

## Company Overview

Founded in 2007, Stanley Lifestyles Limited is a leading designer and manufacturer of super-premium, luxury, and ultra-luxury furniture under the brand "Stanley", building customer loyalty through quality products and targeted marketing campaigns like "Beautiful Living" and "Luxury Unlimited". Their diverse product range includes Seating (sofas, recliners, dining chairs), Cased Goods (coffee tables, dining tables), Kitchens and Cabinets (wardrobes, bar cabinets), Mattresses and Beds, and Automotive and Other products like customizable shoes and leather seat covers. By the end of 2023, Stanley operated 38 company-owned stores and 24 franchisee-operated stores across major Indian cities. Their Bengaluru facility, spanning 15,000 square feet, houses the product development department with 778 employees. Recognized for quality and craftsmanship, Stanley engages in targeted marketing and introduced 88 new products in Fiscal 2023, reinforcing its position in the luxury furniture market.

## Objects of the issue

The company proposes to utilize the net proceeds towards the funding of the following objects:

- ⇒ Opening new stores under format "Stanley Level Next," "Stanley Boutique," and "Sofas & More by Stanley";
- ⇒ Establishing anchor stores;
- ⇒ Renovating existing stores: "Stanley Level Next," "Stanley Boutique," and "Sofas & More by Stanley";
- ⇒ Capital expenditures for machinery and equipment;
- ⇒ General corporate purposes.

## Investment Rationale

### Market leadership coupled with diverse product range offers headroom for growth

'Stanley is a leading super-premium and luxury furniture brand in India, known for its extensive manufacturing and retail operations. With the largest number of stores and the fastest revenue growth in the industry, Stanley's retail presence is three times that of its nearest competitor as of January 31, 2024 (RedSeer Report). Founded by first-generation entrepreneurs, Stanley transitioned from premium automotive seating to high-quality, personalized home furniture, offering bespoke products. Their range includes sofas, cabinetry, and furniture for every room, available in over 300 colors and 10 types of leathers and fabrics, allowing customers to achieve a coordinated home aesthetic. By leveraging the trend towards organized retail, Stanley has increased its market share and average billing size, particularly in key locations like Sadashivnagar in Bengaluru. Stanley's diverse portfolio and commitment to quality position it for sustained growth and market leadership.

### Extensive Pan-India presence and design-led innovation places it on the forefront of the luxury furniture sector

With strategically located stores across major metropolitan cities and numerous franchisee-operated outlets, Stanley Lifestyles ensures broad accessibility and strong market penetration throughout India. They retail their furniture products primarily through three store formats, each catering to a different segment of the market i.e. Stanley Level Next (ultra-luxury), Stanley Boutique (luxury), Sofas & More by Stanley (super premium). Stanley excels in design-led innovation, leveraging over 15 years of retail experience to understand and cater to diverse customer preferences nationwide. In Fiscal 2023 alone, they introduced 88 new products, complemented by 71 new products by December 31, 2023, under the "Stanley" brand. With a dedicated 15,000 square-foot product development division in Electronic City and a team including a master Italian designer and 48 employees, Stanley continuously updates its offerings, from modern recliner sofas to kitchen and storage solutions. They prioritize customer feedback, employ European expertise, and attend international furniture shows to ensure their products align with global trends while reflecting local tastes. This approach underscores Stanley's commitment to maintaining market relevance and quality, driving their leadership in the luxury furniture sector.

## Issue Details

Offer Period	21 <sup>st</sup> June 2024 - 25 <sup>th</sup> June 2024
Price Band	Rs. 351 to Rs.369
Bid Lot	40
Listing	BSE & NSE
Issue Size (no. of shares in mn)	14.5
Issue Size (Rs. in bn)	5.4
Face Value (Rs.)	2

## Issue Structure

QIB	50%
NIB	15%
Retail	35%

BRLM	Axis Capital Ltd., ICICI Securities Ltd., JM Financial Ltd., SBI Capital Markets Ltd.
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Registrar	Kfin Technologies Ltd.
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Particulars	Pre Issue %	Post Issue %
Promoters and promoter group	67.28	44.94
Public	32.72	55.06
<b>Total</b>	<b>100.00</b>	<b>100.00</b>

(Assuming issue subscribed at higher band)

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## Valuation

The real estate boom in India has propelled significant growth in the furniture market, driven by urbanization, rising incomes, and a shift towards tier-II cities. Home renovations and upgrades are fueling demand for furniture and home goods as consumers seek to enhance their living spaces. Despite setbacks during COVID-19, the tourism and hotel industries are rebounding, contributing to increased demand for aesthetic and comfortable furniture. The luxury and super-premium furniture segment, comprising 8% of the overall market, is expanding due to the rise in dual-income households and the preferences of urban millennials and Gen Z for quality and trendy décor. Stanley, as a market leader, stands to benefit from these trends, supported by impressive CAGR in revenue/EBITDA/PAT at 46%/66%/326%, respectively. Additionally, the company has shown improvement in EBITDA margin, increasing from 15.2% in FY21 to 19.7% in FY23. The company has demonstrated consistent enhancement in its Return on Capital Employed (ROCE), progressing from 5.5% in FY21 to 16.6% in FY23. Similarly, its Return on Equity (ROE) has shown steady improvement, rising from 1.0% in FY21 to 16.3% in FY23. **The company commands a high valuation at a P/E of 57.9x based on FY2023 earnings. However, considering the industry dynamics and growth prospects, we recommend a SUBSCRIBE rating for the issue.**

## Key Risks

- ⇒ **Trademark ownership uncertainty:** The company's reliance on the "Stanley" brand for products like "Stanley Level Next", "Stanley Boutique", and "Sofas & More by Stanley" is critical. However, delays in transferring intellectual property rights from promoter Sunil Suresh or breaches in the co-existence agreement with Stanley Furniture Company, Inc. could adversely affect the business.
- ⇒ **Product dependence and regional vulnerability:** The company's business risks stem from heavy reliance on sofas and recliners, facing intensified competition, fluctuating costs, and shifting customer preferences. Adapting to evolving customization needs is critical to avoid obsolete inventory and pricing pressures. Additionally, significant revenue from Southern India exposes it to risks from socio-political events, natural disasters, or policy changes, affecting inventory, reputation, profitability, and market share amid regional expansion and competition.
- ⇒ **Competitive challenges in India's luxury furniture market:** India's luxury furniture sector is fiercely competitive, with local and European brands contending for dominance. Stronger competitors with superior resources and brand recognition pose challenges that could impact market position and profitability. Changes in import duties may attract more foreign players, intensifying competition and influencing customer preferences. Adapting quickly to industry shifts is crucial for maintaining competitiveness and driving sustained revenue growth.

# Stanley Lifestyles Ltd.

## Income Statement (Rs. in millions)

Particulars	FY21	FY22	FY23	9MFY24
<b>Revenue</b>				
Revenue from Operations	1,958	2,922	4,190	3,133
<b>Total Revenue</b>	<b>1,958</b>	<b>2,922</b>	<b>4,190</b>	<b>3,133</b>
<b>Expenses</b>				
Cost of material consumed	902	1,456	2,043	1,384
Purchase of stock-in-trade	53	201	108	239
Changes in inventory	21	-217	-108	-149
Employee benefit expenses	270	337	495	422
Other expenses	414	554	825	660
<b>Total Operating Expenses</b>	<b>1,660</b>	<b>2,332</b>	<b>3,363</b>	<b>2,555</b>
<b>EBITDA</b>	<b>298</b>	<b>590</b>	<b>827</b>	<b>578</b>
Depreciation and Amortization expenses	207	217	283	278
Other income	59	56	66	90
<b>EBIT</b>	<b>150</b>	<b>428</b>	<b>611</b>	<b>390</b>
Finance costs	88	109	147	143
Exceptional Item	-	-	-	-
Share of Profit (Loss) of associate	-	-	-	-
<b>PBT</b>	<b>62</b>	<b>319</b>	<b>464</b>	<b>247</b>
Current tax	49	104	144	86
Deferred Tax charge/ (credit)	-34	-19	-26	-25
Short / (Excess) provision of earlier years	28	2	-4	-1
<b>Total tax</b>	<b>43</b>	<b>87</b>	<b>114</b>	<b>60</b>
<b>PAT</b>	<b>19</b>	<b>232</b>	<b>350</b>	<b>187</b>
<b>Diluted EPS</b>	<b>0</b>	<b>4</b>	<b>6</b>	<b>4</b>

Source: RHP, BP Equities Research

## Cash Flow Statement (Rs. in millions)

Particulars	FY21	FY22	FY23	9MFY24
Cash Flow from operating activities	330	285	680	126
Cash flow from investing activities	(32)	(116)	(274)	(175)
Cash flow from financing activities	(239)	(188)	(412)	9
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>59</b>	<b>(19)</b>	<b>(6)</b>	<b>(40)</b>
<b>Cash and cash equivalents at the beginning of the period</b>	<b>62</b>	<b>121</b>	<b>103</b>	<b>97</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>121</b>	<b>103</b>	<b>97</b>	<b>57</b>

Source: RHP, BP Equities Research

## Balance Sheet (Rs. in millions)

Particulars	FY21	FY22	FY23	9MFY24
<b>ASSETS</b>				
Non-current assets				
Property, plant and equipment	366	513	705	755
Capital work-in-progress	-	8	12	425
Goodwill on consolidation	26	27	37	37
Right of use assets	775	1,107	1,245	1,625
Intangible assets	9	8	29	44
Intangible assets under development	-	-	11	12
Financial assets				
(i) Other financial assets	88	109	116	136
Deferred tax assets (net)	64	81	107	132
Current tax assets (net)	35	63	26	35
Other non-current assets	7	8	24	36
<b>Total non-current assets</b>	<b>1,370</b>	<b>1,923</b>	<b>2,312</b>	<b>3,236</b>
Current assets				
Inventories	953	1,182	1,214	1,474
Financial assets				
i) Trade receivables	140	189	165	248
ii) Cash and cash equivalents	121	103	97	57
iii) Bank balances (other than (ii) above)	744	644	637	474
iv) Other financial assets	32	33	45	23
Other current assets	106	147	111	304
<b>Total current assets</b>	<b>2,095</b>	<b>2,298</b>	<b>2,270</b>	<b>2,579</b>
<b>Total Assets</b>	<b>3,465</b>	<b>4,221</b>	<b>4,582</b>	<b>5,815</b>
<b>EQUITY AND LIABILITIES</b>				
<b>Equity</b>				
Equity share capital	74	74	74	103
Other equity	1,756	1,924	2,091	2,269
Total equity attributable to equity holder	1,829	1,998	2,165	2,372
Non controlling interests	47	58	73	110
<b>Total equity</b>	<b>1,876</b>	<b>2,056</b>	<b>2,238</b>	<b>2,482</b>
<b>Liabilities</b>				
Non-current liabilities				
Financial liabilities				
i) Borrowings	1	6	2	10
ii) Lease liabilities	785	1,090	1,251	1,610
iii) Asset retirement obligation	21	31	39	48
Provisions	14	10	11	16
<b>Total non-current liabilities</b>	<b>821</b>	<b>1,137</b>	<b>1,303</b>	<b>1,684</b>
Current liabilities				
Financial liabilities				
i) Borrowings	1	55	91	299
ii) Lease liabilities	88	146	168	211
iii) Trade payables				
a) Total outstanding dues to micro and small enterprises	6	46	79	58
b) Total outstanding of creditors other than (iii) (a) above	418	439	359	555
iv) Other financial liabilities	-	-	-	221
Provisions	15	21	27	39
Other current liabilities	209	270	297	262
Current tax liabilities (net)	31	50	19	5
<b>Total current liabilities</b>	<b>768</b>	<b>1,029</b>	<b>1,041</b>	<b>1,649</b>
<b>Total liabilities</b>	<b>1,589</b>	<b>2,165</b>	<b>2,344</b>	<b>3,333</b>
<b>Total equity and liabilities</b>	<b>3,465</b>	<b>4,221</b>	<b>4,582</b>	<b>5,815</b>

Source: RHP, BP Equities Research

**Disclaimer Appendix****Analyst (s) holding in the Stock : Nil****Analyst (s) Certification:**

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