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Q2FY23 result review and
TP revision

Consumer Staples & Discretionary

Target price Rs3,400

Earnings revision

(%)		FY23E		FY24E
Sales	↓	4.0	↓	1.4
EBITDA	↓	7.8	↓	0.7
PAT	↑	4.3	↑	0.5

Target price revision

Rs3,400 from Rs3,500

Shareholding pattern

	Mar '22	Jun '22	Sep '22
Promoters	73.0	73.0	73.0
Institutional investors	25.9	26.0	25.9
MFs and other	23.1	22.6	22.5
Insurance co	0.0	0.0	0.0
FIs	2.8	3.4	3.4
Others	1.1	1.0	1.1

Source: BSE

ESG disclosure score

Year	2020	2021	Chg
ESG score	NA	NA	NA
Environment	NA	NA	NA
Social	NA	NA	NA
Governance	NA	NA	NA

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.
Source: Bloomberg, I-sec research

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INDIA

Sheela Foam

BUY
Maintained

Weak quarter with GM recovery the only positive **Rs2,895**

2QFY23: Revenue print further weakened, down 8% YoY. India braded business' 16% YoY revenue decline (volumes down 18% YoY) was quite weak with it highlighting a softer demand environment (surprising to us given urban discretionary as a basket continues to perform well in general). There was good improvement in gross margin print (+470-480bps YoY/QoQ) with RM softening. While some uptick from auto segment is expected, the furniture segment demand is slightly sluggish. Australia continues to trend well (was up 11% YoY) while Spain business is weak (-17% YoY) - some near-term headwinds.

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. **BUY**.

- **Weakness across particularly in India branded business:** Consolidated revenue performance was muted given 1% QoQ (down 8% YoY) decline to Rs7.2bn, below our estimate. Branded mattresses segment revenue was down 16% YoY with volume decline of 18%. Overall India business was down 9% YoY. Performance of B2B segments in India was mixed: while furniture foam and foam care were down 18-20% YoY, technical foam reported a good 24% YoY growth. Australia business revenue was up 11% YoY while Spain reported a 17% YoY decline.
- **Recovery seen in margins:** Gross margin recovered 470-480 bps on YoY and QoQ basis to 44.6%. We note that the gross margin print is still down ~5 pts from the pre-covid level. We note that both key raw materials are showing some signs of softening – TDI at Rs248/kg was up 43% YoY but down 7% QoQ; Polyol at Rs131/kg was down 35% YoY and 25% QoQ. We note that TDI prices have cooled-off after 4-5 consistent quarters of rising price scenario. EBITDA margin improved sequentially (+180bps YoY) to 10.8% even as it was down YoY with a 27% YoY increase in opex.
- **Valuation and risks:** We cut our earnings estimate by 4% for FY23E; modelling revenue / EBITDA / PAT CAGR of 12% / 31% / 33% over FY22-24E. Maintain BUY with a DCF-based revised target price of Rs3,400 (Rs3,500 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	Rs141bn/US\$1.7bn	Year to March	FY21	FY22	FY23E	FY24E
Reuters/Bloomberg	SHVF.BO / SFL IN	Net Revenue (Rs mn)	24,354	29,818	32,613	37,235
Shares Outstanding (mn)	48.8	Net Profit (Rs mn)	2,402	2,187	2,941	3,851
52-week Range (Rs)	3944/2564	Dil. EPS (Rs)	49.2	44.8	60.3	78.9
Free Float (%)	27.0	% Chg YoY	16.4	(8.9)	34.5	30.9
FII (%)	3.4	P/E (x)	58.8	64.6	48.0	36.7
Daily Volume (US\$'000)	633	CEPS (Rs)	64.2	61.4	78.2	99.1
Absolute Return 3m (%)	1.3	EV/EBITDA (x)	39.1	45.0	34.7	26.1
Absolute Return 12m (%)	6.7	Dividend Yield (%)	0.0	0.0	0.0	0.0
Sensex Return 3m (%)	5.1	RoCE (%)	20.9	13.8	15.9	19.6
Sensex Return 12m (%)	3.2	RoE (%)	22.6	16.9	19.0	20.4

Please refer to important disclosures at the end of this report

Table 1: Q2FY23 results review (consolidated)

(Rs mn)

	Q2FY23	Q2FY22	YoY (%)	Q1FY23	QoQ (%)	1HFY23	1HFY22	YoY (%)
Net Revenue	7,222	7,856	(8)	7,291	(1)	14,513	13,369	9
COGS	(3,998)	(4,720)	(15)	(4,391)	(9)	(8,389)	(8,275)	1
Gross profit	3,223	3,136	3	2,900	11	6,124	5,094	20
Staff cost	(682)	(653)	4	(695)	(2)	(1,377)	(1,257)	10
Other opex	(1,758)	(1,385)	27	(1,547)	14	(3,305)	(2,356)	40
Total opex	(2,441)	(2,038)	20	(2,242)	9	(4,682)	(3,613)	30
EBITDA	783	1,098	(29)	659	19	1,441	1,481	(3)
Other income	225	178	26	184	22	409	357	15
Finance Cost	(50)	(42)	19	(53)	(5)	(103)	(91)	13
D&A	(205)	(186)	10	(207)	(1)	(412)	(371)	11
PBT	753	1,049	(28)	584	29	1,337	1,376	(3)
Tax	(217)	(279)	(22)	(159)	37	(376)	(355)	6
Recurring PAT	536	769	(30)	425	26	961	1,021	(6)
EPS	11.0	15.8	(30)	8.7	26	19.7	20.9	(6)
Costs as a % of sales								
COGS	55.4	60.1	-472 bps	60.2	-486 bps	57.8	61.9	-409 bps
Gross margin (%)	44.6	39.9	471 bps	39.8	485 bps	42.2	38.1	408 bps
Staff cost	9.4	8.3	113 bps	9.5	-8 bps	9.5	9.4	8 bps
Other opex	24.3	17.6	672 bps	21.2	313 bps	22.8	17.6	514 bps
EBITDA margin (%)	10.8	14.0	-315 bps	9.0	180 bps	9.9	11.1	-115 bps
Income tax rate (%)	28.8	26.6	220 bps	27.2	168 bps	28.1	25.8	228 bps

Source: Company data, I-Sec research

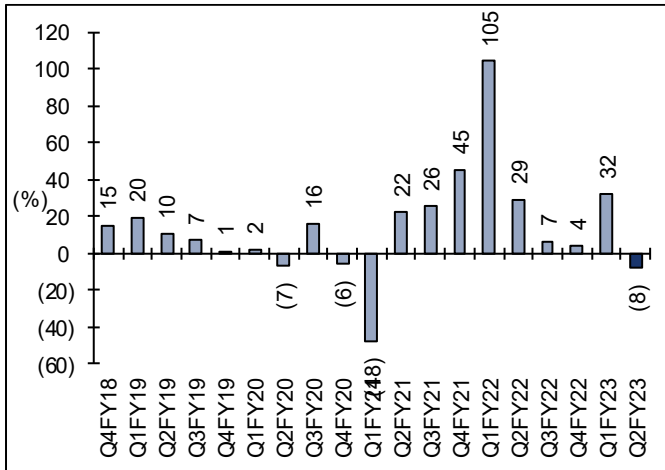
Table 2: Q2FY23 segment results review

(Rs mn)

	Q2FY23	Q2FY22	YoY (%)	Q1FY23	QoQ (%)	1HFY23	1HFY22	YoY (%)
Segment Revenue								
Mattresses	2,075	2,470	(16)	2,195	(5)	4,270	3,867	10
Furniture Foam	640	780	(18)	627	2	1,267	1,165	9
Foam Core	1,156	1,437	(20)	1,077	7	2,233	2,161	3
Technical Foam	1,452	1,170	24	1,236	17	2,688	1,920	40
Australia	1,050	950	11	1,103	(5)	2,153	1,984	9
Spain	881	1,058	(17)	1,046	(16)	1,927	2,283	(16)
Segment Volume (Mattress in '000 Nos., others in Tons.)								
Mattresses	475	582	(18)	501	(5)	976	932	5
Furniture Foam	1,350	1,697	(20)	1,302	4	2,652	2,539	4
Foam Core	5,075	6,446	(21)	4,942	3	10,017	9,675	4
Technical Foam	4,013	3,491	15	4,942	(19)	7,326	5,683	29
Segment Realisation (Mattress in Rs/No., others in Rs/Kg)								
Mattresses	4,368	4,242	3	4,381	(0)	4,375	4,149	5
Furniture Foam	474	459	3	482	(2)	478	459	4
Foam Core	228	195	17	218	5	223	223	(0)
Technical Foam	362	334	8	250	45	367	338	9

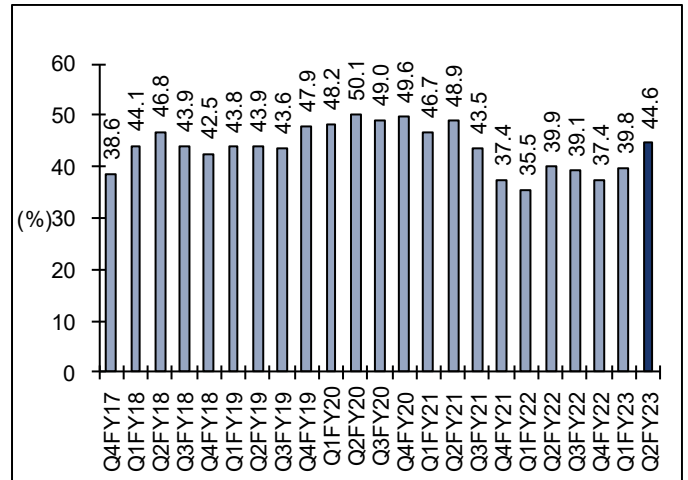
Source: Company data, I-Sec research

Chart 1: Revenue growth (consolidated)



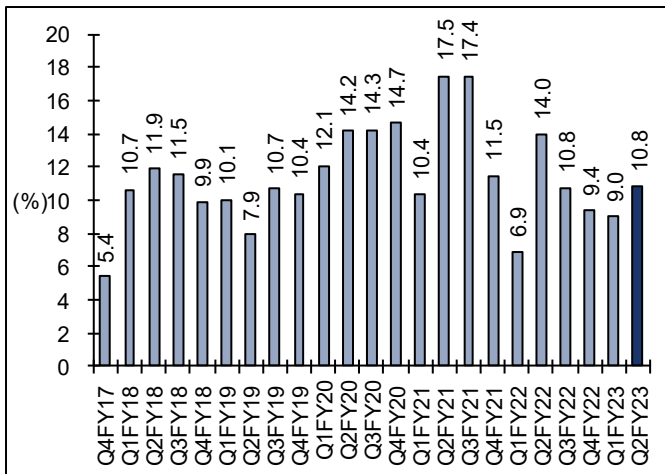
Source: Company data, I-Sec research

Chart 2: Gross margin (consolidated)



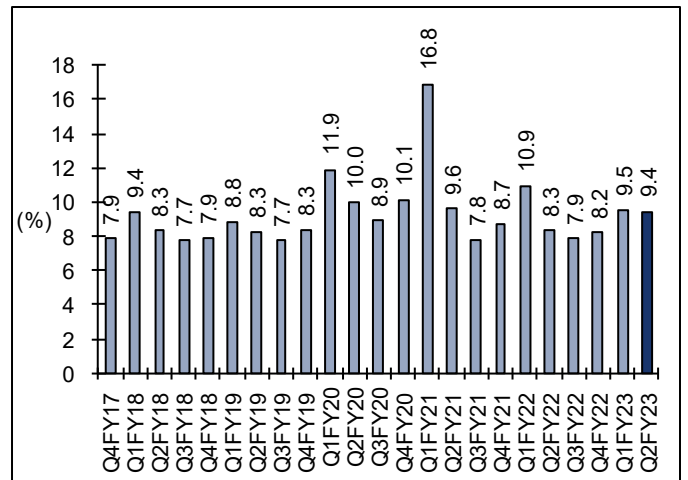
Source: Company data, I-Sec research

Chart 3: EBITDA margin (consolidated)



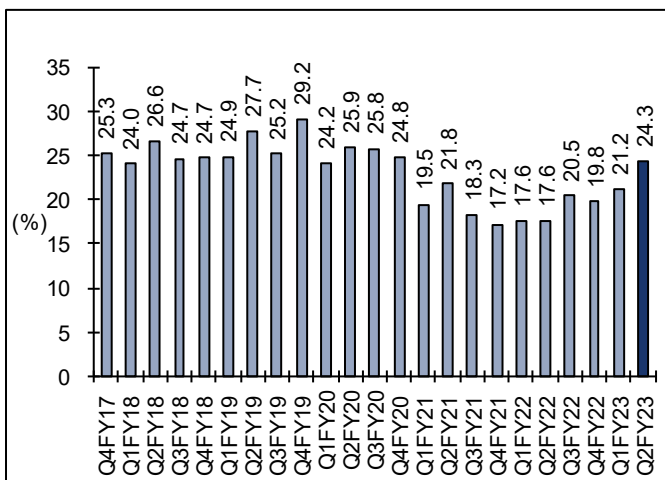
Source: Company data, I-Sec research

Chart 4: Staff cost as a % of sales



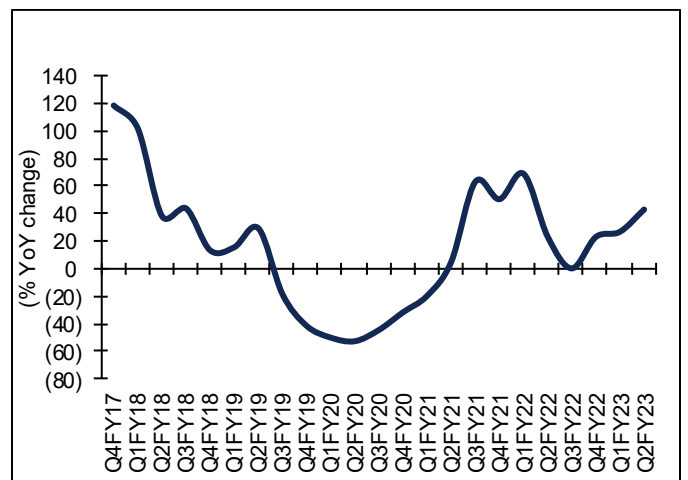
Source: Company data, I-Sec research

Chart 5: Other expenses as a % of sales



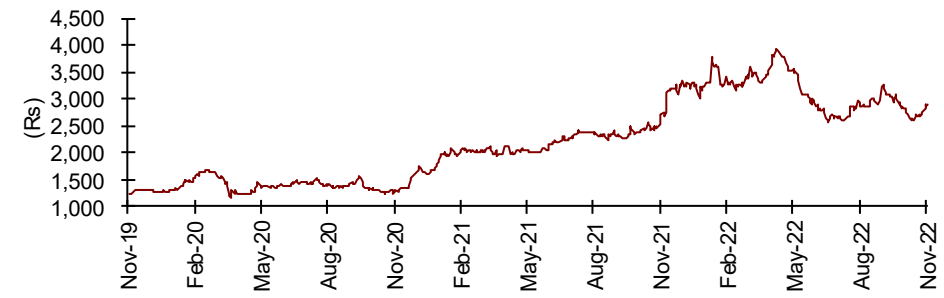
Source: Company data, I-Sec research

Chart 6: TDI price change



Source: Company data, I-Sec research

Price chart



Source: Bloomberg

Financial summary

Table 3: Profit & Loss statement

(Rs mn, year ending March 31)

	FY21	FY22	FY23E	FY24E
Net Revenues	24,354	29,818	32,613	37,235
Operating Expenses	20,731	26,669	28,537	31,812
EBITDA	3,623	3,149	4,076	5,423
% margins	14.9	10.6	12.5	14.6
Depreciation & Amortisation	729	808	875	982
Gross Interest	177	170	203	149
Other Income	521	792	933	853
Recurring PBT	3,238	2,964	3,931	5,146
Less: Taxes	837	776	989	1,295
Less: Minority Interest	-	-	-	-
Net Income (Reported)	2,402	2,187	2,941	3,851
Extraordinaries (Net)	-	-	-	-
Recurring Net Income	2,402	2,187	2,941	3,851

Source: Company data, I-Sec research

Table 4: Balance sheet

(Rs mn, year ending March 31)

	FY21	FY22	FY23E	FY24E
Assets				
Total Current Assets	8,378	8,213	9,359	11,199
of which cash & cash eqv.	1,651	1,305	1,803	3,531
Total Current Liabilities & Provisions	5,395	5,039	4,897	5,641
Net Current Assets	2,983	3,174	4,462	5,558
Investments	3,681	6,044	6,610	7,547
Net Fixed Assets	8,653	8,269	9,355	9,373
Capital Work-in-Progress	47	1,199	1,199	1,199
Goodwill	2,631	2,520	2,520	2,520
Total Assets	15,363	18,685	21,626	23,677
Liabilities				
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	16,699	20,550
Net Worth	11,932	14,002	16,943	20,794
Total Liabilities	15,363	18,685	21,626	23,677

Source: Company data, I-Sec research

Table 5: Quarterly trends

(Rs mn, year ending March 31)

	Dec 21	Mar 22	Jun 22	Sep 22
Net Revenues	8,813	7,636	7,291	7,222
% growth (YoY)	6.7	4.2	32.3	(8.1)
EBITDA	950	718	659	783
Margin (%)	10.8	9.4	9.0	10.8
Other income	277	158	184	225
Extraordinaries (Net)	-	-	-	-
Adjusted Net profit	674	493	425	536

Source: Company data, I-Sec research

Table 6: Cashflow statement

(Rs mn, year ending March 31)

	FY21	FY22	FY23E	FY24E
Operating Cash flow	3,007	2,560	2,520	3,191
Working Capital	(404)	(589)	(790)	631
Changes				
Capital Commitments	(648)	(1,635)	(1,962)	(1,000)
Free Cash Flow	1,956	337	(232)	2,822
Cash flow from	(2,147)	(3,064)	(1,232)	(295)
Investing Activities				
Issue of Share Capital	-	-	-	-
Inc (Dec) in Borrowings	(49)	1,207	-	(1,800)
Dividend paid	(24)	(37)	-	-
Change in Deferred Tax Liability	133	(165)	498	1,727
Chg. in Cash & Bank balance	581	411	910	2,637

Source: Company data, I-Sec research

Table 7: Key ratios

(Year ending March 31)

	FY21	FY22	FY23E	FY24E
Per Share Data (Rs)				
EPS	49.2	44.8	60.3	78.9
Cash EPS	64.2	61.4	78.2	99.1
Dividend per share (DPS)	-	-	-	1.0
Book Value per share (BV)	244.6	287.0	347.3	426.3
Growth (%)				
Net Sales	12.0	22.4	9.4	14.2
EBITDA	20.6	(13.1)	29.4	33.0
PAT	16.4	(8.9)	34.5	30.9
DPS	-	-	-	-
Valuation Ratios (x)				
P/E	58.8	64.6	48.0	36.7
P/CEPS	45.1	47.2	37.0	29.2
P/BV	11.8	10.1	8.3	6.8
EV / EBITDA	39.1	45.0	34.7	26.1
EV / Sales	5.8	4.7	4.3	3.8
Operating Ratios				
Raw Material / Sales (%)	56.6	61.8	56.0	55.6
Employee cost / Sales (%)	9.5	8.6	8.7	8.4
SG&A / Sales (%)	19.0	19.0	22.8	21.5
Other Income / PBT (%)	16.1	26.7	23.7	16.6
Effective Tax Rate (%)	25.8	26.2	25.2	25.2
Working Capital (days)	21.2	25.2	32.1	22.2
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)
Profitability Ratio (%)				
Net Income Margins	9.9	7.3	9.0	10.3
RoACE	20.9	13.8	15.9	19.6
RoAE	22.6	16.9	19.0	20.4
Dividend Payout	-	-	-	1.3
Dividend Yield	-	-	-	0.0
EBITDA Margins	14.9	10.6	12.5	14.6

Source: Company data, I-Sec research

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