December 30, 2024

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	0.00	-
Short term - non-fund based	35.00	0.00	-
Long term/ Short term – Unallocated	6.78	56.78	[ICRA]A (Stable)/ [ICRA]A1; reaffirmed
Total	**56.78**	**56.78**	

**Instrument details are provided in Annexure-I*

Rationale

The reaffirmation of the ratings considers the extensive track record of Stanley Lifestyles Limited's (SLL) promoters in the leather business, as well as the established brand name of the entity in the premium furniture and automobile upholstery segments. In June 2024, SLL successfully completed its initial public offering (IPO) listing, enabling it to mobilise Rs. 200 crores (including issue expenses) of funds, which will be primarily utilised for the ongoing future store expansions. Driven by the fund raising, the company's financial profile is expected to remain robust, underpinned by the limited dependence on debt, leading to healthy financial coverage indicators. The company's presence across the entire value chain of the furniture industry, including designing, manufacturing and retailing activities, has enabled it to report healthy gross margins of more than 50% and offers an edge over its competitors. This enables the company to respond faster to changes in demand preferences and provide a faster turnaround time for customised furniture delivery.

After witnessing healthy revenue growth in FY2023, the company's revenue run rate moderated in FY2024 and H1 FY2025, with SLL witnessing flattish/negative same-store sales growth (SSSG) in its retail business for the same period as major stores were undergoing a renovation, and a couple of stores got impacted led by disruption caused by construction of metro lines/road digging outside the stores and a fire incident in one of the stores. This was largely driven by demand slowdown and delays in the handover of new houses, which drive 80-85% of the company's revenues. Given the moderately high operating leverage of the business, the operating profit margin (OPM) also moderated to 18.9% in H1 FY2025 compared to 20.4% in FY2024. However, the momentum is expected to pick up in H2 FY2025, which would lead to range-bound revenues for the year. ICRA draws comfort from favourable demand prospectus, rising income levels and growing preference for premium furniture, which are expected to augur well for furniture industry players, including SLL, over the medium-to-long term. The company intends to open 27 stores in the next three years, funded through IPO proceeds/internal accruals, which will also help support its revenue growth.

The ratings also remain constrained by the intense competition in the industry and the company's exposure to foreign currency fluctuations due to reliance on leather imports and other key raw materials. Around 61% of the revenues from retail sales in the B2C retail business was from Karnataka in FY2024, 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.

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 in the near-to-medium term. Given the IPO proceeds, the company's dependence on debt will remain limited, which should keep credit metrics at comfortable levels.

Key rating drivers and their description

Credit strengths

Extensive track record of promoters in leather business and established brand name - 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 its ability to report profits across business cycles strengthen SLL's credit profile. The Group has been manufacturing leather seat covers for cars for the past two decades. Moreover, the retailing of its products in the furniture market is through its three format stores, each catering to a different segment of the market i.e., ultra-luxury through Stanley Level Next, luxury segment through Stanley Boutique and super premium through Sofas & More. The company's presence across the entire value chain of the furniture industry, including designing, manufacturing and retailing, supports a healthy gross margin of over 50%, which stood at 54% in FY2024 and offers a competitive edge. The Group's product profile comprises sofas, cabinetry and furniture for living rooms, dining rooms, family rooms, kitchens, bedrooms (including bedding products) and home offices, offering complete solutions, including installation. The company had 64 operational stores across various formats as on September 30, 2024 and plans to add 27 stores over the next three years.

Successful completion of IPO and healthy financial profile - SLL successfully completed its IPO listing in June 2024, enabling it to mobilise Rs. 200 crores (including Issue Expenses)of funds, which will be utilised for ongoing and future store expansion and the purchase of new machinery in SLL & Stanley OEM Sofas Limited (SOSL). The net worth increased to Rs. 443.1 crore as on September 30, 2024 with receipt of fresh proceeds from IPO in the month of June 2024. Moreover, the company has limited reliance on its external debt and thus, capital structure stood comfortable with below unity gearing of 0.4 times as on September 30, 2024. Driven by the fund raising, the company's financial profile is expected to remain robust, underpinned by limited dependence on debt leading to healthy financial coverage indicators. As on September 30, 2024, the company had Rs. 157.9 crore of funds in monitoring accounts, which will be used for the funding of future store expansion plans.

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 the 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. Additionally, favourable premiumisation trend in the housing sector also augurs well for players like SLL.

Credit challenges

Range-bound revenues and profit margins over the last two years – The revenue run rate for the company moderated in FY2024 and H1 FY2025, with the company witnessing flattish/negative SSSG in its retail business during the period. This was largely driven by certain store-level operational challenges, demand slowdown (partly due to factors like General elections in Q1, weather-related disruptions) and delay in the handover of new houses (80-85% of revenues of the brand business is derived from new houses). Additionally, the company revised the payment terms for its trading business, further impacting revenues from this segment in H1 FY2025. The revenues growth thus remained muted at ~3.2% in FY2024 to Rs. 432.5 crore and subsequently, moderated by 1% to Rs. 203.7 crore in H1 FY2025. Given the moderately high operating leverage of the business, OPM also moderated to 18.9% in H1 FY2025 compared to 20.4% in FY2024. However, the momentum is expected to pick up in H2 FY2025, which would lead to range-bound revenues for the year. Additionally, the company's centralised manufacturing locations mitigate the high operating leverage to some extent.

High geographical concentration risk- Around 61% of the revenues for SLL were generated from Karnataka in FY2024, 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 observes that while geographical diversification can shield the company's performance from demand-supply fluctuations in specific micro-markets, the concentration of stores in a particular region also offers benefits, such as economies of scale in serving a target market with shared costs influenced by local factors. ICRA also notes that with the increasing demand for premium and luxury homes in India, the company intends to increase its presence by opening new stores in major metro cities such as Mumbai, Delhi, Chennai, Pune, Hyderabad among others, thereby reducing its dependency on one region.

Intense competition in industry; exposure to foreign exchange risk- SLL has presence primarily in the premium segment and encounters 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.

SLL mainly imports leather and wood, which form over 70% of its raw material costs, and thus remains exposed to the forex risk. As a sizeable share of 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.

Environmental and social risks

Environmental considerations: The sector remains exposed to the risks of elevated input costs owing to increased compliance-related expenses faced by suppliers amid tightening environmental regulations.

Social considerations: The company bears responsibility for the ethical sourcing of raw materials like leather and wood to address concerns related to human rights, environmental impacts, including the risks of deforestation, and animal welfare across the total value chain. As SLL operates in the retail segment, a manpower-intensive segment, it is also exposed to the risks of disruptions due to inability to efficiently manage human capital in terms of their safety and the overall well-being.

Liquidity position: Strong

The company's liquidity position is strong, supported by adequate positive retained cash flows and cash and fixed deposit outstanding of Rs. 212.3crore as on September 30, 2024, led by the IPO proceeds. SLL has sufficient untapped funds for its growth plans, and no scheduled term loan repayments in the near term, thereby strengthening its liquidity position. Moreover, the company has planned capex of ~Rs. 45-55 crore each in the next three years (FY2025-FY2027), which will be funded through the available IPO proceeds/internal accruals.

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 due to a stretch in the working capital cycle could trigger ratings downgrade. A specific credit metric that would put pressure on the ratings would be a 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
Parent/Group support	Not applicable
Consolidation/Standalone	The ratings are based on the consolidated financial statements of the issuer. As on September 30, 2024, 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 home furnishing players, besides manufacturing products for Sofas & More by the Stanley brand. Within the automobile upholstery segment, SLL mainly caters to one of the Japanese multinational original equipment manufacturers (OEM) and tier-1 OEM suppliers. Under the furniture segment, SLL manufactures leather sofas and recliners and other home furnishings and sells them through its own network of retail stores under its Group company, 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 Stanley Retail Limited (SRL). 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 brands, Stanley Boutique, Level Next and Sofas & More. The Stanley Group has 39 company-owned and company-operated stores as on September 30, 2024. 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 one of the Swedish multinational conglomerate, an international furniture maker and to expand its operations in the export market. Its manufacturing facility is in Bommasandra Jigani Link Road, Bengaluru, Karnataka, with dedicated units to cater to the Swedish company orders for its East European and Middle Eastern operations.

ABS Seating Private Limited (ASPL) was incorporated in May 2005, undertake the retail business. ASPL purchases from SLL & SRL and sells through its own retail stores under the brands, Stanley Boutique, Level Next and Sofas & More.

Key financial indicators (audited)

Consolidated	FY2023	FY2024	H1 FY2025*
Operating income	419.0	432.4	203.7
PAT	35.0	29.1	9.5
OPBDIT/OI	20.1%	20.4%	18.9%
PAT/OI	8.4%	6.7%	4.7%
Total outside liabilities/Tangible net worth (times)	1.0	1.1	0.6
Total debt/OPBDIT (times)	1.8	2.3	2.4
Interest coverage (times)	5.2	4.1	3.9

*Source: Company, ICRA Research; *Result; All ratios as per ICRA's calculations; Amount in Rs. crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation*

Status of non-cooperation with previous CRA

CRISIL, vide its press release dated April 08, 2024, 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

	Current (FY2025)			Chronology of rating history for the past 3 years					
	FY2025			FY2024		FY2023		FY2022	
Instrument	Type	Amount Rated (Rs. crore)	30-DEC-2024	Date	Rating	Date	Rating	Date	Rating
Short term-others-non fund based	Short Term	0.00	-	17-OCT-2023	[ICRA]A1	30-NOV-2022	[ICRA]A1	20-AUG-2021	[ICRA]A2+
			-	08-NOV-2023	[ICRA]A1	-	-	-	-
Long term-cash credit-fund based	Long Term	0.00	-	17-OCT-2023	[ICRA]A (Stable)	30-NOV-2022	[ICRA]A (Stable)	20-AUG-2021	[ICRA]A- (Stable)
			-	08-NOV-2023	[ICRA]A (Stable)	-	-	-	-
Long term / short term-unallocated-unallocated	Long Term/Short Term	56.78	[ICRA]A (Stable)/ [ICRA]A1	17-OCT-2023	[ICRA]A (Stable)/ [ICRA]A1	30-NOV-2022	[ICRA]A (Stable)/ [ICRA]A1	20-AUG-2021	[ICRA]A- (Stable)/ [ICRA]A2+
			-	08-NOV-2023	[ICRA]A (Stable)/ [ICRA]A1	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
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/ Short term - Unallocated	NA	NA	NA	56.78	[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)[1]	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*

[1] Non-Operating Entity

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