August 20, 2021

Stanley Lifestyles Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term: Fund-based facilities	15.00	15.00	[ICRA]A-(Stable); reaffirmed
Short term: Non-fund based	35.00	35.00	[ICRA]A2+; reaffirmed
Long term/Short term: Unallocated	6.78	6.78	[ICRA]A-(Stable)/A2+; reaffirmed
Total	**56.78**	**56.78**	

**Instrument details are provided in Annexure-1;*

Rationale

The ratings take into consideration the consolidated operational and financial profile of Stanley Lifestyles Limited (SLL) with its subsidiaries – Stanley Retail Limited (SRL), Stanley OEM Sofas Limited (SOSL), Sana Lifestyles Ltd, Shrasta Decor Private Limited, Scheek Home Interiors Limited, ABS Seating Private Limited and Stanley Automotive Leather Trims Limited (hereafter referred to as the Group), as there is significant operational and financial linkages among these companies.

The rating reaffirmation factors in the extensive track record of SLL's promoters in the leather business, along with the established brand name of Stanley in the premium furniture and automobile upholstery segments in the Bangalore market. The ratings reflect its healthy financial profile characterised by a highly conservative capital structure and strong liquidity position with free cash balances of Rs. 67.33 crore as on June 31, 2021. ICRA notes that SLL has been very judicious in allocating new capital for store expansions and is largely dependent on internal reserves/ equity raising to fund its growth capex. Low dependence on debt has helped then company to manoeuvre through the challenging operating environment prevailing in the last fiscal amid the Covid-19 pandemic-induced lockdowns. Over the last few years, it has experimented with new product offerings (Stanley fashion range), retail formats (Sofas and More, Stanley Level Next) and distribution channels (contract manufacturing for IKEA), which has provided multiple growth levers and helped the company to tide over the pandemic-induced slowdown. The ratings consider the favourable demand prospects for the furniture industry in India with rising income levels and growing preference for premium furniture, which augurs well for SLL, over the medium to long term. Moreover, the rising demand for home improvement, as people spend more time at home following the Covid-19 outbreak, has benefitted the domestic furniture manufacturers. Presence across the entire value chain of the furniture industry, from designing, manufacturing to retailing activities, supports its operating margins and offers an edge over its competitors, enabling SLL to respond faster to changes in demand preferences, and provide a faster turn-around time for customised furniture delivery.

The ratings, however, are constrained by the operational disruptions emanating from Covid-19 lockdowns, which, along with a slowdown in the automobile industry led to a decline in its operating income (OI) in FY2021. However, the operating margins improved to 9.5% in FY2021 from 7.0% in FY2020 on the back of cost control measures undertaken by the company. Following the resumption of normal economic activity following the second wave, it has been witnessing improved domestic demand from June 2021. However, any subsequent lockdowns due to a potential third wave could abruptly puncture the demand momentum in the near future. The ratings are also constrained by SLL's high geographical concentration risk with Bangalore accounting for more than 50% of its revenues in the furniture segment, which may accentuate the order book volatility risk. Given the Group's continuous expansion of the retail network, the working capital intensity increased to 34.9% in FY2021 compared to 30.4% in FY2020. Efficient management of working capital during the ongoing expansion phase remains a critical driver of the business return indicator (RoCE). The ratings are also tempered by the business risks emanating from the intense competition from international suppliers and the company's exposure to foreign exchange risk, given its high reliance on imports for leather procurement.

The Stable outlook reflects ICRA's expectation that SLL will continue to benefit from the extensive experience of its promoters in leather industry and fund its ongoing expansion plans without significantly increasing its borrowing levels.

Key rating drivers and their description

Credit strengths

Gradual diversification of product offering, retail formats and distribution channels to support business growth – After cementing its position in the automotive and premium furniture segments, in CY2015, the Group diversified to the B2B furniture segment by being a supplier to IKEA, which is one of the largest global furniture retailers. The association with IKEA offers SLL access to its global sourcing channels, leading to efficiencies in sourcing. In March 2017, the company experimented with a new furniture retail format by opening India's largest home decor mall, Global Living Emporio, in Bangalore, housing over 50 international brands. Subsequently, in CY2019, it forayed into the premium kitchen, wardrobes, premium mattress, and bedding segments by setting up two new factories in Bommasandra, Bangalore. One of its latest ventures – Sofas and More – targets the affordable furniture segment, while Stanley Level Next offers the Stanley fashion range of premium leather shoe, leather bags and other leather accessories through ultra-premium store formats. The diversification of SLL's product offerings, retail formats and distribution channels provided multiple growth avenues, thus helping the company to tide over the pandemic-related issues prevailing in FY2021.

Favourable demand prospects in furniture industry in India – Rising income levels and growing preference for premium furniture augurs well for furniture industry players, including SLL, over the medium to long term. The rising demand for home improvement, as people spend more time at home following the Covid-19 outbreak, has benefitted the domestic furniture manufacturers. Following the resumption of normal economic activity following the second wave, the company is already seeing improved domestic demand from June 2021. SLL is also looking to tap into the export market and is negotiating with a US-based furniture major to begin exports from the second half of FY2022.

Improvement in profitability and healthy financial profile – Despite a decline in turnover, SLL's operating profitability improved to 9.30% in FY2021 from 6.60% in FY2020 due to various cost control measures undertaken by the company. Its capital structure remained comfortable with minimal debt on its balance sheet as on March 31, 2021. The coverage metrics continued to remain healthy with interest coverage at 10.70 times and TOL/TNW at 0.40 times in FY2021. As on March 31, 2021, the consolidated net worth stood at Rs. 195.80 crore, with a free cash balance of Rs. 86.60 crore. ICRA notes that SLL has been very judicious in allocating new capital for store expansions and is largely dependent on internal reserves/ equity raising to fund its growth capex. Low dependence on debt has helped the company to manoeuvre through the challenging operating environment prevailing in the last fiscal amid the pandemic-induced lockdowns.

Status as manufacturer-cum-retailer offers competitive edge and ensures healthy operating margins – SLL's presence across the entire value chain of the furniture industry, from designing, manufacturing to retailing activities, supports its operating margins and gives it an edge over competitors. It can respond faster to changes in demand preferences and provide a faster turnaround time for customised furniture delivery.

Extensive track record of promoters in leather business – Incorporated by Mr. Sunil Suresh, SLL manufactures leather-based products since 1996. The promoters' extensive experience in the leather business and the company's ability to report profits across business cycles strengthen its credit profile.

Established brand name in both furniture and automobile upholstery segments – The Group has been manufacturing leather seat covers for cars for the past two decades. The brand Stanley leather seat covers is well established in the premium segment of automobile upholstery, catering to OEMs like Toyota, Ford, and Nissan. The Group operates its retail network under three formats, Stanley Boutique and Level Next in the premium segment, and Sofas and More in the mid/ affordable segment. ICRA notes that SLL's long operating track record as a supplier of premium furniture helps in generating repeat business.

Credit challenges

Decline in operating income in FY2021 – The company has experienced a decline in revenues to Rs. 195 crore in FY2021 from Rs. 206 crore in FY2020 due to pandemic-induced lockdowns as well as a slowdown in the automobile industry, which was persistent from Q4 FY2019. However, the improving auto sector outlook in FY2022 augurs well going forward.

High geographical concentration risk with Bangalore dominating furniture segment revenues – The company has been expanding its furniture business during the past three fiscals, which partly compensated for the downturn in the automobile segment. However, more than 50% of the revenues from the furniture sector is derived from the Bangalore market, which leads to high geographical concentration in the south. SLL's ability to diversify its geographical presence and gain a stronger foothold pan-India would be a key credit monitorable.

Intense competition in industry – The Group has presence primarily in the premium segment and faces stiff competition mainly from the imported international furniture brands based in European countries like Germany and Italy. However, the quality of SLL's furniture, coupled with its physical presence in India for providing faster delivery times and better after-sales services provides a competitive edge.

Exposure to foreign exchange risk – Since the Group mainly imports its leather and wood requirement, which forms ~80% of its raw material cost, it remains exposed to forex risk. As a sizeable share of the purchases are denominated in foreign currency, the company's profitability is susceptible to risks arising from volatility in exchange rate movements.

Liquidity position: Strong

The company's liquidity position continues to remain **strong** with free cash and fixed deposits of Rs. 67.33 crore as on June 30, 2021. The average CC limit utilisation stood at 24%, with LC utilisation of 7% for the last 15 months ending in July 2021. It has sufficient amount of funds for its growth plans in the retail segment. The cash flow from operations remained positive in FY2020 and FY2021 due to various cost control measures undertaken by the management.

Rating sensitivities

Positive factors – ICRA could upgrade the ratings if the company reports significant expansion in its scale of operations and geographical diversification, thus reducing its concentration in the Bangalore market, while simultaneously improving its profitability and maintaining healthy credit metrics. Specific credit metrics that could lead to upgrade of credit ratings include ROCE more than 18% on a sustained basis.

Negative factors – Negative pressure on SLL's ratings could arise if a sustained drop in scale and operating profitability, or a rise in debt-funded capex or investments, weakens the credit metrics. Moreover, any deterioration of the company's liquidity profile because of a stretch in the working capital cycle could also trigger a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Financial consolidation and Rating approach
Parent/Group Support	Not Applicable
Consolidation/Standalone	Consolidated financial statements of the issuer

About the Company

SLL, established in 1996 in Bangalore as a partnership firm, was re-constituted as a public limited company in 2007. It manufactures leather-based seat covers for cars and leather sofas from its manufacturing facility in Bommasandra, Bangalore, for the automobile upholstery and furniture segments. The manufacturing facility spreads across 3.5 lakh sq. ft and employs ~1,000 employees. Within the automobile upholstery segment, SLL mainly caters to original equipment manufacturers (OEM) like Toyota Kirloskar Limited and tier-1 OEM suppliers. Under the furniture segment, SLL manufactures leather sofas and recliners and sells them through its own network of retail stores held under its Group company – Stanley Retail Limited (SRL) and through other franchisees and dealers. The company also undertakes imported furniture trading, catering to the customer requirements of its branded retail operations. Besides, it has exclusive license to manufacture recliner sofas for the international brand La-Z-Boy, ROM and sells through its Group companies in India.

SRL is a 96.96% subsidiary of SLL, which was incorporated in May 2008, to undertake the retail business for the Group. SRL purchases from SLL and sells through its own retail stores and subsidiaries under the brand Stanley Boutique, Level Next and Sofas & More. The Stanley Group has 27 retail outlets – 14 in Bangalore, two in Mumbai, Gurgaon, Coimbatore and Cochin and one in Mysore, Pune, Kolkata, Chennai and Hyderabad. SRL has experimented with a new furniture retail format by opening India's largest home decor mall, Global Living Emporio, in Bangalore, housing over 50 international brands in March 2017.

SOSL (Stanley OEM Sofas Limited) was incorporated in September 2015 to primarily cater to IKEA, an international furniture maker and to expand its operations into the export market. Its manufacturing facility is in the same complex, as SLL, in Bommasandra, Bangalore, with dedicated units provided to cater to IKEA orders for its East European and Middle Eastern operations.

Key consolidated financial indicators

SSIPL	FY2020	FY2021 (Prov)
Operating Income (Rs. crore)	206.3	195.7
PAT (Rs. crore)	8.5	6.6
OPBDIT/OI (%)	6.6%	9.3%
RoCE (%)	7.5%	7.2%
Total Outside Liabilities/Tangible Net Worth (times)	0.3	0.4
Total Debt/OPBDIT (times)	0.6	0.0
Interest Coverage (times)	10.6	10.7
DSCR (times)	9.0	5.0

**Source: Company data*

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net Worth + Deferred Tax Liability - Capital Work in Progress); DSCR: (PBIT + Mat Credit Entitlements - Fair Value Gains through P&L - Non-cash Extraordinary Gain/Loss)/(Interest + Repayments made during the Year)

Status of non-cooperation with previous CRA:

The company is not cooperating with CRISIL and has rating of CRISIL B+/Stable/A4; ISSUER NOT COOPERATING vide its press release dated September 17, 2020.

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of March 31, 2021 (Rs. crore)	Date & Rating	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019	
					20-Aug-2021	13-Aug-2020	03-Jan-2020	07-Sep-2018	17-Aug-2018
1	Cash credit	Long Term	15.00	-	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)
2	Non-fund based	Short Term	35.00	-	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+
3	Unallocated	Long term/Short term	6.78	-	[ICRA]A- (Stable)/A2+	[ICRA]A- (Stable)/A2+	[ICRA]A- (Stable)/A2+	[ICRA]A- (Stable)/A2+	[ICRA]A- (Stable)/A2+

Amount in Rs. crore

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long-Term – Fund Based – Cash Credit	Simple
Short-Term – Non-Fund based	Very Simple
Long-Term/Short-Term – Unallocated amount	NA

The complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	May 2019	NA	NA	15.00	[ICRA]A-(Stable)
NA	Letter of Credit	May 2019	NA	NA	35.00	[ICRA]A2+
NA	Unallocated amount	-	NA	NA	6.78	[ICRA]A-(Stable)/[ICRA]A2+

Source: Company data

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Stanley Retail Limited (SRL)	96.96%	Full Consolidation
Stanley OEM Sofas Limited (SOSL)	100.00%	Full Consolidation
Sana Lifestyles Ltd	62.85%	Full Consolidation
Shrasta Decor Private Limited	55.95%	Full Consolidation
Scheek Home Interiors Limited	99.00%	Full Consolidation
ABS Seating Private Limited	67.00%	Full Consolidation
Staras Seating Private Limited	100.00%	Full Consolidation

Source: *Company data*

ANALYST CONTACTS

Jayanta Roy
+91 33 71501100
jayanta@icraindia.com

Priyesh Ruparelia
022 6169 3328
priyesh.ruparelia@icraindia.com

Ritabrata Ghosh
+91 33 71501107
ritabrata.ghosh@icraindia.com

Viren B Chhabria
+91 80 49225504
viren.chhabria@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches