"Kaya Limited

Q4 FY '24 Result Conference Call"

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MODERATOR: MR. SACHIN BOBADE - DOLAT CAPITAL MARKETS PRIVATE LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the Kaya Limited Q4 FY '24 Results Conference Call hosted by Dolat Capital Markets Private 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 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 Markets Private Limited. Thank you, and over to you, sir.

Sachin Bobade: Thank you, Lisan. On behalf of Dolat Capital, I welcome you all to the Q4 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 and Managing Director, Kaya Middle East; Mr. Rajiv Nair, Chief Executive Officer, Kaya India and Mr. Arihant Dhariwal, Chief Financial Officer.

Now I hand the floor to the management for their opening remarks and then we will 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 our website and contains the financial 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 quarter 4 performance, starting with Kaya India performance. Overall, clinic business registered a 24% revenue growth over quarter 4 FY '23. Product business at clinics registered a revenue growth of 25% over previous year, quarter 4 FY '23, mainly driven by categories like hair care, skin care and nutraceuticals.

Service business registered a revenue growth of 24%, mainly driven by categories like body contouring, acne, Hair care and beauty facials. Body contouring segment continued to show robust growth of 77% over quarter 4 FY '23. Haircare category witnessed an 18% revenue growth over quarter 4 FY '23. Kaya launched state-of-art proprietary AI-based doctor app using clinical data on Indian skill in the segments of brightening and pigmentation and acne with predictive capabilities and received great customer appreciation.

The use of marketing automation, which included WhatsApp bot and automated nudges to our customer base improved the customer funnel, leading to acquisition of 3,600-plus new customers. As part of our continued clinic refresh initiative, we relocated 2 clinics in quarter 4 FY '24, making it 6 relocations for the year. These 6 relocated clinics collection grew by 81% over quarter 4 FY '23. As part of our continued clinic refresh initiative, we have renovated 11 clinics during the year, for which the collection grew by 21% over quarter 4 FY '23.

Customer count grew by 14% over quarter 4 FY '23, aided by additional customer counts through omnichannel route. NPS scores continue to trend higher in quarter 4 FY '24, touching 88, reflecting an amazing customer experience. Based on the improved performance and the metrics, which I've just described, clinic EBITDA improved from 21% in quarter 4 '23 to 28% in quarter 4 this year.

Our other growth lever updates are as follows. We relaunched haircare with advanced diagnostic tools focused on hair growth and hair fall in quarter 4 with a completely new customer journey, which witnessed an 18% revenue growth. Nutraceuticals grew by 31% over quarter 4 FY '23. As part of our continued clinic refresh initiative, we relocated 2 clinics in quarter 4. These were Alwarpet in Chennai and Matunga in Bombay, and both are enjoying positive customer sentiments as captured in GBP of the clinics with 4.7 star and 5-star rating, respectively.

On the people front, we won the best HR initiative award showcasing exceptional teamwork and dedication at the TRRAIN Retail Awards 2024. And Asmitha from our Adyar Clinic Chennai received a prestigious award for our customer service excellence in the beauty category at the TRRAIN Retail Awards in 2024.

Now on to the financial performance for India. Revenue from operations grew as a standalone level at INR53 crores for quarter 4 FY '24, a growth of 21% over the corresponding quarter 4 FY '23. EBITDA of INR2.2 crores in quarter 4 FY '24 includes onetime impact of INR7.2 crores for costs related to Middle East sales in quarter 4 FY '24 as compared to onetime gain of INR5.4 crores for reversal of ESOP cost to INR9.8 crores in quarter 4 FY '23.

Standalone profit-loss after tax PAT, for quarter 4 FY '24 was negative INR95 crores after considering onetime impact of INR90 crores for impairment of investment and costs related to Middle East sales as compared to profit-loss after tax of negative INR23.9 crores over corresponding quarter 4 FY '23. The detailed financial information update is already with you in the uploaded investor presentation, and you may refer to that for additional information on the performance.

Now going on to Middle East. As intimated on March 27, 2024, to the stock exchanges, the company along with wholly owned subsidiary KME Holdings Private Limited has entered into a definitive agreement with Humania GCC Holding Limited buyer to sell its entire shareholding in Kaya Middle East DMCC and Kaya Middle East FZE, along with trademarks for perpetuity bearing the Kaya name in the UAE, Saudi Arabia, Bahrain, Kuwait, Oman, Qatar, Egypt, Morocco, and Iraq.

The company has received shareholder approval for the said transaction on April 27, 2024. The expected date of completion of sale of shares of Kaya FZE is quarter 1 of this year and of Kaya DMCC in quarter 2 of financial year ending March 31, 2025. Short summary of Middle East clinics. Collection grew in Middle East at 1% at constant currency versus quarter 4 FY '23. Collection from body business witnessed 18% growth versus quarter 4 FY '23. Hair care has grown by 13% and skin glow solutions by 8%. Customer count in Middle East declined by 3% versus quarter 4 FY '23.

I now open the session for questions and my colleagues, and I will be glad to answer them. Thank you.

Moderator: The first question is from the line of Upamanyu, an individual investor.

Upamanyu: So basically, I wanted to understand a trend I'm seeing. You -- we all see this on the Western world where Botox and other plastic surgery on the face for women is the popularity is growing more and more day-by-day. When do you see this trend catching up in India? And how beneficial will it be for a company like Kaya? That's my first question.

My second question is related to this. In your services business, how much percentage of the services business does Botox and other plastic surgeries, etcetera, make up of your service businesses? Also on the hair business, I wanted to understand growth prospects over there. Alopecia is quite a common issue for female. So I wanted to understand how are we not growing basically. In 2017, our revenue was at INR400 crores. Today also, our revenue is at INR400 crores. So what is -- could you explain this please?

Management: Okay. So your first questions are emanating from the opportunity in the market of our categories like Botox, fillers and antiaging as an entire segment. Antiaging already for Kaya is about 18% in India, largely driven by the women consumer, to some extent, the male consumers getting in.

It is not a democratic service in India. The difference could be that a large part of the population has access to this kind of price point. In other parts of the world in India, maybe affordability is one of the issues. But we, as a business today, are able to offer these services at a price, along with kind of facilities for finance and other things where people are actually taking to these kind of services to a larger extent. But still, it's a niche in the market. Overall, it's about 18% mix to our total business.

If you look at the growth, while you mentioned that the growth has not happened, I think if you compare the previous year to the current year on the overall business, we have seen significant amount of growth, which is there. So overall, the services business has grown almost 24% against last financial year.

And I think we've seen successive growth. Even last year, we had a growth. And this year, we continue to grow on that number. Now we -- I think the entire number that you're seeing is the mix between the India and Middle East business and that's why probably you're not seeing the full impact of growth there. You had a question on alopecia. So can you just please elaborate that again?

Upamanyu: No. So all my questions stem to the same point. I observe these issues are becoming more prevalent in people, and alopecia included. And even plastic surgery is becoming more common. So why is it not showing in our growth? You were saying that you grew last 2 years, but the reality is from 2017 to today, the revenue has been the same. But the acceptance of plastic surgery and I'm sure the increase of alopecia has been way more. So where are these people going? Are these people going to independent -- is a brand like Kaya losing market share to independent doctors? What is happening?

Management: Okay. So I mean, if you're looking at the market, growth predicted is about 17% on an average. We are growing it much more than that currently. If you have to look at the trend that we have predicted for the last 5 years, it's one of the slides in the investor deck as well. So I think -- I don't think we are losing market share at least currently in terms of India.

There are certain areas that you mentioned like plastic surgery. We are not in that business at all. We are only into minimally invasive type of service. So you mentioned Botox and fillers, that's an area that we have. Hair care is a segment that you mentioned, which is alopecia. It is an area of clear focus for us. And even in the last quarter, you can see that we have seen the growth of almost 21% in the case of this thing.

And also the number of clinics that you're comparing between 2017 and now is against 21 -- sorry, 120 clinics. We are talking about 74 clinics at the moment. And overall, Middle East, 21 clinics, which is overall 95 clinics against 120 clinics of 2017. So I think maybe there is an effect of that as well in terms of this thing, yes. So maybe that's where you're probably not seeing the growth. But if you see pre-COVID to post-COVID, we are seeing growth post COVID. At the same time, we've seen a growth further on that number for the last 2 years.

Upamanyu: Okay. And just last question on debt. How do you plan on getting this down? How much money are you receiving from the sale of your businesses?

Management: Sorry. Can you please repeat the question?

Upamanyu: The question is on your debt. We have seen you currently have around INR300 crores of borrowings -- no, INR170 crores, INR180 crores of long-term and short-term borrowings. So how do you plan on getting this down? And how much money will you get from the sale of your businesses?

Management: So the total borrowings is around INR195 crores, both from and Directors and the Kotak Bank. Of the sale, INR50 crores will be paid from Middle East. That precisely is the Kotak loan. And the remaining INR145 crores would be paid once we complete the rights issue. So that is how the repayment of the loan will happen.

Upamanyu: Okay. And this rights issue is happening when?

Management: So we are just waiting for the Middle East sale process to get completed. And once it gets complete, we'll give you a further update on the rights issue process.

Moderator: The next question is from the line of Aditya Sen from Robo Capital.

Aditya Sen: Sir, as of now, you said that we have 95 clinics. So out of those, how many have reached the breakeven?

Management: All clinics in India currently are EBITDA positive. So we don't have a single clinic, which is a losing money at the moment.

Management: And almost the average clinic EBITDA ranges somewhere around 28%.

Aditya Sen: 28%. All right. And when we say EBITDA-positive -- so when you say breakeven, so we consider only EBITDA positive or on the entire PAT positive for that clinic?

Management: No. We are talking about the clinic operations profitability. So clinic EBITDA is what we are talking about over here.

Aditya Sen: Okay. So that's the breakeven. And going forward, what levels of margin are we aspiring to stabilize upon?

Management: So we have an internal benchmark to get to around 30% to 32% of clinic EBITDA. Right now, we are at 28% because of some -- few, I would say, nonperforming clinics. But going forward, we are looking to target to around 30% to 32% of clinic EBITDA.

Aditya Sen: And at company level?

Management: That's company level. If I take the corporate EBITDA right now, we are at positive corporate EBITDA. And I can't give you the future -- the numbers for the corporate EBITDA. But yes, this is how it looks like for the current year.

Moderator: The next question is from the line of Vijay, an individual investor.

Vijay: My question is on the EBITDA. So on the unit level, I think you have 28%, right, that's what I heard. And what is the EBITDA at company level?

Moderator: Sir, your audio is breaking up.

Vijay: So your EBITDA at unit level is around 28%, right? So what is the EBITDA at the company level, India specific?

Management: So at India level, I would say, we are around 2% to 3% at the corporate level, the corporate EBITDA.

Vijay: The total, consolidated?

Management: At the India standalone level.

Vijay: Right, right, right. So I mean -- so you're sharing of 26% close to, right, 25%, that's all-corporate cost?

Management: Yes. And advertising cost is also built in. We have the corporate cost and the ASP, which gets out of this clinic EBITDA.

Vijay: Don't you think that's very high?

Management: But it's a people-driven business. So that's basically kind of fixed cost model. So to drive the business, we need that kind of people at the clinic. That's why that was a little higher.

Vijay: Okay. See, it's been a very long time, and I think at least you should have -- you should come out with some plan and then educate the investors because it's been too long of underperformance. And -- okay, last couple of years, I think at least India level, I think things have started looking slightly better, but we are definitely not growing at the pace that we should grow. That's a frank feeling.

And as a shareholder, it really pains because, frankly -- and I know you don't worry about stock prices and all. I don't expect you to do that. But for us, it's a huge opportunity loss for the investors that have been hanging around with a lot of faith on the management and the promoter. But it's been a huge underperformance. And I think you should be like -- I think you guys should take some responsibility. Am I right? I mean, is that expectation wrong?

Management: Look, we have -- so first, thank you for your info, and we value your suggestion. Look, this is not -- over the last 24 months, it has grown faster than the market has grown. The market is growing at 17%, and we've grown faster than that on a CAGR basis. We are conscious of the fact that we need to do faster and better. We've ended our growth this year of revenue at about 21%, which, again, given our background is quite a robust growth. We have restarted expansion in order to add growth further. And we opened 4 clinics, we have, in the last 12 months.

We are opening another 2. We signed another 2 clinics now, and we are searching for another few more clinics. So all in all, we remain conscious of the fact that we have to build value for shareholders. And the management is taking corrective action as has been demonstrated by our previous results. In addition to the previous results of the last 12 months, 24 months, the expansion drive which we have started, we are doing the rights issue. The rights issue will bring in more funding to the company and retire all the debt in the company. And then we will have more capital to expand further and invest in the company. So all in all, that's the game plan, which we have over this for next 12 months. I hope that gives you some assurance and...

Vijay: Yes. I mean, what puzzles me is I think the underperformance and on top of it going for a rights issue, we are taking money from the market again.

Moderator: The next question is from the line of Saurabh Shroff from QRC Investment Advisors LLP.

Saurabh Shroff: Could you really help us by talking through what our strategy is on the product side? Because as we look at the business, it seems that, that's one area which is grossly under leveraged. Given the parentage of the group, I think the way Marico and the group know how to build brands and market. This seems like almost an easy win if executed well. So would love to hear your own thoughts on maybe future plans on how we are attacking that, if at all?

Management: Yes. I think what you said is correct. I think product is a very strong source for revenue, and I think it's been about a 24% of growth in the last quarter as well for us. While, of course, we are not much distributed like some of the brands of Marico, so we are not really in the GPMT space at the moment. Large part of our business comes from the clinics, and some part of it comes from e-commerce.

So roughly, 18% of our total revenue actually comes from product, and it has seen good growth. We're focusing right now on launching many NPDs. I think the pipeline of NPDs that we've been able to bring in over the last couple of years has increased. We are also getting into newer segments and widening them. So 2 large segments are haircare. So we are enhancing the portfolio of haircare products. Even in the last 2 quarters, we have launched products which have worked well for us.

At the same time, we are getting into nutraceuticals. Nutraceuticals has also shown good growth for us, and we have also developed our own brand of nutraceuticals, which launched at the end of last quarter. So we'll start seeing results from there as well. So of course, there is a difference in the sense that we are not really mass marketed. We are largely focused on the clinic business, but it's a good source of revenue for us. Kaya will continue to remain a service-focused company. But at the same time, product will be a good growth driver for us. So right now, we are at 18%. We'll continue to see an upscaling of the product business in the future.

Saurabh Shroff: So when we look at sort of product businesses globally who do services, you are a service for doing product as a sort of second leg. Even if we sort of flip that and look at it as a service-first business, it just feels that with some of the packaging that you have done, some of the innovation that you have done in some of your products, it just feels that you are so grossly under-indexed through what is happening in the country.

Even some of the D2C brands have scaled up so much faster, and I would almost, as a shareholder, I'm biased, but I would like to think that your products are actually better than most of them. And I think you should -- you guys should really sort of think through on the product business a lot more deeply, I would think, because I think that could clearly be an easy win.

Management: Yes, absolutely. I think good suggestions and I think good approach and good -- thank you for saying that our products are much better than that of the D2C portfolio. It's Dermat backed and I think there's a lot of research that goes into the product. And we'll continue to focus on this area.

There are some plans. As and when they come in, we'll actually share it with you. But I think, currently, it's largely about the clinics and our D2C business. We are also starting to scale up our omnichannel activity, so a large part of what we did in D2C in the last quarter, it was supplied through stores. So we're also getting closer to the customer, closer to the territories that we function in. So omnichannel is a business that we are proposing to increase.

Yes. Is there an opportunity to grow further? Yes, there is definitely something that we are focusing on. But product, yes, is an important business for us.

Saurabh Shroff: And how does product stack up in terms of profitability? What's the cash burn there? At what sort of...

Management: There is no cash burn in the product business for us.

Saurabh Shroff: And your last year's product business sales were, if I may ask just for that clarification, total?

Management: Just one second. Yes, it's about INR39 crores overall in terms of numbers.

Saurabh Shroff: And do you think this can continue to grow at 20%, 25% for years to come?

Management: Yes, yes. We should be able to grow there because we have a good pipeline of NPDs that are coming up. And we are focusing on them.

Moderator: The next question is from the line of Vijay, an individual investor.

Vijay: Yes. This is regarding the international business. So we have completely exited the international business now after this sale?

Management: Yes. After this -- once the sale is complete, we will exit the international business.

Vijay: So we can assume there wouldn't be any more impairments, right?

Management: Yes. We have taken the maximum impairment. There won't be any more impairment -- further impairment coming in the next year.

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

Rajiv Suri: Thank you for participating in the conference call today. Have a good day. Thank you.

Moderator: Thank you, members of the management team. Ladies and gentlemen, on behalf of Dolat Capital Markets Private Limited, that concludes this conference call. We thank you for joining us and you may now disconnect your lines. Thank you.