

- ❑ Sheela Foam Limited (SFL) reported consolidated revenues of ₹5,513 million showcasing strong growth of 104.9% year over year (y/y) for the quarter due to easing of lockdown and sales were happening far better than the previous year. However, on q/q company top-line de-grew by 24.8% as the April month was locked down as Covid second wave was at its peak.
- ❑ Consolidated EBITDA grew by 37.5% y/y to ₹383 million while margins contracted by 341bps to 6.9% from 10.4% in the previous year quarter owing to the increase in raw material price of Polyol as well as TDI. On the bottom-line front, PAT stood at ₹248 million for the quarter, showcasing a robust growth of 119% due to decline in tax rate.
- ❑ Region wise, for 1QFY22 revenue from operations from India on standalone basis grew by 156% to ₹3,260 million compared to ₹1,270 million due to easing of lockdown. Revenue from operations from Australia business were ₹1,030 million compared to ₹820 million of previous year quarter, registering a growth of 25.6% while for Spanish business revenue stood at ₹1,220 million. Both the Australian and Spanish businesses contributed ₹120-₹70 million each to EBITDA in Q1FY22. Although mattresses continue to contribute substantially to their revenue.
- ❑ Demand pick is seen domestically as well as for the international subsidiaries in Australia & Spain. Australian operations (Sheela Foam market share ~40%) to benefit from anti-China sentiments and lower imports of mattresses & furniture (including foam based furniture) from China. The management continues to witness strong traction in the subsidiaries and expects higher contribution to revenues and profits over the long term.
- ❑ As of Q1FY22, SFL market share estimated to 20-23% in the organized market (constitute 35% of total market). It is expected that with the implementation of GST the market share of organized sector to increase up to ~41% and with this SFL to be a big beneficiary of the shift in taste following urbanization and changing lifestyle.
- ❑ Liquidity is supported by cash balance and liquid investments of over ₹4,000 million as on March 31, 2021. The bank limit of ₹850 million was un-utilised as on March 31, 2021. Annual cash accrual of ₹1,800- ₹2,000 million should amply cover capex, incremental working capital requirement and debt obligation.
- ❑ Sheela Foam is amongst the top 3 players in the industry and is expected to be big beneficiary of the shift in taste following urbanization and changing lifestyle. 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 will maintain our **Hold** rating with a target price of **₹2,430 per share**.

Consolidated Financials

(In ₹ mn)	Q1-FY22	Q1-FY21	Chg	FY21	FY20	Chg
Net Sales	5,513	2,690	104.9%	24,354	21,736	12.0%
Operating Expense	5,130	2,411	112.7%	20,731	18,732	10.7%
EBITDA	383	278	37.5%	3,623	3,004	20.6%
Other Income	179	108		521	400	
Depreciation	185	172		729	590	
EBIT	376	215	74.7%	3,415	2,814	21.4%
Interest	49	41		177	130	
PBT	327	174	88.0%	3,238	2,684	20.7%
Tax	76	56		837	621	
Exceptional Items	-	-		-	(120)	
PAT	251	118	112.9%	2,402	1,943	23.6%
Minority /Other Adj.	(3)	(5)		(24)	(9)	
Consolidated PAT	248	113	119.0%	2,377	1,934	22.9%
Margins	Q1-FY22	Q1-FY21	Chg BPS	FY21	FY20	Chg BPS
Operating Margin %	6.9%	10.4%	-341	14.9%	13.8%	106
Net Margin %	4.5%	4.2%	29	9.8%	8.9%	86

Source: Company, Anand Rathi Research

Consolidated Financials:

(In ₹ mn)	FY-20	FY-21	FY-22E	FY-23E
Net Sales	21,736	24,354	27,093	30,320
Operating Expense	18,732	20,736	22,460	24,832
EBITDA	3,004	3,618	4,633	5,488
Other Income	400	526	585	655
Depreciation	590	729	561	627
EBIT	2,814	3,415	4,657	5,515
Interest	130	177	171	149
Misc. items	(120)	-	-	-
PBT	2,564	3,238	4,486	5,367
Tax	621	837	1,159	1,387
Minority Interest	(9)	(24)	-	-
PAT	1,934	2,377	3,327	3,980

Margins	FY-20	FY-21	FY-22E	FY-23E
Sales Growth %	1.5%	12.0%	11.2%	11.9%
Operating Margin %	13.8%	14.9%	17.1%	18.1%
Net Margin %	8.9%	9.8%	12.3%	13.1%

Source: Company, Anand Rathi Research

(In ₹ mn)	FY-20	FY-21	FY-22E	FY-23E
Liabilities				
Equity Share Capital	244	244	244	244
Reserves & Surplus	8,954	11,599	14,926	18,906
Total Shareholder's Funds	9,197	11,843	15,170	19,149
Minority Interest	67	89	89	89
Long-Term Liabilities	1,571	1,326	1,171	971
Other Long-term Liabilities	2,320	2,299	1,865	1,565
Deferred Tax Liability	109	89	89	89
Short-term Liabilities	3,847	5,417	4,795	5,366
Total	17,112	21,062	23,179	27,230
Assets				
Net Fixed Assets	8,097	8,700	6,078	6,564
Long-Term L&A	39	50	50	50
Non Current Investments	709	3,601	3,601	3,601
Other Non-Current Assets	25	30	30	30
Current Asset	7,569	8,378	10,399	14,264
Total	17,112	21,062	23,179	27,230

(In ₹ mn)	FY-20	FY-21	FY-22E	FY-23E
EPS (₹)	39.7	48.7	68.2	81.6
P/E (x)	58.8	47.8	34.2	28.6
P/B (x)	12.4	9.6	7.5	5.9
ROE	21.0%	20.1%	21.9%	20.8%

Rating and Target Price history:

Sheela Foam rating history & price chart



Source: Bloomberg, Anand Rathi Research

NOTE: Prices are as on August 17, 2021.

Sheela Foam rating details

Date	Rating	Target Price (₹)	Share Price (₹)
30-Mar-2021	BUY	2,430	1,961
02-Jun-2021	BUY	2,430	2,037
17-Aug-2021	HOLD	2,430	2,330

Source: Bloomberg, Anand Rathi Research

Key Risks:

- ❑ The SFL group faces intense competition from domestic players such as Kurlon Enterprises Ltd, Duroflex Pvt Ltd and Peps Industries Pvt Ltd, as well as from un-organised players, which form 60-65% of the market in India.
- ❑ Susceptibility to volatile input prices.

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Ratings Guide (12 months)	Buy	Hold	Sell
Large Caps (>₹300Bn.)	15%	5%-10%	Below 5%
Mid/Small Caps (<₹300 Bn.)	20%	10%-15%	Below 10%

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