



“Sheela Foam Limited  
Q2 FY2021 Earnings Conference Call”

November 02, 2020



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*Sheela Foam Limited*  
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**Moderator:** Ladies and gentlemen, good day and welcome to the Sheela Foam Limited Q2 FY2021 Earnings Conference Call hosted by ICICI Securities Limited. 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. Should you need assistance during the conference call, please signal an operator by pressing “\*” then “0” on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Vismaya Agarwal from ICICI Securities. Thank you and over to you Sir!

**Vismaya Agarwal:** Thank you Bikram. Good morning everyone. It is a pleasure to host the Q2 FY2021 conference call of Sheela Foam Limited. We have with us today from the management today we have Mr. Rahul Gautam, Managing Director, Mr. Rakesh Chahar, Director, Mr. Tushaar Gautam, Director, and Mr. Dhruv Mathur, Chief Financial Officer. With that I pass the call over to the management for their opening comments. Over to you Sir!

**Rahul Gautam:** Thank you Vismaya. Thank you very much for hosting this call. I really welcome all the participants who are there. I understand there is a large number of you there.

I know that we continue to be in these crazy and endless Corona times, but the whole country in general and we in particular have found our ways to go around this and continue with the economic activity. To the best of my understanding and knowledge and specifically to our industry, most of the markets are open and completely approachable and there is normal activity that is going on there.

I know that there is a talk of this second wave and third wave so that is happening across the world, in some cases, it is already inking in those areas. In India we at least in the northern part of India, we do look at winters coming in and somewhere there is a belief that in winter the virus grows or expands better. It maybe because of people cluster together into rooms or the temperatures are more suitable for it, but whatever maybe the reason we are well prepared for it at least in the company, I can assure you that both at the manufacturing side as well as our exclusive outlets we have taken out special initiatives to ensure that we do not support the spread of virus.

I am also aware and this is something which is redeeming is that the vaccine appears to be in sight. There are a couple of announcements made that by the end of this year or by the early part of next year the vaccine will be out in the market. I know that the next level of challenges begins which is distributing it, reaching it out, the cold chain to be created, etc.

I would also like to share with you the two geographies that we are present in and how is Corona fairing there. So, Australia is relatively mild. They have 8 to 10 cases coming in everyday and they have completely sort of insulated themselves from the world. So that is very well in control. At no point of time did the factories close or the markets closed but the life within the continent is normal.

Spain on the other hand is not that good. It is part of the European Union. It has just experienced a lot of visitors, who come to Spain for the summer holidays and the culture there is a little more loose or weak compared to the more disciplined countries, people are far more tactile and therefore this Corona is spreading good and fast and now I understand that there is a curfew which is in most of the cities and intercity travels are banned. We are fortunate to be in a very small city called Yetla and that city is well in control and everybody is good and fine of that.

This Corona what kind of impact it would have on us, I just want to say that it is not over as yet and therefore there is no conclusive thoughts on it, but one thing for sure that global trade will go down, which means that whether it is the movement of imports or it is a movement of products, they will be lessened because each country has spent a lot of money into job protection, which has created deficits in the countries and I am sure that people would like to stay like this for a while and not really that money kind of go.

So that is one impact as we see. Another impact at least in our own business that you see is that there is a new concept of bed in a box where home mattress is kind of compressed and transported and reached to the areas which saves on transportation cost, as well as it saves on the middle channel costs. So, they are in go. There used to be about 10% to 15% of let us say the US economy and I understand now that this has gone up to almost 25% not the economy, there is a mattress economy.

US has been importing a lot of these products from China and all other areas where the Chinese manufacturers went like Vietnam and Cambodia; however, recently US has put some kind of restrictions, on these products and there is an additional dumping duty which has been levied and therefore we see that as an opportunity opening up for India. We already have received many enquiries. We are catering to some of them from India as well as from Spain.

That is a good thing that has happened and we expect that that market to throw in the coming times. We continue to have a strict vigil in all our premises and this I just want to assure you that even in the coming times when the vaccine is also out we will continue with the social distancing and with all other kinds of protections that is needed so that the factories continue and the exclusive channels continue.



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We are practicing work from home or a hybrid culture at the moment which is three days from home and three days from office but these are also guidelines or guiding principles, we are not fussed up on that and we will leave it to the Heads of Departments. This is just to reconfirm and restate that safety and human safety, personal safety is absolutely upper most in our mind.

I will just come to the next big one which is creating lot of waves in our industry and that is the raw material prices. So, undoubtedly the raw material prices have shot up. In fact right now in the last three months have almost doubled. The primary reasons for them is a continuing lazy kind of supply chain and the belief of the raw material suppliers was that the pickup of the foam industry as well as the mattress industry will not be so quick and so fast.

There are also mismatches between the two major chemicals across the world and which is a part of the supply chain but I think it is all beginning to come into some kind of an order, our understanding is that up to the end of this calendar year that is up to December there should be a high price and then from January February it should fairly start going down. As you would have seen in our postings that this time it was not TDI but it was polyol which used to be reasonably stable, of course moving in a small band and that has shot up and it is at the same price as TDI.

As a response on our side, we are trying to indigenize, we are trying to tell the raw material guys to have packages here, and even discussing with GNFC which is our local TDI producer that how can we increase our share with them and to see that we are less and less dependent on this supply chain.

One thing which has further happened in the raw material side is that is that there is an application by the local raw material producers for the levy of an additional duty. That has been contested well at the courts and at the moment it is in between or just before the final hearing and the final verdict is given, but the government has been having constraints to not to issue the notifications. So, let us see that how that goes.

In these uncertain times our response has been or actions at our end have been just better and tighter management, closer management, more centralized decision making, continuous contact with both our vendors and our customers and even our showrooms we have been holding webinars and informing them and keeping in contact with them so that this period is not a complete blackout or as against washout as far as networking is concerned, the relationship is concerned or any kind of interactions are concerned.

Whatever has been this increase in the crisis we have been able to pass on some, I would say majority of it, markets have taken it well. We have also absorbed something, but let me say that these high prices they tend to have a long-term not so good effect, but fortunately we all believe that this is going to go away quickly and it is only a little bit of a blip that is there.

We being old and in this industry have also interacted with our entire supply chain, raw material suppliers, processors, foamers, customers, just to say that let this raw material blip pass away. Please absorb whatever you can and let us ensure that there are no irreversible or permanent happenings on account of this sharp increase in raw material.

Coming to our results of the second quarter of FY2021 they are better than expectations. Now that all markets are open, all activities are on, we believe the response from the markets has been better than what we thought. On the B2B side, there is a kind of a mixed response. The auto industry has done very well. On the other hand, the shoe industry has been languishing and I think that is because most people have been spending times at home, schools have not opened, plus probably for most of us shoes is like an impulse purchase and we are holding on to that.

Just on the macro numbers, of course you have received the details and we would be happy to answer any questions, but on a macro level, on the consolidated side the total sales have gone up by 22%. A reasonable contribution is also from Spain, which was not there last year. Spain was acquired on October 14 and therefore any kind of comparisons would begin only from the coming quarter on debt.

Total sales going up by 22%, EBITDA also going up to 17.5%, the Indian sales remained reasonably flat, I mean earlier to a percent, 2% increase but the EBITDA went up to 14.8%. Australia did extremely well. The topline went up by 20% and the EBITDA has also gone up to 20.44%. Spain as I said the topline will only come in the coming quarter. That would be addition, but the EBITDA percent was also high at 24%.

Some of these EBITDA percentages may appear as a little bit high at this point in time, of course we are making all our efforts to push that forward or push that upwards, but the impact is that there is a hard closure to a quarter, while the price increases and the raw materials and the stocks and the selling price increases all these things happen there is an interplay of all these things and these things happen at different times and therefore there would be an impact which would be kind of carried forward beyond going quarter.

Winning on our path, have not forgotten the CSR activities and our foundation continues to work on that, our contribution to the society as far as quarantine beds etc., are concerned,

those continue and the webinars from the foundation on emotional wellness that continues and even we have had some online classes more for the lesser fortunate people as well as for areas which are very remote for the northeast part of the country, etc.

One thought before I close and open up for questions, one thing I just want to say on the mattresses which are our major products that we believed that mattresses were a non-essential type of a product but our information from Australia, from Spain, and now from India is that people have become more conscious during the Corona times of the mattresses that they sleep on. Of course there is a pent up demand, of course there is a little more money in the pockets, because of not travelling, because of not vacationing as this is probably in Australia, but the time that has been spent at home, realization on the home improvement products are on home products like mattresses and sofas and televisions and all that the consciousness has gone up and that is good for us and Corona would also go away quickly and we are able to handle that.

Thank you very much. We are now open to questions.

**Moderator:** Thank you very much Sir. Ladies and gentlemen, we will now begin the question and answer session. We have our first question from the line of Naresh Vaswani from Sameeksha Capital. Please go ahead.

**Naresh Vaswani:** Thanks for the opportunity. Sir, in your mattress how much percentage of volumes came from low economy products which we have Starlite and Feather Foam. What kind of gross margins we will make in these low priced products versus premium brands?

**Dhruv Mathur:** Actually we are not categorizing it in different kinds of categories. We report the consolidated number. We were doing that earlier but that has some impact on our competition. So, we can only share the numbers on consolidated basis. Saying that gross of course on gross margin the gross margin is highest in sleeper; however, coming to EBITDA level the EBITDA levels are almost same in all the category.

**Naresh Vaswani:** Volume data you do not share?

**Dhruv Mathur:** We do not share on low price, high price or something. That was discontinued long back because of business reasons.

**Rahul Gautam:** Dhruv you can just give a general overview on it. I know the specific numbers we do not share, but a general overview it has been moving.

**Dhruv Mathur:** I think there is an increase low price mattresses, generally because the shift is taking place from unorganized to organised so the movement is in terms of volume is more on low priced products.

**Naresh Vaswani:** I am asking are you trying to aggressively market these products versus our premium brand which is there and volumes in the market will be much higher in the low priced products?

**Dhruv Mathur:** We are aggressive in both the segments. I am just answering that from the market point of view so there is a shift from unorganized to organized within our share, the increase in low priced products is slightly higher. However, we are aggressive in both.

**Moderator:** Thank you. We have the next question from the line of Nihal Jham from Edelweiss. Please go ahead.

**Nihal Jham:** Thank you so much. First of all congratulations to the management for the wonderful performance. Sir, I had two questions from my side. First was on the demand recovery. If we remember our last conversation during the Q1 call, we mentioned that I think the recovery was around 80% to 85% so, I just wanted a sense that specifically what has driven such a sharp improvement for the quarter and I would assume that a lot of it has come in, in September and how sustainable is this? That is my first question. I will take the second one after your response.

**Rahul Gautam:** You are quite right that the major part of that has come in September and as I said that very little of it to my mind is pent up demand, more of it is the consciousness, which has happened regarding the mattresses about people sleeping at home, not going out, not travelling, etc. Of course the extra money that they had in pocket, and probably will be the last contributor to this would be the shift from the unorganized to the organized. So, we have been talking about this unorganized to organized from the time of demonization and GST, etc., but here it is just the feeling that people are having that I must get a better product. I must get a product which is delivering more benefits, which are being guaranteed, which is from a good brand, etc. So, I think that shift is happening clearly it is happening and therefore on the sustainability part, I would say that most of it is absolutely sustainable. I will see that happening in Australia which is a completely mature market and probably a saturated market but they too because of the consciousness that has come in while staying at home, the sale of mattresses etc., have gone up.

**Nihal Jham:** That is helpful. Just a followup on that Sir, is the sales at the end retail, not just the distributor level similar in September to what we did at the company level or there is some kind of stock building which happened because of the limited stock?

**Rahul Gautam:** Nihal for us and our products whether it is foam or it is mattresses they are all voluminous products plus please also accept that we have lot of diversity as far as the sizes are concerned and therefore for anybody, of course there is still little bit stocking that can happen but beyond a certain limit they cannot stop and I would agree with you that during the period and the time that we were not manufacturing whatever want some kind of stocks in the channel and the markets may not have opened but they were slowly depleting and therefore there is upbeat of stock filling that may have happened but in our case, beyond a certain level, it just cannot and we do have systems of measuring the sales from the company to the distributor, the primary sale, then the secondary, which is distributor the dealer and also to the dealer's tertiary sales and there is positive movement in all of them. They are comparable.

**Nihal Jham:** Last question from my side Sir. I think you have been pretty accurate in terms of your raw material price outlook earlier also, so in the opening remarks you did mention that till December you expect prices to be high, but if I had to ask you what would be the ideal sustainable level both for a TDI and polyol and a followup to that would be that how we are planning to negate that in the longer term and that would be from our side?

**Rahul Gautam:** The raw material prices that we had many months back let us say before the lockdown was also not sustainable and what it is today is also not sustainable, but let us say the band that TDI should be where it is beneficial to the producers to produce and for us to consume is Rs.152 to Rs.170 number. So, let us take Rs.160 a kilo as something which would work. For polyol it should be somewhere around Rs.115, Rs.120 level, Rs.115 would be a good level for the suppliers as well as for the consumers. They would be economically viable and that is what it should be.

**Nihal Jham:** That is helpful. I will come back in the queue for further questions. Thank you.

**Moderator:** Thank you. The next question is from the line of Shiv Kumar from Unifi Capital. Please go ahead.

**Shiv Kumar:** Thank you for the opportunity. Sir, the good traction that we have got to see in September has it continued in October and is the festive season looking really good this time?

**Rahul Gautam:** Shiva thank you for that question. We may be constrained to give exact numbers or answers though October has finished but let me say that the good work is continuing and we are expecting the season to be good.



**Shiv Kumar:** Great to hear that Sir. Sir, given the current prices of TDI and polyol, is there an immediate threat to a 14% EBITDA margin in Q3 because you are also taking some price hikes parallelly. So that is why I am asking this question.

**Rahul Gautam:** We have taken.

**Dhruv Mathur:** Again, Shiva we cannot answer in terms of what is going to happen, but as Rahul Ji has already stated that we have taken a price increase and we also realize that this increase in raw material cost is not permanent and in branded stuff you cannot reduce the prices, so we are very conscious of this fact and you can interpret it your way how they will be able to move. I would say that. This will go back to the normal situation once the raw material prices are stabilized.

**Shiv Kumar:** Rahul Sir, last time, you promised to quantify the export opportunity in the Q2 call, would you be doing it now after the trial shipments that you have done?

**Rahul Gautam:** Shiva, let me just say that it is still very early times. It is still very early times. The enquiries are there, one or two shipments have gone, both from India and Spain. It looks very promising but to try to quantify it and when I say quantify it I would probable need to I think what you are expecting is some kind of a number for the January quarter as well as some kind of numbers for FY2021-2022. Give us a little more time on that. It is looking promising, it has gone, we are getting used it. Why I am hesitant to speak that there are challenges which keep coming which you cannot even foresee. For example, today finding a ship to send is difficult. I mean India has suddenly, the availability of containers and ships has gone up. So, just let all this kind of stabilize a little bit and I am sure that you can also foresee that the high raw material prices tend to be a little bit of a deterrent in the lack of foresights to know when exactly would it go down and when exactly a particular consignment looks. So, I think let that stability come in. Still the whole world is oscillating quite a bit. As the stability, we will of course share with you, absolutely, but it looks promising. That is all I can say.

**Shiv Kumar:** Sir, some sense on the online channel how is it fairing? Last time you said you are number two online? So, how are we placed now?

**Rahul Gautam:** Rakesh Ji, can you please take that question.

**Rakesh Chahar:** Online channel started much earlier than offline and it is seeing bigger growth than offline. We are faring well. In fact we are growing higher than the market growth.

**Shiv Kumar:** Currently what is its share Sir in the overall sales?

**Rakesh Chahar:** Overall share in the mattress would be close to about 5%, less than 5% right now, the mattress sales to online.

**Shiv Kumar:** I think in Q1 it was around 4%, right?

**Rakesh Chahar:** Yes. It is around that. Yes, going forward I mean the rate of growth are much stronger than the offline for sure.

**Shiv Kumar:** Thank you Sir. I will join the queue for further questions.

**Moderator:** Thank you. The next question is from the line of Manan Shah from Money Bee Investment Advisors. Please go ahead.

**Manan Shah:** Thanks for the opportunity. Congratulations for a good set of numbers. Sir, my question was on the raw material side. In a recent interview we had indicated that TDI prices have moved up from 120 to 200 plus so I just wanted to know if they have cooled off from then on or they continue to remain elevated? Also as per our understanding there has been a plant shutdown for TDI in Europe, which has led to this sudden surge in prices, so if that understanding is correct and if we have any indication when that plant is expected to start and are you facing any supply side issues in respect to TDI?

**Rahul Gautam:** You are right that it is 200 plus at the moment. It is actually precisely Rs.230 a kilo, but in the initial stages the way it was rising that has stalled for the last two weeks and our belief is that it has reached some kind of a (inaudible) 32:46 level. The other end piece of information that you say about the plant in Europe, even in the past, some plants going off and some plants coming in, somebody was impacted by maintenance schedules and somebody impacted by hurricane etc., all this is there, but you know in cases where there is a short supply all these gets accentuated or gets bigger than the other or really what it should have been. This is the one that you are referring to is a scheduled maintenance which was probably decided a year earlier and will be over in the next 10 or 15 days. Therefore as a globe whatever was the installed capacity let us say a year back and what it is today it is not very different, but it is a supply chain issue and a mismatch issue and till the time that kind of stabilises all the small little news will have a lot of impact. But otherwise I think it has reached its peak, maybe another Rs.10, Rs.15 some time, some trader can push that up a little bit but otherwise it is sweet less.

**Manan Shah:** Just a followup on that the plant closure for maintenance what capacity would that be, should the cycles correct a bit once that capacity comes online?

**Rahul Gautam:** That capacity will come online then some other capacity would be a scheduled maintenance, somewhere something or the other will happen, but by and large, as I said the current capacity whatever is running and whatever is being consumed is reasonably well matched. It is just the supply chain and as I said the mismatch in the supply chain is very ratio.

**Manan Shah:** We do not say it as an issue because you spoke about increasing our share with JNFC for locally procuring TDI?

**Rahul Gautam:** That is right. The JNFC also gets a little better on that and they have certain anti-dumping duties which have been levied and they also increase the price when the global price increases, because for them the opportunity is also then to export and therefore as I said let us say the quantum remains constant for us or at least shortages are not there but the prices are what would it be if imports happen there or what would it be that if they were to export and realize the price.

**Manan Shah:** Thank you. I will come back in the queue.

**Moderator:** Thank you. We have the next question from the line of Gaurav Jogani from Axis Capital. Please go ahead.

**Gaurav Jogani:** Thank you for the opportunity Sir. Congratulations for the great set of results. Sir, I have a couple of questions. First one being that we are now, this particular quarter have hit the lifetime high margins on a consolidated basis and the largely contribution is from the international subsidiaries both Spain and Australia. So, first wanted to know how sustainable are these margins and I am not talking about the short-term maybe a Q2 or maybe on a three or four year basis, I mean what measures have we taken for hitting these high margins?

**Rahul Gautam:** Undoubtedly the majority contribution to the high margins has been as I said the interplay between stock and selling price and purchase price and you know what happens first and what comes later. To keep increasing the margins on a regular level that is our endeavor and let me say this that once margins go up, the benchmark for you changes. For you changes and for us it changes, but the current status definitely. I mean if you were to ask me straightaway is 24% of Spain sustainable? Of course not. Will it come down to 15% or will it come down to 18%, all that part, I cannot say right now, but definitely I can say it does. So it is that interplay which is there and we should probably the next quarter will tell us a little more into everything. We will have to wait till then.

**Gaurav Jogani:** Just a followup on that now. We are operating and the Spain operations is now for almost three quarters, so if you would like to highlight what cost efficiency measures you would have taken in this while once we have taken over the operations and how much costs you are able to save on a sustainable basis there?

**Rahul Gautam:** Gaurav the time that we took over which was October 14, 2019 and till the time that we are beginning to stabilise and do everything suddenly, Europe the Corona came much quicker, which was like February really. So whatever we are able to do on online basis of course all that is happening, but at this point of time, let me just say that the stress has been more on capacity, utilization, on making raw material available, etc. Although they have not suffered on account of closure at any time but they have suffered on manpower for sure that fewer people were available etc. So, I think the last couple of months has been a struggle for ensuring that the operations keep running, the supplies are maintained and the raw materials are maintained all those things. Real hardcore cost efficiency measures will take some time.

**Gaurav Jogani:** Sir, the next question from my end is like in this particular environment that we have seen sharp rise in the raw material prices, how has been the reaction from the competition per se. Have you see some online players going out of business in this particular process, I mean post Corona where we are not able to sustain these businesses in these challenging times because of the supply chain issues anything of that front you would like to highlight on the competition front per se?

**Rahul Gautam:** By and large the major competition has followed suite, has caused the raw material both the availability and the prices have been as bad for them as for us or inside would be a little worse. Some smaller players have gone out of operations because of shortage of raw materials and both players who are with the offline side or the online site both have gone out and I think it is also evolving and I am sorry I am using this word more often than necessary or more often for virtually everything but it is just the dynamism of the place. For example on the MSME side there are many manufacturers who are there, for them the requirements to pay their installments, their interest, etc., was deferred by the government, all that is going to come to the forth in another month's time, the deferment, time would have been over and the people would have started to pay. So, I think it is still very evolving and having honestly got a bike on give very definite demands on this issue.

**Gaurav Jogani:** Sir, I would like to refrain the question in other way. So, I would say would you now consider your competitive positioning much better than what it would be six to seven months earlier?

**Rahul Gautam:** No, I am sorry. You will have to restate the question, competitive positioning, what does that mean?

**Gaurav Jogani:** What I mean is that in terms of the competition, what we were seeing a lot of online small players were coming in and they were doing some price discounting and then selling and some of which who would might have gone out in this current scenario so then in terms of your pricing and other stuff is it better now as it was six to seven months earlier?

**Rahul Gautam:** I would say slightly better, but at the same time, the very nature of this online business is that people can come in and go out at any time. There is no fixed channel, which is there, there is no relationship which is existing. I mean it is just the information, which kind of happens and if you go through Amazon and Flipkart or go through any other market place is just an information that comes in, the customer also behaves very timid. He sees a good offer today, he just goes and buys, so you could come in and go out, but have people gone out, yes people have gone out, will they come in once the prices tend to go up, possibly yes.

**Gaurav Jogani:** Thank you Sir. That is all from my side.

**Moderator:** Thank you Sir. We have next question from the line of Omkar Hadkar from Mirabilis Investment. Please go ahead.

**Omkar Hadkar:** Sir my question is on the channel, you mentioned that in September you have seen some good traction out there, just wanted to know in terms of your channel how much of that is functional in terms of pre-COVID times, how is it in terms of turnovers or any the inventory that you earlier had in pre-COVID times and currently how is that any colour on that will help?

**Omkar Hadkar:** If we look at September, I would say most of the markets are open, most of the showrooms are open, there may be some small little restrictions on the timings, but by and large they are open. As far as the stocking and the depletion of stocks, and all that would have happened, there may have been a little bit empty and therefore some stocking would have taken place, but as I said that we do track the tertiary sales so that is happening. So, if one word answer that are we back to pre-COVID times on the channel and its functioning? Yes we are.

**Omkar Hadkar:** Sir, my one question is from the annual report, I was just looking at the standalone numbers and there are couple of subsidiaries, one was the TBR Software Solutions. So in that last four years there has been some investments that have increased in the subsidiary. Just wanted to know the nature of these investments and secondly your aspirations on the IT side, the Staqa World that you have started, you have carved out some employees out of your current team, so what are the plans there, and what sort of investments do you see containing both in the Divya Software as well as this current IT subsidiary that you have carved out?

- Rahul Gautam:** The name of that subsidiary is called Staquo and Staquo is also the absolute initial times. They are on a CV building kind of an exercise, but let me share with you that the orders has begun to look small but have begun to fruit from both from national as well as international arenas and whatever is our target that we have laid down for this year, we would be able to achieve that. So, it is taking shape, smaller orders but some of the bigger names nationally have also placed, so be it Jubilee and Hero or names like that and internationally also from various countries out of this and we are absolutely on track as far as that is concerned. This year the investments, which have in the last few years maybe Dhruv you can answer that question.
- Dhruv Mathur:** I can answer. The Divya Software the only investment is in our corporate office. The land was held by a company called Divya Software which we acquired then there is no other investment. It is only our corporate office.
- Omkar Hadkar:** So, something from the 20 Crores to 76 Crores how big is that that is largely towards the corporate office.
- Dhruv Mathur:** That is our corporate office.
- Omkar Hadkar:** Any further investments out there? Are you seeing in a couple of years or 76 Crores odd should be?
- Dhruv Mathur:** Not much. It is almost complete and barring some, not much.
- Omkar Hadkar:** Sir, just on the other Staquo part also you had mentioned that government would also be looking at some government orders so, just wanted to know your thoughts because most of the other players service providers have not made money over a period of time in the government orders, so how do you foresee that situation.
- Rahul Gautam:** When I look at the range of orders that are coming there are some government orders etc., but the way that we have been operating we have a good margin and the payments are secured and most of them come upfront. So, the issue of not having margins or the issue of not getting the money back is not there as far as the government is concerned. I mean, whatever the business that we are doing. There is a reasonable size of government orders which are there.
- Omkar Hadkar:** That is it from my side. Thank you.
- Moderator:** Thank you. We have the next question from the line of Nihal Jham from Edelweiss. Please go ahead.

**Nihal Jham:** Thank you so much for the opportunity again. Sir, just a couple of questions more when you mentioned about Australia, traditionally it has been 2%, 3% kind of volume growth market. Sir, is it just the trend of higher salience for home products which is driving the strong demand for foam or is it that again there is a supply disruption in Australia which is driving up volumes there in addition to you seeing demand for certain products?

**Rahul Gautam:** As you know in Australia from the consumer we have two steps away. Whatever is the understanding, I would share that with you. There are three four things. Number one is the Australians like to travel across the world a lot and which was not there and the travel industry is about \$65 billion industry. So, all that money has been in people's pocket. Number two, people have spent a lot of time at home and they have realized and recognised that they need a better mattress to sleep on and more so because they have not been travelling and therefore spending more time at home. So, it is one is saving that money and second is you are spending more time on your own mattress, which probably helps or supports that side of it. Third for sure, there is an impact which we have been talking about which we call as the China factor. The imports coming in from China have been very erratic and with a lot of difficulty and therefore people are looking at localizing though that is considerably more on the furniture side, but still a sizable on the mattress side. As far as we are concerned, in Australia we are impacted positively by both these things, the furniture and the mattress.

**Nihal Jham:** Sir, approximately what would have been the revenue growth for Spain this quarter. I know we have not consolidated but just to understand?

**Rahul Gautam:** For Spain? That is we have got as I said that company merged in October, so you want to compare Q2 of Spain versus Q2 of last year of Spain?

**Nihal Jham:** Yes, just as a sense of the growth in Spain. I know we have not consolidated it but just as a sense of how the Spain market is doing?

**Rahul Gautam:** I do not have the numbers, but about between 25% and 30%.

**Nihal Jham:** That is helpful. Last question from my side on the online side, when you mentioned the share of mattress is around 5%, just wanted to get a sense that most of it is driven by SleepX or it is a push between SleepX and Sleepwell?

**Rahul Gautam:** Most of it is driven by SleepX. We have decided to have that as our brand online and though we do have a sleepwell.com or mysleepwell.com and there is some sense, but the numbers on the .coms or the sleeperwell.com is rather few or insignificant. The growth has been primarily on the SleepX side.

- Nihal Jham:** That is helpful. That is it from my side. Wish you all the best.
- Moderator:** Thank you. We have the next question from the line of Hiren Trivedi from Axis Securities. Please go ahead.
- Hiren Trivedi:** Thank you for the opportunity. Given the good performance for this quarter, how is that you are looking at the second half of the year? Will it be better than the last year or H2 would be better than H1 this year and how would you look at it? Secondly the foreign subsidiaries have done overall very well, so is this share going to keep on increasing going forward. What is your thoughts in the foreign subsidiaries going forward?
- Rahul Gautam:** On a consolidated side on H2 versus H1, of course H2 will be far better than H1. H1 at least as far as India is concerned the first two months or first one and a half months was a complete washout. So H2 will be better and whether we will reach the last year's number is something which is a desire that it should try and end the year with at least doing that much, but we have to see that in the coming few months. On the subsidiaries, I can only guess that they will continue to work well and substantially or sizably contribute to the main company or standard own numbers.
- Hiren Trivedi:** Thank you. That answers my question.
- Moderator:** Thank you. We have the next question from the line of Resham Jain from DSP Investment Managers. Please go ahead.
- Resham Jain:** Congratulations on good set of numbers. Sir, just one question given this increase in the raw material prices is it fair to assume that Spain, Australia and India B2B businesses it will not be difficult to pass on the raw material price increases?
- Rahul Gautam:** If I am understanding your question that it should be or you are making a statement and saying that is that true or not which is it should not be difficult to pass on the prices. So, first let me that every segment has its own dynamics. When it is a B2B we consume or the customer is very well versed with the increases and he tries to fight and say, he will try to push, push back etc., because he also has ahead of him a customer to take care off and obviously negotiate. In some cases on a B2B basis there is some pricing related to rise and fall of raw materials. So, it is a mix of that but far more difficult to get any kind of price increases. On the other hand the customer side profile is easier to do, but has long-term impact and the long-term impacts are that if your products become very expensive, you can be sort of your market shares can keep depleting, second when the raw material prices also go down for you to reduce prices in a consumer product is an extremely difficult phenomenon, so you have to be a little more prudent in increasing prices. So I think both



the channels have different dynamics but we are able to pass on some and the market has accepted that.

**Resham Jain:** Understood Sir. Because in the past, we have seen actually prices moving to 350 plus levels also and at that time also we have been able to manage our overall margins at a much healthy level in terms of, so from that aspect I was just asking, it should be like similar situation right now also what we have seen in the past two years back.

**Rahul Gautam:** Yes. It is similar and although at the same time prices have not gone up to those 330 levels and we do not wish and pray and hope that they would, so it is more like 230 at the moment and I think they are stabilizing at that and then hopefully some downward movement should happen.

**Resham Jain:** Thank you Sir.

**Moderator:** Thank you. We have the next question from the line of Sameer Dosani from Carnelian Asset Advisors. Please go ahead.

**Sameer Dosani:** Thank you for taking my question. Sir, my question is guided towards realization for mattress. If I see the last two or three years the realization for mattress has come down from 6000 to around 35000, so can you just highlight what is playing out here. Is this only because of the format of the low economy bands or is it something else because I realize that we have not taken any bank cuts, right?

**Rahul Gautam:** Rakesh would you take that question, please?

**Rakesh Chahar:** So, there are two; one is that just the uniformity. Now we improvise the number to a single side mattress. So, all the units are equalized towards a single side which is 6 feet bed sheet feet. That is one. Second is that we have opened up NBA as well as Sleepwell is concerned, we have all the EBOs selling the products so we have opened up MBO channel as the new channel for Starlite and for Feather Foam products. So that is the incremental sale that we are getting from that channel. So therefore you see this difference. As far as EBOs are concerned, there is the gross in the ASP is not much because there the presentation of Sleepwell product is at a different level, it is the MBO mattresses which will bring down the overall ASP and for us it is an increment business.

**Sameer Dosani:** Sir, can you highlight what was the comparable number for two years in the past for FY2018 or 2019?



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**Rahul Gautam:** What I would suggest that this can be given to you offline. We have computed every mattress to one size now. So we will have work out the prices and convert all those into one size to come with a comparable picture.

**Sameer Dosani:** That is helpful. Thank you.

**Moderator:** Thank you. We have the next question from the line of Shiv Kumar from Unifi Capital. Please go ahead.

**Shiv Kumar:** Thank you for the followup opportunity. Sir, what is the current size in terms of the MBO network and the EBO network?

**Dhruv Mathur:** 4200 are EBO and 7400 are MBOs.

**Shiv Kumar:** Sir, my second question is with regards to the dividend policy. Last time we had conserved the cash because of the pandemic situation that was prevailing now that we have come out of it in a good shape, is there a rethink from the board on dividend policy or a buyback or use of this cash for some inorganic growth?

**Rahul Gautam:** We just finished the board meeting, but I think that at this point of time the other issues have been far more importance and relevant. So, in the next board meeting which is in February we should be really addressing both these issues. So, at the moment as I said that this was not even a part of the agenda.

**Shiv Kumar:** Any acquisition opportunities on the table? Typically you keep having two, three opportunities on the table. Is that the case even now?

**Rahul Gautam:** Shiv yes. Some opportunities are already there, but I think they are relatively weak opportunities and whether they would go through and not so I think all companies whether they want to sell or buy or the decisions on those things have been kind of just deferred by a few quarters. So, yes we are in contact with a couple of them but they all have different important things to deal with at the moment. So, there is nothing actively going on.

**Shiv Kumar:** Thank you Sir. All the best for the second half.

**Rahul Gautam:** Thank you.

**Moderator:** Thank you. Ladies and gentlemen that was the last question. I would now like to hand the conference over to the management for closing comments. Over to you Sir!



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**Rahul Gautam:** Vismaya thank you once again for conducting this well and closing it in good time. Most questions were as incisive as always. A huge learning for us and for the team. Thank you very much to the markets for supporting us and being there and I am also wishing and hoping and I think all efforts will come true to fruition that we continue to perform in the changed circumstances. We fully recognise that the world is not going to be like it was before, it is not going to be business as usual. There are many changes which are happening and we should be able to absorb them and use them to our benefit. So, with those words, I just want to wish you all a very Happy Diwali and look forward to meeting you once again. Please feel free to get in contact with Mr. Dhruv Mathur for any other information that you may want to have post this session. Thank you very much.

**Moderator:** Thank you very much Sir. Ladies and gentlemen on behalf of ICICI Securities Limited that concludes this conference call. Thank you all for joining with us. You may now disconnect your lines.