



“Sheela Foam Limited Q1 FY2018 Earnings Conference Call”

August 04, 2017



ANALYST: MR. ANAND MOUR - ICICI SECURITIES

**MANAGEMENT: MR. RAHUL GAUTAM – MANAGING DIRECTOR – SHEELA
FOAM LIMITED
MR. DHRUV MATHUR - CHIEF FINANCIAL OFFICER –
SHEELA FOAM LIMITED**

Moderator: Good day and welcome to Sheela Foam Limited Q1 FY2018 Earnings Conference Call, hosted by ICICI Securities. 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 telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Anand Mour from ICICI Securities. Thank you and over to you Sir!

Anand Mour: Good evening. ICICI Securities welcome you all to Sheela Foam Q1 FY2018 earnings conference call. We have Sheela Foam management represented by Mr. Rahul Gautam, and Mr. Dhruv Mathur on the call. Over to you Sir!

Rahul Gautam: Thank you Anand. Thank you very much. This is Rahul Gautam from Sheela Foam. Good evening ladies and gentlemen. I welcome you to this presentation by Sheela Foam for the Q1 FY2018 results and I guess GST is on everybody’s mind and how it has impacted us. There has been really the hallmark or the unprecedented event that has happened in the last quarter and although it has started from July 1, 2017 but the entire month of June and in fact a couple of days of May were the pre-GST run up where all turbulence and everything was happening.

Post demonetisation we were beginning to stabilise a bit but I think the GST has shaken up the market. Of course, it is for the good, it is for a long-term good, especially in our trade where there is quite a bit of unorganised sector, but in the short-term it has set the cat among the pigeons.

We look at it as a big reform. It is not only a tax reform. We consider it as a business reform. So whether it is the accounting, whether it is the sourcing, whether it is selling, whether it is distribution everything is being impacted by this reform and some of it we have been able to do and to prepare ourselves and our channel for complying with this new regime and there are many things which will happen in due course of time. For example, the restructuring of the distribution system, which was earlier based on states because of commercial reasons, but today it, will be based purely on logistical reasons.

Post GST the rates that have been declared for us is 18% on foam and its products, 28% on mattresses and the other comfort accessories that we have, pillows and comforters and duvet and in the mattresses the coir mattresses still continue to enjoy 18%. So there is a 10% gap, which is very similar to in the last regime where the excise duties were 2% and 12.5%. So there is kind of been maintained.

We have retained our MRPs because when we do a full calculation, the big impact is a little bit here and little bit there. I cannot comment on exact impact because we are still trying to negotiate with our suppliers for taking impact of GST on them and to pass on some of the benefits like the CST and all that others to us so that we can make our costing. And one more part which is still pending is that the government has not yet notified what they will do in the geographically exempted areas. So we had one unit or we have unit in a place called Kala Amb, in Himachal Pradesh where we had the excise exemption up to March 31 2020 and today in the GST regime we have to discharge GST; however, I understand that the government has already got done the internal clearance for giving a refund which is equivalent to 58% of the CGST. So that impact will come. All these impacts will really keep our costing pretty much similar and therefore we have decided to retain the MRPs exactly to what they were before.

In the process, the dealers of course get impacted a little bit for their margins because we were providing earlier the VAT based on their purchase prices and whatever their selling price was the differential was paid by them which was 14.5%. Today they have to cover up 28% of that, so that is depending on at how much discount to sell the products. Generally about 1.5% to 2% will be or may be up to 3% or something, that they have to bear etc., because they have a large margin with them, they would cover that up themselves.

A new impact is on textiles, which is a large product that we use. Earlier there was no excise duty and no VAT on textiles, today it is 5%; however, the prices do not go up, because the chain continues the excise duty earlier was sort of stopping at the yarn level. Today that process continues and therefore 5% will be something extra that that will come in. So again that has to be taken into account and when we do all that I still stand by that will tend to gain a little bit. The exact numbers is not known as of now.

The dealers did not exactly behave or the retailers did not exactly behave as we thought they would. We had given them an assurance in a pre-GST time that please do not worry about the impacts of GST and the stocks at the transition time. We assure you that we will take care of whatever loss if any that will come to your account, but I think this was across the markets and that is exactly how dealers are used to behave too, that destocking/ clearing up all that was absolutely rampant and that did impact the volumes. We have also notified that on our site earlier.

We still stand by that if there is any transition loss we will compensate dealers and the way that we have taken care of it is that the government has provided that whatever is the stock they can clear that in the next six months on a monthly basis. They will file a return as to what the stocks were, what is the loss and the government is going to take care of a certain percentage 60% in case that they do not have the duty paying documents with them. So

*Sheela Foam Limited
August 04, 2017*

whatever that impact- on some items they will gain, on some items they will lose a little. Whatever the net of it, we have committed to standby it. Our guess at the moment is that it will be very, very negligible if any that comes about, but we will see as time goes by.

Of course the GST has brought in digitization. It has brought in compliance which will bring the unorganized sector more towards the organized sector and the other major impact that it will do is on the logistics part, because our products are highly voluminous and they need to be also serviced more often and just because that the selling spaces are small. So normally a truck, which used to take from our factories to the markets seven to eight hours, is today doing the run in six hours or five hours and that should only improve with time.

The other part which I have already mentioned to you that the logistics, its impact on the distribution system we will look at it in the second phase of reviewing our processes once the GST kind of settles down and the trade settles down.

The second point which I want to talk and that is one of our major raw materials, which is TDI. TDI continues to soften. It is moving down in the last quarter from level of about 260, it went down to 232 but yesterday which is really not the last quarter it has gone up by Rs.10, but I think that is the temporary blip because somewhere in China, the prices kind of firmed up and the local supplier wants to take a little bit of an advantage.

By and large it is on a slow decline as the prices are concerned and we still await the big production, which is slated for the third quarter of this year of this calendar year and that is Sadara in Saudi Arabia. I understand from DOW Chemicals that it is on track. They have already started producing some of the chemicals and TDI should come in at that time and I think the decline accelerating at that point of time. However, whatever are the impacts of the TDI changes we are fine to accommodate that as much as possible.

The third point that I would like to talk about is the acquisition which we were in the last quarter slated to go through where I had mentioned that we had made some kind of an offer and then we were going through the due diligence part of it plus we were waiting for the March quarter results of that. Somehow those results were far poorer or lower and the due diligence also did not bring us the required amount of comfort for the level that we had bid. So we did revise our bid and in accordance with the changed business view that we had.

Somehow that was not acceptable to the party and therefore that acquisition is now off our radar; however, we intend fulfilling that by using suppliers who are ready to do it in our brands, produce bed sheets and comforters and duvets and supply to us including the party that we were talking to, they are also absolutely ready. So there is reasonable competition there and we should get a good product. Our current position on that is that we would create

that internally, outsource that material and carry on with our program and our plan as we had decided to do.

The other acquisition that we talked about was in very nascent stages. It is still in a discussion mode or a negotiation mode, it is not off as yet, but we are still to sign a term sheet and take the next step, but I guess the whole world and especially our side of the world has been involved with the GST and its implications and therefore these issues have been postponed a little bit.

We have started the budget series of our products under a brand called Starlite and we were committed to rollout as soon as the GST was implemented, so we have done that. In two territories it has been rolled out, it has been accepted very well and now the operations and the sales marketing would plan the rollout in all the other territories.

Our performance last quarter, the EBITDA percent has gone up from the previous quarter. We tracked for the Indian operations at 11.4% and for the Australian operations at about 5.6%. So the Indian operations which is the dominant part is getting back to normalcy in spite of whatever happened in the GST side and we hope that this month and this quarter onwards, it will only improve from where we stand. The total turnover for the quarter was Rs.419 Crores. So that is by and large is the summary of what to say about the last quarter and would be happy to receive questions.

Moderator: Thank you very much. We will now begin with the question and answer session. We have the first question from the line of Pritesh Chheda from Lucky Investment Managers. Please go ahead.

Pritesh Chheda: Thank you for the opportunity. The topline growth if you could tell what were the volume growth and my second question is the pricing action till date if you could tell what were it and the corresponding RM price to that pricing action?

Dhruv Mathur: I will answer that. As we stated in the present quarter, the primary offtake was very low and in terms of mattresses we saw 2.45 lakh mattresses as compared to 2.66 lakh mattresses sold in the corresponding quarter of last year. As far as the prices are concerned, we increased the prices by 7% on April 20, 2017 to take care of the increase in the prices of TDI. We had almost covered the entire price increase, but for latest increase **which** has happened only yesterday.

Pritesh Chheda: So the 7% price increase covers TDI up to Rs.260 or Rs.230?

- Dhruv Mathur:** Rs.230, we had estimated that it will close around Rs.230, so we have covered it up to this stage and till yesterday it was well covered when it got up the prices went up by Rs.10. So we feel that it is temporary stuff.
- Pritesh Chheda:** The other raw material?
- Dhruv Mathur:** Other raw material all stable. Nothing has moved up or down.
- Pritesh Chheda:** The price increases before the 7% on April 20, 2017 what was the quantum or what is the anniversary price YOY?
- Dhruv Mathur:** Sorry, we could not follow.
- Pritesh Chheda:** What was the price increase before April 20, 2017?
- Dhruv Mathur:** Price increase was 7 % in the month of November. November 7, we took a price increase.
- Pritesh Chheda:** So basically we are running on about 14% price increase?
- Dhruv Mathur:** That is right.
- Pritesh Chheda:** Okay.
- Dhruv Mathur:** When you see the overall picture, the growth in the value is driven by the price and some of it product mix also.
- Pritesh Chheda:** Okay and on the longer term or let us say medium term, let us say first the medium term outlook on the margin and the growth margin?
- Dhruv Mathur:** The gross margin for this quarter for India operations was 42.6%, last full year it was 44.5%, so for this year we have budgeted something around 44%, 45%.
- Pritesh Chheda:** Thank you and all the best to you Sir.
- Moderator:** Thank you. We have the next question from the line of Tejas Sheth from Reliance Mutual Fund. Please go ahead.
- Tejas Sheth:** Good evening Sir. We took price increase in first week of April?
- Dhruv Mathur:** April 20, 2017.

- Tejas Sheth:** Still our gross margins on sequential basis have declined. I thought that the margins should have improved in this quarter at the gross level?
- Dhruv Mathur:** On sequential basis they have improved. When you see Q4 FY2017, there was 37.8%, Q1 FY2018 is 42.6%, and so they have improved.
- Tejas Sheth:** May be my calculation is little.
- Dhruv Mathur:** For sure, I have the calculation with me that impact has certainly come.
- Tejas Sheth:** One month of post GST if you can just tell me how the unorganized sector is bearing? Is there any data, which you are getting from the front-end team towards unorganized sectors?
- Rahul Gautam:** First let me say that it is still very early days. People are grappling with it and trying to find out and figure out that how especially the people who were not in the organized sector, but two independent events I can say which give some inclination. One is that in the geographical area with the maximum unorganized sector for manufacturing mattresses is they have sat together, they have taken a call that we will get completely align to the GST regime and we will comply with it and we need to all increase our prices and to that end most of them have done that. The impact as I said in the market, it would still take a little bit of time that is from the manufactures of the unorganized side is concerned. As far as the markets are concerned, the initial response that has been to our low end products and the budget end product which we did just in two territories has been very well accepted and somewhere it gives me the confidence that the movement in that direction is already happening. But I must qualify by saying that it is still very early days, it will take time .People are waiting to absorb all that the GST is bringing with the impacts and therefore may be when we are through with this quarter we would have a much better to handle on this path.
- Tejas Sheth:** So this new product line which we launched what is the price differential to your existing product lines as well as the price differential vis-à-vis the unorganized market?
- Rahul Gautam:** So our product and this is after last increase the Sleepwell range started from about Rs.7500 for a pair of mattresses and anything below that was what let us say we would term as the unorganized side. Today the product that we have introduced in two models, one is Rs.4800 and the other one is Rs.5200 and the Sleepwell is at Rs.7500. The lowest in this unorganized sector was something like Rs.3500 and then there was a kind of continuance right up to Rs.7000, Rs.8000 that people were able to charge. But if I look at this Rs.4800 and Rs.5200 level, let us say about Rs.5000 levels, we would be addressing reasonable bulk of that unorganized market.

- Tejas Sheth:** And this Rs.3500 to Rs.7000 was pre-GST rate?
- Rahul Gautam:** Yes, pre-GST but as I said that we have not changed our MRPs post GST, therefore for us it is the same. Unorganized it would be tend to go up because once they are wanting to get into the organized, so from Rs.3000 they would automatically would mean Rs.3500, Rs.3600 kind of a level. It would go up and where we are starting from Rs.4800.
- Tejas Sheth:** The margin profile on this low end product obviously would be lower than your current existing range, but would that difference be substantial?
- Dhruv Mathur:** Gross margin may be you are right, but coming to the EBITDA level they would not be much difference because on this the promotions, advertisements are not going to be that much. We have done some working on this.
- Tejas Sheth:** My last question is on your Australian operation. I read through the note which you have put up below the results but if you can just elaborate the issue and how you see that going ahead?
- Rahul Gautam:** As far as the Australian operations are concerned compared to the last Q1 of FY2017 at that times the turnover was Rs.84 Crores and the net profit was Rs.7 Crores and this time, the turnover was Rs.72 Crores and profit is Rs.1 Crores. So story is very similar to what we had been mentioning that there was a bed in a box that is something which is sold on line and this customer had shifted from us, it is somewhere posts that quarter. We have been working on it and slowly that aspect is coming back. In fact the impact has not happened in this quarter, but I will say that post that ,in July and in August, those orders have begun to come back to us so that was one reason. The second reason was the TDI prices are quarterly based as far as Australia is concerned and when they are passed on to the customers there is a lag there. Because the customer has contract prices and therefore there is a rise and fall clause for the raw materials, but the implications happen after four to five months and that is the delay that has been impacted, but it is coming back. Whatever I have seen the results for July which I may not be able to speak right now. It is getting back on track as far as in comparison to that time is concerned.
- Tejas Sheth:** Thank you very much Sir.
- Moderator:** Thank you. The next question is from the line of Aman Batra from Goldman Sachs. Please go ahead.
- Aman Batra:** Two questions from my side. One would be is there any kind of quantification you can do for the destocking that has happened in the trade due to the GST and the second would be

for the Starlite brand what kind of distribution setup are we looking at is that the same distribution, the same franchise stores or is it separate distribution, separate sales if you can explain that?

Rahul Gautam: I thought the first question was that to what extent the destocking has taken place in the market?

Aman Batra: Yes.

Rahul Gautam: Basically the difference between the primary sale and the secondary sale or the purchase of the dealer versus the sale of the dealer. So my estimate is that it would be close to about 50% to 60% I mean 60% is what he would have bought compared to hundred of sale. And the second part that you are talking on the Starlite distribution. What we plan to do at the moment is that the distributors being used are the same, for the channel is existing, but the retailers are going to be more MBOs and the smaller shops. As far as our showrooms and all that are concerned, this product will not go, so that is able to compete with where it would be unorganized sector in the MBOs. So that is the mandate for the distributor. We will review it after a quarter and see, but by and large the sleepwell showroom will not this product.

Aman Batra: Thanks a lot.

Moderator: Thank you. The next question is from the line of Prashant Kutty from Sundaram Mutual Fund. Please go ahead.

Prashant Kutty: Thank you for the opportunity Sir. Firstly in terms of demand how April and May in terms of demand is because I believe destocking would have been towards the end of...

Dhruv Mathur: Prashant, can you speak a little bit louder.

Prashant Kutty: I just wanted to understand, how was the demand in April and May as far as the volumes are concerned?

Dhruv Mathur: So the demand in April, beginning of April was almost similar to the volumes of April corresponding of the last year, but May and June it really went down because it was becoming clear that GST is being implemented from first of July. There was complete panic in the trade as to what will happen to the stocks as dealers will get any compensation from the government or not. So the impact started only in the month of May and June, so the volume of mattresses went down from Rs.2.66 lakhs to Rs.2.45 lakhs. Major impact was in the month of May and June only.

- Prashant Kutty:** Could we have a number as to what was demand I mean what is the growth in April in that sense?
- Dhruv Mathur:** The April number was almost constant; however, the reduction comes in the month of May and June. On June 3, 2017 ,the government-cleared position- the part of excise can be compensated- still there was absolutely non clarity.
- Prashant Kutty:** Secondly just clarification over here. You said that the unorganized have taken a call to be aligned with GST. Have they taken any pricing actions to that effect post the GST?
- Rahul Gautam:** As I said that it is early days, but yes when they are getting aligned to the GST the prices are going up and that is why said from what used to be about Rs. **3000** a pair is more like Rs.3500 -Rs.3600 a pair.
- Prashant Kutty:** But we have been interacting with a lot of other companies. In some cases where the tax rates actually kind of gone down?
- Rahul Gautam:** Sorry to disturb you. The audibility is very, very low.
- Prashant Kutty:** I just take a little bit forward on this. What we got to hear from other companies is that unorganized guys probably become a little more active especially post the GST regime probably on account of the because E-way bill and all not being there. Was any such phenomenon visible at our industry end as well where in the volume would probably much higher expect to anything of that sort at the unorganised level?
- Dhruv Mathur:** We are very sorry. We are unable to understand your question, because there is some echo in your phone.
- Prashant Kutty:** What I was asking was that we have heard about many other industries where the unorganized trade became very active post the GST because of absence of E-way bill in the system. Did our industry kind of witness any such kind of activity with the unorganized is very active post the June month especially after the GST?
- Rahul Gautam:** We do not hear anything like that. Any super activity or anything like that if there are activities on the lower side; it is not on the higher side.
- Dhruv Mathur:** Activity means get into organized segment, yes we have explained that some of the unorganized people are trying to come to organized segment because what is happening is earlier the rate of taxation was only 12.5% on the product excise duty. Now right from the beginning it is 28% on mattresses. So if they do not come to the chain, their input loss is

much higher. So most of them are trying to come within the GST net provided their turnover is more than Rs.75 lakhs- below that all going to composition.

Rahul Gautam: Correct so that is another joker in the pack. As far as manufacturers are concerned and turnover is less than Rs.75 lakhs you can pay a 2% composition fee and so what kind of impact was that have and how much, how many of them can retain themselves within the Rs.75 lakhs that is still they are figuring that part out and therefore probably it will take another month before things begin to settle down.

Prashant Kutty: I just one last one, in terms of TDI prices, while you just spoke about that your awaiting production and one of the Saudi Arabian facilities as far as TDI is concerned, but till then you just also spoke about that the prices have again gone up at least next months that there could still be volatility as far as TDI is concerned or what gives us the confidence that it is probably settling downwards.

Rahul Gautam: The trend is downwards. It will continue to be downwards that is our belief. Of course in a very short span, there is a bit of volatility exactly like how the share prices move. You can see over a period you will see a trend, but if you see in the shorter ones but this Rs.10 that happened yesterday is definitely just a short term gain the person believes or the supplier believes that he can make a little bit of a buck, but by and large is quite. It is sliding down. It will slide down but slowly.

Prashant Kutty: And lastly what is our budget for the EBITDA margin number I am sorry I just missed that number?

Dhruv Mathur: Prashant it is 44.5% gross margin for this year, after considering the TDI price etc., we are have budgeted for 11.7% EBITDA.

Prashant Kutty: Thank you very much Sir. All the best.

Moderator: Thank you. The next question is from the line of Nihal Jham from Edelweiss. Please go ahead.

Nihal Jham: Good evening first of all to the management. The first question was related to GST itself. You mentioned that you will be providing compensation to your dealers I guess on the existing stuff that is lying if I understand right?

Dhruv Mathur: Yes.

Nihal Jham: Now we are saying that going forward there is going to be 3% impact on the margin, the distributors will be making, because we are keeping our MRP the same. So on an average what is the kind of margin the dealer's make right now selling products?

Rahul Gautam: I guess there are two questions, which you are asking. Number one is the impact of GST on the margins of the distributor and the retailer so that is question. As far as the distributor is concerned, there is a marginal increase because generally it has been 6% or 7% depending on the territory. So there is a dealer purchase price was called as a DP and that is what has been taken and we provide taxation up to that place. So the distributor tends to gain a little bit because tax provision is on the dealer purchase price or his selling price. As far as the dealer is concerned, he is paying the differential GST on what he buys at and what he sells at and earlier he was paying 14.5% and today he is paying 28%, so if he is retaining a margin of 10% then 28% of 10% which is the 2.8% is a kind of a loss for him; however, because the margins that he has is 20% to 25% he can very well change his selling price and make up from that. So that was your question number two. But I think the question number one was regarding compensation to the dealers for whatever was lying in stock. So point number one there is majority of them had some stocks. It is what they are carrying in their stock is very, very little. Second as far as the stocks are concerned whatever was coir related material they tend to gain a little bit and as far as the foam related and spring related material is concerned, they tend to lose even after the government compensation. But if you take the net of it may be just a very, very small number. So the system that we have put in place is exactly aligned to the government position whatever was your stock, please keep selling it you have six months to dispose that off. The first you have to report your stock then you have six months to clear that stock after every month, you please declare what you purchased on, what is the net loss that you are having, the government will compensate 60% and the balance we have committed to it. We make a full estimate of all that it is going to be completely inconsequential to what we believe that we may have to, but we will stand by our word to compensate them.

Nihal Jham: Absolutely. So just taking ahead on the dealer margin part. My question mainly coming from the VAT in case our competition is, providing the compensation for the margins that we have impacted. So while on the EBO channels side we may not be impacted, but is there a possibility on the MBO, there would be preference to sell more on the competition product and in case of EBO the return profiles may reduce if their margins go down.

Rahul Gautam: Now that month and a few days have gone by all major companies have been cleared there policies and it is exactly similar to ours, very, very similar which is to way as was provided earlier on the dealers purchase price. We provide the tax and whatever is the differential the dealer bears. So is that now across the industry that policy remains the same for everybody.

Nihal Jham: Secondly on the revenue part, we have mentioned that we already right now year-on-year basis running at a 14%, 15% price increase and this quarter obviously your volumes has got impacted because of the destocking I think we have mentioned that only 60% of the stocks were taking compared to a level of 100%. In the coming quarters where the restocking happens may be in the next quarter and if it stays normal in Q3 and Q4. What is the kind of revenue growth that we are factoring and for this year and plus do we have any separate budget that you made for a Starlite brand in terms of the revenue number or any targets we have at this point?

Rahul Gautam: Question one. I guess the channel is not completely but to a great extent destocked, but one negative that has emerged is they have also learned to do business with less of stocks. So they will fill up all of that in the coming months I think it will happen, but it will not happen in the month of August. I think it will start happening from the middle of September when they start preparing for the season. So in this quarter you should see a revenue increase happening because of the vacuum existing in the channel, but by and large they have also learnt to operate at a lower level and some of the destocking that they have done was also a kind of a destock which was there with them, but were happy going along with it, this is also like spring cleaning and all that happens. So we will see an increase in revenue for sure. Will that part of the revenue growth into fulfilling destocks; yes for sure. To what extent I would say 50% of what the destocking the differential happen at that time and what was the second question?

Nihal Jham: On the first question also. What is the revenue growth number we are looking at? I was just believing that 15% already price increase we have and if you look at 6% to 7% volume growth the normal that ideally would happen in any year, so is the 20% revenue growth number are normal expectation that we can run with it at this point or something you would also budget in?

Dhruv Mathur: The way you are talking it appears that the revenue growth can be more than 20%. The premise is that they will fill up their stores to the original levels but however as Mr. Gautam said they are now also used to working on lower stocks ,so if you can assume that overall growth in this quarter it is our estimate would be close to 20% and if we cannot speak on the July numbers, but as far as the revenue is concerned, yes there is the growth. As far as volume is concerned vis-à-vis last year they have come back to the normal volume.

Nihal Jham: Fair enough and just last question was on the potential of the Starlite brand?

Rahul Gautam: I think it is a little bit early days. We are using the distribution channel to get to them. We will give an estimate next time. I think will be closer to what reality is once we start beginning to feel. Number one is our product acceptability two territories extremely good,

but how does the unorganized sector which is completely unknown - how do they behave, what happens. So just give us this quarter to give you and we will be better estimate at the end of this year.

Nihal Jham: Thank you so much and best of luck.

Moderator: Thank you. The next question is from the line of Shailesh Kumar from Sunidhi Securities. Please go ahead.

Shailesh Kumar: Thanks for the opportunity. I wanted to understand what kind of volume impact would be there because of this acquisition deal, which has fallen through. We must have buzzed it because of that acquisition we will be doing certain kind of volume. Now that it does not happen and we are going so low. So what kind of impact that will be having?

Dhruv Mathur: We did not budget for that. In any case this acquisition for the comfort accessory size the bed sheet and the comforter side and we do some of them ourselves we did not budget for it.

Shailesh Kumar: And what kind of money we have been able to save because of not going for this deal?

Dhruv Mathur: Are you asking for the price which we negotiated I think it is not be fair to say it on the call,

Shailesh Kumar: Fine. What are the two geographies where we have launched this Starlite brand?

Rahul Gautam: This is one is in the Eastern UP which is the Kanpur territory and the second one is in the Agra territory which is Bundelkhand area and centered out of Agra that is Jhansi, Agra that belt. We have three territories, so we have tested in these two territories.

Moderator: Sorry to interrupt you Mr. Kumar but may we request you to return to the queue for followup questions as there are number of participants. Thank you. The next question is from the line of Tejas Sheth from Reliance Mutual Fund. Please go ahead.

Tejas Sheth: Thank you Sir for the followup. Just again on the Starlite brand. I think the organized market is divided into two. One, which sales through MBOs and other is Mom & Pop shop in the local areas. So the Starlite will be competing with the brands at the MBO level. What would be the market size of that in India?

Dhruv Mathur: When we did the study last time we found that the total market was Rs.9000 Crores , not including out of this Rs.3000 Crores was the organized and Rs.6000 Crores was the unorganized. So we are going to complete with the Rs.6000 Crores stuff.

- Tejas Sheth:** How sooner can we rollout at pan India level?
- Dhruv Mathur:** We have rolled it at two places and of course whenever you launch a new product or something you do the test market first.
- Rahul Gautam:** It is also teething trouble etc., so all those are getting sorted out of course we are already mattress manufacturers, so there is not so much of an issue, but it is also happening at the time when GST is getting rolled out. So just for people to focus on it, and to absorb it and to push it, so all that it is kind of taking place, but as I said acceptability in the market is good and it is just now that we need to start moving it, for us as quickly as we can we will be doing it at very fast rate , presume that 50% of the territories should be covered in this quarter itself.
- Moderator:** Thank you. The next question is from the line of Manish Poddar from Renaissance Investments. Please go ahead.
- Manish Poddar:** I just wanted to understand couple of things. First thing is the MRP of our product is fixed by us right?
- Rahul Gautam:** Yes.
- Manish Poddar:** You are selling the product to the distributor at 85 and margin for the distributor was about 6%, so you are selling the product at 90, what was the price, which the dealer was getting before?
- Rahul Gautam:** We need to work backwards from MRP, if the MRP was 100, the dealer purchase price was Rs.75 and then we were backward from Rs.75, it was 7% to about 5%, and the distributor was purchased by anything between Rs.65 and Rs.70.
- Manish Poddar:** Okay in this 100, it inclusive of tax?
- Dhruv Mathur:** Yes, it is inclusive of VAT now GST.
- Rahul Gautam:** MRP remains the same that is the different Act; it is the different law, which is in place. The maximum retail price to a consumer has to be declared on the product and which is inclusive of all taxes and all duties. So earlier there was VAT and excise duty, today is the GST.
- Manish Poddar:** I am just trying to understand Rs.100 was including 14.5 of the taxes right, which has now become 28?

Dhruv Mathur: I will explain to you. Rs.100 is the MRP, Rs.75 is the price inclusive of tax is which are excise duty and the VAT, but 25% is the gross margin. So whatever the value addition of dealer, the differential on the VAT on that he was paying earlier that is 14.5% on this Rs.25 are going out of this. Now he is going to shell off on this margin 28% instead of 14.5%. As far as the distributor is concerned, he was selling earlier also is Rs.75 inclusive of VAT and excise duty now also is selling at Rs.75 inclusive of GST. So there is little bit of gain is there to the distributor because earlier we were billing the distributor at basic plus excise now we are billing at basic plus GST. So in this entire chain a bit of gain is there for the distributor. There is some loss for the dealer. Between them they are going to compensate this loss either through discounting procedure or something.

Manish Poddar: And just one small thing this EBITDA margin you have sort of 11.7%, this is for full year?

Dhruv Mathur: 11.7% is the budget for the entire year.

Manish Poddar: Thanks.

Moderator: Thank you. The next question is from the line of Ashok Shah from Dolat Capital. Please go ahead.

Ashok Shah: My first question is what would be the volume of TDI that we consumed in this quarter and corresponding with the last year same quarter?

Dhruv Mathur: I do not have the number of quantity, but the quantity would have remained almost same, because the volume would have slightly gone down ,It would have gone down by 10% almost because the mattress volume has gone down.

Ashok Shah: So the pricing has gone up from the last year of TDI per unit, so that is how the value would have remained the same more or less.

Dhruv Mathur: Sorry I could not follow what you are saying.

Ashok Shah: The cost of TDI would have remained the same in raw materials because the volume has gone down; the pricing would have improved, so that is what I am trying to understand.

Dhruv Mathur: I would say that you see the last year the TDI to revenue ratio gained up from 11% to 16.5% in the entire year. So what happens when you increase the price of your product, price of TDI is moving on one side, it used to constitute only 11% in the year 2015-2016 the impact of increase in raw material price and increase of price, so as took it from one level to another.

Ashok Shah: Following up my other question what is the other major raw material is polyol also major raw material for us because recently the government has imposed an anti-dumping duty and imposed of polyol arising from anywhere in the world?

Dhruv Mathur: It is not arising from anywhere in the world. Polyol has been subject to TDI to antidumping duty right from the beginning. So whenever any new country comes up, the local manufacture moves for antidumping duty. But that is very small anti-dumping duty, which has been levied, which has not impacted the price at all. Polyol continues to be close to Rs.100 per kg, which was the level the year 2015-2016, 2016-2017 even today that is the level.

Ashok Shah: We are the importers of polyol so that is not going to affect our business if the polyol increase. So the antidumping duty has not been passed on yet or has it?

Rahul Gautam: As far as polyol is concerned we have primarily three suppliers. One is the local manufacturer, which is of course Manali Petrochemicals. Second, companies like Shell and Dow who import themselves and make sales to us in Indian rupees and therefore if there is any antidumping or any fluctuation in the foreign exchange it is all to there account. They give us an Indian rupee which takes care of all these.

Ashok Shah: That is Rs.100 of kg, so it does not matter to us.

Rahul Gautam: Yes.

Ashok Shah: There is no differential in the pricing of domestic or imports or anything?

Dhruv Mathur: They maintain almost in entirety.

Ashok Shah: And international prices are more or less the same or they have also been erratic?

Rahul Gautam: No, polyol has been pretty steady.

Ashok Shah: Okay and it is likely to be the same going forward as well right?

Rahul Gautam: Yes. It is going to be like that.

Ashok Shah: Thank you so much Sir.

Moderator: Thank you. Due to time constraints we will be able to take the last two questions. The next question is from the line of Umang Shah from JM Financial. Please go ahead.

- Umang Shah:** Good evening Sir. My question was pertaining to that what would be your revenue percentage from technical products and institutional products?
- Dhruv Mathur:** The institutional product revenue it is close to 17% to 18% of our total Indian revenues.
- Umang Shah:** This was versus year-on-year last quarter?
- Dhruv Mathur:** Almost constant 17%, 18% that is the technical form, which we sell under B2B basis that percentage, is constant.
- Umang Shah:** So technical and institutional will be categorizing it in one subhead only right?
- Dhruv Mathur:** Sorry.
- Umang Shah:** Technical products and institutional, they both will be categorized in one single head?
- Dhruv Mathur:** It is categorized in technical foam under B2B.
- Umang Shah:** Our export percentage how was the total revenue?
- Dhruv Mathur:** Exports are not very high. It is close to Rs.15, Rs.16 Crores per annum and we are certainly working on increasing to this level in the overall picture this may go up from let us say this level to Rs.20 Crores or so.
- Umang Shah:** Correct if I am wrong then we are exporting to over 32 countries worldwide somewhere at that rate?
- Dhruv Mathur:** You are right.
- Umang Shah:** From 32 countries we are earning around Rs.16 Crores max?
- Dhruv Mathur:** It is all technical foam. Very specific to the need of the customer and those things which only we can make are being exported, so in terms of value they are less but the countries are buying.
- Umang Shah:** Thank you so much.
- Moderator:** Thank you. The last question is from the line of Nishna Biyani from Prabhudas Lilladher. Please go ahead.

- Nishna Biyani:** Thank you Anand. I just wanted to understand what is happened to other expenses part in this quarter by down 10%?
- Dhruv Mathur:** Sorry.
- Nishna Biyani:** Other expenses selling and other expenses are down YOY 10%, I just wanted to know.
- Dhruv Mathur:** Selling expenses are 14.5% as compared to 17.8% of the corresponding quarter. The other expenses also went down from 11.2% to 9.7% primarily because when you are comparing it all with the value and the value terms it has gone up by 17%, so the nature of these expenses especially other expenses is almost fixed, so the percentage they have gone down. Sales and marketing in this particular quarter, the expenditure on the advertisement was a bit lower and that is the reason they have gone down.
- Nishna Biyani:** What is the size of acquisition, which you are looking and by when you are expecting to get completed whether you are looking at FY2018 financial year, or what is the timeline?
- Rahul Gautam:** It should happen in FY2018, but still as I said it is a slow progress, the whole process has been impacted by the GST disturbance or GST happening and therefore we will pickup the strings probably another time , that is what we have mutually decided that we will get back to the table by the early part of August. So it should definitely- these things happen when they have to happen and they take the time.
- Nishna Biyani:** And in terms of stores which you are targeting 2020, 4000 stores what is the expectation there?
- Dhruv Mathur:** I can give you the position of this quarter. In this quarter, we increased 109 EBOs and increased 303 MBOs. So as of June 30, we have got 6088 total dealers out of which 3440 our MBOs and 2640 EBOs.
- Nishna Biyani:** Finally if something does not happen any dividend policy for the year?
- Dhruv Mathur:** We have already had policy, which is on our site. I think your question is what will happen probably that call will have to be taken by the board at the appropriate time.
- Nishna Biyani:** Thanks.
- Moderator:** Thank you very much. That was the last question. Ladies and gentlemen I would like to hand the conference back to the management for any closing comments.



*Sheela Foam Limited
August 04, 2017*

Rahul Gautam:

I would just say thank you very much for who have joined in. Some of these questions were very pointing and they are great learning exercise for us. GST is the main thing that has happened and is the main thing, which is going to settle down as we kind of move forward. We expect all these to happen definitely within the month of August because from the middle of September we expect the season and the high season activities to begin. The monsoons have been good. GST should be behind us. Everybody should have chosen a way to move forward and the unorganized sector that have taken a while to get into the organized side. So we look forward to good times and continue with the growth story and thank you gentlemen for participating in this and I look forward to doing that at the end of the next quarter or this quarter. Thank you very much.

Moderator:

Thank you very much. On behalf of ICICI Securities that concludes this conference. Thank you for joining us ladies and gentlemen and you may now disconnect your lines.