"Kaya Limited Q2 FY2018 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to Kaya Limited Q2 FY2018 Post Results Conference Call. 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. Please note that this conference is being recorded. We have with us the senior management team of Kaya and its subsidiaries comprising Mr. Rajiv Nair, CEO, Kaya India, Mr. Naveen Duggal, CFO, and Mr. Debashish Neogi, CEO, Kaya Middle East. I would now like to hand the conference over to Mr. Naveen Duggal who will take us through the highlights of Kaya performance during the quarter. Thank you and over to your Sir!

Naveen Duggal: Good evening everybody. I welcome you all to our conference call on our company's behalf. Let me begin the conference call with a very short update on second quarter performance, which is already in the public domain and uploaded in our website www.kaya.in.

Kaya group post consolidated revenue from operations of Rs 101.4 Crores for quarter ended September 30, 2017 a growth of 1% over corresponding quarter ended September 30, 2016 on a consolidated basis. Kaya India's net revenue grew by 8% and a same-store growth is 10%. Kaya Middle East revenue has declined by 5%. the consolidated EBITDA is Rs.2.7 Crores, 3% of revenue as compared to Rs5.6 Crores that is minus 6% of revenue in Q2 FY2017.

Operating profit after tax item for quarter ended September 30, 2017 is minus Rs1.3 Crores that is 1.3% of net revenues compared to minus Rs 6.5 Crores that is minus 6.5% of net revenue for the corresponding quarter last year.

Kaya has opened 13 KSBs of modern trade and shop in shop format in Q2 FY2018 in India. Overall, India Kaya has 102 clinics and 153 Kaya Skin Baths outlet and operates 24 clinics in the Middle East.

During the quarter, we received Best Digital Integrated Campaign Award of 2017 organised by Inkspell Media. The detailed information update is already with you.

I now open the session for questions and my colleagues and I will be glad to answer them. Thank you.

Moderator: Thank you.Mr. Duggal for the opening comments. We will now begin with the question and answer session. We take the first question from the line of Eshit Sheth from Anvil Shares & Stock Broking Private Limited. Please go ahead.

Eshit Sheth: Thank you for taking my question. Sir a couple of questions basically on Kaya Middle East; one is that if I see the performance for Q1 and Q2 combined because you got the consolidated right now what I am seeing is that if I minus the consolidated minus standalone what I am seeing is that our overall EBITDA has actually decreased by almost I would say roughly about Rs10-odd Crores, so what is the reason for the same and how do you see the overall run rate for this year because from what I understand was that we were steady at about Rs18 Crores kind of profit for the full year in 2016 as well as 2017 how do we see 2018 shaping up for Kaya Middle East?

Debashish Neogi: This is Debashish. Your question is valid with respect our PAT, the Middle East has been around Rs18 Crores for the full year and there is a drop in EBITDA that is happening mainly because of the drop in collection numbers, which is mainly coming from the slowdown in macro because of the crude oil prices, which we saw headwinds in Saudi, so that is one of the reasons and also in UAE some parts where it is dependent on oil for example Abu Dhabi is a region, which is dependent on oil, so there we are seeing some degrowth. So it is because of drop in the collection SSG in these two regions we are seeing a slowdown on the bottomline. Separately we are acting against this by getting into more categories and getting into innovation, which has yielded us results in the prototype stage. Now we are going to scale it up.

Eshit Sheth: Sir in that case how do you see now for the full year for the next two quarters how do you see Middle East shaping up for us?

Debashish Neogi: In terms of the sequential EBITDA or sequential profit, Q3 and Q4 will definitely be better than Q1 and Q2, but overall because Q1 and Q2 has been subdued overall numbers will be lower than the last year.

Eshit Sheth: Sure and with now crude actually coming back to above almost 60 due to this as a strong macro tailwind for this business to improve going forward in FY 2019 and FY 2020?

Debashish Neogi: See if crude oil, we cannot project on crude oil, but if crude oil goes up it is definitely a positive tailwind for the Middle East business, but it is very difficult to project crude oil prices, but going up is definitely positive from a Middle East perspective.

Eshit Sheth: Sure, but for Kaya Middle East for FY2019 at least say this year was kind of a washout for FY2019 are we anticipating an SSG of 8% to 10% at least?

Debashish Neogi: We are anticipating a growth of 8% to 10%. SSG may be lower for the next year because we are also guiding for an SSG of 5% to 7% in every quarter for the Middle East business, so to answer your question the growth will be 8% to 10%. SSG would be a little lower.

Eshit Sheth: Before the whole oil crisis happened, we were growing at about almost 15% to 20% for Kaya Middle East that kind of traction when do you see happening in the Middle East because I understand you are the largest organized player in the Middle East and the opportunity is also very large in that region?

Debashish Neogi: Correct. So what is happening because of the demand coming down in the macro what is happening if you see our verticals hair free is a vertical, but laser is a vertical, which is getting commoditized, because it is getting commoditized in the environment competition is reducing prices. We have not reduced prices. Since we have not reduced prices, so we are getting reduction in footfall in the laser vertical, so which is impacting the overall footfall, so to counter this what we are doing is we have taken some action, which we have taken on October 1, 2017 on laser and we are actually investing more on the differentiated vertical, which is difficult for competition to copy, which is the anti-ageing vertical and the skin concern vertical,in anti-ageing we are seeing high double-digit growth and skin concern vertical with the inputs, which we have put in place, we expect growth to come from skin concern from this quarter. To answer your question, the headwind, which is there in macro, will counter through differentiated proposition in the other two vertical and not fight on price and the second we have changed the look and feel of the brand. We have come with a new identify, which we are going to scale up next year, so that will also take care of growth.

Eshit Sheth: Thank you so much Sir and I had a couple of questions on the India business as well. For India, how do we see the traction for the Indian business coming in for our company?

Rajiv Nair: I do not whether you have compared the Q1 and Q2 results. We have seen quite a lot of improvement in Q2 vis-à-vis Q1. So one is of course net revenue has grown by about 8%. Our cost of goods has come down by about 10%. Our expenses, which were quite a worrisome area has almost been flat with areas like labour cost actually getting under control with incentives itself coming down by almost 26%, so which means the clinic EBITDA in the business has moved from 19% to 27% and at a corporate level EBITDA from minus Rs4.5 Crores of last year's has almost broken even at about 20 lakh negative, but from Rs4.6 Crores it has come down to 0.2, so from a minus 10%, it has almost become 0% as a percentage to NR.

So what has happened is that whatever actions we needed to take over the last one or two quarters especially focusing on specific areas like hair-specific areas like product and also as I mentioned I think if you were in the last call focus on consumption in the business, which means getting more customers to come more often for consumption of services. Just a data point there is that we were averaging about 50,000 to 51,000 sessions a month. The last quarter we have ended up at 55,700 sessions a month, so which means the number of existing customers using services at Kaya has increased because in our business revenue is recognised when the customer uses the services, so from purely collecting money as we were doing in large value in the last year, we have focused equally on consumption trend, which has led to better net revenues. So the reason that while you do not see a very large growth on collection, you see an 8% growth in terms of net revenue. So we hope to carry this trend forward for the balance of the year and continue to focus on the core categories, continue to focus on pricing as in the cost of doing business, so all elements of cost both at the front end, which is at the stores as well as at the corporate level. So if you look at the corporate cost of the business from last year, which was about 20% corporate cost it has already come down to 18% this year in Q2. So we have already made some changes and we are starting to see some results of that.

Eshit Sheth: I absolutely understand the improvement that we have seen in the cost structure, but on the revenue side basically what kind of SSG are we targeting over say maybe the next two to three years I understand?

Rajiv Nair: Currently, I would say the fact that collection is not a focus area right now because we are also sitting on a large deferment value in the business, which means advances in the business, so the focus for this quarter will be on net revenue growth. So net revenue we would like to grow at the rate of 8% to 10% is what we are looking at right now. Hopefully, we are able to do even better than that, but currently I would like to keep it conservative at 8% to 10%. So that is the trajectory that I would like to keep for Q3 and Q4 and in the bargain also work on all the lines like for example gross margin contribution between last year and this year from 75% gross contribution now it is 79% gross contribution and I expect it to stay at this level or may be marginally better. What I am saying is while we keep the revenue growth target at close to about 8% to 10%, I would like to focus on the margin and the cost line, which is what we will be doing and specific focus areas like products. So just to give you an example product as a business we have grown in Kaya as in our own stores like-to-like at about 9%, but outside Kaya we have grown in shop in shop, the modern trades by 58% and in e-commerce we have grown by about 83%, so what we are saying is slowly, slowly we will also be seeing a penetration of the product outside Kaya and we will keep increasing the penetration outside of our business as well, so we will be looking at distribution models and some new channel partners and stuff like that, so already we are increasing a penetration in formats, which are departmental stores, modern trade, and general trade and companies like Shoppers Stop, Lifestyle, and to some extent Health & Glow. We have expanded quite a lot in the last six months time, so it is not just number of store additions, but also like-for-like growth within these stores.

Eshit Sheth: Correct and within the product categories say at the end of Q2, products contributed about 15% in India. What is the kind of percentage we are comfortable with? Over the medium term this 15% can it be 20%?

Rajiv Nair: We are pushing for higher growth, so for the time being without giving a number on that our focus is on this category, so we definitely would like to grow it beyond this and we are working towards it, but for the time being I would say 15% to 17% and especially the growth that we have got outside of Kaya's stores gives us good comfort because 58% to 60% growth is in SIS and modern trade, I think it is a good improvement over the last year.

Eshit Sheth: Also for 8% to 10% growth that you mentioned. Was it sequentially or you are talking on year on because Q3 we had the impact of demonetisation?

Rajiv Nair: Year-on-year. I am talking year-on-year currently. See demonetisation will be a little bit of a supernormal benefit especially November and to some extent upto mid-December because we saw only the impact of demonetisation impacting us between November 8, 2016 or November 9, 2016 all the way up to about December 15, 2016 after which our business was steady from December, January, and February. So while we will see some supernormal ticks in maybe the month of November, we will actually normalise that course mid-December.

Eshit Sheth: Absolutely, so I get that point. Also, the one question was basically just before the results we had announced that we were making an investment of about Rs 51 Crores in KME Holdings solely on subsidiary of the companies for the minority stake what is this exactly because what we understand was in the annual report and all that Kaya Middle East was actually 100% subsidiary right, so what is this minority stake and what is this Rs 51 Crores investment that your saying?

Rajiv Nair: I am just passing it on to Naveen. He has an update on this, so we will try and give you the update?

Naveen Duggal: Just to answer your question Kaya India has invested in its wholly owned subsidiary in Singapore a sum of Rs51 Crores to buy out the minority stake in Kaya Middle East FZC, which is a subsidiary of Kaya Middle East holding of Singapore and basically there is an eligible employee of Kaya Middle East FZC and this employee is eligible for an ESOP scheme and this employee has acquired 0.99% ,i.e. 550 shares of Kaya Middle East FZC, so as per the ESOP scheme of 2017 the Singapore entity has bought over the shares of the eligible employee.

Eshit Sheth: So that eligible employee owned 51?

Naveen Duggal: 550 shares.

Eshit Sheth: But that investment was close to Rs51 Crores?

Naveen Duggal: Yes.

Eshit Sheth: Thank you. I will come back in the line if I have more questions.

Moderator: Thank you. The next question is from the line of Kinjal Desai from Reliance Mutual Fund. Please go ahead.

Kinjal Desai: Good evening Sir. I just want to understand one part of it especially the transition into Ind-AS. If I see the last time when we reported the September 2017 numbers, we had an EBITDA profit of about Rs 3 Crores and now with the restated numbers if I am getting it right is a minus Rs 5 Crores. So I just want to understand according to accounting, what has changed to give a negative EBITDA in the base?

Naveen Duggal: You are asking about the standalone financials or the consolidated financials?

Kinjal Desai: The consolidated financials? Last year the base numbers it seems have got restated under Ind-AS, so in the I-GAAP we had reported a plus Rs 3 Crore kind of positive EBITDA and now we are reporting, if I am getting it correct, a minus Rs 5 Crore. So it is Rs 8 Crores in the profitability of the company?

Naveen Duggal: Your question is for the quarter?

Kinjal Desai: Yes for the quarter. I am just asking for the quarter and also how kind of the full year numbers of FY2017 will get impacted?

Naveen Duggal: Basically last year for quarter-ended September 30, 2016 we have reported a profit of Rs 2.68 Crores. Then because Ind-AS adjustment, which will include the gain on fair valuation of investment that would be around Rs 29 lakhs. Actuarial gain on defined benefit plan reclassified to other comprehensive income is Rs 3 lakhs. Customer loyalty programme re-measured at fair value is Rs 1.5 Crores and fair valuation of security deposit and rent amortization and straight lining is around Rs 65 lakhs that is a negative impact and the ESOP compensation expenses, which as per I-GAAP was not required to be reported, so this because of the Ind-AS implementation the impact for the quarter is Rs 7.92 Crores.

Kinjal Desai: Fine, so basically, I think it is the last line item, which would have given the major swing of the profitability?

Naveen Duggal: Yes.

Kinjal Desai: If I was to look FY2017 full-year EBITDA under Ind-AS what is the number that I am looking at if you could just share that with me?

Naveen Duggal: FY2017?

Kinjal Desai: Yes.

Naveen Duggal: So you can expect a total drop of Rs 30 Crores on account of ESOP compensation expenses measured at fair value.

Kinjal Desai: Fine, all right.

Kinjal Desai: Yes and just on the business front for the India business we have done a great job when it comes to the cost part of it, etc., if you could just highlight some of the initiatives that we would have taken to kind of increase any footfalls, etc., to bring about higher growth in general or anything else that we can highlight in terms of improvement on that front?

Rajiv Nair: Actually if you look at it we have seen a growth of about 5% in new customer acquisition during this particular period, so there has been a 5% improvement in terms of number of new customer walking and transacting within the business. The number of visitation of existing customers has also grown by 5% over the last year. The number of units of transaction, however, has fallen a bit and the average transaction value has fallen a bit over the last year, but the number of customers walking in and transacting has increased in both existing and new customers. I will give you certain other customer's parameters, which will also give you an indication of improvement. I will just give you. So on a rolling 12-month basis if we actually look at it in this quarter, the consumption frequency of customers have gone up to about 6.12 times for the year rolling, which was if we go back to October 2016 it was about 5.42, so we have actually seen a 0.7 points higher than about a year ago in terms of the consumption frequency of customers and transaction frequency wise against about 2.98 transactions way back in October 2016, it is now at about 3.13 transactions in September 2017, so actually you also see that gradually there has been also an uptick in terms of transaction frequency for customers. So what we have done is the fact that a large part of what we have done is to focus on digital initiatives over the last three months and in fact most of our advertising and communication has been focused towards digital. We used the platforms fairly strongly social media platforms. We have used a lot of new innovations. We have used a lot of video based content over the last three months to acquire customers. We have also done focused campaigns on hair free. We have done focus campaign on hair and we are also doing as we speak some campaigns on product, which are the unboxing videos that we are creating for product on the Internet. We have not done much of mass media advertising because we wanted to keep the overall costs under control, but you will see some traction on this front also in the coming quarter where we are specifically doing at campaign around hair, which is a focus area for us, so you will see specific cities having campaigns around hair both in above the line segment in mass media as well as on social media on the Internet, so I think that is broadly where we are. We have done also quite a bit of magazine advertising over the last four to five months' time especially in-flight magazines as well as fashion magazines, so that is something that we have actually done, so these are the efforts that have been gone in from marketing side to actually acquire customers, so broadly that is what we have done for the last quarter as well.

Kinjal Desai: Sir it would be right for me to assume that given the kind of SSG growth that we have shown in H1 of this year and presuming that this is the kind of SSG that we will be able to continue going ahead, we should be able to breakeven in India this year?

Rajiv Nair: If you look at it rather than again looking at two quarters ahead or three quarters ahead currently if you see the basic movement as I was explaining to the previous caller as well I think we have already reached the stage from a fairly large EBITDA negative of about Rs.4.6 Crores to about Rs.20 lakhs for this particular quarter, so we have already seen an EBITDA improvement. We have to go one-step down and actually be PBT positive and that is the next goal, but at least for the year our goal is to be EBITDA positive at a corporate level for the India business, so that is what we are focusing on right now and if you look at the other indicators, I have already explained once is besides the net revenue the gross contribution has also changed because one of the questions that has been coming repeatedly is what are we doing on the margin front as well, so we have seen from a 75% margin in the last year same quarter, we have moved to about 79% margin this quarter in terms of gross contributions. Those are the efforts that we are doing, so as I am saying growth we would like to keep it at this level or slightly higher, so that is something that we would like to work on. Margin I would say would continue to remain at this level while we are working on other improvement areas, but we will like to keep it at this level and costs we are tightly monitoring, so we do not expect a huge increase in cost and in fact we would see some lines of cost reducing further.

Kinjal Desai: Sir just one last part. What is the impact of GST? Is it positive or negative on?

Rajiv Nair : Currently it is pretty neutral on the overall level, but on the product side we will have some input gains that we expect to have between Q3 and Q4 because our product GST component has actually increased to about 28%, so that is a place that we have taken a slightly larger hit, but we are expecting some input tax credits over the Q3 and Q4 period. Those gains have not really come to the business as of now. While we are carefully monitoring whether we need to do any price corrections as of now we do not expect to do a price correction on products, but that is an opportunity that exists over a period of time, so that also we may probably exercise. So the impact right now I think by the end of the year we will be fairly neutral is what I would say on GST.

Kinjal Desai: Fair enough. Thank you very much.

Moderator: Thank you. We take the next question from the line of Hen Agrawal from Individual Investor. Over to you!

Hen Agrawal: Thank you very much. It is very good to see progress. I have two questions. The first question I have is on the employee expenses for this year, so last year we had Rs 58 Crores and this first half year it is Rs 80.3 Crores versus Rs 88.1 Crores and the next half of last year the employee expenses was only Rs 59 Crores, so what will happen to our employee expenses for this second half of this year?

Rajiv Nair: So just a quick question, you're referring to the store employment?

Hen Agrawal: I am talking about the consolidated statement, which says employee benefit expenses Rs 88 Crores September 30, 2016 and for half year ended September 30, 2017 it is Rs 80.3 Crores and if I just take the previous quarter and add it up, so last year the total employee expense was around Rs 47 Crores and Rs 88 Crores was in the first two quarters, so that left Rs 59 Crores in the last two quarters of last year? Now in this year so far we have got Rs 80 Crores, so what it will be approximately for the last two quarters because your Rs 60 Crores is last year, Rs 59.17 Crores is last year?

Naveen Duggal: Sir this is Naveen here. So let me first explain to you the employee cost of half year ended 2017 and 2016. In September 2016, you see a number of Rs 88 Crores. In September 2017 you see a number of Rs 80 Crores. Now as we explained as per Ind-AS we have recognized the ESOP impact. So from last year Rs 88 Crores, the impact in the first half is Rs 15 Crores, which if you remove it will come down to Rs 73 Crores. The corresponding impact of ESOP transaction on employee cost in the current is Rs 4.5 Crores, so from Rs 80 Crores if you remove Rs 4 Crores it will come down to Rs 76 Crores. So in effect if I remove the ESOP transaction impact then it moves up from Rs 73 Crores to Rs 76 Crores. This is one and then if I look on the quarter-on-quarter impact so in the June quarter ending 2017, you see a number of Rs 44 Crores under employee cost. The ESOP transaction impact in June quarter is only Rs 4 Crores. So this Rs 44 Crores will become actually Rs 40 Crores and then September quarter you see a decline in the overall employment cost to Rs 37 Crores, so there is an improvement of around of Rs 3 Crores.

Hen Agrawal: So will be in the next two halves, the next two quarter, will it be close to...?

Naveen Duggal: In the next two quarter you can expect Rs 37 Crores to move forward because it is fairly fixed cost except for the clinic incentive component.

Hen Agrawal: The other question, which I have is the ESOP impact was quite significant last year as you mentioned about Rs 30 Crores, what will it be this year and what about next route 2018-2019?

Naveen Duggal: The impact going forward is, I mean in the subsequent quarters of this year also would be nil because this is a prior period, mostly it is a prior period charge, which we have recognized in spreading over three financial years, so going forward this transaction will have no impact as we have done primarily for Ind-AS and the expense has been totally recognised in the books.

Hen Agrawal: So first half it will be totally recognised?

Naveen Duggal: Yes, Sir.

Hen Agrawal: Now I got it.

Moderator: Thank you. Next question is from the line of Rupen Rajguru from Julius Bear. Please go ahead.

Rupen Rajguru: Good evening Sir. This question is for Naveen. Naveen, I did not understand the explanation, which you gave with respect to that Rs 51 Crores investment in the subsidiary can you just elaborate that please?

Naveen Duggal: Do you want an explanation in terms of how we have recognised this expense?

Rupen Rajguru: No, not on expense, I am talking about that Rs 51 Crores investment into the subsidiary and you said is because there were certain ESOPs and you were to 1%-odd or some stake, the number are not tieing, can you just elaborate on that please?

Naveen Duggal: As I explained Kaya Middle East Holding Singapore, which is the holding company for Kaya Middle East FZE has acquired 550 shares from the eligible employee, and the value of the shares has come to Rs 51 Crores.

Rupen Rajguru: So 550 shares mean how much percentage of the company it would be?

Naveen Duggal: It is 1% of the company, so the ESOP scheme talks about buyback of shares at six times multiple of 1%, so 550 shares is equivalent to 1%.

Rupen Rajguru: So 1% equals to Rs51 Crores?

Naveen Duggal: 1% at six times multiple is equivalent to Rs51 Crores.

Rupen Rajguru: My next question is for Rajiv. Can you just throw some light on the hair care business? So how many clinics are we offering right now, differentiation between the preventive services and the cured services and have we expanded on the hair transplant centers, how many centre are providing that kind of service and what is the general traction you are getting in that?

Rajiv Nair: Overall for the current quarter, which is Q2, we have seen about a 42% growth in terms of hair as a business vis-à-vis last year, so about and we almost see more than one and half year since we actually started to establishing hair centers within our existing clinics with the view to offering hair services to our existing clientele. So to that extent I think we have actually completely set in motion hair care services without going to too much detail services like HHVS,TTRS, which are hair solutions for customers and in addition to that we also started the transplant business about six months ago with three clinics today where we have hair transplant centers, with one each in Mumbai, Bengaluru and Delhi. So as of now predominantly the turnover is coming from hair care solutions and there is a trickle down on hair transplants because the hair transplant is an efficacy oriented business and we have to show demonstrated results, so we already are seeing people who will spent about three months after transplant, so we are actually creating testimonials of people who actually got the benefit of our transplant and the results are very, very good. So that is something that has been floated to all our doctors across the country on hair transplant. Currently primarily the growth is coming from the hair care solutions, which is that we have, which is either a pure-play hair wash, nutrient wash solution as well as medical procedure, which is known as TRRS that we actually run in the clinic and that is available in almost 91 of our clinics today.

Rupen Rajguru: 91 clinics and hair transplant is three clinics?

Rajiv Nair: Three clinics yes.

Rupen Rajguru: So out of this Rs 51-odd Crores of revenue of India, how much revenue would to be coming from hair care and hair transplant?

Rajiv Nair: What is for the quarter?

Rupen Rajguru: For the quarter yes?

Rajiv Nair: It is about 5%, 5.5% even now, so overall for the quarter hair care revenue is about Rs 2.5 Crores for quarter.

Rupen Rajguru: At a broad strategy level like how do you see the segment, do you see this segment to be say Rs 100 Crores revenue in three years time or four or five years time some?

Rajiv Nair: Currently as I mentioned by the end of the year we would like to move this business to about 10% revenue mix, currently it is about 5.5% revenue mix, so one is of course we have expanded services to almost 91 clinics and also aggressively looking at growing these services amongst our existing customer as well as improving our performance on transplants. Transplant is a testimonial orientated business, so we need to have enough number of customers have gone through the procedure for us to actually start propagating these services to more customer because only based on results and efficacy more customers will come in and utilize the service. Today, in terms of bandwidth of services, bandwidth of doctors needed for services and physical infrastructure, I think we have all of that in the system rather than projecting for three years I would first say the fact that our first goal is to move from 5.5%, 6% to about 10% by the end of the year, so that will be our first goal and we will progressively improve this business. Even if we are at that level we should be growing this business to almost 50% over last year.

Rupen Rajguru: Roughly I want to just put some numbers around 20 odd Crores give or take few Crores year-on-year and what you are looking by end of this year?

Rajiv Nair: Somewhere there.

Rupen Rajguru: Also Rajiv you had earlier mentioned about how you plan to improve the overall capacity utilization by focusing on better machine utilization, certain new services within derma, so any developments in that?

Rajiv Nair: Very good improvement actually on that front because we were averaging as I told you in the earlier call was about 50000, 51000 sessions a month. We have already reached 55700 sessions a month and we are progressively looking at close to about 58000, 59000 sessions, so that is the moment, so what I am saying is the fact that the number of customers utilizing services not all cases there will be unique customers, there could be individual customers or there will be one customer taking multiple services, but we are actually trying to increase the time utilization in clinic so right now it goes from about 50000, 51000 to about 56000 sessions in a month and we are moving towards 58000 sessions a month that is the area that we are actually working on. Again as I am saying you know just to reiterate what I was saying earlier the focus of the teams in the clinics rather than purely collecting money and advances has also been now focused towards increasing the number of customer visits into the clinic and that is why the follow ups on customers, the appointment of customers all these things are being specially taken care of to ensure that large number of customers walk-in again to utilize the service or not just pay and then use it as per convenience because in our the efficacy comes from people actually utilizing the services and not really spacing out their services as per convenience. So we have seen improvements there and we will continue to improve on this parameter.

Rupen Rajguru: You mentioned that you are clearly focusing on digital media, so in this age clearly in the business in which you are in of that plays a big role, so like what is the plan there?

Rajiv Nair: Currently I think almost 60% of our total spends that we are doing in marketing, which is almost 9% of our total net revenue is being done on digital media. We are using more interactive methods on digital media, so you are also seeing lot more videos being posted on the Internet, so it is more, I would say more dynamic content that we are actually doing. We are doing a lot of SCO, SCM marketing, so we are also trying to optimize our post so for example any concern that you actually have in skin, if you Google today you will find Kaya on top of the searches or at least in the top three of searches, so that is something that we have actually done and almost all the appointment that are coming as new customers are coming through the digital media itself because most of them are first filling up a form on the internet and then they are getting a call from our call center so that is something that we are doing outside the clinic. Inside the clinic we have done is we have started a program which is shown as customer lifecycle management with an analytics company so what we are also doing is the fact that at every stage of the customers journey we are applauding the customer using SMSs or E-mails to talk about and like service say for example, like an adjacent service to what they have already taken. So if a customer just for example, at some point in time just given a call and never returned he gets the call back. If he is left he wants the missed call then the missed call number is provided to them. If they are taken acne service then there is a mail that comes to him about hair free services that we offer for a similar age segment all those kinds of things are happening today. So we believe in digital, we believe in being digital forward. All our clinics are today equipped with tablets so at least about two to three tablets so some of the content that we are creating today is also available with the clinic. Some of our new clinics also have audiovisual equipments there so unlike the earlier clinics there is a lot of content being presented while the customer is waiting on the screen as well as on I-pads. So those are changes that we have done in the last six months. We will continue to invest on the digital side of the journey.

Rupen Rajguru: How are you seeing Tier 1 and Tier 2 cities especially like there has been any improvement in the overall capacity utilization in Tier 1 and Tier 2 cities?

Rajiv Nair: In fact as I mentioned if you look at in this quarter we have actually been able to improve the performance of not just Tier I city, but also some of the low performing clinics in Tier 2 cities so about nine clinics, which were out of I think about 17 clinics of last year, which were negative have now become positive. So I think we have only five clinics now out of 103 clinics, which are negative in terms of EBITDA. We have been able to move some other clinics, which are underperforming into profitability zone. We have also done a new project, which we call as project nurture at this quarter where in some of the newer catchments and some of the low performing catchments, we have also done some price steering, so we have given a better price on some of the acquisition services to customer because building customer traffic initially is important in our business. We need to build a base of customers and after that you can keep calling the customer or you keep expanding using word of mouth and digital and everything else. We are also doing some price corrections in certain territories especially on acquisition services. We believe the fact that sometimes in some catchments customer may not be that evolved, may not be willing to spend the higher value per transaction and that is why we have also done some price correction.

Rupen Rajguru: Just next question if you may permit is for Debashish, essentially I understand the macro on the Middle East especially on the Saudi

Arabia side leading to softness in revenue we have two, three question, one is last year we had done a small acquisition of I think Minal Clinic, which had a turnover of 20 odd Crores and you had also mentioned that there was a change in regulation in some of the, I think in Middle East wherein some licensing of the clinics were required and which also led to some bit of volatility so one is like how is that Minal Clinic doing right now and on the more services within Derma I think you had mentioned that apart from skin, hair, nail is something you were looking into so are we doing any work towards that?

Debashish Neogi: On the first question in terms how doctor Minal's clinic is doing, which is the acquisition clinic it doing very well both on topline and bottomline actually it is growing in double digits on topline and on bottomline also it growing faster than the topline growth and it is also with respect to our acquisition assumption is doing much better. Coming to the regulation part, Middle East is very regulated market, so when it is regulated everyone has to follow the regulation and we being a chain and doing the market leader there our ability to adapt to regulation is much better and faster given the system and processes and its corporate structure, which we have compare to single clinic on an unorganized sector. So regulation is not a challenge for us. In fact sometimes it becomes an opportunity because for smaller clinic it is very difficult to replicate and invest on regulation. Coming to your second question, in terms of category we said we would get into body, not nail. Body was the category, which we said we will get into, so we speak we have prototyped this in one of our clinic and there in four months which is the prototype stage in four months we have done a business of Rs. 70 lakhs, Rs. 75 lakhs, so the product will successful so because if you analyze this one clinic is giving 2 Crores, but we will be rolling it out, but having said that we will not role it out in all the clinics we will role it out in stages in the next two to three quarters. It is doing well because the reason why we prototype is we want to do a small test and see how it does so that is doing well. We have also done a second innovation, which is also again a very unique proposition which is we have come up with Kaya Sweat-Free, which is actually it is a treatment where it reduces sweat and in return it reduces odor in the body. So this is also in prototype stage for the last three months and this prototype is also successful. We have done in four clinics and this also we will also scale it up in other clinics and other geographies including Saudi, but we will do it in stages and not upfront doing it in all the clinics.

Rupen Rajguru: Is it safe to assume that considering the fact we have some of the core business, which was laser hair remover or some of the cosmetic part is getting increasingly competitive so we will be focusing more on the cure part and some medicinal or the clinical part to get growth in Middle East?

Debashish Neogi: You are right, because in a market where you have excess capacity and prices are dropping you know to protect your margin and protect the growth, it is better to focus on the differentiated vertical, which is Anti-ageing verticals, the skin concern vertical, body focusing on laser where we cannot fight on price and we do not want to fight on price, so which is why you are right we will be focusing more on services which is done by doctors and there is a differentiation there and we are seeing the growth in anti-ageing in double-digit and going forward the steps, which we have taken from October 1, 2017 around skin concern vertical we will upset the de-growth in laser and fight the macro headwind through these two verticals and you are right we will focus more on cure.

Rupen Rajguru: Fair enough and that is all from side and I think it is good to see the overall improvement in the India business and I hope we continue the momentum on the India and with the clear focus on the cost side, all the best to you Sir.

Moderator: Thank you. We take the next question from the line of Vipin Anthony from Equity Intelligence. Please go ahead.

Anup: This is Anup from Equity Intelligence actually. My question is to Rajiv. This is with the collaboration with Biological Research of France so can you just elaborate on it?

Rajiv Nair: So what we have done is a fact that I think Biological Research is a company, which is based out of Paris and about 40 years ago, this company started with a doctor setting up this business. They are into high-end facials. They are actually currently operating in only star hotels I think Hyatt has two hotels where Biological Research is actually selling its facials, so what we actually wanted to do was for our higher end clientele to bring a differentiated product from the one that we have today and of global standards and which has got natural extract so especially marine, sea bass and other components being used, so I would say high end facials being done and something, which is available in more than 30 countries right now. It is something that we have launched in our clinic. So we expect to do not more than 250, 300 facials of biologic research in about 15 of our clinics per month so it is about Rs.7900, Rs.8000 price point so it is not very low value product. So we want to do it for HNI customers really and one other point to just add to that is a fact that it is an exclusive arrangement in skin clinics with us, so barring their own services available in star hotels it will only be available in Kaya Skin Clinic in about 15 outlets.

Anup: Another one clarification that which I wanted, see in this Middle East ESOP buyback that you say what is the time period of the buyback and can you share when was the buyback done from the employee?

Naveen Duggal : We have recorded this, our transaction as part of our Ind-AS compliance and as far as the transaction is concerned the transaction is already complete.

Anup: The reason why I am asking is while going through your last two annual reports in both is showing as 100% subsidiary so 1% in the sense it is on 99%, so at 1% has not been shown in the annual reports just wanted to get your views?

Rajiv Nair: Basically, there was this scheme of 2014, which got modified in May 2017, now up until March 31, 2017 we were not required to report this transaction under I-GAAP, as the scheme got modified in May 2017, and we reported our consolidated financials in this quarter, therefore the entire effect of the transaction has been taken in respective financial year.

Anup: Thank you.

Moderator: Thank you. Next question is from the line of Eshit Sheth from Anvil Shares & Stock Broking Private Limited. Please go ahead.

Eshit Sheth: Thanks for taking my question again. Just a question on basically how do you see your capex for the next couple of years for Kaya Group as a whole?

Naveen Duggal: We are currently investing for the year about Rs17 Crores in capex for the current financial year, which includes investments done for new clinic expansion as well as renovations within clinics and also buy and Middle East would be an additional Rs15-20 Crores for the year, so it will be about Rs17 Crores for India and Middle East would be between Rs15-20 Crores largely these are on refurbishment of clinics about a couple of new clinics being opened right now, relocations and new technology investments both in India and Middle East.

Eshit Sheth: Sure, so then what will be the cash position that we have as on this quarter ended, cash and equivalents?

Naveen Duggal: Cash and equivalent for Kaya India is Rs92 Crores.

Eshit Sheth: At a consolidated level?

Naveen Duggal: At the consolidated level it is Rs 106 Crores.

Eshit Sheth: This is after the Rs 51 Crores investment that we made?

Naveen Duggal: No.

Eshit Sheth: Before that?

Naveen Duggal: Before that.

Eshit Sheth: Then after this Rs 51 Crores that we are making it, it will reduce by that equivalent amount basically?

Naveen Duggal: Correct

Eshit Sheth: Any acquisitions that is there on the anvil for Kaya Middle East in the near term?

Debashish Neogi: See given the macro of headwinds we are getting a lot of opportunities on acquisition, but we are currently not looking acquiring small clinics so if we get a few clinics and there is some scale then only we will acquire otherwise we will not.

Eshit Sheth: Sir and one question just on the growth outlook because what we are seeing is that for the last two, three years if I see starting FY2016 that our growth has been somewhat in this range of 400 Crores, 420 Crores now going forward seeing the macro headwind that we face in Middle East and certain challenges we had that in India, how do you see revenue growth Kaya has group for the next three to five years?

Rajiv Nair: I do not think we would like to may be make such a forward statement right now, but I think what is crucial is the fact that I think we have seen the second quarter growth of about 8%, first quarter growth of about 7% in the India business and we hope to continue the same trend for this year or improve on that right now, so we actually as I mentioned we have put in place a few steps for that and in addition to every other focus category that we have done in India right now we are actually gone in for renovation of about nine clinics already and we hope to continue and complete about 20 clinic renovations in India and in the Middle East itself I think we have similar renovation, relocation is actually happening, which is actually upgrading the quality of customer experience so that will also add to footfall and it will add to further growth. Before the end of the year in India we are expecting to complete projects between 20 and 22 stores will get upgraded and these are global standard stores, so if you actually visit one of these clinics these are not old format Kaya look, these are completely new retail identities.

Eshit Sheth: So in that case basically our focus for the next two, three years would be to first refurbish our existing clinics and not look at adding new clinics for the time being?

Rajiv Nair : Opportunistically already adding new clinics so for example in Mumbai right now recently we have opened a clinic in Seawood Mall in Mumbai and we are opportunistically looking at not just refurbishing existing clinics but within the same catchment if we have a larger clinic available or larger location available we have moved, so for example as we speak we have upgraded the size of our clinic in Noida by acquiring a property just the next door. We have also increased our capacity in Jaya nagar, Bengaluru. We have increasing capacity in Jubilee Hills, Hyderabad so all the premium catchments that we know we are doing very well, we are increasing capacity by either shifting in the same catchment into a different infrastructure and then upgrading the quality of the infrastructure completely by giving it new identity. So two things happened for the customer, one is capacity gets improved and the customer experience gets improved.

Eshit Sheth: Thank you Sir for answering my questions and wish you all the best.

Moderator: Thank you. That was the last question. I now hand the floor over to Mr. Naveen Duggal for his closing comments.

Naveen Duggal: To conclude, we will continue to drive the journey of our sustainable profit growth through expansion as well as same store growth. Thank you all for attending the conference call. Thank you.

Moderator: Thank you very much. Ladies and gentlemen, that concludes this conference call. Thank you for joining us. Now you may disconnect your lines.