

Ipo Note
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Date	8 th March 2011
Issue Opens	8 th March, 2011
Issue Closes	11 th March, 2011
SENSEX	18486.45
NIFTY	5538.75

Shares in IPO

Total Issue Size	4.55 mn shares
Price Band	₹195 – 205
Face Value	₹10

Equity Capital

Pre-Issue	₹123 mn
Post-Issue	₹168 mn

Mkt Cap (@ 205)	₹3.4 bn
Mkt Cap (in US \$)	₹76 mn

Bid allocation pattern

QIBs	Not more than 50%
Non-Institutional Bidders	Not less than 15%
Retail	Not less than 35%
Employee Res.	

Issue Snapshot

- **Issue opens:** 8th March to 11th March
- **Price Band:** ₹195 to ₹205 per share.
- **Face Value:** ₹10 per share
- **Total Issue Size:** 4.55 mn equity shares.
- **Min Bid:** 30 shares & in multiples.
- **Lead Manager:** Anand Rathi Advisors Ltd.
- **Registrar:** Link Intime India Private Ltd.

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Lovable Lingerie Ltd.

Incorporated in the year 1987, Lovable Lingerie is one of India's leading women's innerwear manufacturers. Lovable and Daisy Dee are flagship brands of the firm. Lovable brand targets premium segment women innerwear market and commands around 20% market share. Daisy Dee brand was acquired from Maxwell Industries Ltd in 2004 to cater the mid segment market in India. Headquartered in Mumbai Lovable Lingerie has three manufacturing facilities of which two are situated in Bengaluru, and one is situated Roorkee. Three units operates with total capacity of 67.5 lakh units of women innerwear products. Company has 127 counters in the in stores like Westside, Shoppers Stop, and Lifestyle among others in 21 cities, all over India. Company has 5 branches, 103 distributors, 1425 direct dealers and approximately 7500 multi brands outlets in 105 cities.

➤ **Improving market shares:** Brand Lovable catering to premium segment commands around 20% market share in that segment. The company has proved its ability to defend market share as topline growth of the company 30% over past five years as against industry growth of 16.8%. The company adopts strong brand penetration strategies through its 'shop-in-shop' modules wherein unlike multi-brand display the dedicated retail space stocks only Lovable brands. The company has unique design studio at Bengaluru for developing innerwear products and creating styles to meet the global standards.

➤ **Efficient to capture growing pie:** The overall innerwear market in India was worth Re11913cr in CY2009. It has grown at a CAGR of 15.8% over the last four years. The growth can be attributed to the rising disposable income and growing preference for lifestyle products. With rising disposable income the industry is expected to grow at 18.3% over 2009-2014. In volume terms, the men's innerwear market constitutes 48% of the total innerwear market in India. The share has remained range bound over the last four years. The women lingerie segment holds a 52% share. In value terms, the women lingerie segment enjoys 66% share of the total lingerie market. Larger value share and a smaller volume share depict higher Average Selling Price (ASP). Average realization for Lovable Lingerie Ltd has increased BY 14% Y-O-Y at ₹120 per piece. Going forward we expect increasing market by volume as well as value will be major driver of the firms topline.

➤ **Focused business strategy:** To encash growing innerwear market Lovable Lingerie is taking capacity expansion and capacity building initiatives to penetrate deeper. The company the expanding its manufacturing facility by 30 lacs pieces per annum at Bengaluru. The project cost is expected at 22.84cr and is expected to get commenced by January 2012.

The company intends to make further investment in strengthening the brand equity and lifestyle attributes of the 'Lovable' brand by increasing advertising and marketing activities. The firm intends to spend around ₹18cr over next two years for the same.

The company has entered into a joint venture agreement with Lifestyle Galleries of London Ltd. Under JVA the company has agreed to acquire 90% stke in the issued share capital of Lovable Lifestyles for a total consideration of ₹25cr. the JV will provide avenues for diversification to other lifestyle products using the existing customer base of our company.

Other initiatives include setting 60 EBOs (Exclusive Brand Outlets) and 110 shop in shop over next two years to extend the business reach. It also intends to utilize an amount of ₹7.6cr towards up-gradation of designing hardware and software of design studio at Bengaluru.

Such, business focus should enable the firm to improve its brand penetration over the period.

- **Attractive valuation:** Issue is priced at discount to peers. At upper band of IPO price the issue is offer at 13.5x FY11E annualized EPS and 2.9x mcap to sales ratio. Focused business model, ability to garner market share through brand positioning brightens the prospects of the firm. We recommend “Subscribe”.
- **Key Risks:**
 - **Rising cotton and fabric prices:** Major raw material for the firms is cotton fabric. Rising cotton prices have pushed cotton fabric prices more than 60% last year. Due to strong brand image firm has passed on major cost increase to customers by taking twice price increase in a year. However, we feel any further price increase in raw material prices would put pressure on the margin of the company.
 - **Exposed to competition:** Being into consumer segment the firm is exposed to growing competition from domestic as well as international players. The industry is characterized by constant product innovation due to changing consumer preferences, brand loyalty and evolving fashion trends.

Peer comparison	FV (Rs)	CMP (Rs)	Mcap (₹ cr)	EV (Rs Cr)	P/E(x)	P/BV(x)	EV / EBITDA (x)	Mcap / sales(x)	PAT margin %	ROE (%)
Lovable	10	205	344.4	341.87	13.72	5.65	14.63761	2.9333	14.00	45.55
Page Indus	10	1533	1710	1762.09	30.76	12.99	17.43	3.69	11.65	42.63
TT ltd	10	31.25	69.33	308.09	3.22	1.35	5.96	0.14	4.16	33.26

FINANCIAL SUMMARY

(₹lacs)

Particulars	2006	2007	2008	2009	2010	31-Dec-10
Incomes						
Sales of Product Manufactured	3065.94	4154.31	6006.27	6924.26	8695.35	8805.74
Sales of Products Traded	0	0	0	0	0	0
Net Sales	3065.94	4154.31	6006.27	6924.26	8695.35	8805.74
Total	3065.94	4154.31	6006.27	6924.26	8695.35	8805.74
Expenditure						
Inc / Dec in Inventories	-118.55	-381.47	-289.87	53.87	26.91	233.92
Material Consumed	1390.46	2212.94	2723.4	2806.01	4015.03	3614.57
Wages & Staff costs	462.6	647.56	809.43	909.48	929.14	880.99
Other Mfg Exp	127.73	181.62	217.06	270.34	278.09	339.46
Admin Exp	121.59	149.5	255.43	333.97	279.67	241.11
Selling & Dist Exp	570.27	792.26	1556.65	1699.54	1551.58	1829.43
Total	2554.1	3602.41	5272.1	6073.21	7080.42	7139.48
Operating Profits	511.84	551.9	734.17	851.05	1614.93	1666.26
Other Incomes	5.19	3.54	11.97	11.41	10.14	85.39
PBITDA	517.03	555.44	746.14	862.46	1625.07	1751.65
Depreciation	16.94	21.23	27.88	39.45	130.7	102.16
PBIT	500.09	534.21	718.26	823.01	1494.37	1649.49
Financial Charges	55.26	24.89	64.16	136.5	93.29	44.42
PBT	444.83	509.32	654.1	686.51	1401.08	1605.07
Preliminary Exp & Def Exp w/o	0	0	0	0	0	0
PBT	444.83	509.32	654.1	686.51	1401.08	1605.07
Provision for Taxation	157.16	180.91	227.38	112.87	303.73	325.1
Provision for Deferred Tax	-11.44	-6.26	-0.61	-36.51	41.9	19.3
Provision for FBT	7.2	4	11.43	8.2	0	0
Adj for prior Year	1.48	1.59	22.34	0	76.51	0
Total	154.4	180.24	260.54	84.56	422.14	344.4
PAT but before Extra ordi items	290.43	329.08	393.56	601.95	978.94	1260.67

(₹lacs)

Particulars	2006	2007	2008	2009	2010	31-Dec-10
Fixed Assets						
Gross Block	527.72	593.06	666.51	1666.78	1753.66	1833.55
Less: Depreciation	259.03	280.26	308.13	347.59	475.16	576.9
Net Block	268.69	312.8	358.38	1319.19	1278.5	1256.65
Total Fixed Assets	268.69	312.8	358.38	1319.19	1278.5	1256.65
Investments	0.35	0.33	100.33	100.33	198.43	0.6
Current Assets, Loans & Advances						
Inventories	889.55	1317.19	1661.26	1353.05	1306.65	1418.53
Receivables	438.99	544.93	609.44	870.95	1363.94	1762.86
Cash & Bank Balance	56.83	156.44	202.78	202.54	269.67	222.97
Loans & Advances	181.73	167.11	474.12	909.63	231.99	294.81
Deferred Tax Assets	0	3.57	4.18	0	0	0
Total	1567.1	2189.24	2951.78	3336.17	3172.25	3699.17
Total Assets	1836.1	2502.37	3410.49	4755.69	4649.18	4956.42
Liabilities & Provision						
Secured Loans	452.03	328.32	554.25	371.48	28.89	33.54
Unsecured Loans	0	300	150	268	4.46	0
11% Cumm Redeemable Pref Shares	50	50	0	0	0	0
Deferred Tax Liabilities	2.68	0	0	45.99	87.89	107.18
Current Liabilities	617.77	859.95	1411.9	2533.34	1860.71	1037.28
Provision for Taxes	114.38	222.37	27.69	16.14	118.18	55.1
Provision for Gratuity	0	35.67	53.11	38.13	38.43	31.92
Other Provision	2.75	0	15	15	75	0
Total Liabilities	1239.6	1796.31	2211.95	3288.08	2213.56	1265.02
Net Worth	596.53	706.06	1198.54	1467.61	2435.62	3691.4
Represented By						
Share Capital	50	50	150	150	750	1125
Total	50	50	150	150	750	1125
Reserves & Surplus	546.53	656.06	1048.54	1317.61	1685.63	2571.3
Total	546.53	656.06	1048.54	1317.61	1685.63	2571.3
Less: Misc Exp to the extent not WO	0	0	0	0	0	4.9
Total	0	0	0	0	0	4.9
Networth	596.53	706.06	1198.54	1467.61	2435.63	3691.4

	2007	2008	2009	2010	31-Dec-10
Expense Analysis					
Raw Material / Net Sales	53.27%	45.34%	40.52%	46.17%	41.05%
Wages & Staff costs / Net Sales	15.59%	13.48%	13.13%	10.69%	10.00%
Other Mfg Exp	4.37%	3.61%	3.90%	3.20%	3.85%
Admin Exp	3.60%	4.25%	4.82%	3.22%	2.74%
Selling & Dist Exp	19.07%	25.92%	24.54%	17.84%	20.78%
Margin Analysis					
Operating Margin(%)	13.28%	12.22%	12.29%	18.57%	18.92%
EBITDA Margin(%)	13.37%	12.42%	12.46%	18.69%	19.89%
EBIT Margin(%)	12.86%	11.96%	11.89%	17.19%	18.73%
PBT Margin(%)	12.26%	10.89%	9.91%	16.11%	18.23%
PAT Margin(%)	7.92%	6.55%	8.69%	11.26%	14.32%
Adjusted PAT Margin(%)	7.67%	6.92%	4.14%	12.14%	14.32%
Analysis Inputs					
Book Value Per Share (Rs)	130.26	63.49	88.87	26.02	27.23
DPS (Rs)	35	1	1	1	0
EPS (Rs)	65.82	26.24	40.13	13.05	11.21
Cash As a % Of Total Exp.	4.34%	3.85%	3.33%	3.81%	3.12%
Net Sales/ Gross Block (Times)	7.00	9.01	4.15	4.96	4.80
Interest Cost (%)	4.61%	9.63%	20.32%	27.73%	132.82%
Depreciation Cost (%)	7.30%	8.31%	4.70%	10.06%	8.06%
Current Ratio (Times)	1.95	1.96	1.28	1.52	3.29
Debt Equity Ratio (Times)	12.57	4.70	4.26	0.04	0.03
Interest Coverage Ratio(Times)	14.29	7.48	5.41	12.31	29.38
Return On Average Net Worth(%)	49.26%	40.80%	45.15%	50.16%	41.15%
Return On Average Capital Employed (%)	28.64%	29.21%	36.83%	50.21%	42.11%
Valuation Ratios (times)					
P / E	3.11	7.81	5.11	15.71	13.72
P / BV	1.57	3.23	2.31	7.88	5.65
EV / Sales	8.23	5.69	4.94	3.93	2.91
EV / EBITDA	61.55	45.82	39.64	21.04	14.64
Mkt cap / sales	8.29	5.73	4.97	3.96	2.93

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