Acuite RATINGS & RESEARCH

Press Release

Kaya Limited

August 29, 2020

Rating Withdrawn

Total Bank Facilities Rated*	Rs. 42.00 crore
Long Term Rating	ACUITE A- (Withdrawn)

** Refer Annexure for details*

Rating Rationale

Acuité has withdrawn the long-term rating of '**ACUITE A-' (read as ACUITE A minus)** on the Rs. 42.00 crore bank facilities of Kaya Limited (Kaya). The rating withdrawal is in accordance with Acuité's policy on withdrawal of rating.

The rating is being withdrawn on account of request received from the company.

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 providing skincare and hair care solutions through a range of 121 Kaya clinics across 26 cities in India and the Middle East.

Analytical Approach

Acuité has taken the consolidated business and financial risk profile of the holding company, Kaya India and its subsidiaries and step down subsidiaries in the 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 the 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 a 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. 7,315 crore and profit after tax (PAT) of Rs. 1,043 crore for FY2020 based on latest unaudited financials of FY2020. The company's market capitalisation is Rs. 48,305 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 a 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 skincare and hair care solutions such as spanning laser hair removal, brightening and pigmentation, acne and scars, hair loss and beauty facials. The target audience is 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 include 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 the range of Rs. 400 crore to Rs.420 crore over the last three years. Although the operating margin improved to 14.49% in FY2020 as against 5.85% in FY2019 and 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 -26.02% over the last three years. Further, the company may face significant liquidity pressure in the current fiscal year on account of COVID-19 crisis and material disruption in its retail operations due to the nationwide lockdowns. The company is undertaking various initiatives such as customer addition, closing/relocating loss-making centers, trimming employee cost and rationalising cost structures to be more efficient operationally.

Acuité notes that Kaya is into a premium brand segment which is relatively impacted from economic cyclicality. Further, in the event of a significant and sustained slowdown in the economic activity, the consumer spending are likely to get impacted, which in turn could slow the growth trajectory for players like Kaya.

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 an 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.

Rating Sensitivities

Not Applicable

Material Covenants

None

Liquidity position: Adequate

Kaya Limited has adequate liquidity marked by healthy net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.4.53-21.15 crore during the last three years through 2018-20, while its maturing debt obligations were in the range of Rs.7.50-11.92 crore over the same period. The cash accruals of the company may be impacted during FY2021 due to COVID-19 crisis and material disruption in its retail operations due to the nationwide lockdowns. The liquidity is expected to support by capital infusion by promoters.

Outlook

Not Applicable

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	394.03	421.49
PAT	Rs. Cr.	(54.11)	(15.57)
PAT Margin	(%)	(13.73)	(3.69)
Total Debt/Tangible Net Worth	Times	(2.07)	0.63
PBDIT/Interest	Times	2.92	1.85

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-52.htm
- Manufacturing Entities - https://www.acuite.in/view-rating-criteria-59.htm
- Financial Ratios And Adjustments - https://www.acuite.in/view-rating-criteria-53.htm
- Entities in Service Sector - http://acuite.in/view-rating-criteria-50.htm
- Consolidation of entities- https://www.acuite.in/view-rating-criteria-60.htm

Note on complexity levels of the rated instrument
https://www.acuite.in/view-rating-criteria-55.htm

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
04-Jul-2019	Proposed Term loan	Long Term	42.00	ACUITE A-/ Stable (Assigned)

*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- (Withdrawn)

Contacts

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About Acuité Ratings & Research:
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