

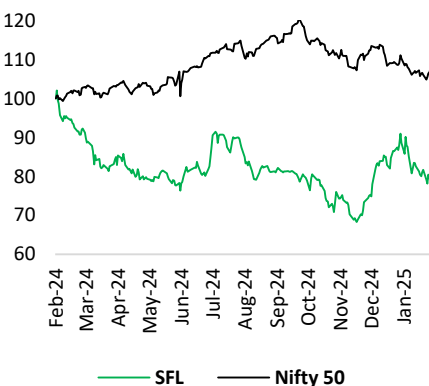
CMP: INR 901
Rating: BUY
Target Price: INR 1,382
Stock Info

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)	9,806
52w H/L (INR)	1,170/ 774
Avg Daily Vol (in 000')	56

Shareholding Pattern %
(As on September 2024)

Promoters	65.69
DII	21.30
FII	6.56
Public & Others	6.71

Stock Performance (%)	1m	3m	12m
SFL	(13)	3.7 (22.2)	
NIFTY 50	(2)	(2)	7.6

Sheela Foam Price Chart

Abhishek Jain
abhishek.jain@arihantcapital.com

022 4225 4872

Anushka Chitnis
anushka.chitnis@arihantcapital.com

022 4225 4870

Top line growth encouraging; visible EBITDA Margin improvement despite input cost pressure indicative of Kurlon synergies materializing at opex level as well as improving profitability of the international business. Bottom line suffered due to large declines in investment income. Overall performance is positive, though slightly below our expectations. Q3FY25 Revenue was up 10.04% YoY to INR 9,671 Mn (+19% QoQ), slightly missing our estimate of INR 9,844 Mn. India business revenues grew 14.6% YoY and 27% QoQ, the drag on revenues was due to underperformance of the international business (-6% YoY, -6% QoQ). Gross Margins came in at 40.62% (-108bps YoY, -424bps QoQ) due to TDI prices spiking this quarter. EBITDA was up 15.32% YoY to INR 879 Mn (+26.8% QoQ), missing our estimate of INR 900 Mn. EBITDA Margin expanded 42bps to 9.08% (+56bps QoQ). Missing our estimate of 9.14% by 6bps. PAT was down 40.33% to INR 186 Mn (+99.57% QoQ), missing our estimate of INR 500 Mn. This is due to other income which was mainly investment related being lower by almost 77% YoY and QoQ. The company plans to monetize assets from closed Kurlon plants to generate INR 100-150 Cr in cash.

Guidance: B2C Mattress business- 2-3 year mattress growth 18-19% with 15% EBITDA; 2-3 year B2B growth 8-10% with consol EBITDA 12-14%. Furlenco annual run rate for FY25 INR 250 Cr.

Price increases coming up: The company will take price hikes effective from February 2025 across both B2B and B2C products- less so across the lower end of the product offering.

International business recovery: The Australia business faced some headwinds with macroeconomic growth, since that market has reached saturation, growing there would be a challenge, but, operating cost efficiencies have perked up, causing margin level to stabilize at a higher level. The Spain business displayed better growth momentum with a more diversified product portfolio and better margins. Compared to Australia, Spain is less commoditized. Since the establishment of anti dumping duties in the US, the company is looking to redirect exports to the rest of Europe.

Outlook and Valuation: We maintain our BUY rating on the company, valued at INR 1,382 based on a DCF. We see the company arrive at an interesting turning point with the international businesses, and positive sentiments onwards the Indian budget regarding tax savings and homeownership incentives benefiting consumer durables.

Particulars (INR Mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue from Operations	28,733	29,823	35,688	39,356	44,474
YoY	0%	4%	20%	10%	13%
Gross Profit Margin	37.8%	41.3%	42.6%	43.6%	44.7%
EBITDA Margin	10.4%	10.1%	8.8%	10.8%	12.8%
Adj. Net Profit	2,008	1,612	690	2,302	3,641
YoY	-8%	-20%	-57%	234%	58%
Adj EPS (INR)	20.4	17.7	9.6	22.3	35.3
YoY	-8%	-13%	-45%	131%	58%
P/E	44.19	51.01	93.43	40.42	25.56
P/B	5.46	3.12	3.02	2.81	2.54
Debt / Equity	0.36	0.50	0.58	0.47	0.36
Net Debt (includes lease liabilities and excludes investments)	5,288	14,491	10,690	5,067	-1,981
ROE	12.5%	6.2%	3.2%	7.0%	9.9%
ROCE	6.9%	3.0%	1.8%	3.6%	5.5%

Source: Company Filings & Arihant Capital Research

INR Mn (Consolidated)	Q3FY25	Q2FY25	Q3FY24	Q-o-Q	Y-o-Y
Net Revenue	9,671	8,127	8,789	19.00%	10.04%
Raw Material Costs	5,742	4,481	5,124	28.16%	12.07%
Gross Profit	3,929	3,647	3,665	7.74%	7.19%
<i>Gross Margin</i>	<i>40.62%</i>	<i>44.87%</i>	<i>41.70%</i>	<i>-424bps</i>	<i>-108bps</i>
Employee costs	1,056	1,114	950	-5.22%	11.14%
Other Expenses	1,995	1,840	1,953	8.41%	2.10%
EBITDA	879	693	762	26.80%	15.32%
<i>EBITDA margin</i>	<i>9.08%</i>	<i>8.52%</i>	<i>8.67%</i>	<i>56bps</i>	<i>42bps</i>
Other Non Operating Income	75	318	318	-76.46%	-76.51%
Depreciation	454	479	299	-5.26%	51.57%
EBIT	500	532	781	-6.03%	-36.01%
Finance costs	288	283	252	1.70%	14.13%
PBT	212	249	529	-14.81%	-59.89%
Tax Expense	29	157	144	-81.44%	-79.85%
<i>Effective tax rate</i>	<i>13.71%</i>	<i>62.95%</i>	<i>27.30%</i>	<i>-4923bps</i>	<i>-1358bps</i>
PAT	183	92	385	98.37%	-52.39%
Share of associates	3	1	(73)	222.22%	-103.98%
PAT after associates	186	93	312	99.57%	-40.33%

Source: Company Filings & Arianth Capital Research

Spain: Saw a 15% volume growth in FY25 with stagnant top-line due to low raw material prices. Benefits from the market's contraction due to its small presence.

Australia: Achieved double-digit EBITDA growth. Operating in a small, stagnant market with high market share but expanding into furniture.

Furniture cushioning grew by 12% QoQ through the Saathi program.

The Comfort segment declined 5% QoQ but grew 5% over 9M FY25 due to a shift to branded mattresses.

Other income dip: Other income was drastically low this quarter due to unrealized MTM losses on lower yield debt instruments. This is not permanent.

Ecommerce share was up: e-commerce sales stood at 12% of top line, which, though beneficial in gaining market share, was a dampener on margins as products sold online have a lower margin.

Gross Margins were lower this quarter: This was largely due to the fact that GNFC shut down one of their units which resulted in the company having to purchase 1.5 months of TDI supply from the open market.

Average sales price on a decline: Lower realizations are due to Kurlons product being added to the menagerie. Since Kurlon sells at a lower price point compared to Sleepwell, most growth hereon will be volume led.

WC usage: Consolidation of SFL and KEL operations did lead to higher WC levels, but this will temper with time as consolidated operations improve efficiencies.

Reduction in customs duty on mattress imports deemed inconsequential: Mattresses are not imported into India due to size and weight characteristics that make it expensive to do so.

The small town initiative with Tarang and Aaram is yielding positive results.

They are exploring expansion into the student segment as a major opportunity.

Income statement (INR Mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue from Operations	28,733	29,823	35,688	39,356	44,474
YoY	0%	4%	20%	10%	13%
COGS	17,879	17,502	20,481	22,183	24,611
YoY	-5%	-2%	17%	8%	11%
Personnel/ Employee benefit expenses	2,829	3,441	4,318	4,562	4,932
YoY	11%	22%	25%	6%	8%
Manufacturing & Other Expenses	5,044	5,875	7,750	8,355	9,226
YoY	21%	16%	32%	8%	10%
EBITDA	2,982	3,005	3,139	4,257	5,706
YoY	-5%	1%	4%	36%	34%
EBITDA Margin (%)	10.38%	10.08%	8.80%	10.82%	12.83%
Depreciation	896	1,158	1,785	1,889	1,939
% of Gross Block	11	6	9	9	9
EBIT	2,085	1,848	1,354	2,367	3,766
EBIT Margin (%)	7%	6%	4%	6%	8%
Interest Expenses	211	686	1,109	878	688
Non-operating/ Other income	856	1,171	772	1,574	1,779
Extraordinary expense	-	-227	-306	-	-
Share of associates	-	-106	7	9	13
PBT	2,731	2,454	1,331	3,073	4,870
Tax-Total	723	614	335	771	1,229
PAT	2,008	1,839	996	2,302	3,641
Adj. Net Profit	2,008	1,612	690	2,302	3,641
PAT Margin	6.99%	6.17%	2.79%	5.85%	8.19%
Shares o/s/ paid up equity sh capital	98	103	103	103	103
Adj EPS (INR)	20	18	7	22	35
Balance sheet (INR Mn)	FY23	FY24	FY25E	FY26E	FY27E
Sources of Funds					
Equity Share Capital	488	544	544	544	544
Reserves & Surplus/ Other Equity	15,599	29,263	30,250	32,530	36,136
Networth	16,087	29,807	30,793	33,074	36,680
Borrowings	5,711	14,931	17,884	15,397	13,229
Other non current liabilities	475	1,111	1,111	1,111	1,111
Total Funds Employed	22,272	45,849	49,789	49,582	51,021
Application of Funds					
Gross block	7,920	18,680	20,336	20,993	21,549
Less: accumulated depreciation	3,630	4,788	6,573	8,462	10,401
Net Fixed Assets	4,290	13,892	13,764	12,531	11,147
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
Current assets	14,333	8,748	15,756	19,259	24,708
Inventory	3,313	3,394	3,647	3,859	4,181
Days	68	71	65	64	62
Debtors	2,820	3,638	3,618	3,774	4,021
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	7,195	10,330	15,210
Current Liabilities	4,836	7,546	7,486	7,864	8,390
Creditors	2,594	3,875	3,816	4,193	4,720
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
Net Working Capital	9,497	1,202	8,270	11,396	16,318
Total Liabilities and Capital	22,272	45,849	49,789	49,582	51,021
Total Assets	26,023	53,396	57,275	57,445	59,411
Cash Flow Statement (INR Mn)	FY23	FY24	FY25E	FY26E	FY27E
Profit Before Tax	2,731	2,332	1,018	3,064	4,857
Depreciation & Ammortization	896	1,158	1,785	1,889	1,939
Interest Expense	211	686	1,109	878	688
Interest Income	856	1,171	772	1,574	1,779
Tax	723	614	335	771	1,229
Extraordinary and Other items	-	-333	-299	9	13
OCF before WC changes	2,259	2,058	2,505	3,495	4,490
WC changes	5,788	-8,312	313	-10	42
OCF	-3,529	10,371	2,192	3,505	4,448
Capex	524	9,674	1,656	656	556
FCF	-4,053	696	535	2,849	3,892
Change in other Assets	-2,620	23,129	-3,306	-2,100	-2,100
Change in Equity	76	11,881	-9	-22	-35
Change in Debt & other financing activities	1,371	10,568	2,923	-1,791	-1,076
Net change in cash	15	17	6,755	3,136	4,880
Opening Cash Balance	408	423	440	7,195	10,330
Ending Cash balance	423	440	7,195	10,330	15,210

Source: Annual Report, Arianth Capital Research

Key Ratios					
Solvency Ratios (X)					
Debt / Equity	FY23	FY24	FY25E	FY26E	FY27E
	0.4	0.5	0.6	0.5	0.4
Net Debt / Equity	0.3	0.5	0.3	0.2	-0.1
Debt / EBITDA	1.9	5.0	5.7	3.6	2.3
Net Debt / EBITDA	1.8	4.8	3.4	1.2	-0.3
Debt/ Asset	0.2	0.3	0.3	0.3	0.2
Liquidity Ratios (x)					
Current Ratio	FY23	FY24	FY25E	FY26E	FY27E
	3.0	1.2	2.1	2.4	2.9
Quick Ratio	2.3	0.7	1.6	2.0	2.4
Important Metrics					
Net Debt (includes lease liabilities and excludes investments)	FY23	FY24	FY25E	FY26E	FY27E
	5,288	14,491	10,690	5,067	(1,981)
FCF	(4,053)	696	535	2,849	3,892
EV	98,347	107,549	103,748	98,125	91,077
DuPont Analysis					
Sales/Assets (X)	FY23	FY24	FY25E	FY26E	FY27E
	1.06	0.56	0.62	0.69	0.75
Assets/Equity (X)	1.69	1.79	1.86	1.74	1.62
Net Profit Margin	6.99%	6.17%	2.79%	5.85%	8.19%
RoE	12.48%	6.17%	3.23%	6.96%	9.93%
Per share ratios (INR)					
Reported EPS	FY23	FY24	FY25E	FY26E	FY27E
	20.4	17.7	9.6	22.3	35.3
Adjusted EPS	20.4	17.7	6.6	22.2	35.1
Dividend	0.0	0.0	0.0	0.0	0.0
BV	164.9	288.6	298.1	320.2	355.1
Cash	4.3	4.3	69.7	100.0	147.3
Revenue	294.5	288.7	345.5	381.0	430.6
Profitability ratios					
Net Profit Margin	FY23	FY24	FY25E	FY26E	FY27E
	6.99%	6.17%	2.79%	5.85%	8.19%
Gross Profit Margin	37.78%	41.32%	42.61%	43.64%	44.66%
EBITDA Margin	10.38%	10.08%	8.80%	10.82%	12.83%
EBIT Margin	7.26%	6.19%	3.79%	6.02%	8.47%
PAT Margin	6.99%	6.17%	2.79%	5.85%	8.19%
ROE	12.48%	6.17%	3.23%	6.96%	9.93%
ROCE	6.89%	2.97%	1.83%	3.57%	5.51%
ROIC	5.75%	2.57%	1.81%	3.76%	6.37%
ROA	7.41%	3.44%	1.74%	4.01%	6.13%
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
	33.0	35.8	33.0	23.1	16.0
EV / EBIT	47.2	58.2	76.6	41.5	24.2
EV / Net Sales	3.4	3.6	2.9	2.5	2.0
EPS (INR)	20.4	17.7	9.6	22.3	35.3
Adj EPS (INR)	20.4	17.7	6.6	22.2	35.1
CMP	901.0	901.0	901.0	901.0	901.0
P/E	44.2	51.0	93.4	40.4	25.6
P/B	5.5	3.1	3.0	2.8	2.5

Source: Annual Report, Arihant Capital Research

Arihant Research DeskEmail: research@arihantcapital.com

Tel. : 022-42254800

Head Office	Registered Office
#1011, Solitaire Corporate Park Building No. 10, 1 st Floor Andheri Ghatkopar Link Road Chakala, Andheri (E) Mumbai – 400093 Tel: (91-22) 42254800 Fax: (91-22) 42254880	6 Lad Colony Y. N. Road Indore - 452003, (M.P.) Tel: (91-731) 4214100 Fax: (91-731) 3016199

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%

Research Analyst Registration No.	Contact	Website	Email Id
INH000002764	SMS: 'Arihant' to 56677	www.arihantcapital.com	research@arihantcapital.com

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Arihant Capital Markets Ltd.
1011, Solitaire Corporate park, Building No. 10, 1st Floor,
Andheri Ghatkopar Link Road, Chakala, Andheri (E)
Tel. 022-42254800 Fax. 022-42254880