



Date:07th February 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 Q3 FY 2022-23 Financial Results.

Dear Sir/Madam,

Please find below the transcript of Investors' conference call organized on February 03, 2022 post declaration of Financial Results for the quarter and nine months ended on 31st December 2022 for your information and records.

Thanking you.

Yours faithfully,
For Sheela Foam Limited

(Md. Iquebal Ahmad)
Company Secretary and 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

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 • www.sheelafoam.com

CIN-L74899DL1971PLC005679



“Sheela Foam Limited
Q3 FY '23 Results Conference Call”
February 03, 2023



MANAGEMENT: **MR. RAHUL GAUTAM—MANAGING DIRECTOR—SHEELA FOAM LIMITED**
MR. RAKESH CHAHAR – WHOLE TIME DIRECTOR—SHEELA FOAM LIMITED
MR. TUSHAAR GAUTAM – WHOLE TIME DIRECTOR AND CHIEF EXECUTIVE OFFICER- INDIA BUSINESS – SHEELA FOAM LIMITED
MR. DAVINDER AHUJA – GROUP FINANCE CONTROLLER –SHEELA FOAM LIMITED

MODERATOR: **MS. BHAVIKA CHOUDHARY— EMKAY GLOBAL FINANCIAL SERVICES LIMITED**



Sheela Foam Limited
February 03, 2023

Moderator: Ladies and gentlemen, welcome to the Q3 FY '23 Results Conference Call of Sheela Foam Limited hosted by Emkay Global Financial Services. We have with us today, Mr. Rahul Gautam, Managing Director, Mr. Rakesh Chahar, Whole-Time Director, Mr. Tushaar Gautam, Whole-Time Director and Chief Executive Officer, India Business, and Mr. Davinder Ahuja, Group Finance Controller.

As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during the conference, please signal an operator by pressing star, then zero on your touchtone phone. Please note that this conference is being recorded.

I would now like to hand the conference over to Ms. Bhavika Choudhary from Emkay Global Financial Services. Thank you. Over to you, ma'am.

Bhavika Choudhary: Thank you. Good afternoon, everyone. We would like to welcome the management and thank them for this opportunity. I shall now hand over the call to the management for the opening remarks. Over to you, gentlemen.

Rahul Gautam: Thank you, Bhavika. Thank you Emkay Global Financial Services for hosting this earnings call, and a very good afternoon to everyone joining us today. It is my pleasure to welcome you all to this conference call for Q3 and the nine months ended of this year, this financial year FY '23.

Let me just begin with by saying that both FY '22 and FY '23 were full of extreme turmoils. We know what happened last year. We closed down and then reopened up in such conditions and such varying conditions actually, the corresponding quarter comparisons become very distorted. The nine-months-to-nine-months, this being a little bit longer period, is a better reflection of the performance.

I'm happy to share that your company has registered a growth albeit a small percentage only, and that's true primarily on account of retail inflation. I'm also satisfied to share with you that in spite of continuing fluctuations in raw materials, we have seen sustained expansion in gross margins. However, at the EBITDA level, the numbers show a sub 10% performance. And this is primarily on account of some expenses which can be counted as one-off, however, have to be adjusted to the expense side according to the Ind AS.

There was an increased advertisement to restart post, dull or post-COVID period. There were some exploratory M&A expenses, which are again one-off. And but however, as for any index, they have to be accounted for. And there was also some non-cash mark-to-market forex losses, which are clearly one-off and also notional and they are non-cash. The account for all this, we would see that we are in reasonably about the previous period. The COVID period has also put a stop to all kinds of market surveys, researches, etcetera. As soon as it got over, the industry, restarted the process, and the findings were very encouraging.

The shift from unorganized to organized continues, and this research was after the last of 2.5 years, and this is very encouraging. Second, the market share of your company, Sleepwell brand and the other brands, considerably increased and it further consolidates its leadership position. I'm also happy to share that the subsidiaries of the company in Australia and Spain are continuously increasing their market share as they grow. Both have different realities, however, they are performing well. Both have expansion plan and projects which will come on-stream by the middle of this year, and this will further strengthen, add their capacities and strengthen their position as far as those markets are concerned.

We also recognize that Sheela Foam is not only an economic organization but also a social organism, and sustainability is of utmost important. I'm also happy to share with you that we are on track to with our ESG, our sustainability programs and our BRSR report is under preparation for this year.

With this, I hand over to Bhavika and we will be happy to answer the questions that may be raise. Thank you.

Moderator: The first question is from the line of Nihal Mahesh Jham from Nuvama.

Nihal Mahesh Jham: My first question was, sir, you alluded that there was a base impact, because of COVID last year. But if we compare the mattress volume even to pre-COVID, there is a slight fall which has happened. So just wanted to understand, this is purely because of the current sentiment or there has been a shift in demand between quarters because of certain marriage related dates or any other aspects that you may want to highlight?

Rahul Gautam: I must confess that the voice levels which are coming in are rather low, so let's just repeat the question. You're saying the mattress volumes are lower, and the question is that is it because of the market sentiments or is it because of the shift in the consumers, is that correct?

Nihal Mahesh Jham: Yes. Consumer sentiment or, generally, there has been a shift in the wedding dates also seen between Q3 and Q4, if there is any element of that element? Because I'm comparing your volumes to pre-COVID market from last year. You highlighted maybe there was a COVID-based impact. So just comparing it from that perspective.

Rahul Gautam: So Nihal, thanks for the question and I must say that this the audio is not so clear. However, let me just say that yes, there is a little bit of a drop in the mattress volumes as far as we are concerned. However, when we compare it to the kind of surveys that etcetera that have been done, it appears that there is some changes in the market as far as the size of the market is concerned. But this is purely temporary, purely on account of inflation. And if there is any aberration, or apparent aberration that is seeming there, it's only temporary and it will shift and go back. Because the trends are very clear in the research.

Nihal Mahesh Jham: So if I could add that, have the trends in the month of January improved or currently you are still seeing the uncertainty? First, if you could give us some sense of that?

Rahul Gautam: So they have drastically improved. And that's all. I mean, the month of January is just over, but the situation has considerably improved.

Nihal Mahesh Jham: So my last question was on the gross margin side. You highlighted that there has been a significant reduction in both TDI, specifically in polyol. So what proportion of the old inventory did we end up using this quarter and how much of an impact that had in terms of the limitation in the gross margin improvement?

Rahul Gautam: So I think I mentioned that even in the quarter that's gone by, the gross margin has definitely improved. However, when we come down to the EBITDA level, there is a bit of a drop and this is on account of raw materials fluctuating, however, moving slightly downwards. As we move forward, the same trend is continuing and I would say that even if we account for the opening stocks that we have, there would be a positive impact as far as Q4 is concerned.

Nihal Mahesh Jham: Just to clarify, so the current gross margin in a way more or less reflect the current pricing in both the raw materials?

Rahul Gautam: That's right.

Moderator: The next question is from the line of Ritesh Shah, an individual investor.

Ritesh Shah: This is Ritesh from Investec, not an individual investor. Sir, couple of questions. So first is, if you could provide detail on what is our strategy to recoup volumes? So basically, what is the end customer or the end channel that we are looking at basically to increase volumes. That's one. And what I'm referring to over here is, it's a something beyond EBOs and MBOs that we are already doing. That's the first question.

So second question is on update on the expansion plan along with the timelines for Jabalpur, Spain and Australia. You did indicate middle of this year, but some specifics would help. Third question is on inorganic growth. Basically what's the status first is on the growth engines and it has four buckets, mattress for every Indian, the exports run rate, railways current run rate and online channel, the current run rate.

And I have a fifth question which is on new initiatives. So would be great sir, if you could please help with this.

Rahul Gautam: So thank you Ritesh. I think you've gone through the entire portfolio that we have. But let me just first begin with your first question and that is on the volume part of it. I just want to say that Sleepwell, we have been operating through the EBOs and the footfalls, etcetera. have been challenging as far as in the recent past is concerned. We are well entrenched on that. Footfalls, as I said, if I look at January, have begun to increase. That will automatically increase the volumes. There is an expansion plan for the EBOs and that's almost about 400 to 500 extra outlets per year. And that's also on track.

I must also add that of course Sleepwell was not selling through the MBOs, which are also continued to be in large numbers. We address those markets via other brand, which is the

FeatherForm and Starlite. Now that we have reached out to, or spread out to all of them, our real good push as far as MBOs is going to happen. And we expect that the first initiative of expanding EBOs and putting through the MBOs both will increase our volumes. And that's our strategy for that.

As far as Australia and Spain is concerned, so let me take Australia first. Australia has already been doing, has been having almost a 10%, 12% increase in its volume as well as its in top line. And the reasons for that as we see is, people spending more-and-more as far as home improvement types are concerned. We expected that COVID would finish and this would also slow down, but it has not because people are not traveling so much. People have money in their pocket and people want to.

Besides this, it's also the imports that Australia was having. And with these sentiments like Australian made, etcetera. Those imports have been impacted, especially imports from China and there were also some imports from Europe. We see that as a very good sign and in spite of a mature market, this expansion will continue to grow or this sentiment will continue to grow. On our plant, the second foaming plant which is being set up in Adelaide, that has already been installed and it will be commissioned by the first week of March. And we will start then getting little more aggressive as far as the market share is concerned. And we believe that there is a lot of imports and other things, which can be catered by us, and therefore, increase our presence.

Spain, I have said this many times before, we are a very small part of that large market, only 1%, and therefore that even though the European market slumped by almost 25%, 30% during the Ukraine war or continuing even after the Ukraine war. In our company, we registered just a 10% drop, which has also from January onwards begun to pick up. In fact, the entire order books in January and February were completely filled up and in February continue to be filled up.

We have expansion projects there where the current capacity will be increased and so today what we are doing is about 12,000 to 13,000 tons per annum. This will go up to about 17,000 tons per annum. And again, because we are a small part, we expect that all this will be consumed in market. Returning back to India, you have also said about the inorganic part of it. So I think the explorations continue. Some encouraging, but eventually these things happen when they have to happen. But I can only say that they are encouraging.

On the initiative we're still upon pursuing like doing, like a Mattress for Every Indian, again, we have started to receive the machinery which was delayed on account of the war. And before that on account of COVID, we started receiving that we expect somewhere end of this year, that project in Jabalpur to begin to get installed and then commissioned soon thereafter. Railways has been good progress. I think railways have also now clearly stated that the product that we supply them is the preferred product for making the coaches. And the quantum is increasing month after month. Anything else? I don't know. You have asked many questions.

Ritesh Shah: Sir, exports was the other one and online channel. And sir, if you can please help with the run rate or something for exports, railways and omni-channel, basically the online channel.

Rahul Gautam: So, run rate on railways is about INR 8 crores to INR 10 crores per month at the moment. And exports, I would say that there has been ups and downs. A couple of reasons we have talked about in the previous meetings. One was that the infrastructure coming up to speed as far as the supply of orders was concerned. And the second part is that the US, which is the largest recipient of these exports, has also been going through its own inflation and a bit of recession that's been there.

Recently, there has been the biggest exhibition in the US for mattresses. It was in Las Vegas. Our people were there. I mean, at the moment I can say the sentiments are encouraging. They are committed to looking at or creating a source besides China. And in India, we would be the preferred supplier. However, there is not too much to talk about it, let's say in the last quarter or in this quarter. But I think the year would finish at about INR 40 crores or so. It's definitely a little bit dissatisfying. It should have been more, but INR 40 crores and becoming here, I think should see her jump up to about INR 100 crores.

Online, we are treading along or trudging along at a reasonable pace. So online should also cross 100 crores. However, as I said we also changed our strategy a little bit when we were doing it with a different brand and now we are doing it with Sleepwell and we have found a way to reduce or almost remove any kind of friction between online and offline and that is picking up. This year we should close at about INR 100 crores or over INR 100 crores and the next year would be at least 50% to 60% more than that.

Ritesh Shah: New initiatives foray into living room, looking at sofas, the revenue?

Rahul Gautam: Maybe I will take that question on sofas. I presume you would have asked many questions for many other people, so that's all right. I would have referred to it. Sofas, we are manufacturing sofas. I would be able to talk on this better next time. Some initiatives on, but as I said, it would be better if I talk next time on it. However, on the refurbishment of sofas, which continues to be a big business, it's a fragmented business. It is a very unorganized business. And our initiative to put all that together is now taking shape. I mean, at the moment, I'll share that a pilot is on where the proposal is that we, as in Sleepwell, will pick your sofa up and do it, refurbish it, and return it back in three to four days time.

Moderator: The next question is from the line of Forum Gosar, an individual investor.

Forum Gosar: I just have one question. We have seen an increase in revenue from the Technical Foam business. So I just want to understand where is the demand coming from. Did we onboard any new clients?

Rahul Gautam: Thank you ma'am. Can I just have your name once again please?

Forum Gosar: Forum.

Rahul Gautam: So the Technical Foam, the primary expansion in order has come from the auto sector. And we all know that the auto sector has been, for the last couple of months, has been doing extremely well or continues to do well. And we have almost about 70% - 75% share in that market. And the growth in the technical side, and we are expecting that that growth will continue as that expands.

Moderator: We have the next question from the line of Siddharth, an individual investor.

Siddharth: So actually, just wanted to ask you that last time you had mentioned that our management's focus is to increase the productivity of the outlets. So, I mean, have we been successful in increasing the footfall and if not, then when can we expect that to start?

Rahul Gautam: So, thanks for that question. Yes, our efforts are beginning to show some results. The productivity is increased on two actions. One is to increase the footfalls coming into the showrooms and the second is to increase the conversion of whatever is kind of coming in. The second thing first, conversion. We have taken the help of a company called Quest and got some sales advisors from them, which have been placed at almost about 30%, 35% of the stores. And they are training the people as well as helping to convert whoever is coming in. And that conversion, we can see that the percentage is increasing month-on-month basis.

As far as footfalls are concerned, the only way is promotion, advertisements, BTL activities. And you would have noticed that recently we have begun advertising on the television and even at the local level. And we believe that the footfalls will increase. And of course, as I already mentioned to Ritesh earlier, we are expanding our number of showrooms, which definitely will increase the total number of footfalls which we cater to.

Moderator: The next question is from the line of Ritesh Shah, an individual investor.

Ritesh Shah: I just wanted to understand the market sizing. So when we are looking at the INR 15,000 crores, INR 20,000 crores total market, I appreciate what you are doing on the EBOs and MBOs. But how about the market basically, say, for the likes of Pepperfry, IKEA, Homelane? I think that's also incrementally a trend. So how do we approach basically tapping this particular market or are we already there? And if you're already there, how does the economics work? So that's the first question.

Rahul Gautam: So Ritesh, as I am understanding the question, you're saying that the likes of IKEA and Pepperfry, which are primarily furniture or furnishing outlets. They do cater to mattresses. And how are we making our presence felt in that segment? So let me just say that we have already begun looking at what we call as Furniture-First stores. And these are stores which are not necessarily exclusive mattress stores. However, do furniture as first and consequently sell mattresses along with the bed set they sell. And that expansion has already begun. We are present in many markets. So about 2000 we have already got our presence, but as I said, those are not exclusive and therefore that is done under the Feather Foam brand, which is endorsed by SleepWell and that's been reasonably well accepted.

So just as to sum up, our response to the IKEAs and the Pepperfrys and all that is to go and be present in the furniture stores.

Ritesh Shah:

My question was, basically, if you look at the mobile population or say, Tier 1, Tier 2, I think probably the population which goes to individual stores, it might be reducing. I'm just giving a hypothetical scenario. And there will be more-and-more people who might be going to Home Lane, Pepperfry, IKEA, but then they will just go to buy a curtain or something else and they end up buying a mattress. So from a sample sizing standpoint, if we have to look at the marketplace, so is Furniture First the solution that we are looking at or are we looking at something beyond that to tap the larger marketplace?

Rahul Gautam:

So I agree with you that there are some stores which are complete furnishing stores. I agree with you that there is a mobile population which may be very short on time and would not go from a store-to-store and would want to have a one stop place and do that. But however, those people, we would be attracting them maybe more with Sleepwell at Home or through the e-commerce platform that we are operating on. I would say that for us really to get into a full-fledged furnishing store at the moment is not on paper.

Ritesh Shah:

And so my second question was specifically on the EPE foam or mattress for every Indian, what we have indicated. I just wanted to check, is it for the first time that it's happening, something of this sort in India or has it been tried by any of our peers in the past?

Rahul Gautam:

No. I don't know. You're connecting the EPE with Mattress for every Indian. So EPE is a completely different product, which is different from polyurethane foam. Do we do have some EPE stuff? Yes, we do. Is it cheaper? It is. However, the availability part of it is still a challenge. It's an extremely light material to be transported all over the place. Our mattress for every Indian foray is primarily to look at people who are not using any kind of mattresses, modern mattresses at the moment. They may be using cotton mattresses, they may be using dharis, chattais, etcetera. And there are two challenges to it. One is to make the product affordable for them and the second thing is to make it available to them to where they are, whether in a [inaudible 0:31:05] block or a cluster of villages that they are.

So our project, which is coming up in Jabalpur, a new technology that we talk about will help us in both these aspects of affordability and as well as accessibility of making it available to those places. Has it been done before? To the best of my knowledge, no. Generally, it's just the way that it happens that when you have a new product, a new model, what matters coming up, it goes to the big towns. Then it starts putting down to Tier 2, Tier 3, Tier 4, Tier 5 kind of levels. Here, we're just trying to go the other way around. We just start from the bottom most area and try to work upwards. And hopefully, bridge the gap there.

Ritesh Shah:

Right. Sir you indicated it's PU foam right? For mattress for every Indian, that's what we are looking at?

Rahul Gautam:

Yes, it could possibly have one or two other materials for example, but primarily it is polyurethane foam with the new technology that we would be making.

- Ritesh Shah:** And sir any timelines over here? I presume it's going to be that Jabalpur expansion.
- Rahul Gautam:** So Ritesh, I said that right in the beginning, this project got delayed on account of COVID, then it got delayed on account of the Ukraine war, because the steel etcetera, needed to come from there. Our supplier of this technology is based in UK, but we have begun receiving parts of the machine. We expect it to start getting installed anytime by the end of this year.
- Ritesh Shah:** And so lastly, a bookkeeping question. Would it be possible for us to quantify the one-off variables which you indicated on the non-cash M2M forex losses, exploratory M&A expenses? I think you indicated three variables, so probably I can take it offline.
- Rahul Gautam:** I would say that if you really want to understand that in depth, it would be better offline. However, since you talked about the non-cash one, I would say, it is like, hedging for the equity that we have invested in Spain. That equity at the time that we hedged it, which was something like September, at that time the Euro was just falling and it was being expected that this war would continue forever and the Euro would always be under threat. We wanted to protect that. We wanted that investment of ours.
- Generally, we do not hedge equities, but we did that because the Euro was a special condition. So when we've hedged that, fortunately or unfortunately, number one, the Euro has got back some. So at that time it was INR 78, today it's INR 87, and there is mark-to-market, it's gone up by a certain amount.
- Now the interest is that you have-to-have mark-to-market and this will be charged to the expenses. So, however, when you have that investment in euros, there is an interest that the bank is giving us, which is almost about a crores for a quarter, and that interest is as per Ind AS, it has to be in the other incomes and OCIs and therefore impact. So you get a double grinding out of it and it's all notional. There is no cash impact. There is no nothing. That's one of the examples. I can offline explain the other areas where on account of this issue we have been impacted.
- Moderator:** The next question is from the line of Dharmavenkatesan K B, an individual investor.
- Dharmavenkatesan K B:** Sir, my question is regarding the demand in Europe. So how the things have settled down? Are we seeing demand slightly -- is there any green shoots in the demand and how is the thing shaping up there for us?
- Rahul Gautam:** So, demand in Europe has definitely slumped. The market, if we would look at the market, let me first begin by saying that it is the largest market in the world, the entire European Union, but that market has slumped by 25%. We fortunately, being just 1% of that market and having our own strengths, so even if the market size has shrunk, our share is already going up and has the potential of increasing. I mean, we are far, far away from making any kind of an impact on that entire market.

Dharmavenkatesan K B: And my second question is regarding that, In the presentation, it was mentioned that there was a one-time marketing expense. So is this one-time or are we going to spend more on brand building from now on? Is this going to be a new number going forward?

Rahul Gautam: So thank you for raising it. Look, it's not entirely all one-time. There was a time when it was zero time during the COVID and corona times. And then when you want to restart, you obviously have to do a little more than necessary to get the momentum back. And that's exactly what has been done on the marketing and sales side. Would it become completely zeroed? No. But would it be at this level? Also no. And it will settle down at normal levels as we kind of go along. But it is this part, this time, or this period when you had to kick start it and that's been that.

Dharmavenkatesan K B: Suppose if we are looking at a longer time frame, let's say five years or 10 years, what is the percentage of sales that we would ideally like to have for marketing expenses?

Rahul Gautam: So, generally, historically it has been about 4%. But as I think our margins expand, we would like it to go up to 5%.

Moderator: We have the next question from the line of Resham Jain from DSP Investment Managers.

Resham Jain: So, few clarifications and couple of questions. So first is the Jabalpur when you said end of the year is FY '23 or like December '23?

Rahul Gautam: So the installations will begin at that time and it may take still a couple of months. So I mean when I said I meant really the end of the calendar year. However, if I would say that a full streamlined good production FY '24. That is starting from 1st April 2024.

Resham Jain: Okay, that means next year only. And so, Jabalpur plant will have what kind of capacities and what kind of revenue one can expect from this plant? Let's say two to three years down the line?

Rahul Gautam: I will be making a wild guess absolutely. But I would say that about INR 350 crores to INR 400 crores.

Resham Jain: And the second question is on exports. Last time you mentioned that this plant has the capability, the export dedicated plant has the capability to do close to INR 1 crores to INR 1.5 crores per day. So is that understanding right? Which means that the plant must be utilizing, this must be utilized at close to 10%, 12% or 15% utilization only currently export plant?

Rahul Gautam: So the Jabalpur plant is for manufacturing of the basic technology?

Resham Jain: The export plant, sir.

Rahul Gautam: The export plant which is close to Mumbai, is that the one that you are referring to?

- Resham Jain:** Yes. That's what you mentioned last time, that INR 1 crores to INR 1.5 crores per day. So that's operating at this 10%, 15% utilization right now. Is that correct, sir?
- Rahul Gautam:** Absolutely. That is correct. That is correct.
- Resham Jain:** So that plant must be making losses right now, correct? At this utilization level, it's hard to make money.
- Rahul Gautam:** You're right that if I just drew up the P&L for that particular plant, it would be making losses. Fortunately, we have not invested too much in the capex side. There is no foaming process that takes place which is the maximum. It's on rented premises and of course has mattress manufacturing and compressing and putting them in a box, etcetera, and doing that. So yes, as a standalone, it is making losses.
- Resham Jain:** Sir, the third question is on Spain business. You've told us is that it's a very small market. We are expanding capacity by some 5,000-odd tons. But is there a possibility for you to expand there, like a step jump kind of thing over there? Or there's really like 20%, 30%, 40% increase in capacity like that only, given a significantly large opportunity available over there?
- Rahul Gautam:** Yes. This is about Spain, right?
- Resham Jain:** Yes, sir.
- Rahul Gautam:** Okay. So the opportunity is much bigger than what I'm talking about. Number one, this plant is located in a small town or in an area, industry area where there is production of sofas, mattresses, shoes and a lot of furniture. We don't even cater to 10% of the requirement of that area. I'm just painting the picture to tell you that what the opportunity is like.
- Plus this is the only plant in the entire European, there is one more in Italy, small one, which uses a completely green technology for manufacturing foam. Europeans, the characteristic of green technology has a lot of meaning to them. And therefore, this is the only plant that is there.
- Third, it's also not too far away from the US. There have been exports from there. However, because the entire US market has been a bit down, the exports have come down. But that opportunity has to come, will come. So with these three, four advantages that it has and having a very small share and expanding its capacity to at least 50% more than what it is doing now, the future is only extremely bright for it.
- Resham Jain:** And the last one, sir, is on competition. Has that -- because on online space, we have seen a lot of players and it sees that some kind of rationality has come back in the market. So any comments on the competition on the online side? And few of the online players have now started opening off-line mode as well, so how are you seeing the overall competition both on online as well as off-line side?

Rahul Gautam:

So Resham, point number one that I want to say is that as it has happened at other places in the world where online started much earlier, there is, what should I say, a dynamic balance between offline and online that will come about. Generally, it has been 15% of the total market. During the COVID times, and I'm talking of US, it went up to 20-plus percent. But now, has slipped back to 17%, 18%. And those people measure their numbers pretty accurately.

Therefore, as we go ahead or, let's say, what do we see as the end game, right? There would be online and offline, but the online will be about anything between 15% to 20%. If it's any upwards of 15%, I think that will be a great achievement. Currently, we should be tracking at more like 7%, 8%, 9% to 10%, something of that order. So there is that.

The second point is that as far as online is concerned, we, Sheela Foam and Sleepwell, are also present on it and reasonably strongly present on it. We took our time to get our strategy right. Now we have the strategy, and we would be doing that. Because of this balance between online and offline, all the people who started online and will continue in the mattress business will have the temptation to go off-line too, because 85% business is going to be there and 15% is only going to be online. So that's one part.

The second part is that online businesses have been losing money. And with this change in the sentiment and not only the sentiments of the industry but also the investors saying that we -- money costs, and therefore, we cannot continue to burn money. They have to go offline. So this will happen, and online will become or has become just another channel for to reach out to the consumers or to the customers. Otherwise, there is nothing more to it.

Of course, it came, it made it a lot and noise, and this and that. But at the end of the day, just to reach the 100%, this will have a 10% to 15% way or more of reaching the consumer.

Moderator:

The next question is from the line of Ritesh Shah, an individual investor.

Ritesh Shah:

One last question. Sir, what is that we are scouting when you are saying that we are open to inorganic growth? And any numbers that you can help us with either on the leverage side or whether the equation? Can it be EPS dilutive, or it will ensure that it will be EPS (inaudible)

Rahul Gautam:

Ritesh, you always ask very difficult questions. Let me say that on the inorganic growth what are we looking for. So as far as India and the Indian market is concerned, we look for businesses which are consumer facing and which would align. That is something that we think and also believe that we understand, which is the consumer. We understand the diversity in India that exists, and by our sheer presence and the number of years that we have been here, I think we do an okay job at it. So we are happy to look at businesses which are consumer-facing and which would align themselves well with what we do.

As far as outside of India is concerned, we would look at businesses which manufacture foam because that alignment comes easily to us, which is procurement of material, formulations, technologies to manufacture and just to sell foam to other people. We do not understand the

markets, the consumer outside India, and we will hesitate or by and large, we will not touch any business which does that. That is as far as the strategy or our philosophy is concerned.

On the Indian side, and let me just say the opportunities are there, are present. At this point of time, I may be constrained into speak anything more about it. Of course, our effort will be that it is EBITDA accretive. It should help, may not a help right away, but that at least on a stable basis, as soon as stability happens, etcetera, it should be accretive. It should give us good practice in the market. So at this time, Ritesh, I'll not be able to say anything more other than that because most of the time, we see the work in progress and do take your time.

Moderator: The next question is from the line of Amit Bohra from SBI Mutual Fund.

Amit Bohra: I have one question on Foam core business as well as Technical Foam business in India. It has seen a sharp decline in more than 20% almost decline. Any reason you want to highlight, or is it only the high base of the last quarter -- sequentially quarter? Also, the realization in the same seems to have declined by around 2% and 7%. So how does this price transfer, or is -- how does this happen in terms of falling raw material, how do you transfer the pricing to the end customer?

Rahul Gautam: So is this on the Foam coarse side or the Technical Foam side, which side? Because they are two separate segments? Which one -- or is it foam coarse?

Amit Bohra: Yes. Foam coarse, yes.

Rahul Gautam: So as far as foam coarse is concerned, they are generally sold to more, let's say -- not unorganized, but let's say, lesser organized people, and it's a business through the distribution channels. And therefore, the pricing is completely determined by us, and we change it as and when we think that it is the right thing to do. On the Technicals, however, on the Technical Foam side, the customers are B2B, more established. Some cases, even bigger than us, and we have formula for them, which is a rise and fall clause, and we go along that way, we progress that.

These numbers that you see, the shifts that you see, honestly, Amit, the quarter is too short the time really for looking, especially when the fluctuations are far and many year. And so there is inventory which plays a part, there is changing prices which play a part. In the long run, eventually, they get passed on. But in the short term and the way that the accounting is done, you may have this feeling or experience that we have shortchanged ourselves or we have reduced somewhere as far as bigger points are concerned. In this whole quarter, it's too smaller period but we have mechanisms in both to account for change in raw material prices.

Moderator: The next question is from the line of Rakesh Kumar, an individual investor.

Rakesh Kumar: Sir, I had a couple of questions. First, on what is your view on how the competitive scenario in the offline mattress industry is evolving across different regions? And that's the first question. Second, across the different economic buckets or, ASP buckets, where do you see the volume

growth really coming from in the mattress space? And what will be the impact on the margins going forward?

Rahul Gautam:

Rakesh. So competitive scenario in the various regions. Historically, most of the organized mattress manufacturing companies have been based out of South. And that's because historically, I'm talking at 20, 25, 30 years back, the coir and rubberized coir mattresses were primary the dominant ones. So at the moment, that number is definitely changing North and West, a little bit in the East, are increasing, the companies on the organized sector are increasing. However, South continues to be, because of historical reasons. And the share may be reducing, but still would be the largest as far as the organized mattress market is concerned.

On the products, I would say that traditionally, because the South has been the coir market, more products are coir, coir-based products. East also has been a bit of a coir market, they are like that. North and West have been more foam-oriented. The change from coir to foam is happening, but there is a baseline numbers which are there.

Besides these two, there is the spring mattress which continue to grow. They have a small baseline. They continue to grow, and I don't think that there is any regional center or differential in their growth. They are there. They just need to see, in order to face the various challenges of site is the sighting and base and the kind of bids that are used, and that's almost all across the country.

Your second question was on ASP. So I would say that currently, and this is for the single mattress, the 15,000 to 20,000 number, it's for a single mattress. Is that right, Rakesh or..

Rakesh Kumar:

No. Sir, my question is slightly different. My question was across different price brands. Let's say, one in which, for instance, Starlite and Feather Foam would belong, and the other one in which sort of, let's say, the Sleepwell brand would belong. Across these two buckets, where do you see the growth really coming from? And second, on a longer-term basis, as this plays out, what do you see the impact on margin to be?

Rahul Gautam:

The growth will come on a slightly lower ASP, undoubtedly. The efforts of all the manufacturers and including us, and we need to lead that way, we have to keep adding value to the product and keep it trying to increase the ASP. It's a slow process, quite impacted, adversely impacted during the COVID times. However, that effort will always continue.

Currently, if I was to look both the Feather Foam and Starlite that you are saying, definitely have a larger potential for growth in the areas or in the price, the price ranges that they are offering, which is close to about a 10,000 and on policy.

Rakesh Kumar:

Sir, on my first question, if you don't mind, I had a follow-up. My question was more around how do you see the competitive dynamics in different regions evolving? And as you pointed out, the number of organized players in the South is very-very high compared to the other regions. I just wanted to understand how are the competitive dynamic's different, and how are we performing across different regions?



Sheela Foam Limited
February 03, 2023

Rahul Gautam:

First, your last question first, which is to say how we're performing. And definitely, our real strong areas are North and West. Our share in the South is increasing, but we are definitely not leading that position there. There are others who lead that. And East is completely small market, but that market too, I don't -- I mean, we would be number two in that area. But it's also a small market, East side one.

How do we see that unfolding in the future? Rakesh, I would say that there would be more consolidation process is going on. There would be M&As, which will be on account of that. And because of -- it's only because of -- and so we acquire every company, sort of unfolds in its own time at somewhere or the other, does get a bit of a hurdle in its progress. And COVID has also not been very generous to us. So if I see the next two years or so, two years, I see a lot of consolidation happening here. And we are well placed for that. That's all I can say.

Moderator:

Thank you. Ladies and gentlemen, that was the last question for today. I now hand the conference over to the management for closing comments. Over to you, sir.

Rahul Gautam:

Thank you. Thanks a lot. And thank you for conducting the call, and thank you all for participating in this call. I simply hope that we have been able to answer your questions as well as we could, but however, to your satisfaction. I would say that if there are any more follow-up questions, please reach out to us or you can reach out to us through our advisors, Valorem Advisors.

I can say on behalf of myself and the entire team that, as always, it has been a good learning exercise for us. And we take this interaction extremely seriously and follow it up with whatever that we have done. So thank you very much and wishing all of you a very good weekend, and see you again in the next call. Thank you.

Moderator:

Thank you. On behalf of Emkay Global Financial Services, that concludes this conference. Thank you for joining us. You may now disconnect your lines.