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Bilcare's riding high on growth pill

Bilcare, the Rs 1,000-crore supplier of technology-driven niche pharma solutions, appears to be a promising bet in the mid-cap segment. The Pune-based company is a provider of packaging solutions and clinical trial supplies to over 500 pharma companies globally.

The company, which has manufacturing facilities in the UK, US, India and Singapore, has made significant investments towards expanding its footprint. Bilcare earns half of its revenues from its overseas business, which is growing at a faster rate than its domestic business. Its revenues have grown at an average y-o-y rate of 22% over the past 12 months with an operating profit margin of 23%.

In January this year, Bilcare raised close to Rs 150 crore through a global depository receipts (GDR) offering. The funds were utilised to buy back its outstanding foreign currency convertible bonds (FCCBs), which led to a reduction in the company' s debt-equity ratio to 0.7 from 1.9.

With sales of generic drugs on the rise globally, its largest business segment of pharma packaging is likely to log robust growth. Rising R&D that is leading to a higher number of clinical trials is also a trigger for the company, which supplies research-based products for clinical trials.

It recently doubled its capacity of supplies for clinical trial services with the opening of a second unit in UK. Another growth area is anti-counterfeiting solutions, which is being adopted by an increasing number of drug manufacturers to check counterfeiting of their products. Bilcare, recently launched a technology-based solution in the US to prevent counterfeiting of drugs.

Bilcare's stock has, however, been an underperformer over the past two years. It has grossly underperformed the benchmark Sensex as well as the ET Pharma Index. It is trading at a consolidated price-to-earnings multiple of 10 and is valued at a market cap of Rs 1,100 crore — slightly higher than its consolidated annual revenues.

These are fair valuations for a small-sized company. Bilcare's consolidated revenues are likely to grow by around 30% annually, with operating margins improving further to over 30%. Considering the company's growth prospects and the stock's sustained underperformance, there appears to be room for further appreciation in the company's stock price.