

SHEELA FOAM LTD

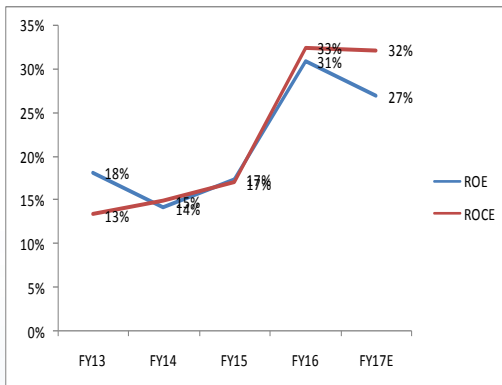
NOT RATED

18-May-17

INDUSTRY - Household Durables
 BSE Code - 540203
 NSE Code - SFL
 NIFTY - 9525

Company Data

CMP	1330
Target Price	-
Previous Target Price	-
Upside	-
52wk Range H/L	1429/850
Mkt Capital (Rs Cr)	6,492

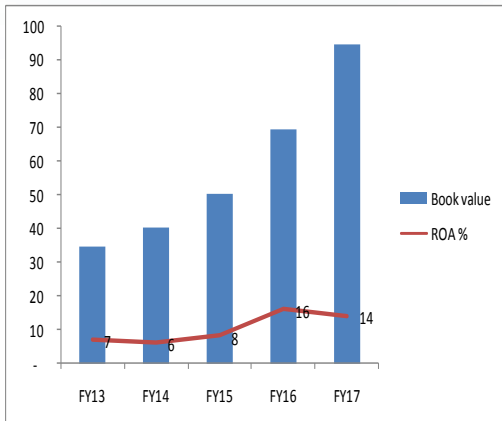


Shareholding pattern %

	3QFY17	2QFY17	1QFY17
Promoters	85.7	85.7	-
Public	14.3	14.3	-
Total	100.0	100.0	100.0

Stock Performance %

	1Mn	3Mn	6Mn
Absolute	16.0%	27.0%	30.0%
Rel.to Nifty	4.0%	7.9%	15.3%



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Q4FY17 earnings a miss.. Margins deteriorated sharply

- ☑ Sheela Foam reported its Q4FY17 earnings with high 20% YoY, and 9% QoQ sales growth in its net sales at 468 cr.
- ☑ Company's gross margin Declined sigificantly in the March ended quarter to 39.9%, a sequential decline of 440 bps.
- ☑ Following the declining trend in gross margin,EBITDA came much lower at 25 cr vs 65 cr in Q3.
- ☑ EBIT came at 17 cr much lower than previous quarter of 57 quarter, with operating margin of 3.5%, a sequential sharp decline from 11.7% in Q3.
- ☑ PAT to shown the same trend which came at 17 cr from 42 cr in Q3. PAT margins declined from 8.6% in Q3 to 3.6% in Q4, declined 500 bps QoQ.

Financials/Valu	FY13	FY14	FY15	FY16	FY17
Net Sales	1,149	1,271	1,418	1,550	1,750
EBITDA	82	85	91	176	195
EBIT	50	55	63	147	165
PAT	31	28	43	105	125
EPS (Rs)	6.3	5.7	8.8	21.5	25.6
EPS growth (%)	336%	-10%	53%	145%	19%
ROE (%)	18%	14%	17%	31%	27%
ROCE (%)	13%	15%	17%	33%	32%
BV	35	40	50	69	95
P/B (X)	-	-	-	-	11.8
P/E (x)	-	-	-	-	44

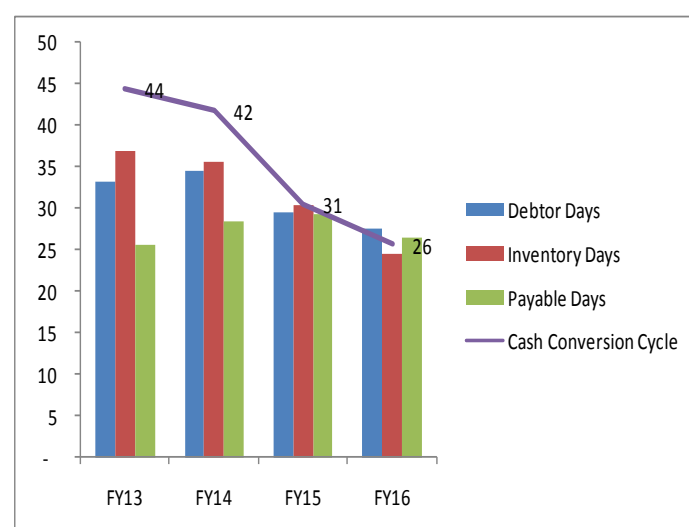
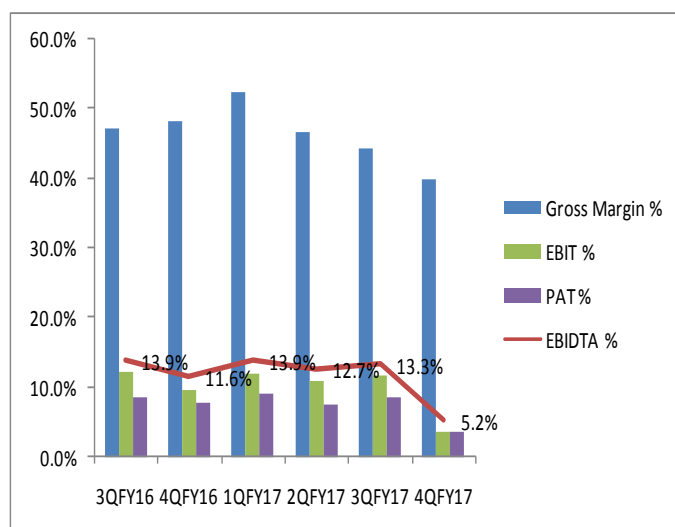
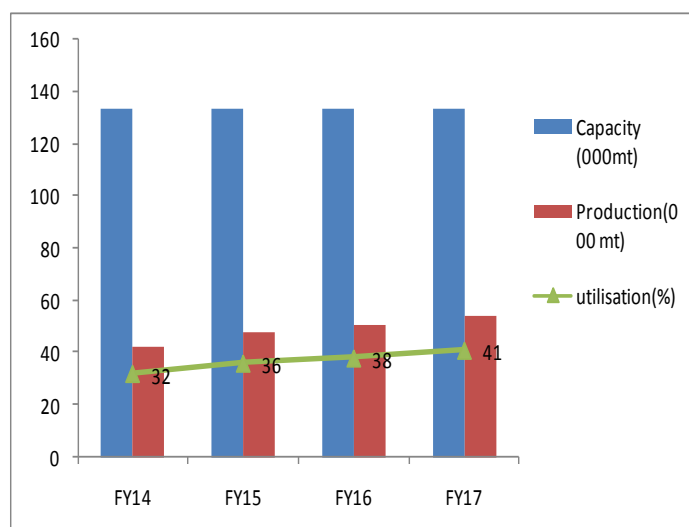
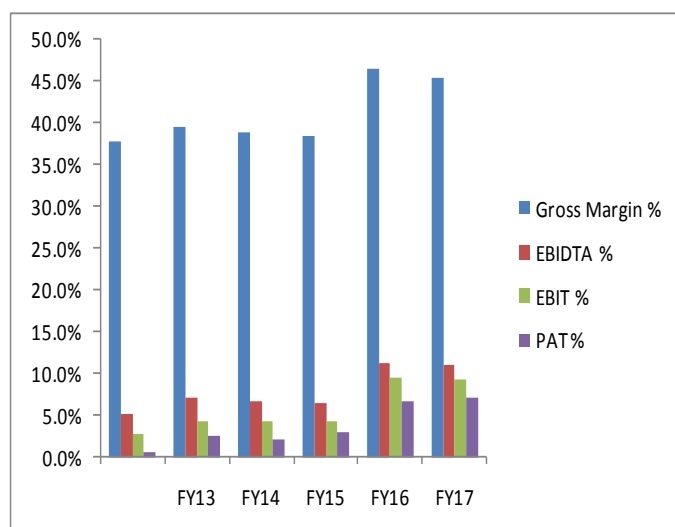
Sharp increase in T.D.I. Prices led to Gross Margins Decline

Sheela Foam's Q4FY17 earnings was a miss on overall margin front. Instead of growing 20% YoY on Net Sales front, company saw significant pressure on the margins with gross margins led the deterioration with sequential decline of 440bps.

The main cause for this decline in gross margin was sharp increase seen in T.D.I., a major raw material for Sheela Foam, in FY17. Average T.D.I. prices for Q4 was 251/-, whereas full year average was 160/-, hence Q4 saw the maximum deterioration in overall margins. T.D.I. prices came lower from 275/- to 250/- from April 2017, in two declines of 15/- and 10/- each. As per management commentary in Q4 concall, mgmt is confident of gaining back most of the decline in gross margin through better product mix which was the second reason for lower realisations in Q4 and expected decline in T.D.I. prices going forward in FY18.

Quarterly Performance

Financials	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	YoY %	QoQ%	FY16	FY17	YoY %
Net Sales	391	381	415	486	468	20%	-4%	1,550	1,750	13%
Other Income	7	5	3	4	9	27%	107%	17	22	30%
COGS	202	181	221	271	282	39%	4%	828	955	15%
Employee Cost	37	39	39	39	36	-2%	-7%	139	154	10%
Other Expenses	106	107	102	111	126	19%	13%	333	446	34%
EBITDA	46	53	53	65	25	-46%	-62%	176	195	11%
Depreciation	7	7	7	8	8	9%	0%	29	30	4%
Interest	2	3	3	2	2	-9%	-22%	12	10	-15%
PBT	43	48	46	59	24	-45%	-60%	152	177	16%
Tax	12	14	14	17	7	-44%	-59%	47	52	10%
PAT	31	34	32	42	17	-45%	-60%	105	125	19%



Please refer to the Disclaimers at the end of this Report

Concall Highlights:

- ✓ Q4 was also a challenging after challenging Q3 post demonetisation, however market lifted up post demonetisation
- ✓ Q4FY17 was focused on growing sales to meet the annual sales target set by company for FY17, which has met almost 97% of setted target.
- ✓ T.D.I. prices being high at the moment.. Average price for the quarter was 251/-and for the full year was 160/-. T.D.I. prices dropped from 275/- to 260 and then 250 in April.
- ✓ In our reading inventories are large with local suppliers at the moment and the biggest change is going to happen in SADARA unit, which company is checking regularly.
- ✓ We decided not to increase prices in March quarter.. Last hiked prices in November 2016
- ✓ Taken price hike of 7% from 20th April 2017.
- ✓ Price hike is taken mainly in mattress(B2C) segment.
- ✓ Australian business is stable as far as budget and delivery is concerned.
- ✓ Company is looking for 2 M&A opportunities.
- ✓ Acquisitions will be in different product categories, which would be complementary to existing product line. Enhancing products in stores is the biggest purpose for the acquisitions.
- ✓ Acquisitions will be EPS accretive from the starting.
- ✓ 1st acquisition wil be done through internal accruals, whereas for second one, company may be needing some debt..
- ✓ With a view to use the cash on balance sheet for growth opportunities, company is skipping dividend for FY17.
- ✓ Change in Product mix and TDI price fluctuations were the only reason for Gross margin decline.
- ✓ Maintained EBITDA margins in FY17 despite of lower gross margins in FY17 YoY, due to operating efficiencies..
- ✓ Focused on EBITDA margin expansion.. will not let it down, however have to a wait longer time for seeing EBITDA margins expansion..
- ✓ Pricing Policy: Take price hike generally in April and Nov of each year.. However if need arise, also take price hike in between..
- ✓ Dont want to be outpriced..Balance has to be maintained in pricing.. Quantun of price hike is such so that we dont have to scale back the hike after increased once..
- ✓ We are price setters and othter follow us..
- ✓ When TDI price are much higher like this time, unorganised players has an option to shut down..this is how the behave when RM prices are higher..
- ✓ Target of opening 400 exclusive showrooms in FY18..
- ✓ Marginal movement here or there in Polyol Prices in FY17 (50% of total RM)
- ✓
In Technical foam (B2B), volume was 12000 tones in FY17..dont see much volume growth in B2B in FY18..
- ✓ Major volume growth will come from Mattresse segment..
- ✓ Sales growth Guidance for FY18- 20-21%
- ✓ Gross margins should be in the range oif 42-43% for FY18, if TDI prices remain at same level...
- ✓ Gross margin decline of 440 bps QoQ was mainly due to TDI (3.8% impact due to TDI prices)
- ✓ Demand for High end Mattress is inelastic, whereas demand for entry level mattresses is elastic..