



Industry: Medical Equipment

Price Target	265
% Upside	22%

Last Traded Price	218
BSE Sensex	15405

Market Price	218
Market Cap (Cr.)	3987
Reuters Code	OPTO.NS
BSE Scrip Code	532391
NSE Scrip Code	OPTOCIRCU
52 Week High	248
52 Week Low	70
FV/Share	10
Book Value/Share	32

Initial Recommendation	Accumulate
Current Recommendation	Accumulate

We recommended Opto Circuits in Nov, 09 at Rs 188. The stock reached our Initial target of Rs 246 (31% appreciation) in January. Recently, the company came out with its Q3, 10 Results; which were almost inline with estimates. We are modifying our FY10E and FY 11E, Estimates and introducing FY 12E Estimates.

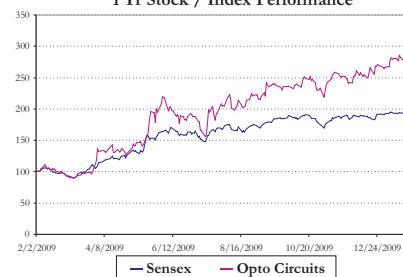
Considering the bright prospects regarding the Operational and Financial performance of the company, we are Recommending a Fresh “Accumulate” call on the stock with a Target of Rs 265 in 1 Year.

The Company:

Opto Circuits India Limited or “Opto” is engaged in the design, development, manufacture and marketing of medical electronic devices and health care products, in both invasive and non-invasive segments. Its range of products includes, Pulse Oximeters, Pulse Oximeter Sensors, Fluid warmers, Cholesterol monitors and Stents. Its has domestic subsidiaries namely, Advanced Micronic Devices Ltd. (AMDL), Devon Innovations Private Limited, ORMED Medical Technology Limited & Altron Industries (P) Ltd. and also international subsidiaries namely Mediaid Inc., Eurocor GmbH and Criticare Systems Inc..

In April 2008, it announced the acquisition of Criticare Systems which has a strong base products pertaining to cost effective patient monitoring systems and noninvasive sensors for a wide range of hospitals and alternate health care environments throughout the world.

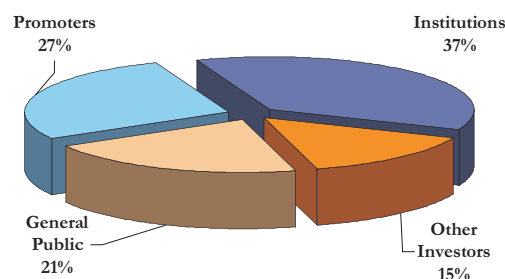
1 Yr Stock / Index Performance



Company	FY 09	FY 10E	FY 11	FY 12E
Net Revenue	818.5	1023.0	1268.9	1546.2
Operating Exp.	559.3	681.9	860.1	1046.9
EBITDA	259.2	341.1	408.8	499.3
Profit after Tax	184.1	261.7	298.3	365.9
EPS	9.8	14.0	15.9	19.5

* EPS based on Fully Diluted Equity Share Capital

Share Holding Pattern as on Dec 31, 2009



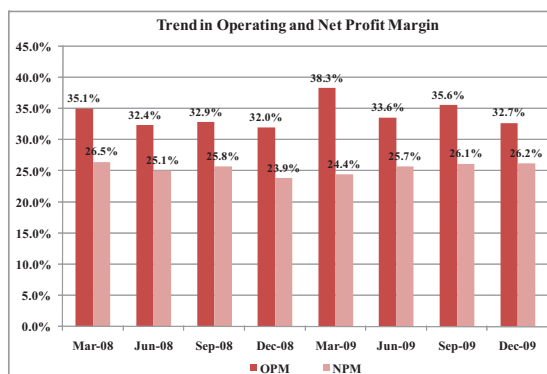
December Quarterly Performance Almost In-line with Estimates

Opto clocked a 21.8% jump in the Q3 Net sales from Rs 211 Crore (Q3, 09) to Rs 257 Crore (Q3, 10) while it clocked a flat performance on the sequential basis from Rs 256 Crore (Q2, 10). Due to the fall in Other income component of the company, the Total income registered just 13.7% rise on YoY basis and marginal decline of 2% on QoQ basis.

Quarterly Financials - Opto Circuits Limited

Units: in Rs Crore	Dec 09	% Growth	Dec 08	% Growth	Sep 09
Net Sales	257.0	21.8%	211.0	0.5%	255.7
Other Income	-6.1	-163.0%	9.6	-2104.2%	0.3
Total Income	251.0	13.7%	220.7	-2.0%	256.0
Employees Cost	13.2	30.0%	10.1	5.2%	12.5
Manufacturing Exp	150.2	17.9%	127.4	5.6%	142.3
% of Sales	58.4%	-	60.4%	-	55.6%
Admin & Markt. Exp	12.4	-29.7%	17.7	-16.6%	14.9
Total Operating Exp	168.9	12.5%	150.1	2.4%	165.0
EBITDA	82.0	16.4%	70.5	-9.9%	91.1
OPM	32.7%	-	32.0%	-	35.6%
Depreciation	6.5	141.6%	2.7	-6.2%	6.9
Interest	7.2	-50.8%	14.7	-30.8%	10.4
Tax Expense	2.5	415.5%	0.5	-62.7%	6.7
Adjusted Net Profit	65.7	24.7%	52.7	-1.8%	66.9
NPM	26.2%	-	23.9%	-	26.1%

The EBITDA of the company increased by 16.4% from Rs 71 Crore (Q3, 09) to Rs 82 Crore (Q3, 10). The margins improved modestly by 70 bpd from 32% (Q3, 09) to 32.7% (Q3, 10); however, the same slipped by around 300 bps on back-to-back comparison. Low Operating margins in the quarter under review when compared on sequential basis can be mainly imputed to increase in Manufacturing as a % of Sales and marginal decline in Total Income of the company.



Source: Company Data, JRG Research

Thanks to the fall in Interest costs, as the company repaid around Rs 175 Crore of outstanding Debt in the quarter; the Adjusted Net Profit clocked a healthy growth of 24.7% from Rs 53 Crore (Q3, 09) to Rs 66 Crore (Q3, 10). The Bottom-line performance on QoQ basis was flat, with the margins maintained in the 26% range.

Financial Valuation and Projections

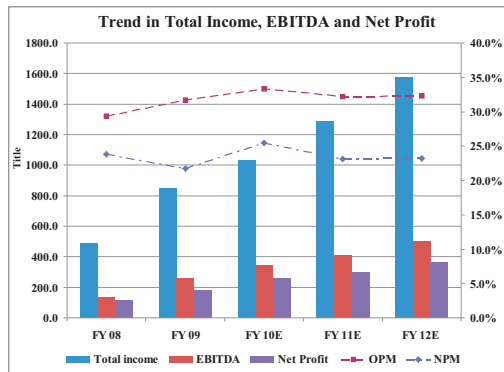
Opto, post its spectacular Operational and Financial performance over the past few years, is expected to continue with the same, though at a slower pace. In the past 4 years, the revenue of the company has grown more than 5 times, recording a CAGR above 80%, mainly attributed to the inorganic growth of the company. Opto had been on a buying spree and expanded its Geographical reach and enhanced its product pipeline by acquiring companies having high technological knowledge and excellent distribution network; at the same time, strengthened its feet in the highly growing domestic market segment.

Financial Projections - Opto Circuits Limited

Units: in Rs Crore	FY 09	FY 10E	FY 11E	FY 12E
Total income	847.3	1027.5	1291.4	1575.1
% Growth	74.6%	21.3%	25.7%	22.0%
Manufacturing Expenses	475.3	577.0	735.3	900.6
% of Sales	58.1%	56.4%	58.0%	58.3%
Total Operating Exp	559.3	681.9	860.1	1046.9
EBITDA	259.2	341.1	408.8	499.3
% Growth	88.9%	31.6%	19.8%	22.1%
Interest expenses	53.7	41.6	65.6	77.1
Depreciation	13.8	24.7	30.1	37.8
Provisions & Taxes	7.3	12.4	14.1	17.3
Adjusted Net Profit	184.1	261.7	298.3	365.9
% Growth	59.6%	42.2%	14.0%	22.7%

Larger part of the future performance is expected to be from the organic growth of the company's products and services. Over the next Three fiscal years, the Total Income of the company is expected to witness a healthy rise of 23% CAGR from Rs 847 Crore (FY 09) to Rs 1575 Crore (FY 12E). The Operating Profit during the same period is seen expanding at a CAGR of 24.4% to record an EBITDA of Rs 500 Crore (FY 12E) from Rs 259 Crore (FY 09). With the affect of smaller rise in Interest costs of the company, the

Bottom-line performance is also anticipated to be robust and grow to Rs 366 Crore (FY 12E) from Rs 184 Crore (FY 09).



Source: Company Data, JRG Research

At a trailing market price of Rs 218, Opto is trading at 11.2X and 2.7X its FY 12E, EPS of Rs 19.5 and Rs 82.2, respectively which holds huge upside potential compared to its leadership position in the highly growing Medical equipment market and based on its strong fundamentals. **We recommend to “Accumulate” the stock with a Twelve months Target of Rs 265.**

JRG

Disclaimer:

This document has been prepared by JRG Securities Ltd. and is meant for the recipient for use as intended and not for circulation. The information presented in this document is not an offer/recommendation to buy or sell securities. Opinions expressed in this article are the independent views of the author(s). The information/s, opinions and analysis contained are collected from sources believed to be reliable, but no representation, expressed or implied, is made as to its accuracy, completeness or correctness. Neither JRG Securities Ltd., nor any person connected with it, accepts any liability arising from the use of this document. It should be noted that price and value of the security/ies referred to in this report may go up or down and that past performance is not a guide for future performance. Investors are urged to exercise their own judgment before investment as security/ies discussed in this report may not be suitable for all investors. Investors must make their own investment decision based on their own investment objectives, goals and financial position and based on their own analysis. We will be updating you in due course about the positive or negative developments, directly or indirectly affecting the security/ies discussed in this report. But, it should be noted that JRG Securities and its associated companies, their directors and employees do not undertake any obligation to update or keep the information current. Also there may be regulatory, compliance, or other reasons that may prevent JRG Securities from doing so. JRG Securities Ltd., may, on the date of this report, and from time to time, have long or short positions in, and buy or sell the securities of the companies mentioned herein or engage in any other transaction involving such securities and earn brokerage or compensation or act as advisor or have other potential conflict of interest with respect to security/ies mentioned herein or inconsistent with any recommendation and related information and opinions.