

Sheela Foam Ltd

20th July 2023

Acquisition to drive synergies

Sheela Foam Ltd. (SFL), the leading manufacturer of Polyurethane Foams (PU) in India, made a significant announcement on July 17, 2023. The Company revealed its plan to acquire a 94.7% stake in Kurlon Enterprise Ltd (KEL) for Rs. 20,350 Mn and invest in House of Kieraya Pvt. Ltd (Furlenco) by acquiring a 35% stake for Rs. 3,000 Mn. This strategic move aims to diversify SFL's product portfolio, consolidate manufacturing capabilities, create distribution synergies, and expand its presence across India. The combined entity is expected to achieve a market share of ~21% in the modern mattress segment. Furthermore, SFL's investment in Furlenco marks its entry into the furniture market. The acquisition of KEL is anticipated to be completed by November 30, 2023, while the Furlenco acquisition is expected to conclude by August 31, 2023, as per the Company's guidance. We have recently initiated our coverage on SFL, to understand the Company in more detail please refer to our [initiating coverage report](#).

Strategic Acquisition with Kurlon: Driving Market Share, Geographical Diversification, and Distribution Network Expansion

The Company states that the acquisition will serve several strategic purposes. Firstly, it will consolidate its position in the mattress market and foam-based products. Secondly, it will lead to a broader customer base, attributed to its robust nationwide presence. Additionally, the acquisition will expand its product portfolio, catering to a wide range of customers from mass to prestige segments. Furthermore, it will bolster the distribution network, providing significant cross-selling opportunities. Lastly, the integration is expected to achieve economies of scale through improved production efficiency and logistics.

Entry into new product category

Through the strategic investment in Furlenco, the Company is venturing into the furniture market, which is significantly larger, estimated to be 3-4 times the size of the mattress market. The furniture market is expected to grow at a CAGR of 13% from FY23 to FY25. This move opens up opportunities for the Company to offer customized mattresses tailored to meet specific customer needs and preferences, while also leveraging the Furlenco platform to cross-sell its products.

Moreover, SFL will enable Furlenco to benefit from its strong logistics network, leading to reduced transportation costs and improved operational efficiencies.

CMP Rs. 1215

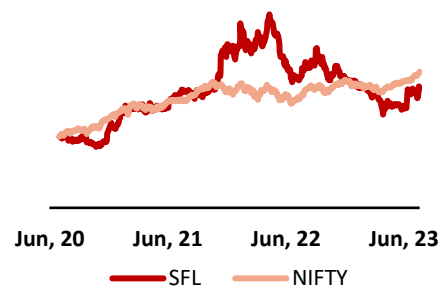
Company Data

MCAP (Rs. Mn)	1,18,518
O/S Shares (Mn)	98
52w High/Low	1,710 / 906
Face Value (in Rs.)	5
Liquidity (3M) (Rs. Mn)	170

Shareholding Pattern %

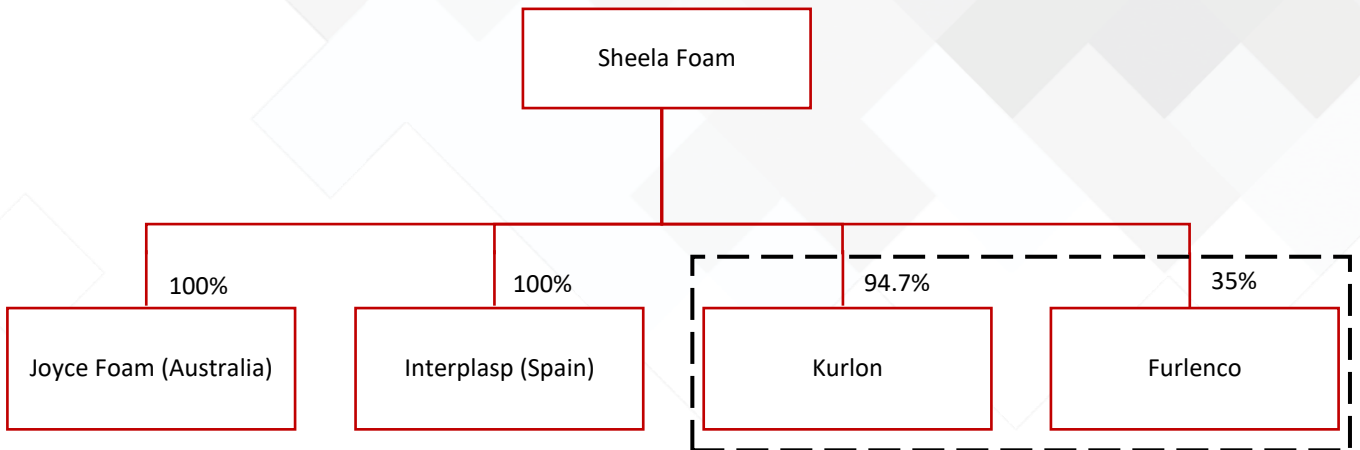
	Jun-23	Mar-23	Dec-22
Promoters	72.95	72.95	72.95
FIIIs	3.21	3.26	3.19
DIIIs	21.95	22.28	22.43
Non-Institutional	1.89	1.50	1.43

SFL vs Nifty



Source: Keynote Capitals Ltd.

SFL structure

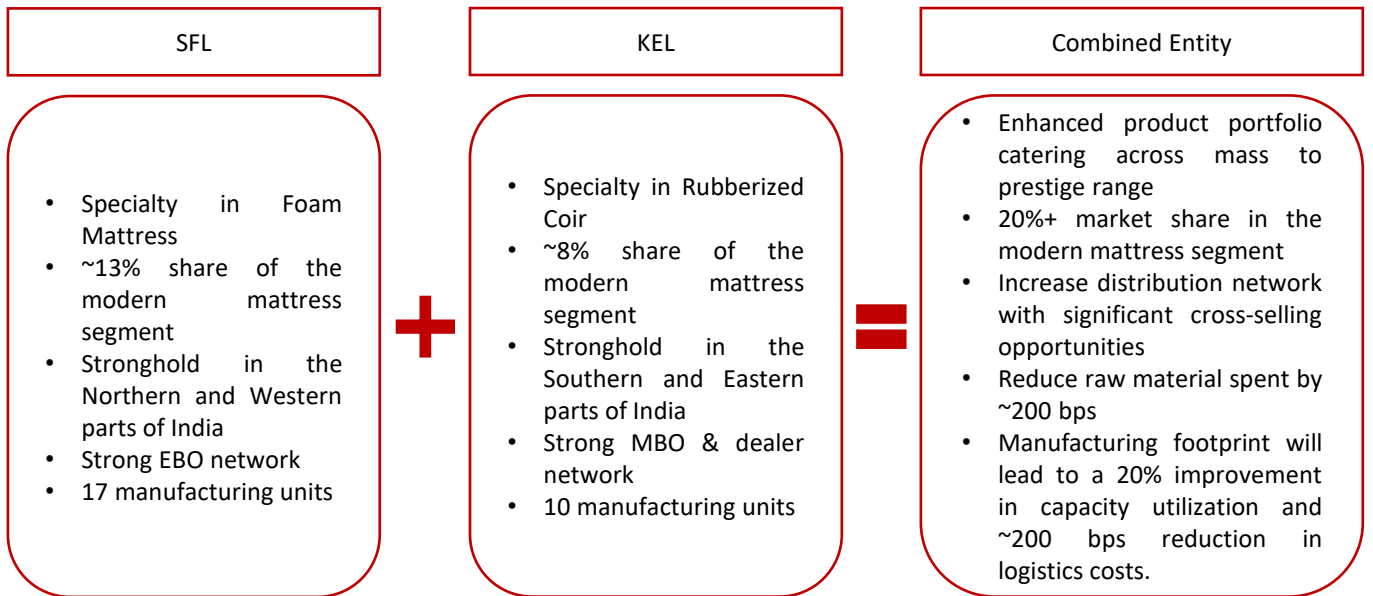


Source: Company, Keynote Capitals Ltd.

The Company intends to maintain its own management team and Board of Directors after the acquisitions of KEL and Furlenco. As part of the post-acquisition structure, it is anticipated that none of the founders of the target companies will hold any directorial position on Sheela Foam's board.

The integration process and realization of full synergies resulting from the acquisitions are expected to take approximately 12-24 months

Synergies on acquiring Kurlon



Source: Company, Keynote Capitals Ltd.

The acquisition of KEL will diversify the product mix in the mass market. The management and operational changes in KEL impacted the revenue and profitability of the Company in the last 2-3 years. SFL expects an improvement in plant efficiencies, RM costs, and a reduction in operational spending with tighter business controls has the potential to improve the EBITDA margins significantly from 2.4% in FY22 to 11-12% going forward. The distribution network of KEL, comprising 475+ Exclusive Brand Outlets (EBOs) and 4,500+ Multi-Brand Outlets (MBOs), which will significantly bolster SFL's distribution capabilities.

Combine brand universe

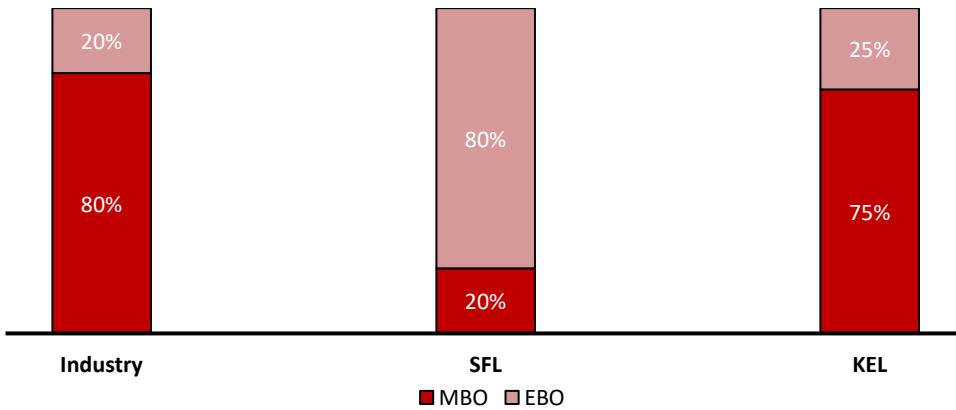
Brands	SFL	Kurlon	Furlenco
Combined Technical and PU Foam	Joyce, Interplasp, Lamiflex	Komfort Universe	
Mattress	Sleepwell, Sleepx, Feather Foam, Starlite	Kurlon, Spring Air, Four Seasons, Nature's Rest, Englander, Chattam & Wells	
Furniture		Home Komforts, Rigins	Furlenco

Source: Company, Keynote Capitals Ltd.

With these acquisitions, the combined entity will be providing a diversified product portfolio across the value chain, from foam manufacturing to mattresses and furniture products.

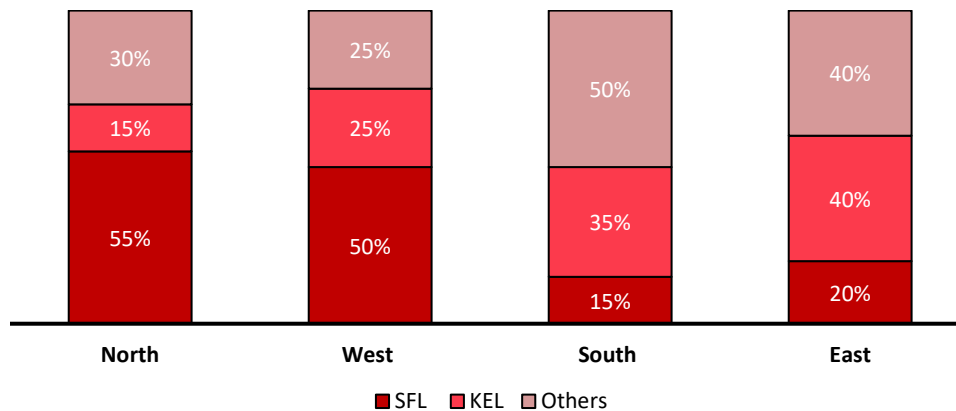
Distribution

SFL/ KEL – EBO/ MBO Network



Source: Company, Keynote Capitals Ltd.

Region wise Market Share of SFL/KEL (Organized Market)



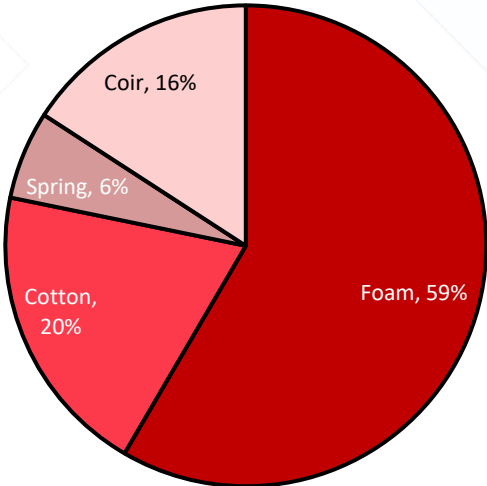
Source: Company, Keynote Capitals Ltd.

SFL | Company Update

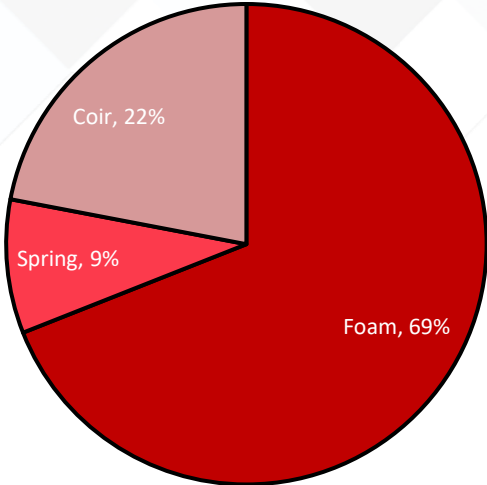
Indian Mattress Industry

The Indian mattress market size is estimated to be Rs. 250 Bn in 2022. The industry is further dominated by unorganized players commanding 60% of the industry whereas organized players contribute 40%.

Overall market as on Sep'22



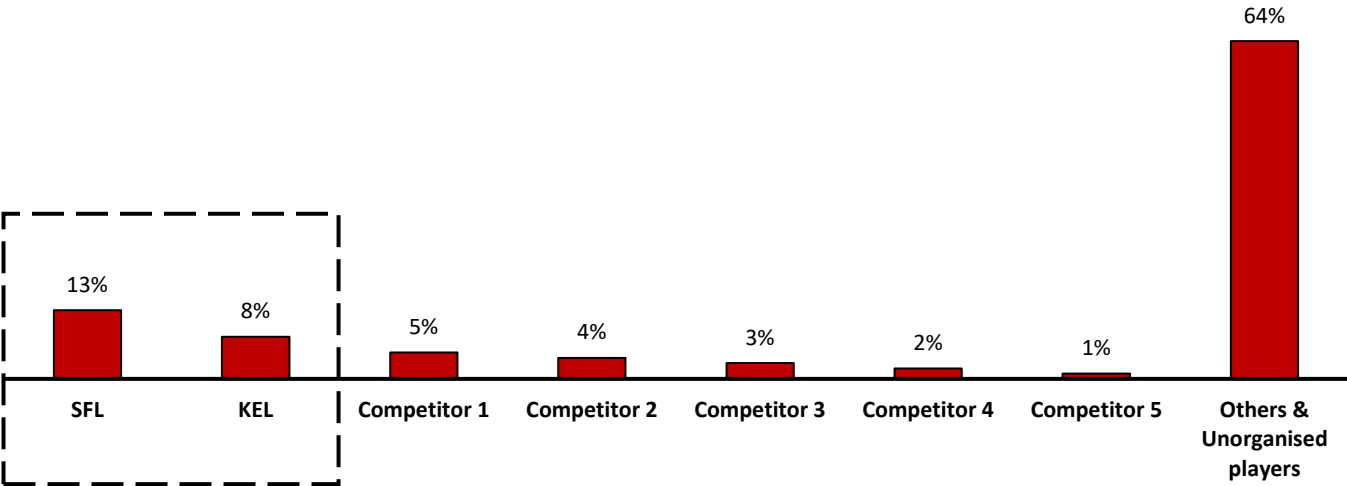
Organized Market as on Sep'22



Source: Company, Keynote Capitals Ltd.

Market Share

SFL (13%) and KEL (8%) acquisition to achieve ~21% Modern Mattress market share



Source: Company, Keynote Capitals Ltd.

SFL | Company Update

About Furlenco

Established in 2011, Furlenco is a Bangalore-based startup founded by Mr. Ajith Mohan. Furlenco is an online platform that provides easy and flexible access to designer furniture, allowing customers to switch furniture at regular intervals and enjoy the freedom to use it for as long as they desire or change it based on their specific requirements.

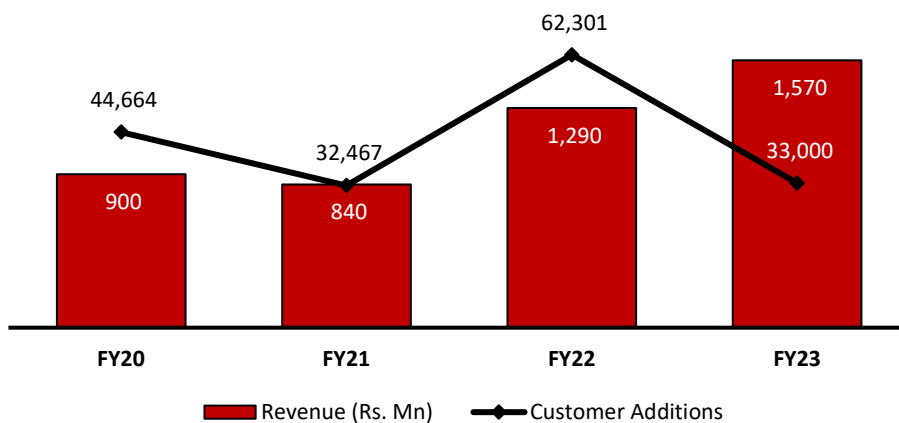
The Company provides furniture, home appliances, and home decor on rent to its consumers. It enables people to lease tables, chairs, beds, couches, etc.

SFL's Rational to acquire Furlenco

SFL has a keen focus on the burgeoning furniture industry, which is expected to grow a 13% CAGR from FY23-25 and is estimated to be 3-4 times the size of the mattress market, this sector presents an enticing opportunity for the Company to capitalize on and expand its market reach. This strategic move allows the Company to provide personalized mattresses, catering to individual customer requirements and preferences while also enables them to tap into the potential of the Furlenco platform for cross-selling their products.

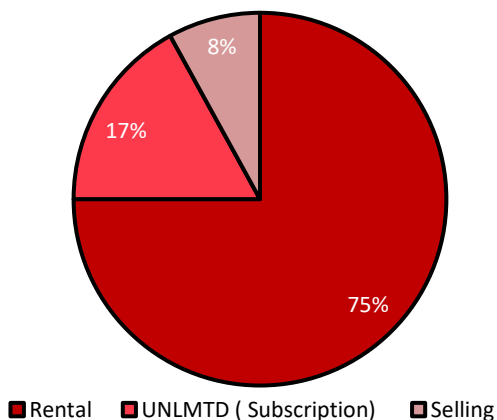
The fund infusion into Furlenco will help in retiring debt and SFL has the option to raise its stake from the current 35% to 44% within a year.

Revenue (Rs. Mn) & Customer Additions



Source: Company, Keynote Capitals Ltd.

Revenue Mix (%) FY23



Source: Company, Keynote Capitals Ltd.

Rating Methodology

Rating	Criteria
BUY	Expected positive return of > 10% over 1-year horizon
NEUTRAL	Expected positive return of > 0% to < 10% over 1-year horizon
REDUCE	Expected return of < 0% to -10% over 1-year horizon
SELL	Expected to fall by >10% over 1-year horizon
NOT RATED (NR)/UNDER REVIEW (UR)/COVERAGE SUSPENDED (CS)	Not covered by Keynote Capitals Ltd/Rating & Fair value under Review/Keynote Capitals Ltd has suspended coverage

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Compliance Officer: Mr. Jairaj Nair; Tel: 022-68266000; email id: jairaj@keynoteindia.net

Registered Office: 9th Floor, The Ruby, Senapati Bapat Marg, Dadar West, Mumbai – 400028, Maharashtra. Tel: 022 – 68266000.

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