



**“Kaya Limited
Q1 FY21 Earnings Conference Call”**

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Dolat Capital



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- Moderator:** Ladies and gentlemen, good day and welcome to Kaya Limited Q1 FY2021 Earnings Conference Call hosted by Dolat Capital. 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. Sachin Bobade from Dolat Capital. Thank you and over to you, Sir.
- Sachin Bobade:** Thank you. On behalf of Dolat Capital, I welcome you all to the Q1 FY2021 Earnings Conference Call of Kaya Limited, hope you and your family are safe and doing good. From the management side 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 the floor to the management for their opening remarks and then we will have question and answer session. Over to you 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 first quarter performance of Kaya Limited which is already in public domain and uploaded on the website www.kaya.in. Kaya Limited posted consolidated revenue from operation of Rs.23.9 Crores for the quarter ended 30th June 2020, a decline of 76% over corresponding quarter ended 30th June 2019. Consolidated EBITDA is negative Rs.13.4 Crores as compared to Rs.13.8 Crores positive in Q1 financial year 2021. Loss after tax and minority interest for the quarter ended 30th June 2020 is Rs.32 Crores compared to loss of Rs.9.7 Crores for the corresponding quarter last year. Overall, Kaya operates through 73 clinics in India and 23 clinics in Middle East. The beauty, wellness industry and retail industry has been adversely impacted by the spread of COVID-19. The group faces significant headwinds due to COVID-19 which has impacted the operations of the group adversely starting from the month of March onwards, particularly by a way of clinic closure due to complete lockdown. The unprecedented disruption has an adverse impact on the quarterly performance. Clinic business in India was impacted heavily due to shut down in Q1. Business

resume progressively from 20 clinics opening on 8th June 2020 to 50 clinics by end of June 2020.

Rising COVID-19 cases in India and intermittent changes in regulation impacted stable operations in supply chain, e-commerce deliveries, workforce movement. From products perspective e-commerce business for nonessentials open in May and the business achieved last year's number by June. Overall product business ramp up to 30% levels by end of June.

In Kaya Middle East clinics opened in May with some exception but ramped up faster as business operation normalized by June. Q1 June 2020 collection ramp up of 67% of pre-COVID collection basically the April to Feb last year number.

All countries showed a good ramp up, UAE at 67%, Saudi at 62% and Oman at 78%. Kaya Middle East ticket size trending at 109% of last year boosting revenues further. All countries trending at similar percentage over last year.

Focus on both markets was on safety for our employees and clients while opening the clinic during the COVID scenario. The business has adopted steps for COVID-19 compliance standards in both the markets in line with the WHO guidelines. The detail information update is already available with you. I now open the session for question and my colleague, and I would be glad to answer them. Thank you.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. We take the first question from the line of Saurabh Shroff from QRC Investment Advisors. Please go ahead.

Saurabh Shroff: Just wanted to understand your product strategy a bit better, it maybe this is the first time that I am actually listening to the company in a while so maybe if you could help recap what we are doing on the product side, and also I guess we have some tie-up or a distribution arrangement with Marico if that also you could sort of just rope that in and wrap that around that for us?

Rajiv Nair: Yes, so the product business of Kaya is a range of skin and hair care products priced at a median price range of about Rs.700. It is a dermatologically researched product created through in-house R&D. The manufacturing is done on a contracted basis and we have a range of about 83 SKUs across various areas of skin and hair care. We largely started off this product business sale through our clinic , but progressively we started distributing

products through other channels. We do sales of products through organized retail businesses like Health Glow, Dabur NewU, Religare, etc., and we also do some GTMT general trade modern trade business, but chiefly right now e-commerce has taken up a large part of the product sale portfolio with very good presence in Nykaa, Amazon, Flipkart and Myntra. We are also running a small venture of our own through e-commerce which is known as shop.kaya .

Chiefly the products sells through the clinic as well as on e-commerce. If there are any specific questions you would like to ask, I am happy to answer. Sorry I missed one point on the Marico arrangement. So, Marico has a license to do a brand called Kaya Youth which largely sells in FMCG outlets, but at a price point which is significantly lower than that of the Kaya mother brand. So, while it is a license arrangement it sells in a different channel and the price points are lower than Kaya so in that sense it sells in places where FMCG products sell.

Saurabh Shroff: So, in terms of the products there is no overlap on what Kaya sells and what Marico sell, they are the license to the sub brand Kaya Youth and not the mother brand Kaya?

Rajiv Nair: No so their sub brand which has got linkages to the mother brand, so it is called Kaya Youth and it is positioned differently and it is distributed differently so there is no overlap there.

Saurabh Shroff: Okay that is clear, and you mentioned that products are now 30% of sales, how much of this is sort of happening online and through the offline channel and what has sort of been the growth rates in those respective channels?

Rajiv Nair: Yes, so last quarter being an aberration where a products contributed to most of our revenues and was about 70% of our total revenue and a bulk of that actually came from e-commerce because our clinics were not operating for almost two, two and a half months, but if you look at the product till the last year was roughly 50/50 across clinic and distribution plus e-commerce, e-commerce is roughly about 25% of the business. Progressively our focus is towards e-commerce, so our investment this year will be significantly higher on e-commerce.

Saurabh Shroff: And finally on the clinics, the services side what is the plan on the expansion or sort of are we rationalizing some I guess that anybody would, but if you could sort of just help us understand the ramp up of the clinic business. What are we thinking there

and what is our typical I guess cost per clinic and breakeven time that we have seen in our experience?

Rajiv Nair:

So let me just first answer in terms of the expansion so currently obviously we have taken a short / medium-term call of not expanding clinic because this is absolutely the time for consolidation, this COVID headwinds also running in maybe for this year and maybe some part of next year. I think it was important for us to take some strong calls on the clinic so we looked at the clinic based on profitability (short-term, long-term) and we took a call to rationalize about 22 clinics at the end of last year so some of these clinics are on shutdown mode. we will be operating only 73 clinics going forward . These are clinics which have EBITDA of more than 15% to 20% and these are clinics that we believe are sustainable in the short, medium, long-term. We are not currently envisaging any clinic expansion in this financial year for sure, but some point when things normalize, we can look at it. I would actually ask Saurabh to quickly give your unit economics number, but roughly if you look at the investment that go into a single clinic we invest anywhere between 2 to 3 Crores in clinic in case we are doing machinery investments otherwise average per square feet cost for a clinic without machine is about Rs.3800 a square foot. Saurabh would you like to just talk about the unit economic numbers.

Saurabh Shah:

Yes so unit economics there are variable and fixed component both from product and service per se you sell at a gross margin of around 78% to 80%, people cost comes around 21% rent comes around 15% to 16% or 17%, clinic overhead 10% and there is a finance charge of 1% so if you look at from EBITDA prospective it comes around 25% to 30%.

Saurabh Shroff:

And just to sort of clarify, so the 70 odd clinics that are now running, 77 I believe what you said...

Rajiv Nair:

It is 73.

Saurabh Shroff:

73 I am sorry; they are all in between this 15% to 20% or it is not higher EBITDA free?

Rajiv Nair:

There are some clinics which are below this benchmark. There are about 4 or 5 clinics which are in high cost locations where we believe there is more opportunity and since we have rationalized clinics around these location. E.g. GK Delhi, Green Park Delhi, Lulu Mall Kochi and Bandra Mumbai where the EBITDAs are lower. Due to the consolidation exercise we will see more walk-in into

these clinics and we believe there is more potential in these clinics.

Saurabh Shroff: And finally, before I get back into the queue, what sort of rent negotiations have we been able to manage to get in the last six months?

Rajiv Nair: Yes, Saurabh correct me if I am wrong but it is about 6 Crores we have been able to reduce rent in the last quarter, Saurabh you have the exact numbers if you can give.

Saurabh Shah: Yes, yes so if you look at from India perspective in Q1 is around 4.5 Crores and from Middle East perspective it is around 1 Crore.

Saurabh Shroff: This is obviously sustainable even for the ensuing three quarters and beyond because the pace is now got set?

Saurabh Shah: Yes, we are currently in a pace of further negotiation moment we crystallized it will fall in place.

Rajiv Nair: I will explain that a little bit see what has happened is that one was a shutdown complete shutdown mode and one is in operating mode with a lower efficiency over the next one or two quarters because of COVID so the terms of engagement will differ between the first quarter and the second quarter. While there will be reductions in rent for the second quarter they will not be exactly in line with what happened in the first quarter because some of the clinics were shut for almost two, two and a half months time so we got heavier reductions in that period. While saying so we have negotiated quite a few clinics up to September some cases up to March in terms of reduction in rents.

Saurabh Shroff: And sort of as a general or what is the median rent reduction that you have managed which is going to stick so what I mean is that maybe you have not paid rent for let us say March, April, May or you paid barely 10% or 15% but that more a one off, but sort of on a steady state basis what is the median rent reduction that you have manage to get across your portfolio of 70 odd.

Rajiv Nair: Are you talking about going forward or are you talking about Q1?

Saurabh Shroff: Both I mean whatever detail you can share to help understand this better, I am just trying to get a sense of what is sort of not one off and what is the actual resetting of the base when it comes to rent expenses because there is a certain amount of rent expense that has gone from the P&L because you have closed the 22 clinics and then obviously their is a certain reduction which is a permanent reduction let us say and then there is a certain

- reduction which is the renegotiation down which can be sort of split into one off and renegotiated reset so that is what I am trying to get?
- Rajiv Nair:** So, Saurabh can you breakup the first quarter result rent?
- Saurabh Shah:** On a tentative basis you can expect around 20% reduction on like to like clinic which are operating
- Rajiv NAIR:** On a sustainable basis for the year
- Saurabh Shroff:** Thank that is very helpful thank you very much gentlemen and wish you all the best.
- Moderator:** Thank you very much. The next question is from the line of Monika Arora from Share Giant Wealth Advisors. Please go ahead.
- Monika Arora:** I wanted to ask about how is the business phasing out during this COVID situation now like what is the business prospect or what business you are getting now?
- Rajiv Nair:** Yes, so I would not like to give you maybe too much of forward indication but from a level where we started off June in a phased manner , We progressively reopened about 50 clinics between 8th of June till end of June and the month of July and August. July also had a lot of lockdowns that happened at various cities like Pune, Chennai, Bangalore. It has ramped up from a level of just 15%, 20% business to now close to 45% of last year's number so I would say that would be the indication I can give you at the moment, but we expect further improvement in this quarter
- Monika Arora:** Sir you informed during the last call that you are taking various measures due to COVID like PPE kits and all so what about cost saving measures apart from the rent renegotiation and all that you have done what are the other cost saving measures that you have adopted?
- Rajiv Nair:** So all in all we had about a saving of almost 32 Crores in India I will ask Vikas to give the number for KME . Out of which if I were to take the cost of goods sold out we have roughly about 24 Crores worth of saving in the last quarter on account of various measures that we took. It could be as simple as labor cost rationalization, clinic overheads reduction to reduction in advertising and sales promotion and some amount of rationalization of cost even in the corporate office plus of course rent reduction as we mentioned earlier so all this put together gave us almost about 24 Crores worth of saving in India.

Vikas Aggarwal: This is Vikas, so in Middle East we have been able to manage around 18 Crores reduction in Q1 also because our business was open much faster and we are trending much closer so we have now impact in July we touched almost 90% of our base business so we are almost there and given the cost reductions of course the P&L is benefiting from that as good as last year. So, the overall cost reduction in Q1 has been 18 Crores again a good part of it has come from rent, overheads, certain part of it is employee cost but yes in line with the business trend.

Monika Arora: Sir and do you think that whatever cost reduction measures you have taken that you have stated right now which are really commendable so do you think the profit margins are now falling in line with the pre COVID situation?

Rajiv Nair: Yes so if you talk about gross contribution which is margin in business will depend on the normalization of the services business so as the services business starts picking up the percentage margins will keep improving because in the first quarter bulk of the revenue actually came from products business so almost 70% of the revenue actually came from products, in the second quarter this percentage will keep improving if we compare this to Middle East, Middle East is largely a services oriented business where margin has reached last year's level and it is also showing a good trend in our average transaction value. We have seen a 10% growth in the first quarter, 9% to 10% growth in the first quarter for transaction value so as value increase the gross margins will keep improving.

Monika Arora: And Sir in the last call you informed that you have introduced one new service which is online service, online consultancy, how is that doing Sir because it I have already been signed?

Rajiv Nair: Yes very good we actually take that consultation with Kaya and we did with partners so we tied up with Mfine, Practo, and 1mg, Mfine is particularly successful for us we have been almost 1680 consults over the last maybe 40 days and we have also been able to reach almost 154 cities from which customers have consulted with us. So if I have to just take the positive out of this one is that smaller city clients are looking for better quality doctor and they are also more open to the idea of using online as a channel to interact with doctors so we believe there is a huge opportunity for digital intervention in consultation in future and COVID is almost kind of acted as a catalyst. Even taking Bangalore,

Mumbai we have seen good consultation and the reason again being COVID that people would much rather sit at home and consult than come to a typical clinic to meet the doctor. So that has been a good journey and we will continue to invest on this area that consult over the next six months.

Monika Arora:

Sir can you throw some light on the debt numbers?

Rajiv Nair:

Yes, Saurabh you would be like to go ahead.

Saurabh Shah:

Yes, so basically Kaya Middle East as a debt from external banks which is around 18 Crores while Kaya India currently has a loan from director which is around 14 Crores as on 30th June 2020.

Monika Arora:

Thank you Sir I will come back in the queue.

Moderator:

Thank you. The next question is from the line of Vijay, an individual Investor. Please go ahead.

Vijay:

I have couple of questions, one is on the clinic side I know it is a very fast business you are in and how do you store data of the customers who comes at clinic because data is very important because you are into product too when you in the data and analyze you can actually make customized products for people in the country or region right so how is that just need some light on that?

Rajiv Nair:

So we have been storing information consumer data and analyzing this data for more than ten years now, a lot of the information that is there with respect to customer for example electronic medical records of customers, we can pull a data of a customer for the last ten years at least so all the data is actually stored on a central system on the cloud and we in fact are completely overhauling the system right now to move into a more advanced system through Microsoft and we are building our own cloud based storage for this data and we are also doing data security so we have done the ISO 27001 compliance, so data compliance is something that we are becoming more and more focus on so I think that is something that we are doing. If your question is more about analysis of data, yes a lot of analysis of data is possible by customer and things get well in large loyalty program also we have individual customer led behavior in terms of purchase and that is something that we use to create new offers, new promotions or new packages for customers on a regular basis so data is available and is all stored by us on the cloud.

Vijay:

That is good to hear and then why I actually asked this question is most of our dermatology practice clinics is unorganized led by few individual doctors so while you are one of those few brands where you have an unique opportunity to actually get data, analyze this and then use to manufacture better products, better services so that is where I am coming. So this will be a very unique opportunity and that is one and one more thing in regards to COVID I think you have taken lot of rationalization because in clinics it is a very difficult business as I stated I myself a chief operating officer of a American healthcare company in India so I know what it is, now it is most difficult business to run, I do you understand but we do have a wonderful product business, extremely good products and very scalable business that you have today's market cap of 300 Crores I think only a product business can be \$1 billion or \$2 billion if you can actually get the code right and Mr. Harsh Mariwala as a Chairman and one of the best marketing brains in this country, I am actually looking at what is your plan around products not just selling in India I think with e-commerce the whole globe is there for your to push your products, so what are your bigger plans for the products?

Rajiv Nair:

Yes, so far as the product portfolio as you rightly mentioned I think we have a very good portfolio of products and very high quality. Obviously because of that, these are not the cheapest of product, so they are not exactly comparable to any FMCG brand today in the market because they are high efficacy product. So in the initial phases we developed a product portfolio for the clinic. Over the last 3 years we have been doing distribution business and reaching out to more counters of course COVID has acted as a headwind for distribution business at the movement, but e-commerce is going extremely strong so we believe there are two channels in which we will put this a product energy one will be building a strong e-commerce brand for our product and we are seeing very significant traction in websites where we rank almost in the top five of skin care brands with our partner vertical and the other channel of significance is the clinic itself . For the time being in a short-term we may not really aggressively expand on distribution because of the COVID scenario but once situation stabilizes on that front we will also look at more wider distribution of products which would be there we are as I mentioned earlier also we are planning to use this COVID

situation to our advantage by starting this business of web consultation both with partners as well as internal ecosystem that will also help us drive product conversation so as I mentioned to you earlier also that with companies like Mfine when we have started off very pilot project on consultation, we have reached almost 154 cities from which customers were consulted. Now we are able to give them a click and buy method of buying the product as soon as the consultation gets over, we can sell to a lot of cities now with people like Nykaa with people like Amazon we are able to reach 1000s of pin codes today with our products so I would say digital is a very important part of this strategy. So overall we see from a just because 15%, 16% revenue contribution of product we have already reached 25 and this year we will reach more than 30% product business so that is broadly the strategy that we have. The ambition that you set out is very good and I would say it is a plausible idea of scaling a product in a very big way, but I think at this stage this financial year these are our focus areas.

Vijay: And on the debt side will you require any more capital going ahead short to medium-term?

Rajiv Nair: So, in terms of investments into the business as far as capital investments are concerned for this particular financial year, I think we have well covered if there are any other operational requirement that may come we will take it as it comes so currently we do have assurance of funding for this quarter, we will take it as it comes depending on how the scenario pans out for COVID, but at this stage we are well covered.

Vijay: Thank you.

Moderator: Thank you. The next question is from the line of Rahul Malhotra from BGOLD Strategy. Please go ahead.

Rahul Malhotra: My question is you have your outlets which are opened, so you said out of 72 how many outlets are open now?

Rajiv Nair: Now all 73 clinics all of them are open across almost 24 states.

Rahul Malhotra: So I have just one question pertaining to the footfalls of the customers who come to your outlets, so there must be two kinds of customers the first is the existing customer base which you have your database who will be repeat customers and second is the new customers so can you just tell me or throw some light that the existing customer base how many are now coming and

are you able to add some new customer during these difficult times?

Rajiv Nair: So almost 40% of our clinic revenues actually come from new customers and 60% comes from existing customers if you are specifically referring to the last two months or two and a half months time when we did surveys of customers who are come new, we did find a lot of customers who have come from unorganized channels to our business which mean the fact that people who have gone to dermatologist have come to our business, but I would say these are early days we are doing our checks on the sources from which we are getting the new customers which are coming. Obviously there is the customer confidence that the ground as of today has not reached the stage that we can see a growth in customer count numbers, in fact we are seeing decline in customer count numbers at the movement, but that is also because of fear of stepping out and fear of coming to clinics at the movement. But for the people who have come, and we have surveyed, and we have done a study we have realized that we have also got some customers from unorganized dermatologist coming to our business.

Rahul Malhotra: So, in total if you compare with pre COVID year what would be the percentage of footfall you would have achieved both existing and new customer basis what is the percentage of this?

Rajiv Nair: Yes at this stage I would have mentioned we have reached 35% in all close to about 45% 50% of our total turnover, but in terms of customer entry number it will be still sitting at almost 40% of last year's numbers so roughly about 60% decline in customer traffic during this particular period.

Rahul Malhotra: And last question, do you do lots of cross sell to these customers I mean you sell products obviously you will be selling so do you have a special first on increasing of these cross sell products of each customers who are using your services at your clinic?

Rajiv Nair: Yes, so part of it is what we call as bundle so some of our services come along with some products that are recommended as bundles with those services so there will be some moisturizers or there will be some sunscreens and stuff which go part of a package, but we also sell it standalone so customer can choose to buy on their own individual product so some part of it is bundled some part of it is chose to buy.

Rahul Malhotra: So is there any increase in per customer basis compared to last year pre COVID era I am talking about

Rajiv Nair: Sorry can you just repeat that.

Rahul Malhotra: Is there any increase in the product bundle or product cross sell compared to last year per customer basis?

Rajiv Nair: Not really I think it is little premature at this stage as I mentioned to you that the overall number of business right now is sitting at about 45% in India so cross sell, up sell I do not think it will be a very large change between last year and this year it will be a factor of how much customer volume we are getting, the difference that we have is as I mentioned if you look at what is happening between the two markets that we have today the Middle East is an area where we are seeing a very different customer behavior in terms of new and existing customer so I would like Vikas to also explain that a bit more, but what we have seen is a very different trend in a Middle East where there is a large movement of new customers coming into our business from unorganized or semi organized channel. Vikas could you just please highlight that part.

Vikas Aggarwal: So we have seen a very encouraging trend in the last three months we opened up in May and I am telling the numbers of July so our business is at 90%, our client traffic is around 85% at an overall level and actually new client traffic has driven the traffic the new client traffic which use to be around 35%, 36% of the overall traffic today is running at 40%, 45% so new client traffic is almost 90% of last year while existing client is around 78%, 79% and we think that that will also boost up because existing client will definitely come so one of the big reasons we see why this is happening and these new clients are half from the category and half new so we are also initially surprised on new clients coming in from outside the category, but when we looked at insights, we deep dive we realize that there is a huge quality demand that is happening in the market. These are services which rely on quality and as a brand over 17 years one thing that we built very, very wellness quality so while for the last few years a lot of customers were moving for price, given the safety measures right now, the quality demand brand like Kaya is gaining a lot so we are seeing a lot of shift for people and of course our communication and innovations is working on top of that so it is a very encouraging trend in Middle East and I am assuming the brand being equally

powerful and India will see that at some point when lockdown gets over so it is good so 90% business, 85% traffic out of this 90% over last year is new client traffic right now.

Rahul Malhotra: Thank you so much.

Moderator: Thank you. The next question is from the line of Ayaz Motiwala from Nivalis Partners. Please go ahead.

Ayaz Motiwala: I have been listening to the call Sir and I just want to a first just a clarification if I got the facts correct and then my question, so you mentioned that your product business is now getting closer to 50% of the overall slightly depressed sales because clinic sales has been lower because of closure is that correct Sir?

Rajiv Nair: No, no, so first quarter because first two months almost two and a half months the clinics were shutdown, products were largely selling through e-commerce and some bit of hyper local deliveries we were doing so product business was over 70% of the business in the first quarter and e-commerce leading a large part of that revenue. Yes, but that is not 50/50 is not to as of today what I mentioned was that our product business in the past which is before COVID was coming 50% from the clinic business and 50% from GTMT and e-commerce.

Ayaz Motiwala: Got it, okay that was where my confusion was so what would it be as a percentage of sales barring this quarter at 70% you think when things settle down?

Rajiv Nair: Yes, so already it has reached from a level of 50% to almost 30% over the last few years we expect this number to further climb up and we expect this number to reach at least 40% of our business going forward so our entire strategy of product development right now we despite the COVID scenario we have continued to research, develop product and we do have a fairly good pipeline of product coming in the next few quarters so we expect product business to reach as high as 40% of our business. So one thing that we are doing specifically is that we are going to aggressively promote on e-commerce, I think our entire concentration for this financial year is on e-commerce and digital communication, so I think we will promote products both on the online channels that we have as well as on the e-commerce website and that is where we feel the highest traction will come in this financial year.

Ayaz Motiwala: And this 40% aspirational number is within this year or within a next couple of years?

Rajiv Nair: See it depends on how the progress pan out over the next six months are especially in India because Middle East is largely a services business, in India we will have to actually see how the mix pans out over the next three, four, five months time but we will be making a strong push for product so just in case services remain subdued for at least another two three months time the product contribution will continue to be higher, but as I think currently we think it will be in the range of about 30% in this financial year at least till the end of this financial year.

Ayaz Motiwala: Sir and on your presentation that you shared on the stock exchange on one of the slides I am just reading out your target audience which is the new classification going by the old sort of terminology in terms of like SECA for services and SECA and B for product how would you be targeting this customer who are probably, who globally travelled will compare you with Korean and European products on skin and beauty and how would you win this challenging market customer?

Rajiv Nair: Are you talking about the SECA services customer or the SECA, B 18 to 35?

Ayaz Motiwala: So, since we talked about product, I must clarify it more let us say more about product first and the services if you can explain that as well please?

Rajiv Nair: So I will explain that if the target audience has always been SECA to a large extent in our business of services because generally services are a little bit more evolved category than product and the price segment of services are higher than that of product so our target audience will always been a high network individual to that end largely over the last maybe 17 years our focus has been on that side, what we have done over the last three years is that through product we believe the reach can go to a slightly more younger consumer and maybe make the Kaya business more accessible to people, so the people who cannot reach your brand through services can reach your brand through product and products can reach more markets than services can do. So that is the philosophy. To that end e-commerce is a space where we are actually advertising and promoting our brand, especially on sites like Nykaa and Amazon obviously with limited budgets but not really going that aggressive but we are a fairly visible brand in both these websites and contribute significantly to the skin care portfolio in these websites. So that is one method, second is all

our communication is digital so medias like Instagram and Facebook and YouTube we are promoting heavily, we are actually moved a lot of our content into video content and even product communication is moving a lot more video forward so to that end when you are talking about this globally aware traveled researching consumer we are talking about them being active through the internet. Web consult is very new we believe the milliners will pickup web consults much faster than the older consumer so we are opening up our own web consult system which we already have but we are improving the technology at the same time we are working with the ecosystem of partner who will take skin consultation through web consult and quite a few of them may not convert to services, but definitely will convert to products.

Ayaz Motiwala: So this is very helpful but just as a benchmark to these international product brands who would you keep in mind when you look at yourself whether it is a product packaging design and finally the off take of this product by the consumer who and she has a choice let us say, it is a people like Yields and other product higher ends or what kind of stuff you look at?

Rajiv Nair: Yes, so what you are saying the clinics of the world and the Yields of the world are good benchmarks to have from quality perspective, product packaging we do not invest as much as they do so we also need to keep the pricing a lot lower than what they do but if you compare I think our products are researched for the Indian client so in terms of skin types and others I think we have done a very good job and we stack very well in terms of quality of our products vis-à-vis some of these brands or of course in terms of brand imagery these guys are more premium and the price points are extremely high, so we do not want to be in that space.

Ayaz Motiwala: How would the tradeoff be for the consumer Sir how much is the cheaper to buy let us say taking on a face value there is a quality is absolutely the same in terms of and added advantage of Indian skin type how much would be...

Rajiv Nair: Significant because again as I was saying, some of these brands are not positioned to everybody in the market and that is their brand positioning so to that end some of the products will be as low as 50% to 60% cheaper than what these brands are.

Ayaz Motiwala: So and just one quickly because I have taken a few questions together if you do not mind few years ago when we had net off

with the company in capacity in one of the sort of meeting forums they was also talk about the hair opportunity and hair loss both in women and also in men and you have launched that service and also product some of the products are there some features whether it is hair fall or dandruff or related products which are there can you expand on the hair opportunity, is that also a very significant opportunity or is it even bigger than the skin opportunity because the parent company or the erstwhile sort of parent because it is now an independent company is very big in hair care products per se so how should we see that and question was earlier ask about sort of Kaya Youth and you clarified it very well, are there any sort of brand inter linkages also there in the future potential for this hair services that you are thinking of doing?

Ayaz Motiwala:

Yes, so hair still contributes to about 7% mix to our business 6% to 7% mix to our business and also in the product portfolio it is in the range of 6% to 7% as of now. What we have realized is on the product side there is a lot more competition existing, organized competition which is there in the hair care health space in the product range in terms of services we offer a lot of hair loss solutions, we did attempt hair transplant as well our efforts were not very successful, we did three transplant centers in three cities, but obviously we did not see because the consumer the target profile that we are not a very male focused brand and our large part of the consumer base is women, we did not really see as much traction as we thought and then after the point in time, we gauged the long-term opportunity and we said we do not want to be in the transplant business. We focused more on the hair loss segment which still continues to be a big concern area for women and also for men so services like PRP, IHRTs are services that are offered by Kaya and we are probably best in class but as far as mix to business is concerned we are still 6% mix to hair so if I have to say where are we dominant so we are still dominant on skin but there is a large opportunity to grow the hair category and we are working towards it.

Ayaz Motiwala:

And the last question Sir related again to cross category, you had and then disbanded the idea of if I can say it in my sort of layman terms weight management and stuff like that which you had taken it, you tired it for a year or so and then...

Rajiv Nair:

Are you talking about body contouring or...

- Ayaz Motiwala:** No body contouring is what you are doing now sir, so was coming to that, that suppose what it was called Kaya life I guess yes where your focus was that you are going towards the healthy life style but essentially sort of...
- Rajiv Nair:** It was a long time ago and I think we did give up that category because weight management is a segment which is not purely based on just nutrition, it is also psychological counseling a lot of other things we had offered at that time and so we offered nutrition, we offered exercises, we offered counseling but very complicated game, we got out of this long time ago and we do not intent to get there at this movement.
- Ayaz Motiwala:** So, this sculpting that you are offering it is probably sounding like in the Middle East or in India as well?
- Rajiv Nair:** Middle East it is a good business, growing business so Vikas if you could just touch up on body contouring.
- Vikas Aggarwal:** I just want to clarify one difference weight management and contouring. So weight management is a lot more commoditized category, lot of player are there, price points are less and like Rajiv said it involves a lot more beyond services for products and for a company like ours to change our core to going to nutrition and going to exercises that has been significant one. while body contouring is a lot more futuristic category and a category more for evolved customers so when you have small little areas in the body which you do not feel normal about and we target those area **inaudible 48:22** other than reducing rates we are actually looking at underarm we are looking at size and those are areas we target with some really good technology when you gets the premium you get the segment which is not come up with us and what sort of in the last few years we have been launching some machines in the contouring space and we have seen that, our position has been to stay away from weight management even the selection of customers is exactly because some of the customers also do not understand the difference between the contouring and the weight management but even in a body contouring is a space which his is very relevant for Kaya, very futuristic and hold huge potential with the kind of customers that we receive in Kaya who are doing well, in fact post COVID given the lockdown and being at home we have seen a huge jump post COVID in the last few months our body contouring is almost 200%

- of what we are doing pre COVID and we are looking at a lot more potential in the coming times in this stage.
- Ayaz Motiwala:** That is great Vikas thank you very much just as a passing comment this business has also had a notorious reputation in sort of countries like Singapore and Hong Kong where customers have come back on terms of promises as well as we were selling and finally in terms of physical effect on the consumer because of the technicians bad handling of equipment etc., so more than the clarification I just like to leave you guys with this thought as you scale this business maybe you would want to keep this in the back of your process manual or whatever. Thank you very much.
- Rajiv Nair:** Yes, a fair suggestion thanks you very much and yet that is something that is a concern to all of us all the times.
- Ayaz Motiwala:** Yes, so you guys have not a sort of risk-taking DNA as such as part of Marico in the past so I would imagine you would be very, very careful of that.
- Rajiv Nair:** We are also a listed company answerable to a lot of people we would not take that kind of risk.
- Ayaz Motiwala:** Thank you very much.
- Moderator:** Thank you. Next question is a follow up question from the line of Saurabh Shroff from QRC Investment Advisors. Please go ahead.
- Saurabh Shroff:** Lot of my questions have been answered. I just wanted to clarify one thing so if I am just looking at your historical numbers we have been doing a run rate of about 100 odd Crores of sales over the last two and a half three years and I just want to understand so this 24 plus 18 odd Crores of cost that we have manage to take out if and when let us say could be 12 months from now by the time things normalize, when we get back to a sales number of a 100 Crores with maybe a higher mix of product does that mean that we can almost take a 30 to 35 Crores of EBITDA as a bare minimum number essentially that this cost barring inflation, this cost reduction should stick is that a fair assessment?
- Rajiv Nair:** So, you could rephrase that question in a simple way I would probably be able to answer?
- Saurabh Shroff:** Yes, so I will give it other go. So in the India business we taken out about 24.5 Crores of cost in the Middle East business we have taken out 18.7 so that is about 42 Crores our current topline in this quarter obviously which is very depressed is 24 Crores, but our run rate on a normalized basis for the last year we were doing about 100 to 105, 107 Crores of sales so what I am trying to

understand is that when we get back to this 100 Crores of sales so it could be 12 months 18 months whatever, does this mean that this 40 Crores that we have saved is essentially for us to keep and sort of a permanent saving barring inflation of course, because I see that there has been employee cost reduction of a good 10, 12 Crores just between March and today so I am wondering you had to let people go because centers are shut some case is maybe you have taken a view that things are not going to normalize for 6 or 12 months so you do not need people on the roll, so I am just trying to sort of understand that where are we suboptimal or where it we have gone too deep and we will have to reinvest in the business when things normalize?

Rajiv Nair:

Yes, I think very good question in terms of the fact that it is cost saving sustainable and we are exactly working on a next year's numbers right now and not everything will save as in this quarter because we have had to go extremely aggressive to make sure the fact that since where business were shutdown we have to really take some aggressive calls to control our cost, but there are certain benefits out of that because we have been able to optimize the number of employees per clinic, we have been able to relook at the structure both at the front end at the back end and we have been able to do some merging of roles and things like that during this particular period, those kind of benefits will continue in the business. The number of doctors needed to attend for particular clinic all of that such has been listed so from a return per employee basis I think we have done some calculations based on which we have been able to optimize the employee strength in clinic some of the rent negotiations which were coming up in this financial year we have been able to also keep a control on that so that if there are new terms coming up in this financial year we have actually put a halt on to it so we will negotiate to keep the rents at the same level or lower so some of the rent benefits may also go through into the next year and some of the clinic overheads we have actually looked at some scratch almost like a 0 based budget and some of that saving will also continue for the next financial year, so for example housekeeping expenses, some of our electricity expenses, the back office expenses all of those things have been looked yet so I cannot say all of the saving can continue because some of it is because of specific measures we have taken for this period but

yes there will be benefits flowing in to the next year I cannot currently quantify the percentage, but definitely there will be benefit.

Saurabh Shroff: So maybe we look forward to some more clarity as things normalize then we can have a better clarity and just one more question is what is the average revenue per walk-in customer in a clinic on the services side?

Rajiv Nair: Yes, so a typical average bill size or ATV for customer is closer to Rs.9000 in India, Vikas what is the number for Middle East?

Vikas Aggarwal: Around Rs.37000.

Rajiv Nair: So about three to four times of India per customer value in Middle East.

Saurabh Shroff: And how many of these customers also end up buying your product.

Rajiv Nair: In fact, a large part of the consumer base buys product because the value per SKU is much lower, I would say 70% of the client base of Kaya in India would have bought product from us.

Vikas Aggarwal: Middle East is much smaller so almost 13%, 14% but again this is a very service focused business as our home care add on, so it is a little different from India.

Saurabh Shroff: So this sort of pricing which the previous gentlemen questioned that against the well travelled affluent customer probably needs something as he I mean even I do not know the answer to be very honest but how do you get him to try a brand if we have seen a clinic or a body shop or maybe something even cheaper at the airport or at a store abroad so even while that customer, she walks in and she spending equivalence of a \$150 in your store for treatment or in the Middle East \$300, \$400 and \$500 now I guess how that salience of the brand will growth is going to be ...

Rajiv Nair: Yes so I will give you answers to that from the perspective of our loyalty program so about 46% of our revenue comes from the platinum Tier customer and they also contribute significantly to our product business so people who are exposed to brand Kaya and who are use to services in the clinic are good buyers of products of Kaya as well so price is not really a factor there because they know the quality and now for the external consumer which is the person who you are saying is today buying a body shop or any other brand now obviously we have to invest on creating brand salience in various platforms. We believe at this stage the best way to build that salience is through the e-

commerce route because large part of the current population in the right target audience is buying through e-commerce that is the place for us to build the brand, so we are investing more aggressively on e-commerce than on other channel.

Vikas Aggarwal: And if I just add one thing, there is one added advantage we have which is the dermatologist recommendation so we see in Middle East that products which would get from India which actually are not as superior as in Middle East to others, even they get prioritized if a dermatologist recommends them because of the quality of product is fantastic and in various cases it is better than the higher price products and the packaging of course matters in a retail, but when a dermatologist recommends this the customer actually look at the product as well of more superior and we have seen there are lot of our business actually comes from that shift within the customers when we are taking services and adding on product.

Saurabh Shroff: That is right and finally again I am not entirely sure if this is relevance of the category of product that we are in but this would not natural wave of people trying to sort of low chemical, not animal tested hypo allergenic or sort of are these things that Indian consumers cares about or is it still be for us to be bother about it.

Rajiv Nair: No, no, no, I think what I mentioned about the internet I think has been a good leveler so while premium brands have been doing this for a long time internationally Indian consumers also very sensitive now on all of these things now all e-commerce brands are promoting something which is for safety of skin so to that end Kaya has a lot of products now in a segment called derma natural where they are paraben free, sulphate free some products are even vegan, so we are actually promoting all of this right now in our products.

Saurabh Shroff: So, all of this and it is not sort of not tested on animals all those things will become that...

Rajiv Nair: Yes, yes absolutely I think it is important for consumers and today's consumers are more aware than in the past and I think internet helps in terms of promoting this information.

Saurabh Shroff: So, our entire portfolio is sort of...

Rajiv Nair: We do not have any animal tested products not every product once we put a claim it has to be backed so all our products which

claim to be sulphate free, paraben free they are genuinely tested and that is how we promote it.

Saurabh Shroff: And finally, is there a global company I mean either in an emerging market that is similar to us that or that we are emulating or try to be or is there a competitor like us anywhere in the world.

Rajiv Nair: So I think in the region of Middle East there are lot of guys who are there but there are not really large scale so Vikas would you like to say in a more organized or maybe more evolved market what is the competition scene is.

Vikas Aggarwal: Through the Middle East there are chains, but like Rajiv said they are not global, they are again local, across the world we have not found any chain which are very similar to us, there are chains in Australia, there are chains in Europe that the brand called Skin in Europe and even then metros like our yes so but again the business models are pretty different in each of those and lot of them are franchises which we are not, a lot of them are focused on just product recommendation and I do not be found an exact match which you can emanate and plus also within our business India and Middle East are a little different from being a very service focused to service plus product focus so again we also have seen internal models almost going parallels learning from each other but yes there is no perfect brand that we have come across that we can emanate just and people were clinically continue to strength we continue to benchmark but not a brand which we can talk at least similar to us.

Saurabh Shroff: Then finally from that is sort of overtime do you see this becoming a full-fledged cosmetic brand in terms of the product size is that the path that we are on and it could be two, three, five years down the road but is that the road that we are, if you may just share sort of what the your vision is for the company.

Rajiv Nair: Yes I think very clearly I think our focus is dermatology I think the base fundamental of the brand is dermatology so skin care and hair care will continue to be our dominant position even in product so trying to be a color cosmetic brand or stuff like that is completely away from our DNA so our focus is going to be skin care while we are talking about all these brands that we were mentioning earlier that clinics they are fairly recent in the country and skin care is growing at a very large phase in the market because of new brands coming even from places like Korea into

the country so people are more aware of skin care today so I think there is a large journey to take even in the skin care products in a country like India I would say Middle East would be more evolved but skin care is the place where we will focus all our products.

Saurabh Shroff: Thank you very much for taking my questions again.

Moderator: Thank you. Ladies and gentlemen that was the last question for today. I now hand the conference over to the management for their closing comments. Thank you and over to you.

Saurabh Shah: Just to conclude, the group is closely monitoring the developments and the plausible effect that may result from the current pandemic on its financial condition, liquidity and operation, and effectively working to minimize the impact of this unprecedented situation. Thank you for participating on the conference call please take care and be safe.

Moderator: Thank you very much. Ladies and gentlemen on behalf of Dolat Capital that concludes today's call. Thank you all for joining us and you may now disconnect your lines.