



**Sheela Group**  
*ISO 9001 Certified*

**“Sheela Foam  
Q4 FY2021 Results Conference Call”**

**May 31, 2021**



**Sheela Group**  
*ISO 9001 Certified*



**ANALYST: MR. KARAN BHUWANIA – ICICI SECURITIES**

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

**Moderator:** Ladies and gentlemen, good day and welcome to the Sheela Foam Q4 FY2021 Results 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 phone. Please note this conference is being recorded. I now hand the conference over to Mr. Karan Bhawania from ICICI Securities. Thank you and over to you Sir!

**Karan Bhawania:** Good morning everyone. Hope everybody is safe and healthy. It is an absolute pleasure to host the Q4 FY2021 results conference call of Sheela Foam. From the management, we have Mr. Rahul Gautam, Managing Director, Mr. Rakesh Chahar who is the Director, Mr. Tushaar Gautam, Director and Mr. Dhruv Mathur, Chief Financial Officer. We at ICICI like the long-term story of Sheela Foam because of the long-term opportunities in mattress industry with the consumers realizing the importance of good quality mattress and also the opportunity at Sheela Foam has exported the products to US and Europe. We have a buy rating into target price of twenty 2500 on Sheela Form. I would now like to hand over the call to Mr. Rahul Gautam for his opening remarks. Thank you and over to you, Sir!

**Rahul Gautam:** Thank you Karan and thank you for moderating in this call and introducing everyone. As is normal for us to start our meetings, we generally do that with our vision statements so I would continue with that. 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, customer delight and a commitment to society. Thank you very much and I welcome all the participants, I know it is Monday morning and things take their time to start and most of your based on the western part of the country where the sunrise is a little later than the other places. Times have been changing extremely fast, we are all witnessing that. I remember our last investor meet, which was on February 4, 2021 and that time the Corona numbers had started going down from a little before the middle of January, they started going down.

I was the one who predicted that this is probably the end of COVID-19 and how wrong I was. The second wave is here and has gone through a huge peak, now again, we are witnessing that it is kind of coming down and we are praying that there is no third wave though I do recognize and I do get this feedback from the city, it has been going down, but the villages, it is still increasing and the latest is that at least from the western part of Uttar Pradesh that the number of people getting cured and moving out and the number of new ones that are coming in is the same, but let's hope that this number keeps changing. Last few weeks or months have been absolutely horrible times. It is almost like a relay that has been there and it appeared as if the government had also lost control for a while though now it seems to be in better management position. I am sure that all of us have experienced requests for medicines, for oxygen, for ICU beds, and in rare cases even for places to complete the last rites and everyone has lost some near or dear ones. I just request them that kindly accept our

*Sheela Foam*  
*May 31, 2021*

deepest condolences, which are definitely not enough, these times will go by, but the people who have gone will probably never come back, so deepest condolences once again.

This time of course the Corona peak is kind of coming down, but when I look at the recovery I see that it is a little different from the previous one, of course we have the vaccine and we have better control over the treatment of Corona, but there is this year which is lurking, the fear of having experience near death or deaths in the family or near death situations themselves. I know that Indians are resilient and are good at finding solutions for whatever things the state is unable to do, what the government is unable to do, for example, if there was a shortage of power we knew that people could get a generator and do that small, big large and size, water was polluted or clean, water was not coming through, water purifiers came into fashion and air has been polluted and we have bought air purifiers to do that, but when it really comes down to mass health needs and requirements and that too for a disease which is contagious no one is spared and you cannot travel out or you cannot even travel to adjacent areas, this infrastructure is an absolute must and that has been not there and that has been a failure, let us hope that there is a better preparation, is there is any third wave or at least for the future and therefore that fear is kind of lurking there in everybody's mind.

We have seen that you know some of the states Haryana and Punjab where the markets were open for a short while for 3 hours, 4 hours, but the customers took their time to come back or taking their time to come back and therefore I see that the recovery is also going to be however, we cannot lose hope and I think that this year may actually be good because the opening up maybe taking some time, but it may help to stop the third wave and if we bank on the Indian resilience and the Indian faith in God eventually, the government also getting its act right, the FDA and the foreign exchange pouring in and the basic fundamentals is still remaining intact, which is the political system is there, it is operating, the demographics are in favor of the younger population being there. The economic potential also being where it is and lot of people aspiring to buy many more things. We are confident that things will be good and all we need to do is to just put our heads down and go along and eventually catch up on the lost time that has gone by.

Sheela Foam has continuously being doing its little bit in supporting the second or the impacts thereof, like the previous times we have donated a lot of recyclable beds, mattresses and pillows, which have our forte. We have also got hold of concentrators from abroad and donated them, ambulances, medicines, oxygen, in fact we also ran a small hospital for a while to ensure that people who were in contact could get some hospitalization that was there and this we have tried to do right from Jammu and Kashmir down south up to Coimbatore etc., and we will continue to do that as the country prepares better for the third wave, I am kind of hesitating to say, but for avoiding the third wave. Getting back to business and for us raw materials have always been very critical at least the two raw material Polyol and TDI. The volatility in the world continues. If I pick up from our last meeting, it has again gone through peak and kind of gone down, the global interconnections and the

*Sheela Foam*  
*May 31, 2021*

sensitivities to anything happening on in any part of the world is only getting worse, though one thing is better than the previous time and that is the availability.

Our belief is that availability of raw materials going to be better, the impact will be more on the demand side. The other good thing is that the downward trend of the raw material has begun and for the next couple of months, we should expect it to be on the lower end of the curve. Our two subsidiaries Australia and Spain, they continue to do well. There is growth happening. Last year they have grown to the extent of ranging between 30% to 45% and they have contributed a lot to Sheela Foam top line. We see that their future there is good and therefore beginning to invest in facilities there to increase capacities. Our venture, the IT venture Taco is also doing well in fact whatever was the target of the previous year, we have crossed that and so we have an aggressive plan as far as the next years, which are to come. On our CSR activities, we have continued through our foundation to work on emotional wellness very much required during these times.

Business entrepreneurship programs are surprisingly when we made an offer that we could handle 50 people or 60 people at a time, the people who wanted to join in was in multiples of that and therefore there is rationing that just shows the effectiveness of the programs. Our army training programs have been also running well, so in spite of a lock down the CSR activities have actually been in full swing. Exports from the company have also picked up and that is primarily reflected in the results at this time and there are only little problems here and there and more on the supply chain part of it which I presume will get sorted out. In the last year, we did start our initiatives on managing or improving the environment and health and safety, so we have decided to do away with non- recyclable plastics. We are working with companies to even recycle mattresses, which are used and normally are dumped or there are some problems with them so both these programs are on their way and we have been doing it.

Coming back to the financial part of it you have already got all the results. On the consolidated side the revenue has gone up 12% primarily contributed by the Australian and then Spanish subsidiaries and the annual profit after tax has also gone up by 24% and specifically, the quarter four where everybody performed well. I know the quarter one was when we had almost about 2 months or one-and-a-half to two months of at least a closure in India, Australia and Spain were of course working. One more point that I just was to talk about was that we finished our board meeting on Saturday and there was a lot of debate on distribution of dividend, however, looking at the uncertainties, which we said that the demand uncertainty, which is there it may take a little bit of time and therefore there was thoughts to prudently control the cash outflows. We have expansion programs, which is the big one in India, in Jabalpur.

In Australia we have a full fledged production facility, which is coming up and Spain, there is the expansion program, so all these investments are looking to happen in the future and the board was

also advised us that in any case whatever dividend you would be declaring 73% would take to yourself and therefore, their position was that we should just wait for one more year. So, I just want to thank you all once again for joining in and for supporting us in the last year, which was as we know not only unprecedented that something like that had not happen in the near past, but it was also unimaginable that something like this would happen and we are going through that. So, thank you very much once again and we would be open for questions.

**Moderator:** Thank you very much. Ladies and gentlemen, we will now being the question and answer session. We have a first question from the line of Nihal Jham from Edelweiss. Please go ahead.

**Nihal Jham:** Thank you so much and good morning to the management. Sir, three questions from my side, the first is if I look at your segment wise growth what is interesting is that we have seen a strong growth in the foam core business, and I would assume that the mattress business also should I will see a similar growth based on the past end, the thought is that may be divergent in that if you could explain and relate to that we have always said that foam core is a business that we ideally want to see a lower contribution coming into the future, so is this growth more an opportunity that exist on the market have you tried filling, or we expect that this is a business that will keep going in the future?

**Rahul Gautam:** Alright, so Nihal, thank you very much for the question. Let me just say that yes, you are right, the foam core side has grown, but I think it is only reflective of what has been happening in the market and I do not see that this will be the trend forward, you would see more and more of finished products happening and finished mattress is happening on the other part of the question Dhruv will you respond to that?

**Dhruv Mathur:** Yes, only asked whether the foam core business is going to increase like this, I think you already answered that it is not going to happen like this, so wherein you can go proceed for your next question.

**Nihal Jham:** But generally any reason why foam core have seen such a big divergent from mattress, ideally foam core is also something that in a way becomes an input for the other players to use as mattress, so that is why that the end product sale and the foam core sale has a big value?

**Rahul Gautam:** So Nihal, as I said I see that as temporary and one of the reasons being that during the last year there was a lot of shortage of raw material and we were the few who could garner that raw material and therefore the form that we were producing besides going into all thing, there was also a reasonable demand outside for that and that is why that ratio would have changed, but otherwise I do not see any reason, it is just a temporary thing.

**Nihal Jham:** Sure, Sir it is helpful. Moving to the second question, this is more on the prospect of a subsidiary Australia and Spain, so compare to the last quarter there has been a contraction in the margin, I would assume that because of the hike that happened in raw materials and we would have used the higher priced one, but any discussions on taking price increases in that category where we will the margins normalize ahead or anything you want to highlight?

**Rahul Gautam:** So both the places, there are regular price increases which are taken, in fact in Australia all our major customers have a rise and fall clause, which is related to the raw materials, but as you rightly mentioned there is a lag between taking that price or passing on the price increase and therefore it is just a question of time that they will get settled. As far as Spain is concerned, we have also been regularly taking price increases, it is a little more erratic as far as Spain is concerned because we are a very small player and we operate in a very large market; however, at least I know in the Spanish, Portuguese area, the Iberia area, we are always the first ones to do that and now that the raw material has started moving in the other directions, that position will get reflected in a different manner or will gets reflected in the opposite manner.

**Nihal Jham:** That is helpful, last question from my side is that just any comments on the increase in the debtors and inventory for this year?

**Dhruv Mathur:** Can I take this one.

**Rahul Gautam:** Sure, I would have asked you to, thank you.

**Dhruv Mathur:** Thank you, so Nihal, inventory has gone up by 63 Crores primarily because the raw material cost of Polyol and TDI have gone up and the second reason is that when you see the monthly sale, monthly sale for the current year is around 170 Crores as against 156 Crores of last year because this year there have been only 10 months of operation, we will confirm that there is no increase in the number of days of holding up the inventory, so this inventory has increased only because of these two reasons, as far as receivables are concerned they have gone up by 37 Crores, now this is because, number one, the sales have also gone up monthly sale and there is a March phenomena also, in this March we have sold worth Rs.196 Crores for the sales, whereas in the previous March it was 135 Crores because you are analyzing the position as on March 31, 2021, the number of days again of debtors have not gone up, it is only the sales, which has gone up, hence the receivables are up, there is no other reason, thank Nihal.

**Nihal Jham:** Understood, thank you so much and best wishes ahead and congratulations, thank you.

**Moderator:** Thank you very much. The next question is from the line of Sivakumar K from Unifi Capital. Please go ahead.

- Sivakumar K:** Thank you for the opportunity. Good morning, Sir. Sir, I missed the opening comments, can you update us on the present status of the prices of TDI and Polyol and how do you see them fluctuating over the near-term?
- Rahul Gautam:** Since I can tell you the current prices, which is Polyol is about Rs.205 or Rs.204 and TDI is about Rs.180. Each one of them has gone up right up to Rs.250, this is the downward trend that that is happening. You asked me a question that how do I foresee them, honestly I foresee them as fluctuating, but definitely moving down up to at least July end for the next 2 months because those are the lean periods everywhere in the world, but beyond that I will not be able to hazard a guess here.
- Sivakumar K:** Sir, because Q3 is our key quarter, do you think by that time there should be some sense in the prices of these two raw materials?
- Rahul Gautam:** Should be and at least as far as the world is concerned, they are stabilizing, whatever are the number of ways that have already happened there they are stabilizing, India should be stabilizing, but I had been wrong almost 80% of the time, so I will not hazard a guess as to what the prices would look like, but to my mind they should hover, between 175 to 200 level, that is where it should be.
- Sivakumar K:** Right, Sir and can you throw some light on the emerging export opportunity to the China plus phenomenon, has there been any progress on that front?
- Rahul Gautam:** So there has been progress, there has been considerable progress, but you know these things do take time for switchovers and for capacities to be built in India and then there is a supply chain part of it which also needs to be taken care of, availability of containers and ships and shipping lines all these things are being garnered, we are doing both from India and Spain and if I talk about a year that has gone by, there has been a lot of progress and subsequent to also that progress has continued I would not be able to speak the numbers, but it is in the right direction, the phase may be a little slow.
- Sivakumar K:** And we will see some traction in FY2022 itself, Sir?
- Rahul Gautam:** Yes, sure.
- Sivakumar K:** Sir, one question to Mr. Dhruv, the other opex was on the lower side this quarter because typically for 500 Crores you typically record someone 130 Crores to 140 Crores of other opex, but this quarter is only 100 Crores, is this sustainable?
- Dhruv Mathur:** This is a very deliberate that has become part of the company you know if you go through our results you will find that the gross margins have contracted quite a lot from 43% they have gone down to 39% because of the raw material price increases, now this was a deliberate attempt on our part to

*Sheela Foam*  
*May 31, 2021*

reduce our advertising expense and selling expenses, so if you see the mattress sale also lower in this particular quarter, so we contracted our expenditure on various fronts whether it was travelling, whether it was advertising or selling expenses, only the variable expenses to save were increased and in the sale which has gone up with foam core is hardly any selling expense or advertising, so that was the main reason for contraction of other over ahead.

**Sivakumar K:** Sir, are you seeing any drastic slowdown in the technical foam business again or is it flat compared to last year's volumes?

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

**Rakesh Chahar:** So technical business last year has paid reasonably well, SCD automobile industry, which has actually not only covered for April, May lock downs, it is also grown in volume and in value both and in fact this China factor is also kicking in and many segments, which either direct export or the manufacturers who are making auto components, quite good component it is also getting moving very strong on both US and Europe, which elsewhere going to China so it is looking very promising in the coming year.

**Sivakumar K:** Thank you. That is it from my side.

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

**Gaurav:** Thank you for the opportunity, Sir. Sir, my first question is with regards to like we have a sharp decline in this particular quarter, I do understand that the RM prices has been volatile, but on the long-term strategy would the company consider absorbing some of these prices increases and focus on gaining volume market share in the near term or there would be a range of margin that the company has passed through it?

**Rahul Gautam:** Thank you, Gaurav for the question. We would be looking at whenever there is a need for me to look at price increases to improve this gross margin, but there is always a time lag between the time that we take a call and before it is implemented and as I have said many times before that the two major businesses that we do, which is one is the foam core business, the other is a mattress side, on the mattress side whatever price increases happened they do not come down as loss and therefore one is a little more prudent in that in increasing, but then as prices keep coming down that balancing begins to happen, on the foam core side, I have said that of course we have sold more foam cores last quarter, it is a question of time lag that is there and it will play the reverse way when the direction is outwards there.

- Gaurav:** Sure and Sir, and would you be mentioning the kind of price increases that have been taken during this year in the mattress segments particularly?
- Rahul Gautam:** Sorry, I did not follow that, can you just repeat it, please?
- Gaurav:** Yes, so the price increases that have been initiated during the year in the mattress segment?
- Rahul Gautam:** Right, they have already been implemented and they will continue to be where they are, we do not decrease the prices ever, we do not do that ever.
- Gaurav:** Because generally take 5% to 7% price increase every year, so just confirm this year?
- Rahul Gautam:** So, there are generally twice a year that we look at them, one is around beginning of April or the end of March for the coming 6 months and the other one is somewhere around October, November around the Deepavali time, so we would review that position, but if the raw materials continue to go down, maybe we will skip it, but we will have an eye on the gross margin and then decide.
- Gaurav:** Sir, my second question is with regards to generally you are seeing in other industries, there is a sharp increase in the organized, large players generally tend to increase in market share, has the similar trend in our business in terms of market share gains from unorganized players?
- Rahul Gautam:** As far as shares from the unorganized players is concerned definitely that has happened and it is just that the size of the organized market has grown and our presence in that has increased, would I be able to quantify it is probably not, we do have in the industry, we do have a regular surveys which is done one in 6 months, Rakesh, it was done once in a year or one in 6 months?
- Rakesh Chahar:** Once in six months.
- Rahul Gautam:** Once in 6 months and when was the last one done.
- Rakesh Chahar:** It was done in January in fact because of lock down it is not happened sometime, so it was done in January, so now it is due to start again.
- Rahul Gautam:** So when this will happen it gives a reflection, but our internal assessment is that the unorganized has contributed to increasing the size of the organized markets and our presence and in that is, as the numbers of mattresses show has increased.
- Gaurav:** Sure, Sir, I just like to place on record for Mr. Dhruv Mathur for help during this years and also like to welcome Mr. Davinder Ahuja. Thank you, Sir. That is all from my side.

**Rahul Gautam:** Thank you very much.

**Moderator:** Thank you. We have the next question from the line of Rahul Ranade from Goldman Sachs. Please go ahead.

**Rahul Ranade:** Sir, thanks for the opportunity. Just the question actually the earlier reply of yours in regarding the question of mattresses and which are core foam growth edge, even if I look at it for the full year numbers in terms of volume growth, your degrowth in terms of the furniture core foam is lower than the degrowth in mattresses whereas if we had a strategic advantage in terms of procuring raw materials, just trying to think would not our branded business would have grown ahead of the foam core business or how should we think of that given the lower or the scarcity in RM should not we have grown the branded business instead of the foam growth?

**Rahul Gautam:** Rahul thank you very much for this interesting question, but you know when you think of the organized side, when you think of the branded side, everything to increase overnight does not happen because you need distribution, you need placement, you need the retail side to be in there, you need the consumers to be coming and all that process to be in place, it takes years to build it up, but it also generally happens in incremental stuff, on the other side as far as the foam core business is concerned that is because there is a shortage that it is a little lower than branded stuff it does not matter what the brand is and therefore the volume can increase overnight a lot and can also decrease overnight a lot, so that is primarily the reason, on the branded side, it required many more steps to be done which take their time to happen.

**Rahul Ranade:** Okay, I understood.

**Rahul Gautam:** I was just saying that in metro segment also when you compare the absolute number of 493000 mattresses as against 508000, please remember this 593000 had been sold in 10 months, so there is almost 35% to 40% increase in the volume of mattress segment as well.

**Rahul Ranade:** But even for the foam core the level of activity would be for 10 months, right?

**Rahul Gautam:** That is right.

**Rahul Ranade:** So, I am comparing like for like then, I have not been in a mistake of comparing it, okay, and just on the current activity levels if you could give some flavor of mattress towards how are the walk-in looking like and how many of the stores have actually even open and open stores whatever walk-in looking like?

- Rahul Gautam:** Number one, it is not a very good situation to talk about. I would put the stores as what, Rakesh would help me, 30% to 40% of them opened on an average or 35%, 30% opened and also opened partially?
- Rakesh Chahar:** So I think the first 15 days of April, we had except for Maharashtra and Chhattisgarh, we have most of them open, but if I see from let us say April, 15, 2021 till now, not more than 20% would be open, and rest of them are either open partially or they try to give delivery through their godowns, but that kindly so there is no walk-in as such, there is business as such, but if there is any old customer who wants the mattress and that kind of 1:1 approach and then the dealer servicing the order that is what is happening.
- Rahul Ranade:** Thank you.
- Moderator:** Thank you. We have the next question from the line of Binoy Jariwala from Sunidhi Securities. Please go ahead.
- Binoy Jariwala:** Thank you for the opportunity. My question is, I have two questions, one is on the capacity expansion plan that we have outlined that we are adding capacity at Jabalpur so could you just elaborate a bit what products we manufactured, how much would be the capex and when this capacity will come on stream?
- Rahul Gautam:** It is a full fledged plant that would be catering to the existing markets and plus some new markets and the work has already begun on planning, etc., construction should be starting in the first week of October soon after the range and we should be in operation by the middle of next year that is the target, the total investment is of the order of about 100 Crores.
- Binoy Jariwala:** And with this capex, what would be a distance to the market because as I understand the freight cost in this business is fairly high and therefore you need to have multiple brands across the regions, so is there any measures have we worked out the average distance to the market?
- Rahul Gautam:** So average distance to the market is always an important criteria for doing it, it is not only the distance part of it and the cost of freight, but it is also availability of a product in its local flavor, which is important and what I would suggest is that if you cannot just sent your mail identity we can we can work out a little synopsis of that and send it, otherwise probably go through it might long at the moment.
- Binoy Jariwala:** Sure, thanks for that. Second is on the distribution reach, if you could help me with a number of EBO and NBO as on March 31, 2021, and whether Sleepwell as on date is also majorly distributed only through the maybe on network?

**Rahul Gautam:** So, Sleepwell is distributed only through the EBOs network, there may be some exceptions here and there, but the attempt is always on the exclusivity part, as far as the number is concerned, Rakesh please respond to that.

**Rakesh Chahar:** Yes, so EBO, we would be close to about 4500 and NBO would be about 6000.

**Binoy Jariwala:** So, Rakesh, have we rationalized a bit of this network or this is just in the normal course that it is fallen due to lock downs?

**Rakesh Chahar:** So it is not fallen, but there is certain amount of pruning that is done on two accounts, on nonperformance and also on exclusivity issue, on the other side we also continue expanding in fact despite the lock down and adverse conditions, we were able to meet our expansion targets, so as of now the total number I have just given it as a round figure, but it will be closer to about 4800 or so, and NBOs are about 6000, so there is no contraction as such that would be incremental if you see on a overall basis on the EBOs.

**Binoy Jariwala:** Fair enough. My last question if I may squeeze in, most in this year, in FY2021, we have seen a sharp increase in the raw material and that reflects in gross margins, the contraction in this gross margin has been counter balanced by lower other expensive mainly coming from the lower selling and marketing expenses, once the situation normalizes, our network is operational assuming this where do we see selling and marketing expenses settling down?

**Rakesh Chahar:** So my thoughts are that or this when you bring anything down by some extent or by some sizable extent you always find that there are areas of club, which your existing you could have increase your efficiencies, could have made those improvements because as your contract is expensive you also look for efficiencies of operation, etc., and then when you are going to go back to them, so all I can say is that the effectiveness is not going to reduce, effectiveness will probably only increased, but the cost may still remain low because we would have learned to do more with less and whatever is needed in the markets when they open up will be done and will be there; however, we may have the advantage of organizational learning from a cost perspective.

**Binoy Jariwala:** So is there any number that we worked out with regards to that X percentage of the cost has been pulled out of the system and this will be away from the system even when we return to normalcy, it would not come back in the system?

**Rakesh Chahar:** So I would not be able to give you a number, sorry. Yes, our normal advertising expenditure is 5% and we have budgeted for around 4% this year and the selling expenses which was around 12%, on normal scale we have budgeted 11%, so of course in this quarter they are much lower, so this is the percentage we are going to work in the study period.

- Binoy Jariwala:** Thank you so much, Rahul. That is it from my side.
- Moderator:** Thank you very much. We have the next question from the line of Hiren Trivedi from Axis Securities. Please go ahead.
- Hiren Trivedi:** Thanks for the opportunity. Sir, two questions, one is what would be the capex for FY2022 given the investment in Jabalpur, Australia and the expansion in Spain and second is with regards to the raw material for cost for FY2021, so would you be possible to share in percentage terms the TDI and polyol cost out of the raw material cost for the full year?
- Rahul Gautam:** Dhruv, you figure this.
- Dhruv Mathur:** Yes, sure. So as far as the capex in India is concerned out of 100 Crores this year we will be carrying around 70 Crores on Jabalpur, for export we are going to incur around 30 Crores and the normal capex is going to be 45 Crores, India operations is 145 Crores, for Australia, the total capital requirements over a period of one-and-a-half years will be around A\$ 20 million and Spain, initially it will be around €2 million to €3 million only and subsequent expansion will be taken care of next year and as far as your question about TDI and this business constitutes around 20% to 25%, but it is very difficult to say because usually down fluctuating so much for example, Rs. 100 to Rs.250 they have gone so this percentage keeps on varying and on an annual basis we can take ballpark figure of 20% each for polyol and TDI.
- Hiren Trivedi:** Thank you.
- Moderator:** Thank you very much. We have the next question from the line of Avinash Nahata from Parami Financial. Please go ahead.
- Avinash Nahata:** Thanks for the opportunity. My question is, what is the internal assessment of the management team as far as the finished products contribution over the next 2 to 3 years, the finished products how would they contribute to the company from now onwards over the next 2 to 3 years, thank you?
- Rahul Gautam:** So, the direction is absolutely towards increasing that percentage and if I would look at 3 years down the line I would say they should be constituting about 75% of the of the turnover and 25% would be in the other stuff.
- Avinash Nahata:** Thank you.
- Moderator:** Thank you. We have the next question from the line of Radhika an Individual Investor. Please go ahead.

**Radhika:** Thank you for taking my question. So, I have two question first around the online sales, if you could throw some light on how much the online sales contribute to the overall revenue and how is that moved from FY2020-FY2021 and my next question was around your low price mattresses, daylight Starlite and Feather foam, how much would that contribute to the revenue, thank you?

**Rahul Gautam:** Thank you, Radhika. Rakesh, would you take both the questions.

**Rakesh Chahar:** Yes, so as far as e-commerce is concerned last we grew by about 70% and we have aggressive plan for the coming year also and as a percentage it is a recent kind of start that we have done in the e-commerce area, so on Indian operations, the current contribution would be close to 3% to 3.5%, but it is rapidly growing up.

**Radhika:** Sir, margins in the e-commerce will be higher?

**Rahul Gautam:** Not really because e-commerce that is especially in the marketplace, the product pricing is very comparative and so selling spends relatively are lower, but the selling price is also less so the gross margin at best would be similar if not a little lower than the offline, so that is the current state.

**Radhika:** Just quantify on that would the pricing considerably offline sales?

**Rahul Gautam:** So, it does, so we have a brand Sleepex, so we operate in market place to Sleepex and we have brand.com, where both the Sleepex and for Sleepwell, so there we have the regular products of Sleepwell that we present to on the website, so as such there is no conflict, but going forward the retail is also seeing this emergence of online sales, so there would be new models of our distribution which would be emergent so as the industry, the industry is finding the right way to strike that balance, so I would say that we are not still really matured enough to get to free movement of products in price across the channels, so it is like work in the process for the industry and the industry is trying to find the best way out, so currently yes, you are right, I time there you often get into conflicts with the offline. On the question of Starlite and Feather foam they are tracking well, so now they are being distributed mostly on the NBO side so therefore the potential is very high and last year let me only talk about NBO business, so we would have grown almost about more than 40% on the sale to NBOs of feather foam and Starlite, so that is another very promising area in the coming year also.

**Moderator:** Thank you. We have the next question from the line of Pankaj Tibrewal from Kotak Mutual Fund. Please go ahead.

**Pankaj Tibrewal:** Good morning everyone. My question is that what I wanted to know is that any comfort company license is always an opportunity, just want to get a sense from your on that, how you guys are looking

*Sheela Foam*  
*May 31, 2021*

at this crisis in terms of driving the growth for the next 2, 3, 4 years and once this thing start subsiding and what form and shape can we expect your company to a bunch, it could be both on domestic, it could be on export, it could be overseas, so some colour and flavor that how you guys are using this crisis would be helpful, thank you?

**Rahul Gautam:**

Thank you Pankaj for asking this question and completely agree with you that all crisis generate opportunities and in fact the bigger the crisis I think the bigger it the opportunity though and what we have seen in these is that whatever other strengths of the company they get accentuate and you can leverage them better and in fact whatever are the weaknesses, they also get bigger and therefore when we analyze it internally we say look at the strengths you know which are the brands, the widespread manufacturing, the distribution, the R&D capabilities, the multinational nature or the multinational presence that we have these are all strengths, which we see flourishing on which we see coming to our aid and to our health as we move ahead from this crisis. The other side of it, it is really the weaknesses and we constantly look we are a little over critical about that as far as the weaknesses are concerned, which happens with any mid to large size or a mid size organization growing, which is complacency and bureaucracy and the slowness that kind of comes on with all decision making pressure, so we have a program going on where we analyze each one, we are analyzing each one of them and finding ways to remove these weaknesses just to ensure that the sense we are able to harness them and sort of potentialize them as much as possible. The environment or the scenario which is going to change and I would just take a few examples, this is a subject we can spend a lot of time and I would request a separate call for this, but for one is the opportunity is the export opportunity which is the US exports primarily going from China, today China is no longer the preferred nation and therefore that opportunity had come to India, how much is a country and as a company will be able to potentialize that is a bit of a question, but already begun opportunity large. The second thing that this is the sourcing of raw materials, the raw materials and the ability to get them make them available and get them at the right prices if we work, but the direction has already set in how we improve this capability, third is on the issue of people preferring brands compared to and just buying anything and we have our program, which is laid out of course at the moment contained because of the lock down position, that growing the brand, it will be something stress will be seen as soon as we have some semblance of order that is happening, so these are few things which we have touch and then of course on the removing the weaknesses side of it we do have programs to just to make us more robust and more quicker maybe have the mindset of our startup while still having the advantages of a large company or of a big company. On our outside subsidiary, Australia Touchwood is very well established to increase whatever the extra opportunities that have come by and we are growing the capacity there because the current one is just not capable of handling, and business from order of 60 million is already at a level of about 80 million that has been happening. On the Spain side, as I said we did not have enough time to integrate the company, we acquired it in October 2019, and then suddenly from January onwards there was the onset of Corona, so such integration process and all

that kind of thing that they are happening, but they are not to the mark, that is one area which is of a large market we just have 1% share and therefore does not matter even the market shrinks a little bit the opportunity to go from there would be large and on a separate call we can talk a lot more about it, how we are doing and what will the company look like in about 3 years time and all.

**Pankaj Tibrewal:** Great, one thing which has been insisting in the call compared to previous in your furniture I mean you always have a muted as one of the growth client, but somehow at this time no mention of that, can you help us understand that?

**Rahul Gautam:** Yes, so it is not a forgotten thing, but the step was that we decided to be in two segments of the furniture is a very large segment and very diverse today from cupboards to bed to sofa sets to everything is there which also we have sold the different things, so we have identified two areas, we have made our based on the properties that we want to offer to the market, we already have the prototype study waiting for a pilots to happen, it should have happened a couple of months back when it was slated; however, because of the lock down we did not into it and from the moment the lock down opens with a month, we would have started a pilot which will be at a good scale and taken our feedback to decides what they want to do, it is not forgotten, it is there, but we just wanted to be 100% sure of what and how we want to offer and the way, but how the designs and everything they are varying pilot, pilot is ready to take a cost and they just waiting for the opening.

**Pankaj Tibrewal:** Thank you and wish you guys all the best. Thank you.

**Moderator:** Thank you very much. We have the next question from the line of Avinash Nahata from Parami Financial. Please go ahead.

**Avinash Nahata:** Thanks for the opportunity once again. My question pertains to export opportunity from a Spanish facility, how does the unit economics work in terms of exports early distance from Spain to the rest of Europe and to the United States, thank you?

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

**Tushaar Gautam:** So, I think the Spanish opportunity has been a bit of I would not say up and down in business terms, but up and down in terms of how we are feeling about it from a comfort standpoint, it is just straight away post the acquisition, all the lock downs, then travel restrictions and the pandemic related issues to COVID the whole world that has been happening for the last 12 to 18 months, so on the one side the business touchwood has done well, it has done well at a local level, it has also done extremely well to start and start to scale up the export opportunity to the US, it is ahead of India in that sense and the visibility of firm orders to the US market is only increasing as the weeks go by. On the other side we would like the business, the people, the organization to start integrating into the larger

company a lot faster as things gives out, so a little more travel, the TRP, NBIC systems being the same, more integration on cross learning and things like that, so those pieces have been slower than we would liked naturally so and I think it has been a bit of crisis management is that a raw material shortage we have been able to support, constant conversations over phone or also go to meet and then those kind of things, but a little better integration into the organization over the next months and years, so as far as the US business is concerned it had done well and it is only going to improve from here.

**Avinash Nahata:** Sorry, my question was more to understand where the destination market is US, people exporting out of Spain and the local competition from United States, so how the unit economics and lead distance work, thank you?

**Rahul Gautam:** So in general Spain is from a transportation of course better than India, I think the unit economics the fair comparison would be from China and not really from local US producers for various reasons, I think that section already shifted outside the US many years ago part of it might come back as the entry restrictions and trade war and all of that is happening, but we do not see too much of that, customers are very comfortable outsourcing, they are just looking for a second base and in that sense I think there are so much to work **audio cut 1:02:09** in this overall able to compete it, it is not a very high cost in any sense it is fairly competitive, the only artistic we have is, we have target prices, we have what they were buying at from China and we are able profitably supply that and compete so, it seems okay.

**Avinash Nahata:** So, a small add on is, so US as a market, the outsourcing China contributes to what percentage and what is the rest of China?

**Rahul Gautam:** Mattresses to the best of our knowledge is about \$6 billion to \$7 billion annual industry in the US and approximately a billion and a half was getting input.

**Avinash Nahata:** Okay, thank.

**Moderator:** Thank you very much. As there are no further questions from the participant, I would now like to hand to conference over to the management for closing comments.

**Rahul Gautam:** Thank you very much. I just want once again to thank you all to be putting up great and very incisive questions and like always they are a learning for us and we can put those into use, I know that we have passed through terrible times and we are continuing to do that, but look for better times soon and lot of prayers and expectations not only for Corona kind of going away, specifically for our industry for the normalizing to happen for EPOs and NPOs to open. I just wanted to say that be getting faster and other responses and quicker and probably not so much of bureaucracy, etc., and time delaying

*Sheela Foam*  
*May 31, 2021*

process that normally creates in, we are getting better, we would be a better company taking full advantage of the opportunity that it come we of course did not want Corona to happen; however, it did whatever are the opportunities they will take the full advantage at this time, we would also look at India as a continuing advantage not so much impacted by what has happened in the recent past about shortages, etc., of healthcare, but I think these are now issues of the past, with those words, I just want to thank you once again and look forward to meeting you somewhere in between or definitely at the next investor call. Thank you very much.

**Moderator:** Thank you. On behalf of ICICI securities, that concludes this conference call. Thank you for joining us. You may now disconnect your lines.