



21st July, 2023

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 held on 19th July, 2023.

Dear Sir/Madam,

Please find below the transcript of Investors' conference call organized on July 19, 2023 discussing the acquisition of Kurlon Enterprises Ltd and House of Kieraya Private Limited for your information and records.

Thanking you,

Yours truly,
For Sheela Foam Limited

Md. Iquebal Ahmad
Company Secretary & Compliance Officer

SHEELA FOAM LTD.

#14, Sleepwell Tower , Sector 135, Noida- 201301

Ph: Int-91(0)-120-4162200 • Fax: Int-91-(0)-120-4162282, 4162283 • Email: contactus@sheelafoam.com
Regd. Office: 604 Ashadeep, 9 Hailey Road, New Delhi-110001, India • Ph: Int-91(0)-11-22026875-76

Toll Free: 1800 103 6664 • www.sleepwellproducts.com • www.sheelafoam.com

CIN-L74899DL1971PLC005679

Sheela Foam Limited
Business Update Conference Call
July 19, 2023

Moderator: Ladies and gentlemen, good day and welcome to Sheela Foam Limited's business update conference call. As a reminder, all participants' 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 touch-tone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Anuj Sonpal from Valorem Advisors. Over to you, sir.

Anuj Sonpal: Good morning everybody and a very warm welcome to you all. My name is Anuj Sonpal from Valorem Advisors. We represent the investor relations of Sheela Foam Limited. On behalf of the company, I would like to thank you all for participating in this conference call to discuss the acquisition of Kurlon Enterprises Limited and House of Kieraya Private Limited or Furlenco.

Before we begin, let me mention a short cautionary statement. Some of the statements made in today's earnings call may be forward-looking in nature. Such forward-looking statements are subject to risks and uncertainties which could cause actual results to differ from those anticipated. Statements are based on management's beliefs as well as assumptions made by and information currently available to the management. Audiences are cautioned not to place any undue reliance on these forward-looking statements in making any investment decisions. The purpose of today's conference call is purely to educate and bring awareness about the company's business and recent acquisitions.

Let me now introduce you to the management participating with us in today's call and hand it over to them for opening remarks. We firstly have with us Mr. Rahul Gautam - Managing Director and Mr. Amit Kumar Gupta - Group Chief Financial Officer.

Before we begin, I'd also like to request everyone to focus their questions related to the acquisitions and not anything regarding the first quarter of financial year 2024 results or operational performance. Now, without any further delay, I request Mr. Rahul Gautam to start with his opening remarks. Over to you, sir.

Rahul Gautam: A very good morning to everyone joining us. It is my pleasure to welcome you all to the conference call and discuss the recent acquisitions announced by the company. I hope everyone has had a chance to review the exchange disclosures, press releases, and presentations that were made available on the stock exchanges.

Let me first start with Kurlon Enterprise Limited. Sheela Foam would be acquiring 94.66% shareholding in Kurlon Enterprises Limited at an equity valuation of Rs. 2,150 crores with the effective cost of acquisition becoming to around Rs. 2,035 crores. With this acquisition, Sheela Foam would add strength to the leadership position in the modern mattress segment with a combined market share of more than 20%, should be close to 21%. As you may already know by now, Kurlon is a more than 60-year-old company engaged in the manufacturing and marketing of various foam based and coir based home comfort products across the sit and sleep solution categories such as mattresses, furniture cushions, pillows, and coverings. It has 10 manufacturing plants located strategically across India. It also has a large pan-India distribution network comprising of 10,000 touch points. We believe there are strong synergies between the two companies which will not only widen the market leadership position of Sheela Foam but also cement and safeguard this position in the modern mattress market for years to come. Sheela Foam is a pioneer and leader in foam mattresses while Kurlon's strength lies in its rubberized coir mattresses. Together we would have a much enhanced product portfolio catering across mass and prestige ranges, Sheela Foam being strong in northern and western India whereas Kurlon having a higher market share in the southern and the eastern regions of India. The combined entity will enjoy a deeply entrenched pan-India footprint. Both companies have a complementary distribution network also. Sheela Foam primarily operates through EBOs (exclusive brand outlets) while Kurlon is strong in the multi-brand outlets. This consolidation would provide SFL with a robust distribution network with significant cross selling opportunity, whether they are across the MBO points or they are across the various regions of southeast and northwest of India.

Sheela Foam and KEL have many complementary manufacturing facilities which will create significant production efficiencies and cost savings by improving both logistic costs, also create raw material procurement efficiencies. It is just a sheer coincidence that the factories of Sheela Foam are 12 in number and the ten of Kurlon do not have a single town where there is an overlap, and that helps in the distribution across the country because logistic cost is an important one. The integration is expected to be completed by 30th November 2023.

I must also say that there are some cultural differences which will be important as far as the human integration between the two companies are concerned. Both were promoter driven. One, of course is listed now but the DNA remains virtually the same, and therefore, I believe that the integration would be not so difficult.

Moving to Furlenco, Sheela Foam is investing 35% stake in House of Kieraya that is the owner of the Furlenco brand for an equity valuation of Rs. 900 crores, with the effective cost of 35% coming to Rs. 300 crores. Furlenco was founded in the year 2012 and is today one of the largest and fastest growing furniture rental companies in India. I must add at this point that furniture is an extremely fragmented category as far as India is concerned. And there are multiple ways where you can interact with the consumer, be it selling new furniture, be it renting, be it buying back, be it refurbishing, etc., and all this is in the portfolio of Furlenco. Rental one is the

strongest one that they operate in and rental is also a good way of understanding and knowing the needs and requirements of the consumer. And it's probably one of the best and the quickest ways of doing it. The company also has offers for sale of new and refurbished furniture under its Furlenco and they have a brand which is a little on the premium side and that's called Prava which they have begun to operate. Those are designed, manufactured, and the products are offered online but would be a good option to go offline. It has a strong online presence but is also growing in the offline segment. The Furlenco deal will help the Sheela Foam to enter the fast-growing branded furniture and furniture rental market and an opportunity to further diversify its presence and become a full portfolio company.

As per the industry estimates, the furniture market is significantly larger than the mattresses. As per the last surveys that have been done in either of the industries, it appears that the furniture market is at least 5x to 6x higher than the mattress market and approximately around Rs. 1.5 lakh crores compared to Rs. 25,000 crores or Rs. 30,000 crores of mattresses. Sheela Foam should benefit from Furlenco's Digital First direct-to-consumer business also and the e-commerce capabilities that they have developed over the past many years.

Another advantage of Sheela Foam and Furlenco coming together is the possibility of offering its products or offering the Furlenco's products on the EBOs and MBOs that we have and vice versa of Sheela Foam's products which is the Sleepwell and the Kurlon mattresses on Furlenco's platform for their online strength. This entire integration between the companies is expected to be completed by 30th August 2023.

With our past record of acquisitions, there have been 3 small ones in India and there have been the 2 big ones, one in Australia in 2005 and the Spain one in 2019. We have not only successfully grown with these entities, now 5 entities. We are fairly confident of both these recent acquisitions that we should be able to make a success out of them. We believe that over the next 2 to 3 years, the synergistic benefits of both these acquisitions will not only lead to significant growth of Sheela Foam's business but also improve the company's profitability due to the sheer scale of operations and economies of scale but most importantly to create an undisputed strong market leader.

I am reminded of 1994. That was the time when we were looking at extending our portfolio. Primarily, Sheela Foam is a polyurethane foam manufacturer. That is what we do well in India. We are doing that from 1972 onwards. We do that very well in Australia. We do that extremely well in Spain. And I have no hesitation in saying that whether it's the raw material procurement, it's the technology formulations, it's the products that come out of it that we can be compared to any in the world. I would say probably one of the best in the world. Polyurethane foam has 2 major applications. One is the bedding one and the second one is the furniture one. The bedding one, in 1994 when we were trying to expand our polyurethane foam market, we were looking for customers who would buy foam from us who would be the brand owners who would be mattress manufacturers, etc., and would help us to grow our polyurethane foam

market. Unfortunately or fortunately, there were none who would want to get into that area. Kurlon was there, Relaxon was there, and Dunlopillo was there, but they were not on the foam side. And at that time, the stress was on rubberized coir and on latex foam. So, we did that ourselves. And since then, we can easily see that how the market has.... It took some time, but the market has grown and the mattress market has become or is becoming an organized product offering to the consumer. I see a similar situation as far as furniture is concerned today where we of course make all the intermediate foams in the different grades and qualities which go into refurbishment, which go into small manufacturers who buy, etc. However, the branded furniture manufacturers who consume foam are just not there and we see that as an opportunity for us. So Furlenco really is our foray into the furniture market where we would have the advantage of the brand, we would have the experience of the strong management team that is there, and then linking it to the input which is the foam from our side as well as the point of selling, which will be the MBOs and EBOs, which together Sleepwell and Kurlon would have, I think it's a very strong proposition that will come about.

With those words, I just want to thank you all for participating in this con-call. I hope we have been able to answer your questions satisfactorily. If you have any further questions or would like to know more about the company, please reach out to our IR managers Anuj Sonpal from Valorem Advisors who is present here. And I understand that there would be some questions & answers that we would be addressing right now. Thank you very much and over to you.

Moderator: We will now begin the question & answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles.

We have the first question from the line of Nihal Mahesh Jham from Nuvama Wealth Management. Please go ahead.

Nihal Mahesh Jham: First of all, congratulations on concluding the deal. Rahulji, if I look at Kurlon's performance, there has been a fall in the margins if I compare from FY20. I know that the last 2 years, FY21 and FY22, were COVID impacted, but if you want to highlight about what has led to the contraction and the margin performance, specifically for Kurlon?

Rahul Gautam: Nihal, you're right that the margins have fallen and you know there was a change in management and they were looking at some transformational changes as far as Kurlon is concerned. And by the time they planned and began executing them, we ran straight into COVID and COVID, of course, everyone was impacted both on the cost side as well as on the revenue side. And then all these change could not be done. And then, of course, there was a little bit of a situation created where you had to probably leave out a few of them. Those had been primarily responsible for this drop in margins. As we get out of COVID or the COVID-like situations and as we get into not being wedded to the changes, etc., we will very quickly get back to the levels that they have been of close to Rs. 1,000 crores as top line and 11% to 12% or even higher than that EBITDA level.

Nihal Mahesh Jham: Were these initiatives a reason for the increase in the cost base which you plan to reverse or is it that these initiatives will now be implemented which will lead to, say, growth normalizing and say the margins also normalizing?

Rahul Gautam: I would say that there would be a complete review of these changes and some of them would be good, in fact beneficial. But there may be a few of them which don't make sense, and there would also be a few changes that we come out with the two companies coming together. There may be some altered options or changes that may be there, whether it's on the manufacturing side or the front side.

Nihal Mahesh Jham: My second question was that on the cost synergies, I think you've highlighted, you're looking at a 4% improvement, 2% split between on the raw material side and the other two basically on logistics and other aspects. Coming to the revenue synergies, could you give a sense of what are the angles you are looking at? Because, Sleepwell as a brand is primarily selling via its own EBO network, so maybe that cannot look at cross selling Kurlon. So, is it mainly the FeatherFoam brand being stepped up via Kurlon's distribution? Is that the main revenue synergy that you feel this acquisition could drive?

Rahul Gautam: Let me just understand the question. You are saying that because Sleepwell sells primarily through an EBO network and therefore any cross selling would be a difficulty. Is that correct?

Nihal Mahesh Jham: Yes, I would believe that selling Kurlon via our Sleepwell EBOs or vice versa is not something possible. I am assuming that the main place where the revenue synergy could come through is using Kurlon's distribution to upsell FeatherFoam. Would that be the right understanding?

Rahul Gautam: I think this entire issue will be revisited on how we want to structure and where we sell our product. I am not bringing FeatherFoam into the picture at the moment at all. And I would say that we should restrict to the promoted and advertised brands and the consumer brands as they stand, which is both Sleepwell and Kurlon. It may be a little premature for me to say, but our attempt is to recognize the differences between the two, to celebrate those differences, and to figure out how we can make a clearer proposition to the consumer. How will that change as far as leveraging the places where they are sold? It may take a little time to figure that out and there can be a mix of many things happening. It will also depend on zone to zone and the strengths, etc. For example, if we would look at the east zone where, yes, we sell through EBOs, but we are present in a very few numbers that are there and it may not be difficult at all to look at a kind of a combined possibility. Those are being worked out. I would request that if you can hold on for about a couple of weeks, we will be able to unfold the entire plan there, but there would be cross selling possibilities almost everywhere.

Moderator: We have the next question from the line of Dhananjai Bagrodia from ASK Management. Please go ahead.

Dhananjai Bagrodia: Firstly, congratulations on this acquisition. Maybe I missed this earlier, but will the two entities be selling separately or will the brand now be renamed for Duroflex and for Kurlon be renamed into Sheela Foam and we will be selling it as one? Secondly, now would we see growth rates significantly improved? Because, that has been a little pain point for us for the last few years.

Rahul Gautam: The first question, as I understand, is that will the two entities be working together or selling together? These are few things again I would suggest and request that if we give it a few days. We are also taking some professional help on these matters. There are companies which are national as well as international who have experience on this issue. There have been such kind of mergers - such horizontal mergers - in the past and some of them have done phenomenally well, and therefore, we just need to understand that part. But just to give you a principle, as I was telling Nihal that our aim is not for them to go out and compete against each other and not be conflicting as far as the sales part. We would ideally like that both of them support each other and make the offering, and therefore, there is a need to position them properly and that's an area that we will be working on. That's how it was done internationally. There have been, of course, also national examples like I think more in the luggage space where you have Aristocrat and Skybags and VIP and American Tourister, etc. And if you just look at Skybags and VIP, they are from the same stable but completely different and therefore continuing on its growth path. No conflict, but actually helping each other. I think something like that, but just give us a couple of weeks and we will get back.

On the second one that you talked about the growth rate part, the growth rate has been a combination of a couple of things. And in the past, it has been whatever happened during COVID times, then subsequently, people have reduced buying, there has been a lower push for ASP to get lower and therefore the unorganized sector getting a little more active, however. And of course, there was inflation. As all these things are beginning to fade out, these growth rates are bound to rebound or to come back. Whether it will happen now or it will happen close to Diwali with the impact of the monsoons, etc, and all the other things, as I said, going away, we will just need to wait and look at it. But the signs are very ominous.

Moderator: The next question is from the line of Varun Singh from ICICI Securities. Please go ahead.

Varun Singh: Sir, my first question is I understand that the acquisition would be 300 basis points accretive to EBITDA. But if you can share some calculation with regards to EPS, you think both the acquisitions would be EPS accretive for existing shareholders?

Rahul Gautam: Let me just say this thing that even this 300 bps number that they have brought, this has been a talk, there have been expectations probably, but as things would unfold, this may alter a bit. On the EPS part, I would just say that again it depends on the kind of debt and equity that we would be using to or the cash that we would be using to fund this. I can make a guess of saying that there may be a little bit of a fall for a short time, but it will soon pick up and it should become accretive in a few months' time in any case.

Varun Singh: Regarding the 7% to 7.5% net profit margin that we have seen in Kurlon pre-COVID, I understand you highlighted that the new management could not implement or execute their strategy well due to COVID, but now that FY23 was a year which was free from COVID, 2 questions on this front. If you can highlight what was the strategic change which was effected into the business? And of course, FY23 should be a reflection of that. If you can throw some light on the change in strategy part and also with regards to the 7% to 8% net profit margin which is equivalent to our own company, the sustainability of that margin going forward?

Rahul Gautam: Let me just say this that as far as what did not work and what worked at that time, one wouldn't have enough details or knowledge to share with you that exactly what. We have a macro level picture on it. We know that what is going to continue to work in the post-COVID era and what will not work or what will be changed because the two companies are kind of coming together. We will be drawing up a detailed strategic list and I think you will have to just wait for a couple of weeks more for that to see. Getting it back to its pre-COVID levels should be an easier done possibility and whether FY23 will reflect that or not, the transaction has been done but it has not been closed as yet. It will also close in the next 2.5 to 3 months or so and then the changeover and all that will happen. But I think you can be pretty sure that things should be back to that level or in an improved version as far as FY25 is concerned because a couple of months going away for things to kind of settle down. And the detailed strategy, of course, we will be having the earnings call - one of course in the first week of August and then subsequently every quarter we would keep informing you as to how things have unfolded and how we can do that. Just kindly bear with me for some time.

Moderator: The next question is from the line of Nalin Moniz from Edelweiss Asset Management. Please go ahead.

Nalin Moniz: My question is regarding Furlenco. This Rs. 300 crores that is going into Furlenco is going to be.... What is the split between retirement of debt and growth capital? And for the growth capital, where is that going to be used? And my second question is what is the plan to acquire a majority stake at some point in Furlenco? Is there a roadmap in place on that?

Amit Kumar Gupta: The Rs. 300 crores that will go into the company is totally primary infusion and broadly you can say 55% would go for the retirement of debt. The remaining would be with the company for growth capital. The company is currently having a lot of orders which are to be serviced into and that is what the growth of business would lead to the profitability of the company. And that's why we have decided that all the capital which would go to the company would go in the form of primary capital.

Nalin Moniz: And on raising your stake in Furlenco?

Rahul Gautam: Currently we have 35% and we have another option of 9% at the same valuation to be exercised within 1 year. And that option we will take in 6-7 months down the line or a couple of months

down the line. That would raise it to 44%. There is a PE fund which is there which will be holding 26% to 27% and their time is now coming to an end and from FY24 onwards or calendar year '24 onwards, they would be looking for exit, etc. Besides these two, there is the promoters who hold about 12% and then there are multiple investors - very small - close to about 60-70 investors who hold very small shares. Most of the investors have also expressed their view to sell. Some of them, of course, want to stay and see the value increase. But if the day that we decide that we want to go into a majority one, we will have the options to do that. But at the moment, we will be the largest one there. We would have the board, etc., being controlled and we would also get a feel for the business and for the industry and then we can take our call as we move forward.

Moderator: The next question is from the line of Arjun Khanna from Kotak Mahindra Asset Management. Please go ahead.

Arjun Khanna: Thank you for taking my questions. I have a few, I'll just go through them. First, on the acquisitions in terms of EPS accretion. In terms of EBITDA, we would be consolidating Kurlon but Furlenco I would assume being an associate. Is that the right understanding or do you have management control on Furlenco?

Rahul Gautam: At the moment, this is a little question that we would be probably answering in a few days' time. We have raised that question, but I think just the definition of saying management control, I think it also requires that by management control what do we mean? Is it just an issue of a board matter or is it that you have 100% all decisions being taken on a daily basis? I think there is a bit of a gray area there - Amit, you may answer that - but most probably, I think it'll be like an associate company for a while at least. Is that true?

Amit Kumar Gupta: Yes, you are right, sir? Currently it will be treated as an associate company and we would not be doing a line by line consolidation.

Arjun Khanna: So, therefore, we say it'll be accretive on EBITDA but EPS obviously we would be consolidating. Hence you're looking at FY25 EPS accretion. Is that the right understanding I have?

Amit Kumar Gupta: You are right. It won't affect your EBITDA either positive or negative, but as soon as it gets into a positive PAT environment, it would be adding to the EPS.

Arjun Khanna: Secondly, sir, if you could help us understand in terms of the integration. You talked of the cultural integration. Ourselves at Sheela Foams, we've got a new India CEO, we've got a new CFO. In that sense, how do we look at in terms of management bandwidth, in terms of acquisition, in terms of the cultural fit with Sheela Foams for Kurlon and potentially for Furlenco going forward?

Rahul Gautam:

Thank you Arjun for asking that question. I think the more you do, the less it is on that part. We are just about to appoint a leading consultant for the post-merger integration. And this is in a practice which is internationally as well as nationally well understood. And I will disclose the name before we do that, but probably in the next 2 to 3 days time. We've had presentations from the top people, and I think the need and requirement for that is there. So, there will be a structured integration process for the three that that will begin to happen in a week's time. The second part, how will we structure that integration? Will it be a corporate-to-corporate entities existing or will it be a back end to a front end kind of integration? Most probably the latter so that the synergies can come about easily. And the front end the growth can be sort of.... At the moment, we have decided that we will not be conflicting the brands or we will not be working towards let them fight it out in the market, but more to be complementary to each other. And to do that, it may be better to have the front end kind of united and the back end united. But let me just say, Arjun, that in the next 2 weeks' time, things should hold but we are taking professional help. The other point that you made was on the resources or the bench strength, so to say. We have a couple of more people on a senior level joining in into the company to strengthen the working. And our attempt will be that the integration process is not done by the regulars and they follow or they do what they need to do as far as the existing business is concerned. But the complete clear blueprint, as I said, will be in about a 2 weeks' time.

Arjun Khanna:

Looking forward to that. Just the final part. In terms of funding for this transaction, could you help us understand how do we expect to do the same? And in terms of low hanging fruits, what do you see the time? What are these low hanging fruits potentially that we could quickly realize and what is the scale of the same?

Amit Kumar Gupta:

On the funding, we have a total requirement of, say, around Rs. 2,350 crores for both the acquisitions, out of which around Rs. 800 crores to Rs. 850 crores is on our balance sheet and the rest would be funded through a combination of debt and equity. We basically want to keep debt at the minimal. So, we will be looking into as to what is the most optimum leverage ratio such that there is no impact on the rating of the company and basis which we would decide what would be the component of debt to equity. But broadly you can assume that, say, around 2.5 around in the first year gradually reducing to below 2 in the subsequent years.

Rahul Gautam:

On the low hanging fruits that you mentioned, there is a back end side. And on the back end side, there are some things which can happen very quickly. For example, volumes of purchases on the raw material side, integration of stuff like where does the expertise lie as far as manufacturing of foam is concerned or manufacturing of coir and coir products are concerned. And that kind of just a little bit of shifting around, just a little bit of talking to the suppliers, exchanging formulations, exchanging manufacturing, all that will happen very quickly. I assume it will end up in less than a few months' time or less than 3 months' time that should happen. As a first principle, we are saying - let me use a phrase like do no harm - let things be as it is. What we are looking at the combined entity, the resources as we see, the human beings as we

see, and the plans that we would have, there is absolutely no worry on anyone to be disengaged or anything like that. On the other hand, we would need people to be hired and help and support in the other part. The more difficult one, the back end part of integration, I see that happening in a couple of months' time. The front end part of it, because it involves places of selling, it involves some changes of a few structures here and there, I think the real benefit will come in in FY25, but some changes will start happening from, I would say from January onwards.

Moderator: The next question is from the line of Harsh from Altamount Capital. Please go ahead.

Harsh: Sir, my question is regarding your acquisition and your investments in Furlenco. As you have told us that you are investing Rs. 300 crores, are you also planning to kind of do some debt investments or do you have any already existing debt lines with the company? That's the first question. And the second question is regarding that since Furlenco is already in the rental industry and you are into a selling industry, will the interest not cannibalize here like your mattress selling would be... there's a rental industry of mattress. I feel that maybe you could just enlighten us on this cannibalization part.

Rahul Gautam: Harsh, I will take the second question first. And the first question on the existing debt line or line of debt, etc., Amit, you can respond to it. I said that Furlenco is doing that on a rental basis, but they are a full portfolio furniture company, which means that they do design, they do manufacture or outsource and internally there is some manufacturing. They do rent, but they also offer to sell, they get the buyback, they also do refurbishing. The entire gamut of stuff is being done by them, and therefore, there is no conflict that will exist. Whatever mattresses that they are renting, they will be people of Kurlon mattresses, but that's a small part of the entire household stuff that they rent. It includes the bed, it includes cupboards, it includes the dining set, it includes all the stuff that is there, and therefore, there is no conflict. The selling part that Furlenco is doing, they have one offline - the second offline store is coming up - but their products will be selling on the Sleepwell and the Kurlon stores soon. Again, there is no conflict at all that will be there and there would be no cannibalization, not at all. On the other hand, there would be complementary support that should come in.

Amit Kumar Gupta: Basis the working capital gap that is there in Sheela Foam and Kurlon, we can draw working capital to the extent of Rs. 200 crores plus at any point of time. We have the credit lines in place and they can be drawn anytime when it is required. Does that answer your question or was there something else to it?

Harsh: I just wanted to understand if you already have a lending line with Furlenco or are you planning to go that side as well?

Amit Kumar Gupta: No, we don't intend to fund Furlenco through debt. We don't have any lending line with Furlenco. Furlenco has its own lines which it has taken from banks and financial institutions

which of course would go down once we infuse primary capital into the company. But going forward in case Furlenco needs more money, which we don't anticipate, they would have sufficient lines on their own.

Moderator: The next question is from the line of Anirudh Shetty from Solidarity Investment Managers. Please go ahead.

Anirudh Shetty: Sir, my first question is around.... I just wanted to understand how you guys define your business model because it seems to be that the business has evolved over time and as well entered into new geographies and now you intend to enter into new categories as well. How do you guys define your business? It'll help me appreciate the vision that you guys have for Sheela Foam. And also, how do you guys manage complexity? Because, as of today, you are now in multiple categories and multiple geographies. You have multiple plants as well. Do you think that this complexity is manageable?

Rahul Gautam: As far as geographies are concerned, I just want to say that if you look at the company, it started off being a manufacturer of flexible polyurethane foam which is basically a cushioning material, goes into other businesses. However, there are two major end users, which is one is bedding and the other is furniture bedding. Because, as I said, 1994-95, nobody else came, and therefore, we started our own and we created that. Furniture, we intend doing that right now. When it comes down to an international location, we would stick only to manufacturing flexible polyurethane foam which is based on machines, technology, and sourcing of raw materials and formulations that we can share with each other. We would not enter into a consumer business in a geography outside of India because we don't understand the consumers there and we will not do it. Any consumer business in India, we would definitely look at it, but at the same time look at the most peripheral first. I think one thing which has worked for us as a company is the focus that we have laid on the product or the segment that we operate in. Let me share with you that in the early 2000s when dot com companies were in vogue and everyone said that if you're not in that area, you are dead, etc., we did not invest. Few years back, absolutely real estate business every company of any genre was doing it. Did we do it? No, we didn't do it. We don't want to do it. We will want to stick to, at the moment, mattress and furniture because these are the two main applications of the core business of the business that the company understands very well. Little addition, little on the periphery; for example, if you make furniture and you make mattresses wouldn't there be any top of the bed kind of stuff that may come in like bed sheets or duvets or quilts, that could be looked at. But at the moment, we don't have any thoughts on it. We do have some Sleepwell bed sheets and Sleepwell quilts, etc., which do sell very small minimal quantities. But expanding into anything else is at the moment not in question or not even being discussed. We don't have any ideas of that. That was that part of it and that's how we deal with complexity. And you are quite right, it's getting more and more complex as time goes by. But we have a simultaneous, at least a thought of simplifying things as we move forward. And that's the reason that I said even on Kurlon and Sleepwell, how do

we position them - the two brands - so that they have their own grounds to stand on, they don't conflict with each other, and there is less and lesser of complexity that is there.

Anirudh Shetty:

Sir, my second and final question is, right now, post the acquisition of Kurlon, we are a very strong organized player, stronger in fact. The unorganized or unbranded still dominates the industry. It has been losing share, but it's still anywhere between 50% to 60%. Can you just explain the customers' mindset today, which explains why they still keep going to these unorganized and unbranded players? And now that we are an even stronger organized player, what steps are we looking to do? Whether the steps that we have done in the past or anything else that we could do differently to improve the market share that we, as a leading organized player, have?

Rahul Gautam:

Let me begin by saying that 60% of the country still sleeps on some traditional products like cotton mattresses, i.e., chatais, etc. 40% is the modern mattress market. Slowly, the traditional is shifting to the modern mattress. Sheela Foam is the biggest author of that action, which we started 3 years back. But because of COVID and the Ukraine war, it stopped. November where we would be making a product which is a modern mattress. It is affordable, it is accessible, and we should be able to distribute right up to the village level or the Tehsil or a block level. That's one part. That's the 60% part of it. In the 40%, we have a sizable number which is the unorganized sector and something which is the organized sector. Both us and Kurlon operate in the organized sector. But the larger one is the unorganized sector. There is again as time goes by, as GST came, more formalization of the economy and all that happening, people are shifting from the unorganized to the organized. However, during the COVID, pre and post COVID, inflation time, etc., there was a little increase in the sales of the unorganized one; 1) the organized ones didn't do their work enough because of the disruption and 2) because of an average selling price being low. That issue is changing back because eventually everything has to get into the organized sector. We, as a company, would advertise, promote, give guarantees and warranties, and ensure that the right products are there. Those are the steps that we do and it has benefited in the past and it will benefit in the future, but there has been a bit of a disruption though. That's how we intend dealing with it.

Moderator:

The next question is from the line of Pallavi Deshpande from Sameeksha Capital. Please go ahead.

Pallavi Deshpande:

I would like to know what would be the market share for Furlenco and second would be on your international location. I understand now you will be only doing manufacturing, but what was the reason for doing the consumer business in the past in the international market?

Rahul Gautam:

I think you asked the question of market share of Furlenco. It will be in decimal places, so I'll not be able to tell because as I said, the furniture market is very fragmented. It is 4x to 5x to 6x bigger than the.... It's about Rs. 1.4 lakh crores to Rs. 1.5 lakh crores market. And in that, what Furlenco would be doing is negligible, nothing. And therefore, I can't even guess what it would

be. However, because it's negligible, I think the potential exists for the balance part to be done. The other question I didn't understand, or whatever I understood was that why are you not in the consumer business outside the country? It's just because of the consumer, the culture, the setup, the languages, the way that people buy products, etc. And above all is the issue of where we manufacture. For example, in Australia, we manufacture foam. The mattress brand owner and the mattress manufacturer are already fixed for years together. He in turn sells to a retail chain of stores which are also a brand unto themselves. For us to try and get into the consumer business, we would be wrapped on our knuckles straight away and we would be told not to do it because we cannot compete with our customer. And therefore, that's another big reason why we will not do it. But the bigger one is that we don't understand it. We don't understand that culture and we are not present there for, let's say, generations to know that. So, at the moment, it's a no for us.

Pallavi Deshpande: Actually, my question was, did we not try the consumer business there in those countries? In the international market, 2 years back, did we not try to do the consumer part of the business?

Rahul Gautam: Are you looking at the exporting from here or doing the manufacturing and doing the business there?

Pallavi Deshpande: Doing the business there. I thought initially when we went into the international market, it was to do the business there itself. That's what I'm coming back to.

Rahul Gautam: Even at the expense of repeating, I am just saying there are two parts to our business. One is the back end, which is manufacturing of foam, which depends on machines, the technologies, and raw material sourcing and formulations, etc. That part of it we know very well and we can do that at any part of the world or the universe we can do anywhere because that's our experience. That's what we have strength in. The front end, the consumer part of it is something which is in India, we know it. We know the people, we understand the diversity, and we know what to do. And we don't do that elsewhere. But foam manufacturing we can do anywhere. That's how we look at the world.

Moderator: The next question is from the line of Lokesh Manik from Vallum Capital. Please go ahead.

Lokesh Manik: Rahulji, one question was that over the years, we have positioned ourselves to marketing, trying to convert the customer from traditional products and from rubber coir products to flexible PU to the Sleepwell brand. And now that we have acquired Kurlon which is pretty strong in rubberized coir, how would your growth plans now pan out? Whether you would want to expand in the rubberized coir or you want to keep it the same and continue focusing on Sleepwell itself. How does this play out going forward for you?

Rahul Gautam: It's a great question, Lokesh, and thank you for that. And that's something which is also taking up our time to take a call. But I will just say this thing that globally also the mattress markets

are sort of divided into compartments. So, you have foam brands, you have spring brands, and of course, rubberized coir is not outside, and you have latex brands or rubber foam brands. So, the input material does classify products. If you look at India, and for donkey's years, the rubberized coir has been there and they have been doing well. And of course, initially they had an advantage of taxation and other things. Now it's all at par. But the last survey shows that 35% is still dominated by or is a coir product and about 55% is foam product. At some places, there can be a bit of a hybrid nature, but by and large, the consumer and the channel, they understand this is a coir product and this is a foam product and the brands are also associated with that. So, our thoughts at the moment, and as I said, it still needs to be crystallized, it still needs to be done or sort of sorted out, but these are the differences between the two brands and let's celebrate those differences and let's make the offering to the consumer far more focused and crystallized. That's our thought. But I think it's a great question; it will evolve and probably in the next couple of weeks, we should be able to answer that.

Lokesh Manik: Sir, my second question is on the distribution network. Would you be then keeping the policies that are applicable for the distribution network of Sleepwell similar to those of Kurlon or you want to maintain the policies that Kurlon follows for its distribution network? Do you bring them in line or you don't want to interfere too much to disrupt the existing business? How do you see that?

Rahul Gautam: Lokesh, obviously the way the policies have developed and the products and management everything has developed, there are strong points on either side and I think we must learn rather deeply about the way that each other performs and get the best out of both the worlds. At the moment, I create a position of not conflicting, it makes it much easier. The policies also don't need to be treading on each other's feet. They can be similar, they can have the advantages of both sides. And even on the distribution part, whatever may be the difference - MBOs, EBOs, some other channels that would be there - first of all, we have no reason to believe that we would be disrupting anything on that at all. It will be as it is. We will only build up further on that.

Lokesh Manik: We don't know the distribution policy of Kurlon. We don't know whether that would have an impact on profitability of the consolidated entity. Have they engaged in deeper discounting or anything of that sort? Is that the case? Can it have an impact on our profitability? Can it lower it?

Rahul Gautam: Just allow us a couple of weeks to study that in detail. We've just signed the transaction. At the moment, even to get a little deeper into understanding and as I said that we have also hired an agency or a consultant to help us bring all these things together and we will study. But as I said, the first principle, do no harm. We're not going to run around and change anything overnight. It's not going to happen.

Moderator: The next question is from the line of Manish Poddar from Motilal Oswal AMC. Please go ahead.

Manish Poddar: Primarily, two set of questions. One is, I'm just trying to understand, sir, Kurlon has roughly about 450 EBOs versus us having about 5,400 EBOs. Is it a function of the category or is it a function of company strategy that this number was relatively lower compared to us?

Rahul Gautam: My understanding is it's certainly not a function of the category. It is just that the way that we have chosen to do business. And let me just say that because you are in EBO and you were earlier in MBO also, there are pluses and minuses of either side. Therefore, there is no specific reason, but it's just the way that you have chosen to. And of course, Kurlon also has about 450 and they were also tending to increase that. As I said, I can't think of any reason. There is no particular reason except that that's how it grew. Maybe Sleepwell started it much earlier and did the learning and the other things and the way that this model should be developed and the others are now doing it. That's why the number difference is there.

Manish Poddar: Incrementally, would you cross sell the two brands in the same EBO - your existing EBO network?

Rahul Gautam: Again, a question that is it possible? Yes, it's possible. Would we think about it? Yes. Would we do it? I think we'll spend about 3-4 weeks on discussing this and how do we do it. Everything will be definitely oriented towards the consumer that how does the consumer, he or she, believes it to be done or it's less painstaking for them. Does it make it better for them to view that, look, I need to have a choice of 2-3 brands and therefore I want to go to a multiband outlet or I'm happy with one store which has everything and is offering, is better displayed, and there is interaction. There's a mix and match of all this. It's also giving us an opportunity to look and review stuff here.

Manish Poddar: But do you think the two brands are positioned, let's say, in the minds of the consumer separately or there's significant overlap in terms of mattress and how a consumer thinks of?

Rahul Gautam: I will share my understanding and we are going to do a little bit of a dipstick study to find out what it is. But when a transaction takes place today, 50% of that is the retailers who influences and 50% is the consumer who has heard a brand and wants to have that particular thing, etc. This number 50:50, let's say, 10 years back, was more in favor of the shop and less favoring the consumer. But as we advertise and share, it's 50% consumer and we will just take that as something. I was coming to that that both the retailer for sure and consumer to some extent wants a coir mattress or wants a foam mattress. All studies have shown that they want a coir mattress because they have some memories or legacies of it. And they also relate that to Kurlon. Foam is related to Sleepwell. But of course, as we were growing, individually everyone was trying to do everything. And can we do this a little better? Can we split that? I think that will unfold in the next couple of weeks, and surely it'll help the consumer, but we'll see.

Manish Poddar: Just one last one. How much capital has Furlenco raised till date? In media articles, it says it's in 4 digits. What I'm trying to understand is you've given a thousand crores odd valuation for a

company which itself has raised 4 digit number till now in terms of crores. I'm just trying to get that number right. Is that in that range?

Rahul Gautam: Manish, I wouldn't be able to answer that. The only thing that I know is that their last round of funding that they did, at that time, the valuation was 1,400. But I'll get back to you on this.

Moderator: We have the next question from the line of Pritish Chowdhary from Investec. Please go ahead.

Pritish Chowdhary: Sir, on the Kurlon acquisition, the understanding is that prior to COVID, there were some management changes and transformation changes being planned in the company and when COVID hit. But in FY22, overall, all the leading players in the industry performed fairly well including our own business. After COVID withdrawing, what was the reason why the Kurlon growth did not come back? And possibly, is a green shoot reflected in, let's say, first half or 9 months' performance for Kurlon? Or have you seen any turnaround in that story?

Amit Kumar Gupta: The COVID had affected almost all the players. It's not that we were not affected. If you look at our margin trajectory, you will find that that also was hit a little bit. The challenge that happened with Kurlon was they basically embarked on a lot of changes in the way they do the business, which we highlighted earlier also. And for those changes to be implemented and fructify, it was important to have a stable environment. They were caught in between and by the time they could realize it, COVID was already on them. I think they have started improving. And the results that you will see, we hope, for '23, and some of the indications that we have are better than what it was for '22. And I think going forward, the way we intend and we intend to see that improving is retaining some of the changes that they had made, which were quite good and basically looking into some of the other changes which were eating into a lot of profitability and potentially we can do away with those changes.

Pritish Chowdhary: Second question being on the synergy piece. I believe two reasons were raw material procurement and some synergies on the logistics side. Now, raw material being fairly straightforward, I would like to double click on the logistic synergies that you expect given that the regional presence for both the brands is fairly different and Kurlon has no presence in the EBO segment. If we have to increase the sales of Kurlon in Sheela Foam EBOs, will that not be a drag on our logistic cost?

Amit Kumar Gupta: What distribution networks will be like and from where it would be sold will be a different thing, but from a logistic perspective, definitely it gives the combined company a more wider footprint in terms of production facilities. Though it is yet to be decided as to what will be produced where, but yes, the distances between the final delivery destination and the point of production will go down. And secondly, Kurlon has a different model of distribution where they use certain warehouses and then the material is transported, which we have to look into. We believe that once we rationalize it, it will reduce a lot of cost on that account. With a pan-India footprint, there would be a reduction to the extent that we have mentioned in our business...

Moderator: Ladies and gentlemen, as we take that as the last question for today, I would now like to hand the conference over to the management for closing comments. Over to you, sir.

Rahul Gautam: Thank you very much everyone for joining and for asking all these questions. It has also made us sort of rethink, review, and I just want to share this with you that both the things have happened only the day before yesterday. Allow us about a few weeks for planning out and strategizing as to how we want to take this forward. But at the same time, I want to assure you that both the things are integrated into the core of our business, which is manufacturing flexible polyurethane foam and it will only see advantages of that rolling out. I would say all the best and look forward to meeting you in the quarterly earnings time which is the first week of August sometime.

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