

Lovable Lingerie Limited

April 04, 2018

Ratings

Facilities	Amount (Rs. Crore)	Rating ¹	Rating Action
Long-term Bank Facilities – Term Loan	0.55 (reduced from 2.77)	CARE A+; Stable (Single A Plus; Outlook: Stable)	Reaffirmed
Long/Short-term Fund-based facilities – Cash Credit	13.50	CARE A+; Stable (Single A Plus; Outlook: Stable)	Reaffirmed
Total	14.05 (Rupees Fourteen Crore Five Lakh only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings of Lovable Lingerie Limited (LLL), continues to derive strength from the experience of promoters, strong brands in the segment, wide established distribution network and strong financial risk profile as reflected by low overall gearing, comfortable debt service coverage indicators and robust liquidity.

The ratings, however, remain constrained due to small scale of operations, volatility in profitability margins, working capital-intensive nature of operations and fragmented nature of the women innerwear industry.

The ability of the company to increase scale of operations while maintaining the profitability margins and improve working capital cycle remains the key rating sensitivities. Any significant losses booked by the company on account of the fire that broke out in one of its factory in November 2017 would be negative from a credit perspective hence will remain a key monitorable.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced Management: LLL was promoted by Mr L. Vinay Reddy having an experience of over two decades in the innerwear industry and was instrumental in obtaining license of “Lovable” brand for the Company. He was previously a director in Maxwell Industries Ltd. He is guided by his father Mr L. Jaipal Reddy who is the co-founder and Managing Director of Maxwell Industries Limited for 14 years. Mr L. Jaipal Reddy has conceptualized and established leading brands such as VIP, Frenchie etc.

Strong brands in the segment with wide established distribution network: LLL is one of India’s leading women’s innerwear manufacturers, marketing the products under flagship brands – ‘Lovable’ and ‘Daisy Dee’. ‘Lovable’ is a premium women’s innerwear brand and whereas ‘Daisy Dee’ is a mid-segment market brand. The company markets its products through large format stores (LFS)/department stores and a network of distributors. The company has 300 ‘shops in shops’ in Large Format Stores like Shoppers Stop and Lifestyle in 21 cities and carries out direct marketing through a network comprising of 4 branches, 180 distributors and approximately, 3,000 dealers serving around 11,000 multi brands outlets.

Low overall gearing, comfortable debt servicing indicators and robust liquidity: LLL finances majority of its working capital requirements from internal accruals and IPO proceeds.. However, led by increased working capital borrowings the overall gearing deteriorated marginally to 0.07x as on March 31, 2017 as against 0.02x as on March 31, 2016. TDGCA also deteriorated to 0.92x as on March 31, 2017 as against 0.17x as on March 31, 2016. However, both gearing and TDGCA continued to remain at comfortable levels. Further, the liquid investment (Mutual Fund investment of Rs.72.77 crore as on March 31, 2017 as against 70.74 crore as on March 31, 2016) continued to remain significantly higher than the total debt obligations (Rs.0.55 crore of last instalment of term loan to be repaid by March 31, 2018 and also with no term loan planned in the near term and Rs.13.50 crore of sanctioned working capital borrowings).

Key Rating Weaknesses

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.

Small scale of operations and decline in PBILDT margins: Though LLL has operational track record of more than 19 years, the total size of the operations are relatively smaller. The total operating income remained stagnant at Rs.198.05 crore in FY17, registering a marginal decline of 0.86% on a yoy basis. LLL continue to face stiff competition from large unorganized and organized segment. The PBILDT margins declined significantly in FY17 to 8.60% as against 16.83% reported in FY16. The decline in PBILDT margin was primarily due to loss on account of sale of outdated stock, increase in raw material cost, higher selling expense and increase in employee expense.

Working capital intensive nature of operations; LLL has elongated operating cycle mainly on account of the high inventory holding days. LLL has to maintain 4-6 months of inventory of varied sizes, style and colour at various branches to meet the requirement of the distributors, dealers, LFS, MBOs etc. Further, LLL gets credit period of 30 days from its suppliers, while it grants credit period of 30-60 days to its customers. On account of aforesaid, the operations of LLL are working capital intensive in nature; despite this average working capital utilisation of LLL has remained at about 20% for the last 12 months ended February 2018 (as indicated by the banker) as the working capital is mainly funded through internal accruals and IPO proceeds.

Highly fragmented industry with competition from organized & unorganized players: The innerwear industry in India is characterised by a high degree of fragmentation as almost two-third of the market is controlled by the unbranded and unorganised regional players and only the balance one-third share goes to the few big organised and branded players.

Analytical Approach: Standalone

Applicable Criteria

[Criteria on assigning Outlook to Credit Rating](#)

[CARE's Policy on Default Recognition](#)

[Rating Methodology-Manufacturing Companies](#)

[Financial Ratios-Non Financial Sectors.](#)

About the Company

Lovable Lingerie Limited (LLL) was originally incorporated in the year 1987 as Hypo Knit Private Limited. It started the commercial operations in the year 1996 by manufacturing women's inner wear under license from Lovable World Trading Company, USA. Subsequently it acquired the "Lovable" brand on an exclusive basis for the territories of India, Nepal, and Bhutan. The company's product range includes brassieres, panties, slips/camisoles, home wear, shape wear, foundation garments and sleepwear products. "Lovable" and "Daisy Dee" are the flagship brands of the company. Both the brands are targeted towards the domestic market through Large Format Stores (LFS), departmental stores, EBOs, and MBO's across cities in India. The company's manufacturing facilities are located in Bangalore, Karnataka with combined installed capacity to manufacture 92.50 lakh pieces per annum as on March 31, 2017. The company's design studio is located in Bengaluru and has a design library of approx. 1000 designs. The company raised Rs.113.27 crore from the IPO in March 2011.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	199.77	198.05
PBILDT	33.62	17.03
PAT	23.18	12.28
Overall gearing (times)	0.02	0.07
Interest coverage (times)	22.98	16.78

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	13.50	CARE A+; Stable
Fund-based - LT-Term Loan	-	-	Q4FY18	0.55	CARE A+; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Term Loan	LT	0.55	CARE A+; Stable	-	1)CARE A+; Stable (06-Apr-17)	1)CARE A+ (15-Apr-16)	1)CARE A+ (15-Apr-15)
2.	Fund-based - LT-Cash Credit	LT	13.50	CARE A+; Stable	-	1)CARE A+; Stable (06-Apr-17)	1)CARE A+ (15-Apr-16)	1)CARE A+ (15-Apr-15)

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