“Kaya Limited

Q1 FY'25 Result Conference Call”

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Moderator: Ladies and gentlemen, good day, and welcome to Kaya Limited Q1 FY'25 Earnings 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, Aditya. On behalf of Dolat Capital, I welcome you all to the Q1 FY'25 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; 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 the company's behalf. The investor presentation has been updated on our website, kaya.in 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 1 performance, starting with Kaya India performance. The clinic business registered an 8% revenue growth over Q1 FY'24. Product business at clinics registered a revenue growth of 8% over Q1 '24, mainly driven by categories like hair care, body care, skin care and sun care.

Services business registered a revenue from operations growth of 8%, mainly driven by categories like body contouring, acne, hair care and beauty facials. Our body contouring segment continued to show robust growth of 25% over quarter 1 '24.

Hair care was relaunched with advanced diagnostic tools focused on hair growth and hair fall in quarter 1 with a completely new customer journey and witnessed a 14% revenue growth for quarter 1. Customer count grew by 3% over quarter 1 '24, aided by additional customer count through omnichannel route. NPS scores continue to trend higher, touching 88, reflecting consistent great customer experience.

A quick update on other initiatives. As you may be aware, we started the brand refresh campaign and program last year, which comprised of 3 components, which is relocations, renovations and updating our service technology. To give an update on the 3 components, on relocations, as part of the continued clinic refresh initiative, we relocated 3 clinics in quarter 1.

These clinics are in Kochi, Jaipur and Hyderabad and enjoying positive customer sentiment as captured in the GBP of the clinics with a rating of 4.2, 4.8 and 4.7 star rating, respectively. A total of 9 clinics had been relocated since the start of the brand refresh program in FY'24.

On renovation, 3 clinics were renovated in quarter 1 '25, making it 14 renovations from the start of FY'24. On service technology, to uplift customer experience and outcome, we invested in 38 new dermatology machines, including in anti-aging, acne, body and laser hair reduction in quarter 1.

The company, as we are aware, is a leader in innovation and I will give a short update on that. On the AI app, our proprietary AI tool is being used successfully by Kaya's expert dermats in clinics for consultative skin services. AI-powered dermat consultations contributed to 19% of anti-aging, acne and brightening and pigmentation collections.

New product development contributed to 5% of Kaya India clinic collections. New service development contributed to 4% of Kaya India collections and use of marketing automation, which included WhatsApp bots and web bots to our customer base helped us improve the customer funnel.

Our Kaya Smiles loyalty program grows from strength to strength, and it contributed to more than 90% of Kaya clinic's collections in quarter 1. We focus on experiential for our Kaya Smiles Platinum and Kaya Smiles Gold Elite base by giving free facials, which helped us with the collection growth and increase the footfall to the clinics.

In quarter 1 '25, the loyalty program grew by 12% in collections. On the people front in quarter 1, Kaya was honoured with the prestigious Thrive Award by the Indian Business Council. This year, we have been recognized for an outstanding L&D initiative which is Customer Centric Selling.

An update on collaboration with Marico. Earlier this month, the company announced that it will collaborate with Marico. Under this arrangement, Marico will have exclusive rights to scale up Kaya's range of efficacy-based products outside of Kaya clinics, thereby accelerating the product growth and the brand visibility for Kaya, which will, in turn, lead to increased footfall for the Kaya clinics.

Now going on to the Middle East business. Sale of the Kaya Middle East FZE and its subsidiaries has been completed on sixth of June. And accordingly, Kaya Middle East FZE and its subsidiaries has been classified as discontinued operations in the quarter ending 30th June '24. The group has recognized INR108 crores as profit from discontinued operations in the consolidated financial results during the quarter ended 30th June '24.

Update on rights issue. The rights issue process can be started after the completion of Kaya DMCC sale, which is spending subject to authorities' approval. On the financial performance, revenue from operations at a stand-alone level is at INR52 crores for quarter 1, '25, a growth of 5% over corresponding quarter '24.

Stand-alone profit after tax and other comprehensive income for quarter 1 '25 was at INR6.4 crores after considering onetime gain of INR6.2 crores for reversal of impairment on the investment and INR9.5 crores for sale of trademarks as compared to a loss of INR4.5 crores over corresponding quarter 1 '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: Our first question is from the line of Bharat from Moneybee Investment Advisors.

Bharat: Congratulations for the great set of numbers. So my question was on the tie up -- agreement with the Marico. So can you just clarify on what kind of agreement do you have? Do you have to pay them royalty or is that like a revenue share or something?

Rajiv Suri: So we will be receiving a royalty from Marico on sale of products of Kaya branded. But the main purpose of this besides royalty is the growth on -- of products which Marico can do because they are strong at channels outside our clinics, which include e-commerce, GT/MT and therefore, they will be investing also in marketing the products in a big way and we believe this will increase the brand salience and in turn also improve the footfall in the clinics.

Bharat: Okay. So can you just clarify a little bit more on how much the royalty will be, if you'd be able to disclose it.

Rajiv Suri: Yes. So the terms of the collaboration remain confidential, and we cannot speak in public about it, as you would imagine. But to say that the growth will be there. The agreement is commencing on -- in September, so next month. And we are going through a bit of a transition right now and we should start to be able to share some information once it starts.

Bharat: Okay. So my another question was, in one of the previous calls, you were saying that the Indian clinic business, the EBITDA per clinic was around 28%. So I just want to know, was that excluding, I am saying, the corporate costs, so I just wanted to know if that includes the rent cost or was it pre-rent cost?

Rajiv Suri: Includes the rent cost and it excludes the corporate costs. And quarter 1 last year, it was 25% and quarter 2 this year it's 27% -- in quarter 1 this year it's 27%.

Moderator: Sorry to interrupt. If you have a follow-up question, please get back to the queue as several participants are waiting for their chance.

Bharat: Okay. Yes. I just have one question. Can I go ahead?

Rajiv Suri: Yes.

Bharat: So I just want to know, so what is -- how do you see FY'25? So how many more relocations and renovations or new clinics are you trying to open? And what will be the capex for each of them, if it's a relocation or renovation or a new clinic that you're planning to open? And how much is the break -- how many months does it take to breakeven in a new clinic?

Management: So we are planning to open around 6 to 8 clinics in this financial year. When we talk about the capex cost, it's around INR1.8 crores to 2 crores and then we do a relocation, the capex is around

INR0.6 crores to INR0.7 crores, around INR60 lakhs - INR70 lakhs per clinic. With respect to the breakeven, clinics breakeven it generally takes us around 12 to 15 months to breakeven a clinic.

Moderator: Our next question is from the line of Prateek Giri from Shubh Labh Research.

Prateek Giri: I have 2 questions. The first one is, I was just wondering, if we look at our ad spend in last 4 years, 3 to 4 years, it has not gone up materially, from INR9 crores to INR11 crores we have spent, whereas our revenues have gone up from INR90 crores to INR180 crores, though I understand there is some post-COVID demand in play.

On this context, Mr. Suri, I have 2 questions. So how do we read into this? Does it mean that this much of ad spend is enough to drive growth in the existing 74 stores? And how do you see it going forward? How many more clinics we can open further without significantly increasing the ad spends? That's my first question.

Rajiv Nair: Yes. Should I? Yes. Okay. So marketing spend wise, we actually maintain a ratio, which is quite standard to net revenue in the range of what, 7% to 8% of net revenue. That's the standard average that we keep for marketing spends.

Yes. And in terms of growth factors, I think the growth factors as you saw last year, the net revenue growth was about 20% and this year, we hope to maintain a similar trajectory. But the spends will remain 7% as part of net revenue.

Prateek Giri: Okay. Is this Arihant?

Rajiv Nair: No, this was Rajiv.

Rajiv Suri: Rajiv Nair answered. Rajiv Nair.

Prateek Giri: Yes. Mr. Nair, so that's what my question is actually, in the last 4 years, if you see from INR90 crores revenue to INR180 crores revenue, correct? But if you look at our ad spend, it has nearly in the similar region of INR9 crores to INR10 crores per year. So I just wanted to get your sense on this. Is it going to be stagnant for some more time, in the meanwhile you open more stores? Or we can -- I mean, how should we read into this?

Rajiv Nair: So Prateek, when are you referring to INR90 crores to INR180 crores, what are exactly referring to because the marketing spend has always been around 7% to 8% of our revenue and the growth factors for us on year-on-year basis was the new introduction of new categories like body contouring, hair care and expansion and something from the relocation renovation.

Rajiv Suri: Actually clinic collections last year to this year in terms of the like-for-like clinics was roughly about 7%. So it is not INR90 crores to INR180 crores. If you could just clarify…

Rajiv Nair: I hope you're not referring anything to pre-COVID.

Prateek Giri: So Mr. Nair, if I'm not wrong, probably March '21 revenue was around INR91 crores. And March '24 revenue was INR176 crores.

Rajiv Nair: Yes. I think that's the COVID impact of that particular period. We are now starting to compare like-for-like to previous year. At that particular point, it was post-COVID. So we were just tracking pre-COVID to post-COVID numbers. So I think that's the reason for the INR91 crores.

Rajiv Suri: I think we should not take the COVID period. Everything was out of...

Rajiv Nair: A lot of clinics were closed during that period.

Rajiv Suri: So don't use that as a result.

Prateek Giri: Understood. So fair point. So going ahead, we should see a proportionate increase in marketing expense as we increase our revenues and store count as well.

Rajiv Suri: Absolutely.

Prateek Giri: Got it. Mr. Suri, I have a second question. I just wanted to get your opinion on our ATS and footfall. Now I understand we operate in a high ATS category, which has probably -- which is probably giving us 1,900 customers per clinic per year, which means around 150 customers per clinic in a month. So I just wanted to get your sense on entering lower-priced services. Can that help us bring incremental revenues and profits in turn at corporate level?

Rajiv Suri: So we -- what your source of numbers is possibly related to the production and the transactions we make. In relation to that, we also have services and multiple services in the clinic, and we do roughly about 50,000 sessions, which if you look at it, divided by 75, gives another 666 sessions per clinic per month. So that times 12 is about 7,000 more.

So I think the number of customers who actually come to our clinics, in addition to the ones which we are talking about, who are purchasing and also multiple coming back for their sessions which they are taking. And from the sessions which they are taking, we have a BTC, which is a bill to convert of about 40% to 41% -- 47%.

So you can see that we're also getting, let's say, sales from that. It's a combination of both. And we can take you through this off-line. We also discussed it with you yesterday. And then if you want, we can have a more detailed discussion off-line.

Moderator: Next question is from the line of Eshit Sheth from Anvil.

Eshit Sheth: Sir, a couple of questions. One is that on the deal that we've done with Marico, how is it different than the old deal that we had done with them? Because again, I'm hearing that we will get a part of the revenues that Marico does from Kaya products as a part of royalty. So how is it different from the old one?

And Marico in the press release yesterday had said that they are targeting about INR100 crores of sales in the next 4 years or so. So is there any ballpark number that we have? And how does Kaya stand to benefit from this deal?

Rajiv Suri: So between last time and this time, I think the main difference is, there is no overlap in channel. Because last time, we were also selling on e-com, they were selling on e-commerce. We were selling in GT/MT. They were selling in GT/MT. So the lessons from the previous time has been taken into account this time and they've got exclusive rights for e-commerce, GT/MT. So it's a clean strategy where they will be able to execute, and Kaya brand will be represented by 1 company rather than 2 companies. So I think that was a big change from last time to this time.

Besides that, they've got several e-commerce, now D2C brands and of course, they're famous in the other distribution channels. So you have seen from their press release their target, which they expect and that's what we are also expecting the similar number. And then we would get a royalty on the number, yes.

Eshit Sheth: So if I understood this correctly, we've given them exclusive rights for the channels that they will be selling it through, right? Now, the second question will be, is there -- because like, say, for example, in e-commerce or even in now GT/MT, we've seen discounts happening for a lot of products, right?

So is there some kind of cannibalization that happens from clinic-level product sales to the sales which happened through distribution channels. So instead of us getting the full revenue, we only get a part of the revenue as royalty because maybe that product is cheaper by 10%, 15% at -- through the Marico channel?

Rajiv Suri: Yes, as far as the customers are concerned, they are coming to the Kaya business, mainly for service. 14% of our sales are product, from that. And the high majority of them are high-priced premium products, which are INR1,000 and above. And therefore, we believe the cannibalization, if there is any, would be minimal. And we are expecting -- not expecting any of that, we are continuing to focus on high-priced items. We have a range which goes up to INR3,000. And we believe that the cannibalization, if there is, would be minimal.

And also noting that all the products they sell will have a QR code on them, which will bring the customers back on the Kaya website. And therefore, we will be able to get lead generation and from the lead generation additional footfall into our clinics. And I think that's really the game which we are doing, is how do we increase footfall into the clinic? And secondly, the investment they will make in marketing will increase the brand salience of Kaya as a whole and that will again help us getting more inorganic traffic to our website as well as footfall. So net-net, we believe that it is a win-win for both the companies and...

Eshit Sheth: Yes. No, I get that point. My only point is that for us, for Kaya, the only question that I have is that sales, we are at, say, 14% of sales. So we are at, say, close to whatever, INR25 crores, INR28 crores kind of number of product sales. At INR28 crores -- and if say Marico does INR100 crores, assuming that the royalty is capped at 5%, 6% generally for all Indian companies, so then incrementally, we get only INR5 crores out of that INR100 crores sale but you're seeing the benefits of the footfall increase, brand salience and all of that accrued to us in the form of higher clinic-level footfalls?

Rajiv Suri: Yes, yes, yes. And I think that's where we are because for every transaction, which comes to the clinic and conversion, our average transaction is roughly about INR17,000, 18,000. And new customer for us is INR22,000. So you can imagine the benefit that would have on the footfall because every one -- every new customer on an average is INR22,000 transaction, our average transaction.

Eshit Sheth: No, I get that. And sir, second question is, I think for, even for our India business, now that India is now the bread and butter for us now. What -- how do we see revenues moving up over here? Because I mean, it's been more than 8 years where we've seen the revenues being more or less stagnant for us. So do you have some sense on how do you see -- because now the entire focus and the bandwidth of the entire management and the team will be to grow India business, right? That's where everything will be.

So do you have -- I mean, do you sense how we can grow this? Because, say, if we do 5, 6 clinics every year, assuming this year is the start and we continue to build on that, is basically anywhere between 7% to 8% growth that can come because of new clinics. And SSG growth has to be at least 8% - 10% for us to substantially see the benefits of economies of scale. So do you anticipate something of that sort?

Rajiv Suri: So we can't really give a number in public forum in terms of how much percentage we expect. But I think that the strategy of a combination of like-for-like growth plus expansion plus relocation. Remember, the relocation is also the growth. There is always double digit. It will help us to grow to the levels which eventually will lead to profitability.

Eshit Sheth: Got it. Okay, sir. And last question, if I may. This is more on the financials. What is the net debt that we have currently post the completion of the transaction of Kaya Middle East?

Management: So the net debt is INR143.72 crores and it is fully from the directors.

Eshit Sheth: That INR143.72 crores. So just before this transaction, we were at about INR185 crores. Is that correct?

Management: INR193 crores because there was loan from Kotak in Middle East, which has now been squared off.

Eshit Sheth: So INR50 crores is the net debt reduction that we've done after this transaction?

Management: Yes.

Moderator: Our next question is from the line of Swechha Jain from Whitestone Financial Advisors.

Swechha Jain: Sir, most of my questions have been asked by previous participants. I just have 2 questions. One is, I wanted to understand, under body contouring what typically services come under that. And we had also mentioned somewhere in the annual report that the body business will be a key pillar for us. So just wanted to understand if you could share some insights about this, how big is the market opportunity for us? And what kind of revenue, we are looking from this segment, say, 2 or 3 years down the line, especially now when we are just focusing only on India.

Rajiv Nair: Yes. I think in terms of body countering, the services, the first question that you raised was services tuned towards shaping the body. So CoolSculpting being the key product line that we have, actually the service that we have, contributes to almost 80% of our revenues going forward as well. We also have a key muscle toning service, which is a product called CM Slim and the third one is tightening of skin, which is post contouring tightening of skin, which we use a product called Venus Legacy. We'll also try and build in some amount of nutrition consulting into this service as well so that the people who take these services also maintain a dietary restriction. I think that's something that we'll be doing as part of the overall service for body contouring.

And as far as growth is concerned, I think we have seen consistent growth in this category over the last 2 years. Last year, I think we added about INR13.5 crores worth of additional revenue in the category. And this year also, on last year's number, we have grown by almost 33% in the category. So I think we do expect this momentum to continue because the other services besides CoolSculpting, which I mentioned, muscle toning and skin tightening, are relatively lower-priced services and are likely to scale up much faster. So we are also adding some machines in this financial year at a faster scale.

We also have body composition analysis through a product called InBody inside the clinic, which also gives us full visibility in terms of the customer's body composition and that helps the doctor give better consultation to the customer. So I think that's the broad gamut of what we are planning to do in body contouring.

Swechha Jain: And sir, my second question is related to the competition. So just wanted to understand what typically is our edge over other well-known clinics such as like, if you just talk about Mumbai, it's The Ageless Clinic and Jamuna Pai kind of setup and other salons also have started offering these kind of services. So what really makes the customer come to us and stick to us.

Rajiv Nair: Yes. So if you look at it, I think, see, our services are fairly standardized by us in the form of protocols. I think 1 big thing that we spend most of our time is, we just don't bring any machine or any service and just put it into market. There's a proper protocol, which leads to safety, which we actually create. There are certain steps that are proprietary to Kaya. There are about 600 services that we have curated using our mix and match based on customization for each individual customer.

More than that, I think also we are not talking about a bandwidth of 8, 10 doctors like some of these companies that you mentioned. We have more than 113 doctors today across the country. All those doctors have been trained by Kaya, upskilled by Kaya, so that there is a level of standardization of services across the country that we do. So safety, proper SOPs, standardized doctors, standardized machines, not buying any machines which are not FDA-compliant, safety compliant, ensuring the fact that, that actually happens and constantly innovating new services. I think we also have an NSD team, which is skill -- services development team, which is there, headed by a doctor and we create new services every financial year. So that's the bit.

And the last but not the least, we also have a good range of products of our own. Now more than 70 products, which we are largely skin care, hair care, body at the same time now adding nutraceuticals. So I think we create a more holistic offering in comparison to some of our competitors.

Moderator: Our next question is from the line of Krishna S, an individual investor.

Krishna S: So my question is that this -- with respect to EBITDA, of course, we have spoken about the EBITDA profit -- EBITDA profitability, so after that, like what is the target profitability that we are looking at, that is even after the EBITDA? Like, do we want to -- like, are we having a figure in mind where we want to make profit absolutely like and by what time -- do we have any timeline for getting back into the green? That is the first question.

Rajiv Suri: Look, we can't indicate forward-looking statements at this call, but we have shared our plans on expansion, which will help us grow the business, faster relocations, which are giving us double-digit growth. And the existing clinics, which are on positive growth trajectory, which we have seen is about 5% to 8% growth. So I think that the combination of all these 3 items and the strategy on body, the strategy on hair care, which is having a higher-than-normal growth, the body grew 25%, hair grew 14% will lead us -- will get us economies of scale and then eventually into a higher profitability.

Krishna S: Yes, yes. I think that answers the question. And just one more question, that -- this, the Middle East business, so you said that you are waiting for approval from the Middle East authorities. So typically, of course, it is like, again, a little bit of future looking. But is there any like -- is there any standard time limits within which it can be -- this can be completed or like it's case-to-case basis?

Rajiv Suri: So look, our L&D business has already been completed, which is, majority of the exit has been done. The DMCC, which is about 10% to 20% of what is left, we are expecting it by end of quarter 2.

Moderator: Our next question is from the line of Swechha Jain from Whitestone Financial Advisors.

Swechha Jain: Sorry, just a follow-up. So you had mentioned about rights issue. So just wanted to understand, the promoters would be infusing money, right, through rights? And what is the quantum that we're looking for the rights issue, sir?

Management: So what you have disclosed in the last press release was that it's up to INR300 crores. So that's what the number is.

Rajiv Nair: And the promoters will be subscribing for it mainly. They're are committed to subscribing for it.

Moderator: Our next question is from the line of Prateek Giri from Shubh Labh Research.

Prateek Giri: Mr. Nair, I just wanted to get some rough sense that while doing the beachcombing of the product -- the potential of the product revenue, I understand that it will be difficult for you to give me a number. But I just want to understand on the product revenue basis, like roughly INR220-odd crores that's in the company, what mix do you see in, say, 3 years, 4 years down the line in terms of services and products from Kaya products?

Rajiv Nair: Again, I can't give you a forecast on the future. Currently, it's about 14% of our revenue. And the focus now is going to be predominantly in the clinics and in terms of the external market, which is e-commerce as well as the GT/MT market. As I think Mr. Suri mentioned earlier, there is going to be a lot of action on the Marico front, which may help us in terms of pushing product sales in our clinic as well. So with brand visibility increasing, the mix will increase but we don't know exactly where it goes right now. We can't give you a forward forecast on that at the moment.

Prateek Giri: Understand. Sir, the new product development initiatives, so the NPD will also be with Marico only or that will be with us.

Rajiv Nair: Kaya will create -- continue to create its dermatology-back product NPD. So that's something that we'll continue to do. So there is a team that is there within the business, which is looking at new product development. So obviously, we'll continue to have an inhouse setup for R&D.

Prateek Giri: Okay. So NPD is going to remain with Kaya Limited and the marketing and sales will be with Marico?

Rajiv Nair: Yes, all products sold in Kaya will be NPD done through Kaya itself.

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

Rajiv Suri: Thank you all for participating on the call and we appreciate the time that you took to attend our investor call. 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.