

## Lakeshore Hospital and Research Centre Limited

October 09, 2024

Facilities	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long-term / Short-term bank facilities	15.00	CARE A; Stable / CARE A1	Assigned
Short-term bank facilities	35.00	CARE A1	Assigned
Short-term bank facilities	10.00	CARE A1	Reaffirmed
Long-term bank facilities	-	-	Withdrawn

Details of facilities in Annexure-1.

### Rationale and key rating drivers

Ratings assigned to bank facilities of Lakeshore Hospital and Research Centre Limited (LHRC) continue to derive strength from vast experience of the promoters in the healthcare space, long-standing presence of the hospital in Kochi, experienced and qualified team of doctors, diversified revenue streams from specialisations, healthy financial risk profile and debt protection metrics. However, ratings are constrained by geographically concentrated revenue stream from a single-location hospital, dependence on scarcely available medical professionals, moderate occupancy levels and growing competition in the industry.

### Rating sensitivities: Factors likely to lead to rating actions

#### Positive factors

- Scaling up operations to above ₹750 crore with healthy occupancy levels above 70%, while maintaining profit before interest, lease rentals, depreciation, and taxation (PBILDT) margin above 25% on a sustained basis.
- Geographically diversifying revenue stream and reducing single hospital dependency.

#### Negative factors

- Large debt-funded capital expenditure, leading to moderate capital structure with gearing ratio above 0.7x.

### Analytical approach: Standalone

#### Outlook: Stable

The 'Stable' outlook reflects that the hospital is expected to maintain comfortable risk profile considering a comfortable capital structure with no major debt-funded capital expenditure in the medium term.

### Detailed description of key rating drivers

#### Key strengths

##### Well-established and experienced promoter group in healthcare industry

Dr. V.P. Shamsheer is the main shareholder holding 42.62% of the stake and is the company's chairman. He worked with radiology department at Sheikh Khalifa Medical City in Abu Dhabi, prior to promoting the VPS group in 2007. VPS Healthcare is an integrated healthcare service provider with 23 operational hospitals, over 125 medical centers, 13,000 employees (includes ~1700 doctors) and medical support services across the Middle East, Europe and India.

##### Reputed and experienced team of doctors

LHRC has several reputed doctors on its rolls, who have vast experience in their respective areas. The hospital has a team of 277 doctors, nursing staff strength of ~692 nurses, over 530 medical support staff and ~432 support staff as on March 31, 2024. The doctors' profile include those who have been associated with the hospital for over 15 years. The hospital has over 100 specialists doctors on their payroll as full-time consultants.

##### Diversified revenue stream across specialisations

The hospital's total income is spread across specialities with medical oncology and nephrology contributing to major source of revenue of 27.5% (PY: 27.7%) in FY24 (refers to April 01 to March 31). Each speciality contributes less than 15% of total revenue and top five departments contributed 43.2% of the total revenue in FY24.

##### Healthy capital structure and debt protection metrics

The company's capital structure continued to be healthy with overall gearing ratio of 0.01x as on March 31, 2024 (PY: 0.05x). Interest coverage ratio also improved to 48.49x as on March 31, 2024, due to prepayment of term loans and minimal utilisation of working capital limits. Debt coverage indicators also stood comfortable with total debt to gross cash accruals (TD/GCA) of 0.07x as of March 31, 2024 (PY: 0.23x).

##### Comfortable profitability despite declined in FY24

It is to be noted that operating income grew at a compound annual growth rate (CAGR) of 8.12% in the last two years ended FY23 and improved profitability due to increased number of surgeries. In FY24, operating income declined by 5.4% y-o-y to

<sup>1</sup> Complete definition of ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Limited's publications.

₹396.22 crore due to relatively lower number of surgeries and transplants. PBILDT margin remained comfortable and higher than pre-covid levels at 18.56% in FY24 despite declined from 24.43% in FY23. PBILDT margin improved to 21.43% in Q1FY25 on total income of ₹97.56 crore. With advanced treatment facilities, such as liver and kidney transplants, the average revenue per occupied bed (ARPOB) remained comfortable and increased from ₹39,714 in FY23 to ₹41,681 in FY24 (refers to April 01 to March 31) and ₹45,322 in Q1FY25 (refers to April 01 to June 31).

### Key weaknesses

#### Moderate occupancy levels

Due to competition from nearby hospitals providing relatively low-cost services, and increased focus on complex treatment procedures, LHRC's occupancy levels remained moderate at 53% in FY24 against 57% in FY23. Occupancy rates are expected to improve in current year as the hospital started accepting government health insurance such as ex-servicemen contributory health scheme (ECHS) in the last two months.

#### Dependence on scarcely available qualified medical professionals

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

#### Geographical concentration of revenue and growing competition in the industry

Despite the long track record and continued patronage of the local population, LHRC operates mainly through one hospital. The management has slightly diversified its operations by starting a Medical Centre in Kozhikode. However, over 95% of the revenue is from the hospital at Kochi. LHRC 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.

#### Liquidity: Strong

Liquidity is strong marked by sufficient cushion in accruals of ₹65.15 crore in FY24 against nil repayment obligations. The hospital also had free cash balance and liquid investments of ₹74.19 crore as on March 31, 2024. Due to the cash and carry nature of business and healthy accruals, LHRC's liquidity has been healthy and dependence on working capital borrowings has been generally low. Debtors mainly include receivables from insurance companies and other corporates, which contribute ~20-25% of the total income. The remaining 75% of total income is on cash basis. The hospital enjoys a credit period of ~45-60 days from its suppliers for medicine and expenses.

**Assumptions/Covenants:** Not applicable

**Environment, social, and governance (ESG) risks:** Not applicable

### Applicable criteria

[Definition of Default](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Rating Watch](#)

[Financial Ratios – Non financial Sector](#)

[Hospital](#)

[Withdrawal Policy](#)

[Short Term Instruments](#)

[Service Sector](#)

### About the company and industry

#### Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Healthcare	Healthcare	Healthcare services	Hospital

LHRC was incorporated as a public limited company in 1996 by Dr Philip Augustine, specialist in gastrointestinal endoscopy and Dr Peter John, a senior physician. In 1999, Yusuff Ali, Promoter of the Lulu Group of Companies acquired a major stake in the hospital and became the chairman. In 2016, the company's major stake was acquired by Dr. V.P. Shamsheer, promoter of the VPS Healthcare group, Dubai and son-in-law of Yusuff Ali. LHRC is a multi-specialty hospital consisting of 582 beds providing services such as wireless capsule endoscopy, endoscopic ultrasonography, and double balloon enteroscopy, among others and handles liver, kidney, pancreas, intestine, heart and bone marrow transplantations under one roof.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	June 30, 2024 (UA)
Total operating income	419.04	396.22	97.56
PBILDT	102.37	73.53	20.91
PAT	57.52	43.86	NA
Overall gearing (times)	0.05	0.01	NA
Interest coverage (times)	38.34	48.49	139.40

A: Audited; UA: Unaudited; NA: Not Available; Note: these are latest available financial results.

**Status of non-cooperation with previous CRA:** Not applicable

**Any other information:** Not applicable

**Rating history for last three years:** Annexure-2

**Detailed explanation of covenants of rated instruments/facilities:** Annexure-3

**Complexity level of instruments rated:** Annexure-4

**Lender details:** Annexure-5

#### Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	0.00	Withdrawn
Fund-based - LT/ ST-Bank Overdraft		-	-	-	15.00	CARE A; Stable / CARE A1
Non-fund-based - ST-Bank Guarantee		-	-	-	10.00	CARE A1
Non-fund-based - ST-Letter of credit		-	-	-	35.00	CARE A1

#### Annexure-2: Rating history for last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Fund-based - LT-Term Loan	LT	-	-	-	1)Withdrawn (22-Feb-24)	1)CARE A; Stable (07-Dec-22)	1)CARE A-; Positive (22-Dec-21)
2	Non-fund-based - ST-Bank Guarantee	ST	10.00	CARE A1	-	1)CARE A1 (22-Feb-24)	1)CARE A1 (07-Dec-22)	1)CARE A2+ (22-Dec-21)
3	Fund-based - LT-Cash Credit	LT	-	-	-	1)CARE A; Stable (22-Feb-24)	1)CARE A; Stable (07-Dec-22)	1)CARE A-; Positive (22-Dec-21)
4	Fund-based - LT/ ST-Bank Overdraft	LT/ST	15.00	CARE A; Stable / CARE A1				
5	Non-fund-based - ST-Letter of credit	ST	35.00	CARE A1				

LT: Long term; ST: Short term; LT/ST: Long term/Short term

**Annexure-3: Detailed explanation of covenants of rated instruments/facilities**

Not applicable

**Annexure-4: Complexity level of instruments rated**

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT/ ST-Bank Overdraft	Simple
3	Non-fund-based - ST-Bank Guarantee	Simple
4	Non-fund-based - ST-Letter of credit	Simple

**Annexure-5: Lender details**

To view lender-wise details of bank facilities please [click here](#)

**Note on complexity levels of rated instruments:** CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to [care@careedge.in](mailto:care@careedge.in) for clarifications.

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