



Sheela Group
ISO 9001 Certified

SMC Ranking

★ ★ ★ ☆ ☆ (3/5)

Issue Highlights

Industry	Miscellaneous
Total Issue (Shares) - Offer for sale	6,986,301
Net Offer to the Public	6,986,301
Issue Size (Rs. Cr.)	475-510
Price Band (Rs.)	680-730
Offer Date	29-Nov-16
Close Date	1-Dec-16
Face Value	Rs. 5
Lot Size	20 Equity Share

Issue Composition

	In shares
Total Issue (Shares)	6,986,301
QIB	3,493,151
NIB	1,047,945
Retail	2,445,205

Objects of the Issue

1. Achieve the benefits of listing the Equity Shares on the Stock Exchanges;
2. Enhance visibility and brand name and provide liquidity to the existing shareholders.

Shareholding Pattern (%)

Particulars	Pre-issue	Postissue
Promoters and promoters group	100.00%	85.68%
QIB	0.00%	7.16%
NIB	0.00%	2.15%
Retail	0.16%	5.01%
Total	100	100

*calculated on the upper price band

Book Running Lead Manager

Edelweiss Capital Limited
ICICI Securities Limited

Name of the registrar

Link Intime India Private Limited

About the company

Incorporated in 1971, Sheela Foam Ltd is a leading manufacturer of mattresses and other foam-based home comfort products in India. It sells its products under the brand Sleepwell, Feather Foam, and Lamiflex. Sheela Foam offers mattresses, pillows, mattress protectors, bolsters, back cushions, sofa-cum beds, bed-sheets, and baby care sheets, as well as furniture cushioning products. Company's products are mainly used in residential purpose, hotels, hospitals, and educational institutions. The company sells its products through distributors, retail dealers, and multi-branded outlets, as well as exports its products to approximately 32 countries. It has pan India distribution network that consists of over 100 exclusive distributors, over 2,000 exclusive retail dealers and over 2,500 multi-brand outlets, as on March 31, 2016.

Strengths

- **Well recognized and established brand built over consistent quality and innovation:** Over the last two decades, the company has developed this brand through an emphasis on innovation and adoption of sophisticated manufacturing technologies, enabling production of personalised and niche home comfort products. As a result, the company believes that Sleepwell is a well-recognised brand in India. It supplements its efforts in product development by on-ground brand building initiatives, by continuing to increase its exclusive Sleepwell branded retail outlets. It believes that it can effectively leverage its brand recall to increase its scale of operations, introduce new and more innovative product lines, increase its manufacturing capacity and expand its presence into under-penetrated geographies and markets.
- **Extensive and well developed pan-India sales and distribution network:** Its distribution network provides key support to its business operations. It sells its home-comfort products through a pan-India network of exclusive distributors and retail dealers, as well as through multi-brand outlets. It believes that its well-developed sales and distribution network sets it apart from its competition in a market where the lack of distribution channels can create natural entry barriers.
- **Quality manufacturing capabilities and technological innovation:** The Company has developed its manufacturing processes over four decades of production experience. It operates in 11 manufacturing facilities in India that are located in proximity to key distributors and markets. Its manufacturing facilities are geographically dispersed, with four units located in the North, three units in the West, two units in the South and two units in the Eastern regions of India. The company has implemented Hennecke ("HK") technology in its Greater Noida facility in 2007, which provides it higher yields of foams with uniform cellular structure. Its domestic capacity utilisation, measured on the basis of actual production, increased by over 20% from 35,214 tons in Fiscal Year 2014 to 42,577 tons in Fiscal Year 2016.
- **Integrated operations and economies of scale:** The Company gets benefits from synergised business operations through the manufacture of home comfort products as well as the underlying foam that constitutes their principal component. The company has achieved manufacturing synergies as well, given that five of its domestic manufacturing units are capable of producing both PU Foam and finished home comfort products.

Strategies

Continue to develop its brand: Its ability to continue to benefit from its brands is a key factor that contributes to its success. It has a significant opportunity to leverage its Sleep well brand to further improve its market share. Its strategy is to continue building brand leadership in core home comfort products, such as mattresses and bedding material, as well as higher-grade technical PU Foam lines that it believes represent a significant opportunity for its future growth. Additionally, in an effort to increase its brand presence through online platforms, the company intend to develop and transform its “Sleepedia” website, which the company launched in 2014, to a one-stop shop for sleep solutions, providing information and expert advice on quality sleep, sleep disorders, healthy sleep environs, sleep postures and choice of appropriate bedding material.

Continue to focus on development of personalised products: The Company believes that with rising household incomes in India, its target consumers are increasingly favouring personalised home-comfort packages that are tailored towards their physiological, aesthetic and ergonomic attributes. The company aims to manufacture higher volumes of its current portfolio of customised products, as well as develop newer of personalized home-comfort products to further improve its operating margins. The company plans to expand and consolidate its My Mattress brand, and develop My Mattresses to ensure that they can be made to match the shape and proportions of a consumer's bed, while providing, among other features, differing levels of comfort for different body zones. The company also intends on launching a 'Ultra-Premium Luxury' mattress line, which will comprise bespoke made-to-order mattresses catering to specific customer requirements.

Expand its product portfolio to cater to consumer preferences: The Company aims to leverage its existing suite of products, knowhow and manufacturing capabilities to produce niche and higher-margin products. In the long run, the company also intends to enter into new product lines and target new consumer segments. For instance, the company intends to create a new range of base-line comfort products at lower price points that are specifically aimed at rural retail customers. The company also intends to commence marketing its products through third party online commerce marketplaces in India and abroad. The company believes that such initiatives will optimally diversify its business and products portfolio and enable access to new markets.

Expand its distribution network and export sales: The Company intends to continue developing and nurturing existing distributor relationships, and create new distribution channels in under and non-penetrated geographies. The company aims to further develop its domestic sales networks in primarily two types of territories: the first being those that are characterized by lower transportation costs, and the second, being those which have a significant demand of its products, where the company can sell at price-points that can effectively offset higher transportation costs. For its international export business, the company intends to upscale its export operations to sell higher volumes of its technical foam grades to manufacturers located in SAARC nations. The company also aims to expand its domestic retail presence by increasing its partnerships with exclusive dealers and increasing its exclusive *Sleep well* branded outlets. Furthermore, the company plans to launch *Sleep well* branded “Ultra-Premium” showrooms titled *Sleep well Emporios* on a franchisee basis.

Adoption of advanced production technology: The Company firmly believes in making

investments for achieving product excellence and implementing the dynamic and diverse specifications of its customers. The company introduced HK technology in its Greater Noida facility in 2007, and has also implemented “variable pressure foaming” technology at Joyce, Australia. HK technology is currently used in four of its foam manufacturing facilities.

Expand its distributed manufacturing initiative: The Company has recently launched its distributed manufacturing initiative, whereby the company has outsourced the production of lower density commercial PU foam cores to independent manufacturers. As at September 30, 2016, the company has entered into arrangements with independent manufacturers, some of whom are required to exclusively supply to the company, to produce lower density PU foam at six facilities. The company intends to progressively increase the scale of such distributed manufacturing.

Risk factor

- **If fails to expand or effectively manage its growing distribution and sales network:** The company sells its home comfort products through an extensive network of distributors and dealers, and technical PU Foam directly to other manufacturers. Any inability to expand or effectively manage its growing distribution and sales network may have an adverse effect on its business, results of operations and financial condition.
- **If the company fails to anticipate or respond to changing consumer preferences:** If the company fails to anticipate or respond to changing consumer preferences and trends pertaining to the home comfort products and technical PU Foam industry in a timely and effective manner, the demand for its products may decline, which may have an adverse effect on its business, results of operations and financial condition.
- **Inability to effectively manage its growth:** The Company has experienced significant growth over the past five years and it has significantly expanded its operations and product portfolio. Its inability to effectively manage its growth or to successfully implement its business plan and growth strategy could have an adverse effect on its business, results of operations and financial condition.
- **Dependent on a number of key personnel:** The Company is dependent on a number of key personnel, including its senior management, and the loss of or its inability to attract or retain such persons could adversely affect its business, results of operations and financial condition.
- **Rely on third parties to transport raw materials to its facilities:** The Company relies on third parties to transport raw materials to its facilities and its products to its distributors and customers, and any disruption in its transportation arrangements or increases in transportation costs may adversely affect its business, results of operations and financial condition.

Overview

The Indian mattress industry is primarily comprised of rubberised coir, PU Foam and spring mattresses. PU Foam mattresses account for the highest (49 – 51%) of the organised Indian mattress market. Provided below is a snapshot of the break-up of the Indian mattress industry by product type. The demand for mattresses too is expected to grow in line with population and increase in the demand for housing. Increased mobility of labour in search of better employment opportunities and changing social/ cultural attitudes is leading to increased nuclearisation, which is also estimated to lead to higher demand for

An indicative timetable in respect of the Offer is set out below:

Events	Indicative date
Finalisation of Basis of Allotment with the Designated Stock Exchange	On or about December 6, 2016
Initiation of refunds (if any, for Anchor Investors) / unblocking of funds from ASBA Account	On or about December 7, 2016
Credit of the Equity Shares to depository accounts of Allottees	On or about December 8, 2016
Commencement of trading of the Equity Shares on the Stock Exchanges	On or about December 9, 2016

Peer Comparison

As per the management none of the listed companies in India are engaged in its line of business

Valuation

At upper price band of Rs.730 , EPS and P/E of FY2017 are Rs.27.04 and 27.00 multiple respectively and at a lower price band of Rs. 680 P/E multiple is 25.15; at upper price band of Rs.730 , book value and P/B of FY2017 are Rs.96.47 and 7.57 multiple respectively and at a lower price band of Rs. 680, P/B multiple is 7.05. No change in pre and post issue EPS and Book Value as the company is not making fresh issue of capital.

Outlook

The Company firmly believes in making investments for achieving product excellence and implementing the dynamic and diverse specifications of its customers. The company has a significant opportunity to leverage its Sleep well brand to further improve its market share. None of the listed companies in India are engaged in its line of business. Given the present secondary market condition, only serious long term investors, who want to add some new business into their portfolio, may opt the issue.

Annexure

Profit & Loss

Rs. in Cr.

Particulars	30-Sep-16	31-Mar-16
Total Operating Income	795.50	1,549.99
Total expenditure	689.70	1,373.84
Operating Profit	105.80	176.15
OPM%	13.30	11.36
Other Income	8.25	16.81
PBDIT	114.05	192.96
Depreciation	14.38	29.27
PBIT	99.67	163.69
Interest	5.50	11.67
PBT	94.17	152.02
Tax	28.22	47.24
Profit after tax	65.95	104.79

Balance Sheet

Particulars	30-Jun-16	31-Mar-16
Fixed assets		
Tangible assets	270.52	280.72
Good Will	7.11	7.11
Capital Work In Progress	47.41	9.70
non-current investment	10.00	10.00
Other non Current Asset	1.60	1.45
Long-term loans and advances	19.89	14.59
	356.54	323.57
Current assets		
Inventories	131.82	104.61
Trade receivables	133.85	117.07
Cash and Bank balances	133.13	217.16
Short-term loans and advances	29.40	19.01
Other current assets	24.09	6.89
Total current assets	452.29	464.73
Total Assets	808.83	788.31
Non-current liabilities		
Long-term borrowings	28.76	34.63
Deferred tax liabilities/(assets) (Net)	-1.01	1.94
Other long-term liabilities	36.17	34.21
Long-term provisions	12.81	10.64
Total non-current liabilities	76.73	81.42
Current liabilities		
Short-term borrowings	57.27	78.83
Other current liabilities	125.06	146.35
Short-term provisions	24.36	30.65
Trade payables	120.78	112.62
Total current liabilities	327.46	368.45
Total	404.19	449.87
NET Worth	404.64	338.44
Net worth represented by:		
Share capital	24.39	16.26
Reserves and surplus	380.25	322.17
Net Worth	404.64	338.44



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- WEAK** ★
- NEUTRAL** ★ ★
- FAIR** ★ ★ ★
- GOOD** ★ ★ ★ ★
- EXCELLENT** ★ ★ ★ ★ ★

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