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Q3FY22 result review and  
TP revision

## Consumer Staples & Discretionary

Target price Rs4,000

### Earnings revision

(%)	FY22E	FY23E
Sales	↓ 4.3	↓ 1.7
EBITDA	↓ 12.0	↓ 0.2
PAT	↓ 10.0	↓ 0.0

### Target price revision

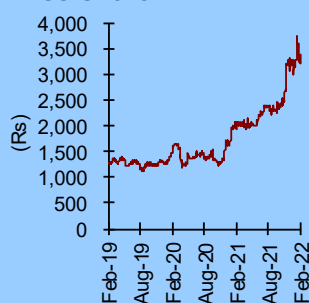
Rs4,000 from Rs3,900

### Shareholding pattern

	Jun '21	Sep '21	Dec '21
Promoters	73.0	73.0	73.0
Institutional investors	25.0	25.2	25.9
MFs and other	22.8	23.2	23.6
Insurance co	0.4	0.3	0.0
FIs	1.8	1.7	2.3
Others	2.0	1.9	1.1

Source: BSE

### Price chart



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## INDIA

# Sheela Foam

**BUY**

**Maintained**

## A weak quarter for India mattress business

**Rs3,400**

A disappointing revenue performance (+7% YoY) was further exacerbated by continued margin pressure – while inflationary pressure in key inputs of TDI and Polyol has (now) started to come in base, the pressure is too high to be absorbed easily. GM contracted significantly to 39.1% while EBITDA margin declined to 10.8% (versus 17.4% in 3QFY21). Growth in B2B business was relatively better. Australia business was largely flat while Spain reported a (comparatively) better performance.

Long-term opportunities are DCF-accretive and embellish the narrative – (a) benefit from China+ strategy of buyers in 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. Price hikes in branded mattress and effective cost controls are unlikely to completely mitigate pressure from rising input costs in near term and that's the key speed-breaker. **BUY**.

- ▶ **Weakness across particularly in India branded business:** Consolidated revenue was up 7% YoY to Rs8.8bn, much below our estimate. Branded mattresses segment declined by 7% YoY (volume down 16% YoY) despite 3QFY22 being a good quarter for overall discretionary demand (strong festive season). B2B segments in India performance was mixed: Foam core (+31% YoY), technical foam (+17% YoY), furniture foam (+9% YoY) and home comforts (+25% YoY). Australia business revenue was flat while Spain business performed relatively better (+14% YoY).
- ▶ **Margins continue to be under pressure due to significant commodity headwinds:** Gross margin declined 443bps to 39.1% due to input cost headwinds (TDI at Rs212/kg was up 22.5% QoQ and flat YoY; Polyol at Rs203/kg was largely flat on QoQ basis). However, gross margins were even under pressure on a QoQ basis, down 82bps. EBITDA margin contracted 666bps YoY to 10.8% due to a sharp 19% increase in other expenditure. We note that current inflationary trends in the two RMs is mixed – TDI prices are up to Rs225/kg (Rs212/kg in 3QFY22) while Polyol prices are down to Rs170/kg (Rs203/kg in 3QFY22).
- ▶ **Valuation and risks:** Our earnings estimate for FY23 are largely unchanged; modelling revenue / EBITDA / PAT CAGR of 18% / 22% / 28% over FY21-24E. Maintain BUY with a DCF-based revised target price of Rs4,000 (Rs3,900 earlier). At our target price, the stock will trade at 43x P/E multiple Sep-23E. 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	Rs166bn/US\$2.2bn	Year to March	FY21	FY22E	FY23E	FY24E
Reuters/Bloomberg	SHVF.BO / SFL IN	Net Revenue (Rs mn)	24,354	30,415	35,486	40,060
Shares Outstanding (mn)	48.8	Net Profit (Rs mn)	2,402	2,588	4,129	5,039
52-week Range (Rs)	3765/1945	Dil. EPS (Rs)	49.2	53.0	84.6	103.3
Free Float (%)	27.0	% Chg YoY	16.4	7.7	59.6	22.0
FII (%)	2.3	P/E (x)	69.1	64.2	40.2	32.9
Daily Volume (US\$'000)	1,354	CEPS (Rs)	64.2	68.9	102.0	122.4
Absolute Return 3m (%)	33.7	EV/EBITDA (x)	45.9	45.7	30.2	25.2
Absolute Return 12m (%)	70.4	Dividend Yield (%)	0.0	0.0	0.0	0.1
Sensex Return 3m (%)	(0.7)	RoCE (%)	20.9	17.4	23.8	23.8
Sensex Return 12m (%)	20.8	RoE (%)	22.6	19.6	24.9	23.8

**Table 1: Q3FY22 results review**

(Rs mn)

	Q3FY22	Q3FY21	YoY (%)	Q2FY22	QoQ (%)	9MFY22	9MFY21	YoY (%)
<b>Net Revenue</b>	<b>8,813</b>	<b>8,259</b>	<b>7</b>	<b>7,856</b>	<b>12</b>	<b>22,182</b>	<b>17,027</b>	<b>30</b>
COGS	(5,367)	(4,664)	15	(4,720)	14	(13,642)	(9,206)	48
<b>Gross profit</b>	<b>3,446</b>	<b>3,595</b>	<b>(4)</b>	<b>3,136</b>	<b>10</b>	<b>8,540</b>	<b>7,821</b>	<b>9</b>
Staff cost	(693)	(645)	8	(653)	6	(1,950)	(1,681)	16
Other opex	(1,803)	(1,511)	19	(1,385)	30	(4,160)	(3,358)	24
<b>Total opex</b>	<b>(2,496)</b>	<b>(2,156)</b>	<b>16</b>	<b>(2,038)</b>	<b>22</b>	<b>(6,110)</b>	<b>(5,039)</b>	<b>21</b>
<b>EBITDA</b>	<b>950</b>	<b>1,439</b>	<b>(34)</b>	<b>1,098</b>	<b>(14)</b>	<b>2,431</b>	<b>2,782</b>	<b>(13)</b>
Other income	277	157	76	178	55	634	358	77
Finance Cost	(58)	(47)	23	(42)	37	(148)	(131)	14
D&A	(199)	(199)	0	(186)	7	(571)	(544)	5
<b>PBT</b>	<b>970</b>	<b>1,351</b>	<b>(28)</b>	<b>1,049</b>	<b>(7)</b>	<b>2,346</b>	<b>2,465</b>	<b>(5)</b>
Tax	(297)	(349)	(15)	(279)	6	(652)	(647)	1
<b>Recurring PAT</b>	<b>674</b>	<b>1,001</b>	<b>(33)</b>	<b>769</b>	<b>(12)</b>	<b>1,694</b>	<b>1,818</b>	<b>(7)</b>
<b>EPS</b>	<b>13.8</b>	<b>20.5</b>	<b>(33)</b>	<b>15.8</b>	<b>(12)</b>	<b>34.7</b>	<b>37.3</b>	<b>(7)</b>
<b>Costs as a % of sales</b>								
COGS	60.9	56.5	442 bps	60.1	81 bps	61.5	54.1	742 bps
<b>Gross margin (%)</b>	<b>39.1</b>	<b>43.5</b>	<b>-443 bps</b>	<b>39.9</b>	<b>-82 bps</b>	<b>38.5</b>	<b>45.9</b>	<b>-743 bps</b>
Staff cost	7.9	7.8	6 bps	8.3	-45 bps	8.8	9.9	-108 bps
Other opex	20.5	18.3	216 bps	17.6	283 bps	18.8	19.7	-97 bps
<b>EBITDA margin (%)</b>	<b>10.8</b>	<b>17.4</b>	<b>-666 bps</b>	<b>14.0</b>	<b>-321 bps</b>	<b>11.0</b>	<b>16.3</b>	<b>-538 bps</b>
Income tax rate (%)	30.6	25.9	472 bps	26.6	394 bps	27.8	26.3	152 bps

Source: Company data, I-Sec research

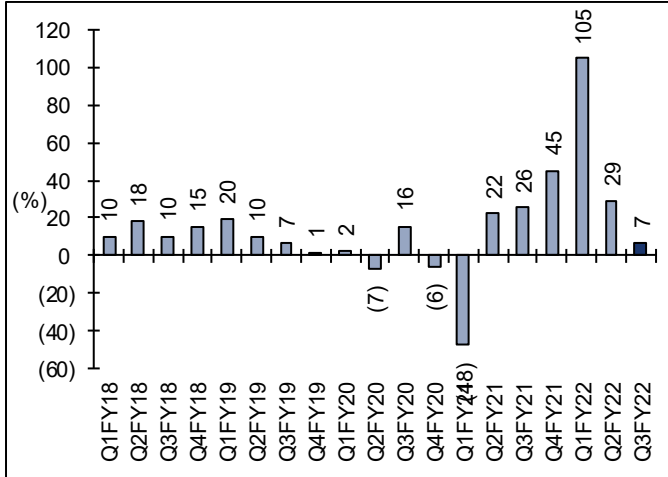
**Table 2: Q3FY22 segment results review**

(Rs mn)

	Q3FY22	Q3FY21	YoY (%)	Q2FY22	QoQ (%)	9MFY22	9MFY21	YoY (%)
<b>Segment Revenue</b>								
Mattresses	2,660	2,850	(7)	2,470	8	6,530	5,360	22
Furniture Foam	870	800	9	780	12	1,160	840	38
Foam Core	1,390	1,060	31	1,260	10	1,910	2,070	(8)
Technical Foam	1,320	1,130	17	1,170	13	3,240	2,100	54
Home Comforts Products	250	200	25	180	39	250	180	39
Australia	1,210	1,210	-	950	27	3,190	3,069	4
Spain	1,060	820	29	1,220	(13)	2,280	1,420	61
<b>Segment Volume (Mattress in '000 Nos., others in Tons.)</b>								
Mattresses	652	778	(16)	582	12	1,584	1,475	7
Furniture Foam	1,932	1,778	9	1,697	14	4,471	4,164	7
Foam Core	6,868	5,845	18	6,446	7	16,543	12,412	33
Technical Foam	3,861	3,412	13	3,491	11	9,544	6,913	38
<b>Segment Realisation (Mattress in Rs/No., others in Rs/Kg)</b>								
Mattresses	4,085	3,658	12	4,242	(4)	4,148	3,634	14
Furniture Foam	448	451	(1)	459	(2)	459	202	128
Foam Core	203	181	12	195	4	198	167	19
Technical Foam	341	331	3	334	2	337	304	11

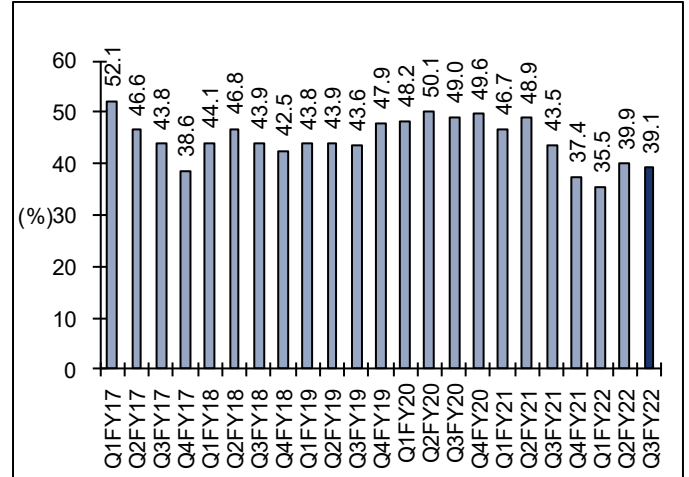
Source: Company data, I-Sec research

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



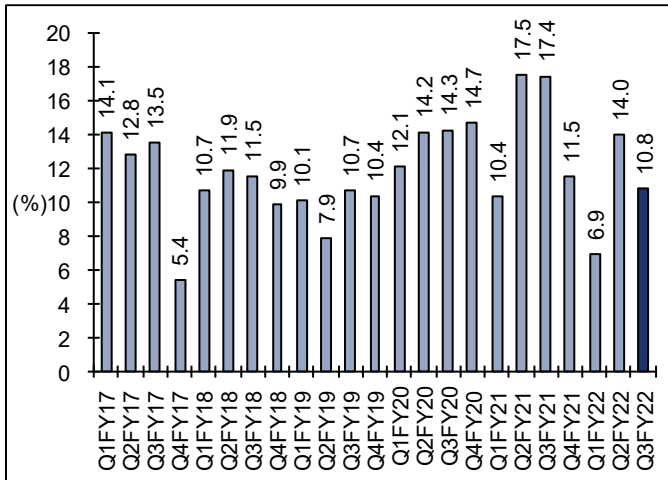
Source: Company data, I-Sec research

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



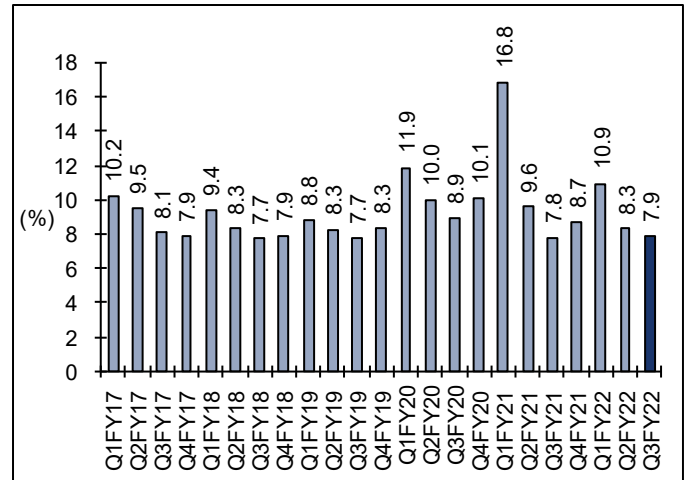
Source: Company data, I-Sec research

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



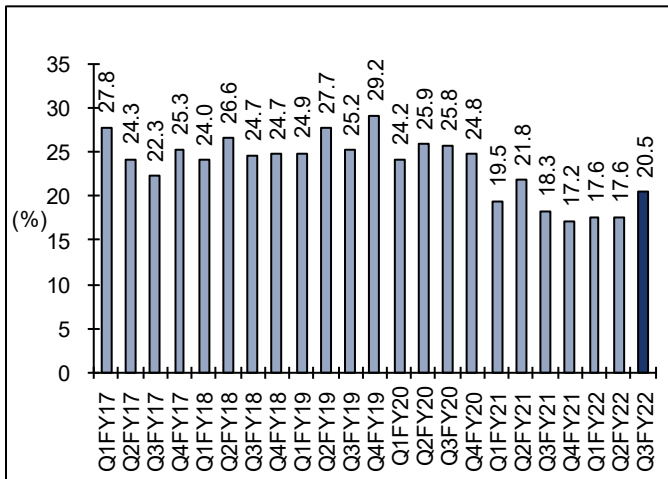
Source: Company data, I-Sec research

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



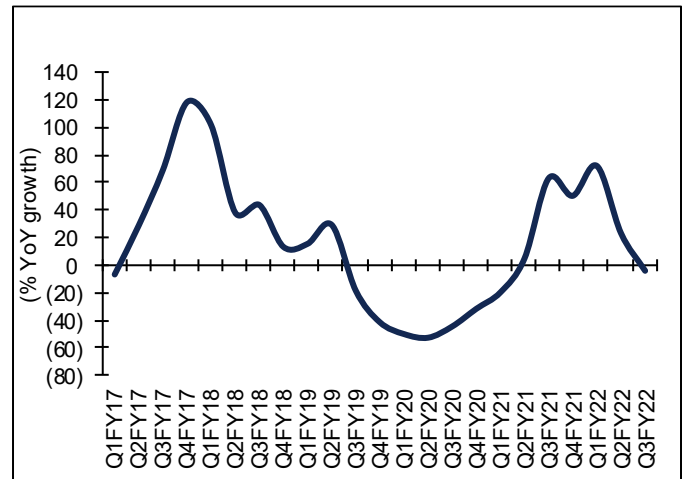
Source: Company data, I-Sec research

**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	FY22E	FY23E	FY24E
<b>Net Revenues</b>	<b>24,354</b>	<b>30,415</b>	<b>35,486</b>	<b>40,060</b>
<b>Operating Expenses</b>	<b>20,731</b>	<b>26,770</b>	<b>29,983</b>	<b>33,442</b>
<b>EBITDA</b>	<b>3,623</b>	<b>3,645</b>	<b>5,503</b>	<b>6,618</b>
% margins	14.9	12.0	15.5	16.5
Depreciation & Amortisation	729	773	848	930
Gross Interest	177	210	137	113
Other Income	521	796	999	1,160
<b>Recurring PBT</b>	<b>3,238</b>	<b>3,458</b>	<b>5,518</b>	<b>6,734</b>
Less: Taxes	837	870	1,389	1,695
Less: Minority Interest	-	-	-	-
<b>Net Income (Reported)</b>	<b>2,402</b>	<b>2,588</b>	<b>4,129</b>	<b>5,039</b>
Extraordinaries (Net)	-	-	-	-
<b>Recurring Net Income</b>	<b>2,402</b>	<b>2,588</b>	<b>4,129</b>	<b>5,039</b>

Source: Company data, I-Sec research

Table 4: Balance sheet

(Rs mn, year ending March 31)

	FY21	FY22E	FY23E	FY24E
<b>Assets</b>				
Total Current Assets	8,378	10,785	14,634	19,759
of which cash & cash eqv.	581	2,192	5,662	10,756
Total Current Liabilities & Provisions	5,395	6,370	7,092	8,100
<b>Net Current Assets</b>	<b>2,983</b>	<b>4,415</b>	<b>7,542</b>	<b>11,660</b>
Investments	3,681	4,597	5,363	6,054
Net Fixed Assets	8,653	8,592	8,528	8,460
Capital Work-in-Progress	47	47	47	47
Goodwill	2,631	2,631	2,631	2,631
<b>Total Assets</b>	<b>15,363</b>	<b>17,651</b>	<b>21,480</b>	<b>26,220</b>
<b>Liabilities</b>				
Borrowings	3,342	3,042	2,742	2,492
Deferred Tax Liability	89	89	89	89
Minority Interest	-	-	-	-
Equity Share Capital	244	244	244	244
Face Value per share (Rs)	5	5	5	5
Reserves & Surplus*	11,688	14,276	18,405	23,395
<b>Net Worth</b>	<b>11,932</b>	<b>14,520</b>	<b>18,649</b>	<b>23,639</b>
<b>Total Liabilities</b>	<b>15,363</b>	<b>17,651</b>	<b>21,480</b>	<b>26,220</b>

Source: Company data, I-Sec research

Table 5: Quarterly trends

(Rs mn, year ending March 31)

	Mar 21	Jun 21	Sep 21	Dec 21
<b>Net Revenues</b>	<b>7,327</b>	<b>5,513</b>	<b>7,856</b>	<b>8,813</b>
% growth (YoY)	45.3	104.9	29.3	6.7
<b>EBITDA</b>	<b>841</b>	<b>383</b>	<b>1,098</b>	<b>950</b>
Margin (%)	11.5	6.9	14.0	10.8
Other income	163	179	178	277
Extraordinaries (Net)	-	-	-	-
<b>Adjusted Net profit</b>	<b>584</b>	<b>251</b>	<b>769</b>	<b>674</b>

Source: Company data, I-Sec research

Table 6: Cashflow statement

(Rs mn, year ending March 31)

	FY21	FY22E	FY23E	FY24E
<b>Operating Cash flow</b>	<b>3,007</b>	<b>1,858</b>	<b>3,348</b>	<b>4,231</b>
Working Capital	(404)	179	343	977
Changes				
Capital Commitments	(648)	(712)	(783)	(862)
<b>Free Cash Flow</b>	<b>1,956</b>	<b>1,325</b>	<b>2,907</b>	<b>4,346</b>
<b>Cash flow from</b>	<b>(2,147)</b>	<b>(126)</b>	<b>79</b>	<b>185</b>
<b>Investing Activities</b>				
Issue of Share Capital	-	-	-	-
Inc (Dec) in Borrowings	(49)	(300)	(300)	(250)
Dividend paid	(24)	-	-	(49)
<b>Change in Deferred Tax Liability</b>	<b>133</b>	<b>1,611</b>	<b>3,470</b>	<b>5,094</b>
Chg. in Cash & Bank balance	581	2,192	5,662	10,756

Source: Company data, I-Sec research

Table 7: Key ratios

(Year ending March 31)

	FY21	FY22E	FY23E	FY24E
<b>Per Share Data (Rs)</b>				
EPS	49.2	53.0	84.6	103.3
Cash EPS	64.2	68.9	102.0	122.4
Dividend per share (DPS)	-	-	1.0	3.0
Book Value per share (BV)	244.6	297.7	382.3	484.6
<b>Growth (%)</b>				
Net Sales	12.0	24.9	16.7	12.9
EBITDA	20.6	0.6	51.0	20.3
PAT	16.4	7.7	59.6	22.0
DPS	-	-	-	-
<b>Valuation Ratios (x)</b>				
P/E	69.1	64.2	40.2	32.9
P/CEPS	53.0	49.4	33.4	27.8
P/BV	13.9	11.4	8.9	7.0
EV / EBITDA	45.9	45.7	30.2	25.2
EV / Sales	6.8	5.5	4.7	4.2
<b>Operating Ratios</b>				
Raw Material / Sales (%)	56.6	61.0	55.9	55.6
Employee cost / Sales (%)	9.5	8.7	8.2	8.0
SG&A / Sales (%)	19.0	18.3	20.4	19.9
Other Income / PBT (%)	16.1	23.0	18.1	17.2
Effective Tax Rate (%)	25.8	25.2	25.2	25.2
Working Capital (days)	21.2	15.0	9.5	(0.3)
Inventory Turnover (days)	47.3	42.0	38.0	34.0
Receivables (days)	45.3	40.0	35.0	30.0
Payables (days)	34.4	30.0	26.0	26.0
Net D/E Ratio (x)	0.0	(0.1)	(0.3)	(0.4)
<b>Profitability Ratio (%)</b>				
Net Income Margins	9.9	8.5	11.6	12.6
RoACE	20.9	17.4	23.8	23.8
RoAE	22.6	19.6	24.9	23.8
Dividend Payout	-	-	1.2	2.9
Dividend Yield	-	-	0.0	0.1
EBITDA Margins	14.9	12.0	15.5	16.5

Source: Company data, I-Sec research

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