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Q4FY23 result review and
TP revision

Consumer Staples & Discretionary

Target price Rs1,300

Earnings revision

(%)		FY24E
Sales	↓	11.9
EBITDA	↓	27.1
PAT	↓	31.0

Target price revision

Rs1,300 from Rs1,700

Shareholding pattern

	Sep '22	Dec '22	Mar '23
Promoters	73.0	73.0	73.0
Institutional investors	25.9	25.6	25.6
MFs and other	22.5	22.3	22.2
Insurance co	0.0	0.0	0.0
FIs	3.4	3.3	3.4
Others	1.1	1.4	1.4

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 Rs1,055

Revenue print continues to be weak, down 1% YoY. India branded business' volume decline of 21% YoY was weak driven by significant decline in footfalls. Steps are being taken to drive footfalls by increasing footprint of EBOs (20% YoY) and planned new campaign for Sleepwell brand in FY24. International business too was underwhelming. There was good improvement in gross margin print (+550bps YoY) with RM softening (though it is not expected to revert back to pre-covid levels with gross margins still lower by 4-5 ppts vs pre-covid).

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 (currently impacted due to macro challenges), (b) opportunity in furniture cushioning and manufacturing (though management is likely to focus on the core in the near-term), and (c) acceleration in India business growth (competitive edge through 5,000+ EBO network). Consensus is keenly watching for any inorganic growth actions. **BUY.**

- **Weakness across the business:** Consolidated revenue performance was muted with 1% YoY decline to Rs7.3bn, below our estimate. Branded mattresses segment revenue was down 2% YoY with volume decline of 21% (third consecutive quarter of high teens volume decline; volumes below pre-covid levels). Management stated there is significant decline in footfalls due to 1) consumers postponing mattress purchase and pent-up demand during covid impacting consumer mattress purchase cycle, 2) EBOs having fewer offerings in home improvement segment and 3) higher ASP pressure. Overall India business was down 3% YoY. Performance of B2B segments in India was mixed: furniture foam and foam care were down 5% and 15% YoY, respectively; technical foam reported a good 11% YoY growth. Australia business revenue was down 4% YoY while Spain reported a 17% YoY growth.
- **Gross margin recovered partially:** Gross margin recovered 550bps YoY to 39.4%. We note that the gross margin print is still down ~4-5 ppts from the pre-covid level. We note that both key raw materials are showing some signs of stability – TDI at Rs231/kg was largely flattish YoY but down 5% QoQ; Polyol at Rs130/kg was down 27% YoY but up 9% QoQ. Management highlighted that these key raw materials have stabilized but unlikely to return to pre-covid levels in the near term. EBITDA margin improvement was lower at 80bps YoY and 60bps QoQ to 10.6% largely due to increased ad-spends, incentives and operating deleverage.

Market Cap	Rs103bn/US\$1.2bn	Year to March	FY22	FY23	FY24E	FY25E
Reuters/Bloomberg	SHVF.BO / SFL IN	Net Revenue (Rs mn)	28,656	28,733	31,820	35,917
Shares Outstanding (mn)	97.6	Net Profit (Rs mn)	2,187	2,031	2,752	3,594
52-week Range (Rs)	1630/638	Dil. EPS (Rs)	22.4	20.8	28.2	36.8
Free Float (%)	27.0	% Chg YoY	(8.9)	(7.2)	35.5	30.6
FII (%)	3.4	P/E (x)	47.1	50.7	37.4	28.6
Daily Volume (US\$'000)	367	CEPS (Rs)	30.7	30.0	39.1	48.9
Absolute Return 3m (%)	(10.0)	EV/EBITDA (x)	32.8	34.8	26.0	21.3
Absolute Return 12m (%)	(31.8)	Dividend Yield (%)	0.0	0.0	0.0	0.0
Sensex Return 3m (%)	1.0	RoCE (%)	13.5	10.0	12.4	13.8
Sensex Return 12m (%)	14.9	RoE (%)	16.9	13.5	15.8	17.4

- ▶ **Other highlights:** 1) New plant in India and Australia and capacity expansion in Spain is likely to be ready in 1HFY24, 2) economy mattress range is in final stages and will be launched soon, 3) inorganic opportunity being evaluated is also likely to be completed soon, 4) exports continued to be underwhelming with Rs10-15mn run-rate per month, 5) revenue from railway seats was Rs600mn in FY23 and company is working on developing a product which would provide them a competitive advantage with multiple players entering this market, 6) plans to increase EBO network by 20% YoY vs 8-10% historical expansion, 7) E-commerce contributes ~8-9% of revenues and is likely to remain stable ~10% contribution and 8) new campaign for sleepwell brand to be launched in FY24.
- ▶ **Valuation and risks:** We cut our earnings estimate by ~28% for FY24E largely due to two reasons 1) continued high teens decline in branded mattress volumes and 2) key raw material stabilizing at current levels with gross margins still below ~4-5 ppts vs pre-covid; modelling revenue / EBITDA / PAT CAGR of 12% / 28% / 33% over FY23-25E. Maintain **BUY** with a DCF-based revised target price of Rs1,300 (Rs1,700 earlier). Key downside risks are (1) adverse movement in prices of key inputs and (2) increase in competition from global players/Indian e-commerce.

Table 1: Q4FY23 results review (consolidated)

(Rs mn)

	Q4FY23	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	FY23	FY22	YoY (%)
Net Revenue	7,290	7,368	(1)	7,609	(4)	28,733	28,656	0
COGS	(4,422)	(4,870)	(9)	(4,793)	(8)	(17,868)	(18,770)	(5)
Gross profit	2,869	2,498	15	2,816	2	10,865	9,886	10
Staff cost	(730)	(623)	17	(696)	5	(2,792)	(2,555)	9
Other opex	(1,365)	(1,157)	18	(1,363)	0	(5,101)	(4,182)	22
Total opex	(2,095)	(1,779)	18	(2,059)	2	(7,892)	(6,736)	17
EBITDA	774	719	8	757	2	2,973	3,149	(6)
Other income	174	158	10	282	(38)	865	792	9
Finance Cost	(60)	(21)	179	(49)	22	(211)	(170)	24
D&A	(261)	(237)	10	(224)	16	(896)	(808)	11
PBT	628	618	2	766	(18)	2,731	2,964	(8)
Tax	(170)	(125)	37	(155)	10	(700)	(776)	(10)
Recurring PAT	458	493	(7)	612	(25)	2,031	2,187	(7)
EPS	4.7	10.1	(54)	6.3	(25)	30.7	44.8	(32)
Costs as a % of sales								
COGS	60.6	66.1	-546 bps	63.0	-235 bps	62.2	65.5	-332 bps
Gross margin (%)	39.4	33.9	545 bps	37.0	234 bps	37.8	34.5	331 bps
Staff cost	10.0	8.5	155 bps	9.1	86 bps	9.7	8.9	79 bps
Other opex	18.7	15.7	302 bps	17.9	80 bps	17.8	14.6	315 bps
EBITDA margin (%)	10.6	9.8	86 bps	10.0	66 bps	10.3	11.0	-65 bps
Income tax rate (%)	27.1	20.2	690 bps	20.2	688 bps	25.6	26.2	-56 bps

Source: Company data, I-Sec research

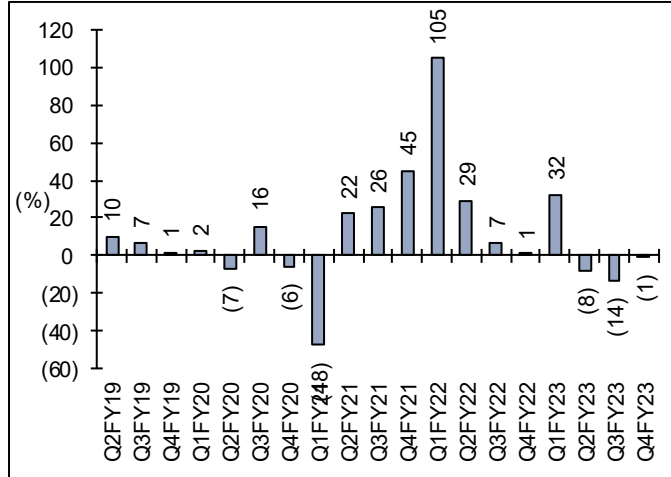
Table 2: Q4FY23 segment results review

(Rs mn)

	Q4FY23	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	FY23	FY22	YoY (%)
Segment Revenue								
Mattresses	2,061	2,104	(2)	2,328	(11)	8,190	8,288	(1)
Furniture Foam	664	700	(5)	703	(6)	2,491	2,622	(5)
Foam Core	1,079	1,269	(15)	1,214	(11)	4,250	4,813	(12)
Technical Foam	1,377	1,235	11	1,435	(4)	5,204	4,299	21
Australia	1,066	1,105	(4)	1,219	(13)	4,379	4,295	2
Spain	1,022	874	17	1,006	2	3,954	4,300	(8)
Segment Volume (Mattress in '000 Nos., others in Tons.)								
Mattresses	449	566	(21)	529	(15)	1,954	2,150	(9)
Furniture Foam	1,516	1,668	(9)	1,576	(4)	5,744	6,139	(6)
Foam Core	5,259	6,283	(16)	5,460	(4)	20,736	22,826	(9)
Technical Foam	3,764	3,878	(3)	4,299	(12)	15,389	13,422	15
Segment Realisation (Mattress in Rs/No., others in Rs/Kg)								
Mattresses	4,590	3,717	23	4,401	4	4,191	3,855	9
Furniture Foam	438	420	4	446	(2)	434	427	2
Foam Core	205	202	2	222	(8)	205	211	(3)
Technical Foam	366	318	15	334	10	338	320	6

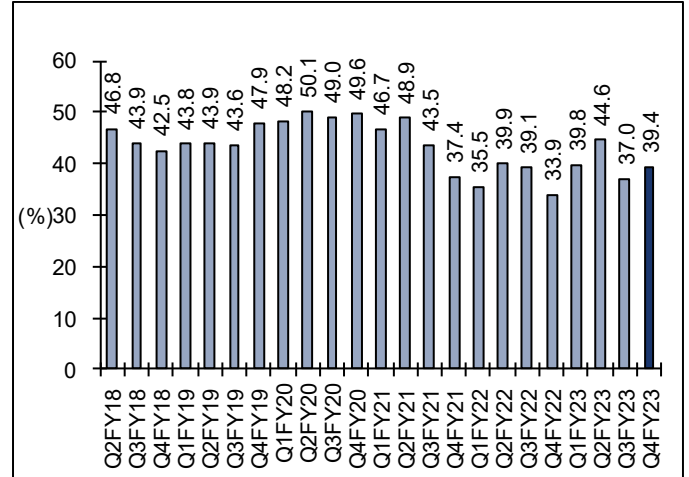
Source: Company data, I-Sec research

Chart 1: Revenue growth (consolidated)



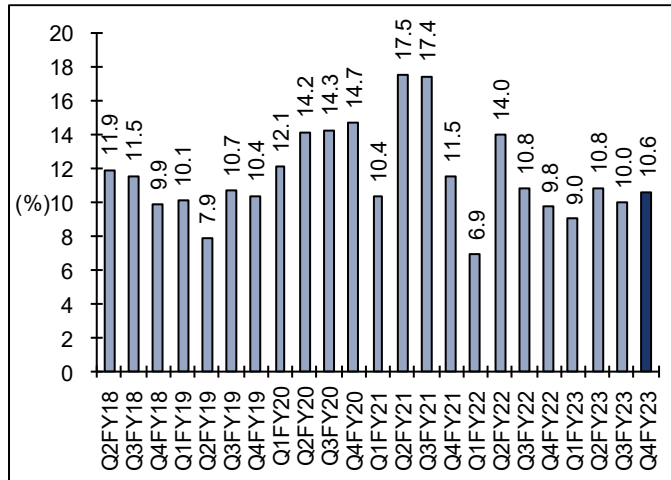
Source: Company data, I-Sec research

Chart 2: Gross margin (consolidated)



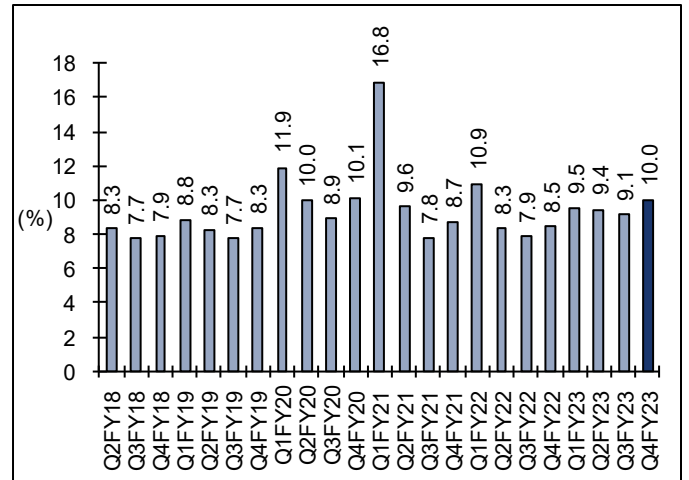
Source: Company data, I-Sec research

Chart 3: EBITDA margin (consolidated)



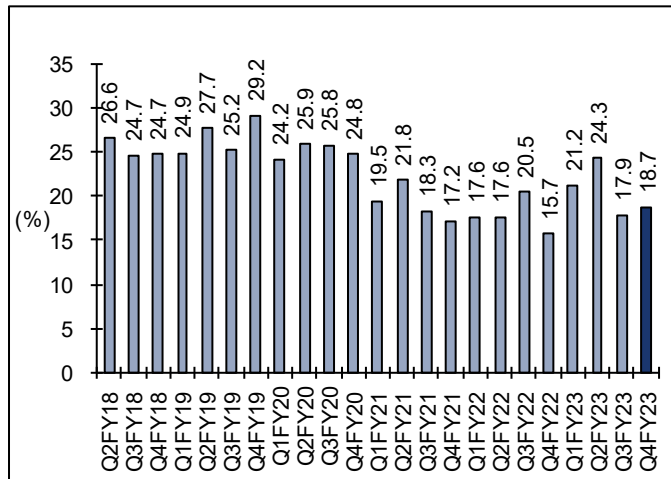
Source: Company data, I-Sec research

Chart 4: Staff cost as a % of sales



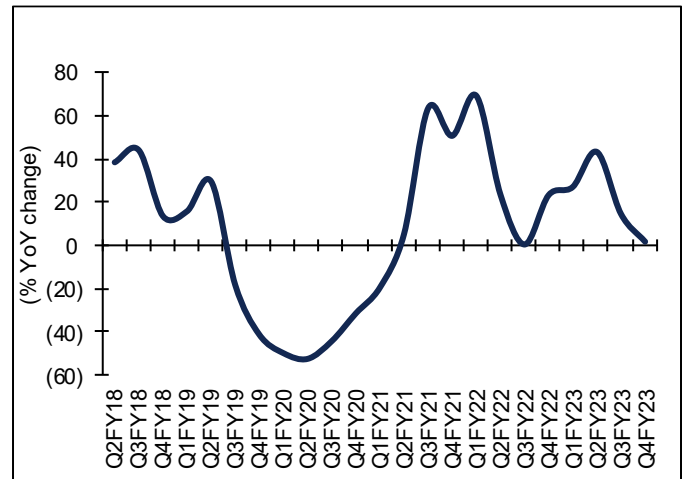
Source: Company data, I-Sec research

Chart 5: Other expenses as a % of sales



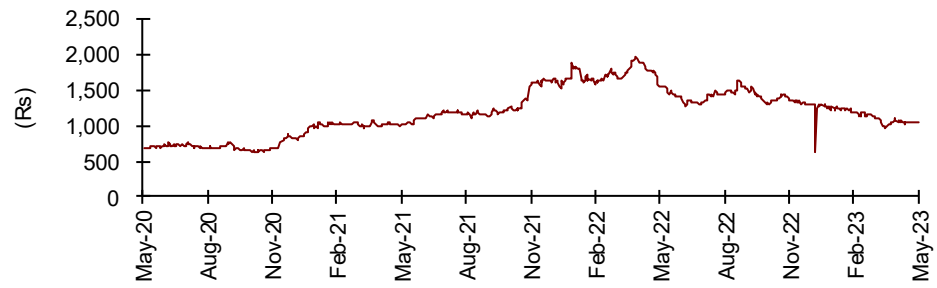
Source: Company data, I-Sec research

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)

	FY22	FY23	FY24E	FY25E
Net Revenues	28,656	28,733	31,820	35,917
Operating Expenses	25,506	25,760	27,843	31,067
EBITDA	3,149	2,973	3,977	4,850
% margins	11.0	10.3	12.5	13.5
Depreciation & Amortisation	808	896	1,062	1,174
Gross Interest	170	211	221	221
Other Income	792	865	983	1,349
Recurring PBT	2,964	2,731	3,677	4,803
Less: Taxes	776	700	926	1,209
Less: Minority Interest	-	-	-	-
Net Income (Reported)	2,187	2,031	2,752	3,594
Extraordinaries (Net)	-	-	-	-
Recurring Net Income	2,187	2,031	2,752	3,594

Source: Company data, I-Sec research

Table 4: Balance sheet

(Rs mn, year ending March 31)

	FY22	FY23	FY24E	FY25E
Assets				
Total Current Assets	7,865	14,333	17,490	21,614
of which cash & cash eqv.	1,305	7,545	11,186	14,502
Total Current Liabilities & Provisions	4,364	4,966	5,501	6,212
Net Current Assets	3,501	9,367	11,989	15,403
Investments	6,300	1,784	1,976	2,230
Net Fixed Assets	8,269	8,116	8,054	7,980
Capital Work-in-Progress	1,199	2,875	2,875	2,875
Goodwill	2,520	2,740	2,740	2,740
Total Assets	19,269	22,142	24,894	28,488
Liabilities				
Borrowings	4,665	5,711	5,711	5,711
Deferred Tax Liability	602	345	345	345
Minority Interest	-	-	-	-
Equity Share Capital	244	488	488	488
Face Value per share (Rs)	3	5	5	5
Reserves & Surplus*	13,758	15,599	18,350	21,944
Net Worth	14,002	16,087	18,838	22,432
Total Liabilities	19,269	22,142	24,894	28,488

Source: Company data, I-Sec research

Table 5: Quarterly trends

(Rs mn, year ending March 31)

	Jun 22	Sep 22	Dec 22	Mar 23
Net Revenues	7,291	7,222	7,609	7,290
% growth (YoY)	32.3	(8.1)	(13.7)	(1.0)
EBITDA	659	783	757	774
Margin (%)	9.0	10.8	10.0	10.6
Other income	184	225	282	174
Extraordinaries (Net)	-	-	-	-
Adjusted Net profit	425	536	612	458

Source: Company data, I-Sec research

Table 6: Cashflow statement

(Rs mn, year ending March 31)

	FY22	FY23	FY24E	FY25E
Operating Cash flow	2,560	2,668	2,860	3,386
Working Capital	(589)	(548)	1,018	(98)
Changes				
Capital Commitments	(1,635)	(2,116)	(1,000)	(1,100)
Free Cash Flow	337	4	2,879	2,189
Cash flow from	(3,064)	(2,684)	(238)	27
Investing Activities				
Issue of Share Capital	-	(5)	-	-
Inc (Dec) in Borrowings	1,207	876	-	-
Dividend paid	(37)	(28)	-	-
Change in Deferred Tax Liability	(165)	(3)	3,641	3,316
Chg. in Cash & Bank balance	411	425	4,066	7,382

Source: Company data, I-Sec research

Table 7: Key ratios

(Year ending March 31)

	FY22	FY23	FY24E	FY25E
Per Share Data (Rs)				
EPS	22.4	20.8	28.2	36.8
Cash EPS	30.7	30.0	39.1	48.9
Dividend per share (DPS)	-	-	-	-
Book Value per share (BV)	143.5	164.9	193.1	229.9
Growth (%)				
Net Sales	17.7	0.3	10.7	12.9
EBITDA	(13.1)	(5.6)	33.8	21.9
PAT	(8.9)	(7.2)	35.5	30.6
DPS	-	-	-	-
Valuation Ratios (x)				
P/E	47.1	50.7	37.4	28.6
P/CEPS	34.4	35.2	27.0	21.6
P/BV	7.4	6.4	5.5	4.6
EV / EBITDA	32.8	34.8	26.0	21.3
EV / Sales	3.6	3.6	3.2	2.9
Operating Ratios				
Raw Material / Sales (%)	65.5	62.2	59.5	59.0
Employee cost / Sales (%)	8.9	9.7	9.6	9.4
SG&A / Sales (%)	14.6	17.8	18.3	18.1
Other Income / PBT (%)	26.7	31.7	26.7	28.1
Effective Tax Rate (%)	26.2	25.6	25.2	25.2
Working Capital (days)	33.7	31.9	17.9	17.9
Inventory Turnover (days)	40.1	42.1	34.0	34.0
Receivables (days)	34.3	35.8	30.0	30.0
Payables (days)	36.4	33.0	33.0	33.0
Net D/E Ratio (x)	0.1	(0.2)	(0.3)	(0.4)
Profitability Ratio (%)				
Net Income Margins	7.6	7.1	8.6	10.0
RoACE	13.5	10.0	12.4	13.8
RoAE	16.9	13.5	15.8	17.4
Dividend Payout	-	-	-	-
Dividend Yield	-	-	-	-
EBITDA Margins	11.0	10.3	12.5	13.5

Source: Company data, I-Sec research

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