

14 February 2013

Lovable Lingerie

*Strong volume growth; Buy*Rating: **Buy**

Target Price: ₹490

Share Price: ₹308

Key takeaways

Volume growth remains strong. Lovable Lingerie's reported revenue grew 12% yoy. Volumes grew 18%. On the changed distribution structure and trade margins, realizations were down 6% yoy. Prices of the Lovable brand were hiked 6% in Dec'12 and of Daisy Dee 7% in Jan'13. Lovable and Daisy Dee reported volumes growing 16.7% and 21.3% respectively. Nationwide expansion of distribution helped to strong volumes of the Daisy Dee brand.

Lower other expenditure drives margins up. Other expenditure (as percent of net sales) was 380bps yoy lower. The company had aggressively spent on the nation-wide launch of the Daisy Dee brand in 3QFY12. This had resulted in higher other expenditure in base quarter. This helped the EBITDA margin expand 70bps yoy. The effective income tax rate was down 170bps yoy and net profit was up 13.9% yoy.

Distribution expansion on track. The company has largely completed appointing new distributors. At present, it has 52 distributors of Lovable (with 3,500 outlets) and 120 distributors of Daisy Dee (with ~10,000 outlets).

Margin expansion ahead. The company expects prices of major raw materials (cotton and packaging material) to hold stable over the next 2-3 quarters. The recent price hikes of ~6% will help expand margins ahead. Though the company plans to increase spending on brand-building activity, it expects margin expansion of ~100bps in FY14.

Our take. Due to expansion of distribution network as well as softer base of FY13, we expect the company will be able to report healthy volume growth in FY14. EBITDA margin is also expected to move upwards due to price hike and stable raw material prices. We expect a healthy, 20%, earnings CAGR over FY13-15 and value the stock at a target price of ₹490, at a target PE of 26x FY14e earnings. We assign a target PE of 26x as per Mean PE since listing. **Risks.** A sharp increase in cotton prices and higher competitive pressure.

Quarterly results (YE Mar)	3QFY12	3QFY13	% yoy	9MFY12	9MFY13	% yoy
Sales (₹m)	338	378	12.0	1,139	1,307	14.8
EBITDA (₹m)	55	65	16.9	211	217	2.9
EBITDA margin (%)	16.4	17.1	70 bps	18.5	16.6	(192) bps
Interest (₹m)	3	3	18.5	4	7	65.8
Depreciation (₹m)	4	4	13.7	11	14	24.0
Other income (₹m)	3	0	(89.6)	12	25	102.8
PBT (₹m)	52	57	11.2	207	220	6.3
Tax (₹m)	16	17	5.3	56	62	10.3
Tax rate (%)	31.6	29.9	(170) bps	27.0	28.0	100 bps
PAT (₹m)	35	40	13.9	151	159	4.8

Source: Company

Key data	LLL IN / LOVA.BO
52-week high / low	₹428 / ₹292
Sensex / Nifty	19608 / 5933
3-m average volume	US\$1.5m
Market cap	₹5bn / US\$98m
Shares outstanding	17m

Shareholding pattern (%)	Dec '12	Sep '12	Jun '12
Promoters	67.0	67.0	67.0
- of which, Pledged	-	-	-
Free Float	33.0	33.0	33.0
- Foreign Institutions	10.1	10.2	10.5
- Domestic Institutions	3.9	3.9	3.4
- Public	19.0	18.9	19.1

Financials (YE Mar)	FY13e	FY14e
Sales (₹m)	1,712	2,204
Net profit (₹m)	265	314
EPS (₹)	15.8	18.7
Growth (%)	22.4	18.4
PE (x)	19.5	16.4
PBV (x)	2.8	2.5
RoE (%)	15.5	16.0
RoCE (%)	15.3	17.0
Dividend yield (%)	0.7	1.0
Net gearing (%)	(50.3)	(41.0)

Source: Anand Rathi Research

Aniruddha Joshi
+9122 6626 6732
aniruddhajoshi1@rathi.com

Shirish Pardeshi
+9122 6626 6730
shirishpardeshi@rathi.com

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Quick Glance – Financials and Valuations

Fig 1 – Income statement (₹m)

Year-end: Mar	FY11	FY12	FY13e	FY14e	FY15e
Net revenues	1,040	1,329	1,712	2,204	2,837
Revenue growth (%)	19.6	27.8	28.8	28.8	28.8
- Op. expenses	845	1,099	1,417	1,819	2,342
EBIDTA	195	231	295	384	495
EBITDA margin (%)	18.8	17.4	17.2	17.4	17.4
- Interest expenses	5	6	5	5	5
- Depreciation	14	15	27	43	60
+ Other income	9	67	85	87	80
- Tax	44	61	84	110	133
Effective tax rate (%)	23.9	21.9	24.0	26.0	26.0
Reported PAT	141	217	265	314	377
+/- Extraordinary items	-	-	-	-	-
+/- Minority interest	-	-	-	-	-
Adjusted PAT	141	217	265	314	377
Adj. FDEPS (₹/share)	8.4	12.9	15.8	18.7	22.5
Adj. FDEPS growth (%)	(3.3)	53.7	22.4	18.4	20.3

Source: Company, Anand Rathi Research

Fig 2 – Balance sheet (₹m)

Year-end: Mar	FY11	FY12	FY13e	FY14e	FY15e
Share capital	168	168	168	168	168
Reserves & surplus	1,244	1,422	1,648	1,917	2,236
Net worth	1,412	1,590	1,816	2,085	2,404
Minority interest	-	-	-	-	-
Total debt	-	45	45	45	45
Def. tax liab. (net)	9	10	10	10	10
Capital employed	1,422	1,646	1,871	2,141	2,460
Net fixed assets	129	234	471	703	943
Investments	931	1,018	918	918	868
- of which, Liquid	931	1,018	918	918	868
Net working capital	218	323	380	477	602
Cash and bank balance	143	33	103	43	47
Capital deployed	1,422	1,646	1,871	2,141	2,460
Net debt	(1,065)	(994)	(965)	(905)	(858)
WC days	21.0	24.3	22.2	21.6	21.2
Book value (₹/sh)	84.9	95.5	109.0	125.1	144.1

Source: Company, Anand Rathi Research

Fig 3 – Cash-flow statement (₹m)

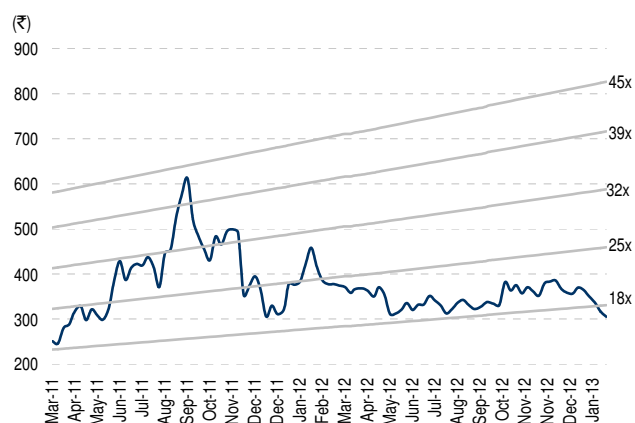
Year-end: Mar	FY11	FY12	FY13e	FY14e	FY15e
PAT	141	217	265	314	377
+ Non-cash items	14	15	27	43	60
Cash profit	143	186	292	356	437
- Incr./Decr. in WC	(146)	(132)	(57)	(97)	(125)
Operating cash-flow	(3)	53	235	259	312
- Capex	15	158	225	275	300
Free cash-flow	(18)	(105)	10	(16)	12
- Dividend	9	29	39	44	59
+ Equity raised	1,057	-	-	-	-
+ Debt raised	(3)	34	-	-	-
- Investments	911	14	(100)	-	(50)
- Misc. items	-	-	-	-	-
Net cash-flow	116	(113)	70	(60)	3
+ Op. cash & bank bal.	26	142	33	103	43
Cl. cash & bank bal.	142	29	103	43	47

Source: Company, Anand Rathi Research

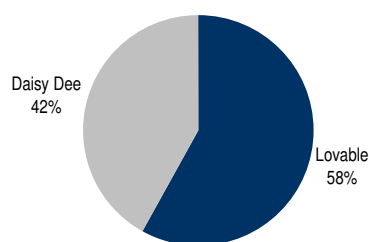
Fig 4 – Ratio analysis @ ₹308

Year-end: Mar	FY11	FY12	FY13e	FY14e	FY15e
P/E (x)	36.6	23.8	19.5	16.4	13.7
P/B (x)	3.6	3.2	2.8	2.5	2.1
EV/Sales (x)	4.0	3.2	2.5	1.9	1.5
EV/EBITDA (x)	21.6	18.2	14.3	11.0	8.5
RoAE (%)	16.8	14.3	15.5	16.0	16.7
RoACE (%)	21.6	14.1	15.3	17.0	18.9
Dividend yield (%)	0.5	0.6	0.7	1.0	1.3
Dividend payout (%)	17.8	15.5	14.2	16.0	17.8
RM to sales (%)	44.2	40.3	40.5	40.2	40.2
Ad spend to sales (%)	3.1	2.1	2.1	2.1	2.1
EBITDA growth (%)	20.9	18.2	27.7	30.4	28.7
EPS growth (%)	(3.3)	53.7	22.4	18.4	20.3
PAT margin (%)	13.5	16.3	15.5	14.2	13.3
Volume growth (%)	-	-	-	-	-
Real. growth (%)	-	-	-	-	-

Source: Company, Anand Rathi Research

Fig 5 – Valuation chart (PE band)


Source: Bloomberg, Anand Rathi Research

Fig 6 – Revenue break-up (FY12)


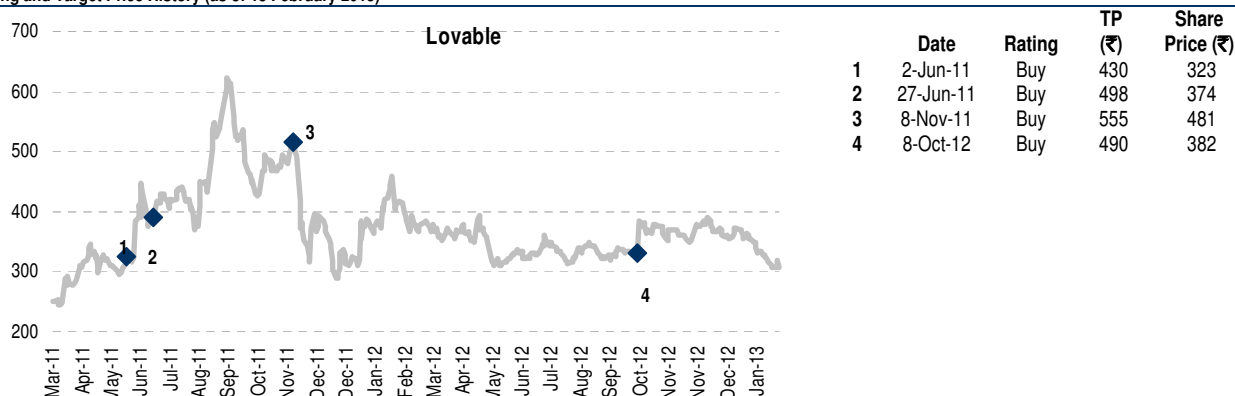
Source: Company

Appendix

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