

SHEELA FOAMS

REPORT BY:

DIVIJ WADHWA

&

SARTHAK CHOPRA

ABOUT THE COMPANY

Sheela Foams has established itself as the largest manufacturer of polyurethane foam in India and is ISO 9001 certified company. Their products are sold under the brand Sleepwell, Feather Foam, and Lamiflex.

Their products offered by them such as mattresses, pillows, bed sheets, cushions, sofa-cum beds, baby care sheets etc. are used in households, hotels and hospitals.

They possess 12 state of the art manufacturing units and their distribution network comprises of 100 exclusive distributors, 2,000 retail dealers, and 2,500 multi-branded outlets, as well as exports to approximately 32 countries.

OBJECTIVES

1. Development of the brand.
2. Focusing on development of personalised products.
3. Expansion of sales and distribution network.
4. Embracement of advanced manufacturing and production methods.
5. Expansion of products so as to cater to the needs of the consumer in a better way.
6. Expansion in the distribution of manufacturing processes.

OVERVIEW OF INDIAN MATTRESS INDUSTRY

There has been a significant transition in the Indian Mattress Industry from a largely unorganised one to one in which the organised market has developed to a great extent. There has been annual growth rate of 8-10% over the past 5 years in this industry because of rising urbanisation, increase in income, increase health related issues and awareness about sleep.

The organised sector constitutes about 33-35% of the total market, the rest of which is unorganised. **Sheela Foams accounts for 20-23% of this organised segment as of 2015-2016.**

/.ooyt8uuyouuty8y7oiuoyy

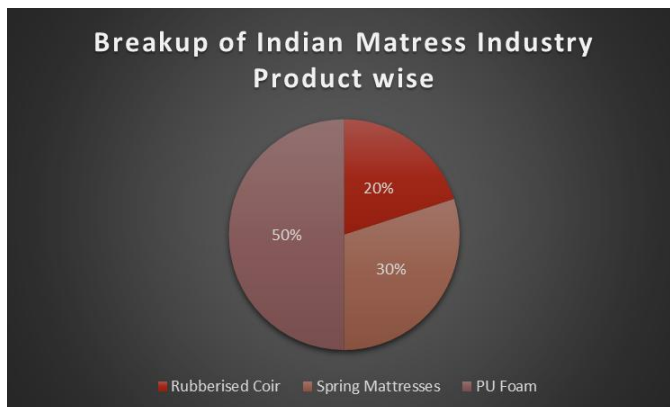


Source: DRHP Sheela Foams

Types of mattresses

The Indian mattress industry majorly comprises of 3 types of mattresses

1. Rubberised Coir
2. Spring Mattresses
3. PU Foam

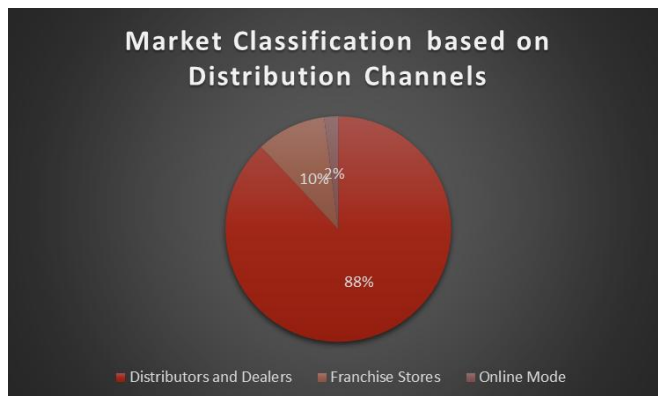


Source: DRHP Sheela Foams

Market Classification on the basis of Distribution Channels

Based on Distribution Channels, the market can be classified into 3 types

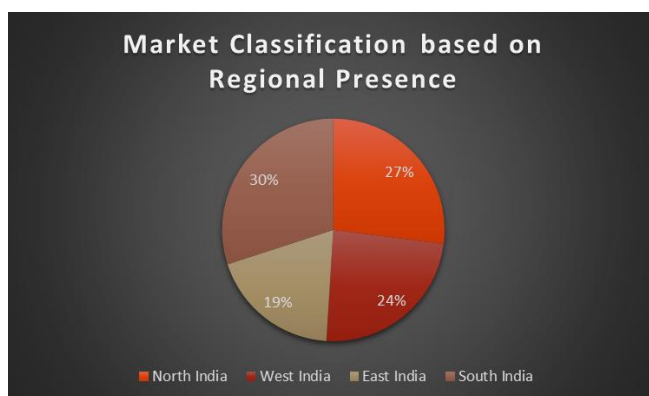
1. Distributors and Dealers
2. Franchise Stores
3. Online Mode



Source: DRHP Sheela Foams

Market Classification based on Regional Presence

CRISIL estimated that a higher share in the industry's revenue is contributed by the northern and the southern regions of India. PU Foam mattresses are more prominent in northern India because of their ability of absorb heat and rubberised coir mattresses are more prominent in southern India because of abundant presence of rubber and coir.

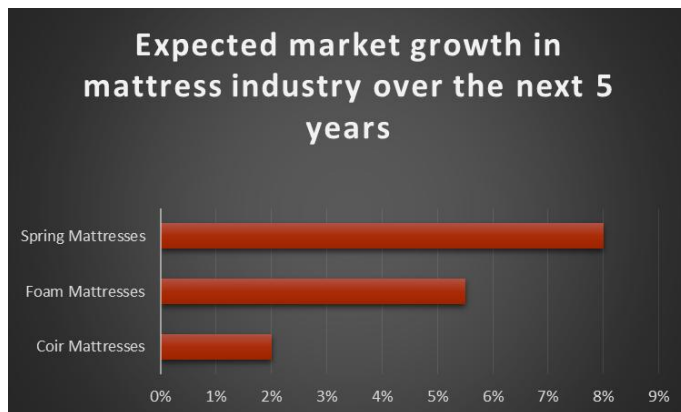


Source: DRHP Sheela Foams

Factors affecting the growth of Indian Mattress Industry

- Increase in Urban Population.
- Increase in Urbanisation.
- Growth of Income and subsequently disposable Income.
- Exposure to Global Trends.
- Increase in health problems like back pain, spine pain etc.
- Increase in housing and hospitality segments has also driven the growth of the Indian Mattress Industry

Expected market growth in mattress industry over the next 5 years



Source: DRHP Sheela Foams

FINANCIALS

Standalone Summary Statement of Assets and Liabilities

(Rs. in Million)							
	Particulars	Annexure No.	As at March 31				
			2016	2015	2014	2013	2012
	Equity and Liabilities						
(1)	Shareholder's funds						
	(a) Share Capital	I.1	162.61	162.61	162.61	162.61	165.29
	(b) Reserves and surplus	I.2	2942.73	2040.53	1696.13	1446.07	1181.86
			3105.34	2203.14	1858.74	1608.68	1347.15
(2)	Non-current liabilities						
	(a) Long-term borrowings	I.3	39.02	175.84	386.17	616.20	760.32
	(b) Deferred tax liabilities (Net)	I.4	57.17	47.49	56.90	64.78	38.35
	(c) Other Long term liabilities	I.5	342.13	274.84	217.85	174.11	113.70
	(d) Long-term provisions	I.6	97.05	76.98	71.11	53.73	35.08
			535.37	575.15	732.03	908.82	947.45
(3)	Current liabilities						
	(a) Short-term borrowings	I.7	408.38	350.41	344.52	534.36	610.92
	(b) Trade payables		896.30	935.59	708.76	562.20	547.85
	(c) Other current liabilities	I.8	1305.62	1254.55	1020.94	625.59	365.22
	(d) Short-term provisions	I.9	209.07	77.87	41.03	36.06	25.33
			2819.37	2618.42	2115.25	1758.22	1549.32
	Total		6460.08	5396.71	4706.02	4275.72	3843.92
	Assets						
(4)	Non-current assets						
	Fixed assets						
	(a) Tangible assets		2008.33	1903.53	1646.55	1705.80	1190.84
	(b) Capital work-in-progress		22.08	81.50	167.79	14.57	410.49
			2030.41	1985.03	1814.34	1720.37	1601.33
	(c) Non-current investments	I.10	525.62	298.84	230.74	307.08	315.91
	(d) Long-term loans and advances	I.11	133.14	102.22	64.76	66.61	44.22
	(e) Other non-current assets	I.12	0.15	0.43	4.28	5.63	3.18
			2689.32	2386.52	2114.12	2099.69	1964.64
(5)	Current assets						
	(a) Inventories	I.13	735.33	911.73	862.09	853.42	577.90
	(b) Trade receivables	I.14	749.65	782.43	807.68	758.78	815.94
	(c) Cash and bank balances	I.15	2054.75	1082.65	696.05	292.69	149.56
	(d) Short-term loans and advances	I.16	162.19	175.20	179.88	223.31	273.95
	(e) Other current assets	I.17	68.84	58.18	46.20	47.83	61.93
			3770.76	3010.19	2591.90	2176.03	1879.28
	Total		6460.08	5396.71	4706.02	4275.72	3843.92

Source: DRHP Sheela Foams

Standalone Summary Statement of Profit and Loss

(Rs. in Million)

	Particulars	Annexure No.	For the years ended March 31				
			2016	2015	2014	2013	2012
A	Income						
	Revenue from operations	II.1	14112.46	12715.14	11278.92	10008.58	8167.76
	Less: Excise duty		1461.98	1356.42	1253.49	1154.69	772.32
			12650.48	11358.72	10025.43	8853.89	7395.44
	Other income	II.2	212.23	142.64	80.76	124.02	57.45
	Total Revenue		12862.71	11501.36	10106.19	8977.91	7452.89
B	Expenditure						
	Cost of materials consumed	II.3	6793.10	7291.92	6474.02	5862.92	5021.72
	Purchase of stock-in-trade	II.4	143.17	116.39	94.59	67.99	94.22
	Other manufacturing expenses	II.5	639.74	532.22	368.29	275.74	236.57
	Changes in inventories of finished goods, stock-in-process and stock-in-trade	II.6	87.44	(1.62)	(27.24)	(108.01)	(85.55)
	Employee benefits expenses	II.7	807.15	678.00	604.30	442.59	310.66
	Finance costs	II.8	67.68	104.71	118.19	150.45	162.56
	Depreciation & amortization expenses		227.76	215.06	202.20	193.02	141.17
	Other expenses	II.9	2772.94	2108.61	1955.39	1760.52	1451.42
	Total		11538.96	11045.29	9789.74	8645.22	7332.77
C	Restated profit before tax (A - B)		1323.75	456.08	316.45	332.69	120.13
D	Tax expense						
	Current tax		411.88	121.09	74.28	63.04	9.25
	Deferred tax		9.67	(9.41)	(7.88)	29.32	29.68
E	Restated Profit after tax, before extraordinary item (C-D)		902.20	344.40	250.05	240.33	81.20
F	Loss of Subsidiary on amalgamation		-	-	-	-	0.08
G	Restated Net Profit for the years carried to Reserve & Surplus (E - F)		902.20	344.40	250.05	240.33	81.12

Source: DRHP Sheela Foams

Evaluation of Annual Growth Rate of Revenue and Profit

Particulars	Years/ Amount in Rs Million				
	31-03-2016	31-03-2015	31-03-2014	31-03-2013	31-03-2012
Total Assets	6460.08	5396.71	4706.02	4275.72	3843.92
Total Revenue	12862.71	11501.36	10106.19	8977.91	7452.89
Profit After Tax(PAT)	902.2	344.4	250.05	240.33	81.12

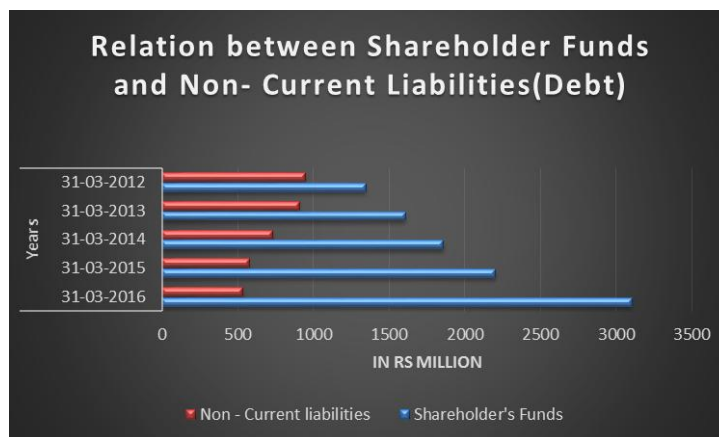
CAGR Revenue: 12%**CAGR Profit: 62%****Revenue Valuation for the next 5 years**

Particulars	Years/ Amount in Rs Million									
	31-03-2012	31-03-2013	31-03-2014	31-03-2015	31-03-2016	31-03-2017	31-03-2018	31-03-2019	31-03-2020	
Revenue	7452.89	8977.91	10106.19	11501.36	12862.71	14346.106	16000.575	17845.846	19903.923	



Shareholder's Funds and Non- Current Liabilities

Particulars	Years/ Amount in Rs Million				
	31-03-2016	31-03-2015	31-03-2014	31-03-2013	31-03-2012
Shareholder's Funds	3105.34	2203.14	1858.74	1608.68	1347.15
Non - Current liabilities	535.37	575.15	732.03	908.82	947.45

**SHAREHOLDING****Outstanding Shares**

Particulars	For the years ended March 31									
	2016		2015		2014		2013		2012	
	No. of Shares	Rs. in Million	No. of Shares	Rs. in Million	No. of Shares	Rs. in Million	No. of Shares	Rs. in Million	No. of Shares	Rs. in Million
At the beginning of the year	1,62,60,936	162.61	1,62,60,936	162.61	1,62,60,936	162.61	1,65,29,340	165.29	2,40,95,200	240.95
Add : Addition during the year	--	--	--	--	--	--	63,296	0.63	2,100	0.02
Less : Cancellation during the year	--	--	--	--	--	--	3,31,700	3.31	75,67,960	75.68
At the end of year	1,62,60,936	162.61	1,62,60,936	162.61	1,62,60,936	162.61	1,62,60,936	162.61	1,65,29,340	165.29

Source: DRHP Sheela Foams

Promoter Holding

Name of Shareholder	For the years ended March 31									
	2016		2015		2014		2013		2012	
	No. of Shares	% held	No. of Shares	% held	No. of Shares	% held	No. of Shares	% held	No. of Shares	% held
Sh. Rahul Gautam	33,18,473	20.41	33,18,465	20.41	33,17,265	20.40	33,17,265	20.40	32,93,640	19.93
Smt. Namita Gautam	19,05,293	11.72	19,05,293	11.72	19,05,293	11.72	19,05,293	11.72	18,93,480	11.46
Smt. Sheela Gautam and Sh. Tushaar Gautam	58,53,960	36.00	58,53,960	36.00	58,53,960	36.00	58,53,960	36.00	58,53,960	35.42
M/s Polyflex Marketing Private Limited	45,12,558	27.75	45,12,558	27.75	45,12,558	27.75	45,12,558	27.75	44,92,712	27.18

Source: DRHP Sheela Foams

Approximately 95.88% of the company is held by the promoters.

LEGAL INFORMATION

There are outstanding litigation against the company, promoters, directors of the company and against one group company of Sheela Foams.

Litigation against the Company

There are 5 cases of civil proceedings involving an amount of approximately 22 million rupees, 30 cases related to taxation involving an amount of approximately 184 million rupees, 2 cases related to labour proceedings and 2 other cases.

Litigation against the Promoter

- There is one case against Ms Sheela Gautam regarding civil proceedings amounting to approximately 22 million rupees.
- There is one case against Ms Rahul Gautam regarding civil proceedings amounting to approximately 22 million rupees and one case related to taxation amounting to approximately 0.5 million rupees

Litigation against the Directors

- There is one case against Ms Sheela Gautam related to taxation amounting to approximately 0.5 million rupees.
- There is also one case against Ms Namita Gautam.

Litigation against the Group Company

There is one case against Rangoli Resorts Private Limited regarding civil proceedings.

RISK FACTORS

1. Shutting down or slowdown in manufacturing operations may have an adverse effect on the business
2. Since the supply and distribution to the market is majorly done by third party suppliers and distributors and inability to expand or manage this network of suppliers and distributors may hamper the business.
3. Counterfeiting the foam products by third party may affect the reputation of the company.
4. Lack of patent in relation to manufacturing process coupled with inability to protect the secrecy of the manufacturing process may have an adverse impact on the business.
5. Increase in cost of raw materials or shortage of it may hamper the business

STRENGTHS

1. Recognised and established brand.
2. Market leader in the organised sector and largest manufacturer of polyurethane foam in India.
3. Well-developed network of distributors, suppliers etc.

4. Qualified and very professional management.
5. Almost negligible debt in the company
6. Quality manufacturing capabilities

OFFER INFORMATION

Issue Open: Nov 29, 2016 - Dec 1, 2016

Issue Type: Book Built Issue IPO

Issue Size: Offer for Sale of [.] Equity Shares of Rs 5 aggregating up to Rs 510.00 Cr

Face Value: Rs 5 Per Equity Share

Issue Price: Rs. 680 - Rs. 730 Per Equity Share

Market Lot: 20 Shares

Minimum Order Quantity: 20 Shares

Listing At: BSE, NSE

OBSERVATIONS

- Sheela Foams is the market leader in the organised sector in the Indian Mattress Industry.
- It has almost negligible debt and this debt is decreasing every financial year coupled with increase in Shareholder's funds.
- The promoter holding of the company stands at 95.88% which is huge and this symbolises the confidence that the promoters have in the company and that the IPO was done to raise money for the expansion of business.
- CAGR of Revenue is 12% and that of profit is 62% over a period of 5 years which is extraordinarily good for a company which is the market leader in its industry.
- Excellent growth rate coupled with increase in income, urbanisation and increasing awareness regarding health will act as a catalyst in the growth of the organised sector in this industry.
- The risk factors involved in this company are not only limited to this company but to all the companies in this sector.
- Sheela Foams has some litigation cases pending against them but so does every huge company does have some litigation pending against them and what helps the cause of Sheela Foams is that the amount involved in the litigation is negligible in respect to the shareholder's funds.

CONCLUSION

Sheela Foams is a good buy and the price of the share is expected to increase in the future.