

# MANAGEMENT DISCUSSION AND ANALYSIS

## Global economic overview

In 2017, a decade after the global economy collapsed, a revival manifested: ongoing eurozone growth, modest growth in Japan, late revival in China and improving realities in Russia and Brazil. The result was an estimated 3.7% global economic growth in 2017, some 60 bps higher than the previous year. Global growth forecasts for 2018 and 2019 were revised upward by 20 bps to 3.9%. (Source: WEO, IMF)

## Indian economic overview

The Indian economy reported 6.7% growth in 2017-18, rising to 7.7% in the last quarter. The year under review was marked by structural reforms by the Government. After remaining in negative territory for a couple of years, export growth rebounded in 2016-17 and strengthened in 2017-18; foreign exchange reserves rose to US\$ 426 billion as in April 2018. World Bank projects India's economic growth to accelerate to 7.3% in 2018-19 and 7.5% in 2019-20. (Source: CSO, economic survey 2017-18, IMF, World Bank)

## Opalware industry overview

The size of India's organised opalware market is approximately ₹5 billion and growing at a rate of ~20% per annum by volume. This growth is being catalysed by more consumers switching from stainless steel, plastic and melamine in favour of opalware products. This transition was

catalysed by entry-level pricing for dinner sets declining to a multi-year low with tax cuts being passed on to customers. Consequently, there has been a significant spurt in demand for opalware gift sets, coffee mugs, cups and saucers. Opalware distributors and customers consider opalware to be the most economically-priced crockery available, given the affordable price points. The huge under-penetration, high quality orientation and value-for-money association associated with opalware bodes well for Indian manufacturers.

## Opportunities

- Opalware is the most affordable crockery available.
  - The country's lower-middle class transition to upper-middle class would amount to a market of ~350 million people
  - Safety concerns are making people opt for glass over plastics
  - India is gradually becoming a strong market for hotels
  - Lifestyle transformation is creating a demand pull for consumer items
- THREATS**
- With the reduction in anti-dumping duties for China and the UAE, the competitiveness of Indian players might be affected.

• Growing competition from existing players.

• The count of global competitors is rising steadily

## OUTLOOK

~65% of India's population falls <35 years and this

section of the population is helping drive spending and consumption levels. Not only are people preferring to eat out in hotels and restaurants but also opting for online food delivery services. These trends are positively impacting the demand for tableware.

## Risk management

**Industry risk:** The Company faces competition from the unorganised sector

**Mitigation:** In order to effectively counter challenges posed by unorganised players, the Company routinely offers innovative products that epitomise unmatched quality and design.

**Brand risk:** Loss of brand recall can be detrimental to the Company

**Mitigation:** In order to maintain a favourable brand image, the Company spends a significant portion of its revenues on product promotion.

**Liquidity risk:** Dearth of cash can affect operational smoothness

**Mitigation:** The Company is a cash-rich organisation with free cash reserves amounting to approximately ₹200 crore as on 31st March 2018

**Competition risk:** The sector is marked by not only domestic brands but international competitors as well

**Mitigation:** The Company's unique designs, cutting-edge technology access, attractive pricing, strong relationships with distributors and retailers as well sectoral experience have

translated into a competitive advantage.

## Financial highlights

The financial statements of La Opala RG Limited are prepared in compliance with the requirements of the Companies Act and the applicable Accounting Standards issued by the Institute of Chartered Accountants of India. During FY 2017-2018, income from operations amounted to ₹259.45 crore compared to ₹241.05 crore in FY 2016-17. Profit before tax for the FY 2017-18 amounted to ₹105.46 crore as compared to ₹85.99 crore in FY 2016-17.

## Industrial relations

Overall, industrial relations of the Company during FY2017-18 remained cordial apart from a temporary period when operations at the Madhupur facility were suspended due

to some disputes with the worker's union, which were ultimately resolved to the satisfaction of both sides. The Company's Directors wish to place their sincere appreciation of the devoted service put up by the employees and workers of the Company.

## Internal control systems and their adequacy

The internal control system is a set of rules, procedures and organisational structures that, identify, measure, manage and monitor the main risks, allowing sound and fair operation of the Company in line with pre-established objectives. As such this process is aimed at pursuing the values of both procedural and substantial fairness, transparency and accountability, key factors for managing La Opala's business.

## Cautionary statement

Statements in the Management's Discussion and Analysis Report describing the Company's projection, estimates, expectations or predictions may be 'forward-looking statements' within the meaning of applicable securities laws and regulations. Actual results could differ materially from those expressed or implied. Important factors that would make a difference to the Company's operations include demand-supply conditions, raw material prices, change in governmental regulations, tax regimes, economic developments within the country and other factors such as litigation and labour negotiations.

### INDIA'S MEGA-EARNERS: THE BASIS OF OUR OPTIMISM

- India's top-15 crore population
- Equivalent to the ninth largest country in the world by size
- Per capita earnings of US\$6000
- Family of five (annual earnings of US\$30,000)
- Growing 7% per annum
- Likely to double incomes over the next decade
- US\$60,000 family income considered sizeable in India

### INDIA'S MEGA-EARNERS PHENOMENON

- Growing consumption (buying more)
- Influencing consumption (influencing peers)
- Widening consumption appetite (buying adjacent products)
- LA Opala focusing on mega-earners as primary customers

### TRANSFORMING MEGA-EARNER HABITS

- More globally exposed
- Brought up in better and larger gated communities
- First generation to graduate to tableware
- Preference for consumption over savings
- Offtake catalysed by electronic media
- Tableware extending from showcases to kitchens
- Nominal cost
- Enhanced home-pride