HDFC securities
Institutional Research

Morning Note

May 18, 2010

Indices	Last Close	% Chg 1-d	% Chg mtd
Sensex	16,836	(0.9)	(4.1)
Nifty	5,060	(0.7)	(4.1)
CNX 500	4,213	(0.6)	(3.5)
BSE Bank	10,791	(0.5)	(3.3)
BSE IT	5,152	(1.8)	(3.8)
BSE Oil & Gas	9,689	(1.9)	(2.4)
Dow Jones	10,626	0.1	(3.5)
Nasdaq	2,354	0.3	(4.3)
FTSE	5,263	(0.0)	(5.2)
DAX	6,067	0.2	(1.1)

Mkt Breadth	Advance	Decline	Unchanged
Nifty	13	37	0
Sensex	6	24	0

Turnover	INR Bn	% Chg
BSE Cash	44	0.5
NSE Cash	130	-0.6
NSE F&O	1,141	14.7
Total	1,314	

Fund Flows	US $ mn	MTD	YTD
FII Equity	(45)	(665)	5,924
DIIs	36	397	2,559

Forex/Bond	Last Close	Chg 1-d	Chg mtd
INR/USD	45.63	0.41	1.27
USD/EUR	1.240	0.00	(0.09)
YEN/USD	92.6	0.12	(1.26)
10 yr G-Sec	7.46	(0.05)	(0.60)

Commodities	Last Close	% Chg 1-d	% Chg MTD
Brent ($/bbl)	75.1	(3.6)	(15.1)
Gold ($/oz)	1,222	(0.9)	3.7
Copper ($/mt)	6,470	(6.6)	(12.9)
Aluminium ($/mt)	1,990	(5.3)	(11.8)

Most Traded

Scrip	Last Close	% chg	Value*
ABAN	793	(4.6)	9.1
Tata Steel	536	(2.2)	7.7
SBI	2,251	1.3	7.5
L&T	1,607	5.1	7.3
Reliance Inds.	1,017	(2.6)	5.9

* INR Bn.

ADR GDR

Scrip	Last Close*	% chg	% Prem.
Dr Reddy's	28.3	0.6	(1.4)
HDFC Bank	143.9	(1.7)	13.5
ICICI Bank	39.5	0.7	(0.1)
ITC	5.8	(1.8)	(0.1)
Infosys	57.9	0.0	0.9
Satyam	5.2	0.4	34.9
Ranbaxy	10.2	1.5	2.0
Reliance	43.9	(4.2)	(1.5)
Wipro	21.2	(1.7)	49.8
SBI	98.2	0.8	(0.5)
Tata Motors	17.9	(3.5)	3.3

* US$

Contents

From the Blogosphere

The Money Game: The World Gets Fiscal Austerity Fever, As The UK Unnecessarily Commits Economic Suicide (Source)

Virtually the entire world's press is now focusing on the travails of the euro zone, but continues to draw the wrong lessons from what now afflicts the region. As I have pointed out before, no euro zone government issues its own currency. Consequently, they have to "finance" every euro they spend. And, as Bill Mitchell notes, if tax revenues do not cover pre-existing spending desires, then all of these countries (including Germany) have to issue debt. The current crisis is manifested by the bond markets' unwillingness to lend to the PIIGS governments any longer because they are beginning to query the PIIGS' national solvency. These funding constraints do not apply to the US government, which is sovereign in the US dollar and can never be revenue constrained. The same applies to the UK government, although to judge from the comments of the new coalition Conservative-Liberal Democratic Government Cabinet, one would be hard-pressed to discover that fact. Will someone please remind the UK's new Chancellor of the Exchequer, George Osborne, that the UK is not Greece? The UK is a sovereign nation that issues its own currency and freely floats it on foreign exchange markets. Perhaps the keyboard operators have gone on strike (like British Airways), or the country has a paper shortage and can no longer write checks, but given the plethora of comments emanating from virtually all members of the UK commentariat, one has to assume plain ignorance. Just today, the incoming Chief Treasury secretary, David Laws, warned the British electorate that the UK has well and truly "run out of money." Hold on to those pounds, or you're doomed.

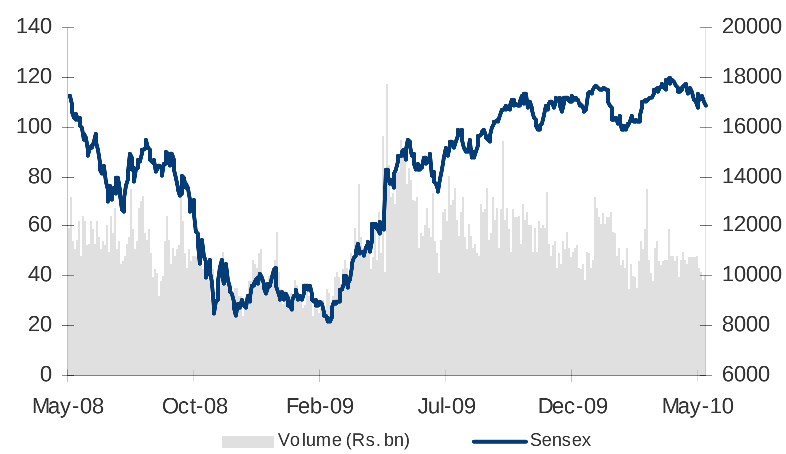
Zero Hedge: $253 Billion In Bills Redeemed MTD, $4 Trillion In Total Redemptions YTD, Treasury Down To $7 Billion in Cash (Source)

And the government keeps on chugging along in its merry Keynesian way (and to those who believe that just because the USD is the reserve currency for the time being and have yet to hear about a country called China, we have one thing to say: just keep buying Treasuries). After burning through $91.1 billion in operating cash in the first 14 days of May, the government is down to just $7.2 billion in cash (ex the $200 billion in the untouchable, for now, SFP account). Not only that, but the little problem of ever increasing rolls in Bills just keeps on reminding about itself, although with $253 billion redeemed so far in May, we don't think little quite captures it. Back to facts: in the 7 months since the beginning of fiscal 2010, the US has redeemed $3.6 trillion bills, $400 billion notes, and $5 billion bonds. This 150% roll in sub 1 year debt when we are just 7 months into the fiscal year is also nothing to write home about, you may occasionally hear. But at least today's DTS still has not logged the $100 billion or so in yet unsettled debt (and the $120 billion in upcoming issues that will be announced tomorrow). When that happens we will solidly push right past $13 trillion in total debt subject to limit. This, is the last thing that you should not be concerned about. Because worry about unsustainability is merely an artifact of a simplistic Austrian school of economics, which as Greenspan and Bernanke have demonstrated so well, is nothing but a total joke to those sophisticated enough to grasp all the nuances of Keynesianism.

Headlines

- 3G spectrum price for a pan-India license at Rs 161.6bn. (BS)
- ABB makes an open offer to acquire 23% stake in its Indian arm ABB India at Rs 900/share (Total cost of $965mn). ABB's total stake in ABB India will increase from 52% to 75%. (ET)
- DLF plans to sell its 97% stake in Aman Resorts. DLF plans to raise Rs20bn from this stake sell. (ET)
- L&T's net profit for 4QFY10 up 44% YoY to Rs 14.4bn. (ET)
- Thermax Limited signs a 5 year technology transfer license with a German Engineering firm Lambion Energy Solutions to convert waste to energy. (BL)
- Tata Power offers to supply 200MW of power to Reliance Infra at the regulated rate till June 30th. (BS)
- Hindustan Motors plans to double its manufacturing capacity at its Thiruvallur plant by 2012 end. (BS)
- NTPC's net profit for 4QFY10 drops 5% YoY to Rs 20.2bn. (BS)
- Indian Railways Finance Corporation raises Rs 11bn via 25-year bonds at an semi-annualized coupon of 8.83%. (BS)
- Prudential Plc plans to sell AIG's 26% stake in Tata-AIG Life Insurance to Tatas. (FE)
- Shriram Transport Finance Company (STFC) plans to infuse around Rs6bn capital in its new subsidiary, which is expected to float in a month. (BS)
- GAIL India 4QFY10 net profit up 45% YoY to Rs9.1bn. (BS)

Sensex



HDFC securities

Institutional Research

Packaging

Bilcare

Q4FY10 Result Review

May 18, 2010

Recommendation	**BUY**
CMP	**519**
Target	**615**
Stock Return	**18.5%**

Nifty	5,060
Sensex	16,836

Key Stock Data

Sector	Packaging
Reuters Code	BILC.BO
BLOOMBERG Code	BIL IN
No. of Shares (mn)	22.7
Market Cap (Rs bn)	11.78
Market Cap ($ mn)	261.8
Avg. 6m Vol. (mn)	0.04

Stock Performance (%)

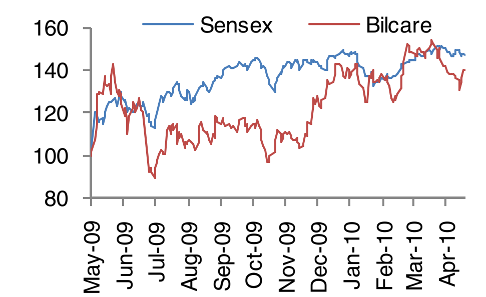
52 - Week high / low Rs 600/329

	3M	6M	12M
Absolute (%)	1.7	25.3	36.3
Relative (%)	-1.8	25.6	-3.3

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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Despite lower sales growth, Bilcare has posted excellent net profit growth for Q4FY10. Consolidated net sales grew by 10%YoY from Rs2.53bn to Rs2.77bn due to strong growth on domestic front and flat growth in global markets. The domestic and export businesses both contributed around 50% each during the quarter. The company's EBIDTA margin improved by 90bps from 25.1% to 26.0% mainly due to the decline in personnel expenses. Material cost increased marginally by 10bps from 55.7% to 55.8% of net sales. Personnel expenses declined by 220bps from 10.7% to 8.5% of net sales. Other expenses were up by 110bps from 8.6% to 9.7% of net sales due to the thrust on marketing. Bilcare's interest cost increased by 13% from Rs109m to Rs122m due to the rise in working capital. Net profit grew by 21% from Rs288m to Rs347m.

Revenues to rise by 35% in FY11 and 29% in FY12

We expect Bilcare to report 35% growth in net sales for FY11 and 29% for FY12 due to strong growth in the domestic business. We expect 57% increase in net profit for FY11 and 44% for FY12 due to strong top line growth and margin improvement. EBIDTA margin is expected to improve from 23.1% in FY10 to 23.6% in FY11 and further to 24.7% in FY12 due to the reduction in material cost and other expenses. We expect the company's RoCE to improve from 10.7% in FY10 to 17.5% in FY12. Its RoE is also likely to improve from 13.4% to 19.4% during the similar period.

FCCB buyback – strong financials

Out of $128m outstanding FCCBs, Bilcare has completed the buyback of $116m FCCBs ($26m of Bilcare India and $90m of Bilcare Singapore-its 100% subsidiary) thus leaving only $12m FCCBs in Bilcare India. Bilcare has borrowed $30m debt for FCCB buyback. Hence, the debt reduction due to the FCCB buyback is $86m ($116m-$30m). Moreover, the conversion price of FCCB in Bilcare India has been lowered from Rs704 to Rs483. The company has issued 7% exchangeable bonds to the existing FCCB holders for $54m in SPV. The debt: equity ratio has come down from 1.9 in FY09 to 0.6 in FY10.

BUY with a target price of Rs615

We expect Bilcare to report EPS of Rs76.8 for FY11 and Rs110.6 for FY12 (on fully diluted equity of Rs238m) due to the strong top line growth and margin improvement. At the CMP of Rs519, the stock trades at 6.8x FY11E EPS of 76.8 and 4.7x FY12E EPS of Rs110.6. We have BUY rating on the scrip with the target price of Rs615 (8xFY11 earnings), an upside of 18.4% over the next 12 months.

Particulars (Rs mn)	FY07	FY08	FY09	FY10	FY11E	FY12E
Revenues	4,079	6,507	8,560	10,475	14,090	18,180
Growth %	54%	60%	32%	22%	35%	29%
EBIDTA	991	1,435	1,865	2,418	3,332	4,499
EBIDTA margin (%)	24.3%	22.1%	21.8%	23.1%	23.6%	24.7%
Net profit	599	816	830	1,169	1,831	2,635
Net profit Growth (%)	54.2	36.1	1.8	40.9	56.6	44.0
EPS Rs.	25.1	34.2	34.8	49.1	76.8	110.6
P/E (x)	20.6	15.2	14.9	10.6	6.8	4.7
D/E (x)	1.2	1.8	1.9	0.6	0.4	0.2
RoCE %	9.7	8.3	7.9	10.7	13.6	17.5
RoE %	19.2	20.8	16.7	13.4	16.6	19.4

Source : HDFC Securities Institutional Research

Table 1: Valuations

Particulars	FY07	FY08	FY09	FY10	FY11E	FY12E
P/E (x)	20.6	15.2	14.9	10.6	6.8	4.7
Dividend yield %	0.8	0.8	0.5	0.4	0.6	0.6
P/BV (x)	2.4	2.2	1.8	1.3	1.1	0.9
EV/EBIDTA (x)	10.0	9.8	9.3	6.4	4.5	2.9
EV/Sales (x)	2.4	2.2	2.0	1.5	1.1	0.7
Market cap/sales (x)	1.8	1.3	1.0	1.1	0.9	0.7

Source : HDFC Securities Institutional Research

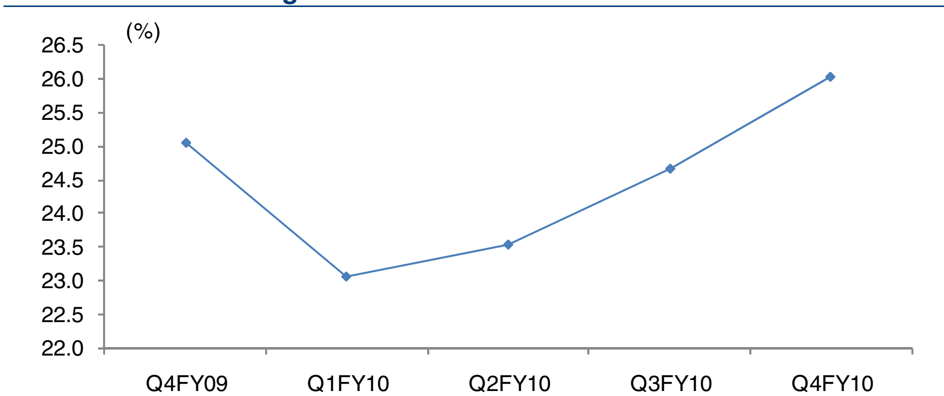
Result Highlights

- During the quarter, net sales grew by 10%YoY from Rs2.53bn to Rs2.77bn due to strong growth in the domestic and flat growth in export markets. The domestic growth was 19.5% whereas global business declined by 0.2%. The domestic growth of 19.5% was higher than the industry growth of 17% during the quarter. The global business suffered due to lower R & D spends for clinical trials by MNC pharma and biotech companies.
- EBITDA margin improved by 90bps from 25.1% to 26.0% mainly due to the decline in personnel expenses.
- Material cost grew marginally by 10bps from 55.7% to 55.8% of net sales. Personnel expenses declined by 220bps from 10.7% to 8.5% of net sales. Other expenses grew by 110bps from 8.6% to 9.7 of net sales due to thrust on marketing.
- Bilcare's depreciation declined marginally by 3% from Rs135m to Rs130m. Interest cost was up by 13% from Rs109m to Rs122m due to increase in working capital.
- Bilcare's net profit improved by 21%YoY from Rs288m to Rs347m. Its net margin improved by 110bps from 11.4% to 12.5%.

EBIDTA margin improves by 90bpsYoY to 26.0%

Bilcare's EBIDTA grew by 14%YoY from Rs634m to Rs721m. EBITDA margin improved by 90bps mainly due to the decline in personnel expenses .The company's EBIDTA margin for the last 5 quarters is indicated in the following graph:

Chart 1: EBIDTA margins

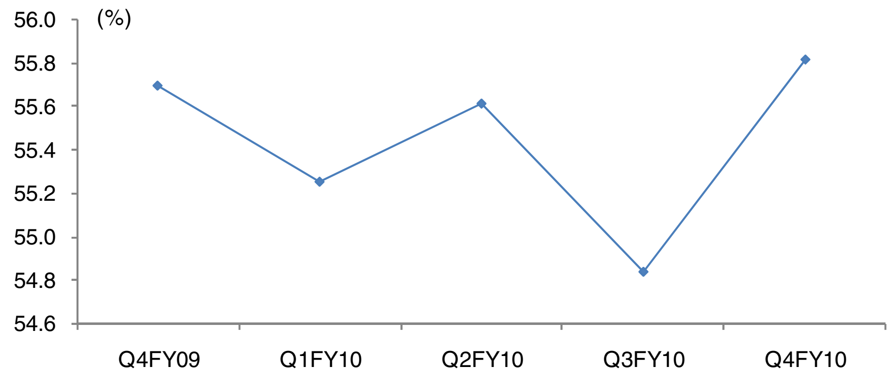


Source : HDFC Securities Institutional Research

As shown in the above graph, the company's EBIDTA margin dropped from 25.1% in Q4FY09 to 23.1% in Q1FY10. The margin improved to 24.7% in Q3FY10 and further improved to 26% indicating a 130bps QoQ improvement.

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

Chart 2: Material Cost



Source : HDFC Securities Institutional Research

The company's material cost declined from 55.7% in Q4FY09 to 55.3% in Q1FY10. It increased to 55.6% in Q2FY10 but fell to 54.8% in Q3FY10. It increased to 55.8% in Q4FY10 indicating a rise of 100bps QoQ.

Adjusted PAT grows by 21%YoY

Bilcare's PAT grew by 21%YoY from Rs288m to Rs347m due to margin improvement.

Outlook

On a strong growth path

Bilcare is on a strong growth path. The company's PPI business has reported 19.5% growth in the domestic market, higher than the industry growth of 17% during the quarter. The global business was flat during the quarter due to lower R & D budgets for clinical trials. 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 see good growth, as most MNC pharma companies are likely to increase 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 32m US population in the healthcare schemes.

Valuation

We expect Bilcare to report 35% growth in net sales for FY11 and 29% for FY12. We expect 57% increase in net profit for FY11 and 44% for FY12. We expect EBIDTA margin to improve from 23.1% in FY10 to 23.6% in FY11 and further to 24.7% in FY12 due to the reduction in material cost and other expenses. We expect the company's RoCE to improve from 10.7% in FY10 to 17.5% in FY12. Its RoE is also likely to improve from 13.4% to 19.4% during the similar period.

We expect Bilcare to report EPS of Rs76.8 for FY11 and Rs110.6 for FY12 (on fully diluted equity of Rs238m) due to strong top line growth and margin improvement. At the CMP of Rs519, the stock trades at 6.8x FY11E EPS of 76.8 and 4.7x FY12E EPS of Rs110.6. We have a BUY rating on the scrip with the target price of Rs615 (8xFY11 earnings), an upside of 18.4% over the next 12 months.

Table 2: Q4FY10 and FY10 results-Consolidated

PARTICULARS (Rs mn)	Q4FY10 MAR.10	Q4FY09 MAR.09	YoY Gr%	Q3FY10 DEC.09	QOQ Gr%	FY10 MAR.10	FY09 MAR.09	YoY Gr%
Net sales	2,773	2,528	*9.7*	2,813	*-1.4*	10,655	8,637	*23.4*
Expenditure								
Raw materials	1,548	1,408	*9.9*	1,543	*0.3*	5,901	4,744	*24.4*
as % of net sales	55.8	55.7		54.8		55.4	54.9	
Personnel expenses	236	270	*(12.8)*	263	*-10.4*	968	863	*12.1*
as % of net sales	8.5	10.7		9.4		9.1	10.0	
Other expenses	268	216	*24.1*	314	*-14.5*	1,190	1,088	*9.4*
as-% of net sales	9.7	8.6		11.2		11.2	12.6	
Total Expenditure	2,052	1,895	*8.3*	2,120	*-3.2*	8,058	6,695	*20.4*
EBIDTA	721	634	*13.9*	694	*4.0*	2,597	1,942	*33.7*
EBIDTA Margin (%)	26.0	25.1		24.7		24.4	22.5	
Other income	0	0		-		0	0	
PBDIT	721	634	*13.9*	694	*4.0*	2,597	1,942	*33.7*
Depreciation	130	135	*(3.3)*	143	*-8.9*	537	378	*41.8*
Interest	122	109	*12.5*	114.9	*6.4*	439	393	*11.8*
PBT	469	390	*20.2*	435	*7.6*	1,621	1,171	*38.4*
Prov. For tax	121	102	*18.9*	122	*-0.2*	453	342	*32.5*
% of PBT	25.9	26.2		27.9		27.9	29.2	
PAT	347	288	*20.7*	314	*10.7*	1,168	829	*40.8*
Profit share/Minority interest	-	-		-		-	-	
Reported PAT	347	288	*20.7*	314	*10.7*	1,168	829	*40.8*
Equity capital	227	227	-	227	*0.0*	227	227	0.0
EPS Rs.(Rs.10 Paid up)	15.3	12.7	*20.7*	13.8	*10.7*	51.5	36.6	*40.8*

Source: Company, HDFC Securities Institutional Research