

Lovable Lingerie Ltd

Bloomberg Code: LLL IN

India Research - Stock Broking

HOLD

Stable Revenue Growth, Pressure on Margins Though

Revenue grew by 8% this year with a fall in EBITDA margin by 300 basis points. The rise in employee expenses and raw material cost coupled with lack of price hike created a pressure on EBITDA margins.

Awaiting Clarity Regarding Adidas Pact: The board of LLL disclosed that it has entered into a Brand Sub-licensing Agreement with "Global Merchandising" (an Overseas company of Adidas Group) and acquired license of the its Brand to manufacture, distribute and sell the products in the Indian market as per terms & conditions stipulated in the Agreement and thereby expand the market operations of the company by using the brand and developing its reputation on November 10, 2014. We are still awaiting for the details of the pact as if this gets implemented successfully, it can be a turnaround for LLL.

High Potential being a Branded Organized Player, but Challenge Remains in Converting Potential into Performance: LLL is a focused player in the women innerwear segment of Indian apparel industry, with strong brand recall value. There are very few organized players in this industry in India and the market growth is in sector is more than 13%, Lovable has immense opportunities in this sector. We believe that if the company is able to sort out it's issues related to distributors, it would be able to post improved revenues in the coming years, with the possibility of converting its potential into performance.

Valuation and Outlook

At CMP 295, the stock is trading at 23.5x & 19.2x of FY16E & FY17E EPS earnings respectively. With change in strategy, better realizations and improving operational efficiency and return ratios, we recommend a **"HOLD"** with a target price of Rs. 320/- per share, representing an upside potential of 9%.

Key Risk

- Volatility in raw material prices
- Competition from foreign and regional players.

Exhibit 1: Valuation Summary (Rs. Mn)

| YE Mar (Rs. Mn) | FY13 | FY14 | FY15 | FY16E | FY17E |
|-------------------|------|------|------|-------|-------|
| Net Sales | 1511 | 1595 | 1725 | 1906 | 2135 |
| EBITDA | 233 | 271 | 242 | 267 | 331 |
| EBITDA Margin (%) | 15.4 | 17.0 | 14.0 | 14.0 | 15.5 |
| Adj. Net Profit | 189 | 212 | 197 | 209 | 256 |
| EPS (Rs.) | 11.2 | 12.6 | 11.7 | 12.4 | 15.2 |
| RoE (%) | 11.4 | 11.6 | 10.5 | 10.8 | 12.1 |
| PE (x) | 26.2 | 23.4 | 24.9 | 23.5 | 19.2 |

Source: Company, Karvy Research

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Recommendation (Rs.)

| | |
|--------------|-----|
| CMP | 295 |
| Target Price | 320 |
| Upside (%) | 9 |

Stock Information

| | |
|---------------------------|--------------|
| Mkt Cap (Rs.mn/US\$ mn) | 4952 / 78 |
| 52-wk High/Low (Rs.) | 458 / 226 |
| 3M Avg. daily volume (mn) | 0.1 |
| Beta (x) | 1.3 |
| Sensex/Nifty | 28198 / 8524 |
| O/S Shares(mn) | 16.8 |
| Face Value (Rs.) | 10.0 |

Shareholding Pattern (%)

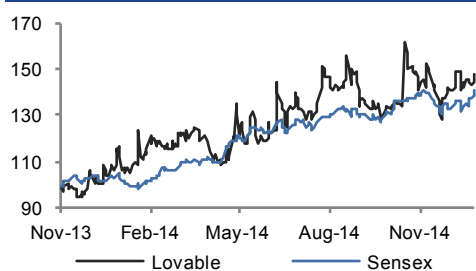
| | |
|-----------|------|
| Promoters | 67.2 |
| FII | 9.4 |
| DII | 2.8 |
| Others | 20.6 |

Stock Performance (%)

| | 1M | 3M | 6M | 12M |
|--------------------|----|------|------|------|
| Absolute | 15 | (14) | (26) | (21) |
| Relative to Sensex | 8 | (12) | (26) | (29) |

Source: Bloomberg

Relative Performance*



Source: Bloomberg; *Index 100

Analyst Contact

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Company Financial Snapshot (Y/E Mar)
Profit & Loss (Rs. Mn)

| | FY15 | FY16E | FY17E |
|---------------------------------|------|-------|-------|
| Net sales | 1725 | 1906 | 2135 |
| Optg. Exp (Adj for OI) | 1483 | 1639 | 1804 |
| EBITDA | 242 | 267 | 331 |
| Depreciation | 25 | 26 | 27 |
| Interest | 11 | 7 | 6 |
| Other Income | 63 | 45 | 45 |
| PBT | 270 | 279 | 343 |
| Tax | 72 | 71 | 87 |
| Adj. PAT | 197 | 209 | 256 |
| Profit & Loss Ratios | | | |
| EBITDA margin (%) | 14.0 | 14.0 | 15.5 |
| Net margin (%) | 12.5 | 13.3 | 11.4 |
| P/E (x) | 24.9 | 23.5 | 19.2 |
| EV/EBITDA (x) | 20.4 | 18.5 | 14.9 |

Source: Company, Karvy Research

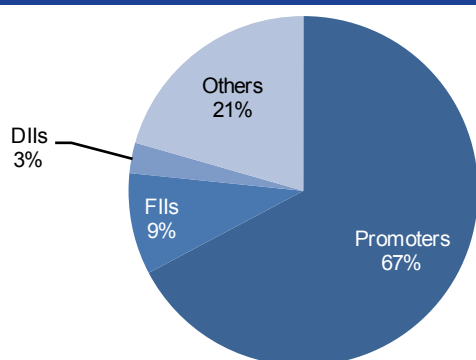
Balance sheet (Rs. Mn)

| | FY15 | FY16E | FY17E |
|--------------------------|-------------|-------------|-------------|
| Total Assets | 2284 | 2464 | 2700 |
| Net Fixed assets | 397 | 395 | 393 |
| Current assets | 1122 | 1307 | 1536 |
| Other assets | 19 | 21 | 28 |
| Total Liabilities | 2284 | 2464 | 2700 |
| Networth | 1851 | 2009 | 2215 |
| Debt | 55 | 51 | 50 |
| Current Liabilities | 346 | 375 | 406 |
| Deferred Tax | 32 | 28 | 26 |

Balance Sheet Ratios

| | | | |
|---------------------|------|------|------|
| RoE (%) | 10.5 | 10.8 | 12.1 |
| RoCE (%) | 14.4 | 14.4 | 16.1 |
| Net Debt/Equity | 0.03 | 0.02 | 0.01 |
| Equity/Total Assets | 0.8 | 0.8 | 0.9 |
| P/BV (x) | 2.7 | 2.5 | 2.2 |

Source: Company, Karvy Research

Exhibit 2: Shareholding Pattern (%)


Source: Company, Karvy Research

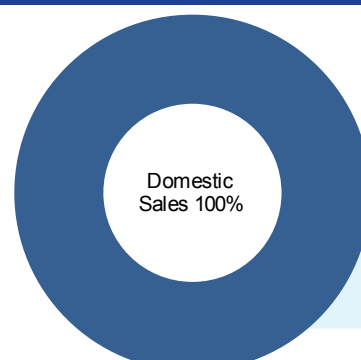
Company Background

Lovable Lingerie, incorporated in the year 1987, is one of India's leading women's innerwear manufacturers. Its products include brassieres, panties, slips / camisoles, homewear, shapewear, foundation garments and sleepwear products. On December 26, 1995, the company licensed the brand "Lovable" from Lovable world trading company, USA. Subsequently, by an agreement dated December 23, 2000, 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. "Lovable" and "Daisy Dee" are its flagship brands. The brand "Lovable" is amongst the top three most preferred brand in women's innerwear in India. The company is headquartered in Mumbai, Maharashtra and has three manufacturing facilities of which two facilities are situated at Kanakapura road in Bengaluru and one is situated in Roorkee, Uttarakhand.

Cash Flow (Rs. Mn)

| | FY15E | FY16E | FY17E |
|---------------------------|--------------|-------------|-------------|
| PBT | 270 | 279 | 343 |
| Depreciation | 25 | 26 | 27 |
| Interest (net) | 11 | 7 | 6 |
| Tax | (51) | (71) | (91) |
| Changes in WC | 242 | 267 | 332 |
| CF from Operations | (37) | 48 | 48 |
| Capex | (25) | (24) | (25) |
| Investment | 332 | 45 | 49 |
| CF from Investing | 306 | 21 | 24 |
| Change in Equity | 0 | 0 | 0 |
| Change in Debt | (38) | (4) | (0) |
| Dividends | (210) | (42) | (42) |
| CF from Financing | (296) | (61) | (57) |
| Change in Cash | 18 | 26 | 41 |

Source: Company, Karvy Research

Exhibit 3: Revenue Segmentation (%)


Source: Company, Karvy Research

Stable Revenue growth

We expect revenue growth at a CAGR of 11% in FY16-17E as we expect improvement in product mix and improvement in distribution and operational efficiency. Any addition from Adidas pact could be a positive support for the same. Considering the low market penetration of branded women innerwear in India coupled with strong growth in internet and e-commerce acceptability, the revenue growth could be well supported.

Huge Untapped Potential

The size of the Indian innerwear market is Rs.177500 Mn; the category is also growing at an impressive CAGR of 13% and is expected to reach Rs.322100 Mn by 2018 and Rs 595400 Mn by 2023. The women's innerwear market, which is driven by value-added innerwear products contributes around 60% to the market and is expected to grow at a CAGR of 15%. The women's segment makes up about 60% of the overall domestic innerwear market. Lovable Lingerie's premium brand Lovable commands a good 28% share of the premium innerwear market. Also present at lower price points with brand Daisy Dee, the company has access to a wider consumer base. It is among the few established national innerwear brands. Lovable is focused player in the women's innerwear market, and the current deal with Adidas for brand licensing will substantially boost Lovable's revenues and profitability. There are few operators in this sector in India and the market growth in this sector is more than 13%, Lovable has immense opportunities in this sector. But Lovable despite being present in high growth market is not able to make double digit revenue growth. From the Q4FY13 onwards, revenue growth has been in a range of 4-8%. This is significantly below the 15-17% growth in the quarters before. It's peers are rising much faster as compared to growth of LLL.

Awaiting for clarity with the pact with Adidas

The board of LLL disclosed that it has entered into a Brand Sub-licensing Agreement with "Global Merchandising" (an Overseas Company of Adidas Group) and acquired license of the its Brand to manufacture, distribute and sell the products in the Indian market as per terms and conditions stipulated in the Agreement and thereby expand the market operations of the Company by using the brand and developing its reputation on November 10, 2014. Earlier also as a part of their growth strategy, they have diversified their portfolio of brands and acquired brands like "Daisy Dee" from Maxwell Industries Limited through a memorandum of understanding dated March 18, 2004 to cater the mid segment market in India and also acquired the brand "College Style" from Levitus Trading Limited, Hong Kong through a deed of assignment dated March 17, 2009 to cater to the young segment of India. The Company has also in the past marketed the "Vanity Fair" brand of women's innerwear garments, which was licensed from VF Corporation Inc., USA. Lovable is trying new strategies to ramp up their volumes and revenues. Adidas is an international player, taking the brand advantage of Adidas, it can be a turnaround for Lovable Lingerie.

Key for Future Growth remains in Product Pricing for better margins

The recent price hikes without hurting volumes and removal of the excise duty would help LLL to expand its price realizations and profit margins. In the FY14 budget, government removed excise duty on ready-made garments which was earlier charged at 12% on the maximum retail price with 70% abatement net of cenvat credit. Moreover with stability in cotton prices and a control over its operating cost we expect this will help LLL to report expansion in their margins in FY16E-17E. Profit margin can improve in coming quarter but for that they need a strong underlying sales growth for sustained performance.

Unused IPO funds

Lovable Lingerie raised about Rs 932.80 Mn via a 45.5 lakh equity share initial public issue at a face value of Rs10 each. In it they had kept Rs. 250 Mn reserved for investment in joint venture. LLL still have Rs 490 Mn left with them out of IPO proceeds. Unused IPO funds are creating a pressure on RoE, as they are invested in mutual funds currently. However, if IPO funds get utilized in a lucrative manner for business expansion purposes, there would be possibility of upside on RoE.

Exhibit 4: IPO Table

| Utilisation of funds upto March 31, 2015 (Rs. Mn) | Object as per Prospectus | Actual utilization 31.03.2015 |
|--|--------------------------|-------------------------------|
| Setting up manufacturing facility to create additional capacity as Bengaluru | 228 | 216 |
| Expenses to be incurred for Brand Building | 180 | 180 |
| Brand Development Expenses | 60 | 60 |
| Investment in Joint Venture | 250 | 0 |
| Setting up of Exclusive Brand Outlets ("EBO") | 141 | 141 |
| Setting up of Retail Store Modules for "Shop-in-Shop" | 36 | 36 |
| Upgradation of Design Studios | 76 | 27 |
| General Corporate Purpose | 240 | 0 |
| Public Issue Expenses | 85 | 76 |
| Total | 1,296 | 736 |

Source: Company, Karvy Research

Exhibit 5:

| Means of Finance (Rs. Mn) | As per objects | As on 31/03/2015 |
|------------------------------|----------------|------------------|
| Term Loan | 163 | 100 |
| Amount received from Pre-IPO | 200 | 0 |
| Amount received from IPO | 933 | |
| | 1,133 | 637 |
| Total | 1,296 | 736 |

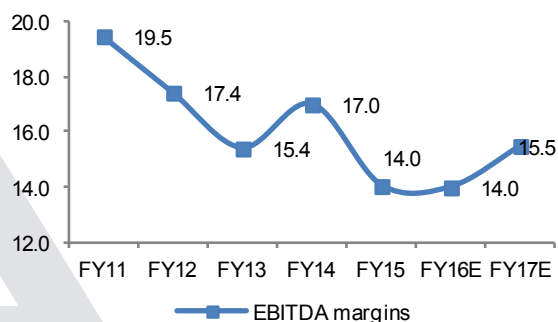
Source: Company, Karvy Research

Exhibit 6:

| Interim Utilisation of IPO Proceeds (Rs. Mn) | As on 31/03/2015 |
|---|------------------|
| Balance Unutilised amount temporarily invested in | |
| Mutual Funds | 496 |
| Balance with Banks | 0 |
| Total | 496 |

Source: Company, Karvy Research

Pressure on Operating margin restricts the Advertisement and Promotion expenses

Exhibit 7:


Source: Company, Karvy Research

The management decided to reduce Advertisement and Promotion expenses in FY14, which helped them to reduce the pressure on operating margin. In H1FY14, Lovable's operating margin has improved to 19.7% from 16.4% in H1FY13. LLL management has increased substantially Advertisement and Promotion expenses in FY13 which created a pressure on operating margin of FY13. As the amount bookmarked for brand building in IPO has been exhausted, we expect the A&P expense to lower.

Revamped distribution network could help to increase the volume growth

The company has undertaken the concessionaire retailing model to market their products and increase the retail sales of the company. In this model, the company procures dedicated retail space in leading high-traffic retail outlets like large format stores (LFS)/ department stores. In this dedicated space, the company's brand 'Lovable' makes the arrangement for stocking, displays and visual merchandising in the form of its 'shop-in-shop' modules and its display fixtures. Unlike a multi-branded display, in this model the dedicated retail space stocks only their brand's products, reflects their brands visuals and is manned by their sales representative. Currently, the company has 121 counters in stores like Westside, Shoppers Stop, Lifestyle amongst others in 21 cities, all over India. There are near about 190 distributors for 2 brands (Lovable & Daisy dee). According to the management, consumer demand was less, trade finance was less, funding the trade had become expensive, due to which distributors were little conservative in paying. We believe that if the company is able to sort out its issues related to distributors, it would be able to post volumes in the coming years.

Shift in consumer preference towards high premium brand

With visible signs of growth in Indian economy on track which lead to higher disposable income and higher discretionary spending. The consumer demand is more likely to get shifted to premium brands which is a high margin segment offered by LLL from an economy segment brand. The 'Lovable' brand primarily is an upmarket brand in the premium and super premium segment of the sector, while the company's 'Daisy Dee' brand is an economy segment brand.

Factors driving the growth of lingerie industry in India

- **Rise of working women in India**
 - ◆ With a current population of 621 million women in India out of which 42% are working women.
 - ◆ With growing women empowerment and education awareness, the working women population is going to increase in India for the coming years. It means there will be higher disposable income for the women to spend on branded lifestyle products.
- **Rising level of disposable income**
 - ◆ Owing to the rising desire amongst the Indian women to be financially independent, there has been more than 10% increase in the number of working women in India over the last four decades.
 - ◆ High disposable income and changing lifestyles pattern among women is anticipated to intensify the opportunities for women's lingerie players in the Indian market.
- **Rising level of urban middle class population**
 - ◆ The Indian urban middle class has emerged as an important player both in terms of its numerical size and its influence on various sectors on Indian markets.
- **Rising percentage of Youth Population**
 - ◆ With 356 million 10-24 year-olds, India has the world's largest youth population despite having a smaller population than China. The rising youth population is giving rise in many trends in Lingerie sector, the companies have to be always on their toes with changing trends and designs.
- **Increasing Brand consciousness**
 - ◆ There has been an extraordinary growth in the field of fashion and style in India. The customer are becoming more brand consciousness now. Basically, the brand loyalty factor is the highest amongst the premium and super-premium categories.

India's Lingerie Market is Booming Due to Popularity of Online Shopping

The retail industry of India is among the top five retail industries worldwide. Rapid development in retailing in major as well as tier-II cities and small towns has paved way for the exponential growth of the industry. The huge growth potential for online retail is one reason why analysts predict that the online lingerie market in India will grow at a CAGR of 42.32 percent from 2015-2019. Although online retailing held a small share in the retail market in India, its share is forecast to increase significantly in the future. Previously, online retailing was limited to the largest cities because of low internet penetration and lack of awareness. However, the demand will increase in tier-II cities in the coming years with a rise in Internet penetration, Smartphone users, disposable income, and literacy. Buying from the comfort of your living room offers privacy and discount compared to buying from retail outlets makes it more attractive for women. Buying online allows buyers to keep their purchase private and get it delivered discreetly; a key element that gives online lingerie stores an edge over physical stores. Other reasons besides privacy that has given boost to lingerie e-retail market are discounts, availability of international brands, a gamut of styles and multiple size options (from skinny to plus size) to choose from.

Diversified Brand Portfolio with leading market share in Women's Innerwear Segment

Lovable Lingerie, incorporated in the year 1987, is one of India's leading women's innerwear manufacturers. Its products include brassieres, panties, slips / camisoles, homewear, shapewear, foundation garments and sleepwear products. As part of their growth strategy, they have diversified their portfolio of brands and acquired brands like "Daisy Dee" from Maxwell Industries Limited through a memorandum of understanding dated March 18, 2004 to cater the mid segment market in India and also acquired the brand "College Style" from Levitus Trading Limited, Hong Kong through a deed of assignment dated March 17, 2009 to cater to the young segment of India The company has also in the past marketed the "Vanity Fair" brand of women's innerwear garments, which was licensed from VF Corporation Inc., USA.

"Lovable" and "Daisy Dee" are its flagship brands. The brand "Lovable" is amongst the top three most preferred brand in women's innerwear in India (Source: CARE Report) Lovable has been successful in establishing one of the first international women's innerwear brands in the Indian market. They had established product segments like All Day Long, Cotton Essentials, Encircle and Tease, at a time when women's innerwear market was at its nascent stage. Lovable Lingerie's premium brand Lovable commands a good 28% share of the premium innerwear market. Also present at lower price points with brand Daisy Dee, the company has access to a wider consumer base. It is among the few established national innerwear brands.

Lovable
FASHION LINGERIE

- Acquired from US Principal, Lovable World Trading Co. in 2000.
- Operates in super Premium & Premium Segment.
- First International Brand to successfully launch in India.
- Has a commanding market share of the Premium Lingerie.

DAISY DEE

- Launched in the year 2004
- Operates in Mid - Market Segment
- Market Leader in Southern States & foraying in other regions

COLLEGE STYLE

- Acquired in 2009 and launched in the same year.
- Operates through the network of Daisy Dee
- Targeted at the young with contemporary products

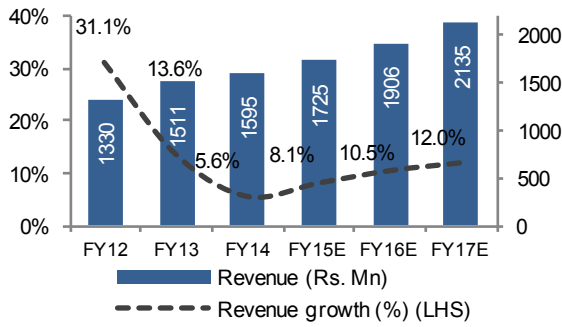
Exhibit 8: Business Assumptions

| Y/E Marc (Rs. Mn) | FY15 | FY16E | FY17E | Comments |
|--------------------------------------|-------|-------|-------|--|
| India Business (Standalone) | | | | |
| Revenue | 1725 | 1906 | 2135 | LLL will post higher revenues ahead on account of better product mix, higher realizations and improvement in distribution. |
| Revenue Growth (%) | 8.1 | 10.5 | 12.0 | |
| EBITDA | 242 | 267 | 331 | |
| EBITDA Margins (%) | 14.0 | 14.0 | 15.5 | The management decided to reduce Advertisement and Promotion expenses in FY14, which helped them to reduce the pressure on operating margin. In H1FY14, Lovable's operating margin has improved to 19.7% from 16.4% in H1FY13. LLL management has increased substantially Advertisement and Promotion expenses in FY13 which created a pressure on operating margin of FY13. |
| PAT (normalized) | 197 | 209 | 256 | |
| Fully Diluted EPS (1e) | 11.7 | 12.4 | 15.2 | |
| Fully Diluted EPS Growth (%) | (7.0) | 5.9 | 22.7 | |
| Capex (ex. Acquisition) - cash capex | (25) | (24) | (25) | |
| Net CFO | (37) | 48 | 48 | |
| Net Debt | (37) | (25) | 9 | The management plans for debt repayment and minimum capex for next 2 years. |
| Free Cash Flow | (74) | 23 | 57 | |

Source: Company, Karvy Research

Stable Revenue Growth

Exhibit 9:

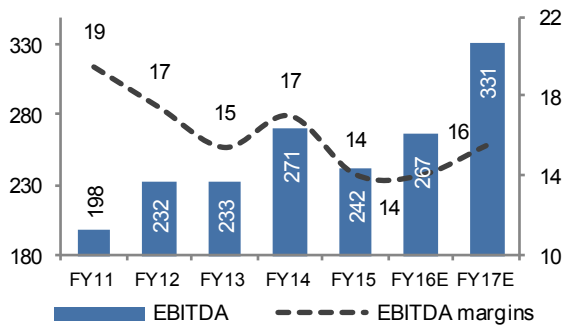


Source: Company, Karvy Research

Lovable Lingerie grew 8.13% in 2015 as compared to 5.60% in 2014. There was a pressure on EBITDA margin due to less demand, rise in employee expenses, raw material cost. We expect Lovable Lingerie to grow by CAGR of 11.3% during FY15-17E on account of improved product mix, lower input cost and improved distribution cycle.

EBITDA margin of 15.50% over FY15E-FY17E

Exhibit 10:

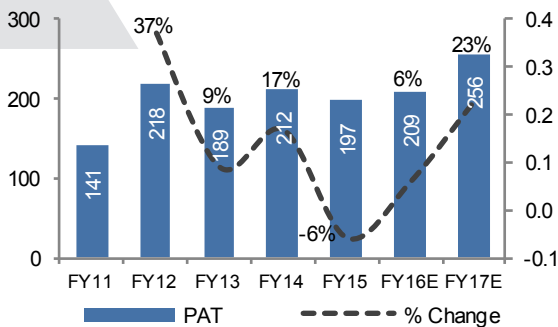


Source: Company, Karvy Research

The company's EBITDA margin we are expecting to grow at 15.50% in FY15-FY17E. We are expecting the EBITDA margin of company to sustain near 16% ahead on account of implementation new strategies and improvement in distribution cycle. The pact with Adidas may help the company increase its margin.

PAT grew at CAGR of 9% over FY11-FY15

Exhibit 11:

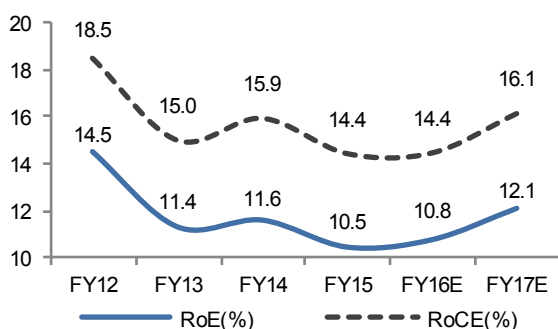


Source: Company, Karvy Research

The company's bottomline grew at CAGR of 9% over FY11-FY15; We are expecting the bottomline to grow at 14% in FY15-FY17 owing to a better product mix and strong operational efficiency. The net margins are likely to stabilize at 11% by FY17.

Return Ratios

Exhibit 12:



Source: Company, Karvy Research

The company return ratios have remained stable at around 10.5% as of FY15 due to higher input costs and lower revenue growth. Moving forward we expect RoE and RoCE to grow by 12.1% and 16.1% by FY17E on account of higher realizations, better product mix and growing operational efficiency.

Exhibit 13: Company Snapshot (Ratings)

| | Low | | | | High |
|-----------------------------|-----|---|---|---|------|
| | 1 | 2 | 3 | 4 | 5 |
| Quality of Earnings | | | ✓ | | |
| Domestic Sales | | | | ✓ | |
| Exports | ✓ | | | | |
| Net Debt/Equity | | | ✓ | | |
| Working Capital requirement | | | ✓ | | |
| Quality of Management | | | ✓ | | |
| Depth of Management | | | ✓ | | |
| Promoter | | | | ✓ | |
| Corporate Governance | | | | ✓ | |

Source: Company, Karvy Research

Valuation & Outlook

At CMP of Rs. 295 per share, the stock is valued at 23.5x & 19.2x FY16E and FY17E EPS respectively. We reiterate a **“HOLD”** recommendation with a target price of Rs. 320 per share valuing at a PE multiple of 21x FY17E EPS, representing an upside potential of 9.0%. We expect a revenue and PAT CAGR of 11.25% & 14% during FY15-17E on back of improving operational efficiency, product pipeline and capacity expansion to cater to growth in the long run.

Exhibit 14: PE Band


Over the past 5 years, Lovable has traded in the range of 20x-35x with a historical average of 29.3x. Lovable Lingerie is currently a leader in the lingerie segment commanding a 28% market share. The company has been growing consistently with stable growth, operational performance and good return ratios over the past few years until FY14. Post FY14, the management has changed its strategy due to which the company was unable to maintain stable margins in FY15E. With lower input costs, change in product mix & strategy and stable realizations going forward, we believe the company to increase its market share to ~40% by FY17E-18E.

Exhibit 15(a): Comparative Valuation Summary

| | CMP (Rs.) | Mcap (Rs. Mn) | EV/EBITDA (x) | | | | P/E (x) | | | | EPS (Rs.) | | | |
|---------|--------------|------------------|---------------|------|-------|-------|---------|------|-------|-------|-----------|-------|-------|-------|
| | | | FY14 | FY15 | FY16E | FY17E | FY14 | FY15 | FY16E | FY17E | FY14 | FY15 | FY16E | FY17E |
| Lovable | 295 | 4952 | 18.5 | 20.4 | 18.5 | 14.9 | 23.4 | 24.9 | 23.5 | 19.2 | 12.6 | 11.7 | 12.4 | 15.2 |
| Page | 14839 | 165077 | 69.9 | 51.2 | 39.6 | 28.6 | 106.4 | 77.7 | 60.4 | 43.0 | 137.9 | 188.8 | 242.9 | 341.1 |
| Maxwell | 67 | 4264 | 22.1 | 13.9 | 10.7 | 8.6 | 79.3 | 27.1 | 19.7 | 15.3 | 0.8 | 2.5 | 3.4 | 4.4 |

Source: Bloomberg, Karvy Research

Exhibit 15(b): Comparative Valuation Summary

| | CAGR % (FY15-17E) | | | RoE (%) | | | | Price Perf (%) | | | Net Sales (Rs. Mn) | | | |
|---------|-------------------|--------|------|---------|------|-------|-------|----------------|--------|--------|--------------------|-------|-------|-------|
| | Sales | EBITDA | EPS | FY14 | FY15 | FY16E | FY17E | 3m | 6m | 12m | FY14 | FY15 | FY16E | FY17E |
| Lovable | 12.0 | 24.0 | 22.7 | 11.6 | 10.5 | 10.8 | 12.1 | (22.8) | (32.9) | (25.0) | 1595 | 1725 | 1906 | 2135 |
| Page | 36.0 | 33.4 | 34.4 | 61.2 | 60.4 | 55.1 | 53.7 | 6.8 | 34.9 | 85.2 | 11731 | 15291 | 20415 | 28300 |
| Maxwell | 17.1 | 25.0 | 33.0 | 5.2 | 13.8 | 16.3 | 17.6 | (20.0) | 66.1 | 237.3 | 2574 | 3029 | 3506 | 4154 |

Source: Bloomberg, Karvy Research

Key Risks

- **Volatility in raw material prices** Lovable's key raw material being cotton, any north movement in cotton prices would pose a margin threat atleast for a shorter term, since decision on price hike takes time where management needs to understand the implication of the same.
- **Competition from foreign and regional players:** Though so far Lovable has been able to maintain market share, going forward the competition is going to be stiff as the global players like Triumph, Enamor, etc. are launching low priced wears.

Financials

Exhibit 16: Income Statement

| YE Mar (Rs. Mn) | FY13 | FY14 | FY15 | FY16E | FY17E |
|-----------------------------|------|------|--------|-------|-------|
| Revenues | 1511 | 1595 | 1725 | 1906 | 2135 |
| Growth (%) | 13.6 | 5.6 | 8.1 | 10.5 | 12.0 |
| Operating Expenses | 1278 | 1324 | 1483 | 1639 | 1804 |
| EBIDTA | 233 | 271 | 242 | 267 | 331 |
| Growth (%) | 0.4 | 16.5 | (10.7) | 10.1 | 24.0 |
| Depreciation & Amortization | 19 | 32 | 25 | 26 | 27 |
| Other Income | 45 | 65 | 63 | 45 | 45 |
| EBIT | 259 | 305 | 281 | 286 | 349 |
| Interest Expenses | 4 | 16 | 11 | 7 | 6 |
| PBT | 255 | 289 | 270 | 279 | 343 |
| Tax | 66 | 77 | 72 | 71 | 87 |
| Adjusted PAT | 189 | 212 | 197 | 209 | 256 |
| Growth (%) | 8.9 | 12.1 | (7.0) | 5.9 | 22.7 |

Source: Company, Karvy Research

Exhibit 17: Balance Sheet

| YE Mar (Rs. Mn) | FY13 | FY14 | FY15 | FY16E | FY17E |
|--|-------------|-------------|-------------|-------------|-------------|
| Cash & Equivalents | 31 | 30 | 18 | 26 | 41 |
| Sundry Debtors | 174 | 265 | 385 | 454 | 545 |
| Inventory | 431 | 517 | 664 | 763 | 876 |
| Loans & Advances | 9 | 20 | 51 | 60 | 71 |
| Investments | 798 | 1046 | 746 | 746 | 742 |
| Gross Block | 502 | 522 | 547 | 571 | 596 |
| Net Block | 408 | 396 | 397 | 395 | 393 |
| Other Current Assets | 29 | 17 | 19 | 21 | 28 |
| Total Assets | 2113 | 2307 | 2284 | 2464 | 2700 |
| Current Liabilities & Provisions | 167 | 199 | 246 | 272 | 302 |
| Debt | 94 | 93 | 55 | 51 | 50 |
| Other Liabilities | 112 | 113 | 132 | 132 | 132 |
| Total Liabilities | 373 | 405 | 433 | 454 | 485 |
| Shareholders Equity | 168 | 168 | 168 | 168 | 168 |
| Reserves & Surplus | 1572 | 1734 | 1683 | 1841 | 2047 |
| Total Networkth | 1740 | 1902 | 1851 | 2009 | 2215 |
| Total Networkth & Liabilities | 2113 | 2307 | 2284 | 2464 | 2700 |

Source: Company, Karvy Research

Exhibit 18: Cash Flow Statement

| YE Mar (Rs. Mn) | FY13 | FY14 | FY15P | FY16E | FY17E |
|--|--------------|-------------|--------------|-------------|-------------|
| PBT | 255 | 289 | 270 | 279 | 343 |
| Depreciation | 19 | 32 | 25 | 26 | 27 |
| Interest | 4 | 16 | 11 | 7 | 6 |
| Tax Paid | (54) | (57) | (51) | (71) | (91) |
| Inc/dec in Net WC | (479) | (188) | (229) | (148) | (193) |
| Other Income | 45 | 65 | 63 | 45 | 45 |
| Cash flow from operating activities | 13 | 26 | (37) | 48 | 48 |
| Inc/dec in capital expenditure | (154) | (30) | (25) | (24) | (25) |
| Inc/dec in investments | 225 | 48 | 332 | 45 | 49 |
| Others | 0 | 0 | 0 | 0 | 0 |
| Cash flow from investing activities | (144) | 36 | 306 | 21 | 24 |
| Inc/dec in borrowings | 92 | (28) | (22) | (4) | 0 |
| Issuance of equity | 0 | 0 | 0 | 0 | 0 |
| Dividend paid | (34) | (34) | (210) | (42) | (42) |
| Interest paid | 7 | (23) | (11) | (7) | (6) |
| Cash flow from financing activities | 28 | (64) | (296) | (61) | (57) |
| Net change in cash | (103) | (1) | (27) | 8 | 15 |

Source: Company, Karvy Research

Exhibit 19: Key Ratios

| YE Mar | FY13 | FY14 | FY15 | FY16E | FY17E |
|---------------------------|------|------|-------|-------|-------|
| EBIDTA Margin (%) | 15.4 | 17.0 | 14.0 | 14.0 | 15.5 |
| EBIT Margin (%) | 17.1 | 19.1 | 16.3 | 15.0 | 16.3 |
| Net Profit Margin (%) | 12.5 | 13.3 | 11.4 | 11.0 | 12.0 |
| Dividend Payout ratio (%) | 17.8 | 19.8 | 106.5 | 20.1 | 16.4 |
| Net Debt/Equity | 0.02 | 0.03 | 0.03 | 0.02 | 0.01 |
| RoE (%) | 11.4 | 11.6 | 10.5 | 10.8 | 12.1 |
| RoCE (%) | 15.0 | 15.9 | 14.4 | 14.4 | 16.1 |

Source: Company, Karvy Research

Exhibit 20: Valuation Parameters

| YE Mar | FY13 | FY14 | FY15 | FY16E | FY17E |
|---------------|-------|-------|-------|-------|-------|
| EPS (Rs.) | 11.2 | 12.6 | 11.7 | 12.4 | 15.2 |
| DPS (Rs.) | 2.0 | 2.5 | 12.5 | 2.5 | 2.5 |
| BV (Rs.) | 103.5 | 113.2 | 110.2 | 119.6 | 131.9 |
| PE (x) | 25.8 | 23.0 | 24.9 | 23.5 | 19.2 |
| P/BV (x) | 2.8 | 2.6 | 2.6 | 2.4 | 2.2 |
| EV/EBIDTA (x) | 21.2 | 18.2 | 20.4 | 18.5 | 14.9 |
| EV/Sales (x) | 3.3 | 3.1 | 2.9 | 2.6 | 2.3 |

Source: Company, Karvy Research; *Represents multiples for FY13 & FY14 are based on historic market price

| Stock Ratings | Absolute Returns |
|---------------|------------------|
| Buy | : > 15% |
| Hold | : 5-15% |
| Sell | : <5% |

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