

Indices	Last Close	% Chg 1-d	% Chg mtd
Sensex	16,983	(0.7)	0.3
Nifty	5,067	(0.8)	0.7
CNX 500	4,200	(0.9)	1.3
BSE Bank	10,182	(0.6)	1.4
BSE IT	4,808	0.2	1.1
BSE Oil & Gas	10,269	(2.0)	(0.1)
Dow Jones	10,390	0.0	0.4
Nasdaq	2,190	(0.2)	2.1
FTSE	5,311	(0.2)	2.3
DAX	5,785	(0.6)	2.8

Mkt Breadth	Advance	Decline	Unchanged
Nifty	15	35	0
Sensex	10	20	0

Turnover	INR Bn	% Chg
BSE Cash	48	-7.4
NSE Cash	136	-8.8
NSE F&O	580	-18.9
Total	764	

Fund Flows	US \$ mn	MTD	YTD
FII Equity	96	1,010	16,462
DII's	(12)	(129)	5,200

Forex/Bond	Last Close	Chg 1-d	Chg mtd
INR/USD	46.58	0.28	0.03
USD/EUR	1.483	(0.00)	(0.02)
YEN/USD	89.5	(1.03)	3.10
10 yr G-Sec	7.67	0.05	0.15

Commodities	Last Close	% Chg 1-d	% Chg MTD
Brent (\$/bbl)	76.4	(1.4)	(2.4)
Gold (\$/oz)	1,158	(0.3)	(1.3)
Copper (\$/mt)	6,999	(0.6)	1.0
Aluminium (\$/mt)	2,158	0.5	4.9

**Most Traded**

Scrip	Last Close	% chg	Value*
Suzlon	83	4.7	6.4
SBI	2,322	(0.3)	6.3
Reliance Ind	1,055	(3.1)	6.2
Tata Steel	556	(3.5)	4.9
ICICI Bank	861	(1.2)	4.7

\* INR Bn.

**ADR GDR**

Scrip	Last Close*	% chg	% Prem.
Dr Reddy's	23.5	(1.7)	(0.1)
HDFC Bank	138.0	(1.0)	19.2
ICICI Bank	36.7	(4.1)	(0.8)
ITC	5.5	(1.1)	0.4
Infosys	51.7	(1.5)	0.6
Satyam	4.9	0.2	15.4
Ranbaxy	10.8	(1.3)	(0.5)
Reliance	46.0	(3.0)	1.5
Wipro	20.3	(0.8)	48.1
SBI	99.0	(2.0)	(0.7)
Tata Motors	15.4	(1.5)	1.6

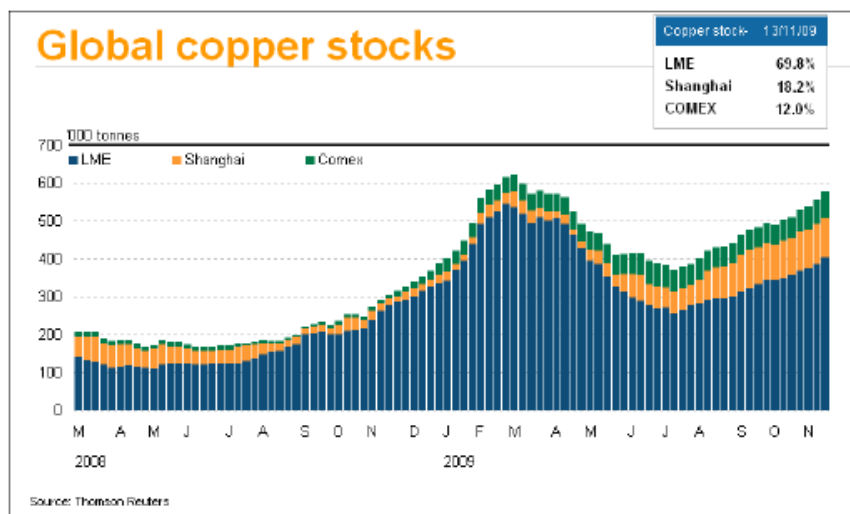
\* US\$

**Contents**

- Bilcare – Initiating Coverage
- Derivative News Analysis (DNA)

**From the Blogosphere**
**Reuters: Copper drops to near 1-week low as dollar gains and supply overhang continues (Source)**

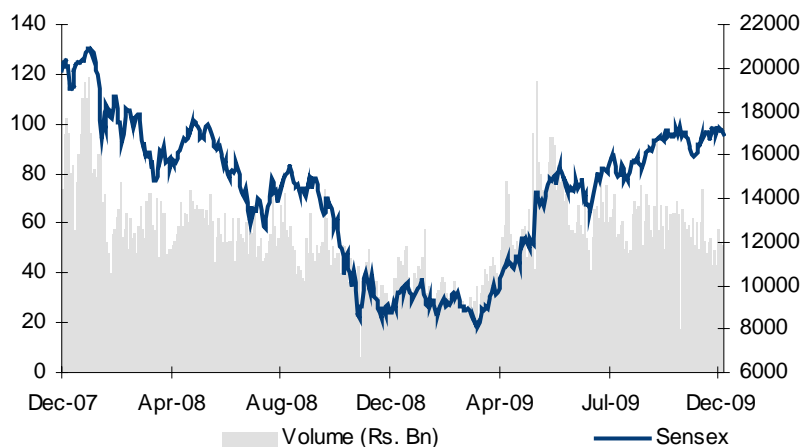
Copper dropped to a near one-week low on Monday, as the dollar rose against the euro amid talk of tighter monetary policy in the United States. Stocks of copper in LME warehouse rose 6,475 tonnes to 452,550 tonnes, a gain of about 75 percent since the middle of July and the highest since April. Rising inventories are a sign of weak demand even though copper is fundamentally in a stronger position -- analysts expect the copper market to see a deficit next year -- than other metals such as nickel used to make stainless steel. Nickel stocks at nearly 143,000 tonnes, are the highest since January 1995 and less than 10,000 tonnes away from the record high of 151,254 tonnes seen in November 1994. Three-month nickel fell to \$15,720 a tonne, the lowest since mid-July. Stocks of aluminium in LME warehouses fell 3,950 tonnes to about 4.59 million tonnes, but they are still within sight of the record 4.629 million tonnes set on September 16. But futures prices and premiums for physical material over the LME's cash contract have been supported by financing deals, which have tied up about 70 percent of LME aluminium stocks until next May.


**Mineweb: Dollar rebound puts pressure on gold price (Source)**

Almost immediately after the non-farm payroll report was released, the dollar staged a strong rebound and as a consequence gold was sold off. The rebound sent the dollar index back above the 75 level and it closed at 75.78, and gold dropped some US\$50. However, as far as I am concerned this reaction will be short-lived and any correction should be looked at as another buying opportunity. If we consider the recent developments in the gold market, we will then get a clearer perspective about this upward trend in the price of the yellow metal. We have seen a change of attitude from many of the central banks which have now become net buyers of gold instead of net sellers, for the first time in 22 years. The major gold mining houses are no longer that keen to hedge their production.

**Headlines**

- ICICI Bank in talks to sell its 27% stake in 3i Infotech (ET)
- RIL in talks to raise \$8-10bn for acquisition of Lyondellbasell (ET)
- Nestle India to acquire Health care nutrition business Specialty Foods (ET)
- M&M-Navistar JV plans to launch a 25-tonner truck by January 2010 (ET)
- United Breweries and Heineken enter into partnership to brew and market latters brand in India. (BS)
- Tata Steel November sales up 35% at 4.98 lakhs tonne on back of improved demand from construction and white goods sectors. (ET)
- Auto companies seek extension of emission norms deadline from April 2010 to October 2010. (ET)
- DoT may delay notice inviting 3G auction bid as it requires more time to assign the airwaves vacated by armed forces (ET)
- Coal India subsidiaries are demanding fresh fuel supply agreements with terms and conditions different from Central Electricity Authority, increases concerns for thermal power producers. (ET)
- Polaris plans to acquire Laser Soft for Rs520m (ET).

**Sensex**


**December 08, 2009**

<b>CMP</b>	<b>433</b>
<b>Target</b>	<b>616</b>
<b>Stock Return</b>	<b>42.2%</b>

Nifty	5,067
Sensex	16,983

**Key Stock Data**

Sector	Packaging
Reuters Code	BILC IN
BLOOMBERG Code	BIL BO
No. of Shares (mn)	17.21
Market Cap (Rs bn)	7.5
Market Cap (\$ mn)	160.9
6 mth avg traded value (Rs. mn)	11

**Stock Performance (%)**

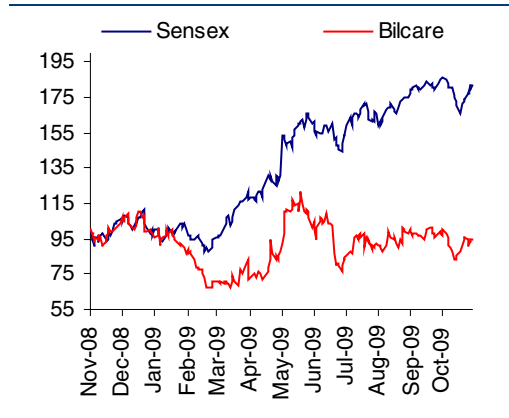
52 - Week high / low Rs549 / 279

	3M	6M	12M
Absolute (%)	5.4	-13.8	0.7
Relative (%)	-1.3	-27.0	-90.0

**Shareholding Pattern (%)**

Promoters	46.7
FIs & Local MFs	-
FIIIs	6.1
Public & Others	47.2

Source : Company

**Sensex and Stock Movement**


Bilcare, the leading player in Pharma Packaging Innovations (PPI) and Global Clinical Supplies (GCS) derives around 85% of its income from PPI business and the balance 15% from GCS business. The company has forayed into NonClonable Securities Technologies (NST), which will be commercialised shortly. NST is likely to revolutionise pharma packaging. Bilcare's clients include over 400 pharma companies-domestic and MNCs. The company derives 55% of its revenues from the domestic market and balance 45% from global business. This ratio is likely to change to 38:62 by FY12. The company has developed excellent contacts with global pharma companies both in PPI and GCS businesses. Bilcare has 62% MS in Indian barrier blister packing market.

**Revenues to rise by 29% CAGR and Net profit by 45% CAGR over 3 yrs**

We expect Bilcare to report 29% CAGR in net sales and 45% CAGR in net profit over next three years from FY10-FY12 due to strong growth on the global front. We expect the domestic business to grow by 13% CAGR and global business by 43% CAGR in the same period. We expect Bilcare's EBIDTA margin to improve from 21.8% in FY09 to 24.7% in FY12 due to economies of scale. We expect the company's ROCE to improve from 7.9% in FY09 to 17.4% in FY12. The RoE is likely to improve from 16.7% to 21.3% during the similar period.

**Growth momentum to continue**

Bilcare is likely to benefit from the switch over from bottle packaging to blister packaging in US by 2012. The company is also likely to benefit from the \$1 trillion (Rs46 trillion) Healthcare package announced by Obama government. The increase in outsourcing of generic formulations by the developed countries is likely to drive volumes and will benefit the company. The increase in clinical trials of MNC pharma companies will drive the GCS growth. The patented NST is likely to differentiate Bilcare from its competitors.

**BUY with a target price of Rs616**

We expect the company to report EPS of Rs88 for FY11 and Rs127.3 for FY12 due to the strong top line growth and margin improvement. We initiate coverage on Bilcare with BUY recommendation and a target price of Rs616 (7x FY11 EPS) with an upside of 42% over the next 12m.

Particulars	FY06	FY07	FY08	FY09	FY10E	FY11E	FY12E
Revenues (Rsm)	2,645	4,079	6,507	8,560	10,985	14,090	18,180
Growth (%)		54%	60%	32%	28%	28%	29%
EBIDTA (Rsm)	652	991	1,435	1,865	2,484	3,332	4,499
EBIDTA margin (%)	24.6%	24.3%	22.1%	21.8%	22.6%	23.6%	24.7%
Net profit (Rsm)	389	599	816	830	1,206	1,760	2,546
Net profit Growth (%)		54.2	36.1	1.8	45.4	45.9	44.7
EPS (Rs.)	19.4	30.0	40.8	41.5	60.3	88.0	127.3
P/E (x)	21.3	13.8	10.2	10.0	6.9	4.7	3.3
D/E (x)	2.3	1.2	1.8	1.9	1.6	0.7	0.4
RoCE (%)	8.1	9.7	8.3	7.9	10.4	13.6	17.4
RoE (%)	24.9	19.2	20.8	16.7	20.5	18.5	21.3

Source : HDFC Securities Institutional Research

**Ranjit Kapadia**
**Ranjit.kapadia@hdfcsec.com**
**91-22-6171 7334**

**Valuations**

Particulars	FY06	FY07	FY08	FY09	FY10E	FY11E	FY12E
P/E	21.3	13.8	10.2	10.0	6.9	4.7	3.3
Dividend yield %	0.7	1.0	1.0	0.6	0.7	0.8	1.0
P/BV	3.8	1.9	1.7	1.4	1.2	0.9	0.7
EV/EBIDTA	11.4	8.5	8.6	8.4	6.0	3.8	2.5
EV/Sales	2.8	2.1	1.9	1.8	1.4	0.9	0.6
Market cap/sales	2.2	1.4	1.0	0.8	0.6	0.6	0.5

Source : HDFC Securities Institutional Research

**Investment Arguments**

- Bilcare derives around 85% of its revenues from Pharma Packaging Innovations (PPI) and balance 15% from Global Clinical Supplies (GCS). The company derives around 55% of its revenues from the domestic market and 45% from the global operations. The domestic business consists primarily of PPI and is expected to grow at 13% CAGR over FY10-FY12 in line with the industry growth.
- The global PPI business is expected to grow at 43% CAGR over FY10-12 and global GCS business at 48% CAGR over the same period. The rise in PPI business is due to the higher use of generic products and expected switch over from bottle packing to blister packing. The rise in GCS business is expected to come from increase in outsourcing of clinical trials and increase in new molecules.
- Bilcare's EBIDTA margin is expected to improve from 21.8% in FY09 to 24.7% in FY12 due to operations outside India reaching economies of scale. GCS offers higher margin than PPI leading to overall improvement in margins.
- Bilcare has developed packaging solution for a new drugs called 'Optima', which gives the stability test results in 4-6 weeks against 12-18m taken by conventional methods. Hence, there is considerable savings in terms of cost and product launch time.
- Bilcare has developed and patented metallised polymer film called 'Patina' for advanced packaging applications. Patented products currently account for about 10% of the company's revenues. The company has developed novel packs for Elder Pharma's Shelcal and Ranbaxy Labs' Cifran brands. Bilcare has 62% MS in Indian blister packing market. The company has come up with packaging solutions for 26 fast growing brands using Patina.
- Bilcare has developed anti-counterfeit solution for pharma packaging using patented NonClonable Security Technologies (NST). NST is likely to revolutionize pharma packaging in the years to come and will differentiate Bilcare from its competitors. The company is planning to launch this product shortly and is exploring other uses besides pharma packaging.
- The pharma packaging in US is likely to shift from bottles to unit dose packaging like aluminium strips and blisters by 2012. This is likely to provide huge opportunity for Bilcare.
- Bilcare's DMF for packing material is registered with US FDA and hence can supply packing materials for all formulation packs meant for exports.
- The company's 50:50 JV with MeadWestwaco, US has acquired International Labs, US (IL) in July'08. This company has long-term supply contract with Wal Mart, US for contract packaging for the \$4 (Rs188) treatment per month program of Wal Mart. Bilcare

Bilcare derives around 85% of its revenues from Pharma Packaging Innovations (PPI) and balance 15% from Global Clinical Supplies (GCS)

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**Institutional Research**

The Singapore facility provides lower shipping time. For example, shipping time from India to Brazil is around 65 days whereas from Singapore it is 35 days resulting in 30-day saving in shipping time

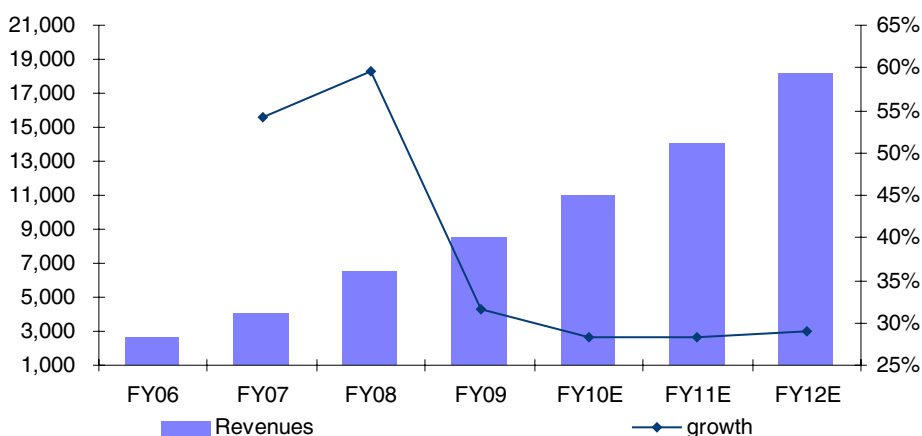
The global business is likely to grow at 43% CAGR over FY10-FY12

expects good upside from this deal.

- Over 50 global pharma companies have audited Bilcare's Pune and Singapore facilities. This is likely to culminate into long-term supply contracts for packaging materials.
- The Singapore facility provides lower shipping time. For example, shipping time from India to Brazil is around 65 days whereas from Singapore it is 35 days resulting in 30-day saving in shipping time.
- Currently, Bilcare has 60-70 drugs in GCS for 35-40 global clients, of which around 75% are in Phase I and II and the balance 25% are in Phase III. The company has increased the manpower in GCS from 30 in 2005 to 220 in 2008.

**Revenues to grow by 29% CAGR**

Bilcare revenues are likely to grow by 29% CAGR over next three years from FY10-FY12 due to the strong growth on export front. The domestic segment, which contributes around 55% of its sales is likely to grow at 13% CAGR over FY10-FY12 in line with the industry growth. The global business is likely to grow at 43% CAGR over the same period. The same has been shown in the following chart:

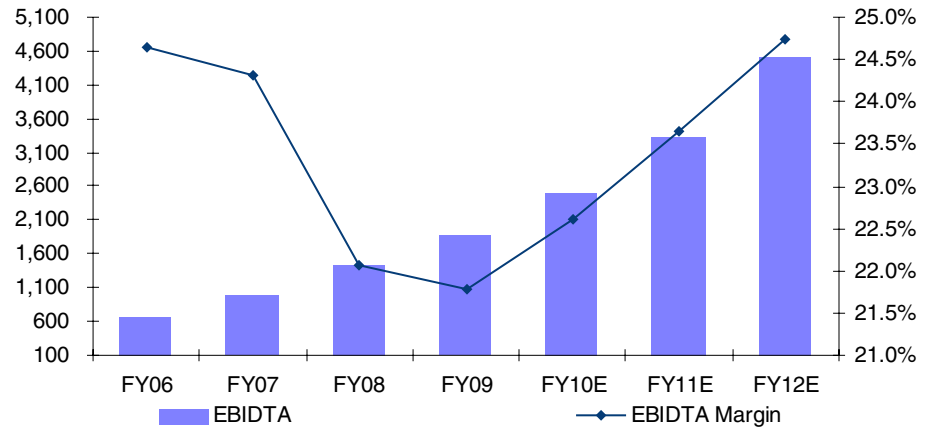
**Chart 1: Revenues and revenue growth**


Source : HDFC Securities Institutional Research

**Margins to expand from 21.8% in FY09 to 24.7% in FY12**

Bilcare's EBIDTA margin is likely to grow from 21.8% in FY09 to 24.7% in FY12 due to the operations outside India reaching economies of scale. Fixed expenses as a % of Revenue are likely to come down due to strong sales growth. The GCS business has higher margin than the PPI business and hence the overall margin are likely to improve with higher growth of GCS business. The EBIDTA margin over the years have been shown in the following chart:

The GCS business has higher margin than the PPI business and hence the overall margin are likely to improve

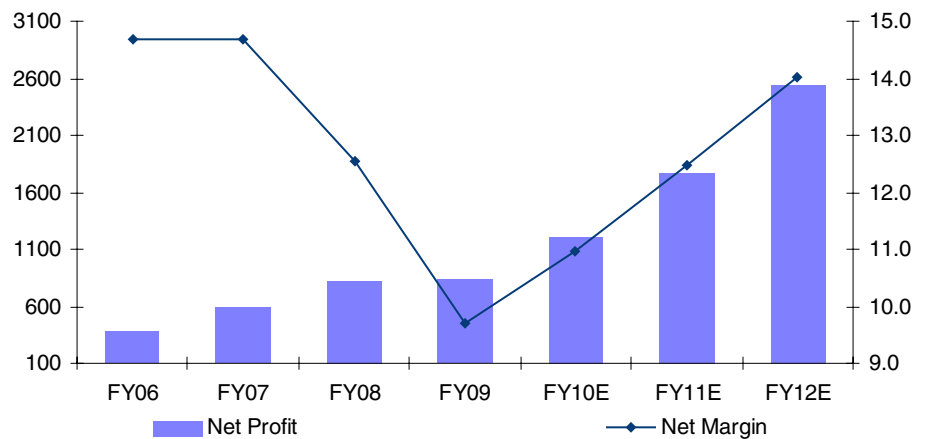
**Chart 2: EBIDTA margin**


Source: HDFC Securities Institutional Research

### Net profit to grow at 45% CAGR over next three years

Bilcare's net profit is likely to grow at 45% CAGR over the next three years from FY10-FY12

Bilcare's net profit is likely to grow at 45% CAGR over the next three years from FY10-FY12 due to strong top line growth and margin improvement due to the economies of scale setting in. This is shown in the following chart:

**Chart 3: Net profit and net margin**


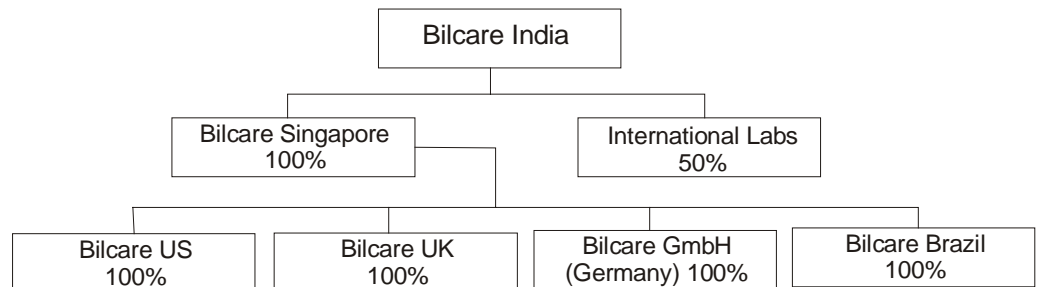
Source: HDFC Securities Institutional Research

Bilcare directly caters to over 400 pharma companies and does not have agents

### Company Background

Mohan Bhandari, a first generation entrepreneur promoted Bilcare in 1994. The company has manufacturing facilities at Pune, Singapore, UK and US. Bilcare has 100% subsidiary in Singapore. The Singapore subsidiary has four step down 100% subsidiaries at US, UK, Germany and Brazil. The US and UK based companies operate in GCS space. Bilcare directly caters to over 400 pharma companies and does not have agents. The company has staff strength of over 650 employees of which around 300 are in India. Bilcare has a strong R & D team of 35 scientists of which 25 are currently based in the US. The company has been granted 'Pioneer Status' by Singapore government. Bilcare has installed flexo printing technology and on-line reverse printing capabilities, which is unique in Asia. The facility produces printed foils of high accuracy and precision along with excellent clarity. Bilcare provides end-to-end pharma packaging solutions.

### Company structure



Source: Company

### Services Provided

Bilcare provides the following services to its customers in the **PPI segment**:

- Formulations Development
- Analytical Research
- Stability Services
- Packaging design and development
- Packaging Auditing (compliance with standards)

The company supplies the entire range of pharma packaging materials namely, blister films, aluminium foil, cold-formed alu-alu foil, wrap systems, flexibles, eco-friendly paper composites, containers and closures.

The PPI segment provides the solution to the five major challenges faced by the global pharma industry, namely: compliance, cost, convenience, counterfeit and communication.

In the **GCS segment**, Bilcare provides the following services to conduct Phase I to IV clinical trials:

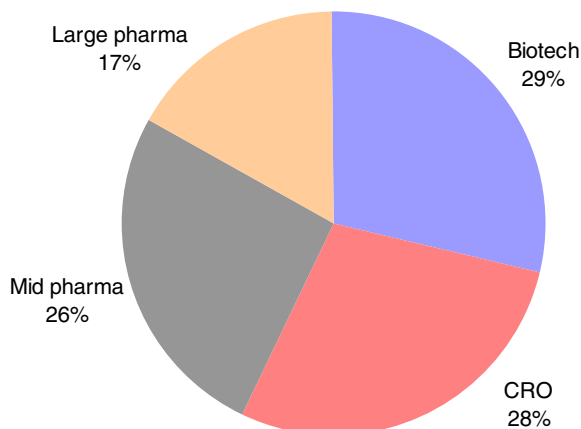
- Small batch manufacturing
- Formulation development and analytical services
- Clinical packaging and randomization
- Storage & distribution
- Interactive Voice Response Systems (IVRS)
- Returns Management
- Destruction

The PPI segment provides the solution to the five major challenges faced by the global pharma industry, namely: compliance, cost, convenience, counterfeit and communication

### GCS revenue break- up

For FY09, Bilcare derived 29% of its GCS revenues from biotech companies, 28% from CRO, 26% from mid-sized pharma and 17% from large pharma companies. This is shown in the following chart:

**Chart 4: GCS revenues break-up- FY09**



Source: Company

The final selection of packing material depends on properties of the drug to be packed and the price of packaging material

### Evolution of packing materials

In 1980, only PVC films were being used for blister packing. In late 80s PVDC coated PVC film was introduced for moisture sensitive materials. This was followed by triplex- a combination of PVC/PE/PVDC laminate. Cold forming aluminium blister foils and specialty-laminated films followed these. The final selection of packing material depends on properties of the drug to be packed and the price of packaging material. However, the PVC continues to be the largest blister-packing medium by volume. The PVC films cost 1/3 of the alu-alu foil. The other major packaging material used is specialty laminate, which has high moisture barrier with strong value proposition.

According to estimates, 30% of the drugs in India are counterfeit compared to 10% globally

### Problem of counterfeit

Stopping counterfeit or spurious medicines from entering the trade channels is needed to protect the safety of patients in India and globally. According to estimates, 30% of the drugs in India are counterfeit compared to 10% globally. It is estimated that by 2010, the global counterfeit drugs market would reach \$75bn(Rs3,500bn). Bilcare has developed NonClonable Security Technologies (NST), which uses the combination of bar coding and nano technology principles. By scanning the strip or blister pack in the scanner provided at the chemist's shop, the customer can verify the genuineness of the product through satellite communication with the manufacturer's server. Hence, the technology assures the genuineness of the product in a fraction of minute to the entire satisfaction of the customer. The additional cost of NST is around 10-15% of the packing cost but the benefits are far higher than the cost. Hence, this technology is likely to find wide usages in protecting brand equity and credibility among the pharma manufacturers.

Bilcare has successfully collaborated with Sanden Corporation, Japan (\$2.63bn auto ancillary company)

### Application of NCT for non-pharma applications

For enhancing the presence in anti-counterfeit solutions, Bilcare acquired Singular ID-a Singapore based technology innovator company for \$15m(Rs705m) in Dec'07. Bilcare's NCT offers zero error solutions and can be effectively utilised for luxury goods, automobiles, costly watches, high end fashion garments, security solutions, engineering goods, white goods, FMCG products with established brands losing billions of dollars and brand value. NCT 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.

Bilcare has successfully collaborated with Sanden Corporation, Japan (\$2.63bn auto ancillary company), and a major supplier of automotive compressors by using NST to protect its range of automotive spare parts.

### Major customers

Bilcare has over 400 pharma companies as its customer base. The major global customers include: Glaxo SmithKline Pharma, Ranbaxy Labs, Pfizer, Sanofi-Aventis, Novartis, Merck, Johnson & Johnson, Astra Zeneca, Dr. Reddy's Labs, Wyeth amongst others.

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Source: Company

### Competition

**In the PPI segment**, Bilcare faces competition from global players like Alcan for aluminium-based products and Klockner (sales \$1.6bn, 3200 people), Comital and Ineos (sales \$750m, 1600 employees) for polymer based products. Alcan (packaging sales \$6bn) is the world leader for aluminium foils and derives 16% of its revenues from pharma business.

**In the GCS segment**, the company faces competition from global players like Fischer (GCS revenues \$300m), Aptuit (GCS revenues \$150m) and Almac (GCS revenues \$100m) in US and Europe.

The company is solely 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

Bilcare operates in over \$4bn (Rs188bn) PPI market and \$2.0bn(Rs96bn) GCS market

### Concerns

- Bilcare's major raw materials are derived from petrochemicals and hence are subjected to the fluctuation in crude price. The company passes on the change in material cost to its customers. However, there is a time lag of around 6m as the company imports majority of the raw materials.
- The company is solely 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. 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.

### Global Market-promising future

Pharmaceutical packaging constitutes about 3-5% of its sales. The global packaging market, which was \$4bn(Rs188bn) in 2007 is likely to grow to \$6bn(Rs282bn) in 2010, thus has promising potential. Bilcare operates in over \$4bn (Rs188bn) PPI market and \$2.0bn(Rs96bn) GCS market. Both the markets are likely to expand at a rapid pace. The PPI market is likely to witness change from bottle packs to strip and blister packing by 2012 and from the high growth of generic formulations. The GCS is likely to witness increased outsourcing by MNC pharma companies due to additional new molecules.

In the current economic downturn, the pre clinical trial revenues declined by 30-40% in US and European countries as the big pharma companies diverted their financial resources into late phase clinical trials. It is estimated that a one-week delay in new product introduction would result in a \$20m (Rs940m) loss of revenues for a \$1bn (Rs47bn) new drug. India is likely to become a hub for contract research in clinical trials because of the cost advantage coupled with availability of a nascent patient base. It is expected that CROs will follow in the footsteps of IT sector and will cause the next boom in the Indian economy.

### Board of Directors

Bilcare has roped a team of professionals to spearhead its business in the globally competitive environment. The board of directors consist of:

#### **Mohan Bhandari- Chairman & Managing Director**

Mohan Bhandari is the founder of Bilcare and spearheads the company as Chairman and Managing Director. He has over 27 years experience in global pharmaceutical packaging industry. Under his leadership the company has grown exponentially both in the national and international arena. A first generation technocrat entrepreneur, he has put Bilcare to new heights. He holds a degree in Physics from University of Pune and post- graduate diplomas in Management Studies and Packaging Science. He received the Lifetime achievement award in 2007 during the 59th Indian Pharmaceutical Conference in recognition of spirit of business excellence he exemplifies.

**Dr. Arthur Carty- Director**

Dr. Arthur Carty is a renowned name in global scientific community. He has over 40 years of experience and is currently the Executive Director, Waterloo Institute for Nano technology at University of Waterloo. Dr. Carty has served as Canada's first National Science Advisor to the Prime Minister of Canada from 2004 to 2008. Dr. Carty has over 300 publications in scientific journals and five patents to his credit.

**Chandra Prakash Jaggi-Executive Director**

Chandra Prakash Jaggi has over 37 years of experience in the manufacturing industry and is responsible for bringing Bilcare on par with global standards.

**Dr. Praful Naik-Executive Director**

Dr. Praful Naik is an expert on pharmaceutical formulations has over 19 years of experience in pharma industry and worked with Johnson & Johnson and SmithKline Beecham. He holds a Doctorate in Pharmaceutics and represents the Anti-counterfeiting taskforce of WHO.

**Dr. Bhojraj Suresh-Director**

Dr. Bhojraj Suresh has over 27 years of experience and is the President of Pharmaceutical Council of India and President of Indian Pharmaceutical Association. Dr. Suresh was conferred the Doctor of Science in 2007. He has 218 national and 75 international scientific publications.

**Dr. Volker Huelck-Director**

Dr. Volker Huelck offers guidance to the material development team at Bilcare. He is the chairman of the German Plastics Centre and member of the Global Council at Lehigh University, USA. Dr. Volker holds a master's degree in Chemical Engineering and a Ph.D. in Interpreting Polymer Networks.

**Dr. Kalyani Gandhi-Director**

Dr. Kalyani Gandhi provides leadership and direction to the human resources team at Bilcare. She has over 30 years of experience in teaching and is the former Dean of Indian Institute of Management, Bangalore.

**Rajendra Tapadia-Director**

Rajendra Tapadia provides support to Bilcare on process and product technology. He is an eminent industrialist with over 27 years of experience. He is a graduate in Chemistry and has a post-graduate Diploma in Business Management.

**Dr. R V Chaudhari-Director**

Dr R V Chaudhari is a renowned polymer catalysis scientist and provides valuable guidance to Bilcare's IP strategy and R & D initiatives. He has presented over 100 papers in various international journals and holds 62 patents to his credit. He is the professor at University of Kansas, USA. He holds a Ph. D. in Physical Chemistry.

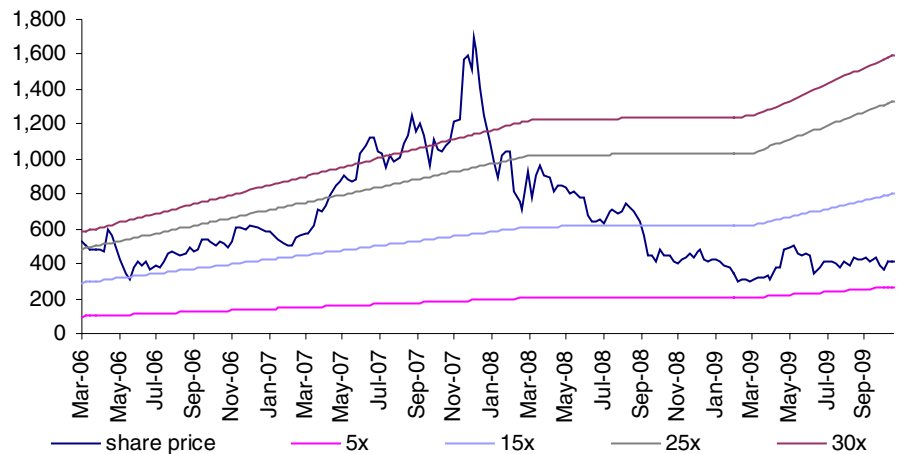
The top 10 customers account for 30-35% of its sales

### Financials

Bilcare had consolidated debt of Rs9.5bn at the end of FY09, of which the dollar denominated FCCB was \$128m (Rs6.02bn). The Singapore subsidiary has FCCB of \$90m (Rs4.23bn), whereas the Indian company has FCCB of \$38m (Rs1.79bn). The Indian FCCB conversion is at Rs704 in December 2010 with yield of 7.75% YTM. The Singapore subsidiary has issued 4% convertible bonds redeemed at a price of 130.7% of its principal in 2012. The company is currently working at re-structuring the debt with \$35m (Rs1.65bn) GDR issue.

Bilcare's interest cost jumped by 175% from Rs143m in FY08 to Rs393m in FY09 due to the rise in PLR during the year, new convertible debt of \$90m in Bilcare Singapore and the rise in working capital to support sales growth. The company extends 120 days credit in the domestic market. For the global market, it extends 40 days credit to Wal-Mart and 60 days credit to big pharma companies. 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 Rs800m capex in FY10.

**Chart 5: PE band**



Source: HDFC Securities Institutional Research

### Valuation

We expect Bilcare to report 29% CAGR in net sales and 45% 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 21.8% in FY09 to 24.7% in FY12 due to economies of scale. We expect the company's ROCE to improve from 7.9% in FY09 to 17.4% in FY12. The RoE is likely to improve from 16.7% to 21.3% during the same period.

We expect the company to report EPS of Rs88 for FY11 and Rs127.3 for FY12 due to the strong top line growth and margin improvement. We initiate coverage on Bilcare with BUY recommendation and a target price of Rs616 (7x FY11 EPS) with an upside of 42% over the next 12m. The company is likely to benefit from the higher consumption of generic products in the US and increase in outsourcing in GCS business.

### Q2FY10 Results

PARTICULARS (Rs mn)	Q2FY10	Q2FY09	YoY	Q1FY10	QoQ	H1FY10	H1FY09	YoY
	SEPT.09	SEPT.08	Gr%	JUNE.09	Gr%	SEPT.09	SEPT.08	Gr%
Total income	2,651	2,076	27.7	2,418	9.6	5,068	3,952	28.2
<b>Expenditure</b>								
Raw materials	1,474	1,161	27.0	1,336	10.4	2,810	2,143	31.1
As % of total income	55.6	55.9		55.3		55.4	54.2	
Personnel expenses	245	211	16.3	223	9.8	469	365	28.4
As % of total income	9.3	10.2		9.2		9.2	9.2	
Other expenses	307	313	(1.8)	301	2.2	608	596	2.1
As % of total income	11.6	15.1		12.4		12.0	15.1	
Total Expenditure	2,027	1,685	20.3	1,860	9.0	3,887	3,103	25.2
<b>EBIDTA</b>	624	391	59.4	558	11.9	1,182	849	39.2
EBIDTA Margin (%)	23.5	18.9		23.1		23.3	21.5	
Other income	-	-	NA	-	NA	-	-	NA
<b>PBDIT</b>	624	391	59.4	558	11.9	1,182	849	39.2
Depreciation	132	81	63.6	131	0.7	263	156	69.2
Interest	105	102	2.9	97	8.4	202	183	10.3
PBT	387	209	85.3	330	17.3	717	510	40.5
Prov. For tax	109	63	73.3	101	7.0	210	153	37.0
% of PBT	28.0	30.0		30.7		29.3	30.0	
PAT	279	146	90.5	228	21.9	507	357	42.0
Extraordinary item	-	-	NA	-		-	-	NA
Reported PAT	279	146	90.5	228	21.9	507	357	42.0
Equity capital	172	172	-	172	0.0	172	172	-
EPS Rs.(Rs10 Paid up)	16.2	8.5	90.5	13.3	21.9	29.5	20.7	42.0

Source : HDFC Securities Institutional Research

**Income Statement - Consolidated**

Year End:March(Rsm)	FY07	FY08	FY09	FY10E	FY11E	FY12E
<b>Net Sales</b>	<b>4,079</b>	<b>6,507</b>	<b>8,560</b>	<b>10,985</b>	<b>14,090</b>	<b>18,180</b>
growth	54.2%	59.5%	31.6%	28.3%	28.3%	29.0%
<b>Operating Expenses</b>	<b>3,087</b>	<b>5,072</b>	<b>6,695</b>	<b>8,501</b>	<b>10,758</b>	<b>13,681</b>
(Inc) / Dec in stock	-52	-64	-103	-120	-130	-150
Material Cost	2,484	3,615	4,847	6,174	7,850	10,050
(% of sales)	59.6%	54.6%	55.4%	55.1%	54.8%	54.5%
Staff Cost	224	606	863	1,100	1,370	1,730
(% of sales)	5.5%	9.3%	10.1%	10.0%	9.7%	9.5%
Selling & Admin Exps	111	229	229	270	330	380
(% of sales)	2.7%	3.5%	2.7%	2.5%	2.3%	2.1%
Other Expenses	320	686	859	1,077	1,338	1,671
(% of sales)	7.8%	10.5%	10.0%	9.8%	9.5%	9.2%
<b>EBIDTA</b>	<b>991</b>	<b>1,435</b>	<b>1,865</b>	<b>2,484</b>	<b>3,332</b>	<b>4,499</b>
<b>EBIDTA Margin</b>	<b>24.3%</b>	<b>22.1%</b>	<b>21.8%</b>	<b>22.6%</b>	<b>23.6%</b>	<b>24.7%</b>
Other Income	179	192	77	103	109	117
<b>PBDIT</b>	<b>1,170</b>	<b>1,627</b>	<b>1,942</b>	<b>2,587</b>	<b>3,441</b>	<b>4,616</b>
<b>PBDIT Margin</b>	<b>28.7%</b>	<b>25.0%</b>	<b>22.7%</b>	<b>23.6%</b>	<b>24.4%</b>	<b>25.4%</b>
Depreciation	154	242	378	406	417	430
Avg Gross Block	2,862	4,840	7,574	9,474	9,831	10,149
Amortisation Rate	5.4%	5.0%	5.0%	4.3%	4.2%	4.2%
EBIT	1,016	1,386	1,564	2,181	3,025	4,186
EBIT Margin	24.9%	21.3%	18.3%	19.9%	21.5%	23.0%
Interest	91	143	393	515	580	630
- Interest Cost	84	129	336	450	500	540
- Financial Charges	7	14	56	65	80	90
Avg Debt	3,614	7,037	9,505	9,539	6,380	4,910
Av. Int. rate	2.3%	1.8%	3.5%	4.7%	7.8%	11.0%
Provisions & Write-offs	0.0	0.0	0.0	0.0	0.0	0.0
<b>Profit Before Tax</b>	<b>924</b>	<b>1,243</b>	<b>1,172</b>	<b>1,666</b>	<b>2,445</b>	<b>3,556</b>
Tax Provision	325	427	342	460	685	1,010
Effective Tax Rate	35.2%	34.4%	29.2%	27.6%	28.0%	28.4%
- Current Tax	185	219	165	310	560	910
- Deferred Tax	136	203	174	150	125	100
FBT	4	5	3	0	0	0
Profit After Tax before EO	599	816	830	1,206	1,760	2,546
Extraordinary Items	0	0	0	0	0	0
<b>Net Profit</b>	<b>599</b>	<b>816</b>	<b>830</b>	<b>1,206</b>	<b>1,760</b>	<b>2,546</b>
<b>Net Margin</b>	<b>14.7%</b>	<b>12.5%</b>	<b>9.7%</b>	<b>11.0%</b>	<b>12.5%</b>	<b>14.0%</b>
Equity Capital	142	164.5	172.1	172.1	200	200
Face Value	10	10	10	10	10	10
Equity Shares	14.2	16.5	17.2	17.2	20.0	20.0
<b>EPS Rs.</b>	<b>30.0</b>	<b>40.8</b>	<b>41.5</b>	<b>60.3</b>	<b>88.0</b>	<b>127.3</b>
CEPS Rs.	37.7	52.9	60.4	80.6	108.8	148.8
DPS Rs.	4.3	4.2	2.5	3.0	3.5	4.0

Source : HDFC Securities Institutional Research

**Balance Sheet-consolidated**

Year End:March(Rsm)	FY07	FY08	FY09	FY10E	FY11E	FY12E
<b>SOURCES OF FUNDS</b>						
Equity Share Capital	142	165	172	172	200	200
share application money	1,089	40	0	0	0	0
Reserves & Surpluses	1,897	3,724	4,788	5,706	9,319	11,770
Net Worth	3,128	3,929	4,960	5,878	9,519	11,970
Average Net Worth	3,128	3,929	4,960	5,878	9,519	11,970
Secured Loans	1,339	1,745	2,795	2,800	4,800	3,600
Unsecured Loans	2,276	5,292	6,709	6,739	1,580	1,310
Total Debt	3,614	7,037	9,505	9,539	6,380	4,910
Average Debt	3,614	7,037	9,505	9,539	6,380	4,910
Deferred Tax Liability	406	630	984	1,134	1,259	1,359
<b>Capital Employed</b>	<b>7,149</b>	<b>11,596</b>	<b>15,449</b>	<b>16,551</b>	<b>17,157</b>	<b>18,239</b>
Average Capital Employed	7,149	11,596	15,449	16,551	17,157	18,239
<b>APPLICATION OF FUNDS</b>						
Gross Block	3,802	5,879	9,269	9,680	9,982	10,315
Average Gross Block	2,862	4,840	7,574	9,474	9,831	10,149
Less: Accum. Depreciation	431	629	986	1366	1758	2167
Net Block	3,371	5,250	8,283	8,314	8,224	8,148
Capital Work-in-Progress	106	432	160	200	230	250
Investments	867	1,228	1,455	1,600	1,800	2,000
<b>Current Assets, Loans &amp; Advances</b>	<b>3,257</b>	<b>5,243</b>	<b>6,484</b>	<b>7,833</b>	<b>8,916</b>	<b>10,411</b>
Inventories	461	817	1,415	1,910	2,270	2,645
Sundry Debtors	1,251	2,120	3,295	3,400	3,890	4,785
Cash & Bank Balances	1,075	1,566	1,054	1,753	1,946	2,121
Loans & Advances	471	740	720	770	810	860
<b>Less: Current Liab. &amp; Provisions</b>	<b>506</b>	<b>812</b>	<b>1,168</b>	<b>1,616</b>	<b>2,214</b>	<b>2,754</b>
Current Liabilities	356	695	1,110	1,245	1,572	1,750
Provisions	150	116	58	371	642	1,004
Net Current Assets	2,751	4,431	5,316	6,218	6,702	7,657
Miscellaneous Expenses not w/off	55	255	235	220	201	185
<b>Capital Deployed</b>	<b>7,149</b>	<b>11,596</b>	<b>15,449</b>	<b>16,551</b>	<b>17,157</b>	<b>18,239</b>

Source : HDFC Securities Institutional Research

**Cash flow statement**

Year End:March(Rsm)	FY07	FY08	FY09	FY10E	FY11E	FY12E
EBIT	837	1,194	1,487	2,078	2,916	4,069
Depreciation	154	242	378	406	417	430
Deferred revenue exp w/off	0	0	0	0	0	0
Changes in working capital	-658	-1188	-1397	-203	-291	-780
Exceptional items chg to P&L	0	0	0	0	0	0
<b>Operating cash flow</b>	<b>334</b>	<b>247</b>	<b>468</b>	<b>2,281</b>	<b>3,041</b>	<b>3,719</b>
Tax chg to P&L	-185	-219	-165	-310	-560	-910
Interest expense	-91	-143	-393	-515	-580	-630
Other Income	179	192	77	103	109	117
<b>Free cash flow</b>	<b>236</b>	<b>77</b>	<b>-12</b>	<b>1,559</b>	<b>2,010</b>	<b>2,295</b>
Capex	-1,509	-2,647	-3,119	-461	-338	-357
Dividends paid	-71	-81	-51	-61	-82	-94
Shares issued	1,023	-1,026	-33	0	28	0
Direct Adj to reserves	18	1,114	464	-228	1,935	0
Investments (made)/sold	-661	-361	-227	-146	-200	-200
<b>Change in net debt</b>	<b>-964</b>	<b>-2,925</b>	<b>-2,977</b>	<b>664</b>	<b>3,353</b>	<b>1,644</b>
Opening net debt	<b>-1,569</b>	<b>-2,533</b>	<b>-5,458</b>	<b>-8,435</b>	<b>-7,771</b>	<b>-4,419</b>
Closing Net Debt	<b>-2,533</b>	<b>-5,458</b>	<b>-8,435</b>	<b>-7,771</b>	<b>-4,419</b>	<b>-2,774</b>
As per Balance sheet	964	2,925	2,977	-664	-3,353	-1,644

Source : HDFC Securities Institutional Research

**Ratio**

Year End:March	FY07	FY08	FY09	FY10E	FY11E	FY12E
<b>Valuation (x)</b>						
P / E	14.5	10.6	10.4	7.2	4.9	3.4
P / BV	2.0	1.8	1.5	1.3	0.9	0.7
Market Cap / Sales	1.5	1.1	0.9	0.7	0.6	0.5
EV / EBIDTA	8.8	8.8	8.5	6.1	3.9	2.5
EV / Sales	2.1	1.9	1.9	1.4	0.9	0.6
<b>Profitability (%)</b>						
EBIDTA Margin	24.3%	22.1%	21.8%	22.6%	23.6%	24.7%
PBDIT Margin	28.7%	25.0%	22.7%	23.6%	24.4%	25.4%
EBIT Margin	24.9%	21.3%	18.3%	19.9%	21.5%	23.0%
PBT Margin	22.7%	19.1%	13.7%	15.2%	17.4%	19.6%
Net Margin	14.7%	12.5%	9.7%	11.0%	12.5%	14.0%
RoE	19.2%	20.8%	16.7%	20.5%	18.5%	21.3%
RoCE	9.7%	8.3%	7.9%	10.4%	13.6%	17.4%
<b>Growth (%)</b>						
Revenue	54.2%	59.5%	31.6%	28.3%	28.3%	29.0%
EBIDTA	52.1%	44.8%	29.9%	33.2%	34.1%	35.0%
PBDIT	69.1%	39.1%	19.3%	33.2%	33.0%	34.1%
Net Profit	54.2%	36.1%	1.8%	45.4%	45.9%	44.7%
EPS	54.2%	36.1%	1.8%	45.4%	45.9%	44.7%
CEPS	62.7%	40.3%	14.2%	33.5%	35.0%	36.7%
<b>Efficiency Ratios</b>						
Working Capital (days)	395.8	321.4	273.4	245.9	214.6	186.0
Inventory (days)	47.4	57.2	62.6	70.9	69.4	63.7
Debtors (days)	134.8	150.8	151.9	142.7	121.1	112.4
Creditors (days)	48.6	62.1	65.0	64.2	60.5	56.4
Net Fixed Assets (x)	1.0	0.9	1.0	1.0	1.3	1.7

Source : HDFC Securities Institutional Research

**NIFTY SENTIMENT INDICATORS**

Call Implied Volatility % (ATM Strike)	21.64	5100
Put Implied Volatility % (ATM Strike)	26.39	5100
Put Call Ratio - Volume	1.04	
Put Call Ratio - OI	1.35	

Index	Spot	Future	Basis
BANKNIFTY	9176	9133	-43
CNXIT	5443	5445	2
NIFTY	5067	5060	-7
SENSEX	16983	0	-

Volume	Turnover In ( Rs bn.)		
	Product	Today	Prev Day
Index Futures	133	164	(19.3)
Stock Futures	155	184	(16.0)
Index Options	274	349	(21.4)
Stock Options	19	18	6.1
Total	580	715	(18.9)

Open Interest	(Rs. bn.)		
	Segment	Today	Prev Day
Index Futures	156	158	(1.00)
Stock Futures	309	314	(1.53)
Index Options	539	531	1.36
Stock Options	44	42	4.10
Total	1,048	1,046	0.24
Total	1,940	1,933	0.35

HDFC SEC MACO	Strike Price	OI*	Chg. In OI*
NIFTY	5200	4,579	482
NIFTY	5100	3,802	488
SUZLON	85	2,685	735
NIFTY	5300	3,837	613

Expiry Date :31 Dec, 2009

**HDFC SEC MOST ACTIVE PUT OPTIONS (MAPO)**

HDFC SEC MAPO	Strike Price	OI*	Chg. In OI*
NIFTY	5000	5,384	(289)
NIFTY	5100	2,839	(231)
NIFTY	4900	4,907	312
NIFTY	4800	4,210	(161)

Expiry Date :31 Dec, 2009

**HDFC SEC MOST ACTIVE FUTURES (MAF)**

HDFC MAF	OI*	Chg. In OI*
SUZLON	53,367	2,118
UNITECH	49,842	639
IFCI	83,820	(362)
HINDALCO	26,913	(233)

Expiry Date :31 Dec, 2009

**Highest Cost of Carry(Rs.)**

Scrip	Cash Price	Fut Price	Coc in %
TULIP	928.95	935.80	11.21
CESC	392.35	394.60	8.72
ORCHIDCHEM	209.90	211.10	8.69

\*OI &amp; Number of contracts in thousands

**MARKET SNAPSHOT**

	Today	Prev Day	% Change
Total Volume (Rs. bn)	580	715	(18.9)
Total OI (Rs. bn)	1,048	1,046	0.3
Call OI (Rs. bn)	260	249	4.5
Put OI (Rs. bn)	323	325	(0.7)
Total P/C Ratio (Volume)	0.5	0.5	(2.2)
Total P/C Ratio (OI)	0.6	0.6	(5.7)

**Outlook for the day:**

On Monday, Nifty Index Futures shed OI by 0.51% taking the outstanding OI to 28.01 m units. The PCR (OI) for Nifty dropped to 1.35 from 1.42. Nifty Call OI addition was at 5300 (+0.78m) strike followed by 5200 (+0.50m). For Nifty Puts OI addition was at 4900 strike (+0.31m) and unwinding at 5100 (+0.22m) and 5000 strikes (+0.21m). The maximum OI outstanding for Nifty Calls was at 5200 (5.07m) and for Puts at 5000 (7.84m) strikes.

**Conclusion:**

Considering Nifty's rally from 4807 to 5181, it is likely to find support at 5038 which is the 38% of this rally. Nifty also has multiple resistances at 5181, which if cleared can trigger a sharp upmove. Immediate resistance is at 5100 levels

**NIFTY CASH PIVOTS (Daily)**

R1	R2	R3
5100	5160	5234
S1	S2	S3
5038	4950	4826

**HDFC SEC BULL ACTIONABLES FOR THE DAY**

Name	Rate Chg.%	OI Chg.%	Vol Chg. %
SUZLON	5.0	4.3	97.9
INDHOTEL	3.2	6.2	461.9
CUMMINSIND	2.8	11.2	7.2
GSPL	2.3	3.1	43.4
PETRONET	2.0	0.7	102.2

**HDFC SEC BEAR ACTIONABLES FOR THE DAY**

Name	Rate Chg.%	OI Chg.%	Vol Chg. %
TATACOMM	(5.81)	28.79	291.76
BAJAJHIND	(3.30)	7.12	7.22
RELIANCE	(3.04)	3.85	25.99
DLF	(2.96)	2.63	0.61
CAIRN	(2.80)	3.95	26.14

**FII TRENDS (Rs. bn)**

	Buy	Sell	Net
INDEX FUTURES	7.70	13.28	(5.58)
INDEX OPTIONS	21.64	19.74	1.90
STOCK FUTURES	6.15	10.55	(4.40)
STOCK OPTIONS	0.43	0.51	(0.08)
CASH MARKET	18.99	20.90	(1.92)
Total	54.92	64.98	(10.07)
Net Flow DER/CASH (%)			200.56

**Lowest Cost of Carry(Rs.)**

Scrip	Cash Price	Fut Price	Coc in %
GTOFFSHORE	513.35	495.25	(53.62)
SESAGOA	378.75	368.00	(43.17)
TATACHEM	315.15	311.30	(18.58)

## Institutional Research

All prices in INR

Initiated Trading Call							
Name	Date	Action	Avg. price	Stop Loss	Target	Closing	Remark
HOTEL LEELA DEC FUT	08-Dec-09	BUY	42	40.85	46.5	42.25	

Pending Calls							
Name	Profit/loss	Action	Initiated Price	Stop Loss	Target	Closing	Status
ROLTA DEC FUT	-7.40	BUY	185	171	206	177.6	HOLD

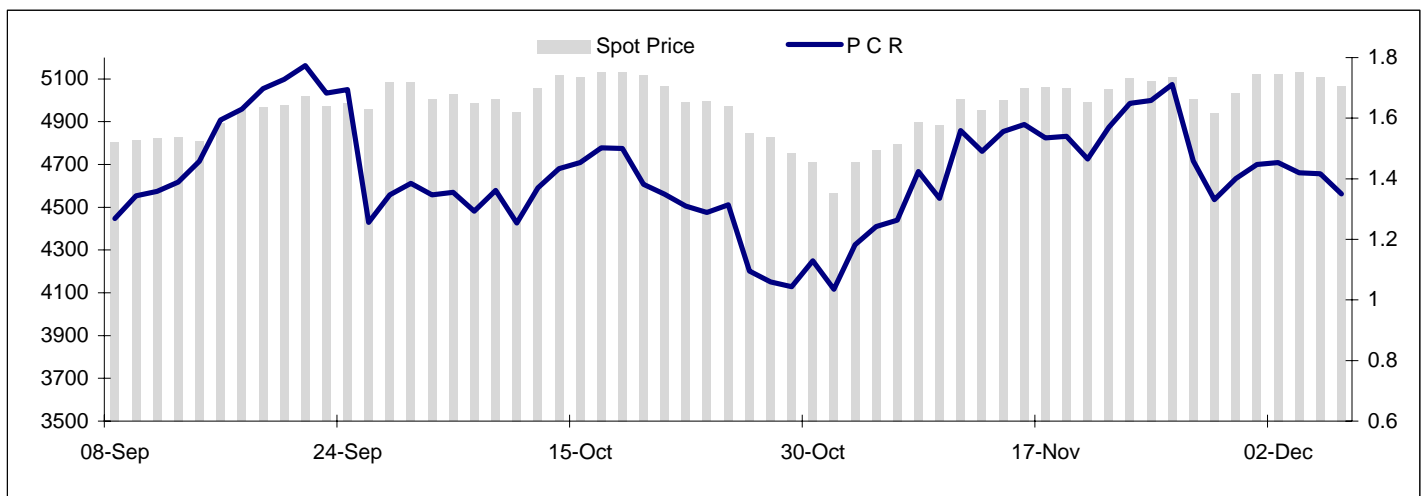
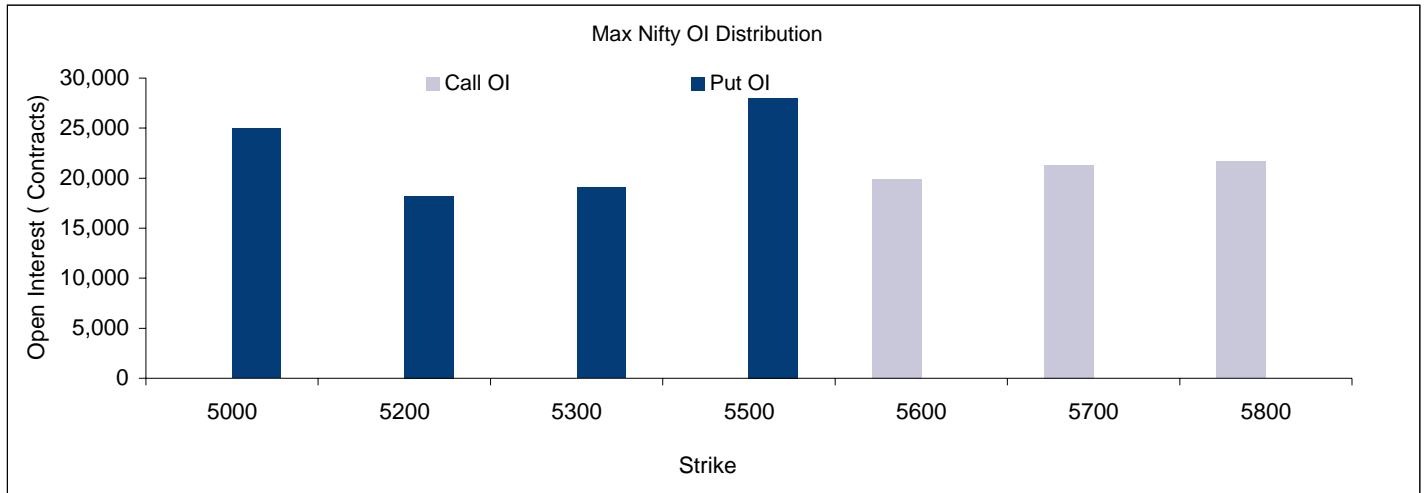
Closed Calls							
Name	Profit/loss	Action	Initiated Price	Stop Loss	Target	Closing	Status
ASHOK LEYLAND NOV FUT	6.50	BUY	45.5	43.25	49	52	TGT ACH
MPHISIS DEC FUT	-23.00	SELL	725	735	650	702	TGT ACH
RANBAXY DEC FUT	80.80	BUY	425	405	460	505.8	TGT ACH
RECL DEC FUT	18.00	BUY	234	226	260	252	TGT MET
CANBK DEC FUT	1.95	BUY	395	380	425	396.95	TGT MET
IRB INFRA	-11.00	BUY	258	248	292	247	SL

Initiated Option Strategies							
Name	Action	Avg. price	Stop Loss	BEP	Closing	Remark	

Pending Option Strategies							
Name	Action	Avg. price	Stop Loss	BEP	Closing	Remark	

Closed Option Strategies							
Name	Profit/loss	Recomm Price	Closing	Remarks			

\* All three legs to be executed simultaneously BP=Book Profit/Booked Profit BL=Book Loss TR SL=Trail Stoploss  
 SL TRG=Stop Loss Triggered TR SL Trg=Trailing Stoploss Triggered SL of 5% to be followed if not seperately mentioned  
 \*\*Ignore the call if it opens with Gap in opposite direction

**Institutional Research**


Sectoral Open Interest Build Up (Contracts) for 1 day				
Sector	OI*	OI-D**	% OI Chg	% Chg
Hotels	14086.42	13319.17	5.76	2.77
Sugar	42377.58	40864.20	3.7	-2.09
Power	112225.78	109602.68	2.39	0.4
Entertainment	1723200.00	1695000.00	1.66	-0.73
Real Estate	51030.00	50256.00	1.54	-1.69
	25354.06	25111.44	0.97	-0.25
Engineering	24731.59	24562.20	0.69	-0.16
Petrochem & Gas	107010393.00	106905904.00	0.1	-0.7
Construction	79012.10	79018.42	-0.01	-0.58

\*OI & Number of contracts in thousands

\*\* OI for previous day

Cost Of Carry Movement							
Highest Cost of Carry				Lowest Cost of Carry			
Scrip	Cash Price	Fut Price	Coc in %	Scrip	Cash Price	Fut Price	Coc in %
TULIP	928.95	935.80	11.21	GTOFFSHORE	513.35	495.25	-53.62
CESC	392.35	394.60	8.72	SESAGOA	378.75	368.00	-43.17
ORCHIDCHEM	209.90	211.10	8.69	TATACHEM	315.15	311.30	-18.58
PANTALOONR	351.55	353.55	8.65	ONGC	1179.05	1165.25	-17.80
TTML	26.45	26.60	8.62	BANKBARODA	530.55	525.55	-14.33

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