

Sector: Pharma

Sensex:	11,023
CMP (Rs):	318
52 Week h/l (Rs):	999 / 279
Market cap (Rscr) :	548
6m Avg vol ('000Nos):	11
No of o/s shares (mn):	17
FV (Rs):	10
Bloomberg code:	BILC IB
Reuters code:	BIL.BO
BSE code:	526853
NSE code:	-

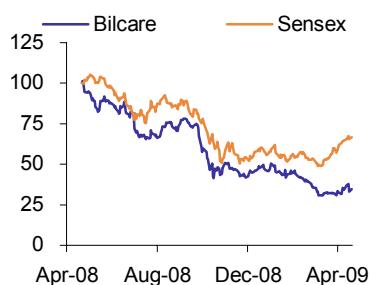
Prices as on 17 Apr, 2009

Shareholding pattern

December '08	(%)
Promoters	46.7
Institutions	6.4
Non promoter corp hold	8.1
Public & others	38.8

Performance rel. to sensex

(%)	1m	3m	1yr
Bilcare	(16.1)	(47.8)	(34.1)
Caprihans India	28.4	1.4	(9.3)

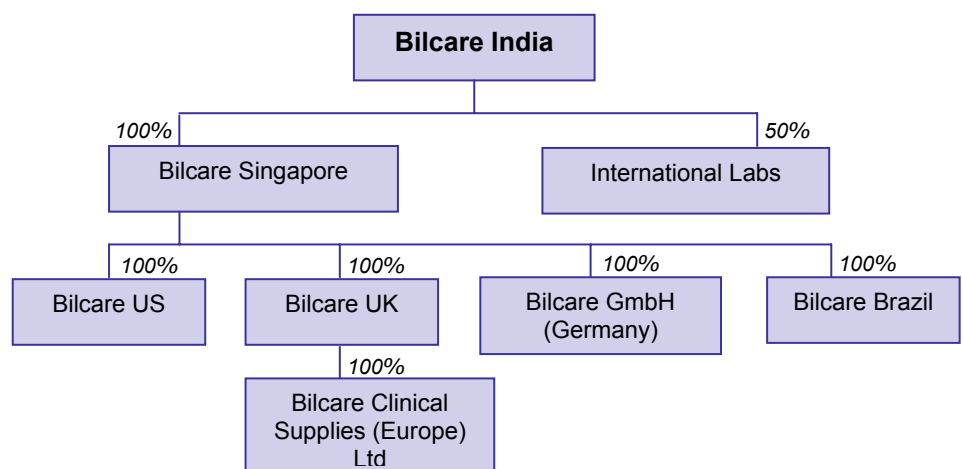
Share price trend


We met Mr. Vineet Mehrotra, Vice President (Finance) of Bilcare Ltd to get an insight into the company and its future expansion plans. Following are the key takeaways from the meeting:

Company Background

Bilcare Ltd was incorporated by Mr. Mohan Bhandari on July 1987, which was later converted into a public limited company on October 27, 1994. Bilcare is a leading producer in Asia with a 62% share of Indian barrier blister packaging market. It derives ~60% of its revenues from India and 40% from outside India. Over the years, Bilcare has evolved from being a supplier of research based packaging materials based on the sensitivity of drugs to one providing innovative packaging solutions to the global pharmaceutical industry focused at the challenges faced by the pharma companies namely Compliance, Counterfeit, Communication to patients and Convenience of drug packaging for the patients. It has done various acquisitions in UK and US to transform itself into a true global player – in the last four years.

The pharma packaging Research (PPR) segment of the company contributes ~85% to the consolidated turnover while the balance 15% comes from Global Clinical Services (GCS) segment. Bilcare's revenues are well-spread across its customers, with the top 10 customers accounting for ~30-35% of its sales. Bilcare's clients include MNCs such as Novartis, Merck, Pfizer, Sanofi-Aventis, GlaxoSmithKline Pharmaceuticals and Johnson & Johnson to name a few and domestic players like Dr Reddy's, Ranbaxy and Cipla among others. The approval process for packaging materials for big pharmaceutical companies is quite lengthy and could take about 24-36 months. The current employee strength of the company is ~645 including- 300 in India, 200 in US, 100 in Singapore and 45 in UK. Around 50% of the company's asset and headcount is outside India.

Corporate structure


Source: Company

Bilcare has two core business offerings namely –
Pharma Packaging and Research (PPR)
Global Clinical Supplies (GCS)

Business Philosophy: The two core challenges faced by the global pharma industry are - i) stagnant sales and bottomline and ii) the R&D pipeline drying up. Bilcare's business model addresses these two core challenges – the stagnant topline being addressed by the PPR business and the drying up of the R&D pipeline is being addressed by the GCS business.

Facilities: Bilcare has GMP (Good Manufacturing Practice) certified operations in India, Singapore, Europe and the U.S., as well 25 representative offices worldwide. Manufacturing facilities are ISO 9001, ISO 14001 and ISO 18001 (OSHAS) certified and products manufactured are USFDA DMF and Canadian DMF registered. Singapore facility is the world's largest multi-functional barrier film processing plant and has received pioneer status from the Government of Singapore for the research initiatives. Global Excellence Centre (R&D) in India is approved by DSIR, conducts fundamental research on the drug stabilization process. R&D centres in Singapore and US are approved Research Outsourcing Centres for the pharmaceutical industry.

Pharma Packaging Research (PPR)

Today packaging has become an integral part of a medicine and thus, the role of pharmaceutical packaging has taken a giant leap in the sphere of pharmaceutical formulations and preparations. Pharmaceutical packaging design and development is increasingly becoming more complex and going ahead, scientific packaging will be a key to the success of a medicine in the market place. Bilcare's research philosophy focuses on the creation of novel technologies, processes, products and services which effectively addresses the challenges encountered by the pharmaceutical industry more particularly the key 5C's viz. Counterfeit, Compliance, Communication, Convenience and Cost.

Bilcare Research offers packaging solutions through the following integrated business segments:

1. Research Services: scientific research on drug stabilization and protection through packaging. These services are presently offered through our Research Centres in India (Global Excellence Centre, Pune), Singapore (R&D centre, Bilcare Pte. Ltd, Changi) and US (R&D centre, Bilcare Inc., Pennsylvania).

Bilcare Optima™: A scientific packaging development and sensitivity profiling method, it helps in understanding product sensitivity and developing optimum packaging solutions for pharmaceutical formulations throughout its shelf life in desired climatic conditions.

2. Innovative Solutions: Innovative packaging solutions enable product differentiation and marketing by providing an unique brand identity to products.

Bilcare Research's Brandpak™: solutions help in problem diagnosis and provide packaging solutions that affect the customer's top-line using its unique and patented packaging materials and smart, expressive designs.

3. Packaging Materials: full range of film and foil packaging materials to protect even the most sensitive pharmaceutical products. All products are registered with USFDA with DMFs (Drug Master File) and comply with European standards.

PPR Model



Source: Company

Recent Developments: During the year, Bilcare significantly invested in its manufacturing and research facilities in India, US and Singapore for expanding and upgrading existing infrastructure. It ramped up production volumes to meet customer demands in and outside India, more particularly for high end packaging solutions. The newly built Research Center of Excellence, which has significantly enhanced capacities and competencies along with the newly inaugurated Asia's first customized state of art, integrated Flexo printing facility in India for new innovative solutions in printed packaging materials, especially the Aluminum foils, have further strengthened the global offering of the company. During the year, facilities across the globe underwent a total of 29 audits by customers and launched several branded products aimed at providing solutions to the high end packaging needs of the pharma industry viz. 'Patina plus Optra & Astra and Petra, metnova. In the domain of anti-counterfeit packaging solutions the company launched Protect, Secure and Secure Alu Alu and more recently nano tag based anti-counterfeit technology.

Bilcare Optima: this patented service offering was available for solid dose formulations – and has now been developed further, extending its capability for evaluation of semi-solid and liquid formulations. During the year, several new research services were introduced based on new R&D capabilities, which encompasses services like sensitivity profiling of drug formulation for speedy formulation optimization, comprehensive packaging development and design services and method development services. Total packaging audit is another service introduced during the year. Bilcare, till date, has over 90 patent filings worldwide and is continuously working towards thought leadership, innovation and solutions for the pharmaceutical world by developing newer technologies.

Bilcare Technologies: It is a developing SBU in Bilcare and part of the PPR business offering of Bilcare, focusing on providing novel anti-counterfeit packaging solutions to the global pharmaceutical industry. The counterfeit drugs are a major threat for the global pharmaceutical industry and are responsible for a revenue loss of ~US\$50bn annually. According to the World Health Organization (WHO), the counterfeit drug market is estimated to be worth US\$75bn globally by 2010. In some developing countries almost 40% of the medicines sold may be counterfeits. Besides causing a revenue loss to the industry, counterfeit drugs put the lives of patients at risk and puts reputation of pharmaceutical companies at stake.

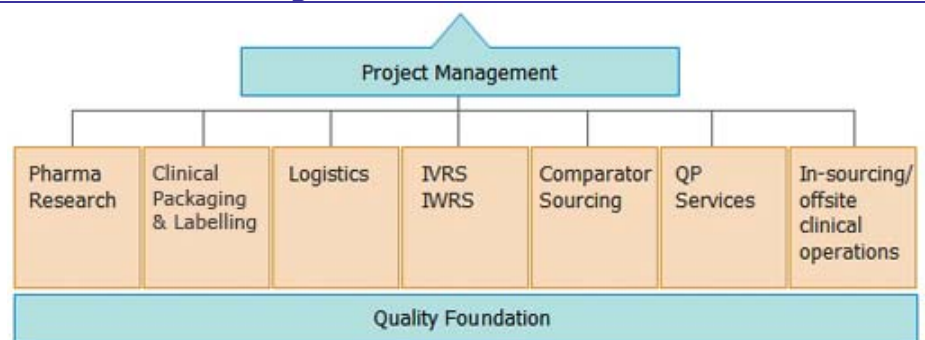
For enhancing its presence in anti-counterfeit solutions, Bilcare acquired Singular ID, a Singapore-based technology innovator company for a consideration of ~US\$15mn in December 2007. This company is engaged in research-driven creation of micro and nano-technology-based novel products. With this acquisition, Bilcare intends to complement its existing product line for anti-counterfeits and create a unique, irreproducible secure finger-print tag, which can be securely read by a scanning device at the end-stage of the distribution chain (the pharmacist). The tag finds acceptability across packaging materials like blisters, bottles, and aluminum foils, enhancing the scope of its applicability. Bilcare has launched a pilot project in India using this technology in association with a few domestic companies and one Big Pharma.

Global Clinical Services (GCS)

Bilcare Global Clinical Supplies ("Bilcare GCS") serves the global pharmaceutical and bio-pharmaceutical industries with clinical trial materials support, services and complete project management. With best-in-class manufacturing plants and facilities on three continents, Bilcare GCS delivers end-to-end solutions that support a client's drug through the entire clinical trial life cycle.

Facilities: Bilcare GCS supports customers from an integrated global network of manufacturing sites and expanded distribution, depots and warehousing facilities - with major operations in the Americas, Europe and Asia.

Services and offerings



Source: Company

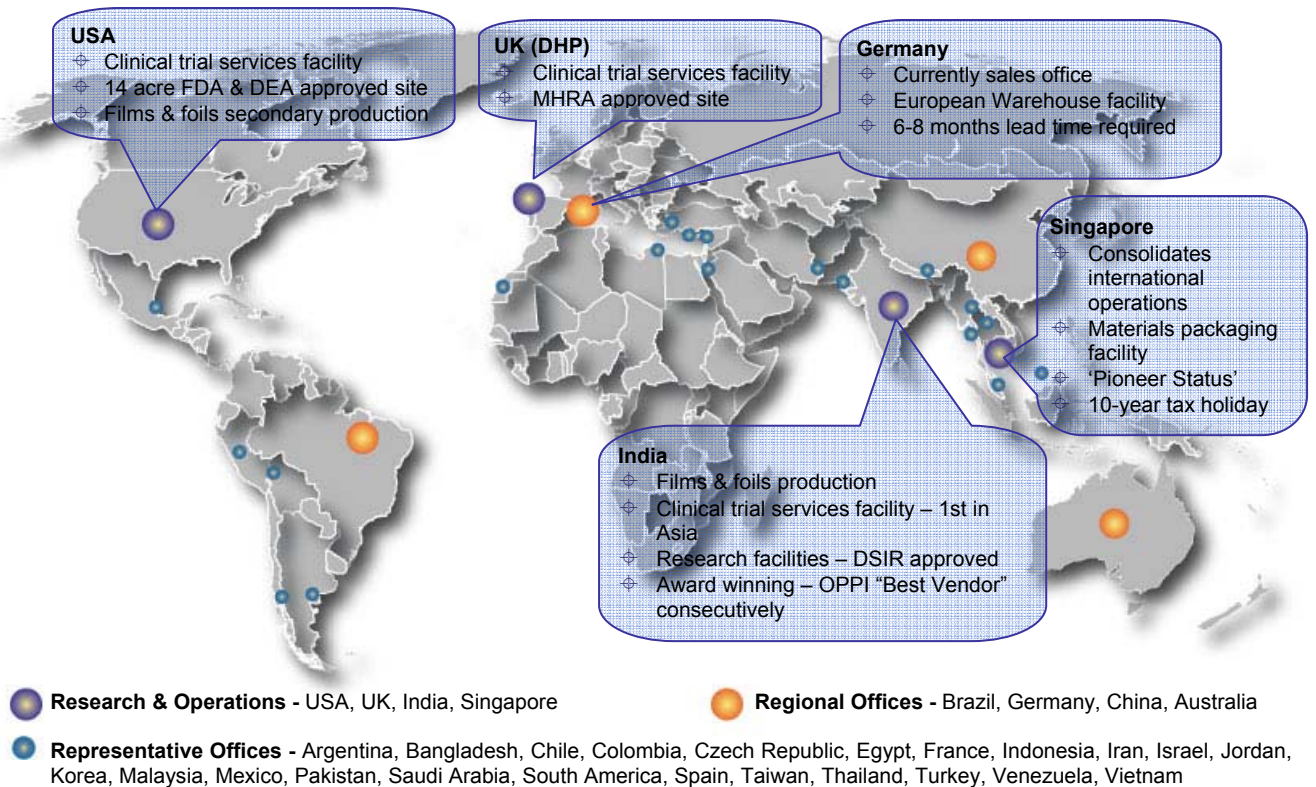
Bilcare aims to offer end-to-end clinical trial services to pharmaceutical companies across the globe by leveraging its state-of-the-art clinical trial facilities spread across USA, UK and India. In FY08, it upgraded its facilities at US. These investments are expected to meet demands of large global pharmaceuticals and are being prepared to supply critical support to Phase III and IV clinical trial projects. Bilcare GCS has expanded its primary and secondary packaging capacities including its storage capacity in Pune, India, for meeting the rising demand for clinical trials in the Asian Region. This capacity has become operational from Q3 FY09 and is expected to significantly enhance Bilcare GCS' global footprint.

With its small base and potential target market, the GCS division is the fastest growing business segment for Bilcare. However, this division is expected to be a drag on operating margin over the next one-two years given the high front-end capital costs and increasing intellectual capital on the rolls. The operating costs are also likely to be high as a majority of the division's technical and scientific staff is based outside India (75% of the division's employee strength is based in US, to ensure close proximity to clients).

Bilcare expects the GCS division to attain a steady-state within next 18 to 24 months and the operating margin to scale to ~40-45%. In the next three to five years, Bilcare expects this division to contribute a fourth (25%) of the total revenues. Though, the benefits of strong revenue growth won't flow immediately to bottom line as the margin will improve steadily with the business reaching critical mass.

Research Academy: Bilcare is helping to impart knowledge and training for growth of clinical research facing dearth of good manpower especially in Asia (where this industry is new) and towards this launched Bilcare Research Academy. The Academy, in collaboration with the Association of Clinical Research Professionals, USA (ACRP), is involved in providing clinical research training to students. The academy offers one year postgraduate course in clinical trials according to global standards. Currently, it operates from two centers – one each at Pune and Bangalore.

Bilcare's international presence



Source: Company

Acquisition of International Labs

Bilcare acquired International Labs, US (INT) in July 2008 through its 50:50 JV with Mead Westvaco Corporation, US (MWC). With this, Bilcare aims to expand its presence in the region. INT has an exclusive packaging contract with Wal-Mart, US. Going forward, besides the supply contract with Wal-Mart, Bilcare can also use INT's platform to tap low-cost generic and branded drugs packaging and other innovation needs in the country.

Capex

The company is likely to spend around US\$20mn per year or commensuration to its growth requirements.

FCCBs

Bilcare had issued FCCBs of US\$50mn in December 2005 with a maturity of five years. Out of these, bonds worth US\$12mn are already converted and US\$21mn have been acquired by its Singapore subsidiary, Bilcare Singapore Pte Ltd. Only US\$17mn remains outstanding. The bond matures in December 2010, with a reset conversion price of Rs704. These bonds have yield of 7.75% YTM. The fully diluted equity will be Rs200mn after conversion of all the FCCBs.

The Singapore subsidiary has issued US\$90mn 4% convertible bonds due in 2012. The bonds will be redeemed at a price of 130.7% of the principal amount plus accrued interest as per the terms of the issue.

Concerns

- ✦ Bilcare's revenue depends largely on the R&D budget of global pharma companies. Any reduction in the R&D budget of these companies will have a direct impact on the sales and profitability of Bilcare.

- ✦ In the PPR segment, Bilcare faces competition from domestic players like Caprihans India (Ineos), Klockner Pentaplast, Alcan and Techniplex. While in the GCS business, global players such as Fisher (revenue US\$300mn), Aptuit (revenue US\$150mn) and Almac (revenue US\$100mn) are the key competitors. All these three players are very established and have good contacts with the global pharma companies, except that they have presence only in US and Europe, while Bilcare has presence in US, Europe, Asia and Latin America.

Financials

Income statement

Y/e 31 Mar (Rs m)	FY05	FY06	FY07	FY08
Revenue	1,619	2,645	4,079	6,507
Operating profit	395	652	991	1,435
Depreciation	(48)	(75)	(154)	(242)
Interest expense	(36)	(49)	(91)	(143)
Other income	37	40	179	192
Profit before tax	348	569	924	1,243
Taxes	(99)	(180)	(325)	(427)
Adj. profit	249	389	599	816
Exceptional items	(2)	2	13	-
Net profit	247	391	612	816

Balance sheet

Y/e 31 Mar (Rs m)	FY05	FY06	FY07	FY08
Equity capital	140	142	142	165
Reserves	985	1,402	2,932	3,640
Net worth	1,125	1,544	3,074	3,805
Debt	848	3,536	3,614	7,037
Deferred tax liab (net)	164	271	406	630
Total liabilities	2,138	5,351	7,095	11,472
Fixed assets	1,114	2,162	3,477	5,682
Investments	220	206	867	1,362
Net working capital	512	1,019	1,676	2,861
Inventories	150	226	461	817
Sundry debtors	440	702	1,251	2,120
Other curr assets	111	321	471	736
Sundry creditors	(124)	(175)	(356)	(695)
Other curr liabilities	(65)	(55)	(150)	(117)
Cash	292	1,965	1,075	1,566
Total assets	2,138	5,351	7,095	11,472

Cash flow statement

Y/e 31 Mar (Rs m)	FY05	FY06	FY07	FY08
Profit before tax	348	569	924	1,243
Depreciation	48	75	154	242
Tax paid	(99)	(180)	(325)	(427)
Working capital Δ	(242)	(507)	(658)	(1,185)
Op cash flow	55	(44)	96	(128)
Capital expenditure	(409)	(1,123)	(1,470)	(2,447)
Free cash flow	(354)	(1,167)	(1,374)	(2,574)
Equity raised	462	77	988	(4)
Investments	(220)	15	(661)	(495)
Debt financing/disposal	352	2,688	78	3,422
Dividends paid	(40)	(49)	(71)	(81)
Other items	62	109	149	224
Net Δ in cash	262	1,673	(890)	492

Key ratios

Y/e 31 Mar	FY05	FY06	FY07	FY08
Growth matrix (%)				
Revenue growth	53.6	63.3	54.2	59.5
Op profit growth	111.8	64.9	52.1	44.8
EBIT growth	103.6	60.8	64.4	36.4
Net profit growth	131.3	56.1	54.2	36.1

Profitability ratios (%)				
OPM	24.4	24.6	24.3	22.0
EBIT margin	23.7	23.4	24.9	21.3
Net profit margin	15.4	14.7	14.7	12.5
RoCE	24.1	16.5	16.3	14.9
RoNW	31.5	29.1	26.0	23.7
RoA	14.2	9.8	9.1	8.2

Per share ratios				
EPS	17.8	27.4	42.2	49.6
Dividend per share	2.5	3.0	4.3	4.2
Cash EPS	21.2	32.6	53.1	64.3
BVPS	80.3	108.7	216.5	231.2

Payout (%)				
Dividend payout	16.2	12.5	11.8	10.0
Tax payout	28.5	31.7	35.2	34.4

Liquidity ratios				
Debtor days	99	97	112	119
Inventory days	34	31	41	46
Creditor days	28	24	32	39

Leverage ratios				
Interest coverage	10.8	12.7	11.1	9.7
Net debt / equity	0.5	1.0	0.8	1.4
Net debt / op. profit	1.4	2.4	2.6	3.8

Component ratios (%)				
Raw material	64.9	62.3	59.6	54.6
Staff cost	3.1	4.5	5.5	9.3
Other op exp	7.6	8.5	10.6	14.1

Du-Pont Analysis

Y/e 31 Mar	FY05	FY06	FY07	FY08
Tax burden (x)	0.71	0.68	0.65	0.66
Interest burden (x)	0.91	0.92	0.91	0.90
EBIT margin (x)	0.24	0.23	0.25	0.21
Asset turnover (x)	0.92	0.67	0.62	0.65
Financial leverage (x)	2.22	2.96	2.85	2.89
RoE (%)	31.5	29.1	26.0	23.7

Recommendation parameters for fundamental reports:

Buy – Absolute return of over +10%

Market Performer – Absolute return between -10% to +10%

Sell – Absolute return below -10%

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