

Weak demand hurts topline growth...

About the stock: Sheela Foam (SFL) is the market leader in domestic mattresses industry with a value market share of ~25% in organised segment. The company's "Sleepwell" is one of the leading brands in the domestic mattresses industry. Apart from India (contributes ~70% to topline), SFL also manufactures Polyutherene (PU)/technical foams in Australia and Spain with revenue contributions of 15% each.

- Revenue, earnings grew at CAGR of 11%, 13%, respectively, in FY18-22
- Cash surplus b/s with average three-years RoE, RoCE of 19%, 22% respectively

Q2FY23 Results: Revenue growth hurt by lower domestic demand.

- Q2 revenues were down 8% YoY to ~₹ 722 crore dragged by 17% drop in home care segment
- Gross margins up 471 bps YoY led by easing raw material costs. EBITDA margin declined 314 bps YoY to 10.8% dragged by higher advertisement expenditure and low operating leverage
- Lower sales and EBITDA margin pressure dragged PAT down by 30% in Q2

What should investors do? SFL's share price has grown ~2x in the last five years (₹ 1557/share in November 2017 to ₹ 2795/share in November 2022).

- We maintain our **BUY** rating on the stock

Target Price and Valuation: We value the stock at 50x FY24E EPS with revised target price of ₹ 3410/share.

Key triggers for future price performance:

- Modern mattresses industry is pegged at ~₹ 17,500 crore. It is likely to grow at 12% CAGR in FY22-26E. Organised players are likely to gain market share through new product launches and strong balance sheet condition
- The company envisages a capex of ₹ 350 crore over the next two years to increase its manufacturing capacity by 23% in India & overseas
- Under China +1 strategy of multinational companies, SFL is exploring various export opportunities to US markets through its domestic and Spanish subsidiary 'Interplasp'
- SFL has received approval to supply foam to Indian Railways for Vande Bharat trains. This, coupled with a revival in the auto business, will help drive the company's technical foam business, going forward

Alternate Stock Idea: We like Asian Paints (APL) in our coverage universe.

- APL is India's largest decorative paint company. The company derives ~98% revenue from the paints business. Robust b/s with RoCE, RoE of 30%, 25%, respectively. We have BUY rating on stock with a TP of ₹ 3685/share



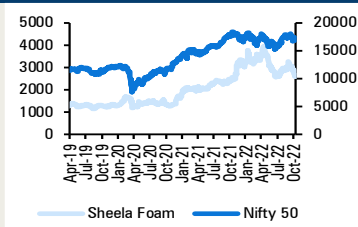
Particulars

Particular	Amount
Market Capitalization (₹ Crore)	13,634.0
Total Debt (FY22) (₹ Crore)	337.8
Cash and Inv (FY22) (₹ Crore)	715.4
EV (₹ Crore)	13,256.3
52 week H/L (₹)	4055/2513
Equity capital (₹ Crore)	24.4
Face value (₹)	5.0

Shareholding pattern

(in %)	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22
Promoter	73.0	73.0	73.0	73.0	73.0
FII	1.4	2.0	2.5	3.1	3.2
DII	23.7	23.8	23.4	22.8	22.7
Others	1.9	1.2	1.2	1.1	1.1

Price Chart



Recent event & key risks

- Key Risk:** (i) Demand slowdown (ii) volatile RM cost

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Key Financial Summary

(₹ crore)	FY19	FY20	FY21	FY22	4 Year CAGR FY18-22	FY23E	FY24E	2 Year CAGR FY22-24E
Net Sales	2141.5	2173.6	2435.4	2981.8	11%	3275.0	3723.6	12%
EBITDA	211.0	300.4	362.3	314.9	10%	386.1	485.5	24%
EBITDA Margin (%)	9.9	13.8	14.9	10.6		11.8	13.0	
Net Profit	133.8	193.4	237.7	217.3	13%	263.9	332.6	24%
EPS (₹)	27.4	39.7	48.7	44.5		54.1	68.2	
P/E (x)	101.9	70.5	57.4	62.7		51.7	41.0	
RoE (%)	18.3	22.0	20.1	15.6		17.1	19.2	
RoCE (%)	23.9	24.7	24.3	18.0		20.5	23.5	

Key takeaways of recent quarter & conference call highlights

Q2FY23 Results: Slow volume offtake hurts topline growth

- Consolidated revenue declined 8% YoY to ₹ 722 crore, dragged by lower volumes (down 10% YoY) amid demand slowdown in both domestic and European markets. The company's home care segment (largely domestic) revenue declined 17%, dragged by branded mattresses and comfort foam segment. Branded mattresses, comfort foam segment revenue declined ~16% and ~19% YoY, respectively. However, technical foam segment reported strong revenue growth of ~25% led by strong demand from Automotive OEMs. Joyce Australia reported revenue growth of ~11% on a favourable base while Interplasp (Spain) revenue declined by ~17% due to lower demand and slowdown in export amid higher inflation
- Gross margin increased 471 bps YoY (486 bps QoQ) tracking lower raw material prices. Price of key raw materials such as TDI, Polyols declined 7%, 25%, respectively, QoQ amid improved supply condition. However, EBITDA margin declined 314 bps YoY to ~11% impacted by higher advertisement expenses and low operating leverage
- PAT declined ~31% YoY to ₹ 53 crore, mainly due to lower sales and EBITDA margin pressure

Q2FY23 Earnings Conference Call highlights

Demand Outlook

- Demand is softer in India and Europe whereas demand remains robust in Australia. However, the management expects demand pick up from Q3FY23 in India supported by marriage season and better product mix
- Spain business is likely to remain impacted on account of geopolitical conditions, shortage of raw materials and comparatively higher raw material prices. The company has lost its existing customers. The management expects stability in Spain business after winter
- The company's Jabalpur project was facing a delay in supply of equipment from England previously, which has now been resolved. Production in this facility is expected to start from the first half or middle of next year
- On account of order received by Indian Railways, the company has achieved a run rate of 200-250 coaches per month, which is clocking a revenue of ₹ 4-5 crore per month. This run rate is growing month on month
- SFL's exports were previously impacted due to high freight charges from India. These charges have eased off in Q2FY23. Since October 2022, the company is seeing a pick-up in exports from its existing customers
- SFL introduced Sleepwell on e-commerce platforms such as Amazon and Flipkart in late September 2022. In the e-commerce segment, the management expects the company's market share to be ~10% by end of FY23
- SFL will be increasing its marketing expenditure for better brand visibility as well as to invest in newer channels such as e-commerce. In September and October 2022, the company has increased its ad spend by ~8x compared to what it usually did in a month. These expenses are expected to rise further, going forward

Margins:

- The company is seeing month-on-month improvement in margins from September 2022 onwards on account of better mix and higher sales
- Cooling off of TDI and Polyol prices has resulted in better gross margins across geographies

Distribution network:

- SFL has 1500+ showrooms, which are called Golden Gallery and 2200 shopees. Since April 2022, the company has added 100 showrooms in H1FY23

- The company has an EBO network of 5000+ and is aiming to expand it to 10,000 in the next two years

Exhibit 1: Peer comparison

Company	Mcap ₹ cr	Revenue				EBITDA margin				PAT				RoCE				RoE				PE			
		FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E
Asian Paints	2,95,947	21713	29101	34685	40371	22	17	17	19	3207	3085	3914	5194	30	27	32	39	25	23	27	32	92	96	76	57
Berger Paints	57,112	6818	8762	10375	11439	17	15	15	16	720	833	962	1195	25	23	28	31	21	21	25	28	79	69	59	48
Kansai Nero	23,982	4771	5949	7318	8163	18	11	12	14	531	374	545	696	17	12	17	20	13	9	13	15	45	64	44	34
Pidilite Ind	1,34,770	7293	9921	11859	13262	23	19	18	22	1126	1207	1413	2026	24	22	24	30	20	19	20	25	120	112	95	67
Sheela Foam	13,634	2435	2982	3275	3724	15	11	12	13	238	217	264	333	24	18	21	23	20	16	17	19	57	63	52	41

Source: Bloomberg, ICICI Direct Research

We believe Sheela Foam reported a weak performance in Q2FY23 dragged by low demand of branded mattresses in India (70% of revenue). Also, revenues from Spain were impacted by lower exports and high inflations. We believe short term headwinds such as higher inflation and delay in pick-up of export will limit the topline growth. Hence, we cut our revenue estimate by ~3% and ~2% YoY for FY23E and FY24E, respectively. On the margin front, Q2FY23 EBITDA margin at ~11% was higher by ~180 bps on a QoQ basis. We expect a further improvement in EBITDA margin supported by easing of raw material prices and improved operating leverage over FY22-24E. We revise our margin estimate upwards by 90 bps and 85 bps YoY to 11.8% and 13% for FY23E and FY24E, respectively. We like SFL for its strong brand in the domestic mattresses industry (value market share 25% in the organised industry), its pan India reach (through 7899 MBOs and 5424 EBOs) and focus on launching new products to capture market share from unorganised industry (~60% of total industry). The company's plan to expand its domestic and overseas capacity and launch of low price products will help gain market share from unorganised market in the years to come. Further, despite multiple operational headwinds balance sheet of the company remained strong. We maintain our positive stance on the stock with revise our target price to ₹ 3410/share (valuing the stock at 50x FY24E EPS).

Exhibit 2: Variance Analysis

	Q2FY23	Q2FY23E	Q2FY22	YoY (%)	Q1FY23	QoQ (%)	Comments
Revenue	722.2	848.6	785.6	-8.1	729.1	-1.0	Lower revenue growth is attributable to lower consumer demand in both India and Spain
Other Income	22.5	19.3	17.8	26.3	18.4	22.3	
Raw Material Exp	399.8	515.2	472.0	-15.3	439.1	-8.9	Easing of raw material prices led to gross margin expansion of 471 bps YoY (486 bps QoQ)
Employee Exp	68.2	72.4	65.3	4.4	69.5	-1.8	
Advertisement Exp	16.8	25.5	18.5	-9.6	16.8	0.0	
Other expenditure	159.1	147.6	119.9	32.6	137.9	15.3	Higher advertisement expenditure (up 37% YoY) led to sharp increase in other expenditure
EBITDA	78.3	88.0	109.8	-28.7	65.9	18.8	
EBITDA Margin (%)	10.8	10.4	14.0	-314 bps	9.0	181 bps	Higher advertisement and other expenses offset the benefit of low raw material price
Depreciation	20.5	20.7	18.6	10.2	20.7	-0.7	
Interest	5.0	5.1	4.2	19.0	5.3	-4.9	
Excp item							
PBT	75.3	81.4	104.9	-28.2	58.4	29.0	
Tax	21.7	20.4	27.9	-22.3	15.9	37.0	
PAT	53.0	60.5	76.4	-30.6	42.1	26.0	Lower sales and EBITDA margin pressure dragged PAT in Q2
Key Metrics							
Home care segment	387.8	510.7	468.5	-17.2	389.9	-0.5	Branded mattresses, comfort foam segment revenue declined by ~16% and ~19% YoY respectively dragged by soft demand
Technical Foam segment	145.6	136.8	116.6	24.9	123.6	17.8	Revenue growth led by strong recovery in the automotive demand
Joyce (Australia)	105.0	104.2	95.0	10.5	110.3	-4.8	Favourable base and capacity addition helped drive revenues in Australia
Interplasp (Spain)	88.1	96.9	105.8	-16.7	104.6	-15.8	Export slowdown and high inflation dent volume offtake in Europe

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

(₹ Crore)	FY23E			FY24E			Comments
	Old	New	% Chg	Old	New	% Chg	
Revenue	3364.4	3275.0	(2.7)	3797.2	3723.6	(1.9)	We revise our revenue estimate downward by ~3% and 2% YoY for FY23E-24E factoring in Q2 performance. We model revenue CAGR of 12% over FY22-24E
EBITDA	367.9	386.1	5.0	462.6	485.5	4.9	
EBITDA Margin %	10.9	11.8	89bps	12.2	13.0	84bps	We revise our EBITDA margin estimate upward factoring in easing raw material prices
PAT	252.5	263.9	4.5	321.6	332.6	3.4	
EPS (₹)	51.8	54.1	4.5	65.9	68.2	3.5	

Source: ICICI Direct Research

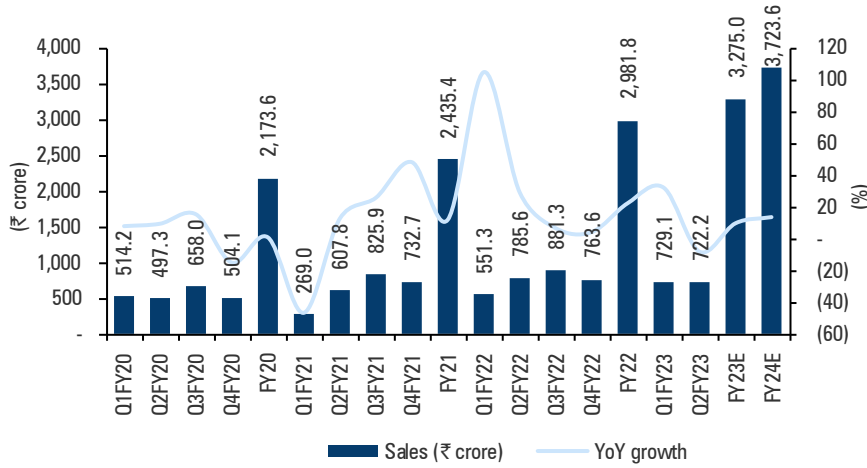
Exhibit 4: Assumptions

(%)	Current					Earlier		Comments
	FY20	FY21	FY22	FY23E	FY24E	FY23E	FY24E	
Home care segment	-1.5	-4.4	21.9	9.0	11.2	16.7	12.7	We model home care segment revenue CAGR of 10% over FY22-24E supported by mattresses segment revenue CAGR of 11%
Technical Foam segment	-10.5	0.3	40.5	29.1	26.9	23.1	18.1	We model segment revenue CAGR of 28% over FY22-24E on a favourable base and revival in the automotive industry
Joyce (Australia)	-3.7	30.9	3.9	5.7	9.1	4.3	8.9	We model moderate revenue CAGR of 7% for Joyce Australia
Interplasp (Spain)	NM	NM	28.0	-3.5	11.0	2.8	12.5	We believe demand recovery and pick up in export will drive segment revenue

Source: ICICI Direct Research

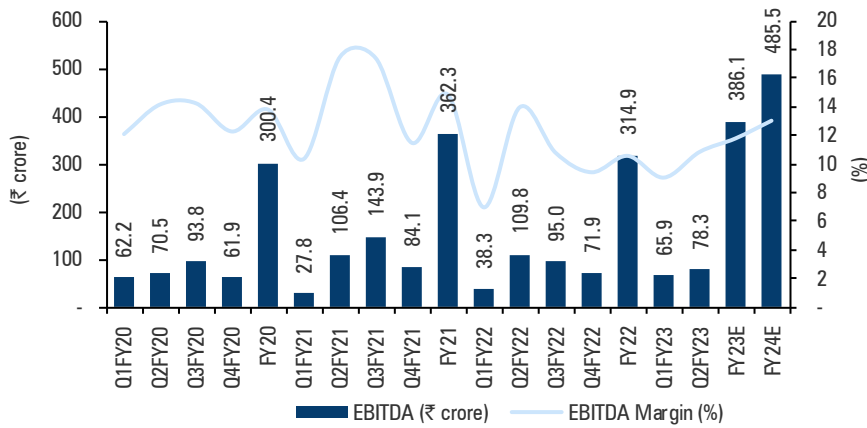
Financial story in charts

Exhibit 5: Revenue growth trend



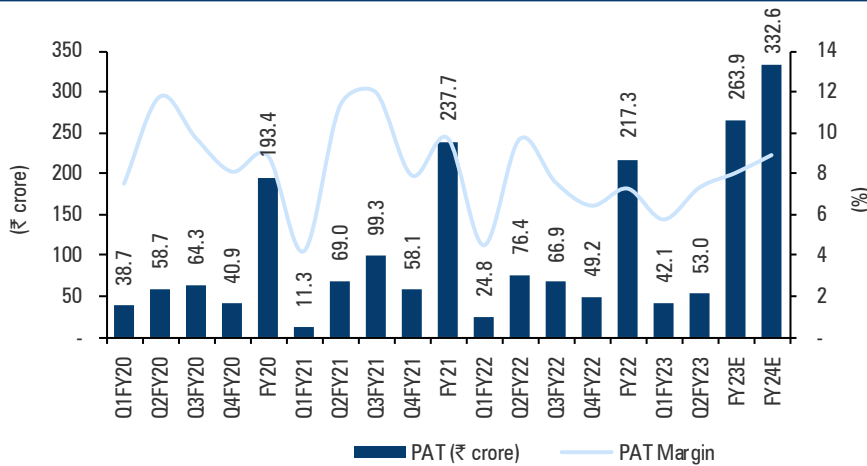
Source: Company, ICICI Direct Research

Exhibit 6: EBITDA and EBITDA margin movement



Source: Company, ICICI Direct Research

Exhibit 7: PAT movement



Source: Company, ICICI Direct Research

Financial Summary

Exhibit 8: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Revenue	2,435.4	2,981.8	3,275.0	3,723.6
Growth (%)		22.4	9.8	13.7
Raw material expense	1,379.3	1,842.3	1,867.2	2,170.2
Employee expenses	231.7	257.7	280.6	294.3
Advertisement expense	52.2	70.4	84.4	111.7
Other expenses	409.8	496.5	656.7	661.9
Total Operating Exp	2,073.0	2,666.9	2,888.9	3,238.1
EBITDA	362.3	314.9	386.1	485.5
Growth (%)		-13.1	22.6	25.7
Depreciation	72.9	80.8	84.2	93.1
Interest	17.7	17.0	22.3	20.7
Other Income	52.1	79.2	82.2	85.8
PBT	323.8	296.4	361.9	457.5
Total Tax	83.7	77.6	96.0	122.8
PAT	237.7	217.3	263.9	332.6

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Profit after Tax	237.7	217.3	263.9	332.6
Add: Depreciation	72.9	80.8	84.2	93.1
Add: Interest Paid	17.7	17.0	22.3	20.7
(Inc)/dec in Current Assets	-180.2	-15.5	-60.5	-113.1
Inc/(dec) in CL and Provisions	113.7	21.3	42.2	71.0
Others	0.0	0.0	0.0	0.0
CF from operating activities	261.8	320.9	352.1	404.3
(Inc)/dec in Investments	-289.2	-224.9	0.0	-50.0
(Inc)/dec in Fixed Assets	-50.9	-313.0	-180.0	-170.0
Others	70.2	93.8	15.4	22.7
CF from investing activities	-269.9	-444.1	-164.6	-197.3
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	12.5	132.1	-25.0	-25.0
Dividend paid & dividend tax	0.0	0.0	-122.0	-146.3
Others	9.1	-26.0	-9.2	-20.7
CF from financing activities	21.6	106.1	-156.2	-192.0
Net Cash flow	13.5	-17.1	31.4	15.0
Opening Cash	44.6	58.1	41.0	72.4
Closing Cash	58.1	41.0	72.4	87.4

Source: Company, ICICI Direct Research

Exhibit 10: Balance Sheet				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Liabilities				
Equity Capital	24.4	24.4	24.4	24.4
Reserve and Surplus	1,159.9	1,368.2	1,523.3	1,709.6
Total Shareholders funds	1,184.3	1,392.6	1,547.7	1,733.9
Total Debt	205.6	337.8	312.8	287.8
Other non current liabilities	104.5	50.6	55.5	63.1
Total Liabilities	1,620.8	1,896.0	2,043.4	2,230.3
Assets				
Gross Block	717.4	915.2	1,095.2	1,265.2
Less: Acc Depreciation	259.5	340.3	424.4	517.5
Total Fixed Assets	462.5	694.8	790.6	867.5
Investments	107.0	89.4	89.4	89.4
Inventory	315.3	314.5	337.0	383.2
Debtors	302.2	285.0	314.0	367.3
Loans and Advances	8.3	5.6	6.2	7.0
Other Current Assets	49.7	85.8	94.2	107.1
Cash	58.1	41.0	72.4	87.4
Total Current Assets	733.5	731.9	823.8	951.9
Creditors	229.6	301.3	314.0	357.1
Provisions	21.2	29.9	31.1	35.4
Other current liabilities	204.3	145.2	173.4	197.2
Total Current Liabilities	455.1	476.4	518.6	589.7
Net Current Assets	278.4	255.5	305.2	362.3
Other Non Current	149.6	19.3	21.2	24.1
Total Assets	1,620.8	1,896.0	2,043.5	2,230.3

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios				
(Year-end March)	FY21	FY22	FY23E	FY24E
Per share data (₹)				
EPS	48.7	44.5	54.1	68.2
Cash EPS	63.7	61.1	71.4	87.3
BV	242.8	285.5	317.3	355.5
DPS	0.0	0.0	25.0	30.0
Operating Ratios (%)				
EBITDA Margin	14.9	10.6	11.8	13.0
PAT Margin	9.8	7.3	8.1	8.9
Asset Turnover	1.7	1.7	1.7	1.8
Inventory Days	47.3	38.5	37.6	37.6
Debtor Days	45.3	34.9	35.0	36.0
Creditor Days	34.4	36.9	35.0	35.0
Return Ratios (%)				
RoE	20.1	15.6	17.1	19.2
RoCE	24.3	18.0	20.5	23.5
RoIC	26.2	16.4	19.4	22.6
Valuation Ratios (x)				
P/E	57.4	62.7	51.7	41.0
EV / EBITDA	37.7	43.9	35.7	28.3
EV / Net Sales	5.6	4.6	4.2	3.7
Market Cap / Sales	5.6	4.6	4.2	3.7
Price to Book Value	11.5	9.8	8.8	7.9
Solvency Ratios				
Debt / Equity	0.2	0.2	0.2	0.2
Current Ratio	1.8	1.7	1.7	1.7
Quick Ratio	0.9	0.9	0.9	0.9

Source: Company, ICICI Direct Research

Exhibit 12: ICICI Direct Consumer Discretionary universe

Sector / Company	Rating	M Cap (₹ Cr)	EPS (₹)				P/E (x)				EV/EBITDA (x)				RoCE (%)			RoE (%)				
			FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E
Asian Paints (ASIPAI)	Buy	2,95,947	33.4	32.2	40.8	54.2	92.3	95.9	75.6	57.0	60.0	61.0	50.3	38.7	29.6	27.1	32.5	38.7	25.0	23.0	27.3	32.1
Berger Paints (BERPAI)	Hold	57,112	7.4	8.6	9.9	12.3	79.3	68.6	59.3	47.8	47.9	43.1	37.8	31.1	24.9	23.3	27.6	31.0	21.3	21.2	25.2	27.7
Kansai Nerolac (KANNER)	Hold	23,982	9.8	6.9	10.1	12.9	45.2	64.1	44.0	34.4	28.4	36.9	26.8	21.3	17.2	12.1	17.0	19.9	13.2	9.2	13.1	15.1
Pidilite Industries (PIDIND)	Hold	1,34,770	22.2	23.8	27.8	39.9	119.7	111.7	95.4	66.5	79.9	72.8	63.7	45.4	23.8	22.2	23.9	30.0	20.2	18.8	20.2	25.0
Sheela Foam (SHEFOA)	BUY	13,634	48.7	44.5	54.1	68.2	57.4	62.7	51.7	41.0	37.7	43.9	35.7	28.3	24.3	18.0	20.5	23.5	20.1	15.6	17.1	19.2
Bajaj Electricals (BAJELE)	Hold	13,346	16.5	10.8	23.2	36.4	70.4	107.3	50.0	31.9	44.8	53.0	32.9	23.4	15.1	13.5	22.1	27.3	10.7	7.8	15.7	20.2
Crompton Greaves(CROGR)	Hold	22,439	9.8	9.2	8.9	11.1	36.4	38.8	40.2	32.2	29.7	29.3	25.9	21.5	34.4	16.2	16.6	20.5	31.9	24.0	21.7	23.4
Havells India (HAVIND)	Buy	75,281	16.7	19.1	17.6	27.1	72.1	63.0	68.1	44.4	47.3	41.6	45.4	30.9	24.9	23.7	23.0	33.8	20.1	20.0	19.4	28.7
Polycab India (POLI)	Buy	40,125	59.3	61.4	76.3	86.8	45.3	43.7	35.2	30.9	35.3	30.8	22.5	19.9	20.6	20.2	24.7	23.8	17.9	15.6	18.4	18.0
Symphony (SYMLIM)	Hold	5,925	15.3	17.3	26.1	34.8	55.4	49.0	32.4	24.3	41.3	35.7	24.9	18.7	15.2	15.9	24.5	29.0	14.9	14.4	23.6	27.4
V-Guard Ind (VGUARD)	Hold	11,221	4.7	5.3	5.3	7.1	55.6	49.1	49.3	36.9	35.1	33.0	31.8	24.0	23.9	21.2	23.4	27.8	16.7	16.2	17.7	21.2
Voltas Ltd (VOLTAS)	Hold	27,649	16.0	15.3	16.1	23.0	52.3	54.6	51.8	36.3	42.4	39.6	38.9	27.7	15.0	14.0	16.3	20.1	10.6	9.2	11.0	14.1
Amber Enterprises (AMBEN)	Hold	6,813	24.7	33.0	45.7	73.7	81.8	61.2	44.2	27.4	30.7	26.0	20.5	15.1	7.7	6.8	10.2	13.2	5.2	6.4	8.7	12.3
Dixon Technologies (DIXTEC)	Buy	26,951	27.3	32.1	57.9	85.4	166.5	141.6	78.4	53.2	94.0	71.5	44.1	32.2	23.5	17.7	27.8	31.5	21.7	19.1	31.8	34.2
Supreme Indus (SUPIND)	Buy	30,512	77.0	76.2	63.1	80.4	31.2	31.5	38.1	29.9	23.2	24.1	26.3	20.4	33.1	25.9	22.6	27.1	30.9	25.2	20.5	23.6
Astral Ltd (ASTPOL)	Hold	42,005	20.3	24.4	25.8	35.9	102.9	85.7	81.2	58.2	64.5	54.9	48.4	36.8	27.5	26.6	25.5	29.3	21.5	21.0	19.6	23.1
Time Techno (TIMTEC)	BUY	2,397	4.8	8.5	10.1	13.1	22.2	12.5	10.5	8.1	7.7	6.2	5.3	4.5	8.7	11.3	12.8	14.6	5.7	9.3	10.7	12.5
Moldtek Packaging (MOLPLA)	Hold	2,963	17.2	20.4	26.7	34.4	51.9	43.8	33.4	25.9	32.3	24.9	19.9	15.7	20.1	18.6	27.6	27.9	18.7	13.9	24.3	24.3

Source: Bloomberg, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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