"Kaya Limited
Q2 FY2023 Results Conference Call"

November 04, 2022

ANALYST: **MR. SACHIN BOBADE – DOLAT CAPITAL**

MANAGEMENT: **MR. RAJIV SURI - GLOBAL CHIEF EXECUTIVE OFFICER – KAYA LIMITED**
MR. RAJIV NAIR - CHIEF EXECUTIVE OFFICER - KAYA GROUP - KAYA LIMITED
MR. SAURABH SHAH - CHIEF FINANCIAL OFFICER - KAYA LIMITED

Moderator: Ladies and gentlemen good day and welcome to the Kaya Limited Q2 FY2023 Results 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 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 Inba. On behalf of Dolat Capital I welcome you all to the Q2 FY2023 Earnings Conference Call of Kaya Limited. I hope you all and your families are staying safe and healthy. From the management side we have with us Mr. Rajiv Suri, Global Chief Executive Officer; Mr. Rajiv Nair, Chief Executive Officer, Kaya Group; and Mr. Saurabh Shah, our Chief Financial Officer. Now I hand the floor to the management for their opening remarks and then they would have a question and answer session. Over to you Sir!

Rajiv Nair: Good afternoon everybody. I welcome you to the conference call on the company's behalf. Let me begin the conference call with a very short update on Q2 performance of Kaya Limited, which is already in the public domain and uploaded in our website www.kaya.in. Kaya Limited posted consolidated revenue from operations of Rs.91.3 Crores for Q2 FY2023, a growth of 9% over corresponding quarter. Consolidated EBITDA is Rs.5 Crores in Q2 FY2023 as compared to Rs.14.9 Crores in Q2 FY2022. Consolidated loss after taxes and before exceptional items for Q2 FY2023 is Rs.16.5 Crores as compared to a loss of Rs.4.5 Crores in Q2 FY2022. Kaya India posted revenue from operations of Rs.44.2 Crores for Q2 FY2023, a growth of 17% over corresponding quarter. Kaya India EBITDA is Rs.5.1 Crores in Q2 FY2023 as to Rs.6.7 Crores in Q2 FY2022. Kaya India loss after taxes and before exceptional items for Q2 FY2023 is Rs.7.2 Crores as compared to a loss of Rs.3 Crores in Q2 FY2022. Collection in India at clinic grew by 20% in Q2 FY2023 as compared to Q2 FY2022. Collection in Middle East region declined by 1% at constant currency in Q2 FY2023 as compared to Q2 FY2022. Customer count for clinic business in India grew by 14%. Customer count for clinic business in Middle East declined by 2%. While Q2 FY2023 saw a decline in performance in Middle East we believe it is a short-term phenomenon due to the higher than normal exodus of people during the vacation immediately post COVID. India saw a launch of its first clinic post COVID at Lucknow 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 NPS reaching over 75 and Google reviews of clinics at over 4.5. Innovations in the quarter contributed to 6.5% of clinic collections. 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. The detailed information update is already with you and I now open the session for questions. Colleagues and I will be glad to answer them. Thank you.

Moderator: Thank you very much. Ladies and gentlemen we will now begin the question and answer session. Our first question is from the line of Ishit Sheth of Anvil Wealth Management. Please go ahead.

Ishit Sheth: Good afternoon Sir. Thanks for taking my question. A few questions from my end. First thing is that in terms of the decision to do away with a rights issue can you shed some light there because as I understand that the net debt for the quarter or the half year ended FY2023 now stands at close to Rs.70 Crores correct me if I am wrong so how do we source this expansion as well as the ongoing machine improvements that we are doing at the existing clinics?

Saurabh Shah: With regard to your rights issue question, I think we are in the process of reconsidering the process and we would be doing it at a later stage and if you look at the India performance from Q4 to H2 I think we are seeing a sign of improvement. In Middle East also the things we like to stabilize, so overall business is improving, we do not drawdown any further loan from director, so we would evaluate further, reconsider further, and we will get back with a strategy. I understand your concern on the debt part, currently the director has been restricted as per the March scenario, so as and when the business based on the business performance we will take a call in subsequent quarter or subsequent business, so on an ongoing basis we do look at or reevaluate the consideration of the rights issue and the director loan is Rs.93.72 Crores and we have a Standard Chartered loan, which you are well aware that is lying in Middle East.

Ishit Sheth: Got it. So your overall net debt figure of Rs.70 Crores is correct?

Saurabh Shah: The overall debt from the director is Rs.93.72 Crores and from Standard Chartered Bank is around Rs.14 Crores, but from cash prospects if you look at on the September closure India has a cash balance of around Rs.42 Crores and Middle East is around Rs.13 Crores.

Ishit Sheth: Okay, so the net debt would be around Rs.53 Crores, is that correct?

Saurabh Shah: Yes.

Ishit Sheth: Okay, at what level are we comfortable because the problem is that as year has gone past the problem is on the interest cost till the time we are at least profitable so at what level do we pause, this is where we pause like Rs.93 Crores plus Rs.14 Crores and the remaining Rs.50 Crores which we have left right now, which we are unutilized that we can fund our growth aspirations as well as clinic upgradation as well as the cash flow that we generate is that a correct understanding?

Saurabh Shah: On finance cost on the loan, which is outstanding from Director, I think we are providing a fair valuation of interest rate, so to a great extent it is a notional scenario because we get waiver from other directors for this financial year.

Ishit Sheth: I understand that we are making on a cash profit basis we are kind of breaking even that is what I understand especially in the last few quarters before that we had some cash profits, but I understand that okay thanks I will come back for that question. The second question is for Rajiv especially, the overall mismatch on collection and billed revenue, so for example for last two quarters consistently the collections have been higher then Rs.52 Crores both in India and Middle East, but somehow the revenues that we are able to do has only been Rs.44 Crores and Rs.47 Crores respectively for this quarter and somewhat similar trend was there in the last quarter also so can you explain why the revenues are lagging in collection?

Saurabh Shah: If you would like to explain or elaborate further, collection which we collect is an overall package collection so that considers hypothetical 8 sessions and we collect the total amount of 8 sessions; however, the 8 sessions does not get consumed within the same month, but we try to consume within that. Consumption will get gradually based on the consumer as and when the footfall is there for the sessions and the lead time when it appears for the service to get consumed. So what has happened during COVID scenario the whole data collection or deferred amount or advance from the customer had dropped and now that whole pool is getting accumulated and moment that accumulations to the great extent comes into, currently if you look at collections, collection is 77% in India, gradually, it may go to 82% we believe it is hypothetical, I cannot give further guidance, but it will take at least two quarters till the time the whole ecosystem come to a normal.

Ishit Sheth: Okay, got it and Rajiv on overall revenue growth guidance how do you see things shaping up again, the question remains that post COVID a lot of retail and consumer facing businesses have gone back and grown above the pre-COVID highs also we are still struggling at about that run rate obviously right now we are lower by Rs.10 Crores, Rs.15 Crores on a consolidated basis, but how do you see that shaping up both for India and may be Rajiv Suri can explain on Middle East and on a consolidated basis also?

Rajiv Nair: If you compare it to pre-COVID levels and go back to 2018, 2019 numbers what we used to derive as collections in 97 clinics today we are almost 95% of that with 72 clinics in India. We can see a significant movement and I would not no longer call this as an immediate COVID pent-up demand because it has been a while since COVID has gone and there is some change in behavior, the value per session or value per transaction is actually going up substantially, so you can see a significant ATS growth over even immediately last year, so we can see almost 13% growth in terms of overall eight years and partly also driven by certain categories where we are seeing supernormal improvements like for example laser hair removal as a segment, which I think during COVID people realized that instead of going for salon and doing a short-term business where they have to consistently go and do the same service through waxing and others I think this is a long-term safe efficacious type of procedure so we do believe there is some change in consumer behavior that we can actually see, there is a little bit more vicinity towards the procedures in comparison to purely salon-based services. So I would say initially it was purely because of pent-up demand, but now I think it has been consistent for a few months now.

Ishit Sheth: Okay and do you expect that things move towards 100% plus sooner than later in the 72 clinics or we need new clinics to go higher than the Rs.50 Crores revenue mark for India?

Saurabh Shah: You are looking for information, see what Rajiv is telling collection is a key metrics for us currently for the future revenue, so currently the collection what we are trending is almost 95% of the 97 clinics which were operating in FY2020 as compared to the Q2 quarter, so moment of collection we are also launching some new clinics which are in pipeline, so gradually we believe that the numbers what we were there in 97 or 103 clinics, the number of clinics may come to that level on the hypothetical scenario.

Ishit Sheth: Okay, got it and for Middle East?

Rajiv Suri: Middle East growth process last year has been 7% and similar to India what we are seeing is that the net revenue and the consumption patterns are different, but we believe that our growth in India is going to be faster than Middle East because there is more amount of work to be done in refurbishments and the India business will see the engine in the coming one or two quarters.

Ishit Sheth: Okay, so you expect that because of the refurbishments that we are looking at in Middle East, so currently how many clinics are refurbished 6 out of 23?

Rajiv Suri: Six are refurbished, but there are some, we are going to do budgets for next financial year and then we will do four to five next financial years and then we will start to see a better improvement. We have to relocate them because of locations and when a location does not work then the clinic does not work, so there is going to be requirement to do that and then once we do get the funding, etc., you will see that we will accelerate that and we will also then start our next step like we started the journey in India.

Ishit Sheth: Your markets of Saudi and Oman, which were I think struggling in and around in that COVID period then Saudi came back very strongly, so all those markets are now doing well?

Rajiv Suri: Yes. So if you look at the market Saudi is more like in the golden period now with the oil price where it is, it is a good place to be and besides the oil price and the fact that the market dynamics are very positive there is also a big change in women empowerment that in the last couple of years they are allowed to work, allowed to drive, the country has allowed cinemas, there were no cinemas before in the country, so it is opening up a lot and therefore the demand is huge in Saudi and our business is doing extremely well in Saudi Arabia. There is a huge potential also to grow the market itself is 2.5x the size of our UAE market, so we have a long runway to grow in Saudi Arabia.

Ishit Sheth: Right now we have two clinics there right?

Rajiv Suri: Three.

Ishit Sheth: I will come back in the queue.

Moderator: Thank you. Our next question is from the line of Gaurang Ved an Individual Investor. Please go ahead.

Gaurang Ved: Thanks for the opportunity. Even with the top class management like yourself Kaya has seen huge shareholder value in this structure over last five years, our market cap is one-third of where we were five years back so my question is what is our strategy or aspiration for medium to long term growth may be you can throw some color like number of clinics we want to add over our next three to five years, do we have an aspiration to be a market leader in aesthetic derma products and our product revenue growth can it be linear going forward and specifically like our peers like VLCC have moved way ahead during the same time it is 2.5 to 3x of our clinic so do we plan to catch up? Thank you.

Rajiv Nair: If you look at our strategy for growth there are two or three aspects one is the financial restructuring, which is going to be done at a certain point of time in the near future once the Board will decide it. On doing the rights issue, once that is completed we will look much better all the loans will be retired that in itself will show an improvement in our financials and should get reported. The second thing is in order to grow you grow by doing two things or three things one is you improve your like-for-like sales growth and as you have seen in this quarter again, first quarter, our collections growth has been quite strong in India. The second thing in terms of growth is to open new clinics. For seven years we have started our journey on the new clinics, we have opened one clinic already, there is another one opening in the month of December and in the future we are not expecting we are planning and we are searching and under negotiation to open more clinics. So if you look at our like-for-like growth in India versus 2019 or pre-COVID period of this year it is at 16% against a national average of in retail of 11%, so we are moving faster than what the market is. Once we layer onto this and fast forward a few months from now and if our performance continues to outstrip the market and we layer on to this new clinics sales and collections at that moment of time our growth will lead to higher profitability. So I think that the journey needs the financial restructuring, which as you know Board has approved. We need to start our growth journey while opening new clinics, which we have the first and we will open more and therefore we will reach at this stage that profitability and because of our new openings we will also continue to remain the number one derma brand in the market. In addition to this we are doing several other things on innovation, we are also going to be investing in refurbishing existing chain and that also will improve the customer experience. Our business with existing customers this time is high as is our NPS score at an all-time high so I think we have a clear path and this path will take a few months, but we will progress as per our plan.

Gaurang Ved: Thanks. That was quite helpful. Just to follow up on that regarding your rights issue plan, so by when Board will be ready with the strategy and the growth plan by end of this financial year or can you throw some color?

Saurabh Shah: I would not be able to comment on or be able to give any guidance on this topic, but gradually we will keep updated, keep posted all shareholders and all stakeholders as soon as we get some clear indications.

Gaurang Ved: Fair enough. Just a couple of more questions can you please explain about your PF liability, by when will we have completed our extraordinary write-offs and what is our operating cash flow generation expected for India and Middle East for FY 2023?

Saurabh Shah: So PF liability it is a whole case the 2011 matter where the demand has been based on the PF authority for various splitting of wages, but as per management we have represented to the department and we are awaiting outcome and since the presentation what we have made we have not been given an opportunity, moment we get some opportunity we get a clarity, but on a conservative basis in Q1 we have made some provision, which you can look in the financial statement and with regard to operating cash flow for the next H2 I think I would expect that let us wait for the overall business environment based on the scenario. Currently, giving the guidance would not be correct, but we expect things to be better based on the H1 scenario.

Gaurang Ved: Fine and just one last question we have recently passed special resolution for grant of ESOP plan so what are the key benchmarks for ESOP distribution to top management in terms of like EVA creation, revenue store addition or product portfolio growth targets? Can you please throw some color? Thank you very much.

Rajiv Suri: As regards to ESOP plan I was saying that in our growth plans for the coming years we have got many actions to be taken which require heavy investment whether it is to do with our new clinics, refurbishment of existing clinics, investing in product, diversifying our product and therefore the program has been designed to rate about the top talent of the company along the measurements of profitability as well as how we perform in the market.

Gaurang Ved: Thank you very much Sir and wishing you all the very best.

Moderator: Thank you. We will take the next question from the line of Sachin Bobade from Dolat Capital. Please go ahead.

Sachin Bobade: In our presentation also we have mentioned that e-com business has reported decline this time, so 9% decline you mentioned that is because of competition so can you elaborate it more, in which categories we are seeing significant sort of competition, if we can name some players and also in other channels are we present in the modern trade and other sites and how is the performance at that side plus what is the product business contribution right now?

Rajiv Nair: Just to start with your first question on e-commerce I think during COVID period because we are a physical retailer plus we work with the e-commerce channel we did not invest significantly in marketing and at that point in time I think the number of derma brands and cosmetic brands, which actually got added to e-commerce because the physical world was shut down, has increased multifolds and that is the reason why the amount of marketing dollars going into these kind of channels to drive up sales and searchability has gone up substantially while we have not really gone and invested disproportionately, our belief is the fact that we still have to keep this business profitable so we are looking for profitable growth and not just buying sales and that is why our markdowns on the e-commerce channel including the Amazons, Nykaas and the works is limited. So we are keeping a strategy which says the fact that we will look at it as a growing and evolving category rather than putting in extra dollars for buying sales, so that is the basic difference. So when you ask competition yes there are a lot of cosmetic/derma brands which are opened up on the e-commerce channels over the last two years.

Sachin Bobade: I was asking about the contribution of products?

Rajiv Nair: In the clinic business, our contribution from products is about 12% and overall we can see a healthy growth on the category versus last year. So there is no problem as far as clinics are concerned on products. You are asking about GT/MT. We did do GT/MT before COVID, but during COVID period we actually withdrew that because our business is a little more technical in nature and that is why we had to invest on a large pool of contractual employees to sell products in GT/MT because it cannot be just sold over the counter and that is the reason. During the COVID period we actually pulled back from that business so our focus remains our clinics and on our e-commerce partners, plus now we have a D2C channel as well. One of the areas of development for us right now is also to get into omnichannel so that at a local level we are able to service the requirements of the customers faster so that is the area that we are currently developing for e-commerce.

Sachin Bobade: In product business, have we taken any price hikes because of increase in packaging costs and everything?

Rajiv Nair: New NPD products there has been an increase because of input cost otherwise overall our prices on products have not really gone up in the last three months' time, but we are evaluating the situation because every month as the inflation is increasing our cost of goods sold is also going up so we may take marginal hikes in terms of pricing going forward, but at this stage our prices are quite stable.

Sachin Bobade: So we were in the process of shifting clinic so pre-COVID we are continuously shifting clinics for rentals whether this new clinic which we are planning, so this clinic shifting process will be including that or new clinic will be completely new, new geographies and new areas?

Rajiv Nair: There are two parts one is that there are certain clinics that are in the markets where they are dated in terms of all for that matter the market where we may look for opportunistic relocation so that is one thing that is there. There are some very few clinics currently which are very high rent that is where since the rents keep climbing year-on-year we may look at movements, but largely, we are looking for movements at location the markets have shifted, but that will be progressively over the next few years. As far as the new clinics are concerned our focus is largely on Tier-2 cities. We are looking for clinics in markets where the overall rent structures are lower and of course we being a market like to increase the number of cities where we are present in so from 20 cities we are looking for the next 20, 25 cities where we are exploring opportunities so because I think during COVID period and with the penetration of Internet there is a lot of aspiration towards dermatological products and services in small cities and we do believe we provide those kind of opportunities for customers and that is why we are looking at it. If you look at the kind of cities that we have done already now, Lucknow it is a city which is I think an up and coming I would say very strong city in the North and similar type of cities Southeast of India we planning to expand it.

Sachin Bobade: The benefits which we are getting during this COVID period for lower rental costs so we were negotiating some rental cost so that benefit still exists or the prices have increased, rental prices have increased?

Saurabh Shah: I think that was a one-time waiver we claimed during the COVID scenario, but I think the rents have come to normalized scenario.

Sachin Bobade: The new clinics which we have added it is after a long time, so pre-COVID if I remember correctly we were adding two to three clinics in Middle East and we were hopeful that we will add new geographies as well so if we are adding some clinics in India market are we planning for expansion in Middle East also?

Saurabh Shah: I think we would be thinking of in the subsequent financial year, but guidance processes I would not be able to give a date or a period when we are adding, but that is in the pipeline, so as and when we take decisions we will definitely tell you.

Sachin Bobade: Just your opinion on this employee cost increase, so this time compared to revenues employee costs have increased significantly so there is any one-off or this would be the normal?

Saurabh Shah: Sachin what we are looking in a Q2 scenario it is a normal cost and now it has normalized, the manning has been to a full potential.

Rajiv Nair: If you actually look at it we are looking at significant growth in collections vis-à-vis last year so if I just directly compared to last year we think collection increase of almost 28%, so to that increase and then a larger number of consumption sessions that we are doing in the clinics, so pre-COVID level we used to do about 38000 or 39000 live sessions in the clinic today we are doing close to about 40000 sessions, so there is a significant increase in the number of sessions and that is why we need more employees in the clinics so that is something which is there. Of course during COVID periods the salary structures and all were quite under tight control and now as the markets are opening up we also have to pay competitive salaries to people in the front end so that is the reason why the overall costs are going up on employment costs.

Moderator: There are no further questions from the participants. I now request the management team to add a few closing comments. Over to you Sir!

Rajiv Nair: Thank you very much for your participation.

Moderator: Thank you very much. On behalf of Dolat Capital that concludes this conference. Thank you for joining us. You may now disconnect your lines.