

Company research

15 December 2021 08:19 HK

Sheela Foam Ltd (SHEF.NS)

India | Construction & Materials

BUY

Best-placed to tap the attractive mattress segment

Sheela Foam Ltd (SFL) is the dominant player in the Mattress (45%+ organized market share) and PU foam industry, with a proven track record (46% PAT CAGR FY12-21). SFL is best placed to tap into the sizable local mattress industry and export opportunity. A shift to organized, revival in real estate, new marketing channels, health awareness, and trade measures against other nations (by US) puts SFL in a sweet spot. A healthy BS, high return ratios, and positive FCF aid comfort. Initiate at BUY; TP of Rs4200, at 50x FY24e PE.

Price: INR3189
Target: INR4200
Forecast Total Return: 31.7%

Market Cap: INR156bn
EV: INR156bn
Average daily volume: 33k

The right ingredients to make it big: With its market leadership, widespread manufacturing footprint, multi-channel distribution model, and superior brand recall, SFL is well placed to tap into the growing mattress market.

Domestic/ export growth drivers in-place: We expect SFL to clock 19% revenue growth over FY21-24E as it benefits from the growth in domestic mattresses due to a) the gradual shift to organised (~40% now), b) increased penetration in rural and Tier-2/3 markets, c) recovery in the real estate sector, and d) increasing health awareness linked to sleep and the quality of mattress. Further, SFL is in a sweet spot to tap export markets, with the imposition of AD/ CVD rates by US on China and several Asian countries.

Wide manufacturing and distribution: SFL has 11 manufacturing units in India, enabling a pan-India reach and locational advantage over peers due to the voluminous nature of products. Further, SFL has a solid presence with EBO (different formats) and MBO, catering to multiple price points. While, SFL has also ventured into e-commerce, we highlight EBO/MBO is critical in this industry, wherein customers like to try the product before actual purchase.

Strong BS, high return ratios: SFL enjoys high asset turns (4.3x, 5yrs average), superior return ratios ROE/ ROCE 25/ 28%, respectively, and attractive cash conversion ratios. We expect subdued ROCE over FY22-24 given investments in the new Jabalpur facility and Australia expansion.

Valuation & Risks: We value SFL at 50x FY24E PE given Rev/ EBITDA/ PAT CAGR (FY21-FY24e) of 19%/ 18%/ 20%, respectively, on the back of a domestic demand revival and export ramp-up. Risks: Volatile RM, Covid led supply chain disruption, slower export pickup.

Building Materials

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Financials and valuation

Year end: 31 March

| | 2020A | 2021E | 2022E | 2023E | 2024E |
|--------------------------------|--------|--------|--------|--------|--------|
| Revenue (INRm) | 21,736 | 24,354 | 30,980 | 36,121 | 40,660 |
| EBITDA (INRm) | 3,004 | 3,623 | 3,982 | 5,109 | 5,917 |
| EBITA (INRm) | 2,414 | 2,894 | 3,204 | 4,273 | 5,090 |
| PBT (normalised) (INRm) | 2,684 | 3,238 | 3,509 | 4,477 | 5,494 |
| Net Income (normalised) (INRm) | 2,054 | 2,377 | 2,601 | 3,325 | 4,085 |
| EPS (norm. cont.) - FD (INR) | 42.1 | 48.7 | 53.3 | 68.2 | 83.7 |
| FCFPS - FD (INR) | (4.1) | 40.1 | 13.7 | 54.6 | 81.0 |
| DPS (INR) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| PE (normalised) (x) | 75.7 | 65.4 | 59.8 | 46.8 | 38.1 |
| EV/sales (x) | 7.2 | 6.4 | 5.0 | 4.3 | 3.8 |
| EV/EBITDA (x) | 51.9 | 43.0 | 39.2 | 30.5 | 26.4 |
| FCF yield (%) | (0.1) | 1.3 | 0.4 | 1.7 | 2.5 |
| Dividend yield (%) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

Source: Company accounts/Investec Securities estimates

Price Performance



Source: FactSet

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Investment Thesis

Improving domestic demand: Indian mattress industry is dominated by the unorganized sector which contributes more than 60%. Demand should improve hereon aided by: i) a gradual shift from unorganized to organized ii) a recovery in the real estate sector driven by lower interest rates and GOI's focus towards affordable housing; iii) changing demographics and lifestyle and an increased focus on health and wellness; iv) growing urbanization, and nuclearization; v) increasing health awareness thereby reducing replacement cycle, aiding demand; for a traditional PU Foam mattress replacement cycle could be 6-8years vi) recovery in Auto/ Fashion/ Footwear sector leading to increased demand of PU foam.

Export potential led by US AD/CVD on China and allied countries: In March-21 US department of commerce released a final determination in the AD investigations against seven countries in the range of 2-736% and 97.78% CVD rate for China (figure 3). The CVD levied on China and AD on seven countries, including Vietnam and Malaysia places India in a sweet spot. SFL, being India's largest branded mattress company, is well placed to address this demand from India operations. Further, the new acquired PU foam business in Spain provides a locational advantage for exports due to relative proximity to North America. As per US ITC, in 2020, China was the biggest exporter of mattresses to the US (\$2.4b), followed by Indonesia (\$380m) and Vietnam (\$373m). We find Indian manufacturers, and SFL in particular, well placed as the China+1 theme. As per mgmt., exports during Q1FY22 were at ~Rs170m, and this should significantly ramp-up going forward.

Ecommerce potential – Online mattress sales have increased significantly since 2015, led by the introduction of the boxed mattress portfolio that can be easily sold online. As per CSIL, globally, e-commerce contribution in mattresses has increased to 16% in 2019 from 13% in 2018. Similarly, the top US mattress player Tempur Sealy has witnessed an increase in online sales to 20% of total sales in CY20 from just 2% in CY15. We expect India to follow a similar trend in online mattress sales. SFL has created a sub-brand SleepX for its online exposure. This is growing fast in this space contributing ~7% of mattress sales in FY21 in a very short span of time. Additionally, realisations in the online channel (Rs5,500/ mattress) are better than the overall company level at Rs3,604/mattress. We see a huge potential on sale via e-commerce led by changing shopping behaviour and increased internet penetration.

Location advantage led by diversified manufacturing facilities: In the mattress industry, transportation & warehousing cost are estimated to be in the range of 6-10% of sales. Therefore, the location of manufacturing units and proximity of end user markets is an important criteria, specifically when customization of mattress is also a key variable to customer buying preferences. SFL has 11 manufacturing facilities in India - geographically dispersed across country, with 4 units located in the North, 3 in the West, 2 in the South and 2 in the Eastern regions of India, covering a wide range of markets. As mattresses are voluminous and difficult to transport, SFL is opening a new plant in Jabalpur covering the white space in Central parts of India. Widely distributed manufacturing facilities provides operating leverage and hence the company is operating at better EBITDA margin than peers.

More focus towards Exclusive brand outlets (EBO): SFL is gradually increasing its distribution network with a focus on the EBO model. Exclusive brand outlets are more suited for the mattress category as consumers want to experience the product physically, which is an important parameter while buying a mattress. This strategy is similar to US giant Tempur Sealy which has shifted its focus towards a company-owned store strategy, currently operating with over 600 retail stores globally. SFL operates with 3 format of EBOs namely Sleepwell Shoppers/ Galleries/ Worlds having avg. store size of 200/ 600/1000 sq.ft., respectively. During 3QFY21 SFL reached a total EBO outlet of 5,000+.



Good earnings potential, healthy balance sheet and return ratio profile:

Historically, SFL has recorded over FY12-FY21 revenue/ EBITDA/ PAT CAGR 10%/ 23%/ 46%, respectively. We estimate the company to continue its growth trajectory with FY21-24e revenue/ EBITDA/ PAT CAGR of 19%/ 21%/ 20%. It maintains a healthy balance sheet and has been a net cash company (except FY21), generates positive free cash flow, clocks ROE consistently above 20% and maintains gross asset turnover of 4-5x. Avg. cash conversion from FY17-21 at 63% has seen deterioration from pre-IPO level (100%+), primarily on the back of WC increase (Increase in Inventory/ receivable days).

Risks:

Raw-mat cost volatility: high volatility in TDI, Polyol prices impact gross margins

Export trajectory: Failure to scale up exports

High competition in price sensitive market: Bulk of the mattress market, where there is volume growth, is price sensitive

Gradual transition: The high proportion of unorganised players, and shift in consumer trends is gradual in a price sensitive market at bottom of the pyramid

Traditionally long replacement cycle: Traditional long replacement cycle of ~10-12years is longer than home appliances, paints, etc; with increased health awareness its changing

Low entry barriers: Easy to manufacture, low capex intensity

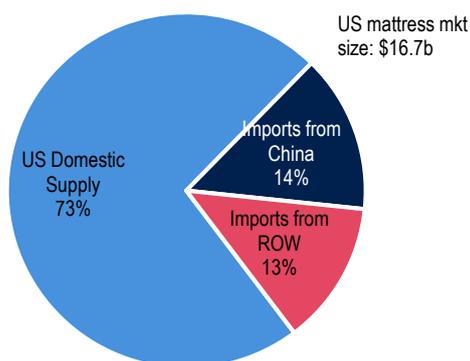
Brand visibility: Brand not visible at consumers end and difficult to verify added features

#1 Export potential aided by China + one

China is the biggest exporter of mattresses to the US/EU. Due to increasing trade tension and negative sentiments towards China, countries are looking to de-risk their supply chains to other low-cost countries. As per industry reports, the US mattress industry was ~\$16.7b in CY20 and ~30% of it catered from imports. As per USITC, China's contribution in US mattress imports has seen a steady decline from 80% in 2017 to 52% in 2020. Most of this has been addressed by Vietnam and Indonesia (contributing about 8% each of total US mattress import in 2020 from less than 1% contribution in 2017). However, On April 21, 2020, the US Department of Commerce announced the initiation of antidumping duty (AD) investigations of imports of mattresses from Indonesia, Vietnam, Malaysia, Serbia and Thailand, Turkey and Cambodia and a countervailing duty (CVD) investigation of imports of mattresses from China. In Mar 21, the US department of commerce released a final determination in the AD investigations against seven countries in the range of 2-736% and 97.78% CVD rate for China. **India is favourably placed with export economics more attractive than other regions notified by trade measures.**

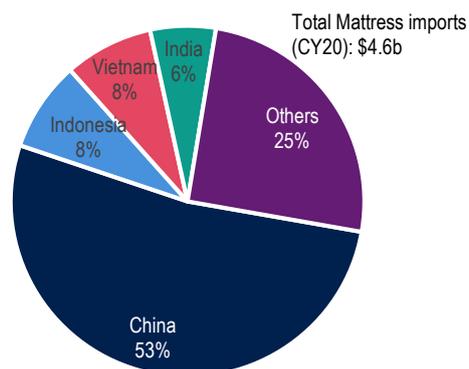
As per USITC data, India's mattress export to the US has picked up from May-20 onwards. SFL, being the largest mattress company of India, with quality product and an established brand, will be a key beneficiary. As per mgmt, the company has received several export enquiries and has converted a few of them (about Rs1bn in Q4FY21). During Q1FY22, SFL faced supply chain issues related to containers, leading to muted export (~Rs170m), however, the company has made investments towards supply chain infra and exports should ramp-up from hereon. Even after the recent uptick in mattress exports, India is still about 1/7th of China in mattress exports to the US. Therefore, there is a significant potential for exports, led by substitution from China/ Vietnam/ Indonesia.

Figure 1: US mattress industry, domestic vs. imports, CY20



Source: Industry, USITC, Investec Securities Research

Figure 2: US mattress import dynamics, CY20



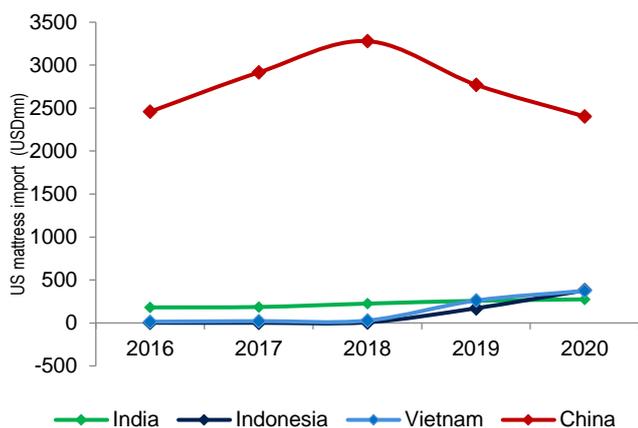
Source: USITC, Investec Securities Research

Figure 3: AD/CVD levied by US on China & allied countries

| Country | Dumping Rates |
|-----------|----------------|
| China CVD | 97.78% |
| Cambodia | 45.34% |
| Indonesia | 2.22% |
| Malaysia | 42.92% |
| Serbia | 112.11% |
| Thailand | 37.48-763.28% |
| Turkey | 20.03% |
| Vietnam | 144.92-668.38% |

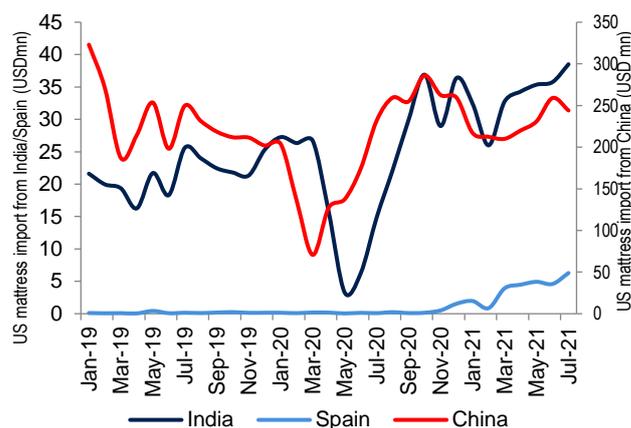
Source: USITC, Investec Securities Research

Figure 4: China's decline in mattress export was substituted by Vietnam/Indonesia during FY18-20...India to benefit from AD/CVD



Source: USITC, Investec Securities Research

Figure 5: US mattress import from India has picked up from May-20 onwards while Spain has also seen recent uptick



Source: USITC, Investec Securities Research

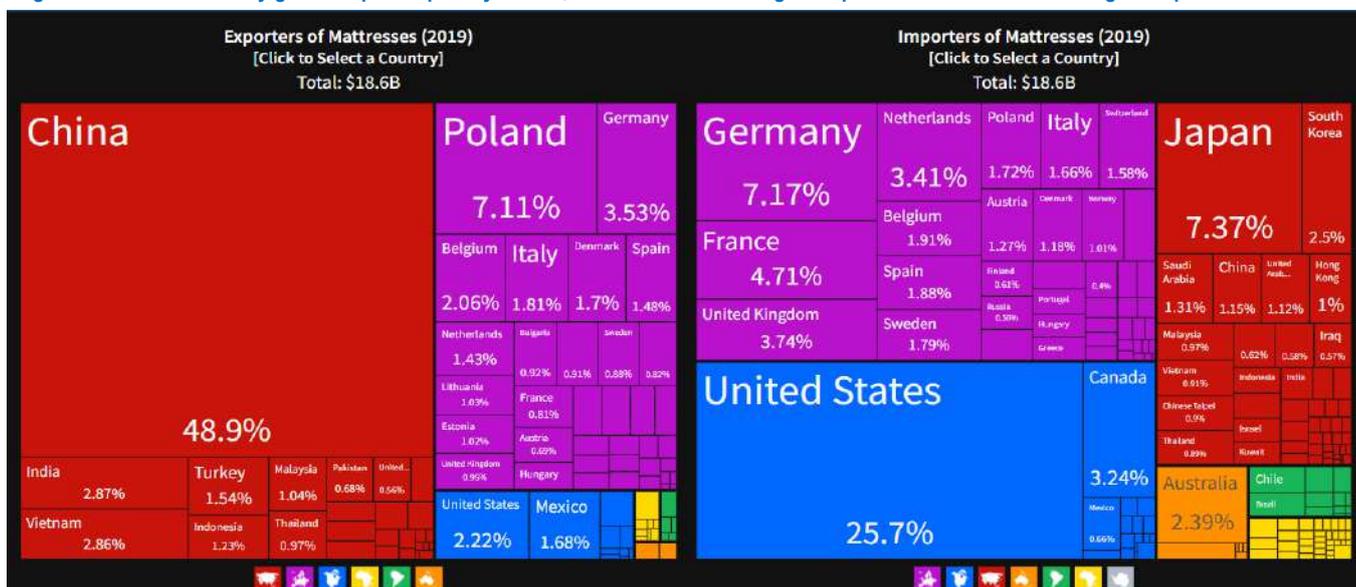
EU is one of the larger importers of mattresses, contributing ~40% (\$7.3b) of \$18.5b globally mattress imports, followed by North America (\$5.6b). SFL recently acquired a unit in Spain, which provides a good opportunity to address EU markets as it has a locational advantage due to proximity.

Figure 6: AD/CVD levied by US on China & allied countries

| Country | Import 2019 (\$m) | % share |
|--------------------|-------------------|-------------|
| Europe | 7,344 | 40% |
| North America | 5,652 | 30% |
| Asia | 4,409 | 24% |
| Oceania | 542 | 3% |
| South America | 334 | 2% |
| Africa | 279 | 2% |
| Antarctica | 0 | 0% |
| Grand Total | 18,560 | 100% |

Source: The Observatory of Economic Complexity (OEC), Investec Securities Research

Figure 7: Mattress industry global import export dynamics,2019...China is the largest exporter while US & EU are largest importers



Source: OEC, Investec Securities Research

#2 E- commerce the on rise for mattresses

SFL entered into the e-commerce space in 4QFY19 with the right strategy and product mix, to compete in the price-sensitive and highly competitive online space. SFL has created a new sub-brand of Sleepwell called SleepX to avoid any friction between online-offline spaces.

Its value product Starlite is also available on these marketplaces. SFL's offerings in the online space is competitive. In addition, it is backed by the mother brand Sleepwell which is known for its quality and innovative products.

Further, the company has set up its own e-commerce website for a complete range of products offering mattress and bed essentials. SFL indicated they may include entire home product range going forward. On its website (Sleepx.com), it offers customization of products, which is a required feature for the Indian mattress market, which has no standard bed size. As per management, in a short span of time, SleepX has become the top-2 mattress brand online, and the revenue contribution from e-commerce has reached about 4-5% of overall revenue for the company.

Improving realizations of E-com channel: E-com channel is considered a discounting channel and generally not profitable, however, dynamics are slightly different for the mattress industry as: i) it saves on showroom and channel costs (~40% of ASP), ii) there are no or minimal reverse logistics, iii) logistics cost are leveraged in the DTC model due to the dispersal of SFL's manufacturing facilities. In fact, during FY21, the online channel's realization was much better than the company's overall realizations, though on a very small base.

Figure 8: Extensive advertisement to support new products and build the brand

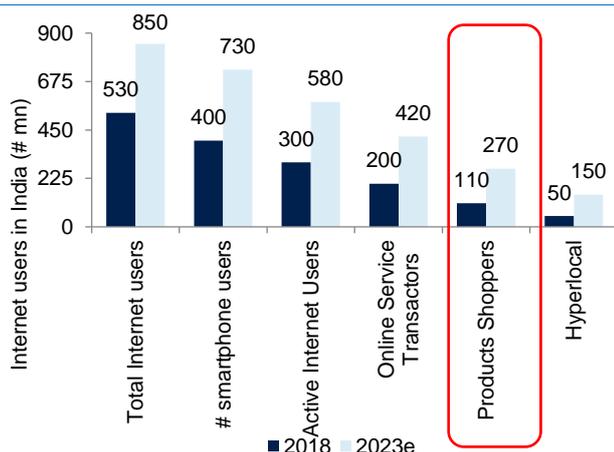
| Ecommerce | FY20 | FY21 |
|---------------------------------------|------------|------------|
| Mattress Sold online (#) | 88000 | 100000 |
| Revenue generated (Rs. Mn) | 300 | 550 |
| % of mattress sales | 4% | 7% |
| Mattresses (INR/pcs) - Ecom Channel | 3,409 | 5,500 |
| Mattresses (INR/pcs) -Overall company | 3,553 | 3,604 |
| Premium/(Discount) | -4% | 53% |

Source: Company, Investec Securities Research

Huge potential for growth in e-commerce: Indian consumer buying behaviour and preferences are changing. More and more consumers are shopping online as it provides an option to compare prices and product features along with customer reviews, return options, and free delivery. Being a discretionary product, mattress sales on the online channel will pick up gradually (similar to electronics discretionary products) and should have a huge potential for growth driven by i) increased internet penetration and an ii) Increase in online product shoppers (due to increased trust in the e-commerce channel) that order most or all household products online.

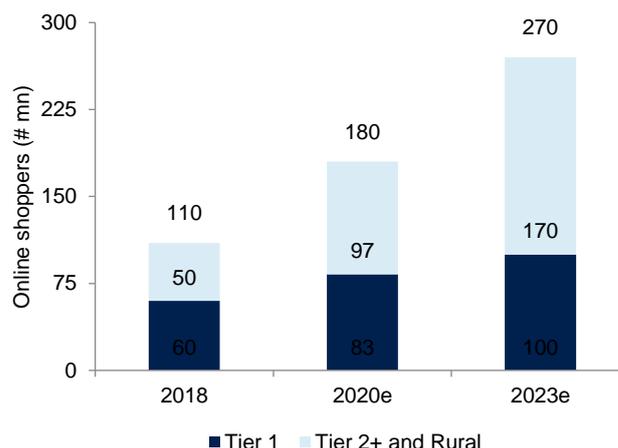
Online mattress sales have increased significantly since 2015, led by the introduction of the boxed mattress portfolio which can be easily sold online and is easy to transport. The mattress industry is witnessing a shift from only brick-and-mortar stores to a multi-channel approach. As per the Centre for Industrial Studies (CSIL), globally, e-commerce contribution in mattress industry has increased to 16% in 2019 from 13% in 2018. Similarly, the top US mattress player Tempur Sealy has witnessed an increase in online sales to 20% of total sales in CY20 from just 2% in CY15. We believe India can follow a similar trend in online Mattress sales.

Figure 9: Internet shoppers to grow at a CAGR of 20%...



Source: Redseer- "Vernacular is NOW report, Investec Securities Research

Figure 10: ...driven by increased penetration from Tier 2 + rural



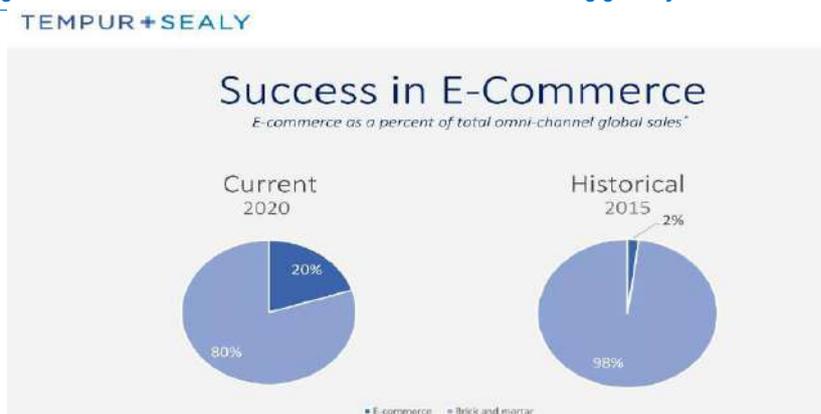
Source: Redseer- "Vernacular is NOW report, Investec Securities Research

Figure 11: SleepX online offerings are competitive to peers

| Orthopedic Memory Foam (king size: 75*72*6) | SleepX | Sleepwell | Duroflex | Kurlon | Wakefit | Sleepycat | sleepyhead |
|---|---------------------------|---------------------------|-----------------------------|---------------------------|-----------------------------------|----------------------------------|-----------------------------------|
| Price (post discounts) | 12,732 | 32,102 | 30,475 | 36,409 | 11,640 | 14,016 | 12,999 |
| Custom size option | Yes | Yes | Yes | No | Yes | Yes | Yes |
| Warranty | 10 years | 5 Years | 7 years | 7 years | 10 years | 10 years | 10 years |
| Free shipping | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| Return option | 100 night trial | Yes | within 10 days if qualified | Yes | 100 nights trial risk free return | 30 nights trial risk free return | 100 nights trial risk free return |
| Special features | COD, No cost EMI | No cost EMI | No COD and No cost EMI | No COD and No cost EMI | COD, No cost EMI | No cost EMI | No COD and No cost EMI |
| PAN India delivery | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| Available on Flipkart/Amazon | Yes, but no customisation | Yes, but no customisation | Yes, but no customisation | Yes, but no customisation | Yes, but no customisation | Yes, but no customisation | Yes, but no customisation |
| Product range | wide | wide | wide | narrow | normal | narrow | narrow |
| Company headquarter | Ghaziabad, U.P | Ghaziabad, U.P | Bangalore | Bangalore | Bangalore | Mumbai | Bangalore |

Source: Respective company websites as on Dec-21, Investec Securities Research

Figure 12: The online contribution to mattress sales is increasing globally



Source: Company, Investec Securities Research

#3 Strategically located to cater to markets – New plant in Jabalpur to fill-in white space

The manufacturing location is important for a mattress company, as transportation and warehouse costs are relatively high (6-10% of sales) given the voluminous nature of mattresses. SFL has a big advantage of dispersed manufacturing facilities, thus saving on logistics costs. It has 11 manufacturing facilities in India which are geographically dispersed across country, with four units located in the North, three units in the West, two units in the South and two units in the East, covering a wide range of markets.

Further, four of its facilities in Erode, Talwada (Gujarat) and two in Silvassa are near the major Indian ports of Nhava Sheva, Kandla, Mundra and Chennai, which facilitate the cost-effective import of raw materials as well as export of technical foam to overseas manufacturers. It also has 5 manufacturing facilities in Australia, with an installed capacity of 10,500 TPA of foam.

SFL is in the process of setting up a manufacturing plant in Jabalpur (North/Central part of India) which was a white space. The new manufacturing plant in Jabalpur will increase capacity and help in acquiring market share in central parts of India.

To capture the European market, SFL has recently acquired Interplasp (capacity to produce 22,000 tonnes of PU foam), a company based in Spain that has been in operation for 30 years. With Interplasp, SFL can cater to large part of Europe, as foam manufactured in this facility can be distributed within a 600-km radius of Europe to optimise freight cost vs. capex. It also opens the doors of the North American market because of relative geographical proximity, creating a huge growth opportunity in Europe and North America.

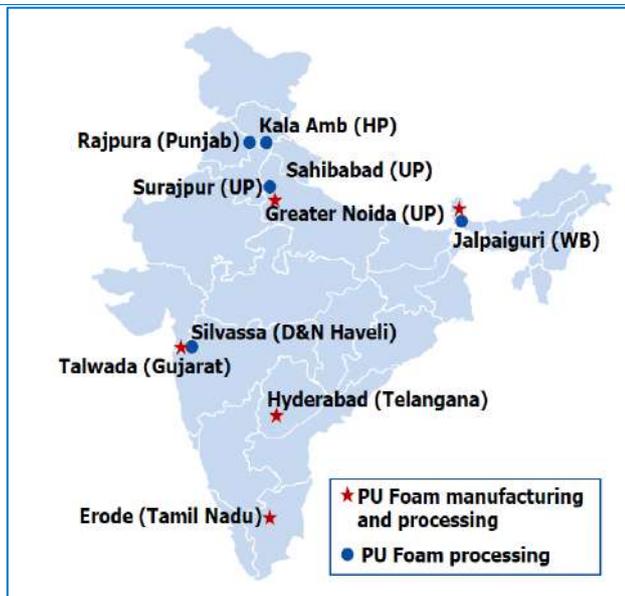
Out of 16 facilities (11 in India and 5 in Australia), 6 facilities (5 in India and one in Australia) can produce both PU Foam and finished home comfort products, thereby enabling better production planning and execution and cost control.

Figure 13: Total installed capacity of 155,500 TPA, spread across 16 locations globally

| State | City | No. of foaming machines | Installed capacity (tonnes per annum) |
|-------------------------------|----------------------|-------------------------|---------------------------------------|
| Total India | | 5 | 123,000 |
| <i>Uttar Pradesh</i> | <i>Greater Noida</i> | <i>1</i> | <i>60,000</i> |
| <i>Telangana</i> | <i>Hyderabad</i> | <i>1</i> | <i>13,000</i> |
| <i>Tamil Nadu</i> | <i>Erode</i> | <i>1</i> | <i>16,000</i> |
| <i>Gujarat</i> | <i>Talwada</i> | <i>1</i> | <i>28,000</i> |
| <i>Sikkim</i> | <i>Rangpo</i> | <i>1</i> | <i>6,000</i> |
| Australia (Joyce Foam) | Sydney | 1 | 10,500 |
| Spain (Interplasp) | Yecla | 1 | 22,000 |
| Global capacity | | | 155,500 |

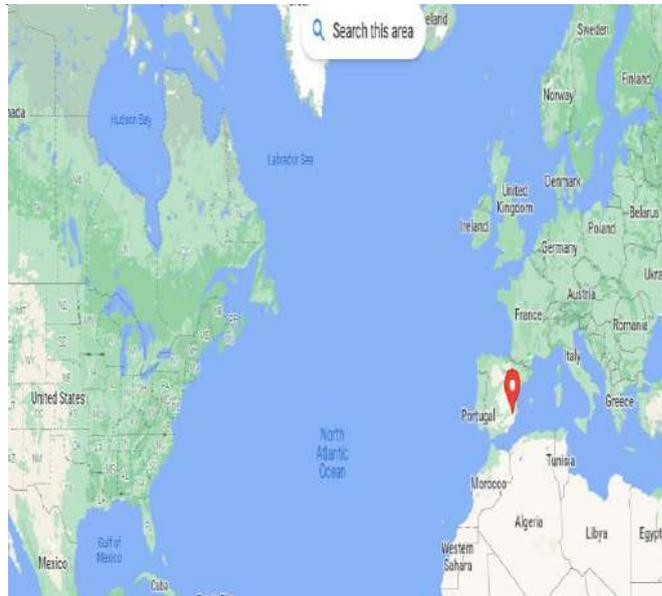
Source: Company, Investec Securities Research

Figure 14: Widely dispersed manufacturing and processing facilities



Source: Company, Investec Securities Research

Figure 15: Interplasp acquisition in Spain to open European markets



Source: Company, Investec Securities Research

#4 Well-developed distribution network – EBO focus

SFL has set up a pan-India network of exclusive distributors and retailers, with more than 110 exclusive distributors, 5,000+ exclusive retail dealers and about 4,700 multi-brand outlets on board. There are 3 formats of EBOs, namely Sleepwell Shoppe/ Gallery/ world having an average store size of 200/ 600/ 1000 sqft, respectively.

The majority of its exclusive distributors have been associated with the company for over 20 years. The proximity to manufacturing facilities, helps in minimizing product damage and reducing logistics expenses.

SFL has implemented ERP, and the entire distribution system is integrated, enabling real-time tracking of secondary sales.

The Company has a dedicated sales team for technical foam products, handling business development and relationship management.

There are three formats for exclusive Sleepwell outlets providing a varying customer experience. SFL, constantly incentivizes its retailers to switch to the format that has a superior customer experience.

On the export front, the strategy is to sell higher volumes of technical foam to manufacturers located in SAARC and other nations. The Interplasp acquisition opened up export opportunities to other European and North African countries, Morocco, and North America.

More focus towards Exclusive brand outlets (EBO): SFL is gradually increasing its distribution network with a focus on the EBO model. Exclusive brand outlets are more suited for the mattress category as consumers seek to experience the product physically and ascertain the comfort factor, which is the most important parameter while buying a mattress, which is a big-ticket size product. SFL is working on a strategy to convert MBO to EBO for its premium Sleepwell products, while supporting MBOs operated on rentals for an initial few months until they are financially stable. As per management, Majority of MBO/EBO owners own their store and are family run businesses, so they have minimal impact on cost converting from MBO to EBO. During 3QFY21, SFL reached a total EBO outlet of 5,000+ from 4,267 in 3QFY20.

Figure 16: Innovative products/ technology introduced by Sheela foam in mattresses

| Exclusive Sleepwell outlets | Average size (sq. ft) | Count* (#) |
|-----------------------------|-----------------------|------------|
| Sleepwell Shoppe | 200 | 1,086 |
| Sleepwell Gallery | 600 | 673 |
| Sleepwell World | 1,000 | 337 |

Note*: as on 30/06/2017

Source: Company websites, Investec Securities Research

Figure 17: EBO- Sleepwell Shoppe



Source: Google image, Investec Securities Research

Figure 18: EBO- Sleepwell Gallery



Source: Google image, Investec Securities Research

Figure 19: EBO- Sleepwell World



Source: Google image, Investec Securities Research

#5 An established brand with continuous product innovation to keep ahead of peers

Over the last 3 decades the company has developed and established Sleepwell brand with consistent product innovation and high quality while offering personalized and niche home comfort products by adopting sophisticated manufacturing technologies.

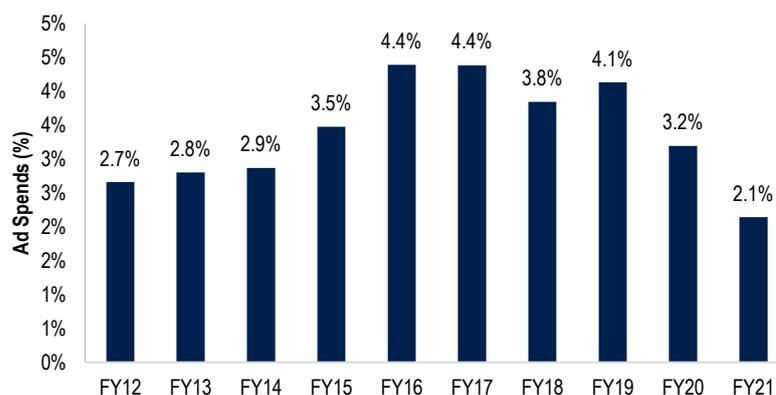
Figure 20: Innovative products/ technology introduced by Sheela foam in mattresses

| Product/technology | Description |
|-------------------------|--|
| Perfect Match | An initiative which suggest mattresses that are best suited to an individual's body structure, weight, and pressure distribution, based on diagnostic and statistical sleep measurements recorded on a senso-bed |
| RFID micro-chips | in mattress to prevent under-pricing and over-pricing of product |
| Zero turn | tech to prevent sagging |
| SANtech | technology maintains improved airflow, thereby enhancing the firmness and durability of the upholstery material |
| Neem fresche | technology - protection from skin allergies and Breathing problems |
| My Mattress | offering custom sizes |

Source: Company websites, Investec Securities Research

To support product innovation and build the brand, company's advertising spend has been relatively high, in the range of 3-4% of sales. It has also created a wide portfolio of in-home comfort product and technical foam product. Going forward, we believe SFL to effectively leverage its brand recall to increase the scale of operations, introduce new and more innovative product lines, increase manufacturing capacity, and expand its presence into under-penetrated geographies and markets.

Figure 21: Extensive advertisement to support new products, FY21 impacted by Covid19



Source: Company, Investec Securities Research

Figure 22: Home comfort product range

| Product | Product lines |
|--------------------------------------|---|
| Mattresses | My Mattress, Spring range, Technology range, Back support range, Flexi PUF range, Showroom range, Economy Range, Comfort Cell Range |
| Furniture-cushioning material | Sleepwell Resitec, Sleepwell Cool Gel, Primo, Feather Foam |
| Pillows | Fibre range, Flexi PUF range, Premium range |
| Bolsters and cushions | - |
| Sofa-cum beds | Sofa and Bed |
| Other products | Comfort range accessories, Foam Cores |

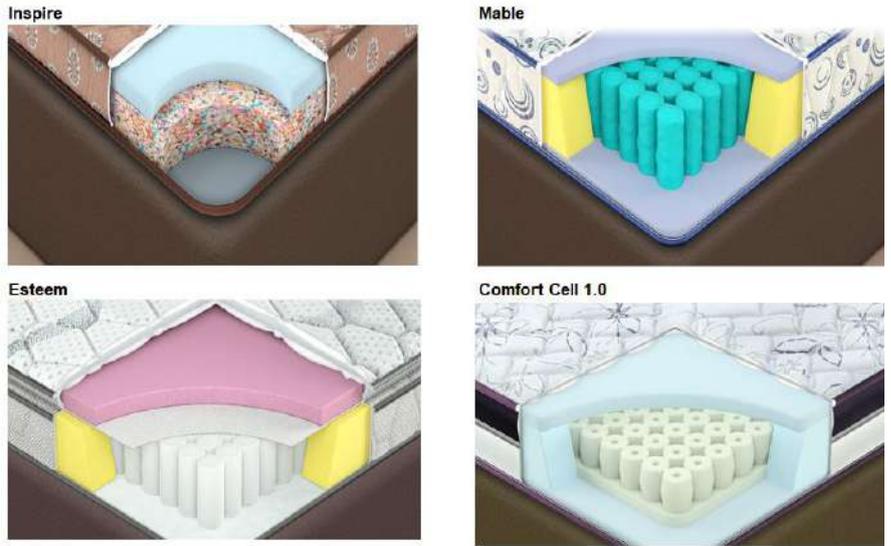
Source: Company, Investec Securities Research

Figure 23: Technical foam product range

| Product | Product lines | End-use industries |
|---------------------------------|------------------------------------|--|
| Automotive foams | Poly-ester foam, Poly-ether foam | Seat covers, Sound absorption systems, Sun visors, Headliners, Door trims, Lamination systems |
| Reticulated foam | Ester-based foam, Ether-based foam | Filtration systems, Ceramic foam filters, Outdoor furniture, Microphones and headphones, Safety fuel tanks, Ink cartridges |
| Ultra Violet Stable foam | - | Sportswear, Innerwear and lingerie, Clothing, Swimwear, Comfort accessories for shoes |
| Silentech foam | Ester based PU Foam | Automotive, Diesel generator canopies, Theatres, auditoriums, indoor stadiums, Broadcasting rooms and recording studios, Industrial silencers, Acoustic enclosures, Engine testing rooms |

Source: Company, Investec Securities Research

Figure 24: Sleepwell Product range



Source: Company, Investec Securities Research

#6 Peer analysis – Better placed

SFL is largest player (and the only listed player) in the mattress space, with revenue/earnings ~2x of the 2nd largest peer, despite commencing operations later (SFL incorporation year: 1972 vs Kurlon 1962), indicating a huge entry barrier to gain scale in the sector which is primarily dominated by unorganised players.

Market share: SFL clearly dominates this space with 45% mkt share in organised mattress, followed by Kurl-on (26%) and duroflex (10%).

Figure 25: SFL

| Rs bn | SFL | Duroflex | Kurlon | Peps |
|---|-----|----------|--------|------|
| FY19 revenue | 18 | 4 | 10 | 3 |
| Organised mattress mkt size (CY18/FY19) | 40 | 40 | 40 | 40 |
| Organised mkt share | 45% | 10% | 26% | 7% |
| Total mattress mkt size | 119 | 119 | 119 | 119 |
| mkt share | 15% | 3% | 9% | 2% |

Source: Company, Redseer,, Investec Securities Estimates

P&L: Because of a higher base, SFL's revenue growth (5-year avg of 11%) has been slower vs peers (avg +19%); however, SFL is the fastest growing in terms of EBITDA, 5-year CAGR 27% vs peer avg of 18%.

SFL lags peers on the gross margin front; we wait clarity from management on this. However, on EBITDA margins it fares well compared to peers. FY19 EBITDA margin impacted by one-off expenses: i) Rs80m EBO related expenses, ii) Rs50m on registration of warrant, iii) discounts in terms of various schemes to compensate low RM prices. EBITDA margins improved during FY20/FY21.

Figure 26: Better placed compared to peers in terms of scale and earning potential

| Revenue | FY15 | FY16 | FY17 | FY18 | FY19 | FY20 | Revenue growth | FY15 | FY16 | FY17 | FY18 | FY19 | FY20 |
|--------------|---------------|---------------|---------------|---------------|---------------|---------------|----------------|--------------|--------------|--------------|--------------|--------------|--------------|
| SFL | 14,177 | 15,500 | 17,329 | 19,653 | 21,415 | 21,736 | SFL | 11.5% | 9.3% | 11.8% | 13.4% | 9.0% | 1.5% |
| Duroflex | 1,693 | 2,030 | 2,476 | 3,207 | 4,085 | | Duroflex | 10.9% | 19.9% | 21.9% | 29.6% | 27.4% | |
| Kurlon | 7,558 | 8,191 | 9,446 | 10,704 | 10,238 | 9,617 | Kurlon | 8.4% | 15.3% | 13.3% | -4.4% | -6.1% | |
| Peps | | 1,402 | 1,649 | 2,029 | 2,884 | | Peps | | 17.6% | 23.1% | 42.1% | | |
| Gross profit | FY15 | FY16 | FY17 | FY18 | FY19 | FY20 | GM | FY15 | FY16 | FY17 | FY18 | FY19 | FY20 |
| SFL | 5,466 | 7,224 | 7,783 | 8,709 | 9,362 | 10,690 | SFL | 38.6% | 46.6% | 44.9% | 44.3% | 43.7% | 49.2% |
| Duroflex | 661 | 878 | 1,126 | 1,421 | 1,820 | | Duroflex | 39.0% | 43.2% | 45.5% | 44.3% | 44.5% | |
| Kurlon | 3,659 | 4,485 | 4,593 | 5,602 | 5,075 | 5,247 | Kurlon | 48.4% | 54.7% | 48.6% | 52.3% | 49.6% | 54.6% |
| Peps | | 659 | 818 | 997 | 1,279 | | Peps | | 47.0% | 49.6% | 49.1% | 44.3% | |
| EBITDA | FY15 | FY16 | FY17 | FY18 | FY19 | FY20 | EBITAM | FY15 | FY16 | FY17 | FY18 | FY19 | FY20 |
| SFL | 917 | 1,763 | 1,961 | 2,166 | 2,110 | 3,004 | SFL | 6.5% | 11.4% | 11.3% | 11.0% | 9.9% | 13.8% |
| Duroflex | 119 | 170 | 166 | 301 | 252 | | Duroflex | 7.0% | 8.4% | 6.7% | 9.4% | 6.2% | |
| Kurlon | 667 | 852 | 1,043 | 1,392 | 1,239 | 1,308 | Kurlon | 8.8% | 10.4% | 11.0% | 13.0% | 12.1% | 13.6% |
| Peps | | 165 | 221 | 255 | 275 | | Peps | | 11.7% | 13.4% | 12.6% | 9.5% | |
| PAT | FY15 | FY16 | FY17 | FY18 | FY19 | FY20 | PATM | FY15 | FY16 | FY17 | FY18 | FY19 | FY20 |
| SFL | 427 | 1,047 | 1,256 | 1,337 | 1,337 | 2,063 | SFL | 3.0% | 6.8% | 7.2% | 6.8% | 6.2% | 9.5% |
| Duroflex | 34 | 80 | 82 | 135 | 168 | | Duroflex | 2.0% | 4.0% | 3.3% | 4.2% | 4.1% | |
| Kurlon | 249 | 453 | 626 | 859 | 750 | 757 | Kurlon | 3.3% | 5.5% | 6.6% | 8.0% | 7.3% | 7.9% |
| Peps | | 83 | 127 | 132 | 153 | | Peps | | 5.9% | 7.7% | 6.5% | 5.3% | |

Source: Company, Ace equity, Investec Securities Research

Balance sheet & return ratios: SFL enjoys a strong balance sheet with gross asset turns of an avg 4.3x, and has been a net cash company, although the company has raised debt during FY20-21 for i) the acquisition of Interplasp (a mattress company in Spain), (capex of ~Rs3.5bn), ii) setting up a manufacturing plant in Jabalpur (estimated capex of ~Rs700m), and iii) setting up export infrastructure (estimated capex of ~Rs300m). Most companies in this space have net cash in their balance sheet except for Peps industries.

SFL operates at better return ratios with avg. ROCE of 28% vs. 24% of peer avg and avg ROE of 26% vs. 21% of peer avg.

Figure 27: SFL net Debt, ROE, ROCE vs peers

| Net debt | FY15 | FY16 | FY17 | FY18 | FY19 | FY20 | Net debt/EBITDA | FY15 | FY16 | FY17 | FY18 | FY19 | FY20 |
|------------|--------------|--------------|---------------|--------------|---------------|--------------|-----------------|--------------|--------------|--------------|--------------|--------------|--------------|
| SFL | 199 | -885 | -1,547 | -480 | -1,255 | 1,973 | SFL | 0.2x | -0.5x | -0.8x | -0.2x | -0.6x | 0.7x |
| Duroflex | 161 | 33 | -4 | 269 | -699 | | Duroflex | 1.4x | 0.2x | 0.0x | 0.9x | -2.8x | |
| Kurlon | 926 | -351 | -128 | -271 | -397 | -1,002 | Kurlon | 1.4x | -0.4x | -0.1x | -0.2x | -0.3x | -0.8x |
| Peps | | 209 | 231 | 317 | 381 | | Peps | | 1.3x | 1.0x | 1.2x | 1.4x | |
| ROCE | FY15 | FY16 | FY17 | FY18 | FY19 | FY20 | ROE | FY15 | FY16 | FY17 | FY18 | FY19 | FY20 |
| SFL | 17.3% | 35.7% | 34.4% | 31.7% | 24.7% | 25.8% | SFL | 19.3% | 35.9% | 31.3% | 25.2% | 20.2% | 23.4% |
| Duroflex | 17.8% | 28.3% | 24.9% | 35.7% | 18.1% | | Duroflex | 12.2% | 23.3% | 18.6% | 24.7% | 15.7% | |
| Kurlon | 20.0% | 27.5% | 30.1% | 34.8% | 26.8% | 18.4% | Kurlon | 15.6% | 20.2% | 19.9% | 22.8% | 16.9% | 14.8% |
| Peps | | | 26.1% | 20.3% | 19.0% | | Peps | | | 29.2% | 23.3% | 20.8% | |

Source: Company, Ace equity, Investec Securities Research

WC management: SFL is lagging behind Duroflex and kurlon, due to its relatively high B2B exposure.

Figure 28: SFL's cash conversion vs peers

| Inventory days | FY15 | FY16 | FY17 | FY18 | FY19 | FY20 | Receivables days | FY15 | FY16 | FY17 | FY18 | FY19 | FY20 |
|----------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------------------|-----------|-----------|-----------|-----------|-----------|-----------|
| SFL | 31 | 26 | 26 | 29 | 30 | 34 | SFL | 30 | 27 | 27 | 26 | 25 | 30 |
| Duroflex | 36 | 31 | 26 | 24 | 23 | | Duroflex | 43 | 39 | 33 | 35 | 35 | |
| Kurlon | 37 | 33 | 32 | 36 | 41 | 47 | Kurlon | 29 | 26 | 26 | 34 | 39 | 33 |
| Peps | | | 78 | 79 | 70 | | Peps | | | 98 | 112 | 88 | |
| payables days | FY15 | FY16 | FY17 | FY18 | FY19 | FY20 | Cash conversion cycle | FY15 | FY16 | FY17 | FY18 | FY19 | FY20 |
| SFL | 27 | 26 | 28 | 28 | 24 | 25 | SFL | 34 | 26 | 24 | 27 | 31 | 40 |
| Duroflex | 29 | 27 | 27 | 27 | 30 | | Duroflex | 50 | 43 | 33 | 33 | 28 | |
| Kurlon | 46 | 44 | 46 | 48 | 57 | 61 | Kurlon | 20 | 15 | 12 | 22 | 23 | 19 |
| Peps | | | 56 | 66 | 38 | | Peps | | | 120 | 125 | 120 | |

Source: Company, Ace equity, Investec Securities Research

Markets and growth drivers

Indian Mattress Industry

As per Redseer, the size of the Indian mattress industry stood at ~Rs140bn in 2020e and is estimated to grow at a CAGR of 10% during 2020-22e to reach Rs175bn by 2022. We estimate the mattress industry will continue with 10% CAGR growth to reach Rs210bn by 2024e. Technology advancement, innovative products, and consumers' willingness to invest in a comfortable and durable mattresses to drive the growth.

The mattress industry is dominated by unorganized players (about 63%); however, it is witnessing a shift towards organized post-GST implementation as it narrowed the price gap between branded and unbranded players.

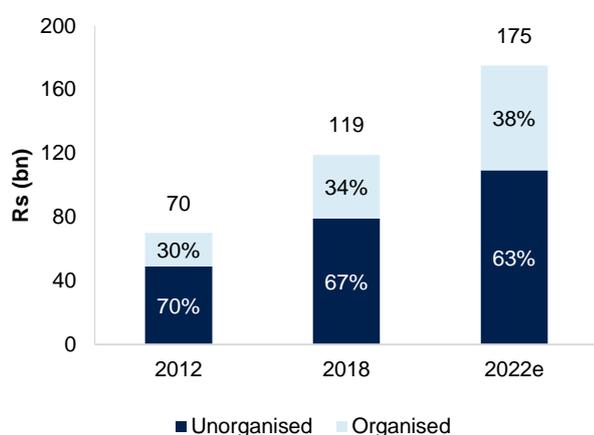
The organized mattress industry is estimated to grow at a CAGR of 13% during 2018-22e. There are about 20-25 players in the organized mattress industry with Sheela foam being the largest player having market share of about 42%. Other dominant players are Duroflex, Peps, Kurl-on, and Spring-fit.

Figure 29: Branded players continue to gain from unorganized to organized shift

| Indian mattress market (Rs. bn) | CAGR | | | | |
|---------------------------------|-----------|------------|------------|-------------|--------------|
| | 2012 | 2018 | 2022e | 2012-18 | 2018-22e |
| Unorganised | 49 | 79 | 109 | 8.3% | 8.4% |
| Organised | 21 | 40 | 66 | 11.3% | 13.3% |
| Total | 70 | 119 | 175 | 9.2% | 10.1% |
| SFL revenue | 9 | 18 | 26 | 12.7% | 9.0% |
| % Share - organised | 42% | 45% | 39% | | |

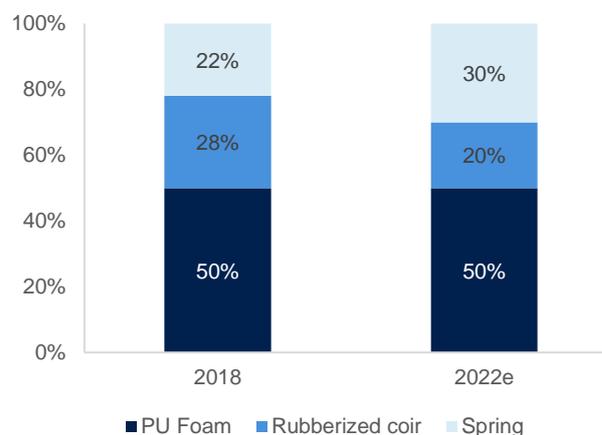
Source: Company, Redseer, websites, Investec Securities Estimates

Figure 30: Organized share to gradually increase



Source: Redseer, Investec Securities estimates

Figure 31: PU foam mattress will continue to dominate industry



Source: Redseer, Investec Securities estimates

In terms of distribution channel, mattresses are primarily sold through distributors and dealers (~88%), while own franchise/ EBO/ MBOs contribute about 10% and the rest through the online channel. However, the online channel has witnessed recent popularity driven by a changing consumer demographic, leading to a change in purchase behaviour. Further, travel restrictions/ lockdown during Covid aided the online channel.

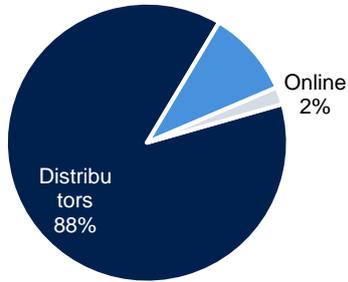
The dominant pureplay online player in the mattress industry is Wakefit, which started in 2016, and within 3 years of operations, acquired about 2% of the overall organized

market share till FY19. SFL entered in online channel in 4QFY19 and has become the top-2 player in this channel.

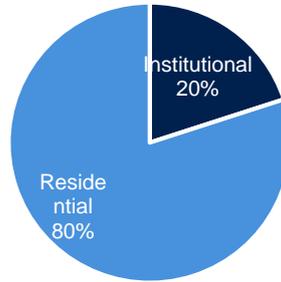
In terms of consumer type, residential contributes about 80%, while 20% is used by institutional players such as Auto industry, fashion and hospitality. 75% of mattresses are sold in the mid and economy segment prices below Rs30,000/pc.

Figure 32: Dynamics of Indian Mattress industry

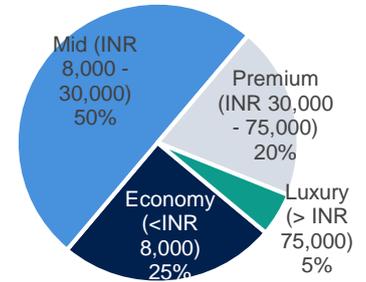
Mattress Market by Distribution Channel



Mattress Market by Consumer Type



Mattress Market by Price Point



Source: Redseer, Investec Securities estimates

Indian Flexible PU Foam industry

As per Redseer, The Indian flexible PU (polyurethane) foam industry is estimated to be Rs95bn in 2021. The flexible PU foam is manufactured as SlabStock Foam and Moulded Foam. Slab stock foam dominates the market, comprising 65-70% share. It is used extensively in industries like mattresses, furniture, and footwear. Moulded foam, constituting 30-35% of the organised market, has significant application in the automotive industry.

Figure 33: Indian flexible PU foam market and growth

| Indian flexible PU Foam market (INR bn) | CAGR | | | | |
|---|-----------|-----------|-----------|-----------|------------|
| | 2012 | 2016 | 2021e | 2012-16 | 2016-21e |
| Slabstock | 30 | 37 | 58 | 5% | 9% |
| Moulded | 15 | 23 | 37 | 11% | 10% |
| Total | 45 | 60 | 95 | 7% | 10% |

Source: Redseer, Investec Securities estimates

Figure 34: Industry growth drivers

| Growth drivers | Description |
|---|---|
| GST implementation | Reduced price differential between branded and unbranded products post GST implementation is resulting in unorganized to organized shift. |
| Recovery in real estate sector | Initial signs of recovery in real estate led by: i) tax reduction on real estate and other measures taken such as RERA, ii) interest rate reduction in RBI, iii) expansionary budget etc. Mattress/PU foam industry is indirect beneficiary of recovery in real estate sector, as a greater number of homes/offices/hospitals/hotels etc. generate demand for mattress and furnishing products |
| Recovery in auto/Fashion/Footwear sector | Technical foam is used extensively in these industries |
| Growing urbanization, and nuclearization | Smaller families (consisting of 2-4 members) will lead to an increase in number of households and beds. Increasing working population will lead awareness towards health benefits, durability and quality of mattresses, driving transition from traditional cotton mattress (which are prone to germs/dust/mite and have sagging issues, leading increased maintenance) to value added mattresses |
| Changing demographics and lifestyle | About 75% of population will belong to Generation 1 (individuals who grown up in liberalized economy) with significantly higher propensity to consume. Favorable changes in consumer tastes and preferences where consumers are increasingly seeking good quality, innovative new products are a key factor driving demand further. The shift in demand for high quality and customized products has been resulting in a considerable rise of organized players |
| Increased focus on health | Fitness and comfort have become fundamental to today's wellness economy, and consumers are increasingly demanding quality, comfortable products to suit their changing lifestyle patterns. With health & wellness becoming mainstream, the industry is expected to witness a massive boom in the coming years, led by rising consumer demand for newer, value-added offerings. |

Source: Investec Securities Research

Decoding financials

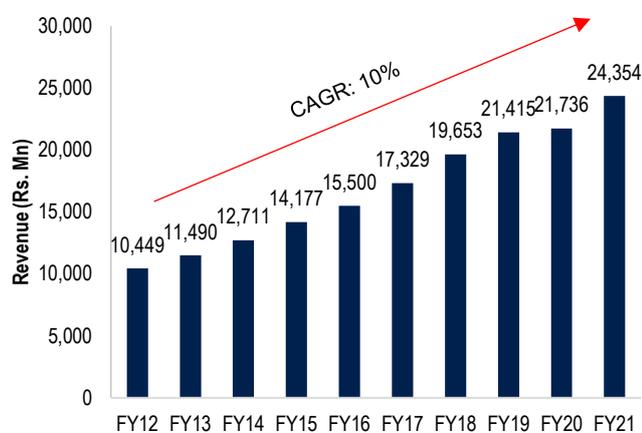
Consistent revenue growth

SFL's (S/A) growth in India has been good during FY12-18 (CAGR: 13.4%), which was dragged down by moderation in overseas business growth (Australian subsidiary, Joyce Foam) CAGR 2.7%.

However, due to economic slowdown in India over FY18-20 and pandemic in FY21, growth in domestic business has been subdued during FY18-21 at a CAGR of 0.5%. To offset this, SFL looked into new growth opportunities and acquired Interplasp in Spain towards the end of 3QFY20. This business has ample opportunity to grow in Europe and North America. This shows management's capability to keep growing organically as well as inorganically.

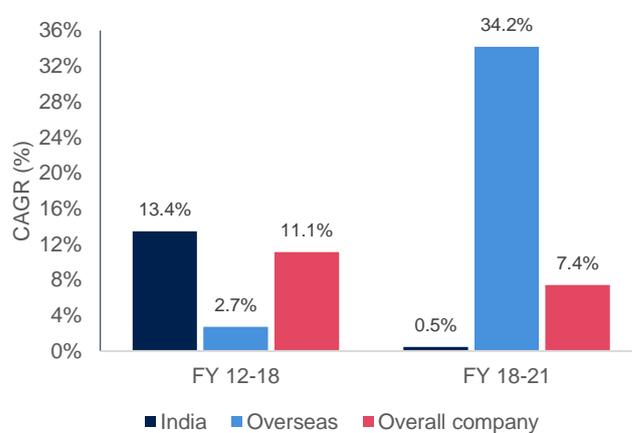
SFL paid EUR 40mn (~Rs3.5bn) for PU foam business in Spain, which translates into an attractive valuation of 1x FY21 EV/sales and 6x FY21 EV/EBITDA.

Figure 35: SFL has grown at a CAGR of 10% historically



Source: Company, Investec Securities Research

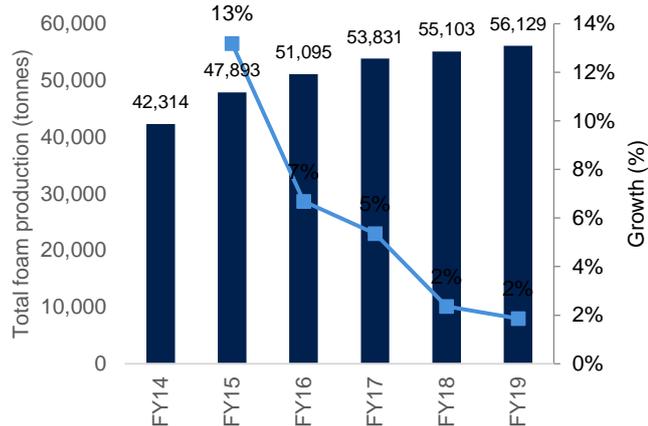
Figure 36: FY18-21 growth driven by overseas business



Source: Company, Investec Securities Research

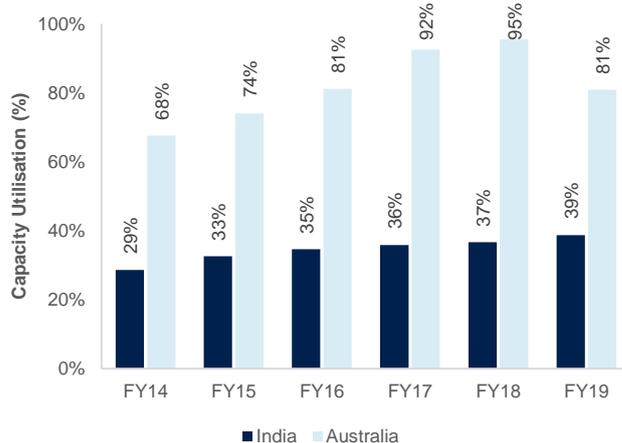
Volume (total foam production) grew at a tepid CAGR of 4% during FY16-19 given that sales volumes could have been impacted by higher pricing on the back of stiff raw material prices (TDI) during 2016 to 2018. Our back of the envelope math implies pricing growth at 7% CAGR during FY16-19.

Figure 37: Total foam production has moderated led by slowing demand in 2019



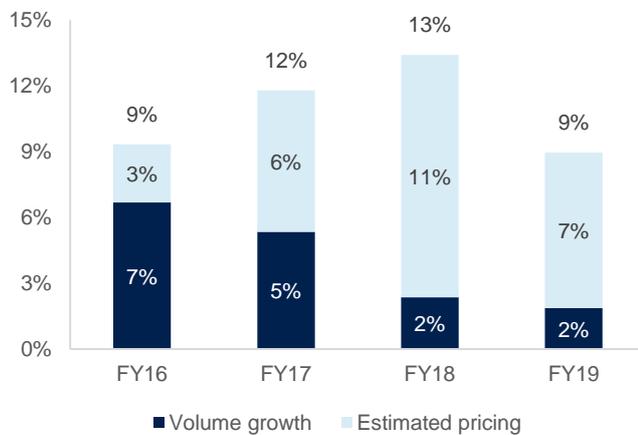
Source: Bloomberg, Investec Securities Research

Figure 38: Capacity utilization has improved only slightly in India, while Australia business is operating at about 90% utilization



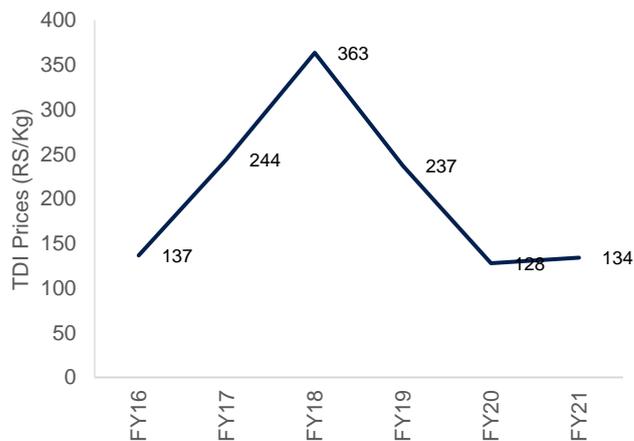
Source: Bloomberg, Investec Securities Research

Figure 39: Pricing-led growth as volumes moderated



Source: Bloomberg, Investec Securities Research

Figure 40: TDI prices has been volatile, leading to price hikes



Source: Bloomberg, Investec Securities Research

Quarterly Segmental performance of India Business

On a 2-year CAGR basis, the Foam core segment has outperformed, with 36% revenue growth on back of 20% volume growth and 13% pricing. The mattress segment exhibited revenue growth of 20%, led by 13% volume growth and 6% pricing. Other segments - Furniture foam and tech foam witnessed 12%/15% revenue growth, respectively. On a 2-year CAGR the mattress segment has seen realization growth of only 6% compared to double digit realizations growth in other segments.

Figure 41: India business quarterly segmental trend

| Revenue Assumptions | 1Q20A | 2Q20A | 3Q20A | 4Q20A | 1Q21A | 2Q21A | 3Q21A | 4Q21A | 1Q22A | 2Q22A | 2-Year CAGR |
|---------------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------------|
| Production volume | | | | | | | | | | | |
| Mattresses (in '000) | 562 | 452 | 668 | 508 | 185 | 512 | 778 | 593 | 350 | 582 | 13% |
| Furniture Foam (Tonnes) | 2,006 | 1,817 | 2,292 | 1,824 | 477 | 1,909 | 1,778 | 1,560 | 842 | 1,697 | -3% |
| Foam Core (Tonnes) | 4,668 | 4,484 | 5,542 | 4,873 | 1,525 | 5,042 | 5,845 | 6,635 | 3,229 | 6,446 | 20% |
| Technical Foam (Tonnes) | 2,748 | 3,203 | 3,034 | 2,514 | 583 | 2,918 | 3,412 | 3,265 | 2,192 | 3,491 | 4% |
| Pricing | | | | | | | | | | | |
| Mattresses (INR/pcs) | 3,496 | 3,777 | 3,359 | 3,359 | 3,615 | 3,593 | 3,658 | 3,534 | 3,991 | 4,242 | 6% |
| Furniture Foam (INR/kg) | 344 | 341 | 345 | 338 | 353 | 353 | 451 | 461 | 458 | 459 | 16% |
| Foam Core (INR/kg) | 165 | 152 | 155 | 155 | 153 | 154 | 181 | 191 | 204 | 195 | 13% |
| Technical Foam (INR/kg) | 287 | 276 | 280 | 279 | 274 | 278 | 331 | 347 | 342 | 334 | 10% |
| Revenues (INR mn) | | | | | | | | | | | |
| Mattresses | 1,970 | 1,710 | 2,410 | 1,710 | 670 | 1,840 | 2,850 | 2,100 | 1,400 | 2,470 | 20% |
| Furniture Foam | 690 | 620 | 790 | 620 | 170 | 680 | 800 | 720 | 390 | 780 | 12% |
| Foam Core | 770 | 680 | 860 | 750 | 230 | 780 | 1,060 | 1,270 | 660 | 1,260 | 36% |
| Technical Foam | 790 | 880 | 850 | 700 | 160 | 810 | 1,130 | 1,130 | 750 | 1,170 | 15% |
| Home Comfort Products | 140 | 220 | 270 | 120 | 40 | 130 | 200 | 120 | 60 | 180 | -10% |
| Production volume growth | | | | | | | | | | | |
| Mattresses | | 5% | 38% | 3% | -67% | 13% | 16% | 17% | 89% | 14% | |
| Furniture Foam | | 4% | -1% | -5% | -76% | 5% | -22% | -14% | 77% | -11% | |
| Foam Core | | -12% | 0% | -9% | -67% | 12% | 5% | 36% | 112% | 28% | |
| Technical Foam | | 0% | 1% | -12% | -79% | -9% | 12% | 30% | 276% | 20% | |
| Pricing growth | | | | | | | | | | | |
| Mattresses | | -14% | -14% | -13% | 3% | -5% | 9% | 5% | 10% | 18% | |
| Furniture Foam | | -8% | -13% | -12% | 3% | 4% | 31% | 36% | 30% | 30% | |
| Foam Core | | -4% | -5% | -8% | -7% | 1% | 17% | 23% | 33% | 27% | |
| Technical Foam | | -13% | -10% | -4% | -5% | 1% | 18% | 24% | 25% | 20% | |
| Revenues growth | | | | | | | | | | | |
| Mattresses | | -9% | 27% | -10% | -66% | 8% | 18% | 23% | 109% | 34% | |
| Furniture Foam | | -3% | -14% | -15% | -75% | 10% | 1% | 16% | 129% | 15% | |
| Foam Core | | -23% | -5% | -17% | -70% | 15% | 23% | 69% | 187% | 62% | |
| Technical Foam | | -8% | -9% | -16% | -80% | -8% | 33% | 61% | 369% | 44% | |
| Home Comfort Products | | 66% | 29% | -14% | -71% | -41% | -26% | 0% | 50% | 38% | |
| Segment contribution | | | | | | | | | | | |
| Mattresses | | 41.6% | 46.5% | 43.8% | 52.8% | 43.4% | 47.2% | 39.3% | 42.9% | 42.2% | |
| Furniture Foam | | 15.1% | 15.3% | 15.9% | 13.4% | 16.0% | 13.2% | 13.5% | 12.0% | 13.3% | |
| Foam Core | | 16.5% | 16.6% | 19.2% | 18.1% | 18.4% | 17.5% | 23.8% | 20.2% | 21.5% | |
| Technical Foam | | 21.4% | 16.4% | 17.9% | 12.6% | 19.1% | 18.7% | 21.2% | 23.0% | 20.0% | |
| Home Comfort Products | | 5.4% | 5.2% | 3.1% | 3.1% | 3.1% | 3.3% | 2.2% | 1.8% | 3.1% | |

Source: Company, Investec Securities Research

Revenue to grow at 19% CAGR during FY21-24e

We estimate consol. revenue to grow at a CAGR of 19% during FY21-24e led by below factors:

Economic revival in India: SFL's Indian business was growing at a CAGR of 13% from FY12-FY18. The growth moderated over last 3 years due to the economic slowdown, and Covid-19. However, we have seen initial signs of economic recovery during the last few quarters, such as increasing tax collection, real estate recovery aided by lower interest rates, and tax breaks on real estate purchases by a few state govts. We believe SFL is an indirect beneficiary of a recovery in the real estate sector, as a greater number of homes/ offices/ hospitals/ hotels generate demand for mattress and furnishing products. Further, a recovery in the auto sector, retail sector and other industries should drive demand for technical foam. We estimate Indian business to grow at a CAGR of 20% during FY21-24e.

Exports led by China plus one: The recent AD/ CVD imposition by the US on China and allied countries, places India favourably on cost structure vs Malaysia/ Vietnam/ Indonesia. SFL has acknowledged this is an opportunity and started exporting to the US from India and Spain facilities. The new bed in box mattresses have made logistics relatively easy; however, only foam mattresses can be transported in a box, logistics for other form of mattresses are still a problem. The acquisition of the Spain facility could help the company cater to North America markets due to location proximity. As per mgmt, it is receiving several enquiries for export and has already converted a few. Exports should increase significantly aided by China plus one.

Spain business (Interplasp) acquisition: In Oct-2019, SFL acquired a flexible PU foam manufacturer in Spain, with the capacity to produce 22,000 tonnes of PU foam. This acquisition has opened the door for European markets (the largest PU foam market) plus North American markets due to relative geographical proximity. During FY21, the Spain business added Rs3.4bn to SFL's revenue despite the fact that Spain was severely impacted by Covid-19. We estimate the Spain business to grow at CAGR of 26% during FY21-24E.

Plant in Jabalpur to tap markets of central India: SFL is in the process of setting up a manufacturing plant in Jabalpur (North/Central part of India) which was a white space for SFL. The voluminous nature of mattresses makes it difficult to transport, thus location the facility is an important criterion to succeed in any market as it gives a cost advantage due to reduced logistics cost. The new capacity in Jabalpur will increase capacity and help in acquiring market share in central parts of India.

Ecommerce: Consumer shopping behaviour is shifting towards online purchases for discretionary products where they can easily compare prices and features as well as check product reviews. SFL entered this space towards the end of FY19 and became the top-2 selling brand. Further, the company has recently set up its own e-commerce website offering mattress and bed essentials. As per management, revenue contribution from the e-com channel has reached about 4-5% of overall revenue. We believe the growth potential in the online space is huge, led by an increased internet penetration, increased online shoppers due to changing shopping behaviour of the Indian consumer - who has now grown to trust e-commerce enough to order most or all household products online.

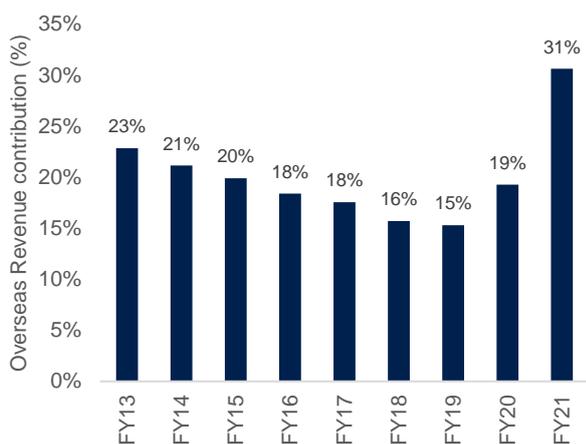
B2B growth opportunities: In B2B, SFL is exposed to diversified sectors, like Auto, Fashion, Acoustics, Railways, Footwear, and Lingerie. B2B growth is dependent on the respective sector growth. Revival in these sectors will improve growth for SFL.

Rural penetration: More than 65% of our population lives in rural areas and those are largely untapped. Poor roads and infrastructure in the rural markets make it difficult for volumetric materials to be transported. This, coupled with low affordability,

leads to low penetration. However, with the development of roads and increasing finance options, the company plans to increase its penetration in the rural market with low-priced products such as Starlite and Feather Foam.

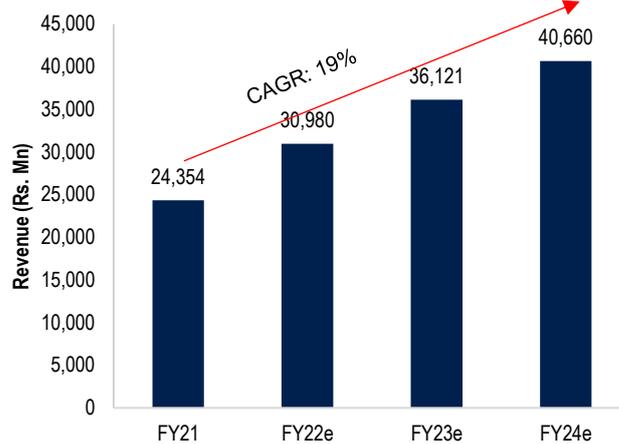
Loyalty programme: To tap the large furniture foam market, SFL has started a loyalty+skill upgradation programme “Anmol Bandhan” for carpenters and upholsters, where they are trained on the use of Sleepwell foam for the furniture made by them. The Company has created this programme for the carpenters and upholsters to motivate them, and in turn increase use of our Furniture cushioning foam products.

Figure 42: Overseas contribution increased during FY20-21



Source: Bloomberg, Investec Securities Research

Figure 43: Revenue to grow at a CAGR of 19% from FY21-FY24e

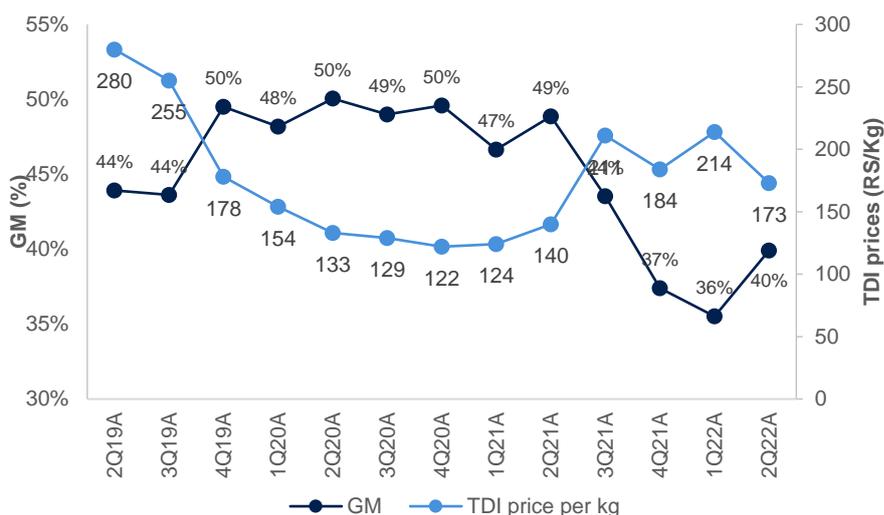


Source: Bloomberg, Investec Securities estimates

Gradual improvement on profitability

Raw material prices to be range-bound: Two key raw materials used in foam manufacturing are TDI and Polyol. TDI has been volatile over the last 5 years, ranging from Rs315/kg to 150/kg, leading to volatile gross margins. Being a branded player, SFL often resorts to raw mat price increases with a lag resulting in a dent to margins. Hence, in a scenario of volatile raw-mat prices, SFL's margins could negatively surprise. The company typically tends to review prices semi-annually. Post Sadara plant starting production, TDI prices were broadly stable in the range of Rs150-200/kg. The recent price increases were due to container issues in global supply which should normalise in a few months. We do not think there are supply-side constraints in TDI/Polyol. We estimate gradual improvement in GM led by broadly stable RM prices and steady price hikes.

Figure 44: Quarterly TDI prices vs. GM



Source: Company, Investec Securities Research

Figure 45: TDI prices have been volatile impacting GM

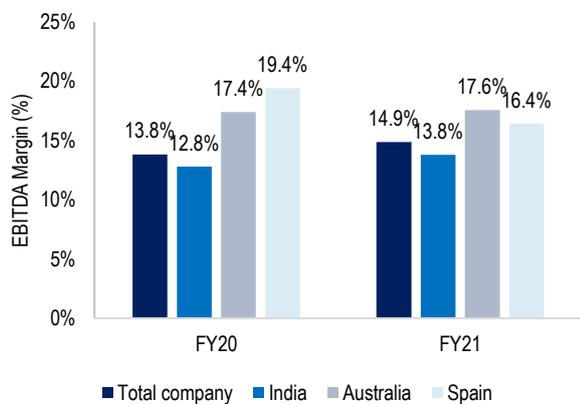


Source: Company, Investec Securities estimates

Margins have been impacted positively as the global business in Spain gains scale. Australia is a relatively saturated market; margins there will see steady improvement with operational efficiency, while in Spain, there is significant scope for margins improving with scale and with integration to SFL's IT system.

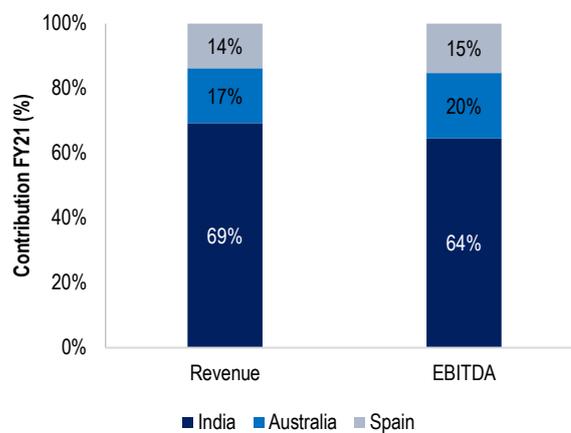
The India business should see margins improvement, led by reduced logistics cost and operational leverage. A new plant in Jabalpur will address demands in central India, reducing logistics cost while improving mkt share in this reason led by cost advantage.

Figure 46: Segmental EBITDA margins - Australia/ Spain business showed better profitability than India business during FY20-21



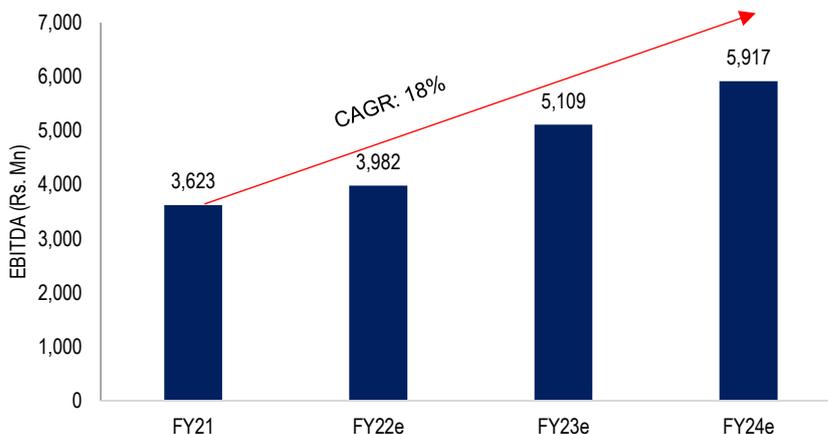
Source: Company, Investec Securities Research

Figure 47: leading to higher EBITDA contribution in FY21x



Source: Company, Investec Securities Research

Figure 48: EBITDA to grow at 18% CAGR 2021-24e

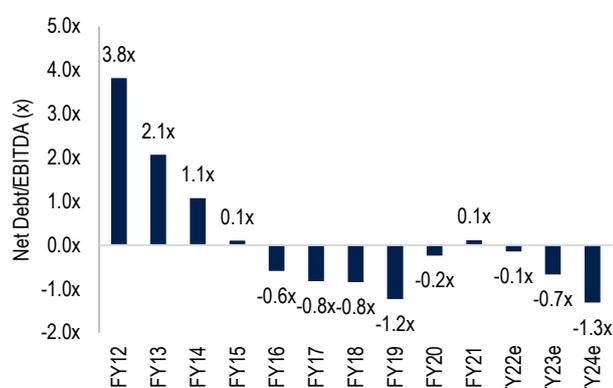


Source: Company, Investec Securities estimates

Maintaining healthy balance sheet and return ratios

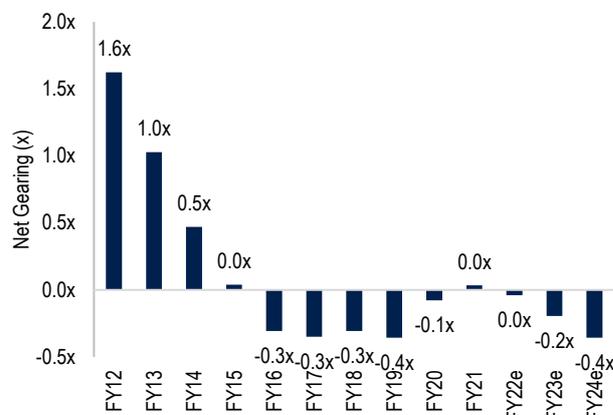
SFL operates at high asset turns of 4.3x (5-year avg) which can reach over 10x with full utilisations. SFL's 5-year average ROE/ ROCE/ ROIC are 25%/ 28%/ 29%, respectively. Return ratios should reduce during FY22/24e (although remain above 20%) as the company is investing ~Rs1b in Jabalpur and exports facility and have plans to invest ~AUD20m for expansion of Australia business.

Figure 49: Net debt to EBITDA under control



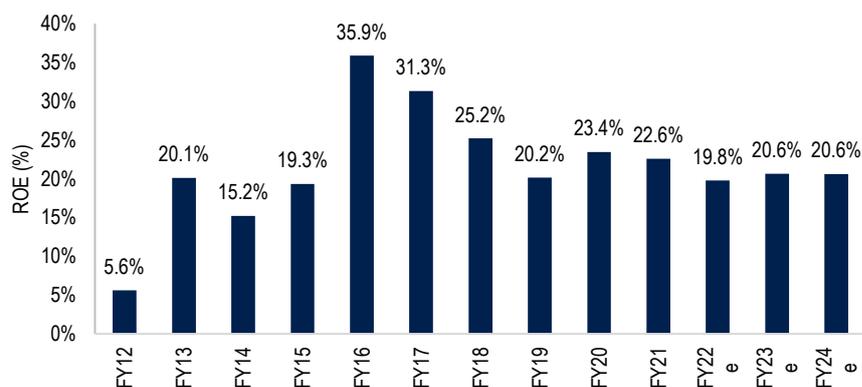
Source: Company, Investec Securities estimates

Figure 50: maintains minimum/no leverage



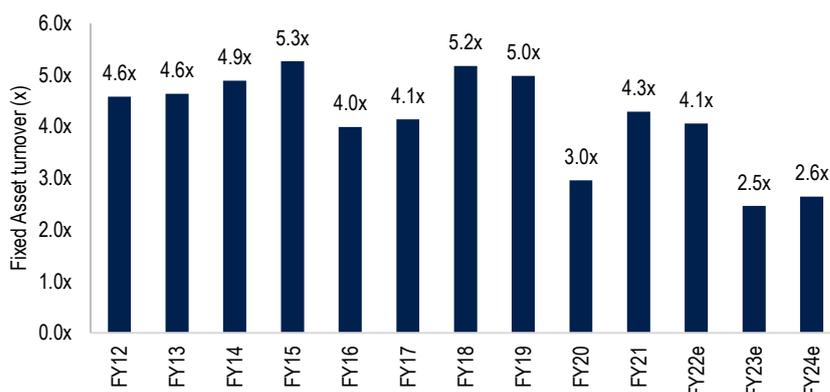
Source: Company, Investec Securities estimates

Figure 51: Continue to maintain above 20% ROE



Source: Company, Investec Securities estimates

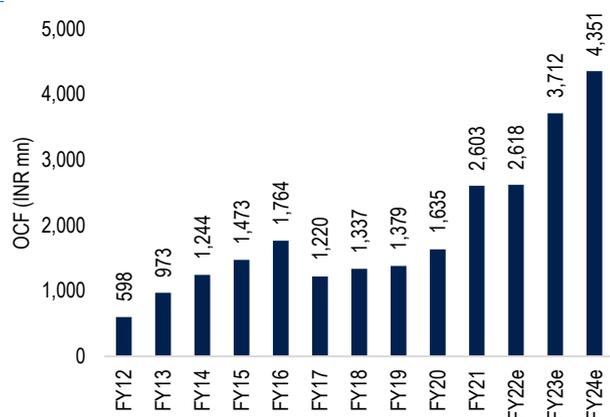
Figure 52: Maintains healthy gross fixed asset turnover



Source: Company, Investec Securities estimates

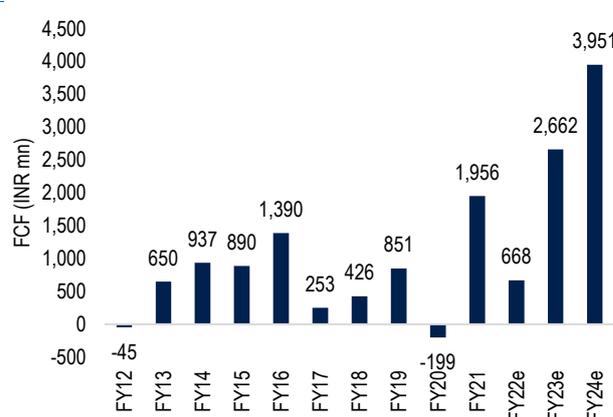
Robust cash conversion and WC management

Figure 53: Good OCF going forward



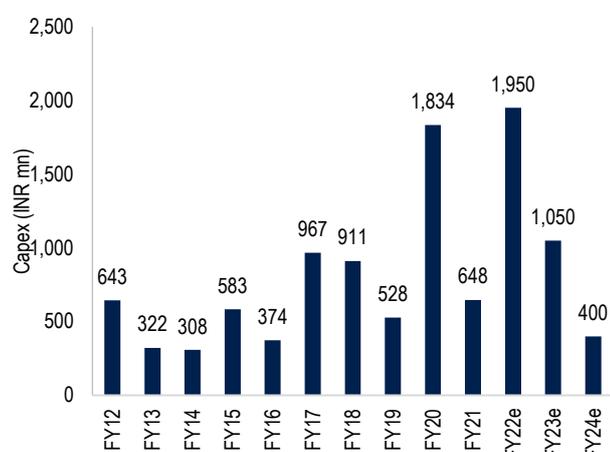
Source: Company, Investec Securities estimates

Figure 54: FCF has been positive except FY20 (investment in Spain)



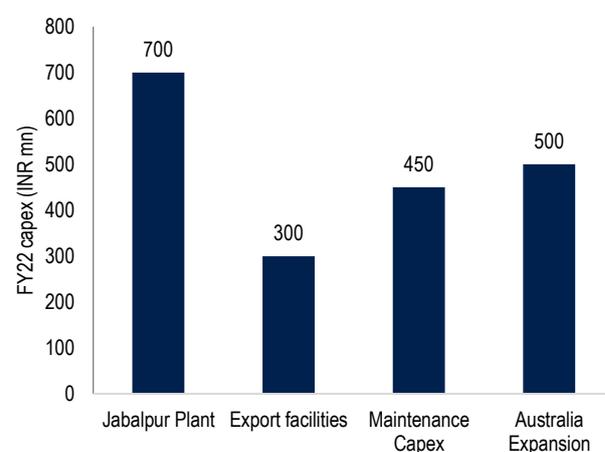
Source: Company, Investec Securities estimates

Figure 55: FY20 capex increased due to Interplasp acquisition



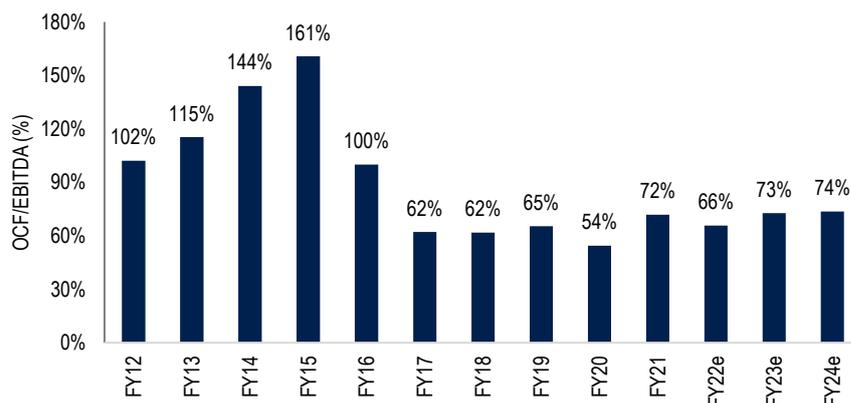
Source: Company, Investec Securities estimates

Figure 56: FY22e capex guidance



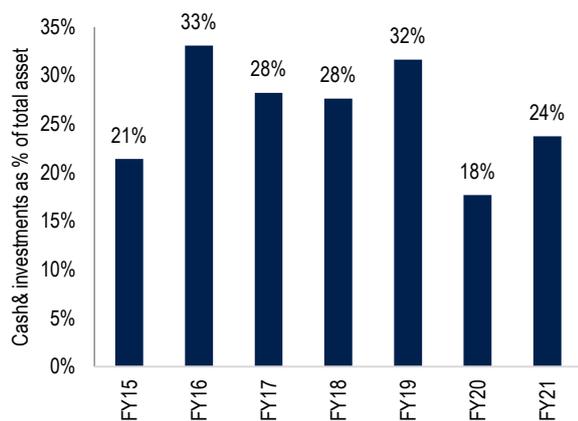
Source: Company, Investec Securities estimates

Figure 57: cash conversion improved during FY21



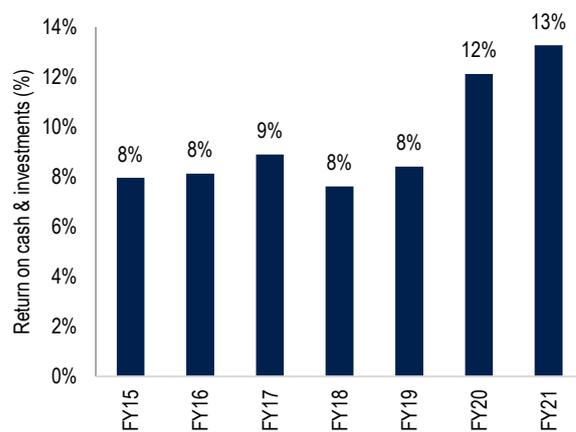
Source: Company, Investec Securities estimates

Figure 58: FY15-21 cash & investments are average 26% of total asset...



Source: Company, Investec Research

Figure 59:providing only average 9% of returns



Source: Company, Investec Research

Subsidiaries - Mixed performance

SFL has 5 subsidiaries, out of which two are related to manufacturing mattresses and foam: 1) Joyce Foam (Australia) & 2) International Foam Technologies (Spain). Further, two are software companies, 3) Staqa World Private Limited - acquired last year, generating decent revenue and 4) Divya Software – wherein the company has invested Rs760m, an asset which has no source of income and is used as company headquarters now, 5) Sleepwell Enterprises is a holding company for Sleepwell trademarks, which is licensed to the SFL until 2026 at an annual payment of Rs1m.

Figure 60: List of subsidiaries

| Subsidiaries (Rs. Mn) | Joyce Foam Pty Ltd | Divya Software Solutions Pvt Ltd | Sleepwell Enterprises Pvt Ltd | Staqa World Private Limited | International Foam Technologies Spain |
|-------------------------------------|--------------------|----------------------------------|-------------------------------|-----------------------------|---------------------------------------|
| Place of incorporation | Australia | India | India | India | Spain |
| Date of incorporation / acquisition | 10/03/2005 | 19-04-2010 | 10/07/1994 | 26-03-2020 | 06/12/2019 |
| % of shareholding | 100% | 100% | 100% | 100% | 100% |
| Share capital | 367 | 1 | 0 | 0 | 1,031 |
| Reserves & surplus | 1,062 | 617 | 24 | 37 | 430 |
| Total assets | 3,627 | 620 | 26 | 50 | 4,840 |
| Total Liabilities | 2,197 | 2 | 3 | 13 | 3,291 |
| Investments | - | - | 10 | - | - |
| Turnover | 4,134 | - | 1 | 134 | 3,359 |
| Profit/(Loss) before taxation | 384 | -42 | 8 | 36 | 442 |
| Provision for taxation | 114 | 0 | 1 | 7 | 91 |
| Profit after taxation | 269 | -42 | 7 | 29 | 351 |

Source: Company, Investec Securities estimates

Joyce Foam Pty Ltd: SFL acquired Joyce Foam in the year 2005, to establish an international footprint by leveraging on the scale of the Vendors' operations and large customer and distribution network. The company has 5 manufacturing facilities with a total foaming capacity of 10,500 tonnes, currently operating at over 90% utilisation. SFL has seen avg. 5% growth during FY12-21 as the Australian mattress market is pretty mature. The company is planning to invest ~AUD20m in FY22-23 to expand capacity in this mkt., we estimate avg. 7% revenue CAGR during FY21-24E.

Figure 61: Joyce Foam key financials

| Australia | FY12 | FY13 | FY14 | FY15 | FY16 | FY17 | FY18 | FY19 | FY20 | FY21 | FY22E | FY23E | FY24E |
|----------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Revenue | 2,626 | 2,624 | 2,687 | 2,820 | 2,853 | 3,041 | 3,088 | 3,278 | 3,159 | 4,142 | 4,379 | 4,729 | 5,070 |
| EBITDA | 220 | 303 | 310 | 292 | 353 | 340 | 255 | 288 | 550 | 728 | 488 | 573 | 653 |
| PAT | -3 | 68 | 29 | 82 | 146 | 144 | 78 | 108 | 182 | 271 | | | |
| Revenue Growth | | -0.1% | 2.4% | 4.9% | 1.2% | 6.6% | 1.5% | 6.2% | -3.6% | 31.1% | 5.7% | 8% | 7% |
| EBITDAM | 8.4% | 11.5% | 11.5% | 10.3% | 12.4% | 11.2% | 8.3% | 8.8% | 17.4% | 17.6% | 11.1% | 12% | 13% |
| PATM | -0.1% | 2.6% | 1.1% | 2.9% | 5.1% | 4.7% | 2.5% | 3.3% | 5.8% | 6.5% | | | |

Source: Company, Investec Securities estimates

International Foam Technologies Spain: In Oct-2019, SFL acquired a flexible PU foam manufacturer in Spain, with a capacity to produce 22,000 tonnes of PU foam. SFL paid EUR 40mn (~Rs3.5bn) for the PU foam business in Spain, which translates into an attractive valuation of 1x FY21 EV/sales and 6x FY21 EV/EBITDA. This acquisition has opened the door for European markets (the largest PU foam market) plus North American markets due to geographical proximity. During FY21, Spain added Rs3.4bn to SFL's revenue despite the fact that, Spain was severely impacted by Covid-19. We estimate Spain business to grow at CAGR of 26% during FY21-24E.

Figure 62: Investments in subsidiaries

| Spain | FY20 | FY21 | FY22E | FY23E | FY24E |
|----------------|-------|--------|-------|-------|-------|
| Revenue | 1,030 | 3,350 | 4,789 | 5,747 | 6,724 |
| EBITDA | 200 | 550 | 491 | 690 | 847 |
| PAT | 120 | 350 | | | |
| Revenue Growth | | 225.2% | 43.0% | 20.0% | 17% |
| EBITDAM | 19.4% | 16.4% | 10.3% | 12% | 13% |
| PATM | 11.7% | 10.4% | | | |

Source: Company, Investec Securities estimates

Figure 63: Investments in subsidiaries

| Investments in subsidiaries | Nos. | Amount (Rs m) |
|--|-------------|---------------|
| In Equity Instruments - Unquoted, fully paid up | | |
| Joyce Foam Pty. Limited of Aud \$ 10/- each | 6,58,500 | 231 |
| Divya Software Solutions (P) Ltd. of ` 10/- each | 94,633 | 760 |
| Sleepwell Enterprises (P) Ltd. of ` 10/- each | 10,500 | 11 |
| International Foam Technologies SL, Spain of Euro 1/- each(refer note 40.16.a) | 1,20,03,000 | 1,135 |
| SleepX US Inc. of US\$ 1/- each | - | 0 |
| Staqa World Pvt. Ltd of ` 10/- each | 10,000 | 0 |
| Total Investments in Subsidiaries | | 2,137 |

Source: Company, Investec Securities Research

Figure 64: Financial analysis – consol, subs & implied stub

| FY21 (Rsm) | Consolidated | Standalone | Joyce Foam | International Foam Technologies Spain | Stub |
|------------------|--------------|------------|------------|---------------------------------------|------------|
| Revenue | 24,354 | 16894.9 | 4,142 | 3,350 | -33 |
| EBITDA | 3,623 | 2328.7 | 728 | 550 | 16 |
| EBIT | 2,894 | 2003.4 | 362 | 481 | 48 |
| PBT | 3,238 | 2434.6 | 362 | 437 | 5 |
| PAT | 2,402 | 1811.5 | 271 | 350 | -30 |
| Employed capital | 12,514 | 9,218 | 1,328 | 3,399 | -1,430 |
| ROCE | 23% | 22% | 27% | 14% | -3% |

Source: Company, Investec Securities Research

ESG

Indian mattress industry is yet to evolve on the ESG standpoint unlike the US mattress industry in which players like Tempur Sealy has a full-fledged ESG framework in place (Fig 63). SFL does not have any ESG framework in place; however, the company is committed to improving carbon foot print, waste management, and recyclability.

Environment

- SFL is investing in Vertivac (Vertical Variable Pressure Foaming Machine), which eliminates blowing agents like Methylene Chloride, taking care of environmental concerns. The company has a mechanism to recycle waste. Foam constitutes a majority of SFL's production and 90% of the foam scrap is converted into rebonded/chip foam.
- SFL recycles foam scrap to produce good quality Rebonded Foam. The rebounded foam is reused for applications that need improved firmness.
- SFL is compliant with new "Plastic Waste Management Amendment Rules, 2021", which prohibits identified single-use plastic items by 2022. Further, in this policy, thickness of plastic carry bags increased from 50 to 75 microns from 30th September, 2021 and to 120 microns with effect from the 31st December, 2022.
- SFL does not generate sludge or liquid waste during processes, but it has a STP (Sewage treatment Plant) in compliance of legal regulations.
- Sustainable sourcing of raw materials and logistic solutions are in place, ~ 60% of raw material are sourced in bulk. This eliminates wastage of packaging material and disposal concern. CNG truck used for transportation in the North Zone. The company has embarked on a new project of High cube containers. This enables to carry 10% more cargo.
- Company has Installed LED on the street and inside the building for conserving energy. The installation is complete in almost 70% area.

Social & governance

- Total number of employee at SFL is 2822 in FY21, out of this 30% are on contract basis and 4% are female employees.
- Globally foam industry is associated with fire risk. Company tries to constantly reduce the risk by improvement in design and periodic audits by internal/ external resources. Deployment of quick response ESFR sprinkler system in storage and UPS suppression systems are in place to mitigate risk.
- SFL has a CSR arm, Sleepwell Foundation (Trust), which has been promoting education, skill development, wellness, cleanliness, since 2001. During FY21, SFL spent Rs48.9m on CSR.
- The board is represented by 60% independent directors. Nomination and remuneration Committee is represented by all independent directors.

Figure 65: ESG framework at top mattress manufacturer Tempur Sealy



Source: Company, Investec Securities Research

Valuations and Risk

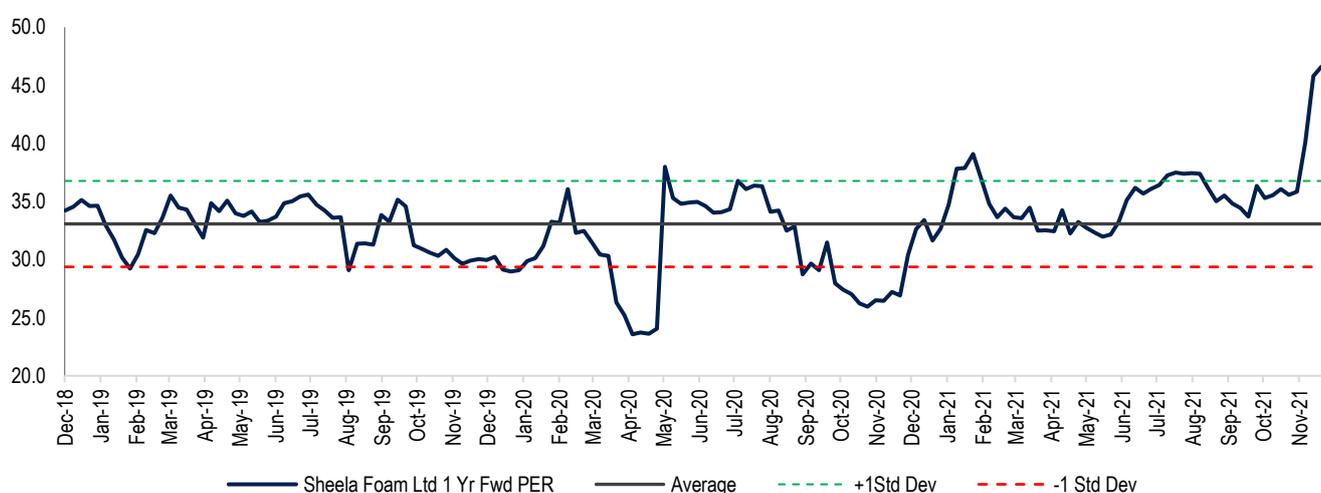
SFL is dominant player in Mattress (45% organized market share) and PU foam industry with proven track record (46% PAT CAGR FY12-21). SFL is best placed to tap into sizable local mattress industry and the export opportunity. We expect SFL to clock 19% revenue growth over FY21-24E as it benefits on growth in domestic mattress result of a) gradual shift to organised (40% now), b) increased penetration in rural and Tier-2/3 markets, c) recovery in real estate sector d) increasing health awareness linked with sleep and quality of mattress, etc. Further, SFL is in the sweet spot to tap export markets, with imposition of AD/CVD rates by US on China and several Asian countries. We expect revenue//EBITDA/ PAT CAGR (FY21-FY24e) of 19/18/20% on the back of domestic demand revival and export ramp-up. Healthy BS, high return ratios, positive FCF aid comfort

Initiate with a BUY at TP of Rs4200 valuing at 50x FY24e PE. Capital allocation into non related business is a risk to trading multiples.

What our DCF implies: Our TP of Rs4200/sh i.e. at 50x FY24e PE models revenue/EBITDA CAGR of 19%/18% over FY20-24e. Well, target multiple of 50x seems high, we highlight the implied ask on FCF growth is at 14% over FY24-42E with terminal growth of 5%. We find the aforesaid FCF growth rate is achievable factoring the growth opportunity in offing (local, exports) and potential upside risks, significant capex already incurred (till FY23E) and limited capex needs post it (unless it goes to further enhance its manufacturing footprint).

We highlight SFL's market leadership position, comes on back of wide distribution & reach, significantly higher A&P spends (on absolute basis vs. peer set), ability to introduce new products, offer customisation, etc., which are significant entry barriers for any new entrant attempting for a pan-India reach. Factoring unique positioning of the company in the market place, comfort on implied ask on FCF growth rates, we assign 35% premium on company's 3-year trading history on 1-yr forward PE(x) basis.

Figure 66: Historical 1-Y Fwd PER



Source: Bloomberg, Investec Securities Research

Figure 67: DCF valuation

| FCF Calculation | FY22 | FY23 | FY24 | FY25 | FY26 | FY27 | FY28 | FY29 | FY30 | FY42e |
|----------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|---------------|
| EBIT | 3,204 | 4,273 | 5,090 | 6,110 | 7,193 | 8,358 | 9,621 | 11,002 | 12,523 | 56,293 |
| Less: Tax Paid | 884 | 1,128 | 1,384 | 1,728 | 2,100 | 2,495 | 2,929 | 3,405 | 3,929 | 16,888 |
| NOPLAT | 2,319 | 3,145 | 3,706 | 4,382 | 5,094 | 5,862 | 6,691 | 7,597 | 8,594 | 39,405 |
| Add: Depreciation | 778 | 836 | 827 | 822 | 822 | 825 | 830 | 838 | 848 | 1,522 |
| Gross Cash Flow | 3,098 | 3,981 | 4,533 | 5,204 | 5,916 | 6,687 | 7,521 | 8,435 | 9,441 | 40,927 |
| Less: Capital Expenditure | 1,950 | 1,050 | 400 | 400 | 400 | 400 | 400 | 400 | 400 | 400 |
| Less: Working Capital Investment | 480 | 269 | 182 | 230 | 282 | 340 | 403 | 472 | 549 | 987 |
| Free Cash Flow to Firm | 668 | 2,662 | 3,951 | 4,574 | 5,233 | 5,947 | 6,719 | 7,562 | 8,492 | 39,540 |
| Growth (%) | (61.5) | 298.7 | 48.4 | 15.8 | 14.4 | 13.6 | 13.0 | 12.6 | 12.3 | 5.5 |
| PV of FCF | 668 | 2,662 | 3,576 | 3,746 | 3,879 | 3,989 | 4,078 | 4,154 | 4,222 | 5,931 |

| | |
|------------------------|-------------|
| WACC | 11% |
| Terminal Growth | 5.0% |

Calculation

| | |
|-------------------------|--------------|
| PV of Free Cash Flows | 95,159 |
| Terminal Value | 754,863 |
| PV of Terminal Value | 102,476 |
| Implied TEV | 197,635 |
| Less: Net Debt | -7,788 |
| Less: Minority Interest | 162 |
| Equity Value | 205,262 |
| # Share | 49 |
| Equity Value | 4,208 |
| Current Price | 3,251 |
| Potential Upside | 29% |

| | | Sensitivity Analysis | | | | |
|------|-------|----------------------|-------|--------------|-------|--------|
| | | Terminal Growth Rate | | | | |
| | | 3.0% | 4.0% | 5.0% | 6.0% | 7.0% |
| WACC | 8.5% | 5,508 | 6,203 | 7,295 | 9,262 | 13,849 |
| | 9.5% | 4,400 | 4,804 | 5,388 | 6,305 | 7,957 |
| | 10.5% | 3,618 | 3,868 | 4,208 | 4,699 | 5,471 |
| | 11.5% | 3,045 | 3,205 | 3,415 | 3,702 | 4,116 |
| | 12.5% | 2,610 | 2,717 | 2,852 | 3,030 | 3,272 |

Source: Company, Investec Securities Estimates

Risks:

- Raw-mat cost volatility: high volatility in TDI, Polyol prices impact gross margins
- Export trajectory: Failure to scale up exports
- High competition in price sensitive market: Bulk of the mattress market, wherein, there is volume growth, is price sensitive and hence the transition
- Gradual transition: High proportion of unorganised players, shift in consumer trend is gradual in a price sensitive market at bottom of the pyramid
- Traditionally long replacement cycle: Traditional long replacement cycle of ~10-12years is longer than home appliances, paints, etc; with increased health awareness its changing
- Low entry barriers: Easy to manufacture, low capex intensity
- Brand visibility: Brand not visible at consumers end and difficult to verify added features

Appendix 1 – Deep dive into peers

Kurlon Enterprise Limited

Kurlon Limited, a Manipal Group Company Established in 1962, is one of the India's oldest mattress companies. The company manufactures mattresses in ~135 different configurations and has a pan-India dealer network of 10,000+ and 72 branch and stock points. The company has 12 strategically located manufacturing facilities across Karnataka, Orissa, Madhya Pradesh, Uttarakhand, and Gujarat. The company offers a wide range of home comfort solutions ranging from mattresses (RC mattress, spring mattress & foam mattress), polyurethane foam, home furniture & furnishing products under the brand name "Kurl-on" for retail as well as institutional customers such as Hotels, Hospitals and Hostels who prefer premium and high quality branded mattresses with flame retardant, anti-bacterial fabrics.

Currently, the company exports its products to Asian countries like Sri Lanka and Nepal (~1% of total revenue). The group is headed by Mr. Sudhakar Pai who is the Chairman of the group.

Figure 68: Kurlon Ltd. Profit And Loss - Consolidated

| Rs mn | Mar-15 | Mar-16 | Mar-17 | Mar-18 | Mar-19 | Mar-20 |
|--|--------------|--------------|--------------|---------------|---------------|--------------|
| Net Sales | 7,558 | 8,191 | 9,446 | 10,704 | 10,238 | 9,617 |
| EXPENDITURE : | | | | | | |
| Increase/Decrease in Stock | 90 | 121 | -118 | -116 | -169 | -48 |
| Raw Material Consumed | 3,810 | 3,586 | 4,971 | 5,219 | 5,331 | 4,419 |
| Power & Fuel Cost | 169 | 119 | 101 | 138 | 165 | 160 |
| Employee Cost | 373 | 516 | 569 | 610 | 738 | 887 |
| Other Manufacturing Expenses | 63 | 681 | 84 | 741 | 959 | 913 |
| General and Administration Expenses | 425 | 507 | 596 | 645 | 678 | 661 |
| Selling and Distribution Expenses | 998 | 1,673 | 1,832 | 1,909 | 1,171 | 1,128 |
| Miscellaneous Expenses | 964 | 136 | 369 | 167 | 125 | 189 |
| Less: Expenses Capitalised | | | | | | |
| Total Expenditure | 6,891 | 7,339 | 8,403 | 9,311 | 8,999 | 8,309 |
| Operating Profit (Excl OI) | 667 | 852 | 1,043 | 1,392 | 1,239 | 1,308 |
| Other Income | 23 | 71 | 116 | 222 | 331 | 143 |
| Operating Profit | 690 | 924 | 1,159 | 1,614 | 1,570 | 1,451 |
| Interest | 187 | 78 | 48 | 66 | 77 | 105 |
| PBDT | 504 | 845 | 1,111 | 1,548 | 1,493 | 1,346 |
| Depreciation | 127 | 132 | 161 | 182 | 237 | 389 |
| Profit Before Taxation & Exceptional Items | 376 | 713 | 950 | 1,366 | 1,256 | 957 |
| Exceptional Income / Expenses | | | | | | |
| Profit Before Tax | 376 | 713 | 950 | 1,366 | 1,256 | 957 |
| Provision for Tax | 128 | 260 | 324 | 507 | 506 | 200 |
| Profit After Tax | 249 | 453 | 626 | 859 | 750 | 757 |
| Extra items | | | | | | |
| Minority Interest | | -32 | | | 2 | 1 |
| Share of Associate | | | | | | |
| Other Consolidated Items | | | | | | |
| Consolidated Net Profit | 249 | 422 | 626 | 859 | 752 | 758 |
| Adjustments to PAT | | | | | | |
| Profit Balance B/F | 732 | 950 | 1,335 | 1,788 | 2,160 | 2,777 |
| Appropriations | 980 | 1,372 | 1,961 | 2,647 | 2,912 | 3,535 |
| Equity Dividend % | | | | | 50 | 60 |
| Earnings Per Share | 16.7 | 28.3 | 42.1 | 57.7 | 50.5 | 50.9 |
| Adjusted EPS | 16.7 | 28.3 | 42.1 | 57.7 | 50.5 | 50.9 |

Source: Ace equity, Investec Securities research

Duroflex

Incorporated in 1981, Duroflex has become India's fastest growing mattress brand. The company offers India's only orthopaedic mattress range to be tested and recommended by the renowned doctors at the National Health Academy. This range is a testament to Duroflex's iconic and innovative design thinking. The company has a network of over 500 employees and 3000+ retail partners.

Figure 69: Duroflex Ltd. Profit And Loss - Consolidated

| DESCRIPTION | Mar-14 | Mar-15 | Mar-16 | Mar-17 | Mar-18 | Mar-19 |
|--|----------|----------|----------|----------|----------|----------|
| Net Sales | 1,526.47 | 1,692.94 | 2,030.27 | 2,475.70 | 3,207.49 | 4,085.43 |
| EXPENDITURE : | | | | | | |
| Increase/Decrease in Stock | -6.77 | -2.56 | -0.57 | -13.34 | -40.62 | -30.15 |
| Raw Material Consumed | 1,093.08 | 1,034.87 | 1,152.75 | 1,362.73 | 1,826.76 | 2,295.75 |
| Power & Fuel Cost | 17.19 | 32.84 | 18.36 | 20.67 | 17.48 | 33.49 |
| Employee Cost | 98.94 | 137.43 | 192.48 | 219.21 | 283.48 | 466.74 |
| Other Manufacturing Expenses | 11.86 | 8.28 | 14.71 | 12.40 | 10.41 | 10.65 |
| General and Administration Expenses | 64.50 | 109.19 | 101.60 | 186.65 | 154.28 | 169.06 |
| Selling and Distribution Expenses | 168.31 | 249.53 | 367.97 | 480.23 | 627.35 | 850.97 |
| Miscellaneous Expenses | 8.08 | 4.28 | 12.98 | 41.18 | 27.81 | 37.25 |
| Less: Expenses Capitalised | | | | | | |
| Total Expenditure | 1,455.19 | 1,573.86 | 1,860.29 | 2,309.73 | 2,906.95 | 3,833.74 |
| Operating Profit (Excl OI) | 71.28 | 119.08 | 169.98 | 165.97 | 300.55 | 251.69 |
| Other Income | 10.31 | 15.00 | 25.22 | 23.26 | 29.20 | 42.59 |
| Operating Profit | 81.58 | 134.08 | 195.20 | 189.23 | 329.75 | 294.28 |
| Interest | 28.87 | 42.62 | 29.08 | 18.25 | 22.61 | 54.04 |
| PBDT | 52.71 | 91.45 | 166.12 | 170.98 | 307.14 | 240.24 |
| Depreciation | 18.71 | 31.66 | 30.00 | 35.45 | 42.56 | 53.54 |
| Profit Before Taxation & Exceptional Items | 34.00 | 59.79 | 136.12 | 135.54 | 264.58 | 186.70 |
| Exceptional Income / Expenses | | | | | | |
| Profit Before Tax | 34.00 | 59.79 | 136.12 | 135.54 | 264.58 | 186.70 |
| Provision for Tax | 9.92 | 25.62 | 55.71 | 53.36 | 129.07 | 18.51 |
| Profit After Tax | 24.08 | 34.17 | 80.41 | 82.17 | 135.51 | 168.19 |
| Extra items | | | | | | |
| Minority Interest | | | 0.00 | -0.03 | -0.04 | -0.04 |
| Share of Associate | | | | | | |
| Other Consolidated Items | | | | | | |
| Consolidated Net Profit | 24.08 | 34.17 | 80.41 | 82.14 | 135.47 | 168.15 |
| Adjustments to PAT | | -22.59 | | 0.05 | | |
| Profit Balance B/F | 116.87 | | 161.83 | 239.32 | 315.52 | 445.12 |
| Appropriations | 140.95 | 11.58 | 242.24 | 321.51 | 450.99 | 613.27 |
| Equity Dividend % | 10.00 | 20.00 | 5.00 | 10.00 | 10.00 | |
| Earnings Per Share | 4.96 | 7.04 | 16.57 | 16.93 | 27.91 | 30.84 |
| Adjusted EPS | 4.96 | 7.04 | 16.57 | 16.93 | 27.91 | 30.84 |

Source: Ace equity, Investec Securities research

Peps Industries Pvt. Ltd

Peps Industries is one of the oldest mattress players in India, operating since 1977. Peps' sleep solution facilities are located across 11 acres in Coimbatore, Tamil Nadu, with cutting-edge machinery from Sweden, Germany and USA, offering a wide range of products such as mattresses, pillows, comforters, protectors, fitted sheets and other accessories. During FY16-19, the company has seen revenue/EBITDA/PAT CAGR of 28%/19%/22% respectively.

Figure 70: Peps industries Profit And Loss - Consolidated

| Rs mn | FY16 | FY17 | FY18 | FY19 |
|--|------------|------------|------------|------------|
| Revenue from operations | 1,402 | 1,649 | 2,029 | 2,884 |
| Cost of materials consumed | 736 | 844 | 1,042 | 1,621 |
| Purchases of stock in trade | 0 | 0 | 0 | 0 |
| Changes in inventory | 7 | -13 | -9 | -16 |
| Gross profit | 659 | 818 | 997 | 1,279 |
| Employee benefit expenses | 185 | 225 | 289 | 386 |
| Other expenses | 309 | 372 | 453 | 618 |
| EBITDA | 165 | 221 | 255 | 275 |
| EBITDAM | 12% | 13% | 13% | 10% |
| Finance costs | 23 | 18 | 25 | 37 |
| Depreciation and amortization | 11 | 16 | 28 | 30 |
| Other income | 1 | 2 | 4 | 4 |
| PBT | 131 | 189 | 207 | 212 |
| Prior period and exceptional items | 0 | -0 | 0 | 0 |
| Profit before extraordinary items | 131 | 189 | 205 | 212 |
| Extraordinary items | 0 | 0 | 0 | 0 |
| Profit before tax | 131 | 189 | 205 | 212 |
| Current tax expense | 43 | 59 | 63 | 61 |
| Deferred tax expense | 5 | 4 | 10 | -2 |
| Profit from continuing operations | 83 | 127 | 132 | 153 |
| Profit from discontinuing operations (after tax) | 0 | 0 | 0 | 0 |
| Net profit/loss | 83 | 127 | 132 | 153 |

Source: Ace equity, Investec Securities research

Appendix 2: Sheela foam – About company

Sheela foam is leader in Polyurethane (PU) Foam in India, produces high quality of foam under stringent quality measures that control the foam rise profile, yield, porosity, and the desired physical properties.

Its manufacturing facilities are equipped with state-of-the-art Hennecke QFM machines, while three of its facilities (out of five) are ISO:9001 certified. Its processes are equipped with advanced foam cutting, peeling, profiling, and foam compression machines.

Sheela Group has a wide range of innovative product range offering technologically advanced consumer products that stand for a perfect blend of comfort and support. Sheela Group also caters to various industrial applications such as Automotive Industries, Sound Industry, Garment & Shoe industry with innovative PU Foam like Fire Retardant Foam, Reticulated Foam, Sound Absorption Foam used in GEN Sets. Its R&D team continuously to add value to existing foam products, develop new foam products with high quality. It introduced polyester foam in 2009, which are characterized by open cellular structures enabling having greater compressibility and flexibility, introduced economic HR foams that provide high resilience and Silentech foam which provides high noise reduction.

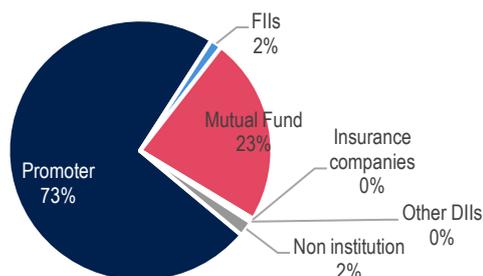
Its Australian subsidiary, Joyce Foam introduced Variable pressure foaming which involves foaming in an air-tight environment enabling production of more flexible and durable foam.

Figure 71: Brief history of Sheela foam

| Year | Details |
|-------------|---|
| 1971 | Incorporation of our Company |
| 1972 | i) Commencement of manufacturing at the manufacturing facility in Sahibabad and, ii) Launch of "Feather Foam" brand |
| 1994 | Launch of "Sleepwell" brand |
| 1996 - 1997 | Set up of our manufacturing facilities at Silvassa and Hyderabad |
| 1997 - 1998 | Commencement of rubberised coir production in Pondicherry and Sahibabad |
| 2001 | Set up of our manufacturing facility in Greater Noida |
| 2003 | i) Acquisition of Auora Foams Private Limited, ii) Merger of Feather Foam Enterprises Private Limited, Soft Foam Industries Private Limited and Pallavi Foam Industries Private Limited with our Company, iii) Set up of our manufacturing facility in Sikkim |
| 2005 | i) Incorporation of Joyce, our wholly owned subsidiary in Australia, ii) Acquisition of the business of Joyce Corporation Limited, Joyce Indpac Limited and Marfoam Pty Ltd by Joyce |
| 2010 | Introduction of variable pressure foaming technology in Joyce |
| 2011 | Set up of our manufacturing facility in Erode |
| 2011 | Merger of Serta India Private Limited with our Company |
| 2012 | Obtainment of ISO certifications for three of our manufacturing facilities (namely, the facilities located in Greater Noida, Talwada and Hyderabad) |
| 2013 | Merger of SNB Bedding International Private Limited, Starlite India Private Limited, RG Pillow (India) Private Limited and Auora Foams Private Limited with our Company |
| 2015 | Launch of My Mattress line |
| 2016 | Listing |
| 2017 | Launches economy model "STARLITE" to increase market share after GST – July 2017 Launched Comfort Cell Range of Mattresses |
| 2019 | Neem fresche technology added in Sleepwell products for protection from Skin allergies and Breathing Problems |
| 2020 | Footprint in Europe , the company acquired INTERPLASP S.L in Spain |

Source: Company, Investec Securities Research

Figure 72: Shareholding pattern, Sep-21



Source: BSE, Investec Securities Research

Figure 73: Promoter shareholding details

| Shareholders | Total Shares (mn) | in % |
|-----------------------|-------------------|--------|
| Tushaar Gautam | 17.1 | 35.03% |
| Rangoli Resorts P Ltd | 6.6 | 13.45% |
| Rahul Gautam | 6.2 | 12.73% |
| Namita Gautam | 5.7 | 11.72% |

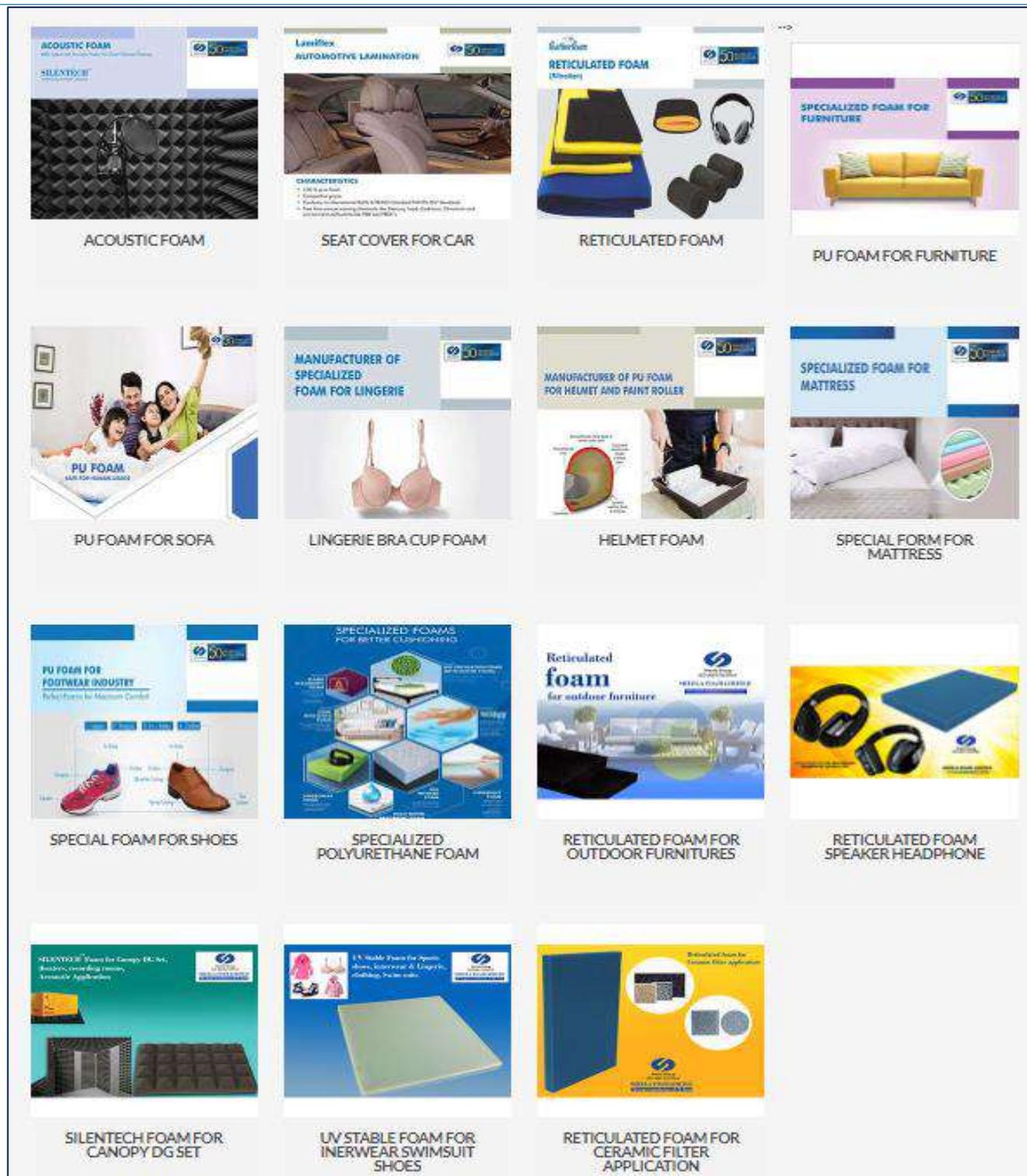
Source: BSE, Investec Securities Research

Figure 74: SFL Board of directors

| Board members | Position | Board Tenure (Yrs) | Description |
|----------------------------|---------------------------------------|--------------------|--|
| Rahul Gautam | Chairman & Managing Director | 50 | Currently, Rahul Gautam occupies the position of Chairman & Managing Director at Sheela Foam Ltd. and Chairman for Joyce Foam Pty Ltd. Mr. Gautam is also on the board of 8 other companies. Mr. Gautam received an undergraduate degree from Indian Institute of Technology Kanpur and a graduate degree from New York University Tandon School of Engineering. |
| Tushaar Gautam | Executive Director, Head-R&D Division | 19 | Tushaar Gautam is Executive Director, Head-R&D Division at Sheela Foam Ltd. He is also on the board of 6 other companies. He received an undergraduate degree from Purdue University. |
| Namita Gautam | Executive Director | 18 | Presently, Namita Gautam holds the position of Head-CSR Initiative & Special Projects at Sleepwell Foundation. Ms. Gautam is also Member of All India Kitchen Garden Association and on the board of 5 other companies. In the past Ms. Gautam held the position of President, Treasurer & Vice President at FICCI Ladies Organisation. Ms. Gautam received a graduate degree from Chhatrapati Shahu Ji Maharaj University. |
| Meena Jagtiani | Independent Director | 2 | Meena Jagtiani is on the board of Sheela Foam Ltd. Ms. Jagtiani received an MBA from Symbiosis Institute of Business Management. |
| Vijay Kumar Ahluwalia | Independent Non-Executive Director | 3 | Vijay Kumar Ahluwalia is on the board of Sheela Foam Ltd. and Director General-Raffles Group Of Institutions at Raffles University. Dr. Ahluwalia received a graduate degree from the University of Madras, a doctorate from the University of Amity and a graduate degree from Devi Ahilya University. |
| Vijay Krishan Kumar Chopra | Independent Director | 5 | Currently, Vijay Krishan Kumar Chopra holds the position of Independent Chairman of India Infoline Finance Ltd. Mr. Chopra is also Member of The Institute of Chartered Accountants of India and Associate at Indian Institute of Banking & Finance and on the board of 15 other companies. In the past Mr. Chopra held the position of Non-Executive Chairman for Future Enterprises Ltd., Chairman & Managing Director at Small Industries Development Bank of India, Member of Securities & Exchange Board of India, Chairman & Managing Director at Corporation Bank and General Manager of Central Bank of India. Vijay Krishan Kumar Chopra received an undergraduate degree from Shri Ram College of Commerce. |
| Ravindra Dhariwa | Independent Director | 5 | Founder of Sagacito Technologies Pvt Ltd., Ravindra Dhariwal is on the board of Bata India Ltd. and 14 other companies. He previously was Chief Executive Officer & Director at Bennett, Coleman & Co. Ltd., Global President at The International News Media Association and Vice President-Franchise at PepsiCo India Holdings Pvt Ltd. Mr. Dhariwal received an MBA from Indian Institute of Management Calcutta and an undergraduate degree from Indian Institute of Technology Kanpur. |
| Som Mittal | Independent Director | 5 | Som Mittal is Chairman at Charities Aid Foundation (India), Member of Indian Institute of Information Technology & Management, Member of Board For Information Technology Education Standards and Member of International Institute of Information Technology Bangalore and on the board of 13 other companies. In the past he occupied the position of Senior VP-Asia Pacific & Japan Region at HP, Inc., CEO-PC Server & Services Division at Wipro Ltd., Member of National Integration Council, Managing Director at Eit Services India Pvt Ltd.(Massachusetts) and Chairman & President for National Association of Software & Services Cos. Som Mittal received an undergraduate degree from Indian Institute of Technology Kanpur and an MBA from Indian Institute of Management. |
| Anil Tandon | Independent Director | 5 | Anil Tandon is on the board of Sheela Foam Ltd. and 7 other companies. Mr. Tandon received an undergraduate degree from Indian Institute of Technology Kanpur and a graduate degree from Indian Institute of Management. |

Source: Company, Investec Securities estimates

Figure 75: Technical product range



Source: Company, Investec Securities Research

Summary Financials (INRm)

Year end: 31 March

| Income Statement | 2020 | 2021E | 2022E | 2023E | 2024E |
|--|----------------|----------------|----------------|----------------|----------------|
| Revenue | 21,736 | 24,354 | 30,980 | 36,121 | 40,660 |
| EBITDA | 3,004 | 3,623 | 3,982 | 5,109 | 5,917 |
| Depreciation and amortisation | (590) | (729) | (778) | (836) | (827) |
| Operating profit | 2,414 | 2,894 | 3,204 | 4,273 | 5,090 |
| Other income | 400 | 521 | 480 | 627 | 796 |
| Net interest | (130) | (177) | (175) | (423) | (393) |
| Share-based-payments | 0 | 0 | 0 | 0 | 0 |
| PBT (normalised) | 2,684 | 3,238 | 3,509 | 4,477 | 5,494 |
| Impairment of acquired intangibles | 0 | 0 | 0 | 0 | 0 |
| Non-recurring items/exceptionals | (120) | 0 | 0 | 0 | 0 |
| PBT (reported) | 2,564 | 3,238 | 3,509 | 4,477 | 5,494 |
| Taxation | (621) | (837) | (884) | (1,128) | (1,384) |
| Minorities & preference dividends | (9) | (24) | (24) | (24) | (24) |
| Discontinued/assets held for sale | - | - | - | - | - |
| Net Income (normalised) | 2,054 | 2,377 | 2,601 | 3,325 | 4,085 |
| Attributable profit | 1,934 | 2,377 | 2,601 | 3,325 | 4,085 |
| EPS (reported) | 39.7 | 48.7 | 53.3 | 68.2 | 83.7 |
| EPS (norm., cont.) – FD (INR) | 42.1 | 48.7 | 53.3 | 68.2 | 83.7 |
| EPS (norm., cont., IAS19R adj.) – FD | 42.1 | 48.7 | 53.3 | 68.2 | 83.7 |
| DPS (INR) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Average number of group shares - FD (m) | 49 | 49 | 49 | 49 | 49 |
| Average number of group shares (m) | 49 | 49 | 49 | 49 | 49 |
| Total number of shares in issue (m) | 49 | 49 | 49 | 49 | 49 |
| Cash Flow | 2020 | 2021E | 2022E | 2023E | 2024E |
| Operating profit | 2,414 | 2,894 | 3,204 | 4,273 | 5,090 |
| Depreciation & amortisation | 590 | 729 | 778 | 836 | 827 |
| Other cash and non-cash movements | 249 | 337 | 175 | 423 | 393 |
| Change in working capital | (1,094) | (404) | (480) | (269) | (182) |
| Operating cash flow | 2,159 | 3,556 | 3,677 | 5,263 | 6,129 |
| Interest | (107) | (135) | (175) | (423) | (393) |
| Tax paid | (416) | (819) | (884) | (1,128) | (1,384) |
| Dividends from associates and JVs | 0 | 0 | 0 | 0 | 0 |
| Cash flow from operations | 1,635 | 2,603 | 2,618 | 3,712 | 4,351 |
| Maintenance capex | (1,834) | (648) | (1,950) | (1,050) | (400) |
| Free cash flow | (199) | 1,956 | 668 | 2,662 | 3,951 |
| Expansionary capex | 0 | 0 | 0 | 0 | 0 |
| Exceptionals and discontinued operations | 0 | 0 | 0 | 0 | 0 |
| Other financials | (1,695) | (3,071) | 306 | 204 | 403 |
| Acquisitions | 0 | 0 | 0 | 0 | 0 |
| Disposals | 0 | 0 | 0 | 0 | 0 |
| Net share issues | 0 | 0 | 0 | 0 | 0 |
| Dividends paid | 0 | 0 | 0 | 0 | 0 |
| Change in net cash | (1,894) | (1,116) | 973 | 2,866 | 4,354 |
| Net cash/(debt) | 711 | (405) | 568 | 3,434 | 7,788 |
| FCFPS - FD (INR) | (4.1) | 40.1 | 13.7 | 54.6 | 81.0 |
| Balance Sheet | 2020 | 2021E | 2022E | 2023E | 2024E |
| Property plant and equipment | 6,390 | 6,634 | 7,806 | 8,020 | 7,593 |
| Intangible assets | 2,371 | 2,631 | 2,631 | 2,631 | 2,631 |
| Investments and other non current assets | 295 | 3,306 | 3,357 | 3,397 | 3,433 |
| Cash and equivalents | 2,642 | 1,651 | 2,823 | 5,662 | 9,927 |
| Other current assets | 389 | 363 | 461 | 538 | 605 |
| Total assets | 16,513 | 20,759 | 23,333 | 27,085 | 31,475 |
| Total debt | (1,931) | (2,056) | (2,255) | (2,228) | (2,138) |
| Preference shares | 0 | 0 | 0 | 0 | 0 |
| Other long term liabilities | (3,556) | (4,262) | (4,476) | (4,641) | (4,787) |
| Provisions & other current liabilities | (1,749) | (2,508) | (2,045) | (2,310) | (2,534) |
| Pension deficit and other adjustments | 0 | 0 | 0 | 0 | 0 |
| Total liabilities | (7,237) | (8,826) | (8,775) | (9,179) | (9,460) |
| Net assets | 9,276 | 11,932 | 14,557 | 17,906 | 22,015 |
| Shareholder's equity | 9,197 | 11,843 | 14,444 | 17,768 | 21,853 |
| Minority interests | 79 | 89 | 114 | 138 | 162 |
| Total equity | 9,276 | 11,932 | 14,557 | 17,906 | 22,015 |
| Net working capital | (3,738) | (3,967) | (4,113) | (4,304) | (4,543) |
| NAV per share (INR) | 190.1 | 244.6 | 298.4 | 367.1 | 451.3 |

Source: Company accounts, Investec Securities estimates

Calendarised Valuation

Year end: 31 March

| | 2020 | 2021E | 2022E | 2023E |
|--------------------------|------|-------|-------|-------|
| Calendar PE (x) | 67.6 | 61.1 | 49.4 | 40.0 |
| Calendar Price/NAVPS (x) | 13.8 | 11.2 | 9.1 | 7.4 |
| EV/sales (x) | 6.6 | 5.3 | 4.5 | 4.0 |
| EV/EBITDA (x) | 44.9 | 40.1 | 32.3 | 27.3 |
| EV/Adjusted EBITDA (x) | 44.9 | 40.1 | 32.3 | 27.3 |
| FCF yield (%) | 0.9 | 0.6 | 1.4 | 2.3 |
| Dividend yield (%) | 0.0 | 0.0 | 0.0 | 0.0 |

Source: Company accounts, Investec Securities estimates

Ratios and Metrics

Year end: 31 March

| Ratios and metrics | 2020 | 2021E | 2022E | 2023E | 2024E |
|--------------------------------------|--------|--------|--------|--------|--------|
| Revenue growth (y-on-y) (%) | 1.5 | 12.0 | 27.2 | 16.6 | 12.6 |
| EBITDA growth (y-on-y) (%) | 42.4 | 20.6 | 9.9 | 28.3 | 15.8 |
| Net income (normalised) growth (yoy) | 53.6 | 15.7 | 9.4 | 27.8 | 22.9 |
| EPS (normalised) growth (y-on-y) (%) | 53.6 | 15.7 | 9.4 | 27.8 | 22.9 |
| FCFPS growth (y-on-y) (%) | | | (65.9) | 298.7 | 48.4 |
| NAVPS growth (y-on-y) (%) | 27.1 | 28.6 | 22.0 | 23.0 | 22.9 |
| DPS growth (y-on-y) (%) | - | - | - | - | - |
| Interest cover (x) | 18.6 | 16.4 | 18.3 | 10.1 | 12.9 |
| Net debt/EBITDA (x) | (0.2) | 0.1 | (0.1) | (0.7) | (1.3) |
| Net debt/equity (%) | (7.7) | 3.4 | (3.9) | (19.2) | (35.4) |
| Net gearing (%) | (8.3) | 3.3 | (4.1) | (23.7) | (54.7) |
| Dividend cover (x) | n.m. | n.m. | n.m. | n.m. | n.m. |
| EBITDA margin (%) | 13.8 | 14.9 | 12.9 | 14.1 | 14.6 |
| EBITA margin (%) | 11.1 | 11.9 | 10.3 | 11.8 | 12.5 |
| ROE (%) | 22.3 | 20.1 | 18.0 | 18.7 | 18.7 |
| ROCE (%) | 16.8 | 16.5 | 15.7 | 17.9 | 18.1 |
| NWC/revenue (%) | (17.2) | (16.3) | (13.3) | (11.9) | (11.2) |
| Tax rate (normalised) (%) | 23.1 | 25.8 | 25.2 | 25.2 | 25.2 |
| Tax rate (reported) (%) | 24.2 | 25.8 | 25.2 | 25.2 | 25.2 |

Source: Company accounts, Investec Securities estimates

Target Price Basis

FY24 PE

Key Risks

RM volatility, failure to scale up exports, slowdown in domestic demand, high competition

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Stock ratings for European/Hong Kong stocks

| | Expected total return | Count | All stocks | Corporate stocks | |
|------|-----------------------|-------|------------|------------------|------------|
| | 12m performance | | % of total | Count | % of total |
| Buy | greater than 10% | 267 | 72% | 118 | 44% |
| Hold | 0% to 10% | 81 | 22% | 6 | 7% |
| Sell | less than 0% | 24 | 6% | 0 | 0% |

Source: Investec Securities estimates

Stock ratings for Indian stocks

| | Expected total return | Count | All stocks | Corporate stocks | |
|------|-----------------------|-------|------------|------------------|------------|
| | 12m performance | | % of total | Count | % of total |
| Buy | greater than 15% | 124 | 65% | 1 | 1% |
| Hold | 5% to 15% | 47 | 25% | 0 | 0% |
| Sell | less than 5% | 20 | 10% | 0 | 0% |

Source: Investec Securities estimates

Stock ratings for African* stocks

| | Expected total return | Count | All stocks | Corporate stocks | |
|------|-----------------------|-------|------------|------------------|------------|
| | 12m performance | | % of total | Count | % of total |
| Buy | greater than 15% | 46 | 55% | 11 | 24% |
| Hold | 5% to 15% | 25 | 30% | 6 | 24% |
| Sell | less than 5% | 12 | 14% | 1 | 8% |

Source: Investec Securities estimates

*For African countries excluding South Africa, ratings are based on the 12m implied US dollar expected total return (ETR). This is derived from the expected local currency (LCY) ETR by making assumptions on the 12month forward exchange rates for the respective currencies. For South African stocks, ratings are based on the ETR in rand terms.

For European and Hong Kong stocks, within the Hold banding, an Add rating may be (optionally) applied if the analyst is positive on the stock and the ETR is greater than 5%; a Reduce rating may be (optionally) applied if the analyst is negative on the stock and the ETR is less than 5%.

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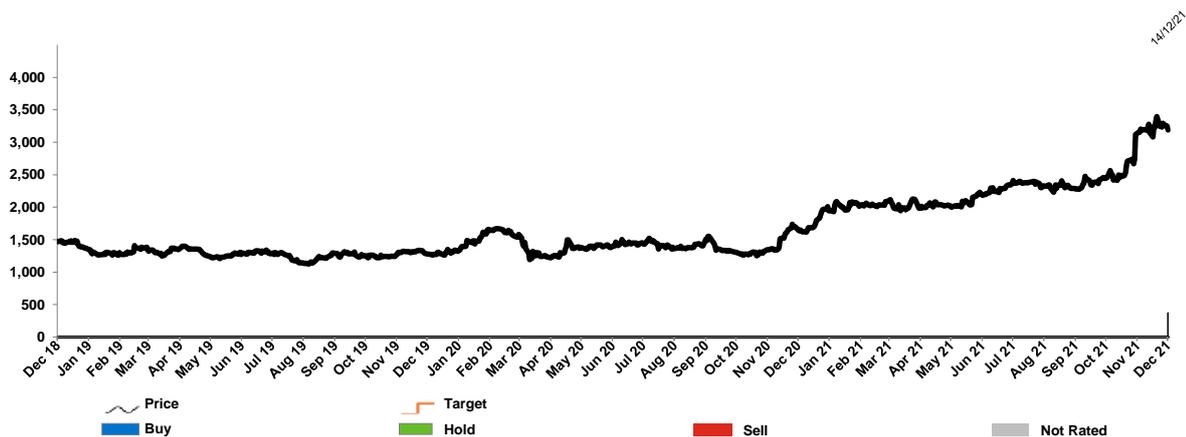
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Sheela Foam Ltd

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Recommendation history (for the last 3 years to previous day's close)

Sheela Foam Ltd (SHEF.NS) – Rating Plotter as at 15 Dec 2021



Source: Investec Securities / FactSet

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