

Despite high season, weak consumer spends hurt sales

La Opala's Q3FY24 print was weaker; revenue/EBITDA declined by 15.2%/11.8%, though PAT grew 27.5%. Management alluded weak revenues to, (1) necessary changes made in front end distribution saw sales disruption, (2) high base due to non-recurring institutional order of Rs100mn in Q3FY23, (3) weak consumer spends cut discretionary demand, and (4) rising competitive intensity. Lower input prices and operating leverage influenced gross margin rising to 78.9% (+120bp); yet despite lower employee and other expenses by 8.6%/26.5% EBITDA margins settled at 37.9% (+146bp) YoY. With higher other income (+38.2%) and cut in interest expenses (-8.3%) PAT grew by 27.5% to Rs442mn. Management cited current capacity utilization ~60% expecting demand revival in Q4. Though we are positive on La Opala's growth story, considering weaker than expected 9MFY24 performance we cut earnings and retain Buy with a revised TP of Rs491 (34x Sept'25E EPS).

Weak consumer spends, and distribution changes hurt Q3 revenues

After witnessing strong demand in domestic market over past two years, Q3FY24 revenues declined by 15.2% at Rs1.1bn. Management alluded weak revenues to, (1) necessary changes made in front end distribution saw sales disruption, (2) high base due to non-recurring institutional order of Rs100mn in Q3FY23, (3) weak consumer spends cut discretionary demand, and (4) rising competitive intensity. In term of channel mix retail contributed ~75% followed by Modern Trade at 20% and balance from e-commerce. That said, with distribution changes made in Q3, La Opala expects further retail expansion from current 20k base backed by enhanced capacity (36K tn). Management said demand in Q4 to come back driven by urban and tier 2/3 towns, while with exports (~15% sales) remain muted. Management aspires to deliver double digit revenue growth in FY24 with steady EBITDA margins at 9MFY24 levels.

De-bottlenecking, focus on premium products saw margin improvement

With lower input prices and operating leverage gross margin increased to 78.9% (+120bp). However, despite lower employee and other expenses by 8.6%/26.5% EBITDA declined to Rs406mn (-11.8%) resulting EBITDA margins at 37.9% (+146bp) YoY. With higher other income (+38.2%) and cut in interest expenses (-8.3%) PAT grew by 27.5% to Rs442mn. Management cited current capacity utilization ~60% expecting further de-bottlenecking to add capacity. Apart from this, with greenfield unit in Sitarganj for borosilicate glass is expected to shore up revenues in our view. Further we note the company is currently experimenting outsourced products under La Opala brand under Cook-Serve-Store category. The product range under this category includes – bakeware, storage bowls, tiffin boxes and serving bowls. We believe as consumer traction improves, the company may plan further capacity expansion.

Valuation and key risks

We reckon La Opala's growth is driven by, significant capacity addition, venturing into new product categories, capturing favorable consumer demand lifting revenue momentum. However current demand is pressured by lower discretionary spend and rising competitive intensity which may wane off in Q1FY25E. With leaner balance sheet remains and strong cash flows we are sanguine on La Opala's growth story. Considering weaker than expected 9MFY24 performance we cut earnings for FY24E/FY25E by 3.1%/13.8% and retain Buy with a revised TP of Rs491 (34x Sept'25E EPS). Risks: prolonged weakness in discretionary spends and rising competitive intensity in India.

Financial and valuation summary

YE Mar (Rs mn)	3QFY24A	3QFY23A	YoY (%)	2QFY24A	QoQ (%)	FY24E	FY25E	FY26E
Revenues	1,071	1,264	(15.2)	892	20.1	3,811	4,485	5,179
EBITDA	406	461	(11.8)	345	17.8	1,487	1,766	2,069
EBITDA margin (%)	37.9	36.5	146bp	38.6	(71bp)	39.0	39.4	39.9
Adj. Net profit	442	346	27.5	312	41.6	1,386	1,476	1,731
Adj. EPS (Rs)	4.0	3.1	27.5	2.8	41.6	12.5	13.3	15.6
EPS growth (%)						12.7	6.5	17.2
PE (x)						27.2	25.6	21.8
EV/EBITDA (x)						24.7	20.5	17.2
PBV (x)						4.2	3.7	3.2
RoE (%)						16.6	15.5	15.9
RoCE (%)						17.1	15.8	16.2

Source: Company, Centrum Broking

Please see Disclaimer for analyst certifications and all other important disclosures.

Result Update

India I Mid Cap

14 February, 2024

BUY

Price: Rs361

Target Price: Rs491

Forecast return: 36%

Institutional Research

Market Data

Bloomberg:	LOG IN
52 week H/L:	480/326
Market cap:	Rs40.1bn
Shares Outstanding:	111.0mn
Free float:	32.7%
Avg. daily vol. 3mth:	2,66,787

Source: Bloomberg

Changes in the report

Rating:	Unchanged
Target price:	Rs491 from Rs530
EPS:	FY24E: 12.5 Down 3.1% FY25E: 13.3 Down 13.8%

Source: Centrum Broking

Shareholding pattern

	Dec-23	Sep-23	Jun-23	Mar-23
Promoter	65.6	65.6	65.6	65.6
FIs	1.5	1.7	1.8	4.0
DIs	19.3	19.4	18.9	15.9
Public/other	13.6	13.2	13.7	14.5

Source: BSE



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Mid Cap

Thesis Snapshot

Estimate revision

YE Mar (Rs mn)	FY24E New	FY24E Old	% chg	FY25E New	FY25E Old	% chg
Revenue	3,811	5,062	(24.7)	4,485	5,871	(23.6)
EBITDA	1,487	1,964	(24.3)	1,766	2,315	(23.7)
EBITDA margin %	39.0	38.8	20bp	39.4	39.4	(7bp)
Adj. PAT	1,386	1,431	(3.1)	1,476	1,712	(13.8)
Diluted EPS (Rs)	12.5	12.7	(3.1)	13.3	15.2	(13.8)

Source: Centrum Broking

La Opala RG versus NIFTY Midcap 100

	1m	6m	1 year
LOG IN	(6.2)	(20.7)	(6.1)
NIFTY Midcap 100	1.7	28.0	58.6

Source: Bloomberg, NSE

Key assumptions

Y/E Mar	FY24E	FY25E
Gross margin (%)	86.4	86.7
EBITDA (%)	39.0	39.4

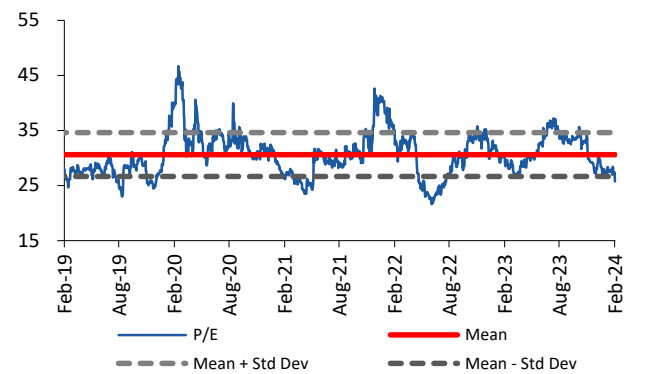
Source: Centrum Broking

Valuations

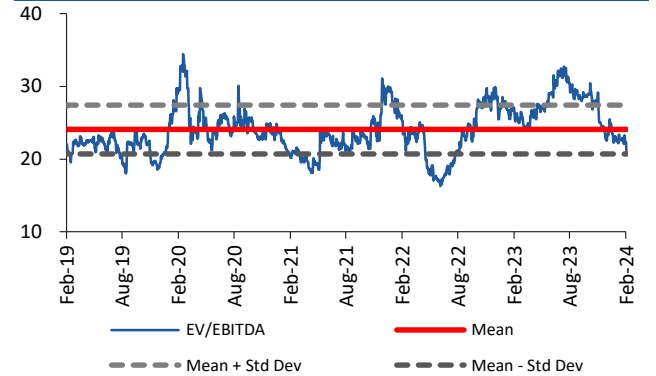
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Valuations	Rs/share
FY25E EPS	14.4
Target Multiple (X)	34
Target Price	491

P/E mean and standard deviation



EV/EBITDA mean and standard deviation



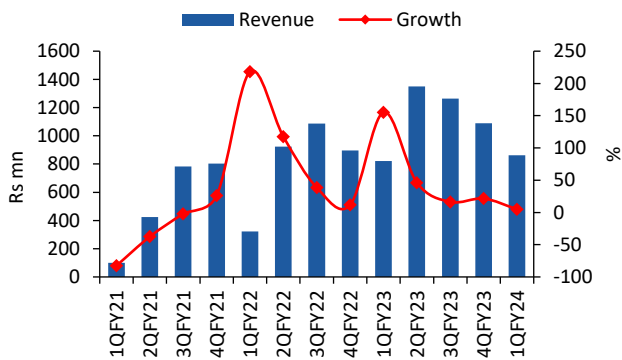
Source: Bloomberg, Centrum Broking

Exhibit 1: Quarterly P&L Trend

	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24
Sales	804	322	923	1,086	896	821	1,349	1,264	1,089	862	892	1,071
YoY(%)	25.9	218.2	117.6	38.5	11.5	155.4	46.2	16.4	21.5	5.0	-33.9	-15.2
Cost of Goods Sold	213	-21	240	263	150	70	289	282	149	36	121	226
Gross Profit	590	343	683	823	746	752	1,060	982	940	826	772	845
Gross Margins (%)	73.4	106.6	74.0	75.8	83.2	91.5	78.6	77.7	86.3	95.8	86.5	78.9
Employee Expenses	130	114	128	142	147	151	178	185	181	181	169	169
YoY(%)	1.8	34.2	59.6	34.1	12.9	31.9	39.0	30.4	23.2	20.2	-5.4	-8.6
Other Expenses	97	45	87	95	134	100	138	150	165	101	93	110
%sales	12.0	14.0	9.4	8.8	15.0	12.2	10.2	11.8	15.1	11.7	10.4	0.0
Total Expenses	530	226	568	637	573	495	817	803	687	509	548	665
EBITDA	274	95	355	448	324	327	532	461	402	353	345	406
EBITDAM(%)	34.1	29.6	38.5	41.3	36.1	39.8	39.4	36.5	36.9	40.9	38.6	37.9
Depreciation	31	31	32	36	39	45	58	56	58	59	58	52
EBIT	243	64	324	413	285	282	474	405	344	294	287	354
EBIT(%)	30.3	20.0	35.1	38.0	31.8	34.3	35.1	32.0	31.6	34.1	32.2	33.1
Other Income	28	52	52	41	46	8	57	84	69	109	102	116
Interest Cost	1	1	12	17	11	14	14	23	24	16	15	21
PBT	270	116	364	437	249	276	516	466	389	387	375	450
PBT(%)	33.6	35.9	39.4	40.2	27.8	33.6	38.3	36.9	35.7	44.8	42.0	42.0
PAT	199	89	273	325	187	201	391	346	292	287	312	442
PAT(%)	24.8	27.5	29.6	29.9	20.8	24.4	29.0	27.4	26.8	33.3	35.0	41.2
EPS	1.8	0.8	2.5	2.9	1.7	1.8	3.5	3.1	2.6	2.6	2.8	4.0

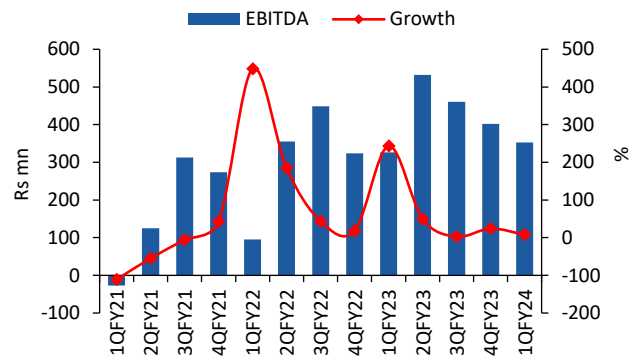
Source: Company, Centrum Broking

Exhibit 2: Quarterly Revenue trend



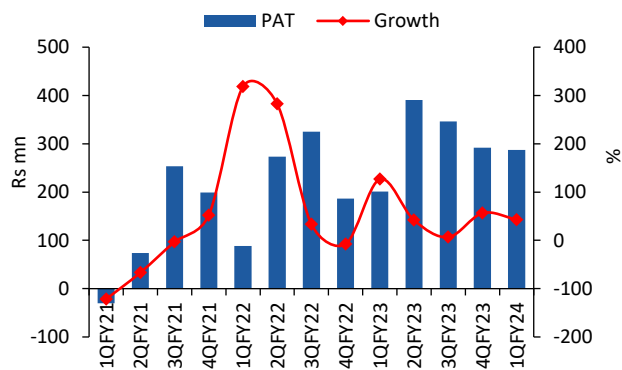
Source: Centrum Broking, Company Data

Exhibit 3: Quarterly EBITDA trend



Source: Centrum Broking, Company Data

Exhibit 4: Quarterly PAT trend



Source: Centrum Broking, Company Data

P&L					
YE Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenues	3,227	4,523	3,811	4,485	5,179
Operating Expense	632	790	518	599	678
Employee cost	531	695	709	780	858
Others	841	1,317	1,098	1,341	1,574
EBITDA	1,223	1,722	1,487	1,766	2,069
Depreciation & Amortisation	137	218	231	240	253
EBIT	1,086	1,504	1,256	1,526	1,815
Interest expenses	41	75	70	72	74
Other income	192	218	436	501	551
PBT	1,237	1,647	1,622	1,955	2,293
Taxes	291	417	235	479	562
Effective tax rate (%)	23.6	25.3	14.5	24.5	24.5
PAT	945	1,230	1,386	1,476	1,731
Minority/Associates	0	0	0	0	0
Recurring PAT	945	1,230	1,386	1,476	1,731
Extraordinary items	(72)	0	0	0	0
Reported PAT	874	1,230	1,386	1,476	1,731

Ratios					
YE Mar	FY22A	FY23A	FY24E	FY25E	FY26E
Growth (%)					
Revenue	52.7	40.2	(15.7)	17.7	15.5
EBITDA	78.8	40.8	(13.7)	18.8	17.2
Adj. EPS	90.7	30.1	12.7	6.5	17.2
Margins (%)					
Gross	80.4	82.5	86.4	86.7	86.9
EBITDA	37.9	38.1	39.0	39.4	39.9
EBIT	33.7	33.3	32.9	34.0	35.0
Adjusted PAT	27.1	27.2	36.4	32.9	33.4
Returns (%)					
ROE	13.4	16.2	16.6	15.5	15.9
ROCE	13.7	16.7	17.1	15.8	16.2
ROIC	10.6	13.5	12.7	12.5	13.7
Turnover (days)					
Gross block turnover ratio (x)	1.4	1.3	1.1	1.1	1.2
Debtors	40	28	37	37	37
Inventory	191	259	392	233	235
Creditors	93	105	145	98	99
Net working capital	417	385	574	572	584
Solvency (x)					
Net debt-equity	0.0	0.0	(0.1)	(0.1)	(0.2)
Interest coverage ratio	30.0	23.0	21.3	24.6	28.0
Net debt/EBITDA	0.1	0.0	(0.6)	(0.8)	(1.0)
Per share (Rs)					
Adjusted EPS	8.5	11.1	12.5	13.3	15.6
BVPS	66.7	69.8	80.4	91.7	105.0
CEPS	9.7	13.0	14.6	15.5	17.9
DPS	3.0	5.0	1.9	2.0	2.3
Dividend payout (%)	38.1	45.1	15.0	15.0	15.0
Valuation (x)					
P/E	39.9	30.7	27.2	25.6	21.8
P/BV	5.1	4.9	4.2	3.7	3.2
EV/EBITDA	30.9	22.0	24.7	20.5	17.2
Dividend yield (%)	0.9	1.5	0.6	0.6	0.7

Source: Company, Centrum Broking

Balance sheet					
YE Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Equity share capital	222	222	222	222	222
Reserves & surplus	7,183	7,527	8,705	9,960	11,431
Shareholders fund	7,405	7,749	8,927	10,182	11,653
Minority Interest	0	0	0	0	0
Total debt	140	122	130	140	150
Non Current Liabilities	23	32	32	32	32
Def tax liab. (net)	308	472	472	472	472
Total liabilities	7,876	8,376	9,562	10,826	12,307
Gross block	2,309	3,479	3,629	3,979	4,329
Less: acc. Depreciation	(1,227)	(1,415)	(1,646)	(1,886)	(2,139)
Net block	1,082	2,064	1,983	2,094	2,190
Capital WIP	1,084	3	0	0	0
Net fixed assets	2,166	2,067	1,983	2,094	2,190
Non Current Assets	183	178	128	148	167
Investments	1,845	1,360	1,455	1,557	1,666
Inventories	366	757	355	410	465
Sundry debtors	324	362	418	492	568
Cash & Cash Equivalents	44	45	1,083	1,605	2,305
Loans & advances	0	0	0	0	0
Other current assets	3,536	4,200	4,618	5,078	5,583
Trade payables	191	262	149	172	195
Other current liab.	381	316	313	369	426
Provisions	16	16	15	15	15
Net current assets	3,682	4,772	5,996	7,028	8,284
Total assets	7,876	8,376	9,562	10,826	12,307

Cashflow					
YE Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Profit Before Tax	1,165	1,647	1,622	1,955	2,293
Depreciation & Amortisation	137	218	231	240	253
Net Interest	41	75	70	72	74
Net Change – WC	32	(309)	281	(70)	(70)
Direct taxes	(276)	(328)	(235)	(479)	(562)
Net cash from operations	994	1,093	1,968	1,717	1,988
Capital expenditure	(431)	(221)	(147)	(350)	(350)
Acquisitions, net	0	0	0	0	0
Investments	(339)	(473)	(513)	(561)	(614)
Others	20	5	0	0	0
Net cash from investing	(750)	(689)	(660)	(911)	(964)
FCF	244	404	1,308	806	1,023
Issue of share capital	0	0	0	0	0
Increase/(decrease) in debt	129	(18)	8	9	10
Dividend paid	(333)	(311)	(208)	(221)	(260)
Interest paid	(41)	(75)	(70)	(72)	(74)
Others	0	0	0	0	0
Net cash from financing	(245)	(404)	(269)	(284)	(323)
Net change in Cash	(1)	0	1,039	522	700

Source: Company, Centrum Broking

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Ratings definitions

Our ratings denote the following 12-month forecast returns:

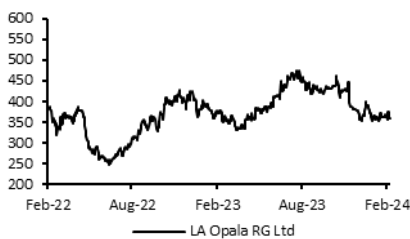
Buy – The stock is expected to return above 15%.

Add – The stock is expected to return 5-15%.

Reduce – The stock is expected to deliver -5--5% returns.

Sell – The stock is expected to deliver <-5% returns.

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Source: Bloomberg

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1	Business activities of Centrum Broking Limited (CBL)	Centrum Broking Limited (hereinafter referred to as "CBL") is a registered member of NSE (Cash, F&O and Currency Derivatives Segments), MCX-SX (Currency Derivatives Segment) and BSE (Cash segment), Depository Participant of CDSL and a SEBI registered Portfolio Manager.
2	Details of Disciplinary History of CBL	CBL has not been debarred/ suspended by SEBI or any other regulatory authority from accessing /dealing in securities market.
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7	Whether research analyst has received any compensation from the subject company in the past 12 months and nature of products / services for which such compensation is received	No
8	Whether the Research Analyst has received any compensation or any other benefits from the subject company or third party in connection with the research report	No
9	Whether Research Analysts has served as an officer, director or employee of the subject company	No
10	Whether the Research Analyst has been engaged in market making activity of the subject company.	No
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