

September 28, 2017

Stanley Lifestyles Limited

Summary of rated instruments

Instrument*	Rated Amount (in crore)	Rating Action
Long Term- Fund Based- Cash Credit	12.5	[ICRA]BBB+ (Stable); Assigned
Short Term- Non-Fund Based- Letter of Credit	12.5	[ICRA]A2; Assigned
Total	25.0	

*Instrument details are provided in Annexure-1

Rating action

ICRA has assigned a long term rating of [ICRA]BBB+ (pronounced ICRA triple B plus)¹ to the Rs. 12.5-crore² fund-based facility of Stanley Lifestyles Limited (SLL) and a short term rating of [ICRA]A2 (pronounced ICRA two) to the Rs. 12.5-crore non fund-based facility of SLL. The outlook on the long term rating is 'Stable'.

Rationale

The assigned ratings derive strength from SLL's long and successful operating history of more than two decades and its strong business profile supported by experienced promoters, a professional management team, and reputed customer profile. The rating also takes into account Stanley's well-established brand in the furniture segment, further strengthened by its growing retail operations. The company has been gradually expanding its reach through a network of company owned stores and franchisee stores. The ratings also factor in the improvement in the financial profile of SLL during FY2017, marked by healthy revenue growth on the back of increase in sales volumes in the automotive segment, uptick in the profitability and healthy cash flow generation with increased economies of scale and cost efficiencies gained through association with IKEA. Consequently the gearing and debt protection metrics have also witnessed improvement. Additionally, commencement of Global Living Emporio (GLE), the largest retail store of the company, and enquiries from other global companies for exports are expected to support revenue growth in the medium term.

The ratings are, however, constrained by the moderate scale of operations restricting the operational and financial flexibility to a certain extent. ICRA also takes note of the high dependence on automotive industry which accentuates the risk of any order volatility from slowdown in the industry on revenue growth and cash accruals. While arriving at the ratings, ICRA has also factored in the business risks emanating from the intense competitive pressures from international suppliers, the company's exposure to foreign exchange risk given its high reliance on imports for leather procurement and the vulnerability to any adverse change in regulation or policy in the leather industry.

In ICRA's view, the key rating sensitivity will be the company's ability to sustain a healthy growth in its revenues while improving its profitability and prudently managing its working capital cycle.

¹ For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

² 100 lakh = 1 crore = 10 million

Key rating drivers

Credit strengths

- **Long operating history of over two decades with experienced professionals:** Incorporated by Mr. Sunil Suresh, Stanley Lifestyles Limited has been in the business of manufacturing leather based products since 1996. The promoters' experience in the business and strong technical background has been beneficial in ensuring cost efficiencies as well as generating repeat business for the company.
- **Long standing relationship with reputed customers provides visibility and stability to the company's revenues:** Since its inception, the company has been catering to reputed clients in the automotive segment like Toyota Kirloskar Motors Private Limited and has emerged as the exclusive supplier for certain models manufactured by them in India, ensuring repeat orders and thereby mitigating off-take risk. The company, however, faces client-concentration risk as reflected in top three customers accounting for ~64% of revenues in FY2017.
- **Well-established brand in the furniture segment:** Stanley Retail Limited is a subsidiary of SLL, which was incorporated in May 2008, to undertake the retail business for the group. Focused on niche, high value added segment for automotive companies and lifestyle showrooms, Stanley is a well known name, which is further strengthened by its growing retail operations, and various branding initiatives. Besides SLL, the group has other companies which are involved in retailing for the company products
- **Improvement in financial risk profile:** The ratings factor in the improvement in the financial profile of SLL during FY2017, marked by healthy revenue growth on the back of increase in sales volumes in the automotive segment and the uptick in the profitability and cash flow generation. Consequently the gearing and debt protection metrics have also witnessed improvement during the year.
- **Association with multinational group, IKEA:** The Company is among the early players to get shortlisted by multinational group, IKEA, for their global operations from India which is expected to drive revenue growth for the group in the medium term. Additionally, the association has helped the company to adopt global practises and achieve sourcing benefits available to all global IKEA vendors.

Credit weaknesses

- **Moderate scale of operations:** The scale of operations for the company remains modest with revenues of Rs.159.4 crores during FY2017 and of Rs.60.8 crore as of March 31, 2017, resulting in limited financial and operational flexibility.
- **High dependence on automotive industry:** The automotive industry contributed to ~55% of company's turnover during FY2017, resulting in high dependence of the company's revenues on the performance of on the industry which accentuates the risk of any order volatility from their key customers.
- **Exposure to foreign exchange risk:** Since the company imports its leather requirement which forms ~80% of its raw material cost, most of its purchases are denominated in foreign currency, exposing the company's profitability to risks arising from volatility in exchange rate movements. However, the hedging strategy adopted by the company mitigates the risks to some extent.

Analytical approach: For arriving at the rating, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria

[Corporate Credit Rating –A Note on Methodology](#)

About the company:

Stanley Lifestyles Limited (SLL) was established in 1996 in Bangalore as a partnership firm and later incorporated as a public limited company in the year 2007. The company is engaged in the manufacturing of leather based seat covers and furniture through its manufacturing facility, located at Bommasandra, Bangalore. Within the automobile segment, SLL mainly caters to Original Equipment Manufacturers (OEM) like Toyota Kirloskar, Ford India Private Limited, Renault etc. Within the upholstery furniture segment, SLL manufactures sofas and recliners and sells them through its network of retail stores and franchisees. The company has also opened its largest retail store namely, Global Living Emporio, of 1, 00,000 square feet in Electronic City, Bangalore in March, 2017. It is positioned as an international décor mall spread across seven levels, housing more than 60 brands from 35 countries. SLL also has franchisees for high end international furniture brands like 'La-Z-Boy' and 'Stordal'.

In FY2017, the company reported a net profit of Rs. 10.1 crore on an operating income of Rs. 159.4 crore against a net profit of Rs. 4.3 crore on an operating income of Rs. 126.2 crore in FY2016.

Key Financial Indicators

	FY2016	FY2017
	Audited	Audited
Operating Income (Rs. crore)	126.2	159.4
PAT (Rs. crore)	4.3	10.1
OPBDIT/ OI (%)	8.6%	11.8%
RoCE (%)	18.7%	30.5%
Total Debt/ TNW (times)	0.5	0.2
Total Debt/ OPBDIT (times)	1.8	0.6
Interest coverage (times)	2.6	7.6
NWC/ OI (%)	35.3%	23.2%

OI: Operating Income; 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); NWC: Net Working Capital

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not applicable

Rating history for last three years:
Table:

S.No	Instrument	Current Rating			Chronology of Rating History for the past 3 years		
		Type	Rated amount (Rs. Crore)	Month-year & Rating in FY2018	Month-year & Rating in FY2017	Month-year & Rating in FY2016	Month-year & Rating in FY2015
				September 2017	-	August 2015	-
1	Cash Credit	Long Term	12.5	[ICRA]BBB+ (Stable)	-	[ICRA]BB- (Stable) ; Suspended	-
2	Letter of Credit	Short Term	12.5	[ICRA]A2	-	[ICRA]A4 ; Suspended	-

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1
Instruments details

Name of the instrument	Date of Issuance/ Sanction	Coupon rate	Maturity Date	Size of the issue (Rs. crore)	Current Rating and Outlook
Cash Credit	-	-	-	12.5	[ICRA]BBB+ (Stable)
Letter of Credit	-	-	-	12.5	[ICRA]A2

Source: SLL

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