HDFC securities
Institutional Research

Morning Note
August 19, 2010

Indices	Last Close	% Chg 1-d	% Chg mtd
Sensex	18,257	1.2	2.2
Nifty	5,479	1.2	2.1
CNX 500	4,601	0.9	2.8
BSE Bank	12,389	1.2	7.4
BSE IT	5,568	2.0	1.7
BSE Oil & Gas	10,073	0.3	(0.9)
Dow Jones	10,416	0.1	(0.5)
Nasdaq	2,216	0.3	(1.7)
FTSE	5,303	(0.9)	0.9
DAX	6,186	(0.3)	0.6

Mkt Breadth	Advance	Decline	Unchanged
Nifty	35	15	0
Sensex	22	8	0

Turnover	INR Bn	% Chg
BSE Cash	55	10.5
NSE Cash	154	4.0
NSE F&O	1,057	32.8
Total	1,266	

Fund Flows	US $ mn	MTD	YTD
FII Equity	NA	1,241	11,718
DIIs	(86)	(678)	472

Forex/Bond	Last Close	Chg 1-d	Chg mtd
INR/USD	46.58	(0.08)	0.10
USD/EUR	1.285	(0.00)	(0.02)
YEN/USD	85.5	(0.07)	(1.01)
10 yr G-Sec	7.95	0.06	0.13

Commodities	Last Close	% Chg 1-d	% Chg MTD
Brent ($/bbl)	76.5	(0.6)	(2.6)
Gold ($/oz)	1,229	0.4	4.1
Copper ($/mt)	7,390	0.1	1.3
Aluminium ($/mt)	2,105	(2.0)	(3.2)

Most Traded

Scrip	Last Close	% chg	Value*
Tata Motors	1,048	4.1	8.4
Bajaj Corp	759	15.0	7.4
Reliace Inds	965	(0.6)	6.7
SBI	2,815	(0.1)	5.5
HDFC Bank	2,192	3.3	4.5

* INR Bn.

ADR GDR

Scrip	Last Close*	% chg	% Prem.
Dr Reddy's	29.0	0.7	0.8
HDFC Bank	166.5	4.5	17.9
ICICI Bank	41.8	0.5	0.5
ITC	3.5	2.2	0.3
Infosys	60.4	1.2	0.2
Satyam	4.7	(0.2)	28.0
Ranbaxy	10.3	4.8	1.8
Reliance	41.8	(0.9)	0.9
Wipro	13.6	1.2	50.7
SBI	121.8	1.5	0.7
Tata Motors	22.5	(1.1)	(0.1)

* US$

Contents

From the Blogosphere

The Big Picture: Do US Bonds Resemble Dot Com Stocks? (Source)

Over the past few months, I have been saying US Treasuries remind me of the dot com stocks circa 1997-98 in three ways:

1) You *knew* momentum was taking them (much) higher;
2) You *knew* it was going to end badly;
3) If you were honest, you admitted you had *precisely zero idea* when the day of reckoning would be.

What made the dot com situation so pernicious was that anyone who was judged on relative performance (i.e., Mutual fund managers), were all but forced into these names in order to keep up. Very few people — Buffett and Grantham come to mind — manged to both avoid both chasing these names and losing their client base.

Here is Dave Wilson:

"U.S. bonds may be just as vulnerable to a plunge as stocks were a decade ago, when the Internet bubble burst, according to Tobias Levkovich, Citigroup Inc.'s chief U.S. equity strategist.

The CHART OF THE DAY depicts how an index of monthly returns on 10-year Treasury notes since 2000, as compiled by Ryan Labs, compares with a total-return version of the Standard & Poor's 500 Index from 1990 through 2005. The latter gauge peaked in August 2000 and tumbled 38 percent in the next two years.

About $561 billion has flowed into bond funds since the beginning of last year, according to data from the Investment Company Institute. Stock funds, by contrast, had a $42 billion outflow during the period."

CFO Magazine: Where's Corporate Cash? In the Bank (Source)

Two out of every five dollars companies have in their short-term balance are placed in bank accounts, according to a survey of finance and treasury executives.

Over the past year, treasurers and CFOs have increasingly pursued the corporate equivalent of putting their money under the mattress: placing most of their outfit's short-term cash in bank deposits, rather than in such things as commercial paper, Eurodollar deposits, or even treasury mutual funds or T-bills.

Indeed, two out of every five dollars companies have in their short-term balance are placed in bank accounts. Corporations have been depositing about 42% of their company's short-term cash deposits in bank accounts this year, compared with 37% in 2009 and 25% in 2008, according to a recently released survey of 337 senior finance and treasury officials conducted by the Association for Financial Professionals.

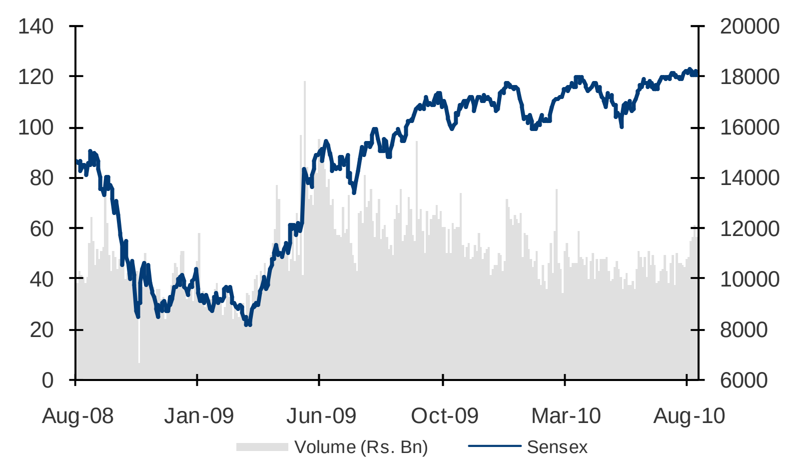
In contrast, investments in mutual funds invested solely in Treasuries markets dove to about 9% this year from 16% in 2009; investments in Treasury bills themselves were off slightly, to 8% from 9%; Eurodollar deposits sunk to 3% from 6%; and commercial paper dropped to 3% from 4%.

Overall, companies are putting about 74% of their short-term cash into "three safe and liquid vehicles": banks, money market mutuals, and U.S. Treasury securities, according to the AFP report on the survey. During the 2006 reporting period, in contrast, they socked away just 56% of their short-term cash there, "indicating they had more confidence in higher yielding investment alternatives."

Headlines

- SEBI has proposed to double the investment limit for retail investors in public offering to Rs 2 lakh for each application. (ET)
- Blackstone has bought a minority stake in Moser Baer Projects for Rs13.5bn. Moser Baer Projects plans to utilize funds to set up power projects in India. (ET)
- ONGC seeks operators' status for Cairn India's Rajasthan oilfields, which will allow it to manage the exploration and production activities in the field. (FE)
- Tata Motors plans to raise $700-750mn through issue of shares with differential voting rights. (ET)
- SREI Infocom plans to buy 60% stake in Luxembourg based Millicom's tower assets in Tanzania for around Rs 4bn. (FE)
- China's Huaneng Group plans to buy 50% stake in Massachusetts-based power utility firm InterGen from GMR Infrastructure for $1.4bn. (ET)
- Kingfisher Airlines defaults on depositing passenger service and airport development fees to Mumbai International Airport Ltd. The dues are estimated to be around Rs 500mn. (FE)
- Arshiya International plans to invest Rs75bn over three years on warehousing, distriparks and railway infrastructure. (ET)
- Trent plans to open seven hypermarkets in the current year as part of its plan to open 50 hypermarkets in the next three years with an investment of Rs1.7bn. (ET)
- Tata Motors is reportedly planning to set up a Rs12bn plant in Mexico with capacity of 100,000 cars. (Mint)
- Punjab National Bank plans to offer home loans up to Rs 5mn at 8.5% fixed rate for three years across all repayment tenors. (Mint)

Sensex



Packaging

Bilcare

Q1FY11 Result Review

August 19, 2010

Recommendation	**BUY**
CMP	**511**
Target	**615**
Stock Return	**20.3%**

Nifty	5,479
Sensex	18,257

Key Stock Data	
Sector	Packaging
Reuters Code	BILC.BO
BLOOMBERG Code	BIL IN
No. of Shares (mn)	22.7
Market Cap (Rs bn)	11.6
Market Cap ($ mn)	249
Avg. 6m Vol. (Rs mn)	21

Stock Performance (%)

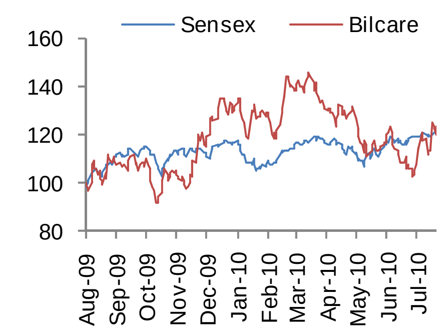
52 - Week high / low Rs 600/352

	3M	6M	12M
Absolute (%)	5.7	3.4	29.9
Relative (%)	-5.6	-9.3	6.6

Shareholding Pattern	**(%)**
Promoters	35.4
FIs & Local MFs	1.9
FIIs	5.2
Public & Others	57.5

Source: Company

Sensex and Stock Movement



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Bilcare has posted excellent results for Q1FY11. Consolidated net sales grew by 27%YoY from Rs2.42bn to Rs3.07bn due to strong growth in global markets. Domestic sales grew by 21%YoY whereas global revenues grew by 35%YoY. The company's EBIDTA margin improved by 180bps from 23.1% to 24.9% mainly due to a decline in other expenses. Material cost increased by 70bps from 55.3% to 56.0% of net sales. Personnel expenses went up by 30bps from 9.2% to 9.5% of net sales. Other expenses declined by 280bps from 12.4% to 9.6% of net sales due to its global operations reaching a steady state. Bilcare's interest cost went up by 75% from Rs97m to Rs169m due to the rise in working capital and increase in interest rates. Net profit grew by 34% from Rs228m to Rs307m.

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. Net profit is set to increase 57% in FY11 and 44% in FY12. EBIDTA margin should improve from 23.1% in FY10 to 23.6% in FY11 and to 24.7% in FY12 due to reduction in material cost and other expenses. The company's RoCE is expected to improve from 10.7% in FY10 to 17.5% in FY12 and its RoE from 13.4% to 19.4% in the same period.

FCCB buyback – healthy 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 FDDCs in Bilcare India. Bilcare had 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 FY10 to 0.6 in FY10.

BUY with 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 strong top line growth and margin improvement. At the CMP of Rs511, the stock trades at 6.7x FY11E EPS of 76.8 and 4.6x FY12E EPS of Rs110.6. We have a BUY rating on the scrip with a target price of Rs615 (8xFY11 earnings), an upside of 20.3% over the next 12 months.

Table 1: Financials

Particulars (Rs mn)	FY08	FY09	FY10	FY11E	FY12E
Revenues	6,507	8,560	10,475	14,090	18,180
Growth (%)	60%	32%	22%	35%	29%
EBIDTA	1,435	1,865	2,418	3,332	4,499
EBIDTA margin (%)	22.1%	21.8%	23.1%	23.6%	24.7%
Net profit	816	830	1,169	1,831	2,635
Net profit Growth (%)	36.1	1.8	40.9	56.6	44.0
EPS (Rs.)	34.2	34.8	49.1	76.8	110.6
P/E (x)	14.9	14.7	10.4	6.7	4.6
D/E	1.8	1.9	0.6	0.4	0.2
RoCE (%)	8.3	7.9	10.7	13.6	17.5
RoE (%)	20.8	16.7	13.4	16.6	19.4

Source: Company, HDFC Securities Institutional Research

Table 2: Valuations

Particulars	FY08	FY09	FY10E	FY11E	FY12E
P/E (x)	14.9	14.7	10.4	6.7	4.6
Dividend yield (%)	0.8	0.5	0.4	0.6	0.7
P/BV	2.1	1.8	1.3	1.1	0.9
EV/EBIDTA	9.7	9.2	6.3	4.4	2.9
EV/Sales	2.1	2.0	1.5	1.1	0.7
Market cap/sales	1.3	1.0	1.1	0.9	0.7

Source: Company, HDFC Securities Institutional Research

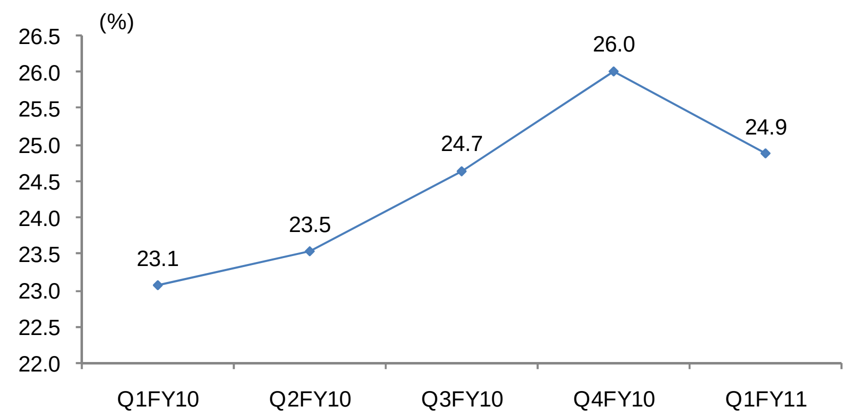
Result Highlights

- In the quarter, net sales grew by 27%YoY from Rs2.42bn to Rs3.07bn due to strong growth in global markets. Domestic growth was 21%YoY whereas global business grew by 35%YoY. Global business has started picking up and this is reflected in the financials.
- EBITDA margin improved by 180bps from 23.1% to 24.9% mainly due to the decline in other expenses.
- Material cost went up by 70bps from 55.3% to 56.0% of net sales due to a change in product mix. Personnel expenses grew by 30bps from 9.2% to 9.5% of net sales. Other expenses declined by 280bps from 12.4% to 9.6% of net sales due to global operations reaching a steady state.
- Bilcare's depreciation was up by 22% from Rs131m to Rs160m due to the expansion of manufacturing facilities. Interest cost was up by 75% from Rs97m to Rs169m due to increase in working capital and higher interest rates.
- Net profit improved by 34%YoY from Rs228m to Rs307m. It's net margin improved by 60bps from 9.4% to 10.0%.

EBIDTA margin improves by 180bpsYoY to 24.9%

Bilcare's EBITDA grew by 37%YoY from Rs558m to Rs765m. EBITDA margin improved by 180bps mainly due to the decline in other expenses .The company's EBIDTA margin for the last 5 quarters is shown in the following graph:

Chart 1: EBIDTA margin



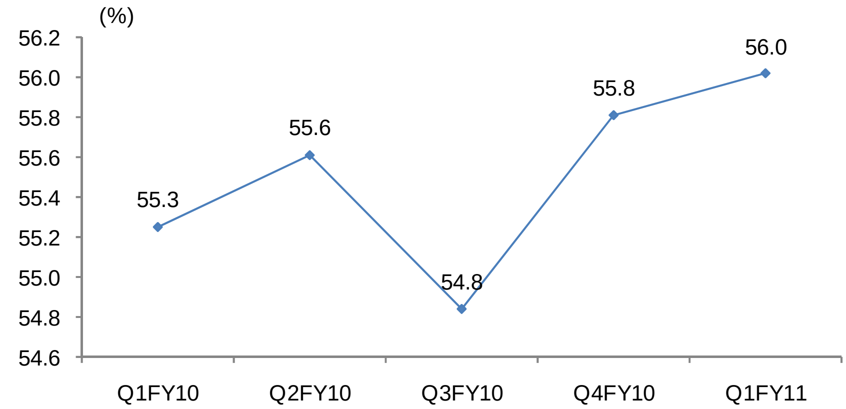
Source : HDFC Securities Institutional Research

As shown in the above graph, the company's EBIDTA margin improved gradually from 23.1% in Q1FY10 to 26.0% in Q4FY10. It then declined to 24.9% in Q1FY11 a drop of 110bps QoQ.

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

The company's material cost increased from 55.3% in Q1FY10 to 55.6% in Q2FY10 but fell to 54.8% in Q3FY10. It increased to 55.8% in Q4FY10 and to 56.0%, a rise of 20bps QoQ.

Chart 2: Material cost



Source : HDFC Securities Institutional Research

Net profit grows by 34%YoY

Bilcare's PAT grew by 34%YoY from Rs228m to Rs307m due to strong sales growth and margin improvement.

Outlook

On a strong growth path

Bilcare is on a strong growth path. The company's PPI business has reported 21% growth in the domestic market, higher than industry growth of 18% in the quarter. The global business grew by 35% in the quarter due to improvement in the global environment. With the expiry of patents of many blockbuster drugs, the use of generics will increase. Bilcare is set 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 grow faster due to the inclusion of 32m US population in healthcare schemes.

NST successfully applied across industries

For enhancing the presence in anti-counterfeit solutions, Bilcare acquired Singular ID-a Singapore based technology innovator company for $15m (Rs705m) in Dec'07. The company's Nonclonable Securities Technology (NST) is successfully applied as anti counterfeit measure across all manufacturing industries. The technology finds applications in pharma, FMCG, agrochemicals, white goods, automobiles, financial & document securitization, currency notes, fashion garments and art segments. NST helps the customers to verify the authenticity of the products with the help of point-of-sale authentication devices. It also allows tracking the goods throughout the supply chain.

Currently, Bilcare's NST has been embedded in products of reputed pharma and agrochemical companies including Ranbaxy Labs, Panacea Biotec, Merck, Mankind, Jubilant Organosys and Indofil Chemicals.

Application of NST to non-pharma applications

Bilcare has successfully applied the NST to the following non-pharma applications:

- Indofil Chemicals, a reputed agrochemical manufacturer as an anti-counterfeit measure
- An automobile ancillary manufacturer of Europe
- Document publishing company in the US as a security measure
- Delhi Police for identity cards
- Singapore Heritage Board (Museum)
- Sanden Corporation, Singapore
- FMCG company in Europe
- Wine manufacturer of the US
- Security Force of President of Indonesia

Telecommunication Consultants of India (TCIL)m, a Government of India Enterprise has signed an MoU with Bilcare for its diverse security needs of technology projects within and outside India.

Ineos acquisition

Bilcare, the leading player in PPI and GCS has acquired Ineos Group's Global Films business. The acquisition has been done through Bilcare AG, the step down subsidiary of Bilcare. The acquired business has sales of Rs14.58bn (Euro 240m), higher than Bilcare's consolidated FY10 revenues of Rs10.5bn. The acquisition was done at Rs6.07bn (Euro100m) at 0.42x sales. Ineos films is one of the leading global manufacturers of high quality rigid PVC films with a customer base of over 2,000 located across various industries. Ineos films division employs 1,300 people with sites in US, Germany, Italy and India.

Acquisition to bring new customers

Bilcare has currently 400 pharma customers located in India and globally. The Ineos acquisition will bring additional 2,000 global customers with their long-standing relationship. Ineos has had relationships of over 20 years with big pharma companies, which Bilcare can capitalize on. Ineos plays a major role in pharma packaging, films for printing & decoration, shrink film for sleeves, capsules, credit cards and identity cards. Ineos global films have production capacity of 140,000 tpa of films spread across various countries. Ineos Films is the only integrated rigid film producer in Europe and offers most cost effective solutions.

Financials

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NST likely to boost profitability

Any positive development on the NST front is likely to improve the sales and profitability of the company, as NST enjoys very high margins.

We have not taken NST revenues in our projections for FY11 and FY12. Any upside from this business will be in addition to our estimates.

Valuation

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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 Rs511, the stock trades at 6.7x FY11E EPS of 76.8 and 4.6x FY12E EPS of Rs110.6. We have a BUY rating on the scrip with the target price of Rs615 (8xFY11 earnings), an upside of 20.3% over the next 12 months.

Table 3: Q1FY11 results-consolidated

PARTICULARS (Rs mn)	Q1FY11 JUN.10	Q1FY10 JUN.09	YoY Gr%	Q4FY10 MAR.10	QOQ Gr%	FY10 MAR.10	FY09 MAR.09	YoY Gr%
Net sales	3,074	2,418	*27.1*	2,773	10.8	10,655	8,637	*23.4*
Expenditure								
Raw materials	1,722	1,336	*28.9*	1,548	11.2	5,901	4,744	*24.4*
as % of net sales	56.0	55.3		55.8		55.4	54.9	
Personnel expenses	293	223	*31.1*	236	24.2	968	863	*12.1*
as % of net sales	9.5	9.2		8.5		9.1	10.0	
Other expenses	295	301	*(2.0)*	268	9.8	1,190	1,088	*9.4*
as-% of net sales	9.6	12.4		9.7		11.2	12.6	
Total Expenditure	2,309	1,860	*24.2*	2,052	12.5	8,058	6,695	*20.4*
EBIDTA	765	558	*37.1*	721	6.0	2,597	1,942	*33.7*
EBIDTA Margin (%)	24.9	23.1		26.0		24.4	22.5	
Other income	0	0	*NA*	-	*NA*	0	0	*NA*
PBDIT	765	558	*37.1*	721	6.0	2,597	1,942	*33.7*
Depreciation	160	131	*21.7*	130	22.3	537	378	*41.8*
Interest	169	97	*74.7*	122	38.3	439	393	*11.8*
PBT	436	330	*32.2*	469	-7.0	1,621	1,171	*38.4*
Prov. For tax	129	101	*27.4*	121	6.5	453	342	*32.5*
% of PBT	29.6	30.7		25.9		27.9	29.2	
PAT	307	228	*34.3*	347	-11.7	1,168	829	*40.8*
Profit share/Minority interest	-	-	*NA*	-	NA	-	-	*NA*
Reported PAT	307	228	*34.3*	347	-11.7	1,168	829	*40.8*
Equity capital	227	227	-	227	0.0	227	227	0.0
EPS Rs.(Rs.10 Paid up)	13.5	10.1	*34.3*	15.3	-11.7	51.5	36.6	*40.8*

Source: Company, HDFC Securities Institutional Research