"Sheela Foam Limited
Q4 FY2019 Earnings Conference Call"

May 04, 2019

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Moderator: Ladies and gentlemen, good day and welcome to the Sheela Foam Limited Q4 FY2019 Earnings 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. Vismaaya Agarwal - ICICI Securities Limited. Thank you and over to you Sir!

Vismaaya Agarwal: Thank you Nirav. Good afternoon everyone. It is a pleasure to welcome you all on behalf of ICICI Securities for the Q4 FY2019 Sheela Foam earnings conference call. We have with us today from the management side, Mr. Rahul Gautam, Managing Director, and Mr. Pankaj Garg, CFO! I now hand over to you Sir for your closing comments.

Rahul Gautam: Thank you Nirav and thank you, Vismaaya. I am Rahul Gautam, Managing Director and along with me is Mr. Pankaj Garg, he is the CFO of the Company. First of all, I just want to thank you that you people have agreed to join us at such a short notice and on a Saturday evening. So it must be tough on a few, but I remember the last call that we had on Friday one little comment was that there were many investor calls happening at that time and therefore it was tough for people, so I think one advantage that we see for Saturday is that people would be free here.

Let me begin by informing you that our Board meeting has finished some time back and we have taken our results both the Q4 and the annual results, and it has successfully concluded. The important path that was discussed in the Board meeting which was really the economic scenario which does not seem to be very good at the moment, and more so especially like the automobile side, the four-wheelers and the two-wheelers have taken a large cut. One, it is reflective of the economic conditions in the environment. Second, we are indirectly impacted because 20% of our materials go as technical foams and quite a large chunk of that is supplied to the automobile industry.

Fortunately or unfortunately, we do have a large market share of that are impacted by that. However, the things which are impacting the automobile sector similar things are a part of the market, the little bit of uncertainty happening because of the elections, insurance costs, and the credit availability I think these are factors, which are present in everybody's experiencing them.

But one redeeming feature which we noticed recently was the GST collections for April which was the number of 113000 Crores probably the highest ever. Now this my read or my take on this is that this is people's who really want to start complying with the law and this is the financial year starting therefore they have begun getting into the system. So to me it is an indication of that the compliance part is going to keep increasing.

As far as our industry goes, we operate in two segments; one is the manufacturing and supplying products or flexible polyurethane foam and second is the bedding industry side. The feedback that we have from the industry is that the growth has been close to 5% and we are fortunate that we have grown higher than the market growth.

On the mattresses of course it is far more difficult to define the market as there is a continuum between the unorganised sector and the organised sector and at best one can look at the mattress as the modern mattress market, but on the same from the talk of 15 to 16 manufacturers the indication is that the growth in pieces have been of the order of about 10% and I think we have clocked very close to it. Though I must sign off this talk by saying that whatever we targeted for it has been a little lower, but then the market conditions have been a bit tough.

I do want to touch upon the raw material side. The two major raw materials that we have Polyol and TDI, Polyol has been pretty steady for quite sometime and has marginally increased, but best within our band. As far as TDI is concerned, we saw a very fast track down last quarter and to my mind it actually went below what is sustainable price, I mean what the course which were hanging around Rs.135 or Rs.140 a kilo and that is definitely not sustainable. Our belief is that these stable prices is somewhere around Rs.150 and that it should now be moving around in that range.

This fast dip that happened last quarter could not really be converted to a profitability or a margin uptick as far as Sheela Foam is concerned that is because of the stock and the rate at which the price went down but now that all the old prices and everything is over, in this quarter we would see the impact of the lower raw material prices. If I look at the annual performance of course we have already uploaded the quarterly Q4 performance of the standalone company and the consolidated performance as well as the Q4 performance of the Australian subsidiary and annual performance of the subsidiary.

Let me just say that the Australian subsidiary first that has done reasonably okay. The sales had been flat because it is a mature market; however, the EBITDA percent has gone up and the PAT has gone up by many percentage points. If I remember correctly it is about 9.5 Crores after conversion and that is a huge growth compared to the previous year.

For the consolidated numbers that is India and Australia put together sales have been up by about 6.5%, EBITDA levels are above 8% plus and the PAT has been there is an increase in the overall PAT, but it is a very, very marginal one, but in these difficult times, we have been able to maintain both the topline as well as the bottomline. I think augers well for the company because when raw material prices go down there is a quite a bit of the company business which has to put the prices down specially like the B2B businesses like automobile etc., and that gets reflected both on the topline as well as the bottomline. And the advantages of the lower raw material prices creep in once these stocks and the other things are over.

So, with all this done and being in the middle of the Q1 of this year and let us say motivated and encouraged by the high GST earnings of the government right in the first month of the year we look at good times as we move forward. The uncertainty of the elections will also get over by middle of May or 23rd of May, and the stabilisation will happen.

So with these words, I would throw the conference open for questions and we would be happy to take any clarifications that you have.

Moderator: Thank you very much. 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. Sir, my first question was that could you give a sense of the revenue growth breakup for the major segments we have which is mattresses, furniture-cushioning, foam Cores and Technical Foams and I will just ask post that?

Rahul Gautam: This is for the quarter or for the annual?

Nihal Jham: For the quarter?

Rahul Gautam: I am handing it over to Pankaj who will do that.

Pankaj Garg: Regarding the volumes there is a small increase in the number of pieces. This has grown 3.6 lakh pieces and the average rate has been 5444. Number two is about the furniture-cushioning, which is about 1800 tons and the average had been about Rs.370 per kilo. Do you want more?

Nihal Jham: Yes, if you can just give me the YOY growth like bedding volumes, you said was 3.6 lakhs units what was the same number for Q4 FY2018?

Pankaj Garg: Q4 was 3.22, last year Q4 YOY.

Nihal Jham: And the average realization?

Pankaj Garg: Average realization was 5687.

Nihal Jham: Sir similarly for furniture-cushioning?

Pankaj Garg: Last year was 2193 was the tonnage and Rs.374 was the average.

Nihal Jham: Rahul ji on the bedding volumes, I really understand that this year we had the benefit of Starlite doing really well and we have seen that in the previous three quarters also, so if I exclude that is it still that the Sleepwell Brand is something that the growth is not coming as per expectations or how do you like to see it?

Rahul Gautam: So, if I was to cut in the end of the last year, I would say the Sleepwell is, let us say if I was to take a cut on end of December which is Q3 at that time I would say Sleepwell growth would have been in the negative as number of pieces is concerned, but as we move to Q4 we find that both of course Starlite and Feather Foam are growing, but the Sleepwell growth has also begun and therefore if we were to move forward beyond Q4 all three of them are growing.

Nihal Jham: So, basically this quarter it is mainly the furniture-cushioning and along with the other two segments, which is Foam Cores and obviously Technical Foam because of auto, which has impacted our revenue growth, would that be the right way to look at it?

Rahul Gautam: Yes that is right.

Nihal Jham: Sir just on furniture-cushioning any specific reason why we have seen a fall in volumes there? Is that something that is related to the general environment or something we are specifically targeting?

Rahul Gautam: No, we are not targeting. I think it is just the general environment it has been there. And because of the higher products the people to tend to use lesser and lesser of foam and that is the reason there has been a degrowth on the furniture side, but in some of the programs which really would encourage or which will motivate the growth they had to be slowed down because of some environmental activities, but eventually I think this is a temporary dip. It will pick up especially looking at programs, Saathi programs or the Anmol Bandhan Program that we have the Saathi, the cushioning partners programs that we have they just little more activity that needs to be there. So my assessment on this is that this is a temporary dip.

Nihal Jham: Sure Sir. Sir, the next question was on the margin bit, so this quarter we have seen an improvement in gross margins, but again there has been a sharp increase in other expenses and the run rate of this number has only been increasing for the last three four quarters, while we did realize that in the earlier quarters we mentioned about certain one-off expenses related to conversion of MBOs but what explains again the increase in expenses for this quarter?

Rahul Gautam: It is primarily on account of huge pressures on selling and the markets have been down, they have not performed as we were expecting and there needed to be extra efforts on making the topline happen. But again without giving any specific numbers, I can see that easing off. That is there and Q4 being the last one, we did push for extra sales.

Nihal Jham: Just one last question on this, in the press release you have mentioned that we will see the benefits of reduced raw material prices starting Q4 FY2020 as we see that the prices are already down, any reasons for saying that the benefit will come from the end of next year or something?

Rahul Gautam: No, I do not know. I think we must check that out. The benefits are not coming from Q1. Q1 is where we are right now.

Nihal Jham: Absolutely.

Rahul Gautam: It is probably a typo error. Please correct that. It is from Q1.

Nihal Jham: Thank you so much. I will get back in the queue for further questions.

Moderator: Thank you. The next question is from the line of Varshit Shah from Emkay Global. Please go ahead.

Varshit Shah: Thanks for the opportunity. Sir, first basic question we just had a YOY 1% growth in revenue. Of course, I understand the nuances of the B2B business, so excluding that if we see for the consumer segment, what should be the breakup of volume growth and value growth in the topline or maybe overall as a company, whichever way the data is available?

Pankaj Garg: The first category, which we were basically answering to Nihal, is on the bedding. So the bedding volumes have gone up. Number two is furniture-cushioning which is slightly down compared to YOY last year and the comfort foam has grown by a little percent in my mind, then if we come to technical that also has shown a slight decrease, which is small percentage point, so in terms of volume we can say if we compare bedding plus foam category we sell we are higher than the Q4 of last year.

Varshit Shah: Understood, what will be the average TDI for the quarter and what would have been the same last year, in Q4?

Pankaj Garg: We will get back to you on this specific query.

Varshit Shah: One last bookkeeping question. What was the reason for lower tax rate for this quarter, it is lower than the average?

Pankaj Garg: We have done two things. One is we had created a gratuity fund, which has saved the tax for us. Certain investments we had done where the income tax rate is at 10% instead of 30%.

Varshit Shah: Then that would have been reflected in higher other income, so would that be effected in the next quarter you are saying?

Pankaj Garg: If we are talking about the higher income on the investments part, the income would remain the same which is 8% to 9%, but when we invest in certain securities, they are taxed at long-term capital gains of 10%, so that way we have saved 20% on certain investments, and not all.

Varshit Shah: So going forward next year we should assume a similar tax rate for FY2020 would that be okay?

Pankaj Garg: Sure. Why not.

Varshit Shah: Any tentative colour on full year cash flow, large picture?

Pankaj Garg: Sorry?

Varshit Shah: Any colour on your full year cash flow for FY2019, operating cash flow mainly?

Pankaj Garg: Cash flow would be in the similar range. The capital budgeting is all on the similar line and we target to achieve a larger number, which we have discussed and the cash flows would definitely be high compared to this year.

Varshit Shah: Just one last question to Mr. Rahul and I will get back in the queue. Rahul Sir, how do you see as you mentioned that things are easing out and the pressures are easing out, any colour on full year FY2020 guidance maybe on volume or what is the internal target, which you have given to the team? What should we look forward for FY2020?

Rahul Gautam: I cannot specifically talk about the target, but I can only say that it is substantially higher than what we have been doing in the last year or the year before, what we have achieved in the last, substantially higher.

Varshit Shah: That helps. Thank you.

Moderator: Thank you. The next question is from the line of Rohan Gandhi from Anand Rathi. Please go ahead.

Rohan Gandhi: Good evening Sir. Can you give me the volumes number of furniture tons, I missed out on that?

Pankaj Garg: You are talking about furniture-cushioning?

Rohan Gandhi: Yes.

Pankaj Garg: Furniture-cushioning the tonnage is 1979 in this quarter and the average was Rs.369 a kilo.

Rohan Gandhi: Last quarter it was?

Pankaj Garg: You are talking about Q3?

Rohan Gandhi: Yes, Q3 and Q4 FY2018 as well?

Pankaj Garg: Q4 last year was 2193 tons and average was Rs.374 a kilo and Q3 this year was 2361 tons at an average of Rs.380 a kilo.

Rohan Gandhi: Thank you.

Moderator: Thank you. The next question is from the line of Shiva Kumar from Unify Capital Private Limited. Please go ahead.

Shiva Kumar: Thank you for the opportunity. Sir, in your opening remarks you made a comment about the benefit from a lower raw material price and you said that you expect further benefits in this quarter by that you meant even in Q1 we can see additional benefits flowing in Sir?

Rahul Gautam: That is right.

Shiva Kumar: Sir, with regards to this higher other expenses you said that there was some one offs which had happened and you expect them to ease of, should we expect them the easing of to happen gradually over multiple quarters or you expect that to happen even in Q1 of FY2020?

Rahul Gautam: I think a fair assessment of that would be that it would take a little bit of time, but it will happen maybe in the next two quarters, but it would definitely be on a ramped down.

Shiva Kumar: Sir, any conversion of additional MBOs to EBOs which have happened this quarter?

Pankaj Garg: Not very high.

Shiva Kumar: What is the EBO count now?

Rahul Gautam: 3800 is the EBO count now. Some conversions are taking place, but they are read afar-slower pace and far slower rate. 850 of them but of course it is going to slowly go down. For example this quarter the target was 230 out of them 150 have already happened in April, so obviously in May and June it will kind of ramp up. I think slowly we would coming to some kind of an asymptotic level in the number of EBOs and then the efficiency of their ability to attract consumers and convert consumers that would really start playing out, and impacting the business.

Shiva Kumar: Sir, have we done any study because it has been two quarters since we started this aggressive conversion of MBOs to EBOs, are you seeing early signs of those targets being achieved in terms of the ability of the EBOs to sell the higher margin products and increase the Sleepwell products branding with the customer? Is that happening?

Rahul Gautam: So I think the ability to sell higher end products is definitely happening, but I guess the efficiency of the EBO and especially when you have more than or around 90% of the sales grew EBOs is getting reflected in the overall situations which we have said has been not up to expectations. So I think to your first question saying that is the average selling price increasing in EBOs, yes it is. As far as the overall sales is concerned, it is not up to the mark, but should be beginning to happen.

Shiva Kumar: Right. Sir, you made one comment with response to a question on how we see FY2020 panning out, and you said that the FY2020 volumes and revenue should be much better than FY2019? What gives you that confidence?

Rahul Gautam: It is a good question. I guess it is your own experience of what you have seen in the last year or two years. Thrashing out the reasons that why the sales or the bottomline has not been what it has been, what corrective steps you have taken and what do you see happening in the coming years and the experience that you have had as far as a part of Q1 has already happened. I mean, we are one month and a couple of days into it, so you experience all that. So, I am not going to go to specific numbers, but all that gives me the confidence that it will be higher than the last year.

Shiva Kumar: Right Sir, and did the Board get a chance to discuss the dividend policy going forward?

Rahul Gautam: Not today. That was not because by the time the results get presented and discussed but it is a topic for discussion for the next board meeting and it was mentioned that it will be discussed at that time.

Shiva Kumar: Sir any scope for inorganic growth or you would go slow now that the dilution is done and dusted?

Rahul Gautam: No, we would not go slow. I do not know why you believe that. On the other hand, we would go ahead with whatever is there in the hand. I am a little constrained to speak specifically, but I can say that there is something which has progressed a little beyond our last discussion and therefore we should be seeing something.

Shiva Kumar: We can expect something in Q1 itself Sir?

Rahul Gautam: Maybe not Q1 but middle of Q2 or something like that.

Shiva Kumar: Thank you. All the best.

Moderator: Thank you very much. The next question is from the line of Ravi Naredi from Naredi Investment Private Limited. Please go ahead.

Ravi Naredi: Sir, you have invested some amount in 62 Crores in property. Will you tell what is that exactly and how it will benefit to the business?

Rahul Gautam: Are you talking about investment in subsidiary basis?

Ravi Naredi: Investment in property rises by 62 Crores in balance sheet I am seeing this, so what is the basic purpose?

Rahul Gautam: Ravi, I do not think we have invested into any property. I do not know where this piece is coming about.

Ravi Naredi: It is coming in asset side, investment in property this year is 63.88 lakhs, last year it was 127 lakhs? So it is coming on the balance sheet, if the balance sheet is handy with you, you can see? So 62 Crores you have invested in property, so what is that we would like to know something about it?

Pankaj Garg: I think you are referring to property plant and equipments right?

Ravi Naredi: No property plant and equipment and capital work-in-progress then investment in property, you are showing it. Investment in property is 63.88 lakhs, 0.18, March 31, 2019?

Rahul Gautam: That 63 lakhs.

Ravi Naredi: 63 Crores, Sir, 6388 lakhs? March 31, 2019 consolidated balance sheet it is showing investment in property before goodwill and after capital work-in-progress?

Pankaj Garg: This is basically due to Ind-AS. There are certain properties which are called financial assets those are valued at the current market value, but these are not real investments.

Ravi Naredi: What will be the impact on the profits?

Rahul Gautam: It will not impact the profit at all. It is only a balance sheet entry and that is according to the new accounting standards that you have to read value the existing properties based on the then market value. There are no investments from our side.

Ravi Naredi: Okay, as with regards to dividend you have just mentioned we will discuss in the next quarter, but this was the only right time to give and declare the dividend in March 31 year end, so why are you skipping two year dividend. Last year you had skipped, because of some acquisition and then again you are skipping this year, any specific reason in your mind?

Rahul Gautam: There are two things which I have answered. Number one, I said as far as the Board discussion was concerned, it was mentioned that it will be discussed but it is for the coming board meeting. So I am not saying that we have skipped it. Second which was it will be a connected issue, but still distinct is the acquisition side, which I have just mentioned whatever I could mention or I needed to mention, but all this will be cleared out before the next board meeting.

Ravi Naredi: All the best Sir.

Moderator: Thank you. The next question is from the line of Abhijeet Dey from BNP Paribas Mutual Fund. Please go ahead.

Abhijeet Dey: Good evening Sir. Sir, one or two questions from my side. For the full year what will be the mattress sales volumes?

Pankaj Garg: Mattress sales volumes were 13.35 lakhs pieces.

Abhijeet Dey: And the average price of that?

Pankaj Garg: Rs.5844.

Abhijeet Dey: If you can just give me the same number for FY2018 also?

Pankaj Garg: 114000 is the pieces and average was Rs.5778.

Abhijeet Dey: Sir, just on the other analysts have said, while you have mentioned about the increased marketing and selling expenses, but were there any forex related losses also in that in Q4 particularly?

Pankaj Garg: No. There is no substantial gain or loss on forex?

Abhijeet Dey: Thank you very much.

Moderator: Thank you. The next question is from the line of Gaurav Jogani from Axis Capital. Please go ahead.

Gaurav Jogani: Sir, thanks for the opportunity. Wanted to ask like how is the growth in the Starlite and the Feather Foam segment because we can see the ARPU definitely coming down and as you had alluded to the fact that the overall industry growth has also come down can you throw some light like which segment is growing faster? Which specific geography is growing faster or slower? Any colour on that?

Rahul Gautam: Let me first begin by clarifying that as far as the industry is concerned, I said defining the market size of the industry is a little bit difficult. There is the unorganized sector, there is the organized sector, we have an understanding of the entire modern mattress market but how much is on one side and the other side is kind of shifting and therefore when I alluded to saying that the industry growth has been of the order of 8% to 10% I said that based on the top 15 or between the 15 and 20 mattress manufacturers and I am assuming that to be the market. Now, the second point about the Feather Foams and the Starlite growing definitely we had not been operating in those markets, so for us we have entered last year and so the growth rates will definitely sound as high because we had a very low base that we are starting from and that is the bigger size of the market for sure, but has that impacted the Sleepwell, slightly in the early times, but otherwise no. They operate completely in different price points and price segments.

Gaurav Jogani: Sir my question was that like are we selling the Starlite and the Feather Foam mattresses through the same EBOs where we are selling Sleepwell mattresses and if yes is there some cannibalization because of that and has that in some way impacted the growth for the Sleepwell mattress also?

Rahul Gautam: The first part that the Starlite and the Feather Foam, so Starlite is a lower point product and that is available to the EBOs but not encouraged to be sold, so if there is a consumer or a customer who is walking out because of a price point issue, the EBO would offer a Starlite mattress and would not get the consumer or the customer go. And in any case, there is a Sleepwell endorsement on the Starlite. As far as Feather Foam is concerned it is primarily through the MBOs; however, we do not debar the EBO from keeping it, but naturally it is happening that the EBOs who are Sleepwell EBOs they do not sort of sell the Feather Foam products too much and that is on the MBO side that the Feather Foam is there. Now coming to your question of saying that what is our take on cannibalization, I would say that in the very initial phases when these products were introduced there may have been all the graphs that we had drawn or the tracking that we drew there may have been a little bit but that is not there. So, is it zero, it is probably not zero, but it is not meaningful at all. It has not material significance here.

Gaurav Jogani: Okay. Sir, with regards to if you could give us a broad break up in terms of the geographies like in north, east, west and south, like what would be our sales contribution broadly from these four regions and is there any particular efforts that we are taking to increase our sales in the southern region maybe the booking of more EBOs or something like that because there has been aggressive players especially in the west and the northern region?

Rahul Gautam: There is no doubt that the northern zone is our largest zone number one by definition and the broad dimension of the country there are more people who live the entire Indo-Gangetic plain and that market size is bigger. There is also no doubt that we are a north based company which started our product, but of course now we are across the country both in manufacturing as well in distribution but let us say the starting point was up north. So that makes the north presence almost 50% of our sales. You are quite right that the southern side we have lesser number of EBOs as a percentage of total number of outlets that we would be selling but that progress is on and by and large that is the best way to sell the product. But the progress takes time and the progress that follow occur and we are at an earlier point in the curve as far as south is concerned, but our intent is clear, the market is clear and it is happening.

Gaurav Jogani: Sir, one last question in terms of the capex, like we had said that we are planning to open two new factories, so what is the update on that and what is the completion status, when will they be online, like what is the status on that basically?

Rahul Gautam: So the status is that we would be starting run very quickly the land etc. has been identified and this we are now into May so we are by middle of next year we should see production coming out of that and it is possible that we may choose to do a little differently rather than to mix plants we may choose to have one large plant at a little more central place which would cater to both the geographies that we were intending to. So but you would see it in operation or in production and in subsequently, which is marked by middle of next year.

Gaurav Jogani: So it is only one plant as of now would be coming in the middle of this year that is FY2020 right.

Rahul Gautam: Yes, as I said we started off by and this was at the time of the IPO itself that we said that there were two gaps in our supply points as far as our markets are concerned, but today we feel that one larger one instead of two midsized ones maybe a better proposition specially with the increase in the quality of roads and transportation and the overnight journey instead of being 300 kilometers is now 400, 450, but there would be no taking up from the investment to no taking away from the capacities or no taking away from the ability to service those markets so it instead of two midsize that maybe one very large size.

Gaurav Jogani: Sir what would be the capex then in that case on this particular large capacity the overall capex that we are hope to incur on this?

Rahul Gautam: Much a bit about 70 or 75 Crores.

Gaurav Jogani: Thank you Sir.

Moderator: Thank you very much. The next question is from the line of Resham Jain from DSP Mutual Fund. Please go ahead.

Resham Jain: Good evening Sir. Sir I just wanted to understand the other expenses part, which you have already answered in the previous part. So like there is almost a 30% increase in the other expenses if you can highlight under what head this expenses are coming and when you are saying that it will get normalized over the next two quarters just to understand more like on this part and on the other expenses part?

Pankaj Garg: This is Pankaj. I would like to answer this. The answer is like this that to maintain our market share and to maintain our pricing strategy that even after reduction in the raw material prices we had not reduced our sales pricing. We gained more of sales expenses in terms of trade discounts and various sales schemes were given to consumers, to distributors so that with topline remains same and we achieve our topline by way in giving more discounts in terms of various schemes.

Resham Jain: So it is basically the discounts and trade schemes which are sitting in the other expenses is that right?

Pankaj Garg: Yes basically sales expenses and marketing expenses these are the major expenses.

Resham Jain: And secondly in terms of the distribution expansion which we are planning for FY2020 you can just give your broader comment on it, that what is the kind of distribution reach which we are planning in the especially the Starlite and the Feather Foam and also on the Sleepwell side, your comments on this?

Rahul Gautam: Could you just repeat the question please? Thanks.

Resham Jain: No, so I just wanted to understand the distribution expansion plan for FY2020 specially for the Starlite and Feather Foam what are the broader numbers which we are working with, it is fine if you are not able to share those numbers, but just in terms of percentage increase and the expansion and which are the touch points which we are looking at, is there any specific geography where we are more aggressive basically on the distribution expansion Sir?

Rahul Gautam: As I understand, this is the distribution expansion as far as the Starlite and Feather Foam is concerned. As I said, that these are both primarily for the MBO side and besides the 3800

EBOs we have there are a large number of MBOs. The last researches that were done in the market the total number of outlets, is estimated to be between 35000 and 40000 outlets. So our EBOs is only 4000 these products are meant for MBOs and therefore we are aggressively looking at expanding into the MBOs because there is a large chunk of them, which are unserviced. However it does take time for operations and distribution and availability of these products at the outlet, but would we be collective on the zone? No, it is for the entire country that we will continue to make our products available.

Resham Jain: Because why I was asking this is because let us say, if you are targeting across India the ability to basically brand these products obviously like, if we got lower price products, the marketing approach will be different, but if it will be zone wise marketing effort can be more focused, is not it, I just wanted to understand that part?

Rahul Gautam: Actually as far as our setup is concerned, our organization is present at all parts of the country, the manufacturing base is all over the country and therefore there is no dilution or loss in focus, or loss of resources to sort of push you into concentrating into one zone or the other and it would be pan India, yes.

Resham Jain: Sir one final question is on you have mentioned about the ecommerce brand, which has been introduced and launched in this quarter. You can just highlight what was the old strategy, which we were working with and now with this new brand how things are going to shape up. That is it.

Rahul Gautam: Yes, so the brand is called Sleepex and however it has endorsement from Sleepwell, so Sleepwell presents Sleepex. We are selling our products to both Amazon and Flipkart. It is a very recent phenomenon, which is started. It is not even a month and a half old; however, the first few orders that had come in are very encouraging and not only there is about Amazon and Flipkart got to store or warehouses those mattresses they have also sold upfront and quite a sizable number. So the whole process has been encouraging and the best part about the Internet sales is that the feedback comes in very quickly or it is almost online. So when somebody buy the matters he or she is putting in a comment or a blog or a feedback onto the system, so that we are I mean as I said the process will become it is very encouraging.

Resham Jain: Thank you Sir. All the best.

Moderator: Thank you very much. The next question is from the line of Varshit Shah from Emkay Global Financial Services. Please go ahead.

Varshit Shah: Thanks for the follow up. Sir my one question on margins, so if you see Q-o-Q EBITDA margins have actually come down, if my understanding is correct, then in the B2B business the sale value would have come down because of a lower RM prices, but spread largely remaining same. So would not actually mathematically the EBITDA margins would have gone up as a percentage, I mean there is some disconnect here, but am I missing something out here?

Rahul Gautam: The dynamic is like this that the raw material price has come, you have high raw material prices, the selling price comes down and your cost has not come down at any point of time and therefore the EBITDA percent would have gone up around so it all depends on the balance between how much is the sales price come down and what is the stock price that you have. So as a general principle what you are saying is right to say that because the denominator is going down, the EBITDA margin should appear, but the EBITDA margin is lesser, because the sales price is going down, so it is just a question of arithmetic and it could happen that you could have a lesser EBITDA margin as a percentage.

Varshit Shah: Just to extend that in a rising raw material price scenario you might even see the reverse because stock is lower, but the prices have been revised?

Rahul Gautam: Absolutely.

Varshit Shah: Thank you.

Moderator: Thank you. The next question is from the line of Nihal Jham from Edelweiss Captial. Please go ahead.

Nihal Jham: Sir if I look at the gross margins for the India operations for this quarter that we have seen a sharp expansion and as I read the comment is that you have given are you expecting a further improvement in gross margin in the coming quarters also is that the right way to read it?

Rahul Gautam: It is a right way to read it for sure, and maybe for us to comment anything more on that may not be right, but what you are reading is right.

Nihal Jham: Why I am asking is because we saw that you obviously significantly increased the discounts or the incentives to sell further so what we believe is we would not be taking any further price reductions going forward. So large strategy would continue and you are expecting that we are going to keep reducing the incentives. So is that what we should see going forward in the next financial year?

Rahul Gautam: Yes that is right. I was just thinking hard on that, and I am not very happy to say that we will keep reducing the incentives, but definitely the expenses on the sales side will keep reducing and we will keep the market incentivised, but still some let us say more than ordinary step that one had to do last quarter will be reducing.

Nihal Jham: Sure Sir. So just taking this question forward is we see that the EBITDA margins been on the 10.5% for the last year. So is there a potential that you yourself were budgeting a significant improvement in the coming year based on what we have seen in this quarter and what you are expecting in terms of reducing the sample or normalizing them?

Rahul Gautam: Absolutely, it is right.

Nihal Jham: Is there are target that you are looking at that just broad sense on the kind of margin improvement that you are expecting for the coming year?

Rahul Gautam: Nihal, I think, of course we have compliance, of course we have some numbers, I may not be able to discuss that but it will definitely be more and much better.

Nihal Jham: Sir just one last question, on the growth side especially on the mattress segment. We have seen that based on the industry data that we have that say the years FY2012 to 2016 were pretty good for the industry wide growth was about 10% and you have GST and demonetisation let us say sub par performance in FY2017-2018, but specifically if you have to look at FY2019 you mentioned about the muted consumer sentiment. Would you attribute the growth not being great to this very reason or the fact that we have seen increased composition and online penetration has also increased. Because if we remember even in the last two, three quarters there has been a mention of the increased discounting on online that has impacted. So just wanted your assessment and going forward how will these factors play out for them to turnaround the growth to improve further?

Rahul Gautam: Nihal, yes there is a lot of activity online, but it is still not significant or it is not a value, which would start impacting the offline stuff. It is growing. It has an extremely small base and it will continue. We have already made our intent clear to be present in that area and have already started our process on that. In the coming times I do not think that it will be impacting the offline business to any great significance and in any case if we were to assume that whatever has happened in our developed let us say a country like China or Brazil there is a level to which the online mattresses grow and then they kind of just go flat after that. So there is a play there and we are way going to be there, so it is our overall position will not be impacted, yes.

Nihal Jham: Thank you so much. That is it from my side.

Moderator: Thank you. The next question is from the line of Rahul Ranade from Goldman Sachs Asset Management. Please go ahead.

Rahul Ranade: Just to ask a question, which was asked earlier. So the average TDI consumption price for the quarter and what was the price at the end of the quarter like the market price?

Rahul Gautam: For the last quarter, the average price would have been about Rs.220, for Q3 would have been Rs.220 for Q4 would have been Rs.180 and for Q1 this year should be about Rs.150.

Rahul Ranade: Just wanted to know what the revenues from technical foam would be even a number for the year would do?

Rahul Gautam: You are talking about FY2020?

Rahul Ranade: No, no FY2019.

Pankaj Garg: You are talking about which one.

Rahul Ranade: B2B business.

Pankaj Garg: Okay, B2B we had done about 15000 tonnes compared to 14000 tonnes in the last year, the average rate was Rs.257.

Rahul Gautam: So what was the total number?

Pankaj Garg: I have given both the quantity and this 257.

Rahul Gautam: You have requested into multiply in self there.

Rahul Ranade: So and would it be possible to split up between Sleepwell and Feather Foam and Starlite in case of volumes?

Pankaj Garg: So we can revert back.

Rahul Gautam: And again revert back if you want. The breakup is not available right now but we will revert back. You will take it from offline with Pankaj.

Rahul Ranade: Just to know what is the thought process behind creating new brand for ecommerce like Sleepex, like is it like two kind of avoid comparison between online and offline something like that or what is the reason?

Rahul Gautam: You know, the way the segment is and the way that it sells, it has a strong offline presence and we do not want any or we want too much of friction between the online and it is just a mode of selling, you see the offline it is far more stable process, you have some schemes running for weeks and then you have something which is a wool, and then you have certainly a season and off season while if you look at the online one the season and off season is created probably every day and the schemes are far shorter, far spikier that is created. So I think it is just a two different modes of selling which are there and that is the reason that it is best, the policies need to be different the processes are different and to some extent even the products are a little different, what you need to do on offline you have to eventually reach it directly to the consumers house just a make sizes etc., so everything is a little different and therefore we believe that it is much better to do it in a different brand to account for all these effects here.

Rahul Ranade: That is it from my side. Thank you.

Moderator: Thank you. The next question is from the line of Harish Shiyad an Individual Investor. Please go ahead.

Harish Shiyad: Good evening Sir. My question is on regarding, somebody has asked about the investment made to property. If I see your consolidated and the standalone numbers, it looks like that it is generating from your subsidiary because in standalone that figure is not there and your subsidiary is in Australia so Ind-AS is not applicable over there?

Rahul Gautam: No, look there is something that this needs to be. So as far as one, there are two subsidiaries that we have, one is called Divya Software which is really the owner of the Sleepwell, our Corporate office here, and that has been there for the last three years, there is no change on that. As far as the other subsidiaries in Australia and we have not got anything in either case.

Harish Shiyad: I think, I do not know because it looks like that there is some grouping mismatch has happened because you apparently if you are not invested into any property it cannot surprise over there?

Rahul Gautam: No, Harish you need to be worried but because of the new accounting standards these properties have to be revalued based on their market valuation, but the same thing has increased, but it does not impact the P&L but it impacts the balance sheet and that is just a new Ind-AS the accounting standard.

Harish Shiyad: Okay understand appreciate, but in that case where the credit entry goes if they evidently goes to investments so somewhere the credit entry has to go where does it go?

Rahul Gautam: We can explain this separately. I think we it is not the right forum to answer.

Harish Shiyad: Okay one more thing that your investment of around 260 Crores in your balance sheet any color profile on that what type of investments is there any debt fund or mutual fund where lot of exporters are being at the risk and all these things what is the profile of that investment?

Pankaj Garg: This is 100% into debt based mutual funds.

Harish Shiyad: Okay, but is there any exposure risk over there because lot of dipoles are happening on mutual fund also where debt exposures are there?

Pankaj Garg: You are worried about IL&FS I think.

Harish Shiyad: No, just if you had generally.

Pankaj Garg: Yes, we had that investment last year but we were lucky to the dispose it off.

Rahul Gautam: Harish let me just tell you that by nature we are very, very conservative as far as that is concerned there will be a low return but it will be risk of the most secured order that we would do it, return maybe one of the order of some 8%, 9% here, but we will not true and therefore it get mutual funds and that also I am sure the rating would be some AAA rating. We would not do it, but I agree that there is some little risk and I guess that little risk has been everything here, but by nature we are not like that, we are not even look 4 digit returns.

Harish Shiyad: Okay, one more thing on, you are offering some product through Flipkart and the Amazon now there is something more on the pipeline like Reliance Retail or some other platform?

Rahul Gautam: No, I mean it is offering through the online which are Amazon and Flipkart platforms.

Harish Shiyad: Yes, I understand, but the Reliance Retail also is coming very aggressively on discounts.

Rahul Gautam: Of course so we would be there as soon as it comes we would go there for sure.

Harish Shiyad: Thank you Sir.

Moderator: Thank you. Ladies and gentlemen this will be the last question for today from the line of Mehul Mehta, SPA Securities Limited. Please go ahead.

Mehul Mehta: Good evening gentlemen. My question is on trade receivables, I am seeing that as compared to September 2018 trade receivables have reduced by about 20-odd Crores whereas we are seeing revenue growth. So is there anything specific to it, or like we have improved our collection efficiency how does it work?

Pankaj Garg: No, I think you should do it on a Y-o-Y basis because the discounts which we credit to the accounts of the distributors is towards the end of the year so if you compare and year-on-year then you will be able to compare better.

Mehul Mehta: But even year-on-year like I think about 9% to 10% odd growth is there in revenue and if I compare March-to-March even trade receivables are like constant, it has not grown. So what is it, is there any one off or like we should continue extrapolating this like it should remain at like in this improved level?

Pankaj Garg: I think it would remain steady it will be within the range of plus, minus 10%.

Mehul Mehta: Plus, minus 10%, yes. Alright thank you.

Moderator: Thank you very much. I now hand the conference over to the management for closing comments.

Rahul Gautam: Thank you very much. As I said right in the beginning I really appreciate that you people have taken out the time on a Saturday evening to be with us. Unfortunately we had a board meeting today and therefore we thought that we will be fresh with everything and share it with you. Your questions were very incisive as always and we continue to get newer insights into our working that you have seen. Let me say that this collection of GST in the month of April it has definitely been something for us to be very encouraged or be motivated by this and I think the final leg of it is getting implemented and would soon begin to see good results. We are also hopeful that the uncertainty that is existing because of this extended period of elections that we are seeing when everything comes to some kind of standstill this would get over by the 23rd of May or maybe let us give it another three, four days for a new government to be formed and we wish and pray that it is good, nice stable government that is formed. Once that happens my assumption is that the liquidity will be back in the market the momentum will be back in the market and we should get back to normalcy for the next four to five years that the government is there. So thank you very much ladies and gentlemen and I will wait for our next communication in a quarter's time but we are all happy to receive questions directly offline and you can take our numbers from the moderator and raise the questions at any time we do not need to wait for a quarter. Thank you very much and have a good weekend and talk to you again.

Moderator: Thank you very much. On behalf of ICICI Securities Limited that conclude this conference, thank you for joining us you may now disconnect your lines.