

Turns ex-bonus today; maintain positive stance...

About the stock: Sheela Foam (SFL) is the market leader in domestic mattresses industry with a value market share of ~25% in organised segment. The company's "Sleepwell" is one of the leading brands in the domestic mattresses industry. Apart from India (contributes ~70% to topline), SFL also manufactures Polyutherene (PU)/technical foams in Australia and Spain with revenue contributions of 15% each.

- Revenue, earnings grew at CAGR of 11%, 13%, respectively, in FY18-22
- Cash surplus b/s with average three-years RoE, RoCE of 19%, 22% respectively

Sheela Foam turns ex-bonus today:

- Sheela Foam made an announcement for issue of bonus shares on December 12, 2022. The ratio was one bonus equity share of ₹ 5 each fully paid up for every one existing equity shares of ₹ 5 each fully paid up (i.e. in the ratio of 1:1) held by shareholders as on record date (December 22, 2022)
- Sheela Foam turns ex-bonus today i.e. December 21. Accordingly, the share price has been adjusted to ~₹ 1300/share in opening trade today against the last closing price of ₹ 2,593/share yesterday
- With fundamentals remaining unchanged and with unchanged estimates, we maintain our **BUY** rating on the stock. Our target price, however, is now revised to ₹ 1650/share i.e. 50x PE on FY24 EPS of ₹ 33/share

Key triggers for future price performance:

- Modern mattresses industry is pegged at ~₹ 17,500 crore. It is likely to grow at 12% CAGR in FY22-26E. Organised players are likely to gain market share through new product launches and strong balance sheet condition
- The company envisages a capex of ₹ 350 crore over the next two years to increase its manufacturing capacity by 23% in India & overseas
- 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

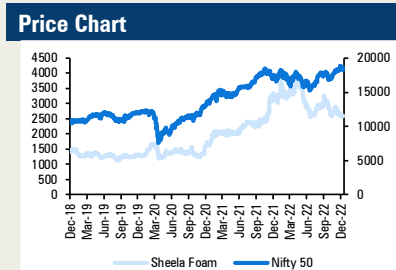
Alternate Stock Idea: We also like Asian Paints (APL) in our coverage universe.

- APL is India's largest decorative paint company. The company derives ~98% revenue from the paints business. Robust b/s with RoCE, RoE of 30%, 25%, respectively. We have BUY rating on stock with a TP of ₹ 3685/share



Particulars	Amount
Market Capitalization (₹ Crore)	12,682.8
Total Debt (FY22) (₹ Crore)	337.8
Cash and Inv (FY22) (₹ Crore)	715.4
EV (₹ Crore)	12,305.1
52 week H/L (₹)	2603/1266
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



- ### Recent event & key risks
- Bonus issue of equity shares in ratio of 1:1
 - Key Risk:** (i) Demand slowdown (ii) Volatile RM cost

Research Analyst

Sanjay Manyal
sanjay.manyal@icicisecurities.com

Hitesh Taunk
hitesh.taunk@icicisecurities.com

Ashwi Bhansali
ashwi.bhansali@icicisecurities.com

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 (₹)	13.7	19.8	24.4	22.3		25.6	33.3		
P/E (x)	94.8	65.6	53.4	58.4		50.9	39.0		
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		

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Buy: > 15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: < -15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruiti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

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