

RESULT UPDATE ✓

Opto Circuits India (OPTCIR)

WHAT'S CHANGED...

PRICE TARGET.....	Changed to Rs 101 from Rs 147
EPS (FY09E).....	Changed to Rs 10.8 from Rs 14.4
EPS (FY10E).....	Changed to Rs 12.6 from Rs 18.4
RATING.....	Changed to PERFORMER from OUTPERFORMER

Current Price Rs 87	Target Price Rs 101
Potential upside 15%	Time Frame 12 months

PERFORMER

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Acquisitions paying off...

Opto Circuits India (OCIL), on a standalone basis, reported a 4.7% growth in topline to Rs 90.4 crore while consolidated revenues registered a splendid performance of 65.7% to Rs 211 crore. Higher inventories, on a standalone basis, improved the raw material to sales ratio (340 bps) while saving of 120 bps came from lower operational expenses, thus supporting the 460 bps enhancement of the EBITDA margin to 41.4%. The consolidated EBITDA margin improved 70 bps to 28.9%. Gains on higher other income have been muted by a rise in interest costs. Net profit was, thus, flat at Rs 1.1 crore. However, on a consolidated basis, it surged 47.1% to Rs 53.1 crore. We believe the revenue contribution from EuroCor and recently acquired Criticare has enabled OCIL to post an excellent performance.

Outlook

Subsidiaries' performance (Criticare and EuroCor) has been improving and has resulted in sales rising from Rs 112.6 crore in Q2FY09 to Rs 116.4 crore. However, on a standalone basis, sales fell from Rs 104.4 crore to Rs 94.6 crore. We believe the new launches from the overall portfolio would keep earning a handsome topline for the company. However, the global slowdown is the major concern, going forward, as OCIL is an export-oriented company mainly driving its revenues from the US and European countries. We are revising our sales and profit estimates on a standalone basis and consolidated basis (refer financial revision head in text below).

Valuations

At the CMP of Rs 87, the stock is trading at 9.6x and 6.9x its standalone and consolidated FY10E EPS, respectively. On revised earnings estimates, we are revising our target price downward to Rs 101 from the earlier Rs 147, (8x consolidated FY10E EPS). Accordingly, we are downgrading our rating to **PERFORMER** from an **OUTPERFORMER** (Refer detailed valuation).

Stock data

Mcap	Rs 1,408.8 crore
Debt (FY08)	Rs 49.3 crore
Cash (FY08)	Rs 3.6 crore
EV	Rs 1,458.1 crore
52 week H/L	Rs 295 / 68
Equity cap	Rs 160.1 crore
Face value	Rs 10
MF Holding	2.8%
FII Holding	2.6%

Price performance (%)

	Returns(%)			
	1M	3M	6M	12M
OPTCIR	-1.8	12.5	-50.2	-69.7

Exhibit 1: Key Financials (Standalone)

	(Rs Crore)								
	Q3FY09A	Q3FY09E	Q3FY08	Q2FY09	YoY Gr. (%)	QoQ Gr. (%)	YTD FY09	FY09E	FY10E
Net sales	94.6	110.0	90.4	104.4	4.7	-9.3	281.3	400.6	488.4
EBIDTA	39.1	38.5	33.3	38.0	17.7	2.9	111.0	141.3	176.3
EBIDTA margin (%)	41.4	35.0	36.8	36.4	-	-	39.4	35.3	36.1
Depreciation	0.7	0.7	0.5	0.7	54.5	2.2	2.1	2.8	3.5
Interest	14.0	3.5	2.3	3.5	511.6	298.3	20.2	24.2	38.0
Other inc/extraord item	6.8	3.0	1.1	4.8	543.6	40.8	11.5	16.0	12.0
Reported net profit	31.2	36.9	31.5	38.6	-1.1	-19.2	99.8	129.3	145.7
EPS (Rs)	1.9	3.9	3.3	4.1	-41.8	-52.5	6.2	8.1	9.1
Valuations									
PE (x)	-	-	-	-	-	-	-	10.8	9.6
Target PE (x)	-	-	-	-	-	-	-	12.5	11.1
EV/EBIDTA (x)	-	-	-	-	-	-	-	3.9	3.8
Price/book (x)	-	-	-	-	-	-	-	1.9	1.6
RoNW (%)	-	-	-	-	-	-	-	26.6	23.2
RoCE (%)	-	-	-	-	-	-	-	32.9	30.4

Source: Company, ICICIdirect.com Research

Result analysis

Exhibit 2: Key Financials (Consolidated)

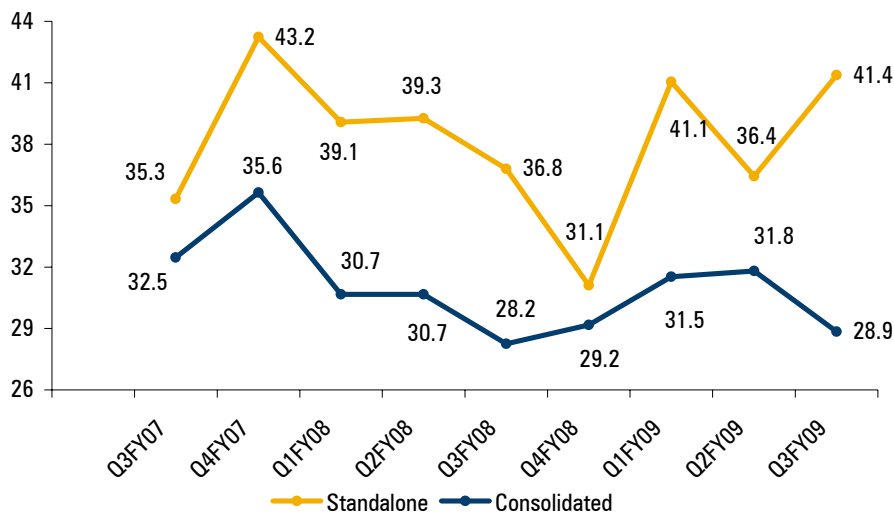
(Rs Crore)

	Q3FY09	Q3FY08	%chg	Q2FY09	% chg.	9mFY09	9mFY08	% chg.	FY09E	FY10E
Net sales	211.0	127.3	65.7	217.0	-2.8	605.4	347.6	74.2	620.6	744.4
Total expenditure	150.1	91.4	64.3	148.0	1.5	419.6	245.5	70.9	456.1	539.2
EBITDA	60.9	36.0	69.3	69.0	-11.8	185.8	102.1	82.1	164.5	205.1
EBITDA margin(%)	28.9	28.2	-	31.8	-	30.7	29.4	-	26.5	27.6
Interest	14.7	2.8	426.7	12.6	16.5	38.1	7.3	421.8	26.3	40.1
Depreciation	2.7	0.8	256.1	2.4	10.3	6.5	2.2	191.4	27.6	28.3
Other income	9.6	3.7	159.1	3.4	185.6	15.2	6.1	147.4	16.4	12.4
PBT	53.1	36.1	47.0	57.4	-7.4	155.9	98.7	58.0	154.3	178.9
Provision for taxation	0.5	0.4	22.1	0.6	-22.3	1.5	1.0	48.4	2.3	2.4
Net profit	52.6	35.7	47.2	56.7	-7.2	154.3	97.6	58.1	124.1	146.1
Equity cap(no in cr)	16.0	9.4	70.0	9.4	70.0	16.0	9.4	70.0	16.0	16.0
EPS (Rs)	3.3	3.8	-13.4	6.0	-45.4	9.6	10.4	(7.0)	10.8	12.6

Source: Company, ICICIdirect.com Research

EBITDA margin movement

Exhibit 3: EBITDA margin movement (%)



Source: Company

Segmental break-up

Exhibit 4: Segment wise revenues

	Q3FY09	Q3FY08	% chg
Invasive	49.0	26.9	81.9
Non- Invasive	156.6	96.8	61.8
Others	5.5	3.6	50.8
Total	211.0	127.3	65.8

EuroCor

Criticare – 40.4 crore

Source: Company, ICICIdirect.com Research

Financial revision

Analysing the nine months performance, we are lowering our standalone financial estimates for FY09 and FY10. However, with the increasing contribution from its subsidiaries, the financial estimates for FY09 and FY10 stand revised upward.

Standalone

- Net sales have been revised to Rs 400.6 crore from Rs 443.6 crore for FY09E and to Rs 488.4 crore from Rs 555.9 crore for FY10.
- Net profit is estimated to be at Rs 129.3 crore from Rs 154.2 crore for FY09 and to Rs 145.7 crore from Rs 196.1 crore for FY10.

Consolidated

- Net sales have been revised upward to Rs 800.6 crore from Rs 746.4 crore for FY09 and to Rs 959.4 crore from Rs 930.8 crore for FY10.
- The EBITDA margin, however, stands revised to 24.3% and 25.3% for FY09E and FY10E, respectively, from the earlier estimates of 35.9% and 36.3%, respectively.
- Thus, we have revised net profit downward to Rs 173.6 crore from Rs 229.8 for FY09 and to Rs 202.2 crore from Rs 293.8 crore for FY10.

Financial snapshot

Exhibit 5: Key financials (Rs crore)

	FY08	FY09E	FY10E
Net sales			
Standalone	328.7	400.6	488.4
Consolidated	468.1	800.6	959.4
EBITDA			
Standalone	118.9	141.3	176.3
Consolidated	137	194.6	243.0
Net profit			
Standalone	118.8	129.3	145.7
Consolidated	132.4	173.6	202.2
EBITDA margins (%)			
Standalone	36.2	35.3	36.1
Consolidated	28.3	24.3	25.3
EPS (Rs)			
Standalone	7.4	8.1	9.1
Consolidated	8.3	10.8	12.6
PE (x)			
Standalone	11.7	10.8	9.6
Consolidated	10.5	8.0	6.9

Source: ICICIdirect.com Research

Detailed Valuations

The reported quarter makes us cautious on the core business growth albeit with acquisitions paying off. However, the global slowdown is a major risk for the company's growth plans. On revised earning estimates, we are revising our target price downward to Rs 101 from the earlier Rs 147, valuing the company at 8x its consolidated diluted FY10E EPS. At the CMP of Rs 87, the stock is trading at 9.6x and 6.9x its standalone and consolidated FY10E EPS of Rs 9.1 and Rs 12.6, respectively. Accordingly, we are downgrading our rating to **PERFORMER** from OUTPERFORMER.

Exhibit 6: Valuations

	Sales (Rs cr)	Sales Gr(%)	EPS (Rs)	EPS Gr(%)	PE (x)	EV/E (x)	RoNW (%)	RoCE (%)
FY08	328.7	63.0	7.4	63.3	11.7	3.3	41.9	38.5
FY09E	400.6	21.9	8.1	8.8	10.8	3.9	32.9	26.6
FY10E	488.4	21.9	9.1	12.7	9.6	3.8	30.4	23.2

Source: Company, ICICIdirect.com Research

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Outperformer (OP): 20% or more;

Performer (P): Between 10% and 20%;

Hold (H): $\pm 10\%$ return;

Underperformer (U): -10% or more;

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