

Lakeshore Hospital & Research Centre Limited
November 26, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	110.00 (enhanced from 101)	CARE A-; Stable [Single A Minus; Outlook: Stable]	Reaffirmed
Short-term Bank Facilities	10.00 (reduced from 20.00)	CARE A2+ (A Two Plus)	Reaffirmed
Total	120.00 (Rupees One Hundred & Twenty crores only)		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Lakeshore Hospital & Research Centre Limited (LHRC) derive strength from the experience of the promoters in the healthcare space, long standing presence of the hospital in the Kochi region, presence of experienced and qualified team of doctors and comfortable capital structure.

The ratings, however, are constrained by the moderation in Income levels and profit margins which have been on the declining trend in the recent past, single location hospital, dependence on scarcely available medical professionals and growing competition in the industry.

Going forward, the ability of the hospital to improve its occupancy levels while maintaining the average revenue per occupied bed (ARPOB), scale up operations in the new block and improve profitability margins would be the key rating sensitivities.

Detailed description of the key rating drivers**Key Rating Strengths****Well established and experienced promoter group in healthcare industry**

Dr. V.P. Shamsheer is the main shareholder holding 42% stake and the Chairman of the company. He promoted the VPS Healthcare group in 2007. **VPS Healthcare** is an integrated healthcare service provider with 22 operational hospitals, over 125 medical centers, 13,000 employees (includes around 1700 doctors) and medical support services spread across the Middle East, Europe and India.

Reputed and experienced team of Doctors

Lakeshore has on its rolls a large number of reputed doctors who have vast experience in their respective areas. The hospital has a team of 160 doctors, nursing staff strength of around 700 nurses, over 300 medical support staff and around 500 support staff as on March 31, 2018. The profile includes some major renowned doctors who have been associated with the hospital for the last 15 years. The hospital has 150 permanent doctors in their payroll who are full time consultants.

Moderation in income levels

The hospital started its full fledged integrated healthcare services in the year 2003. The inpatient flows saw a declining trend from FY15 on account of various factors like opening up of new multi speciality hospitals in the region, resignation of Dr. Philip Augustine in FY16 from the management team which had an impact on patient flows in FY16. LHRC has managed to recouped this in the last two years. The operating income of the company witnessed a growth of 20% in the FY18 on the back of improved inpatient/outpatient numbers.

Diversified revenue stream across specialisations

The company's total income is spread across various specialities and Oncology and Nephrology contribute to major source of revenue. Each speciality contributes less than 20% of total revenue and top 5 departments contribute only 50% to total sales during FY18. Oncology is the major contributor to the growth of income of in FY18 followed by Nephrology.

Comfortable Capital Structure

The hospital started its first integrated healthcare services in 2003 with 350 beds. The company started construction of a new hospital block in the year 2013 adjacent to the existing block at a total project cost of Rs. 300 Crores with a capacity of 250 beds with a view to centralize all the speciality departments in one place. The project was launched in 2013 at a

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.

total project cost of Rs. 300 Crores, funded by term loan of Rs. 105 Crores and balance by way of equity/internal accruals. The overall gearing of the company stood comfortable at 0.17x as of March 31, 2018.

Comfortable Liquidity Position

Due to the cash and carry nature of business and the healthy accruals, the liquidity position of Lakeshore has been healthy and the dependence on the working capital borrowings has been generally low. For the cash credit facility it has availed, Lakeshore had an average utilization ratio of 36% for 12 months ended May 2018.

Profitability margins on the declining trend in the recent past, albeit improved in FY18

The PBILDT margin of the company had been in the range of 15-16% in FY13 – FY15. However, since FY16, the profit margins have been on the decreasing trend and have come down from 17.46% in FY15 to 7.26% in FY17. This is mainly on account of the increase in employee costs and advertisement/marketing expenditure. The PBILDT margins have improved to 8.82% in FY18 from 7.26% in FY17.

Dependence on scarcely available qualified medical professionals

Presence of qualified medical professionals such as doctors, paramedical staff and support staff is one of the important requisites of a hospital to be successful and to get continued patronage from the local population. Lakeshore is highly dependent on these scarcely available qualified medical professionals. Given the increasing competition and the scarcity of medical specialists, the ability of the hospital to retain its current pool would be important.

Single location regional player and growing competition in the industry

Notwithstanding the long track record and continued patronage of the local population, Lakeshore operates through only one hospital. Being a single location player limits its reach to this geographical region. Lakeshore faces competition from existing players in the region providing tertiary care services, regional private hospitals giving primary care and secondary care services and large number of private clinics.

Analytical approach: Standalone

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Financial ratios – Non-Financial Sector](#)

[Criteria for Short-term Instruments](#)

About the Company

LHRC is a multi-specialty hospital comprising of 350 Beds with over 35 clinical departments, a team of over 160 full time medical staff, over 700 nursing staff and total employee strength of nearly 1600. LHRC is known for its services in Oncology, Radiation Oncology, Surgical Oncology, Interventional Cardiology, Cardio Thoracic & Vascular Surgery among others.

The hospital has set up a new block which comprises of 250 beds adjacent to the existing block with a view to centralize all the speciality departments at one place which is likely to be fully operational from the current year onwards.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	195.07	229.88
PBILDT	14.16	20.27
PAT	1.88	2.89
Overall gearing (times)	0.13	0.17
Interest coverage (times)	7.54	5.76

A – Audited

Any other information:

Not Applicable

Rating History for last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	Oct 2025	90.00	CARE A-; Stable
Non-fund-based - ST-Bank Guarantees	-	-	-	10.00	CARE A2+
Fund-based - LT-Cash Credit	-	-	-	20.00	CARE A-; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Term Loan	LT	90.00	CARE A-; Stable	1)CARE A-; Stable (03-Sep-18)	-	-	-
2.	Fund-based - ST-Bank Overdraft	-	-	-	1)CARE A2+ (03-Sep-18)	-	-	-
3.	Non-fund-based - ST-Bank Guarantees	ST	10.00	CARE A2+	1)CARE A2+ (03-Sep-18)	-	-	-
4.	Fund-based - LT-Cash Credit	LT	20.00	CARE A-; Stable	1)CARE A-; Stable (03-Sep-18)	-	-	-

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