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Company update and
target price revision

Consumer Staples &
Discretionary

Target price Rs1,400

Target price revision

Rs1,400 from Rs1,300

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

Rs1,187

Acquisitions are accretive

Acquisition of Kurlon is positive for the stakeholders of Sheela Foam: (1) SHEELA's market share in South and East India has room for improvement (vs North and West India where it enjoys ~40% market share). Given, KURLON is no. 2 player in South India with ~40% revenue share, this deal is likely to augment SHEELA's overall market share in mattress segment from current 20-25% to 35-40%. (2) Business economics of Kurlon are attractive (at 7.2% pre-covid net margin vs 7.5% for SHEELA – refer Chart 3) and shall be largely EPS accretive to SHEELA (assuming normalized margins). (3) Renewed focus shall help KURLON to claw-back market share loss (to Duroflex) in South India led by efficient execution, distribution expansion and higher support towards brand promotion. (4) Robust distribution network (SHEELA has higher presence in EBOs while KURLON has higher presence in MBOs) and production efficiencies (better servicing of customers) & cost savings (reduced cost to serve and manufacturing cost) are the synergies expected by the management. (5) Acquisition of Furlenco (digital first brand in fast growing branded furniture category) is likely to drive footfalls to EBOs through introducing complementary product portfolio (branded furniture) in their EBOs, in our view. We await further clarity on rationale and synergies of these acquisitions.

Sheela Foam has acquired 94.66% and 35% of Kurlon Enterprises and House of Kieraya (Furlenco) at Rs20.4bn (implied normalised FY23 P/S multiple of 1.5x vs 4x P/S of Sheela) and Rs3bn (implied FY23 P/S multiple of 5.6x), respectively.

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, (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.

► **Sheela to gain strength in South and East:** Currently, Sheela enjoys significant market share in North and West India (~40% vs 25% all-India) due to first-mover advantage (founded in UP in 1971; operated factories in Sahidabad and Noida for 25 years before expanding into Mumbai and Hyderabad in 1996). However, Kurlon's revenue share from South stands at 40%+; the company started its business journey from Karnataka (>5 out of 12 factory located in Bangalore) and hence enjoys higher market share in South (now no. 2 player). The acquisition will help Sheela to gain significant distribution/brand strength in South and East India. Also, revenue contribution from B2C segment for Sheela shall improve.

Market Cap	Rs116bn/US\$1.4bn	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	2,880	3,748
52-week Range (Rs)	1630/638	Dil. EPS (Rs)	22.4	20.8	29.5	38.4
Free Float (%)	27.0	% Chg YoY	(8.9)	(7.2)	41.8	30.2
FII (%)	3.4	P/E (x)	53.0	57.0	40.2	30.9
Daily Volume (US\$'000)	799	CEPS (Rs)	30.7	30.0	40.4	50.5
Absolute Return 3m (%)	14.6	EV/EBITDA (x)	36.9	39.1	28.1	23.1
Absolute Return 12m (%)	(10.3)	Dividend Yield (%)	-	-	-	-
Sensex Return 3m (%)	11.9	RoCE (%)	13.5	10.0	13.1	14.4
Sensex Return 12m (%)	25.4	RoE (%)	16.9	13.5	16.4	18.0

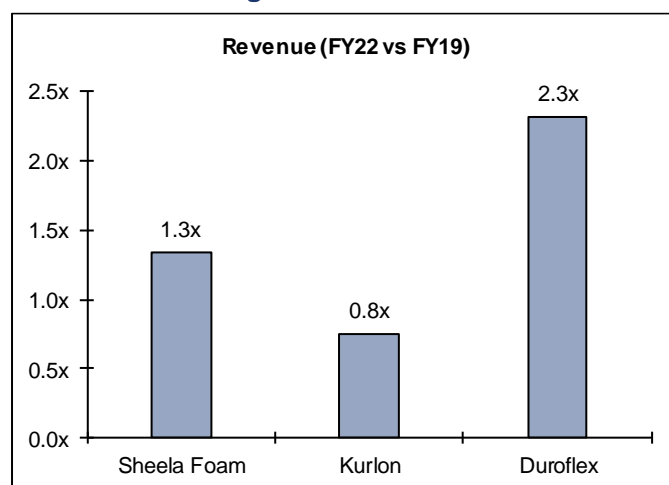
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- ▶ **Opportunity for KEL to claw-back market share loss:** Over last 3 years (FY20-22) Duroflex (80%+ revenue from South India; Karnataka, Kerala, Tamil Nadu, Telangana and Andhra Pradesh) has gained significant market share (2x as per our estimate) from KEL. We believe, this was driven by superior product portfolio (PU based), aggressive incentivisation of channels and discount/promotions. Hence, despite higher revenue growth (2.3x over last 3-year vs 0.8x for KEL), net and EBITDA margin for Duroflex has been significantly lower at 4% (vs 7% for Kurlon). We believe, the acquisition shall significantly improve KEL's strength in product offering and hence enable the company to claw-back market share loss from Duroflex.
- ▶ **Healthy margins and ROE:** KEL's business economics (net margin, EBITDA margin and ROE) stand at healthy levels; better than Duroflex (refer Chart 3, 4 and 5). KEL's business economics are very similar to Sheela Foam with EBITDA margin, EBITDA margin and ROE of ~12% / ~12%, 7.5% / 7.2% and 21% / 19%, respectively.
- ▶ **Valuation and risks:** We increase our earnings estimates by 5%/4% for FY24E/FY25E due to better gross margin expectations driven by correction in input cost; modelling revenue / EBITDA / PAT CAGR of 12% / 30% / 36% over FY23-25E. Maintain BUY with a DCF-based revised target price of Rs1,400 (Rs1,300 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: Revenue (Rs mn)

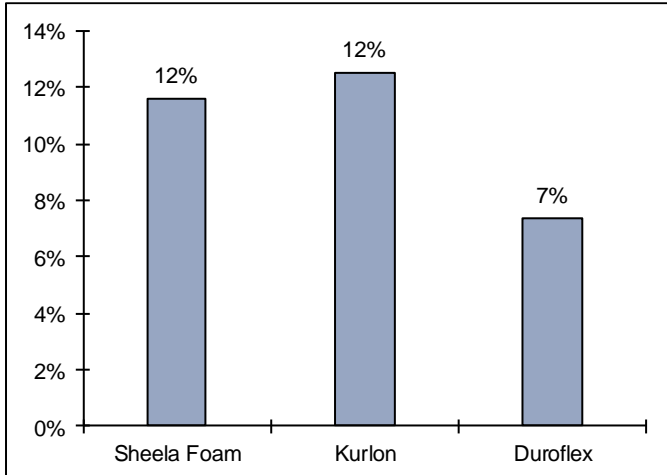
FY	SHEELA	KURLON	DUROFLEX
FY18	19,653	11,206	3,237
FY19	21,415	10,639	3,897
FY20	21,736	9,956	4,315
FY21	24,354	7,673	5,728
FY22	28,656	8,088	9,003

Source: Company data, I-Sec research

Chart 1: Duroflex gained market share

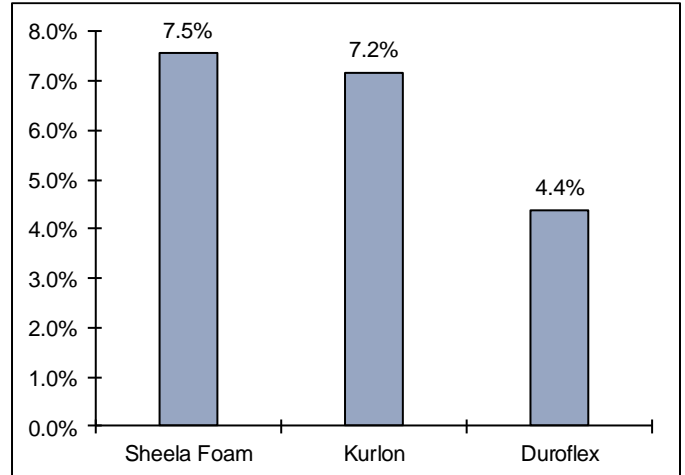
Source: Company data, I-Sec research

Chart 2: EBITDA margin (pre-covid – FY18-20)



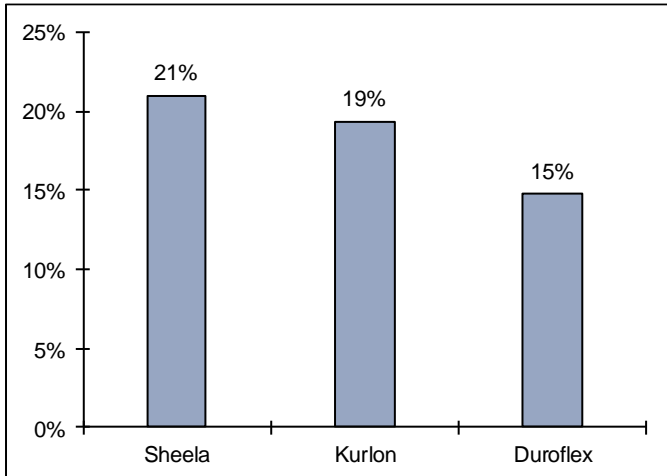
Source: Company data, I-Sec research

Chart 3: Net Margin % (pre-covid – FY18-20)



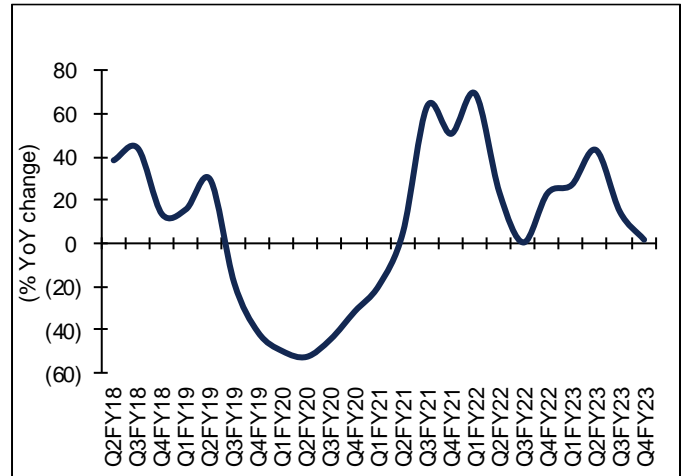
Source: Company data, I-Sec research

Chart 4: Healthy ROE (pre-covid – FY18-20)



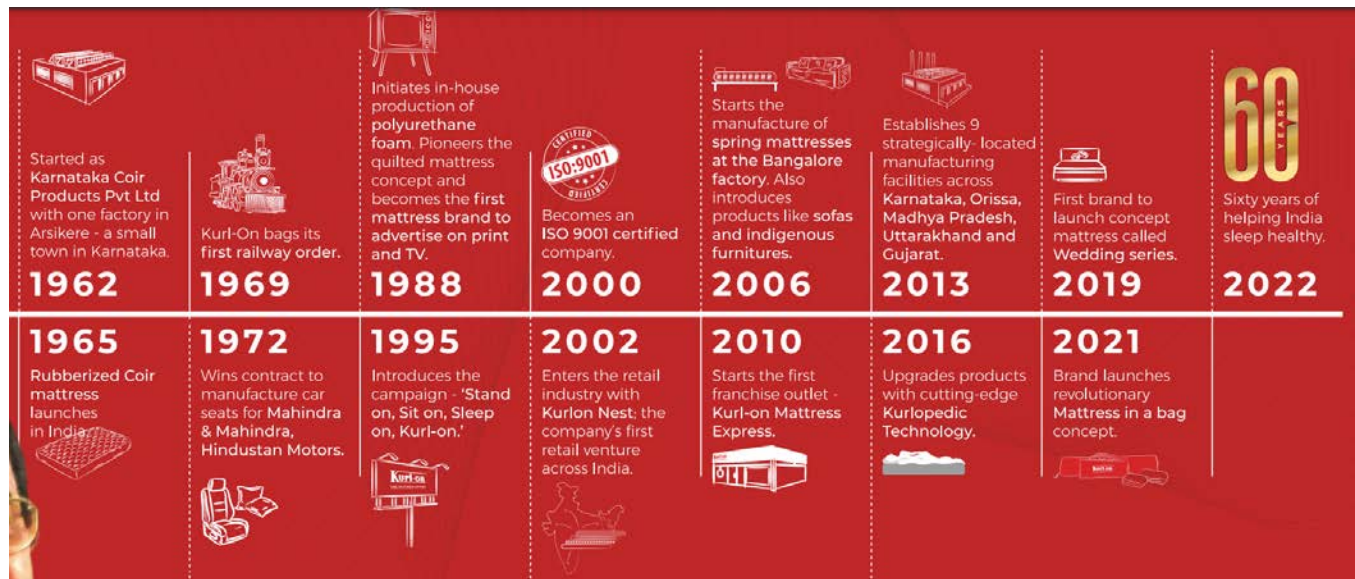
Source: Company data, I-Sec research

Chart 5: TDI price change



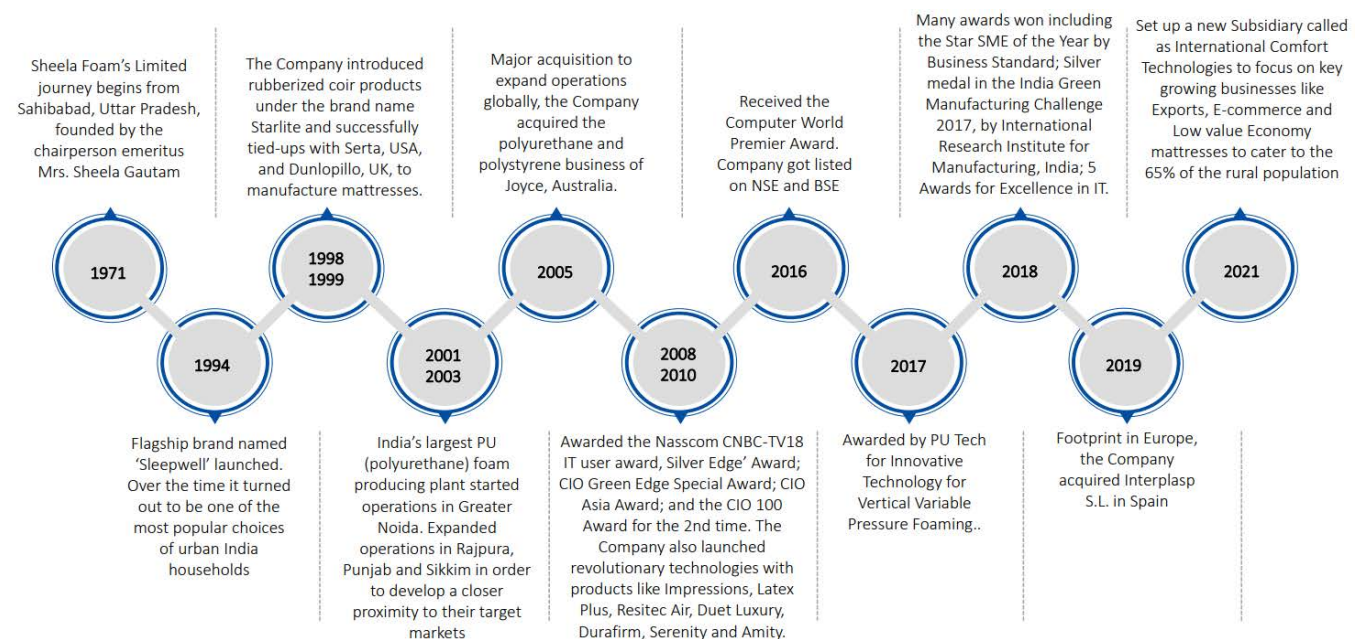
Source: Company data, I-Sec research

Chart 6: Kurlon took birth in Karnataka; started with coir (60+years), ventured into PU (34+ years) and spring (16+ years)



Source: Company data, I-Sec research

Chart 7: Sheela took birth in U.P.; started with PU Foam (51+ years), ventured into coir (23+ years)



Source: Company data, I-Sec research

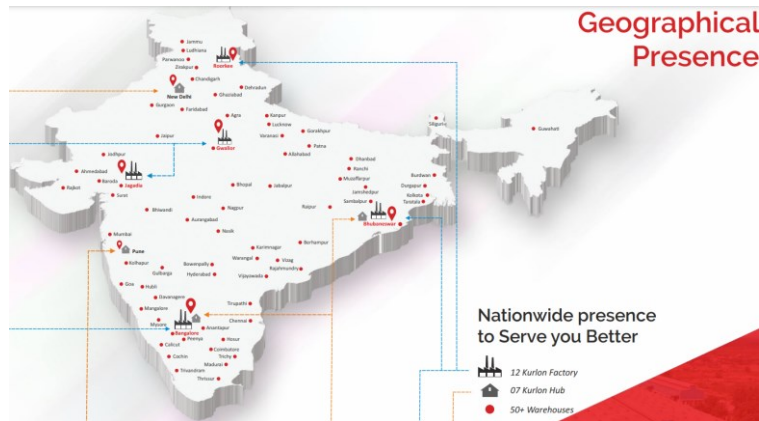
Chart 8: Brands of Kurlon



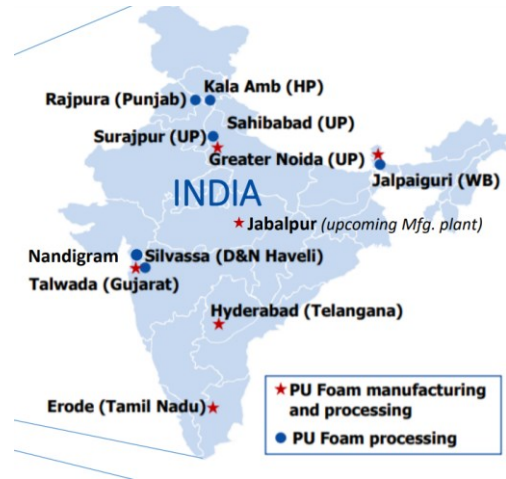
Source: Company data, I-Sec research

Chart 9: Manufacturing presence

Kurlon: Manufacturing presence

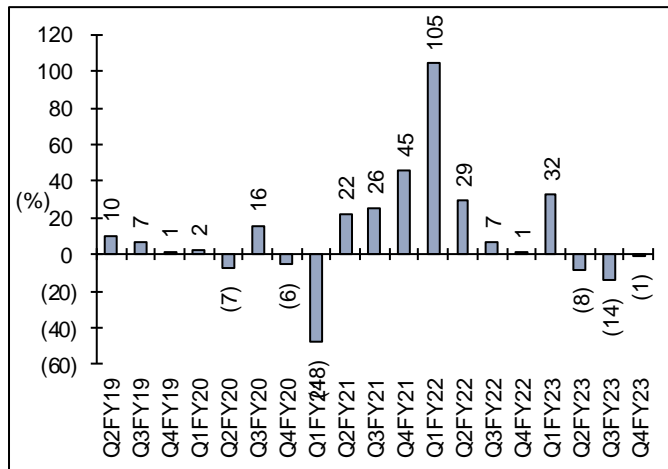


Sheela: Manufacturing presence



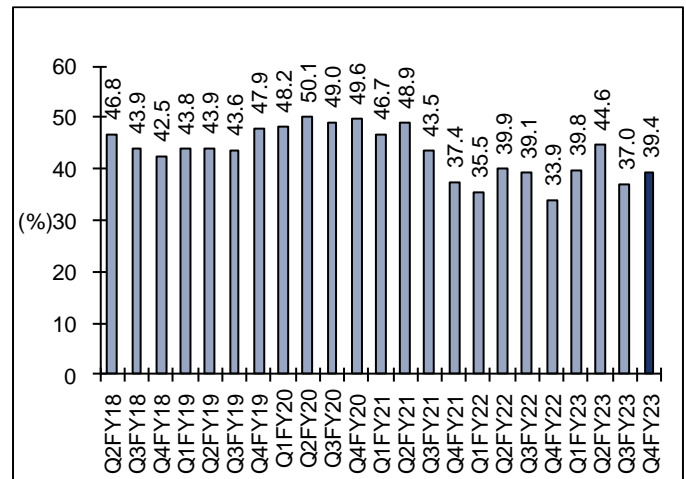
Source: Company data, I-Sec research

Chart 10: Revenue growth (consolidated)



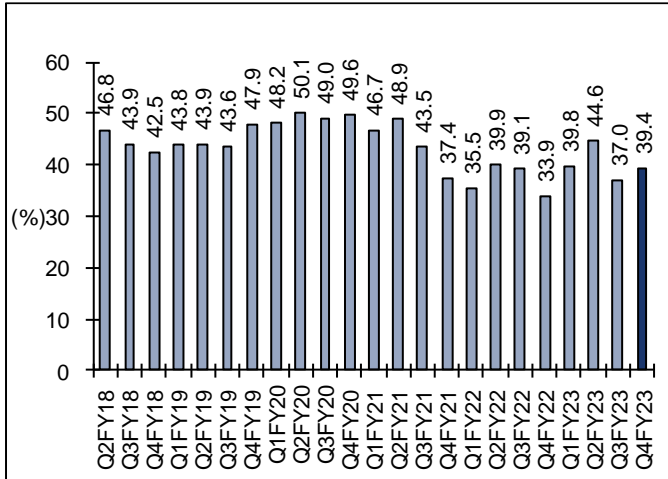
Source: Company data, I-Sec research

Chart 11: Gross margin (consolidated)



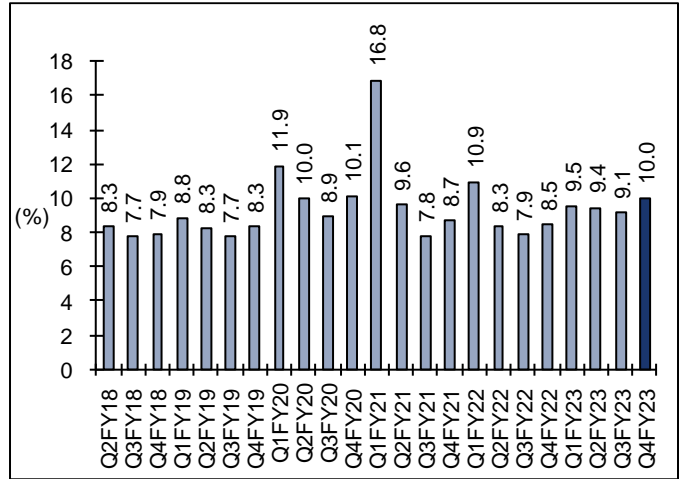
Source: Company data, I-Sec research

Chart 12: EBITDA margin (consolidated)



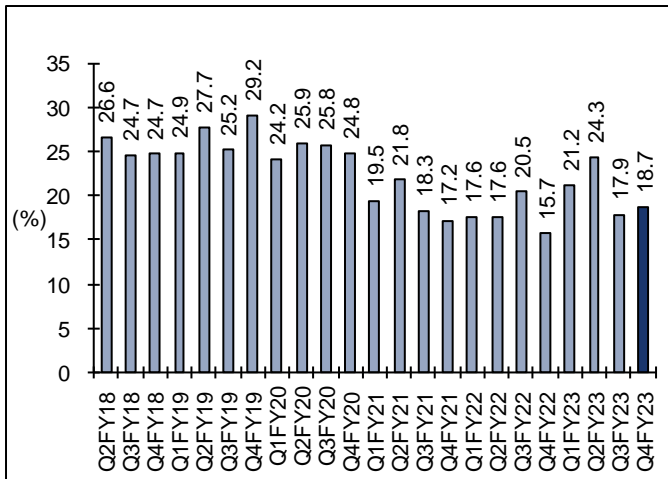
Source: Company data, I-Sec research

Chart 13: Staff cost as a % of sales



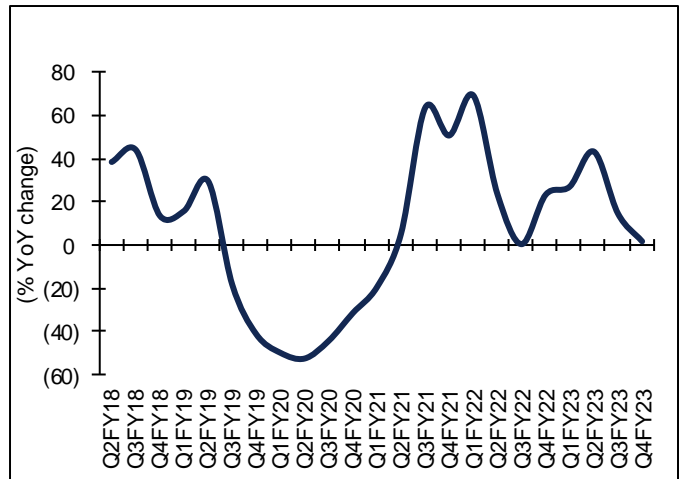
Source: Company data, I-Sec research

Chart 14: Other expenses as a % of sales



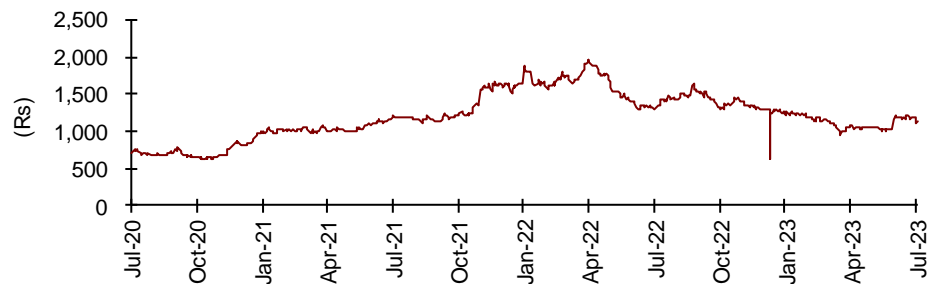
Source: Company data, I-Sec research

Chart 15: TDI price change



Source: Company data, I-Sec research

Price chart



Source: Bloomberg

Financial summary

Table 2: 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	27,679	30,883
EBITDA	3,149	2,973	4,142	5,034
% margins	11.0	10.3	13.0	14.0
Depreciation & Amortisation	808	896	1,062	1,174
Gross Interest	170	211	221	221
Other Income	792	865	990	1,370
Recurring PBT	2,964	2,731	3,848	5,009
Less: Taxes	776	700	969	1,261
Less: Minority Interest	-	-	-	-
Net Income (Reported)	2,187	2,031	2,880	3,748
Extraordinaries (Net)	-	-	-	-
Recurring Net Income	2,187	2,031	2,880	3,748

Source: Company data, I-Sec research

Table 3: Balance sheet

(Rs mn, year ending March 31)

	FY22	FY23	FY24E	FY25E
Assets				
Total Current Assets	7,865	14,333	17,618	21,896
of which cash & cash eqv.	1,305	7,545	11,314	14,784
Total Current Liabilities & Provisions	4,364	4,966	5,501	6,212
Net Current Assets	3,501	9,367	12,117	15,685
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	25,022	28,770
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	18,478	22,226
Net Worth	14,002	16,087	18,966	22,714
Total Liabilities	19,269	22,142	25,022	28,770

Source: Company data, I-Sec research

Table 4: 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 5: Cashflow statement

(Rs mn, year ending March 31)

	FY22	FY23	FY24E	FY25E
Operating Cash flow	2,560	2,668	2,981	3,519
Working Capital	(589)	(548)	1,018	(98)
Changes				
Capital Commitments	(1,635)	(2,116)	(1,000)	(1,100)
Free Cash Flow	337	4	3,000	2,321
Cash flow from	(3,064)	(2,684)	(231)	49
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)	3,769	3,470
Chg. in Cash & Bank balance	411	425	4,194	7,664

Source: Company data, I-Sec research

Table 6: Key ratios

(Year ending March 31)

	FY22	FY23	FY24E	FY25E
Per Share Data (Rs)				
EPS	22.4	20.8	29.5	38.4
Cash EPS	30.7	30.0	40.4	50.5
Dividend per share (DPS)	-	-	-	-
Book Value per share (BV)	143.5	164.9	194.4	232.8
Growth (%)				
Net Sales	17.7	0.3	10.7	12.9
EBITDA	(13.1)	(5.6)	39.3	21.5
PAT	(8.9)	(7.2)	41.8	30.2
DPS	-	-	-	-
Valuation Ratios (x)				
P/E	53.0	57.0	40.2	30.9
P/CEPS	38.7	39.6	29.4	23.5
P/BV	8.3	7.2	6.1	5.1
EV / EBITDA	36.9	39.1	28.1	23.1
EV / Sales	4.1	4.0	3.7	3.2
Operating Ratios				
Raw Material / Sales (%)	65.5	62.2	59.0	58.5
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	25.7	27.4
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	9.0	10.4
RoACE	13.5	10.0	13.1	14.4
RoAE	16.9	13.5	16.4	18.0
Dividend Payout	-	-	-	-
Dividend Yield	-	-	-	-
EBITDA Margins	11.0	10.3	13.0	14.0

Source: Company data, I-Sec research

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