

KURLON ENTERPRISES LTD – INDIA’S LARGEST SELLING MATTRESS BRAND

ABOUT KURLON ENTERPRISE LTD:

 was incorporated in 1962 under the name “*Karnataka Consumer Products Ltd*” for manufacturing of rubberized Coir, Latex, Foam & Polyurethane Foam , spring mattress along with Home Comfort Solutions like Pillows, cushions, bed linens as well as ergonomically designed furniture, Furnishings, etc. The name of the company was changed to Kurl-On Ltd in 1995. **Kurl-On Ltd (KL) the India’s Largest selling mattress brand enjoys market share of 35%-40% and is ranked 2nd in manufacturing PU Foams in India.**

Kurlon Enterprise Ltd (KEL) was incorporated in 2011 as a wholly owned subsidiary of Kurl-On Ltd. On 1ST April, 2014 under the **business transfer agreement between Kurl-On Ltd and Kurlon Enterprises Ltd division of mattress, foam and furniture and other similar products was transferred to KEL on a sump sale basis.** Thus currently KL stands as an operating company involved in manufacturing rubberized coir, foam and spring mattresses, foam products and home furnishings through its subsidiary i.e. KEL.

NETWORK AND CUSTOMER BASE:

- Kurl-On group has its **registered office located at Mumbai** and **Corporate office at Bangalore.**
- **9 state of art manufacturing units** located across Gwalior, Karnataka, Orissa, MP, Uttaranchal and Gujarat.
- Wide dealership network of **more than 7000 dealers spread over 70 branches and stock points** in India.
- KEL has its retail outlets that operate under the brand name “*Kurlon Mattress Express*” through franchisee model with close to **223 franchise showrooms** across the country.
- **Company also exports its products to Middle East, West Asia, Singapore, Australia, Sri Lanka, Maldives and Nepal.**

SHAREHOLDING PATTERN & STRATEGIC INVESTMENT:

Kurl-On Ltd holds 82.39% stake in KEL as on 31st March 2017. In Sept, 2015 **Motila Oswal Private Equity Advisors Pvt Ltd (MOPE) made strategic investment of Rs.90 Crs i.e \$13.5 Million valuing the company around Rs.1000 Crs** through its 2 managed fund i.e India Business Excellence II &11A for capacity expansion of Kurl-On.

FINANCIAL HIGHLIGHTS – (Fig. In Crs)

PARTICULARS	2017	2016	2015
GROSS INCOME	1034.41	893.63	816.41
EBITDA	107.31	86.53	50.40
PAT	60.79	36.86	16.45
EPS	27.04	17.86	17.51
EQUITY	11.23	11.23	11.23
FACE VALUE	5	10	10
BOOK VALUE	104.92	155.87	43.40
DIVIDEND (%)	50%	40%	0%

Despite demonetization and rise in raw material prices during the year KEL displayed a strong and stable financial growth with its focus on expansion, new product innovation such as low cost mattresses for budget buyers, rationalized pricing and good market share as displayed below:

- **Gross Income** of the company increased by **13% on CAGR** basis since 2015.
- **EBITDA** i.e operating profit increased by **46% on CAGR** basis since 2015.
- **Profit after Tax (PAT)** has jumped upto **92% CAGR** growth since 2015.

SEGMENT REPORTING:

Segment	% Contribution to Total Turnover	
	2017	2016
Mattresses	94%	96%
Furniture	1%	1%
Sofa Furnishing	2%	2%
Polyfiber Goods	3%	2%

CAPITAL STRUCTURE:

- **Sub –Division of Equity** - On 23rd Feb 2017 KEL has sub divided its face value from Rs.10 to Rs.5 per share.
- **ESOP** - Company has launched ESOP (Employee Stock option plan) during 2015-2016 to reward their high performing employees. In 2016 KEL granted 468,864 options at an **exercise price of Rs.600 per share** which are outstanding as on 31st March 2017.
- **Bonus Issue** - Kurlon Enterprises Ltd in their latest **EGM dated 28th Nov, 2017 proposed issue of bonus shares in the ratio 353 shares for every 1250 shares** as on the record date not fixed. Equity capital shall increase to Rs. 14.41 Crs after bonus reflected in 2018.

INDUSTRY OVERVIEW & OUTLOOK:

Over the past 5 Years Mattress Industry has grown by 8-10% on CAGR basis and is estimated to grow upto Rs. 10,000 Crs market by FY 2020. Organized Mattress Segment is estimated to grow by 11 -13% and E-commerce mattress segment is estimated to touch Rs.290 Crs by FY 2021.

THE MAIN FACTORS FOR UPSPRING IN MATTRESS INDUSTRY ARE:

1. Mattress Industry is divided in two unorganized and organized. **Unorganized players enjoy market share of 60-65% in retail front** but are restricted to their local markets and enjoys economies of scale at lower pricing.
2. **Organized players i.e Kurlon, Sleepwell, Duroflex, Restonic, etc. are the dominant players** .Among them Kurl-On possess a wide spectrum of mattress within the affordable price range for the Indian consumers and enjoys 35-40% of market share.
3. **Infrastructural Development** to meet the need of rise in population, **government effort to provide affordable housing** i.e metro houses and **booming hospitality sector** has boosted the mattress industry.
4. Rising penetration of organized sector in mattresses segment fueled by **rising demand of good quality mattress by upcoming foreign players.**
5. **Rise in health consciousness and lifestyle** supported by **rise in disposable income** of people which has resulted in **rise in demand for branded spring mattress to have good sleep.**
6. Due to **rise in service sector i.e hotels, hospitals, hostels etc.in India** which are more **focused on customer satisfaction prefer branded high quality and high performing mattress** which has boosted the revenue of organized players.
7. Owed to the demographic dividend such as rising young population, rising standards of living, the **demand for mattress from e-commerce portals is expected to witness an uptrend.**

CONCLUSION:

Thus we Strongly Recommend “Buy - Kurlon Enterprise Ltd” based on:

1. PEER COMPARISON:

Kurlon Enterprises Ltd is comparable with its listed peer “Sheela Foam Ltd” (i.e Sleepwell Mattresses). Sheela Foam Ltd had a successful debut on national wide stock exchange i.e BSE/NSE in 2016 with 41% hike in share price on the day of listing.

PARTICULARS	KEL	SHEELA FOAM LTD
SHARE PRICE	1150-1190*	1720**
PE	54 – 56	69.16
P/BV	14 -14.5	18.11
MCAP/SALES	2.64 -3.50	5.70

Note - * means price is post bonus declaration. ** means price is dated 15th Dec, 2017.

From above parameters we can draw a conclusion that **KEL is undervalued company**. It has potential to grow to Rs.1250 + per share in short run.

2. INDUSTRY SCOPE:

Mattress Industry has huge scope with high under usage of branded and readymade mattresses, large players like Kurlon, Sleepwell, Duroflex, Restonic, etc. are looking to access unrepresented markets i.e Tier II & III, and also expected to undertake forward integration to enjoy economies of scale.

3. CAPACITY EXPANSION BY KURL-ON:

Kurl-On has stated to invest average Rs.100 Crs annually for capacity expansion later this year which shall further strengthen the financial performance of the company by increasing their number of customer base and market share.

4. COMPANY PROPOSAL FOR IPO:

KEL currently traded in Off Market (Unlisted Market) has proposed earlier this year to file DRHP with SEBI in early 2018 to come up with IPO for raising around Rs.500 Crs via IPO and utilize those funds for expansion program.

5. STRONG INTEREST BY PE FUNDS:

As per the latest news PE funds i.e Carlyle, KKR, Blackrock, Bain, TA Associates and Warburg Picus has approached the company for buying controlling stake in the company. *The Fund Houses are valuing the company around Rs.3000- 4000 Crs.*

Based on the recent article in Economic Times Mr. Sudhakar Pai (MD of Kurl-On Ltd) said “**They are expecting the valuation of company to be Rs.12000 Crs.** There is going to be a share buyout but no detail information can be shared due to NDA signed with the Fund. But the stake sale is not a controlling one.” Based on this valuation the *share price of the company shall come to Rs. 4100+ per share which shall be a deal breaker at a very huge premium in the Mattress Industry.*



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