



**“Kaya Limited
Q3 FY2020 Earnings Conference Call”**

January 29, 2020

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KAYA LIMITED**



Kaya Limited
January 29, 2020

Moderator: Ladies and gentlemen, good day and welcome the Kaya Limited Q3 FY2020 Earnings Conference Call hosted by ICICI Securities Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Aniruddha Joshi from ICICI Securities. Thank you and over to you Sir!

Aniruddha Joshi: Thanks, Nirav. On behalf of ICICI Securities, we welcome you all to Q3 FY2020 results conference call of Kaya Limited. We have with us Mr. Rajiv Nair, Group Chief Executive Officer, Mr. Vikas Agarwal, Chief Executive Officer, Kaya Middle East and Mr. Saurabh Shah, Chief Financial Officer. Now I hand over the call to the management for the initial comments on the quarterly performance. Thanks, and over to your Sir!

Saurabh Shah: Thank you. Good evening everybody. I welcome you all to the conference call on our company’s behalf. Let me begin the conference call with a very short update on the third quarter performance of Kaya Limited, which is already in public domain and uploaded on our website www.kaya.in.

Kaya Limited posted consolidated revenue from operation of Rs.103.9 Crores for the quarter ended December 31, 2019, a decline of 1% over corresponding quarter ended December 31, 2018. Consolidated EBITDA is Rs.16.7 Crores as compared to Rs.7.3 Crores in Q3 FY2019.

Loss after tax and minority interest for the quarter ended December 31, 2019 is Rs.21 Crores compared to loss of Rs.0.8 Crores for the corresponding quarter last year. Overall Kaya operates through 95 clinics in India and 23 clinics in Middle East. The detailed information update is already available with you. I now open the session for questions and my colleagues, and I will be glad to answer you. Thank you.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Aniruddha Joshi, from ICICI Securities. Please go ahead.

Aniruddha Joshi: Obviously this is a quarterly call but can you indicate how do you see the business panning out over a longer term period so may be three or four year down the line where do we see do you see doubling of revenues in a four-year timeframe or is there any internal benchmark on which the company is working on so you have any targets can you throw some light on this?

Rajiv Nair: I think in both the markets which is India and Middle East I think we are taking some specific steps right now obviously I cannot give you a guidance for the future, but in the case of India we are trying to consolidate our position in the clinics actually looking at profitability of individual outlets and clinics so bringing in more efficiency into clinics to make the business more profitable, at the same time focusing on product revenues and expanding our presence of product both in the general trade and modern trade channels as well as on e-commerce aggressively. So in the light of that I think all our marketing communications will also focus towards developing a strong brand for Kaya in the product segment so that is something that we are doing and in the Middle East we are looking at newer territory so especially Saudi as a market is doing pretty well for us so definitely there will be some actions that we would be taking with the respect to this market. At this stage a little early for us to give you guidance on that but that is overall the plan.

Aniruddha Joshi: Okay Sir. Thank you.

Moderator: Thank you. The next question is from the line of Anup Nair from Equity Intelligence. Please go ahead.

Anup Nair: Just wanted to check on two points. One was one the tax write off that we have done can you tell me what is that regarding, second one was regarding our product revenue going down what do you think about that?

Rajiv Nair: As far as the deferred tax asset we had created this asset in FY2017 and we had given a three year forecast to be achieved . Looking at the macroeconomic conditions in the short medium term we took a conservative call to actually do an accounting transaction of reversing this deferred tax asset. So it is accounting transaction does not really impact our view as far as the business is concerned.. As far as product revenue is concerned, what has actually happened is that overall the market there has been a bit of subdued climate in the last quarter. While e-commerce really grew very strongly in September, October on the



Kaya Limited
January 29, 2020

back of some large promotions that companies like Nykaa and Amazon and others ran, but after that actually the primary sales pickup from e-commerce partners have been low, at the same time even general and modern trade have been very low on buying and controlling their inventories.. Even in the clinic if you look at what has actually happened is that we have seen a good uptick in terms of customer flow in services, but for the first time in a quarter we have seen a subdued response to products, while availability of products in the clinic this time was one of the highest. We had almost 96% -97% availability in the clinics but we have seen a subdued response. I would say it is overall market climate and nothing really to think about from a future perspective. I think our product story remains strong and our development product remains strong.

Anup Nair: So how have been the sales this month January?

Rajiv Nair: January still underway right, so I probably would not able to give you a final number on January, it began okay.

Anup Nair: Only point is whether it is picking up?

Rajiv Nair: I honestly would not be able to give you a number right now, but I think as far as last quarter is concerned just to give you some data points on the performance : If you see that in the quarter we have seen almost 8% growth in terms of customer count in services, which is the first that we have seen after a long time and certain segments have grown quite substantially. We have seen a 24% growth in fairness and pigmentation, In hair free and beauty facials we have seen almost a 12% growth. Overall actually the collection revenues from services grew because of the performance of product in the quarter is negative net revenue has come down. Secondly, we have seen a 6% growth in terms of overall number of live sessions consumed by customers, but ticket size drop marginally and that is why there is negative net revenue that you have seen. So that is the summary of the last quarter.

Anup Nair: Just wanted to check on one more thing there was Rs. 14 Crores related party loan given to the company, can you just brief on the cash position of the company are we looking for any fundraising or debt raising or anything like?

Saurabh Shah: Currently Kaya has Rs. 12 Crores cash lying in Kaya limited and Rs. 14 Crores was to be infused in Middle East environment to support the business because the environment in the



Kaya Limited
January 29, 2020

Middle East we need to just mitigate to some time. The things would be normalized moment the trade fair show picks up.

Rajiv Nair: I think basically the money was to be used for funding Middle East business and that is the reason why we have taken a promoter loan of 14 Crores.

Anup Nair: That is all from my side.

Moderator: Thank you. The next question is from the line of Nitin Khandkar, an individual investor. Please go ahead.

Nitin Khandkar: I have a question about the sector do you think that sector is in the midst of a marked slowdown because I looked at the numbers of your largest competitor and even their topline has grown at barely 6% to 8% over the last four years or so, to think that the slowdown in the fitness sector is now across the board, it is only that way?

Rajiv Nair: No I would not say specific to this particular sector I think overall there has been a macroeconomic slowdown in India I think that has impacted the customer sentiment and to some extent and that is the reason why there has been a slowness

Nitin Khandkar: One more question I have one of your competitors have launched has acquired a startup, which offers home service in similar categories so the thing it is something that can become a competition to ours if this model going ahead do you think it will reach scales?

Rajiv Nair: Only thing is dermatological services accounts for almost 70% of what we do in our clinics. Our services are consulted by doctors, provided by doctors, sometimes performed by doctors so doing this kind of service at home is difficult. Okay there are some specific services like a facials, which you can do at home, which is what most of the people are doing especially companies like UrbanClap. In fact we are actually in discussion with UrbanClap at the moment to actually facilitate our products which could be used by people who are part of UrbanClap network who could use Kaya facials. This is still WIP

Nitin Khandkar: I believe Kaya was planning to roll out the products at more higher number of outlets expanding the product outlet network, so would you please provide some color on that?



Kaya Limited
January 29, 2020

- Rajiv Nair:** Currently there are two parts to it, one is the physical distribution through GT and MT stores, actually we have increased our footprint of unmanned counters. We now have almost 900 counters in which Kaya products are available, we have set up distributors in multiple cities, all the main cities i.e. the metropolitan cities Kaya has a network today. In fact we are increasing the number of unmanned counters for Kaya. I think a bigger growth story is coming from e-commerce, we have seen a sequential growth of almost 44% CAGR on e-commerce over the last two to three years. So our investments in terms of both communication and participation will be focused on e-commerce first and then GT and MT distribution.
- Nitin Khandkar:** One final question from my side, we had actually 97 clinics in India as of the last quarter, and we have 95 as of now, has there been any addition and has there been any closure?
- Rajiv Nair:** There has been addition, we have actually closed down a clinic in Mumbai in Vashi and second one in Malad in Mumbai because we are trying to consolidate the clinic.
- Nitin Khandkar:** Okay. Thanks. That is all from my side. Thank you so much.
- Moderator:** Thank you. The next question is from the line of Chirag Patel from Adinath Shares. Please go ahead.
- Chirag Patel:** I have a question regarding the excessive provision, which we made so in the upcoming quarter can we see the provision now net off and will we not witness such provision goes ahead?
- Rajiv Nair:** You are talking about which provision is this the DTA provision?
- Chirag Patel:** Yes, that I am talking.
- Rajiv Nair:** That is one time, now there is no further write off on account of that.
- Saurabh Shah:** Chirag there is no DTA in balance sheet now.
- Chirag Patel:** One more question that our step-down subsidiary is not going to be audited by our current auditor so when we are going to see all the subsidiaries will be part of the audit report?

Kaya Limited
January 29, 2020

- Saurabh Shah:** Step-down subsidiary has also been audited by one of the better firms in that part of the world, it is not that the Middle East entities are not being audited, they are being audited.
- Chirag Patel:** I want to get information regarding the operating performance of those subsidiaries? Can I get the detail of it later on?
- Saurabh Shah:** Yes sure
- Chirag Patel:** Okay Sir. Thank you.
- Moderator:** Thank you. The next question is from the line of Snehal Bakki, an individual investor. Please go ahead.
- Snehal Bakki:** Sir I have one question on capex what are your capex plan for another two to three years?
- Rajiv Nair:** As far as capex I do not think we would be able to give you an indication right now on future capex investments. So, one of the bigger investments that we made, which will actually show results in the next one year is our complete overhaul of our IT systems where we have actually done a tie up with Microsoft for its product called Microsoft Dynamics 365. So, our entire IT systems will actually get revamped, both in India and Middle East. We will make selective investments in technology and clinic upgrades, but at this moment in time we will not be able to give you an indication on that.
- Snehal Bakki:** Sir what is your revenue guidance for the next year like FY2021?
- Rajiv Nair:** Cannot give a guidance on this.
- Snehal Bakki:** Okay Sir. Thank you so much Sir.
- Moderator:** Thank you. The next question is from the line of Nitin Khandkar, an individual investor. Please go ahead.
- Nitin Khandkar:** I would like to get some color on the subsidiary scenario how is it panning out in terms of the Dubai Expo, which is to be launched next year, do you think there will be more footfalls?

- Rajiv Nair:** We have Vikas with us he will give you sense on the UAE.
- Vikas Agarwal:** I think in UAE we have not seen any kind of movement from where it is, it is still an economy, which seems to be stagnant at where it was, there is a prediction of expo pulling in, but we do not know we are not putting it into our plan completely and like Rajiv had said in the beginning I think somewhere we are looking at other territories, we have been present in Saudi for almost 12 to 13 years, being in Oman for another 12 to 13 years so those are markets where we are under leveraged, we have two in Oman and just three in Saudi and there are opportunities to built in inputs, there is capacity so somewhere in the last few months we have been working towards that building in inputs, infrastructure to boost those countries, Saudi is growing well already so somewhere in the future till economy bounces back in UAE and if export does bring in some inputs for the economy we will be looking at Saudi and Oman and other countries for growth. April onwards we will see if there is an impact of the Expo if it is it will really help because it will help UAE also boost up, but again like I said we are not totally dependent on that given what we have seen in the last one-and-a-half years we are building our plans to other countries for sure.
- Nitin Khandkar:** Alright Vikas. Thank you so much.
- Moderator:** Thank you. The next question is from the line of Snehal Bakki, an individual investor. Please go ahead.
- Snehal Bakki:** Sir I have a question like what is the competitive scenario in the Indian market that you are seeing because it is a slowdown period for all the industries mostly so what is your take on this slowdown and the competition from other players?
- Rajiv Nair:** India has a few organized competitors obviously most of them are regional competitors, there are a few who are nationals for example maybe VLCC plus there is a large part of our competition, which is unorganized single dermatologist who are there all over the country. Slowdown, we do not have actual numbers being published by them so we will not be able to comment on the performances of specific competitors. Overall, of course there has been a slowdown in terms of the way people had been consuming and we have seen that impact in certain parts of our business, but honestly we do not have numbers of the competitors

Kaya Limited
January 29, 2020

- Snehal Bakki:** Sir what is the competition from these unorganized players like you told that we see individual dermatologists because the taxes, which are levied on you may not be levied on them?
- Rajiv Nair:** Actually I think after post GST of course there have been a bit of a tightening, but we cannot really comment on what percentage of individual dermatologist today who pay GST or do not pay GST. Our business is extremely compliant so we will be at an advantage of the government controls on GST increases.
- Snehal Bakki:** You have seen a shift post GST implementation, you have seen a shift in your revenue from these unorganized players depending upon the data, which you have your data?
- Rajiv Nair:** Actually, honestly none of the unorganized competitors have any published data so we cannot comment on how much of revenue shift has happened from any one set of doctors to another or any one competitor to another, so we do not have any such data published in India.
- Snehal Bakki:** Thank you so much.
- Moderator:** Thank you. The next question is from the line of Arshad Mukadam from Vibrant Screens Private Limited. Please go ahead.
- Arshad Mukadam:** My questions are regarding the competitive landscape of Kaya this is regarding about the products and services business, so I want to understand what is the USP of our products, I understand many of the products are commoditized there are many substitute in the market so how do you plan on growing this business I mean over the last few years I do not think it has grown at the rate we would like it to grown at so could you please explain that to me?
- Rajiv Nair:** As far as our business is concerned vis-à-vis competitors, I think one is the fact that we have experience of almost 17 years in this space. As far as protocols are concerned, I think we have specific protocol that has been created by Kaya, so we have specific IP . We do guarantee a level of safety that most other competitors cannot guarantee. Our fundamental promise is safety and efficacy. I think that these are pillars on which we work. Have we communicated enough all this in the market?, we are starting to do that quite a lot more .



Kaya Limited
January 29, 2020

- Arshad Mukadam:** I was referring to the products.
- Rajiv Nair:** Kaya products are created by dermatologists, very few brands have that kind of claim. Most of our products are hardworking products vs FMCG products. They have higher actives and they can actually perform. Our products are based on Indian skin type, it has been researched on Indian skin that is why definitely it provides better efficacy than lot of international brands.
- Arshad Mukadam:** I actually have an opposing point of view at least looking at this all the first thing is Kaya is relatively new in the space in terms of R&D and product development, it has been known as a service brand always whereas the competitors have always been in this line, they specialize in this line so as an external customer one is I do not have the awareness that it is being developed by dermatologists as you said and the second thing is I would trust an outsider based on all the facts that I have not knowing anything about the company so I am not convinced with the adoption strategy.
- Rajiv Nair:** Let me tell you how we can democratize and what are we are trying to do to democratize the brand. The Kaya product brand has been in existence for over 10 years, but it has been largely restricted to the clinic business. So, we have basically been operating and selling out of our own clinics. Now we are expanding the footprint, so we have almost 900 outlets in which the products are available. We are also present strongly on websites like Nykaa and Amazon, which provides us access to much larger market. . We are also investing a lot more in terms of marketing of the brand on the digital platforms. So obviously we can create a lot more awareness like most of the new age brands are doing today on the internet .So, we are doing our bit right now to create awareness and we are increasing our distribution. So, these are two things that we are doing to build the brand.
- Arshad Mukadam:** Thanks for the product side. If I could just ask what the services business now, is it more towards beauty treatment or do you actually medical eservices also at your clinics?
- Rajiv Nair:** A large part of our business (almost about 30% of our business) actually come from laser hair removal, which again is supervised by doctors while it is a laser procedure for hair removal it has actually got some amount of doctor supervision so that is one. Second is fairness pigmentation so we use peels which are administered by doctors. We also use high end equipments like Q-Switch in fairness pigmentation, which is again performed by

Kaya Limited
January 29, 2020

doctors so that is the second large bucket. Third is anti-aging services, which again largely are performed only by doctors, so we use machines and we use injectables in this particular space so it is a very doctor-led space. We also have curative services like acne, again consulted and prescribed by doctors. Of course we do have certain segments, which are specifically beauty orientated like for example facials, which contribute to about 10% of our business, which are performed largely by therapist and hair care is a new addition that we did about an year-and-a-half ago so we have about 5% to 6% of our business coming from hair care partly performed by therapist, partly administered by doctors, and then there is products business so that is the composition of services that are there so we are not as much a beauty salon type business as much as a dermatology center.

Arshad Mukadam: That is fair. As a customer, as a patient rather if I have an issue would not I be drawn towards a doctor clinic like a doctor with renowned brand, not a renowned brand but with a renowned name rather because I think Kaya has different doctors in different clinics they do not really have one doctor so how do we plan getting market is of this opinion rather?

Rajiv Nair: The point is the fact that not everyone goes to celebrity doctors to do treatments, of course every city, every geography within a city would have some known doctors as well, so the people may go to those doctors as well, we commit a standardized experience across the country so our services are standardized, our doctors have been given a particular type of training and obviously there are certain Kaya protocol so that is basically so if you are looking for standardized service anywhere in the country you can come to Kaya, but if you are looking for a specific doctor in a specific region of course there will be a lot more doctors around in the market that one can actually visit. Secondly as I said we are high on safety, high on efficacy I think those are two areas that we pride ourselves on and that is something that we can commit as a brand to consumers and that is also our advertising platform and that is what we have been putting across on the digital platform, which basically talks about these kind of features that Kaya provides.

Arshad Mukadam: Fair enough. If I could just ask one more question so in terms of doctors I believe Kaya's concentration is in Mumbai, Bengaluru, and Delhi and me being from Mumbai I know actually many individual doctors who have these renowned names over here so that is how I am just thinking?

- Rajiv Nair:** Kaya is now available in 26 cities with 95 clinics, so it is not that we are only present in Mumbai, Bengaluru, and Delhi. So maybe cities like Jaipur, Lucknow, Vizag, and stuff like that may have lesser competition than bigger cities but that is the state of this thing, no business is around which does not have competition.
- Arshad Mukadam:** From what I believe, I believe Kaya is towards higher end range of all clinics that are there so compared to the celebrity doctors that you would have mentioned what was our pricing be like?
- Rajiv Nair:** Actually now our price is extremely competitive if you compare it to chains of clinics anywhere in the country today I think our prices are extremely competitive,. Over time we have, in fact, in quite a few of our acquisition services brought down pricing between 15% to 20%. So today just to give you an example full body laser hair removal a couple of years ago we used to sell close to about Rs.90,000 plus today it is available for Rs.59,000 to 60,000. So, we actually have been able to pass on benefits to customers and at the same time safeguard our margins in the process.
- Arshad Mukadam:** Okay that is great. One last question, I want understanding, you classified some clinics as organized and some as unorganized so how is this classification made?
- Rajiv Nair:** Organized I would say the people who are in a chain environment where people are doing standardized service in multiple outlets versus single doctors. . Individual doctors I would call them as unorganized competitors.
- Arshad Mukadam:** Okay fair enough. Thanks for explaining that. Thanks so much. This is it from my end.
- Moderator:** Thank you. The next question is from the line of Amit Bagadia from Okasa Investment and Finance Company Pvt. Ltd. Please go ahead.
- Amit Bagadia:** What would be the product division EBITDA?
- Rajiv Nair:** About 20%.



Kaya Limited
January 29, 2020

- Amit Bagadia:** Okay one more thing taking up from the previous gentleman's queries like you said Kaya being skin clinic and the products being for the skin and if anybody goes to some other dermatologists why would they recommend a Kaya product to them?
- Rajiv Nair:** Our products are not sold by any dermatologist at the moment; we sell the products through as I mentioned our own clinics, e-commerce, and general modern trades, our own distribution.
- Amit Bagadia:** Do we have any distribution tie-up with Marico or something?
- Rajiv Nair:** No, we do not have a distribution tie-up with Marico.
- Amit Bagadia:** Okay. That is, it from me.
- Rajiv Nair:** So if you mean Kaya Youth as a brand we have a licensing arrangement with Marico where Marico uses the brand Kaya under a brand called Kaya Youth, which is at the entry price segment and that is a licensed agreement with Marico.
- Amit Bagadia:** Thank you so much.
- Moderator:** As there are no further questions, I would now hand the conference over to the management for closing comments.
- Saurabh Shah:** Just to conclude, thank you all for attending the conference call.
- Moderator:** Thank you very much. On behalf of ICICI Securities that concludes this conference. Thank you for joining us and you may now disconnect your lines.