



**“Kaya Limited
Q3 FY2022 Earnings Conference Call”**

February 10, 2022



Dolat Capital



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Moderator: Ladies and gentlemen, good day and welcome to Kaya Limited Q3 FY2022 Earnings 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 ‘*’ then ‘0’ 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. On behalf of Dolat Capital, I welcome you all to the Q3 FY2022 Earnings Conference Call of Kaya Limited. I hope you and your family is staying safe and healthy during this pandemic time. From the management side we have with us Mr. Rajiv Suri – Global Chief Executive Officer and Mr. Rajiv Nair –Chief Executive Officer, Kaya Group Mr. Saurabh Shah was supposed to join the call, but unfortunately due to bad health he could not able to attend. We pray for his speedy recovery. 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 very much. Good evening, everybody. Hope you are all doing well and your families are safe during this COVID period. I welcome you to the conference call on our company’s behalf. Let me begin the conference call with a very short update on the third 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.90.8 Crores for the quarter ended 31st December 2021, a growth of 3% over corresponding quarter ended 31th December 2020. Consolidated EBITDA is Rs.11.7 Crores in Q3 FY2022 as compared to Rs.18.8 Crores in Q3 FY2021. Consolidated loss after tax and before exceptional items for Q3 FY2022 is INR 8.2 Crores as compared to INR 0.5 Crores profit in Q3 FY2021. Kaya India loss after tax and before exceptional items for the Q3 FY2022 is INR 1.9 Crores as compared to a profit of INR 2.6 Crores in Q3 FY2021. Kaya Middle East loss after tax and before exceptional items for the Q3 FY2022 is INR 6.3 Crores as compared to loss of INR 2.1 Crores in Q3 FY2021

I now take you through a short recap of the performance in both the markets for the quarter ended December FY2022. The lockdown impacted the Kaya India business in Q1 and Q2 in line with the overall trends in retail industry, the Q3 quarter showed a major recovery in customer sentiment after two years of intermittent lockdowns. Kaya India had a very strong December which helped us grow 11% in clinic collection for the quarter to pre-COVID

levels which is comparable to FY2019. We registered our highest December sales ever with business of 20.9 Crores. The main reason for the growth in the business in the quarter was an increase in ATS amongst the customers, that is average transaction size, which went up by 29% with strong performances in anti-aging and laser hair removal segments. Customer buying behavior towards these segments we have seen a change after the second wave with higher confidence amongst them with respect to expert doormat led services that we offer. Laser hair removal has shown consistent growth with 37% uplift in sales in this quarter. Kaya safety protocol couple with long term benefits of this services motivated clients to take laser services from us. Antiaging which grew 11% over pre-COVID average was propelled by innovation such as high frequency ultrasound which is HIFU, which is a recent introduction with 10 machines being introduced in this year.

New product launches like RetinoBoost were a big success accounting for 10% of the clinic product sales in November and December. Customer traffic during the quarter showed a steady improvement but was 86% of pre-COVID levels. Customer consumption per visit, however, showed an improvement of 2.98 sessions per visit versus 2.76 in the pre-COVID period. References were a strong source of new customer counts contributing to 39% of new customer collection. Overall customer metrics like NPS showed steady improvement to 73 and google reviews were 46% which was both positive.

E-commerce sale during the quarter was disappointing due to a change in the internal team structure coupled with low buying or sell into major market places in the month of November. The business however has recovered well in December and showed positive results thereafter. Clinic sales of products improved, albeit slowly where at 90% levels in December 2021. We expect this to reach normalcy with the climb in customer traffic hereon.

Kaya Middle East recap is as follows; Q3 Kaya collections was at the 88% of pre-COVID level; the quarter was impacted by COVID in December, 82% of pre-COVID level has reached, which brought down the quarter's performance. COVID wave in Dubai happened in December unlike in India where the major impact happened from January onwards. Saudi and Dubai continued to perform well and were above pre-COVID despite the market condition. Abu Dhabi, Al Ain, and Muscat had the biggest COVID impact due to the mall entry restrictions resulting in degrowth to pre-COVID average. Laser which was driving the business saw a decline due to market conditions leading to reduction of sales as well as customer flow, however, new services like body grew 3.3x and plastic surgery 3x against the pre-COVID average. New client count at 94% of pre-COVID average in quarter while existing client count continues to be an issue at only 78% of pre-COVID average. Ticket

size remains positive over pre-COVID average growing at 7% in the quarter. The detailed information update is already with you. I now open the session for question and my colleagues and I will be glad to answer that. Thank you very much.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Nandni Dubey from Pa Se Paisa Information Solutions. Please go ahead.

Nandni Dubey: Regarding the Q3 investor presentation, it feels like it is all about services and the growth in revenue from it, while in many previous calls it was clearly indicated that the focus is on product so has the focus changed for Kaya or the product focus was only a short-term aspect to make money during pandemic? This is my first question. My second question is that I have absorbed that ORM or online reputation management by the Kaya Marketing Team is pretty lean and at many instances we could see queries remaining unanswered and at other time we could see regular negative comments on social media being less as it is. Why is not ORM/Online Reputation Management given a priority as much as marketing by the Kaya Marketing Team?

Rajiv Nair: Thank you very much for your question. I will quickly reply to both of them. One is with respect to product versus services. Our focus definitely is on both the segments and product still continue to be an important part of our strategy both for the physical clinics as well as online channels; however, because of the way the market is recovering from COVID, we saw major traction in clinics for services during this quarter with customers not having used services for quite some time, we saw some pent-up demand and we saw some improvement in terms of services because the overall traffic into the clinic, it was at 86% of the normal average pre-COVID that is why I think there was an impact in terms of the product sales in clinics during the quarter, so there was a negative sales in product business, but while services business actually grew. On the online channel, we had a sudden dip in the primary sales in the month of November, which actually impacted sales; however there was a recovery in the month of December and we continued to invest energy, time, effort towards growing our online channel. Incidentally, we also launched our new website in the month of October and we will continue to invest on that channel to develop our digital sales for products in India.

On the second question that you mentioned on the online repudiation management, yes of course, there are multiple comments and queries that keep coming on various social media platform. We have invested on technology and we have also got a dedicated agency towards ORM and all of the complaints actually get ticketed and gets controlled at a central CS

department and we reach out to all the customers who actually raised queries and negative reviews on online platforms. The intensity may vary depending on the type of platform that carries the attributes, but definitely there is a method to track these reviews and responses are definitely given. That is my answer to the question.

Nandni Dubey: Thank you.

Rajiv Nair: Is there any other question.

Nandni Dubey: That's it from my side.

Rajiv Nair: Thank you so much.

Moderator: Thank you very much. The next question is from the line of Shrey an Individual Investor. Please go ahead.

Shrey: Congrats on the recovery on the clinic front. My question is more to do with the previous question that you just answered on products. You have indicated in the previous calls that over the next three to five years, we intent to get our product mix as a percentage of the total revenue to about 40 to 45% if I am right. I remember range you were saying that in previous calls, like you said there was a dip in the product sales in the month of November. Why do you think that's happening? Why are we not able to position ourselves in a market which is becoming increasingly crowded day by day? That is my first question.

Rajiv Nair: I do not think it is a matter of marketing intensity or efforts taken on the marketing fronts, but our clinic product sales are directly correlated to customer footfall because we are in a business that works on pure walk-in and purchase on walk-in customers, they are appointment-based business, so since our traffic was at 86% of pre-pandemic levels, it did impact products much more because you need a lot of footfall to be able to generate sales for products in the clinic, so that may be the reason there. On online of course, there was high intensity advertising that actually probably happened during the quarter. We did invest money into the online platforms as well but we did see a declining trend in the month of November, but we have recovered pretty well in the month of December and I will expect this quarter to definitely see a better result on product vis-à-vis, but on the social platforms if you actually monitor our Facebook, Instagram accounts, there is a lot of high quality campaigns that have been run on product and we continue to do so, so I would say it is a aberration because of the customer footfall in clinics that has impacted the products.

Shrey: Fair enough. Now that you have come to the online site, the social media angle, quite a lot of comments do not get answered on the social media platform itself, which are either negative or an enquiry that can give an impression to anybody looking at the post or the comment that nobody is looking into it. Can we get in to the practice of answering things publicly maybe not disclosing rates, but responding to comments either depending on whatever the response can be. Because if we don't respond, it does not actually lead anywhere it gives an impression to anyone reading it like nothing is happening.

Rajiv Nair: Point taken. I take it as feedback, but as I mentioned to you there is ORM agency and definitely there is a CS department in the business, which supposed to respond to all negative queries that come. Yes, there are multiple platforms, there are some pure play complaints platforms we don't really subscribe to those platforms, but if it is on Facebook or Instagram or any of the known social media channels we definitely get back to the customer, but what you are saying is proactively being visible as having responded to the customer is important and I take it as feedback.

Shrey: Thank you, Sir. One last question from my end, we had discussed about an online consultation mechanism, which I saw being promoted on Kaya page on Instagram. How are we leveraging that to increase our product sales beyond the areas, which are covered by our clinic? Are we doing anything there?

Rajiv Nair: The first step is that we have started the B2C platform at the end of October, in the last quarter and we will supplement that with the application which will enable us to do all forms of commerce on that particular platform; it should be product sales, selling consultation, booking appointments, but its early stage and the work has already started, so maybe over the next few months, we will definitely complete that work and that will enable us to be live on online consultation, appointment booking, sale of services and products online. Currently the website is purely a product website.

Shrey: Thank you Sir. One last question the product sale contribution going forward, like you said earlier, it can be 40 to 45% in the next three to five years. Do we have the same target?

Rajiv Nair: Yes, we still have a target to increase of sale of products. I think it has been an aberration. Because of COVID, the percentage have come down, but we do expect both from the online channel and offline channel the product mix to actually increase.

Shrey: Thank you so much Sir for your answers. All the best for the future.

Moderator: Thank you very much. The next question is from the line of Sachin Bobade from Dolat Capital Market Pvt. Ltd. Please go ahead.

Sachin Bobade: Sir I have few questions. First of all on this employee side, what we have observed is a discretionary side, so if I look at many industries liking taking from IT or any FMCG industry, the employee cost are increasing very fast. What is your feedback? How is your experience right now? We have special doctors or clinics, so is there significant inflation at employee side or these therapists or doctors and that side we are witnessing either in India or Middle East?

Rajiv Nair: The cost for employee especially on the front end that is the clinic operation both in India, Middle East has not been significantly increased. Yes, there is a fight for talent, quality of people matters and of course especially when we hire doctors depending on the experience that they bring to the table, we negotiate the cost. We also look at the kind of business potential they can bring in and type of clinics we are putting them in, so we do clusterise our clinics both in India and Middle East where we decide on the basis of the requirement of the clinic, the quality of the people that we need to bring in, especially the doctors and we negotiate accordingly. Yes, there is definitely a fight for talent, there is lot competition, so the cost for specialized talent actually increases. When we look at backend also, there are also specialized roles that may be there where there is a lot of aggression in the market, so for example today digital roles or e-commerce roles and stuff like that, the availability of good talent is not there and there is definitely a cost implication in getting good quality talent so that's how I see it.

Sachin Bobade: Sure and I remember Sir for last few quarters, we are talking about shifting of clinics so lockdown might be the exception, but more shifts of clinics from one place to another and new rent agreements. In light of that, how is the performance of this newly established or shifted clinic. Whether these clinics are reaching the revenue levels, which earlier clinics were showing?

Rajiv Nair: Those were a few exceptions like in T. Nagar in Chennai was the only exception in the last maybe in one year where we have shifted and the clinic is doing pretty well. What I think the context we discussed was that some clinics have very high rent and opportunistically we will look alternative locations or for that matter in some cases where the size of the clinic is large and we do believe there is no demand for that kind of size. We will reduce the size, but in the last six months to eight months, we have really not done any such changes in India and I do not think we have done it in Middle East either.

Sachin Bobade: Sure. Last question, many discretionary categories have shown strong growth during the quarter, so be it footwear, innerwear or beauty for that matter, but if I look at the Kaya numbers our collection growth is fabulous when 95% of FY2020 revenue but then if I look at the customer count, it is still at low levels at 72% you think that this whether third wave, second wave, or the whole episode of COVID, how much time will it take to get back to the pre-COVID levels of customer count? You think that this is a hurdle and then it will take a longer time or right now the pace is quite stronger to achieve the previous heights?

Rajiv Nair: There is a little bit of difference because we have two markets and two geographies. If we look at the India numbers, we saw about a 9% climb in customer count in India backed by strong December. In fact, if you look at the beauty industry numbers in the month of December was not strong. In fact, if I am not mistaken, if there is a negative growth based on RIA reports and we saw a strong growth in the month of December, so there was a steady climb between October, November and December. Ours is not a very Diwali centric or puja centric market because ours is a planned purchase, so December is a strong month. In the case of Middle East, we have seen strong restrictions in certain kits especially in the month of November, December because COVID actually struck the market in the month of December, unlike in the market of India and that's where I think the December traffic actually specific and that impacted the overall customer traffic for the quarter, so I would say in India in line with what happened in the rest of the market, we have seen growth but in Middle East, we have not seen the growth only because the market has a lot of restrictions during the quarter.

Sachin Bobade: Any clue on this Q4? How Middle East is going to perform because margin drop in Middle East is quite a lot.

Rajiv Nair: I would ask Mr. Rajiv Suri to take that point.

Rajiv Suri: Thank you for that. In the situation in Middle East, it all depends on how fast the COVID impact is getting over. It started earlier than India by about 3 to 4 weeks, so we are hoping that it will also be over sooner than India and the sales will come back. The issue we have had is in specific cities, Abu Dhabi, Al Ain, Muscat where to enter the malls now you have to have a PCR test and PCR test has to be within the last 14 days, which is causing big restriction in the number of people entering because no one wants to do a PCR test and go for shopping. Once these barriers are over, we expect the business to come back to normal.

Sachin Bobade: Thank you Sir.

Rajiv Nair: Thank so much.

Moderator: Thank you very much. The next question is from the line of Alpesh Jain an Individual Investor. Please go ahead.

Alpesh Jain: My question was that vis-à-vis to our online product. Are we planning to just do prescribed products online or we are planning to do some generalized products where the mass people and the mass youth can use the products? What is the company strategy on that?

Rajiv Nair: Our products are actually not prescription drugs. Our products are cosmeceuticals, while they are developed by dermatologist, so it does have active product, but they are not exactly prescription drugs, so we can sell both online and offline.

Alpesh Jain: Sir how does a customer or a person knows about the product and things about, it the sense that how do you give them the knowledge about product?

Rajiv Nair: Actually, we use social media quite extensively and I think if you go over the last couple of years itself, you will see lot of good campaigns run for sale of product, with lot of exclamations on product. We also use our dermatologist from time to time to explain the benefits of various products; there are videos created with dermatologist, influencer, and we largely use social media for the purpose, so that's how we explain all our products.

Alpesh Jain: Basically, the idea among the people is that it is the Kaya products only for the customized people or the customized clients of Kaya Clinics that is the perception which is going around, so what can be done by the company to give the gross?

Rajiv Nair: As I mention to you, one is to reach out to the customer through social media, which is very democratized, secondly to use dermatologist to demystify sometimes some of the complex products that one may sell, so what is the benefit of Retinol for example to a customer can be explained by dermatologist in a simple way. We also use a lot of influencers because influencers have a lot of mass followers and we actually give them the product they try the products and then they give their reviews, so those are the ways in which we are reaching out to the masses and pricing is the last, but not the least important things. Our products are fairly affordable while they are not the cheapest products, they are quite affordable, so anybody in cluster A, cluster B, cluster C towns in India can buy these products, so our strategy in India is like that for products.

Alpesh Jain: Secondly would like to ask you about the new product launches about the body sculpting. How is that progressing and what are the base for them?

Rajiv Nair: We have had very, very good success in body sculpting in the Middle East for the last one-and-a-half years or more. We have learnt a lot of things from the Middle East market because that is a very important market and we have tried out lot of equipments and machinery in the Middle East market before bringing in the technology into India. We are at a trial phase in Delhi right now and about four of our clinics running CoolSculpting, which is a machine from Allergan and that is our beginning for the segment and we have seen some good initial results in the month of December, and we will scale it up from there, so it will become a pan-India launch at some point, but we need a little bit more trial and that's why we are waiting, but we have good success from this segment in the Middle East market.

Alpesh Jain: That's it from my side. I will get back into the queue.

Moderator: Thank you very much. The next question is from the line of Shrey an Individual Investor. Please go ahead.

Shrey: I just had another question. When do you expect us to breakeven because there have been a couple of instances in the last couple of quarters where we have sought loan from the promoter, the company has sought loan from the promoter? Do you see us becoming profitable and if yes what kind of timeline do you think that could take?

Rajiv Nair: It think the endeavour is definitely to make the entire chain profitable I think we did have some hiccups with clinic shutdown and closures over the last couple of years, so we have not had a stable period for quite some time in the market but as I mentioned to you as the market improved. We also saw strong improvement in the month of October, November, December. We just need a little bit more consistent period of stability and we do believe in the coming financial year we will see that kind of stability and hopefully in both the markets if no further rounds of COVID actually hit and that's our endeavour. On the cost fronts also, we have done quite a lot of work over the last one or two years' time, so I think from a overall perspective we are not just concentrating on top-line generation but also looking at our cost very seriously, so endeavour and efforts are definitely there over the last one year, one-and-a-half years to focus on it, but we have been hit a little bit with the market instability because of COVID, but we expect the next financial year to be positive.

Shrey: Okay, suppose once the market stabilizes, once the COVID restrictions are off, what could be your strategy to kind of get us into an accelerated growth phase where we can see profitability consistently?



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Rajiv Nair: I think there are lots of plans and unfortunately, I cannot discuss that right now as a forward-looking statement, so I would not be able to talk to you at this moment in time on this, but as quarters unfold over the next few quarters, we can definitely give you a brief one on our strategy going forward.

Shrey: Sure Sir, thank you.

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

Rajiv Nair: Just to conclude, the group is closely monitoring the developments and the plausible effects that may result from the current pandemic on its financial condition, liquidity and operations, and actively working to minimize the impact of this unprecedented situation. Thank you.

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