“Kaya Limited Q3 FY2019 Earnings Conference Call”

February 6, 2019

ANALYST: **MR. RAHIL JASANI – ICICI SECURITIES**

MANAGEMENT: **MR. RAJIV NAIR - CHIEF EXECUTIVE OFFICER – KAYA GROUP**
MR. VIKAS AGARWAL - CHIEF EXECUTIVE OFFICER - KAYA MIDDLE EAST
MR. SAURABH SHAH - CHIEF FINANCIAL OFFICER

Moderator: Ladies and gentlemen, good evening and welcome to Kaya Limited Q3 FY2019 Earnings Conference Call hosted by ICICI Securities 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 phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Rahil Jasani from ICICI Securities. Thank you and over to you Sir!

Rahil Jasani: Good evening everyone. We would like to thank the management of Kaya Limited for giving us this opportunity to host this call. The management is represented by Mr. Rajiv Nair, CEO of Kaya Group, Mr. Vikas Agarwal, CEO of Kaya Middle East and Mr. Saurabh Shah, Chief Financial Officer. Without further ado I now hand the floor to the management for opening remarks after which we can open the floor for Q&A. Thank you and over to your Sir!

Saurabh Shah: Good evening everybody. I welcome you all to the conference call on our Company's behalf. Let me begin the conference call with a very short update on Q3 performance of Kaya Limited, which is already in public domain and uploaded on our website www.kaya.in.
Kaya Limited posted consolidated revenue from operation of Rs.105 Crores for the quarter ended December 31, 2018, a growth of 5% over corresponding quarter ended December 31, 2017. Consolidated EBITDA is Rs.6.3 Crores, which is 6% of the revenue as compared to 1.2 Crores 1% of the revenue in financial year 2018, which is improvement of 5 Crore over last year.

Loss after tax and minority interest for the quarter ended December 31, 2018 is Rs.0.8 Crores compared to loss of 4.2 Crores for the corresponding quarter last year, which is improvement of 3.4 Crores over last year. Overall Kaya operates through 99 clinics in India and 24 clinics in Middle East.

The detailed information update is already with you, I now open the session for questions and my colleagues and I will be glad to answer them. Thank you.

Reg Office: 23/C, Mahal Industrial Estate, Mahakali Caves Road, Near Paper Box Lane,
Andheri East, Mumbai – 400093. Email ID : investorrelations@kayaindia.net CIN:L85190MH2003PLC139763

Moderator: Thank you very much Sir. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Ishit Seth from Kaya Limited. Please go ahead.

Ishit Seth: Good evening. Thanks for taking my question. Sir, I had a couple of questions one is on the India Business. As I see that the customer count for this quarter has grown by 0.4%; however, the overall collection and revenue growth has been much higher, and the ticket size has actually grown by 9%, so firstly, can you tell me what the average ticket size is in this quarter?

Rajiv Nair: It is Rs.11000 for the India Business.

Ishit Seth: What has led to the average ticket size going up because as we understand we have done a lot of re-pricing in terms of the products and everything, in terms of the services that we provided also, so what has led to this kind of growth in the average ticket size?

Rajiv Nair: Actually, the segment of anti-ageing picks up quite considerably in this quarter (Q3), which is the winter quarter and we have seen almost a 40% growth in the category in the month of December, which has led to an increase in ASP.

Ishit Seth: Okay and going forward how do we see this ASP panning out for the Company for the next year?

Rajiv Nair: The average selling price actually has seen a growing trend from Q3 and will continue to have a similar trajectory over the next one or two quarters. We have done a price laddering across categories over the last two or three quarters and we have now come to a stable level of pricing wherein acquisition categories as I mentioned in the last call also continue to be fairly competitive in comparison to the market and at the same time, there are specialist categories like anti-ageing, which will continue to be at a premium, because that is where we are using skilled resources, so I mean there will be no major downturn in terms of pricing, the average price for session will continue to remain very similar to this quarter in the coming quarters.

Reg Office: 23/C, Mahal Industrial Estate, Mahakali Caves Road, Near Paper Box Lane,
Andheri East, Mumbai – 400093. Email ID : investorrelations@kayaindia.net CIN:L85190MH2003PLC139763

Ishit Seth: Correct, and basically the customer count being quite subdued this quarter, how do you see that playing out for the next year?

Rajiv Nair: Currently too early to give a comment on that. Obviously, we have controlled total spend on advertising over the last quarter. We have seen 17% spend in terms of advertising over the last year in Q3. But as we proceed further we will be focusing on certain categories and increasing our investments on advertising, so obviously that will lead to more awareness and definitely more customer pull. So, the static customer count could be function of the amount of investment that we have done on the top of the funnel in this quarter.

Ishit Seth: In terms of, I mean as we have mentioned a few quarters back also the focus for FY2019 was more about cross rationalization and making Kaya sustainable by itself basically. Obviously the group, not just India, now that we have done pretty well if I look at this year's performance, now coming to FY2020, I think the focus is now going to be on how we scale of the business after being sustainable by itself, in that sense, what is your understanding of how FY2020 and onwards is likely to pay out in terms of revenue growth?

Rajiv Nair: Without giving you a comment on the next year, I would just basically continue the track of what we discussed in the last quarter. Specific areas of growth is something that we have been working on, which are basically our big bets for example hair care & products. Hair has seen 32% growth and we continue to invest in. One positive news is that we have seen an upward climb in our transplant business. In the month of December, we did 58 transplants out of 3 clinics. This is a skill orientated segment within the hair category, so we have been investing on the category. We have hired specialist doctors in the category, so we have seen an upward climb, if you go back to previous year, the average numbers were low, 15 to 20 transplants a month. Now it is averaging close to about 37 transplants this year and the month of December, we have done about 58 transplants this year.

In Products also the KSB business and the E-commerce business have driven the growth. We have added almost 8 distributors in the KSB

Reg Office: 23/C, Mahal Industrial Estate, Mahakali Caves Road, Near Paper Box Lane,
Andheri East, Mumbai – 400093. Email ID : investorrelations@kayaindia.net CIN:L85190MH2003PLC139763

business and we now reach out to more than 400 outlets through the KSB business. We have focused ourselves a lot more towards general and modern trade, companies like Wellness Forever, Health & Glow, all these kinds of outlets, which are also selling personal care in a big way. We are also selling through higher end general trade outlets, which are focusing on cosmetics. We are also working with some pharma distributors to see whether we can increase our penetration in the medical stores or pharmacies in the business, so initial amount of work has been done on that, but we will try and upscale this business there. E-commerce is seening significant strides for us, more than 60% growth in E-commerce and we expect to continue to have this trend and it has come out of all the core players in the market, one is Nykaa, Amazon, Flipkart, and to some extent Myntra, are the partners, which we have driving the business. The largest share is coming from Nykaa and we have seen some good growths in all these partners over the last six months. These would be our pillars for growth.

Ishit Seth: Then I have one question on the Middle East business if I may ask Vikas. On this Middle East what has happened for this quarter because as we have seen, I mean I understand that the whole focus was more towards improving the product mix going out of commoditized segments like the laser that we did and going more into sweat free and those value added services, so what has happened because suddenly we see a SSG, which is almost down 7% for this quarter and obviously the collection is almost similar, so in that case, how do you see Middle East playing out over the next few quarters?

Vikas Aggarwal: I think in that number that you are seeing there is a difference of VAT and non-VAT, which is why you are seeing a number like that but let me give you an overall view on what is happening. This quarter overall has been good for us. We embarked on a journey of cost rationalization this year and we said that the markets the way it is behaving, we need to restructure our P&L first, get it stable, before we go into a direction of growth. We have done that very well, so if you look at our margins over the last year with a Q3 or YTD, which really turned around, we turned around the PAT also because of that. Now in fact there is a certain stability we are seeing in growth. December has been very good for us and we hope the momentum will continue. There is a stability we are seeing and that is what we see our P&L already restructured, we can rely on our growth pillars. Like I had mentioned last time, new identity Clinics is one of the areas, which are really doing well, and we want to bank upon that, so out of our 22 clinics today, we have six new identity clinics, which are growing disproportionately. If the market gets stable and continues the momentum, those are the clinics that will keep delivering high growth and be able to help our turnover in future, so I think the task of cost rationalization that we embarked, we have completed successfully. We have shown resilience in the P&L in the current times and the worst of times when everyone in the economy is talking about only negative growths and negative margins. Now is the time where all our assets that we have invested in, in terms of growth payoff and we will go whole hog on to that to see how better we can look at growth and our P&L flow down from there.

Ishit Seth: Okay, in terms of growth, what do you think will drive this growth is it going to be in certain segments of services that you are banking upon?

Vikas Aggarwal: In this year, one of the things that we have been trying to do is move into areas, which we called treatments. Treatments is nothing, but areas of which are problem solution where the differentiation is higher because they are difficult to solve, you can command a premium and by showing efficacy you can establish a niche for yourself. So, reducing our dependence on more commoditized verticals, moving into these verticals is the direction we have been taking. Though they are very small right now, but growing well, so that is one big area of movement in terms of growth that will happen, which we have already embarked on. Second is our new identity, which we have invested into six clinics now, doing very well in times like these, the experience is really showing a huge difference completely opposite to how the market is behaving, so these are two strong pillars innovations is also happening, we had launched certain things over the years, which are obviously going to be an asset, going forward and we are looking at some new areas, so these are the two, three main things apart from the other areas, smaller areas that we are looking at in terms of growth.

Ishit Seth: Okay, how is the Saudi market playing out? Is there is still decline or is it now stable at the lower level?

Reg Office: 23/C, Mahal Industrial Estate, Mahakali Caves Road, Near Paper Box Lane,
Andheri East, Mumbai – 400093. Email ID : investorrelations@kayaindia.net CIN:L85190MH2003PLC139763

Vikas Aggarwal: The Saudi has done better than last year. We have seen a growth in turnover, small growth from degrowth it has turned around to a growth in turnover, we are still to see a complete PAT positive there, but our operating margins are far better. The country is showing some traction, I would not say it is completely stable right now, but better than last year. There is positivity that we are seeing, but we are watching. We are going to bank upon it if the momentum continued there, but right now we are just waiting and watching on what happens in the political and geopolitical area and others.

Ishit Seth: Sure Sir, the focus area is still to going to be the UAE in all the four?

Vikas Aggarwal: The focus is to consolidate. The focus is to make sure that the P&L continues to be stable and resilient before we go on to any kind of investments and aggressive growth, because we just spent nine months in restructuring it so the focus is to show the resilience in the P&L right now, so if Saudi is moving in the right direction, UAE is next, which is where we need to see the same direction, so yes.

Ishit Seth: Okay and in terms of your understanding of when we can say you know 8% to 10% upward SSG for Middle East, what is your sense on that?

Vikas Aggarwal: This is something I cannot completely predict, but I think we have some strong inputs and if I see those inputs delivering today, they are delivering quite disproportionate growth. We need some stability in the environment to continue for those inputs to deliver well. We have done good numbers, good growths in the past when they the economy was stable, I am optimistic if the stability comes, we can push the numbers whether it is 8% or 10% or 7% is something I cannot comments on right now, but definitely these three inputs that I am talking about are pretty strong access, very competitive against the market that we have to bank upon as the stability comes in the market.

Ishit Seth: So at least next year hopefully, we should be on the growth path if not anything else?

Vikas Aggarwal: We hope to of course and that is the plan for sure.

Ishit Seth: Okay sure, so thank you much. I will come back in the queue.

Moderator: Thank you. The next question is from the line of Vaibhav Kacholia from VK Capital. Please go ahead.

Vaibhav Kacholia: Sir, can you tell us the little about the hair business and how that is tracking?

Rajiv Nair: The hair business has seen a growth of more than 32% over last year and also driven well by the transplant business this time. From an average of about 15 to 20 hair transplants happening last year, we have reached overall average of about 37 transplants. In the month of December, we have seen 58 transplants, so I think the focus continues. In addition to this, we have also added quite a few products around the hair care segments to supplement our services, so there is an entire regime of products for dandruff control, around hair loss, around hair volume and now in natural range launching this quarter, so an entire portfolio of products have been created around hair, so not just are we focusing on services, but also on products on hair.

Vaibhav Kacholia: Okay, so this 58 is for December and 37 something is average for the Quarter?

Rajiv Nair: Average for the year and we have seen 58 transplants for the month of December.

Vaibhav Kacholia: How is this tracking this quarter, January, February?

Rajiv Nair: Currently, I cannot comment on that because it is we are just into the quarter. We have established full time doctors in Delhi and Bengaluru and the other specialist doctor in Mumbai, so there are only three transplant centers now and as the business scales up, we will look at expansion to other territories. But at this moment in time, we will want to grow this number and increase capacity utilization in these three clinics and we can see an upward trend, which is happening and our outcomes from transplant in terms of quality is pretty good. Our feedback from customer is strong on transplant business.

Reg Office: 23/C, Mahal Industrial Estate, Mahakali Caves Road, Near Paper Box Lane,
Andheri East, Mumbai – 400093. Email ID : investorrelations@kayaindia.net CIN:L85190MH2003PLC139763

Vaibhav Kacholia: Sir who we competing with in the hair business and transplant?

Rajiv Nair: Actually, we are not directly competing with absolute transplant specialist for example there are companies which are there who are full-fledged transplant companies, in our case our clientele in hair care largely remains women except for the transplant business where we have more men, 87% of our consumer base being women, we actually are feeding of our existing client and actually building newer clients for categories like hair loss and hair transplant, but we have a large base of consumers who have not yet utilized the services in hair, so that is where our focus is going to be over the next one years' time.

Vaibhav Kacholia: Okay, Sir can this business scale up to like 100, 200, 500 transplants over the next three to four years?

Rajiv Nair: We are looking at a scale. We are working on various methods especially around skill development and hiring the right talent and now we have already done three doctors for hair transplant, so I think is a good space with 3 different transplant centers in very prominent locations in Delhi, Bengaluru and Mumbai, so it has to be given some amount of time. It is an outcome driven business, so we would continue to increase our capacity utilization here and then move into other cities. In fact, we also received customers from other cities doing transplants like Hyderabad, Pune, Mumbai and Bengaluru, so we will continue the journey.

Vaibhav Kacholia: Our competition is Richfeel here mainly?

Rajiv Nair : Not really actually, Richfeel is a pure play transplant specialist and a hair specialist. In our case, the consumer base to a large extent is a women consumer, so I am not completely aware of their mix of male, female, but in our case almost 87% of our client base is women. Our focus is going to remain a lot on women in the category. As I mentioned for transplant business, yes there will be a male consumer to a large extent, but we have building our own space in this segment.

Vaibhav Kacholia: Okay and hair product, how are they tracking?

Reg Office: 23/C, Mahal Industrial Estate, Mahakali Caves Road, Near Paper Box Lane,
Andheri East, Mumbai – 400093. Email ID : investorrelations@kayaindia.net CIN:L85190MH2003PLC139763

Rajiv Nair: Extremely good, more than 13% to 14% of our total business volume right now in products is actually coming from hair products and we have a complete regime of products that we have created, so the entire regimen comprises of oil, shampoos, conditioners, serum, everything and we expect a lot of push here because I think in the larger products space, actually the turnover generated from hair care products is even larger than skin care products, we expect to push the category quite a bit.

Vaibhav Kacholia: Okay, fantastic and last time you had said, that hair care like the first target is 10%, can we see visibility beyond that?

Rajiv Nair: In the month of December, we have already reached 8% while for the quarter we are at 7%.We will definitely, see there is a lot of internal push that is happening on the segment and also top of the funnel expenditure on hair will also increase, we will also increase on the digital space and more spends on hair, so that will definitely help us to get new customers into the category.

Vaibhav Kacholia: So, like over three to four years, can hair be much more like 20% to 30%?

Rajiv Nair: Obviously, as I am saying you know without putting a number to it, that is the focus area, I maintained this over the last two to three quarters or more. It remains an area that we remain invested and we are building a lot of skills within the business. We have a fantastic portfolio of hair care services, so we are working 360 degrees training people, training doctors, hiring the right talent for the category, so I think it will take you know sometime to become very large percentages to the business, but we will take it in steps. I think there is a lot of work happening on it.

Vaibhav Kacholia: Thank you so much.

Moderator: Thank you. The next question is from the line of Luvlesh Manocha from SKS Capital. Please go ahead.

Luvlesh Manocha I have not seen the Company. Just wanted to understand the clinics the way you operate, how do you basically define the breakeven in utilization, you said like your target is to improve the utilization, where

Reg Office: 23/C, Mahal Industrial Estate, Mahakali Caves Road, Near Paper Box Lane,
Andheri East, Mumbai – 400093. Email ID : investorrelations@kayaindia.net CIN:L85190MH2003PLC139763

does it send currently and how do you differentiate between the mature ones, less mature once and what is the target if any you have?

Rajiv Nair: Yes, so actually the clinic utilization on an all India basis roughly sits at about 48%, there are matured clinics have got up to 65% utilization, 65% to 70% is the goal that we set for most of the clinics to actually reach utilization because it is based on appointments and because it is based on doctor availability, room availability, and is an appointment driven business, you cannot necessarily make it 80%, 90%, 100%. Meeting above 50%, 55% is a good number to actually have. We about 40, 45 clinics which are achieving closer to 55% to 65%.

Luvlesh Manocha: Okay, of those that you have in India now how many of them may be percentage wise would be above say 55% that you have said will be?

Rajiv Nair: Roughly, I would say about 40 clinics, it is roughly 40% because it is 99 clinics overall, so that is the number. Overall as a pan India including the high throughput clinics to medium and low, overall average is at 48%.

Luvlesh Manocha: From payback period perspective like is there like these three cities are the core cities, which you have said, where you will have earmarked, I think on the basis of spend the discretionary spend, so generally like from a payback period perspective generally how long it takes for you in terms of number of years for you and how do you plan to enhance, you know because there are other markets also, which you can cater over there, so from specialized clinic perspective and other clinic perspective, what is the growth strategy?

Rajiv Nair: One very quick one I will tell you fact that these 99 clinics are situated in almost 26 cities. Top four or five cities will claim larger number of clinics, which is Mumbai, Bengaluru, Delhi followed by Pune, Hyderabad, Chennai and Kolkata. These are cities that we have spread more than five to six clinics in these cities, so the largest numbers being Mumbai and Delhi, but we also perform pretty well in smaller cities like for example, Lucknow is an example, Indore is an example, Coimbatore, Vizag, so actually there is demand in all the cities, but most of the cities are single clinic cities almost 20 cities, about 6 cities have larger penetration so that is basically what it is. Payback roughly is about two years for a clinic.

Luvlesh Manocha: Since India is a developing country, evolving country, how is the market, which are a little ahead of us, say global developed markets or China, what is the market size currently in India and vis-à-vis the other markets? Secondly on product side, how do you differentiate because again medical benefit is one particular segment, so how do you differentiate vis-à-vis the price point that you come at?

Rajiv Nair: I have not got the second question, if you can just re-phrase the second question?

Luvlesh Manocha: Sir, one is on the market basically the potential of India and Middle East market, which both are in the growth market developing economies, so there are more developed economies like developed economies plus China, so that is one, the second one was on product side, so this was on service side, the second is product side, how do we differentiate our product vis-à-vis other hair care products?

Rajiv Nair: As far as market size is concerned, roughly I think the numbers that we see is anywhere between 3500 Crores and 4000 Crores, these numbers are 2017-2018 numbers and the average trend in the market because it is also organized and unorganized players together the growth seems to be upwards of 10% to 12% is what we have seen. This is based on Euromonitor report, so these are the numbers that we have vis-à-vis this penetration in quite a few markets especially our Middle East market itself the penetration of the service is very large actually. In fact simple things like laser hair removal services, which in India would be in low single digit in penetration, in middle east it is about 55% to 60% at least and these services are growing at a fairly large pace and becoming more and more evolved in these markets, so if we learn from our business I think Middle East is the indicator that the penetration can be quite high in India this is a very early stage as far as this business is concerned.

Luvlesh Manocha: How about like in China, which we probably follow?

Rajiv Nair: China honestly, I do not have numbers right now of China. The major markets are the US, South America and the Middle East and the Far East in countries like Korea. China's numbers honestly, I do not have right now.

Luvlesh Manocha: But US also will be closer to what you said?

Rajiv Nair: A large part of the technology that we use today in the business is coming from two countries, one is the United States and the second one is Korea.

Luvlesh Manocha: But the technology that we are using is completely built in-house or we have some collaboration?

Rajiv Nair: Sorry, can you repeat that please?

Luvlesh Manocha: The technology that we are using?

Rajiv Nair: We do not use any domestic technology right now, except for absolute entry-level services. Most of our technology comes from the US and all our technology almost everything is US FDA approved. US is a big supplier of technology and at the same time countries like Korea and to some extent Israel. These are the three markets from which you buy technology. All the machines that we try and bring in to India are absolutely the latest in this space, quite a bit of it is US FDA approved technology.

Luvlesh Manocha: Similarly, there is a training arrangement also with them for using this and other services as well?

Rajiv Nair: Yes, Kaya has a training department, which also trains the doctors internally at the same time the vendors and the partners also provide training to our doctors.

Luvlesh Manocha: So, we have a global tie up for that training?

Rajiv Nair: In fact as part of the supply arrangement itself these companies provide trainer whether in domestically available in India or people coming from the global businesses, coming and training in India, there are people coming and training for it, so it is part of the supply arrangement with the partners and also of course we have trained the trainer concept, so our

Reg Office: 23/C, Mahal Industrial Estate, Mahakali Caves Road, Near Paper Box Lane,
Andheri East, Mumbai – 400093. Email ID : investorrelations@kayaindia.net CIN:L85190MH2003PLC139763

doctors get trained and then they train for the doctors on the same technology.

Luvlesh Manocha: So, the 3500 Crores that you said is the market size as of now today?

Rajiv Nair: For minimally invasive dermatology services.

Luvlesh Manocha: That is their services market size and is it split today in organized and unorganized?

Rajiv Nair: We don't have the exact breakup. Individual clinics are large part of this business in India today, chain clinics are quite limited, we being the largest in the market so in various geographies you will find players who have a chain clinic concept, but they are largely spread across various geographies, we are the only Company in India, which has got presence all over India.

Luvlesh Manocha: But, globally the chain clinic is the concept that is followed?

Rajiv Nair: But, countries have different formats obviously the individual doctor will still continue to play a significant growth, but chain clinics are there in the US and even in the Middle East and in India.

Luvlesh Manocha: So, from the market size split perspective it may be even out organized the chain clinic and individual doctors?

Rajiv Nair: Organized business is, more and more competition will come in as time passes and obviously the market will get more organized so because again as I am saying some of the stuffs that we are doing it fairly futuristic, innovation driven and quite high on capex. It is not that people can really spread too much in terms of a number of clinics that they can open, so that is why most our competitors are sitting anywhere between 5, 10, to may be max 20 clinics.

Luvlesh Manocha: Did the research report also come up with the potential like 3500 Crores as of now, but something like FY2021-FY2022 because given the size of Indian population and the ticket size that you have said Rs.11000 probably the way I see it should be much more?

Reg Office: 23/C, Mahal Industrial Estate, Mahakali Caves Road, Near Paper Box Lane,
Andheri East, Mumbai – 400093. Email ID : investorrelations@kayaindia.net CIN:L85190MH2003PLC139763

Rajiv Nair: Minimally invasive which is basically technology led businesses, which are we are into shows a market size opportunity I think 2020-2021 close to about 7000 Crores.

Luvlesh Manocha: Going ahead the plan would be to increase the same store utilization or would it be to enhance the number of clinics also because I understand for FY2019 the focus was probably to increase SSG, so going ahead will it be to enhance that as well as clinic or again you know gradual demand based, so one is like you take an aggressive like you said increasing the advertising spend is one part, which probably will be FY2020 similarly what would be the strategy for FY2020-FY2021? Would it be more of growth centric or cautious growth centric where you will see how demand is and then accordingly you will move ahead and what will be accordingly your plan in the sense because you will need to invest from getting that cash flow perspective what will be the plan?

Rajiv Nair: In India, as in the middle east, we have invested quite a bit on clinic renovation over the last one year. We have created world-class clinics in places like GK in Delhi. We will soon be a launching four level clinic in Indira Nagar, Bengaluru, which will be ready by the end of this quarter, I think what we have done is proactively invested on clinic infrastructure so almost 24 clinics will be competed and ready by the end of this quarter. We have also looked at upgrading technology in the last one year's time, so almost 20 laser hair removal machines, 20 pigmentation (Q switch machines) are being replaced in the business. We will continue to opportunistically look at new locations as they come, so obviously we are not averse to the idea of expansion. We will continue to invest on existing clinics to make it more productive infrastructurally better at the same time we will also look at upgrading our technology.

Luvlesh Manocha: Sure, but some FY2020 perspective you have not said the strategy as of now whether you will be growth centric while you will continue to enhance efficiency from existing infrastructure, so that is understood, but from growth perspective you will probably see how the market shapes up because there are lot of uncertainties currently?

Reg Office: 23/C, Mahal Industrial Estate, Mahakali Caves Road, Near Paper Box Lane,
Andheri East, Mumbai – 400093. Email ID : investorrelations@kayaindia.net CIN:L85190MH2003PLC139763

Rajiv Nair: Let me just rephrase that, there are certain areas of growth inputs that we have put in and we continue to put in, which is basically making our clinics world-class in terms of technology and infrastructure, so that should milk more business from our existing locations. In some of the cases where the capacities have been constrained we have relocated to increase the capacities, we will continue to focus on increasing technology investments in the business.

Luvlesh Manocha: Got it and how about the product side?

Rajiv Nair: Product side, I think we will continue our aggression on product. We have now more than 85 SKUs of products in the business. We have brought in face masks recently imported from Korea. We have also done lip balms and some of the core basic categories in the business. There is a range of naturals or derma naturals, which is getting created and will be launched, so this quarter we will see the launch of hair naturals, thus the line up of products is expanding. The penetration as I mentioned we have now more than 400 outlets of product between GT and MT where we are supplying the goods and we are also aggressive on e-commerce, so e-commerce we have seen more than 60% growth in KSB, which is these GT and MT market we see more than 32% to 33% growth which is there, so we will continue the expansion on these channels.

Luvlesh Manocha: Do we differentiate ourselves vis-à-vis others?

Rajiv Nair: Actually, there is quite a bit of difference between FMCG products and our products because our products are hardworking & have higher actives. These are outcome-based products, so when we say hair loss we really mean hair loss because the products are developed by dermatologists, there are active ingredients that we source locally as well as internationally. Our average price point is roughly about Rs.700 and upwards versus an FMCG product selling in between Rs.100 to Rs.250. We sell in the form of regimen packs and not specifically one item, so we are not just selling a shampoo, we are selling a shampoo, a conditioner, serum, oil altogether.

Luvlesh Manocha: But, this is OTC kind not prescription base?

Rajiv Nair: It is not prescription, there is no element of steroids or drugs in it, so these are products, which are actives, but these are not prescription products.

Luvlesh Manocha: But they are available in departmental stores?

Rajiv Nair: Our products are not only available in departmental stores, now we are available in quite a few MT chains like Health & Glow, Dabur New U, Healthcare we are available in Wellness Forever and Nobel Chemist and we are actually increasing our availability in pharmacy, so that is something that we are doing right now, we also available in higher end GT counters, which are are selling cosmetics and personal care.

Luvlesh Manocha: Got it and how do you basically educate the markets who basically your potential target market, so regarding the product differentiation, the usage, how do you reach out to them?

Rajiv Nair: So, one is the digital platforms. If you see internet website like Amazon we use ~~the~~ products videos. The entire usage of the product is explained, the outcome, the benefits of the products are also explained. We use a lot of social media and in specific launches we also use influencers, bloggers. We don't use mass media like newspaper, but we do a lot of digital campaigns on our products.

Luvlesh Manocha: Given the niche markets it is more of focused advertising that you do. Thanks. That is it from my side. I appreciate you answering so patiently.

Moderator: Thank you. The next question is from the line of Vaibhav Kacholia from VK Capital. Please go ahead.

Vaibhav Kacholia: Rajiv, I wanted to know the skin care category are we growing at all in the services plant?

Rajiv Nair: We have grown this quarter by about 5% on the services segment overall there is a 11% growth because we have also seen a significant growth in products. Anti-ageing as a segment has grown quite well in this quarter, hair care as a product has grown quite well in this quarter.

Vaibhav Kacholia: So, the skin services business has grown by 5%, right?

Reg Office: 23/C, Mahal Industrial Estate, Mahakali Caves Road, Near Paper Box Lane, Andheri East, Mumbai – 400093. Email ID : investorrelations@kayaindia.net CIN:L85190MH2003PLC139763

Rajiv Nair: Overall 5%, yes.

Vaibhav Kacholia: Rajiv, the situation is too much competition, or the market overall is not growing so much?

Rajiv Nair: Actually, I do not think competition is the reason why something like this would be there, so think 5% growth, is what we have got on the services and the focused categories have actually grown.

Vaibhav Kacholia: But aren't there too many competitors, so many new clinics one sees every day?

Rajiv Nair: See, all competitors that we see in the business today are regional, local competition, so obviously we are to contend with the competition in the business like this or any other business.

Vaibhav Kacholia: But that is what I am trying to understand?

Rajiv Nair: We will still continue to be the largest players across the market. Yes there are certain competitors in the regional level, which we will continue to compete and the individual doctors would be there we compete with them as well.

Vaibhav Kacholia: For us to grow strongly this competition, competitive intensity must reduce, Rajiv?

Rajiv Nair: Competition is part of business and competition is part of the growth story of the category, so competition is needed. As I mentioned all the inputs that we are doing today investments in technology, upgrading our technology, increasing the intensity of communication, which we have not done to a large extent in the last quarter, we have not really put large money towards that. We will focus on certain categories & increase the inputs towards that, so educating customers and telling them about new segments and categories that we are getting into talking about products all of these kinds of things.

Vaibhav Kacholia: The market would be growing more than 5% right now?

Reg Office: 23/C, Mahal Industrial Estate, Mahakali Caves Road, Near Paper Box Lane,
Andheri East, Mumbai – 400093. Email ID : investorrelations@kayaindia.net CIN:L85190MH2003PLC139763

Rajiv Nair: There is a possibility as well, yes.

Vaibhav Kacholia: The market would be growing more than 5% current year, right?

Rajiv Nair: Market would be growing because most of the growth would also be inorganic, because individual doctors plus individual clinics coming up in various places will also be driving growth.

Vaibhav Kacholia: Sir, you said payback is two years or breakeven is two years, what is that?

Rajiv Nair: Payback is two year and two and half years at max, but two years average.

Vaibhav Kacholia: So, like the IRR is very high, 40% to 50% kind of thing?

Saurabh Shah: IRR would be around 30%.

Vaibhav Kacholia: 30%?

Saurabh Shah: Yes, 30%.

Vaibhav Kacholia: So if we invest whatever, how much do we invest in one clinic?

Saurabh Shah: It would be around 1.25 Crores to 1 Crores.

Vaibhav Kacholia: So, within two years the profits, the EBITDA of the clinic itself will be this high, 1 Crores?

Saurabh Shah: Yes, it depends upon the vicinity of the clinic. If it is the high productivity clinic we get in 2 to 2.5 years we get the payback.

Vaibhav Kacholia: But, this number does not add up like we had so much returns from all the clinic when we would be at far higher number right in terms of our overall profit?

Saurabh Shah: Clinics which are old and Clinics where we have renovated and remodeled, are all profitable clinics EBITDA range is around 40% to 45%.

Reg Office: 23/C, Mahal Industrial Estate, Mahakali Caves Road, Near Paper Box Lane,
Andheri East, Mumbai – 400093. Email ID : investorrelations@kayaindia.net CIN:L85190MH2003PLC139763

Vaibhav Kacholia: Great, and one more question, is there some new technology in skin care like there is some cold lasers and all while do hot laser, is there anything like this?

Rajiv Nair: We have the largest base of lasers for hair removal, & the largest base of lasers for pigmentation, and also, we are bringing in what we call as fractional laser, which are used for specific scar marks, acne scars etc, so lasers are these different types and we have it in all segment.

Vaibhav Kacholia: No, we have hot lasers, right?

Rajiv Nair: Yes, laser is based on heat, so it is going to be hot.

Vaibhav Kacholia: Is there some new technology of cold lasers?

Rajiv Nair: No, it would be just a brand name. Of course while you lase a person there is a product, which is used to cool the surface to ensure the customer does not experience discomfort, so there is something Zimmer and various other things are available, which are used alongside the laser, so sometime there are brand names, which can be a little deceptive, but there is no concept of a cool laser.

Vaibhav Kacholia: Great, and Rajiv, like our corporate set up and our infrastructure is equipped to handle what kind of turnover, the current setup team and all that, we can go to a turnover of 500 Crores, 1000 Crores within this?

Rajiv Nair: Without probably telling you the turnover projection I will just give you the sense that as I mentioned we are at about 48% utilized on the clinic, good clinics have reached about 60% to 65%, which utilization and on an average I think 65% to 70% utilization is possible with the use of technology in future where we are able to optimize may be appointments and may be make it more technology friendly at point in time may be we can improve that optimization percentage, but at this moment in time 65% to 70% would be the highest that we would get.

Vaibhav Kacholia: Great, and Rajiv, if we see only our main clinics, are we considering shutting some non-profitable clinic?

Reg Office: 23/C, Mahal Industrial Estate, Mahakali Caves Road, Near Paper Box Lane,
Andheri East, Mumbai – 400093. Email ID : investorrelations@kayaindia.net CIN:L85190MH2003PLC139763

Rajiv Nair: We have taken certain calls of shutting down clinics, we were about 103 clinics at the start of last year, so today we have about 4 clinics, which have been shut over the last one and half years.

Vaibhav Kacholia: If we take the more profitable clinics you said I think 40 are below 40% or at 40%, so the other 59 clinics what kind of profits would be there in the business, so these other clinics we are expecting a upturn in the economy and the business right?

Rajiv Nair: Because there are very few out of that, which have a EBITDA negative at the moment. Obviously in India there will be certain cities and certain clusters where the performance would be very high e.g. Delhi, Mumbai, Bengaluru would be high intensity market obviously there will be a newer market that we get into where it takes a little bit more time to actually build the business ,obviously we have to be little patient, 38 odd clinics today give an average EBITDA close to about 38% and there are about 41 odd clinics, which give us close to about 25% and there are about 24 clinics, which are sub 10%.

Vaibhav Kacholia: But there are very few which are negative?

Rajiv Nair: Very few, which are negative.

Vaibhav Kacholia: Nothing is dragging us down in that sense?

Rajiv Nair: Wherever we have been dragged down by any clinic because of location reasons and stuff like that, we have been closely monitoring and, in some cases, where we have to take a decision of rationalizing those clinics we are, so we have proactively taken a stance of reducing 4 clinics over the last one and half years. Some markets are developmental, so certain malls take a disproportionate amount of time to actually settle down and grow, so we also have to be a little patient with some of the location, so we will invest but wherever we believe the long-term sustainability is not there we will take actions and rationalize the same.

Vaibhav Kacholia: My question was more about our development team or product research team that kind of corporate overhead is equipped to handle what scale of business, Rajiv?

Reg Office: 23/C, Mahal Industrial Estate, Mahakali Caves Road, Near Paper Box Lane,
Andheri East, Mumbai – 400093. Email ID : investorrelations@kayaindia.net CIN:L85190MH2003PLC139763

Rajiv Nair: That is expected for scale. That is not an issue at all. I mean I do not see at the current stage 400 Crores to 500 Crores what the turnover being easily handled by the current team as well as the current clinic infrastructure that we have.

Vaibhav Kacholia: In India you are talking about, right?

Rajiv Nair: In India as well as UAE also I think they have built for scale.

Vaibhav Kacholia: But this 400 Crores to 500 Crores you are saying from the India business, right?

Rajiv Nair: Yes, currently as we say the question that you asked was the capacity of the business to handle growth and infrastructure at the corporate office level for research and various other functions, yes that can be done.

Vaibhav Kacholia: Thank you.

Moderator: Thank you. The next question is from the line of Ishit Seth from Kaya Limited. Please go ahead.

Ishit Seth: This is just a follow up, on the product business you mentioned the growth rate that we had, Sir what is the contribution of the product business for nine month and for this quarter?

Rajiv Nair: 24% net revenue comes from product.

Ishit Seth: 24% and this business, how do you see that moving up this 24%, what is the aspiration to take it to in the next few years?

Rajiv Nair: I would not be able to give that kind of a guidance, but you progressively seen it right over the last three four quarters, I think from 17% to 18% it has reached 24%, we expect it to grow by, it has got a lot of space in India to grow, so I think as long as we build the right distribution channels and we continue to focus on e-commerce there is good opportunity. We continue to develop newer and newer products, so I think in terms of portfolio we have created a good range of products. Now the bigger

Reg Office: 23/C, Mahal Industrial Estate, Mahakali Caves Road, Near Paper Box Lane,
Andheri East, Mumbai – 400093. Email ID : investorrelations@kayaindia.net CIN:L85190MH2003PLC139763

challenge for us would be to build the good distribution channels, I think channel mix I would say, so that is the work that we are doing at the moment.

Ishit Seth: And in this do we plan to leverage the Marico's distribution in any sense in the future?

Rajiv Nair: There is no concrete plan. We are in discussion, but there is no concrete plan as far as using common distribution facilities or anything like that.

Ishit Seth: Sure, and Sir, this contribution from Middle East product would be what, 8% to 10%?

Rajiv Nair: Yes, Middle East the product contribution is 9%, 9% to 10% it ranges as compared to India, which is much higher.

Ishit Seth: That is it from my side. Thank you.

Moderator: Thank you. Ladies and gentlemen, as there are no further questions from the participant, I would now like to hand the conference over to the management for closing comments.

Saurabh Shah: Just to conclude, we will continue our effort to drive the Company to a sustainable and profitable growth. Thank you all for attending the conference call.

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

Reg Office: 23/C, Mahal Industrial Estate, Mahakali Caves Road, Near Paper Box Lane,
Andheri East, Mumbai – 400093. Email ID : investorrelations@kayaindia.net CIN:L85190MH2003PLC139763