La Opala RG Limited

March 07, 2022

Ratings

Facilities/Instruments	Amount (Rs. 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 (Rupees thirteen crore only)**		

Details of facilities in Annexure-1

Detailed Rationale & 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 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 the healthy 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 decline in the total operating income (TOI) and profitability of the company in FY21 (refers to the period April 1 to March 31) due to the disruptions caused by the COVID-19 pandemic. Nevertheless, with the receding impact of the pandemic and increase in demand, the company has witnessed significant improvement in TOI and profitability in 9MFY22.

The 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 with high inventory holding and competition from substitute products, cheaper imports and other domestic players.

The ratings also take note of the capital expenditure (capex) projects being implemented by the company. While the opal ware expansion project would enhance capacity for the existing products amid an increasing demand scenario, the planned borosilicate unit is expected to provide further diversification to the revenue profile of the company and complement its existing product portfolio. Although the capex is being majorly funded out of internal generations and existing liquidity, the company remains exposed to the pre-implementation and post-implementation risks associated with the projects.

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.
- Improvement in 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 Rs.150 crore.
- Deterioration in debt coverage indicators with total debt to gross cash accruals (GCA) going above 1x on a sustained basis.
- Inability to grow its TOI at a healthy pace along with significant moderation in its PBILDT margin and 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 Mr 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.

The company is 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-up with the increasing lifestyle changes, the company focuses significantly on research and development (R&D) and introduces new designs every year.

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

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 12,000 retailers and 200 distributors in India, across around 650 towns (as on March 31, 2021). Domestic sales accounted for 86% of LORGL's sales in FY21, which reduced marginally to 84% in 9MFY22. The company exports its products to more than 35 countries across the world. Majority of the company's sales is 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. Export is 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 9MFY22 after witnessing a decline in FY21
The TOI of the company witnessed a de-growth of about 22% y-o-y in FY21 on account of the nationwide lockdown which was imposed by the Government of India to curb the spread of the COVID-19 pandemic, leading to shutdown of malls and other shopping centres, where most of the company's products are sold, thereby impacting the revenue of the company. The PBILDT margin also declined from 38.79% in FY20 to 32.53% in FY21, on account of under absorption of overheads and increase in material cost, which the company was not able to pass on to the consumers.
With the receding impact of the pandemic, improvement in demand and increase in realisations, the TOI of the company witnessed a growth of 78% y-o-y in 9MFY22. The PBILDT margin also witnessed an improvement, from 31.31% in 9MFY21 to 38.57% in 9MFY22, on account of better economies of scale. The interest coverage ratio, though declined in 9MFY22 on account of bill discounting charges, continued to remain healthy, at around 30x.

Strong capital structure with very low debt
The capital structure of the company continues to remain strong with negligible debt level. Absence of debt imparts good financial flexibility to the company, which has also resulted into comfortable return ratios. The debt coverage indicators also continued to remain strong in FY21, with TDGCA of 0.03x and total debt to PBILDT of 0.02x, as on March 31, 2021.
In 9MFY22, the company has availed a term loan of Rs.12.50 crore for part funding the capex. Despite the same, the overall gearing ratio is expected to remain comfortable in the medium-term.

Stable demand outlook
Production of glassware, which includes decorative glassware, tableware, lamps and lamp-wares, drinking containers, etc, is expected to increase by 8% in the year 2021-22. The outlook remains stable with increasing 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
Liquidity is marked by strong accruals against negligible debt repayment obligations against the cash accruals and significant liquid investments available to the tune of Rs.348.70 crore, as on December 31, 2021. With nil gearing as on March 31, 2021, the company has sufficient gearing headroom to raise additional debt for its capex. The company proposes to fund the ongoing 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 December 2021 stood at around 2%.

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 34.33% of its cost of sales in FY21 vis-à-vis 28.52% in FY20. 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, which was largely stable during the past four-to-five quarters, increased again in Q3FY22.
Chemicals like borax and fluorspar are mainly imported from Turkey, the 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 raw material prices. Furthermore, power and fuel cost comprised 16% of the cost of sales of LORGL in FY21 (25% in FY20). 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.

Foreign exchange fluctuation risk
LORGL's profitability is exposed to fluctuation in foreign exchange rates. Until FY20, the company was a net exporter enjoying natural hedge for its import obligations on account of matching export receivables. However, 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. Excluding the import of capital goods of Rs.37.82 crore, 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 with high inventory holding
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, colours and designs, it has to maintain sufficient amount of inventory for each of its product type. The inventory holding period stood at around 113 days in FY21. In case of exports, the company either collects in advance or the orders are LC-backed. Furthermore, LORGL also has to offer 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 increased from 62 days in FY20 to 70 days in FY21, in view of the direct distribution in two prominent markets – Kolkata and Guwahati, through own network, rather than through distributor network. The operating cycle of the company stood elongated at around 151 days in FY21.

Risk associated with implementation and stabilisation of capex projects
The company is in the process of setting up an additional unit for manufacturing opal glass tableware with a capacity of 12,000 MTPA at Sitargunj, Uttarakhand, at an estimated cost of Rs.127 crore, which is being funded through internal accruals and a term loan of Rs.12.50 crore. The company has already expended Rs.111 crore until January 2022, funded by a term loan of Rs.12.50 crore and the balance out of internal accruals. The management expects the new plant to be operational in Q2FY23 (instead of earlier estimate of end of FY22).
This apart, the company has announced another capex in November 2021 for setting up a borosilicate plant at Sitarganj with a proposed capacity of 25 MT per day, at an investment cost of Rs.70 crore. The project is expected to be completed in a period of two years and is proposed to be funded out of internal accruals and existing liquidity.

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 the UAE. To counter the cheap imports in the country, the Government of India had re-imposed anti-dumping duty (ADD) on import of opal-ware from China and UAE for a period of five years starting from July 2017 to curb the rising import. In case the ADD is not extended, the same can lead to increase in cheap imports from China and UAE, which can impact the company's margins and sales, going forward.

Analytical approach: Standalone

Applicable Criteria
[Rating Outlook and Credit 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 24,780 MTPA for the opal-ware and glassware segments. The company has the largest opal-glassware-tableware capacity in India.
The company also operates a small windmill (600 KW) at Jaisalmer, Rajasthan. LORGL exports its products to over 35 countries.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)	9MFY22 (UA)
TOI	270.42	211.50	233.04
PBILDT	104.91	68.81	89.89
PAT	84.27	49.57	68.69
Overall gearing (times)	0.01	0.00	NA
Interest coverage (times)	182.61	271.22	29.96

A: Audited; UA: Unaudited; NA: Not Available

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 instrument / facility: 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 (Rs. crore)	Rating assigned along with Rating Outlook
Non-fund-based - ST-BG/LC		-	-	-	3.00	CARE A1+
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+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. 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+ (30-Dec-20)	1)CARE A1+ (04-Oct-19)	1)CARE A1+ (19-Dec-18)
2	Fund-based - LT-Cash Credit	LT	5.00	CARE AA; Stable	-	1)CARE AA; Stable (30-Dec-20)	1)CARE AA; Stable (04-Oct-19)	1)CARE AA; Stable (19-Dec-18)
3	Fund-based - LT/ ST-CC/PC/Bill Discounting	LT/ST*	5.00	CARE AA; Stable / CARE A1+	-	1)CARE AA; Stable / CARE A1+ (30-Dec-20)	1)CARE AA; Stable / CARE A1+ (04-Oct-19)	1)CARE AA; Stable / CARE A1+ (19-Dec-18)

*Long term/ Short term

Annexure-3: Detailed explanation of covenants of the rated instrument / 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 instrument: 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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