

Industry : Healthcare

CMP : Rs 330

Price Target : Rs 429

Buy

Research Analyst:

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Current

 CMP (INR) 330.00
 Price Target (INR) 429.00

Key Data

 Bloomberg code OPTC@IN
 Reuters code OPTO.BO
 BSE code 532391
 NSE code OPTICIRCU
 Face Value (INR) 10.00
 Market Cap. (INR Mn.) 31251.00
 52 Week High (INR) 587.00
 52 Week low (INR) 277.00
 Average Volume (Monthly) 101365
 Equity (Rs Mn) 497.00

Shareholding as on 31.12.07 (%)

 Total Promoters 30.30
 Non Institutions 39.70
 Institution 30.00
 Total 100.00

Returns (%)

	1M	3M	6M	1Yr
Absolute	-8.4	-15.8	24.3	99.1
Rel to Sensex	0.5	5.8	21.8	75.7

Opto Circuits India Ltd operates in a niche area of manufacturing of healthcare equipments in India. It is engaged in the design, development, manufacturing, marketing and distribution of medical electronic devices and monitoring products that employ sensing and detection techniques. The product portfolio of Opto Circuits comprises of sensors, probes, pulse oxymeters, patient monitoring systems and digital thermometers. Following the acquisition of Eurocor in FY06, Opto has successfully launched its Bare-Metal and Drug Eluting stents with focus in the Asian and European markets. It recently launched DIOR, a unique drug eluting catheter, which can be used in the treatment of coronary instent restenosis and small diameter coronary artery lesions. Eurocor is the only company in the world to have obtained CE certification for its drug eluting balloon catheters.

Valuations :

Opto's Net Sales and Profits are expected to grow at CAGR of 42% and 41% from FY08E to FY10E. At the CMP of Rs 330 the stock trades at 23.6x and 16.9x its FY08E and FY09E Diluted Earnings respectively. We recommend **BUY** on the stock with one year price target of Rs 429, an appreciation of 30% from the current level.

Investment Rationale.

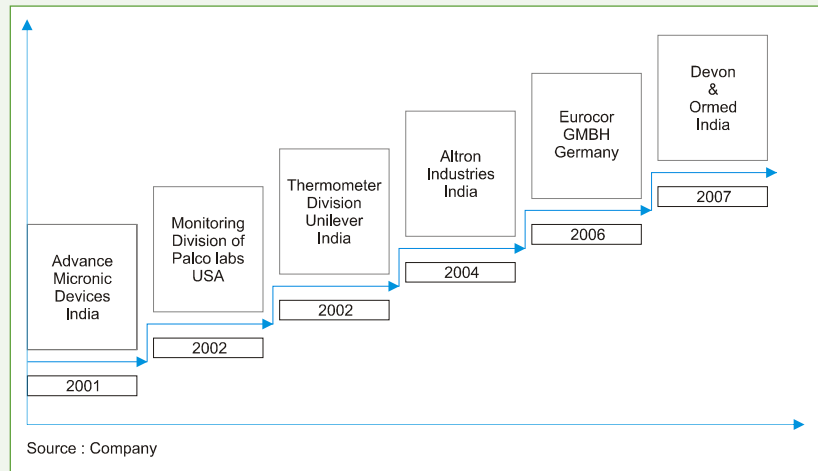
- Company has diversified products in Invasive & Non-Invasive segment.
- Acquisitions: A growth ladder.
- Opto Circuits receives USFDA approval for its new generation range of M30 and M40 models of patient monitors.
- Pricing strategy to acquire market share.
- Company's revenues to grow exponentially.
- Company has strong distribution network through its subsidiaries.
- Company has received a formal approval from the Central government to set up a SEZ (special economic zone).

Key Financials

(Rs mn)

	Sales	Growth (%)	EBIDTA (%)	PAT	Growth (%)	DEPS	P/BV	RoE	P/E
FY07	2515.7	80	33	732.6	90	7.7	9.6	34.5	42.7
FY08E	4525.0	80	32	1326.6	81	14.0	9.2	39.0	23.6
FY09E	6470.0	43	33	1848.1	39	19.5	6.4	38.1	16.9
FY10E	9080.0	40	33	2666.1	44	28.2	4.4	37.5	11.7

IN-ORGANIC GROWTH INITIATIVES



Acquisitions - Growth ladder

The group Comprises of Opto Circuits India Ltd., a listed company, Advanced Micronic Devices Ltd, also a listed Company, Mediaid Inc, USA, Altron Industries Private Limited, Eurocor GmbH, Germany, Opto Circuits India Ltd has been steadily growing at an annual rate of approximately 36% and is a leader in Medical health care products.

AMDL

A listed company in the field of marketing of Health care products, providing services in the area of Information technology and allied products. For the financial year 2006-07, AMDL’s sales stood at Rs 498mn and PBT at Rs 33mn.

MEDIAID

Mediaid is in the business of Sensors and Monitors. It introduced a new hand held device and a patient monitor during the year, which has received CE certification and has also been submitted for US-FDA approval. Mediaid is also planning to release low cost oximeters for low-end markets.

EUROCOR-GmbH, Germany

German based company acquired during 2006, a 100% subsidiary of OCIL. EuroCor GmbH is in both Bare Metal Stent (BMS) and Drug Eluting Stents (DES) space. All its products are CE approved and its latest innovative product DIOR, is widely accepted by cardiologists world over.

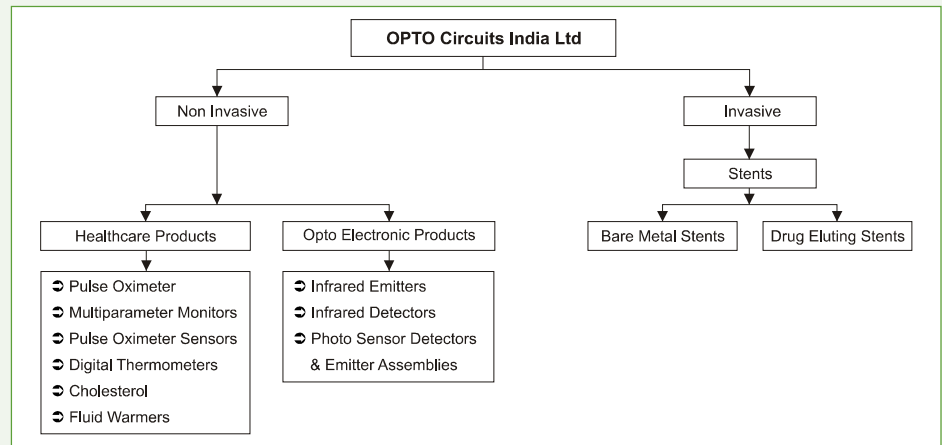
ALTRON

An ISO 9001 company engaged in Electronic Manufacturing Services (EMS) having its state-of-the-art manufacturing facility at Electronic City, Bangalore. The unit is capable of mass manufacturing of electronic products and assemblies to world standard requirements.

DEVON

The above companies were acquired during April 2007 and hence report on the performance of these companies will be presented in our subsequent reports.

DIVERSIFIED PRODUCTS



USFDA approval for its range of M30 & M40 Monitors

Opto received US FDA approval on two of its new generation range of Pulse Oximeters. The latest certification enables OCI to market its M30 and M34 Models of Pulse Oximeters in the United States which is the largest market for these products. A Pulse oximeter is a non-invasive diagnostic device for detecting the pulse rate and percentage of hemoglobin that is saturated with arterial oxygen. Medicaid, the 100% subsidiary of OCI, will begin marketing the product within the US. The global market size for pulse oximeters is estimated to be around US\$800mn. The M30 and M34 Models are already being successfully marketed in Europe and Asian countries.

Pricing strategy to acquire market share.

The major players in the stents market are Johnson & Johnson, Boston Scientific, Guidant and Medtronic. These companies sell their products in the price range of \$2,200-\$3,500 per stent. EuroCor currently has a miniscule market share, by pricing its products comparatively cheaper than its competitors, OCIL hopes to garner a larger market share in the coming years. Its strategy would be volume growth. Further, EuroCor is focusing on continuous innovations to introduce new coronary stent technology. OCIL is planning to invest 20 million Euros in EuroCor's R&D efforts, which would enable the latter introduce new innovative cardiac products, and enhance OCIL's product portfolio.

Other Developments

The company has decided to develop a specialized facility for health care industry and has received a formal approval from the Central government to set up a SEZ (special economic zone).

Product Description

Coronary stents - A brief overview

One of the most common health-related disorders is Arteriosclerosis which is a thickening and hardening of arteries caused by the formation of plaque. This inhibits the flow of blood, with blockages in the coronary artery often leading to heart attacks or strokes. Angioplasty and, in more complicated cases, open heart surgery (bypass), are used to treat arteriosclerosis. Angioplasty employs stents - wire-like devices that are used to remove blockages. Today, over 70% of arteriosclerosis cases are treated by angioplasty, opening up a US\$ 8bn market for Opto.

Demand for drug eluting stents expected to rise: There are two types of stents currently available Bare Metal Stents (BMS) and Drug Eluting Stents (DES).

DIOR

A drug-eluting balloon dilation catheter used in PTCA procedures is a revolutionary product of the company. It is one of the prominent breakthroughs in interventional cardiology, since the development of coronary dilatation catheters and coronary stents.

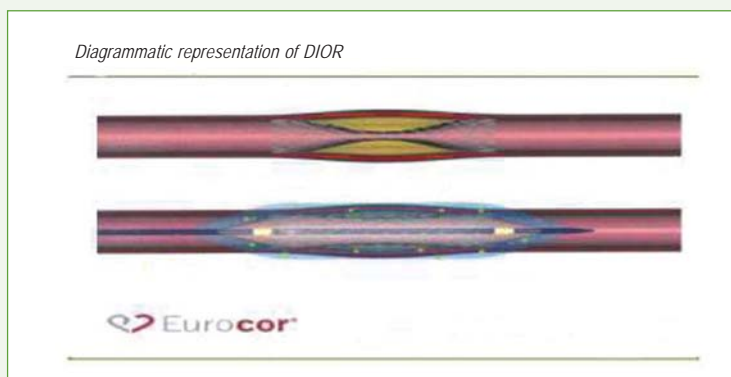
EuroCor has CE certification for its drug eluting balloon catheters. DIOR can be effectively used in treatment of coronary in-stent restenosis and for small-diameter coronary artery lesions. Restenosis is usually treated by placing another stent within the existing one, which at times may exacerbate the condition.

Market Outlook

Potential market of US\$ 12bn

The restenosis rates are 10% and 30% on DES and BMS respectively. EuroCor expects 856,000 balloon catheters to be used on these patients, which approximately translates into a revenue stream of US\$ 12bn. With the only CE accreditation for this product, EuroCor is well poised to capture a massive market share. Leading cardiologists at the Goa summit have indicated that DIOR is a one-of-its-kind product, and with no short term competition expected, the revenue potential is very large.

DIOR which has been launched in India and Europe is estimated to record sales of Rs 230mn by FY09.



TAXCOR

Launched in 2005, TAXCOR & TAXCOR I (second generation innovation of TAXCOR) have been major contributors to EuroCor’s sales this year. Polymeric drug carriers, coated on the stents, have been known to cause blood clot formations, also leading to late stage thrombosis complications. Eurocors Drug-eluting coronary stent system uses a biodegradable carrier to deliver the drug. TAXCOR I is thus, a path-breaking technology in the field of DES products.

In TAXCOR I, the drug is loaded into micro porous cavities. A protective layer of specific amino acid molecules avoids rapid drug elution and within 20 days, it provides for a moderate drug release to the stented coronary artery lesion.

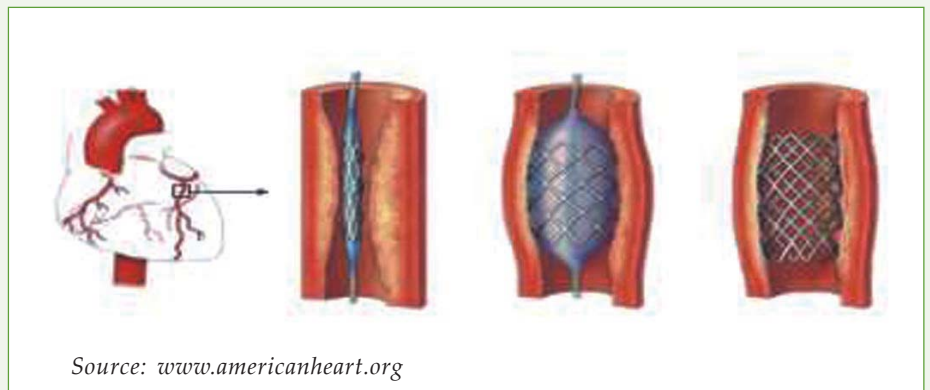
GENIUS MEGAFLEX

Genius Megaflex is Bioflexible coronary stent system and has been clinically proven as a low restenosis option with High Clinical safety and efficacy-alternative to Drug Eluting Stent. This stent is well matched with the vessel motion and significantly reduces vascular trauma. It provides a very high radial force to the artery wall and ensures a maximized intra-stent luminal gain.

GENIUS MAGIC

This is a Super thin Cobalt Chromium Coronary Stent System. Biology is based on Megaflexibility coronary stent biomechanics which reduces restenosis significantly. Genius Magic follows nature by superior pulse synchronicity with every hear beat. Superior unparalleled coronary stenting performance with the greatest stent flexibility and ideal for direct stenting.

Procedure to implant a stent



RADIMAX Pheripheral Stenting

This is a state of the art self-expanding peripheral stenting technology. Radimax is manufactured from a solid nitinol tube without any welding points. This is the top clinical performance stenting product providing unique vessel support without risk of vessel reaction. The superb slalom

link design, self-expandable nitinol stent can be easily positioned in tortuous vessel morphologies. It ensures excellent vessel wall apposition through perfect conform ability to vessel anatomy. Radimax provides excellent intravascular stability. The radial forces are equally distributed to maintain potency throughout the vessel lumen. The intravascular scaffolding stands for superb stenting treatment.

SUPERCROSS Coronary Dilatation Catheter

The New RX Coronary Dilatation Catheter is the ultimate technology for any coronary dilatation performance. A challenge for tight and occluded lesions. The smoothest and finest transition for perfect control. Optimized torque and force transmission. A product with excellent tractability without friction. Progressive transition and exclusive distal end hypo tube design provides a linear stiffness decreasing to more than 12cm to meet and support the distal catheter flexibility.

Other Products

Company has a range of products manufactured recently acquired subsidiaries like Devon Innovations Private Ltd and Ormed Medical Technology Ltd., both being ISO 9001 Companies. Devon Innovations with CE mark are pioneers in indigenous manufacture of Catheters and allied products for various medical segments. The core competency is in manufacture of catheters for Urology, Gastroenterology and Gynecology. The ureteral indwelling stents are hydrolytically stable, least thrombogenic, more tissue compatible and have proven biocompatibility. The physical and chemical characteristics create minimal reactivity of soft tissue, with little or no foreign body reaction. The smooth Polyurethane surface exhibits minimal adhesion in blood contacting situations. Ormed Medical deals in Orthopaedic prosthesis and Surgical disposables.

*Opportunities for Opto***US \$4bn market opportunity for Opto:**

In 2006, OCIL acquired **EuroCor** GmbH, a Germany-based stent-manufacturing, which gave it an entry into the invasive segment. The total current global market size of stents is the US\$ 12bn (Rs 468bn). The US is largest market for stents accounting for 50%, followed by Europe with a size of US \$ 3 billion. This acquisition is expected to help OCIL tap these markets and boost revenues.

Domestic market were estimated at Rs 2.8bn

The domestic market for stents is estimated at Rs 2.8bn, growing at a rate of 10-12% annually. An estimated 60,000 stents were sold in 2006. Apart from the above mentioned players, Bangalore-based Vascular Concepts has a presence in India.

Steady growth in Non-Invasive segment

Steady growth in Non-Invasive segment Opto's non-invasive segment involves the design, development, manufacture, marketing and distribution of medical electronic and monitoring products. The company manufactures products like optical sensors, electro-medical equipment, security systems and pulse oxymeter devices, Opto has a state-of-the-art R&D facility and two manufacturing units at Bangalore with 100% EOU status. The company's unique chip design, USFDA approval and strong relationship with customers have led to a 45% revenue CAGR over FY03 to FY06 to Rs 1.16bn.

We believe getting USFDA and CE approvals coupled with India's low-cost advantage would act as significant entry barriers in this business, Obtaining FDA approval alone takes 2-3 years, besides which suppliers would have to match Opto's cost. Increasing demand for products, new launches and a greater geographical spread should enable this segment to witness a revenue

Valuations & Conclusions

At the current market price of Rs 330 the stock is trading at a P/E of 23.6x and 11.7x its FY08E and FY10E EPS respectively.

Looking at the future growth and strong fundamentals, we have derived the price target of Rs 429, by assigning 22 P/E multiple to its FY09E Diluted EPS of Rs 19.5. We initiate coverage on Opto Circuits with a **BUY** rating.

Profit & Loss

(YE-March)	(Rs. mn)			
Income Statement	FY07	FY08E	FY09E	FY10E
Sales Revenue	2515.7	4525.0	6470.0	9080.0
Manufacturing Expenses	1302.9	2511.4	3526.2	4939.5
S&D Expenses	387.0	579.2	841.1	1162.2
Total Operating Expenditures	1689.9	3090.6	4367.3	6101.8
EBITDA	825.8	1434.4	2102.8	2978.2
Depreciation	24.0	38.2	149.2	233.6
EBIT	801.8	1396.2	1953.6	2744.7
Interest	74.0	95.0	105.0	58.0
Other Income	36.7	58.0	45.0	45.0
EBT	727.8	1301.2	1848.6	2686.7
Income Taxes	21.4	32.6	45.4	65.6
Reported net income	732.6	1326.6	1848.1	2666.1
Diluted EPS	7.7	14.0	19.5	28.2
Diluted Equity	947	947	947	947

Balance sheet

(YE-March)	(Rs. mn)			
Income Statement	FY07	FY08E	FY09E	FY10E
Equity Capital	616.2	947.0	947.0	947.0
Reserves & Surplus	1508.3	2676.6	3901.3	6153.3
Secured Loan	640.2	740.2	800.0	570.0
Unsecured Loan	4.7	0.0	0.0	0.0
Deferred Tax Liability	5.7	0.0	0.0	0.0
Minority Interest	72.8	82.0	72.0	72.0
Total	2847.9	4445.8	5720.3	7742.3
Uses Of Funds				
Gross Block	607.4	764.0	765.0	865.0
Accumulated Depreciation	148.5	186.7	335.9	569.4
Net Block	458.9	577.3	429.1	295.6
Capital WIP	12.1	54.0	23.0	26.0
Intangible Assets	338.1	622.0	815.6	806.4
Investments	2.8	66.3	42.3	46.0
Inventories	1054.5	1538.5	2135.1	3268.8
Sundry Debtors	1187.3	2172.0	3105.6	4358.4
Cash & Bank Bal	384.2	363.8	104.8	110.1
Loans & Advances	417.2	150.0	150.0	200.0
current Liabilities	591.1	640.0	402.2	581.0
Provisions	418.8	500.0	700.0	800.0
Netcurrent Assets	2033.3	3084.3	4393.3	6556.3
Miscellaneous Expenditure	2.7	41.9	17.0	12.0
Total	2847.9	4445.8	5720.3	7742.3

Cash Flow Statement

(Rs. mn)	(Rs. mn)			
Income Statement	FY07	FY08E	FY09E	FY10E
Net cash flow from operations	148.6	252.0	412.6	729.7
Net Cash flow from investing	(296.7)	(565.9)	(319.0)	(80.3)
Net Cash flow from financing	430.8	293.5	(352.6)	(644.1)
Total increase in cash	282.7	(20.4)	(259.0)	5.3
Cash at beginning	101.5	384.2	363.8	104.8
Cash at End	384.2	363.8	104.8	110.1

Ratios

	FY07	FY08E	FY09E	FY10E
Valuations				
PER (x)	42.7	23.6	16.9	11.7
P/CEPS (x)	41.3	22.9	15.6	10.8
P/BV (x)	9.6	8.6	6.4	4.4
EV/EBITDA (x)	25.4	22.3	15.2	10.7
EV/Net Sales (x)	8.3	7.1	5.0	3.5
Growth (%)				
Net Sales	80	80	43	40
Net Profit	90	81	39	44
EBITDA	93	74	47	42
DEPS	90	81	39	44
CEPS	85	80	46	45
Gross Fixed Assets	60	26	0	13
Capital Employed	73	56	29	35
Profitability				
ROCE (%)	28.2	31.4	34.2	35.5
ROE (%)	34.5	36.6	38.1	37.5
EBIDTA Margin (%)	32.8	31.7	32.5	32.8
Net Profit Margin (%)	29.1	29.3	28.6	29.4
Turnover				
Avg. Collection Period (Days)	172	175	175	175
Avg. Payment Period (Days)	147	92	62	56
Net Fixed Assets (x)	5.5	7.8	15.1	30.7
Total Assets (x)	0.9	1.0	1.1	1.2
BVPS	34.5	38.3	51.2	75.0
Other Financial Ratios				
Interest Coverage (x)	11.2	15.1	20.0	51.3
Debt to Equity Ratio (x)	0.3	0.2	0.2	0.1

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