"Kaya Limited

Q1 FY '24 Earnings Conference Call"

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

Moderator: Ladies and gentlemen, good day, and welcome to the Kaya Limited Q1 FY '24 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 star then zero 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, Yusuf. On behalf of Dolat Capital, I welcome you all to the Q1 FY '24 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; Mr. Rajiv Nair, Chief Executive Officer, Kaya India 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 Suri: Thank you and good afternoon, everybody. I would like to welcome you to the conference call on the company's behalf. Let me begin the conference call with a short update on quarter 1 performance of Kaya Limited, which is already in public domain and uploaded on our website, kaya.in.

Kaya Limited posted consolidated revenue from operations of INR105.7 crores for quarter 1 FY '24, a growth of 14% over corresponding quarter. India revenue grew by 17% and Middle East revenue grew by 11%. Consolidated EBITDA for quarter 1 FY '24 is INR12.9 crores as compared to EBITDA loss of INR5.6 crores in quarter 1 FY '23. EBITDA in last year includes onetime impact of INR10.8 crores, primarily due to PF liability and rates and taxes.

Consolidated loss after tax and after exceptional items for quarter 1 FY '24 is INR9.3 crores as compared to a loss of INR23.5 crores in quarter 1 '23. Kaya India posted a revenue of -- from operations of INR49.7 crores for quarter 1 FY '24, a growth of 17% over corresponding quarter. Kaya India loss after tax and after exceptional items for quarter 1 FY '24 is INR4.5 crores as compared to a loss of INR18.8 crores in quarter 1 FY '23.

From a customer experience perspective, both regions showed strong positives with NPS reaching over 82. Service innovations in the quarter contributed to 10% for Kaya India clinic business and 7% for Kaya Middle East business. As a part of our growth strategy following the updates; from customer engagement strategy, we have commissioned a marketing automation project to digitize our customer acquisition journey, which includes setting up of automated appointment booking, customized nudges through WhatsApp and red bots.

Body segment vertical had a 5x collection growth versus quarter 1 FY '23, showing strong customer acceptance of our new vertical. Nutraceuticals contributed to 23% of our product business for quarter 1 FY '24. Investment in technology in clinics continued through quarter 1.

Company during the quarter also relocated 2 clinics, 1 in Baroda and 1 in Chennai to improve customer experience and profitability. The detailed information of 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: Our first question is from the line of Swechha from ANS Wealth. Please go ahead.

Swechha: I had a two questions. One was like you mentioned that your body business is seeing a 5x kind of a growth. So can you help us understand the growth is basically driven by which particular service? Because I think we do cool sculp there, we do skin tightening and we do a couple of other therapies. So this growth was led by what? And also, a related question about this is how big is the market size opportunity for us in the body contouring segment and specifically in the cool sculp, if you could help us understand both the things.

Rajiv Suri: So the main reason for the growth driving was body sculp, and that has been a new introduction for us and the momentum has been with that. At the moment, skin tightening and muscle building is being trialed and will further improve the business. The size of the body market segment on an industry-wise basis, the segment in the athletic market is 30%. So we have a long way to grow over this business and potential, we believe, is that this can continue high growth trajectory.

Swechha: Okay. And sir, I think you've mentioned in your presentation, in your nutraceuticals, 50% of revenue was contributed by glutathione, if I'm correct? So if you could tell us what exactly is this?

Rajiv Nair: So I'll just explain there are 2 formats in which we are doing nutraceuticals, one is the powdered collagen category, and then there are capsules, okay? And powder collagen is basically marine-based collagen powders that you can drink and we also have vegan option available. In the capsules, we have 3 way variants: 1 is glutathione capsules, which basically is for clearer skin and brightening for purposes, okay?

And then there is Biotin, which is meant for hair. And then there is ceramides, which are also for anti-aging purposes. Out of this, the entire business that we have done for the first quarter, 50% of the business has come from the tablet format of glutathione, which is a very accepted product for brightening in the industry, I mean, especially in dermatology space. And this is the first time we are doing ingestibles in the category. In the past, we would have used all of this on a topical application. This time we have done it in an ingestible format.

Swechha: Okay. Understood. Understood. And sir, I think you also have seen in the presentation that our collection has declined in Middle East. Any reason like would you help us understand what really led to this marginal decline?

Rajiv Suri: So the focus in Middle East was to try to improve profitability and we had done some price realignments and reduced the amount of discounts we gave in quarter 1 this year. And primarily, our -- which led to an increase in our net revenue for the quarter. And more importantly, last year, the Middle East EBITDA was INR1.4 crores, and that this time has that on INR3.6 crores.

Therefore, there is a remarkable improvement in the profitability even though we had a little bit less footfall.

Swechha: Sir, if you could just give some guidance on the capex and ad spend for FY '24. And do we see any escalation in our people costs in FY '24, sir?

Saurabh Shah: So with regard to the marketing spend, it would be around range of 6% to 8% of our an ad. And with regard to people cost, I think what you -- the trend, what is in Q1, it may increase because we did welcome vacant position and we'll fill that position. So we'll get streamlined by Q2. And with regard to capex, we already spent almost INR14 crores in this quarter towards machines and brand refresh.

So as and when we feel that opportunity like body contouring video and pilot test and whether it works out better then we see an opportunity to invest further. So as and when the business performance gets improved, we'll like to capitalize on this entity.

Moderator: The next question is from the line of Tushar Raghatate from Kamayakya Wealth Management Private Limited.

Tushar Raghatate: I just want to understand the operating margin trajectory going forward, will that be sustainable, your growth plans going forward? And what are your initiatives to increase the customer count?

Rajiv Suri: We'll start with the increase in the customer count and what are the initiatives. So like we mentioned, we have commissioned a project with the company, which is specializing in big data and tech start-up in the healthcare industry. We commissioned the project a few weeks ago, and the project will be completed shortly.

And this project is around new customer acquisition, tightening the customer funnel as well as improving the customer experience in terms of appointments and any friction to get into the company and make appointments, change appointments using redbox, chatbot, etcetera.

And we also have initiatives around CRM for our Smiles loyalty customers. And as you know, a vast majority of our sales come from our own loyalty base. So we are working both on new customer acquisition as well as retention, and improving our business with the existing customers.

In addition to this, as we launch new verticals like body, you will see that it helps us increase our business with a new category for existing customers, and we are finding that it is also attracting 25% new customers.

Tushar Raghatate: So in terms of margin, are they sustainable going forward?

Saurabh Shah: So margin pretty much sustainable it's objective because there are some -- it's a variable cost in the fixed cost element. So it depends upon how the performance at the margin percentage, on variable front would be pretty much similar and fixed costs would be aligned.

Tushar Raghatate: Fair enough, sir. Sir, as per challenges in Middle East, we could figure out that our products are near to 30% discount compared to VLCC. So why are we putting our products or our service into discount? If we are...

Rajiv Nair: Can you repeat the last part and where did you find the 30%, you said?

Tushar Raghatate: So, I'm saying in the Middle East as per our channel [inaudible 0:13:56], you could figure out that our services are near to 30% discount compared to VLCC.

Rajiv Suri: So our pricing in Middle East is aligned to local competition, which is in the Middle East and we do not believe that our services are at a lower price than VLCC. The benchmark pricing is the same as local competition, including VLCC. And maybe you've seen some marketing that could be a tactical promotion that you may have seen.

But for the rest, we do a benchmark pricing every month, and we are very much on track. If we look at our margin structure, it's also on track. So we don't believe that this is any issue for the company. And in any business, we may have had some tactical promotions and which happened, and you will find that even our competitors are using the same way of pricing for short periods of time.

Tushar Raghatate: Fair enough, sir. Sir, my last question would be, sir, what would be in percentage term, high-margin business would be what percentage of your revenue? And what are the guidances you might have or a target internally you might have in order to increase that going forward?

Rajiv Suri: You need to speak a bit clear, please your voice is breaking as you are speaking.

Tushar Raghatate: Sir, I'll repeat my question. So I just want to understand the high-margin portion of your business, it comprise what percentage of your revenue and your internal target to increase going forward for the next 2 to 3 years might be?

Rajiv Suri: The majority of our business, and in fact, the whole company's business is high margin business. We really don't have any categories that is a low-margin category. The low margin, which we may have would be on product on marketplaces where we share, obviously, the profitability with the marketplaces and give them margin. But for the rest, most of our margin is north of 70%. So we really don't feel that there is going to be a decline in that. And there are some categories where there are no consumables and the margin is even higher than that.

Moderator: The next question is from the line of Darshil Jhaveri from Crown Capital.

Darshil Jhaveri: Yes. So sir, with regard to the growth in revenue, what kind of top line growth could we expect maybe this year and a bit on the long term within maybe we are around INR100 crores a quarter. So is there an aim maybe reach INR1,000 crores soon or some long-term vision in that sense?

And my second question is with regards to margin, I'm sorry, I couldn't catch that part. We are saying that margins are sustainable? I'm sorry to ask you a repeated question.

Rajiv Suri: So see, as a listed company, we don't give guidance on future sales or growth projections, and we are unable to give you that on how our business and what our business might look like in the future. As regards to the current performance of what our future profitability would be, unfortunately, as you know, we cannot share that.

The question on can our existing margin structure continue into the next 2 or 3 quarters? We believe our growth strategies are in place. However, depending on the market dynamics, our performance will be played out over the next quarter. And other than that, we really can't specify numbers on record.

Darshil Jhaveri: Okay. Sir, but not in terms of numbers, maybe then, but given of a qualitative statement of how we are looking at the business maybe from some longer-term perspective. And if I may, sir, the question I would like is, at what kind of scale will -- you said products are very high margins. So at what kind of maybe scale of revenue, could we have a better margin, like that could go about 20% or something like that? And I'm not asking for the guidance per se, but is this like what kind of fixed cost could be the element of our current business mix, if that could help?

Saurabh Shah: So basically, on your question for the cost perspective, what you look at Q1 number, which I responded to the previous questions, except the employee cost, which would be higher. The cost what we are looking at the Q1 financials pretty much remains same. The other aspects would change would be only on the capex part, if we involve further capitalization of any machines or anything, that cost may go up. Apart from that, the cost structure Currently, I can't give a forward-looking statement, but the cost pretty much remains in line with what is there in Q1 and Q4 average.

Moderator: Next question is from the line of Ajay Vora from Nuvama Asset Management. As there is no response from the current participant, we will move to our next question from the line of Nitya Shah from Kamayakya Wealth Management.

Nitya Shah: So I would like to know what are the number of subscribers in the Kaya Smiles program as of this quarter versus last year same quarter?

Rajiv Nair: Just one moment. Okay. We basically have a total membership of over 28,000 customers who transacted in this quarter. The overall base is more than 100,000 customers, but the transacted customers in the quarter is about 28,000.

Nitya Shah: So do you see a growth in the transacting customers, say, Q1 FY '23 versus Q1 FY '24?

Rajiv Nair: That number is pretty much flat over last year in terms of transacted customers, but the ATS value per customer, which is average transaction of our customer has actually grown.

Nitya Shah: Okay. And I even noticed in the fixed cost part of what you were saying that the employee cost has dropped significantly if you compare it to the last year's quarter. So it's a good thing due to which there's been a great improvement in the margins also. So how is this carried out that the employee cost fell so much year-on-year?

Saurabh Shah: So basically, if you look at last year's quarter, there was an exceptional cost of provision to a PF liability of INR8.8 crores, that's where the delta gap is coming. Otherwise, what I stated previously, the cost, what we look at employee cost, there would be a little bit upside in the upcoming quarters. And -- but the cost would not go drastically to that level of Q4 -- Q1 last year. .

Nitya Shah: Sir, today morning, I read that further loans have been given by the promoter another INR37 crores. So I think total promoter loan has come up to around INR150 crores. So I wanted to understand the repayment schedule of this -- does it convert to equity or what's the plan here?

Saurabh Shah: So the loan what we have seen on the intermission is just so we have taken approval. As and when we need will draw down, it's not currently draw down. The second is for repayment, the board is evaluating the option. We are also evaluating the option and they come out, including the right issue, and we will come out soon with some outcome.

Moderator: Next question is from the line of Raaj from Arjav Partners. Please go ahead.

Raaj: Looking at the company, see, for Kaya, the concept is good. But if I look at the sales and PAT and overall thing, your sales have been flat since around 2015, 2016 times. And you have been in the loss since 2017. So what exactly is the issue for the company that I'm trying to understand?

Rajiv Nair: Yes. I think 1 of the main reasons would be the total growth of customer count within the business. While if you see other metrics like, for example, consumption growth and others in the business have increased, but customer count is something that has been an issue. And 1 of the areas that we are really focusing and sharp focusing is into increasing the quantum of new customers coming into the business. And that's the reason why the various initiatives that were mentioned earlier, one was on technology. At the same time, new verticals being launched to increase the volume of customers in the clinics.

Raaj: All right. And how much is the approximate growth in these numbers do you expect?

Rajiv Nair: Sorry, are you mentioning customer counts?

Raaj: Customer counts, yes going forward.

Rajiv Nair: We have some internal measures, but we won't be able to give you a guidance in terms of growth of customer counts for future.

Raaj: All right. And looking at FY '24, so will it be a good year compared to FY '23 overall on the execution side, operational side and everything?

Rajiv Suri: I think if you take quarter 1 results, and you'll need to draw your own conclusions from that because like we mentioned before, we cannot give guidance that may impact our external situation. But as any year, if you look at the first quarter results, and you'll see that there is improvement in most of the metrics, the net revenue is higher, the EBITDA is better, and we are continuing with many initiatives to continue with our growth story.

Moderator: Next question is from the line of Sunny Agrawal from SBICAPS Securities.

Sunny Agrawal: My question pertains to store level metrics. So right now, we are operating more than 90 stores. If you can help us understand how many stores are profitable, how many stores are at breakeven level or are on the verge of breakeven, how many stores are contributing positively to the business? And what is our expansion plan on store front?

Saurabh Shah: Okay. So if you look at Kaya India level, there is except 1 store from the existing clinic, which is on a clinic EBITDA negative. Otherwise, Kaya India overall clinic EBITDA is almost around 26% EBITDA okay? And we opened 4 clinics. They are also pretty much at breakeven with just 2, 3 months and 4 months in operation. Now with regard to expansion, we would like these 4 stores to perform better, and then we'll take a call to take a further step.

Sunny Agrawal: Okay. And usually, what is the capex per store, which we incur to open a new clinic?

Saurabh Shah: So per store, the capex cost range from INR1.25 crores to INR1.5 crores.

Sunny Agrawal: Okay. And usually as per our past experience or the recent experience the store you will at the clinic level, it gets the breakeven is achieved in the span of 4 to 6 months, right?

Saurabh Shah: So it depends upon the vicinity and area at clinic level, if you look at the clinic to come to a gestation period where it makes at the clinic level breakeven EBITDA, we internally assume it's around 9 months, 6 months. But if it's in a good location, it can shoot up easily faster than that.

Sunny Agrawal: Okay. Okay. And sir, any particular territory or a region which is contributing more profitably to our business and any particular region which is lacking? Would you like to throw some color on that aspect.

Rajiv Nair: Yes. If you look at the region in India, actually, as you see the south and the east side of business, they are largely profitable because of the fact that your cost of operating these clinics are relatively lower because of rentals, wherein actually main cities, the big cities like, for example, Delhi or Bombay, where we have very good locations and very good clinics, the throughputs are higher in terms of turnover EBITDA generated by these clinics are generally lower because of the cost of rental.

Moderator: We have our next follow-up question from the line of Swechha from ANS Wealth.

Swechha: Just 2 more follow-ups. One is with respect to the region expansion that you just mentioned, the South and East versus the Mumbai and Delhi. So in the annual report, also, we've mentioned that we want to go now more in Tier 2 as compared to Tier 1. So if you could give some broad guidance as to you now, what kind of stores we are looking at to open in Tier 2 cities, say, over next 1 or 2 or 3 years, in Tier 2 precisely which region we plan to go or something about it? What is our strategy for Tier 2 basically?

Rajiv Nair: Okay. So if you look at the kind of cities that we have opened, those are the next cities after the main metros. So the expansion that we have done recently is in Lucknow, in Surat, in Electronic City, which is in the suburbs of Bangalore and in a city like Siliguri. Now these are up and coming cities of the country and our very strong retail destinations now and there is definitely more consumption in these cities in the last so many years. And as infrastructure is developing many such cities are coming through.

So since our concentration largely has been in big cities, now we are moving a lot more into Tier 2 cities. And initially, the preferences in cities where we already have a clinic so that we can also optimize our marketing expenditure and cost of operations and things like that. So that's the broad picture I can give. We cannot give you any guidance on how many stores in the next 6 months, 8 months at the moment.

Swechha: And sir, second question was a very broad kind of a question because a lot of these, especially the body contouring kind of cool sculp or Botox like a skin tightening thing that people normally do, there is a very small bit of chance of this going wrong. And there have been cases in the past that the companies have faced a legal kind of a situation. So how do you think and how do we prepare ourselves, and do we face that kind of risk because we are also doing these therapies or treatments. So how do you think about these legal liabilities that may come up because there is a fair small chance of these statements going wrong, right?

Rajiv Nair: Okay. So of course, medical treatments may come with some risk. But the most important thing that we have is we invest on very high-quality doctors. A large part of our pool of doctors across the country are qualified postgraduate dermatologists. And that's the first line that we have that we are also using the right resource to deliver these services, including Kaya's quite unique even in the body contouring space because the registered dermatologists are practicing the cool sculpting procedures in the clinic, and it's not left to therapists to handle these kind of services.

Certain services like laser and others where there are certain risks involved of burns and stuff is also monitored by a dermatologist in the clinic. So all in all, I think what we are doing is one is making sure the resources are right, and we also have very strong SOPs and lines of checks in the case where there is any adverse event, it can be immediately taken care of by our doctors in the clinic. So I think we have taken care of this, and that is the difference between us and most of the other competition.

Swechha: Understood. It was very helpful.

Moderator: Next question is from the line of Nitya Shah from KamayaKya Wealth Management.

Nitya Shah: Sir, so I wanted to understand now Middle East has 23 clinics and India has 98 clinics, which has growing from 94. And if I look at the revenue breakup, it's say, 46% is India, 54% around about in Middle East, but the asset base, which is employed in the Middle East is a lot more than what is employed in India. So it seems that in 98 clinics, the setting of the assets is much better when it comes to India terms. So in the future, is the focus going to be more on India or to possibly even demerge and look at just India as an operation if it's more profitable?

Saurabh Shah: Nitya, on that part, it was difficult to answer, but your -- I'd like to correct. It's 75 clinics -- 74 clinics in India instead of 98 I think you have clubbed already 4 and...

Nitya Shah: I absolutely added them up, yes.

Saurabh Shah: So probably, you're right, the capex cost in Middle East is higher than India. But if you look at Middle East in some locations, the throughput is also high. So we are not -- to your point, what you're just asking that question, we have not factored or not considering our mind. But currently, I would not be able to give any such guidance on that topic.

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

Rajiv Suri: Thank you, everyone, for joining us today, and we appreciate all the questions. All the best. Thank you.

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