



“Sheela Foam Limited
Q3 & 9M FY2019 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Sheela Foam Limited Q3 and nine months FY2019 Earnings Conference Call, hosted by Edelweiss Securities Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Nihal Jham from Edelweiss Securities Limited. Thank you and over to you Sir!

Nihal Jham: Thank you Stanford. On behalf of Edelweiss I would like to welcome you all to the Q3 and nine-month FY2019 concall of Sheela Foam. I would now like to hand over the call to Mr. Rahul Gautam, Managing Director for his opening remarks. Over to you Sir!

Rahul Gautam: Thank you Nihal. Thank you very much. So this is Rahul Gautam and along with me is Mr. Rakesh Chahar, our Director Sales & Marketing, Mr. Dhruv C. Mathur, who is head of Investor Relationship and Mr. Pankaj Garg who is our CFO. So let me begin by thanking everybody who as joined in. I completely understand that Friday is a tight time and there must be a couple of other calls, so you have taken the time out. Thank you very much.

If you look at the Q3 path somewhere I feel that like the country the fundamentals continue to be very strong; however, on the ground the season was not as per expectations, now there are many reasons for that and there were tight financial conditions we are all aware of that. The auto industry, which is a big consumer of our products was not doing at its best and above all the marriage period was really short; therefore, the results not exactly as per expectations, but still compared to other players in the market and compared to within our own segment we seem to have done okay, I would not say even reasonably well. There is an 8% growth on the topline and our EBITDA is almost touching 11%, which is close to normality. The good point was that mattresses, which is continued to be our big focus areas. In volume we have grown by 11% and as we look down the balance part of the year and the coming years we see that growths to be continuing, so that is really indicative of that the unorganized sector is eventually beginning to shift to the organized sector. I note it takes time, from GST times we were expecting that it would happen like a switch, but probably does not, but the picture is now getting clearer and it is definitely moving in that direction. Our subsidiary in Australia seems to be well on track for an annual performance of about \$68 million, they did very well as far as last quarter was concerned and again the EBITDA has been on the rise to 11% from a previous quarter of about 8%.

Primarily the EBITDA increase in India as well as in Australia is definitely reflective, one of the mattress segment growing and second that in the raw material side TDI, which has been in talk for a long time has come down to the low levels. However, we must appreciate the fact that because the job has been very sharp, there are some issues that kind of arise, there are stocks to be accounted for which everybody carries to so that there are no stock outs. What the market sees is the current price of TDI while your average operating price may be much higher. So keeping that in mind, I mean today the TDI price has come down to about 154 and our feeling or our understanding is that it should still be going down a little bit, but the rate of drop is going to be far, far smaller, and this is definitely looks like a stable price as most of the companies who produce this product would find this as quite sustainable.

On the market front in India, back to India we had started this operation of they are growing the EBOs and then settling down the NBOs with other products, so that process is well segmented and progressing and there is a clear demarcation between the two and the initiatives that are necessary for growing the two are now getting in place. The other aspect or segment of our business, which we had introduced last and last to last quarter for the home comfort products majority of those home comfort products, which lie in the bed sheet, etc., side are fashion products as we all know and India being a diverse country not only from a price perspective, but also from culture and appreciation just to make the right type of products available across the country, suitable for that local set of customers does take time, but that is also now getting settled. This quarter we expect that all these things, which have kind of settled down should now start showing up and there should be improvements as far as this quarter is concerned. So with those words, I just hand it over back to Nihal and we are ready to accept questions from the callers.

Moderator: Ladies and gentlemen, we will now begin the question and answer session. Ladies and gentlemen we will wait for a moment while the question queue assembles. The first question is from the line of Vismaya Agarwal from ICICI Securities. Please go ahead.

Vismaya Agarwal: Sir I had two questions Sir. One is, in terms of the discretionary demand that you spoke on this you mentioned auto not being very, very spurt and the marriage season being little low, so how do you see these things going ahead and what is your sort of trajectory that we could expect in the topline, moving forward, second in terms of the margins now good that we are back on the normal 11% level, but again as you mentioned the TDI prices down and I believe the branded part of our mattresses business we definitely benefit from a lower TDI prices, but then in the industrial part we might have to pass on the benefits to the customers, so any comments on this and how do we see the margins going ahead as well?

- Rahul Gautam:** So as you mentioned the demand in the last quarter was low because of the financial conditions and because of lower number of days where marriages could be held. As we go forward the marriage part of it we all know that there is a reasonably large number of base, which is call the saya period is heavy as far as this quarter is concerned and the discretionary purchases, which were heavily impacted by the tight financial conditions, I cannot take a call on that, I cannot say that how the financial part will play out as far as the quarter is concerned, but definitely on the TDI part as you said and that the prices have fallen, they have come probably to their bottom level, but the rapid fall has done two things, one is that your selling price as I said gets impacted because everybody knows what the rates are, what are the prices are; however, the stocks that you are carrying impact and all that is getting over or almost over and this quarter the benefits should be there. You are quite right that in the branded side we do not need to and we do not change anything much and therefore the benefits would come in. Though I must say that on a finished products the percentage of foam and therefore the percentage of TDI is far lesser than their products and the B2B products and it is no doubt that we do need to sort of rise and fall, we do need to pass on the changes to the consumer, but wherever the prices are down or low or falling, the advantage is always with the supplier while is the other way round as far as increasing prices are concerned. So as a sum total or as a final look out for Q4 is concerned we should be beneficial.
- Vismaya Agarwal:** That is very helpful Sir. Thank you and I will come back in the queue if there are any followups.
- Moderator:** Thank you. The next question is from the line of Manish Poddar from Reliance AIF. Please go ahead.
- Manish Poddar:** Could you probably share for the first nine months how much is the volume growth and pricing growth for mattresses?
- Rahul Gautam:** Thanks Manish. I will let Mr. Dhruv Mathur to take that question.
- Dhruv C. Mathur:** So for the first nine months the volume growth is 15% in metro segment.
- Manish Poddar:** If you could share let us say your inventory, which was mentioned is probably at a higher price compared to the current prices, in the next quarter would we have to take an inventory correction, how much estimated amount would that be?
- Dhruv C. Mathur:** No Manish, this is what we carry around two months inventory for TDI, if the price of TDI goes down my inventory is already there at the old price whereas in the market we have to

give the reduction in non-branded products rather fast, so that was the thing we were emphasizing.

Rahul Gautam: I just wanted to add to that, so I understand, your question is that post this quarter, which is the end of the year is there a kind of a correction that we will need to take because of the stocks?

Manish Poddar: Inventory losses primarily.

Rahul Gautam: No, not really because these prices started falling steeply from somewhere early part of last quarter and has now stabilized, so if the next drops are going to be some couple of rupees here and there it is not going to be in 20s and 30s and as Dhruv said the inventory that we carries between 45 and 60 base and that period is almost getting over or has got over and therefore the current levels will be very close to the current market prices and therefore March 31, 2019 my expectation is that we will not need to take any correction on account of stocks.

Manish Poddar: So if I incur it right, these margins are tough margins if sales grow at, at least bare minimum 8% to 10%?

Rahul Gautam: Yes, that is right.

Manish Poddar: Thanks.

Moderator: Thank you. The next question is from the line of Amar Kalkundrikar from HDFC Mutual Fund. Please go ahead.

Amar Kalkundrikar: Thank you for the opportunity. Mr. Mathur can you clarify what is the volume growth for first nine months in the core Sleepwell branded mattresses?

Rahul Gautam: Let me take that question. I think I would say that right now, we look at the mattress category as a complete category, which is include Sleepwell plus Feather Foam plus Starlite and both Feather Foam and Starlite are also endorsed by Sleepwell, so if you would want that breakup may be I would ask Dhruv that offline if you could share that you can take his number and share that breakup with them, but for this evaluation we look at the entire mattress category, those segments are only for either segmenting the market, catering to the various outlets or various price segments, but we have looked at it entirely, so Mr. Mathur will get back to you with full details on that.

- Amar Kalkundrikar:** Alright. Thanks Sir.
- Moderator:** Thank you. The next question is from the line of Varshit Shah from Emkay Global. Please go ahead.
- Varshit Shah:** Sir just wanted to understand on this demand part let us say Q4 and you mentioned that we have more number of marriage days, in January so far I mean how January, after January 14, 2019 the purchases would have accelerated, so have you seen any initial signs of picking up in Q4 in the first month?
- Rahul Gautam:** I may not be able to share the exact numbers, but you are absolutely right, you have seen that spurt as far as mattresses, which are directly related to the marriage season.
- Varshit Shah:** Sir one more thing is it possible to share the volume numbers for Q3 for various categories?
- Dhruv C. Mathur:** So we can tell the consolidated number as Mr. Gautam has now told, offline we can send you the breakup also?
- Varshit Shah:** Consolidated number will be fine.
- Dhruv C. Mathur:** So we have sold 357000 mattresses.
- Varshit Shah:** Sir out of this 8% overall growth, which you have seen in the revenue, so we have seen 15% what is the like-to-like value growth, not the volume growth for the mattress segment?
- Dhruv C. Mathur:** 10%.
- Varshit Shah:** 10% is the value growth.
- Dhruv C. Mathur:** That is right.
- Varshit Shah:** Understood. Thank you so much. I will get back in the queue.
- Moderator:** Thank you. The next question is from the line of Kamlesh Ratadia from WhiteOak Capital. Please go ahead.
- Trupti Agrawal:** Sir, this is Trupti Agrawal from WhiteOak. I had a couple of questions, I wish to understand that how big do you think Starlite and Feather Foam businesses can become, I know we

have just launched them in this year, let us say from a three to five years perspective what are your internal targets are, some sense of how these could be in terms of revenue?

Rahul Gautam: You are talking of Starlite only or Starlite and Feather Foam together?

Trupti Agrawal: You could tell me Starlite and Feather Foam may be together, idea is I just want to know that Sleepwell is our flagship brand, we know the revenue numbers, now that we are trying to straddle across price points, so what is the expectation from these businesses.

Rahul Gautam: I would both put together in three years' time should be about Rs.300 Crores.

Trupti Agrawal: Totally?

Rahul Gautam: Totally and I do not know it would be 50:50 or 40:60 or 60:40 either way, but that it should be of that order.

Trupti Agrawal: Sure. Sir my second question is that your strategy, which we have taken and implemented this year, which is the conversion of the MBOs to EBOs, what has been the outcome so far and the experience because the expectation was that we would see some kind of bump up at least in the initial periods because all these MBOs, which we were earlier selling so many brands would now only sell Sleepwell, so how has been the experience on that side and when can we actually see the impact of this?

Rahul Gautam: So let me begin with saying that as the business grew naturally over the past couple of years, we found that, at that time it was both EBOs and MBOs together, but because of either the way the products are sold or the financial policies, etc., we found that 80% of Sleepwell was being sold through EBOs only and however the policy was catering both to MBOs and EBOs, so actually the policy was creating far bigger problems and therefore we got to this 20% guys and said please convert to an exclusive outlet, it would simply the process of governing or administering this exclusive one and the MBOs then we had the Feather Foam brand to take care of them, so there are many who converted and there are some who did not, but the ones who converted first quarter that was the time really for the conversion, some took a little bit of longer time had stocks, had arrangements, which are to be run, so today it is complete; however, there has been a transition space, which extended far more or let us say a little bit longer than what we expected. Our experience now as we come into the policy-making phase for the coming years we find that it is far easier and the financial gains would begin now or in the near future.

Trupti Agrawal: But Sir, this number if I am not mistaken is some 4800 right as of December?

- Rahul Gautam:** 3800.
- Trupti Agrawal:** The 3800 MBOs got converted into?
- Rahul Gautam:** There were already a lot of EBOs existing; this is the number after the conversion.
- Dhruv C. Mathur:** Conversion was about 1000 EBOs.
- Trupti Agrawal:** 1000 EBOS in the nine months is it?
- Dhruv C. Mathur:** Which is inclusive in 3800, when we started this process, our EBO number was 2800 and 1000 we have been able to convert from MBOs to EBOs in this year.
- Trupti Agrawal:** Sure and what is the plan further, do we have some more MBOs?
- Rahul Gautam:** Yes, we have plans to grow the EBOs and the MBOs both, but of course for a different line of products.
- Trupti Agrawal:** I was just reading up that American mattress industry is suffering from cheap Chinese imported mattresses, do you see that as a threat for India and if not then why?
- Rahul Gautam:** So the American market is different, their average selling price of a product is very much higher and therefore the Chinese could sort of send the material from China all the way there compress it, pack it up in a box and kind of do that. The Indian markets as well as the Indian manufacturers are pretty similar to the Chinese people and therefore this freight will can never sort of be compensated by a high selling price and therefore I do not see at all any materials coming or impacting the Indian markets, that is another point where the Indian markets has lot of custom made sizes, they do have standard sizes, while the American market has standard size, so you could create a supply chain with a standard sizes. Indian when the order is generated to the time it is supplied that has to be short and it has to be different from one mattress to the other therefore imports will never make a dent here.
- Trupti Agrawal:** Thank you so much Sir. I will join in the queue.
- Moderator:** Thank you. The next question is from the line of Gaurav Jogani from Axis Capital. Please go ahead.
- Gaurav Jogani:** Thank you for taking my question Sir. Sir my first question is what would be the average procurement price for TDI for this quarter for us?

- Rahul Gautam:** I will give that and Gaurav thank you very much last time you were conducting this release if I am not wrong right, now you are questioning. So Dhruv what would be the average price for this quarter?
- Dhruv C. Mathur:** So the average price for this quarter was Rs.255.
- Rahul Gautam:** Roughly for this quarter?
- Dhruv C. Mathur:** Correct, I am talking this quarter.
- Rahul Gautam:** Not Q3?
- Gaurav Jogani:** Sir this will be the procurement price for us or would it is the average?
- Dhruv C. Mathur:** Are you asking for the Q3 or Q4?
- Gaurav Jogani:** Q3 Sir.
- Dhruv C. Mathur:** It was Rs.255.
- Gaurav Jogani:** My next question is regards to the other businesses apart from the mattresses, like the furniture cushioning and the foam core business plus the technical foam, so how are those shaping up in the light as Sir mentioned in the beginning of the call that there was a slowdown in the auto industry and hence these are impacted, but going ahead what is the outlook on those businesses, some colour on that in terms of performance in margins would be helpful?
- Rahul Gautam:** So as far as the B2B business is concerned where automobile is part of that, there is no doubt that we are to a great extent dependent on that particular specific industry doing well or not doing well. The only redeeming feature there is that we look for newer segments and newer applications, which is a bit of a slow process, but that keeps kind of adding, so on the B2B business we do see at least 25% year growth about 15% sorry, it stands corrected about 15% growth as far as that industry is concerned. The furniture industry of course process as it is happening, but our new initiatives of trying to get the carpenters and the upholsterers into the stream and to have some new partners in growing that furniture business, it is a little slower process. I would say anything between 10% to 15% would be the volume growth because all this can change is the environment changes; I am talking of the current environment, which is a little depressed.

Gaurav Jogani: As we are talking about like 10% to 15% volume growth, but at the same time as we understand the prices of TDI is decreasing and at the same time we also need to pass on the pricing to these particular set of the consumers, so what would be the value growth in that sense because the volume growth could be higher and the price of all could be more than that?

Rahul Gautam: Yes, you are quite right, so there would be pressure on the topline for sure once the selling price goes down. I would still say that if there is a 10% volume growth, we would still get about a 5%, 6% value growth, I am just saying it as a very rough number. In a price, which is going down you still have a bit of an advantage, so I mean that is the estimation.

Gaurav Jogani: Sir with regards to the conversion of the MBOs to the EBOs, so we have started this process for the last two to three quarters now and at the same time if you see the sales was also quite lower in these quarters, so can you attribute some of the decline in the sales, not decline, this lower growth in the sales to this conversion aspect also and once this is done do you see some pickup then in the sales growth?

Rahul Gautam: I would like to believe that it is not impacted by this, but you are right, some of it may be because of the process of segregation, which has happened, some transference, etc., these things do not happen like a switch, for an MBO even to transfer to an EBO he used to get rid of the stocks, he has some older relationship, etc., it takes its time plus all that is over now and therefore each of these segments should now get into their normal growth levels.

Gaurav Jogani: The branded mattress right now would be around 30% odd of entire sales, do we have any aspiration as to take it to 50%, 55% going ahead of the overall topline or something, some colour on that in terms of the contributions do we target something like that?

Rahul Gautam: Yes for sure we target it and that is the bit, which is the unorganized to the organized bit, that is the de-commoditization of the products, products are definitely not pure commodities, but from a core for a mattress to a covered mattress obviously the margins differ in everything and that is a process that is on and that is the direction that we push for, so let us say if I used to take a guess one year from now I would say that if it is 30 now it should be closer to 40.

Gaurav Jogani: Thank you so much.

Rahul Gautam: It is 40 at the moment and I will look at 45 to 50 a year down the line.

- Gaurav Jogani:** Sir, but these 40 you are talking about Indian; actually you are talking about the whole considering the Australian also, so I think considering Australia to be 30 right?
- Rahul Gautam:** That arithmetic Dhruv you do that.
- Dhruv C. Mathur:** That is separate because we are talking of India only.
- Gaurav Jogani:** Got it Sir. That is all from my side. Thank you.
- Moderator:** Thank you. The next question is from the line of Shiv Kumar from Unifi Capital. Please go ahead.
- Shiv Kumar:** Yes. Thank you for the opportunity. Sir with regards to the EBO count you did conversion of 800 stores last quarter and 200 this quarter, so will you do another 200, which was your guidance last time and at 4000 you will stop the conversion?
- Rahul Gautam:** So we are not going to stop the conversion, but we will assess the markets or the micro markets to figure out, can this place take another store, does it have that potential or not the potential, our current guess is the numbers that you are talking about, but still there would be as markets develop and places keep coming up we will not stop it, it is totally dependent on the potential of that place and how the stores are kind of functioning and growing.
- Shiv Kumar:** Any sense on your market share per se because even other brands have been moving to this EBO strategy, so can you give some sense that your market share in the overall organized mattress segment is still intact over the last nine months?
- Rahul Gautam:** I think it is increased, it is better than before when we went to IPO it was slated at 23%, I think right now it should be closer to 27%.
- Shiv Kumar:** Sir some sense on the polyol movement Sir because that has been a painful point over the last two quarters, so how has it being behaving of it?
- Dhruv C. Mathur:** This quarter it is quite stable because forex rates are stabilized and we have stated that the polyol has moved during the last quarters because of the foreign exchange fluctuation, it is stabilizing this quarter.
- Shiv Kumar:** Given the slide in the TDI prices almost about 40% slide, so how much, on the back of calculation how much should we assume that this will bump up the margin because I am asking this because there is a lot of moving parts in the whole business, there is a technical

form category where you need to pass on the benefit and then you have the mattress component where you get to retain the benefit, so from an analyst point of view, if TDI slides by experts and so how much should we model it in our earnings model?

Dhruv C. Mathur: Shiv, why do not you discuss with me because this is a detailed excel exercise you can talk to me offline, you can reach a number.

Shiv Kumar: Sure Sir. I will reach out to you offline. Thank you.

Moderator: Thank you. The next question is from the line of Ravi Naredi from Naredi Investments. Please go ahead.

Ravi Naredi: Sir in December 2017 quarter our raw material prices was in between 290 to 335 and now it has been reduced 250 to 160, but our raw material cost in last December quarter or this December quarter, our even raw material cost has been increased in December 2018, so any specific reason Sir?

Dhruv C. Mathur: I can answer this, one is the stated price of GNFC you are very right, so the cost in this quarter was Rs.255 and in the corresponding quarter to be the cost of Rs.293, so that is one. Secondly it is the product mix, the change of product mix has caused this at the percentage of raw material cost is almost the same, nothing else.

Ravi Naredi: Similarly now the raw material prices has been drastically down and we are telling we have to give some discount to our old stock, so whether it will be good for company or it will be bad for company to reduce the prices of raw material?

Dhruv C. Mathur: To reduce the prices of raw material it is always good for the company, it is only time lag, the advantage accrues to the company with some time lag because of our holding of the stocks, but for sure it is advantageous for the company.

Ravi Naredi: And Sir last question one to the MD Sir, since the two years has been passed and we have listed the company, is this year can we expect some dividend from company like this or we have some other capex plan?

Rahul Gautam: We do have capex plan for sure, but as far as the dividend part I will not be able to answer that question, the year has to get over and the second is also the board, which still has some say on it, let us wait for a while. We are not close to the idea, we are open to the idea, although we completely understand that dividend has little benefit for the investor, but we

completely open to the idea, but I would want to sort of go through with the board and then take care of view and take a call on it.

- Ravi Naredi:** Any aggressive plan for capex Sir, this quarter or next year?
- Rahul Gautam:** Not very aggressive, but I am a little hesitant to talk about because sometimes the plans maybe a little unformalized and then if they just go out in a public domain and one has to revert back, I am just saying there are capex plan, allow me another month or so to come out with that and we will make a declaration about it.
- Ravi Naredi:** Thank you Sir. No problem.
- Moderator:** Thank you. The next question is from the line of Chirag Lodaya from Value Quest Research. Please go ahead.
- Chirag Lodaya:** Thank you for the opportunity. Sir my first question is on price cut, have we or our competitor taken any price cuts in mattress segment in this year?
- Rahul Gautam:** So generally in the mattress segment, there are no price cuts, so there are no price cuts, though temporarily if you want to account for it, you would probably give a little more benefit to the consumer or have a little bit of a scheme and if it really the product goes out or you may want to redesign it, but there are no price cuts across, nobody takes it.
- Chirag Lodaya:** Discounts during this last three to six months from us or competitor?
- Dhruv C. Mathur:** These are the normal discounts, which are prevalent across the year; there has been no special discount.
- Chirag Lodaya:** Can you help me with this nine-month sales mix of mattresses versus other segment, value growth would be as well?
- Dhruv C. Mathur:** So it is close to 40% as we stated on mattress segment and the balance on foam segment.
- Chirag Lodaya:** What would be the value growth for first nine months in both the segments?
- Dhruv C. Mathur:** The value growth is I can tell you this complete for the nine months would be around 12%.
- Chirag Lodaya:** In mattress as well as others that would be helpful?

- Dhruv C. Mathur:** In mattress it would be around 15% value growth and it will be around let us say closer to 10% in other segment.
- Chirag Lodaya:** Sir I am unable to get, 15% is the volume growth for first nine months?
- Dhruv C. Mathur:** 15% is the growth in terms of value; we are talking of value right now.
- Chirag Lodaya:** What is the volume growth?
- Dhruv C. Mathur:** In mattress segment?
- Chirag Lodaya:** Yes, first nine months.
- Dhruv C. Mathur:** Mattress segment overall volume growth has been around 18%.
- Chirag Lodaya:** Got it and how has been the performance of Starlite, it is as per expectation still now?
- Dhruv C. Mathur:** Yes is as per expectation.
- Chirag Lodaya:** These home products are available across our outlets now and how has been the response till now?
- Dhruv C. Mathur:** Home products?
- Chirag Lodaya:** Bed sheets, pillow, etc.
- Rahul Gautam:** We have recently launched in end of November, it is in the process of placement at our outlets, so we are also organizing some launch for the dealers and the placement is going on right now.
- Chirag Lodaya:** Thank you. That is it from my side.
- Moderator:** Thank you. The next question is from the line of Varshit Shah from Emkay Global. Please go ahead.
- Varshit Shah:** Thanks for followup, but I think my question was answered.
- Moderator:** Thank you. The next question is from the line of G Vivek from Jiya Investments. Please go ahead.

G Vivek: Sir want to know is that Indian consumer really slowing down and what about the Tier-3, Tier-4 cities in response, thanks to the increasing road connectivity, which we were expecting more and when can things improves Sir?

Rahul Gautam: I wish I had answers that you are wanting. I cannot say that the Indian consumer is slowing down, but I mean there is definitely a sense of uncertainty, which is there. Now I do not know if this will kind of continue till the elections or not, though the consumer is not impacted so much, honestly I do not have a clear answer on the future behaviour of the Indian consumer, on a macro level, on a fundamental level it all looks alright and therefore it has to be okay.

G Vivek: What about the increase in competition intensity, many brands coming up, Sequoia bed, Wakefit one of the example, which comes to mind and online they are making good progress?

Rahul Gautam: It is for sure, there is a lot of activity in this field. At the moment and may be for the next few years I think more the activity the better it would be for everybody from two points, number one because there is a huge unorganized sector and therefore there is no dearth of volume for anybody whoever sort of make it can take that volume. The second part is that competition will always sort of improve you to bring down implementation hurdles to make you far better as far as all the aspects of business are concerned. So I think this activity is long overdue should have happened and for the next many years I do not see this as a negative thing and in fact I see that as a positive one. On the e-commerce part of it whether it is Wakefit or Sunday or a few brands like that, I think they have a role to play, but it is a small role to play and will probably keep burning cash.

G Vivek: Last question is about the B2B segment technical foam Sir, there the slowdown is quite severe or hopes are there for that Sir?

Rahul Gautam: So I presume that the biggest sector of course is the auto sector and as far as that is concerned everybody knows about it, as much as I would, it cannot also last forever, the slowdown over the previous few months, it has to catch up, but there are many sectors where possibilities of our products being used are there, which means newer segments and import substitutes all that, so as an overall picture these segments will continue to grow here.

G Vivek: What was the response in furnishing that the karigar sector, which are you trying for target, furnishing, sofa, and directly our own brand Sir?

- Rahul Gautam:** So the response is good, I think all positive things are there, but you know, as I was saying that fundamentally everything looks good, eventually for the stakeholders it has to convert into growth and that we are beginning to see, has it happened no, but will it happen for sure it will you know, you are trying to sort of get that unorganized, which is a huge unorganized sector into an organized one, it will take a little bit of time, but it will happen.
- G Vivek:** Thank you.
- Moderator:** Thank you. The next question is from the line of Kishan Shah from Isha Securities. Please go ahead.
- Kishan Shah:** Sorry Sir. I just had a little bit of clarification, the TDI prices currently are at Rs.154 per kg right?
- Rahul Gautam:** It is right.
- Kishan Shah:** Our average procurement price was Rs.255 per kg?
- Rahul Gautam:** For the previous quarter.
- Kishan Shah:** That is for the previous quarter.
- Rahul Gautam:** That is Q3.
- Kishan Shah:** And Sir could you give any reasons like why has this fallen, is it due to any technical reason or just market process?
- Rahul Gautam:** So it was at an unstable high position, which was created over the past two years because of shortages happening on some account or the other, so few of the glitches that have been removed, newer capacities have kind of come in and that is the reason that this price is now back to normal, so I am presuming that this is a normal Rs.5, Rs.10 here and there is, it should be stable here yes. So it just comes back to its normal position.
- Kishan Shah:** Fair point and you mentioned new capacity, so is that in India or like globally?
- Rahul Gautam:** So not in India, but globally.
- Kishan Shah:** That is it from my side. Thank you very much.

- Moderator:** Thank you. The next question is from the line of Harish Shiyad, an Individual Investor. Please go ahead.
- Harish Shiyad:** I have one question and one suggestion or request whatever you call it, the question is on the TDI cost element in to our profit & loss account, I just see your material cost to sales is around 57% for last two, three quarters and year or so, how significant is the TDI cost is sitting into this 57%?
- Dhruv C. Mathur:** So as you have stated that the impact of TDI will come from the coming quarter because we are stocking it, so you are not seeing much impact of TDI price change in the corresponding three quarters.
- Harish Shiyad:** I am asking out of 57% what benchmark of say Rs.200 in case of TDI is.
- Dhruv C. Mathur:** Around 20% of our revenue was TDI.
- Harish Shiyad:** That means around 15% to sales is TDI cost?
- Rahul Gautam:** No, 20% to the sales was the TDI cost.
- Harish Shiyad:** I got it and my request or suggestion what it maybe I see lot of questions been asked on the volume price, market TDI prices, this thing, that thing, a lot of clarification, questions have been asked, I would suggest that why cannot you give on quarterly basis some press release or some small presentation clarifying all those factors what you are giving on a call that will give you more visibility to investors and the small people like us to get these information on the website or on your side as such?
- Dhruv C. Mathur:** Sir we had started from the beginning giving the TDI prices on our website on month to month basis, when the prices are not normal, once they got stabilized.
- Harish Shiyad:** Sir I am not talking about TDI, I am talking about your own performance in terms of price, volumes and the EBO convert into CBO, all those things, your strategies and your numbers converting into some meaningful information to the investors to know where company is going and where it is headed now?
- Rahul Gautam:** Harish I think it is a good suggestion and what you are saying is that besides the call if we can make a small little this thing and put it up on the website, which is exactly the same.

- Harish Shiyad:** Before the call starts then a lot of questions will be eliminated and lot of good companies what they do they put the presentation first on the public domain and then come for the call, they need not ask you and you are clarifying the same thing again and again.
- Rahul Gautam:** No it is a good suggestion, I think we will definitely see that what we can do on this, we will get that up.
- Moderator:** Thank you. The next question is from the line of Trupti Aggarwal from WhiteOak Capital. Please go ahead.
- Trupti Aggarwal:** Thank you Sir. Thank you for this followup question opportunity. Sir I have two questions, one is again coming back to the MBO conversion to EBO strategy, I wish to understand that what is the potential in terms of the number of MBOs that can be converted into EBOs that is over next three to five years, what is that number is, would you be able to give me some sense of how many MBOs?
- Rahul Gautam:** So I think our current target for this year is about 4000 and for the next year is 5000 that is up to March 31, 2020, but I hope you will appreciate that as we go forward this rate is going to keep going down because there is a fine set of EBOs and there is a particular format, competitive format that we will have to look at every market before establishing, so let us say that beyond 5000 it will be a slow addition.
- Trupti Aggarwal:** Sure, got it and then we did some channels like we spoke to some of your distributors, the different formats of Sleepwell gallery world and I must tell you that everybody simply appreciate seeing a part of your family, the Sleepwell family, what I wish to understand is that the conversion for them are in the range of 30% to 50% when I last interacted with you guys what I understood was that there were some BTL activities and some special efforts that you are going to put in terms of advertisement and marketing to improve one, the footfall to these stores and to the conversion, can you please talk a little bit more about these initiatives?
- Rahul Gautam:** Trupti, first of all, let me thank you for really going to the depth of an issue and daily interacting with the Sleepwell world in the galleries and coming out with this question and that is the key to the sales, which is increasing the footfalls and then the conversion part of it, so attracting the consumers or customers we are doing that with the ATL activities and BTL activities and the conversion part of it we already have a program on where the training and the products training and the interaction with the consumer, knowledge about the process, etc., all that is being carried out dealer by dealer or retailer by retailer it is a

long drawn process, we tried to get a few of them together and then kind of impart the training and therefore that take time, but the focus is on those two areas.

Trupti Aggarwal:

So Sir, just because I am tracking your company so closely, I am very curious to know where are these advertisements that I can see because (inaudible) 53:24 commercial, which probably is not relevant for your kind of product, but there are these advertisements and all these activities as a consumer can I see, I do not see that enough, but for the fact that I do see exclusive Sleepwell outlet all over the country, but what are these advertisements and all, how I can see them, where do you do these activities?

Rahul Gautam:

So may be, one for sure that whatever advertisements that one does it never enough, the concentration or by our category or it is not so much, but many other categories, the frequency and all that is so much more that one would tend to get kind of swamped; however, we still do that and maybe offline we will share the entire plan of where all and how all and whenever we are doing a campaign or whenever we are doing some activity on that we can put you on the list of people who would be aware of it and will do in advance that this is happening and it will be great to have a feedback on that plus the impact of it from a person like you, definitely we will do that.

Trupti Aggarwal:

Thank you Sir. I appreciate that. Thanks a lot.

Moderator:

Thank you very much. Ladies and gentlemen, as there are no further questions from the participants, I would now like to hand the conference over to the management for closing comments.

Rahul Gautam:

So let me begin by thanking you all for all the questions and what keeps surprising me that every time there is a newer insight and there are newer questions that come up and I know that we do answer them and I hope that they are to your satisfaction. I must apologize for some questions to be answered offline as we do not carry all the data along with us and I must also add that with the team here we tend to add a lot of value to ourselves with these questions and definitely answer some more at our end for the improvement part. As I said in my opening remarks, going forward I do see that the quarters henceforth are forward because all the raw material prices, high prices, all that part is kind of over as we go forward, the impacts of GST and demonetisation, which are kind of forgotten, but still continue to have their impacts are increasingly lesser and lesser and therefore this shift from unorganized to unorganized to see that will get more and more kind of pronounced, so ladies and gentlemen, thank you very much and look forward to catching up with you again, one with offline wherever it is needed and second definitely in the next call. Thank you.



Sheela Foam Limited
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Moderator: Thank you very much Sir. Ladies and gentlemen, on behalf of Edelweiss Securities that concludes this conference. Thank you for joining us. You may now disconnect your lines.