

Stock TALES



Stock Tales are concise, holistic stock reports across wider spectrum of sectors. Updates will not be periodical but based on significant events or change in price.

Undisputed leader in Indian mattresses industry...

About the stock: Sheela Foam (SFL) is the market leader in the domestic mattresses industry with a value market share of ~25% in the organised segment. The company's "Sleepwell" is one of the leading brands in the domestic mattresses industry. It has a pan-India presence through ~6000 MBOs and ~5500 EBOs, respectively. Apart from India (contributes ~70% to the topline), the company also manufactures Polyutherene (PU)/technical foams in Australia and Spain with revenue contributions of 15% each. SFL has envisaged a capex of ₹ 350 crore to increase its consolidated capacity by ~23% in the next two years.

- Revenue, earnings grew at CAGR of 11%, 13%, respectively, in FY18-22
- Cash surplus balance sheet with last three-year's average RoE, RoCE of 19%, 22%, respectively

Key triggers for future price performance:

- The modern mattresses industry is pegged at ~₹ 17,500 crore and is likely to grow at 12% CAGR in FY22-26E. The organised industry is expected to gain market share through new product launches and strong balance sheet condition from unorganised players, which command 60% of the total pie
- The company envisages a capex of ₹ 350 crore over the next two years to increase its manufacturing capacity by 23% in India & overseas. The capacity expansion will help the company to gain market share
- Under China +1 strategy of multinational companies, SFL is exploring various export opportunities to US markets through its domestic and Spanish subsidiary 'Interplasp'
- SFL has received approval to supply foam to Indian Railways for Vande Bharat trains. This, coupled with a revival in the auto business, will help drive the company's technical foam business, going forward

What should investors do? SFL's share price has grown ~3x since its listing in December 2017

- We initiate coverage under Stock Tales format with a **BUY** rating and a target price of ₹ 3650/share

Target Price & Valuation: We value SFL at 55x FY24EPS to arrive at a target price of ₹ 3650/share.

Alternate Stock Idea: We also like Asian Paints in our coverage universe. Asian Paints (APL) is India's largest decorative paint company. APL derives ~98% revenue from the paints business. Robust b/s with RoCE, RoE of 30%, 25%, respectively.

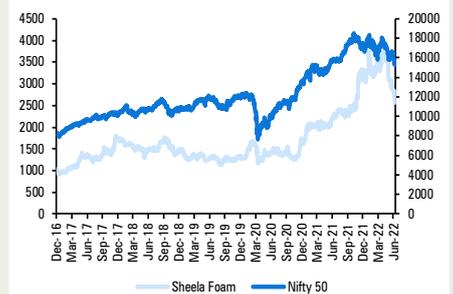
- BUY with a target price of ₹ 4045



Particulars

Particular	Amount
Market Capitalization (₹ Crore)	14,268.2
Total Debt (FY22) (₹ Crore)	337.8
Cash and Inv (FY22) (₹ Crore)	715.4
EV (₹ Crore)	13,890.5
52 week H/L (₹)	4055/2213
Equity capital (₹ Crore)	24.4
Face value (₹)	5.0

Share Price Performance



Shareholding Pattern

(in %)	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22
Promoter	73.0	73.0	73.0	73.0	73.0
FII	1.3	1.4	2.0	2.5	3.1
DII	23.7	23.7	23.8	23.4	22.8
Others	2.1	1.9	1.2	1.2	1.1

Key risks

- Key Risk:** (i) Slow volume growth in domestic market (ii) Delay in margin recovery due to higher input costs

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Key Financial Summary

(₹ crore)	FY19	FY20	FY21	FY22	4 Year CAGR FY18-22	FY23E	FY24E	2 Year CAGR FY22-24E
Net Sales	2141.5	2173.6	2435.4	2981.8	11%	3364.4	3797.2	13%
EBITDA	211.0	300.4	362.3	314.9	10%	367.9	462.6	21%
EBITDA Margin (%)	9.9	13.8	14.9	10.6		10.9	12.2	
Net Profit	133.8	193.4	237.7	217.3	13%	252.5	321.6	22%
EPS (₹)	27.4	39.7	48.7	44.5		51.8	65.9	
P/E (x)	106.7	73.8	60.0	65.7		56.5	44.4	
RoE (%)	18.3	22.0	20.1	15.6		16.4	18.8	
RoCE (%)	23.9	24.7	24.3	18.0		19.6	22.6	

Source: ICICI Direct Research, Company

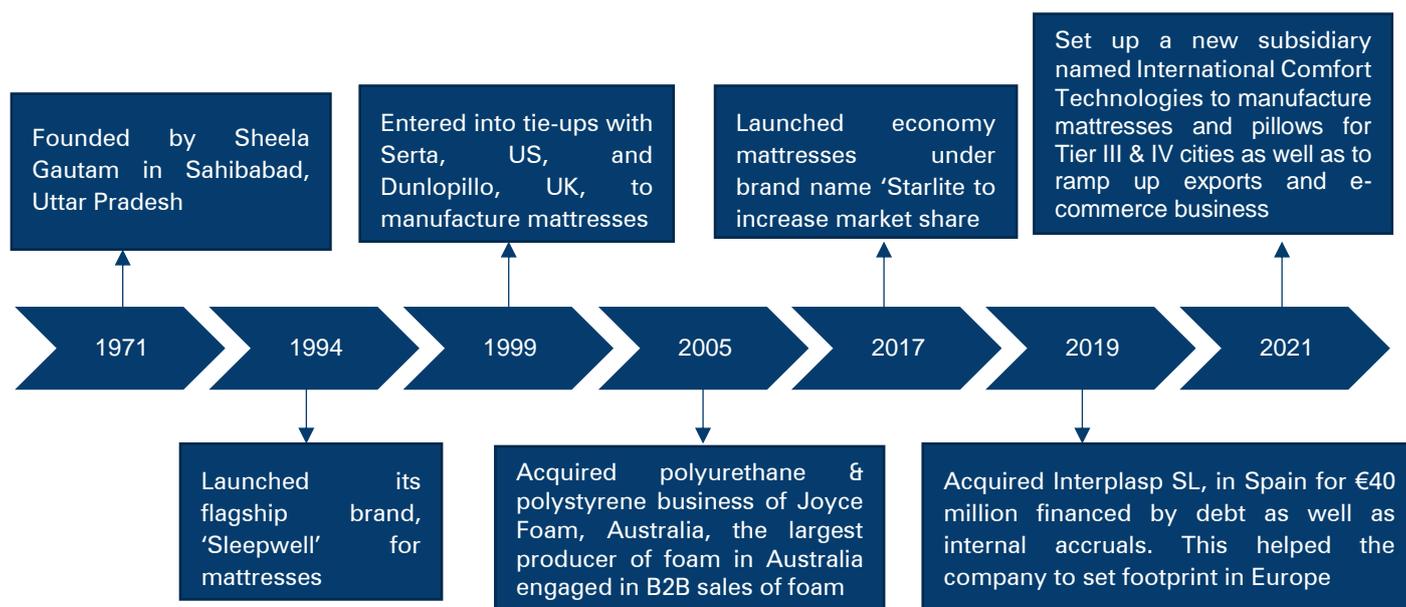
Company Background

Sheela Foam was incorporated in 1971 in Sahibabad, Uttar Pradesh by Sheela Gautam. In 1994, the company launched its flagship brand, 'Sleepwell', which went on to become one of the strong brands in the domestic market. SFL is the market leader and the largest manufacturer of Polyurethane Foam (PU) in India with a dominant market share of 25%. As of FY22, the company has 11 manufacturing plants in India. SFL's business can be divided into two broad segments – home comfort and technical foam. The home comfort segment comprises mattresses, furniture cushions, pillows, bedsheets, comforters, blankets, mattress protectors and sofa-cum-beds. Under the technical foam segment, the company produces automotive foams, reticulated foam, ultra violet stable foam and Silentech foam. As of FY22, the home comfort segment contributes 79% to the overall revenues of the company while technical foam contributes 21% to the company's topline. To capture market share from the unorganised segment, SFL has set up a new subsidiary named International Comfort Technologies in FY22. Under this subsidiary, the company has set up two manufacturing units in Gujarat and Madhya Pradesh. These units are set up to focus on exports, e-commerce and economy segment products for Tier III & IV cities in India.

Sheela Foam is the market leader in the mattresses business in India with a dominant market share of 25%. The company aims to set up new units in Gujarat and Madhya Pradesh to launch new products in the domestic markets and capture growing export opportunities in the US

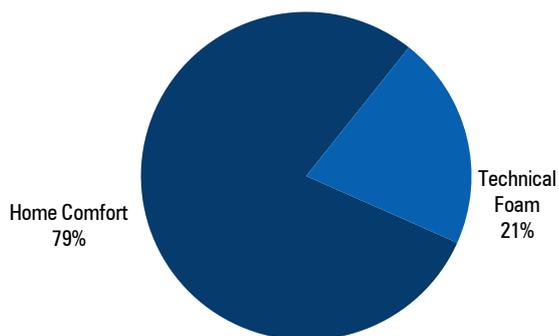
Apart from its India operations, the company also has its footprint in Australia and Europe. In 2005, the company acquired Joyce Foam, Australia, which is the largest producer of foam in Australia. The company has five manufacturing plants in Australia and commands ~40% market share in the total PU foam business in the same region. It supplies mattresses and foams to furnishing companies. As of FY22, Joyce Foam contributes 15% to overall revenues of the company. To gain a footprint in Europe, SFL acquired Interplasp SL in Spain in 2019 for a consideration of €40 million. As of FY22, Interplasp contributes 15% to the overall revenue of the company. It has a 1% market share in Europe.

Exhibit 1: Key developments of company



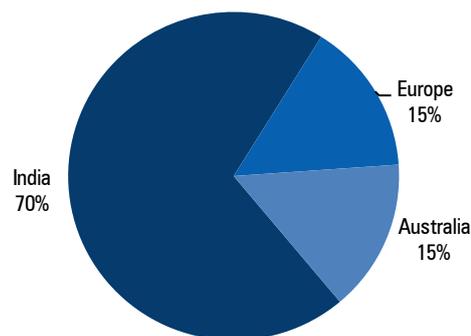
Source: ICICI Direct Research, Company

Exhibit 2: Revenue segmentation across segments



Source: Company, ICICI Direct Research

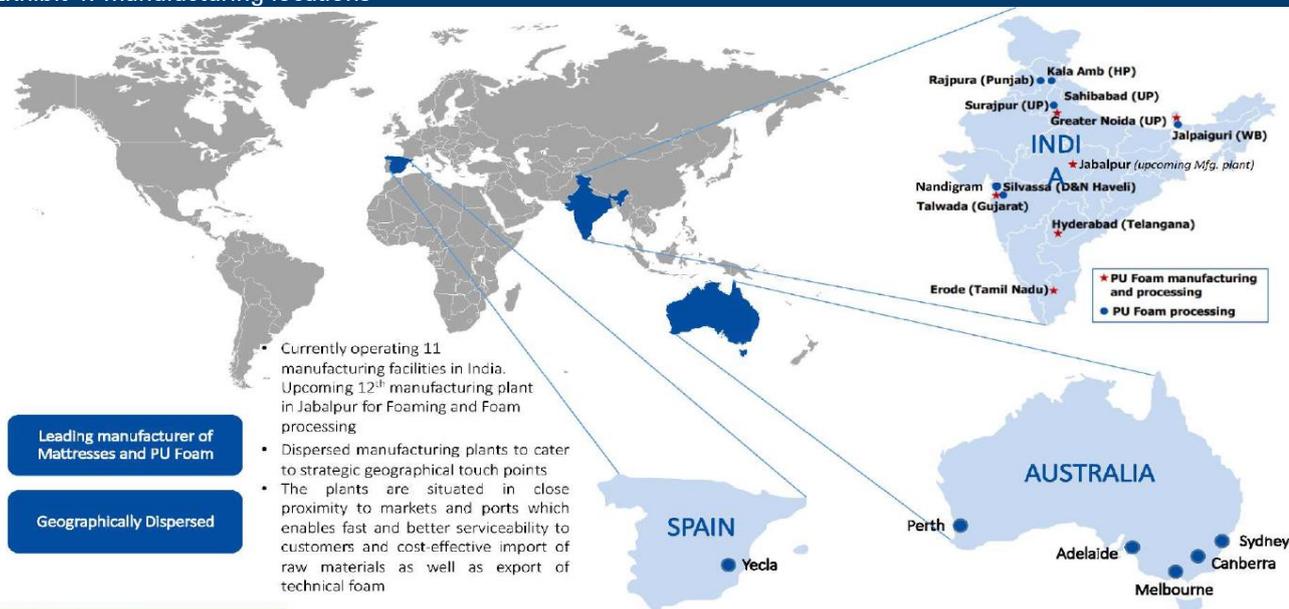
Exhibit 3: Revenue segmentation across locations



Source: Company, ICICI Direct Research

SFL has 11 manufacturing locations across India engaged in manufacturing and processing of PU Foam. Apart from manufacturing facilities in India, the company also has five manufacturing locations in Australia and one facility in Spain. SFL produces flexible PU foam and has a manufacturing facility in Yecla, Spain, which is a cost-effective manufacturing location. Due to its geographical proximity, the company can cater to the export demand coming from America. SFL has come up with "Bed in a Box" strategy to export mattresses to the US.

Exhibit 4: Manufacturing locations



Source: ICICI Direct Research, Company

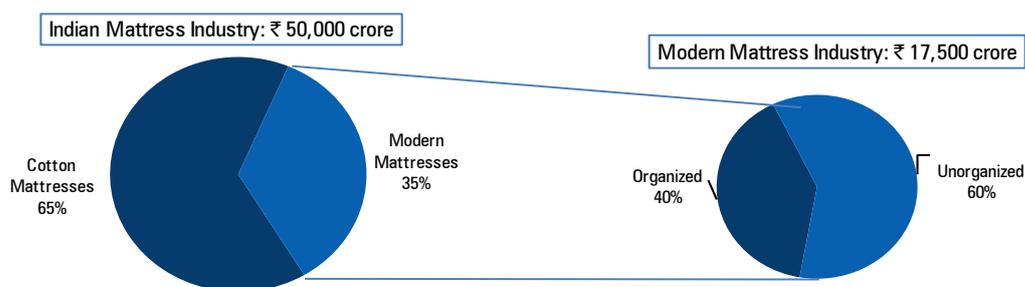
Investment Rationale

Indian mattresses industry: Huge untapped opportunity

The Indian mattresses industry is classified into two categories 1) cotton based mattresses and 2) modern mattresses. The overall industry is pegged at ~ ₹ 50,000 crore with significant dominance of the unorganised cotton based mattresses industry. The cotton based mattresses commands ~65% of industry requirement, which is pegged at ~₹ 32,500 crore. The cotton based products are preferred choice in rural and semi urban regions mainly due to their low price point and easy transportation. However, modern mattresses (~35% of overall industry) started getting traction due to its various health benefits over cotton based products such as better comfort, temperature regulations and greater longevity (sag free).

Indian mattress industry is highly fragmented with 65% market share dominated by cotton based products

Exhibit 5: Indian mattresses industry largely dominated by cotton based mattresses, unorganised players



Source: Industry, ICICI Direct Research

The modern mattresses industry is pegged at ~₹ 17,500 crore and grew at a CAGR of ~7% in the last five years amid Covid led supply disruption. The industry is dominated by regional and unorganised players with ~60% market share. The significant regional play in the modern mattress industry exists due to its bulky nature and high transportation cost. Organised players contribute ~40% of the total industry and are growing (at 9% CAGR) faster than overall industry growth. The organised players have expanded their product portfolio and distribution network aggressively in the last five years, which helped them gain market share by ~5 percentage points over FY16-22. We believe the modern mattresses industry is likely to grow at a CAGR of 12% in FY22-26E to ~₹ 27,600 crore, supported by rising awareness of sleep related products (to avoid health issues), increasing income level, urbanisation and rising aspiration of the middle class.

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Growth in user industries to drive demand for modern mattresses

The mattresses industry mainly caters to the housing and institutional segments (including hotels, hospitals, etc). We believe a revival of the tourism industry and addition of new hospitals in tier II, III cities will drive the future demand for modern mattresses in India.

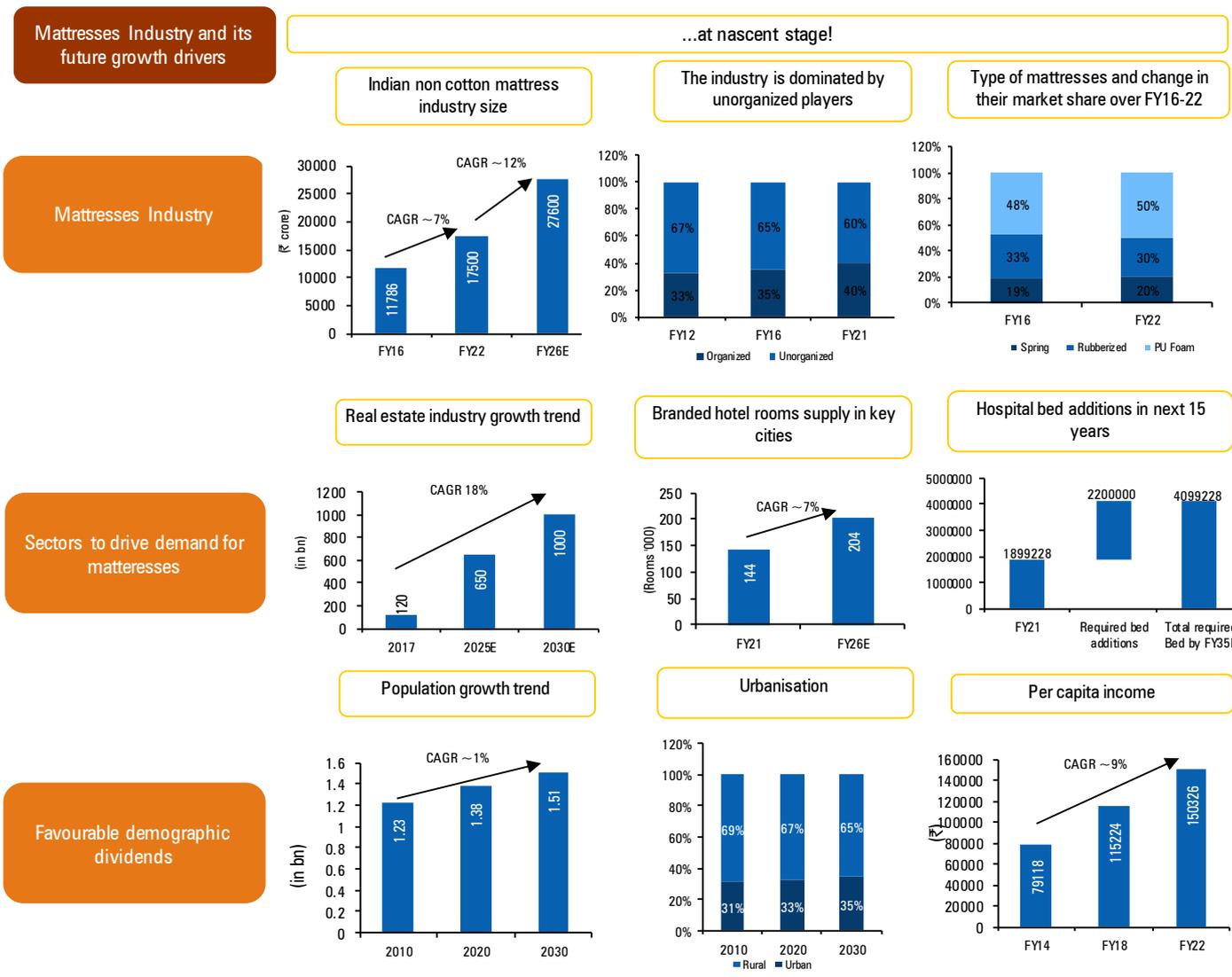
Residential: The residential segment accounts for ~80% of the modern mattresses demand in India. We believe the mattresses industry will get a boost from a strong revival in the real estate industry. According to government estimates, the Indian real estate market is estimated to touch US\$ 1 trillion by 2030 with a CAGR of 18% led by rising urbanisation and rising income of middle class household. Urban households account for a higher share of PU based mattress sales in India compared to rural households considering its high price.

Residential segment accounts for ~80% of the total mattresses demand while institution segment commands rest 20%

Institutional: The institutional segment (comprising hotels, hospitals) accounts for another ~20% of modern mattress demand in India. Luxury hotel chains (international or domestic branded) typically prefer spring mattresses, while budget – three star hotels prefer PU Foam mattresses. We believe PU Foam mattresses will get fresh/replacement demand from additions of new hotel rooms considering strong demand post pandemic. According to an estimate, branded hotel room supply in key cities is likely to grow at CAGR of 7% in FY21-26E due to increased travelling by both business and leisure travellers. In addition, new hospital bed

additions in the coming future will also help drive demand for modern mattresses in India. According to Niti Aayog, India will require ~2x of new hospital beds in the next 15 years to support medical emergency in tier II & III cities and rising medical tourism. We believe, despite a lower contribution, the institutional segment is still an important growth driver for the modern mattresses industry considering investment in the hospitality industry.

Exhibit 6: Long term growth drivers of modern mattresses industry



Modern mattresses industry classified into three categories:

The modern mattresses are classified into three categories i.e. Polyurethane (PU) foam, spring mattresses and rubberised coir. PU foam mattresses cater to ~50% of the total demand in India due to its better quality (over cotton & rubberised coir mattresses) and higher replacement cycle.

PU foam mattresses: PU foams are used as a core component of foam based mattresses. It is manufactured from Toluene diisocyanate (TDI) and Polyols, which are derived from petroleum products. PU foams can be further processed with different chemicals to get memory foam (also known as visco-elastic foam), an improved grade of PU foam, which increases density & viscosity of foams. The PU based foam mattresses are cost effective compared to spring mattresses and higher replacement cycle (six to seven years) compared to rubberised coir & cotton based mattresses. PU foam mattresses dominate the modern mattresses industry with value market share of ~50%.

Spring Mattresses: These mattresses are made of multiple layers of spring (coil). Spring beds will also have foam layers surrounding the coils as well as a comfort layer on top. The quality, material, and thickness of these layers can greatly influence the comfort and look of the mattress. Spring mattresses are considered to be premium products (over rubberised coir and PU foam mattresses) due to its superior quality and higher replacement cycle (eight to 10 years). Spring mattresses currently form ~20% of the total organised modern mattresses industry.

Rubberised coir: These mattresses are made of coir processed with latex. Coir mattresses have a tendency to sag easily, thereby reducing their lives, which typically leads to replacement cycles of ~four to five years. Rubberised coir is ~30% of the total organised modern mattresses industry. It is continuously losing market share (declined from 33% to 30% in last five years) due to poor quality and lower replacement cycle compared to PU foams and spring mattresses.

We believe the Indian mattresses industry will grow at a CAGR of ~12% over FY22-26E to ~₹ 27,600 crore supported by rising urbanisation, income level and awareness towards quality products. The premium and luxury segments growth will be driven by increasing disposable income and the change in perception of a mattress being a health investment rather than in any regular commodity. We believe organised players will grow faster at ~14% led by market share gains from unorganised players and launch of new products.

The modern mattresses are classified into three categories i.e. Polyurethane (PU) Foam, Spring Mattresses and rubberised coir. PU foam mattresses cater to ~50% of total demand in India

Rubberized coir is continuously losing market share due to poor quality and lower replacement cycle

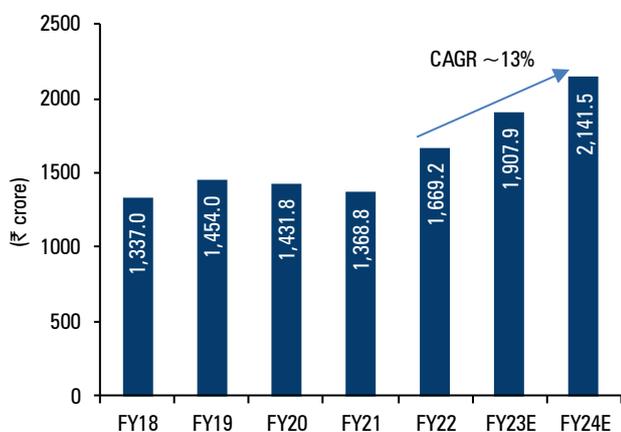
“Sleepwell”: Leading brand in domestic market

Home care segment: Sheela Foam’s ‘Sleepwell’ is one of the most popular mattress brands in India with a value market share of ~25% in the organised industry. The company has launched various new products under the home care segments (like furniture cushion, pillow, sofa-cum-bed, etc) by leveraging its Sleepwell brand. The home care products contribute 79% to the total topline led by the mattress segment. Despite rising competition, the company has maintained its leadership position mainly due to launching of new products and expansion of its dealer networks. Going forward, SFL plans to launch mattresses in the mid to economic price range to gain market share from unorganised players. We believe this will help drive the company’s home care segment to grow at a CAGR of 13% in FY22-24E.

Technical Foam: The company’s technical foam is largely a B2B business and contributes ~19% to its overall sales. The technical foam product includes automotive foams, reticulated foam, ultra violet stable foam, Slientech foam and caters to automotive, garments, innerwear, footwear, sound absorption and filtration industries. The automotive industry contributes largest share (~65%) in the sales of technical foams. Going forward, the company is also looking to supply technical foams to Indian Railways for the coaches of ‘Vande Bharat Trains’. Indian Railways plans to launch ~400 ‘Vande Bharat Trains’ in the next three years with a total outlay of ₹ 40,000 crore. We believe a revival in the automotive industry and incremental orders from Indian Railways will help drive SFL’s technical foam sales CAGR at 21% over FY22-24E.

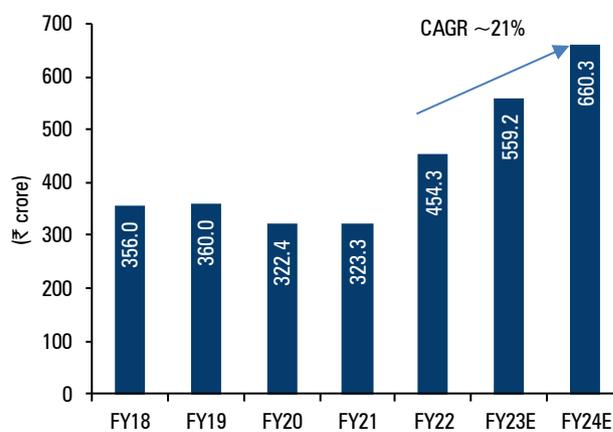
Company launched various products in the home care segment by leveraging its Sleepwell brand. Technical foam largely caters to the B2B segment is likely to grow at healthy rate of 21% on a favorable base and revival in automotive industry.

Exhibit 7: Home care segment revenue growth (Standalone)



Source: Company, ICICI Direct Research

Exhibit 8: Technical foam segment revenue (Standalone)



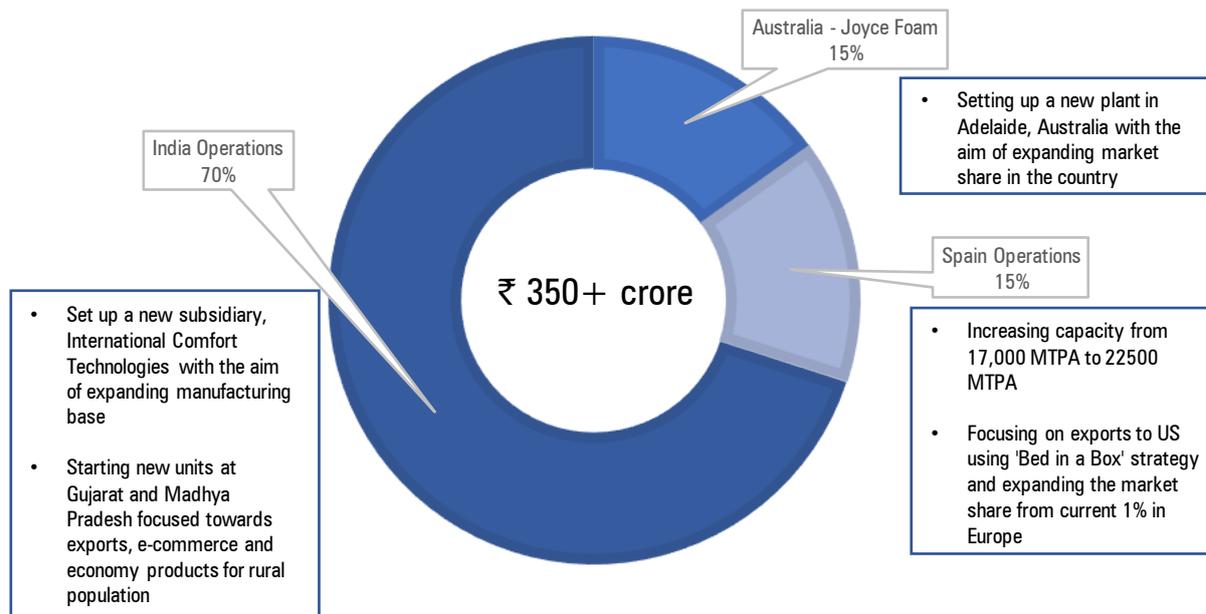
Source: Company, ICICI Direct Research

Capacity expansion to boost export opportunity

The company plans to ramp up its production capacity by ~23% over FY23E-24E with a capital outlay of ₹ 350 crore. Of this, ~ ₹ 245 crore will be invested to build up a greenfield facility in Gujarat and Madhya Pradesh. The capacity will be utilised to launch new products and to cater to overseas markets. SFL also plans to export mattresses and other technical foam based products to neighbouring countries. Currently, the company exports its products to UAE, Saudi Arabia, Sri Lanka, Bangladesh and Nepal and clocked export revenue of ₹ 55 crore in FY22. SFL has also received inquiries from US based companies for sourcing mattresses under their China + 1 strategy. The company plans to serve US markets through its Spanish subsidiary ‘Interplasp’ and increase its manufacturing capacity by ~30% to ~22,500 MTPA through a capex of ₹ 50 crore. In Australia, SFL is planning another ~₹ 50 crore capex to increase manufacturing capacity to gain market share through premiumisation in the region.

Sheela Foam has planned to ramp up its production capacity by ~23% over FY23E-24E with a capital outlay of ₹ 350 crore

Exhibit 9: Company's future capex plan



Source: Company, ICICI Direct Research

Eyeing semi urban markets through 'Mattresses for every Indian' products

The cotton based mattresses industry is pegged at ₹ 32,500 crore. Total ~70% households (largely rural) still used cotton based mattresses mainly due to lower price points and lack of awareness about PU based modern mattresses. The premium and luxury segment contributes ~25% to the total mattresses industry while economy and mid segment still contribute significant ~75% to overall sales. The industry is looking to launch new products to gain market share from cotton based players based in Tier III & IV cities. The price gap between cotton mattresses and PU foam mattresses has declined substantially over the last five years due to launches of new products and sharp rise in cotton prices. SFL plans to increase its presence in Tier III and IV cities (contributes ~40% of its sales) by launching new products under its 'mattresses for every Indian' strategy. The company formed a new subsidiary 'International Comfort Technologies' (ICT) on January 2022 and plans to start a manufacturing unit in Jabalpur by the end of FY23. This plant will use a patented technology named 'Variable Pressure Foaming' (VPF) to manufacture various grades of foam at affordable price points (to capture cotton based mattresses market share). The technology helps in significant saving in the overall manufacturing cost of PU foam products. We believe SFL, being the market leader with a robust supply chain network, has significant potential to gain market share from unorganised players without diluting its profitability in the long run. We model SFL's domestic mattresses' volume to grow at CAGR of 12% over FY22-24E.

SFL plans to increase its presence in Tier III and IV cities (contributes ~40% of its sales) by launching new products under its 'Mattresses for every Indian' strategy. Mattresses will be made using a patented technology named 'Variable Pressure Foaming' (VPF) to manufacture various grades of foam at affordable price points in order to capture the market share of cotton based mattresses

Exhibit 10: Business segments

	Sheela foam (Double bed)		Price difference Cotton Vs	
	Double Bed	Starlite	Starlite	SleepX
Price ₹	1,849	5,110		
Size (in inches)	72x48x4	72x48x4	2.8	6.1
Weight (in kg)	15.0	7.2		11.0

Source: Amazon, ICICI Direct Research, *Black Hauzry cotton based double bed mattress

Exhibit 11: Mid & Economy products contribution in industry

Product classification based on price segments	% of total sales
Economy (up to ₹ 8,000)	25%
Mid segment (₹ 8,000-30,000)	50%
Premium (₹ 30,000- 75,000)	20%
Luxury (Above ₹ 75,000)	5%

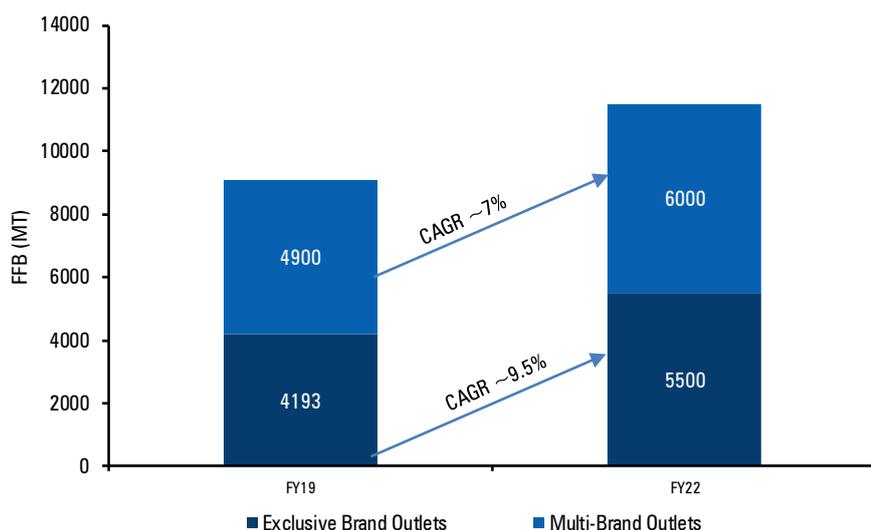
Source: Company, ICICI Direct Research

Pan India reach through strong distribution network

Considering the nature of the product and increasing trend of customised products, a strong dealer network is critical for long term growth. In the organised mattresses industry, significant business (~80% of sales) is contributed through offline dealer networks followed by 14% and 6% through online and owned franchise respectively. Over the last three years, Sheela Foam has developed a strong pan India distribution network of MBOs and EBOs. The company has total ~6000 multi brand outlets (MBO) and 5500 exclusive brand outlets (EBO) by the end of FY22 (vs. 4900 MBOs and 4193 EBOs by the end of FY19). Going forward, the company plans to set up a different distribution channel for its new products (mattress of every Indian) over the next five years. To start with, the company has shortlisted ~500 districts (out of ~750 districts in India) for future expansion of its distribution network. We believe the mattresses are largely purchased through personal experience (having a touch and feel aspect that cannot be achieved on online platforms) while a strong network of dealers plays a critical role for long term success.

Over the last three years, Sheela Foam has developed a strong pan India distribution network of MBOs and EBOs. The company has total 7899 multi brand outlets (MBOs) and 5424 exclusive brand outlets (EBOs) by the end of FY22 (vs. 4900 MBOs and 4193 EBOs by the end of FY19)

Exhibit 12: Continued focus on strengthening distribution



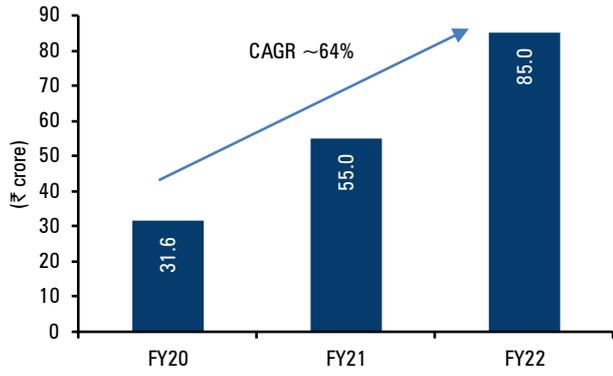
Source: ICICI Direct Research, Company

Exploring e-commerce channel with limited product launches

SFL's sales through e-com channel have witnessed strong growth over the last three years. Its e-commerce mattress brand 'SleepX' sales grew at CAGR of 64% to ₹ 85 crore in FY22 (~3% of consolidated sales). Strong sales growth is attributable to its lower base and increasing trend of online sales amid Covid led disruption. The company has opened about seven warehouse in the last three years to strengthen its online delivery services. The company plans to add more products in the near future after the success of its online brand 'SleepX'. Further, SFL plans to follow similar pricing for its online channel to avoid any threat to its years old offline channel partners. The premium and mid product ranges will be largely served through its offline dealers only as these products are largely customised. We believe increasing internet penetration will help SFL to increase its customer base in tier III & IV cities. We believe SFL will continue to focus on increasing its online/offline channels to increase its penetration into semi-urban and rural regions.

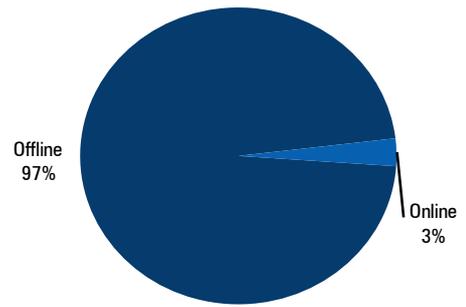
Sheela Foam's e-commerce mattress brand 'SleepX' sales grew at CAGR of 64% to ₹ 85 crore in FY22 (~3% of consolidated sales). The company plans to add more products in the near future after the success of its online brand 'SleepX'

Exhibit 13: Ecommerce sales growth trend over FY20-22



Source: Company, ICICI Direct Research

Exhibit 14: Online contribution to company's FY22 sales



Source: Company, ICICI Direct Research

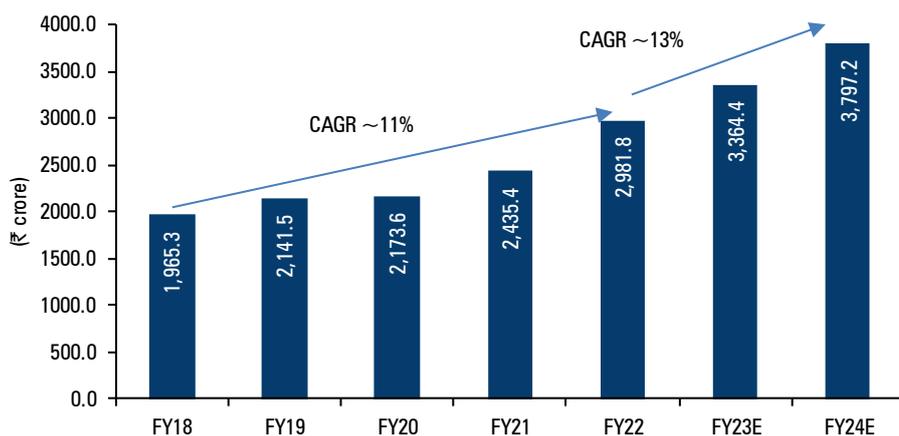
Financials

Strong domestic demand to drive revenue at 13% CAGR over FY22-24E

SFL’s consolidated revenue grew at a CAGR of 11% over FY18-22 led by consolidation of Interplasp Spain in FY20. The mattresses division revenue grew at a CAGR of 7% supported by volume CAGR of 8% supported by launch of new products and expansion of dealer networks. However, lower demand for furniture foams (due to volatile raw material prices), restricted domestic revenue (71% of consolidated revenue) growth at 6%. The overseas subsidiaries sales (29% of consolidated revenue) grew at a CAGR of 34% led by consolidation of Interplasp Spain in FY20. Business in Australia grew at a CAGR of 9% in FY18-22. Going forward, we build consolidated revenue CAGR of 13% supported by 15% growth in the domestic revenues over FY22-24. We believe domestic revenue growth will be driven by capacity expansion, dealer addition and launch of new products in the domestic market. We model overseas revenue CAGR of 8% over FY22-24E supported by market share gains and tapping new export opportunities.

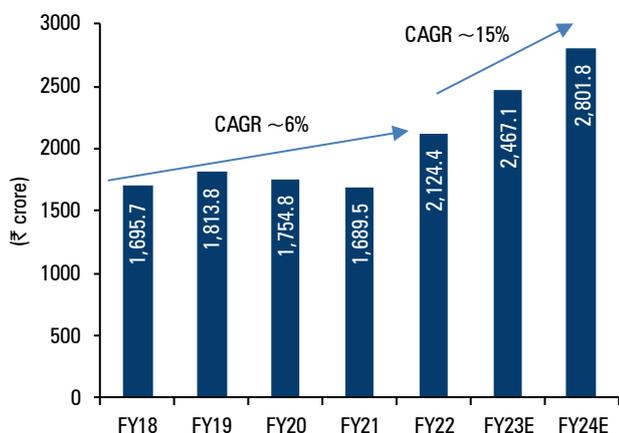
Sheela Foam’s consolidated revenue grew at CAGR of 11% over FY18-22 led by consolidation of Interplasp Spain in FY20. Going forward, we build in consolidated revenue CAGR of 13% supported by 15% growth in the domestic revenues over FY22-24

Exhibit 15: New product launches to help drive consolidated revenue growth



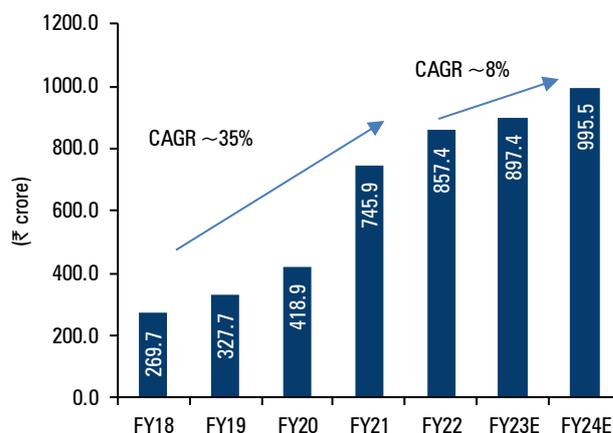
Source: ICICI Direct Research, Company

Exhibit 16: Standalone revenue CAGR over FY22-24E



Source: Company, ICICI Direct Research

Exhibit 17: Subsidiaries revenue growth trend



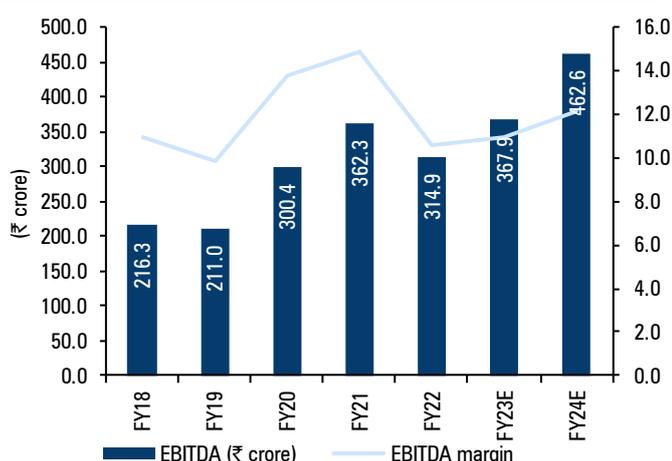
Source: Company, ICICI Direct Research

Softening input prices, improved operating leverage key to drive EBITDA margin FY22-24E

Sheela Foam’s key raw materials includes Polyol and Toluene Di-Isocyanate (TDI). The company procures significant portion (~90%) of its raw material requirement domestically from Gujarat Narmada Valley Fertilizers & Chemicals (GNFC), which is sole supplier in India. The company also procures small portion of raw material from global players such as BASF, Dow, Bayer, etc. While TDI is a crude oil derivative, the price movement of TDI is largely dependent on global demand supply scenario. The TDI prices increased ~25% YoY (~18% QoQ) mainly due to supply concern in overseas markets amid closure of manufacturing capacities. In Q1FY23, the gross margin witnessed expansion of 240 bps QoQ supported by price hikes and softening of Polyol prices (down ~2% QoQ). The management has guided that easing of supply concerns will lead to improvement in TDI prices from H2FY23. This, along with improved utilisation of new capacities, is expected to help drive EBITDA margin up by 160 bps over FY22-24E to 12.2%.

Sheela foam’s key raw materials includes Polyol and TDI (Toluene Di-Isocyanate). The company sources significant portion (~90%) of its raw material requirements domestically while rest is outsourced through overseas suppliers

Exhibit 18: EBITDA margin improvement over FY22-24E



Source: Company, ICICI Direct Research

Exhibit 19: Raw material prices movement

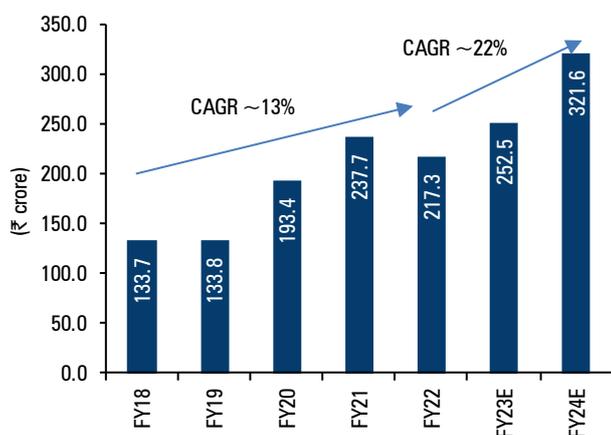


Source: Company, ICICI Direct Research

PAT CAGR at ~22% in FY22-24E led by topline growth, margin expansion

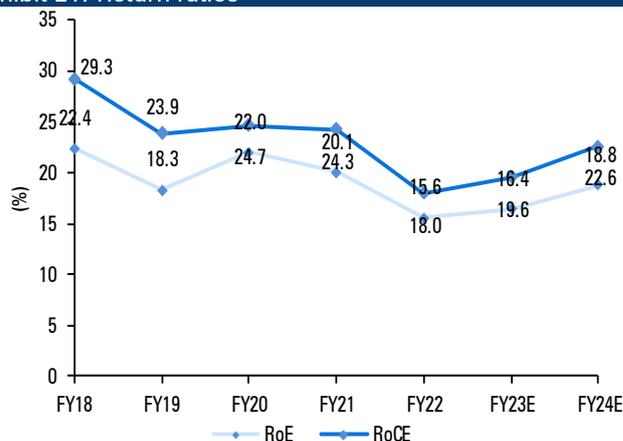
We believe SFL is likely to report strong earning CAGR of ~22% over FY22-24E supported by a strong operating performance. The company is likely to fund its capex plans largely through internal accruals. Hence, the interest outgo is likely to be limited to the extent of working capital requirement Strong earnings growth and continued strong balance sheet condition will drive return ratios, going forward.

Exhibit 20: PAT growth trend over FY22-24E



Source: Company, ICICI Direct Research

Exhibit 21: Return ratios



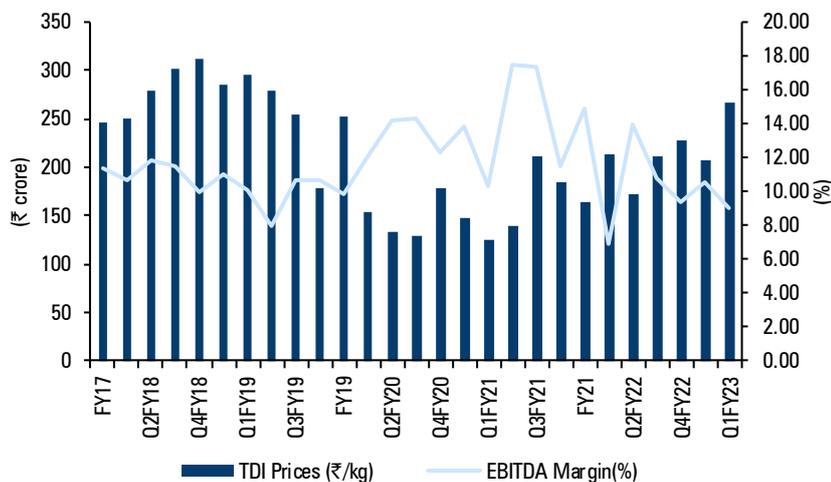
Source: Company, ICICI Direct Research

Key Risks

Interruptions in supply, fluctuations in prices of raw materials

Despite cooling of crude oil prices, TDI prices (one of the key raw materials) have witnessed an upward movement (up 25% YoY in Q1FY23) owing to shutdown of key manufacturing plants in Europe. Such rises in raw material prices could have an adverse impact on its financials if the company is unable to pass on the price increases promptly. Also, SFL's raw materials, which are imported (constitutes ~10% of raw materials) are subject to currency and exchange rate fluctuations. This would impact the margins and profitability of the company.

Exhibit 22: EBITDA margin (%) movement vis a vis TDI prices



Source: ICICI Direct Research, Company

Rising competition

Due to attractive growth opportunities, the industry is seeing a rise in the number of organised players in the mattress market. In the organised segment, around 20-25 players are spread across geographies with Sleepwell and Kurlon occupying a dominant share of the industry's revenue. The company also faces competition from unorganised players as they incur less operating expenses, given the size and scale of their operations and sometimes have a deeper retail reach in the territories that they operate in. If the company fails to produce high-quality, innovative products, and does not keep up with the competition, it may lead to loss of market share.

Counterfeit products

The product portfolio of SFL, and, especially its home comfort products, are susceptible to counterfeiting and imitation by third party vendors and players in unorganised markets, who may manufacture and sell products in the mass market at relatively lower prices. Any sale of counterfeit or imitation goods could harm the reputation of SFL's brands and its sales.

Dependency on brand recall of 'Sleepwell'

SFL manufactures and sells a wide range of home comfort products under the 'Sleepwell' brand name. Majority of the company's customers rely on the 'Sleepwell' brand name and consider it to be a trust factor for quality. Any negative publicity or litigation may damage the reputation of the company and impact its financials.

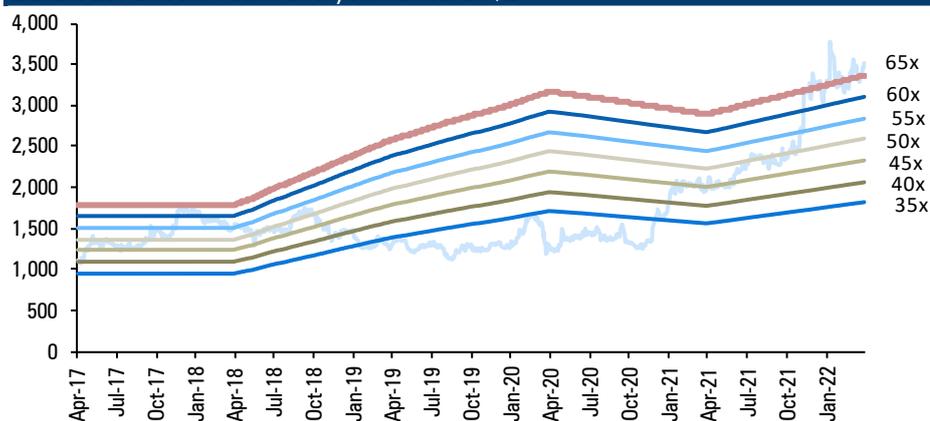
Risk from overseas operations

Sheela Foam operates through its subsidiary, Interplasp in Spain. SFL has 1% market share in Europe where it manufactures and exports flexible polyurethane foam. Any rise in the inflation rate in Europe will affect raw material prices thereby affecting the volume offtake and margins of the company.

Outlook

Sheela Foam is a play on changing lifestyle, urbanisation and rising per capita income of India household. We like SFL for its strong brand in the domestic mattresses industry (value market share 25% in the organised industry), its pan India reach (through 7899 MBOs and 5424 EBOs) and focus on launching new products to capture market share from unorganised industry (~60% of total industry). The company’s plan to expand its domestic and overseas capacity and launch of low price products will help gain market share from unorganised market in the years to come. We believe the company will register consolidated revenue CAGR of 13% led by 15% growth in the standalone business. Positive operating leverage and new launches through use of advanced technologies (VPF Technologies) is likely to result in EBITDA margin expansion by 160 bps over FY22-24E. PAT is likely to grow at CAGR of 22% led by strong operating performance. Despite a capex of ₹ 350 crore the balance sheet of the company is likely to remain strong with debt/equity of 0.1x and RoCE & RoE of ~24% & ~20%, respectively, by the end of FY24E. We initiate coverage on Sheela Foam with a **BUY** rating, valuing the company at 55x FY24E earnings with a target price of ₹ 3650/share.

Exhibit 23: Sheela Foam one-year forward P/E



Source: ICICI Direct Research, Company

Exhibit 24: Relative valuation

Company	Mcap ₹ cr	Revenue				EBITDA margin				PAT				RoCE				RoE				PE			
		FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E
Asian Paints	3,25,581	21713	29101	35459	39110	22	17	19	21	3207	3085	4559	5665	30	27	37	40	25	23	30	33	102	106	71	57
Berger Paints	61,386	6818	8762	10375	11439	17	15	15	16	720	833	962	1195	25	23	28	31	21	21	25	28	85	74	64	51
Kansai Nero	26,192	4771	5949	7448	8393	18	11	13	14	531	374	624	722	17	12	19	21	13	9	15	16	49	70	42	36
Pidilite Ind	1,42,539	7293	9921	11859	13262	23	19	18	22	1126	1207	1413	2026	24	22	24	30	20	19	20	25	127	118	101	70
Sheela Foam	14,269	2435	2982	3364	3797	15	11	11	12	238	217	253	322	24	18	20	23	20	16	16	19	60	66	56	44

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 25: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Revenue	2,435.4	2,981.8	3,364.4	3,797.2
Growth (%)		22.4	12.8	12.9
Raw material expense	1,379.3	1,842.3	2,036.4	2,287.1
Employee expenses	231.7	257.7	275.6	289.2
Advertisement expense	52.2	70.4	94.5	99.9
Other expenses	409.8	496.5	590.1	658.4
Total Operating Exp	2,073.0	2,666.9	2,996.6	3,334.6
EBITDA	362.3	314.9	367.9	462.6
Growth (%)		-13.1	16.8	25.8
Depreciation	72.9	80.8	82.1	94.9
Interest	17.7	17.0	20.0	18.5
Other Income	52.1	79.2	78.2	87.5
PBT	323.8	296.4	344.0	436.7
Total Tax	83.7	77.6	89.9	113.4
PAT	237.7	217.3	252.5	321.6

Source: ICICI Direct Research

Exhibit 26: Cash Flow Statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Profit after Tax	237.7	217.3	252.5	321.6
Add: Depreciation	72.9	80.8	82.1	94.9
Add: Interest Paid	17.7	17.0	20.0	18.5
(Inc)/dec in Current Assets	-180.2	-15.5	-81.0	-109.7
Inc/(dec) in CL and Provisions	113.7	21.3	56.3	68.5
Others	0.0	0.0	0.0	0.0
CF from operating activities	261.8	320.9	329.9	393.8
(Inc)/dec in Investments	-289.2	-224.9	0.0	-50.0
(Inc)/dec in Fixed Assets	-50.9	-313.0	-180.0	-170.0
Others	70.2	93.8	19.1	21.5
CF from investing activities	-269.9	-444.1	-160.9	-198.5
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	12.5	132.1	-25.0	-25.0
Dividend paid & dividend tax	0.0	0.0	-122.0	-146.3
Others	9.1	-26.0	-6.9	-18.5
CF from financing activities	21.6	106.1	-153.8	-189.8
Net Cash flow	13.5	-17.1	15.2	5.5
Opening Cash	44.6	58.1	41.0	56.3
Closing Cash	58.1	41.0	56.3	61.8

Source: ICICI Direct Research

Exhibit 27: Balance Sheet				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Liabilities				
Equity Capital	24.4	24.4	24.4	24.4
Reserve and Surplus	1,159.9	1,368.2	1,511.9	1,687.2
Total Shareholders funds	1,184.3	1,392.6	1,536.3	1,711.5
Total Debt	205.6	337.8	312.8	287.8
Other non current liability	104.5	50.6	57.0	64.3
Total Liabilities	1,620.8	1,896.0	2,036.3	2,210.9
Assets				
Gross Block	717.4	915.2	1,095.2	1,265.2
Less: Acc Depreciation	259.5	340.3	422.4	517.3
Total Fixed Assets	462.5	694.8	792.7	867.8
Investments	107.0	89.4	89.4	89.4
Inventory	315.3	314.5	346.2	390.7
Debtors	302.2	285.0	322.6	374.5
Loans and Advances	8.3	5.6	6.4	7.2
Other Current Assets	49.7	85.8	96.8	109.2
Cash	58.1	41.0	56.3	61.8
Total Current Assets	733.5	731.9	828.2	943.4
Creditors	229.6	301.3	322.6	364.1
Provisions	21.2	29.9	32.0	36.1
Other current liabilities	204.3	145.2	178.2	201.1
Total Current Liabilities	455.1	476.4	532.8	601.3
Net Current Assets	278.4	255.5	295.4	342.1
Other Non Current	149.6	19.3	21.8	24.6
Total Assets	1,620.8	1,896.0	2,036.3	2,210.9

Source: ICICI Direct Research

Exhibit 28: Ratio Analysis				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Per share data (₹)				
EPS	48.7	44.5	51.8	65.9
Cash EPS	63.7	61.1	68.6	85.4
BV	242.8	285.5	314.9	350.9
DPS	0.0	0.0	25.0	30.0
Operating Ratios (%)				
EBITDA Margin	14.9	10.6	10.9	12.2
PAT Margin	9.8	7.3	7.5	8.5
Asset Turnover	1.7	1.7	1.8	1.9
Inventory Days	47.3	38.5	37.6	37.6
Debtor Days	45.3	34.9	35.0	36.0
Creditor Days	34.4	36.9	35.0	35.0
Return Ratios (%)				
RoE	20.1	15.6	16.4	18.8
RoCE	24.3	18.0	19.6	22.6
RoIC	26.2	16.4	18.2	21.1
Valuation Ratios (x)				
P/E	60.0	65.7	56.5	44.4
EV / EBITDA	39.5	46.0	39.2	31.1
EV / Net Sales	5.9	4.9	4.3	3.8
Market Cap / Sales	5.9	4.8	4.2	3.8
Price to Book Value	12.0	10.2	9.3	8.3
Solvency Ratios				
Debt / Equity	0.2	0.2	0.2	0.2
Current Ratio	1.8	1.7	1.7	1.7
Quick Ratio	0.9	0.9	0.9	0.9

Source: ICICI Direct Research

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Reduce: -5% to -15%;

Sell: <-15%



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