

July 03, 2009

Bilcare - FY09 Results Review
CMP: Rs. 450
Not rated

Bilcare, the leading player in Pharma Packaging Solutions (PPS) and Global Clinical Supplies (GCS) has reported encouraging results for FY09. On a consolidated basis, the net sales grew by 32% from Rs6.51bn to Rs8.56bn. However, the results are not strictly comparable as the FY08 results include 15m results for the overseas subsidiaries, due to the change in year-end. On a like-to-like basis, the annualized growth was 42%. Bilcare's EBITDA margin declined by 30bps from 22.1% to 21.8% due to the rise in material and personnel costs. Its interest cost increased by 175% from Rs143m to Rs393m with the rise in PLR during the year, the new convertible debt in Bilcare Singapore and working capital debt to support the strong sales growth. Bilcare's depreciation was up by 57% from Rs242m to Rs378m due to the additional depreciation of subsidiaries. The company's net profit for the year grew by 2% from Rs816m to Rs829m.

The growth driver for Bilcare has been its overseas business, which grew at 97% on an annualized basis to Rs3.85bn. Operating EBITDA from overseas operations grew by 136% to Rs578m on an annualized basis.

FY09 consolidated results

Particulars (Rs mn)	FY09	FY08	% Change
Net sales	8,560	6,507	32
EBITDA	1,865	1,435	30
EBITDA margin %	21.8	22.1	-30bps
Net Profit	829	816	2
EPS Rs (Rs 10 paid up)	48.2	49.6	-3

Source: Company, HDFC Securities

Outlook & Valuation

Bilcare's FY09 consolidated results were affected by the rise in material cost. The company's material cost increased by 80bps from 54.6% to 55.4% of net sales due to the rise in polymer prices and change in the product mix. The company passes on the change in material cost to its customers. However, there is a time lag of around 6m as it imports most of its raw materials. Bilcare was able to reduce other expenses by 140bps from 14.1% to 12.7% of net sales due to improved efficiencies and cost control measures.

For FY10, we expect the company to report 25% sales growth on consolidated basis due to strong growth in both PPS and GCS businesses. We expect improvement in margin as the effect of reduction in polymer prices will be felt in the current year. With good rise in export of pharma products and excellent growth in GCS, we expect the company to report improved performance from FY10 onwards.

Bilcare's consolidated debt increased from Rs7.03bn to Rs9.5bn in FY09 due to the weakening of rupee and part incremental debt. The company had dollar denominated convertible debt of \$128m (Rs6.13bn) at the end of FY09.

At the CMP of Rs450, the stock trades at 9.3x FY09 consolidated EPS of Rs48.2. We are positive on the long-term prospects of the company.

Valuation Summary-Consolidated results

Particulars (year end-March)	FY09	FY08	FY07
EPS (Rs 10 paid up)	48.2	49.6	42.2
P/E (X)	9.3	9.1	10.7
EV/EBITDA	8.9	10.6	14.7
EV/sales	2.0	2.7	4.2

FY09 consolidated results- highlights

- Bilcare's total income grew by 29%YoY from Rs6.70bn to Rs8.64bn. However the results are not comparable as the FY08 consolidated results includes 15m results for the overseas subsidiaries. Bilcare had changed the year ending for its overseas subsidiaries from December to March and hence the consolidated results for FY08 included 15m sales of the subsidiaries. On a like-to-like basis, the sales growth was 42%.
- The company's EBIDTA margin declined by 30bps from 22.1% to 21.8% mainly due to the rise in the material and personnel costs. The material cost was up by 80bps from 54.6% to 55.4% of net sales due to the rise in polymer prices during the year and change in product mix. Bilcare has a lag effect of 6m for the material cost as majority of materials are being imported. As the polymer prices have come down from March'09, the material cost is likely to come down in FY10. The company's personnel cost went up by 80bps from 9.3% to 10.1% of net sales, as the manpower cost in overseas subsidiary is high. Other expenses declined by 140bps from 14.1% to 12.7% of net sales due to the improved efficiency and cost cutting measures taken by the company.
- Bilcare's interest cost jumped by 175% from Rs143m to Rs393m mainly due to the rise in the PLR during the year, new convertible debt in Bilcare Singapore and the rise in working capital to support the sales growth. Its depreciation was up by 57% from Rs242m to Rs378m due to the higher depreciation of overseas subsidiaries.
- Bilcare's average tax rate has come down from 34.4% to 29.2% of PBT.
- The company's net profit grew by 2% from Rs816m to Rs829m.

Major developments

- Bilcare derives around 85% of its revenues from PPS and 15% from GCS. The PPS segment is growing rapidly due to the sharp rise in pharma exports and new products introduction in the domestic market. The GCS business is growing well due to the rise in outsourcing of clinical trials. The GCS business has a higher margin than PPS business. Going further, the consolidated margins are likely to improve due to faster growth of GCS than PPS businesses, thus resulting in the overseas business reaching a steady state.
- Around 60% of Bilcare's PPS revenue comes from long-term contracts. Pharma packaging in the US is likely to shift from bottles to unit dose packaging like aluminium strips and blisters by 2012. This is likely to provide vast opportunity to Bilcare.
- The company has 62% MS in Indian barrier blister packaging market.
- Bilcare has developed a process by which it can map the sensitivity of the drugs in four weeks compared to 1-2 years by other service providers.
- The company has developed and patented a metallised aluminium film Patina for advanced packaging applications and expects good growth for this film. The metallised film received the coveted European Outsourcing Award for the best product in 2008. Bilcare derives over 8% of its revenues from the patented product. The company has come up with packaging solutions for 26 brands using the patented product.
- Bilcare operates in over \$4bn (Rs192bn) pharma packaging market and \$0.5bn(Rs24bn) clinical trials market. Hence, the company's addressable market is \$4.5bn(Rs216bn).
- The company's DMF for packaging material is registered with US FDA and hence it can supply the packaging material for exports.
- Bilcare has provided anti-counterfeiting solution for the product Shelcal of Elder Pharma and Cifran of Ranbaxy Labs. Both these brands have witnessed rise in volumes after the change of packaging.
- Bilcare's clinical services signed an alliance agreement with World Courier to enhance the GCS business.
- The company acquired International Labs, US (INT) in July 2008 through its 50:50 JV with Mead Westwaco Corporation, US – a pioneer in the supply of secondary packaging materials. INT has long-term contract with Wal Mart, US for its \$4 treatment per month program. The company expects good upside from this deal.

Competition

In the PPS segment, Bilcare faces competition from global players like **Alcan** for aluminium-based products and **Klockner** and **Ineos** for polymer based products. In the GCS segment, the company faces competition from global players like **Fischer**, **Aptuit** and **Almac** in the US and Europe.

FY09 results-standalone and consolidated

PARTICULARS	FY09-stand	FY08-stand	%	FY09-conso.	FY08-conso.	%
(in Rs million)	MAR.09	MAR.08	CHANGE	MAR.09	MAR.08	CHANGE
Net sales	4713.3	4063.5	16.0	8560.2	6506.8	31.6
Other operating income	49.8	157.7	-68.4	77.1	191.8	-59.8
Total sales	4763.1	4221.2	12.8	8637.3	6698.6	28.9
Total expenses	3454.7	2934.4	17.7	6695.2	5071.6	32.0
Raw materials	2964.3	2475.7	19.7	4846.9	3615.0	34.1
Change in stocks	-65.5	-80.6	-18.7	-103.1	-64.1	60.8
Personnel expenses	200.7	156.4	28.3	863.3	605.5	42.6
Other expenses	355.2	382.9	-7.2	1088.1	915.2	18.9
EBIDTA	1258.6	1129.1	11.5	1865.0	1435.2	29.9
PBDIT	1308.4	1286.8	1.7	1942.1	1627.0	19.4
Interest	197.4	114.4	72.6	392.5	142.7	175.1
Depreciation	187.8	157.1	19.5	378.4	241.5	56.7
Profit before tax	923.2	1015.3	-9.1	1171.2	1242.8	-5.8
Tax provision	316.2	398.4	-20.6	341.8	427.3	-20.0
Net profit	607	616.9	-1.6	829.4	815.5	1.7
Equity capital	172.1	164.5	4.6	172.1	164.5	4.6
EPS Rs.(Rs.10 Paid up)	35.3	37.5	-5.9	48.2	49.6	-2.8

Ratios	FY09-stand	FY08-stand	FY09-conso.	FY08-conso.
	MAR.09	MAR.08	MAR.09	MAR.08
Total exp.-as % of net sales	73.3	72.2	78.2	77.9
Material cost-as % of net sales	61.5	58.9	55.4	54.6
Personnel cost-as % of net sales	4.3	3.8	10.1	9.3
Other exp.-% of net sales	7.5	9.4	12.7	14.1
EBIDTA margin %	26.7	27.8	21.8	22.1
PBDIT margin %	27.8	31.7	22.7	25.0
Tax provision-as % of PBT	34.3	39.2	29.2	34.4

Source: Company, HDFC Research

Financials

Bilcare has consolidated debt of Rs9.5bn of which \$128m(Rs6.14bn) is in foreign currency convertible bonds. The Singapore subsidiary has dollar denominated convertible debt of \$90m whereas the Indian company has debt of \$38m. Bilcare Singapore bought back Bilcare India FCCB amounting to \$21m in FY08. The company has \$38m FCCB pending conversion. The conversion is at Rs704 in December2010. The company expects that the FCCB will get converted into equity shares by Dec'10.

Valuations

For FY10, we expect the company to report 25% sales growth on consolidated basis due to strong growth in both PPS and GCS businesses. We expect improvement in margin, as the effect of reduction in polymer prices will be felt in the current year. With the good rise in export of pharma products and excellent growth in GCS, we expect the company to report improved performance from FY10 onwards.

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