# La Opala RG Limited

October 04, 2019

**Ratings**

| Facilities | Amount (Rs. crore) | Ratings[1] | Rating Action |
|---|---|---|---|
| Long-term Bank Facilities | 5.00 | **CARE AA; Stable (Double A; Outlook: Stable)** | **Reaffirmed** |
| Short-term Bank Facilities | 3.00 | **CARE A1+ (A One Plus)** | **Reaffirmed** |
| Long /Short-term Bank Facilities | 5.00 | **CARE AA; Stable/CARE A1+ (Double A; Outlook: Stable/A One Plus)** | **Reaffirmed** |
| **Total** | **13.0 (Rs. 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 take into account experienced promoters with long track record, leadership position in the opal-ware segment, various products catering to both economic and premium segments, established selling and marketing arrangements, robust financial risk profile with healthy operating margin, comfortable capital structure with almost nil debt status and superior liquidity position. However, ratings are constrained by susceptibility of profitability to volatility in raw material process, foreign exchange fluctuation risk, working capital intensive nature of operations marked by high inventory period, project implementation risk though largely funded out of internal accruals and competition from both cheaper imports and domestic players.

The ability of the company to retain its dominant position amid rising competitive environment and efficient management of its working capital cycle would remain the key rating sensitivities. Successful implementation of the green-field project at Sitargunj would also remain one of the key rating sensitivities.

The management has maintained that the liquid investment shall not be lower than Rs.150 crore and the overall gearing shall not exceed 0.10x, despite any capex/expansion plan.

**Detailed description of the key rating drivers**

**Key Rating Strengths**

***Experienced promoters with long track record***

LORGL, promoted by Mr. Sushil Jhunjhunwala, started manufacturing opal-ware products by setting up its first opal glass plant in 1988. He has experience of over three decades in the opal-ware industry. He is actively supported by his son Mr. Ajit Jhunjhunwala, Managing Director (MD) with adequate support from a team of experienced professionals.

***Leadership position in the domestic opal-ware segment and strong brand image***

LORGL is operating in the opal-ware segment for around three decades and is the only major domestic manufacturer operating in this segment. The company is 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.

***Various products catering to both economic and premium segments***

With planned design and price interactive range, the company targets different socio-economic segments. It sell its opal-ware products under two brands i.e. La Opala (cater to economy segment) and Diva (caters to premium segment) and glassware products under Solitaire brand.

Currently, LORGL caters to various price points; LaOpala-Novo, LaOpala-Melody, LaOpala-Classique, LaOpala-Ivory, LaOpala-Quadra, Laopala-Sovrana and LaOpala-Cosmo. Each segment carries a price premium over the other leading to improvement in the operating margin.

***Established selling and marketing arrangements***

LORGL sells its products through a network 12,000 retailers in India across more than 650 towns. Domestic sales account for 85% of LORGL's sales and export accounts for the balance 15% of sales in FY19. 72% of the domestic sales of FY19 are made through its distribution network, followed by organized retail market (20%) where sales are made to major retail chains. It also relies on institutional sales (6.5% of domestic sales in FY19) where the products are sold directly to large corporates and Canteen Stores Department. Export is made

[1]*Complete definitions of the ratings assigned are available at [www.careratings.com](www.careratings.com) and in other CARE publications.*

directly to private parties, who sell the same by their brand name. The company exports its finished products mainly to Middle East, Asia, Africa and Latin America etc. The company either collects in advance or all orders are LC backed in case of exports. The company offers a credit period of 45-60 days to its domestic customers.

***Almost full utilization of existing capacity, with significant improvement in FY19***

LORGL overall capacity utilization (CU) has improved from 86% in FY18 to over 100% in FY19. CU for FY18 was low due to the realigning of furnace at Madhupur plant from May 2017 through July 10, 2017. Further improvement in CU was on account of ramp-up of production in the Sitargunj plant along with an improvement in the cutting process (increase in the number of cuts made on the WIP per second).

***Robust financial performance in FY19 and Q1FY20***

Financial performance of the company is characterised by satisfactory growth in sales, healthy profitability margin, and strong cash generation over the last three years. LORGL's net sales grew by 7% y-o-y in FY19. The sales growth was due to launch of innovative designs, revamping of packing and increased focus on sales promotion.

The PBILDT margin, though declined, remained healthy at 40.53% in FY19 vis-à-vis 42.40% in FY18. The decline in PBILDT margin was in view of increased focus on advertisement and publicity leading to increased ad spends. Further, with commencement of transfer paper facility, the company is using new technology of printing the design (which is thermally pasted on the opal-ware) resulting in cost savings. Lower operating margin and stable capital charge led to marginal decline in PAT margin. GCA improved and stood at Rs.92.47 crore in FY19 (Rs.85.68 crore in FY18) vis-à-vis nil term debt outstanding as on Mar.31, 2019. Interest coverage ratio of the company remained highly comfortable due to low interest expense. In Q1FY20 (UA), TOI grew by 5% over Q1FY19. PBILDT level, however, remained stable resulting in slight moderation in PBILDT margin. PAT margin, however, improved due to higher other operating income and stable capital charge. The GCA stood comfortable at Rs.21.92 crore for Q1FY20. Interest coverage continued to be highly comfortable in view of negligible interest expense.

***Strong capital structure with almost nil debt status***

The long-term debt-equity and overall gearing ratios of the company have been almost nil during the last three year ends. The low debt levels allow better financial flexibility to the company which has also resulted into comfortable ROE and ROCE. The company has liquid investments of around Rs.200 crore and cash balance of Rs.1 crore as on July 31, 2019 reflecting sound liquidity position. Current ratio of the company stood at 9.02x as on March 31, 2019 vis-à-vis 7.80x as on March 31, 2018.

***Favourable demand outlook of the tableware segment***

With rapid urbanization, purchasing behaviour of consumers and adoption of trendy lifestyles are leading to the high demand for glass tableware products. Beverage-ware and tableware products are expected to witness a significant rise in demand due to rise in consumption of both alcoholic and non-alcoholic beverages. Growth of the hotel & catering industry is projected to drive demand for glass tableware in the near future. Increase in investments in the hotel & catering industry in emerging countries such as India and China has fuelled the growth of the glass tableware industry.

**Key Rating Weaknesses**

***Profitability susceptible to volatility in raw-material prices,***

The raw material (soda ash, borax, sodium silico fluoride, quartz powder, etc.) forms a major part of the total cost of sales, accounting for 24.8% in FY19, along with power & fuel cost accounting to 27.2% (furnace oil, H.S.D., and LPG gas etc.) of the total cost of sales. 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. The power cost rose from Rs.33.97 crore in FY18 to Rs.45.00 crore in FY19 due to higher productions. Power is sourced from Uttarakhand Power Corp. Ltd and Jharkhand Bijli Vidyut Nigam Ltd and given the competitive tariff scenario, the rates are expected to remain stable, if not reduce.

***Working capital intensive operation with high inventory holding***

LORGL's business is working capital intensive marked by high average inventory period. As the company sells large variety of products which come in different shapes, sizes, colours and designs, it has to maintain sufficient amount of inventory of each of its product type. The operating cycle of the company elongated from 112 days in FY18 to 130 days in FY19 mainly on account of increase in the inventory holding period from 84 days in FY18 to 96 days in FY19. Further, LORGL also has to offer credit period of around 45-60 days to its customers while payment to its suppliers are met in a months' period. Average collection period also increased from 51 days to 58 days in view of direct distribution in 2 prominent markets, Kolkata and Guwahati, through own network, rather than through distributor network.

***Foreign exchange fluctuation risk***
LORGL's profitability is exposed to fluctuation in foreign exchange movement as the company is a net foreign exchange exporter. Its import obligations are naturally hedged on account of matching export receivables. Any timing mismatch in receipt of export proceeds vis-à-vis repayment of imports payables can make LORGL susceptible to forex fluctuation risks. However, depending upon the market scenario the company hedges its foreign currency exposure through forward cover.

***Risk associated with implementation and stabilization of green-field project at Sitargunj, though largely funded out of internal accruals***
The Company has successfully completed the expansion project for increasing the installed capacity of opal-ware at Sitargunj, from 16,000 MTPA to 19,000 MTPA as a cost of Rs.25 crore in March 2018, out of its internal accruals.
The company is in the process to set up another unit for manufacturing Opal Glass Tableware with a capacity of 12,000 MTPA at Sitargunj, at an estimated cost of Rs.130 crore, which will be majorly funded through internal accruals.
The expected commencement date is April 2021.

***Rising competition from both cheaper imports and higher domestic competition***
The industry faces competition from easy substitutability to various other segments of tableware (such as melamine, bone china, ceramic, steel utensils, etc.) and competition from other players within the industry. Intense competition requires considerable spends on advertising and promotion to sustain and build market share.
To counter the cheap imports in the country, the Government of India has re-imposed anti-dumping duty on import of opal-ware from China & UAE for a period of five years starting from July 2017 (as per Notification No -15/4/2016-DGAD) to curb rising import.

***Prospects***
The ability of the company to retain its dominant position in the opal-ware and glass-ware market plays a major role in determining the future growth of the company. Efficient management of the working capital cycle would also be an important factor determining the key rating sensitivities. The stabilisation of the expanded capacity of 3,000 MTPA (in March 2018) and the expansion in the next fiscal to increase the capacity at the Sitargunj plant would also help in gaining benefit. However, given its established brand position, sound financial and liquidity position LORGL is very well placed to venture into more capital expansion plans to retain its market position.

**Liquidity: Superior**
The company has liquid investments of around Rs.234 crore and cash balance of Rs.3.42 crore as on March 31, 2019 reflecting sound liquidity position. The Company is planning to deploy surplus cash to the tune of Rs.110 crore in the ongoing capex over the next two years. The current ratio of the company stood at 9.02x as on March 31, 2019 vis-à-vis 7.80x as on March 31, 2018. The average utilization of the fund based limits stood at around 9.05% for the 12 month period ending August 2019.

**Analytical approach:** Standalone

**Applicable Criteria**
Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Financial ratios – Non-Financial Sector
CARE's methodology for manufacturing companies
Criteria for Short Term Instruments

**About the Company**
La Opala RG Limited (LORGL), incorporated in 1987, is promoted by Jhunjhunwala family of Kolkata. 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 opal ware segment and glassware segment. The company has the largest opal glassware tableware capacity in India. It 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). Under Diva, the other prominent brands are Classique, Ivory, Quadea and Sovrana. The company also operates a small windmill (600 KW) at Jaisalmer, Rajasthan which is maintained by Wind World India Ltd. LORGL is an ISO 9001:2008 accredited company.
The company had increased its production capacity by 3000 MTPA in Sitargunj plant which got commissioned in March 2018.
The Board of Directors of LORGL comprise of nine members with three members from the promoters' family and industrialists and professionals from diverse fields. The day-to-day affairs of the company are looked after by Mr. Ajit Jhunjhunwala, Managing Director (son of Mr. Sushil Jhunjhunwala) with adequate support from a team of experienced professionals.

| **Brief Financials (Rs. crore)** | **FY18 (A)** | **FY19 (A)** |
|---|---|---|
| Total operating income | 259.29 | 278.09 |
| PBILDT | 109.41 | 112.71 |
| PAT | 73.44 | 74.04 |
| Overall gearing (times) | 0.01 | 0.00 |
| Interest coverage (times) | 131.00 | 165.29 |

*A: Audited*

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

**Rating History for last three years:** Please refer Annexure-2

**Annexure-1: Details of Instruments/Facilities**

| Name of the Instrument | 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 2019-2020 | Date(s) & Rating(s) assigned in 2018-2019 | Date(s) & Rating(s) assigned in 2017-2018 | Date(s) & Rating(s) assigned in 2016-2017 |
| 1. | Non-fund-based - ST-BG/LC | ST | 3.00 | CARE A1+ | - | 1)CARE A1+ (19-Dec-18) | 1)CARE A1+ (07-Sep-17) | 1)CARE A1+ (19-Sep-16) |
| 2. | Non-fund-based - ST-Forward Contract | ST | - | - | - | - | 1)Withdrawn (07-Sep-17) | 1)CARE A1+ (19-Sep-16) |
| 3. | Fund-based - LT-Cash Credit | LT | 5.00 | CARE AA; Stable | - | 1)CARE AA; Stable (19-Dec-18) | 1)CARE AA-; Stable (07-Sep-17) | 1)CARE AA- (19-Sep-16) |
| 4. | Fund-based - LT/ ST-CC/PC/Bill Discounting | LT/ST | 5.00 | CARE AA; Stable / CARE A1+ | - | 1)CARE AA; Stable / CARE A1+ (19-Dec-18) | 1)CARE AA-; Stable / CARE A1+ (07-Sep-17) | 1)CARE AA- / CARE A1+ (19-Sep-16) |

***Note on complexity levels of the rated instrument:*** *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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