

Q2 2022 Earnings Call

Company Participants

- Rajiv Nair, Chief Executive Officer
- Saurabh Shah, Chief Financial Officer
- Vikas Agarwal, Chief Executive Officer of KME

Other Participants

- Ishit Sheth
- Sachin Bobade

Presentation

Operator

Ladies and gentlemen, good day and welcome to the Kaya Limited Q2 FY'22 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. (Operator Instructions) Please note that this conference is being recorded.

I now hand the conference over to Mr.Sachin Bobade from Dolat Capitals. Thank you and over to you, sir.

Sachin Bobade {BIO 16227678 <GO>}

Thank you, Inba. On behalf of Dolat Capital, I welcome you all to the Q2 FY'22 Earnings Conference Call of Kaya Limited. I hope you all and your family are staying safe and healthy during the pandemic time.

From the management side, we have with us Mr.Rajiv Nair, Group's Chief Executive Officer; Mr.Vikas Agarwal, Chief Executive Officer, Kaya Middle East Limited; and Mr.Saurabh Shah, Chief Financial Officer. Welcome all.

Now I hand the floor to the management for their opening remarks and then we would have a question-and-answer session. Over to you, sir.

Vikas Agarwal {BIO 19496605 <GO>}

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 second

quarter performance of Kaya Limited, which is already in the public domain and uploaded on our website www.kaya.in.

Kaya Limited posted consolidated revenue from operation of INR83.5 crores for the quarter ended September 30, 2021, a growth of 13% over corresponding quarter ended September 30, 2020. Consolidated EBIDTA is INR14.9 crores in Q2 FY'22, as compared to INR14.6 crores in Q2 financial '21. Consolidated loss after tax before exceptional item for Q2 FY'22 is INR4.6 crores, as compared to loss of INR4.1 crores in Q2 financial '21.

Kaya India loss after tax and before exceptional item for the quarter two financial '22 is INR3 crores as compared to loss of INR0.3 crores in Q2 financial '21. Collection in India at clinics grew by 86% in Q2 financial '22 as compared to Q2 financial '21 on SSG basis. Collection at clinics in Middle East region grew by 1% at constant currency in Q2 financial '22 as compared to Q2 financial '21. In India, customer count in Q2 financial '22 was at 29,487 as compared to 20,145 of last year Q2 and ticket size grew at 19% in Q2 financial '22 as compared to Q2 financial '21 on SSG basis.

For us business in Kaya India in Q2 financial '22 was at 89% of Q2 financial '20 pre-COVID on SSG basis and grew by 95% over Q2 financial '21 on SSG basis. Hair Free grew by 11%, acne-scar grew by 6% over Q2 financial '20 pre-COVID on SSG basis. In Middle East, customer count in Q2 financial '22 grew by 5% over Q2 financial '21. In Middle East Q2 financial '22 category like Body Solutions grew by 2.3 times, Hair Care grew by 20%, Hair Free grew by 8%, Beauty Facial grew by 5% over Q2 financial '21.

I will now request Mr.Rajiv Nair to brief on Q2 financial '22 performance.

Rajiv Nair {BIO 19992753 <GO>}

Good evening. In India, the business was subdued in the month of July, as few of the malls were gradually opening, owing to the COVID restrictions. However, in the month of September, business -- by the month of September, business had come back to 100% of the pre-COVID levels. While like-for-like customer count had not reached pre-COVID levels, the average transaction value grew by 19% over pre-COVID levels, on account of strong growth in categories like Hair Free and Acne.

Product business contributed to 18% of the total revenue as compared to 25% in the last year. The primary reason being tighter control of inventory by partners impacted by -- impacting the performance of the e-commerce business. Traffic in clinical was also low and there was a tighter control on inventory.

We undertook a cost rationalization project with Accenture in the current financial year. While some of the cost benefits can be seen in the current quarter, majority of the gains will be seen in the subsequent quarters, and we believe it will be sustainable.

Strategic partnerships with Cure fit across five cities have shown -- has shown good performance. Cure fit contributed to 7% of Bangalore sales and 4% of Hyderabad sales respectively in Q2 in the current year. We have also launched a new D2C website to make

it convenient for our customers to buy our products online. We are piloted a Doctor AI application with 20 doctors for services like acne and pigmentation and it has shown good performance as the conversion rates have gone up in these clinics where these pilots are being held.

In Middle East, Q2 was a tough quarter on customer traffic, combined with COVID impact in some clusters, the quarter had school holidays, travel, and Eid holidays et cetera. Usually a slower traffic quarter, however we were able to sustain the turnover to 90% of pre-COVID levels with some strong internal inputs. The primary one being Body Solutions where our scale -- scale up in Q1 has ramped up the vertical further.

We delivered almost 5x of pre-COVID business in September. The quarter saw 127% growth in Q2 over last year Q2. The second input was laser where with a price remodeling, we grew by 8% over last year Q2. Digital performance was at its ever best and delivering higher customer count. Innovations focused on body disproportionately jumped. Q2 has also been seen profitability to improve further with more cost measures coming in. Some clusters like Abu Dhabi, Oman, Northern Emirates remained a challenge in Q2 on performance, still impacted by COVID and reducing customer -- thereby reducing customer confidence.

While our inputs have helped, the clusters have pulled down the overall region to restrict to 90% of pre-COVID levels. However, Dubai and VR clusters are grown by 5% over pre-COVID levels. Q3 looks promising overall, usually a better quarter for us, in traffic with festivities coming in. The expo and the opening of a border and restrictions across GCC will help further.

Over to you, Saurabh.

Saurabh Shah {BIO 20669935 <GO>}

Thank you, Rajiv. The detailed information update is already with you. I now open the session for questions, and my colleague and I will be glad to answer them. Thank you.

Questions And Answers

Operator

(Question And Answer)

Thank you very much, sir. We will now begin the question-and-answer session. (Operator Instructions) Our first question is from the line of Ishit Sheth from Anvil Wealth Management. Please go ahead.

Q - Ishit Sheth

Hi. Thank you for taking my question. Sir, in terms of India business, what we've seen is that the customer count were still at 73%, obviously, the challenges were there in July and

August. When you see September, when the run rate has reached the pre-pandemic levels, where do you see the customer count and what is the strategy for driving the customer count from you're on -- the things are really opening up in India?

A - Rajiv Nair {BIO 19992753 <GO>}

Yes. Thank you, Ishit. And so on the customer count, yes, what you've said is correct. The customer count has progressively increased over the three months. We do see some improvement in new customer count in the recent months as well, in the current month as well. So, what we have done is, first of all, we have wanted to reset our operations and get it back to order. So now, almost all clinics are open and functioning effectively. There is also some pent-up demand that we can see.

As I mentioned, I think in the preamble, we mentioned that two categories especially, which is laser hair removal and acne, has almost seen a 20% growth over pre-COVID levels. So there is pent-up demand and also our fairness pigmentation business and our anti-ageing business has reached 90% of pre-COVID levels. So I think there's definitely a pent-up demand, that's why there is customer traffic coming in.

The area of focus right now is to drive new customer count into the clinic, post-pandemic. Because the new customer count was fairly subdued over the last few quarters. And to that effect, I think we have increased our intensity of digital communication. There is a new campaign that has been launched in India, which is known as Beautiful is You. In fact, the campaign broken at the end of last quarter.

Again, the focus here is on the younger consumer, the millennial, the Gen Z consumer, both for products and services. So, I think the focus is through digital communication. Plus, we have very recently at the end of the quarter launched the D2C website. So that also is a focus area for us to drive the product business through D2C. So for clinics, I think the focus is digital communication. If there's anything specific Ishit if you can --

Q - Ishit Sheth

Yes. So in terms of the absolute number of customer for the quarter, what do they stand at?

A - Rajiv Nair {BIO 19992753 <GO>}

It's about 30,000 -- closer to 30,000 about 29,487 is the exact count for the -- 29,487 for the quarter in India against 20,145 last year in the same quarter.

Q - Ishit Sheth

Okay, sir. 29,497 is the customer count.

A - Rajiv Nair {BIO 19992753 <GO>}

Sure, yes.

Q - Ishit Sheth

Okay. Got it. Sir, and in terms of -- you've recently got a new person at the senior level, what is the thought process and at a time when we've actually cut down a lot of costs. So, are you seeing some kind of visibility on the revenue front or is it someone whom you're hiring today to actually drive growth both in India and Middle East market? What is his role at profile going to be?

A - Rajiv Nair {BIO 19992753 <GO>}

Yes. So, I'll explain that. I mean, Mr. Rajiv Suri has joined as the global CEO for the company and his role will be to set the overall strategic direction for Kaya and look after the development of the brand across countries where Kaya operates. He will also be driving the digital agenda for the company along with the product strategy.

In addition, the group CEO which will be responsible for the operations of the services and products business across channels in India, the Kaya Middle East CEO will look after the business similarly in the GCC region.

Q - Ishit Sheth

Okay, okay, got it. And also in terms of competition in India, how have you seen post the opening up? Whether the competition, has it really come off, because of entire 1.5 years of issues related to pandemic? And are you seeing some of that benefit trickle down to us in terms of higher inquiries?

A - Rajiv Nair {BIO 19992753 <GO>}

Yes. So I think, the COVID has been quite tough on various players. Without naming names, there have been cash flow issues, which have impacted performance of certain key competitors. And that has also helped us move some other consumer base to our business. And again, as I'm saying, certain segments where we are very strong in, like for example, laser hair removal, you can almost see the demand actually rising.

Just to give an example, in the same period, this same quarter about two years ago, our mix of hair removal, which in winter actually dropped was at about 28%, right now is at 35%, because of this demand. So I think we have moved people from semi-organized, unorganized players into our business. There are segments that we have been not that known for areas like acne, which is a concerned category where our overall percentage mix of business has gone up from 5% to 6%. We are again seeing 20% uptick on this category.

Typically, laser -- the anti-ageing segment doesn't -- I mean, did not really pick up post-COVID last year. We have seen a better improvement there. We almost reached 90% of the pre-COVID levels and we do believe it will go up further. So I think definitely people are moving from semi-organized to organized players, and I'm sure the trust in the brand Kaya is really helping.

We can also see that through certain indicators like referral counts and others, where the business from referrals itself has gone up by 37% on the same quarter, two years ago. So also, there is a lot more positive word of mouth that we can see on the brands.

Q - Ishit Sheth

Got it. Sir, and last question was, we mentioned about launching a new website. Any update on that front?

A - Rajiv Nair {BIO 19992753 <GO>}

Very recently, Ishit, just at the end of the quarter, we launched the new D2C website. Currently only servicing the product requirements for the brand, subsequently, maybe over the next three to four months' time, we will also try and launch the services part of the business on the online platform. Currently, the product website is already live. We are started marketing it in -- it's a soft launch. So currently we are largely marketing to our own CRM consumers, but we will go out there in the large public through social and digital over this quarter.

Q - Ishit Sheth

Got it. Okay. Thanks a lot sir. I'll come back in the queue if I have any.

A - Rajiv Nair {BIO 19992753 <GO>}

Thank you for your question, Ishit.

Q - Ishit Sheth

Thank you so much.

Operator

(Operator Instructions) As there are no further questions from the participants, I would now like to hand the floor back to the management of Kaya Limited for closing comments. Over to you, sir.

A - Rajiv Nair {BIO 19992753 <GO>}

Thank you all for participating on the call. We wish you all a safe and Happy Diwali.

Operator

Thank you members of the management. On behalf of Dolat Capital, that concludes this conference. Thank you for joining us and you may now disconnect your lines.

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