



May 19, 2026

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 and Year ended March 31, 2026 Financial Results.

Dear Sir/Madam,

Please find below the transcript of Investors' conference call organized on May 15, 2026 post declaration of financial results for the quarter and year ended on March 31, 2026 for your information and records.

Thanking You,

Yours truly,

For Sheela Foam Limited

(Md. Iquebal Ahmad)

Company Secretary & Compliance Officer

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“Sheela Foam Limited
Q4 FY ‘26 Earnings Conference Call”

May 15, 2026



MANAGEMENT: **MR. RAHUL GAUTAM – CHAIRMAN AND MANAGING
DIRECTOR – SHEELA FOAM LIMITED**
**MR. RAKESH CHAHAR – DEPUTY MANAGING
DIRECTOR – SHEELA FOAM LIMITED**
**MR. AMIT KUMAR GUPTA – GROUP CHIEF FINANCIAL
OFFICER – SHEELA FOAM LIMITED**

MODERATOR: **MR. RITESH SHAH – INVESTEC**

Moderator: Ladies and gentlemen, good day, and welcome to Sheela Foam Q4 FY '26 Earnings Conference Call hosted by Investec Capital Services India Private Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone.

I now hand the conference over to Mr. Ritesh Shah, Co-Head of Research Analyst, Midcaps, Materials and ESG from Investec Capital Services India Private Limited. Thank you, and over to you, sir.

Ritesh Shah: Thank you, Shailendra. Thank you all for joining on to Sheela Foam Q4 FY '26 and FY '26 Earnings Conference Call. We have with us Rahulji, Chairman and Managing Director. We have with us Rakeshji, Deputy MD; and Amitji, Group CFO. I would request Rahulji to start the call with initial remarks, post which we'll have a Q&A session. Over to you, sir. Thank you so much.

Rahul Gautam: Good afternoon, ladies and gentlemen. At the outset, let me thank you all for attending this conference call to discuss our operational and financial results for quarter 4 and the financial year ended March 2026. I do hope you've gone through the results and the earnings which have been uploaded on the website. FY '26 has been a year of implementation of the benefits of the Kurlon acquisition and its integration with Sheela Foam.

Both Sleepwell and Kurlon brands delivered strong growth, and our foam segments also recorded commendable momentum. The broad-based performance has translated into a healthy growth across both revenue and profitability. I am pleased to share that the company achieved several milestones in FY '26, including highest ever annual foam production, highest ever top line and the highest ever EBITDA.

This reflects the strength of our integrated platform, focused on execution and a continued commitment to a profitable growth. We are also cautious and remain watchful of the evolving situation in the Middle East and its potential implications for raw material availability and the supply chains. The company till now was able to navigate this environment without any material disruption, and I hope that we continue to do that.

Our long-standing supplier relationships, both in domestic and international markets ensured continued availability of key raw materials such as polyol and TDI. This ensured that the customer servicing without disruption and also increased the top line in quarter 4. This reflects the resilience of our sourcing network and the strength of our supply chain relationship. For Q4 of last year, our Indian operations, which are now our stand-alone business, demonstrated a revenue growth of 24%. For full year FY '26, the growth was 11%.

The volume growth for full year was around 15%. This should also further show positive movement as selling prices are bound to be higher in FY '27 as compared to FY '26. And we are all aware that the higher raw material prices will be contributing to that.

The core EBITDA margins for Q4 climbed to 11.5%. For full year of last fiscal, the core EBITDA margin stood at 10.7%. This indicates that we are already in an 11% to 12% bracket and should move further onwards with growth. The Kurlon acquisition has moved beyond

integration and is now visibly contributing to the group's operating performance. Our business segments have also shown healthy growth during the year. Mattress volumes grew by 13% year-on-year in quarter 4 FY '26 and by 12% for the full year. Value growth in the Mattress segment was 13% in Q4 and 10% for FY '26.

Growth during the year was well distributed across both Sleepwell and Kurlon, supported by deeper distribution, sustained brand investments, sharper channel execution and the benefits of a more integrated platform -- operating platform. On the retail side, we added approximately 600 net new showrooms during FY '26. This further strengthens our market reach. Kurlon showroom expansion, particularly in Northern India, continued to gain encouraging traction. Alongside this, we also continue to develop adjacent home comfort categories, including pillows as part of our broader effort to deepen consumer engagement across the comfort portfolio.

Our e-commerce business also continued to scale strongly during FY '26. Sales on our own websites, which we call as brand.com, grew by 136% year-on-year and sales on platforms grew by 39% year-on-year. This performance has been driven by a focused digital strategy, targeted consumer marketing, a sharper online portfolio and better alignment between product pricing and fulfillment capabilities. The My Mattress proposition and our online-led consumer initiatives have helped strengthen our direct engagement with consumers.

Our unorganized to organized business, which we earlier used to refer as STI or Small Town India, a small town India initiative business now operates through 8,400 dealers and reaches over 5,000 towns across 24 states. In FY '26, this U2O business delivered volume growth of 65% and value growth of 111% on a year-on-year basis.

This growth has been supported by continued product innovation and by strengthening deeper distribution reach in the market. In Foam business, for Q4 FY '26, volumes grew by 34%, while value grew -- growth was 36%, aided by better price realizations. For the full year of last fiscal, volume growth was at 18%, while value growth stood at 14%. This growth was supported by a broader customer pipeline, disciplined market development and a continued focus on higher-value applications.

Overall, our India business delivered a strong FY '26 performance, driven by the strength of our brands, expanded distribution reach, sharper channel execution and sustained operating discipline. The year also demonstrates that growth and profitability can move together when the business is integrated well and execution remains consistent. I'm also pleased to share that the Board has recommended a dividend of 20% for FY '26, subject to approval of shareholders.

This is a significant milestone for the company as the profitability of the business has enhanced after successful integration of Kurlon and with significant reduction of debt levels, the group has strengthened its cash generation profile, enabling it to share profits with shareholders.

This marks the first dividend recommended by the company since listing or for that matter, forever. This is the first time the dividend is being recommended. Both Australia and Spain have delivered stellar operating performance during the year. In Australia, Joyce revenue stood at INR422 crores in FY '26 and EBITDA margins improved to 10% for the full year, which is a

significant improvement of almost 400 bps over FY '25. The improvement in profitability profile was due to implementation of strategic yield improvement programs, renegotiating prices with key customers and supply chain restructuring institutionalized in last year.

In Spain, revenue stood at INR391 crores in FY '26 and EBITDA margin of 10.4% for the full year as compared to 8.4% in FY '25. So as we clearly see in both Australia and Spain, the EBITDA margins have increased. On Furlenco, I'm happy to share that business is expanding and is well poised on its growth journey for FY '27. Furlenco reported a revenue of INR370 crores, a growth of over 60% year-on-year. The company clocked a PAT of close to INR60 crores compared to INR3 crores in FY '25, thereby marking significant improvement in its performance.

Furlenco has been able to achieve this growth while maintaining a stringent cost discipline and fiscal prudence. As I had spoken in our last call about integrating Furlenco and Sheela Foam's omnichannel network and establish Furlenco's presence across Sleepwell and Kurlon stores, I'm happy to share that we have been -- we have seen encouraging response from customers visiting our 40-plus integrated stores, wherein they are able to get offerings from both Furlenco and Sheela Foam. We are constantly increasing such integrated stores and hope to cross 100 stores during current year.

Next, our IT business, Staqa, has also continued to evolve as a differentiated digital capability within the group with its solutions now supporting enterprise workflows, analytics and technology-led decision-making across sectors. During FY '26, Staqa delivered a revenue of INR70 crores. We see Staqa not merely as a technology subsidiary, but as a strategic digital asset that strengthens the group's broader capabilities in automation, data intelligence, enterprise efficiency and artificial intelligence.

Coming to ESG, our focus remains on embedding sustainability into the way we operate rather than treating it as a separate initiative. During FY '26, we made steady progress across our identified priorities, with continued emphasis on energy efficiency, responsible resource management, waste reduction, workplace inclusion and, of course, fire safety. We have already operationalized a 500-kilowatt solar power plant at our Jabalpur facility and are progressing with over 1,000 kilowatts of additional solar capacity across other manufacturing locations.

We're also able to augment gender diversity in our workforce to around 8% during the year. These actions reflect our commitment to building a more responsible, inclusive and efficient operating platform. Our responsibility extends beyond business performance to the communities we serve and the lives we are able to touch. Our CSR agenda continues to be anchored around 2 key areas where we believe we can create a meaningful and lasting impact, emotional wellness and skill development.

Through our emotional wellness initiatives, we are able to touch hundreds and thousands of lives across the country, thereby helping build wider awareness and a sustained national conversation around preventive emotional well-being. In skill development, our programs across Armed Forces preparation, fashion designing, paramedical training and software development are focused on equipping young men and women with livelihood-linked capabilities.

These initiatives reflect our belief that true value creation is measured by the positive and enduring impact that can be created on the society around us. With this, I will now request our Group CFO, Mr. Amit Kumar Gupta to take you through our financial highlights. Over to you, Amit.

Amit Gupta:

Thank you, sir. Thank you for your inputs on our business and strategy going forward. Just to update on the financials with some numbers here. Our volumes and profitability for Q4 and financial year '26 continued strong trajectory supported by healthy growth and sustainable margins. On a consolidated basis, revenue grew by 24% year-on-year in Q4 to INR1,050 crores.

For financial year '26, the consolidated revenue grew by 11% Y-o-Y to INR3,821 crores. On a stand-alone basis, revenue again grew by 24% Y-o-Y in Q4 to INR819 crores, whereas in the financial year, it grew by 11% Y-o-Y to INR2,962 crores. Our consolidated core EBITDA stood at INR121 crores for the fourth quarter, growing by 90% on a year-on-year basis. Core EBITDA margins improved by around 400 basis points to 11.5% from 7.5% last year. Financial year '26, consolidated core EBITDA stood at INR414 crores.

For the first time, we, as a company, have crossed INR400 crores by -- growing by around 46% Y-o-Y with a margin expansion of 261 basis points to 10.8% for the year. This improvement was driven by incremental sales, better gross margins and disciplined control over operating or fixed costs. I'm pleased to share that the consolidated PAT for Q4 stood at INR92 crores, representing a 7x increase on a year-on-year basis.

For financial year '26, the consolidated PAT stood at INR161 crores, growing by around 78% Y-o-Y. If you look at the yearly figure of INR161 crores, out of this INR144 crores came in the last 2 quarters only. In the first 2 quarters, we had certain impacts of mark-to-market on the investments that we have put in government securities.

So during the last 2 quarters, we have done INR144 crores, which means a run rate of more than INR70 crores per quarter. And with the expected growth, we expect to continue the momentum going forward. During financial year '26, the company also reduced net debt by INR156 crores, reflecting the underlying cash generation of the business and continued focus on balance sheet discipline.

At the time of Kurlon's acquisition, the consideration was paid in -- paid was higher than the tangible value of the asset. This is generally the case when you acquire a strong brand, which provides returns over a longer period of time. However, to look at the returns from a shorter period of time, when we exclude the intangible portion of the investment and calculate return on capital employed, we see that it currently stands at around 18%, which even before Kurlon acquisition was around 17%. This demonstrates that our return metrics have also improved in comparison to what it was before Kurlon acquisition, and we are only in the midst of our journey. With this, I request the moderator to open the floor for questions and answers. Thank you.

Moderator:

Thank you very much. The first question is from Rahul Agarwal from IKIGAI Asset. Please go ahead.

Rahul Agarwal: Congratulations for a decent performance. Rahulji, just firstly to start with going forward, fiscal '26 was a year of hard work to get this growth and profitability back. I think keeping the momentum going from here on, what are the top 2, 3 things you're spending time on -- your team is spending time on in terms of both staying ahead of competition and at the same time, improving the return on capital for the business. If you could share your top-down thoughts for the entire business overall, how you're looking at next 2, 3 years, that will be really helpful. That's the first question.

Rahul Gautam: So Amit, do you want to answer that?

Amit Gupta: Yes. So Rahulji, as we have outlined in our earlier conversations also during these calls, we had taken a target that we would be first trying to reach a growth rate of around 15% plus. Now since raw materials have increased last year, this should be better than 15%. And so first and foremost thing is how we can strengthen our different product lines and our different business lines to deliver the growth that we have committed to the market and consequently improve the profit line. Also going forward, we will be looking into very complementary business lines, which are related to us.

And some of them we have already initiated. For example, the Pillow segment, that's a market of around INR100 crores, but we till now were giving out only pillows as free along with the mattresses. Now we will be treating it as a separate category and building it upon. Thirdly, the 2 segments, which are the e-commerce segment and the U2O segment, continue to be -- will continue to be our strong focus areas because these are the areas which we need to penetrate deeply not only to maintain our leadership status, but also to grow further in this country, which has around 85% of its market currently occupied by unorganized and traditional mattress segment.

So I think not on a 1- or 2-year, but on a 3- to 5-year horizon rate, our objective would be to get into related product categories so that we are a full product player and increase our penetration across the country. Maybe Rakeshji has something to say, is that fine.

Rakesh Chahar: No, that's fine.

Amit Gupta: Fine, fine. That would be sufficient, Rahul. In case you have anything addition to ask, please let us know.

Rahul Agarwal: Sure. It gives some clarity. Second was, I just wanted to touch upon the input cost inflation a bit of it. If you could just talk about where are TDI and polyol pricing right now? And how do you plan to pass it through, both for Mattresses and Foam segments?

We just talk about what kind of price increases we're looking forward to across segments? And is that sufficient enough to let the margin actually sustain or maybe expand going forward? That's my last question.

Rahul Gautam: So that's like an extremely difficult question and probably multiple questions put altogether. Rahul, the pricing of TDI and polyol is like a crystal ball gazing at the moment. And it's not moving only in one direction, but it's also moving in both directions and moving in large

quantities. So what used to be some INR2, INR3, INR4, INR5, INR10 a kilo in a year that you would see something moving up or down or up and down. Now you suddenly have INR40 and INR50 at a time happening multiple times in a month.

Therefore, to handle that, we are learning how to do it. But thankfully, some of our segments help us like the B2C segment. There are some others which are stable, but also move slowly, don't move along with the raw material market, which is a B2B segment. And then there is also the industrial segment, which moves even quicker than the raw material.

So it's a mixed bag. It's something that we can't say that we have full handle on, but should be able to sail through and believe that as soon as the war kind of finishes off, this oscillations or volatility will reduce. Now you are asking what the future of these prices of the raw materials would be. They are definitely at a high level at the moment. I can only give you a last 5 years average where polyols should be and where TDI should be.

So polyols should be around INR120 plus and TDI should be around INR240 or something like that. But at the moment, they are both above that. Very difficult to predict. I cannot add anything more. Yes. Rakesh, do you want to add?

Rakesh Chahar: Yes. I can just say that we have been also able to pass on the cost increase due to raw material across all the channels, B2C side, the industrial foam side and partly also on the B2B side. So we see an opportunity also for a margin expansion, which we have experienced in March and also going forward, that opportunity exists.

So and as far as the raw material, like Rahulji has rightly put it, so the raw materials definitely are looking southwards now, but it's a very volatile situation. I mean it's a function of both availability and the pricing. So while it is going down because of the demand, but the moment somebody picks up a good quantity, it starts looking northwards. So it's a play of supply chain currently.

Rahul Agarwal: Got it, Rakeshji. Could you quantify the price hikes?

Rakesh Chahar: So currently, TDI is -- the main supplier is GNFC. Their price is about INR275 and polyol is around INR180.

Rahul Agarwal: Rakeshji, I was actually asking about the price hike taken for our mattresses and foam. What is the pass-through you've taken so far? That's what I wanted.

Amit Gupta: So Ritesh, very difficult to give in percentage terms. They are different for different categories, as Rakeshji just mentioned, that in mattresses, we have been able to take decent ones, B2B a little lesser. The industrial segment, yes, we can pass on immediately. But yes, polyol and TDI on an average increased between 25% to 35%. And depending on how much foam is consumed in different categories, we have been able to increase prices to offset those price increases and to some extent, maintain our margins also.

Moderator: The next question is from Arjun Khanna from Kotak Mutual Fund.

- Arjun Khanna:** Congratulations, good -- better set of numbers this time around. So the first query is just on the marketing expenses because we've been bringing that out historically. I didn't quite catch it in this presentation. So how much would we have spent in the fourth quarter? And how much would we as a percent of sales would be for FY '26?
- Amit Gupta:** So Rahul -- sorry, Arjun, for the entire year, it should be around 4.5%, almost similar to what we did last year. For the last -- quarter-on-quarter is a fraction that moves on. I think it would be a little lesser because Q3 is the highest percentage we spend upon, so maybe around 4-odd percent.
- Arjun Khanna:** Fair. Helpful. Sir, the second question is on the depreciation side. I just wanted to understand, post these changes, what outlook do we anticipate for FY '26? What should be the number we should work with?
- Amit Gupta:** '27 or '26?
- Arjun Khanna:** '27, sorry, '27.
- Amit Gupta:** So, Rahul, I think at a consolidated level, we would be looking for a depreciation based on current assets, and I'm not commenting what incremental depreciation we might have for capital investment that we do in next year, should be around INR140 crores to INR145 crores at a consolidated level.
- Arjun Khanna:** Sure. So this quarterly run rate of INR35 crores essentially, one can annualize this number?
- Amit Gupta:** Yes, yes, you can.
- Arjun Khanna:** Sure. And the final bit, on capex for next year, what's our outlook?
- Amit Gupta:** Including maintenance and some debottlenecking capacities because we have grown by around 15% in volume this year, and we anticipate even a higher growth in the next year. So we will need certain debottlenecking capex at certain of our facilities to meet these volumes. We should be somewhere between INR125 crores to INR150 crores.
- Arjun Khanna:** This is including maintenance capex?
- Amit Gupta:** Everything. This is including marketing capex, which is for opening of new stores. This is maintenance capex for all our plants, both in India, Australia and Spain. And this is also any new capex we need for debottlenecking, everything included.
- Moderator:** The next question is from Deepali Kumari from Arianth Capital Markets.
- Deepali Kumari:** Sir, my first question is the unorganized to organized segment showed a massive growth. So how scalable is this...
- Amit Gupta:** Sorry, Deepali, you were not very clear. Can you please -- we could understand that U2O has shown a high growth. But after that, what you said, please, can you repeat?

- Deepali Kumari:** Sir, my question is the unorganized to organized segment showed a massive growth. How scalable is this market strategy across many states where you do not have the major...
- Moderator:** Sorry, madam -- Deepali madam, you are not audible. Please join back the queue. The next question is from Amit Mehendale from RoboCapital.
- Amit Mehendale:** My first question is on the margins. Is it fair to say that in the backdrop of escalation in raw material prices, our margins -- EBITDA margins will be under pressure in Q1 or Q2?
- Amit Gupta:** Sorry, I could not get your question. Can you please repeat?
- Amit Mehendale:** Yes. In the backdrop of raw material prices, our EBITDA margin should be under pressure in Q1 or Q2, right? Because Q4 must be -- we must be having stock at old prices. The inventory may be there, the raw material inventory. But Q1 and Q2, we may have to use the inventory, which is bought at higher prices. And I'm assuming that there will be some pressure on the EBITDA margins in Q1 or Q2.
- Amit Gupta:** No. So if you see our gross margins, see, what happens is whenever there is a raw material price increase, it is not that we instantly can increase the price of our products to the consumers also. It's a process which takes around 10 to 15 days and same is the quantum of inventory that we have. So the higher price inventory almost maps up with the increase in the prices. And that's why you see there is no -- not a very material increase in gross margin in the quarter as compared to the fourth quarter last year, it would be almost 50, 100 basis point improvement.
- So technically, there was no impact of lower raw material prices when these prices went up. Similarly, in the first and the second quarter, we don't impact any -- expect any impact of higher raw material prices. I don't say there might -- would not be 50, 100 basis points. There can be because the prices are very volatile currently, but not more than that. What leads to EBITDA margin and which has been done in the fourth quarter is an increase in volume.
- We are a 30% plus contribution margin business. And whenever there is an increase in volume, that directly flows to the bottom line, strengthening the EBITDA margin. And that's why -- that's the reason why we will be focusing on growth, which we have done last year, and we will be doing in the current year.
- Amit Mehendale:** Sir, I was just trying to figure out, I mean, if the polyol prices have gone up from, say, INR120 to INR180, I'm sure we won't be able to pass on such a large increase. I mean even like a 20%, 25% increase is difficult to pass on. So how are we confident -- I'm just...
- Rakesh Chahar:** So I'll take that. I think what Rahulji mentioned is INR120 was the ideal price for polyol and INR120 was the price in January. So the price started rising from February and then there was a sharp spike towards end of February when the war started. So the polyol price had gone up to INR220. So what Amitji is saying is when it was rising, so we were able to take price increasing.
- And now the highest price that it has gone up to is INR220. And currently, it is at INR180. It is oscillating between INR200 and INR180. So the part price increase has already been taken. So therefore, it will not impact the margins going forward.

- Amit Mehendale:** Okay. Great. And my last question -- yes.
- Amit Gupta:** No, go ahead, Amit.
- Amit Mehendale:** Understood. My last question is on Furlenco. What is our plan for, say, next 3, 4 years? And how do we see that business growing? And any long-term plans there, 3-, 4-year plans?
- Rahul Gautam:** So Furlenco already is at about INR370 crores. Next year's plan is about INR500 crores, and it's tracking well. So I think 2 things that we look forward to. One is that when would be the right time for doing an IPO. And we will take our decision somewhere in the next 3 to 4 months' time.
- Amit Mehendale:** Right, sir. And my last question is on the debt levels. If you could -- what could be our debt levels for next 2 years, '27 and '28?
- Amit Gupta:** So to answer that question, I'll divide the debt between 2 parts. One, the debt which is outstanding on the Indian books and the second, the debt which is outstanding in Spain and Australia. Spain and Australia is around INR350-odd crores. So that is INR350 crores, which is self-liquidating, is being paid off from the cash flows of Australia and Spain itself. The other INR300-odd crores is in India, which I think if you see or utilize the entire cash flows what we are anticipating, should be paid in the next 1, 1.5 years.
- Moderator:** We have next question from Mr. Pritesh Chheda from Lucky.
- Pritesh Chheda:** Sir, I couldn't get the answer on Furlenco. So first, Furlenco is now a materially INR60 crores profit to the company, and we have about -- around about 50-plus percent holding. So what is the course of business plan there? And what kind of ROE or -- ROCE that business operates at?
- Amit Gupta:** So first of all, we don't hold 60%. I'll just correct that number. We hold around -- on a fully diluted basis, we hold around 43% in Furlenco. We are the largest shareholder, and we hold majority on the Board and the shareholder meeting, these 2. Yes, we have done INR60 crores PAT in the current year.
- ROE for the company will be different, but I can say that we have done a total investment of around INR430 crores for our investment. So even if you take INR1,000 crores basis that, which is divided into debt and equity, I think it's a metric that can vary. What is important here is return on capital employed.
- The assets that Furlenco has deployed and the type of EBIT that it is getting, the return on capital employed is around 30% to 35% for Furlenco. Our returns, of course, will come mainly through the valuation of the company since we are a shareholder, and that will depend upon what price the company gets listed.
- Pritesh Chheda:** So this company is going for IPO?
- Amit Gupta:** Not currently, but there are plans to go for IPO once it reaches a threshold size, which as Rahulji just mentioned, maybe 1 year from now or maybe a little bit later than that.

- Pritesh Chheda:** Okay. And on the debt and the interest cost part, so you said that the debt of India will be repaid in 1.5 years?
- Amit Gupta:** Yes. So the cash flow generated will have capacity to repay the India debt in 1.5 years since it is around INR300-odd crores. Whether we will pay or we will utilize that cash for further growth in the business, that's something different because these are immaterial debt. If you see debt to EBITDA, it is less than 1.
- Pritesh Chheda:** And can you give out the interest cost for the next 2 years, that would be helpful. The way you gave out depreciation cost. Maybe you could give out the interest cost.
- Amit Gupta:** So at a consolidated level, as I said, if you add up, you will have a debt of around INR600 crores to INR700 crores. The interest cost for the debt would be INR35 crores and another INR15-odd crores for bank charges and other things. So at a consolidated level, finance cost should show a figure of around INR50-odd crores until and unless we do major changes in the capital structure.
- Moderator:** The next question is from Ritesh Shah from Investec Capital Services.
- Ritesh Shah:** Sir, first question is on U2O. If you look at the full year, volume growth is around 65% and the value growth is 111%. So a sizable difference between value and volume over here. Sir, if you could provide some color on why this gap, what is it that we have changed over the last 1 year? That's the first question.
- Rakesh Chahar:** So the volume growth is 61%...
- Amit Gupta:** 65% and value growth is 111%.
- Rakesh Chahar:** Great. So Ritesh, what has happened is that we have introduced a higher model. Earlier when we had launched this product, we had launched with only one model. So now we have introduced another model at a higher price point. That is one. And second is there also has been a price increase in both the models. So it is a result of that.
- Ritesh Shah:** Sure. And sir, what would be the volume contribution by percentage for U2O on the total volumes that the company does?
- Amit Gupta:** Ritesh, I'll have to get back with these numbers. We generally don't disclose the distribution of mattress between different categories, but I'll have to get back with those figures. I'll talk to you separately on that.
- Ritesh Shah:** Sure. And sir, just over here, would it be margins accretive or higher than what we reported stand-alone basis over here, specifically for U2O?
- Amit Gupta:** It would be more -- margins would be more or less not lower than the offline mattress and much higher than the e-com. So it would lie somewhere in between.
- Ritesh Shah:** Fair enough. And sir, would you like to comment something on e-com? Basically, again, it has done quite well, 52% value growth. If you could highlight what is our thought process over here

because historically, we did very well, then we scaled it back. Again, we are back on the pedal over here. So how should we look at this part of the business?

Rakesh Chahar: So Ritesh, we are on 2 sides, we have put additional focus on the brand.com side. And that is one as a platform. And second is we have also put focus on Kurlon. So both these put together has led to a substantial growth on the brand.com side. Also on the platform, Kurlon was lagging behind. So we had to make some changes and in terms of our play in the -- on the platforms. So that has also yielded good results. So it's a combination of these 2 things, which has led to this growth.

Ritesh Shah: Sure. And just last question. What is the motivation of changing the depreciation policy right now?

Amit Gupta: So Ritesh, I think depreciation policy was very skewed. Whenever we use -- our foaming machines last -- if you see an example of our foaming machine in Greater Noida, it has been installed for the last 22 years now, and it's functioning well, producing around 25,000 tons of foam or rather more than that per annum. Generally, these machines last for very long around 40 to 50 years.

So if we follow the written-down method, then potentially it depreciates the machine to the extent of 70%, 75% in the first 3, 4 years, which does not reflect the actual amortization of the asset on the revenue that it generates. And it skews other things. So -- and secondly, the second biggest part of our assets is generally plant building and related assets, lands don't get depreciated.

Even buildings have a life of 40 to 50 years. So just to align the cost of depreciation, which is allocated to business on a year-on-year basis, in line with whatever -- with the useful life of that particular asset and what value it delivers over 40, 50 years, we have realigned the policy to reflect realistic figures.

Ritesh Shah: Sir, I'll call you for this separately. And sir, just last question. I think we had INR40 crores of some synergy savings, which were still pending. I think we had given number of INR160 crores plus INR40 crores, INR40 was pending. It was contingent on certain new machines. If you could just provide some color on the time lines of the incremental synergy pending benefit and by when the machines will come?

Amit Gupta: So you are right, Ritesh. We had said that we will realize a total synergy of INR250 crores, out of which around INR190 crores, INR200 crores we had done till 2 quarters back. INR40 crores was to come from some new machines which were imported with a new material of malleable fiber to be used as a comfort layer. That is currently under installation. It is delayed by 1.5 quarters. But I think by the mid or end of this quarter, that will be installed, and we might see that scaling up in the subsequent quarters.

Moderator: The next question is from Rishi Mody from RDM Advisory LLP.

Rishi Mody: Am I audible?

- Moderator:** Yes, sir. You are.
- Rishi Mody:** My first question, so we've seen impressive volume growth in technical foam and comfort foam in this quarter. Just wanted to check for any one-off B2B orders in technical foam or any inventory stocking up by the channel in lieu of price hikes due to crude volatility?
- Rakesh Chahar:** So as far as the -- if I look at the annual picture of both B2B and the comfort foam, so we started putting more focus on these 2 segments. And there were some structural changes in the distribution and also the way we were approaching the market. So one is a function of that. So overall, we have grown in both these segments upwards of 15%. Quarter 4, there has been a spike, which is primarily 2 reasons.
- One is whatever steps we had taken to build this business further. That is one. And second, when the war broke, we were in a much better position to continue serviceability in the market. So there were smaller players who were finding it difficult to maintain their supply chains. So those orders also got shifted to us. But if you see on an annual basis, I mean, these businesses are now at a level of 15% growth on an annual basis. And our plan for the next year is also on the similar lines.
- Rishi Mody:** Okay. So -- and this customer gain that we have done, right, say, people who weren't able to supply to these guys, now we've gotten them as our clients or incremental volumes from existing clients who were buying from somewhere else. Is that also continuing like maybe because we're giving better service or better pricing? Or they have reverted back to their existing suppliers?
- Rakesh Chahar:** Sure. As I said, we had taken these 2 as also focused businesses where some changes had to be made, which took some time. So that was irrespective of the war and the scarcity of raw material. So those actions were already started getting implemented and showing results. Now as far as this was concerned, the March and the month of April is concerned, this is where some customers who have moved out also started buying. So then obviously, we will retain them, and that's what the plan is, going forward.
- Rishi Mody:** Okay. Got it. My second question was on the international piece, right? So, I'll split it. Australia, our gross margins have expanded quarter-on-quarter, while also other expenses have increased quarter-on-quarter, INR50 crores in Q4 versus INR42 crores expense in Q3.
- So just is this some reclassification? Or could you help me understand that? And then also on the Spain piece, the gross margins, are they firmed up around the 32% gross margin mark? And the fixed expense as a percentage has come to about 20% of our revenue. How much of that is fixed versus variable? So in case things -- the gross -- like I'm just trying to assess the sensitivity here?
- Amit Gupta:** Sure. So let's start with Australia. Australia has shown a steep increase in gross margin in the current year -- current quarter, I would say, not the year. Two reasons. One, yes, efficiency measures have been there on for last 1 year or so.
- The margins we achieved -- EBITDA margins we achieved there last year was 6%. So we were on an improvement throughout the year. The methods that were applied was, one, creating

efficiency with the wastage that they created; and secondly, taking price hikes with the customers, which had not been taken for a very, very long period.

Now this a little bit of disruption in the raw material prices created a little bit of plus and minus in Australia, but I think to some extent, maybe around 54%, 55-odd percent, Australian margins have improved. There may be aberration of 3%, 4%. So you should be able to see 4%, 5% higher than the normal margins it used to have in the past.

Now as far as the fixed costs are concerned, I would request you look at it as a percentage of total revenue because the exchange rates have gone differently. So when you convert Australian dollar into rupee, which was INR55 a year before to INR65 now, it's a different scenario, right? So fixed costs reflect only that portion.

When you move to Spain, Spain has been a real surprise because Europe was going through challenges. So the pricing realization that could be done in Spain was much better. I would not say 32%, 33% would be a stable sort of margin, but I would -- I can comment that around -- between 30% to 32% would be a stable margin. It will not revert to 28%, 29%, which we had seen in the past. And yes, that way, the profitability will remain there.

Rishi Mody: And is there still scope for cost optimization there? Or that 20% other expenses is going to largely remain around that 20% mark?

Amit Gupta: So some minor improvements may happen, but broadly, it would remain the same. Yes, turnover improves because there is a very strict cost control there. If you see the fixed cost structure between Australia and Spain, Spain is very small. But scope is always there, but I would not see any material sort of a scope there.

And our intent with both Australia and Spain is also not to go to a profitability of 16%, 18% because we know those type of profitabilities don't survive in those countries. So intent is to retain it between 10% to 12%, which to some extent is feasible in these countries and possible.

Rishi Mody: Okay. Got it. And we were planning...

Moderator: Rishi, sir, please join back.

Rishi Mody: Yes, just a quick question. Let me -- it's a continuation on the international piece only. You all were planning to sell or you all were exploring whether to sell off the international business. Is that still in the plans? Or we are now going to continue with this business as is.

Rahul Gautam: So I think one of the investor conferences, I had mentioned this that we are open to that. And I think our position remains the same that we are open to that, but that doesn't mean that we are switched off from it. We will pursue that and wait for the right person to come at or the right party to come at the right time. But at the moment, it's -- we still do whatever is necessary to maintain that business.

Moderator: We have next question from Pallavi Deshpande from Sameeksha Capital.

Pallavi Deshpande: Can you hear me?

- Moderator:** Yes, we can.
- Pallavi Deshpande:** So just wanted to understand just going back to the previous inventory question and the channel stocking on that comfort foam, technical foam. I just wanted to -- because the raw material prices have improved so much, are you saying there was no channel stocking in this quarter?
- Amit Gupta:** No. Pallavi, as Rakesh sir already mentioned that the higher volume because of 2 reasons. One, the work that has been done throughout the year with the new customers; and second, because some of the players, smaller players have gone out of business and that business also came to us. So there -- we don't anticipate any major channel stocking and foam is a very bulky material. You can't go beyond the volume to stock foam.
- It's very difficult. So we don't anticipate any choking or blocking of the channels and resulting in any challenges in the subsequent months. It was a genuine demand in the market, which the existing suppliers of those customers could not fulfill, which we went ahead and fulfill. But that was some part of the growth. The rest part of the growth was our own efforts and what we had been doing in the past.
- Moderator:** The next question is from Pritesh Chheda from Lucky.
- Pritesh Chheda:** Sir, just one question and a slightly broader observation. So what specifically since the last 2 years have we brought in to -- for the volume growth in the India business improving? And if you could articulate that and the sustenance of the same. So we have got a double-digit number this year as well. So some key points there, sir.
- Amit Gupta:** Yes. See, there were multiple things. One, very sharp focus on all these. So once we took over Kurlon, it was a new animal for us, a very different sort of a company, though we used to sell the same products, but the companies were very, very different, the way it's sold, the way it's produced, the way it managed the business. We struggled with it for a year or 2, and I think you all are witness to that how we struggled.
- But that also led us to more detailing and more focused on our existing business. And we identified certain priorities for ourselves, which we had reflected in our commitments to the market also. Of course, we could partly meet them. Going ahead, we hope to meet the full commitment, which was growth on one side and profitability on the other side.
- So a very profitable growth sort of a model. The entire focus and energy of the organization was shifted to these 2. The discussions that now we have, the opportunities that now we explore, the push that we give to the market, each and every category what we study and try to see what best can be done. I think the level of working and the level of dedication in those have gone up. And the focus of the organization to long-term planning has solidified, which also gives us the confidence to tell you that this growth is going to continue in future.
- Nothing else. I don't think raw material has changed. I don't think market has changed, customer has changed or anyone has changed. But yes, our way of looking at the business and putting targets in front of ourselves has changed.

Pritesh Chheda: Any channel-related changes? And since both the brands are operating in different geographies, but trying to also have aspirations in their core geographies, any changes there?

Rakesh Chahar: So the brand-wise focus continues because they both have evolved in their own way. So that is one which we have put more focus on. And second is also on the white spaces for channel expansion. So last year also saw a massive expansion covering many areas where we were not represented. There is also a system to look at our channel partners where we are also getting more and more accountability on that side.

So since they are -- because we have now integrated both the brands under the channel partner, so that piece is also being looked at very closely, being monitored and accountability fixed there. So I think sum total of all these things is we are getting better as far as the channel is concerned.

Pritesh Chheda: And market share?

Rakesh Chahar: Market share, there is no recent study that -- there is an association who used to do it. But our belief is that the -- there is a -- I mean, we can sense that at least for both the brands and with the U2O kind of initiative and e-com, the organized sector play is improving. So which from last couple of years was on the other direction where the unorganized was kind of growing at a faster rate than organized. We are seeing this change now moving more towards organized side.

Moderator: The next question is from Vignesh Iyer from Sequent Investment.

Vignesh Iyer: I wanted to understand on the TDI part. If I heard you right, earlier in the call, you said that GNFC is a player who is the biggest supplier of TDI, but they have their own factories closed during the war. And also what we heard that one of the biggest -- probably the biggest player in China and world and they had also stopped supplying TDI from China. So how have we managed to procure the required amount of TDI quantity?

Rakesh Chahar: So, you're right. I mean the GNFC was shut down first on a technical reason and then later also because of the -- in the month of March because of the natural gas energy. So -- but the shutdowns were temporary in nature. And during that part, the traders who import to cater to the balance 40% of the market, they had increased the rates. So the material was available, but it was available at a much higher price.

So that is one part. And second, we had -- about a few months back, we had also taken an in-principle decision to also hedge our risk. So we had introduced a new supplier partner and who was very supportive during this time, and we were able to meet the requirements. So we did not have any stock out situation, though we had to pay a little more for TDI at a few times during the month.

Vignesh Iyer: Okay. I mean, was this new supplier Chinese?

Rakesh Chahar: So, it's a mix of both the Korea. There was some material from Japan, which was coming in and also from China. So China, it is -- see, China also has more than one manufacturer. There are a couple of manufacturers who are there. Some of them, they bring in the material on their own

and they supply it locally as per the pricing of the market. And some you can import directly. So it's a mix of both.

Moderator: Ladies and gentlemen, we will take this as our last question. I would now like to hand the conference over to Mr. Ritesh Shah. Please go ahead, sir.

Ritesh Shah: Yes. Thanks, Shailendra. Thank you all for joining on to the call. Rahulji, if you would like to please have some closing remarks. Thank you so much for you time here.

Rahul Gautam: Ritesh, thank you very much for conducting the call. As usual, it has been a lot of incisive questions. And let me just say that we continue to learn as you question us, and we keep answering that. So with that, I would just wish you all, all the best. Have a great weekend, and we will soon meet again in another quarter. Thank you very much.

Amit Gupta: Thank you.

Rakesh Chahar: Thank you.

Moderator: Thank you. On behalf of Investec Capital Services India Private Limited, that concludes this conference, and thank you for joining us, and you may now disconnect your lines. Thank you.