



Bilcare Visit Update

Mar 22 '10

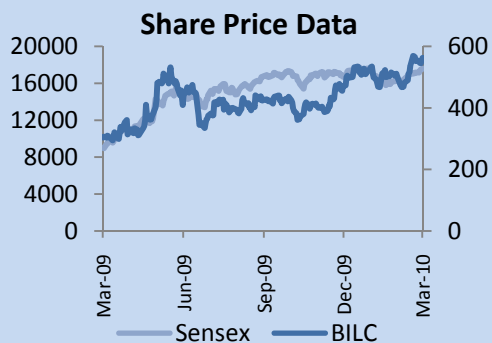
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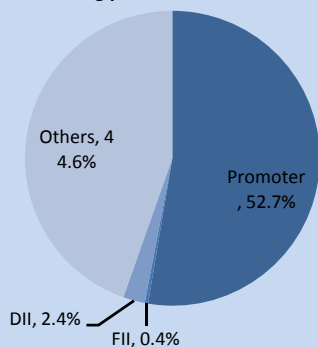
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As on Mar 22, 2010.	
Market Price (17/03/10)	557
Market Cap. (Rs. Cr.)	1,124
52 Week High/Low	590/290

Codes	
BSE Code	526853
ISIN No	INE986A01012
Bloomberg Code	BILC.IN
Reuters Code	BIL.BO
Book Value per Share	248
Face Value	10.00
Target Price	692



Shareholding pattern as on 31st Dec 2009



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We met the management of Bilcare Ltd. Following are the key takeaways

FCCB restructuring largely over: Bilcare recently converted FCCBs worth US\$ 26 mn into shares at a reset convertible price of Rs 483/share, thus leading to a 14% equity dilution. The company also bought back FCCBs worth US\$ 90 mn (in its Singapore entity) from the proceeds of GDR issue (US\$ 35 mn), additional debt (US\$ 30 mn) and internal accruals. Post this restructuring, the management expects D/E to go down to 0.6-0.65x in FY11E. We had already considered this debt restructuring in our estimates, though conversion of remaining FCCBs will lead to an additional 7% equity dilution.

Launch of anti-counterfeit most likely in 1QFY11: Management indicated that the launch of its anti-counterfeit technology is still a quarter away. Given its applicability across sectors, we believe this technology can be a game changer for Bilcare in the long term, though it will be a gradual process initially. While few contracts have already been signed in the pharma sector, talks are ongoing for others sectors as well. The company is also in advanced discussions with the Government of India for its UID project as well as the RBI and Bank of England to apply this technology to address the menace of fake currency.

Strong 9MFY10; Management expects strong growth ahead: With a robust 28% YoY and 52% YoY growth in revenues and PAT in 9MFY10 respectively, Bilcare is expected to conclude FY10 with more than Rs 1 bn+ in profits. Going forward, the management expects 35%+ growth in its international business driven by strong traction in its PPI business and an expected recovery in its GCS business from 2HFY11E onwards; while India is expected to remain steady at 15% YoY (our assumptions are slightly lower). We slightly reduce our FY10E EPS from Rs 45 to 43, though our FY11E estimates remain unaffected.

Valuations and Outlook: With reasonable success in its International business and a stable domestic business, BILC offers a good vehicle to play the market rally. In 9MFY10, the EPS is already 96% of FY09 EPS and we expect a further 20% CAGR in EPS in FY09-11E. The stock has rallied 20% since our initiation report in Dec, 09. However, with the conclusion of the FCCB restructuring and nearing launch of its anti-counterfeit technology, we expect further rerating in the stock. We maintain our Buy call on the stock with a revised target price of Rs 692, based on 10x FY11E.

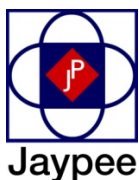
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Income Statement				
Year ended 31 Mar (Rs m)	FY08	FY09	FY10E	FY11E
Net sales	6,507	8,560	10,451	12,977
<i>growth (%)</i>	<i>59.5</i>	<i>31.6</i>	<i>22.1</i>	<i>24.2</i>
Operating expenses	-5,072	-6,695	-8,160	-9,896
Operating profit	1,435	1,865	2,291	3,081
Other operating income	0	0	0	0
EBITDA	1,435	1,865	2,291	3,081
<i>growth (%)</i>	<i>44.8</i>	<i>30.0</i>	<i>22.8</i>	<i>34.5</i>
Depreciation	-242	-378	-510	-555
Other income	192	77	18	91
EBIT	1,385	1,564	1,799	2,617
Interest paid	-143	-393	-402	-345
Pre-tax profit (before non-recurring items)	1,242	1,171	1,396	2,272
Non-recurring items	0	0	0	0
Tax on non-recurring items	0	0	0	0
Pre-tax profit (after non-recurring items)	1,242	1,171	1,396	2,272
Tax (current + deferred)	-427	-342	-419	-682
Net profit	815	829	978	1,591
Adjusted net profit	815	829	978	1,591
<i>growth (%)</i>	<i>36.0</i>	<i>1.8</i>	<i>17.9</i>	<i>62.7</i>
Prior period adjustments	0	0	0	0
Minority interests	0	0	0	0
Preference dividend				
Net income	815	829	978	1,591

Balance Sheet				
Year ended 31 Mar (Rs m)	FY08	FY09	FY10E	FY11E
Current assets	5,243	6,483	4,512	6,798
Investments	1,228	1,455	455	455
Net fixed assets	5,682	8,444	8,873	9,218
Other non-current assets	0	0	0	0
Total assets	12,153	16,381	13,840	16,470
Current liabilities	812	1,168	1,329	1,575
Total Debt	7,037	9,505	4,697	5,597
Other non-current liabilities	630	984	984	984
Total liabilities	8,479	11,657	7,010	8,156
Share capital	165	172	230	230
Reserves & surplus	3,764	4,788	6,835	8,319
Less: Misc. expenditure	-255	-235	-235	-235
Shareholders' funds	3,674	4,725	6,830	8,314
Minorities interests	0	0	0	0
Total equity & liabilities	12,153	16,381	13,840	16,470

Cash Flow Statement				
Year ended 31 Mar (Rs m)	FY08	FY09	FY10E	FY11E
Pre-tax profit	1,242	1,171	1,396	2,272
Depreciation	198	357	510	555
Chg in working capital	1,155	1,339	-1,130	-1,287
Total tax paid	-247	-16	-419	-682
Other operating activities	0	0	0	0
Cash flow from operations (a)	39	173	358	859
Capital expenditure	2,404	3,118	-940	-900
Chg in investments	-361	-227	1,000	0
Other investing activities	0	0	0	0
Cash flow from investing (b)	2,765	3,345	60	-900
Free cash flow (a+b)	2,726	3,172	418	-41
Equity raised/(repaid)	923	423	1,235	0
Chg in minorities	0	0	0	0
Debt raised/(repaid)	3,422	2,468	-4,807	900
Dividend (incl. tax)	-71	-80	-50	-107
Other financing activities	-927	0	0	0
Cash flow from financing (c)	3,347	2,811	-3,623	793
Net chg in cash (a+b+c)	622	(361)	(3,204)	752

Key ratios				
Year ended 31 Mar (Rs m)	FY08	FY09	FY10E	FY11E
EPS (Rs)	49.5	48.2	42.5	69.2
EPS growth (%)	17.4	-2.7	-11.8	62.7
EBITDA margin (%)	22.0	21.8	21.9	23.7
EBIT margin (%)	21.3	18.3	17.2	20.2
ROCE (%)	15.0	11.8	13.0	19.1
Net debt/Equity (%)	148.9	178.9	100.3	84.2

Valuations				
Year ended 31 Mar (Rs m)	FY08	FY09	FY10E	FY11E
PER (x)	11.2	11.6	13.1	8.1
PCE (x)	8.7	7.9	8.6	6.0
Price/Book (x)	2.5	2.0	1.9	1.5
Yield (%)	1.0	0.6	0.9	0.9
EV/Net sales (x)	1.9	1.8	1.3	1.1
EV/EBITDA (x)	8.8	8.4	6.1	4.6

Du Pont Analysis - ROE				
Year ended 31 Mar (Rs m)	FY08	FY09	FY10E	FY11E
Net margin (%)	12.5	9.7	9.4	12.3
Asset turnover (x)	0.7	0.6	0.7	0.9
Leverage factor (x)	2.9	3.4	2.6	2.0
Return on equity (%)	24.2	19.7	16.9	21.0

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