

## Capacity addition, new launches to drive topline...

We met the management of Sheela Foam (SFL) to get an insight into its business and future plans. SFL is the market leader in the domestic mattresses industry with value market share of ~25%. The company's brand "Sleepwell" is one of the leading brands in the domestic mattresses industry. It has a pan India presence through 5400+ exclusive retail dealers and 6100+ multi brand outlets. Apart from India (contributes ~70% in topline), the company also manufactures Polyetherene (PU) foams in Australia and Spain with revenue contributions of 16% and 14% respectively. SFL has envisaged a capex of ₹ 350 crore to increase its consolidated capacity by ~30% in the next two years.

- Revenue, earnings grew at CAGR of 11%, 12%, respectively, in FY17-22
- The company sees consolidated revenue CAGR of ~15% over the next two years led by capacity additions, product launches and market share gains

### Management meet highlights:

- The Indian mattresses industry is pegged at ~₹ 15,000 crore and is growing at a CAGR of 8-10%/annum. Unorganised/regional players dominate the industry with ~60% share in the overall pie
- Cotton mattress, which is used by ~70% domestic population has not been accounted in the mattresses industry. The cotton mattresses are low price end products with higher maintenance cost. The price difference of cotton mattresses and PU foam based mattresses is 2-3x
- SFL aims to increase its domestic market share through adding capacities and new launches in the economy products segments
- The company also sees increased export opportunities in the US markets post US-China trade war. SFL sees increased inquiries from some of the leading players from US under their China +1 strategy. US imports mattresses worth US\$ 1.5 billion (bn) from China
- The company envisages a capex of ₹ 350 crore for new facilities in India & overseas. SFL plans to establish a new distribution channel for its economy products in India. The company sees ~3-4x of asset turn on this incremental capex. The capex will be funded through internal accruals
- The company sees improvement in the EBITDA margin over FY23-24E supported by cooling raw material prices and improved operating leverage
- SFL's lower debt level and improved profitability is expected to help drive return ratios over FY23-24E

SFL's revenue grew at 11% CAGR during FY17-22 led by 27% growth in the overseas business. The EBITDA margin contracted ~100 bps during the same period due to higher raw material cost and lower operating leverage in the domestic business. The PAT CAGR of 12% is attributable to higher other income and lower tax rate. Slower volume growth amid pandemic led challenges coupled with increasing debt level resulted in lower return ratios during FY20-22.

### Key Financial Summary

(₹ crore)	FY17	FY18	FY19	FY20	FY21	FY22	CAGR FY17-22
Net Sales	1732.9	1965.3	2141.5	2173.6	2435.4	2981.8	11%
EBITDA	196.1	216.3	211.0	300.4	362.3	314.9	10%
EBITDA Margin (%)	11.3	11.0	9.9	13.8	14.9	10.6	
Net Profit	125.6	133.7	133.8	193.4	237.7	217.3	12%
EPS (₹)	25.7	27.4	27.4	39.7	48.7	44.5	
P/E (x)	100.6	94.5	94.5	65.3	53.1	58.1	
RoE (%)	27.1	22.4	18.3	22.0	20.1	15.6	
RoCE (%)	34.1	29.3	23.9	24.7	24.3	18.0	

Source: Annual report, investor presentation, ICICI Direct Research



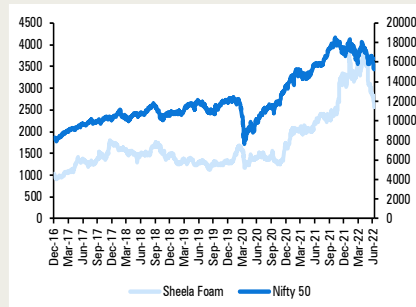
### Particulars

Particular	Amount
Market Capitalization (₹ Crore)	12,634.5
Total Debt (FY22) (₹ Crore)	337.8
Cash and Inv (FY22) (₹ Crore)	129.0
EV (₹ Crore)	12,843.2
52 week H/L (₹)	4055/2186
Equity capital (₹ Crore)	24.4
Face value (₹)	5.0

### Shareholding pattern

(in %)	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Promoter	73.0	73.0	73.0	73.0	73.0
FII	1.3	1.3	1.4	2.0	2.5
DII	23.6	23.7	23.7	23.8	23.4
Others	2.1	2.1	1.9	1.2	1.2

### Price Chart



### 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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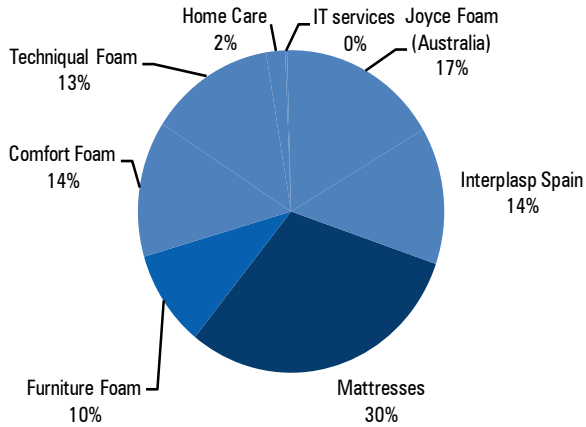
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## Management meet highlights

- Sheela Foam is the market leader and largest manufacturer of Polyurethane Foam (PU) in India in the last 50 years. The company's flagship brand "Sleepwell" is a leading brand in the domestic market
- Sheela Foam has 11 manufacturing plants in India with a total capacity of 1,23,000 MTPA. The company also has a presence in Australia and Spain
- The company's major business is divided into home comfort and technical foam segment
- The home comfort segment comprises mattresses, furniture cushions and other such products. This segment contributes ~80% to the company's total revenue
- The remaining 20% revenue share comes from the technical foam segment, which is largely B2B in nature
- Auto industry is the top contributor to the revenue of technical foam, accounting for ~65% of total segment revenue
- Under the mattresses segment, "Sleepwell" brand is of mid to premium price range of products. In order to capture market share from unorganised segment the company introduced its economy range of products under the brand "Starlite" and "FeatherFoam" in 2017 and 2018, respectively
- Apart from these, "SleepX" is the company's online brand, which is available on e-commerce platforms
- The company has also got approvals 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
- In the last three years, volume growth was driven by the economy segment. Economy segment contributes ~15% of total mattresses volume. The management expects to clock ~15% growth in mattress volumes, going forward, supported by new product launches, revival in real estate and market share gains
- The company also sees increased export opportunities in the US markets post US-China trade war. SFL sees increased inquiries from some leading players from the US under their China +1 strategy US imports mattresses worth US\$ 1.5 bn from China
- The domestic mattresses is pegged at ~₹ 15,000 crore. The unorganised segment accounts for ~60% of the overall mattress market. In the organised segment, Sheela Foam is a major player with ~25% market share
- The organised mattress market comprises coir, PU foam and spring mattresses. The market for coir mattresses is diminishing due to rising demand of PU mattresses. According to the management, the market for spring mattresses is small owing to its higher price point. However, it is a growing segment due to a shift in lifestyle of customers and growing affluence
- The company's competitors are Kurlon, Duraflex, Century Ply and Peps
- Apart from domestic operations, the company has two international subsidiaries – Joyce Foam in Australia and Interplasp in Spain
- The company has four manufacturing units in Australia and is coming up with its fifth plant in Adelaide in FY23. The current capacity in Australia is 11,000 MTPA and the company commands 40% market share in this region
- The company's subsidiary in Spain, 'Interplasp' mainly focuses on exports and has a capacity of 17,000 MTPA. SFL has 1% market share in Europe
- The management believes its overseas subsidiaries in Spain and Australia is likely to grow at a CAGR of ~5-10% supported by market share gains and customer additions
- The company has planned a capex of ₹ 350 crore for its domestic and overseas business. Out of this, ~₹ 15 crore has been used to set up a plant in Nandigram, Gujarat. This plant will mainly manufacture mattresses for the purpose of exports

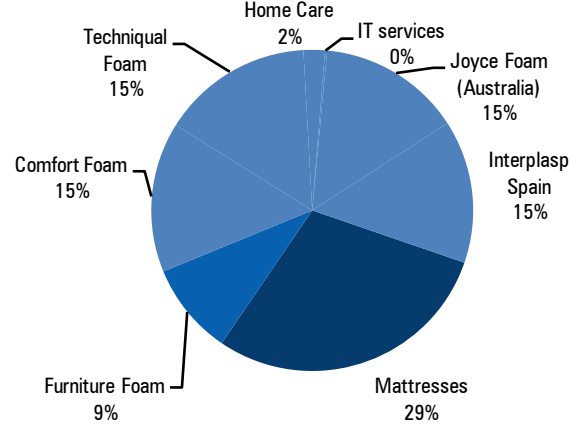
- Apart from this, the company plans to utilise ~₹ 180 crore towards setting up a new plant in Jabalpur, Madhya Pradesh in order create curing capacity for the company. This plant will use a patented technology named variable pressure foaming (VPF) to manufacture various grades of foam at affordable price points (to capture cotton based mattresses market share). The technology helps in significant saving in the overall manufacturing cost of PU foam products. SFL is already manufacturing PU foam products in Australia and Spain through this technology
- SFL is also starting a new plant in Australia, which will be used to increase the capacity and gain market share, ~₹ 50 crore in capex will be incurred for this purpose
- In Spain, the company is incurring capex of ~₹ 50 crore to increase capacity by ~30% from 17,000 MTPA to ~22,500 MTPA
- Apart from capacity expansion, the company is also open to inorganic route of growth to increase its market share. The company aims to acquire business on the basis of brand as opposed to capacity to achieve synergy
- Volatility in primary raw materials, TDI and Polyol have affected the margins of the company. The company generally does not take frequent price hikes. Prior to the pandemic, the company used to take price hikes once in a year. However, due to inflation in raw material prices, the company has taken three price hikes in FY22
- The management believes stabilisation in raw material prices, going forward, would have a positive impact on the company's gross margin. Gross margin is expected to be above 45% and the company expects to maintain double digit EBITDA margin

Exhibit 1: Segment wise revenue share in FY21



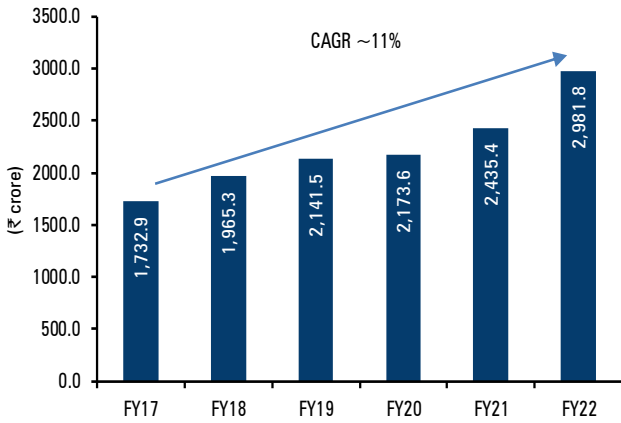
Source: Company, ICICI Direct Research

Exhibit 2: Segment wise revenue share in FY22



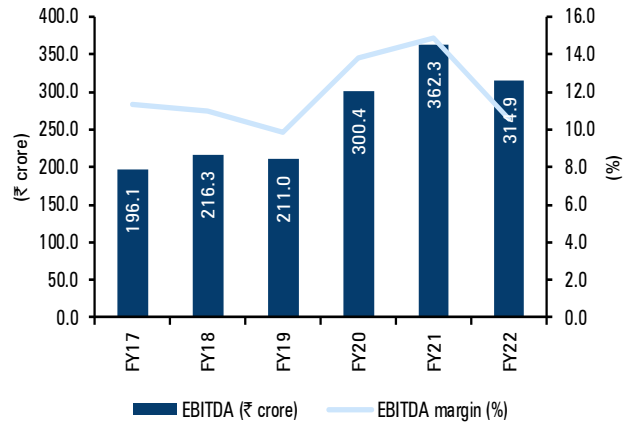
Source: Company, ICICI Direct Research

Exhibit 3: Revenue growth trend



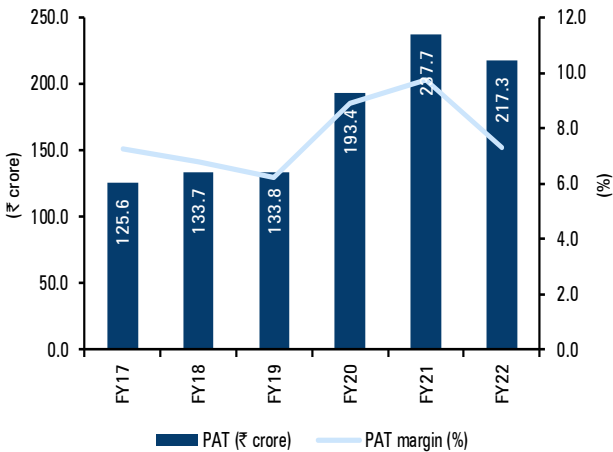
Source: Company, ICICI Direct Research

Exhibit 4: EBITDA & EBITDA margin movement



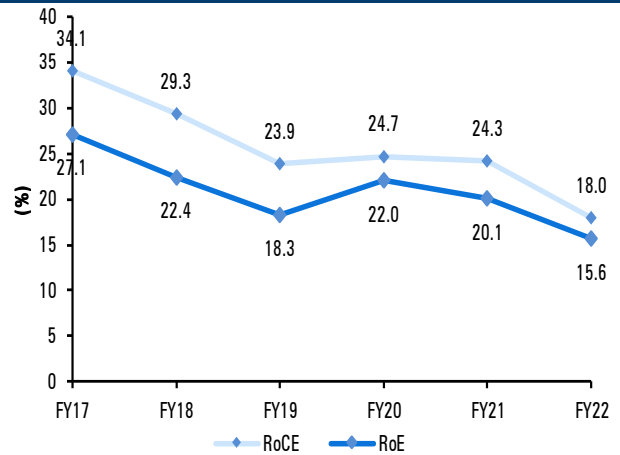
Source: Company, ICICI Direct Research

Exhibit 5: PAT & PAT margin movement



Source: Company, ICICI Direct Research

Exhibit 6: Return ratios



Source: Company, ICICI Direct Research

Exhibit 7: Marquee clients

Mattress Industry



Furniture Industry



Automotive Lamination Industry



Peeling Industry



Acoustic Industry



Source: Company, ICICI Direct Research

Exhibit 8: Brand portfolio



Source: Company, ICICI Direct Research

## Financial Summary (Consolidated)

Exhibit 11: Profit and loss statement				
	₹ crore			
(Year-end March)	FY19	FY20	FY21	FY22
<b>Revenue</b>	<b>2,141.5</b>	<b>2,173.6</b>	<b>2,435.4</b>	<b>2,981.8</b>
Growth (%)		1.5	12.0	22.4
Raw material expense	1,205.3	1,104.6	1,379.3	1,842.3
Employee expenses	177.3	220.4	231.7	257.7
Advertisement expenses	88.5	69.4	52.2	70.4
Other expenses	459.3	478.8	409.8	496.5
Total Operating Exp	1,930.4	1,873.2	2,073.0	2,666.9
<b>EBITDA</b>	<b>211.0</b>	<b>300.4</b>	<b>362.3</b>	<b>314.9</b>
Growth (%)		42.4	20.6	-13.1
Depreciation	39.5	59.0	72.9	80.8
Interest	9.6	13.0	17.7	17.0
Other Income	27.6	40.0	52.1	79.2
PBT	189.4	268.4	323.8	296.4
Total Tax	55.7	62.1	83.7	77.6
<b>PAT</b>	<b>133.8</b>	<b>193.4</b>	<b>237.7</b>	<b>217.3</b>
Growth (%)		44.6	22.9	-8.6
EPS (₹)	<b>27.4</b>	<b>39.7</b>	<b>48.7</b>	<b>44.5</b>

Source: Company, ICICI Direct Research

Exhibit 12: Cash flow statement				
	₹ crore			
(Year-end March)	FY19	FY20	FY21	FY22
Profit after Tax	133.8	193.4	237.7	217.3
Add: Depreciation	39.5	59.0	72.9	80.8
Add: Interest Paid	9.6	13.0	17.7	17.0
(Inc)/dec in Current Assets	-23.9	-95.4	-180.2	-15.5
Inc/(dec) in CL and Provisions	-26.0	14.0	113.7	21.3
Others	0.0	0.0	0.0	0.0
<b>CF from operating activities</b>	<b>133.0</b>	<b>184.1</b>	<b>261.8</b>	<b>320.9</b>
(Inc)/dec in Investments	-74.3	42.2	-289.2	-224.9
(Inc)/dec in Fixed Assets	11.3	-203.2	-50.9	-313.0
Others	-190.0	-147.0	70.2	93.8
<b>CF from investing activities</b>	<b>-253.0</b>	<b>-308.0</b>	<b>-269.9</b>	<b>-444.1</b>
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	-7.4	164.9	12.5	132.1
Dividend paid & dividend tax	0.0	0.0	0.0	0.0
Others	-10.5	-16.8	9.1	-26.0
<b>CF from financing activities</b>	<b>-18.0</b>	<b>148.2</b>	<b>21.6</b>	<b>106.1</b>
Net Cash flow	-137.9	24.3	13.5	-17.1
Opening Cash	158.2	20.3	44.6	58.1
Closing Cash	20.3	44.6	58.1	41.0

Source: Company, ICICI Direct Research

Exhibit 13: Balance sheet				
	₹ crore			
(Year-end March)	FY19	FY20	FY21	FY22
<b>Liabilities</b>				
Equity Capital	24.4	24.4	24.4	24.4
Reserve and Surplus	705.7	895.4	1,159.9	1,368.2
Total Shareholders funds	730.1	919.7	1,184.3	1,392.6
Total Debt	28.2	193.1	205.6	337.8
Other non current liabilities	69.7	73.7	104.5	50.6
<b>Total Liabilities</b>	<b>834.5</b>	<b>1,309.9</b>	<b>1,620.8</b>	<b>1,896.0</b>
<b>Assets</b>				
Gross Block	438.6	673.2	717.4	915.2
Less: Acc Depreciation	99.0	206.7	259.5	340.3
Total Fixed Assets	340.4	484.5	462.5	694.8
Investments	268.4	219.6	107.0	89.4
Inventory	187.1	226.9	315.3	314.5
Debtors	152.2	215.8	302.2	285.0
Loans and Advances	3.0	8.2	8.3	5.6
Other Current Assets	57.5	44.4	49.7	85.8
Cash	20.3	44.6	58.1	41.0
Total Current Assets	420.2	539.8	733.5	731.9
Creditors	143.2	153.4	229.6	301.3
Provisions	20.8	21.5	21.2	29.9
Other current liabilities	163.3	166.4	204.3	145.2
Total Current Liabilities	327.3	341.3	455.1	476.4
Net Current Assets	92.9	198.5	278.4	255.5
Other Non Current	11.6	99.4	149.6	19.3
<b>Total Assets</b>	<b>834.5</b>	<b>1,309.9</b>	<b>1,620.8</b>	<b>1,896.0</b>

Source: Company, ICICI Direct Research

Exhibit 14: Key ratios				
(Year-end March)	FY19	FY20	FY21	FY22
<b>Per share data (₹)</b>				
EPS	27.4	39.7	48.7	44.5
Cash EPS	35.5	51.8	63.7	61.1
BV	149.7	188.5	242.8	285.5
DPS	0.0	0.0	0.0	0.0
<b>Operating Ratios (%)</b>				
EBITDA Margin	9.9	13.8	14.9	10.6
PAT Margin	6.2	9.3	9.8	7.3
Asset Turnover	2.6	1.9	1.7	1.7
Inventory Days	31.9	38.1	47.3	38.5
Debtor Days	25.9	36.2	45.3	34.9
Creditor Days	24.4	25.8	34.4	36.9
<b>Return Ratios (%)</b>				
RoE	18.3	22.0	20.1	15.6
RoCE	23.9	24.7	24.3	18.0
RoC	30.0	32.4	26.2	16.4
<b>Valuation Ratios (x)</b>				
P/E	94.5	65.3	53.1	58.1
EV / EBITDA	58.6	41.8	35.0	40.8
EV / Net Sales	5.8	5.8	5.2	4.3
Market Cap / Sales	5.9	5.8	5.2	4.2
Price to Book Value	17.3	13.7	10.7	9.1
<b>Solvency Ratios</b>				
Debt / Equity	0.0	0.2	0.2	0.2
Current Ratio	1.5	1.7	1.8	1.7
Quick Ratio	0.7	0.9	0.9	0.9

Source: Company, ICICI Direct Research

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