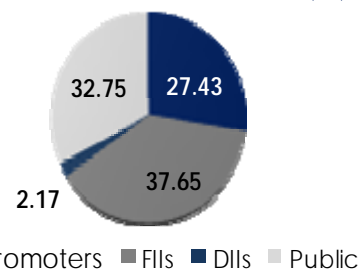


## INVESTOR'S DELIGHT

1<sup>ST</sup> MARCH, 2011

COMPANY	OPTO CIRCUITS LTD.
NSE Code	OPTOCIRCU
BSE Code	532391
FV	Rs.10
Equity Capital (Rs in mn)	1,830
Market Capitalization (Rs in mn)	45,933
<b>CMP</b>	<b>Rs. 251</b>
<b>Target Price</b>	<b>Rs. 311</b>
<b>Upside</b>	<b>24%</b>

### SHAREHOLDING PATTERN (%)



## FINANCIAL SUMMARY

### INCOME STATEMENT (Rs. in mn.)

Particulars	FY09	FY10	FY11E	FY12E
Net sales	8,186	10,776	15,086	20,819
Operating Profit	2,591	3,669	4,224	5,413
<b>OPM (%)</b>	<b>31.7</b>	<b>34</b>	<b>28</b>	<b>26</b>
Other Income	288	(76)	-	-
Depreciation	(138)	(278)	(477)	(581)
Interest	(537)	(382)	(271)	(302)
<b>PBT</b>	<b>2,204</b>	<b>2,933</b>	<b>3,476</b>	<b>4,530</b>
Prior period adjustment	(35)	(32)	-	-
<b>PBT and after exceptional</b>	<b>2,169</b>	<b>2,901</b>	<b>3,476</b>	<b>4,530</b>
Tax	(75)	(30)	(356)	(462)
<b>PAT</b>	<b>2,094</b>	<b>2,871</b>	<b>3,120</b>	<b>4,068</b>
<b>PAT (%)</b>	<b>25.6</b>	<b>26.6</b>	<b>20.7</b>	<b>19.5</b>
Outstanding shares (mn)	183	183	183	183
EPS	11.4	14.2	17.1	22.2
P/E(x)	22	17.6	14.7	11.3
ROE(%)	40.4	25.5	23.4	23.4
ROCE(%)	26	26.5	22.8	24.5

Source: Company, Ajcon Research



## ABOUT THE COMPANY

### Background

Opto Circuits Ltd is engaged in designing, developing, manufacturing, and distributing devices in the medical space. The company operates in segments like a) invasive and b) non – invasive. The company operates in the invasive segment through its 100% subsidiary EuroCor, which specialises in research, development, and manufacture of interventional cardiology products. Its non-invasive product profile includes SPO<sub>2</sub>, multi-parameter monitors, pulse oxy-meters, digital thermometers, and fluid warmers.

## INVESTMENT RATIONALE

### Huge potential in patient monitoring systems market

International patient monitoring systems markets (PMS) have grown rapidly in recent years, due to factors such as ageing population, increased incidence of heart disease and other conditions requiring close patient monitoring, and technological developments such as wireless remote monitoring. The actual size of the global PMS market is expected to rise from Rs. 47 billion in 2010 to Rs. 57 billion by 2011, which represents a huge opportunity for Opto Circuits.

### Largest player in the domestic medical equipments space

In the domestic medical equipments space, the company has emerged as the largest player. This is mainly attributable to its vast product range, technological innovation. It currently has rights over 35 product patents, with 28 applications pending. The product profile of the company consists of ~ 90 products spread across the noninvasive and invasive segments of medical devices and it also provides ancillary and complementary services for its patient monitoring devices. With manufacturing operations located in India, Germany and U.S., and marketing presence in ~56 countries, it has emerged as a player to reckon with on the global arena.

### Expansion of product portfolio through inorganic route

In its quest to expand its product portfolio, the company's strategy has been adoption of an inorganic route. Till date it has acquired Eurocor, Criticare, Advanced Micronic Devices - the digital thermometers business of Hindustan Lever, the patient monitoring systems business of Palco Laboratories, etc. Criticare will launch its first ever modular and green patient monitoring system - eVision 9100. It will also introduce a modular gas bench - Poet IQ 8500H and eTraQ, a compact, portable, multi-parameter monitor. Criticare's non-invasive products will be sold across the globe. Recently, Opto received FDA approval for its model Sequel a patient monitoring system developed by Criticare.

Eurocor is ready with Magical, a CE-marked novel drug-eluting option. The product is set to compete with conventional drug-eluting stent options for some applications. Freeway, a paclitaxel eluting balloon dilatation catheter for peripheral arteries will also be launched by Eurocor. The two Eurocor products will be marketed in all markets except the US and Japan. The market size is pretty big. The total addressable market size for its products is more than US\$10bn. The company has been



trying to get the US FDA approval for its invasive products which if it comes could be a rating factor for the stock.

Opto is looking at acquiring companies in the healthcare and medical equipment space to complement its organic growth plans. This has enabled it garner a larger share of the spend of the healthcare providers it has been targeting in developed as well as developing countries.

### **New launches to aid in bidding, higher contribution to revenues expected**

With the new launches, the company will have a complete range of products in the non-invasive segment. For e.g. the modular gas bench which it has developed; only a few medical device companies in the world can boast of having this product in their portfolio. A lot of OEMs have shown interest in its gas bench. With improved product mix, it would bid for big tenders. The company expects good contribution from new products to revenues. The management is optimistic and confident about its new product launches. The medium term growth is likely to be driven by non-invasive businesses. N

### **OUTLOOK AND VALUATION**

At the CMP, the stock is valued at 11x at estimated FY12 EPS. We expect the company to witness revenue CAGR of 39% and earnings CAGR of 25% over the period FY10-12E.

With due consideration to factors like a) improved product mix, b) new launches to drive revenue growth, b) possibility of upsides from expected launches of products from Eurocor and Criticare, we recommend **'BUY'** with a target price of Rs.311(14x estimated FY12EPS) for investors with a horizon of 12 months.



## Disclaimer

This document has been prepared by Ajcon Global Services Ltd. and is meant for the recipient for use as intended and not for circulation. This document should not be reported or copied or made available to others. The information contained herein is from the public domain or sources believed to be reliable. While reasonable care has been taken to ensure that information given is at the time believed to be fair and correct and opinions based thereupon are reasonable, due to the very nature of research it cannot be warranted or represented that it is accurate or complete and it should not be relied upon as decision such.

Ajcon Global, its directors and employees, will not in any way be responsible for the contents of this report. This is not an offer to sell or a solicitation to buy any securities. The securities discussed in this report may not be suitable for all investors. Investors must make their own investment based on their own investment objectives, goals and financial position and based on their own analysis.