



“Sheela Foam Limited Q3 FY17 Results Conference Call”

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**MODERATOR: MR. ANAND MOUR - SR. VP & CO-HEAD OF
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Moderator: Ladies and gentlemen, good day and welcome to the Q3 FY17 Results Conference Call of Sheela Foam Limited, hosted by ICICI Securities Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing ‘*’ then ‘0’ on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Anand Mour. Thank you and over to you, sir.

Anand Mour: Thanks, Karuna. Good evening ladies and gentlemen, pleasure to welcome you all to the Q3 FY17 Conference Call of Sheela Foam Limited. From the management, we have Mr. Rahul Gautam - Managing Director and Mr. Dhruv Mathur – Chief Financial Officer of Sheela Foam. Thank you sir for agreeing to this call, I hand over the call Mr. Gautam for his opening remarks and then we will open the floor for the question and answers.

Rahul Gautam: Good evening everybody this is Rahul Gautam from Sheela Foam. This is our first time that we are closing a quarter and we are listed. So, if there are any lapses kindly pass them off as a first timer. So, this quarter we got listed on the 9th of December and this quarter has been probably one of the most turbulent quarters that we have witnessed both in terms of the demonetization that took place on the 8th of November and then our raw material prices which have been fluctuating widely. So, this demonetization of course impacted us for a short period, it was more felt in the Northern part of the country, lesser in the Western and the Southern part but by and large it has an impact for at least a blackout kind of a period for about 2 to 3 days. But we responded pretty well to that in the sense that our entire distribution system we energized it, we got them ready to accept digital modes of payment and we also advertised that. So, I think that helped us.

The raw material prices of course have been fluctuating and all I can say is that we have done a price increase in November which has to a great extent covered up whatever would have been otherwise a bigger loss. We are still fortunate that in spite of such impacts that our results have been reasonably satisfactory for the Q3 of FY17 and as I go to them which is say that the topline increased from 446 crores last year to 486 crores which is an increase of over 9% and the EBITDA has also increased from 62 crores level to a 65 crores and the net profit also has improved from 38 crores to 42 crores.

We have ,as most of you are aware,2 geographies that we operate in; one is India and the other is Australia. So, as far as India standalone is concerned, its net profit increased from 34 crores to 38 crores which is about 11.8% increase. Australia the revenue levels of the top line went down by about 3% and out of that 1 and 1.5% was on account of foreign exchange fluctuation between Australian Dollar and the Rupee because we convert all that to the Indian Rupees. However, the PAT has remained pretty steady at about 5 crores. So, that has also contributed positively to the consolidated results. The major issues as I said were two of course with demonetization and the raw material, but besides that from the company perspective we have

been pushing along our branded sales and the network of exclusive stores which was hovering around 2200 in the beginning is about 2500. So, we have added close to 250 to 300 exclusive stores which will hold us a good stead as far as future is concerned.

There was another big event which has happened in the company. There was a unique technology that we had been working on ,which is called as a vertical variable pressure foaming, something which was evolved and innovated within Sheela Foam, for the first time in the world and I am happy to tell you that the technology has been a success. So, we already have trial productions coming out of it and it should be a revolutionary thing happening in the world.

So, as committed and as good governance we have already initiated the process of bringing the Brand Sleepwell in the Company and as the first step we have converted the holding company of the brand which is Sleepwell Enterprises Private Limited into a 100% subsidiary of Sheela Foam. And once that is done the next step would be to merge the two companies and then the brand would completely lie within Sheela Foam.

We had also often asked the question on the dividend policy . We were Private Limited till that time and actually never distributed any dividend or did not feel the need for doing that. We have also been committed that as soon as this process is over we will have a dividend policy in place and I am happy again to inform you that in today's board meeting we have approved the dividend policy and it will be put upon on site. We look-forward to the coming time .

One thing that Sheela Foam very eagerly looks forward to is the GST ,for the huge unorganized market which will shift to the organized type. We, as a company are getting prepared for it, we are also getting our vendors, our smaller suppliers, our distributors and the retailers ready, so that expectedly on 1st of July, when it starts absolutely ,we can also switch on , like a switch and be on the GST network. So, I look at the future times with lot of anticipation -big things happening and I would just say that if nothing else this turbulent times of Q3 have helped the company to become a far more resilient than before and our goal of providing a mattress for every Indian ,to make every Indian's life comfortable is well on track.

So, thank you very much for joining and we are now open for questions.

Moderator:

Thank you very much sir. Ladies and gentlemen, we will now begin the question and answer session. First question is from the line of Nihal Jham from Edelweiss. Please go ahead.

Nihal Jham:

My question pertains with that only, that we see that the 12% growth that are we done is pretty commendable especially considering that we were hit by demonetization starting November. So, could you give us a sense that how was the growth before demonetization and post, because I assume that it will be much higher before that and still we have clocked 12%.

Dhruv Mathur: I think that as far as the month wise growth is concerned, October was the best month we had- as against the revenue of 125 crores of October of FY16, we had a sale of 166 crores. Now growth of November and December- it clocked almost flat, in fact the numbers of November, December of Q3 FY16 and Q3 FY17 were almost the same that is 242 crores, so the entire total was 367 crores for the Dec'16 quarter and 408 crores for the quarter of Dec'17.

Nihal Jham: Sir, also could you give us the sense of the product wise breakup of sales this is also how the growth has been for the Sleepwell brand and the other categories?

Dhruv Mathur: So, this has been almost at the same trend. As you know that we do not have a different segment for all these things, so we are not monitoring. However on a broader sense there has been an equal kind of, so it was stable for all the products, whether it was Sleepwell or the furniture business or technical foam. So, there was no distinction at that time.

Nihal Jham: And just one last question that we opened approximately, increased our exclusive distribution by around 270 this quarter. Just wanted to understand are they emporiums or are the other Sleepwell branded outlets and also what is going to be a focus category going forward, will it be towards more the premium or we will look at focusing on the mass segment.

Rahul Gautam: We do not have emporiums this yet, but what we have with 3 levels which are Sleepwell world, Sleepwell gallery then Sleepwell shoppe and of course the 4th one which is the exclusive dealers which also deal in whole lot of other products. By and large is quite well distributed amongst all the four types of stores that we have and as we go forward our aim is definitely to premiumize and to keep pulling up the average price, so that it can give better and better products.

Moderator: Thank you. Next question is from the line of G Vivek from GS Investments. Please go ahead.

G Vivek: My question is, had we taken any market share away from the unorganized player due to this recent demonetization and number 2, what is the impact of this pressure foaming plant and how big is it this and any moat or any USP towards?

Rahul Gautam: It is little too early to really know that if we have taken any business away from the unorganized sector because these are not tracked, unorganised industry is not tracked so well, that there are numbers like the automobile industry. But all I can say is with the feedback that I have from the market that no doubt, the impact of demonetization was far huger on the unorganized sector, wherever the people, the co-suppliers that we interact with in the industry as well as whatever is the feedback from the market. So, I am pretty sure that we have taken some share but I will not be able to put a number to it as yet. May be by the end of the year one would get a better feel of it that exactly. But definitely there is a bit of a movement in that direction. As far as the variable pressure foam is concerned, so right now it is in the trial time, it is already producing what it is supposed to produce and the way it is supposed to produce and as soon as in another week to 10 days' time, we would be converting our softer foam that

we intend to produce on this, we will stop on our regular machines and get to produce on this machine, where we envisage a better product and far more cost effective product and slowly we would convert the Northern zone on this and then we would start compressing these products and transferring it to other zones. Because once you compress it the transportation cost become relatively low and the product would be good and unique. So, the real impact would again felt in about a month's time.

G Vivek: Is it basically some sort of USP or more or with new product range which you got for new plant?

Dhruv Mathur: Yes, it is a USP in the sense that this product is used in the quilting surface of the mattress and generally with the little bit of use ,the quilting surface actually settles down and the nice lofty and comfortable mattress, when you buy it, becomes flat very soon. This product will just make the mattress loftier and would help retain it for the guarantee or the warrantee of the mattress.

G Vivek: And this year very badly impacted by the fluctuations, volatility and the raw material TDI. So, I was hearing that from new plant as to come up for TDI, which will reduce the prices some might benefit us and what is the pricing power which we would help us impacting the overcoming this raw material volatility?

Dhruv Mathur: At the moment, I am not aware of any newer plant coming in except that our current suppliers, GNFC used to have one plant and has added another plant. So, supplier remains the same but he has 2 plants and in one plant -the big one, the newer one ,they had trouble about a month and half back where because of some leakage,it is closed down. But I have no knowledge of any newer capacity coming in. However, the imports are open and the only delay is in really the shipment times, which from Korea or from China is about 3 weeks and from GNFC plant locally is about less than a week, it is about 2 to 3 days. What I have definitely heard is that there are big players who are thinking of creating tankages in Kandla or Nhava Sheva, where they would get the TDI in bulk storage and then it would become locally available to us. But I see that at least a year down the line and not before that.

G Vivek: And other raw material position is remains comfortable pricing?

Dhruv Mathur: Yes, so the other major raw materials is polyol which is remained pretty constant and these fluctuations also, I mean we all think that it should kind of die down but some small little things here and there are just bringing this spikes back and eventually on a longer time frame the capacity that exists, the demand is not as much as the capacities, so the price has to be on a low steady level , should settle down, it is just taking a time.

G Vivek: And the last question is about the Australia subsidiary, basically how big is the opportunity size in Australia because the population is very less hardly 2 crores, so and what is the value add we are having from that particular subsidiary?

Rahul Gautam: Quite right that the population is just 2 crores, actually the last number is about 2.1-2.2 crores and it is a matured market. The major industry that we supply to are the bedding and the furniture industry, their high-end furniture industry. All the other industry kind of gone, like shoes and lingerie and automobile. But the bedding industry is holding up very well and for the last couple of years actually our production has been going up though very marginally but it is a very steady market, there will not be any huge growth but there will not be any huge fall either. One trend that is happening and which is a very encouraging one, is that actually Australia is beginning to export mattresses, high end mattresses to China and some of the Asian countries and there they are being received extremely well by the richer class as Australian brands or Australian made products which are going there and that really means our foam which is going into those mattresses. So it is going to be steady. It is going to be a 2% to 3%, 4%, 5% increase, of course that's time goes by we also take, keep on taking a little bit of shares from our competition just because we are a far more let's say Foam focused manufacturers and received well by the customers.

G Vivek: One more thing lastly is about this GST seems to be very trigger for us and what was the opportunities size expected to increase for Sleepwell Feather Foam and other B2B business for us if it is implemented in July?

Rahul Gautam: I think the GST part will have couple of things it will do for us and the industry. Number one thing that it will do is hopefully ,now I cannot say because we still have not got the rates fixed. Hopefully it should bring the rate of taxation down by about 2%, so which will be a good thing that will happen. Second, it will make it harmonious across the country. Today some places the rates are a little different from the other one and then we also pay the 2% CST across that states. Third it will help us to restructure our industry from with the supply points and the distribution point and then we do not need to go by the political demarcation that this is Rajasthan and this is Haryana and this is that. We can sort of structure ourselves completely on that. And the fourth one and that probably your primary question which is to say on the unorganized getting to the organized sector, the way we understand is everybody will have to get on to the GST network. The exempted limit is only 20 lakhs from what used to be 1.5 crores and therefore virtually anybody and everybody will be in that network. Once you are in that network it is impossible to be evading and avoiding taxes and duties. Now how quickly this will happen it will be a wild guess but I would say the real impacts will if it comes on the 1st of July we should start feeling the pressures of supplying materials by October, because this system also needs to kind of settle down there.

Moderator: Thank you. The first question is from the line of Ashwin Reddy from CWC Advisors. Please go ahead.

Ashwin Reddy: I had a query on the gross margins. So, in case if you see the gross margins across quarters June, September, December, the government said 10% point you can just see in the June to December quarter. So, I wanted to understand what possibly see the normalized gross margin is it June-November, September-November or December going ahead number one, this is more

because of the raw material size but our understanding was that the plant was coming up in Middle East probably in Sadara has that been pushed put or because our understanding was that was probably temper price of raw material, sir comments on both these sir?

Rahul Gautam: So, I am going to comment on the raw material one and then Dhruv who will take the other one. So, you are quite right when the gentlemen had also asked me if any capacity was coming up in India I thought ,but you are quite right at this- Sadara plant is coming up. It is going to produce both polyol and TDI. The polyol is going to be on stream anytime from now to 15th of February and TDI is going to be in the second half of this year and there of course the availability of the material is also going to have tough job for us within this year and it will start impacting the prices and helping to actually modulate or moderate the fluctuations. These fluctuations happen because if at any particular times from 2 or 3 capacities would have some problem but if there is a larger capacity existing it will help to moderate that down, so hopefully we should not be such fluctuations again.

Dhruv Mathur: So, I have readily the figures of EBITDA for the previous quarter as against the corresponding quarter. So, I take you through that for India operation first. For the corresponding quarter of the last year of Sheela Foam in standalone it was 13.92% and that was the time where...

Ashwin Reddy: If I may just interrupt you. I am talking about gross margins only sir because gross margins have been a big swing in the gross margin.

Dhruv Mathur: I do not have those numbers readily available with me. You can call me separately and the gross margin difference is only because of TDI but we would say that we have well covered it up through the price increase in which was affected in the first week of November.

Ashwin Reddy: And one follow up on the raw material price again, so the price of TDI as on date or the last one week is it comparable to the hike is it or how far below the hike at right now?

Dhruv Mathur: So, these prices went down from a level of 310 to a level of 225 per kg. in the month of December. However, GNFC ,when it is started first plant in Bharuch, it started again increasing the prices and in the month of January it was again tat Rs. 260. However, this is very temporary because whatever we are importing and the material which will be coming to us will be at much lower prices and of course once GNFC starts its production at larger scale it will have to match the landed prices. it is only the intervening period in which price were hiked.

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

Prashant Kutty: So, first thing is, I am sorry I just missed out what is the price hike which you have taken is that, how much is the price hike?

Rahul Gautam: 7%.

- Prashant Kutty:** So, second thing I am assuming that mostly what are the growth issue done in the India business would have been volume growth itself?
- Dhruv Mathur:** Not necessarily.
- Prashant Kutty:** Could you have some number on that as to what would be the volume growth number?
- Dhruv Mathur:** We do not have. See in our industry it is very difficult to try, the numbers on volume itself- for example if I just share the volume of mattresses, it would have grown substantially in terms of only number but this number is not a correct indicator because mattresses are of different height, different density. Just for example, in quarter ending Q3 FY16 we have sold 3.15 lakh mattresses whereas in this quarter we have sold 4.16 lakh mattresses but that does not translate into the equal value increase because of different sizes. So, it is the mix of both price increase as well as volume.
- Prashant Kutty:** I mean more than price increase, there will be a mix element as well as, if I am not wrong?
- Dhruv Mathur:** It is right.
- Prashant Kutty:** So, if you could just comment a little bit in terms of the other segment the basically the furniture cushioning which we had I guess and I also comfort accessories because those are the other segments also where we looking at increase in our footprints probably increase in the turnover and that side as well. So, if you could just comment a little bit on that if I am not wrong I guess furniture cushioning is little muted as FY16 was concern, how was the trajectory on those segments as far as this year is concern?
- Rahul Gautam:** So, at furniture cushioning we have already started a process of having that on just 2 brands. One is the Sleepwell brand, the other is the Feather Foam brand. Sleepwell is the advertised one and the Feather Foam is well established trade brand. And in the furniture cushioning the real decision maker is really the facilitator between the customer and the dealer and we call them as, Karigars or Carpenters. So, we have a program running for them which is called is Anmol bandhan and everyday number of people who are getting attached to it and helping us to sell that is increasing and of course we are also fine tuning as the kind of go forward on that. I do not think that it is reached a point where the real big growth will begin to happen but that is an area where nobody else operates on the branded furniture cushioning path and we expect that to happen in the next month and half or two months' time. That it will start showing some big results.
- Prashant Kutty:** On the distribution side effect, I am sorry again if I am missed this if you have commented it above earlier, is this spoke about 2700 stores at this point of time. Could you know, is there any targets which we having as far as store expansion on this side is concerned and what is the kind of universe that we are looking at?

- Rahul Gautam:** So, the target that we have is 4000 stores by 2020 and it may appear that we have added some 250 or 300 stores and therefore this number may appear is relatively small but just say that these number of stores also includes this small ones and the big one and our aim is we also work on converting the smaller ones into bigger format because that is really the place where you can display the products properly and sell them and we are embarking on a new process where increasing the footfalls into the stores then converting them and up scaling the customer .The process we are beginning, where we will start training the retailers to have far more feet on the ground and to do the retail management part of it.
- Prashant Kutty:** Is there any near-term target which you mentioned about 4000 targets for 2020 any near term like ...?
- Rahul Gautam:** So, we have a quarter-on-quarter target for that and if you would contact Mr. Mathur you can have quarter-on-quarter target for that.
- Moderator:** Thank you. Next question is from the line of Chandrasekhar Sridhar from Fidelity Investments. Please go ahead.
- Chandrasekhar Sridhar:** Just a couple of questions. I just following with an earlier question can you the gross margins in your first quarter this year were about 51% and it is down 10% in the third quarter obviously there is certain element of raw material inflation which is substantial but could you just sense, you just listed now and we do not have enough history and I am just trying understand the margins both in the gross margins and the EBITDA margins, what is there a level of seasonality and secondly on the sales also this quarterly in terms of seasonality obviously the third quarter is your best quarter but typically how much stress it accounts for a percentage of your total sales?
- Dhruv Mathur:** So, as stated that we do not have the ready numbers for gross margins for the first quarter here, I can reply that offline. However, as I stated that we have increased the price by 7% and I can only say that the EBITDA levels vis-à-vis the corresponding quarter is only down from 13.92% to 13.53%. So, we are tracking that very well.
- Chandrasekhar Sridhar:** I am just trying to understand, typically what is the level of seasonality in terms of sales?
- Dhruv Mathur:** So, this part, as you rightly said -it is the best quarter and typically ,I am just generalizing, 45% sales take place in the first half and 55% in the second half and within that 55% let's say it would be around 30-35 or something like that.
- Chandrasekhar Sridhar:** And just you gave us the split in terms of October it seems like there was a (+30%) growth in the month of October itself, so your trend growth has been sort of in the regions of about 10%-12% somewhere about. So, what is sort of change in that month, I am just trying to understand is there some trend change which we have seen?

- Dhruv Mathur:** So, of course in the next 2 months there was demonetization and we felt happy that we could maintain the same level of the corresponding previous year.
- Chandrasekhar Sridhar:** No, I am just trying to understand is there some trend level change since, we have seen in the month of October is that 32%, is there some trend change or was that something...
- Dhruv Mathur:** It was, let say Diwali also was been October, so there was some increase, some kind of festive season was there.
- Rahul Gautam:** and I think that this was a good to high season happening after many years where rains were good, there was OROP and there was money in people's pocket, etc. I mean had it not been for the demonetization I am sure that this quarter would have been the best ever which would have been hard to beat. But when demonetization happened, then it took a while for us to kind of stabilize but fortunately the November, December was flat compared to the previous one but the October ones helped as to get through the entire quarter and whatever is the feeling right now, it is the impact of the effect of demonetization is weaning away very fast. I cannot speak in numbers but it is already one can feel in the month of January and couple of days which have happened in February.
- Chandrasekhar Sridhar:** And what is the cumulative level of price and you had affected some price hike, I think in April followed by June and now in November what is the cumulative price hike which you have taken in the 9 months of FY17?
- Dhruv Mathur:** So, I would say that we have to say about the mattresses separately and other business separately. As far as mattress business is concerned once the prices increase, they are never reduced. So, for the mattress segment we took a 5% increase from 1st of May and from 7th November it was 7%. However, for the other segments it generally fluctuates for example when I told the TDI prices went down from November, for other segment we also move down the prices. So, we can only state about the prices of the mattresses 5% 1st of May and 7% on the 7th of November. Generally, we did that ,but for the other segment we keep on monitoring the price of raw material.
- Moderator:** Thank you. Next question is from the line of Subramanyam Yadav from Subhkam Venture. Please go ahead.
- Subramanyam Yadav:** Just wanted to understand how was the sales in the month of January?
- Rahul Gautam:** So, I can give a bit of a qualitative answers to that, I think the impact of demonetization is weaning away in fact whatever was let's say lost in November and December we will have catching up on that.
- Subramanyam Yadav:** So, in terms of year-on-year January looks better than last year?
- Dhruv Mathur:** I do not know whether you can say but yes.

- Rahul Gautam:** Yes, definitely.
- Subramanyam Yadav:** And sir just wanted to understand that in December you said TDI prices were 260 and then the started then the supply must have increased, right then why should the prices should go up to 260 I did not understand that?
- Rahul Gautam:** It is a purely supply demand phenomena's and the local supplier, he had some quantities to sell, so he had reduced the prices. Then he started producing a little bit and again he reduced the little bit then he had little material to sell but it was taking up a bit of time but he was not producing. So, he increased the prices. Now this is just, this is the large fluctuations and which are taking their time to kind of taper off in time. There is no predictable logic to it.
- Subramanyam Yadav:** So, current prices it was 260 you mentioned?
- Dhruv Mathur:** 31st January, today is 275.
- Subramanyam Yadav:** And what would be the landed cost if you are importing that?
- Rahul Gautam:** So, actually it works out to pretty much similar and one or two rupee here and there it all depends on the foreign exchange rate but it is pretty much similar.
- Subramanyam Yadav:** And sir the tax rate would be at this level only 29%-30% for the full year also?
- Dhruv Mathur:** Yes, it will be like that. Generally, it is around 31% for us.
- Subramanyam Yadav:** Yes, 31%. So, what reason behind that sir?
- Dhruv Mathur:** The reason is that we have gone one unit in Kala Amb, which is tax exempt to the level of 30% of its profits. It is in the second phase of exemption. This exemption will continue up to 31st March, 2019.
- Subramanyam Yadav:** 31st March, 2019, where is this sir?
- Dhruv Mathur:** Kala Amb.
- Rahul Gautam:** It is in Himachal Pradesh.
- Subramanyam Yadav:** And sir on the dividend policy, you mentioned in the start of the call but what is the payout you have decided on it?
- Rahul Gautam:** So, when the year closes, the board will take a decision and then we will be able to inform you. So, at the moment on the numbers we have no more to say.

- Moderator:** Thank you. Next question is from the line of Pratik Tholiya from Emkay Global. Please go ahead.
- Pratik Tholiya:** So, just wanted to check you said 225 was the price in December of TDI, so what was the average price for you during the third quarter?
- Dhruv Mathur:** So, it was around Rs. 240 for us.
- Pratik Tholiya:** 240 and sir what was it last year, same quarter?
- Dhruv Mathur:** So, same quarter it was as low as Rs. 120.
- Pratik Tholiya:** So, it was almost doubled?
- Dhruv Mathur:** Exactly almost doubled.
- Pratik Tholiya:** And sir for 9 months if you can just share the numbers ...
- Dhruv Mathur:** So, we do not have the ready number with us. You can talk to us offline.
- Pratik Tholiya:** And sir what is the outlook for this prices for this Q4, what is your sense on this TDI prices? Will it remains this volatile or you expected to stay at around this Rs. 240 to Rs. 250 which you just mentioned?
- Rahul Gautam:** All logics is, there is no reason why it should be at that level and why there should be any increase. It I think it will remain around this level. It will be safe to assume that around 240 to 250 level.
- Pratik Tholiya:** And sir if you can just help me what was the prices last year in Q4 of TDI?
- Dhruv Mathur:** So, it was around that only it hovered between 115 to 120 something like that.
- Pratik Tholiya:** And sir this TDI you are procuring it from the domestic player only or you are also importing it?
- Rahul Gautam:** So, generally we have a policy of saying that we split it 50-50, because each one has its own vagaries. However, based on the price, pricing part of it you can shift by 60-40 either way or said max 70-30. But we will always have both the channels open for suppliers.
- Pratik Tholiya:** And so, these contracts are on spot or you have some long-term contracts with your suppliers?
- Rahul Gautam:** So, there are no long-term contacts pricing contracts. The prices globally were, let's say decided more on a monthly basis, but now the fluctuations have been happening almost like on a weekly basis. The only contracts that we have with the people are volume discounts which

would come at the end of the year depending on the volume that we have purchased from them. But the pricing is not the part of the contract. The pricing remains for a particular consignment or a particular lot that we were booked at a time.

Pratik Tholiya: And sir, you also mentioned that GNFC plant is shutdown currently, so has it affected your availability for TDI?

Rahul Gautam: No, availability is not impacted. So, we have covered that up with the imports and the GNFC they have two plants, the small one and the big one. The big one has not started as yet, small one is running at a product 30%-35% capacity. It is ramping up slowly but for us there is no shortage or non-availability of TDI.

Pratik Tholiya: And just one last thing you mentioned that in Middle East one new capacity is coming up if you could just help me with the name of that company which is setting up over there?

Rahul Gautam: See this is the joint venture between Aramco and the Saudi Arabian Government. It is called Sadara and if you would google that you would get all the details. It has huge complex starting from refinery to making many petro chemicals and our petro chemicals which are Polyol and TDI also happen to be a part of that complex and this is larger than the largest ever kind of created.

Moderator: Thank you. Next question is from the line of Nidhi Agarwal from ICICI Prudential Life. Please go ahead.

Nidhi Agarwal: My question is sir if there is any kind of renewal contract that we have to sign with distributor EBOs particularly after a certain period?

Dhruv Mathur: So, we have a long-term distribution contract and we do not have any contract or something that they have to take certified quantities from us which is a pure function of market. So, we have got long terms contracts for distribution only. No quantities, prices, etc. are specified.

Rahul Gautam: There is no annual renewal to it. However, it would have exist clauses from either sides.

Nidhi Agarwal: And so, this is for how much time?

Rahul Gautam: No, it is open ended.

Dhruv Mathur: But the validity has been put at 5 years now and we keep on renewing those contracts.

Nidhi Agarwal: And this addition of distributors, EBOs, will that be total or have somebody cancelled also?

Rahul Gautam: No, there is no cancellation. This is all additional.

- Moderator:** Thank you. Next question is from the line of Saurabh Pant from SBI Mutual Fund. Please go ahead.
- Saurabh Pant:** Just a few questions. First one, is it possible to share the revenue breakup between home comfort range and technical grade for 9 months?
- Dhruv Mathur:** So, Mr. Pant at this moment it is not available. We can provide all that breakup offline for you.
- Saurabh Pant:** The second question was I just missed the number of EBOs opened during the 9 months?
- Dhruv Mathur:** So, 279.
- Saurabh Pant:** And how many of would be Shop 'n' Shops?
- Dhruv Mathur:** I do not have that number right now.
- Rahul Gautam:** We will send that to you.
- Saurabh Pant:** The third one is more of a clarification. I guess there has been a few questions around this sequential reduction in gross margins, so from quarter one to quarter three there seems to be an optical erosion in the gross margins. Is it fair to assume that when we in your B2B part of the business, you would have maintained profit on a volume basis on a per ton or a per kg basis, but optically your margins would have eroded because the raw material as there has been an inflation both in pricing and raw material?
- Dhruv Mathur:** What we can say is that on B2B, first of all the technical foam business is only B2B business. Furniture cushioning business is not B2B business it is B2C business. So, as far as the pricing of our product is concerned on technical form the prices are not changed on day to day basis that is more of contracted prices which are changed on quarterly basis. So, sometimes it does impact, so within the quarter sometimes the price of raw material has gone up. Immediately there won't be an increase in the price as far as B2B business is concerned. However, as far as the furniture cushioning business is concerned there we try to maintain the margin. That is as soon as the prices of our raw materials increase substantially, we increased our prices of furniture foam as well.
- Saurabh Pant:** For example, in the technical foam business, you had a revenue of 100 bucks and your raw material cost was 50 bucks. When you have inflation in raw material let us assume raw material price gone up by say 20% that Rs. 100 you take price hike and it becomes 120 bucks and the Rs. 50 becomes 60 bucks, right? That is an ideal scenario when your margins would have been maintained but for example if you making 50 bucks as an absolute gross profit and you maintained that 50 bucks?
- Dhruv Mathur:** So, I understand that the percentage would probably be different.

- Saurabh Pant:** Should we look it at technical home business on a gross profit on a volume basis and not on a margin basis?
- Rahul Gautam:** It is a good point. I mean, yes, so optically it would have changed, you are quite right on that. That optically it would look different, however the absolute number remains the same.
- Saurabh Pant:** Is this that fair assumption to make?
- Rahul Gautam:** That is a fair assumption to make.
- Moderator:** Thank you. Next question is from the line of Nishna Biyani from Prabhudas Lilladher. Please go ahead.
- Nishna Biyani:** Sir, just wanted to know what is the average price hikes you have taken over the last 4-5 years? What should that number be?
- Dhruv Mathur:** For generally as a policy, we take price hike twice in a year which is typically somewhere April and October kind of periods. However, in the last year that is FY16 we did not increase the prices obviously because the raw material prices were going down and this year we took a 5% price increase form 1st of May and 7% from 7th of November and that is a price increase we have taken for mattress businesses. As far as the furniture foam business is concerned, we generally increase the prices based on the increase in raw material prices or decrease in raw material prices will vary our selling prices.
- Nishna Biyani:** No, I understand that, I just wanted to understand what is the pricing really depended on, is it in the fluctuation of raw material or the market scenario?
- Rahul Gautam:** So, it is actually a combination of both. As far as the mattress market is concerned it does not depend on the market pricing. You do not reduce any prices, you take a prudent increase based on the raw material prices and then that kind of remains. On the furniture side and the furniture cushioning side it is dependent on the raw material prices and it also dependent on competition of the market prices but buy and large those prices with a bit of a time lag would move along with the raw material prices. Have I answered your question or not yet?
- Nishna Biyani:** I was just wondering that Mr. Mathur had highlighted that normally when the prices go up they do not come down in your segment?
- Dhruv Mathur:** Only mattress segment that is what I highlighted.
- Rahul Gautam:** Bedding segment, mattress segment they do not come down. We never go down in the price so therefore we are also a little prudent on taking the price increase and it is also true that the impact of the changes in raw material is also far lesser in that segment because it entails whole lot of other materials which go long whether it is a textile or it is a steel wire in a spring

mattress or it may be packing materials and it may be whole lot of other things which are there now.

Nishna Biyani: But currently you are facing strain only in TDI but polyol prices are flexible to you in terms of offering lower material cost Y-o-Y comparatively.

Dhruv Mathur: Polyol prices are stable over the last one year.

Rahul Gautam: And TDI is the one that is fluctuating.

Nishna Biyani: But TDI is not the bulk of your raw material, polyol is almost 2x the raw material consumed in terms of?

Rahul Gautam: So, that is right, but the per kilo cost is different. So, when you compare TDI to polyol the ratio between the two of them is actually a 60-40 or you can say it is about 50% more. It is a 60:40 ratio generally but the basic or the average price of polyol is far lower, average price of TDI is far higher and talking of and therefore the impact of that 40% is equivalent to that of polyol.

Nishna Biyani: And sir when I look at your Australian business which is the Joyce part of it, any guidance which you could guide over the next 2 years how is that business doing?

Rahul Gautam: I have said that many times that it is a pretty steady business. There is no reason for it to go down or no reason for it to increase and the inflation rates are also not very high there but as time goes by we keep improving our market shares and some newer applications keep coming up. So, it is a small increase but I would say it is could be good and steady for the next few years.

Nishna Biyani: And finally, just one last bookkeeping, so any new units coming up in the next 1-2 years?

Rahul Gautam: Any new, so we have yet to take a call on that. So we did talk about 2 possible areas where units could come up based on a distance of more than 600 kilometers and a certain quantity. But let me just say that there are also some new things happening across, transport is suddenly becoming far more efficient. So, we have some of our special supplies which we do to our Eastern unit in Siliguri. Earlier it used to take some 5 days to 6 days, today there is a company which delivers in less than 48 hours flat. The efficiency is increasing. We are also learning how to compress foam and transport it. So, when we do take a decision, we will take a call between setting up a new unit with all the CAPEX or enhance the capacity of existing unit. Beyond that actually running a unit requires administration and it requires supervision and all that. It is under active evaluation at the moment, but there are two areas where we have always said that the markets are growing and therefore we need to improve our supply positions. So, while there is an existing unit it will be enhanced or a new unit will be set up- that is under evaluation.

- Nishna Biyani:** And sir, any update on the insurance claim which you expected to be receive this year?
- Dhruv Mathur:** So, this is yet to be cleared by the surveyor, they are assessing. It is a long drawn process and we merely hope that this will be settled fast.
- Rahul Gautam:** But there is nothing which is untoward or anything. It is just a process.
- Dhruv Mathur:** Yes, now assessing the claim. So, it is a process in which the people of the surveyor numbers are less and claims are more. Otherwise the process is on the assessment is already on.
- Rahul Gautam:** We have come in the queue now
- Moderator:** Thank you. Ladies and gentlemen, we take the last question due to the time paucity from the line of Subramanyam Yadav from Subhkam Venture. Please go ahead.
- Subramanyam Yadav:** Sir, what would be the receivable days in the quarter?
- Dhruv Mathur:** The receivable generally is between 20 to 25 days and this quarter it is around 25 days and we have not increased the level of credit during the period of demonetization.
- Subramanyam Yadav:** And sir, last question would due to this increase in TDI prices to Rs. 260-275 would we take a price hike to maintain our margin or we will take price hike in April only?
- Rahul Gautam:** So, on the mattress side we will just watch it for another week or so and then take a call because this appears again as a very temporary spike. Because again as I said that in the bedding side or mattress side we never reduce prices. And why I say a week because in a week the big plants of GNFC is to start production and moment that comes on stream, I think the availability will increase and these prices will kind of come down this is I think small profiteering that he is doing here.
- Subramanyam Yadav:** Sir but it also depends on international prices like, right?
- Rahul Gautam:** So, I think as far as the Indian market is concerned, I would tend to believe that the international prices to the Indian market are determined based on GNFC prices and therefore it be globally the prices are in a reasonably large band existing across the world but when you see quotes for India you would see that they always tend to be very close to the GNFC prices.
- Subramanyam Yadav:** So, we meant to say that GNFC prices would be the standard prices across India?
- Rahul Gautam:** Yes.
- Subramanyam Yadav:** It does not affect from any supply than coming from Saudi Aramco or anywhere else in the future also?

Dhruv Mathur: No, the moment the Sadara plant starts the availability becomes large, the prices would fall. Right now, the only benefit that he is taking is he himself is not producing. So, he himself is producing may be 10% of what he should and therefore tending to charge more prices and that too for a very short time because when you book raw material it takes a while, it takes let's say about close to month before you start receiving that material and so he just takes that little advantages here and there. But moment there is long steady supplies which are available to India as soon as somebody opens up our tank facility in Kandla or Nhava Sheva this situation will change dramatically.

Subramanyam Yadav: Sir, in case of in a weeks' time is the prices does not come down would we take hit of the margin or we would be go for a price hike then?

Dhruv Mathur: No, we will then go for the price hike. So, when I would say the announced date is the first week of February, but I think another week to it, that we have to start producing as soon as they have start producing, I think a steady state will come and in that steady state is the hike level we will of course take a price hike.

Moderator: Thank you. Ladies and gentlemen, this was the last question for today. I would now like to hand over the floor to Anand Mour for his closing comments. Over to you, sir.

Anand Mour: Thank you Mr. Gautam and Mr. Mathur for having this call and your useful insights and thanks to all the participants to be there on the call. Mr. Gautam, will you like to have a closing remark.

Rahul Gautam: No, I would just say thank you very much. This was the first one for me and I must say that it was a very good, comfortable outcome and I look forward to interacting with all of you. In fact we always get insights from you people the questions give us insights as to how we can improve our business. So, I keep looking-forward and the coming few weeks or few months, I think are extremely interesting and a lot that will happen in the market as it is beginning to get out of the demonetization phase. So, thank you very much gentlemen and all the best.

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