

La Opala RG

16 August, 2021

Reuters: LAOP.NS; Bloomberg: LOG IN

Improved growth momentum from June'21

La Opala RG's (LOG) 1QFY22 operating performance was below our estimates as the revenue growth was affected by the lockdowns in May'21 and sales worth ~Rs80mn were shifted to 2QFY22. The management indicated that pick-up in demand is visible from June'21 and the momentum has continued post 1Q. The new capacity of 11KTPA will get commissioned from Jan'22 and has total revenue potential of Rs1.75bn at peak utilisation. While Borosil has also announced capacity expansion recently, we believe that the same would come on stream from FY24. While we have cut our FY22 revenue estimate by ~13%, we believe that opening up of the economy, availability of new facility and increased focus of advertising & market development activities should drive revenue growth. We are building in Revenue/EBITDA/APAT CAGR of 39%/50%/56% over FY21-FY23E. Post the earnings revision, we maintain our Buy rating on LOG with a revised Target Price (TP) of Rs320 (Rs310 earlier), indicating an upside of 17% from CMP.

1QFY22 performance: LOG's 1QFY22 revenue at Rs322mn (down 45% from 1QFY20 base) came lower than our estimate. Lockdown in May'21 affected sales significantly and also orders worth Rs80mn from Large Format Stores were shifted to 2QFY22. Growth momentum picked up from June'21 and should sustain as per the management, unless there are further lockdowns/restrictions due to a third covid wave. Capacity utilisation in 1QFY22 stood at 65%. Inventory build-up is in line with expectation and the management is confident of liquidating the same in the remaining part of FY22. Subdued sales performance also affected margin delivery in 1QFY22. Higher-than-expected other income of Rs52mn was largely due to treasury income and there was no one-off element. A second (smaller) furnace has recently been fired up post maintenance activities and we expect increase in power & fuel costs in the coming quarters.

Recovery and capacity addition are key revenue drivers: Covid-19 related lockdowns resulted in erosion of revenue base for LOG in FY21 (down ~22%). We expect strong recovery led growth in the near term. New capacity at Sitarganj (~55% incremental capacity) is expected to be commissioned from January'22 and should contribute meaningfully from FY23. Revenue potential at peak utilisation from the new unit is Rs1.75bn. The management's focus on increasing marketing spends and expansion of the leadership team augurs well for the medium-term growth prospects.

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BUY

Sector: Tableware

CMP: Rs274

Target Price: Rs320

Upside: 17%

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Key Data

Current Shares O/S (mn)	111.0
Mkt Cap (Rsbn/US\$mn)	30.5/411.1
52 Wk H / L (Rs)	315/191
Daily Vol. (3M NSE Avg.)	471,642

Price Performance (%)

	1 M	6 M	1 Yr
La Opala RG	0.4	27.4	40.7
Nifty Index	4.0	8.9	47.3

Source: Bloomberg

[1QFY22 result update](#)

[FY20 Annual Report](#)

Particulars	1QFY21	4QFY21	1QFY22	YoY %	QoQ %	FY20	FY21	YoY%
Net sales	101	804	322	218.2	-60.0	2,700	2,113	-21.8
Gross margin %	152.8	73.4	106.6	-4621bps	3318bps	84.2	73.0	-1113bps
Staff costs	85	130	114	34.2	-12.1	486	401	-17.4
% sales	84.3	16.2	35.6	-4876bps	1938bps	18.0	19.0	101bps
Power costs	46	89	88	90.5	-1.1	418	232	-44.4
% sales	45.9	11.1	27.5	-1841bps	1636bps	15.5	11.0	-448bps
Other expenses	50	97	45	-10.5	-53.5	324	225	-30.4
% sales	49.7	12.0	14.0	-3575bps	194bps	12.0	10.7	-133bps
EBITDA	-27	274	95	-447.1	-65.3	1,045	684	-34.6
EBITDA margin %	-27.1	34.1	29.6	5671bps	-450bps	38.7	32.4	-633bps
Depreciation	32	31	31	-4.0	0.3	160	122	-23.4
EBIT	-60	243	64	-208.0	-73.6	885	562	-36.6
Interest	1	1	1	26.6	78.6	6	3	-55.8
Other income	7	28	52	615.0	89.3	167	81	-51.6
PBT	-53	270	116	-318.0	-57.2	1,047	640	-38.9
ETR	42.8	26.3	23.4	-1939bps	-296bps	19.5	19.5	5bps
Adj PAT	-30	199	89	-391.8	-55.5	843	496	-41.2
Adj EPS	-0.3	1.8	0.8	-391.8	-55.5	7.5	4.4	-41.2

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 1: Financial summary

Y/E March (Rsmn)	FY19	FY20	FY21	FY22E	FY23E
Net Sales	2,781	2,700	2,113	2,611	4,103
Growth YoY%	7.3	-2.9	-21.8	23.6	57.1
Gross margin %	86.0	84.2	73.0	79.0	80.0
EBITDA	1,124	1,045	684	906	1,535
EBITDA margin %	40.4	38.7	32.4	34.7	37.4
Adj PAT	740	843	496	721	1,200
Adj EPS	6.6	7.5	4.4	6.4	10.6
Growth YoY%	0.8	13.8	-41.2	45.4	66.5
RoC	32.5	32.4	18.6	22.3	33.3
RoCE	18.5	16.4	9.2	10.8	17.9
RoE	14.3	15.7	8.2	10.5	16.1
P/E	41.8	36.7	62.5	43.0	25.8
EV/EBITDA	25.5	27.2	40.8	30.9	18.3
P/BV	5.9	5.7	4.7	4.4	4.0

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Change in earnings estimates

Consolidated (Rsmn)	Old Estimates		New estimates		Change (%)	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Revenue	3,009	4,050	2,611	4,103	-13.2%	1.3%
EBITDA	1,092	1,685	906	1,535	-17.0%	-8.9%
EBITDA Margin	36%	42%	35%	37%	-159bps	-420bps
APAT	793	1,235	721	1,200	-9.1%	-2.8%

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	310	30	320	7%	3%

Source: Nirmal Bang Institutional Equities Research

Exhibit 4: One-year forward P/E


Source: Company, Nirmal Bang Institutional Equities Research

Financials

Exhibit 5: Income statement

Y/E March (Rsm)	FY19	FY20	FY21	FY22E	FY23E
Net Sales	2,781	2,700	2,113	2,611	4,103
Growth YoY%	7.3%	-2.9%	-21.8%	23.6%	57.1%
COGS	390	427	570	548	821
Gross margin %	86.0	84.2	73.0	79.0	80.0
Staff costs	445	486	401	470	706
Other expenses	822	743	458	687	1,042
EBITDA	1,124	1,045	684	906	1,535
Growth YoY%	5.2	-7.0	-34.6	32.5	69.3
EBITDA margin %	40.4	38.7	32.4	34.7	37.4
Depreciation	165	160	122	162	200
EBIT	959	885	562	744	1,334
Interest	7	6	3	3	3
Other income	174	167	81	182	207
PBT (bei)	1,126	1,046	640	924	1,538
PBT	1,126	1,046	640	924	1,538
ETR	34.3	19.5	22.5	22.0	22.0
PAT	740	843	496	721	1,200
Adj PAT	740	843	496	721	1,200
Growth YoY%	0.8	13.8	-41.2	45.4	66.5

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: Balance sheet

Y/E March (Rsm)	FY19	FY20	FY21	FY22E	FY23E
Share capital	222	222	222	222	222
Reserves	5,069	5,229	6,436	6,868	7,588
Net worth	5,291	5,451	6,658	7,090	7,810
Long term debt	-	-	-	-	-
Short term debt	9	49	11	11	11
Total debt	9	49	11	11	11
Other non-current liabilities	348	266	307	307	307
Total Equity & Liabilities	5,648	5,766	6,975	7,408	8,128
Gross block	2,186	2,244	2,295	3,295	3,375
Accumulated depreciation	971	1,131	1,253	1,415	1,615
Net Block	1,214	1,113	1,042	1,880	1,760
CWIP	23	248	796	40	60
Intangible and others	-	113	112	112	112
Other non-current assets	183	178	104	104	114
Investments	3,558	3,403	4,612	4,538	4,728
Trade receivables	482	438	378	465	674
Inventories	484	550	297	429	674
C&CE and others	38	38	43	253	490
Other current assets	30	30	33	60	80
Total current assets	1,034	1,057	752	1,207	1,919
Trade payables	129	121	130	161	253
Other current liabilities	235	225	312	312	312
Total current liabilities	364	346	442	473	565
Total Assets	5,648	5,766	6,975	7,408	8,128

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: Cash flow

Y/E March (Rsm)	FY19	FY20	FY21	FY22E	FY23E
PBT	1,126	1,046	640	924	1,538
Depreciation	165	160	122	162	200
Interest	7	6	3	3	3
Other adjustments	-166	-161	-71	-182	-207
Change in Working capital	-272	-44	330	-215	-383
Tax paid	-352	-276	-191	-203	-338
Operating cash flow	507	732	833	488	813
Capex	-164	-359	-463	-244	-100
Free cash flow	343	373	370	244	713
Other investing activities	-150	-92	-330	256	6
Investing cash flow	-313	-451	-792	12	-94
Issuance of share capital	-	-	-	-	-
Movement of Debt	-30	40	-38	-	-
Dividend paid (incl DDT)	-147	-321	-	-288	-480
Other financing activities	-7	-6	-3	-3	-3
Financing cash flow	-184	-288	-41	-291	-483
Net change in cash flow	10	-7	-0	209	237
Opening C&CE	28	38	1	43	253
Closing C&CE	38	31	1	253	490

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 8: Key ratios

Y/E March (Rsm)	FY19	FY20	FY21	FY22E	FY23E
Per share (Rs)					
Adj EPS	6.6	7.5	4.4	6.4	10.6
Book value	46.8	48.2	58.9	62.7	69.1
Valuation (x)					
P/Sales	11.1	11.5	14.7	11.9	7.5
EV/sales	10.3	10.5	13.2	10.7	6.8
EV/EBITDA	25.5	27.2	40.8	30.9	18.3
P/E	41.8	36.7	62.5	43.0	25.8
P/BV	5.9	5.7	4.7	4.4	4.0
Return ratios (%)					
RoCE	18.5	16.4	9.2	10.8	17.9
RoE	14.3	15.7	8.2	10.5	16.1
RoIC	32.5	32.4	18.6	22.3	33.3
Profitability ratios (%)					
Gross margin	86.0	84.2	73.0	79.0	80.0
EBITDA margin	40.4	38.7	32.4	34.7	37.4
PAT margin	25.1	29.4	22.6	25.8	27.8
Liquidity ratios (%)					
Current ratio	9.0	9.2	8.3	8.1	7.6
Quick ratio	7.7	7.8	7.6	7.2	6.4
Solvency ratio (%)					
Debt to Equity ratio	0.0	0.0	0.0	0.0	0.0
Turnover ratios					
Fixed asset turnover ratio (x)	2.3	2.4	2.0	1.4	2.3
Debtor days	63	59	65	65	60
Inventory days	63	74	51	60	60
Creditor days	17	16	22	22	22

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
7 January 2021	Buy	239	280
12 February 2021	Buy	210	280
25 May 2021	Buy	265	310
16 August 2021	Buy	274	320

Coverage was transferred to Abhishek Navalgund wef 1st July 2020

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Stock Ratings Absolute Returns

BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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