STANLEY
Makers Of Beautiful

Date: 19.11.2024 Ref no. SLL/SE/46-2024

To, National Stock Exchange of India Limited ("NSE") Listing Department Exchange Plaza, C-1 Block G, Bandra Kurla Complex Bandra [E], Mumbai – 400051	To, BSE Limited ("BSE") Listing Department Corporate Relationship Department Phiroze Jeejeebhoy Towers, Dalal Street, Fort, Mumbai - 400 001
NSE Scrip Symbol: STANLEY	BSE Scrip Code: 544202
ISIN: INE01A001028	ISIN: INE01A001028

Dear Sir/Ma'am,

Subject: Transcript of the Earnings Call held on November 14, 2024

Pursuant to Regulation 30 read with Schedule III of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, we are enclosing herewith a copy of the transcript of the earnings conference call held on Thursday, November 14, 2024, on the Unaudited Financial Results (Standalone and Consolidated) of the Company for the Quarter and Half year ended September 30, 2024.

The transcript of the earnings conference call is also available on the website of the Company at website at www.stanleylifestyles.com

We request you to kindly take this on your record.

Thanking You,

For Stanley Lifestyles Limited

AKASH SHETTY Digitally signed by AKASH SHETTY Date: 2024.11.19 12:37:55 +05'30'

Akash Shetty
Company Secretary and Compliance Officer
FCS No.: 11314

Enclosed: As above

“Stanley Lifestyles Limited

Q2 FY25 Earnings Conference Call”

November 14, 2024

MANAGEMENT: **MR. SUNIL SURESH – MANAGING DIRECTOR–STANLEY LIFESTYLES LIMITED**
MS. SHUBHA SUNIL – WHOLE-TIME DIRECTOR – STANLEY LIFESTYLES LIMITED
MR. PRADEEP KUMAR MISHRA – GROUP CHIEF FINANCIAL OFFICER – STANLEY LIFESTYLES LIMITED
MR. SRI KRISHNA – CHIEF EXECUTIVE OFFICER – RETAIL DIVISION – STANLEY LIFESTYLES LIMITED

MODERATOR: **MR. NILESH PATIL – ICICI SECURITIES**

Moderator: Ladies and gentlemen, good day and welcome to Stanley Lifestyles Limited Q2 FY25 Earnings Conference Call hosted by ICICI Securities. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Nilesh Patil from ICICI Securities. Thank you and over to you, sir.

Nilesh Patil: Thanks, Del. Good morning, all of you. On behalf of ICICI Securities, we welcome you all to Q2 FY'25 Results Conference Call of Stanley Lifestyles Limited. We have with us Mr. Sunil Suresh, Managing Director, Ms. Shubha Sunil, Whole-Time Director, Mr. Pradeep Kumar Mishra, Group Chief Financial Officer and Sri Krishna, Chief Executive Officer, Retail Division. Now I hand over the call to management team for their initial comments on quarterly performance and then we will open the floor for question and answer session. Thanks and over to you, sir.

Sunil Suresh: Good morning. My name is Sunil Suresh, Managing Director of Stanley Lifestyles Limited. Welcome to Stanley Lifestyles Limited Earnings Conference Call for the second quarter and half year ended 30th September 2024. During the first half of FY'25, Stanley Lifestyles Limited reported revenue from operations of INR 2,037 million. Despite our B2C business growing by 3% YoY, our overall sales declined by 1.1% compared to H1 of previous year.

This was due to combination of factors including reduced store footfall, due to unusually heavy rainfalls in our major retail markets, change in our business verticals from credit to cash in carry and reduced pull from our B2B customers. Although the Indian luxury residential property sales continue to grow exponentially, the ongoing delays in property handover by builders continue to postpone the timing of actual furniture purchase.

With more than 17 of our stores being below 18 months and under the gestation period of 30 months and due to the ratio of new stores under gestation period, we continue to incur higher operation costs which has put pressure on our current profitability.

However, this will even out as the stores start to mature as we move forward. We have managed to reduce our marketing spends compared to the same period last year. Our cost of import raw materials were impacted by adverse foreign exchange movements and increased shipping costs. From a profitability perspective, we delivered an EBITDA for H1 FY25 of INR 386 million with a margin of 18.9% and the profit after tax was INR 95 million. On the B2C retail front, we expanded our footprint by opening three new stores in H1 FY25 across each of our brands, Stanley Level Next (Ahmedabad), Stanley Boutique (Chennai) and Sofas and More (Chennai).

This brings our net total store count to 64 as at the end of September 2024, comprising of 39 company-owned and company-operated (COCO) stores and 25 franchisee-owned and franchisee-operated (FOFO) stores. Our COCO stores contribute 58% of the revenue in H1 FY25, reflecting Stanley Lifestyles' focus on direct consumer engagement and operational quality control. We have stayed to our annual plan and all the stores budgeted have been successfully launched till date and we are confident of achieving all planned new store rollout for this financial year.

With a better-than-previous-year order book at the start of H2 FY25, we remain positive to have better business in the remaining quarters of this year. In the medium term, India's luxury residential property market which is driven by increasing affluent demography is expected to follow an exciting and high-growth trajectory.

Sales of high-end residences valued more than INR 4 crores or more increased by 38% in the first 9 months of 2024 compared to last year. This expanding market of upscale homeowners is creating a strong momentum for quality furnishing that align with their lifestyle aspirations.

With our well-established brand positioning in a premium and luxury furniture space, bespoke offering and innovative designs, Stanley Lifestyles is uniquely positioned to capitalise on these powerful consumer trends. Management's top priorities include expanding our retail network strategically, localisation of raw material and continuing to launch contemporary furniture collections for our target customer base.

In summary, Stanley Lifestyles Limited strategy is to deliver value to both our customers and stakeholders, while reinforcing our position as India's leading brand in premium home interiors and high-end luxury furniture space. Thank you.

Sunil Suresh: I am handing over to Pradeep Mishra, our Chief Financial Officer.

Pradeep Mishra: Thank you Mr. Sunil and good morning everyone. I am pleased to share Stanley Lifestyles financial performance for Q2 and H1 FY25. For Q2 our revenue from operations stood at INR 1,030 million a decline of 6.4% YoY. Gross profit for the quarter reached INR 576 million representing a margin of 56%. EBITDA was INR 185 million with an EBITDA margin of 18%, while our PAT was INR 57 million with a margin of 5.5%.

For the first half of FY25, which is H1 revenue from operations totalled INR 2,037 million, gross-profit was INR 1,111 million with a margin of 54.5%. Our EBITDA was INR 386 million with a margin of 18.9% and PAT came in at INR 95 million reflecting a margin of 4.7%. In our quarterly segmental performance, the retail segment including Stanley Level Next, Stanley Boutique and Sofas & More reported revenue of INR 553 million and a 4.7% increase over same quarter last year.

Franchisee stores contributed INR 159 million in Q2, demonstrating strong YoY growth of 28.2%. The B2B segment contributed INR 268 million with a slight 0.7% YoY decrease primarily due to softening demand from institutional clients.

For the first half of FY25, the retail segment generated revenue of INR 1,061 million, reflecting a 3% YoY growth, while franchisee stores contributed INR 297 million, representing a 17.4% increase while our B2B segment recorded INR 490 million in revenue with a marginal 0.6% YoY decline. In terms of store contributions, our COCO stores accounted for 55% of revenue in Q2 and 58% in H1.

Franchisee-owned and franchisee-operated stores contributed 16% in Q2 and 15% in H1. From a regional perspective, the South region continued to be a stronghold contributing 76% of our revenue in Q2 and 80% in H1 FY25. At the product level, Sofas remained the leading category in our portfolio, contributing 56% of our revenue in Q2 and 54% in first half of FY25. The company in H1 focused mainly on backward integration, particularly through localizing leather and backward integrating many other processes which continue to make a complete home solution.

As of September 30, 2024, Stanley Lifestyles holds a strong financial position with net cash balance of INR 2,112 million. This cash position supports our growth plans enabling us to expand both our retail footprint and our supply chain capabilities. Looking ahead, we remain optimistic about growth opportunities in luxury furniture market. Our focus will be on expanding our retail network and diversifying our product lines to meet increasing customer demand.

In addition, our technology initiatives at the point of sale coupled with our commitment to sustainable practice are set to enhance both customer experience and operational efficiency. Thank you. I would be happy to address any questions you may have on our performance this quarter.

Moderator: Thank you. We will now begin the question and answer session. The first question is from the line of Jaspreet Arora from Equentis Capital. Please go ahead.

Jaspreet Arora: Hi, good morning. Thanks for the opportunity. Overall, there seems to be a decline in revenue on a YoY basis for Q2. Mr. Mishra you gave the break-up of the three segments, the B2B franchisee and owned. There it seems there was a growth and one was the flattest scenario. So, not able to add up these two and what am I missing?

Pradeep Mishra: So, our main business is brand and B2B business. And in brand we have three different format stores. So our brand business in Q2, over last year Q2 the retail portion really grew by 5% and which is the COCO stores. And there was a major impact in the B2B orders in the B2B segment of our business which degrew over last year. So retail did pick up in Q2 over last year Q2, but partially impacted by B2B or the OEM segment. Also, one was the lower institutional demand. Second, we also stopped credit in our B2B2C division. So that also impacted slightly in Q2.

Jaspreet Arora: So how much was the B2B down on a YoY basis for Q2?

Pradeep Mishra: B2B down was 1% over last year and B2B2C business which is some accessories which is sold through dealer network, that was really down almost 60%.

Jaspreet Arora: Okay. So major impact has come from here.

Sunil Suresh: We converted that from credit to cash and carry because we were finding it a bit difficult to collect the old dues. So we made it a cash and carry from April. So that actually has degrown by 60%.

Jaspreet Arora: Okay. Understood. So amongst the three reasons that you mentioned, sir, so this was one of the reasons and I believe this will continue for the next two quarters because you started in April. So even second half would have an impact for this particular reason, right?

Sunil Suresh: There might be a slight impact, but like I said in my speech that we are quite positive because the order books have been much better than beginning of H2 last year versus this year. Point number one. Point number two also a lot of stores which are under gestation are now coming to, I would say a little closer to gestation in the H2 period. So, yes, we see a stable business and also normally for us H2 gives almost 55%, 56% of the annual business. So we are now entering a better period of the year.

Jaspreet Arora: Okay. And the other two reasons you mentioned was one was the unexpected rains in Bangalore and I believe Bangalore gives more than 50% of revenue. Am I right?

Sunil Suresh: Correct. So we had unexpected heavy rains, heaviest in the last 30 odd years in Bangalore. So we had almost two, three weekends got washed away. That was one of the major reasons, but I think we have picked up back in Bangalore also.

Jaspreet Arora: Okay. And the third reason I missed, so one was the change in terms, one was the rains and there was one more reason you mentioned?

Sunil Suresh: Yes.

Jaspreet Arora: What was the third one?

Sunil Suresh: B2B slowed down by 1%.

Jaspreet Arora: Okay. So second half, would you say that assuming these things are largely behind us, there is a potential to grow in if not 20% plus, at least in double digits on a YoY basis, 2H over 2H?

Sunil Suresh: We remain very positive in terms of B2C sales and we think we will definitely continue growing there. B2B is still looking a bit weak. We have not yet got our what they call as forecast for Q3 as well as Q4. So we are hoping that will pick up. The business we converted from credit to cash and carry is already normalizing slowly and we hope that will be ironed out by end of Q3. So I think we look fairly positioned well to kind of, of course, some amount of growth at this point in time. Because of uncertainty of B2B, we are not having the clarity. We are expecting their forecast for Q3 and Q4 very soon both Toyota and IKEA.

Moderator: Sorry to interrupt sir. Please fall back in the queue.

Moderator: Thank you. The next question is from the line of Megh Shah from ProsperoTree Financial Services. Please go ahead.

Megh Shah: Good morning sir. I just have one question. After the IPO on multiple interactions with media as well as analysts, you have suggested that the scope for the company's growth is very high and have almost indicated that our aspiration/capability is to reach INR 1,000 crores revenue in 3 years to 4 years maximum. Having said that, for the last couple of quarters, there has been almost no growth.

So if we are supposed to achieve a INR 900 crores to INR 1,000 crores revenue mark, generally it will not scale up overnight. So with that background, I would like to ask you, would you like to downward revise your 4 years indication considering that the last three to four quarters have been very muted in terms of growth?

Sunil Suresh: Not at all. You must understand that this has been some internal corrections and changes we have done. Despite the senior management time of 1 year having gone towards the IPO, we came back to business and we have done certain changes which are going to give us a lot more stability. So numbers are very clear and all the required avenues to generate these revenues are in place. So there is no correction as far as our forecast of reaching a INR 1,000 crores in the next 3 years to 3.5 years is very much there in place.

Megh Shah: Okay, sir. That's all from my side. Thank you.

Moderator: Thank you. The next question is from the line of Sreeram Ramdas from Green Portfolio. Please go ahead.

Sreeram Ramdas: See on your DRHP, I saw there is something called assignment deed and from what I understand the trademark was not registered in the company's name. Is that correct?

Pradeep Mishra: No. I'll give you a feedback. The trademark was originally in the name of promoters and before we filed DRHP, the same was transferred to company and the necessary application company has already filed, taken all actions to transfer the trademark from promoter to the company. This has to yet get approved by the department and registrar of trademark and others and as soon as that completes, the entire trademark will rest with the company now.

Sreeram Ramdas: Okay. You mean before you filed the DRHP, there was an agreement between the promoter to transfer the trademark and copyright name to the company. Correct?

Sunil Suresh: Yes.

Sreeram Ramdas: But what about the payment? I see the payment is around INR 50 crores. So, I have two questions from this. How did you arrive at that INR 50 crores? I think INR 37.5 crores and another INR 15 crores on the copyright. So, how did you arrive at the INR 50 crores and secondly, is shareholder money being used for this?

Pradeep Mishra: So, the total value is 37.5. The copyright part of that is included in 37.5 and no part of the IPO proceeds is planned for using in this acquisition.

Sreeram Ramdas: Okay. And sir, how did you arrive at this figure 37.5?

Pradeep Mishra: This was done on a valuation on the brand, the future potential and then there was bankers involved which give us a fair value assessment of that. So, there was a valuation which was done independently and depending on that, it was agreed to transfer as a value.

It was done with the free cash. I mean, cash flow is also staggered over time. It was not paid as a bullet cash flow.

Sreeram Ramdas: Okay. And while going for the IPO, did you make any provisions for that or was this money being used from the reserves to pay the promoter?

Pradeep Mishra: It's from reserves. Again I said like no part of IPO money is used for this acquisition.

Sreeram Ramdas: Got it. All right, sir. Just that one. Thank you so much. Have a good day.

Moderator: Thank you. The next question is from the line of Resha Mehta from Green Edge Wealth. Please go ahead.

Resha Mehta: Yes, thank you. Sir, just a couple of questions from my side. So, one, I think, to one of the previous participants you were talking something about Toyota and IKEA. So, can you just comment on this B2B, only specifically the B2B business? What is the revenue contribution on an annualized basis? Who are our clients here and what kind of slowdown are we seeing here because, as you said, B2B business has also declined by 1%.

And secondly, also the B2B2C business that is overall what contribution to our overall business on an annualized basis. And what accessories, etc, do we supply via the dealers to what kind of clients? So, if you can just elaborate on both these business segments?

Pradeep Mishra: Yes. My B2B business contributes about 20% of overall revenue and the split is broadly 80-20. 80 is more which I say brand and 20 is more B2B and it goes 1%, 2% QoQ, but on annualized, 80-20 is a good rule of thumb to plan.

Resha Mehta: 80 is own brand, yes?

Sunil Suresh: 80 is own brand.

Pradeep Mishra: Brand includes retail, accessories, all of that put together. And then there is 20% which is more where we manufacture as contract manufacturing and as OEM that's 20% and that includes all the OEM names that we cater to.

Resha Mehta: So, like Toyota, IKEA, right?

Sunil Suresh: Yes, Toyota, IKEA and Williams Sonoma is another new account that we have opened.

Resha Mehta: Okay.

Pradeep Mishra: Yes, I don't know which where did I lose?

Resha Mehta: Yes. So, actually, my question was on B2B and B2B2C segments and you were talking about Williams Sonoma, whom you have onboarded as the latest customer in B2B segment. And so just wanted to understand here that within the B2B segment, so how is the demand outlook, how is the order book now looking like? And also in your B2B2C segment like which are the accessories, what kind of accessories do you all sell through dealers and is there also an order book concept there or how does it work there?

Sunil Suresh: Yes. So, let me explain that in terms of B2B situation overall is down by 1%, but we have still not got clarity in terms of their H2 forecast which we are expecting due course of this month. There seems to be some amount of correction. So, we are awaiting their forecast. Normally, it's a rolling forecast they give on a monthly basis. So, we are waiting for their forecast. The B2B2C piece is basically where we would trade with certain leather goods and certain leather hides through our franchises and dealers that had earlier had a long credit period.

And due course, this first quarter, we realized that the payments were getting further delayed. So, we made it a cash and carry business. So that was about 10% of our overall business. That has taken the biggest hit because we moved to cash and carry, but I think it is already getting ironed out and we are normally coming back to business there.

So, it should while H1 took a hit, I think H2 we will, of course, be a bit down, but I think it's more controlled. So, between all three as I said, B2C is 70% of our business. That has grown by 5%. B2B has degrown by 1% which is 20% of our business. And 61% degrowth in B2B2C, which is 10% of our business.

Resha Mehta: So, now again on this B2C growth part, so it is around 5% as you said, for the H1 FY25 and even if we look at the H2 which is almost 55% revenue contributor. So even if we see a very high growth in H2, at an overall level for the full year we will still be growing at around a single digit number. Now, considering that you have outlined that real estate project deliveries, etc are getting delayed. So, clearly the demand is not seeming to be very buoyant at this stage.

So, in that light from where do you feel that the growth will come? B2B has slowed down kind of B2B and B2B2C has kind of slowed down. Even retail has slowed down. Then where do we see this growth coming from and in the similar line then would we want to scale down our store expansion network plans of 10 stores to 11 stores on an annualized basis? Also because the new stores are kind of also impacting the profitability. So, your comments there would be helpful?

Sunil Suresh: So, yes, very important for you to understand. While we have, I would say, demonstrated a lot of success by growing in a cluster especially Bangalore and Hyderabad clusters, where we continue to increase. In Hyderabad, Bangalore, we are more or less completely grown. Most of our stores are now going to start coming up in newer markets. So, those markets where we are not present, we are opening more and more stores. So, basically, in terms of our store rollout plan, there will be no stopping us and we will continue to roll out these 11 stores for this year.

And then coming back to where it has slightly impacted our profitability is like I said almost 17 stores are below 18 months. And they are also aging as we speak and we are very confident that they will start getting to profitability in the due course of next couple of quarters. So, while there has been delays from builders, we are also expecting a huge inventory handout to happen, probably in the next three to four quarters. So, we know the products are being sold and builders are handing out and there might be a huge glut of inventory that is handed over in the next few quarters and we are expecting that to happen.

So, we are very confident that we are in the right place at the right time when that happens. So, from a B2C perspective we are absolutely bullish and we continue to carry forward whatever good work we have done in the last 3 years, 4 years of moving this company from a Sofa only to a complete home solution provider. That's exactly how we are going to go about. From a B2B perspective, while certain accounts have been sluggish, there are major plans for these institutional companies. They are expanding quite rapidly and that also is some existing accounts plus we are also looking for certain key new accounts with good profitability.

We have a lot of enquiries from China Plus 2 kind of companies who want to now move and the change in government in America now I think is going to work positively for us, because a lot of people want to leave China because the tariffs on China are definite as far as the new government is concerned. So, we remain positive to add a few more good accounts as we go forward. So, fundamentally, I would like you to understand while we would not really want to change the way we are conducting our business which is a 70-20-10, this will continue.

Of course, there were certain changes in the 10% business, which is a good thing what we have done and we are much more secure in terms of our repayments from the market. So, this is how we are doing certain smaller changes, but as I have always mentioned our middle-mid-term kind of strategy is well in place. We have been the first mover with more than 20 years of experience in the Indian market and we continue to grow forward with the new demand coming in.

Resha Mehta: Right. That's helpful. And lastly, just on the reasons for gross margin expansion by 280 bps, if I see QoQ and 400 bps YoY, so what is the reason for gross margin expansion and working capital has also seen a decent spike in inventory days as well as receivable days, if we compare with March 2024?

Pradeep Mishra: Yes. Quarter 1 we had an exceptional transaction which was not at the gross margin run rate. We are at about 56% of gross margin run rate from quarter 4 onwards last year. And quarter 1 was an exception where it dipped because it was a one-off transaction. Now we have come back on 56% margin, which is significantly improved from last year also because structurally a lot of work is happening in terms of bringing efficiency, a lot of localization efforts which has gone in and those have started to pay incremental margins immediately. So quarter 1 was a one-off and this margin is in spite of we seeing a forex going up and increased shipping costs on imports, we've been able to maintain and manage our margins.

Resha Mehta: Right. On the working capital increase?

Pradeep Mishra: Yes. Working capital, what happened was so one is when I add a new store, my working capital goes up because of the inventory which is put on display at the store. So the inventory levels go up when I expand new stores, that's one. So that's one reason for working capital to go up. Second was because of supply chain disruptions because of Red Sea. Stanley as a company, we offer a lot of customization at a quick turnaround time.

So having raw metal inventory is key for us. And there were a lot of disruptions happening because of non-availability of shipments or containers, expensive shipment costs if you want to book late. So we've strategically held higher inventories not from now, but from last year itself and then it's gone up. Eventually with a lot of new programs that we have, at least in the raw material and few import stocks that we had ramped up inventory, we will see reducing it by quarter 4, quarter 1 going forward because situation should stabilize and it should help us reduce on the raw material side.

Resha Mehta: And receivable days, the reason for increase from 18 days to 23 days because now that we have moved to cash and carry model, ideally the receivable days should have come down, right?

Pradeep Mishra: Yes. And these are all sticky collections which are progressing well. We have done good work in October, but that was one main reason for us to convert and review the credit cycle.

Sunil Suresh: But B2B remains the signed up in the past as a 60 days credit.

Resha Mehta: So Bangalore would be contributing how much to our overall revenues on an annualized basis?

Pradeep Mishra: Close to between 50%, 55%.

Resha Mehta: Of the B2C revenue or of the overall pie?

Pradeep Mishra: Of the B2C revenue.

Resha Mehta: Got it. And marketing spend, so typically they have hovered around 5%. So I think there was a comment in the investor presentation that we have reduced that. And what was the reason for reduction and then do we revert back to the old levels? And lastly, just a data question. What is the SSSG across all three formats for Q2 as well as H1 FY25?

Sunil Suresh: Yes, from a marketing also we have strategically started moving from traditional towards mostly social media and other marketing spends. We are still in an experimental mode. We have not gone full hog and we are doing pilot studies. And also realizing the climatic conditions, we held back a bit. So we did not spend our normal spend, especially in Q2. We were holding because of the weather conditions.

And we have a very, I would say, quick action team where we are able to hold back our advertisement in case we realize there is a certain problem in a certain city. Usually we have these kind of practices in the past. We realize that if there is a weather condition like monsoon or sometimes also floods and cyclones we hold back our advertisement spend. So that's what we have done.

Sunil Suresh: In Q3, we are going to come back to normal spends.

Resha Mehta: Right. And SSSG?

Pradeep Mishra: And SSSG, H1 is trending lower. This is for all mature stores which is more than 18 months. Again, it's about in lower, negative, it's a negative zone in H1.

Resha Mehta: And negative how much like minus, single digit?

Pradeep Mishra: Minus single digit, higher single digit.

Resha Mehta: Higher single digit. Okay. And this is across formats or is there any major skew?

Pradeep Mishra: Across all store formats.

Resha Mehta: Got it. Alright. Thank you so much and all the best.

Moderator: Thank you. The next question is from the line of Deepak Jangid from Ants and Bees Investment. Please go ahead.

Deepak Jangid: Thank you for taking my question, sir. So you have mentioned that your target is to do INR 900 crores to INR 1000 crores top line in the next 3 years to 4 years. So I just want to know what is the growth outlook in terms of product categories?

Sunil Suresh: So while we have built this company and brand purely on a single hero product, which has been our sofas for the last decade and a half. Starting from 2020, we started adding new facilities to be capable of manufacturing complete home furniture. So we have started upholstered beds, we have started mattresses, we have started kitchens and cabinets, we have also started the last year casegoods, which is probably one of our fastest moving goods right now. So the transition is on.

And like I've been saying that from 2025 onwards, Stanley is going to be positioned more as a luxury full home custom furniture manufacturing company and moving away from the typical Sofa only kind of company. So typically when you look at any major furniture retailers globally, Sofa as a component delivers between 40% to 45%, living room furniture delivers about 40% to 45% of the overall business.

We were missing on the various other categories and we have already started realizing within the new stores that we have set up, the sofa is coming to around 50%, 55% and further will drop because we are adding so many new products.

So there will be a massive uptick in the attic of our customers. What was roughly about 3.5 lakh, 4 lakh by 2020, today in Stanley Level Next our luxury format is now close to about 30 lakh per customer. So there are two ways of growth we are anticipating. One is of course from new markets, new stores, that is going to be geographical growth, but from the existing stores, we are going to have a product offering changeover that will allow us to go almost four to five times more than what our previous average ticket size was. So this is the plan as far as B2C is concerned and that is how we plan to double our business in the next 2.5 years, 3 years.

Deepak Jangid: Okay. And in terms of new product offering, are you planning to go into new product as well in the next 3 years, 4 years?

Sunil Suresh: So most of the new product offerings have been the factories have been established, the catalogues have been already made and we are continuing to upgrade. All the new stores are coming as a complete home solution provider, not like a furniture store as far as Stanley Level Next is concerned. Constantly we have a very strong NPD, almost 150 people working in our new product development area. We have designers from Italy and Germany working with us. Every year we actually obsolete 20% to 25% of the products which have been more than 3 years old and then continue to add newer products. So it's an ongoing process.

But from a presentation of the brand perspective, in the last decade we were known mostly as a strong seating brand or a strong living room furniture brand, but now we are repositioning as a complete home solution brand that is where we are pivoting to.

Deepak Jangid: Okay. And what is the margin profile product-wise?

Pradeep Mishra: Margin profile it's product, but now with a complete home it's also with a customer in mind. And the idea is to have a complete home solution built. So the margin then gets the discounts or whatever happens gets distributed. So I think it should be at the same range that we are doing now. And all my products are at the similar margin profiles.

Deepak Jangid: Okay. And in terms of, as you mentioned that with the increased localization and maybe in the next 2 years, 3 years when the Red Sea crisis will not be there. So where do you see the margin going from here?

Sunil Suresh: So with scale we are seeing a tremendous amount of benefits. We are just in that point where we are moving in terms of getting a larger scale with new stores coming in and with a 100 stores that we have planned in the next 3 years taking the count to a 100 stores on the current 60 levels or 50 last year. So we believe that our margins and profitability we are targeting to arrive at anything more than 12% of PAT by the end of 3 years to 4 years that is the vision. We have created a premium brand and we also like to have a premium profitability.

Deepak Jangid: Okay. Thank you.

Moderator: Thank you. The next question is from the line of Sanjay Shah from Pranishta. Please go ahead.

Sanjay Shah: Thank you for taking my question. I just want to get a better idea about you refer to the China plus One opportunity and the market softening up particularly in North America because of that. So I just want to get a better sense on how big is the international component of your business right now and where do you think it can go to?

Sunil Suresh: So just to get your attention on this note China alone exports over USD 110 billion worth of furniture globally, out of which close to USD 70 billion goes to America itself. So the opportunities are absolutely massive, but as of now India still does not have the ecosystem in place and we are still kind of building that ecosystem. So probably at the moment we are exporting through one of our key accounts to various countries such as Middle East, Europe as well as America.

But as we go forward, we are a little cautious because while we have a lot of inquiries at our doorstep, we are looking at a product and pricing match, quality product and pricing match. We being a fairly premium brand here, our manufacturing capabilities and our quality standpoints are much higher than typically what they call as repetitive manufacturing Chinese companies which offer very low prices. So we have a lot of inquiries, but we are choosing the right partners.

Where we see phenomenal opportunity actually is a lot of companies wanting to come to India now, establish their retail outlets here and they want to localize for their own retail expansion. We are in discussion with a couple of them including a very large Japanese company that is setting up furniture retail at a medium to medium low kind of a price point segment. They have an idea to build almost 300 stores by 2030. So these are our opportunities. We have been the first movers.

We have established solid manufacturing capabilities with all registrations and certifications required by these companies. So we do have an opportunity there, but it is not going to be at the cost of profitability because we continue to like I said keep the ratio of B2C and B2B between 75-25. So we are not very keen to look at getting into pure B2B and our business and our intellectual wealth is very much in the brand and the B2C business and our focus will be here, but while there is an opportunity for profitability, we will definitely take those accounts.

Sanjay Shah: Thank you very much. I think that's pretty interesting and I'm sure we'll hear more about it over the next few quarters. Thank you.

Moderator: Thank you. The next question is from the line of Shreyas Chandak from Invest Well Agents. Please go ahead.

Shreyas Chandak: Sir, I have a couple of questions. The first one being when we talk about growth for the next four to six quarters, could we actually give an estimate of will it be coming from volumes and what kind of growth would be coming from pricing considering we are already priced at quite a premium?

Sunil Suresh: So I think it will be a combination of both because we do have a headroom to increase the pricing because mainly we compete with European brands who have established a lot of brand stores in India. And for them, the cost of manufacturing in Italy, Germany and Spain is going very, very high primarily because of their various issues, the war, the power cost, of course, the labor cost plus also the forex trading and trending much higher than in the past.

So we do always continue to have a headroom to increase our pricing because the acceptance level in India also is constantly increasing and as a fairly matured 20-odd-year-old design company, we know what Indians require in terms of high-quality products. So we are able to demonstrate that with better products and there is a headroom to increase our price as we grow. As far as volumes are concerned, as I said, we are primarily south-dominated and now very carefully each cluster-wise, we are wanting to grow.

We don't like to grow haphazardly so we are choosing clusters. Hyderabad is next, Mumbai is next, and Delhi NCR is going to be the last cluster where we are going to grow. So this is how we have planned and as I mentioned, we will have great opportunities to grow both in terms of pricing and the brand acceptance and we have the pricing power, plus also in the expansion of stores and category expansion that we are doing.

Shreyas Chandak: Okay, sir. And for pricing headroom, we are talking about all the three formats, being it Level Next, Boutique and Sofas and more?

Sunil Suresh: So, Sofas and more we consider that as a value premium segment. So we will continue to be fairly competitive there and that is since our entry-level offering, but in Stanley Level Next we have a good opportunity because just now as you know for the last 2 years, 3 years premium housings are really selling a lot and across the country if you take an average of INR 4 crores plus, there are a lot of inventory which is already sold and we believe the high-end customers dwell in these kind of homes and that market is also going to grow for us.

Shreyas Chandak: Okay. Sir my next question is on the leather automotive interior segment. Sir, I would want some clarity, is it like a purely B2B segment considering we do it while the cars are manufactured or we do more of an upgradement for customers when they want to basically upgrade their interiors after purchase of the vehicle and if that is the case then how do we inculcate airbags considering all the premium cars have inbuilt airbags within the seats?

Sunil Suresh: So basically right now, though the brand started way back in 1996 as a custom automotive seating company. We have moved away from that business and it is still there, but we do very limited number of cars for very high-end when they come to our own installation facilities and we do all kinds of cars starting from Jaguars to Land Rovers to Rolls-Royce also.

We do have an airbag sewing machine so we can actually do very high-quality custom interiors, but that is a very small business we do only about 20, 30, 40 cars a month and not more because we have scaled down that, but it is a highly profitable business, but a very small business, but most of our business comes with we supply cut and sewn leather trims to OEMs. So there we supply to car companies and that is our B2B component.

Shreyas Chandak: Okay and then the car company itself does the final finishing of the entire product?

Sunil Suresh: Exactly. So we do the cut and sew to them, they do the installation in the factory online production.

Shreyas Chandak: Okay, thank you so much. That would be from my side.

Moderator: Thank you. The next question is from the line of Pawan Kumar from Shade Capital. Please go ahead.

Pawan Kumar: Thank you for the opportunity. Just try to get a sense for the size of opportunity we have in India in B2C market. Can you give some color on that?

Sunil Suresh: You will have to consider few aspects that at this point in time the country is moving from what you can call as standard homes towards premiumization and if you look at RERA data there are thousands of builders who are actually developing premium housing across the country in various urban 1 and urban 2 clusters. So the size of the market in terms of organized at the moment hovers between USD 1.5 to USD 2 billion. Unorganized could be 80 times bigger. So that is where we are.

We are unable to get a tag on how the unorganized market works, but actually the trend is very clearly people are moving towards branded furniture. Usually in developing countries like India initially people move and start acquiring branded sanitary ware first. Then it would be light fixtures and so on and so forth. And then the furniture and furnishing comes in. So we are still like a 9 a.m. movement as far as India is concerned for premium furniture.

So there is plenty of headroom to grow. Very interesting is one more thing I want you all to know is that while very matured markets like Europe, especially Italy, Germany, 90% of the furniture buying happens mainly for restoration and refurbishment for old homes, but in India we are seeing a trend where 90% is coming from new homes. So that is the actual trend. So you can see how much more opportunity we have as we go forward.

Pawan Kumar: Thank you, sir. And whom do you really see your competitor like in this market?

Sunil Suresh: While I think from the top end we have various European brands with whom we compete. In the segment, as an Indian premium brand at the point, we don't see anyone having backward integrated and having set up a manu-retail chain which is our mote. There might be traders importing from here, there and selling with a few stores. Other than that, of course, on the national level, we have brands that are playing lower than our segments, but in our segments at this point, we seriously don't have a straight head-on competitor.

And also, I think where we are able to score is close to 75% of our business comes from bespoke manufacturing and that is what traders and importers can't offer. That is our main USP.

Pawan Kumar: Right, sir. Thank you for such elaborate answer. Just a follow-up on this. Do you see opportunity also beyond new homes for your kind of product? Although, right now your commentary is coming just for the new homes?

Sunil Suresh: Yes because right now the opportunity is so much of new home inventory that we see. That is, of course the main chase for us. Other than that, we are also seeing a lot of inquiries now slowly coming in because there is a lot of other areas where premiumization has started which is typically corporate seating, hospitality, airport seating. So we have been indulging and taking a few orders here and there. We have done the entire T2 the new airport in Bangalore. We have done the Cochin airport. We have done the Calcutta airport. So, we have opportunities arising while premiumization and seating is also starting in those markets.

So, our design team is now engaging in developing a new line of corporate seating, contract seating we call it. So, that is already started to happen. So, hopefully, next year we will open a new segment for premium contract seating.

Pradeep Mishra: For new homes what we offer is a complete home solution, that has been our focus and for existing homes when they do a renovation, it comes as a loose furniture, all the furniture which is movable. So, we cater to that also. It's been almost like 80-20 in terms of new home to old home sales ratio for our retail division. So, we cater to existing also, but the growth in new homes is high and then that's where new home sales is taking away.

Pawan Kumar: Okay, sir. Thank you for all the answers. That's all from my side.

Moderator: Thank you. The next question is from the line of Naitik from NV Alpha Fund. Please go ahead.

Naitik: Hi, sir. I just wanted your revenue break-up by segment for Q2 FY24 and possibly for H1 FY24 in terms of seating, casegoods, leather, auto, etc?

Pradeep Mishra: Yes and it is there in our product presentation.

Naitik: No, I meant for last year, 24, not this year?

Pradeep Mishra: In terms of percentages, I think this data is included in our investor presentation.

Naitik: It was only for this year, not last year?

Pradeep Mishra: FY25 you want, is it?

Naitik: No, for Q2 FY24?

Pradeep Mishra: I think the ratios remain same as H1. It doesn't change much between quarter 1 and H1. So we should estimate the same H1 trend.

Naitik: Year-over-year?

Pradeep Mishra: Yes.

Naitik: Okay sir. That's it from my side.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. I would now like to hand the conference over to the management for closing comments.

Sunil Suresh: Thank you very much, all of you for joining us today and for your continued interest in Stanley Lifestyles Limited. We are excited about the path ahead and remain committed to delivering consistent growth and value in the coming quarters. As always, if you have any further questions, please feel free to reach out to our Investor Relations Advisors, Churchgate Partners and we'll be happy to address all your queries. Thank you once again.

Moderator: Thank you. On behalf of ICICI Securities, that concludes this conference. Thank you for joining us and you may now disconnect your lines.

Sunil Suresh: Thank you.

Notes:

1. This transcript has been edited for readability and does not purport to be a verbatim record of the proceedings

2. Figures have been rounded off for convenience and ease of reference