

We met the management of Kaya to understand the new strategy and current business environment across geographies. Key highlights of our interaction were as follows –

Focus on India break-even would continue – The management reiterated that the India business break-even is possible in three years if the SSSG remains in the range of 13-15%. Though the company has not delivered the targeted SSSG consistently in past few quarters, the management is optimistic about the growth rate in the ensuing quarters.

Going slow on store addition – The management would focus on boosting the profitability of existing stores rather than increasing the number of stores. The main aim would be to increase the capacity of existing stores and generate maximum revenues per store. To achieve this, the company would continue to relocate old stores in existing geographies. In this process, short-term negative impact on revenues is expected.

Aim to acquire new customers – Currently, the consumer base for Kaya is very limited to higher middle-class and above. The company aims to increase consumer base to cater to the maximum possible audience in the country. Hence, the company has come out with new offerings in hair and skin business.

Attractive offerings to increase utilisation – In order to attract consumers in the existing categories, the company has reduced prices in select segments such as hair transplant from ₹ 100K to ₹ 65K. In addition, the company has slightly tweaked the model to allow single sitting services to consumers compared to multiple sittings earlier. Nevertheless, the company has not reduced prices on all the services so that the value proposition in the business would remain intact.

No significant increase in competition – The management has indicated that though the company has leadership in the business, few existing players have started similar services which Kaya is specialized in. Further, local competition in different geographies continues to remain at the same pace which existed 8-10 years back.

Stringent regulations to abet Kaya – As per management, the company has 106 dermatologists with MBBS and MD degree. However, the company claims that the other players do not have dermatologists with similar qualification or they have it with BHMS/BAMS degree. If regulations become stringent, the companies would have to acquire a new set of dermatologists, whereas Kaya would be at a sweet spot.

View – We continue to believe that the business model is unique to a limited audience. Though the entry barriers are not very strong, the business is very difficult to replicate or get to the nation-wide level. We believe that with an increase in crude oil prices, ME business growth would be back on track. We maintain ACCUMULATE with TP of ₹ 1,032.

FINANCIALS (₹ Mn)

Particulars	FY16	FY17	FY18E	FY19E	FY20E
Net Sales	3,699	4,102	4,216	4,804	5,363
Growth (%)	11.3	10.9	2.8	14.0	11.6
EBITDA	134	101	52	155	338
OPM (%)	3.6	2.5	1.2	3.2	6.3
PAT (Adjusted)	88	(8)	(88)	45	254
EPS (₹)	6.8	(0.6)	(6.8)	3.5	19.5
ROANW (%)	3.5	(0.3)	(3.6)	1.8	9.4
ROACE (%)	3.5	0.1	(3.6)	1.2	7.5

CMP	₹ 974
Target / Upside	₹1,032/6%
BSE Sensex	34,101
NSE Nifty	10,458

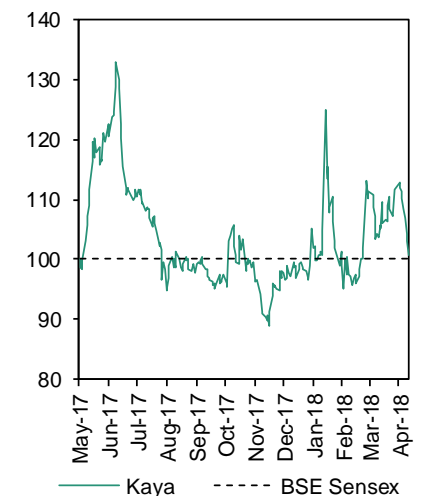
Script Details

Equity / FV	₹130/₹10/-
Market Cap	₹12.7bn
	USD 197mn
52-week High/Low	₹1,263/812
Avg. Volume (no)	117,000
NSE Symbol	KAYA
Bloomberg Code	KAYA IN

Shareholding Pattern Dec'17(%)

Promoters	60.1
MF/Banks/FIs	5.5
FIIIs	6.3
Public / Others	28.1

Kaya Relative to Sensex



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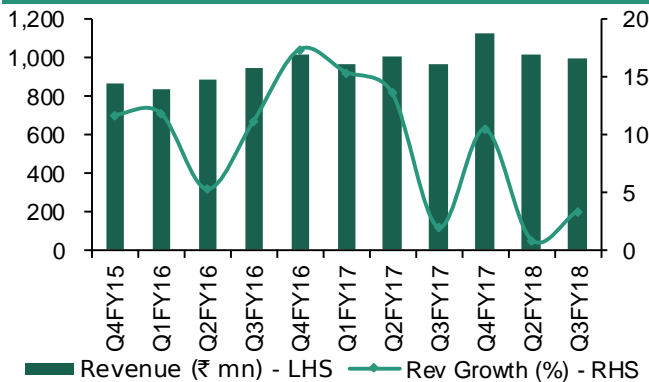
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Other takeaways from the meeting

- 50%+ of services require doctor supervision. ~85% customers are women.
- Services range start from ₹ 2,000. The average price of products is ₹ 700-800. Product availability rate is 90%.
- Revenue contribution from services are:
 - Hair Free (25%)
 - Fairness, pigmentation (13%)
 - Anti-Aging (20%)
 - Products (18%)
 - Beauty 8-9%
 - Hair Care 5%
- Key competitors of Kaya are Oliva Clinic in South, Dermatech in Delhi and Sakhiya in the Western region
- Launched Hair Transplant solutions for advanced hair loss in 3 cities. Steered 150-160 hair transplants this year.
- Kaya shall focus on Hair Free, Antiaging, Products and Hair Care this year.
- R&D accounts for less than 2% of revenue.
- Management indicated an expansion in EBITDA margin by cost rationalisation and improvement in efficiency.
- Number of sessions increased from 51,000 to 58,000 per month with 48% capacity utilisation (room utilisation and machine utilisation)
- Exhibited double-digit growth in categories like laser.
- Top 20 clinics account for 35% of revenue. The company has been relocating and renovating the clinics, upgrading technologies and facilities. Expect 20-25% growth in these clinics.
- Company is reducing promotions to avoid discounting. Prices have decreased by 14-16% in select services.
- Earlier Hair transplant price was ₹ 100K, which has reduced to ₹ 65K now. The price of laser hair free reduced from as high as ₹ 89K to ₹ 69K price point.
- Customer count grew by 7% in India business. The number of repeat walking of a consumer to consume services has gone up by 15%.
- Except for 3-4 clinics, all the clinics have achieved break-even. In existing market, it takes 1-1.5 years. In a new market, it takes 2-3 years for break-even.
- Average Clinic size is 1,200-1,800 sqft.
- Average clinic EBITDA at Kaya is ~35%. The national average for clinic EBITDA is 28%.

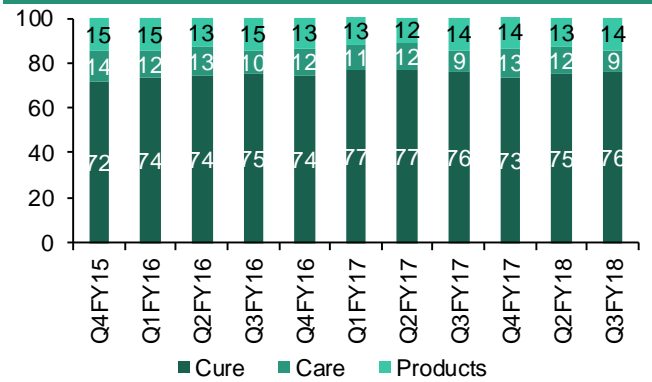
Kaya Group

Exhibit 1: Revenue trend



Source: Company, DART

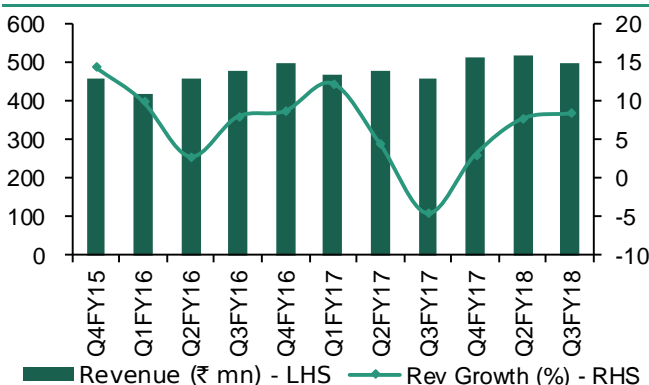
Exhibit 2: Trend in sales mix (%)



Source: Company, DART (Q1FY18 Consol numbers NA)

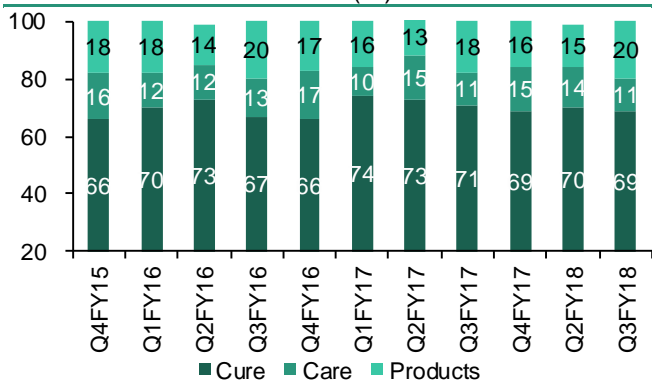
Kaya India

Exhibit 3: Revenue trend



Source: Company, DART

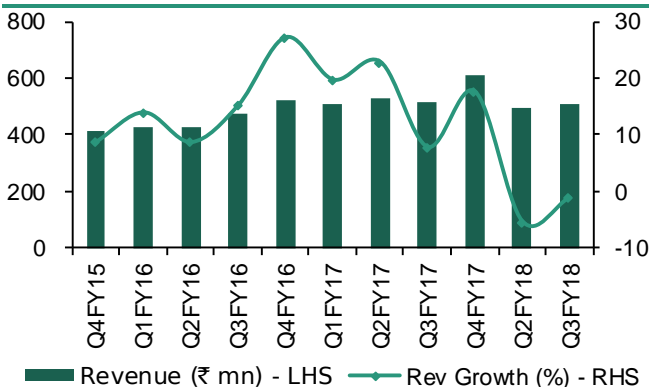
Exhibit 4: Trend in sales mix (%)



Source: Company, DART

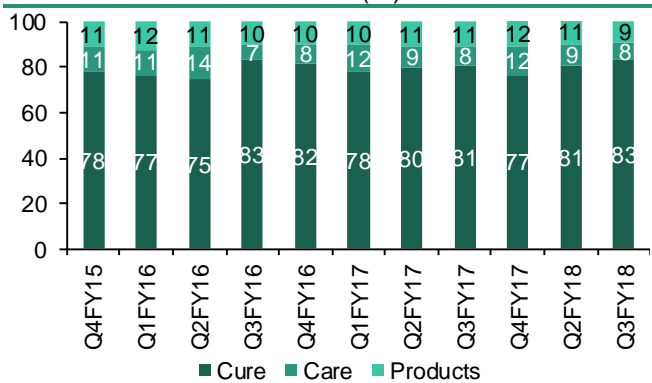
Kaya Middle East

Exhibit 5: Revenue trend



Source: Company, DART

Exhibit 6: Trend in sales mix (%)



Source: Company, DART (Q1FY18 Consol numbers NA)

Income Statement (₹ mn)

Particulars	Mar17	Mar18E	Mar19E	Mar20E
Net Sales	4,102	4,216	4,804	5,363
Other income	103	90	110	110
Total Income	4,205	4,306	4,914	5,473
Total Expenditure	4,002	4,164	4,650	5,026
Operational / Direct exp.	431	485	558	631
Employee Expenses	1,473	1,443	1,626	1,805
Selling & Adm. Expenses	2,097	2,236	2,466	2,590
EBIDTA (Excl. OI)	101	52	155	338
EBIDTA (Incl. OI)	203	142	265	448
Interest	5	13	0	0
Dep. and Amortization	201	229	235	245
PBT & EO Items	(2)	(100)	30	203
Profit Before Tax	(2)	(100)	30	203
Tax	0	(12)	(15)	(52)
Net Profit	(2)	(88)	45	254
Minority Interest	(6)	0	0	0
Net Profit (Adj.)	(8)	(88)	45	254

Balance Sheet (₹ mn)

Particulars	Mar17	Mar18E	Mar19E	Mar20E
Sources of Funds				
Equity Capital	130	130	130	130
Reserves	2,375	2,287	2,332	2,587
Net Worth	2,505	2,417	2,462	2,717
Minority Interest	15	0	0	0
Loan Funds	301	0	0	0
Total Capital Employed	2,822	2,417	2,462	2,717
Applications of Funds				
Gross Block	3,644	3,674	3,974	4,274
Less: Accumulated D&A	1,700	1,929	2,164	2,409
Net Block	1,944	1,745	1,810	1,865
Capital Work in Progress	15	0	0	0
Investments	715	882	882	882
Current Assets, Loans & Advances				
Inventories	502	693	790	882
Sundry Debtors	20	23	26	29
Cash and Bank Balance	156	252	296	557
Other Current Assets	21	35	39	44
Loans and Advances	881	520	592	661
<i>sub total</i>	1,580	1,522	1,744	2,173
Less: Current Liabilities & Provisions				
Current Liabilities	1,173	1,444	1,645	1,837
Provisions	261	289	329	367
<i>sub total</i>	1,433	1,733	1,974	2,204
Net Current Assets	147	(210)	(230)	(31)
Total Assets	2,822	2,417	2,462	2,717

E – Estimates

Cash Flow (₹ mn)

Particulars	Mar17	Mar18E	Mar19E	Mar20E
Profit before tax	(2)	(100)	30	203
Depreciation & w.o.	201	229	235	245
Net Interest Exp	5	13	0	0
Direct taxes paid	0	12	15	52
Chg in Working Capital	(150)	453	64	61
(A) CF from Opt. Activities	53	607	345	561
Capex	(643)	(15)	(300)	(300)
Free Cash Flow	(590)	592	45	261
(Inc.)/ Dec. in Investments	167	(167)	0	0
(B) CF from Invst. Activities	(476)	(182)	(300)	(300)
Issue of Equity/ Preference	11	(15)	(0)	(0)
Inc./(Dec.) in Debt	301	(301)	0	0
Interest exp net	(5)	(13)	0	0
Other	(6)	0	0	0
(C) CF from Financing	301	(329)	(0)	(0)
Net Change in Cash	(122)	95	45	261
Opening Cash balances	278	156	252	296
Closing Cash balances	156	252	296	557

Important Ratios

Particulars	Mar17	Mar18E	Mar19E	Mar20E
(A) Measures of Performance (%)				
EBIDTA Margin (excl. O.I.)	2.5	1.2	3.2	6.3
EBIDTA Margin (incl. O.I.)	5.0	3.4	5.5	8.3
Gross Margin	89.5	88.5	88.4	88.2
Tax/PBT	0.0	12.0	(51.5)	(25.5)
Net Profit Margin	(0.2)	(2.1)	0.9	4.7
(B) As Percentage of Net Sales				
Operational / Direct exp.	10.5	11.5	11.6	11.8
Employee Expenses	35.9	34.2	33.8	33.6
Selling & Adm. Expenses	51.1	53.0	51.3	48.3
(C) Measures of Financial Status				
Debtors Period (days)	1.8	2.0	2.0	2.0
Closing stock (days)	44.6	60.0	60.0	60.0
Inventory Turnover Ratio (x)	8.2	6.1	6.1	6.1
Fixed Assets Turnover (x)	1.1	1.1	1.2	1.3
WC Turnover (x)	28	(20)	(21)	(174)
Non-Cash WC (₹ Mn)	(9)	(462)	(526)	(588)
(D) Measures of Investment				
EPS (₹) (Adj.)	(0.6)	(6.8)	3.5	19.5
EPS (₹) (Reported)	(0.1)	(6.8)	3.5	19.5
CEPS (₹)	14.8	10.8	21.5	38.3
Book Value (₹)	192.4	185.6	189.1	208.6
RoANW (%)	(0.3)	(3.6)	1.8	9.4
RoACE (%)	0.1	(3.6)	1.2	7.5
RoAIC (%)	(6.0)	(11.0)	(6.3)	7.2
(E) Valuation Ratios				
CMP (₹)	974	974	974	974
P/E (x)	(1,546)	(144)	282	50
Market Cap. (₹ Mn.)	12,684	12,684	12,684	12,684
MCap/ Sales (x)	3.1	3.0	2.6	2.4
EV (₹ Mn)	12,114	11,550	11,505	11,245
EV/Sales (x)	3.0	2.7	2.4	2.1
EV/EBDITA (x)	120.0	222.6	74.4	33.3
P/BV (x)	5.1	5.2	5.2	4.7
FCFE Yield (%)	(4.7)	4.7	0.4	2.1

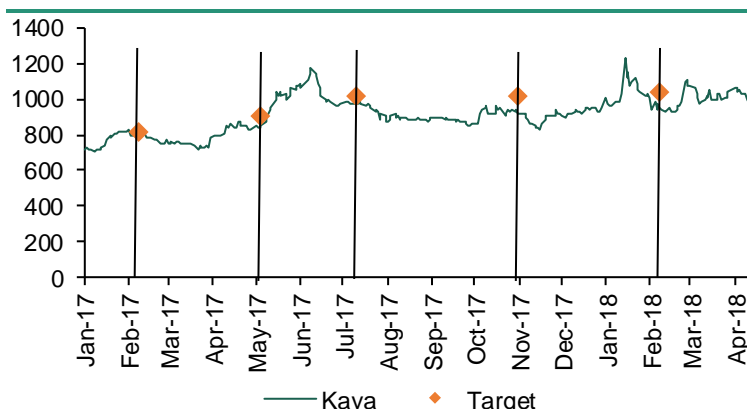
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (₹)	Price (₹)*
Feb-17	Accumulate	816	785
May-17	Accumulate	896	837
Jul-17	Accumulate	1,010	975
Oct-17	Accumulate	1,010	938
Feb-18	Accumulate	1,032	974

* As on Recommended Dated

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