08th August, 2024

To

The BSE Limited
Phiroze Jeejeebhoy Towers
Dalal Street, Mumbai-400001
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 ended June 30, 2024 Financial Results.

Dear Sir/Madam,

Please find below the transcript of Investors' conference call organized on August 05, 2024 post declaration of Financial Results for the quarter ended on June 30, 2024 for your information and records.

Thanking you,

Yours truly,
For Sheela Foam Limited

MD IQUEBAL AHMAD
Digitally signed by MD IQUEBAL AHMAD
Date: 2024.08.08 15:48:53 +05'30'

Md. Iquebal Ahmad
Company Secretary & Compliance Officer

"Sheela Foam Limited

Q1 FY '25 Earnings Conference Call"

August 05, 2024

MANAGEMENT: **MR. RAHUL GAUTAM – EXECUTIVE CHAIRMAN – SHEELA FOAM LIMITED**
MR. TUSHAAR GAUTAM – MANAGING DIRECTOR – INDIA BUSINESS – SHEELA FOAM LIMITED
MR. NILESH MAZUMDAR – CHIEF EXECUTIVE OFFICER, INDIA BUSINESS – SHEELA FOAM LIMITED
MR. AMIT KUMAR GUPTA – GROUP CHIEF FINANCIAL OFFICER – SHEELA FOAM LIMITED

MODERATOR: **MR. AMIT PUROHIT – ELARA SECURITIES PRIVATE LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the Sheela Foam Limited Q1 FY '25 Earnings Conference Call, hosted by Elara Securities Private Limited. As a reminder, all the participants' line 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 star then zero on your touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Amit Purohit from Elara Securities Private Limited. Thank you. And over to you, sir.

Amit Purohit: Yes. Good evening, everyone. On behalf of Elara Securities, we welcome you all for the Q1 FY '25 Conference Call of Sheela Foam. I take this opportunity to welcome the management of Sheela Foam represented by Mr. Rahul Gautam, Executive Chairman; Tushaar Gautam, Managing Director; Mr. Nilesh Mazumdar, CEO, India Business; and Mr. Amit Kumar Gupta, Group CFO. We will begin the call with a brief overview by the management followed by a Q&A session. I will now hand over the call to Mr. Rahul Gautam sir, for his opening remarks. Over to you, sir.

Rahul Gautam: Thank you, Amit. Good afternoon. Good afternoon to everyone and thank you for joining us for our Earnings Conference for the First Quarter of Financial Year 2025. I would also like to thank Elara Capital for hosting this earnings call. Let me first take you all through the financial highlights for the quarter. For the first quarter under review on a standalone basis, we reported revenues of INR504 crores which increased by around 10% year-on-year.

EBITDA for the quarter stood at INR48 crores which declined by about 22% year-on-year. EBITDA margins were reported at 9.45% for this quarter and the net profit stood at INR32 crores which is down by about 25% this year. On a consolidated basis for the first quarter under review, we reported revenues of INR810 crores which increased by around 26% year-on-year. EBITDA for the quarter stood at INR60 crores, down by about 23% on a year-on-year basis.

EBITDA margins were reported at 7.4% for this quarter and the net profit stood at INR47 crores which has actually increased by about 8% on a year-on-year basis. Let me just begin by sharing with you that this quarter has been a very eventful quarter. Besides the financial year starting which has the regular changes and the annual changes which we all have to do in all the companies, we were reintegrating Kurlon represented by KEL, Kurlon Enterprise Limited which was acquired in October 2023. You know the integration processes have their own complex and complicated situations when the process takes place.

We could have waited to run the two entities separately as different businesses like we are all aware of Air India and Vistara, that's going on, going on for almost a year and probably would take another two years to three years to complete, but we chose otherwise. If we had continued by keeping them separate, the fluid situations would have also continued for a very long time. Additionally, all the synergies that we have anticipated or we are working on would have taken that much longer to crystallize and as I mentioned, we chose to consolidate right away, consolidate the operations side, consolidate the services side and consolidate the sales and marketing side.

In fact, we have gone one step ahead to even consolidate both the corporate entity and have already filed for a merger with effect from October 2023. That is the date of the acquisition. And when we chose to do this, there were some actions and some steps taken by us immediately. On the operations side, we determined wherever manufacturing of whichever product was the best suitable, for example, foam being manufactured in erstwhile, Sheela Foam factories while coir products being manufactured in Kurlon factories.

Similarly, we also chose logistically the best suitable places for supplying and catering to the nearest markets. In this process, we closed down two factories very peacefully with all the people being taken care of, and there have been benefits which have ensued thereof. Some of them are already beginning to flow in. On the services side, I shared with you the ERPs, or integration of ERPs as we all know how important IT services are these days. Normally the integration takes -- takes six months to 12 months, but we did that in less than a week and ensuring that all the security, the cybersecurity were taken care of and are being taken care of as we move forward.

Along with it, the F&A, Finance and Accounts department has also been integrated and the HR practices are under preview or under review and will be done soon. On the front end, at sales and marketing, we are all aware that different businesses though may appear as absolutely similar, supplying mattresses to the markets or to the consumers but in functioning were very distinct from each other, very different. One operated through regional warehouses or regional distribution centers and then going directly to the retailers, while the other one operated through zonal distributors and then reaching out to the dealers.

Various pilots and various models were initiated, were reviewed, were viewed to see that we arrive at the same -- we arrive at an integrated outcome, but at the same time the best one that is possible. And I'm happy to share with you that we have come up, the RDCs have been reduced largely from a number of about 55 to about 16. And while the distributors have been given the additional task of distributing Kurlon products. Now this may sound as simple but when it involves retailers across India or across the entire geography and across EBO and MBO systems being operated and with the two different sales forces in operation, integrating this was not easy and I must say that in this quest for doing things quickly, for obvious reasons, it did result in disruptions, especially on the sales side.

And I believe now we are in a place to say that the negative environment or economic environment was definitely not helpful during this process. The impact of doing all this was the savings potential which we have evaluated at INR250 crores annually, we have already achieved the run rate of about INR100 crores. The fixed cost of both the units which I mentioned or fixed costs arising because of the two units have come down and they have been actualized in the quarter one, that is the one that we are talking about.

The same system is completely in place. However, we all know that did create some disruptions resulting in sizable sales office. But now the system is completely in place, everyone is operating. And let me say that even -- or I have information beyond the closing of the last quarter, things are running as smoothly as they should. We are happy to share that the entire integration process is about 85% to 90% complete and we are ready for the upcoming season.

I must also share that the merger which has been filed with the NCLT, whenever that -- the order comes out, it will be a seamless conversion even at the corporate level. Lastly, let me talk about the international businesses in both the geographies of Australia and Spain and we must say that both had a process of increasing their capacities that has been completely commissioned. Australia has gone up from about 10,000 tons to 15,000 tons per annum and in Spain we have gone from 12,000 tons to 18,000 tons, which ensures that we are very future-ready as far as those places are concerned.

I must say that sales have been much too far away, has been reasonably stable, and if they have not increased, it's only on account of the raw material prices which have been on the lower side and have reflected on the top line being just lukewarm. So with these words, I conclude the opening remarks and open the floor to all the questions and we will try our best to answer each one of them. Thank you very much.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Tushar Vaidya, who is an Individual Investor. Please go ahead.

Tushar Vaidya: Good evening Mr. Gautam. Looking at the Q1 results I can see that the number one revenues have not grown commensurately. For example, after the Kurlon takeover after -- Kurlon should have brought revenues of roughly INR850 crores, INR900 crores to INR1,000 crores to the table, however -- which is approximately maybe INR250 crores per quarter. However, this year's Q1 FY '25 year-on-year the revenues have grown only by about INR160 crores. So it implies that either Kurlon revenues have dropped or Sheela Foam businesses revenues have dropped significantly. So the first part of my question was relating to what to revenues? Why are revenues falling?

And this is concerning from the context that when we look at competitors, other mattress manufacturers, their revenues are growing. So why are our revenues falling in a market when our competitors' revenues are growing? That's the first part of the question. The second part of the question pertains to profitability.

EBITDA has lumped from 12% last year to 7.4% this year. Other expenses have gone up by -- from 26.6% to -- last year to 34.9% this year, an increase of 8.3%. So costs appear to be -- I noticed that marketing expenses have gone up, but they've gone up by roughly 1.9% whereas expenses have gone up by 8.3%, so marketing expenses will not account for the total increase in expenses. So the second concern is that expenses appear to be growing and the EBITDAs are falling. So these are the questions I have. Looking forward to hearing from you, sir.

Rahul Gautam: Thank you, Tushar. Thank you very much for bringing these questions. As far as the total revenues are concerned, I know that you are referring to the target that we have for Kurlon at INR1,000 crores and therefore a quarter of this revenue of INR250 crores. But it is the process of integration which has impacted or let's say temporarily impacted the revenues, especially when you do the front-end part of it and the processes, as I said, the way that the product is sold are completely different. There are leftovers, there are stocks from before. There are people who have to be brought on board. There are -- the final process that we decided was through these zonal distributors. Now, they were dealing only in Sheela Foam products earlier. They have to be -- Kurlon has to be added to them, et cetera.

The regional or the -- Yes, the regional distribution centers which were carrying the stocks, they had to be closed down. Materials have to be transferred. There are some disruptions that take place and it's a result of all that. But let me just repeat myself and assure you that this is a part of quickly trying to integrate, getting over it and getting on with our jobs of manufacturing and selling. And this number that you talk of, INR1,000 crores will soon be realized. As far as the EBITDA part is concerned of 12% going to 7.5%, Amit, would you take that question?

Amit Kumar Gupta: Sure. Hi, Tushar, this is Amit Kumar Gupta. I am the Group CFO for the company. So Tushar, if you look at it, I would answer -- I suggest my answer into two parts. The first, I will point out to the gross margin. I think when we started post-acquisition of Kurlon, the combined gross margin would be around 40%-odd.

The Q1 figures that you see here only comprise of Sheela Foam. Since in Q1 last year Kurlon was not there, so -- and that is written at the bottom of the presentation also. So you cannot compare it with Q1. But yes, Q4 will be comparable. So firstly, I would mention that whatever benefit were to come by the integration process, as Rahul Ji just mentioned, INR100 plus crores run rate has already been achieved and this is reflected in the gross margin that we have.

The lesser EBITDA is only on account of fixed cost levels. Since that top line you see there, even if you compare it with, say, Q4, it is lower by around INR70 crores. And if I take a gross margin which went there and multiply it by that INR70 crores, you find that the EBITDA margin would be somewhere in that 12-plus range. So what I can say the revenue was disrupted temporarily because of the integration process and now it is all on track. So as soon as in the next quarter we see this revenue coming up, I think whatever was to be done on the cost side has already been done and you should observe a much better EBITDA on the cost side.

Tushar Vaidya: Rahul Ji, as a follow-up, may I ask -- may I know the split of top line between original Sheela Foam and Kurlon?

Rahul Gautam: Which part of the year are you talking about?

Tushar Vaidya: For Q1, sir. For Q1, FY '25 against the console top line of INR810 crores, how much came from Kurlon and how much came from the erstwhile Sheela Foam?

Rahul Gautam: So you are referring to consolidated revenue, right?

Tushar Vaidya: Yes, I'm referring to consolidated total revenue.

Amit Kumar Gupta: Yes. So this includes Kurlon, Sheela Foam, Australia and Spain.

Rahul Gautam: That's right.

Amit Kumar Gupta: So very difficult for us to bifurcate. See, the model that Rahul Ji just explained now both the brands are working together to derive the integration benefits. So especially in India, we have combined the distribution network wherein though on the shop excludes -- on the shop we will find them at different places, but at the back end, it is the same sales team or the same channel that is distributing those products.

So we have stopped doing it on that way. Because ultimately, what is the sales proposition that the dealers and distributors have is how much of the combined volume are they able to sell and how much they are able to deliver. But still broadly, if you ask me, I can tell you that Kurlon, because of disruption, has been a little bit lower this time. It would be somewhere around say INR170 crores, INR175 crores, whereas Sheela Foam would be around INR44, INR45 crores.

Tushar Vaidya: Okay. Noted. Okay. Okay. Got it. Got it. Thank you. Thank you, Rahul Ji. Thank you, Amit.

Rahul Gautam: Welcome.

Moderator: Thank you very much. The next question will be from the line of Drisha Poddar from Carnelian Asset Managers. Please go ahead.

Drisha Poddar: Yes. Hi. Just want to have a couple of questions. So I wanted to understand that even on a standalone basis gross margins have declined by about 383 basis points on a year-on-year basis from about 38.6% to 34.8%. So what has led to this gross margin decline even on a standalone basis?

Amit Kumar Gupta: Early you were missing at.

Rahul Gautam: So can you repeat yourself, please? The voice is not coming through clearly.

Drisha Poddar: So wanted to understand the decline in gross margins even on a standalone basis. So standalone also, we've seen a gross margin decline of about approximately 383 basis points.

Rahul Gautam: So Amit.

Amit Kumar Gupta: Yes, I do. So ma'am, just to tell you, as you would have replied to my last question, Sheela Foam [inaudible 0:22:17] had a revenue of around INR440 crores to INR435 crores, whereas the top line that you see here is INR487 crores. The remaining INR40 crores INR45 crores is because of the intercompany base between SSL and EEL because now what we are doing so, the merger is outstanding. But we have developed an arm's length principle and we have put all this business in a manner that they are able to function together. That is how only the efficiencies can be derived. So this all arrangement has been put in.

But when you do it at arm's length, the profit margin that you get from the sister company is much lower. It cannot be as you are telling it to a third party. So generally you take a 5% to 6% profit margin on cost of goods sold. Because of this, the intercompany sales gross margin would be much lesser. And so when you do an average of it, you find that the overall gross margin has reduced. But if you see on an India business level which is the right metric to look at it, you will find that the margin has actually improved, gross margin. So it has grown in the financials, it shows an improvement by around only 0.1%. But there were certain product mix which has happened in this quarter for the good.

We have increased the sales of online segments. We have increased the sales of the mattress, which is mattress for every Indian, there the gross margins are lesser for the EBITDA of the same because they don't involve marketing costs, et cetera. So effectively this margin should have gone down by 0.4% whereas it has increased by 0.1%. So I would say that from quarter four my gross margin has increased by approximately 0.5% on an India business level which is the right metric to look at it.

Drisha Poddar: Okay. Okay. So Amit Ji, what can be the gross margin levels to work upon now in the future? Like, should we work with about 35%, 36%? Should that be the new normal?

Amit Kumar Gupta: No. While 35%, 36%, you should work with gross margin at India level, which is currently around 44%. And there are certain synergies which Rahul Ji mentioned that out of INR250 crores, only INR100 crores have been executed, or [inaudible 0:24:38]. So there is an incremental savings efficiency of INR100 crores to INR150 crores, which will come over the next six months to nine months. So definitely you should see an enhancement in the gross margin over this period, and that should lead to a much higher gross margin than what even currently it is.

Drisha Poddar: Got it. And on the growth side, like now that I assume that most of our synergy -- like integration issues are behind us at like 85% to 90% that we've been integrated, so what kind of growth rates can we expect for the balance three quarters and for next year?

Amit Kumar Gupta: So, on a quarter-on-quarter basis, as we had given the guidance earlier, we are looking on a quarter-to-quarter on a year-on-year basis, a growth of around 15%-odd. You can be rest assured that we are looking at double-digit growth rate on a -- in the quarter on a year-on-year basis.

Drisha Poddar: Got it. Understood. And lastly, on the two subsidiaries that we have, both Australia and Spain, where we've seen that due to higher other expenses, margins have compressed further. So what is our outlook there?

Rahul Gautam: Sure. I'll take that. This is, as I again mentioned right in the beginning, these numbers are appearing because of reduced raw material prices. And those areas we supply foam to the brand owners and to the mattress manufacturers and therefore the raw material prices impact is far more. These prices are stabilized, or have stabilized. And second, we are also bringing some of our costs down. That's what you should see a better number in the coming quarters.

Drisha Poddar: Got it. Thank you so much.

Amit Kumar Gupta: Thank you.

Moderator: Thank you. The next question is from the line of Amitosh Kumar from Mastertrust. Please go ahead.

Amitosh Kumar: Thank you for the opportunity, sir. I have two questions. Sir, firstly, you said integration of ERP, so it took six months to 12 months but you did it in a week. So can you explain how did that happen?

Rahul Gautam: Is that your first question? Is there a second question?

Amitosh Kumar: Yes, sir. My second question is regarding that you mentioned negative economic environment was not helpful. So could you emphasize on that as well?

Rahul Gautam: All right. So let me first talk about the ERP part of them. The integration of ERP, when you switch especially from a system like they had an old version of SAP which was operating, and as far as Sheela Foam was concerned, operating on itself, it's a homegrown system that is there.

So when you do it module by module, let's say, starting from stock to manufacturing, to sales to financial accounting, you have -- you can do it module by module. And let's say we could have done the sales and marketing first and let the back end continue to work as it was or we could have done -- and/or we could have done was do a module of just magnify sales and switch over feed -- switch it over to the other company.

The people take time for training and that's the normal standard six months to 12 months that it takes for when you switch over from one year to the other. Here, we trained people a little in advance, we prepared for it and we checked the financial year starting on 1st of April, and we will start it at that particular time. And it is fortunate that we are in the same business and therefore the people understood the manufacturing processes or the selling processes. However, systems are different and the way that each one has to operate on it, it takes time for training and implementation.

Any follow-up questions on that? I'm happy to answer.

Amitosh Kumar: No, sir. I'd like to understand the negative economic environment point as well.

Rahul Gautam: Yes. So I think that's accurate. What we have been seeing in the first growth rates of -- growth -- declared growth rates in India of 7%-odd, that has been there. But when you break that down, you find that it is the services side which is contributed to it. And it's not the other part that includes the consumer durables or the areas that we operate in. And that's the negative part that I talk about that it was not that -- I mean, if you look at the last six months, the only consumer durable which is growing is the air conditioners and that's because of intense heat that was there. But all the others have been having an absolute lukewarm or actually a little lower turnovers compared to the previous time.

Amitosh Kumar: Okay, sir. Thank you.

Rahul Gautam: Okay.

Moderator: Thank you. The next question is from the line of Resham Jain from DSP Asset Managers. Please go ahead.

Resham Jain: Yes. Hi, good evening. So my question is related to the overall integration, and I'm sorry, but you have explained in detail in last half an hour, but it's very difficult to comprehend that -- the kind of run rate which Kurlon used to do of close to INR250 odd crores on a quarterly basis, how despite the total kind of -- if I look at this quarter number, that mathematics doesn't make any sense.

So I think if you can just explain maybe in a separate sheet that how both the businesses have grown, that would be very helpful. Because it seems that one of the business might have seen a significant growth and I'm not able to understand what is the reason of that degrowth. I understand markets are not great, but still, because of integration what all impact you have in MBOs, EBOs, any region-specific? I think those kind of details would help in understanding those aspects.

Rahul Gautam: Okay. Okay, Resham, so we will prepare a separate document and share it with each one of you of exactly how it impacts in a summary form and in a bit of a repetitive form. I'd just say that it does -- I mean, just imagine that there are two businesses operating. One operating, which is through MBOs and through regional distribution centers, directly from company to their own warehouses, and then through the retailers. The other case, this company to the zonal distributor, which is a sale, and then from a distributor to the retailers and through EPOs, which is also a sale.

Now you want to integrate the two. So we have got the starting point because these are continuing businesses and they have starting points where there are stocks existing, there are products which are existing, there are payments which are yet to come from either side. And then you now need to shift from a regional distributor on to a distributor. Sorry, from a regional distribution center or to a distributor for selling.

You have to transfer the stocks which are existing in the distribution centers. You have to transfer the credits which are existing. There are human beings which are involved on the retail side and on the distribution side. Those people who have been used to a particular company and now suddenly have to do both the companies, look at what goes through their minds. I mean look at the insecurities that goes through their minds and till the time that some comfort levels are evolved and the business begins to settle down.

So that's the disruption that we talk about. Products which are being made in one -- two particular factories and then you want to close those two factories down because it doesn't make sense for them to go on a longer -- or for long. They have their impact, the supply chains. There has been a supply chain which has been existing, and there is a supply chain that you want to create, a combination of both of them. So these are the issues that is there. But I would be happy to take -- to prepare one-pager on this and share it with you.

Resham Jain: Got it, sir. The second question is, sir, given for our understanding, it's very difficult to comprehend what kind of visibility you have in terms of, let's say, revenue going forward. I assume that this is temporary in nature, all the stock adjustments and other aspects, but let's say going forward in second half, the key festive season will be there. How do you think about the kind of revenue run rate which we can do in the India business?

Rahul Gautam: So I think, let me first begin by saying that fundamentally, the business, and I'm talking the combined business has actually become stronger. That means as a platform, it has become stronger from the two platforms that were existing. Now it's not getting reflected on the top line. And your question is that what kind of confidence levels do you have that the top line will come to protected levels or to even the erstwhile levels that were existing? Fundamentally, when I say the capacity to manufacture the products that you have, the brands and their salience that is there in the market, the distribution channels that you have, they are stronger than before.

Now it's a question of -- as I said, the numbers that you are watching are 30th June numbers. There is a month and a quarter which is -- or a month and a few days which have gone by. And therefore I speak with some confidence to say that they will return to the old or to the projected numbers that we have. And we will be well in time before the quarter three, which is a high season quarter before that starts. We will be well in position for that. Unfortunately, I can't talk too much about whatever has been done in the recent past or one month back. But the confidence is there.

Resham Jain: Okay. Great, sir. Thank you and all the best.

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

Ritesh Shah: Yes. Hi. Yes. Thank you, sir. Sir, couple of questions. One, is it possible to quantify corresponding numbers to INR170 crores and INR445 crores what you indicated for this quarter for the last year?

Rahul Gautam: You want to answer one by one or you want to put all the questions, Ritesh?

Ritesh Shah: Sir, whatever is convenient to you, sir?

Rahul Gautam: No. All right. So you'll have to repeat this last one.

Ritesh Shah: Yes. So the first question is, I think in the -- one of the questions you answered, Kurlon did around INR170 crores this quarter and SFL did INR445 crores. So the question is how much was the quantum for corresponding period last year?

Rahul Gautam: So, Ritesh, as far as Kurlon numbers are concerned, we would not have them because they were not listed and they did not prepare any quarterly numbers at all. So they only had annual numbers. And therefore we have attempted that in the past but unfortunately not been able to get that. That's one part. And even this INR170 crores and INR445 crores that Amit said is a bit of an estimate because what we are put in process is that eventually -- now finally everything is going to become Sheela Foam that even the sales part of it are whatever comes from Kurlon as a corporate entity goes through Sheela Foam as a related party transaction.

But of course, everything happening at a arm's distance and then goes to the front end or to the market. And therefore it's extremely difficult to get -- these are estimates and we can't have the last years. We can have the Sheela Foam numbers but we can't have Kurlon numbers of last year.

Amit Kumar Gupta: Sheela Foam numbers, Ritesh, are already there in the presentation, I think which is INR460 crores something. The Q1 numbers on a standalone SFL. But Kurlon numbers since they never published these numbers, very difficult and internal numbers are very subjective. So I would not like to take the risk of citing those numbers.

Ritesh Shah: Sure. That's quite helpful. Sir, my second question was on distribution. Would it be possible to quantify what is the EBO and MBO network under Sheela Foam and how much it is under Kurlon? If the number is like three months back, six months back, it's perfectly fine. And wanted to understand how do we plan to increase the numbers for EBO, MBO for the Sheela markets and for the Kurlon market? And how far have we reached in the journey? Like is it a three-year thing, five-year target? And where are we over there?

Rahul Gautam: So I'm requesting Nilesh to take that question.

Nilesh Mazumdar: Hi Ritesh. So as far as the distribution is now concerned, as we would know that we used to have people doing largely only through exclusive outlets and Kurlon by and large was through multi-brand outlets. And this along with the acquisition, obviously people get the opportunity also to go through multi-brand outlet and also expand the exclusive channel both for SFL and Kurlon.

So as we see currently both the brands put together would be getting sold in the urban market for approximately 7,000 outlets now. In the last quarter, we would have added stroke revised approximately about 700 odd outlets for both the brands. And this does not build in the Small Town India where we have a completely independent channel which we have created. So that's the kind of expansion that we have done till now in the first quarter.

Ritesh Shah: Right. And sir, is it possible to break this number of 7,000 between EBO and MBOs including 700?

Nilesh Mazumdar: So if I very broadly break this up it will be approximately around 3,000 outlets will be exclusive and about 4,000 would be multi-brand or high potential outlets.

Ritesh Shah: Sure. And sir, how do we plan [inaudible 0:41:31]. That's helpful. And sir, how do we plan to increase this number, say with a three-year view, five-year view?

Nilesh Mazumdar: So see the distribution expansion would happen in a calibrated manner. We would expand the showrooms for both the brands because exclusive gave a different kind of a shopping experience to the consumer. As we had discussed before that the strategy we are following is that the entire country we have broken up in almost 2,000 micro markets. And for each micro market, we have a separate distribution plan how both the brands we will be enhancing their presence either through increasing outlets or through increasing shares depending on what the current status is.

The numeric distribution is something that we will be driving through the Small Town India. And my guess is that Small Town India we will have -- we already have about 5,000 outlets. And by end of the year -- this is completely new channel that we are creating, we will have another about 7,500, 8,000 total number of outlets that we will have in Small Town India by the end of the financial year.

Ritesh Shah: Sure. Sir, I'll ask the question in a different way. Sir, in the past we have indicated that we would look at double-digit volume growth. So please correct me if I'm wrong. So my idea was to understand how much is the same-store sales growth that we are looking at and how much of it will come from the distribution network enhancement. Sir, wanted to understand how you are thinking about this.

Nilesh Mazumdar: So volume growth Ritesh is going to come through just not channel. It will also come through several other initiatives that we are doing. We have -- as we speak from almost every quarter we have a new product introduction that we have planned and which we will be rolling out to fill in some of the portfolio gaps that we have. We will also be looking at communication which will help us obviously both in building the brand saliency and particular model. And along with that the channel expansion. So it will be a combination of all this that will give us the volume growth that Rahul Ji spoke about.

Ritesh Shah: Right. I'll just try to, sir, push in again. If one had to look at 12% volume growth like how are they thinking about it? So I understand enhancing the market share, putting new products in the marketplace. But -- so that's why I asked. I started the question from first the distribution. If you are going from say 7,000 to 7,700, so how should we look at the arithmetic?

Nilesh Mazumdar: Yes. So you see when we are talking about new products and communication et cetera, a large part of that is going to help come to my existing channel itself. When I do a new product introduction, advertising communication, so that will come in the same channel. To break that up into things how much of the communication and new products will help me only in exclusive and not in the other channels, it will be slightly difficult. But overall if you want how much of expansion of channel will happen -- active channel, we are looking at approximately expanding the channel by 10%. Means, if I am at 7,000 outlets we will expand by another 10% the channel in the urban market, if that helps answer your question.

Ritesh Shah: Yes sir. And this 10% will be in a year or two years? Yes. Yes, it will be in the current financial year. Perfect. Useful. And sir, my second question was on incentives. I understand we have tweaked around the incentives for both Kurlon as well as Sheela Foam. They are probably at a similar level now against the deviation which was there earlier. Please correct me if I'm wrong because the sample set might be a bit off to what we are looking at.

So wanted to understand your thoughts of how are the incentive structures for both EBO as well as MBO now. And as we get into a high season on sales, what is our thought process? The reason to ask this is there are new players who have ventured into the space, including likes of Nilkamal to what we understand, they are giving crazy discounts to the dealers. So how do we take care of this problem and how are we positioning ourselves?

Nilesh Mazumdar: So as far as the incentive structure is concerned, we have not majorly disrupted it, but made it a little bit more disciplined and one can get into the detailing of it on a separate platform so that one understands. But we need to remember that these are the brands that you mentioned are not really our benchmark brands in terms of the way we would want to create demand for them. So there are a set of brands who are driving sales by throwing money at the channel, but that can only take you to a certain distance.

We are looking at creating consumer demand and driving growth. So therefore there is a difference there. And the current level of sales that we are discussing between the brand that you just mentioned and Sleepwell, Kurlon are nowhere comparable actually, Ritesh. There is a significant difference between that. What we have been discussing in the past has been about the e-commerce platform that we had even discussed in the previous meet.

Happy to share that on e-commerce platform now people Sleepwell and Kurlon, we are seeing fairly healthy growth. Sir, if I can just squeeze in one. Furlenco, if you can quantify the numbers of first half of the fiscal and when do we plan to increase the stake over here? Thank you so much for the answers.

Rahul Gautam: Amit? Yes.

Amit Kumar Gupta: So I think, Furlenco is -- Ritesh, could you just repeat the question so that I understand I have got it correctly? Sir, financials for Furlenco, that is one. And second is when do we plan to increase the stake? Okay. So for financials, I would divide it into three parts, Ritesh. One is prior to our acquisition. The second part is from August till February or January when -- because in February the company turned PBT positive.

So before that it was PBT negative. And then from say February till now. So I am -- before we acquired, the company had a top line run rate of around 12 crores odd because of which it did a turnover of around INR150 crores per annum. It had a bottom line PBT of minus INR10 crores per month which in the subsequent quarter the turnover increased, but yes, the bottom line almost remained the same. INR8 crores, INR9 crores PBT negative average per month with top line gradually increasing.

Post February, the company turned into PBT positive when it was at a run rate of around say INR14.5 crores, INR15 crores per month top line. Happy to say that the company has last month crossed INR17 crores top line which is a run rate of INR200 crores plus and is PBT positive and gradually improving on the profitability thereof. As regards investments, we have an option of getting another 9% in the company with an investment of INR100 crores odd.

The matter is currently being debated at our Board level and directors level. So we have this option till 29th of August. So I think it would be very early for me to comment as to what would be done on that. Whatever the Board of Directors decide, accordingly we will take that. Sure. This is very useful. Thank you so much, sir. All the very best. Thank you. Thank you. Thanks, Ritesh.

Ritesh Shah: Thank you.

Moderator: Hi, sir. Thank you for this opportunity. So most of my next question is from the line of Gunit Singh from Counter Cyclical PMS. Please go ahead.

Gunit Singh: Hi sir, thank you for this opportunity. So most of my questions have been asked but I mean there have been lots of questions regarding revenues in the coming year and the kind of margins that we are looking at. So sir, can you -- we did about INR3,000 crores of consolidated revenues in FY '24 at about 10% operating margins.

So I mean just to directly understand, I mean what kind of growth over this are we expecting in FY '25 and FY '26? And also I mean what is the steady state of EBITDA margins are we looking at in FY '25 when the Kurlon business is stabilizing with our standalone entity? And going forward for FY '26, what is the outlook for the same? And what are the steady state EBITDA margins for Kurlon standalone?

Amit Kumar Gupta: So I would just take your last question first. I would not be able to give you a Kurlon EBITDA margin because as I mentioned earlier, both Kurlon and SFL businesses are now working together. The factories of both the companies are being utilized to produce material for each other depending on where it is most efficient to produce and depending on where it is most nearest to the customer to service. But yes, we have replaced that with India business margin which is a combination of SFL and KEL, India business margin which will give you a reasonable idea as to how the top lines are going and what is the level of efficiency that the business is generating reflected in the gross margins thereof.

Now, to take your first question on the growth rate, here, I would divide it into two parts. One is the Indian business, which is SFL plus KEL plus Staqo and the other is the overseas business. From last year turnover and just to correct it here, last year Kurlon was only for six months. So the consolidated number that we have in the financials needs to be normalized for that, which will mean that we had a turnover, normalized turnover around INR2,900 something odd crores. Sorry.

Around INR2,700 odd crores for the Indian business last year. On it, we are intending, and I would say we are making efforts and that is what we have been communicating in the past. So we are trying to have a 14% to 15% CAGR growth rate starting from financial year '25 till financial year '27. Overseas business on a top line is anticipated to have a growth of around 10% per annum.

On the bottom line, I would say that what all the efficiencies that has been communicated and all the efficiencies that have been executed till now, yes, some of those results are yet to come and the impact of operational leverage because of enhanced turnover, we anticipate that in the next three years we should be touching 14% to 15% EBITDA margin.

Not because the savings, we could not have gone beyond that. With the amount of savings, we could have gone 2% to 3% higher on that. But we need to reinvest on the brand so the investment in the brand would go up by around 2% to 3% of sales, resulting in a net bottom line inflow of around 14% to 15% on an India business, and plus around 10% odd on an overseas business.

Gunit Singh: All right. So that's very hard thing for the long-term trajectory. And sir, for FY '25, I mean, what kind of consolidated EBITDA margin would we be looking at?

Amit Kumar Gupta: So, short-term EBITDA guidance giving is a difficult job, but I can certainly tell you that it would be more than double-digits. So 10% plus maybe 11% or something of that sort of.

Gunit Singh: Clear. All right, sir. Thank you very much. That's all from my side.

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

Manish: Hi, sir. Good evening, sir. I think you answered my question. I was about to ask about EBITDA margin. So, because sir as you stated that sir, so what you have -- since you have integrated two businesses, initially if I just look at the EBITDA margin for SFL, it was 13.3%. Now, since you've integrated two businesses, there will be -- you've integrated the supply chains, you've integrated the warehouses and all. So the EBITDA margin of Sheela Foam should increase rather than decrease.

So since you answered my question that you're looking at around 15% EBITDA margin that answered my question. And sir, I would like to ask one thing. In one of the interview, it was spoken that if I go to villages and all, what they do is there's a small space and if I want to have a mattress, what they do is they roll up the mattress and put inside the bed, right? So how are you planning to capture low-income groups, people? Because they also -- they currently use cotton mattresses, right? They don't use foam mattresses. So do you have a future plan of capturing low-income groups or moving towards capturing what is someone in the villages and all??

Nilesh Mazumdar: Yes, Manish, thanks for that question. We have covered this as a part of what we call as the Small Town India strategy. And that strategy is targeted towards this particular segment that you spoke about, which is the cotton mattress and how do we upgrade them, because there is a certain convenience that a cotton mattress has that it can get folded and put into a corner in the house area, et cetera. It's small. So as we have shared this in the past, we have rolled out a pure PU foam mattress, which is three-fold. So the consumer can actually fold the mattress and put it in one corner. And then they want to use it, they can take it out and unfold it. So we give them the comfort of a home mattress.

The product comes with a three-year warranty price point starting from approximately INR2,000 upwards for a single mattress. So the lifetime value of the product is much better than a cotton mattress. We have now -- we have launched this product in almost 70% to 75% of the country. And happy to share that we have seen quite a positive response with this strategy.

Manish: Yes, thanks for the answer, sir. Why I asked this question? Because I come from a small village in Jharkhand. I speak to people around why do you go for a cotton mattress, not for a foam mattress. The mentality has not changed. So we are bringing a new products to them, we'll give the foam mattress at the same price, how do you intend to change the mentality that, hey, this is better than the cotton? That's more important. Are we trying to figure it out? How we'll change that mentality of the people around? Do we have some initiative or some advertisements or some outreach to people around, hey, this is better?

Nilesh Mazumdar: All that I say is that the answer is yes to everything that you said. It will unfold in due course of time, Manish.

Manish: Yes, sir. And thanks, sir. Thanks for knowing that we are targeting 15% EBITDA margin. Thank you, sir.

Amit Kumar Gupta: Thank you.

Moderator: Thank you very much. Last question for today is from the line of Tushar Vaidya, who is an Individual Investor. Please go ahead.

Tushar Vaidya: This question is for Rahul Ji. Rahul Ji, Sheela Foam from the inception has never been paying dividends. Do you intend to continue this policy or do you -- or is there a thought of relooking at a dividend policy going forward? That's question number one. And question number two, going back to revenues, do you believe that we are losing market share currently?

Rahul Gautam: So, Tushar, you will have to repeat the first question.

Tushar Vaidya: Sir, the first question was on your dividend policy. Sheela Foam has not been paying dividends, but it has been making profits. So do you ever intend to change the dividend policy? What are your views on paying dividends, was the first question. Okay. So, Tushar, I think there's been a couple of times that we have discussed this issue. It's also debated very hotly as far as our Board is concerned.

But the few primary reasons is, for example, we kept the money aside for an acquisition like this that has happened. And we always believe that when you give -- I know there are advantages of giving dividends, tax-wise it's definitely on the negative side. We also believe that the majority of the dividend would come just to the family. And we thought that as far as shareholders are concerned, the benefits would be far more by -- through the market processes and which we expect that this will happen.

I may not be able to discuss exactly what happened in the Board the last time, but it's not that we are close to giving dividends. We fully recognize the role that dividends play, and let's hope soon it will come through. It's one. The second one, you asked a question about the revenue and you said that, are we losing any market share. So look, I -- there are no -- though no well-known numbers and the reason I say that there are some brand numbers which exist, but the unorganized sector is so large that if you put all that together and that's how you would define the market, the numbers may not be there.

But I don't think so that we are losing any market share. We may not be gaining on any at the moment, but we are not losing any market share. We may not be gaining on any at the moment but we are not losing any market share. On the other hand, we are expanding the market by the Small Town initiatives or the village initiatives that we are doing. And at the same time, we would be also working on the premiumization of the product and doing it.

So it's just a question of the noise and the voice that you hear. It's one starts believing that we would be losing market share of the mattress front. And please also accept this part that as far as the company and the company's turnover is concerned, it is reflecting not only the mattress and the branded mattress site, but it also includes the technical foams, it also includes the furniture foams which are going, and these two areas which are also reasonably large.

Just because the raw material prices have come down, the values of the top line of -- impact of these two has also come down. On the mattresses side, if you will specifically ask the question to Nilesh, he will tell you that Sleepwell has actually grown in numbers, has grown in both volume and value terms, and it will continue to grow.

Kurlon, I would get a little more comfortable or be in a position to share Kurlon, numbers with you by the next quarter, but the number that I have for the last quarter also, it has gone by 5% up -- 6% up. So I don't think we are losing out on any -- but thanks for bringing this out and one will become a little more oriented towards this. Thank you. Thank you very much.

Amit Kumar Gupta: Thank you, Tushar. Thank you. Thanks a lot.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. I now hand the conference over to the management for closing comments.

Rahul Gautam: Thank you. Thank you all for participating in this earnings conference call. I hope we've been able to answer your questions satisfactorily. And I'm also saying it with a little bit of apprehension from my own side because I did see the anxiety that all of you have and are expressing it on the quarter numbers.

But let me assure you once again that this is a temporary phase on account of the integration process or the phase of integration that we have chosen to, and all this should be behind us. Fundamentally, the business is good and strong and will continue to grow. If you have any further questions or would like to know more about the company, please reach out to -- directly to any one of us or through our IR Managers, Valorem Advisors. So thank you very much and have a good day. Bye for now.

Amit Kumar Gupta: Thank you.

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