"Kaya Limited Q3 FY '25 Earnings Conference Call"

January 28, 2025

MANAGEMENT: **MR. RAJIV SURI – GLOBAL CHIEF EXECUTIVE OFFICER**
MR. ARIHANT DHARIWAL – CHIEF FINANCIAL OFFICER

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

Moderator: Ladies and gentlemen, good day and welcome to Kaya Limited's Earnings Call, hosted by Dolat Capital.

As a reminder, all participants' lines will be in 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 touch tone phone. Please note that this conference call is being recorded.

I now hand the conference over to Mr. Sachin Bobade from Dolat Capital. Thank you and over to you.

Sachin Bobade: Thank you, Yashashri. On behalf of Dolat Capital, I welcome you all to the Q3 FY '25 Earnings Conference Call of Kaya Limited. Hope you all and your family members are safe and healthy.

From the management side we have with us Mr. Rajiv Suri – Global Chief Executive Officer; and Mr. Arihant Dhariwal – our Chief Financial Officer.

Now, I hand the floor to the Management for their Opening Remarks, and then we would have question-and-answer session. Over to you, sir.

Rajiv Suri: Thank you. Good evening, everybody. I would like to welcome you to the conference call on the Company's behalf.

The Investor Presentation has been updated on the Stock Exchange 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 of the Quarter 3 Performance:

The Clinic business registered an 8% growth in revenues versus Quarter 3 FY '24. Services business registrar revenue from operations growth of 9% over Quarter 3 FY '24, mainly driven by categories like body contouring, hair care, anti-aging, and brightening and pigmentation. Clinic product business witnessed an 8% growth versus Quarter 3 FY '24, mainly driven by categories like hair care, bath and body, and sun care, though the overall product revenue remained flat versus last year. The anti-aging category grew strongly at 28% over Quarter 3 FY '24.

The Body category continued to show strong growth of 22% over Quarter 3 FY '24. Hair care services, aided by advanced diagnostic tools and revamped customer journeys, witnessed a 22% growth over Quarter 3 FY '24.

NPS scores continued to trend higher in Quarter 3 FY '25 at 88, reflecting Kaya's renowned great customer experience.

A quick update on other initiatives:

Expansion:

Kaya launched one new clinic in Quarter 3 in East Road, Chennai. It is the fifth clinic in Chennai which is enjoying a 5-star Google rating, making the overall new clinics to-date as three. Clinic Refresh relocations, a total of seven clinics have been relocated since the start of this financial year. On renovations, as part of our continued Clinic Refresh initiative, we renovated six clinics in Quarter 3 FY '25. These clinics are in Hyderabad, Pune, Vizag, Noida, Guwahati and Coimbatore, and are enjoying positive customer sentiments as captured in Google reviews of the clinics of between 4.5 and 4.7 Star rating. A total of 13 clinics have been renovated since the start of this financial year.

On service technology:

To uplift the customer experience and efficacy of our services, we invested in 18 new dermatology machines, including in brightening and fragmentation, acne, hair care, and laser hair reduction in Quarter 3 FY '25.

On innovation:

Kaya launched its proprietary Clear AI app, which delivers a comprehensive analysis of skin health, identifying specific concerns such as aging, acne, acne scars, blemishes and open pores. The app is backed by Kaya's expert knowledge of Indian skin types, drawing from a rich database of over thousands of Indian customer references to ensure a highly advanced diagnosis when coupled with dermatologist consultations. The AI engine trained with these annotated images makes the tool highly accurate for skin analysis, ensuring personalized and effective skin care. New product development contributed to 5% of Kaya Clinic collections.

On new service development:

It contributed to 7% of Kaya Clinic collections.

Use of marketing automation, including WhatsApp bot and Web bot helped improve customer experience, easing the appointment process.

On our Kaya Smiles Loyalty program:

The Kaya Smiles program contributed more than 90% of Kaya Clinic collections in Quarter 3 FY '25. We focus on experiential marketing for our Kaya Smiles Platinum and Kaya Smiles Gold Elite customers. In Quarter 3 FY '25, the loyalty program collections grew by 14% versus Quarter 3 FY '24.

On the people front:

In Quarter 3, Kaya has been certified as a Great Place to Work fifth time in a row, and Kaya continues to be one of Avtar & Seramount 100 Best Companies for Women in India, having secured a spot in the Hall of Fame for five consecutive years.

Now going on to the Middle East business:

The sale of Kaya Middle East FZE and Kaya Middle East DMCC, along with their subsidies, have been consummated on 6th of June, '24, and 14th of November, '24, respectively. And the group has recognized a gain on sale of discontinued operations of Rs. 113.5 crores as an exceptional item in the consolidated financial results during the nine months ended 31 December, 2024.

On the Financial Performance for Quarter:

Revenue from operations stood at a standalone level at Rs. 58.4 crores for the quarter, a growth of 5% over the corresponding Quarter 3 FY '24. Standalone loss after tax and other comprehensive income for Quarter 3 was negative Rs. 15.5 crores, which includes loss on sale and impairment of investment of Rs. 4.6 crores as compared to loss of Rs. 2.9 crores over corresponding Quarter 3 FY '24.

The detailed Financial Information and Investor Presentation has been already uploaded 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 will take our first question from the line of Eshit Sheth from ANVIL. Please go ahead.

Eshit Sheth: Thanks for taking my question. Two questions, one is, basically if you look at the top line growth for India business now, after a while we have seen this move up from your run rate of Rs. 50 crores, Rs. 51 crores to now Rs. 58 crores. Typically, what used to happen was that incremental Rs. 7 crores of revenue run rate would translate into Rs. 5 crores, Rs. 5.5 crores of. EBITDA, because your fixed cost and back-end cost remained the same, gross margins for the services business remains high for services and products. So, typically, that should have come to EBITDA. Now, where is this disconnect happening now as we speak today? Has the margins in product business gone down? Or are we investing more because of newer clinics and the losses have happened because the new clinics take time to ramp up? So, that is question one.

Second question is on your financials, net debt, what is the position today? I read in the press release that net of the repayment that we are doing to the promoters, what is the kind of repayment we are doing and what is the net debt after this? And the third thing is on rights, rights or we were discussing raising funds through rights to accelerate growth, where are we on that journey? So, if you could just elaborate on these three points.

Arihant Dhariwal: Hi, Eshit. Arihant this side. To start with your first question, which was more on that even after there is a growth in the top line, the numbers have not been seen on the EBITDA. So, there are multiple reasons. So, one of the reason is, if you look at our growth, those have mostly came from the categories like anti-aging and body contouring. And these are high consumable categories. So, the gross margins on these categories are comparatively low as compared to the other market bucket categories. So, one of the reason is that my cost of goods sold has gone up as compared to previous years, because the price point has been higher on these categories.

Secondly, since to drive the collections at net revenue, we have invested on marketing as well. So, there's an increase in the marketing cost which has helped us to achieve this kind of growth. So, these are the two major reasons why you would see on the financials also there's a good amount of increase in the cost on these lines.

With respect to your second question, total debt as on debt is around Rs. 143.72 crores and we have a cash balance of around Rs. 18 crores. So, the net debt balance is Rs. 124 crores. Though we have taken a approval to take an additional borrowing of Rs. 18 crores, but that is more approval to meet the working capital requirements and to open new clinics in future.

Coming to your third question with respect to rights issue, see, the rights issue size more or less remains same which you have already taken approval from the board, and now we are waiting for new amendment on rights from the SEBI, which is yet to be notified, because that really helps us to complete the rights issue on a more faster pace as compared to the old process.

Arihant Dhariwal: So, what is the timeline we are looking at, maybe three, six months?

Rajiv Suri: So, look, when SEBI will announce the effective date of the amendment of the legislation, we will apply as soon as practical. Basis knowledge that we have, we are not sure. And of course, subject to what SEBI will finally announce, the process is, they have announced 65 to 75 working days is what seems to be the process, it could be longer.

Arihant Dhariwal: We are still awaiting the clarification and notification from them, which will give us more clarity on the timeline.

Rajiv Suri: Yes. But I think from the Company's point of view and promoter's point of view, we are ready to go as soon as practical.

Arihant Dhariwal: Sir, just since I have you here, can you just share about what the strategy for growth will be, provided we get the money through the rights and everything, how do we see growth? Because I think at some point of time, we also want to create a self-sustaining model as compared to what we are in in the last few years, overall.

Rajiv Suri: So, like we have grown in this quarter, the plan is to continue the trajectory of growth. We are taking additional funding from the promoters in the interim period between now and the rights issue, so that we can continue our expansion program as well, which will again add to our growth objective. And we will see growth coming from organics, which is like for like growth, as you have seen this quarter in addition to that from the expansion. And we are not going to sort of hold the expansion program awaiting the rights issue, but the promoters are funding us to make sure we have sufficient capital until the rights issue happens.

Moderator: I request you to join back the queue please as we have other participants waiting. Thank you. We will take our next question from the line of Aditya Singh from Robo Capital. Please go ahead.

Aditya Singh: Sir, there are two. First, I want to know what is the pre-IndAS EBITDA that we are targeting going forward. And second, what is the growth pipeline that we are envisaging as of now? Growth pipeline in terms of number of stores?

Arihant Dhariwal: Aditya, so currently our clinic EBITDA tends to be around 28% on an average Company size. We internally have a threshold to achieve a clinic EBITDA of more than 30%. So, this is the current situation and what our ambition is. With respect to opening up new clinics, three new clinics we have already opened in this financial year, and one more clinic we are planning to open in this financial year. For FY ‘26, I think it's a forward-looking statement and currently I think I would not be able to comment on that.

Aditya Singh: For FY ’25 how much did you mention?

Arihant Dhariwal: So, three we have already opened, and one more, so around four.

Aditya Singh: Alright, those were my questions. But you did not answer on the pre-IndAS EBITDA margins that the Company is going to stabilize around.

Arihant Dhariwal: Clinic EBITDA is around 28% which is pre-IndAS at the clinic level, and our ambition is to reach somewhere greater than 30% to make the Company EBITDA and PAT positive.

Moderator: Thank you. We will take our next question from the line of Gaurang Ved, an individual investor. Please go ahead.

Gaurang Ved: Hello team Kaya, my question pertains to our growth strategy going forward. Looking at the size of opportunity where the industry is growing in high double digits, large unorganized market, high NPS score, high pedigree management and promoter, then why aggression is missing in terms of new store addition and expansion plan? Is this because we do not see much high business momentum as desired in short to medium term? I think we are behaving like a mature Company very early in our growth cycle, so any color on that will be highly appreciated.

Rajiv Suri: Look, I think the Company has got the ambition to grow faster. The rights issue, as you are aware, has taken us longer to implement. And as soon as the rights issue guidelines are announced by SEBI, we will then do the rights issue and be much more aggressive. The plan is to have an aggressive expansion plan, we have mapped the market. We are working with another tech tool in terms of scoping the market. So, the market scoping work has been completed using an outside source and consulting Company, along with our operations team. We have identified the catchment areas, and the strategy has been agreed. And we have been a bit slow in terms of expansion because we are also testing the hypothesis of what works best, because expansion must come with profit and not for the sake of expansion. And like I mentioned, we have received, or we will be getting the funding to start this program as soon as possible. So, you will start to note quarter-to-quarter an incremental in the expansion program.

Gaurang Ved: Thank you, sir, that was quite helpful. But just in addition to that, so basically my question pertains to mainly store addition. So, will it be in the historic line or will we see a significant expansion in the store addition going forward? Or will it be historical line like 8 to 10 store additions a year?

Rajiv Suri: See, in the last several years we have not opened any clinic. We started the extension last year where we opened four clinics, and we are opening four this year. But the intent is to be much more aggressive. And like I mentioned, you will see that playing out in the next few quarters.

Gaurang Ved: And can you elaborate more on the tie up with Marico? You told that in this quarter you will be able to give some color, so is it possible for you to share more details now on the tie up with Marico regarding our product segment?

Rajiv Suri: Yes. So, I think we can mention to you about the sales we have made.

Arihant Dhariwal: The sale for the quarter from Marico's perspective is around Rs. 2 crores what we have done. And rest all the arrangement, the collaboration remains the same which we I think explained in the earlier investor call. So, the only highlight I can give you is the sale what we have done.

Rajiv Suri: Yes, so that is the billing which we did.

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

Rajiv Suri: Thank you for participating. We appreciate the time you have taken to attend our investor call. Good evening.

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