

COVID-19 lockdown impacts revenues; low RM prices aids margins

In Q4FY20, Sheela foam Ltd. reported sales revenues of Rs 504 cr (down 6% YoY & 23 % QoQ), EBIDTA of Rs 74 cr grew by 33% YoY & was down 21% QoQ. EBIDTA margin improved to 14.7% up 420 bps YoY & 30 bps QoQ. Profit of Rs 32.2 cr declined 15% on yearly basis and 50% quarterly basis.

Revenue de-grew by 6% during the quarter due to COVID led lockdown and low sales. Mattress volume witnessed de-growth of ~24%. The Average realizations (for mattresses) were lower at Rs 3,357 vs, Rs 3,608 in Q3FY20. However, EBIDTA margins improvement was driven by declining TDI prices. TDI prices have seen correction to the level of Rs122/kg as against Rs 129/- per kg in Q3FY20. The PAT decreased to Rs 32.2 cr down 15% y-o-y which includes exceptional item (Fire insurance claim of FY2016 – Rs 12 cr written off); excluding the exceptional item PAT for Q4 would have grown by 17%

Outlook: While the near term outlook remains uncertain, we factor in Revenue /PAT decline of 5%/37% for FY21 while growth of Revenue/PAT by 11.5%/ 60% for FY22E. We continue to watch for opening up of lockdown in urban area (contributing 60% sales in normal scenario) & performance of subsidiaries. We value Sheela Foam at 34X FY22E EPS of Rs 1332/- which gives downside of 8% from CMP, Maintain HOLD.

Key Highlights

Lockdown impacted sales during the quarter: The management stated that it has lost 20 days sales during the month of March which impacted Revenues / EBITDA by Rs 100 cr / Rs 30 cr respectively. Domestic loss of revenue was to the extent of Rs 75 cr.

Company operations: Sheela Foam has resumed operations at all the factories as per the guidelines laid down by the government. Australia operations were not shut factories despite partial lockdown, while Spain operations were at 40% when Covid was its peak in the country. Currently the company's overall operations are 65% of normal levels.

Decline in TDI prices leads to increase in Margins: EBITDA margin during the quarter improved by 420 bps due to declining TDI prices. TDI prices have eased from Rs 178/Kg in Mar'19 to average price of Rs 122/Kg in Q4FY20. The TDI prices are expected to remain near current levels in the near term.

Subsidiary performance: During Q4FY20, Revenue from Australia was Rs. 61cr vs. Rs. 84 cr in Q4FY19 (Rs 90 cr in Q3FY20) ; this was due to loss due to COVID 19 and depreciation of Australian currency. The Spain subsidiary reported Revenues of Rs 53 cr vs. Rs 50 cr in Q3FY20.

Key Financials (Consolidated)

(Rs. Cr)	FY19	FY20E	FY21E	FY22E
Net Sales	2141	2174	2061	2298
EBITDA	209	300	213	305
Net Profit	134	191	119	191
EPS (Rs.)	27	39	24	39
PER (x)	53	37	59	37
EV/EBITDA (x)	34	24	34	23
ROE (%)	20	23	12	17
ROCE (%)	27	27	13	18

Source: Company, Axis Research

(CMP as of Jul 06, 2020)

CMP (Rs)	1,449
Upside /(Downside (%))	-8%
High/Low (Rs)	1,770/ 1084
Market cap (Cr)	7,066
Avg. daily vol. (6m) Shrs.	5432
No. of shares (Cr)	4.88

Shareholding (%)

	Mar-20	Dec-19	Sep-19
Promoter	75.0	75.0	75.0
FII's	2.9	3.04	3.31
MFs / UTI	19.54	19.30	18.38
Banks / FIs	0	0.01	0.0
Others	2.56	2.65	3.23

Financial & Valuations

Y/E Mar (Rs. Cr)	2020	2021E	2022E
Net Sales	2174	2061	2298
EBITDA	300	213	305
Net Profit	191	119	191
EPS (Rs.)	39.2	24.4	39.2
PER (x)	37.0	59.4	37.0
EV/EBITDA (x)	23.9	33.6	22.6
ROE (%)	23.2	12.1	16.8
ROCE (%)	27.0	13.3	18.4

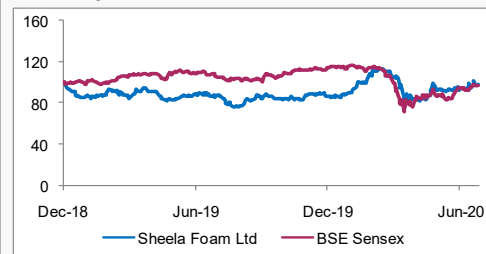
Change in Estimates (%)

Y/E Mar	FY21E	FY22E
Sales	2061	2298
EBITDA	213	305
PAT	119	191

Axis vs Consensus

EPS Estimates	2021E	2022E
Axis	24.4	39.2
Consensus	51.6	61.2
Mean Consensus TP (12M)		1,625

Relative performance



Source: Capitaline, Axis Securities

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Other Quarterly highlights:

- **Cost Control:** the company plans to rationalize its cost like improving efficiencies in supply chain and reduction in labour at factories.
- **Export Opportunity:** The management is looking at the opportunity of exports based on inquires being received from buyers in Europe & US which are look for China+ / alternative sources for mattresses & foam. The opportunity size is ~ Rs 500 cr to Rs 600 cr in export of mattresses, mattress covers and foam.
- **Urban/non-urban sales mix:** The Company stated that the contribution of Tier2/3 cities has increased from 40% to ~60% currently as more stores have opened up in of Tier2/3 cities. Further, the company plans to increase tier 2/ 3 presence with localized strategy for different areas.
- **Outlook:** While the near term outlook remains uncertain, we factor in Revenue /PAT of 5%/37% for FY21 while growth of Revenue/PAT by 11.5%/ 60% for FY22E. We continue to watch for opening up of lockdown in urban area (contributing 60% sales in normal scenario) & performance of subsidiaries. We value Sheela Foam at 34X FY22E EPS of Rs 1332/- which gives downside of 8% from CMP.

Change in FY22 Estimates

(Rs Cr)

	Revised		Old		%Change	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Revenue	2061	2298	2689	2824	-23	-19
EBITDA	213	305	343	350	-38	-13
EBITDA %	10.3	13.3	12.8	12.4	(243 bps)	90 bps
PAT	119	191	242	258	-51	-26
EPS	24.4	39.2	49.6	52.9	-51	-26

Source: Company, Axis Research

Financials (consolidated)
Profit & Loss

(Rs Cr)

Y/E March	FY19	FY20E	FY21E	FY22E
Net sales	2,141	2,174	2,061	2,298
Cost of goods sold	1,440	1,396	1,410	1,505
Contribution (%)	32.8%	35.8%	31.6%	34.5%
Operating Profit	209	300	213	305
Other income	29	40	32	35
PBIDT	239	340	245	341
Depreciation	40	59	68	69
Interest & Fin Chg.	10	13	17	17
E/o income / (Expense)	0	(12)	0	0
Pre-tax profit	189	256	159	255
Tax provision	56	62	40	64
PAT	134	200	119	191

Source: Company, Axis Securities

Balance Sheet

(Rs Cr)

Y/E March	FY19	FY20	FY21E	FY22E
Total assets	842	1,303	1,418	1,604
Net Block	348	799	923	859
CWIP	1.9	20.1	2.5	2.5
Investments	123.6	72.6	72.6	72.6
Wkg. cap. (excl cash)	349	366	341	364
Cash / Bank balance	20.3	44.6	79.1	305.6
Misc. Assets	0.0	0.0	0.0	0.0
Capital employed	842	1,303	1,418	1,604
Equity capital	24.4	24.4	24.4	24.4
Reserves	706	895	1,014	1,205
Pref. Share Capital	0.0	0.0	0.0	0.0
Minority Interests	0.0	7.9	7.9	7.9
Borrowings	106	358	358	353
Def tax & Other Liabilities	6.5	25.0	21.1	21.2

Source: Company, Axis Securities

Cash Flow

(Rs Cr)

Y/E March	FY19	FY20	FY21E	FY22E
Sources	176	506	183	255
Cash profit	183	266	205	276
(-) Dividends	0	0	0	0
Retained earnings	183	266	205	276
Issue of equity	0.0	0.0	0.0	0.0
Change in Oth. Reserves	0.0	7.9	0.0	0.0
Borrowings	(3)	152	0	(5)
Others	(5)	80	(21)	(16)
Applications	176	506	183	255
Capital expenditure	(17.1)	528.3	174.4	5.0
Investments	283.9	(99.7)	0.0	0.0
Net current assets	46.7	52.9	(25.4)	23.4
Change in cash	(137.9)	24.3	34.4	226.6

Source: Company, Axis Securities

Ratio Analysis

(%)

Y/E March	FY19	FY20	FY21E	FY22E
Sales growth	6.8	1.5	(5.2)	11.5
OPM	9.8	13.8	10.3	13.3
Oper. profit growth	(3.2)	43.4	10.3	13.3
COGS / Net sales	67.2	64.2	68.4	65.5
Overheads/Net sales	23.0	22.0	21.3	21.3
Depreciation / G. block	8.8	8.2	7.5	7.5
Effective interest rate	30.1	11.7	9.0	8.7
Net wkg.cap / Net sales	0.10	0.16	0.17	0.15
Net sales / Gr block (x)	4.8	3.0	2.3	2.5
RoCE	26.6	27.0	13.3	18.4
Debt / equity (x)	0.04	0.21	0.19	0.15
Effective tax rate	29.4	24.2	25.2	25.2
RoE	20.2	23.2	12.1	16.8
Payout ratio (Div/NP)	0.0	0.0	0.0	0.0
EPS (Rs.)	27.4	39.2	24.4	39.2
EPS Growth	0.0	43.0	(37.8)	60.7
CEPS (Rs.)	35.5	51.3	38.4	53.3
DPS (Rs.)	0.0	0.0	0.0	0.0

Source: Company, Axis Securities

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