



“Sheela Foam Limited
Q3 FY2021 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Q3 FY2021 Earnings Conference Call of Sheela Foam 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. I now hand the conference over to Mr. Nihal Jham from Edelweiss Securities Limited. Thank you and over to you, Sir!

Nihal Jham: Thank you Margaret. On behalf of Edelweiss, I would like to welcome you all to the Q3 FY2021 conference call of Sheela Foam. From the management today, we have Mr. Rahul Gautam - Managing Director, Mr. Tushaar Gautam - Director, Mr. Rakesh Chahar - Director Sales & Marketing, Mr. Dhruv Mathur – CFO and Mr. Davinder Ahuja – VP Finance. I would now like to hand over the call to Mr. Rahul Gautam for his opening remarks. Over to you, Sir!

Rahul Gautam: Thank you Nihal. Thank you very much and Margaret thank you very much for starting this call. All our internal meetings, we generally start with our vision statement and today I consider all of you to be a part of our family and therefore I would start with our vision statements. Our revenue continues to be recognized has taken off in quality, comfort while practicing values of integrity, reliability, proactivity, and transparency to do business with the smile for customers delight and a commitment to society. Thank you very much. I welcome you all to this meeting and I understand that you are present here in large number, so thank you all once again for this.

As we see, we are witnessing these times which I can call them as worst of times or the best of times. The world is changing and changing extremely fast. We at are trying our best to keep pace with this and we believe that this may not be the time to really drive any changes but a time to keep pace with the changes that are happening at the environment to readjust, to negotiate with them and in the process rebuild the company to face the new world as Corona tends to fade away and create those environmental circumstances which are very different from what they were before whether it is the health part that is becoming important or whether it is e-com for buying and purchasing that is becoming more important, those are changes that we have to deal with and we are trying our best and we would continue to cope up with them.

As far as Corona is concerned, we are all aware that India is definitely experiencing the abatement of it and most of the rural areas that I am connected with have virtually no traces of Corona even in the larger cities and bigger cities it seems to be going down quite rapidly

and I only hope and pray that there is no second wave or another mutant that comes out of it and for Delhi even the serosurvey states that about 56% or 57% people have antibodies and therefore somewhere or the other they have been impacted by it and now we are close to herd immunity. So we do not know the exact reasons but definitely going down.

When we look at two of our other geographies that we operate on, Australia has completely closed itself many months back and just to narrate that a few days ago they had one case and they locked down the city for five days, so that is the level to which they are controlling the connection with the outside world. Spain on the other side where we operate in is back, it is part of the European Union. I think the people had a damn good time in during the Christmas and New Year and the intermingling is now bringing out all the infections. In our small city, where we operate from in Spain 4% of the population has been infected, hospitals there are under stress etc., but vaccination has also started and therefore we believe that soon the vaccination curb should take care of the Corona part of this.

The other big events that we had, was of course the budget that was presented. Nirmalaji said in fact she took the example of the cricket series that we won against Australia and she stated that seeing kind of new hope that that is emerging. Our thoughts on it are this definitely the budget got us surprising. There were no disappointments at all, and I think she addressed all the required parts of the economy and probably much more than that. There was a lot for the future parts.

In the end there was consistency as far as the budget was concerned. I think the basic change, which we witnessed was that every time that country needs money for anything, the best thing to do is to increase debt for taxation and I think that is a big change that is happening. On the other hand, if money is required or has already been front on Corona, the government is looking as the disinfecting or is looking at raising funds elsewhere or looking at more compliance and I hope that someday so today of course they have not dated a new taxes but I hope someday it may also come reducing the taxes actually improves the compliance and there will be more money coming in, simplifying the tax laws and simplifying the implementation of them would actually bring in more compliance and would improve the situation.

It is the collections of the GST for January, which was 120,000 Crores, it appeared was like premonition for this that the direction is right, and it helped to probably change the starting sentiment of the budget. We have also witnessed the Fifth Finance Commission in its report and again they have worked towards let us say for example, GST, they have suggested and recommended that there should be simplification which means eventually to move to one rate of tax but at the moment suggesting that **(inaudible) 07:54**.

Simplification and reduction those are the mantras I think which are going to be there and that feels very good as far as the industry and industrial world is very concerned. Nothing directly has impacted whether it is the direct taxes or the indirect taxes to Sheela Foam but indirectly there has been three areas where we believe that besides the good sentiments that the budget is setting, we believe that there would be impacts to Sheela Foam: Number one is important of railways and the extra budgets that have been given and the growth that that would happen and which means it is more business for us but similarly, now more cushioning is required etc. and above all is the affordable housing focus that the government has brought about and we intend to work on all these three areas and to be there to support this direction that is there.

All in all we look at FY2022 with immense hope and enthusiasm and most definitely with a new energy and that has paused us during this Corona time has been lot of astrological predictions but one of the once that I follow not that I believe in but that I follow and who has the reasonably correct in predicting the starting etc., says that from mid May onwards everything will start normalizing and by the end of or middle of November, Corona will be history and even the service industry and the hotel industry and the airline industry will come back to normality and in fact come back with renewed energy with that time.

In our business, raw material is an important part we all know that, and it is to say that in the previous six months, it has been fluctuating like a wild rage that is still there. The raw material rose extremely high and then now are on a falling spree except minor aberration which is happening today morning or yesterday evening, with CDI has increased the price again by Rs. 6 but otherwise by and large the raw materials are reducing; Polyols are at the level of 200, TDI is of the level of 163 plus about 170. I think stabilizing around 170-level for both or a 150 to 170 level for both will be something achievable by February end we should be witnessing that.

The other geographies Australia has been steady. There is far more stability in that market even for the raw materials, the same supplier globally but they look at Australia differently. Spain is not increased as much as India, but it appears that right through February it is an upbeat of increasing mode all these converging to good, steady prices by end of February that is how we look at it.

There is one aspect which from the present government has been pushing hard and which is Atmanirbharta. From our perspective whatever our imports where we have looked at local replacements especially in the textile area or the mattresses sitting area and we can now say that we are absolutely indigenized on that day. Not only that for businesses like furniture business where imports from China or South East have been coming in. We are doing our

bit to ensure that the right grades of foam and the right grade of cushioning are available for that so that imports into the country can be reduced. We are also working hard to support the furniture cluster that the Government of India wants to put in and preparing foams or making foams which would be completely compliant to what is needed in Europe and US as far as the fire retardant systems and now we have different characteristics. On the Atmanirbharta aside we are doing out of it and more and it is important the other statements so that **(audio cut) 13:06**...Our president has informed you last time last quarter that our presence was just beginning to happen but now I can say reasonably present there, are increasing our presence and the market is also growing and we are getting a good foothold into that and we are prepared to increase our initiatives of the e-commerce side.

The three other areas which we have not forgotten in spite of whatever has been happening on the raw material side or production side, but we have not forgotten is the safety, health, and the environment part. Safety, we look as the human safety first, in fact have already made our application for getting vaccines whenever they become available for our entire company manpower or human resources.

Health, it is a big change that has happened in the Corona and the post Corona time and we have offered all our products being fresh which has begun an antivirus up to almost 100% of course the sale 99.4% but that is a special innovation that the company has done. It combines the natural products of India and it combines the technology that come from the technology of fresh and that product is there in all the offerings that we make to the consumers.

On the environment front, we have been compliant for sure. In fact Spain has recently been awarded a prize for doing their bit in reducing the carbon footprint and they are going to the next levels of compliance. In India, we have embarked on our project of reducing plastic wastage completely. We do not believe in eliminating the plastics but definitely believe that there should not be any wastage from there and that process is on.

Our CSR activity also continue in spite of all the disruptions that happened of physically not being able to move around and all our activities definitely required people to be present than to interact and take the programs forward but we have found ways of connecting up online, teaching online and interacting with even the rural areas, so all activities have continued even during this period. In fact we have learnt a lot and this will be basis for even the future interactions when the Corona goes away and I am hopeful that government will confirm to the vaccinating of people as the CSR activity and we will be able to do it not only for the people but even for their immediate family.

Another change that has happened and I bring that to your knowledge is on the export side and this is US BedInABox program. Currently, the market is estimated to the above \$600 million primarily supplied by China as BedInABox and exported to the US but from the time that the sentiments have changed, they have been looking at elsewhere. I completely agree that actually competing with China or with the Chinese people because those people have also moved their manufacturing basis to elsewhere it is tough and our country is also taking time to support the export of it but let me get share with you that there are enough enquiries which are there. We have in fact begun already supplying to them, some products from Spain which make it better and some products from India that is major better to go from here. Some challenges like the shipping disruptions and the container availability but that we are expecting to go away soon.

Next financial year or the coming financial year, we are sure that this number would be past three figure mark in India in Crores of rupees. Financial results have already been shared with all you. They have been good. I am not going to talk specifically but I am sure you people would have gone through it and would have their questions to clarify. Our team is here but we are just on quarter-on-quarter basis, the total consolidated topline has gone up by 25%-26% even the EBITDA percentage have gone, and I hope that this becomes our normal and we continue to improve from where we are.

Mattresses, I would specifically want to spend a moment on that in all the three geographies have come out as a big surprise, apart from Australia, of course they are big travelers, because there is no travelling, they have money in the pocket and save for the household products plus spent a lot of time at home and therefore recognize the mattress part of it. The government has also put money into their pocket and above all is the factor which is again the China factor which is that the imports from China are getting restricted sentimentally and even from the government side a little bit.

So all that is playing out and the mattress in Australia is growing and will continue to grow and will be an important business segment for us to supply products. **(Audio cut) 20:15** we are very small part of the entire European Union market and we have the US program which is just across the Atlantic that will be there, and the mattresses same reasons, similar reasons have become important and therefore the growth is there.

India we are experiencing a little bit of different factor which is like 60%-65% of population does not sleep on any mattresses so, they are getting slowly converted to the unorganized part of the modern mattresses and then there is a shift from the unorganized cotton mattresses into the organized and they replace, so mattresses will continue to play an important role in our life. I know there is a constant pressure to always reduce the average

selling price, but we work hard and as we are now in the rebuilding mode with working hard to keep more values to the consumer and in that process to increase the ASP.

So, with those words I would thank you all once again and hope the entire team for all the questions. Thank you very much.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Suchit Jain from ASK Investment Manager. Please go ahead.

Suchit Jain: Rahul Ji our compliments for a very solid set of numbers. I have few questions on the margins, first of all I wanted to understand let us say Rs. 100 is the selling price and let us say Rs. 55 is the cost and gross margin is Rs. 45 of the Rs. 55 how much is TDI and how much is polyol?

Rahul Gautam: Dhruv, would you answer that question, please.

Dhruv Mathur: This 55 around if the current price around 30% is polyol and 20% is TDI on the net revenue.

Suchit Jain: On the net revenue you are saying, 30% is TDI and 20% is polyol?

Dhruv Mathur: Correct at the current prices.

Suchit Jain: That only leaves above 4%-5% of the remaining cost and that will be for what?

Dhruv Mathur: That will be mattresses is consumption of foam is very limited, there are other mattresses like cloth, spring all those things are there.

Suchit Jain: Okay, so if I look at our gross margins are corrected but our other expenses is the big saving of about goes to 5%-5.5%, how much of that will be retained because post-COVID, travel conveyance etc., will come back, so what is the reason for this fall and other expenses and how much of that can be retained?

Dhruv Mathur: These expenses are lower on two accounts largely. One is on marketing expenses and selling expenses and also based on the operating leverages because fill number is pretty good, it is all been fixed that is the reason for this and as far as going forward, it will be dynamic to the situation.

Suchit Jain: So, if I quickly put it in terms of numbers, this OPM of 17.5% last two quarters versus 14% in FY2020, so there is a rise of about 3%-3.5%, how much of that can be retained because of operating leverage. Marketing and sales eventually will come back like you said?

Dhruv Mathur: No, I said that it will be dynamic to the situation.

Suchit Jain: Okay but I still want to know how much can be retained because of operating leverage, what will be the steady state operating margin? That is what I am asking.

Dhruv Mathur: You are asking instead EBITDA margin, probably that is your question?

Suchit Jain: Yes.

Dhruv Mathur: I will answer it that is the sales remain the same, margin will be the same.

Suchit Jain: You can maintain this margin you are saying?

Dhruv Mathur: If the sales, is like this.

Suchit Jain: Okay.

Dhruv Mathur: Also, one more caveat the raw material prices are ones which we have witnessed in Q3 because these things keep on changing. If you see the margin, the gross margin has gone down from 49% to 43% because of the raw material price increases.

Suchit Jain: Yes, and the other question is in terms of strategy Rahul Ji, when you entered Spain and as well as Australia of course and like you said there is a large pent up opportunity in India itself, how would the Sheela Foam decide which geography to enter etc., what were the strategy imperatives for you to decide about these two locations and as well as I wanted to know also about Divya Software because it is a small company and that could require large outlays, how does one figure out what eventually the pre cashflows over the first time basis for Sheela Foam would be because there will be continuous need for capital investment in an entity like software, so these two entities basically I mean the business oversee and as well as the software company?

Rahul Gautam: Let me first answer the software part of this. As far as Divya Software is concerned that is the company that we bought but of course we do not do any software business in that that only houses our corporate office at the moment and in due course of time probably it will merge into the parent company but we do have software business name of Stacqo sub of

Sheela Foam and that part of it there is no capital outlay that is there, we do not deal in products, we are dealing only in the software part of it and there the costs are more opex in nature where the people coming in and all the programs that are being made or developed, so there is no big outlay of any capex or any funds as far as that is concerned. Coming to the other part where you said about Spain, Australia, and India, yes you are right that in India there is large market and more and a lot of it has also changed post Corona but each one of them the Australia and the Spanish part, there were different reasons for it. Australia was 16 years back and it was I mean reasons like it was a developed market, there would be a lot of cross learning that would be there, there were raw material suppliers and therefore they could leverage, purchases etc., which was there and then it was English-speaking country management was there and had a strong management and therefore there could not be a problem, we would be able to connect ourselves through ERPs etc., which is all been done and 16 years are a result of that we see. As far as Spain is concerned that happened only in October 2019. European Union it is the biggest, largest one market of polyurethane foam in the world and we needed a foothold there for reasons which are very similar to the Australian one plus this company had only 1% share, technology was something which was very common to all of us and in fact it is exclusive to all of us that was there and the company is in a low cost area of Europe and now of course what has happened up is also the next or it is just one half away from the East Coast of US, so keeping all these things in mind we took and at the end of the day, let me just say there are three things which happen. Number one; that opportunity had to come, and it has to find fitness into, we should be able to have the capacity to bite into it and not really get choked with it which means the size of the fitness had to be within our realm. We are conservative on that part and the third is I think most of these things happen by chance. So I would not put it not to some great strategy which has been curved out. I know I am probably lowering standard by saying that there was no great strategy on that but when things come around and we make these QIP judgement and you take a call there.

Suchit Jain:

Sure, these places are their local plants Spain and Australia?

Rahul Gautam:

Yes. So, foam generally cannot move too many distances too many too far because it is a voluminous product, so they have their own plant, they supply to their own geographies and completely independent from it except the software part of it which is the intellectual properties or the research and developments or a learning etc., and so including I would say that what we did in Australia has helped up to improve our mattresses in India here as helped us to introduce mattresses in India the way we have done the way we have done, I am just giving an example.

Moderator: Thank you. The next question is from the line of Siva Kumar from Unifi Capitals. Please go ahead.

Siva Kumar: Thank you for the opportunity and congratulations for the great set of numbers. My question is with regards to the revenue we see that there is a strong traction in the mattresses segment and also the technical foam and foam core segments. So, was this pent up demand, marriages which were stalled for more than six months suddenly happened and then we saw some pent-up demand, or do you see this as a secular trend in favor of the organized segment where you are the leader, and do you see that traction even in Q4?

Rakesh Chahar: It was mix of two – three things, as far as mattresses concerned you are right, it started with the pent up demand but then very quickly we realized there is also a change in consumer behavior where staying at home the people were able to realize that what their mattress condition is and therefore need for a change and so that was there then it was also the shift from unorganized to organized wherein the unorganized was not able to get it add together, so that advantage was also there. On the B2B side there were some industries or some segments which have performed well specially the auto industry, where we are experiencing a good traction and we have a very high market share in that market and this trend is going to continue because the consumer behavior is still the same where the importance of sleep is relation is to good health, these dots are getting connected in consumer's mind.

Rahul Gautam: I just want to add to that, that for mattresses whenever an importance of category increases the importance of established brands increases. So, people when a category importance increase people go on into buy something which is brand there, something which is established and that is where our role has increased.

Siva Kumar: Right, Sir it is good to hear that that the traction is continuing two folds. Sir, coming to the raw material prices you said that TDA has cooled to 170 levels in polyol to 100 is that correct?

Rahul Gautam: No, polyol has not pooled to a 100 Polyol is still at about 197 – 198 it had gone up to 230 it is cooling down and in fact it is one of those few times when polyol is actually above CDI generally it is always from times in memorial authority all you have to say, so, it has to cool down further. CDI has cooled down also from a 230 level it has cooled down to 170 levels. But for further it is taking a little more time.

Siva Kumar: Right, and the exports opportunity obviously you have referred to that in your opening comments. Can you quantify that in a more specific manner as to what that opportunity can be in size over the next three years?

Rahul Gautam: One is about the ambiguity of the situation and how does it pan out, but I would say close to a Rs. 100 Crores there in the next couple of years, next part of years.

Moderator: Thank you. The next question is from the line of Gaurav Jogani from Axis Capital. Please go ahead.

Gaurav Jogani: Thank you for the opportunity Sir, and congratulations on the great set of numbers. Sir, my question is with regards again the sharp decline in the other expenditures, so while I realize that there is an operating leverage benefit because of the highest yield. But if you see the other expenditure has also come down on an absolute basis by 11% so, was it some one-off cost either on the base quarter or there is some cost that might come back from this quarter to the quarters ahead?

Dhruv Mathur: As I stated that the reduction largely was in marketing expenses and selling expenses. So, it will all depend upon the strategy and at that point of time whether we have to increase expenses, we have to strike a balance between how much sales we have to achieve, how much expenditure on selling we have to do. So, that will certainly change depending upon the times when we are in. So, we cannot say that this will continue like this only.

Gaurav Jogani: Okay, sure Sir, and my other question is with regards to the mattress realization, so it you see the volumes have grown sharply by around 16% odd in the mattresses segment while the price increase is hardly around 2%. So, is there the constituent strategy by the company to absorb the price increases and garner the trend lower mattresses selling?

Dhruv Mathur: It is a function of two things, umber one we do not pass on the entire cost to our customers because in a branded segment you cannot do that since we know that these prices are not going to be forever like this. So, we do not pass the entire price increase, secondly this is also sometimes a function of product mix that all you are selling and what you are selling at that point of time. These two factors impact that.

Gaurav Jogani: Sir, would it be right to say that the lower segment mattresses growth would be higher versus the high value mattresses and that would have affected the product mix?

Dhruv Mathur: I think because there is shift from unorganized to organized and unorganized were mostly in low priced segment that is very natural happens.

Gaurav Jogani: I have more questions, but I will come back in the queue. Thank you.

Moderator: Thank you. The next question is from the line of Ritesh Shah from Investec. Please go ahead.

Ritesh Shah: Sir, thanks for the opportunity. Sir, my first question is how we look at capital allocation it is a very attractive segment that we operate in, it is in relation with one of the prior questions, wherein we went about into Australian sale. So, is there any threshold on ROC that we look at, so I just wanted to understand the thought process over there? That is the first question.

Rahul Gautam: As I understand the question is that, when we went outside did, we look at return on capital employed, is that correct?

Ritesh Shah: Yes, Sir my question is more forward-looking say five year out given us a very attractive space that we operate in from a capital allocation point of view what are the things that we look at ROC will definitely be one of the variables from the market side. so, just wanted your thought process around that? That is the first question.

Rahul Gautam: ROCE has got a pure financial ratio that would be looked when you are analyzing the opportunity. But I think I would say from my side it is more from experience and more from the softer part which is to say that the markets exist. There is a good management which is existing rather there are values that they can bring to where they are, there is confluence of raw material purchases which are happening etc., at source and at the end of day is also a size of the business that we can digest. So, I think those are the issues of course the ROC and all the other things all the financial things will only go to verified and especially when you look in the forward part of it then it is your experience and your intuition, your just being there and being able to take a call on this that becomes more relevant. I am sorry I am not being very clear on this but that is exactly how would decisions are being taken.

Ritesh Shah: That is helpful. Sir, my second and third question is a bit related basically if one goes to annual reports, we have emphasized on value-based selling. So, just wanted to understand how we look at pricing our solution. So, is it a minimum margin that we look at, what is it that how we price over the solution that is one and any specific updates on the new product launches that we had since FY2020 if you could elaborate on each of them would be great Sir? Thank you so much.

Rahul Gautam: The pricing cost they are primary speak that one that we operate in, one is B2B then is the consumers a part of it and the third part is every year giving inputs to the furniture industry or to the other mattress manufacturers or the absolute local manufacturers. There is no

doubt that in most cases it is related to the raw material prices and therefore that you would need to keep your contributions or your throughputs above a certain level and as you keep improving your operations these contributions will keep on improving whether it is your purchasing importance or it is your formulations where or it the volumes etc., all those things will keep adding or keep increasing the contribution. On the B2C side of course there is a constant effort to add value, there is constant effort to charge for that value and therefore the contribution keeps increasing. Of course, there is a counter pressure always which is to keep reducing the selling price and that is the fight that we do. But on the brand part, consumer part it is not so much on ground it is just a complete offering, filling up some gaps, taking care of some needs, bringing in newer technologies or newer options, so right now it helps that becomes important etc., so those would be the way the products are priced. On the B2B side there are long-term contracts, there is no lead there is lag when you can increase the prices or decrease the prices and that is all depends. For example, if it is an auto industry, they have conquered the contract with the OEM, so all those things have to be accounted for and there a little bit of a long chain on that. On the new product launches at the moment I would say that we have by and large held them back, in my opening remarks I said that at the moment we are trying to pace our curves which are the changes that are happening and the environment to improve our operations, to improve the supply chain, to improve the manufacturing part of it, to ensure raw material availability so that products can be supplied to the markets we have suffered a couple of months on that, not we the industry has suffered we have been lucky not to. So, I think it is that phase where we all went through and now as the world is settling down with CORONA and is emerging, we would be coming with rationalizing our offerings, giving new products etc., we would be doing that. But till now we have kind held back.

Moderator: Thank you. The next question is from the line of Resham Jain from DSP Mutual Fund. Please go ahead.

Resham Jain: Congratulations Sir. I have two questions; first is we have seen good volume growth coming through in all the three geographies and last time you mentioned we are in some of the geographies and specific plants our utilization levels are quite lead. So, just from capex perspective given that there is a good volume growth are you required to do any incremental capex over the next two year to three years?

Rahul Gautam: We already have a plant which is slated to come, I have talked about it a couple almost about a year back where the land has already been procured and we believe that that is the geography which is right in the center of the country we need that that is one plant where

capex would be coming otherwise will only be maintenance capex is that that would be happening.

Resham Jain:

Okay, and Sir my second question is more from the indoors of some of the new players in the e-commerce side and just from the new bits what we understand is that one of the companies I think has done quite a good revenue growth over the last two year – three years being a new player they have achieved quite a lot. So, that is from one is e-commerce strategy and also because these e-commerce players initially do not look for making profits. So, any disruption on the pricing side because of that as well just both the aspects, pricing disruption as well as e-commerce what will be our strategy? Yes, that is it. Thank you.

Rahul Gautam:

I do not foresee any pricing disruption happening there is no price over going around as far as the e-commerce is concerned. I fully appreciate and understand that there would be an optimum price for a particular product, but we will get a little more and even if somebody is trying to undercut or somebody is trying to sell below their cost so be it, we will not do that. I think there few other aspects which is needs to normal on the e-commerce and this will grow whatever is the market we are already experiencing it and we do not see any disruptions happening or if there are disruptions, I do not think it will disrupt us. What was your second question?

Resham Jain:

Sir, on the e-commerce?

Rahul Gautam:

Sorry, on the e-commerce part? So, e-commerce I said that in my opening remarks that it is an important part it is on a very small pace at the moment it will grow at very fast speed and then probably eventually come to some isentropic value which the line growth or graph will level off because mattresses are also a touch and feel product and there would be some standard products which can be sold through e-commerce. But there would be by and large products where people would come, and it is never in a hurry that you buy a mattress and therefore you would want to live with it for a while in and do that. I think this state for everybody no doubt e-commerce will grow very fast at a fast rate up to a certain level because of the small base.

Resham Jain:

Okay, but are we maintaining our leadership position there as well Sir, like physical retailing which are among the leaders. So, in e-commerce what is our positioning there?

Rahul Gautam:

I would say that the positioning is good, and I will not at this point of time like I can say for offline does it lead way ahead of anybody else that we are way ahead of anybody or anything like that. But I would say that we are in the top-2 and we would be pulling ourselves apart soon.

- Resham Jain:** Okay, Sir thank you. All the best.
- Moderator:** Thank you. The next question is from the line of Girish Shetty from Banyan Tree Advisors. Please go ahead.
- Girish Shetty:** Hi! Sir, thanks for the opportunity. Sir, I just wanted to understand your EBO as it can you current EBO numbers and split between retail outlets and exclusive dealers, and second is how these two segments are serviced differently as it comes under that EBO umbrella. Second is Sir, on the overseas Spain business, so margins last quarter was different and now as if we had a 22% revenue growth, but margins were lower this quarter as compared to the previous quarter. So, what was the reason for that, just those two questions.
- Rahul Gautam:** I will answer the Spain one the other one I will ask Rakesh Ji to address that. So, the overseas margins I may guess is you please appreciate that the last six months or last nine months had been in a complete turmoil as far as raw material supplies are concerned, availability, pricing, and the market upfront, the market after certain time has been demanding more and more but the raw material price at what price you get it, whether it is available, it is not and therefore you would see these fluctuations because which is in turmoil. However, as time is going back the supply chains are getting to stabilize you will see more stability in the markets therefore one quarter is gone up profusely and another one fallen down in the track this is all reflection of the instability which we have seen. On the EBO's I would request Mr. Rakesh respond to that.
- Rakesh Chahar:** Our EBO network has grown beyond 5000 outlets and it is a combination of display format and exclusive outlets. So, Feepie is sold only through the EBO's.
- Girish Shetty:** Okay, Sir what is the exclusive dealer how is he different from the retail outlet?
- Rakesh Chahar:** So, retail, there is display format where the mattresses are presented in horizontal kept on a bed, so that is the show format and exclusive dealer could be an outlet with furnishing and they are keeping the mattress along with it, furnishing or furniture. So, the show room is a dedicated space of 1000 square feet where the brand is presented to the consumer, so if a different consumer experience at the places.
- Girish Shetty:** Okay, mainly to do with the consumer experience?
- Rakesh Chahal:** Yes.

Girish Shetty: Okay, and Sir you mentioned that foam is not easily transportable right, just wanted to understand how do we service the US markets, as it from which location and how do we do that since it is not easily transportable?

Rahul Gautam: That is what we have learnt now is that mattresses can be compressed and put in box, let us say if the volume is 100 can be compressed down to about 20 and therefore the freight incidence certainly becomes to access and that is the way that we make it available to the US market. So, it is called there is a bed in a box which is a mattress compressed of course when you compare one mattress there are some negative is flowing out of it for example size issues and if it is the combination of springs and foam and some other stuff it cannot be compressed but pure foam and even some spring mattresses you can compress them and transport them.

Moderator: Thank you. Then next question is from the line of Sujit Jain from ASK Investment Managers. Please go ahead.

Sujit Jain: Sir, in foam core and technical foam which are the user industries?

Rahul Gautam: Technical foam are the industries like Helmet, Sound absorption, Generators the canopy around it, we have the filter or filtration industries which is the air conditioning filters, oil filters, automobile foams, shoes all these are technical foams that go there where the specification is a little more than just the hardness and the density of the foam, they will be convoy lounge range. So, need UV stable forms which goes to under sun they do not become yellow, the shoe industry the upper so those are technical foams and he foam cores which are primarily based on hardness and density and as per that supplying to some special mattress making industries etc., where these specializations of foam manufacturing.

Sujit Jain: How do you differentiate that between this segment and furniture cushioning? What goes in furniture cushioning what goes in foam core?

Rahul Gautam: So, furniture cushioning and foam core are going actually the same they are the same industries. So, let us say if I want to sell a foam core it is possible that there is good chance 30% it will go into a furniture industry where there is not specific size to the furniture but they will use this core and cut it and put it in the relevant sizes so that is a completely overlap industry, those are similar to that. The foam core by and large is also reducing number because there were times when mattresses were made in the shop front, on the shop floor of the retail show room but now all that is changing we expect the people who had odd sizes, somebody wanted a round mattress, somebody wants an oval shape mattress etc., but

now as we progress mattresses are getting adding value and are getting to be made more and more in the factories.

Sujit Jain: Understood, and exports to US from India plants?

Rahul Gautam: Sorry?

Sujit Jain: Exports to US happening from India plants?

Rahul Gautam: Yes, from India and Spain.

Sujit Jain: India and Spain and one quick question is on the cash flow conversion if I look at the cash flow conversion from FY2014 to FY2020 let us near the half. So, if I look at the operating the profit that you have and to the cash flow from operations that percentage has come down from about 113% - 114% to about 50% - 60%. One quick reason that I can see is that the inventory days have gone up and the asset turnover sales by gross block that has come down. How do you target yourself in terms of improvement in cash flow conversions because that will improve your ROC?

Dhruv Mathur: So, it is by and large because of the capital expenditure in the past year we have set up some new plants, new machines because of which you are seeing this conversion of cash flow. I think going forward except for one plant in Jabalpur we will have only maintenance capex of say Rs.40 Crores – Rs. 45 Crores per annum then you will see this change on the other side.

Sujit Jain: Actually, capex will come below cash flow from operations, I am talking about one level above. So, may be what you are saying is that because of capex and which is not getting fully utilized the asset turnover is lesser?

Dhruv Mathur: That answers your second question actually.

Sujit Jain: And increase in inventory and because of which working capital is high?

Dhruv Mathur: Not much increase in inventory I will have to see in the cash flow numbers because cash flow is not here right now, but it is not because of inventory alone. I will have to check and come back to you.

Moderator: Thank you. The next question is from the line of Gaurav Jogani from Axis Capital. Please go ahead.

Gaurav Jogani: Sir, my question is with regards to the Spain acquisition. While I understand that post the acquisition, there has been this instance of corona, but as per your internal metrics tracking, how has been the progress so far in terms of scaling up the operations there? And what still work that you think needs to be done to get better efficiencies from that area?

Rahul Gautam: Thank you, Gaurav. So I think we acquired it in middle of October 2019, and I just remember I made one visit in January and post that because of this Corona thing has not happened. I will confess to this that whatever integration we needed between Spain and India to happen has not happened and this is primarily because people are not able to move and be there so one is a common ERP that we operate on, all the plants here, plus Australia, that we have not been able to extend there. Software is there, everything is ready. But training them, being there, we need about 30 days for that to happen. We are hopeful that before April 1, when the new financial year starts, we should be able to do that. The interaction needs to be far more face to face because of the language and the culture. It's a little unlike Australia. We need translators, not the top team, but as far as the others are concerned. And beyond that, of course, came corona, and therefore, the whole focus changed on to ensuring that raw materials were there and supply (audio cut) 01:13:14 as these things begin to change, one, extending the ERP; second, there were product and technologies which were needed to go from here to there and we were to start looking at finding new customers in the European Union and addressing new segments. All that would begin to happen. And that is already in our plan, but we just wait for both these things to happen. One is, as I said, a little lesser better on giving the standard materials and the other one is connectivity, I mean, some things just cannot be done on a Zoom or a Google basis. Not everything can be done. So we want that to happen and we will be scaling. There is no shortage of land that we have there. There is no shortage of the opportunity, connectivity and all that that is there. I think just now we have put that together and scale it up.

Gaurav Jogani: Thank you for the detailed explanation Sir. That is all from me.

Moderator: Thank you. Ladies and gentlemen, due to time constraint that was the last question. I now hand the conference over to the management for closing comments.

Rahul Gautam: Thank you Margret, thank you. Thank you, Margaret. Thank you. Thank you, once again, all of you to join in and in such large numbers. I know that there have been many questions which have remained unanswered. Please feel free to connect up to any one of us and we will try and respond to the questions which have not been answered. I know that there was also a technical glitch right in the beginning, and we hope to be better from next time. All your questions were as intuitive as any other time in the buck. It is a huge learning for us as a team. And I will not hesitate to say that 5 years back when we listed, 4.5 years back when

we listed and we started these investor calls, there was a huge amount of learning curve that we all went through. And I would not hesitate to give a considerable credit to where we are doing to where we are and what we are doing to all of you for all the questioning that you have done. And I am hopeful that in the future you will continue to push us and keep improving as we go by. Undoubtedly, the budget has given us a lot of hope and energy for the FY2022. Of course, understand that the goodness of the budget, the devil will lie in the implementation part of it and it will take a good amount of focus and efforts on the government side for it to implement. But I already see that that is happening, the simplification happening and that effort kind of is on the horizon to happen. So with that, I would thank all of you once again, and look forward to meeting you when we close the year FY2021. Thank you very much.

Moderator:

Thank you. On behalf of Edelweiss Securities Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.