

2 June 2011

## Lovable Lingerie

*Expansion adding glitter; initiate with Buy*

We initiate coverage on Lovable Lingerie (LLL), an India-focused lingerie marketer, with a Buy recommendation. We expect LLL's sub-segmentation strategy and distribution network expansion to further strengthen its market leadership.

- **Market leader in growing segment.** With rise in both income levels and number of working women, India's lingerie market is strengthening. Growth of modern trade is helping penetration. Shift from unorganized to organized products is driving growth of branded lingerie products such as Lovable and Daisy Dee.
- **Strong sub-segmentation strategy.** LLL has developed a strong sub-segmentation strategy – the Lovable brand focuses on premium products and Daisy Dee on mid-segment products. The company has been launching products that focus on specific segments such as College Style for young consumers and Cotton Essentials for summer.
- **Distribution expansion.** LLL is planning to more-than-double Daisy Dee's distribution network over the next three years and launch the product nationally. Also, it targets expanding distribution of the Lovable brand; this would help drive growth as well as brand building via in-shop advertising.
- **Valuation and risks.** Our DCF-based target price for LLL stands at ₹430/share. At our target price, the stock would trade at PE of 30x FY12e earnings. Strong earnings growth and return ratios would result in premium valuations. Key risks: rise in raw material prices; increase in competition.

### Key financials

YE 31 Mar	FY09	FY10	FY11e	FY12e	FY13e
Sales (₹m)	692	870	1,040	1,406	1,810
Net profit (₹m)	49	98	141	238	279
EPS (₹)	4.4	8.7	8.4	14.2	16.6
Growth (%)	9.7	99.0	(3.1)	68.5	17.0
PE (x)	73.9	37.1	38.3	22.7	19.4
PBV (x)	24.0	14.4	3.8	3.3	2.9
RoE (%)	21.1	51.0	16.9	15.6	15.9
RoCE (%)	40.0	63.0	21.6	15.4	16.5
Dividend yield (%)	0.0	0.2	0.5	0.5	0.6
Net gearing (%)	22.2	(17.2)	(75.5)	(49.8)	(38.2)

Source: Company, Anand Rathi Research

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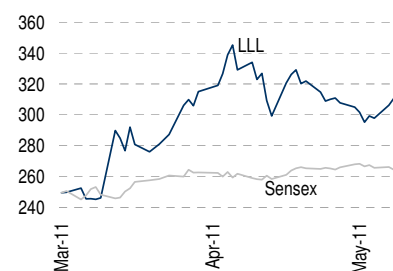
Rating: **Buy**  
 Target Price: ₹430  
 Share Price: ₹323

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Key data	LLL IN / LOVA.BO
52-week high/low	₹349 / ₹236
Sensex/Nifty	18494 / 5550
1-m average volume	US\$1.6m
Market cap	₹5.4bn / US\$120m
Shares outstanding	17m
-Free float	33.0%
-Promoters	67.0%
-Foreign Institutions	2.8%
-Domestic Institutions	10.5%
-Public	19.7%

### Relative price performance



Source: Bloomberg

## Quick Glance – Financials and Valuations

**Fig 1 – Income statement (₹m)**

YE 31 Mar	FY09	FY10	FY11e	FY12e	FY13e
Net sales	692	870	1,040	1,406	1,810
Sales growth (%)	15.3	25.6	19.6	35.1	28.8
- Op. expenses	607	708	846	1,140	1,463
EBITDA	85	161	195	266	347
EBITDA margin (%)	12.3	18.6	18.7	18.9	19.2
- Interest	14	9	5	-	-
- Depreciation	4	13	14	31	59
+ Other income	1	1	9	74	71
- Tax	19	42	44	71	81
PAT	49	98	141	238	279
PAT growth (%)	26.6	99.0	44.3	68.5	17.0
Consolidated PAT	49	98	141	238	279
FDEPS (₹/share)	4.4	8.7	8.4	14.2	16.6
CEPS (₹/share)	4.7	9.9	9.3	16.0	20.1
DPS (₹/share)	0.1	0.7	1.5	1.8	2.0

Source: Company, Anand Rathi Research

**Fig 2 – Balance sheet (₹m)**

YE 31 Mar	FY09	FY10	FY11e	FY12e	FY13e
Share capital	15	75	168	168	168
Reserves & surplus	136	177	1,254	1,462	1,706
Shareholders' fund	151	252	1,422	1,630	1,874
Debt	64	3	-	-	-
Minority interests	-	-	-	-	-
Capital employed	215	256	1,422	1,630	1,874
Fixed assets	132	128	129	599	840
Investments	10	20	931	631	681
Working capital	53	81	218	220	318
Cash	20	27	143	181	36
Capital deployed	215	256	1,422	1,630	1,874
No. of shares (m)	11.3	11.3	16.8	16.8	16.8
Net Debt/Equity (%)	22.2	(17.2)	(75.5)	(49.8)	(38.2)
W C turn (%)	7.7	9.3	21.0	15.7	17.6

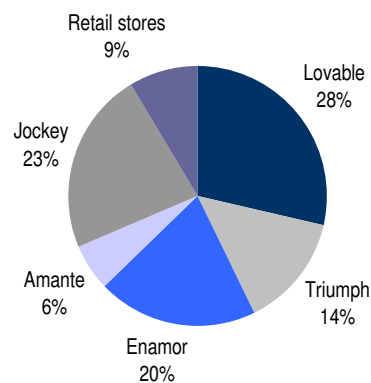
Source: Company, Anand Rathi Research

**Fig 3 – Cash flow statement (₹m)**

YE 31 Mar	FY09	FY10	FY11e	FY12e	FY13e
Consolidated PAT	49	98	141	238	279
+ Depreciation	4	13	14	31	59
Cash profit	34	135	155	269	337
- Incr/(Decr) in WC	75	(47)	(137)	(2)	(98)
Operating cash flow	109	88	18	267	240
- Capex	100	9	15	500	300
Free cash flow	8	79	2	(233)	(60)
- Dividend	2	2	9	29	34
+ Equity raised	-	-	1,037	-	-
+ Debt raised	(7)	(61)	(3)	-	-
- Investments	2	7	911	(300)	50
- Misc. items	-	-	-	-	-
Net cash flow	(2)	9	116	38	(145)
+ Opening cash	19	16	27	143	181
Closing cash	16	26	143	181	36

Source: Company, Anand Rathi Research

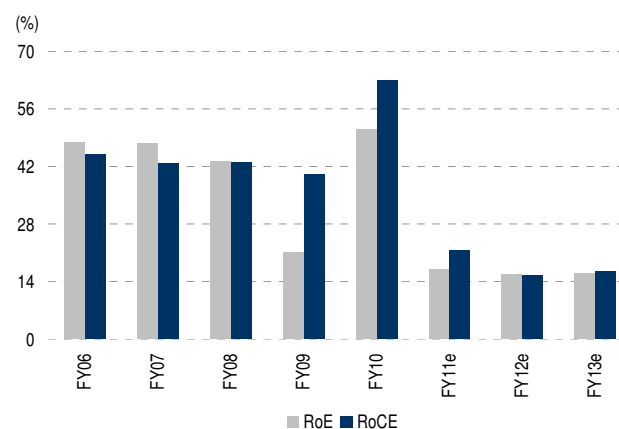
**Fig 4 – Market shares of premium lingerie**



Source: Company

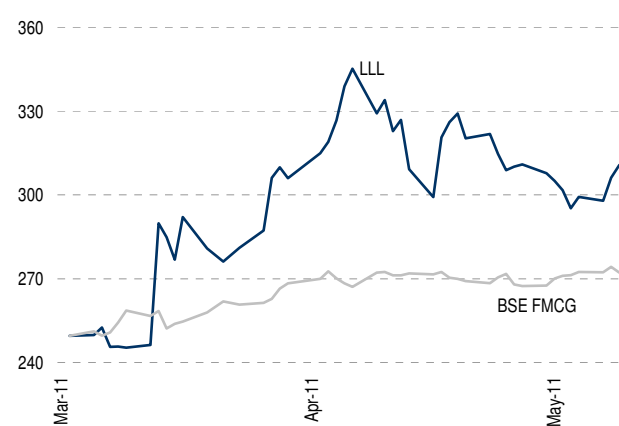
as of Mar '11

**Fig 5 – Return ratios impacted by cash, post IPO**



Source: Company, Anand Rathi Research

**Fig 6 – LLL vs. BSE FMCG**



Source: Bloomberg

## Investment Argument and Valuation

We initiate coverage on Lovable Lingerie (LLL), an India-focused player in lingerie, with a Buy rating. We expect LLL’s sub-segmentation strategy and expansion of distribution network to help strengthen its market leadership. We value the stock at price target of ₹430/share based on DCF methodology. At our target price, the stock would trade at PE of 30x FY12e earnings. Strong earnings growth and strong returns would result in premium valuations.

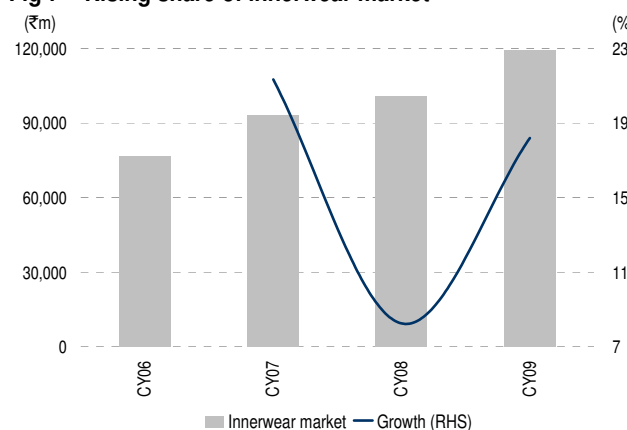
### Fast growing innerwear market

*Innerwear market on a growth path*

For the past four years, the innerwear market has witnessed ~16% revenue CAGR. Rising disposable incomes and growing awareness about personal hygiene are boosting growth of the innerwear market in India. Also enhancing this growth is the rising modern trade (malls, shopping complexes etc). 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.

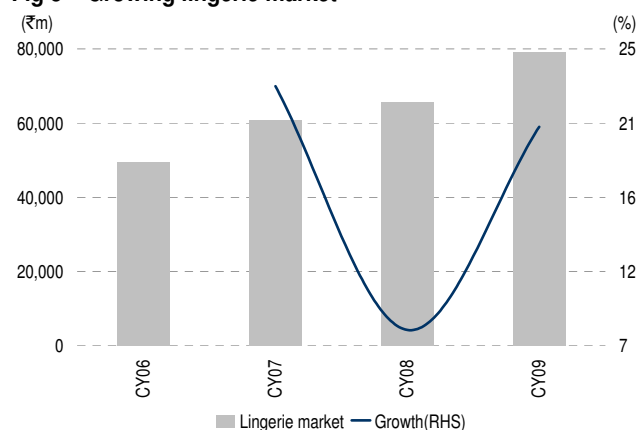
LLL, focusing on women’s lingerie, is also experiencing strong growth.

**Fig 7 – Rising share of innerwear market**



Source: Company

**Fig 8 – Growing lingerie market**

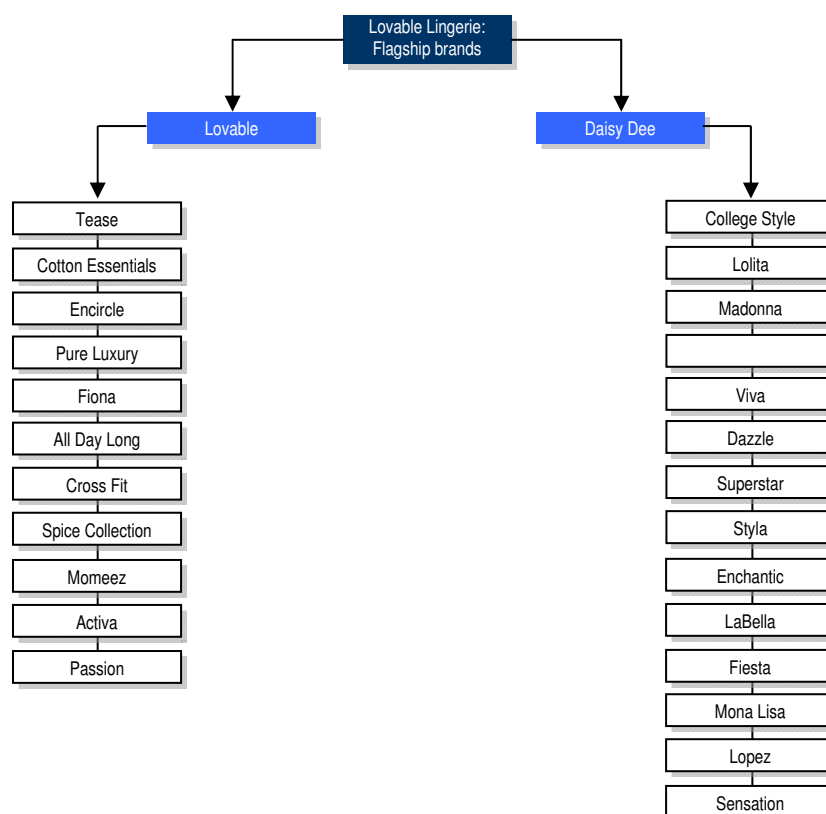


Source: Company

### Vast range across sub-segments

LLL has developed a slew of products around its brands Lovable and Daisy Dee. It has launched premium products and variants under the Lovable brand and mid-segment market products under Daisy Dee. The creation of a wide range of products is helping LLL target consumers across various income levels and needs (e.g., for pregnant women). However, even as the company has created a portfolio under the Lovable and Daisy Dee brands, it has been able to develop strong brand equity.

Fig 9 – LLL’s sub-segmentation strategy



Source: Company

as of Dec '10

### Expansion of distribution network and national rollout of Daisy Dee

LLL has two main brands: i) Lovable – Lingerie under the Lovable brand is marketed via a chain of modern trade and some high-end stores, servicing ~1,400 retail stores; ii) Its other brand Daisy Dee, focused on the mid-segment, offers products via ~7,000 retail outlets.

LLL plans to roll out Daisy Dee (currently marketed only in South India) in North India as well, in FY12; this would result in expansion of its distribution network. The company targets increasing the number of outlets to 20,000 outlets in three years from the present 7,000. We expect it to do well in North India as well, as it can build on the expertise developed from the business in South India over the past four years. It has already developed a large range of lingerie for the roll out in North India.

### Valuation

We value LLL at target price of ₹430 based on DCF methodology (Rf 9.5%, Rm 14%). At our target price, the stock would trade at PE of 30x and 26x FY12e and FY13e earnings respectively. We believe the strong earnings growth momentum and strong return ratios would help the stock trade at premium valuations.

**Fig 10 – Discounted Cash flow (DCF) valuation**

₹m	FY12e	FY13e	FY14e	FY15e	FY16e	FY17e	FY18e	FY19e	FY20e	FY21e
Net Sales	1,406	1,810	2,263	2,806	3,451	4,210	5,094	6,113	7,275	8,584
Growth in Revenues (%)	35.1	28.8	25.0	24.0	23.0	22.0	21.0	20.0	19.0	18.0
EBITDA Margin	18.9	19.2	19.0	19.0	19.0	19.0	18.5	18.0	17.5	17.0
EBITDA	266	347	430	533	656	800	942	1,100	1,273	1,459
Depreciation	31	59	74	91	112	137	166	199	236	279
Other Income	74	71	89	110	136	165	200	240	286	337
Interest Expenses	-	-	-	-	-	-	-	-	-	-
PBT	309	359	445	552	679	828	977	1,142	1,322	1,517
Income Taxes	71	81	107	138	177	224	274	331	436	501
PAT	238	279	338	414	503	605	703	811	886	1,017
Increase in Working Capital	(2)	(98)	(78)	(95)	(113)	(133)	(155)	(178)	(203)	1,273
Capex	(500)	(300)	(188)	(233)	(286)	(349)	(422)	(507)	(603)	(711)
Free Cash Flows	(233)	(60)	146	178	216	260	292	325	316	1,858
Discounted Free Cash Flows	1,105									
Terminal Growth Rate (%)	2.5									
Terminal Value	18,272									
Discounted Terminal Value	6,121									
<b>Net Value to Shareholders</b>	<b>7,226</b>									
No. of Shares (m)	17									
<b>Value Per Share (₹)</b>	<b>431</b>									
<b>Discounting Factor (%)</b>										
Risk Free Rate	9.5									
Beta	0.8									
Market Return	14.0									
Cost of Equity	12.9									

Source: Anand Rathi Research

**LLL: Relative valuation to nearest competitor****Fig 11 – Relative valuation**

Company	Price (₹)	Market cap (US\$m)	RoE (%)	RoCE (%)	Revenue CAGR (%)	EPS CAGR (%)	PE (x)
			FY12e	FY12e	FY11-13e	FY11-13e	FY12e
Lovable Lingerie	323	120	15.6	15.4	31.9	40.0	22.7
Page Industries	1,731	430	54.4	35.0	30.2	29.4	26.6

Source: Bloomberg, Anand Rathi Research

**Key risks**

- Failure of new launches
- Increase in competition
- Delay in expanding the distribution network
- Higher raw material prices such as those of cotton

## Market leader in growing industry

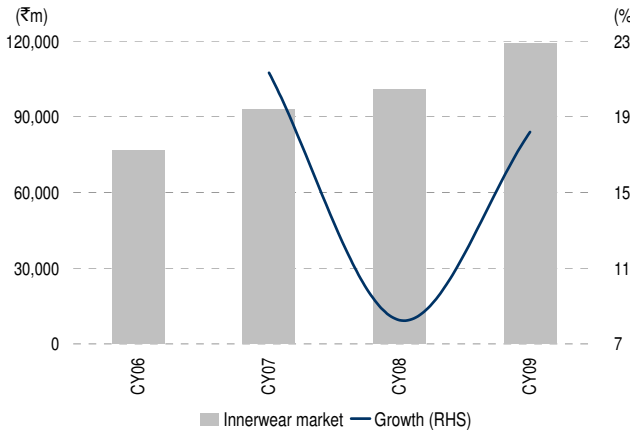
The lingerie market in India is witnessing healthy growth, given: i) increase in income levels as well as number of working women; ii) growth in modern trade (shopping complexes, malls etc), which is also driving penetration; and iii) shift from unorganized to organized branded lingerie products such as Lovable & Daisy Dee.

### Innerwear market on rapid growth path

The innerwear market has been witnessing ~16% revenue CAGR over FY06-10. Rising disposable incomes and growing awareness about personal hygiene are aiding this growth, as also is the increase in modern trade. Women’s innerwear comprises 51% of the innerwear market in terms of volume, and 66% in value. The women’s innerwear market is also growing faster than men’s innerwear.

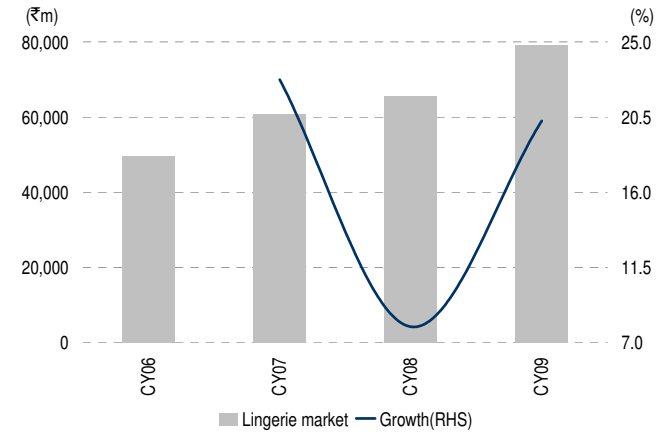
Lovable, focusing on women’s lingerie, is also seeing strong growth.

**Fig 12 – Innerwear market in India on the up**



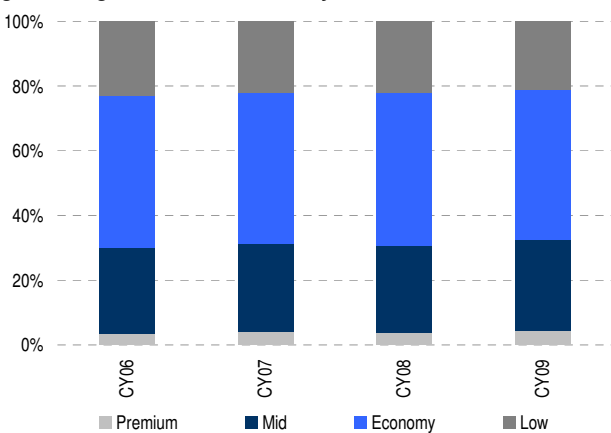
Source: Company

**Fig 13 – Lingerie market in India seeing a rise**



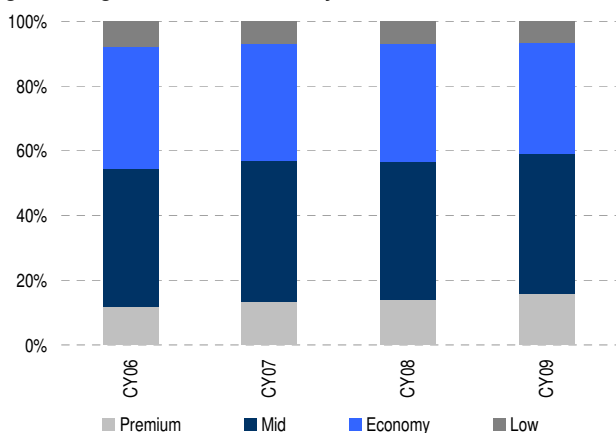
Source: Company

**Fig 14 – Segmental breakdown by volume**



Source: Company

**Fig 15 – Segmental breakdown by value**



Source: Company

### Rising growth of premium products

Based on price, the lingerie market can be divided into four sub-segments. Premium products are those above ₹250 per piece. Those in the ₹100-250 range are mid-segment products, while those in the ₹50-100 range are economy products. Products with a market retail price (MRP) of ₹50 are low-end. The premium end of the market has been growing fast, from 11.8% in '06 to 15.9% in '09, and is expected to rise to 28.3% by '14, as per CARE.

**Fig 16 – Average selling price (₹/piece)**

Segment	CY06	CY07	CY08	CY09
Super premium	685	852	939	1,029
Premium	290	336	356	374
Mid	160	179	183	186
Economy	80	87	89	90
Low	35	36	36	37

Source: Company

**Fig 17 – Lingerie market in India (%)**

Segment	Price range	CY06	CY09	CY14
Premium	MRP: >₹250	11.8	15.9	28.3
Mid	MRP: <₹250 and >₹100	42.7	43.2	46.3
Economy	MRP: <₹100 and >₹50	37.7	34.4	21.4
Low	MRP: <₹50	7.8	6.5	3.9

Source: Company

Note: CY14 estimates by CARE

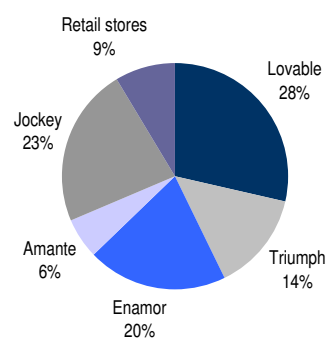
### Macro factors in place

Macro-economic factors are suitable for growth in the lingerie market in India. The country is seeing rising income levels and increase in number of working women along with enhanced awareness of personal hygiene. P&G reported 23% revenue CAGR in feminine hygiene products over FY06-11. Only ~22% of women were working in FY1991 vs. 30% at present. With rising urbanization as well as penetration of organized retailing, we expect lingerie, especially premium products, to see rapid growth.

### LLL – Market leader in premium products

Lovable is the strongest brand in the fast-growing premium lingerie segment. Major competitors are Enamor, Triumph and Amante, as well as some Jockey products. Media reports that Enamor is up for sale. Hence, less competition and a strong slew of products at various prices would help drive growth of the Lovable brand.

**Fig 18 – Market share: premium lingerie market**



Source: Company

as of Mar '11

**Daisy Dee – Huge growth opportunity**

The Daisy Dee brand has been positioned at the economy end. With conversion of consumer preference, from unbranded to branded products, Daisy Dee is set to see healthy off-take. Also the women's innerwear segment, especially the brassiere sub-segment, entails high consumer involvement and strong brand loyalty. We expect similar growth parameters for Daisy Dee as well.

**Growth of other home-wear products (e.g., camisoles)**

LLL plans to launch home-wear products such as camisoles, slips, home-wear (shorts) etc. We believe that with the launch of such products, the company would see rapid growth.

**Foray into the super premium segment**

Lovable has entered a joint venture with London Galleries (90:10). Through the JV, it plans to launch super-premium products in India, from its partner's range. Lovable is conducting a market survey of super-premium products with plans to launch such products going forward.



## Strong sub-segmentation strategy

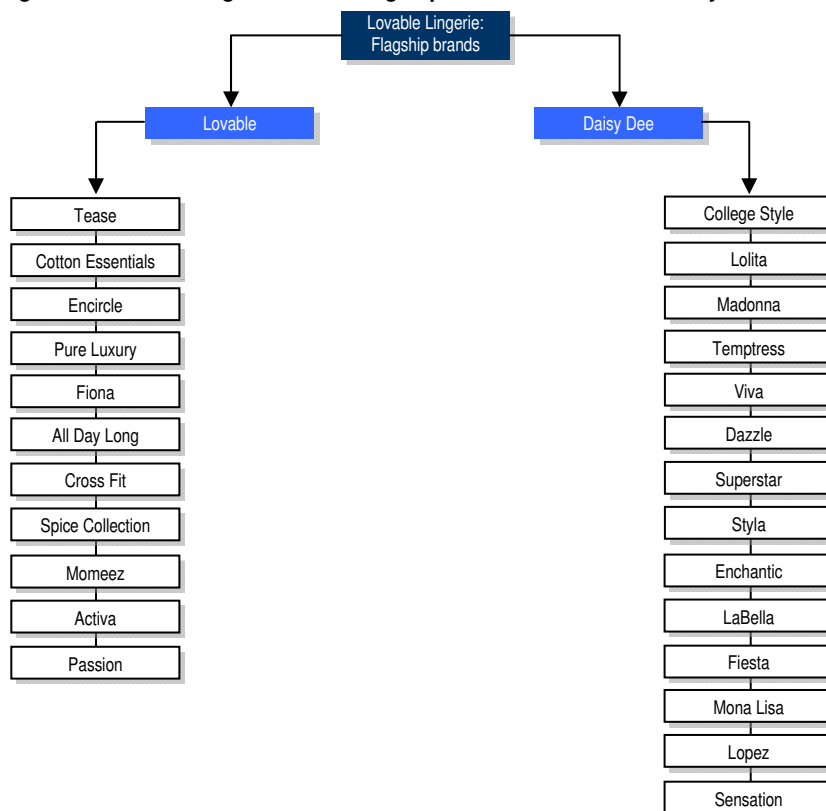
LLL has developed a strong sub-segmentation strategy, with its Lovable brand focusing on premium products and Daisy Dee on mid-segment products. The company develops products that target specific segments e.g., as per age: sub-brand College Style focusing on college-going, young consumers; as per utility: sub-brand Cotton Essentials for summers.

### Wide range across sub-segments

LLL has developed a range of products around its brands Lovable and Daisy Dee. It is launching premium products and variants under the Lovable brand and mid-segment products under Daisy Dee. Its wide price/products range is helping target consumers across income levels and catering to different consumer needs. The company has been building its products pipeline under the Lovable and Daisy Dee brands, hence strengthening its brand equity and customer loyalty.

*LLL's sub-segmentation strategy is helping the company target consumers across most income levels and age groups*

**Fig 19 – LLL’s sub-segmentation: Flagship brands Lovable and Daisy Dee**



Source: Company

as of Dec '10

### Large portfolio of products targeting consumers across segments

LLL's Lovable and Daisy Dee brands have various SKUs as per color (white, peach, pink, black), style and size as well as raw material. It also has one-piece and three-piece packs. Overall, the company has more than ~600 SKUs.

**Fig 20 – Wide range of products**

	No. of sizes	No. of colors	No. of styles	No. of SKUs
Lovable	4	4	15	240
Daisy Dee	4	4	20	320

*Source: Company* *as of Mar '11*

### Creation of new segments

LLL plans to create new sub-segments. It has introduced innerwear products as per outer wear such as sarees and Punjabi dresses. We believe that as these products are differentiated from those of multi-nationals, they help create new growth avenues without being faced with much competition.

### Shaped for a right fit

LLL customizes products to various consumer age groups – it has products targeting college women in the 16-25 age groups. Also, it has products according to utility – given the strong summers in India, it has introduced sub-brand Cotton Essentials, made of pure cotton.

**Fig 21 – Creation of new segments**

Segment	Sub-brand
Fashion	Fiona
Working women	All Day Long
Cotton based – for summer	Cotton Essentials
For young women	College Style
For pregnant women	Momeez
For outerwear- T-shirts	Tease

*Source: Company*

### Strategy of concurrently introducing & withdrawing ~5 styles a year

LLL plans to follow a strategy of introducing 5-6 styles every year and withdrawing older ones simultaneously. Looking at the latest fashion trends, it introduces new styles. It is keeping some of the highest-selling styles such as those for college-going women, and withdrawing ones with low sales. Its strong investment in a design studio and insights from the retail sales team are helping keep its products in line with changing trends in lingerie.

## Distribution expansion to drive efficiencies

LLL has plans to more-than-double the distribution network of Daisy Dee over the next three years and increase the brand's footprint by launching it nationally. It also targets expanding distribution of the Lovable brand. Such expansions would help drive growth as well as brand-building via in-shop (advertisement boards, stickers, cut-outs etc) advertising.

### Distribution network

The company's present distribution network works through two channels. It markets lingerie under the Lovable brand through modern trade and a chain of high-end stores, servicing ~1,400 retail stores. The other product, Daisy Dee, focused on the mid-segment market, offers products through ~7,000 retail outlets.

### National launch of Daisy Dee to boost revenue

*Launch of Daisy Dee in North India will drive growth in FY12*

LLL plans to roll out Daisy Dee (currently marketed only in South India) in North India as well in FY12, hence leading to expansion of its distribution network. The company is looking to increase number of outlets to 20,000 in three years from 7,000 at present. We expect it to do well in North India too, considering expertise gained from its South India presence for the past four years. LLL has already developed a large range of lingerie for the North India market.

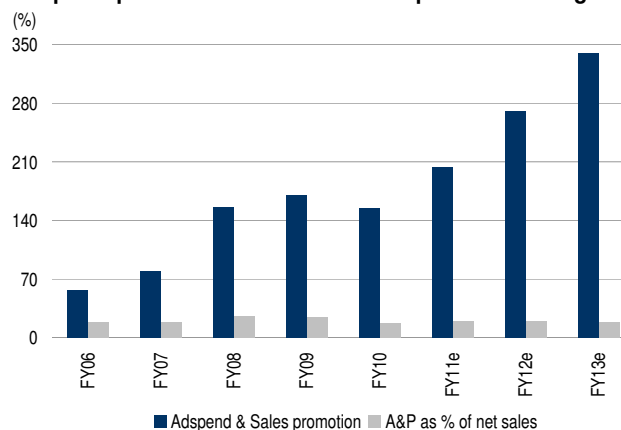
### Larger distribution network will lead to prudent ad-spend...

The company is spending aggressively (~17% of sales) on brand-building. We believe ad-spend largely entails nation-wide brand building, but distribution is still far lower than the extent of brand creation. Increase in distribution would help better utilize the ad-spend.

### ...and better brand recall

As the mediums of celebrity endorsements and television advertising for lingerie are not preferred in India, we believe that shop advertisements are more effective for brand-building. A better shopping experience also increases brand awareness. As customer education is required in this segment (about size, fittings etc), a shop attendant or shop-keeper plays a vital role in raising brand awareness. We believe that with a wider distribution network, the company's brand recall would improve.

**Fig 22 – In-shop ad spend more effective than TV/print advertising**

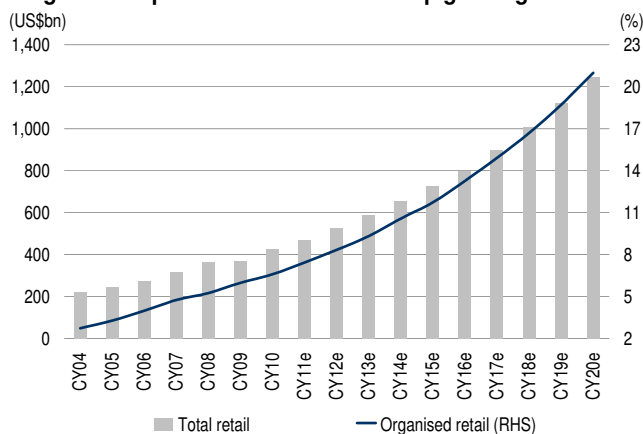


Source: Company, Anand Rathi Research

**Growth of modern trade to further drive distribution**

The lingerie sector is expected to benefit from growing modern trade as well. Lingerie companies can showcase a larger variety of products in modern trade outlets, leading to consumers having a better shopping experience. Consumers can test products before making purchasing decisions. We believe that with the growth of modern trade, the lingerie sector will also see fast growth.

**Fig 23 – Management expects modern trade to keep growing**



Source: Company

## Financials

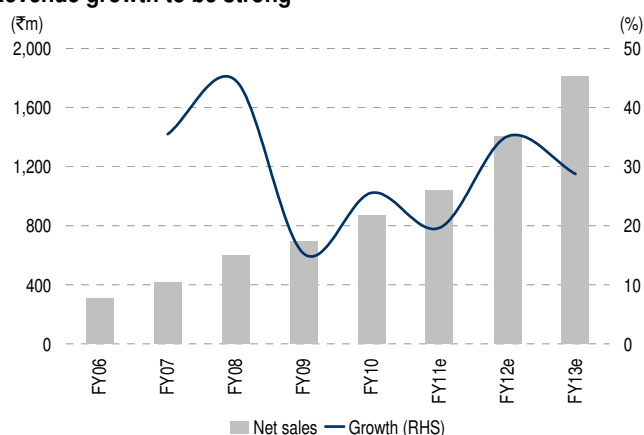
We expect LLL to report 32% revenue CAGR over FY11-13e and register volume growth of 28 percentage points (pps) as well as price hikes of 3pps. We expect EBITDA margin of ~19% through FY11-13e. We estimate 40% CAGR in net profit over FY11-13.

### Steady revenue growth

We expect LLL to register 32% revenue CAGR over FY11-13e, with volumes contributing 28 percentage points (pps) and price hikes 3pps. The company has not raised prices aggressively over the past two years. However, it has the ability to raise prices to pass on any increases in raw material costs.

*Strong revenue growth momentum led by volumes*

**Fig 24 – Revenue growth to be strong**

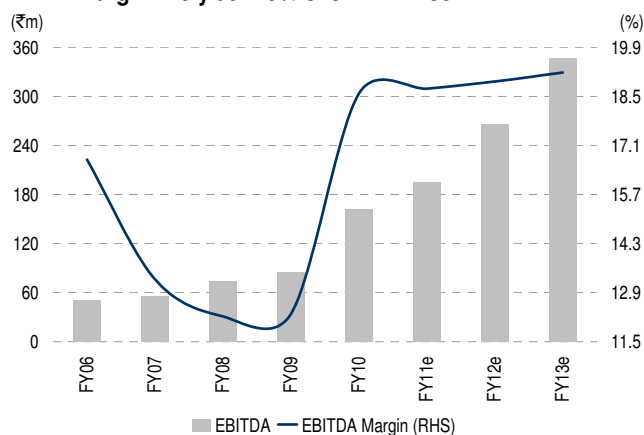


Source: Company, Anand Rathi Research

### EBITDA margin of ~19% over FY12-13e

We expect FY12e EBITDA margin to be maintained at ~19% owing to the company’s strong pricing power that enables it to pass on additional raw material costs. Also, rollout of the Daisy Dee brand and better utilization of ad-spend will drive up margins going forward.

**Fig 25 – EBITDA margin likely at ~19% over FY12-13e**

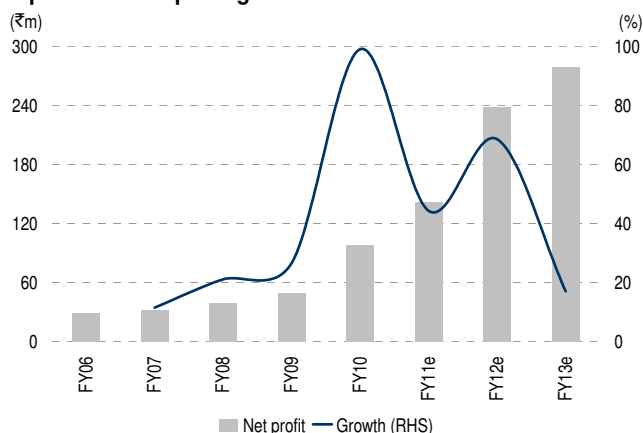


Source: Company, Anand Rathi Research

### Net profit CAGR of 40% over FY11-13e

We expect 40% CAGR in net profit during FY11-13e. A strong operational performance would drive growth. We expect other income to witness rapid growth and do not expect any major changes in the tax rate. We, however, believe that the increase in would to increase depreciation and utilization of cash to result in lower other income.

**Fig 26 – Net profit and net profit growth**

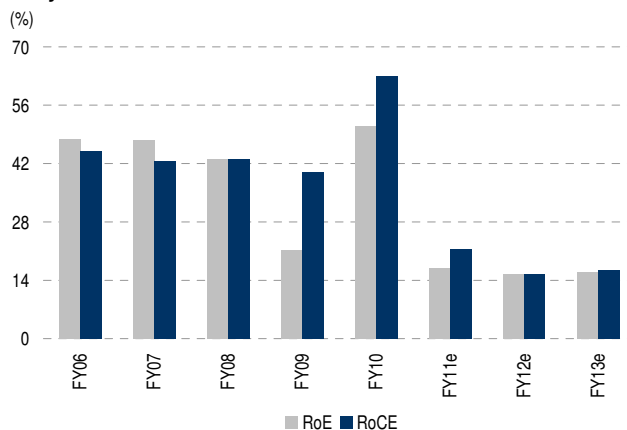


Source: Company, Anand Rathi Research

### Return ratios appear lower owing to IPO proceeds

LLL enjoys healthy returns despite no leverage. It requires minimal investment in capex as well as working capital. Post 4QFY11, the returns have slightly reduced, owing to IPO proceeds on the company’s balance sheet. With the utilization of cash, the return ratios are expected to expand in coming years.

**Fig 27 – Steady returns**



Source: Company, Anand Rathi Research

**Fig 28 – Income statement (₹m)**

YE 31 Mar	FY09	FY10	FY11e	FY12e	FY13e
Gross Sales	692	870	1,040	1,406	1,810
Net Sales	692	870	1,040	1,406	1,810
Growth (%)	15.3	25.6	19.6	35.1	28.8
Expenditure					
Cost of Goods Sold	286	404	492	660	854
Staff Cost	91	93	109	156	199
Other Manufacturing expenses	27	28	20	27	36
Admin expenses	33	28	20	27	34
Selling & Distribution expenses	170	155	203	271	339
<b>EBITDA</b>	<b>85</b>	<b>161</b>	<b>195</b>	<b>266</b>	<b>347</b>
EBITDA Margin (%)	12.3	18.6	18.7	18.9	19.2
EBITDA Growth (%)	26.6	99.0	44.3	68.5	17.0
Depreciation	4	13	14	31	59
EBIT	81	148	181	235	288
Interest Expense	14	9	5	-	-
Other Income	1	1	9	74	71
Profit Before Tax	69	140	185	309	359
Income Taxes	19	42	44	71	81
Income Tax rate (%)	28.3	30.1	23.7	23.0	22.5
Profit After Tax	49	98	141	238	279
Share of Profit From Associates	-	-	-	-	-
Prof. Dividends/Minority Interest	-	-	-	-	-
Profit Before X/O	49	98	141	238	279
PAT Margin (%)	7.1	11.3	13.6	16.9	15.4
PAT Growth (%)	26.6	99.0	44.3	68.5	17.0
Extraordinary Items	(21)	5	-	-	-
Profit for Shareholders	29	103	141	238	279
Number of shares (m)					
	11	11	17	17	17
Earnings Per Share Bef X/O (₹)	4.4	8.7	8.4	14.2	16.6
Earnings Per Share Aft X/O (₹)	2.5	9.2	8.4	14.2	16.6

Source: Company, Anand Rathi Research

**Fig 29 – Balance sheet (₹m)**

YE 31 Mar	FY09	FY10	FY11e	FY12e	FY13e
<b>Sources of Funds</b>					
Share Capital	15	75	168	168	168
Reserves and Surplus	132	169	1,244	1,453	1,697
Deferred Tax Liability/Misc.Exps	5	9	9	9	9
Net Worth	151	252	1,422	1,630	1,874
Net Worth Net of Rev. Reserve	151	252	1,422	1,630	1,874
Prof.Capital/Minority Interest	-	-	-	-	-
Secured Loans	37	3	-	-	-
Unsecured Loans	27	0	-	-	-
Total Loans	64	3	-	-	-
<b>Total</b>	<b>215</b>	<b>256</b>	<b>1,422</b>	<b>1,630</b>	<b>1,874</b>
<b>Application of Funds</b>					
<b>Fixed Assets</b>					
Gross Block	167	175	191	691	991
Less: Depreciation	35	48	61	92	151
Net Block	132	128	129	599	840
Capital WIP	-	-	-	-	-
Gross Block-Brand value	167	175	191	691	991
Liquid Investments	10	20	931	631	681
Other Investments	-	-	-	-	-
Current Assets	334	317	510	738	789
Inventories	135	131	224	309	443
Sundry Debtors	87	136	106	211	272
Cash & Bank Balances	20	27	143	181	36
Loans & Advances	91	23	37	37	37
Current Liabilities	260	209	148	337	434
Liabilities	253	186	119	302	389
Provisions	7	23	29	35	45
Net Current Assets	73	108	362	401	354
<b>Total</b>	<b>215</b>	<b>256</b>	<b>1,422</b>	<b>1,630</b>	<b>1,874</b>

Source: Company, Anand Rathi Research

**Fig 30 – Cash flow statement (₹m)**

YE 31 Mar	FY09	FY10	FY11e	FY12e	FY13e
OCF before W/C changes	34	135	155	269	337
W/c Changes	75	(47)	(137)	(2)	(98)
OCF After W/C Changes	109	88	18	267	240
Cash Flow from Investing	-	-	-	-	-
Capital Expenditure	(100)	(9)	(15)	(500)	(300)
Disposal	-	0	-	-	-
Investments	(2)	(7)	(911)	300	(50)
Acquisitions	-	-	-	-	-
Net Cash used in Investing	(102)	(16)	(926)	(200)	(350)
Cash Flow from Financing	-	-	-	-	-
Changes in Share Capital	-	-	1,037	-	-
Changes in Loans	(7)	(61)	(3)	-	-
Dividends & Tax thereon	(2)	(2)	(9)	(29)	(34)
Net Cash used in Financing	(8)	(62)	1,025	(29)	(34)
ExtraOrdinary Items	-	-	-	-	-
Changes in Cash & Equivalents	(2)	9	116	38	(145)
Opening Cash & Equivalents	19	16	27	143	181
Closing Cash & Equivalents	16	26	143	181	36
Free Cash Flow	8	79	2	(233)	(60)

Source: Company, Anand Rathi Research



**Fig 31 – Ratio analysis**

YE 31 Mar	FY09	FY10	FY11e	FY12e	FY13e
<b>Profitability ratios (%)</b>					
EBITDA Margin	12.3	18.6	18.7	18.9	19.2
EBITDA+Other Income Margin	12.5	18.7	19.6	24.2	23.1
EBIT Margin	11.7	17.1	17.4	16.7	15.9
PBT Margin	9.9	16.1	17.8	22.0	19.9
PAT Margin	7.1	11.3	13.6	16.9	15.4
Income Tax Rate	28.3	30.1	23.7	23.0	22.5
RoE	21.1	51.0	16.9	15.6	15.9
RoCE	40.0	63.0	21.6	15.4	16.5
<b>Major Costs as % of Net Sales</b>					
Cost of Goods Sold	41.3	46.5	47.3	46.9	47.2
Staff Cost	13.1	10.7	10.5	11.1	11.0
Other Manufacturing exps	3.9	3.2	1.9	1.9	2.0
Admin expenses	4.8	3.2	1.9	1.9	1.9
Selling & Distri exps	24.5	17.8	19.6	19.3	18.8
<b>Per share data (₹)</b>					
Earnings Per Share	4.4	8.7	8.4	14.2	16.6
Growth (%)	9.7	99.0	(3.1)	68.5	17.0
Book Value per Share	13.5	22.4	84.9	97.3	111.9
Growth (%)	9.4	66.7	278.3	14.7	15.0
Dividend Per Share	0.1	0.7	1.5	1.8	2.0
Growth (%)	-	400.0	125.0	16.7	14.3
Sales Per Share	61.5	77.3	62.1	83.9	108.1
Growth (%)	(0.1)	25.6	(19.6)	35.1	28.8
<b>Other ratios (%)</b>					
Net debt/Equity	22.2	(17.2)	(75.5)	(49.8)	(38.2)
FCF/EPS	17.2	80.6	1.7	(97.9)	(21.7)
OCF/Sales	15.7	10.1	1.7	19.0	13.2
Div Payout Ratio	3.0	7.7	17.8	12.3	12.0

Source: Company, Anand Rathi Research

## Company Background & Management

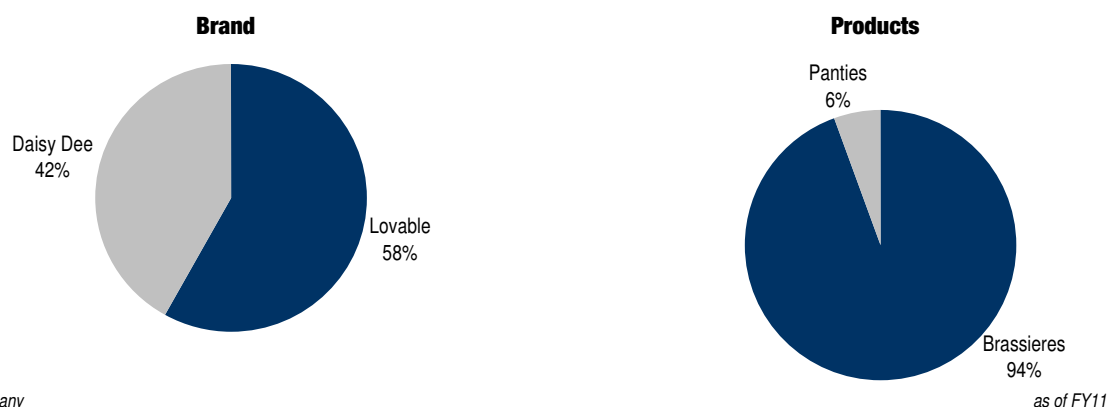
Lovable Lingerie (LLL) focuses on premium and mid segment lingerie for women, under two major brands – Lovable and Daisy Dee. Both brands have a strong sub-segmentation. Vinay Reddy is Chairman and Managing Director of the company; Sunil Shukla is the CFO.

### Revenue breakdown (FY11e)

*The company focuses on mid price and premium innerwear for women*

With its two major brands, Lovable and Daisy Dee, and a strong sub-segmentation strategy, the company focuses on women's lingerie. It has its own R&D unit to design and create new styles. Its manufacturing units are in Bangalore and Uttarakhand. It recently came out with an IPO, raising ₹1.1bn.

Fig 32 – Revenue breakdown across brands and products



Source: Company

### Key management personnel

Chairman and Managing Director Vinay Reddy has more than 20 years experience in innerwear. Director Jaipal Reddy, a veteran of the innerwear market in India, was earlier the managing director of Maxwell Industries (the VIP brand). Director Ashok Reddy overlooks the production and design studio. Sunil Shukla is the CFO.

Fig 33 – Key management personnel

Person	Designation	Work areas
Vinay Reddy	Chairman and Managing Director	Product designing; marketing & sales; brand building
Jaipal Reddy	Director	Overall management
Ashok Reddy	Director	Production
Sunil Shukla	CFO	Finance and Investor relations

Source: Company

## Appendix 1

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The views expressed in this research report accurately reflect the personal views of the analyst(s) about the subject securities or issuers and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this report.

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	Buy	Hold	Sell
Large Caps (>US\$1bn)	>20%	5-20%	<5%
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% who are investment banking clients	5%	4%	0%

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