HDFC securities

Institutional Research

Focus of the Day

February 04, 2010

Indices	Last Close	% Chg 1-d	% Chg mtd
Sensex	16,496	2.1	0.8
Nifty	4,932	2.1	1.0
CNX 500	4,212	1.8	1.3
BSE Bank	9,657	2.1	0.0
BSE IT	5,023	1.7	0.9
BSE Oil & Gas	9,991	1.4	0.5
Dow Jones	10,271	(0.3)	2.0
Nasdaq	2,191	0.0	2.0
FTSE	5,253	(0.6)	1.2
DAX	5,672	(0.7)	1.1

Mkt Breadth	Advance	Decline	Unchanged
Nifty	46	4	0
Sensex	29	1	0

Turnover	INR Bn	% Chg
BSE Cash	48	-8.0
NSE Cash	137	-12.9
NSE F&O	788	-1.2
Total	972	

Fund Flows	US $ mn	MTD	YTD
FII Equity	2	(8)	(239)
DIIs	9	43	503

Forex/Bond	Last Close	Chg 1-d	Chg mtd
INR/USD	45.97	(0.19)	(0.21)
USD/EUR	1.389	(0.01)	0.00
YEN/USD	91.0	0.60	0.71
10 yr G-Sec	7.68	0.01	0.11

Commodities	Last Close	% Chg 1-d	% Chg MTD
Brent ($/bbl)	75.9	(0.2)	6.2
Gold ($/oz)	1,110	(0.4)	2.7
Copper ($/mt)	6,590	(3.3)	(2.3)
Aluminium ($/mt)	2,083	(1.8)	0.2

Most Traded

Scrip	Last Close	% chg	Value*
Infinite Comp.	192	16.2	8.0
SBI	1,999	1.0	7.7
Tata Steel	600	4.7	7.0
LT	1,450	3.8	4.7
Reliance Ind.	1,034	0.6	4.5

* INR Bn.

ADR GDR

Scrip	Last Close*	% chg	% Prem.
Dr Reddy's	24.8	(0.9)	(1.1)
HDFC Bank	121.6	1.0	14.8
ICICI Bank	37.0	3.3	1.3
ITC	5.5	3.6	(0.1)
Infosys	53.2	0.2	(1.1)
Satyam	5.1	1.4	15.6
Ranbaxy	9.5	0.0	(0.3)
Reliance	44.7	0.2	(0.6)
Wipro	20.9	1.1	43.0
SBI	87.8	1.3	1.0
Tata Motors	15.7	0.8	0.3

* US$

Contents

From the Blogosphere

Zero Hedge: Gold Proves Sticky As Dollar Surges; Correlation Observations Between Gold And DXY, Silver And Oil (Source)

Many people have expressed a concern that because gold and the dollar are closely correlated, the recent surge in the DXY will imminently cause a major crash in the price of gold, as gold is no longer seen as a risk haven to dollar devaluation. While that may ultimately be the case, a simple observation of gold and DXY price levels indicates that while the dollar has retraced losses stretching all the way back to August 2009, gold is merely at levels first seen in November (and again in December and January). One reason for this may be gold only commenced its nearly parabolic rise in September, a time when the dollar was already substantially weaker compared to its March highs. The question now arises: is gold merely sticky for the same reason it was sticky in the ~$900 range, and as a result will see a substantial and sharp drop once the trendline in the dollar continues unbroken, or are prevailing $1000+ levels the new "normal" for gold in a world in which the weakness of the fiat system is increasingly put into question, and gold is not only a safe haven to the dollar, but is seen a safe haven not by both emerging market central banks and by all investors, to all fiat exposure? Needless to say, our belief is that the latter will ultimately be proven to be the case.

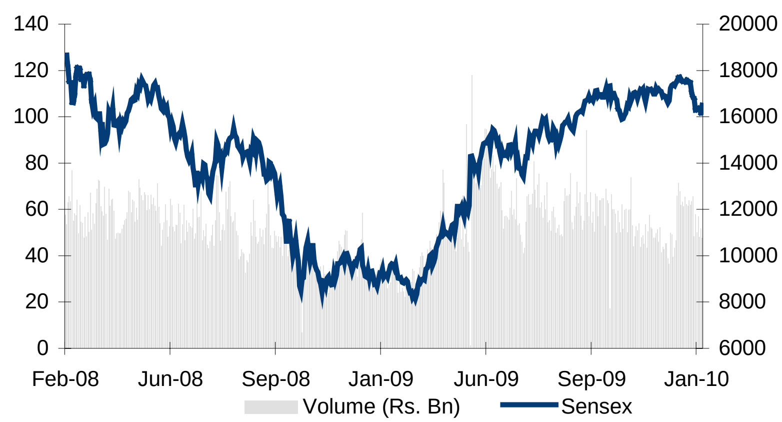
The Telegraph: Greece under EU protectorate as funds shift fire to Portugal (Source)

Greece's labour federation immediately called a general strike for February 24, dashing hopes that Europe's provisional backing for Greek crisis policies would restore investor confidence. Joaquin Almunia, the EU economics commissioner, said concerns have spread beyond Greece to other eurozone countries where public finances are spinning out of control, chiefly Spain and Portugal. "In these countries we have seen a constant loss of competitiveness ever since they joined the eurozone. The external financing needs are quite big," he said. Yields on 10-year Portuguese bonds jumped 21 basis points yesterday as funds switched their fire to the next "domino", questioning whether the government of Jose Socrates can deliver spending cuts without a parliamentary majority. The legal and political structure is simply not ready to cope with an escalation of the crisis and the problems spreading to Spain, should that occur. Spain's budget deficit reached 11.4pc last year, and is on a worrying trajectory for a country that has lost so much intra-EMU competitiveness and cannot let the currency take the strain. Spain's total public and private debt is over 300pc of GDP, much higher than Greek debt.

Headlines

- Kirit Parikh panel has recommended market-determined pricing for petrol & diesel and linking the prices of domestic LPG and kerosene distributed through public distribution system to the increase in the per capita GDP for urban population and agriculture GDP. (BS)
- GMR Infra plans to refinance USD750m of debt, which was raised to acquire 50% stake in Dutch power utility Integren NV in 2008. (BS)
- Vedanta is planning to list its aluminium business subsidiary, Vedanta Aluminium. (BS)
- L&T has won order worth Rs11bn to construct residential towers, factory and warehouses across India. (DNA)
- Inox has acquired 43% stake in Fame India for Rs664m taking its total screens to 205. (BS)
- Exide plans to raise Rs5bn via QIP early next month for technology, research and capacity development. (DNA)
- IOC has won the case against international oil trading company Trafigura, which has been asked to pay Rs220m. (BS)
- Ashok Leyland sales grew 3x to 7,871 YoY in January 2010. (BS)
- NTPC has got maximum bids at Rs209 per share against the floor price of Rs201. (BL)

Sensex



Institutional Research

Packaging

Bilcare

Q3FY10 Results Review

February 04, 2010

Recommendation	**BUY**
CMP	**Rs.515**
Target	**Rs.616**
Stock Return	**19.6%**

Nifty	4,932
Sensex	16,496

Key Stock Data

Sector	Packaging
Reuters Code	BILC.BO
BLOOMBERG Code	BIL IN
No. of Shares (mn)	17.21
Market Cap (Rs bn)	8.87
Market Cap ($ mn)	192.6
Avg. 6m Vol. (mn)	0.04

Stock Performance (%)

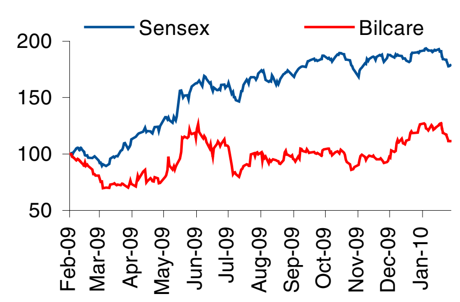
52 - Week high / low Rs 556/279

	3M	6M	12M
Absolute (%)	35.5	20.7	22.6
Relative (%)	29.1	17.7	-56.6

Shareholding Pattern	**(%)**
Promoters	46.7
FIs & Local MFs	1.1
FIIs	5.2
Public & Others	47.0

Source : Company

Sensex and Stock Movement



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Excellent sales and profit growth

Bilcare has posted excellent results for Q3FY10. Consolidated net sales grew by 30%YoY from Rs2.16bn to Rs2.81bn due to good domestic and global markets. The domestic and export business contributed 50% each in the quarter. The company's EBIDTA margin improved by 340bps from 21.3% to 24.7% due to overall decline in costs. Material cost declined by 50bps from 55.3% to 54.8% of net sales due to strong sales growth. Personnel expenses declined by 120bps from 10.6% to 9.4% of net sales. Other expenses declined by 160bps from 12.8% to 11.2% of net sales. Bilcare's interest cost increased by 14% from Rs101m to Rs115m due to the rise in working capital. Its depreciation was up by 63% from Rs88m to Rs143m due to capacity expansion. The company's tax rate has declined from 31.9% to 27.9% of PBT. Net profit grew by 70% from Rs185m to Rs314m.

Revenues to rise by 28% in FY10 and FY11

We expect Bilcare to report 28% growth in net sales for FY10 and FY11 each. We expect 45% increase in net profit for FY10 and 46% for FY11. We expect EBIDTA margin to improve from 21.8% in FY09 to 22.6% in FY10 and to 23.6% in FY11 due to the reduction in material cost and other expenses. We expect the company's RoCE to improve from 7.9% in FY09 to 13.6% in FY11. Its RoE is also likely to improve from 16.7% to 18.5% during the same period.

Global generics – good growth expected

Bilcare expects good growth from Pharma Packaging Innovation (PPI) and Global Clinical Supply (GCS) businesses due to higher use of generics across the globe and increase in clinical trials respectively. PPI business contributed 83% whereas GCS contributed 17% in the quarter. Bilcare's PPI business in the domestic market reported 19.6% growth whereas the global business grew by 43.2%. The GCS business is likely to grow at a faster pace due to higher allocation for clinical trials by MNC pharma companies in CY10.

BUY with a target price of Rs616

At the CMP of Rs516, the stock trades at 8.5x FY10E EPS of Rs60.3 and 5.9x FY11E EPS of Rs88.0. We have a BUY rating on the scrip with a target price of Rs616 (7xFY11 earnings), an upside of 19.6% over the next 12 months.

Valuation Summary

Y/E March	FY08	FY09	FY10E	FY11E	FY12E
Revenue (Rs m)	6,507	8,560	10,985	14,090	18,180
Revenue Growth (%)	59.5	31.6	28.3	28.3	29.0
EBIDTA (Rs m)	1,435	1,865	2,484	3,332	4,499
EBIDTA margin (%)	22.1	21.8	22.6	23.6	24.7
Net profit (Rs m)	816	830	1,206	1,760	2,546
Net margin (%)	12.5	9.7	11.0	12.5	14.0
EPS Rs. (Rs 10 paid up)	40.8	41.5	60.3	88.0	127.3
P/E (x)	12.6	12.4	8.5	5.9	4.0
D/E (x)	1.8	1.9	1.6	0.7	0.4
ROCE (%)	8.3	7.9	10.4	13.6	17.4
RoE (%)	20.8	16.7	20.5	18.5	21.3

Source : HDFC Securities Institutional Research

Valuations

Y/E March	FY08	FY09	FY10E	FY11E	FY12E
P/E	12.6	12.4	8.5	5.9	4.0
Dividend yield (%)	0.8	0.5	0.6	0.7	0.8
P/BV	2.2	1.8	1.5	1.1	0.9
EV/EBIDTA	9.7	9.3	6.7	4.4	2.9
EV/sales	2.1	2.0	1.5	1.0	0.7
Market cap/sales	1.3	1.0	0.8	0.7	0.6

Source : HDFC Securities Institutional Research

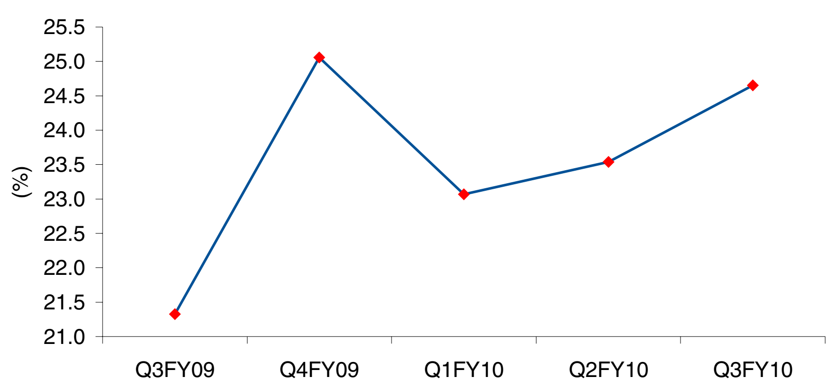
Result Highlights

- In the quarter, net sales grew by 30%YoY from Rs2.16bn to Rs2.81bn due to strong growth in domestic and export markets. The domestic growth was 19.6% whereas global business grew by 43.2%. The domestic growth of 19.6% was higher than the industry growth of 15%.
- EBITDA margin improved by 340bps from 21.3% to 24.7% mainly due to overall decline in costs.
- Material cost declined by 50bps from 55.3% to 54.8% of net sales due to strong sales growth. Personnel expenses declined by 120bps from 10.6% to 9.4% of net sales. Other expenses declined by 160bps from 12.8% to 11.2% of net sales.
- Bilcare's depreciation increased by 63% from Rs88m to Rs143m due to capacity expansion. Interest cost was up by 14% from Rs101m to Rs115m due to increase in working capital.
- The company's tax rate declined from 31.9% to 27.9% of PBT due to the reduction in tax rate
- Bilcare's net profit improved by 70%YoY from Rs185m to Rs314m. Its net margin improved by 260bps from 8.6% to 11.2%.

EBIDTA margin improves by 340bpsYoY to 24.7%

Bilcare's EBITDA grew by 51%YoY from Rs460m to Rs694m. EBITDA margin improved by 340bps mainly due to overall decline in costs .The company's EBIDTA margin for the last 5 quarters is indicated in the following graph:

Chart 1 : EBIDTA margin

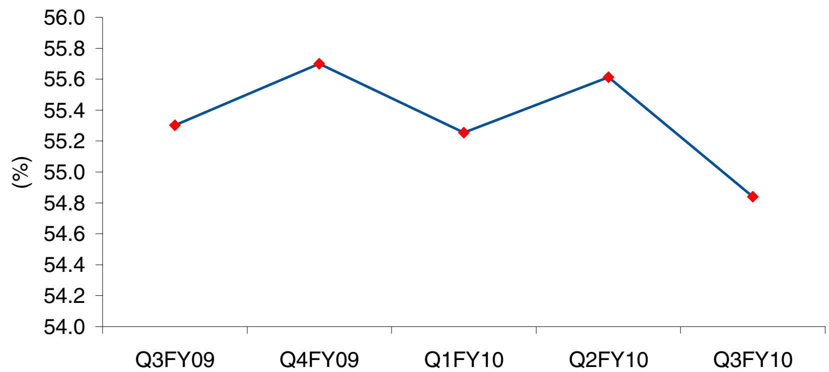


Source : HDFC Securities Institutional Research

As seen from the above graph, the company's EBIDTA margin improved from 21.3% in Q3FY09 to 25.1% in Q4FY09. It then declined to 23.1% in Q1FY10. The margin improved to 23.5% in Q2FY10 and further improved to 24.7% in Q3FY10 indicating a 120bps QoQ improvement.

Bilcare's material cost for last 5 quarters is shown in the following chart:

Chart 2 : Material cost



Source : HDFC Securities Institutional Research

The company's material cost increased from 55.3% in Q3FY09 to 55.7% in Q4FY09. It declined to 55.3% in Q1FY10. The material cost increased to 55.6% in Q2FY10 and fell to 54.8% in Q3FY10 indicating an 80bps QoQ decline.

Adjusted PAT grows by 70%YoY

Bilcare's PAT grew by 70%YoY from Rs185m to Rs314m due to strong sales growth, margin improvement and reduction in tax rate.

Outlook

On strong growth path

Bilcare is on a strong growth path. The company's PPI business reported 19.6% growth in the domestic market higher than the industry growth of 15% during the quarter. The global business reported 43% growth. With the expiry of patents of many blockbuster drugs, the use of generics is likely to increase. Bilcare is likely to benefit from the higher use of generics. Its GCS business is likely to witness good growth, as most MNC pharma companies are likely to enhance their budget for clinical trials.

Well established in the US market

Bilcare has a strong presence in the US market as its 50% JV with International Labs is the supplier to Wal-Mart. The US generic market is likely to witness higher growth due to the inclusion of 31m US population in healthcare schemes.

Valuation

We expect Bilcare to report 28% growth in net sales for FY10 and FY11 each. We expect 45% increase in net profit for FY10 and 46% for FY11. We expect EBIDTA margin to improve from 21.8% in FY09 to 22.6% in FY10 and further improve to 23.6% in FY11 due to the reduction in material cost and other expenses. We expect the company's RoCE to improve from 7.9% in FY09 to 13.6% in FY11. Its RoE is also likely to improve from 16.7% to 18.5% during the same period.

At the CMP of Rs516, the stock trades at 8.5x FY10E EPS of Rs60.3 and 5.9x FY11E EPS of Rs88.0. We have a BUY rating on the scrip with a target price of Rs616 (7xFY11 earnings), an upside of 19.6% over the next 12 months.

Q3FY10 results-Consolidated

PARTICULARS (Rs m)	Q3FY10 DEC.09	Q3FY09 DEC.08	YoY Gr%	Q2FY10 SEPT.09	QOQ Gr%	9MFY10 DEC.09	9MFY09 DEC.08	YoY Gr%
Net sales	2,813	2,157	*30.4*	2,651	6.1	7,881	6,109	*29.0*
Expenditure								
Raw materials	1,543	1,193	*29.3*	1,474	4.7	4,353	3,336	*30.5*
As % of net sales	54.8	55.3		55.6		55.2	54.6	
Personnel expenses	263	228	*15.5*	245	7.3	732	593	*23.4*
As % of net sales	9.4	10.6		9.3		9.3	9.7	
Other expenses	314	276	*13.5*	307	2.1	922	872	*5.7*
As-% of net sales	11.2	12.8		11.6		11.7	14.3	
Total Expenditure	2,120	1,697	*24.9*	2,027	4.6	6,006	4,800	*25.1*
EBIDTA	694	460	*50.8*	624	11.2	1,875	1,309	*43.3*
EBIDTA Margin (%)	24.7	21.3		23.5		23.8	21.4	
Other income	0	0	*NA*	-	*NA*	0	0	*NA*
PBDIT	694	460	*50.8*	624	11.2	1,875	1,309	*43.3*
Depreciation	143	88	*62.7*	132	8.5	406	244	*66.9*
Interest	115	101	*13.9*	104.9	9.5	317	284	*11.6*
PBT	435	271	*60.6*	387	12.5	1,152	781	*47.5*
Prov. For tax	122	87	*40.4*	109	12.1	332	240	*38.2*
% of PBT	27.9	31.9		28.0		28.8	30.7	
PAT	314	185	*70.1*	279	12.7	821	542	*51.6*
Equity capital	200	200	-	200	0.0	200	200	0.0
EPS Rs.(Rs.10 Paid up)	15.7	9.2	*70.1*	13.9	12.7	41.0	27.1	*51.6*

Source: Company, HDFC Securities Institutional Research