Company Analysis and Financial Due Diligence

February 2013

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To,
Ms Khyati Shah,
Chief Manager - SME
National Stock Exchange of India Ltd
Exchange Plaza,
Plot No. C/1, G Block,
Bandra - Kurla Complex
Bandra (E)
Mumbai - 400051

Date: February 22, 2013

Dear Ms Shah,

This is with reference to the request to provide a Company Analysis and Financial Due Diligence report ("FDD Report") covering the limited scope and for the purpose of potential listing of Opal Luxury Time Products Pvt Ltd ("the Company") on the EMERGE Platform of the National Stock Exchange (NSE).

We now enclose our Company Analysis and FDD Report dated February 22, 2013. This Company Analysis and FDD Report is based on the information provided by the Company to us and also on the meetings with the management of the Company.

For the purpose of preparing the Company Analysis and FDD Report, we have not independently verified the information provided by the Company or collected by us from other sources. CRISIL does not guarantee the accuracy, adequacy or completeness of any information contained in such reports. CRISIL especially states that it has no financial liability whatsoever to you/Company/users of the Report. CRISIL's reports submitted to NSE do not constitute recommendations to list or not to list the Company on the SME Exchange.

All the Company Analysis and FDD Reports submitted by CRISIL are confidential and are meant for the internal use of NSE only and should not be used for purpose other than the potential listing of the Company on the SME Exchange.

This Letter shall form an integral part of the Company Analysis and FDD Report.

We appreciate the opportunity to conduct financial due diligence on Opal Luxury Time Products Pvt Ltd.

Yours faithfully,

For CRISIL Limited

Mohit Modi
Director – Equity Research

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Glossary of terms

AS – Accounting standards	H1FY13 – Six months period ended September 30, 2012
BPLR – Base prime lending rate	KMP – Key management personnel
bps – Basis points	LC – Letter of credit
Capex – Capital expenditure	MAT – Minimum Alternative Tax
CAGR – Cumulative average growth rate	MIS – Management information system
CC – Cash credit	MOU – Memorandum of understanding
COGS – Cost of goods sold	MRP – Maximum retail price
CWIP – Capital work in progress	NDA – Non disclosure agreement
DRHP – Draft Red Herring Prospectus	Opal - OpaL Luxury Time Products Pvt Ltd
EBITDA – Earnings before interest tax depreciation and amortisation	PAT – Profit after tax
EPS – Earnings per share	PBT – Profit before tax
FA – Fixed assets	RM – Raw materials
FB – Fund based	sq ft – Square feet
FG – Finished goods	TTM – Trailing twelve months
FIFO – First in first out	USD – United States Dollar
FS – Financial statements	y-o-y – year-on-year
FYXX – Financial year ended March 31, 20XX	
GFA – Gross fixed assets	

Company Snapshot

Company background

Pune-based Opal Luxury Time Products Pvt Ltd manufactures and markets high-end designer luxury clocks under the Opal brand at its manufacturing plant in Roorkee, Uttarakhand. 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; they are the majority shareholders since then. The company sells two brands: Opal, with a product range of over 150 exclusive wall clock and table clock models; and Caliber, launched in May 2010 in the more affordable price range.

Key positives

Opal is an established player in the premium wall clock industry in India; it is one of the few branded players in the predominant unorganised market. The industry is expected to grow driven by brand consciousness among the customers, disposable income growth, housing growth and increasing penetration of organised retail. The company's focus on new designs and product development, and approaches to new sales channels strengthens its position. The company has pan-India distribution network of nine distributors (catering to over 207 dealers) and 35 direct dealers to cater to the unorganised market. In organised retail, it has 88 shop-in-shop counters and is associated with many big retail groups such as Shoppers Stop, Home Town (Pantaloon), Reliance, Westside, Evok (Somany Group) and others. In addition, Opal incrementally plans to be present in 21 and 15 stores of the Nilkamal Group and Century Plywood, respectively. Opal has made efforts to diversify from a branding-focused business to a defensive volume-driven business with the launch of Caliber.

Key negatives

Shareholding: The shareholding of the promoter family (Mr Gujar) has increased from 9% of the equity share capital in FY11 to 39% in FY12. The investment from promoter group has come through the investment of Chavan group to keep the equity stake of the Chavan group at 51%.

MIS and internal control require strengthening: We have also observed lapses in cash flow management and the internal control environment. The company delayed income tax payment during FY09-FY12. Although management has been able to manage the business effectively till now, they need to strengthen MIS and internal controls to monitor operations centrally with an increase in scale.

Others: The salary of the KMP (key management personnel) is on the lower side and will need to be increased substantially to retain them. Also, due to small scale of operations, Opal has weak negotiation power against organised retail customers.

High working capital: The company has high working capital because of high inventory and debtor days. The company procures significant quantity of raw materials through imports and need to keep high inventory to meet orders and lower freight costs. Similarly debtor days for the company typically range from 120 to 150 days. Most organised retail players pay Opal only when they sell the goods, which is typically 100-120 days. Hence, the debtor days for organised retail are mostly about 120 days. The retailers do not bear the inventory risk of the Opal products if they are not sold.

Financial performance

Opal’s net revenues have grown at a two-year CAGR of 26% to ₹172 mn in FY12 primarily driven by volume growth and supported by expansion of the distribution network. Net income has increased at a two-year CAGR of 41% from ₹14.5 mn in FY10 to ₹28.9 mn in FY12. EPS has declined by 68% y-o-y to ₹13.3 in FY12 because of dilution. Its net worth as on March 31, 2012 was ₹118 mn. In H1FY13, revenues grew by 32% y-o-y to ₹96 mn driven by volume sales of OPAL watches. Net income has increased 28% y-o-y to ₹14 mn in H1FY13.

Detailed Company Analysis

A. Business Prospects

Change in consumption pattern to drive growth

Opal is a part of the ~₹30 bn niche home fashion industry which includes decorative lighting, art pieces, decorative wall clocks, chandeliers and picture frames. The industry is expected to grow on the back of greater brand consciousness among customers, disposable income growth, housing growth and an increase in penetration of organised retail. According to Mckinsey Research, urban housing and utilities consumption is expected to grow at 8.1% CAGR over the next 20 years. An increase in discretionary spending and personal disposable income is also anticipated. Opal is likely to benefit from these changes in the consumption dynamics of the Indian consumer.

An established player in the Indian wall clock industry with designing as its forte

Opal operates in the wall clock market in which small organised players have significant market share. However, the company commands a significant premium over unorganised / local brands owing to the design element, high quality and technology. Its products have a need-based element (time showing device) but a much higher art/ fashion-based element (visual appeal of the timepiece). The promoters' experience with a good understanding of the consumer taste has helped the company in getting shelf space in many organised retail outlets. The company also works with independent designers who complement the promoters in designing.

Broad distribution network; presence in organised retail

Since the industry is highly unorganised, a good distribution network is essential in the industry. The company has pan-India distribution network of nine distributors (catering to over 207 dealers), 35 direct dealers and 88 shop-in-shops. Its distribution network has increased significantly over the period, including a presence in the organised retail segment. Within organised retail, the number of outlets has increased from 34 in end-FY09 to 88 by FY12. In organised retail, the company is associated with many big retail groups such as Shoppers Stop, Home Town (Pantaloon), Reliance, Westside, Evok (Somany Group) and others. The company plans to increase its presence in 36 more stores (21 of Nilkamal group; 15 of Century Plywood) by FY14.

No exclusivity/NDA arrangement with vendors risks the confidentiality of business know-how

Opal has international suppliers and orders different parts from these suppliers, which the management believes is the key to its cost-effective structure. In the past, competitors have tried to get the full clock from some of these suppliers but have failed. The management believes that the know-how of getting specialised parts from various vendors is critical for the success of their business 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 company is working on reducing its dependence on international suppliers, which should gradually mitigate the business risk in the long term.

Lacks capability to cater to bulk orders

While the company is working on reducing its dependence on imports for raw materials, it still constitutes around 70% of overall raw material sourcing. The lead time to procure raw materials for any model through imports is over three months. Assembling and logistics takes another few months. Hence, the company does not have the capability to deliver bulk orders at a short notice if it does not have the raw materials. This may impact the revenues and profitability going forward. The company has missed the opportunity to cater to certain bulk orders in the past on account of absence of in-house manufacturing facility.

Successful launch of Caliber is a key monitorable

Opal launched the Caliber brand in May 2010 in the affordable range; it is aimed at high volume sales. It is in the process of setting up a separate distribution network for Caliber. The company plans to penetrate Tier II and Tier III cities with this brand. Except the 'movement', which is imported from China, all raw materials are procured locally. Successful execution of this strategy and establishment of a distribution network are key monitorables.

Small size of operations weakens bargaining power against big organised retail players

Opal sells its clocks through organised retail channels also and most of these players are significantly larger in scale of operations. Any failure in successful negotiation could be detrimental to the sales and profitability of the company. For instance, when Nilkamal group discontinued its business association with Opal, the latter's sales growth took a hit in FY12.

SWOT Analysis

Strength	Weakness
• Experienced management and business know-how • 'Opal' name - established brand in premium wall clock segment • Wide distribution channel and presence in organised retail	• Dependence on imports for raw materials • Lack of capability to cater to bulk orders • Internal control and MIS adequate for current scale of operations but will require strengthening with increasing scale • Small size of operations weakens bargaining power against big organised retail players
Opportunity	**Threat**
• Industry demand driven by brand consciousness among customers, disposable income growth, housing growth and increasing penetration of organised retail • To tap mass economy market with Caliber • New sales channels • Export markets • Online market • Leverage the brand for product diversification	• Competition from unorganised and organised players and imports in the Caliber range • Established branded players with deep pockets entering into/focusing on the premium wall clock segment • Inability to retain employees due to low salary

B. Financial Performance

Opal's net revenues have grown at a two-year CAGR of ~26% to ¤172 mn in FY12 primarily driven by an increase in volumes and supported by expansion of the distribution network. Volumes have increased at a healthy CAGR of 26% over two years. The company has been able to improve its EBITDA margin from 18.3% in FY09 to 27.2% in FY12 because of reduction in raw material costs and decline in marketing spend. Despite an improvement in EBITDA margin, PBT as a percentage of sales has declined from 15.6% in FY09 to 13.7% in FY11 because of a sharp increase in finance cost followed by an improvement in FY12 to 16.9%. Net profit margin has improved 330 bps from 13.5% in FY10 to 16.8% in FY12 because of income tax benefits available in Roorkee. Net income has increased at a two-year CAGR of 41% from ¤14.5 mn in FY10 to ¤28.9 mn in FY12. In H1FY13, revenues grew by 32% y-o-y to Rs 96 mn driven by volume growth seen for Opal and Caliber branded clocks. The volume sale of Opal clocks grew by 36% y-o-y in H1FY13 and that of Caliber clocks increased by 308% y-o-y. EBITDA margins declined from 23.8% in H1FY13 to 22.7% in H1FY13 driven by increase in raw material cost as a percentage of sales and other expenses. Net income grew by 29% y-o-y to Rs 14 mn in H1FY13.

Financial performance snapshot

Particulars	Unit	FY09	FY10	FY11	FY12	H1FY13
Total income	₹ mn	60	108	166	172	96
EBITDA	₹ mn	11	24	34	47	22
EBITDA margins	%	18.3	22.4	20.6	27.2	22.7
Adjusted net profits	₹ mn	6	15	22	29	14
Net margins	%	10.5	13.5	13.5	16.8	15.0
RONW	%	21.3	36.5	37.6	30.4	25.1
Restated basic and diluted EPS	₹	62.4	145.4	41.0	13.3	6.5
No. of equity shares (FV of ₹10)	₹	0.1	0.1	0.5	2.2	2.2
Net worth	₹ mn	32.6	47.1	71.6	118.4	132
Net debt - equity	₹	1.4	1.3	1.2	0.8	0.6
Current ratio	Times	3.4	3.3	4.8	6.7	6.1

Source: Company, CRISIL Research

Healthy EBITDA margins in past three years

Opal has maintained healthy EBITDA margins in the range of 18-22% over FY09-11 because of its ability to pass on the increase in raw material costs and operating leverage. In FY12, EBITDA margin increased significantly to 27.2% because of a decline in both raw material expenses and SG&A. SG&A costs declined as the company reduced marketing spend and promotional discounts. However, margins declined in H1FY13 to 22.7% because of increase in raw material cost and other expenses.

Cost as a percentage of sales (%)	FY09	FY10	FY11	FY12	H1FY13
Raw material cost	38.2	46.9	54.9	51.2	53.5
Other manufacturing expenses	4.8	3.9	3.5	2.5	3.2
Employee cost	11.9	7.1	6.4	9.3	8.5
Selling, general and administrative expenses	26.7	19.7	14.7	9.8	12.0
Total cost	81.7	77.6	79.4	72.8	77.3
EBITDA margin	**18.3**	**22.4**	**20.6**	**27.2**	**22.7**

Source: Company, CRISIL Research

Salary paid to KMP is on the lower side

The salary paid to the KMP is on the lower side compared to their position / experience. Mr Subhash Gujar does not draw a salary though he is actively engaged in the business. However, Mr Gujar has received a cumulative sum of ₹68.2 mn during FY07-FY12 as payment for the Opal brand. This payment does not pass through the income statement as it is paid for purchasing goodwill (fixed asset). The current salary cost may not be representative of future costs. Salary costs could increase substantially post fund raising as the company attains higher scale of operations. This needs to be done to retain the KMP.

Management and Corporate Governance

Strong and experienced promoters

Mr Subhash Gujar, founder and chief architect, has more than 15 years of experience in manufacturing, assembly and marketing in the time keeping industry. Prior to founding Opal in 1996, he was involved with distribution of Allwyn watches and Titan watches for Maharashtra. Mr Chandu Chavan, promoter of Innoventive Industries Ltd, and some other shareholders of that company hold a majority stake in Opal. The group has till date infused ₹40 mn in the form of equity and interest-free loan and has helped by meeting the company's working capital requirements as and when required.

Board composition

Opal's board has recently been expanded to six directors including three non-executive independent directors. The board includes Mr Sameer Gujar as the managing director, who has around five years of experience in the wall clock industry, and Mrs Pratibha Gujar as the non-executive and non-independent director. With the induction of new independent directors, the company now meets the statutory requirement for board composition for a public listing.

Shareholding of Gujar family (promoter) raised to 39% but still lacks controlling stake

As of September 2011, only 9% of the equity share capital was held by Mr Gujar's family members and around 40% by Mr Gujar's friends. As per the management, the shareholding was structured this way on account of personal reasons and for tax purposes. The management had earlier communicated that all the shares will be transferred to the Gujar family by end-February 2012, which has not happened. However, the company issued 1.6 mn new equity shares which led to an increase in the shareholding the of promoter family to 39%. However, the promoter group still lacks the majority stake as 51% in the company is held by Innoventive Venture Ltd (Mr Chandu Chavan's group company).

MIS and internal control require strengthening

Opal does not maintain monthly/ periodical MIS that captures the key operating metrics, profitability and key balance sheet numbers, which could make it difficult to monitor operations centrally with increasing scale. Further, the company has not maintained historical quarterly/ half-yearly financials. We have also observed lapses in cash flow management and weak internal control environment. The company has delayed income tax payment during FY09-FY12. In FY12, it has partially made provisions for bad and doubtful debts unlike the earlier years. Also, there are a few mistakes regarding classification in financial statements.

The weak quality of MIS and internal control is a characteristic of SME companies due to the small scale of operations. Although management has been able to manage the business effectively till now, there is a need to strengthen MIS and internal controls to monitor operations centrally with increasing scale.

Late payment of income tax

Opal has delayed income tax payment during FY09-FY12 as the company has not paid the advance taxes. The company has paid ₹2.0 mn as interest for late payment of tax over FY09-12. PBT would have been higher by 2.4% in FY12. This shows gaps in cash flow management and a weak accounting control environment.

FINANCIALS

Income statement

(Rs mn)	FY09	FY10	FY11	FY12	H1FY13
Operating income	**59.6**	**107.8**	**165.8**	**172.2**	**95.9**
EBITDA	**10.9**	**24.1**	**34.2**	**46.8**	**21.8**
EBITDA margin	**18.3%**	**22.4%**	**20.6%**	**27.2%**	**22.7%**
Depreciation	0.3	0.5	1.1	1.3	1.1
EBIT	10.6	**23.6**	**33.1**	**45.5**	**20.7**
Interest	1.9	5.6	11.6	15.4	7.0
Operating PBT	8.7	**18.0**	**21.5**	**30.1**	**13.7**
Other income	0.5	0.8	1.1	(0.8)	0.5
Exceptional inc/(exp)	0.2	-	-	0.0	0.2
PBT	9.4	**18.8**	**22.6**	**29.2**	**14.3**
Tax provision	3.0	4.3	0.3	0.4	(0.0)
Minority interest	-	-	-	-	-
PAT (Reported)	**6.4**	**14.5**	**22.3**	**28.9**	**14.4**
Less: Exceptionals	0.2	-	-	0.0	0.2
Adjusted PAT	**6.2**	**14.5**	**22.3**	**28.9**	**14.2**

Ratios

	FY09	FY10	FY11	FY12	H1FY13
Growth					
Operating income (%)	55.2	81.1	53.8	3.8	32.3
EBITDA (%)	52.8	121.7	41.7	36.7	25.9
Adj PAT (%)	108.3	133.0	53.6	29.3	27.7
Adj EPS (%)	(79.2)	133.0	(71.8)	(67.7)	(67.7)
Profitability					
EBITDA margin (%)	18.3	22.4	20.6	27.2	22.7
Adj PAT Margin (%)	10.5	13.5	13.5	16.8	14.8
RoE (%)	21.3	36.5	37.6	30.4	25.1
RoCE (%)	17.0	24.7	24.2	24.0	22.0
RoIC (%)	14.0	22.3	26.2	23.9	22.7
B/S ratios					
Inventory days	339	189	161	199	186
Creditors days	71	95	58	50	43
Debtor days	106	173	150	161	123
Working capital days	145	146	163	224	219
Gross asset turnover (x)	11.9	14.0	15.4	10.5	9.7
Net asset turnover (x)	12.6	15.4	17.8	12.5	11.9
Sales/operating assets (x)	9.3	15.4	17.8	11.3	4.0
Current ratio (x)	3.4	3.3	4.8	6.7	6.1
Debt-equity (x)	1.4	1.4	1.3	0.8	0.7
Net debt/equity (x)	1.4	1.3	1.2	0.8	0.6
Interest coverage	5.6	4.2	2.9	3.0	2.9

Per share

	FY09	FY10	FY11	FY12	H1FY13
Adj EPS (Rs)	62.4	145.4	41.0	13.3	6.5
Book value	325.9	471.3	131.6	54.4	60.8

Balance Sheet

(Rs mn)	FY09	FY10	FY11	FY12	H1FY13
Liabilities					
Equity share capital	1	1	5	22	22
Reserves	32	46	66	97	111
Minorities	-	-	-	-	-
Net worth	**33**	**47**	**72**	**118**	**132**
Convertible debt	-	-	-	-	-
Other debt	45	66	90	99	87
Total debt	**45**	**66**	**90**	**99**	**87**
Deferred tax liability (net)	0	0	1	1	1
Total liabilities	**78**	**113**	**162**	**218**	**220**
Assets					
Net fixed assets	6	8	11	17	17
Capital WIP	-	-	-	3	11
Total fixed assets	**6**	**8**	**11**	**20**	**28**
Investments	-	-	-	0	0
Current assets					
Inventory	21	26	40	48	53
Sundry debtors	17	51	68	76	67
Loans and advances	3	6	8	19	22
Cash & bank balance	1	2	4	10	6
Marketable securities	-	-	-	-	-
Total current assets	**42**	**86**	**120**	**153**	**148**
Total current liabilities	**12**	**26**	**25**	**23**	**24**
Net current assets	**30**	**60**	**95**	**130**	**124**
Intangibles/Misc. expenditure	**42**	**46**	**56**	**68**	**68**
Total assets	**78**	**113**	**162**	**218**	**220**

Cash flow

(Rs mn)	FY09	FY10	FY11	FY12	H1FY13
Pre-tax profit	9	19	23	29	14
Total tax paid	(3)	(4)	(0)	(0)	(0)
Depreciation	0	1	1	1	1
Working capital changes	(11)	(28)	(34)	(29)	2
Net cash from operations	**(4)**	**(13)**	**(10)**	**1**	**17**
Cash from investments					
Capital expenditure	(19)	(6)	(14)	(22)	(10)
Investments and others	-	-	-	(0)	0
Net cash from investments	**(19)**	**(6)**	**(14)**	**(23)**	**(10)**
Cash from financing					
Equity raised/(repaid)	10	-	4	28	-
Debt raised/(repaid)	24	20	24	9	(11)
Dividend (incl. tax)	-	-	-	-	-
Others (incl extraordinaries)	(10)	(0)	(2)	(10)	(0)
Net cash from financing	**24**	**20**	**26**	**27**	**(11)**
Change in cash position	1	1	2	5	(4)
Closing cash	1	2	4	10	6

CRISIL RESEARCH

Financial Due Diligence

Company Overview

Background and Key Milestones

- Pune-based Opal Luxury Time Products Pvt Ltd manufactures and markets high-end designer luxury clocks under the Opal brand.
- The business was originally established by Mr Subhash Gujar in Pune in 1996. It was converted into a private limited company in February 2007.
- In March 2007, Mr Chandu Chavan and other promoters of Innoventive Industries Ltd acquired a majority stake (51%) in the company to meet the fund requirements for the growth of the company. The group infused a total of ₹40 mn by March 31, 2012.
- The company's Pune manufacturing unit was shifted to Roorkee, Uttarakhand in January 2010 to enjoy the tax benefits offered by the central government under Section 80-IC of the Income Tax Act.
- Opal brand clocks are sold by a network of nine distributors, 35 direct dealers and 88 shop-in-shops across India.
- The company is significantly dependent on imports and most of the components of the clock are imported primarily from China, Hong Kong, Japan and Taiwan.
- The company is trying to tap the US and set up an office in New York in April 2010. The company's export sale for FY12 was around ₹45 lakh.
- The company launched the Caliber brand in May 2010 in the more affordable price range.

Product and Brand Profile

- Opal has a product range of over 150 exclusive wall clock and table clock models sold under two main brands: Opal and Caliber.

Brand Opal

- The Opal brand clocks are premium designer, high-end clocks for brand conscious customers in the price range (MRP) of ₹1,500 to ₹15,000.
- 'Movements' (refers to the internal mechanism of a clock responsible for keeping the time) for the clocks are imported form Seiko Precision Ltd, one of the leading global players in the wall clock and watch industry.
- OPAL contributed 94% of sales in H1FY13 and grew by 39% y-o-y to Rs 158 mn driven by 36% y-o-y increase in volume sales.

Brand Caliber

- The Caliber range is designed for the affordable class seeking budget clocks with a price range (MRP) of ₹150 to ₹650 and is aimed towards high volume sales. The brand was launched in May 2010. The company is in the process of setting up a separate distribution network for Caliber.
- The company plans to penetrate Tier II and Tier III cities with this brand.
- Caliber constituted 6.0% of sales in FY12 and grew by 127% y-o-y to Rs 11 mn in H1FY13 driven by volume growth.

Key Management Personnel

Name	Designation	Age	Qualification	Date of Joining	Role and Experience
Mr Subhash Gujar	Founder and Chief Architect	57	Commerce graduate	Feb, 2007	He has more than 15 years of experience in manufacturing, assembly and marketing in the time keeping industry. Prior to founding Opal in 1996, he was involved with distribution of Allwyn watches and Titan watches for Maharashtra.
Mr Sameer Gujar	Managing Director	25	Post-Graduation in Family Managed Business from SP Jain Institute of Management	Feb, 2007	He is Mr Subhash Gujar's son. The top management is in the transition phase and he is taking charge of the entire operations from Mr Subhash Gujar.
Mrs Pratibha Gujar	Director	55	Bachelors in Art (BA) from SP College, Pune, Maharashtra		She is Mr Subhash Gujar's wife. She started her career by joining the retail family business and managing the retail outlets. She has played an important part in the process of designing. Currently, she is not actively involved in the business.
Mr Sanjay Goel	CEO	43	Master of Business Administration, University of Lancaster, UK	Sep, 2012	He oversees business strategy and development, strategic acquisitions and alliances and overall operations of the company. He has more than 20 years of work experience.
Mr Jaimin Shah	Head, Finance	25	Master of Business Administration and Bachelor of Commerce from Gujarat University	Aug, 2011	He handles the finance and accounts of the company. Prior to joining Opal, he was associated with Care Corupack Ltd. He has experience of more than two years in the field of finance.
Mr Sandeep Pathak	Head, Factory and Production	36	Graduate	Apr, 2007	He is responsible for managing production activities of the company. Prior to joining the company, he has been associated with M/s Opal Industries, Pune since 1998.
Mr Pradeep Desai	National Sales Manager	47	Master of Personnel Management and Bachelor of Arts from Poona University	Apr,2007	He is responsible for managing sales & distribution of the company. Prior to joining the company, he has been associated with M/s Opal Industries, Pune.
Mr Nikhil Deshpande	Company Secretary	27	An Associate Member of the Institute of Company Secretaries of India. Bachelor of Commerce and Bachelor of Laws	Jan, 2012	He is responsible for looking after secretarial affairs

Source: Company, CRISIL Research

Shareholding structure

Name	As on March 31, 2012 (Current)	
	No. of shares	Percentage (%)
Mr Chandu Chavan's Group		**51.0**
Innoventive Venture Ltd	1,110, 270	51.0
Mr Gujar's Group		**49.0**
Sameer Gujar	425,015	19.5
Pratibha Gujar	424,015	19.5
Pravin Kumar Bhomchand Jain	100,000	4.6
Vivek Mashurao Reddy	100,000	4.6
Hitesh Sunil Kolecha	17,700	0.8
Total	**2,177,000**	**100**
Name	**As on October 25, 2011**	
	No. of shares	Percentage (%)
Mr Chandu Chavan's Group		**51.0**
Innoventive Venture Ltd	277,700	51.0
Mr Gujar's Group		**49.0**
Sameer Gujar	25,000	4.6
Pratibha Gujar	24,000	4.4
Pravin Kumar Bhomchand Jain	100,000	18.4
Vivek Mashurao Reddy	100,000	18.4
Hitesh Sunil Kolecha	17,700	3.3
Total	**544,400**	**100**

Source: Company, CRISIL Research

Background about majority shareholder group

- 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.
- According to Mr Subhash Gujar, the company was in deep need of funds to grow and, hence, he agreed to dilute the stake.
- Mr Chavan's group has invested as investors and is not involved in the day to day business operations.
- The company has changed its shareholding pattern w.e.f. October 25, 2011 and Mr Chavan's group now holds its stake through Innoventive Venture Ltd, an investment company.
- The group has till date infused Rs 40 mn in the form of equity and interest-free loan and has helped by meeting the company's working capital requirements as and when required.
- The company has issued new shares in FY12 against share application money and loans from shareholders to allot 1.6 mn equity shares. As a result, the number of shares for the group has increased from 277,700 to 1,110,270.

Details of group companies

Group companies	Year of incorporation	Details of promoter group other holding	
		Name of promoter	Holding (%)
Innoventive Venture Ltd	23/07/1985	Mr Chandu Chavan	45

Source: Company, CRISIL Research

Manufacturing facility overview

- Opal's 18,000 sq ft manufacturing facility is in Roorkee, Uttarakhand, which was shifted from Pune in January 2010 to enjoy tax benefits being offered by the central government under Section 80-IC of the Income Tax Act.
- Key tax benefits:
  - 100% exemption on excise for first ten years starting 2010
  - 100% income tax exemption for first five years starting 2010
  - Tax exemption on 30% income for five years after 2015
  - The company is, however, liable to pay MAT

- Installed annual assembly capacity

No. of clocks (pieces)	FY11	FY12
Opal	150,000	2,00,000
Caliber	250,000	3,00,000
Total	400,000	5,00,000

Source: Company, CRISIL Research

Manufacturing process

- Designing

  Team of designers (in-house and outsourced) undertake new design projects under the guidance of Mr Subhash Gujar, founder and chief architect of the company.

- Ordering custom parts as per the design

  More than 75% of the parts used in assembling clocks are imported from China, Hong Kong, Japan and Taiwan. Movements of the clocks are sourced from Seiko Precision Ltd's manufacturing unit in Hong Kong. Moulds for important components are developed by Vendors in Taiwan who in turn sell the moulded components to the company. Local components are sourced from Rajkot, Pune and Delhi.

- Assembling

  Assembly takes place in the Roorkee facility under the guidance of Mr Sandeep Pathak.

- Employees

  The company has 113 employees as on September 30, 2012.

Executive Summary

Key Findings

Employee costs

Salary paid to the KMP is on the lower side; Mr Subhash Gujar and Mrs Prathiba Gujar do not draw any salary; present employee costs may not be representative of the future

Background	Comments / implications	Management Comments
▪ The salary paid to the KMP is on the lower side compared to their position/ experience. ▪ Mr Subhash Gujar does not draw any salary while he is actively engaged in the business. However, Mr Gujar has received a cumulative sum of ₹68.2 mn during FY07-FY12 as payment for the Opal brand. This payment does not pass through the income statement, as it is paid for purchasing goodwill (fixed asset). ▪ Mrs Prathiba Gujar, Mr Subhash Gujar's wife, is not actively involved in the business and hence does not draw any salary. ▪ The company does not provide for gratuity and leave encashment. The company does not have a policy of leave encashment.	▪ The current salary cost may not be representative of future costs. Salary costs could increase substantially post fund raising as the company attains higher scale of operations. This needs to be done to retain the KMP. ▪ The likelihood of Mr Subhash Gujar and Ms Prathiba Gujar drawing salary over the medium term cannot be ruled out. We believe that historical payment for the brand may not be adequate compensation for future services. ▪ Given the size of the operations, the quantum of salary increase may have an adverse impact on profitability. While employee cost has increased to 9.8% in FY12 in comparison to 6.4% in FY11, we believe that it is still on the lower side given the low salary of KMP and planned marketing push of the company. ▪ The company should provide for gratuity based on their best estimate / actuarial valuation.	▪ Likelihood of substantial increase in salary cost has been acknowledged by the management. ▪ Mr Subhash Gujar mentioned that he has been adequately compensated for the brand and he will not draw any salary going forward. He aims to restrict his role to strategy. ▪ The company is not liable to pay gratuity for the first five years of operations. Hence, it will start providing from FY13 onwards.

Annual salary of KMP

(₹ p.a.)	Designation	FY09	FY10	FY11	FY12
Subhash Gujar	Founder and Chief Architect	NA	NA	NA	NA
Sameer Gujar	MD	600,000	720,000	720,000	858,000
Pratibha Gujar	Director	NA	NA	NA	NA
Sanjay Goel	CEO	NA	NA	NA	NA
Jaimin Shah	Manager, Finance & Accounts	NA	NA	NA	256,548
Sandeep Pathak	Factory Manager	107,300	128,250	180,000	228,000
Pradeep Desai	National Sales Manager	290,450	350,000	455,200	523,000
Nikhil Deshpande	Company Secretary	NA	NA	NA	75,000

Source: Company, CRISIL Research

Shareholding pattern

Promoter family share holding increased to 39% from 9% through funding to promoter group from Mr. Chavan's Group

Background	Comments / implications	Management Comments
■ In September 2011, friends of Mr Subhash Gujar held 40% stake in the company. The stake was infused in FY08 at face value. As per the management, the shareholding was structured this way due to personal reasons and for tax purposes. Adequate reasoning or background of the shareholders was not provided to us during our interactions. ■ The company has issued around 1.6 mn new shares and allotted 8.0 mn shares to promoter family which has increased their shareholding from 9% to 39%. As per the management, the shareholding of Mr Subhash Gujar's friends was expected to be transferred to the Gujar family prior to the IPO at face value. However, the management does not intend to go ahead with the transfer of shareholding to promoters now.	■ The promoters still don't have a controlling stake in the company.	The management has indicated that funding to the promoter family is on a personal basis and will not involve the repayment through transfer in shareholding.

Revenues

Sales agreement with @home store (Nilkamal group) ended in FY11 on account of price negotiation. The company has renewed the business on re-negotiated terms

Background	Comments / implications	Management Comments
Sales to @home store (constituted 9% of FY11 MRP sales), part of the Nilkamal group, ended in FY11 on account of margin negotiations. According to the management, margin to @home was 25% on MRP, in line with all other dealers and most of the organised retailers. However, @home store wanted a 35% margin, while Opal wanted to maintain uniform pricing across its organised retail segment. On account of the disagreement, @home stopped purchasing clocks from Opal.	As most of the organised retail players are significantly larger than Opal, any failure in successful negotiation could be detrimental to the sales and profitability of Opal. Organised retail was 31% of MRP sales in FY12.	The company wants to maintain uniform pricing for all its customers. The company still has good relationship with @home and is confident of getting the business as per the terms specified by Opal as there is very less competition in the space that Opal operates in.
Opal renegotiated the terms and has renewed its business with the retailer. As per the new terms, the company will pay 30% margins to the group, instead of 35% asked previously by the retailer.	This may potentially lead to other retailers asking for similar increase in margins.	The company has mentioned that as per re-negotiated terms, the company will not pay logistics costs of around 4% that was earlier paid by Opal.

Late payment of advance tax

Background	Comments / implications	Management Comments
The company has delayed income tax payment during FY09-FY12.	▪ The company has paid interest of ₹2.0 mn over FY09-12 for late payment of tax. PBT would have been higher by 2.4% in FY12. This shows gaps in cash flow management and a weak accounting control environment.	The company does not pay advance taxes because of lack of funds (tight working capital requirements).

Details of tax and interest paid

₹ mn	FY09	FY10	FY11	FY12
Income tax paid	3.24	4.67	5.01	6.45
- Tax component	2.89	4.17	4.51	5.76
- Interest payment	0.35	0.50	0.50	0.69
Tax paid As % of PBT	35%	25%	22.1%	22.1%
- Tax component	31.3%	22.2%	19.9%	19.7%
- Interest payment	3.8%	2.7%	2.2%	2.4%
Interest / total tax paid (%)	11%	11%	10%	11%

Source: Company, CRISIL Research

Raw material costs

FY11 raw material costs as a percentage of sales and gross margins not comparable with historical numbers

Background	Comments / implications	Management Comments
The company has shifted its operations from Pune (Maharashtra) to a tax-free location – Roorkee (Uttarakand) - in January 2010. Hence, the company is not eligible for cenvat credit. Accordingly, customs duty and other taxes paid by the company that were earlier eligible for cenvat credit and accounted as an asset are now accounted as a part of raw material costs. Accordingly, raw material costs as a percentage of sales have increased by 500-600 bps.	The accounting treatment is in line with AS. However, historical gross margins are not comparable with FY11.	Not applicable

Raw material cost trend

	FY09	FY10	FY11	FY12	H1FY13
Raw material cost (₹ mn)	22.8	50.6	91.0	88.2	51.3
Raw material cost (% of sales)	38.2%	46.9%	54.9%	51.3%	53.5%

Source: Company, CRISIL Research

Notes to accounts

Provisioning for debtors

Background	Comments / implications	Management Comments
Of the debtors outstanding for more than 180 days as on March 31, 2012: ■ Payment from Regeneration Next (₹205,871) is outstanding for more than three years as of March 31, 2012; payment timing is uncertain. ■ Payment from Landmark Group (₹102,554) is outstanding for more than one year as of March 31, 2012; management is confident of collecting, but timing is uncertain. ■ Similarly, there are other debtors that have payment outstanding of more than 180 days.	We believe Opal should make provision for bad and doubtful debt of ₹281,300. Out of that, the company has provided ₹154,403 and ₹76,916 mn for Renegeration Next and Landmark Group respectively.	The company does not have a stated policy for making provisions for bad and doubtful debts. The company assesses the likelihood of collections and makes provisions on per case basis. Management acknowledged the likelihood of non-payment for Regeneration Next.

Loans and advances

Background	Comments / implications	Management Comments
Opal has executed certain permanent expansions to the leased factory building in Roorkee. The lessor (Mr Ashish Anand and Satya Pal Anand) has agreed to pay ₹1 mn for the expansion when the company vacates the premises. Accordingly, Opal has classified this as an asset in loans and advances (classified as deposits). However, there is no formal agreement for the amount payable by the lessor.	■ We believe that lack of agreement is a key internal control weakness. ■ In case of any disputes, the company may incur cash loss. ■ The company is losing interest on the late payment. At 14% interest, it amounts to ₹0.14 mn, or 0.6% of FY11 PAT.	The management has informed that it has excellent relationship with the lessor and also ₹1 mn is a small sum for the lessor; hence, it can be easily collected.

Business risks

There is no exclusivity/NDA arrangement with the vendors, which puts the confidentiality of business know-how at risk

Background	Comments / implications	Management Comments
The company procures different components through its nine international suppliers; the management believes this is a cost-effective method and ensures good product	Exposes the company to competition in case the vendors	Management's strong relationship with the vendors has blanketed this risk so far.

quality. The management believes that acquiring of specialised parts from various vendors is critical for the success of their business.. The company procures its raw materials directly from its vendors. The company does not have a formal exclusivity agreement or NDA with the vendors to protect its business know-how.	shares the know-how with others.	

The company lacks capability to cater to bulk orders that require fast turnaround due to dependence on imported raw materials

Background	Comments / implications	Management Comments
The company has missed the opportunity to cater to certain bulk (such as 10,000 clocks of a specific model) institutional supply on account of lack of in-house manufacturing facility. As the company imports more than 70% of its raw materials, its lead time to procure raw material for a specific model is over three months.	Not catering to such bulk orders may impact revenues and profitability.	As per the management, it was not able to cater to certain bulk orders for a specific model on account of the limitation in its business model. The company is working to reduce its dependence on imports.

Company needs to strengthen its quality of MIS and internal control

Limited scope on account of quality of information

Background	Comments / implications	Management comments
We noted gaps and limitations in the information provided for the purpose of our due diligence. Gaps in information include: • Quarterly / half-yearly financial statements – Although not a statutory requirement, the company has not maintained historical quarterly and half-yearly financial statements. • MIS – the company does not maintain monthly / periodical MIS that captures the key operating metrics, profitability and key balance sheet numbers. • There was a delay in providing basic data such as historical sales break-up, historical minutes of board meetings. • Physical verification report of inventory was not readily available during our plant visit. Also, the company does not track inventory ageing. • The company has not physically verified its fixed assets. • Imported RM data in the annual FS for FY11 were incorrect. • Cash & bank balance of FY11 was restated in H1FY12 audit. • Board minutes mention that the chairman took a general review of operations of the company and put across the working results for the quarter, but there was no documentation of the working results. • Creditors' ageing is not maintained by the company. • The company has wrongly classified advance paid for raw material amounting to ₹2.7 mn as on September 30, 2011, under deposits in loans and advances group.	■ The weak quality of MIS and internal control is a characteristic of SME companies due to the small scale of operations. ■ Due to limited data, our analysis has been restricted. CRISIL Research was not able to conduct analysis on quarterly / monthly trends on profitability and other key matrices. ■ The management was accommodative in providing data. Some information required for the purpose of due diligence was prepared by the management for the first time. ■ Although management has been able to run the business effectively till now, it needs to strengthen MIS and internal controls to monitor operations centrally with increasing scale.	■ As it is a small company, it has been more focussed on growth. ■ Also, due to lack of funds, it has not been able to implement ERP systems. Post IPO, the company may invest in improving its accounting and internal controls. ■ As fixed assets (clock panels) are placed at the dealers' location, the company has not done a formal physical verification.

Analysis of Financial Statements

Income Statement Analysis-

	₹ mn					Common size statements				
Particulars	**FY09**	**FY10**	**FY11**	**FY12**	**H1FY13**	**FY09**	**FY10**	**FY11**	**FY12**	**H1FY13**
Income										
Gross sales	113.3	190.3	273.6	303.0	169.4	190.2%	176.5%	164.9%	176.1%	176.9%
Less: taxes and duties	(13.4)	(10.4)	(9.4)	(10.0)	(6.7)	-22.5%	-9.6%	-5.6%	-5.8%	-7.0%
Less: trade discount	(40.3)	(72.1)	(98.4)	(121.0)	(66.9)	-67.7%	-66.9%	-59.3%	-70.3%	-69.9%
Operating income	**59.6**	**107.8**	**165.8**	**172.2**	**95.7**	100.0%	100.0%	100.0%	100.0%	100.0%
Expenditure										
Raw material consumed	24.3	48.4	97.0	96.6	59.3	40.8%	44.9%	58.5%	56.2%	61.9%
Change in Inventory	(1.5)	2.1	(6.0)	(8.4)	(8.0)	-2.6%	2.0%	-3.6%	-4.9%	-8.3%
Power and Fuel	0.3	0.3	0.1	0.2	0.2	0.5%	0.2%	0.1%	0.1%	0.2%
Employee Costs	7.1	7.7	10.5	16.0	8.2	11.9%	7.1%	6.4%	9.3%	8.6%
Other Manufacturing Expenses	2.6	4.0	5.6	4.2	2.9	4.3%	3.7%	3.4%	2.4%	3.0%
Other expenses	5.6	5.9	11.5	6.0	6.9	9.4%	5.5%	6.9%	3.5%	7.2%
SG&A	10.3	15.3	12.8	10.9	4.7	17.4%	14.2%	7.7%	6.3%	4.9%
EBITDA	**10.9**	**24.1**	**34.2**	**46.8**	**21.8**	18.3%	22.4%	20.6%	27.2%	22.7%
Depreciation	0.3	0.5	1.1	1.3	1.1	0.4%	0.5%	0.7%	0.7%	1.1%
EBIT	10.6	**23.6**	**33.1**	45.5	**20.7**	17.9%	21.9%	20.0%	26.5%	21.6%
Interest	1.9	4.9	11.6	15.4	7.0	3.2%	5.2%	7.0%	9.0%	7.4%
Operating PBT	8.7	**18.7**	**21.5**	**30.1**	**13.7**	14.7%	16.7%	13.0%	17.5%	14.3%
Other income	0.5	0.1	1.1	(0.8)	0.5	0.9%	0.7%	0.7%	-0.5%	0.5%
Exceptional inc/(exp)	0.2	-	-	0.0	0.2	0.3%	0.0%	0.0%	0.0%	0.2%
PBT	9.4	**18.8**	**22.6**	**29.2**	**14.3**	15.8%	17.4%	13.7%	17.0%	15.0%
Tax provision	3.0	4.3	0.3	0.4	(0.0)	5.1%	3.9%	0.2%	0.2%	-0.1%
Minority interest	-	-	-	-	-	0.0%	0.0%	0.0%	0.0%	0.0%
PAT (Reported)	**6.4**	**14.5**	**22.3**	**28.9**	**14.4**	10.8%	13.5%	13.5%	16.8%	15.0%
Less: Exceptionals	0.2	-	-	0.0	0.2	0.3%	0.0%	0.0%	0.0%	0.2%
Adjusted PAT	**6.2**	**14.5**	**22.3**	**28.9**	**14.2**	10.5%	13.5%	13.5%	16.8%	14.8%

Source: Company, CRISIL Research

Revenue Analysis

Revenue details					
(₹ mn)	FY09	FY10	FY11	FY12	H1FY13
Gross sales	113.3	190.3	273.6	303.0	169.0
y-o-y change	66%	68%	44%	*11%*	43%*
Less: taxes and duties	(13.4)	(10.4)	(9.4)	(10.0)	(6.7)
Less: trade discount	(40.3)	(72.1)	(98.4)	(121.0)	(66.9)
Trade discount as % of gross sales	*35.6%*	*37.9%*	*36.0%*	*39.9%*	39.5%
Net sales / operating income	59.6	107.8	165.8	172.2	95.9
y-o-y change	*55%*	*81%*	*54%*	*4%*	32%

*As against H1FY12

Volume and pricing details					
	FY09	FY10	FY11	FY12	H1FY13
Number of clocks sold	47,035	82,792	115,293	131,560	80,510
y-o-y change	14%	76%	39%	14%	78%
Net realisations per clock (₹)	1,266	1,303	1,438	1,307	1,191
y-o-y change	36%	3%	10%	(9%)	(26%)

Source: Company, CRISIL Research

Distribution network

No. of stores	FY09	FY10	FY11	FY12	H1FY13
Distributor network	6	7	9	9	9
Total organised retail	**34**	**47**	**74**	**88**	**88**
Opal owned showrooms*	**2**	**2**	**2**	**0**	**0**

* As on date no showroom is operational

- Opal's net revenues have grown at a two-year CAGR of ~26% to Rs 172 mn in FY12, primarily driven by an increase in volume sales. Volume sales have increased at a CAGR of 26% to over 131,560 clocks over two years. In H1FY13, revenues grew by 32% y-o-y driven by volume growth.
- The company reports both gross sales (MRP sales) and net sales – net of trade discount and duties. For our analysis, we have used net sales.
- The company has pan-India network of nine distributors (catering to over 207 dealers), 35 direct dealers and 88 shop-in-shops.
- Its distribution network has increased significantly over the period, including a presence in the organised retail segment. The company's distributors are present in all the metro cities and the number of distributors has increased from six in FY09 to nine as of date. Within organised retail, the number of outlets has increased from 34 in end-FY09 to 88 by FY12.
- In organised retail, the company is associated with many big retail groups like Shoppers Stop, Home Town (Pantaloon), Reliance, Westside, Evok (Somany Group) and others.

- The company derives its revenues from markets across India; Maharashtra (its home market) contributed 30% of net revenues in FY12, down from 35% in FY09 on account of growth in sales in other regions and institutional sales.

Region-wise sales distribution (% of total sales)

Area	FY09	FY10	FY11	FY12	H1FY13
Maharashtra	35%	34%	30%	30%	29%
Delhi	14%	14%	17%	18%	17%
Tamil Nadu & Kerala	13%	13%	12%	11%	12%
Karnataka	6%	7%	8%	8%	8%
West Bengal	8%	8%	7%	7%	7%
Andhra Pradesh	6%	6%	5%	6%	5%
Gujarat	4%	5%	5%	5%	5%
Other states	8%	8%	7%	6%	7%
Other sales (Incl CSD sales, Institutional sales, etc.)	5%	6%	12%	10%	12%
Total	**100%**	**100%**	**100%**	**100%**	**100%**

Source: Company, CRISIL Research

- The company derived ~95% of sales from the Opal brand. Its newly launched Caliber brand, in the economy range, contributed around 5% of the total sales (27% of total volumes) in FY12.
- The average realisation per clock changes with change in product mix and price increase. Since FY08, the company has increased the price of 30 fast-moving Opal models at a CAGR of around 7%. As per the management, clock sales price is revised upwards periodically depending on the raw material and other input prices.
- In the Caliber brand, the company initially tested the market with the ₹ 500-1,500 range of clocks, but has now decided to focus on the ₹200-700 range. Hence, the average price per clock for the Caliber brand has declined by 39% in FY12 because of introduction of lower priced models.

Brand-wise sales contribution

	FY09	FY10	FY11	FY12	H1FY13
Opal					
- Volume (no. of clocks sold)	47,035	78,847	92,216	96,656	51,950
- Value (gross sales - ₹ mn)	113.0	187.1	258.0	288.5	158.2
Gross realisation per clock	2,402	2,373	2,803	2,985	3,045
y-o-y change		-1%	18%	6%	2%
Caliber					
- Volume (no. of clocks sold)	0	3,945	23,077	34,904	28,560
- Value (gross sales - ₹ mn)	0.0	2.8	14.9	14.0	10.9
Gross realisation per clock		710	646	401	385
y-o-y change			-8%	-38%	-44%

Source: Company, CRISIL Research

Seasonality of revenues

Typically, the company's revenues are seasonal - Q4 contributes the highest sales and Q1 the lowest. In Q4, as the company launches new models and runs discount schemes, and distributors tend to build inventory at their end, thus boosting company sales. Q3 also witnesses sizeable portion of yearly sales on account of the festive and wedding season. Q1 usually logs the lowest sales on account of the high inventory build-up by the distributors in Q4.

	FY09	FY10	FY11	FY12
Q I (April - June)	17%	13%	11%	12%
Q II (July - September)	24%	23%	21%	29%
Q III (October - December)	25%	26%	28%	23%
Q IV (January - March)	34%	38%	40%	36%

Source: Company, CRISIL Research

Raw material cost

	FY09	FY10	FY11	FY12
Raw material cost (₹ mn)	22.8	50.6	91.0	88.2
Raw material cost (% of sales)	38.2%	46.9%	54.9%	51.2%
Imported raw materials	89%	79%	71%	64%
Indigenous	11%	21%	29%	36%

Source: Company, CRISIL Research

- Raw material as a % of sales has declined 365 bps y-o-y to 51.2% in FY12 driven by the decline in imported raw material coupled with price hike taken in OPAL clocks.
- The company is still heavily dependent on imports - most of the clock parts are imported from China, Taiwan and Japan. However, the company is focusing on decreasing the proportion of import. All the parts (except those for movement) for Caliber are procured locally. The company is focusing on increasing the procurement of watch parts that include packing material, batteries, dials and glass, and other smaller parts for Opal from domestic vendors. As a result, the proportion of imported raw materials has decreased from 89% in FY09 to 64% in FY12.
  - o As per the annual report, imported RM is significantly lower in FY11 and FY12 as certain customs duty component (¤13 mn and 16 mn) of imports was wrongly classified under indigenous purchases.

Proportion of imported vs. domestic RM as per annual report

	FY09	FY10	FY11	FY12
Imported	89%	79%	52%	46%
Indigenous	11%	21%	48%	54%

Source: Company, CRISIL Research

- Under the Opal brand, the company is engaged in assembling of clock parts. The required parts are mostly imported from Taiwan and Hong Kong. As per the management, they have been able to pass on the cost increase in absolute terms to end customers (as also evident by increase in MRP).
- Raw material cost as a percentage of sales has increased significantly from 38.2% in FY09 to 51.2% in FY12. Key reasons:
  - o Shift in manufacturing unit to excise-exempt zone has led to unavailability of cenvat credit: The company has shifted its manufacturing facility from Pune to an excise duty-exempt plant in Roorkee in January 2010. When it was operating through Pune, the company used to record raw material costs net of cenvat credit, i.e., import duty eligible for cenvat credit was classified as asset and later offset against excise duty on sales. However, as

Roorkee is in the tax-exempt zone, there is no cenvat credit available. Hence, the entire customs duty paid is accounted under raw material costs. This has increased the raw material cost as a percentage of sales to the extent of 500-600bps. Please see example below.

(in ₹)	Pune	Roorkee
Net sales	3,000	3,000
Raw material (RM) cost	1,000	1,000
Import duty ~27%	270	270
Total RM including duty	**1,270**	**1,270**
Less: Duty where cenvat credit is available (classified as asset)	170	
Net RM cost accounted	**1,100**	**1,270**
RM cost as a % of sales	36.7%	42.3%
Difference		5.7%

Source: Company, CRISIL Research

- The company provides a large variety of clocks ranging in price from ₹200 (Caliber) to ₹15,000 (Opal). Raw material costs include the cost of different raw materials used (wood, plastic, glass, etc.) and the extent of designing (as it increases the vendor's labour cost). Due to this, it is difficult for the management to quantify the movement in RM costs.

  Also, the unfavourable rupee movement (depreciation) during the past two years has increased RM costs by about 100-200 bps.

Employee cost

	FY09	FY10	FY11	FY12	H1FY13
Employee cost (₹ mn)	7.1	7.7	10.5	16.0	8.2
Employee cost (% of sales)	11.9%	7.1%	6.4%	9.3%	8.5%
Head count	60	78	90	107	113

Source: Company, CRISIL Research

- Employee cost as a percentage of sales has decreased from 11.9% in FY09 to 6.4% in FY11 because of low salary of key management and operating leverage benefit on employee cost. In H1FY13, employee cost declined as a % of sales because of operating leverage benefit.

- Employee cost has increased to 9.3% in FY12 because of employee addition for capacity expansion and 25% hike in salaries of the sales promotion team and 9-12% hike in wages of factory staff. In FY12, peak head count had reached to 125, after which some workers were transferred to job work basis.
- The past employee cost may not be representative of future costs. Please refer to page 20 for employee costs.

Power and other expenses

	FY09	FY10	FY11	FY12	H1FY13
Power and fuel (₹ mn)	0.3	0.3	0.1	0.2	0.2
Power and fuel (% of sales)	0.5%	0.2%	0.1%	0.1%	0.2%
Other manufacturing expenses (₹ mn)	2.6	4.0	5.6	4.2	2.9
Other manufacturing expenses (% of sales)	4.3%	3.7%	3.4%	2.4%	3.0%

Source: Company, CRISIL Research

- Power and fuel form a small proportion of the company's total costs as it does not have manufacturing machinery and majority of clocks sold are only assembled.
- Other manufacturing expenses (which include fixed expenses like factory rent, insurance, etc.) as a percentage of sales have decreased by around 189 bps from 4.3% in FY09 to 2.4% in FY12 due to economies of scale and decline in labor charges and insurance fees in FY12.
- Labor charges have declined as the company has capitalised labor charges related to job work for capacity expansion.
- Insurance fee has declined as the company has changed its insurance provider for products bought under LC arrangement that has led to significant decline in insurance premium.

Selling, general and administrative (SG&A) & other expenses

₹ mn	FY09	FY10	FY11	FY12	H1FY13
Commission on sales	1.4	2.8	1.5	1.4	0.5
% of sales	2.3%	2.6%	0.9%	0.8%	0.6%
Discount given	2.8	7.8	5.3	4.1	2.3
% of sales	4.8%	7.3%	3.2%	2.4%	2.4%
Advertising and marketing	4.1	2.3	5.5	2.6	1.1
% of sales	6.8%	2.2%	3.3%	1.5%	1.1%
Freight	2.0	2.4	0.5	2.8	0.7
% of sales	3.4%	2.2%	0.3%	1.6%	0.8%
Other expenses	5.6	5.9	11.5	6.0	6.9
% of sales	9.4%	5.5%	6.9%	3.5%	7.2%
Total SG&A and other expense	**15.9**	**21.2**	**24.3**	**16.9**	**11.5**
% of sales	**26.7%**	**19.7%**	**14.7%**	**9.8%**	**12.1%**

Source: Company, CRISIL Research

- Selling expenses as a percentage of sales have declined from 19.7% in FY10 to 9.8% in FY12 due to decline in marketing and promotional spend coupled with the decline in other expenses.
- Management said the company has restricted the policy of giving cash discount and commission on sales, as its FB limits were increased to ₹56.5 mn from April 1, 2010. With this increase in limits, it is now economical for the company to fund its working capital by using bank credit rather than 3-5% cash discount and commission. This has contributed to ~300 bps fall in SG&A expense over FY09-FY11.
- The company launched a blanket discount scheme in FY10, when for the first time discount was available on all the models. As a result, discount expense was high to the extent of 7.3% of sales. Due to relatively poor response on the discount scheme, the company has not engaged in any such sales campaign since then.

EBITDA margin

Cost as a percentage of sales	FY09	FY10	FY11	FY12	H1FY13
Raw material cost	38.2%	46.9%	54.9%	51.2%	53.5%
Other manufacturing expenses	4.8%	3.9%	3.5%	2.5%	3.2%
Employee cost	11.9%	7.1%	6.4%	9.3%	8.5%
Selling, general and administrative expenses	26.7%	19.7%	14.7%	9.8%	12.0%
Total cost	81.7%	77.6%	79.4%	72.8%	77.3%
EBITDA margin	**18.3%**	**22.4%**	**20.6%**	**27.2%**	**22.7%**

Source: Company, CRISIL Research

- The company has been able to improve its EBITDA margin over the period because of its ability to pass on the increase in raw material cost, low salary of key management personnel and operating efficiencies.
- In FY12, EBITDA margins improved significantly on account of decline in raw material costs coupled with decline in marketing and other expenses. However, we believe that decline in marketing spend is not sustainable as the company needs to spend on promotion of its products to beat competition. In addition, labor costs declined because the company capitalised the labor expenses related to capacity expansion.
- In H1FY13, EBITDA margins declined 109 bps y-o-y because of higher raw material cost as a % of sales which was because of product mix and discount/incentive scheme for the organised retail outlets in the 2nd quarter.

Interest cost

The following table entails the break-up of the interest cost over the period under review:

₹ mn	FY09	FY10	FY11	FY12
Interest cost	1.1	3.6	8.5	13.2
LC charges	-	0.2	0.6	0.7
Bank charges	0.3	1.1	1.8	0.2
Interest on duty and taxes	0.6	0.6	0.6	1.3
Total	**1.9**	**5.6**	**11.5**	**15.4**

Source: Company, CRISIL Research

- Interest expense has increased significantly from FY10 to FY12 because of increase in the working capital loan and other debt (for details, please refer page 39).

Depreciation

Cost as a percentage of sales	FY09	FY10	FY11	FY12	H1FY13
Depreciation expense (₹ mn)	0.3	0.5	1.1	1.3	1.1
Depreciation expense (% of sales)	0.4%	0.5%	0.6%	0.7%	1.1%
Gross block (₹ mn)	6.8	8.6	13.0	19.9	21.2
Depreciation rate (% of average gross block)	5.1%	7.1%	10.1%#	7.8%	10.5%

depreciation rate was high as most of the capex in FY10 was capitalised towards end (full year impact in FY11) and capex for FY11 was done at beginning of the year.

Source: Company, CRISIL Research

- The depreciation expense increased from ₹0.5 mn in FY10 to ₹1.3 mn in FY12 because of investment in furniture fixtures, panels and office equipment. Depreciation rates are as per schedule XIV of Companies Act.
- In FY12, capital investment of ₹5.8 mn was capitalised in February,'2012 and March,'2012. Hence the depreciation has been calculated for two months because of which average depreciation rate is coming lower.
- The company has CWIP of ₹11.4 mn that is likely to get capitalised by the end of FY13. This will lead to further increase in depreciation expense going ahead.

Tax rate and net income

- The company's manufacturing facility in Roorkee enjoys income tax benefit offered by the state government. It has got 100% tax exemption for the first five years starting January 2010 and tax on only 30% income for the next five years starting January 2015. Accordingly, its effective tax rates declined significantly from FY10 onwards. It is, however, liable to pay MAT.
- The company has delayed payment of income tax. Please refer to page 23-24 for details.

	FY09	FY10	FY11	FY12
Profit before tax (₹ mn)	9.3	18.8	22.6	29.2
Profit before tax (% of sales)	15.6%	17.4%	13.7%	17.0%
Tax (₹ mn)	3.0	4.3	0.3	0.4
Effective tax rate (₹ mn)	**32.0%**	**22.6%**	**1.4%**	**1.2%**
Net profit (₹ mn)	6.4	14.5	22.3	28.9
Net profit margin (%)	**10.8%**	**13.5%**	**13.5%**	**16.8%**

Source: Company, CRISIL Research

Balance Sheet Analysis

(₹ mn)	FY09	FY10	FY11	FY12	H1FY13
Liabilities					
Equity share capital	1.0	1.0	5.4	21.8	21.8
Share application money	12.1	12.1	9.9	-	-
Reserves and surplus	19.4	34.0	56.3	96.6	110.7
Minorities	-	-	-	-	-
Net worth	**32.6**	**47.1**	**71.6**	**118.4**	132.4
Convertible debt	-	-	-	-	-
Other debt	45.3	65.7	89.8	98.8	87.4
Total debt	**45.3**	**65.7**	89.8	98.8	87.4
Deferred tax liability (net)	0.3	0.4	0.6	0.8	0.6
Total liabilities	**78.1**	**113.2**	**162.0**	**217.9**	220.4
Assets					
Net fixed assets	6.4	7.6	11.0	16.6	16.8
Capital WIP	-	-	-	3.0	11.4
Total fixed assets	**6.4**	**7.6**	**11.0**	**19.6**	28.2
Investments	-	-	-	0.1	0.0
Current assets					
Inventory	21.1	26.1	40.1	48.2	53.2
Sundry debtors	17.2	51.1	68.4	75.9	67.2
Loans and advances	3.1	6.0	7.5	18.9	21.9
Cash & bank balance	0.9	2.3	4.4	9.8	5.8
Marketable securities	-	-	-	-	-
Total current assets	**42.4**	**85.5**	**120.4**	**152.9**	148.2
Current liabilities					
Creditors	9.5	21.8	20.8	17.2	17.5
Provisions	2.9	4.2	4.2	5.7	6.6
Total current liabilities	**12.3**	**25.9**	**25.0**	**22.8**	24.1
Net current assets	**30.0**	**59.6**	**95.4**	**130.1**	124.1
Intangibles/Misc. Expenditure	**41.7**	**46.0**	**55.6**	**68.2**	68.2
Total assets	**78.1**	**113.2**	**162.0**	**217.9**	220.4

Particulars	FY09	FY10	FY11	FY12	H1FY13
Activity ratios					
Inventory days	235	153	136	162	186
Creditors days	71	95	58	50	43
Debtor days	64	110	102	96	123
Working capital days	145	146	163	224	219
Gross asset turnover (x)	11.9	14.0	15.4	10.5	9.7
Net asset turnover (x)	12.6	15.4	17.8	12.5	11.9
Sales/operating assets (x)	9.3	15.4	17.8	11.3	8.0
Liquidity ratio					
Current ratio (x)	3.4	3.3	4.8	6.7	6.1
Capital structure ratios					
Debt-equity (x)	1.4	1.4	1.3	0.8	0.7
Net debt/equity (x)	1.4	1.3	1.2	0.8	0.6
Interest coverage	5.6	4.2	2.9	3.0	2.9
Profitability / Return ratios					
EBITDA margin (%)	18.3	22.4	20.6	27.2	22.7
Adj PAT Margin (%)	10.5	13.5	13.5	16.8	14.8
RoE (%)	21.3	36.5	37.6	30.4	25.1
RoCE (%)	17.0	24.7	24.2	24.0	22.0

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Equity Share Capital

- The company increased its share capital from ₹1 mn in FY10 to ₹21.8 mn in September 30, 2012.
- The Chavan group primarily contributed the share application money. As there was less clarity on the brand valuation and Mr Subhash Gujar did not have adequate funds to maintain the shareholding structure, the money was kept in share application account and no shares were allotted against it. The Gujar group infused equity (₹2.2 mn at ₹10 per share) in FY11 and accordingly shares were allotted (at face value) to the tune of ₹2.2 mn. Subsequently in FY12, the company issued 1.6 mn new equity shares at a face value of ₹10 each and a total premium of ₹11.5 mn. The company has allotted shares against the share application money and interest free shareholder loan of ₹18 mn from Mr. Chavan's group. In the new share issuance, the promoter family was allotted 0.8 mn shares (49% of 1.6 mn new shares) against the ₹8.0 mn of share application money. As a result, the shareholding of the promoter's family has increased from 9% to 39% and that of Mr. Chavan's Group has remained at 51%.

₹ mn	FY08	FY09	FY10	FY11	FY12	H1FY13
Share capital	0.1	1.0	1.0	5.4	21.8	21.8
Share premium	-	9.0	9.0	9.0	20.5	20.5
Share application money	22.0	12.1	12.1	9.9	0	0
Reserves & surplus	4.0	10.4	25.0	47.3	76.1	90.1
Shareholders' funds	**26.1**	**32.6**	**47.1**	**71.6**	**118.4**	**132.4**

Source: Company, CRISIL Research

Borrowings

Details of the company's borrowings:

₹ mn	FY09	FY10	FY11	FY12	H1FY13
Loan from shareholders	21.4	22.5	18.0	-	-
Loan from financial Institutions	0.0	0.0	9.6	7.7	7.4
Working capital loan	23.8	43.3	58.4	79.4	79.5
Other loans	0.0	0.0	3.8	11.6	0.4
Total loans	45.3	65.7	89.8	98.8	87.3

Source: Company, CRISIL Research

- Loan from shareholders has been utilised for the allotment of new equity shares to Mr. Chavan's group. This was the unsecured loan taken from Mr Chavan's group and was interest free.

- Unsecured loan from financial institutions

Financial institution name	Amount outstanding on September 30, 2012 (₹ mn)
Barclays Bank	1.2
Kotak Mahindra	4.9
Religare Finvest	1.3
Total	7.4

Source: Company, CRISIL Research

- Working capital loan

  The working capital loan of ₹79 mn has been taken from the Central Bank of India. The company has used inventory, debtors and Mr. Sameer Gujar's house as collateral. The management has made arrangement with the Central Bank of India for LCs. (For details, please refer to Appendix 1)

Fixed Assets

Composition of net fixed assets

₹ mn	FY09	FY10	FY11	FY12	H1FY13
Factory shed	1.4	1.7	1.7	7.2	7.8
Furniture	4.1	4.5	6.6	6.9	6.8
Office equipment	0.7	0.8	1.9	1.7	1.5
Electrification	0.3	0.4	0.5	0.5	0.5
Tools	-	0.1	0.2	0.2	0.2
Vehicles	-	0.1	0.0	0.0	0.0
Total assets	**6.4**	**7.6**	**11.0**	**16.6**	**16.8**
CWIP				**3.0**	**11.4**

Source: Company, CRISIL Research

- The company is mostly into assembly operations and, hence, has a low asset base. The plant can currently assemble 2,00,000 units of Opal and 3,00,000 units of Caliber. However, it can be scaled up to meet the demand as it depends upon the labor strength and the floor size.
- In FY12, the company has a CWIP of ₹3.0 mn for the additional floor built by the company for the purpose of Caliber brand assembly. As of September 30, 2012, the CWIP has increased to ₹11.4 mn primarily because the company has incrementally spent ₹7.5 mn for the purchase of moulds that hasn't been capitalised.

Accounting

- Fixed assets are stated at the cost of acquisition less depreciation. Depreciation of fixed assets is provided on straight line method at the rates and in the manner prescribed in the Schedule XIV of the Companies Act 1956.
- While the company maintains a fixed assets register, it has not formally done a physical verification of fixed assets.

Intangibles

₹ mn	FY09	FY10	FY11	FY12
Advance against purchase of goodwill	41.7	46.0	55.6	68.2

Source: Company, CRISIL Research

- The Opal brand was held by Opal Industries, a partnership firm managed by Mr Subhash Gujar and Mr Nagesh Mahindrakar. The brand has been transferred to OPAL at ₹68.2 mn.

Inventories

	FY09	FY10	FY11	FY12	H1FY13
Sales (₹ mn)	60	108	166	172	96
Inventory (₹ mn)	21.1	26.1	40.1	48.2	53.2
Inventory days (based on year-end inventory)	339	189	161	199	186

* calculated on TTM cost of material

Source: Company, CRISIL Research

- An overview of the inventory as on Sep 30, 2012 is as follows:

₹ mn	FY09	FY10	FY11	FY12	H1FY13
Raw material	10.9	16.3	25.8	19.6	17.1
Stock in transit	0.0	0.0	0.0	0.0	0.0
Consumable stores	1.7	1.7	1.5	6.6	3.7
Work in progress	2.0	2.6	4.0	4.2	7.7
Finished stock	6.4	5.5	8.8	17.8	24.8
Total	**21.1**	**26.1**	**40.1**	**48.2**	**53.2**

Source: Company, CRISIL Research

- As on March 31, 2012, the company had around 199 days of inventory (on TTM cost of material basis) as compared to 339 days in FY09 and 189 days in FY10. The inventory days increased specifically because of the increase in finished goods. The dealers deferred purchase due to price rise taken by the company.
- The company imports a large proportion of its raw material and there is a lag of 80-90 days between the date of placing the order and the arrival of goods in Roorkee. Hence, it is required to keep high raw material inventory to meet the demand. High freight cost and economies associated with bulk volumes makes it feasible to import large volumes.

Accounting

- Inventory of raw material, components, work-in-progress are valued at lower of historical cost or net realisable value. FIFO is used for determining the historical cost.

Sundry debtors

	FY09	FY10	FY11	FY12	H1FY13
Sales (₹ mn)	60	108	166	172	96
Debtors (₹ mn)	17.2	51.1	68.4	75.9	67.2
Debtor days	106	173	150	161	123

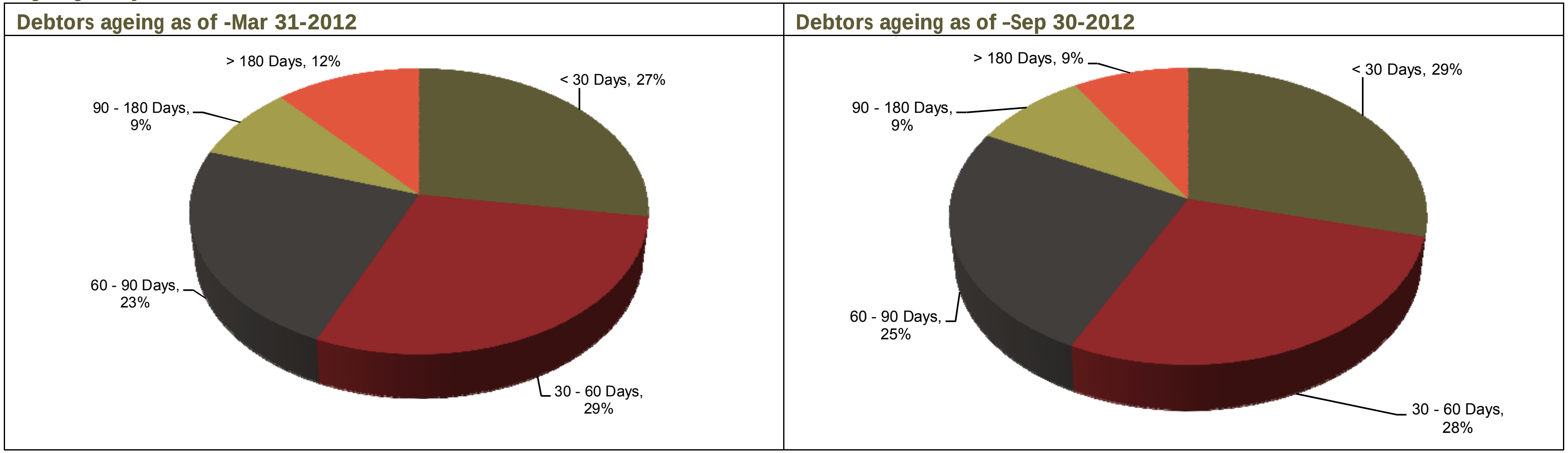
*calculated on TTM net sales

Source: Company, CRISIL Research

- Sundry debtors mainly include amount receivable from distributors and organised retail.
- According to the management, credit terms offered to the customers:
  - **Distributor sales:** On an average, distributors get credit period of 90 days. The company used to offer cash discount of 3-5% until FY10 as it did not have adequate working capital funding limit from banks; hence debtor days were low in FY09. As FB limits have been increased significantly, the company reduced offering cash discounts, as they are more expensive compared to the bank's interest rate.
  - **Organised retail sales:** OPAL sells its product to organised retail players, recognises sales but receives payment only when actual sales to end customer happen. This typically takes place in 100-120 days. Hence, the debtor days for organised retail is mostly about 120 days. However if the sales of the products do not happen then the retailers do not carry the inventory risk.

- As the organised retail channel is also serviced by distributors, the classification of organised retail debtors served directly by the company and through distributors is not available. Typically, when a distributor caters to organised retail, as his collection cycle is long, he delays the payments to Opal.

Ageing analysis of debtors



- As per the age-wise analysis on September 30, 2012, debtors of ₹5.9 mn are outstanding for more than 180 days.
- Most of the debtors, more than 180 days as of March 31, 2012, are running accounts and have made regular payments and the management is confident of collecting the balance sum in due course. The company does not have a fixed policy for provisioning for doubtful debts but identifies the likelihood of collection on case to case basis and accordingly does provisioning. For example, the company has partially provided for Regeneration Next, Landmark Group and other players that have high debtor days.

Debtors outstanding for more than 180 days

Debtor's name	Amount outstanding (₹)	No of days outstanding as on Sep 30, 2012
Bharat Time Style	34,689	199
Canteen Stores Department Mumbai	196,120	212
Dalson	65,461	196
Hindware Home Retail Pvt. Ltd	446,900	229
Landmark Group	102,554	approx. 1 year 65 days
Pantaloon Retail (India) Limited	772,509	197
Renegeration Next	205,871	approx. 3 years
Reliance India Ltd	280,787	189
Shah Clock Agencies	158,324	210
Shopper Stop Ltd	150,339	192
Sumangal Logistics	390,453	256
Sunshine Distributors	357,597	276
Swiss Time House	98,526	191
Trent Limited	390,617	193
Virgo Home Deziner Private Ltd	89,491	317
Yash international	140,275	226
Apollo Advertising LLC	147,440	229
Reliant Exim & Consulting LLC	213,124	196
Bigshoe Bazaar India Pvt. Limited	100,206	192
Total	**4,341,283**	

Source: Company, CRISIL Research

Loans and advances

An overview of the loans and advances is given below:

In ₹ mn	FY09	FY10	FY11	FY12	H1FY13
Salary advance	0.1	0.1	0.3	0.2	0.4
Other advances	1.1	4.1	0.6	1.8	0.9
Advance to directors	-	-	0.8	-	-
MAT credit receivable	-	-	4.1	9.9	12.5
Prepaid expenses	-	0.0	0.1	0.0	0.8
Interest accrued but not due	0.3	-	-	-	0.2
Advance income tax	-	-	-	0.0	0.0
Deposits	1.5	1.6	1.6	6.9	6.9
Total	**3.0**	**6.0**	**7.5**	**18.9**	**21.9**

Source: Company, CRISIL Research

- Advance of ₹849,350 as on March 31, 2011 was given to director Mr Sameer Gujar for his official trip to the US, which has now been expensed.
- Deposit as on Sep 30, 2012 includes:

In ₹	FY11	H1FY13	Remarks
Advance for RM		2,683,564	This amount is pertaining to advance given to both domestic and international suppliers for raw material procurement. It should be recorded separately as loans and advances and not under deposits.
Deposit for distributors	565,167	2,095,635	This is the deposit given for the organised retail outlets and some dealers through distributors.
Deposit - organised retail showroom	279,654	429,654	This is the deposit given to the Home Town outlets.
Deposit- factory	270,000	1,270,000	₹270,000 refers to security deposit for leased premises. ₹1 mn refers to FA spends to be recovered from the lessor. Please refer to page 26 for details.
Deposit - office	141,000	191,000	Deposit of ₹141,000 is given for the company’s corporate office. Deposit of ₹50,000 is given for the Vashi (Mumbai) service center.
Deposit - showroom	369,180	162,580	The company has closed the Thane showroom in October 2011 but security deposit given for that premises is still lying with the landlord. The management expects the deposit to be recovered over the next few months.
Other deposits	15,000	21,000	Includes deposit given to the sales tax department.
Total	**1,270,821**	**6,853,433**	

Source: Company, CRISIL Research

Cash and bank

₹ mn	FY09	FY10	FY11	FY12	H1FY13
Cash on hand	0.1	0.0	0.0	0.1	0.2
Balances with scheduled bank					
- in current accounts	0.8	0.3	0.2	0.2	0.7
- in deposit account	-	2.0	4.2	9.5	4.9
Total	0.9	2.3	4.4	9.8	5.8

Source: Company, CRISIL Research

- As on Sep 30, 2012, the company had ₹235,873 as cash and ₹678,987 in different current accounts.
- The company has ₹4,920,454 in the deposit account with Central Bank of India, which is used as margin money against LC. The company earns average rate of interest @ 8.75% p.a. on these deposits.
- As per the annual report, cash and bank balance was ₹0.26 mn, but was restated to ₹4.4 mn during the H1FY12 audit. The company earlier used to net off the balance kept with the Central Bank of India (₹4.17 mn) in the form of fixed deposits (specifically for LC limits), against amount payable to creditors for whom LC has been raised. Accordingly, both cash & bank and creditors were understated to the tune of ₹4.17 mn as of March 31, 2011.

Creditors

₹ mn	FY09	FY10	FY11	FY12	H1FY13
Creditors for goods and expenses	7.6	15.8	18.5	12.6	14.9
Capital creditors	-	3.6	0.5	0.8	0
Duties & taxes payable	1.9	2.3	1.8	3.8	2.5
Total	**9.5**	**21.8**	**20.8**	**17.1**	**17.5**

Source: Company, CRISIL Research

- Out of total creditors for goods and expenses, more than 85% is in respect of the amount payable to the vendors who import raw materials. The company is required to make payment within six months of the opening of LC.
- The company does not maintain creditors ageing.

Provisions

₹ mn	FY09	FY10	FY11	FY12	H1FY13
Provision for income tax	2.9	4.2	4.2	5.7	6.6

Source: Company, CRISIL Research

- Provision for income tax amounted to ₹6.6 mn as on Sep 30, 2012.
- The company does not make any provision for warranties against clocks sold. According to the management, defects and returns are negligible and most of the problems are solved by the customer care representatives.
- The company does not make provision for gratuity and leave encashment as it is not required for the first five years of operations. But the block of five years gets over in FY12 and the company is expected to start providing for gratuity from FY13 onwards.

Other Matters

Insurance arrangements

- As per the information provided by the management, the company has adequate insurance for plant and inventory. All insurance policies are with Cholamandalam General Insurance Company.

Nature of policy	Valid up to	Locations covered	Sum Insured (₹ mn)
Fire & special perils	19-Apr-12	All locations	50
Burglary & housebreaking	19-Apr-12	All locations	50
Marine import	12-Apr-12	Anywhere in the world	50
Inland	12-Apr-12	Anywhere in the world	50

Source: Company, CRISIL Research

- The company has not taken any policy for KMP.

Contingent Liabilities

- As per the information provided to us, there are no significant claims, pending or threatened litigations against the company in the latest available period.
- The company has not given any significant guarantees, performance bonds, letters of comfort or similar documents of assurance and any indemnities provided for the benefit of the company.

Related party transactions

- The company has made capital advances to Opal Industries for the acquisition of the brand.

Nature of transaction	FY09	FY10	FY11	FY12
Capital advances given (₹)	41,678,047	45,986,718	55,565,347	68,188,351

Source: Company, CRISIL Research

- The company has had few transactions with Innoventive Industries Ltd (formerly Arihant Domestic Appliances Pvt Ltd). Purchase of goods in FY09 represents high sea sales transactions, as Opal had tight working capital cycle.

Nature of transaction	FY09	FY10	FY11	FY12
Purchase of goods (₹)	9,786,337	33,312	10,628	-
Sale of goods (₹)	140,841	59,351	15,188	232,720
Loans taken (₹)	3,431,565	4,474,829	-	
Creditors (₹)	3,252,007	-	-	

Need to understand the transaction in detail

- As informed by the management, all the transactions with the related party are on arm's length basis and there are no other transactions apart from those mentioned above.

Appendix

Appendix 1: Summary of loan agreements

	Central Bank of India	Intec Capital Limited
Date	March 29, 2012	December 27, 2010
Sum sanctioned	Fund based (FB) limit: ₹80 mn Non FB limits: ₹50 mn	₹6.59 mn
Interest rate	BR + 3%	8% flat p.a.
Purpose	FB: Cash credit and overdraft Non FB: Letter of Credit (LC)	36-month term loan for purchase of machineries
Repayment terms	NA	Installment: ₹226,905 for first 24 months and ₹4,026 for the past 12 months
Security	Paid stock and book debt	Exclusive hypothecation lien mark on the quotations and invoices in favour of company.
Personal guarantee	Mr Sameer Gujar (₹14.4 mn), Mrs Pratibha Gujar (₹ 5 mn), Mr Chandu Chavan (₹167.9 mn)	Personal guarantee of Sameer Gujar, Mrs Pratibha Gujar and Mr Chandu Chavan
Collateral security	(1) Mr Sameer Gujar and Mrs Pratibha Gujar: Residential flat (₹6.6 mn) (2) Mr Chandu Chavan: 0.25 mn shares of M/S Arihant Domestic Appliances Rs 0.32 mn fixed deposit by OPAL (for 555 days at 9%)	NA

Appendix 2: Summary of key customer terms

Distributor agreements

	Associated Time Co	Lunawat Distributors	Dropadi Traders
Date	5th Apr 2011	28 Sep 2011	12 Dec 2011
Term	FY12 (renewal)	Fresh agreement - term not explicitly mentioned	Fresh agreement - term not explicitly mentioned
Nature of agreement	Distributor for Opal clocks	Distributor for Opal clocks	Distributor for Opal clocks
Territory	Mumbai Mahanagarpalika	Maharashtra excluding Mumbai	Rajasthan
Common terms			
Exclusivity	Not to distribute clocks in the same market positioning as Opal		
Payment terms	100% advance payment with 3% cash discount. No credit		
Infrastructure requirements	Godown of 600 sq. ft. minimum		
Taxes & Levies			
Insurance for godown stock	Done by distributor		
Reporting to	National Sales Manager		
Investment required	2.5 months stock and debtors		
Distributor margin	7.5%		
Dealer margin	25%		
Right to appoint dealers	At discretion of Opal		

Organised retail agreements

	Trent Ltd (Westside)	Shoppers Stop
Date	March 11, 2011	March 18, 2010
Term	Three years effective from April 1, 2010	April 1, 2010 to March 31, 2013
Sale term	Sale or return basis	Sale or return basis
Payment terms	Payment only after the clock is sold, at the end of the following month	Not clear. Management mentioned it is at the end of the following month
Infrastructure requirements	To be borne by Opal	To be borne by Opal
Staff at the store	To be employed by Opal	To be employed by Opal
Margin	23% of MRP	28.125%
Old inventory	Stock more than 120 days can be sold at discount as mutually agreed. Margin will be 23% of the reduced price	Opal to remove all non-moving stocks and replenish with fresh stocks once a quarter
Termination clause	Three-month notice, or non-renewal	30-day notice
Buyer obligations	Earmark a designated location at each store	Earmark a designated location at each store

Note: Trent agreement is dated March 11, 2011, but term is from April 1, 2010. Management mentioned it could be a typographic error.

Appendix 3: Summary of brand valuation report

- Brand valuation was done by M/s Anmol Sekhri Consultants Pvt Ltd (ASCPL) in March 2010.
- The Opal brand has been valued at ₹479.1 mn.
- As per ASCPL, 'since accurate data of competitive brands is not available, we have not used Premium Pricing Method'. Accordingly, ASCPL has calculated the valuation of the company at ₹958.3 mn. Also, the report considers 50% of the company value as the brand value.
- The company valuation has been done by using a combination of DCF, P/E, NAV methods.

Brand valuation summary

Methods	Value (₹ in Lacs)	Weight Allotted	Weight Value (₹ in Lacs)
DCF	18,574.05	2	37,148
P/E	5,201.94	2	10,404
NAV	364.48	1	364
Total Value	24,140.47	5	47,916
Weighted Average Value			9,583

Source: Brand valuation report authored by M/s Anmol Sekhri Consultants Pvt Ltd for Opal Luxury Time Products Pvt Ltd

Appendix 4: Distribution Network

No of stores	FY09	FY10	FY11	FY12
Distributor network				
Associated Time Company, Mumbai	□	□	□	□
M.P India, Delhi	□	□	□	□
Prasim Network, Kolkata	□	□	□	□
Hitech Distributor, Chennai	□	□	□	□
Hitech Distributor, Bengaluru	□	□	□	□
Sumangal Logistic, Hyderabad	□	□	□	□
Shah Clocks Agencies, Bengaluru	▫	□	□	□
Noble Printers, Pune	▫	▫	□	□
Sunshine Distributors, Jaipur	▫	▫	□	□
Total distributor network	**6**	**7**	**9**	**9**
Organized Retail Network				
@ Home Store (Nilkamal group)	14	15	0	UN*
Home town (Pantaloon group)	11	16	15	13
Shopper Stop	7	12	14	21
Reliance	2	4	7	22
West Side	0	0	12	11
Accessories	0	0	1	3
Evok (Somany group)	0	0	8	11
S. Max	0	0	2	2
Central	**0**	**0**	**0**	**3**
Century Plyboards	**0**	**0**	**0**	**2**
Total organised retail	**34**	**47**	**74**	**88**
y-o-y change		38%	57%	
Opal owned showrooms				
Pune	□	□	□	▫
Thane, Mumbai	□	□	□	▫
Total showrooms	**2**	**2**	**2**	**0**

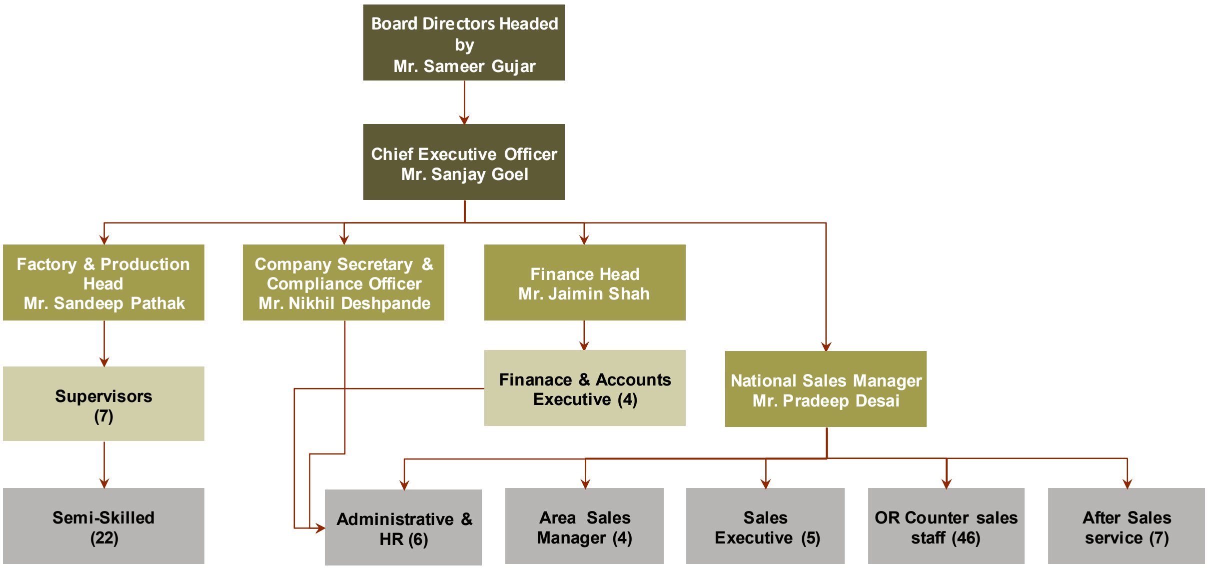
*Under Negotiation- The company is in talks with renewing the business again with Nilkamal for displaying their products in 21 stores

□- Signifies distributor network is present
▫- Signifies non-existence of distributor network

Appendix 5: Increase in MRP of top selling models

Sr. No.	Model No	MRP 2007-08 (₹)	MRP 2011-12 (₹)	4 year CAGR price rise (%)
1	1818	3800	4250	3%
2	1836	5950	7750	7%
3	1926	6450	8500	7%
4	S-18	5000	5500	2%
5	S-36	5950	6500	2%
6	3825	1550	1950	6%
7	3852	1550	1950	6%
8	4509	2250	2350	1%
9	4563BL	1250	1650	7%
10	4563OR	1250	1650	7%
11	4581	1050	1450	8%
12	4653	1750	2150	5%
13	5436	1550	1950	6%
14	5643A	1450	2350	13%
15	5670	1750	3250	17%
16	5670BR	1750	3250	17%
17	5724	1850	2650	9%
18	5733	2550	2950	4%
19	5778	1550	1850	5%
20	5778A	1550	1850	5%
21	5805	2050	2550	6%
22	5805R	2050	2550	6%
23	5805A	2050	2550	6%
24	5877	2150	3050	9%
25	5967S	2150	3250	11%
26	5931	1750	2550	10%
27	7416	1850	3150	14%
28	7560	2250	2950	7%
29	7560BR	2250	2950	7%
30	7722B	2550	2950	4%
Average Price rise				**7%**

Appendix 6: Organisation structure



Disclaimer / Important notice

This Company Analysis and FDD Report is based on the limited scope of financial due diligence of Opal Luxury Time Products Pvt Ltd. ("the Company") The Scope of Work covering the procedures to be performed for financial due diligence of the Company is defined below. In this Report, we may choose to not include matters that we believe to be insignificant. There may be matters, other than those noted in this Report, which might be relevant in the context of the issue and which a wider scope might uncover. The financial due diligence is based on the audited/un-audited consolidated financial statements for FY09, FY10, FY11, FY12 and H1FY13

The Report has been issued on the understanding that the Company's management has drawn our attention to all matters, financial or otherwise, of which they are aware which may have an impact on our Report upto the date of this Report. Additionally, we have no responsibility to update this Report for events and circumstances occurring after this date.

Our work does not constitute recommendations about the completion of the operation. This Report also does not constitute an audit in accordance with the Audit Standards and we have not independently verified all the matters discussed in this Report and have relied on the explanations and information as given by the management (verbal as well as written) of the Company. We have assumed the genuineness of all signatures and the authenticity of all documents submitted to us, whether original or copies. In this regard, management of the Company is responsible for the proper recording of transactions in the books of account and maintaining an internal control structure sufficient to permit the preparation of reliable financial information, including financial accounts. Consequently, we do not express an opinion on the figures and other information included in this Report. CRISIL does take any responsibility towards the usage of the Report in any form.

The information and conclusions of this Report should not be the basis for the listing or for any investor to place a value on the business of the Company or to make a decision whether to acquire or invest in the Company. Our due diligence and analysis should not be construed as investment advice; specifically, we do not express any opinion on the suitability or otherwise of entering into any transaction in this regard. We accept no responsibility for matters not covered by the Report or omitted due to the limited nature of our analysis. The future plans of the Company, if any, are as informed to us by its Management. We do not have any view on the same.

Scope of Work

The limited scope of coverage of the Company Analysis and Financial Due diligence Report would be:

i) Study of the financial statements of the Company for the financial periods ended March 31, 2008, March 31, 2009, March 31, 2010, March 31, 2011 and March 31, 2012 and September 30, 2012("Historical Period").

ii) Review and comment on the reasonability and consistency of significant accounting policies adopted

iii) Highlight significant matters in internal audit reports, audit committee reports and RBI audit reports

iv) Analyze quality of earnings with particular focus on:

   a) recurring versus non-recurring transactions (income and expenditure)

   b) changes in accounting policies

   c) impact of related party transactions, if any.

v) Analyze the key drivers of revenue and margin growth with particular reference to:

   a) price and volume changes of key products

   b) geographical distribution

vi) Comments on the branch distribution network. Highlight significant issues in the lease rent agreement.

vii) Analysis of selling costs and marketing overheads.

viii) Analysis of interest cost and depreciation expense.

ix) Analysis of variances in significant administrative overheads.

x) Analysis of movement in head count and employee costs during the reporting period.

xi) Highlight the movement of debtors over the past four years.

xii) Analysis of the cost sheet and comment on the movements in the costs over the Historical Period

xiii) Analysis of historical trends in capex. Based on discussion with management, comment if there has been any deferred maintenance/replacement capex.

xiv) Analysis of the basis of capitalization and components of costs such as borrowing costs, pre-operative expenditure, exchange fluctuations, etc.

xv) Summarise details of investments held, highlighting investments in related entities, if any.

xvi) Analysis of the trends in working capital during the reporting period.

xvii) Analysis of and comment on the ageing profile of receivables and inventories. Inquire into provisioning policy and comment on provisions for uncollectible amounts and write-offs.

xviii) Analysis of the basis of inventory valuation. (physical verification of inventories will not be conducted)

xix) Comment on other current assets, loans and advances and major creditors. Comment on recoverability and provisioning for uncollectible amounts.

xx) Comment on the current liabilities including accounts payable and provisions/accruals.

xxi) Obtaining bank reconciliations for key accounts and comment on reconciling items.

Commitments, contingencies and litigation

xxii) Highlight significant claims, pending or threatened litigations against the company at latest available period, after discussions with the Management of the Company their views on the likely outcome of the cases/claims.

xxiii) Highlight significant guarantees, performance bonds, letters of comfort or similar documents of assurance and any indemnities provided by / or for the benefit of the Company, including details of such guarantees, etc given by the company for the period under review.

xxiv) Status of tax claims and disputes thereof, if any.

Related party transactions

xxv) Highlight major related party transactions and comment on recoverability / payment of balance due from / to related parties at period end.

xxvi) Comment on key financial terms and conditions of such related party transactions after discussions with the Management.

The following areas (indicative list) are excluded from the scope of the Report.

1) Valuation of the Issuer's business

2) Human Resource review

3) Technical and Commercial Due Diligence

4) Legal and Tax Due Diligence

5) IT review and risk management

6) Physical verification and valuation of fixed assets, inventories and other current assets

7) Third-party confirmations, meetings with suppliers/customers

8) Environmental compliances

9) Overview of the Supply Chain Management

10) Actuarial valuation of the company's retirement benefit arrangements

11) Checking of accounting records

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