November 30, 2022

Stanley Lifestyles Limited: Ratings upgraded to [ICRA]A(Stable)/[ICRA]A1

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); upgraded from [ICRA]A-(Stable)
Short term: Non-fund based	35.00	35.00	[ICRA]A1; upgraded from [ICRA]A2+
Long term/Short term: Unallocated	6.78	6.78	[ICRA]A(Stable)/[ICRA]A1; upgraded from [ICRA]A-(Stable)/ [ICRA]A2+
Total	**56.78**	**56.78**	

**Instrument details are provided in Annexure-I*

Rationale

While arriving at the rating, ICRA has consolidated the operational and financial profiles of Stanley Lifestyles Limited (SLL) with its subsidiaries – Stanley Retail Limited (SRL), Stanley OEM Sofas Limited (SOSL), Sana Lifestyles Limited, Shrasta Decor Private Limited, Scheek Home Interiors Limited[1], ABS Seating Private Limited and Staras Seating Private Limited. as there are significant operational and financial linkages among these companies.

The ratings upgrade of SLL takes into consideration the continued improvement in the company's operating metrics and consequent stronger-than-expected cash accruals, aided by a revival in demand in the premium/ luxury real estate sector as well as a rising demand for home improvement, as people spent more time at home after the onset of the pandemic. The uptick in demand for SLL's products is also supported by disruptions in the global supply chains of imported furniture manufacturers due to logistical bottlenecks caused due to the pandemic, helping SLL increase its market share. Over a longer timeframe, ICRA believes that rapid urbanisation, a high proportion of workforce population (aged 25-44 years), and rising income levels will support rising demand for real estate in India, which in turn, should increase the demand for premium furniture as well.

The ratings upgrade also 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 unencumbered cash and liquid investment balance of Rs. 62.5 crore as on March 31, 2022. 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 manoeuvre through the challenging operating environment following the pandemic-induced lockdowns and restrictions. Over the last few years, it has experimented with new product offerings (Stanley Personal Care), retail formats (Sofas and More, Stanley Level Next) and distribution channels (contract manufacturing for IKEA), which provided it with multiple growth levers and helped the company tide over the pandemic-induced slowdown. After a modest 6.8% year-on-year (YoY) growth in the B2C brand business in FY2021, sales growth in this segment accelerated to 41.7% and 110.1% YoY in FY2022 and H1 FY2023, respectively, backed by opening of new stores, increasing footprint in new markets, as well as an increase in the footfalls in the existing stores. The B2B businesses (auto/ contract manufacturing) also witnessed a sharp recovery and registered a healthy growth rate of 68.9% and 40.3% YoY in FY2022 and H1 FY2023, respectively after a 27.4% YoY contraction in FY2021. While SLL's input costs increased in an overall inflationary environment over the last two years, SLL's consolidated operating margins improved from

[1] Non-Operating Entity

a low of 6.6% in FY2020 to 10.3% in FY2021, 14.9% in FY2022 and 16.3%[2] in H1 FY2023, driven by various factors including lower operating leverage (due to increasing scale of operations), multiple price hikes to pass on the cost increases, and ability to quickly achieve break-even for the newly opened stores. In addition, the company's presence across the entire value chain of the furniture industry, from designing, manufacturing to retailing activities, supports SLL's operating margins and offers an edge over its competitors, enabling it to respond faster to changes in demand preferences, and provide a faster turnaround time for customised furniture delivery. ICRA notes that going forward, with the input cost pressure showing early signs of moderation, SLL's margins are likely to remain at attractive levels in H2 FY2023 as well.

The ratings, however, are constrained by the intense competition in the industry and exposure to foreign currency fluctuations due to reliance on import of leather. Around 45-50% of the revenues from retail sales in the B2C business comes from Bangalore, leading to high geographical concentration risk in the south. SLL's ability to diversify its geographical presence and gain a stronger foothold pan-India would be a key credit monitorable. ICRA, however, notes that geographical diversification will help insulate the company's performance from the swings of demand-supply gap in individual micro-markets, but geographical concentration of stores has the associated benefit of economies of scale of catering to a target market having many shared costs, which are driven by local factors.

The Stable outlook reflects ICRA's expectation that SLL will continue to benefit from the demonstrated track record of the promoters in the leather business. The company's bottom-line accretive calibrated expansion plans will limit its dependence on debt and help keep the liquidity and credit metrics at comfortable 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 efficiency in sourcing. In March 2017, the company experimented with a new furniture retail format by opening India's largest home decor mall, Stanley Level Next in Hosur Road, 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, helping the company register a healthy top line growth (CAGR) of 46.5% between FY2021 and FY2023 (projected).

Favourable demand prospects in furniture industry in India – Rising income levels and growing preference for premium furniture augur well for furniture industry players, including SLL, over the medium-to-long term. Apart from a revival in demand for premium/ luxury real estate sector, rising demand for home improvement, as people spend more time at home following the pandemic, has benefitted the domestic furniture manufacturers.

Improvement in profitability and healthy financial profile –SLL's operating profit margins increased from 6.6% in FY2020 to 10.3% in FY2021, 14.9% in FY2022, and 16.3%[3] in H1 FY2023, driven by an increase in the footfall in the existing stores, opening of new stores, increasing footprint in newer markets, and various cost control measures undertaken by the company to mitigate the effect of input cost pressures. SLL's consolidated capital structure remained comfortable with minimal debt of Rs.

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[2] Indicates EBITDA margin

[3] EBITDA margin

6.2 crore on its balance sheet as on March 31, 2022. The coverage metrics continued to remain healthy with interest coverage at 16.80 times and TOL/TNW at 0.40 times in FY2022. As on March 31, 2022, the consolidated tangible net worth stood at Rs. 216.70 crore, with a free cash balance of Rs. 62.50 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 has been manufacturing 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. Stanley leather seat covers brand is well established in the premium segment of automobile upholstery, catering to OEMs like Toyota, Ford, and Lear Automotive India Private Limited. 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

High geographical concentration risk with Bangalore dominating furniture segment revenues – SLL's 45-50% of 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. While geographical diversification will help insulate the company's performance from the swings of demand-supply gap in individual micro-markets, but geographical concentration of stores has the associated benefit of economies of scale of catering to a target market having many shared costs, which are driven by local factors.

Intense competition in industry – SLL 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 and better after-sales services offer a competitive edge.

Exposure to foreign exchange risk – SLL mainly imports its leather and wood requirement, which forms ~80% of its raw material cost, and thus remains exposed to forex risk. As a sizeable share of the purchases are denominated in foreign currency, the company's profit margins are susceptible to risks arising from volatility in exchange rate movements. However, SLL has partly localized the purchase of raw materials like ply wood, foams etc for the past one year and reduced its exposure to foreign exchange risk.

Liquidity position: Strong

The company's liquidity position continues to remain strong with the company generating positive retained cash flows in four out of the last five fiscals (FY2018 – FY2022) and having a free cash and fixed deposit outstanding of Rs. 62.5 crore as on March 31, 2022. The average CC limit utilisation stood at 69% for the last 15 months ending in October 2022. The company has sufficient untapped funds for its growth plans and minimal scheduled term loan repayments in the near term.

Rating sensitivities

Positive factors – ICRA could upgrade the ratings if the company can significantly expand its scale of operations, while simultaneously improving its profitability and maintaining healthy credit metrics.

Negative factors – Pressure on SLL's ratings could arise if a sustained drop in scale and operating profits, 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 ratings downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology- Retail Financial Consolidation and Rating Approach
Parent/Group support	Not Applicable
Consolidation/Standalone	Consolidated financial statements of the issuer. SLL has 3 subsidiaries and 4 step-down subsidiaries details of which can be seen in Annexure II

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 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.

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 brands Stanley Boutique, Level Next and Sofas & More. The Stanley Group has 25 owned retail outlets – 14 in Bangalore, 3 in Mumbai, 2 in Delhi, 1 in Chennai and 5 in Hyderabad. SRL has experimented with a new furniture retail format by opening India's largest home decor mall, Stanley Level Next in Hosur Road**,** 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 to cater to IKEA orders for its East European and Middle Eastern operations.

Key financial indicators (audited)

Consolidated	FY2021	FY2022	H1 FY2023 (Provisional)
Operating income	195.8	292.1	202.2
PAT	8.3	28.0	31.2**
OPBDIT/OI	10.3%	14.9%	16.3%***
PAT/OI	4.2%	9.6%	-
Total outside liabilities/Tangible net worth (times)	0.3	0.4	-
Total debt/OPBDIT (times)	0.0	0.1	-
Interest coverage (times)	10.6	16.8	-

*PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore; **indicates PBT; ***indicates EBITDA margin*

Status of non-cooperation with previous CRA: Not applicable

The company is not cooperating with CRISIL and has rating of CRISIL B+/Stable/A4; ISSUER NOT COOPERATING vide its press release dated December 23, 2021.

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as on March 31, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					Nov 30, 2022	Aug 20, 2021	Aug 13, 2020	Jan 03, 2020
1	**Cash credit**	Long term	15.00	5.55	**[ICRA]A (Stable)**	**[ICRA]A- (Stable)**	**[ICRA]A- (Stable)**	**[ICRA]A- (Stable)**
2	**Non-fund based**	Short term	35.00	-	**[ICRA]A1**	**[ICRA]A2+**	**[ICRA]A2+**	**[ICRA]A2+**
3	**Unallocated**	Long term/Short term	6.78	-	**[ICRA]A (Stable)/ [ICRA]A1**	**[ICRA]A- (Stable)/ [ICRA]A2+**	**[ICRA]A- (Stable)/ [ICRA]A2+**	**[ICRA]A- (Stable)/ [ICRA]A2+**

&= Under Watch with Developing Implications

Complexity level of the rated instruments

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 are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	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]A1
NA	Unallocated amount	-	NA	NA	6.78	[ICRA]A(Stable)/[ICRA]A1

Source: Company

Annexure II: List of entities considered for consolidated analysis

Company Name	SLL Ownership	Consolidation Approach
Stanley Retail Limited (SRL)	97.4%	Full Consolidation
Stanley OEM Sofas Limited (SOSL)	100.0%	Full Consolidation
Sana Lifestyles Ltd (step down subsidiary of SRL)	99.5%*	Full Consolidation
Shrasta Decor Private Limited (step down subsidiary of SRL)	55.95%*	Full Consolidation
Scheek Home Interiors Limited (step down subsidiary of SRL)[4]	99.0%*	Full Consolidation
ABS Seating Private Limited	67.0%	Full Consolidation
Staras Seating Private Limited (step down subsidiary of SRL)	100.0%*	Full Consolidation

*Source: Company data; *indicates shareholding of SRL in these step-down subsidiaries*

[4] Non-Operating Entity

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