



November 08, 2023

To

The BSE Limited  
Phiroze Jeejeebhoy Towers  
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Scrip Code: 540203

The National Stock Exchange India Limited  
Exchange Plaza, Bandra Kurla Complex  
Bandra(E), Mumbai-400051  
NSE Symbol: SFL

Subject: Transcript of Investors' Conference Call for Quarter and half-year ended September 30<sup>th</sup>, 2023 Financial Results.

Dear Sir/Madam,

Please find below the transcript of Investors' conference call organized on November 03, 2023 post declaration of Financial Results for the quarter and half year ended on September 30<sup>th</sup>, 2023 for your information and records.

Thanking you,

Yours truly,  
For Sheela Foam Limited

Md. Iquebal Ahmad  
Company Secretary & Compliance Officer

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## **Sheela Foam Q2FY24 Earnings Call**

Ronald: Ladies and gentlemen, good day and welcome again to Sheela Foam Q2FY24 earnings group conference call. Please note all participant lines are in the listen only mode as of now, there will be an opportunity for you to ask questions after the presentation concludes. Please note that this call is being recorded. We request that you place your lines on mute except when asking a question. Some of the statements by the management team in today's conference call may be forward looking in nature and we request you to refer to the disclaimer in the earnings presentation for further details.

Now, I'll hand over the floor to Mr Siddhartha Bera, CFA, Consumer Durables Research. Please go ahead. Thank you.

Siddhartha: Thank you, Ronald. Good day, everyone. We'd like to welcome the management and thank them for this opportunity to take us through the Q2 results and to answer your questions we have with us, Mr. Rahul Gautam (Executive Chairman and Whole Time Director), Mr. Amit Kumar Gupta (Group CFO) and Mr. Iqbal (Company Secretary). I will now hand over the call to Mr. Amit Gupta Ji for his opening remarks and over to you, sir.

Amit Gupta: Thank you so much and good morning everyone and thank you for joining the earning calls for the second quarter of 2023 of Sheela Foam Limited. I welcome you all to this conference call. I also thank Nomura for organizing this call and helping us through this call. Please let me first take you through the results of the first quarter, financial results of the first quarter of Sheela Foam Limited. So Sheela Foam achieved a revenue of 613 crore for the quarter ended, September 2023. If you compare it with a year on year revenue, this is lower by around 10%. There are three specific reasons for the same.

The first one being we have already highlighted in our last quarter that we have increased the prices of our Sleepwell brand on the online segment and have introduced Sleepwell for reasons we have explained there. We see good traction in the Sleepwell brand on the online segment and it is growing very fast. However, it is still a little bit of time before it can reach to the same level as SleepX, so to some extent, it has affected the top line.

Secondly, the raw material prices have been continuously falling for last one year. So though they don't have any impact on the profitability of the company, but yes, as an optics from a top line perspective, it impacts there and the top line appears to be lower.

And I think the final and the most important thing that we faced in this quarter is that the festive season this time is starting a month later. So usually Diwali festival used to be there in October and the sales started from September onwards, which happened last year. But this year, Diwali is in November and the sales have started in October and of course, we see very good traction in October since we are already over with October. But yes, as a quarter, the second quarter was a little lower.

If we see on a consolidated basis, we achieved the turnover of around 1253 crores. Sorry, we achieved a turnover of around 800 crores. Sorry, just give me one sec for the first half of the financial year 2024 our consolidated revenues were around 1258 crores which again was around 10% lower in comparison to last year for obvious reasons. The international operations

are better off or at the same level but the main impact that has appeared here is because of the domestic level, we have been able to maintain EBITDA in amounts which has resulted in better EBITDA margins, but absolute amount remains 144 crores which has contributed to a PAT at the bottom line of around 88 crores.

So apart from this, I would also like to highlight on the other two segments in which we operate. So the technical foam has been doing good from a quantitative perspective. We are better in volumes on the technical foams primarily driven by growth in the OEM segment, especially automotives. However, furniture cushioning and comfort foams are a little bit lower in comparison to what we did last year, primarily being affected by the festive season. We expect these volumes to pick up from October onwards and the results will be visible in the next quarter results.

I would also like to brief you on the recent acquisitions that we have completed. So last time we mentioned that we have signed two acquisition agreements. We signed an agreement for acquiring 35% in the furniture company, Furlenco and we also signed for acquiring 95% stake in Kurlon. We are very delighted to communicate that we have completed both the acquisitions Furlenco was completed on August and Kurlon has recently been completed on 20th October, just 10 days back.

One of the best things that has happened to us is that we have been able to complete Kurlon on time we intended. We had mentioned that we should be able to do it by around mid of October. This one has given us an opportunity to take over the company and control it avoiding any lack on the part of the us 12 promoters since they had already sold the company. And secondly, just being before the festive season, it has given us an opportunity to drive the volumes right from here so that the company doesn't instead of going down, which generally happens in any acquisition, it starts moving in the positive direction.

We have been in touch with the management team of Kurlon for the last 13 weeks along with our consultant, figuring out the decisions which have to be taken right on the very first day and also the different areas of synergies which we can explore and execute. We figured it out in that period before we took over the company. And the result was that as soon as we took over the company on the next day itself, we could implement a lot of decisions which were required for the company now to take its growth to the next level. Also, all the synergies have been identified, they are already put into execution and we hope that some flavor of it would be available in the October to December quarter. And a good amount of synergy benefits should be available in the January to March quarter with full year benefits coming out in the financial year 2024 - 2025. I would also like to update that Furlenco is also moving in the right direction. So we have paid out of the equity proceeds as well. They have put a sizable portion of the debt, reducing their interest cost to a large extent. They also have now capital for investing in the new assets, creation of new assets by which they would be able to improve their top line and hence the profitability and they are well on track to achieve break even by the end of December of the current calendar year.

On the ongoing capex program just a little bit of an update. We are, we have almost completed the capital expenditure or the plant set up at Jabalpur for our mattress for every Indian. The plant as scheduled will go online from December onwards and we will have the first lot of production in this particular quarter with full quarter coming up as the January to March quarter. In the meantime, we have done a lot of pilots in different districts across the country and the

response that we got is very encouraging and we hope that this would be a landmark in the history of the company. As regards the capital expenditures in Australia and Spain are concerned, they are also on track and we expect to start commercial production by end of December on both these two plants.

With this background, I would now open this particular forum to the overall audience and would be happy to answer any queries or clarifications that is required of us. Thank you.

Ronald: Thank you very much, Amit. So investors on the line, thank you so much. We will now open the floor for a Q&A session. If you would like to raise a question, please use the raise hand button located at the bottom right hand corner of the Webex page, we will unmute your line and prompt you to speak. Or you may submit your questions via Q&A chat box addressing to our panelists. Please be reminded to keep your questions to a maximum of two. If you have more questions, please return to the queue and we will prompt you again. All right, So we have the first questions coming from Ritesh, Ritesh your line is unmuted. Please go ahead.

Ritesh Shah: Hi. So, thanks for the opportunity so, my first question is on Furlenco, you did indicate about releveraging debt repayment over there. Can you give some headline numbers on revenue Ebitda interest cost? How much was the debt? How much has it got repaid? And how, how are we looking at the interest cost movement? A related question specific to Furlenco, how are we looking at the incremental strategy along with the home first stores that we have? So that's a broader question on Furlenco. That's one. And the second question is I think Tarang has been launched on a pilot phases, just was trying to understand what is the product mode over here along with the price point and the addressable TAM, that's the second question and congratulations for two recent campaigns, I think it has gone pretty well. So, yeah, those are the two questions. Thank you.

Management: So, Ritesh, I'll try to answer questions if I miss out anything, please point me out at the end. So Furlenco has a total debt in the range of around 350 crores including the component of capitalized lease, so the debt on books was around 200-225 crore rest was capitalized lease. Out of which they have paid around 200 crores of debt which has brought down the interest cost by around 60%. Going forward if you look at an operational EBITDA perspective, they are operationally EBITDA positive as on date. But primarily as you could see that still there is some debt remaining there, there is interest cost, which is what we intend to cover in the next two months. And that's why I have indicated that by the end of this calendar month, we should be able to break even, meaning that we would also be able to recover the interest cost, which is being currently incurred.

Ritesh if you can repeat the second question, please. Sorry for that.

Ritesh: Hello, am I audible. So my second question was more on the product Tarang, what is the differentiation on the product? What are the price points over here? And what is the addressable TAM that we are looking at? And how do we see the ramp up of this product? And

will it be able to recoup uh the volume loss probably for SleepX that we have seen either by Sleepwell or through Tarang? That's the second question. Thank you.

Management: So, I think we had a market. We have already recouped, say around 40 to 50% of the loss in SleepX volume that we had done through the Sleepwell brand. It is not a question of just recouping those volumes. I think the volumes that we are looking forward from Sleepwell are much higher. We have launched recently a very aggressive advertising campaign. And apart from branding, we have also seen its impact on volumes. The new mattress that we have launched Nexa which is at around 25,000 price point is something which is returning good results. And we hope that the volume should be much higher than what we thought in SleepX. As far as mattresses for every Indian is concerned, it's a volume product and the success of that product is only determined if we are able to sell a very high volume of those mattresses. So we are not just looking for recovering these volumes, but we are looking for entry into a totally new era where on one hand, we have the brand strength of both Kurlon and Sleepwell. Now, instead of competing with each other, we'll be acting complementary to it because of their precise positioning, And on the other hand, we are hitting the untapped market, Indian market in the rural and semi urban areas through the Tarang mattress. So it will be a different scenario altogether, Ritesh. As far as TAM is concerned, target market for Sleepwell and Kurlon, it will continue to be urban and semi urban. Whereas for the mattress for every Indian that is, Tarang, it will can be more on the rural side of it and the lower end of the semi urban market, I hope I have answered.

Ronald: All right, thank you very much. Ok, next question will be coming from participant Arjun. Arjun your line is unmuted,, please go ahead.

Arjun Khanna (Kotak MF): Sir, my first question was just in terms of the merger related synergies. Now that both the transactions have been completed, I was hoping that some data could be provided how you actually see this pan out. So just in the interest of the investment community just to get an understanding of, of the merger related synergies, I was hoping to see some data if you could just talk about it.

Management: Sure. So Arjun, there are multiple synergies that we have identified. Some are at the back end and some are at the front end. Though it's a very difficult task to actually or precisely quantify these synergies, but I will just try to give you some idea of what we are looking at. So, on the back hand, I will start, the very first thing is we are a foam manufacturing company and Kurlon has traditionally been a coir manufacturing company, though as on today, also, more than 50% of the material is foam material, but if you look at it, our ability to produce foam, both in terms of chemistry as well as in terms of output is much better in comparison to Kurlon. So the very first thing that we are embarking on is to derive the same level of economic benefits both in terms of yields as well as in terms of quality from the foam which Kurlon is currently manufacturing. So that is one part, the second part is both the companies have been in different economic cycles. Kurlon was in a different cycle and we have identified that there were different price points at which both were purchasing raw materials. We leave aside what we could negotiate or what we could do because this is a different type of market. But even if

we basically derive the lowest common denominator between the two, still we find that there is a lot of saving which can come out of that, which of course is a very low hanging fruit and we intend or we have already started our journey towards it. The third synergy that we see is in the form of logistics. Till now, yes, we had a Pan India network and Kurlon also had a Pan India network, we were able to supply to our customers from a reasonable level of distance. But now this footprint has further deepened, which means that you can supply to the customer from a particularly shorter distance. One it helps you in terms of logistic cost. And secondly, it helps you in terms of time to customer, which is again a very important factor in this particular segment. So these are broadly broadly three, there are many others also, but I have just given you the major three ones which are at the back end, And I think at the front end also, first of all, what will happen is we will stop cannibalization between the two brands. So it is previously there was a lot of competition that we were fighting in the South and the East. Whereas Kurlon was also trying to fight it out in the North and the West. Now the positioning will be much faster, not to say that both the brands would not be Pan India, both the brands would continue to be Pan India and be selling across the country. But we will definitely work on the positioning of both the brands across the country such that each brand stands for a particular value delivery and then it becomes complementary between them that both of them support each other in their respective areas to provide the customer the value which each particular brand is giving. Now, this is something which is I think we have done a lot of brainstorming and to some extent we have laid down certain things, but this would be another few months wherein we execute it on the floor in the market or in the field and we see how best this can be achieved without affecting the existing infrastructure or the existing strength or the existing people that are associated with both the brands.

Arjun Khanna (Kotak MF): Sure, thanks for this overview. But is there any specific milestones we can call out? So as investors, how do we know that the merger or the synergies are coming out in the right direction? So if you could just probably quantify it by the next quarter and give us some data that would be helpful, Sir. Just in terms of milestones over a 2, 3 or 4 period, what we anticipate from the same, but thank you for the same. Sir my second question is related to the expenses part of it. Is there any expenses you'd like to call out that would happen in the third quarter since we did consummate it in October?

Management: Ok. So I'll start take your first thing, one see, I would not be able to give you an absolute rupee amount to that, but we are pretty confident that from the three backend synergies that we have mentioned, the consolidated or the combined ebitda margin should have an impact somewhere between 100 to 200 basis points on a combined entity. What ultimately it will come out, I think give us a little bit more time because putting something on an Excel sheet and actually executing it on the floor are two different things. As far as the outer timeline is concerned. I think this has started being executed and you should see good amount coming out in the fourth quarter of the current financial year. Some impact would also of course be visible in the current quarter as well. But since we will be combining both the companies and there will be a lot of issues which have to be handled, you know, in an integration, those have to be taken care of. I would request that you observe the fourth quarter and definitely there you would be able to see benefits in the financial figures in the next quarter.

On the expense side of it, I think now Sheela Foam is a different company from what it had been say around a few years back. We have now two national brands. We are absolute leaders across the country and hence, it becomes more important that the company now spends certain resources on things like advertising to take both the brands to the next level, strengthening of the management team, who can then take over all these activities and can realize the benefits which should come out from both the size and the integration of both the brands. So I believe that going forward, these will be the two areas which should be, which will be interesting from a, from a cost perspective. But given that I think more important is we are in an industry which works on a 40% gross margin and we are pretty confident that whatever expenses we will be doing here would be coming out of the expansion in volumes with some of it being converted to the bottom line in the form ebitda achieved by the company.

Arjun Khanna (Kotak MF): Sure, thank you for the same. Sir, just the second question in terms of Tarang, if you could articulate possibly, what's the output that we could generate from the Jabalpur plant? You mentioned, you need high volumes. So what's the minimum top line do we expect from the business to be break even or to move towards profitability?

Management: So, Arjun, the way we are looking at it, see in our case, the foam plants are not like standard capacity plants. If you see why we put up our plants is mainly in the past, why we did it was mainly to expand our footprint because the cost of setting up of the plant was potentially at times lower in comparison to the volumes that you got from a particular micro market and it was a long distance to serve that micro market. So you went near the micro market and set up a plant there. So even if you look at the Jabalpur plant, the plant has no limitations in terms of capacity. So if I run the plant 24 hours, probably I can feed half of India. But that is not what is important. In this industry what is important is how strong is your distribution network, how the product is being liked by the consumers, and it is able to penetrate across the segments that you want to penetrate. I can say, for any amount of volume that is being asked by the market, Jabalpur plant is capable of delivering that volume. No restrictions in terms of capacity or ability to produce foam.

Management: So Arjun, let me just come in on that. So we should be starting in December this year and we expect that in two years time, we should be looking at a top line of 300 crores and that will be well, well past the break even point. So I can calculate or evaluate the exact break even point, but we'll get back on that. But in two years time, we should be at a 300 crore level.

Arjun Khanna (Kotak MF): Sure, that's really great to hear and wishing you all the best.

Rohald: Thank you Arjun and management. Hi Sid, I believe there are some questions from Q&A chatbox. Would you mind read out the first one? Thank you.

Siddhartha Bera: So sir, there are a few questions, one is from Jainil, he's asking about the total revenues we can expect for Kurlon and Furlenco in FY25, and what kind of a ebitda margins also to expect?

Management: Yeah, so currently if you see financial year 2023 Kurlon had a revenue of 850 crores. Since this year was the year of acquisition, we are not forecasting any revenue for this year, but we are pretty confident that should be the volume which should at least be achievable. However, if we look at financial year at 25 we would be targeting a minimum of 1000 crore from Kurlon and a minimum profitability of at least say around 10% ebitda which amounts to around 100 crores. Though we are hopeful that if these synergies are implemented, we should be somewhere between 11.5 to 12%. On Furlenco currently, Furlenco is at 156 crores in the last year. This has a break even and a total break even at PBT, with PBT break even at around 210 to 215 crore. And please remember this is not sales revenue, this is total rental business, 95% of the business is rental business. So though it may appear to be a small figure from a top line perspective, but this employs an asset of more than 300 crores to generate this revenue. So once we achieve the break-even in December this year, next year, definitely we are looking at some positive profitability at the PBT level beyond break-even. However, our intent with Furlenco is not to push it just for profitability immediately. Yes, we have a three year plan with them where they have to achieve double digit PBT margins. But before that, what we would be more focused on is that they are able to create assets which can then be deployed for generating of revenue. What happened to them in the last one year was because of paucity of capital. They could not generate the assets in line with the demand that they had from the market. And once they achieve PBT positive, by the end of this calendar year, they would be looking for developing those assets to be deployed further in the market and expanding their market reach. With a brand like Furlenco in their pocket and capabilities like the digital capabilities that they have, designing capabilities that they have or the manufacturing capabilities that they have, it is very important that we leverage those capabilities and expand geographically before the other players capture the market at different places, which then makes it more costly for us to enter those markets.

So I think the question is there is that FY25 what is the expectation of the revenue?

So Kurlon will be about 1000 crores. Furlenco my understanding, 300 crores and Sheela Foam would be about a 3200-3300. Sheela Foam would be, yeah, almost at the same level. Yes, you are right. So totaling to a 4600 crore level in FY25.

But Furlenco top line would not be consolidated with this. Yes, they are independent, whatever will come will come. Sure. Sure.

Siddhartha: Ok, sir. So the second question is from Aditya. So as a minority shareholder in Kurlon and who hasn't taken part in the recent buyback from Kurlon, what can we expect from Sheela Foams now?

Management: So as per the, let me take that question. So look as for the arrangements, all shareholders who were unable to join in the selling process, it is the responsibility of the erstwhile promoters to acquire them and then pass them on to us. However, in a rare case, if it will happen and doesn't go through that process, we would be happy to consider an open offer.

Siddhartha: Ok, sir. Got it. Ronald, we can take other participants now.



Ronald: Ok. Thank you Sid and management. I believe Ritesh has some follow up questions. Ritesh your line is unmuted. Please go ahead. Thank you.

Ritesh: So I have two questions. One was specific to Tarang, what is the sort of distribution model that we are looking at? Predominantly Kurlon and Shila Foam we understand it's more Tier 1 and Tier 2 and probably Tier 3. The addressable market over here is very different. So can you give us some specifics on the distribution model and how are we looking at incentivizing the channel specifically given we had indicated earlier that this is something which is likely not to sacrifice on both margins as well as return ratios. That's the first question and the second question is specific to Furlenco. We do see that Furlenco folks are also opening up retail stores. There were two, there was one large one in Bangalore, one more, And how does it mix or mix and match with furniture first retail stores which are there? So are we looking at Furlenco to go more into offline by their own stores, how should we understand the allocation? Those are the two broader questions? Thank you.

Management: Ok, Amit I'll take that question. So as far as Tarang is concerned, we are looking at a completely different distribution channel. The current channels are, as you rightly said, from metros to tier one to tier two and tier three and maximum in a few cases up to tier four towns. But here we are going right the other way around which means that we reach to the tehsil or the block towns. And the model that we are envisaging is actually going to be overriding on what is, what's called as a small town distribution system practiced by FMCG products and the likes. So these are distributors who are in district headquarters and they have their little vans which do the rounds of the tehsil and the taluks and the block towns and this is what we have piloted on and find that as, as useful. The difference is the distributor will not be an exclusive distributor like we have here. And, and that makes it far more economical. The truck that they would be having to go around would also be carrying some other material. And we, we hope we will, we are looking at just blowing this up on the entire 600 or 700 districts that we have. The second question that you had on the two retail stores which Furlenco has opened. So one was already in operation when we took over, the other one was on the drawing board. The fundamental or the philosophy behind the two stores is that a furniture is an item which has to be felt, which has to be experienced. And or whether over a rental possibility or a sale possibility. In either case, it makes more sense for people to see it in reality. Now, this is actually, and, and the two stores are lending more credibility to this. The sales have gone up in that area, the rents have or, or the rental part has gone up in that area where there is a store which is in place. This is all lending credibility to our plans that of the exclusive stores that we have. We should be able to leverage them for Furlenco products for rental less our and for sale more. So today, as Amit said, we have a 9 -5 break which is 95% is rental and 5% is on sales. We expect this to go more to 45 -55 level or a 50-50 level very soon the moment that we are able to do it. So we expect that out of the 5000 odd stores that are with, with Sleepwell and some more to come with Kurlon, we should be able to put furniture on at least about 20% of them and grow that furniture from there.

Ronald: Alright, thank you very much management. Ritesh if you have any follow up questions that you would like to ask later on. We will now take the next question from Anik. Anik your line is unmuted, please go ahead.

Anik Mitra: Good morning, am I audible? Thanks for taking the question. Sir my first question is like you are explaining regarding the, regarding stopping the cannibalizing effect due to both of the brands together. Now from a layman's point of view, like when a consumer goes to the market and if he has option for like both of the options like Kurlon and SFL Sheela Foam together, so which obviously they have to, like the consumer has to pick either of these two. So in that aspect, like how this cannibalizing effect can be stopped because one brand, if I'm taking up one brand means I'm again suppressing the another brand.

Management: So let's look at it like this, that today the consumer has 50% and I'm just taking a number but close to that, a 50% say in what the product he or she is buying and the balance 50% is of the retailer, the retailer and the consumer decide together that what product that they want. The products that in the past have been developed, whether by Sheela, which was a primarily a foam mattress company or by Kurlon, which has been a rubberized coir based company. Each company added all the possible products into their line. And that's where the confusions grew.

Our research on the consumer research shows that when told properly, people know for sure whether they want a coir mattress or they want a foam mattress. And therefore going forward our strategy is that we sharpen the positioning of both the brands. So Sleepwell will stand for a modern mattress, a technology based product, a variety, you know, with comfort levels, etcetera, which are variable, that kind of a positioning; while a Kurlon on product will be based on natural product, organic product, recyclable product. And people, you know, who have a sort of affinity towards nature. So that's how the positioning would be. We've seen that in the past that we may have added many products. But there are, there is a consumer who wants A or who wants Sleepwell or who wants Kurlon and we are only trying to sharpen that and make that better.

Will there be a 0% cannibalization? Probably not. But we expect this to be very, very minimalistic, you know, yeah and all the all the business, let's say a coir business should come at the expense of the other coir mattresses or the unorganized parts.

And similarly, for the foam side, it should come from the unorganized sector to Sleepwell. So as we sharpen, we will also spend a lot of money or considerable amount of money to increase the brand salience of each one of them.

Anik: Fair enough, Sir. My next question is, probably this question may be repetitive in nature as I joined almost 15 minutes late due to some technical glitches. So sir, like for the last five quarters, we have been seeing some kind of the degrowth at the top line year on year basis. So like is it the effect of the low volume or uh like is price erosion? So what it is?

Management: So Anik, first of all, let me assure you that this is not a repetitive question and you are the first one asking that. So, thank you for that. The reasons have been very different and we've, you know, in the recent roadshows, this was a question which was repetitively asked and

the reasons have been very different from a quarter on quarter basis. However, all I can say is that as we have pulled out, you know, from the post COVID times, we have been strengthening our, let's say we have been strengthening our positions and getting prepared for the future. I, maybe I'm not 100% legally correct in saying it. But let me, let me just say as a reflection of a quarter that has ended and we are talking to you about it, but there has also been a month that has gone by and you know, when Amit was saying that the festive season has moved and we, we have strengthened our leadership team and we have started advertising and promoting for our brand. These are a few things that have already brought about the change. I may not be able to speak on numbers, but you will see a different picture as we kind of go along. And of course, the consummation of the acquisition has also been a part of or at least responsible for in the past for a little bit of resources and focus to go away. But as far as the future, that's the addition or the inorganic addition that that will play an important role in. So, in a nutshell, if I, I mean, yes, you're right on the five quarters. but the future is not gonna be like that.

Anik: So sir, was there any like erosion in the prices as well?

Management: Yes. So on the, what we call as the industrial foams or the furniture foams, etcetera, they are relatively more commoditized and there the prices do go down. And therefore, this is one reason which I didn't want to talk about, that there is a sizeable drop in the raw material prices and therefore, the selling prices of the foam products has also and which has impacted the top line and then being reflected as a de-growth.

So Anik if you see, yes, whenever raw material prices go up, you will find selling prices of segments other than mattresses going up. And similarly, it is the case in the reverse. So though you might see the impact on the top line in terms of absolute rupees. But if you look at profitability, the profitability has not been impacted, rather reducing raw material prices to some extent has improved the the margins that we are making. So if you look at the contribution margins that we have been doing or we have done in this quarter or the half year, they are a percentage to point to 2% point higher than what we had done in the corresponding period last year, which implies that our operational profitability is better. But yes because the volumes are lower for the reasons we have cited, it has impacted our ebitda. Even on the cost side, we are not extravagant. You see that it is only two costs which you might find or rather in this quarter it is only one which is the manpower cost, which has gone up a bit. And there are obvious reasons which we have explained just now why the manpower cost has gone up. But we anticipate that with increasing volumes and with the product portfolio which has 40% gross margin, we should be able to derive better results with these investments.

Ronald: Ok. Thank you very much management and Anik. If you have any follow up questions, please use the raise hand button again.

Now we'll move on to the next person. Nihal your lines muted. Please go ahead.

Nihal Jham: Good morning to the management. My apologies again, even I joined a little late. So I had a question, apologies if it was repeated, that the mattress business while the earlier participant also highlighted the overall business has been seeing a de growth over the last six

quarters. And in Q1, we did allude to the fact that SleepX as a business had been taken away. So would it be possible to give a sense of what was the core, what was the de growth because of Sleepwell as a brand excluding the impact of SleepX in Q2.

Management: So, I mean, let me just repeat the question so that I have understood it. You're saying in Q2, what was the impact of withdrawal of SleepX as far as the mattress business is concerned? Is that correct understanding?

Nihal: Yes, yes, Rahul ji. That is what I was alluding to.

Management: So on an analyzed basis SleepX had gone up to a level of about 120 crores. And when we withdrew it, of course, we did not withdraw it physically. What we did was to actually increase the prices which appeared and which made it profitable, but which also appeared as, not the right and therefore the sales kind of went down. And I think it dropped to about 10-12 crores annualized. Sleepwell has been taking that position and has been growing. Currently, I would put the Sleepwell numbers in the online business at about 45 to 50 crores annualized, but it is improving month on month basis and actually improving pretty well. So if I took the full year, the impact of SleepX being withdrawn and sleep well coming in, I would say that you would have lost about 25% in the current year that I'm talking about, on an annualized; but if you go to the next year, it would have, it would have crossed, it will cross those numbers and not only cross those numbers, it will also get profitable, it is already profitable and we'll continue to have profitability.

Nihal: So just to be sure there was in total an impact for a full year basis of around 100 - 110 crores from SleepX being taken away or say the prices being high. Some of it was made up by Sleepwell's increase. So net net on an annualized level, 80 crores was the impact which ballpark would be around 20-25 crores a quarter. Would that be a right understanding of the choices?

Management : That's right

Nihal: That is clear, a related question to that Rahul ji was that we, we knew that SleepX as a business was obviously lower gross margin. If I look at the TDI prices, they have seen a decent correction versus last year of around 30%. And even there is a benefit of a product mix, I would say with specifically the mattress business, seeing a better mix of Sleepwell, so isn't the increase in gross margin should have been higher versus just the 190 bps that we've seen in the Q2 quarter?

Management: So Nihal, I would say that look the, the reflection on the on the gross margin will automatically come and the impact of TDI is far lower than the other chemicals and the other things, you know, I mean, polyol is about 60-65% you use polyol and TDI is only used about 30-35%. So if you just put all that up and it's a, I mean, it's arithmetic that goes on there. So whatever is an outcome is an outcome. But because we don't decrease in decrease any Sleepwell prices, therefore, I don't see it.

So, I see from a margin perspective, I think there is improvement and you are right that the improvement is primarily because SleepX has been converted into Sleepwell mattress, Sleepwell margins which are higher. But broadly, if you see the margins that are coming out of it is a combination of all the products that are here. So I can tell you the margin, the gross margins on Sleepwell, it has gone up and has increased by the similar percentage that I mentioned to you. But yes, at the same time, technical foam, if you see have gone up in and the mattress has come down. Whereas the remaining two segments like furniture foam and comfort form has almost been at the same level or a little, a little lower. So if you look at the mix, I think that this is the result, what is ultimately coming out. But you are right, once these two segments also recoup the increase in contribution margin should be higher than what it is appearing currently.

Nihal: Sure, point taking just one final question if I may, how would Tarag's pricing compare to the erstwhile Starlight brand that we have? And how would the distribution be different versus what we did for Starlight?

Management: So, Nihal on the construction part of it, it's very different from Tarang. Tarang is a good solid foam, solid mattress, while the Starlight was more of an EPE plus kind of foam construction. So they are different from each other. And therefore a comparison may be a little, little different, but the price points may be similar. Tarang, the the advantages come in from the ability to come - number one uses a technology to produce, which brings down the cost of foam by at least 15 - 20%. But that a centralized plant and therefore we have to transport to all the parts of India. But this foam also allows saving on the transport cost by compressing and transporting it. And that's very different from a Starlight product.

And the third is of course, on the distribution side, I just shared with you or rather on the call that the distribution is not through the regular zonal distributor, area distributor and then the dealer etc. Therefore, the amount of money that is spent on the distribution is far less. And these are the advantages that Tarang would bring to the table as compared to Starlight.

Nihal: Sure point taken. Thank you so much Rahul ji and management. Thank you.

Ronald: Thank you. Next question is coming from Namit. Your line is unmuted, Please go ahead.

Namit Arora: Thank you for the opportunity. My question to Rahul ji is that while Kurlon has been a successful business, you know, obviously with your success at Sheela Foam over the past many decades, there could be very valuable learnings and experiences that you would bring to bear on Kurlon. So I would be grateful for your initial thoughts on how you intend to leverage that to take Kurlon to the next level, given all your experiences and learnings. Thank you.

Management: Thanks Namit for a great question. You know, that's been on our minds all this while. The first step that we would do is to just allow Kurlon to go back to its normalized levels of top line and its normalized levels of Ebitda, which it was used to and which it was delivering for

years together before COVID. So that's the first step and which is simple policies, procedures, decision making, etc and leveraging some administration and some let's say leadership issues from one company to the other. So that's the first step.

The second is of course, the synergies that would come in which Amit pointed out a little earlier, right from procurement of raw material to formulations for making foam, to getting the yields or improving the yields out of it. And then the ability to supply it from the nearest manufacturing facility to the market and thereby saving transport costs.

The third level with, of course, some of them will go along simultaneously. The third level is the front end part of it. And in the front end part, we are quite aware that there are geographies where Kurlon is extremely strong, South of India, East of India. And unfortunately Sleepwell, has not been as strong or has been rather weak in those areas. In the North and the West Sleepwell is an extremely strong brand. Now, the strong brand means it brings the relationships, it brings the distribution along with it and we now would leverage the South ones for Sleepwell and the North ones for Kurlon and thereby increasing the distribution and the availability of the products. The brands are known, very well known throughout the country. It's the distribution, the availability of the product, that, that we will, we are working on.

So I think on these three steps in the coming times, we should bring this integration to be beneficial to both the companies and to end up with a one plus one far more than two ways.

Namit: Got it. That's extremely helpful. Thank you very much for your detailed thoughts and all the very best to the entire team. Thank you, sir.

Management: Thank you, Namit. Thanks so much.

Ronald: Thank you Management, next question is from Abhinav. Your line is unmuted, please go ahead.

Abhinav Hans: Yes, So my question is related to your overseas operations. So one is if you look at Australia, the gross margins are high and relative to Spain the ebitda margins are much lower. So what is the specific reason for that? And what is the reason for fall in margins in both geographies as well and on a YoY basis?

Management: Abhinav,, if you look at Spain and Australia, first of all, they are not comparable, because even if you see the absolute ebitda margins, they are very different between Australia and Spain. If I remember correctly, Spain has around 30% whereas Australia has around 50% gross margins. They are different operations, even from the perspective that Spain has only one facility, it supplies to the European market, whereas Australia has six facilities across Australia and New Zealand and it supplies mainly to the Australian and New Zealand subcontinent, which is a different market altogether. Now, coming back on the margins, I think what we intend is what our expectation from these overseas operations is that they should be mid to high ebitda margins. During the recent past, first because of COVID and then because of extreme competition, due to the falling commodity prices, there were some pressure on profitability. But Spain has been able to achieve ebitda margin of 11.5% for this quarter.

Australia, yes, I agree that it is lower, but it has still improved from 6.2 to 7.7. But that's not what our expectation is, This should also move gradually to more than 10% and maybe in a few period should move to mid teens margins which we believe is the optimum level for the type of business they do in these particular geographies.

Rahul ji: So I'll just add to that Abhinav as Amit said, they are, I mean, they are completely different as to the way that business is done in those areas. In Australia, the pass on to the consumer is very different in the sense that there are some big customers where the pass on happens in 3 to 4 months time and there are some customers, but even it goes up to five months. So if there is a fluctuation in raw material prices, it takes a little time for passing on the the prices, and this, what we are seeing is only an reflection of that. As we go a little forward, this will get back to the 10 or the 10 plus levels that Australia is known for or that is our expectations from there.

As far as Spain is concerned, it's a little more I won't say volatile but a little more moving, easy moving and every month they kind of change prices. So there the experience that is primarily on the top line and that's because whatever Europe is going through at the moment, everyone fully understands that though we are not impacted that much because our market share is extremely small and we still have capabilities and capacities to increase which we are, which we are going to do and which we are doing. So on a tonnage basis, on a volume basis, it's not going to reduce. However on a top line it may be because the raw material prices have gone down, but the two of them are completely different from the way they operate.

Abhinav: Thank you. Thank you, sir.

Ronald: All right. Thank you very much. With the interest of time, I think we can take only a few more questions. So I, I believe Anik has some follow up questions that you would like to raise the management, your line is unmuted now.

Anik Mitra: Thanks for taking my repeat question. Sir as you, like last, all of our discussions were related to volume. So my point is, like, do you find any impact of the wedding season in the volume? Like, is there any thrust in the wedding season?

Management: Yes, it's, you know, when we look at reasons to purchase mattresses, the biggest season or reason is the wedding season and, undoubtedly, the volumes go up at that time, and, we can see that because these are also voluminous items. They are not possible to store and stack for too long, neither by us nor by the distribution channel. And therefore you see the reflection of that straight away as far as the factories are concerned and the sales that are happening, the impact is immediate. Absolutely right.

Anik: OK, sir. How is this festive season or let's say wedding season ahead? What is your understanding?

Management: So the festive season one, it got delayed a little bit. So, in the last quarter, the quarter that we are talking about, we did not see the impacts of that season, you know,

otherwise people tend to pre-buy a little bit, but the October that has gone by which is a subsequent quarter one, we already feel the good impacts or the very good impacts of the season and therefore expect that to, that the next quarter I mean, the reflection of that will be in the next quarter. However, on the wedding season, let me just say that at this time, we have a short wedding season, but this is in the festival period and therefore the impact may not be so much. The other wedding season comes somewhere in February, end or middle or end February and that's a longer one. But thankfully that is a part of the leaner season. So I think these things should kind of balance out, you know, and both the season and the wedding combinations should be almost equal enough for both these quarters.

Anik: And sir, can you throw some light in terms of the current inventory situation in the system? Like, is there any inventory built up at this point of time in this quarter in Q2.

Management: Generally, we don't, Amit can give you some numbers on it, but generally because these are voluminous items as far as foam and foam products are concerned. Number two on mattresses, unfortunately, there is the standard mattress on a national average about 60-65% balance 35% are custom made mattresses or personalized mattresses on sizes and therefore you can't keep the inventory. So generally the inventory levels are low as far as these products are concerned.

(Amit Ji) And moreover, Yeah, I agree. inventory levels are lower than what it had been in the previous quarters. Primarily because we have been focusing very sharply on inventory and plucking out each and every component of it and trying to say that whatever minimum as required for the business is only the inventory maintained. Of course, if you look at October the wedding season, uh sorry, the festive season, we have increased inventory to some levels because that is what is needed at the time when the demand are high. So specifically in October, you would find high inventory. But by December, the festive season would also culminate. And so you should, you should see similar levels of inventory as in the last quarter.

Ronald: All right. Thank you very much Anik for your question, Sorry, I have to cut you short and I believe given the interest of time, it will help us wrap up the call with the final question from the Q& A box, Sid please go ahead. Thank you.

Siddhartha: Thanks Ronald. So I'll take the last question from the chat box. So, what is the current transport cost per mattress? And what do you expect it to be once Kurlon is integrated?

Management : So see I can't give you movement cost on a per mattress basis because there are, there are different types of products for which transportation is used. But yes, I can tell you that there would be at least 10 - 15% overall reduction, on a per unit basis once we combine, the Kurlon and the Sleepwell footprint.

Siddhartha: Ok, Sir. So that wraps up the conference conference call. So thank you so much the entire team from Sheela Foam, that was the last question we had and Sir, I'll hand it over to you in case you have any closing remarks.



Management: Thank you so much. Thanks Siddhartha. So thank you all for participating in this earning conference call and asking such enlightening questions. I think Rahul ji has mentioned it earlier also and I'm also of the same opinion that every time we attend these calls, we get to learn something which helps us to implement in our business and improve further. So, thank you so much for that. I hope we have been able to answer your questions. separately if you have any further questions or you would like to know about the company. You can please reach out to our IR managers and advisors and we would be happy to support, clarify or reply to any of the queries that you might have. Thank you so much.

(Rahul ji): Thank you, Siddhartha and thank you and thanks everyone.

Ronald: Thank you. Have a good day. Take care.