



“Kaya Limited
Q4 FY2022 Earnings Conference Call”

May 30, 2022



Dolat Capital

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MODERATOR:

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Moderator: Ladies and gentlemen, good day and welcome to the Kaya Limited Q4 FY '22 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 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, Faizan. On behalf of Dolat Capital, I welcome you all to the Q4 FY2022 earnings conference call of Kaya Limited. Hope you all and your family 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, Chief Financial Officer.

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.

Rajiv Nair: Thank you. Good afternoon, everyone. I welcome you all to the conference call on company's behalf. Let me begin the conference call with a very short update on fourth quarter performance of Kaya Limited, which is already in public domain and uploaded on our website www.kaya.in. Kaya Limited posted consolidated revenue from operation of INR 83.5 crore for the quarter ended 31st March, 2022, a decline of 6% or corresponding quarter ended 31st March, 2021. Consolidated EBITDA is INR 3.8 crore in Q4 financial '22 as compared to INR 19.1 crore in Q4 financial '21. Consolidated losses after tax and before exception item for Q4 '22 is INR 41.3 crore as compared to loss of INR 2.1 crore in Q4 financial '21.

There has been a one-time impact taken for INR 29.9 crore mainly on account of clinic impairment in India and Middle East, which is around INR 15.4 crore and goodwill impairment in Middle East, which is INR 8.1 crore. Kaya India loss after tax and before exceptional item for the Q4 financial '22 is INR 8.5 crore as compared to profit of INR 1 crore in Q4 financial '21. Kaya Middle East loss after tax and before exceptional item for the Q4 '22 is INR 32.8 crore as compared to loss of INR 3.1 crore in Q4 '21.

Collection in India at clinics declined by 2% in Q4 financial '22 as compared to Q4 '21 on SSG basis due to COVID scenario. Collection at clinics in Middle East region decline by 1% at constant currency in Q4 financial '22 as compared to Q4 '21 due to COVID scenario. The detail information update is already with you. I now open the sessions for questions and my colleagues and I would be glad to answer them. Thank you.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Somesh Kumar, Individual Investor. Please go ahead.

Somesh Kumar: Hi. Thanks for the opportunity. This is Somesh Kumar and I have three very quick questions. One is that any plan to start laser hair removal services at home? One question. Second is any new branches planned this year, domestic and international? And third, any new service lines being planned in FY '23. Thank you.

Rajiv Nair: Okay. This Rajiv Nair here. So let me just answer your questions, all the three questions that you have. One is on the laser hair removal services at home, at this stage we believe that our singular motto for the business is safety and efficacy on these services. And we don't believe at this moment that we will be able to provide safety and high-efficacy using services at home because these are high quality devices with trained professionals, under the guidance of a dermatologist who is a doctor. At this moment, many companies are doing these services on a remote basis with some consultants online, in our case, there's a physical doctor in supervision. We believe it's a safety hazard at this stage to carry these machines to customers' residences and that's why we prefer these services to be done in the clinic.

The good news is that post-COVID, we have seen growth in this category quite highly, largely because of the safety aspect. And we believe, in the short medium term, at least these services will be better accepted in clinics and we'll continue to do it in clinics. The second one you mentioned was on the new expansion or expansion of clinics. Yes, it's been a long time since Kaya has not undertaken expansion. So obviously that's one of the priorities for growth of revenue. And we -- as we speak, we have already identified one property in the city of Lucknow, where we are planning to go ahead and make our first new clinic after quite some time. And if opportunistically, we are able



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to get more properties in this financial year we'll look for more expansion in this financial year.

The third question was about new services. As you may have realized from the last few conference calls, we mentioned about body contouring as a service, which has started in the Middle East about two, two and a half years ago. And now it's a very strong vertical with about 10% contribution to the revenues of the business. We plan to actually, pilot body contouring for which we have procured for machines from a company called Allergan. It's a service known CoolSculpt. We have set up these machines in Delhi and over the last three months, we are piloting the performance of this particular service. If we are successful in it, then we will expand this across the market. So body contouring would be the next big vertical that we will try and focus on. So those are the three questions you asked.

Moderator:

The next question is from the line of Sachin Bobade from Dolat Capital. Please go ahead.

Sachin Bobade:

Sir, just one question from my side, just broad based question and partly extension to what last participant asked. Last two years, we were struggling against because of pandemic. So store closures was a main problem. Malls were not open, clinics were not open, but now one more bigger problem we are facing is inflation. So directly, it is not impacting our products, but then few categories would definitely have impact. So wallet size or share of wallet will shift from one category to different categories. So in this perspective, how -- whether we are planning to offer few services, which are economical in nature or new consumers can adapt them. So what is your thought process on this?

Rajiv Nair:

Yes, I think inflation is definitely real challenge, in the next one or two years, at least. And we already see that there are certain segments where we have global sourcing, especially around areas like injectables, where the cost of goods have gone up. We don't believe in the other segments that we are largely procuring from India, at this moment, we have seen that kind of an inflationary impact, but we do anticipate that such an impact can happen.

So we have -- to counter this, we are also trying to ease up the issue for customers, through simple systems like finance for customers. So as we speak, we are increasing the contribution of direct consumer finance in the business from around 5% mix to our business, to about



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10% mix to our business. So almost all the new age customers who're coming into the business and want to partake in our type of service and would like to buy our service and which are expensive, they can avail our finance facility. So we are providing 0% finance with companies like the Bajaj Finance in the country.

At the same time what we've done is, prise elastic categories like laser hair removal, like acne scar, like facials. These are price sensitive categories, we have at this moment in time, not raised our prices. And we don't believe a huge increase in cost of goods sold that's why we retain the prices. So customer can enjoy a good pricing for some more time. And hopefully that will help us increase volumes in this category.

Sachin Bobade: Sir, thanks for that. Just same question for Middle East, because here we are facing inflation, but for Middle East it's a oil economy and can benefit. So there, can we see a positive surprise in terms of significantly higher growth in revenues or some sort of -- or customer count increasing?

Rajiv Suri: So, Middle East, for quarter four went through the similar situation, in fact, Middle East COVID impact in Dubai started in mid-December. So a little bit earlier than India and continued till February. So quarter four was impacted by that. Having said that, performance in month of March was 99% of pre-COVID levels. So we were quite pleased with that performance and we look forward to continuing -- to build on that in the coming quarter.

Moderator: Thanks you. The next question is from the line of Avesh Bakshi Individual Investor. Please go ahead.

Avesh Bakshi: Hi, sir. I just wanted to brief on how is the online e-commerce segment shaping up for us?

Rajiv Nair: Yes. So, we have seen a good quarter last quarter. We've seen a growth of about 38%, in the e-commerce segment in the last quarter. We believe it's a strong growth engine for the product business and to support that what we have done is in the month of November, actually launched our first D2C site. I mean, it's a completely revamp D2C site while we had a D2C site, it's build on a new platform, which is Magento and we -- most of our products are currently available on the website. We also built an AI based tool on the website for skin analysis and recommendation to customers for products. So we do



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believe this will be a strong area for us to drive our e-commerce business alongside partner retailers, like Amazon, Nykaa, Myntra, Flipkart, etc. So we do believe e-commerce will be a strong area for growth and last quarter has shown some good results for e-commerce.

Avesh Bakshi: And for the follow-up on this, what is the contribution coming from these e-commerce sites versus our own site?

Rajiv Nair: So our current website, our website is a very small part of the total contribution. We would not be more than 5% of the total mix of e-commerce business with our own website, but that's also because we have done a revamp website as late as November, December and we do believe over the quarters, we are expecting a larger share of the Kaya D2C website. But at this stage it's early days and we are still working on the website and trying to improve the traffic into the website. And once that happens, I'm sure the numbers will increase on our own website.

Avesh Bakshi: And my second question was can you provide any guidance for any new store opening we are expecting either in India or Middle East for the next one to two years?

Rajiv Nair: You're talking about new openings?

Avesh Bakshi: Yes.

Rajiv Nair: Yes, I did mention in the previous to the previous caller that, we are opening up our first clinic in India after quite some time after COVID in Lucknow, the city of Lucknow. We are on the lookout for properties in tier two cities of India, as and when there are opportunistic possibilities available, we will open up more clinics in the country. At this moment, I can't give you a number for that, but definitely we are on the lookout for new properties.

Moderator: The next question is from the line of Rohit Balakrishnan from ithought PMS. Please go ahead.

Rohit Balakrishnan: Yes. So just wanted to understand, can you share how much revenue did we do from products I see you said 22% of the collections. So that's roughly about INR 78 crore. Can you share an absolute number, what was this number last year for FY '21?

Rajiv Nair: Yes, I will just give it to you.



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Saurabh Shah: So an absolute number for YTD we did in overall group prospect around INR 49.27 crore, while in last year it was INR 46.96 crore on a net revenue perspective -- on a collection perspective, sorry.

Rohit Balakrishnan: For product you're saying is INR 49.27 crore.

Saurabh Shah: Yes, that was quarter two INR 46.96 crore.

Rohit Balakrishnan: Actually, I have seen in your presentation I think -- I don't know if I am wrong, but it says 22% of next revenue, so this is not...

Saurabh Shah: So that is the Q4. That is a Q4. I gave you the YTD number.

Rohit Balakrishnan: Okay, sure. So, even like on a base of INR 45 crore, INR 46 crore you only need about 7%-8% or maximum 10% reach about INR 49 crore on the products, I think, is this the growth that is possible in the products that you are doing, or like, I mean, I just wanted to understand what could be the desirable growth in these categories that we are in? I assume that we are in a slightly higher priced segment. So just wanted to understand what do you aspire and what your outlook on growth for products?

Rajiv Nair: Couple of things, I think last year is not a very good comparison, because there have been multiple rounds of COVID, which has impacted the walk-in into the clinic, because clinic still, as mentioned earlier, is about 70% of the business -- 78% of the business coming from the clinic business. The footfall into clinic in at least two quarters was completely impacted because of COVID, but we can see a sequential improvement in performance of clinic because of better walk-ins right up from December of last year, going all the way up to Feb and March of this year, while Jan was fairly disrupted.

So we do expect a good growth of product this year, vis-à-vis last year for two reasons, one is of course the customer footfall traffic will improve. We have a better focus on product development this year, so we have a strong pipeline of products. So I think we have mentioned that in the investor presentation as well, that we have some strong launches of products that we did in the clinics over the last two quarters. So there are some very strong dermatology led products that are coming up.



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E-commerce focus also will help us grow business in the non-Kaya clinic ecosystem. So that's the other area that we are looking at. And of course, as a group we will be focusing a lot more on the product business in the Middle East as well and there will be renewed focus on development of product lines, which are centered for that consumer. So I think Middle East business growth on products will also be fairly strong this financial year. So that's the overall plan in terms of growth.

Rohit Balakrishnan: Yes. Okay. And sir this one more question. I mean, I see that you're doing the right issue, can you just spell out, what -- I mean, what is the thought process around and what would be the usage of the same?

Saurabh Shah: So, Rohit since, the whole system is in processed currently in the pipeline, so currently for deployment plan, it would be difficult to currently articulate the whole scenarios. So maybe we'll update you soon on the deployment plan and other thing.

Rohit Balakrishnan: Okay. Sure. About how much are we looking to raise?

Saurabh Shah: See, we already intimated that we will not be exceeding INR 200 crore. That's what the intimation at the stock has gone.

Rohit Balakrishnan: Okay. But I mean, so can we intend to do INR 200 crore is that the right understanding?

Saurabh Shah: So we will not be exceeding INR 200 crore. That's what the understanding is.

Moderator: Thank you. The next question is from the line of Viresh Sangwal Individual Investor. Please go ahead.

Viresh Sangwal: Yes. Thanks for the opportunity. Just wanted to check on the rights issue, like what's the intention and what's the plan with the money collected from right issue?

Saurabh Shah: So, Mr. Viresh, Saurabh here I briefed in the previous question, so currently -- the deployment plan currently, I can't disclose because we have just intimated today, there is a committee which will form and all the deployment plan will be discussed and would be communicated in due course.



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Viresh Sangwal: Okay. And by what time should it be kind of clear like in month or two months time?

Saurabh Shah : Maybe -- give us time maybe of one, one and a half months, we'll get back to you based on all the process gets completed and stock exchange gets intimated. And that procedure that committee may discuss and post that we may communicate to all of us, all the shareholders, what would be the right issues and all the options. So give us time, because it's a due diligence process and all this stuff, we have to go to the SEBI and get the approval node and everything. So till the process gets completed, we would not be able to communicate on the deployment plan.

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

Anoop Nambiath: Hi, thanks for taking my question. So my question was related to the impairments that you've made in India clinics and in Middle East clinics. So, what is the nature of these impairments that you made and do we expect any further impairments that is pending in the future quarters?

Saurabh Shah: I am Saurabh here, the impairment in clinics are based because if you recollect last two years, because of the COVID, there is a dilution in performance and because of accounting standard, the auditor has to evaluate the performance and on that basis, they stimulated the impairment trans scenarios. And there is a -- because of performance of the COVID number not matching the requirement environment. There is a impairment in Middle East clinics and also in India clinics.

Anoop Nambiath: Saurabh what I'm trying to understand is this, what kind of a nature is this impairment? Is it on the equipment that we own, or is it something related to the brand? What are we impairing here?

Saurabh Shah: So there are two types there is one lease hold improvement, what we deploy the lease hold improvement as clinic that comes into picture, and that forms a major part of the clinic impairment cost. And based on another -- another one is impairment of the goodwill in Middle East there are two clinics, which is in -- one is in Minal and one is in Fujairah where we have taken a goodwill impairment.

Anoop Nambiath: Okay. So anything pending there now, like should we expect more of impairment in the coming quarters or this is it final?

Saurabh Shah: So it'll be on the performance. So currently it'd be difficult to communicate or estimate that impairment scenario as then when the performance improves there may not be, but it depends upon the performance and how the auditor evaluates the scenario.

Anoop Nambiath: Okay. So second question was to Rajiv Nair. So this -- we are after finally long time, we are opening a new clinic in Lucknow, so just to understand the thought process now, are we ready for a store, like clinic expansion now having got the unit economics of each and every clinic right here. Like, what is the opportunity that we are seeing here in expansion?

Rajiv Nair: So, Anoop while we were looking at the kind of matrix of clinics that we have in the business. We realize that a lot of our tier two towns and cities, even at median turnovers are generating very good EBITDA as a business. And there is an opportunity for us to kind of expand on this premise and actually expand our footprint in tier two cities in the country, because we have a fairly good presence in the top metros of the country. But the tier two cities is where there's a lot more aspirational awareness and a changing new age consumer. So Lucknow being one of the highly profitable cities, we have actually started our first foray into Lucknow. And we also believe that there'll be some synergies between the existing clinic and the new clinic because we have almost around 20 odd cities, where we have single clinics. The focus is to make sure the fact that we are able to increase the footprint in these cities and take the synergies with the existing clinics.

So there are two parts. One is the doctor expertise that we already built in these cities at the same time, if we buy machines for these cities, we can share between the two clinics. So we don't have to necessarily buy the same technology. We don't have to necessarily buy the same technology in two different clinics, we can actually share the technology between the clinics. So, the whole idea is go to tier two cities, leverage on the profitability of these cities and grow the footprint in these cities. The numbers are being worked on at the moment. I won't be able to give you those numbers at this stage. But that's the broad idea of how we are planning to expand.

Anoop Nambiath: If I understand right, this is a second clinic in Lucknow?

Rajiv Nair: Yes. This is second clinic in Lucknow.



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Anoop Nambiath: Okay. So, my next question was on your come back to the September quarter, comparable revenue is there INR 83 crore, INR 83.4 crore, and September also it was the same, I see that there is incremental INR 5 crore increase in the operating and manufacturing expenses. So what is this incremental expense, where would we incurred these expenses?

Saurabh Shah: So Anoop basically if you look at cost comparison last September to this September, so the last year September, there was a COVID, we had done some rationalization in the cost. Okay. On the manufacturing side also, if you look at, the product business was also a little bit low as compared to the current business. So product -- and that in September as compared to this year has gone up, even the service revenue from consumption point of gone up, and that's where the cost has gone up. So number of sessions has gone up in that case.

Anoop Nambiath: Saurabh I was asking about this, September 2021 and March 2022, like there is a INR 5 crore increase in other non-employee cost expenses.

Saurabh Shah: So last year, if you recollect there was a COVID. So we have done rationalization last year in other expenses also.

Anoop Nambiath: So you are saying that that rationalization impact is done. So we don't -- the costs are back to the normal.

Saurabh Shah: Yes. So the cost has now come to the normal in this quarter. So this quarter, there is no rationalization in any of the cost item.

Saurabh Shah: Even Anoop, sorry, there was a rent, we were having a rent savings and everything in that quarter, which in this quarter, we don't have to that content. So that's why you were looking at the overall scenario where the saving coming.

Moderator: Gentlemen that was the last question for today. I now hand the conference over to the management for closing comments.

Rajiv Nair: So thank you everyone for participating on the call.



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Moderator: Thank you, ladies and gentlemen, on behalf of Dolat Capital that concludes this conference call. Thank you for joining us and you may now disconnect your lines.