

Opto Circuits (India)

 BSE code: 532391
 NSE code: OPTOCIRCU

CMP: Rs 562
Target: Rs 642 ↑

BUY
Alok Dalal

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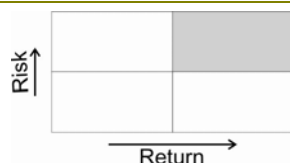
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Company data

Particulars	
Market cap (Rs bn / US\$ mn)	34.6/875.0
Outstanding equity shares (mn)	61.6
52-week high/low (Rs)	589/250
6-month average daily volume	35,810

Financial snapshot

Particulars	FY07	FY08E	FY09E
Sales (Rs mn)	2,515.7	4,034.6	6,012.8
Growth (%)	80.0	60.4	49.0
Adj net profit (Rs mn)	732.5	1,229.0	1,868.6
Growth (%)	89.1	67.8	52.0
FDEPS (Rs)	11.9	19.6	29.2
Growth (%)	88.8	64.6	49.2
P/E (x)	47.3	28.7	19.2
RoE (%)	49.6	44.4	44.2

Risk-return profile

Shareholding pattern

(%)	Sep-07	Jun-07
Promoters	30.4	31.0
FIIIs	24.1	24.2
Banks & FIs	4.3	4.1
Public	41.2	40.7

Stock performance

Returns (%)	CMP	1-mth	3-mth	6-mth
Opto Circuits	562	(1.9)	16.1	67.2
Sensex	18,771	10.9	19.0	31.9
BSE HC	3,833	3.8	1.2	(0.4)

Company website
www.optoindia.com
Soaring high; we upgrade estimates and target

Opto Circuits (India) has once again delivered a strong quarterly performance reporting sales and PAT growth above our estimates. Increasing demand for non-invasive products coupled with growing acceptance of stents and an increasing market reach has led to a 120% YoY growth in sales for the quarter. However, the EBITDA margin declined by 300bps on account of rupee appreciation of ~10% during the quarter. PAT witnessed a growth of 95% to Rs 341mn, translating into an EPS of Rs 5.5

Opto continues to outperform our estimates and our interaction with the management further increases our confidence in the company's future prospects. While EBITDA margins were slightly lower than estimates during H1FY08, a price hike for products expected at the beginning of 2008 would have a positive impact on margins. In light of the stellar performance recorded by Opto in H1, we have raised our revenue and PAT estimates by 8.4% and 12.4% for FY08 and by 14.1% and 18.6% for FY09 respectively.

At our revised estimates, the stock is trading at 28.7x FY08E EPS of Rs 19.6 and 19.2x FY09E EPS of Rs 29.2. We believe Opto deserves rich valuations considering the increasing earnings visibility and significant entry barriers to the business. We have valued Opto at 22x FY09E earnings (a 10% premium to the industry average) and thus have a revised target price of Rs 642 from Rs 517, representing an upside potential of 14.3%. We maintain our Buy rating.

Actual vs estimated performance

(Rs mn)	Actual	Estimated	% Variance
Net sales	1,237.6	1,071.2	15.5
EBITDA	365.0	337.0	8.3
PAT	340.8	312.0	9.2
EPS (Rs)	5.5	5.1	9.2

Source: Company, Religare Research

Quarterly results

(Rs mn)	Q2FY08	Q2FY07	Growth(%)	H1FY08	H1FY07	Growth(%)
Net sales	1,237.6	559.5	121.2	2,202.6	1,045.6	110.7
Expenditure	(872.6)	(377.9)	130.9	(1,541.6)	(726.4)	112.2
Operating profit	365.0	181.6	101.0	661.0	319.2	107.1
Other income	11.9	16.1	(26.1)	24.2	19.9	21.6
Interest	(24.7)	(16.7)	47.9	(45.2)	(37.1)	21.8
Depreciation	(7.4)	(5.7)	30.3	(14.7)	(10.2)	44.0
PBT	344.8	175.3	96.7	625.3	291.8	114.3
Tax	(4.0)	(0.8)	391.0	(6.3)	(1.6)	289.2
Adj PAT	340.8	174.4	95.4	619.0	290.1	113.4
OPM (%)	29.5	32.5	-	30.0	30.5	-
EPS (Rs)	5.5	2.8	-	10.0	18.8	-
P/E (x)	25.4	-	-	28.0	-	-

Source: Company, Religare Research

Result highlights

Robust revenue growth of 121% YoY and 28% QoQ

All-round growth recorded for the quarter

Opto has recorded a strong topline growth of 121% YoY to Rs 1.2bn. On a QoQ basis as well, the company has reported healthy growth of 28%. Increasing demand for non-invasive products like SpO2 sensors and pulse oximeters, coupled with rising acceptance of stents and rising market penetration were major growth drivers for the quarter.

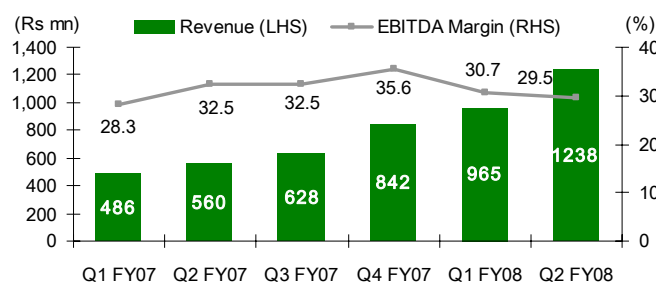
EuroCor products gaining increasing acceptance

EuroCor's paclitaxel drug eluting stent (DES) 'Taxcor' underwent a trial with a non-controlled sample of 45 patients recently. The results were published by B Singh in Minerva Cardioangiological which concluded that the product appeared to be effective and safe up to six months following implantation. EuroCor's products are still at a nascent stage and we believe such publications in international journals will lead to increasing acceptance of its products.

EBITDA margin dips due to currency impact

The company's EBITDA margin declined by 300bps to 29.5% mainly due to currency appreciation, with the rupee strengthening by ~10% versus the dollar during the quarter. On a standalone basis, Opto reported a loss of Rs 10mn on account of foreign exchange. While EBITDA margins were slightly lower than estimates during H1FY08, a price hike for products expected at the beginning of 2008 is likely to have a positive impact on margins.

EBITDA margin trend (%)



Source: Company, Religare Research

PAT nearly doubles to Rs 341mn, translating into an EPS of Rs 5.5

As the EBITDA margin was impacted by a stronger rupee, PAT failed to keep pace with sales growth for the quarter. All the same, PAT has nearly doubled to Rs 341mn, translating into an EPS of Rs 5.5 for the quarter and Rs 10 for H1FY07.

Valuation

FY08 and FY09 PAT raised by 12.4% and 18.6% respectively

Raising sales and PAT estimates for FY08 and FY09

In light of the stellar performance recorded by Opto in H1, we have revised our revenue and PAT estimates by 8.4% and 12.4% for FY08 and 14.1% and 18.6% for FY09 respectively. At our revised estimates, the stock is trading at 28.7x FY08E EPS of Rs 19.6 and 19.2x FY09E EPS of Rs 29.2.

Estimates revision for FY08 and FY09

(Rs mn)	FY08E			FY09E		
	New	Old	% Change	New	Old	% Change
Sales	4,034.6	3,722.3	8.4	6,012.8	5,268.9	14.1
PAT	1,229.0	1,093.0	12.4	1,868.0	1,575.0	18.6
EPS (Rs)	19.2	17.1	12.4	29.2	24.6	18.6

Source: Religare Research

Revised target price upwards to Rs 642, a 14% upside from current levels

Poised for rapid growth over next three years...

Opto is poised to witness high growth over FY07-FY10 as –

- ❖ EuroCor’s stents will cover a wider geographical base and gain greater acceptance
- ❖ Dior leverages on its first-mover advantage
- ❖ The base business remains strong, leveraging on new product launches and the low-cost advantage. Competitors are expected to take at least two to three years to receive FDA and CE approval.

...we upgrade target to Rs 642; Buy

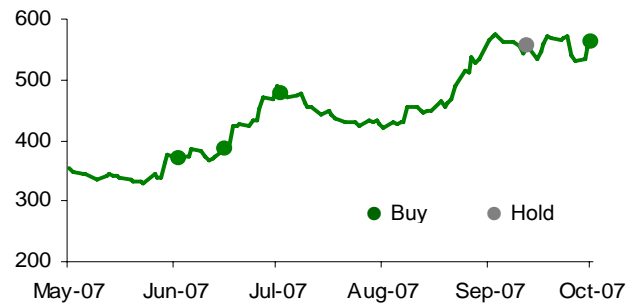
We maintain a Buy on the stock and believe that Opto should trade at 22x FY09E earnings which is a 10% premium to the industry average. We thus have a revised target price of Rs 642 from Rs 517, which represents an upside potential of 14.3%.

Recommendation history

Date	Event	Reco price	Tgt price	Reco
25-Jun-07	Initiating Coverage	376	456	Buy
10-Jul-07	Results Update	386	456	Buy
26-Jul-07	Results Update	475	517	Buy
4-Oct-07	Company Update	555	517	Hold
26-Oct-07	Results Update	562	642	Buy

Source: Religare Research

Stock performance



Source: Religare Research

Consolidated financials

Profit and Loss statement

(Rs mn)	FY06	FY07	FY08E	FY09E
Revenues	1,397.8	2,515.7	4,034.6	6,012.8
Growth (%)	13.8	80.0	60.4	49.0
EBITDA	426.8	825.7	1,335.4	2,014.3
Growth (%)	67.8	93.5	61.7	50.8
Depreciation	23.2	24.0	31.3	36.4
EBIT	403.5	801.7	1,304.2	1,977.9
Growth (%)	70.6	98.7	62.7	51.7
Interest	52.2	74.1	83.5	107.9
Other income	44.4	36.6	44.7	52.7
EBT	395.7	764.3	1,265.4	1,922.6
Growth (%)	91.7	93.1	65.6	51.9
Tax	8.8	22.1	38.1	57.9
Effective tax rate	2.2	2.9	3.0	3.0
Adj net income	387.3	732.5	1,229.0	1,868.6
Growth (%)	95.7	89.1	67.8	52.0
Shares outstanding (mn)	26.8	61.6	62.8	64.0
FDEPS (Rs)	14.5	11.9	19.6	29.2
DPS (Rs)	5.4	5.9	7.2	8.6
CEPS (Rs)	15.3	12.3	20.1	29.8

Source: Company, Religare Research

Cash flow statement

(Rs mn)	FY06	FY07	FY08E	FY09E
Net income	387.3	732.5	1,229.0	1,868.6
Depreciation	23.2	24.0	31.3	36.4
Other adjustments	75.5	2.6	15.3	23.8
Changes in WC	(324.2)	(413.6)	(646.4)	(1,089.3)
Operating cash flow	161.8	345.5	629.2	839.6
Capital expenditure	(33.8)	(536.1)	(45.2)	(57.4)
Investments	(235.9)	237.5	-	-
Other investing inc/(exp)	(115.3)	(231.2)	(185.6)	(477.1)
Investing cash flow	(385.0)	(529.9)	(230.9)	(534.5)
Free cash flow	(223.2)	(184.4)	398.4	305.1
Issue of equity	89.3	348.0	12.0	12.0
Issue/repay debt	422.7	(130.0)	100.9	50.0
Dividends paid	(143.6)	(366.2)	(451.4)	(552.0)
Others	(145.6)	652.0	425.6	378.0
Financing cash flow	222.8	503.8	87.1	(112.0)
Beg. cash & cash eq	101.9	101.6	421.1	906.5
Chg in cash & cash eq	(0.4)	319.5	485.5	193.1
Closing cash & cash eq	101.6	421.1	906.5	1,099.6

Source: Company, Religare Research

Balance sheet

(Rs mn)	FY06	FY07E	FY08E	FY09E
Cash and cash eq	101.6	421.1	906.5	1,099.6
Accounts receivable	741.6	1,187.4	1,683.7	2,465.5
Inventories	795.2	1,054.6	1,636.5	2,215.5
Others current assets	188.3	419.6	605.2	1,082.3
Current assets	1,826.6	3,082.6	4,831.9	6,863.0
LT investments	240.3	2.9	2.9	2.9
Net fixed assets	290.1	796.6	807.7	828.7
CWIP	6.6	12.2	15.0	15.0
Total assets	2,363.6	3,894.2	5,657.5	7,709.5
Payables	553.3	591.1	926.9	1,109.1
Others	165.1	418.8	514.8	604.3
Current liabilities	718.3	1,009.9	1,441.8	1,713.4
LT debt	775.1	645.1	746.0	796.0
Other liabilities	75.5	78.1	93.4	117.2
Equity capital	268.0	616.0	628.0	640.0
Reserves	526.7	1,545.0	2,748.3	4,442.9
Net Worth	794.7	2,161.0	3,376.3	5,082.9
Total liabilities	2,363.6	3,894.2	5,657.5	7,709.5
BVPS (Rs)	29.7	35.1	53.8	79.4

Source: Company, Religare Research

Financial ratios

	FY06	FY07	FY08E	FY09E
EBITDA margin (%)	30.5	32.8	33.1	33.5
EBIT margin (%)	28.9	31.9	32.3	32.9
Net profit margin (%)	27.7	29.1	30.5	31.1
FDEPS growth (%)	30.5	(17.7)	64.6	49.2
Receivables (days)	154.5	139.9	129.9	125.9
Inventory (days)	274.6	240.5	240.8	246.6
Payables (days)	190.1	148.8	135.8	130.4
Current ratio (x)	2.5	3.1	3.4	4.0
Interest coverage (x)	7.7	10.8	15.6	18.3
Debt/equity ratio (x)	1.0	0.3	0.2	0.2
ROE (%)	55.2	49.6	44.4	44.2
ROCE (%)	31.0	35.4	36.7	38.7
ROAE (%)	21.7	25.6	27.3	29.6
EV/Sales (x)	25.2	14.0	8.7	5.9
EV/EBITDA (x)	82.7	42.7	26.4	17.5
P/E (x)	38.9	47.3	28.7	19.2
P/BV (x)	19.0	16.0	10.5	7.1
P/CEPS (x)	36.7	45.8	28.0	18.9

Source: Company, Religare Research

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Recommendation parameters

Large-caps*	> 10%	< - 5%	Returns	Absolute
	BUY	SELL		
Mid-caps**	> 25%	< 10%		

*Market cap over US\$ 1bn **Market cap less than US\$ 1bn

Religare Securities

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