"Kaya Limited
Q4 FY2023 Results Conference Call"

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Dolat Capital

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Moderator: Ladies and gentlemen, good day and welcome to the Kaya Limited Q4 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 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 Zico. On behalf of Dolat Capital, I welcome you all to the Q4 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, Chief Financial Officer. Now I hand the floor to the management for their opening remarks and then they would have question and answer session. Over to you Sir!

Rajiv Nair: This is Rajiv Nair here. Thank you. Good afternoon everybody. I welcome you to the conference call on the company's behalf. Let me begin the conference call with a short update on Q4 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 operations of Rs.92.6 Crores for Q4 FY2023, a growth of 11% over corresponding quarter. Consolidated loss after tax and before exceptional items for Q4 FY2023 is Rs.58 Crores which includes onetime impact of impairment of goodwill of Rs.28.4 Crores and towards interest on PF liability Rs.10.6 Crores as compared to loss of Rs.42.6 Crores in Q4 FY2022. Kaya India posted revenue from operations of Rs.43.9 Crores for Q4 FY2023, a growth of 12% over corresponding quarter. Kaya India loss after tax and before exceptional items for the Q4 FY2023 is Rs.23.9 Crores which includes onetime impact of provision for impairment of assets of Rs.10.7 Crores and towards interest on PF liability Rs.10.6 Crores as compared to a loss of Rs.8.7 Crores in Q4 FY2022. Collection in India at clinic grew by 13% over last year. Collection in Middle East region grew by 5% over last year at constant currency. Business has been driven by increase in average ticket size by 20% in Kaya India and 7% in Kaya Middle East. India saw a launch of two more clinics in Q4 FY2023 in Bengaluru and Siliguri. From a customer experience perspective both regions showed strong positives with NPS reaching over 82. Innovations in the quarter contributed to 8% of Kaya India clinic business and 6% of Kaya Middle East business. E-commerce showed a slowdown due to limited primary sales with our partners and growing competitive pressure with strong marketing investments from many brands on this channel. Kaya India is now a Great Place to Work certified company in 2023. We have commissioned a marketing automation project to digitize our customer journey which includes setting up automated appointment booking, customized nudges through WhatsApp and web bots. The detailed information update is already with you. I would 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.

Sachin Bobade: Sir just wanted to understand if I look at other discretionary categories performance during the quarter everyone has shown some sort of improvement including Kaya but then if I go past two quarters then there is a significant inflation in the commodity prices and that has impacted discretionary spends? Now Kaya is known as one of the discretionary categories presenting discretionary categories how can you see the outlook so I am talking about the cure business but the care business the care part which we were talking about and the forex business so any significant improvement you are expecting going ahead in this business?

Rajiv Nair: So if you look at the India business like you rightly said there was inflationary pressures on the market and obviously there is a little bit of a slow down to that extent in terms of customer sentiment in the February and March period of this last quarter. What we have seen over the last one year post COVID is that people spending per transaction actually has increased. The frequency of visits has reduced a bit so we actually look at it in terms of ATS for this quarter as well. The average transaction for this quarter itself we have seen almost a 20% increase over last year so that is one thing that has happened. There are certain categories that you mentioned like for example a product as a business. Yes there has been an increase. It is not disproportionate. It is at 12.19% growth for us in product for the quarter and another area where the customers did come out very strongly post COVID was laser hair removal which as a category grew in terms of collection. We had a slowdown a bit in that category versus last year. Post a fairly large surge for the year in the first three quarters but if you look at certain other areas which you can call as high discretionary spending which is where people really spend a lot of money per transaction like for example anti aging we actually saw an increase of about 38.89% so quite a strong growth there. Fairness pigmentation category which is again an important category for us at about 14.5% and beauty facial which again is a care category as you mentioned has had a growth of almost 33% over last year so I think the major push down I would say why the growth has slowed down a bit is that we have seen laser hair removal in the last quarter come down a bit in terms of numbers. Otherwise quite a few other categories have shown good growth and ATS has shown good growth. The new segment last quarter which is basically the body contouring segment over the last three to four quarters we have been consistently pushing this category. I think this category is something that has also contributed to significant growth over the last year, but we will continue to invest on this category for future growth.

Sachin Bobade: Sure. Sir second question is on this Rs.2000 denomination so if I look at the package so it is not only for you? If I look at the other companies what I believe is that this Rs.2000 denomination should ban the companies which are mainly into this package kind of business so in there any significant growth that we have seen post the announcement?

Rajiv Nair: So this being just over the last one weekend right so it is not a very long duration that we can talk about. Some set of consumers have used cash to pay but we have not done major campaigns around it but of course wherever customers chooses to pay by cash denomination we are encouraging that and clinics have been informed to ask the customers in case they would like to pay through these denominations they are acceptable to us. Some tactical social media campaigns were done over the weekend to actually talk about this delisting of this particular currency but I would say early days for us to judge.

Sachin Bobade: Again coming back to the product business any increase in penetration in terms of your availability or presence that has happened during the quarter?

Rajiv Nair: So one good thing that has happened is that we have been trying to expand ourselves into the nutraceuticals space and we have actually been doing currently on more of a pilot mode launch of collagens supplements in powdered form and also glutathione and biotin in tablet form inside the clinic and now that category has already taken up 25% to 30% of the product sales in clinic in the last quarter has actually come through nutraceuticals as a category so what is actually happening alongside topical application and cosmeceuticals we do believe that people are looking to ingest certain parts of these things as collagen supplements so beauty from inside is something people are kind of promoting and it could be a very large opportunity category going forward.

Sachin Bobade: Sure certainly. Zico now you can take further questions. I will come back in the queue.

Moderator: Thank you. Our next question is from the line of Sakshi Chhabra from Svan Investment. Please go ahead.

Sakshi Chhabra: Sir so I wanted to just understand in the coming year what are our capex plans like we see that you have increased that also on the books so what are our plans going forward? I wanted to understand on opening new clinics as well as on the product side?

Rajiv Nair: So a couple of things I will not give you long term indications, but I will tell you which are the areas are focus for us. Post COVID we are trying to refurbish our clinics to some extent and improve the infrastructure of certain clinics that we have. In some cases we are trying to expand capacity by relocation of the clinics from smaller clinics to slightly larger clinics. Tactically where there is an opportunity and the clinics are sustainable and profitable that is one part that we are doing and the bigger focus for us is actually investment on technology which is machines where we are doing a complete upgrade of some of our old technology in the clinic and largely these are going to impact categories like fairness pigmentation, laser hair removal and a few innovations that we bring over the next couple of years. Expansions we have already done about four clinics out of which two were launched in the last quarter so opportunistically we will look at expansion now in to tier two and tier three cities and because some of the cities while we are present in more than 20 cities right now but there are certain cities that we have not expanded into we are looking at that and in some cases we are going into more than one clinic in the same geography. For example we now have two clinics in Surat. We have two clinics in Lucknow so we are looking at that but of course profitability will drive all of this so as long as the market shows potential and there is feasibility only then we will go for those opportunities.

Sakshi Chhabra: Sir do you see a lot of difference in the average ticket size between a tier one and a tier two city?

Rajiv Nair: In our case not really. Actually what we do believe that because the penetration in smaller cities is say may be one clinic in a city. We have still not completely saturated some of these markets so in terms of pricing we do not see major difference. There may be certain categories may be a little bit more realistic to pricing and we have seen some differences in those categories so for example laser pricing between one markets to another could be different but when it comes to high discretionary spends like anti aging we do not see much of a difference between tier one and tier two cities.

Sakshi Chhabra: Okay alright. Can you quantify the amounts that you will be spending in the FY2024 on your capex front?

Saurabh Shah: Currently we could not be able to comment on this one.

Sakshi Chhabra: Okay and around how many new clinics do you plan to open?

Rajiv Nair: So currently we are opened four. We have identified multiple geographies for expansion, but since that will be also forward looking, I think as we go into every quarter and we would be launching we will keep you updated on this thing.

Sakshi Chhabra: Okay Sir and also I wanted to just understand this subsidiary on which you have taken an impairment? Can you just throw some light on that?

Saurabh Shah: Sure so this impairment what we have taken is based on the subsidiary performance and as and when the scenario of performance improves things will be considered and factored in.

Sakshi Chhabra: But this subsidiary is based in Middle East or in India because there is some impact which is showing on the India books and there is some impact which is also showing in the Middle East right?

Saurabh Shah: So one is the investment and one is the goodwill. In India books it is the investment and the consol books is the goodwill.

Sakshi Chhabra: So it is actually the subsidiary in Middle East?

Saurabh Shah: Correct absolutely.

Sakshi Chhabra: Okay understood. Thank you so much.

Moderator: Thank you. Our next question is from the line of Yogesh Tiwari from Arihant Capital Markets Limited. Please go ahead.

Yogesh Tiwari: Thank you Sir for taking my question. Sir just wanted to understand on certain unit economics so we have opened about two clinics in the last quarter and we will open about two to four going forward so any thoughts from your side how much time does it take or what is like stable period for opening a new clinic? How much time it takes to break even anything on those lines on the unit economics?

Saurabh Shah: So Yogesh Saurabh here. On the cash generating scenario for a clinic to make EBITDA positive it depends on the vicinity where we are placed. It depends within 12 months at least the EBITDA becomes positive and from pay back and everything it takes between one and a half year or may be to two years on the cash prospective.

Yogesh Tiwari: Sure Sir and Sir in terms of growth which will be the main segments which will if I take a three year period which will be the main segments which will actually drive over top line moving forward?

Rajiv Nair: So obviously the main skin categories will continue to grow but one category of focus for us will be body contouring. We are making some investments in the category and we are also expanding this category to multiple cities so over the last quarter we have also added this category into areas like Gujarat, Hyderabad, and in Tamil Nadu which is in Chennai so expansion focus will be on body as one of the verticals that will be there beside quite a few of our core categories in skin.

Yogesh Tiwari: Okay and Sir lastly on like the India realization increased by about 20% approximately?

Rajiv Nair: Sorry can you repeat that what is it, when you said realization.

Yogesh Tiwari: I mean to say the spending in the India business increased by 20% as you mentioned in the opening remarks?

Rajiv Nair: No the business was up 12% sorry you are talking about the ticket transaction value right?

Yogesh Tiwari: Yes transaction value? Was there any change in mix which lead to this 20% increase and what would be the driver for this?

Rajiv Nair: So one of the main things is couple of our core categories actually gave us very high sales. For example antiaging as a business last quarter grew by about 40% over the previous year, about 38.89% which was an increase which led us to improvement in terms of ATS at this transaction value. Then of course for NS pigmentation another category grew by about 14.62% and beauty facials we reduced our discounts and we automatically realized better results so we got about a 33.6% uplift on that category and we also launched body contouring in a larger way and body contouring average ticket sizes are much higher than that of other services sure.

Yogesh Tiwari: Sure Sir that is very helpful. That is all from side. Thank you.

Moderator: Thank you. The next question is from the line of Dhananjai Bagrodia from ASK. Please go ahead.

Dhananjai Bagrodia: Sir what is that path to profitability going ahead now? How we see that as a company and what leavers do we have?

Saurabh Shah: Sorry Dhananjai your question is regard to path to profit and what was second part.

Dhananjai Bagrodia: That is only that?

Rajiv Nair: So I think one is of course translating to higher productivity within our clinics. Basically one of the things that is there about our business is getting more utilization of our assets inside the clinic so a very large part is on how to increase the net revenue based on productivity within the business so to that end we are also in making some investments in technology to improve our time taken per service so that is one thing that we are doing. Second is to increase the count of customers inside the clinic that is the reason why we are going for marketing automation to ensure things like our appointment bookings and all are digitized and we can increase the quantum of flow of customers inside the business. The third is products as a vertical we will continue to invest on and we will actually add more segments into that category which is areas like nutraceuticals as I mentioned. Body and hair vertical are two categories which are doctor lead services and based on technology and these are not so easily replicable services in the market because it needs expertise are areas that we will also work on and last but not the least, I think optimization of cost at all ends is something that we would be looking at so it could be labor costs. It could be cost towards rentals will be something that we are constantly assessing and trying to do. Tier two expansions and looking at markets opportunistically where the cost structures are running a business are lower is something that we are doing so for example when we go to smaller tier cities like Siliguri or for that matter Lucknow the cost of rent are much lower than that of what happens in bigger cities so I think these are a mix of various things that we are trying to do at the moment to build in profitability in the business.

Dhananjai Bagrodia: So Sir just along those lines has there been you think like you mentioned that okay now let say improving order flow and has that been ever a hindrance during services where like orders have not been able to be done or something because I am just wondering now it has been many years since this company started and like what has been like tangible improvement we have seen in the last five to seven years on this same aspect?

Rajiv Nair: No actually productivity in the clinics has gone up. There is still potential so it is not like we are losing customer opportunity to service at the moment so there is enough open capacity available. We have to utilize the capacity better which means the fact that flow of customer traffic is extremely crucial and that is what we will be focusing our energies on so

I think the whole effort of ours in the next one to one and a half years would be towards improving the flow of new customer and new customer count in the clinic that will help us increase utilization of the assets that we have and of course on the asset side we are improving the quality of the assets especially machine so that the time taken to achieve these services are reduced and then of course automation in terms of customers' ability to book appointments to be eased out because with more technology and more control with the customer where the opportunity of taking appointment, changing appointments, managing their appointments become that much more easier so I think those are areas that we are trying to work on at the moment and use our assets more actually. In simple terms utilize our assets more is what we are trying to do.

Dhananjai Bagrodia: No but let us say now it has been six to seven years since this company's IPO you are with the same revenues are still Q4 Rs.1900 Crores nothing much has changed and we are still talking about the same thing is it inherently that the business is more doctor lead or more like a specific person in a clinic where this is not letting us grow because people prefer to go to the person who they are more comfortable with or what exactly would you say is the problem? Let us say it has been six to seven years since you have listed what has been the problem that revenue has not growth since then?

Rajiv Nair: Yes I think growing customer footfall on a regular basis is something that as you know that is the key requirement of the business and get customers into the clinic and footfall is very important because if you look at all the existing customer metrics in the business are very good so if you see there are maybe very little or very few service businesses that you will see today with MPS scores as high as 82 to 83 and customers have stayed with us existing customers for more than five to six years as well so point is the fundamental model that we offer even if it does not mean that it is the same doctor running for 10 years and 15 years, I think there is quite a good amount of trust in the brand. It is just the fact that it is a premium service and you need to drive an X amount of feet into the clinic regularly to build more traffic for the future and that is the place where I think we are trying to work more and more on.

Dhananjai Bagrodia: So then would it be fair to assume that this is early compared to where India's potential could be or is it be that even after having such high NPS cost the company is not being able to generate money so this we are giving service to cheap what do you think is issue there?

Rajiv Nair: So I think partly what you are saying is correct. I would not want to say that we are at the same place where we were five years ago in terms of customer awareness of the category. Of course there are many individual standalone clinics or dermatologists who would be there in the business but this category is also getting more and more organized. There is more interest in the category that is coming up as of today because there is belief in the potential of the segment for the future. Many of the services are something that people have seen a journey from purely buying products or going for only pure salon services to get into dermatology service so in that sense it is a more evolved market in comparison to what a salon business actually is, so definitely India poses tremendous opportunity and scale over time of course things like COVID and others over the last five years have kind of put a little bit of a break on the momentum, but I am sure after post COVID this will definitely keep showing positive signs and plus whatever innovation that is coming internationally we are trying to bring those innovations to the country so as I said the body vertical will see certain machines that we are bringing into the market which are best in class so I would say we have to keep innovating. We have to keep giving reasons for customers to keep coming into the business but I would say the movement towards dermatology business is definitely happening.

Dhananjai Bagrodia: Thank you sir and so and so the last one for the product business how are you seeing that come along because our business we have seen so many new startups coming with Marico brand name who managed to scale up much quicker than we have what are we missing on that segment?

Rajiv Nair: Yes the only difference is that we been largely focused on our clinic business and we have not gone into the GTMT expansion which we did before COVID, but unfortunately during COVID we had to shut that business down and the other vertical that you are talking about is e-commerce. E-commerce we see good amount of growth as a market but also needs significant investments on scaling right so basically all the B2C brands that you see around us have first put in tonnes of money towards initially burning cash and then make getting the growth happening which we have not done. Our focus has been on clinics and we continue to focus on the clinic business but at some point we will definitely push our business for e-commerce and at this stage we have started our B2C venture about one to one and a half years ago and we will continue to do that. Now we have started Omni channel in that respect which means customers can buy online and offline. Are we going to put tremendous amount of money behind growing in the partner e-commerce channels may be at the current level we will not so I think the business growth will largely be driven by the growth in clinics and at some point through our B2C vertical.

Dhananjai Bagrodia: Like how much sales you do on Nykaa just roughly?

Rajiv Nair: Nykaa specific number I think about 60% of our business comes between Amazon and Nykaa average per month for the e-commerce business.

Dhananjai Bagrodia: Because if you think about the scope is quite big in this company I was just wondering is it too early on its time in terms of the service part or its execution not going well because the brand name is super strong? We all know the Marico brand name and you also have a stake into the parent in Nykaa so that also is potential we are seeing multiples of brands being created on Nykaa so then why is this one not being able to crack it yet is a multitude of question?

Rajiv Nair: Yes it is about complex business than a product business alone so to that extent there is lot of complexity of the type of business. The awareness levels of customers are growing. There are many I would say low price options that are available in the market but we are approaching it like a brand so of course we are not the cheapest in the market and we do not even claim to be or want to be the cheapest in the market so we will keep sustaining on the brand story and keep building on the brand story and look at more expansion into more territories that we are not currently present in so our footprint as a brand will try and increase but beyond that I think it is the market which is an opportunity to grow according to us and we will continue to invest on those areas.

Dhananjai Bagrodia: So I think this cheapest thing is a little myth because we have seen other brands have been more expensive than us so I think that is not an issue?

Rajiv Nair: No really. Actually if you look at the dermatology phase it is not necessary that every brand out there is actually in the super premium space so but what I am talking about is the fact that there has been a mushrooming of individual clinics which are out there in the market which are playing maybe more the prize game which we are not in at the moment so we are not acquiring at any cost and acquiring at the cost of maybe making the services very afford very accessible at a lower price. We are maintaining a mid to premium price positioning and we will continue to do that.

Dhananjai Bagrodia: By when do you think you will be able to break even on a consolidated basis at least on the EBIT level?

Saurabh Shah: It would be too early to give us this response currently because we are putting our effort on their directions so maybe gradually when we move based on the performance the number should improve.

Dhananjai Bagrodia: Okay sure. Thank you so much. I will get back in for more questions. Thank you.

Moderator: Thank you. Our next question is from the line of Ajay Vora from Nuvama. Please go ahead.

Ajay Vora: Sir if you can just give a sense in terms of what can be our annual run rate on both finance costs and employee cost for this year? Sir I am talking about FY2024 the ongoing fiscal year?

Saurabh Shah: So fiscal 2024 I cannot comment but it would be pretty much in line with what is going in 2023.

Ajay Vora: Okay so when we say pretty much meaning either single digit or broadly flat?

Saurabh Shah: It may be maybe because in the finance cost it comes as a consumer finance cost also so our business in India around 15% to 16% business comes up in consumer finance. That contribution goes up and also the cost increases. There are multiple factors build up in the finance cost.

Ajay Vora: This year the finance cost was somewhere around Rs.36 Crores how much would that be consumer financing cost over here?

Saurabh Shah: Consumer finance cost would be around in India would be Rs.3 Crores to Rs.3.5 Crores.

Ajay Vora: For the full year?

Saurabh Shah: For the full year.

Ajay Vora: Sir I am saying for FY2024 so can you can also help with what is the gross debt right now?

Saurabh Shah: Gross debt is around Rs.150 Crores considering both the entity.

Ajay Vora: Okay and what would be the cost of that?

Saurabh Shah: It depends upon 8% to 11%.

Ajay Vora: On the entire amount?

Saurabh Shah: No it is a split maybe one third is on 11% and the balance is on 8%.

Ajay Vora: Okay still the finance cost looks very high right Sir?

Saurabh Shah: Yes because there is a lease cost also comes in if you let this quarter there is an exceptional cost also we have booked which is for PF liability interest which is around 10.5 Crores so if you look at on average.

Ajay Vora: Yes I am saying when you say that it will be the same for this year as well because that includes the PF liability of Rs.10 Crores…

Saurabh Shah: The exceptional cost we can remove it and on that basis you can take it.

Ajay Vora: So next year the overall interest cost should be lower quite higher?

Saurabh Shah: So if you remove the exceptional cost then it would be low.

Ajay Vora: Yes and similarly for employee costs also you think it will be same or it should be lower next year?

Saurabh Shah: So the cost there would be escalation which comes into picture from the employee front which comes into 5% to 8% because of that the cost go up.

Ajay Vora: And just lastly are we almost done with the whole impairment of the international assets or there is more to come in couple of next quarters as well?

Saurabh Shah: So currently I would not be able to comment on that part because it depends upon how we relate the scenario on the performance?

Ajay Vora: What would be the gross block right now on the international assets?

Saurabh Shah: It is around 126 million AD including the lease assets and if look without that it would be around 80 million AD, around 160 roughly.

Ajay Vora: Rs.160 Crores and just lastly understand in terms of a long term thought process is the management comfortable with the current pace of expansion meaning like two to four clinics per quarter and we are more or less dependent on how the cash flows are and considering the debt also what we have is there any alternative plan where the company is really gunning for higher growth through expansion and look for alternatives for overall funding of that growth what is the overall though process over here?

Saurabh Shah: So basically currently which is in India basically towards expansion but for futuristic scenario currently I cannot comment but the objective is to do brand refresh, technology which Rajiv had already briefed. The strategy towards the business is brand refresh, new clinics, investment in infrastructure that is the objective what we are looking across.

Ajay Vora: But that all would be dependent on the internal cash flows which has its own limitation so in case we are looking at a much bigger opportunity is there a thought process to grow through alternative funding and grow aggressively expand aggressively?

Saurabh Shah: So currently I would not be able to comment what would be that strategy maybe as and when during the course of the financial year in case something turns up on a public domain we will just announce it.

Ajay Vora: But internally that definitely is something on the mind right?

Saurabh Shah: So we acknowledge your point. We have that thought process in mind what we are trying to tell but currently we do not have anything concrete in place so I would not be able to comment. We are currently focusing on the current cash flow what we have and how we are going to expand. We are concentrating currently on that part to generate the cash flow.

Ajay Vora: Okay thank you very much. Thanks a lot and all the best.

Moderator: Thank you. That was the last question of our question and answer session. As there are no further questions, I would like to hand the conference over to the management for closing comments.

Rajiv Nair: Thank you all for participating in the conference call. Thank you very much indeed.

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