



“Sheela Foam Limited  
Q1 FY2021 Earnings Conference Call”

August 21, 2020



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**Moderator:** Ladies and gentlemen, good day and welcome to the Sheela Foam Limited Q1 FY2021 Earnings Conference Call hosted by Edelweiss 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. Nihal Jham from Edelweiss Securities Limited. Thank you and over to you Sir!

**Nihal Jham:** Thank you Janice. On behalf of Edelweiss I would like to welcome you all to the Q1 FY2021 Conference Call of Sheela Foam Limited. From the management today, we have Mr. Rahul Gautam, Managing Director, Mr. Tushaar Gautam, Director, Mr. Rakesh Chahar, Director, Sales and Marketing and Mr. Dhruv Chandra Mathur, CFO. I would now like to handover the call to Mr. Rahul Gautam for his opening remarks. Over to you Sir!

**Rahul Gautam:** Nihal thank you very much for coordinating this conference and I really appreciate everybody else for joining in today morning and in probably the most unusual times.

Let me just begin with by saying that recently we concluded our AGM, and this was the first time that it was done online. It is extremely good experience and whatever feedback that I got both from the shareholders as well as the directors that this was probably the way to go even in the future so let us hope that some changes are going to be, which will stay forever. Most of the questions were much focused. There was not too much of gallery play and therefore it just went off very efficiently.

We are all experiencing these COVID times. I think that each one of you would be as informed as I am. I think it is only the conclusions that we can draw from the different happenings all over the world, which is a little different. My side of it is that the uncertainties continues and understanding of the virus is still there. Vaccines I know there are some, which have been announced and the Government of India has also said in the next couple of months, we should have some vaccines and they have begun to make a plan how to distribute them, but most of the feedback says that it is going to be a while probably by the end of this year that we would see some kind of a vaccine and then for it to be distributed and everybody to be inoculated and vaccinated.

I think we should not see any kind of virus going away before the Q1 of next year or the Q4 of this financial year. It is a long haul, but I only wish, and I am repeating it. I know

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everybody would be completely fed up of listening to this, but I think the three things that people talk about, about a wearing a mask, washing your hands, and the social distancing. I am just repeating it like what it is done on the MTNL or the telephone line.

Since you know that we are present in India and we are also present in Australia and Spain. Let me share with you that both Australia and Spain had one time peaked and come down, but both are having a second wave of course not as bad as the first one. It is completely measured by the number of deaths that are happening, but there is a second wave and in Australia they have already locked one city, which is Melbourne, Sydney which is the next biggest city. It is also partially locked down. Spain has not yet done that, but we hope that this abates as quickly as possible.

Coming back to India, we are experiencing that about 85% to 90% of the markets are open. We have recently reached our levels also ranging between 80% and 85%. The GST collections in the country are also indicative that the businesses on an average are around that. I mean if we take Rs.1 lakh Crores as a monthly collection that the government thinks are normal, the last month was about Rs.86000 Crores.

We have different sectors and of course the different segments or sectors are experiencing different levels of growth averaging to about 80% to 85%. Auto took a little longer to come up, but it appears that at least July it has been close to 100% and this month they are expecting it to be even better.

Now whether is pent-up demand or it is something fundamentally changing in the market, we still have time for it to emerge. The other experience that we had was that the smaller towns came around much quicker because the impact of Corona was larger in the larger towns and the organized sector of course did better than the unorganized sector, but it is not that the unorganized sector is completely washed out or anything like that, but their recovery is a little slower.

At least in our business and in our segment, cash flows have been okay. I have not heard people closing down on account of nonavailability of money and I expect and pray on behalf of everybody that anytime between Deepavali and the end of the year, things should be back to pre-COVID times at least on the business part of it.

We continue to worry about our people. Continue to ensure that all our units, all our outlets, all our distributor areas and everything follow a very strict protocol of ensuring that Corona is kept away, or the virus is kept away. We are aware of within our own trade of companies

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or complexes, which have been shut down on account of widespread and we would not like anything like that to happen.

I am also happy to share with you that on the medical coverage of the people that who work in your company and the insurance part both are very well covered and even in the eventuality that is something not good will happen there is insurance covered, which will take care of the family or whoever stays back.

The last time I did mention about the impact of the China factor and impacting us in many ways. One is all the imports that come into the country from China, I did mention and I am repeating that are dependance on that is very little, but then the other exports or the other inputs that come into the country, we are looking at areas, which can be where we can find substitution by our company or the indigenous manufacturing.

There are other areas where there is China was reporting whether it is to the US, Europe or Australia and we are looking at those areas to see that how India can be developed as an exporting country to those areas. The government has also taken steps in identifying some 11 or 12 sectors and at least sector where we would have a reasonable say was the furniture side, which the government intends to develop as a big cluster and to take care of nullifying the imports and increasing the exports, etc.

I know that there are laws like labor laws and land laws, which are very state oriented and to overcome them is a problem. It is an impediment for creating such infrastructures, but the way that the government is thinking is to make SEZs like it did before and you could have the land laws being different there and you could have labor laws in a manner that they are competitive with any part of the world. So, we just expect that as far as the future is concerned, it should be interesting, and it should have a lot of potential.

I recall our last conversation somewhere in June where I did say that the raw material prices are low and steady and should be like this for sometime and I did put a disclaimer to it to say that I could be wrong and actually I am wrong. The raw material prices have been going up in the last couple of weeks. Two major raw materials one is polyol and the other is TDI. Polyol both were hovering around Rs.110 number. TDI has already shot up to about Rs.160 in steps, but very quick steps. How much will it go up to? It is very difficult to say, but anything at Rs.170 or Rs.180 some number like that.

Polyol is a far more dispersed manufacturing throughout the world, and I would say that it will probably go up to Rs.135 to Rs.140 number, but we need to look at solutions. We need

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to look at global solutions on this and the company is working towards that that such kind of quick movements in raw materials how do we kind of ensure that we are far more stable both on the availability of the material as well as on the price part. One thing more is that this COVID has thrown up is the risk in our doing business, so whether it is the IT systems that one uses or any other systems that we use there are disruptions possible on anything. For example, on the IT thing post Galvan the number is 50,000 cyber attacks on the Indian companies and the Indian systems, which was there. So, we are already working towards protecting ourselves and probably creating that all our stand operating procedures would have not a clause, which will say if disruptions take place how do we account for it or how do we negotiate disruption.

Coming back to our immediate quarter, which is being considered undoubtedly it has been the weakest quarter in the past many quarters probably from the time that we have been listed. We did several about Rs.270 Crores compared to Rs.500 plus Crores that was the normal and that was there. Fortunately, profits were still there and fortunately both our outline or companies or subsidiaries in Australia and Spain contributed handsomely towards the top as well as the bottomline.

In fact, in the Indian operational the profit was only about Rs.1 Crores. Finally we ended up with about Rs.12 Crores so the balance was contributed by Australia and Spain and in spite them being impacted by COVID as much as we did, but the operations there have not closed or never did kind of close and in fact the demand has been good and strong. It may be because of the robustness or the less diversity of those economies, it can also be because the China factor and it can also because of the pent-up demand that must have been there or that is there and both continue to be strong even now.

I would like to conclude that an important part of your company is that CSR activities last time I had mentioned that we did a quarantine center with about 10,000 beds that we had contributed. Fortunately, only about 2000 to 2500 are being used and it is good. It does not matter that setup is there and it is working well. So, our contribution has helped in good or has helped good in these times.

We as a company have our standard things of the skill development or the army training and working on emotional wellness, we continue of course physically not much can be done. So, we do that over webinars and over online contacts like most of the other things. So, we these words, I would like to close, and we open to questions from you. Thank you.

- Moderator:** Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. We take the first question from the line of Shiv Kumar from Unifi Capital. Please go ahead.
- Shiv Kumar:** Thank you for the opportunity. Good morning Sir. Sir my question is with regards to the traction that we are getting to see in Q2? I remember from the Q4 call that in June you had seen sales to the extent of 60% of the previous year so how has it been in July and August?
- Rahul Gautam:** Thank you Shiv Kumar. July and August, so July has been I think I mentioned close to about 80% plus and August is between 80% and 85% so every month or every 15 days it is kind of creeping up to normalcy.
- Shiv Kumar:** Sir in Q1 we see that the gross margin has come down although TDI prices have been softer on a sequential basis any specific reason for that?
- Rahul Gautam:** Dhruv can you respond to that please?
- Dhruv Chandra Mathur:** Gross margins there are various reasons for this. One is that there is a product mix wherein the low-price matrixes have been much higher sale. Second is that we must pay large amount of detention and demurrage in this quarter because of the problems at the port. This has increased our cost of raw material. Further since the volume of purchase was much less, we did not get any volume discounts. Also, on low production the yields are lower and finally we used to get some GST refund of around 0.5% of our sales in Kala Amb Unit, which was stopped in March 2020. So, these four to five sectors combined have dragged down the gross margin from 49.7% to 46.3%.
- Shiv Kumar:** So, can we expect that to recover in Q2 Sir?
- Dhruv Chandra Mathur:** See it will cover. I said the GST refund impact of 0.5% will never come back. Unfortunately, the prices the way TDI and polyol prices are going up to what extent we can pass on to the customer all that is a function of these two things. Other things I think that the volumes going up will come back to normal.
- Shiv Kumar:** Sir one related question to the first question that I posed. When you said that the volumes are back to 80% to 85% of the previous year are you referring to only to the mattress segment or are you including the B2B segments also?

**Rahul Gautam:** Shiv I am referring to the entire business of the company and we will break it up into the B2B and then in the B2B break it up into auto and the other sectors. It will be different, but I am talking off the average out number for the company.

**Shiv Kumar:** Sir and one last question on the export opportunity, which you referred to in Q4 call any traction there because see you had done some trial shipments during Q4 have you heard anything from the customers and can we see some revenue flowing in FY2021?

**Rahul Gautam:** I revenue flowing in FY2021 and I would say that all that is in progress. It is work-in-progress and it is moving in the positive direction.

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

**Moderator:** Thank you. The next question is from the line of Naresh Vaswani from Sameeksha Capital. Please go ahead.

**Naresh Vaswani:** Thanks for the opportunity. I wanted to ask on the opportunity side your mattress segment in India, Europe and USA if you can explain?

**Rahul Gautam:** Sorry to intervene, but your voice is coming through and not clear.

**Naresh Vaswani:** Sir my question was on the opportunity side in the mattress segment in India, Europe and USA can you just give me some color on how big the market is for you, which you are targeting in the longer term?

**Rahul Gautam:** I do not think that I will be able to give you a number. You know that market is many billions of dollars here and what we will be targeting and what we can do I would say that let us just wait for another quarter and I will give you the number there.

**Naresh Vaswani:** Secondly on this raw material prices going up we will we be able to manage this 14% EBITDA margins over the next two to three years if the raw material prices stay at higher levels?

**Rahul Gautam:** That is our goal that we must maintain this EBITDA margin. When these raw material prices move for a small time, the impact is absolutely enunciate because it takes a little time to pass on everything or redesign products or paying our offerings as far as the market is concerned, but once they kind of stabilize you are able to get that back so right now our attempt will be to ensure that we continue with these margins. One quarter or two quarters

may be negatively impacted, but eventually it will come back. Eventually it will be passed on.

**Naresh Vaswani:** Thank you Sir. All the best.

**Moderator:** Thank you. The next question is from the line of Hiren Trivedi from Axis Securities. Please go ahead.

**Hiren Trivedi:** Thanks for the opportunity. Sir two questions. I would like to know more on the cost and other manufacturing costs as there seems to be a sharp reduction, so could you throw some more light on how much of this would be sustainable going forward and secondly what will be your outlook with regards to the subsidiaries going forward that is all?

**Rahul Gautam:** What I will do. I will answer the second question first and then Dhruv will answer the other one. So as far as the subsidiaries are concerned let us look at the Australian subsidiary. That is good and steady now. It has also moved to a new normal, but we have to continue to understand that those markets are saturated markets and we have a reasonable size of the market, but still let me just share what used to be at a level of about \$6 billion per month is now hovering around \$7 billion per month and so we have been able to get a little more markets there, etc., and I think it will be like that. On the Spanish one, the opportunity is far greater because we have very little of the entire European Union market and it is also closer to the US. So, I expect that the contributions or the turnovers from Spain in the coming days will be much, much, much better. Dhruv can you respond to the first?

**Dhruv Chandra Mathur:** I can. Spain in this quarter gone by lot of costs are low because of the volumes and some of the cost like manpower cost, advertising, marketing, and expenses cost, which are fixed cost have gone down and there has been a lot of strategic issues, which have been taken by the company to reduce the fixed manpower cost and the travelling cost and other fixed overheads. So, the fixed cost will also go down and we estimate for the entire year, it would be in the vicinity of around Rs.70 Crores to Rs.75 Crores plus whatever is variable cost will move according to the volume.

**Hiren Trivedi:** Thank you.

**Moderator:** Thank you. The next question is from the line of Puneet Saraogi from Hill Fort Capital. Please go ahead.



**Puneet Saraogi:** I had two questions. One was that I was a bit surprised to sort of learn about the Spanish acquisition and in your annual report you also talk about building IT capabilities and possibly creating a business around that and to the layman it seems that the Indian opportunity is so large so why bother brother about these things, so could you help us explain and could you give us some more sense around why it makes sense to be in Spain and to also think about an IT business if I have read it correctly and the second is if you can talk a little bit more about your online brand and how that is doing? It seems that it has scaled up reasonably well, but would love to hear what is the latest on that?

**Rahul Gautam:** I just want to sort of reiterate the question that you have asked so that I have understood it. Mr. Saraogi the question is that what is the philosophy behind the Spanish acquisition is that correct.

**Puneet Saraogi:** Yes exactly and also on this philosophy I do not know whether I read it well in your annual report or not, but you talk about building an IT platform business as well and the philosophy around that as well especially if India so attractive and had an opportunity?

**Rahul Gautam:** As far as the Spanish thing is concerned you see it is really the manufacturing hub of a lot about the Western part of Europe. It is still a low-cost economy, which is there, but it continues to be part of the European Union. If you look at the entire European Union market it has now this company has only 1% or less than 1% share of the entire market. So even if the market was contracting the opportunity for this month to grow will be huge. There is now the opportunity of supplying from Spain to the US. It is across the Atlantic. It has the opportunity of supplying to the Norther part of Africa. It is also a small little sea and then you are there in Africa, so it is very centrally located, and it is a low-cost economy. That is the reason that we looked at Spain and touchwood for it, it is panning out exactly in the same direction. There are a lot of technologies, which here in India we have developed, which can now be transferred there and so for example the shoe industry. There are special foams that we make for the shoe industry and that company does not do, but it is surrounded by the shoe manufactures in that area. So such opportunities and all this kind of combined together there was a big potential and that is the reason that we went there and as I said Corona or no Corona, Corona has only amplified that potential, but that was turned out to be good for the company. The second is the hiving off, not the hiving off, but let us starting IT business and we named the company as Krakow so it has been naturally that IT has grown to be a big part of our company and as we develop, we developed within the company here and we developed across continents to Australia and to Spain. We learnt how to handle their needs and requirements, how to ensure connectivity. We were able to

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maintain the hardest years and take care of all the licensing issues everything and while we were doing this and interacting with the world we came across many people who were either our joint venture partners or our suppliers or vendors or our costumers who said that they would want similar levels of IT to be standard and this was at that time, we started thinking. This was about two to two and a half years back and then came to conclusion that there was a potential. I know that India is a monster at supplying IT to the world and there big names like TCS, Wipro, and all these people; however, for the mid level and for the small level that there was an opportunity and surprisingly now that we have done it, there is an opportunity in India too and we are interacting with the government and with some other companies here and that company is beginning to get orders from outside and it is already showing it was the right decision to do. You question number two was online brands so yes, this COVID times had shown that people have a far more comfortable in dealing with ecommerce. We were already into it. Our products do naturally take up despite being bulky can become press packed into a box and be delivered and of course there are already marketplaces like Amazon and Flipkart. So, we address that market through Amazon and Flipkart, and we address it through our own brand .coms. The last two months I do not have ready numbers right now, but the last two months has been a good growth over corresponding two months of the previous year. So, we have it reasonably well covered and now we will see how this market grows.

**Puneet Saraogi:**

Very useful. Thank you. Just one followup if I may the whole ITPs in the Spanish spaces if we assume that the management and financial resources are limited, which I am assuming they are, I am just struggling to figure out how this adds not more value rather than just being focused on India and building that opportunity? So how do we if you can help fill the log a little bit more and help me explain the decision-making process about why it makes sense to be there?

**Rahul Gautam:**

Look the way I look at it is like this that we are large players in India. We have large even possibilities of growing far more whether it is on the manufacturing side and then on the marketing side; however, our experience is that an organization irrespective of how much resources you throw into it still has some intrinsic capacity to grow. There are hurdles and there are sort of road blocks, which keep coming up and irrespective of the opportunity, irrespective of the size of the organization in that opportunity it, it still has some intrinsic let us say level that it can grow with. That is one. The second is that the kind of business, which is our primary business of manufacturing foam, the raw materials are sourced globally. They are supplied to the other places. The weight is manufactured in the same similar. There is a value that we bring to companies like the Spanish company that we have

acquired and it is a good way to increase both your topline and bottomline and what better proof than what happens from April onwards as far as this year is concerned that just to exist in other realities or other geographies as always been a good idea.

**Puneet Saraogi:**

Thank you.

**Moderator:**

Thank you. The next question is from the line of Raj Mehta from Raj Mehta and Associates. Please go ahead.

**Raj Mehta:**

Thank you Sir for giving me such an opportunity. I would like to ask you one thing. The foam industry where you sold in B2B in auto sector how does a Mayur Uniquoters and Sheila Foam are different or are they two are competitor the same industry, which they cater to?

**Rahul Gautam:**

To the best of my knowledge and I would confess right in the beginning that I know very little about Mayur Uniquoters. I think it is a Jaipur based company right Mayur Uniquoters?

**Raj Mehta:**

Mayur Uniquoters so Suresh Poddar for that company?

**Rahul Gautam:**

Yes so look what they do is to make rexine and what they make is also poly textiles, which is a normal cotton web or even polyester web coated with resin on top and what they do is of course they do polyurethane also, but the products are completely different. I mean the products are textile manufactured. A product is something, which is used then as a covering so where we are not competitors at all, but where do some similarity is if a bus seat is to be made, we will provide the cushion and they will provide the covering on top. So, it is a different industry. We do not do any PU coated textiles. They do not make any foams, but that is where the combination will come.

**Raj Mehta:**

Okay and my second question is related to them may be after a five-year period what are your targets with respect to the growth of the company? Where are you looking for the great opportunity where a just like a slipper verses a brand, which gave tremendous growth in past so what will be the growth driver for the next five to 10 years for a company?

**Rahul Gautam:**

These are uncertain times. Our production and our market and sales everything went to zero and we kind of restarted. For a month and a half everything was zero. The conditions are also changing with time. You know whether is work from home, whether it is ecommerce, whether it is small cars, whether is online business, whether it is airline business going to a zero, and trucking business changing. I think this is uncertain times with the scare. What do

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I look at five years, I may be able to give you some thoughts on it, but these thoughts can also be changing? For example, I would look at ecommerce as a deep part of the business. I would look at exports as a sizeable part of the business. I would look at subsidiaries outside India as something, which is not an event and a maximum, but something that could be there. The current subsidiaries their potential to grow that I would see so I think these are few areas, which is there. Then the most important part is our current business, which is mattresses and let me say that most people thought in March and April that mattresses would be the last thing to come around because it is a non essential item, but fortunately for us the people do not think so and it may be because they have spent a lot of time at home. It maybe they understand the importance of a mattress, etc., but it is not a nonessential item. It is an essential item and therefore they would be growth and brands will grow, organized sector will grow, ecommerce will grow, and furniture will grow both from an import side and the potential to export. So, this is the area. What kind of numbers you are looking sizes down the line, I would take another a quarter or two for things to kind of settle down and then be able to predict it?

**Raj Mehta:** Sir one more thing. I am just 23 years old and I am a practising chartered accountant so will there be any opportunity where we can work together? I tried to reach to the company, but could not able to convert that so if at all there is anything please let me know? Thank you for the opportunity Sir?

**Rahul Gautam:** Raj first of compliments to you that you are only 23 years old and you have asked some very relevant questions and you are already a chartered accountant. I would say that just connect with Mr. Dhruv Mathur, the CFO and then we can figure out if there is something.

**Raj Mehta:** Can you just provide me the email id or something where I can drop a mail to him.

**Moderator:** Sir I am so sorry to interrupt. May I please request you to rejoin the question queue for any further questions as we have people waiting for their turn? Thank you. The next question is from the line of Apurva Shah from Phillip Capital. Please go ahead.

**Apurva Shah:** Good morning Sir. Thanks for the opportunity. Sir what will our market in organized market and is there any change in either some sort of a competition intensity in three years time, our market share in organized segment?

**Rahul Gautam:** Rakesh will you take this question please.

**Rakesh Chahar:** The organized sector is around 35% of the total market and the organized sector our share has been increasing every year, so the last survey that was done it was at 30%.

**Apurva Shah:** So, 30% of 25% of 14000 Crores?

**Rakesh Chahar:** The organized sector is 35%.

**Apurva Shah:** Okay and Sir is there any change in the competition intensity because of emergence of either omni channel or may be some emerging retail giants so have you seen any change in the competition intensity?

**Rakesh Chahar:** Online definitely there is a higher growth in that channel and that channel even the last years it has been growing by about 30%. Post lock down the growth that has been witnessed online are upwards of 50%. So that is growing much faster given the environment. Other what we see is that the competition is trying to improve the retail, which people did couple of years back and there also into improving the display and interactions with the consumer at the point of sale. So that is a good thing for the industry because that is how you kind of make the customer buy the right mattress and the importance of mattress in the light of customer goes up. So that is what is happening in the market.

**Rahul Gautam:** Sir thanks for the explanation. Sir my next question is on like we spend substantial amount on sales and advertisements, which is like 10% to 12% of our topline so will we continue with that strategy or we will rework on that strategy in the current situation?

**Rahul Gautam:** Rakesh can you continue that please.

**Rakesh Chahar:** Right now, the expense on sale is more on the customer. There is a shift between the incentives to the trade and to the retailers and the consumer so I foresee that as far as mattress are concerned you constantly need some action so I foresee these strengths will be of similar level, but what will definitely go down is on the marketing side because the brand has already attained a very high brand salience so as the sales grow up that is an opportunity for expense to go down not so much on the sales side.

**Apurva Shah:** Understood and lastly what kind of capex you envisage over next three years.

**Rakesh Chahar:** Sorry you are not audible on this,

**Apurva Shah:** What kind of capex we envisage over next three to five years time?

**Rakesh Chahar:** Normally we incur around Rs.45 Crores to Rs.50 Crores to maintain 10 of our plants plus any Greenfield projects, which we take up. We have bought a land in Jabalpur and in the next two years or so a capex of close to Rs.50 Crores to Rs.60 Crores expected in that. So, this is the major capex.

**Apurva Shah:** Thank you very much and all the best.

**Moderator:** Thank you. The next question is from the line of Priyanka Khandelwal from ICICI Prudential Asset Management. Please go ahead.

**Priyanka Khandelwal:** Thank you for taking my question. I just wanted to check if the volume number this quarter includes sales to institutional centers or quarantine centers or all of it is attributable to retail and ecommerce sales?

**Dhruv Chandra Mathur:** So, it does not include the 10,000 mattresses, which we gave as in the CFR activity, but the rest of the mattresses supplied to institution on sale basis are included in this number.

**Priyanka Khandelwal:** How much would that be?

**Dhruv Chandra Mathur:** That would be around 3000 to 3500.

**Priyanka Khandelwal:** Understood. That is helpful. Thank you.

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

**Shiva Kumar:** Thank you for the followup. Sir what is the current share of the online channel in the whole organized industry?

**Rahul Gautam:** Rakesh.

**Rakesh Chahar:** So, the share of online is close to 4% of the overall industry.

**Shiva Kumar:** Okay and what will be our share Sir? Is it in line with our offline share in the online channel specifically?

- Rakesh Chahar:** So, no we are late starters as far as online is concerned but catching up very fast. We are already at number two level on the amazon, so the rate of growth has been much higher than the industry growth for us in the online channel.
- Shiva Kumar:** Okay Sir now we have a bed in a box concept, right? We are also able to supply that kind of a product.
- Rakesh Chahar:** Yes.
- Shiva Kumar:** Sir I am revisiting the earlier question, which I posed which is basically the export revenue opportunity? I know you said we will see something in this year itself will you be able to quantify Sir as to what can be the number we can expect from that front.
- Rahul Gautam:** Shiva Kumar let me not do that. I mean there will be a absolute wild because you know it is still kind of firming up and you know even if I could make a guess on the order of it, I would have done that but it could be large, it could be not so large. Let us leave it for one quarter. Next time I will share that.
- Shiva Kumar:** Right Sir I will revisit the question in Q2 call. Sir I have a question to Dhruv Sir on the fixed costs can you revisit your trajectory that you had given? You said something like Rs.75 Crores, right?
- Dhruv Chandra Mathur:** That is right. I said so.
- Shiva Kumar:** The 35 Crores per quarter is the run rate we should assume?
- Dhruv Chandra Mathur:** Yes, it will be high in the Q1 of course because the operations were low and then I think it will be close to Rs.10 Crores Rs.12 Crores per quarter.
- Shiva Kumar:** Rs.10 Crores Rs.12 Crores for the quarter. If I look at the other opex this quarter, it was about Rs.32 Crores, right?
- Dhruv Chandra Mathur:** So, if you see the other, I was talking Rs.75 Crores in terms of fixed cost only or other expenses include selling expenses also and freight also, which are all variable to the volume. So please do not go by this absolute number and entrenched in that because these are the other expenses where combination of fixed and variable expenses is and if you want to know more break up you can talk to me offline. I will provide you that.

**Shiva Kumar:** Sure. Sir in the breakup of the other income?

**Dhruv Chandra Mathur:** It is mostly on the money, which has been with the company. The investment of that money is generally kind of that income.

**Moderator:** Thank you. The next question is from the line of Pankaj Sabrewal from Kotak Mutual Fund. Please go ahead.

**Pankaj Sabrewal:** Good morning. One question, which I had was you alluded to an opportunity led by government initiative, which is furniture and if I read the press recently you have introduced bed in that category can you know just take us through what kind of opportunity because that is a large sector and that is multiple time of the sector where the macros industry is in so can you just you know share your thoughts on how big this opportunity could be for us and what are your plans? Would you like to set up your own factory? Would you like to have a small commitment towards outsourcing and then test the market and move on that is a large opportunity probably as when we look at as a layman from an outside perspective? Thank you.

**Rahul Gautam:** So you are right that the furniture industry is far huger and far bigger compared to the mattress industry, but furniture as you know if you were to define it also has items, which are so many of them starting from a bed to a table to a dining table to cupboards to sofa sets to do all those things you know, which are clubbed together as furniture. It is also a very unorganized industry as far as India is concerned. Maturity of manufacturing and majority of selling will be by very, very small kind of players. Now that is the reality. That is how flat on the ground. It is also true that there was or there is a large large import of furniture, which were happening mainly from China, but also from Malaysia and Vietnam that were coming into the country. In fact, of the organized sector even upward of 60% is being imported. There is another dot, which is that there is a large export of furniture from all these countries from the Southeast Asian and China to the western world that is happening. Now looking at this entire thing you see that where India kind of fits in the Government of India decided or identified furniture as a segment, which can be used both for cutting down on imports into the country, increasing exports, and for growing the local market. As far as our play is concerned definitely the cushioning part of the furniture we are already into it and we do are reasonably good job and the ability to compare and make foams, which are comparable to any or in the needs and requirements of any of these Western countries whether they acquire a retardant ones or high resilient foam source you know with an empty allergy kind of foams, etc., we have all that capability that we can do. Where do we now fit



into it, I think at the moment we have all the ideas and thoughts and at different levels and there was a time when we thought that we could start by even outsourcing from within the country, but came Corona and what it has done is one these manufacturing units have suffered on their own. The second they are also experiencing large orders, etc., which are needed for catering to the country and for exporting. So that capacity seems to be also not available at this point of time. These are the facts of this. We have looked at setting up a very large facility fully automated with best of the inputs into it and duty, but you know the sheer diversity of the furniture and the sheer way that it is sold, I think we still need to get some handle on that. We are in a learning mode as far as that is concerned. If a big structure or a big complex for making furniture comes up from by the Government of India where everybody would sort of pull in, we would be happy to be able to supply foams and different kind of foams to it into it. No have I answered your question probably not, but I just opened my mind and my heart out and put it in front that this is all are the present conditions. This is uncertain but let it evolve and then we should be able, but on the intermediate part of the furniture we are already there at least on the foam part of it. We are testing by introducing beds and some beds, which are revolutionary, or which are different from what is existing today and that part we will continue to test and find out. A bed is a very normal thing that can happen in a showroom where we are selling mattresses. A sofa may not be that normal. So, I think we are still just looking at all those areas and will revert in due course here.

**Pankaj Sabrewal:** Okay Thank you and wish you all the best.

**Moderator:** Thank you. The next question is from the line of Vinod Malvia from Union Mutual Fund. Please go ahead.

**Vinod Malvia:** Good afternoon Sir. I just had one small question that was regarding this IT business which you planned to start, which you have started actually like can you just provide me what kind of a capital have you all kept aside or how much capital you all will be deploying in that business over the next one to two years to fund the operations any number to that?

**Rahul Gautam:** Virtually zero. We already have rupees whatever will be, it will be only in terms of operating expenses for space, etc. We do not need it for connectivity. We do not need it for any equipment. We do not need it and it will be self sustaining, which we have not put aside any capital.

**Vinod Malvia:** Because I was just looking at this company it has almost like 200 employees right now so business will take its own time to come so there will be some operational losses which need to be funded so any type number if you can help on the operation losses, which business will incur on the next few years?

**Rahul Gautam:** So that part of it I mean whatever we have hyped it up as a separate subsidiary, but those people and those employees were already a part of the company here. I mean that expense we were doing so there is an arrangement between the principal or between the parent company and that whatever we were spending on those employees we are giving as monthly charges to them and therefore they do not require anything. That expense was already happening.

**Vinod Malvia:** Okay so it was just part of your parent company? Now that gets shifted to the subsidy.

**Rahul Gautam:** Exactly as the jobs are coming in and as the projects are coming in, the people would be added and that would be like one step after the other. There will be no step for expenditure. We have space there is no problem. We have enough space in our corporate office and the infrastructure everything else is there.

**Vinod Malvia:** Okay thanks. That is all from my side. All the best.

**Moderator:** Thank you. The next question is from the line of Abhisar Jain from Monarch AIF. Please go ahead. Mr. Jain you may please go ahead with your question.

**Abhisar Jain:** Sorry I was on mute. Good morning sir and congrats for a good performance in Spain and Australian subsidiary. Sir my question is related to your opening remarks where you mentioned that organized is doing better than unorganized though unorganized is not as such you know completely you know washed out or completely closed so just picking you know a little bit in terms of the company's outlook here that you know organized sector Sir do we have some internal projections that what it could be in the next say three to five years from a 35% level that it is today and whether the current increase, which might we might see in these times in the organized sector then when can we retain or built upon by the organized sector as such so if you can throw some light it will be helpful?

**Rahul Gautam:** Thank you. What I mentioned in the opening remarks was that from the time that everybody came towards zero to starting and getting back to normal level it is that trajectory in that trajectory the unorganized sector is trailing behind the organized sector that is all I said. Now whether it will it will reach up and catch up or not there may be a little bit of a

difference and that may happen, but barring this COVID time whatever was happening earlier will continue to happen, which is shift from the unorganized sector to the organized sector, which may entail some of the unorganized sector goes out of business or it may entail that some of the unorganized sector becomes organized and become a part of the organized sector. So, I see that happening and so what is currently we look at as 35% of the of the market expect in about three to four years time this should be close to 50% plus of the entire market the organized sector.

**Abhisar Jain:** Understood Sir understood and Sir do we also aspire or have a target in mind that within that organized sector we need to be much higher than 30% that we are today or will it be you know too much to ask for or difficult to achieve?

**Rahul Gautam:** I do not know where that we are 30% of the organized sector and aspirations for sure and I think the basic building blocks and the fundamental foundations are already there and if there is any slip or anything else, which the other players in the organized sector have we are there to fill that up and take it up and definitely the aspirations are to take that 30% to 35% or to 40% for sure.

**Abhisar Jain:** Right so I mean Sir that in terms of distribution also we will have to make much more efforts to achieve this and lead this unorganized to organized shift will that be a right way to think about?

**Rahul Gautam:** Yes I guess when we go up each part of the value chain will lead to up its \_\_\_\_\_ will definitely need to do better than what it is so whether it is the distribution channel, whether it is the number of people coming to the showrooms, whether it is the conversion that is happening of the people into buying or purchasing or it is the up selling that is happening all that will need to improve and the distribution part of it that you said for sure. The supply time to the distributors, the stocks that they need to carry, the fulfillment that they will be providing to the consumer, and customer needs to be quicker all that will happen.

**Abhisar Jain:** Right and Sir last question on the online channel, which you mentioned that is seeing a very, very fast growth now Sir so do we have any further strategy around it? I know we have a Sleep X brand, which we sell there, but considering that the growth, is so high so would we have you know further advancement of strategy or broadening of this strategy to get more benefit out of this channel?

**Rahul Gautam:** I think we did already talk about this in one of the questions that was asked, and we see this as an important part. It is growing very fast but please also remember that the base is very

small and therefore the growth rate appears is very fast. We have Sleepwell brand. We have the Sleep X brand. We have their brand dot coms. We are participating in their the various marketplaces and therefore all I would say that all the courses are covered. Now we continue to do to keep improving on you know whether it is a supply times or it is some products, which are to be added to it, etc., so I mean on the sheer coverage of the market we will be there.

**Abhisar Jain:** Okay great Sir. Thank you so much and best of luck.

**Moderator:** Thank you. Well ladies and gentlemen that was the last question for today. I would now like to hand the conference back to the management for their closing comments.

**Rahul Gautam:** Thank you very much everybody for joining in and as usual the questions were intrinsic. They were very pertinent, and they continue to be a learning exercise for me and for the entire team. I know that some of the questions one was not very certain or if one appeared as not very certain and answering them but that is because of the uncertain times. We could not have made it. There is the change from end of March 23, 2020 or March 24, 2020 now which is in August. The change has been extremely huge and as I said the operations had come to a complete standstill and then we are we have ramped up back to about 85% so it does bring in a lot of uncertainty. The geopolitical situation has been changing across the world. The China factor has been playing out in many ways and therefore the answers may not have been to the point. I would say that becoming one or I would say the coming two quarters should really be far or affirmative and far more certain as far as the outcome is concerned and the sharing with your concern. I do expect like most of the world that between the time of Diwali to New Year, we should be back to the pre COVID times if not better at least some other geographies are showing that we could be better and in the meantime I make an earnest request for everybody that please stay safe for you and for your family and if there is one input I can give you it is only that if there are symptoms appearing on any day or at any time do not neglect them. The first one or two days or three days are extremely crucial. If attended to people get well in about five to six days time. If unattended to for four to five days then they worsen and there are cases of you know the lungs not or continuing to have some scars, etc., so with those words and praying and hoping that everybody remains safe and we bite this time, learn from it, make whatever changes that are necessary and look at all the opportunities. Thank you very much once again.

**Moderator:** Thank you. On behalf of Edelweiss Securities Limited, we conclude today's conference. Thank you all for joining. You may now disconnect your lines.