



Opto Circuits (India)

IPO Fact Sheet

Issue details

Issue opens:	March 31, 2006
Issue closes:	April 5, 2006
Issue size:	40 lakh equity shares
Reservation for employees:	4 lakh equity shares
Reservation for existing shareholders:	4 lakh equity shares
Retail proportion:	11.2 lakh equity shares
Price band:	Rs240 to Rs270 per share
Face value:	Rs10 each
Lead manager:	SBI Capital Market, Karvy Investor Services
Registrar:	Karvy Compushare

Objective of the issue

Opto Circuit India Ltd (OCIL) proposes to utilise the proceeds of the follow-up issue to upgrade its research and development facility, modernise and expand its manufacturing facility, invest in setting up marketing offices, fund the acquisition of EuroCor GmbH, finance additional working capital requirements and meet the issue expenses.

Proposed deployment	Rs crore
Upgrade R&D facility	19.4
Modernise and expand manufacturing infrastructure	16.4
Invest in Medaiaid Inc. to set up marketing offices	7.5
Acquisition of EuroCor GmbH	27.2
Working capital requirements	22.5

Company background

OCIL is primarily involved in the design, development, manufacturing and distribution of specialised optoelectronics products catering to the needs of the health care sector. It operates in the niche segment of patient monitoring and sensing products. The company has a comprehensive range of products like pulse oximeters, sensors & probes, digital thermometers, fluid warmers, cholesterol monitors, stents and various types of handheld monitoring products. In addition to the health care segment, it also provides products for industrial segment, such as RFID tags, and detectors for CT scan and X-ray machines.

It caters to the overseas markets like the USA, Europe and Latin America through a wholly owned subsidiary, Medaiaid Inc., which is also supported by a network of channel partners. In the domestic market, the marketing of its products is carried out by a majority owned (60%) subsidiary called Advanced Micronics Devices Ltd (AMDL).

It has two state-of-the-art microelectronic assembly units in Bangalore. The company is listed with the Federal Drug Authority, USA and has ISO 9001 certification.

The promoters currently hold 35.6% stake, which will get reduced to around 31% of the post-issue equity base of Rs30.8 crore.

Key positives

Established player in a niche market

OCIL has established itself as a reliable supplier of high quality monitoring and sensing opto-electronic equipment to hospitals and nursing homes globally. It exports majority of its production to America, the Far East, Europe and Asia. Around 75% of its sales are made in the highly competitive US market and its major clients include reputed original equipment manufacturers (OEM) like Philips Medizin, GE Medical Criticare Systems and Epic Medical Equipments.

It is able to compete with global giants like Sharp Corp, Toshiba, Honeywell Inc., Siemens and Lucent on the basis of its ability to provide customised products. It has the advantage of a low cost manufacturing base and designing skills. On the other hand, most global players offer standard and off-the-shelf components and products, which are mass-produced through highly automated methods.

Inorganic growth strategy

OCIL has effectively used the inorganic route to enhance its product portfolio and geographical reach over the past few years. It has made five acquisitions in India and abroad since 2001. These include the acquisition of the majority stake in AMDL that has a well-developed distribution network in India, followed by the takeover of the digital thermometer manufacturing unit of Hindustan Lever in 2002 and the Bangalore-based Altron Industries in 2004. In the overseas

markets, the company acquired the patient monitoring division of Palco Labs, USA in 2003, which is now named as Mediaid Inc. and operates as a wholly owned marketing subsidiary of OCIL.

The most recent acquisition is the Germany-based coronary stents manufacturing company, EuroCor GmbH. Its flagship product TAXCOR (carbonised coronary stents) has recently received the approval from the European regulatory authorities. The market size for TAXCOR is estimated at around \$4 billion (excluding the USA and Japan where the company has not received the required regulatory approvals yet). The acquisition provides OCIL not only an entry into a new product segment but also an access to the distribution network in 26 countries globally.

EuroCor reported a net loss of Rs0.8 crore and revenues of Rs8.7 crore for the first eight months ended August 2005. However, the management expects EuroCor to become earnings accretive in CY2006 on the back of an improved performance resulting from the regulatory approval received in Europe.

Decent track record

The company has performed consistently performance over the past few years, with a compounded annual earnings growth rate of 41.7% since 2002. With the acquisition of EuroCor and the efforts to expand its manufacturing and marketing infrastructure the management expects to maintain the growth momentum going forward. It has also generously rewarded the shareholders with regular dividend pay-outs and bonus issues in the last three years.

Rewarding shareholders

	Dividend (%)	Bonus
FY2001	30	-
FY2002	30	-
FY2003	30	1:5
FY2004	30	3:10
FY2005	35	1:2

Key negatives

High debtors

For the first half ended September 2005, the receivables position of Rs67.1 crore was higher than the Rs63.3 crore of revenues booked during the same period. The management explained that the extremely high debtor days were due to the billing done to its overseas marketing subsidiary, Mediaid Inc. It has never faced the problem of bad debt but the average debtor days is around 150 days due to the credit period given to its OEM customers.

Free product regime

The flagship product of EuroCor is under free product regime. This implies that the product can be replicated by any other company without causing any legal infringements. This could result in excess competition and severely affect the growth outlook of EuroCor.

Valuation

At the lower end of the price band the scrip trades at 26.4x its annualised FY2006 earnings per share of Rs9.1 on the post-issue equity capital. There is no company strictly comparable with OCIL. However, the valuations appear to be stretched compared with the average discounting of 18-20x FY2006 earnings attracted by the mid-cap information technology service companies.

Financials

Profit and loss Rs (cr)

Particulars	FY2003	FY2004	FY2005	H1FY2006
Sales	68.1	91.6	122.8	63.3
Expenditure	57.1	74.3	96.6	48.5
Operating profit	11.0	17.3	26.2	14.9
Other income	0.7	0.9	0.7	4.0
Interest	2.6	2.9	3.4	2.0
Depreciation	1.0	1.3	1.8	10.9
PBT	8.3	14.0	20.6	16.2
Tax	0.8	0.4	0.7	0.2
PAT	7.6	13.7	19.9	16.0
Minority share	0.3	0.2	0.3	1.3
One-time items	0.3	1.8	2.1	4.9
RPAT	7.0	11.6	17.5	9.8

Ratios

Particulars	FY2003	FY2004	FY2005	H1FY2006
EPS(Rs)	6.1	8.4	9.8	3.7
OPM (%)	12.3	15.7	18.6	20.4
NPM (%)	10.3	12.7	14.3	15.5
ROCE (%)	15.5	20.5	25.5	-
RONW (%)	17.6	24.2	30.0	-

Balance sheet

Particulars	FY2003	FY2004	FY2005	H1FY2006
Share capital	11.4	13.8	17.9	26.8
Reserves	28.4	34.1	40.4	44.7
Total loans	30.5	34.7	35.2	46.5
Deferred tax liability	0.1	0.3	0.4	0.4
Capital employed	70.4	82.9	93.9	118.4
Net fixed assets	20.6	26.3	28.6	28.3
Net current assets	49.8	56.6	65.3	90.1
Capital deployed	70.4	82.9	93.9	118.4

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