

Opal Luxury Time Products Ltd. is a Pune based company, into the business of manufacturing and marketing of High-end Designer Wall Clocks and Table Clocks with the brand name OPAL (above Rs. 1500) and CALIBER (price below Rs. 700). The facility for manufacturing of clocks is based at Roorkee, Uttarakhand where all manufacturing and other peripheral activities are carried out. The company has recently started exporting to the United States. Brand 'Opal' has a wide presence with the products marketed by a network of 9 distributors, 242 dealers and 91 organized retailers which include popular brands such as Shoppers Stop, Home Town, etc. The company has also ventured into online sales by way of popular online shopping portals and currently have tie ups with 10 online portals and also have its own shopping portal at www.opalclocks.com.

The Company's net revenues have witnessed at a two-year CAGR of 26% to Rs. 172 mn in FY12 driven by volume growth, supported by expansion in the distribution network. EBITDA margin too improved from 22.4% in FY10 to 27.2% in FY12 owing to lower raw material and marketing expenses. Raw material costs as a percentage of sales declined because of lower imports coupled with increase in realisation rates of brand Opal. Net income has increased at a two-year CAGR of 41% from Rs.14.5 mn in FY10 to Rs. 28.9 mn in FY12 because of increase in EBITDA margins and income tax benefits available in Roorkee, where the manufacturing unit is located.

OLTP is valued at 16x – Annualized EPS/share of Rs. 8.4 on post IPO equity at upper end of the price band. With due consideration to factors like a) premium product portfolio with aesthetic designs commanding higher margins, b) first mover advantage with decent growth, c) consistent product innovation, d) good demand outlook owing to rising discretionary spend, e) superior margins and strong profitability, e) good return ratios, we feel premium is justified on IPO pricing and hence recommend investors to “SUBSCRIBE” the issue for long term as the Company has a big journey ahead of capturing higher market share.

Financial summary

Y/e 31 Mar (Rs. mn)	H1FY13	FY12	FY11	FY10
Operating Income	96	172	166	108
EBITDA	22	47	34	24
EBITDA Margin (%)	22.7	27.2	20.6	22.4
Reported PAT	14	29	22	15
PAT margin (%)	14.8	16.8	13.5	13.5
EPS (Rs.)	8.4**	8.7	6.6	4.5
P/E (x) at upper end of price band	16	15.5	20	30
Equity Capital	22	22	5	1
Networth	132	118	72	47
Total Debt	87	99	90	66
Debt/Equity (x)	0.7	0.8	1.3	1.4
RoNW (%)	25.1	30.4	37.6	36.5

Source: RHP, Ajcon Research, Note: ** Annualised EPS on Post IPO equity, Pre-IPO Placement of 181,818 Equity Shares to SVCL, EPS on Post IPO equity.

Issue date	March 25 – 28, 2013
Issue size	Rs. 130 mn at upper end of the price band
FV	Rs.10
Price Band	Rs. 130 - 135 per share
Lot size	1,000 Equity Shares and in multiples of 1,000 Equity Shares thereafter.
Listing on	NSE – SME Emerge Platform
IPO Market Timings	10 am – 5 pm
Issue structure	QIB: 50% Retail: 35% Non – Institutional: 15%
Type of issue	Fresh Issue: 0.96 mn equity shares
Equity shares post issue	3.32 mn equity shares
Post issue market capitalization	Rs. 3,313 mn at upper end of the price band
Book Running Lead Managers	IDBI Capital
IPO Grading	SME Fundamental Grade 4/5 by CRISIL indicating superior fundamentals
Registrar to the issue	Karvy Computershare Pvt. Ltd.
Shareholding Pattern (%)	Pre Issue
Promoters	100
-Gujar's group	35.99
-VC Fund (SVCL)	7.71
-Bodies Corporate	47.07
Public – Fresh Issue	-
Others	9.23
Total	100

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OBJECTS OF THE ISSUE

The Net Proceeds of the Issue are proposed to be utilised by the Company for investments in moulds, tools and equipment, and indigenisation of the designs for expansion of the existing manufacturing facility at Roorkee (Uttarakhand). Further, a part of the Net Proceeds is also proposed to be used for enhancement of the company's brand through advertising and other brand building activities

S. No.	Particulars	Amount (Rs. in mn)
1	Investments in Moulds, tools and equipment and Indigenisation of the designs for expansion of the existing manufacturing facility	102.9
2.	Enhancement of the Company's brand through advertising and other brand building activities	39.05
3.	General Corporate Purposes	-

Source: RHP, Ajcon Research

About the Company

The business was originally established by Mr Subhash Gujar in Pune in 1996 and was later converted into a private limited company in February 2007. Mr Chandu Chavan, promoter of Innoventive Industries Ltd., along with some major shareholders of that company acquired a majority stake in Opal in March 2007. Innoventive Venture Ltd. (Mr. Chavan's group) is not involved in day-to-day business operations and is financial investor in the company.

Mr. Sameer Gujar, managing director, who has around five years of experience in the wall clock industry, is involved in identifying growth opportunities both in the domestic as well as international market. He is supported by Mr Subhash Gujar, founder, having more than 15 years of experience in manufacturing, assembly and marketing in the clock industry. Prior to founding Opal in 1996, he was a distributor of Allwyn and Titan watches in Maharashtra.

Unique Selling Proposition

A decade ago, the clock as a product category has been largely neglected in the country, by manufacturers, and no sincere effort was made by them to uplift the product category, on the contrary, they brought down the prices and quality, by getting into the price war, and hence the product category lost the battle. The purpose of a clock has been primarily to show time, in houses, offices and public places.

In 1996 Mr. Subhash Gujar had created & launched the brand with a difference, of making clock a piece of art, more than a time showing device. It launched high end clocks, with a major design element, movements from Japan, high class door step service, new innovative materials, unconventional channels of sales, and because of all this, though with great difficulty, it has reached and has been recognized to be the pioneers and leaders in this segment...

There are no listed peers to compare this company's performance.

Key Concerns

On March 13, 2013, in a Pre – IPO Placement, SIDBI Venture Capital was allotted equity shares at a price of Rs. 110 per share which is lower as compared to current Fixed Price of the issue Rs. 130-135. The average cost of Innoventive group which holds a major stake (47.07 percent) in the Company comes to Rs 28 a share and the

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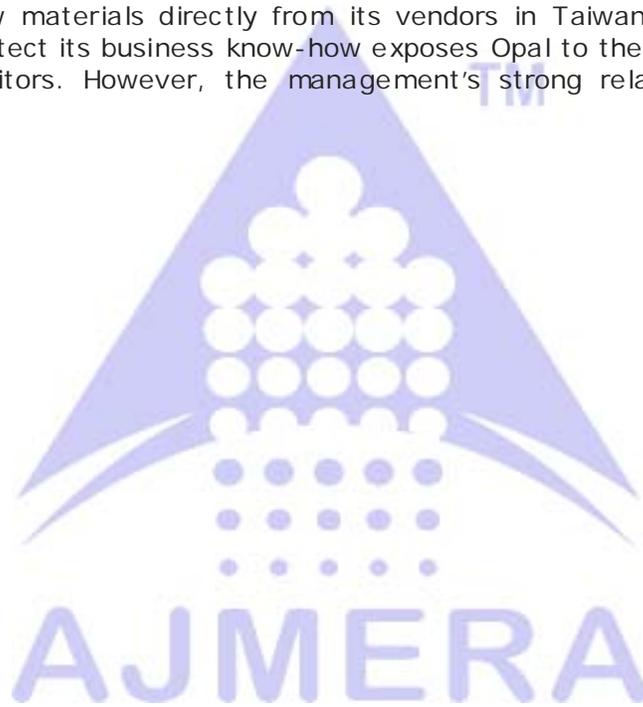
promoters' cost of holding is just Rs 9.54.

Competition from the unorganised segment; however this risk is mitigated to some extent on account of decent brand recall

The Company imports more than 70% of its raw materials (moulds for critical components and movements); its lead time to procure raw materials for any model is over three months which limits its ability to deliver bulk orders at a short notice.

Higher working capital cycle of 200 days owing to higher import dependency which requires an inventory of three months. In addition, the debtors are on a higher side as it has small operations which weakens its bargaining power.

The company procures its raw materials directly from its vendors in Taiwan. No Non-disclosure agreement (NDA) with the vendors to protect its business know-how exposes Opal to the risks of imitation if the vendors share the same with competitors. However, the management's strong relationship with the vendors has blanketed that risk so far.



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