January 03, 2020

Stanley Lifestyles Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amounts (Rs. Crore)	Current Rated Amounts (Rs. Crore)	Rating Action
Long term: Fund-based facilities	25.00	15.00	[ICRA]A-(Stable); reaffirmed
Short term: Non-fund based	24.50	35.00	[ICRA]A2+; reaffirmed
Long term/Short term: Unallocated	7.28	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 Group) as there is significant operational and financial linkages among these companies.

The ratings continue to derive comfort from the company's healthy financial profile characterized by debt-free capital structure and its strong liquidity position with free-cash balances of Rs. 83.60 crore as on March 31, 2019. Further, 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, are constrained by decline in operating margins in FY2019 mainly because of slowdown in the automobile industry observed since Q4FY2019; around 40% of revenues are derived from automobile clients which enhances the order volatility risk. Given the group's continuous expansion of their retail network, the working capital intensity increased to 27.6% in FY2019 compared to 18.3% in FY2018. 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 the Group will continue to benefit from the extensive experience of promoters in leather industry.

Key rating drivers and their description

Credit strengths

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.

Healthy financial profile – The company's capital structure remains comfortable with zero debt compared to the previous years. The company's coverage metrics continue to remain healthy with interest coverage at 11.50 times and TOL/TNW at 0.20 times for FY2019. SLL's net worth was at Rs 186.80 crore as on March 31, 2019 and the company had a free-cash balance of Rs 83.60 crore as on March 31, 2019.

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

Decline in operating margins during FY2019 – The Group's operating margins declined to 10.52% in FY2019 from 17.73% in FY2018 majorly due to decrease in revenues from automobile segment. The group's retail arm, SRL also had reported drop in operating margins from 12.28% in FY2018 to 4.75% in FY2019 due to under absorption of fixed costs due to decline in retail sales, however, the management continue to add new retail outlets due to the continuing demand for their sofas/kitchen/wardrobe and other furniture products.

Order volatility risks in upholstery automobile segment – Though the automobile segment's contribution to the total OI reduced to 40% in FY2019 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.

Liquidity position: Strong

The liquidity position of the company is strong with an unencumbered cash balance of Rs. 83.6 crore as on March 31, 2019. SLL does not have any debt repayment obligation in the near term and despite increase in the working capital requirement on the back of expansion of their retail network, the company hasn't utilised its cash credit limits for the last 14 months (ending November 2019) . Further, the company incurred Rs. 10 crore capex for acquiring new retail outlets in FY2019 which was funded by internal accruals and they have plans to incur expenditure of Rs. 9-10 crore in FY2020 towards new store additions and acquisitions which is also likely to be funded by internal accruals.

Rating sensitivities

Positive triggers – ICRA could upgrade SLLs ratings if the company diversifies the sectoral concentration from automobile industry and expands its clientele portfolio thereby leading to improvement in revenues and profitability than current levels. Specific credit metrics that could lead to upgrade of credit ratings include ROCE > 20% on a sustained basis.

Negative triggers – Negative pressure on SLLs ratings could arise if, for reasons including reduction in scale or further drop in operating profitability levels, or a rise in capex or investments weakening the liquidity position of the group

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	**Corporate Credit Rating Methodology** Consolidation and Rating Approach
Parent/Group Support	Not applicable
Consolidation/Standalone	Standalone

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.

Stanley Retail Limited (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 under its umbrella 21 own retail outlets – 10 in Bangalore, 2 in Gurgaon, 3 in Mumbai, 1 in Pune, Kolkata, Coimbatore, Chennai, Hyderabad and Cochin. SRL has 3 subsidiaries – Sana Lifestyles Limited (62.8% shareholding) which has a showroom in Chennai, Shrasta Décor Private Limited (55.95%) which has a showroom in Hyderabad and Scheek Home Interiors Limited (99.0%) which has showroom located 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 & 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 FY2019, the Group reported a net profit of Rs. 16.3 crore on an OI of Rs. 229.0 crore compared to a net profit of Rs. 20.4 crore on an OI of Rs. 210.5 crore in the previous year

Key financial indicators

	FY2018	FY2019
Operating Income (Rs. crore)	210.5	229.0
PAT (Rs. crore)	20.4	16.3
OPBDIT/OI (%)	17.7%	10.5%
RoCE (%)	50.3%	18.5%
Total Outside Liabilities/Tangible Net Worth (times)	0.8	0.2
Total Debt/OPBDIT (times)	0.3	0.0
Interest Coverage (times)	12.4	11.5
DSCR	4.5	8.9

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 June 11, 2019.

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2020)				Rating History for the Past 3 Years			
		Type	Amount Rated	Amount Outstanding	Rating	FY2019		FY2018	FY2017
					03-Jan-2020	07-Sep-2018	17-Aug-2018	09-Nov-2017	-
1	Cash credit	Long Term	15.00	-	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]BBB+(Stable)	-
2	Non fund based	Short Term	35.00	-	[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]BBB+(Stable)/A2+	-

Amount in Rs. crore

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 click here

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash credit	May 2019	NA	-	15.00	[ICRA]A-(Stable)
NA	Letter of credit	May 2019	NA	-	35.00	[ICRA]A2+
NA	Unallocated	-	NA	-	6.78	[ICRA]A-(Stable)/A2+

Source: SLL

Annexure-2: List of entities considered for consolidated analysis

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

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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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