ICRA

Stanley Lifestyles Limited

August 17, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount(Rs. crore)	Current Rated Amount(Rs. crore)	Rating Action
Long term: Fund-based facilities	28.74	28.74	[ICRA]A-(Stable); upgraded from [ICRA]BBB+(Stable)
Short term: Non-fund-based facilities	24.50	24.50	[ICRA]A2+; upgraded from [ICRA]A2
Long term/Short term: Unallocated	3.54	3.54	[ICRA]A-(Stable)/[ICRA]A2+; upgraded from [ICRA]BBB+(Stable)/[ICRA]A2
Total	**56.78**	**56.78**	

*Instrument details are provided in Annexure-1

Rating action

ICRA has upgraded the long-term rating to [ICRA]A- (pronounced ICRA A minus) from [ICRA]BBB+ (pronounced ICRA triple B plus) for the Rs. 28.74-crore long-term fund-based facilities of Stanley Lifestyles Limited (SLL). ICRA has also upgraded the short-term rating to [ICRA]A2+ (pronounced ICRA A two plus) from [ICRA]A2 (pronounced ICRA A two) for the Rs. 24.50-crore short-term fund-based facilities of SLL. ICRA has also upgraded the long-term rating to [ICRA]A- and the short-term rating to [ICRA]A2+ for the Rs. 3.54-crore unallocated limits of the company. The outlook on the long-term rating is Stable.

Rationale

The ratings take into consideration the consolidated operational and financial profile of SLL with its wholly-owned subsidiaries – Stanley Retail Limited (SRL) and Stanley OEM Sofas Limited (SOSL), (hereafter referred to as Group) as there is significant operational and financial linkages among these companies.

The ratings upgrade factors in the improved financial profile of the Group, marked by healthy growth in operating income (OI) and profitability in FY2018 primarily supported by healthy sales from the recently-commenced new large retail outlet – Global Living Emporio (GLE). The company's capital structure improved following the pre-payment of its term loan of Rs. 6.7 crore in FY2018, coupled with healthy accretion to reserves resulting in a gearing ratio of 0.14 times as on March 31, 2018, improved from 0.25 times as on March 31, 2017. The ratings also consider the improvement in SLL's coverage indicators on account of improved profitability and reduced finance charges on the back of its term loan pre-payment. ICRA takes note of the proposed private-equity funding of ~Rs. 100.0 crore in SLL, which is likely to aid in the retail expansion programme of the Group in the near term. The Group has plans to expand its manufacturing capacity, open multiple retail outlets in tier-1 and tier-2 cities of India and diversify into the affordable furniture segment through association with IKEA (a multi-national furniture Group) and through other private labels. Expansion of own retail outlets are likely to garner higher margins, and diversification into affordable furniture segment are expected to boost sales volume. In addition, favourable demand prospects for furniture industry in India and growing penchant for branded furniture is also likely to support the revenue growth in the near term. This apart, SLL's experienced promoter group is supported by a professional management team with a well-established brand name in the premium furniture and automobile upholstery segments. Its presence across the value chain of furniture industry, from designing, manufacturing to retailing activities, continue to provide comfort.

The ratings, however, continue to be constrained by the order volatility risk from the automobile industry due to presence in the premium upholstery segment, coupled with significant portion of revenues in this segment derived from two customers. 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. Further, ICRA takes note of the expected expansion programme to be undertaken by the Group, which is sizeable vis-à-vis the current scale of operations. The management's ability to successfully streamline the operations in a timely manner, and achieve desired demand and sales momentum, thus reducing offtake risks, would be critical.

Outlook: Stable

The Stable outlook reflects ICRA's expectation that the Group will continue to benefit from the extensive experience of promoters in leather industry and from the favourable business prospects of the furniture industry in the near term. The outlook might be revised to Positive if there is significant growth in operating income (OI) and profitability supported by the expansion activities being undertaken by the Group. The outlook might be revised to Negative if cash accruals are lower than expected or if there is deterioration in working capital cycle or increase in debt levels, leading to weakening of the liquidity position.

Key rating drivers

Credit strengths

Favourable demand prospects for the furniture industry in India in near term – Post implementation of the Goods and Services Tax (GST), the consolidation in furniture industry, coupled with rising income levels of emerging upper and middle class urban population and their growing penchant for branded furniture, are expected to boost the demand prospects in the near term.

Extensive track record of promoters in leather business – Incorporated by Mr. Sunil Suresh, SLL is in the business of manufacturing leather-based products since 1996. The promoters' experience in the leather business and strong technical background has been beneficial in ensuring cost efficiencies as well as in generating repeat business for the Group.

Well-established brand names in both furniture and upholstery automobile segments – The Group is manufacturing leather seat covers for cars for the past two decades and has established the brand "Stanley leather seat covers" in the premium segment of automobile upholstery. In the premium furniture segment, the Group has marked its space with its established brand name "Stanley leather sofas". The brands are strengthened by the Group's own retailing activities and the brand equity of the Group has supported in achieving healthy year-on-year growth in revenues and profitability.

Improved financial profile in FY2018 – The Group's OI grew by 22% in FY2018 to Rs. 212.38 crore contributed primarily by healthy sales in GLE, the Group's own retail outlet which was opened in March 2017. The operating margins improved to 18.16% in FY2018 from 12.51% in FY2017 at the back of higher realisation from GLE. The net profits also improved to 9.70% in FY2018 from 6.58% in FY2017 trailing operating margins, coupled with reduced finance charges on the back of pre-payment of term loan in FY2018. The company's capital structure improved on the back of pre-payment of term loan of Rs. 6.7 crore in FY2018, coupled with improved profitability in FY2018. Healthy operating profits with reduced finance charges and term loan liability led to a comfortable interest coverage ratio. The interest cover improved to 12.76 times in FY2018 from 5.70 times in FY2017. The debt-service cover reduced to 2.63 times in FY2018 from 4.32 times in FY2017 due to the pre-payment of term loan.

Association with IKEA improved the Group's bargaining position – The Group is among the early players to get shortlisted by the multi-national Group, IKEA, for their global operations from India, which is expected to drive its revenue growth in the medium term. Additionally, the association has helped the Group to adopt global practices and achieve sourcing benefits available to all global IKEA vendors.

Credit challenges

Order volatility risks in upholstery automobile segment – Though this segment's contribution to the total OI reduced to 44% in FY2018 from 50% in FY2018, it continues to be a major revenue driver with presence only in the premium segment of automobile upholstery. This, coupled with almost entire revenues derived from two customers in this segment accentuates the risk of order volatility from its key customers.

Intense competition in the industry – The Group's presence primarily in the premium segment brings them stiff competition mainly from the imported international furniture brands in the market. However, the quality of furniture, coupled with physical presence in India for providing after-sales services gives it a competitive edge.

Exposure to foreign exchange risk – Since the Group 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.

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

Links to applicable criteria:

Corporate Credit Rating Methodology

Financial consolidation and Rating approach

About the company

SLL was established in 1996 in Bangalore as a partnership firm and later was reconstituted as a public limited company in 2007. SLL manufactures leather-based seat covers for cars, and leather sofas from its manufacturing facility, located at Bommasandra, Bangalore catering to automobile upholstery and furniture segments. The manufacturing facility spreads across 2.5 lakh sq. ft and employs ~750 employees. Within the automobile upholstery segment, SLL mainly caters to original equipment manufacturers (OEM) like Toyota Kirloskar Limited and to tier-1 OEM suppliers. Within the furniture segment, SLL manufactures leather sofas and recliners and sells them through its network of retail stores held under its Group company – Stanley Retail Limited (SRL) and through other franchisees and dealers. SLL is a designated manufacturer for the Stanley Group and it also undertakes imported furniture trading catering to the Group companies' requirements. SLL also has exclusive license to manufacture recliner sofas for the international brand "La-Z-Boy", "ROM" and sells through its Group companies in India. SLL has two wholly-owned companies – SRL and SOSL.

SRL 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". It has under its umbrella eight own retail outlets –four in Bangalore, two in Gurgaon, two in Mumbai. SRL has two subsidiaries – Sana Lifestyles Limited (62.8% shareholding), which has a showroom in Chennai and Shrasta Décor Private Limited (55%), which has a showroom in Hyderabad. SRL recently opened its largest retail store namely, Global Living Emporio (GLE), 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 international brands from 35 countries including Cierre, La-Z-Boy, Stordal, ROM, Hilker and Sitland.

SOSL was incorporated recently in September 2015 to primarily cater to sales to IKEA, an international furniture maker and to expand its operations into export market. Its manufacturing facility is in the same complex of SLL at Bommasandra, Bangalore where dedicated units are provided to manufacture for IKEA orders for its Middle East's operations.

In FY2018, on provisional basis, the Group reported a net profit of Rs. 20.58 crore on an OI of Rs. 212.28 crore compared to a net profit of Rs. 11.49 crore on an OI of Rs. 174.55 crore in the previous year.

In FY2018, on provisional basis, SLL reported a net profit of Rs. 18.82 crore on an OI of Rs. 187.53 crore compared to a net profit of Rs. 10.12 crore on an OI of Rs. 159.39 crore in the previous year.

Key financial indicators (audited)- Group

	FY2017	FY2018(Provisional)
Operating Income (Rs. crore)	174.55	212.28
PAT (Rs. crore)	11.49	20.58
OPBDIT/ OI (%)	12.51%	18.16%
RoCE (%)	36.09%	50.17%
Total Debt/ TNW (times)	0.25	0.14
Total Debt/ OPBDIT (times)	0.59	0.28
Interest Coverage (times)	5.70	12.76

OI: Operating Income; PAT: Profit after Tax; OPBDITA: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: Return on Capital Employed; NWC: Net Working Capital; TNW: Tangible Net Worth

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

			Current Rating (FY2019)			Chronology of Rating History for the past 3 years		
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating Aug 2018	Date & Rating in FY2018 Sep 2017	Date & Rating in FY2017	Date & Rating in FY2016 Aug 2015
1	Cash credit	Long term	25.0	-	[ICRA]A-(Stable)	[ICRA]BBB+(Stable)	-	[ICRA]BB-(Stable); Suspended
2	Term loan	Long term	3.74	Nil	[ICRA]A-(Stable)	[ICRA]BBB+(Stable)	-	-
3	Letter of Credit	Short term	24.50	-	[ICRA]A2+	[ICRA]A2	-	[ICRA]A4; suspended
4	Unallocated	LT/ST	3.54	-	[ICRA]A-(Stable)/ A2+	[ICRA]BBB(Stable)/ A2	-	

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: 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	-	-	-	25.00	[ICRA]A-(Stable)
NA	Term loan	April 2016	-	Mar 2021*	3.74	[ICRA]A-(Stable)
NA	Letter of Credit	-	-	-	24.50	[ICRA]A2+
NA	Unallocated	-	-	-	3.54	[ICRA]A-(Stable)/A2+

*Source:Group; *pre-paid and closed in FY2018*

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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.

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