

La Opala RG

5 December 2018

Reuters: LAOP.BO; Bloomberg: LOG IN

Leader Creates the Market And Rules It

La Opala RG (LORL) ventured into the opalware segment in late 1980s, while its competitors entered this space only a few quarters ago. Just by sheer experience, we can be reasonably sure that LORL has a far better understanding of product manufacturing, channel-partners' demands and consumers' expectations. In fact, we view the entry of new players as a positive signal for the industry and its future growth prospects. LORL is on the path to increase its total capacity by 71% to 36,000tpa by FY21E. All new capacity addition will be in the premium 'Diva' brand which should help improve margins. Economies of scale should also play its part. With the buoyant and favourable consumer sentiment, we expect LORL to increase its revenues and EBITDA at 13.2% and 14.2% CAGR over FY18-FY21E. Our growth rate estimate is lower than Bloomberg consensus estimate and presents our base case scenario. LORL's stock is already down 40% from its recent highs and offers a good entry point for medium/long-term investors. We initiate coverage on LORL with a Buy rating and a target price of Rs299, up 35% from the CMP.

15% volume CAGR expected during FY18-FY21E: In FY18, LORL achieved total production of 16,000tpa with an installed capacity of 21,000tpa (80% capacity utilisation). The recent 4,000tpa capacity addition in FY19 and further planned expansion should support 15% volume growth over FY18-FY21E. Over the same time, we expect the company to also improve its pricing which was down nearly 8%-10% because of Goods and Services Tax or GST benefit pass-through to consumers. In total, we expect the company to increase revenues at 18% CAGR over FY19-FY21E. Following the change in accounting, FY19 reported revenues are not directly comparable with FY18. Also, because of GST benefit pass-through, product prices have already declined close to 10% YoY.

Front-runner to benefit from market shift: Indian middle-class has traditionally relied on stainless steel tableware for daily use while 'preserving' the more expensive ceramic, melamine or glassware for 'special occasions' or for guests. This trend is now changing with rising income and as a result the size of the opportunity is huge. According to LORL's FY18 annual report and its management, currently India's tableware market stands at close to Rs100bn. Of this, opalware accounts for close to 5%, while steel, bone china and melamine account for 60%, 31% and 9%, respectively. Thus, the shift from steel to opalware presents a huge opportunity for LORL which holds the No.1 position in the market with 48% revenue share and 43% installed capacity share. Taking into account the ongoing capacity expansion at LORL (both Cello and Borosil have done expansion recently, but no new plans), it should hold over 52% installed capacity in the opalware industry in India by FY21E. Cello, with 18,250tpa capacity, holds 32% and Borosil (Larah Brand) with 14,600tpa holds 25% installed capacity share currently. Other players like Corelle, RAK and Luminarc import the product. The recent entry of Cello and Borosil will give some competition to LORL, but will also help in expanding the market and create awareness for opalware products.

Y/E Mar (Rsmn): Consolidated	FY17	FY18	FY19E	FY20E	FY21E
Net sales	2,352	2,593	2,702	3,199	3,758
EBITDA	877	1,066	1,233	1,310	1,588
EBIT	753	928	1,071	1,141	1,422
Adj. Net profit	509	608	743	752	937
Adj. EPS (Rs)	4.59	5.48	6.70	6.78	8.44
EPS growth (%)	(12.2)	19.5	22.2	1.2	24.6
EBITDA margin (%)	37.3	41.1	45.6	41.0	42.3
EBIT margin (%)	32.0	35.8	39.7	35.7	37.8
PER (x)	59.15	52.63	33.09	32.69	26.24
FCF/Sales (%)	24.3	17.4	8.2	3.8	20.3
Net cash/Equity (%)	36.0	39.8	36.9	32.9	37.6
Pre-tax RoIC (%)	35.9	32.0	32.6	29.5	33.3
RoE (%)	18.7	15.7	16.6	15.3	16.8

Source: Company, Nirmal Bang Institutional Equities Research

BUY

Sector: Tableware

CMP: Rs221

Target Price: Rs299

Upside: 35%

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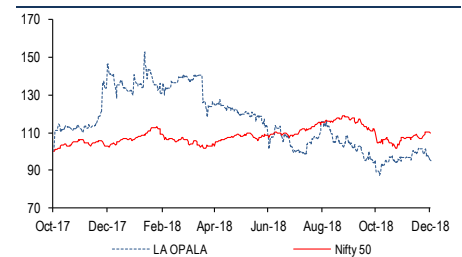
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Key Data

Current Shares O/S (mn)	111.0
Mkt Cap (Rsbn/US\$m)	24.7/350
52 Wk H / L (Rs)	372/186
Daily Vol. (3M NSE Avg.)	133,531

Shareholding (%)	4QFY18	1QFY19	2QFY19
Promoter	65.0	65.0	63.0
Institutions	21.3	20.6	19.5
Others	13.7	14.4	17.5

One Year Indexed Stock Performance



Price Performance (%)

	1 M	6 M	1 Yr
La Opala RG	3.9	(1.5)	(31.5)
Nifty Index	2.5	1.8	6.6

Source: Bloomberg

Investment Rationale

Opalware - Affordable luxury of the burgeoning Indian middle class

During FY18, India's per capita income stood close to Rs1,12,000 per annum, posting an increase of 8.6% YoY. During FY17, it increased at 10% YoY. It is expected that India will grow its per capita income at 7.5% CAGR over the next couple of years. This increase will boost discretionary income, benefitting lifestyle products like opalware and crystalware. Mid-income population in India is currently 300mn strong and comprises 32% of the country's population. Over the next decade, this segment will have 50% share in the population. This indicates that LORL's addressable market continues to grow providing a secular multi-year tailwind to the company. To put the opportunity size in perspective, India's current middle class population of 300mn is almost equal to the total US population. The demand for opalware products is a function of rising aspiration and discretionary income. Younger population, which is looking for lifestyle improvement figures as biggest consumers of opal tableware products. We expect the trend to continue over the next few years.

Superiority over alternatives

Opalware is far superior to most alternative products present in the market, which, we believe is an important factor for its rising adoption among consumers. The demand for branded tableware in India should see significant growth because of aesthetic appeal, microwave-friendly characteristic and easy affordability.

Please see the points below for the quick comparison with alternative material tableware:

Opalware

- Vs. steel & other metals – Unlike metal products, opalware is compatible with microwave oven and offers better designs and colours. We view this as a key characteristic for opalware product demand as the penetration of microwave oven is rising in India.
- Vs. melamine and plastics – Melamine and plastic tableware are available in various designs and colours, are cheaper, offer good aesthetics and serve as a good alternative to traditional steel tableware. However, rising concerns over the harmful effect of plastics on humans, durability and usability in a microwave oven are key drawbacks that fail to get customer acceptance. If affordable, Indian consumers prefer other products over plastic and this trend has gathered momentum, especially among the millennial population.
- Vs. bone china/ceramics – Opalware is also a kind of a ceramic product, but it is more sturdy and chip-resistant as compared to traditional bone china, clay or porcelain products. It is cheaper than ceramic, easier to maintain/handle and lightweight in most cases.

Strong brand recall in an oligopolistic market

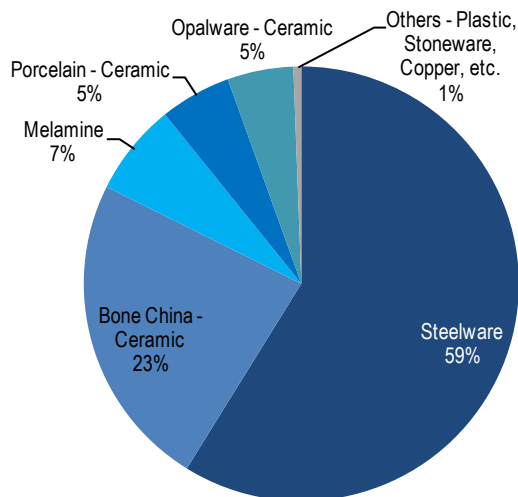
LORL is enjoying the fruit of years of investment in brand building. It is a well-established crockery company with market presence of almost three decades now. The company's advertisement spending accounts for nearly 5% of its revenues, while total advertisement and trade promotion costs are close to 13%-14% of revenues. LORL's focus on contemporary designs, product mix, attractive and protective packaging helped it in gaining a higher mindshare among consumers. Additionally, strong relationship with distributors and better trade margins ensured that LORL's products get best shelf space and product display at retail shops. All these efforts and the first-mover advantage resulted in LORL capturing 48% share in India's opalware market. The remaining market is divided between Corelle, Cello and Borosil.

LORL has multiple brands to distinguish between the product quality and price range. Its legacy 'La Opala' brand is largely for entry-level products which cost less than Rs2,000 for a 12-15 piece dinner set. The company markets premium products under the mother brand 'Diva from La Opala', which are further sub-divided into Classique, Quadra, Ivory and Sovarna collections and retails at Rs2,400-Rs4,500 for a 27-piece dinner set. LORL also owns a brand called 'Solitaire' for its crystalware products.

Front-runner to benefit from market shift

Indian middle class has traditionally relied on stainless steel tableware for daily use while 'preserving' the more expensive ceramic, melamine or glassware for 'special occasions' or guests. This trend is now changing with rising income and the size of the opportunity is huge. According to LORL's FY18 annual report and its management, currently India's tableware market stands close to Rs100bn. Of this, opalware accounts for close to 5%, while steel, bone china and melamine account for 60%, 31% and 9%, respectively. Thus, a shift from steel to opalware presents a huge opportunity for LORL which is the segment leader with 43% industry capacity and 48% revenue market share.

Exhibit 1: Tableware market segments



Source: Company, Nirmal Bang Institutional Equities Research

15% volume CAGR expected over FY18-FY21E

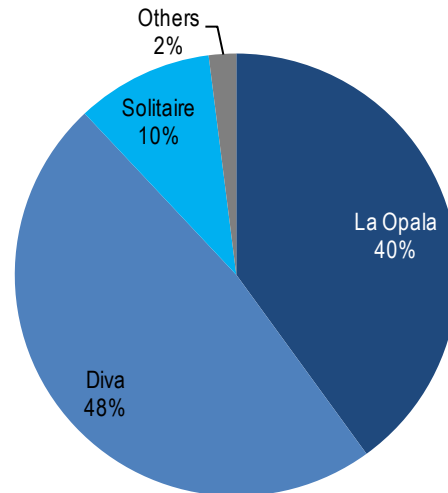
During FY18, LORL achieved total production of 16,000tpa with an installed capacity of 21,000tpa (80% capacity utilisation). The recent 4,000tpa capacity addition in FY19 and further planned expansion should support 15% volume growth over FY18-FY21E. Over the same time, we expect the company to also improve its pricing which was down nearly 8%-10% because of GST benefit pass-through to consumers. In total, we expect the company to increase revenues at 18% CAGR over FY19E-FY21E. Following the change in accounting, FY19 reported revenues are not directly comparable with FY18.

Premiumisation – margin accretive

LORL has constantly improved its revenue mix by focusing on high-value products. Its premium mother brand 'Diva' currently has four sub-brands (Classique, Quadra, Ivory and Sovarna). As compared to 4,000tpa in FY13, capacity for 'Diva' increased 4x to 16,000tpa by the end of FY18. The remaining opalware capacity is meant for entry-level brand 'La Opala'. Thus, the revenue share of 'Diva' categories increased from 48% in FY13 to 75% in FY18.

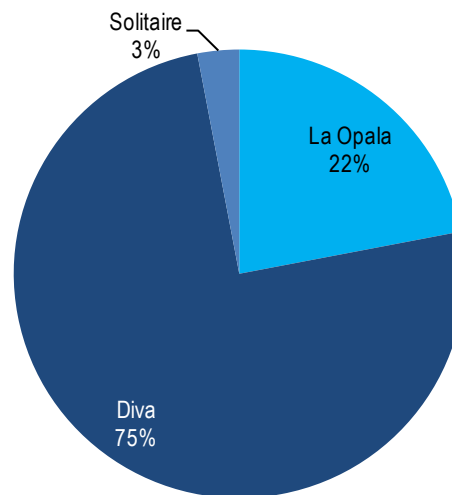
The company does not share margins in its product category, but its retail price gives an indication of the margin difference across categories. MRP for 'La Opala' branded dinner sets is close to Rs80/piece. However, premium brand 'Diva' is priced at least 35% higher with 'Classique' at Rs109/piece, 'Quadra' and 'Ivory' at Rs138/piece and Sovarna at Rs210/piece.

Exhibit 2: LORL's FY13 revenue mix



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: LORL's FY18 revenue mix



Source: Company, Nirmal Bang Institutional Equities Research

Wide distribution network

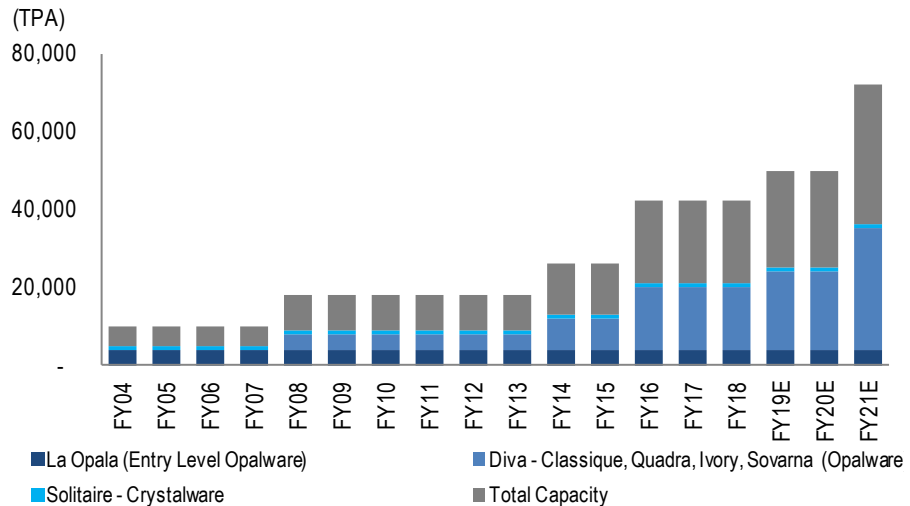
LORL enjoys a clear first-mover advantage in opalware products in India. It started manufacturing the product in India in 1988, when there was practically no market for opalware glass in the country. The company remained loss-making for the next two years, but was firm on improving its manufacturing practices and expanding distribution. Since then, LORL has built a wide distribution network which allows its product to be sold at over 12,000 retail outlets which are serviced by 250 distributors. Going forward, the company plans to increase its network density in Odisha, Chhattisgarh and north-eastern states. In comparison, only for its opalware brand 'Larah', Borosil operates a network of 130 distributors servicing 6,000-7,000 retail outlets. However, our channel checks suggest that Borosil's opalware is still not available in most shops in various cities.

Ongoing capacity expansion – economies of scale

As of September 2018, LORL had opalware manufacturing capacity of 24,000tpa while Borosil and Cello have 14,600tpa and 18,250tpa, respectively. LORL continues to be under the expansion mode and should increase its opalware capacity to 34,000tpa by FY21E.

During FY18, Borosil also expanded its opalware capacity by approximately 50% to touch 14,600tpa. It has no further plans to expand. As the scale of production increases, we expect LORL to enjoy higher manufacturing yield, low wastage and better bargaining power over suppliers. All these factors should cumulatively help in lowering cost of production for LORL which will further widen the margin gap.

Exhibit 4: LORL's total production capacity

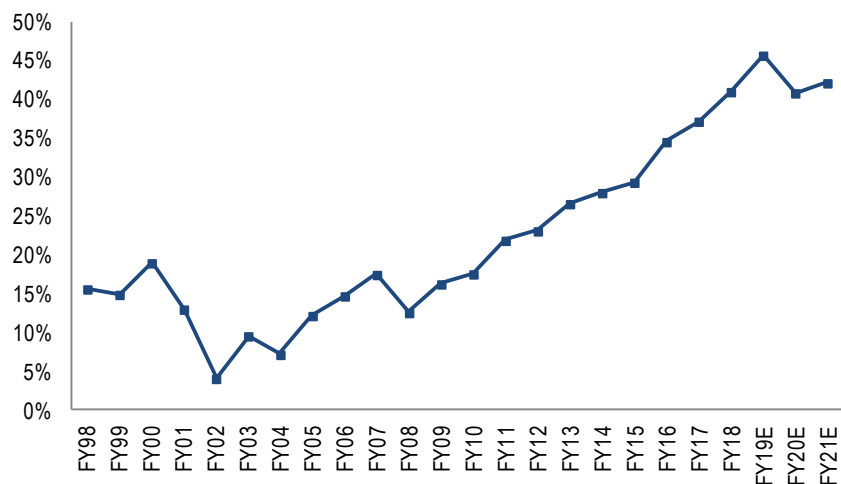


Source: Company, Nirmal Bang Institutional Equities Research

Sustained margin leadership

LORL has increased its margins on the back of improving manufacturing efficiency, favourable product mix and controlling operating costs. Between FY07-FY16, it increased EBITDA margin by 1,720bps to touch 34.7%. Starting FY17, Ind-AS was introduced which required netting of trade promotion and discounts before reporting net revenues. Thus, after adjusting the FY17 and FY 18 revenues by nearly 14% (previous three year average), we can see that LORL's EBITDA declined to 35.4% in FY18. During our interaction, the management sounded confident of sustaining the current EBITDA margin level. We, however, will take that with a pinch of salt because of rising competition and entry of cheaper products in the market.

Exhibit 5: EBITDA margin



Source: Company, Nirmal Bang Institutional Equities Research

Geared for competition

We like to point out that this is not the first time that LORL is facing competition. LORL's hold on trade channel was tested in late 1990's when global leader Corning Incorporation introduced its brand 'Corelle', 'Corningware', Pyrex, etc. in India. Even as Corelle has strong brand equity in India, it could never create a wide distribution channel. For solving the distribution problem, Corning also partnered with TTK Prestige, but that partnership ended in less than two years in 2013. As of today, Corelle is still present in India, but is largely confined to high-street shops and modern retail stores in select cities.

Additionally, LORL is now facing competition from local players like Borosil and Cello. Our visit to some traditional stores and modern retail outlets in a couple of cities reveals that Borosil's product availability is low, while Cello is perceived as a cheaper brand than La Opala. We believe that La Opala's brand strength, higher manufacturing experience, better understanding of the local crockery market and deeper distribution channel will benefit LORL the most compared to its competitors.

Exhibit 6: Total capacity

Total capacity (tpa)	FY16	FY17	FY18	FY19E	FY20E	FY21E
La Opala	21,000	21,000	25,000	25,000	25,000	36,000
Borosil	9,750	9,750	14,600	14,600	14,600	14,600
Cello	-	-	18,250	18,250	18,250	18,250
Total	30,750	30,750	57,850	57,850	57,850	68,850

Source: Company, Nirmal Bang Institutional Equities Research

Indian opalware industry overview

Tableware market is both fragmented and skewed

Traditionally, Indians have relied on metal-based utensils and tableware products as they are more sturdy and cheap. From using copper and brass (pital) in the pre-British era, Indians graduated to iron and then to stainless steel. For the reasons detailed above, we believe the shift to better quality ceramics is underway. Currently, India's tableware market is dominated (skewed towards) by steel with 60% market share followed by bone china with 24% share. Interestingly, except for opalware (which has 5% market share), no other segment has established branded products which makes the market fragmented. This opens up a huge opportunity for industry leader LORL, which already operates an established brand with a mammoth market share.

Exhibit 7: Market share of tableware segment

Market share of tableware segment Segment	size (Rsmn)	FY18
		Total mkt. share
Steelware	60,000	59%
Bone China - Ceramic	24,000	24%
Melamine	7,000	7%
Porcelain - Ceramic	5,400	5%
Opalware - Ceramic	5,000	5%
Others - Plastic, Stoneware, Copper, etc.	600	1%
Total tableware market size	102,000	100%

Source: Company, Nirmal Bang Institutional Equities Research

Similar pricing across products

Retail pricing for opalware has declined to remain almost at par with steel ware and below decent quality bone china products. GST has also helped in bridging the gap as the indirect tax rate of 18% is lower than the previous rate of 28%. LORL had reduced product prices to pass on the GST benefit to consumers last year. We have collected the selling (after discount) and maximum retail prices (given below) from both traditional shops and online retailers. The data suggests that opalware is now being priced highly competitively as compared to other products in the market. Also, an interesting point to note is that LORL's products are priced at par with local competitors, even as its products are slightly thicker (sturdy) and have better quality along with the same weight. International brands like 'Corelle', RAK and Luminarc import the product by paying 29.8% (10% basic customs duty, 18% integrated goods & services tax and compensation cess) import duty. This makes imported products 2x-2.5x expensive in India.

Exhibit 8: Product comparison of various players

Brand	Manufacturer/distributor	Material	Pieces per set	MRP (Rs)	Price after discount	Selling price per Piece (Rs)
Diva Quadra	La Opala	Opalware	27	3,395	1,699	63
Diva Classique	La Opala	Opalware	27	3,395	2,395	89
Diva Ivory	La Opala	Opalware	27	3,695	2,774	103
La Opala	La Opala	Opalware	27	3,395	3,395	126
Diva Sovrana	La Opala	Opalware	27	4,650	4,478	166
Lily Blossom	Borosil	Opalware	27	3,220	2,199	81
Lavender	Borosil	Opalware	27	3,220	2,199	81
Lilac	Borosil	Opalware	27	3,220	2,199	81
Minerva	Borosil	Opalware	27	3,220	2,199	81
Larah	Borosil	Opalware	27	3,580	2,525	94
Larah	Borosil	Opalware	27	3,580	2,525	94
Lily Blossom	Borosil	Opalware	21	2,750	1,999	95
Lavender	Borosil	Opalware	21	2,750	1,999	95
Lilac	Borosil	Opalware	21	2,750	1,999	95
Minerva	Borosil	Opalware	21	2,750	1,999	95
Larah	Borosil	Opalware	21	2,850	1,999	95
Larah	Borosil	Opalware	20	2,695	2,199	110
Lavender	Borosil	Opalware	19	2,135	2,135	112
Lilac	Borosil	Opalware	19	2,135	2,135	112
Minerva	Borosil	Opalware	19	2,135	2,135	112
Cello Impreial fresh fern	Cello	Opalware	33	3,595	2,585	78
Cello Imperial Pot Pourri	Cello	Opalware	33	3,595	2,585	78
Cello Imperial Frangipani	Cello	Opalware	33	3,595	2,585	78
Cello Imperial Ocean Flower	Cello	Opalware	33	3,595	2,585	78
Cello Impreial fresh fern	Cello	Opalware	36	3,795	2,899	81
Cello Imperial Pot Pourri	Cello	Opalware	36	3,795	2,899	81
Cello Imperial Frangipani	Cello	Opalware	36	3,795	2,899	81
Cello Imperial Ocean Flower	Cello	Opalware	36	3,795	2,899	81
Cello Impreial fresh fern	Cello	Opalware	27	3,295	2,344	87
Cello Imperial Pot Pourri	Cello	Opalware	27	3,295	2,344	87
Cello Imperial Frangipani	Cello	Opalware	27	3,295	2,344	87
Cello Imperial Ocean Flower	Cello	Opalware	27	3,295	2,344	87
Cello Impreial fresh fern	Cello	Opalware	21	2,795	1,999	95
Cello Imperial Pot Pourri	Cello	Opalware	21	2,795	1,999	95
Cello Imperial Frangipani	Cello	Opalware	21	2,795	1,999	95
Cello Imperial Ocean Flower	Cello	Opalware	21	2,795	1,999	95
Bormilio Rocco	Bormilio Rocco	Glass	12	16,400	16,400	1,367
Lakline	Trader	Porcelain	33	12,350	10,350	314
Alda	Alda	Porcelain	33	15,999	12,792	388
Godskitchen	Godskitchen Hospitality	Bone China	21	5,000	3,286	156
Ceradeco	R&R Crockery House	Bone China	41	16,000	8,636	211
Virasat	Clay Craft	Bone China	48	17,500	10,663	222
Sivica	Trader	Bone China	34	8,999	8,018	236
Palms	Palms	Melamine	22	2,039	811	37
Cello Platino Red Line	Cello	Melamine	24	2,299	1,150	48

Brand	Manufacturer/distributor	Material	Pieces per set	MRP (Rs)	Price after discount	Selling price per Piece (Rs)
Cello Platino Red Petal	Cello	Melamine	24	2,299	1,150	48
Cello Platino Retro	Cello	Melamine	24	2,299	1,150	48
Cello Platino Line Flower	Cello	Melamine	24	2,299	1,150	48
Ceradeco	Ceradeco	Melamine	38	4,000	2,159	57
Cello Platino Red Line	Cello	Melamine	40	4,100	2,649	66
Cello Platino Red Petal	Cello	Melamine	40	4,100	2,649	66
Cello Platino Retro	Cello	Melamine	40	4,100	2,649	66
Cello Platino Line Flower	Cello	Melamine	40	4,100	2,649	66
Cello Platino Red Line	Cello	Melamine	32	3,475	3,475	109
Cello Platino Red Petal	Cello	Melamine	32	3,475	3,475	109
Cello Platino Retro	Cello	Melamine	32	3,475	3,475	109
Cello Platino Line Flower	Cello	Melamine	32	3,475	3,475	109
Servewell	Servewell	Melamine	29	4,315	3,522	121
Artista Dinner Sets	Cello	Melamine	33	4,360	4,360	132
Dynore	Dynore	Stainless Steel	24	5,775	3,555	148
Pigeon	Pigeon	Stainless Steel	28	2,495	1,350	48
Prasnath	Prasnath	Stainless Steel	51	8,000	5,599	110
Celloware Dinner set	Cello	Plasticware	32	2,054	2,054	64
Celloware Dinner set	Cello	Plasticware	24	1,274	1,274	53
Celloware buffet set	Cello	Plasticware	24	1,426	1,426	59

Source: Company, Nirmal Bang Institutional Equities Research

LORL: Undisputed market leader

LORL is enjoying the first-mover advantage in a fast-growing consumer sector and is likely to maintain its leadership position. LORL's experience of over three decades places it well ahead of local peers which has entered the opalware space only a couple of years ago.

LORL holds No.1 position in the market with 48% revenue share and 43% installed capacity share. Taking into account the ongoing capacity expansion at LORL (both Cello and Borosil have done expansion recently, no new plans), it should hold over 52% of installed capacity in the opalware industry in India by FY21E. Cello with 18,250tpa capacity holds 32% and Borosil (Larah Brand) with 14,600tpa holds 25% installed capacity share currently. Other players like Corelle, RAK and Luminarc import the product. The recent entry of Cello and Borosil will give some competition to LORL, but will also help in expanding the market and create awareness for opalware products. The situation is somewhat similar to the entry of new automobile players in early 1990s and Maruti Suzuki India has definitely benefitted from market expansion, in our view.

Exhibit 9: Revenues - market share

Revenues (market share)	FY16	FY17	FY18
La Opala	2,122	2,227	2,126
Borosil - Larah	480	983	1,021
Cello	-	-	473
Others - Corelle, etc.	800.0	975	850
Total	3,402	4,185	4,470

Source: Company, Nirmal Bang Institutional Equities Research

Opalware Segment to grow volume at 14%-16%

We expect the opalware category to outpace overall growth in the tableware industry because of its low penetration and changing consumer preference. Overall tableware industry should post around 6% CAGR over the next few years. This overall growth rate is lower because of a higher share of steel ware which is well penetrated and growing at 5%, as per our estimate.

Borosil expects the opalware market to post 20% CAGR over the next few years, which we believe is slightly on the higher side. Taking into account our interactions with dealers and other industry publications, we expect the industry to deliver 12-15% volume CAGR over the next few years. While the opalware pricing has already taken a 10% hit post GST implementation (lower tax benefit had to be passed on to consumers), we expect it to improve gradually over the years.

Exhibit 10: Tableware Industry Segments

Segment	Growth	Contribution to total growth
Steelware	5%	3%
Bone China - Ceramic	5%	1%
Melamine	10%	1%
Porcelain - Ceramic	5%	0%
Opalware - Ceramic	15%	1%
Others - Plastic, stoneware, copper, etc.	5%	0%
Total		6%

Source: Company, Nirmal Bang Institutional Equities Research

Largest product range

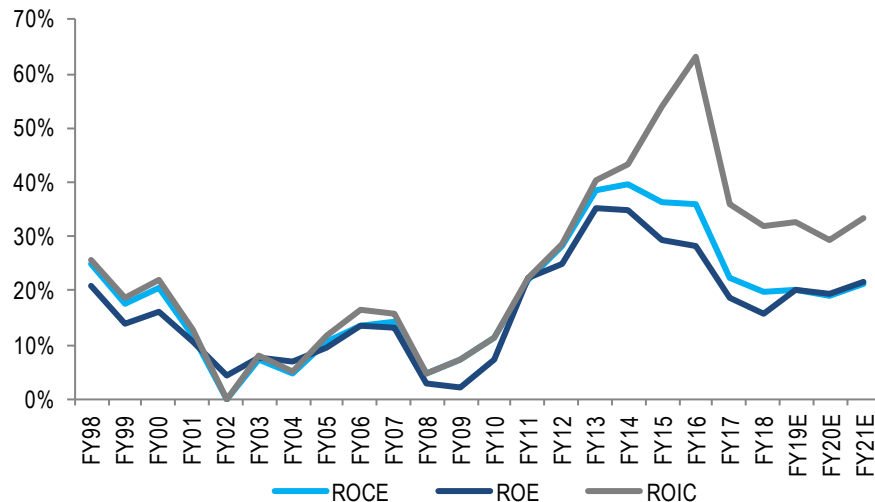
We like LORL's strategy of creating different sub-brands for entry, premium and luxury-level products. This has helped in clear product differentiation while maintaining the heritage of 'Diva' and 'La Opala' brands. It has provided the company the much-needed space to launch products under different designs, shape, size and quality. Thus, LORL today has the largest variety of products under a wide price range. This helps it in acquiring a larger shelf space at retailer/dealer shops. Importantly, the strategy also helps in premiumisation, where it graduates customers to high-priced products easily.

Five-year average: RoCE at 31%, RoE at 25%, RoIC at 46%

LORL has delivered superior returns on shareholder capital. In the past five years, the company has delivered average RoCE of 30.8%, RoE of 25.4% and RoIC of 45.7%. RoCE and RoE have declined in recent years because of cash accumulation on its books. The company has increased its cash and equivalent holdings from Rs83mn in FY14 to Rs2,045mn in FY18. The excess cash build-up was because of superior cash generation ability of the company and brownfield expansion (which consumed less cash). In the same time period, the company reduced its outstanding debt from Rs142mn in FY14 to Rs39mn in FY18. Therefore, we prefer to view the company's RoIC as it adjusts cash from the denominator.

Over the next three years, we expect the company's return on capital ratios to improve as it utilises cash on upcoming 11,000tpa expansion and improves capacity utilisation in the recently commissioned 4,000tpa facility.

Exhibit 11: RoCE, RoE and RoIC trend



Source: Company, Nirmal Bang Institutional Equities Research

Stellar 35.4% adjusted EBITDA margin

LORL has increased its margins very well. On a reported basis, the company increased its EBITDA/PAT margins from 28.1%/16.8% in FY14 to 41.1%/28.3%, respectively, in FY18. There has been slight adjustment in FY17 and FY18 reported revenues. In the wake of new Ind-AS115, the company has to deduct all its sales promotion expenses and trade discount from gross sales to report the net sales figure. This adjustment lowered the revenue figures for both FY17 and FY18, thus pushing the profitability margin higher. Adjusting for the same, we derive FY18 EBITDA/PAT margin of 35.4%/24.4%, respectively.

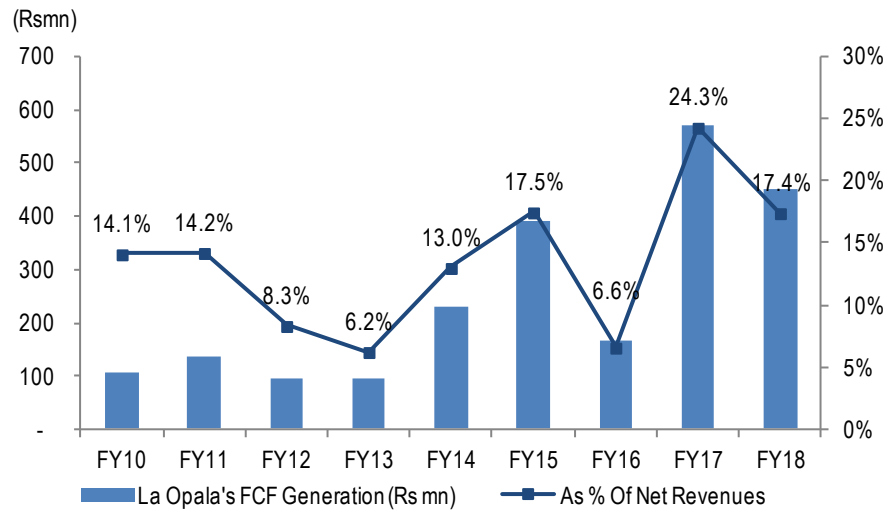
During our interaction, the management sounded confident of maintaining and probably increasing margins. We expect FY19/FY20/FY21 EBITDA margin at 45.6%/41.0%/42.3%, respectively, on a reported basis.

Strong FCF generation and improved working capital management

LORL has delivered positive free cash flow every year since FY10. Interestingly, in the past five years, the company converted nearly 16% of its revenues into FCF. Since FY98, the cumulative FCF generation stands at 9% of revenues. The strong cash generation underscores a solid business and the management's ability to expand multi-fold with internally generated funds and still deliver surplus cash for the shareholders.

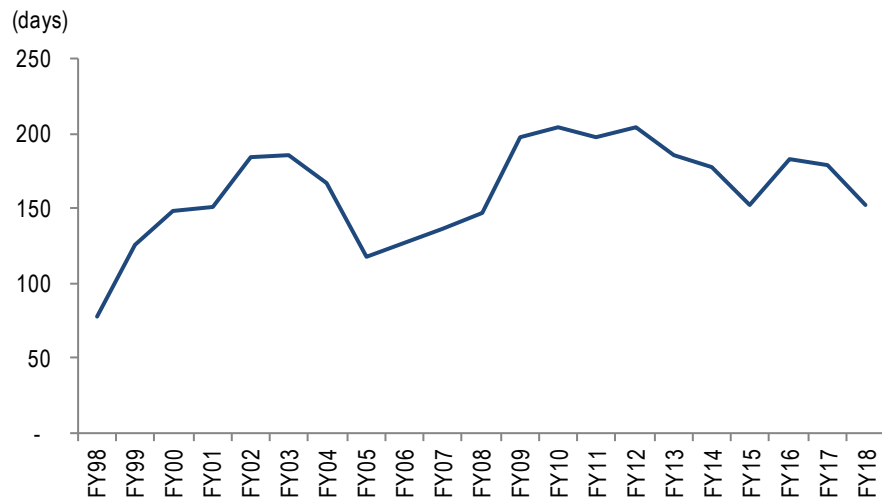
In FY14, LORL witnessed cash conversion cycle of 177 days, which declined to 152 days in FY18. However, because of demonetisation and GST implementation, the cash conversion cycle increased to 182 days in FY16, but has trended downward since then. While receivable days increased from 41 days in FY14 to 52 days in FY18, the company managed to lower inventory days from 156 days to 134 days and increase creditor days from 20 days to 34 days in the same period.

Exhibit 12: La Opala's FCF Generation Trend



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 13: Cash conversion cycle (days)



Source: Company, Nirmal Bang Institutional Equities Research

Valuation

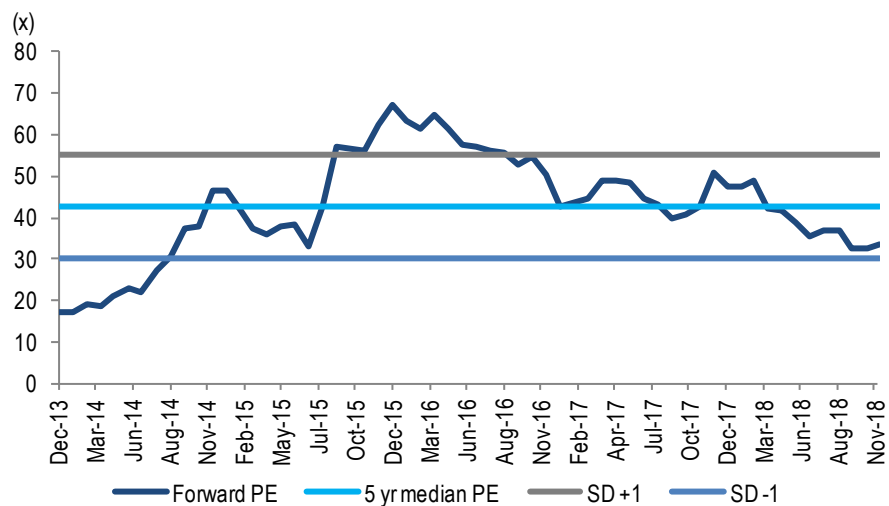
LORL's stock price has declined 40% from its recent highs this year, largely on account of P/E multiple correction. The ongoing capacity expansion, underlying growth and relative small size of opalware segment in the tableware industry bodes well for investors looking at taking up a position in the stock. We see LORL as a binary story relative to rising consumer discretionary income, which makes a case for a long-term investment horizon. Superior profitability, market leadership position, well-penetrated distribution system and time-tested brand recall are feathers in LORL's cap.

Exhibit 14: Valuation multiple

September 2020 EPS (Rs)	8.07
Five-year average forward P/E (x)	42.7
Target P/E (x)	37.0
Target price(Rs)	299
Upside (%)	35

Source: Company Reports, Nirmal Bang Institutional Equities Research

Exhibit 15: Five-year forward P/E range



Source: Company, Nirmal Bang Institutional Equities Research

Key risks

Rising competition remains a risk for LORL as local players like Borosil and Cello have also ventured into the opalware business. Higher advertising and promotion expenses may exert pressure on operating margin. Having said that, we believe the new entrants will help in increasing the awareness of opalware products and expanding the market.

LORL witnessed some worker dispute at its Madhupur plant in the past. While all the problems have been amicably settled by the management team, there remains the risk of production disruption. We do not view this as a material event, but nevertheless workers' strike remains a risk for a manufacturing company like LORL.

Business history

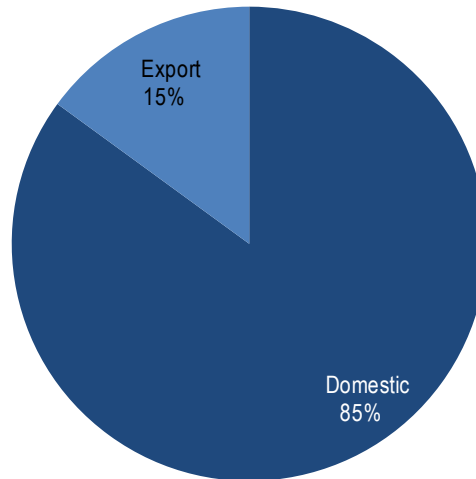
LORL was originally incorporated as a private limited company on 11 June 1987, in Kolkata. The promoter Mr. Sushil Jhunjhunwala and his son Mr. Ajit Jhunjhunwala, still continue to run the daily affairs and hold nearly 63% stake in the company.

Initially the company manufactured glass hurricane lamps and chimneys, but ventured into opalware in 1988-89. On securing technical assistance from a South Korean company, Hosan Glass, LORL set up its maiden opalware plant at Madhupur in Jharkhand with 688tn annual capacity. **LORL was the first manufacturer of opalware glass in India.** The response from the market was overwhelming and in just a few quarters the company announced 50% capacity expansion to 1,032tpa.

During mid-1990s, LORL ventured into manufacturing crystal glassware. It set up a facility to manufacture 24% lead crystal glassware at Madhupur under the brand, Solitaire. For this venture, it took technical help from another South Korean firm, Doosan Glass. Once again the demand exceeded supply and soon the company increased its capacity by 100% from 550tpa to 1,095tpa. Solitaire became very successful in international markets and helped LORL earn valuable foreign currency. LORL also launched an IPO to fund its dream.

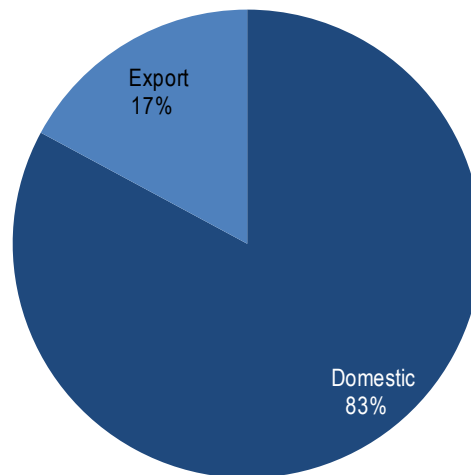
During 2008, LORL planned another set of expansion with a greenfield opalware plant at Sitarganj in Uttarakhand. The planned capacity of Sitarganj plant was 4,000tpa, taking the company's total opalware capacity to 8,000tpa. **It is important to note that capital expenditure for this plant was expected to be Rs400mn while the company's annual revenues stood at Rs500mn at that moment. However, we believe the real game changer for the company was introduction to more advanced European machines which worked on electric furnace instead of previously-installed gas/coal plant.** While the increased capacity helped the company to secure revenue growth, the electric furnace removed energy price volatility from the cost structure, helping margin expansion. Currently, LORL operates 16,000tpa high-quality opalware capacity at Sitarganj, 4,000tpa opalware capacity at Madhupur and 1,000tpa crystalware plant at Madhupur.

Exhibit 16: La Opala's FY13 Revenue Mix



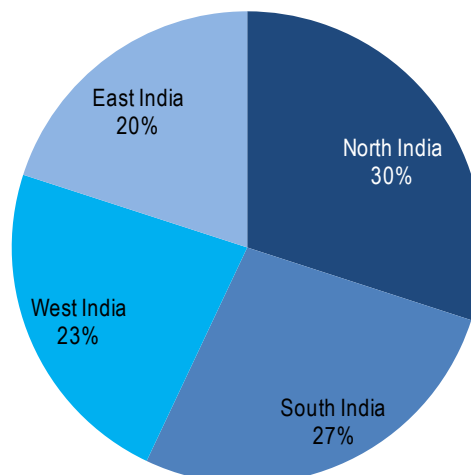
Source: Company Reports, Nirmal Bang Institutional Equities Research

Exhibit 17: La Opala's FY18 Revenue Mix



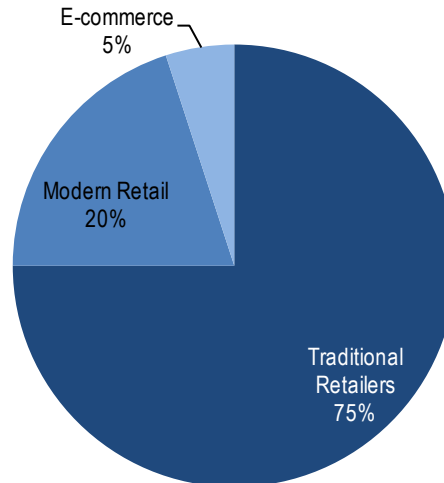
Source: Company Reports, Nirmal Bang Institutional Equities Research

Exhibit 18: Domestic revenues-regional distribution



Source: Company Reports, Nirmal Bang Institutional Equities Research

Exhibit 19: Domestic revenues-channel distribution



Source: Company Reports, Nirmal Bang Institutional Equities Research

Exhibit 20: La Opala's Capacity Distribution

Capacity (tpa)	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
Opalware - Diva	4,000	8,000	8,000	16,000	16,000	16,000	20,000	20,000	31,000
Sitargunj, Uttarakhand	4,000	8,000	8,000	16,000	16,000	16,000	20,000	20,000	31,000
Crystalware - Solitare	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
Opalware - La Opala	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000
Madhupur, Jharkhand	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000
Total capacity	9,000	13,000	13,000	21,000	21,000	21,000	25,000	25,000	36,000

Source: Company Reports, Nirmal Bang Institutional Equities Research

Management team

Mr. Ajit Jhunjunwala, Promoter and Jt. Managing Director

Mr. Ajit Jhunjunwala is the joint managing director of the company since October 1997. He has over 20 years of experience in the glass industry. He is the former president of Eastern India Glass Manufacturers Association and committee member of the Confederation of Indian Industry (marketing committee).

Mr. Sushil Jhunjunwala, Promoter and Executive Vice Chairman

Mr. Sushil Jhunjunwala was appointed as the managing director of the company in October 1994. He has over 50 years of specialisation in the glass industry. He has held important honorary positions in many organisations such as the president of All India Glass Manufacturers Federation, president of Society of Glass Technology (Indian section) and president of the Calcutta Chamber of Commerce. He is the father of Mr. Ajit Jhunjunwala.

Mr. A.C. Chakraborti, Chairman and Non-Executive Director

Mr. A. C. Chakraborti was appointed as the chairman and non-executive director on the board of LORL in October 1994. He is the fellow member of the Institute of Chartered Accountants in England & Wales and India. He was formerly a senior partner of S R Batliboi & Co., chartered accountants, chairman of Ernst & Young, president of The Institute of Chartered Accountants of India and governing committee member of the International Federation of Accountants. He is also the chairman of Peerless Funds Management Co., Grindwell Norton, and also on the boards of numerous other prominent companies.

Financials

Exhibit 21: Income statement

Y/E March (Rsmn): Consolidated	FY17	FY18	FY19E	FY20E	FY21E
Net Revenue	2,352	2,593	2,702	3,199	3,758
YoY (%)	(5.6)	10.2	4.2	18.4	17.5
Purchase of finished goods	(7)	(9)	(5)	-	-
% of sales	0.3	0.3	0.2	0.0	0.0
COGS	(853)	(880)	(729)	(1,006)	(1,182)
Gross Profit	1,492	1,704	1,968	2,193	2,576
Selling, General & Admin Expense	(159)	(181)	(224)	(278)	(304)
Other Operating & Employee exp.	(456)	(457)	(511)	(605)	(684)
EBITDA	877	1,066	1,233	1,310	1,588
Depreciation	(124)	(138)	(162)	(169)	(166)
EBIT	753	928	1,071	1,141	1,422
YoY (%)	(2.8)	23.3	15.4	6.5	24.6
Interest Expense	(13)	(8)	(6)	(4)	(4)
Interest income	3	3	64	2	2
Other Income	3	4	0	0	0
PBT (adjusted)	747	928	1,134	1,145	1,426
- Income Tax Expense	(238)	(320)	(392)	(393)	(489)
Effective tax rate (%)	27.7	30.4	30.7	30.2	30.7
- Minority Interests	-	-	-	-	-
PAT (adjusted)	509	608	743	752	937
Diluted EPS (adjusted)	4.59	5.48	6.70	6.78	8.44

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 23: Balance sheet

Y/E March (Rsmn): Consolidated	FY17	FY18	FY19E	FY20E	FY21E
Equity	111	222	222	222	222
Reserves	4,237	4,814	5,409	6,010	6,760
Net worth	4,348	5,036	5,631	6,232	6,982
Accounts payables	65	99	60	83	97
Other ST liabilities	165	221	221	221	221
Short-term loans	1	39	39	39	39
Total current liabilities	231	358	320	342	356
Long-term loans	0	0	0	0	0
Other LT liabilities	373	371	371	371	371
Minority interest	0	0	0	0	0
Total Equity & Liabilities	4,953	5,766	6,321	6,945	7,710
Gross block	1,761	2,116	2,819	3,459	3,609
Depreciation	(684)	(810)	(971)	(1,140)	(1,306)
Net block	1,076	1,307	1,848	2,319	2,303
Other LT assets + WIP	111	59	59	59	59
Long-term investments	1,495	1,597	1,597	1,597	1,597
Inventories	339	315	282	391	486
Debtors	326	409	385	456	566
Cash & ST Investments	1,568	2,045	2,117	2,090	2,664
Other current assets	37	33	33	33	33
Total current assets	2,270	2,802	2,817	2,970	3,749
Net current assets	2,039	2,444	2,497	2,628	3,393
Total assets	4,953	5,766	6,321	6,945	7,710

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 22: Cash flow

Y/E March (Rsmn): Consolidated	FY17	FY18	FY19E	FY20E	FY21E
PBT	860	1055	1134	1145	1426
Depreciation & Amortization	124	138	162	169	166
Other Non-Cash Adjustments	(280)	(415)	(392)	(393)	(489)
Changes in working Capital	13	25	19	(158)	(190)
Cash From Operating Activities	718	802	923	763	912
Disposal of Fixed Assets	10	7	0	0	0
Capital Expenditures	(156)	(358)	(703)	(640)	(150)
Increase in Investments & Subsidiaries	(734)	(895)	0	0	0
Decrease in Investments	357	551	0	0	0
Other Investing Activities	7	8	0	0	0
Cash From Investing Activities	(517)	(687)	(703)	(640)	(150)
Dividends Paid	(119)	(134)	(149)	(150)	(187)
Change in Short-Term Borrowings	(60)	37	0	0	0
Increase in Long-Term Borrowing	0	0	0	0	0
Decrease in Long-term Borrowing	0	0	0	0	0
Increase in Capital Stocks	0	0	0	0	0
Decrease in Capital Stocks	0	0	0	0	0
Other Financing Activities	(13)	(8)	0	0	0
Cash from Financing Activities	(192)	(105)	(149)	(150)	(187)
Net Changes in Cash	9	10	72	(27)	574

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 24: Key ratios

Y/E March (Rsmn): Consolidated	FY17	FY18	FY19E	FY20E	FY21E
Profitability & return ratios					
EBITDA margin (%)	37.3	41.1	45.6	41.0	42.3
EBIT margin (%)	32.0	35.8	39.7	35.7	37.8
Adj Net profit margin (%)	21.6	23.4	27.5	23.5	24.9
RoE (%)	18.7	15.7	16.6	15.3	16.8
RoCE (%)	22.4	19.7	19.9	19.1	21.4
Pre-tax RoIC (%)	35.9	32.0	32.6	29.5	33.3
Working capital ratios					
Receivables (days)	45	52	52	52	55
Inventory (days)	158	134	140	142	150
Payables (days)	23	34	30	30	30
Cash conversion cycle	180	152	162	164	175
Leverage and FCF ratios					
Net cash (debt) (Rsmn)	1,567	2,007	2,079	2,051	2,626
Net Debt (cash)/Equity (%)	36	40	37	33	38
Total debt/Equity (%)	0.00	0.01	0.01	0.01	0.01
FCF Yield (%)	1.9	1.4	0.9	0.5	3.1
FCF/Sales (%)	24.3	17.4	8.2	3.8	20.3
Valuation ratios					
EV/sales (x)	12.1	11.6	8.4	7.1	6.0
EV/EBITDA (x)	32.5	28.1	18.3	17.2	14.2
P/E (x)	59.2	52.6	33.1	32.7	26.2
P/BV (x)	6.9	6.4	4.4	3.9	3.5

Source: Company, Nirmal Bang Institutional Equities Research

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