

Lovable Lingerie :Average Issue

IPO Note: Overpriced ; PE Ratio 20.5 times while Textile sector attracting low P/E.

Ranking:**

Issue details

Price band (Rs)	Rs.195 - 205
IPO Opening Date	08/03/11
IPO Closing Date	10/03/11
Issue Size	Rs.88.73 - 93.28 Crore

Valuations & Recommendation

The company has reported strong performance in the financials for FY 2010. Sales increased 26% to Rs.86.95 crore and net profit rose more than threefold to Rs.10.55 crore. This year operating margin jumped 6.30%, from 11.3% to 18.6%.

At Rs 195-205, the issue is very expensive as PE works out to 20.5 times (as per nine month ended Dec 2010).

While the textile sector is attracting low PEs, the comparable listed company Maxwell Industries, Page Industries and TT Ltd trade at a P/E of around 19.3, 28.1 and 3.1 times respectively (as per nine months ended Dec 2010 EPS). These are market leader in their segment and sales volume are between Rs.225 crore to 481 crore, while Lovable has merely Rs.87 crore Volume.

Amidst rising yarn and fabric prices, and intensifying competition from organized and unorganized players, it is difficult to maintain margin and increase volume.

The issue is overpriced. As per all above factors we recommend to avoid this issue. But looking at its products and expansion plan we recommend to enter at lower level after listing for long term.

Highlights:

- ◆ It is an 85-year-old brand with global presence. One of the established and key brands in the women premium and super premium segment. "Daisy Dee" is a leading brands in the mid market segment.
- ◆ The company has in-house design studio for developing innerwear products and creating styles to meet global standards.
- ◆ The promoters of the company have vast experience in branding and developing of undergarments.
- ◆ The company is into a highly competitive and labor-intensive sector of the textile Industry
- ◆ The company has three manufacturing facilities situated in Bengaluru and in Roorkee, Uttarakhand.
- ◆ The company has a total installed capacity of 30 lac pieces each per annum to manufacture brassiere and panties.
- ◆ CARE has assigned 'CARE IPO Grade 3/5' to the issue, indicating average fundamentals.
- ◆ The annualized EPS for the nine months ended December 2010 stood at Rs 10.0, resulting in a price to earnings (PE) multiple of 20.5 times

Company Introduction

Profile of the company:

Lovable Lingerie was constituted on September 29, 1987 as a private limited company subsequently changed to Lovable Lingerie Private

Limited pursuant to a certificate of change of name dated December 20, 1995.

Products

It is one of India's leading women's innerwear manufacturers. Its products include brassieres, panties, slips / camisoles, homewear, shapewear, foundation garments and sleepwear products. The Company acquired the brand 'Lovable' from Lovable World Trading Company, USA on an exclusive basis for the territories of India, Nepal, Sikkim and Bhutan. The innerwear products manufactured under the brand 'Lovable' cater to the premium segment market in India.

Manufacturing facilities

It is headquartered in Mumbai, Maharashtra and has three (03) manufacturing facilities of which two are situated at Kanakapura road in Bengaluru and one (01) is situated in Roorkee, Uttarakhand. Its two manufacturing facilities situated in Bengaluru, Karnataka commenced operations in the year 1995 and the year 2005, respectively and have a total installed capacity of 30 lac pieces each per annum to manufacture brassiere and panties.

Expansion Plan

The company intends to set up manufacturing facility to create additional capacity at Bengaluru with capex of Rs 28.85 crore and invest Rs 25 crore in JV. In order to expand its retail presence, it plans to invest Rs 3.61 crore in setting up retail store modules for 'shop in shop' and Rs 14.12 crore to set up exclusive brand outlets (EBO's). The company proposes to open 60 EBO's and 110 new shop-in-shop outlets by June 2012. In keeping with the evolution of consumer taste and rapid fashion cycles of women innerwear industry, it plans to utilize Rs 7.60 crore towards up-gradation of design hardware and software of design studio. It also plans to spend Rs 18 crore and Rs 6 crore for brand building and brand development of college style brand, respectively. The whole objects of the issue will be met by the IPO capital (fresh and pre-IPO placement) and term loan of Rs 16.33 crore.

Financial Summary

Particulars	0903 (12)	1003 (12)	1012 (9)
Sales	69.24	86.95	88.06
Net Profit	6.02	9.79	12.61
EPS* (Rs)	1.7	6.3	10.0

*EPS is annualized and calculated on post-issue equity capital of Rs 16.80 crore

RANKING METHODOLOGY

WEAK	*
AVERAGE	**
GOOD	***
VERY GOOD	****
EXCELLENT	*****

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