kaya clinic

KAYA LIMITED Q1FY19

EARNINGS CONFERENCE CALL

06-08-2018

- **Moderator**

- Ladies and gentlemen, good day and welcome to Kaya Ltd. Q1, FY'19 earnings conference call hosted by Prabhudas Lilladher Pvt. Ltd. As a reminder all participant lines will be in listen only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star and zero on your touch tone phone. Please note this conference is being recorded. And now I hand the conference over to Mr. Jinesh Joshi from Prabhudas Lilladher Pvt Ltd. Thank you and over to you, sir.

- **Mr. Jinesh Joshi – Prabhudas Lilladher Pvt. Ltd.**

- Good morning everyone, on behalf of Prabhudas Lilladher, I welcome you all to Q1 FY'19 earnings conference call of Kaya Ltd. We have with us the management represented by Mr. Rajiv Nair, CEO, Kaya India, Mr. Vikas Agarwal, CEO, Kaya Middle East and Mr. Saurabh Shah, CFO. Without wasting much time, I now hand over the mic to the management for opening remarks, after which we can open the floor for Q&A. Thank you and over to you, sir.

- **Mr. Saurabh Shah – CFO, Kaya Limited**

- Good morning 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 first quarter performance of Kaya India, which is already in public domain and uploaded on our website www.kaya.in. Kaya Limited posted consolidated revenue from operations of Rs. 104.1 crores for the quarter ended June 30th, 2018. A growth of 3% over corresponding quarter ended 30th June, 2017. Consolidated EBITDA is Rs. 6 crore which is 6% of revenue as compared to loss of Rs.4.6 crore, which was minus 4% of the revenue in Q1 FY '18. Profit after tax and minority interest for the quarter ended June 30th, 2018 is loss of Rs.0.4 crore compared to loss of Rs. 7.2 crores for the corresponding quarter last year. Kaya has opened 6 product outlets in form of modern trade and general trade and closed down 20 product outlets shop-in-shop format in Q1 FY 2018 in India. Overall in India, Kaya has 99 clinics and 136 product outlets and operates 24 clinics in Middle East.

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During the quarter, Kaya received the award for Health Care and Wellness for best aesthetic chain from CNBC India. 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.

- **Moderator**

- Thank you very much, sir. Ladies and gentlemen, we will now begin the question and answer sessions. Anyone who wishes to ask a question may press star and one in their touch tone telephone. If you wish to remove yourself from the question queue, you may press star and 2. Participants are requested to use handsets while asking a question. Ladies and gentlemen, we will wait for a moment while question to assemble. To ask a question please press star and 1 on your touch tone phone. Anyone who wishes to ask a question may press star and 1 on your touch tone phone. We have the first question from the line of Mr. Anand Sirgaokar from New Port Capital. Please go ahead.

- **Mr. Anand Sirgaokar – New Port Capital**

- Good morning, this is Anand here. So, we have been tracking this company for the last few years and the top line as well as bottom line and SSG have been volatile. So my question is, we have seen some improvement in this quarter mainly led by cost cutting and partly led by some SSG growth in India business. What we would like to understand is how we see sustainable SSG growth in the India business and in the Middle East region, is that even, a goal to pursue or this is inherently volatile business and therefore sustainable SSG is something that we should not be looking forward to in this business.

- **Mr. Rajiv Nair – CEO, Kaya India**

- Yeah, this is Rajiv Nair from India. So, basically for the first quarter we have seen a plus 4% in terms of net revenue. This is at the back of a minus 6% reduction in average transaction size. So, the net outcome that we have seen out of it is a plus 9% increase in customer count and services in India. So, if you look at what we have actually managed is the fact that at a lower cost to consumer, we have acquired about 9% more consumers in the business for services, and the outcome is a plus 4% in terms of net revenue. That's a goal that we are setting for ourselves in India for next 1 year, 1½ years. In fact, even in my previous call I had mentioned the fact that we are making some price corrections in India. So, the whole goal would be towards raising the customer counts and volumes first, and obviously as a net outcome, net revenue coming into the business. All other levers as you see in the quarter have shown massive improvement.

So, for example if you compare last year to this year, GCs have improved. So, it's not just cost related improvement that we have seen in India. From 74% GC one year back to 77% last year, to about 80% this quarter. We have also improved our gross contributions driven by strong inputs on the cost of goods sold line, especially procurement improvements that we have done in terms of services. Fixed costs in clinics have definitely been controlled well. Labour costs are almost flat on last year in the case of clinics and also we have taken some aggressive corrections in terms of our corporate overheads which have come down by about 16% vs LY. So, if I go back, I think we are consistent with what we have discussed in the last few quarters saying that this is a high fixed cost business, so obviously we would like to keep the fixed cost lines trimmer and tighter; we have reached from 22% corporate overheads as a percentage to net revenue to about 18% by this quarter. So, we have seen significant improvement over the last one year in terms of this. Net outcome from minus Rs.3.4 crores of EBITDA loss in the same quarter, we have seen profit of Rs.80 lakhs, so that's a Rs. 4.2 crores gain in terms of EBITDA. We have seen decent improvement in customer counts and services and that's an important thing to do in India, which is a value for money market. If you see in the case of Middle East, obviously Vikas will elaborate that a bit more, but one important thing is the fact that it's a high value market, so, obviously our ATS in fact has increased in that market on the back of low customer growth in the quarter. The sustainability in that market is going to be to derive more out of the consumers in the form of higher value services; that's the track that we are taking. If you would like, maybe I will ask also Vikas to add on to that line which is there. Vikas, would you like to add on to this.

- **Mr. Vikas Agarwal, CEO, Kaya Middle East**

- Yeah, thanks, Rajiv. Hi Anand, Vikas here. For Middle East if you look at the year before last year, we had a pretty sustainable good journey. Last year was pretty volatile and with what happened in the economy with the oil and the political issues in the region, we did see certain disruptions which affected the business and shocked us. So, coming from there we learnt a lot. Today, we are building a business which is a lot more resilient against that. So, if you look at our growth journey in quarter one as Rajeev said, it is based on the ticket size, which is how we want to grow the business more and more in this market. It's a value market, it is premium; we charge one of the highest premiums in this market and the customer is willing to pay us that premium with the brand value that we have here. So, in the short run till the economy bounces back, we want to be resilient by growing the value and it's not easy to grow value when the economy is under pressure, when people are looking at lower and lower prices, but we are able to do that constantly. In the long run we are looking at our count growth, once the economy bounces back, there is client traffic coming in and that should get us to a sustainable SSG again. But like Rajeev said, I think Middle East is about value and we should look forward to that. In quarter one we really turned around the EBITDA of the region. Last year was the first time when we actually fell into a negative after 4 years. So, we've turned that around, we got a stable P&L and we think we will move forward with this trajectory and will be able to grow a lot more sustainably.

- **Mr. Anand Sirgaokar – New Port Capital**

- Thank you for that. If it is possible can I add on a follow up to that?

- **Mr. Rajiv Nair – CEO, Kaya India**

- Sure, sure.

- **Mr. Anand Sirgaokar – New Port Capital**

- So, yeah, so, I agree with you that we have seen improvement in the business in this quarter. What bothers us really is that even if you look at other consumer names, consumer companies which are listed, we see a huge volume growth in several of those companies obviously led by the favourable base effect of demonetization and GST implementation in the previous year. So, what I want to understand is why isn't it possible to see a similar kind of volume growth in Kaya, which I imagine would have been very badly affected by these two factors. And therefore would logically have an equally favourable base effect. So, can you just differentiate between Kaya's business versus other consumption companies' business.

- **Mr. Rajiv Nair – CEO, Kaya India**

Correct. I think you kind of touched upon the right topic. What we are comparing again in terms of consumer space both in retail as well as in the case of FMCG, we are talking about average transaction value or transaction sizes which are phenomenally lower in comparison to what Kaya actually operates. Kaya operates in an average transaction value of close to Rs.9,000 rupees versus an average FMCG player or for that matter even departmental store retail are talking about anywhere between a few 100 rupees to maybe up to about 2- 2½ thousand rupees. I think there is a huge price difference between a service led business versus a product led business; and product led business where also we are talking about a slightly more evolved products in comparison to just commodity trading. I think the customer is making a journey in India and I think we have seen that improvement there. So, while you are saying that demonetisation versus non-demonetisation, we saw 6% growth last year also during this particular period for the whole year even after the demonetisation. So, we didn't actually see a dip but we saw an increase. If you compare again as I am saying, I would say, don't compare ourselves to a pure play products business. I would look at it as a service business with almost 85% of our business coming from services space and the 15% coming out of the products space. Products if you see in the same quarter outside of Kaya business, we grew products in e-commerce by 67% and in the case of KSB as a business, we saw an improvement of 36% growth over last year. This is maybe closer to the consumer space business that you are talking about. And again I am saying the fact that in terms of services, which is a large part of our business, our customer acquisition was up 9% in this quarter versus last year. I think in India, we can acquire more customers into the business by rational pricing and not premium or not very value pricing. If we keep that pricing at a good median I think, we can acquire. I will give you certain other growth indicators in this quarter. We have 3 businesses of focus that I mentioned earlier. As I mentioned to you, product business has grown overall including the Kaya retail eco-system and externally, we have grown by 9% but certain newer businesses and certain focus businesses like anti-aging that we have, which is the core of our business, grew by 15% and hair care as a new category that we introduced a year ago grew by 42%. So, I think wherever we have made the right changes to the levers, we have seen the outcome in the quarter.

- **Mr. Anand Sirgaokar – New Port Capital**

- Thank you very much for your time. All the best in the future.

- **Mr. Rajiv Nair – CEO, Kaya India**

- Sure. Thanks a lot, thank you.

- **Moderator**

- Thank you, sir. Participants to ask a question press star and 1 on your touch tone phone, we have the next question from the line of Anoop Nair from Equity Intelligence. Please go ahead.

- **Mr. Anoop Nair – Equity Intelligence**

- Hi, Thanks for taking my question and congratulations for breaking even at an EBITDA level.

- **Mr. Rajiv Nair – CEO, Kaya India**

- Yeah.

- **Mr. Anoop Nair – Equity Intelligence**

- My question was - we had net cash around Rs.180 crores 4 years back and right now our net cash level is at around Rs.15 crores. We have used up most of our cash and cash equivalent assets. So, regarding the capital allocation and given that for products led growth or services growth, both are going to be capital intensive I presume. So, what is the capital raising plan, are we planning any equity issues in the near future or would it be debt led capital allocations.

- **Mr. Saurabh Shah – CFO, Kaya**

- Hi. Saurabh here. Currently we are not in a phase of raising any further equity capital. We are in a phase of consolidation mode. We want to first turnaround on the basis of profitability. If you look at the current quarter, the product contribution has gone up where the capital intensity is not required. In case of service related, we already renovated some of the clinics during this quarter and previous quarter. So, we have made an ideal investment currently. We want to turn around the business with this optimisation of capex. So, currently we are not looking at any further raising of capital in the business.

- **Mr. Anoop Nair – Equity Intelligence**

- Okay.

- **Mr. Rajiv Nair – CEO, Kaya India**

- At least not for this financial year. So currently not looking any further raising of debt or equity.

- **Mr. Anoop Nair – Equity Intelligence**

- My second question was regarding the products. Do you have any guidance on the growth for the next 2 to 3 years and what will be driving the product growth?

- **Mr. Rajiv Nair – CEO, Kaya India**

- I will explain what we have done till now and how that has a bearing. If you look at the product business currently, 55% of our product business only comes from the clinics; which at some point was 70% of the mix of business. So, we have changed the mix of Kaya products availability outside of our own retail chain. We have done business with the departmental stores. We have done business with modern trade, general trade and we have also set up some distributors in the last couple of quarters in the key cities- Mumbai, Bangalore, Delhi, Hyderabad, and Chennai also, we have distributors now. And we are looking at going into the upper tier of cosmetic retailers or personal care retailers in the city. We are not gaining mass but that's there. What has it done is the fact that you can see and may be not a very high base but almost a 36% growth in product in this quarter also versus the last year same quarter from KSB. KSB here I would like to qualify it as a general trade, modern trade and SIS business. And e-commerce which now contributes to almost 21% of our product sales, has grown by 67%. We would like to keep this momentum going as far as the product is concerned. But one thing we don't want to lose is our ability to sell products within our own clinics. So, focus also continues to increase the turnover of the product business in the clinic, which is what we would like to push over the next 3 quarters. So, we would see some similar momentum in terms of product growth over the next few quarters through this route. But at the same time also sustain growth of products within our clinics. Overall currently we would touch close to about 20% business in the case of product as a percentage to total business; but we would at some point want to move this up to about 25% of our total business. So, there is a lot of focus inside the business towards the product retail part.

- **Mr. Anoop Nair – Equity Intelligence**

- So, I assume that this should be associated with more hiring on the ground for the non-clinic part because we would need personnel on ground, marketing personnel.

- **Mr. Rajiv Nair – CEO, Kaya India**

- Yes. We have a good team already established in the back office which is looking after the expansion of the distribution business. We are trying to go into categories and segment where we don't have to put ground level sales staff because that's quite an expensive proposition. So, what we are trying to do is the fact that there are lot of modern trade and general trade outlets where we can share resources with the partner; and the partner can put in the resources where probably we do some part of the labour funding. But physically owning so many employees in the business is not the right way of growing according to us. So, while departmental stores still demand us to have our own labour, in the case of modern trade and general trade, we will look at some shared resources from the partner.

- **Mr. Anoop Nair – Equity Intelligence**

- That's it from my side. Just wanted to point out an errata on your presentation. On the slide number 6, your Kaya India customer count says it declined by 2%, whereas the graphic shows it correct.

- **Mr. Rajiv Nair – CEO, Kaya India**

- We will check that up and we call also revert back to you on this.

- Thank you.

- **Moderator**

- Thank you, sir. Participants who wish to ask a question, may press star and 1 on their touch tone phone. We have next question from the line of Agam Shah from Raj Trading. Please go ahead.

- **Mr. Agam Shah – Raj Trading**

- Congratulations, good set of numbers. My question was for this quarter the customer count has gone up or has decreased?

- **Mr. Rajiv Nair – CEO, Kaya India**

- There are two parts to the customer count. We make cash memos for products and we make cash memos for services. And services are about 87% of our total business. So, for the customer count as far as the services is concerned, it's a plus 9% and then there is a decline of minus 6% in products within the clinic in terms of customer count. So, that is what leads you to the cumulated number which shows you a minus 2% in the case of the total. The higher value of transactions actually come from services. The reason why you see that plus 9% is at the back of the minus 6% reduction in the case of the average transaction price. So, what we have done is, we have made our prices a more affordable and we acquired more customers in services. The product growth to a large extent has come from outside of our clinics and it is come from KSB and e-commerce. We have also highlighted in a separate slide that KSB and e-commerce numbers have actually gone up by 67% in e-commerce and 36% on KSB. Those numbers of customers are not counted in the overall customer count that we actually show because this data largely relates to the clinics.

- **Mr. Agam Shah – Raj Trading**

- But in your presentation, you are saying that you have decreased your prices but the ticket size has gone up 3%.

- **Mr. Rajiv Nair – CEO, Kaya India**

  There is a slide in the investor presentation which actually shows you a collection increase in services of 2%, minus 2% in the case of products. So, its 1% increase in collection and average transaction size going down by minus 6% in services, plus 4% in products, overall an improvement of 3% in ticket size. So, the flip is actually happening because there is an increase in the pricing of products.

- **Mr. Agam Shah – Raj Trading**

- Okay. So, what is your average ticket size for the services?

- **Mr. Rajiv Nair – CEO, Kaya India**

- Roughly around Rs.9,000 rupees. I can give you the exact numbers but about Rs.9,000 rupees.

- **Mr. Agam Shah – Raj Trading**

- And for the products?

- **Mr. Rajiv Nair – CEO, Kaya India**

- Products would be in the region about 750.

- **Mr. Agam Shah – Raj Trading**

- 750, okay. And on the Middle East business I think the customer count has decreased, right.

- **Mr. Rajiv Nair – CEO, Kaya India**

- Yes.

- **Mr. Agam Shah – Raj Trading**

- As well as in the last quarter also. So, what are we doing now, with the oil prices increasing and economy expected to grow ahead. So, I think on a year on year comparison, business should do well. So, what are we doing in order to increase the customer count? Because I think that's best way to see your business right?

- **Mr. Rajiv Nair – CEO, Kaya India**

- Okay. I am going to hand that over to Vikas. Vikas will be able to answer this one.

- **Mr. Agam Shah – Raj Trading**

- Yeah.

- **Mr. Vikas Agarwal - CEO, Kaya Middle East**

- Hi. So, yes, customer count has been under pressure for the last one year and we see the pressure continuing especially coming from the new client growth. Because in a market which has a limited population with the economy the way it is behaving, it is very volatile. There are traditional businesses like laser which are rapidly getting commoditised and we will not be able to arrest the customer count growth unless we play a price game. We do not want to play a price game in this market because what has brought us here is the value growth. So, we are looking at few changes in our business strategy, moving into verticals which are for the future and reducing our dependence on commoditised verticals like laser and anti-aging, which are highly commoditised in this market. We already started that journey almost 7-8 months back. We have seen a huge traction in customer count in those new age verticals of skin concern, hair, and body. It is still small to affect the overall customer count growth. But it will, in a few months it will start bringing the customer count growth to stable. In the meantime, like I have explained before, our focus is value growth to bring the business up, to keep growing the revenues through value. What we are seeing in the market like this which is so tight that we are able to provide the efficacy and get more and more value out of the customer where every player is playing a price game. We are seeing our ticket size growing year on year and month on month which is a very good healthy sign for us because that means we are providing the right value to the customer. So, yes, the customer count is under pressure, in the short run ticket size is what it will take us through and there are initiatives and change in strategy that is happening which will take our customer count growth high. There are also some very big initiatives that we have taken up in the Middle East in the last six months which is going to affect this. One is the new retail identity that we've launched in the Middle East a few months back. We have now 5 clinics across Muscat and UAE, we have seen a huge, huge response coming in there. The change is in customer experience and infrastructure but both clinics are completely on a different growth path as against other clinics which gives us a huge confidence to scale it up and get value out of it in the market and economy like this. Apart from that we've got into hair and body which has also seen a very good response, it is small but it growing very fast and that will also help us bring back the customer count growth. In the customer count our first focus is retention, getting the existing clients back, giving them more value, giving them higher on frequency and then keep investing stable investments on the new clients because you would appreciate that in a market like this, spending more on advertising is only going to give us lesser and lesser incremental value out of the new clients. We are being very cautious on that front right now till we see a buoyancy coming out of oil, coming out of the political stability.

- **Mr. Agam Shah – Raj Trading**

- We wanted to check also on the annual report as you mentioned you are planning a new strategy and all, so the body contouring front you have entered in the Middle East, can you tell us something on that like what is the market share you are targeting or what is the product you are targeting, what is the potential revenue format?

- **Mr. Vikas Agarwal - CEO, Kaya Middle East**

- Again in the Middle East the data for the market and the category is not available. It is a very, very unorganized market when it comes to data there is no third party also that brings in that data. But qualitatively it is a huge category, there is a huge demand amongst customers. And basically if you look at weight, it is a very, very common problem across Middle East and therefore we expect this category to be a very big size category for us. Right now we have just started, what we have done is because there is already a plethora of solutions in the market and a lot of them are offered to the customer. We took almost six months to create a solution of our own which is a very, very holistic solution combining technology and a combination of products. So we prototyped it in one clinic for three months, which did very well and now we are scaling it up to almost 7 clinics. We believe that in every clinic if you look at our customer count we are going to go after our existing count first, which is much easier to tap into. We believe that we can get almost 5% of that count back into this category in the next one year which is a huge number for us, given the ticket size of this category. We also believe that the efficacy that we are providing is much beyond this market and that will help us because there is a lot of resonance in this market when it comes to body contouring solutions. There are players who have been there for years and have not been very successful in this category. So I can't give you a complete estimate, exact estimate number on what this category could be but 5% of our existing clients is a pretty huge number for us to gun for in the coming one year.

- **Mr. Agam Shah – Raj Trading**

- Okay, and in terms of competition you mentioned that there are already players and you have not even scaled up.

- **Mr. Vikas Agarwal - CEO, Kaya Middle East**

- Right, right.

- **Mr. Agam Shah – Raj Trading**

- What is different that we are doing in terms of the competition to attract customers for this new segment?

- **Mr. Vikas Agarwal - CEO, Kaya Middle East**

- Right. Can you repeat that question?

- **Mr. Agam Shah – Raj Trading**

- Since you said that there are already a few players in this body contouring segment, what are we doing as Kaya that is different to attract more customers? So what is the difference?

- **Mr. Vikas Agarwal - CEO, Kaya Middle East**

- Right, so actually a lot of competition in the segment has benefited us because there is a lot of dissonance in the segment. So we see a lot of customers who've tried various solutions across and have not seen results and that is our first actually target segment because we have tested this over time to make sure that efficacy is not compromised. The second is our own existing customers. We are not really looking at attracting new clients in the short run, we want to do it on our existing customers, make sure that efficacy is given, spread the right word of mouth before we start advertising and going after new customers completely. We have a huge base of existing clients and very, very valued clients, so we will go after them which is much easier because they are loyal to Kaya, they have seen efficacy with us in other services. We are confident we will be able to give efficacy to them; it is a business that can prosper for years on that basis only.

- **Mr. Agam Shah – Raj Trading**

- Okay, thank you.

- **Moderator**

- Thank you, we have the next question from the line of Sriram Rajaram from Sundaram Mutual Fund, please go ahead.

- **Mr. Sriram Rajaram – Sundaram Mutual Fund**

- Thanks for taking my question, sir. How much would be the hair care category business for this quarter?

- **Mr. Rajiv Nair – CEO, Kaya India**

- So right now, we have done about 6% of our total business from hair care category, so roughly about Rs.3 crores for the quarter from hair care. So we expect this business to further pick up for the balance of the year because we have also put in some further inputs in this category. We have actually brought in ~~some~~ medical expertise with three doctors being assigned towards the transplant business across the Delhi-Bombay-Bangalore region. Last year we were actually working with a single doctor performing for three different clinics for our transplant business. So we expect that business to pick up. In the month of June, we had done about 42 transplant procedures. We expect to take that to about 60 procedures a month, so that's the expectation right now from hair transplant. So that is an extra business over and above the doctor-led services that we do across all the other stores, other clinics across the country.

- **Mr. Sriram Rajaram – Sundaram Mutual Fund**

- Yeah, sir, and out of the 100 odd clinics, how many of them are owned or leased?

- **Mr. Rajiv Nair – CEO, Kaya India**

- All of them, all of the clinics are actually leased by us. But run by the company so there is no franchise model at the moment in the clinics.

- **Mr. Sriram Rajaram – Sundaram Mutual Fund**

- Sir, are you looking at franchisee based business?

- **Mr. Rajiv Nair – CEO, Kaya India**

- See it is a little complicated to do franchising because there is a level of control that you need from a safety perspective, in this business there is chance of reputation risk. We are not just a product business where I sell products to somebody who sells to customers. Here there are a lot of services involved in the business, and doctors perform the service so these are also under the legal ambit. It is not that easy for us to just go out and give a franchise. At some point in time if we have the right checks and balances available and there are some standards that are being set down by government of India, then obviously franchising might become much easier. At the moment, no, all of them are owned and run by us.

- **Mr. Sriram Rajaram – Sundaram Mutual Funds**

- And, sir, regarding your capex per store how much would it be, I mean, for a new store opening?

- **Mr. Rajiv Nair – CEO, Kaya India**

- So currently if you look at an average about 1500 square feet store we do about Rs.3,800 to Rs. 4,000 a square foot on civil interiors and furniture fixture. But in addition to that if we buy technology for a new clinic, we will spend another Rs.2 to 3 crores per clinic on technology. So that's the kind of spend that we do per clinic.

- **Mr. Sriram Rajaram – Sundaram Mutual Fund**

- And how much would be the new stores addition this year, sir, for India?

- **Mr. Rajiv Nair – CEO, Kaya India**

- Currently we are going opportunistically into new locations or malls, so if there are great opportunities that come across we would definitely look at. We are exploring a few malls at the moment, but I don't want to give a number till we are able to sign something up for the quarter.

- We have done quite a few relocations in the last one year, we have done about six relocations in the last one year; relocation means we are in the same catchment but in a much better infrastructure, much better size, so in terms of capacities those are higher. We are starting from the top performing clinics, so just to give an example that the Noida clinic which we relocated about a year ago, today is growing about 34% with a larger infrastructure. I think that is crucial for especially the top 15 - 20 clinics that are there. So 6 clinics have been relocated. About 6-8 months ago we've added the Grand Central Mall in Nerul which was one of the newer malls that was coming up. So as and how new malls come in, we will definitely look at that opportunity.

- **Mr. Sriram Rajaram – Sundaram Mutual Fund**

- Okay, okay, fine, sir.

- **Mr. Rajiv Nair – CEO, Kaya India**

- Thank you.

- **Moderator**

- Thank you. Anyone who wishes to ask a question at this time please press star and one on your touch tone telephone, we have the next question from the line of Rupen Rajguru from Julius Bear. Please go ahead.

- **Mr. Rupen Rajguru – Julius Bear**

- Yeah, hi, Rajiv and Vikas, and it is heartening to see that some of the strategies and restructuring which the company has undertaken over the last couple of quarters is kind of showing results. In the beginning, Rajiv, you mentioned that you have taken almost 6% correction in the price of the service and it has also helped us to increase our customer count and the volume. So can you tell us between care and cure, you know, where exactly we have taken more price cuts and going ahead will this be the strategy to find the overall growth which has been missing in this company for some time now?

- **Mr. Rajiv Nair – CEO, Kaya India**

- Yeah, just to kind of make life little simpler for all of us, I think what we are going to ,from now on,report product and services and not really report care and cure. So if you see, the investor presentation this time has very little mention of care and cure as segments. We are very firmly placed in terms of calling ourselves a clear dermat led or dermatology led business, so even for example if we do facials in our clinic, they are facials which have got a medicated element, so it is like a medi-facial that we do. Even the hair spa that we do in the clinic is not a very salon kind of service. There are ingredients in there which are actually dermatologically proven and have some outcome. So in fact all our services are actually designed by dermatologists so we don't have any services which are salon. We are firmly in the cure space right now, now cure with a little bit of qualifier there; like for example, hair removal is not technically a cure, but at the same time because it is dermat led, dermat supervised hair removal, we still believe the fact that it is part of the cure outcome which is there. So that's basically how we see the business. So today if I were to look at pure play doctor-led, absolutely performed by a doctor, need to have a doctor, almost 50% of our services are purely supervised and done by doctors. There are another 30% of our services which need minimal supervision from doctors for example laser hair free, where there is some amount of intensity of the laser that needs to be supervised by the doctor and then the balance is the product business. So I would say that 70 to 80% of our business is pure play, monitored, supervised or performed by doctors. The 20% of product business again has a level of doctor intervention because most of our products in India are tested on Indian skin type and it is monitored by teams which includes dermatologists. All our products are dermatology tested. So I would say that we are moving very strongly towards the cure space, and not really becoming a confused approach of cure and care. And this is how we will also be reporting our financials now on. So now future investor presentations also will talk about products and services.

- **Mr. Rupen Rajguru – Julius Bear**

- Fair point, so as I understand it would be purely cure and even if it is care, it will have a cure overlay. So within that cure services, or within the services, in which segment, as you said in anti-aging, which is our focus area wherein we have seen a decent growth. So for which services have we seen maximum growth, or rather in which service have we reduced the price and we have seen the corresponding effect on the volumes?

- **Mr. Rajiv Nair – CEO, Kaya India**

- Correct, good question, specifically because it is related to pricing, we have actually seen quite a lot of good performance in fairness and pigmentation which is an area which we have seen about 17% growth over last year. So if you actually look at it, we have a service which is laser oriented which is known as Q-Switch. Q-Switch with a combination of peels is known as ISB, this has seen the highest growth. In fact customer count growth in this category has grown 32% over last year. So that's a big change that we have seen. Anti-aging also; while the number of people in India doing anti-aging is relatively lower, the value per session on this particular service is high. We have seen a 15% growth in the category. Hair care which is relatively newer and the base is relatively smaller, we have seen a 42% increase in the case of hair care services. Our start to the season in laser hair-free was relatively lower in the month of April, but we’ve picked up along the line in May and June. It is a little bit of a seasonal business in that sense. So I think our marketing intensity increased in May and June; we increased the performance in laser hair-free in the month of May and June but April we saw negative performance in the category. So overall if I would have to say the highest performance improvement has come in pigmentation as a segment.

- **Mr. Rupen Rajguru – Julius Bear**

- Okay, so going ahead also based on the response which you are seeing you know you will probably be more dynamic in your pricing because to some extent some of these kind of have that price elasticity and it is kind of working. Will that be the conscious strategy?

- **Mr. Rajiv Nair – CEO, Kaya India**

- So the only thing I am trying to really look for India, and again as I am saying our Middle East strategy is completely different. In India what we are planning to do is we are trying to have a firm final price for the consumer rather than having too many discount-oriented approaches. Earlier our strategy would be to give a higher price and at various points discount it through promotions. We are trying to keep a fixed price in certain services. For example a Q-Switch service today costs Rs.4,999, maybe one year ago it would be at Rs.7,999 and after discount it would come to about Rs.6,500 or Rs.5,900. Right now it is firmly at Rs.4,999 for the last maybe five or six months’ time. So average price per session is very clear to the customer. A full body laser today is priced at Rs.49,900, at some point in time it was priced at Rs.79,900 with certain promotions and discounts bringing it down to Rs.59,000-60,000. So we’ve actually kept the prices pretty standard and single pricing for customer, so it becomes more easier for customer, looks more honest pricing and that's why I think the value for money consciousness increases for the business.

- **Mr. Rupen Rajguru – Julius Bear**

- Good I think that should be helpful, as you would rightly said it will clear the ambiguity.

- **Mr. Rajiv Nair – CEO, Kaya India**

- It is also sustainable, because one of the things that you have to look at when you reduce prices is whether your margins are also dropping. Actually in the same period while our prices have come down by 6%, our margins have gone up from 77% to 80%. So we have also worked aggressively on our cost of goods sold for these services.

- **Mr. Rupen Rajguru – Julius Bear**

- Sure. And on the hair care you just mentioned that we have done Rs.3 odd crores and which is 6 odd percent of the revenue. So like in the earlier call you had mentioned that as a company you would want this to be around say 20 odd percent in next few years. Is there any change in vision or anything like that?

- **Mr. Rajiv Nair – CEO, Kaya India**

- No change in vision, it is an area of continuous investment, more so from a change management perspective within the business because our business has been a skin business for a long period of time, and that's done more than 13-14 years and that's the reason why also sometimes changing mind set within the organization to get hair care into the DNA of people takes a little more time. Secondly, I think we have not really invested on qualified dermatologists who are what they call as trichologists in the market, people who are purely focused on the hair care business. So now we have hired a senior doctor in Delhi and in Bangalore, they have just joined in the last quarter. And we already have a fairly experienced doctor in Mumbai. These guys will be to a large extent focusing on the transplant business and we would like to increase that business because the data points reflect that India is a very strong transplant market. Kaya's share is extremely low in this particular segment. Complicated business but we believe the fact that with the right kind of expertise and quality of infrastructure we will see an improvement in this area.

- **Mr. Rupen Rajguru – Julius Bear**

- Fair point. My last question is now, over last many quarters, you have also specifically in the India business done a lot of restructuring and right now as you mentioned some of the course correction in the pricing, as well as focus on hair, store re-location and also good amount of product is sold outside the clinic as well. So now assuming majority of big restructuring is kind of done, so will you kind of push up the pedal for growth and although you did mention that you were very selective in store addition but when do you think that you will get into that leg of higher store addition, and when will we reach that point.

- **Mr. Rajiv Nair – CEO, Kaya India**

- There are few more changes that are actually happening on the lines of what I discussed earlier. About 20 clinics over the last six months or seven months have got renovated. So we have to see the fruits of that over the next maybe one year's time as to what growth we are able to drive using the renovated clinics. We are also setting up two clinics right now in Delhi, one in Delhi in GK and one in Indiranagar where we have in the case of Delhi relocated the clinic just next to where we are, with a larger infrastructure. And also in Indiranagar, the existing building is a three level building so we are actually creating one of a kind flagship clinic, what we call a centre of excellence in Bangalore and in Delhi. The renovation will be completed by August-September, because we will also like to have in some of the key cities at least one clinic which becomes like a flagship for Kaya which actually drives both brand imagery at the same time is able to give us opportunities to grow other categories, the new categories that are there. One is hair, of course and like in the case of Middle East we are also starting to trial out body contouring in India. The first trial is happening right now in Khan Market, Delhi, so these clinics would seamlessly move into this area as well. So it will be skin, body and hair as a segment, I don't want to create a large hope around body contouring at the moment because there is a lot of trial and error process needed for the Indian consumer, in Middle East we are little bit more richer with the data. Over the next six months' time we will trial; so that becomes the next growth engine for the coming years. Hair and body will be new segments, products will be an area of continued growth and skin of course, is our core business as well, so that's how we plan to execute this strategy.

- **Mr. Rupen Rajguru – Julius Bear**

- Okay, thanks a lot, sir, and all the very best to you.

- **Mr. Rajiv Nair – CEO, Kaya India**

- Thank you very much.

- **Moderator**

- Thank you. We have next question from the line of Amarnath R. from Gomukhi Indus Capital. Please go ahead.

- **Mr. Amarnath R. – Gomukhi Indus Capital**

- Good morning. My question is relating the reset which have happened in our service pricing etc., so just wanted to get a sense of what would be your internal estimates on the price elasticity which you are expecting to see say over one or two years based on the reset of the pricing.

- **Mr. Rajiv Nair – CEO, Kaya India**

- If you look at our price change strategy in India it has been largely towards the acquisition segments. So for example our laser hair removal segment has seen a fair bit of price correction. We have seen price correction in pigmentation and fairness, and we have also seen some corrections in our hair care pricing that we had started only last year so we have made some corrections which are there. Two out of the three segments we have seen decent amount of uplift though hair care obviously continues to grow at about 40%, last year also we had similar amount of growth in that category. And pigmentation grew by about 17%. In all these segments we would like to see upwards of 10% of growth in these categories where we have taken the price correction, currently it is 17% in pigmentation and hair care is 42%. But I would allow it to settle down a bit over the next three quarters. But this would be areas again as I am saying where the consumer is a little bit younger, and it is an acquisition category where we believe the fact that price elasticity is higher. There are certain areas like anti-aging where the consumer numbers in India is still pretty small and the value of service still continues to be high, we are not tampering with the pricing in that segment. It is very difficult for me to put an exact number to that growth but this is the current result that we are seeing from the first quarter.

- **Mr. Amarnath R. – Gomukhi Indus Capital**

- Okay, thank you.

- **Moderator**

- Thank you sir. We have the next question from the line of Sriram Rajaram from Sundaram Mutual Fund, please go ahead.

- **Mr. Sriram Rajaram – Sundaram Mutual Funds**

- Sir, which is the store which contributes the most in the India services business?

- **Mr. Rajiv Nair – CEO, Kaya India**

- There are a couple of stores in India that come to my mind immediately, one is Indiranagar - Bangalore is a very high contributor. It is an ~~little~~ old store, but we are actually trying to renovate and revamp that clinic. The other one is in Delhi; we have this clinic in Noida, Sector 18 Noida, which is again a recently renovated clinic about a year old renovation. These two are the highest performing two stores in the country.

- **Mr. Sriram Rajaram – Sundaram Mutual Funds**

- And can you quantify any numbers, sir?

- **Mr. Rajiv Nair – CEO, Kaya India**

- Roughly last couple of months we have seen an average business of close to between Rs.50 to 60 lakh of rupees in these clinics. Last month both clinics crossed close to Rs.60 lakhs for the month.

- **Mr. Sriram Rajaram – Sundaram Mutual Funds**

- Okay, thank you so much, sir.

- **Mr. Rajiv Nair – CEO, Kaya India**

- Yeah.

- **Moderator**

- Thank you, anyone who wishes to ask a question please press star and one on your touch tone phone. Participants who wish to ask a question please press star and one now. We have the next question from the line of Amnish Aggarwal from Prabhudas Lilladher, please go ahead.

- **Mr. Amnish Aggarwal – Prabhudas Lilladher Pvt. Ltd.**

- Hi sir, couple of questions from my side. If we look at any typical retail business for example, for Kaya also retention of manpower used to be an issue and then high rentals etc., but now we are looking at going into the malls. So do you think we have got sufficient scale or our business model is robust enough to handle both the manpower inflation as well as exit as well as the high rentals which are there in malls?

- **Mr. Rajiv Nair – CEO, Kaya India**

- So couple of things - we actually are working pretty hard ~~on~~ to see whether we can increase our retention of manpower. We have seen almost from a 4 and ½ percent attrition per month in the ground level staff to about 2 and ½ percent last quarter. So we are working very hard to train our people, retain our people and their compensation structure is also well aligned to what is good practices in the market. So we are seeing some improvements in terms of manpower retention. Our doctor retention was reasonably good in the past, but our ground level therapist retention was going a little bad because of new malls and others coming into play, but we have seen some better retention for the quarter. As far as the malls are concerned one thing that we follow as a strategy is the fact that we don't try and be at the ground and the first floor of malls because the rentals typically are the largest in the flagship locations in the mall in the ground and the first. In fact we have seen some amazing results in places like Market City, Bangalore, we are present on the third level of the mall closer to the food court. We have clinics in Vashi, we have clinics in Hyderabad where we are on the second level of the building. So we try and negotiate for space which is reasonably fitting in with the women's and kids' wear mix of that particular mall, and we still try and negotiate better rentals because we don't try and be on the ground and the first level of malls. It is not to say that we will not be looking at standalone stores, last week we opened up a clinic relocation in Vashi. We opened a relocation in Sadashivnagar Bangalore, so obviously we will continue to be present on the high street. But in the malls we will try and take more price competitive locations.

- **Mr. Amnish Aggarwal – Prabhudas Lilladher Pvt. Ltd.**

- Okay, sir, thanks a lot.

- **Moderator**

- Thank you sir. We have the next question from the line of KVS Pawan from Blue Lotus Capital. Please go ahead.

- **Mr. KVS Pawan – Blue Lotus Capital**

- Hi, two questions from my side. Just wanted to know regarding the material cost. It has reduced in India operations from 3.4 to 3.07 crores. But in overseas operations it increased from 10.08 to 12.02, that is around 18 to 20% increase, can you elaborate on that.

- **Mr. Rajiv Nair – CEO, Kaya India**

- Vikas, this could be some exchange issue so would you like to address that.

- **Mr. Vikas Agarwal – CEO, Kaya Middle East**

- Actually it is not the cost of the material but it is actually a mix change. In quarter one our percentage contributions from anti-aging business has moved up and percentage contribution from laser has moved down. Laser actually is the highest contributory vertical. But given the commoditization it is under huge pressure like I said we are trying to change our business into other verticals which are also high profitable verticals like skin concerns. It is a temporary phenomenon for quarter one. We feel that this will bounce back as we change the mix back to higher growth, higher profit verticals. But it happened primarily because of the anti-aging in Q1.

- **Mr. KVS Pawan – Blue Lotus Capital**

- Okay, and regarding this, your overall employee cost - it reduced by 9 crores, that's from 43 to 36 crores, and that's basically in your Middle East operations. So what was that?

- **Mr. Vikas Agarwal- CEO, Kaya Middle East**

- I am sorry, can you repeat that question.

- **Mr. KVS Pawan – Blue Lotus Capital**

- Okay, this is regarding your employee cost, your overall employee cost has reduced from 43 to 36 crores.

- **Mr. Vikas Agarwal- CEO, Kaya Middle East**

- Right.

- **Mr. Saurabh Shah – CFO, Kaya**

- Hi, Saurabh here. So if we look at consolidated number there is a reduction of 9 crores, out of which last year there was a ESOP charge of 4.5 crores in the consolidated financials, apart from that there is a cost rationalisation in the employee cost which has happened in the Middle East business also and due to which you are seeing a reduction in employee cost. Vikas, if you can add up on the rationalisation part in the Middle East.

- **Mr. Vikas Agarwal- CEO, Kaya Middle East**

- So we have restructured our back end in Middle East to go with the economic change that is happening. We believe we need to work with a lot more leaner and a lot more agile structure so we have been making changes for the past six months which are having an impact in quarter one. So it is led by that which is actually good for the business in future. We are being a lot more agile being leaner and it will help us create a lot better execution in the future.

- **Mr. KVS Pawan – Blue Lotus Capital**

- So is it done now or can we expect more such thing in the Q2 and Q3?

- **Mr. Vikas Agarwal- CEO, Kaya Middle East**

- No, whatever restructuring we had to do we have done now, it is a small team here, not many people but we have just restructured in the last six months and it is done now, there is no more to expect in terms of downward trend.

- **Mr. KVS Pawan – Blue Lotus Capital**

- Okay, thank you.

- **Moderator**

- Thank you very much, sir. Ladies and gentlemen, that was the last question. I now hand the conference over to the management for their closing comments. Over to you, sir.

- **Mr. Saurabh Shah – CFO, Kaya Limited**

  Thank you, just to conclude Kaya will continue the efforts to drive the company towards sustainable profitable growth through expansion as well as the same store growth. Thank you all for attending the conference call.

Moderator

- Thank you very much, sir. Ladies and gentlemen, on behalf of Prabhudas Lilladher Private Limited, that concludes this conference call. Thank you for joining with us and you may now disconnect your lines.