

Sheela Foam

NOT RATED

Poised to drive high double digit growth

Summary

We interacted with the management of Sheela Foam Ltd (SFL). Company expects to grow revenue at 15% CAGR, ahead of industry growth at 10%. SFL is also aiming to venture aggressively into mass mattress market (at Rs 2-2.5 k price point), which is currently largely unorganized. In markets where SFL existed since long (like North India), they enjoy 40%+ market share. SFL is no. 1 mattress player in India with 25% market share. Company targets to grow business in Tamil Nadu & Kerala and increase penetration in East through distribution expansion. Disruption from online businesses is likely to be limited as there is no significant margin/distribution-cost gap between an online and an offline retailer. SFL aims to maintain EBITDA margin in range of c. 14-15% during FY23E-FY24E. We do not have formal coverage on the stock.

Key Highlights and Investment Rationale

- **High double digit revenue growth in India and Spain business:** SFL expects India business to grow at 15% CAGR, ahead of Industry growth rate of 10% driven by mattress and foam segment. Spain business is expected to grow in double digits and Australia business in single digit going forward.
- **Foray into mass category mattress on the cards:** SFL will enter the mass category mattress segment with 'Mattress for every Indian' product at Rs2,000-Rs2,500 price points which is likely to increase the TAM.
- **Upcoming Jabalpur plant to reduce logistics cost for Central India business:** Jabalpur facility, first facility in Central India, will aid in controlling logistics & supply chain costs. Foam being voluminous product transportation cost is high. Factory will commence operations in the beginning of FY24E.

TP -

CMP **Rs2,674**

Potential upside/downside --

Previous Rating --

Price Performance (%)

	-1m	-3m	-12m
Absolute	(13.4)	(19.5)	17.0
Rel to Sensex	(10.5)	(10.9)	16.2

V/s Consensus

EPS (Rs)	FY23E	FY24E
IDBI Capital	--	--
Consensus	--	--
% difference	--	--

Key Stock Data

Bloomberg/Reuters	SFL IN / SHEF.BO
Sector	Home Furnishing
Shares o/s (mn)	49
Market cap. (Rs mn)	130,445
3-m daily average value (Rs mn)	9.3
52-week high / low	Rs 4,054 / 2,195
Sensex / Nifty	52,728 / 15,699

Shareholding Pattern (%)

Promoters	73.0
FII	2.5
DII	23.1
Public	1.4

Financial snapshot

(Rs mn)

Year	FY19	FY20	FY21	FY22
Revenue	21,415	21,736	24,372	29,818
Change (yoy, %)	7	2	12	22
EBITDA	1,745	2,839	3,522	2,712
Change (yoy, %)	14	63	24	(23)
EBITDA Margin(%)	8.2	13.1	14.4	9.1
Adj.PAT	988	1,778	2,282	1,736
EPS (Rs)	20	36	47	36
Change (yoy, %)	41.4	79.9	28.4	(23.9)
PE(x)	132.0	73.4	57.2	75.2
Dividend Yield (%)	-	-	-	-
EV/EBITDA (x)	74.8	46.5	37.5	49.3
RoE (%)	14.9	21.5	21.7	13.5
RoCE (%)	17.4	21.0	19.5	11

Source: IDBI Capital Research

Varun Singh

Varun.singh@idbicapital.com
+91-22-2217 1727

Chetan Mahadik

Chetan.mahadik@idbicapital.com
+91-22-2217 1860

Management interaction key takeaways;**On RM inflation**

- Company expects business to be impacted in 1QFY23E & 2QFY23E due to RM price fluctuations
- In long term, management expects Polyol and TDI prices to stabilize
- SFL procures Polyol and TDI (majorly from GNFC) domestically

On Mass Category Product

- Company to launch mass category product 'Mattress for every Indian' in range of Rs2000-2,500 price point
- Management expects mass category business to scale up in next 4-5 years with the use of patented technology used in Australia unit
- Company to set up new manufacturing plant in Jabalpur which will commence operations in the beginning of FY24E (will produce multiple products)

On Offline & Online business

- Consumers prefer to buy mattress offline as dealers educate them about different types of products
- In Online business, Amazon and Flipkart charge c. 25-30% commission on sales compared to 35% for general trade

On Exports

- US markets demand spring mattress
- Company has recently set up a new facility in Silvasa to manufacture export quality mattress

On Market Share & Competition

- Sheela Foam is the market leader in India with 25% market share in Mattress and c. 40% market share in North India
- Company targets to grow in Tamil Nadu and Kerala and increase penetration in East markets through distribution expansion

- Competitor Kurlon holds 10-15% market share with higher presence in South followed by Duroflex with <10% market share

On Store Refurbishment

- SFL operates 4 types of stores - Gallery, World, Shoppe and Exclusive Dealership stores. All stores are dealer owned and dealer operated
- Company upgrades the design and visual merchandizing of Gallery (store size: 800-1000 sq ft) and World (store size: 1500-2000 sq ft) stores in every 3-4 years
- Refurbishment cost relating to design and visual merchandizing of Rs5-13 lakhs per store is borne by the company and the civil cost is managed by the dealer

Outlook

- SFL expects India business to grow at 15% CAGR going forward (ahead of Industry growth rate of 10%) driven by mattress and foam
- Company targets to grow Spain business in double digits going forward. SFL to add 30-40% capacity in Spain business
- Management expects Australia business to grow in single digit
- SFL to maintain EBITDA margin in range of c. 14-15% during FY23E-FY24E
- Company has not distributed dividends and conserved cash for strategic buyouts
- SFL to incur capex of Rs200 crs in India to set up manufacturing facilities and Rs100 crs in Spain and Australia

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY19	FY20	FY21	FY22
Net sales	21,415	21,736	24,372	29,818
<i>Change (yoy, %)</i>	6.8	2	12	22
Operating expenses	(19,669)	(18,898)	(20,850)	(27,106)
EBITDA	1,745	2,839	3,522	2,712
<i>Change (yoy, %)</i>	14.4	63	24	(23)
<i>Margin (%)</i>	8.2	13.1	14.4	9.1
Depreciation	(395)	(590)	(729)	(808)
EBIT	1,350	2,248	2,793	1,904
Interest paid	(96)	(130)	(177)	(170)
Other income	291	400	502	792
Pre-tax profit	1,545	2,518	3,119	2,526
Tax	(557)	(621)	(837)	(776)
<i>Effective tax rate (%)</i>	36.0	24.7	26.8	30.7
Minority Interest	-	-	-	(14.0)
Net profit	988	2,017	2,282	1,736
Exceptional items	-	-	-	-
Adjusted net profit	988	1,778	2,282	1,736
<i>Change (yoy, %)</i>	41.4	80	28	(24)
EPS	20.3	36.4	46.8	35.6
Dividend per sh	-	-	-	-
<i>Dividend Payout %</i>	-	-	-	-

Balance Sheet

(Rs mn)

Year-end: March	FY19	FY20	FY21	FY22
Shareholders' funds	7,301	9,197	11,843	13,926
Share capital	244	244	244	244
Reserves & surplus	7,057	8,954	11,599	13,682
Total Debt	282	1,932	2,056	3,608
Other liabilities	1,123	3,688	3,797	5,463
Curr Liab & prov	3,322	2,158	3,022	2,850
Current liabilities	3,194	3,487	4,964	4,260
Provisions	128	129	147	25
Total liabilities	4,317	7,175	8,762	9,722
Total equity & liabilities	11,618	16,439	20,694	23,724
Net fixed assets	3,485	8,097	8,674	9,467
Investments	1,129	709	3,627	5,850
Other non-curr assets	145	65	80	194
Current assets	6,874	7,569	8,313	8,213
Inventories	1,871	2,269	3,153	3,145
Sundry Debtors	1,522	2,158	3,022	2,850
Cash and Bank	203	446	581	411
Loans and advances	-	-	-	-
Total assets	11,618	16,439	20,694	23,724

Cash Flow Statement

(Rs mn)

Year-end: March	FY19	FY20	FY21	FY22
Pre-tax profit	1,545	2,518	3,119	2,526
Depreciation	395	590	729	808
Tax paid	(579)	(416)	(819)	(943)
Chg in working capital	(219)	(1,157)	(469)	(589)
Other operating activities	(112)	(8)	(141)	(268)
Cash flow from operations (a)	1,379	1,573	2,539	1,972
Capital expenditure	(528)	(1,585)	(648)	(1,635)
Chg in investments	(2,070)	(1,335)	(1,504)	(1,676)
Other investing activities	141	49	69	247
Cash flow from investing (b)	(2,457)	(2,871)	(2,083)	(3,064)
Equity raised/(repaid)	-	-	-	-
Debt raised/(repaid)	(174)	1,813	86	1,321
Dividend (incl. tax)	-	-	(24)	(37)
Chg in minorities	-	-	-	-
Other financing activities	(96)	(242)	(386)	(357)
Cash flow from financing (c)	(270)	1,571	(324)	927
Net chg in cash (a+b+c)	(1,348)	273	133	(166)

Financial Ratios

Year-end: March	FY19	FY20	FY21	FY22
Book Value (Rs)	149.7	189	243	285
Adj EPS (Rs)	20.3	36.4	46.8	35.6
Adj EPS growth (%)	41.4	80	28	-24
EBITDA margin (%)	8.2	13.1	14.4	9.1
Pre-tax margin (%)	7.2	11.6	12.8	8.5
Net Debt/Equity (x)	0.0	0.2	0.1	0.2
ROCE (%)	17.4	21	19	11
ROE (%)	14.9	22	22	13

DuPont Analysis

Asset turnover (x)	1.9	1.5	1.3	1.3
Leverage factor (x)	1.7	1.7	1.8	1.7
Net margin (%)	4.6	8.2	9.4	5.8

Working Capital & Liquidity ratio

Inventory days	32	38	47	38
Receivable days	26	36	45	35
Payable days	27	30	58	41

Valuations

Year-end: March	FY19	FY20	FY21	FY22
PER (x)	132.0	73.4	57.2	75.2
Price/Book value (x)	17.9	14.2	11.0	9.4
EV/Net sales (x)	6.1	6.1	5.4	4.5
EV/EBITDA (x)	74.8	46.5	37.5	49.3
Dividend Yield (%)	0.0	0.0	0.0	0.0

Source: Company; IDBI Capital Research



Notes

Dealing

(91-22) 6836 1111

dealing@idbicapital.com

Key to Ratings Stocks:**BUY:** 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.**IDBI Capital Markets & Securities Ltd.****Equity Research Desk**

6th Floor, IDBI Tower, WTC Complex, Cuffe Parade, Colaba, Mumbai – 400 005. Phones: (91-22) 2217 1700; Fax: (91-22) 2215 1787; Email: info@idbicapital.com

SEBI Registration: BSE & NSE (Cash & FO) – INZ000007237, NSDL – IN-DP-NSDL-12-96, Research – INH000002459, CIN – U65990MH1993GOI075578**Compliance Officer:** Christina D'souza; Email: compliance@idbicapital.com; Telephone: (91-22) 2217 1907**Disclaimer**

This report has been published by IDBI Capital Markets & Securities Ltd. (hereinafter referred to as "IDBI Capital") for private circulation. This report should not be reproduced or copied or made available to others. No person associated with IDBI Capital is obligated to call or initiate contact with you for the purposes of elaborating or following up on the information contained in this report. The information contained herein is strictly confidential and meant for solely for the selected recipient and may not be altered in any way, transmitted to copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without the prior written consent of IDBI Capital.

Recipients may not receive this report at the same time as other recipients. IDBI Capital will not treat recipients as customers by virtue of their receiving this report.

The information contained herein is from the public domain or sources believed to be reliable, but we do not make any representation or warranty that it is accurate, complete or up-to-date and it should not be relied upon as such. While reasonable care has been taken to ensure that information given is at the time believed to be fair and correct and opinions based thereupon are reasonable, due to the very nature of research it cannot be warranted or represented that it is accurate or complete and it should not be relied upon as such. In so far as this report includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.

Opinions expressed are current opinions as of the date appearing on this material only. While we endeavor to update on a reasonable basis, the information discussed in this material, IDBI Capital, its directors, employees are under no obligation to update or keep the information current. Further there may be regulatory, compliance, or other reasons that prevent us from doing so.

Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice.

IDBI Capital, its directors and employees and any person connected with it, will not in any way be responsible for the contents of this report or for any losses, costs, expenses, charges, including notional losses/lost opportunities incurred by a recipient as a result of acting or non-acting on any information/material contained in the report.

This is not an offer to sell or a solicitation to buy any securities or an attempt to influence the opinion or behavior of investors or recipients or provide any investment/tax advice.

This report is for information only and has not been prepared based on specific investment objectives. The securities discussed in this report may not be suitable for all investors. Investors must make their own investment decision based on their own investment objectives, goals and financial position and based on their own analysis.

Trading in stocks, stock derivatives, and other securities is inherently risky and the recipient agrees to assume complete and full responsibility for the outcomes of all trading decisions that the recipient makes, including but not limited to loss of capital.

Opinions, projections and estimates in this report solely constitute the current judgment of the author of this report as of the date of this report and do not in any way reflect the views of IDBI Capital, its directors, officers, or employees.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject IDBI Capital and associates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this report may come are required to inform themselves of and to observe such restriction.

E-mail is not a secure method of communication. IDBI Capital cannot accept responsibility for the accuracy or completeness of any e-mail message or any attachment(s).

This transmission could contain viruses, be corrupted, destroyed, incomplete, intercepted, lost or arrived late. IDBI Capital, its directors or employees or associates accept no liability for any damage caused, directly or indirectly, by this email.

Analyst Disclosures

We, Varun Singh and Chetan Mahadik, hereby certify that the views expressed in this report accurately reflect our personal views about the subject companies and / or securities. We also certify that no part of our compensation were, are or would be directly or indirectly related to the specific recommendations or views expressed in this report. Principally, we will be responsible for the preparation of this research report and have taken reasonable care to achieve and maintain independence and objectivity in making any recommendations herein.

Other Disclosure

IDBI Capital Markets & Securities Ltd.(herein after referred to as "IDBI Capital") was incorporated in the year 1993 under Companies Act, 1956 and is a wholly owned subsidiary of IDBI Bank Limited. IDBI Capital is one of India's leading securities firm which offers a full suite of products and services to individual, institutional and corporate clients namely Stock broking (Institutional and Retail) , Distribution of financial products, Merchant Banking, Corporate Advisory Services, Debt Arranging & Underwriting, Portfolio Manager Services and providing Depository Services. IDBI Capital is a registered trading and clearing member of BSE Ltd. (BSE) and National Stock Exchange of India Limited (NSE). IDBI Capital is also a SEBI registered Merchant Banker, Portfolio Manager and Research Analyst. IDBI Capital is also a SEBI registered depository participant with National Securities Depository Limited (NSDL) and is also a Mutual Fund Advisor registered with Association of Mutual Funds in India (AMFI).

IDBI Capital and its associates IDBI Bank Ltd. (Holding Company), IDBI Intech Ltd. (Fellow Subsidiary), IDBI Asset Management Ltd. (Fellow Subsidiary) and IDBI Trusteeship Services Ltd. (Fellow Subsidiary).

IDBI Group is a full-serviced banking, integrated investment banking, investment management, brokerage and financing group. Details in respect of which are available on www.idbicapital.com IDBI Capital along with its associates are leading underwriter of securities and participants in virtually all securities trading markets in India. We and our associates have investment banking and other business relationships with a significant percentage of the companies covered by our Research Department. Investors should assume that IDBI Capital and/or its associates are seeking or will seek investment banking or other business from the company or companies that are the subject of this material. IDBI Capital generally prohibits its analysts, persons reporting to analysts, and their dependent family members having a financial conflict of interest in the securities or derivatives of any companies that the analysts cover. Additionally, IDBI Capital generally prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover. Our sales people, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Directors of IDBI Capital or its associates may have interest in the Companies under recommendation in this report either as Director or shareholder. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein. This material should not be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. We are not soliciting any action based on this material. It is for the general information of clients of IDBI Capital. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, clients should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice. The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur. We and our associates, officers, directors, and employees, including persons involved in the preparation or issuance of this material, may from time to time have "long" or "short" positions in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein. For the purpose of calculating whether IDBI Capital and its associates holds beneficially owns or controls, including the right to vote for directors, 1% of more of the equity shares of the subject issuer of a research report, the holdings does not include accounts managed by IDBI Asset Management Company/ IDBI Mutual Fund.

IDBI Capital hereby declares that our activities were neither suspended nor we have materially defaulted with any Stock Exchange authority with whom we are registered in last five years. However SEBI, Exchanges and Depositories have conducted the routine inspection and based on their observations have issued advice letters or levied minor penalty on IDBI Capital for certain operational deviations. We have not been debarred from doing business by any Stock Exchange / SEBI or any other authorities; nor has our certificate of registration been cancelled by SEBI at any point of time. IDBI Capital, its directors or employees or associates, may from time to time, have positions in, or options on, and buy and sell securities referred to herein. IDBI Capital or its associates, during the normal course of business, from time to time, may solicit from or perform investment banking or other services for any company mentioned in this document or their connected persons or be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or their affiliate companies or act as advisor or lender / borrower to such company(ies)/associates companies or have other potential conflict of interest. This report may provide hyperlinks to other websites. Except to the extent to which the report refers to the website of IDBI Capital, IDBI Capital states that it has not reviewed the linked site and takes no responsibility for the content contained in such other websites. Accessing such websites shall be at recipient's own risk. IDBI Capital encourages the practice of giving independent opinion in research report preparation by the analyst and thus strives to minimize the conflict in preparation of research report. Accordingly, neither IDBI Capital nor Research Analysts have any material conflict of interest at the time of publication of this report. We offer our research services to primarily institutional investors and their employees, directors, fund managers, advisors who are registered with us. The Research Analyst has not served as an officer, director or employee of Subject Company. We or our associates may have received compensation from the subject company in the past 12 months. We or our associates may have managed or co-managed public offering of securities for the subject company in the past 12 months. We or our associates may have received compensation for investment banking or merchant banking or brokerage services from the subject company in the past 12 months. We or our associates may have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months. We or our associates may have received any compensation or other benefits from the Subject Company or third party in connection with the research report. Research Analyst or his/her relative's may have financial interest in the subject company. IDBI Capital or its associates may have financial interest in the subject company. Research Analyst or his/her relatives does not have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report. IDBI Capital or its associates may have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report. The Subject Company may have been a client during twelve months preceding the date of distribution of the research report. Price history of the daily closing price of the securities covered in this note is available at www.bseindia.com; www.nseindia.com and www.economictimes.indiatimes.com/markets/stocks/stock-quotes.