La Opala R G Limited

December 27, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	5.00	CARE AA; Stable	Reaffirmed
Long-term / Short-term bank facilities	5.00	CARE AA; Stable / CARE A1+	Reaffirmed
Short-term bank facilities	3.00	CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

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

However, ratings continue to remain constrained by the susceptibility of its profitability to raw material price volatility, foreign exchange fluctuation risk, working capital intensive operations and competition from substitute products, cheaper imports and other domestic players.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Significant increase in the scale of operations including diversification of product portfolio while earning profit before interest, lease rentals, depreciation, and taxation (PBILDT) margin in excess of 40% on a sustained basis and 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

- 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 total operating income (TOI) at a healthy pace and protect its market share due to sustained competitive pressure.

Analytical approach: Standalone

Outlook: Stable

The stable outlook reflects that LORGL is expected to sustain the financial risk profile given its established position in the domestic opal-ware segment with a strong brand image.

Detailed description of key rating drivers:

Key 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.

The company has been operating in the opal-ware segment for over three decades and has a leadership position in the domestic opal-ware segment. The company is also operating in the glassware segment for over two decades. Over the period, the company has developed a strong brand image for its opal and crystal-ware products. 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 recent increase in capacities, CARE Ratings expects LORGL to maintain its leadership position in the opal-ware industry.

Wide product range catering 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 economy segment) and 'Diva' (caters premium segment), and glassware products under 'Solitaire' brand (caters 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.

Healthy operating margin despite moderation witnessed in TOI in FY24 and H1FY25

The company's TOI declined by 19% year-over-year (y-o-y) in FY24 considering a major order of ₹45 crore in FY23 which could not be replicated in FY24. Operating margin remained healthy at 38% in FY24. Despite increase in the company's capital costs and taxes in FY24, the profit after tax (PAT) margin also increased from 27.19% in FY23 to 34.98% in FY24 considering increase in non-operating income which was largely driven by fair valuation of investments in mutual funds. Interest coverage ratio continued to remain strong with low interest expense.

The company's TOI declined by 6% in H1FY25 against H1FY24. The decrease in revenue was because of the challenging external environment and subdued consumer spending. Additionally, the company ceased operations at its opalware plant in Madhupur (capacity 4,000 MTPA) in July 2024 due to the unit's obsolete technology. PBILDT margin, though moderated, remained healthy at 34% in H1FY25 (40% in H1FY24). The ability to achieve healthy revenue growth and maintain operating margin, considering increasing competitive pressure, shall remain a key monitorable.

Established distribution network and marketing arrangements

LORGL sells its products through a network of ~22,000 retailers and 235 distributors in India, across ~600 towns (as on March 31, 2024). The domestic sales accounted for 85% of LORGL's sales in FY24 (90% in FY23). The company exports its products to over 40 countries across the world. The company's majority sales are through its distribution network, followed by organised retail markets where sales are made to major retail chains. It also relies on institutional sales where products are sold directly to large corporates and canteen stores department. The exports are made directly to private parties, who sell these under their brand name. The company exports its finished products mainly to West Asia, Brazil and the UK.

Comfortable capital structure with very low debt level expected to continue going forward

The company's capital structure continues to remain comfortable, with low debt levels enhancing its financial flexibility. The overall gearing ratio remained comfortable at 0.01x, as on March 31, 2024, and September 30, 2024. The debt coverage indicators also continued to remain strong, with TD/GCA of 0.06x (0.08x as on March 31,2023) and TD/PBILDT of 0.07x (0.07x as on March 31,2023), as on March 31, 2024.

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

Liquidity: Strong

LORGL's liquidity is marked by strong accruals against very low debt repayment obligations and significant liquid investments available of ₹532.78 crore, as on September 30, 2024. With 0.01x gearing as on March 31, 2024, the company has sufficient gearing headroom to raise additional debt for its capex, if required. The company proposes funding 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 2024 stood low at ~4.58%.

Key weaknesses

Profitability susceptible to raw material price volatility

LORGL's raw materials (soda ash, borax, sodium silico fluoride, and quartz powder among others) accounted for 28% of its cost of sales in FY24 against 31% in FY23. One of the major raw materials – quartz powder – is domestically sourced from Rajasthan and others – soda ash, and boric acid among others– are also majorly procured locally. The price of soda ash has been stable in the last 12 months. Chemicals such as borax and fluorspar are mainly imported from Turkey, US, China and other countries. Given the prices of raw materials are volatile and LORGL does not have long-term agreements for their procurement, LORGL's profitability is susceptible to fluctuation in the raw material prices. Power and fuel cost comprised LORGL's 29% cost of sales in FY24 (28% in FY23, 24% in FY22). Power is sourced from Uttarakhand Power Corporation Limited and Jharkhand Bijli Vidyut Nigam Limited.

Working capital-intensive operations with increase in inventory holding period

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 ~151 days in FY24, increased from 81 days in FY23 due to high volume of inventory lying at the end of FY24. In the case of exports, the company either collects advance or the orders are LC backed. LORGL also has to offer a credit period of ~45-60 days to its domestic customers while payment to its suppliers is made in a month's period. The average collection period increased marginally from 27 days in FY23 to 30 days in FY24.

Risk associated with implementation and stabilisation of projects

The company 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 project.

Competition from substitutes, cheaper imports and other domestic players

The industry faces competition from easy substitutability with other segments of tableware (such as steel ware, melamine, bone china, and ceramic among others). Durability is the key issue in Indian households and lack of awareness regarding opal-ware qualities, such as chip and scratch resistance, and affordable pricing among others 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 had re-imposed antidumping duty (ADD) on import of opal-ware from China and UAE for five years starting from August 2022 to curb the rising imports. CARE Ratings believes the measures taken by the Government of India to be favourable to safeguard domestic players like LORGL from cheap imports.

Environment, social, and governance (ESG) risks

The company has moderate carbon footprint with a modest amount of fossil fuels utilised for its production purposes. The waste generated in production is recycled.

The company invests in customer cum vendor relationships and social responsibility. It spent ₹2.31 crore for Corporate Social Responsibility (CSR) projects and initiatives in FY24, fulfilling its annual obligation.

It prioritises the values and strategies with which its business is conducted. It has a whistle blower policy and vigil mechanism, which is regularly reviewed by audit committee with no complaints received under the head in FY24. At the end of FY24, board of directors comprises of eight members, of which four were independent directors.

Applicable criteria

Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Financial Ratios – Non financial Sector
Short Term Instruments

About the company and industry
Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Consumer Discretionary	Consumer Durables	Consumer Durables	Glass - Consumer

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 at Madhupur, Jharkhand, and Sitarganj, Uttarakhand, having a total installed capacity of 32,000 metric tonne per annum (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, including La Opala (economy segment) and Diva (Premium segment) and glassware products under Solitaire brand (premium segment). LORGL exports its products to over 40 countries.

Brief Financials (₹ crore)	FY23 (A)	FY24 (A)	H1FY25(UA)
Total operating income	452.32	365.13	163.47
PBILDT	172.17	136.01	55.95
PAT	122.98	127.72	47.72
Overall gearing (times)	0.02	0.01	0.01
Interest coverage (times)	22.99	21.01	22.74

A: Audited UA: Unaudited; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

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

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned and 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 for last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Non-fund-based - ST-BG/LC	ST	3.00	CARE A1+	-	1)CARE A1+ (04-Jan-24)	1)CARE A1+ (04-Jan-23)	1)CARE A1+ (07-Mar-22)
2	Fund-based - LT-Cash Credit	LT	5.00	CARE AA; Stable	-	1)CARE AA; Stable (04-Jan-24)	1)CARE AA; Stable (04-Jan-23)	1)CARE AA; Stable (07-Mar-22)
3	Fund-based - LT/ ST-CC/PC/Bill Discounting	LT/ST	5.00	CARE AA; Stable / CARE A1+	-	1)CARE AA; Stable / CARE A1+ (04-Jan-24)	1)CARE AA; Stable / CARE A1+ (04-Jan-23)	1)CARE AA; Stable / CARE A1+ (07-Mar-22)

LT: Long term; ST: Short term; LT/ST: Long term/Short term

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

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the 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: Lender details

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

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

Contact us

Media Contact	Analytical Contacts
Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in **Relationship Contact** Saikat Roy Senior Director **CARE Ratings Limited** Phone: +91-22-6754 3404 E-mail: saikat.roy@careedge.in	Ranjan Sharma Senior Director **CARE Ratings Limited** Phone: +91-22-6754 3453 E-mail: ranjan.sharma@careedge.in Hardik Manharbhai Shah Director **CARE Ratings Limited** Phone: +91-22-6754 3591 E-mail: hardik.shah@careedge.in Richa Bagaria Associate Director **CARE Ratings Limited** Phone: +91-33-4018 1653 E-mail: richa.jain@careedge.in

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