Press Release

Kaya Limited

D-U-N-S® Number: 67-799-4145

July 04, 2019

Rating Assigned

Total Bank Facilities Rated*	Rs. 42.00 crore
Long Term Rating	ACUITE A- / Outlook: Stable

** Refer Annexure for details*

Rating Rationale

Acuité has assigned its long-term rating of '**ACUITE A-**' **(read as ACUITE A minus)** to the Rs. 42.00 crore bank facilities of Kaya Limited (Kaya). The outlook is **'Stable'**.

Kaya was started in 2003 as a division of Marico Limited, a leading FMCG group and later demerged as a separate entity in 2014 to form Kaya Limited (erstwhile Marico Kaya Enterprises Limited). The company is listed on BSE and NSE. The company is promoted and managed by Mr. Harsh Mariwala. Currently, the promoter group owns 59.93 percent stake in Kaya. The company is engaged in the providing skin care and hair care solutions through a range of 121 Kaya clinics across 26 cities in India and Middle East.

Analytical Approach

Acuité has taken a consolidated business and financial risk profile of the holding company, Kaya India and its subsidiaries and step down subsidiaries in Middle East to assess the credit profile of Kaya Limited. Acuité has also factored in the benefits derived from the association with Marico Limited. Extent of Consolidation: Full.

Key Rating Drivers

Strengths

Benefit derived from association with promoter of Marico Limited

Kaya started in 2003 as a division of Marico Limited, a leading FMCG company. The division was later spun off and constituted as a separate entity in 2014 to form Kaya Limited. The company is listed on BSE and NSE. Marico Limited holds a leading position in FMCG segment through reputed brands namely 'Parachute Advanced', 'Hair & Care', 'Nihar Naturals' amongst others. Also, it is into premium refined oil segment through 'Saffola' brand with market share of 69 percent. The company has over two decades of experience in the beauty and wellness industry with presence in India and abroad. Marico Limited is an established company with revenues of Rs. 7,350 crore and profit after tax (PAT) of Rs. 1,097 crore for FY2019 based on latest unaudited financials of FY2019. The company's market capitalisation is Rs. 47,855 crore. The promoters hold around 60 percent stake in the company. Mr. Harsh Mariwala is the Chairman and Managing Director of the company. Marico Limited has recently launched a new skincare brand- 'Kaya Youth' to target young customers for which it will be paying royalty to Kaya.

Acuité believes that the continued association of the promoter family of Marico Limited with kaya will be a key rating sensitivity.

Established brand and extensive geographical presence

The company provides diversified product and service offerings in the skin and hair care segments through leading brand 'KAYA' which facilitates cross-selling opportunities for various offerings. KAYA has wide geographical reach through a range of 121 Kaya clinics across 26 cities backed by over 190 experienced dermatologists in India and abroad. It offers a range of advanced skin care and hair care solutions such as spanning laser hair removal, brightening and pigmentation, acne and scars, hair loss and beauty facials. The target audience are majorly female customers. The company will get a boost from the demographic profile and increasing trend in disposable incomes, thereby resulting in increasing average footfall of customers. Since 2017, the company has entered into hair care solutions, such as hair transplant, which has resulted in revenue mix to skew towards hair and increasing men footfall.

The company sells 50 plus products including facial care products, moisturizers, skin whitening and brightening creams at over 130 retail outlets across major departmental stores such as Shopper stop, Lifestyle, Central, Health & Glow amongst others. Kaya products are also retailed through e-commerce, across partners that includes Nykaa, Amazon, Flipkart, Jabong and Myntra to name a few apart from its own portal.

Acuité believes that the Kaya will continue to benefit from the established brand presence in skin and hair care solutions in wide geographical coverage.

Weaknesses

Subdued profitability margins

Kaya's operating income remains flat in range of Rs. 400 crore to Rs.420 crore over the last three years. Although, the operating margin improved to 5.00% in FY2019 (Provisional) from 0.58% in FY2018, profit margin still continues to remain modest due to high overhead costs on account manpower requirements and rental obligations. ROCE remained weak in the range of -11.40% to -13.55% over last three years. The company is undertaking various initiatives such as customer addition, closing/relocating loss-making centers, trimming employee cost and rationalizing cost structures to be more efficient operationally.

Acuité believes that the ability to scale up operations and improve profitability and revenue growth momentum by improving revenue mix will be critical to its standalone credit risk profile.

Exposure to intense competition in the wellness and beauty industry

The company faces stiff competitive pressures across its business segments from large organised players such as VLCC Personal Care, Loreal, Lakme as well as local dermatologists. Besides competition from existing as well as new entrants, sale of product on e-commerce platform is highly competitive. Intense competition has restricted the ability of the players to pass on any increase in raw material prices to the end customers. This industry also witnesses risk of high employee attrition rate and spending towards training and development to retain talent and limit its attrition. Acuité believes that the competitive intensity is likely to continue to be high with new product launches from the players especially in the premium segment.

Liquidity position:

Kaya Limited has adequate liquidity marked by healthy net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.4.53-13.51 crore during the last two years through 2018-19 (Provisional), while its maturing debt obligations were in the range of Rs.10.58-11.92 crore over the same period. The cash accruals of the company are estimated to remain around Rs.21.17 – 31.01 crore during 2020-22, while its repayment obligations are estimated to be around Rs. 4.80-8.40 crore during the same period. The company's operations have efficient working capital as marked by gross current asset (GCA) days of 87 in FY2019P. The company has low reliance on working capital borrowings, the cash credit limit in the company remains unutilised. The company maintains cash and bank balances of Rs.18.62 crore as on March 31, 2019P. Acuité believes that the liquidity of the company is likely to remain adequate over the medium term on account of healthy cash accrual and its efficient working capital cycle.

Outlook: Stable

Acuité believes that Kaya will maintain 'Stable' outlook over the medium term on account of association with Marico Group. The outlook may be revised to 'Positive' in case the company registers significant improvement in its profitability from the current levels while maintaining financial risk profile. Conversely, the outlook may be revised to 'Negative' if there is steep decline in the company's revenues or if the company contracts higher than anticipated debt to increase its footprint or lack of timely support from its promoters.

About the Rated Entity - Key Financials

	Unit	FY19 (Prov.)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	420.87	400.38	409.07
EBITDA	Rs. Cr.	20.77	2.33	(15.53)
PAT	Rs. Cr.	(15.57)	(19.77)	(28.30)
EBITDA Margin	(%)	4.94	0.58	(3.80)
PAT Margin	(%)	(3.70)	(4.94)	(6.92)
ROCE	(%)	(13.55)	(11.40)	(17.43)
Total Debt/Tangible Net Worth	Times	0.63	0.25	0.25
PBDIT/Interest	Times	1.85	1.61	(1.04)
Total Debt/PBDIT	Times	2.02	2.33	(5.44)
Gross Current Assets (Days)	Days	87	91	103

Status of non-cooperation with previous CRA (if applicable)
Not applicable

Any other information
None

Applicable Criteria

- Default Recognition - https://www.acuite.in/view-rating-criteria-17.htm
- Manufacturing Entities - https://www.acuite.in/view-rating-criteria-4.htm
- Financial Ratios And Adjustments -https://www.acuite.in/view-rating-criteria-20.htm
- Entities in Service Sector - http://acuite.in/view-rating-criteria-8.htm
- Consolidation of entities- https://www.acuite.in/view-rating-criteria-22.htm

Note on complexity levels of the rated instrument
https://www.acuite.in/criteria-complexity-levels.htm

Rating History (Upto last three years)
Not applicable

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Proposed Term loan	Not Applicable	Not Applicable	Not Applicable	42.00	ACUITE A-/ Stable

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