HDFC securities
Institutional Research

Morning Note

August 04, 2010

Indices	Last Close	% Chg 1-d	% Chg mtd
Sensex	18,115	0.2	1.4
Nifty	5,440	0.2	1.3
CNX 500	4,536	0.3	1.4
BSE Bank	11,929	1.0	3.4
BSE IT	5,463	(0.5)	(0.2)
BSE Oil & Gas	10,334	0.7	1.7
Dow Jones	10,636	(0.4)	1.6
Nasdaq	2,284	(0.5)	1.3
FTSE	5,396	(0.0)	2.6
DAX	6,308	0.3	2.6

Mkt Breadth	Advance	Decline	Unchanged
Nifty	22	28	0
Sensex	14	16	0

Turnover	INR Bn	% Chg
BSE Cash	44	11.8
NSE Cash	131	11.7
NSE F&O	578	-6.2
Total	753	

Fund Flows	US $ mn	MTD	YTD
FII Equity	187	NA	10,664
DIIs	(37)	NA	1,112

Forex/Bond	Last Close	Chg 1-d	Chg mtd
INR/USD	46.15	0.14	(0.33)
USD/EUR	1.323	0.01	0.02
YEN/USD	85.8	(0.71)	(0.68)
10 yr G-Sec	7.85	(0.01)	0.03

Commodities	Last Close	% Chg 1-d	% Chg MTD
Brent ($/bbl)	82.7	2.3	5.8
Gold ($/oz)	1,186	0.3	0.4
Copper ($/mt)	7,425	(1.1)	7.0
Aluminium ($/mt	2,204	(0.6)	7.9

Most Traded

Scrip	Last Close	% chg	Value*
ICICI Bank	962	2.4	7.3
Jubilant Food	420	13.6	5.7
Reliance Inds	1,028	1.3	5.5
SBI	2,601	0.5	5.5
Adani Enterp	623	2.2	4.0

* INR Bn.

ADR GDR

Scrip	Last Close*	% chg	% Prem.
Dr Reddy's	29.5	0.5	(0.7)
HDFC Bank	161.7	(2.2)	17.2
ICICI Bank	41.6	0.6	(0.1)
ITC	6.8	1.9	100.1
Infosys	62.6	2.1	3.8
Satyam	5.0	2.9	31.7
Ranbaxy	9.8	(3.5)	0.6
Reliance	44.6	(0.2)	0.0
Wipro	13.8	0.9	54.0
SBI	113.0	(0.7)	0.3
Tata Motors	19.5	0.3	6.7

* US$

Contents

From the Blogosphere

Reuters: JGB 10-year yield hits 7-year low below 1 pct (Source)

The benchmark 10-year Japanese government bond yield hit a seven-year low below 1.0 percent on Wednesday as a rising yen reinforced worries about the economy and persistent deflation. JGB yields have dropped this year despite record levels of debt issuance to the market, with bonds supported by strong demand from domestic banks that have surplus cash due to sluggish corporate demand for bank lending. The latest impetus for the JGB rally comes from a run of disappointing U.S. data that has reinforced concerns the U.S. economic recovery is losing steam, sparking a renewed rally in U.S. Treasuries and pushing the dollar towards its lowest levels against the yen since 1995. Still, worries about longer-term risks to JGBs persist. With Japan's savings rate in decline as the population ages, fears are growing that the government may eventually have to rely more on foreign investors to fund its debt and that JGBs could face the risk of a sharp sell-off in the future. The 10-year JGB yield slid to as low as 0.995 percent JP10YTN=JBTC, down 4 basis points on the day, and its lowest in seven years.

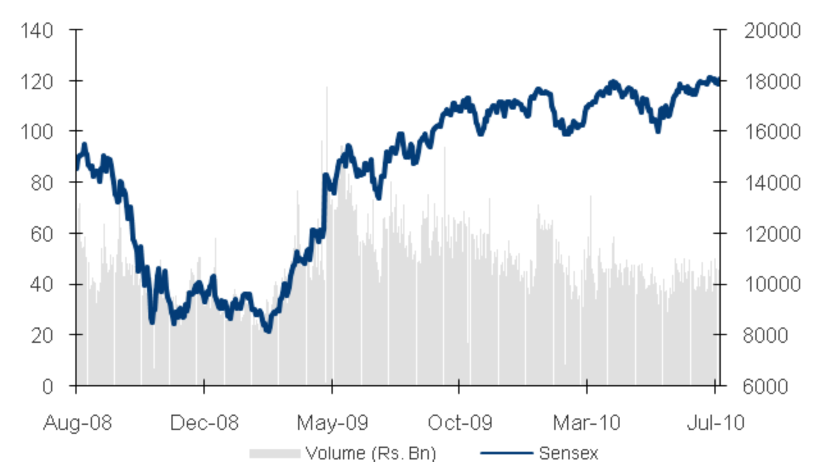
Marketwatch: The Biggest Lie About U.S. Companies (Source)

You may have heard recently that U.S. companies have emerged from the financial crisis in robust health, that they've paid down their debts, rebuilt their balance sheets and are sitting on growing piles of cash they are ready to invest in the economy. It all sounds wonderful for investors and the U.S. economy. There's just one problem: It's a crock. American companies are not in robust financial shape. Federal Reserve data show that their debts have been rising, not falling. By some measures, they are now more leveraged than at any time since the Great Depression. You'd think someone might have noticed something amiss. After all, we were simultaneously being told that companies (a) had more money than they know what to do with; (b) had even more money coming in due to a surge in profits; yet (c) they have been out in the bond market borrowing as fast as they can. A look at the facts shows that companies only have "record amounts of cash" in the way that Subprime Suzy was flush with cash after that big refi back in 2005. So long as you don't look at the liabilities, the picture looks great. According to the Federal Reserve, nonfinancial firms borrowed another $289 billion in the first quarter, taking their total domestic debts to $7.2 trillion, the highest level ever. That's up by $1.1 trillion since the first quarter of 2007; it's twice the level seen in the late 1990s. Central bank and Commerce Department data reveal that gross domestic debts of nonfinancial corporations now amount to 50% of GDP. That's a postwar record. In 1945, it was just 20%. Even at the credit-bubble peaks in the late 1980s and 2005-06, it was only around 45%. That U.S. companies are in worse financial shape than we're being told is clearly bad news for those thinking of investing in U.S. stocks or bonds, as leverage makes investments riskier. Clearly it's bad news for jobs and the economy.But why is this line being spun about healthy balance sheets? For the same reason we're told other lies, myths and half-truths: Too many people have a vested interest in spinning, and too few have an interest in the actual picture.

Headlines

- The Adani Group plans to invest $25-30bn in coal, power & shipping business over next seven years. (Mint)
- Godrej plans an expansion in its chemical and agri businesses at an investment of Rs3bn. (ET)
- Tata Capital plans to set up a private equity fund in Singapore in partnership with Japan's Mizuho Securities Co. Ltd (Mint)
- Apollo Hospitals Enterprise Ltd is in talks with private equity firms to raise a part of Rs30bn for its expansion. (Mint)
- Union Bank of India is in the process of raising $350-500mn in bonds with a five and a half year maturity from the overseas market. (Mint)
- Piramal Healthcare Ltd plans to enter the insurance sector in both life and non-life segment. (Mint)
- Ashok Leyland reported a 66% rise in July commercial vehicle sales at 6,747 units. (Mint)
- Hindalco's net profit for 1QFY11 up 11% YoY to Rs5.34bn. (ET)
- NMDC's net profit for 1QFY11 up 94% YoY to Rs15bn. (FE)
- Punj Lloyd reported a net loss of Rs300mn for the 1QFY11 as compared to a profit of Rs1.27bn for 1QFY10. (ET)
- Cognizant Technology Solutions Corporation reported a 22% increase in its net profit at $172.2mn for second quarter ended June 30. (BS)
- SKS Microfinance fixes the issue price of its initial public offer at Rs985 per share with a Rs50 discount to retail investors. (BS)

Sensex



Acquisition of Ineos Film Division

August 04, 2010

Recommendation	**BUY**
CMP	**488**
Target	**615**
Stock Return	**25.9**

Nifty	5,440
Sensex	18,115

Key Stock Data

Sector	Packaging
Reuters Code	BIL BO
BLOOMBERG Code	BILC IN
No. of Shares (mn)	22.7
Market Cap (Rs bn)	11.1
Market Cap ($ mn)	240
6 mth avg traded value (Rs. mn)	18

Stock Performance (%)

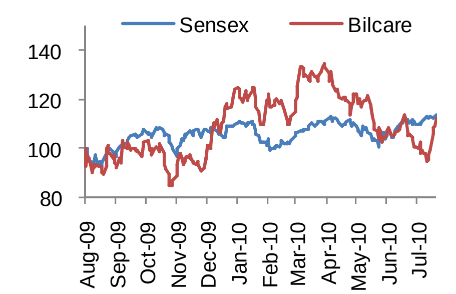
52 - Week high / low Rs 600/352

	3M	6M	12M
Absolute (%)	-6.4	-5.2	14.4
Relative (%)	-10.6	-15.0	0.6

Shareholding Pattern	**(%)**
Promoters	35.4
FIs & Local MFs	1.9
FIIs, GDR	18.1
Public & Others	44.6

Source: Company

Sensex and Stock Movement



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Bilcare, the leading player in Pharma Packaging Innovations (PPI) and Global Clinical Supplies (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 manufacturer 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 over 20 year's relationship with big pharma, which Bilcare is likely to capitalize. 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.

Entry into non-pharma business

The Ineos acquisition will help Bilcare to enter into non-pharma businesses namely security cards, credit cards, FMCG and cosmetic packaging, Furniture, medical devices packaging, posters and display, office stationery, ovenable packaging trays, shrink sleeves, wine bottle packaging etc. The acquisition will help Bilcare to expand its horizons to become a leading global packaging supplier across various industries.

BUY with a target price of Rs615

We expect the company 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. The stock currently trades at 6.4xFY11E and 4.4x FY12E. We maintain BUY recommendation and a target price of Rs615 (8x FY11 EPS) with an upside of 25.9% over the next 12m.

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)	14.3	14.0	9.9	6.4	4.4
D/E (x)	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 : HDFC Securities Institutional Research

Table 2: Valuations

Particulars	FY08	FY09	FY10	FY11E	FY12E
P/E (x)	14.3	14.0	9.9	6.4	4.4
Dividend yield (%)	0.9	0.5	0.5	0.6	0.7
P/BV (x)	2.0	1.7	1.3	1.1	0.9
EV/EBIDTA (x)	9.4	9.0	6.1	4.3	2.8
EV/Sales (x)	2.1	2.0	1.4	1.0	0.7
Market cap/sales (x)	1.2	1.0	1.1	0.8	0.6

Source : HDFC Securities Institutional Research

Acquisition to bring new customers

The Ineos acquisition will bring additional 2,000 global customers with their long-standing relationship

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 over 20 year's relationship with big pharma, which Bilcare is likely to capitalize. 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

Profit making business

Ineos film business generates EBIDTA comparable with other global players.

Ineos film business generates EBIDTA comparable with other global players in similar business. For Ineos Group, the film business was a non-core business contributing 0.7% to its consolidated revenues with staff strength of 1,300 people (8% of total).

Acquisition details

The acquisition is done through Bilcare AG, Germany a step down subsidiary of Bilcare for Rs6.07bn (euro 100m).

Ineos has over 20 years relationship with big pharma, which will help Bilcare to expand its global PPI and GCS businesses.

The acquisition is done by negotiations between the executives of the two companies without involving any investment banker.

Bilcare has acquired Ineos Global Films division. The details are as follows:

- The acquisition is done through Bilcare AG, Germany a step down subsidiary of Bilcare for Rs6.07bn (euro 100m).
- The Ineos Global Film division has sales of Rs14.58bn (euro 240m). Hence, the acquisition was done at 0.42x sales.
- The acquisition is likely to be done through internal accruals and raising debt in the German subsidiary.
- The acquisition includes global film business, assets and personnel in N. America, Europe and Asia.
- Ineos Global Film group holds 51% stake in Caprihans India (CIL). CIL manufactures rigid PVC films in India and has reported sales of Rs1.7bn and net profit of Rs50m.
- With this acquisition, CIL will become subsidiary of Bilcare.
- The acquired business will merge with the German subsidiary and hence the takeover guidelines for CIL are not triggered.
- The acquired division has EBIDTA margin comparable to other global players in the similar business.
- Ineos has over 20 years relationship with big pharma, which will help Bilcare to expand its global PPI and GCS businesses.
- Ineos film business has a customer base of over 2,000. This has resulted in expanding Bilcare's customer base of 400.Moreover, Ineos has multiyear contracts with its major customers resulting in a sustainable business.
- The acquisition is done by negotiations between the executives of the two companies without involving any investment banker. This has resulted in a substantial saving for the Bilcare.

- The acquisition will give Bilcare an entry into non-pharma segments such as foods, FMCG, credit cards, security cards, furniture, packaging & decoration, medical appliances packaging etc.
- Ineos film division employs 1,300 people and reported sales of 0.7% of Ineos Group sales and hence it was not a focus area for Ineos as Ineos focuses its attention on the large scale petrochemicals businesses.
- The group has 15 manufacturing facility spread across Germany, Italy, US and India with a capacity of 140,000 tpa of rigid films.
- Ineos films is the only integrated rigid film producer in Europe.
- The acquisition provides a very strong strategic fit and brings together the complimentary capabilities and synergies of two leading global businesses.

INEOS Group

The group has reported global sales of $47bn (Rs2,160bn) and employs 15,500 people globally.

- Ineos is one of the largest global manufacturers of petrochemicals, specialty chemicals and oil products and comprising of 15 businesses. The group has reported global sales of $47bn (Rs2,160bn) and employs 15,500 people globally.
- The film business was a non-core business for Ineos as it had sales of 0.7% of global sales employing 1,300 people (8% of total).
- The group has presence in businesses such as ABS plastics, chlorvinyl, biodiesel, melamine, acrylonitrile, Polymers, ethylene oxide, phenol, styrene etc,
- The group has 60 manufacturing plants spread across 13 countries with 57mn tonnes capacity.

Caprihans India

CIL is one of the largest manufacturers of PVC films in India and has expertise of over 35 years in packaging.

- CIL is one of the largest manufacturers of PVC films in India and has expertise of over 35 years in packaging.
- The company manufactures wide range of PVC films both flexible and rigid made from polymers like ABS, PP, HDPE and rigid PVC. These films find use in stationery, printing and toy markets in India.
- CIL is part of Ineos Films Group worldwide holding 51% stake in the company.
- The company has manufacturing units at Thane and Nashik.
- CIL reported sales of Rs1.70bn, EBIDTA of Rs166m (margin 9.8%) and net profit of Rs50m.

The CMP of Rs106 discounts FY10 EPS of Rs3.8 by 27.9x.

- The CMP of Rs106 discounts FY10 EPS of Rs3.8 by 27.9x. CIL has market cap of Rs1.39bn.

Concerns

Bilcare's major raw materials are derived from petrochemicals and hence are subjected to fluctuations in crude price.

- Bilcare's major raw materials are derived from petrochemicals and hence are subjected to fluctuations in crude price. The company passes on the change in material cost to its customers. However, there is a time lag of around 3m as the company imports most of the raw materials.
- The company is majorly dependent on pharma industry. Any slowdown in the global pharma industry or fall in demand of drugs will adversely affect the performance of the company.
- The GCS revenues of Bilcare depend upon the existing and new clinical trial studies. In FY09, due to the global meltdown, the GCS business of the company suffered due to lower allocation for R & D projects resulting in the curtailment of pre-clinical and Phase I clinical trials. Any slowdown on the global R & D front is likely to affect the GCS business.

Bilcare faces competition from global players such as Fischer, Almac and Aptuit in the GCS business

- Bilcare faces competition from global players such as Fischer, Almac and Aptuit in the

GCS business. All the three are established players, having good contacts with global pharma companies. The advantage for Bilcare, however, is that these players are present primarily in US and Europe, while Bilcare has presence in US, Europe and Asia. This is crucial as clinical trials, to get speed, are increasingly moving towards Asia.

Financials

The top 10 customers account for 30-35% of its sales.

Post-acquisition Bilcare will have annual revenues of around Rs2.5bn and is likely to become a major player in the global packaging business.

Bilcare had consolidated debt of Rs9.5bn at the end of FY09, of which the dollar denominated FCCB was $128m (Rs6.02bn). The FCCB has been reduced to $12m due to buyback/restructuring. The debt: equity is likely to come down from 1.9 in FY09 to 0.6 in FY10.

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.

The company extends 120 days credit to its customers. Bilcare's revenues are well spread across its customers. The top 10 customers account for 30-35% of its sales. Bilcare has plans to spend Rs950m capex in FY10.

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

We expect Bilcare to report 29% CAGR in net sales and 47% CAGR in net profit over next three years from FY10-FY12 due to the strong growth on the global front.

We maintain BUY recommendation and a target price of Rs615 (8x FY11 EPS) with an upside of 25.9% over the next 12m

We expect Bilcare to report 29% CAGR in net sales and 47% CAGR in net profit over next three years from FY10-FY12 due to the strong growth on the global front. We expect the domestic business to grow by 13% CAGR and global business to grow by 43% CAGR over the same period. We expect Bilcare's EBIDTA margin to improve from 23.1% in FY10 to 24.7% in FY12 due to economies of scale. We expect the company's ROCE to improve from 10.7% in FY10 to 17.5% in FY12. The RoE is likely to improve from 13.7% to 19.4% during the same period.

We expect the company 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. The stock currently trades at 6.4xFY11E and 4.4x FY12E. We maintain BUY recommendation and a target price of Rs615 (8x FY11 EPS) with an upside of 25.9% over the next 12m.

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