

## Lovable Lingerie Ltd

Price band ₹ 195 - 205

### Rating matrix

Rating : **Subscribe**

### Issue Details

Issue opens	8-Mar-11
Issue closes	
for QIB bidders	10-Mar-11
for Retail and Non-institutional bidders	11-Mar-11
Issue size (₹ crore)	89 - 93
No of shares on offer	45.50 lakh
QIB (50%)	22.75 lakh
Non-institutional (15%)	6.82 lakh
Retail (35%)	15.93 lakh
Minimum lot size	30 shares

### Objects of the Issue (₹ crore)

Setting up of manufacturing facility to create additional	22.85
Expenses to be incurred for Brand Building	18.00
Brand development expenses for "College Style" brand	6.00
Investment in joint venture	25.00
Setting up of exclusive brand outlets (EBOs)	14.12
Setting up of retail store modules for shop-in-shop	3.61
Upgradation of design studios	7.60
General corporate purposes	[•]

### Fact Sheet

	Pre Issue	Post Issue
Promoter and Promoter group	91.8	67.0
Foreign Institutional Investors	8.2	6.0
Public	-	27.1

### Financial Summary

₹ crore	FY08	FY09	FY10	9MFY11
Net Sales	60.1	69.2	87.0	88.1
EBITDA	7.3	8.5	16.1	16.7
EBITDA (%)	12.2	12.3	18.6	18.9
Depreciation	0.3	0.4	1.3	1.0
Finance Cost	0.6	1.4	0.9	0.4
Tax	2.6	0.8	4.2	3.4
PAT	3.9	6.0	9.8	12.6
PAT(%)	6.6	8.7	11.3	14.3

### Analyst's name

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## Well planned growth strategy...

Lovable Lingerie Ltd (Lovable Lingerie), incorporated in 1987, is a manufacturer of women's innerwear products like brassieres, panties, slips/camisoles, homewear, shapewear, foundation garments and sleepwear products. Its flagship brands, "Lovable" and "Daisy Dee" cater to the premium and mass market segments, respectively. Lovable Lingerie has three manufacturing facilities with an annual capacity of 67.5 lakh pieces.

### Investment rationale

#### Long-standing presence in women's innerwear segment

The "Lovable" brand is one of the key brands in the premium and super premium women's innerwear segment. The products are sold in 1,425 stores across the country. The number of retailers selling its innerwear brands has grown steadily over the years from 100 in 1996 to 1,425 in 2010.

#### Expanding retail presence

Lovable Lingerie is planning to gradually expand its retailing space beyond the concessionaire retailing model and develop exclusive brand outlets.

#### Inorganic growth route

To enhance its existing innerwear business, the company may acquire or partner with any company in the innerwear business to get access to new products or diversify into newer markets that have large growth potential.

#### Concerns

- Low brand loyalty
- Increasing raw material prices
- Increasing competition from local and international players
- Increased promotional spends to weigh on operating margin

#### Valuations

At the IPO price band of ₹ 195-205, the stock is available at 19.5 – 20.5x annualised 9MFY11 post issue diluted EPS. We believe that the issue is reasonably priced and recommend investors to **SUBSCRIBE** to the issue.

### Exhibit 1: Key Financials

₹ crore	FY07	FY08	FY09	FY10	9MFY11
Net Sales	41.54	60.06	69.24	86.95	88.06
EBITDA	5.52	7.34	8.51	16.15	16.66
EBITDA (%)	13.3	12.2	12.3	18.6	18.9
Depreciation	0.21	0.28	0.39	1.31	1.02
Finance cost	0.25	0.64	1.37	0.93	0.44
Tax	1.80	2.61	0.85	4.22	3.44
PAT	3.29	3.94	6.02	9.79	12.61
PAT (%)	7.9	6.6	8.7	11.3	14.3
EPS (₹)	65.82	26.24	40.13	13.05	11.21
Post issue diluted EPS (₹)	1.96	2.34	3.58	5.83	7.50

Source: RHP, ICICIdirect.com Research

#### Company Background

Lovable Lingerie Ltd (Lovable Lingerie), incorporated in 1987, is a manufacturer of women's innerwear products like brassieres, panties, slips/camisoles, homewear, shapewear, foundation garments and sleepwear products. In December 1995, it licensed the brand "Lovable" from Lovable World Trading Company, US. Subsequently, in December 2000, the company acquired the brand "Lovable" from Lovable World Trading Company, US on an exclusive basis for the territories of India, Nepal, Sikkim and Bhutan.

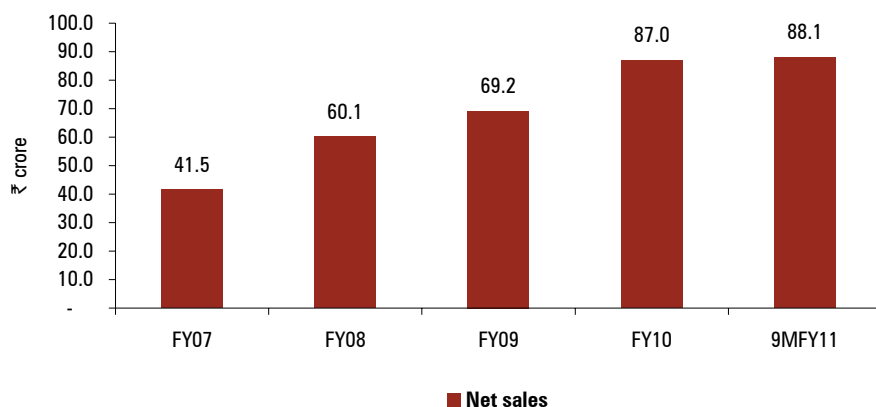
Its flagship brands, "Lovable" and "Daisy Dee" cater to the premium and mass market segments, respectively. According to a report by CARE, "Lovable" is among the top three most preferred brands in women's innerwear in India. As part of its growth strategy, Lovable Lingerie acquired brands like "Daisy Dee" from Maxwell Industries and also the brand "College Style" from Levitus Trading, Hong Kong to cater to the young segment of India. In the past, Lovable Lingerie has also marketed the "Vanity Fair" brand of women's innerwear garments, which was licensed from VF Corporation Inc., US.

Lovable Lingerie has three manufacturing facilities of which two are situated at Kanakapura Road, Bengaluru and one is situated in Roorkee, Uttarakhand. The total installed capacity stands at 67.5 lakh pieces. Going forward, the company proposes to implement a project for modernisation and integration at a new location in Uttarhalli Hobli, Bengaluru with an annual capacity of 25 lakh pieces per annum.

Lovable Lingerie has also set up an in-house design studio for developing innerwear products and creating styles to meet global standards. Its design studio is equipped with latest software with requisite hardware like digitiser, pattern grader, sampling, sewing machines and sample analyser.

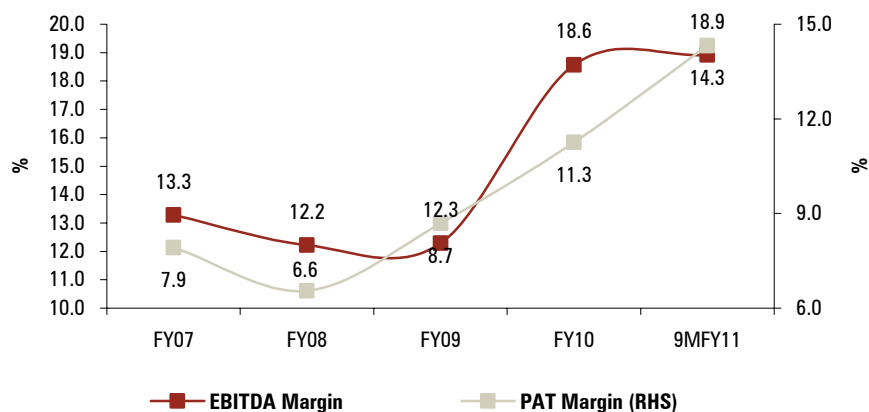
The company follows the concessionaire retailing model. In this model, it procures dedicated retail space in leading retail outlets and displays its products. Unlike a multi-branded display, in this model the dedicated retail space stocks the company's brands only and is manned by its sales representative. This model helps it to display the entire range of products. Currently, it has 127 counters in stores like Westside, Shoppers Stop and Lifestyle among others in 21 cities, all over India. Its network comprises five branches, 103 distributors, 1,425 direct dealers and approximately 7,500 multi brands outlets in 105 cities.

**Exhibit 2: Sales trend**



Source: RHP, ICICIdirect.com Research

**Exhibit 3: Margin trend**



Source: Company, ICICIdirect.com Research

**Objects of the issue**

The company aims to utilise the funds for the following purposes:

Exhibit 4: Objects of the issue	(₹ crore)
Setting up of manufacturing facility to create additional capacity at Bengaluru	22.85
Expenses to be incurred for brand building	18.00
Brand development expenses for "College Style" brand	6.00
Investment in joint venture	25.00
Setting up of exclusive brand outlets (EBOs)	14.12
Setting up of retail store modules for shop-in-shop	3.61
Upgradation of design studios	7.60
General corporate purposes	[•]

Source: RHP, ICICIdirect.com Research

## Investment Rationale

### Long-standing presence in women's innerwear segment

The "Lovable" brand is one of the key brands in the premium and super premium women's innerwear segment (Source: CARE report). The "Lovable" brand was launched in India in 1996. Currently, its women's innerwear products are sold in 1,425 stores across the country. The number of retailers selling its innerwear brands has grown steadily over the years from 100 in 1996 to 1,425 in 2010.

### Well planned growth strategy

Lovable Lingerie endeavours to capitalise on its presence in the women's innerwear category, by widening its product portfolio. The company aims to strengthen its brand presence in the premium women's innerwear segment by launching women's innerwear in the super premium segment and, thus, exploit the untapped potential in these categories. Further, it proposes to extend the "Lovable" brand into product segments like sleepwear and home wear.

### Expanding retail presence

The "Lovable" brand works on the concessionaire retailing model with some large retailing stores like Shoppers Stop, Lifestyle and Westside among others. This model helps the company to display the full range and in garnering more revenue from customers. With the issue proceeds, Lovable Lingerie is planning to gradually expand its retailing space beyond the concessionaire retailing model. The company intends to develop exclusive brands outlets that will be a speciality women's innerwear retailing model. It will retail the company's existing innerwear brands, the super premium brands that it intends to launch and also other products like sleepwear, homewear, etc.

### Inorganic growth route

In the past, the company has acquired the brands "Lovable", "Daisy Dee" and "College Styles". To enhance its existing innerwear business, the company may acquire or partner with any company in the innerwear business to get access to new products or diversify into newer markets that have large growth potential. Pursuing selective acquisitions, partnerships, or alliances in domestic markets and internationally would improve competitiveness, further broaden product offerings and strengthen the company's market position.

In this regard, Lovable Lingerie has entered into a joint venture agreement with Lifestyle Galleries of London Ltd ("Lifestyle Galleries") to establish a joint venture company in India with the name of Lovable Lifestyles Private Limited ("Lovable Lifestyle"). Lovable Lifestyle intends to launch product lines in women's innerwear and in related lifestyle categories.

### Broaden revenue streams through entering export markets

Lovable Lingerie plans to increase the export sales of its innerwear products by exporting to countries like Sri Lanka, UAE and Bangladesh to enhance its geographic reach. Its brand "Daisy Dee" also has the potential to grow in developing markets similar to India.

## Key concerns

### Low brand loyalty

Due to the highly competitive nature of the industry, the target customers tend to switch over to products manufactured by competitors, thereby generating a low level of brand loyalty towards the company's products. This may result in a loss of market share.

### Increasing raw material prices

The steep increase in cotton and polyester prices could put pressure on the operating margins and profitability if the company is unable to pass on the same to consumers.

### Increasing competition from local and international players

The women's innerwear industry is characterised by constant product innovation due to changing consumer preferences and evolving fashion trends. A number of international players are also present in this segment, thereby posing a threat to the company's market share.

### Increased promotional spends to weigh on operating margin

To increase the brand awareness, the company plans to spend ₹ 24 crore for brand building activities. The company is likely to incur significant expenditure on marketing and promotions, which may impact the operating margin if the marketing efforts do not get converted to sales.

## Valuations

At the IPO price band of ₹ 195-205, the stock is available at 19.5 – 20.5x annualised 9MFY11 post issue diluted EPS. We believe that the issue is reasonably priced and recommend investors to **SUBSCRIBE** to the issue.

### Exhibit 5: Profit and loss

₹ Crore	FY07	FY08	FY09	FY10	9MFY11
<b>Net Sales</b>	<b>41.54</b>	<b>60.06</b>	<b>69.24</b>	<b>86.95</b>	<b>88.06</b>
Other Income	0.04	0.12	0.11	0.10	0.85
<b>Total Income</b>	<b>41.58</b>	<b>60.18</b>	<b>69.36</b>	<b>87.05</b>	<b>88.91</b>
<b>Expenditure</b>					
(Increase)/Decrease in inventories	(3.81)	(2.90)	0.54	0.27	2.34
Raw material expenses	22.13	27.23	28.06	40.15	36.15
Personnel costs	6.48	8.09	9.09	9.29	8.81
Selling , Administration & Other expenses	9.42	18.12	20.34	18.31	20.71
Other Manufacturing expenses	1.82	2.17	2.70	2.78	3.39
<b>Total Expenditure</b>	<b>36.02</b>	<b>52.72</b>	<b>60.73</b>	<b>70.80</b>	<b>71.39</b>
<b>EBITDA</b>	<b>5.52</b>	<b>7.34</b>	<b>8.51</b>	<b>16.15</b>	<b>16.66</b>
Interest costs	0.25	0.64	1.37	0.93	0.44
Depreciation & Amortization	0.21	0.28	0.39	1.31	1.02
<b>PBT</b>	<b>5.09</b>	<b>6.54</b>	<b>6.87</b>	<b>14.01</b>	<b>16.05</b>
Taxation	1.80	2.61	0.85	4.22	3.44
<b>Profit before extraordinary Items</b>	<b>3.29</b>	<b>3.94</b>	<b>6.02</b>	<b>9.79</b>	<b>12.61</b>
Extra ordinary items	(0.11)	0.22	(3.15)	0.77	-
<b>PAT</b>	<b>3.19</b>	<b>4.16</b>	<b>2.87</b>	<b>10.55</b>	<b>12.61</b>

Source: RHP, ICICIdirect.com Research

**Exhibit 6: Balance sheet**

₹ Crore	FY07	FY08	FY09	FY10	9MFY11
<b>Share Capital</b>					
Equity Share Capital	0.50	1.50	1.50	7.50	11.25
Reserves & Surplus	6.56	10.49	13.18	16.86	25.71
<b>Total Shareholders Funds</b>	<b>7.06</b>	<b>11.99</b>	<b>14.68</b>	<b>24.36</b>	<b>36.96</b>
<b>Borrowings</b>					
Secured Loans	3.28	5.54	3.71	0.29	0.34
Unsecured Loans	3.00	1.50	2.68	0.04	-
11% Cumm. Redeemable Pref. Shares	0.50	-	-	-	-
<b>Total</b>	<b>6.78</b>	<b>7.04</b>	<b>6.39</b>	<b>0.33</b>	<b>0.34</b>
Deferred tax liability	-	-	0.46	0.88	1.07
<b>Total Liabilities</b>	<b>13.84</b>	<b>19.03</b>	<b>21.53</b>	<b>25.57</b>	<b>38.37</b>
<b>Fixed Assets</b>					
Gross Block	5.93	6.67	16.67	17.54	18.34
Less: Accumulated Depreciation	2.80	3.08	3.48	4.75	5.77
<b>Net Fixed Assets</b>	<b>3.13</b>	<b>3.58</b>	<b>13.19</b>	<b>12.79</b>	<b>12.57</b>
Investments	0.00	1.00	1.00	1.98	0.01
Deferred Tax Assets	0.04	0.04	-	-	-
<b>Current Assets, Loans and Advances</b>					
Inventories	13.17	16.61	13.53	13.07	14.19
Sundry Debtors	5.45	6.09	8.71	13.64	17.63
Cash & Bank Balances	1.56	2.03	2.03	2.70	2.23
Loans & Advances	1.67	4.74	9.10	2.32	2.95
<b>Current Liabilities and Provisions</b>					
Current Liabilities	8.60	14.12	25.33	18.61	10.37
Provisions	2.58	0.96	0.69	2.32	0.87
<b>Net Current Assets</b>	<b>10.68</b>	<b>14.40</b>	<b>7.34</b>	<b>10.80</b>	<b>25.75</b>
Misc Expenditure not written off	-	-	-	-	0.05
<b>Total Assets</b>	<b>13.84</b>	<b>19.03</b>	<b>21.53</b>	<b>25.57</b>	<b>38.37</b>

Source: RHP, ICICIdirect.com Research

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