La Opala RG Limited

December 30, 2020

Ratings

Facilities	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 Facilities	**13.00 (Rs. Thirteen Crore Only)**		

Details of instruments/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, satisfactory financial performance in FY20 (refers to the period April 01 to March 31) albeit significant dip in performance in Q1FY21 with improvement in Q2FY21, comfortable capital structure with almost nil debt status and superior liquidity position. However, ratings are constrained by moderation in capacity utilization (CU) in FY20 and H1FY21 due to muted demand, susceptibility of profitability to volatility in raw material prices, 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.

Rating Sensitivities

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

- Retained dominant position amid rising competitive environment with sustained revenue growth of 10% while maintaining healthy profitability margin at 40%.
- Improvement in its working capital cycle below 70 days.

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

- Reduction in the liquid investment below Rs.150 crore.
- Overall gearing ratio exceeding 0.10x, despite any capex/expansion plan.
- Sustained reduction in revenue below Rs.250 crore.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters with long track record

LORGL, promoted by Mr. Sushil Jhunjhunwala, Chairman, 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. Further, the company had launched its premium product range through 'Diva' brand in 2008. To cope up with the increasing lifestyle changes, the company focuses a lot in research and development and introduces new designs every year.

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. 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 operating margin.

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

Established selling and marketing arrangements
LORGL sells its products through a network 12,000 retailers and 200 distributors in India across more than 600 towns (as on March 31, 2020). Domestic sales account for 86%-87% of LORGL's sales in FY20 which reduced slightly to 79% in H1FY21. The company exports its products to more than 30 countries across the world. Further 60% of sales of FY20 are made through its distribution network, followed by organized retail market (17%) where sales are made to major retail chains. It also relies on institutional sales (9% of sales in FY20) where the products are sold directly to large corporates and Canteen Stores Department. Export is made 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.

Satisfactory financial performance in FY20; albeit significant dip in performance in Q1FY21 with improvement in Q2FY21
In FY20, LORGL's total operating income (TOI) de-grew marginally by ~3% y-o-y from Rs.278.10 crore in FY19 to Rs.270.42 crore in FY20 due to slow-down in sales in later half of March 2020 on account of world-wide lockdown in response to spread of COVID-19. Hence PBDILT margin also declined, though remained healthy at 38.83% in FY20 vis-à-vis 40.53% in FY19. However with reduction in capital charge along with lower tax outgo due to shift to lower tax rate of 25.168% under section 115BAA of the Income Tax Act 1961, PAT margin improved to 31.16% in FY20 vis-à-vis 26.62% in FY19. Consequently, GCA improved and stood at Rs.95.54 crore in FY20 vis-à-vis Rs.92.47 crore in FY19 against nil term debt outstanding as on Mar.31, 2020. Interest coverage ratio of the company remained highly comfortable due to low interest expense.
Due to closure of operation in most part of Q1FY21 followed by partial resumption of operation in month of June 2020-July 2020, the financial performance of Q1FY21 was weak with operating loss of Rs.2.76 crore on TOI of Rs.10 crore. The performance recovered in Q2FY21 with operating profit of Rs.12.43 crore on TOI of Rs.42.40 crore. the discretionary nature of opalware segment also impacted the demand scenario. Overall, the company reported operating profit and PAT of Rs.9.75 crore and Rs.4.35 crore respectively in H1FY21 against operating profit and PAT of Rs.52.30 crore and Rs.45.15 crore respectively in H1FY20. GCA of the company stood at Rs.4.61 crore in H1FY21 against Rs.48.77 crore for H1FY20. The company has nil term debt repayment obligations.

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. However, RONW declined significantly in FY20 due to change in valuation of investment in Genesis Exports Ltd (GEL) through OCI. On adjusting the investment in GEL from networth, the RONW stands comfortable, but shows a declining trend. Further, the liquid investment of the company stood at Rs.258.79 crore and Rs.245.33 crore as on March 31, 2020 and September 30, 2020 respectively which represents 42% of the total asset of the company. Current ratio of the company stood at 9.23x as on March 31, 2020 vis-à-vis 9.02x as on March 31, 2019.

Key Rating Weaknesses
Moderation in capacity utilization (CU) in FY20 and H1FY21 due to muted demand
LORGL's overall capacity utilization has declined from over 100% in FY19 to 88% in FY20 and further to 24% in H1FY21. The impact of a decline in offtake during March 2020 affected the performance during Q4FY20. The lockdown being extended from the last month of 2019-20 into the Q1FY21 affected the company's capacity to manufacture, market and distribute in H1FY21. With revival in demand through pick up in real estate and HoReCa segment (Hotel, Restaurant and Café), the CU is expected to improve, though with a lag.

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 28.52% in FY20 vis-à-vis 24.79% in FY19, along with power & fuel cost accounting to 25% in FY20 vis-à-vis 27% in FY19 (furnace oil, H.S.D., and LPG gas etc.) of the total cost of sales. One of the major raw materials i.e. quartz powder is domestically sourced from Rajasthan and others (i.e. soda ash, boric acid, etc.) are procured locally mostly. Prices of soda ash increased have remained relatively stable during the past 4-5 quarters. 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.
Further, one of the company's furnaces was under refurbishment in Q4FY20 which was extended and remained deliberately inoperative through the Q1FY21 thereby preventing drag in operating costs to a certain extent. 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.

Elongated working capital cycle 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 130 days in FY19 to 156 days in FY20 mainly on account of increase in the inventory holding period from 96 days in FY19 to 122 days in FY20. The company either collects in advance or all orders are LC backed in case of exports. Further, LORGL also has to offer credit period of around 45-60 days to its domestic customers while payment to its suppliers are met in a months' period. Average collection period also increased from 58 days in FY19 to 62 days in FY20 in view of direct distribution in 2 prominent markets, Kolkata and Guwahati, through own network, rather than through distributor network. The company has however realized Rs.9.33 crore from debtors till Sep 30, 2020 out of debtors outstanding as on March 31, 2020.

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.
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.127 crore, which will be majorly funded through internal accruals and term loan. Till December 08, 2020 the company has incurred Rs.56.33 crore (Rs.31crore in FY20 and Rs.25.33crore in 8MFY21) towards the said capex which has been funded entirely out of internal accruals. However due to the impact of the pandemic induced lockdown, which affected the sales prospects of the company during the Q1FY21, the company has deferred the expansion plan by around 6 months and shall deploy cash over 2 years on the expansion which is expected to commence by end of FY22. Further there is no cost overrun due to delay in completion of the project. Despite the ongoing project, the liquidity and leverage position is expected to remain robust in the medium term.

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. However, as a part of cost reduction measure the company has done an advertisement expenditure of Rs.3.53 crore in FY20 vis-a-vis Rs.5.98crore in FY19 which is lower than the amount spent previous year by Rs.2.45crore.
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 to curb rising import.

Industry Outlook on Glass and Glassware Industry
Production of most varieties of glass in the glass and glassware industry is likely to plunge in 2020-21. This will be on the back of a subdued demand from user industries. Demand for glass comes primarily from sectors like real estate, automobile, telecom, packaging, among others. Realty sector was plagued by lower sales and tight liquidity in 2019-20. The situation is expected to deteriorate further in the current financial year 2020-21 due to the economic slowdown caused by the nationwide lockdown. This is likely to strain financials of the industry at net level. So the bottom line of the industry is likely to remain under pressure.

Liquidity: Superior
The company had liquid investments and cash balance of around Rs.259 crore and Rs.3.80 crore respectively as on March 31, 2020 and Rs.245.33 crore and Rs.5.37 crore as on September 30, 2020 reflecting sound liquidity position. The current ratio of the company stood at 9.23x as on March 31, 2020 vis-à-vis 9.02x as on March 31, 2019. In the current fiscal, though the absolute profits and cash accruals are expected to decline, the liquidity position of LORGL shall remain comfortable, to support the capex requirement. The CC utilisation has been around 5.88% for last 12 months ended November'20. Further, as confirmed by the banker and management, the company has not sought moratorium for its bank facilities from its lenders as part of the Covid-19 Regulatory Package announced by RBI.

Analytical approach: Standalone
Applicable Criteria
CARE's Policy on Default Recognition
Financial ratios – Non-Financial Sector
Criteria on assigning Outlook and Credit watch to Credit Ratings

CARE's methodology for manufacturing companies
Criteria for Short Term Instruments
Liquidity analysis of Non-financial sector entities

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)	FY19 (A)	FY20 (A)
Total operating income	278.10	270.42
PBILDT	112.71	105.01
PAT	74.04	84.27
Overall gearing (times)	0.00	0.01
Interest coverage (times)	165.29	182.78

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

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	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 Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Non-fund-based - ST-BG/LC	ST	3.00	CARE A1+	-	1)CARE A1+ (04-Oct-19)	1)CARE A1+ (19-Dec-18)	1)CARE A1+ (07-Sep-17)
2.	Non-fund-based - ST-Forward Contract	ST	-	-	-	-	-	1)Withdrawn (07-Sep-17)
3.	Fund-based - LT-Cash Credit	LT	5.00	CARE AA; Stable	-	1)CARE AA; Stable (04-Oct-19)	1)CARE AA; Stable (19-Dec-18)	1)CARE AA-; Stable (07-Sep-17)
4.	Fund-based - LT/ ST-CC/PC/Bill Discounting	LT/ST	5.00	CARE AA; Stable / CARE A1+	-	1)CARE AA; Stable / CARE A1+ (04-Oct-19)	1)CARE AA; Stable / CARE A1+ (19-Dec-18)	1)CARE AA-; Stable / CARE A1+ (07-Sep-17)

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 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

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

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