

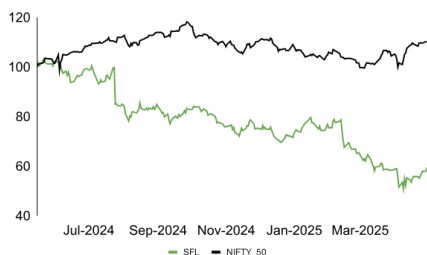
CMP: INR 652
Rating: BUY
Target Price: INR 1,084
Stock Info

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)	7,074
52w H/L (INR)	1,067/ 621
Avg Daily Vol (in 000')	1,047

Shareholding Pattern %
(As on March 2025)

Promoters	65.69
DII	21.17
FII	6.23
Public & Others	6.91

Stock Performance (%)	1m	3m	12m
SFL	0.3 (15.9)	(29)	
NIFTY 50	7.4	9.3	12.9

Sheela Foam Price Chart

Abhishek Jain
abhishek.jain@arihantcapital.com

022 4225 4872

Anushka Chitnis
anushka.chitnis@arihantcapital.com

022 4225 4870

Sheela Foam reported a weak Q4FY25 performance, missing estimates across revenue, EBITDA, and PAT due to seasonal weakness, margin pressure, and higher taxes. Margin recovery remains a key monitorable going forward. Revenue stood at INR 8,500 Mn, which was –13.2% below our estimate of INR 9,792 Mn. On a sequential basis, revenue declined –12.1% (INR 9,671 Mn in Q3), while on a YoY basis, it grew slightly by +0.6% (INR 8,452 Mn in Q4FY24). The decline was driven by muted demand and seasonal softness in the mattress segment. EBITDA (excluding other income) came in at INR 690 Mn, which was –29.0% below the estimate of INR 972 Mn. EBITDA declined –21.6% QoQ and –15.0% YoY, indicating margin compression due to weak operating leverage. EBITDA margin stood at 8.1%, down –183bps from the estimate of 9.93%. Margins contracted by –99bps QoQ and –149bps YoY due to elevated fixed costs and under-absorption on account of muted topline growth. PAT was reported at INR 220 Mn, –49.5% below the estimated INR 436 Mn. While PAT rose +18.3% QoQ (INR 186 Mn), it declined –66.3% YoY (INR 652 Mn), with the drop largely attributed to higher taxes and reduced other income. 3 land parcels were liquidated as part of the company's ongoing monetization efforts

The India business (SFL + KEL): Gross margin for FY25 improved to 42.5% (vs 41.4% in FY24), despite Q4 facing 100bps YoY contraction. EBITDA margin also declined by 160bps YoY in Q4. Mattress volume growth remained strong, supported by retail network expansion. TDI and Polyol prices saw a marginal decline, which may support margin recovery in coming quarters. There is pending INR 130 Cr of opex efficiencies that could aid future profitability.

The international business: Australia: Margins expanded by 210bps YoY, aided by successful price hikes and strategic sourcing from China. Spain: Reported a 190bps YoY margin contraction despite healthy 15% volume growth, due to increased overheads and weaker realizations linked to pass-through of raw material cost savings.

Outlook and Valuation: We maintain our BUY rating on the company, valued at INR 1,084 based on a DCF. While Sheela Foam retains strong brand equity and distribution dominance, near-term profitability is clouded by integration drag (post-KEL), elevated operating costs, and sub-par standalone performance. Margin stabilization, debt reduction, and synergy realization from recent acquisitions will be key triggers to monitor.

Particulars (INR Mn)	FY24	FY25	FY26E	FY27E
Revenue from Operations	29,823	34,392	37,079	40,965
YoY	4%	15%	8%	10%
Gross Profit Margin	41.3%	41.7%	42.7%	43.7%
EBITDA Margin	10.1%	7.3%	9.3%	11.3%
Adj. Net Profit	1,612	661	1,424	2,394
YoY	-20%	-59%	115%	68%
Adj EPS (INR)	17.7	8.8	13.1	22.0
YoY	-13%	-50%	48%	68%
P/E	36.91	73.76	49.77	29.61
P/B	2.26	2.29	2.19	2.04
Debt / Equity	0.50	0.47	0.44	0.42
Net Debt (includes lease liabilities and excludes investments)	14,491	14,211	13,498	11,775
ROE	6.2%	3.1%	4.4%	6.9%
ROCE	3.0%	1.2%	2.3%	3.8%

Source: Company Filings & Arihant Capital Research

Business Development & Distribution

- Added nearly **400 exclusive showrooms** and **1,700 dealers** during FY25, aiding volume growth and enhancing market penetration.
- Planning to **open 1,000+ new touchpoints** in FY26 to further strengthen distribution.
- **Small Town Initiative** scaled up to **4,000+ towns**, targeting deeper rural and Tier 3 market penetration.

Segmental Commentary

- **Mattress segment** reported strong volume growth YoY (standalone), though revenue growth lagged due to lower realization and pricing pressures.
- **Technical foam** business maintained volumes, with increased investments in **R&D for industrial applications** and **product innovation**.
- **Furlenco** turned profitable at the PAT level for the first time in FY25, reflecting successful operational turnaround.

Cost Optimization & Profitability Initiatives

- Total cost savings of **INR 120 Cr planned**, with **INR 130 Cr already implemented**.
- Company targets **15% revenue CAGR** and **13–14% EBITDA margin** over the next few years.
- Committed to **fully deleveraging the Indian balance sheet** in the next 2–3 years through enhanced operational efficiencies.
- Plans to **monetize three manufacturing facilities** (Dabaspet, Rajpura, Roorkee), streamlining total facilities from 18 to 12.
- **International Business**
 - **Australia:** Secured **price hikes from majority of customers**; distributor-owned outlets under flagship brands continue to grow.
 - **Spain:** Saw elevated overheads in FY25, pressuring margins and impacting profitability.

Challenges

- **EBITDA margin expansion** constrained by soft revenue performance and post-acquisition **integration costs from KEL**.
- Mattress volume growth did **not fully translate into revenue growth**, due to lower ASPs and discounts.
- **Consumer durables** segment faced industry-wide headwinds, impacting volumes.
- **Lower raw material costs**, while positive for margins, limited topline growth due to pass-through pricing.
- Spain operations continue to drag due to increased fixed costs and suboptimal scale.

Q4FY25 Result Update | Sheela Foam Ltd

Income statement (INR Mn)	FY24	FY25	FY26E	FY27E
Revenue from Operations	29,823	34,392	37,079	40,965
YoY	4%	15%	8%	10%
COGS	17,502	20,056	21,245	23,051
YoY	-2%	15%	6%	8%
Personnel/ Employee benefit expenses	3,441	4,321	4,479	4,750
YoY	22%	26%	4%	6%
Manufacturing & Other Expenses	5,875	7,515	7,920	8,549
YoY	16%	28%	5%	8%
EBITDA	3,005	2,499	3,435	4,615
YoY	1%	-17%	37%	34%
EBITDA Margin (%)	10.08%	7.27%	9.26%	11.27%
Depreciation	1,158	1,826	1,932	2,030
% of Gross Block	6	8	8	8
EBIT	1,848	673	1,503	2,585
EBIT Margin (%)	6%	2%	4%	6%
Interest Expenses	686	1,205	1,108	1,061
Non-operating/ Other income	1,171	1,309	1,483	1,639
Extraordinary expense	-227	-306	-	-
Share of associates	-106	12	16	21
PBT	2,454	1,095	1,893	3,185
Tax-Total	614	128	469	791
PAT	1,839	967	1,424	2,394
Adj. Net Profit	1,612	661	1,424	2,394
PAT Margin	6.17%	2.81%	3.84%	5.84%
Adj EPS (INR)	18	9	13	22
Balance sheet (INR Mn)	FY24	FY25	FY26E	FY27E
Sources of Funds				
Equity Share Capital	544	544	544	544
Reserves & Surplus/ Other Equity	29,263	30,412	31,823	34,193
Networth	29,807	30,956	32,366	34,737
Borrowings	14,931	14,624	14,314	14,643
Other non current liabilities	1,111	1,359	1,359	1,359
Total Funds Employed	45,849	46,938	48,039	50,738
Application of Funds				
Gross block	20,960	22,616	23,929	25,141
Less: accumulated depreciation	7,068	8,894	10,826	12,856
Net Fixed Assets	13,892	13,722	13,103	12,285
Capital WIP	1,656	1,312	1,212	1,112
Investments	9,339	5,037	6,137	7,237
Goodwill	16,889	17,244	17,244	17,244
Other non current assets	2,871	2,888	3,387	3,887
Current assets	8,748	14,373	14,963	17,373
Inventory	3,394	3,499	3,619	3,832
Days	71	64	62	61
Debtors	3,638	3,457	3,523	3,668
Days	45	37	35	33
Other Current Assets	1,227	6,942	6,942	6,942
Bank	49	62	62	62
Cash	440	413	816	2,868
Current Liabilities	7,546	7,733	8,006	8,399
Creditors	3,875	3,610	3,882	4,275
Days	81	66	67	68
Other current liabilities	3,380	3,835	3,835	3,835
Provisions	290	289	289	289
Net Working Capital	1,202	6,639	6,957	8,974
Total Liabilities and Capital	45,849	46,938	48,039	50,738
Total Assets	53,395	54,575	56,045	59,137
Cash Flow Statement (INR Mn)	FY24	FY25	FY26E	FY27E
Profit Before Tax	2,332	777	1,878	3,163
Depreciation & Ammortization	1,158	1,826	1,932	2,030
Interest Expense	686	1,205	1,108	1,061
Interest Income	1,171	1,309	1,483	1,639
Tax	614	128	469	791
Extraordinary and Other items	-333	-294	16	21
OCF before WC changes	2,058	2,078	2,981	3,846
WC changes	-8,312	5,465	-85	-35
OCF	10,371	-3,387	3,066	3,881
Capex	9,674	1,753	1,216	1,212
FCF	696	-5,140	1,851	2,669
Change in other Assets	23,129	-4,581	1,499	1,500
Change in Equity	11,881	182	-14	-23
Change in Debt & other financing activities	10,568	350	65	907
Net change in cash	17	-27	403	2,052
Opening Cash Balance	423	440	413	816
Ending Cash balance	440	413	816	2,868

Source: Annual Report, Arihant Capital Research

Key Ratios

Solvency Ratios (X)	FY24	FY25	FY26E	FY27E
Debt / Equity	0.5	0.5	0.4	0.4
Net Debt / Equity	0.5	0.5	0.4	0.3
Debt / EBITDA	5.0	5.9	4.2	3.2
Net Debt / EBITDA	4.8	5.7	3.9	2.6
Debt/ Asset	0.3	0.3	0.3	0.2
Liquidity Ratios (x)	FY24	FY25	FY26E	FY27E
Current Ratio	1.2	1.9	1.9	2.1
Quick Ratio	0.7	1.4	1.4	1.6
Important Metrics	FY24	FY25	FY26E	FY27E
Net Debt (includes lease liabilities and excludes investments)	14,491	14,211	13,498	11,775
FCF	696	(5,140)	1,851	2,669
EV	85,363	85,084	84,371	82,647
DuPont Analysis	FY24	FY25	FY26E	FY27E
Sales/Assets (X)	0.56	0.63	0.66	0.69
Assets/Equity (X)	1.79	1.77	1.73	1.70
Net Profit Margin	6.17%	2.81%	3.84%	5.84%
RoE	6.17%	3.12%	4.40%	6.89%
Per share ratios (INR)	FY24	FY25	FY26E	FY27E
Reported EPS	17.7	8.8	13.1	22.0
Adjusted EPS	17.7	8.8	13.0	21.8
Dividend	0.0	0.0	0.0	0.0
BV	288.6	284.8	297.8	319.6
Cash	4.3	3.8	7.5	26.4
Revenue	288.7	316.4	341.1	376.9
Profitability ratios	FY24	FY25	FY26E	FY27E
Net Profit Margin	6.17%	2.81%	3.84%	5.84%
Gross Profit Margin	41.32%	41.68%	42.70%	43.73%
EBITDA Margin	10.08%	7.27%	9.26%	11.27%
EBIT Margin	6.19%	1.96%	4.05%	6.31%
PAT Margin	6.17%	2.81%	3.84%	5.84%
ROE	6.17%	3.12%	4.40%	6.89%
ROCE	2.97%	1.20%	2.35%	3.82%
ROIC	2.57%	1.04%	2.04%	3.45%
ROA	3.44%	1.77%	2.54%	4.05%
Activity ratios	FY24	FY25	FY26E	FY27E
Inventory Days	71	64	62	61
Debtor Days	45	37	35	33
Creditor Days	81	66	67	68
Valuation ratios (X)	FY24	FY25	FY26E	FY27E
EV / EBITDA	28.4	34.0	24.6	17.9
EV / EBIT	46.2	126.4	56.1	32.0
EV / Net Sales	2.9	2.5	2.3	2.0
EPS (INR)	17.7	8.8	13.1	22.0
Adj EPS (INR)	17.7	8.8	13.0	21.8
CMP	652.0	652.0	652.0	652.0
P/E	36.9	73.8	49.8	29.6
P/B	2.3	2.3	2.2	2.0

Source: Annual Report, Arianth 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