



“Talwalkars Q1 FY2018
Earnings Conference Call”

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- Moderator:** Ladies and gentlemen, good day and welcome to Talwalkars Q1 FY2018 Earnings Conference Call hosted by Centrum Broking Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Ankit Kedia from Centrum Broking Limited. Thank you and over to you Sir!
- Ankit Kedia:** Thank you Janice. Good afternoon everyone. We at Centrum Broking are very pleased to host the Q1 FY2018 Results Conference Call for Talwalkars Better Value Fitness. Today from the management, we have Mr. Prashant Talwalkar, Managing Director & CEO, Mr. Anant Gawande, Executive Director, and Mr. Girish Nayak, CFO. I would now like to invite the management for their opening remarks followed by which we can have an interactive Q&A. Over to you Sir!
- Prashant Talwalkar:** Good afternoon everybody. It is nice to hear all of you. I hope we will be able to answer all your questions. It is always my pleasure to be here. We will soon begin. I will just ask Anant Gawande to carry on from here.
- Anant Gawande:** Good Afternoon everybody, it is pleasure to be here with you all today. We are eager to understand your points, questions and query and I hope we answer them to your satisfaction. Thank you.
- Moderator:** Thank you. Ladies and gentlemen we will now begin with the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. We take the first question from the line of Kunal Jagda from KR Choksey. Please go ahead.
- Kunal Jagda:** Thank you for giving me an opportunity. Sir I just wanted to understand if you can just throw some light on the revenue growth and EBITDA growth, so what were the driving factors for the growth Sir?
- Anant Gawande:** Kunal, especially last year same time, the base was a lower base and as you can also see the PAT contains a certain element of Ind-AS differences, which have been also shown separately in our working. This is not a critical quarter in terms of how the company performs, so it does not contribute a lot of revenue at the bottomline level, but I think in the circumstance, which were there it has been a steady quarter.
- Kunal Jagda:** So what were the main key driver’s growth drivers during this quarter?
- Anant Gawande:** Actually we introduced a lot of activities in Zorba. We also started certain amount of cross selling of products in the current quarter. As I said essentially the renewal and business rate in the

first quarter of the current year and the third quarter of any year is not significant, so it was based on that.

Kunal Jagda: Sir what was the realization?

Anant Gawande: What was the realization per member?

Kunal Jagda: Realization per member?

Anant Gawande: Kunal, what happens is basically even in the current August scheme, and probably Prashant can explain that better we have given a combined package for a lot of ideas.

Prashant Talwalkar: Kunal, one of our first unique package we created the package is over and above actually the real cost is more than Rs.1 lakh, but we made a package. It is called all-inclusive package. So all-inclusive package means other than personal training everything else, which is in the premises is available for their usage for the year then the cost of it one-fifth of the cost of what is the actual price. Now this is an all-inclusive offer, which has picked up and taken by people very well including my old members that mean their renewals.

Kunal Jagda: So this includes renewal also?

Prashant Talwalkar: Yes. So renewal means we have two kinds of members. One is the new member and one is the old member. When I say renewal it means old member also picked it up very well.

Kunal Jagda: So can you share the numbers what were the numbers of members last quarter and this quarter?

Anant Gawande: In the current quarter unfortunately Kunal we can guide till the quarter gets over. The scheme has been steady. As I said last quarter whatever renewals take place, they take place in that quarter. The bulk of the renewals take place in August and September scheme, which is what Prashant explained to you that we are bunching a host of products together, so depending on the gyms. If the gym has Nuform, we will bundle Nuform. If it has Zorba, we will take Zorba. It has got something else like spa, then we will take spa, massage whatever, and the whole set of products, which means you have got a golden path technically into that gym. Hence the value per person starts moving upwards.

Kunal Jagda: So you mean to say that the average realization for last quarter was around one lakh?

Anant Gawande: No. This is the example of the scheme, which we have done, Kunal. The realization will probably be up between 5% and 7% for the quarter, but what we have been doing consistently now is using value addition as a base for combining the products.

- Kunal Jagda:** Sir just wanted to understand about your preferential allotments. Can you explain or elaborate the process how you are going to infuse the money and how much time it will take?
- Anant Gawande:** It has already been infused Kunal. The allotment has already been done.
- Kunal Jagda:** Sir in which area means in acquisition or what Sir?
- Anant Gawande:** No we have just infused the funds right now. The idea was to do that and we have done that.
- Kunal Jagda:** No. I just want to know where these funds will be used. I know that you have infused it, so where the funds will be utilized?
- Anant Gawande:** Already we have put the money in. We will work on what we should do over the next. Presently, the work is basically on essentially on the August scheme, so we will work out the strategy for what we should do for this in terms of whether we should go for acquisition or expansion of value added products or gyming. Based on how the September scheme also goes, Kunal.
- Kunal Jagda:** Sir my last question is that this preferential allotment was on that of the pledged shares, so by when this pledged shares would be free, if you can just give the guidelines because there is a substantial amount?
- Anant Gawande:** I do not have a specific answer on it. We will obviously try our level best to do it as early as possible, but yes you are right all the money, which was pledged all the shares, which were pledged and the money was put into the preference share.
- Kunal Jagda:** Because there was substantial increase in the amount of pledged shares?
- Anant Gawande:** I know that. We have done only for the purpose of preference share, Kunal.
- Kunal Jagda:** That is it from my side. Thank you so Sir.
- Moderator:** Thank you. We have the next question from the line of Parag Bharambe an individual investor. Please go ahead.
- Parag Bharambe:** Thank you for taking my question. I read your annual report and it is beautiful, it is very well written. One of the things, which got up my attention, is the word asset-light. It is mentioned in I do not know may be five to 10 times in the report. I want to understand what is your thought process in term of going ahead with the asset-light. One thing, which I understand is you are planning to dispose of a property around Rs.120 Crores that is one thing. The other thing to go into asset light means using the franchisee the tried and tested method not only Talwalkars globally, but that has not been utilized amazingly well for Talwalkars so far and why I am so the

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HiFi if I see number of franchisee for the HiFi in the last three years there are not many, so can you just elaborate what is your thinking for asset light mix primarily if anything?

Anant Gawande:

Essentially we have not expanded much in Talwalkar brand on franchisee. The HiFi brand is a brand new concept, which we had for small towns. In the first couple of years of the HiFi brand we were still struggling to get the model in, which is why there was a particular amount of speed at which we worked, but as we speak, I believe we have already added two more HiFi in the current quarter itself. One was added, I believe, just now in the last couple of days in Siliguri. It is opening on September 17, 2017 as we speak and Jorhat, so Jorhat and Siliguri has just got added to the to the list of HiFi zones. As far as Talwalkar gym goes, the thing is the Talwalkar gym costs more so the area is spread. We recently added one Talwalkar gym in Pune on franchise and efforts are being made to add more. So we go on getting lot of enquiries for Talwalkar brand but because this is the mother brand of flagship brand that is on that. As far as out of India goes as you know we have got potential to go now into six countries, these six countries are South Asian countries. Prashant and his team are selecting very carefully locations there. The predominant idea of expanding in South Asia is going to be franchised network. So the idea is now to franchised base model even in those countries. I feel there will be momentum on both HiFi and Talwalkar in India, but in Talwalkar, the selection of the partner, of the location are very, very carefully calibrated.

Parag Bharambe:

I think you nicely laid me into my next question, which is the South Asia expansion. Again you have got permission into six countries. First, is it not very capital intensive and second the Talwalkar will be a franchise of Snap and you will appoint more franchisee your Talwalkar is that the model will be and what will be the capital intensity of the business?

Anant Gawande:

No, the idea is not to spend capital. The idea is to try and expand through franchisee, but to your second question I will answer first. Yes, technically you are right, we have franchisee of Snap Fitness, but we are master franchise for the region and the reason we have taken it is I hope if you get time and if you have gone through it that would be great but Snap Fitness is one of the top 10 probably top 5 biggest companies in the world and it has 2800 gyms in about 22 countries. So it is a very, very well known brand across the world and Peter Taunton who is the owner of the company as by the way essentially expanded his gyms through a network of franchisee. So out of the 2800 gyms I think 95% it is not 100% our franchised owned, Parag. If you go to the site Snap Fitness Inc., then you will realize what I am saying. We will be expanding the same idea further, in these six countries exclusively. If we do set up model gyms in any of the cities or countries, they will only be model gyms for us to try and get further franchised business.

Parag Bharambe:

Next question would be could you give me an update about the Pune club is there any significant moments?

- Prashant Talwalkar:** Yes, I am very happy to let you know that three days ago we finished all the paper work and we got all the permission necessary document etc., in hand. Now I am only probably waiting for a good day to start the work probably I personally wish to do it on a good day that may be the Dussehra but I am not just committing that to you. Only letting you know that all the documents are completely in our hands now. So any good day we should be able to begin the work.
- Parag Bharambe:** Okay, congratulation. I am sure you are waiting for a long time to get that permission.
- Prashant Talwalkar:** Yes even me too not me, we all of us and thank you for your patience.
- Parag Bharambe:** Thank you very much. I will come back if I have more questions.
- Moderator:** Thank you. We will take the next question from the line of Praveen Agarwal from Lotus Global Equities. Please go ahead.
- Praveen Agarwal:** Thank you for giving me the chance. I just wanted couple of questions. One is that you spoke about the master franchise for Snap. So these six countries is a South East Asia, so you have the master franchise for the six countries?
- Anant Gawande:** That is right. Absolutely right, do you know the franchise?
- Praveen Agarwal:** No, if you do not mind please tell me?
- Anant Gawande:** They are Thailand, Singapore, Malaysia, Vietnam, Sri Lanka and Bangladesh.
- Praveen Agarwal:** My next question is that do you have any guidance for the full year this current year, because your profit after tax growth was quite high for the first quarter. So should we consider that as representative for the whole year, because it was like about 29.5% on a consolidated basis and is that what we are expecting for the full year?
- Anant Gawande:** No it is not proper to give guidance. August scheme has been a steady scheme till now though there are almost three weeks left in terms of the August scheme ending. We are sure that we will make every effort to make the scheme a good success. The next quarter, which is October to December quarter, there is one unique opportunity this time that the Diwali is early. So we could try and exploit this month of November, December for a small short-term scheme. January to March is generally set for opening of gyms, renewal of anniversary schemes and of course offers for New Year resolution, Valentines and others. If you take this into account with a good monsoon generally the monsoon across India has been good and probably in 85 towns and most of the messages, which we are getting from these towns, is that the monsoon and appurtenant agriculture crops seems to be steady probably except northeast where there has been some amount of problem. Now if all this holds true and if there is no disruption because all the disruptions are out of our way hopefully demonetisation and GST then we should look at steady

set of figures instead of delving on how would the profit be, I would rather than company would prefer being steady in terms of its topline, rest of it will flow from there.

Praveen Agarwal: Right, so what I was asking was that the first quarter there is a sharp jump in the profit after tax. So can we expect a similar growth for the whole year?

Anant Gawande: As I said whatever I could, the company always and its management will try level best to try and deliver good growth. These are the circumstances behind it. If it holds true then we should give steady set of numbers.

Praveen Agarwal: After the demerger takes place which you have mentioned somewhere that it will happen in November this year. So how much of the topline would be shaved off after the demerger from the existing business.

Anant Gawande: The estimate is that the topline, which will go to the lifestyle company between 15% and 18% and rest of the topline, will remain in the gym company.

Praveen Agarwal: Okay and is there any plan for debt reduction in March balance sheet?

Anant Gawande: It has already mentioned, Praveen that we will try to see how we can use the property in some form for encashment as well as reduce the intensity of the capex.

Praveen Agarwal: So which property are these?

Anant Gawande: These are the gym properties, which are owned by us, but they have been bought long back.

Praveen Agarwal: So how would you do it, you would be like sale and lease back model?

Anant Gawande: That is what we have done is we have not said because we really need to sit with our investors, shareholders and creditors, which is the bankers then figure out what is the best way of doing it. These properties are embedded in the company. The last valuation done probably a couple of year's back, whatever which is about Rs.120 Crores, so whatever it is now. So they are not sharing the books that much so obviously there is a benefit, which will flow into the company.

Praveen Agarwal: Thank you very much.

Moderator: Thank you. We will take the next question from the line of Chinmay Doshi, Individual Investor. Please go ahead.

Chinmay Doshi: I would just like to update for the approval from NCLT for the demerger business because for the FY2016-17 Q4 management expected the approval by the first quarter of FY2017-18. So it is still pending, so can I have the update on that please Sir?

- Anant Gawande:** As far as we are concerned shareholder permission is with the overwhelming majority Chinmay.
- Chinmay Doshi:** Yes.
- Anant Gawande:** NCLT I think moves that to ROC, once the permission is given it go from NCLT to ROC and from ROC to BSE, NSE. We are literally right now in the final phases of NCLT passing the order, which will go to ROC. I think it is automatic process and nothing much has to be done by us in terms of it. We are expecting that sooner than latter and really early than much later we should get those permissions and we are also eagerly waiting for that.
- Chinmay Doshi:** Thank you Sir.
- Moderator:** Thank you. We will take the next question from the line of Kunal Sabnis from VEC Investment. Please go ahead.
- Kunal Sabnis:** Thanks a lot for the opportunity. I have couple of questions. Firstly on the capital structure there has been some churn if you could throw some light on that. So as per the filings I think Mr. Vinayak Gawande has sold about Rs.3 lakh shares and Mr. Girish Talwalkar about Rs.6 lakh shares and then there is a fresh issue of Rs.13 lakh shares which you and others have subscribed. Is that it or are there more shares can we expect more selling from the promoters and just want to understand the rational for the churn?
- Anant Gawande:** Let me first go through the first part of it. We have issued additional equity, Kunal of about Rs.42 Crores at about Rs.318 share I believe. The idea behind the increase in equity is not only to enhance the company's network, but also show certain amount of strength from the promoters. Promoters were subscribed to that equity have also taken loans against shares against that. On the other hand, some of the promoters who are not active generally on a day-to-day basis, they have sold some of their shares. The idea of the promoters is an overall basis. The percentage equity in the company should either go up or remain where it is, Kunal. So I think to the extent I can answer is appropriately I am trying to answer you unfortunately beyond that we obviously are committed to having a significant equity in the company is around 40% that you can assume is a figure within that range is what we would be is my own take on this.
- Kunal Sabnis:** So net addition will be about Rs.4 lakh shares considering this calculation?
- Anant Gawande:** That is right, Kunal.
- Kunal Sabnis:** Okay and one thing I missed the permissions, which was spoken in regards to the club business?
- Anant Gawande:** That is right. The permission includes all sanction clients and NOCs.

- Prashant Talwalkar:** Basically all the permission required to consider and begin the club. Now we can now do the pooja.
- Kunal Sabnis:** That is great and one final question on the August scheme. For this year there has been substantial addition of services into the scheme. If you compare this year and last year, has the August scheme till date been better can you share some qualitative assessment?
- Prashant Talwalkar:** It is pretty steady and it is climbing up because what I am seeing trend here now and I am expecting a good trend because last two, three weeks are left especially the people who renew their membership they try to gather themselves or rather come at the end of the scheme because they have been the member for so long, a good rise is expected further. So right now so far steady.
- Kunal Sabnis:** Thanks a lot and all the best for the future.
- Moderator:** Thank you. The next question is from the line of Sanjay Satpathy from Ampersand Capital. Please go ahead.
- Sanjay Satpathy:** First of all congratulations on getting the permission for the club. I have two questions. Number one is that, is it possible for you to give some sense of what is the total number of members that you can have now versus last year kind of growth that you can have?
- Anant Gawande:** Are you connecting, the question is related to the gyming right?
- Sanjay Satpathy:** Yes.
- Anant Gawande:** If you do not mind, can you repeat the question?
- Sanjay Satpathy:** I just want to know what can be the total number of members that you can have now versus last year because you have added so many gyms and you have also done some acquisitions. So just want to get a sense like what kind of number of member growth that can happen now?
- Prashant Talwalkar:** I will try to answer spot on. Generally any club can service 1200 to 1500 members peacefully. Now 6.30 a.m. to 9.30 a.m. and p.m. is already the peak time, all over the world, not just in India. Now what happens if you look at that time that people might have a little bit of I can hear the voices it is too crowded, very crowded, etc., etc. But since the crowd is there, now it has started spreading across the day. Now since I have included so many facilities to be utilized in this price people do not mind coming in afternoons and other non-peak times. Now therefore my floor is getting used correctly, my spaces are getting used correctly. So what we did is the idea behind bringing this all inclusive package was to utilize these hours, which we are getting bigger and bigger what we call as a non-peak hour. I am giving you an example Sanjay. For example, I see the woman can come, a lady can come in the afternoon, but she would like to finish at 9.30 in the

morning because these facilities are so many for her at her disposal, she says that okay. If I go at 9.30 I probably miss out on something. But if I go at 1.30 o'clock, 2 o'clock I can utilize that facility. She has shifted her time, so there was a method behind what we did. I am seeing that change happening.

Sanjay Satpathy: With all these, what we can see is for the last one odd year, your topline growth trajectory has been around 12%, 13% but at the same time we can see that you are doing lot of things. So just wanted to get a sense like will this growth trajectory can hit something like 18%, 20% sustainably is what I was trying to kind of analyze?

Anant Gawande: Whatever growth we have seen in the past and now this kind of a scheme, this kind of an offer even I wish the figure, which you are saying.

Sanjay Satpathy: The next question is that you have done equity capital infusion and also you have the plan to monetize some Rs.120 odd Crores, so my earlier impression was that a big part will go towards deleveraging, but it looks like you are more focused in terms of probably acquisition etc., rather than deleveraging is that the correct thing to understand?

Girish Nayak: The thing is that we are doing for acquisition everything but not the only thing. We do have a good amount of treasury to take on this, but it is too strengthen the financial of the company and that the promoters have shown their willingness to put the weight behind the company and increasing the stake to some extent and core promoters have increased their stakes and I hope that we will be showing all the growth in the right directions.

Sanjay Satpathy: Thanks a lot Sir.

Moderator: Thank you. The next question is from the line of Raunak Ravindchand, Individual Investor. Please go ahead.

Raunak Ravindchand: Good afternoon. This is regarding the proposed stake sale to David Lloyd in the club venture and the possibility of the JV with Snap Fitness probably metamorphing into an equity transaction at some sort?

Anant Gawande: I am so sorry. We could not hear you properly.

Raunak Ravindchand: My first question is regarding the proposed stake sale to David Lloyd in the club JV, my first question is, is there any possibility of the JV with Snap Fitness being expanded into an equity deal of some sort?

Anant Gawande: As far as David Lloyd and JV goes, the condition precedent for David Lloyd to bring in money into the joint venture was to get because they are not allowed to come into agricultural piece of

land, Raunak. So they can only come into India in a JV, which does not have agricultural piece of land.

Raunak Ravindchand: Is there any possibility of Snap Fitness deal?

Anant Gawande: So basically David Lloyd should in the next near future finish the part of bringing their equity to the David Lloyd JV. As far as Snap Fitness, USA goes Prashanth, me, all the management people, all the promoters have excellent relationship with Peter Taunton who is the owner of Snap Fitness. Snap Fitness is an unlisted company. It is a not listed company, so Peter Taunton is in-charge of the company. We believe that relationship has evolved in a manner where going ahead I am sure there will be a lot of areas of cooperation, which you will find between us and Snap Fitness, not just in the six countries, but I am sure many more and in several ways because Snap wants to expand along with us in several countries, economies and other areas, to try and answer whether they would like to take equity in these kind of venture would be premature because we need to first work as partners together create that wisdom and confidence and then go ahead, Raunak.

Raunak Ravindchand: Thank you very much.

Moderator: Thank you. We take the next question from the line of Parag Bharambe, Individual Investor. Please go ahead.

Parag Bharambe: In the latest quarter, I saw interest cost spike up from Rs.3.7 Crores to Rs.5.2, can you elaborate a bit more on that?

Anant Gawande: Parag, the gyms, which opened in the last quarter of the last year, the interest on that now, becomes a revenue expenditure, so that has come in.

Parag Bharambe: One more thing, what is the debt level as of Q1, this quarter as compared to last quarter of the same year, short-term and long-term both?

Anant Gawande: What is the increase is Rs.30 Crores it should be around Rs.20 Crores to Rs.30 Crores.

Parag Bharambe: Thank you.

Moderator: Thank you. Next question is from the line of Satyanarayanan from Cholamandalam Securities. Please go ahead. Well there seems no response from the current participant we move on to the next it is from the line of Jinesh Sheth from Arete Services. Please go ahead.

Jinesh Sheth: Thanks for the opportunity. Congrats for the good set of numbers. Just wanted to understand that by when can we have the contours of demerger, I mean the shares entitlement?

- Anant Gawande:** Your voice is floating in and out.
- Jinesh Sheth:** I just wanted to know that by when could we have the contours of the demergers?
- Prashant Talwalkar:** The thing is that that we are just awaiting the final go order from the NCLT, obviously it can come may be any time one week or may be one or two months, but once thing is that that we will also definitely keep the shareholders posted and the process will start immediately, but this is not in our hands, but in the hands of the NCLT.
- Jinesh Sheth:** As most couple of months.
- Prashant Talwalkar:** We would love it would be but before that we will be happy.
- Jinesh Sheth:** Okay, fair enough. Just wanted to understand our depreciation has declined by 10% year-on-year, you have mentioned that it is because some of the assets need to be replaced, they are at the fag end of their lives?
- Girish Nayak:** The thing is that, we have to provide depreciation on the base of the economic life of the assets, now all companies are 14 to 15 year old, so many of the assets have now reached their economic lives as per computation for the process of depreciation, so the Ind-AS effect has been given to both the sides, so there we are more of neutral, but the company of the 13, 14-year-old assets obviously gyms are there, and quite a few assets have reached the economic lifecycle, so that now the depreciation is not provided because they are fully depreciated as per accounting standards are concerned. So there is no problem at all, but they are still in a usable condition and we continue to use them.
- Jinesh Sheth:** So Sir what would be the replacement capex?
- Girish Nayak:** These equipments have got quite land and the market value even if I want, the thing is that is in the range of 15% to 25% we have got that and the repairs and maintenance, which we keep on pulling them and the life continues further for the gym equipments especially.
- Jinesh Sheth:** Sir actually I could not get you on that point, just wanted to understand that how much do we have to keep aside to replace these assets for the next two, three years?
- Girish Nayak:** Every year I would put up about Rs.18 Crores to Rs.20, we have got more than 120 gyms, so that you will retain the member satisfaction also and also the prolonged life of the assets also.
- Jinesh Sheth:** Rs.18 to Rs.20 Crores total?
- Girish Nayak:** Yes per annum, yes.

Jinesh Sheth: Fair enough, can you share a bit more about our tie up with Mickey Mehta, how much in terms of topline can be expect from this deal and what could be the margin from there?

Prashant Talwalkar: This is Prashant Talwalkar here. So Mickey Mehta, I call him Mickey, so Mickey has got various verticals basically, almost around 23 to 25 different verticals right from holistic approach to height increase, to yoga, to swimming, to many of them, so the association particularly happened because we wanted to bring in all of these within the premises and outside the premises. So if I have to specifically mention I would like to tell you that we do not enroll children below 15 years old. Now well I am bringing Mickey Mehta concept of height increase, which is a bit of holistic approach, then I would be enrolling children between age group of 12 to 15, so this is add on an additional what you call numbers, which I see.

Anant Gawande: We believe that using the existing Zorba Studio we can enhance the profitability within a particular gym, so as Prashant was explaining we can give all inclusive packages, golden pass card sort of. Mickey Mehta has one more feather into that cap and we are sure we will add many more for the customer to believe that when he comes into our gym, which has now become a fitness centre in eventual of course it becomes a supermarket for fitness for wellness.

Jinesh Sheth: Sir do we have to invest anything into this?

Anant Gawande: To the extent of whatever we do, presently we are on our way of having 78 Zorba Studios, 78 Zorba studios we should be having by either the end of this quarter or early next quarter, so whatever has to be the balancing equipment to be used for Mickey's purpose because presently it have been tailor made for yoga, we will only make it tailor made for Mickey in those parts where Mickey Mehta classes are running. It is not a high capex activity.

Jinesh Sheth: Can you quantify this could be how much?

Anant Gawande: We would only know as we start putting it in because Zorba took us almost 24 months to put in 78 studios, even if we start work on Mickey by December, January it will probably go on may be for a year, year-and-a-half, so it will get spread over a period of time, probably it will be appropriate to reply when we start putting those.

Jinesh Sheth: So even, we will get more visibility by that time on the revenue numbers as well?

Anant Gawande: Our logic is that we will first start, Prashant and his team are probably good at, and 8 or 10 locations first, see the response, and then add more. Mumbai is where we are strong, so it works on a particular strategy basis.

Jinesh Sheth: So we do not have any commitment right now at this point in time?

Anant Gawande: We would like it to be only there, but we will do it in a calibrated approach.

- Jinesh Sheth:** Fair enough. Thanks a lot and all the best.
- Moderator:** Thank you. We will take the next question from the line of Satyanarayanan from Cholamandalam Securities. Please go ahead.
- Praveen:** My question was with reference to the annual report, there are couple of opinions made by the auditors so just wanted your comments on why the balances as of March 31, the confirmation from the banks have not been obtained, is there, just your opinion as to why such opinion has come out?
- Anant Gawande:** One is, as you know that these are opinion Satyanarayanan? So just to explain you, last year in the month of October, November we were changing our banking system from State Bank of India to Axis Bank. I hope you know that each of our branches has two accounts, one is payment account, and one is receipt account since we are now discussing over 200 to 250 accounts in the banking system of SBI and then in the banking system of Axis. Furthermore, you will also have credit card machine accounts etc., etc. What we are not trying to do is, we are obviously trying to make a effort to close the accounts, which are non-operable or dormant, but you know the problem, which arises with dormant and non-operable account, the bank statements and others are not easily available on them. This year as we have shifted our banking and made request to the credit card members to try and reduce the number of cost.
- Praveen:** About the second opinion on the impairment testing Sir?
- Anant Gawande:** If you remember I was just talking with one of our other guest today, several of our value added activities got added in the last 12 to 18 months, both the lifestyle and gym will be two separate companies hopefully very quickly in the near future, so the testing of the asset had not been done by them on each group of activities done by us, that is the only expert opinion they have passed. As we split the companies into two parts legally, the two companies will have their own businesses and their own profit and loss for each segment, Satyanarayanan and hence that question does not arise.
- Praveen:** Thank you so much Sir.
- Moderator:** Thank you. We will take the next question from the line of Yash Joshi from Pico Capital. Please go ahead.
- Yash Joshi:** Thank you for taking my question. I just wanted some highlight regarding the monsoon sales specifically August, so we see some price realization increases, so can you give some highlights for that?

Anant Gawande: Yes so every year we try and come up with some new concepts and new ideas, this year also we have come up with a new idea called all-inclusive. Now this looks pretty successful and overall the scenario is very steady and now there is almost two or three weeks left of the scheme, most of the time the old members wait for the end of the time and I am looking forward and I am sure they catch up, move further and a better result than the previous year.

Yash Joshi: Thank you so much.

Moderator: Thank you. We will take the next question from the line of Ankit Kedia. Please go ahead.

Ankit Kedia: Sir just a question I have given the demerger is only two months away, so what is the roadmap for these individual services to grow outside the gyms, which we have?

Prashanth Talwalker: Ankit, I am now giving you an expression towards Mickey Mehta. Mickey has got a couple of verticals and to be very precise almost 20+ verticals different verticals. What all of us know is holistic approach towards fitness is one approach but that includes and it is a very wide and big canvas. When we look at that then you can see yoga to many other things, but his expertise also is in swimming. You learn swimming in 48 hours. That is his expertise. He has got a high increase in cost for the children below 18 years old. Now when we look at all of these things, we not only have Mickey association utilised in the indoor but probably outdoors too. So this is one of the ways we are approaching towards maximizing the association, which you have earlier, restricted only indoor. Now if I look at Zorba then Zorba is just not yoga but a variety of yoga within yoga. Now when we talk like that then if you understand the yoga was earlier considered to be done only in the mornings whereas this particular yoga can be done I call it 24 hours that means anytime of the day. Now yoga is growing not only here, but also it was always popular but it was getting more popular outside India, so we are not missing on those opportunities either. So when I say that when we are going from indoor to outdoor I will also say that we are going with some of the verticals of ours from inside India to outside India. So there are many things, which will keep coming, and I am sure it is giving us a good response.

Ankit Kedia: Sir in a couple of years say by 2020 or ahead the revenues for the lifestyle company outside the gym could be how big an opportunity for us to model going forward?

Prashanth Talwalker: Actually as you know lifestyle comprise the whole concept is to be anything in lifestyle, Ankit, correct?

Ankit Kedia: Right.

Anant Gawande: Which means today if you are in fitness or related to gym activity, gym should not become the mastership on which it is dependent forever. That is what Prashant tried to tell you in terms of Zorba and Mickey Mehta, but I am sure he could have told you the same story for Nuform, which

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as you know we earlier did have studios by the way, so is Reduce, Reduce probably the biggest of the lot. Now if you take Reduce again as an example, Reduce can very easily. They have recently changed the packaging. I do not know anyone of you have seen it, it is stylish packing now and different colour and this is no more boxes. It is what you would see on any departmental store. So essentially we will probably then productize it and say that these are health food which can be also sold out separately, but each of these things need a different team members stinking goes off the shelves. My own feeling is that 2020 if we cannot achieve 30% to 40% of our turnover from outside gym value added product then probably we have not gone in the direction, which we do not like to because that is the whole intension isn't it and emerge and be on their own. So that would be our target. That would be our way of working on it, but at the same time, we would like to tightly control the cash flows, which we incur, or revenue cost on it.

Ankit Kedia: Sure. There is one thing if I can ask. Sir, in the presentation we have given for lifestyle companies future growth, arena like Allied Lifestyle Services and Beauty Skin Spa?

Anant Gawande: I have got it Ankit.

Ankit Kedia: Currently while we have some spa in some our gyms but beauty skin saloon is where we are not present currently. So one is how big is the market, will we go on our own for these services, we will partner how we have partnered with Mickey for other services and in allied lifestyle services what comes to the mind in fitness or it is beyond fitness and only lifestyle is what we are looking at?

Prashant Talwalkar: Fitness is never going to go down. That is one thing for sure. Now rest of the things as you can see can be on demand I call it whether it is a home tuitions online to anything, so this beauty skin refers to allied lifestyle services in that allied ones we can add many things. Today the sports is growing so well, now the fitness is coming to the sports, or sports is coming to the fitness is another question. So there is so much wider canvas to bring in, in this. I see a very good future for this.

Ankit Kedia: Sure Sir. Thank you so much Sir.

Moderator: Thank you. As that was the last question, I now hand the floor over to the management for their closing comments.

Anant Gawande: Thank you so much for all of you participating in the concall. We will be meeting you again after the September quarter. I would surely like to and be of to the expectation which has been built up by all of you and share many more positive and good news and for being with us.



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Prashant Talwalkar: Thank you very much. Thank you for all the support we have been receiving in the past and I am sure the performance will keep going in an upward direction and we will be nice to hear you soon. Thank you.

Moderator: Thank you. Ladies and gentlemen on behalf of Centrum Broking Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.