

22 May 2024

India | Equity Research | Q4FY24 results review

Sheela Foam

Consumer Staples & Discretionary

Healthy recovery in branded mattresses continues

Consol. revenue (organic) performance (-10% YoY) was dragged by a continued decline in its B2B businesses (led by price corrections). Positively, branded mattress volumes are growing well with accelerated growth in Sleepwell (+31% YoY) and Kurl on (+17% YoY) driven by launches and TVC campaigns. Kurl-on, acquisition is tracking well with improved volume growth performance and profitability (operating margin doubled to 7%; further, cost synergies of ~200bps expected in FY25). As expected, breakeven in Furlenco business since Feb'24 has further reduced drag on profitability. Continued reinvestment of gross margin benefits towards higher ad spends, to revive consumer demand for branded mattresses, is a positive. Maintain **BUY**.

Improved volume growth in branded mattress segment along with scale-up of Kurl on

Consol. revenues (organic: ex-KEL) declined 10% YoY while India business (ex-KEL) declined 8% YoY. Positively, volume growth has been good despite overall branded mattress revenue (organic) being largely flattish YoY as the Sleepwell brand (+31% YoY volume growth in Q4FY24) continues to recoup lost revenues of its discontinued digital-first brand SleepX (~INR 1bn in FY23). Acquired brand Kurl-on also continues to scale up well (+17% YoY volume growth in Q4FY24). B2B businesses of furniture foam (-14% YoY) and technical foam (-9% YoY) witnessed revenue decline due to pricing decline (correction in input cost prices) while their volumes were largely flattish. Similarly, its B2B business in Australia and Spain saw revenues decline 17% YoY and 22% YoY, respectively due to price corrections.

Operating margins improve sequentially

Consol. gross margin expanded by 426bps YoY and 192bps QoQ due to lower input cost prices. India business' (organic) gross margin was largely flattish at 40.4% while EBITDA margin declined by ~90bps YoY due to higher marketing expenses (+50bps YoY). Kurl-on reported significant improvement (sequentially) in gross margin and EBITDA margin of 45.9% (vs. 41.1% in Q3FY24) and 7% (vs 3.6% in Q3FY24), respectively.

Financial Summary

Y/E March (INR mn)	FY23A	FY24A	FY25E	FY26E
Net Revenue	28,733	29,823	38,615	43,182
EBITDA	2,982	3,005	4,638	5,743
EBITDA Margin (%)	10.4	10.1	12.0	13.3
Net Profit	1,989	1,824	2,770	3,719
EPS (INR)	20.4	16.8	25.5	34.2
EPS % Chg YoY	(8.2)	(23.2)	61.9	34.3
P/E (x)	44.8	58.4	36.1	26.9
EV/EBITDA (x)	29.2	37.4	23.7	18.4
RoCE (%)	8.0	4.3	5.6	7.1
RoE (%)	13.2	8.0	8.9	10.8

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Market Data

Market Cap (INR)	100bn
Market Cap (USD)	1,204mn
Bloomberg Code	SFL IN
Reuters Code	SHEF NS
52-week Range (INR)	1,370 /889
Free Float (%)	35.0
ADTV-3M (mn) (USD)	1.0

Price Performance (%)	3m	6m	12m
Absolute	(13.5)	(18.7)	(10.5)
Relative to Sensex	(15.0)	(31.1)	(30.3)

Previous Reports

08-02-2024: [Q3FY24 results review](#)

18-07-2023: [Company Update](#)

Management is confident of achieving ~10% EBITDA margin as cost synergies will start flowing through from Q4FY24. Furlenco achieved PBT breakeven in Feb'24 and has been consistently profitable over last 3 months. In its international business, gross margins recovered well with correction in raw material prices. Gross margins of Australia and Spain expanded 410bps YoY and 550bps YoY, respectively. While their operating margins declined 280bps YoY and 150bps YoY due to operating de-leverage. Consol. EBITDA margin was down ~120bps YoY to 9.5% (+86bps QoQ). EBITDA grew by 3% YoY and 6% QoQ; however, recurring PAT was largely flat sequentially with decline in losses of Furlenco.

Valuation and risks

Our earnings estimates are largely unchanged, modelling revenue / EBITDA / PAT CAGR of 20% / 38% / 53% over FY24-26E. Maintain **BUY** with a DCF-based unchanged target price of INR 1,150. Key downside risks are: 1) adverse movement in prices of key inputs; and 2) increase in competition from global players/Indian e-commerce.

Exhibit 1: Q4FY24 results review (consolidated)

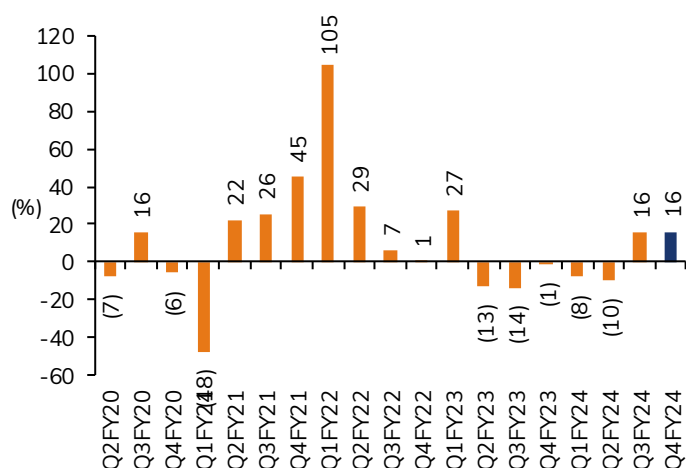
INR mn	Q4FY24	Q4FY23	YoY (%)	Q3FY24	QoQ (%)	FY24	FY23	YoY (%)
Net Revenue	8,452	7,290	16	8,789	(4)	29,823	28,733	4
COGS	(4,764)	(4,421)	8	(5,124)	(7)	(17,502)	(17,879)	(2)
Gross profit	3,687	2,870	28	3,665	1	12,322	10,854	14
Staff cost	(985)	(738)	33	(950)	4	(3,441)	(2,829)	22
Other opex	(1,897)	(1,348)	41	(1,953)	(3)	(5,875)	(5,044)	16
Total opex	(2,882)	(2,087)	38	(2,903)	(1)	(9,316)	(7,873)	18
EBITDA	805	783	3	762	6	3,005	2,982	1
Other income	367	176	108	318	15	1,171	856	37
Finance Cost	(270)	(70)	283	(252)	7	(686)	(211)	226
D&A	(413)	(261)	59	(299)	38	(1,158)	(896)	29
PBT	489	628	(22)	529	(8)	2,332	2,731	(15)
Tax	(144)	(192)	(25)	(144)	(0)	(614)	(723)	(15)
PAT before MI	345	436	(21)	385	(10)	1,718	2,008	(14)
Minority Interest	(36)	(4)		(77)		(121)	(19)	
PAT after MI	310	432	(28)	308	1	1,597	1,989	(20)
Extraordinary items	337	-		-		227	-	
Net profit (reported)	646	432	49	308	110	1,824	1,989	(8)
EPS	5.9	4.4	34	2.8	110	15.8	20.6	(23)
Costs as a % of sales								
COGS	56.4	60.6	-427 bps	58.3	-193 bps	58.7	62.2	-354 bps
Gross margin (%)	43.6	39.4	426 bps	41.7	192 bps	41.3	37.8	353 bps
Staff cost	11.7	10.1	153 bps	10.8	85 bps	11.5	9.8	169 bps
Other opex	22.4	18.5	394 bps	22.2	21 bps	19.7	17.6	214 bps
EBITDA margin (%)	9.5	10.7	-122 bps	8.7	86 bps	10.1	10.4	-30 bps
Income tax rate (%)	29.4	30.6	-121 bps	27.3	209 bps	26.3	26.5	-13 bps

Source: Company data, I-Sec research

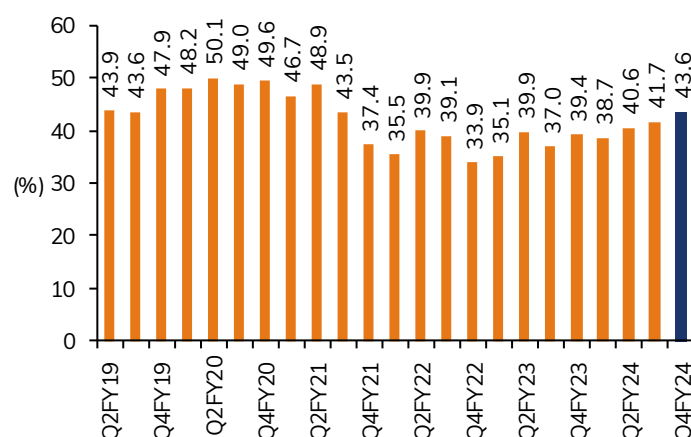
Exhibit 2: Q4FY24 segment results review

INR mn	Q4FY24	Q4FY23	YoY (%)	FY24	FY23	YoY (%)
Segment Revenue						
Mattresses	3,210	2,170	48	10,530	8,740	20
Furniture Foam	550	640	(14)	2,260	2,470	(9)
Foam Core	1,350	720	88	3,780	2,790	35
Technical Foam	1,240	1,370	(9)	4,670	5,220	(11)
Others	410	290	41	1,190	1,190	-
Australia	890	1,070	(17)	4,080	4,380	(7)
Spain	800	1,020	(22)	3,280	3,950	(17)
Segment Volume (Mattress in '000 Nos., Other in Tons.)						
Mattresses ('000)	675	485	39	2,174	2,033	7
Furniture Foam	1,543	1,521	1	5,712	5,770	(1)
Foam Core	8,332	3,057	173	20,529	12,019	71
Technical Foam	4,305	4,196	3	16,051	15,872	1
Segment Realisation (Mattress in Rs/No., Other in Rs/Kg)						
Mattresses	4,756	4,474	6	4,844	4,299	13
Furniture Foam	356	421	(15)	396	428	(8)
Foam Core	162	236	(31)	184	232	(21)
Technical Foam	288	327	(12)	291	329	(12)

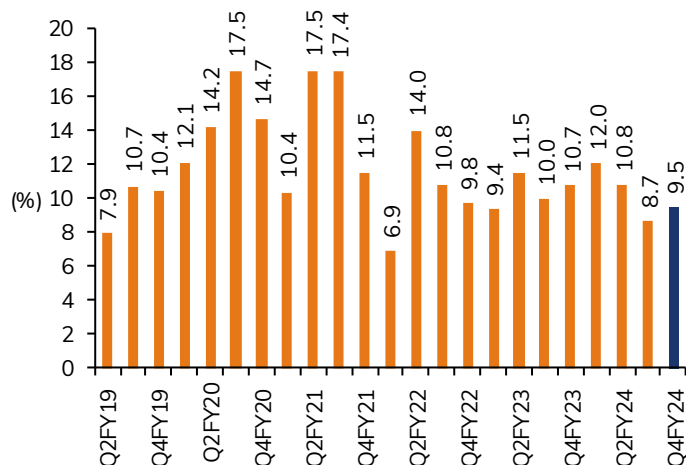
Source: Company data, I-Sec research

Exhibit 3: Revenue growth (consolidated)

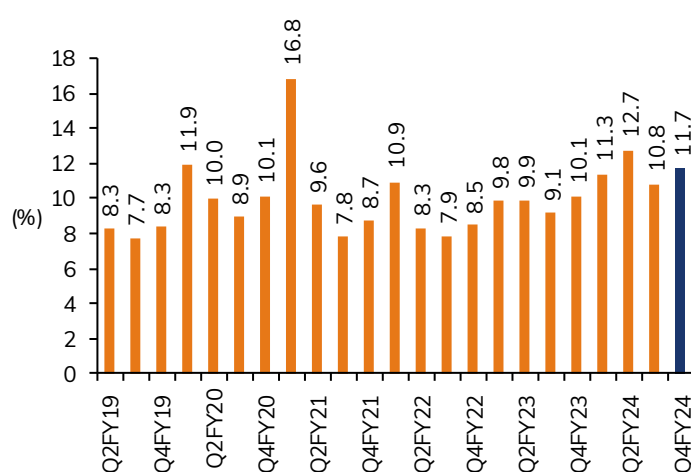
Source: Company data, I-Sec research

Exhibit 4: Gross margin (consolidated)

Source: Company data, I-Sec research

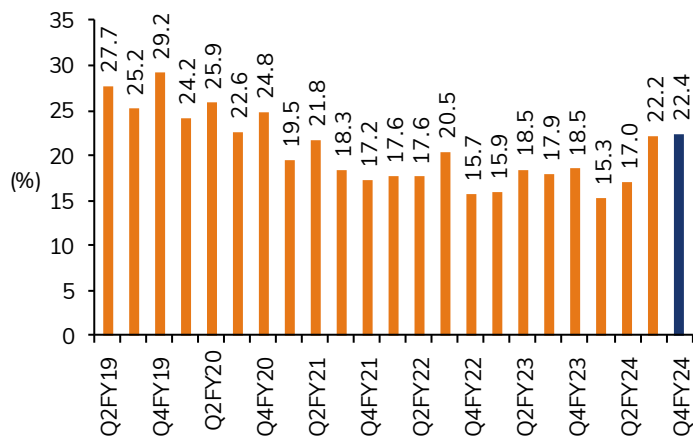
Exhibit 5: EBITDA margin (consolidated)

Source: Company data, I-Sec research

Exhibit 6: Staff cost as a % of sales

Source: Company data, I-Sec research

Exhibit 7: Other expenses as a % of sales



Source: Company data, I-Sec research

Exhibit 8: Shareholding pattern

%	Sep'23	Dec'23	Mar'24
Promoters	65.5	65.5	65.5
Institutional investors	31.1	31.1	30.8
MFs and others	22.4	22.4	21.7
FIs/Banks	0.0	0.0	0.0
Insurance	2.6	2.5	2.7
FIIIs	6.1	6.2	6.4
Others	3.4	3.4	3.7

Source: Bloomberg

Exhibit 9: Price chart



Source: Bloomberg

Financial Summary

Exhibit 10: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Net Sales	28,733	29,823	38,615	43,182
Operating Expenses	25,752	26,818	33,976	37,439
EBITDA	2,982	3,005	4,638	5,743
EBITDA Margin (%)	10.4	10.1	12.0	13.3
Depreciation & Amortization	-	-	-	-
EBIT	2,085	1,848	3,288	4,312
Interest expenditure	211	686	858	737
Other Non-operating Income	856	1,171	1,288	1,417
Recurring PBT	2,731	2,332	3,717	4,992
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	723	614	936	1,256
PAT	2,008	1,718	2,782	3,735
Less: Minority Interest	19	121	12	16
Extraordinaries (Net)	-	227	-	-
Net Income (Reported)	2,008	1,945	2,782	3,735
Net Income (Adjusted)	1,989	1,824	2,770	3,719

Source Company data, I-Sec research

Exhibit 11: Balance sheet

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Total Current Assets	7,213	8,570	13,689	15,274
of which cash & cash eqv.	425	490	3,231	3,584
Total Current Liabilities & Provisions	4,966	7,546	9,773	10,931
Net Current Assets	2,247	1,024	3,917	4,344
Investments	8,218	9,284	9,284	9,284
Net Fixed Assets	4,290	11,596	11,245	10,814
ROU Assets	1,086	2,297	2,297	2,297
Capital Work-in-Progress	2,875	1,614	1,614	1,614
Total Intangible Assets	2,740	16,931	16,931	16,931
Long Term Loans & Advances	71	233	301	337
Deferred Tax assets	-	2,252	2,252	2,252
Total Assets	22,142	45,849	48,643	48,769
Liabilities				
Borrowings	4,676	12,813	12,813	9,188
Deferred Tax Liability	345	177	177	177
Provisions	-	217	217	217
Other Liabilities	-	718	718	718
Equity Share Capital	488	544	544	544
Reserves & Surplus	15,599	28,658	31,440	35,175
Total Net Worth	16,087	29,202	31,984	35,719
Minority Interest	-	605	617	633
Total Liabilities	22,142	45,849	48,643	48,769

Source Company data, I-Sec research

Exhibit 12: Quarterly trend

(INR mn, year ending March)

	Jun 23	Sep 23	Dec 23	Mar 24
Net Sales	6,451	6,132	8,789	8,452
% growth (YOY)	(7.9)	(10.2)	15.5	15.9
EBITDA	776	662	762	805
Margin %	12.0	10.8	8.7	9.5
Other Income	242	244	318	367
Extraordinaries	(110)	-	-	337
Adjusted Net Profit	431	440	308	345

Source Company data, I-Sec research

Exhibit 13: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Operating Cashflow	2,120	566	3,312	4,298
Working Capital Changes	(548)	354	(151)	(74)
Capital Commitments	(2,116)	(21,260)	(1,000)	(1,000)
Free Cashflow	4	(20,695)	2,312	3,298
Other investing cashflow	(568)	2,169	1,288	1,417
Cashflow from Investing Activities	(2,684)	(19,091)	288	417
Issue of Share Capital	(5)	11,415	-	-
Interest Cost	(164)	(274)	(858)	(737)
Inc (Dec) in Borrowings	1,041	7,816	-	(3,625)
Dividend paid	(28)	(10)	-	-
Others	-	-	-	-
Cash flow from Financing Activities	561	18,543	(858)	(4,362)
Chg. in Cash & Bank balance	(3)	18	2,742	353
Closing cash & balance	425	490	3,231	3,584

Source Company data, I-Sec research

Exhibit 14: Key ratios

(Year ending March)

	FY23A	FY24A	FY25E	FY26E
Per Share Data (INR)				
Reported EPS	20.6	15.8	25.6	34.4
Adjusted EPS (Diluted)	20.4	16.8	25.5	34.2
Cash EPS	29.6	27.4	37.9	47.4
Dividend per share (DPS)	-	-	-	-
Book Value per share (BV)	164.9	268.6	294.2	328.6
Dividend Payout (%)	-	-	-	-
Growth (%)				
Net Sales	0.3	3.8	29.5	11.8
EBITDA	(5.3)	0.8	54.3	23.8
EPS (INR)	(8.2)	(23.2)	61.9	34.3
Valuation Ratios (x)				
P/E	44.8	58.4	36.1	26.9
P/CEPS	31.2	33.6	24.3	19.5
P/BV	5.6	3.4	3.1	2.8
EV / EBITDA	29.2	37.4	23.7	18.4
P / Sales	3.1	3.4	2.6	2.3
Dividend Yield (%)	-	-	-	-
Operating Ratios				
Gross Profit Margins (%)	37.8	41.3	41.8	42.2
EBITDA Margins (%)	10.4	10.1	12.0	13.3
Effective Tax Rate (%)	26.5	26.3	25.2	25.2
Net Profit Margins (%)	7.0	5.8	7.2	8.7
Net Debt / Equity (x)	(0.2)	0.4	0.3	0.1
Net Debt / EBITDA (x)	(1.0)	4.0	2.0	0.9
Fixed Asset Turnover (x)	3.8	2.5	2.3	2.4
Working Capital Days	23	7	7	7
Inventory Turnover Days	42	42	47	44
Receivables Days	36	45	50	47
Payables Days	33	48	54	50
Profitability Ratios				
RoCE (%)	8.0	4.3	5.6	7.1
RoE (%)	13.2	8.0	8.9	10.8
RoIC (%)	11.3	7.0	7.8	9.4

Source Company data, I-Sec research

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