

# La Opala RG

13 November 2020

Reuters: LAOP.NS; Bloomberg: LOG IN

## Operational performance in line

La Opala RG's (LOG) 2QFY21 operational performance was in line with our expectations. Revenue declined by ~38% YoY whereas EBITDA was down ~55% YoY. Sequentially, revenue grew by ~320% on account of recovery in general trade and e-commerce. Modern trade outlook remains weak in the near term as the Future Group was a key player for LOG (ex-Future, business has shown some recovery in 2QFY21). As business was not operating at optimum capacity, profitability numbers are not comparable; we give more weightage to sequential improvement. Utilisation was up at ~60% (2QFY21) vis-à-vis June'20 exit utilisation of ~30%. We highlight that along with volume recovery, LOG witnessed positive growth in realisation. The management indicated that Oct'20 and Nov'20 till date have seen better momentum on account of the festive season. The bigger furnace was restarted recently and will see ramp up in the coming months. This furnace accounts for ~60% of capacity in our view. However, the company is planning to close the other furnace by end-Nov'20 for repairs & maintenance work and should resume operation in 3-4 months. We highlight that peers like Borosil have stopped producing from the start of the year and is mainly liquidating the closing stock. Apart from the organized players, LOG is better placed to gain mind and wallet share from the unorganized segment by leveraging its distribution presence. We like the management's strategy to appoint dedicated people for business development activities. The company has recently appointed Mr. Manoj Samal as Head of Sales & Distribution for general trade. He has worked in Bajaj Electricals earlier as Head of Distribution. Similarly, one more person is expected to join over the next couple of weeks who would focus on B2B, Large Format Stores and E-commerce. We are of the view that in these challenging times, LOG is one of the very few players with the ability to survive and thrive as against numerous small & regional players and mainly the unorganized players. Significant cash reserves, even after providing for future expansion, give the company an edge over the peers. Once the Covid situation normalizes, the management's plan of accelerating media spends would boost overall demand and market development. We do not expect any capacity expansion plans by any other opalware players in the near term. Also, other categories of the tableware market, which are dominated by the unorganized sector, will continue to face significant pressure. We believe that the structural story of opalware segment remains intact and LOG being the market leader with excellent track record and credible financial performance stands to gain from the same. We maintain Buy rating on LOG by revising our earnings estimates, indicating an upside of ~16% from CMP.

## BUY

Sector: Tableware

CMP: Rs207

Target Price: Rs240

Upside: 16%

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### Key Data

Current Shares O/S (mn)	111.0
Mkt Cap (Rsbn/US\$mn)	23.0/308.1
52 Wk H / L (Rs)	252/131
Daily Vol. (3M NSE Avg.)	236,566

### Price Performance (%)

	1 M	6 M	1 Yr
La Opala RG	(3.9)	19.9	31.8
Nifty Index	6.4	38.0	6.5

Source: Bloomberg

Particulars	2QFY20	1QFY21	2QFY21	YoY %	QoQ %	1HFY20	1HFY21	YoY%
Net sales	679	101	424	-37.5	319.5	1,260	525	-58.3
Gross margin %	83.8	152.8	64.6	-1912bps	-8820bps	87.7	81.6	-603bps
Staff costs	118	85	80	-31.7	-5.8	234	166	-29.3
% sales	17.3	84.3	18.9	162bps	-6539bps	18.6	31.5	1293bps
Power costs	99	46	29	-70.5	-37.2	210	76	-63.9
% sales	14.6	45.9	6.9	-769bps	-3903bps	16.6	14.4	-225bps
Other expenses	77	50	40	-48.1	-20.9	137	90	-34.3
% sales	11.3	49.7	9.4	-192bps	-4035bps	10.9	17.1	626bps
EBITDA	276	-27	125	-54.7	-555.6	523	97	-81.4
EBITDA margin %	40.6	-27.1	29.4	-1113bps	5657bps	41.5	18.6	-2297bps
Depreciation	41	32	30	-28.3	-7.8	82	62	-24.4
Other income	53	7	1	-99.0	-92.8	92	8	-91.5
PBT	286	-53	95	-66.7	-279.4	531	42	-92.1
ETR	13.3	42.8	22.3	908bps	-2041bps	14.9	19.5	460bps
Adj PAT	248	-30	74	-70.2	-343.3	452	44	-90.4
Adj EPS	2.2	-0.3	0.7	-70.2	-343.3	4.0	0.4	-90.4

Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 1: Financial summary**

Y/E March (Rsmn)	FY19	FY20	FY21E	FY22E	FY23E
Net Sales	2,781	2,700	1,504	2,863	3,772
Growth YoY%	7.3	-2.9	-44.3	90.4	31.7
Gross margin %	86.0	84.2	82.5	84.0	85.5
EBITDA	1,124	1,045	451	1,091	1,546
EBITDA margin %	40.4	38.7	30.0	38.1	41.0
Adj PAT	740	843	249	748	1,117
Adj EPS	6.6	7.5	2.2	6.6	9.9
Growth YoY%	0.8	13.8	-70.5	200.4	49.4
RoIC (%)	32.5	32.4	8.6	24.8	33.3
RoCE(%)	18.5	16.4	4.9	14.6	20.3
RoE(%)	14.3	15.7	4.5	12.8	17.5
P/E (x)	31.6	27.8	94.0	31.3	20.9
EV/EBITDA	18.7	19.9	46.6	19.3	13.4
P/BV (x)	4.4	4.3	4.2	3.9	3.5

Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 2: Change in earnings estimates**

Consolidated (Rsmn)	Old Estimates			New estimates			Change (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	1,193	2,338	3,848	1,504	2,863	3,772	26.0%	22.5%	-2.0%
EBITDA	414	940	1,601	451	1,091	1,546	9.0%	16.1%	-3.4%
APAT	315	682	1,169	249	748	1,117	-21.0%	9.6%	-4.5%

Source: Nirmal Bang Institutional Equities Research

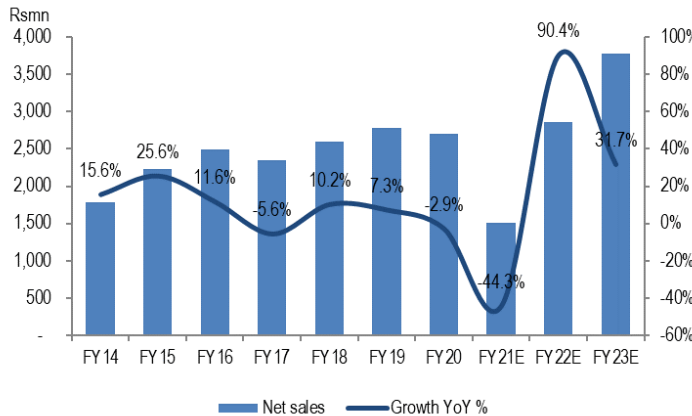
**Exhibit 3: Change in valuation and TP**

Old		New		Change	
Target PE	TP	Target PE	TP	Target PE	TP
28	233	28	240	-	3%

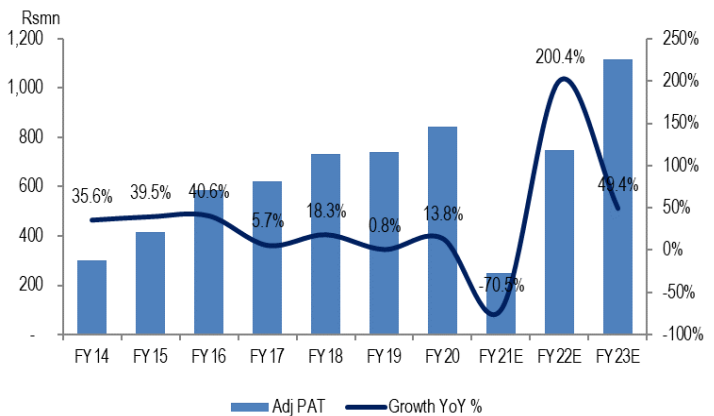
Source: Nirmal Bang Institutional Equities Research

## We are building in ~12% revenue CAGR over FY21-23E

**Exhibit 4: Revenue growth - we are building in ~12% CAGR over FY20-23E**



**Exhibit 5: Earnings growth - we are building in ~10% CAGR over FY20-23E**



Source: Company, Nirmal Bang Institutional Equities Research

Source: Company, Nirmal Bang Institutional Equities Research

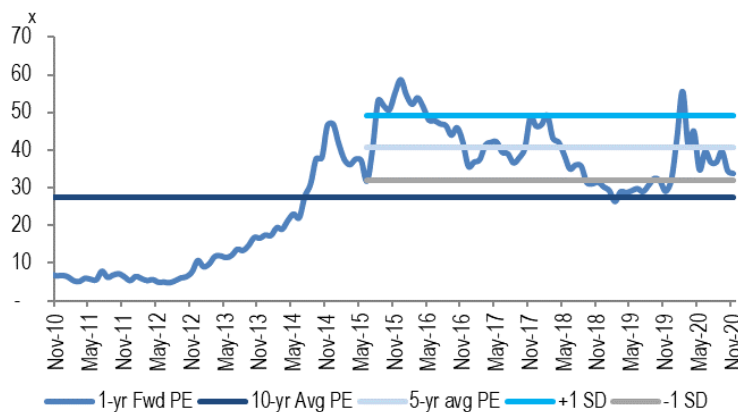
## We have a Buy on LOG with TP of Rs240, indicating an upside of 16% from CMP

**Exhibit 6: Valuation summary**

Particulars	Details	Comments
Sept'22E EPS	8	-
Target PE multiple (x)	28	In-line with 10-year average PE multiple
Target price	240	-

Source: Nirmal Bang Institutional Equities Research

**Exhibit 7: One-year forward P/E**



Source: Bloomberg, Company, Nirmal Bang Institutional Equities Research

## Financials

**Exhibit 8: Income statement**

Y/E March (Rsm)	FY19	FY20	FY21E	FY22E	FY23E
<b>Net Sales</b>	<b>2,781</b>	<b>2,700</b>	<b>1,504</b>	<b>2,863</b>	<b>3,772</b>
Growth YoY%	7.3%	-2.9%	-44.3%	90.4%	31.7%
COGS	390	427	263	458	547
<b>Gross margin %</b>	<b>86.0</b>	<b>84.2</b>	<b>82.5</b>	<b>84.0</b>	<b>85.5</b>
Staff costs	445	486	316	501	634
Other expenses	822	743	474	813	1,045
<b>EBITDA</b>	<b>1,124</b>	<b>1,045</b>	<b>451</b>	<b>1,091</b>	<b>1,546</b>
Growth YoY%	5.2	-7.0	-56.8	141.9	41.7
<b>EBITDA margin %</b>	<b>40.4</b>	<b>38.7</b>	<b>30.0</b>	<b>38.1</b>	<b>41.0</b>
Depreciation	165	160	178	232	240
EBIT	959	885	273	859	1,306
Interest	7	6	6	6	6
Other income	174	167	66	146	192
PBT (bei)	1,126	1,046	333	999	1,492
PBT	1,126	1,046	333	999	1,492
ETR	34.3	19.5	25.2	25.2	25.2
PAT	740	843	249	748	1,117
<b>Adj PAT</b>	<b>740</b>	<b>843</b>	<b>249</b>	<b>748</b>	<b>1,117</b>
<b>Growth YoY%</b>	<b>0.8</b>	<b>13.8</b>	<b>-70.5</b>	<b>200.4</b>	<b>49.4</b>

Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 10: Balance sheet**

Y/E March (Rsm)	FY19	FY20	FY21E	FY22E	FY23E
Share capital	222	222	222	222	222
Reserves	5,069	5,229	5,378	5,827	6,497
<b>Net worth</b>	<b>5,291</b>	<b>5,451</b>	<b>5,600</b>	<b>6,049</b>	<b>6,719</b>
Long term debt	-	-	-	-	-
Short term debt	9	49	49	49	49
<b>Total debt</b>	<b>9</b>	<b>49</b>	<b>49</b>	<b>49</b>	<b>49</b>
Other non-current liabilities	348	266	266	266	266
<b>Total Equity &amp; Liabilities</b>	<b>5,648</b>	<b>5,766</b>	<b>5,915</b>	<b>6,364</b>	<b>7,034</b>
Gross block	2,186	2,244	3,244	3,394	3,474
Accumulated depreciation	971	1,131	1,309	1,542	1,782
<b>Net Block</b>	<b>1,214</b>	<b>1,113</b>	<b>1,935</b>	<b>1,852</b>	<b>1,692</b>
CWIP	23	248	23	40	60
Intangible and others	-	113	113	113	113
Other non-current assets	183	178	178	178	196
Investments	3,558	3,403	3,435	3,554	3,873
Trade receivables	482	438	288	510	620
Inventories	484	550	371	628	827
Cash & Cash equivalents	38	38	-151	-189	5
Other current assets	30	30	30	60	80
<b>Total current assets</b>	<b>1,034</b>	<b>1,057</b>	<b>538</b>	<b>1,008</b>	<b>1,531</b>
Trade payables	129	121	82	157	207
Other current liabilities	235	225	225	225	225
<b>Total current liabilities</b>	<b>364</b>	<b>346</b>	<b>307</b>	<b>382</b>	<b>431</b>
<b>Total Assets</b>	<b>5,648</b>	<b>5,766</b>	<b>5,915</b>	<b>6,364</b>	<b>7,034</b>

Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 9: Cash flow**

Y/E March (Rsm)	FY19	FY20	FY21E	FY22E	FY23E
<b>PBT</b>	<b>1,126</b>	<b>1,046</b>	<b>333</b>	<b>999</b>	<b>1,492</b>
Depreciation	165	160	178	232	240
Interest	7	6	6	6	6
Other adjustments	-166	-161	-66	-146	-192
Change in Working capital	-272	-44	291	-434	-279
Tax paid	-352	-276	-84	-251	-376
<b>Operating cash flow</b>	<b>507</b>	<b>732</b>	<b>658</b>	<b>406</b>	<b>891</b>
Capex	-164	-359	-775	-167	-100
<b>Free cash flow</b>	<b>343</b>	<b>373</b>	<b>-117</b>	<b>239</b>	<b>791</b>
Other investing activities	-150	-92	33	28	-145
<b>Investing cash flow</b>	<b>-313</b>	<b>-451</b>	<b>-742</b>	<b>-139</b>	<b>-245</b>
Issuance of share capital	-	-	-	-	-
Movement of Debt	-30	40	-	-	-
Dividend paid (incl DDT)	-147	-321	-100	-299	-447
Other financing activities	-7	-6	1	-6	-6
<b>Financing cash flow</b>	<b>-184</b>	<b>-288</b>	<b>-98</b>	<b>-305</b>	<b>-452</b>
<b>Net change in cash flow</b>	<b>10</b>	<b>-7</b>	<b>-182</b>	<b>-38</b>	<b>194</b>
Opening C&CE	28	38	31	-151	-189
Closing C&CE	38	31	-151	-189	5

Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 11: Key ratios**

Y/E March (Rsm)	FY19	FY20	FY21E	FY22E	FY23E
<b>Per share (Rs)</b>					
Adj EPS	6.6	7.5	2.2	6.6	9.9
Book value	46.8	48.2	49.6	53.5	59.5
DPS	1.2	1.3	2.8	0.9	2.6
<b>Valuation (x)</b>					
P/Sales	8.4	8.7	15.6	8.2	6.2
EV/sales	7.6	7.7	14.0	7.3	5.5
EV/EBITDA	18.7	19.9	46.6	19.3	13.4
P/E	31.6	27.8	94.0	31.3	20.9
P/BV	4.4	4.3	4.2	3.9	3.5
<b>Return ratios (%)</b>					
RoCE	18.5	16.4	4.9	14.6	20.3
RoE	14.3	15.7	4.5	12.8	17.5
RoIC	32.5	32.4	8.6	24.8	33.3
<b>Profitability ratios (%)</b>					
Gross margin	86.0	84.2	82.5	84.0	85.5
EBITDA margin	40.4	38.7	30.0	38.1	41.0
PAT margin	25.1	29.4	15.9	24.8	28.2
<b>Liquidity ratios (%)</b>					
Current ratio	9.0	9.2	8.8	8.4	8.7
Quick ratio	7.7	7.8	7.7	6.9	7.0
<b>Solvency ratio (%)</b>					
Debt to Equity ratio	0.0	0.0	0.0	0.0	0.0
<b>Turnover ratios</b>					
Fixed asset turnover ratio (x)	2.3	2.4	0.8	1.5	2.2
Debtor days	63	59	70	65	60
Inventory days	63	74	90	80	80
Net Working capital days	17	16	20	20	20

Source: Company, Nirmal Bang Institutional Equities Research

## Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
17 September 2013	Buy	87	114
7 October 2012	Buy	96	114
12 November 2013	Buy	112	134
14 February 2014	Buy	129	174
15 February 2014	Buy	129	174
17 February 2014	Buy	129	174
12 March 2014	Buy	140	174
14 May 2014	Buy	176	211
4 July 2014	Buy	181	211
14 August 2014	Accumulate	243	254
9 October 2014	Accumulate	337	353
10 October 2014	Accumulate	340	353
7 November 2014	Accumulate	424	458
9 February 2015	Buy	365	433
13 May 2015	Buy	382	446
14 August 2015	Accumulate	530	590
16 November 2015	UR	574	-
5 February 2016	UR	641	-
17 May 2016	UR	558	-
22 August 2016	UR	582	-
16 November 2016	UR	533	-
8 February 2017	UR	478	-
11 May 2017	UR	536	-
31 August 2017	UR	481	-
1 July 2020	Buy	185	233
14 August 2020	Buy	195	233
13 November 2020	Buy	207	240

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### Stock Ratings Absolute Returns

BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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