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Q1FY23 result review and  
TP revision

## Consumer Staples & Discretionary

Target price Rs3,500

### Earnings revision

(%)	FY23E	FY24E
Sales	↓ 1.1	↓ 4.0
EBITDA	↓ 0.7	↓ 5.0
PAT	↑ 0.9	↓ 5.7

### Target price revision

Rs3,500 from Rs3,900

### Shareholding pattern

	Dec '21	Mar '22	Jun '22
Promoters	73.0	73.0	73.0
Institutional investors	25.9	25.9	26.0
MFs and other	23.6	23.1	22.6
Insurance co	0.0	0.0	0.0
FIs	2.3	2.8	3.4
Others	1.1	1.1	1.1

Source: BSE

### Price chart



### Research Analysts:

#### Manoj Menon

manoj.menon@icicisecurities.com  
+91 22 6807 7209

#### Aniket Sethi

aniket.sethi@icicisecurities.com  
+91 22 6807 7632

#### Karan Bhuwania

karan.bhuwania@icicisecurities.com  
+91 22 6807 7351

INDIA

**ICICI Securities**

## Sheela Foam

**BUY**

**Maintained**

Woes continue with near-term outlook still mixed **Rs2,942**

1QFY23: Revenue print continued to be weak. While overall margins were also weak, there was some sequential improvement (gross margin print is ~10ppts below from pre-covid levels). India branded volumes are 11% below Jun-19 volumes. While raw material inflation does not appear to be an incremental worry, there are some near-term headwinds in few segments. While some uptick from auto segment is expected, the furniture segment demand is slightly sluggish. Australia continues to trend well (was up 7% YoY) while Spain business is weak (-15% YoY). Spain business is seeing some near-term headwinds (both demand and margins).

Our positive stance on Sheela Foam is based on the long-term opportunities which also embellish the narrative – (a) benefit from China+ strategy of buyers in the US, Europe, (b) opportunity in furniture cushioning and manufacturing (under SleepX brand), (c) sustained acceleration in India business growth (competitive edge through 5,000+ EBO network), (d) consumers realizing importance of good quality mattress and (e) focus on growing e-commerce channel. Maintain BUY.

- **Weakness across particularly in India branded business:** Consolidated revenue performance was muted given 4.5% QoQ decline to Rs7.3bn, below our estimate. We note that consolidated revenue is not comparable on 3-year CAGR business given the acquisition of Spain acquisition. Branded mattresses segment volumes (on 3-year CAGR) was down by 4%. We note that growth should have been high in terms of volume given bottom-end would have seen good traction. Overall India business was down 9% QoQ while it was up 6% on 3-year CAGR basis. Performance of B2B segments in India was mixed: on 3-year CAGR basis, foam core was up 5%, technical foam (+16%) and furniture foam (down 3%). Australia business revenue was up 12% YoY (3-year CAGR).
- **Margins continue to be weak:** Gross margin recovered slightly QoQ (up 240bps) to 39.8%. We note that the gross margin print is down ~10 ppts from the pre-covid level. We note that current inflationary trends in the two RMs is mixed – TDI at Rs267/kg was up 27% YoY and 18% QoQ; Polyol at Rs174/kg was down 20% YoY and 2% QoQ. EBITDA margin further weakened QoQ (down 40bps) to 9.0% as other opex continues to be high (similar increase as per the previous quarter).
- **Valuation and risks:** We cut our earnings estimate by 6% for FY24E; modelling revenue / EBITDA / PAT CAGR of 13% / 32% / 32% over FY22-24E. Maintain BUY with a DCF-based revised target price of Rs3,500 (Rs3,900 earlier). Key downside risks are (1) adverse movement in prices of key inputs and (2) increase in competition from global players/Indian e-commerce.

Market Cap	Rs144bn/US\$1.8bn	Year to March	FY21	FY22	FY23E	FY24E
Reuters/Bloomberg	SHVF.BO / SFL IN	Net Revenue (Rs mn)	24,354	29,818	33,975	37,782
Shares Outstanding (mn)	48.8	Net Profit (Rs mn)	2,402	2,187	3,074	3,833
52-week Range (Rs)	3944/2220	Dil. EPS (Rs)	49.2	44.8	63.0	78.6
Free Float (%)	27.0	% Chg YoY	16.4	(8.9)	40.6	24.7
FII (%)	3.4	P/E (x)	59.4	65.2	46.4	37.2
Daily Volume (US\$'000)	1,125	CEPS (Rs)	64.2	61.4	81.6	99.4
Absolute Return 3m (%)	(16.5)	EV/EBITDA (x)	39.5	45.4	32.3	26.2
Absolute Return 12m (%)	23.0	Dividend Yield (%)	0.0	0.0	0.0	0.0
Sensex Return 3m (%)	2.8	RoCE (%)	20.9	13.8	17.4	19.5
Sensex Return 12m (%)	11.1	RoE (%)	22.6	16.9	19.8	20.2

Please refer to important disclosures at the end of this report

**Table 1: Q1FY23 results review (consolidated)**

(Rs mn)

	Q1FY23	Q1FY22	YoY (%)	Q4FY22	QoQ (%)	FY22	FY21	YoY (%)
<b>Net Revenue</b>	<b>7,291</b>	<b>5,513</b>	<b>32</b>	<b>7,636</b>	<b>(5)</b>	<b>29,818</b>	<b>24,354</b>	<b>22</b>
COGS	(4,391)	(3,555)	24	(4,781)	(8)	(18,423)	(13,794)	34
<b>Gross profit</b>	<b>2,900</b>	<b>1,958</b>	<b>48</b>	<b>2,855</b>	<b>2</b>	<b>11,396</b>	<b>10,560</b>	<b>8</b>
Staff cost	(695)	(603)	15	(627)	11	(2,577)	(2,317)	11
Other opex	(1,547)	(972)	59	(1,510)	2	(5,669)	(4,620)	23
<b>Total opex</b>	<b>(2,242)</b>	<b>(1,575)</b>	<b>42</b>	<b>(2,137)</b>	<b>5</b>	<b>(8,246)</b>	<b>(6,937)</b>	<b>19</b>
<b>EBITDA</b>	<b>659</b>	<b>383</b>	<b>72</b>	<b>719</b>	<b>(8)</b>	<b>3,149</b>	<b>3,623</b>	<b>(13)</b>
Other income	184	179	3	158	17	792	521	52
Finance Cost	(53)	(49)	8	(21)	147	(170)	(177)	(4)
D&A	(207)	(185)	11	(237)	(13)	(808)	(729)	11
<b>PBT</b>	<b>584</b>	<b>327</b>	<b>78</b>	<b>618</b>	<b>(5)</b>	<b>2,964</b>	<b>3,238</b>	<b>(8)</b>
Tax	(159)	(76)	109	(125)	27	(776)	(837)	(7)
<b>Recurring PAT</b>	<b>425</b>	<b>251</b>	<b>69</b>	<b>493</b>	<b>(14)</b>	<b>2,187</b>	<b>2,402</b>	<b>(9)</b>
<b>EPS</b>	<b>8.7</b>	<b>5.1</b>	<b>69</b>	<b>10.1</b>	<b>(14)</b>	<b>44.8</b>	<b>49.2</b>	<b>(9)</b>
<b>Costs as a % of sales</b>								
COGS	60.2	64.5	-426 bps	62.6	-239 bps	61.8	56.6	514 bps
<b>Gross margin (%)</b>	<b>39.8</b>	<b>35.5</b>	<b>425 bps</b>	<b>37.4</b>	<b>238 bps</b>	<b>38.2</b>	<b>43.4</b>	<b>-515 bps</b>
Staff cost	9.5	10.9	-142 bps	8.2	131 bps	8.6	9.5	-88 bps
Other opex	21.2	17.6	358 bps	19.8	144 bps	19.0	19.0	4 bps
<b>EBITDA margin (%)</b>	<b>9.0</b>	<b>6.9</b>	<b>209 bps</b>	<b>9.4</b>	<b>-38 bps</b>	<b>10.6</b>	<b>14.9</b>	<b>-432 bps</b>
Income tax rate (%)	27.2	23.2	395 bps	20.2	699 bps	26.2	25.8	35 bps

Source: Company data, I-Sec research

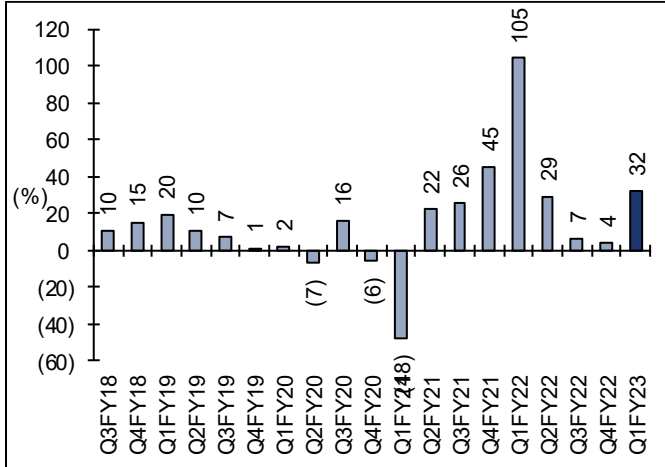
**Table 2: Q1FY23 segment results review**

(Rs mn)

	Q1FY23	Q1FY22	YoY (%)	Q4FY22	QoQ (%)	FY22	FY21	YoY (%)
<b>Segment Revenue</b>								
Mattresses	2,195	1,397	57	2,190	0	8,717	7,450	17
Furniture Foam	627	385	63	740	(15)	2,770	2,360	17
Foam Core	1,077	724	49	1,340	(20)	5,144	3,840	34
Technical Foam	1,236	750	65	1,310	(6)	4,540	3,240	40
Australia	1,103	1,034	7	1,110	(1)	4,304	4,130	4
Spain	1,046	1,225	(15)	870	20	4,300	3,360	28
<b>Segment Volume (Mattress in '000 Nos., others in Tons.)</b>								
Mattresses	501	350	43	555	(10)	2,139	2,068	3
Furniture Foam	1,302	842	55	1,668	(22)	6,139	5,724	7
Foam Core	3,313	2,192	51	6,283	(47)	21,789	19,047	14
Technical Foam	4,942	3,229	53	3,878	27	14,459	10,178	42
<b>Segment Realisation (Mattress in Rs/No., others in Rs/Kg)</b>								
Mattresses	4,381	3,991	10	3,941	11	4,074	3,604	13
Furniture Foam	482	458	5	445	8	452	413	9
Foam Core	325	204	59	191	70	198	175	13
Technical Foam	250	342	(27)	338	(26)	314	318	(1)

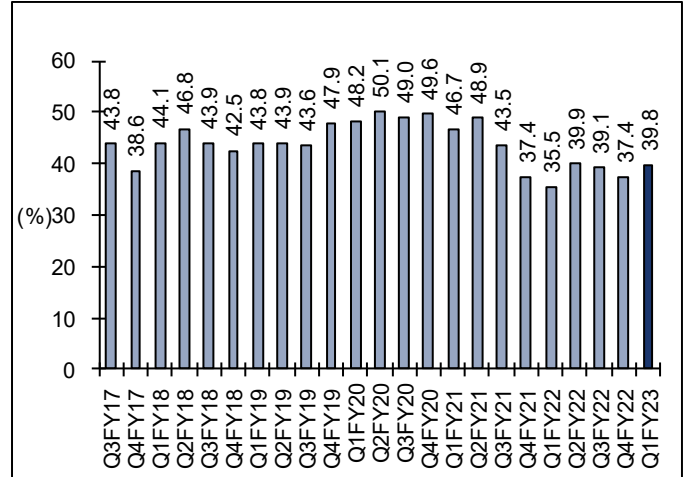
Source: Company data, I-Sec research

**Chart 1: Revenue growth (consolidated)**



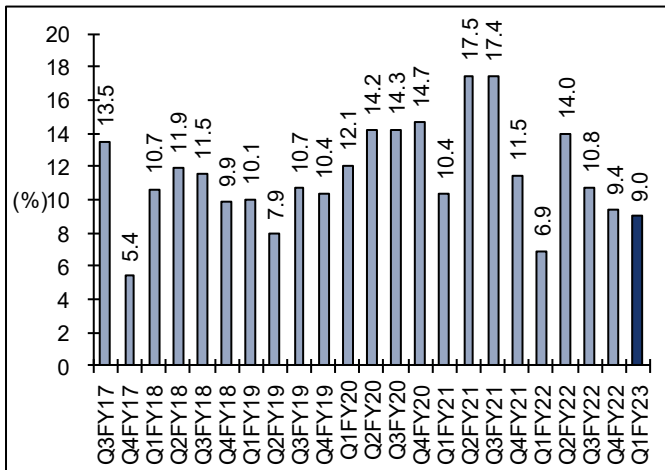
Source: Company data, I-Sec research

**Chart 2: Gross margin (consolidated)**



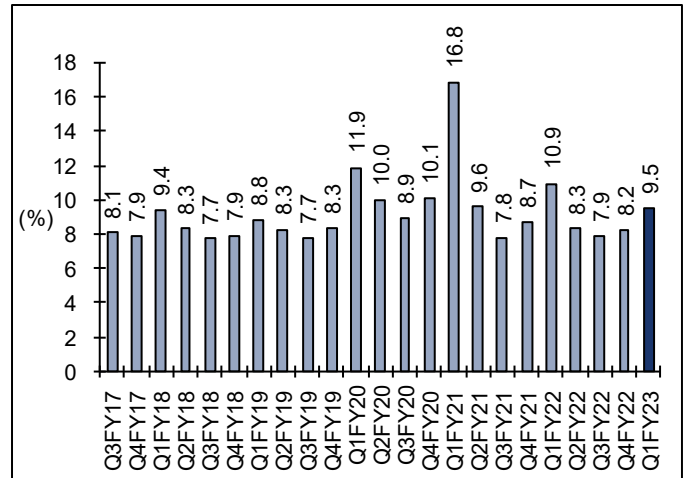
Source: Company data, I-Sec research

**Chart 3: EBITDA margin (consolidated)**



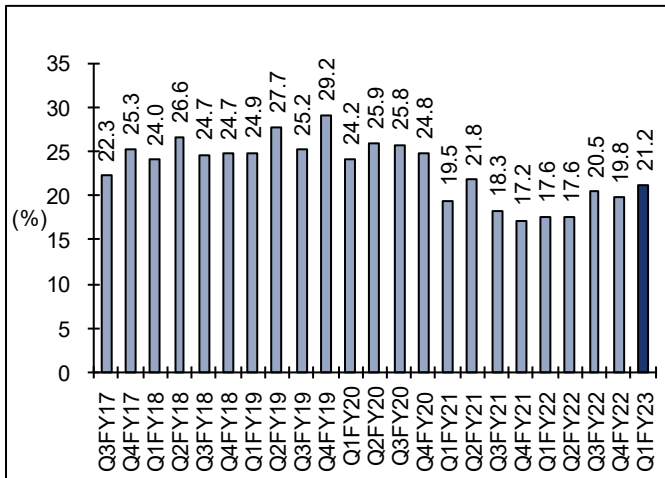
Source: Company data, I-Sec research

**Chart 4: Staff cost as a % of sales**



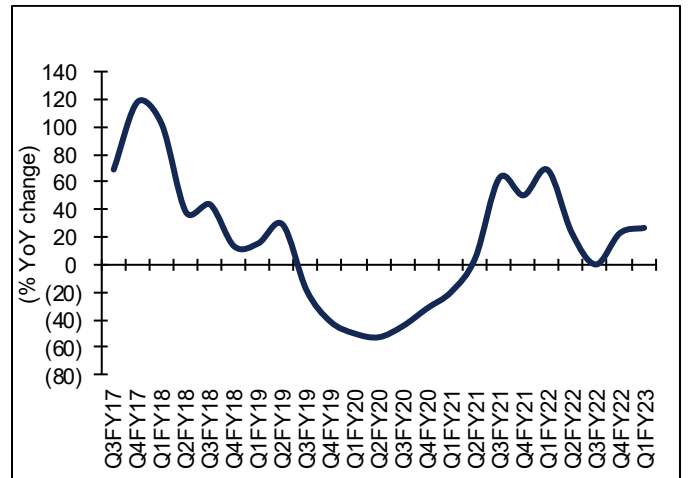
Source: Company data, I-Sec research

**Chart 5: Other expenses as a % of sales**



Source: Company data, I-Sec research

**Chart 6: TDI price change**



Source: Company data, I-Sec research

## Financial summary

Table 3: Profit &amp; Loss statement

(Rs mn, year ending March 31)

	FY21	FY22	FY23E	FY24E
<b>Net Revenues</b>	<b>24,354</b>	<b>29,818</b>	<b>33,975</b>	<b>37,782</b>
<b>Operating Expenses</b>	<b>20,731</b>	<b>26,669</b>	<b>29,552</b>	<b>32,319</b>
<b>EBITDA</b>	<b>3,623</b>	<b>3,149</b>	<b>4,423</b>	<b>5,463</b>
% margins	14.9	10.6	13.0	14.5
Depreciation & Amortisation	729	808	904	1,016
Gross Interest	177	170	203	149
Other Income	521	792	793	823
<b>Recurring PBT</b>	<b>3,238</b>	<b>2,964</b>	<b>4,109</b>	<b>5,122</b>
Less: Taxes	837	776	1,034	1,289
Less: Minority Interest	-	-	-	-
<b>Net Income (Reported)</b>	<b>2,402</b>	<b>2,187</b>	<b>3,074</b>	<b>3,833</b>
Extraordinaries (Net)	-	-	-	-
<b>Recurring Net Income</b>	<b>2,402</b>	<b>2,187</b>	<b>3,074</b>	<b>3,833</b>

Source: Company data, I-Sec research

Table 4: Balance sheet

(Rs mn, year ending March 31)

	FY21	FY22	FY23E	FY24E
<b>Assets</b>				
Total Current Assets	8,378	8,213	9,450	11,349
of which cash & cash eqv.	1,651	1,305	1,579	3,568
Total Current Liabilities & Provisions	5,395	5,039	5,101	5,724
<b>Net Current Assets</b>	<b>2,983</b>	<b>3,174</b>	<b>4,349</b>	<b>5,625</b>
Investments	3,681	6,044	6,886	7,658
Net Fixed Assets	8,653	8,269	9,326	9,310
Capital Work-in-Progress	47	1,199	1,199	1,199
Goodwill	2,631	2,520	2,520	2,520
<b>Total Assets</b>	<b>15,363</b>	<b>18,685</b>	<b>21,759</b>	<b>23,792</b>
<b>Liabilities</b>				
Borrowings	3,342	4,665	4,665	2,865
Deferred Tax Liability	89	18	18	18
Minority Interest	-	-	-	-
Equity Share Capital	244	244	244	244
Face Value per share (Rs)	5	5	5	5
Reserves & Surplus*	11,688	13,758	16,832	20,665
<b>Net Worth</b>	<b>11,932</b>	<b>14,002</b>	<b>17,076</b>	<b>20,909</b>
<b>Total Liabilities</b>	<b>15,363</b>	<b>18,685</b>	<b>21,759</b>	<b>23,792</b>

Source: Company data, I-Sec research

Table 5: Quarterly trends

(Rs mn, year ending March 31)

	Sep 21	Dec 21	Mar 22	Jun 22
<b>Net Revenues</b>	<b>7,856</b>	<b>8,813</b>	<b>7,636</b>	<b>7,291</b>
% growth (YoY)	29.3	6.7	4.2	32.3
<b>EBITDA</b>	<b>1,098</b>	<b>950</b>	<b>718</b>	<b>659</b>
Margin (%)	14.0	10.8	9.4	9.0
Other income	178	277	158	184
Extraordinaries (Net)	-	-	-	-
<b>Adjusted Net profit</b>	<b>769</b>	<b>674</b>	<b>493</b>	<b>425</b>

Source: Company data, I-Sec research

Table 6: Cashflow statement

(Rs mn, year ending March 31)

	FY21	FY22	FY23E	FY24E
<b>Operating Cash flow</b>	<b>3,007</b>	<b>2,560</b>	<b>2,546</b>	<b>3,402</b>
Working Capital	(404)	(589)	(901)	712
Changes				
Capital Commitments	(648)	(1,635)	(1,962)	(1,000)
<b>Free Cash Flow</b>	<b>1,956</b>	<b>337</b>	<b>(317)</b>	<b>3,114</b>
<b>Cash flow from</b>	<b>(2,147)</b>	<b>(3,064)</b>	<b>(1,371)</b>	<b>(325)</b>
<b>Investing Activities</b>				
Issue of Share Capital	-	-	-	-
Inc (Dec) in Borrowings	(49)	1,207	-	(1,800)
Dividend paid	(24)	(37)	-	-
<b>Change in Deferred Tax Liability</b>	<b>133</b>	<b>(165)</b>	<b>274</b>	<b>1,989</b>
Chg. in Cash & Bank balance	581	411	685	2,674

Source: Company data, I-Sec research

Table 7: Key ratios

(Year ending March 31)

	FY21	FY22	FY23E	FY24E
<b>Per Share Data (Rs)</b>				
EPS	49.2	44.8	63.0	78.6
Cash EPS	64.2	61.4	81.6	99.4
Dividend per share (DPS)	-	-	-	1.0
Book Value per share (BV)	244.6	287.0	350.1	428.6
<b>Growth (%)</b>				
Net Sales	12.0	22.4	13.9	11.2
EBITDA	20.6	(13.1)	40.4	23.5
PAT	16.4	(8.9)	40.6	24.7
DPS	-	-	-	-
<b>Valuation Ratios (x)</b>				
P/E	59.4	65.2	46.4	37.2
P/CEPS	45.6	47.6	35.8	29.4
P/BV	12.0	10.2	8.4	6.8
EV / EBITDA	39.5	45.4	32.3	26.2
EV / Sales	5.9	4.8	4.2	3.8
<b>Operating Ratios</b>				
Raw Material / Sales (%)	56.6	61.8	59.9	58.7
Employee cost / Sales (%)	9.5	8.6	8.3	8.3
SG&A / Sales (%)	19.0	19.0	18.7	18.6
Other Income / PBT (%)	16.1	26.7	19.3	16.1
Effective Tax Rate (%)	25.8	26.2	25.2	25.2
Working Capital (days)	21.2	25.2	32.1	22.3
Inventory Turnover (days)	47.3	38.5	38.5	34.0
Receivables (days)	45.3	34.9	34.9	30.0
Payables (days)	34.4	36.9	30.0	30.0
Net D/E Ratio (x)	0.0	0.1	0.1	(0.1)
<b>Profitability Ratio (%)</b>				
Net Income Margins	9.9	7.3	9.0	10.1
RoACE	20.9	13.8	17.4	19.5
RoAE	22.6	16.9	19.8	20.2
Dividend Payout	-	-	-	1.3
Dividend Yield	-	-	-	0.0
EBITDA Margins	14.9	10.6	13.0	14.5

Source: Company data, I-Sec research

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