

**Sheela Foam Limited**  
**Q3FY2022 Earnings Conference Call**  
**February 3rd, 2022**

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**Moderator:** Good afternoon and welcome to the Q3FY22 Earnings Conference Call of Sheela Foam 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.

I now hand the conference over to Mr. Anuj Sonpal from Valorem Advisors. Thank you and over to you Mr. Sonpal.

**Anuj Sonpal:** Good afternoon, everyone and a very warm welcome to you all. My name is Anuj Sonpal from Valorem Advisors and I have been newly appointed as the External Investor Relations Representative of Sheela Foam Limited. On behalf of the company, let me thank you all for participating in the Company’s earnings conference call for the 3<sup>rd</sup> Quarter and Financial Year 22.

Before we begin, I would like to mention a short cautionary statement. Some of the statements made in today's earnings concall maybe forward looking in nature, such forward looking statements are subject to risks and uncertainties which could cause actual results to differ from those anticipated. Some statements are based on Management's beliefs as well as assumptions made by and information currently available to Management. Audiences are cautioned not to place any undue reliance on these forward-looking statements and making any investment decisions. Focus of today's earnings conference call is purely to educate and bring awareness about the Company's fundamental business and financial quarter under review.

Let me now introduce you to the management participating with us in today's earnings concall and give it over to them for opening remarks. We have with us firstly Mr. Rahul Gautam – Managing Director, Mr. Tushar Gautam – Whole time Director and CEO, Mr. Rakesh Chahar – Whole time Director and Director of Sales & Marketing Mr. Nikhil Datye – Group Chief Financial Officer and Mr. Davinder Ahuja - Group Financial Controller.

Now without any further delay I request Mr. Rahul Gautam to give his opening remarks. Thank you. And over to you sir.

**Rahul Gautam:**

Thank you, everybody else for joining in at 2 o'clock in the afternoon. As always, I will start with our vision statement. Our vision, we will continue to be recognized as a leading organization in quality comfort products while practicing values of integrity, reliability, proactivity, and transparency to do business with a smile for customer delight and a commitment to society. Thank you very much.

I think no, conference or no meeting can start without reference to the current Corona which is going on. And it appears once again as we going to be done with the third wave very soon. I know the Omicron variant has been rampaging around mostly in Mumbai and Delhi and some of the bigger towns. I know it has been highly transmissible but the good part is that it has been low on any kind of pathogenicity.

And if South Africa is any example that we can take, it quickly goes up Omicron impact quickly go up and quickly come down. So we are hopeful that the same thing or similar things would happen in India. I know that most of the western countries, and especially one of the country which is Australia, where we operate in that they have taken it for granted that Omicron is going to be with them and they have to just to learn to live with it. It's yielding good results, except for a short time.

So, keeping all that in mind, our expectation is that somewhere end of April or middle of May, we should be done with this variance and we should be on with the economy and with our normal life. Just to add that in all our units and in all the company personnel, we were not very impacted by Omicron there were a few cases did not impact the manufacturing production or selling part of it. And those few cases also got well soon and returned back to work.

The other big event which has recently happened is of course the budget where I know that the key word has been the infra push which the government has given and we are very thankful for that. Now especially for our products in the country, which are voluminous in nature and are soft in nature and voluminous therefore transporting them is a very important aspect or key to our business. And this increased infrastructure whether it's roads, bridges, connectivity etc. it only helps us to do our business better.

The other news, which has impacted us or should be impacting is the announcement of 400 Vande Bharat trains that the government intends to start in the near future. And since we are suppliers to the railways for the cushioning material or for the seat cushions and for the birth, we expect that to be good business coming in the near future.

The other big announcement was on the at 80,000 lakhs Pradhan Mantri Awas's that was announced. And I think that is, again something where companies like us should be benefited, because eventually those houses need to be furnished and they have to become livable.

As you are all aware, and the last time I had announced that we have a unit coming up in Jabalpur under a 100% owned subsidiary, ICT which will be manufacturing, especially mattresses for the weaker part, for the weaker society at large and making them affordable and available.

The budget did announce that the time limit for starting production in these units where the concessional income tax is available has been extended by one year, up to 31st of March 2024. But I just want to confirm that our plan of beginning production by October 2022 will hold, and we are on track for that.

Coming to our Quarter 3 FY22 results on a consolidated basis on a quarter-on-quarter, there's been a growth of 12% odd and on a year-on-year it been at 30% plus. But just comparing it to the previous quarter or the previous year's quarter the growth has been about 7% to 7.5%. I know it is a bit subdued, but this is primarily on account of reduced discretionary spending that has been witnessed across segments in India. And we are very hopeful that this trend will change as the Omicron rises and goes out.

Australia products has also been relatively flattish, because as I said that that country has adopted accepting Corona and not doing lockdown, but at the same time quarantining people and therefore, the sentiments have been not the best. And on account of these lockdowns and quarantines, Australia has experienced a little low level of performance.

Spain for us has done well especially on the top-line part of it. And I think they accepted the Corona long time back, there have been increases, but again the low impact of Corona has been well accepted by the people and they are they are doing alright.

And as you are all aware that all these three geographies India, Australia and Spain we have new projects which are coming on chain. For India, there is the subsidiary called International Comfort Technologies Private Limited, starting the unit in Jabalpur. And we expect that to start by October 2022. We have a new plant in Australia coming up too that is in Adelaide. That will be the second forming line again with a new technology and that's expected to start by July 22.

There is also a substantial expansion planned about Spain and expected to come on stream by October 2022. As it had been mentioned earlier, Spain being a very small part of the largest foam market in the world, that is the European Union has very quickly reached its limit and we need to have this expansion to now look for higher volumes and higher sales.

As I said, this Q3 results may have been a bit subdued, but we are confident of ending the year on a strong note. And we are on track for our projections of the group hitting Rs. 3000 crores markets by 31<sup>st</sup> of March.

We all know and we have discussed this many times that our major raw material Polyol and TDI continue to impact us I won't say positively but actually have been relatively adverse in the last quarter or so. Fluctuations continue and though the levels may have come down a little bit, both for Polyol and TDI, but the fluctuations and the quick fluctuations, both in frequency and amplitude seem to be impacting business. And again, we are hoping that that as this Omicron stabilizes or the impact of Omicron stabilizes the raw materials will also stabilize.

The new areas that the company has ventured into with both eCommerce and exports, I am happy to share with you that we are going exactly as we had planned, and both our assuming proportions of reasonable percentage of the Company's business. And in the coming times we are expecting them to grow further.

So with these words, I just want to close my opening remarks and thanking you once again. Would be ready to accept questions from your side, thank you.

**Moderator:** Thank you very much. We will now begin the question and answer session. First question is from the line of Nikhil Jham from Edelweiss. Please go ahead.

**Nikhil Jham:** Three questions from my side. First is if I look at the volume growth for the mattress business this quarter, while showing a good trend over the last three, four quarter, there has been a bit of a dip. My apologies, I think I missed some part of the opening remark in case you have covered it, but just if you could highlight on the same.

**Rahul Gautam:** So, I did mention this right in the beginning that the discretionary spending has been definitely low. And therefore there has been a volume dip on that. And we have seen this across segments. But definitely in our segment we have been witnessing that.

**Nikhil Jham:** Just, if I look at performance of some of the other categories, which are also considered discretion, at least in terms of how the festival and the marriage season has been, it's been a record or a decent quarter from that perspective for most of them. So, from that perspective, are we seeing a different trend? Are you seeing that with other matters players or that is the feedback you are getting from the dealers also as you are interacting with them?

**Rahul Gautam:** So we did see and experience the marriage season. But we also know that it was the earlier marriage season which probably witnesses marriages of more budgetary nature, and those got pushed into this. So the marriages were there, but they were definitely, the mattresses were of lower ESPs and the lower value that were sold at this time.

**Nikhil Jham:** And does that explain the generalization follows on the matter segment if I look at it, say from last quarter to this because TBI is increased I am guessing some part of price increase may trade off this --, is it mainly the mix change and people buying lower body value matters?

**Rahul Gautam:** That's right.

**Nikhil Jham:** The last question was that I see a slight divergence in the trend of our gross margins in the international business has moved, whereas there has been a reduction in the domestic business gross margin despite TDI going up. So can I again, attribute that to the mix given that the mattress proportion has fallen or anything that you may want to highlight?

**Nikhil Datye:** So Nikhil your question is more on Australia and Spain right.

**Nikhil Jham:** Yes, comparing the moment in Australia and Spain margin versus how India, generally the trend is similar given that the prices of both the raw materials have a parity, but just that this quarter, the gross margins in the international segment are similar whereas the domestic business has seen a fall. So any reason other than mix that explains that?

**Nikhil Datye:** No apart from mix what also happens in geography by geography, and vendor by vendor, our agreements for prices are also different so different geographies follow raw material price increases and decreases in a different pattern, depending upon because it is all demand supply relationship. And Australia, Joyce facility has vendor agreement where the three months lock in for prices, so they remain protected for a little longer time. Interplasp has also almost one month price protection. While in India, the price fluctuations has been sharp, and that has been on a much shorter duration.

So raw material prices are at different levels in different geographies, and their changes are also, periodicity is different. So that's why you are seeing a bigger drop in India, and obviously to some extent mix has also added in case of India.

**Moderator:** Thank you. The next question is from the line of Ritesh Shah from Investec. Please go ahead.

**Ritesh Shah:** I have a couple of questions. So you indicated upon the eCommerce and export opportunity. Can you indicate first on eCommerce, what percentage of our volumes and value will be derived through this channel? Secondary how do you see the competitive intensity in this particular segment? That's on eCommerce. And specific to exports, which regions are we catering to from India, so I think U.S. is a big market opportunity which is there. Are we looking at it? Are we already receiving orders or bids to cater to that region going forward?

**Tushaar Gautam:** Yeah, so on eCommerce for sure the last quarter was the best quarter that we had till date. Within the quarter, the first couple of wave that that come on the platform was definitely superior or higher than the third wave. It did taper off as far as the third wave is concerned.

I think a lot of it, including the consumer side what Rajulji was speaking about a lot of this also started playing out with the Omicron wave kind of going across in the country and then people generally getting a bit conservative on their spends and things like that. There was a bit of

uncertainty at least in December. So but specifically on ecom the we have had the best quarter that we ever had with growth that are close to double of the previous year. So that side was good.

On the export side, the only thing that I would say is, as far as customer development, interest of new customers coming in or order books getting filled, all that continues to scale up month after month. We have orders well in hand for the next three or four months. And that was true for October, November, December as well.

In terms of the scale up of business and it's showing in the revenue, two important things to keep in mind, it could have been a lot better than it was. In the previous quarter, we had orders in hand. Two small limitations which are easing out and are gone. We have a large capacity expansion that came on through in mid-quarter in our Vapi plant. So that's come on stream, and that that will support the growth on the business.

The other thing that was still a hindrance is a lot of supply chain issues, both from the customers and from our end, as far as the country is concerned. So container availability, transportation costs, shipping availability, all that was still tight in the last quarter, but it's easing out as time goes forward.

**Ritesh Shah:** Would it be possible for you to quantify the volumes of revenues through eCommerce? The reason why I stress on this is I think the company has a benefit of being on the omni channel side. So just wanted to understand some numbers over here and how is it that the company is actually leveraging that that mode of sale?

**Nikhil Datye:** So I mean I will say, instead of just a quarterly number, what I would say is on ecom we would finish the year close to 3 billion higher or probably a little higher than that than that in terms of revenue with scale up on quarter-after-quarter, month-on-month till progress.

**Ritesh Shah:** When it comes to exports, you indicated that the order book is filling up, is it possible for you to indicate what kind of orders are we looking at, are we looking at or supplying to likes of IKEAs of this world, how should one understand this? Or is it more on the B2B side? How should one look at it?

**Nikhil Datye:** So it's not the IKEAs of the (Inaudible 00:22:39) it's large mattress, furniture, retailers based in the U.S. who are sourcing products from various parts of the world. And they are the ones how have shifted supply this way or added an additional supply phase and there has been a (Inaudible 00:22:59) both from India and Australia.

**Ritesh Shah:** My other question is you indicated that there was a bit of volume decline, and you indicated it was a function of discretionary spend, would it possible for you to give a color on what percentage of our volume comes from Tier-1, Tier-2 and below. And when we see an element

of volume decline how does the management look at it from a downgrading perspective versus a volume growth perspective? I am trying to understand the mix and where we serve. The reason I ask again is if you are looking at a rural slowdown then I am trying to understand that if one can make more sense to the numbers.

**Rahul Gautam:** So Ritesh I do not think that based on the last quarter we will be able to make too much out of analyzing Tier-II, Tier-III grounds versus the Metro etc. I think we have to probably look at a larger timeframe and I think a good way of analyzing this would really be end of the year. So when we are at the next conference we should be in a good position to, I am making note of this, and if I do have any data which is readily available, we will definitely have it sent you know.

**Ritesh Shah:** One question specific to the company. The company operates on a distributor and retailer model which to my understanding is on a 10:30 basis. Is there any way in which the company can actually change this, reduce the number of distributors directly reach out to the retailer, is this something, which is a possibility? The reason again, I asked is I think a part of the competition is actually doing a few of the regions of the country, wherein they actually get heads up on the pricing part as well given the eat into the distributor margin. So, what are our thoughts over here?

**Rahul Gautam:** Distributor costs are of the order of 9% to 10% and I think your question is that can we get away from that? Is that true? Is that the right question?

**Ritesh Shah:** Yes, partly or completely?

**Rahul Gautam:** So, I think the value that is being delivered by them appears to be pretty matched whether it is there, because we are dealing with voluminous items. And we are dealing with SKUs which are huge in numbers. Therefore, warehousing, storage, relationship with the retailers, we have almost about 5000 to 6000 retailers across the country, maintaining supply chains, etc. I mean I know that there can be an improvement on that. But at the moment, I would say that it's pretty well-balanced in terms of value and the cost part of it. That would be our view at the moment.

**Ritesh Shah:** Last question, how should one look at the margin profile for the company on a longer-term basis? It's a fantastic product, there is a brand recall, but when it comes to pricing mechanisms, given the volatility, what we see in the raw materials, how should we look at it, is it something like one can see on the MRP or on the discount structure? Is there a better way to understand this?

**Rahul Gautam:** Look it's a bit future oriented question, but I would just say that the picture that will emerge will be completely different as soon as some stability comes in on the supply side. We don't expect these kinds of fluctuations. I mean, there is nothing which let's say confirms that these

fluctuations will continue forever. So it's actually the fluctuations, which impact, and we should see much better margins and as soon as the backend growth stabilizes.

**Moderator:** Thank you. The next question is from the line of Pankaj from Kotak Securities. Please go ahead.

**Pankaj Tibrewal:** On the margin side, just to extend to what Ritesh asked in the previous question and as an old observer of the company we have seen that once you see the margins getting impacted by raw materials, once it stabilizes you guys bounce back quite fast. Do we expect the same because now it's almost four quarters where on a gross margin, on a console basis we are less than 40%, rarely it has happened in the past? So can you just help us understand how as we move ahead, those corrections which have been made on pricing or product mix, will help us come back both on gross and operating margins?

**Rahul Gautam:** You are quite right that for the past four quarters or a couple of quarters, we have been, the gross margin has been kind of soften, right. I just do not get tired of repeating that it's really the fluctuations part which in fact, we have seen stabilizing of that happening and somewhere or the other, all these things have got related to the pandemic, that is kind of going on. Once the pandemic brought to the raw material side, it straight away impacted was the wild fluctuations and availability getting hampered, and the prices remaining high etc.

So what took its time or is taking its time to change is the front end part of it all. And whether it is B2B business, whether it's B2C business, or if it's even the direct to consumer business, it is the way that prices changed there we have been pushing for it, we have been learning how to do it, and I must say that we are wiser from four quarters back. And today it would not be the same.

So, all I can say is that this is a very undesirable situation. We are trying to change that, but at the same time hoping that this backend instability kind of goes away. And we should be in a much better position in another quarter or so, you know or another one or two quarters, definitely using past experience.

**Pankaj Tibrewal:** The second question is on the demand side, you alluded to the fact of the volume decline, which seems to be quite surprising when we looked at some of the other companies and we have seen and it's not in the same space, but driving a demand from real estate, driving the demand from home improvement and stuff which are panes, tiles which have reported, quite a bit of good revenue growth and volume growth.

Where do you think there has been a departure on that side, whereas we see the unsold inventories in real estate at eight year low, but that is not translating demand for sale in our end. So any color on that would be helpful because it seems to be slightly different from other building material companies?



**Rahul Gautam:** Two points from my side, Pankaj on this, (1) that the volume drop that we are comparing it to the corresponding quarter about a year back that that time there was a pent-up demand that that was being catered to. And because the country had been on lockdown for almost a year and suddenly kind of opened up, that was the Quarter 3 of last year. So, we are comparing to that this it did very well. And therefore, it has that little denominator impact as far as this quarter is concerned.

The other point that we have analyzed at our end is that the real estate market definitely has looked up and (Inaudible 00:33:00). But the furnishing of material inside it does take, at least three to four months or five months before that begins to happen. So, as I said that we are looking at now and the immediate future to be catering to all those needs and requirements.

**Pankaj Tibrewal:** On the capital allocation side now with Jabalpur coming in, what are your thoughts of incremental capital allocation in the business? It will be really helpful to understand that part.

**Nikhil Datye:** So, Pankaj, for capital expansion both or all the three places we are doing capital expansion, Spain, Australia as well as in India. It will be a combination of internal accruals and external borrowing then obviously; we would take some external borrowings considering the rate of interest are at low levels. So we will leverage both and the combination of two will be used.

**Pankaj Tiberwal:** No, I was not going on the absolute numbers. But what I was interested in the direction where the company and the management is thinking about the incremental cash flows to be deployed either in M&A or organic business post-Jabalpur and Spain expansion, where would the incremental cash flows be deployed in the business?

**Nikhil Datye:** So obviously the accruals will be used for CAPEX. We are also always working on some acquisition opportunities and some cash has been part for those opportunities, as and when they materialize, so definitely that's on the cards. Timing will be difficult to predict, but that is one of the outlays for which it will be used. And third will be, we are also evaluating how do we utilize it for dividend payments. So those are the broad three outlines for deployment of cash reserves.

**Moderator:** Thank you. The next question is from the line of Dinesh [PH] from DS Investments. Please go ahead.

**Dinesh:** My question was a little bit mid to long term, I wanted to get your thought process in terms of how do we see from here to three plus years. Broadly speaking, the way I was hoping is that we are looking at four engines, right. One is B2C and second is B2B India (Inaudible 00:36:27) consumer facing and institution. And then we got Australia and Spain right. In your thought process which would be the engines, which would be more stable or mature relative which would be the engine that would grow faster and where you know an incremental push would be higher from outside, just wanted to know the thought process.

**Rahul Gautam:**

You know in a two, three year timeframe, as we are looking at let me just spend a minute each on all of them in on all four of them. As far as Spain is concerned, we have always been of the view that it has an extremely small share in the largest market in the world, which is the European Union. Our market share is close to about 1% and we are in a low cost manufacturing economy. Therefore the opportunity to increase and grow from there is large. Besides that European Union Market, we are ideally placed for exports to the U.S. just across the Atlantic. And then there is also on the Southern side, the North Africa part that is there.

So Spain, I see a lot of growth, let's say two three years' time should really be looking at about 50% or upwards of 50% as an increase in the Spain and part of it as we are already investing there to increase the capacity.

Australia is a very stable, matured market. We see that maybe a 5% per year kind of growth there, say that would be happening. But one thing that the Corona thing has definitely done there is that what they were outsourcing a lot from outside, those products will now be manufactured or at least assembled in the country. And therefore I do see that the standard 3%, 4%, 5% kind of growth will change into probably double digits in the coming two to three years time. And we are preparing for that again with another unit there in Adelaide, we had a primary unit in Sydney. Now we have one more coming up in Adelaide, which will be able to sort of cater to the extreme west side and also cater to some new customers that will come in.

As far as the Indian path is concerned, both B2C and B2B, B2B, we are, of course we are dependent completely on the receiving industry so whether it's the shoe industry, the helmet, the furniture, the mattress, sound absorption, filter, the growth depends completely on the requirement or the growth of that particular industry. Those industries are all poised to grow. We have seen those kinds of sentiments in the past few months, and more so after the budget, and therefore we would be participating in this.

On the B2C side besides the standard growth of, in the market that we are operating in just to sort of step back 65% to 70% of India, still sleeps on some kinds of Dari, Chatai or kind of cotton mattresses. And the modern mattress market is only about 30% and the organized mattress market is only 10% or 10% out of the 30% that is then that's the area that we operate in. Of course, there is a movement from the unorganized to the organized that is regularly taking place.

But going back to the 65% to 70% that is what we intend to service post Jabalpur coming into operation, both from prospects of availability of the product, as well as the affordability of the product. Those have been the two gains for these kinds of products ready to grow and that's exactly what we answer. And so in two, three years time, we expect that to be a large, large business. And that's generally overall picture that we see in two to three years time.

**Dinesh:** Just slide deep dive on the Spain bit, like you called out it's a good opportunity and I believe with China exports coming under some taxation from U.S. do you see the large (Inaudible 00:41:40) exports as well as the EU side of things being similar profile to India B2C business?

**Rahul Gautam:** Definitely, I see that is improving. Nikhil, answering another question, he did mention about the way these raw materials change. So if you will, I mean, if I just reiterate, Australia, the raw material prices are stable for a quarter. They change once in a quarter. For Spain and Europe, they change once a month. In India, they change once a week almost.

When I look at the last couple of years or many years in Spain or Europe see the prices have changed about two times a year or maximum three times a year. And that's precisely what the consumer or the customer is also used to. And if here we had prices changing 12 times a year, it's extremely difficult to start even talking to the customer and say that now I am going to change it every month. And that has been the pain. This will stabilize, there is no reason why it will not because the supply and demand is pretty well matched now, and for the next five years. The new capacities that are coming in and the demand that is existing will extend too. Therefore the fluctuation is kind of going away this margin will definitely increase. It will definitely go up, what you see I think it's been of the order of 24% to 25% while we have hovered around 35% to 40% and close to that that's where it should be.

**Moderator:** Thank you. The next question is from the line of Dhiral from Phillip Capital. Please go ahead.

**Dhiral:** As I was listening to your concall and you stated that we are expanding across the region. So, what is the overall CAPEX that we are incurring? And how much this will help to increase our capacity? And what will be the potential revenue that we may fetch from the overall capacity expansion?

**Nikhil Datye:** As far as India is concerned, so it's two manufacturing facility and that is being built, to address a wide space which Rahulji talked about, mattress for every Indian. So that (Inaudible 00:44:53) that's going to expand our sales, category called mattress for every Indian and it's a huge opportunity available. He was talking about unorganized market and acceptability (Inaudible 00:45:13). So, I don't want to put a number to it yet, but this is a one of the largest manufacturing we are putting, and that will cater to this wide space. And you will see once the capacity has rise and sales plan starts holding it will be a full revenue booster for the overall Indian business.

As far as capacity is concerned obviously around 30% capacity expansion will happen and that will cater to the demand currently we cannot fulfill because of capacity constraints. And Australia to some extent is a mature market but new capacity will help to create -- additional facility available (Inaudible 00:46:10). So that's the way I would expect these three capacities to pan out.

**Dhiral:** Actually your line was breaking in between, so for Australia how much capacity expansion that we are incurring, in terms of percentage how much we are increasing the capacity?

**Nikhil Datye:** So, what I was trying to explain Dhiral as far as Australia is concerned, Australia is a mature market. The additional capacity will help us as a business continuity plan and capture additional market share from the competition. It's going to be of similar size of our existing capacity.

**Dhiral:** So what is the overall CAPEX that we are incurring for these three plants?

**Nikhil Datye:** So that would be in the range of around Rs. 300 crore.

**Dhiral:** So what will be the asset turnover that we are expecting from overall Rs. 300 crore?

**Nikhil Datye:** It would be in the range of, I mean it will have its own maturity curve. But in the steady-state environment, it would be anywhere between around 4ish, will be the turnover.

**Dhiral:** So around Rs. 1200 crores.

**Nikhil Datye:** Yeah.

**Dhiral:** What kind of peak margin that our business can achieve within long run?

**Nikhil Datye:** I think Rahulji, in his earlier comment you know answered that, once we have is stability in the commodity prices, I think margins will definitely bounce back. And we are sure that in couple of quarters that should happen, once supply chain side of raw material stabilizes.

**Dhiral:** But over a period of time we have seen from single digit to now almost mid-teen things kind of a range, okay. So, do you believe that there is again a room to improve further from the FY21 level of 15% that we have achieved?

**Nikhil Datye:** I mean, yes, it is doable. And it will be a combination of gross margin going up with stability of raw material, and also economy of scale coming in. So as we grow in our sales we will have liberty from our fixed cost also. So that will give the additional bump up for the net market. So I believe that (Inaudible 00:49:33) the ambition is to go in that direction only.

**Dhiral:** And just last one question on the working capital side. In last two to three years we have seen maybe a decline in the working capital base, deterioration in the working capital base. So any guidance may be, in coming years to bring down to a particular level?

**Nikhil Datye:** So when you say decline in the working capital, in what sense?

**Dhiral:** So I was talking about there is some kind of a deterioration in the overall working capital cycle so in FY18, FY19 the overall working capital days was between 35 to 40 days. But as I see in FY21, it went up to 70 days.

**Nikhil Datye:** Yeah, that's predominantly because of the increase in the raw material prices in terms of quantity of inventory what we used to hold is pretty much the same, but the rate has almost doubled.

**Dhiral:** Okay this may again normalize?

**Nikhil Datye:** Yeah.

**Moderator:** Thank you. The next question is from the line of Anil Nahata, an Individual Investor. Please go ahead.

**Anil Nahata:** The first question is on the nine month revenue and the profit after tax, particularly from outside of India while the revenue has increased by around 20%, the PAT has almost declined by 50%. While I understand there could be some gross margin pressures, but as you explained that the prices of the raw material is quite stable in Spain, in Australia, then why are we seeing such a huge decline in PAT?

**Nikhil Datye:** So your question is referring to any specific company, is it Australia, Spain --?

**Anil Nahata:** Yeah, but outside India, because in the segment results you have given outside India as consolidated, you have not given separately Australia and Spain.

**Nikhil Datye:** So, for Australia entity, there is some change in accounting, because of which there is a decline. And also as we are expanding the capacity, some rentals have gone up, it is and finance cost also has gone up. So, if you look at independently the business outside India that is one of the reason that PAT has gone down.

**Anil Nahata:** So I mean, that is one part, and Spain is it also gone down or Spain is the stable.

**Nikhil:** As I see, in terms of Spain, there is not that kind of decline. It's more of Australia story.

**Anil Nahata:** My second question is on the growth part of the story. In your annual report, you had mentioned that the spring mattress business is probably the highest growing segment. I just wanted to understand what is our play on the spring mattress? What kind of market share we hold? And how are we poised to like address this opportunity of higher growth in the spring mattress compared to the rest of the market?

**Rakesh Chahar:** So, you are right spring is high growing segment, but it is growing more in South and West. In North and East it is still not acceptable as an alternative mattress. As far as our play is concerned

we have reasonable presence in terms of the product portfolio. But our main focus is on the foam side. So because we have (Inaudible 00:53:52) we have exclusive outlets. So our main focus is on the promoting foam mattresses. Because we believe that, I mean in Indian kind of condition especially when the sizes are multiple, a foam mattress is far more adaptable than a spring mattress. So it's basically once the consumer comes and consumer doesn't, it's not fixed on a material and he is looking for guidance to have the right mattress. So generally we promote foam mattresses.

**Anil Nahata:** I understand one part of that that our company believes that foam mattress is a market to go after, but that addresses North and East states on the South and West, if the spring mattress is a higher growing thing I mean won't we be losing market share if you don't go after that segment in a more aggressive manner.

**Rakesh Chahar:** So we are doing that thing, in South and in West, our portfolio screen is stronger compared to North and East. So we are doing that.

**Anil Nahata:** Okay.

**Rahul Gautam:** Rakesh, I would just add to what you said, you see spring is the fastest growing undoubtedly, but it is also on a very small base. And therefore, what it adds every year as the volume to it, is still extremely small compared to what is added on the foam side. And in foam the percentage of growth may be lower, but the quantum is quite large. And therefore, our natural affinity being more towards that side, we tend to go after it. Of course we have spring in our portfolio, but it is on a very small base and therefore, any kind of growth looks big on it.

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

**Nihal Jham:** I just had one clarification for the ecom revenue, what figure that we mentioned?

**Tushaar Gautam:** For ecom this financial year, I said we will be closing a little above 3 digits, which would be about more than double of the previous year.

**Nihal Jham:** Sure. And this is all mainly SleepX or it is equally spread between --

**Tushaar Gautam:** Yeah, mainly SleepX yeah.

**Moderator:** Thank you. The next question is from the line of the Ritesh Shah from Investec. Please go ahead.

**Ritesh Shah:** You spoke on the path of affordability and availability, incrementally, specifically you indicated on the Jabalpur expansion. So two related questions over here, one of the distribution side, we have shopper, galleries involved, how that mix can likely change going forward, given the segment that we are looking at incrementally? Are we aligned to that, so that's the first question?

And the second question is you emphasized that we are looking at a significant and large business, focusing on affordability and availability. Does it mean that the margin profile will be in trend with what we are doing right now? Or would that be any risk over there?

**Rahul Gautam:** So, I mean both on the affordability and the availability part of it as you just said that probably will have to look at, to make that happen both to save money on the transportation side as well as to save on the distribution costs. I think we will have to look at some alternate ways of reaching to the consumer. We have some ideas and some thoughts they are being trialed at the moment. And that will not be at, it will definitely not be at the expense of existing shoppees and galleries and the worlds that we had. They will continue to sell what they are and the whole process there of adding value and if we are getting better products that will kind of continue on that.

**Ritesh Shah:** The second question was on margins, but before we go into that, can you please elaborate a bit more on the distribution side? Can you tell us certain number of touch points that you already have? And what we intend to grow as we probably would look to go more aggressively into Tier-II and below as we put up your capacities?

**Rahul Gautam:** I mean, as I am understanding you for these kinds of products the channel will have to be completely different. The touch points will have to be completely different. And as I said, I am not in a position to discuss exactly how it will be, but probably another three months' time, we should be having it. But the touch points will be different.

**Ritesh Shah:** And the second related question was of how should one look at the margin profile given the focus on affordability and availability?

**Rahul Gautam:** So, I don't think the margins would be under stress for doing something like that. I think the volumes should help ensure that the margins are intact. Plus, newer ways that we are exploring of reaching the product you know.

**Ritesh Shah:** And in the initial remarks you touched upon 400 Vande Bharat train, I just wanted to understand though we already cater two Indian Railways and incrementally what is the scope of basically 400 Vande Bharat train, how much it can add on a tonnage or revenue basis.

**Rakesh Chahar:** So we are already supplying to Indian Railways. And these Vande Bharat trains are modern trains, with better cushioning materials, better aesthetics. So therefore the use of foam, both in the Chair Car, and in the sleeping berth, is likely to go up. They are made for better comfort, comfort for the consumer. So, how much will it go so, there is a changeover currently happening from our existing material which is used for cushioning, to polyurethane foam material, it's a technical polyurethane foam material which is replacing the existing material. So that transition is on, it will take time, but eventually, all cushioning will be of a polyurethane foam.

**Ritesh Shah:** It's only for Vande Bharat or is it for all the trains. If it's for all the trains --

**Rakesh Chahar:** All the trains, all the trains.

**Ritesh Shah:** So this is something which can actually be pretty huge, is that understanding, right?

**Rakesh Chahar:** Yes, it will be.

**Moderator:** Thank you. Ladies and gentlemen, this was the last question for today. I would now like to hand the conference over to Mr. Rahul Gautam for closing comments.

**Rahul Gautam:** Thank you, thanks a lot for conducting it and for moderating this conference. And I must thank each one of you who participated in this and the interesting questions that you have been asking. And let me tell you that in spite of whatever, 40 to 50 years that I have been in the business, every time this interaction is a learning exercise. And your comments and suggestions are absolutely well noted and taken care of.

In case we have not been able to respond clearly to a question that may have been raised, please feel free to connect up to our CFO, Nikhil, and we will try to respond on a one-to-one basis, either through email or through a talk over the phone. We hope and pray that you and your family remain safe and sound during these crazy times. And these times come to an end quickly.

As I see it, especially after the budget that was presented two days back. I see very interesting times. And we hope to be discussing the future more and not so good times would be behind it. Thank you very much. And we will see you again in three months time.

**Moderator:** Thank you. On behalf of Sheela Foam Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.