



Shah Investor`s Home recommends `Buy` on Bilcare

Shah Investor`s Home has recommended `Buy` on Bilcare with a price target of Rs 850 as against the current market price (CMP) of Rs 659 in its report dated Jan. 03, 2011. The brokerage house has provided the following rationale:

Major growth from advance market

The most exciting opportunity will come from US and advance markets where a shift from high cost bottle packaging to low cost blister packaging by 2012 will generate large demand for blister packaging from manufacturers. Bilcare has already file DMF for packaging material with US FDA and ready to exploit the emerging opportunity. Some of global pharma company has already in talks with Bilcare and is expecting long term contract with the packaging solution provider.

NST could change the dynamics of the sector

Bilcare has developed anti counterfeit solutions using non clonable security technology in packaging arena which is ready for seamless commercial deployment across a wide array of industries. Around USD 75 billion of counterfeit drug form part of global pharmaceutical industry which can be reduce by using this unique technology. Thus genuine Pharma manufacturer can protect themselves from the menace of counterfeit drugs which eats into their sales and damaging the brand image.

JV with International labs and acquisition of INEOS

Bilcare AG, a subsidiary of Bilcare has acquired INEOS group`s global Films division. INEOS Films is a major player in the world of pharmaceutical blister packaging, films for printing and decoration, shrink film for sleeves, capsules and plastic credit cards. It has acquired for Rs 6070 million and has annual sales of Rs 14,580 million in FY 10 which is more than Bilcare FY 10 revenue. The deal was an all cash deal and 1/3rd of the amount was funded by internal accruals and rest in form of debt. The JV with international labs would be significant for growth in US markets.

Healthy balance sheet due to FCCBs buyback

Out of USD 128 mn outstanding FCCBs, Bilcare has completed buyback of USD 116 mn FCCBâ€™s. Thus debt reduction due to FCCB buyback is USD 86 mn (USD 116 million - USD 30 million). Moreover the conversion price of Rs 704 is again reset to 483.28. The debt: equity ratio has come down from 1.9 in FY 09 to 0.7 in FY10.

Valuation

The stock at Rs.659 is currently trading at an attractive valuation of 6.65X and 5.83X at FY11E and FY12E EPS of Rs. 99.04 and Rs. 113.08 respectively. Price to earnings ratio of other companies in the same industry is trading at an average P/E of 9.36X. Higher share of revenues from advance markets, implementation of Non Clonable technology, strong internal cash flow and tie ups with major global pharma will lead to strong net profit. We advise investors to buy the stock at CMP of Rs 659 with the target price of Rs 850 for the period of 8-12 months. Our target price is based on our DCF assumption; we have assumed WAAC as 11.91% and terminal growth rate as 4%. We are fundamentally positive on sector and believe that pharma companies would continue to benefit from the low cost packaging, expiry of various blockbuster drugs, launch of non clonable technology with its application on various high margin sectors. The company is in talks with Reserve Bank of India (RBI) for implementation for NST for the currency. Such e-Governance project will lead to strong revenue growth.