

# La Opala RG (LOG)

Consumer Discretionary | 4QFY24 Result Update

**BUY**

**CMP: Rs310 | Target Price (TP): Rs370 | Upside: 19%**

**June 02, 2024**

## Miss led by channel restructuring and lower disc. spending

### Key Points

- LOG's 4QFY24 operating performance came significantly below our expectations on account of lower revenue. Reduced consumer spending and channel correction measures by the company impacted revenue performance, as per management.
- Despite ~19% YoY decline in revenue in FY24, the management has guided for ~15% revenue growth during FY25, lower than our estimate. Also, considering the higher year-end inventory (up 33% YoY) on the books, LOG is not going with the earlier plan of debottlenecking at Sitarganj in FY25. Borosilicate in-house manufacturing has already been pushed to next year.
- While the commentary on growth is not reassuring for FY25, we believe risk-reward is still favourable. Therefore, after earnings revision, we maintain Buy with a revised TP of Rs370 (25x PE on FY26E)

**4QFY24 and FY24 performance update:** LOG's Revenue (Down ~24%/~23% YoY/QoQ) came significantly below our estimate, mainly on account of a cutback in consumer spending and channel correction measures adopted by the company. EBITDA margin fell by 590bps/690bps YoY/QoQ, mainly due to lower revenue run-rate. LOG has not taken any price hikes this year, which reflects the higher competitive intensity. Year-end inventory shot up by 33% (inventory days 100 days of sales in FY24 vs 61 days last year). One of the furnaces is currently under maintenance and considering the inventory on the books, the management might extend the restarting date by a month or two. Total dividend pay-out has increased to 86% (including Special Dividend of Rs5) in FY24.

**Growth avenues in Opalware and Borosilicate:** We believe that the ongoing channel correction measures should enable LOG cover more retail touch-points in the future. The management believes that the total retail reach can be possibly increased by 50% from the current base (~22k outlets) over the next 2-3 years. We see distribution expansion as the most important growth lever in Opalware business at the current juncture. On Borosilicate, timeline for commercialisation of the new facility was not shared. We believe that Opalware and Borosilicate together can generate peak revenue of ~Rs7.5bn.

**Outlook and valuation:** Distribution expansion should continue to be the key growth lever for LOG. We see Opalware category gaining share in the overall tableware segment. While the commentary on growth is not reassuring for FY25, we believe risk-reward is still favourable. Therefore, after earnings revision, we maintain Buy with a revised TP of Rs370 (25x PE on FY26E). Overall, we are building in Revenue/EBITDA/APAT CAGR of 18%/19%/13% over FY24-FY26E.

Est Change	Downward
TP Change	Downward
Rating Change	No change

### Company Data and Valuation Summary

Reuters	LAOP.BO
Bloomberg	LOG IN Equity
Market Cap (Rsbn / US\$mn)	34.3 / 413.2
52 Wk H / L (Rs)	480 / 296
ADTV-3M (mn) (Rs / US\$)	64.2 / 0.8
Stock performance (%)	(5.0) / (18.8) / (21.9)
1M/6M/1yr	
Nifty 50 performance (%)	(0.5) / 2.5 / 21.9
1M/6M/1yr	

Shareholding	2QFY24	3QFY24	4QFY24
Promoters	65.6	65.6	65.6
DII's	19.4	19.3	20.4
FII's	1.7	1.5	1.6
Others	13.2	13.6	12.3
Pro pledge	0.0	0.0	0.0

### Financial and Valuation Summary

Particulars (Rsmn)	FY23	FY24	FY25E	FY26E
Net Sales	4,523	3,651	4,249	5,075
Growth YoY%	40.2	-19.3	16.4	19.4
Gross margin %	82.5	86.1	81.5	81.5
EBITDA	1,722	1,360	1,611	1,928
EBITDA margin %	38.1	37.3	37.9	38.0
Adj PAT	1,230	1,277	1,348	1,636
Adj EPS	10.9	11.3	12.1	14.7
Growth YoY%	30.1	3.9	5.6	21.3
RoIC%	42.3	32.6	30.6	30.3
RoCE (pre-tax)%	19.5	13.9	15.4	16.8
RoCE%	14.6	11.7	11.5	12.5
RoE%	16.2	15.7	15.0	16.3
P/E	28.5	27.4	25.5	21.0
EV/EBITDA	18.0	22.3	17.9	14.7
P/BV	4.4	4.0	3.6	3.2

Source: Bloomberg, Company, Nirmal Bang Institutional Equities Research

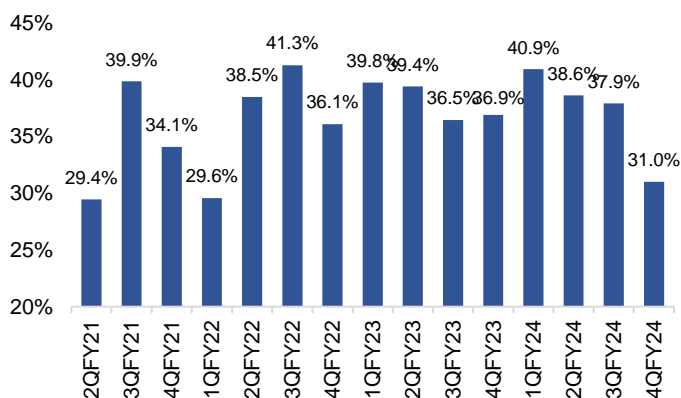
Please refer to the disclaimer towards the end of the document.

## Exhibit 1: 4QFY24 standalone performance

Particulars (Rsmn)	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24	4Q24	FY23	FY24
<b>Net Sales</b>	<b>821</b>	<b>1,349</b>	<b>1,264</b>	<b>1,089</b>	<b>862</b>	<b>892</b>	<b>1,071</b>	<b>825</b>	<b>4,523</b>	<b>3,651</b>
YoY Change (%)	155.4	46.2	16.4	21.5	5.0	-33.9	-15.2	-24.2	40.2	-19.3
<b>Gross Profit</b>	<b>752</b>	<b>1,060</b>	<b>982</b>	<b>940</b>	<b>826</b>	<b>772</b>	<b>845</b>	<b>702</b>	<b>3,733</b>	<b>3,145</b>
Margin (%)	91.5	78.6	77.7	86.3	95.8	86.5	78.9	85.0	82.5	86.1
<b>EBITDA</b>	<b>327</b>	<b>532</b>	<b>461</b>	<b>402</b>	<b>353</b>	<b>345</b>	<b>406</b>	<b>256</b>	<b>1,722</b>	<b>1,360</b>
YoY Change (%)	243.3	49.8	2.7	24.2	8.0	-35.2	-11.8	-36.3	40.8	-21.0
Margin (%)	39.8	39.4	36.5	36.9	40.9	38.6	37.9	31.0	38.1	37.3
Depreciation	45	58	56	58	59	58	52	48	218	217
Interest	14	14	23	24	16	15	21	13	75	65
Other income	8	57	84	69	109	102	116	112	218	439
Extraordinary Items	-	-	-	-	-	-	-	-	-	-
<b>PBT (bei)</b>	<b>276</b>	<b>516</b>	<b>466</b>	<b>389</b>	<b>387</b>	<b>375</b>	<b>450</b>	<b>306</b>	<b>1,647</b>	<b>1,518</b>
<b>PBT</b>	<b>276</b>	<b>516</b>	<b>466</b>	<b>389</b>	<b>387</b>	<b>375</b>	<b>450</b>	<b>306</b>	<b>1,647</b>	<b>1,518</b>
Tax	75	126	119	97	99	63	8	70	417	240
ETR (%)	27.2	24.3	25.6	25.0	25.7	16.9	1.8	22.8	25.3	15.8
Reported PAT	201	391	346	292	287	312	442	237	1,230	1,277
<b>Adj. PAT</b>	<b>201</b>	<b>391</b>	<b>346</b>	<b>292</b>	<b>287</b>	<b>312</b>	<b>442</b>	<b>237</b>	<b>1,230</b>	<b>1,277</b>
YoY Change (%)	126.6	42.8	6.6	56.3	43.0	-20.2	27.5	-19.0	30.1	3.9
<b>Adj. EPS</b>	<b>1.8</b>	<b>3.5</b>	<b>3.1</b>	<b>2.6</b>	<b>2.6</b>	<b>2.8</b>	<b>4.0</b>	<b>2.1</b>	<b>10.9</b>	<b>11.3</b>

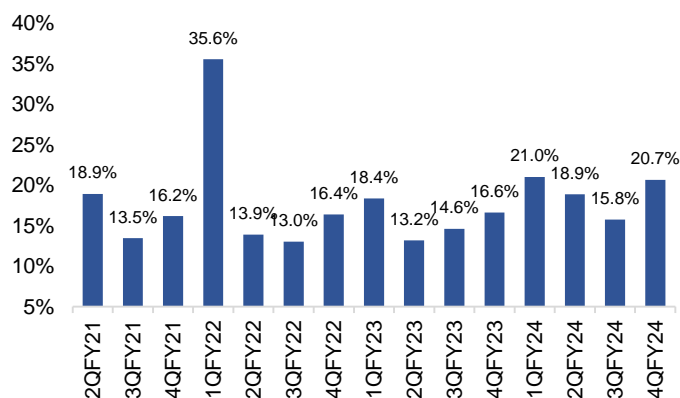
Source: Company, Nirmal Bang Institutional Equities Research

## Exhibit 2: EBITDA margin quarterly trend



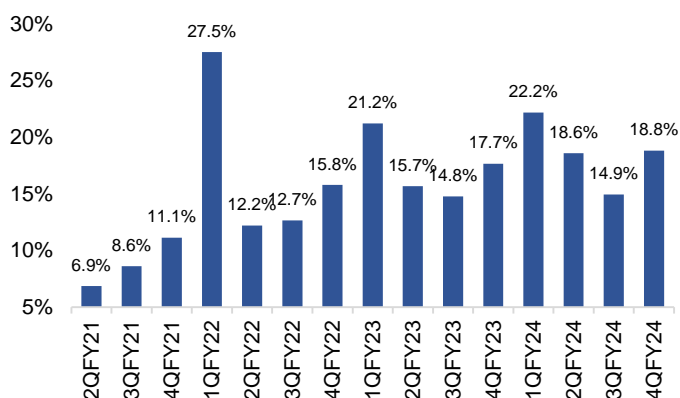
Source: Company, Nirmal Bang Institutional Equities Research

## Exhibit 3: Staff cost as % of sales - quarterly trend



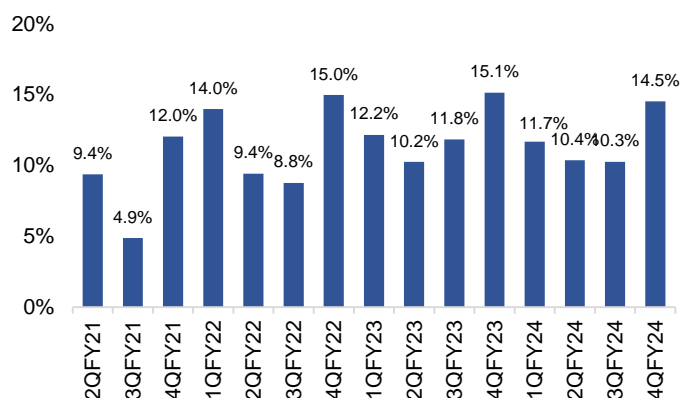
Source: Company, Nirmal Bang Institutional Equities Research

## Exhibit 4: Power & Fuel as % of sales - quarterly trend



Source: Company, Nirmal Bang Institutional Equities Research

## Exhibit 5: Other expenses as % of sales - quarterly trend



Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 6: Actual performance v/s NBIE estimates**

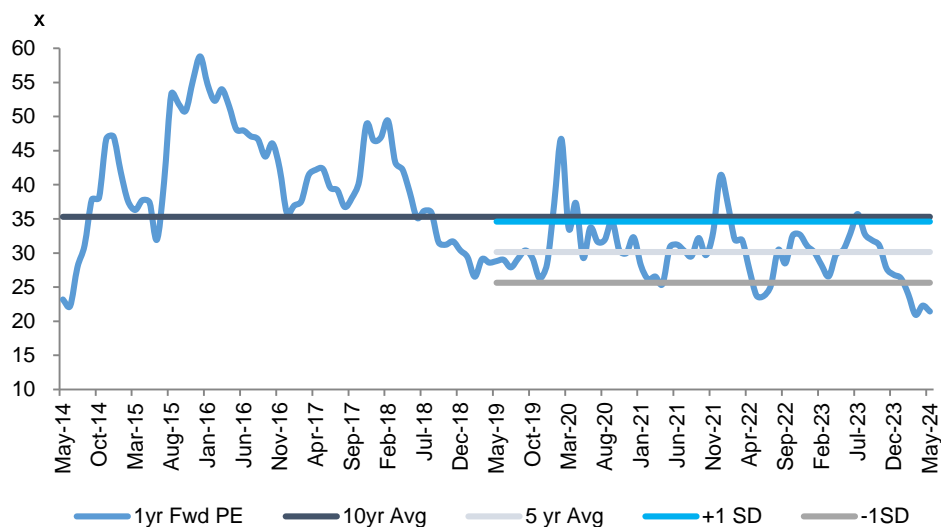
Standalone (Rsmn)	4QFY24	4QFY24e (NBIE)	Variance
Revenue	825	1,219	-32%
EBITDA	256	482	-47%
EBITDA margin %	31.0%	39.5%	-848bps
PAT	237	446	-47%

Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 7: Change in earnings estimates**

Standalone (Rsmn)	Old Estimates		New estimates		Change (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Revenue	5,164	7,163	4,249	5,075	-18%	-29%
EBITDA	1,957	2,722	1,611	1,928	-18%	-29%
EBITDA %	37.9%	38.0%	37.9%	38.0%	-	-
APAT	1,579	2,112	1,348	1,636	-15%	-23%

Source: Nirmal Bang Institutional Equities Research

**Exhibit 8: One-year forward P/E**


Source: Company, Nirmal Bang Institutional Equities Research

## Financials

**Exhibit 9: Income statement**

Y/E March (Rsmn)	FY22	FY23	FY24	FY25E	FY26E
<b>Net Sales</b>	<b>3,227</b>	<b>4,523</b>	<b>3,651</b>	<b>4,249</b>	<b>5,075</b>
Growth YoY%	52.7%	40.2%	-19.3%	16.4%	19.4%
COGS	632	790	507	786	939
<b>Gross margin %</b>	<b>80.4</b>	<b>82.5</b>	<b>86.1</b>	<b>81.5</b>	<b>81.5</b>
Staff costs	531	695	689	680	812
Other expenses	841	1,317	1,095	1,173	1,396
<b>EBITDA</b>	<b>1,223</b>	<b>1,722</b>	<b>1,360</b>	<b>1,611</b>	<b>1,928</b>
Growth YoY%	78.8	40.8	-21.0	18.4	19.7
<b>EBITDA margin %</b>	<b>37.9</b>	<b>38.1</b>	<b>37.3</b>	<b>37.9</b>	<b>38.0</b>
Depreciation	137	218	217	220	242
EBIT	1,086	1,504	1,143	1,390	1,686
Interest	41	75	65	65	65
Other income	192	218	439	477	565
PBT (bei)	1,237	1,647	1,518	1,802	2,186
PBT	1,165	1,647	1,518	1,802	2,186
ETR	23.6	25.3	15.8	25.2	25.2
PAT	874	1,230	1,277	1,348	1,636
<b>Adj PAT</b>	<b>945</b>	<b>1,230</b>	<b>1,277</b>	<b>1,348</b>	<b>1,636</b>
<b>Growth YoY%</b>	<b>90.7</b>	<b>30.1</b>	<b>3.9</b>	<b>5.6</b>	<b>21.3</b>

Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 10: Balance sheet**

Y/E March (Rsmn)	FY22	FY23	FY24	FY25E	FY26E
Share capital	222	222	222	222	222
Reserves	7,183	7,527	8,293	9,237	10,382
<b>Net worth</b>	<b>7,405</b>	<b>7,749</b>	<b>8,515</b>	<b>9,459</b>	<b>10,604</b>
Long term debt	125	83	56	-	-
Short term debt	15	39	32	32	32
<b>Total debt</b>	<b>140</b>	<b>122</b>	<b>87</b>	<b>32</b>	<b>32</b>
Other non-current liabilities	335	506	403	403	403
<b>Total Equity &amp; Liabilities</b>	<b>7,880</b>	<b>8,378</b>	<b>9,006</b>	<b>9,894</b>	<b>11,039</b>
Gross block	2,311	3,453	3,467	3,567	4,167
Accumulated depreciation	1,228	1,388	1,605	1,825	2,068
<b>Net Block</b>	<b>1,083</b>	<b>2,065</b>	<b>1,862</b>	<b>1,741</b>	<b>2,099</b>
CWIP	1,083	2	57	57	57
Intangible and others	110	-	-	-	-
Other non-current assets	72	178	182	201	221
Investments	5,351	5,538	5,881	6,162	6,372
Trade receivables	324	362	245	466	556
Inventories	366	757	1,003	582	695
Cash & Cash equivalents	44	45	6	887	1,260
Other current assets	30	22	36	80	80
<b>Total current assets</b>	<b>764</b>	<b>1,187</b>	<b>1,291</b>	<b>2,015</b>	<b>2,591</b>
Trade payables	191	262	87	101	121
Other current liabilities	393	330	180	180	180
<b>Total current liabilities</b>	<b>584</b>	<b>591</b>	<b>267</b>	<b>281</b>	<b>300</b>
<b>Total Assets</b>	<b>7,880</b>	<b>8,378</b>	<b>9,006</b>	<b>9,894</b>	<b>11,039</b>

Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 11: Cash flow**

Y/E March (Rsmn)	FY22	FY23	FY24	FY25E	FY26E
<b>PBT</b>	<b>1,165</b>	<b>1,647</b>	<b>1,518</b>	<b>1,802</b>	<b>2,186</b>
Depreciation	137	218	217	220	242
Interest	41	75	65	65	65
Other adjustments	-104	-210	-437	-477	-565
Change in Working capital	32	-309	-351	171	-184
Tax paid	-276	-328	-329	-454	-550
<b>Operating cash flow</b>	<b>995</b>	<b>1,093</b>	<b>682</b>	<b>1,328</b>	<b>1,194</b>
Capex	-431	-221	-82	-100	-600
<b>Free cash flow</b>	<b>564</b>	<b>872</b>	<b>600</b>	<b>1,228</b>	<b>594</b>
Other investing activities	-319	-468	-166	178	334
<b>Investing cash flow</b>	<b>-750</b>	<b>-689</b>	<b>-247</b>	<b>78</b>	<b>-266</b>
Issuance of share capital	-	-	-	-	-
Movement of Debt	129	-18	-35	-56	-
Dividend paid (incl DDT)	-	-311	-333	-405	-491
Other financing activities	-373	-75	-65	-64	-65
<b>Financing cash flow</b>	<b>-244</b>	<b>-404</b>	<b>-433</b>	<b>-525</b>	<b>-555</b>
<b>Net change in cash flow</b>	<b>1</b>	<b>0</b>	<b>2</b>	<b>881</b>	<b>373</b>
Opening C&CE	43	44	4	6	887
Closing C&CE	44	45	6	887	1,260

Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 12: Key ratios**

Y/E March	FY22	FY23	FY24	FY25E	FY26E
<b>Per share (Rs)</b>					
Adj EPS	8.4	10.9	11.3	12.1	14.7
Book value	66.7	69.8	76.7	85.2	95.5
<b>Valuation (x)</b>					
P/Sales	10.7	7.6	9.4	8.1	6.8
EV/sales	9.8	6.8	8.3	6.8	5.6
EV/EBITDA	25.8	18.0	22.3	17.9	14.7
P/E	37.1	28.5	27.4	25.5	21.0
P/BV	4.6	4.4	4.0	3.6	3.2
<b>Return ratios (%)</b>					
RoCE	11.7	14.6	11.7	11.5	12.5
RoCE (pre-tax)	15.3	19.5	13.9	15.4	16.8
RoE	13.4	16.2	15.7	15.0	16.3
RoIC	34.1	42.3	32.6	30.6	30.3
<b>Profitability ratios (%)</b>					
Gross margin	80.4	82.5	86.1	81.5	81.5
EBITDA margin	37.9	38.1	37.3	37.9	38.0
PAT margin	27.7	25.9	31.2	28.5	29.0
<b>Liquidity ratios (%)</b>					
Current ratio	7.1	8.5	20.3	21.7	22.1
Quick ratio	6.5	7.3	16.9	19.8	20.0
<b>Solvency ratio (%)</b>					
Debt to Equity ratio	0.0	0.0	0.0	0.0	0.0
Net Debt to Equity ratio	-0.5	-0.5	-0.5	-0.6	-0.6
<b>Turnover ratios</b>					
Fixed asset turnover ratio (x)	3.0	2.2	2.0	2.4	2.4
Debtor days	37	29	25	40	40
Inventory days	41	61	100	50	50
Creditor days	22	21	9	9	9
Net working capital days	56	69	116	81	81

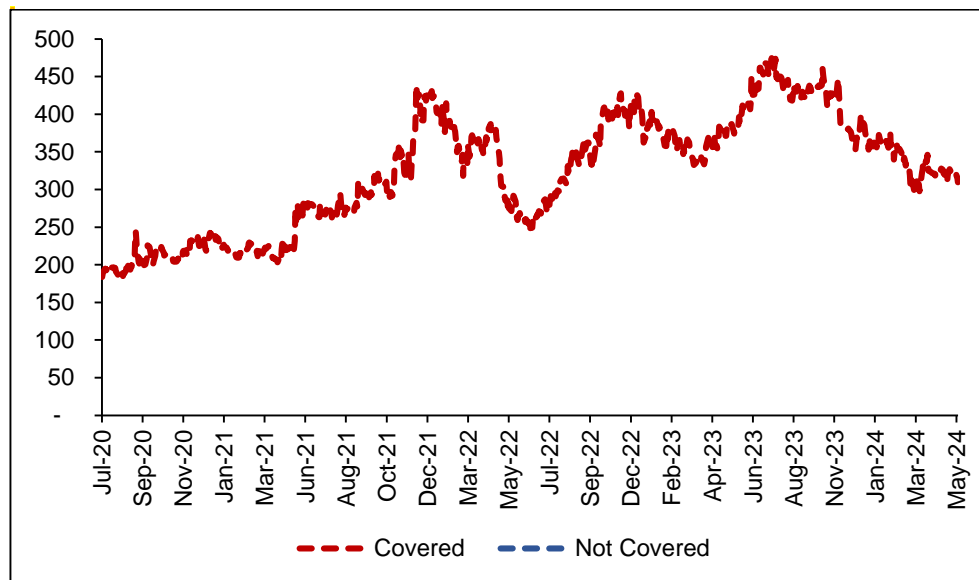
Source: Company, Nirmal Bang Institutional Equities Research

## Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
17September 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
26 September 2021	Buy	293	340
2 November 2021	Buy	335	390
27 January 2022	Buy	415	480
31 May 2022	Buy	269	400
13August 2022	Buy	314	400
6 September 2022	Buy	332	500
13November 2022	Buy	413	500
30 November 2022	Buy	381	500
14 February 2023	Buy	362	500
22 March 2023	Buy	335	470
29 May 2023	Buy	381	470
10 August 2023	Buy	449	540
14 November 2023	Buy	447	520
13 February 2024	Buy	367	450
02 June 2024	Buy	310	370

Coverage was transferred to Abhishek Navalgund wef 1<sup>st</sup> July 2020

## Rating Chart



## DISCLOSURES

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BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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