"Kaya Limited

Q2 FY '25 Earnings Conference Call"

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

MODERATOR: **MR. SACHIN BOBADE – DOLAT CAPITAL MARKETS PRIVATE LIMITED**

Moderator: Ladies and gentlemen, good day, and welcome to Kaya Q2 FY '25 Earnings Conference Call hosted by Dolat Capital. As a reminder, all participant line will be in listen-only mode and there will be an opportunity for you to ask question 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, Nikita. On behalf of Dolat Capital, I welcome you all to the Q2 FY '25 Earnings Conference Call of Kaya Limited. I 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 Mr. Arihant Dhariwal, 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 company's behalf. The investor presentation has been updated on our website, kaya.in 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 the quarter 2 performance. Starting with Kaya India performance, the clinic business registered a 5% growth over quarter 2. Product business at clinics registered a revenue growth of 4% over quarter 2 FY '24, mainly driven by categories like Hair Care, which grew by 183%, Body Care, which grew by 57% and Sun Care, which grew by 20%.

Services business registered a revenue from operations growth of 5%, mainly driven by category like Body, Hair Care and Anti-Ageing. Body category continued to show strong growth of 40% versus quarter 2 last year and Anti-Ageing category has grown by 12%. Hair Care services aided by advanced diagnostic tools and revamped customer journey witnessed a 19% growth versus quarter 2 last year.

ATS grew by 1%. NPS scores continue to trend higher with quarter 2 FY '25 at 87%, reflecting great customer service for which Kaya is well known for. A quick update on other initiatives. Expansion, Kaya launched two new clinics in quarter 2, Pimple Saudagar in Pune and Sunview in Ludhiana. Pimple Saudagar was inaugurated by leading Marathi actress, Sai Tamhankar. It is the fifth clinic in Pune, which is enjoying a 4.8 Google rating right now.

Sunview was graced by leading business figure, Ms. Rajni Bector, on the day of the launch. It is the second clinic in Ludhiana city and is enjoying a 5-star Google rating. Clinic Refresh. As you are aware, we have -- we embarked on a Clinic Refresh and a Brand Refresh program last financial year. As part of this program, we continued Clinic Refresh initiatives. We relocated 4 clinics in quarter 2. These clinics are in Kolkata, Delhi, Ludhiana and Bangalore, and are enjoying positive customer sentiments as captured in the Google review of the clinics. A total of 7 clinics have been relocated since the start of this financial year.

On renovations, Kaya renovated four clinics in quarter 2, making it seven renovations from the start of this financial year. On service technology, to uplift customer experience and outcome, we invested in 29 new dermatology machines, including in Anti-Ageing, Acne, Body, Hair Care and Laser Hair Reduction in this quarter.

On innovation, the Kaya AI app, Kaya launched its proprietary Klear AI app, which delivers 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 on Indian skin types, drawing from a rich database of over thousands of Indian customer references to ensure precise diagnosis for dermatologists.

The AI engine trained with these annotated images, makes the tool highly accurate for skin analysis, ensuring personalized and effective skin care. Our new product development contributed to 5% of Kaya Clinic collections and new services contributed to 6% of Kaya Clinic collections. Use of marketing automation, including WhatsApp bot and Web bot helped to improve customer experience.

On Kaya Smiles. Kaya Smiles contributed more than 90% of Kaya Clinics' collection in the last quarter. We focus on experiential marketing for our Kaya Smiles Platinum and Kaya Smiles Gold Elite base by giving free services, which helped us grow collections. In quarter 2, the loyalty program collections grew by 4% versus the previous quarter.

On the people front, in quarter 2, Kaya is proud to be honoured as one of the 2024 Avtar and Seramount 100 Best Companies for Women in India, earning a spot in the hall of fame for 5 consecutive years. This year, we've been recognized for our outstanding L&D initiative customer-centric selling.

Now going on to the Middle East business. The sale of Kaya Middle East FZE and its subsidiaries has been completed on 6th June 2024. Further to this, all the conditions precedent as per the share sale and purchase agreement for Kaya DMCC sales has now been completed, and the holding company has applied for share transfer application at Kaya DMCC, which is the local authority for approval.

Based on the application submission, Kaya DMCC has now been classified as discontinued operations in the consolidated financial results for the quarter ended 30th September 2024. The group has recognized a loss of INR4.7 crores from discontinued operations during this quarter.

Update on the rights issue. The rights issue process can be started after the completion of the Kaya DMCC sale, which is pending subject to local authorities' approval and is expected in the very near term.

On the financial performance, revenue from operations at a stand-alone level, is at INR52.4 crores for quarter 2, a growth of 1% over the corresponding quarter last year. Stand-alone loss after tax and other comprehensive income for quarter 2 was at negative INR10.7 crores as compared to a loss of INR36.5 crores over corresponding quarter 2 FY '24.

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. 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. Anyone who wish to ask a question may press star and one on their touchtone telephone. If you wish to remove yourself from the question queue, you may press star and two.

Participants are requested to use handsets while asking a question. Ladies and gentlemen, we will wait for the movement while the question queue assembles. The first question is from the line of Manan Poladia from MKP Securities. Please go ahead.

Manan Poladia: So my first question is you just said that the consolidated numbers don't include the numbers from the subsidiaries that we've sold off. So if we wanted to compare on a like-to-like basis year-on-year, do you have the revenue numbers for the previous year ex of the subsidiaries that we sold?

Arihant Dhariwal: Yes, Manan. So the consolidated financials are basically now like-to-like, which is nothing but the stand-alone entity.

Manan Poladia: Okay. Fair enough. So I should compare consolidated right now versus the stand-alone last year, right?

Arihant Dhariwal: Yes.

Manan Poladia: Okay. And sir, on the second, we announced a partnership with Marico, I think, last month or a month before that. Could you quantify or give some guidance as to what we are trying to do with that partnership and how we're trying to take it forward?

Arihant Dhariwal: So with respect to the collaboration with Marico, so we have given exclusive rights to Marico to scale up Kaya's range of efficacy-based product outside of Kaya Clinics, thereby kind of accelerating the product growth and the brand visibility for Kaya, which will indirectly directly help us increasing the footfall at the Kaya Clinics.

Manan Poladia: Right.

Arihant Dhariwal: So this will kind of give us an indirect brand visibility from the market.

Rajiv Suri: And the collaboration started only in September. So it's too premature to really talk about the numbers and impact. But I think by the time we are in next quarter; we should have a full quarter under our belt and should be able to give some relevant information.

Manan Poladia: Right. Is it fair to assume that our focus is still going to remain the clinics, not the product stand-alone, like selling the product is not going to be the prime focus, but it's going to be the Clinics?

Rajiv Suri: So within -- as a company, the strategy would be to focus on clinics and -- the Clinics business and Services business. However, product remains an important component of our clinics business, contributing to 14% of the business. And therefore, our investment in product will continue for the Clinic and Services business.

Manan Poladia: Right. That makes sense. And so on -- I'm not sure what slide number this is, but on the product side that you put in your presentation, you've spoken about how Hair Care products had a growth of 183%, Bath and Body grew by 57%. Could you give us a sense of the base of these products? Like the base that this growth is on and where the current number is at?

Rajiv Suri: So we normally don't share breakup on details on products on a line-wise basis. But we can have a call with the off-line to share it if it's an important part of what you are trying to analyse.

Manan Poladia: Right. That makes sense. Thank you so much for the answers, sir. I will get on that call with you off-line later on. Thank you.

Moderator: Thank you. Ladies and gentlemen, to ask a question, please press star and one. The next question is from the line of Drisha Poddar from Carnelian Asset Managers. Please go ahead.

Drisha Poddar: Pardon my ignorance as I am new to this company. I just wanted to understand, I have a few questions. First, I wanted to understand that is all the write-offs done in this quarter?

Rajiv Suri: Sorry, Drisha your voice is not clear. Can you.

Drisha Poddar: Is it better now?

Rajiv Suri: Yes.

Drisha Poddar: So I just wanted to understand that all the write-off for the -- the enlisted entity is it behind us now and from Q3 onwards, we would not be having any other impairment losses?

Arihant Dhariwal: So you're talking about the impairment losses which we've taken in the quarter, right?

Drisha Poddar: Correct. Correct.

Arihant Dhariwal: Yes. So see, the consideration is still pending to be received from DMCC, for some customary adjustments. So we are just waiting for the sale to get completed. And once we do that, we can give you a better clarity whether there is any further impairment losses which requires to be taken in the financial or not.

Drisha Poddar: Okay. So we might have some losses in the other two quarters as well?

Arihant Dhariwal: Maybe not that much, not that material, but maybe something when we'll come to know about that.

Drisha Poddar: Okay. Understood. And sir also want to understand what is the kind of growth that we are targeting and what kind of margins are we targeting for FY '25 and '26? And when do we see us ourselves coming out of losses?

Rajiv Suri: You know we normally don't share forward-looking statements with regards to our profitability or our margin structures. However, we are working towards a rights issue. We are working towards the expansion, and we believe a combination of these two will lead to the path of profitability.

Drisha Poddar: What's kind of the number of clinics are we targeting to open every year?

Rajiv Suri: Yes. So again, that's a forward-looking statement. So we can't disclose how many clinics we will plan for next year. However, the mention we are making is that our expansion, which we are currently doing will be accelerated and the number we will keep disclosing quarter-by-quarter.

Drisha Poddar: Okay. Thank you so much.

Rajiv Suri: Okay. Thank you.

Moderator: Thank you. The next question is from the line of Prateek Giri from Subh Labh Research. Please go ahead.

Prateek Giri: Hi, Mr. Suri. Greetings. Thank you for taking my question. Mr. Suri, apologies to press again on the same point, which because it gets covered under the purview of forward guidance. But I just wanted to understand our path to profitability. We used to have around 100 stores in FY '18, and now we are down to 76. I'm assuming that we chose to operate only those which are profitable and promising. But still, we are seeing muted performance in terms of profitability of these stores. So if you can allude what can change for us going ahead leading to profitability?

Rajiv Suri: So look, Prateek, the Clinics business, if you were to look at it is profitable at roughly 26%, 27%. Except for 3 clinics, every clinic now is EBITDA positive. And then there are certain head office costs, which are necessity to manage and run the business. Change will come when the scale and the growth comes in the form of a combination of organic and inorganic and our balance sheet will get strengthened also once we do the rights issue and return all the loans in the books.

And therefore, on one hand, we will have a financial, let's call it, restructuring in the sense of a rights issue, returning of loans that will improve the balance sheet, we have cash in the bank. And using that as a tool, we would then accelerate the expansion without having to borrow, let's call it, funds to do the expansion. And with that accelerated expansion and the combination of activities we are doing around customer acquisition; we believe the path to profitability will follow.

Prateek Giri: Just a follow-up on that. Mr. Suri, in our corporate expenses, is there a scope of reduction or we are already at optimum mix of cost at our corporate level?

Rajiv Suri: Yes. So look, on the head office, we have 2 components. One is the sort of corporate overheads and employment costs and the other is the ASP and marketing, which sort of amount to 25-odd percent.

In our view, there is no scope to reduce the costs mainly for marketing and we want to use the scale of the head office employees and the team so that when we are growing and we use them as a platform from growth and therefore, the growth should exceed any future cost increases once they are in full momentum. On marketing, it's important that we continue our efforts because the game would be one on customer count and additional feet into our clinic and therefore, it's going to remain an important part of our future planning.

Prateek Giri: Got it. Got it. And I just missed that part, 25% of what? I mean corporate cost is 25% of the corporate, is it?

Arihant Dhariwal: Yes. So the corporate cost includes the marketing cost plus the back-office costs, which includes my back-office employee costs and other overheads.

Prateek Giri: Okay. And this is around 25% of our top line, current top line?

Arihant Dhariwal: Yes, 25% of our topline.

Prateek Giri: Just last one, Arihant. We have strong stopped giving the number of customers and we have again missed in the quarter. So any reason behind that? Or it is just a miss?

Arihant Dhariwal: Sorry, Prateek we missed, your voice was not clear.

Prateek Giri: Sorry. I'm asking, we have not given the number of customers, the customer counts, which we usually give in our presentation -- investor presentation. So is it just a miss or is it going to be stopped from now on?

Arihant Dhariwal: See, if you see the -- our revenue growth, our revenue growth is 5%. And if you see our ATS is growing by 1%. So there the customer -- it's not a miss, the customer count is a decline, I would say, as compared to the last quarter.

But if we split between the existing and the new customers, our new customers are growing double digits, but our existing customers are declining. So overall, it's a decline at the current moment. But yes, we are making various efforts to kind of recover it and making it to a growth story.

Prateek Giri: Understood, Arihant, understood. Best wishes for the future and happy Diwali to the team. Thank you.

Moderator: Thank you. Participant who wish to ask a question, may press star and one. Ladies and gentlemen, we will wait for a movement while the question queue assembles. The next question is from the line of Shyam Garg from Ladderup Finance Limited.

Shyam Garg: Thanks for the opportunity. I'm new to the company. I have few basic questions. Sir, what will the amount of fund raise we'll be doing by right issue? And where will the same be utilized?

Arihant Dhariwal: So, Shyam, we have taken earlier when we have notified the maximum limit for rights issue is up to INR300 crores for which we have taken the approval, that's the size of the rights issue. And with respect to the application, it's basically a forward-looking statement and right now I would like to avoid that, but we are kind of still identifying and kind of finalizing the application of the funds and we will let you know in the due course.

Shyam Garg: Okay. Thank you so much for answering my question.

Moderator: The next question is from the line of Prateek Giri from Subh Labh Research.

Prateek Giri: Arihant, one small query. How much time does it take for a new clinic to be EBITDA profitable for us? I mean including the rent cost I'm asking.

Arihant Dhariwal: Do you want to know the operational level of clinic or the payback?

Prateek Giri: On operational level.

Arihant Dhariwal: Payback is generally 3 to 4 years, and it takes around 1.5, 2 years to become the clinic at breakeven at operational level.

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

Rajiv Suri: Thank you for participating. We appreciate the time you have taken to attend our investor call and wishing you all a Happy Diwali. Thank you.

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