

**Mr. L. Vinay Reddy**  
**Chairman & Managing Director**  
Lovable Lingerie Limited  
A - 46, Street No. 2, MIDC, Andheri (East),  
Mumbai - 400 093,  
Maharashtra, India

February 10, 2011

Dear Sir,

### IPO Grading

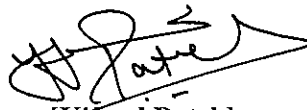
Please refer to our letter dated February 09, 2011 on the above subject.

2. The rationale for the grading is attached as an **Annexure - I**. Kindly note that the rationale would be published in the forthcoming issue of our quarterly journal, 'CAREVIEW'.
3. A write-up on the above grading is proposed to be issued to the press shortly. A draft of the press release is enclosed for your perusal as **Annexure - II**.
4. We request you to peruse the Rationale and Press Release and offer your comments, if any. We are doing this as a matter of courtesy to our clients and with a view to ensure that no factual inaccuracies have inadvertently crept in. Kindly revert as early as possible. In any case, if we do not hear from you by February 17, 2011 we will proceed on the basis that you have no comments to offer.

If you have any further clarifications, you are welcome to approach us.

Thanking you,

Yours faithfully,

  
[Ujjwal Patel]  
Analyst

  
[Pulkit Agarwal]  
Manager

Encl: As above

Annexure I

**Grading Rationale**

**Lovable Lingerie Limited (LLL)**

**Grading Assigned**

Particulars	Number of equity shares	Grading <sup>1</sup>	Remarks
IPO Grade	Public issue of 5,550,000 equity shares of face value of Rs.10 each through 100% book building process.	<b>‘CARE IPO Grade 3’ [Three]</b>	Assigned

CARE has assigned a ‘**CARE IPO Grade 3**’ to the proposed Initial Public Offering (IPO) of Lovable Lingerie Limited (LLL). ‘**CARE IPO Grade 3**’ indicates **average fundamentals**. CARE assigns IPO grades on a scale of Grade 5 to Grade 1, with Grade 5 indicating strong fundamentals and Grade 1 indicating poor fundamentals. CARE’s IPO grading is an opinion on the fundamentals of the issuer. The grade assigned to any individual issue represents a relative assessment of the ‘fundamentals’ of the issuer.

LLL proposes an initial public offering of 5,550,000 equity shares of face value of Rs.10 each through a 100% book-building process. The issue would constitute 33.04% of the post issue paid-up capital of the issuer.

**Grading Rationale**

The grading factors the promoter’s significant experience in the industry, established and wide distribution network, globally successful brand, strong financial profile characterised by comfortable gearing levels, healthy interest-coverage ratio and improvement in margins in FY10.

The grading assigned is constrained by LLL’s small scale and labour intensive operations, fragmented nature of the industry limiting pricing power of the company and attendant project risk.

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<sup>1</sup> Complete definition of the grading assigned is available at [www.careratings.com](http://www.careratings.com) and other publications of CARE



### **Background**

Lovable Lingerie Limited (LLL), incorporated in the year 1987 originally as Hybo Knit Private Limited changed its name to Lovable Lingerie Private Limited (LLPL) in December 1995 and started commercial operations in the year 1996. In February 2010, LLPL was converted into a limited company and re-named as Lovable Lingerie Limited.

LLL started manufacturing women's inner wear under a license from Lovable World Trading Company, USA in the year 1996 and subsequently acquired the "Lovable" brand on an exclusive basis for the territories of India, Nepal, Sikkim and Bhutan in December 2000. LLL diversified their portfolio and acquired brands like "Daisy Dee" from Maxwell Industries Limited in March 2004 and also acquired the brand "College Style" from Levitus Trading Limited, Hong Kong in March 2009. LLL has also in the past marketed the "Vanity Fair" brand of women's innerwear garments which was discontinued in 2009. As of now, the product range includes brassieres, panties, slips/camisoles, home-wear, shape-wear, foundation garments and sleepwear products. LLL markets its products through large format stores (LFS)/department stores and a network of distributors. Currently, LLL has 121 counters in LFS like Shoppers Stop and Lifestyle in 21 cities all over India and carries out direct marketing through a network comprising of five branches, 103 distributors, 1,425 direct dealers and approximately 7,500 multi brands outlets in 105 cities.

LLL has three manufacturing facilities of which two are situated in Bangalore, Karnataka and one in Roorkee, Uttarakhand. The first manufacturing facility situated in Bangalore, Karnataka commenced operations in the year 1995 and the second in the year 2005, and both combined have a total installed capacity of 30 lac pieces each per annum. The manufacturing unit situated at Roorkee, Uttarakhand commenced operation in February, 2010 and has an installed capacity of 7.50 lac pieces per annum.

### **Management**

LLL is promoted by Mr. L. Vinay Reddy, Chairman and Managing Director of the company. He has over 20 years of experience in the innerwear manufacturing industry and has a vast experience in the areas of management, marketing strategies and overall administration control and supervision, and was previously a director in Maxwell Industries Limited.

He is guided by his father Mr. L. Jaipal Reddy, the Executive Director of the company. He was the co-founder of Maxwell Industries Limited and was the Managing Director for 14 years.

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The board consists of six directors, of which three are independent directors, who have expertise in diverse fields.

### **Corporate Governance**

LLL has complied with the requirements of the applicable regulations, in respect of corporate governance including constitution of Board of Directors (BoD) and Committees. LLL has constituted Audit Committee, Shareholders'/Investor Grievance Committee, Remuneration Committee and Issue Committee with effect from September 20, 2010.

### **Pending litigation**

(Rs. crore)			
S. No.	Nature of cases	No. of outstanding cases	Amount involved
<b>Against the Company</b>			
1	Customs litigation	1	0.47
<b>Against the Group Entities</b>			
2	Arbitration proceedings against Federal Brands Limited	2	0.30
3	Tax litigations against Federal Brands Limited	4	1.05
4	Various legal notices received by Federal Brands which may or may not result into litigation at a later stage	12	0.72
<b>Against the Promoter</b>			
5	Civil dispute	1	0.00

### **IPO Details**

#### ***Size of the Issue***

The offer comprises an offer for the sale of 5,550,000 equity shares of face value of Rs.10 each through a 100% book-building process. The issue would constitute 33.04% of the post issue paid-up capital of the issuer.

#### ***Terms of the issue***

The offer comprises an offer to public of 5,550,000 equity shares of face value of Rs.10 each through a 100% book-building process.

LLL is considering a pre-IPO placement of up to 1,000,000 equity shares and/or aggregating up to Rs.20.00 crore with certain investors. The equity shares allotted under the pre-IPO placement, shall be subject to a lock-in period of one year from the date of the allotment pursuant to the issue.

LLL may allocate up to 30% of the Qualified Institutional Buyer (QIB) portion to anchor investors on a discretionary basis in accordance with the SEBI (ICDR) Regulations.



### ***Purpose of the issue***

The main objects of the Issue are to raise resources to finance:

S. No.	Particulars	Amount
A.	Setting up of manufacturing facility to create additional capacity at Bangalore	22.75
B.	Expenses to be incurred for Brand Building	18.00
C.	Brand Development expenses for our "College Style" brand	6.00
D.	Investment in Joint Venture	25.00
E.	Setting up of Exclusive Brand Outlets (EBOs)	14.12
F.	Setting up of retail store modules for "shop-in-shop"	3.61
G.	Up gradation of design studios	7.60

The project cost for setting up an additional facility was appraised by Bank of Baroda in December 2009. No cost escalation has been factored in project appraisal. The agreement for the land executed on October 2010 for the said project is currently under dispute. The company is looking for an alternate site for execution of the project. LLL is yet to place order for machineries.

### **Shareholding Pattern Pre-issue and Post-issue:**

	Pre-Issue (%)	Post-Issue (%)
Promoters	100.00	66.96
Body Corporate & Public	-	33.04

### **Financial Analysis**

Income from operations grew at a Compounded Annual Growth Rate (CAGR) of 21% during FY08-FY10. The increase is attributable to the increase in volume, inclusion of new products in existing range and increase of distribution network and retail outlets. Depreciation expenses increased by 231.31% to Rs.1.31crore in FY10 primarily due to an increase in the gross block resulting from acquisition of assets pertaining to the brand "College Style". Financial charges decreased by 28% to Rs.1.23 crore in FY10 from Rs.1.70 in FY09 due to a reduction in the utilisation of working capital facilities. PAT has increased from Rs.3.48 crore in FY09 to Rs.10.04 crore in FY10 on account of better PBILDT margins and increase in volumes. PAT of LLL was lower in FY09 on account of extraordinary expense of Rs.2.53 crore in FY09 on account of write off of old inventory (finished goods and raw materials) upon discontinuation of a product line.

RONW has increased substantially in FY10 on account of increase in PAT in FY10 and a lower base of average tangible net-worth.

Earnings per share has reduced from Rs.262.38 in FY08 to Rs.23.21 in FY09 on account of reduction in face value of shares from Rs.100 to Rs.10. Equity share capital has increased in



FY10 on account of issue of bonus shares, through capitalisation of reserves in the ratio of 4:1.

Leverage position of LLL is healthy with debt consisting only of working capital facilities. Overall gearing has improved as on March 31, 2010 on account of lower utilization of working capital facilities and repayment of unsecured loans from promoters and directors. During nine months ended on December 31, 2010, LLL has registered net sales of Rs.86.31 crore and PAT of Rs.12.81 crore.

### **Industry Review**

The overall innerwear market (excluding kids) in India was worth Rs.11913 crore in Calendar Year 2009 (CY09), growing at a CAGR of 15.8% over the last four years.

The lingerie industry in India was worth Rs.7897 crore in CY09 and has grown at a robust CARG of 16.8% over the last four years (2006-09). The growth can be attributed to the rising disposable incomes and growing preference for lifestyle products. Over the last decade, lingerie has grown from an optional part of the wardrobe to essential clothing for women. It constituted 5.1 % of the total Indian apparel market and 15.8 % of the overall women apparel market during 2009.

The lingerie industry in India is characterized by a high degree of fragmentation with almost two-thirds of the market controlled by the unbranded and unorganized regional players and the balance one-third share shared by a few large organized and branded players.

### **Financials**

	<i>(Rs. Crore)</i>		
<i>For the period ended / as at Mar.31,</i>	<i>2008</i>	<i>2009</i>	<i>2010</i>
	<i>(12 m, A)</i>	<i>(12 m, A)</i>	<i>(12 m, A)</i>
Income from Operations	58.24	67.11	84.65
PBILDT	7.47	8.54	15.23
Interest	0.94	1.70	1.23
Depreciation	0.28	0.39	1.31
PBT	6.32	4.33	14.36
PAT (After def. Tax)	3.94	3.48	10.04
Gross Cash Accruals	4.21	3.51	12.70
<b>Financial Position</b>			
Equity Share capital	1.50	1.50	7.50
Tangible Net Worth	11.84	5.15	16.58
<b>Key Ratios</b>			
<b>Profitability (%)</b>			
PBILDT / Total Income	13.31	13.32	19.54
PAT / Total Income	6.76	5.19	11.86



For the period ended / as at Mar.31,

	2008	2009	2010
	(12 m, A)	(12 m, A)	(12 m, A)
ROCE	39.02	23.59	58.33
RONW	41.45	40.97	92.42
Earnings per share(Rs.)	262.38	23.21	13.39
<b>Solvency</b>			
Debt Equity Ratio	0.00	0.00	0.00
Overall Gearing	1.06	2.31	0.02
Interest coverage (times)	8.28	5.26	13.49
Term Debt/GCA	0.36	0.76	0.00
<b>Liquidity</b>			
Current ratio	1.32	1.01	1.49
Quick ratio	0.57	0.59	0.87
Avg. Collection Period (days)	35	38	46
Average Inventory (days)	145	126	87
Average Creditors (days)	40	43	37
Operating cycle (days)	140	122	96

**DISCLAIMER:**

CARE's IPO grading is a one time assessment and the analysis draws heavily from the information provided by the issuer as well as information obtained from sources believed by CARE to be accurate and reliable. However, CARE, does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. CARE's IPO grading does not take cognizance of the price of the security and it is not a recommendation to buy, sell or hold shares/securities. It is also not a comment on the offer price or the listed price of the scrip. It does not imply that CARE performs an audit function or forensic exercise to detect fraud. It is also not a forecast of the future market performance and the earnings prospects of the issuer; also it does not indicate compliance/violation of various statutory requirements. CARE shall not be liable for any losses incurred by users from any use of the IPO grading.



## Annexure II

### Press Release

#### **CARE assigns 'CARE IPO GRADE 3' to the Initial Public Offering (IPO) of Lovable Lingerie Limited**

#### **Grading Assigned**

Particulars	Number of equity shares	Grading <sup>2</sup>	Remarks
IPO Grade	Public issue of 55,50,000 equity shares of face value of Rs.10 each through 100% book building process	'CARE IPO Grade 3' [Three]	Assigned

#### **Grading Rationale**

The grading factors the promoter's significant experience in the industry, established and wide distribution network, globally successful brand, strong financial profile characterised by comfortable gearing levels, healthy interest-coverage ratio and improvement in margins in FY10.

The grading assigned is constrained by LLL's small scale and labour intensive operations, fragmented nature of the industry limiting pricing power of the company and attendant project risk.

#### **Company Profile**

Lovable Lingerie Limited (LLL) is engaged in the manufacturing of women's inner wear under the flagship brand "Lovable" and "Daisy Dee". The product range includes brassieres, panties, slips/camisoles, home-wear, shape-wear, foundation garments and sleepwear products. The manufacturing facilities are located in Bangalore, Karnataka and Roorkee, Uttarakhand with an installed capacity as on March 31, 2010 at 67.50 lakh pieces per annum. LLL is promoted by Mr. L.Vinay Reddy, Chairman and Managing Director of the company. LLL reported PAT of Rs.10.04 crore on a total income of Rs.84.65 crore in FY10. For 9MFY11, LLL earned PAT of Rs.12.81 crore on net sales of Rs.86.31 crore.

<sup>1</sup> Complete definition of the grading assigned is available at [www.careratings.com](http://www.careratings.com) and other publications of CARE





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