



“Sheela Foam Limited Q4 FY-20 Earnings Conference Call”

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MANAGEMENT: **MR. RAHUL GAUTAM – MANAGING DIRECTOR,
SHEELA FOAM LIMITED**
**MR. RAKESH CHAHAR – WHOLE-TIME DIRECTOR,
SHEELA FOAM LIMITED**
**MR. TUSHAAR GAUTAM – WHOLE-TIME DIRECTOR,
SHEELA FOAM LIMITED**
**MR. DHRUV MATHUR – CHIEF FINANCIAL OFFICER,
SHEELA FOAM LIMITED**

MODERATORS: **MR. VISMAYA AGARWAL – ICICI SECURITIES
LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the Sheela Foam Q4 and FY20 Earnings Conference Call hosted by ICICI Securities Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Vismaya Agarwal from ICICI Securities Limited. Thank you and over to you, sir.

Vismaya Agarwal: Thank you Faizan. Good morning everyone. It’s a pleasure to host the Q4 FY20 conference call of Sheela Foam Limited. We have with us today from the management, Mr. Rahul Gautam – Managing Director, Mr. Rakesh Chahar– Whole-Time Director, Mr. Tushaar Gautam – Whole-Time Director and Mr. Dhruv Mathur – Chief Financial Officer. With that I ask the call over to the management for their opening comment. Over to you, sir!

Rahul Gautam: Thank you very much, Vismaya and good morning to everybody. I am just saying that there are many firsts as far as this call is concerned. First it’s a following day after declaring our results and it’s also on a Saturday and I must apologize for getting all of you to work on a Saturday. I did check with Vismaya and he said it is unusual to have a call on Saturday, so therefore thank you very much. But in these times where everything has been unprecedented and not forecastable and very unusual maybe this is a first that we can continued for the following times.

At this time to talk about Q4 and FY20 is a little awkward as so much time and not only so much time but so many changes have happened from the time that the year got closed and its almost has been a disruption where from that from a high peak level we were all brought down with the lockdown brought to a level of zero and after a gap we are starting again. So we have actually even forgotten that during March or the time before that there was a slowdown in the economy and if you remember that in our meeting on the 10th of February we had mentioned that there is actually a kick-start that the economy needs and especially on the demand side and now I think even a bigger kick is needed to start that.

Like we begin talking about whatever happened in Q4 FY20, even though the connectivity is broken and some of it may appear as out of context. But still a few comments and I think all of you would be more interested in what is happened during the COVID time and what we see immediately after that. So if I go back to the March period I would say at least 15 to 20 days were completely washed out because of the Corona setting in. The results have already gone to you but our estimate is that’s close to a 100 crores would have been an extra sale that we lost out on and an EBITDA of another 30 crores that we would have lost out of. The numbers that have been received by you, there is one more impact from Australia which is a foreign exchange impact because the rupee moved favorably compared to the dollar. Spain of course for that quarter continued to do well and has contributed immensely to our results of March, 2020. With that even without the 100 crores that I talked about our EBITDA for the year improved compared to the corresponding year. We had a level of 300 crores which was about 42% higher than the previous year and as a percentage of the sales was at 13.8%. Of course I see that because there

was an exceptional expense which I'm going to talk about it now. In 2016 we did have a fire for which an insurance claim was lost, everything absolutely, the claim is good and nice but it is just that the insurance company is dragging its speed and not clearing it. We have taken the help of IRDA over this period of last 3 years. They have brought about a review to the process but still there is nothing positive that is coming out as far as decision by the insurance agency is concerned. We have filed the couple of RTIs we do get a roundabout answer. We feel good, substantial time has gone and our auditors were also keen and our directors were also keen that we should write it off and then take it up; of course we will keep pursuing it. I will pursue it in the court if it is required and whenever it comes back to the company it will be added back to the profits. I must say that during these COVID times and there has been virtually—not virtually—actually no impact as far as the devaluation of the assets are concerned. So there is no devaluation and the assets remain completely intact.

A little change that has happened is in the Australian Accounting Standards where the long leases have been converted to or have been capitalized and there is no change on the PAT side but there is a change as far as the EBITDA is concerned, so those numbers look unusual but that is just because of the change of standards.

One more point about this last year that I would want to mention and that is about dividends which has always been a point of discussion amongst us. So somewhere in March when the loans were about to change I know many companies decided to give a part dividend or a pre-dividend however we chose not to take advantage of any kind of for tax issue at that time, in any case 75% of the dividend was to only come to us therefore we chose not to take that advantage. Post that in our last board meeting the directors have again discussed and have proposed that because we do not know how long this period is going to last, how much cash is needed and required. We are not even aware whether it's the beginning, middle or the end of the tunnel and therefore it is better to retain this money and as I keep repeating in any case 75% is with the promoter group and therefore we have decided or the board has decided and commended that at this time we should not be declaring any dividends, we should retain cash.

Coming back to the period beyond that which I said I would want to spend a little time; please do not treat it as any kind of a guidance. In fact I cannot give any kind of guidance for this Q1 or even for the years to come. But I just thought that this major disruption that has happened it may be worthwhile for the company and for the investors to really have a kind of peak into whatever changes that we foresee are going to happen as far as the company is concerned as far as the industry is concerned and as far as the country is concerned. Your company, the factories all of them have started with social distancing and of course there are fewer people. However we work with complete SOPs laid down by the Ministry of Home Affairs and there is total sanitization, everything, safety of the people is absolutely uppermost in our minds.

On the market side our estimate is about 80% of the markets have opened and as you must have known from many others that the smaller cities have done better than the bigger cities and as we know that bigger cities like Mumbai, Delhi and Chennai are also facing the brunt of the

infections of COVID19. If we take just a snap as today I would say that about 80% of the markets are open and our business is about two thirds of the business which is back and let's hope that it kind of ramps up very quickly to the normal levels.

I must say a word about Australia which did have a partial lockdown but the factories never closed and today in fact they are doing better than before. Similarly for Spain which went through a real bad time, a horrendous time where they had close to 800-900 deaths per day but our factory being located at a remote area and away from the big cities continued to work and at the lowest level was about 40% of normal levels and today it's back to better than before and therefore both those geographies are doing reasonably well.

Another point that I want to make is about impact of China, so of course even in the last meeting we did talk about it that the trade differences between US and China were making things difficult for the other parts of the world and subsequently of course the COVID impact, the little impact which we are experiencing on the northern part of our border etc. imports from China are becoming difficult. I'm happy to let you know that we are virtually non-dependent on them except for a container of TDI or two here and there and few blankets that we would have imported, virtually nothing and that too now in a process of completely looking at other places. We do not have any strong point of view on that but the issue is that it's getting more and more difficult to get material from there. There is however a positive impact of whatever is happening which is that exports from India are looking very bright—at least I just talk of our industry—so China was exporting a lot to Europe and to America and those places for whatever reasons they feel good for are looking at India as another source. So we have many enquiries, we have many opportunities which are knocking at our door and we would be growing that in times to come both from India as well as from Spain.

The few initiatives that we have taken and we have been very vocal about those initiatives, one that just to make our stores a little more—not little more—but completely pliable with the SOPs of the Ministry of Health Affairs, we have converted the stores into what we call as safe zones. So there is sanitization repeatedly being done throughout the day, the people are completely Corona free who interact with the customers and we also encourage people to take a special time and appointment and come there and shop. The other thing is that we are extending those stores for the people who do not want to venture out from their homes, so we have a program called 'Sleep well at home' where the shopkeeper along with our ASM would be visiting with pre-appointments at their house, showing them the products and making or concluding the sale. And I must say it's at the very nascent level but the results that we see are good.

Our venture into the e-commerce side because that's again another area where people would want to shop from home continues. We have of brand called SleepX which is to be sold through Amazon and Flipkart and we have our own website mysleepwell.com where our products which are bed-in-box etc. are being introduced in the market so that people can buy them from the safety of their homes without interacting with anybody. If you remember many months back or almost a year-and-half back he had introduced a new technology called the Neem-Fresche

technology which has its bases both in India as well as in Australia and it was combining nature and science to combat all the micro-organisms. Today we have that product in virtually all our offerings and there is a research going on by the Australian company to figure out what kind of positive impact or a negative impact it has on the Corona Virus. The preliminary reports are encouraging but I cannot say till we have the final report.

So all these opportunities arising because of the COVID19 are being evaluated and I will speak to you definitely in the next meeting about it. During this Corona period there have been many needs and requirements that the various government agencies as well as private hospitals have been looking for mattresses and quarantine centers. We have worked with them and supplied almost close to 9000-10,000 pieces across the country for the centers which are being developed. What I am very happy to share with you is that the biggest of these centers which you must have read in the paper recently is being set up by Radha Saomi Satsang and this is a 10,000 bed quarantine center ideally needed for a city like Delhi where people who live in apartments or small homes cannot quarantine themselves even for the small period that they are required to and not infect others. Sheela Foam is supplying the beds which are made out of recyclable and natural product based cardboard. They are assemblable in 5 minutes; they can be disassembled and moved around. We are supplying the mattresses and the pillows. As of today 2000 of them are already in place and by the first week of July another 7000-8000 would be in place and this 10,000 facility would be up, the largest in the world and would be up in the shortest possible time. As I said I'm very happy to share that we have supplied free of cost from our commitment or our contribution to the society.

One last point which continues to bother everybody; I must say that at the moment they are low and steady. Generally these raw material prices are based on two things: the demand side as well as the crude price or the feedstock price. Both are low for the moment and are estimated that they would continue to be low at least for the next couple of weeks or couple of months but having said that when I say it I always bite my tongue because I am never kid of correct. But all indications are that they will remain low and steady for the coming times.

So with these words I would hand you back to Vismaya for taking this conference forward. Thank you very much.

Vismaya Agarwal: Thank you Sir. Faizan can you please start the question answer session?

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Lakshmi Narayan from ICICI Mutual Fund.

Lakshmi Narayan: I have couple of questions; firstly that given what we have facing what are the few things in your way of doing business that we think will be kind of irreversible and it is going to be a good advantage for you, the way which you do business in terms of your inputs, logistics or you sale, has there been something which you realized which you haven't known earlier which can become a great advantage for you going forward?

Rahul Gautam: Thank you very much Lakshmi and I am repeating the question so that I have understood and it correctly. You are saying the way that we were doing business whether it was logistics, inputs, outputs etc. with the impact of COVID what do we realize has given us an advantage or has changed to which would become an advantage, is that correct?

Lakshmi Narayan: Yes that's right and something which you haven't like for example people have moved to doing Zoom calls and they find that it's quite efficient and which can be an irreversible thing the way which people deal with life and it is for good. In that context you added something which in your business anything similar to that, it could be technology, it could be the way in which you deal with your employees or it could be anything?

Rahul Gautam: So two things, one which you have already said which is as far as communicating with people is concerned, certainly have realized that you don't need to just get on to a flight and go to a place or you don't need to a car and move 10-20-30 km to go and meet somebody. You can actually do it and you can do it better from home and I must share that we have recently had a board meeting with Australia and we concluded that from now on as far as board meetings are concerned we will do it this way even when travel and everything opens because it's so much better focused and all that. Similarly traveling for our sales people which was visiting shops and visiting the retailers we can curtail that down a lot and the communication with the dealers can even become better through the newer audiovisual means which are being used. The other part that we are done I would say is an advantage to say that now that's again related to travel only and our expectation is that we would travel far-far less. So e-learning and traveling these are two things, we have one more thing which is as far as our factories are concerned we did find that when the social distancing is being put in place there we find that we have to do with fewer people and what we realized now is that you can actually do with fewer people and probably have as good a result. So these are couple of things that are here to stay.

Lakshmi Narayan: And the way in which customers buy your products etc. is the thing which you think that the number of stores can be rationalized or can be much more optimally utilized and how the consumers are actually taking this which can become an advantage for you?

Rahul Gautam: As a thought at the moment but no actions taken but as support at the moment it is true that the stores can be rationalized. You can use as a audiovisual means to connect up with the customer, you can probably do with smaller spaces in expensive commercial areas so that you don't need to display everything and you can take it to your home etc. is So definitely the retail space is going to go through a change but I must in the same breath add that the exclusive retail that we have has been a great advantage because whatever progress we wanted to unleash which were like converting them into safe areas or reaching out to the homes of the people was far easier to do compared to competition where exclusive stores are far lesser. And going back to the factories working; contractual labor which was being used for just moving stuff around and which was creating quite a bit of a crowd now with automation and with simplification etc. we can work much better.

- Lakshmi Narayan:** I have just one more question related to the numbers which were published; when I look at your FY19 numbers standalone on cost of materials and the other manufacturing expenses and when I compare to the one which you released today, there has been a change in both these line items the cost of materials as well as other manufacturing expenses. So do you reclassify that, can you come with something slightly reclassified, other manufacturing expenses some material has been shifted to raw material which was earlier classified in other manufacturing expenses, so that is and what is the rationale to do that?
- Dhruv Mathur:** Just the auditors suggested that it is better to reclassify the particular items from consumable to raw material, nothing else.
- Lakshmi Narayan:** And just another thing for export of IT services in your thing, so what this pertains and what is this number for this year?
- Dhruv Mathur:** Please come again.
- Lakshmi Narayan:** There is a line item called export of IT services which has been around 4 crores every year on standalone.
- Dhruv Mathur:** That's the IT services exported to Australian subsidiary. The entire IT support is provided from Sheela Foam, so we charge, this is from Australian subsidiary. That's the line item.
- Lakshmi Narayan:** And that would be around 4 crores for this year also?
- Dhruv Mathur:** That's right.
- Moderator:** The next question is from the line of Rahul Ranade from Goldman Sachs Asset Management.
- Rahul Ranade:** On this insurance claim of around 12 crores, has it been complete or provided for or something like that?
- Rahul Gautam:** Yes, we have this norm year as far as this year is concerned. However the pursuance of it we will still continue in whichever year we will get the claim we will add it back to the profits.
- Rahul Ranade:** Just one more question on the standalone balance sheet, actually the loans amount seems to have gone up, so it is to be around 2.5-3 crores odd which is gone up to around 50-55 crores odd.
- Dhruv Mathur:** The loan is for acquisition of Spain when we invested 40 million, out of 40 million 20 million is the loan from Citibank and of the balance 20 million 12 million is the equity and 8 million is the loan, so that loan is represented as the investment in the same subsidiary.
- Rahul Ranade:** 12 million was equity that we put it.
- Dhruv Mathur:** Yes.

- Rahul Ranade:** Just on the matters realization; I was looking at it on a quarter-on-quarter basis, so from Q3 to Q4 it seems to have gone down, so I just took the revenue and divided it by the volume to get the realization, so it seems to have gone down from around Rs. 3600 to Rs. 3300, so is there a price cut over here or has the mix shifted adversely in favor of the Feather Foam and Starlite?
- Dhruv Mathur:** This is not only for Starlite and Feather Foam, even in the Sleepwell the consumer behavior is changing towards low price products. So it's a mix of, it is all the categories that we have experienced the behavior.
- Rahul Ranade:** So there was some bit of down-trading that happened in the March quarter you are trying to say?
- Dhruv Mathur:** Yes preferences towards low price products.
- Rahul Ranade:** And just to general questions, just wanted to get a sense of what do you think is the dependence of our matters business on the overall wedding segment because in times like these we are hearing that weddings are getting postponed etc. so just wanted to get a sense of what proportion would it be for our revenue?
- Rakesh Chahar:** Can you repeat the question?
- Rahul Gautam:** Okay, I will repeat for him. He's saying that because our sale of mattresses are dependent on the wedding season and now the ratings are getting postponed, so what impact will it have on the mattress sale?
- Rakesh Chahar:** So right now what we are experiencing is there is a pent-up demand, the customers who are intending to buy but could not because of lockdown, there also have been consumers who have used the matter is during the lockdown and realized that it is time to change. The wedding demand has definitely gone down but that to some extent has been compensated by the new realization is that there is a time because mattress being a very low involving and ignored category so it has come to the limelight during the lockdown period. So as far as sale is concerned, the marriages getting postponed but this new sale coming up to the retail.
- Rahul Gautam:** Rahul, I just want to add to that and these weddings where the mattresses are sold are weddings in the middle income group, lower income group etc. and those weddings are not getting postponed. The buzz that we hear or the noise that we hear is these are what we call as the large weddings where people want a 1000 guests and 2000 guests etc. in the bigger cities. Those are definitely getting but in the middle income group and the lower income group, so if I would take a village if a wedding is scheduled for that particular time the wedding is taking place. So a setback will be there but it will be very minimal.
- Rahul Ranade:** I just missed that part of where you said that because of lockdown actually the mattress category is coming into the spotlight from earlier it was ignored; I didn't catch that part, why is he saying that?

- Rahul Gautam:** So this is our feeling or this is our experience both from Australia and Spain and whatever we have seen as in India is that when people have been at home in the lockdown period I think they are realizing the importance of mattress and importance of furniture far more and therefore going out to buy something good and nice because are spending more time at home.
- Rahul Ranade:** What is our e-commerce contribution in general and are we seeing a spike up because of this whole lockdown thing and people are like in other categories were very comfortable in ordering over the e-commerce, so is it also happening for us?
- Rahul Gautam:** There is no doubt that e-commerce will go up and it is going up in all the other geographies for sure. At this point of time the only number that I can say is that's about 65%-66% of the business is back, on the e-commerce site more than 100% of the business is back and therefore is at a faster recovery route and probably will go ahead. But maybe by the next time we would have full numbers to support all that.
- Rahul Ranade:** Pre-COVID it would have been how much, 5% of overall revenue or what would that be?
- Rahul Gautam:** Rakesh you want to answer that as a percentage of revenue I mean the e-commerce sale?
- Rakesh Chahar:** As a percentage it would be last year would be around 4% of sales.
- Moderator:** The next question is from the line of Nihal Jham from Edelweiss.
- Nihal Jham:** I had couple of questions; the first one was that you mentioned the figure of 75 crores which was the impact on the standalone revenues due to COVID, how much of that was specifically to the mattress segment?
- Dhruv Mathur:** Around 35 crores is the mattress segment.
- Nihal Jham:** Just related to that you mentioned that 80% of the metros is operational currently. I first wanted to understand that currently because of the fact that sales do not happen for the last 15 days of March, is there a possibility where there was a lot of inventory which was lying with lot of your dealers and distributors and consequently that is still to be liquidated?
- Rahul Gautam:** So you're quite right, we do track the primary sales which is from us to the distributor, the secondary sales distributor to the retailer and then the tertiary sales. So our finding is that the tertiary sales are higher than secondary and secondary is than the primary and therefore whatever was the inventory is first it's being liquidated.
- Nihal Jham:** And just last question on this side that you did mention about there being a pent up demand and despite wedding season being postponed you are seeing some demand as a need to replace mattresses. But generally mattress as a category is little on the expensive side and currently a lot of people are speaking that a lot of discretionary items being postponed. My only thought is that in this scenario possibly mattress as a category will be a little later in terms of the replacement

then some of the other items. So I just wanted to know your thoughts based on what you have seen after the reopening and all, so your experience of looking how the industry evolving during such challenges there?

Rahul Gautam: I can only say that our understanding was also that mattress is a nonessential item and the essential items would be first to recover. But a little experience that we are getting from our other two countries Australia and Spain as well as whatever few days that have gone by in India, it appears that thankfully mattresses are not so nonessential. People do recognize its importance. I'm not so sure if additional factor may be impacting it which is the unorganized sector taking a little longer time to get into action and maybe the preference of people to go for established brands rather than then for anything. Those two factors may also be playing in.

Management: So I may also add this increase in immunity sleep is coming as one of the big reasons for it to improve immunity and plus this Neem-Fresche campaign that we are doing which basically also elevates the importance of mattress in good sleep and sleep being very good for immunity, so the response for our campaign is also positive. So consumer is open and is willing to look at the health and angle of the mattress.

Nihal Jham: Just one last question from my side, obviously e-commerce is a channel where a lot of the sales are shifting and specifically for **(Inaudible) 40.08** is there a plan or thought process significantly drive those revenues via additional advertising or more visibility on the marketplace websites, wanted to understand that?

Rakesh Chahar: So I think this is related to Spain, so I would suggest if you can...

Rahul Gautam: Sorry I missed out that. So yes, see in Spain we are...

Nihal Jham: It is related to space and not Spain.

Rakesh Chahar: Nihar can you repeat the question please?

Management: Nihal I think you mean SleepX not SpaceX.

Nihal Jham: Yes.

Management: So absolutely the advertising for e-comm or to drive sales through that channel both for Sleepwell and for SleepX, both are going to go up coupled with the right focus on the product mix and the products available through those channels. Both are kind of online I think SleepX went online a couple of weeks ago, Sleepwell is gone online a couple of days ago—online when I mean—with the increased focus on advertising as well as the product mix and the channel makes itself in the sense that earlier we were only on Amazon and Flipkart where of course there is a large customer play, there is a large consumer footfall but also the margins are bit tight, so we have also started to develop our platform sales through both the brands whereas we are

playing and putting more resources behind the standalone website where the consumer interaction, the consumer experience and our inability to get better margins is also there.

Moderator: The next question is from the line of Pankaj Tibrewal from Kotak Mutual Fund.

Pankaj Tibrewal: My question is more from a medium-term perspective, always as a company you have been mentioning in your annual reports about organized mattress segment being about 35% of the total industry size. We saw a trend emerging out of GST, now post-COVID are you getting some sense that the movement of unorganized to organize because bank credits and other things are becoming really tight for the smaller guys, is that the trend probably that could accelerate and what would have been our share in the organized—we have seen the market share increase—last time you alluded about 26%-27% your market share in the organized mattress segment, so some data-points will be helpful there. The second you mentioned in your opening remarks about some encouraging opportunities emerging from a China plus strategy or demand coming out of Europe and US, can you elaborate a bit and if you were to crystal-ball gaze next 2-3 years how big this opportunity could be for us when you look both from India and Spain? That are the two questions from growth side from a medium term.

Rahul Gautam: I think first question was on the unorganized sector and the impact of COVID on the unorganized sector and what do we believe that will happen. I think it's a little too early to crystal gaze on that. In the last 30 days we would have seen there was initially a cash crunch for them then somewhere somehow some money was arranged, some movements are there. My feeling is that the entire impact of all this will really be in the next 2 to 3 months when the business contracts actually a lot of cash also gets unleashed because the working capital comes in but when you get back to peak levels that is when really the shortage will be felt. I think there would be a few people falling over or few people closing down businesses but that will happen in next around 3 months time and therefore for us to really make a judgment on that that what is the impact of the COVID on the unorganized sector I think is a good idea to wait for a while. There is one side which is the cash side, there is the brand side, there is the immunity side, there is the distribution side or safe zone side, so I think there are many aspects to it. I would request that if we do it may be off-line couple of months down the line or we do it in the next call it will be good. On these opportunities that you talk about, so just to elaborate on that I would update them into the opportunities. I will start with the smallest one first which is Australia importing lot of stuff from China and even through our company there where a brand called Sleeping Duck use to import all the cupboards etc. from China and we would complete that mattress in Joyce and give it to the market. So they have specifically said that they want to completely shift that base to India and because it's eventually the company remains the same etc. so that's a business which is about to be concluded—not the business to be concluded—but the agreements to be concluded and I see that happening quickly. The second part is material which was going from China into Europe and America but more into America. That part the number of enquiries have been actually huge is an understatement, how many of them will convert into supply position? I would say that even if 10% concludes the numbers would be large both in quantum as well as in value for us to take care of. And when I say us it means two places that we would supply from, one is

Spain and the other is from India. From Spain closer distances, European base, all the certifications like Oeko-Tex and Euro-4, Maserati Pure Marks and this that and all and a far greater comfort that America has, those things are on the verge of getting concluded. Few small little orders have come in as trials and pilots but on the rates and the products and the grades and all that absolutely in place. As far as from India is concerned which will be more like bed in a box which will be more like spring mattresses, all those which were happening from China. As I said of the enquiries that we have we conclude 10% of them it will be a large number. But maybe in due course I will be given to give you better feel for that of what the volume would be.

Pankaj Tibrewal: Any thoughts on—I am not asking you very near term—but from a business opportunity as a company, can it be a 100 crores, 200 crores, 300 crores or a medium term perspective, I am not saying this year or early part of next year but 2-3 years period, can that be a sizable portion of our business which is today there?

Rahul Gautam: So I will put it I mean in medium term let me put it in 2 years term and in 2 years term it should be closer to 500-600 crores. I'm saying it conservatively but of course everything has to play out as I said but it will be that much for sure.

Pankaj Tibrewal: The third and the last question is that when we are interacting with all the brand companies, one interesting trend we are watching is the collection in the last two months which is April and May and early part of June has been quite good and actually distributor retailers have paid that in terms of the overdues which were there in March or early part of April, how has been our collection efficiency during this lockdown phase and where are we on the debtor side if you can just give some sense?

Rahul Gautam: I think we have been reasonably good on that part, we have the distributor in between whose main job is to provide the credit or normal times as well as unusual times and he generally has some credit with us and ahead most of the channel has been exclusive and their intention is to continue with that exclusivity therefore as far as any bad debts I won't say there have been any but any delays, probably yes, in fact we did offered to the trade that we can arrange for finances at lower rates of interest and we do not want that any business should be lost on account of non-availability of funds. But by and large there has been no requirement of us and that part is played out well.

Moderator: The next question is from the line of Resham Jain from DSP Investment Managers.

Resham Jain: Just on the export side you mentioned I got lot of answers but just from the size perspective how big is the US market? That is number one. And what is the price differential between what they import from China versus what they will be doing from India is the price difference material from that perspective?

Rahul Gautam: Sorry, Resham could you just say the first part of your sentence?

Resham Jain: Opportunity stands in US, how big is the market over there for the products which we manufacture?

Rahul Gautam: I can say about \$5 billion is what is the numbers which have been quoted in the various magazines and the agencies which provide this data, now all of it or part of it or whatever its going to come is come to us. The size of that market is \$5 billion. The second question you were asking was regarding, the price difference Resham it will be very difficult to right now say that what's the price but I would say it will be absolutely comparable prices otherwise the business will not happen. Those prices are comparable or we have to make them comparable.

Resham Jain: I was just asking from the business point of view whether to conclude the businesses which we are seeing currently, its size one of the major variable or are there other variables to win these businesses which we are seeing on the import side?

Rahul Gautam: So prices of course an important factor but there are whole lot of other factors which are certifications, which are shipping times, which are the grades and qualities of foams that will be available or the bed in a box that would be available and let's not ignore the fact that from China is a well oiled, well established supply chain which is been there and therefore for the others whether it is out of India or it happens from Spain it will take a little bit of time but it will be there. And I'm very encouraged by the response to the Spanish offers that are there. So price is important but it's not going to be the only determining factor and price we will have to be comparable. There is no choice from that, all current indications are that we will be comparable.

Resham Jain: My second question is with respect to Spain; when we acquired the business I think we were doing around 12% to 13% kind of margin but when we see the margins in this quarter, it is closer to 19% odd and you mentioned during the acquisition that there are certain changes, the mix of the business and other things which you are going to change. So is the margin showing the changes which you've done or is it still to be done over the next few quarters?

Rahul Gautam: Resham, to be honest I think it is too early to see any changes that we would have done, I would only say that we have provided them the flexibility to operate and little bit of global connections and maybe supply of raw materials etc. but the real impact of us bringing in whether an IT system, facilitating their business, bringing in product changes, all that has not happened as yet. We acquired it in October and then the impact of COVID has been almost from February end to March beginning onwards. So whatever you see as the numbers are naturally happening, they may be a bit cyclical in nature that the raw materials and the impacts and all that that is there. So I would put that as a sustainable number is whatever I have always been saying which is a 14%-15% numbers I thought will be sustainable. But from our side whatever we had to do we've done very little here.

Resham Jain: My final last question is on online, so on online business specifically Amazon, Flipkart in the last 2-3 months, you mentioned there is a lot of traction but these are backend supply chain is it

all set to have a higher quantum of sales and what are we doing for that because it's a slightly complex supply chain compared to what we do in our other channels.

Rahul Gautam: I think the supply chain was well established over the past 1 year and that has not changed where it's directly going from our factory to their warehouses or godowns, so it's pretty established. It was just a question of enhancing the volume but all the teething troubles and all that they were sorted out last year itself.

Moderator: The next question is from the line of Mr. Vishal Chopra from UTI Mutual Funds.

Vishal Chopra: Firstly I would like to compliment the entire team on the good set of disclosures with respect to the product files, volume value data I think that's very useful and I hope we continue with that. The question I had was of export I think we largely covered most part of it just two things here, if you could just share in FY20 the year gone by what would be the exports in the standalone business absolute amount or percentage of revenue whichever works and either margin at the EBIDTA level not at the gross, at the EBIDTA level will the exports margin will be similar to the company average?

Rahul Gautam: You're talking of the year that's gone by right?

Vishal Chopra: Yes, on the exports portion I was talking of the year gone by and exports margin the year gone by and going ahead also what is the view on that exports margin?

Rahul Gautam: I think going ahead I would be a little hesitant to put an exact number to it but the year gone by Dhruv can you that both from the volume and EBIDTA?

Rahul Gautam: So volume was not too large it was around Rs. 20 crore only and EBIDTA levels much lower as compared to the normal EBIDTA level which is normally the EBITDA level is between 13-14%, in export the EBIDTA level is close to 8% to 9%.

Vishal Chopra: And going ahead difficult to say it will be higher or similar to this?

Rahul Gautam: I'm just saying that going ahead the EBIDTA level will be higher. This 8%-9%, its actually the quality of export that you do I mean what you pick up and what you do, so big large opportunities like this always will tend to bring in the deficiencies which are necessary for improving or reproving our EBIDTA. Right now that 20 crore of export that we're doing is all small numbers and probably the variety was just too much. You were just sort of trying to take whatever it was keep your ship running as far as the exports was concerned etc. but I think when you look at these kind of things of course they'll be much high.

Vishal Chopra: Second question was on the CAPEX, firstly what would be our planned CAPEX for FY21, the current year and secondly from the medium term point of view to explore this export opportunity will there be any meaningful increase in our CAPEX?

- Rahul Gautam:** So as far as CAPEX for FY21, again this period has been completely reset and we would like to get back to any kind of budgeting or forecasting activities in another month's time and once we are done we will definitely share with you. On the exports side, I would say that there are some machines for sure that will be needed, required which will be for compressed packing, making these beddings or the mattresses into kind of boxes and shipping but it will be very small. The basic little machines which are making of the foam and all qualities are great foam and then sort of converting to mattresses etc. all those kind of things exist. But the new ones would only be compressing them and putting them in a box and sending the boxes out. Yes, some machines would be required but very few and therefore the CAPEX I don't expect it to be very high CAPEX.
- Vishal Chopra:** Just to clarify the exports I mean the opportunities what we are talking about is largely mattresses or is it foam?
- Rahul Gautam:** From India and definitely from Spain but from Spain there is also blocks of foam which was again shipped from China and those are the simplest things to do and the third thing that I added gave an example of was of mattress covers with springs inside them which we will be doing to Australia which at the moment they were buying from China.
- Moderator:** The next question is from the line of Tejas Sheth from Nippon India Asset Management.
- Tejas Sheth:** Starting with a lot of MBOs we had converted to EBOs over last 2 years, most of these EBOs will be under severe pressure right now and they would be jittery about their whole business plan or maybe even their decisions. How are we handling that part at present?
- Rahul Gautam:** So quite a few of the EBOs I think the major expense of the EBOs will be really the rental values of their place but in our case the majority of them are from where they own the place themselves and some of them run the premises and therefore salaries are also not the biggest of things to ensure solvency to continue. Wherever there are rentals we have offered and we will be supporting them for a while to ensure that the expenses are taken care till the time that the volume kind of comes back. So I don't see any major issue there. There may be some structural changes which may happen down the line where one of you did say in the beginning that you could do with a little bit of a smaller store or you could do it because of the newer technology. So I think I was trying to answer the question of Sheth from Nippon, right?
- Tejas Sheth:** Yes, EBO.
- Rahul Gautam:** And I think your question was on the solvency or the continuation of the EBOs and I did mention that in our case most of the EBOs are self-owned buildings and they work themselves and therefore there is not big stretch on rentals or on salaries and if there are any structural changes that will probably happen that smaller stores will suffice, that we will see if it next 1 year or 2 years we will see anything.

- Tejas Sheth:** My second question was again on the China opportunity. How are this typical imports done, I mean they are long-term contracts, the clients are the large departmental stores where you will be doing white label for them? Just wanted to get some color on the client side, who are the clients and how are the contracts placed?
- Rahul Gautam:** No, there are no contracts as far as, are you talking of us importing stuff from China?
- Tejas Sheth:** No, US imports from China. So who are the US clients typically and are they having long-term contracts with China, how does it work, is it very much volume take a pick kind of contract, are they exclusive contracts, how was that sourcing pattern is?
- Rahul Gautam:** I think it's a mix of everything. There are some of these big retail chains which are importing directly from the suppliers in China and some there are agents and people who import in warehouse and do it and the third type of people that we have seen is the Chinese companies have their own warehouses in China. So it's a mix of all these things that are going on and I don't think that there are any contracts which are very long-term contracts.
- Tejas Sheth:** This is typically B2C side of the opportunity, right. There would be lot of B2B side also, the opportunity in terms of car cushions, car seats cushions, the furniture cushioning part which also would be importing from China and there we again have a very good position in India. Is that also a good opportunity which can play out for us?
- Rahul Gautam:** Sheth I am not aware of the auto seat opportunity. Anyway auto seats we don't do that ourselves, so we have not explored that part of it but furniture cushioning; generally what US has been getting is completed furniture from China and not really the cushioning part separately. So on the furniture is since we don't to completed furniture as of now, it will be very difficult for us to say that what is that quantum of business and I mean all we hear is thousands of containers a day but it's just a wild statement. Honestly I wouldn't know about that.
- Tejas Sheth:** Lastly on the cost management side, have we done any cost management plans post-COVID to sail through this year on the profitability side?
- Rahul Gautam:** Yes sure we have. So starting from where I said right in the beginning of labor reducing, automation happening, simplification of some of the products, simplifying the supply chain side and even sourcing of raw materials. So these are regular cost-cutting measures which have been there but here we have specifically taken up them and have achieved quite a bit. I mean at the moment I will not be quantifying all those, have achieved quite a bit on that. Similarly we are looking on the sales side, improving the supply chain, improving the product, improving all the kind of things that we are already doing. So those regular cost-cutting measures are going on but some very big ones have also been taken up there.
- Moderator:** The next question is from the line of Siva Kumar from Unifi Capital.

- Siva Kumar:** Revisiting the cost question; can you quantify how much of it is fixed and how much of it is variable?
- Rahul Gautam:** Siva that's the most difficult question that you have asked because whatever changes, I mean if you look at the last couple of months post lockdown or from the time lockdown has started, most of it has been in the closed times and whatever changes we are beginning to happen are going to happen only when we have restarted. So therefore let me just say this that we have reviewed every process and reviewed every material and everything that is going on. We had that opportunity for the 2 months that, that were there. We have reviewed that, we have reset that and only after that we are restarting everything and on this restarting because it's been a very recent phenomenon for me to say that this much is fixed cost gone and this much is variable cost gone, it's a little early. Let's give it another month or so and then will be able to give you better handle on these numbers.
- Siva Kumar:** Just two data points, what were the advertising expenses last year and also what were the sales incentives for last year, standalone business?
- Dhruv Mathur:** Marketing expenses for the year were 80 crores as compared to 105 crores in the corresponding year, as last year was 105 crores and this year they were 80 crores. Selling expenses last year were 180 i.e. '18-19 were 187 crores and this year they were 205 crores, so more money was incurred on consumer schemes and promotions, that's it.
- Siva Kumar:** This will be incentives so 205 crores right this year versus 187 in FY19?
- Dhruv Mathur:** Correct.
- Siva Kumar:** What is the status of the ADD application on TDI which was moved in the last quarter, should we expect an ADD on TDI?
- Dhruv Mathur:** So but hearing is yet to come and because of post-COVID times no hearing took place. Let's see, nothing has happened since then, people have replied to the questionnaire but our expectation, what we are thinking the way the things are going, there will be some levy of anti-dumping duty because of the low prices at this moment?
- Siva Kumar:** Coming back to the Q1, I know you said that you wouldn't been giving any guidance but some of the other companies have been guiding in terms of how June was there specially like June was 50% of last year's June or something like that. Can you guide along those lines because for a discretionary consumption space is really difficult to gauge as to what will be the impact of the current lockdown? More specific number from you would be really helpful.
- Rahul Gautam:** So as I have mentioned to you June would be about 65% of last year's June.

- Siva Kumar:** That's very good to hear. What will be the business strategy for this year? You have very good margins, thanks to the low raw material prices. Will you use that to increase your market share or would you continue to focus on profitability or will it be somewhere in the middle?
- Rahul Gautam:** You know sometimes some of these questions are probably a little early in the phase of this restarting. But let me say that at this point of time we would want to do everything not to miss out on any sale opportunity. We will definitely be looking at profitability and definitely be looking at conserving cash etc. however in the next 15-20 days or let's say next one month our entire focus will be on ensuring that we do not lose out any top line opportunity or a sale opportunity. But that does not mean that our eye will be off from the bottom line and we will sacrifice that. It's possible that there may be a bit of a cash outflow, it is possible that there may be a bit of EBIT reduction or a contraction but even on a mid-term or a short-term basis you will find no impact on that, that focus will continue. But as I said the entire company at the moment is working to ensure that we do not lose out on any sale opportunity, at the same time most of our customers get started and get back to some kind of normalcy.
- Siva Kumar:** One last question from my side, since you are conserving the cash, would you again look at any merger opportunities during this year or it's a no-go zone now for this year?
- Rahul Gautam:** I have always said that we are always on the lookout of opportunities which are absolutely synergistic, which work well along with us. I do not assume opportunities to come up in the next 1 month or so but with all the shakeup that the Corona Virus has created, I think the opportunities will come up and we should remain our eyes and ears open for those whenever they come.
- Siva Kumar:** One last question if I can squeeze it in, you gave a medium-term target opportunity for the US market. How soon can you start shipping them, if it all you do any agreement with any of those customers?
- Rahul Gautam:** Again as I said it's not tomorrow but it's not very long away and I am giving not a straightforward answer on this because some of it has already I would say has the first sale happened? Yes, it has. How do we see the ramp up happening? For initial few months it may be a bit slow but then the ramp up would be fast, that's what our feeling is. Just please wait for a while.
- Moderator:** The next question is from the line of Paras Nagda from Enam Holdings.
- Paras Nagda:** Sir wanted to know the 500 to 600 crores sales opportunity in export that you mentioned, how much can be from India specific?
- Rahul Gautam:** Again very early times for this kind of question. I have clubbed everything together, if I would hazard a guess I would say a 100 from here and a 400 from Spain.

- Paras Nagda:** Considering that transportation cost for this kind of bulky items is very-very high, do you think as you said the margins can be slightly lower than the now domestic margins, is that a right assessment there?
- Rahul Gautam:** Yes they are, the transportation cost are there but there are ways to surmount that, example I did talk of compressing the foam item, compressing the block or compressing a mattress and transporting it plus the manufacturing cost are far lower here compared to the countries that you are exporting to. So I think all put together the margins going being very low is not true and I think the way they are whatever our EBITDA percentages are, we wouldn't want to drag that down by just increasing the top line.
- Paras Nagda:** My last question is for Dhruv ji. Can I know the net debt or cash as in India and overseas?
- Dhruv Mathur:** No, of course India there is no debt and overseas let me open the balance sheet and tell you.
- Paras Nagda:** What will be the net cash in India?
- Dhruv Mathur:** 259 crores as on 31st March. The borrowings are 36 crores and I think still it will be positive and if you see the consolidated balance sheet we have the numbers there but it will remain positive. Only loans, only big loans..
- Paras Nagda:** 200 crores borrowing in the overseas?
- Dhruv Mathur:** Come again please.
- Paras Nagda:** I am saying close to 200 crores borrowings in the overseas and close to 50 crores odd cash on the net consolidated level?
- Dhruv Mathur:** That's right; it appears like this, Yes.
- Moderator:** The next question is from the line of Kiran Trivedi from Axis Securities.
- Kiran Trivedi:** You just mentioned a while ago that 80% of the markets have opened and smaller cities have done better. So is it possible to share like how much of your mattress change is coming from the Tier II-Tier III cities and what are the plans if any is for increasing your business in these Tier II-Tier III cities?
- Rahul Gautam:** The Tier II and Tier III cities definitely opened up earlier and they are opened at the moment they are opened for a larger period of time. It's very difficult, so I will just to break it up but I would say that about whatever our levels of business are about; in general times Rakesh if I am not wrong about 60% business comes from big cities and about 40% comes from smaller cities, is that correct, approximately?
- Rakesh Chahar:** Yes approximately correct.

Rahul Gautam: And the smaller cities I have opened up earlier and I am doing more business so I think if today's mattress thing was to be broken up, so instead of a 60-40 breakup it may more be the 40-60 breakup, that means 40% is from bigger cities and 60% from the smaller ones.

Kiran Trivedi: Any plans of further penetration or increasing your presence in these Tier II-Tier III cities?

Rahul Gautam: So we were recognizing that this that these cities have a nature or a characteristic of their own which is very different from the bigger cities, so whatever is to be done differently; so earlier we used paint the entire country with one brush but now we know that the bigger cities behave differently. So there are more enquiries for visits at home in bigger cities than in smaller cities, smaller cities people are still **(Inaudible) 82.42** to move around etc. So our whole approach is that if it's a long compilation of all standard or all procedures we will adopt but at this point I will just say that we have different approaches for growing the businesses there.

Moderator: The next question is from the line of Kedar from Composite PMS.

Kedar: My question is specific to the Spain business. So what explains the higher margins that we are seeing in the Spain business at the EBITDA level is it because of a more favorable product mix or is it that the cost structures are different or is it because of utilization going up? So what would explain the higher margins there?

Rahul Gautam: The two things, one is definitely the raw material advantage that we are seeing; from the time that they have become a part of a larger group; they are able to or we are able to get in Spain **(Inaudible) 84.01** of the European market and therefore were insignificant **(Inaudible) 84.04** market, their position has improved and we are able to get better raw material **(Inaudible) 84.09**, that's one and generally the rates are a little bit lower and that's the reason for the good margins which are there.

Kedar: Can you please let us know what are the utilization level specific to the Spain market right now?

Rahul Gautam: So Spain, the capacity is about 20,000 tonnes a year and they were doing when we have acquired them, they were doing about 11,000 tonnes. At the moment if you take the current run rate we are almost at the peak level, capacity level that we are operating. But in this business nameplate capacity has little significance because what is needed or required just to enhance capacity is a few more buildings and a few more curing area and a few more cutting equipment which is virtually cost us very little and therefore as I said the nameplate capacity is 20,000 tonnes but to enhance that 20,000 tonnes is not an issue at all because the land exists, creating a shed and creating some cutting equipment is a small expense.

Kedar: My second question is on how the advertising spends might actually change going forward as the proportion of revenue you derived from the e-commerce channel actually starts to increase. So is that the right way of looking it or is there a better way of looking it?

Rahul Gautam: I think there is definitely has to be a different way of looking at it. We said that **(Inaudible)** **86.15** brand equity which kind of exits etc. and right now as I said for the next 1 or 2 months the focus is going to be on the sales back and to draw up our long term strategy as far as advertising for the brand is concerned and I would say that we should be looking at it 2 months down the line and anything which will **(Inaudible)** **86.44** which means the plan and all that happening will be in the H2 part of this year. So we will just wait for a while to answer your question in detail.

Moderator: As there are no further questions, I would now like to hand the conference over to the management for closing comments.

Rahul Gautam: Vismaya thank you very much for holding this conference and even on a Saturday and I think you took full advantage of extending it by half an hour to ensure everybody got their questions in while nobody had the paucity of time. I would close by saying that these are extremely interesting times, this COVID; nobody wanted it however it is here, how long it's going to be here nobody knows. But it has completely reset the world at least for us its reset the world and we have reviewed everything, we have reset everything and now slowly we are restarting everything. So in these interesting times I think when we meet next it will be a completely new flavor that would have emerged about every aspect of the business. So till that time I just want to wish you, all the well, all the good that can happen at this time. I wish that none of you or your family members or your friends or people in your circle get infected by this disease. The good hope that I have is that the disease is spreading but it is getting weaker and therefore the number of cases which are getting out of it is decreasing. So wishing you all the best and thank you very much for joining in and Vismaya thank you very much for conducting the conference.

Vismaya Agarwal: Thank you sir, thank you everyone.

Moderator: Thank you. On behalf of ICICI Securities Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.