



## “Sheela Foam Limited Q4 FY2017 Earnings Conference Call”

May 11, 2017



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*Sheela Foam Limited  
May 11, 2017*

**Moderator:** Good day and welcome to Sheela Foam Limited Q4 FY2017 Earnings Conference Call, hosted by ICICI Securities. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing “\*” then “0” on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Anand Mour from ICICI Securities. Thank you and over to you Sir!

**Anand Mour:** Good afternoon everyone. Pleasure to welcome you all to the Sheela Foam Limited post Q4 FY2017 results conference call. We have Sheela Foam management on the call represented by Mr. Rahul Gautam, Managing Director and Mr. Dhruv Mathur, CFO. I would like to hand over the call to the management to start the proceedings.

**Rahul Gautam:** Good morning ladies and gentlemen and I welcome you to be part of this presentation. So here we are presenting our Q4 results and also the annual results. As we all know, Q4 has been a bit challenging for us and as mentioned in our last call I remember we said that we are passing through turbulent times, fresh from the demonetization effect and the demonetization effect kind of also had its huge impact in the Q4. For a few days of course we had a blackout, but post that the markets started limping back and Q4 we took a call that whatever our annual target was and whatever we had missed out because of the demonetization in the last quarter, we had to get our market shares back and therefore Q4 was primarily focused on to growth and ensuring that we met our annual target. I am happy to say that we came pretty close to the annual targets. We did almost 97% of what we had budgeted for and there was also a growth of almost about 14% from the previous year.

Going back to the Q4 part, if we just look at the period, which is up to demonetization we had a daily sales rate of about Rs.5.3 Crores a day and in the post one was about Rs.3.8 Crores. So whatever that lost was ,we had to make it up and we did that by two prompt strategies, one of course in spite of the TDI prices , one of the main raw material , which are quite hiked up and at the moment still being high, we decided not to take a price hike. The last one that we had done was in November, actually we did it on November 7, 2016 just before demonetization and the implementation of that also took a bit of time, because next day the demonetization happened. So one was just to kind of keep the prices okay, give it enough time from the last increase to the next one and second to charge up our channels and support them with all kinds of schemes and all kind of discount so that the market share could be maintained or recovered. So as far as Q4 is concerned, Q4 of FY2017 versus Q4 of FY2016 we had a good growth, we had a growth almost about 26% and yes I agree that it was with a some contractions in margin , but it was kind of strategized like that. Post this I

would just say in April we have taken another increase and I just wanted to say that this quarter is tracking well both as far as the topline is concerned and as far the margins are concerned.

The annual results -we were trying to be maintain the EBITDA percent, which was at the beginning was about 11.11% and we finished after a year at 11.15% ,and there has been a growth in the topline of 14.3% and this is as far as the Indian operations are concerned. The Australian operations have been pretty stable, a little bit of a movement here and there, but otherwise they are on track as far as budget is concerned and as far as profitability is concerned.

One more point I want to make before I look at the immediate future that we finished our board meeting yesterday and one of the agendas on the board meeting was the dividend issue. We have not done this before at all. The board looked at all the pros and cons and as we have almost confirmed kind of M&A opportunities, so we decided to give the dividend the skip this time and invest the money in these opportunities, which are to happen soon so that the growth and the EBITDA part continues to grow and the board believe that was the best use of the money. Just a little bit of a note on the TDI, which continues to bother us and bother the industry over a little longer than necessary period. It had fluctuated, in fact I am happy to note that in the month of April & May it has come down from a level of about 275 to 250, and there have been two drops of Rs.15 and Rs.10. The local supplier, I am aware of, has a large inventory sitting on. Internationally also the prices are softening. It is taking its time because once the turbulence is created it has to kind of settle down, it does take that time. The biggest change, which we are expecting is the Sadara unit and we have checked yesterday, we are keeping almost kind of a weekly check on that, the trials are beginning in July, and the commercial part will happen in the fourth quarter of this calendar year so that is somewhere in the October and November and that time you suddenly have a large quantum available for the supplies and the prices should definitely come down far cheaper at that time. The GST, which is again a big one that we look at, is now almost confirmed for July 1, 2017. We along with our distribution channel and our vendors are gearing up to meet that and our attempt is that there should be an absolute seamless transition from June 30, 2017 to July 1, 2017 and we should be on track for taking whatever advantages that may accrue to the organized sector. Need to reconfirm before I sign off on this welcome conversation ,that is on a long-term basis our thoughts continue to be growth oriented, our direction on strategy continues to be growth oriented. We fully understand that one quarter has gone through a dip or a little bit of a blip as far as the EBITDA is concerned, but I think it is just a part of it, the whole year has panned out fine and we will continue .In a quarter definitely, it is an accounting period while everything else happens as it wants to whether it is a TDI change or demonetization or anything else, but on a longer term absolutely focused

on to the growth part of it and on to increasing the EBITDA based on our four-year plan and we are on track for that. So thank you very much and we would be open for questions.

**Moderator:** Thank you. We take the first question from the line of Nihal Jham from Edelweiss. Please go ahead.

**Nihal Jham:** Good morning to the entire management. First of all just want to congratulate you on the growth that we have seen in this quarter and I think as you mentioned in your opening remarks on the margins, so just specifically on that if the entire correction in margins related to the price increase not being passed on or is there are change in mix, also if you could just help me on the average TDI price that we saw this quarter?

**Dhruv Mathur:** The change in price of TDI is the only reason and product mix is not the reason for the dip in the gross margin level and though we have posted the prices of GNFC on our site, but it is actually the price, which is to us, which is more important. So in this quarter the price went up for us by Rs.28 per kg and of course as Mr Gautam said we did not increase any price in this quarter for our products.

**Nihal Jham:** In April what has been the quantum of increase that we have taken?

**Rahul Gautam:** 7% and it is somewhere around April 20, 2017 that we have done it.

**Nihal Jham:** Absolutely Sir! Just one more question you mentioned about possibly evaluating certain acquisition so without may be getting into much detail can you just give some idea about the segment that we are looking at the possible amount that we may end of spending on this acquisition?

**Rahul Gautam:** I mean I am sure you would agree I am a bit constraint because one of them is definitely at an advanced stage. I would just say that we are focused on to our own segment and what we are looking one is in the complementary business, which is the top of the bed items like bed sheets, pillows and which we do not do comforters, duvets etc. The second one is in our own segment, but in geography, which is where we are not so strong and the opportunity of long-term standing brand, which can be spread across the country or to address the segments, which we on otherwise unable to or found to have difficulty in.

**Nihal Jham:** Any guidance on the kind of amount we will be able to finance it say the kind of cash we already have on our books or may be there could be a need for some extraordinary financing on this?

- Rahul Gautam:** I think we should be able to take care of one for sure, which is in the advanced stage that is absolutely sure. As for the second one is concerned I would say we may have to borrow a little bit, but it should be I mean those numbers are still getting tuned and I would say majority of it will be taken care of by us.
- Nihal Jham:** Absolutely and just one last question on our future strategy going forward will be focusing on say driving growth or is that margins are also going to be equally important for us to be maintained at the current level I mean may be we saw it in Q3?
- Rahul Gautam:** So growth for sure, but we also know that the growth has to be a profitable growth. We have been operating at the beginning this year at about 11.11 EBITDA, for sure it will not go down, but you have to view it on a longer span you will have to view it on a year span and we are also committed to actually increasing that EBITDA, we have the various drivers and the various initiatives, which are in place, so we will not let that be sacrificed. A little bit of the time, when especially events like demonetization or events like this, spikes in the raw material prices that happened, so for a period of time it may appear as like it has appeared in Q4 that is an accounting period, but fortunately as I said that over a longer period of time it will not be impacted and we are committed to that.
- Nihal Jham:** Absolutely Sir! I will get back in the queue. Thank you so much for this.
- Moderator:** Thank you. Next question is from the line of Manish Lodha from Canara HSBC. Please go ahead.
- Manish Lodha:** Yes my question has been answered in the previous candidate's questions. Thanks a lot.
- Moderator:** Thank you. We take the next question from the line of Dhimant Shah from Principal Mutual Fund. Please go ahead.
- Dhimant Shah:** Thank you for the opportunity. Just two or three questions. Sir, can you just throw light as to in the pricing policy how would we what lead time what we kind of we able to price it on given the way the TDI prices behave that is question number one. Question number two can you also help us decipher the acquisitions that you are talking about would it be market share or would it be product enhancement or ideally both?
- Rahul Gautam:** As far as the pricing policy is concerned, we are in generally stable term; we do review prices twice a year. Products like Sleepwell or like branded products it is also not possible to be rolling back the prices and therefore we are very prudent as far as taking increases are concerned we do not want to be out priced, so with that balance just needs to be there, so

both in terms of time, which is not too frequently we can be doing it on a monthly basis and as the same time the quantum of increase keeping in view that we do not have the opportunity to scale it back , so that sets the policy,

**Dhimant Shah:** And are we the price setters Sir?

**Rahul Gautam:** For sure we are the price setters, so just to give you an example, on November 7, 2016 when we increased the price the others did follow, but the demonetization impacted and therefore their follow-up was a little more delayed than necessary. So all those kind of things happen, but we are the trendsetters. So having said that we do review it generally twice; however, if there is a spike and it appears as a sustainable one that these prices are going to be for a while, as we would not hesitate to do it in between.

**Dhimant Shah:** So would it be fair to say that moving into the year you would be closer to double digit margin?

**Dhruv Mathur:** We nearly hope so because whatever has happened in Q4 ,if you see the annual situation we are at 11.15% standalone basis and this step we have taken by increasing the prices on third week of April in that direction only.

**Rahul Gautam:** The second question you had was on the acquisition part so I have said that it is one of complementary products, which would be a great fit for our showrooms, for our exclusive showrooms and would increase the footfalls there. The second one is in the same segment ,of the same product, but in a geography where we are a little weaker and we would want to go strong plus it is an established brand, which can be expanded to other geographies to increase our reach both in different price segments as well as in distribution challenge.

**Dhimant Shah:** But I mean would you be given both the acquisitions are slightly tilted on a different reason that you would like to acquire if one had to choose, it was a kind of a binary situation, which one would you have chosen first?

**Rahul Gautam:** Well you said that if you have to choose between the two I am a little intrigued by that question because the purpose for both of them is to have growth, the purpose is for both of them to be looking at areas, which fits well into our business, but I mean if theoretically I have to answer your question I would say the first one would have priority over the second one and as I said both are good for us.

**Dhimant Shah:** Yes I am sure because you have skipped dividend and I am sure you will make it up. Thank you so much Sir!

**Moderator:** Thank you. We take the next question from the line of Rohan Shah from Kroma LLP. Please go ahead.

**Rohan Shah:** Good morning Mr Gautam. Inevitably going to be a very large scale housing boom in India so what is the mind of the management, how are you viewing this, are you morphing in the form of Mattress Company into full service bedroom furnishing company?

**Rahul Gautam:** Please could you just kind of repeat it sorry I could not follow.

**Rohan Shah:** I mean how are you viewing this large-scale opportunity, which is coming up or you morphing from more of a mattress company into a full service bedroom furnishing company?

**Rahul Gautam:** So we are definitely focused on to sleep and we believe that the opportunity there is large and it does not really need to be sort of spread thinner onto the other segment, so one restricted to sleep and therefore the mattress, the pillows, the bed sheets, the comforters, the duvets, at best if I can think of is a bedroom furniture piece, which could also be used for sleeping, but it is not on the radar and I am just extending my thought to what you have said, so I think one of those lazy boy kind of chairs, which is also sleeping, but the sleep connect has to be there, so for us that is important that is the area that we are working on there.

**Rohan Shah:** So basically the idea is to make sure that our stores are fully utilized?

**Rahul Gautam:** That is right because you see mattresses now are horizontally displayed and we have the walls which are reasonably free and we also have islands of space available in between mattresses or mattress displayed, so all those can be used. Then the frequency of purchase of those items is completely different to a mattress, a mattress generally 5 to 6, 7 to 8 years while products like that with a bit fashion, a bit uses items, so I mean at least a couple of them are bought every year, so it brings in the footfalls and brings in the people and it should actually complement the other segment too.

**Rohan Shah:** Right and just to follow-up on that would that is the segment would cater to the entire ladder of consumers from the low end, in the middle end and the high end?

**Rahul Gautam:** Most of the time it becomes extremely difficult to cater to the entire chain , India being such a diverse country from a very, very budget levels to extremely expensive one, but I think it will cater to the bulk of it and again it will not be able to cater just through one brand we

cannot distribute product, so there are already existing two or three brands, which are there, which means catering to a large part of that segment.

**Rohan Shah:** Thank you. All the best.

**Moderator:** Thank you. Next question is from the line of Tejas Sheth from Reliance Mutual Fund. Please go ahead.

**Tejas Sheth:** Thanks for the opportunity. Sir on the TDI prices, which I have seen a sharp increase, I just want to know how is the unorganized market really behaving to this increase, which is very sharp and which is very volatile?

**Rahul Gautam:** One, the unorganized market has the flexibility of closing shop or starting shop I mean if they just find it this has gone too high then I have known companies which have closed down and do not work and that is I am talking of the two segments, one is the foam manufacturing segment and the other mattress segment, I will come back to later. On foam manufacturing segment I mean they would shut shop, they would decrease the quality, they would reduce density, they would produce all those kind of things happen when prices change and because they do not have a brand to live up to, so I mean just for an example if they were supplying lets say 25 density for a mattress because the prices have gone up in raw material and they could get down to 20 density and say eventually the product looks 72 x 36 x 4 inches, but there is lesser material in that. As far as the mattress size is concerned, the unorganized mattress size they also switch over to lighter material and there are some alternate materials that they use for these lower end mattresses, which is like EPE foam or some bits and products of coir and sometimes they also take cut foams, which are then kind of glued together, etc. So that is the change that happens, but I have seen that it is becoming more and more difficult for them and let us say soak it. With GST most of this will switch over to the organized side I mean lets hope that the unorganized becomes organized, of course that will take its own time to happen and the existing organized players will have the advantage, but the whole market should be shifting in that direction.

**Tejas Sheth:** How many touch points did we add in FY2017 and what would be the outlook for FY2018?

**Dhruv Mathur:** We add it close to 270 exclusive bed stores and in this quarter we did not do much as the focus was not lost, the entire focus was how to increase the sale and reach the targeted sales.

**Rahul Gautam:** For the coming year we targeted 400.



- Dhruv Mathur:** For the coming year we are targeting 400 exclusive showrooms.
- Tejas Sheth:** You have strong visibility of 400 at least?
- Dhruv Mathur:** Yes.
- Tejas Sheth:** Was there any cost increase on the Polyol side?
- Dhruv Mathur:** There has been a little movement, but very marginal movement because polyol is almost available locally even the large scale multinational companies have their tanks here and imported and then kind of sell it in Indian rupees, so if there was any international movement I think it was more than covered by the rupee getting stronger.
- Tejas Sheth:** Lastly I know you have been mentioning that volume growth, which is one of the variables, which you want to see, but at least on the B2B side what would be the volume growth in FY2017?
- Dhruv Mathur:** I have some numbers. So in B2B it is all technical sales and on yearly basis I tell you there was not much growth it is 12000 tones we sold last year, this year also we sold close to 12000 tones on volume.
- Tejas Sheth:** On volume yes, so your major volume growth per se would have come from mattress side?
- Dhruv Mathur:** That is right.
- Tejas Sheth:** Fine Sir! Thanks a lot and all the best.
- Moderator:** Thank you. Next question is from the line of Prashant Kutty from Sundaram Mutual Fund. Please go ahead.
- Prashant Kutty:** Thanks for the opportunity Sir! Sir just one thing over here just for dwelling it back today on the TDI prices just want to ask that the price hike that you have taken 7% in November and now which you have taken in April do you think it is more than sufficient to probably take the price increases that you have taken prices, which is seen in the year, prices increase or would we need another leg of it actually because if am I not wrong TDI prices would have increased almost 40%-50%?
- Rahul Gautam:** So if I take 7% increase in April and take the drop in the TDI prices in the last couple of days, which is about Rs.25 a kilo and also from expected, I am not expecting too much, but

let say about Rs.10 a kilo kind of a drop, this 7% should be more than enough to take care of it.

**Prashant Kutty:**

Just again in addition to this part I mean if I am not wrong again in the last concall also you spoke about it had probably kind of peaked out and again it is not coming off I mean just trying to understand over a year because it again tends to get volatile over here what really makes it kind of that may be this I mean that the prices could actually go up because I guess towards the last quarter and also we highlight about we have been seeing a drop a bit as well and then again we are seeing start moving up, is there a cycle, which is playing out over here and probably it is peak of the cycle, which makes you little more confident that incrementally you do not really see this prices to increase right now and what gives you the confident at this point of time?

**Rahul Gautam**

Prashant you have asked a very difficult question, but let me just say this is an unsteady situation for sure I mean when you look at a very macro level, you look at the capacity that is existing and the margins that they should be operating on, this is a very, very unsteady state. There were couple of incidents absolutely unrelated to each other, but did happen coincidentally in and around that time and that allowed all this kind of raise to be there, so I think whenever something unusual like this happens and even if it has to come back to its normal position it goes through fluctuation because there are always traders who are most from the Chinese state who are carrying stocks, they want to make money sometimes they would do something for a while so it is oscillating, but as a trend it is coming down. The largest event, which we all wait for and which is on track to happen at the end of this year and everybody knows about it where a big capacity will be added and I am very confident that it will come down. I do not expect it to go down to the levels that we started about 105 and 110, but what is profitable growth level of let say 150, 160 something of that order is where it should stabilize.

**Prashant Kutty:**

150-160 should be like you should be back to those numbers you are trying to say?

**Dhruv Mathur:**

Absolutely.

**Prashant Kutty:**

Because only reason as to why I am asking is because we have actually seen a very sharp drop in our growth margin numbers I pretty much know it is because of TDI, but due to the fact that to one of the questions, which earlier participant is asking about the mix part. Now if you talk about the technical sales, which you are talking about that has actually not seen any increase at all, so ideally from a mix perspective it is actually a much positive mix improvement for us because you have seen largely mattress is seeing a much larger growth, so just trying to decode that whether ideally if this starts coming off a bit one can actually

expect the gross margins to go back to the 44% or 45% kind of levels is what I am trying to understand?

**Rahul Gautam:** You are absolutely right. The growth in the mattress and that was also our aim in the Q4 that we grow our market shares because the market share means more volumes, more customers, more ability for the channel to distribute and that is in many ways a kind of an irreversible thing that happens then you sort of hover around. TDI prices will come down, but GST will happen sooner or later and this increased market share especially on the bedding side and the mattress side will hold us in good strength and because their prices do not come down and you are quite right that on the B2B side when the prices come down of course we will also need to correct the B2B sale price because those are technical sales and if there is a rise and fall part to it as far as the consumers are concerned.

**Prashant Kutty:** You just spoke about that your sales and your discounting probably increase in the quarter I believe the other expense is probably a function of that almost 20% increase, just wanted to understand typically how was the trade over here when you actually try to push sales through probably discounting I mean, do they usually sustain in these markets, if you want to actually get growth or is the way you can pull it back?

**Rahul Gautam:** So most of the let say the push part comes in from consumer scheme, so there are something for the consumers and as far as the other entire channel is concerned, the channel is motivated but we need to just keep it well oiled and then therefore some small little incentives and supports for them makes the entire channel move . But what happens when the volumes kind of grow and everybody performance level grow up, so whether it is a distributor, whether it is a dealer, and of course there are more consumers, there are more footfalls, if that has happened and so much more the brand, which is kind of gone around in the market, but the entire channel the production everybody the level kind of goes up and the normal changes and that is exactly what is happening, so a dealer who has done an increase of 26% for a quarter, next quarter he will not settle down for anything less, it is just his aspirations and his capacity increases, so I mean that is the criteria how it works.

**Prashant Kutty:** Sure. Thank you very much and all the very best to you.

**Moderator:** Thank you. Next question is from the line of Aman Batra from Goldman Sachs. Please go ahead.

**Aman Batra:** Just wanted to understand how you are looking at this event GST the transition how would the channel react, how is your inventory in the system how would they be destocking that is your expectation and secondarily the question is that we are trying to you said the

acquisition of another company in related area, what is the market share aspiration that you would have in this space, acquisitions?

**Dhruv Mathur:**

I actually lost out the connection in the last sentence, but can you hear me. So as far as the GST is concerned, the rates are yet to be fixed and I understand that they should happen on May 18, 2017 or May 19, 2017. Our expectations of course are that it should be lower than the entire tax burden on the product at the moment. You are quite right that there are some transition issues involved with it, but that is what we are preparing our entire channel for and ensuring that even if you do carry stocks and I am talking right up to the dealer even if you carry stocks you would get credit of all the taxes, which have been discharged on the stock. So we are working on system so that nobody needs to downsize their stock and worrying about not getting credit. I cannot make an overall prediction, but somewhere I think there would be a bit of a disruption for sure in the market and it is not only for us, but it would be for everybody, though the country has been preparing for it for years together, but there would be an event happening on the midnight of June 30, 2017 and suddenly to expect from July 1, 2017 everything will be back to normal will not happen. It will take a little time, but it will settle down, we are reasonably adaptive people and from our side we are preparing the channels and we have already begun workshops for our dealers. We have been disseminating information to them, we have been telling them of what exactly to do and not to be afraid of cutting down their stocks and we will be offering that as soon as the rates are also there then it probably help us get even a better handle on what kind of credits, etc., would be available or may be denied and all those kind of which is really the fear of the channel.

As far as the acquisition goes I did say that first one in the complementary business, so it would be in a newer segment, by and large that segment is a very fragmented segment and therefore the whole market share of that particular segment is concerned is not an issue, it is probably not going to be a big one for us, but what it would adds to the top and the bottom line ,what it would add as a complementary product to be additional 2000 plus stores that we have ,that is going to be really our focus and we see it as a very, very positive thing that will be there.

**Aman Batra:**

And last one if I may ask, the sales momentum of course post quarter was very strong those kind of a catch up as well, so what should be the reasonable growth numbers we should look at over the next two to three years medium term?

**Dhruv Mathur:**

Difficult and one month has gone by I can just give and I hear that strong growth is kind of continuing here.

- Aman Batra:** Thanks.
- Moderator:** Thank you. Next question is from the line of Nishit Rathi from CWC Advisors. Please go ahead.
- Nishit Rathi:** Morning Mr Gautam, just taking forward from the last question we saw close to 20% volume growth if I am not mistaken in the last quarter right, how sustainable is that something we can continue because of the sales push or that we manage such number last quarter?
- Rahul Gautam:** So for us annual target for this year is between 21% and 22%. We have the drivers in place, Q4 definitely had the extra bit that were needed to be done post demonetization, but now that is kind of just tapered off or the impact has tapered off, all drivers are on place and we are confident that we should be holding on to this.
- Nishit Rathi:** And this 20% is volume growth right, it is not value will be over and above whatever it is?
- Dhruv Mathur:** 20% if total growth not the volume growth.
- Nishit Rathi:** In last quarter we saw kind of 20% volume growth is that correct?
- Rahul Gautam:** Last quarter you saw right, but as far as the yearly growth is concerned is 50% in value.
- Nishit Rathi:** 20% on value so of which almost 10% to 12% and 10% to 15% will come from the two price hikes we have taken right?
- Dhruv Mathur:** I think it will come to close to 10% to 12% from price, and balance from volume something like that. I think to your question of course to reach 26% in growth you are asking whether sales expenses it would remain in the same ratio or not, so we are tracking 20% growth obviously they will be a bit lower than this quarter.
- Nishit Rathi:** Is it correct that the gross margin had two impacts basically, one was the TDI prices and one was the second impact of the sales expenses that would have come into it or is that correct?
- Dhruv Mathur:** Yes, that is very correct.
- Nishit Rathi:** Can you just call out what was the gross margin impact for?

- Dhruv Mathur:** Gross margin impact due to RMC was on India is standalone basis was 3.8% and close to 4% was on selling expenses.
- Nishit Rathi:** What would be the nature of this 4%, can you just explain this is basically you have lowered your selling price, this is going to the channel and this has been passed on to the consumer that is what I am trying to understand.
- Rahul Gautam:** It is always a mix, but we generally work on all the pushes to be consumer oriented, but the channel in between as I said needs to be also oiled or needs to function now well. So most of it is consumer and a little bit, which is given to the nonexclusive, so we also have 20% of our sales happening through MBOs because there are others who are operating on the same shop floors we need to push our products and to push our other things we need to just provide a little more incentives or a little more. It is not discounts really just incentives to the retail.
- Nishit Rathi:** Just last point, just to take us forward a little bit, so three, four things that have happened going forward now right. You have taken a price hike, there is an impact of, the TDI prices have come down a little bit and we will not see the same volume push that we saw in Q4, so how do I take all of that into account and look into the future?
- Rahul Gautam:** So you have taken all that into account and it will be positive for sure.
- Dhruv Mathur:** At least from that to the normal EBITDA levels I would say.
- Nishit Rathi:** You are saying that RMC impact of 3.8% will kind of nullify and you will not have the same 4% it will come down dramatically, so you will start seeing gross margin normalizing to where you were before demonetise?
- Rahul Gautam:** That is right.
- Nishit Rathi:** Thank you.
- Moderator:** Thank you. Next question is from the line of Subramaniam Yadav from Subhkam Ventures. Please go ahead.
- Subramaniam Yadav:** Just to dwell on the previous question only. Sir this 7% price hike in April and may be another 7% or 8% in November can we go back to exactly 44% margin last quarter what we did, is it possible?

**Rahul Gautam:** That is 44% I cannot say because the calculation tell me that we might if we maintain these two things it would be around 42%, 43%.

**Subramaniam Yadav:** So 43% we can end up this year if we take two price hikes.

**Rahul Gautam:** Yes it appears so.

**Dhruv Mathur:** But there may be the change in TDI price and hopefully it continues softening the margins can be maintained.

**Subramaniam Yadav:** Do you mean to say at current prices if the TDI prices remain same with two price hikes we can maintain around 42% gross margin?

**Rahul Gautam:** That is right.

**Subramaniam Yadav:** Sir in terms of growth you mentioned 20% growth for the quarter you mentioned or for the full year you mentioned?

**Rahul Gautam:** We are mentioning for the full year.

**Subramaniam Yadav:** Full year 20% value growth right?

**Rahul Gautam:** That is right.

**Subramaniam Yadav:** Thank you very much.

**Moderator:** Thank you. Next question is from the line of Umang Shah from JM Financial. Please go ahead.

**Umang Shah:** Good morning. I had a couple of questions. Firstly starting with the new technology, which we were talking about in Q3, the vertical variable pressure that was supposed to be commercialized in February 2017. If it commercialized then how is it shaping up, is it really fruitful or?

**Rahul Gautam:** Yes, it is commercialized, it has begun taking over production of material, which was being done in the normal standard process. The results are good. The volumes that we expected to reach straightaway are a little lower in that, but it is perfectly ratified, commercialized and produced. So I will just to share with you a small thing. Take for example as far as the high temperatures are concerned there needs to be a little more cooling mechanism, which need

to be done, so this is the kind of addition that is happening, but otherwise it is running on a daily basis and producing products, which are absolutely as per expectations.

**Umang Shah:** Couple of more questions Sir! Last quarter we were seeing that Australia had started exporting mattresses to China and other Asian countries, even after that there is some degrowth in that counterpart right, any quantification that what do we expect for FY2018 whether it will increase or not?

**Dhruv Mathur:** I would answer on de growth first. The de growth, which you have seen in rupee terms is purely because of the exchange fluctuation. The Australian dollar has softened, so Indian rupees have gone strong, but when you talk annually there is a growth in Australian business, so it is not that it has gone down.

**Rahul Gautam:** Why do not you inform on the dollar term how it is?

**Dhruv Mathur:** On dollar terms on annual basis we have grown by 6%.

**Umang Shah:** Alright and how are we doing on the export part to different Asian countries?

**Rahul Gautam:** It is steady and growing, but as I said those numbers are relatively small, but it is steady and growing and the Australian brand are becoming more and more sought after as far as Chinese market is concerned. In fact there have been one or two enquiries to even see a few of them would find value as far as the Indian market is concerned, but that is growing.

**Umang Shah:** Last quarter we had diverted our capex for new facility to cut down our second highest cost of transport, so currently how much is transport cost because I just could not see that and what steps are we taking to curtail that down?

**Rahul Gautam:** Are you talking of the transport cost, which we have cut down for plant or something like that?

**Umang Shah:** Not exactly, the overall transport cost. So last quarter we were supposed during IPO that there was a new facility, which was coming up and we thought in Q3 that is better of to take that capex to cut down our transport cost?

**Dhruv Mathur:** We have not started any new facilities, we did talk about that sometimes..

**Rahul Gautam:** We said that there are two parts in India, which are not covered, which are beyond some 5 or 600 kilometers from our plants , but those are two future investments somewhere in the



middle of India and the other one in the Eastern part of Uttar Pradesh or Bihar, the western part of Bihar, but those are not off the ground as yet. We have not started any work on that.

**Moderator:** Sorry to interrupt I request you to please return to the question queue for your follow-up question. Thank you. Next question is from the line of Arjun Khanna from Kotak Mutual Fund. Please go ahead.

**Arjun Khanna:** Thank you for taking my questions. Sir how would you characterize the competitive intensity currently in the market?

**Rahul Gautam:** Arjun thank you for putting such a complex question across. Look in the Indian market it is not possible to describe in one word or one phrase as far as competition activity is concerned. When you are operating in a particular segment there are many people operating in that segment and the competition is intense, it is not even lukewarm; however, there are always segments and portions and gaps available in the market where you could, which are like greenfield areas or whatever you may call them as blue oceans that you can go and test the diversity of the country. So whether it is geography you go and set up or distribute in a particular market you would have other people jumping in and competition being created and intense competition, but then there are also newer areas and newer markets have been created at the same time. Similarly on price segments and that possibility, so it is both it is intense, but at the same time diversity provides you the opportunities to go into newer areas.

**Arjun Khanna:** Basically in terms of pricing so if competition is say not as intense in certain segments that pricing power is something that we were expecting this quarter, which did not quite come through you mentioned it probably will come to for the latter half of the year, so in terms of competitive intensity, in terms of taking price hikes is that something do you think we are treating?

**Rahul Gautam:** So let me just say this thing, the pricing power has not reduced, it is just an issue of that you would want to be prudent as far as the increases are concerned both in terms of frequency and in terms of amplitude or the quantum that you are increasing. You would want not to go bizarre on that part of it, of course it does hit a particular quarter and it gets reflected in there, but that power has not gone away. When the price increases up to the extent of this 5%, 6%, 7%, 8% honestly it does not make too much of a dent on the volume part; however, I will qualify that by saying if there are many price changes then at the entry point the price goes beyond a certain level and that is an area that we are addressing in any case, but by and large as far as the majority of the products are concerned honestly I mean 6%



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and 7% price does not make you out priced or anything, it is just the entry point that changes and we are going to take care of that. We are taking care of that.

**Arjun Khanna:** Secondary Sir in terms of mattresses sold on an absolute amount what would that number is for FY2017?

**Dhruv Mathur:** The number of mattresses sold, there are two kind of mattresses I would say that one is covered mattress 11 lakh mattresses, which we sold in FY2017 and the other mattresses we do not track on number because they are kind of foam cores- those kind of mattresses are tracked on tonnage basis

**Arjun Khanna:** It is perfect.

**Dhruv Mathur:** Yes and this is close to 19000 tones as compared to 17500 tons last year.

**Arjun Khanna:** Right and that 11 lakh correspond to 10.3 of last year?

**Dhruv Mathur:** That is right 10.3.

**Arjun Khanna:** Perfect Sir! In terms of A&P expenses while we have not given the breakout how do you characterize it in the fourth quarter of this year?

**Dhruv Mathur:** So I have the absolute number right now with me and I would say that most of it is in consumer schemes and incentives rather than on advertising that this increase I am talking about because advertisement expenses are almost constant of the previous quarter and I do not have the breakup right now.

**Arjun Khanna:** It is promotions, which have gone up right?

**Dhruv Mathur:** Promotions have gone up.

**Arjun Khanna:** This has been most helpful. Thank you so much Sir!

**Moderator:** Thank you. We take the next question from the line of Arnab Mitra from Credit Suisse. Please go ahead.

**Arnab Mitra:** Thanks for taking my questions. My question primarily was related to the consumer elasticity from the price increases because we would have seen almost a 14% price increase now in the last four, five months, so in your experience being a slightly high ticket and somewhat discretionary do you see a period of low growth at least for sometime because

consumers postpone or do you see downtrading or any such thing when such a big price increase happens?

**Rahul Gautam:** Mattress or a bedding product is a product where the consumer is coming after a couple of years to buy and it is not a daily product, therefore the memory of what I bought last that is not there. Second the products also undergo changes so there are newer models and newer products, which are available and therefore any kind of comparison based like that does not matter. Anybody who wants to buy a mattress of let say Rs.10000 for him I mean 10% here and there has very little meaning. He is looking for a good product, he is supported by a brand, he is buying for a little longer period of 5 to 7 years therefore that does not matter. The only area where that these price increases get impacted or adversely impact us is on the entry point because there the customer is a low end person and so we are addressing that issue. We do take care of it, we do sometimes get products so that the entry point is protected and the consumer kind of does not go away and we are also looking at that area through another brand I think we have talked about that earlier so that is on the card.

**Arnab Mitra:** Sure and just one last question after your price increase in April as the competition also followed that in the last 20 days?

**Rahul Gautam:** So we have increased the price on April 21, 2017 and the competition has started following it.

**Arnab Mitra:** Sure. Thanks that is it from my side.

**Moderator:** Thank you. Due to paucity of time, we will take the last two questions. It is from the line of Tejas Sheth from Reliance Mutual Fund. Please go ahead.

**Tejas Sheth:** Thanks for the opportunity again Sir! Sir we were looking at some kind of margin expansion coming from efficiencies and some areas of other expenses control and all. If I see your this year number so your gross margin has contracted by 116 BPS, but you have kind of maintained your EBITDA margin, so nearly 100 BPS kind of expansion we have seen from that area.

**Dhruv Mathur:** If you see the gross margin vis-à-vis last year from 44.5% it has gone down to 42% okay; however, when we track the EBITDA level is a bit of almost the same, so of course it is a reduction in other expenses and that is more because of the volumes going up certain expenses being fixed so this buffer is there that is the plain reason for that and also during this period we had started this efficiency on our yields, etc. These are the two factors that we are able to maintain the EBITDA at the same level despite the reduction in gross margin.

- Tejas Sheth:** Exactly so there has been some success there. How do you see that in FY2018?
- Dhruv Mathur:** That has to continue .We are working on that constantly both on back end and front end and that can be expected.
- Tejas Sheth:** Is it fair to assume that all the RM cost increase on the B2B side, be it Feather Foam or B2B have been passed on fully.
- Dhruv Mathur:** So they are on the technical side, they have been passed on with the lag of one quarter as we told in last call on B2B the prices are fixed on quarterly basis and whatever is RMC towards in this particular quarter the next quarter will be based on that price it is not immediate or something like that.
- Tejas Sheth:** Even in Feather Foam Sir?
- Rahul Gautam:** Feather Foam is almost similar.
- Tejas Sheth:** Almost similar and we do not look to lower down that cycle from three months to one month or 45 days?
- Rahul Gautam:** On exceptional cases we may look, but generally not.
- Tejas Sheth:** As on today everything has been passed on?
- Rahul Gautam:** I do not say that we have increased the price to 7%.
- Tejas Sheth:** That 7% is across the board or I thought it was more on the branded mattress right?
- Rahul Gautam:** It is on branded mattress side. As far as the other thing is concerned it follows this cost. The prices have gone up it will be passed on the next quarter.
- Tejas Sheth:** Just one last question just follow-up to the previous questions asked having a regional manufacturing and Mr Gautam just mentioned sometime back that there are lot of unorganized players who would have shut down, does there opportunity arise for us to acquire to those local manufacturer than have a base rather than going for any greenfield or anything?
- Rahul Gautam:** As far as home manufacturing and mattress manufacturing is concerned, there is a certain level of technology and a certain level of automation we work on as a company, sometimes I am not saying a no to you because I think that is a good point that you have made, but just

to find people that who would be operating the same technologies and same levels of automation is difficult, but we will keep as I said, we will not close our minds to that.

**Tejas Sheth:** Fine. Thanks a lot Sir!

**Moderator:** We take the next question from the line of Rajesh Kothari. Please go ahead.

**Rajesh Khotari:** Good afternoon Sir! Sir just two questions from my side. One is can you tell us what is the average TDI prices for FY2017 and what was the fourth quarter TDI price for you in FY2017?

**Dhruv Mathur:** The average price for the fourth quarter was close to Rs.251 for us and I had to actually compute the average price for the year, but it should be around Rs.160 also.

**Rajesh Khotari:** Rs.160 okay and promotion is a percentage of cost for FY2017 was how much and for fourth quarter how much?

**Dhruv Mathur:** For the entire year our sales and marketing expenses are 16.21% whereas for the fourth quarter there were 19.62%.

**Rajesh Khotari:** And for last year in case if you have it handy otherwise I will take it of Sir?

**Dhruv Mathur:** Last year it was 17.85%.

**Rajesh Khotari:** Second question is the acquisition what you are looking for both the acquisition and what you think will be the payback period and will it be in your EPS accretive from year one itself or will it takes time?

**Rahul Gautam :** I am just kind of repeating that as you would want to know when would that acquisition take place and will everything accrue to us or the benefits would accrue right from the time of acquisition.

**Rajesh Khotari:** No basically I am trying to understand that for acquisition you will be paying some amount am I right, so I am saying from earnings accretive perspective will it be earnings accretive from day one or do you think what kind of payback period you are looking for?

**Rahul Gautam:** It will be earning right from day 1. They are already earning, they have both business and earning.



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- Rajesh Khotari:** No, what I am meant is for acquisition you have to pay amount am I right, so it will lead to lower other income or interest cost or whatever that foam is?
- Dhruv Mathur:** That will more than compensate. Today the other income is hardly anything interest on fixed deposit is 6%?
- Rajesh Khotari:** What is the size of acquisition in terms of current revenue size?
- Dhruv Mathur:** I would not think that we can specifically answer that .Mr Gautam has given a kind of hint that the first acquisition may be from internal cash and second we may need to take some borrowings.
- Rajesh Khotari:** What is the current cash in hand and short-term or long-term debt if any?
- Dhruv Mathur:** No, I will give you the correct number. I have that number. So as on March 31, 2017 the cash on hand was Rs.195 Crores.
- Rajesh Khotari:** Any short-term or you know debt like working capital loan or any other fixed stuff?
- Dhruv Mathur:** No, there is no short-term loan etc., for India operation.
- Rajesh Khotari:** I understood. Great Sir! I will take more questions offline. Thank you very much.
- Moderator:** Thank you. Ladies and gentlemen that was the last question I now hand the floor over to the management for their closing comments.
- Rahul Gautam:** I just would want to thank everybody. I take most of the salient features of Q4 and the annual results have been asked and the questions were very relevant and we just hope that Q4 is behind us and we will continue with our growth story as far as FY2018 is concerned and I continue to seek your questions and your guidance and your support as far as next year is concerned. Thank you very much.
- Moderator:** Thank you. Ladies and gentlemen on behalf of ICICI Securities that concludes this conference. Thank you for joining. You may now disconnect your lines.