November 08, 2023

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]A1; reaffirmed
Long term/ Short term – Unallocated	6.78	6.78	[ICRA]A (Stable)/ [ICRA]A1; reaffirmed
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 (including step-down subsidiaries) – Stanley Retail Limited (SRL), Stanley OEM Sofas Limited (SOSL), ABS Seating Private Limited, Sana Lifestyles Limited, Shrasta Decor Private Limited, Scheek Home Interiors Limited[1] and Staras Seating Private Limited as there are significant operational and financial linkages among these companies.

The ratings reaffirmation of SLL considers the healthy growth in the consolidated revenue of SLL along with its ability to maintain healthy operating margins since FY2022. The ratings reaffirmation 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. The ratings reflect its healthy financial profile, characterised by a conservative capital structure and strong liquidity position with unencumbered cash and liquid investment balance of Rs. 56.8 crore as on March 31, 2023. Over the last few years, SLL has experimented with new product offerings (Stanley Personal Care), retail formats (Stanley Level Next, Stanley Boutique and Sofas and More by Stanley) and distribution channels (leather automotive interiors and contract manufacturing), supporting the overall business growth. 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. Over a longer timeframe, ICRA believes that rapid urbanisation, a high proportion of workforce population (aged 25-44 years) and rising disposable 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, however, are constrained by the intense competition in the industry and the company's exposure to foreign currency fluctuations due to reliance on import of leather and other key raw materials. Around 48% of the revenues from retail sales in the B2C business came from Bangalore in FY2023, leading to high geographical concentration risk. SLL's ability to diversify its geographical presence and gain a stronger foothold pan-India would be a key credit monitorable. ICRA notes that geographical diversification will help insulate the company's performance from the swings of demand-supply gap in individual micro-markets. However, 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 ratings are further constrained by the company's moderately high operating leverage due to fixed nature of employee/leases expenses, making the earnings susceptible to a drop in business volumes.

The Stable outlook reflects ICRA's expectation that SLL will continue to organically grow the business and increase its footprint across different geographies/ retail formats, helping deliver healthy earnings growth in the near-to-medium term. The

[1] Non-Operating Entity

company's calibrated expansion plans are expected to 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 – The products profile of the Group comprises sofas, cabinetry and furniture for living rooms, dining rooms, family rooms, kitchens, bedrooms (including bedding products), and home offices, offering complete home solutions including installations. After cementing its position in the automotive and premium furniture segments, in the calendar year 2015, 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 2019, the company opened its first store under 'Sofas & More by Stanley' format to offer products, which fall in the mid-high category. The company experimented with a new furniture retail format by opening India's largest home decor mall, Stanley Level Next, on Hosur Road, Bangalore, housing over 50 international brands and then subsequently forayed into the premium kitchen, wardrobes, premium mattress, and bedding segments by setting up two new factories in Bommasandra, Bangalore. 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 15% between FY2018 and FY2023.

Favourable demand prospects in furniture industry in India and improvement in profitability, leading to a healthy financial profile – 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. While SLL's input costs have increased in an overall inflationary environment over the last four fiscals (FY2020 to FY2023), SLL's consolidated net profit margins improved to 8.3% in FY2023 from 4.1% in FY2020, driven by various factors including decline in the 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. SLL's consolidated capital structure remained comfortable with minimal external debt of Rs. 4.5 crore (excluding lease liabilities and loan from related parties) and Total Outside Liability (TOL)/ Tangible Net Worth (TNW) of 1.0 times on its balance sheet as on March 31, 2023. 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.

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 and established brand name in both furniture and automobile upholstery segments – Incorporated by Mr. Sunil Suresh, SLL has been manufacturing leather-based products since 2007. The promoters' extensive experience in the leather and furniture business along with the company's ability to report profits across business cycles strengthen the credit profile of SLL. 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, and have catered 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 (brand business). The revenue from the brand business improved to ~Rs. 321 crore in FY2023 from ~Rs. 203 crore in FY2022, exhibiting a healthy YoY growth of 58.2%, 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 YoY growth rate of 10.6% in FY2023 vis-à-vis FY2022. Therefore, ICRA notes that SLL's long operating track record as a manufacturer and trader of furniture and leather products support in generating repeat business for the company.

Credit challenges

High geographical concentration risk with Bangalore dominating furniture segment revenues – Around 48% of the revenues from retail sales in the B2C business came from Bangalore in FY2023, leading to high geographical concentration risk. 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. ICRA also notes that the company is gradually increasing its presence in various Indian metro cities like Mumbai, Chennai, New Delhi and Hyderabad. It plans to expand geographically through COCO (company owned and company operated) and franchise model (with larger coverage on Sofas & More retail format) along with catering to both Fixed and Loose furniture product requirement of the customers.

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, its ability to deliver customised furniture, and its physical presence in India provide faster delivery and better after-sales services, leading to a competitive edge.

Exposure to foreign exchange risk – SLL mainly imports leather and wood, which form 70-80% of its raw material cost, and thus remains exposed to the 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 localised the purchase of raw materials like leather, plywood, foams etc from the past few years and reduced its exposure to the foreign exchange risk. The company plans to increase the share of raw materials sourced locally to maintain control over the quality of materials while reducing the cost of materials consumed and minimising the exposure to the foreign currency fluctuation. However, the exports focus working with IKEA and other players will partly offset the adverse impact due to foreign exchange fluctuations by creating a natural hedge against the import of raw materials.

Moderately high operating leverage due to high fixed expenses – The employee cost, along with the lease payment obligations, and general and admin expenses comprise 25-30% of the overall cost of manufacturing, leading to a moderately high proportion of fixed expenses in the company's cost base. This accentuates pressure on earnings due to a potential decline in business volumes in the future. Nevertheless, ICRA notes that the centralized manufacturing locations of the company mitigates the high operating leverage to some extent.

Liquidity position: Strong

The company's liquidity position is Strong as the company generated positive retained cash flows in five out of the last six fiscals (FY2018-FY2023), helping maintain a free cash and fixed deposit outstanding of Rs. 56.8 crore as on March 31, 2023. The average CC limit utilisation stood at a moderate level of 60% between September 2022 and September 2023. The company has sufficient untapped funds for its growth plans, and minimal scheduled term loan repayments in the near term, thereby strengthening its liquidity position.

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 in the company's liquidity profile because of a stretch in the working capital cycle could trigger ratings downgrade. A specific credit metric that would put pressure on the ratings would be debt service coverage ratio of less than 2.0 times on a sustained basis.

Analytical approach

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

About the company

SLL, established in Bangalore as a partnership firm, was reconstituted as a public limited company in 2007. The company has two manufacturing facilities at Electronic City, Bengaluru, Karnataka and Bommasandra Jigani Link Road, Bengaluru, Karnataka. The facility at Electronic City produces customised products under the Stanley brand, while the facility at Bommasandra Jigani Link Road specialises in contract manufacturing for repetitive production for various multi-national home furnishing players besides manufacturing products for Sofas & More by Stanley brand. 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.

SLL holds a 100% beneficial interest in the shareholding of SRL. SLL 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 34 company-owned and company-operated stores as on June 30, 2023. SRL has experimented with a new furniture retail format by opening India's largest home decor mall, Stanley Level Next on Hosur Road**,** Bangalore, housing over 50 international brands in March 2017.

Stanley OEM Sofas Limited was incorporated in September 2015 to primarily cater to IKEA, an international furniture maker and to expand its operations in 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	FY2022	FY2023
Operating income	292.2	419.0
PAT	23.2	35.0
OPBDIT/OI	20.7%	20.1%
PAT/OI	7.9%	8.3%
Total outside liabilities/Tangible net worth (times)	1.0	1.0
Total debt/OPBDIT (times)	2.1	1.8
Interest coverage (times)	5.0	5.2

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

Note: The Company has adopted IND AS accounting from FY2023 and has restated its comparative audited consolidated Ind AS financial statements for the year ended March 31, 2022

Status of non-cooperation with previous CRA:

CRISIL, vide its press release dated February 22, 2023 mentioned that the company was not cooperating with the credit rating agency and had rating of CRISIL B+/Stable/CRISIL A4; ISSUER NOT COOPERATING. CRISIL mentioned in the press release that SLL did not provide requisite information needed to conduct the rating exercise and therefore has classified the rating as non cooperative.

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)					Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2023 (Rs. crore)	Date & rating in FY2024		Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Nov 08, 2023	Oct 17, 2023	Nov 30, 2022	Aug 20, 2021	Aug 13, 2020
1	**Fund Based-Cash credit**	Long term	15.00	3.94	**[ICRA]A (Stable)**	**[ICRA]A (Stable)**	**[ICRA]A (Stable)**	**[ICRA]A- (Stable)**	**[ICRA]A- (Stable)**
2	**Non-fund Based**	Short term	35.00	-	**[ICRA]A1**	**[ICRA]A1**	**[ICRA]A1**	**[ICRA]A2+**	**[ICRA]A2+**
3	**Unallocated**	Long term/ Short term	6.78	-	**[ICRA]A (Stable)/ [ICRA]A1**	**[ICRA]A (Stable)/ [ICRA]A1**	**[ICRA]A (Stable)/ [ICRA]A1**	**[ICRA]A- (Stable)/ [ICRA]A2+**	**[ICRA]A- (Stable)/ [ICRA]A2+**

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	Not Applicable

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	Long Term- Fund Based-Cash Credit	NA	NA	NA	15.00	[ICRA]A(Stable)
NA	Short Term -Non Fund Based-Letter of Credit	NA	NA	NA	35.00	[ICRA]A1
NA	Long term/ Short term - Unallocated	NA	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)	100.0%*	Full Consolidation
Stanley OEM Sofas Limited (SOSL)	100.0%*	Full Consolidation
Sana Lifestyles Ltd (step down subsidiary of SRL)	100.0%#*	Full Consolidation
Shrasta Decor Private Limited (step down subsidiary of SRL)	55.95%#	Full Consolidation
Scheek Home Interiors Limited (step down subsidiary of SRL)[2]	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; *beneficial interest in the shareholding*

[2] Non-Operating Entity

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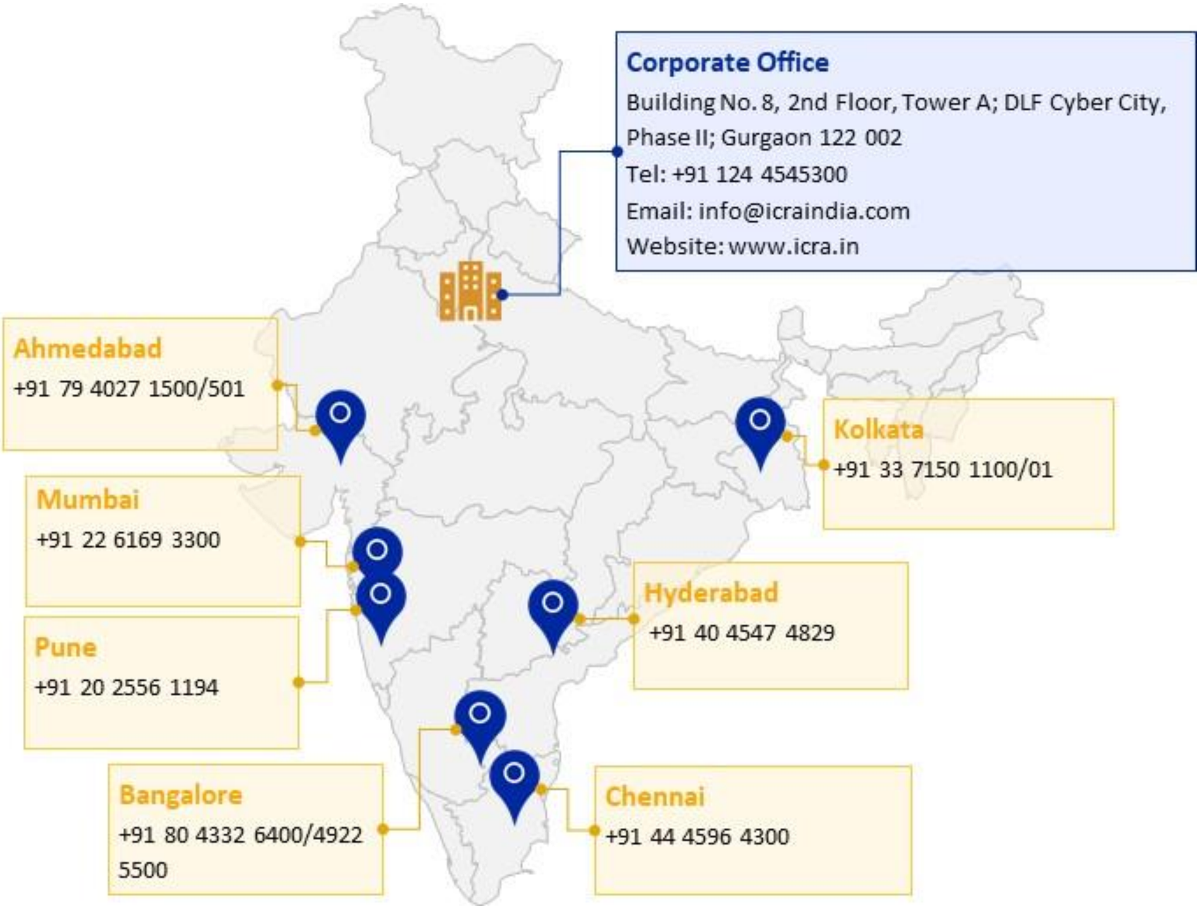

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