

## Soft Q3, demand recovery delays to Q4

Sheela Foam (SFL) in its Analyst meet (on 1<sup>st</sup> Dec'22) informed that 1) Demand recovery has remained slow in India and Spain post Q2, owing to high inflation and geopolitical unrest 2) Further correction in its key raw material prices by ~10% as on date (from Q2) will support EBITDA margin recovery 3) The ₹ 350 crore capex plans to ramp up its production capacity over FY23E-24E is on track.

In India, Home care segment (80% of revenue) remains impacted owing to demand postponement amid high inflation. However, the technical products segment (~20% of revenue) continues its performance led by strong demand from the automotive industry. In the overseas subsidiaries, Australian subsidiary witnessed improved demand followed by new product launches, the Spain business remains impacted (with ~75-80% demand recovery) due to geo-political unrest. The management expects demand recovery across regions to start from Q4 onwards supported by easing inflationary pressure and strong housing demand. We cut our earnings estimate by ~6%, 2% for FY23E, FY24E respectively factoring in slow offtake in India and Spain. Overall we like SFL for its strong brand and leadership position in the domestic mattresses industry and its robust balance sheet condition

**What should investors do?** We maintain our **BUY** rating on the stock. We value the stock at 50x FY24E EPS with revised target price of ₹ 3300/share.

### Analyst meet highlights:

- SFL is currently facing demand related challenges in the domestic market as there is lower footfall in the retail outlets and consumers are postponing their discretionary spend amid rising inflation. The company is ramping up its distribution network to reach more consumers
- SFL is also facing a demand slowdown in its Spain business due to geopolitical conditions in Europe. The current demand in Spain has come down to 75% of the normal demand. However the management expects demand for exports to pick up from Q4 onwards
- The company has improved its product offering in Australia and the Australian market remains to be stable with strong demand. SFL has maintained its 40% market share in Australia
- Prices of SFL's key raw materials, TDI and Polyol have softened significantly. TDI prices have declined by ~10% to ₹ 225/kg from an average of ₹ 248/kg in Q2FY23. Polyol prices are at an all time low of ₹ 120/kg. This is expected to aid the margins of the company. The management expects gross margin to be at ~45% or a little higher in the coming quarters
- SFL has maintained its Capex guidance of ₹ 350 crore over the next two years to increase its manufacturing capacity by 23% in India & overseas

**Alternate Stock Idea:** In the consumer discretionary space, we also like Asian Paints

- Asian Paints is India's largest decorative paint company. It has a robust b/s with RoCE, RoE of 30%, 25%, respectively.
- BUY with a target price of ₹ 3685

### 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%	3215.3	3643.8	11%
EBITDA	211.0	300.4	362.3	314.9	10%	366.2	474.9	23%
EBITDA Margin (%)	9.9	13.8	14.9	10.6		11.4	13.0	
Net Profit	133.8	193.4	237.7	217.3	13%	249.3	325.0	22%
EPS (₹)	27.4	39.7	48.7	44.5		51.1	66.6	
P/E (x)	96.3	66.6	54.2	59.3		51.7	39.6	
RoE (%)	18.3	22.0	20.1	15.6		16.3	19.0	
RoCE (%)	23.9	24.7	24.3	18.0		19.6	23.2	

Source: Company, ICICI Direct Research



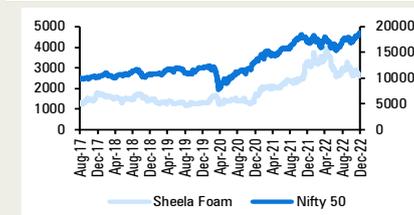
### Particulars

Particular	Amount
Market Capitalization (₹ Crore)	12,877.9
Total Debt (FY22) (₹ Crore)	337.8
Cash and Inv (FY22) (₹ Crore)	715.4
EV (₹ Crore)	12,500.2
52 week H/L (₹)	4055/2533
Equity capital (₹ Crore)	24.4
Face value (₹)	5.0

### Shareholding pattern

(in %)	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22
Promoter	73.0	73.0	73.0	73.0	73.0
FII	1.4	2.0	2.5	3.1	3.2
DII	23.7	23.8	23.4	22.8	22.7
Others	1.9	1.2	1.2	1.1	1.1

### Price Chart



### Key risks

- Key Risk:** (i) Demand slowdown (ii) volatile RM cost

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## Analyst meet highlights

- On the demand front, SFL is seeing slow pickup in India & Spain, whereas demand situation in Australia remains to be robust
- In the domestic market, the footfall from consumers is low and customers are postponing their purchase amid rising inflation. However, the company has maintained its market share of ~25% in India
- In Q2FY23, demand remained subdued inspite of festive season. There was a little uptick in demand at the onset of marriage season, however it was not as strong as the pre-covid level. The management expects volume growth from Q4FY23 onwards with a recovery in demand as well as lower base of last year
- SFL is working on expanding its distribution network to reach more consumers. The company had 5400 dealers at the end of FY22 which is expected to reach 6000 by end of December'22. SFL has also started another network of 'Cushioning Partners' to expand its geographical reach. The company's target is to add 1500 outlets under this category in FY23, out of which the company has already added 1000+ outlets till date. The company is also working on ramping up its EBOs
- The company has started selling 'Sleepwell' mattresses on e-commerce platforms in order to stay at par with competitors in the online space
- In its adjacent product categories, SFL is seeing demand for its technical foam from auto industry. The company is taking advantage of the China+1 strategy adopted by several nations.
- In Europe, the demand is at 75% of the normalized demand level. SFL's Spain business is facing challenges due to the current geo-political situation. As a result of the same, export demand has remained subdued
- The freight costs has normalised from its peak and will aid export demand recovery in the coming period.
- SFL has maintained its market share in Australia and the business continues to see robust demand. The company has also improved its product offerings in Australia
- Inflation in raw materials has eased out from September'22 onwards. Prices of SFL's key raw materials, TDI and Polyol have softened significantly. TDI prices have declined by ~10% to ₹ 225/kg from an average of ₹ 248/kg in Q2FY23. Polyol prices are at an all time low of ₹ 120/kg. This is expected to aid the margins of the company. The management expects gross margin to be at ~45% or a little higher in the coming quarters
- SFL will be focusing on targeted advertising with primary focus on digital means along with Below-the-Line (BTL) advertising. Print advertising means will only be used in northern regions of India
- Indian Railways has planned to operate 75 Vande Bharat trains by August'23. SFL has received approval to supply foam to Indian Railways for Vande Bharat trains. The company foresees ramp up in supply for the same and is also adding additional molding capacity to cater to the demand
- The management has maintained their Capex guidance of ₹ 350 crore in 2years. Out of this, ~₹ 60 crore have been utilised in H1FY23.
- With this capex, SFL will be expanding its manufacturing base with the opening of a new 100% Export Oriented Greenfield Unit in Nandi Gaon, Gujarat and in Mandala near Jabalpur, Madhya Pradesh. These two units will be focused towards the new businesses; Exports, E-commerce and Low Value Economy segment products for the rural population. The units are expected to be operational by May'23 and will also provide logistics advantage to the company
- In Spain, the company is incurring capex to increase its capacity from 17000 MTPA currently to ~22,500 MTPA to cater export opportunities. In Australia, SFL is setting up a new plant in Adelaide to expand its market share

Exhibit 1: Change in estimates

(₹ Crore)	FY23E			FY24E			Comments
	Old	New	% Chg	Old	New	% Chg	
Revenue	3275.0	3215.3	(1.8)	3723.6	3643.8	(2.1)	We have revised our revenue estimate downward by ~2% for FY23E-24E factoring in slow demand recovery in domestic and overseas business. We model revenue CAGR of 11% over FY22-24E
EBITDA	386.1	366.2	(5.2)	485.5	474.9	(2.2)	
EBITDA Margin %	11.8	11.4	-40bps	13.0	13.0	0bps	We build in EBITDA margin improvement from FY24E onwards supported by easing raw material prices and positive operating leverage
PAT	263.9	249.3	(5.6)	332.6	325.0	(2.3)	
EPS (₹)	54.1	51.1	(5.6)	68.2	66.6	(2.3)	

Source: ICICI Direct Research

## Financial Summary (Consolidated)

Exhibit 2: Profit and loss statement					₹ crore
(Year-end March)	FY21	FY22	FY23E	FY24E	
<b>Revenue</b>	<b>2,435.4</b>	<b>2,981.8</b>	<b>3,215.3</b>	<b>3,643.8</b>	
Growth (%)		22.4	7.8	13.3	
Raw material expense	1,379.3	1,842.3	1,820.3	2,123.3	
Employee expenses	231.7	257.7	282.7	287.7	
Advertisement expenses	52.2	70.4	97.3	109.3	
Other expenses	409.8	496.5	648.9	648.6	
Total Operating Exp	2,073.0	2,666.9	2,849.1	3,168.9	
<b>EBITDA</b>	<b>362.3</b>	<b>314.9</b>	<b>366.2</b>	<b>474.9</b>	
Growth (%)		-13.1	16.3	29.7	
Depreciation	72.9	80.8	82.6	91.1	
Interest	17.7	17.0	22.3	20.7	
Other Income	52.1	79.2	80.9	84.0	
PBT	323.8	296.4	342.1	447.1	
Total Tax	83.7	77.6	90.8	120.1	
<b>PAT</b>	<b>237.7</b>	<b>217.3</b>	<b>249.3</b>	<b>325.0</b>	

Source: Company, ICICI Direct Research

Exhibit 3: Cash flow statement					₹ crore
(Year-end March)	FY21	FY22	FY23E	FY24E	
Profit after Tax	237.7	217.3	249.3	325.0	
Add: Depreciation	72.9	80.8	82.6	91.1	
Add: Interest Paid	17.7	17.0	22.3	20.7	
(Inc)/dec in Current Assets	-180.2	-15.5	-46.8	-108.3	
Inc/(dec) in CL and Provisions	113.7	21.3	32.7	67.9	
Others	0.0	0.0	0.0	0.0	
<b>CF from operating activities</b>	<b>261.8</b>	<b>320.9</b>	<b>340.1</b>	<b>396.3</b>	
(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	12.7	21.8	
<b>CF from investing activities</b>	<b>-269.9</b>	<b>-444.1</b>	<b>-167.3</b>	<b>-198.2</b>	
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	-9.2	-20.7	
<b>CF from financing activities</b>	<b>21.6</b>	<b>106.1</b>	<b>-156.2</b>	<b>-192.0</b>	
Net Cash flow	13.5	-17.1	16.7	6.0	
Opening Cash	44.6	58.1	41.0	57.7	
Closing Cash	58.1	41.0	57.7	63.7	

Source: Company, ICICI Direct Research

Exhibit 4: Balance sheet					₹ crore
(Year-end March)	FY21	FY22	FY23E	FY24E	
<b>Liabilities</b>					
Equity Capital	24.4	24.4	24.4	24.4	
Reserve and Surplus	1,159.9	1,368.2	1,508.6	1,687.2	
Total Shareholders funds	1,184.3	1,392.6	1,533.0	1,711.6	
Total Debt	205.6	337.8	312.8	287.8	
Other non current liabilities	104.5	50.6	54.5	61.7	
<b>Total Liabilities</b>	<b>1,620.8</b>	<b>1,896.0</b>	<b>2,025.7</b>	<b>2,203.8</b>	
<b>Assets</b>					
Gross Block	717.4	915.2	1,095.2	1,265.2	
Less: Acc Depreciation	259.5	340.3	422.9	514.0	
Total Fixed Assets	462.5	694.8	792.2	871.1	
Investments	107.0	89.4	89.4	89.4	
Inventory	315.3	314.5	330.9	374.9	
Debtors	302.2	285.0	308.3	359.4	
Loans and Advances	8.3	5.6	6.1	6.9	
Other Current Assets	49.7	85.8	92.5	104.8	
Cash	58.1	41.0	57.7	63.7	
Total Current Assets	733.5	731.9	795.4	909.8	
Creditors	229.6	301.3	308.3	349.4	
Provisions	21.2	29.9	30.6	34.6	
Other current liabilities	204.3	145.2	170.3	193.0	
Total Current Liabilities	455.1	476.4	509.2	577.0	
Net Current Assets	278.4	255.5	286.3	332.7	
Other Non Current	149.6	19.3	20.8	23.6	
<b>Total Assets</b>	<b>1,620.8</b>	<b>1,896.0</b>	<b>2,025.7</b>	<b>2,203.8</b>	

Source: Company, ICICI Direct Research

Exhibit 5: Key ratios				
(Year-end March)	FY21	FY22	FY23E	FY24E
<b>Per share data (₹)</b>				
EPS	48.7	44.5	51.1	66.6
Cash EPS	63.7	61.1	68.0	85.3
BV	242.8	285.5	314.3	350.9
DPS	0.0	0.0	25.0	30.0
<b>Operating Ratios (%)</b>				
EBITDA Margin	14.9	10.6	11.4	13.0
PAT Margin	9.8	7.3	7.8	8.9
Asset Turnover	1.7	1.7	1.7	1.8
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
<b>Return Ratios (%)</b>				
RoE	20.1	15.6	16.3	19.0
RoCE	24.3	18.0	19.6	23.2
RoIC	26.2	16.4	18.2	22.2
<b>Valuation Ratios (x)</b>				
P/E	54.2	59.3	51.7	39.6
EV / EBITDA	35.7	41.5	35.6	27.4
EV / Net Sales	5.3	4.4	4.1	3.6
Market Cap / Sales	5.3	4.3	4.0	3.5
Price to Book Value	10.9	9.2	8.4	7.5
<b>Solvency Ratios</b>				
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: Company, ICICI Direct Research

Exhibit 6: ICICI Direct Consumer Discretionary universe

Sector / Company	Rating	M Cap (₹ Cr)	EPS (₹)				P/E (x)				EV/EBITDA (x)				RoCE (%)			RoE (%)				
			FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E
Asian Paints (ASIPAI)	Buy	3,01,414	33.4	32.2	40.8	54.2	94.0	97.7	77.0	58.0	61.1	62.2	51.2	39.4	29.6	27.1	32.5	38.7	25.0	23.0	27.3	32.1
Berger Paints (BERPAI)	Hold	59,832	7.4	8.6	10.3	12.2	83.1	71.8	59.9	50.5	50.1	45.2	37.7	32.5	24.9	23.3	28.8	30.9	21.3	21.2	26.0	27.3
Kansai Nerolac (KANNER)	Hold	23,766	9.8	6.9	10.1	12.9	44.8	63.5	43.6	34.1	28.2	36.6	26.5	21.1	17.2	12.1	17.0	19.9	13.2	9.2	13.1	15.1
Pidilite Industries (PIDIND)	Hold	1,38,934	22.2	23.8	28.6	41.2	123.4	115.1	95.5	66.4	82.4	75.1	63.5	45.2	23.8	22.2	24.6	30.8	20.2	18.8	20.6	25.4
Sheela Foam (SHEFOA)	Buy	12,878	48.7	44.5	51.1	66.6	54.2	59.3	51.7	39.6	35.7	41.5	35.6	27.4	24.3	18.0	19.6	23.2	20.1	15.6	16.3	19.0
Bajaj Electricals (BAJELE)	Hold	12,714	16.5	10.8	23.2	36.4	67.1	102.2	47.6	30.4	42.7	50.4	31.3	22.3	15.1	13.5	22.1	27.3	10.7	7.8	15.7	20.2
Crompton Greaves (CROGR)	Hold	23,066	9.8	9.2	8.9	11.1	37.4	39.9	41.3	33.1	30.5	30.1	26.5	22.0	34.4	16.2	16.6	20.5	31.9	24.0	21.7	23.4
Havells India (HAVIND)	Buy	77,599	16.7	19.1	17.6	27.1	74.4	65.0	70.2	45.8	48.8	42.9	46.8	31.8	24.9	23.7	23.0	33.8	20.1	20.0	19.4	28.7
Polycab India (POLI)	Buy	39,961	59.3	61.4	76.3	86.8	45.1	43.6	35.0	30.8	35.1	30.7	22.4	19.8	20.6	20.2	24.7	23.8	17.9	15.6	18.4	18.0
Symphony (SYMLIM)	Hold	6,520	15.3	17.3	26.1	34.8	60.9	53.9	35.7	26.8	45.6	39.4	27.4	20.7	15.2	15.9	24.5	29.0	14.9	14.4	23.6	27.4
V-Guard Ind (VGUARD)	Hold	10,793	4.7	5.3	5.3	7.1	53.5	47.2	47.4	35.5	33.7	31.8	30.6	23.1	23.9	21.2	23.4	27.8	16.7	16.2	17.7	21.2
Voltas Ltd (VOLTAS)	Hold	28,278	16.0	15.3	16.1	23.0	53.5	55.9	52.9	37.1	43.4	40.5	39.8	28.3	15.0	14.0	16.3	20.1	10.6	9.2	11.0	14.1
Amber Enterprises (AMBEN)	Hold	6,779	24.7	33.0	45.7	73.7	81.4	60.9	44.0	27.3	30.6	25.9	20.4	15.1	7.7	6.8	10.2	13.2	5.2	6.4	8.7	12.3
Dixon Technologies (DIXTEC)	Buy	25,924	27.3	32.1	57.9	85.4	160.2	136.2	75.4	51.2	90.5	68.8	42.4	30.9	23.5	17.7	27.8	31.5	21.7	19.1	31.8	34.2
Supreme Indus (SUPIND)	Buy	31,566	77.0	76.2	63.1	80.4	32.3	32.6	39.4	30.9	24.0	25.0	27.2	21.1	33.1	25.9	22.6	27.1	30.9	25.2	20.5	23.6
Astral Ltd (ASTPOL)	Hold	40,618	20.3	24.4	23.1	37.1	99.5	82.8	87.4	54.4	62.4	53.0	50.7	35.5	27.5	26.6	24.2	30.4	21.5	21.0	18.0	24.1
Time Techno (TIMTEC)	BUY	2,194	4.8	8.5	9.8	13.2	20.3	11.4	9.9	7.4	7.2	5.8	5.1	4.2	8.7	11.3	12.5	14.7	5.7	9.3	10.4	12.6
Moldtek Packaging (MOLPLA)	Hold	2,993	17.2	20.4	26.7	34.4	52.4	44.2	33.8	26.2	32.6	25.1	20.1	15.9	20.1	18.6	27.6	27.9	18.7	13.9	24.3	24.3

Source: Bloomberg, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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## ANALYST CERTIFICATION

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