

11 August 2011

Lovable Lingerie

Galloping volumes; margins expand; we retain a Buy

With its revenue and net profit growing, respectively, 46% and 77% yoy, Lovable reported a healthy 1QFY12. We are optimistic on the company posting good growth in coming quarters and expect earnings CAGR of 41% over FY11-13. We retain a Buy.

- **Volume-led revenue growth.** Lovable reported revenue growth of 45.7% yoy. In Mar '11, it raised prices, by 8%. The rest of the growth came from volumes. Expansion of distribution and a national roll-out of Daisy Dee drove volume growth.
- **EBITDA margin expands.** EBITDA margin was up 70bps yoy. Though raw material prices were higher, the company managed via price hikes. The effective income-tax rate was 600bps lower and net profit was up 77% yoy.
- **Outlook.** With cotton prices dropping, we expect the profit margin to expand. We also expect 'other income' to expand as the company has over ₹1.1bn in cash on its balance sheet after its IPO. With capacity expansion by Mar '12, we expect volumes to increase. The lingerie market in India is booming and as, per-capita consumption is now low, we expect strong medium-term growth. We also expect up-trading to continue in coming years.
- **Valuation and Risks.** We value the stock at a price target of ₹498 according to the DCF method. At our target, it would trade at a target PE of 30x FY13e earnings. Key risks: keener competition and higher raw-material prices.

Quarterly results

Year-end: Mar	1QFY11	1QFY12	% yoy	FY10	FY11	% yoy
Sales (₹m)	322	470	45.7	870	1,040	19.6
EBITDA (₹m)	59	89	51.1	161	195	20.9
EBITDA margin (%)	18.2	18.9	70 bps	18.6	18.8	20 bps
Interest (₹m)	1	0	(57.9)	9	5	(42.6)
Depreciation (₹m)	3	4	9.1	13	14	8.8
Other income (₹m)	0	5	15,016.1	1	9	828.1
PBT (₹m)	55	89	63.6	140	185	32.1
Tax (₹m)	15	19	28.3	42	44	4.6
Tax rate (%)	27.6	21.6	(600) bps	30.1	23.9	(630) bps
PAT (₹m)	40	70	77.1	98	141	43.9

Source: Company

Key data

Key data	LLL IN / LOVA.BO
52-week high / low	₹465 / ₹236
Sensex / Nifty	17059 / 5138
3-m average volume	US\$20.4m
Market cap	₹7.5bn / US\$168m
Shares outstanding	17m
Promoters	67.0%
Free float	33.0%
- Foreign Institutions	10.8%
- Domestic Institutions	5.5%
- Public	16.7%

Financials

Year-end: Mar	FY12e	FY13e
Sales (₹m)	1,407	1,811
Net profit (₹m)	237	282
EPS (₹)	14.1	16.8
Growth (%)	67.9	19.1
PE (x)	31.9	26.8
PBV (x)	4.6	4.0
RoE (%)	15.5	16.1
RoCE (%)	15.6	16.5
Dividend yield (%)	0.4	0.4
Net gearing (%)	(50.2)	(39.7)

Source: Anand Rath Research

Anand Rath Share and Stock Brokers Limited, its affiliates and subsidiaries, do and seek to do business with companies covered in its research reports. Thus, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision. Disclosures and analyst certifications are located in Appendix 1.

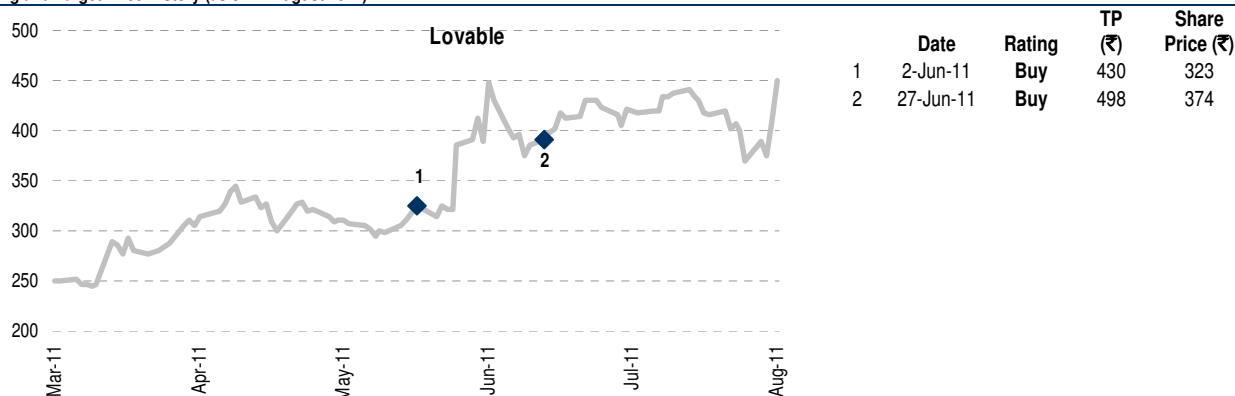
Appendix 1

Analyst Certification

The views expressed in this research report accurately reflect the personal views of the analyst(s) about the subject securities or issuers and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this report.

Important Disclosures on subject companies

Rating and Target Price History (as of 11 August 2011)



The research analysts, strategists, or research associates principally responsible for the preparation of Anand Rathi Research have received compensation based upon various factors, including quality of research, investor client feedback, stock picking, competitive factors, firm revenues and overall investment banking revenues.

Anand Rathi Ratings Definitions

Analysts' ratings and the corresponding expected returns take into account our definitions of Large Caps (>US\$1bn) and Mid/Small Caps (<US\$1bn) as described in the Ratings Table below.

Ratings Guide

	Buy	Hold	Sell
Large Caps (>US\$1bn)	>20%	5-20%	<5%
Mid/Small Caps (<US\$1bn)	>30%	10-30%	<10%

Anand Rathi Research Ratings Distribution (as of 11 March 2011)

	Buy	Hold	Sell
Anand Rathi Research stock coverage (158)	73%	15%	12%
% who are investment banking clients	5%	4%	0%

Other Disclosures

This report has been issued by Anand Rathi Share & Stock Brokers Limited (ARSSBL), which is regulated by SEBI.

The information herein was obtained from various sources; we do not guarantee its accuracy or completeness. Neither the information nor any opinion expressed constitutes an offer, or an invitation to make an offer, to buy or sell any securities or any options, futures or other derivatives related to such securities ("related investments"). ARFSL and its affiliates may trade for their own accounts as market maker / jobber and/or arbitrageur in any securities of this issuer(s) or in related investments, and may be on the opposite side of public orders. ARSSBL, its affiliates, directors, officers, and employees may have a long or short position in any securities of this issuer(s) or in related investments. ARSSBL or its affiliates may from time to time perform investment banking or other services for, or solicit investment banking or other business from, any entity mentioned in this report. This research report is prepared for private circulation. It does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may receive this report. Investors should seek financial advice regarding the appropriateness of investing in any securities or investment strategies discussed or recommended in this report and should understand that statements regarding future prospects may not be realized. Investors should note that income from such securities, if any, may fluctuate and that each security's price or value may rise or fall. Past performance is not necessarily a guide to future performance. Foreign currency rates of exchange may adversely affect the value, price or income of any security or related investment mentioned in this report.

This document is intended only for professional investors as defined under the relevant laws of Hong Kong and is not intended for the public in Hong Kong. The contents of this document have not been reviewed by any regulatory authority in Hong Kong. No action has been taken in Hong Kong to permit the distribution of this document. This document is distributed on a confidential basis. This document may not be reproduced in any form or transmitted to any person other than the person to whom it is addressed.

If this report is made available in Hong Kong by, or on behalf of, Anand Rathi Financial Services (HK) Limited., it is attributable to Anand Rathi Financial Services (HK) Limited., Unit 1211, Bank of America Tower, 12 Harcourt Road, Central, Hong Kong. Anand Rathi Financial Services (HK) Limited. is regulated by the Hong Kong Securities and Futures Commission.

Anand Rathi Financial Services Limited and Anand Rathi Share & Stock Brokers Limited are members of The Stock Exchange, Mumbai, and the National Stock Exchange of India.

© 2011 Anand Rathi Share & Stock Brokers Limited. All rights reserved. This report or any portion hereof may not be reprinted, sold or redistributed without the written consent of Anand Rathi Financial Services Limited.

Additional information on recommended securities/instruments is available on request.