



Transcript

Conference Call of Marico India Limited

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Presentation Session

Moderator:

Good evening ladies and gentlemen. I am Leela, moderator for this conference. Welcome to the quarter 3 FY08 conference call of Marico India Limited. We have with us today Mr. Anirudha Joshi of Anand Rathi Securities Limited and Mr. Chaitanya Deshpande, Head Strategy, M&A and Investor Relations; and Mr. Vinod Kamath, Chief Finance and Information Technology. At this moment all participants are in listen-only mode. Later, we will conduct a question and answer session. At that time if you have a question, please press * and 1 on your telephone key pad. Please note this conference is recorded. I would now like to hand over the conference to Mr. Anirudha Joshi.

Anirudha Joshi:

Thanks Leela. On behalf of Anand Rathi Securities I welcome you all to the conference call of Marico, December quarter conference call. We have with us Mr. Vinod Kamath, Chief Finance and IT, and Mr. Chaitanya Deshpande, Head Strategy, M&A, Investor Relations from Marico; and Mr. Shirish Pardesi, Industry Consultant from Anand Rathi Securities. Now I hand over to Mr. Vinod for his comments on the quarterly performance. Over to you Sir.

Vinod Kamath:

Good evening everybody and thank you for being on this conference call. Let me begin by wishing you all a very happy new year. Before I progress, I wanted to share that we have sent out a detailed information update. A lot of information is available in this update and I hope all of you have had an opportunity to go through that. Nevertheless, let me mention a few highlights to get this started. Marico reached a very important landmark for this quarter where the turnover for the quarter has exceeded Rs. 500 crores. The turnover, to be specific, was Rs. 506 crores, which is a 24% growth over the previous quarter. The growth momentum has been all round. All our businesses and all the product lines have shown a significant growth. The volume growth in this has been roughly about 20% and



inflation-led growth has been about 4%. In terms of the organic and inorganic breakup, the organic growth has been about 19% and inorganic growth has been 5%. The bottom line also has moved in tandem, the PBT growth has been 60% and the PAT growth has been 62%. With this, I would welcome your questions.

Question and Answer Session

Moderator: Thank you sir. Ladies and gentlemen, we will now begin the question and answer session. If you have a question, please press * and 1 on your telephone key pad and wait for your turn to ask the question. If your question has been answered before your turn, and you wish to withdraw your request, you may do so by pressing # key.

First question comes from Mr. Akhil of Enam Securities.

Akhil: Hi Chaitanya, hi Vinod. Good afternoon.

Chaitanya Deshpande: Hi Akhil.

Vinod Kamath: Hi.

Akhil: I just wanted to check, after July when you took the last price increase, there hasn't been any more in the last six months, right?

Vinod Kamath: Are you meaning Parachute?

Akhil: Yeah, basically your key brand, Parachute, Saffola, etc...

Vinod Kamath: No, we had a price increase as you rightly mentioned in July on Parachute. There have been no further increases in Parachute MRP in the subsequent quarters. In terms of Saffola, we did take a price increase in the Kardi Oil variant during the last quarter. It is roughly about 9%.

In terms of other hair oils, there has been no price increase during this quarter.

Akhil: Okay, and considering that even the copra prices have been fairly good to the company, the price increase which was taken in July, how much cushion does it give you in the coming year or the coming quarter? If in case the prices have to trend up, by when do you think that you would not need to do another price increase?

Vinod Kamath:

The price increase which we had taken up in July of about 3% was in fact in anticipation of raw material price increases in the subsequent quarters. But as you rightly said, the prices didn't move up in line with what we had expected and remained fairly benign. So there was no need to take a price increase in the subsequent quarters. Going forward again depending on the raw material scenario we feel we have the potential to take a price increase. As you know in the last two years before this we had not taken any price revisions while raw material prices had dropped. As a strategy, we do not really want to tinker with the prices on a quarter-on-quarter basis. We would prefer to have some stability over a period of time. There could be some margins upsides or downsides on a quarter-on-quarter basis on account of this strategy.

Akhil:

And secondly since you mentioned that Saffola has taken a price increase last quarter, was it because of another increase in raw material cost, the Kardi and everything I think?

Vinod Kamath:

Yeah, if you track the edible oil portfolios, the entire edible oil table has moved up and all brands would have taken up the prices. So increase in prices on Saffola has been in line with that; in line with what the competitive prices are.

Akhil:

And if I may ask, would you be able to give me the turnover for Kaya for the last quarter or nine months?

Vinod Kamath:

Turnover for Kaya for the last quarter has been about 25 crores.

Akhil:

And nine months would be about, I think, 75...?

Vinod Kamath:

71 crores.

Akhil:

And one last question was that on your other income, I am not sure if I could get the information in your update, so, if you can just tell me, how come the other income went up so much this quarter?

Vinod Kamath:

The reason why the other income has gone up is because of some exchange rate gains, which we made on the Rupee appreciation against some US Dollar denominated loans which we had taken and retired. It is one-off gain.

Akhil:

It is largely because of this only.

Vinod Kamath:

Yes.

- Akhil:** Thanks so much sir.
- Vinod Kamath:** Thanks
- Moderator:** Next question comes from Mr. Sumit of First Global Securities.
- Sumit:** Sir, thank you for taking my questions. Congratulations on a good set of numbers. Both the 31% growth that we have seen in hair oil, in the previous information updates you always mentioned the growth in volume terms of rigid packs of hair oils, excluding Nihar, it was 20% and 18% YOY in Q1 and Q2. This time you have not said excluding Nihar, you have said this is including Nihar it seems, 31%. So it seems to be very good. So can you just deck it up and give some more details about this.
- Vinod Kamath:** Very specifically, our information update has captured, the growth on hair oil this year has been because of very focused activities, which we did in this particular quarter. So the growth rate across the hair oil portfolio I think in terms of volume growth has been about 27%. Nihar rigids have grown by roughly about 20 odd percent.
- Sumit:** And what percentage would be rigids to the overall hair oils' value?
- Vinod Kamath:** Rigids constitute more than 90% of the total hair oils' portfolio.
- Sumit:** Sir, on the profitability of Kaya in this quarter, would you like to comment?
- Vinod Kamath:** In terms of Kaya, we had broken even last year. In terms of the Kaya Skin Care business with the number of clinics being added, some of them would start contributing over a period of time to the bottom line. We had a fairly heavy increase during this year. We have added about eight clinics this year. Nevertheless, the profitability has been in line with the expectation and we continue to be above breakeven levels.
- Sumit:** Sure. Sir have you recognized revenue from the South African acquisition in this quarter?
- Vinod Kamath:** Yeah, this quarter the South African revenue would be roughly 10 crores.

- Sumit:** And sir is Pakistan a market for our products?
- Vinod Kamath:** We have not really focused on Pakistan because of various regulatory issues, which are there. Most of the products which find their way into Pakistan would be through the unorganized channels and through other territories. We don't have a direct presence in Pakistan and it has not been a focused market for us.
- Sumit:** Thank you. I am through.
- Speaker:** Thank you very much.
- Moderator:** Next question comes from Mr. Kaustub of Sharekhan.
- Kaustub:** Good afternoon. Why there is an increase of around 34% in employee cost?
- Chaitanya Deshpande:** A good portion of this increase is on account of employees that we have added on in Kaya. As you know we have put up some additional clinics during this quarter. We also plan to add on a higher number of clinics in the coming quarter - may be about seven or eight would get added in quarter 4. But we need to take people on board in advance for training etc. We normally train people in Kaya for at least three months before they start actually seeing clients in a Kaya clinic. So, some of these expenses on account of employee costs are in advance of the revenues that would accrue. Also, in the Egyptian businesses that we acquired the employee costs to sales are slightly higher on average than they are in India. So there is some addition coming from there as well.
- Kaustub:** On the South African business you said that the turnover is about 10 crores for this quarter. Sir, can you throw some light on the profitability of this business?
- Chaitanya Deshpande:** The South African business has a lower profitability than the Marico group as a whole. It is at about 8 to 10%. Also in the first couple of years, we intend investing behind the brands Caivil and Black Chic. We think they have potential, though they have not been invested in adequately in the past. So in the next one or two years the flow down to the bottom line may be very marginal.
- Kaustub:** And what kind of growth can we see in this business, how is the market there? Can you throw some light on that, the South African business?

Chaitanya Deshpande:

These brands are in the ethnic market for hair care and OTC health care in the South African market. This market is growing at a fairly rapid pace; it is even higher than the kind of growth we are experiencing in India. About 20 odd percent is quite achievable even with a little bit of stretch. That is why we have actually made these acquisitions. Even though we did mention that the margins are slightly lower, the potential there is quite large. The size of the market in which we are operating is about 600 odd crores growing at pace of about 20%. Additionally, there may be some potential available even in terms of exports into the neighboring countries. Today those brands are exported in very small measure into Angola, but there could be a possibility of sending them into Namibia, Zambia etc,

Kaustub:

In your press release I saw that the other expenses you have mentioned that the lease rentals have gone up, that is the main reason for higher other expenses this quarter. Is that the only reason?

Chaitanya Deshpande:

There are a couple more actually. Apart from lease rentals, we have recruitment consulting fees related to the higher employee costs in Kaya we just spoke about. In addition, we have had one or two one-time expenses. We had a one-time settlement of some distributors overseas. And that is about three odd crores. In addition to that, for the South African business, there is an amount which actually, I have to say, needs to be classified as marketing expense, which has got classified under other expenses. We will have that sorted out by the next quarter. That is about another crore or so.

Kaustub:

On the Kaya Life, can you just throw some light on the business model? Is it that we hire experts there or is it that we have their consultancy there and services are rendered by consultants and that sort of a model works? Is it that way?

Chaitanya Deshpande:

The model that we have in Kaya Skin is that we have a host of dermatologists working with us. Some of them are there with us on a full time basis and some of them have their own practice and come to us on a part time basis. We intend following something similar in the case of Kaya Life as well. So we have experts in terms of dieticians, exercise trainers, as well as people from the psychology field. What we are doing is trying to work on the mind and the body together. You need the help of somebody working on the mind as well to understand the person's motivation, de-motivation, etc. So yes, we have more than

one kind of expert in Kaya Life whereas in Kaya Skin it is only the dermatologists. The arrangement is similar. We are okay with people doing their own practice and coming to us as well as those who are with us on a full time basis.

Kaustub:

On the lease rental sir, what kind of an increase are you facing there? Is it most of it on the Kaya properties that we are having?

Chaitanya Deshpande:

Yes it is almost entirely on Kaya properties

Kaustub:

What is the kind of inflation in rates that we have witnessed there? An approximate idea of how much have the rates gone up in the lease rentals?

Chaitanya Deshpande:

See it is different in different regions...

Kaustub:

An average kind of figure?

Chaitanya Deshpande:

Different in different regions, but it would be something in the region of around 10%.

Kaustub:

On the tax rate, this quarter the tax rate was quite low, about 15%. And what would be the reason for that and will it be the same kind of rate next quarter?

Chaitanya Deshpande:

I would request you to look at the YTD numbers. The tax rate there is almost 20%. Going forward for the whole year it would be thereabouts - may be marginally lower. In the case of this specific quarter, it is also to do with some of the higher profits that we are making in 80-IA locations. In a particular quarter if the profits from there have spiked a little more, the 80-IA benefit is a little larger and therefore we have got a lower tax rate.

Kaustub:

And for '09 sir, what kind of a rate can we expect? If this 80-IA exemptions are there, so what kind of rates we have there?

Chaitanya Deshpande:

I think we can look at rates of around 20 or just above.

Kaustub:

And on this, how many clinics of Kaya are we planning to, we were targeting about 15 clinics a year. So this year will we be able to do that?

Chaitanya Deshpande:

Yes we will. Actually we had a slightly late start, we have done eight. But we have tied up properties, etc, and we expect to be opening more in quarter 4. So we will be on target.

- Kaustub:** Okay, because last quarter conference call, you had mentioned that about 10 properties we were targeting for this quarter, and actually it was about five that we have opened. Am I right, sir?
- Chaitanya Deshpande:** Yeah, we will make up in this quarter.
- Kaustub:** Okay, fine.
- Participant:** How many clinics have we opened up, Kaya Life, in this quarter?
- Chaitanya Deshpande:** We are likely to add only two more for some time. We have got one at Juhu and we are hoping to put up one at Malad and one at Bandra during this quarter. In fact the next one may come up very shortly, within the next fortnight. Then we will run with that for a while. We want to hone the model and it is only into the middle of the next year that we will look at adding on more centers, first in Bombay and then moving out to other cities.
- Participant:** Can you throw some light on your new product launches during this quarter?
- Vinod Kamath:** We have provided some details in our information update. On the functional food side we already had Saffola Cholesterol Management. We have recently launched on a test market basis, Saffola Diabetic Atta. This is at present largely in Delhi and the national capital region. We have also launched Parachute Advanced Starz for kids as a prototype. Again that is in select markets, Mumbai, Bangalore, and Hyderabad.
- Kaustub:** And what is the plan going forward in terms of the product launches? Any visibility that you can give us? Anything new that we plan to do in Q4 and going forward that is in the pipeline?
- Vinod Kamath:** Beauty and Wellness are the areas where we will be focusing. It is not our practice to share very specific product plans. So I would not be able to share details of that. But largely, in terms of the categories, we have shared that earlier. Functional food continues to be a focus area for us.
- Kaustub:** Okay, fine Sir. Thank you very much.

- Moderator:** Next question comes from Mr. Manish Jain of Lehman Brothers.
- Manish Jain:** Hello Mr. Kamath.
- Vinod Kamath:** Hi Manish.
- Manish Jain:** How are you?
- Vinod Kamath:** Fine, thanks.
- Manish Jain:** Sir, one question I had, what was the kind of exchange gains that you have booked, the exact amount if you could give us?
- Vinod Kamath:** It is 7.8 crores.
- Manish Jain:** Okay. And sir on Kaya, what kind of a profit have you made in this quarter? Would you be able to share that number?
- Chaitanya Deshpande:** It's not a very significant number.
- Manish Jain:** Last quarter you did something like 1 crore, right?
- Chaitanya Deshpande:** It's a similar ballpark.
- Manish Jain:** Okay, thank you sir.
- Moderator:** Next question comes from Mr. Siddharth of JM Mutual Fund.
- Siddharth:** Yeah sir thanks for the opportunity and congrats for good numbers. Just couple of questions, firstly on your gross margins, you have taken up prices on Parachute up by 3% in July, now for third quarter, I know its just quarter specific, but our gross margins excluding packing costs have remained largely flat. So is it a revenue mix, is it that edible oil pack is growing much faster and within the edible oil pack, we are seeing Sweekar again having a very strong growth. Am I reading it correctly here?
- Vinod Kamath:** Yeah, you are reading it correctly; it's a function of the product mix, which we have sold in this quarter. As earlier during the conference call I had shared that the 3% price increase had happened in Parachute in July and on the edible oils, which is primarily on Saffola we had taken up the price increase of about 9% in the last quarter. We had

no price increases on the hair oil portfolio. So when you look at the final number, it's a mix of all these product lines.

Siddharth:

So Saffola price increase, would it have come earlier in the quarter, or would it be too late in the quarter?

Chaitanya Deshpande:

It's towards the latter part of the quarter.

Siddharth:

Okay. So just one more on Sweekar, are we seeing a significant volume growth here, much more than what you would expect under normal circumstances and is it because there has been generally a very strong inflation in edible oil pack. Are we seeing any signs of down trading here in edible oil pack?

Vinod Kamath:

No, actually Sweekar has not been a focused brand for us. So, the growth rates on Sweekar would be lower than what it has been on Saffola. If you just want to get kind of an indication in terms of growth, the total growth has been about 17%, but this has largely been on account of price revision.

Siddharth:

Okay. No, what I am getting is...

Chaitanya Deshpande:

Also that, down trading is not happening. If you look at the edible oil section at a premium to Sweekar, there are very few brands. A Large part of that is Saffola and Saffola itself is recording a fairly good volume growth. We have done 19% during this quarter. And as you know, even in the previous two quarters, it has shown a pretty good volume growth. So Saffola is not really losing volumes to Sweekar. The only other player, which is there at a premium at this level, is Sundrop, but I don't think they have lost volume to Sweekar either.

Siddharth:

Okay. The next question is on advertising, now for nine months this year; we have had advertising at 12.1% of sales, which is about a 100 bps lower than what we had last year. Now is this planned, or is this the natural trend at which we would probably go next year as well?

Chaitanya Deshpande:

The band of 12 to 13% is what we expect to maintain. Sometimes you may see high advertising in one quarter and slightly lower in another quarter. I know, you have looked at YTD numbers, but if I were to give some indication of what will happen going forward, it's likely to be in the 12 to 13% band.

Siddharth:

Okay. That's it. Thanks sir.

- Chaitanya Deshpande:** Thank you.
- Moderator:** Next question comes from Mr. Chetan of Kotak Securities.
- Chetan:** Hello? Yeah, good afternoon sir. This is Chetan. Sir, I just wanted to have a sense on the copra prices. Recently Union Cabinet had given an approval for re plantation of almost 4 lakh hectares of coconut plantation. So do you think this will have any kind of impact on the coconut supply in the short term? And what would be the kind of time periods, such an exercise would go on for?
- Vinod Kamath:** See, the typical gestation period for this would be 10 to 15 years. So it would have absolutely no impact on the short term. But having said that, it's something which is a welcome step in terms of ensuring improvement in productivity of the coconut crop in the longer term, and it's something which we would really welcome.
- Chetan:** So, whatever is to come up, that will be coming up say 10 years from now on.
- Vinod Kamath:** Yes. But different states would have had different initiatives, so on an ongoing basis people have focused on this. But this is a very significant step and it's something which is really sound from the longer term point of view, more from increasing the productivity of the crop and having a better realization for the farmer.
- Chetan:** Right sir. That would be it from my side. Thank you.
- Vinod Kamath:** Thanks.
- Moderator:** Next question comes from Mr. Ankit Jain of Madha Securities.
- Ankit Jain:** Good evening sir.
- Vinod Kamath:** Good evening.
- Ankit Jain:** Sir, congratulations on a good set of numbers. Sir, actually my questions have all covered, but I just wanted to know, can you just give the segmental revenue, like how much was the contribution on Parachute, Sweekar, Saffola, and all?
- Chaitanya Deshpande:** Overall we have given some broad indication in the past. This has remained by and large the same. I actually would



be reluctant to give a brand-wise break down right now. But broadly there haven't been significant changes in that.

Ankit Jain:

Okay sir. Thank you.

Moderator:

Next question comes from Mr. Pritesh of Emkay Shares.

Pritesh:

Hello. My question pertains to Kaya, what is the total capital employed currently in Kaya? And what is the ROC, which is generated, if any, at this stage? And at a full scale model, what kind of returns are you looking in the Kaya business, because I am just wondering, we have been talking about, that Kaya has reached a breakeven stage, when can it just move beyond the breakeven stage, if any assessment is made by the management on that area?

Vinod Kamath:

Okay, one, in terms of every clinic, which we add, roughly about 1 ½ crores is the capital employed for every clinic. Since all the clinics are on a lease basis, so there is no capital employed on account of real estate, so this is primarily on account of interiors as well as other equipment, which we deploy in the clinic.

Pritesh:

Correct, so that is pegged at about 100 crores.

Vinod Kamath:

Yeah. So depending on the number of clinics, the closing capital employed at this point of time would be in the region of 90 to 100 crores. In terms of a breakeven, the point here is, looking at the business model, overheads would get significantly covered. If you increase the number of clinics as will be our focus as we move forward,, it might have a small dent in that particular quarter, because of the initial cost and the time it would take for the new clinics to get ramped up and reach breakeven level. But overall, with an increase in number of clinics, the profitability would move significantly up compared to the breakeven numbers, which are existing now.

Pritesh:

Now we have reached a stage where the incremental clinic addition is lower than the total clinics, which we have in hand. So is it so that now we have reached a stage where one can look at good return on capital employed, but I haven't seen it coming. We had this one brief year period, where we didn't add the clinics, and we have just added the clinics this year onwards. So where do you feel now the things should look, better than what they were for Kaya?

Vinod Kamath:

See, in terms of the number of clinics, we had given an indication that we would be adding roughly about, on a base of about 40 odd clinics, 15 clinics every year. So that is going to be the trend at least for the next two to three years, and the focus would also be to saturate the tier 1 cities, the cities in which we already exist. So that would actually positively contribute in terms of sharing overheads, because ASP expenses, which are there in a particular city, would get spread across various clinics, and we really see a potential to saturate cities, before moving on to the next set of cities. So, in terms of an overall profit mix, this particular strategy should definitely help in adding to the bottom line. Now, in terms of what exact percentages would get added, the movement, which should happen in a particular year, again it would depend on the number of clinics, which get added in that particular year. So that's how it is.

Pritesh:

Okay. But do you feel that in next couple of years, the returns on capital employed should more or less be equal to the returns on business other than Kaya for Marico?

Vinod Kamath:

No, it would not be the case. Kaya is the most capital intensive business for us at this point in time. It is unlikely to achieve the ROCE of Marico's other businesses.

Pritesh:

Okay, one quick question. In case of Kaya's business, which is the biggest component of cost in the operations, and how big is the component of ASP cost in Kaya's business operations?

Vinod Kamath:

Yeah, two large hits on this would be employees and rentals.

Pritesh:

And how big could they be, and how big is ASP, the third cost.

Chaitanya Deshpande:

See, both these put together will.

Pritesh:

Because employees and rental more will be variable and they will move with every addition of clinic.

Chaitanya Deshpande:

Yeah, that's right. And they would be in the range of about 25% of the revenues, with employee costs slightly higher than rentals.

Pritesh:

Yeah, so its 25% each...

Chaitanya Deshpande:

No, put together.

- Pritesh:** And what will be the ASP cost?
- Vinod Kamath:** ASP cost, again it would depend on the entire turnover, because it's more of a fixed cost as a percentage of the total, but it would be in the region of about 10% to 12%.
- Pritesh:** At this stage.
- Vinod Kamath:** Yeah.
- Pritesh:** Okay. Many thanks to you sir, and all the best sir.
- Vinod Kamath:** Thank you.
- Moderator:** Next question comes from Mr. Amit of Enam Asset Management.
- Amit:** Good evening sir.
- Chaitanya Deshpande:** Good evening.
- Amit:** Congratulations on putting up a great set of numbers over here. My question pertains to the recent development within daily articles, which is regarding government withdrawing the tax exemptions from the companies who are not having exact manufacturing operations in SEZs of Uttaranchal and Himachal Pradesh. And one of your plants I guess is located in Dehradun, so any developments in the thing?
- Vinod Kamath:** Yeah, this particular notification, which has been issued has been primarily targeted at people who don't carry a set of manufacturing activities as listed in that particular notification. That is for people who carry out some activities outside the state, and then use these two states as a base to do the final touch up. In our case, all the manufacturing activity happens in the state of Uttaranchal, so we would not be impacted by this notification. However, we are going to receive the final clarification. In our view it has absolutely no impact on us.
- Amit:** Anyhow the tax bracket for the time being seems to be remaining the same, 19.5% or 20%, somewhat.
- Vinod Kamath:** Yeah. This particular notification has been, primarily would impact the people on the excise duty front.

- Amit:** Okay. And one more thing regarding this Diabetes Management Atta, since you had launched it in the region of capital only, but somehow things seem quite interesting, since India is supposed to house most number of diabetics by 2025. So, how would you go about expanding your operations or distribution for this particular Atta?
- Vinod Kamath:** It's been our practice to actually do a prototype in a particular market, to basically understand how the consumer is benefiting from this, and whether there is a need to make some shift in the marketing mix. However, having said that, our plan over a period of time would be to go national and definitely to the metros, and to the other towns.
- Amit:** Okay, thanks a lot sir.
- Vinod Kamath:** Yeah.
- Moderator:** Next question comes from Mr. Riken Gopani of Radha Madhav Advisors.
- Riken Gopani:** Sir, I would like to know, if you could give me some idea on the clinics which are open for more than one year, what kind of EBITDA margins are they working at right now?
- Chaitanya Deshpande:** The margins on clinics that already exist would vary, but are in the region from 15 to 20%.
- Riken Gopani:** Okay and sir, I would like to know, is there any measure to find out what is the capacity utilization of those clinics, is it improving?
- Vinod Kamath:** Yeah, in terms of clinic capacity utilization, mature clinics, I mean, last time I had shared these figures, if you take last year as the base for the same quarter and in this quarter, they are growing by about 7 to 8%, so this is largely coming up on account of better utilization of these clinics.
- Chaitanya Deshpande:** And there is scope to take it up further. We may be in the region of 50 to 55% utilization. We anticipate that it is possible to take this up to around 65 or so.
- Riken Gopani:** Okay, so right now whatever the revenue number has come in, in this there is a 7% growth in the existing clinics, that's what you are trying to say?
- Vinod Kamath:** Yeah.

- Riken Gopani:** The like to like shares of the clinics would be approximately 7 to 8% growth, right sir?
- Vinod Kamath:** This is excluding the price increase. Including the price increase the growth will be higher, 7 to 8% the figure I have given, just to give an idea what is the capacity utilization increase.
- Riken Gopani:** Okay, so what kind of price increases have we taken?
- Vinod Kamath:** See we had not taken any price increase in this quarter, we had taken a price increase in the month of April, and it was roughly about 10%.
- Riken Gopani:** Okay and sir, we were saying that we would initiate some way of increasing the sales of products in these clinics, have we tried to increase the ratio in any way or is it the same?
- Vinod Kamath:** The product sale as a percentage of the total has gone up, its roughly in the region of about 15 to 16% for the last quarter. We had started off with roughly about 12 to 13%, it has moved up to about 15 to 16%.
- Riken Gopani:** Okay, thank you sir, yeah.
- Moderator:** We have a follow-up question from Mr. Manish Jain of Lehman Brothers.
- Manish Jain:** Sir, couple of questions, one is that for Kaya, on an overall basis what was the same stores growth sir?
- Vinod Kamath:** Yeah, I had just taken that question, I mean, it is about 8% excluding the price increases.
- Manish Jain:** Okay, sir and what is happening to Sil, sir? SIL there was a media report, which suggested that it's being sold off and all, so any development on that front, sir?
- Chaitanya Deshpande:** The SIL brand is one of our non focus brands, we have been saying that for a while. Marico wants to focus on beauty and wellness and the Sil range of jams doesn't really fit into that portfolio. The company is looking at the option of making a divestment of the brand. For that, we have taken an enabling resolution from the share holders, which was recently passed. A sale of the brand may involve a sale of the factory, etc, and therefore it may be construed as an undertaking for which a share holder resolution is required. That is what we had initiated. The

share holders have passed that resolution and I think that has got interpreted as divestment being made. That's how it got reported.

Manish Jain:

So, I mean, at least in the absolute near future there is nothing right?

Chaitanya Deshpande:

No, if we do get an option from a serious buyer and we find the bid attractive, we can look at that.

Manish Jain:

Okay, thank you sir.

Chaitanya Deshpande:

Thank you.

Moderator:

Next follow-up question comes from Mr. Pritesh of Emkay Shares.

Pritesh:

Hello.

Vinod Kamath:

Hello.

Pritesh:

Yeah, just some more information on Kaya, on clinics which are more than a year old, what is the revenue per clinic per year that you are generating at this stage and what is the utilization levels that those clinics have achieved?

Chaitanya Deshpande:

We would be looking at average revenues from 1.25 to 1.5 cr from older clinics. Some of them do slightly more between 1.8 to 2 cr.

Pritesh:

The revenue per clinic is about one a half crore for a clinic which is more than year old?

Chaitanya Deshpande:

Yes, about a crore and a half.

Pritesh:

Okay and what is the utilization levels of those few sample clinics?

Chaitanya Deshpande:

That would be in the region of 60%.

Pritesh:

Okay, so there is still room for those clinics to scale up to about...

Chaitanya Deshpande:

65% or so is something I think we can do. It would be stretching it beyond that, because since you are looking at machine room capacity, you can't have somebody moving out of a room and the next client starting off immediately. Also there are certain things like last minute cancellations

and all that, which are just not avoidable. We make an effort to call out to clients about 48 hours before their appointment to make sure they are coming and if they are not, then try and get a replacement for that slot, but even so there are no shows which we have to deal with. As of now we are not charging clients for no shows, but that is something that we are discussing internally and may want to implement that in future.

Vinod Kamath:

Having said that, we also look at the service mix in the clinic. So that our endeavor, if clinics are operating at the threshold, would be to optimize service mix in the clinics to ensure that we get more revenue for a particular period.

Pritesh:

What is the current ticket size per customer that you are getting and what scope exists for the ticket size to improve?

Chaitanya Deshpande:

It varies, but typically it would be about Rs.1250 to Rs.1500 per session.

Pritesh:

Per ticket per client?

Chaitanya Deshpande:

It's single session that I am talking about. We also sell packages where a client needs to come in for may be three sessions or four sessions depending on what the dermatologist recommends.

Pritesh:

Okay, then I will put it on the foot fall basis. On the foot fall basis per client ticket size would be?

Chaitanya Deshpande:

May be about 1500.

Pritesh:

And what you want to indicate is that 65% is the maximum utilization level possible for a clinic, which is established and a year old and they are operating at 60% currently. There is a 10% volume growth possible and plus whatever growth comes will come from higher ticket size and the clinics which are more than a year old are operating at about 15-20% EBITDAs?

Chaitanya Deshpande:

That's correct, yeah.

Pritesh:

Okay, many thanks to you sir.

Vinod Kamath:

There would also be scope to push products there.

Pritesh:

Yeah, that always I have considered that.

- Vinod Kamath:** See, some of the clinics would also have a potential to add a few additional rooms depending on the potential in that particular area, so that is also a possibility to have an upside in a particular clinic.
- Pritesh:** But then that becomes an additional volume growth over and above the current infrastructure that you have?
- Vinod Kamath:** Yeah.
- Pritesh:** Okay, many thanks to you sir.
- Vinod Kamath:** Thank you.
- Pritesh:** Thank you.
- Moderator:** Next question comes from Ms. Divya of Pari Washington.
- Divya:** Hello sir, I just wanted to know about what's your maintenance CAPEX levels?
- Vinod Kamath:** Yeah, the maintenance CAPEX levels would be about 15 to 20 crores.
- Divya:** And for Kaya, it's around one and a half crores per clinic?
- Vinod Kamath:** Yeah, you are right.
- Divya:** So, could you share with me, what your cash and debt levels are at this point of time?
- Chaitanya Deshpande:** We have a debt level of about 325 crores. There is no surplus cash sitting on the balance sheet here, we are borrowed because of the acquisitions we have made.
- Divya:** Okay, are you looking at any further acquisitions in the international space at this point of time?
- Chaitanya Deshpande:** Yes, we would like to look at acquisitions as a means for growth, so we are on the lookout; however we are quite clear that it has to have a very good fit with what we are doing. So it should be in the beauty and wellness space, typically hair care and skin care. We also need to be sure that the acquisitions that we have made are such that we see some value addition that we can make as a company there. So, we will be choosy, but we continue to look for acquisitions.



- Divya:** Alright and this present acquisition in South Africa, that's about, what kind of market share they have, around 4 to 5%?
- Chaitanya Deshpande:** Yes, in the hair care category it is close to 6%. There is also a portion, which is OTC health care and there it would be about 9 or 10%.
- Divya:** So, would Marico be spending money to improve the market share in those regions or what's your strategy basically in the South African market right now?
- Chaitanya Deshpande:** Yes, we intend to do that. The growth in the market is quite healthy, it is about 20 odd percent, but we do believe that the brands we have acquired would need some incremental marketing support - more than what has gone into those brands in the past, so we will be investing and therefore in year 1, year 2 we don't anticipate major increases to the bottom line as a result of this acquisition.
- Divya:** Alright sir, thank you sir.
- Chaitanya Deshpande:** Welcome.
- Moderator:** There are no further questions. Now I hand over the floor to Mr. Anirudha Joshi for closing comments.
- Shirish:** Hi, Chaitanya.
- Chaitanya Deshpande:** Hi.
- Shirish:** Shirish, I have got couple of questions, partly they are answered. I just want to know, what is your outlook for next quarter on edible oil, there are mixed responses, so do you see any inflation coming up there?
- Vinod Kamath:** In terms of edible oil inflation?
- Shirish:** Yeah.
- Vinod Kamath:** It is very difficult to forecast what is going to happen on edible oils.
- Shirish:** The point I have, you have just taken the price increase on Saffola, so if that price increase will suffice for next two quarters?
- Vinod Kamath:** We would not take a freeze on any price increase in edible oil for two quarters. Depending on how it would move in

the next quarter one would have to look at whether to make any price revisions.

Shirish: Okay, thanks a lot. One more question, what would be the franchise base for Kaya Life and Kaya?

Chaitanya Deshpande: Sorry, the franchise?

Shirish: Base, number of clients which we have currently?

Chaitanya Deshpande: In Kaya Skin, we are looking at numbers of more than 250,000 now. When we say numbers of 250,000 it means people who walked into Kaya and paid for a service. If you look at the loyal base, that means repeat clients, etc, people who have been our clients last year and continue to be our clients this year, then it would be about 55 to 60% of that. In terms of Kaya Life it is just one center at the moment, so the numbers are not very significant.

Shirish: Let me put the question straight, what is the increase of clients over the last quarter, as it whatever initiative you have taken through marketing and word of mouth and whatever?

Chaitanya Deshpande: The quarter on quarter growth in the number of customers was about 8%.

Shirish: Okay, thanks.

Chaitanya Deshpande: Welcome.

Shirish: So, over to Anirudha now.

Anirudha Joshi: Thanks Vinod and thanks Chaitanya for your participation on the call and I thank all the participants for their valuable time. Thank you very much.

Vinod Kamath: Thank you very much.

Moderator: Ladies and gentlemen, this concludes your conference for today. Thank you for your participation and for using Door Sabha's conference call service. You may disconnect your lines now. Thank you and have a pleasant evening.

Note: 1.This document has been edited to improve readability.
2. Blanks in this transcript represent inaudible or incomprehensible words.