

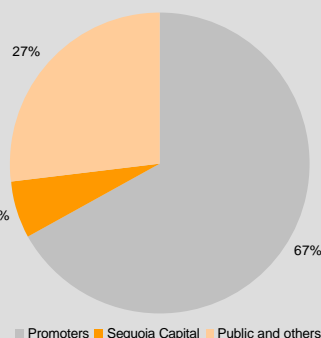
March 7, 2011

## Subscribe

### Issue Details

Sector	Consumer
Price band	Rs 195-Rs 205
Issue opens	March 08, 2011
Issue closes	March 11, 2011
Funds to be raised	Rs 878-923 mn
No. of pre-issue shares	12.3 mn
Issue size (No. of shares)	4.5 mn
No. of shares post issue	16.8 mn
Post issue market cap	Rs 3.3-3.4 bn

### Share holding pattern



Post issue

### Objects of the issue

Particulars	Rs mn
2.5 mn pcs capacity expansion	228
Brand building	180
Brand development for College Style	60
Investment in joint venture	250
Setting up of EBOs (60)	141
Shop in shops formats	36
Upgradation of design studios	76
<b>Total</b>	<b>971</b>

**Pritesh Chheda, CFA**

pritesh.chheda@emkayglobal.com  
+91 22 6612 1273

**Sweta Jain**

sweta.jain@emkayglobal.com  
+91 22 6624 2479

- **Lovable Lingerie is one of the leading players (20% market share) in the Rs3bn super premium segment of women's lingerie in India**
- **Increasing disposable income, rising working women population and wider distribution reach are the key growth catalysts**
- **Reported impressive revenue and earnings CAGR of 30% and 38%, respectively over FY06-10 and has generated operating cash flows of Rs 97 mn for FY10**
- **PER valuations at 19.5x-20.5x annualized FY11E EPS look attractive vs 31x FY11E (consensus EPS) for Page Industries – expect market to assign scarcity premium**

### Leading presence in the premium women's lingerie segment

Lovable Lingerie launched the 85-year old international brand, 'Lovable' in India in 1996. Currently, it is amongst the top three most preferred brands in women's innerwear in India (Source: CARE Report) and commands 20% share in the super premium market. It has a strong retail presence in 1,425 stores spread across major cities in the country. The company's second flagship brand, Daisy Dee, which caters to the mid-market segment, reaches 7,500 direct outlets, primarily in Southern India.

### Well-defined plans for future growth

It plans to invest Rs 250mn in a 90:10 joint venture with Lifestyle Galleries of London Ltd, UK to introduce, in India, the 'London Calling' brand that caters to men and women innerwear. It also plans to set up 60 exclusive brand outlets (EBOs) for Lovable, on a franchisee model, to directly tap top tier cities in country. This would help explore and capture the untapped market in India and propel the next leg of growth.

### Strong growth potential... increasing disposable income – a key catalyst

The market for the premium and super premium women's lingerie segment in India is relatively small at Rs 12 bn and is expected to grow at 33% CAGR over 2009-14E, according to CARE research. We believe that, with increasing disposable income along with higher number of working women and rising product awareness, this segment is poised for a strong growth in the future.

### Impressive performance in the past... likely to continue

Lovable Lingerie has reported impressive revenue and earnings CAGR of 30% and 38%, respectively over FY06-10 and has generated cash flows of Rs 97 mn for FY10. On an annualized basis, it is expected to grow earnings at 59% in FY11E. Most likely, it would continue healthy performance in future.

### Attractive valuations... SUBSCRIBE

Lovable Lingerie has done a pre-IPO placement of 1mn shares at Rs200 per share with Sequoia Capital, which values the company at Rs3.4bn. At the higher price band, the stock will trade at 20.5x FY11E annualized EPS of Rs10, which is a 34% discount to Page Industries. Considering the strong growth potential and likely scarcity premium similar to Jubilant Foodworks and Page Industries, we believe the offered valuations appear attractive and could provide significant upside potential in the future. Hence, we recommend **SUBSCRIBE** to the issue.

YE-Mar	Net Sales	EBITDA (Core)	EBITDA (%)	APAT	AEPS (Rs)	AEPS % Chg	ROE %	P/E	EV/ EBITDA	P/BV
FY2008	601	73	12.2	42	2.5	19.6	43.7	82.8	47.6	28.7
FY2009	692	85	12.3	29	1.7	52.9	21.5	120.2	41.0	23.5
FY2010	870	161	18.6	106	6.3	62.6	54.1	32.6	21.2	14.1
9MFY11	881	167	18.9	126	7.5	NA	41.2	27.3	20.6	9.3

## Company background

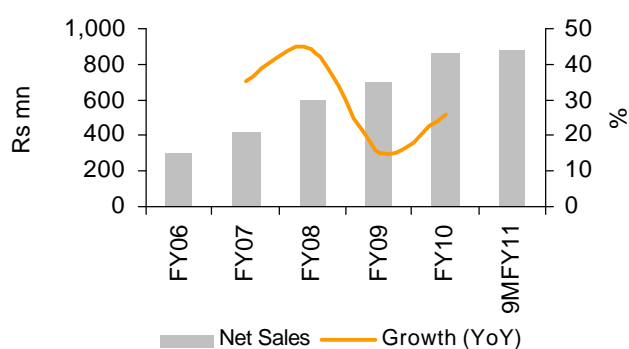
Incorporated in 1987, Lovable Lingerie is promoted by Mr. L.Vinay Reddy, son of Mr. L. Jaipal Reddy, who was a pioneer in establishing branded innerwear market in India with brands like VIP and Frenchie. Mr. Vinay Reddy is the Chairman and Managing Director of the company and has over 20 years of work experience in the innerwear industry.

The company's flagship brand, 'Lovable', was earlier licensed to the company, since 1995, from Lovable World Trading Company, USA. In December 2000, the Company acquired the brand 'Lovable' on an exclusive basis for India, Nepal and Bhutan. The company had also acquired Daisy Dee, a mid-segment brand, from Maxwell Industries in 2004 and College Style from Levitus Trading Limited, Hong Kong in 2009 to cater to the young customer segment. Lovable Lingerie has two manufacturing facilities at Bengaluru and Uttarakhand with a total capacity of 6.7mn pieces a year.

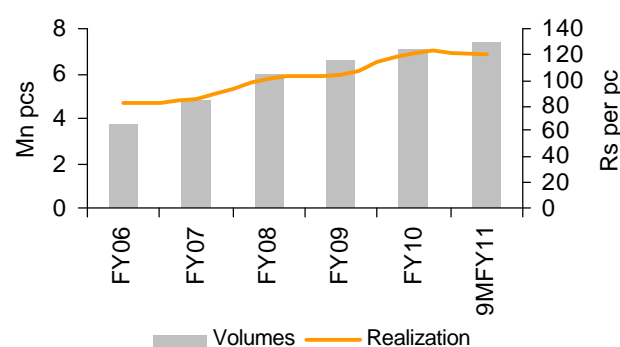
## Strong growth potential ...

Lovable Lingerie operates in the nascent and under penetrated market of branded women's lingerie segment. We expect that with increasing brand awareness and rising urbanization along with higher women workforce, this segment will witness robust growth in the future. CARE reports estimate the premium and super premium segment of the lingerie market to grow at 33% over 2009-14. Lovable Lingerie has reported strong revenue and earnings CAGR of 30% and 38%, respectively over FY06-10 and is likely to sustain healthy growth in future.

### Robust 30% revenue CAGR over FY06-10...

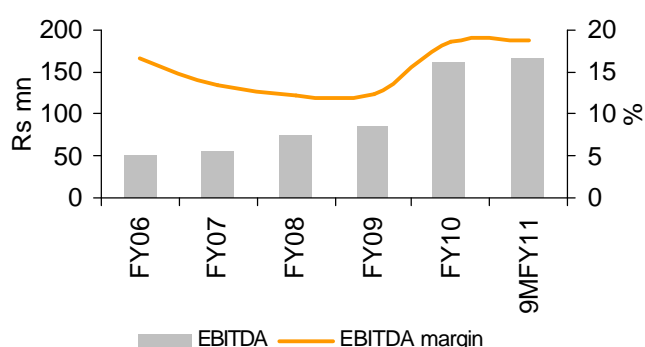


### ... driven by healthy 18% growth in volumes

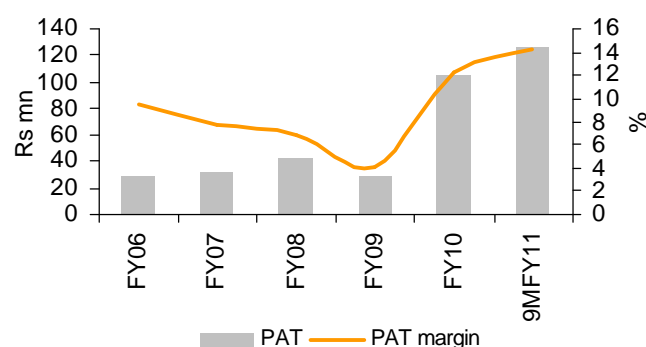


Source: Company, Emkay Research

### EBITDA margins - healthy at 18.9% in 9MFY11



### Net Profit recorded 38% CAGR over FY06-10



Source: Company, Emkay Research

#### .... at attractive valuations

Lovable Lingerie is one of the few players to be listed in the domestic innerwear, especially women's lingerie market. While not a direct comparable, we would like to peg its valuations to Page Industries that operates in the domestic innerwear segment catering to all the segments. Lovable Lingerie's IPO, priced at Rs195-205 per share and valued at 19.5-20.5x FY11E earnings (annualized for 9MFY11), is offered at a 34% discount to Page Industries. Besides, we expect a scarcity premium to be assigned by investors for short-to-medium term, as it happened in the public offerings of Page Industries, Jubilant Foodworks, etc. Hence, considering attractive valuations and the strong earnings growth potential, we recommend investors to **SUBSCRIBE** to the issue.

#### Peer comparison

	Mcap (Rs bn)	Mcap to sales (x)	EPS growth (%)	PER (x)		EV/EBITDA (x)		RoE (%)	
				FY10	FY11E	FY10	FY11E	FY10	FY11E
Lovable Lingerie	3.4	2.9	59.2	32.6	20.5	21.2	13.7	54.1	40.9
Page Industries*	17.2	3.5	50.2	46.6	31.0	28.9	18.6	39.1	52.6

\* Source: Bloomberg. Note: Valuations for Lovable Lingerie is calculated on upper price band of Rs 205 and FY11E calculations are on an annualized basis.

#### Key risks

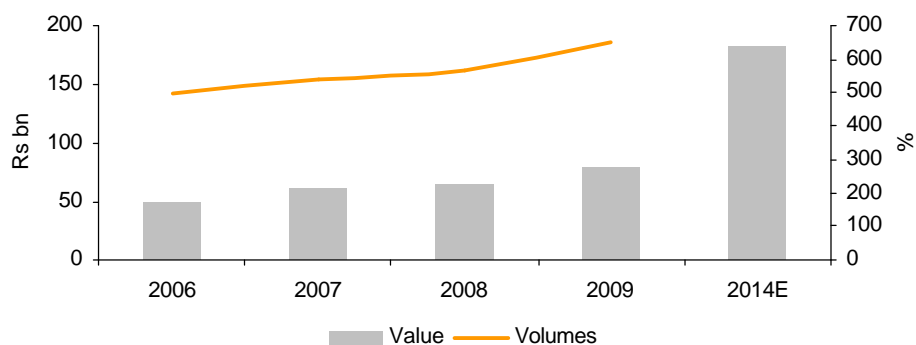
- Lovable Lingerie operates in a single segment of women's innerwear, which is subject to constant innovations.
- Higher advertising spends to increase product awareness in this nascent market could lead to margin pressure and impact profitability for a temporary period.
- Increasing competition from higher number of international as well as domestic brands could impact its profitability.

## Appendix

### Industry overview

The Indian lingerie market worth Rs 79 bn has reported a healthy 16.8% CAGR over 2006-09. According to Credit Analysis & Research Limited (CARE), this segment is expected to grow at a CAGR of 18.3 % to Rs 183 bn over 2009-2014. This robust growth is likely to be driven by increasing disposable income, rising number of working women, increasing product awareness and rising urbanization in the country.

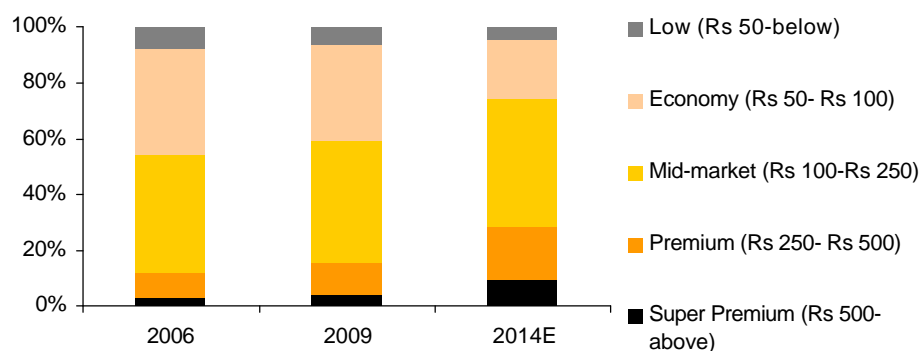
#### Indian lingerie market to grow at 18%



Source: RHP, CARE Research

The super-premium and premium segment contributed 15.8% to the total lingerie market in 2009 and is expected to grow to 28 % by 2014. Lovable commands 20% market share in the super premium category, led by other leading brands like Enamor, Triumph, etc.

#### Super premium and premium segment expected to grow at 33% CAGR



Source: RHP, CARE Research

## Financial highlights

## Income Statement

Y/E, Mar (Rs. m)	FY08	FY09	FY10	9MFY11
<b>Net Sales</b>	<b>601</b>	<b>692</b>	<b>870</b>	<b>881</b>
Growth (%)	44.6	15.3	25.6	
<b>Expenses</b>	<b>527</b>	<b>607</b>	<b>708</b>	<b>714</b>
Growth (%)	46.3	15.2	16.6	
Raw Materials	243	286	404	385
% Of Sales	40.5	41.3	46.5	43.7
Employee Cost	81	91	93	88
% Of Sales	13.5	13.1	10.7	10.0
Manufacturing Exps	22	27	28	34
% Of Sales	3.6	3.9	3.2	3.9
Admin Expenses	26	33	28	207
% Of Sales	4.3	4.8	3.2	23.5
Selling & Distribn Exp	156	170	155	
% Of Sales	25.9	24.5	17.8	0.0
<b>Ebidta</b>	<b>73</b>	<b>85</b>	<b>161</b>	<b>167</b>
Growth (%)	33.0	15.9	89.8	
Ebidta%	12.2	12.3	18.6	18.9
Other Income	1	1	1	9
Interest	6	14	9	4
Depreciation	3	4	13	10
PBT	65	69	140	161
Tax	26	8	42	34
<b>PAT (Before EO Item)</b>	<b>39</b>	<b>60</b>	<b>98</b>	<b>126</b>
Growth (%)	19.6	52.9	62.6	
Net Margin%	6.6	8.7	11.3	14.3
E/O Item	2	-32	8	0
Reported PAT	42	29	106	126

## Balance Sheet

Y/E, Mar (Rs. m)	FY08	FY09	FY10	9MFY11
Equity Share Capital	15	15	75	113
Reserves	105	132	169	257
<b>Networth</b>	<b>120</b>	<b>147</b>	<b>244</b>	<b>369</b>
Secured Loans	55	37	3	3
Unsecured Loans	15	27	0	
<b>Loan Funds</b>	<b>70</b>	<b>64</b>	<b>3</b>	<b>3</b>
<b>Capital Employed</b>	<b>190</b>	<b>211</b>	<b>247</b>	<b>372</b>
Gross Block	67	167	175	183
Less: Depreciation	31	35	48	58
<b>Net Block</b>	<b>36</b>	<b>132</b>	<b>128</b>	<b>126</b>
<b>Investments</b>	<b>10</b>	<b>10</b>	<b>20</b>	<b>0</b>
<b>Current Assets</b>	<b>295</b>	<b>334</b>	<b>317</b>	<b>370</b>
Inventories	166	135	131	142
Debtors	61	87	136	176
Cash & Bank	20	20	27	22
Loans & Advances	47	91	23	29
Other Current Assets				
<b>Current Liabilities &amp; Prov</b>	<b>151</b>	<b>260</b>	<b>209</b>	<b>112</b>
<b>Net Current Assets</b>	<b>144</b>	<b>73</b>	<b>108</b>	<b>257</b>
Miscellaneous Expenditure				
Deferred Tax	0	-5	-9	-11
<b>Capital Deployed</b>	<b>190</b>	<b>211</b>	<b>247</b>	<b>372</b>

## CashFlow

Y/E, Mar (Rs. m)	FY08	FY09	FY10	9MFY11
<b>Pre-Tax Profit</b>	<b>65</b>	<b>43</b>	<b>143</b>	<b>161</b>
Depreciation	3	4	13	10
Non Cash	6	13	9	-4
Chg in Working Cap	1	75	-47	-45
Tax Paid	-41	-13	-21	-38
<b>Operating Cash Flow</b>	<b>34</b>	<b>122</b>	<b>97</b>	<b>85</b>
Capex	-7	-100	-9	-105
<b>Free Cash Flow</b>	<b>27</b>	<b>22</b>	<b>88</b>	<b>-20</b>
Investments	(10)	(2)	(7)	29
Change in Equity Capital	10	0	0	0
Loans	8	-7	-61	1
Dividend	-19	-2	-2	-9
Others	-11	-14	-9	-4
<b>Net Change in Cash</b>	<b>4</b>	<b>-2</b>	<b>9</b>	<b>-4</b>
<b>Opening Cash Position</b>	<b>15</b>	<b>19</b>	<b>16</b>	<b>26</b>
<b>Closing Cash Position</b>	<b>19</b>	<b>16</b>	<b>26</b>	<b>22</b>

## Key Ratios

Y/E, Mar	FY08	FY09	FY10	9MFY11
<b>Profitability %</b>				
Ebidta Mgn	12.2	12.3	18.6	18.9
PAT Mgn	6.6	8.7	11.3	14.3
ROCE	26.3	36.0	45.6	41.8
ROE	43.7	21.5	54.1	41.2
<b>Per Share Data</b>				
EPS	2.5	1.7	6.3	7.5
CEPS	2.6	1.9	6.8	8.0
BVPS	7.1	8.7	14.5	22.0
DVPS	0.1	0.1	0.1	0.0
<b>Valuations (X)</b>				
PER	82.8	120.2	32.6	27.3
CPER	79.6	107.2	30.0	25.7
P/BV	28.7	23.5	14.1	9.3
Ev/Sales	5.8	5.0	3.9	3.9
Ev/Ebidta	47.6	41.0	21.2	20.6
Dividend Yield (%)	0.0	0.0	0.0	0.0
<b>Turnover X Days</b>				
Debtor TO Days	37.0	45.9	57.3	73.1
Inventory TO Days	101.0	71.3	54.8	58.8
<b>Gearing Ratio</b>				
Net Debt/Equity	0.4	0.3	-0.1	-0.1
Total Debt/Equity	0.6	0.4	0.0	0.0

Note: Valuations for 9MFY11 are calculated on the upper price band of Rs. 205

**Emkay Global Financial Services Ltd.**

Paragon Center, H -13 -16, 1st Floor, Pandurang Budhkar Marg, Worli, Mumbai – 400 013. Tel No. 6612 1212. Fax: 6624 2410

**DISCLAIMER:** This document is not for public distribution and has been furnished to you solely for your information and may not be reproduced or redistributed to any other person. The manner of circulation and distribution of this document may be restricted by law or regulation in certain countries, including the United States. Persons into whose possession this document may come are required to inform themselves of, and to observe, such restrictions. This material is for the personal information of the authorized recipient, and we are not soliciting any action based upon it. This report is not to be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. No person associated with Emkay Global Financial Services Ltd. is obligated to call or initiate contact with you for the purposes of elaborating or following up on the information contained in this document. The material is based upon information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied upon. Neither Emkay Global Financial Services Ltd., nor any person connected with it, accepts any liability arising from the use of this document. The recipient of this material should rely on their own investigations and take their own professional advice. Opinions expressed are our current opinions as of the date appearing on this material only. While we endeavor to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so. Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice. We and our affiliates, officers, directors, and employees world wide, including persons involved in the preparation or issuance of this material may; (a) from time to time, have long or short positions in, and buy or sell the securities thereof, of company (ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company (ies) discussed herein or may perform or seek to perform investment banking services for such company(ies) or act as advisor or lender / borrower to such company(ies) or have other potential conflict of interest with respect to any recommendation and related information and opinions. The same persons may have acted upon the information contained here. No part of this material may be duplicated in any form and/or redistributed without Emkay Global Financial Services Ltd.'s prior written consent. No part of this document may be distributed in Canada or used by private customers in the United Kingdom. In so far as this report includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.