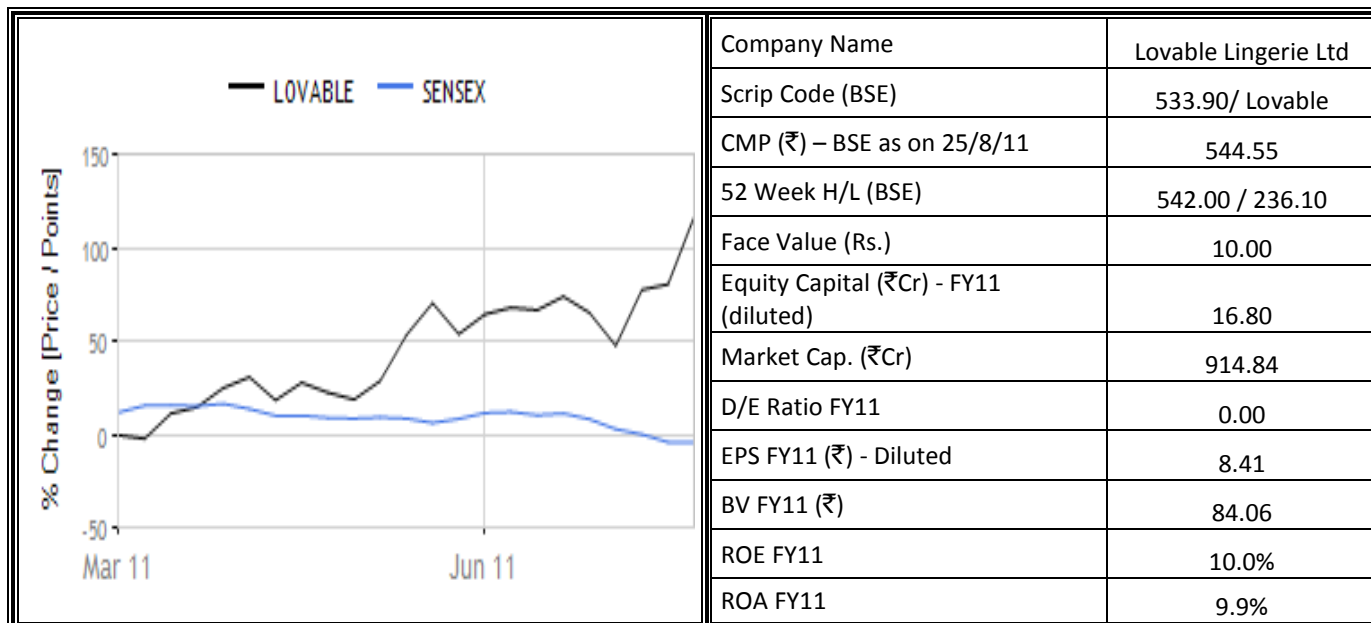


25 August, 2011

## Lovable Lingerie Ltd

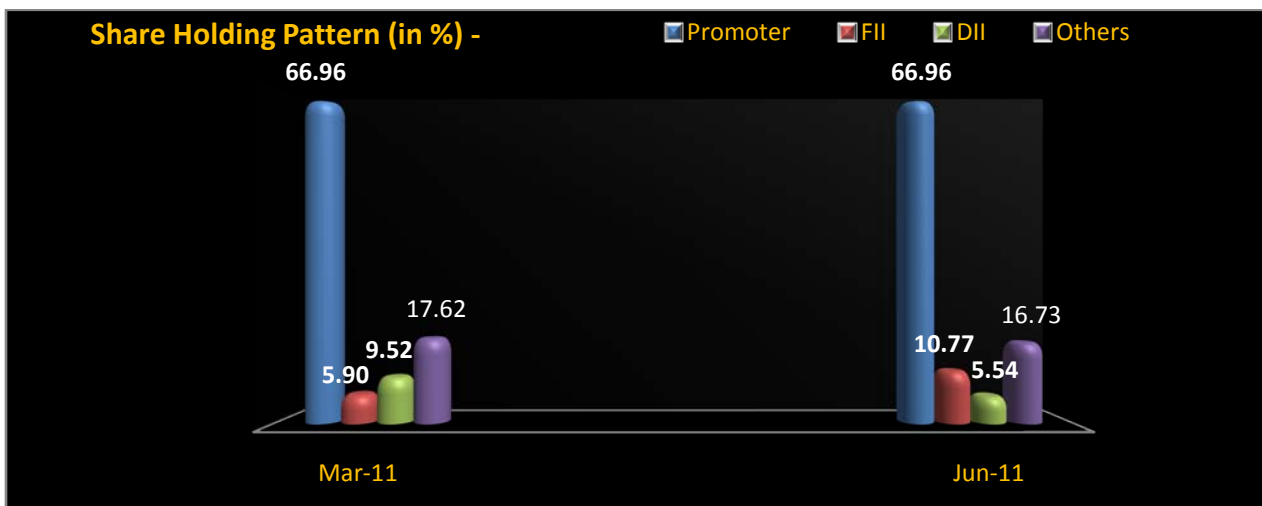


**Lovable Lingerie Ltd**, a renowned brand in the premium innerwear segment is now spreading its wings over the mid-market segment with the nationwide rolling out of its Daisy Dee brand. The Company is the market leader in the branded premium lingerie segment of the innerwear market. The industry is witnessing robust growth due to changing economic and demographic attributes of the Country and is expected to grow at a CAGR of about 18.3% during the 2009-2014 period. The Company expects a 30% growth in FY12, which is significantly higher than the expected industry growth. About 6-8% of this would be comprised of price growth while the rest would come from robust growth in volumes. We have valued the Company on a conservative basis and expect 28% growth this fiscal.

The strong financials and robust growth expectations for the Company make it an attractive investment bet. Lovable is a zero debt Company with an expected CAGR of 33.5% in topline over the next 5 years. We expected the operating margins to improve steadily during the same period to reach above 24% from present 20%. We recommend a **BUY** on the stock with a price target of **₹603** for the short term and **₹650-655** over the medium term.

## Company Profile

Incorporated in 1987, **Lovable Lingerie Limited** is one of India's leading women's innerwear manufacturers. The Company's products include brassieres, panties, slips / camisoles, homewear, shapewear, foundation garments and sleepwear products. "Lovable" and "Daisy Dee" are the flagship brands. The Company has diversified its portfolio of brands and acquired brands like "Daisy Dee" from Maxwell Industries Limited to cater to the mid segment market in India and also acquired the brand "College Style" from Levitus Trading Limited, Hong Kong. In February 2011, the Mumbai-based firm raised ₹20Cr through pre-IPO placement of 10 lakh equity shares. Subsequently, in March, the company raised over ₹93Cr through an IPO.



## Investment Argument

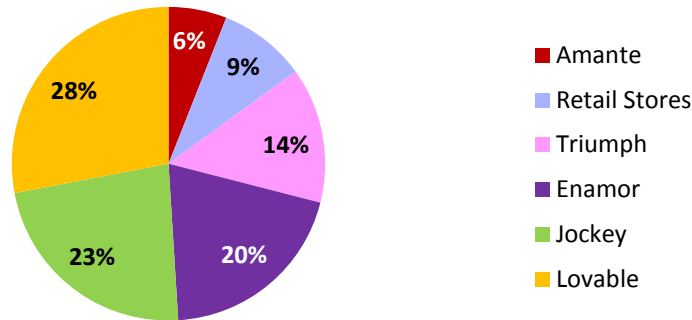
### Leadership Position in the Robustly Growing Premium Lingerie Segment

Estimated to be worth ₹13,000Cr, the Indian innerwear market is expected to grow at 13% annually over the next decade. Branded products comprise about 65% of this market. Women's innerwear comprises 51% of the innerwear market (by volumes), and 66% in value. The women's innerwear market is also growing faster than men's. The Lingerie industry in India is expected to grow at a CAGR of 18.3% during 2009-2014, with growth being led by the super-premium, premium and mid-market segments.

Increase in the purchasing power of consumers, changing life styles, proliferation of modern trade by ways of shopping complexes and malls, a growing number of working women, along with increased awareness about better fits, quality, colours and styling as well as an openness to indulge in innerwear apparel have led to a significant growth of the segment.

Growth in organized retail has been instrumental in providing a better buying space to the consumers resulting in the brands upgrading their retail imagery by undertaking aggressive advertising and marketing. Consumers are now more brand sensitive than price sensitive and prefer to pay a handsome amount for premium quality lingerie. The opening of exclusive brand outlets for innerwear has been a recent development and is expected to grow in the days to come.

**Market Share of Premium Lingerie**



Lovable commands the leadership position in the premium innerwear market. As of march 2011, the company had a 28% share in the market for premium lingerie.

Lovable is a premium segment brand which is well distributed across the country and has leading market share. It is the leader in terms of market share and shelf share in the premium segment. Daisy Dee, the Company’s new brand is just about 4 years old with a strong presence in the southern and eastern regions. Daisy Dee operates in popular segment which is a large and growing market estimated to be worth about ₹2000Cr in size. However, Daisy Dee still has a small share which it expects to grow over the next few years.

**Enhancing Presence in Mid-market Segment**

The Company is looking at enhancing its presence in the popular segment through enhancing the market share commanded Daisy Dee, over the next 3 years. Daisy Dee is a comparatively new brand for the Company. Within a span of 4 years it has established a strong foothold in the southern and eastern regions of the Country. Over the last few quarters Lovable has started marketing it in other regions of India with a view to expand its presence. The Company has extended its distribution network to northern India as well.

**Robust Advertising Spending**

Lovable would continue to invest significantly in marketing to ensure that within the next couple of years all its brands have significant presence all across India. The Company has consistently spent about 9% of sales on advertising which comprises of above line media and below line promotions. Lovable intends to maintain the advertising spent at the current level or take it a little higher by 1-2 % points vis-à-vis sales.

**New Product Launches to Boost Revenue**

Lovable is undertaking a number of product initiatives to boost revenues. In the high-end Lovable brand, the Company is adding new product extensions such as home ware and sleep ware. For a couple of very popular Lovable products the Company is expanding its distribution network to reach more stores.

Within Daisy Dee brand, the Company is launching a couple of products which would be more appealing to the newer generation. These products would be widely available in the market once the Company is through with the scaling up of its manufacturing capacity.

**Quarterly Performance**

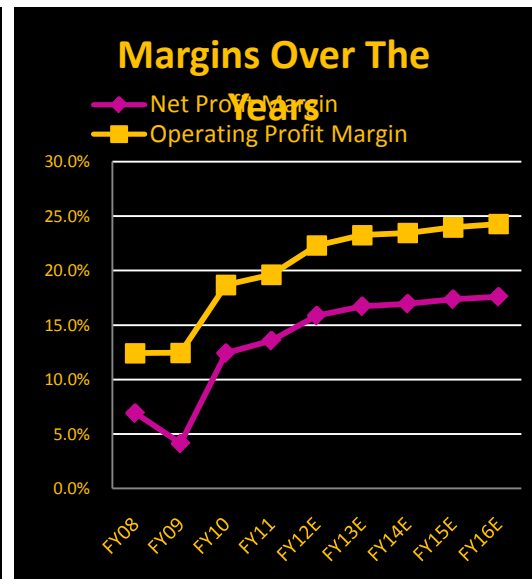
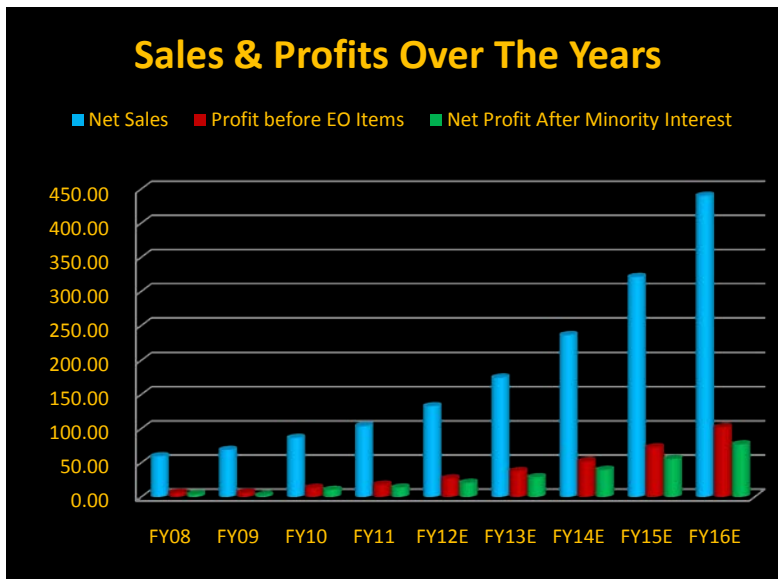
Lovable posted a net profit of ₹7Cr for the first quarter ended June 30, 2011. The company's net sales for the three months ended June 30, 2011, stood at ₹49.80Cr. This being the first year of listing, the corresponding figure for the quarter ended June 30, 2010, are not available.

In ₹ Crores	% of Full Year Estimates		
	Q1 FY12	FY12E	Covered
Net Sales	46.96	133.17	35.3%
Operating Profit	8.50	27.01	31.5%
OMP	18.1%	20.3%	
Net Profit	7.00	21.13	33.1%
NPM	14.9%	15.9%	94.0%

The Company’s first quarter performance suggests that it has done more than one-thirds of its expected FY12 revenues and net profits in the quarter itself. The margins have remained firm.

**Earning & Margin Expectations**

Lovable has given a growth guidance of about 30%. The Company has chalked out plans to achieve the target. Of the 30% growth the Company expects value growth or the average price increase to be account for about 6-7% while the rest would be volume-led growth. Expansion of distribution and a national roll-out of Daisy Dee will continue to drive volume growth



FY11 saw significant effects of cost inflation on the raw materials. Despite rising cost pressure, the Company was able to maintain margins in FY11. For FY12 so far, the raw material prices have remained somewhat flat and Lovable does not see any major changes in the trend. Hence we expect the margins to improve on the back of higher volumes and increased prices. We have valued the Company on a conservative basis at a 33.5% CAGR in topline. However, the company’s latest financial results suggest that it has the potential to exceed our estimates.

**Concerns**

- ✓ Intensifying Competition and aggressive marketing by the rivals has the potential to adversely affect the Company’s aspirations to garner higher market share.
- ✓ Higher raw-material prices can dent the margins.

## Valuation & Recommendation

We expect **Lovable** to witness good growth in terms of revenue and margins due to factors such as higher volumes, better realization, somewhat stable raw material prices, aggressive marketing and advertising and increasing spending by women on lingerie. The Company is a zero debt Company.

As of March 2011, Lovable had a market share of 28% and is the market leader in premium lingerie. The Company is also tapping the mid-market segment through national roll-out of its recently acquired brand Daisy Dee. The Company is on an expansion mode and resorting to aggressive marketing and distribution network expansion to help achieve its 30% growth target.

We expect the company's net revenue figure to grow at a CAGR of 33.5% during the next 5 years and increase from ₹104Cr in FY11 to ₹440Cr in FY16. The bottomline growth is expected to be along similar lines. Its capacity expansion is likely to propel revenues achieving a 30% plus growth target. Our estimate for FY12 puts the revenue figure at around ₹133Cr, which envisages a growth of 28%, on a conservative basis.

We expect a 20-25% appreciation in the stock price from the current levels over the long term period and a 10-15% appreciation in over the medium term. We recommend a **BUY** on the stock with a price target of ₹603 in the near term and ₹650-655 with a long term perspective.

## Financial Tables

In ₹ Crores	FY08	FY09	FY10	FY11	FY12E	FY13E	FY14E	FY15E	FY16E
<b>Net Sales</b>	<b>60.06</b>	<b>69.24</b>	<b>86.95</b>	<b>104.04</b>	<b>133.17</b>	<b>175.11</b>	<b>236.41</b>	<b>321.51</b>	<b>440.47</b>
EBITDA	7.46	8.62	16.25	20.41	29.71	40.73	55.43	77.06	106.92
EBIT	7.18	8.23	14.94	19.04	28.33	39.25	53.79	75.20	104.95
<b>Profit before EO Items</b>	<b>6.54</b>	<b>6.87</b>	<b>14.01</b>	<b>18.51</b>	<b>27.68</b>	<b>38.36</b>	<b>52.57</b>	<b>73.22</b>	<b>102.30</b>
Net Profit After Minority Interest	4.16	2.87	10.81	14.12	21.13	29.28	40.09	55.84	77.49
EPS (Basic) ₹	27.73	19.11	14.41	8.41	12.58	17.43	23.86	33.24	46.13
<b>EPS (Diluted) ₹</b>	<b>2.48</b>	<b>1.71</b>	<b>6.43</b>	<b>8.41</b>	<b>12.58</b>	<b>17.43</b>	<b>23.86</b>	<b>33.24</b>	<b>46.13</b>
Share Capital	1.50	1.50	7.50	16.80	16.80	16.80	16.80	16.80	16.80
Reserves & Surpluses	10.49	13.18	16.86	124.43	133.76	150.26	175.61	216.70	277.48
Loan Funds	7.04	6.39	0.33	0.00	0.00	0.00	0.00	0.00	0.00
Deferred Tax Liability	0.00	0.46	0.88	0.92	0.99	1.07	1.20	1.38	1.63
<b>Total Liabilities</b>	<b>19.03</b>	<b>21.53</b>	<b>25.57</b>	<b>142.15</b>	<b>151.55</b>	<b>168.14</b>	<b>193.61</b>	<b>234.88</b>	<b>295.91</b>
Net Block	3.58	13.19	12.79	12.94	13.62	14.72	16.78	19.94	20.14
Goodwill	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Investments	1.00	1.00	1.98	93.06	106.53	105.07	130.02	144.68	154.16
Deferred Tax Assets	0.04	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total Current Assets	29.48	33.36	31.72	51.00	59.98	84.54	94.29	132.90	204.59
Total Current Liabilities & Provisions	15.08	26.03	20.90	14.85	28.69	36.34	47.96	62.97	83.86
Net Current Assets	14.40	7.34	10.82	36.16	31.30	48.20	46.33	69.93	120.73
Miscl. Expenses not Written Off	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
<b>Total Assets</b>	<b>19.03</b>	<b>21.53</b>	<b>25.59</b>	<b>142.15</b>	<b>151.55</b>	<b>168.14</b>	<b>193.61</b>	<b>234.88</b>	<b>295.91</b>

Performance Analysis	FY08	FY09	FY10	FY11	FY12E	FY13E	FY14E	FY15E	FY16E
<b>Net Sales</b>	<b>60.06</b>	<b>69.24</b>	<b>86.95</b>	<b>104.04</b>	<b>133.17</b>	<b>175.11</b>	<b>236.41</b>	<b>321.51</b>	<b>440.47</b>
Growth		15.3%	25.6%	19.6%	28.0%	31.5%	35.0%	36.0%	37.0%
<b>Profit before EO Items</b>	<b>6.54</b>	<b>6.87</b>	<b>14.01</b>	<b>18.51</b>	<b>27.68</b>	<b>38.36</b>	<b>52.57</b>	<b>73.22</b>	<b>102.30</b>
Growth		5.0%	104.1%	32.1%	49.6%	38.6%	37.0%	39.3%	39.7%
<b>Net Profit After Minority Interest</b>	<b>4.16</b>	<b>2.87</b>	<b>10.81</b>	<b>14.12</b>	<b>21.13</b>	<b>29.28</b>	<b>40.09</b>	<b>55.84</b>	<b>77.49</b>
Growth		-31.1%	277.0%	30.7%	49.6%	38.6%	36.9%	39.3%	38.8%
<b>Net Profit Margin</b>	<b>6.9%</b>	<b>4.1%</b>	<b>12.4%</b>	<b>13.6%</b>	<b>15.9%</b>	<b>16.7%</b>	<b>17.0%</b>	<b>17.4%</b>	<b>17.6%</b>
<b>Operating Profit Margin</b>	<b>12.4%</b>	<b>12.5%</b>	<b>18.7%</b>	<b>19.6%</b>	<b>22.3%</b>	<b>23.3%</b>	<b>23.4%</b>	<b>24.0%</b>	<b>24.3%</b>
<b>EPS (Basic)</b>	<b>27.73</b>	<b>19.11</b>	<b>14.41</b>	<b>8.41</b>	<b>12.58</b>	<b>17.43</b>	<b>23.86</b>	<b>33.24</b>	<b>46.13</b>
<b>EPS (Diluted)</b>	<b>2.48</b>	<b>1.71</b>	<b>6.43</b>	<b>8.41</b>	<b>12.58</b>	<b>17.43</b>	<b>23.86</b>	<b>33.24</b>	<b>46.13</b>
P/E (Diluted)	219.97	319.17	84.66	64.78	43.30	31.25	22.82	16.38	11.81
D/E	0.59	0.44	0.01	0.00	0.00	0.00	0.00	0.00	0.00
BV	79.90	97.84	32.48	84.06	89.62	99.44	114.53	138.99	175.17
P/B	6.82	5.57	16.77	6.48	6.08	5.48	4.75	3.92	3.11
ROE	34.7%	19.5%	44.4%	10.0%	14.0%	17.5%	20.8%	23.9%	26.3%
ROA	21.9%	13.3%	42.2%	9.9%	13.9%	17.4%	20.7%	23.8%	26.2%
M Cap/ Sales	1.36	1.18	4.70	8.79	6.87	5.22	3.87	2.85	2.08
M Cap/ Net Profit	19.64	28.50	37.79	64.78	43.30	31.25	22.82	16.38	11.81

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