

August 13, 2009

**Morning Note**
**FOCUS OF THE DAY: BILCARE - Q1FY10 RESULT REVIEW**
**Not Rated**

<b>CMP</b>	<b>393</b>
<b>Target</b>	-
<b>Stock Return</b>	-
Capital Appreciation	-
Dividend Yield	-

Nifty	4458
Sensex	15020

**Key Stock Data**

Sector	Packaging solutions
Reuters Code	BIL.BO
BLOOMBERG Code	BILC@IN
No. of Shares (mn)	17.2
Market Cap (Rs bn)	6.76
Market Cap (\$ bn)	141
Avg. 6m Vol.	15000

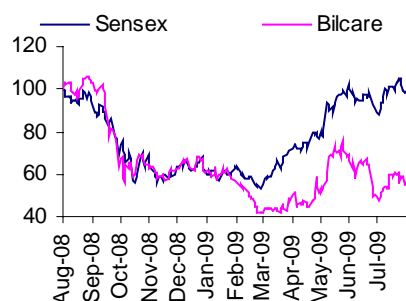
**Stock Performance (%)**

52 - Week high / low	Rs. 762/279		
	<b>3M</b>	<b>6M</b>	<b>12M</b>
Absolute (%)	4.9	-0.6	-44.1
Relative (%)	-18.7	-59.3	-42.8

**Shareholding Pattern (%)**

Promoters	46.7
FIs & Local MFs	7.1
FIIIs	7.7
Public & Others	38.5

Source : Company

**Sensex and Stock Movement**


Bilcare, the leading player in Pharma Packaging Solutions (PPS) and Global Clinical Supplies (GCS) has reported excellent top line growth for Q1FY10. However, the bottom line was affected by decline in EBIDTA margin and higher depreciation. On a consolidated basis, the net sales for the quarter grew by 27%YoY from Rs1.88bn to Rs2.38bn due to good growth in both PPS and GCS segments. Bilcare's EBIDTA margin declined by 230bps YoY from 24.3% to 22.0% due to the rise in material and personnel costs. Its interest cost increased by 20%YoY from Rs81m to Rs97m 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 75%YoY from Rs75m to Rs131m due to the additional depreciation of subsidiaries. The company's net profit for the year grew by 8%YoY from Rs211m to Rs228m.

The growth driver for Bilcare has been its overseas business, which grew at 97% on an annualized basis to Rs3.85bn in FY09. Operating EBIDTA from overseas operations grew by 136% to Rs578m on an annualized basis in FY09.

**Q1FY10 consolidated results**

Particulars (Rs mn)	Q1FY10	Q1FY09	% Change
Net sales	2,385	1,875	27.2
EBITDA	525	457	15.0
EBIDTA margin %	22.0	24.3	-230bps
Net Profit	228	211	8.3
EPS Rs (Rs 10 paid up)	13.3	12.2	8.3

Source: Company, HDFC Securities

**Outlook & Valuation**

Bicare's Q1FY10 consolidated results were affected by the rise in material cost. The company's material cost increased by 360bps from 52.4% to 56.0% of net sales due to the rise in polymer prices and the 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. Personnel cost increased by 120bps from 8.2% to 9.4% of net sales due to higher salaries at subsidiaries. Bilcare was able to reduce other expenses by 250bps from 15.1% to 12.6% of net sales due to improved efficiencies and cost control measures during the year.

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. The EBIDTA margin for Q1FY10 was 22.0% higher by 20bps than 21.8% for FY09. 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.

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 Rs393, the stock trades at 8.2x FY09 consolidated EPS of Rs48.2 and 7.4x annualized consolidated EPS of Rs53.2 for FY10. We are positive on the long-term prospects of the company.

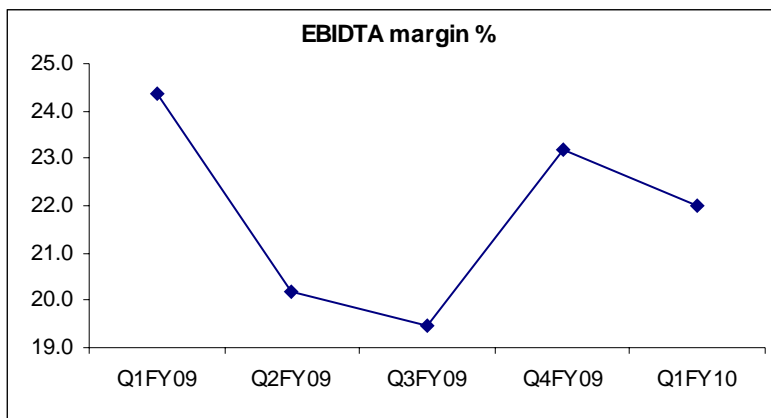
**Valuation Summary-Consolidated results**

Particulars (year end-March)	FY09	FY08	FY07
EPS (Rs 10 paid up)	48.2	49.6	42.2
P/E (X)	8.2	7.9	9.3
EV/EBITDA	8.7	6.9	9.0
EV/sales	1.9	1.5	2.2

Source: company, HDFC Sec research

**Q1FY10 consolidated results- highlights**

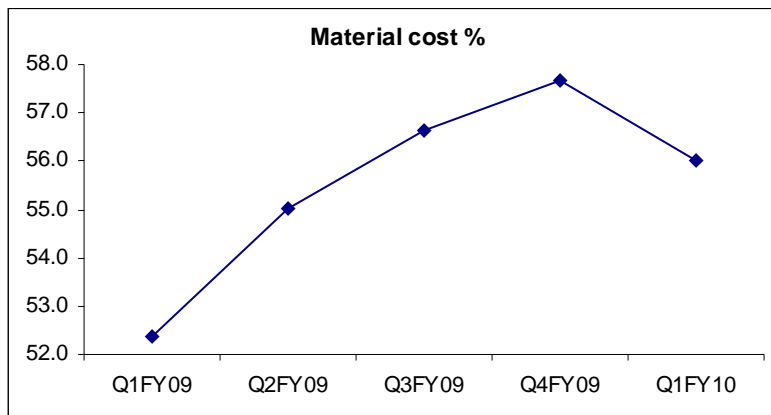
- Bilcare's total income grew by 29%YoY from Rs1.88bn to Rs2.42bn. Both PPS and GCS businesses reported good growth of around 20% and 40% respectively during the quarter.
- The company's EBIDTA margin declined by 230bps from 24.3% to 22.0% mainly due to the rise in material and personnel costs. The material cost was up by 360bps from 52.4% to 56.0% 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 most materials are 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 120bps from 8.2% to 9.4% of net sales, as the manpower cost in overseas subsidiary is high. Other expenses declined by 250bps from 15.1% to 12.6% of net sales due to the improved efficiency and cost cutting measures taken by the company.
- The company's EBIDTA margin over the last 5 quarters is shown in the following graph:



Source: HDFC Sec research

As seen from the above graph, Bilcare's EBIDTA margin fell from 24.3% in Q1FY09 to 19.5% in Q3FY09 and then went up to 23.2% in Q4FY09. The EBIDTA margin declined to 22.0% in Q1FY10 indicating a 120 bps decline QoQ.

- Bilcare's material cost over last 5 quarters is shown in the following graph:



Source: HDFC Sec research

As seen from the above graph, the material cost increased from 52.4% in Q1FY09 to 57.7% in Q4FY09 due to the rise in the polymer prices. The material cost then declined to 56.0% in Q1FY10 indicating a 170bps decline QoQ.

- Bilcare's interest cost grew by 20% from Rs81m to Rs97m 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 75% from Rs75m to Rs131m due to higher depreciation of overseas subsidiaries.
- Bilcare's average tax rate went up from 30.1% to 30.7% of PBT.
- The company's net profit grew by 8% from Rs211m to Rs228m.

### Major developments

- Bilcare derives around 70% of its revenues from PPS and 30% from GCS. The PPS segment is growing well due to the sharp rise in pharma exports and new products introduction in the domestic market. The GCS business is growing rapidly 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 business than PPS business, 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 over 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 company that pioneered 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.
- Bilcare is in the process of restructuring its debt. This is likely to reduce interest cost and improve the profitability for the company.
- The company has developed a technology platform of fingerprinting based on nano technology. This technology finds applications in detecting counterfeit drugs. The technology also finds application in other areas such as FMCG, capital goods, white goods etc. This is likely to become future growth driver for the company.

## 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.

## Q1FY10 results-consolidated

PARTICULARS	Q1FY10-stand	Q1FY09-stand	%	Q1FY10-cons.	Q1FY09-cons.	%	FY09-conso.
(in Rs million)	JUN.09	JUN.08	CHANGE	JUN.09	JUN.08	CHANGE	MAR.09
Net sales	1285.1	1137.6	13.0	2384.7	1875.0	27.2	8560.2
Other operating income	27.6	0.7	3842.9	32.8	0.7	4585.7	77.1
Total sales	1312.7	1138.3	15.3	2417.5	1875.7	28.9	8637.3
Total expenses	940.3	816.2	15.2	1859.8	1418.5	31.1	6695.2
Raw materials	812.4	694.7	16.9	1353.6	1000.3	35.3	4846.9
Change in stocks	-18.1	-11.7	54.7	-17.8	-18.5	-3.8	-103.1
Personnel expenses	53.6	46.4	15.5	223.4	154.1	45.0	863.3
Other expenses	92.4	86.8	6.5	300.6	282.6	6.4	1088.1
EBIDTA	344.8	321.4	7.3	524.9	456.5	15.0	1865.0
PBDIT	372.4	322.1	15.6	557.7	457.2	22.0	1942.1
Interest	50.5	35.2	43.5	96.8	81.0	19.5	392.5
Depreciation	66.8	43.2	54.6	131.1	74.8	75.3	378.4
Profit before tax	255.1	243.7	4.7	329.8	301.4	9.4	1171.2
Tax provision-current+deferred	86.7	82.8	4.7	101.4	90.6	11.9	341.8
Net profit	168.4	160.9	4.7	228.4	210.8	8.3	829.4
Equity capital	172.1	172.1	0.0	172.1	172.1	0.0	172.1
EPS Rs.(Rs.10 Paid up)	9.8	9.3	4.7	13.3	12.2	8.3	48.2

Ratios	Q1FY10-stand	Q1FY09-stand	Q1FY10-cons.	Q1FY09-cons.	FY09-conso.
	JUN.09	JUN.08	JUN.09	JUN.08	MAR.09
Total exp.-as % of net sales	73.2	71.7	78.0	75.7	78.2
Material cost-as % of net sales	61.8	60.0	56.0	52.4	55.4
personnel cost-as % of net sales	4.2	4.1	9.4	8.2	10.1
Other exp.-% of net sales	7.2	7.6	12.6	15.1	12.7
EBIDTA margin %	26.8	28.3	22.0	24.3	21.8
PBDIT margin %	29.0	28.3	23.4	24.4	22.7
Tax provision-as % of PBT	34.0	34.0	30.7	30.1	29.2

Source: company, HDFC Sec research

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	<b>BSE</b>	<b>NIFTY</b>
Close	15020	4458
Change	-54.43	-13.85
52 Week High / Low	16002/7697	4731/2253

<b>Other Markets</b>	<b>Close</b>	<b>Change</b>
Dow Jones	9362	120.16
FTSE 100	4717	45.42
Nasdaq	1999	28.99

<b>Trade Data 12/08</b>	<b>BSE</b>	<b>NSE</b>
Turnover (Rs. Bn)	59.17	176.39
Change	8.44	16.46
Adv/ Dec/ Unchanged	13/16/1	12/17/1
	<b>Buying</b>	<b>Selling</b>
FII's (Rs. bn) 11/08	28.94	21.90
MF's (Rs. bn) 10/08	6.53	8.70

<b>Interbank Closing</b>	<b>Close</b>	<b>Change</b>
Rs/US \$	48.34	-0.37
Rs/UK £	79.56	-0.34
Rs/EURO	68.46	-0.46

**10 year G-Sec yield : 7.03%**

<b>BSE Sectoral Indices</b>	<b>Days' close</b>	<b>Previous close</b>	<b>% Change</b>
Automobiles	5390	5370	0.36
Capital Goods	11917	11968	-0.42
Metal	12105	12306	-1.63
FMCG	2487	2492	-0.17
IT	3959	4031	-1.78
Realty	3773	3693	2.15

<b>ADR / GDR</b>	<b>Latest</b>	<b>Previous</b>	<b>Change</b>
Infosys	43.00	42.63	0.37
ICICI Bank	30.44	29.33	1.11
Wipro	15.51	15.23	0.28
Tata Motors	11.58	11.05	0.53
Dr. Reddy's	16.59	16.36	0.23
HDFC Bank	94.57	92.87	1.70

<b>Commodity Prices</b>	<b>Close</b>	<b>Change</b>
Crude (\$/Bbl)	70.76	0.60
Copper (\$/tn)	6028	-107
Gold Std (Rs/10GM)	14855	45
Silver (Rs / 1 kg)	23475	30
Aluminium (\$/tn)	1891	-62
Zinc (\$/tn)	1784	-53

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