



“Sheela Foam Limited  
Q1 FY2019 Results Conference Call”

August 10, 2018



**ANALYST: MR. ANAND MAUR - ICICI SECURITIES LIMITED**

**MANAGEMENT: MR. RAHUL GAUTAM – MANAGING DIRECTOR – SHEELA FOAM LIMITED**

**MR. DHRUV C. MATHUR - CHIEF FINANCIAL OFFICER – SHEELA FOAM LIMITED**

**MR. RAKESH CHAHAR – DIRECTOR - SHEELA FOAM LIMITED**

**MR. TUSHAAR GAUTAM – EXECUTIVE DIRECTOR – SHEELA FOAM LIMITED**



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**Moderator:** Ladies and gentlemen, good day and welcome to the Sheela Foam Limited Q1 FY2019 Results Conference Call, hosted by ICICI Securities Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “\*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Anand Maur from ICICI Securities Limited. Thank you and over to you Sir!

**Anand Maur:** Good evening everyone. It is a pleasure to welcome you all on behalf of ICICI Securities to Sheela Foam Limited Q1 FY2019 earnings conference call. We have with us on the call Sheela Foam Limited Management represented by Mr. Rahul Gautam, Managing Director, Mr. Dhruv Mathur, Chief Financial Officer, Mr. Rakesh Chahar, Director and Mr. Tushaar Gautam, Executive Director. Over to you Sirs!

**Rahul Gautam:** Thank you Anand, thank you very much and especially for hosting up all so quickly after results were posted online. As far as we are concerned, this is probably one of the shortest time between the board meeting closing, results going up and us taking an investor call. So Thank you very much for all the participants who I am sure must have had all the time necessary to read the results and be prepared for asking all the questions that are there.

So I will go straightaway to the results, we have had as far as Q1 is concerned compared to Q1 of previous year, on a consolidated position we have had a growth of 17% and an EBITDA growth of 16% and a PAT growth of 18%. Looking at the different geographies, so India had a growth of 19% on the topline and EBITDA growth of 22.5% and net profit growth of 22%. Australia the growth on the topline was just about 4% and there was a net loss. The EBITDA of course went down by about 50%, but that is such a small number that it appears as 50%, but to that I just want to add that it was dependent on raw material prices, we have been talking about it, prices have come down, but whatever they were supposed to pass on to the consumers for the sake of not losing out on volumes, all the prices were not passed on, now they have and without giving any strong indication or guidance as far as the future is concerned, we already have an indication on July and they are well back on track as far as the topline is concerned and as far as the PAT is concerned.

That brings me to the topic of TDI pricing, let me just say that I will change that nomenclature now to chemical price and not just TDI pricing because TDI is coming down and coming down very much in line with what we had talked in the last investor meeting, so in the last quarter from about Rs.300 per kilo level it was down in that quarter at virtually the fag end of the quarter to about 255 and today I hear that it has gone down another Rs.5 to about 250 and this is primarily because all the production capabilities or the facilities which were existing in the world and were muted in some way or the other have come back. The biggest one being the BASF plant in Ludwigshafen in Germany, which is about 70%, 80% now on and ramping up, even Sadara, which was languishing and which had in fact taken a little bit

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of shutdown is back on track and ramping up. How do I see it go in future it should, I think as I had indicated last time it should really be coming down to levels of 225 or something of that order, though one must be a little careful about this period because we do come into the high season from September onwards and the past trends have been that there have been minor upward revision as far as TDI is concerned. But it is slow, it should be stable may hover around a little bit here and there.

The other major chemical which is Polyol has been steady and only impacted a little bit by the dollar rate, which has gone up by about 6% to 7%, but the advantage that Polyol has is that there is a reasonably strong domestic supplier as well as all the other majors have local tankage and therefore it is virtually like a local supplier, so the foreign exchange may play a part, but not so much. GST has always been a hot topic, it is settling down, settling down as quickly as possible. We do hear of further rationalization of rates from current level of 4 or 5 rates if you take 0 as a rate to down to 3 rates which is the 12 and the 18 and we fall in the 18 should be rational. If that happens, it will further support the shifting of the unorganized to the organized. The real shifting to my mind will begin once the department or the government agencies begin analyzing whatever people have filed and what the ground realities are. We as a company have received our first notice from them, which is for auditing and likewise I presume that everybody else would be getting and then compliance will become important and that should again help in that moment from the unorganized to the unorganized part.

The other thing in the GST was our continuation of the KalaAmb or the exempted area project of ours or factory of ours and we have got the first refund of the government's commitments to payback what was committed in the last tax regime. The second one is also under movement, which means that is also settling down. I mentioned all these things just to say that GST as a concept number one, we can be very sure that it does not matter, which government comes in 2019 or does not come, it is irreversible process. It is the best thing to happen. All the things have not been on ground, but these are all indications that things are settling down and I think the government's target is that the moment it reaches about Rs.1 trillion collections per month, it will start simplifying stuff far more. So we just want to wish ourself all the best for that. There were some new products, which we had introduced last year, one was Starlite, which was primarily for the low end of the market and the other one was Feather Foam, which was for a segment, a little higher, but a segment and for another distribution channel in the market, both are ramping up. Last quarter, we did about 53,000 pieces add to that the Sleepwell of 253 compared to the previous year where it was 245, so we see a number of mattress jump by about 25%, so that is a good sign that it is happening. Sleepex has been introduced I mentioned that in our last meeting, it is a new channel for us, it is a new animal for us, we are learning the games for – let us say the tricks for or the trade for the internet or the e-commerce business and how does that fit in into – how does the

mattress segment fit in into a e-commerce type of selling and how do we make – how do we evolve that and how do we make that happen that is all in progress.

To support all these and to support all the good feelings about and the good forecast and good omens as far as manufacturing is concerned in India, we again as mentioned before we continue with our plans to invest into new capacities, which are going to be both geographically separate from the existing one, some expansion in the existing ones and we would be absolutely ready for whenever that does happen. So I think we are well positioned, I would be happy to take any questions and thank you very much for being there.

- Moderator:** Thank you. 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 Nihal Jham from Edelweiss. Please go ahead.
- Nihal Jham:** Good evening and congratulations for good set of numbers, just to start with – could you give the breakup and revenues for each of the major categories, mattresses, foam as technical foam as well as furniture cushioning?
- Rahul Gautam:** First of all I must congratulate you, you are always the first one to ask the question, which is excellent, it is like seeing a movie first day first show. Thank you very much, Dhruv has all the numbers, he will just get back.
- Dhruv C. Mathur:** So the mattress in terms of volume has grown by 25% as against 2,45,000 mattress sold in the corresponding quarter, we have sold 3,07,000 mattress. In terms of value, the growth is 28% it is because the large chunk has come from BOP mattresses. On the foam side, the volume growth is 12% and the value growth is 17%.
- Nihal Jham:** Okay, if I have to split that between the brands, what was the growth in Starlite would be totally fresh more or less?
- Dhruv C. Mathur:** Of course the Starlite and Feather Foam were not there in the corresponding quarter, so we have sold around 53,000 in terms of numbers, so net-net on Sleepwell, there is a growth of 4% in terms of volume and in value on Sleepwell is 19%.
- Nihal Jham:** What is the value of Starlite, it is 54,000 mattresses I see, but in value terms what has been the revenue that we clocked in Starlite?
- Dhruv C. Mathur:** Starlite and Feather Foam combined is around Rs.12 Crores.
- Nihal Jham:** I understand that for Starlite specifically the target is north of Rs.50 Crores for this year, so just wanted to understand are we on track on for that or you expect that to be better by the end of this year?
- Rahul Gautam:** So I think we are on track for that, may be another two, three months and one will be able to estimate a little better, but I think we are on track for 50.

- Nihal Jham:** Sure and just continuing on the GST part that you mentioned, I am guessing that you maybe meaning that once e-way is implemented you could see a better traction maybe coming for the Starlite brand, so the question really is that is it there would be a bigger distribution tree that will help you grow Starlite or is it that the pricing differential from unorganized is going to be sold as that automatically you will see the sales coming through in Starlite?
- Rahul Gautam:** So I guess it is a combination of both. As far as e-way bill is concerned, I will sort of put it along with the compliance part of it say that GST is getting better complied and if somebody is evading or avoiding or finding ways to go around the e-way bill that will be true for any kind of mattresses and even the low-end mattresses or the BOP mattresses, but the Starlite part of it is – we are not avoiding our current distribution system, which is the Sleepwell distribution system because it is a price, which is a bit lower and there are always some customers whose affordability is like that; however, it is being sort of pushed into or encouraged as far as the other distribution system, which is outside the current Sleepwell system.
- Nihal Jham:** Okay, sure Sir, I will get back on the queue for further questions. Thank you.
- Moderator:** Thank you. The next question is from the line of Varshit Shah from Emkay Global. Please go ahead.
- Varshit Shah:** Congratulations for good set of numbers. Sir wanted to understand, you have just mentioned there is a 19% value growth in the Sleepwell right and if I were to understand the overall picture in the Sleepwell brand, so I think the TDI prices now may at least trend downwards, I will not quantify it, would you also take a price reduction in that or would that due lead to margin expansion that is my first question?
- Rahul Gautam:** Thank you very much Mr. Shah, yes TDI is southwards but frankly as far as these branded items are concerned, the Sleepwell items are concerned, we do not reduce prices and that is the reason that in the past we have also been extremely prudent as far as increasing prices are concerned because we know that when some event like this happens, because we do not reduce prices, we do not find ourselves on wrong price point and/or outpriced, so therefore there is just going to be no price reduction on that and whatever will be the impact and that depends on the model of the product, it depends on the quantum of impact that TDI would have, to that extent there would be a margin expansion. It may happen that we may use that, a part of that to further promote the product, but as far as MRP is concerned, there would be no reduction.
- Varshit Shah:** Okay and Sir another question related to that, so I think with Starlite and Feather Foam ramping up, how do you see the overall EBITDA margins going for the full year FY2019 and 2020 because I know that due to change in mix, the overall profile might shift a little, so what is the overall margin outlook of the whole combined? I mean the range is also fine directionally, just wanted to...?

- Rahul Gautam:** No, I would give you a general feel for that, you see as far as Sleepwell and its journey is concerned that kind of continues and therefore whatever is the margin there, whatever is the margin expansion as we kind of premiumize and all that, that journey will continue. As regarding the Starlite and the Feather Foam ones should not be cannibalizing Sleepwell products, they would be – unless I hope that they find newer markets or increase our market share, but this is the bare mattresses, which we sell that now they are getting covered and being sold, so if you just look at it there should be a little bit of an expansion on the EBITDA side as far as percentage is concerned and the Starlite and the Feather Foam should really not be a drag-on on the Sleepwell.
- Varshit Shah:** Okay Sir, understood. Thanks that is it from my side. I will come back in the queue.
- Moderator:** Thank you. The next question is from the line of Nehal Kumar from Axis Securities. Please go ahead.
- Nehal Kumar:** Good evening Sir. I want to know how do you look at the cotton mattresses industry as potential market and what is the scenario, what is the normal tendency in the market, like for example, if you see the US Market that is mainly dominated by Foam mattresses and thus non-cotton mattresses, while the India market have been dominated by cotton mattress, so if you see the trend where these products, consumer durable products Indian market followed the US trend, how you see the Indian market in terms of mattresses?
- Rahul Gautam:** Just as an addition to what you said about the US market, US market has been primarily a spring mattress market, lesser of a polyurethane foam market, while Europe has been a foam market. However, your question remains intact, which is to say that India is a cotton mattress market and how do you see that change happening from cotton to foam or any other modern mattress. See cotton is something, which is available at every nook and corner. The equipment needed to manufacture a cotton mattress is virtually nothing except to gather the cotton have a fluffing system and then somebody stitching or sewing a cotton cover, putting the cotton into it and the mattress is ready and that happens on every corner. The moment the availability and awareness of a modern mattresses increases, awareness based on what we do and whatever is happening in the world and the information is traveling there, availability in the sense that though we require big machines and big contraptions and big devices to manufacture modern mattresses, but the traveling is becoming easier, roads are being easier, trucking is becoming easier, so as you reach all the nooks and corners that conversion will begin to happen. The modern mattress is so much better as far as maintenance of the mattress is concerned, as far as the usage is concerned, as far as the balance between comfort and support is concerned, so better mattress is a question of availability, awareness and I would say a little bit on the affordability side, but by and large is not...there are modern mattresses, which are affordable for and that is how the conversion will happen.

- Nehal Kumar:** So talking about affordability, how was much difference is it in the size of our product versus the average cotton mattress products?
- Rahul Gautam:** So I think you have to look at in two ways, one is the price or the buying price that this is what a cotton mattress cost and this is a modern mattress cost. So I would say that a cotton mattresses would cost about Rs.1000 and a modern mattress would cost about Rs.2500; however, when you look three years down the line, the maintenance part of it would be different, the maintenance for cotton mattress you would have spent far more money, what you would have lost out as far as comfort and support, it may not be a tangible amount, but if you put all that together, a modern mattress is cheaper, but as I said it is something like a capex, opex kind of stuff because a cotton mattress needs to be refurbished every year at least, it needs to be taken care of somewhere in between or in about six months' time, so all that part, while the modern mattress would be maintenance-free or trouble-free.
- Nehal Kumar:** Okay and one more thing Sir, in the beginning you mentioned about tax refund for one of the plant, if that is, how much is it reflecting in the tax?
- Rahul Gautam:** So look this is from the erstwhile times when excise duty was exempted in certain areas and we have a unit in that area, which the exemption of excise duty was 12.5% and when the excise duty got subsumed into GST, the Government had worked out a formula that whatever was the 58% of the IGST, which meant if the mattress has 18% as GST the IGST is 9% of that 0.58, which may be about 5% or so would be what you would get as a refund and this is because of the continuing promise of the central government. So the process there is that you would first pay it and then claim a refund and the government would refund, so that refund has come and therefore the government is standing up to its commitment.
- Nehal Kumar:** Okay, but if you just give a clarity on number, how much has been reflected in this quarter which was refund...?
- Dhruv C. Mathur:** I can give you this answer that on the overall sale this since you asked what is the impact on EBITDA, it is around 0.4%.
- Nehal Kumar:** Okay. Thank you so much. That is all 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 the follow up, Sir could you just highlight the cash flow generation during the quarter, I mean could you give some numbers?
- Dhruv C. Mathur:** So in the quarter, the cash flow generation of course is PAT plus depreciation that is around Rs.41 Crores.
- Varshit Shah:** What is the closing cash balance as in Q1?
- Dhruv C. Mathur:** So it is more than Rs.200 Crores.

- Varshit Shah:** That is helpful Sir. Thank you.
- Moderator:** Thank you. The next question is from the line of Rajesh Gajra from Cogencis. Please go ahead.
- Rajesh Gajra:** Good evening Mr. Gautam. My question was with regard to your Australian subsidiary, I was looking at the numbers and the PAT figure has become negative, it is -7 in Indian rupees in Q1 and in the previous quarter also it was just Rs.3 million, so just wanted your sense as to what is going on in that segment as to why the margins are going down, why the PAT is going down so sharply.
- Rahul Gautam:** Thank you Rajesh Ji. As far as Australia is concerned, I have probably two investor calls back had mentioned that when the raw material prices were climbing up, like always we did not do, which was unlike the other times when we pass on the entire amount of increase to the customer fearing a loss of volumes we did not do that, that is actually the starting from the October, December quarter and it is only in the subsequent quarters when we were able to stall off any kind of predatory movements by any competition and there the competition sometime that the price increases are too much, the competition could come as well from as far as China, once that was over we started passing on the prices which have been well received. Till the end of last month of the last quarter, it was taking place or it was getting passed on. Now it has as mentioned in my opening remarks, we are absolutely back on track both as far as topline is concerned and as far as the bottomline is concerned, July, I already have the results, of course they are unaudited results, the sales has been one of the highest ever and there has been a good healthy profit that has been generated. So I think we should look at that period as a bit of an aberration and now we are back on track. There is an extra amount which we are also using in India as well as in Australia which is to establish the Sleepex brand. It is the absolute initial times for both and there is this little, so but having said all that we are back on track, yes.
- Moderator:** Thank you. The next question is from the line of Nihal Jham from Edelweiss. Please go ahead.
- Nihal Jham:** Thank you for a followup Sir. I just wanted to ask you. You have been mentioning of potential acquisition that we have been evaluating, so any further progress on that and what are the potential lines of business that we are looking at where this acquisition could happen and if possible sharing the kind of amount that you are going to invest in this acquisition?
- Rahul Gautam:** Thank you Nihal. Thank you once again. I mentioned I think last time, there are three on the table and as mentioned to you, our acquisition would definitely be in the area and in the field that we operate in or in the Indian geography, it will be on the foam and the mattress side. As far as outside is concerned, we will only look at consumer facing business, but not at a foam business. So here there are, but the progress on such things is low. They are on the table. There are some discussion which are going on; however, nothing much of materiality that I



can convey that we have passed a certain milestone or... but talks are on. They are there on the table. Whenever they happen they will happen. I cannot say anything more than that.

- Nihal Jham:** Any mention on the ticket size possible or the kind of amount that you have earmarked for this?
- Rahul Gautam:** The two which are on the table the ticket size could vary anything from about 150 to about 450.
- Nihal Jham:** Thank you so much.
- Moderator:** Thank you. The next question is from the line of Mehul Mehta from Sharekhan. Please go ahead.
- Mehul Mehta:** My question is with regards to gross margin expansion I believe like in the way you are indicating that you do not want to take any price decrease like you know finish product price on the back of TDI prices though they are reducing. So we have about 4% around like ad spends, so do we intent to like increase by ad spend and create visibility as well as increase our distribution network. How do we intend to go forward?
- Rahul Gautam:** Look the gross margin expansion kicking in one of course, I have mentioned depends on the model that of mattress that we look at in each of the products the quantum of impact of TDI is different that is point one. Point two, we are not going to reduce any margins. Number three whatever is the gross margin expansion. We will take a call on it that whether we spend a bit of that for the advertising and for the promotion. As regarding the distribution side of it, we do not need to do anything I mean nothing will come out from there. The distribution costs are already built into the system.
- Mehul Mehta:** Going forward like any indication as far as advertising spend or you still want that like in the way the TDI prices meet in the sense that the way gross margin moves?
- Rahul Gautam:** I think advertising is a separate subject it is something which is decided at the beginning of a year and we do not mess around with its too much based on raw material changing prices here and there unless there is a spike or a complete shallow, which happens because that is creating a brand or that is increasing our brand salience and it is not something which impacts a sale tomorrow or day after. So that part of it will remain pretty much inline with whatever has been budgeted and looked after or taken care of for the full year. So I do not see any changes on that.
- Mehul Mehta:** Alright and one more question on capital expenditure, do we have anything on anvil for current year or next year like any thing major?
- Rahul Gautam:** So it will happen in current year and I am not talking of the standard maintenance capex which is there which will continue as we go along, but capex to increase capacities they are there. By the time we have our next call we should have far more firmer numbers on it and

timeframes on it, but at this point I would just say some of it will happen this year and some of it will definitely happen next year.

- Moderator:** The next question is from the line of Nehal Kumar from Axis Securities. Please go ahead.
- Nehal Kumar:** Question has been answered it was on the similar ground of capex for organic growth.
- Moderator:** Thank you. The next question is from the line of Govindlal Gilada from GG Securities Ltd. Please go ahead.
- Govindlal Gilada:** Good evening Sir. Thanks for the opportunity. I got one question, I might have missed your opening remarks. I just wanted again your outlook on TDI prices?
- Rahul Gautam:** Everything that I see, everything that we are experiencing right now, everything that we hope for and we pray for that the prices should keep falling I think it should come down to a level of Rs.220, Rs.225, today morning or today's prices Rs.250. It has come down in the last three months by about Rs.50, Rs.55, so it should fall to those levels. The only little caveats to that is that end August, early September or in September, as we get into the season, the past trend shows some little changes in the price, but those are little changes in the price. Those are seasonal changes in the price that may happen, but not a major impact happening on account of a capacity going off the radar or some new capacity coming in etc., so this will repeat. We are at a level of Rs.250 a kilo, all my experience says that we should be going down to about Rs.225 level and should be stabilizing around that.
- Govindlal Gilada:** It is near-term call you are taking or I am asking little bit longer term one year at least, what kind of outlook you have got, it may be okay Rs.250 can come down to Rs.225 again can go up to Rs.240 in little season, but little bit longer term I am asking let us say one year?
- Rahul Gautam:** If I was to make a while guess and I hope that TDI people are listening, it should range anything from about 175 to about 225 level, it should be around that or let us say around 200 level, because the manufacturing cost of TDI are in the realms of about Rs.145, Rs.150 and the selling prices should be close to Rs.200 plus or minus 20.
- Govindlal Gilada:** If my understanding is right, you mean to tell that it should stabilize around 175 to 200 levels at little longer time periods.
- Rahul Gautam:** So as I said it is a lot on the prayers, because in the recent TDI has for the smallest of the reason has gone through the roof and moved around and the norms or the levels have been at higher ends. It should have been at the lower end, but I am not getting 100% confidence. All rational thinking and logical thinking says that is the level it should be around 200, a little lower or a little higher, but we need to see it happen there.
- Govindlal Gilada:** Thank you very much Sir. I will appreciate if you can take out little more time, can you give me a little dynamics why you are feeling almost from 330 levels it has come down again it can go down to 200, any little dynamic if you can otherwise I am fine?

- Rahul Gautam:** Sorry I did not follow about dynamics?
- Govindlal Gilada:** Why you are guessing that it can come down to 200, you are seeing that new capacities will come or from here on to fall further...?
- Rahul Gautam:** I am completely aware of the new capacities which are there. We must also appreciate the TDI as a chemical is virtually there are some only three, four, five people, we are not talking some small little ones tucked away here and there. They are about four or five peoples around the world who kind of manufacture it. It is a product which requires a lot of technical expertise and experience and some patenting etc and the manufacturing process is a critical process. For small little things there can be shutdowns happening and for small little things people can drop capacities or enhance capacities that can happen. Sometimes raw materials which are there starting from toluene to some other petrochemicals, it is a reasonably volatile, but the volatility is definitely not of the order that it has happened in the past you know where it has moved from 120 level to a 320 level and then every time there is a movement of 30, 40, 50 bucks here and there, generally the volatility has been the order of Rs.10, Rs.15 here and there which is very, very well absorbable by the company or by the markets that we service in and it is just this recent past of uncertainty I am hesitating to take a confirmed kind of a position, but the capacities existing in the world, capacities coming in, capacities ramping up, there is no reason that it should not be around 200, there is absolutely no reason.
- Govindlal Gilada:** Thank you very much for your just information last month GNFC had analyst meet at Mumbai, so Mr. Gupta earlier CEO, he has given outlook that TDI prices they will not come down, by 250 levels max they can come down drastically even if they come down just for that I was curious to know your view.
- Rahul Gautam:** That is alright, GNFC may have a little more information but I think that information about TDI capacity, global capacity is concerned, it is very difficult to predict but Mr. Gupta was representing GNFC, so I think his hope is that it should remain 250 or at a higher level and as I said our hope and prayer is that it should go down, but since from sheer capacity, from sheer manufacturing cost and whatever is the demand in the world, my guess is that it should be around 200.
- Govindlal Gilada:** Thank you very much Sir.
- Moderator:** Thank you. The next question is from the line of Rahul Ranade from Goldman Sachs. Please go ahead.
- Rahul Ranade:** Thanks for the opportunity. I just wanted to clarify one thing, around 60000 odd kind of volume growth that we have seen, out of that the bulk of it has come from Starlite and Feather Foam right?
- Rahul Gautam:** That is right.

- Rahul Ranade:** I just wanted to understand in this context, so what kind of potential do you see for these two to be in the overall mix say three years down the line?
- Rahul Gautam:** As I probably said a little earlier that the growth and the direction as far as Sleepwell mattresses are concerned will continue their own curve and they will keep following that up. I do not expect any kind of cannibalization of Sleepwell happening whether because of the manufacturing or because of the distribution channel because the shear price points are completely different and it is our endeavour to expand the distribution as much as possible which is away from the Sleepwell side. Therefore both Starlite and Feather Foam will follow their own trajectory and they have started from scratch last year. So the growth will be quick and fast and in the next two years expect them to be of the order of about Rs.200 Crores, Rs.250 Crores, even higher say about Rs.400 Crores while Sleepwell should be at a level of about Rs.1500 Crores. So if I just take a ratio we would have 25% of Starlite and Feather Foam mattresses in 70%, 75% that is as far as the breakup in the company is concerned.
- Rahul Ranade:** Thank you.
- Moderator:** Thank you. The next question is from the line of Pankaj Bobade from Axis Securities. Please go ahead.
- Pankaj Bobade:** Thanks a lot for taking my question Sir and congrats on good set of numbers. Taking the discussion forward before that I just missed the manufacturing price for TDI can you please read it again?
- Rahul Gautam:** Manufacturing price for TDI was a reasonable margin is about 150 bucks a kilo.
- Pankaj Bobade:** Rs.150 right?
- Rahul Gautam:** Yes.
- Pankaj Bobade:** And to take the discussion which we had earlier on TDI just wanted to understand if the TDI prices come down say around 200 or even lower, how good are we at not passing the correction in TDI price to our customer, rather I would like to understand how much we can built up on our margin given that the TDI prices come down in future?
- Rahul Gautam:** As far as the brands and the branded goods are concerned, there would be no reduction in the MRPs or in our pricing of the product. If it really comes down to one hell of a lot, it is possible that the traditional increases that we take we may skip and increase, but we will not decrease it as far as the brand parts are concerned. The other part which is the furniture cushioning and which is the core for the mattresses on that part of it there may be some passing on to because that is not in a completely finished form its branded, but however it is not a completely finished form and somebody else finishes there, but our endeavour and all the efforts on our side is that we convert most of them or as much of them as possible or keep increasing that number to convert them into finished products and sell into the market and therefore the vagaries of TDI or any other chemical prices should reduce on that, but as it stands today

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there is possibility that if the raw material prices come down to a large extent, some passing on may become necessary to safeguard our volumes, but not on the branded side at all.

**Pankaj Bobade:** Sure Sir. Thank you. That is of great help.

**Moderator:** Thank you. The next question is from the line of G Vivek from GS Investment. Please go ahead.

**G Vivek:** Congratulations for a good set of number Sir. Just wanted to know what are the future plans for extending the distribution reach, so that the utilization level I believe it is still around 30% in our plant that increases and what is the opportunity size for technical foam and any plans for forward integration into furnishings? Thank you.

**Rahul Gautam:** Thank you Vivek for the question, a completely different question from the other ones. As far as... first let me answer the technical part of it. Technical foams are concerned, these are foams which have characteristic which is different from the normal foams in the sense, it is just not cushioning, it is some other parts like foams use for filters and foams use for sound absorption etc. In those cases there is an industry which is there the rate at which the industry grows, we have to suffice ourselves with the rate of growth of that industry. Of course there are two places where we do our bids, one is whatever is being imported into the country we try and develop similar products or better products at home substitute them and the second is that wherever it is being used we can put in a little more foam for the comfort and support of course the users resist that because it adds cost but it helps. For example if there is a helmet we may try to put in another few millimeters a foam for the comfort, but then it is a decision taken by the user industry. So there we do have the entire range of technical products, but restricted by the growth of the user industry, constant effort for the import side, but there is very little left as far as import is concerned.

The second question that you had on capacity that we have capacity with utilization which is only 30% I presume you are talking of the capacity of foaming process. So it is globally and even otherwise, the issue is not... the foaming capacity does not determine or does not become a constraint as far as supply to the market is concerned. Then there are issues which are space oriented, issues which are the channel oriented, issues which are retail oriented, which kind of creep in. So the foaming capacity may still be 30% but is enough to take care of all the growth in the market. If we do...you may come across times when we in spite of capacity is being 30% we are adding capacities. Now those addition capacities are in different geographies, foam is a very voluminous item and therefore when you transport from one place to the other there are extra costs and for a distance of about 300, 400, 500 kilometers and there is a sizable markets there, it makes sense to create a fresh capacity there and save on the transport cost which balances out all the capex that is being done. Therefore capacity of foaming is never the determining factor for your ability to sell in the market or to establish fresh capacity.



*Sheela Foam Limited*  
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**G Vivek:** Thank you.

**Moderator:** Thank you. Ladies and gentlemen that was the last question. I now hand the conference over to the management for their closing comments.

**Rahul Gautam:** Good evening gentlemen once again and thank you very much for all the pointed questions that have been put. I know that some of them have been very similar to the past and I guess that those are the three areas as far as our business is concerned which is the chemical pricing, which is the GST impact which has happened of late and the introduction of products on the lower end of the market, but in all these things there are positive trends, positive things which are happening in the environment and of course positive things which are happening at our end. So from your side and from our side and I say it including from your side that we hope and we pray that as we kind of go along all the advantages that we see of the unorganized sectors switching over to the organized sector, we should be able to potentialize those things. So thank you very much and have a great evening.

**Moderator:** Thank you. Ladies and gentlemen on behalf of ICICI Securities that concludes today's conference. Thank you for joining us and you may now disconnect your lines.