

FUNDAMENTAL COVERAGE

SHEELA FOAM LIMITED



23 NOVEMBER 2020

Stock Data

CMP (₹)	1342
TARGET (₹)	1650
Upside	23%
M.Cap (₹ in cr)	6546
Equity (₹ in cr)	102.40
52 wk H/L ₹	24.39
Face Value ₹	5
Div. Yield	-
NSE Code	SFL
BSE Code	540203

Valuation Data

P/E	36.68
ROE(%)	23%
P/BV	6.5
RONW(%)	18%

Financial Data

EV	6811.79
Net Worth	1001.38
BV	205.28
EPS (TTM)	36.59

Index Detail

Sensex	44077.15
Nifty	12926.50

LEAD RATIONALE

Company being top player in the mattress and foam products industry in India with **estimated market share of 20-23% in the organized market**. Its **best-known brand Sleep well** has been fortified by the revolutionary health-boosting technology **Neem Fresche**. Furthermore, company *expected to be big beneficiary of the shift in taste following urbanization and changing lifestyle*.

From Management desk, *post pandemic era, Sheela Foam Limited will emerge stronger, because it is the only comfort product manufacturer in India that has a technology of Neem Fresche to improve one's health, to improve immunity to allergies and infections. The ground-breaking power of Neem Fresche, available in all home comfort products in Sleep well range, fights dust mites and prevents skin and breathing problems, thereby leaving consumers fitter, better equipped to go out and face the world with all its uncontrollable health risks.*

Acquisition of Spanish firm Interplasp

One of the **major developments of FY 2019-20 is the acquisition of Spanish Company Interplasp (total consideration of Euro 40mn financed by debt and internal accruals)**, which makes polyurethane foam for bedding, furniture and other applications. ***With this acquisition, company can scale up their European business significantly, and there is much more room to grow there than in Australian business.*** It also opens more doors in North America because of its geographical proximity.

Besides providing presence in Europe, world's largest polyurethane foam market, the acquisition of Interplasp will lead to operational efficiency as manufacturing cost in Spain is the lowest in Europe. The acquisition will ***result in reduction in raw material pricing for the group companies in India, Australia and Spain, and thus will be EBITDA accretive from first year itself.***

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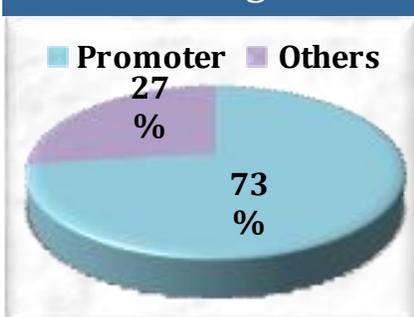
SleepX, the e-commerce brand has forayed into the furniture category with the launch of a premium offering 'Sheesham Wood Bed'. This segment has a huge potential for branded products.

The Indian consumer has now grown to trust e-commerce enough to order most or all household products online. Thus, company have seized this opportunity by creating e-commerce mattress brand, SleepX, backed by the reputation and promise of Sleep well.

*Recently ventured into the e-commerce side because that's again another area where people would want to shop from home continues. **Company has a brand called SleepX which is to be sold through Amazon and Flipkart and also through its own website mysleepwell.com** With a vision to be a 'bed essential' brand and provide a one-stop solution for a good sleep and ease of purchase, SleepX has launched two sizes of the bed- **King and Queen**. The value offering of the bed is its key attraction as consumers today are looking for great aesthetics, quality and durable products. This premium furniture range will also be a part of Amazon and Flipkart events in August.*

Before venturing into the furniture category, SleepX started with one of the finest mattresses for its customers, be it the Ortho Memory Foam Mattress, Dual Mattress, Orthopaedic Cool Gel or the Exceller range. Now with premium quality bed range, SleepX is all set to blend comfort and hygiene to promote quality sleep for a healthier lifestyle.

Share Holding Pattern



Share Price Chart



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Present Status & Future Outlook

During the year, the Company substantially increased the Sales Volume of Mattresses, registering a growth of 20% over last year, despite losing sale during the lockdown period. This has led to higher market share of company in the organized mattress market and continues to retain its leadership position in Mattress and Foam Products.

A complete lockdown of more than 2 months due to COVID 19 and a slow restart means that the sales of Mattresses and Foam Product for the year 2020-21 are going to be substantially lower. Due to changed sentiments, demand for discretionary products like Mattresses and Furniture will take time to pick up. Company is doing its best to revive the sales using innovative techniques, like Sleepwell@Home, Aggressive Online Marketing, Focus on selling products which are good for health etc. Company is now selling all its product treated with Neem Fresche which means immunity from various respiratory problems caused by Dust Mites, Bacteria & Fungi.

➤The culture of Work From Home would also mean higher usage of Mattresses, resulting in higher replacement demand. Sound Sleep is now known to be the biggest contributor to good body immunity. It is expected that this realization would also work in favor of organized mattress manufacturing units.

➤The Company continues to increase its market penetration and the total retail outlets including EBO and MBO are more than 11500. The B2B segment of business was impacted by the slowdown in automotive segment.

➤Despite this slowdown the Company was able to sell volumes similar to last year till 21 March, 2020. To increase the sales in this segment, Company continues to develop Import Substitute Foam through its in-house Research & Development.

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An Eye on Numbers:

►Posted Consolidated Revenue from operations of ₹ 608 crores in Q2FY21 compared to ₹497 crores of Q2FY 20, registering a growth of Growth of 22%. EBITDA for Q2Y21 was ₹ 106 crores, as against ₹ 70 crores of corresponding quarter. Net profit (PAT) for Q2Y21 was ₹ 70 crores, as compared to ₹ 53 crores (After adjusting tax rate difference of QIFY20, accounted for in Q2FY20).

Standalone India:

During the quarter, Revenue from operations on standalone basis was ₹ 424 crores compared to ₹ 411 crores of Q2FY20. The EBITDA for the quarter was ₹ 63 crores as compared to ₹ 58 of corresponding quarter. The Net Profit (PAT) for Q2FY21 was ₹ 47 crores as compared to ₹ 46 crores of corresponding quarter (After adjusting tax rate difference of Q1FY20, accounted for in Q2FY20)}.

Standalone Australia:

During this quarter, Revenue from operations from Australia was ₹ 104 crores compared to ₹ 87 crores of Q2FY20, registering a growth of 20%. The EBITDA increased to ₹ 21 crores from ₹ 12 crores of corresponding quarter (₹ 5 crores due to change in Accounting Standard in Australia) and the Net Profit (PAT) was ₹ 10 crores compared to ₹ 7 crores of Q2FY20.

Standalone Spain :

The Revenue from operations were ₹ 82 crores, with an EBITDA of ₹ 20 crores (24%) and Net Profit of ₹ 13 crores (16%).

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Key Highlights

- ▶ Company currently has presence in 4,200 EBOs and 7,400 MBOs.
- ▶ Company runs its IT services from its subsidiary Staqa World. The orders have started coming from large domestic private players like Jubilee, Hero etc., international players and government. The company is optimistic about meeting its targets for the subsidiary this year.
- ▶ Online channel contributed less than 5% of overall mattress industry. Although, it is growing at very healthy rate driven by SleepX brand.
- ▶ Gross margins are going to be under pressure as input costs are inflationary—
Raw Material Prices: The Average per kg. price of TDI was Rs.140/- in Q2FY21, Rs. 124/- in Q1FY21 and Rs.133 /- in Q2FY20. **Present price of TDI is Rs. 230 per kg**
Price of Polyol also increasing sharply. Present Price is Rs. 230 per kg as against Q2 average price of Rs. 119 per Kg.
This is primarily due to supply chain disruptions and faster than expected demand recovery of the foam industry. Management also believes that raw materials have reached their peak and should stabilize by Q4FY21.
- ▶ Impact of second wave of corona virus is very little in Australia, but the impact is high in Spain. However, the company is situated in a very small city and will not be impacted much.

Consolidated Results at a Glance

Particulars (Rs. In Cr.)	Q2FY21	CHANGE	H1FY21	CHANGE
REVENUE FROM OPERATIONS	608	↑ 22.3%	877	↓ 13.3%
EBITDA	106	↑ 51.4%	134	↑ 1.0%
EBITDA MARGIN	17.5%		15.3%	
PROFIT AFTER TAX	70	↑ 32.1%	82	↓ 15.5%

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Segment wise Sales Breakup: -

PRODUCT	Q2FY21			Q1FY21			Q2FY20		
	RS. CR.	Mattress in Lac No. Others in Tons	Rs. per pcs. For Mattress . Rs. per Kg. for others	RS. CR.	Mattress in Lac No. Others in Tons	Rs. per pcs. For Mattress. Rs. per Kg. for others	RS. CR.	Mattress in Lac No. Others in Tons	Rs. per pcs. For Mattress. Rs. per Kg. for others
MATTRESSES	184	5.12	3593	67	1.85	3615	171	4.52	3783
HOME COMFORT PRODUCTS	13	Assorted		4	Assorted		22	Assorted	
FURNITURE FOAM	68	1909	353	17	477	353	62	1817	341
FOAM CORE	78	5042	154	23	1525	153	68	4484	152
TECHNICAL FOAM	81	2918	278	16	583	274	88	3203	275
TOTAL	424			127			411		

PRODUCT	H1FY21			H1FY20		
	RS. CR.	Mattress in Lac No. Others in Tons	Rs. per pcs. For Mattress. Rs. per Kg. for others	RS. CR.	Mattress in Lac No. Others in Tons	Rs. per pcs. For Mattress. Rs. per Kg. for others
MATTRESSES	251	6.97	3601	367	10.14	3619
HOME COMFORT PRODUCTS	18	Assorted		36	Assorted	
FURNITURE FOAM	84	2386	352	131	3823	343
FOAM CORE	101	6567	154	145	9152	158
TECHNICAL FOAM	97	3501	277	167	5951	281
TOTAL	551			846		

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Sheela Foam can leverage the existing suite of products and manufacturing capabilities to produce niche, more sophisticated and higher-margin products

Home comfort products		Technical foam products		
Product	Product lines	Product	Product lines	End-use industries
Mattresses	My Mattress, Spring range, Technology range, Back support range, Flexi PUF range, Showroom range, Economy Range, Comfort Cell Range	Automotive foams	Poly-ester foam, Poly-ether foam	Seat covers, Sound absorption systems, Sun visors, Headliners, Door trims, Lamination systems
Furniture-cushioning material	Sleepwell Resitec, Sleepwell Cool Gel, Primo, Feather Foam	Reticulated foam	Ester-based foam, Ether-based foam	Filtration systems, Ceramic foam filters, Outdoor furniture, Microphones and headphones, Safety fuel tanks, Ink cartridges
Pillows	Fibre range, Flexi PUF range, Premium range	Ultra Violet Stable foam	-	Sportswear, Innerwear and lingerie, Clothing, Swimwear, Comfort accessories for shoes
Bolsters and cushions	-	Silentech foam	Ester based PU Foam	Automotive, Diesel generator canopies, Theatres, auditoriums, indoor stadiums, Broadcasting rooms and recording studios, Industrial silencers, Acoustic enclosures, Engine testing rooms
Sofa-cum beds	Sofa and Bed			
Other products	Comfort range accessories, Foam Cores			

Source: Company Presentation

OPPORTUNITIES AND CHALLENGES

OPPORTUNITIES

- Growing consumerism
- Higher disposable incomes
- Increasing incidence of lifestyle diseases
- Evolving preferences
- Rising share of organized sector
- Growth in end-user industries

CHALLENGES

- Transportation & Warehousing
- Lack of consumer awareness

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Strategy Way Forward

Continue to develop the brand

- * Continue building brand leadership in core home comfort products, such as mattresses and bedding material, as well as higher-grade technical PU Foam lines which represents a significant opportunity for our future growth
- * Consolidate customer recall of various customized product sub-brands under Sleepwell such as My Mattress , Comfort Cell and initiatives such as Perfect Match. Focus on PULL approach through aggressive Brand Marketing.
- * Intend to accomplish this by: Promoting the brands through different forms of marketing, increasing retail presence, capitalizing on the strength of distribution network and developing "Sleepedia" website

Continue to focus on development of personalized products

- * Due to rising disposable incomes and the evolving perception of mattresses as health investments, the demand for premium segment mattresses is expected to grow at a faster pace than those in the economy and mid-range segment (*Source: CRISIL Report*)
- * To this end, the Company intends to manufacture higher volumes of customized products as well as develop newer lines of personalized home-comfort products to improve operating margins

Expand product portfolio to cater to consumer preferences

- * Leverage existing suite of products, knowhow and manufacturing capabilities to produce niche and higher-margin products including more sophisticated grades of technical PU Foam
- * Enter into new product lines and target new consumer segments
 - Create a new range of base-line comfort products at lower price points specifically aimed at rural retail customers

Expand distribution network and export sales

- * Further develop the domestic sales network in two types of territories:
 - Characterized by lower transportation costs
 - Significant demand of the Company's products, where price-points can effectively offset higher transportation costs
- * Intends to upscale export operations to sell higher volumes of technical foam to manufacturers located in SAARC nations
- * Expand domestic retail presence and launch Sleepwell branded ultra-premium showrooms titled "Sleepwell Emporios" on a franchisee basis

Adoption of advanced production technology

- * To stay ahead of Competition to adopt new advanced production technology like- Successfully implemented vertical variable foaming technology, a production technology that the Company has innovated in manufacturing operations
 - Implemented Comfort Cell Technology for higher comfort level and for personalized Mattresses.

Introduction of Low Priced Mattresses

- * Introduction of Low priced Mattresses like "Starlite" and "Feather Foam" to capture higher Market Share. For rural market , more low priced products to be introduced.

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GROWTH STRATEGY & OUTLOOK

Keeping pace with growing demand

The Company is committed to developing personalized products to keep pace with the increasing demand. Leveraging existing portfolio of products, know-how and manufacturing capabilities qualifies it to produce niche and higher-margin products, including more sophisticated grades of technical PU foam.

Expanding distribution network and presence

Company is focused on deepening its domestic retail presence and aggressively sell its low-priced products in rural market. With development of infrastructure, it would be reaching out to customers in remote areas by expanding its distribution channels in newer geographies. Company's low-priced products find significant demand in rural areas. With adequate infrastructure development, company aims to reach out to such consumers and expand its presence in remote locations to gain higher volumes.

Product Expansion & Brand Development

Company's low-priced mattresses – **Starlite and Feather Foam** – provide ample growth opportunities to penetrate in the rural retail market. It endeavors to further launch competitively priced products to gain higher volumes. Looking ahead, company continues to invest in enhancing its brand presence and intends to accomplish this with aggressive brand promotion and marketing initiatives, strengthening the distribution and retail network, among others.

Leveraging E-commerce

The Company is actively pursuing the E-commerce channel for the sale of mattresses and allied products in line with the evolving times. Besides leveraging its own website to showcase product line-up and attract sales, company has also launched a sub-brand and product line by the name of 'SleepX' to retail market places like Amazon and Flipkart in the second quarter of the fiscal year. ***Since launch, this has been seeing good traction. The Company expects this to enhance its top line and bottom line growth in the coming years.***

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Company Overview:

Sheela Foam Limited is a leading player in India's mattress and foam products industry. Founded in 1971, the Company enjoys strong brand awareness and a nationwide presence in manufacturing of mattresses, home comfort products and technical grades of PU foam. The Company also enjoys a significant presence overseas, with its products being exported to over 20 countries worldwide. The winning brands of Sheela Group include: **SLEEPWELL** - The flagship brand for mattresses and comfort accessories; **FEATHER FOAM** - A Pure PU Foam; **LAMIFLEX** - A superior quality POLYETHER/POLYESTER foam for lamination

Valuation Conclusion:

Company has cornered about 20-23% of the organized mattress market. **Sleep well**, being flagship brand, is likely to be a key beneficiary of high growth in the mattress industry driven by its aggressive branding, deepening reach and product innovation. Further, *continue building brand leadership in core home comfort products, such as mattresses and bedding material, as well as higher-grade technical PU Foam lines, represents a significant opportunity for its future growth.*

Company's presence in Australia through **Joyce Foam Pty Ltd (JFPL)**, which is the largest player in the foam business in Australia, and now across the European Union through acquisition of **Spanish Company, Interplasp, S.L.**, diversifies geographical presence. Thus, *acquisition will enhance company's prospects as the target entity has ample growth opportunities in Morocco as well as other North African markets.*

Financial position likely to improve on the account of margins due to an expectation of fall in raw material price. Company has an OPM of 10% -15% and ROE & ROCE of 23% and 26.5%. Although the debt has gone up from ₹30crores in FY19 to ₹310 crores in FY20 and reduced to ₹285 crores as on September 20. Nonetheless, as said by the management that Indian Company remains 100% debt free while the increase in debt is on account of foreign subsidiary for which the loan is raised outside India. *Given its history of proven performance, focused management, huge product profile and market share gain makes SHEELA FOAM is worth Exploring for Long term. Hence, we recommend to BUY with target @1650 for next one year.*

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Narration	Mar-17	Mar-18	Mar-19	Mar-20	Trailing
Sales	1,679.71	1,888.98	2,066.13	2,121.46	2,038.91
Expenses	1,483.59	1,672.64	1,855.58	1,833.04	1,736.92
Operating Profit	196.12	216.34	210.55	288.42	301.99
Other Income	23.13	21.06	28.02	39.99	27.45
Depreciation	30.39	35.24	39.53	59.04	73.69
Interest	10.97	8.67	9.62	13.00	16.67
Profit before tax	177.89	193.49	189.42	256.37	239.08
Tax	52.33	59.78	55.68	62.08	60.61
Net profit	125.55	133.71	133.74	193.43	176.28
EPS	25.73	27.40	27.41	39.64	36.05
Price to earning	43.74	54.46	45.96	32.44	44.60
Price	1,125.20	1,492.05	1,259.50	1,285.90	1,607.70

RATIOS:

Dividend Payout	0.00%	0.00%	0.00%	0.00%	
OPM	11.68%	11.45%	10.19%	13.60%	14.81%

Quarters

Report Date	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20
Sales	497.28	658	504.11	268.97	607.83
Expenses	426.79	564.16	430.22	241.13	501.41
Other Income	11.41	7.15	0.18	10.84	9.28
Depreciation	10.33	12.17	26.98	17.16	17.38
Interest	2.44	2.97	5.32	4.12	4.26
Profit before tax	69.13	85.85	41.77	17.4	94.06
Tax	10.39	21.2	9.59	5.6	24.22
Net profit	58.74	64.28	31.7	11.33	68.97
Operating Profit	70.49	93.84	73.89	27.84	106.42

Source: Screener.com

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