"Kaya Limited
Q3 FY2024 Earnings Conference Call"

January 31, 2024

Dolat Capital

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

MANAGEMENT: **MR. RAJIV SURI - GLOBAL CHIEF EXECUTIVE OFFICER & MANAGING DIRECTOR - KAYA MIDDLE EAST**
MR. RAJIV NAIR - CHIEF EXECUTIVE OFFICER - KAYA INDIA LIMITED
MR. SAURABH SHAH - CHIEF FINANCIAL OFFICER – KAYA LIMITED

Moderator: Ladies and gentlemen, good day and welcome to Q3 FY2024 Earnings Conference Call for Kaya Limited 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 Sachin.

Sachin Bobade: Thank you Manav. On behalf of Dolat Capital, I welcome you all to the Q3 FY2024 earnings conference call of Kaya Limited. Hope you all and your family members are staying safe and healthy. From the management side, we have with us Mr. Rajiv Suri, Global Chief Executive Officer & Managing Director, Kaya Middle East, Mr. Rajiv Nair, Chief Executive Officer, Kaya India Limited and Mr. Saurabh Shah, Chief Financial Officer. Now I hand the floor to Mr. Rajiv Suri for his opening remark and then we would have a question and answer session. Over to you Sir!

Rajiv Suri: Thank you. Good morning. I would like to welcome you to the Q3 conference call on company's behalf. The investor presentation has been updated on our website kaya.in and contains the financials, key metrics and business updates. I hope you have had a chance to go through it. Let me begin the conference call with highlights for Q3 performance. Starting with Kaya India performance, the company maintained its strong revenue growth trajectory in clinics which grew at 19% versus Q3 last year and on an YTD basis had 17% growth versus last year. This growth indicates that our brand strategy is working which in addition to the highest ever NPAs at 86 is having great customer acceptance which in turn is driving these positive results.

The product business in clinic were at 26% versus Q3 last year mainly driven by categories like hair care, skincare and nutra and our new omni channel initiatives. On a YTD basis, product growth has been at 24% versus last year reflecting our product growth strategy is working. Q3 clinic collections were strong at 11% versus last year, collections from body witnessed 109% growth and beauty facials at 29%. Moving on to our strategic growth pillar updates. New product development contributed to 18% of the product business, nutraceuticals contributed to 20% of the product business and as part of our brand refresh, we relocated one clinic in Q3 making it four clinics for the year. These relocation clinics had a growth of 73% for the quarter. We renovated 11 clinics on a YTD basis that witnessed a growth of 16% in collections versus last year in Q3.

To uplift customer experience and outcome, we invested in 39 new derma technology machines including anti-aging, acne scar and hair care making it a 102 new technology machines for the year. On the people front, we attained notable success by clinching three esteemed awards, best brand of 2023 by ET, this achievement is a testament to our commitment through excellence. Kaya also won the prestigious Customer-Centric L&D Award at the HR AI and also Kaya probably achieved is fifth great place to work certification, a renowned gold standard in workplace culture assessment recognizing our commitment to excellence.

Now going on to the middle east business. On a Q3 basis, the performance for middle east was impacted due to the geopolitical situation which fled up in the region in October which impacted the performance for the full quarter. October was at a double digit negative and the situation now however is stable and we are witnessing a recovery. The productions were at Rs.52 Crores and declined by 8% versus Q3. Due to this geopolitical impact in the quarter, net revenue declined by 8%, however, product revenue grew by 13%. On the financial performance, Kaya Limited posted consolidated revenue from operations of Rs.102 Crores for Q3, a growth of 2% over corresponding quarter largely impacted by the situation in the middle east.

Consolidated EBITDA grew by 67% for Q3 at Rs.11.2 Crores as compared to Rs.6.7 Crores in Q3 last year. Consolidated loss after tax and exceptional items for Q3 stood at Rs.9 Crores as compared to loss of Rs.17.6 Crores in Q3. As you may be aware our CFO, Mr. Saurabh Shah is leaving Kaya at the end of next month after completing seven years of service. The company would like to thank Saurabh for the excellent work he has done. We wish him all the best in the future. The board at its meeting held yesterday appointed Mr. Arihant Dhariwal as the CFO who will take over from February 29, 2024. Arihant has been in Kaya for five years and we are expecting continuity to stability with his appointment. The detailed financial information update is already with you in the uploaded investor presentation and you may refer to that for additional information on the performance. I now open the session for questions and my colleagues and I will be glad to answer them. Thank you.

Moderator: Thank you very much. We will now begin the question and answer session. We have our first question from the line of Eshit Sheth from Anvil Wealth. Please go ahead.

Eshit Sheth: Good morning and thank you for taking my question. On India front, it is heartening to finally see double digit growth and the quarterly revenue is at almost four, five you are high that we have seen for the India business. If you could throw some light on what is driving this close to 18%, 20% customer growth that we have seen specifically in the India business and on the India business, second thing was the average transaction size for the customer is down by 1%, so despite new services like body contouring coming in why is that the EPS has degrown by 1% and if you could also brief on how is the growth likely to be for the India business with a new strategy that we have embarked upon on taping more customers from the funnel that Kaya generally get, so that is on India business and second question was on the middle east part. In middle east as you said in your opening comments roughly 8% was the degrowth that we saw in collections also partly because of the geopolitical impact that we saw. The question over there is that is there any impact of Minal two clinics which we have sold off in this quarter and what is generally the impact of Minal if it did not come in this quarter on the revenue for the next quarter and also on the cost, because I understand that Minal was slightly profitable for us at the clinic level, so if you could share some light on both these questions?

Rajiv Nair: Kishit, thank you for your question. In terms of the quarter performance that you mentioned it is actually after few years, we have seen this kind of growth in the business and it is driven largely as you mentioned by the building blocks that we have been putting together over the last couple of years, so it is a culmination of multiple activities that we have done in the business both from the customer front also from the improvements that we are doing inside the clinic and also investments on technology. If I were to call out a few areas which I have worked very well for us, one is that we, after COVID over the last couple of years we have been focusing on how we can improve our customer experience inside the clinic, which is reflected in two things. One is the investments in terms of quality of the clinic which is the infrastructure inside the clinic. So multiple renovation, relocation projects and also a few new clinics opening up has helped us. In addition to that, the focus and customer service right now NPA scores in the clinic sit at about 87 which was one of the highest that we have achieved as of today. We have also invested a lot on refurbishment of technology, so multiple new machines have been added in the business, because post COVID, this is the first time in one year we have actually invested in revamping a large part of our technology in areas like laser and also some body machines as well as some anti-aging machines, so that is built more refreshing to the clinics which are there and that is also impacting our productivity inside the clinics which we means time taken to perform some services etc. New verticals like body have also contributed quite a bit to the business, so body now is almost 6% of our total business, which has helped us and also we have looked at new categories and products which has also helped us. One is, innovation and bringing in new NPDs at the same time also continuing to invest on nutraceuticals and you would be happy to know that we also in the middle of working towards our own brand on nutraceuticals so that is going to help, but at this moment in time we have used partner brand to drive this growth in nutraceuticals. We have also adopted a lot of technology both for getting in customers through the funnel, so we tied up with the company which was the partner company for improving our funnel, optimizing our funnel and also building in new methods of reaching out to our customers. For example, now the WhatsApp channel for booking appointments, automated appointments. We also doing a lot of automated nudging for customers who probably people who are dropping off the funnel and pushing in for these customers to come back and we are seeing good amount of success there. There is also consistent drive towards doctor driven categories. There is a lot of push and lot of engagement that we are doing with doctors. Largely all these components put together have helped us in there. One of the things that has happened Kishit you mentioned the drop in overall customer ATS that is also because quite a bit of our customer acquisition today is coming from the online channel towards the product business. So as we speak we have now activated omni channel into all our clinics, so why these customers are today not the customer for services in the clinic, they are buying products through the online channel and they are getting serviced from the local unit or local store which was impacting that, so while body has impacted, positively impacted our ATS and few doctor-led categories positively impact our ATS, the volume growth in products also brings down the ATS simultaneously. So that is broadly current strategy that are there, you also asked whether this can sustain. As I mentioned these are building blocks so we have been working on this over the last two years and we will continue to sustain some of these and improve on these areas. So this strategy something that we put in place more than a year ago now and that is going to continue. Some elements we will improve some new areas could be added in the next year strategy, but at this moment in time will continue to dwell on the same strategy, so this will help us improve overall customer volume and definitely improve our overall topline, bottom-line in the business that is a summary from for India.

Eshit Sheth: Just one question on India, the product business as of this quarter contributes how much for India business?

Rajiv Nair: 14%.

Eshit Sheth: So this is in line with the nutraceutical launch and all that we have done and some new products that we have got in dandruff and all of that. Is it line with our earlier strategy that we want to drive product towards almost 25% in the medium term, is that correct?

Rajiv Nair: Kishit yes. This current number that we are talking about a purely clinic number, we will continue to pursue on B2C, e-commerce, direct-to-customer model. At the same time, we have partner channels with Nykaa, Amazon and partner retail which is e-commerce specifically so those will also add to the overall productive.

Saurabh Shah: Before we go to middle east question, on the Minal business. Minal business is declining both from topline and we have started building in this financial year on the bottom line, so if you look at the Minal once may be if I give indicative number for the last year nine months number, they were doing almost Rs.14 Crores worth of revenue and this nine months roughly is around Rs.9 Crores. Maybe we shut down in October and if you look at the movement it was making EBITDA positive of Rs.1.3 Crores approximately and if you look at this financial year, we are making a loss of Rs.1 Crores, so there is some movement of Rs.2.3 Crores savings or arresting the loss of the business through Minal strategy so that is the ideology.

Eshit Sheth: Okay Sir, for next quarter it will be completely rundown, it will be zero for us for Minal?

Saurabh Shah: Minal transaction or Minal numbers consolidated in the Q4 financials.

Eshit Sheth: Got it, so in that case even part of the cost will also come off right, is it correct right?

Saurabh Shah: Absolutely correct.

Eshit Sheth: Got it and just to followup. One more question that I had was on the rights issue, I understand board has cleared raising Rs.300 Crores rights, is there any update on the same manner why is it taking longer than what we think?

Saurabh Shah: For rights issue, we have done enabler resolution and it has been approved which has got intimation yesterday and due diligence is in process will submit to the regulatory authority and post that we will proceed further, so give us more time we are on track of rights issue, so we will need some more time to close it.

Eshit Sheth: Last was what is the net debt as we speak today consolidated?

Saurabh Shah: I can give net debt of cashes Rs.117 Crores versus including India and if you look at the cash currently in both India and middle east would be around Rs.75 Crores plus.

Eshit Sheth: Rs.75 Crores is what we have liquid cash, but considering how the run rate is now at least we are not losing money on a cash profit basis, so it is not like we require more cash to be infused in any of the businesses right, is that correct?

Saurabh Shah: If you look at this cash, what we have drawdown in last quarter, which is towards more expansion, the strategy what we have currently seen a success traction in the topline growth. We will be deploying this energy resources in the same strategy.

Moderator: Thank you. We have our next question from the line of Nihar Shah from Crown Capital. Please go ahead.

Nihar Shah: Good morning. Just two questions. First is on our expansion plan which we said that we are expanding to tier 2 cities, can you please give us update on that where are we now?

Rajiv Nair: We have actually currently done four clinics in the new expansion model. They have focused more on tier 2 cities and we continued to look at opportunities in tier 2 cities at the moment or peripheral clusters in the main cities. So I will give you two examples we have opened up a clinic in Siliguri which is in tier 2 city while we also opened up a clinic in Electronic City which is off our main city which is Bangalore that is something that we are doing, so as of today we have four clinics, but we are currently in the process of identifying multiple clinics in various cities and as of now it happens in every quarter, we will keep updating you.

Nihar Shah: Second question, as you said that this is the growth we have seen the first time in very long period so when can we expect company to be profitable?

Rajiv Suri: We cannot give any forward looking exact statement, but the Maths can be done if you maintain this growth trajectory in a matter of time we should turn positive.

Nihar Shah: And growth is sustainable this time right?

Rajiv Nair: As I mentioned in the earlier question also that we have put together lot of new growth avenues both from the customer experience front and technology front and those are something that we have been building over the last one-and-a-half, two years and they will continue and obviously as part of that it will result in growth that is all the guidance I can give on this sustainability.

Nihar Shah: All the best. Thank you.

Moderator: Thank you. We have our next question from the line of Dr. Vijay an Individual Investor. Please go ahead.

Dr. Vijay: Good morning everyone. Congratulations Mr. Suri and Mr. Nair for a decent show. We have been invested in this company for a very long time and the markets are earning up and it is painful to have our investments not moving in this company, but at last we are seeing some green shoots there, so lot of my questions are already answered. In your presentation you showed that growth for 2026, India 17% and middle east 29, but we are not growing at rate right and a significant part of our leaders in this segment should grow much higher than projected market opportunity. My thought process align with your thought process?

Rajiv Suri: Industry is growing at about 17% aesthetic industry in which we work in the services industry and as such our growth now is at par and little bit ahead of the market growth. Our product growth is at 26%, so therefore even if you were to look at product industry we are on par with that, so it has taken up little bit of time, but that now we are in line with how the market is growing.

Dr. Vijay: Okay, but the base of product business is very low right, we are doing at 14%, but at some point couple of years ago in one of the calls we were told 40% is what we were looking at as the overall sales, so has that target changed or that is still relevant?

Rajiv Nair: We may have discussed in terms of path of where we want to see the product business growing from the current level of 13%, 14%, but at the same time as we have seen most of our products largely are sold through the clinics partly through e-commerce, we do not do GT, MT business at the moment which is there, but we were driving this business through two significant areas. One is the NPD launches that we are doing which are there, which are also in line with the business growth strategy. For example, as we mentioned body we are also doing quite a bit of work in the hair care space, so last quarter also you must have seen launches in hair care, this quarter also you must have seen launches in hair care and nutraceuticals being the next vehicle that we are looking for growth which we have seen significant growth in the last one year. Yes, is 14% our aspirational number, definitely not that something that we will be focusing towards, but honestly I would not be able to give you percentage number there, but focus is towards product growth and the fact that over the last 10 months we have seen, nine months we have seen almost 24% growth in the product business, we are getting there, yes, I agree with you that the base figure is not very large for us in terms of products.

Dr. Vijay: My last question, I fully agree with you guys. This is a very, very competitive industry, but the number shows that we are turning around the corner to be PAT positive and Rs.35 Crores in the nine months EBITDA positive is also good and we will be ending this year is around Rs.46 Crores, Rs.50 Crores EBIT, if we were not listed, we would have been a billion dollar company frankly no, we were coming up for an IPO today, but anyway all the very best and I am staying focused and wishing you all the very best. Thank you.

Moderator: Thank you. We have a next question from the line of Sakshi from SVAN Investments. Please go ahead.

Sakshi: My first question is I wanted to understand that the product sales, are they coming majorly from clinics or also there are some from the e-commerce side?

Rajiv Nair: Bulk of our sales comes from the clinic side, but we are also investing now on the D2C business over the last one or more years and we also opened up to omni channel recently and we are seeing some very good numbers both from a customer acquisition perspective as well as sales coming in, but as of today bulk of the business comes from the clinic in about 14% of the clinic mix today is in product, but definitely our own website is something that we will continue to invest on.

Sakshi: That is great. I wanted to understand renovating your clinic has brought about good traction in getting more customers plus increase in our sales, so I wanted to just understand that how many more clinics are we looking to renovate in the next year?

Rajiv Nair: We cannot give you a guidance right now in terms of number of clinics that are getting renovated, but we are in the path of making sure that all clinics become relevant both from the customer experience which is the refurbishment part of it and also in terms of technology, so our entire focus in the last six, eight months has been to make it more contemporary at the same time also improve the level of technology that we invest in. So that is the path we are taking right now.

Sakshi: There are still significant numbers of clinics that need to undergo renovation?

Rajiv Suri: Yes, we do have.

Sakshi: Okay and is it possible to give an average numbers to what is the cost that you invest in the renovation per clinic?

Rajiv Nair: Refurbishment cost depending on whether simple refurbishment to a relocation varies anywhere between sub Rs.10 lakhs of expenditure going all the way up to Rs.70 lakhs, Rs.80 lakhs depending on whether we are doing a relocation of the clinic or a renovation inside existing clinic. So the band varies depending on size and complexity of refurbishment.

Sakshi: Are you looking to open any new stores in the coming next year?

Rajiv Nair: We have some in the annual, but I cannot really give you specific locations at the moment, but as quarters pass we will keep updating you. We will definitely on the lookout for more properties and as I mentioned in the suburbs of largest cities at the same time in tier 2 cities.

Sakshi: Okay, so even though you cannot give locations, is there any rough as the numbers and you are targeting like you can just give a range that will also work?

Rajiv Nair: About six to eight clinics is what we will be looking at in the short term.

Sakshi: Thank you and all the best.

Moderator: Thank you. As there are no further questions I would now like to hand the conference over to management for closing comments.

Rajiv Suri: Thank you participants for participating on the call. We appreciate the time you took to attend our investor call. Thank you and speak to you at the next quarterly meeting.

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