



“Sheela Foam Limited
Q2 FY2022 Results Conference Call”

October 30, 2021



ANALYST: MR. KARAN BHUWANIA – ICICI SECURITIES

**MANAGEMENT: MR. RAHUL GAUTAM - MANAGING DIRECTOR –
SHEELA FOAM LIMITED
MR. RAKESH CHAHAR – WHOLE TIME DIRECTOR -
SHEELA FOAM LIMITED
MR. TUSHAAR GAUTAM – WHOLE TIME DIRECTOR -
SHEELA FOAM LIMITED
MR. NIKHIL DATYE – GROUP CHIEF FINANCIAL
OFFICER -SHEELA FOAM LIMITED
MR. DAVINDER AHUJA – GROUP FINANCE CONTROL-
CHIEF FINANCE CONTROLLER - SHEELA FOAM
LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the Sheela Foam Limited Q2 FY2022 Results Conference Call hosted by ICICI Securities Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Karan Bhuwania from ICICI Securities Limited. Thank you and over to you Sir!

Karan Bhuwania: Thank you. Good afternoon everyone. It is an absolute pleasure to host Q2 FY2022 results conference call of Sheela Foam Limited. From the management, we have Mr. Rahul Gautam, Managing Director, Mr. Rakesh Chahar Whole Time Director; Mr. Tushaar Gautam, Whole Time Director; Mr. Nikhil Datye, Group Chief Financial Officer and Mr. Davinder Ahuja, Group Finance Controller. Now we would now like to hand over the call to Mr. Rahul Gautam for his opening remarks. Thank you.

Rahul Gautam: Thank you very much Karan. Thank you very much for arranging this call and for moderating this call. As is a normal practice I would start with our vision statement. Our vision, we will continue to be recognized as a leading organization in quality comfort products while practicing values of integrity, reliability, proactivity, and transparency to do business with a smile for customer delight and a commitment to society. Thank you very much everybody for patiently bearing with me.

I just want to start this call with three information from the company. One is that you know our last auditors has finished their five year term and therefore we have new auditors which is an international firm called BDO represented locally by MSK and they have carried out the first audit for the quarter that we are representing or that we are talking about it. The second information that I just want to share with you is that in the company we have created a position of CEO for the India business and Mr. Tushaar Gautam who is an industrial engineer by profession also Masters in Management from Oxford and with 20 years of experience in the company takes over this position. This should help us in consolidating the India business which was earlier happening at the entry level so it will consolidate at one level earlier and therefore bringing in the focus that is necessary for all the kind of decision making that is there. It will also help the CMD of the company to focus on specific matters and this definitely free him up from that. The third information that I want to share with you is that the company has formed a 100% subsidiary called International Comfort Technologies Private Limited and this was to cater to all the new businesses which we have already entered or about to enter businesses like export, the rural business in India and the e-com business.

Each one of you are aware of the corona situation probably much better than me. All that I can say is there appears to be an uneasy calm which is existing and everybody is thinking and talking about the

so called third wave. I hope that it just remains as it is only a talking point and at least in our company what we believe is that Diwali should really be the testing point and post Diwali may be give it another 10 days to see if there is any blow of the corona infections or not. In the company we continue to take full precautions. We still have alternate days of working as far as offices are concerned and I am also happy to communicate that 99% of the company employees have at least one dose and at least 65% and above have second dose which is there. Staying on this corona topic I would also like to congratulate not only the government, the country, but actually all of you and all of us for the way we reaching the 1 billion dose numbers which is very, very creditable and I am sure that it is helping in controlling the corona.

Coming to Q2 FY2022 results which have been shared with all of you I must say that we are still a part of the unstable environment which exists, just as an example generally if you look at pre-corona times and Q2 always was the weakest of the lot. It was the time when the rains were there and the monsoons were there and it was the time which was just before the third quarter which is the festive quarter, but I am happy to share that Q2 has had reasonably good results and we have done well for ourselves. There has been a 29% increase on the corresponding quarter of the last year and even if I look at the previous quarter there has been a 40% plus increase over that period and that was what I said that the corona has changed the definitions and the frameworks under which we have been working. Of course the biggest impact of corona has been on the raw material part. I remember that from day one that we have been having the investor calls raw material has always been a major topic for discussion. There appears to be no respite currently. Actually the entire supply chain right from the crude to our raw materials which are Polyol and TDI has become so complex that it is lending a loss to the instability. Over and above that we have driving efficiencies of cutting back on buffers, making stuff just on time, the whole system has also become very fragile, so with this instability or with this complexity and with this fragileness or the fragility to it the whole system behaves extremely poorly whenever there is any kind of disturbance that comes in and then of course with a big disruption like corona the system has gone for a toss and it appears to my understanding and my forecasting at this point of time I would say any kind of stability we should really look at least a year down the line and to top all this up, our understanding is that China which used to be more than 30% manufacturers of raw materials and supplier to the world has now aspirations for global dominance and to achieve that they are doing things differently as far as their internal economy is concerned as well as the external impacts are concerned. For example returning back 1000 of containers of Australian coal or clamping down on so called capitalist within the country, etc. So I think these disruptions in China are also going to lend their impact to the instability that kind of remains there. With this in mind I just wanted to assure you that we are preparing our best or we are trying to put our best foot forward on this and there are some steps that we have taken on a very short-term basis but also on a medium to long term basis so that is the impact to us and the company as minimum as possible. All subsidiaries continue to do well. The Australia which was impacted for at least two

months plus on account of corona has made a strong recovery and now that the corona death is over and the cities are opening up it is coming back.

As far as Spain is concerned it has always remained strong, it has been growing well and the corona seems to have far lesser impact as far as Spain is concerned, those people already consider it be history and they forgotten. One more topic which I would just want to introduce is ESG which is something that all companies are talking about which is evaluating companies based on nonfinancial aspects of the company, the environment impact, the social impact, and the governance impact. We are also integrating all of them together and ensuring that our earlier initiatives or earlier actions as far as CSR activities and as far as the safety, health, and environment activities are concerned how we can merge all this together and to make it a far more compact effort by the company in addressing the ESG part of it. So with this I just want to thank all of you for joining in. I know it is a Saturday and I know it is the afternoon of a Saturday, but you have taken out the time. I just want to thank you for that and now we would be open to all questions. Thank you very much.

Moderator: Thank you very much. We will now begin the question and answer session. First question is from the line of Nihal Jham from Edelweiss. Please go ahead.

Nihal Jham: Yes thank you so much and congratulations on the result and also congratulations to Tushaar for being promoted to CEO of the Indian business. Sir three questions from my side first is given the kind of raw material volatility that has happened that I think in the middle of quarter the prices spiked but on average TDI and Polyol ended up reducing earlier and now they are back again so what are the kind of price hikes we have taken to potentially mitigate this impact and given the environment where you also say that you see a year ahead of instability in potentially with the RMs and how are you going to approach the volatility in raw materials as it keeps coming in the times ahead also?

Rahul Gautam: Thank you Nihal. So as far as the approach part of it is concerned I will take that and I will let Nikhil answer on the increase and the impact of that. So the approach is definitely to have some more buffers. It is definitely to review all the products to see that are there still layers that can we have better products and to make our offering better, so these are by and large and of course whatever are the relationships that are existing with our raw material suppliers just to strengthen that keep a view which is a little more or a little distant view as compared to a tank in India, but a little beyond that and those are few things that we are doing they are having that impact. I would like to talk about it maybe next time or maybe 15 days or a month after now. As far as the raw material price increases are concerned and the impact that has been there Nikhil would you do that and maybe take help from RakeshJi?

Nikhil Datye: Yes sure I will do that Sir. Thank you for this question and while it is important question it may not have a very straightforward answer. I will break the question into three parts, so as per raw material

volatility and your height at the beginning of Q2 raw material prices had drifted up, after it stabilized for some period it again started rising up so we cannot clearly sense that and see the trend and this has multiple issues and there are issues in China, there is global supply chain issue and while we were expecting raw material prices to stabilize I think it is still far away from that and it is not only the PU Foam industry or mattress business I think this issue is across the spectrum and commodity inflation is something which every company is struggling with and every company is challenged with the situation and obviously as far as Q2 is concerned we still have taken price increases in our mattress business. In our foam business we have followed the price graph, overall price graph and have adjusted the prices. It is very clearly reflected in our gross margins also for this quarter which is a combination of price increase as well as softening of the raw material and that is clearly visible compared to Q1 of FY2022 the gross margins have definitely bounced back, so it is again a combination as I said of softening of key raw materials and also the price increases which we have taken. The price increase and raw material changes obviously also have some large impact on account of quantity of inventory we are holding. Our forecasting versus in reality what is happening on commodity, but by and large I would say that we definitely are taking steps to pass on as much inflation back to the customer, but two frequent price changes also shake up the market place and there are limitations to that, but despite of that all efforts are made to continue to protect the profitability and that is clearly reflected in Q2 results as well.

Nihal Jham: Thanks Nikhil just a followup on that is that all the recent hike that has happened have we taken a price hike to cover our margins?

Nikhil Datye: Yes to some extent. I mean you are talking about the raw material price increases which are happening in October, so to combat that we already have taken some price increases but again the important question is where this inflation will go and stop, so we are keeping a watch on our ability to take price increases is definitely there, but to what extent we should do it and what extent we will also have ability to do it and how much lag impact it will carry so Q3 obviously is going to be very interesting quarter because of the volatility.

Nihal Jham: The second question was on this capex that we announced I think at the start of October you had always hinted of a plant in Jabalpur I think the second one is something that is new what we were aware about, but specifically we have always understood with Sheela Foam is that the requirement of a plant is more from a perspective of logistics, so is it anything about these new plants where serving these specific segments as you mentioned e-com, rural, and export that there is a different kind of product or anything that we are contemplating that is why we are saying that specifically this subsidiary and these plants are dedicated to the same because I would assume the product profile would not be too different and it can be manufactured in any of our existing plants?

Rahul Gautam: Nihal you are right and probably not so right both things are happening. You are right in the past it has been on account of geographies that we have, but now there are two aspects to it. Number one there is an increasing complexity in the business and therefore it makes more sense to put a few of them together which are of similar nature otherwise the operations become very difficult to handle. The second part is that there are some of the new businesses, so if it is a business for export it has completely different flavors that it needs to be compressed and tracked and transported and it needs to be closer to port to save further cost, if it is a business on e-com it needs to be more centrally located where logistics are far better, etc., again compressed and then kind of transported and the third part is that as far as Jabalpur is concerned always said that it is a newer technology which we are bringing a more completely newer dimension to manufacturing foam which we do not have anywhere else although we have similar lines in Australia and Spain and therefore I am familiar with it, but in India we do not have, so this will have the ability of producing newer products as well as the same products but with a better quality.

Nihal Jham: That is helpful. I will come back in the queue Sir and wish you all a very happy Diwali.

Moderator: Thank you. The next question is from the line of Swati Madhabushi from Comgest. Please go ahead.

Swati Madhabushi: This is my first time speaking with you guys so my questions will be pretty basic so please bear with me. My first question would be if (inaudible) 22:13 things that you are doing if you could help me with that?

Rakesh Chahar: So we are definitely looking at the increasing market share because there also has been a shift which is visible from unorganized to organized, so we are trying to tap that and in fact I want to also introduce products, that is one area that we are looking at. Second we are looking at strengthening the retail, the consumer experience, so that is another area we are looking at and the third is we are looking at exports, the opportunity which has come out and it looks very promising, so that is another area plus also the e-com so we have been late entrants in that so we see that market growing exponentially and therefore we see that also has an opportunity to grow, so that is also the fourth area that we are looking at.

Rahul Gautam: Swati I will just add to what Rakesh Ji was saying. I think your question was a little more south oriented and saying that some of the bigger players are coming from there. We have put together a programme and it will not be very appropriate to talk about it right now, but with absolutely extra focus especially on the product side and I would be happy to connect offline and explain this little better more so as you likely said that you are asking for the first time.

Swati Madhabushi: Okay sure that could be really helpful and second question I wanted to understand on the B2B business what is the motto of the franchise like do you have the biggest I am sure you have the

biggest scale there you are the largest PU Foam manufacturer so you would be one of the biggest B2B players, but apart from that what is the differentiator like key relationships, is there a concentration risk, I mean from reading your annual report, etc., I do not get too much sense on the B2B business I understand it is a tricky thing to explain, but if you can give me some more pointers there on what makes the B2B business especially in India so unique, I understand in Australia you are the biggest player with 40% market share but in India I am assuming is more fragmented and commoditized can you give me some colour on the B2B India part?

Rakesh Chahar:

As you rightly said it is a pretty complex thing but I will attempt. Undoubtedly the B2B business is very fragmented in the sense it depends on the segment, so the shoe segment is different from an auto segment, it is different from lingerie segment, it is different to toys or packaging, etc., all these segments have their requirements which is literally beyond is that then the comfort part of it, foams are supposed to provide comfort, but their needs and requirements are above that. For example if we are making foams for (inaudible) 27:04 the foam needs to have sound absorption capabilities. If we are making foams for the auto industry then they need to be fire retardant and flame retardant so like this each segment has technical need or a requirement which is over and above just the comfort part of it. So I think we as a company starting from our raw material to the R&D that we have generated to manufacturing processes and the equipments that we use, we are able to produce foams with these extra characteristics repeatedly again and again and again and that helps us to cater to this market. We did talk about relationships and relationships take a long time for building and they have taken a long time and they are there. I think the third and important part to it is that we have options of manufacturing these products at 5 and now probably going to be 6 different locations across the country which helps to save on freight cost and also provide just in time to the actual users. I hope I have given some answers.

Swati Madhabushi:

That definitely helps, but what I want to understand is that is there like market determined pricing and you have the scale I just want to understand technical part of it that can help you command pricing compared to others?

Rakesh Chahar:

So let us put all those things first which I said all that together which is the relationships, which is the variety that you can give and the quality and the technical needs and requirements and etc., and beyond that there are also the research and developmental capabilities. They have got some of these actual users, do you want to develop new products as an ongoing thing, they also need and require your safety, health, and environment issues are well accounted for, so putting all this together that makes us a good option for the consumers to continue with that, it is a bit of scale, it is a bit of variety and a bit of this and bit of that, bit of the technical capability to do it. For example if you look at the shoe business and you look at the lingerie business there needs to be UV stable foams which do not

yellow as far as sunlight is concerned so to be able to do that economically and compete with if nobody else at least the imports which are coming into the country.

Swati Madhabushi: In Australia you have the 40% market share but in India even if you cannot give me your own market share would top five players still be a good chunk of the industry or is it too fragmented?

Rakesh Chahar: It is fragmented. We may be the largest but it is fragmented. As you go down beyond the first five or six it gets very fragmented and the very reason for that is you need to produce it as close to the market as possible that is one. The other is of course decides that B2B business in general open market, qualities are not that relevant and there are ways to make foams which may not be adhering to a certain quality but which can be turned on very cheaply, but let us see if it adds to the question that you asked this is the thought that is coming to my mind while I am speaking to you is that as the fluctuations in the wrong season and the high inflation in the raw material continue it is becoming more and more difficult for the smaller players to exist and to continue, so maybe if not the next time that we speak but a year down the line this fragmentation may reduce a bit.

Swati Madhabushi: Okay understood. Last question from my end then maybe I will connect with you for the one on one. If I split the business into four parts India B2C, India B2B, then Australia and Spain which part excites you the most right now with respect to growth prospects and opportunities?

Rakesh Chahar: India B2C for sure because B2B businesses are completely dependent on the user industry, how quick they grow so it will depend on the auto industry how quick they grow, the shoe industry how quick they grow, but India B2C and Spain. Australia is a pretty stable mature market, 20 million people, 22 million people and not growing and the market is matured everybody has enough of mattresses and sofas. Spain definitely excites because of its location, very small in the entire European market ideally located for US, North Africa, and the entire Europe and it has a very small share in the market, so therefore the capabilities or the opportunities to grow are big and large.

Swati Madhabushi: Okay thank you so much for all your answers. I will connect with you again for the one and one.

Moderator: Thank you. The next question is from the line of Arjun Khanna from Kotak Asset Management Company. Please go ahead.

Arjun Khanna: Thank you Sir for taking my question and congratulations to Tushar for the new assignment. Just a couple of questions from my side the first one is just on the distribution bit in India you did mention that things in India seemingly closer back to normal while we are in a volatile environment, how are our distributors coping up maybe you could talk about our exclusive and multibrand outlet separately how do you see that actually span out over the year ahead are we looking at additions to our exclusive

outlet and we came up with a number of product for our multibrand outlet if you could talk about those two I will come with my second question next Sir?

Rakesh Chahar:

Arjun thank you for asking the question. Undoubtedly the distributors or the distribution channels are facing similar issues as the other businesses they are under stress and at this point of time it is not really the volume of business but it is also the fluctuating nature of business. The crisis go up and down even if there was inflation at least one can find ways and one can sort of settle down and one can barely accept reality and in the next 15 days then it fluctuates again, so they are all under stress but we are very hopeful that sooner rather than later this fluctuations will at least stop and there are opportunities for both EBOs and MBOs to grow large and as I was mentioning the shift from the unorganized to organized part that will take place. The improved standard MBOs and the good standard EBOs both of them will have a positive impact on that account and they both poised to grow irrespective of the current position is stressful.

Arjun Khanna:

Sure that is obviously understandable in this environment. Just on the raw material bid because we did talk about I think three to four quarters back that maybe we would look at setting up larger amounts of inventory by investing probably in particular times, etc., on the course or tying up with our key suppliers has there been any capex deployment towards the same?

Rakesh Chahar:

We have at least all the arrangements with the suppliers have already taken place. There we did not need to spend any capex but the arrangements needed to be setup and that has been done. As far as the capex part of setting up the branch is concerned that is happening right now, so probably when we meet next time you would have some numbers on it.

Arjun Khanna:

My final part is if we look at freight costs we are up dramatically, for some destinations it is 10x given this situation how does that really change our outlook on the export business I would assume even freight rates from China to US also would be up dramatically essentially if it was outsourced out of India or China it should move the needle as much but probably near sourcing would be a lot more remunerative in this environment given that these are bulky products even if we do bed in the box just your outlook Sir does that mean that our export expectations are shifted maybe a year down the line?

Rakesh Chahar:

Again this 5x, 10x bit is hopefully temporary and it will go away. The other thing is that exports are viable only because products can be compressed and packed and then the relevance of the freight becomes less. However, I would not say that the prospects of exports would go down in the future but may not remain as remunerative as it should be. That is all I can say but maybe six months down the line we would exactly know. As I hear today already compared to the last month the situation from India is easing out and it is also dependent on import export kind of parity which undoubtedly when we were in the corona period the imports had dropped considerably and therefore the availability of container was a problem but now as the economy is picking up the imports are pretty much back and

comparable to the exports and the availability of the containers have become easier and therefore exports will have their say. While if we comes to China they have been primarily exporting country, their need for containers is far more than their needs for containers when they are importing stuff plus with this geopolitical impact that is only worsening. This is my understanding that China is kind of clamping down and therefore it will go through a tougher period. For India it should become easier only as we go forward.

Arjun Khanna: That is really heartening to hear and in terms of our outlook for export as a company we had estimated few hundred of Crores in the next two, three years are we on track towards meeting that?

Rakesh Chahar: Absolutely we are on track.

Arjun Khanna: That is great to hear Sir. Thank you and all the best.

Moderator: The next question is from the line of Suraj Fatehchandani from Compound Everyday Capital. Please go ahead.

Suraj Fatehchandani: Sir my first question was on the line of ESG which you talked in the introduction section also I was trying to understand that from the existing product in which we used TDI and Polyol kind of chemicals and also when we know there are new products like the nontoxic mattresses with just the cotton wool or latex, do we have any plans to expand in this area considering we are also focusing on the ESG?

Rakesh Chahar: I do not think that cotton and latex are nontoxic that is very vanilla statement to make about that because what we are not appreciating is all that goes into produce them so if you would look at the cotton what goes into whether it is the land use which goes into manufacturing that or the fertilizer is going into it, etc., to really think in terms of organic cotton it may happen probably will happen at least two decades down the line as far as India is concerned. There are scratches that I am aware of where organic cotton is grown but by and large it is how it is and whether it is any less toxic or more toxic than using TDI, Polyol, etc., and TDI, Polyol also let me just show that the manufacturing of Polyol in foam is an absolutely nontoxic process, there is no energy that is used in that. Very little energy just for mixing, pumping, and stirring processes or maybe a bit of temperature control but there is no heating required for the chemicals to react. There are no pollutants to kind of come out whether solid, liquid or in the air that is there. At best the reaction generates miniscule quantities of carbon dioxide probably a full long across two hours of foaming process produces the same carbon dioxide as two vehicles or one vehicle moving around there is no liquid waste that is there. It sounds that it is derived from crude, but as a process it is extremely safe, environmentally safe with virtually no pollutant, but I can dwell on that maybe not on this call but we can prepare a little note and also have it sent to you.

- Suraj Fatehchandani:** That would be really helpful and your explanation was really helpful. Sir my second question would be we saw a 12% growth in FY2020-2021 that was a really great figure and the factors contributing to the growth from international subsidiaries like Australia and Spain, so would you be able to elaborate those factors and also are those factors sustainable going ahead?
- Rakesh Chahar:** Can you just repeat the first part of your question please Suraj?
- Suraj Fatehchandani:** Sir actually the revenue from operation growth in FY2020-2021 was around 12% that was a good figure I was just trying to understand what are the factors contributing to this. I read the concall and the factors contributing to this international subsidiary. I was just trying to understand what were those factors which I see and how sustainable are those?
- Rakesh Chahar:** International subsidiaries are absolutely sustainable. Spain I just now mentioned when I was answering to Swati I said that it has great potential for growth, it is already on a line of almost 45, 50% over the previous year, if we look at the year that is kind of chosen. Australia is steady still positive compared to the previous year and India is also positive compared to the last year, so as far as those growth numbers are concerned I think we should be well ahead of that.
- Suraj Fatehchandani:** So two figure growth is sustainable?
- Rakesh Chahar:** Absolutely. If we draw any numbers in the first half that has happened I would assume it should be more than 20% odd.
- Suraj Fatehchandani:** That is great and lastly would you be able to elaborate something on setting up a tank, I missed that and also capex guidance for this year?
- Rakesh Chahar:** It is not so expensive that they would substantially impact the capex capabilities it may be about 9, 10 Crores something like that. Tushaar would we have a number on it of the quantity that we are setting up my guess is about 9 Crores or so?
- Tushaar Gautam:** That is correct. Nothing more than that for sure.
- Suraj Fatehchandani:** Okay and that would be for storing raw materials?
- Rakesh Chahar:** Yes that is right.
- Suraj Fatehchandani:** Whole year capex guidance if you could provide?

- Nikhil Datye:** In terms of full year guidance it will be for consolidated MCV as we know for Jabalpur plant we have a full capex proposed of around 150 to 200 Crores and we also will have maintenance capex of around 30 to 40 Crores so half of that should get spent in this year.
- Suraj Fatehchandani:** Understood and rest would be for Spain expansion if I am not wrong?
- Nikhil Datye:** The Spain expansion programme is under review and commitment to that will happen towards the end of the year and it will get spent probably in a time span of 12 months.
- Rakesh Chahar:** They would have the capability of raising themselves there which may be the best place to do it.
- Suraj Fatehchandani:** Understood. Thanks a lot Sir. All the very best.
- Moderator:** Thank you. The next question is from the line of Anil Nahata Individual Investor. Please go ahead.
- Anil Nahata:** Thank you for the opportunity to speak. My first question is with regard to the increasing numbers of home coir over the last couple of quarters I have heard the management sort of say that we want to move more towards the finished products and we are still seeing that the foam coir business is increasing substantially so just wanted to understand like is that directional move or still some tactical thing in the market?
- Rakesh Chahar:** Anil I would say that this is a bit of lag kind of a situation, it is not intentionally but as we see the shift happening from unorganized to organized this is the first thing that will happen. Coir will be the first thing that will happen but our aim is to do a complete finished mattress that is supplied to the market.
- Anil Nahata:** So you mean it is a normal transition process that first you will move to foam coir the unorganized to organized and then it will go to mattresses?
- Rakesh Chahar:** I am not saying it is a normal transition process but I am saying it is definitely a transition process, however this is normal or not I may not be able to say that but definitely it is a transition process.
- Nikhil Datye:** Just to add on to that even mattress business is going very firmly but on top of that wherever there are opportunities in foam business because of this transition from unorganized to organized obviously those opportunities they are tapping out. Even today that mattress business is also growing strong.
- Anil Nahata:** My second question was about relatively like lower profits on the international business is it primarily due to the raw material differences or is there some other reason there?

- Nikhil Datye:** If I get your question right are you saying that growth is real growth?
- Anil Nahata:** My question is not about the growth; my question is about the profitability?
- Rakesh Chahar:** Let us just probably put it in simpler terms the EBITDA percentage in Australia and Spain is much lower compared to that of India. So in India we had to appreciate that we are integrated right up to the consumer and we have products which are branded and which we sell. As far as both Spain and Australia are concerned we manufacture foam and resupply to mattress manufacturers or to brand owners who in turn sell it to retail sales, etc. While here in India we are integrated and that is the reason we are far more controlled over our destiny but those are mature markets they operate under probably far more disciplined conditions and therefore it is not that chaos there but principally because of our being closer to the consumer here our EBITDAs will always be better.
- Anil Nahata:** Correct I appreciate that and that is quite understandable. My limited point was that in Spain the EBITDA for the quarter was 12 Crores and compared to 20 Crores of corresponding quarter and similarly in Australia it fell from 21 Crores to around 8 Crores and there is 5 Crores explanation given for some change in accounting standards, so my question was limited to that fall in EBITDA corresponding to the previous quarter that is about it?
- Rakesh Chahar:** So Anil I will only request you to look at this a bit on a longer timeframe because at this point of time the fluctuations that are happening on a monthly basis or a fortnightly basis are too huge and too low and unfortunately or fortunately our accounting period are say quarter and therefore whether we would fall on the time when you are catching a wave moving up or a wave moving down it will just impact because you have a cutoff date, but as we look on a longer timeframe and at the same time as it is more stability that kind of comes in both these places you would see that the picture is prettier than what is appearing right now.
- Anil Nahata:** I understood that. It was basically the interim raw material price movement and the transition takes time I understood that part thank you. I wish everybody a happy Diwali and we hope to have a great sales time in this quarter. Thank you.
- Moderator:** Thank you. The next question is from the line of Hiren Trivedi from Axis Securities. Please go ahead.
- Hiren Trivedi:** Sir in your remarks you had mentioned about China's aspiration of global dominance in the manufacturing of the raw material and you are preparing to address the impact on the business so could you specify the steps that you are taking and whether it is in terms of procuring raw materials from other suppliers or locally or what exactly are the steps to address that?

Rakesh Chahar: Hiren thanks for asking this. I may not have a very precise answer for it but as I said whatever are the relationships existing at this point of time just to strengthen them is one part. Our second we definitely (inaudible) 54:55 away in areas and they do not have international connect to supply we are on the lookout for that. Third we are looking at increasing the stocks or the buffers that actually carry so that there is some stability we can bring in and this is not little but big waves can be dampened a little bit and last of all would of course be on the front end part of it to see that what we can do to let us say have products where impact of raw materials or the fluctuating raw materials is reduced to some extent I think it will be a combination of all these things. They are all in progress and I would say that we would see their impact in times to come.

Hiren Trivedi: Thank you.

Moderator: Thank you. As there are no further questions from the participants, I now hand the conference over to the management for closing comments.

Rahul Gautam: Thank you Karan. Thank you once again and thank you very much for handling it so well and like every time I confirm that it has been a learning exercise for all of us. We do pick up especially for newcomers who have joined in. As a confirmation not only a confirmation but it is something that we deeply experience at this time which is the instability in the market. I just repeat that it is not only the inflation but the worry is the up and down, up and down kind of movement and we are making our efforts to ensure that we can dampen that part. Before I sign off I just want to request all of you and with other people you are connected with to visit our new website which has been launched actually today and we would appreciate a feedback on it from all of you. Before I try now I just pray along with all that there is no COVID wave that comes in and we all have a happy Diwali to you and to your families and to your friends and above all I wish you all the luck for the upcoming cricket match tomorrow between India and New Zealand. Thank you very much.

Moderator: Thank you. Ladies and gentlemen on behalf of ICICI Securities Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.