

# Opto Circuit (India) Limited (OCIL)

**BUY**

**CMP: Rs.221.00**

**Date: March 22, 2010**

**Target Price: Rs.254.00**

**Market Cap.: Rs.40420.90mn.**

## Key Ratios:

| Particulars   | FY09  | FY10E | FY11E |
|---------------|-------|-------|-------|
| OPM (%)       | 34.8  | 33.8  | 34.2  |
| NPM (%)       | 25.6  | 26.1  | 27.0  |
| ROE (%)       | 35.7  | 30.2  | 27.2  |
| ROCE (%)      | 24.6  | 26.8  | 25.2  |
| P/BV(x)       | 6.07  | 4.63  | 3.37  |
| P/E(x)        | 17.04 | 15.31 | 12.36 |
| EV/EBITDA (x) | 12.54 | 11.83 | 9.75  |

## Key Data:

|                       |               |
|-----------------------|---------------|
| Sector                | Capital Goods |
| Face Value            | Rs.10.00      |
| 52 wk. High/Low (Rs.) | 247.90/80.50  |
| Volume (2 wk. Avg.)   | 94000         |
| BSE Code              | 532391        |

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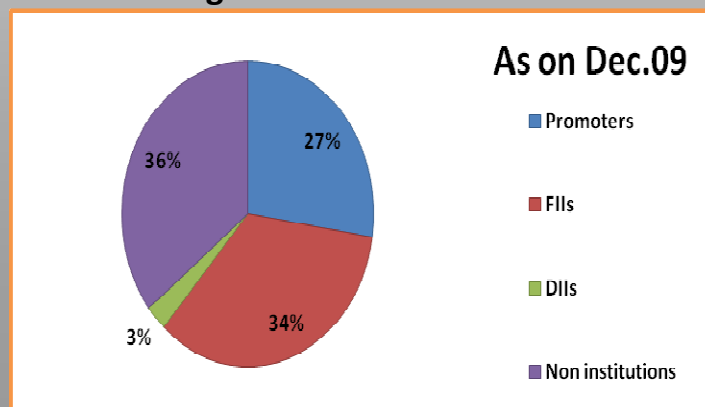
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## SYNOPSIS

- Opto Circuits India Ltd. is a leading provider of healthcare systems and tools to a wide range of OEMs, hospitals & alternate healthcare environments throughout the world.
- The Company Subsidiary Eurocor GmbH received the CE mark approval for marketing and sale of its novel drug Eluting Stent-Taxcor plus in world markets.
- The performance of the company is expected to accelerate through Criticare acquisition.
- The Company has developed a new pocket size finger pulse oximeter (SPO2), named M50 NanoSAT, one of the smallest and lightest of such monitors available in the market today.
- Opto Circuits wholly owned US based subsidiary, Criticare Systems, has forged a strategic multi year OEM (original equipment manufacturing) contract with another US company to provide label its anesthesia monitor for signed partner.
- Opto Circuits India set to introduce next generation medical products into world markets.
- The revenue and PAT of the company are expected to grow at a CAGR of 37% & 35% over FY08 to FY11E.

## Share Holding Pattern:



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## Investment Highlights

- **Q3 FY10 Results Update**

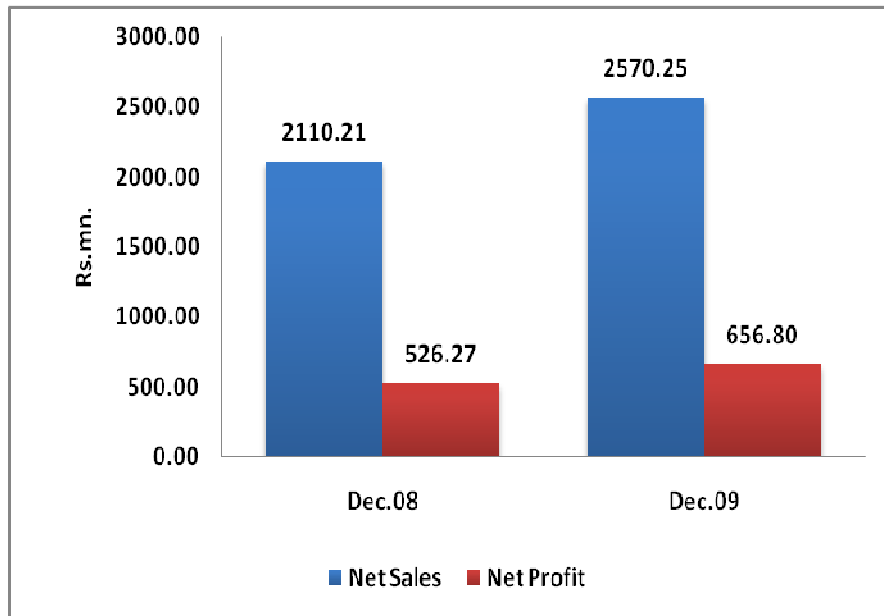
Opto Circuits (India), the Bangalore-based manufacturer of coronary stents and other diagnostic equipment, reported consolidated net profit of Rs 656.80 million, a growth of 24.80 per cent for the third quarter ended Dec 31, 2009 compared to the corresponding quarter last year.

Its consolidated sales for the quarter rose by 21.81 per cent to Rs 2570.25 million compared to the same period a year ago. In the same period, total income of the company was at Rs 2509.56 million, a rise of 13.73% over the prior year period. Basic earnings per share for Q3 FY10 worked out to Rs 3.59, as against Rs 3.29 in Q3 FY09. During the quarter company set to introduce next generation medical products into world markets.

| Quarterly Results - Consolidated (Rs in mn) |          |          |         |
|---|----------|----------|---------|
| As at                                       | Dec - 09 | Dec - 08 | %Change |
| Net Sales                                   | 2570.25  | 2110.11  | 21.18   |
| Net Profit                                  | 658.80   | 526.27   | 24.80   |
| Basic EPS                                   | 3.59     | 3.29     | 9.12    |

- **Net Sales & Net Profit Growth**

The consolidated sales for the quarter rose by 21.81 per cent to Rs 2570.25 million compared to the same period a year ago & consolidated net profit of Rs 656.80 million, a growth of 24.80 per cent for the second quarter ended Dec 31, 2009 compared to the corresponding quarter last year.



- **Opto’s subsidiary EuroCor becomes first ever to complete Aortic Valvuloplasty**

Opto Circuits India’s European subsidiary, EuroCor GmbH, recently had the distinction of its marquee CE-marked product, DIOR the paclitaxel coated coronary balloon dilatation catheter, being the first drug eluting balloon to be used in Canada. The angioplasty procedure was successfully performed by Oliver Bertrand using the special access program from Sante Canada. The data from these procedures will be included in the Valentines trial that started on Feb. 14, 2010.

- **Opto Circuit subsidiary gets CE approval for Taxcor Plus**

Opto Circuits India (OCI) wholly owned subsidiary Eurocor GmbH, has received the CE (communitie European) mark approval for marketing and sale of its novel Drug Eluting Stent-Taxcor Plus in world markets (sans US and Japan). Taxcor Plus is on a Cobalt Chromium platform with Stent struts of 0.0025, which is one of the thinnest struts available in the industry. The stent is coated with Paclitaxel (1 pg/mm<sup>2</sup>).

- **OCIL set to introduce next generation medical products into world markets**

Opto Circuits India Ltd (OCIL), India’s indigenously grown international medical device company, is to set release its new generation medical technologies for the world markets. Many months of research, product development and approvals’ process finally culminated in 5 critical new offerings, 3 from its Wisconsin-based subsidiary Criticare

Systems Inc. and 2 from Bonn- based subsidiary Eurocor GmbH, ready to be introduced to distributors and clinicians around the world.

- **Launches patient monitor at German show**

Opto Circuits India and its subsidiaries- US based Criticare Systems (CSI) and Mediaid, are participating in the world forum for Medicine, Medica in Dusseldorf. The focus of this year`s show is the global launch of CSI`s new patient monitor, the eVision, a modular design featuring a 15 inch high resolution touch screen display with an interactive user interface.

CSI is also showcasing its entire range of gas benches, multi- parameter monitors and SPO2 sensors in an extravagant display where even a new pod style meeting room was incorporated into year`s booth design to hold private meetings with distributors and potential customers. CSI has sales and engineering personnel available at the booth.

- **Ranks amongst Forbes` Asia`s 200 best in billion cos**

Opto Circuits India (OCI), one of the leading Indian companies that develop, manufacture and market medical devices for global markets, was awarded the prestigious ranking of being one of the 200 best under a billion Asian companies by esteemed business magazine Forbes in its fifth such annual listing, OCI garnered the ranking for the second consecutive year.

- **Opto`s subsidiary makes intelligent controller for PMS**

Opto Circuit India has announced that Advanced Micronic Devices (AMDL), its India-based subsidiary, has manufactured the intelligent controller (core function) for the parking management system (PMS). The PMS is a product of AMDL & Exultsoft Technologies. The system is working in the most demanding parking requirements of various malls, corporate, public parking and service providers.

The core function of the PMS, powered by AMDL, can be augmented for power and flexibility with options such as, Solar Power Panel, built in coin or note operating mechanism, GPRS connectivity to the centralized host and remote monitoring of the operations. Apart from this, the system can also be programmed to suit the needs of each individual requirement.

- **Opto`s subsidiary inks pact with US based firm**

Opto Circuits (OCI) wholly owned US based subsidiary, Criticare Systems, has forged a strategic mutli year OEM (original equipment manufacturing) contract with another US company to provide label its anesthesia monitor for signed partner.

- **Opto`s US arm inks pact with Europe based firm**

Opto Circuits (OCI) announced that its wholly owned US-based subsidiary, Criticare Systems (CSI), has signed a strategic long term agreement with a European manufacturer and distributor of medical equipment. The agreement involves the supply of private label patient monitoring system by CSI to the partner as well as cooperation in sales and distribution of anesthetic gas delivery products in several key markets, both in the United States and Europe.

The agreement also seeks to leverage OCI`s manufacturing infrastructure in India for the partner`s non-invasive range of products and cooperation in sale and support of such products in the fast growing Indian market.

### **Investment Rationale**

- OCIL has a strong presence in Medical Equipment industry with diverse range of critical care & tertiary care medical devices. The industry is relatively insulated from any economic slowdown as these are non-discretionary spends. As per World Health Organization (WHO), the industry, which has been growing in excess of 15% p.a, is expected to grow 10% p.a. over next decade. This will lead to medical equipment market size of USD 428 bn by CY2013. OCIL, being one of the leading players in the industry is expected to capitalize on the growing opportunities.
- Acquisitions & alliances have enabled OCIL to expand its product & client base & to strategically segment itself into the invasive & non-invasive markets. In the last nine years, OCIL has made eight successful acquisitions of which Eurocore & Criticare acquisitions have been major turning points. Eurocore is a pioneer in the field of invasive cardiology while Criticare has established product & technological leadership in anesthetic gas monitoring, vital signs monitoring, gas & agent analysis. These two acquisitions are expected to be the major catalyst for OCIL`s future growth.
- OCIL constantly launches new & innovative products every year both under the invasive & non-invasive categories, which are expanded aggressively in new markets. OCIL has a very strong marketing & distribution network, which enables it to improve its brand image & boost the sales. OCIL`s 59.7% subsidiary, Advance Micronic devices, has been a

medical equipment distributor in India for approximately three decades, while its 100% US subsidiary Mediaid distributes its medical devices internationally. Further, for promoting its products, OCIL uses alternate channels like conducting various seminars & summits & inviting cardiologists to participate.

- The new launches expected this fiscal (gas bench module, modular patient monitoring system & patient monitoring system with networking capability) under the non-invasive category & Eurocor's unique invasive products viz; 'Magical' (which is a combination of a drug-eluting balloon with a bare metal stent) & Cobalt Chromium stent are expected to add to OCIL's revenue going forward. Also the strategic technology sharing agreement entered into by OCIL recently with US based Micell Technologies for jointly developing new stent & balloon systems for world markets would enable OCIL to further enhance its revenue by addressing additional market opportunities.
- OCIL holds 35 patents through its subsidiaries, which enables it to change product design & configuration. IPR can also be rented to third party, which generates royalty.
- To lower the production costs, OCIL has taken steps to transfer traditionally outsourced manufacturing by its US operations to its facilities in India. OCIL has shifted nearly 35% assemblies, sub-assemblies & testing practices of Criticare Inc to Bangalore. This is expected to improve consolidated operating margins. Also, two of the OCIL's five manufacturing facilities in Bengaluru are currently registered as 100% EOUs, which enjoy tax-free status. OCIL has also set up a subsidiary 'OCI Infrastructure Ltd' for setting up an SEZ. In case EOU benefit is not extended beyond FY11, OCIL could shift its operation there & avail of continued tax exemption. This coupled with the expected reduction in interest liability due to repayment of loan taken for Criticare acquisition (Rs. 2040 mn) out of the recently raised QIP funds of Rs. 4000 mn is expected to keep the PAT margins on a higher side.
- OCIL is an investor friendly company, which has a good track record of paying consistent dividends since FY01. Going forward, we expect OCIL to continue enriching its shareholders wealth with healthy dividend payouts.

## Company Profile

Opto Circuit (India) Limited (OCIL) is a Bangalore based company engaged in the design, development, manufacturing, marketing and distribution of medical electronic devices and medical monitoring products employing sensing and detection techniques, from two manufacturing units in Bangalore. Today the company established itself as a supplier of non-invasive OEM Optical sensors in the field of patient monitoring system.

## Peer Group Comparison

| Name of the company             | CMP<br>(As on<br>March.<br>22,<br>2010) | Market<br>Cap.<br>(Rs. Mn.) | EPS<br>(Rs.) | P/E (x) | P/BV (x) | Dividend (%) |
|---------------------------------|---|-----------------------------|--------------|---------|----------|--------------|
| Opto Circuit (India)<br>Limited | 221.00                                  | 40420.90                    | 12.97        | 17.04   | 6.07     | 40.00        |
| Siemens Healthcare              | 1400.00                                 | 2194.3                      | 46.17        | 30.32   | 4.49     | 100.00       |
| Apollo Hospitals                | 729.50                                  | 45072.1                     | 24.59        | 29.67   | 3.30     | 65.00        |

## Key Concerns

- Slowdown in the economy of US and Europe, where the company exports majority of its product, may have an impact on the topline of the company for sometime.
- Obsolescence of technology that the company is adopting may have an adverse impact on the financial condition of the company.
- Competition from domestic as well as international players of the sector is a major concern for the company. If the company is not able to compete effectively, it will effect the company's operations as well as financial conditions.

## Financials

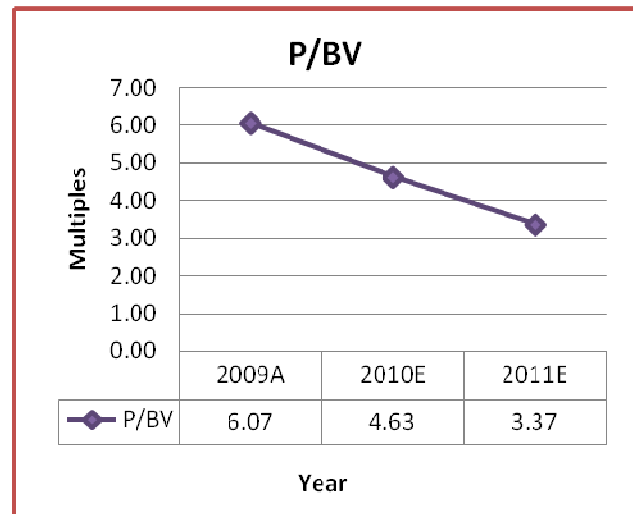
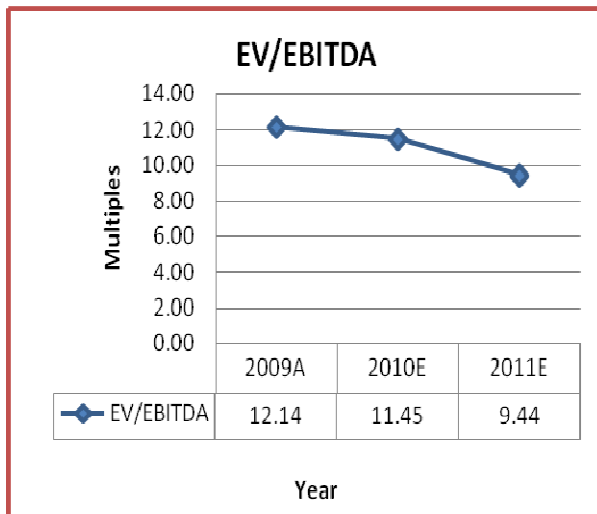
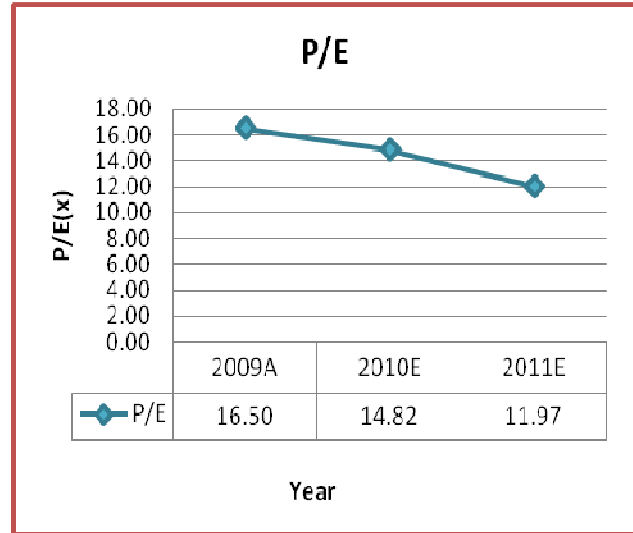
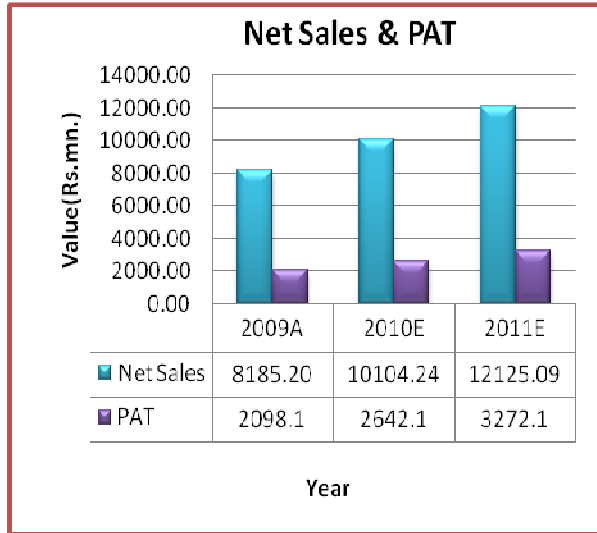
### 12 Months Ended Profit & Loss Account (Consolidated)

| Value(Rs. in million)    | FY08A          | FY09A          | FY10E           | FY11E           |
|--------------------------|----------------|----------------|-----------------|-----------------|
|                          | 12m            | 12m            | 12m             | 12m             |
| <b>Description</b>       |                |                |                 |                 |
| <b>Net Sales</b>         | <b>4680.78</b> | <b>8185.20</b> | <b>10104.24</b> | <b>12125.09</b> |
| Other Income             | 170.67         | 287.67         | -49.61          | 85.34           |
| <b>Total Income</b>      | <b>4851.45</b> | <b>8472.87</b> | <b>10054.63</b> | <b>12210.42</b> |
| Expenditure              | -3317.61       | -5626.98       | -6637.14        | -8063.18        |
| <b>Operating Profit</b>  | <b>1533.84</b> | <b>2845.89</b> | <b>3417.49</b>  | <b>4147.24</b>  |
| Interest                 | -108.67        | -537.02        | -386.79         | -406.12         |
| <b>Gross Profit</b>      | <b>1425.17</b> | <b>2308.87</b> | <b>3030.70</b>  | <b>3741.12</b>  |
| Depreciation             | -62.86         | -138.10        | -247.30         | -296.76         |
| <b>Profit before Tax</b> | <b>1362.31</b> | <b>2170.77</b> | <b>2783.40</b>  | <b>3444.36</b>  |
| Tax                      | -38.40         | -72.72         | -141.35         | -172.22         |
| <b>Profit after Tax</b>  | <b>1323.91</b> | <b>2098.05</b> | <b>2642.05</b>  | <b>3272.14</b>  |
| Minority Interest        | 0.00           | -3.61          | -1.84           | -2.21           |
| <b>Net Profit</b>        | <b>1323.91</b> | <b>2094.44</b> | <b>2640.21</b>  | <b>3269.93</b>  |
| Equity Capital           | 941.72         | 1614.69        | 1829.00         | 1829.00         |
| Reserves                 | 2170.61        | 4265.05        | 6907.10         | 10179.24        |
| Face Value               | 10.00          | 10.00          | 10.00           | 10.00           |
| Total No. of Shares      | 94.17          | 161.47         | 182.90          | 182.90          |
| <b>EPS</b>               | <b>14.06</b>   | <b>12.97</b>   | <b>14.44</b>    | <b>17.88</b>    |

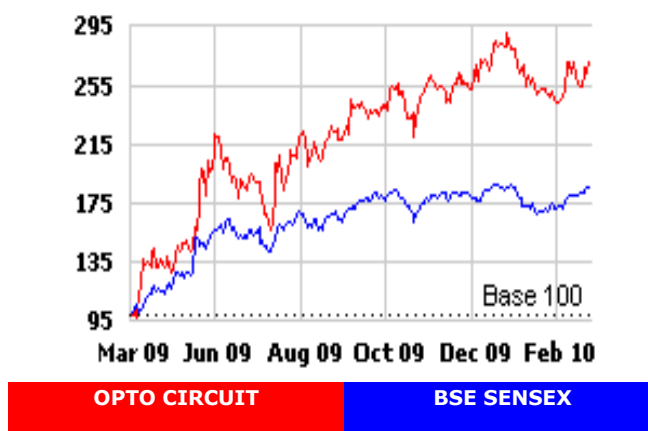
### Quarterly Ended Profit & Loss Account (Consolidated)

| Value(Rs. in million)    | 30-Jun-09 | 30-Sep-09 | 31-Dec-09 | 31-Mar-10E |
|--------------------------|-----------|-----------|-----------|------------|
|                          | 3m        | 3m        | 3m        | 3m         |
| <b>Description</b>       |           |           |           |            |
| <b>Net Sales</b>         | 2303.59   | 2557.34   | 2570.25   | 2673.06    |
| Other Income             | 4.41      | 3.03      | -60.69    | 3.64       |
| <b>Total Income</b>      | 2308.00   | 2560.37   | 2509.56   | 2676.70    |
| Expenditure              | -1533.38  | -1649.91  | -1689.63  | -1764.22   |
| <b>Operating Profit</b>  | 774.62    | 910.46    | 819.93    | 912.48     |
| Interest                 | -134.72   | -104.26   | -72.10    | -75.71     |
| <b>Gross Profit</b>      | 639.90    | 806.20    | 747.83    | 836.77     |
| Depreciation             | -44.17    | -69.49    | -65.19    | -68.45     |
| <b>Profit before Tax</b> | 595.73    | 736.71    | 682.64    | 768.32     |
| Tax                      | -2.94     | -67.21    | -25.10    | -46.10     |
| <b>Profit after Tax</b>  | 592.79    | 669.50    | 657.54    | 722.22     |
| Minority Interest        | -0.12     | -0.22     | -0.74     | -0.76      |
| <b>Net Profit</b>        | 592.67    | 669.28    | 656.80    | 721.46     |
| Equity Capital           | 1614.69   | 1829.00   | 1829.00   | 1829.00    |
| Face Value               | 10.00     | 10.00     | 10.00     | 10.00      |
| Total No. of Shares      | 161.469   | 182.9     | 182.90    | 182.90     |
| <b>EPS</b>               | 3.67      | 3.66      | 3.59      | 3.94       |

## Charts



## 1 Year Comparative Graph



## Outlook and Conclusion

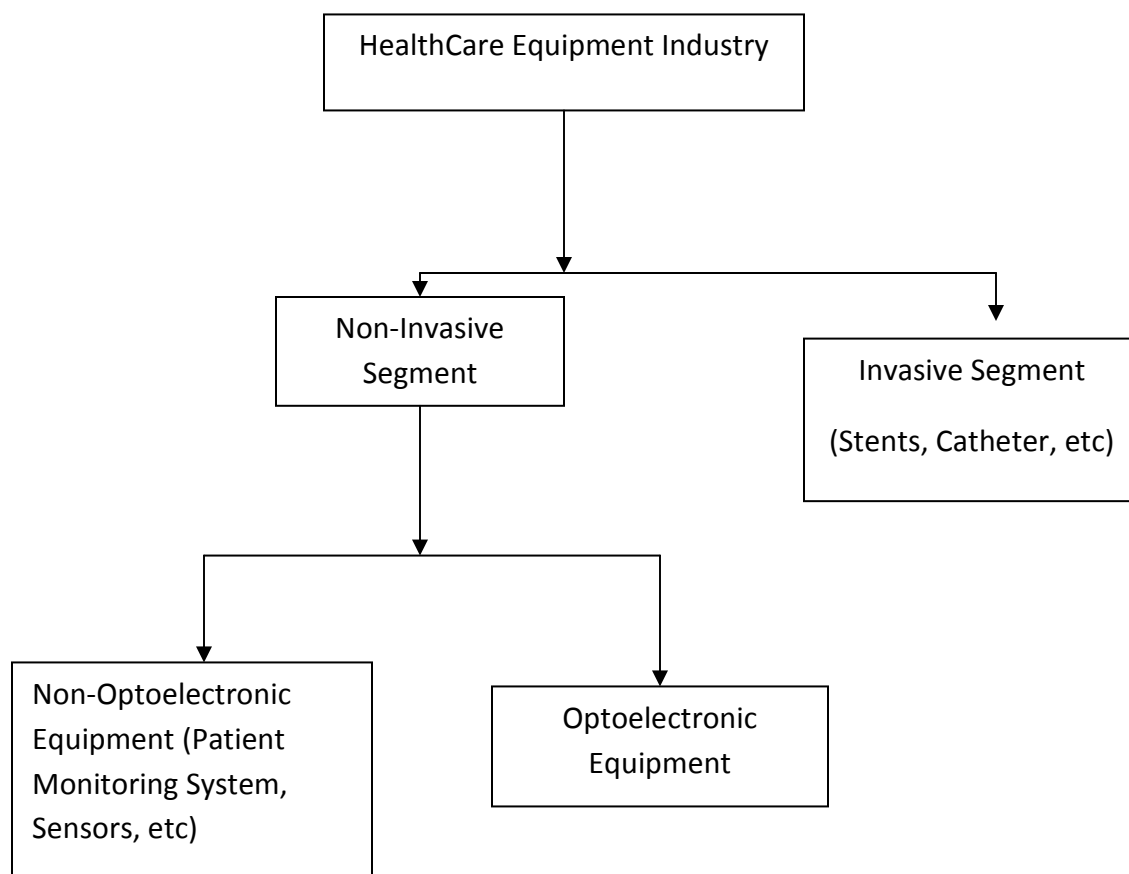
At the current market price of Rs.221.00, the stock trades at 15.31 times to its earnings of FY10E and 12.36 times to its earnings of FY11E. EPS for FY10E and FY11E are expected to be at Rs.14.44 and Rs.17.88 respectively per share. On the basis of EV/EBDITA, the stock trades at multiples of 11.83 for FY10E and at 9.75 for FY11E. At the current price, the stock trades at 4.63 times for its book value for FY10E and 3.37 times for its book value for FY11E. The revenue and profit of the company is expected to grow at a CAGR of 37% and 35% respectively over FY08 to FY11E. OCIL's consolidated turnover & PAT have grown at a CAGR of 80.2% & 75.5% respectively over FY06-09.

The new launches expected this fiscal (gas bench module, modular patient monitoring system & patient monitoring system with networking capability) under the non-invasive category & Eurocor's unique invasive products viz; 'Magical' (which is a combination of a drug-eluting balloon with a bare metal stent) & Cobalt Chromium stent are expected to add to OCIL's revenue going forward. Also the strategic technology sharing agreement entered into by OCIL recently with US based Micell Technologies for jointly developing new stent & balloon systems for world markets would enable OCIL to further enhance its revenue.

The company has acquired US based Criticare Systems during FY09. This is likely to boost the company's performance in the coming time. Large global opportunities in the medical device segment will also benefit the company. The company is also trying to enter in non-US market with Criticare's advanced products. Even we can't rule out any further acquisition by the company in the global market in the near future.

The 100% EOU status of the company is going to expire on March 2010. OCIL is currently working on developing a SEZ near Mysore and also planning to shift its manufacturing unit to the SEZ. This will help the company to get tax benefit for few years. The new central government is likely to extend the income tax benefit that the EoUs are enjoying currently for one more year. If such a decision will be taken by Govt., the company will be one of the beneficiaries through this. We are maintaining **BUY** in this scrip with a target price of **Rs.254.00** for medium term to Long term investment.

## Industry Overview



The healthcare equipment industry consists of invasive and non-invasive equipment segments. The non-invasive equipment segment is further classified as optoelectronic equipment segment and non-optoelectronic equipment.

## Overview

The healthcare industry in India has come a long way from the days when those who could afford it had to travel abroad. Today patients from neighboring countries, Middle East, UK and even US are coming to India for specialized treatment. The healthcare in India is delivered through both public and private sector. The number of patients visiting India for medical treatment is growing at an annual rate of 30%. More than four million people are employed in this industry.

The medical device and equipment industry in India is growing at a rapid pace. The industry is expected to reach USD 40 billion by 2012. Revenue from the healthcare sector accounts for 5.2% of the GDP. Healthcare segment is the third largest growth segment in India.

Government of India plans to improve health infrastructure by upgrading and increasing the total number of hospitals, clinics and clinical laboratories in urban and rural areas. This is expected to drive growth of in this sector. Another factor which drives the growth of this industry is the country's growing middle class, which can afford quality healthcare. In India, 80-85% of the health expenditure is borne by the patient; 12-15% by the government and 2-3% by the insurance sector.

## Medical Equipment and IT

With the boom in the healthcare sector, the ancillary industries such as healthcare equipment and information technology in healthcare is also witnessing a spurt. Investments into the medical and surgical instruments segment amount to USD 115.29mn over the period August 1991 to April 2007. Indian medical equipment market is expected to grow 15-20% by 2012 and expected to reach a market size of USD 5 billion.

Hospitals have realized that IT can be an effective tool towards efficient systems. In Asia, India has the fastest growing healthcare IT market, closely followed by China and India. The Indian healthcare technology market is expected to be worth more than USD 254 million by 2012.

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