



August 18, 2021

To
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The National Stock Exchange India Limited
Exchange Plaza, Bandra Kurla Complex
Bandra(E), Mumbai-400051
NSE Symbol: SFL

Subject: Transcript of of Investors' Conference Call for Sheela Foam Limited Q1 FY 2021-22 - Financial Results

Dear Sir/Madam

Please find attached the Transcript of Investors Conference Call organized on August 16, 2021 post declaration of Financial Results for quarter ended on 30th June, 2021 for your information and records.

Kindly take the same on record.

Thanking you,

Thanking you,

Yours truly,

For Sheela Foam Limited

Md. Iqbal Ahmad

Company Secretary & Cor

Compliance Officer

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“Sheela Foam Limited Q1 FY2022 Earnings Conference Call”

August 16, 2021



ANALYST: MR. NIHAL MAHESH JHAM - EDELWEISS SECURITIES LIMITED

MANAGEMENT: MR. RAHUL GAUTAM - MANAGING DIRECTOR – SHEELA FOAM LIMITED
MR. RAKESH CHAHAR – DIRECTOR – SALES & MARKETING - SHEELA FOAM LIMITED
MR. TUSHAAR GAUTAM – DIRECTOR - SHEELA FOAM LIMITED
MR. NIKHIL DATYE - GROUP CHIEF FINANCIAL OFFICER - SHEELA FOAM LIMITED
MR. DAVINDER AHUJA – CHIEF FINANCIAL OFFICER INDIA OPERATIONS - SHEELA FOAM LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the Sheela Foam Limited Q1 FY2022 Results Conference Call hosted by Edelweiss Securities Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note this conference is being recorded. I now hand the conference over to Mr. Nihal Mahesh Jham from Edelweiss Securities Limited. Thank you and over to you Sir!

Nihal Mahesh Jham: Thank you Faizan. On behalf of Edelweiss I would like to welcome you all to the Q1 FY2022 Earnings Conference Call of Sheela Foam Limited. From the management, today we have Mr. Rahul Gautam, Managing Director, Mr. Tushaar Gautam, Director, Mr. Rakesh Chahar, Director – Sales & Marketing, Mr. Nikhil Datye, Group CFO and Mr. Davinder Ahuja, CFO India Operations. I would now like to hand over the call to the

Sheela Foam Limited
August 16, 2021

going on or look at the positives like preparing for Olympics and of course preparing for the economic opportunities that are coming by. Just saying on the Olympics we all are fully aware that there was a good performance by India and where it was the women participation and the results thereof or the Indian hockey team which after so many years 40 odd years has got a medal and of course the gold in athletic which was there for the first time I am happy to convey to all of you that from our side we have rewarded each and every medal winner and on top of the line Sleepwell mattresses have been given to them as an appreciation for what they have done. It is also true that Sheela Foam is in its 50th year and this is a good time to reflect and prepare for the next 50 years which we are doing. Unfortunately we can only communicate through mediums like this but soon as things settle down I am sure that we will be able to connect upon a face-to-face basis and at least partake or participate in these celebrations and take all your good wishes and support and encouragement.

Now reflecting on the Q1 FY2022 results so there is a bit of dilemma as I had said right in the beginning on this Y-on-Y kind of comparison. If we go back to Q1 of last year FY2021 the Indian operations are concerned almost about one-and-a-half months was in a complete lockdown position and one operated only about a month and so and therefore the sales were on a low level. When we compare that to this time it is a great jump it is more than 100% that we have done. So it looks as if one has progressed a lot but to me it is a mirage, we have to compare the sales to the adjacent period which was really the Q4. Even in Q1 2022 there were lockdowns, there were bad periods like April, May where everybody was running around for medicines and hospitals, beds, oxygen, etc.; however, the markets were open so we were operating, sales were happening far better than the previous year; however, much lower than Q4 in India we were only about 60% of sales happened. So historically one may feel good about it; however, actually the sales should have been far more, completely attributable to corona; however, that will be distorting the results and distorting the prism through which we see that.

As far as our raw materials are concerned a) they continue to trouble with wild fluctuations, there are almost changes to the extent of 15% to 20% in fact one particular month it is almost 25% change and all happening in less than a month's time. Of course it is primarily on account of availability and depends of course on the global shipping that is making these things available but the global shipping has been we all know is in a complete disarray, we experienced that on the input side, on the raw material side and we also experienced that on our export side and again if we go back to the root cause of all that it started with the corona part would probably settle with the corona vanishing but to my mind it will say even if when corona vanishes will take at least five, six months or maybe right up 12 months to

Sheela Foam Limited
August 16, 2021

really become stable. The world is so well connected today, corrected and unstable that a small disturbance anywhere else in the world I just assumes the exponential impact on the other parts of the world and then if there was one world to describe our prayers on a daily basis we earn for stability though fully appreciate that it cannot be like the days before; however, we are also sure that it cannot be and like what is happening now this has to go. So while we wait for this so called stable or stability to kind of comment we are preparing strong counter measures for that and in the next month or two months we should be seeing those impacts of those counter measures.

Reflecting on our subsidiaries, Australia has been stable they did not have much of a lockdown, they have operated well even in the last full year, however, now they are impacted. So today morning when I had a call the corona cases going up to about 400 per day and they are paranoid about that. When you say you have to close down a unit, so many tracking of the people, etc., quarantining, so all that is beginning to happen in Australia where we thought that it was completely isolated and they have done well to keep themselves away from anything else.

Spain on the other hand has been working very well they have been growing and growing

(inaudible) 11:15

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of SivaKumar K from Unifi Capital. Please go ahead.

SivaKumar K: Sir can you delve deeper on the raw material position currently and what are you doing to tackle the same because we have never seen this kind of a margin in the past and would you be open to taking price hikes to come back with pressure on the margins? Thank you.

Rahul Gautam: Thank you SivaKumar. The raw materials are fluctuating and they are fluctuating based on availability issue, what we have definitely been able to do is to ensure that we do not run out of them and the availability has been maintained; however, on the pricing front we have to take those fluctuations. Going forward what do we think it is going to be like that I think it is going to fluctuate around for the next couple of months for sure the availability we will ensure. Impact on the margins you are right that there one thing that we must appreciate is that because of the fluctuations and the out of sync with the steps that we take and the impact that we see in the market for a particular period the margins may look satisfactory for another period they may look terrible and another period they may look so there is this part that is happening there is a lag behind that; however, as I mentioned earlier we are taking counter measures so to get out of this thought first of all saying that this is a temporary phenomena and this is kind of going away and all that I think we are reasonably convinced that this is not going to go away and even if it is going to die down it will be over a period of time and therefore these counter measures are being taken, which is I can only talk in very broad terms at this point of time. One of course is on storage part so ensure that we do not need to compromise on prices because of availability and we do not need to pay more. The second one is of course on the selling price part of it I am going to leave it at that but that is what I assure you that we are taking the counter measures and there will be impact.

SivaKumar K: Sir basically the Polyol that is a one off thing the general perception was that Polyol has never given us a problem in the past, has at least Polyol give us a bit in Q2?

Rahul Gautam: You are right Shiva during my entire tenure in this industry I have never ever seen Polyol first of all fluctuate like this and second to be actually way above TDI, general principle over the long periods of let us say if you look at the last 30 years and 30 years general principle have been that TDI is twice the price of Polyol but this is the first time that Polyol has even crossed TDI. It is primarily linked to one of the chemicals that is used to manufacture Polyol which is Propylene Oxide is a very hazardous material and global transporting of that has come under because of the shipping disarray that is there and this Propylene Oxide is a gas with normal temperature and pressure has to be pressurized into

pressure vessels and then transported and that has come under and that is the reason that the capacity if you had a 30000 foot view the capacity is perfect there is enough capacity for the total consumption in the world and it is just the availability which is creating this and Polyol is primarily on that account. Do we see this continuing of course not it cannot because the very cost of it is far, far lower than TDI.

SivaKumar K: Thank you. I will join the queue for followup questions Sir.

Moderator: Thank you. The next question is from the line of Vandna Soni from SBICAP Securities. Please go ahead.

Vandna Soni: Sir you mentioned about the plastic policy announced by the government recently, just wanted to understand what exactly this policy, what have we done to be compliant and are we ahead of peers on this do we have any advantage over peers on plastic policy due to this plastic policy?

Rahul Gautam: Number one as far as the plastic policy is concerned it is primarily based on the thickness of plastics which can be used for packaging purposes that there is a minimum level and that minimum level we will keep changing over the years to go right up to I think it is 70 microns that we go to that is one. The second one is that wherever there are one usage plastic items like copters, phones and stuff like that they will be banned over a period we do not need to worry about that part. On the packaging part we are way ahead, so currently I think the law is 60 microns we are way ahead of that and the second part on the policy where I say that we have been ahead is that all our packaging materials are in the category of recyclable products. Most mattresses or the fact in PVC which may possibly give some little more luster to it, etc., that is not initially recyclable while our packaging materials are all easily recyclable so that is why I say that we are different from the other partners in the industry on that part, that is why I say that we are ahead of the plastic product.

Vandna Soni: My second question is on steel margin it is down significantly what are the reasons behind steel margin going down on Y-o-Y basis or quarterly basis?

Rahul Gautam: Look as I said it is a sales part of it which is the major culprit and as I was mentioning that on a Y-on-Y basis the sales have grown on a lot but that is a mirage and this is where nowhere compare to let us say the Q4 of last year so primarily it is on that; however, there are a few other things that has happened this time, the raw material prices have been going up or the impact of that has been going up and two even achieve these kind of sales we had to do far more sales expenses to ensure that we get a healthy topline.

- Vandna Soni:** Sir earlier you mentioned we are exporting from Spain also have we started exporting from Spain I understand this quarter export was impacted but just wanted to understand what is the quantum of export from Spain and India in this quarter?
- Tushaar Gautam:** I think from both geographies from India and Spain we are looking at export as an overall potential we have just classified what products make more sense to export from Spain and what make more sense to export from India, still in a scale up mode, the gestation period for these customers and orders is usually pretty long with sampling and testing and then future supply orders but a significant ramp up in terms of visibility of orders is expected starting this month August and then ramping up all the way till December I do not want to mention any exact numbers we can talk about that offline but it will be a fairly significant number by December but the next step jump is happening now as we speak.
- Rahul Gautam:** But, Tushaar can you also give the numbers for the last quarter and whatever small or big but exports have started from Spain and have started from India also.
- Tushaar Gautam:** They have started from both geographies and if I am not incorrect I will just pull that number out but last quarter overall would be around 15 to 17 Crores.
- Vandna Soni:** Thank you Sir. I have no further questions; if I had I will get back on queue. Thank you.
- Moderator:** Thank you. The next question is from the line of Binoy Jariwala from Sunidhi Securities & Finance. Please go ahead.
- Binoy Jariwala:** Rahulji I just wanted to understand the portfolio of products that we offer on the mattress side and what is the price range from where does it start and how much so on the premium side till what range do we cover?
- Rakesh Chahar:** The portfolio starts from as low as I am talking about double side mattress which is six feet by six feet it will start from as low as 5000 and it will go up to 1 lakh plus.
- Binoy Jariwala:** I believe this 1 lakh plus would be made-to-order mattresses right?
- Rakesh Chahar:** So mostly yes because they will follow more direct to dealer kind of model because they are not typically stock at the distributor end or at the dealer end so though they are at display at our showrooms where representation it went to the consumer and once decided then it get shifted to the consumers.



Sheela Foam Limited
August 16, 2021

Binoy Jariwala: The Rs.5000 mattress that is the starting range am I correct that this would be the Starlite range or this is for the Sleepwell range that you are talking of?

Pooja Chaudhary The film's message is one that's been heard before: Parents in this world are not on the same level as consumers of. These products are designed as if we're holding about 100-year-old products in our hands and we're saying to each other, well, apparently, they kind of are. And unfortunately, consumers have to live with it.

[illegible]

Will you add \$100 to \$200 million more to the Transportation Trust?

WIRTSCHAFTS UNIVERSITÄT WIEN
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Image Description: A black and white photograph of a person, likely a woman, wearing a dark, patterned garment. The image is partially obscured by a large, dark, irregular shape on the right side, which appears to be a shadow or a large object. The person's face is not clearly visible.

The following table shows the projected long-term consequences of the military action on Iraq. (NOTE: All the numbers listed here are only estimates and not confirmed estimates as the long-appending United Nations' estimates, nevertheless, are accurate. The only one in grey significance here are the economic stabilization and upgrading the production level, as economic participation, more technology, infrastructure, more trading and so on will drive the economy back to be a successful economy where we have confidence the economic of different nations would.

3. Impact of the COVID-19 pandemic on the economy: The COVID-19 pandemic has had a major impact on the economy, leading to a global recession. The impact has been felt in all sectors, with the most significant being the loss of jobs and income. The pandemic has also led to a decrease in consumer spending, which has further exacerbated the economic downturn. The impact of the pandemic has been particularly severe in the service sector, which has seen a significant loss of jobs and income. The pandemic has also led to a decrease in government revenue, which has further exacerbated the economic downturn. The impact of the pandemic has been particularly severe in the service sector, which has seen a significant loss of jobs and income. The pandemic has also led to a decrease in government revenue, which has further exacerbated the economic downturn.

What's Missing While we're saying not all those who have suffered child sexual abuse happened not one will stay silent forever, my friend, I don't think we're going to see the same old, same old

two times in a year when we would review the prices 1st of April and 1st of October and whatever were impacts of inflation those would be brought in and that is how it was. So right now it is of course as I said anytime.

Binoy Jariwala: This typical price revision would be in what range?

Rahul Gautam: Typical means this is not typical times I keep repeating that.

Binoy Jariwala: Not right now under steady state conditions?

Rahul Gautam: 3% to 5% every time it is reviewed.

Binoy Jariwala: How does this pricing work on the B2B side of the business where you are dealing with automotive customers I understand in the past you have alluded that it is a cost plus model but what is the time lag there before we can pass on the RM fluctuation?

Rahul Gautam: So B2B has a very wide range of products and wide range of segments so there is the shoe industry and there is the auto industry and there is the lingerie industry and there is the sound absorption industry, etc., each industry has its own ways of handling such changes and even within one industry there are two different methods the simplest of what is where we have a rise and fall clause and we say that raw material rises we pass that on if it falls we pass that on and there is a formula for that and most of the automobile industry we would be doing that. Then there are areas which is where the shoe industry it may depend a little bit on the competition, it may depend on some changes that may have happened, etc., and the rise and fall is not because the industry itself is not so structured and so formal that you can have such kind of clauses so it depends on the B2B changes depends on the segment but generally the rise and fall catches up there are lags which are short or sometimes the lags are higher.

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

Ritesh Shah: Couple of questions. First is can you elaborate more on the export opportunity which is there for the company both from sales out of India as well as our overseas factories?

Rahul Gautam: The export opportunity has completely surfaced after the China, USA factor that has come about and there were these antidumping levy of duties on stuff coming in from there. The Chinese did some other ways of reducing duties on their products from other countries like Cambodia, Laos, and Malaysia, Indonesia, etc. Even going right up to Europe and going up

to even purchasing or buying manufacturing industries in the US; however, I think the American government is now getting smarter on that and slowly trying to block all those areas to of course duties and duty structure. The opportunity that has arisen for India in this process I think the Indian industry has been a little caught napping I would say and the opportunity is big, the timeframe for achieving it is small and during that period we have to ensure that the raw material prices are remain okay and above all shipping out of containers those are the big challenges which are there. Purchase going strict the question that you asked how big is the opportunity I can only say that currently what the business is it can be doubled if we play the (inaudible) 35:30 it is not only us as a company so the countries and the ensuing logistics, and etc., etc., that is there we could easily double our topline.

Ritesh Shah: Sir just a followup over here, how is the company position of the cost curve and secondly what implication would it have on the working capital?

Rahul Gautam: Let me answer the second question. On the working capital there is not going to be any impact at all at least not for us as a company we do have reasonable results number one, number two the availability of finances is there and above all the export people or the customers outside that we have dealt with the money comes in along with the order or within 30 days so there is no issue on the working capital part. What was your first question could you just repeat that please?

Ritesh Shah: What is the positioning of the company when it comes to the cost curve so one is duties which are there which will definitely help Indian companies but when it comes to purely cost curve positioning are we at par or are there other regions like Vietnam which can actually compete for this export opportunity?

Rahul Gautam: Let me say we are marginally more expensive than Vietnam just taking an example from South East Asia their margin will be more expensive but I just do not tire myself in talking about the oscillations or the fluctuations in the raw material which are happening at this point of time that this comparison becomes very difficult to do because the fluctuations are different at different places; however, assuming things are steady we are only very marginally higher than Vietnam or South East Asia. The antidumping duties that we put them coming from a Chinese supplier we would be better and in any case the American customers are looking for developing large alternatives so they are also ready to pay a little more.

Ritesh Shah: That is very useful Sir. Sir just my second question is wanted to understand are you happy with the growth rates that the company has been doing over last two to three years what I

am trying to give is your reflection up on when you look at three segments so low, mid, and premium the growth rates at each of the segment has given you are you happy with that and if you can just put it in conjunction how the competitive intensity as per the three buckets it will be very useful Sir? Thank you.

Rahul Gautam: Ritesh happy with the growth rates always I am happy it is satisfied always I am happy. There is undoubtedly in the last two years when the corona impact has come in, there is a great pressure on the prices the average selling prices to be going down and therefore the effort of our team is always to keep pulling them up; however, the impact does take place so whether it is the Starlites and Feather Foams or it is the lower end of Sleepwell part they tend to sell quicker and easier. We would be happier if the average selling price was at least 10% to 15% higher than Q1 what it is now and therefore it is always in that direction.

Ritesh Shah: Sure Sir this is very helpful Sir, thank you so much I will join back the queue.

Moderator: Thank you. The next question is from the line of Hiren Trivedi from Axis Securities. Please go ahead.

Hiren Trivedi: Sir I have two questions. One is on the demand scenario shaping up given the increasing vaccinations and the unlocking happening and also the upcoming festive season and also could you throw some more light on the industry growth rate over the next three to four years?

Rahul Gautam: Thank you Hiren. Thank you for asking these questions, these also remain as questions in our minds especially at the time that you are asking is very difficult to predict and forecast the demand scenario. So I would always say that this subjects to the third wave coming in a very, very mild form that is there, very good time coming and even sort of continuing now which is supposed to be the rainy season and the offseason and all that kind of things so because of the pent-up stuff and all that I see that the season should be very good to my mind, the rains have been good, the agricultural part of it is okay, economy is going alright, inflation has gone up has also kind of come down we only think that I would say against it would be jobs or joblessness which may have sort of increased in size but otherwise the season should be good. As far as this year's forecast concerned and like of course the third wave part of it I think all the way we are far better prepared, we are vaccinated as you have said that the vaccination rates are up, there is a kind of a herd immunity which is kind of building up whether people have heard it or expose to it and compare to any other part in the world I think this is the only country where the delta variant which is the fear fest of the lot we have been exposed with a delta variant so we have already kind of gone through that.

Industry rate for the coming two to three years again there will have to be some kind of a condition put to that which is that how long this corona thing last but corona honestly even if you look at the last few pandemics three to four years it takes for anything to convert from a pandemic to an endemic so three years in spite of all these past vaccines and all that kind of coming out and we would be closing the three years soon it is not too far, next two to three years I see good time that is all I can say.

Hiren Trivedi:

Sir my second question is on the realization so for the realizations on the mattresses were a bit higher during the quarter so could you throw more light on how this has increased and any observations on the sales trends for the type of mattresses which are being sold at economy or premium where the demand is higher?

Rahul Gautam:

This is a bit of a tough question it is still through impacted on the input side that at the moment it is difficult but I would say that if you just reaches out offline we would work out something and in deta

Rakesh Chahar: In terms of absolute numbers in Q1 this is again related to segments the segment wise breakup but we have done reasonably well so we are 3x up from the corresponding time and in terms of sales we would be upwards of about 12 to 15 Crores.

Rahul Gautam: Rakesh that is for the quarter right?

Rakesh Chahar: Yes that is for the quarter because the lockdown had also impacted the e-com so July was very good but for the first quarter of April, May, June it would be at that level 12 Crores.

SivaKumar K: Now we will be the number two player and we are closing in on the number one player?

Rakesh Chahar: So we would be closed number two because it keeps shifting so we definitely have bigger plan for the e-com both through our website through the dotcoms and through the market place so basically we have taken very aggressive target on that.

SivaKumar K: My last question is just a book keeping question what are the current prices of the TDI and Polyol I know these are fluctuating but just to get a sense to where they stand on?

Rahul Gautam: Siva they are fluctuating so much that I also will not be able to speak them out but does

Rahul Gautam: Yes Siva it should but as I said it is also not the availability locally it is also the exportability which needs to figure in and which is also ships and containers and all that kind of things but yes the BASF plant is opening up will help the TDI price for sure.

SivaKumar K: Thank you Sir.

Moderator: Thank you. The next question is from the line of Binoy Jariwala from Sunidhi Securities & Finance. Please go ahead.

Binoy Jariwala: Sir we being a large mattress player in the organized segment I was just wondering if the fluctuation in TDI and Polyol prices is setting as hard despite being despite our size and volume I was just wondering that what happens in such a scenario that the unorganized sector and this thought is in the light of you mentioning that only 30% of Indians use ~~modern mattresses and of that 30% use mattresses from the organized segment just your~~ thoughts if you could share on what, how do the unorganized sector behave during such times?

Rahul Gautam: The unorganized sector has one advantage they can close and restart at any given time they do not have a standard distribution system, do not have B2B sales at all, etc., and for them availability of the raw material and converting it and then selling it is an activity which can happen and which ~~is not a big~~

by the books we would say 15 to 20 days; however, if the prices are going up this can change.

Binoy Jariwala: On a related note so whenever we would put in a fresh order with our suppliers then the new price kicks in also right?

Rahul Gautam: Unfortunately it does not work like that. Let us take TDI if you look at TDI we buy 65%, 70%, 80% from the local companies the NFC and for them they change the prices when they feel like there is no debt frequency and the price becomes applicable from the dispatch of that day, there is no rebooking that I could do or anything like that, even if there were orders pending it does not matter it is from the dispatch date whatever is the price that becomes applicable. Polyol people tend to be a little more stable on that they have a monthly pricing but in the last two months I have known them or known at least one of them to change the price mix change, change means increase the price mix in mid of the month. So that kind of a chaos is there and whatever little that we import we import some TDI, Polyol we do not import because they are available through three, four, five different sources which is in the Indian rupees that we buy they do not import it but the other some period that we import or some other smaller chemicals that we would be importing for them the time that we have placed the order is the price.

Binoy Jariwala: TDI and Polyol would account for what percentage of the RM cost?

Rahul Gautam: In which product it depends, if you will take a mattress it is different, but if you would look at the whole company as one big entity Nikhil you want to answer that question on TDI?

Nikhil Datye: Yes, if you take at overall India level out of the total RMC consumption Polyol, TDI put together would range between 45% and 50%.

Binoy Jariwala: Sorry I could not get that how much is it?

Nikhil Datye: Around 50%.

Binoy Jariwala: 50% of RM cost?

Nikhil Datye: Yes, the total 50% will be the Polyol plus TDI from the total RM cost.

Binoy Jariwala: Understood. That is all from my side. Thank you so much.

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

Rahul Gautam: Thank you very much all of you for joining in and for giving us an opportunity to share with you our performance of Q2 FY2022, very unstable time and I would say in hindsight we would probably remember them as times where something new was innovated or methods or prospects which were innovated to tackle these unstable times, we expect things to ease out as soon as corona begins to eat out and some more stability kind of coming in whether it is on the raw material side coming into the country or it is the exports that we are doing. However I just want to reiterate that for this instability all the counter measures that we can take or we can source we are working on them and we are witnessing or we are not witnessing we are sure that most of them would have a good impact in the coming times. So thank you very much and as always these questions help us to improve and to get better and we are happy to connect up offline for any other detailed questions. Thank you and I will thank you very much for organizing this call.

Moderator: Thank you. Ladies and gentlemen on behalf of Edelweiss Securities Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.