

**CMP: INR 809**

**Rating: BUY**

**Target Price: INR 2,385**

**Stock Info**

BSE	540203
NSE	SFL
Bloomberg	SFL:IN
Reuters	SHEF.NS
Sector	Furniture, Home Furnishing
Face Value (INR)	5
Equity Capital (INR cr)	54
Mkt Cap (INR cr)	9,078
52w H/L (INR)	1,297/ 854
Avg Daily Vol (in 000')	53

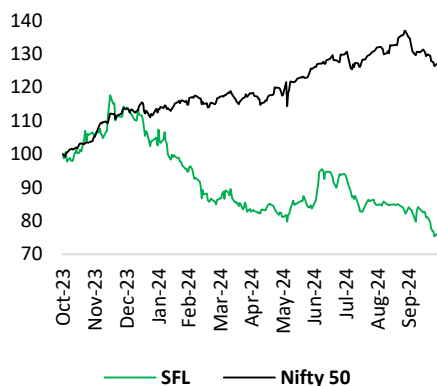
**Shareholding Pattern %**

(As on September 2024)

Promoters	65.48
DII	22.30
FII	6.60
Public & Others	5.62

Stock Performance (%)	1m	3m	12m
SFL	(11.9)	(21.2)	(26)
NIFTY 50	(5.3)	(1.6)	27.7

**Sheela Foam Price Chart**



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The company enjoyed a larger scale via inorganic acquisitions that played out. Bottom line and margins suffered from high opex due to unrealized synergies. Revenue was up 32.54% YoY to INR 8,127 Mn (+0.37% QoQ), beating our estimate of INR 7,358 Mn by 10.45%. Gross Margins were up 440bps YoY and 262bps QoQ to 44.87%. EBITDA was up 4.67% YoY to INR 693 Mn (+15.76% QoQ), missing our estimate of INR 809 Mn by 14.36%. EBITDA Margin contracted 227bps YoY to 8.52% (+113bps QoQ), missing our estimate of 11%. Adjusted PAT was down 78.95% YoY to INR 93 Mn (-41.71% QoQ). PAT was down 78.95% YoY to INR 93 Mn (-80% QoQ), missing our estimate of INR 565 Mn by 83.5%. **The India business displayed some positive trends , but the consolidated EBITDA and Net Profit fell due to increased operating costs, interest costs and depreciation from the Kurlon acquisition. Marketing expenses are also high, at 5.2% of top line. Excluding one-time items, the margin would have been closer to 9.6%**

**Kurlon's Integration is complete:** The successful integration will lead to synergies yielding annual run rate savings of approximately INR 100 crore.

**Mattresses as a key growth vector:** B2C mattress revenue made up 50% of total revenue, with a robust 19% volume growth. Sleepwell volumes grew 14%, and Kurlon 26%. The company is focusing on de-commoditizing this segment by shifting the industry toward branded products in an effort to improve margins. The new value segment launches Tarang and Aram contributed 7.5% to total volume and 3.5-4% to revenue. The projected revenues from these two brand is INR 100 Cr by FY26.

**Guidance:** The company expects double-digit growth on a quarterly and yearly basis, aiming for a 14-15% CAGR from FY25 to FY27 in the India business with a 14-15% EBITDA Margin. Their target ROE is 18%.

**Outlook and Valuation:** We maintain our BUY rating on the company, valued at INR 2,385 based on a DCF, yielding an upside of 195%. There was a decline in profitability attributed to the Kurlon acquisition-related interest and depreciation, which is expected to normalize as revenue and profitability rise over the next 2-3 years aided by their initiatives to de-commoditize mattresses by transitioning to branded product lines. We are optimistic about future profitability and growth, with strategic investments and operational improvements underway.

Particulars (INR Mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue from Operations	28,733	29,823	39,250	46,359	57,993
YoY	0%	4%	32%	18%	25%
Gross Profit Margin	37.8%	41.3%	43.6%	44.6%	45.6%
EBITDA Margin	10.4%	10.1%	9.8%	11.9%	14.0%
Adj. Net Profit	2,008	1,612	2,397	4,048	6,460
YoY	-8%	-20%	49%	69%	60%
Adj EPS (INR)	20.4	17.7	22.9	38.7	62.0
YoY	-8%	-13%	29%	69%	60%
P/E	39.70	45.82	30.93	20.66	12.94
P/B	4.91	2.80	2.57	2.29	1.95
Debt / Equity	0.36	0.50	0.32	0.22	0.13
Net Debt (includes lease liabilities and excludes investments)	5,288	14,491	9,444	2,574	6,598
ROE	12.5%	6.2%	8.3%	11.1%	15.1%
ROCE	6.9%	3.0%	3.6%	6.3%	9.8%

Source: Company Filings & Arihant Capital Research

INR Mn (Consolidated)	Q2FY25	Q1FY25	Q2FY24	Q-o-Q	Y-o-Y
<b>Net Revenue</b>	<b>8,127</b>	<b>8,098</b>	<b>6,132</b>	<b>0.37%</b>	<b>32.54%</b>
Raw Material Costs	4,481	4,677	3,651	-4.19%	22.74%
Gross Profit	3,647	3,421	2,481	6.59%	46.96%
<i>Gross Margin</i>	<i>44.87%</i>	<i>42.25%</i>	<i>40.47%</i>	<i>262bps</i>	<i>440bps</i>
Employee costs	1,114	1,055	777	5.55%	43.36%
Other Expenses	1,840	1,767	1,042	4.10%	76.50%
<b>EBITDA</b>	<b>693</b>	<b>599</b>	<b>662</b>	<b>15.76%</b>	<b>4.67%</b>
<i>EBITDA margin</i>	<i>8.52%</i>	<i>7.39%</i>	<i>10.79%</i>	<i>113bps</i>	<i>-227bps</i>
Other Non Operating Income	318	305	244	4.20%	30.30%
Depreciation	479	395	219	21.16%	118.88%
<b>EBIT</b>	<b>532</b>	<b>508</b>	<b>687</b>	<b>4.62%</b>	<b>-22.59%</b>
Finance costs	283	282	86	0.18%	230.37%
Exceptional Items	-	306	-	-100.00%	#DIV/0!
Share of associates	1	0	(3)	350.00%	-133.33%
<b>PBT</b>	<b>250</b>	<b>533</b>	<b>599</b>	<b>-53.05%</b>	<b>-58.25%</b>
Tax Expense	157	66	156	136.14%	0.45%
<i>Effective tax rate</i>	<i>62.72%</i>	<i>12.47%</i>	<i>26.07%</i>	<i>5025bps</i>	<i>3665bps</i>
<b>PAT</b>	<b>93</b>	<b>466</b>	<b>443</b>	<b>-80.00%</b>	<b>-78.95%</b>
<b>Adj PAT</b>	<b>93</b>	<b>160</b>	<b>443</b>	<b>-41.71%</b>	<b>-78.95%</b>

Source: Company Filings & Arihant Capital Research

**Furlenco's Potential:** The company expects Furlenco to reach the INR 500 Cr mark on top line by FY28. They also might consider an IPO in FY27. SFL also increased stake in Furlenco in Q2 with an additional investment of INR 100 Cr (now 45% vs the earlier 35%). This quarter, it doubled its subscriber base and is now cash generating.

**Foaming Production:** They have started using VPF technology for cost efficiency and to produce more eco-friendly foam.

**Distribution Strategies:** They are taking to leveraging distributors, with direct supply to dealers in targeted regions.

**Mattress pricing remained stable QoQ**, with volume growth outpacing value growth due to a focus on the economy segment.

**Inventory levels decreased** from 70 days to 45 days, with working capital solutions underway.

The IT arm, **STAQO**, saw a 33% revenue increase with margin of 31.7%.

**The international businesses** have shown some improvement in profitability, with EBITDA Margins of 2.1% for Australia, and 11.9% for Spain.

Income statement (INR Mn)	FY23	FY24	FY25E	FY26E	FY27E
<b>Revenue from Operations</b>	<b>28,733</b>	<b>29,823</b>	<b>39,250</b>	<b>46,359</b>	<b>57,993</b>
YoY	0%	4%	32%	18%	25%
COGS	17,879	17,502	22,140	25,688	31,562
YoY	-5%	-2%	27%	16%	23%
Personnel/ Employee benefit expenses	2,829	3,441	4,638	5,204	6,168
YoY	11%	22%	35%	12%	19%
Manufacturing & Other Expenses	5,044	5,875	8,632	9,957	12,158
YoY	21%	16%	47%	15%	22%
<b>EBITDA</b>	<b>2,982</b>	<b>3,005</b>	<b>3,840</b>	<b>5,509</b>	<b>8,105</b>
YoY	-5%	1%	28%	43%	47%
<b>EBITDA Margin (%)</b>	<b>10.38%</b>	<b>10.08%</b>	<b>9.78%</b>	<b>11.88%</b>	<b>13.98%</b>
Depreciation	896	1,158	1,687	1,679	1,724
% of Gross Block	11	6	8	8	8
<b>EBIT</b>	<b>2,085</b>	<b>1,848</b>	<b>2,153</b>	<b>3,830</b>	<b>6,381</b>
EBIT Margin (%)	7%	6%	5%	8%	11%
Interest Expenses	211	686	481	375	253
Non-operating/ Other income	856	1,171	1,544	1,854	2,320
Extraordinary expense	-	-227	-306	-	-
Share of associates	-	-106	35	46	61
<b>PBT</b>	<b>2,731</b>	<b>2,454</b>	<b>3,557</b>	<b>5,356</b>	<b>8,509</b>
Tax-Total	723	614	854	1,308	2,049
<b>PAT</b>	<b>2,008</b>	<b>1,839</b>	<b>2,703</b>	<b>4,048</b>	<b>6,460</b>
<b>Adj. Net Profit</b>	<b>2,008</b>	<b>1,612</b>	<b>2,397</b>	<b>4,048</b>	<b>6,460</b>
PAT Margin	6.99%	6.17%	6.89%	8.73%	11.14%
Shares o/s/ paid up equity sh capital	98	103	103	103	103
Adj EPS (INR)	20	18	23	39	62
Balance sheet (INR Mn)	FY23	FY24	FY25E	FY26E	FY27E
<b>Sources of Funds</b>					
Equity Share Capital	488	544	544	544	544
Reserves & Surplus/ Other Equity	15,599	29,263	31,940	35,949	42,346
<b>Networth</b>	<b>16,087</b>	<b>29,807</b>	<b>32,484</b>	<b>36,492</b>	<b>42,890</b>
Borrowings	5,711	14,931	10,460	8,151	5,508
Other non current liabilities	475	1,111	1,111	1,111	1,111
<b>Total Funds Employed</b>	<b>22,272</b>	<b>45,849</b>	<b>44,055</b>	<b>45,755</b>	<b>49,509</b>
<b>Application of Funds</b>					
Gross block	7,920	18,680	20,336	20,993	21,549
Less: accumulated depreciation	3,630	4,788	6,475	8,154	9,878
<b>Net Fixed Assets</b>	<b>4,290</b>	<b>13,892</b>	<b>13,861</b>	<b>12,838</b>	<b>11,670</b>
Capital WIP	2,875	1,656	656	556	456
Investments	1,169	9,339	7,339	5,339	3,339
Goodwill	2,740	16,889	16,889	16,889	16,889
Other non current assets	615	2,871	2,871	2,871	2,871
<b>Current assets</b>	<b>14,333</b>	<b>8,748</b>	<b>10,234</b>	<b>15,788</b>	<b>24,006</b>
Inventory	3,313	3,394	3,943	4,469	5,361
Days	68	71	65	64	62
Debtors	2,820	3,638	3,979	4,445	5,243
Days	36	45	37	35	33
Other Current Assets	7,774	1,227	1,227	1,227	1,227
Bank	3	49	69	69	69
Cash	423	440	1,016	5,577	12,106
<b>Current Liabilities</b>	<b>4,836</b>	<b>7,546</b>	<b>7,795</b>	<b>8,526</b>	<b>9,723</b>
Creditors	2,594	3,875	4,125	4,856	6,053
Days	53	81	68	69	70
Other current liabilities	2,036	3,380	3,380	3,380	3,380
Provisions	205	290	290	290	290
<b>Net Working Capital</b>	<b>9,497</b>	<b>1,202</b>	<b>2,439</b>	<b>7,261</b>	<b>14,283</b>
<b>Total Liabilities and Capital</b>	<b>22,272</b>	<b>45,849</b>	<b>44,055</b>	<b>45,755</b>	<b>49,509</b>
<b>Total Assets</b>	<b>26,023</b>	<b>53,396</b>	<b>51,850</b>	<b>54,281</b>	<b>59,232</b>
Cash Flow Statement (INR Mn)	FY23	FY24	FY25E	FY26E	FY27E
Profit Before Tax	2,731	2,332	3,216	5,309	8,447
Depreciation & Amortization	896	1,158	1,687	1,679	1,724
Interest Expense	211	686	481	375	253
Interest Income	856	1,171	1,544	1,854	2,320
Tax	723	614	854	1,308	2,049
Extraordinary and Other items	-	-333	-271	46	61
OCF before WC changes	2,259	2,058	2,715	4,247	6,117
WC changes	5,788	-8,312	661	261	493
OCF	-3,529	10,371	2,054	3,986	5,624
Capex	524	9,674	1,656	656	556
FCF	-4,053	696	397	3,329	5,068
Change in other Assets	-2,620	23,129	-3,306	-2,100	-2,100
Change in Equity	76	11,881	-26	-39	-62
Change in Debt & other financing activities	1,371	10,568	-3,102	-829	-577
<b>Net change in cash</b>	<b>15</b>	<b>17</b>	<b>576</b>	<b>4,561</b>	<b>6,529</b>
<b>Opening Cash Balance</b>	<b>408</b>	<b>423</b>	<b>440</b>	<b>1,016</b>	<b>5,577</b>
<b>Ending Cash balance</b>	<b>423</b>	<b>440</b>	<b>1,016</b>	<b>5,577</b>	<b>12,106</b>

Source: Annual Report, Arianth Capital Research

Key Ratios					
Solvency Ratios (X)					
Debt / Equity	FY23	FY24	FY25E	FY26E	FY27E
	0.4	0.5	0.3	0.2	0.1
Net Debt / Equity	0.3	0.5	0.3	0.1	-0.2
Debt / EBITDA	1.9	5.0	2.7	1.5	0.7
Net Debt / EBITDA	1.8	4.8	2.5	0.5	-0.8
Debt / Asset	0.2	0.3	0.2	0.2	0.1
Liquidity Ratios (x)					
Current Ratio	FY23	FY24	FY25E	FY26E	FY27E
	3.0	1.2	1.3	1.9	2.5
Quick Ratio	2.3	0.7	0.8	1.3	1.9
Important Metrics					
Net Debt (includes lease liabilities and excludes investments)	FY23	FY24	FY25E	FY26E	FY27E
	5,288	14,491	9,444	2,574	(6,598)
FCF	-4,053	696	397	3,329	5,068
EV	88,891	98,094	93,047	86,177	77,005
DuPont Analysis					
Sales/Assets (X)	FY23	FY24	FY25E	FY26E	FY27E
	1.06	0.56	0.76	0.85	0.98
Assets/Equity (X)	1.69	1.79	1.60	1.49	1.38
Net Profit Margin	6.99%	6.17%	6.89%	8.73%	11.14%
RoE	12.48%	6.17%	8.32%	11.09%	15.06%
Per share ratios (INR)					
Reported EPS	FY23	FY24	FY25E	FY26E	FY27E
	20.4	17.7	26.2	39.2	62.5
Adjusted EPS	20.4	17.7	22.9	38.7	62.0
Dividend	0.0	0.0	0.0	0.0	0.0
BV	164.9	288.6	314.5	353.3	415.3
Cash	4.3	4.3	9.8	54.0	117.2
Revenue	294.5	288.7	380.0	448.9	561.5
Profitability ratios					
Net Profit Margin	FY23	FY24	FY25E	FY26E	FY27E
	6.99%	6.17%	6.89%	8.73%	11.14%
Gross Profit Margin	37.78%	41.32%	43.59%	44.59%	45.58%
EBITDA Margin	10.38%	10.08%	9.78%	11.88%	13.98%
EBIT Margin	7.26%	6.19%	5.48%	8.26%	11.00%
PAT Margin	6.99%	6.17%	6.89%	8.73%	11.14%
ROE	12.48%	6.17%	8.32%	11.09%	15.06%
ROCE	6.89%	2.97%	3.59%	6.31%	9.76%
ROIC	5.75%	2.57%	3.11%	5.93%	10.26%
ROA	7.41%	3.44%	5.21%	7.46%	10.91%
Activity ratios					
Inventory Days	FY23	FY24	FY25E	FY26E	FY27E
	68	71	65	64	62
Debtor Days	36	45	37	35	33
Creditor Days	53	81	68	69	70
Valuation ratios (X)					
EV / EBITDA	FY23	FY24	FY25E	FY26E	FY27E
	29.8	32.6	24.2	15.6	9.5
EV / EBIT	42.6	53.1	43.2	22.5	12.1
EV / Net Sales	3.1	3.3	2.4	1.9	1.3
EPS (INR)	20.4	17.7	26.2	39.2	62.5
Adj EPS (INR)	20.4	17.7	22.9	38.7	62.0
CMP	809.5	809.5	809.5	809.5	809.5
P/E	39.7	45.8	30.9	20.7	12.9
P/B	4.9	2.8	2.6	2.3	1.9

Source: Annual Report, Arianth Capital Research

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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