

Sheela Foam

Refer to important disclosures at the end of this report

Limited upside; D/G to Hold

CMP	Target Price
Rs 1,347 as of (January 15, 2019)	Rs 1,364 (▼) 12 months
Rating	Upside
HOLD (▼)	1.7 %

Valuations full for now

- SFL's 3QFY19 results, due out next month, could disappoint on the still not-so-encouraging mattress sales volume. We are lowering our FY19/20/21 net profit forecasts by 10-11%, reflecting: 1) lower Sleepwell sales volume, 2) rising competitive intensity in the mattress segment, and 3) slow shift to the organized sector from an unorganized one.
- We also lower our EBITDA margin forecasts due to higher promotional spends to protect market share from emerging players (backed by PE funds). The correction in TDI prices is positive, but is unlikely to lift margins above the 11-12% range.
- The current PER of 38.1x/31.6x FY20/21E EPS more than factors in SFL's strong B2C franchise, significant industry potential, EPS CAGR of 20% FY19-21E, and a net cash balance sheet. Moreover, the stagnant ROE/ROCE limits the scope for a further rerating.
- Correspondingly, we are lowering our TP to Rs1,364 (-22%), on 32x FY21E PER, in line with B2C home improvement leaders. With limited upside in our view, we are downgrading the stock to a Hold.
- The stock may remain under pressure due to the overhang from the expected 10% offer for sale by promoters to meet regulatory requirements (deadline is Dec'2019).

Lowering FY19/20/21 earnings forecasts by 10%/11%/11%

Mattress sales volume in the past two quarters has disappointed us. Our channel checks suggest that it is unlikely to change soon due to rising competition from both organized and unorganized players. The company's strategy to enter the mass market by launching Starlite may yield results. However, the contraction in the B2B business, which contributes 33% of revenue, may not be ruled out due to weak industrial demand.

A better year ahead...

The FY19 performance is below expectations due to weak demand for premium mattresses. We expect revenue to rise 12% p.a. in FY20-21. Margins should also recover to 11.8% in FY21 from 10.1% this year due to gains from lower TDI prices. FY20 and FY21 earnings should rise 20%, on average.

... but potential upside already priced in?

The stock has performed in line with the BSE Mid-cap index last year. We believe this is not sustainable as investors take note of earnings downgrades. The stock is already trading on par with other B2C home improvement leaders like Havells, Asian Paints, Astral Polytechnik, TTK Presige, and Kajaria (refer to page 2 for detail). This limits the scope for any rerating. The likely offer for sale by promoters is an overhang in the short term.

Financial Snapshot (Consolidated)

(Rs mn)	FY17	FY18	FY19E	FY20E	FY21E
Revenue	17,500	19,653	22,410	25,158	28,207
EBITDA	1,952	2,163	2,269	2,787	3,329
EBITDA Margin (%)	11.2	11.0	10.1	11.1	11.8
APAT	1,248	1,337	1,439	1,727	2,080
EPS (Rs)	25.6	27.4	29.5	35.4	42.6
EPS (% chg)	(20.5)	7.1	7.6	20.0	20.4
ROE (%)	31.1	25.2	21.5	21.3	21.5
P/E (x)	52.4	48.9	45.5	37.9	31.5
EV/EBITDA (x)	32.7	29.3	27.4	21.8	17.8
P/BV (x)	14.1	11.0	8.8	7.4	6.2

Source: Company, Emkay Research

Change in Estimates

EPS Chg FY19E/FY20E (%)	(10.3)/ (11.3)
Target Price change (%)	(22.1)
Target Period (Months)	12
Previous Reco	BUY

Emkay vs Consensus

	EPS Estimates	
	FY19E	FY20E
Emkay	29.5	35.4
Consensus	33.6	43.6
Mean Consensus TP (12M)	Rs 1,806	

Stock Details

Bloomberg Code	SFL IN
Face Value (Rs)	5
Shares outstanding (mn)	49
52 Week H/L	1,849 / 1,272
M Cap (Rs bn/USD bn)	65 / 0.92
Daily Avg Volume (nos.)	10,416
Daily Avg Turnover (US\$ mn)	0.2

Shareholding Pattern Sep '18

Promoters	85.7%
FIIIs	2.1%
DIIIs	9.4%
Public and Others	2.8%

Price Performance

(%)	1M	3M	6M	12M
Absolute	(9)	(15)	(10)	(20)
Rel. to Nifty	(9)	(18)	(9)	(21)

Relative price chart



Source: Bloomberg

This report is solely produced by Emkay Global. The following person(s) are responsible for the production of the recommendation:

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Exhibit 1: Changes in estimates

All fig in Rs mn (except % and EPS)	FY19E			FY20E			FY21E		
	Old	New	% change	Old	New	% change	Old	New	% change
Revenue	22,966	22,410	-2%	26,493	25,158	-5%	30,461	28,207	-5%
EBITDA	2,385	2,269	-5%	2,940	2,787	-5%	3,906	3,329	-5%
EBITDA margin, %	10.4%	10.1%	-26 bps	11.1%	11.1%	-2 bps	12.8%	11.8%	-2 bps
Net profit	1,606	1,439	-10%	1,947	1,727	-11%	2,589	2,080	-11%
EPS	32.9	29.5	-10%	39.9	35.4	-11%	53.1	42.6	-11%

Source: Company, Emkay Research

Exhibit 2: Industry leader valuations

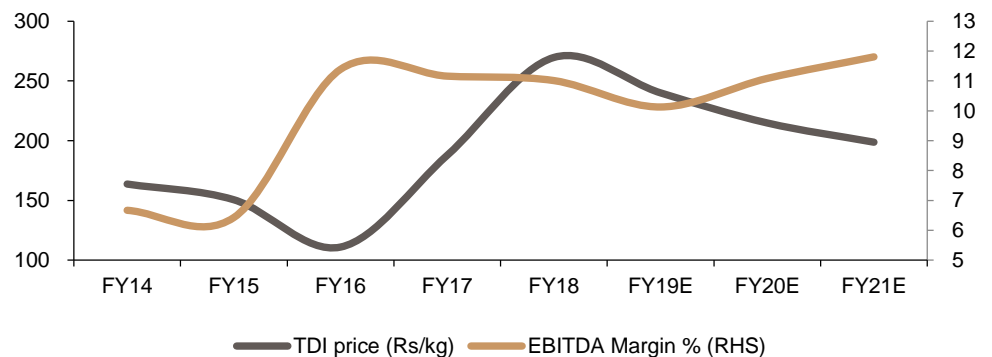
Industry	Leader	Mkt Cap	PAT CAGR	EBITDA Margin (%)			P/E			EV/EBITDA			RoE		
		(USD Mn)	(FY19-21E)	FY19	FY20	FY21	FY19	FY20	FY21	FY19	FY20	FY21	FY19	FY20	FY21
Light Electricals	Havells India	6,074	18.9	13.0	13.3	13.4	51.0	41.9	36.1	33.3	27.2	23.7	20.8	22.3	23.1
Fans	Crompton Greaves	2,023	19.6	13.2	13.8	14.0	38.0	31.1	26.6	24.0	20.2	17.2	41.1	38.9	36.2
Kitchen App.	TTK Prestige	1,238	16.8	13.7	14.0	14.6	46.9	39.8	34.3	29.4	25.2	21.6	17.2	17.9	18.4
Durables	Symphony	1,197	27.9	20.3	21.6	22.2	52.8	40.0	32.6	42.0	31.4	na	24.6	27.7	27.1
Paints	Asian Paints	18,815	19.8	18.7	19.4	20.0	58.8	49.2	41.1	37.2	30.8	25.7	25.3	26.7	27.8
Pipes	Astral Poly Technik	1,913	28.2	15.6	16.2	16.4	60.6	45.0	37.0	32.9	25.7	21.6	19.3	21.1	22.6
Tiles	Kajaria Ceramics	1,181	21.7	15.2	16.0	16.5	36.5	29.2	24.6	18.7	15.5	13.1	15.9	17.6	18.3
Average			21.8	15.7	16.3	16.7	49.2	39.5	33.2	31.1	25.2	20.5	23.5	24.6	24.8
Mattress	Sheela Foam	925	20.2	10.1	11.1	11.8	45.7	38.1	31.6	27.5	21.9	17.9	21.5	21.3	21.5

Source: Bloomberg, Company, Emkay Research

Exhibit 3: Key assumptions

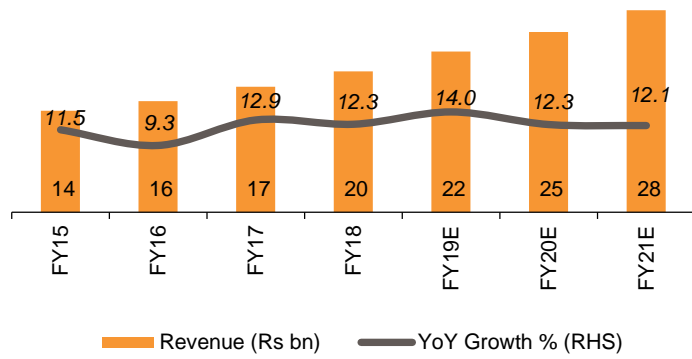
(Rs mn)	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
India Revenue									
B2C Business									
Mattresses	3,710	4,200	4,690	5,400	5,930	6,330	7,267	8,343	9,577
Home Comfort (small accessories)	264	305	339	370	469	490	566	654	755
Furniture Cushioning	1,320	1,510	1,750	1,830	2,420	2,950	3,403	3,926	4,529
PU Foam Core	1,780	2,090	2,380	2,570	3,020	3,330	3,876	4,511	5,250
B2B Business									
Technical Foam	1,780	1,920	2,200	2,480	2,620	3,491	3,988	4,556	5,205
Total India Revenue	8,854	10,025	11,359	12,650	14,459	16,591	19,100	21,989	25,316
Australia Revenue	2,636	2,686	2,818	2,850	3,041	3,088	3,150	3,213	3,245
Total Revenue	11,490	12,711	14,177	15,500	17,500	19,679	22,250	25,202	28,561

Source: Company, Emkay Research

Exhibit 4: TDI price trend and SFL's EBITDA margin

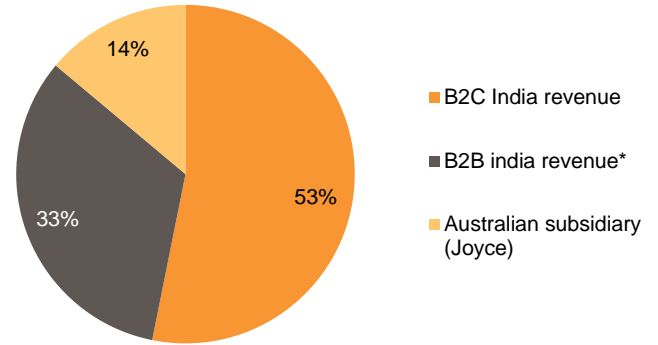
Source: Company, Emkay Research

Exhibit 5: SFL's revenue performance



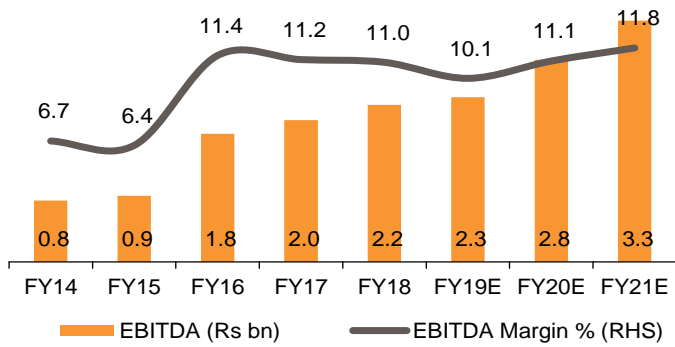
Source: Company, Emkay Research

Exhibit 6: SFL's FY19E revenue mix



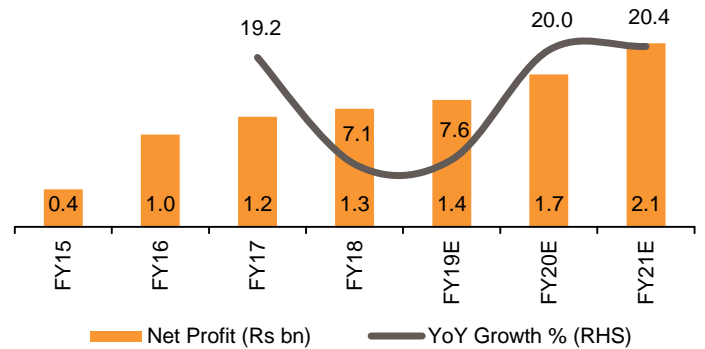
Source: Company, Emkay Research, *includes PU Foam core

Exhibit 7: SFL's EBITDA margin trend



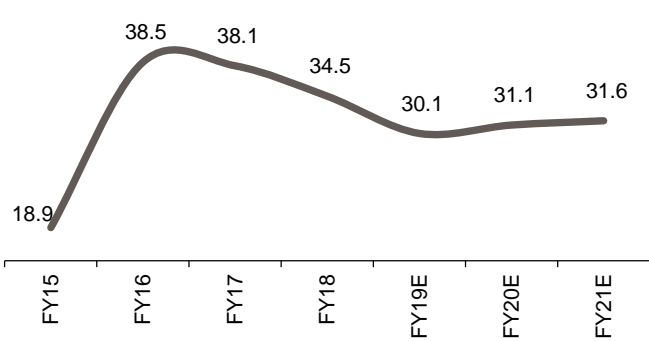
Source: Company, Emkay Research

Exhibit 8: SFL's earnings performance



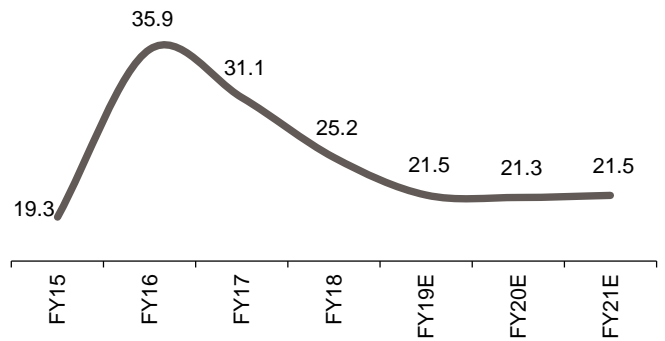
Source: Company, Emkay Research

Exhibit 9: SFL's ROCE (%)



Source: Company, Emkay Research

Exhibit 10: SFL's ROE (%)



Source: Company, Emkay Research

Key Financials (Consolidated)**Income Statement**

Y/E Mar (Rs mn)	FY17	FY18	FY19E	FY20E	FY21E
Revenue	17,500	19,653	22,410	25,158	28,207
Expenditure	15,548	17,490	20,141	22,370	24,878
EBITDA	1,952	2,163	2,269	2,787	3,329
Depreciation	304	352	405	457	509
EBIT	1,648	1,811	1,864	2,331	2,820
Other Income	219	211	300	350	400
Interest expenses	99	87	53	53	53
PBT	1,769	1,935	2,112	2,628	3,167
Tax	520	598	673	901	1,087
Extraordinary Items	0	0	0	0	0
Minority Int./Income from Assoc.	0	0	0	0	0
Reported Net Income	1,248	1,337	1,439	1,727	2,080
Adjusted PAT	1,248	1,337	1,439	1,727	2,080

Balance Sheet

Y/E Mar (Rs mn)	FY17	FY18	FY19E	FY20E	FY21E
Equity share capital	244	244	244	244	244
Reserves & surplus	4,390	5,729	7,167	8,589	10,302
Net worth	4,634	5,973	7,411	8,833	10,546
Minority Interest	0	0	0	0	0
Loan Funds	594	479	479	479	479
Net deferred tax liability	16	20	21	23	24
Total Liabilities	5,244	6,472	7,912	9,334	11,049
Net block	3,184	3,484	3,679	3,823	3,914
Investment	0	0	0	0	0
Current Assets	5,637	6,421	8,144	9,899	12,052
Cash & bank balance	2,094	2,563	3,776	5,023	6,612
Other Current Assets	192	352	370	389	408
Current liabilities & Provision	3,940	3,955	4,433	4,910	5,439
Net current assets	1,698	2,466	3,711	4,990	6,613
Misc. exp	0	0	0	0	0
Total Assets	5,244	6,472	7,912	9,334	11,049

Cash Flow

Y/E Mar (Rs mn)	FY17	FY18	FY19E	FY20E	FY21E
PBT (Ex-Other income) (NI+Dep)	1,550	1,724	1,812	2,278	2,767
Other Non-Cash items	0	0	0	0	0
Chg in working cap	(299)	(295)	(30)	(31)	(33)
Operating Cashflow	1,134	1,270	1,566	1,856	2,208
Capital expenditure	(875)	(508)	(248)	(195)	(143)
Free Cash Flow	259	762	1,318	1,660	2,065
Investments	100	0	0	0	0
Other Investing Cash Flow	(80)	(204)	(450)	(370)	(393)
Investing Cashflow	(636)	(502)	(398)	(215)	(136)
Equity Capital Raised	81	0	0	0	0
Loans Taken / (Repaid)	(558)	(114)	0	0	0
Dividend paid (incl tax)	0	0	0	(306)	(367)
Other Financing Cash Flow	0	(98)	98	(17)	(29)
Financing Cashflow	(575)	(299)	45	(376)	(449)
Net chg in cash	(78)	469	1,213	1,265	1,623
Opening cash position	2,172	2,094	2,563	3,776	5,023
Closing cash position	2,094	2,563	3,776	5,041	6,647

Source: Company, Emkay Research

Key Ratios

Profitability (%)	FY17	FY18	FY19E	FY20E	FY21E
EBITDA Margin	11.2	11.0	10.1	11.1	11.8
EBIT Margin	9.4	9.2	8.3	9.3	10.0
Effective Tax Rate	29.4	30.9	31.9	34.3	34.3
Net Margin	7.1	6.8	6.4	6.9	7.4
ROCE	38.1	34.5	30.1	31.1	31.6
ROE	31.1	25.2	21.5	21.3	21.5
RoIC	66.3	58.7	53.3	63.0	73.2

Per Share Data (Rs)	FY17	FY18	FY19E	FY20E	FY21E
EPS	25.6	27.4	29.5	35.4	42.6
CEPS	31.8	34.6	37.8	44.8	53.1
BVPS	95.0	122.4	151.9	181.1	216.2
DPS	0.0	0.0	0.0	6.3	7.5

Valuations (x)	FY17	FY18	FY19E	FY20E	FY21E
PER	52.4	48.9	45.5	37.9	31.5
P/CEPS	42.3	38.9	35.6	30.1	25.4
P/BV	14.1	11.0	8.8	7.4	6.2
EV / Sales	3.7	3.2	2.8	2.4	2.1
EV / EBITDA	32.7	29.3	27.4	21.8	17.8
Dividend Yield (%)	0.0	0.0	0.0	0.5	0.6

Gearing Ratio (x)	FY17	FY18	FY19E	FY20E	FY21E
Net Debt/ Equity	(0.3)	(0.3)	(0.4)	(0.5)	(0.6)
Net Debt/EBIDTA	(0.8)	(1.0)	(1.5)	(1.6)	(1.8)
Working Cap Cycle (days)	(8.3)	(1.8)	(1.1)	(0.5)	0.0

Growth (%)	FY17	FY18	FY19E	FY20E	FY21E
Revenue	12.9	12.3	14.0	12.3	12.1
EBITDA	10.6	10.8	4.9	22.9	19.4
EBIT	12.0	9.9	2.9	25.0	21.0
PAT	19.2	7.1	7.6	20.0	20.4

Quarterly (Rs mn)	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19
Revenue	4,858	5,322	5,279	5,020	5,355
EBITDA	578	615	523	505	424
EBITDA Margin (%)	11.9	11.5	9.9	10.1	7.9
PAT	348	389	314	326	257
EPS (Rs)	7.1	8.0	6.4	6.7	5.3

Source: Company, Emkay Research

Shareholding Pattern (%)	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18
Promoters	85.7	85.7	85.7	85.7	85.7
FIs	2.8	2.6	2.6	2.5	2.1
DIs	8.5	8.6	8.9	9.1	9.4
Public and Others	3.1	3.1	2.9	2.8	2.8

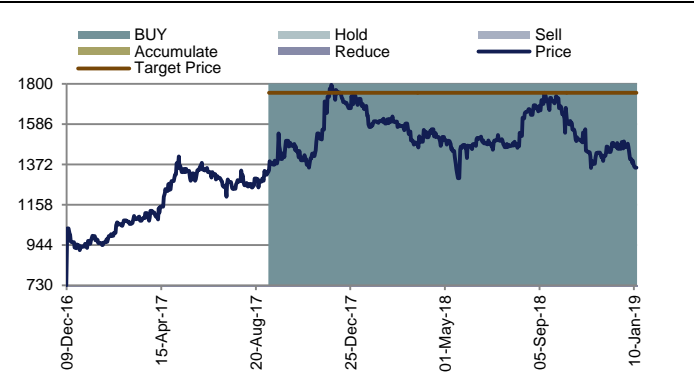
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
05-Nov-18	1,558	1,752	12m	Buy	Anubhav Gupta
09-Aug-18	1,540	1,752	12m	Buy	Anubhav Gupta
18-May-18	1,299	1,752	12m	Buy	Anubhav Gupta
05-Feb-18	1,607	1,752	12m	Buy	Anubhav Gupta
03-Nov-17	1,430	1,752	12m	Buy	Anubhav Gupta
06-Sep-17	1,341	1,752	12m	Buy	Anubhav Gupta

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

Emkay Rating Distribution

BUY	Expected total return (%) (Stock price appreciation and dividend yield) of over 25% within the next 12-18 months.
ACCUMULATE	Expected total return (%) (Stock price appreciation and dividend yield) of over 10% within the next 12-18 months.
HOLD	Expected total return (%) (Stock price appreciation and dividend yield) of upto 10% within the next 12-18 months.
REDUCE	Expected total return (%) (Stock price depreciation) of upto (-) 10% within the next 12-18 months.
SELL	The stock is believed to underperform the broad market indices or its related universe within the next 12-18 months.

Completed Date: 15 Jan 2019 20:40:46 (SGT)

Dissemination Date: 15 Jan 2019 20:41:46 (SGT)

Sources for all charts and tables are Emkay Research unless otherwise specified.

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