Sheela Foam Limited

Maintain BUY with a TP of INR 1,047

Sheela Foam Limited (SFL) delivered a strong operational quarter in 1QFY27 that marks a decisive inflection point in the Kurlon acquisition integration, with the company achieving dual milestones of ₹1,000cr+ consolidated revenue and ₹100cr+ consolidated EBITDA for the first time in any 1Q. Despite navigating persistent commodity headwinds resulting in gross margin compression of 312bps YoY to 37%, management demonstrated exceptional operational execution with consolidated EBITDA margin expanding 144bps to 10.6%, reflecting the substantial operating leverage embedded within the combined platform. Profitability improved dramatically with PAT surging 9x YoY to Rs.62 Cr and PAT margins expanding 521bps to 6.0%, signaling a structural shift toward sustainable profitability. International operations, particularly Australia and Spain, have emerged as meaningful contributors to the consolidated margin profile, with EBITDA margins expanding 600-900bps YoY, due to inventory gains, forex gains and improved efficiency. Continued momentum in D2C channels (e-commerce +69% year-on-year on brand.com) and the expanding U2O distribution network (9,900+ dealers across 5,000+ towns) position SFL well for sustained profitable growth throughout FY27, supported by management guidance of 8%+ volume growth. We maintain a buy rating on the stock with a target price of Rs.1,047, a 36% upside from CMP Rs. 771.

Key Business Highlights

Quarterly Revenue segments

Particulars (INR Cr)	1QFY27	1QFY26	YoY	4QFY26	QoQ
Mattress	367	320	15%	395	-7%
Comfort foam	156	113	38%	177	-12%
Technical foam	163	127	28%	165	-1%
Furniture Cushioning	46	49	-6%	53	-13%
Others	27	23	17%	30	-10%
Total India Revenue	761	635	20%	819	-7%
Australia	120	92	30%	109	10%
Spain	133	86	55%	109	22%
Other	24	14	71%	20	20%
Total Revenue	1038	827	26%	1057	-2%

Valuation at a Glance

- **We maintain a BUY on Sheela Foam Limited with a TP of INR 1047, based on a multiple of 30x FY28E EPS of Rs.34.9.** We expect the Revenue/EBITDA/PAT to grow at 11.7%/27%/55% CAGR from FY26-FY28E driven by operating efficiencies, reducing depreciation and reduced interest costs.

Key Financial Snapshot

Particulars (INR Cr)	FY23A	FY24A	FY25A	FY26A	FY27E	FY28E
Revenue	2873	2982	3439	3821	4255	4747
Revenue YoY %	0.2%	3.8%	15.3%	11.1%	11.4%	11.6%
EBITDA (INR Cr)	298	300	245	393	466	600
EBITDA Margin %	10.4%	10.1%	7.1%	10.3%	10.9%	12.6%
PAT (INR Cr)	201	138	89	160	260	382
PAT Margin %	7.0%	4.6%	2.6%	4.2%	6.1%	8.0%
EPS (INR)	20	18	8	15	24	35
P/E (x) @CMP	37	43	92	52	32	22
ROCE %	14.2%	6.6%	5.3%	7.0%	9.2%	12.0%
ROE %	12.6%	4.7%	3.0%	4.9%	7.4%	9.9%

Result Update

BUY

Stock Data

CMP (INR)	771
Target	1047
Upside (%)	36%
BSE code	540203
NSE code	SFL
Bloomberg Code	SFL:IN
Face Value	5.0
Market Capitalization (Cr)	8357
1M Average Daily Volume	2,23,550
52-week H/L	832/457

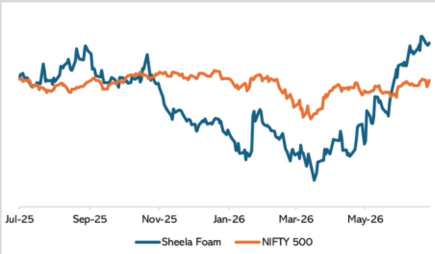
Shareholding Pattern (%)

Period	Dec'25	Mar'26
Promoters	65.69%	65.69%
FII	4.18%	4.15%
DII	20.39%	20.55%
Others	9.75%	9.60%

Estimates & Actuals

Particulars	FY26A	FY27E	FY28E
Revenue	3821	4255	4747
EBITDA	393	466	600
PAT	160	260	382

Price Chart



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Key Takeaways from Earnings Call

1. Financial Performance

- For the first time, Sheela Foam's consolidated revenues surpassed 1,000 crores in 1Q, marking a 26% YoY growth to reach Rs. 1,032 Cr.
- Consolidated EBITDA reached a company milestone of Rs. 109Cr, reflecting a 45% increase.
- Consolidated EBITDA margins expanded by 144 BPS to 10.6% compared to Q1 of the previous year.
- The company achieved a PAT of Rs.62 Cr, 838% growth YoY.
- Standalone Indian business revenue grew 20% to Rs. 761 Cr.
- Standalone Indian business EBITDA grew 13% to Rs. 68 Cr.
- Mattress value grew by 15% with a 6% volume increase.
- Foam value surged by 26% with a 4% volume increase.
- There is no longer a mark-to-market impact on derivatives, meaning core EBITDA is now identical to reported EBITDA

2. Operational Performance

- Sheela Foam intentionally maintained standard inventory levels of 30 days to ensure uninterrupted supply despite highly volatile raw material prices.
- High fluctuations in raw material prices compressed gross margins in India, but the company offset this by capturing an incremental quantity of foam sales.
- The Unorganized-to-Organized (U2O) segment expanded to 10,000 dealers across the country.
- The U2O segment yielded an 81% year-on-year value growth and a 19% volume growth.
- U2O growth was heavily aided by the successful launch of 5- and 6-inch mattresses tailored for value-conscious consumers.
- E-commerce sales on brand websites grew by 69% year-on-year.
- Sales on marketplace platforms recorded a 19% year-on-year growth.

3. Segmental Performance

- **Joyce (Australia)-** Revenue grew 30% to Rs. 120Cr; EBITDA margin improved to 12.8%. Benefited from longer inventory holds, strategic yield programs, and supply chain restructuring, forex gains.
- **Spain-** Revenue grew 55% to Rs.133Cr; EBITDA margin expanded to 14.7%. Improved margins were driven by raw material price advantages, lower frequency of price changes and forex gains.
- **Furlenco-** Revenue rose 38%; EBITDA grew 65% year-on-year. The acquired subscriber base grew by 36% while deepening presence in new cities.
- **Staqo-** Revenue grew 71%; maintained healthy EBITDA margins of 30%. The flagship ERP product, Presence 360, successfully crossed a user base of 3.2 lakh.

4. Growth Strategies & Forward Guidance

- Management is maintaining a 15% revenue growth target alongside a 15% EBITDA margin target for the coming years.
- Domestic debt of approximately 300 crores is targeted to be paid down over the next year using domestic free cash flows.
- The company plans to expand its physical footprint by taking the total number of Company-Owned, Company-Operated (COCO) stores to 50. Per store capex is 50 lakhs, 42 stores are already opened.
- The operational integration with Kurlon is currently 96% to 97% complete.
- Sheela Foam aims to improve its overall Return on Capital Employed (ROCE) to the 20% to 25% range within the next three years.
- On the Environmental, Social, and Governance (ESG) front, Sheela Foam received a category upgrade to "Strong" in Crisil ESG ratings and moved to the 61st percentile in the S&P Global Corporate Sustainability Assessment.

Valuation Thesis

Maintain BUY at 30x FY28E P/E with a TP INR INR 1047

We maintain a BUY on Sheela Foam Limited with a target price of Rs.1047, an upside of 36% from CMP 771. The thesis is built on six interlocking pillars - Kurlon integration complete, organised penetration of Tier 2/3 India, balance sheet deleveraging, pan-India product leadership, backward integration, and recovering international operations - all of which are now simultaneously in positive momentum post the FY26 integration year.

Key Risks to Our Thesis

Risk	Description	Mitigation
Raw Material Volatility	TDI and Polyol prices spiked sharply in Q4 FY26 (TDI ~INR 275, Polyol ~INR 180). Sustained elevated RM prices compress margins.	B2C pricing taken; 10-15 day inventory lag limits quarter-on-quarter impact. Contribution margin structure (30%+) means volume growth offsets RM headwinds.
Integration Execution Risk	Any disruption to merged entity's channel or operations could delay synergy realisation.	NCLT merger complete; systems, data, culture aligned. INR 190 Cr of INR 250 Cr synergies already locked. Remaining in-process.
International Headwinds	Australia economic slowdown (GDP moderating to 1.8% in CY26) or Spain economic uncertainty could impair ~22% of consolidated revenue.	EBITDA margins already at 10%+. Capacity expansions complete. India-EU FTA upside for Spain. GCC diversification underway.
Debt Repayment Pace	If operating cash flows or asset monetisations are delayed, interest cost burden persists longer than guided.	Net D/E already at 0.21x. INR 100-125 Cr already monetised. Company declared first-ever dividend - strong signal of cash confidence.
Competition	Intensifying competition from organised players (Duroflex, Wakefit, Purple) and unorganised players in price-sensitive segments.	Multi-brand portfolio covers all price tiers. U2O platform builds penetration in markets where online-first brands are absent.
Furlenco JV Risk	Furlenco's path to profitability and equity consumption could weigh on SFL's balance sheet.	Furlenco reported PAT of INR 60 Cr in FY26 vs. INR 3 Cr in FY25 - already profitable and self-sustaining. SFL's INR 30 Cr contribution to equity raise was modest.

Summary of Financials

P&L						
Particulars (INR Cr)	FY23A	FY24A	FY25A	FY26A	FY27E	FY28E
Revenue from Operations	2,873	2,982	3,439	3,821	4,255	4,747
YoY Growth %	0.2%	3.8%	15.3%	11.1%	11.4%	11.6%
Raw Material Costs	1855	1862	2159	2299	2562	2801
Employee Expenses	283	344	432	495	536	579
Other Exp.	438	476	603	633	681	736
EBITDA	298	300	245	393	466	600
EBITDA Margin %	10.4%	10.1%	7.1%	10.3%	10.9%	12.6%
Depreciation	90	116	183	179	151	151
EBIT	208	184	62	215	315	449
Interest Expense	21	69	121	95	57	40
Other Income	86	117	131	54	55	55
PBT	273	210	103	182	313	464
Tax (25%)	72	61	14	42	78	116
PAT	201	138	89	160	260	382
PAT Margin %	7.0%	4.6%	2.6%	4.2%	6.1%	8.0%
EPS (₹)	20.4	17.7	8.2	14.6	23.7	34.9

Balance Sheet						
Particulars (INR Cr)	FY23A	FY24A	FY25A	FY26A	FY27E	FY28E
PPE + CWIP	1152	3294	3212	3230	3239	3248
Other NC Assets	123	1171	702	747	773	808
Total NC Assets	**1276**	**4465**	**3913**	**3976**	**4012**	**4056**
Inventories	331	339	350	393	435	476
Trade Receivables	282	364	346	442	490	546
Cash & Equivalents	754	67	518	171	149	224
Other Current Assets	65	105	241	135	126	139
Total Current Assets	**1433**	**875**	**1454**	**1140**	**1199**	**1385**
Total Assets	**2709**	**5340**	**5368**	**5117**	**5212**	**5441**
Equity Share Capital	1598	2920	3017	3252	3501	3872
Other Equity	8	61	7	8	10	11
Total Equity	**1606**	**2981**	**3024**	**3260**	**3510**	**3883**
Borrowings	468	1281	1216	714	525	337
Lease Liabilities	103	212	246	194	180	165
Trade Payables	259	388	349	457	491	537
Other Current Liabilities	272	478	532	492	505	520
Total Liabilities	**1103**	**2359**	**2343**	**1857**	**1701**	**1559**
Total Liabilities & Equity	**2709**	**5340**	**5368**	**5117**	**5212**	**5441**

Cash Flow						
Particulars (INR Cr)	FY23A	FY24A	FY25A	FY26A	FY27E	FY28E
CFO (Operating)	218	406	247	409	409	489
PAT	273	210	103	182	313	464
D&A + Finance cost	111	184	303	274	208	191
WC changes	-94	38	-146	-25	-33	-50
Taxes paid	16	64	104	151	200	0
CFI (Investing)	-274	-2258	-24	296	-160	-160
Capex	-212	-2349	-146	-137	-160	-160
Others	-62	90	122	433	0	0
CFF (Financing)	56	1854	-226	-716	-271	-254
Net Borrowings	75	1883	-183	-676	-203	-203
Dividends paid	-3	-1	0	0	-11	-11
Interest Paid	-16	-27	-43	-40	-57	-40
Net Cash Change	0	2	-3	-10	-22	75
Closing Cash	42	44	41	33	11	86

Quarterly P&L					
Particulars (INR Cr)	1QFY27	1QFY26	YoY	4QFY26	QoQ
Revenue from Operations	1,032	821	26%	1,050	-2%
Raw Material Costs	613	455	35%	584	5%
Manufacturing exp	37	37	1%	40	-7%
Gross Profit	382	329	16%	426	-10%
Gross Margin %	**36.99%**	**40.11%**	**-312 bps**	**40.56%**	**-357 bps**
Employee Expenses	125	115	8%	148	-16%
Other Exp.	148	139	6%	162	-8%
EBITDA	109	75	46%	117	-7%
EBITDA Margin	**10.55%**	**9.11%**	**+144 bps**	**11.11%**	**-56 bps**
Depreciation	34	46	-27%	36	-5%
EBIT	75	29	161%	81	-7%
Interest Expense	18	29	-39%	21	-15%
Other Income	16	10	66%	18	-12%
PBT	73	9	691%	78	-7%
Exceptional Items	-6	0		-16	-60%
PBT after exceptional items	80	9	759%	94	-16%
Tax	20	5	320%	17	21%
PAT	59	4	1240%	77	-24%
Furlenco Share of Profit	3	2	81%	14	-78%
PAT Margin %	**5.95%**	**0.74%**	**+521 bps**	**8.59%**	**-264 bps**
EPS (₹)	5.63	0.60	838%	8.36	-33%

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Stock Ratings	Definition:
Buy	The stock's total return is expected to exceed 20% over the next 12 months.
Hold	The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
Sell	The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

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Overweight	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
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