



**“Kaya Limited
Q1 FY2020 Earnings Conference Call”**

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Moderator: Ladies and gentlemen, good evening and welcome to Kaya Limited Q1 FY2020 Earnings Conference Call hosted by ICICI Securities Limited. 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. Rahil Jasani from ICICI Securities. Thank you and over to you Sir!

Rahil Jasani: Good evening. We would like to thank the management of Kaya Limited for giving us this opportunity to host this call. The management is represented by Mr. Rajiv Nair, CEO of Kaya Group, Mr. Vikas Agarwal, CEO of Kaya Middle East and Mr. Saurabh Shah, Chief Financial Officer. Without further ado, I now hand the floor to the management for opening remarks after which we can open the floor for Q&A. Thank you and over to your Sir!

Saurabh Shah: 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 the first 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 operations of Rs.100.5 Crores for the quarter ended June 30, 2019, a decline of 3% over corresponding quarter ended June 30, 2018.

Consolidated EBITDA is Rs.13.5 Crores, as compared to Rs. 6.9 Crores in Q1 financial year 2019.

Loss after tax and minority interest for the quarter ended June 30, 2019 is Rs.9.6 Crores compared to loss of Rs.0.4 Crores for the corresponding quarter last year.

Overall Kaya operates through 97 clinics in India and 23 clinics in Middle East.

The detailed information update is already with you. 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 Sir. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Aagam Shah from Raj Trading. Please go ahead.

Aagam Shah: Can you just explain me how was the quarter gone by and I am seeing there has been no revenue growth so what has been missing about this quarter and what are challenges faced in this quarter. Can you just briefly run through the quarter especially on the business and operating side?

Rajiv Nair: The quarter as far as India is concerned actually began quite well with about a 10% growth in the month of April, about 8% growth in month of May. We have seen a bit of a slowdown in the month June where generally I think the market sentiments were low in the consumer space. In fact in terms of number of sessions for the quarter we have done almost 1,68,000 sessions this year vis-à-vis 1,55,000 sessions last year so in terms of actual consumption volume in the clinics actually we went up. We did do some acquisition campaigns that had a neutralization effect on the net revenue. We have seen an increase of deferment of almost Rs.3 Crores.

Aagam Shah: Sorry, what did you do, last part?

Rajiv Nair: We did some acquisition services during this particular quarter so basically giving some benefits to customers on services so that probably has impacted a bit of the net revenue number but it has also helped us increase collections to the tune of about

6%, which is almost a Rs.3 Crores additional deferment over last year, which will flow through in the next few quarters.

As far as individual line items and areas, we have seen steady growth in performance of product as a business. In clinics we saw about a 6% growth in product, in KSB we saw about 21% growth in product and in e-commerce we saw 44% growth in terms of product so that was a good story that we saw through and through the quarter.

As far as services are concerned, there was certain specific services category which did quite well, dull skin for example which actually grew by about 23%, Fairness and Pigmentation which grew by 9%, and hair care grew by about 4%, and as I mentioned earlier product grew by about 6%.

We had a flattish growth in Hair Free which is a large volume segment for us, but that is an area of continuous communication for us so we believe we can recover this in the next few quarters.

Aagam Shah: I think if I am not wrong in the last concall you had mentioned Hair Care and Hair category might pickup from the next two quarters onwards so what is that maybe we have not seen much growth?

Rajiv Nair: We have seen most of the growth in the hair loss segment for women. Our transplant business for the quarter has really not grown and that is the reason why there has been a little bit of a subdued number, it is a just 4% growth over last year. But I think services, like PRP, which is an important part of our hair care business has grown by double digits but that is basically the story as far as hair care is concerned.

Aagam Shah: Okay and UAE numbers?

Rajiv Nair: Middle East business for the quarter Vikas will speak to you about.

Vikas Agarwal: What you have seen in Q1 is an impact of Eid which last year was impacting Q2. If you see last year Q2 was one of our worst quarters because of Eid and post Eid school holidays. This year it has come in June. July is supposed to recover that and that is normally how it works. Just that it has come in Q1 and therefore it was expected as an impact in the beginning, but there are other good things that are going for us which should build in the next few quarters very well.

Aagam Shah: Can you explain to me what has impacted, why does it happen basically?

Vikas Agarwal: Normally after Eid there is huge slump and the entire resale almost shuts down for a week and then people also go on school holidays because the school holidays start so there are lot of trips planned and they go on for a few months actually two months, but the immediate impact is huge. Last year that immediate impact was in July, this year because Eid preponed by 15 days every year this year the impact was in June, that is the biggest impact that you are seeing. Separately even in Q1 we have seen growth in Saudi Arabia, which is the market we are very positive about. There is a huge positive consumer sentiment there with all the changes that have happened in the recent past. We have seen growth last year. We have seen a positive P&L last year and we believe that that would be a growth driver in the coming year so that is working very well. Our new identity six clinics that we have, have actually grown in spite of an overall degrowth so that is again something that will continue to grow and drive in Q2, Q3, and Q4. So there are some really good strong inputs we have which we believe will turnaround the future quarters it is just a shift of impact from one quarter to another that you are seeing.

Aagam Shah: On the body contouring part you have spoken last year, so any updates on that, how is the business going on?

Vikas Agarwal: The business is growing. It is still small but is growing in double digit. Also, there is a lot of learning coming in for us because it is a completely new category. It is pretty

intense in terms of competition. The clients we serviced are very happy. It is just a slow builder because for years we have actually been an expert in skin, body is a little different. We made a lot of experiments in this. Last month was actually pretty decent. We are still very hopeful about that category that this year it will pool in a lot more.

Aagam Shah: India also we have started?

Rajiv Nair: No, in India we just did a pilot in body contouring in Delhi, but we have not taken a decision to scale it up in India. This service needs high outcomes and the cost per unit is high, we decided to not to scale it up in India at the moment & focus on Middle East as consumers can afford the services. In India we thought the cost per unit was coming out quite high, so we are looking at our need for a good

Aagam Shah: Any of the stores for this quarter we have relocated or furnished?

Rajiv Nair: We have not relocated any stores but there is a large clinic of ours in Indira Nagar which has now been renovated and it is starting business from July. It is a 4 level clinic and will be our flagship in Bangalore

Moderator: Mr. Shah we request you to please rejoin the queue for followup questions. Thank you. The next question is from the line of Chirag Maroo, an individual investor. Please go ahead.

Chirag Maroo: Thank you for taking my question. First of all, I would like to take some accounting question. So I would like Mr. Saurabh to answer it. Sir, as per auditing treatment we saw a Rs. 38 Crores correction in retained earnings and that Rs. 38 Crores was transferred to deferred revenue so was it like a quarterly thing or we are going to see the Rs. 38 Crores to come in the books again for revenue terms?

Saurabh Shah: Rs. 38 Crore is a one-time, it will get crystallized as and when the consumption happens. So in a later year it will get crystallized.

Chirag Maroo: So what was the reason for it to realize it again because if you see it is like one person has paid some payment in advance and due to which we are recognizing it at the current liabilities and it is like they have paid for certain numbers of fit-ins ahead. Should I expect it to completely come in books by 2020 or it is going to be like 2021-2022?

Saurabh Shah: If you recollect last year as per the IND AS 116 the company refund is accounting of performance obligation including allocation of fare value and treatments of upfront fees so we used to recognize some portion of nonrefundable upfront fees, so that part of portion went in reserve. As and when the consumption happens that part of fees will gradually get recognized so your point is that whether it has been crystallized some portion is already crystallized last year, the moment it was transferred to reserve, some portion will get crystallized in this year.

Chirag Maroo: Next question is regarding Ind-As 115 treatment only. We have reduced our retained earning by Rs.18 Crores again. I want to know that the properties that are mostly in India which is operating on operating lease so what is the tenure for that particular thing, can you give me a timeframe like 4 years to 10 years time?

Saurabh Shah: It depends upon the contract. It depends 3 or 5 years contract, some would be 7 years contract, on that phased manner it is an individual contract as and when it gets crystallized this will come into as a credit.

Chirag Maroo: Sir as per presentation it is given that we have some operating leases in UAE too, but if I see the transaction it is like other expenses get reduced and then that expenses had been added to finance cost as well as depreciation. Particularly in UAE there is no interest expenses added so I am not able to understand?

- Saurabh Shah:** In Middle East the contracts are not to the great extent of three years, five years, seven years, they are actually renewable one year, two year, maximum three years is the transaction.
- Chirag Maroo:** That is the reason, but still we are having like Rs. 32 Crores amount as of right to use assets, then too we are not going to have any kind of interest expenses related to that?
- Saurabh Shah:** I did not get this question.
- Chirag Maroo:** I meant to say if you see on consolidated level right to use assets are Rs. 128 Crores as per Indi it is Rs. 96 Crores, I am expecting the other Rs. 32 Crores as part of operating expense as per UAE?
- Saurabh Shah:** Correct, so basically it is fair evaluation till the time of the contract. If the contract is for three years it is fair evaluation, which was an off balance sheet we have now capitalized that is where the 32 Crores comes into the scenario.
- Chirag Maroo:** Another question is regarding the life of asset what we have taken for furniture and fixtures. As per 2019 annual report, it is written that it is nine years or lease period whichever is less. Can you know what is the life of asset you have taken for furniture and fixtures?
- Saurabh Shah:** In some of the contracts, where we depreciate till 9 years, where there is some shorter life, we write off in books as accelerated depreciation.
- Chirag Maroo:** Okay. If you see that actually for this particular year FY2019 there was an additional asset bought for furniture of about Rs. 20 odd Crores and we have made a depreciation for this particular for FY2019 was Rs. 7 Crores and the gross value was around Rs. 25 Crores should I expect that it is going to stay somewhat to similar

numbers for future too because that is high amount of depreciation as per the life of an asset?

Saurabh Shah: If you recollect we in couple of last two years we have renovated in lots of place, renovation and relocation has happened so of the capex items have gone in some of these clinics so the gross block and the overall capex cost have increased in that year so gradually if we decide to renovate or relocate some clinic then the cost once again will appear but what you are trying to define with this is that the cost will remain intact. The answer is yes the cost will remain intact to that extent.

Chirag Maroo: Thank you so much. I will join back the queue.

Moderator: Thank you. The next question is from the line of Aagam Shah from Raj Trading. Please go ahead.

Aagam Shah: Sir I am just saying that so far the Q2 gone by whatever we had been hearing there has been slowdown from all over the economy what have you faced in terms of the business of Kaya?

Rajiv Nair: As far as India is concerned in the month of April and May we did not see much of an impact in fact we saw positive growth, middle of June onwards there has been a bit of slowdown in terms of customer sentiment I would say and that is something that we have seen in the last 15 days in terms of walk-ins into the clinic so in the quarter the impact has been largely in June.

Aagam Shah: Same goes to July also?

Rajiv Nair: July I would not be able to give you a comment at that moment, but I think environment continues to remain a bit challenging as we see in large part of the consumer market at the moment

Aagam Shah: How are we seeing going ahead let us say for next three to five years? Are you planning to enter into new product or may be focus more on the product side?

Rajiv Nair: Just to give you a perspective, product now accounts for in the last quarter about 27% of the total business and as I mentioned to you our immediate term plan would be to reach about 30% of the business from product. There are a lot of new innovations also happening in terms of product so the range of derma naturals that we are mentioning last couple of quarters is expanding further, with the hair care range recently launched in the system. We have also launched anti-pollution range. We have also launched a sensitive smooth range in this quarter. I think these are products that we have actually lined up for the next couple of quarters in the business. So product, yes there are some very exciting launches that we are planning.

Aagam Shah: Sir this quarter is 27% so once we buy let us say may be this year 30% so then what is the outlook going ahead. How will we scale up the services?

Rajiv Nair: So there are certain specific segments like Laser Hair Removal, Fairness and Pigmentation and products that we would be communicating Above the Line. Some amount of ATL you can see in cities like Mumbai, Bengaluru, and Kolkata at the moment. .Our spends till now has been digital only so we will do a combination of tactical campaigns as well as brand building campaigns in specific markets all the core cities that we actually operate in. That is something that we will do and there will be specific focus in products so far example in e-commerce as I mentioned our growth is about 44% in e-commerce that is where we have also increased our investments as far as visibility is concerned for the brand.

Moderator: Thank you. The next question is from the line of Chirag Maroo, an individual investor. Please go ahead.

Chirag Maroo: Sir I want to ask regarding the Kaya Middle East Company FZE I have referred to AOC form I am seeing that the company actually made a loss of 4.88 lakhs AED for

FY2019, but the decrease in resource and surplus was about 80 lakhs AED, can you let me know the reason why has this happened?

Saurabh Shah: Ind AS 115 adjustment which has happened last year in the past that is the delta difference you will be finding.

Chirag Maroo: Sir that is actually more than that Sir. If I take the complete difference Ind AS 115 that was about 40 Crores and this resource and surplus is decreased by 80 Crores so if we convert it in to Indian currency it would be similar to that did you mean to say that?

Saurabh Shah: Yes.

Chirag Maroo: Thank you so much sir regarding this. Sir other than this I want to know that do we make these products what we are selling in market as per e-commerce or some clinic.

Rajiv Nair: Are you talking on manufacturing?

Chirag Maroo: Yes Sir.

Rajiv Nair: Products are researched and developed by our internal team so the formulation are all owned by us, but it is contract manufactured at the moment.

Chirag Maroo: What was the research and development cost for the particular quarter and for FY2019?

Rajiv Nair: About 1% to 1.5%.

Chirag Maroo: Sir for FY2019 there was an increase in miscellaneous expenses from 3 Crores to 7 Crores. Can I know what is actually included in it?

- Saurabh Shah:** You are talking about the consolidated number Chirag?
- Chirag Maroo:** Yes Sir I am talking about the consolidated numbers.
- Saurabh Shah:** There was additional cost in Middle East, some advances were there and that is why the cost has gone up,
- Chirag Maroo:** Actually we have a sundry balance written off of about 3.5 Crores.
- Saurabh Shah :** So that comes under other expenses.
- Chirag Maroo:** That is it from my side. Thank you.
- Moderator:** Thank you. The next question is from the line of Rahil Jasani from ICICI Securities Limited. Please go ahead.
- Rahil Jasani:** Thank you for taking my question. Sir one question have we taken any price hikes in our clinic, the average ticket size growth is around 4% so is it only because of mix change or can you elaborate on what is the actual quantum of average ticket size as well?
- Rajiv Nair:** Our price in all acquisition services are down over the last two years, but in terms of consumption from existing customers increasing the price per customer actually has gone up, that is why the ATS is higher.
- Rahil Jasani:** What is the average ticket size?
- Rajiv Nair:** Now it is close to Rs.9,000 per ticket and certain specific service about Rs.11,000, so Rs.9,000 to Rs.9,500.
- Rahil Jasani:** That is in India. What about the overseas business?
- Vikas Agarwal:** Middle East ticket size is around USD \$425 for a client.

Rahil Jasani: Okay, got it. Secondly, Sir in the hair business how are you seeing the growth in the transplant because I think that was the key growth area which was there?

Rajiv Nair: We are basically looking hair comprehensively both in terms of services and product so what we have realized now is the fact that a large part of our current audience being women and our objective being to serve more categories to existing customers we are actually looking at a lot more hair loss solutions. One of fastest growing areas in hair at this moment in time is actually the PRP service which is basically doctor led service which is done. We are actually adding new services in the hair loss category because we realize that is the high concern area. The cost of acquisition of singular customer in hair transplant is a segment we have realized is quite high. So actually depending on the kind of money that we are invested we are able to get a x number of customers to come in for hair transplant so we get about 30 to 35 transplants per month at the moment but the investments required for that are much higher so what we are trying to do is the fact that lever more of our business in hair towards hair loss solution which are easy to acquire consumers and existing customers as well and that is basically what we will be our focus. You will see a lot of innovation in this space coming from Kaya over the next few months.

Rahil Jasani: Okay, but the ticket size in hair loss solution will also be lesser than?

Rajiv Nair: The quantum of consumer will be higher. The cost of acquisition per customer will be lower. It is largely the women customer who is coming in to the clinic already and these are doctor led services so the margins on the services are generally on the higher side while the ticket size may be lower the margins will be higher and it will reach out to more customer base than merely transplant.

Rahil Jasani: The last question from my side in terms of the revenue growth you mentioned that there was certain acquisition services which impacted the revenue growth this quarter so just wanted to understand if you can elaborate on that?

Rajiv Nair: We did about 1,68,000 sessions in this particular quarter, about 8,000 odd sessions were done to acquire more business. For example, the customers are given benefits in terms of services for acquiring them in other categories. For example, we did certain offers on facials on purchase of products, so we had about 7,000 to 8,000 sessions which were actually additionally done as part of that so obviously it is part of the overall session count but it does not realize additional value and that is the reason why the NR actually went marginally down while the collection actually grew up as a result of that and we have seen a growth in product at the same time overall collection have grown by 6% in the quarter. So what it will do for us is a fact that it will create some deferment which will get realized over the next one or two quarters.

Rahil Jasani: Right but you intend to continue this?

Rajiv Nair: We did that as we realized the fact that by the month of June actually there was a little bit of a slowdown in the economy and we started realizing that footfall into specific categories we needed to drive that is why more from a promotional perspective we did these sessions, but they have been already stopped so those are not happening in the month of July, August, and September.

Rahil Jasani: That is it from my side.

Moderator: Thank you. The next question is from the line of Chirag Maroo, an individual investor. Please go ahead.

Chirag Maroo: Sir just trying to understand the business much better. As you are saying that you think that the next three quarters is going to be much better when compared to previous years so what kind of growth are you expecting for FY2020?

Rajiv Nair: As far as India is concerned, we are actually looking for 8% to 10% growth in collections As far as Middle East is concerned, we are looking a low single digit growth right now because we are coming on the back of a negative growth in the last

one year basically because the market was quite down so there will be an improvement definitely on that front so that is basically what we are doing and I think we are also looking at in both markets trying to push consumption values in this market so while new customer acquisition and getting more collection value may not be that high, but we will increase the number of consumption sessions in the business so we are looking at almost a 10% to 12% improvement in terms of consumption volume in the clinic, which will lead to net revenue realization and also product as a business where the price points are much cheaper we will definitely focus a lot more in India so that will also give us more access to markets and more cities.

Chirag Maroo: Should I think that in future the revenue bifurcation compared from India to UAE, India going to be a higher part of it?

Rajiv Nair: Not really, I mean it will be quite similar, net revenue numbers would be quite similar between the two markets.

Chirag Maroo: As you already said that you are facing a lot of competition related to price work or deep discounting related in UAE or even the economical situation were not that good for the last year so are you seeing any kind of revival over there?

Vikas Agarwal: We are seeing a good traction in Saudi definitely. That is a very positive consumer sentiment. It is reflecting in our business. Last year the business has grown. Q1 the business has grown, every business I am talking to in that country has actually is doing well so there is definitely a momentum there and we are going to bank on that momentum. UAE, Dubai is one of the toughest right now. I would say there is a stagnancy in the country given that the Expo 2020 news is still not materializing into action but we are expecting Expo 2020 to yield in something by the end of the year because it is starting next year so we are also hoping to see a traction there but right now UAE is still a little slow, but again it has been slow for one to one-and-a-half

years we are managing it, we are more learned and wise to manage an environment like that to come out of it and not really go down on growth, but UAE will continue to be same at least for the next few months or a year, but Saudi is the new direction for us to grow.

Chirag Maroo: So from this particular year are you going to target again Saudi?

Rajiv Nair: Like I said in Q1 in spite of us degrowing as a region, Saudi has grown. We see a higher traction in the coming month. We are making a lot of plans for inputs into the country so that will be the growth driver this year for sure and we might even make bigger plans for the future.

Chirag Maroo: Sir, in the presentation you have mentioned about the attrition rate is it related to employee or is it related to customer?

Rajiv Nair: These are employee attrition rate.

Chirag Maroo: Sir, actually it is mentioned that employees satisfaction rate is above 80% and still we have facing such kind of action, is it like the major employees the ones who treats the customer, we are facing such attrition rate over there or is it like the working employees who help like a staff who helps the doctor for doing the treatment?

Rajiv Nair: So attrition at 36% is actually below the average of retail industry at the moment, average being about 40% to 42% retail so it is about 36% our endeavor is to even bring it down further. So this over the last one to one and a half years from as high as 48% to 49% we have brought it down to 36% so which actually means the fact that we are doing a lot of work on employee retention and employee development. The loss of employees largely is in the larger volume segment, which is a therapy segment where people are working at an entry level especially on services. They are not necessarily only doctors but actually therapists, who work in the clinic who do

services like laser hair removal and things like but that I think the nature of how the retail business today is and there are lots of opportunities in the market and so people who work two to three years in the organization do tend to churn in this particular segment but employee satisfaction score we look at the overall climate of the organization, the survey known as the Cliff survey which is giving us numbers every year as to where we are going and what are the reasons if there is any for dissatisfaction of employees and the score going up above 81 plus I think is a good number to have plus over customer services score which is the NPS score also slowly, slowly climbing up so from as low as 27% last year reached almost 42% this month it was about 38% for the last two months so we are constantly also measuring that and third measure that we are doing for customer satisfaction is also our Google rating which now pan India is about 4.5 so we are measuring both employee satisfaction as well as customer satisfaction.

Chirag Maroo: Great. Thanks a lot Sir. That is it from my side.

Moderator: Thank you. As there are no further questions from the participant, I now hand the conference over to the management for their closing comments. Over to you Sir!

Saurabh Shah: Just to conclude, we will continue our effort to drive the company to a sustainable and profitable growth through expansion as well as the same store growth. Thank all of you for attending the conference call.

Moderator: Thank you very much sir. Ladies and gentlemen, on behalf of ICICI Securities Limited that concludes this conference call. Thank you for joining us.