

## Sheela Foam Ltd.

Improved prospects with inorganic growth

Sheela Foam Ltd. (SFL) registered sales of Rs. 8,790 Mn, recording a growth of ~8% on a YoY basis on the back of a strong growth of ~26% in Sleepwell mattresses and an addition of revenues from Kurlon. The consolidated operating profit for the quarter remained flat on a YoY basis. The overall Indian business (Incl. Kurlon) observed a growth of ~32% in Mattresses, ~56% in Comfort foam and a decline of ~2% and ~6% in Furniture and Technical Foam, respectively, on a YoY basis. The category revenue for the same improved/fell by ~52%, ~9%, -12% and -20%, respectively, on a YoY basis. The Spanish business has been undergoing a recessionary period, whereby it experienced a degrowth in revenue of ~24% on a YoY basis. The Australian subsidiary reported a decline of ~6% in revenue on a YoY basis.

### KEL's profitability can improve further

During the quarter, Kurlon Enterprises Limited (KEL) clocked revenue of ~Rs. 1.8 Bn with an EBITDA margin of ~3.6%. The operating profit was impacted due to the preliminary post-acquisition communication required in the form of marketing campaigns with the customers and other stakeholders to improve the familiarity of KEL with SFL. Excluding this one-off expense, the entity earned ~7-8% EBITDA, which is close to the guided margin of ~10%. However, during the previous quarter, the management guided the margins to revert to ~11-12%.

### Potential synergies following KEL's acquisition

The management anticipates leveraging the strengths of both entities. For e.g., with an increase in manufacturing capacity, the combined entity can get better raw material discounts, which will aid margins. Further, with a greater value market share of ~30% (SFL 19% and KEL 11%) in the mattress industry, the dealer margins can be made more competitive. Additionally, with increasing retail touchpoints, freight costs can also be reduced by ~10-15% per unit. An overall higher negotiating and pricing power with dealers, banks and vendors shall provide levers to the Company to improve its bottom line over the next few years.

### View & Valuation

We maintain our UNDER-REVIEW rating, owing to the unavailability of complete financial statements of the consolidated entity (incl. KEL). We'll provide our perspective after acquiring the consolidated financial statements.

8<sup>th</sup> February 2024

## UNDER REVIEW

CMP: 1,138

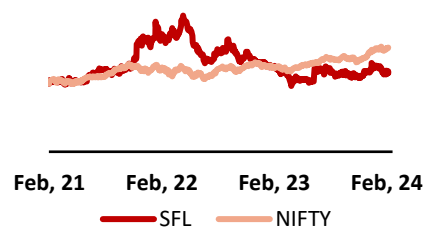
### Company Data

Bloomberg Code	SFL IN
MCAP (Rs. Mn)	1,23,750
O/S Shares (Mn)	109
52w High/Low	1,364 / 906
Face Value (in Rs.)	5
Liquidity (3M) (Rs. Mn)	97

### Shareholding Pattern %

	Dec-23	Sep-23	Jun-23
Promoters	65.48	65.48	72.95
FII's	6.12	6.04	3.21
DII's	24.99	25.08	21.95
Non-Institutional	3.4	3.4	1.89

### SFL vs Nifty



Source: Keynote Capitals Ltd.

**Chirag Maroo**, Research Analyst  
 Chirag@keynotecapitals.net

Q3 FY24 Result Update

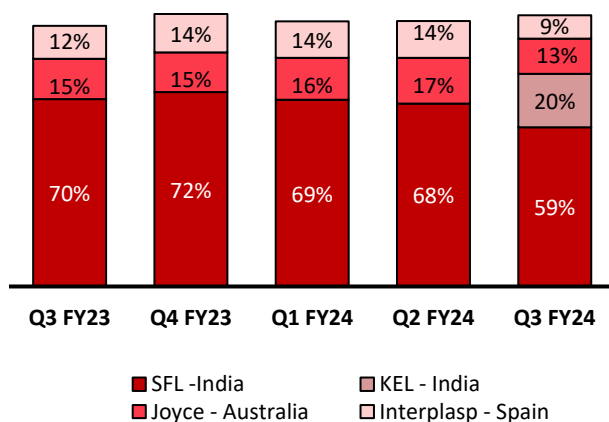
Result Highlights (Rs. Mn)

Particulars	Q3 FY24	Q3 FY23	Change % (Y-o-Y)	Q2 FY24	Change % (Q-o-Q)	9M FY24	9M FY23	Change % (Y-o-Y)	FY23
Revenue	8,789	8,170	8%	6,132	43%	21,372	22,003	-3%	29,294
COGS	5,481	4,874	12%	3,821	43%	13,448	13,882	-3%	18,626
Gross Profit	3,308	3,296	0%	2,311	43%	7,924	8,121	-2%	10,668
<b>Gross Profit %</b>	<b>38%</b>	<b>40%</b>	<b>-271 Bps</b>	<b>38%</b>	<b>-5 bps</b>	<b>37%</b>	<b>37%</b>	<b>17 Bps</b>	<b>36%</b>
Employee benefit expense	953	700	36%	780	22%	2,466	2,065	19%	2,795
Other expense	1,593	1,839	-13%	868	83%	3,258	3,857	-16%	4,900
EBITDA	762	757	1%	662	15%	2,201	2,199	0%	2,973
<b>EBITDA %</b>	<b>9%</b>	<b>9%</b>	<b>-60 Bps</b>	<b>11%</b>	<b>-213 bps</b>	<b>10%</b>	<b>10%</b>	<b>30 Bps</b>	<b>10%</b>
Depreciation	299	224	34%	219	37%	744	636	17%	896
EBIT	463	533	-13%	443	4%	1,456	1,563	-7%	2,077
Finance cost	252	49	419%	86	195%	416	142	194%	201
Other income	318	282	13%	244	30%	804	681	18%	855
EBT	529	766	-31%	602	-12%	1,844	2,103	-12%	2,731
Share of JV/associate	-73	0	NA	-3	NA	-76	0	NA	0
Exceptional items	0	0	NA	0	NA	110	0	NA	0
Tax	144	155	-7%	156	-7%	471	530	-11%	700
<b>PAT</b>	<b>312</b>	<b>612</b>	<b>-49%</b>	<b>443</b>	<b>-30%</b>	<b>1,188</b>	<b>1,573</b>	<b>-24%</b>	<b>2,031</b>
<b>EPS</b>	<b>2.8</b>	<b>6.3</b>	<b>-</b>	<b>4.5</b>	<b>-</b>	<b>11.6</b>	<b>16.1</b>	<b>-</b>	<b>20.8</b>

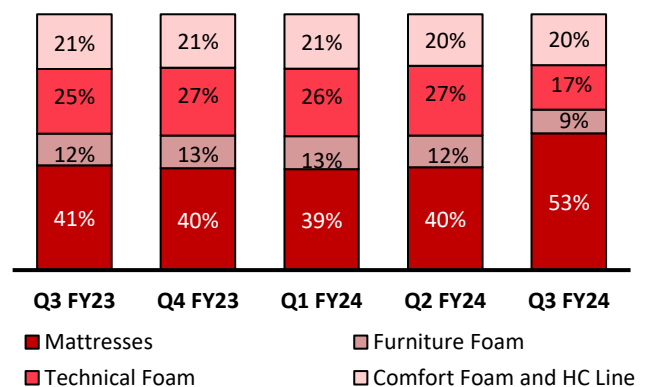
Source: Company, Keynote Capitals Ltd.

Quarterly business progression

Revenue Mix by Company (%)



SFL & KEL - India Revenue Mix by Product Category (%)

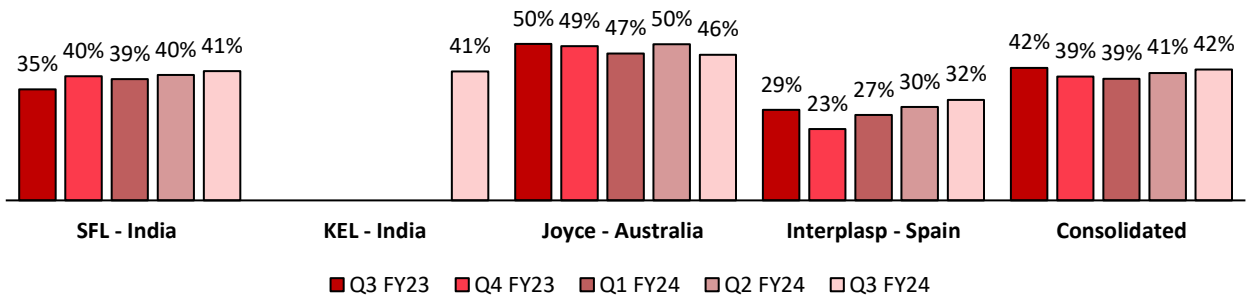


SFL & KEL – India Mattress Revenue Mix by RTM (%)

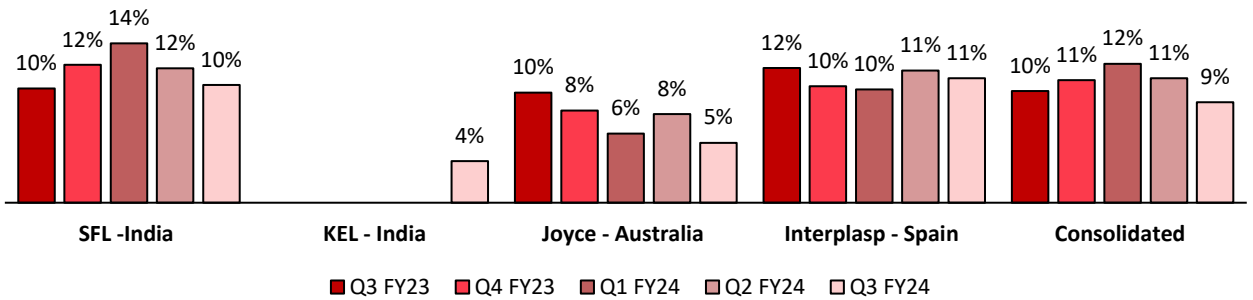


RTM is Route to Market and STI is Small Town India

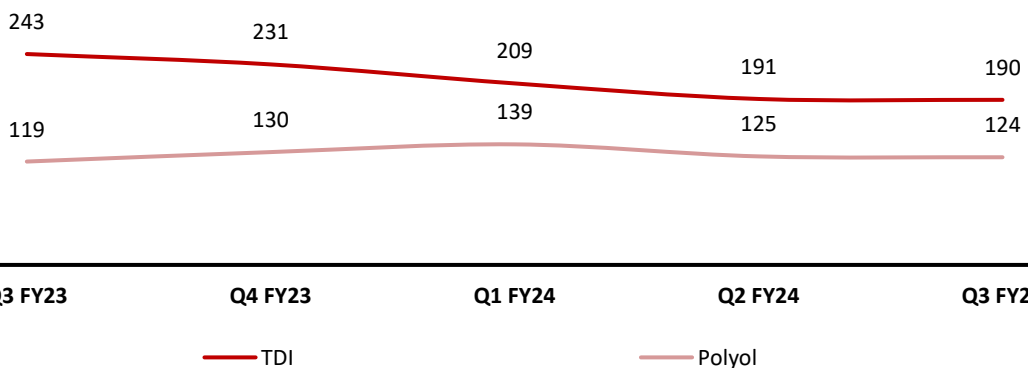
Gross Margins (%)



EBITDA Margin (%)



Raw Material Price/kg



Source: Company, Keynote Capitals Ltd.

### Q3 FY24 Conference Call Takeaways

#### SFL India

- The Sleepwell mattress grew by 26% on a YoY basis driven by the following three factors: 1) brand campaign during the World Cup 2023, 2) good reception of Nexa, an advanced form of memory foam mattress, 3) good acceptance of Fitrest, a lower price point mattress offered as a better option to the locally available covered mattresses. (Covered mattresses are those that are covered with different fabrics by local players).
- Tarang, the STI mattress, underwent a successful pilot in Uttar Pradesh and was subsequently introduced in three more states. For Tarang, the Company is signing up only those distributors who already have an FMCG distribution network in small towns so that the cost is minimized for both stakeholders.
- Tarang's price is higher at Rs. 2,000 compared to the cotton mattress priced at Rs. 800- 1,000. However, the proposition of a foam mattress and a 3-year warranty outweighs the low-quality of cotton mattresses.
- Marketing spends during the quarter were dedicated towards all categories. Irrespective of the category, the Company was able to build strong equity for the Sleepwell brand. The Company consolidated smaller and industrial-usage brands during the quarter. The management expects the revenue contribution of Sleepwell to increase gradually.
- The USA has imposed an anti-dumping duty of ~27-30% on mattresses, which has made exports from India implausible. In response, the management has reassigned the export-dedicated manufacturing unit as the centralised manufacturing unit for SFL and KEL. This will have added cost advantages of supplying to the western region in India.

#### KEL India

- A sustainable run rate for the Company is Rs. 10 Bn revenue at a 10% EBITDA margin.
- During the quarter, KEL reported an EBITDA margin of ~4% due to increased marketing expenses to familiarise itself with the house of Sleepwell brands. Adjusting for the above, the Company could have made a 7-8% EBITDA margin, which is higher than its historical record and close to its future target of 10%.

#### Synergies between SFL and KEL

- SFL will lower the dealer margins gradually once the combined operations start running smoothly.
- The consolidated marketing expense of ~9% is estimated to settle at ~6-7% in a stable scenario. Consequently, the EBITDA margin will increase to ~10-11%.
- The combined entity has a larger retail footprint, which will help the Company reduce freight costs. Additionally, both entities shall leverage the strength of each other like KEL would provide the expertise of rubberised coir while SFL shall share high foam yielding techniques.

**Furlenco – JV in India**

- The Company became EBITDA-positive in Q3 FY24 and anticipates to become PBT-positive by Q4 FY24. Upon achieving profitability, it shall pivot from being a furniture rental company to a furniture purchase company, by leveraging its retail outlets. Any subsequent requirement of capital to manufacture and supply the inventory shall be fulfilled by the internal accruals of Furlenco only.

**Interplasp - Spain**

- The ongoing recession in the European economy, along with reduced raw material prices, has adversely impacted realizations. Despite adversities, the Company has been able to retain volumes as well as margins and anticipates volume growth in Q4 FY24.

**Joyce - Australia**

- The Australian business has been witnessing a minor decline due to decreased raw material prices and some regional disturbances. However, the Company anticipates the foam business in Australia to remain steady.
- In January 2024, SFL also started the furniture business in Australia. The Company expects to witness an uptick in the new business going forward.

## KEYNOTE Rating History

Date	Rating	Market Price at Recommendation	Upside/Downside
12 <sup>th</sup> June 2023	BUY	1,025	+28%
7 <sup>th</sup> August 2023	UNDER REVIEW	1,150	-
6 <sup>th</sup> November 2023	UNDER REVIEW	1,079	-
8 <sup>th</sup> February 2024	UNDER REVIEW	1,138	-

Source: Company, Keynote Capitals Ltd. estimates

## 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

## Disclosures and Disclaimers

The following Disclosures are being made in compliance with the SEBI Research Analyst Regulations 2014 (herein after referred to as the Regulations).

Keynote Capitals Ltd. (KCL) is a SEBI Registered Research Analyst having registration no. INH000007997. KCL, the Research Entity (RE) as defined in the Regulations, is engaged in the business of providing Stock broking services, Depository participant services & distribution of various financial products. Details of associate entities of Keynote Capitals Limited are available on the website at <https://www.keynotecapitals.com/associate-entities/>

KCL and its associate Company(ies), their directors and Research Analyst and their relatives may; (a) from time to time, have a long or short position in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein. (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the Company(ies) discussed herein or act as an advisor or lender/borrower to such Company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.; however the same shall have no bearing whatsoever on the specific recommendations made by the analyst(s), as the recommendations made by the analyst(s) are completely independent of the views of the associates of KCL even though there might exist an inherent conflict of interest in some of the stocks mentioned in the research report.

KCL and / or its affiliates do and seek to do business including investment banking with companies covered in its research reports. As a result, the recipients of this report should be aware that KCL may have a potential conflict of interest that may affect the objectivity of this report. Compensation of Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

Details of pending Enquiry Proceedings of KCL are available on the website at <https://www.keynotecapitals.com/pending-enquiry-proceedings/>

A graph of daily closing prices of securities is available at [www.nseindia.com](http://www.nseindia.com), [www.bseindia.com](http://www.bseindia.com). Research Analyst views on Subject Company may vary based on Fundamental research and Technical Research. Proprietary trading desk of KCL or its associates maintains arm's length distance with Research Team as all the activities are segregated from KCL research activity and therefore it can have an independent view with regards to Subject Company for which Research Team have expressed their views.

### Regional Disclosures (outside India)

This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject KCL & its group companies to registration or licensing requirements within such jurisdictions. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

### Specific Disclosure of Interest statement for subjected Scrip in this document:

Financial Interest of Research Entity [KCL] and its associates; Research Analyst and its Relatives	NO
Any other material conflict of interest at the time of publishing the research report by Research Entity [KCL] and its associates; Research Analyst and its Relatives	NO
Receipt of compensation by KCL or its Associate Companies from the subject Company covered for in the last twelve months; Managing/co-managing public offering of securities in the last twelve months; Receipt of compensation towards Investment banking/merchant banking/brokerage services in the last twelve months; Products or services other than those above in connection with research report in the last twelve months; Compensation or other benefits from the subject Company or third party in connection with the research report in the last twelve months.	NO
Whether covering analyst has served as an officer, director or employee of the subject Company covered	NO
Whether the KCL and its associates has been engaged in market making activity of the Subject Company	NO
Whether the Research Entity [KCL] and its associates; Research Analyst and its Relatives, have actual/beneficial ownership of 1% or more securities of the subject Company, at the end of the month immediately preceding the date of publication of the research report or date of the public appearance.	NO

**The associates of KCL may have:**

- Financial interest in the subject Company
- Actual/beneficial ownership of 1% or more securities in the subject Company
- Received compensation/other benefits from the subject Company in the past 12 months
- Other potential conflicts of interests with respect to any recommendation and other related information and opinions.; however, the same shall have no bearing whatsoever on the specific recommendations made by the analyst(s), as the recommendations made by the analyst(s) are completely independent of the views of the associates of KCL even though there might exist an inherent conflict of interest in some of the stocks mentioned in the research report.
- Acted as a manager or co-manager of public offering of securities of the subject Company in past 12 months
- Be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the Company(ies) discussed herein or act as an advisor or lender/borrower to such Company(ies)
- Received compensation from the subject Company in the past 12 months for investment banking / merchant banking / brokerage services or from other than said services.

The associates of KCL has not received any compensation or other benefits from third party in connection with the research report.

Above disclosures includes beneficial holdings lying in demat account of KCL which are opened for proprietary investments only. While calculating beneficial holdings, it does not consider demat accounts which are opened in name of KCL for other purposes (i.e. holding client securities, collaterals, error trades etc.). KCL also earns DP income from clients which are not considered in above disclosures.

**Analyst Certification**

The views expressed in this research report accurately reflect the personal views of the analyst(s) about the subject securities or issues, and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations and views expressed by research analyst(s) in this report.

**Terms & Conditions:**

This report has been prepared by KCL and is meant for sole use by the recipient and not for circulation. The report and information contained herein is strictly confidential and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of KCL. The report is based on the facts, figures and information that are believed to be true, correct, reliable and accurate. The intent of this report is not recommendatory in nature. The information is obtained from publicly available media or other sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. The report is prepared solely for informational purpose and does not constitute an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments for the clients. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. KCL will not treat recipients as customers by virtue of their receiving this report

**Disclaimer:**

The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent. This report and information herein is solely for informational purpose and may not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. Certain transactions -including those involving futures, options, another derivative product as well as non-investment grade securities - involve substantial risk and are not suitable for all investors. No representation or warranty, express or implied, is made as to the accuracy, completeness or fairness of the information and opinions contained in this document. The Disclosures of Interest Statement incorporated in this document is provided solely to enhance the transparency and should not be treated as endorsement of the views expressed in the report. This information is subject to change without any prior notice. The Company reserves the right to make modifications and alternations to this statement as may be required from time to time without any prior approval. KCL, its associates, their directors and the employees may from time to time, effect or have affected an own account transaction in, or deal as principal or agent in or for the securities mentioned in this document. KCL, its associates, their directors and the employees may from time to time invest in any discretionary PMS/AIF Fund and those respective PMS/AIF Funds may affect or have effected any transaction in for the securities mentioned in this document. They may perform or seek to perform investment banking or other services for, or solicit investment banking or other business from, any Company referred to in this report. Each of these entities functions as a separate, distinct and independent of each other. The recipient should take this into account before interpreting the document. This report has been prepared on the basis of information that is already available in publicly accessible media or developed through analysis of KCL. The views expressed are those of the analyst, and the Company may or may not subscribe to all the views expressed therein. This document is being supplied to you solely for your information and may not be reproduced, redistributed or passed on, directly or indirectly, to any other person or published, copied, in whole or in part, for any purpose. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject KCL to any registration or licensing requirement within such jurisdiction.



The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction. Neither the Firm, not its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information. The person accessing this information specifically agrees to exempt KCL or any of its affiliates or employees from, any and all responsibility/liability arising from such misuse and agrees not to hold KCL or any of its affiliates or employees responsible for any such misuse and further agrees to hold KCL or any of its affiliates or employees free and harmless from all losses, costs, damages, expenses that may be suffered by the person accessing this information due to any errors and delays.

**Keynote Capitals Limited (CIN: U67120MH1995PLC088172)**

Compliance Officer: Mr. Jairaj Nair; Tel: 022-68266000; email id: [jairaj@keynoteindia.net](mailto:jairaj@keynoteindia.net)

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

SEBI Regn. Nos.: BSE / NSE (CASH / F&O / CD): INZ000241530; DP: CDSL- IN-DP-238-2016; Research Analyst: INH000007997

For any complaints email at [kcl@keynoteindia.net](mailto:kcl@keynoteindia.net)

General Disclaimer: Client should read the Risk Disclosure Document issued by SEBI & relevant exchanges and the T&C on [www.keynotecapitals.com](http://www.keynotecapitals.com); Investment in securities market are subject to market risks, read all the related documents carefully before investing.