04th November, 2024

To

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Exchange Plaza, Bandra Kurla Complex
Bandra(E), Mumbai-400051
NSE Symbol: SFL

Subject: Transcript of Investors' Conference Call for Quarter and half year ended September 30, 2024 Financial Results.

Dear Sir/Madam,

Please find below the transcript of Investors' conference call organized on October 30, 2024 post declaration of Financial Results for the quarter and half-year ended on September 30, 2024 for your information and records.

Thanking you,

Yours truly,
For Sheela Foam Limited

MD IQUEBAL AHMAD
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"Sheela Foam Limited

Q2 FY '25 Earnings Conference Call"

October 30, 2024

MANAGEMENT: **MR. RAHUL GAUTAM – EXECUTIVE CHAIRMAN – SHEELA FOAM LIMITED**
MR. RAKESH CHAHAR – WHOLE TIME DIRECTOR – SHEELA FOAM LIMITED
MR. NILESH MAZUMDAR – CHIEF EXECUTIVE OFFICER, INDIA BUSINESS – SHEELA FOAM LIMITED
MR. AMIT KUMAR GUPTA – CHIEF FINANCIAL OFFICER – SHEELA FOAM LIMITED

MODERATOR: **MS. ANUSHKA CHITNIS – ARIHANT CAPITAL**

Moderator: Ladies and gentlemen, good day and welcome to the Q2 FY25 Earnings Conference Call of Sheila Foam Limited. hosted by Arihant Capital. 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 star, then zero on your touch phone. Please note that this conference is being recorded.

I now hand the conference over to Ms. Anushka Chitnis from Arihant Capital. Thank you and over to you, ma'am.

Anushka Chitnis: Thank you. Good evening and festive greetings to all. On behalf of Arihant Capital, I would like to welcome everyone to the Q2 and H1 FY25 Earnings Conference Call of Sheila Foam Limited. I would like to take this opportunity to welcome the management of Sheila Foam represented by Mr. Rahul Gautam, the Executive Chairman, Mr. Rakesh Chahar, the Whole Time Director, Mr. Nilesh Mazumdar, the CEO of the India Business, and Mr. Amit Kumar Gupta, the Group CFO. Now, without further ado, I will hand the conference call over to Mr. Rahul Gautam for the opening remarks. Over to you, sir.

Rahul Gautam: Thank you, Anushka. Thank you very much and greetings to everyone who has joined in. Good afternoon, everyone, and thank you for joining us for the Earnings Conference for the second quarter and half year ended on 30th September 2024.

Let me first take you through the major developments in the company, and then I would request Amit to take you through the financials. As you all know, we acquired Kurlon in October last year, and it's been barely one year since that happened. And since then, with a strong focus on integrating Kurlon with Sheila Foam, we have been progressing well.

Though both the companies sold similar products, there was a lot of difference in the ways both the companies operated. I'm delighted to share that we have finally been able to figure out and implement the model where both the companies are working together and progressing. While successfully integrating the acquisition has been a challenge for any company, would have been a challenge for any company across the globe.

However, I'm happy to share that we have demonstrated that both Sleepwell and Kurlon brands can be effectively and sustainably sold in the market. Mattress, as a share of our total revenue, has now crossed 50%, which emphasizes our focus on B2C business, and the intent to grow this much faster than the rest. This actually leads to one of the basic initiatives of the company, which is decommoditizing the product, which means that we are selling more and more of branded goods, more and more of mattresses, and focusing more and more on the Indian business.

I'm happy to report that we have witnessed a healthy volume growth across all the segments and more so on the mattress side. On a like-to-like basis, we achieved a 19% volume growth year-on-year in the mattress segment, which is the highest in the last eight quarters. Sleepwell volumes, Sleepwell, which is the flagship brand of the company, along with Kurlon, the

Sleepwell volumes grew by 40% year-on-year, whereas Kurlon volumes grew by 26% on a year-to-year basis.

Our technical foams and furniture foam segments have also seen good volume growth year-on-year by 18% and 10% respectively. The other synergy of the integration, which is on the savings side, I'm happy to share with you that the savings of the annual run rate of about INR100 crores per annum is already achieved and we have other initiatives in place which would further augment this annual run rate in Q3 and Q4. Our foaming production is gradually being shifted to the VPS side, which is again a technology that we depend on for improving our costs and for ensuring that we give an environment-friendly foam more and more.

We've also shifted foamings from four of the Kurlon plants to Sheila foam plants, which has resulted in around close to 10% savings due to better yield at Sheila foam plants. We've also commenced foaming in the Kurlon plant at Gwalior, which results in further reductions in freight. Kurlon has adopted and is now in the same mode as that of Sleepwell, and that is the distribution to the distributor model.

Kurlon has closed down the regional distribution centres, and this has resulted in cost savings and the full impact of that will be felt in Q3 of FY25. Yes, you're aware that there was an investment that the company had made in the furniture business, and that was in Furlenco. I'm happy to share with you that Furlenco continues to grow with its subscriber base almost doubled in the last one year.

Our IT arm, Staqo, also saw revenue increases by 33% on a year-on-year basis, with EBITDA margins further improving than what they were before. In October this year, we have exercised our option of increasing equity in Furlenco with an incremental investment of around INR100 crores, taking our stakes to 45% in the company. Earlier it was 35%, and we've got this incremental 10% increase without any changes in the cost of it.

This we have been able to acquire at almost the same valuation as the other investment in spite of the company, in spite of Furlenco becoming more profitable and almost 1.5 times the size when we acquired the initial stake in August last year. The company, Furlenco, is now generating cash at P&L level with incremental cash only needed to buy new assets and scale up the business further. Now I request Amit to take us through the financial highlights of the last quarter and the half year that we have just closed. Over to you, Amit.

Amit Gupta: Thank you, sir. Good afternoon, everyone. Now let me just take you through the financial performance of the company for the quarter ended and half year ended, 30th September 2025. For the second quarter, on a standalone basis, we reported a total revenue of INR602 crores, which is a growth of around 42% on a Y-o-Y basis. EBITDA for the quarter stood at INR70 crores, which grew by 54% on a Y-o-Y basis. EBITDA margins were reported at 12% for the quarter.

Net profit was INR43 crores, which was up by about 12% Y-o-Y. For the first half of the financial year, the standalone revenues were at INR1106 crores, which grew by around 26% Y-o-Y. EBITDA for the period stood at INR118 crores, which grew by 11% Y-o-Y. EBITDA margins were reported at 11%. Net profit was INR75 crores, which declined by around 7% year-on-year. The decline was primarily on account of incremental interest costs on the debt that we took for Kurlon acquisitions.

On a consolidated basis, for the second quarter, we reported revenues of INR813 crores, which increased by around 32% Y-o-Y. EBITDA for the quarter stood at INR69 crores, which was up by 5% Y-o-Y. EBITDA margins were reported at 9% for the quarter. Net profit stood at INR9 crores, which is a decrease of around 79% Y-o-Y. For the first half, we reported a consolidated revenue of INR1622 crores, which increased by around 29% Y-o-Y. EBITDA for the period stood at INR129 crores, which declined by 10% Y-o-Y.

EBITDA margins were reported at 8%. Net profit stood at INR56 crores, which is a decrease of around 36% Y-o-Y. So, just two pointers on this. We acquired Kurlon last year, because of which there was certain debt which the company took to pay off the purchase consideration, which has interest component which comes as an incremental cost. And secondly, the depreciation of Kurlon is also added.

So, though we see improvement in operational performance, but the interest and the depreciation reduces the profit after tax that goes to the bottom line, for which we believe that over a period of next two to three years, we would be able to garner revenues and profitability enough to absorb the thing. With that, we can now open the floor to the questions and answer session. Thank you.

Moderator: Thank you very much, sir. We will now begin with the question and answer session. The first question is from the line of Ritesh Shah from Investec. Please go ahead.

Ritesh Shah: Hi, sir. Thanks for the opportunity. A couple of questions. First is, can you provide some color on the ramp-up of both Tarang as well as Aram? Where do we see these numbers going? I think you had indicated INR250-300 crores in two to three years. If you could help us with some broader numbers on contribution for both volume as well as value for Q2 and first half, that would be really helpful.

Rahul Gautam: Ritesh, you want to finish your questions or you want them to be answered one by one?

Ritesh Shah: I will finish up all the questions, sir.

Rahul Gautam: Okay.

Ritesh Shah: The second question is on distribution network. We have been trying to understand the company better visiting multiple states. A simple question over here is, in how many states do we directly supply to the dealers from the factory? That is, we are actually getting rid of the distributor. Is this something for both Sheela Foam as well as Kurlon? Is it something new by design? If it is so, I think there will be incremental data on cost margins, which will definitely benefit us.

So how are we looking at that particular variable? Third number is Furlenco. Basically, broadly, if you could indicate how are we looking to acquire the residual states and the sort of synergies that the existing business is deriving out of Furlenco that was the third one. And the fourth one is more operating numbers. If you can spell out the revenue breakup for Kurlon and Sheela Foam for the quarter, that would be great.

In the prior quarter, we had given marketing expenses numbers on the slides, which was I think 5.7%, 5.8%. What would those numbers be for this particular quarter? Thank you, sir.

Rahul Gautam: Thank you, Ritesh. So, Nilesh, would you be able to respond to the Tarang and Aram situation as to where we are based on our projections that in three years, we will go to about INR250-300 crores and how are we distributing that?

Nilesh Mazumdar: Sure. Hi, Ritesh. Greetings of the season to you and to everyone else. As far as Tarang and Aram is concerned, in terms of volume contribution to the total mattress, it is approximately about 7.5% to the total mattress volume. Of course, this is at a lower average selling price than what we sell in the main course. So, this will be approximately at about 3.5% to 4% of the total overall mattress value.

We are right now averaging in high single-digit numbers in terms of the revenue per month that we are doing. Hopefully, by next year, next financial year, we would be looking at touching a number of about INR100 crores and I'm talking of FY26. Currently, we have ramped up in the entire country, excepting Kerala, Northeast, Jammu and Kashmir and Punjab.

So, barring these four states, we are present in the rest of the country. And one more thing that I would want to add is that from this quarter onwards, we are also looking at extension of Tarang and Aram into the urban markets in a calibrated manner, because we see an opportunity there also as the economic end of the market as there are a large number of cotton mattress and EP mattress users there.

But we will need to do it in a very calibrated manner so that it does not cannibalize our mainline Sleepwell and Kurlon on sale. So, does that answer all your questions on Tarang and Aram, Ritesh?

Ritesh Shah: Nilesh, I would request you to, if you can go along with this for the second one too, that is the distribution network that you said. So, I just wanted to know that in these states, would there be direct and the commonality of the distributors and the distribution of both Sleepwell and Kurlon?

Nilesh Mazumdar: So, the only state right now, Ritesh, where we are direct is in Karnataka. In most of the other states, we have kept the distributors with us and they handle both Sleepwell and Kurlon with the exception of two or three states in south and east, because there it was more an emotional angle about the Kurlon dealers wanting to continue dealing with the company. So, we didn't want to disturb the market operating practices as of now.

What we need to understand is that our distributors have a fairly strong hold and equity and reputation in the market. So, therefore, we look at them as an extended arm who help us in also scaling up Kurlon in the markets where Kurlon had a large opportunity, for example, in the northern parts of the country or in the eastern parts of the country. So, in these markets, our distributors have been there with us and they have a fairly strong hold in the market.

And we would want to continue dealing with them because we see them adding a lot of value to the business and being able to help us scale up the Kurlon business in these markets.

Ritesh Shah: Sir, can I just -- Sir, can I just seek a clarification over here? Sir, you indicated for the only state where we don't have a distributor for Sheela Foam is Karnataka and for Kurlon, you indicated except for two or three states in south and east, right? Is that reading right?

Nilesh Mazumdar: Yes, that's right. So, up north and up west, we are going through the same distributors of equipment.

Ritesh Shah: Okay. And is this something for historical reasons or is it by design that we intend to go by this model, because obviously we can save a few percentage of margins if we are able to take care of turnaround time, customization, etcetera, etcetera?

Nilesh Mazumdar: So, what happens, Ritesh, first of all, when we have given Kurlon to our distributors, given that there has been increase in the turnover, there has been some marginal amount of rationalization that we have done with the distributor with their buy-in. However, you see, if I have to do away with a distributor, then I will need to set up a far larger regional distributor centre set up all over again.

So, therefore, while there will be some savings here, but there will be an additional expense that you would need to bear on setting up the RDCs, which as Rahulji just now mentioned that we had closed. But more important than that, we see the distributor's ability to add a lot of value to the Kurlon business in these markets because they know the market well, they are very familiar, they have been dealing in these markets for the last 10, 15, 20 years.

So, there is a tremendous amount of knowledge, information about the mattress category and the dealers that they bring on to the table and that adds a lot of value to us. So, therefore, we would want to continue to deal with through them in these markets and we see a benefit in the long run.

Ritesh Shah: That's very helpful, sir.

Rahul Gautam: If I would just add to that. As a balance, we would see that they are adding more value than the cost part of it. And plus, as Nilesh said, we can, of course, do that ourselves. Theoretically, yes, but it takes time to build the entire infrastructure to do that. Was it kind of existing in Kurlon? Probably, yes, but it wasn't efficient enough. So, I think for us at the moment, it's sales. Sales is the most important part and we push at it.

And I don't know whether that is going to cost a percent more or a percent less, but as time goes by, we will take a call on it. More important part is to focus on the sales part. Nilesh, while you are there, Ritesh also had a question on the marketing costs, which were INR5 crores. So, would you just fill in?

Nilesh Mazumdar: Yes, so the marketing expenses for quarter 2, Ritesh, was approximately 5.2%. You wanted the marketing expenses, right? So, quarter 1 was 5.7%, quarter 2 was 5.2%.

Ritesh Shah: Perfect. And the last -- rest of the question was on Furlenco.

Rahul Gautam: Furlenco, so I'm just coming to that part. So, I think your question was that how is Furlenco progressing and then what are the synergies which are there? And the second part to it was that what is the plan as far as acquiring the balance part of it? Is that correct? I mean, am I understanding the question correct?

Ritesh Shah: That's right. Yes, sir.

Rahul Gautam: So, on the acquisition part of it, let me just say that we are, at 45, are the largest shareholder, fully control the Board, and fully control all the other shareholders are much smaller. And there are certain rights which have accrued to us as we kind of go along. So as far as controlling or managing the company is concerned, there is no issue on it.

As we progress, we will view this or review this, of course, sometime in March '25, and then before up to December. And also need to see that how and what's the direction of this? I mean, eventually, do we do an IPO in FY '27, or do we wait for some more time? So, I think based on that, we would be looking at the, as far as acquiring more part of the company is concerned.

On the synergies bit by itself, it is working very well. And we've seen that over the last six, seven, eight months, that at P&L level that it's generating cash. The growth at the moment appears to be only restrained or constricted by the assets which are there. We are improving the utility or utilization of these assets, but we are already at about 88%, 90%. And therefore, there's only small improvement that we can see there.

But by and large, we would need or the company will need money as it goes along to get more and more assets. But our acquisition into the company is not going to be determined by the need of the company for the money. That is already kind of planned out, that the growth ending at the FY '28 of about INR500 crores as top line should be absolutely on track.

Moderator: We'll take the next question from the line of Aniket Kulkarni from BMSPL Capital.

Aniket Kulkarni: So, my question is regarding the other income. So, on a trading 12-month basis, it is around INR130 crores. This is quite high if we compare it to a trading 12 months net profit of about INR150 crores. So, my question is, how are we getting to this INR130 crores of other income? If you can explain how much cash is deployed in interest-bearing instruments and what rate is it fetching you? And how sustainable is this level of other income of INR130 crores for the next two, three years?

Rahul Gautam: Okay. Thanks, Aniket. Amit, would you respond to that, please?

Amit Gupta: Sure, sir. So, currently, if you see our balance sheet, there are around, till now around INR550 crores worth of money was invested in these instruments. Of course, we invested INR100 crores in Furlenco, so that is now INR450 crores. You see a higher approval of other income, primarily because interest rates have been going down, and so the debt instruments have been accruing more returns than they usually do it.

In addition to this, we have some other sources of other income also, which is certain carries on certain instruments, certain sale of scrap and other things, which also accrue to other income. Yes, if you say, going forward, the trajectory of other income, it will not be as robust as you see it now, but we are pretty comfortable that it would be in a very comfortable range.

Aniket Kulkarni: Sir, can you give some ballpark figures of the other income, how it would be INR80 crores, 90 crores or something?

Amit Gupta: Yes, we expect a 12%-odd plus return on investment.

Moderator: The next question is from the line of Vatsal Shah from White Stone Capital. Please go ahead.

Vatsal Shah: I have three questions. Firstly, what is the margin difference between the B2B part of the business compared to the mattresses part? The second question is, what kind of return profile are we looking at two to three years down the line, as the equity base has gone up quite high after the call on acquisition? And the third will be any kind of consolidated growth and EBITDA margin guidance for the year?

Rahul Gautam: So, Amit, would you please take the first one, which is the margin between B2B and B2C business?

Amit Gupta: So, in B2B, we have different types of businesses. We have furniture home, which is partly branded and partly you can consider as a B2B business. We have comfort home, which is their home that we sell. We have certain specialized homes called technical homes, which we supply to end user industry like laundry, soundproofing, automotive and places like that. There are different margin profiles between these different types of businesses. But broadly, we can say that mattress commands anything ranging between 5% to 8% margin higher than the B2B sort of businesses.

Vatsal Shah: Got it. That was helpful. Okay.

Rahul Gautam: And the second one also, Amit, you will have to take. He's asked for the return profile in about three years' time. As the equity base has gone up.

Amit Gupta: Yes, sir. I'll do. So before answering this question, I would just delve a little bit on how this equity capital has gone up. So, you know that we were at around INR1,800 crores of equity capital before Kurlon acquisition. Yes, we did the QIP for Kurlon acquisition, which accrued it by further INR1,200 crores.

Now, when you acquire a consumer brand on the first day, it is difficult to get the return on equity right at the base. So, we have put for ourselves a three-year time horizon in which we intend to get back the earlier return on capital of 18% plus that we had been having earlier. So, if we look at other return profiles in terms of growth and profitability that you mentioned, we have already guided the market earlier that from 2025 onwards, we would be looking at a consolidated India business growth of around 14% to 15%.

And in a three year period, we would be reaching in EBITDA margin of somewhere around 14% to 15%, primarily on the back of increased volume or the growth that is coming in and also on the back of the savings initiatives, part of which has already been realized and which will be coming through in the remaining two quarters of the year. That should put us in a three-year time horizon by 27 at a place comfortable to give a return on equity of more than 18%.

Vatsal Shah: Okay. And just a small clarification. The 14% to 15% growth and EBITDA you said, that was on a consolidated level or India business?

Amit Gupta: India business.

Vatsal Shah: India business. And consolidated any number?

Amit Gupta: Consolidated. So, I expect overseas businesses. Australia is a saturated market. If you know, we are the leaders in that market with 40% market share. So, there we expect the growth to be a little bit muted, say between 5% to 7%. Whereas in Spain, we are very small player in the overall European market.

We have recently de-bottlenecked our capacity, which has enabled us to do a turnover of around EUR80 million, which is an increase of EUR30 million from our earlier capacity. So, there we expect the growth to be double digit growth in the next three to five years. So, broadly, you can assume somewhere between 7% to 10% growth for the international business.

Rahul Gautam: So, total consolidated is asking for, Amit. So, when you look at the combination of…

Amit Gupta: Somewhere between 13% to 14%. Sorry, 12% to 14%.

Vatsal Shah: Got it. Got it. Thank you.

Moderator: The next question is from the line of Naman Maheshwari on Brescon. Please go ahead.

Naman Maheshwari: Great. Thank you. Thanks for the opportunity. And congratulations on a steady set of numbers. So, my question is twofold. One is on the mattress pricing. You know, it has remained quite flattish quarter on quarter. And we have not seen any uptick on that. So, the first part is that how are we seeing the price trends now?

And what would be the drivers of this price point increasing? Right. The second question is on the lines of inventory. We have seen some inventory level going down. So, can we have some insights on what would be the stable level of inventory in the channel and how it would progress during the rest of the half of the year?

Rahul Gautam: So, Amit, can you first take the inventory question? Sure, sir.

Amit Gupta: So, normally, our inventory varies depending on seasonality. So, for the festive season, it is higher, whereas for other periods, it is lower. We have a turnaround time of 24 to 72 hours for delivery of products.

Still, we need to maintain inventory somewhere between, say, 20 to 30 days on an average. However, we are putting in place payable solutions by which we intend to take out the working capital from the system.

Rahul Gautam: And I think the impact of closures of the RDC would have also reduced the inventory. I think that is what Naman is referring to.

Naman Maheshwari: Right let us say it has come down from 17-day odd level to about 45-day odd level. So, what is the reason for this decline?

Amit Gupta: 17-day odd days high would be an exception. Maybe because of a certain reason it was there, but normal inventory would be somewhere between like less than 30 days for us that we are targeting now.

Rahul Gautam: So, the first question, Nilesh, are you still there on the line?

Nilesh Mazumdar: Yes. I am there Rahul..

Rahul Gautam: So, the question is that mattresses are growing. That is all happening. But on the value part of it, it is not growing. So, Naman wants to know that how, what kind of strength do we have for increasing prices so that as the volume grows, the value also continues to grow.

Nilesh Mazumdar: Yes. So, Naman, that is a good question. We need to first understand that the biggest opportunity for us to grow the category is to look at two broad segments. One is to get non-users into users which is what we are trying to do with the Tarang and the Aaram initiative. And then the unorganized sector consumers, moving them into the branded play of Kurlon and Sleepwell.

Now, both of these are large opportunities and are more at the economic end of the market. And therefore, the volume growth right now that we see is higher than the value growth. But having said that, we are also playing on all the price segments and as we move ahead, the mid-end and the high-end also are areas that we will look at, but at least over the next 8 months to 12 months as we see volume growth will possibly be higher than the value growth that we will see. Because the opportunity that we see at the economic end currently is fairly large and that's what is driving the current volume growth.

Naman Maheshwari: Okay. So, that is to say that we would most likely be in the range close to about 4,200, 4,500 ballpark what you think?

Nilesh Mazumdar: No, not really. You're talking of a single mattress price. Actually, we look at pricing from a double mattress sizing. We will be in the region of about INR11,500 to INR12,000 in the mainline business. Tarang and Aaram will be different. They are far more economical.

Naman Maheshwari: Okay. Thank you. I will join back in the queue.

Moderator: Thank you. The next question is from the line of Yash Mehta from Aart Ventures. Please go ahead. Mr. Mehta I have unmated your line kindly proceed. As the current participant is not answering, we will move on to the next question, which is from the line of Karan Gupta from Invest Savvy. Please go ahead.

Karan Gupta: So, my first question on the basis of what the percentage in terms of revenue breakup in furniture cushioning and comfort foam cushioning in overall revenue is like around one-third of the revenue?

Nilesh Mazumdar: So, comfort foam plus furniture cushioning is your question. So, that will be about 25% of the total.

Karan Gupta: Okay. And in the opening remarks, you said that you are doing some practices to reduce your commoditized products. So, can you just elaborate this thing? What are the steps that you are taking? Are you taking steps to reduce this raw sales of this cushioning into the market or any other thing?

Nilesh Mazumdar: So, I don't think we would say that we are trying to reduce a particular category. It is that the branded business, we are trying to grow more rapidly. So, if you see in our results also, the volume growth that you see in the mattress is significantly higher than the other segments and that's how we would want to increase the share of the branded business in our overall portfolio.

Karan Gupta: Okay. But the other thing will be that you will, I mean, put some break on the volume side of this comfort foam and furniture cushioning?

Management: See, we will not put a break. It is just that whatever is, we will do profitable sales. So, if you see as a strategy even if you were to look at the mattress business, if you've been following us, we initially had a number of flanking brands. We had brands that we were selling on e-commerce, for example, which were at almost zero or less margin like SleepX, etc. So, we took a conscious call of discontinuing them because we wanted to be there in the profitable segment of the branded business.

As far as comfort foam, furniture cushioning is concerned, we would be doing the business in a profitable manner and not with negative margin. However, the whole idea will be that we grow the branded business of SleepX and Kurlon more rapidly. And that is how in the overall structuring of the business, we will be more a branded player in the composition of the portfolio.

Karan Gupta: Okay. And one last one is how you are dealing with the situation when you are selling the furniture cushioning in the comfort form and other players, local players who are just putting up the mattress cover and then selling with their local brand. So, now the competition with your economical product and those products?

Management: So, that is very much a part of the market. So, therefore, let me try and answer that. You are absolutely right. There is a market where a slab of foam is taken and the cover is put on that locally and it is passed off as a mattress.

So, the strategy that we are taking on out there is that what is it that we can offer to a consumer who is buying into that, which will be meaningful for him. So, for example, we have introduced a mattress called Fitrest which you will see in our new product portfolio which is a mattress with a 25-year warranty and the product starts at the pricing of INR15,000. So, if I end up and the mattress has a profiling which a local manufacturer who is just doing a slab of foam will not be able to provide.

So, therefore, I have a value proposition for that consumer by which therefore the attraction for him to buy an unbranded mattress becomes far less and he is able to afford a Sleepwell or a Kurlon mattress and buy into a branded offering.

Karan Gupta: Okay. And now coming back to the first question again, if you what happens if you reduce your foam distribution to the local market and focus more on, I mean, more on the branded products and selling less foam products in the local market. So, will that help to increase your brand selling in the market or will the local players will source other manufacturers because you are the largest manufacturer of CU foam?

Management: First of all, you need to understand that the foam that is sold in the market goes into various applications. Only a little, some part of it goes into mattress, it goes into sofa making, it goes into various different applications. So, that segment is catered to by the foam that we sell. And we are not saying that we are going to reduce selling that. I hope that is clear.

We are saying that we will do it in a profitable manner. The mattress business that we are doing, the branded mattress is where the resourcing and investment will happen. but there is a market for foam in various applications which goes beyond mattress that we will continue catering and we are not saying that we are going to in any way exit that market.

Karan Gupta: Okay. Fair enough. Thank you.

Moderator: Thank you. The next question is from the line of Rishabh Gang from Sacheti Family Office. Please go ahead.

Rishabh Gang: Thank you for the opportunity. The furniture that is rented in Furlenco, is that are we making it in-house or like what is the - how do we make it?

Rahul Gautam: You are asking about the mattress business?

Rishabh Gang: No, Furlenco. So, the furniture that we rent out there, are we making it in-house?

Rahul Gautam: Quite a bit of it is made in-house. There is a small attached factory, a 100% subsidiary of it, which is called Create One we do that and we also outsource. So, there are specialized furniture, for example, box beds, etc are done from Jodhpur. Something else is done from one or two factories around Bangalore and this sofa manufacturing is in-house and it's called Create One. So, it's a mix of both.

Rishabh Gang: I actually wanted to ask like do we have any experience centre with the main branding of Sleepwell where we are also showing other furniture of the home. I went to Wakefit store they sell mattresses as well as furniture and that really helps in cross-selling and I've seen that such sale has been made to my family. So, as Sleepwell like the biggest brand in the mattress business, do we also think of adjacencies?

Rahul Gautam: Yes, Rishabh that thought of yours is absolutely bang on. We have already begun experimenting with that and there is a piloting going on in six or seven zones. Nilesh, how many stores are we doing that piloting where Furlenco furniture is also being displayed?

Nilesh Mazumdar: Right now, will be about eight stores and Furlenco also has an experience centre in Bangalore of their own. Two experience centres actually.

Rahul Gautam: So, those are experience centres, but I guess, Rishabh means that eventually furniture should be sold and everything being grossed out, which will help Sheela Foam. So, at the eight areas where it's being piloted, it's in the last stages, it's in the positive direction and this will be expanded to wherever possible as far as the EBOs and the other stores of course.

Rishabh Gang: So, like by when because if you actually put it in your EBOs, it will have to be a very big EBO because of that all the furniture and all can be there. So, like by when do we think that maybe we will have 40-50 stores like this around the country, across the country?

Rahul Gautam: Rishabh, one is on the size of the store that you say. It's also possible, you could have a few pieces being displayed, but at the same time you could also have a catalogue around and make the best of whatever that small store is. However, the question as far as getting to a level of about 50 stores doing it, would you have an answer, Nilesh, on that maybe April 2025 something like that?

Nilesh Mazumdar: After we get the learnings, then we will be able to come back with an answer. Right now, it would not be right to respond with a timeline. We will get the pilot learnings, come back and then decide on the scale-up.

Rishabh Gang: Absolutely fine. My next question is so I saw in your investor presentation that you have mentioned about savings of annual INR100 crores on track because of the acquisition. So, can you provide a break-up of this INR100 CR, from which function are you getting this INR100 CR?

Amit Gupta: Yes. So, Rishabh, this is broken into multiple parts, the primary of them being raw materials. So, when we combined Sheela Foam and Kurlon capacities the quantum of raw materials that we bought was much higher. So, there are certain benefits which flew because of that. There are certain incremental benefits which flew in other purchase of things like certain fabrics, certain type of ancillary materials, certain sort of colors, etc which also you bought because of that.

Secondly, we closed down two units of Kurlon because they were very near to our existing units. They were producing foam which we could produce at a much more efficient level. So, when those units were closed, all their manpower costs, overheads, etc had gone away. We are in the process of doing this with a third one near Bangalore. As soon as we do that, these will be incremental savings to that place. So, I would say that most of it lies in raw materials and some of it lies in manpower costs and overheads.

Rishabh Gang: Can I say that 60% to 70% is raw material and around 30% also is manpower and other costs?

Amit Gupta: That would be a good estimate.

Rishabh Gang: Also, on the raw material side, what kind of volume discounts are you able to get because of this because I read that you would be getting volume discounts. Volume discounts are INR60 CR. INR70 CR that's a big amount. So, just curious to understand. Can you give some more details on it?

Amit Gupta: No, it's competitive sensitive information. So, I would not be able to disclose it, but I can tell you it in some other way. So, if you see, Sheela Foam's gross margin was around 40% prior to Kurlon acquisition and now together we are at a gross margin of 44%. So, you can see those savings being accrued there. But sorry, I cannot give you how much discount on which particular raw material because these are competitive sensitive information.

Rishabh Gang: And what was the gross margin of Kurlon before the acquisition?

Amit Gupta: So, Kurlon would be somewhere around 41%, 42%.

Rishabh Gang: Next question is on the inventory side. So, when I actually made a purchase on Wakefit it was after the product got delivered. I think they use JIT. So, what kind of inventory system do we have? Do we also have just-in-time that we manufacture when a product is ordered or how does it work?

Amit Gupta: So, let me take that question, Amit. We need to understand that the Wakefit business model is completely different from us. They are largely a D2C brand. And therefore, we are buying either from their, mostly their sale is either through their website or on the commerce platforms. And our strength lies on the offline space. So, it is very different business model that we are operating with.

So, the inventory level that they would carry and what we would carry, we would not benchmark with them in terms of those operating parameters because we are building the business in a very different manner.

Rishabh Gang: But do you think that we need to reduce the inventory days?

Management: Yes, that will happen as we move ahead, in terms of both the consolidation, etc., happening. But we don't see that as a major concern today that we are fragile with a very high inventory level, etc. Because when you are servicing an offline business, it's a very, very different model that you are servicing with. So, and the inventory that we carry today is not an area of concern as we see it.

Because we integrate with our back-end suppliers, service suppliers, etc., where we can operate at minimum level and have the sourcing closer to the units and the factory, so that we don't need to maintain very high level. Because inventory is just not about the finished work, it's also about the input inventory that we have to carry. So, we are developing our supply chain system accordingly. With [COCs 51:00] that we are able to operate at optimum levels.

Rishabh Gang: Correct. Makes sense. Just a last question. So, I read that you have recently set up a manufacturing plant at Jabalpur to cater to the traditional market cotton matrices. So, just a question. Majority of the cotton matrices are unorganized, right? So, these players have advantages in the sense that these are unorganized players. So, they don't have to pay taxes, indirect taxes and all, whereas we as a player have to pay.

Also, logistically, they are placed very nearby to the customer's location. So, they have a logistical expense benefit also. So, are we able, because of these advantages which they have, what is our strategy for these cotton matrices? What is our pricing strategy there?

Management: See, we have covered this at length in previous interactions. So, maybe it might make sense if we engage separately, because we have responded to it. But very quickly, I will touch upon it. It is not that we are just setting up the Jabalpur factory to cater to the cotton matrices user. It is a completely different technology of home manufacturing, which is economical, far more environmentally friendly, with which we manufacture foam.

We are able to compress that foam at a far higher degree and ship it to different matrices manufacturing units, which can therefore make the matrices closer to the market and be able to service it at a lower fed cost. We are doing it at a pricing which is economical and therefore has value for that cotton matrices user, because it has got a 3-year warranty, which the cotton matrices cannot give today. So, there is a complete discussion and strategy in this conversation we have had in the past. And maybe we can engage separately to explain this model.

Rishabh Gang: Got it. I will read that. Thank you so much for your insights. You were very helpful.

Moderator: Thank you. The next question is from the line of Sahil Soi from HSBC. Please go ahead.

Sahil Soi: Okay. Thank you very much for the opportunity. Just a couple of follow-ups on the Furlenco acquisition. So, your company increased its stake in Furlenco despite Furlenco's increased losses in FY '24. Could you help us understand your turnaround plan and the vision you have in mind for the company? And if you could also help us with some numbers, how are they looking for Furlenco in the first half of this year, on top line and bottom line and where it is heading?

Rahul Gautam: Amit, should we take that question, please?

Amit Gupta: Yes. So, you're looking at '23-'24. I think we have now given half yearly numbers. I would request you to look at that. See what had happened. We had put in our investment in August. The company took around 4 to 6 months to deploy those funds and create the assets which were needed to ramp up.

Before that, they were constrained for capital because of which they were not able to add assets and hence not able to grow. So, the bottom line was, of course, when the business becomes upscaled, it erodes and that is why you were looking at the losses. The breakeven point of this business or this company I can say is around INR190 crores.

Currently, if you see the results that we have published, we have already reached a turnaround rate of around INR210 crores. And that's why we say that it is PBT positive and because it has a depreciation of around INR2.5 crores to INR3 crores per month, this company is generating that much equivalent plus PBT as cash.

So, the situation now is completely different from what it was appearing in '23-'24. It is a profitable company now generating cash and only investment that we do is needed to further ramp up the business by providing it more assets. So, also it is in a segment which is very big, which has a lot of scope to grow. We are currently only in six centres across the country. There is a scope to grow across the country in this business and that was what led us to make incremental investments into the company and take our risk to 45%.

Sahil Soi: Okay, that's very helpful and very clear as well. Just another follow-up question I had on Furlenco was like, how are you looking at this company? Is the focus more right now on the sale of furniture and the appliances rather than the rentals? Could you help us to give some color on what's the mix between sales versus rentals as of now and how are you looking at the outlook let's say 2 to 3 years down the line? I think you've also given us the FI '28 target of INR500 crores, if I'm not wrong. So, what's the mix of rentals versus the sales you're looking at here versus currently?

Amit Gupta: So, Furlenco is primarily a furniture rental company and that is the primary business of the company currently and going forward also we intend to keep that as the primary business of the company. However, when you rent it out, there are certain customers who look to buy furniture maybe because they like some piece of it and if we don't sell that furniture to them, potentially it exposes you to competition. They go somewhere else and buy that furniture.

So, we have offered an option to our consumers that in case they want to buy, they can buy also, but that does not shift our focus from rental business. Currently, if you see 95% of our business is rental business, 90% to 95% and only 5% to 10% is sales. Sales may grow a little bit in the next 3 years and maybe stay around 10% to 15% to 20%, but it's still the major portion of the business will continue to be rental.

Sahil Soi: Okay. And I would assume even the FI '28 target that you have INR500 crores. So, even that would have the primary mix coming from the rental business.

Management: Yes.

Sahil Soi: Very helpful. Thank you so much and wish you a happy Diwali everyone. Thank you.

Moderator: Thank you. We'll take the next question from the line of Rakesh Mehta from Goodwill Wealth. Please go ahead.

Rakesh Mehta: Thank you, sir, for giving the opportunity. I have a follow-up question on Furlenco again. I think in the beginning, you mentioned 33% Y-o-Y growth. Was it in revenue or was it some other metric which you were talking about? If you could please help with that.

Amit Gupta: Sorry, I didn't get your question. If you can repeat.

Rakesh Mehta: Yes, sir. In the start, when you were talking about Furlenco, you mentioned 33% Y-o-Y growth in one of the metrics. Was it related to…?

Amit Gupta: That was in Staqo. In Furlenco, we said 1.5x. So, if you see, last year was INR145 crores and current run rate is around INR210 crores.

Rahul Gautam: Amit, I'm just saying that 33% is for Staqo, but it's probably has been read like that. That was 33%. Rakesh was for Staqo.

Rakesh Mehta: Okay, sir. Got it. And for H1 25, we are looking at an annual revenue of INR210 crores based on the run rate. And we are looking at -- I mean, as of now, it's break-even and PPP positive, what I could understand for Furlenco.

Amit Gupta: So, second part is right. First part, I'm saying we have reached in September the run rate of INR210 crores. We started from INR150 crores. So, the total revenue will lie somewhere in between. In the second half, this will start from a run rate of INR210 crores and maybe reach a run rate of INR250 crores, INR260 crores. And so, the total revenue will lie somewhere in between.

Rakesh Mehta: Okay, sir. Very clear. Thank you.

Moderator: Thank you. Ladies and gentlemen, we will take that as the last question for today. I would now like to hand the conference over to Ms. Anushka Chitnis for closing comments. Over to you, ma'am.

Anushka Chitnis: Thank you. On behalf of Arihant Capital, I would like to thank the management for giving us the opportunity to host them and for their valuable insight.

Amit Gupta: Yes. Thank you all for participating in this Earnings Conference Call. I hope we have been able to answer your questions satisfactorily. If you have any further questions or would like to know more about the company, please reach out to our IR manager at Valorem Advisors. Thank you.

Moderator: Thank you, members of the management. On behalf of Sheela Foam Limited, that concludes this conference. We thank you for joining us and you may now disconnect your lines. Thank you.