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Moderator: Ladies and gentlemen good day. Welcome to the Kaya Limited Q2 FY17 Post Result conference call. As a reminder all the participant's line will be only in the Listen Only mode. There will be an opportunity of you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing * and then 0 on your touchstone phone. Please note that this conference is being recorded. We have with us the senior management team of Kaya and its subsidiaries comprising of Mr. S Subramanian CEO Kaya India, Mr. Debashish Neogi CEO of Kaya Middle East and Mr. Dharmendra Jain CFO Kaya Limited. I would now like to hand over the call to Mr. Dharmendra Jain who will take you through the highlights of Kaya performance during the quarter. Over to you sir.

Mr. Jain: Good evening everybody. I welcome you all to the conference call. I would like to give an update on the second quarter for performance which is already in the public domain and uploaded on our website www.kaya.in. Kaya Group posted revenue from operations of rupees Kaya Limited posted consolidated Revenue from Operations of INR 102.2 crores for the quarter ended 30th September 2016, a growth of 16% over corresponding quarter ended 30th September 2015 on a consolidated basis. Kaya India actively grew by 8% and on the same store it has grown by 5%. Also Kaya India customer count has grown by 8% and it has registered a same store growth of 3.5% on the customer count basis. Kaya Middle East revenue has grown by 25%. And they have achieved a same store growth of 20%. The consolidated EBIDTA is INR 4.8 crores as compared to INR 3.2 Crores for the corresponding quarter in previous year. Operating profit before tax for the quarter ended 30th September rupees 2.7 crores compared to rupees 2.6 crores for the corresponding quarter last year. So I would like to update on the Kaya India new services launch. Kaya has launched Hair Care services in 72 clinics and rolled out eConsultation Model across India. The recent information update is already with you. I now open the session for questions and my colleague and I would be glad to answer them. Thank you.

Moderator: Thank you Mr. Dharmendra. The first questions come from Mr. Aditya. Mr. Aditya. Participants, to ask questions please press * and 1 now. The first questions come from Mr. Aditya from Goldman Sachs. Mr. Aditya, please go ahead.

Devanshi with Daulat Capital, please go ahead with your question.

Ms. Devanshi: Hello sir, thank you for the opportunity. I have a few questions first thing is what is the reason for the higher growth in employee and rent expenses in KME? So the expenses in KME for the employee and rent are higher, so what is the reason for that?

Mr. Neogi: Actually in terms of KME, these two are higher for two reasons, one is that we have got two stores which is featuring in this year, which is not there last year. Second reason is you know, we have put a structure in place for the future growth which will help the business both the existing and the new going forward. So that also have topped up the cost but majorly it is because of the two new clinics.

Ms. Devanshi: So the two new clinics haven't contributed that much to the revenue and the expenses have increased…because the expenses are quite high 175 was the expense last year for Q2, 175 million and this is 240 so it has decreased almost 70 million.

Mr. Neogi: See there is an inflation component and then there are two clinics. So if you see the increase in rent, apart from these two clinics, we are also going to open one more clinic which is a complete new location, that rent is also featuring. So it is actually…I missed that point, it is actually three clinics rent and also inflation and also the structure that we have put in place. So we have got a growth of 24% on top line and this growth is commensurate with the top line but obviously going for the revenue in the end so the percentage will come down.

Ms. Devanshi: And employee cost is also same, I mean that is only for the two new clinics because the other clinic is still…the third clinic is still being constructed I suppose.

Mr. Jain: Yes, so there are increase on two accounts one is because of the new clinic. And the second is if you see the run rate of H2 last year , we have build up a corporate structure there, so we are still continuing in the same run rate in Q2.   If you see the trend because last year we started building up the structure in H2

Ms. Devanshi: Okay. And the next question is that, Kaya India the SSG is 5%. So now in this the SSG count, the number of stores has increased, right? Last year it was 80, and this year it's around 12 new stores were added for the SSG count. So including that what will be the SSG growth in Kaya India?

Mr. Jain: It is actually around 1%.

Ms. Devanshi: Okay. And I suppose Q2 and Q4 are usually the stronger quarters because of the promotional offers and…because ahead of the festive season, only but still I mean Kaya India has seen 8% growth so any particular reason for that?

Mr. Jain: Because it is actually a large quarter base . Quarter 2 last year also was a large quarter only.

Ms. Devanshi: So in fact Q2 has grown by 3%. And this year 8% on that, so actually the base is also favorable.

Mr. Jain: What is your question?

Ms. Devanshi: The thing is that the run rate of Q2 actually the sale should have been higher because of the promotional offers, in Q2 and Q4 they are usually the stronger quarters but still Q2 run rate is similar in the line of Q1, itself, 474 was there in Q1 and now Q2 also 494.

Mr. Jain: Basically the collection run rate is very high . The consumption run rate is slightly lower than the collection run rate.

Ms. Devanshi: Pardon me.

Mr. Jain: See in two comparable quarters, one is the collection side, the collection numbers are very high as the base…NR is a consumption side. Consumption is slightly better than Q1.

Ms. Devanshi: Okay. And sir, any new product pipeline that we have, or we would be launching?

Mr. Jain: In Q4 it is coming up.

Ms. Devanshi: Product sales I think 6% is contributed by KSB, the rest in clinics, right?

Mr. Jain: Product sales in clinics you can see almost flat . Increase majorly has come from e-commerce and the KSB.

Ms. Devanshi: Any particular reason for the de-growth in the products in clinic sales because KSBs I think formed I think the 6-8% of the product revenues. So any particular reason for the in clinic sales de-growth?

Mr. Subramaniani: See actually overall the products will stabilize, going forward in Q3 and Q4. And as Q2 is concerned focus has been more towards large packages in our promo months, where typically the focus is towards selling high ticket size items. So if you see the quarter performance as well as the net revenue is concerned, overall the net revenue is grown about by 8% and what is important to note here is the fact that the customer count has also started to show some traction because of our initiatives we have taken in the overall space of the customer acquisition from the digital domain. So the overall customer count is also seen a growth, so all in all it augurs well and given the fact that we also come into the space where we are now launching hair services, the scale up will be complete in the next one month or so and by Q3, Q4 you will have to start see some movement as far as Hair Services and revenue.

Ms. Devanshi: I didn't get your point, the thing that I want to understand is, in clinic sales, since services growth is taking place, like cure and care both are growing at 7% and 28% but then growth in product only be used for the services also as well as will be sold from the clinics. So still I mean we are seeing a de-growth in spite of…that I am not very clear why is it?

Mr. Subramanian: I think in terms of overall product growth rate I think you should look at it from a holistic perspective because in a lot of places, we are present between say KSB and clinics in the same catchments. And e-commerce is also playing an important role in the growth and e-commerce is coming faster. Given a fact that there are multiple formats as far as products are concerned, I think overall growth in products is important and critical to understand. There have been some elements of serviceability which will get addressed Q3 and Q4.

Ms. Devanshi: Okay sir, I will get back if I have any further questions.

Moderator: Thank you for your question Mr. Devanshi. We have our next question from Mr. Mores from Florentry. Please go ahead sir.

Mr. Mores: Good evening gentlemen.

Mr. Jain: Good evening.

Mr. Mores: My question is, I would like to understand you mentioned that your store level EBITDA are around 35%, is that correct.

Mr. Jain: For a matured clinic it is 30%.

Mr. Mores: On an individual clinic level right?

Mr. Jain: Yes.

Mr. Mores: So when we look at the company level, EBITDA margins fall quite a lot I think, so what's the disconnect, what are some of the product level…what are the economics which is done this?

Mr. Subramanian: Post that you have actually have advertising and sales expenditure which is investment that we make in the brand. And followed by the corporate overheads which basically house the entire backend structure.

Mr. Mores: Okay, so it is largely due to the marketing expenses and corporate overheads.

Mr. Subramanian: Corporate overheads in India I think the fact is that it covers all expenses related to backend operations and corporate head office and regional offices.

Mr. Mores: Okay. These corporate overheads are fine but there are separate overheads for the Middle East so is the backend from the Middle East as well which are counted in this?

Mr. Subramanian: In India you will find what is the expense that we are incurring here. Middle East will be reported separately along with…in a group financial you will find a combination of both.

Mr. Mores: We have to scale up to a particular level to see the store level EBITDAs getting transmuted closed to a…so what's the scale that we are looking at, in terms of growth and number of stores or are you looking at reaching a particular level of customer count or exactly what is the strategy going forward?

Mr. Subramanian: See this is a fixed cost business, so ideally I don't think we we have a decent scale in terms of overall number of clinics. What is critical is going to be the growth in SSG and for that what we are doing right now is, given the capacity utilizations are you know, around 35-40%. We have launched in the Hair Services which will be utilizing the current infrastructure and the clinics to be able to scale up the business. So the moment the throughput for outlet starts to go up, you will find that the fixed costs are taken care of and the EBITDA will also move up both at the clinic level and at the corporate level. So the idea is you know, we are in a phase

…we expanded about a 23 clinics in the last two years. Right now we are in the phase where we are consolidating and trying to improve our overall throughputs and to aid the throughputs, we have made investments in technology in various skin care buckets and we have actually introduced a new offering in terms of hair.

Mr. Mores: Okay so when we see it capacity level, about 45%, so what is the peak capacity utilization where you can expect that to the maximum to the nature of the business?

Mr. Subramanian: Currently it is about 35-40, we can go up to 60% for sure. But that's not so much of a concern, because whenever we are hitting, you know, while this is an average number, while we look at business and see different clinics at different levels we will sort of take appropriate calls in terms of relocations or increasing the retail footprint, accordingly.

Mr. Mores: No even if you stay at the current level of clinics that you are at, and you will hit the capacity target 60-65, what is the internal forecasts say. What is the overall EBITDA come up to for the company level, Indian operations?

Mr. Subramanian : It's very difficult to…because we are a multi faceted you know, offering we have. There are ticket sizes from say 2000 bucks, 3000 bucks to all the few 3 lakhs. And most of these services, have different usage time and the clinic in terms of the infrastructure. So there are services which you can finish on 15 minutes but will cost you 30,000 but there are services which will cost you only 2000 but it will take one and half hours. So it is very difficult to correlate both. I think what is important is how much we are able to throughput in terms of revenue per clinic and therefore the SSG, and what is aiding the SSG. So aid to SSG is technology and the new offerings that we have done in terms of hair which is a fairly sizeable initiative given the fact that we are now more comprehensive as far as our hair offerings are concerned. And we are into both regeneration growth and scalp solutions and we will be getting into transplants from next quarter.

Mr. Mores: Okay great. So as I understand even if the SSG is the main focus, if you do generate a lot of SSG. There is a limit because of the capacity utilization. So is there a ticket size number that you guys are looking at, is this the starting level ticket size we should be comfortable profitably?

Mr. Subramanian: I think right now we still have room to be able to make up. I think the customer will decide the way forward for us and we keep…every unit works very differently. Certain catchments in certain metros work very differently to what happens in single clinic cities, so we are going to be watchful of it but like I said whenever there is a reason for intervention we will always make the right call in terms of either upgrading the capacity or relocating the clinic.

Mr. Mores: Okay great. Also would you give us any updates on the Kaya Skin Bars? I didn't find in the quarterly presentation. Any information on revenue, sales or….

Mr. Jain: If you look at slide 10, as a product channel KSB has grown by 74% over the last quarter. So in terms of I think the number of outlets, there is no major addition actually, very marginal addition have been done. Hardly three four addition we have done. So in terms of

revenue the traction is there and will further see traction quarter on quarter… Over next two three quarters, we should be able to actually ramp up number .
Mr. Mores: Kaya Skin Bars are multi products, they are not just Kaya products right?

Mr. Jain: Currently it has only Kaya products

Mr. Mores: Currently it has only Kaya products. Okay it is not a multi-brand outlets.

Mr. Jain: We have got around 57SKUs. Across various categories, anti-aging, pigmentation and daily care, body care

Mr. Mores: Okay thank you, those were all my questions. Thank you.

Mr. Jain: Thanks.

Moderator: Thank you for your question Mr. Mores. We have our next question from Mr. Aditya from Excess Capital. Please go ahead sir.

Mr. Aditya: Good evening gentlemen. Two questions from my side. Sir, firstly on the average ticket size in the India clinics business, I would presume that with the decline in-clinic product revenues and the other two segments doing well, the average ticket size should have increased materially but that has remained more or less flat. I want to understand what is the reason for this sluggishness? And secondly can you please elaborate on the existing strategy on the e-consultation models and what is the scale of revenues that you envisage from the segment over the next couple of years?

Mr. Subramanian: See I think on the ticket size, essentially it is basically the mix which makes the difference. So right now, not much to talk about that given the fact that you know, we have looked at basically…the verticals if you look at, both the Cure vertical and the Care vertical, I think both of them have given growths. As we get into offerings of say new services and different increase in the number of products. I think it is important to you know, get the customer and then decide the way forward, , going into the next few quarters. On the e-consultation, we have just started this journey, it is just about 20 odd days. I think it is end of September we had actually sort of put up our site. And you know, basically e-consultation we are offering to our customers to either a question answer mode, or a chat mode or a video consultation where we have an exclusive dermatologist on the other side who will be able to engage with customers . This is definitely going to be one means of acquiring customers in terms of a strategy. The idea is basically giving the flexibility and the accessibility to customers for reaching Kaya. so our e-commerce journey is about our e-consultation and the recommendation of an e-product and e-service. And very soon we would see that getting integrated with the customer application going forward where the app will link both the e-commerce site along with the clinic so that there is a complete omni-channel strategy going forward for the business. It’s just about a month, difficult to comment on what will be the value and business that we will generate from this but I think the way we are looking at it is that we need to be present and we have made our first entry into this and we will need to take our learnings and scale it forward.

Mr. Aditya: Alright, that's it from my side, I will come back to you.

Moderator: Thank you Mr. Aditya. We have our next question from Mr. Amit MK Global. Please go ahead sir

Mr. Amit: Hi, this is Amit Purohit here. Thank you for the opportunity. Just from this customer count which is about 8%, is quite a good number, so I just want to understand how this acquisition would have happened because I see the mix as you indicated. Care has done well so is that how at lower end or the Care category is doing well initially?

Mr. Subramanian: No I think you know, we have sort of put in a lot of initiatives around you know, building the customer funnel for us going forward, so basically the strategy has been towards digital as a means of acquisition and to that extent we've been able to strengthen our lead funnel and customer appointments with the clinics which is sort of stabilizing. . we will be making other initiatives in terms of customer life cycle management etc which will actually ensure acquisition and retention simultaneously takes place because with offerings coming in I think it's important to improve the overall base of customers and that's been the focus and that is actually something which we have been working for one or two quarters and we've been able to sort of make some difference in terms of overall customer count growth for this quarter.

Mr. Amit: What would be…the Care segment has done well. Is this online recruit, online medium of attracting footfalls is bringing in Care kind of a thing, should we read that or,

Mr. Subramanian: No I don't think we should read too much into this because this market is you know. fairly I would say…the digital acquisition of course will generate footfalls but our efforts are towards you know, working on the Cure vertical. And you know, the Care is basically more of a maintenance so acquisition should actually improve our overall Cure vertical more than Care at this point. ,.

Mr. Amit: Also just to understand this Hair Service that we have launched, so how is it fairing. In this quarter is there any benefits coming from Hair Service or is that negligible and next quarter probably the impact would be visible.

Mr. Subramanian: No I think we have got an upside of about 2 to 2.5 Crores as far as hair is concerned in this quarter. That's because the scale up has also happened over a period of say July and August and September. We are right now offering these services in 72 centers in the country, so like these services actually take some time to pick up because each service that we are talking about takes 13 such sittings. So basically for us to be able to deliver and show efficacy it will take a good amount of time with the customer and then promote word of mouth.
But the traction is actually moving in the right direction with respect to overall business from Hair Care. And as we go into November we are going to be doing transplants in three centers. Transplants will not be across the country, it will be in three centers. One center in Delhi, one center in Mumbai and one in Bengaluru . These will be advanced centers where you know, you will be having a transplant room to be able to capture customer related to this market.

Mr. Amit: And just to follow up on this, if I just remove 2.5 crores from the top line, this quarter probably the growth will be only 2%. Is that the fair number to look at or…

Mr. Jain: No it is more of a collection number. So for NR we are doing a very small number.

Mr. Amit: So in that sales it won't be 2.5?

Mr. Jain: Yes because that e something will happen over a period of time,. Hardly 1% will be in NR.

Mr. Amit: Okay so even if I take that, 2.5 on the collection side, the collection growth would be only 4%. That's the fair way to look at?

Mr. Jain: Yes.

Mr. Amit: And would it be fair to assume that the 1% SSG growth in the old clinics would be largely because of hair service was launched?

Mr. Subramanian: Not much really, in the sense, finally at the end of the day, there is an element of cross sell happens but the fact is that you know, the scale up in the hair services actually happened over the quarter. So you are not seeing a full benefit of the whole numbers coming together. So Q3 and more Q4 I would say, it will be more stabilized with respect to all of the offerings that we have.

Mr. Amit: And just if I look at the cost sheet for us, about 51 crores is what we were, more or less this gets stabilize for the 51 odd crores for India business, for the quarter. So this includes the hair service processing also which is being launched.

Mr. Jain: It is part of that . yes. .

Mr. Amit: Okay and lastly in the slide, I mean, just saw that there is a one clinic addition during the quarter and one KSB, is that the shifting of clinics from location to other…

Mr. Jain: Relocation yes.

Mr. Amit: Okay thank you that's it from my side, I'll come back if I have some more questions.

Mr. Jain: Thanks.

Moderator: Thank you for your question sir. We have our next question from Mr. Nethick Modi OHP Group. Please go ahead sir

Mr. Modi: Hello sir, thank you for the opportunity. Sir questions for the India operations. How many number of clinics are making losses at the EBITDA level? Second what is the quantum of that EBITDA loss and how do you calculate capacity in your clinic, is it in hours or what is it?

Mr. Jain: Capacity we calculate in the room time basis. So the number of hours available in each room

Mr. Modi: How many do you generally take as the norm per day?

Mr. Jain: Eight hours operating hours.

Mr. Subramanian: See the clinic is open from 10 o'clock in the morning to 8 o'clock in the evening in most locations. In single clinic cities we operate the clinic only for six days a week, we don't do seven days a week. So full-fledged clinic in a metro for ten hours a day, 30 days will be about 300 hours but if you look at a single clinic city it could be you know, four Sundays also, 4x10 so 40 hours, so about 260 hours in a single city. Coming to basically the other question…your question was how many clinics are not making money…

Mr. Modi: As specified.

Mr. Jain: At the clinic EBITDA level, we are cash positive…so there is nothing that is you know, not making money at this point of time at a clinic level, though the margins could be different, average clinic EBITDA is about 30% however the margins could vary from say you know, 10-12% to as much as 40-50% in certain cases.

Mr. Modi: So you think all 103…

Mr. Jain: Not 103, out of these 103, 23 clinics are new.

Mr. Modi: So I understand that would not be making EBITDA profit?

Mr. Jain: Yeah. So when you are talking about mature clinics, all the mature clinics are making money, and at a new clinic level, out of the 23 close to about 16 of them are making money.

Mr. Modi: So can you quantify that, the amount that those clinics are not basically?

Mr. Subramanian : I can get back to you, if it is so required. But the thing is that as far as the new clinics are concerned, the new clinics are gestating better than last years and going forward into Q3, Q4 they should be sort of positive.

Mr. Modi: Okay sir, thank you.

Moderator: Mr. Modi Thank you for your question. We have our next question from Mr. Manjeet from Solitary Investment. Please go ahead sir.

Mr. Manjeet: My question has been answered.

Moderator: Okay thank you. We will go on to the next question. We have our next question from Mr. Isheet Seth from Anvil Shares And Stocks. Please go ahead sir

Mr. Seth: Hi thanks for the opportunity. For me to understand on the Middle East business basically. So we have seen from very healthy sale growth over there. What can to attribute this to basically?

Mr. Neogi: In Middle East, we have done a huge investments in technology in laser and we have worked on positioning of those offering through our campaign. One is the investment, and then is the campaign and then obviously, ultimately whatever you do has to be executed well along all across clinics. I think it is the combination of all these three, which has resulted in this. Primarily driven by the laser vertical which contributes to 38% of the business.

Mr. Seth: Then this kind of run rate in sales store sales growth is it sustainable in the Middle East operations for Kaya?

Mr. Neogi: We have always been saying for the last two years that the sustainable SSG growth in the Middle East market is anything between 5-8%, month on month. I am talking about SSG growth not revenue growth. So we have maintaining that for last so many quarters what we have been saying but if you come with a new technology, this is a market and the kind of industries which we work, there is always a newness to the category. So depending on what we launch and how we are able to penetrate, so there will be upside to that but our overall guidance has been for last two years 5-8%.

Mr. Seth: So on the Middle East again the revenue we have scaled 53 crores for this quarter. Back in 2015, we were a kind of 20% EBITDA margin for a couple of quarters. So what is the reason…what has changed between then and now, why are margins not as high as it needs to be.

Mr. Neogi: Actually the sustainable EBITDA margin was not 20%, you had a spike only two quarters. But sustainable EBITDA margin is always on 14-15%. So currently we are at 13-14 because you know, what I said before, that we have invested in the structure to get growth for the future. So growth is going to come in future but we have invested in the back office . So EBITDA margin from sustainable point of view, if we are currently at 13%, obviously there will be a 1 or 2% increase for that is the sustainable range between 13-15.

Mr. Seth: Okay fair enough, thank you so much.

Moderator: Thank you for your question sir. We have our next question from Mr. Pradeep, Paramount capital. Thank you sir.

Mr. Pradeep: Can you just highlight me on this share purchase agreement in the Middle East?

Mr. Jain: From an acquisition point of view ?

Mr. Pradeep: Yes.

Mr. Jain: We did acquisition in September which comprises of the two clinic operations company. One in Dubai and one in Sharjah. So that transition is in process & I think once that transition gets completed & our compliance shall get completed in the quarter 3. . So in this quarter there is no impact of any numbers on this acquisition.

Mr. Pradeep: So you will converting those two clinics into Kaya clinics and then you will be operating.

Mr. Jain: That's right.

Mr. Pradeep: Okay. And in terms of the Middle East your collection YoY is 13%, whereas SSG in constant currency is 16%. So like going forward this SSG of 16% you are anticipating that it can come down?

Mr. Jain: No. See this quarter I think they have the drive where the consumption was taken as a campaign , that's why the consumption, is more than the collection. They try some of the campaigns where they actually incentivize the customers to consume old packages and buy new packages. So the consumption actually increases in some of the campaigns.

Mr. Pradeep: So lastly this new products you will be launching in Q4 so these products would be extension of the verticals like anti aging or body care and pigmentation or it would be new launches within the same sub verticals.

Mr. Subramanian: See the launches that we are planning is, we are not adding new verticals in the product category but it will be more like filling in price gaps and need gaps. So range will become more comprehensive, anti aging will become more comprehensive…
Mr. Pradeep: So we will be moving form the pricing range.

Mr. Subramanian: Not necessarily down, it could be a mix of both.

Mr. Pradeep: Alright sir, thank you.

Mr. Subramanian: Thanks.

Moderator: Thank you for your question Mr. Pradeep. We have our next question from Mr. Naveen from Aaj Finance. Please go ahead sir.

Mr. Naveen: Good evening sir, Naveen from Delhi.

Mr. Jain: Good evening.

Mr. Naveen: My question is to Dharmendra Jain. At the start of the year we have guided for capex of around 35 crores for this year. We have divided equally with Kaya India and KME . How much we have completed now, how are we utilizing this and going forward what will be guidance of the remaining capex and the acquisition we have already done which completes our Kaya Middle East capex guidance or something more is going to happen?

Mr. Jain: More or less I think we are on the same plan of capex on the annual basis. So we should be on track to consume that 35 crores capex plans.

Mr. Naveen: We have already utilized how much in India and in Kaya Middle East.

Mr. Jain: We are close to around…50% is already consumed.

Mr. Naveen: 50% is already consumed. So Kaya India or Kaya Middle East?

Mr. Jain: . Both together.

Mr. Naveen: Acquisition, revenue and all these things will be reflected in the coming quarter or next quarter, January March…

Mr. Jain: Probably in the Q4 quarter.

Mr. Naveen: So we are proposing loan for the acquisition of the Kaya Middle East? In equity ratio how much it will be for the acquisition?

Mr. Jain: I didn't get the point.

Mr. Naveen: Kaya Middle East we are proposing a loan. Kaya India is going to give corporate guarantee…

Mr. Jain: There is a bank loan plan to borrow something. So that is more of a borrowing plan, just to meet the temporary gap in funding acquisition.

Mr. Naveen: Okay. So we are not planning the long term loans for the acquisition?

Mr. Jain: It was long term but the idea is to currently fill the certain temporary gap actually. Then over a period it will get cash generation ongoing basis. So we should be able to actually manage the loan accordingly.

Mr. Naveen: My next question some part has already been answered, I would like to ask Mr. Debashish Neogi regarding the KME collection, SSG is 10% and net revenue SSG is 20%. So does it mean that the revenues in the coming quarters are going to be more sober, more stable…

Mr. Neogi: It will not be this much of fluctuation. You know what, Dharmendra Jain said before, it was promotion which was to actually consume packages of customers who were not coming, you make conscious effort to call them so that they consume their packages. But you know, on a steady state basis, you will not see such a difference. You will see +/ - 2%.

Mr. Naveen: +/ - 2%. Stability will get…not this type of difference in the collection in the…

Mr. Neogi: You're right.

Mr. Naveen: Thank you sir, thank you very much. And congratulations for the Kaya Middle East once again.

Mr. Neogi: Thank you very much.

Moderator: Thank you for your question Mr. Naveen. We have our next question from Mr. Aditya Babul, Excess Capital. Please go ahead sir.

Mr. Aditya: Thank you so much for taking my question. Sir, two questions from mine. Could you help us with quantum of customer advances this quarter and secondly the contribution of the KSB to the revenue this quarter and the base quarter?

Mr. Jain: First of all the advance is around 77 crores for the September quarter, it is a closing balance. And what is the other question?

Mr. Aditya: Sir the contribution of Kaya Skin Bars to the revenues this quarter, absolutely number and in September this year?

Mr. Jain: KSB was 1.9 crores compared to last year of 1.1 crores.

Mr. Aditya: That's it from me, thank you so much.

Moderator: Thank you for your question sir. We have our next question from Mr. Saif, Maple Investments. Please go ahead sir

Mr. Saif: Good evening sir. My question is pertaining to KSB. I just want to understand how much time it takes to break events and what kind of capex is required for starting a KSB. And what kind of sustainable margins one can expect from it?

Mr. Subramanian: Capital expenditure for KSB is about 8-10 lakhs, depending on the size of the store. And in terms of break even, if you look at a Shop N Shop, it could be anywhere between 6 to 9 months, and the other thing in terms of…

Mr. Saif: Sustainable margins.

Mr. Jain: Sustainable margins from the thing? It has good ROC actually. So approximately about

Mr. Jain: You are talking about EBITDA margins or gross margins.

Mr. Jain: I think currently we are operating to the multiple formats of COCO, Shop N Shop and Modern Trade. We are into a ramp up phase. So on a long term basis, I think on the 3 to 4 years cycle when the maturity comes, we should be around 15-16%.

Mr. Saif: Okay. And what are the plans in terms of KSBs going ahead in terms of addition.

Mr. Subramanian: I think at least for the next one or two quarters we will stabilizing our numbers. Last year about 100 odd openings were done out of which you know, 60 of them were related to…50 of them were Shop N Shop, 10 were Coco and Kiosks and balance 60 was entrants into three or four chains in Modern Trade. So currently what we are doing is, we are focusing right on throughput , we are not expanding. My sense is that maybe two quarters down, is when we will probably look at better option to expand.

Mr. Saif: Fair enough, thank you very much.

Moderator: Thank you for your question Mr. Saif. We have our next question from Mr. Amit. MK Global. Please go ahead sir

Mr. Amit: Amit again here, just one thing, I wanted to understand on the demand environment. Have you seen some improvement in that?

Mr. Subramanian: Yes I think between last year and the first quarter this year, I think Q2 we are seeing a little bit of a movement and I think that is also reflecting in the fact that customer count has improved in this quarter. I think from a macro spending perspective it is expected to move better and I think to that extent, Kaya will be placed well because of the fact that we have introduced right offerings in both the services and we are planning to sort of invest as far as products are concerned.

Mr. Amit: Just two…one I want to understand, have you done any pricing action actually in our offerings? Major reductions or

Mr. Subramanian: No. Not really.

Mr. Amit: Okay. And on a console basis we've been now talking cost of about 97.6 crores in this quarter and there could be some increase because Middle East one more new clinic to the added amount. So is that a fair number to track for the second half actually.

Mr. Jain: You are talking about the total expenses?

Mr. Amit: Yeah. Total expenses.

Mr. Jain: Because this also includes the cost of consumption so it will vary .

Mr. Amit: So if I exclude raw material cost,

Mr. Jain: Yes . Otherwise expenses are broadly are in the same pattern although we don't see any major structural cost increase or decline,

Mr. Amit: Okay sir thank you.

Moderator: Thank you for your question sir. We have our next question from Mr. Dev Kohli, Gautam Capital. Please go ahead sir.

Mr. Kohli: Hi. You have mentioned that you are really high ROC foreign KSBs, so could you share that figure with me and also what do you think will be the ROC figures per the new Kaya Skin Clinics that you may open in the future?

Mr. Subramanian: The ROC for the KSB will be much better than lot of the clinics but having said that, I think we are in the process of actually scaling up and in early stages to talk about. . We are now looking towards store level EBITDA break even for KSB for phase 1. And when we sort of start to introduce our lines and grow the business on overall products, then you would start seeing margins trickling in and then basically the ROCE comes out. KSBs we are seeing a capital expenditure of just about 8-10 lakhs whereas clinics will be close to about a crore. Gestation periods are faster for a KSB to about 6 to 9 months. And therefore the ROCs will be better than that of clinic here.

Mr. Kohli: So when I actually asked the ROC figures, I didn't mean as of now, I meant ultimately when you plan internally what will it be hurdle rate or something like that?

Mr. Jain: See in the future on the mature basis our hurdle rate is 20% + ROCE. .

Mr. Kohli: And also I wanted to ask what is your plan in terms of how much do you want KSBs to contribute ultimately in the long term to the overall top line.

Mr.Jain: Current product contribution is about 20% which includes KSB and e-commerce. Our idea is to sort of move this contribution to 25-30% going forward in the next three years.

Mr. Kohli: Alright thank you.

Moderator: Thank you for your question sir. We have our next question from Mr. Mores from Florentry. Please go ahead sir.

Mr. Mores: Hi thanks for the followup. Coming back the earlier conversation, on the EBITDA margins on the store and company level, just a small clarification. You earlier mentioned the breakup of the 35% to almost 15% of the store level is the employee cost. And as you look at your standalone level the employee cost is around 27%. So just help me understand how exactly are the corporate level employee cost about equal to the employee cost at the store level?

Mr. Jain: From where are you refering this actually?

Mr. Mores: This was given on one of your earlier calls I believe. EBITDA margins on the store level.

Mr. Jain: Corporate cost ss the total cost not the employee cost . 28% . and the separate is the ASPwhich is around 8-9%.

Mr. Mores: No. I am saying the employee cost on the standalone level is about 27% of the revenue, is that correct?

Mr. Jain: 27% is the employee cost and doctor cost is separate which we reflect in the consolidated cost actually.

Mr. Mores: Fair enough. And at your store level, the clinic level it is the 15% the staff cost, is that correct?

Mr. Subramanian: Sorry come again, store level?

Mr. Mores: The employee cost 15%?

Mr. Subramanian: No. actually including the other staff and the doctor cost, is close to around 25%.

Mr. Mores: Doctor fees is listed at 9-10%. So totally it will be 25%.

Mr. Jain: That way that's right.

Mr. Mores: But income statement on your annual basis, the employee cost 27 does not into doctor fees. Those are contact charges and expenses.

Mr. Subramanian: That's right.

Mr. Mores: So I am trying to reconsolidate the 27% employee cost with the 15% on the store level.

Mr. Jain: As balance is corporate employee cost.

Mr. Mores: The amount you are spending on employee at the corporate level, is equal to the amount you are spending on the store level, so what is the additional employee cost. Why is the operational employees cost almost equal to the overhead employee cost? Wont the number of employees be around the same to have equal cost distributor on both ends.

Mr. Subramanian: First of all let me just give…I hope the numbers are clear, so we are saying that at the clinic level we are talking about salaries of doctors, beauty therapists and we are talking about clinic managers and executives. They contribute to about 25%, right. If I am talking about India, where the corporate overhead is close to about 22%. So the people cost is almost 60% of this and the balance 40% is what your overheads are in terms of you know, other expenses and the corporates. Okay. Second is that the skill sets here will be fairly different compared to the skill sets we are looking at a clinic level. And given the fact that being corporate we actually are running you know, complete element of the value chain both in products and in services and we have a scale of over 100+ clinics and bars. So the cost therefore is you know, to the extent of what is stated for corporate overheads.

Mr. Mores: Okay thank you.

Moderator: Thank you for your question Mr. Mores. Dear participants, to ask a question please press * and 1 now. As there are no more questions, I would like to hand over the floor to Mr. Dharmendra Jain for closing comments over the User.

Mr. Jain: I will just thank you all for participating in the con call and also like to wish you a very Happy Diwali. Thanks everyone.

Moderator: Thank you Mr. Dharmendra Jain. Thank you very much ladies and gentlemen that concludes the conference call. Thank you for joining. You may please disconnect your lines. Thank you.