November 09, 2026

To,

The BSE Limited	The National Stock Exchange India Limited
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Dalal Street, Mumbai-400001	Bandra (E), Mumbai-400051
Scrip code: 540203	NSE Symbol: SFL

Subject: Transcript of Investors' Conference Call for Quarter and Half-Year ended September 30, 2026 Financial Results.

Dear Sir/Madam,

Please find below the transcript of Investors' conference call organized on November 03, 2026 post declaration of un-audited financial results for the quarter and half-year ended on September 30, 2026 for your information and records.

Thanking You,

Yours truly,

For **Sheela Foam Limited**

MD IQUEBAL AHMAD

Digitally signed by MD IQUEBAL AHMAD
Date: 2026.11.09 12:31:53 +05'30'

(Md. Iquebal Ahmad)

Company Secretary & Compliance Officer

“Sheela Foam Limited

Q2 & H1 FY27 Earnings Conference Call”

November 03, 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. DEVANSHU BANSAL – EMKAY GLOBAL FINANCIAL SERVICES LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to Sheela Foam Limited Q2 H1 FY27 Earnings Conference Call hosted by Emkay Global Financial Services 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. Please note that this conference is being recorded. I now hand the conference over to Mr. Devanshu Bansal from Emkay Global Financial Services Limited. Thank you, and over to you, Mr. Bansal.

Devanshu Bansal: Yes. Hi, good afternoon, everyone. I would like to welcome the management and thank them for this opportunity. We have with us today Rahul Gautam, Chairman and Managing Director; Tushaar Gautam, Vice Chairman and Joint Managing Director; Rakesh Chahar, Deputy Managing Director and Amit Kumar Gupta, Group Chief Financial Officer. I shall now hand over the call to the management for the opening remarks. Over to you, gentlemen.

Rahul Gautam: Thank you, Devanshu. I just want to make a little correction that Tushaar Gautam is not available at this time. Good afternoon, ladies and gentlemen, and thank you for joining us to share our results for the second quarter Q2 and the first half, that is H1 of this year. I hope you've had the chance to go through the numbers and the presentations.

Let me begin with the environment first. As it has already really shaped this quarter. From February onwards, this has been an absolutely unprecedented kind of time for our industry. On a ballpark, the crude is up by about 50%, and our 2 key raw materials have moved even more. Since mid-February, polyol, our main chemical or main raw material is up by 65% and TDI by 33%. Sustained increases of this kind have simply not been seen before.

The war has disrupted the entire supply chain and logistics. Some of the facilities in the Middle East have been partially destroyed and others are restricted because of the Hormuz blockage. Additionally, the festive season, which was in late September last year, moved into October this time, resulting in a shift of demand from Q2 to Q3.

However, we recognize that these are the times, where the strength of a leader shows. Our first responsibility when things get this hard is to keep serving our customers, and that is what we did. We kept material flowing through supplier relationships that have been built over decades at a time when many of the smaller unorganized players simply could not source or hold their prices.

With the strength of the brands, we've had the advantage of being able to pass these increases on to the market and eventually to the consumer. The consumer has his own affordability benchmarks also. A customer who comes in with about INR20,000 to spend on a mattress can stretch a bit, but not to the full impact of the large price increase.

The same money now buys him a slightly lower category of the product, and that change impacts us even when values may hold up. With demand still soft, we have chosen to spend more and

not less on our brands, advertising and consumer schemes. We went out and launched the Great Sleepwell Festival across the country.

It has turned out one of the strongest schemes we have ever introduced for our consumers. This does take off some profitability in the near term, but it has built a healthy pipeline of demand, as we go into the festive quarters of the second half. The outcome is that even after a margin hit, we have held our profitability in absolute terms.

In a quarter like this, protecting the core of the business while still investing in it was important to us. The numbers tell the story quite clearly. On a consolidated basis, revenue for the quarter grew by about 19% to a level of INR1,045 crores. The first time that we have crossed the INR1,000 crores revenue number in Q2 and also our third consecutive quarter of a 15% plus growth.

Our operating EBITDA for the quarter was INR87 crores, almost the same as we delivered in the corresponding quarter a year ago. PAT was INR46 crores, and that is about 5x of last year. Coming to the half year, revenue grew about 22% to a level of INR2,076 crores -- INR2,077 crores, and the operating EBITDA grew 23% to a INR200 crores mark from INR162 crores last year at a margin of 9.6%.

And I must also add that the PAT rose to INR109 crores, that is more than 6x last year. Though we clocked higher gross margins than the first quarter of this year, our investment in brand and marketing kept our operating EBITDA margins neutral. I now want to spend a little time on Furlenco because I believe it genuinely changes the picture of our group.

From 1st October, this year, Furlenco has become a subsidiary of Sheela Foam. This is not a sudden step. It is something we have worked towards for some time and widen our reach, our scale and the very nature of what we do. Let me explain the business because it is very different from our existing business. Furlenco is primarily a furniture rental company.

It gives people in our cities access to well-designed furniture and that too on a subscription basis without having to own anything or everything. We think nobody would want to rent these things. That is what we have always been thinking. But today, it is not only the floating population, it is people who simply like a change, who want their furniture kept in good shape, who move homes or move cities are indulging in this offer.

Furlenco offers them a catalog of more than 300 products. It is present in more than 30 cities. It has a subscriber base of more than 200,000 or 2 lakh subscribers, and it runs a disciplined asset-based model, keeping the asset utilization much above 90%. That discipline is what makes it profitable.

What this business has done in a short time says a great deal about our ability to spot value and build it. When we invested in FY '24, Furlenco had a revenue of about INR139 crores and had a subscriber base of 70,000. It was also losing close to INR130 crores a year. Post the turnaround, this year, we expect it to close at INR500 crores mark with an EBITDA margin of about 40% from deep losses to a profitable business with revenue almost 4x where it was in about 3 years and still growing at more than 30%.

That is Furlenco today. The recent trend is the same in the first half for Furlenco. The revenue has grown about 34% -- and to 34% to INR229 crores, and EBITDA was also up by about 69% to a level of INR89 crores. An attractive subscriber base has grown 35% over the previous year.

This is a space whose time has come. Furniture rental is finding real acceptance and particularly with the younger and Gen Z consumers, who value flexibility far more than ownership. The capital markets have taken a note as well with one of the players in this space having listed recently. All of this changes what Sheela Foam as a group is today.

We have enhanced our B2C portfolio in many growth areas, a house of more than 13 brands held together by one idea that has guided us from the very beginning, the science of comfort for all the consumers that we deal with. The group today stands on primarily 4 pillars. First is mattress, where we serve every kind of a customer from mass to premium to luxury.

Sleepwell and Kurlon sit at the premium and economy end. Tarang and Aram give us depth and reach across the value segments and Chattam & Wells and Nature's Rest take us into luxury. The second pillar is furniture in both rental and retail, led by Furlenco and alongside with our entry into branded furniture retail also under the flagship brands of Sleepwell and Kurlon.

The third category or the third pillar is foam and cushioning. Our technical and industrial foam business under B2B category as well as B2C with brands such as FeatherFoam and Jumpz HR etcetera, work well in this area. This caters not only to consumers, but to a much wider set of industries with applications ranging from automotive to footwear and our foam has long been a benchmark across all of them.

And the fourth is the international subsidiaries and the IT initiative that we have. Our business abroad, Joyce in Australia and Interplasp in Spain and our enterprise technology and digital solutions company, Staqo, have all been doing extremely well. Sheela Foam today is a broad-based consumer company with brands at home and abroad across categories, channels, price points and markets.

As these pieces come together, we expect the combined group to close this year at a revenue of around INR5,000 crores with an EBITDA of roughly INR600 crores, a margin a little above 12%. I must also add that the international businesses remain strong and profitable. In Spain, the revenue grew well.

We took on new customers during the quarter and their volumes will begin to show from the second half. The cost of winning and servicing did weigh on Spain's margin this quarter, but that, to my mind, is money well spent for the growth ahead. For the half, Spain has already delivered an EBITDA margin of over 10%, actually 10.7%.

In Australia, Joyce can well -- did well and ran well at the operating level with an EBITDA margin of also 10.7% in the quarter and 13.4% for the half year. The reported profit for the quarter has pulled down by a one-off provision we had to take against one of our key customers' A.H.

Beard going into administration. We expect to normalize this very soon. Our newer growth engines also continue to do well. On the D2C and e-commerce side, we are strong and continue to grow at a healthy pace, led by our own website, brand.com. The U2O business, which is the unorganized to organized business, which takes us from the unorganized to the organized market and has now reached more than 10,000 touch points or dealers and has grown by about 41%.

And Staqo, as I mentioned, our technology company, keeps growing well, while holding a healthy EBITDA margins of around 28%. Let me close here. This was a quarter that tested us on every front, and I believe we managed to handle it reasonably well by standing with our customers, investing through the cycle and holding the profitability of the business to the previous levels.

With Furlenco now part of the family, the portfolio is wide, is actually very bright. I'm confident that Sheela Foam will continue its growth trajectory going forward. With that, I will ask our Group CFO, Mr. Amit Kumar Gupta, to take us through the financials in more detail. Thank you very much.

Amit Kumar Gupta: Thank you, sir. Ladies and gentlemen, now let me take you through the financials for the quarter and the first half of the current financial year. On a consolidated basis, revenue from operations grew to INR1,045 crores, a growth of 19% over similar quarter last year, helped by both growth in mattresses as well as foam and a very strong growth in Australia and Spain.

Operating EBITDA for the quarter was INR87 crores at a margin of 8.4%, broadly flat against INR87 crores a year ago. Reported EBITDA was INR83 crores. As Rahul sir explained, the pressure came from the sharp rise in polyol and TDI prices and the higher expense behind the Great Sleepwell festival. PAT for the quarter was INR46 crores against INR10 crores last year, close to 5x, helped by both operations and by lower finance cost and depreciation.

Cash EPS for the quarter was INR8.3. For the half year, consolidated revenue grew by 22% to INR2,077 crores from INR1,696 crores. Operating EBITDA grew by about 23% to INR200 crores from INR162 crores at a margin of 9.6%. The operating leverage of the first quarter was partly offset by raw material inflation in the second -- sorry, PAT for the second half rose to -- PAT for the first half rose to INR109 crores from INR17 crores last year for the similar period.

And EPS grew to INR18.7 from a diluted EPS of around INR9.8 last year. On a stand-alone basis, revenue for the quarter grew 17% to INR781 crores with EBITDA at INR61 crores at a margin of 7.8%. For H1 this year stand-alone revenue grew by 18% to INR1,452 crores and EBITDA grew 5% to INR129 crores.

At the segment level, for the first half, Mattress grew by 11% and Foam grew by 26%, with volumes broadly flat, reflecting the pricing actions and the festive season shift. On the business abroad, Australia and Joyce had half year revenue of -- in Australia, Joyce had a half year revenue of INR241 crores, a growth of 16% year-on-year and an operating EBITDA margin of around 13.4%.

In Spain, Interplasp had half year revenue of INR250 crores at a growth of 44% and EBITDA margin of 10.7%. Furlenco, which became our subsidiary from 1st October, had a revenue of

around INR229 crores, EBITDA INR89 crores and a margin close to 39%. From the third quarter onwards, our consolidated revenue numbers will also reflect Furlenco as a subsidiary. With that, I request the moderator to open the floor for questions. Thank you.

Moderator: Thank you. We will now begin the question and answer session. The first question comes from the line of Harshit Khadka from RoboCapital.

Harshit Khadka: So for the past 2 quarters, we have had an other income of INR22 crores, right? So can you give the breakup of this other income? And what kind of other income can we see in H2 FY '27?

Amit Kumar Gupta: So other income includes all incomes which are not directly related to operations. We have an investment of around INR110 crores. So the return of approximately 10% to 12% per annum is a part of it. If there are any asset sales during the quarter, any sales -- any gain or loss, which comes because of any revaluation, etcetera, those are all form part of the other income. They cannot go to operating income. Historically, we have seen that other income remain in the range of INR10 crores per quarter. And going forward, we anticipate that it will be of similar range.

Harshit Khadka: Right, sir. Okay. And sir, in the opening commentary, you mentioned that you will do INR5,000 crores of top line with INR600 crores of EBITDA. So what was the time line for that?

Amit Kumar Gupta: So let's understand, first of all, where this INR5,000 crores comes from. We currently -- in the current year are anticipated to do somewhere around INR4,300 crores to INR4,400 crores in Sheela Foam consolidated as it stands today. Furlenco this year is anticipated to do around INR500 crores to INR600 crores.

So these combined together to go to INR5,000 crores. On the EBITDA side, if you see, we -- last year did around INR400-odd crores. This time, maybe we'll do INR50 crores to INR100 crores of it more. INR200 crores will be done by Furlenco. So when we add it, it gives to a number of INR600-plus crores. So that is what we have said that the current run rate will be post Furlenco consolidation.

Harshit Khadka: All right. Understood. And sir, in Sheela Foam, we are doing like 11% EBITDA margins. So can we see an uptick in the margins, let's say, 12% or 13% in the next two, three quarters?

Amit Kumar Gupta: So yes, that was what was anticipated. But currently, with the increase in raw material prices and the quantum of increase that has happened, I think we traded a little bit between the volume of business and the profitability that we can get out of it. We basically focused on absolute profitability that we can get. So the margins are compromised a little bit, whereas in the absolute terms, the profitability is retained.

I hope that if the Middle East situation stabilizes and we see at least some level of normalized level of raw material prices, we would see double-digit level of EBITDA. Currently, it's not double digit. It is consolidated level, 9% to 10%. And if the situation comes to a situation similar to pre-February, I think somewhere around 12% would be a reasonable level of profitability that we should see, and this is without Furlenco. If you add up Furlenco, it will be 3 percentage points more.

Moderator: The next question comes from the line of Ravi Purohit from Securities Investment Management Private Limited.

Ravi Purohit: Sir, a couple of questions. One is, so how does this consolidation happen with Furlenco? What is our current stake in the company? And I think there are some convertibles also pending in that company, right? So if you could just kind of help us understand broader picture of how does this consolidation come about?

Amit Kumar Gupta: So Furlenco, we hold around 43% on a diluted basis in Furlenco. There are certain private equity investors also there. However, they have given up their special rights in the current quarter. which gives us an absolute control over the company and that in itself gives us a right to consolidate or to treat it as our subsidiary. So that was done on -- from 1st of October onwards.

So consolidation, you will see in the third quarter. It will be a line-by-line consolidation both for P&L and balance sheet. And in P&L, the minority interest will be reduced at the bottom. So both top line and EBITDA will be added. On CCPS, so generally, in start-ups, the equities are issued in the form of CCPS.

So there are many CCP earlier in the issuance when it was done maybe 5 years, 7 years before and to some extent to some -- to us as well, the equity was issued in the form of CCPS, but they are convertible into equity shares at any time at our discretion. So whenever we look at our stake, we look on a fully diluted basis, and that is 43% currently.

Ravi Purohit: Okay. But as things stands today, today, we own 35%. So this -- the consolidation numbers will be proportionate to 35% and 65%, right? It's only when these get converted will?

Amit Kumar Gupta : So I'll explain that. Accounting perspective, you consolidate only on the basis of percentage of converted equity shares that you hold. As I mentioned that we also hold some CCPS and other investors also hold some CCPS. So from an accounting perspective, currently we consolidate only 35%. That's how the standards sign it. But in reality, on a fully diluted basis, our stake is 43%. Going forward, yes, on a line-by-line basis, 100% consolidation will be there.

Ravi Purohit: Okay. And below line, the remaining minority interest will get deducted basically?

Rahul Gautam: Yes.

Ravi Purohit: Okay. And sir, second question is on the expenses, which have gone up. I think our MD had mentioned that we had kind of gone ahead and spent money on market building and ad spend and promotions given the run-up to the festive season. But if you could just share some insights on what are the areas where we've kind of spent these?

And also, I see a significant bump up in the employee expenses. So if you could just kind of share some thoughts on the significant -- because at the gross margin level, the gross margins have actually been held up quite well. So RM impacts the gross margin. But in this quarter, they don't seem to have been impacted that much?

So the impact on the EBITDA margin is actually between gross profit and the -- between employee expense and other expense. So if you could just spend some time helping us understand the movement in employee expenses as well as the other expenses, that will be helpful?

Amit Kumar Gupta : Yes. So I'll take other expenses first. In the -- so in 4 quarters of the year, the level of investments that we make in advertising are different. In the festive season, they were the highest. So in the third quarter, you will see the highest level of advertising or marketing expenses, and this has been similar in the previous years as well.

In the second quarter, it is higher than first quarter. So we were anticipated to do a definite level of marketing expenses. But because of the current situation, we want -- we believe that it would be beneficial if we spend some on marketing and create a niche for ourselves. So we have spent around INR15 crores to INR16 crores additional on advertising in the current quarter, what we were anticipated to do.

In other expenses, if you see relative to similar quarter last year, we are higher by around INR8 crores. And relative to first quarter, we are higher by INR15 crores. So that the difference is mainly the impact of advertising cost. As far as manpower are concerned, manpower has 2 parts to it.

One, around INR8 crores is because Australia and Spain are converted into Indian rupees. And you would see that both the top line as well as the cost lines have gone up subsequent to the depreciation of the Indian rupee against the euro and the Australian dollar. So around INR8 crores impact is because of conversion from euro and Australian dollars to Indian dollars. That's not an actual expense upward.

And around 8% to 9% would be the impact of the yearly increments that are there. There is no other incremental manpower cost going up. So effectively, the thing that you see here, INR112 crores to INR132 crores. INR8 crores is only difference in foreign exchange and the expense has gone up by only INR12 crores.

Ravi Purohit: And there were some provisions that we had mentioned in one of the overseas subsidiaries. What are those provisions relating to?

Amit Kumar Gupta: Yes. So one of our customers in Australia, which we have mentioned, A. H. Beard went bankrupt -- went into administration around 6 months back. That administration has been decided by the administrator, and we had to take a haircut of around 38% on the outstandings to them, which amounted in the Indian rupee to around INR7 crores. So we had to provide those INR7 crores between the first and the second quarter.

Ravi Purohit: Okay. Okay. So right now, so that when you adjust for this INR83 crores and INR87 crores is essentially the difference is this number?

Amit Kumar Gupta: Sorry, can you please repeat?

Ravi Purohit: The operating EBITDA, which we have reported in our presentation, INR83 crores and INR87 crores, so the normalized is INR87 crores and the reported is INR83 crores. This INR4 crores is the difference of this, right?

Amit Kumar Gupta: Yes, because this is a onetime expense, and it won't reoccur in the next quarter. So we had given you both the numbers so that you can have an idea of sustainable level of profitability of the company.

Ravi Purohit: Right. The last question generally, so I think over the last 1 year, we have maintained that we are looking to hit 13%, 14% EBITDA margins, right, maybe by next year. Now does it look realistic? In fact, we had even at one concall, I think mentioned that we are looking at even 14% to 15% EBITDA margins, right? So does it look a reasonable number if things stabilize today that we should look at or do you think we will have to keep spending this on ad spend and marketing and it looks -- so if you could just share some medium-term thoughts on how should we look at our margin path?

Amit Kumar Gupta: Yes. So let's understand the P&L a little bit. If you see my current gross margins are in the level of 38%, right? Historically, I have been between 40% to 42%. And why this difference is still there because some of the institutional customers that you have, especially automotive and others and also in the Mattress segment, you can increase price to a definite level.

So we started increasing prices as we reached to a definite level. And now since it has gone up, we still recover the cost of raw materials, but recovering margins becomes a little bit challenged. And this being a temporary phenomenon, we also look at from the perspective of stability of our customers.

So I believe as soon as this has receded or normalization comes in, in oil prices or the logistic prices across the globe and goods start moving freely, we should at least recover those margins. So even if you add 2% to 3% to our current margins, you find that we are well where we had mentioned before the start of the war or the last year, the margins that we have mentioned.

Next year margins, as you mentioned, we had said, yes, we will do between 13% to 15%. Had it been a very normal situation, definitely, we would have done that. We were on track to that. Now it depends how much the current situation prevails. If it prevails like this, I believe it's difficult to achieve, but if it normalizes, we will try to achieve it. We will strive to achieve this for sure.

Moderator: The next question comes from the line of Ritesh Shah from Investec India.

Ritesh Shah: I have several questions. Sir, first is, how should one appreciate the gross margin holding up on a sequential basis? That's the first question. I think you touched upon price elasticity to some extent wherein we recovered the raw mat increases, which essentially, if I could infer, it is that we try to pass through everything on the raw mat side. But you did indicate that recovering margins is a challenge. So how are we looking at it gross versus EBITDA or volume versus profitability? That's the first question?

Amit Kumar Gupta: So Ritesh, I think I will answer your first question first. We still have our unit economics designed in a manner that our gross margin should be 42% plus. Of course, that should improve as the percentage of B2C business in the overall business mix improves, which is our intent as well, and we have been making efforts towards that as well.

However -- and when post February, it started, we also tried to maintain that. But as I mentioned in the early -- the answer to the earlier question that it's a trade-off. We can go on increasing prices, not taking care of the volume. and we can increase unlimited price and maintain our margins, but that will have a hit on the overall volumes that will be there.

So we always need to strike a balance between them. Had it been a permanent phenomenon, we would have pushed it and established that. But since it is a temporary phenomenon, it doesn't make sense to lose business for a short period of time and then lose the growth that we could have achieved on it.

As far as elasticity is concerned, I think there is high level of elasticity, which we have tested in the current quarter. We never increased price to this extent. We were always cautious that any price increase would led -- lead to a reaction in the market, and that might be detrimental to us.

But this time, we went all out and increased prices rather not once but multiple times since raw material price keep on increasing INR10, INR20 every 15 days. And that experiment has been quite successful. And we believe this has also given us confidence to ramp up our margins and not think too much about losing businesses or things like that. If current situation is abnormal.

50% price increase in raw material becomes, to some extent, unaffordable also, especially on the part of the consumer. So I don't think -- I think, yes, we have lost a little bit on margins. Maybe 15% growth, we should have earned INR15 crores to INR20 crores of EBITDA more. But I believe when you do business, it's the right thing to pass off these temporary phenomena and then look to work from the base of strength.

And gather both the business volumes as well as profitability. As regards volumes are concerned, and we have seen it several times in the business, I still remember 3 years before, we were growing in volumes by 10% to 15%, but raw material prices were continuously coming down because of which our top line was almost flat.

So I think there is some level of relationship between the affordability of the customers and the volumes that remain in the business, and that reflects itself from time to time. If for a period of 5 years, I think you would look at it, you will find that 2/3 or 3/4 of the growth that would have come -- would come -- have come from volumes and 1/3 or 1/4 would be from value, which should be a normal scenario, I believe. But yes, extreme situation will tilt it towards one side at one point of time and towards the other side at the other point of time.

Ritesh Shah: Just a follow-up over here, sir. Sir, do we -- will you provide volume growth for the Sleepwell brand? So we do indicate for e-com and U20. How much would be for, say, outside of e-com and U20?

Rahul Gautam: See, Ritesh, the way we look at it is a little bit different. Today, if you see the times, it is of omnichannel, where you generate the lead online and then you make the sales offline. Do you drive the customer to the online -- offline stores to have actual feel and touch and feel of the product.

And on the online segment, they go and try to understand about the products, the different features, what benefits it will give, the different type of materials that use and what price levels we can expect for different products. Now he may choose to buy it online or he may go to an offline store and choose to buy it there. So I would say that we don't look at the growth in the 2 channels differently. Ultimately, it is a Sleepwell or the Kurlon brand that sells. And hence, we would suggest that we also look at it from the perspective of the overall brand and not through the channels from which it is sold.

Ritesh Shah: Sir, let me ask you the question very directly. What I was trying to understand is how are we thinking on the volume mix? Because for Sleepwell brand, e-com and U20, I think the underlying products are different. Given the underlying products are different, the TDI plus polyol cost for all the 3 buckets will be very different. And hence, the cost curve increase will be very different for all the 3 channels. So just wanted to understand how the pricing strategy is to extract better volumes without compromising gross margins?

Rakesh Chahar: So Ritesh, I'll come in here. So what has happened with the multiple price increases that our prices -- there is a large size of market, which is below a price point of INR10,000. So with these multiple price increases, we have gone above that, and we are sitting somewhere INR11,000 to INR12,000 plus.

So we have recently adopted a technology wherein we'll be making a support layer, which will go into the product, which we plan to position around less than INR10,000 with a margin similar to what we have in the mid-segment. So there will be no margin dilution, while we will get the customer base at that price point.

So that's the strategy for getting the volume back. So we were also focusing on premiumization. That is one end of the activity that we are doing. And at the same time, also the sub INR10,000 price point market, which is, to my mind, even now it is about almost 40% of the market is lying there.

Ritesh Shah: Sir, just a follow-up last one.

Moderator: Sorry for interrupting, Mr. Shah. Please rejoin the queue for more questions. The next question comes from the line of Dikshi Jain from InCred Research.

Dikshi Jain: My first question is regarding the festive sales. So as last year, Navratri were in Q2 and this year, it came in Q3. So what has the response been so far? Have you been able to see a volume uptick in the festive season days that have gone back? This is the first question?

Amit Kumar Gupta: So Dikshi, I don't think we can comment on the current quarter on this call. We can only comment on the last quarter.

Rakesh Chahar: But the -- coming to the market has definitely picked up overall. I mean what we saw in September, the October definitely and going forward, the marriage season, they definitely look better.

Dikshi Jain: My second question was regarding the volumes of U2O. So this particular quarter, we did not see a very good growth in the U2O segment, even though the base for U2O in itself is very low. So going forward, are we -- have we increased the touch points in Q2 as well? What is the plan going forward to keep up the volume momentum for this segment?

Rakesh Chahar: So 2 points there. One is that, as I said, U2O also had price increases. So we did vacate some sweet spots, which were at the price range of about INR8,000, INR9,000. So that is one. And as a response, what we have done is to increase the distribution depth. So that is one. And second, we are also introducing a product with a new technology, which will keep our margins intact and we'll again cover the price point, which we have vacated. So these 2 actions should bring the volumes -- volume growth back for U2O.

Dikshi Jain: How much is the total price increase we've taken in the last 1.5 years -- 1, 1.5 years?

Amit Kumar Gupta: So since the advent of the Middle East, we have taken around 35% to 40% price increase in foam and around 25-odd percent in mattress.

Moderator: The next question comes from the line of Rahul Agarwal from Ikigai Asset.

Rahul Agarwal: I also had multiple questions, but I restrict it to 2. So firstly, just on the festival shift, how should we look at mattress volume growth for second half, sir? First half has been flat Y-o-Y. Second half, should we look at double digits? Any sense, any outlook can you give us?

Amit Kumar Gupta: So, this all, Rahul will depend on how it pans out. If it remains like this, if you see more disruptions in the Middle East and further increases in raw material prices, I think that strategy will continue to remain to protect profitability or the margins, which may have some impact on the volumes. But if it remains flat or maybe starts softening, yes, what you are saying should be a reality.

Rahul Agarwal: Okay. Secondly, when I look at next year, fiscal '28, if things go back to normal, what happens is volumes will pick up, pricing will go down and then revenue growth goes down to single digits. Is that correct understanding? Or how do you look at the business for next year?

Rahul Gautam: So interesting, Rahul. I think the current 15% to 18% top line growth that we see is because mainly of the price increases. So if prices go back to the same level, which I don't believe would happen, yes, prices will go down, but they will stabilize somewhere between the current levels and the levels pre-February.

And if that happens, you are right, some portion of the growth that has come in will be eroded and some portion of growth will come from increase in volumes or the incremental efforts that we will make. The intent will still remain that we should have a 15% growth on a CAGR basis on a year-to-year basis. And we feel that all the initiatives that we have done should be sufficient

enough to give us 15% growth irrespective of the environment. So if the environment loosens, it will be volume growth mode. If the environment doesn't loosen, it will be value growth.

Rahul Agarwal: Got it, sir. And lastly, on the minority interest, what is the percentage of minority interest we should assume to deduct after we 100% consolidate on line by line?

Amit Kumar Gupta: So it will depend on what's the equity conversion, somewhere between 35% to 43% will be ours. So 100% minus 35% or 43% whatever is ours will be the minority interest that will be reduced in other comprehensive income, not compact.

Rahul Agarwal: Right. Just to -- just on that quarter, I just wanted to confirm that. How much should we take as minority interest right now from an accounting standpoint?

Moderator: Sorry for interrupting Mr. Rahul. Please rejoin the queue for more questions.

Rahul Agarwal: Just a follow-up. I'm not asking any questions.

Amit Kumar Gupta: No, no, please. I'll answer your question. So suppose the equity conversion at that time is 40% that is we hold 40% of the converted equity share, the minority percentage will be 60% of that of Furlenco. Does that answer your question?

Moderator: The next question comes from the line of Keshav Garg from Counter Cyclical PMS.

Keshav Garg: Sir, my first question is on Furlenco. Sir, I wanted to understand the business model. Is it -- is the understanding correct that Furlenco first manufactures the furniture and then capitalizes it on its books and then rents the furniture. Is that understanding correct?

Amit Kumar Gupta: Yes. So earlier, I think 5 years back, they used to take assets on lease and then rent it out. But now since their capital position is quite good, they buy the assets, book it at fixed assets in their books and then rent it out.

Keshav Garg: Sir, so in which case, EBITDA is pretty meaningless because finance cost is the main cost in our rental business. So I mean -- and secondly, by consolidating Furlenco in which we hold in the best case between 35% and 43%, why not just take the -- our share of interest in associate. And even though we are controlling it, we can just add our share of profits rather than full consolidation, which will just distort the picture for the whole entity in my humble opinion?

Amit Kumar Gupta: Thank you, Keshav, for your opinion.

Keshav Garg: Sir, now secondly, out of INR600 crores EBITDA for this year, what is the contribution from Furlenco that is expected?

Amit Kumar Gupta: So as I mentioned earlier also to reply to one of the questions, the INR600 crores is our run rate pro forma basis. So INR200 crores is Furlenco and INR400 crores to INR450 crores will be ours, the existing Sheela Foam consolidated.

Keshav Garg: Sir, so out of this INR450 crores -- INR400 crore, INR450 crore?

Moderator: Sorry for interrupting Mr. Garg. Please rejoin the queue for more question. The next question comes from the line of Shantanu Basu from SMIFS.

Shantanu Basu: Most of my questions have been answered, barring one. So that is with respect to the debt outlook. So what would be the debt outlook for the company FY '27? And how much do you expect to pay up? And what would be the closing debt figure for FY '27 and beyond in FY '28 as well?

Amit Kumar Gupta: Yes. So Shantanu, that I will explain in 2 parts. One is at the current Sheela Foam consolidated level, we have around INR600 crores of net debt as on date. By the end of the year, we expect it to be somewhere between INR500 crores to INR550 crores, and this I'm referring to consolidated debt. But since Furlenco will be consolidated, Furlenco will have a net debt of INR250 crores. So it will be somewhere around INR800 crores and an EBITDA of INR600 crores.

Shantanu Basu: Okay. Okay. And FY '28 onwards, how much do you expect to pay?

Amit Kumar Gupta: So from our existing Sheela Foam consolidated, whatever free cash flow is generated, which would be somewhere between INR150 crores to INR200-odd crores, that will be used to reduce debt. Furlenco, of course, uses up whatever cash it draws because it is anticipated to grow at more than 30%. So there would be no reduction in net debt there, maybe a INR50 crores reduction or so. So you will still find maybe a INR200 crores per annum reduction you can take.

Moderator: The next question comes from the line of Resham Jain from VVD Asset Managers.

Resham Jain: So I have one question on the overall investment in Furlenco and the value creation through that. Rahul sir did mention initially that there is one other listed company in the similar space. So how would you unlock value for shareholders through Furlenco given that it is going to be 43% subsidiary and there will be a lot of minority interest in that company. So is there any time line, which you are thinking about the same?

Amit Kumar Gupta: So I think -- thank you, Resham. The very first task that we had in hand was to turn around Furlenco. Listing is also may be proposed for the next year, but that is also a consequence of the private equity holders that are there and they have a right to go public to have an exit route. Otherwise, listing was also not needed.

So I understand where you are coming from as to how the value that has been created in Furlenco will ultimately be benefiting the investors. We are -- this is a little bit complex topic. We have started thinking on it. And maybe in some time, we would be able to tell you as to how we anticipate to give it. To be honestly enough, till now, we were only focused on creating value in the company.

Resham Jain: The second part is, again, related to Furlenco, but the synergies which you can get in the core Sheela Foam and Kurlon business in terms of furniture because I did saw in your press release that you are looking to enter the furniture business within the core brand business as well. If you can explain what will be the strategy around that, that would also be helpful?

Amit Kumar Gupta: For sure, Resham. So with Furlenco coming to our fold, we have a unique advantage. Though they are a furniture rental company, but they still have the entire value chain for furniture designing, furniture manufacturing, logistics control for the suppliers and handling consumers in that particular segment.

Furlenco also makes some part of its furniture, but most part of its furniture is outsourced to get it manufactured on an outsourced basis. With Furlenco being there, we are now using them as our back end. They will design furniture for us. Of course, there is a full marketing and sales team here in Sheela Foam, which will coordinate with them and do the marketing and sales for those products.

But as far as manufacturing -- designing is concerned, manufacturing is concerned and logistics support is concerned, that will be entirely given by Furlenco. This will be beneficial for both the companies. We will not need to invest a lot of capex for starting this business, and we will have unlimited potential to grow in case the market supports us.

And at the same time, it will be a good opportunity to Furlenco to make some extra money on the sales that they will be doing for us. So that's a modus that we have adopted. And we have already launched Sleepwell and Kurlon beds and recliners in the online segment. And very soon, it is going to be available in our -- some of our stores, which will gradually expand.

Moderator: The next question comes from the line of Deekshant Gupta from Geojit PMS.

Deekshant Gupta: Am I audible?

Amit Kumar Gupta: Yes, please go ahead.

Deekshant Gupta: Yes. So I just -- my question is on Furlenco. So I just want to know like could you disclose some economics like whenever you take a furniture, so what is generally the payback period for that furniture? And like what is the kind of IRR that you generate on it?

Amit Kumar Gupta: So I can tell you that for the company, the return on their assets, return on capital employed is around 25% currently. But as far as payback or IRR is concerned, you understand that this is a competitive -- competition sensitive industry and those type of KPIs cannot be disclosed.

Deekshant Gupta: And does Furlenco manufacture its own furniture also? Or is it just like buying most of it from outside?

Amit Kumar Gupta: Sorry, please repeat your question.

Deekshant Gupta: I was asking that does Furlenco make its own furniture or does it buy most of it from other players?

Amit Kumar Gupta: They make around 20% to 30% of their furniture and the rest they outsource. They -- in the past 2, 3 years, if you see the major investments that they have done is on rentable furniture because capital was limited, and we were the only suppliers of capital to them. Of course, going forward, they would improve this ratio and maybe some percentage of manufacturing comes in-house.

But yes, outsourcing will remain there, and that will remain a major portion of their manufacturing capability.

Deekshant Gupta: Through Sheela Foam and like Kurlon and Furlenco if more manufacturing is done in-house. So that could be some synergies as both would require in-house manufacturing.

Amit Kumar Gupta: So yes, but you have to strike a balance because manufacturing facilities will need a lot of capex. And on outsourcing basis, it is also good economics. It's rather -- if you calculate the cost of capital and the depreciation that occurs, I think outsourcing, if you do it on a volume -- with volume, it's more efficient. And secondly, you are also working in an industry which may see its good times or the bad times. So you don't want yourself to be flooded with a lot of capacities which might lie vacant in a bad period.

Moderator: The next question comes from the line of Rishi Mody from Mody Advisory.

Rishi Mody: Can you guys hear me?

Amit Kumar Gupta: Sorry, your voice is not a bit clear.

Moderator: Yes, we can hear you.

Rishi Mody: Yes. Is this better?

Moderator: Yes. Go ahead.

Rishi Mody: All right. So first question, just a quick bookkeeping. Like I saw your cash flow from operations, we got a INR33 crores cash back as a tax payment reversal. I just wanted to know where is this coming from? And also once we consolidate Furlenco into our accounts, do we get any benefit from their accumulated losses to offset Sheela Foam stand-alone profits?

Amit Kumar Gupta: So we are consolidating them, but we are not merging them. So there will be no tax benefit of their losses. Yes, but they will continue to get the benefits of their past losses. What was your first question?

Rishi Mody: In your cash flow from -- cash flow statement, I see a INR33 crores.

Amit Kumar Gupta: Yes. Tax breakup.

Rishi Mody: Benefit.

Amit Kumar Gupta: Exactly. So there are 13 intangible assets, which was created like brands, customer contracts, et cetera, subsequent to Kurlon acquisition and they are tax amortizable. So we created a deferred tax asset at the time of merger of the 2 companies and these deferred tax assets are now being amortized.

So there is -- it is an amortization of deferred tax asset and not an actual tax paid, and that's why you see them as cash in the company. The INR23 crores or INR33 crores, which you would have seen would be because the merger was effective from 20th of October 2023. So for those years,

the income tax returns were revised, which then gave a refund of the tax that we had paid in those years. So that is the amount that is there.

Rishi Mody: And is there any further benefit expected or this is the final end of this?

Amit Kumar Gupta: Yes. I think the amount is around INR150-odd crores. So I think it will last another year or 2 where we might not have to pay taxes.

Rishi Mody: Second, I just wanted to -- so in your opening remarks, Rahul ji, you mentioned that because of the Middle East crisis, there have been certain factories manufacturing polyol and TDI, which have been decimated or damaged. Just to understand now how much capacity gets wiped out from the market because of this by when is new capacity expected to come in and how much new capacity is expected to come in? So just get an idea of how long this polyol, TDI inflation or these levels will remain in play?

Rahul Gautam: So some of it is capacity issue, but a lot more is also a logistic issue. So if we take total, let's say, TDI, I would say almost about 15% to 20% has been wiped out, one, because of the war and second, because of closing down industries in Europe. On the polyol front, it's a little lesser. But as I said, the problem is logistics and not so much on capacity getting wiped out. Though some are closing and some new ones are also coming in.

Rishi Mody: So today, will you say the demand for TDI and polyol bar the logistic delays, the absolute demand is exceeding the supply or like what's the scenario today, demand versus supply absolute levels?

Rahul Gautam: So look, if you were to view this from the space, accumulate all the demand and all the capacity, you would find that the capacity is a little more than what the demand today is. There's also been a falling demand globally. But it's all at the wrong places. It eventually has to move, and it has to be made available to where the need, the requirement is. So when everything becomes normal again, and hopefully, that happens quickly, there would be enough supply for the demand unless -- I mean I don't know. I'm also thinking at the same time.

Rishi Mody: So once the Hormuz thing gets solved, we should see a relief in pricing. Is that the right inference?

Rahul Gautam: Yes.

Moderator: Ladies and gentlemen, that was the last question for today. We have reached the end of question-and-answer session. I now hand the conference over to management for closing comments.

Rahul Gautam: Thank you very much to everyone who have attended this conference. And as always, it has been -- I mean, the questions are a learning exercise for us. We do gain a lot, and thank you very much for that. I would just say that I would finish off with the festival greetings for everyone and you and your family have a great Diwali. Thank you very much.

Amit Kumar Gupta: Thank you.

Rakesh Chahar: Thank you.

Moderator: Thank you. On behalf of Emkay Global Financial Services Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.