



## “Sheela Foam Limited Q2 FY2018 Results Conference Call”

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**ANALYST: MR. ANAND MOUR - ICICI SECURITIES**

**MANAGEMENT: MR. RAHUL GAUTAM – MANAGING DIRECTOR – SHEELA  
FOAM LIMITED  
MR. DHRUV C. MATHUR - CHIEF FINANCIAL OFFICER –  
SHEELA FOAM LIMITED  
MR. TUSHAAR GAUTAM – DIRECTOR – SHEELA FOAM  
LIMITED**

**Moderator:** Ladies and gentlemen, good day and welcome to the Sheela Foam Limited Q2 FY2018 Results 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 telephone. I now hand the conference over to Mr. Anand Mour from ICICI Securities. Thank you and over to you Sir!

**Anand Mour:** Good morning all. It is a pleasure in welcoming all on behalf of ICICI Securities to the Q2 FY2018 results conference call of Sheela Foam. I also welcome the management of Sheela Foam represented by Mr. Rahul Gautam, Managing Director and Mr. Dhruv Mathur, CFO on the call. I hand over the call to Mr. Gautam for his opening remark on the quarter gone by. Over to you Sir!

**Rahul Gautam:** Thank you very much, Anand. This is Rahul Gautam from Sheela Foam and along with me is Tushaar Gautam and Mr. D. C. Mathur, CFO. Good morning ladies and gentlemen. I welcome you to this presentation by Sheela Foam for the Q2 FY2018 results and I guess that TDI, we will come back to you later, but I guess GST continues to be the flavor of the month or flavor of the quarter.

With all countries it is of course takes almost years before things like this settle down as after all it is a big change, but from our side, let me just say that the glitches of reporting and the network issues and all that they continue, which according to our information is a national phenomenon at the moment, but all assurances have been given by the GST that these things will ease out as we kind of go along.

Last time, I had mentioned that there were issues on the transition stocks with the trade and finally we had clearly stated the way that the government was going to settle it, which is as time goes by within the next six months whatever you would sell and if you did not have the backing of the excise documents the governments would reimburse 60% of that and we said that with that you can come back to us and we will reimburse the balance .That was based on our assurance given to the trade. There has been virtually no response from there. It appears that the stocks were very few and it also appears that the compensation for the government is either not being availed off or is enough to take care of whatever stocks that they had. Another problem that kind of continues at the GST is the classification of items and I guess this is with the multiplicity of rates that are there. This problem will continue.

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All associations including ourselves as industry and as well as individual companies, we are making representations to the government to sort of reduce the number of rates to as few as possible. Actually we would all prefer if there is one rate and we are quite hopeful that in the coming meeting of the GST Counsel on November 9, 2017 and November 10, 2017 in Guwahati and there would be some good news for the entire industry.

We had in our last meeting informed about the exemption area that we were operating in that there was a draft notification that was doing the rounds, so today I am happy to say that the government has laid that issue to rest and 58% of the CGST that we will pay will be refunded to us and so that issue gets settled. Of course 42% is what was the kitty of the state. Again, the industrial association and specific industries are making representations to the various states that it should also be refunded. I think the chances are low; however, attempts are on.

The last point on the GST is the second phase where we said that once all these things kind of settle down we would look at restructuring our distribution, our logistics, etc., to go in line with the advantages of a single tax GST. Because these other things are taking a little longer time, so we are going to postpone that for a while. So once with the GST problems are over and at least running for the economy, I have been seeing in the newspapers and feeling in the industry that there are generally two points of view.

One is that the economy is in a crisis and second that it is turning around. We strongly believe the second one and we believe that it will only keep improving from here as we move forward.

The other point is of course the hot point is about TDI, one of the major raw materials that we use, its prices. We have been hoping for that the fall should have begun, but again there was a major spike where the prices shot up to 315, but the trend is reversing in the sense the first drop of Rs.5 has already happened in October.

We are all banking on this plant in Sadara, Saudi Arabia to start production as soon as possible. It is the largest plant with a capacity of 250000 tonnes. Our information is that production has already begun. Commercial supplies would be in the first quarter of the calendar year 2018. So let us hope for that and then we would see the crisis dropping.

We did our best based on whatever happened in TDI, we did attempt to increase prices, which have now settled down. So we took a 3% to 5% increase in our products in October and I would say that it did cover majority of whatever the impact of TDI is. I keep repeating that whenever we have price increases going up, we tend to be far more prudent on it and do

not want to sort of indiscriminately increase prices because when prices fall unfortunately in branded items, it is far more difficult to decrease the prices.

In our last meeting, I did make the announcement that our attempts to address the bottom of the pyramid market, we had introduced Starlite immediately after GST came into place and I am happy to inform that we are already at about 400 pieces per day capacity and we are ramping that up and expanding the geographies to go up to a 1000 pieces per day, which we expect by December 15, 2017 to happen.

The coming quarter and whatever flavors that we have from the performance in October with the Diwali being in October, we expect it to be stable and high comparable to the previous quarter. Of course, the previous quarter we did have the big impacts of demonetization and therefore the performance compared to that quarter should be much better and the markets as I said is kind of settling down.

Last, I would just want to say that our subsidiary in Australia has performed reasonably well in the last quarter and some business, which was lost a few months ago, which is known as solid foam mattress, it has already got back and in fact we are also going to introduce our own brand for the e-commerce market in Australia and that is expected to start on the January 1, 2018.

With that I would want to close my opening remarks and would be happy to receive questions. Thank you.

**Moderator:** Thank you very much Sir. Ladies and gentlemen, we will now begin with the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. Thank you. The first question is from the line of Anubhav Gupta from Emkay Global Financial Services. Please go ahead.

**Anubhav Gupta:** Good morning everyone. Sir my first question is on the broad industry scenario. Sir as we understand that this industry the mattress industry is so underpenetrated there is a large section of unorganized, which is waiting to get converted into organized one. How do you see the industry growth panning out in the next three to four years in terms of annual growth and at what pace you think there will transition from unorganized to organized by strong players like you?

**Rahul Gautam:** Thank you very much for the question. There is no doubt that the mattress industry is largely unorganized and there are only very few players who are in the organized part. The change is going to be quite a continual and our expectation is that the organized industry

would on an average grow at about 15% to 16%. The unorganized ones would grow only at about 5% to 6%. Therefore in the next three to five years, I would say that currently if the ratio between organized to unorganized is 1:4 at the moment this will go down to 1:2 or 1:1.5 in the next three years. The process should really have accelerated after GST, but these things take time and we have also known that countries where GST was introduced it has taken almost about two years to settle down, but we see that in the market that the movement is already happening.

**Anubhav Gupta:** Right and you being the strongest player with most number of dealers and distributor network, so do you think you can grow faster than the 14% to 15% organized industry growth rate what you are expecting?

**Rahul Gautam:** Therefore our projections are based on 20%. With the established distribution system, the distribution and the logistic behind it, we would definitely grow faster than the organized market.

**Anubhav Gupta:** Right and my second question is on the bed in box concept, which we might see in India now very soon given that IKEA is being aggressive in acquiring land and steady up the business, so how do you see this as an opportunity for your business?

**Rahul Gautam:** India being such a large market or at least such a large potential market each opportunity would have a sizable part to it, so as a standalone or as a percentage of the mattress market I would say it might be 3%, 4%, or 5% of the organized markets that it may happen, but it will be large in quantum. It is already beginning to happen. It is to ride on standardized sizes, so that they can be compressed and packed into a box and good distribution system, so I just want to inform you that we are also starting our own under a brand called Sleepex and again the date for starting that is on January 1, 2018 and it is a solid foam mattress, which is just compressed and put in a box.

**Anubhav Gupta:** So, you will be directly competing with any of the global players like IKEA who might want to come in and enter in India?

**Rahul Gautam:** So global players at the moment are not operating in India. IKEA I do not know if they have a bed in a box. If they do I think ,it will take one hell of a time and probably in India, Indian brands if they start in good time they would always give an extremely strong fight to somebody coming in from international side.

**Anubhav Gupta:** Thanks a lot.

- Moderator:** Thank you. The next question is from the line of Nihal Jham from Edelweiss. Please go ahead.
- Nihal Jham:** Good morning. First of all congratulations on a good set of numbers. My first question is on a standalone performance, so we have seen a good 17% revenue growth adjusting for the impact of GST, so can you share what is the breakup between say the pricing increase that we have taken over the past few years and also the change in mix we have seen?
- Rahul Gautam:** Dhruv can you please take that question?
- Dhruv C Mathur:** The price and product mix combined would be around 12% and 5% would be volume.
- Nihal Jham:** 5% would be volume. Sure Sir and secondly we have again taken pricing increase recently as you mentioned to compensate for the increase in TDI prices, which I understand we believe is expected to be temporary, but we still believe that we can maintain our gross margins at 45% to 45% for the coming year and even ahead?
- Dhruv C Mathur:** Yes that is our target also that the gross margin for India operations will be close to 45%.
- Nihal Jham:** Sir just one last question on this e-commerce initiative that we have taken in Australia, ideally we were mainly looking at being a B2B supplier there any specific reason we are getting into say direct retail just on the e-commerce website there and any incremental cost is expected to add up on the Australian operations?
- Rahul Gautam:** You are right. As far as the Australian operations the structuring was that we were supplying foam to the brand and owner, that is the mattress manufacturer who in turn supplied to the retail chains and the retail chains then give it to the consumer, but there are already a couple of the e-commerce players or internet players who would get it made from us and then supply directly to the consumers, so that process has already been on way and then they would keep shifting from one supplier to the others like last year as I said that we lost a little bit of business, which is now coming back. Once we have the entire set up, etc., it gives us that opportunity to start creating our own brand, which on an offline kind of store, we were almost about to annoy our customers and who could not annoy their customers the retail chain owners, but now that it is already happening, it has given us that little opening and we would be doing the internet business directly from there.
- Nihal Jham:** Right so what is the kind of potential we are looking at and also may be the cost we may be looking at spending so to create a brand even on the online platform there?

**Rahul Gautam:** See the cost for creating an online brand is probably going to be about 7% to 8% or close to 10% of the cost of the product. When I am saying when we achieve a steady stage of at least about couple of hundred pieces per week the potential is about 10% of the total market, which is there and let us say if we look at a market, which has existed before Australia, America where now it is a steady state, it is about 15% of the market, so I think it should hover between 10% and 15%, but our advantage is that we manufacture the foam, we make the mattresses, we are compressing it, and packing it for others right now and we now have the opportunity to do it for ourselves and ship it directly to the consumer.

**Nihal Jham:** That is it from my side. I will get back in the queue.

**Moderator:** Thank you. The next question is from the line of Rajesh Kothari from AlfAccurate Advisors. Please go ahead.

**Rajesh Kothari:** My question is in unorganized sectors where people are talking about shift from unorganized to organized, but when we are discussing with companies like plywood companies and tiles companies because of non-introduction of the E-way bill, they are mentioning that the organized sector is actually losing in this entire game bit and therefore there is a significant pressure not only on the volume growth, but also on the pricing growth, Sir would you like to give your view on the same?

**Rahul Gautam:** I think what the Plyboard or plywood board industry is reporting is being seen there and it is also being seen a little bit in the tile industry. As far as we are concerned, the brand in the mattress has probably more significant than in a Plyboard or a plywood industry and the impact is not being felt so much and the second thought that I would have on it is that mattresses are more voluminous item and therefore movement of mattresses is far more difficult than that of Plyboard, so when E-way bill comes it will make things far better, but right now we are experiencing. Yes Dhruv if you want to add something.

**Dhruv C Mathur:** Also various states have already started their own foams so that is a good check till the e-way bill comes for example Uttar Pradesh has already started, like the form has to accompany the material, which is on lines of E-way bill only so that is a good check happening in various states.

**Rajesh Kothari:** I see what is volume growth year report in this quarter?

**Dhruv C Mathur:** So on mattress it is 5% and then foams side is around 7%.

- Rajesh Kothari:** So do you think this trend will continue kind of 5%-7% growth or you think it can be even higher?
- Dhruv C Mathur:** It can be almost this rate or max let say two quarters or so and then it is expected to accelerate.
- Rajesh Kothari:** This growth because residential industry if you look at across India the number of units which are getting sold, there is getting surely under pressure so this growth is driven by what?
- Rahul Gautam:** It is natural growth, which is there. There are more people wanting to change mattresses and more marriages, which are or at least marriages I presume there would be the same number, but people gifting mattresses in marriages is steady and I guess there is shift from the unorganized to organized which is happening and that is why the volume growth we are experiencing.
- Rajesh Kothari:** Thank you.
- Moderator:** Thank you. Next question is from the line of Amar Kalkundrikar from HDFC Mutual Fund. Please go ahead.
- Amar Kalkundrikar:** Thank you for the opportunity. So this 5% volume growth that you mentioned for mattresses that would be including introduction of Starlite volume is not it?
- Dhruv C Mathur:** That is right. That volume is only 7000 mattresses in two months. As a number we have growth from 245000 mattresses to 257000 mattresses.
- Amar Kalkundrikar:** 245000 to 257000?
- Dhruv C Mathur:** Yes that is right.
- Amar Kalkundrikar:** Okay got it and this will also have some benefit of restocking?
- Dhruv C Mathur:** Might be I am not to sure about.
- Rahul Gautam:** That is a mixed bag that whether be restocking took place. So we have control right up to our distributors., or we have from monitored or at least from the same system, but unfortunately on the retailer side we do not have visibility, which we are now trying to do and connect up so that we are far more handle on tertiary sales that are happening. So



whatever stocking is happening at the distributor side we do not see any change in stocks so much, but on the retail side comes small little ones would have definitely have.

**Amar Kalkundrikar:** Okay and festive season that is let us say from beginning I mean month of October or may be from middle of September till end of October what would have been the growth for you and retail level?

**Dhruv C Mathur:** That number is not available at retail level with us but I would say at company level as marginal growth between the combined September and October again around 4%.

**Amar Kalkundrikar:** 4% volume growth, September and October in mattresses?

**Dhruv C Mathur:** That is right.

**Amar Kalkundrikar:** Thank you very much.

**Moderator:** Thank you. The next question is from the line of Siddharth Mohta from Principal India. Please go ahead.

**Siddharth Mohta:** Sir just two questions number one, if you can in your opening remarks you said that there would be a massive shift from the unorganized to organized. What apart from pricing would be the key levers based on which your kind of procrastinating whatever shift is likely to happen because that is a huge shift that you are progressed in? So that is question one. Number two within our sales do you think cushioning or the mattress what would be forefront of our growth rate?

**Rahul Gautam:** Could you just repeat the second question please?

**Siddharth Mohta:** So within our mix of product, which is mattress furniture cushioning PU so if you can help us understand within the substrata or what would propel the growth for us in your opinion?

**Rahul Gautam:** As per for the first question of the shift from unorganized to organized side, you probably want to know that what are the levers? One biggest lever is the compliance part and which is that the unorganized have to now start complying with whatever is that taxations in the regime or structure, that is existing and the organized one has already been doing it so that is primary.

**Siddharth Mohta:** Does this basically flow out your assumption that TDI would no longer be available in cash or something like that meaning they would either be importers or organized players who will supply TDI?

**Rahul Gautam:** As far as TDI and polyol and all the others chemicals are concerned, by and large they start from organized player, they go down and it is only at the end of the thing that there is some traders who may deal in it a little bit, but that is not the reason that you have been unorganized sector. The unorganized sector exists because there are foam players who manufacture the foam using the polyol and TDI and supply to them and they used foam and use the other items, which is rubberized coir or springs or textile etc., and convert it into mattresses and sell it. So it is all of course is done at large level, but it is shown at a small level so very difficult for the compliance authorities to catch up with that. They will all be in one network. Now that every sale will be in the network and as and when the network gets completely accurate will be very difficult to. I mean for example today morning I read in the newspaper about post demonetization there were some 7000 companies who had deposited the money and had also withdrawn Crores of money. Now it has taken about a year or so for the government to get its acts together, start analyzing the data, which was generated by the banks and start and going after the companies. So people have that as experience and would not ignore it, plus it is a continuing business that was one of event that happened. So I think people only recognizing the fact once you are a part of network it is difficult to create a shield to make yourselves invisible.

**Siddharth Mohta:** The second question if you can?

**Rahul Gautam:** So the second question I am not following it.

**Dhruv C Mathur:** Our business is like this that bedding is almost 50% of our total business and the balance business is foam and technical foam, so it is difficult to say at this moment whether this mix very change or not, but actually there is a big shift from unorganised to organized in mattress business, this ratio may change to 55% to 45% or so.

**Siddharth Mohta:** 55%-45%.

**Dhruv C Mathur:** That is right.

**Siddharth Mohta:** Lastly if you can just allow me one more. Normally what kind of TDI stocking policy do we follow and in light or whatever you are saying from the unorganized to organized does it in a way give us slightly more pricing power?

- Rahul Gautam:** We at any point of time, we have at least 1.5 to 2 months of material in the pipeline, which means either lying at our factories or already contracted for shipped, which is there. Yes it does give us the stability both the supply as well less than prices so I will just take an example in the last quarter, the prices of TDI may have gone up to 300, but 300 or little more 300, but the average material price that we use was 260 piece a kilo so that gives us that advantage for sure.
- Siddharth Mohta:** I mean this kind of volatile price scenario is there ability to price on very effectively or you normally referring given our stock?
- Rahul Gautam:** I think we do that job reasonably well one is that we balance out between the imports and the local suppliers because the imports are always let us say invoiced about a month before they reach us. The local supplier invoices the material just two days before and therefore that stability is there with us. We have probably few people who would be balancing the imports and the local ones, so availability and as well as the pricing part of it and as we see trend kind of reversing, we would shift very quickly, very rapidly to getting more out of the local person rather than the imported persons. I think we have reasonable handle on procurement side and we do derive advantages on that account.
- Siddharth Mohta:** Great Sir. I will come back in the queue if I have any follow up. Thank you so much.
- Moderator:** Thank you. Next question is from the line of K. Upadhyay from Prabhudas Lilladher. Please go ahead.
- K. Upadhyay:** Thank you for the opportunity. Sir just wanted to ask what is the reason for higher other expenses you are selling in distribution expenses, any specific reason or it is one off, or it is a structural change that is one? Second question when you mentioned that post GST you would make some restructured into supply chain so can we determine what kind of changes you would be doing or anticipated?
- Dhruv C Mathur:** So on consolidated basis, our other expenses increased by Rs.32 Crores. Now out of this we have to first eliminate the freight element in the GST regime freight is included in the sales, but around Rs.10 Crores has to be reduced from that differential so Rs.22 Crores in the difference out of this in India operations Rs.12 Crores on the account of fresh commission and Rs.7 Crores on account of other expenses, which is largely because of volume and total growth in Australia it is Rs.3 Crores so primarily one sector which has increased sales promotion expenses and this is more on seasonal thing.

- Rahul Gautam:** As far as second question on the restructuring part so earlier we were structured based on the political states because each state had different commercial structure and sometimes different rates so our distribution was based state wise; however, it was not based on logistic wise so if I was to take an example let us say that we have distribution based in Rohtak, we have distribution based in Jaipur and there is area called Hanumangarh up in North of Rajasthan .The way we are supplying that from Jaipur because commercially it was better thing in the same state of Rajasthan and if tomorrow they will be an opportunity to restructure that and if you supply from Rohtak that freight actually becomes less than 50% and you save one, so that kind of, but of course all this will take once the GST settles down which will take a little bit of time. The second is on the procurement side and Dhruv want to ask this because I think there is this final structure that is there only you can get the credit that you get can only be used for SGST and not for CGST.
- Dhruv C Mathur:** Not much change in procurement because IGST can be used for SGST also, it is only for freight element which is to be considered in all these decision making whether it is for the outwards sales or inward transaction.
- K. Upadhyay:** Thank you.
- Moderator:** Thank you. The next question is from the line of Sriram R from India Nivesh Securities. Please go ahead.
- Sriram R:** Sir thank you for the opportunity. Sir if I see unorganized market I mean most of the players sell this cotton based mattress I mean can you give me some insight about what is the cotton industry to the overall one and why none of the branded players seemed to be focusing on?
- Rahul Gautam:** Our estimates of the cotton industry is it would be about 60% of the entire market of the country and if I work backwards it would be estimated on total market , you can do that quickly.
- Dhruv C Mathur:** Total organized is Rs.9000 Crores, which is 30%, 70% is cotton and other dari etc, how ever cannot convert in a scenario like that because cotton mattresses are very cheap.
- Sriram R:** When you say 70% cotton is the overall industry you are saying or unorganized alone?
- Dhruv C Mathur:** Rs.9000 Crores is the industry of coir, spring and foam and cotton is excluded so though we see 70% is cotton and other things, but in value terms you cannot do 70 by 30 because cotton mattresses are pretty cheap so it is difficult to estimate let say might be Rs.2000- Rs.2500 Crores.

- Rahul Gautam:** These cotton mattresses are made on the round the corner kind of shops where every player does it ,also it is on cottage industry kind of thing plus this needs to go through the re-fluffed or re-cleaned up every year and therefore there is that industry. Cotton is probably not the best materials to be used for the mattresses and cotton should be used for far more value added items, but it is availability, the taxation structure etc., that needs to be put in place before that conversion begins to take place and just because it is very segmented fractionated small town or small colony by colony kind of a market therefore for an unorganized player to get into it at the moment is difficult.
- Sriram R:** But I mean if the market is size, demand is there but why is that I mean market size is low that branded guys are not entering or is conscious move to?
- Rahul Gautam:** It is taxation. I mean today also the cotton person would not be paying any taxes although I think in the revised GST it is 5%, GST is there, but nobody is paying that versus the organized, the organized players are today, if we decided to do cotton mattress we will have to straightway paid the higher rates of taxes and do that.
- Sriram R:** Okay so I mean do you sense some opportunity there or giving it advance?
- Rahul Gautam:** I think at the moment we are giving it advance. We will wait for the time that the taxation structure becomes organized number one. Number two as I told you the cotton mattresses is not right product. It has been there because that was the only product and that is how the market of industry developed, but it is not right product I mean right products are modern mattresses, which are based on foam and based on spring.
- Sriram R:** That is helpful.
- Moderator:** Thank you. The next question is from the line of Manish Poddar from Renaissance Investments. Please go ahead.
- Manish Poddar:** Sir just had a clarity that on Starlite brand that you mentioned that we intend to do 1000 units per day by December 15 of this year is that right?
- Rahul Gautam:** Definite.
- Manish Poddar:** Are we committed doing 400 units a day that is what you mentioned?
- Rahul Gautam:** At the moment we are doing around 400 units a day.

**Manish Poddar:** Okay so effectively then what sort of assumption should we look it let say from next year point of view because I think you will be doing around Rs.60-70 Crores in sales this year from this brand what sort of growth are you planning for at FY2019 for this any idea on that?

**Rahul Gautam:** I would not hazard a guess as yet because last time we said that this is an area of we are introducing the product, addressing the market. We have clear instructions for distributors that it should go through different channels. It should not go there in existing channels and so that it has become additional market and not at the whole price dictum comes down. Till now our experience is to go in through different channel .As long as that continues this will be additional business, but I get it the truth may live somewhere in between and some of it will flow through our regular channels and there will be some cannibalization that would take place. But maybe I will figure it out and will send that information that what kind of prediction do we have because right now what we are doing is the learning phase for us. May be by end of December, we would have far more handle that how much sustainable and how much of it is we can do and address.

**Manish Poddar:** Okay in terms of penetration any idea over this brand we penetrating right now compared to the reach where it can be let us say by as on today or by October?

**Rahul Gautam:** That is again bit of learning exercise. We have 11 plants across where we are manufacturing. When you talk of penetration it means that the travel has to be little more. We know that the price of the product is low and therefore what it can carry as a burden of freight or transportation cost is also low. So at the moment the product is spread and the moment we need to go deeper into smaller towns, we will also have to look at models where the manufacturing needs to be far closer to the consumption point because again of transportation cost and because the value of products is low so the transportation cost is also low. It is bit of learning exercise what we will on this part of it will be go, if we talk the next time we would be far wiser and can give better response to it.

**Manish Poddar:** Okay one small that if I may to the thing which you mentioned what would be the freight cost right now let say if the MRP is some around Rs.5000 what would the freight cost in this?

**Rahul Gautam:** So again it depends on where it has been sold and as I said it is initial stages so the markets are just going to be sort of being sticking wherever we are kind of supplying. It would be average with we incur is about 7% but that also will be higher in mattresses at the moment we would be about 10%.

- Manish Poddar:** Of the cost?
- Rahul Gautam:** Yes 10% of the MRP.
- Manish Poddar:** Thank you so much and all the best.
- Moderator:** Thank you. The next question is from the line of Nishna Biyani from Prabhudas Lilladher. Please go ahead.
- Nishna Biyani:** Congrats Sir on good set of numbers in the challenging environment. Just wanted to understand is there we almost a year listed now. What is the plan for the equity dilution?
- Rahul Gautam:** Very good question. It is on our mind for sure but we have not firmed up anything as yet. I guess we were locked in for about a year and we have another two years to or we would soon be addressing it. So I do not have answer ,a firm answer on that.
- Nishna Biyani:** Nothing in the immediate three to six months Sir?
- Dhruv C Mathur:** You cannot predict or tell right now it is a function of various things, whether it is going to pure OFS, whether we are going to market to raise another equity. So if we can be diluted either way. So it is too early to answer this question.
- Nishna Biyani:** Thanks Sir.
- Moderator:** Thank you. The next question is from the line of Umang Shah from JM Financial. Please go ahead.
- Umang Shah:** Good morning. I had two questions. Firstly I just wanted to clarification. Just right now you said that mattress versus technical foam is somewhere close to 55% to 45% or that was the future thing?
- Dhruv C Mathur:** Almost 50%, 50%, it is not technical foam and that foam versus the mattress.
- Umang Shah:** Entire foam, and second question what would be our institutional sales currently? Are we seeing traction in that segment especially in hospital beds or somewhere close to that or to industry or to hospital beds?

- Rahul Gautam:** We have been 18% but in the last quarter or last two quarters it has been increasing compared to the other one. So what was about 50% is now going to reduce and that should be decreasing every year.
- Umang Shah:** This 15% was last quarter that is quarter one?
- Rahul Gautam:** Not last quarter. I am saying few quarters back, I do not remember the numbers, but now is about 18%.
- Umang Shah:** All right, this 18% would be of the entire sales right?
- Dhruv C Mathur:** Of the entire sales.
- Umang Shah:** Thank you so much.
- Moderator:** Thank you. The next question is from the line of Ravi Naredi from Naredi Investment from the Naredi Investments. Please go ahead.
- Ravi Naredi:** Sir after Australia why not you start this business to other countries?
- Rahul Gautam:** I guess there has to be a business case for it and there has to be not only just the numbers, but there needs to be certain comfort levels because there, I mean the only areas that we can look at and I am thinking along as I am speaking to you is more like Europe, because I think US is too far away and the businesses are well established in those areas. In our neighboring countries, if we were to look at places like Myanmar, Cambodia, and Vietnam all these places, the industry has already dominated by the Chinese people what we bring to the table is exactly the same as what the Chinese does not make any sense.
- Ravi Naredi:** This Thailand is also dominated by the China?
- Rahul Gautam:** Yes, by Chinese people not employed by China, but Chinese people who are well established in these areas for those business.
- Ravi Naredi:** One more with respect to you on the date of AGM, I came from Chennai to attend the AGM in Delhi and disappointed to meet you as AGM, as soon as the AGM finished you had gone away from the venue so Sir any reason to not to meet with the investor at the time of AGM?
- Dhruv C Mathur:** I would like to correct you. I am D.C. Mathur. We did have this practice of our CFO addressing all the investors before within and after the meeting, so I had discussion with at



least eight investors for an hour who are interested .You know the flavour of AGM those people those have real investors whosoever wanted to ask a question I was available and I talked to various people for an hour or so.

**Rahul Gautam:** Next time that you do travel, please pre-inform me and I will be more than happy to meet with you.

**Dhruv C Mathur:** That flavour is different, you know in AGM if you had to have specific questions and everything I would again request you that next meeting you must with me together.

**Ravi Naredi:** Definitely I will come.

**Dhruv C Mathur:** You can raise the question in AGM?

**Ravi Naredi:** I want to talk to Chairman that is my motto. I am again telling you with due respect to Chairman and to the Company. I am big investor in the company, so that is why I came there I have not negative investor, so those come and AGM and make nuisance like this, because there is a purpose to meet you.

**Rahul Gautam:** That is perfectly fine. Thank you very much for the investment. I would suggest that if you are traveling to Delhi anytime before the next AGM, I just pre-inform and would be more than happy to meet and if it happens to be next AGM, pre-inform and I will ensure that we meet up with you.

**Moderator:** Thank you. The next question is from the line of Amar Kalkundrikar from HDFC Mutual Fund. Please go ahead.

**Amar Kalkundrikar:** Thanks again for followup. If you mentioned freight is about 10% of MRP was that correct from addresses?

**Rahul Gautam:** I just want to say that this is the learning period that is going on as far as the low-end mattresses are concerned and right now this is wherever we have sent this is the kind of percentage that is emerging. On our standard mattresses, which has been there for years together, the freight is around 5% or on an average is 5%, but just on this segment because the value of that is low, the price of product is low and we are concentrating on one territory and going deeper into that territory. So that is the estimate of the freight, which is coming out, but do let this things settle down and then we will have some kind of an average freight that needs to be provided for that.

- Amar Kalkundrikar:** Right now, are you supplying Starlite in concentrated region or specific geography?
- Rahul Gautam:** Let me say we started with the northern part of India. We opened the products for two territories first and within those two territories, we would have gone as deep as possible because we are doing it through particular distributor as soon as we settle down with the product and with the entire supply chain then we have added more and more territories, but still at the current level it restricted to a major part of Northern India only and we would be adding the southern and eastern and the western part as we kind of go along.
- Amar Kalkundrikar:** Thank you very much.
- Moderator:** Thank you. Ladies and gentlemen due to time paucity we will address the last three questions. We move to the next that is from the line of Dhiral Shah from Asit C. Mehta. Please go ahead.
- Dhiral Shah:** Good morning Sir and congratulations for the good numbers. Sir what is the current rate of GST on the products?
- Dhruv C Mathur:** It is 28% on foam and spring mattress, 18% on coir mattress and 18% on other foam products.
- Dhiral Shah:** What was it earlier excise regime?
- Dhruv C Mathur:** Excise was 12.5% and VAT was 14.5% on mattresses and on foam it differs from state to state somewhere the VAT was 5%, somewhere the VAT was 14.5% as far as foam is concerned.
- Dhiral Shah:** Is there are tax neutral for your company?
- Dhruv C Mathur:** As far as the company is concerned, this is almost tax neutral. There is a little extra burden on the dealers because they have to pay 28% on the mattress on their value addition. Earlier we were paying only the VAT, which was 14.5%, some burden on the dealers and not on the company.
- Dhiral Shah:** What is the current capacity utilization rate of the company?
- Dhruv C Mathur:** Utilization of capacity is kind of misnomer. When we say the capacity is 123000 tonnes and we produce around 50000 tonnes, it appears that the capacity utilization is much less;

however, the capacity is high because the locations. We have to have foaming plants in different locations.

**Dhiral Shah:** That is it from my side Sir.

**Moderator:** Thank you. Next question is from the line of Manish Bohra from Param Capital. Please go ahead.

**Manish Bohra:** Sir I just wanted to know what is the current TDI prices?

**Rahul Gautam:** The local price is Rs.310 per kilo.

**Manish Bohra:** Since last September end the prices, it has not changed?

**Dhruv C Mathur:** It has changed by Rs.5.

**Rahul Gautam:** It has reduced, so it used to be 315 and it has come down to 310.

**Manish Bohra:** Thanks a lot Sir.

**Moderator:** Thank you. Next question is from the line of Ashish K from Lucky Investment. Please go ahead.

**Ashish K:** Congratulations on a good set of numbers. My question is basically till what cost of TDI have already passed on the market for the current level of margin?

**Dhruv C Mathur:** So we have in the last quarter, we have covered up to Rs.230 prices, October 10, we have increased the prices of mattress by 3% to 5%, so ballpark we will be covering the price 275 to 280.

**Ashish K:** So are you going to take a very hit on margin, because this input cost high, which we have not been able to pass on?

**Dhruv C Mathur:** Sorry, your voice is not very audible.

**Ashish K:** We are going to take a big hit on margins because we have not been able to pass on the full price in TDI?

- Dhruv C Mathur:** I do not think that .You see at the same time, the average prices was Rs.261 to us. Further material has brought is slightly higher price, there would not be any impact on the gross margin.
- Ashish K:** So we should be able to hold on this quarter now. So there is a big question will come in Q4 once we run out of this low price inventory?
- Rahul Gautam:** I think the gross margin we will be able to hold with this increase.
- Ashish K:** What are the gross margins in this new product that we have introduced at the lower price point?
- Rahul Gautam:** Gross margin level is much lower. It would not be 45% let us say around 35%, 36%; however, that EBITDA level it would be almost the same.
- Ashish K:** You are saying the EBITDA margins will be the same?
- Rahul Gautam:** Yes, because the sales promotion, channel that cost would be much lower here.
- Ashish K:** Thank you very much.
- Moderator:** Thank you. Next question is from the line of Manish Ostwal from Nirmal Bang. Please go ahead.
- Manish Ostwal:** My question again on raw material side. You shared in last quarter outlook on raw material scenario, because certain capacity is coming in Saudi, now the prices went up from that level. So how do you see the raw material price scenario in the next couple of quarters? Thank you.
- Rahul Gautam:** We have been hazarding a guess for quite sometime, but now as I said that this large capacity in Saudi Arabia has already started producing the raw material and commercially it will be available from January or February onwards. So as far as the coming quarter is concerned, I expect that the prices will come down.
- Manish Ostwal:** Thank you.
- Moderator:** Thank you. Ladies and gentlemen this was the last question for today. I would now like to hand over the floor to the management for their closing comments. Over to you Sir!



*Sheela Foam Limited  
November 06, 2017*

**Rahul Gautam:**

Thank you very much for joining in for the call today morning. As usual there is always a learning experience for us with all the questions that you asked. I know that the primary concern have been as far as TDI prices are concerned, where we have repeatedly said that we are hoping and praying that and that event is bound to happen where this new capacity will bring down the prices. The second one issue has been the GST, its implementation and its impact as far as the shift from the unorganized to the organized market is concerned. It is taking a little time, but it is happening and we believe that by another quarter or two quarters the things would be stable. I just want to end with saying that as far as the outlook on the economy is concerned, as far as outlook for our industry is concerned and as far as the outlook for Sheela Foam is concerned, we are extremely positive on that and we expect that this growth and I was surprised or let us say I was pleasantly surprised with all your comments that we have done reasonably well in the last quarter. We definitely expect to improve this in the coming quarter. I just wanted to thank you once again and thank you for participating and look forward to connecting up for the next quarter. Thank you very much.

**Moderator:**

Thank you very much Sir. Ladies and gentlemen, on behalf of ICICI Securities that concludes this conference call. Thank you for joining us. You may now disconnect your lines.