

### Company Background

Sheela Foam is Delhi based is leading mattresses and home comfort solutions manufacturer, with "SLEEPWELL" being its flagship brand. The company is having 11 manufacturing facilities of which 6 are in India and 5 are located in Australia (through company Joyce Foam). The installed capacity in India is 123,000TPA, Sheela foam also supplies technical grade foam to other companies which carter to diverse industries. The distribution network of company comprises of 200 distributors and 5000 retailers. Sheela foam is promoted by Gautam family and presently led by Rahul Gautam. The company has been growing at near about 10% CAGR for last 5 years and had net turnover of Rs12,650mn.

### Objectives of issue

- ⇒ To provide liquidity to existing shareholders
- ⇒ To derive benefit for listing on stock exchanges

### Investment Rationale

#### Strong Brand Strength

Sheela Foam launched Sleepwell brand in 1994. Over the last two decades, company has developed this brand through an emphasis on innovation and adoption of sophisticated manufacturing technologies, enabling production of personalised and niche home comfort products. As a result, Sleepwell has been a well-recognised brand in India. According to CRISIL, based on revenues, Sleepwell branded mattresses constituted a share of around 20-23% of the organised Indian mattress market as of 2015-2016. The efforts in product development by on-ground brand building initiatives, by continuing to increase the exclusive Sleepwell branded retail outlets. The Exclusive Sleepwell outlets, including Galleries, Worlds and Shoppes increased by over 275% from 383 in Fiscal Year 2014 to 1,439 in Fiscal Year 2016. They have also undertaken extensive advertisement campaigns in print and electronic media. In Fiscal Years 2014, 2015 and 2016, we spent ` 365.10 million, ` 493.21 million and ` 681.02 million, respectively, on advertisement expenses.

#### Extensive and well developed pan-India sales and distribution network

The distribution network provides key support to the business operations. The company sells home-comfort products through a pan-India network of exclusive distributors and retail dealers, as well as through multi-brand outlets. SFL believes that the well-developed sales and distribution network sets company apart from competition in a market where the lack of distribution channels can create natural entry barriers. Many of the distributors have been associated with the company for over 20 years. The exclusive distributors are typically engaged in strategic proximity to manufacturing facilities, which helps to reduce our carriage expenses and minimise the possibility of damage of our finished and foam products. Several of the distributors have presence in territories in addition to our current markets, which SFL can leverage to expand into such territories. The technical foam sales personnel visit institutional customers periodically and deal directly with them or their representatives, and are responsible for customer addition, as well as identification and liaising with manufacturers suitable for technical foam grades.

#### Back ward Integrated operations and economies of scale

The company benefit's from synergized business operations through the manufacture of home comfort products as well as the underlying foam that constitutes their principal component. As a result of this, company does not source PU Foam from external suppliers. They achieve manufacturing synergies as well, given that five of domestic manufacturing units are capable of producing both PU Foam and finished home comfort products. Additionally, they have successfully leveraged our expertise in manufacture of home-comfort products to effectively consolidate oother business of manufacture of technical foam. The integrated operations also enable us to exploit reverse logistics benefits. For instance, DFL typically utilize logistics infrastructure hired for supply of raw materials to otheir manufacturing facilities for onward supply of finished products and foams to their distributors. Such business synergies effect reduction in operating expenses and enable to upscale operations in an efficient and seamless manner.

### Outlook & Valuation

At the upper price band the issue is priced closed to 34.5 times which look significantly higher as the moats around the company are not so strong and company is not having significant pricing power. Hence we give **AVOID** Rating to this IPO.

### Issue Details

Offer Period	29 Nov to1 Dec 2016
Price Band	680-730
Bid Lot (No. Shares)	20
Listing	NSE,BSE
Issue Size (Rs mn)	5100
Issue Size (Sh mn)	6.98
Face Value (Rs)	10

### Issue Structure

QIB	50%
NIB	15%
Retail	35%

Edelweiss Financial and ICICI securities

BRLMs

Registrar Link Intime India Pvt Ltd

### Share Holding Pattern (%)

Particulars	Pre-issue %	*Post-issue %
Promoter	100	85.68
Others		14.32
<b>Total</b>	<b>100</b>	<b>100</b>

(\*Assuming issue subscribed at higher band)

### Research Team

022-61596406



## Sheela Foam Ltd

## IPO Note

## Income Statement (mn)

Particulars	FY13	FY14	FY15	FY16
<b>Revenue</b>				
Revenue from operations	8,854	10,025	11,359	12,650
<b>Total revenue</b>	<b>8,854</b>	<b>10,025</b>	<b>11,359</b>	<b>12,650</b>
<b>Expenses</b>				
Cost of materials consumed	5,863	6,474	7,292	6,793
Purchase of traded goods	68	95	116	143
Changes in inventories of finished goods, work-in progress and traded goods	(108)	(27)	(2)	87
Employee benefit expenses	443	604	678	807
Other expenses	2,036	2,324	2,641	3,413
Total Operating expenses	8,302	9,469	10,726	11,244
<b>EBITDA</b>	<b>552</b>	<b>556</b>	<b>633</b>	<b>1,407</b>
Depreciation and amortization expense	193	202	215	228
Other income	124	81	143	212
<b>EBIT</b>	<b>483</b>	<b>435</b>	<b>561</b>	<b>1,391</b>
Finance costs	150	118	105	68
Exceptional Item	-	-	-	-
<b>PBT</b>	<b>333</b>	<b>316</b>	<b>456</b>	<b>1,324</b>
Current tax	63	74	121	412
Minimum alternate tax credit entitlement				
Deferred tax	10	(9)	(8)	29
Total Tax expense	73	65	113	441
<b>PAT (excl Minority Interest)</b>	<b>260</b>	<b>252</b>	<b>343</b>	<b>883</b>
Less: Share of Minority interest				
<b>Profit for the Period/ Year</b>	<b>260</b>	<b>252</b>	<b>343</b>	<b>883</b>
<b>Diluted EPS</b>	<b>5.3</b>	<b>5.2</b>	<b>7.0</b>	<b>18.1</b>

Source: BP Equities, RHP

## Cash Flow statement (mn)

Particulars	FY13	FY14	FY15	FY16
Cash Flow from operating activities	764	1,206	1,103	1,706
Cash flow from investing activities	(198)	(263)	(405)	(409)
Cash flow from financing activities	(423)	(540)	(311)	(324)
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>143</b>	<b>403</b>	<b>387</b>	<b>972</b>
<b>Cash and cash equivalents at the beginning of the period</b>	<b>150</b>	<b>293</b>	<b>696</b>	<b>1,083</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>293</b>	<b>696</b>	<b>1,083</b>	<b>2,055</b>

Source: BP Equities, RHP



## Balance Sheet (mn)

Particulars	FY13	FY14	FY15	FY16
<b>Liabilities</b>				
Share Capital	163	163	163	163
Reserves and surplus	1,446	1,696	2,041	2,943
<b>Net worth</b>	<b>1,609</b>	<b>1,859</b>	<b>2,203</b>	<b>3,105</b>
Minority interest				
Total Debt	616	386	176	39
Long-Term Provisions	54	71	77	97
Other long term liabilities	174	218	275	342
Deferred tax liabilities	65	57	47	57
<b>Total liabilities</b>	<b>2,518</b>	<b>2,591</b>	<b>2,778</b>	<b>3,641</b>
<b>Assets</b>				
Tangible Assets	1,706	1,647	1,904	2,008
Capital work in Progress	15	168	82	22
Non-current investments	307	231	299	526
Long-Term Loans and Advances	67	65	102	133
Other non-current assets	6	4	0	0
<b>Total fixed assets</b>	<b>2,100</b>	<b>2,114</b>	<b>2,387</b>	<b>2,689</b>
Inventory	853	862	912	735
Trade Receivables	759	808	782	750
Cash and Bank Balances	293	696	1,083	2,055
Short-Term Loans and Advances	223	180	175	162
Other current assets	48	46	58	69
<b>Total Current Asset</b>	<b>2,176</b>	<b>2,592</b>	<b>3,010</b>	<b>3,771</b>
Less: Current Liabilities	1,758	2,115	2,618	2,819
<b>Net Current Assets</b>	<b>418</b>	<b>477</b>	<b>392</b>	<b>951</b>
<b>Total assets</b>	<b>2,518</b>	<b>2,591</b>	<b>2,778</b>	<b>3,641</b>

Source: BP Equities, RHP

## Key Risks

- ⇒ The competition in the segment is very high and this prevents the company from prices hikes
- ⇒ Profit growth in last few years has been on back of lower raw material prices and now the price of key raw-material have rose sharply which can impact profitability.
- ⇒ The disruption in this industry is very high, if company is unable to adopt it can lead to significant market share loss
- ⇒ The company's performance is largely dependent on Sleepwell brand.

**Disclaimer Appendix****Analyst (s) holding in the Stock : Nil****Analyst (s) Certification:**

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