

Lovable Lingerie Limited

January 21, 2019

Ratings

Facilities	Amount (Rs. Crore)	Rating ¹	Rating Action
Long-term Bank Facilities – Term Loan	-	-	Withdrawn
Long term Fund based facilities – Cash Credit	13.50	CARE A; Stable (Single A; Outlook: Stable)	Revised from CARE A+; Stable (Single A Plus; Outlook: Stable)
Total	13.50 (Rupees Thirteen Crore Fifty Lakh only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in ratings assigned to the long term bank facilities of Lovable Lingerie Limited takes into consideration deterioration in the operational performance of the company over the past few years.

The ratings of continues to derive strength from the experience of promoters in branded women innerwear industry, strong brands in the segment, established distribution network, comfortable financial risk profile and liquidity position.

The ratings, however, remain constrained due to moderate scale of operations, highly competitive and fragmented nature of the women innerwear industry in turn affecting the profitability margins and highly working capital-intensive nature of operations.

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.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced Management: Lovable 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. He was previously a director in Maxwell Industries Ltd and is guided by his father Mr L. Jaipal Reddy who is the co-founder and erstwhile Managing Director of Maxwell Industries Limited. 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: Lovable 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.

Comfortable capital structure, debt servicing indicators and adequate liquidity: Lovable finances majority of its working capital requirements from internal accruals and IPO proceeds. The company has repaid its entire term loan and rarely uses its fund based working capital limits. The liquidity profile continues to remain strong with adequate cash balance and liquid investments. As on March 31, 2018, the company had cash balance of Rs.4.82 crore and mutual fund investments worth Rs.44.20 crore. Further, as of September 30, 2018, the company had a cash balance of 2.06 crore and liquid investments of Rs.49.17 crore.

Key Rating Weaknesses

Modest scale of operations and deterioration in operating performance in the last few years: Though Lovable has operational track record of more than 19 years, the total size of the operations are relatively smaller. The revenue remained stagnant at around Rs. 200 crore in FY16 and FY17. However the profitability of the company deteriorated in FY17 as compared to FY16. During FY18 the total operating income declined to Rs.176 crore and the company posted loss of Rs.2.38 crore. However this was primarily due to incidence of fire at one if its factory which affected the production capacity to the extent of 35%. The production loss has been partly recouped by enhancing production capacities in other units and commissioning of new plant at erode, Tamil Nadu. Accordingly, In H1FY19, the company has registered revenue

of Rs.97 crore and PBILDT of Rs.7.9 crore. The company incurred losses due to the fire of about Rs.26 crore and recorded exceptional items of Rs.14.02 crore in FY18. The remaining is expected to be received from insurance claim.

Working capital intensive nature of operations: The operating cycle continues to remain stretched on account of the high inventory holding days. Lovable has to maintain 4-6 months of inventory of varied sizes, style and color at various branches to meet the requirement of the distributors, dealers, LFS, MBOs etc. Further, Lovable 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 the company are highly working capital intensive in nature; despite this average working capital utilization has remained at about 9% for the last 12 months ended November 2018. This provides liquidity backup and the working capital requirement is mainly funded through internal accruals and IPO proceeds.

Highly fragmented industry with competition from organized & unorganized players: The innerwear industry in India is characterized by a high degree of fragmentation as almost two-third of the market is controlled by the unbranded and unorganized regional players and only the balance one-third share goes to the few big organized 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 was originally incorporated in 1987 as Hypo Knit Private Limited. It started commercial operations in 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. 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)	FY17 (A)	FY18 (A)
Total operating income	198.05	176.08
PBILDT	17.03	0.44
PAT	12.28	-2.38
Overall gearing (times)	0.07	0.00
Interest coverage (times)	16.78	0.39

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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About CARE Ratings:

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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-Term Loan	-	-	-	0.00	Withdrawn
Fund-based - LT-Cash Credit	-	-	-	13.50	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	-	-	1)CARE A+; Stable (04-Apr-18)	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 (04-Apr-18)	1)CARE A+; Stable (06-Apr-17)	1)CARE A+ (15-Apr-16)	1)CARE A+ (15-Apr-15)

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CIN - L67190MH1993PLC071691