IPO NOTE 07 March, 2011

Lovable Lingerie

SECTOR: TEXTILES

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Issue Snapshot	
Issue Open:	8-Mar-11
Issue Close:	11-Mar-11
Price Band (INR):	195 to 205
Issue Size (INR Mn):	887 to 933
Market Cap (INR Mn):	3,276 to 3,444
Issue Size (No. of Shares)	***4,550,000***
QIB:	*2,275,000*
Non-Institutional:	*682,500*
Retail:	*1,592,500*
Face Value (INR):	10
Book Value as of FY10 (INR):	19.9
Capital Structure:	
Pre Issue Equity (INR Mn):	123
Post Issue Equity (INR Mn):	168

Shareholding Pattern	Pre Issue (%)	Post issue (%)
Promoter & Promoter Groups	92%	67%
Mutual fund, FII holding & others	8%	6%
Public	0%	27%
Total	**100%**	**100%**
Total Shares	**12,250,000**	**16,800,000**

Objects of the Issue	INR Mn.
Setting up of manufacturing facility	228
Brand Building expenses	180
Brand Development expenses for "College Style" brand	60
Investment in Joint Venture	250
Setting up of Exclusive Brand Outlets	141
Setting up of retail store modules for "shop-in-shop"	36
Up gradation of design studios	76
General corporate purpose	[•]
Issue Expenses	[•]
Total	[•]

Website: www.lovableindia.in

Lovable Lingerie Limited (LLL) is engaged in the manufacturing of women's innerwear. The company currently has 3 manufacturing facilities with a total installed capacity to manufacture 6.7mn pieces p.a.

Investment Rationale

- *"Lovable"* and *"Daisy Dee"* are the flagship brands of the company. *"Lovable"* is amongst the top three most preferred brands in women's innerwear in India and commands a 20% share in the super premium market which is worth INR 3bn in the women lingerie segment in India.

- The company has a strong retail presence with 1,425 retail outlets for its *"Lovable"* brand and 7,500 retail outlets for its *"Daisy Dee"* brand. Further, the company proposes to open 60 exclusive brand outlets (EBOs) on franchisee model at an estimated cost of INR 141mn.

- LLL intends to introduce new sub-brands under its *"Lovable"* brand as well as foray into men's innerwear segment. For this purpose, the company plans to increase its capacity by 2.5mn pieces p.a. by January 2012 at a capital outlay of INR 228mn.

- The lingerie segment is poised to grow at a CAGR of 18% over the period 2009-14E with the premium and super-premium segment growing at a CAGR of 33% owing to increase in working women and rising product awareness. *(Source: CARE Research)*

Valuation & Recommendation

At the upper band of INR 205, stock is available at an annualized FY11 EPS of INR 10 and P/E multiple of 20.5x. This compares well with 28.1x P/E of Page Industries for FY11E. We recommend **SUBSCRIBE** to the issue.

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Investment Rationale

Leading Share in Women Lingerie Segment

The company's *"Lovable"* brand is an 85 year old brand launched in India in 1996. It is one of the key brands in the premium and super premium women's innerwear segment and commands a 20% share in the super-premium market *(Source: CARE Report)*. It is currently sold through 1,425 stores across India and is amongst the top three preferred brands in women's innerwear.

The "*Daisy Dee*" brand was launched in the year 2005 in the mid-market segment and has a significant national presence with 7,500 retail stores, primarily in South India.

Enhancing Manufacturing Capacities

The company endeavours to capitalize on its presence in the women's innerwear category, by widening its product portfolio. LLL intends to utilize INR 228mn of the IPO proceeds to increase its manufacturing capacity by 2.5mn pieces by January 2012. Currently, the company operates with a capacity of 6.7mn pieces per annum.

Particulars	FY08	FY09	FY10	As of 31 December, 2010
Manufacturing units at Bengaluru, Karnataka (Unit I and Unit II)				
Installed Capacity (mn pieces)	6	6	6	6
Capacity Utilization (%)	67%	72%	73%	72%
Manufacturing unit in Roorkee, Uttarakhand				
Installed Capacity (mn pieces)	-	-	0.75	0.75
Capacity Utilization (%)	-	-	-	93.18%

Network Expansion and Increased Brand Recall

The company's products are retailed through 103 distributers in India. LLL caters to approximately 1,425 retail outlets for "*Lovable*" brand and 7,500 retail outlets for *"Daisy Dee"* brand. Further, the company proposes to open 60 exclusive brand outlets (EBOs) on franchisee model at an estimated cost of INR 141mn.

Zone Wise Plan for EBOs to be Setup

Particulars	Domestic Market - Zone Wise				Total
	North	South	East	West	
Exclusive Brand Outlets (EBOs)	20	18	7	15	60

Also in order to increase brand recall, the company has budgeted a brand building exercise for its *"Lovable"* and *"Daisy Dee"* brand of INR 180mn spread over a period of 2 years. LLL also intends to utilize INR 60mn on brand development of "*College Styles*" which caters to the younger generation.

Product Range and Diversified Customer Base

The brand *"Lovable"* is a premium women's innerwear brand where as *"Daisy Dee"* is a mid segment market brand. *"College Style"* caters to the branded and lifestyle lingerie for the younger generation.

LLL also plans to enter into men innerwear segment by investing INR 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.

Company Background

Incorporated in 1987, LLL is one of India's leading women's innerwear manufacturers. The company has 2 manufacturing facilities in Bengaluru and 1 in Roorkee with a total annual capacity of 6.7mn pieces.

The company's flagship brand "*Lovable*" was licensed to the company in 1995 from Lovable World Trading Company, USA and acquired the brand "*Lovable*" in 2000 on an exclusive basis for the territories of India, Nepal, Sikkim and Bhutan**.**

The company acquired "*Daisy Dee*" from Maxwell Industries Limited in 2004 and "*College Style*" from Levitus Trading Limited, Hong Kong in 2009.

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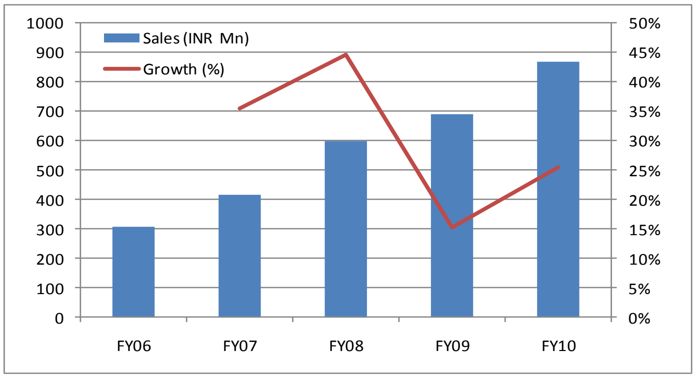
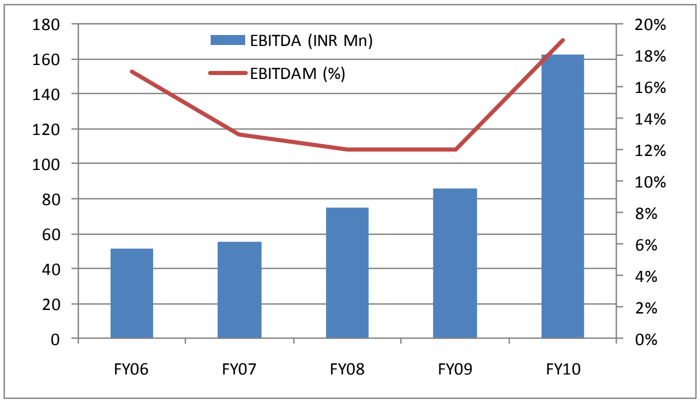
Financial Highlights

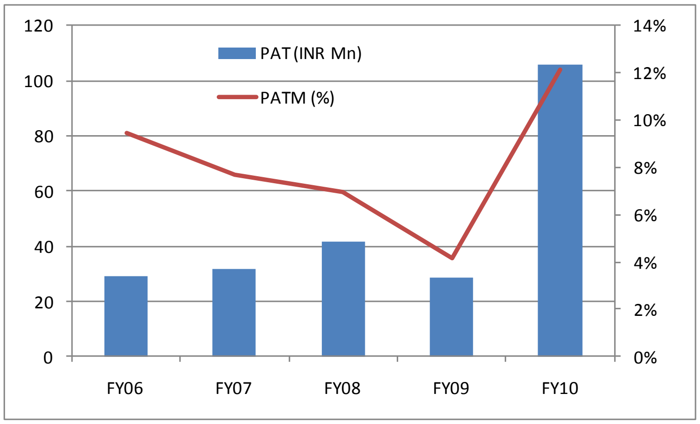
Sales grew by 30% CAGR over FY06-FY10



EBITDA Margin stood at a healthy 19% for FY10



PAT Margin stood at a healthy 12% for FY10

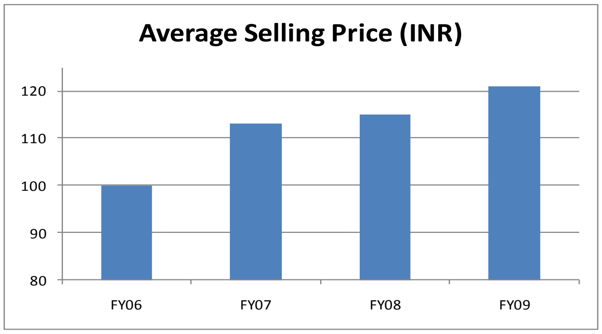


Industry Overview

The Lingerie Industry in India worth INR 79bn grew by 16.8% over 2006-09. In volume terms, the men's innerwear market constitutes 48% of the total innerwear market in India. In value terms, the women lingerie segment enjoys 66 % share of the total lingerie market. It constituted 5.1 % of the total Indian apparel market and 15.8 % of the overall women apparel market during 2009.

In volume terms the lingerie industry grew at a rate of 9.4% over the last four years. The lingerie sales grew from 498mn pieces in 2006 to 652mn pieces in 2009. In volume terms it constitutes 9.4% of the overall apparel market and 31.9% of the women apparel market.

The lingerie market grew at a faster pace in terms of value as compared to volumes during 2006-2009. This signifies a jump in the average selling price which grew from INR 100 in 2006 to INR 121 in 2009. It grew at a CAGR of 6.7 % during the same period.



The lingerie market in India can be classified in super-premium, premium, mid-market and economy & low-market segment. Approximately, 75 % of the market share is held by the mid-market and economy segment, in both, value and volume terms. The super-premium and premium segments are relatively smaller but fast-growing segments. The super-premium and premium segments grew at a CAGR of 18.9% and 16.6 % respectively.

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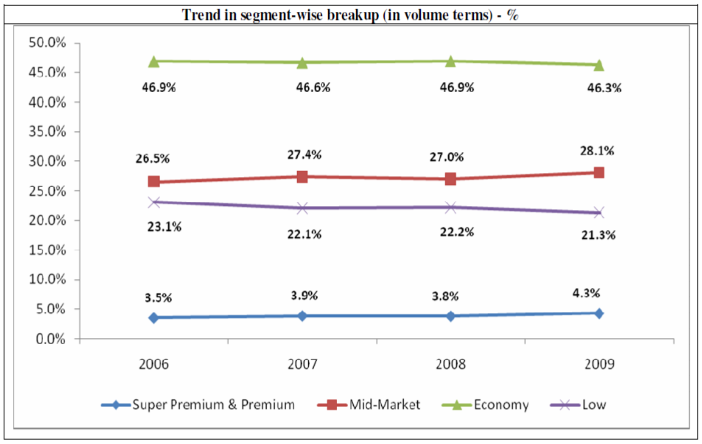

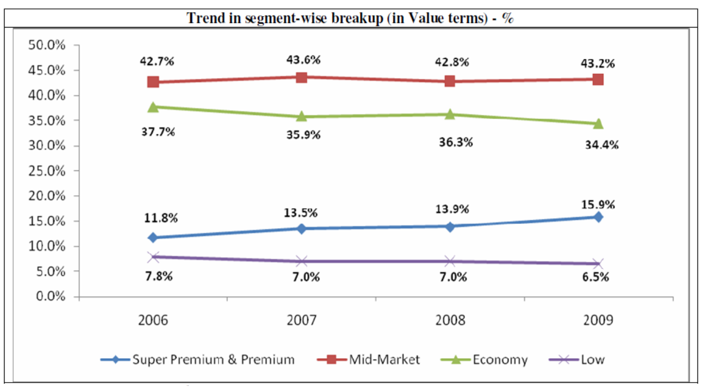

Outlook

The lingerie industry in India is expected to grow at a CAGR of 18.3 % over the period 2009-2014. It is currently estimated at INR 79bn and is expected to be worth INR 183bn in 2014. This growth would be led by the super-premium, premium and mid-market segment. This can primarily be attributed to the advent of international brands in India, growing brand awareness and brand loyalty amongst the Indian consumer.

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.

Promoter Background

Mr. L. Vinay Reddy, is the Chairman and Managing Director of the Company. He has over 20 years of experience in the innerwear industry. He was instrumental in obtaining license of *"Lovable"* brand for the Company. He is responsible for the overall day to day affairs and management decisions of the Company. He was previously a director in Maxwell Industries.

Investment Concerns

- Presence of company in a segment (women's innerwear) where brand loyalty is low due to the highly competitive nature of the industry.
- The lingerie industry in India is characterized by a high degree of fragmentation with almost two-third of the market controlled by the unbranded and unorganized regional players.

Valuation & Recommendation

At the upper band of INR 205, stock is available at an annualized FY11 EPS of INR 10 and P/E multiple of 20.5x. This compares well with 28.1x P/E of Page Industries for FY11E.

Lovable Lingerie has done a pre-IPO placement of one million shares at INR 200/share with Sequoia Capital, which values the company at INR 3.4bn.

The valuations look attractive when compared to its closest competitor, Page Industries. The issue seems quite attractive considering the high growth potential of the Women Lingerie segment. We recommend **SUBSCRIBE** to the issue.

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Financials

Income Statement (INR Mn)	FY08	FY09	FY10	9 Month-FY11
Income from Operations	**600.6**	**692.4**	**869.5**	**880.6**
Less: Excise Duty	-	-	-	-
Operating Expenditure	**556.2**	**601.9**	**705.4**	**690.6**
Other Income	1.2	1.1	1.0	8.5
Increase/(decrease) in stock	29.0	-5.4	-2.7	-23.4
EBIDTA	**74.6**	**86.2**	**162.5**	**175.2**
Depreciation	2.8	3.9	13.1	10.2
EBIT	**71.8**	**82.3**	**149.4**	**164.9**
Financial Charges	6.4	13.7	9.3	4.4
PBT	**65.4**	**68.7**	**140.1**	**160.5**
Tax Expenses	26.1	8.5	42.2	34.4
Extraordinary Items	2.2	-31.5	7.7	-
PAT	**41.6**	**28.7**	**105.5**	**126.1**

Balance Sheet (INR Mn)	FY08	FY09	FY10	9 Month-FY11
Share Capital	15.0	15.0	75.0	112.5
Reserves & Surplus	104.9	131.8	168.6	257.1
Less: Misc. Expenditure	-	-	-	0.5
Net Worth	**119.9**	**146.8**	**243.6**	**369.1**
Borrowed Funds	70.4	63.9	3.3	3.4
Deferred Tax Liability		4.6	8.8	10.7
Current Liabilities	150.8	260.3	209.2	112.4
Total Liabilities	**341.0**	**475.6**	**464.9**	**495.6**
Gross Block	66.7	166.7	175.4	183.4
Less: Depreciation	30.8	34.8	47.5	57.7
Total Fixed Assets	**35.8**	**131.9**	**127.9**	**125.7**
Investment	10.0	10.0	19.8	0.1
Current Assets	295.2	333.6	317.2	369.9
Total Assets	**341.1**	**475.6**	**464.9**	**495.6**

Cash Flow (INR Mn)	FY08	FY09	FY10	9 Month-FY11
From Operating Activities	**34.2**	**121.6**	**97.0**	**84.5**
From Investing Activities	**-17.2**	**-101.9**	**-16.1**	**-77.1**
From Financing Activities	**-12.7**	**-22.2**	**-71.7**	**-12.1**
Net Cash Flow	**4.3**	**-2.5**	**9.2**	**-4.7**
Opening Cash	14.6	18.9	16.5	25.6
Closing cash	18.9	16.5	25.6	20.9

Ratios	FY08	FY09	FY10
Debt to Equity (x)	0.6	0.4	0.0
ROCE (%)	37.7%	38.2%	58.4%
Cash EPS (INR)	3.6	2.7	9.7
BV/Share (INR)	9.8	12.0	19.9
P/BV at 205 (x)	21.0	17.1	10.3
RoNW (%)	34.7%	19.5%	43.3%
EPS (INR)	3.4	2.3	8.6
P/E at 205 (x)	60.4	87.6	23.8
EBIDTA Margin (%)	12.4%	12.5%	18.7%
PAT Margin (%)	6.9%	4.1%	12.1%

**Pre Issue Figures*

Peer Comparison (Annualized FY11E)

Company	FV	CMP (INR)	M-Cap (INR Mn)	M-Cap/Sales (x)	Sales (INR Mn)	EBITDAM (%)	EPS (INR)	Equity	P/E (x)
LLL @ 195	10	195.0	3,276	2.8	1,174.1	20%	10.0	168.0	19.5
LLL @ 205	10	205.0	3,444	2.9	1,174.1	20%	10.0	168.0	20.5
Maxwell	2	15.5	978	0.4	2,384.3	9%	0.8	126.2	18.8
Page	10	1532.1	17,088	3.3	5,153.7	21%	54.6	111.5	28.1
TT	10	30.3	651	0.1	4,827.6	11%	9.3	215.0	3.2

**EPS and BVPS are calculated using post issue shares*

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Disclosure of Interest Statement

1. Analyst ownership of the stock - No
2. Group/Directors ownership of the stock – No
3. Broking relationship with company covered – No

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