



8<sup>th</sup> August, 2023

To

The BSE Limited  
Phiroze Jeejeebhoy Towers  
Dalal Street, Mumbai-400001  
Scrip Code: 540203

The National Stock Exchange India Limited  
Exchange Plaza, Bandra Kurla Complex  
Bandra(E), Mumbai-400051  
NSE Symbol: SFL

Subject: Transcript of Investors' Conference Call for Quarter ended 30<sup>th</sup> June, 2023  
Financial Results.

Dear Sir/Madam,

Please find below the transcript of Investors' conference call organized on August 03, 2023 post declaration of Financial Results for the quarter ended on 30<sup>th</sup> June, 2023 for your information and records.

Thanking you,

Yours truly,  
For Sheela Foam Limited

Company Secretary & Compliance Officer

**SHEELA FOAM LTD.**

#14, Sleepwell Tower , Sector 135, Noida- 201301

Ph: Int-91(0)-120-4162200 • Fax: Int-91-(0)-120-4162282, 4162283 • Email: [contactus@sheelafoam.com](mailto:contactus@sheelafoam.com)  
Regd. Office: 604 Ashadeep, 9 Hailey Road, New Delhi-110001, India • Ph: Int-91(0)-11-22026875-76

Toll Free: 1800 103 6664 • [www.sleepwellproducts.com](http://www.sleepwellproducts.com) • [www.sheelafoam.com](http://www.sheelafoam.com)

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“Sheela Foam Limited  
Q1 FY ‘24 Earnings Conference Call”  
August 03, 2023



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

**MODERATOR:** **MR. SUMANYU SARAF - JM FINANCIAL**

**Moderator:** Ladies and gentlemen, good day and welcome to Sheela Foam Limited Q1 FY '24 Earnings Conference Call, hosted by JM Financial.

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 this conference call, please signal an operator by pressing star, then zero on your touchtone phone. Please note that this conference is being recorded.

I'll now hand the conference over to Mr. Sumanyu Saraf from JM Financial. Thank you, and over to you Mr. Saraf.

**Sumanyu Saraf:** Thank you. Good afternoon, everyone. We would like to welcome the management and thank them for this opportunity. We have with us Mr. Rahul Gautam, Chairman and Managing Director, Mr. Rakesh Chahar, Whole-Time Director, Mr. Tushaar Gautam, Whole-Time Director, Mr. Nilesh Mazumdar, CEO India Business and Mr. Amit Kumar Gupta, who is the Group CFO.

I'll hand over the call to Mr. Rahul Gautam. Thank you, and over to you, sir.

**Rahul Gautam:** Thank you, Mr. Saraf. Thank you very much for hosting this call for the Q1 FY '24 results of Sheela Foam and I also thank JM Financial for that. Welcome to all the investors and the participants and a very good afternoon too. It's my pleasure to be presenting this quarter earnings.

Let me first begin by sharing with you that or recollecting with you that recently on July 19, we had another investor call and that was when the company made the announcements of acquiring Kurlon and Furlenco and I'm just happy to communicate to you that both the acquisitions are progressing well and we should be closing them soon well on-track.

I also thank all the investors for helping us and supporting us as far as our investment is concerned or these acquisitions are concerned. And also to say it once again that this would help your company to become a substantive player in mattresses and also make its foray into the furniture business.

As mentioned to you on the 19, July call, this move will not only benefit the company but will also benefit the entire industry and the complete value chain of the mattress and the furniture industry. For the industry, it will definitely make a move of converting the unorganized players to the organized ones and for the consumers, which is the other end of the value chain, the choices will become crystal clear and help them go through a painless journey of selecting a mattress.

Coming back to this quarter, the results of this quarter, let me share the performance both of India stand-alone as well as the consolidated performance. I must start on a happy note, saying that after a long time the raw material prices have really started rationalizing and coming to their normative levels and this is after probably about seven quarters or eight quarters. And now, whatever levels that they are in, we can easily make out and with all the other information that we have from the supplier side that these prices, the low prices, the steady prices are here to stay for some time.

I recall that TDI was as high as about -- just a couple of quarters away was as high as INR274 and now it's down to about INR185. Similarly, the Polyol with almost closer to INR200 and now it's down to INR116 and we have always believed that these are the levels that it should be and very hopeful that they will remain there.

Let me also share with you that post-COVID and the stabilization process that took after in the ensuing months, the company waited for this time and actually took a bold step of rationalizing our products and this was primarily on the mattress side, where we were competing on the e-commerce at extremely low prices, in fact they were loss making products that was there. You know how the e-commerce works, which is just to give discounts and keep increasing the topline. And when the raw material prices have come down, we said this is the right time for us to rationalize this and therefore we took a call to increase the prices of SleepX, however, that was not to stay because that's not the nature of the game and realized that it was Sleepwell brand of mattresses that need to come in there.

We had by that time learned how to cater to the offline and online conflict and therefore, slowly the SleepX mattresses started coming down and Sleepwell have started going up. So I must say that again, the very nature of the e-com business, it may appear from the records that the number of mattresses fallen down dramatically, but these are all mattresses which were loss making SleepX stuff. And the good news is that Sleepwell, which are profitable, which we now know how to deal with on the e-commerce side have started growing in number. And in this process of course the profits have been impacted -- and has been positively impacted and have grown.

Similarly, I must also share with you that the raw material prices, because they came down very steeply, there is also a sizable business of the company which is either on the cushioning of the core side, as well as on the B2B side, where the prices are related to the raw material prices. And everyone is aware of raw material prices, therefore, the selling price has come down, the profit has gone up, but not yet gone up to the extent that it can go and the real impact would be seen in the coming.

So as an overall situation, what you see is that the topline may have partially or partly been eroded, but the bottom-line continues to be strong. In fact, we have reported a standard India business EBITDA levels of 13.3%, and overall on a consolidated basis of 12%, because the same story was playing out in Australia and in Spain too.

And in the same breath I add that, in spite of whatever the challenging times that have been, the selling prices may have come down, but the tons or the quantum of material that we make are completely intact and there is no loss in the market share whatsoever, in fact it would have gone up. So with these few changes that have happened, and those are important ones, I just repeat that the Kurlon and Furlenco acquisitions are on track and soon, we should be seeing all the benefits that will come as soon as the transaction gets over. The raw material price is coming down, and all the indications of them being steady and low for a long time to come indicate that the topline may appear to be going down, but the bottom is going to be good and strong.

And the third is the move by the company, to say that whatever has been loss making proposition for me, not going to continue to that, but replace with a long impacting and long continuing Sleepwell brand as far as the e-commerce market is concerned.

So with those words I thank you. Thank you once again and I'm open for questions.

**Moderator:** Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Nihal Jham from Nuvama. Please go ahead.

**Nihal Jham:** Sir, my first question was to be sure, did you mention the fact that one of the reasons that there has been a reduction in mattress revenues and volumes is because we downsized SleepX online and that is primarily the reason whereas Sleepwell as a brand has grown volumes and absolute revenues. Was that the right interpretation?

**Rahul Gautam:** So I would say that Sleepwell as a brand is definitely held up with volume and may have marginally increased. However, it is true that SleepX we have consciously started reducing from selling on the e-com because it was not a profitable business. You know how e-com works where you just keep giving discounts and everyone down there is making a loss. We don't want to do that and therefore we have shifted to the Sleepwell side, but obviously the Sleepwell will take a little bit of time, but it is -- I can only say that day-by-day it is increasing as far as e-commerce is concerned.

**Nihal Jham:** Okay. So does SleepX as a brand continue ahead online or you plan to phase that down?

**Rahul Gautam:** I think it will fade, it will automatically phase out because when you make it profitable, the price that is there, the people don't understand that and they will not. However, with Sleepwell that is not a problem. So I think that SleepX will go down once you put it at the price or when do you have put it at a price that it should rightly be.

**Nihal Jham:** Sure. So the reduction in the SleepX contribution has also been a driver of the gross margin improvement in the India business. That would also be one of the aspects, right?

**Rahul Gautam:** One-off, yes, absolutely. It's one of the aspects and the other one, of course, which I said is the raw material prices going down. But primarily it is this part and of course a bit of rationalization on the cost structures and other things that you would see on it.

**Nihal Jham:** Would it be possible to give a ballpark bifurcation for this gross margin improvement in India because we don't see that, say, in fact -- in Spain, in Australia, which also would be using TDI and Polyol. So is it right to assume that majority of this improvement at least for this quarter is because of the reduction in the SleepX contribution?

**Rahul Gautam:** So both have different phenomena. But however, definitely we will give you the breakdown. Amit, can you just make a note of that and send Nihal all the details of which is the bridge, which has contributed to the increase in EBITDA levels as far as India is concerned and also as far as the global participants.

**Amit Gupta:** Sure.

- Nihal Jham:** Just two more questions if I could very quickly that you have not shared the volumes for the mattress business in this presentation or if it's possible for you to give a number? That would be very helpful.
- Rahul Gautam:** So generally, we're not doing that, but specifically you have asked this question. So Amit please also that we give that breakup to Nihal immediately after the meeting.
- Amit Gupta:** Yes. So Nihal can you please repeat what you are asking for?
- Nihal Jham:** I was looking for the volumes for the mattress business which you're reporting to last quarter. I'm not sure if there has been mentioned, but could not see in the presentation that you uploaded. So if you could just give a sense of that it would be helpful.
- Amit Gupta:** Nihal, there is a challenge that we face. You know that we already stated that these acquisitions will be funded with a mix of debt and equity and when you do it equity transaction all the information that you put up in the presentation have to be published in the information memorandum for which a lot of certifications etcetera are needed. So we have tried to basically get as much information as possible, but volume information is something which like needs a lot of deep dive into the internal systems of the company to certify. And that's why we have just taken it out for this particular quarter. Next quarter onwards you will have all the information, whatever you have been receiving in the past.
- Rahul Gautam:** In the meantime as far as Nihal is concerned, you can share the ballpark numbers here. It's all right.
- Amit Gupta:** Okay, sir.
- Nihal Jham:** Just one final question was that, it's been just I think a few weeks the transaction was announced. But if you want to highlight anything more on the potential revenue synergies, you highlighted the cost synergies in the last acquisition call, but any revenue synergies that you would want to highlight to, and I will be done.
- Rahul Gautam:** All right. So I just wanted to say this that there is a lot of overlap as far as the number of products are concerned on either with both the brands. And that only creates more and more confusion in the market. But the basis or the big -- the background for that is that each brand needs to or has to cater to the full range. The moment I make each of the brands absolutely crystal clear as to what their positioning is, the consumer gets a clear message and can painlessly negotiate through the entire range and buy what he or she wants, that's one.
- The second part is that because of regional or zonal strength of each brand which exist, the other brand can leverage that as we go forward. So if you say South is extremely strong for Kurlon, North is extremely strong for Sleepwell, both can leverage those and thereby increasing the total revenue, increasing each one's revenue and then increasing the total revenue.
- Moderator:** Next question is from the line of Ritesh Shah from Investec. Please go ahead.

**Ritesh Shah:** Sir I have like few buckets of questions. First one is on capital structure and cash flow fungibility. So, we have taken enabling resolution of INR1,200 crores, INR600 crores on equity and debt. Sir, my question is what is the threshold that you will be comfortable with on a net debt to EBITDA basis. Is there a particular number that we have in our mind, how are we looking at that?

**Rahul Gautam:** So Amit, would you take that question. Although, I know that we have fixed the debt that we want to raise and the EBITDA levels are known. So I think if you take a combined EBITDA I think there would be of the order of some INR250 something, INR250, INR300. But maybe you can be more accurate, so about 1.5 years or 2 years of debt is what we have taken. But, Amit just...

**Amit Gupta:** Yes, I'll take it sir. So Ritesh on a combined basis, we hope that financial year '24 should end somewhere around 2 times to 2.5 times and in subsequent year with the prolonged profitability coming back, they should come down to less than 1 times. So we have been quite conservative on our debt profile, primarily because we didn't want to raise debt at the cost of deterioration of our ratings.

**Ritesh Shah:** Sure. And this is net debt right sir. Net debt to EBITDA?

**Amit Gupta:** Yes. Net debt to EBITDA.

**Ritesh Shah:** Sir Rahul, just to continue with the question how are you approaching the business. My specific question comes because Furlenco we have taken 35% stake, and I'm sure basically the intent would be to increase the stake eventually, and it's not something which is a profitable asset right now and the outgo is significantly higher.

So, when you allocate capital, are you looking at Furlenco and refurbishment together as one silo Kurlon and Sheela Foam the mattress part of the India business as one silo, technical foam India is one silo and overseas business as one silo. So the question is more from a cash flow fungibility standpoint and specifically, given we have Furlenco which is not making money at this point in time. So what's the thought process, sir?

**Rahul Gautam:** Let me first begin by talking about Furlenco. And as I said that we are not that new age business where you just run after the top line and burn cash. So we have ensured that Furlenco turns EBITDA positive by October and if we were not confirmed that we won't do it and before by December, it should turn PBT positive.

So having said that after us investing and this is primary investments into the company, our projections are that there will be no need for any cash as far as Furlenco is concerned. Therefore, there would not be a need for any more allocation to it. It may still have a little bit of a debt, which may be a bit higher than normal bank rate but the moment it gets into that situation, it will be in a position to get money from any of the banks at very standard rate, but for continuing it would not need any more cash infusions into the Furlenco.

And as far as looking at the businesses are concerned look, I go back to my -- probably it was the last time statement that both businesses though appears different as far as the front-end part

is concerned and as it though appear different, at the back-end are pretty well integrated because the major ingredient which goes into them is polyurethane foam, which the company does very well in or has the experience to do too well in and that's the genesis of both the businesses.

Come to the front-end part, again, the opportunity to put the furniture onto retail showrooms so that the touch and feel factor comes in and it also helps to grow the Furlenco business beyond just the rental part that it is doing today. So there would be connection, they will be definitely a separate corporate entities, but there would be a connection between them.

**Ritesh Shah:** If I may just continue on Furlenco sir, is there any timeline by which we are looking to increase the state to say 100% and what are the voting rights do we have right now?

**Rahul Gautam:** So on the Board we have majority of three versus -- three is ours and one is the promoter group and one more is the PE fund, which is there, which will be reducing. And to the time that it reaches 10%, then that position in the Board will be extinguished. And therefore there would be total control of it even with a 35% share that we have. Beyond this, we have an option with us, which is another 9% at the same valuation, which we can exercise within one year. That takes us to 44% and amongst, I mean that is as far as the primaries are concerned.

Then coming to the secondary part, there are multiple of them who are ready to, I mean there are totally from 67 or 71 small investors and there are many of them. So they are, I mean we are in talks but at the moment, we don't want to invest beyond this, we want to take it to the profitable position and then look at, but definitely moving to majority position even on the shareholding part.

**Ritesh Shah:** Sir. I have a couple of more questions. Can I continue, or I can join back the queue, sir.

**Rahul Gautam:** I am not the decider, but I think, let's the moderator decide that. I'm okay.

**Moderator:** Sir will you come back in the question queue for a follow-up question?

**Ritesh Shah:** Sure.

**Moderator:** Next question is from the line of Nalin Shah from NVS Brokerage. Please go ahead.

**Nalin Shah:** First of all, let me just congratulate on the acquisition of Kurlon, which is a prime. I would say that the branded product company, and I am sure that under the leadership of Mr. Gautam it should do extremely well in that time to come. Sir, I have some few questions like this. That one, what is going to be the structure of this company? Are you going to take over the Company fully, but are you going to maintain it as a subsidiary company? And then, I mean, take a call on the merger of the two companies or how it is going to happen. So that is one.

Secondly, what is the funding pattern for the entire whatever some INR2,150 crores or something, which we have seen from the newspaper reports.

Thirdly, I want to ask is that, what is the kind of topline addition you envisage from day one, because it's a running company and how do you feel that it is going to add a lot of value. I am sure that your position as a mattress manufacturer in the country is going to be very, very prime



and that should give you a huge lead over most of the others, and it should become a very profitable transaction in the times to come. So if you can just highlight some of the things that will be great.

**Rahul Gautam:**

So number one towards the question you asked about the corporate structure. At the moment when we are beginning it will be a subsidiary of Sheela Foam and post the stabilization maybe in a couple of years' time, we would consider merging the two together. But at the moment it will be a separate corporate structure, 100% or 95% right now and the balance 4%, 5% are also in the process of being acquired, so it will be a substantial subsidiary of Sheela Foam.

On the funding pattern, so we need about 2050 for Kurlon for the 95% and we need another 300, but that makes it 2350 and on our books we have cash available of about 850, leave 50, 60 behind, 800 from there, 600 that we raised and the balance QIP which will be of the order of about 1,000. That's how it should be.

And the third question that you asked was how much top line will be added. So, I mean, just a ballpark figure I would say about INR1,000 crores would be added.

**Nalin Shah:**

Okay. And sir, can you just give us some idea about what is the full potential of this acquisition, because as I understand, some 11, 12 plants all over the country and more or less you are having entire footprint on the Indian markets. So at a full capacity utilization what kind of numbers you are talking about?

And secondly you said that 5% are and pulse of accretion. So other than promoters who serve the shareholders you will be giving some open offer or how are you going to do that?

**Rahul Gautam:**

Okay. So let me answer the second question first. That is the 5% part that's also amongst the extended family and they have said it is the availability, non-availability, etcetera, but it is up to them. They have given -- and it's a part of our understanding that they will acquire it and hand it over to us at the same price as soon as it happens and they have taken a couple of months for that.

And the second question that you asked was on the number of companies and production facilities that are there. I just wanted to say recollecting totally with both companies put together, there would be 20 such establishments across the country. The good point is that none of them are co-located into any particular city. Therefore, there will be no overlaps and then what is best suited from each of them to the market, we would drop that structure as soon, I mean all that is being actually worked out. So that's how it will be.

**Nalin Shah:**

I feel that Sleepwell has got I think very, very good deal on the platter and I'm sure that you are going to make the, I mean really make this acquisition very, very value creative kind of acquisition.

**Moderator:**

Next question is from the line of Anik Mitra from Finartha. Please go ahead.

**Anik Mitra:**

My first question is post this acquisition what will be the product mix?

**Rahul Gautam:** So, we will first take the current on acquisition and therefore just say that whatever is the current product mix of Kurlon and the product mix of Sleepwell, they are virtually similar in nature. I mean, in the sense, these are consumer products. Therefore, the brands are separate, the model names are separate, they are priced differently and they are supplied to the country differently.

The real advantage would be that one, I mean in a very diverse country like India, one consumer brand is not enough to take care of everything and therefore both these together, but product mix I mean if you really go down to hardcore breaking it down, look at the bills of materials, etcetera, well, very similar. But what they communicate and what they convey and what they make the consumer perceive are the brands under which they're sold.

**Anik Mitra:** What I mean to say in terms of product mix is like how much will be the contribution from foam-based mattresses and how much from the rubber coir-based mattresses in your top line like any ballpark figure?

**Rahul Gautam:** So let me say, if I look at the current position, Sleepwell has about 60% foam and Kurlon has 40% foam. And of course, there are some small things which are of for spring, then latex and EP. But by and large, it's 60% or 70%-30% foam rubberized coil for Sleepwell and about 40%-60% for Kurlon.

**Anik Mitra:** Okay. Sir my next question is, what would be the capex for FY '24 for and FY '25?

**Rahul Gautam:** I will have to hand you over to Amit, what are the projections for FY '24 you would know, but FY '25 that I don't think we have made any business plans as yet. But Amit you can.

**Amit Gupta:** So, post the acquisition of Kurlon, as you would have now seen, we just have a very more deeper penetration and covering a lot of more white areas across the subcontinent. So the primary reason why we expand capacity is basically to increase our footprint, setting up a facility for capacity is not that system. We always have surplus capacity for our plants. So once both these combined together and our need for further expanding to cover more white areas reduce to an extent, we believe that we would not be required to do any incremental capex until and unless there is an incremental opportunity being presented for something alternative.

The only capex that will happen going forward at least for the foreseeable future would be maintenance capex which for Sheela Foam would be in the range between INR10 crores to INR20 crores and INR10-odd crores maybe for Kurlon. But there would not be any plan setting capex except for exceptional opportunities that come our way.

**Anik Mitra:** Okay. And my final question is, what is your current capacity utilization in Sheela Foam?

**Rahul Gautam:** So, as far as capacity is concerned, each of the plant has a very large capacity. The reason for setting up another plant is because it is at a distance it is closer to the market. So, we could supply it from an existing plant, but the transportation costs would go up and therefore you need to set up another plant. And with the spread that we have, I mean I can easily say that whatever both the companies are producing, we could easily produce 4 times this material and be well positioned to cater to that.

- Anik Mitra:** Got it. And sir, like what is the debt in the books of Kurlon?
- Rahul Gautam:** So what we are requiring the company is based on a debt free cash free basis, so there will be no debt.
- Anik Mitra:** And sir in Q1 FY '24 like we have witnessed a significant drop in the other expenses part. So it used to be 15% -- means last year same quarter it was 21% of the top line. This quarter it is 15% of the topline. So sir, what made this difference?
- Amit Gupta:** Look at other expenses, last quarter we had to take a hit around foreign exchange fluctuations, which was to the tune of INR10 crores plus, so that has gone away this time. In addition, I think we were giving up SleepX brand like since we anticipated there will be a reduction in volumes because of this we had put a control on all the indirect expenses that was there. All these together has led to a major reduction in other expenses, most important of them being the foreign exchange fluctuations, which was a one-off item last time.
- Moderator:** The next question is from Ritesh Shah from Investec. Please go ahead.
- Ritesh Shah:** I have a bucket of questions. First one is, sir, you did indicate the rationale on Kurlon. We completely buy into the agreement of products and regional brand strength, but, sir if I just have to push you a little bit to understand, how will the volume growth numbers move beyond some of parts. So A is fine, B is fine, but obviously we want something more than A plus B. So sir, how should we understand this?
- And a related question over here is, are we planning anything specifically more efforts on A&P, S&P to actually towards category creation for mattress as a segment?
- Rahul Gautam:** Okay. So first on the volume increase and beyond the sum of parts. So I think I remember somebody else had also asked this question and that besides the clarity that would come to the consumer and therefore the drive what the tension to buy more, it's the presence of each brand in a particular geography and the availability of the other one to be able to because it's already present there. I mean for Sleepwell to go down south more stronger to go east more stronger for Kurlon to come to the North stronger and come to West stronger. And that is how that some of, I mean the growth in each one of them would be much more than from standard annual growth, which have been there. And therefore that some of that will be greater than what it should be.
- The second question that you had on spending on the marketing expenses. So for sure, I mean in general I can just say at the moment that the cost synergies or the cost reduction synergies that will come about will provide us enough money or enough kitty to advertise in both the brands as we go to advertise more for both the brand as we go forward.
- Ritesh Shah:** I will just drive a little bit. You indicated on the clarity which comes to the customer, right. But sir, as a layman, honestly, when I get into the shop, I don't know what a rubberized coir or a PU foam is. So two brands, very, very strong. I will still end up buying one of the two brands. But how do I get to A plus B plus something. So I'm just not able to comprehend that. If you can give a simple example that would be great. And sir on A&P spends historically our number has been around 3%, 3.5%, which has been pretty high when we look at it on a standalone basis, in

line with other companies. So, if I had to look at the effectiveness of this A&P spends, how do we gauge it or are we looking to do something different, specifically with Mr. Nilesh joining us on his background at Pidilite.

**Rahul Gautam:**

So while I will request Nilesh to prepare for responding to the marketing expenses and go into 5 etcetera, we let him do that. But I will go back to try and explain to you that, how would that clarity come in. Number one, globally mattresses are also known by the materials that they are built on. So there are spring mattresses, there are foam mattresses, there are latex mattresses and then there are air mattresses, etcetera.

That's how the world is also divided. Cut to India, India, we also have rubberized coir mattresses, foam mattresses, spring mattresses, latex mattresses are virtually gone now. So these are the three categories that exist. The way that each brand has grown, Kurlon has grown as a rubberized coir mattresses and that is what people understand. I'll come back to your question about using that you being a customer, you don't understand the difference between the two. And similarly Sleepwell which has grown as a foam mattress or is a foam product is the foam mattress, that's how it is understood.

Ritesh, I do not know about you but when a consumer takes a decision, there are two aspects to it. One is the brand that he or she looks for which I would put the percentage as 50% and 50% I would put is based on the trade, on the retailer. The retailer has at least a 50% influence on deciding what.

And as far as the trade is concerned and the retailers are concerned, completely understand and know that what is a rubberized coir mattress and for whom this is better and for whom the foam mattress is better. Plus we go ahead, we're going to drive these differences sharper, which means that all the advantages of rubberized coir would be advertised and so it will be, you would then Mr. Ritesh Shah will be a better informed consumer to say look, I want the natural product or I want an immunity or hygienic product or I want something firmer or I want a green one or I want it. Once those things are clearer, you will make that choice much quicker and much better. So we expect that it's how the market will evolve as we go forward.

Nilesh, would you please take that question.

**Nilesh Mazumdar:**

Yes, I'll do that, Rahul. I will just try and also respond to your question about how brand A and brand B combined together will become larger than the part. You see that even after -- come together, there is a significant amount of opportunity, which still remains in the marketplace, which is in essentially three different areas.

One is that there is still a large unorganized sector and therefore when I gain share from the unorganized sector, I need to invest on creating far higher brand saliency and brand saliency for both the brands. There is obviously also share gain from some of the national organized players.

And the third leg, which we have spoken about in the past, which is about category creation, which is to upgrade the non-foam that the cotton users, the cotton mattress users, etcetera and upgrade them into an entry-level foam mattress.

Now in order to do these activities what is required is to invest on consumer communication. And as I look at things as we move ahead that the economies of scale that we will be able to derive at the back-end and also some of the economies that we will get from the go-to-market strategy channel that we have that will help me in building and investing in brand and brand saliency. So anywhere between 4% to 5% would therefore be the marketing spend, without compromising on the EBITDA level.

**Ritesh Shah:**

Rahul sir, just couple of questions. Sir, Jabalpur expansion, which was due in June, are there any timelines and we had earlier spoken about mattress for every Indian that was also expected something by June, any specific updates over here. And if you would like to spell something out on the progress on the Indian Railways side, those are the last two. And I suppose the third one, sorry.

**Rahul Gautam:**

Yes. First, on the Jabalpur one, the installations are going on, commissioning is going on. And at the same time by June we have already begun piloting in the market. We've already got our first reports, they are extremely encouraging and we expect everything to get kind of streamline by about September-end or October that it should have. However, nothing is, as I've said, nothing on the marketing side is getting stopped and as far as the commissioning part is yes, it continues to or it was a little more delayed but it's in full swing and full progress.

And the second question that you had was on the Railways. So Railways we continued to supply to them. But it's also true that there is increased competition as far as railways are concerned and there are I mean it's a constant process of upgrading and technically improving the products over the others and the others continuing to sort of catch-up and be able to supply to the Railways. But we are the the flagship suppliers, we are the foremost suppliers. We continue for all their prestige projects. They continue to buy from us and that's in progress.

**Ritesh Shah:**

Sir, exports. Any specific numbers on exports?

**Rahul Gautam:**

Exports. Okay. So Ritesh, exports are going through a bit of on metamorphosis. Besides all the other issues of supply chains and logistics and a bit of a recession in the US because US was the main market that we were exporting to. They are also intending to -- they have already announced extremely high anti-dumping duties. So all this haze will clear in about a month's time and they have gone ahead and put mattress or anti-dumping duties on mattresses virtually from everywhere, entire Europe so our Spain facility supplying is also out of question or it will be a cost, will be a huge cost and coming out of India, China, Southeast Asia, etcetera. It appears that the US is moving towards wanting to produce themselves and supply to dealer. We do have very small orders, small quantities small compared to what we had projected. But as I said, the haze will sort of clear-up in about a month's time

**Ritesh Shah:**

Just last two. Sir, would you like to qualify number on B2C. I think last year you had indicated, we did around INR100 crores plus, but you also did indicate that we will slowly get SleepX out with focus on profitability. So, over the longer run, how should we look at this particular segment, which has been contributing something, that is one.

And the last question is, I think there was a fire incident that is the exceptional item which is booked around INR11 crores, what was the source, any mitigation variables that we are looking at? And was there any loss in business or revenues on back of that particular event?

**Rahul Gautam:**

Yes. So one is B2C business of INR100 crores that you're talking about, right? And that's the one that I referred to which we were selling under the brand, SleepX and that's, would continued and increased and more intense kind of competition was becoming a loss-making proposition. So we have decided that we will increase the prices there.

And we also understand that that's not a very sustainable proposition and therefore what is sustainable is through the flagship brand of Sleepwell. So the process has already begun. There may be a reduction in the numbers, but it is definitely added to the bottom line and the Sleepwell numbers are catching up and they are increasing day by day as we learn how to cater to online and offline.

On the fire incident, so this was an old unit which was leased to one of our vendors and there was a bit of stock that we had very, very insignificant amount which had the fire incident. There was no loss of life. Primarily, I would say a bit of a learning for us. It is that we have to extend our fire safety etcetera to our vendors and suppliers too. But because we owned that place and that's why it's coming into our place. But otherwise our systems were not there and we were not running it, it was one of the vendors, it has not impacted the supply one little bit, nothing at all, absolutely.

**Moderator:**

Next question is from the line of Mehul Desai from JM Financial. Please go ahead.

**Mehul Desai:**

My first question is specific to Sheela Foam, I mean let's keep our loan acquisition outside. Given the first quarter you have seen almost 7%, 8% kind of revenue decline. How do you see Sheela Foam business for FY '24. Are you internally targeting double-digit sales growth for the full year FY '24? And is this SleepX rationalization largely done or will we see further impact in coming quarters also?

**Rahul Gautam:**

So first let me go to the side SleepX. SleepX is largely done. Whatever we'll sell at an elevated price we'll sell, otherwise Sleepwell is catching on and the numbers. So in any case for this action as we go forward, we would only have positive impacts coming out of it. There would not be any more negative impacts on that. That's as far as the SleepX part has been done.

As far as the drop in the top line is concerned, I have already explained that. A little bit is on account of SleepX which I said is already kind of done. The other one is on account of the raw material prices coming down and there is a bit of business of ours here in India and Australia and Spain, which is completely related to the raw material prices. So, if it kind of sharply fell, we had to bring the price down for the customer.

However, as I said, the impact on the bottom line will make some impact, but will only improve as time goes by. If the prices stabilize around this, there shouldn't be any more. I may not be able to share with you the numbers exactly what we plan and what we believe, because I think there is a bit of a period when we should be giving any guidance on that. Amit, is that right.

- Amit Gupta:** Yes sir. We cannot make any futuristic objectives.
- Rahul Gautam:** Sure. So I'll not. But by and large I think wherever needed corrections needed to be done have been done and there should only be positive impacts of both these things, both these actions of SleepX as well as raw material prices coming down as we go forward.
- Mehul Desai:** And on the gross margin side, is the full benefit of this fall in input cost in this current quarter gross margins or you would see further benefit?
- Rahul Gautam:** I can only give a general comment on it. I mean that's, Amit, I mean technically I don't know how to answer that, but is it something to do with inventory.
- Mehul Desai:** I think the question here is that upon reduction of cost, is it whatever enhancement need or impact need to add on the gross margins. Has that happened or is there something else.
- Rahul Gautam:** I would say that there would be, there would be something else as we kind of move forward because eventually the raw material that will be used for producing whatever you have already changed your selling price but the raw material prices depends on the inventory, and that will come down. Is that not correct?
- Amit Gupta:** You are right, sir.
- Moderator:** Next question is from the line of Aniket from BMSPL Capital. Please go ahead.
- Aniket Kulkarni:** So, I had a question regarding the acquisition. So can you just give a number as to what will the goodwill be that will be additive to this acquisition and how will this affect the return profile for the company?
- Rahul Gautam:** How will it impact? Can you just repeat that. How will it impact?
- Aniket Kulkarni:** How will it affect the return profile for the company?
- Rahul Gautam:** So Aniket, I think it will be better if we kind of respond to that a little down the line. The reason being that it to the best of my understanding the goodwill is a kind of a residual number after calculating the brand values and the distribution numbers or valuing the distribution etcetera and goodwill is a bit of a residuary number. So we are in the process of calculating that whether it'd be big or large or small we still need to know that and probably the next time we should be in a better position to answer that.
- Moderator:** Thank you. Next question is from the line of Anirudha Jain from HU Consultancy. Please go ahead.
- Anirudha Jain:** Yes. So first of all both acquisition seems to be excellent, great and hope this will create value for all stakeholders. So I have couple of questions relating to the acquisition, sir. So first question is on the manufacturing side. So what I believe is the manufacturing facilities relating to the Kurlon, are this the holding company. Is that understanding, correct?

**Rahul Gautam:** It's a mix of everything, but eventually, that's one of the conditions precedent to the transactions happening. They all have to be transferred to the operating company. You are right. In some of the cases, it is. In some of the cases, it is not. So wherever it is in the name of the holding company, the holding company will transfer it or is in the process of transferring it to the operating company.

**Anirudha Jain:** And the second question is, what will be the combined capacity for the Sheela Foam after this Kurlon acquisition in India and if you can just throw some light on the FY '23 numbers of Kurlon?

**Rahul Gautam:** So we need to yet to receive, but I can make a guess like I don't know. Amit would you have any?

**Amit Gupta:** We haven't got these numbers in an audited form, so we cannot comment on those numbers then.

**Anirudha Jain:** Okay. And the capacity plan sir?

**Rahul Gautam:** Capacity, there is no issue on. As we said that is the business that we are both in, capacities are quite large at all the units. It is just the location of the unit which is important and that's the reason that we would have many more units. So capacities is not a problem. There is enough capacity at virtually all the plants.

**Moderator:** Thank very much. As there are no further questions I will not hand the conference over to the management for closing comments.

**Rahul Gautam:** Thank you, Mr. Saraf. Thank you for conducting this conference and it's really been a pleasure interacting with each one of you and for asking the most initiative questions, as always. It's been a learning exercise for the entire team and we hope that this process continues forever. So thank you very much and wish you a very good evening. All the best.

**Moderator:** Thank you very much. On behalf of JM Financial Limited. That concludes this conference, thank you for joining us. You may now disconnect your lines. Thank you.