La Opala RG Limited

January 04, 2023

Ratings

Facilities/Instruments	Amount (₹ crore)	Ratings[1]	Rating Action
Long-term bank facilities	5.00	CARE AA; Stable (Double A; Outlook: Stable)	Reaffirmed
Long-term/Short-term bank facilities	5.00	CARE AA; Stable / CARE A1+ (Double A; Outlook: Stable/ A One Plus)	Reaffirmed
Short-term bank facilities	3.00	CARE A1+ (A One Plus)	Reaffirmed
Total bank facilities	**13.00 (₹ Thirteen crore only)**		

Details of facilities in Annexure-1.

Detailed rationale and key rating drivers

The ratings assigned to the bank facilities of La Opala RG Limited (LORGL) continue to derive strength from the leadership position of the company in the domestic opal-ware segment with a strong brand image. The company has a wide product range catering to both economy and premium segments, supported by its established distribution network along with presence in the export market.

The ratings also derive comfort from its superior profitability margin, comfortable capital structure with low debt level and strong liquidity maintained by the company in the form of mutual fund investments.

The ratings also take note of the improvement in the total operating income (TOI) and profitability of the company in FY22 (refers to the period April 1 to March 31) after witnessing a decline in FY21 on account of the impact of the COVID-19 pandemic. In H1FY23, the TOI and profitability have witnessed further improvement with higher sales volume due to the commissioning of the greenfield opal-ware capacity at Sitarganj in Q1FY23.

With continuing increase in demand and healthy market share of LORGL in the opal-ware segment supported by the recent increase in capacity, the profitability and debt coverage indicators are expected to remain healthy going forward.

The long-term ratings, however, continue to remain constrained by the susceptibility of its profitability to volatility in raw material prices, foreign exchange fluctuation risk, working capital-intensive nature of operations and competition from substitute products, cheaper imports and other domestic players.

The ratings also take note of the planned capex for setting up a borosilicate unit to further diversify the revenue profile of the company and complement its existing product portfolio. The capex is expected to be entirely funded through internal generations/available liquidity. However, the timelines for the project are yet to be finalised.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Significant increase in the scale of operations including diversification of product portfolio while earning PBILDT margin in excess of 40% on a sustained basis along with maintaining its healthy leverage and debt coverage indicators.
- Significant increase in market share of LORGL.
- Improvement in the operating cycle below 70 days.

Negative factors – Factors that could lead to negative rating action/downgrade:

- Reduction in the liquid investments held by the company to below ₹150 crore.
- Deterioration in debt coverage indicators with total debt to gross cash accruals (TD/GCA) going above unity on a sustained basis.
- Inability to grow its TOI at a healthy pace along with significant moderation in its PBILDT margin and return on capital employed (ROCE) due to sustained competitive pressure.

Detailed description of the key rating drivers

Key rating strengths

Leadership position in the domestic opal-ware segment and strong brand image: LORGL, promoted by Sushil Jhunjhunwala in 1987, started its operations of manufacturing opal-ware products with its first opal glass plant in 1988 and expanded its capacity over the years. In 1996, the company started its first crystal glass plant.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

The company has been operating in the opal-ware segment for more than three decades and has a leadership position in the domestic opal-ware segment. The company is also operating in the glassware segment for more than two decades. Over the period, the company has developed a strong brand image for its opal and crystal-ware products. Furthermore, the company launched its premium product range through the 'Diva' brand in 2008. To cope with the increasing lifestyle changes, the company focuses significantly on research and development (R&D) and introduces new designs every year. With the current increase in capacities, CARE Ratings expects LORGL to maintain its leadership position in the opal-ware industry.

Wide product range catering to both, economy and premium segments: With planned design and a price-interactive range, the company targets different socio-economic segments. It sells its opal-ware products under two brands – 'La Opala' (caters to economy segment) and 'Diva' (caters to premium segment), and glassware products under 'Solitaire' brand (caters to premium segment). Under 'Diva', the prominent brands are 'Classique', 'Ivory', 'Cosmo', 'Quadra' and 'Sovrana'. Each segment carries a price premium over the other, leading to improvement in the blended operating margin.

Established distribution network and marketing arrangements: LORGL sells its products through a network of about 20,000 retailers and 200 distributors in India, across around 600 towns (as on March 31, 2022). The domestic sales accounted for 84% of LORGL's sales in FY22 (86% in FY21). The company exports its products to more than 30 countries across the world. Majority of the company's sales are through its distribution network, followed by organised retail markets, wherein sales are made to major retail chains. It also relies on institutional sales where the products are sold directly to large corporates and canteen stores department. The exports are made directly to private parties, who sell the same under their brand name. The company exports its finished products mainly to West Asia, Brazil and the UK.

Improvement witnessed in sales and profitability in FY22, which continued in H1FY23: The TOI of the company witnessed a growth of about 52% y-o-y in FY22 on account of resumption of sales in the malls, shops, etc. and more footfalls in stores as compared with FY21, which was impacted by the pandemic. The PBILDT and profit after tax (PAT) margins also increased from 32.55% and 23.45%, respectively, in FY21 to 37.92% and 27.08%, respectively, in FY22, on account of increase in sales and realisations.

With the improvement in demand, increase in realisations, and new capacity coming onstream from June 2022 at Sitarganj, the TOI of the company witnessed a growth of 74% y-o-y in H1FY23. The PBILDT margin also witnessed an improvement, from 36.19% in H1FY22 to 39.56% in H1FY23, on account of better economies of scale. The interest coverage ratio continued to remain healthy at around 30x in H1FY23.

Comfortable capital structure with very low debt level, expected to continue going forward: The capital structure of the company continues to remain strong with low debt level. The company availed a term loan of ₹12.50 crore in FY22 for part funding its capex. Low level of total debt imparts good financial flexibility to the company, which has also resulted in comfortable capital structure. The debt coverage indicators also continued to remain strong in FY22, with TDGCA of 0.14x and total debt to PBILDT of 0.12x, as on March 31, 2022. The overall gearing ratio remained comfortable at 0.02x, as on March 31, 2022.

Going forward, with no debt-funded capex planned and working capital being funded through the healthy cash generations, the capital structure is expected to remain comfortable.

Growing demand: Glassware, which includes decorative glassware, tableware, lamps and lamp-wares, drinking containers, etc., is expected to continue witnessing an increase in demand with increase in the demand for fancy tableware both in the household and hotel, restaurants, caterers (HoReCa) segment. There is significant demand potential from the semi-urban sector as well, with rising disposable income.

Liquidity: Strong

The liquidity of LORGL is marked by strong accruals against low debt repayment obligations and significant liquid investments available to the tune of ₹377.61 crore, as on September 30, 2022. With 0.02x gearing as on March 31, 2022, the company has sufficient gearing headroom to raise additional debt for its capex, if required. The company proposes to fund the upcoming capex through surplus cash accruals and available liquidity, which is expected to be sufficient to meet the requirement. The average fund-based working capital limit utilisation for the trailing 12-month period ended October 2022 stood very low at around 4%.

Key rating weaknesses

Profitability susceptible to volatility in raw material prices: LORGL's raw materials (soda ash, borax, sodium silico fluoride, quartz powder, etc.) accounted for 33% of its cost of sales in FY22 vis-à-vis 34% in FY21. One of the major raw

materials – quartz powder – is domestically sourced from Rajasthan and others – soda ash, boric acid, etc. – are also majorly procured locally. The price of soda ash increased during the first quarter of FY23 before decreasing in second quarter and then stabilizing in Q3FY23, at a similar level to Q3FY22.
Chemicals like borax and fluorspar are mainly imported from Turkey, US, China and other countries. Given that the prices of raw materials are volatile in nature and LORGL does not have any long-term agreements for their procurement, LORGL's profitability is susceptible to fluctuation in the raw material prices. Furthermore, power and fuel cost comprised 24% of the cost of sales of LORGL in FY22 (16% in FY21). Power is sourced from Uttarakhand Power Corporation Limited and Jharkhand Bijli Vidyut Nigam Limited. In FY21, the company had received rebate from the power providers due to the pandemic, which had led to lower costs.

Foreign exchange fluctuation risk: LORGL's profitability is exposed to the fluctuation in foreign exchange rates. Until FY20, the company was a net exporter enjoying a natural hedge for its import obligations on account of matching export receivables. During FY21, exports witnessed a decline while imports increased, mainly on account of the import of capital goods to be used for the new plant coming up in Sitargunj. However, in FY22, exports increased yet again with easing out of the COVID-19 related restrictions and the company continues to be a net exporter for its finished goods vis-à-vis its import of raw materials and components and spare parts. Any timing mismatch in the receipt of export proceeds vis-à-vis repayment of imports payables can make LORGL susceptible to forex fluctuation risks. Depending upon the market scenario, the company hedges its foreign currency exposure.

Working capital-intensive operations albeit improved operating cycle: LORGL's business is inherently working capital-intensive, marked by high average inventory period. As the company sells a large variety of products, which come in different shapes, sizes, colors and designs, it has to maintain sufficient amount of inventory for each of its product types. The inventory holding period stood at around 64 days in FY22 (refers to period April 1 to March 31), decreased from 113 days in FY21 due to increase in sales, though inventories at the end of FY22 increased compared to the previous year. In the case of exports, the company either collects in advance or the orders are LC-backed. Furthermore, LORGL also has to offer a credit period of around 45-60 days to its domestic customers while payment to its suppliers is met in a months' period. The average collection period decreased from 70 days in FY21 to 34 days in FY22, in view of its improved distributor network. The operating cycle of the company stood at around 74 days in FY22, decreased from 151 days in FY21.

Risk associated with implementation and stabilisation of projects: The company has commissioned the plant for manufacturing opal ware at Sitarganj in June 2022, within the estimated project cost. It is in the planning process of setting up a borosilicate plant at an estimated cost of ₹70 crore, which is to be funded through internal accruals and existing liquidity. The project timelines and schedule are yet to be finalised. The company remains exposed to the pre-implementation and post-implementation risks associated with the projects.

Competition from substitutes, cheaper imports and other domestic players: The industry faces competition from easy substitutability with various other segments of tableware (such as steel ware, melamine, bone china, ceramic, etc.). Furthermore, durability is the key issue in Indian households and lack of awareness regarding opal-ware qualities, such as chip and scratch resistance, affordable pricing, etc., has resulted in lower penetration even after 30 years of its launch. Intense competition requires considerable effort on building the distribution network and expenditure on advertising and sales promotion to sustain and build the market share.
The company also faces competition from cheap imports from China and UAE. The Government of India has re-imposed anti-dumping duty (ADD) on import of opal-ware from China and UAE for a period of five years starting from August 2022 to curb the rising imports. CARE Ratings expects the measures taken by the Government of India to safeguard domestic players like LORGL from cheap imports to an extent.

Analytical approach: Standalone

Applicable criteria

Rating Outlook and Rating Watch
Policy on default recognition
Financial Ratios – Non-financial Sector
Liquidity Analysis of Non-financial sector entities
Short Term Instruments
Manufacturing Companies

About the company

LORGL, incorporated in 1987, is promoted by the Kolkata-based Jhunjhunwala family. LORGL is one of the leading players in the tableware products (opal and glass) in India. The company's production facilities are located at Madhupur, Jharkhand, and Sitarganj, Uttarakhand, having a total installed capacity of 36,000 MTPA for the opal-ware and glassware segments. The company has the largest opal-glassware-tableware capacity in India.
The company sells its opal ware products under two brands, i.e., La Opala (economy segment) and Diva (Premium segment) and glassware products under Solitaire brand (premium segment). LORGL exports its products to over 30 countries.

Brief Financials (₹ crore)	FY21 (A)	FY22 (A)	H1FY23 (UA)
TOI	211.40	322.70	217.07
PBILDT	68.81	122.37	85.88
PAT	49.57	87.37	59.14
Overall gearing (times)	0.00	0.02	0.02
Interest coverage (times)	271.23	30.06	30.24

A: Audited; UA: Unaudited

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Please refer Annexure-2

Covenants of rated instruments/facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments / facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	5.00	CARE AA; Stable
Fund-based - LT/ ST-CC/PC/Bill Discounting		-	-	-	5.00	CARE AA; Stable / CARE A1+
Non-fund-based - ST-BG/LC		-	-	-	3.00	CARE A1+

Annexure-2: Rating history of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Non-fund-based - ST-BG/LC	ST	3.00	CARE A1+	-	1)CARE A1+ (07-Mar-22)	1)CARE A1+ (30-Dec-20)	1)CARE A1+ (04-Oct-19)
2	Fund-based - LT-Cash Credit	LT	5.00	CARE AA; Stable	-	1)CARE AA; Stable (07-Mar-22)	1)CARE AA; Stable (30-Dec-20)	1)CARE AA; Stable (04-Oct-19)
3	Fund-based - LT/ ST-CC/PC/Bill Discounting	LT/ST*	5.00	CARE AA; Stable / CARE A1+	-	1)CARE AA; Stable / CARE A1+ (07-Mar-22)	1)CARE AA; Stable / CARE A1+ (30-Dec-20)	1)CARE AA; Stable / CARE A1+ (04-Oct-19)

*Long term/ Short term

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not applicable

Annexure-4: Complexity level of various instruments rated for this company

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT/ ST-CC/PC/Bill Discounting	Simple
3	Non-fund-based - ST-BG/LC	Simple

Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please click here

Note on complexity levels of the rated instruments: CARE Ratings Ltd. has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About CARE Ratings Limited:

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With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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