STANLEY
Makers Of Beautiful

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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 August 16, 2024

Pursuant to Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 read with SEBI (Listing Obligations and Disclosure Requirements) (Second Amendment) Regulations, 2021, please find enclosed herewith the transcript of the Earnings Call held on August 16, 2024, post announcement of Financial Results of the Company for the quarter ended as on June 30, 2024.

The audio recording of the Earnings Call along with the Transcript has been uploaded on the Company’s website at www.stanleylifestyles.com

We request you to kindly take this on your records.

Thanking You.

For Stanley Lifestyles Limited

AKASH SHETTY Digitally signed by AKASH SHETTY Date: 2024.08.21 18:15:24 +05'30'

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

Enclosed: As above

"Stanley Lifestyles Limited

Q1 FY25 Earnings Conference Call"

August 16, 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. MEHUL DESAI – JM FINANCIALS**

Moderator: Ladies and gentlemen, good day and welcome to the Stanley Lifestyles Limited Q1 FY25 Earnings Conference Call hosted by JM Financials. As a reminder, all participant line will be in listen-only mode and there will be an opportunity for you to ask question 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. Mehul Desai from JM Financials. Thank you and over to you, sir.

Mehul Desai: Good afternoon, everyone. On behalf of JM Financials, I'd like to welcome you all for Q1 FY25 Earnings Call of Stanley Lifestyles Limited. From the management side, we have Mr. Sunil Suresh, Managing Director of the company, Ms. Shubha Sunil the Whole-Time Director, Mr. Pradeep Kumar Mishra, Group CFO and Mr. Sri Krishna, Chief Executive Officer, Retail Division. I'll hand over the call to the management for their opening remarks, post which we can open up for the Q&A section. Over to you, sir.

Sunil Suresh: Good afternoon, everyone. Welcome to Stanley Lifestyles Limited first earning call following our successful listing on BSE and NSE on 28 June 2024. The IPO marks a significant milestone in our company's 25 years of journey and I want to express my sincere appreciation to our shareholders, our employees, and our loyal customers. We raised RS. 200 crores in primary capital which we plan to be utilizing for expansion and ensuring Stanley capitalizes on the growing premium and luxury markets.

Let me briefly introduce Stanley Lifestyles Limited. Founded in 1999, our mission has always been to deliver high-quality, bespoke leather products and luxury furniture that meets the customization needs of our discerning high-end customers. Over the years, Stanley has built into a strong pan-India present brand based on its innovation, fine craftsmanship, attention to detail and consistent marketing.

With our three different store formats of Stanley Level Next, Stanley Boutique and Sofas and more, we're able to cater to homemakers in luxury, premium and value premium segments. We currently operate 61 stores spread across 25 cities among all the three formats of which 37 are company-owned and company-operated and 24 are franchisee-owned and franchisee-operated.

Over the past 15 years, Stanley has maintained a steady organic growth and profitability. In Q1 FY25, I am pleased to report we delivered revenues of operations of RS. 100.7 crores, reflecting a 5% increase compared to the same period last year. Our EBITDA grew by 25.6% to RS. 20.1 crores achieving a margin of 20% and PAT increased to 8.6% to RS. 3.8 crores. These results are a testament of positioning in the premium and luxury furniture market, the launch of our new product line and optimization of our supply chain.

We have commenced localization of our leather which is helping us reduce dependency on imports and we continue to improve our sustainability initiatives with installation of solar systems across our facilities. In the recent quarter, we have faced new challenges and developments which I would like to address. While premium and luxury housing has been witnessing tremendous demand, there has been an average 18 months to 24-month delay in handover of projects sold in the past 3 years to 4 years due to disruption caused over COVID years and RERA has extended the delivery deadlines to builders across the country.

New homemakers constitute majority of our customer base and we are witnessing postponement of purchase due to this handover delay. We encountered delays in opening of new stores due to non-availability of construction labour and we had to relocate three matured stores due to disruption caused by metro lines and a fire incident in one of the stores.

Despite these hurdles, we observed demand in the premium and luxury offerings which reinforces our market positioning and growth strategy moving forward. The recent general elections also temporarily slowed high-value customer purchases. However, traction has picked up ever since. Our new stores are typically fully operational in 4 months to 6 months and come to maturity in 24 months to 36 months.

I am pleased to report that new stores we launched in FY23 and FY24 are showing promising signs of sales attraction. We continue to have over 50% of our stores under maturity and remain positive about our sales with matured stores count increasing. Looking forward, we have a pipeline of 11 stores across three new formats planned for FY25 which will further strengthen our presence in key markets.

Our focus remains on capitalizing on the growing demand of premium and luxury housing in India and our industry knowledge, strategic presence and strong brand awareness will position us for further success. The diverse product range we offer combined with our commitment to design, innovate and our exceptional customer service will be our key drivers of our growth going forward.

At Stanley Lifestyles, we are deeply committed to create long-term value for our shareholders, our customers and our employees. Our management team is dedicated to maintaining high levels of transparency, upholding the highest standard of corporate governance and ensuring sustainable growth. We remain focused on delivering consistent performance and executing our strategic plans efficiently. Thank you for your time. I now hand over to our CFO, Mr. Pradeep Mishra.

Pradeep Mishra: Thank you, Mr. Sunil Suresh. Good afternoon, everyone. I would like to present Stanley Lifestyles financial performance for Q1 FY25. Since our IPO the company has delivered revenue from operations for the quarter of RS. 100.7 crores marking a 5% growth compared to Q1 FY24. Our EBITDA grew by 25.6% to RS. 20.1 crores with a margin of 20%. PAT increased by 8.6% to RS. 3.8 crores. These results reflect our focus on driving operational efficiency and maintaining profitability in a difficult macro scenario.

Looking at our revenue contribution from different perspectives, our B2C business accounted for 78% of the total revenue for Q1 while B2B segment contributed 22%. From a store format, our COCO stores represented 61.5% of the total revenue and balance coming from franchisee and accessories. Geographically, our business in South India accounts for around 83% of our total revenue which will continue to moderate in the near term.

Our Pan India distribution underpins the reach of Stanley Lifestyles' luxury brand in the market. Despite operational challenges such as supply chain disruption, continued delay in residential property handover and low consumer sentiments, we have managed to navigate these issues effectively to ensure consistent profitability.

Turning to our balance sheet, Stanley Lifestyles maintains a strong financial position with a net cash balance of RS. 199.5 crores. Regarding the IPO proceeds, we have strategically allocated the funds to expand our retail network, open new stores and renovate existing locations. These store additions are planned to target upcoming premium residential markets where we are underrepresented.

Our investment in backward integration, particularly with metal processing machinery and better sourcing of leather and localization initiatives will further strengthen our operational efficiency and reduce costs. Looking ahead, we expect to continue growth in the coming quarters, driven by our store expansion, new product launches and the overall resilience in the luxury market in India.

We are optimistic about achieving our financial and strategic targets, though we remain vigilant of potential short-term operational challenges. Our focus on point-of-sale technology enhancements and sustainability initiatives will also contribute to our long-term success. We will be happy to answer any questions you may have on the company's recent performance.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Roopam Jaiswal from Invest Well Agents. Please go ahead.

Roopam Jaiswal: Good afternoon, sir. Thank you for giving me this opportunity. I just wanted to know what kind of growth strategy you have and what plans you have for the company's future?

Pradeep Mishra: See, we, from a company, if you have understood the company, we thrive in the tailwind of premium residential markets and we see a very, what we have seen in the last 3-4 years is a very strong sales cycle which has happened in the last 2-3 years. For us to really grow very efficiently would be to see when the sales cycles get into a handover mode, when the residential property is into a handover mode.

So that cycle is, delayed beyond our control and there's a lot of industry reasons for that. However, as a company, we have continued to expand our retail footprint. We are strengthening our presence in, regions where we feel these trends are very strong and we are readying ourselves to capture this trend when it starts. I hope I've answered your question. Or if you look for something specifically, let me know.

Roopam Jaiswal: Yes, I just got the view. I just wanted to know, like, if I see the quarter-on-quarter, your EBITDA margin has gone down, like, is there any specific reason for it or is there any segment we, like, we faced a margin hit?

Pradeep Mishra: Yes. What has happened quarter-on-quarter is, I'm assuming you're referring to Q4 FY24 and Q1. What is, as a reflection, we, like, we have continued to expand our retail presence from, last year and Q4. And because of Q1, April and May, our sales were not reflected of the retail presence that we had. So, there is a huge operating leverage cost in terms of high store, running cost, which we incurred in Q1, which did not yield sufficient results or revenues in the top line. And hence, that has been one of the major reasons for us to, not be comparable with Q4 performance.

Sunil Suresh: Also, H2 for us is slightly better.

Pradeep Mishra: Better, yes.

Sunil Suresh: For season, H2 for us is definitely better than H1. So normally, we compare our, you know, track record with Q1 to Q1 of last year.

Moderator: Thank you. The next question is from the line of Rohan from Incred Capital. Please go ahead.

Rohan: Yes, thank you for the opportunity, sir. So, with respect to what you were talking about earlier, with respect to the units being delayed in terms of delivery, by when do you expect maybe this pent-up demand for us to sort of unlock?

Sunil Suresh: So, these are cases we follow regularly and look at what is happening from the RERA perspective. There are various city clusters where projects are delayed beyond others. For example, Bombay and Bangalore, there are more delays compared to Hyderabad and Delhi for that matter.

So, we are expecting solid delivery to start happening perhaps by H2. And most of the projects that were delayed are now coming almost into completion stage. And we expect a very good housing handover to happen in H2, starting from H2 of this year. And there's a lot of pipeline for the next two years.

Rohan: Sure, sir. And just one more question. In terms of your need historically, have we seen better demand from, let's say, new unit sales or has there been also a healthy contribution from renovation?

Sunil Suresh: Okay, that's a very good question. In fact, for us, in most of the markets in the segment where we are presented, most of the business comes from new homemakers, except for certain markets, matured markets like Bombay, where there is a renovation and restoration that happens. Most of the other cities, for us, it is always the new home that actually gives us more opportunity for business.

Rohan: Sure, sir. And just final one. In terms of your need, largely we've otherwise been in urban play, but now we're also going into Tier 2. So, what is your need and what do you expect, maybe in terms of growth from your non-metro markets going forward? Do you think it will outpace your mature stores going forward?

Sunil Suresh: We are fairly, I would say, calibrated in terms of expanding and we do not wish to expand to too many Tier 2 and Tier 3 markets because since luxury furniture and homemaking is a once in 10 years kind of a cycle, customers often tend to come to the nearest metros. So, we'd rather expand in the same metro cluster rather than go to too many smaller Tier 2 and Tier 3 cities. That is what we are doing right now and that is working out well for us because some portion of our sales from, for example, Bangalore, comes from catchment markets from other towns.

So, we don't see ourselves, at least from the COCO perspective, company-owned, company-operated stores, we don't intend to expand too much into Tier 2, Tier 3 markets. It doesn't suit our business so well because most of the high-end customers tend to come to the nearest metros for high-ticket purchases.

Rohan: Sure sir. Thank you for your detailed responses. I will get back in queue. Good luck.

Moderator: Thank you. The next question is from the line of Abhishek Bhudolia from Narnolia Financial Advisors Limited. Please go ahead.

Abhishek Bhudolia: I just wanted to understand what is the revenue split between as in new homeowners and other like a renovation or contract manufacturing because expecting the entire revenue to be driven by new homeowners who will be getting the new home allotted is a little too optimistic, don't you think?

Sunil Suresh: No. So, I think like I said when I look at the quantum of new housing that has been sold over the last 5 years, 7 years and the quantum of new housing that needs to be yet delivered, we remain very optimistic. I think we have moved in the right period, in the right time, in the right cluster.

So, when these homes come for delivery, we will definitely be able to get a larger chunk of these new home markets. As of now, we could say that depending on the market 65% to 70% comes from new home makers as far as our business is concerned. So, where we are going is that we are very carefully following the trends and today RERA does permit us to understand where the developments are happening, where the premium houses about 3 crores to 4 crores are coming up, when the project started and when they're expected to deliver. So based on that, we have expanded our catchments.

Abhishek Bhudolia: Just another point, what's your future outlook regarding contract manufacturing?

Sunil Suresh: Contract manufacturing has something been there from a legacy perspective. We will continue to do contract manufacturing and currently it's 80-20 split between B2C and B2B. We see that being similar going forward also. We are getting some inquiries and we want to continue doing B2B also because it gives us the scale and flexibility.

Pradeep Mishra: In contract manufacturing, we manufacture as OEM to bigger entities, global players.

Abhishek Bhudolia: Okay, thank you so much.

Sunil Suresh: Thank you.

Moderator: Thank you. The next question is from the line of Mehul Desai from JM Financial. Please go ahead.

Mehul Desai: Yeah, hi sir. First question is on the gross margins from Q4 FY24 to Q1 FY25 there is a drop in gross margins. So, can you explain the reasons for that and also how is your current trajectory as far as leather localization is concerned if you can give a response on these two aspects first?

Sunil Suresh: Let me answer the localization piece first and our CFO will answer the GP related question. As far as localization is concerned, since we do operate in the luxury segment and we have been importing our raw materials, especially finished leather from Europe, it is not easy for us to localize very quickly. Though we have started the process almost a year and a half, two years ago close to about 30% we have already localized.

And now we are seeking some technical knowhow with Italian tanners and we are starting to further localize. While the raw material which is the hides will come from Europe, the value addition will be done in India and that itself is a tremendous saving for us. So, this process I feel is going to take us another couple of years by the time we come to almost 70% to 80% of localization. We commenced this operation about a year and a half ago. Today we are at about 30%.

Pradeep Mishra: On gross margin, Q4, gross margins were 56.5% and current Q1 is about 53.2%. What really impacted was because of sea shipment, which is we import leather from sea, because of the sea freight going up and also the delays in arrivals of these shipments, we had to airlift a lot of leather or a lot of imported goods for our supply chain. So that really impacted us in Q1. Along with that there was a small increase in forex which caused certain cost escalations.

Another point was we reviewed in one of our locations or subsidiaries we had bulk transactions where we had a bulk sale agreement at a little lower than our retail margins which got reported in Q1.

Mehul Desai: Secondly, if you can throw some light on kitchen KCD portfolio launch which happened last year, how is that shaping up and how do you see that going ahead also?

Sunil Suresh: While we have successfully launched our KCD in Bangalore only Bangalore last year in September and we have done the pilot marketing here, we are happy to say that we have taken close to about 150 projects and executed close to 100 projects in Bangalore. Now, having gone through the learning curve and the challenges that we faced in terms of last mile installation and so on and so forth, we have constantly been focusing on getting a 5-star rating from our customers because in the premium and luxury business it's very important that we get a 100% customer satisfaction report. So that has been our main focus.

As we speak, I think at this point in time, we are convinced we have been able to successfully launch and succeed this in the Bangalore market. While the stores have been put up in Bombay and Hyderabad, we are going to start marketing it one city at a time and there will be a gradual ramp-up as far as this is concerned. We are hoping that in about a year and a half time, we will be Pan India present with our kitchen brand.

Mehul Desai: Can you give format-wise revenue growth of your stand for the quarter. How much is Stanley Level Next grown in the quarter, Stanley Boutique growth and Sofas and More growth?

Sunil Suresh: Okay compared to last year Q1.

Mehul Desai: Yeah.

Pradeep Mishra: Of all the three formats, Stanley Level Next has reported a growth of from Q1 to Q1 almost 35% and Stanley Boutique and Sofas and More have almost been flattish to negative to almost like negative 5% growth in other two segments. So, our luxury segment is really showing significant growth. Stanley Boutique had its own challenge where a few stores were under renovation and hence it is little flattish. And Sofas and More for the first time in this Q1 is showing flattish to little negative kind of growth.

Mehul Desai: And lastly how has been the trend in advertising spends?

Sunil Suresh: Trend in?

Mehul Desai: Advertising spends?

Sunil Suresh: Advertisement stands. In fact, I think we have been restrictive and reduced our advertisement spend in Q1 considering that markets were fairly subdued and we didn't get initial response. So, I think we have ended up spending 3.4%

Mehul Desai: Okay, got it. And lastly sir, this gross margin, obviously, the impacts that you said because of certain shipment products, are the things normalizing from Q2 onwards and you think whether we'll stay at 53% or you can move back to that 55%?

Sunil Suresh: No, I think it will definitely improve because we have taken a small price hike, point number one. Point number two, we also see the shipment cost stabilizing just at this point in time plus also the localization. So, these three items should kind of bring us back to our previous GP.

Pradeep Mishra: We are also working on a lot of internal operating efficiency on leather, the way we process the leather. That is supposed to start yielding results which we will see the impact from September-October onwards. So, we are taking a lot of steps other than price increase to improve internal efficiency to offset this cost. What we believe is from Q2 onwards, we should come back to our 56% range I mean, you know, like all the scenarios and those one-time bulk sale that we had in Q1. Without that, we should go back broadly to our Q4 margins.

Sunil Suresh: Yeah, for you to also understand, at times when we have certain store count which are below maturity at a higher level, these things tend to kind of impact us a little bit. So, we try to balance it out.

Moderator: The next question is from the line of Jaspreet Arora from Equentis PMS. Please go ahead.

Jaspreet Arora: My question was around the real estate units or a quantum of stock to be delivered. What's your broad sense? How much is expected to be delivered in the next two years versus what was actual in the last two years? Just to understand the kind of demand that could be there?

Sunil Suresh: Broadly, our data shows that close to about 30,000 units have been sold above RS. 3 crores in the past four years, of which I think almost 85% of the projects have been delayed. I'm talking about fully sold inventory which are delayed in terms of handover. And we are not mentioning what has been sold in the last 12 months. We are talking about properties that were sold about 24 months ago.

So, we believe that where we were expecting, let us say, 100 homes being delivered, only 15 have been delivered in certain key markets. So, there has been a cascading delay primarily because of COVID shutdown and return of employees and so on and so forth. So, we are expecting starting Q2 onwards better inventory handover and thereby we are expecting also better business. And meanwhile, I think we have expanded our store count in the places where this inventory is supposed to come in.

Jaspreet Arora: Okay. You mentioned a ticket size of RS. 3 crores and more. Did I hear that right?

Sunil Suresh: Correct. Yeah.

Jaspreet Arora: Okay. And this is the segment where the most premium offering is. That's why the Stanley Level Next, is that…?

Sunil Suresh: Somewhere there. This is in the center. For Stanley Level Next, we are safe to say RS. 4 crores and above. Stanley Boutique is between RS. 2 crores and RS. 4 crores. And Sofas & More is RS.1 crores and above. Again, when I look at all India pricing, Bombay will again be almost 2x of that.

Jaspreet Arora: Got it. And just to clarify, this is 85% of the 30,000 units that were sold in the last 12 months and beyond, which are delayed and should see light of the day in the next maybe 12 to 18 months or 12 to 24 months?

Sunil Suresh: Correct. And also, it will add because also a lot more units have been sold post that.

Jaspreet Arora: Right. And this is -- again, just to clarify, this is pan India. This is not necessarily our catchment area or where our existing stores are. It's not that, right? It's all India.

Sunil Suresh: No. It is top 5 cities.

Jaspreet Arora: So it's top 5 and therefore it is entirely relevant to our markets because we are there in top 5.

Sunil Suresh: Yeah. Though we are more penetrated in the South and that is where a lot more inventory is also. So, yes, you're right. This is in the top 5 metros.

Jaspreet Arora: Okay. Interesting. Great. This helps. The second is around the store count. I think we are about 61 if I saw that number correctly. Over the next three to four years, what could be our target or maybe how soon can we go into the triple digit number?

Sunil Suresh: We are planning 11 stores this financial year. We are more or less on track for that. Having said that, we are not one of those companies who want to rush into store opening because real estate plays a very important role in our business and finding the suitable real estate still remains a very big challenge.

So, in my mind, it is planned in such a way that we plan to get to about 100 stores in the next three to four years and a very meaningful growth without losing any stores for lack of business due to bad location. So, we are being more and more careful, understanding urban planning where metros might come and disrupt even if you open a store. So, a lot of research is being done. So, we are cautiously moving forward.

Jaspreet Arora: Interesting. Got it. And therefore, over the next three to four years, given the existing store count and the new upcoming -- and the mega, you know, real estate units to be handed over, do you think we could easily do RS. 900 crores to RS. 1,000 crores of top line in that period, three to four years?

Sunil Suresh: That's the target. That's a very clear target, primarily. And more than the top line also, we are focused on making sure that we're able to get our bottom line also growing parallelly.

Jaspreet Arora: Got it. And around marketing, I noticed there is a fair amount of presence in Tier 2 towns and obviously it is, as you said, catchment areas. So, Tier 1, sir, our product and brand is fairly established, admired and probably is number one by far and probably would be facing competition only from the imported brands. But when it comes to Tier 2, how are we like kind of positioning it or what kind of marketing strategy are we using when it comes to the Tier 2 towns?

Sunil Suresh: A very important question, well asked. We are actually now looking at the number of airports that have come up in Tier 2 and planning to do some airport advertisement as far as our catchments are concerned because mostly, our customers do take flights into larger cities. That is one of the things in the plan.

Secondly, wherever possible, we are also planning to do some amount of road shows in certain key Tier 2 towns so that we're able to attract the right set of customers. Thirdly, which has already started, we have a business development team which has actually started networking and connecting with architects and interior designers of Tier 2 and Tier 3 towns.

We have also started conducting what we call as the familiarization trips. We get architects and interior designers to our facilities, show them everything, how it's made, how it's designed, and thereby they become our mouthpiece in those catchment areas.

Jaspreet Arora: Okay. Interesting. And in terms of growth level, sir, the top 5 Tier 1 towns versus our top 5 in Tier 2 towns, is there a drastic difference in terms of the aspiration level, the ticket size and the growth that we're witnessing or is it not too much of a difference?

Sunil Suresh: There is definitely -- if you look at the wealth spread, I think the major metros, the wealth is more uniformly spread than when you look at the HNI count, there are also a lot more in the urban top 5 metros of the country, in fact top 3, 4 metros of the country. However, having said that, there are larger ticket opportunities because there are sufficient rich people in smaller towns and cities of our country and they tend to go for what you call as villa construction. They don't depend on builders to give them their apartments or penthouses.

They do their own large homes and they are very expansive large homes and they need a lot of furniture. So, we are tapping into both these segments. But then when you look at the real HNI housing or the luxury housing, it is more an urban phenomenon at this point in time.

Jaspreet Arora: Understood. And just last question. I remember listening to one of your interviews where you mentioned that one of the triggers for this organized furniture market and lifestyle market could be a change in the import duties because of the influx of huge imports. I just wanted your thoughts what's your thought on how soon this could be and what's the kind of impact it could have on branded players like us.

Sunil Suresh: So already the Indian government has brought a compulsion for BIS certification while a lot of other retail traders have requested they have extended a one-year time frame already six months has done. So that itself will be the first barrier for free import of furniture from various countries.

So, we believe that while this process of what you call as blocking free import has already started, it will definitely come into full play probably 12-24 months from now. The government also is working very clearly with the lobby of furniture manufacturers to give PLI to manufacturers. So, things are already happening. So, we expect that this should come into full play in maybe 12-24 months.

Jaspreet Arora: Both of them?

Sunil Suresh: Both of them, absolutely. And they are jointly together they will come in together.

Jaspreet Arora: And the first point you mentioned, did you mean BIS certification for all the manufacturers who have units outside India?

Pradeep Mishra: So right now, they have implemented BIS certifications for some components which are used in seating solutions. Slowly they will, we are expecting what we understand is this should get the scope of this should get expanded and include furniture as a category also. And if that happens, it will be a huge tailwind for us.

Jaspreet Arora: Understood. Got it, sir. Thank you so much for that and I will come back. Thank you.

Sunil Suresh: Thank you very much.

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

Abhisekh Jain: Good afternoon, sir.. Most of the questions have been answered. Just wanted to know about your focus on the contract manufacturer. Since it's a legacy business, what kind of opportunity do you see going ahead? What is your vision in RS. 1,000 crores of revenue target? Where do you see your contract manufacturing division?

Sunil Suresh: Our main focus continues to be our B2C business because we see tremendous opportunity in terms of premium housing just now. While India is maturing steadily from basic needs and necessities to lifestyle and then finally from lifestyles to travel and automobile luxury. In this phase, a lot of HNI Indians are entering what is known as housing luxury.

That is a little matured phase in a developed country and as the country develops, a lot of people are getting into what you call as premium housing. So, we will continue to invest in ensuring that we are able to play an important role in premium housing where branded furniture and custom furniture comes into play. That will constantly remain our absolute focus.

While B2B has been a legacy business for us and we have already set customers for over multiple years and we have a good opportunity to also grow with their needs for global requirements. We already started exporting our furniture to certain countries. To hedge the forex, we will also continue to keep the B2B business in a similar position where it is with a 20-80 formula going forward also.

Abhisekh Jain: Thank you. That's it from my side.

Moderator: Thank you. The next question is from the line of Avinash from Parami Financial Services. Please go ahead.

Avinash: Thanks for the opportunity. My query is regarding to the growth in the matured stores. Whatever operating matrix you track it internally, what has been the growth for stores which has been there in the system for at least one year or more?

Sunil Suresh: Actually, as I mentioned, our stores come to what we call as full maturity around the fourth year. The trend we have been observing is that the store usually gives us about 60% of business the first year, about 70%-75% the second year and about 85% the third year and then at fourth year we call it as a full matured store. Also having said that, it depends if we are expanding in the particular cluster there will be some amount of cannibalization from older stores but that doesn't matter because we actually take a larger market share.

So having said that, our challenge has been constant and we look at how do we expand our product portfolio. So, four years ago, most of our stores only sold living rooms, sofa sets or recliners. Today most of our stores are selling a lot more. So, we actually focus on getting the average ticket size of the customers also bigger as we go forward and that is how we have continued to expand.

Avinash: I understand what you are saying is that the first year of new store opening, you hit 60%, 70%, 90% over the subsequent years. So, what I want to understand is, if you can provide us whether that 60% is being achieved by the newer stores and because there is a 5%-6% growth which is the value growth, so what is the volume growth between Q1 last year and Q1 this year?

Pradeep Mishra: So, what we do is, we see more than two years store as a more matured store and across all the three formats, Stanley Level Next, which is my luxury format store this more than two years store format is showing an average growth of 20% to 25%. Again to understand here, this growth is coming in mainly because we have pivoted to a more complete home solution offering, where we are now catering to furniture for the entire room of the house including kitchen, which is your modular kitchens, wardrobes, living room furniture, dining room, along with the existing seating solution which we already had.

So, this offering right now we have only started in Stanley Level Next and hence we are able to see this strong SSSG growth. In Stanley Boutique, FY24, while it was the old legacy format, what we have seen is this store format currently is undergoing a renovation, where last year two stores, major stores were down for renovation and a couple of stores got impacted. It was a one-time impact. So, in this particular format, we are seeing a negative SSSG.

The third format, which is Sofas & More, this format is again very promising. It's at the value premium range. Again, in Stanley Boutique and Sofas & More, we are only selling loose furniture, which are more seating and very small dining table and other offerings that we have. It's still not a full home concept. So, in Sofas & More also, we are seeing a moderate 5%-7% SSSG.

Sunil Suresh: Also, we have innovated and added a lot more SKUs, which are going to go to market from 1st of September in Stanley Boutique, as well as in Sofas & More. So, we are expanding the product offering. Of course, we are not getting into kitchens and wardrobes just yet, but we are offering a lot more loose furniture, such as cabinets, bedside tables and so on and so forth.

Avinash: Are we doing anything which we are not adding value and they are imported and straightaway sold from our stores?

Sunil Suresh: A small percentage of case goods, which are primarily coffee tables and dining tables in the Sofas & More are imported and retailed. While we have just commenced our case goods facility and added more equipment and machinery the plan is to kind of completely be self-sufficient in terms of manual retail in the next 12-18 months. Until such time, there will be some components and some pieces of furniture that will be imported and retailed.

As of now, Level Next almost 95% of the furniture is fully made in-house. Perhaps only the lighting and certain accessories we are importing. Stanley Boutique almost 85%-90% is fully made. And again, maybe 10%-15% is imported like carpets and accessories. Sofas & More, 65% is produced by us about 35% is imported and sold.

And that also, as we go forward, we plan to bring it into production. So, we are actually, whatever learning and success we have had in the luxury, we are slowly and steadily dropping it into the other two segments going forward.

Avinash: And the format of the stores in terms of the size of the stores are likely to be around the average we have now, or is there a change in thought process of having slightly larger format stores?

Sunil Suresh: More or less, and we have also piloted with our anchor store, the first store that started almost a year ago near the Bangalore airport, houses all the three formats. So, we are actually, that has given us more success because we are able to cater to a wider customer base and also to the same customer who wants a slightly less expensive item for different rooms of the house.

So going forward, in certain matured cities where we already have a strong brand presence, for example, like Hyderabad, Chennai and Bombay, where we have identified locations closer to the airports and we might put up these kind of anchor stores.

Avinash: Thanks a lot.

Moderator: Thank you. The next question is from the line of Nishant Sharma from Nuvama. Please go ahead.

Nishant Sharma: Thank you for the opportunity, sir. Sir, you were referring on the B2B business. While IPO meet, you were also discussing about the B2B segment. So, can you just update what is happening on the B2B side? Have we added any new clients or are we reducing our focus on that segment?

Sunil Suresh: No, it's not that we are reducing our focus on that segment, but our full focus remains more on our B2C business. Having said that, yes, we have added a new customer in the form of Steelcase, which is an American company for their domestic manufacturing. We have signed up a contract with them.

So, we will start supplying to them as we go forward. And our current business with certain traditional players, which we have already been associated for more than 5 years, 7 years, continues. They are, in fact, facing some global headwinds and their business has been slightly more subdued in the last quarter.

We are hoping that their business also improves so that we are able to export. We currently export to quite a few countries through those brands, including Europe and America and Middle East.

Nishant Sharma: So, what is the share of B2B and B2C right now and how do we foresee going forward?

Pradeep Mishra: 78 and 22, that's been the trend for FY24 as well. And as far as what we anticipate is both the segments will continue growth and will maintain a ratio of 80, 20 between B2C and B2B going forward.

Nishant Sharma: Okay. And lastly, on the domestic sourcing, is there any update on the domestic sourcing which can help margin improvement going forward? So that would be my last question, sir.

Sunil Suresh: Definitely, sir. As I mentioned, we have already started the localization process almost a year and a half ago. Currently, around 30%, 33% of our leather has been localized. My target is to get to a point of 75% localization in the next 18 to 24 months. Since we cannot manage to drop our quality and we will continue to depend on European JV partners to kind of give us the technical know-how, this process is going to be fairly organic and we need to have patience because the tanners who are supplying us in India need to invest in certain machines and equipment.

Nishant Sharma: Right. So, what kind of margin benefit we can get through this over, say, the next 18 to 24 months once we are able to expand on this thing?

Sunil Suresh: Two things. One is that we will be fairly protected from two things. One is from the most expensive, what you call it, transportation costs that have actually skyrocketed in the last 3, 4 months because of the Red Sea issue. That will give us a little bit of savings. Secondly, also from the forex. That will also give us sufficient savings. Our target is to get to about 20%, 22% overall savings as far as localization is concerned.

Nishant Sharma: Thank you very much and I'll fall back in queue. Thank you.

Sunil Suresh: Thank you.

Moderator: Thank you. The next question is from the line of Rohan Kalle from Incred Capital. Please go ahead.

Rohan Kalle: Yes, so just wanted to follow up on the B2B side. We already service a large Swedish retailer and we also, like you said, have Steelcase now in pipeline. So just assuming if we get another account on the B2B side, do we have enough capacity in our existing facility or would we need to maybe look at a new facility?

Sunil Suresh: Absolutely. So, yes, you're right. We are servicing a large Swedish retail chain now and we have adequate capacity. Capacity as far as the missionary as well as the plant is concerned, there is no challenge. We'll need to probably only, include more manpower as we go forward.

Rohan Kalle: Sure. And on the localization part, I understand that we're targeting a 75% localization over the next few years. Just to understand, will it largely be the case that for Stanley Level Next, we will still be importing and the localized sort of sourcing will be used for the other two brands?

Sunil Suresh: Yes, you're right. And even the entry level of Stanley Level Next is being planned to localize, but the top end of Stanley Level Next will continue to be European dependent.

Rohan Kalle: Sure, sir. Okay, thank you. I'll get back in queue.

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

Sunil Suresh: Thank you everyone for joining our Q1 FY25 earnings call. In summary, I want to thank you all for your time and we reiterate how excited we are about the future and look forward to continuing our post-IPO journey with your support. If you have any further questions, please feel free to contact our Investor Relations Advisor, Churchgate Partners, and we'll be happy to address your queries. Thank you very much.

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

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