



INDEPENDENT EQUITY RESEARCH

GKB Ophthalmics Limited

Q2 FY11 Result Update

Enhancing investment decisions

Explanation of CRISIL Fundamental and Valuation (CFV) matrix

The CFV Matrix (CRISIL Fundamental and Valuation Matrix) addresses the two important analysis of an investment making process – Analysis of Fundamentals (addressed through Fundamental Grade) and Analysis of Returns (Valuation Grade). The fundamental grade is assigned on a five-point scale from grade 5 (indicating Excellent fundamentals) to grade 1 (Poor fundamentals). The valuation grade is assigned on a five-point scale from grade 5 (indicating strong upside from the current market price (CMP)) to grade 1 (strong downside from the CMP).

CRISIL Fundamental Grade	Assessment	CRISIL Valuation Grade	Assessment
5/5	Excellent fundamentals	5/5	Strong upside (>25% from CMP)
4/5	Superior fundamentals	4/5	Upside (10-25% from CMP)
3/5	Good fundamentals	3/5	Align (+-10% from CMP)
2/5	Moderate fundamentals	2/5	Downside (- 10-25% from CMP)
1/5	Poor fundamentals	1/5	Strong downside (<-25% from CMP)

Analyst Disclosure

Each member of the team involved in the preparation of the grading report, hereby affirms that there exists no conflict of interest that can bias the grading recommendation of the company.

Additional Disclosure

This report has been sponsored by NSE - Investor Protection Fund Trust (NSEIPFT).

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GKB Ophthalmics Limited

All eyes on transition

Fundamental Grade	2/5 (Moderate fundamentals)
Valuation Grade	1/5 (CMP has a strong downside)
Industry	Personal Products

GKB Ophthalmics Ltd's (GKB's) Q2FY11 results were lower than CRISIL Equities' expectations. Q2 revenues declined by ~34% y-o-y, while EBITDA margin remained flat at 7.8% y-o-y. However, its PAT improved by 16% y-o-y to Rs 4.7 mn boosted by other income earned through job work undertaken for its associate GKB Vision (where it holds a 38% stake). GKB is currently in a transitional phase; it is converting its manufacturing capacity of glass lenses to glass moulds that are used in the production of plastic lenses. It is also expanding capacity in the plastic lenses segment. This transitional phase is expected to be completed by the first half of FY12. GKB's ability to retain clients in a highly competitive market and timely completion of the proposed expansion are key monitorables. We maintain the fundamental grade of '2/5'.

Q2FY11 result analysis

- GKB's Q2 revenues were 34.4% y-o-y lower at Rs 76 mn on account of de-growth in the glass lenses segment.
- Q2FY11 EBITDA margin remained flat y-o-y at 7.8%.
- GKB's PAT jumped by 15.6% to Rs 4.7 mn on account of higher other income (Rs 6.4 mn in Q2FY11 vs. Rs 1.9 mn in Q1FY11). GKB Vision is currently in an expansion mode and received more orders than it could execute in Q2FY11; some of the initial processing work for these orders were executed by GKB. The income from this job work is included in GKB's 'other income'.

Revenue and EBITDA estimates lowered; PAT estimates raised

We have lowered our revenue and EBITDA estimates for both FY11 and FY12. We believe that stabilisation in the production process - post the completion of the on-going expansion - will take a while. Also, rejection rates and other manufacturing expenses are estimated to be higher in the initial years of production. However, we revise our FY11 PAT estimates upwards to Rs 33 mn from Rs 26 mn on account of higher-than-expected other income. FY11 EPS is raised to Rs 7.9 from Rs 6.3 and FY12 EPS is maintained at Rs 5.5.

Valuations: Current market price has strong downside

We continue to value GKB and its 38% stake in GKB Vision based on the discounted cash flow method. Due to a downward revision in EBITDA estimates and rolling forward of the base year of DCF from FY11E to FY12E, our fair value estimate is revised to Rs 44 per share from Rs 47.

KEY FORECAST

(Rs mn)	FY08	FY09	FY10	FY11E	FY12E
Operating income	189	285	379	324	333
EBITDA	30	36	37	27	31
Adj PAT	24	36	41	33	23
Adj EPS-Rs	5.7	8.8	9.8	7.9	5.5
EPS growth (%)	18.7	93.0	(1.9)	(12.0)	(29.8)
Dividend yield	1.0	2.9	2.3	1.7	0.8
RoCE (%)	9.6	10.2	11.4	6.5	5.4
RoE (%)	16.0	23.6	25.3	18.3	11.3
PE (x)	16.9	5.5	6.2	7.8	11.0
P/BV (x)	2.7	1.3	1.5	1.3	1.2
EV/EBITDA (x)	16.1	7.6	8.9	12.2	10.6

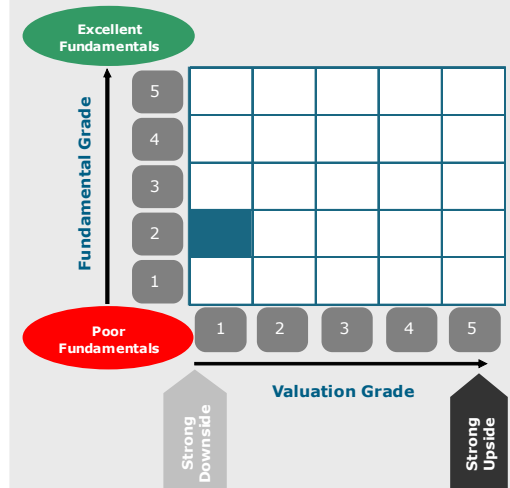
Source: Company, CRISIL Equities estimate

NM: Not meaningful; CMP: Current Market Price

November 15, 2010

Fair Value Rs 44
CMP Rs 61

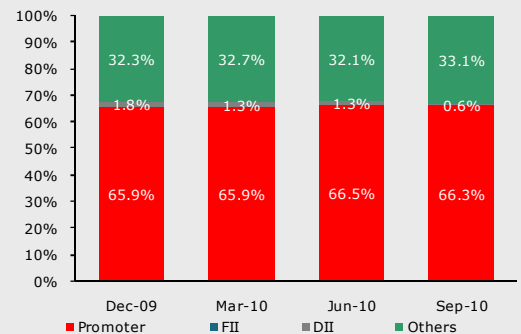
CFV MATRIX



KEY STOCK STATISTICS

NIFTY	6072
NSE	GKB-EQ
Face value (Rs per share)	10
Shares outstanding (mn)	4.2
Market cap (Rs mn)/(US\$ mn)	253/5.7
Enterprise value (Rs mn)/(US\$ mn)	329/7.4
52-week range (Rs) (H/L)	81/10
Beta	0.9
Free float (%)	33.7
Avg daily volumes (30-days)	5754
Avg daily value (30-days) (Rs mn)	0.03

SHAREHOLDING PATTERN



PERFORMANCE VIS-À-VIS MARKET

	Returns			
	1-m	3-m	6-m	12-m
GKB	16%	7%	38%	n.a*
NIFTY	1%	14%	21%	29%

* Came under the NSE 'permitted to trade category' on March 2, 2010

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GKB Ophthalmics Limited

Q2FY11 Result Summary

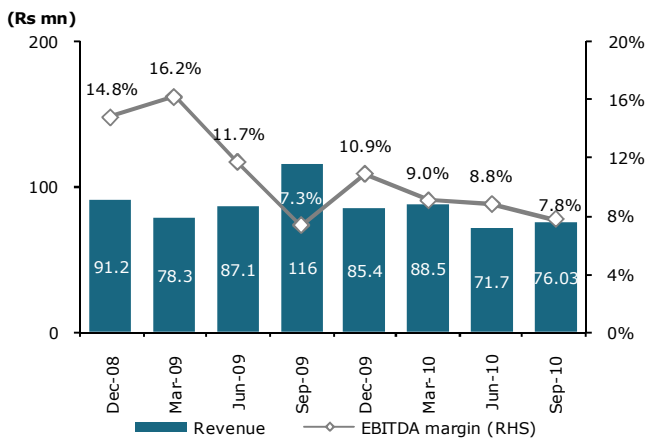
(Rs mn)	Q2FY11	Q1FY11	Q2FY10	q-o-q (%)	y-o-y (%)
Net sales	76.0	71.7	116.0	6.0	-34.4
Raw materials cost	37.6	39.8	54.5	-5.4	-30.9
Raw materials cost (% of net sales)	49.5%	55.5%	47.0%	-599bps	257bps
Employees cost	10.0	8.6	9.1	17.0	10.4
Other expenses	22.4	17.0	43.5	31.9	-48.4
EBITDA	5.9	6.3	9.0	-6.3	-34.0
EBITDA margin	7.8%	8.8%	7.7%	-103bps	6bps
Depreciation	2.4	2.1	2.6	12.7	-7.7
EBIT	3.5	4.2	6.4	-15.9	-44.5
Interest and finance charges	3.1	2.5	3.6	23.4	-14.0
Operating PBT	0.48	1.7	2.8	-72.5	-83.2
Other Income	6.4	2.7	1.9	139.8	n.m.
Extraordinary Income/(expense)	0.0	0.0	0.6	n.m.	-100.0
PBT	6.9	4.4	5.3	56.2	29.9
Tax	2.1	1.3	1.2	61.9	78.4
PAT	4.7	3.1	4.1	53.7	15.6
Adj PAT	4.7	3.1	4.1	53.7	15.6
Adj PAT margin	6.2%	4.3%	3.5%	192bps	269bps
No of equity shares (Mn)	4.2	4.2	4.2	-	-
Adj EPS (Rs)	1.14	0.74	0.98	53.7	-24.8

De-growth in the glass lenses segment impacts revenues

Improvement in PAT margin is due to higher other income

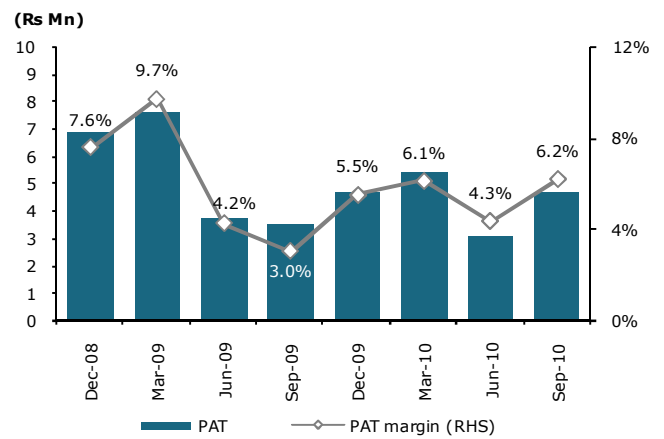
Source: Company, CRISIL Equities

Q2 EBITDA margin remained flat y-o-y at 7.8%



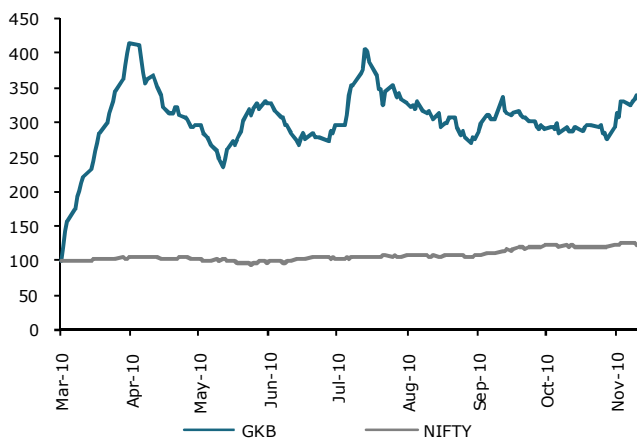
Source: Company, CRISIL Equities

Q2 PAT margin up by 269 bps due to other income



Source: Company, CRISIL Equities

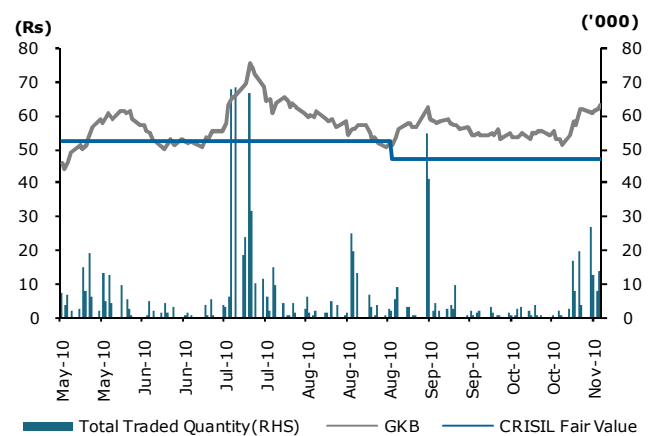
Share price movement



-Indexed to 100

Source: NSE

Fair value movement since initiation



Source: NSE, CRISIL Equities

KEY DEVELOPMENTS

Update on capacity expansion plan

Capacity expansion in the plastic lenses segment (from ~4,000 pieces per day to ~12,000 pieces per day) is expected to come on stream by the first half of FY12.

EARNINGS ESTIMATES REVISED

We have lowered our FY11 and FY12 revenue estimates as GKB is currently in a transitional phase and the stabilisation of production processes may take a while, thereby impacting its sales volumes. Also, due to anticipated higher operating expenses in the initial years of production, we have lowered our EBITDA estimates to Rs 27 mn for FY11 and Rs 31 mn for FY12. However, on account of the impact of higher other income, we have raised our PAT estimate to Rs 33 mn from Rs 26 mn in FY11. We revise our EPS estimate upwards to Rs 7.9 from Rs 6.3 in FY11 and maintain our FY12 EPS estimate of Rs 5.5.

Particulars	Unit	FY11E			FY12E		
		Old	New	% change	Old	New	% change
Revenue	(Rs mn)	358	324	-9.6%	365	333	-8.9%
EBITDA	(Rs mn)	33	27	-18.0%	38	31	-17.5%
EBITDA margin	%	9.2%	8.4%	-86bps	10.4%	9.4%	-99bps
Adj PAT*	(Rs mn)	26	33	25.9%	23	23	0.2%
PAT margin	%	7.3%	10.1%	285bps	6.3%	6.9%	63bps
EPS	Rs	6.3	7.9	25.1%	5.5	5.5	0.9%

* Adj PAT includes share of profits from associates

VALUATION

We continue to value GKB and its 38% stake in GKB Vision based on the discounted cash flow method. Due to a downward revision in EBITDA estimates and rolling forward of the base year of DCF from FY11E to FY12E, our fair value estimate is revised to Rs 44 per share. At this value, the implied P/E multiples are 5.6x FY11 earnings estimate and 7.9x FY12 earnings estimate.

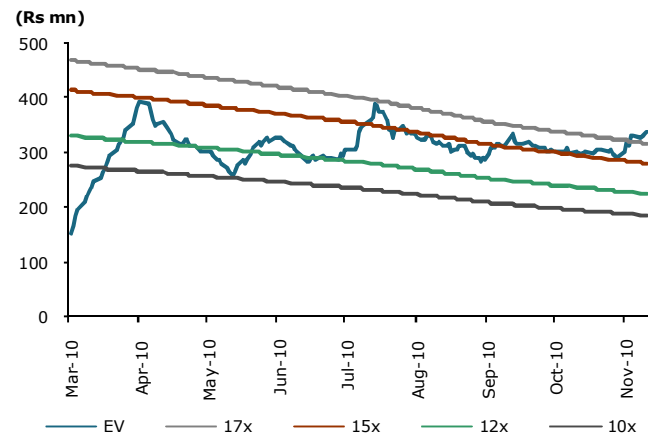
We now value GKB at Rs 44 per share

One-year forward P/E band



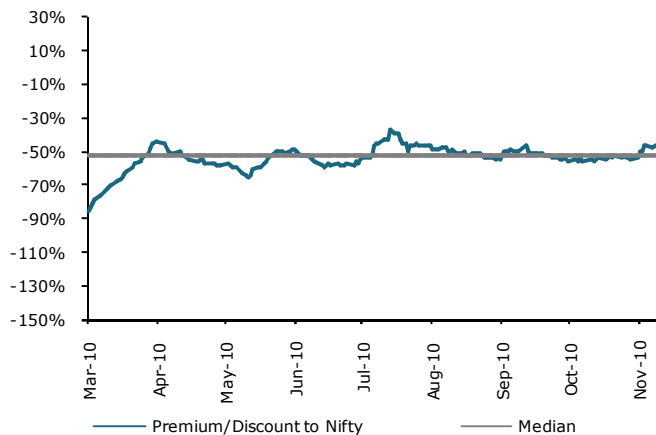
Source: CRISIL Equities

One-year forward EV/EBITDA band



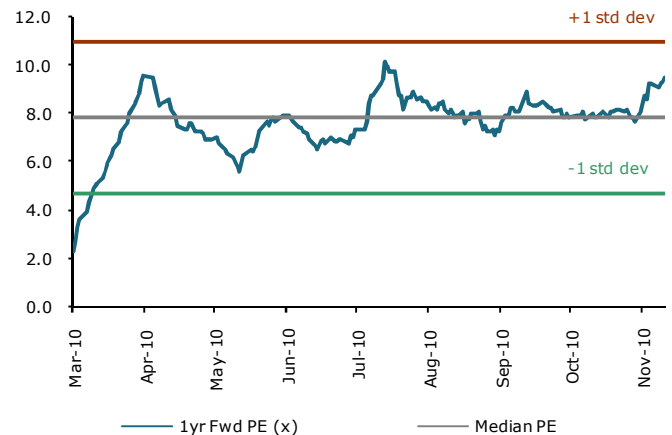
Source: CRISIL Equities

P/E-premium/discount to NIFTY



Source: CRISIL Equities

P/E movement



Source: CRISIL Equities

CRISIL IER reports released on GKB Ophthalmics Ltd

Date	Nature of report	Fundamental grade	Fair value	Valuation grade	CMP (on the date of report)
11-May-10	Initiating coverage*	2/5	Rs 52	3/5	Rs 48
01-Sep-10	Q1 FY11 result update	2/5	Rs 47	3/5	Rs 52
15-Nov-10	Q2 FY11 result update	2/5	Rs 44	1/5	Rs 61

* For detailed initiating coverage report please visit: www.ier.co.in

CRISIL Independent Equity research reports are also available on Bloomberg (CRI <go>) and Thomson Reuters.

FINANCIALS

Income statement

(Rs mn)	FY08	FY09	FY10	FY11E	FY12E
Operating income	189	285	379	324	333
EBITDA	30	36	37	27	31
EBITDA margin	15.8%	12.5%	9.8%	8.4%	9.4%
Depreciation	8	12	9	10	13
EBIT	22	24	28	18	18
Interest	16	10	11	12	16
Operating PBT	6	14	17	6	2
Other income	9	8	8	13	7
Exceptional inc/(exp)	(4)	1	(4)	-	-
PBT	11	24	21	19	9
Tax provision	4	10	9	7	3
Minority interest	-	-	-	-	-
PAT (Reported)	6	14	12	11	5
Less: Exceptionals	(4)	1	(4)	-	-
Share in profit from associates	13	24	25	21	18
Adjusted PAT	24	36	41	33	23

Ratios

	FY08	FY09	FY10	FY11E	FY12E
Growth					
Operating income (%)	(25.3)	50.4	33.0	(14.5)	2.7
EBITDA (%)	(13.3)	18.8	4.3	(27.1)	15.8
Adj PAT (%)	39.3	52.4	12.3	(20.0)	(29.8)
Adj EPS (%)	39.3	52.4	12.3	(20.0)	(29.8)
Profitability					
EBITDA margin (%)	15.8	12.5	9.8	8.4	9.4
Adj PAT Margin (%)	12.6	12.8	10.8	10.1	6.9
RoE (%)	16.0	23.6	25.3	18.3	11.3
RoCE (%)	9.6	10.2	11.4	6.5	5.4
RoIC (%)	20.1	16.5	18.0	17.0	11.8
Valuations					
Price-earnings (x)	16.9	5.5	6.2	7.8	11.0
Price-book (x)	2.7	1.3	1.5	1.3	1.2
EV/EBITDA (x)	16.1	7.6	8.9	12.2	10.6
EV/Sales (x)	2.5	1.0	0.9	1.0	1.0
Dividend payout ratio (%)	36.4	45.8	37.4	37.4	37.4
Dividend yield (%)	1.0	2.9	2.3	1.7	0.8
B/S ratios					
Inventory days	310.6	240.8	161.6	167.3	169.3
Creditors days	159.9	155.1	114.2	116.3	116.4
Debtor days	95.7	97.5	122.5	124.3	114.4
Working capital days	194.4	141.9	111.2	134.3	131.0
Gross asset turnover (x)	1.2	1.7	2.1	1.6	1.4
Net asset turnover (x)	2.1	3.2	4.4	3.2	2.6
Sales/operating assets (x)	2.1	3.2	4.4	3.2	2.6
Current ratio (x)	2.4	1.9	1.9	2.1	2.6
Debt-equity (x)	0.6	0.5	0.5	0.5	0.8
Net debt/equity (x)	0.5	0.5	0.5	0.4	0.4
Interest coverage	1.4	2.5	2.6	1.5	1.1

Per share

	FY08	FY09	FY10	FY11E	FY12E
Adj EPS (Rs)	5.7	8.8	9.8	7.9	5.5
CEPS	7.6	11.5	12.1	10.2	8.7
Book value	36.1	38.1	39.6	46.4	51.4
Dividend (Rs)	0.9	1.4	1.4	1.0	0.5
Actual o/s shares (mn)	4.2	4.2	4.2	4.2	4.2

Source: Company, CRISIL Equities estimate

Note: All ratios are computed on Adj PAT

Balance Sheet

(Rs mn)	FY08	FY09	FY10	FY11E	FY12E
Liabilities					
Equity share capital	42	42	42	42	42
Reserves	108	117	123	151	172
Minorities	-	-	-	-	-
Net worth	150	158	164	193	214
Convertible debt	-	-	-	-	-
Other debt	85	80	84	99	174
Total debt	85	80	84	99	174
Deffered tax liability (net)	14	11	10	10	10
Total liabilities	249	250	258	301	397
Assets					
Net fixed assets	93	84	90	115	142
Capital WIP	-	-	-	-	-
Total fixed assets	93	84	90	115	142
Investments	42	44	43	43	43
Current assets					
Inventory	131	159	148	133	137
Sundry debtors	50	77	108	111	105
Loans and advances	10	12	5	5	5
Cash & bank balance	6	8	8	21	95
Marketable securities	-	-	-	-	-
Total current assets	196	256	270	271	342
Total current liabilities	83	134	145	127	130
Net current assets	113	122	125	143	212
Intangibles/Misc. expenditure	-	-	-	-	-
Total assets	249	250	258	301	397

Cash flow

(Rs Mn)	FY08	FY09	FY10	FY11E	FY12E
Pre-tax profit	15	23	25	19	9
Total tax paid	(3)	(12)	(11)	(7)	(3)
Depreciation	8	12	9	10	13
Working capital changes	(13)	(7)	(3)	(5)	4
Net cash from operations	7	15	21	16	23
Cash from investments					
Capital expenditure	(10)	(2)	(16)	(35)	(40)
Investments and others	17	22	26	21	18
Net cash from investments	7	20	10	(14)	(22)
Cash from financing					
Equity raised/(repaid)	(13)	(24)	(25)	0	-
Debt raised/(repaid)	6	(5)	4	15	75
Dividend (incl. tax)	(4)	(6)	(6)	(4)	(2)
Others (incl extraordinary)	(4)	1	(4)	-	-
Net cash from financing	(16)	(33)	(31)	11	73
Change in cash position	(2)	2	0	13	73
Closing cash	6	8	8	21	95

Quarterly financials

(Rs Mn)	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11
Net Sales	116	85	89	72	76
Change (q-o-q)	33%	-26%	4%	-19%	6%
EBITDA	9	9	8	6	6
Change (q-o-q)	-12%	9%	-14%	-21%	-6%
EBITDA margin	7.3%	10.9%	9.0%	8.8%	7.8%
PAT	4	5	5	3	5
Adj PAT	4	5	5	3	5
Change (q-o-q)	-5%	34%	15%	-43%	52%
Adj PAT margin	3.0%	5.5%	6.1%	4.3%	6.2%
Adj EPS	0.9	1.1	-	0.7	1.1

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