

**KAYA LIMITED**  
Q4 Financial Year 2016-2017  
Conference Call  
**May 3<sup>rd</sup>, 2017**

**Management:** - Mr. Rajiv Nair – CEO-Kaya India  
Mr. Debashish Neogi – CEO-Kaya Middle East

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Ladies and gentlemen good day and welcome to the Kaya Limited Q4F17 post result conference call. As a reminder, all participants' line will be in the Listen Only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing \* and then 0 on your touch tone phone. Please note that this conference is being recorded. We have with us the senior management team of Kaya and its subsidiaries comprising Mr. Rajiv Nair CEO Kaya India and Mr. Debashish Neogi CEO Kaya Middle East. I would like to hand over the call to Mr. Rajiv Nair who will take you through the highlights of Kaya performance during the quarter. Over to you sir.

Mr. Rajiv Nair: Good evening everybody. I welcome you all the conference call on our company's behalf. Let me begin the conference call with a very short update on the fourth quarter performance, which is already in public domain and uploaded on our website [www.kaya.in](http://www.kaya.in). Kaya Group posted consolidated revenue from operations of rupees 112.9 crores for the quarter ended 31<sup>st</sup> March 2017. A growth of 11% over corresponding quarter ended 31<sup>st</sup> March 2016 in a consolidated basis. Kaya India net revenue grew by 4%. A same store growth of 4%. Kaya Middle East has grown by 17% same store of 7%. Now SSG @ constant currency for Q4FY17 is 10%. Consolidated EBDITA is 2.9 crores, 3% of revenue as compared to 3.8 crores 4% of revenue in Q4FY16. Operating profit after tax for the quarter ended 31<sup>st</sup> March 2017 is rupees 0.24 crores, which is 0.2% of net revenue compared to 1.3 crores which is 1% of net revenue for the corresponding quarter last year. Kaya has closed down seven KSB format stores and has opened three touch points in SIS in modern trade Q4FY17 in India. Overall in India Kaya has 102 clinics and 123 Kaya Skin Bar outlets and operates 23 clinics in Middle East. I mean in the last quarter we got the following awards, which is the tenth customer loyalty award. A summit by KamiKaze. A award for best use of social media category. Indian Salon and Wellness Congress 2017 Wellness India; award for aesthetic chain of the year. Beauty and Wellness products retailers; Stroke E-retailer of the year. Beauty industry's award by cosmetic design Asia. Award for best use of an ingredient in a

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

**Moderator:** Thank you Mr. Nair for the opening comments. We will now begin the question and answer session. At this time if you would like to ask question please press \* then 1 on your touch tone phones. If you decide you want to withdraw your question from the questioning queue please press \* to remove yourself from the queue. Dear participants please press \* and 1 for your questions, thank you. We have our first question from Mr. Ishit Seth from Anvil. Please go ahead sir.

**Mr. Ishit Seth:** Hi, good evening and thanks for taking my question. Sir, I would just like to understand, basically for our Indian operations what I'm seeing is that if you look at the sequential performance the other expenditure has again gone up by approximately 4 crores. So, can you state what is why is the other expenditures still going higher in the Indian operations? Now on a consolidated basis if you see on a turnover of 112.7 crores our other expenditure percentage of sales stood at 41.24 in the last quarter. So, again this has been much higher than our overall you know average and we are talking about bringing it down. So, why is it you know there is this mismatch?

**Mr. Rajiv Nair:** I think largely there are two areas that we have actually looked at an increase which has happened over the last quarter, which is the incentive structure has actually gone up last quarter again sales. It's also basically because we work on performance piece for doctors Kaya and the incentives are dependent on doctor led category performance for the quarter. So, we have seen an uptake in certain categories of business which are like anti-aging services for the last quarter and which has actually given us a supernormal charge on the incentives for doctor led services. So, I think that's one area which has gone up. And the other is a market implement of about 10% in terms of employee cost within the clinics. These are the two lines which have actually gone up over the last year. But in terms of certain other areas that we could have actually focused on and brought down like rent cost for example, we saw a zero percent increase over last year in this particular quarter. And largely I think the increase that you're talking about has come from employee cost and incentive. As we speak we've started a rationalization exercise on our employee cost as well especially around the incentive schemes. So, I think we will going forward starting this quarter see a direct linkage between productivity of the business and the quantum of incentives that we are giving. As such, marketing expense which is the other line which we have below clinic EBDITA which is the ASP line that we have, we have seen an almost similar expenditure last year to this year. The only difference is this includes about 1.2 crores worth of additional expenditure that we did this quarter for highlighting a hair care business. So, we did rounds of advertising both in North and in West to drive the hair care business. And if you actually go to category wise performance we have seen massive improvements in terms of the hair care category which I spoke about in the last conference call. And today from a 2% mix of hair in the business at the start of last year, now we have about 6% mix of hair in the business and we hope to be about 10% mix of

hair in the next few months time. So, this year we are targeting for about 10% of our business mix to skew towards hair. That's the only supernormal expense that we have taken on ASP. But the overall cost of advertising virtually remains the same.

**Mr. Ishit Seth:** Okay so in that case basically from what I understand this 1.2 crores was basically for your hair. Now going forward, what is the level that you all look at basically, because what is happening is that in spite of India actually going from almost 40 crores to 52 crores we are losing a lot of money in the Indian operations at the operating profit level basically. So basically what I wanted to understand is say in the next couple of years with overall consumer sentiment reviving and our focus on basically different categories and adding more customers, we are able to grow at maybe 8 to 10% in terms of our SSG growth. And in that sense how do we see this fixed cost scaling up in our business? Because primarily it's a fixed cost business, because if you see your RMC to sales has actually come down 2% if I compare it with 2014-15, which is phenomenal, because your gross margins have actually gone higher because of that. But the fixed cost on the other side have gone up much more. So, in that sense in operations where do you see that breaking even?

**Mr. Rajiv Nair:** Yeah so a couple of corrections that we had taken in the last quarter which I think will start showing some results going forward is the fact that we actually made some corrections around certain lines around gross contribution which is towards customer discounting and promotions. So, we had actually reduced discounts in the last quarter. Over last year almost 6 percentage points, which actually flow through in the business because it's a consumption led model. So what happens is, when you actually sell a product at a higher margin and a lower discount. Actually only when the consumer consumes that session we take it as part of our net revenue and that's why the GC gets progressive. We also saved in the last quarter almost 1.8 crores worth of points that we were otherwise giving to customers during end-of-season sale period which is a Jan-Feb-March period. We actually saved that much of money in the last quarter. Going forward our plan is not just control on the expenditure side, driving the top line and working on ways to increase the gross contribution is actually something that we are working on very strongly. So, promotion optimization and loyalty program optimization is something that we are doing as we speak, because almost 70% or 64% of our business today comes from loyalty program customers and that's an area where we believe there is some saving which is also there. Barring of course the lines like incentives to total sales and stuff like that is something that we are trying to control.

**Mr. Ishit Seth:** Sure okay. And sir broadly on then the Indian business like how do you see you know the next couple of years for Kaya? Like I mean we saw you know an aggressive expansion in the last couple of years where our clinic count went to almost 104 at its peak and right now it's 102. And now how do we see it basically? Are you seeing traction in terms of the SSG going forward year on for India business?

**Mr. Rajiv Nair:** So that I don't give you future guidance, I'll give you what happened in the last quarter. Our customer count actually on an SSG basis grew about 11%. In fact in our clinic where just services our customer count grew by 6% and for products it grew by about 11%. Selection corresponding group have got 7% SSG for the last quarter out of which actually product sales were even super normally better at about 15% growth in terms of product collections. Volume growth was also 7% higher on an SSG basis. The only place where we were a little lower were on the average ticket sizes for the last quarter which was minus 3% for the last quarter. But if you look at it from a quarter matrix you know rather than extrapolating it to next year I'm just saying that from a collection perspective we have seen good momentum. The area that we are focusing right now is to actually drive what we call as net revenue or consumption growth. So, I think that's an area that we are really currently working on so that a large part of what we collect can come down to the P&L in terms of profitability. So, that's an area that we're working on right now. So, I think that's the whole objective for us is to drive sales performance, work on the cost areas and that's broadly where we are.

**Mr. Ishit Seth:** Right. So, for clinics in India you all don't expect to add anything at least in the near six to nine months?

**Mr. Rajiv Nair:** Yeah, so actually that was the position that I took about three months ago when I was talking to you on the last call, but what we've done as we speak is that we looked at some opportunity areas very quickly. What we did was we looked at the clinics which are performing on the higher end of turnover, which means clinics which are contributing more than 30-35 lakhs worth of turnover. As we speak we are relocating two clinics into larger food plate. So, a clinic recently opened in Noida just now for us which is actually a larger food plate. A very high performing clinic. So, we moved location, but we took a bigger location there. Same is the case with Jayanagar. I think currently we are doing a clinic right now which is the movement of an earlier clinic into a new place, but with a better infrastructure, larger size. We are doing the same thing with Market City Bangalore right now as we speak. And also we have done similar movements in to one new clinic that we are coming up in Bombay which is in Vashi Seawoods. So, what we've done is the fact that we are opportunistically looking at it, but not really you know like our game plan is not in the next quarter to add another 15-20 clinics, but wherever there is an opportunity to improve the productivity of a high performing clinic by moving location and increasing the size of the food plate, we are doing that right now. So, we have about three examples right now in front of us.

**Mr. Ishit Seth:** Okay. So, then in terms of our average revenue per clinic should ideally go higher from here basically?

**Mr. Rajiv Nair:** What you are saying is I don't want to extrapolate again for all the 100 clinics, but specifically where we are looking at these kind of relocation the whole objective is to increase the revenue per clinic in any case. So, the whole objective is which we are making investments. And these are clinics where we have almost written

down the entire value of asset over last 7-8 years or 9 years. So, we are actually looking at almost a fresh approach for these clinics. And some of these clinics are also more upgraded facilities than what we have today as a clinic. So, Noida is an example if you ever get a chance to go and see it. It's a much more premium facility. The cost per square feet has not gone up much, but we have actually upgraded the facilities in this clinic quite a bit. So, that's the other change that we are looking at which is basically refreshing our clinics into a slightly more contemporary look and feel.

**Mr. Ishit Seth:** Okay. That's good. Sir, also one last question that I had was on the GST front. Say, we are probably looking at a July 1<sup>st</sup> rollout, in that case where we see more than 90% of the overall market in India being unorganized and how do you see that impacting our business and you know how do you see it basically?

**Mr. Rajiv Nair:** We've always been an organized player so obviously being paying all our taxes. In fact what I see with GST is people coming into the ambit of taxes will actually increase. So, a lot of mom and pop operations which today is like single doctors running clinics and in some cases not really paying all that taxes also come into the net. So, I think for organized players I don't think GST will impact much. Negatively for sure not, but it'll also bring a lot more players into the ambit. So, in fact it becomes a I would say a level playing field in that sense between us and competition.

**Mr. Ishit Seth:** So, what you are saying is it will effectively help us...

**Mr. Rajiv Nair:** It will organize more players into the market will come into the ambit of taxes according to me.

**Mr. Ishit Seth:** Okay, great sir, I'll come in the queue. Thank you.

**Moderator:** Thank you Mr. Ishit Seth. Next question is from Mr. Dhruv Agarwal from Crusita Investment. Please go ahead sir.

**Mr. Dhruv Agarwal:** Good evening sir. My question is regarding your tax percentage. So, what should be the tax percentage that you'll be paying going forward?

**Mr. Rajiv Nair:** As part of GST?

**Mr. Dhruv Agarwal:** Yes, like cumulative taking into account all the new things that the GST and other things that will be coming up.

**Mr. Rajiv Nair:** Honestly cannot currently comment completely, but it would be in the range according to us around 18%.

**Mr. Dhruv Agarwal:** And for this year what has been the tax percentage?

**Mr. Rajiv Nair:** We'll get some credit as well so we pay about 15% service tax. It's about 14.5% average. But we also get some credit against the tax that we pay in GST. From a rate perspective it will be detrimental to us.

**Mr. Dhruv Agarwal:** Right sir, thank you so much.

**Moderator:** Thank you for your question Mr. Dhruv Agarwal. Next question is from Mr. Aditya Bawal from Axis Capital. Please go ahead sir.

**Mr. Aditya Bawal:** Good evening gentlemen. Just taking off from one of the previous questions, if you think from a two to three years perspective what is the number of stores that you think you are comfortable with? Also, considering these 100 odd stores I'm just taking from a 2-3 years perspective, these 100 odd stores that we have currently, what is the steady state SSG that you think is possible in this business and just one last question; do you believe that there is a strong headroom to grow in terms of the ticket size that we have?

**Mr. Rajiv Nair:** So, honestly I don't want to give you a 2-3 year guidance currently on SSG growth. As I was saying we've made some corrections in the last few months. We are already seeing about 7 to 8% growth in terms of collections. We also see a steady state growth in terms of customer entry both in the case of new and existing customers in the business. So, existing and new customer counts for the clinics actually went up by about 11% last quarter for us. And so we are also adding new services. So, for example as I mentioned the hair business and I think we've discussed this earlier as well, these are showing steady improvements so we have almost got close to 60 odd customers who have already gone through a transplant procedure with us. 75 customers in fact have already gone through a transplant procedure. In fact as I mentioned in the last call that transplant is a slow and steady growth area for us. It is not a big ticket area or we are not looking at the entire hair business coming out of transplant. But we can see some steady growth from month one which is December till month 4 which is the March-April period. And right now we've done about 75 procedures already there. And last time I had also mentioned the fact that we have almost renovated 91 of our clinics with hair care rooms. So, services have begun in these rooms. We've started training doctors for hair care services across the country. So, I expect the business to not just come from pure like for like services, but also from new services that are actually coming in as part of this. Anti ageing services is the other area that I mentioned in my last meeting and call where we said we will actually be putting focus on. And if you look at the last quarter result on anti-ageing as a service which again is a high-end service for us, we have grown by about 18% on anti-ageing in the last quarter. So, that's again an area that we are focusing on for growth. Product overall we have grown by about 8% in the last quarter, but in the departmental store concept which is basically the modern trade outlets we have seen almost a growth of close to about 34% in the modern trade business and ecommerce we have grown about 52%. So, overall if I look at product business we have grown by 19% over the last year. So, I'm saying there are some areas

or some pillars that we believe will drive our growth. But rather than giving a forward looking view I'm just talking with respect to the last quarter.

**Mr. Aditya Bawal:** Sure sir, that's quite helpful sir. Sir, if I have to ask you what would be the so to say non-mature stores? Or stores which are less than 18 months or 24 months in the system, what would be the number of these stores? And what is our thought in increasing the productivity of these clinics?

**Mr. Rajiv Nair:** In fact if you look at it, what's actually happened is the fact that the bottom 20-22 clinics now cumulatively put together have now broken even in the last quarter. So, we basically are looking at close to about five or six clinics which are slightly away from profitability. Not to the level that we would like it to be. But if you look at cumulatively the new stores that were opened over the last three years time, we have seen an at least a break even stage for these 22 odd clinics.

**Mr. Aditya Bawal:** Okay.

**Mr. Rajiv Nair:** So, what happened is also we have put some focus on these clinics separately rather than saying that we'll keep adding new clinics we have tried to really push up the performance of these clinics and we have seen some results over the last one year in these clinics.

**Mr. Aditya Bawal:** If you could just help us understand what was the reason why I mean there were 80 stores opened over the last three years and there were these 20-25 odd stores which have still remained at sub-par EBDITA level, what do you think was the key reason I mean? Where did the machine fail?

**Mr. Rajiv Nair:** As I was saying for most of the retail business in India there is a level of maturity that you know stores actually would take to actually reach the level of profitability that one is looking for. So, if you want a 25-28-30% profitability from a clinic it will on an average take more than two to three years. So some of these clinics were performing below par, but today if I were to look at it in the overall gamut of clinics that are there which are actually not going to show much sign of profitability its only about five or six clinics that we can actually see. And I can't say it is anything to do with the choice of location, because I think the choice of location in most of these cases is pretty good. We have no plans at this moment that I am to rationalize any of these clinics at the moment. As I mentioned in my earlier discussions with one of the earlier callers is the fact that we are in fact first step that we are looking at it is where there is high potential we are trying to relocate some of the clinics that are with slightly bigger facilities so that we can actually optimize some of the high performing clinics. So, about 20 of our clinics which are there in the business today we are looking at a renovation plan for 20 clinics this year. So, I think the whole idea is upgrade the experience of the consumer as far as Kaya is concerned. Give them more services within the existing

clinics. Bring some new technology within the clinics. So, that's basically our game plan right now.

**Mr. Aditya Bawal:** One last question from my side. I think one of the previous participants touched upon advertising. I just wanted to get your thoughts on traditional forms of advertising probably like televisions or print media, online channel through which we are doing most of our advertising; I just wanted to get your thoughts as to whether incremental spend in that direction would be more fruitful.

**Mr. Rajiv Nair:** If you look at the way that we are actually spending money actually 60% of our money is actually going to non-traditional areas of advertising. In fact our mainline advertising is fairly restricted over the last one year. What we have done is we've actually created a complete digital footprint. So, across social media today you have Kaya. Kaya has its own website, which actually has the entire portfolio of service. Kaya now has an app as well, which has been created very recently for customer usage. So, all of these things have been done. So, actually most of our customer new customer count that is coming into the clinics today, last quarter we had a total footfall increase of about 33% for new customers. For sessions which is basically appointment based customers overall there was about 11% growth in terms of customers. Large part of this growth has come from digital media. Digital and say for example you know media like JustDial and stuff like that where people access it on the internet and then call up the call center and then we fix up appointments for them. So, the digital route is giving good success in terms of getting customers, but while I'm saying that, we are not going to be ignoring the traditional media, because if you go back to my last call we said we want to build salients for the brand in certain categories and we want to be known as the first place to go. So, one month ago which is in the month of I mean two months ago in the month of Feb and March, we did a campaign on hair which we ran in Bombay and Delhi which we will very soon be running in the South region which is in Bangalore and in Hyderabad. And as far as hairfree which is our laser hairfree technology. In the next four weeks time you'll see advertising happening across Bombay, Bangalore, Delhi and Hyderabad as well. So, we will use a good amount of traditional media, but we will also use a lot of digital, because I think digital is the place to be as far as the brand is concerned today.

**Mr. Aditya Bawal:** So, thank you so much sir, that answers my question and good luck for the quarters to come.

**Mr. Rajiv Nair:** Thanks a lot.

**Moderator:** Thank you for your question Mr. Aditya. Next question is from Miss Kinjal Desai from Reliance Mutual Fund. Please go ahead maam.

**Ms Kinjal Desai:** Hello.

**Mr. Rajiv Nair:** Yes.

**Ms Kinjal Desai:** I just need to understand you said that we have some amount of improvements on the average ticket size so is there something in that strategy which is missing on that front and what are we doing to improve it for India?

**Mr. Rajiv Nair:** Actually it's a mixed change that actually happened which is the category mixed change that actually happens which has impacted maybe the total –just to give you a perspective we have in the last quarter reduced the quantum of discounting in the business to some of the very high value services like full body laser, last quarter actually came down in terms of volume sales. That's why the mix in terms of ASP actually changed in the last quarter. There were some high-end anti-ageing services where we used to give high discounts in the previous what we call as the end-of-season period, which we did not do this time. So, actually the mix actually changed into services which were slightly lower value and that's why the overall ASP actually fell. While saying this we are continuing with the strategy of reducing the level of discounting and promotion in the business which may impact some of the high value services that we have in the business, but we also course correcting the pricing on some of these services so that customer is not only buying these products from Kaya during promotions, but is also buying it during normal periods, normal season as well. So, I think it will course correct itself I think in this quarter.

**Ms Kinjal Desai:** Okay. From Middle East also just to understand over the last couple of quarters we are seeing a decline at the footfall. This is especially in light that we have added two new connects this quarter in Middle East so why is that exactly happening and is it coming at the cost of increasing our average ticket size.

**Mr. Debashish Neogi:** This is Debashish. I'll answer that question. See, in Middle East first of all those two clinics you know client count is not added, because we have not integrated the brand, okay, so those two clinics is not added in the overall client count. Coming to the question of client count you know coming down in Middle East business is because you know we have Saudi which contributes to 23-24% of the business there's a huge macro issue because of the crude oil crisis where it is now. So, Saudi business is not doing well which is why the you know the client count is coming down. But having said that the other geographies which is basically UAE where 73-74% of the contribution comes from is doing growth of high double digit both in terms of business and also in terms of customer count. So, the real problem is its coming down because of Saudi.

**Ms Kinjal Desai:** Okay, so that is where we are getting our new customers, my reading is correct?

**Mr. Debashish Neogi:** No, from Saudi it is coming down. You know we are losing customers in Saudi. But overall in UAE we are doing well, which is 73-74% of the business.

**Ms Kinjal Desai:** Okay fine thank you. And I just want to get if you could give me what would be the customer advance that we would have received in the last quarter that is Q3 and Q4? So the total business as a whole?

**Mr. Rajiv Nair:** About 66 crossed for the total business.

**Ms Kinjal Desai:** That would be Q4 right?

**Mr. Rajiv Nair:** Overall customer advance lying in our books would be 66 crores for both the businesses as of now on 31<sup>st</sup> March.

**Ms Kinjal Desai:** Okay. And would you be able to share the same number for the last quarter?

**Mr. Rajiv Nair:** Last year same period was 73 crores.

**Ms Kinjal Desai:** 73 crores. Okay that is great. Thank you so much.

**Moderator:** Thank you for your question Miss Kinjal. Next question is from Mr. Himanshu Shah from Potential Unlimited. Thank you sir.

**Mr. Himanshu Shah:** Good evening sir. This is Himanshu. I would like to understand the nature of business in terms of services and products and the bifurcation of both and you know I mean prospects in terms of growth and strategy in terms of both the categories.

**Mr. Rajiv Nair:** Okay, so Kaya is basically a Dermatology clinic. A large part of our business is actually dermat led business. So, just to explain, in India we have 102 clinics which has got almost 169 doctors working with us. So, most of our services are conceptualized as dermatological services. Of course some of the outcome of that service is actually beauty. So, we have services which could be as rudimentary as laser hair removal to high end services like anti-ageing services, pigmentation services, which are purely doctor led services. In fact doctor led buckets for our business is almost 50% of the total turnover comes from doctor led turnover purely, but you need doctor supervision in our business to almost 60 to 65% of the total business that we actually have. So, the key USP of our business is that we have doctors full time in the clinics and they actually meet the customer and provide them the necessary service. It also gives them a sense of efficacy. It also gives them a sense of safety as per usage of the service is concerned. We also are one of the largest aggregators of Dermatology machines in the country, because most of the doctors use technology like laser which are imported from the US. So, these are all US FDA approved machines. As of now we are almost in services business almost 100% we were just purely skin related services. Now we are about 94% skin related services and 6% is towards hair services. Slowly we'll be moving

the hair care services to about 10%. As part of hair services we actually look at all the basic concern areas for hair. The hair loss, hair volume, antidandruff to areas where people have lost hair and would like to go for a transplant so we have got three transplant centers currently. In Bombay, Bangalore and Delhi. So, skin and hair are the core areas of service that we actually provide, but we also have about 15% of our business currently coming from products. These products are also dermatologically tested products, created by our own in-house team. And we sell products for basic usage for example like sunblock creams and stuff like that all the way up to specifically skin related areas like for example acne release areas or for that matter growth promoting stem cell based creams or serums that we actually utilize. So, there are a lot of products that we created around Dermatology. We have got 63 SKUs today that we sell in terms of products as well. It's still about 15% of the total business of Kaya.

**Mr. Himnashu Shah:** 15% of the total business would mean roughly 50 crore of business from products?

**Mr. Rajiv Nair:** It's a little lesser than that I would say, because the NR from this business is about 34 crores so I think it will be about 40-42 crores in terms of total value.

**Mr. Himnashu Shah:** So, it's not adding any value to bottom-line as yet isn't it?

**Mr. Rajiv Nair:** It is, it is. In fact it's a good margin business and it directly comes to bottom-line unlike services where we have a sort of product service. So, product actually adds to bottom-line for sure.

**Mr. Himnashu Shah:** Do we intend to take this business forward in terms of like for Marico we have Parachute and stuff like that, is it possible that we could see brand coming out of the product business here?

**Mr. Rajiv Nair:** The product business is under the brand Kaya. It's already selling in almost 130 different departmental stores and modern trade retailers. We had our own chain in fact when you're saying it probably doesn't make money is probably because we also had about 17-18 of our COCO stores of products which we shut down very recently. In the last quarter we took a shutdown of almost six stores so right now we are left with only two stores of COCO. We are reducing the cost of operating this particular business, but expanding in departmental stores and modern retail outlets like also pharmacies and places like Health and Glow and stuff like that. so, of course we'll be there, but because our price points are a little higher than FMCG in the price point of 800-900 rupees per product we are looking at expanding largely in slightly more higher end outlets rather than being in more mass market FMCG outlets.

**Mr. Himnashu Shah:** But how do we intend to push this product? Because you know India being a low per capita country...

**Mr. Rajiv Nair:** Correct.

**Mr. Himnashu Shah:** And penetration levels you know early on will be low so how do we intend to push this? Unless it's...

**Mr. Rajiv Nair:** Honestly I think the product business is something that we as a business even in the Kaya Skin Clinic we are planning to push basically because since we have almost you know 169 doctors we actually also use product as part of our prescriptions. So for example when we give services to customer we also sell some products to the customers to improve the efficacy of the service. So, that's something that we're doing. We're also expanding the number of outlets outside of Kaya Skin Clinics. So, we are actually as we speak we are adding more outlets in the SIS formats. We are already present in Shoppers Stop, Lifestyle, Central, Health and Glow and stuff like that. So, the whole idea is partly organic growth and partly inorganic growth with addition of stores for the product business. We see it as a key growth driver for us and definitely there's a push towards improving the contribution of product in the business.

**Mr. Himnashu Shah:** Do you see this business growing at a faster rate compared to your clinics?

**Mr. Rajiv Nair:** Not really, because the value of products still will be a smaller percentage of the total business that is there to the clinic. So, even if it reaches 20-25% at some point it still is a smaller contribution to the overall business of Kaya in India. Kaya will remain largely a Dermatology service clinic for skin and hair. And as part of that we will be also selling product.

**Mr. Himnashu Shah:** Do we have any strategy to push these products abroad? Because in Europe and other countries maybe you'll have?

**Mr. Rajiv Nair:** No, not at the moment, because Kaya's business interest is currently only India and the Middle East so as we expand our portfolio in any other market at some point we'll look at it. Currently not really.

**Mr. Himnashu Shah:** Okay. So, the push will only go through the clinics itself?

**Mr. Rajiv Nair:** No, I mentioned to you. Modern trade and shop-in-shop is something that we do. It's already present in 130 outlets across the country.

**Mr. Himnashu Shah:** What about our competition? What competition do we have in India and what kind of competition do we have in the Middle East?

**Mr. Debashish Neogi:** I'll answer the question which you're talking about, you know pushing the product from the clinic. See, there's an advantage of doing it from the clinic, because a product is given as a post care to the treatment which we offer in the

clinic. And it is recommended by the doctors. You can charge the premium on the products unlike if you go mass. So, that is the reason we want to keep it as an integral part of the clinic where the dermatologist recommends the product.

**Mr. Himnashu Shah:** never seen an advertisement or anything that you know brings my attention to the fact that there is some product that exists in the market like that. You know, unless I visit?

**Mr. Rajiv Nair:** The good part is without advertising we've reached about 40 crores worth of turnover. We expect to grow by about 30-35% in the product business and we are doing that without advertising. So, I think partly the strength comes from the brand Kaya, because people who come to Kaya know the Dermatology experience of Kaya is the people who are actually going in for the products and now that we are present also in modern trade and departmental stores, we are providing access to this product to more number of customers.

**Mr. Himnashu Shah:** You have 30-35% CAGR expectation?

**Mr. Rajiv Nair:** I don't want to give you a guidance there. Last quarter obviously, we grew by about 19% overall in terms of product business and –

**Mr. Himnashu Shah:** I'm just referring to that 30-35%; I mean what does it – 30-35% growth?

**Mr. Rajiv Nair:** So, again our expectation is to grow at much more than we are growing at the moment so let me not put a number there. To grow much more than we are growing today. Last quarter as I'm saying we have given a specific push to product as a segment. We already grew by about 19% in product last quarter and we'll go further from here is what I'm saying.

**Mr. Himnashu Shah:** Excellent. What about competition in India and competition abroad? The nature of competition is it like what – must be different? I mean what kind of?

**Mr. Rajiv Nair:** In India actually there is the higher end of FMCG which is there so there is definitely products which people like. There are special brands, specialist brands from the house of brands like L'Oreal like Vichy and people like that who have been part of this particular area, but there is also some Indian local competition which is there like you know Forest Essentials and Kama Ayurveda and all who use more natural methods, but are also in the skin care space. There is some competition definitely there in this space, but we believe we have the dermatological expertise and these are all propriety products created by us and that's why we believe there is a market for us.

**Mr. Himnashu Shah:** I'm referring to the competition in the clinic segment also?

**Mr. Rajiv Nair:** Oh clinic segment honestly there is no direct competitor to us in the skin clinic space. There are people in the slimming space like VLCC and all who are there in the space, but their core competence is not really doctor led services.

**Mr. Himnashu Shah:** They are different, I mean we are different from them?

**Mr. Rajiv Nair:** We are definitely different from them.

**Mr. Himnashu Shah:** And we have no competition in this segment as such?

**Mr. Rajiv Nair:** No, let me qualify that. There are lots of dermatologists today who are running individual clinics who are competitors to our catchment. We also have chains coming up from various places in the South and places like that where there are 10 to 15 clinics per chain, which are there. There are enough players coming up from various parts of the country who are doing 8-10 outlets, but this is a fairly expert driven segment plus it has got good amount of investments needed in machinery and that's the reason why we believe scale up in this segment is not that easy for a new competition.

**Mr. Himnashu Shah:** Correct. Sir, just one question on this; are we a healthcare business or are we FMCG business or are we what like?

**Mr. Rajiv Nair:** Wellness should qualify that as better I would say, because basically while some of our services are purely curator services, a large part of it is I would say discretionary spending. So, for example anti-ageing is an example of discretionary spending where of course if you can afford to be using anti-ageing services you'll come to a place like Kaya. So, we are actually into more specialized skin care. So, this would be I would say larger part we would call it as healthcare, but it's more wellness.

**Mr. Himnashu Shah:** So, we are basically into skin and hair; are we looking into any more areas which are you know I can probably think?

**Mr. Debashish Neogi:** See, from India perspective like Rajiv said we have got into hair. From a Middle East perspective, we are into skin and we are getting into body in this quarter. So, both the businesses will learn from each other in terms of the category and how we penetrate and make a sustainable profitable model from this category. So, going forward you know, we will add up to what India is doing on hair and India will add up to what Middle East will do on body.

**Mr. Himnashu Shah:** Sir, body in the sense I don't get you?

**Mr. Debashish Neogi:** Body means you know getting into body contouring, which is not exactly slimming. Which is not weight loss, but which is contouring the body. Which is more of an inch loss.

**Mr. Himnashu Shah:** Wow.

**Mr. Debashish Neogi:** So, there are high-end technologies in that which we are know propagating and launching in one of the clinics in Middle East in this month.

**Mr. Himnashu Shah:** So, we have multiple categories to explore in case of growth like you know and out of these 102 clinics are we majorly focused in West and North is it so?

**Mr. Rajiv Nair:** We have clinics across the country. We have about 27 cities in which we offer it. But largely if you look at our main markets are Delhi, Bombay, Bangalore, Pune, Hyderabad, Calcutta. But we do have clinics in cities like Indore, cities like Jaipur so we do have Vizag and a few other cities that we are actually spread out, but largely the focus is towards these core cities that are there.

**Mr. Himnashu Shah:** Excellent sir. Thank you so much. Thanks for the insights.

**Moderator:** Thank you for your question Mr. Himanshu. Next question is from Miss Janani from Security Investments. Please go ahead maam.

**Ms. Janani:** Good evening sir. Thank you for taking my question. My first question is can you tell us a little bit about what exactly is your arrangement with the doctors? How does the incentives work? How are they structured?

**Mr. Rajiv Nair:** We have a contractual arrangement in India for doctors. So, we work on contracts with them where they work with us for an X number of hours per week. So, there are some fixed remuneration that we pay them for working with us. At the same time we also have some variable pay so we pay for performance. So, like any other doctor when they perform a particular service, which would be a medium high-end service we pay incentive towards each one of the services.

**Ms. Janani:** So, this would be based on the value of the service or the time?

**Mr. Rajiv Nair:** Not really. The technicality of the service really. Not so much purely the value of service.

**Ms. Janani:** Okay, it is fixed for different kinds of services.

**Mr. Rajiv Nair:** The services have different types of incentives.

**Ms. Janani:** Right okay. At the moment what is the current cost of opening a new store and when really does it break even in India as well as the Middle East?

**Mr. Rajiv Nair:** Currently it's in the region of about 1 cr per clinic. About 3,500 rupees square foot in terms of physical infrastructure, but we also have machinery cost. So machinery typically an individual machine would cost anywhere between 25-30 lakhs and clinics would have about six to seven machines per clinic. So, that's something that we take it as an additional cost towards the physical infrastructure which costs us about 3,500 rupees a square foot.

**Ms. Janani:** So, break even would take about two to three years?

**Mr. Rajiv Nair:** Two to three years I would say.

**Ms. Janani:** My last question is; is there a global model that's similar to yours in terms of the skin care space doctor led services?

**Mr. Rajiv Nair:** Actually, like for like model I don't know whether Debo can comment in the Middle East, but overall globally there are some specialist chains so there are American chains which specialize only on laser hair removal for example. So, there is an American chain which works only on laser hair removal. But are there Dermatology clinics which are a consolidated clinic I'm not aware of them in and around. But maybe Debashish can answer that.

**Mr. Debashish Neogi:** From a Middle East perspective, all the competition is from slimming which would be you know a VLCC or from laser which would be a Lebanese chain. When it comes to say high-end injectable kind of service it would be a chain from US. When it comes to product it would be again a US chain. So, if you really ask you know we have a very unique model where we play and then on the beauty side there will be chains on the you know salon side, spa side. So, if you ask our real competition is very fragmented. So, you actually compete on products that someone else, with laser on someone else, on injectable with someone else and on beauty with someone else. So, we have created our own niche that acts to our own advantage in Middle East.

**Ms. Janani:** Okay. Thank you.

**Moderator:** Thank you for your question maam. We have a question from Mr. Himanshu from Potential Unlimited. Please go ahead sir.

**Mr. Himanshu:** Maam, my question was actually answered, the last question that she had. Thank you.

**Moderator:** Okay, thank you sir. Thank you participants to ask a question. Please press \* and 1 if you would like to ask any question. Mr. Ishit Seth from Anvil, please go ahead.  
**Mr. Ishit Seth:** Sir, thanks for again taking my question. Just on the industry side for India the categories we get are two that is the skin care and now the hair care. What is the total industry size in India?

**Mr. Rajiv Nair:** Actually, there are no documented reports that we actually have. But on an average each one of the service lines that we have looked at like for example laser hair care, laser hairfree or hair care, in the areas in which we actually operated which is more on the Dermatology side, the average size of each one of these markets is about 350 to 400 crores in terms of that. This is based on a Euromonitor report of 2014. Honestly there are no other documentations which actually talk about the progressive increase in terms of market size in these areas.

**Mr. Ishit Seth:** Sure. So, this is 350 to 400 crores per category...

**Mr. Rajiv Nair:** The service line which we actually have which is there in fact if I can pull it I would probably respond back to you in terms of the total size we had seen in 2014. Just give me a second I'll try and see. You can continue with another question if you have.

**Mr. Ishit Seth:** Yeah. And also basically this industry, I mean how do you see it you know I mean I understand it's at a very nascent stage in India, but how do you see it going maybe say three years, five years down the line basically? With GST, with probably more competition probably coming into this tax fold, I'm just assuming that more competition will actually be good for the industry rather than bad for us you know?

**Mr. Rajiv Nair:** I think so, I personally think so, because these services that we offer are still fairly niche in the country. So, if there is a comparison between India and Middle East itself we are talking about low single digit penetrations in India at the moment with the market growing. And in Middle East some of these services in slightly more advanced countries already the penetration is about 60%. So, what I'm saying is the chances of a lot of people using right now salon services and low-end services. For example the waxing market versus the laser hair free market in India is a small market at the moment. But it is definitely likely to grow. Because it gives you a permanent solution to your problem. So, this is something that is actually and Indian consumers are learning so they are taking the journey through purely using product to more salons to maybe more high-end services that we offer as time goes by. So, technically there is a large market out there.

**Mr. Ishit Seth:** But compared to say the Middle East market what we see in India is then more than 90% of our customers are female here?

**Mr. Rajiv Nair:** So, that's not such a bad thing actually. In fact even in Middle East I think about 85-90% is women only and it's good to have more women in the business, because that's the place of beauty. And definitely there is something that will happen, it's not that men will not use some of our services. They do. But I think the primary target audience for both our businesses are definitely female customers. When we are talking about hair as a business now that we are getting into we believe we can attract men also in the hair segment. So, hair transplant for example is a service that we are bringing which will almost have 90% men using it, maybe 10% women using it.

**Mr. Ishit Seth:** Absolutely sure. Okay. Also, just one question I had on the GST. Obviously there is no negative impact per se for us, but do you see this being a point you know this giving this fillip for the organized player that is required in India? Because most of the clinics that you see, generally they hardly raise bills here. They are mostly taking it on cash basically.

**Mr. Rajiv Nair:** Agreed with you. I mean I think that's what's going to happen. Industry will get organized and some of the people who are not paying taxes today may come into the ambit of taxes.

**Mr. Ishit Seth:** So, can we assume that Kaya can probably being one of the very few organized players, Kaya can probably you know make the most of it and probably we can see SSGs in higher double digit?

**Mr. Rajiv Nair:** I don't think GST has any correlation to that. I think largely where we are saying is the fact that the new services that we are bringing is aimed at driving growth and that's basically what we are focusing on. So, it's more to do with our innovation in our product line. And again the inorganic component of our business which is towards hair is something that we believe will drive growth for us and product is the other segment that we are looking at for driving growth. So, that will be more of a factor than maybe more of the economic factors like GST.

**Mr. Ishit Seth:** Also, if you have the figure for the industry size?

**Mr. Rajiv Nair:** If you have any other question please do shoot. In the mean time let me just figure out. So, at some point the market size was projected in 2017 at some 1838 crores for the services in Dermatology in India. 1838 was the size put in India for all the dermatological led services in this category where we operate.

**Mr. Ishit Seth:** Okay. In the category that we operate basically. This is in 2014 right?

**Mr. Rajiv Nair:** No, 2014 report, but it was an estimation for 2017. Now currently exactly where it stands we have to go back and figure out the numbers. This is a number I got from Euromonitor report.

**Mr. Ishit Seth:** Okay. That's good enough basically. Sure, thank you so much.

**Mr. Rajiv Nair:** Okay.

**Moderator:** Thank you Mr. Ishit. Ladies and gentlemen, if you have any questions please press \* and 1. To ask question please press \* and 1. As there are no further questions I would like to hand over call to Mr. Rajiv Nair for closing comments. Over to you sir.

**Mr. Rajiv Nair:** Thank you very much. It's been a pleasure talking to you. And yeah, thank you for attending the conference call, thank you.

**Moderator:** Thank you ladies and gentlemen. That concludes your conference call. Thank you for joining us. You may now disconnect your lines. Thank you, Mr. Rajiv Nair.

**Mr. Rajiv Nair:** Thank you.