish:** In terms of new markets in Middle East we currently operate in three market which is UAE, Oman and Saudi so we plan to operate around the geography which is actually present in over longer term in the Middle East and North Africa markets. In the short term we want to open stores little outside of the present geography Qatar, Kuwait we are looking at either organically or inorganically.

**Mr. Jehan:** What I was actually indicating more towards moving to countries slightly more developed countries besides Middle East is that possible are we thought of it?

**Mr. Debashish:** We are not thinking in the next 3 years definitely we are not thinking of going to those countries.

**Mr. Jehan:** Thank you sir that is all from my side.

**Moderator:** Thank you sir. We have the next question from Mr. Amit Purohit from Daulat Capital. Mr. Amit please go ahead.

**Mr. Amit:** Thank you for the opportunity and congratulations on the numbers. I wanted check on the call that came there was some price hike so what was the extent of the price hike and when was it actually taken?

**Mr. Debashish:** It was taken in July of last year, the price hike was on one of our portfolio which is It was taken in July of last year

**Mr. Amit:** What was the extent of the price hike on the overall portfolio?



**Mr. Debashish:** It was done on the portfolio of anti-ageing which contributes to 27%, there the price hike has been 5-7%.

**Mr. Amit:** Just to understand collection I think you indicated that in the second quarter also we run this promotional scheme right?

**Mr. Debashish:** yes.

**Mr. Amit:** So this quarter it is to be a collection growth of around 14.6% which is considered to be a good thing in the sense that there one customer growth has been good but generally are you safe from trend change or just too early to predict. Q4 business I am saying.

**Mr. Dharmendar:** Yes because Q4 we had a campaign actually and also we added 8 new clinics plus the effect of clinics we opened in the first three quarter.

**Mr. Amit:** Ok so collection growth in those new clinics also probably more,

**Mr. Dharmendar:** The Collection overall growth is 15% but we see SSG it was 12%

**Mr. Amit:** So actually the collection growth is highest in India in the last 2-3 quarter that you started quoting this quarter is the highest. Second on our store expansion plan just want to understand right now whatever expansion has been done in this quarter most has been in places where we already have 8 to 9 clinics actually. So what is the strategy in terms of, there are lot many cities wherein we have one clinic so when is the time that we decide that this area would require one more clinic. Do we wait for one year or two years what is it actually? Do you think there are a lot of pockets in the new cities or the ones within you already have?

**Mr. Subramanian:** I think the second part is way ahead for us we have seen that even in the Existing cities there are catchments that not penetrated enough and for the kind of business that we do typical catchment radius is between 3 to 5 sq.km and therefore even in the existing cities in the metros especially where the market is more mature we see potential in expansions. So our first way forward in expansions would be to sort of work in these cities before we go further down. Having said that, we still represent in about 26 cities at least today and that is the fair representation you know of the market that we have.

**Mr. Amit:** So when we say 10 to 12 clinics to be added is there I mean 70% it would be coming in the existing cities

**Mr. Subramanian:** More than 70% percentage contribution what would come from existing cities.

**Mr. Amit:** And what's the response of in tier 2, tier 3 markets where we would have entered because there it becomes a very unique thing, so just want to understand what has been your last one year.

**Mr. Subramanian:** The single city markets are not significant in terms of overall contribution while we are still present in 14 single cities. They are still about 10% of overall contribution. The major markets are the metros and the mini metros. The 14 single cities that are operational is 10% of overall contribution to the business, but positive still in terms of returns. The cost structure is always different in metros versus these markets and they have lower break even compared to the metros and they are able to reach those levels much faster as well.

**Mr. Amit:** So it can be less than 18 month level is that what you are trying to say?

**Mr. Subramanian:** no.

**Mr. Amit:** The break even remain the same.

**Mr. Subramanian:** The break even will be more or less same.

**Mr. Amit:** Thank you so much.

**Moderator:** Thank you sir. We have the next question from Mr. Nabeel individual investor. Mr. Nabeel please go ahead.

**Mr. Nabeel:** According to note no 6 of the financials the company will be merged with Kaya limited so what will happen in the financials and anything on business?

**Mr. Dharmendar:** There is no impact on the business as such because the Marico Kaya is only holding company of Kaya so it is the reverse merging happening. In terms of operational and business numbers no impact on the business.

**Mr. Nabeel:** Not on financial also?

**Mr. Dharmendar:** no Impact

**Mr. Nabeel:** In Marico we have dividend policy of 50%. Can we have some dividend policy of Marico-Kaya also?

**Mr. Dharmendar:** Just to clarify the dividend part, though Kaya India has got carried forward losses on the balance sheet and till the time we are able to wipe off the losses we cannot issue the dividend.

**Mr. Nabeel:** How much is this Kaya losses?.

**Mr. Dharmendar:** around 70 crores.

**Mr. Nabeel:** But we are having 182 crores cash but you need to first write off this losses then they will.

**Mr. Dharmendar:** That is the correct.

**Mr. Nabeel:** I have joined late can you tell me how much is stated advance in from customer on 31st March 2015.

**Mr. Dharmendar:** 70 crores.

**Mr. Nabeel:** Thank you sir and the other expenses of this quarter rises to Rs 32.88 crores versus 29 crores in previous quarter, so what are the broad reasons?

**Mr. Dharmendar:** I mentioned this earlier somebody asked me this question. I will just clear it for you. There is on account of the higher ASP spent by 2 crore rupees and 0.8 crore due to the new clinic cost and 1.2 crores cost of the goods sold because of the increased revenue.

**Mr. Nabeel:** What is the business atmosphere right now?

**Mr. Dharmendar:** Business atmosphere?

**Mr. Nabeel:** Yes what do you think, how it will happen?

**Mr. Dharmendar:** Quarter 4 was quite in trend only. In terms of future growth we will maintain 10-12 % SSG growth and in the Middle East around 8-9% growth.

**Mr. Nabeel:** Thank you very much.

**Moderator:** Thank you sir. We have the next question from Mr. Vivek Joshi from Tata Fundas individual investor. Mr. Vivek please go ahead.

**Mr. Vivek:** My question is to Mr. Subramanian, What is the growth going to be going forward as there is lot of moving parts like you are adding store and if you could tell us like what are targets. Three year revenue targets and I know profit would be a moving target a little bit but what is your revenue growth targets sir.

**Mr. Subramanian:** I think like I told you we talked about SSG is one component and in addition to the SSG , we give the other part of expansions. So this is the best we can give in term of indication but you know overall it is all subject to the fact that when expansion and how the clinic started and at this stage, so at this point of time we maintain 10-12% on SSG & about 10-12 clinics in a yearly basis on expansion.

**Mr. Vivek:** Midterm margin what level are you looking at is it like 10% or 12%. What is the target, steady state?

**Mr. Subramanian:** We do not give future guidance but yes like I told earlier I will maintain the same thing we have an SSG growth aspiration and we have expansions coming in our way. We are trying to leverage our cost structures and that will happen over a period of time but currently if you ask in the interim quarters I think we are also looking at stabilising and developing, putting some medical investments into the existing clinics which will help us to sustain the growth levels going forward.

**Mr. Vivek:** Couple of other questions but one quick question. You mentioned 20% of your sales with some products currently but these are sold from both like clinics as well as bars, it is not just bars.

**Mr. Subramanian:** But currently the skin bars are very few in number and not significant and most of the bars are actually opened especially in February and March. So it is not impacting the overall product revenue for the business.

**Mr. Vivek:** My last question is, since this business one of the key constraint is the dermatologist on role, are you facing any challenges like hiring new guys? Is that a challenge or it well under control for the growth plans.

**Mr. Subramanian:** It is fairly under control for the kind of expansion that we are looking at but having said that yes the word attrition is something that we will working on in terms of how we can reduce that.

**Mr. Vivek:** What is the current %?

**Mr. Subramanian:** 25%

**Mr. Vivek:** Thank a lot. All the best.

**Moderator:** Thank you sir. We have the last question from Mr. Debanshu Madan from Locus investments. Mr. Debanshu please go ahead.

**Mr. Debanshu:** Hi sir couple of questions. One is that in Middle East the store level EBIDTA is 38% and you had mentioned 6% is ASP and 15% is corporate Overheads so corporate level EBIDTA should be 17% and for Q4 FY15 it is 13.5% so am I missing something here and what explains the gap between 17% and 13.5% and the store number that you had in Middle East is that taken into account any store openings if at all they happen?

**Mr. Debashish:** You are talking of Middle East EBITDA margins

**Mr. Debanshu:** Yes Middle East. If you take out corporate OH and ASP, EBIDTA margin is 17% so Just asking what explains the gap of 13.5% that has been reported and secondly the store number that you had in Middle East is that taken into account any store privilege if at all they happen?

**Mr. Debashish:** Are you comparing Q4 with annual numbers.

**Mr. Debanshu:** I am just looking at the Q4 number. Unless there is some seasonality which is bringing this down what explains the gap between 13.5% and 17%.

**Mr. Dharmendar :** Just to correct, 17% was the annual EBIDTA number and you are referring to the quarter for 14% or 13.5%. The number is mentioned is of 17% is of the annual basis.

**Mr. Debanshu:** Right so that makes some sense and secondly, you know there is a question that I asked earlier first I want to respond for asking that for Kaya Skin bar particularly I know it is a small contribution but what is your expectation vis-a-vis skin clinic once it is mature anything that you have in mind that it should look like.

**Mr. Subramanian:** Currently there are different formats in the Kaya Skin bar, there is a product store and Kiosk store shop in shop. So all of them come in different sizes and depending on the sizes the variations happen because you cannot represent the entire range in all formats. Having said that I think going forward, is too early to talk about, because most of the expansions have happened now. But we expect that a typical bar would generate anywhere 40 to 50 lacs once it stabilizes in the long run per annum.

**Mr. Debanshu:** 40 to 50 lacs blended with all formats

**Mr. Subramanian:** sorry.

**Mr. Debanshu:** 40 to 50 lakhs expectation per store in blended with all formats within the Kaya Skin bar

**Mr. Subramanian:** It is more to do with the product store but if I look at a Kiosk then it could be say 25-30 Lacs and now the mix of where the products store or Kiosk gets executed, the market place will decide so anywhere between 30 to 40 Lacs range you can look at.

**Mr. Debanshu:** So I was asking this question just from this perspective that initially I had asked that, you said 40% contribution from products in coming years so I was trying to get a sense as look like in next 3-5 years you set a target for.

**Mr. Subramanian:** So we are looking at expansions as I told you and basically you have a number in terms of what we are looking into in terms of overall skin bars so it is marginally expected to go up by from 20% to 25 – 30% in the coming year.

**Mr. Debanshu:** That is fine thanks a lot.

**Moderator:** Thank you sir. As there are no further questions I would now like to hand over this floor to Mr Dharmender Jain for closing comments. Over to you sir.

**Mr. Dharmender:** Thanks to all for attending the conference calls. Thank you very much

**Moderator:** Thank you sir. Thank you very much ladies and gentleman. This concludes the conference for today. Thank you for joining us you may now disconnect the lines.

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