



“Sheela Foam Limited
Q4 FY2018 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to Sheela Foam Q4 FY2018 Earnings Conference Call, hosted by ICICI Securities. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Anand Mour from ICICI Securities. Thank you and over to you Sir!

Anand Mour: Good morning everyone. On behalf of ICICI Securities pleasure to welcome you all to Sheela Foam Q4 FY2018 and annual FY2018 earning conference call. We have with us on the call Sheela Foam Management represented by Mr. Rahul Gautam, Managing Director, Mr. Dhruv Mathur, Chief Financial Officer and Mr. Tushaar Gautam, Executive Director. Over to you Sir!

Rahul Gautam: Thank you Anand, thank you very much and welcome to all the participants. So good morning ladies and gentleman once again. This is Rahul Gautam here and along with me is Tushaar Gautam and Mr. Dhruv Mathur, our CFO. So as Anand has said we are here to present the results of Q4 of FY2018 and the annual results of FY2017-2018.

So let me just begin with by saying that the quarter on a standalone basis has been quite respectful. We had a 12.3% growth on the topline and on the bottomline we of course had a very high growth that was almost about 118% primarily because in Q4 of FY2017, I remember in our annual call I had mentioned that because of the demonetisation effect we sacrificed some profit and said that we must try and get back our market share so the entire focus was on the topline and we did succeed to great extent on that, but the profits were low and therefore the high growth in the profit as far as the Q4 FY2018 is concerned. On a consolidated basis, we have again about 11% to 12% growth on the topline and 92% growth on the bottomline for that quarter.

Coming to the annual results so on a standalone we have 13.2% growth on the topline and we have 13.5% growth on the bottomline. On the consolidated basis, the topline growth is 11.2% that is 1976 crores we have achieved this year and 1776 crores was last year and on the PAT we achieved Rs.134 Crores compared to Rs.126 Crores before so that is a 7% growth. It is a little bit lower than our expectations primarily on account of the raw material price increases, which kind of continue and there was also about Rs.5 Crores loss on account of the GST starting and in our exempted unit in Kala Amb we are not getting the entire exemption, but getting only 58% as committed by the government. This actually brings us to the raw material side. So there is no doubting that this high price of one of our

major raw materials TDI continues to adversely impact us both in India and Australia; however, recently it has started receding from a high in the quarter of Rs.335 and now it is down to Rs.290, which is actually a 15% fall. We are also tracking this now a little more closely so earlier we just thought and looked at it more at a macro level, looked at it as phenomena, which would kind of be there for a while like it happens in most commodities, but somehow it is in kind of not going away. So we have a little deeper understanding of the global capacities and the largest consumer China. So the nameplate capacity that was existing was about 3 million tonne; however, for most of the year about 0.9 million tonne was out of action for some reason or the other and of course they were across the globe and there was for varied reasons right from gas leakage and fire to force majeure closer on account of environmental issues, etc.

Of late as we see 50% to 60% of the capacity, which was absent has come back and over and above in 2018 has added about 0.6 million tonne extra, so if I look today the demand is about 3 million tonne and the capacity that is existing is well over 3 million tonnes is about 3.2 to 3.3 going up to 3.6, when everything kind of comes on. So all indications are that now the time has finally come when this should be southwards, but as I said we can only prepare for it, we can do nothing more than probably just pray that this kind of goes away or get back to its normal level of what we believe should be today around 200 to 225 and I am saying this even with the increased oil prices that we look at, which is about \$80 per barrel or we look at the dollar, which has gone up to about Rs.68; however, both these things are not responsible for the huge or the high price and the price should come down to about 225 between 200 and 225 very soon.

It brings me to the event, which has happened last year, which is the GST and I would say that the demonetisation and GST are behind us and demand is picking up. I am not saying that the GST is fully implemented, probably it was a little naive on our part to assume that in such a diverse country, in such diverse circumstances especially in India where there is also diversity in tax compliance that big events like this would happen overnight or for that matter if an e-way bill comes everything will get kind of sorted out, but our understanding of the market and the industry is that people have found ways to negotiate or to navigate through this process, the industry, the commerce has found that and therefore is now kind of settling down and demand is beginning to pickup.

The big thing that was related with this was of course unorganized shifting to the organized side. I can only say there are some green shoots at the moment, but eventually it will happen and some of these processes, there are political compulsions that you cannot go hard then or you cannot go very hard as far as implementation of all this is concerned, so keeping

that all that in mind I think it will take its time, but it is beginning to happen. As far as we are concerned we said that the unorganized to organized will be driven by the GST at a pace, which is decided by the government; however, we can drive this unorganized to the organized through our efforts and which is really the brand awareness and all the promotions and advertisements that we can do. We have begun on a good footing as far as this year is concerned. I am also happy to convey that the industry has followed it up, which means that the mattress industry has a larger share of noise or music as you would say in the communication industry and the advertising industry.

There was one more topic, which I had intended to talk about, which was on the dividend part of it. Like always or like last year we are aware that there is considerable cash, which has been generated and will continue to be generated. The Board, which had its meeting on May 18, 2018, extensively debated this issue of distributing dividends. The board also took notice of the fact that even a large dividend would be relatively insignificant compared to the share value and the real return would be in the further increase of the share value. The Board also took cognizance of the fact that 85% of the shareholding is still with the promoters and as in the past their preference has always been to support and promote growth. The board then discussed all the M&A opportunities that were available for growth, which definitely are overwhelming. More so now that the economic conditions are becoming more and more conducive and as I said demonetisation and GST are of the past. The entire Board then concluded that the company must put all its might behind growth only both inorganically and organically. Inorganically as we have discussed or I have communicated in the past few conferences there had been some of the opportunities of last year and I confirm that a few of them continue to be on the table and there is a fresh one that has emerged. However, we have also decided now to act proactively on this side and solicit the inorganic opportunities rather than just wait for them to come.

On the organic growth side, once this unorganized to the organized transfer begins to happen in the market, we suddenly realized that the market size is no longer just Rs.3500 Crores, but is actually closer to Rs.10000 Crores because the unorganized side will also add to that, which of course means that we had to find ways to cater to that. We have already begun doing that by introductions of products, one Starlite, which is for the lower level and then for the mid level we have Feather Foam. For the organic growth, we will not wait for GST as I already mentioned to push this as we all know that it may take a little more time; however, we will continue to increase the promotion and the advertising and I say that this year has started with that and is already showing good results. We also have taken a call to invest into capacity and for improving both serviceability as well as capacity that once we take cognizance of the fact that the market size is not 3.500crores but is Rs.10000 Crores,

so as probably mentioned before about two possible units we now make them into 2+2 so two units will be enhanced in capacity and two fresh ones will be not held back anymore for the M&As to happen or for GST to kind of happen.

One more market, which we have been pursuing, is really the furniture market and that is the second largest market after the mattresses, which have been unorganized before. We have begun doing out bit organizing it, making products, which are far more conducive for the entire segments, starting karigar programs, which are the influencers and also reaching out to small furniture makers and having some kind of association with them so that the consumers gets better products and this market, which has been completely unorganized begins to take some format, shape and grow. It is true that not much growth has happened in the year, which has gone by, but the potential for that has not gone away and it has only went up further. So with all these pushes and the other steps that we intend taking we hope to see a great year as far as growth is concerned.

We just want to add one more thing from our side. During the IPO process and subsequent investor calls, we are communicated that Accenture had worked with us and produced a four-year plan like up to March 2020. Just about a month back we have now got Accenture on board to not only for the preparation of the plan, but for the implementation of the plan, so they are here with us and jointly we would be pursuing all the opportunities that we have.

I have one more last part to add, which are the CSR activities of the company. We take them very seriously and recently have added to our role of skilled development or to our initiative of skill development. We have added an academy, which prepares both young boys and girls for entry into the armed forces and this is a project, which has just began and has met with a lot of enthusiasm and hopefully with lot of success. So I am now ready to take any questions that you may have. Thank you very much.

Moderator: Sure thank you. We will now begin the question and answer session. We have the first question from the line of Nihal Jham from Edelweiss. Please go ahead.

Nihal Jham: Congratulations for good set of numbers. Sir just starting off on the quarter, could you give us a sense of what the price and volume breakup would be for this quarter and for FY2018 when you are looking at the standalone sales?

Dhruv C. Mathur: The growth has been for the corresponding quarter to this quarter, on mattress section there has been very good growth on volumes. The volume growth on mattress has been 12% to the corresponding quarter largely because of introduction of low price mattresses and the price growth has been 9%, this is as far as the mattress is concerned. However, the foam

side there has been some degrowth in the quarter largely because those foam core, which we have been talking, are shifting towards mattresses .So there is some degrowth in that and there is a price growth of 11% in foam so overall if you see the overall situation there is a growth of 12.3% in value, which can be divided around 4% in volume and 8% in value growth.

Nihal Jham: This is four?

Dhruv C. Mathur: This is for Q4 that is right.

Nihal Jham: So the foam segment is 4% volume and 8% value?

Dhruv C. Mathur: No, for the foam segment the price is around 11% and there is degrowth of 5% primarily because of foam core shifting to mattresses.

Nihal Jham: Sure Sir. Secondly on the TDI outlook you mentioned that current capacity I think stands at around 3 million tonnes and I think that includes new capacity of Sadara that is come on board of 3000 tonnes and the demand is 2 million tonne, which I guess would have been more or less stable over the last two to three years so despite say these dynamics being in place and I am guessing oil may have not changed too much why is it that there has been such a sharp increase has happened in TDI over the last few years?

Dhruv C. Mathur: So the global growth is generally about 4% to 5% just to say that it has absolutely not been stable, but about 4% annual growth that the globe experiences. The nameplate capacity has been about close to 3 million tonne. Out of that 3 million tonne I said 0.9 million tonnes has been going on and off for various reasons. Sometimes has gone away to the extent of about 0.6 million tonnes or 0.7 million tonnes, now all that is kind of coming back and those reasons were as I said gas leakages and fires and force majeure conditions because of environmental issues, etc. All that is beginning to come back so 3 million tonnes at the worst time was down to about 2.1 million tonnes, 2.2 million tonnes while the demand was close to 3 million tonnes. Today the 3 million tonnes is there plus 600000 tonnes, which is 0.6 million has been added and what we should by July or August should really be having a capacity of 3.6 million tonnes and the demand being about 3 million tonnes that is the equation that we should be having. Even today if I was looked at the capacity, which is actually in operation to the demand the capacity is far more and therefore it is just that little gust when the switch should take place.

- Nihal Jham:** So consistently over the last three to four years you are saying that 0.9 million tonnes to 1 million tonnes of capacity has not been available so you had more or less scenario of the demand being equal to the supply in this market?
- Dhruv C. Mathur:** So two years.
- Nihal Jham:** On the acquisition that you are mentioning we expect that it is going to be in the mattress segment itself we are looking at certain ancillary opportunities and any ballpark and what could be the potential you are ready to spend for these acquisitions?
- Rahul Gautam :** So I would say it is in the mattress and the accessory side, but it is just a little premature for me to sort of say anything more, a little premature.
- Nihal Jham:** I will get back in the queue for further questions. Thank you so much.
- Moderator:** Thank you. The next question is from the line of Amar Kalkundrikar from HDFC Mutual Fund. Please go ahead.
- Amar Kalkundrikar:** Sir could you share with us the number of mattresses sold for Q4 and for full year FY2018 in India?
- Dhruv C. Mathur:** So we have sold for Q4 Rs.314000 mattresses and for the year Rs.1140000 mattresses.
- Amar Kalkundrikar:** And out of this 1140000 how many could be Starlite?
- Dhruv C. Mathur:** They would be around 45000 to 50000.
- Amar Kalkundrikar:** And what is the value of mattresses sold in FY2018 in India?
- Dhruv C. Mathur:** The value of mattress sold in FY2018 is Rs.696 Crores.
- Amar Kalkundrikar:** Net sales value?
- Dhruv C. Mathur:** That is right.
- Amar Kalkundrikar:** Sir lastly in your opening remarks you spoke about starting two new units and also doing some capital expenditure or expansion in existing units, could you elaborate on that a bit more please?

- Rahul Gautam:** Go back to the times of IPO or little after that and we had identified two places this for absolutely new units and those were somewhere little on the hold because of some big acquisition possibilities, which have not gone away, but definitely the timing and all that is not in our hands, so today we have taken a call to say that we will not wait as I said for these acquisitions to come through. They will come when they will come and at the same time not really wait for the GST so to say that unorganized completely switches over to the organized side. We will go ahead with this in this year itself. I have mentioned this before that a new unit generally costs about Rs.50 Crores for us, which is the land building plant machinery and as far as the expansion in the other two units are concerned that should be of the order of about Rs.20 Crores each, so this spread beside the capex maintenance that we have or the maintenance capex that we have this should be in additionally about Rs.140 Crores, Rs.150 Crores.
- Amar Kalkundrikar:** That is it Sir. Thank you very much.
- Moderator:** Thank you. Next question is from Pritesh Chheda from Lucky Investment Managers. Please go ahead.
- Pritesh Chheda:** If you could give for FY2018, the volume and price led growth on your standalone numbers and specifically for mattresses separately plus foam care separately?
- Dhruv C. Mathur:** So I will give you all. First for the mattresses. The volume growth was 3.6%, last year we sold Rs.11 lakh and 2017-2018 Rs.11,40,000 and as far as foam is concerned, there was hardly any growth because most of the foam core were being transferred to low price mattresses and as far as the price is concerned on the bedding side, on the mattresses growth was 3%, on the foam side it was 18%.
- Pritesh Chheda:** So pricing growth was 3% on mattress?
- Dhruv C. Mathur:** It is because of the introduction of low price mattresses that the overall average went down despite some price increases, which we took last year.
- Pritesh Chheda:** And foam was 12%?
- Dhruv C. Mathur:** 18%.
- Pritesh Chheda:** The foam core part of the business and the furniture cushioning part of the business, the nature of the business would be B2B or B2C?

- Dhruv C. Mathur:** As far as furniture and foam core is concerned it is like B2C because it is sold all through distributor dealer channel network to the consumer. It is only the technical foam, which is sold to the industry which is on B2B basis.
- Pritesh Chheda:** The consumer here eventually buy is a final consumer or it would be one of the sofa manufacturers who buy?
- Rahul Gautam:** It is actually a bit of mix I mean the process is like this that an individual person who gets his sofa refurbished gets hold of karigar or an influencer who then arranges or facilitates the foam part of it. The decision making is by the consumer, but there is an influencer who is there, that is one part, which is the refurbishing. Then there are smaller furniture makers where they specify to the consumers that the cushions used are Sleepwell or Feather Foam and which enhances their value, so again the consumer take cognizance of the functional part of the sofa and therefore the consumer is involved in it.
- Pritesh Chheda:** Next I wanted to understand what in your opinion would be the mattresses market growth in FY2018?
- Rahul Gautam:** FY2018?
- Pritesh Chheda:** Yes, where we grew about 3% in volume and about 3% in pricing so about 7% correspondingly what would have been the market group?
- Rahul Gautam:** Of course we do not have any proper agency, which kind of tracks us or collects data, but all the feedback that we have from co-manufacturers and co-suppliers to this high, it would have been about 3% to 4%.
- Pritesh Chheda:** Lastly the pricing on your product line would be index to what TDI price, so are you covered for the existing TDI price?
- Dhruv C. Mathur:** So the existing TDI price is 290, we have covered up to 280.
- Pritesh Chheda:** Up to 280 so the last price increase that you took was at TDI price of 280?
- Dhruv C. Mathur:** That is right, but we have taken a recent price increase I mean that is relevant in this quarter effective from May 15, 2018.
- Pritesh Chheda:** And what is the extent of pricing increase there?

- Dhruv C. Mathur:** 5%.
- Pritesh Chheda:** Including that you say your index to RM of 280 or excluding that index?
- Dhruv C. Mathur:** Excluding that.
- Pritesh Chheda:** Excluding that your index to RM of 280 and then afterwards you have taken 5% price increase?
- Dhruv C. Mathur:** Correct.
- Pritesh Chheda:** Thank you and all the best to you Sir.
- Moderator:** Thank you. Next question is from Varshit Shah from Emkay Global. Please go ahead.
- Varshit Shah:** Thanks for the opportunity. Sir I just wanted to understand what is the maintenance capex for FY2018, is there any expansion or related capex, which has already part of it is done?
- Dhruv C. Mathur:** The maintenance capex last year was around Rs.40 Crores then we have bought some piece of land for around Rs.4 Crores and then we have started foaming process in Siliguri for which we have incurred Rs.8 Crores.
- Varshit Shah:** What will be the volume growth for April and May any indicative number and also my another question is what is your expectation on internal estimates for the TDI prices for the whole of FY2019, is there any internal estimation of working with or something like that?
- Rahul Gautam:** I mean as far as forecasting TDI prices for...
- Varshit Shah:** No, I understand it is lot of factors involved and you have already said the capacity is how it is playing out, but still anything probably it should have resolved at x level or probably all the trajectory you have already explained that should belong 225, so probably you expect that...
- Dhruv C. Mathur:** I would make a wild guess that it should be between 250 and 260 something on that order.
- Varshit Shah:** For the whole of the year average down, so basically withstanding 225 by end of FY2019?
- Dhruv C. Mathur:** Yes.

- Varshit Shah:** As I said any indicative number on the volume growth till now in the quarter, till April, May, how has that been could you mention that it has been a good start for FY2019 so any number on the volumes there, indicative ranges also?
- Dhruv Mathur:** Value wise I am aware right now, which is around 12% for this 45 days out of which since we have not much price increase logically it would be driven mostly by volumes.
- Varshit Shah:** Understood. That is it from my side.
- Moderator:** Thank you. Next question is from Parthiv Jhonsa from NVS Brokerage. Please go ahead.
- Parthiv Jhonsa:** You mentioned about the Accenture being partnered with you, can you just throw some light on it, what are you looking into it, what is the entire like how we have structured the entire thing?
- Rahul Gautam:** Just about two years back they had helped us to draw a four-year business plan. They studied the industry, they studied our position there and then made that plan. Now we have asked them to join in the implementation of that plan and their team is positioned here and our team and their team, we are kind of working on all aspects of the business, which is the front end as well as the backend and the organizations all three ends they are working with us.
- Parthiv Jhonsa:** So nothing else basically concrete as on date any opportunity?
- Rahul Gautam:** No, the opportunity is existing within the business.
- Parthiv Jhonsa:** I thought it is something, which is outside your business?
- Rahul Gautam:** No.
- Parthiv Jhonsa:** Something on the TDI front, I know you answered that you cannot give a trend, but what will be the comfortable range given the price increase, what will be the comfortable range like maximum you can take a cover up for the TDI price increase?
- Dhruv C. Mathur:** While increasing the prices at 5%, we have covered up to Rs.300.
- Parthiv Jhonsa:** Anything above Rs.300 was bad and anything below that was good for the company.
- Dhruv C. Mathur:** That is right. Vis-à-vis today's situation.

- Parthiv Jhonsa:** All my questions have been answered. Thank you so much and best of luck Sir.
- Moderator:** Thank you. The next question is from Sandeep Agarwal from Naredi Investment. Please go ahead.
- Sandeep Agarwal:** My question is regarding capital expenditure for FY2019 and 2020?
- Dhruv C. Mathur:** For which year?
- Sandeep Agarwal:** 2018-2019 and 2019-2020.
- Dhruv C. Mathur:** It all depends upon the timing .As the chairman had just told that we have to put in two more plants and some capacities to be expanded, so it is a function of timing. Our normal capex, maintenance capex, is in a vicinity of Rs.40 Crores. As far as the two plants and the capacity expansion is concerned. I cannot predict the exact timing because that will depend upon location and all the identification of land etc. So we should expect let us say if we assume out of Rs.150 Crores, 50% will go this year and 50% next year, so Rs.100 Crores this year and almost same number next year including maintenance capex.
- Sandeep Agarwal:** Thank you. My next question is regarding investment of Rs.60 Crores as a current investment and Rs.37 Crores as a noncurrent investment?
- Dhruv C. Mathur:** That is just treasury management. That is as good as cash and bank balance.
- Sandeep Agarwal:** Thank you Sir.
- Moderator:** Thank you. Next question is from Pavan Kumar from Unifi Capital. Please go ahead.
- Pavan Kumar:** I just wanted to understand what are the kind of revenues that we are presently making from the furniture segment, furniture foam that we actually supply and how big is that particular market and how much of it has gone up and what is the opportunity?
- Dhruv C. Mathur:** About 18% to 19% of our total revenues are coming from furniture.
- Rahul Gautam:** That is about of that order Rs.300 Crores. As far as the market size is concerned, our estimate is that it is probably we would be addressing just about 2% to 3% of the market, if you really look at the entire market of the country, but of course there is a lot of it, which is unorganized. We do not have any formal numbers. As far as our research is done, it is

continuing between the organized and the unorganized, so really it is difficult to say what is the market. It would be tough to do that.

Pavan Kumar: But what would be fair to assume that here in this particular segment the growth can be in the range of some 20%, 25%?

Rahul Gautam: Absolutely. The growth that we have also, at least internally thought about, is of that order and it will only be based on the organizing capacity and based on reaching out and having products, which address those ends of the market, with the lower end of the market and therefore it could be much lower.

Pavan Kumar: But what would be our strategy because the thing is from what I understand most of this business is done by the karigar and they would rather prefer to be the material from unorganized supplier themselves what will actually make them?

Rahul Gautam: You are absolutely right that karigars or as we call them as tarkhans in this part of the world, they are the ones who influence the decision, so we have a program in place called Anmol Bandhan, which has been there for the past three years where the karigar is registered with us and the dealer from where he picks up the material. He accumulates points and is then rewarded. We have regular meetings with these karigars. Currently they are in the order of about 25000 of them, which is an increasing number and we trained them, we tell them about qualities of foam, we tell that to even upholster. All those programs are already in place. So that is one end part of it. The other is that there are people who are small manufacturers of furniture and we have begun partnering with them to ensure that the product, of course the timber and the upholstery is decided by them, but the contents or the functional part, which is the foam part that is from Sleepwell and foam to be displayed, so that the consumer gets confidence that the product is good, so that process has begun recently. The karigar one is on for three years and as I mentioned to you 25000 and number which is growing by the day.

Pavan Kumar: One last question. Technical foam what is the portion of our revenues and how is different from the traditional foam that we actually manufacture, what are the applications?

Rahul Gautam: Traditional foams have catered to basically cushioning requirements, which is comfort and support so whether it is a bedding or it is furniture, it is a combination of comfort and support that is what traditional foams do. Technical foams have this plus one or two critical parameters, which makes it different, so for example we would have sound absorption as a technical foam. The sound absorptions are used in these canopies, which are around generators and in recording rooms and all that which is to absorb the sound and make a

generator a silent generator. Similarly there would be requirement like for shoes and laundry there is a requirement that the foam needs to provide comfort and support, but also needs to be UV stable, because with sun foams tend to yellow up and if the textile is white in colour it will show up, so we have special characteristics imparted to the foam. Those are foams, which are known as technical foams. They are also foams, which are used for packaging, which do not impact the packaged contents ,for example electronic items, there should not be any static charge produced in the foam and it provides the cushioning that is necessary, so we have antistatic foams for that, so they are the special grades of foams, which are used for applications, which are little beyond just comfort and support and that is why they have called technical foams.

Pavan Kumar: What would be the size proportion of revenues right now?

Dhruv C. Mathur: Around 20%.

Rahul Gautam: So it is 20%.

Pavan Kumar: This is only manufactured in Australia?

Rahul Gautam: No, it is manufactured in India. Generally we do not exchange foams because foam does not travel very well, it is very expensive to transport from one place to the other, so we have completely equipped to cater to the needs here and in Australia the supply from Australia itself.

Moderator: Thank you. Next question is from Pritesh Chheda from Lucky Investment Managers. Please go ahead.

Pritesh Chheda: If you could share your outlook on the technical foam side and the Australian business side for the next couple of years and second in the Accenture mandate or Accenture help, what are the key target areas and key milestones that Sheela Foam had said for itself for the next two to three years if you could spell out something?

Rahul Gautam: As far as the Australian side is concerned, it is a pretty stable business in a matured market primarily supplying to the bedding side, the furniture side and the technical foam side; however, we are the largest manufacturer and just because we are completely focused on to foam manufacturing, we continued to grow with time, but albeit that the growth is small I mean 3%, 4%, 5% kind of growth both in Australia and in New Zealand.

Pritesh Chheda: You have a plant there or you supply from India?

- Rahul Gautam:** No as I have mentioned couple of times before, foam is very difficult to transport because it is a very voluminous item, therefore we have plant in Australia. We have actually five plants across Australia because Australia is almost a continent, the distances between one city to the other is large, so we have five places where we do cater to our customers in Adelaide, Melbourne, Perth, Sydney and Brisbane and a place in New Zealand in Auckland. So the Australia and New Zealand markets are similar and catered by us there. So there the growth forecast is about 5% to 6% as time kind of goes by because it is a very stable and a matured market. Coming back to your question on Accenture. They helped us to make the four-year plan, which is improvements, the entire value chain starting from inputs, manufacturing, value additions, front end, newer markets, all those things were already identified two years back and now some of them got implemented in the two years that went by, but some of them had still to be and they would be working along with us to do that.
- Pritesh Chheda:** Any goal post on margins and the size of business that you want to attain post the Accenture engagement, any milestone, any KRS, which have been settled if you would like to share on it?
- Rahul Gautam:** We had actually shared it at that time, the EBITDA is to go up.
- Dhruv C. Mathur:** Gross EBITDA level including other income was to go up to 17%, which was earlier around 12%.
- Pritesh Chheda:** Excluding or including other income?
- Dhruv C. Mathur:** Including other income since we become listed now we are focusing on the core EBITDA, so the core EBITDA has to go up to around 16%, 15.7%.
- Pritesh Chheda:** This is excluding other income right, 16% excluding other income is a target?
- Dhruv C. Mathur:** Right.
- Pritesh Chheda:** This is at the consolidated level?
- Dhruv C. Mathur:** This is for the India level.
- Pritesh Chheda:** India business?
- Dhruv C. Mathur:** Yes.

- Pritesh Chheda:** Any other targets on the size of the business?
- Dhruv C. Mathur:** We had then set up the target for around Rs.3000 Crores in the next two years.
- Dhruv Mathur:** That is March 31, 2020, the topline to be 3000 Crores- net revenue.
- Pritesh Chheda:** How are we moving towards achieving it?
- Dhruv C. Mathur:** So we have the number of the year ended March 31, 2018 . One of the purposes to engage Accenture is to achieve the targets.
- Pritesh Chheda:** Sir on the India business side where you are about 1600 to 1700 Crores?
- Dhruv C. Mathur:** Yes that is right.
- Pritesh Chheda:** To move from 1600, 1700 to 3000, what all needs to be done in the operations and where are we?
- Dhruv C. Mathur:** So, I think that is very long answer to be given on this call. You can talk to me offline and I can answer all the measures to be taken for achieving that.
- Pritesh Chheda:** Okay.
- Moderator:** Thank you. The next question is from Priyanka Khandelwal from ICICI Prudential Mutual Fund. Please go ahead.
- Priyanka Khandelwal:** Thank you for taking my questions. Can you help us with the average TDI prices in FY2017 and FY2018?
- Tushaar Gautam:** So, I think TDI prices are there on our site , which we have given, but for your benefit I can give you for the quarter.
- Priyanka Khandelwal:** I just need the average prices for yours rendered already.
- Dhruv C. Mathur:** If you are talking of the year, there has been increase of around 41% in the TDI prices, so the prices in the year 2016-2017 was around Rs.193 and for the year 2017-2018 it has been Rs.272.

Priyanka Khandelwal: Sir my second question is on the price increases as per your experience of consumers regular into price increases or does it result in postponing demand or downtrading and how do we address this trend?

Rahul Gautam: Let us say it is obviously a very difficult balance that we have to do and therefore most of the time the price increases, which tend to be a little more prudent or little more conservative on ensuring that the consumer just begin to postpone the purchases. I think we have done reasonably well in the past where the price increases have really not sort of shoot the customer away; however, there have not been much of growth happening and I think now the time is where visibility in the prices should be there and growth should happen, but in the immediate past I think there has been postponement of purchases and that is also because of the demonetisation and GST, so it has been a mix of everything plus the price increase.

Priyanka Khandelwal: My third question is on the, there are a lot of online products that have now come up on Amazon and other places, do you think the touch and feel factor is very important while buying a mattress or consumers were actually look to buy stuff online?

Rahul Gautam: So for a product like mattress, yes you are quite right that a touch and feel is necessary; however, in my opening remarks I did not mention that we have an online brand, which we have just released or begun is called Sleepex and the product is catering to people who look at convenience and people who do not have time to go and buy and sort of move around and have let us say a certain faith on the company Sheela Foam and its brand Sleepwell. The touch and feel part of it is somewhere addressed by giving them a few night free, so that it comes to you, you feel it and if you do not like it ,will take it back that is one. Second, it is also our intention to open some experience stores to go hand and hand with the online sales, so these experienced stores would only book the material, but however will have material, which you can go and see. If there is a consumer who is very finicky can actually go and experience it and still order it online and we can supply that, but you are quite right that for items like this people do want to cater to the touch and feel part. We do have some other ways to sort of change the feel a little bit even when the person has purchased the mattress which has been delivered and suddenly finds that it is either too hard or too soft, we have ways and means to change that feel, so it is a new thing, which is opening up; however, I would say that there would always should be enough market for the online material.

Priyanka Khandelwal: Thank you so much Sir.

Moderator: Thank you. Next question is from Nihal Jham from Edelweiss. Please go ahead.

- Nihal Jham:** Thank you for taking my question again Sir. Just wanted to check what is the kind of sales that you are looking out for the Starlite brand in the coming year?
- Rahul Gautam:** Difficult to discuss this target very specifically, but multiple times, closer to about 80 to 100 Crores.
- Nihal Jham:** Sure and just on the pricing increases, do you remember that last year in April we are taking a 7% price increase and you just mentioned that you have taken a 5% price increase recently, in between what is the price increases have you taken?
- Dhruv C. Mathur:** Around 3%, we have taken once more.
- Nihal Jham:** And when was that?
- Dhruv C. Mathur:** November.
- Nihal Jham:** Sure Sir. Thank you so much.
- Moderator:** Thank you. Next question is from G. Vivek from GS Investments. Please go ahead.
- G. Vivek:** Number one is the competition intensity increasing in Indian market with the advent of not many brands in both online and physical mode, number two what is the value add we are getting from Australia subsidiary and why no dividend?
- Rahul Gautam:** So could you just repeat the question, the Australian part?
- G. Vivek:** Yes, what is the value-add we are getting from our Australian subsidiary because not much is being contributed to the bottomline and either to the topline?
- Rahul Gautam:** There is no doubt that the competition intensity is increasing. Our experience is saying that because of the large unorganized sector that is there, all this added intensity is only growing, the market and sort of pushing it from the unorganized to the organized at a quicker pace than it would have, therefore we do welcome this as I said that for at least many years there is enough, as long as the unorganized keeps shifting to the organized side. On the Australian, yes last year the addition to the bottomline has been very little and this is primarily on account of again the raw material prices where we decided not to pass on the increase to the consumers just so that the transference does not take place to another or people start looking at alternate materials or we open the space up for competitors and I think it was a good decision. Of course we did sacrifice the bottomline, but as this year has

begun and the prices have fallen I think that was the right call. Generally, the bottomline has been about 6% to 7% for past many years. Last year has been lower on this account, but this is probably one of the years we have otherwise it is a pretty matured market.

G. Vivek: What is the value added public listed company like Sheela Foam is getting from our presence in Australian market Sir?

Rahul Gautam: There are two to three things, one is there is a lot of synergy in the raw material purchase side, the suppliers are global people, it just enhances our negotiating capabilities with those suppliers. Second is that as far as technical capabilities are concerned and as far as market or consumer maturities are concerned, the Australian market is way ahead of the Indian market and all kinds of products that gets developed and that part are going into the market we are ahead of that and capabilities of absorbing that and introducing those products here. So that is a big plus that we have.

G. Vivek: What is our dividend?

Rahul Gautam: Yes I have said that we have big discussion about that in board and what we decided was that the growth opportunity is so overwhelming that we must put all our might onto the growth parts of it whether it is inorganically or organically and probably the returns would be far more to the shareholder if the share price goes up, any kind of a dividend would have been very insignificant, even whatever we did, which is because the share value is where it is or it should be 85% to the promoters, so we just said that we must go after the opportunities that are there for growth.

G. Vivek: Coming to the opportunity size, what impact is this rural roads and lot of road constructions, is it having some positive impact and lastly about that Saudi plant of TDI is it supplying and what is the impact on TDI expected in future?

Rahul Gautam: So the Saudi plant has started, Sadara plant has started supplying to us, but it is still taking its time to ramp up its full capabilities and that is one I can build those numbers up when I was talking about the international capacities and the current capability too, but it is ramping up, we have already got a couple of consignments from them, product is good and fine and they are ramping up and your first question was on the rural side was it?

G. Vivek: There is a lot of road constructions happening, any positive impacts on our company?

Rahul Gautam: Absolutely because foam and its products and mattresses are voluminous item and they need to reach the consumers, therefore you need infrastructure, you need roads, you need

trucking, you need to reach it right up to the consumer. If there was no road connectivity it is very difficult to reach the product and all this is helping that foam and its products and mattresses to reach the consumers. In fact I would urge you to read the latest business today where they talk about these newer companies, which have come to deliver even voluminous products like refrigerators and all. Now it is possible to be reaching them up to the consumers or up to the smallest of the remotest of the villages just because the road and the other infrastructure exist.

- G. Vivek:** Thank you.
- Moderator:** Thank you. We will take one last question. The last question is from the line of Pavan Kumar from Unifi capital. Please go ahead.
- Pavan Kumar:** So regarding this TDI prices do we expect this particular 270 levels to gradually come down to 220 levels Sir by around two year period or what is the kind of outlook you have at least visibility?
- Rahul Gautam:** So as I said this based on whatever inputs that we have, which is a little deeper understanding of the manufacturing capacities, the demands and probably a little more understanding of the largest TDI market, which is China. We believe that the trend had already reversed and they mentioned that in this last part of the last quarter itself or early part of this year it has already started coming down to or just come down to 290, which is almost a 15% drop from 335 level, so it is forecast, I would not say it is forecast, but it is hope, desire, any intelligent guess and prayers that it should come down quickly to a level of 225.
- Pavan Kumar:** Sir China is a big player on the supply side?
- Rahul Gautam:** It is on the supply side as well on consumption side and it is the biggest player.
- Pavan Kumar:** What might be the proportion on the demand supply side being contributed by China roughly?
- Rahul Gautam:** Yes, I will make, I have some idea on that. So let us say the total global market is about 3 million tonnes, the Chinese market would be close to about 6000 KT, which is about 1 million tonne supply and 0.6 million consumption.

Pavan Kumar: Can you just give us an idea on the sensitivity of TDI to the crude prices because the comments that I am hearing from the call is it is rather a more of a demand supply equation and crude prices do not actually influence this much, is that the right understanding?

Rahul Gautam: That is a right understanding. So in very far past the crude prices had some impact, but there was always a lag between crude prices and the prices of the TDI, but for the last of couple of years there has been only a supply demand situation, these high prices that are there whether crude is 60 or 80 or even 100 it does not matter, these prices are high on account of supply and demand, and that is what I said that even if today the crude has gone up to \$80 if we account for that, and account for Rs.68 to a dollar, remunerative price for suppliers should be around 225.

Pavan Kumar: Fine. That was from mine. Thanks.

Moderator: Thank you very much. That was the last question. I would now like to hand the conference back to the management for any closing comments.

Rahul Gautam: So thank you very much Anand for hosting this on behalf of ICICI. I would not want to repeat myself too much. We have made some opening remarks and we have had a very good session of very pointed questions and surely these are the questions, which have been asked by the investors, which also are on top of mind as far as we are concerned, questions on TDI, its availability, its coming to kind of a normal price. The growth opportunities, how GST and demonetisation are now kind of history and again I repeat I said that GST implementation may take a while, e-way bill has really come, may bloom in its full glory in a while, but people have found, commerce has found its way for the business to kind of go ahead, which is good for us and the growth with the increased amount of promotion and advertisement on our part and with capacity, first capacity that we intent to create with infrastructure as one of my friends mentioned that is reaching the nooks and corners, growth has to happen and will happen. So with that, I just say thank you once again to all the people who participated and to Anand once again. Thank you very much.

Moderator: Thank you very much. On behalf of ICICI Securities that concludes this conference. Thank you for joining us ladies and gentlemen. You may now disconnect your lines.