"Kaya Limited
Q3 FY '23 Earnings Conference Call"
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Moderator: Ladies and gentlemen, good day, and welcome to the Q3 FY '23 Earnings Conference Call of Kaya 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 star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Rajiv Nair. Thank you, and over to you, Mr. Nair.

Rajiv Nair: Thank you so much. Good afternoon, everybody. I welcome you to the conference call on company's behalf. Let me begin the conference call with a short update on the Q3 performance of Kaya Limited, which is already in public domain and uploaded on our website, which is www.kaya.in. Kaya Limited posted consolidated revenue from operations of INR 100 crores for Q3 FY '23 and a growth of 10% over corresponding quarter and a sequential growth of 10% over last quarter. Consolidated EBITDA is INR 8.2 crores in Q3 FY '23 as compared to INR 11.7 crores in Q3 FY '22.

Consolidated loss after tax and before exceptional items for Q3 FY '23 is INR 17.8 crores, which includes onetime impact of goodwill -- impairment of goodwill of INR 4.4 crores as compared to a loss of INR 8.2 crores in Q3 FY '22. Kaya Limited, Kaya India posted a revenue from operations of INR 47.6 crores from Q3 FY '23, a growth of 6% over corresponding quarter and a sequential growth of 8% over the last quarter. Kaya India EBITDA is INR 6.1 crores in Q3 FY '23 as compared to INR 8.3 crores in Q3 FY '22. Kaya India loss after tax and before exceptional items for the Q3 FY '23 is INR 35.5 crores, which includes onetime impact of provision for impairment on investment of INR 29.4 crores as compared to loss of INR 1.9 crores in Q3 FY '22.

Collection in India at clinic grew by 16% over last year and by 9% over last quarter. Collection in Middle East grew by 16% over last year and by 8% over last quarter. Business has been driven by increase in average ticket size by 22% in India and 5% in Kaya Middle East. India saw the launch of its second new clinic post COVID at Surat, and we believe we will launch a few more clinics before the end of this financial year. From a customer experience perspective, both regions showed strong positives with NPS reaching over 81. Innovations in the quarter contributed to 12% of Kaya India clinic business and 5% of Kaya Middle East business.

E-commerce showed a slowdown due to limited primary sales with our partners and growing competitive pressures with strong marketing investments from many brands on this channel. Kaya is now certified as a great place to work with an all-time high score of 76 in 2023. The detailed information update is available already with you. I now open the session for questions, then my colleagues and I will be glad to answer this. Thank you.

Moderator: The first question is from the line of Sakshee Chhabra from Svan Investments.

Sakshee Chhabra: My first question is, what is the contribution of product versus service to your overall revenue? Also I want to know what would be the EBITDA margin for the product segment and how are we planning to grow this product segment? What are the point of sales that you are focusing on through the clinics?

Rajiv Nair: Okay. The total mix of product to the India business is 13%. We -- as far as channels go, we actually do the business through our clinics and the e-commerce partners. And as recently as about a year ago, we actually launched our new D2C website, which is now fully operational. So that's another channel that we actually sell our products through -- which is there. Gross margin on this category is roughly about 70%, 72%, depending on segment. And we have recently also introduced nutraceuticals in the categories. That's one new component that we have added in this particular segment. So that's the product business for Kaya.

Sakshee Chhabra: Okay. Also, I wanted to understand that why has there been a drop in India in the number of customers from 36,000 last year to 34,400 this year?

Rajiv Nair: Yes. So yes, this is a post-COVID trend that we've actually seen that physical visits from consumers have reduced overall, which means the fact that we went down during COVID, and now we are regaining back the customers. Some of the customers who came to us post-COVID and quite a few customers who came to us from pre-COVID, which is 2 years and plus, the change in behavior is that we have also seen a very significant increase in transaction values of these customers. So while lesser numbers of customers have come, they have traded up ATS by almost 22%, and that's why we've seen the growth in this particular quarter. But I think it's a post-COVID behavior, and it is building up as we speak in terms of number of customers.

Sakshee Chhabra: But last December was also a post-COVID period, right, but that time you had higher number of customers?

Rajiv Nair: Yes, last quarter, this was the first quarter of business to begin post-COVID. And in fact, if you remember, the first quarter was significantly impacted. The second quarter buildup was happening. In November, December, we saw a very strong rebound of customers. For almost 3 months, there was very limited business, and that was actually improving. But then again, in the next quarter, which is the fourth quarter, the first month was impacted by COVID. So last year, there was a little bit of a pent-up demand that we can see in quarter 3. So while we have a decline marginally in terms of number of customers that has been compensated by increase in average transaction value.

Sakshee Chhabra: Great. And sir, since the gross margin for our product business is so high, how are you planning to increase the sales through the product because only through the clinics will not be a very vibrant plan made?

Rajiv Nair: So a couple of things. One is that we have also launched our D2C channel and also planning to launch omnichannel. It's a very early stage at this moment. So we have not yet really launched at full scale, but there will be an omnichannel play that we will try and do. So basically, our clinics are a consultation point for customers. Customers come in large numbers. We do believe that, that customer will also want to buy these products from home through the digital group. So that's one point.

Second is, of course, we continue to build our business with our partners in the e-commerce channels because we believe physical is an expensive proposition, which is basically the GT/MT business. And since we have more than 73 points of sale now, that's a good enough distribution that we are able to get through our own clinics. We will not be going to the GT/MT channels anytime soon.

Moderator: The next question is from the line of Gaurang Ved an Individual Investor.

Gaurang Ved: My question pertains to our growth and expansion plans. I'm glad to know that our new clinic in Surat has a trending 5-star Google rating since launch, and we intend to propel growth by starting new clinics at various other locations. But my question is, you indicated in last con call that growth going forward will be a combination of various things like financial restructuring, same-store sales growth, store expansion, innovation and refurbishing existing chain.

So my question is, are we behaving like a mature company very early in our growth cycle, as on one hand, you see significant opportunity if I go by your investor presentation, but there is very slow growth in new store expansion. So why is there -- aggression is missing, especially if I compare to other leading competitors in our industry. And second question is when will we be ready for our fundraising plans?

Rajiv Nair: Can you hear us?

Gaurang Ved: Yes.

Rajiv Nair: Yes. So I'll just answer one part of it. The last bit, I'll ask Saurabh to tell you about the fundraising time lines. So to begin with, in terms of expansion story, we already opened 2 clinics in the last 2 quarters, and we are planning to open up 2 additional clinics in this quarter. So by the end of this financial year, at least 4 clinics additional will be launched, which should be there. We do have plans for more clinic expansion in the next couple of years, but we will explain the plans to you maybe by the end of this quarter. So that's one part as far as clinic growth is concerned.

All the other initiatives like refurbishment, revamp of clinics are ongoing and something that we are doing. We are also making investments on new technology in terms of machinery in clinic. So all our dermatology equipment are getting refreshed on an ongoing basis. So clinic refurbishment and machine refurbishment is something that we are doing at the moment. In terms of innovation, innovation continues. So for example, products, we did NPD launches in this last 2 quarters. We have also bought in an AI app inside the clinic, which is contributing to doctors' consultation using an AI technology. That AI technology incidentally also is available on our website, which is available for customers to use to assess their own skin. So innovation-wise, we are definitely looking at that.

We are adding new categories into the business like Nutraceuticals, which we have now recently added and doing extremely well in the last quarter, and we plan to expand this category. And last but not the least, we are also foraying into Body, which is a big vertical that we started in the Middle East business over the last couple of years, and we are bringing into India. Early response on Body is quite strong. So that's another vertical that we plan to grow our business with.

Now of course, new clinics, which is your question as to whether we should be more aggressive? We are exploring the entire Tier 2 segment of market. As and when we find the right location, we'll definitely go for it.

Saurabh Shah: On the last question, which you asked on -- I think, so I would like to inform that we are evaluating the option to capitalize the business and will inform and get back to you over the next few months.

Gaurang Ved: So by end of the next quarter, can we hear something mostly?

Saurabh Shah: Gaurang, I can't give currently any guidance, but that's what we will inform you over the next few months.

Gaurang Ved: That was quite helpful and wishing you all the very best.

Moderator: The next question is from the line of Aman Vishwakarma from Robo Capital

Aman Vishwakarma: Yes, I'm I audible?

Moderator: Yes, you are. Please go ahead.

Aman Vishwakarma: Yes. So I was wondering if the management could give any sort of guidance for the revenue this year and for FY '24 along with the margins?

Rajiv Nair: No, that would be something difficult for us to actually discuss something that is future. You can ask questions with -- specifically with respect to the last quarter or for this financial year.

Moderator: The next question is from the line of Eshit Sheth of Anvil Wealth Management.

Eshit Sheth: Sir, just again, specifically on growth and cost structure for India as well as Middle East. One question I specifically had was on the employee cost. At INR 15 crores, INR 15.5 crores in India, do you think this employee cost as we ramp up on clinics, I understand we'll require some employees there as well. But this employee cost will stabilize at INR 16-odd crores a quarter? Or you think there is room for that to go higher? That is on India. And secondly, even in your Middle East operation, if I look at the staff cost, it has now reached up to almost INR 29 crores -- INR 28.76 crores for this quarter. Now if I compare to what our revenue or when the revenue was at INR 50 crores, INR 52 crores, even, say, 12 quarters back. At that point also, I think the staff cost was around INR 23 crores. So obviously, 3 years have passed and all of that. But I mean, where do you see the cost sustaining? Because you're not getting that growth on the top line, this cost as a percentage of sale is just continuing to inch up. So how do you ensure that this doesn't get out of control?

Saurabh Shah: Okay. Thank you so much, Eshit. As always, good questions from your side. So a couple of things is that on the employee cost, we consciously made an effort to improve staffing volumes in the clinics because post COVID -- during COVID period, we actually had a large amount of staff not able to come to clinics or not available in the business. So this time, we wanted to make sure that we are 100% staffed for deriving growth for this financial year. And we have seen growth happened in terms of double-digit growth happened in terms of this quarter, basically making sure that there is manning.

There's, of course, an incentive component and overall employment costs that we are keeping a strong eye on and we don't expect this to multiply. It will only correlate to the number of clinics that we are launching. But otherwise, in terms of existing clinics, we don't see a huge increase in terms of this cost. And also on lines like incentives and others, we're working aggressively to make sure the fact that they are directly correlated to overall performance. So that's something that we'll keep working on. I'll just ask Rajiv to just add on the Middle East bit and -- yes.

Rajiv Nair: So I think for Middle East, similar to India, there was a ramp up being done in anticipation of better performance. And in this quarter, we did see an improvement in our big territories, which have a lot of potential. Abu Dhabi was up 25%, Dubai was up 9%, et cetera. And we believe now that we have reached this level of staffing, it is sufficient for the next, let's say, 12 months or so to manage the growth and therefore, we don't believe this is going to go up any further in the next couple of months, and we should be able to see a higher -- a lower ratio of cost to sales in the coming quarters.

Eshit Sheth: Sir, and on the second bit was again on this customer account, I think somebody asked earlier as well. But are you worried because in India, suddenly in 1 quarter, I understand that in Q3 of last year, there could have been some pent-up because of which customer count was higher. But I mean, customer account actually degrowing by 5% despite all the initiatives. Are you worried over there that account dipped to 34,439 in this quarter for Kaya India?

Rajiv Nair: No. Eshit, I wouldn't be worried because one is the customer behavior in the clinics indicates that lesser customers got higher quality and higher transaction value, something that is happening. You can see an almost 22% increase in ATS value. So -- which means customers are coming up and trading up quite a bit. So if you see the categories of growth also in the quarter, if you see Anti-Ageing not just first one quarter, this quarter, which is typically a strong Anti-Ageing period. But the last 3 quarters, you can see significant growth.

All the doctor-led services, including places like Fairness and Pigmentation, the new vertical of Body, all of these are high-value services that people have come in and traded in. Obviously, we've been doing extremely well on laser hair removal through the year, right? So I wouldn't be worried. If this decline was much higher, we would probably be more worried. Just to kind of add on some points as to what we are doing to arrest this is we are working on marketing automation and digital initiatives now.

So you will see, as we go into the next quarters and start announcing things, we are also bringing in a lot of customer marketing automation opportunities, some amount of DIY for customers to book appointments, to engage with the business and stuff like that. And that will be another channel to improve the funnel of customers between lead to footfalls in the clinic. So some initiatives are being strongly taken from by our side to make sure that we grow the customer count.

Eshit Sheth: And again, one question for Saurabh. Saurabh, what is the outstanding net debt at the end of this quarter? And the kind of funding requirements you will require over the next 1 year or so to meet our growth aspirations?

Saurabh Shah: So, Eshit, thanks. For the future prospects, I would not be able to comment. But if you -- the outstanding as on 31st December with regard to loan, external loan is INR 12 crores and loan from directors remained intact, which was prevailing at the previous quarter. There's no drawdown or no loan taken from director during this quarter.

Eshit Sheth: What is that amount just to...

Saurabh Shah: INR 90 crores -- approximately INR 93.72 crores or INR 94 crores, hopefully that is...

Eshit Sheth: Sorry, you said INR 90 crores...

Saurabh Shah: INR 90 crores -- INR 93 crores, INR 93.75 crores.

Eshit Sheth: INR 93.75 crores and INR 12 crores from outside. So INR 105 crores is the net debt, right?

Saurabh Shah: Yes.

Eshit Sheth: And Rajiv, one last question was on your capex for the new store addition that we are talking about and the refurbishment and the new machine investment that we are talking about? So what is the kind of capital expenditure we are planning for same this year and maybe next year also, if you can explain?

Rajiv Nair: Yes. So this year, actually, expansion capex is limited because we are not looking at more than 4 clinics to come by the end of this financial year. But we do have plans, which we are setting in place for growth in the next financial year. As I mentioned, Tier 2 cities is an important area. We're also taking up strategically certain older clinics for refurbishment. So that is also happening. I would say we would be a little better placed by the end of this quarter to be able to give you a plan on it. But to -- in the short term, this quarter would be another 2 clinics getting set up in the business. We have also been selectively replacing technology, which is when I say technologies, dermatological equipment, to phase out the old machines that we have in the system and bring new machines in the business. So that we have done. Maybe, we'll give you more guidance as we go forward.

Moderator: The next question is from the line of Ajay Vora from Nuvama.

Ajay Vora: Just want to understand, 3 years from now, what sort of products and services mix are we looking at?

Rajiv Nair: Again, I can't give you guidance on 3 years. But what we are planning to do is that we are expanding our foray into services like Body, which largely Kaya has been known for its skin business. And we also have a hair business that we are trying to expand with new innovations. So Body and Hair will be something that we will expand both in India and in Middle East. And so it will become a skin, body, hair type of business. So you will hear more from us as we go into next quarters for the same.

Ajay Vora: And within this therapy or the packages, how would the realization be for body, hair and skin?

Rajiv Nair: When you mean realization, what do you exactly...

Ajay Vora: I mean, with the package value, is there any -- the pyramid in terms of how you price it? Where would be a high-value package?

Rajiv Nair: So Skin is -- since it's March, a large part of our business, the prices can be good low, medium, high. But when it comes to Hair and Body verticals, it will be medium to high because we are talking about equipment-led or machine-led and doctor-led services. So these packages will definitely be on the medium to high type of price points.

Ajay Vora: So right now, what is the average package which you guys would be selling?

Rajiv Nair: In which vertical are you talking about?

Ajay Vora: The pricing, average, all put together?

Rajiv Nair: ATS for us is roughly in the range of about INR 10,000.

Ajay Vora: Okay. So how do you see this -- going forward?

Rajiv Nair: It will marginally increase because the mix of these categories will add up. But I don't want to really get into discussing what will happen. But all these services that we are talking about, just to give you an example, Body vertical, single services are in the range of INR 35,000 to INR 50,000 net pricing for a single cycle. So that's the kind of pricing. Hair care services, like, if you take a service like a PRP, which is a very common service, price points are between INR 7,000 to INR 10,000. So that's the kind of price point that we have. But if you look at Body, the price structures are going to be on the higher side.

Ajay Vora: And just one last question. What would be the margin profile of the mature clinics for you?

Rajiv Nair: You're talking about gross margin, gross...

Ajay Vora: Yes, EBITDA margin?

Rajiv Nair: Clinic EBITDA would be in the range of about 35%.

Ajay Vora: At EBITDA level, you are saying?

Rajiv Nair: At EBITDA level. At clinic EBITDA level.

Ajay Vora: And there is scope for further improvement, right, on this number?

Rajiv Nair: Yes, it is. We're working on both for the top line and the cost for making sure we improve this.

Ajay Vora: So out of existing clinics, how many would be mature for us?

Saurabh Shah: So we'll come back to you, but what Rajiv has informed -- this is Saurabh here. Rajiv informed you 35% margin, this is the best fit profile of clinics on -- see, we have all operating clinics more than 2 or 3 years. And if you consider them as a mature clinic, then the average EBITDA range between 25%, 26%.

Ajay Vora: So ballpark, how many of them would be mature clinics for us right now?

Saurabh Shah: So if you ask me, all 71 clinics would be mature more than 2 years and above.

Moderator: As there are no further questions -- sorry for that. The next question is from the line of Sakshee Chhabra: from Swan Investments.

Sakshee Chhabra: Sir, I have one follow-up question. I wanted to understand that what has led to a drop in the margins for Middle East EBITDA margins? And how do we see that going forward?

Saurabh Shah: So Middle East EBITDA margins primarily basically on the capitalization on the people cost because we have invested in the infrastructure and the frontline staff to accelerate the growth in that region. And that's a major reason because of which the things are looking a little bit skewed. But in the long run, moment the top line grows, that percentage will come down and the EBITDA margin may meet the requirement.

Sakshee Chhabra: And what would be the target EBITDA margin?

Saurabh Shah: So Middle East, roughly EBITDA margin currently running is equivalent to India's margin. It would be around 25% odd -- 25% for best fir clinics. And if you -- if things veil, the growth perspective comes into picture, the margin may improve better.

Moderator: Thank you. Ladies and gentlemen, this was the last question for today. I would now like to hand the conference over to the management for closing comments.

Rajiv Nair: So -- thank you so much for your participation, and yes, we will talk to you again in the next quarter. Thank you.

Moderator: Thank you. On behalf of Kaya Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.