

## Dr Agarwals Eye Hospital Limited

December 04, 2018

### Rating

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long-term Bank Facilities	32.20 (enhanced from Rs. 24.51 crore)	<b>CARE BBB+; Stable</b> <b>[Triple B Plus; Outlook: Stable]</b>	Reaffirmed
<b>Total Facilities</b>	<b>32.20</b> <b>(Rupees Thirty Two crore and Twenty lakh only)</b>		

*Details of facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

The rating assigned to the long-term bank facilities of Dr Agarwal's Eye Hospital Limited (DAEHL) continues to draw strength from the vast experience of the promoters in the field of eye-care, established brand presence and long-operational track record, qualified and experienced team of doctors aided by sophisticated technology providing advanced eye-care services.

The rating is, however, constrained by concentration of operations to the Chennai region with moderate growth in scale amidst stiff competition, moderate liquidity position and dependence on scarcely available medical professionals.

Going forward, ability of the company to consistently grow its revenues by widening its catchment areas, improve profitability and retain its team of Doctors amidst intense competition will be the key rating sensitivities.

### Detailed description of the key rating drivers

#### Key Rating Strengths

**Vast experience of the promoters in eye care services:** DAEHL was promoted by Padma Bhushan late Dr J. Agarwal and his family members, who have been in the profession of providing eye care solutions for over five decades extending up to the third generation currently. His son, Dr Amar Agarwal, MBBS, MS, FRCS, FRC Ophth, the current Chairman and Managing Director, has over two decades of experience in the eye care sector. He handles the operations of the company on a day-to-day basis along with his wife, Dr Athiya Agarwal and his sons, Dr Adil Agarwal and Dr Anosh Agarwal.

**Established brand presence and long-operational track record:** DAEHL has established itself as one of the leading eye care hospital chains in the Tamil Nadu region. The main hospital of DAEHL was established in Chennai in 1976 and has a long operational track record. The company has taken several steps to enhance their brand visibility by relocating some of the branches in order to increase the accessibility.

**Experienced team of Doctors aided by sophisticated technology providing advanced eye-care services:** DAEHL has an experienced team of eye care specialists who are supported by state-of-art medical equipments. These ophthalmic specialists and surgeons are sourced from leading medical institutions and hospitals specialized in optometry. The company continuously upgrades its technology by adding latest medical equipment and introducing new treatment methodologies. Some of the new methodologies adopted by DAEHL are LASIK, SMILE and STP (single pass four throw pupiloplasty) for Glaucoma.

#### Key Rating Weaknesses

**Geographically concentrated operations with modest growth in scale amidst stiff competition:** Though the group has diversified presence in other southern states and in Africa, DAEHL continues to be regional player with 21 out of its 22 branches located in Tamil Nadu region which contributed around 98% of the total income during FY18 (refers to the period April 01 to March 31) (99% during FY17) leading to concentration of revenues to this region. Overall the company has reported a higher per clinic revenue of Rs.6.97 crore/clinic in FY18 compared to Rs.6.46 crore/clinic in FY17 translating into a modest growth of 8%. The company witnessed decline in revenue from its Cathedral Road main branch (CMH) by 28% in FY18 due to spreading out of revenue among the existing branches of DAEHL. However, all other branches are witnessed an increase in income in FY18. Going forward, the company is planning to relocate the existing premises of few branches and to upgrade the existing facilities in some of the centers to meet the increasing patient requirements.

**Moderate Liquidity Position:** The current ratio remains moderate at 0.62x as on March 31, 2018 as the company is operating with a negative operating cycle. The payment from patients is done on an immediate cash basis which contributes to 70% of the total income from services (includes surgeries, treatment and consultation), while the payment

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

for patients coming under non-government and government schemes takes 35 days and 30 to 180 days respectively. The company enjoys a credit period of around 50 days from its suppliers. On account of comfortable operating cycle, the company has sparingly used its cash credit facilities. The average working capital utilisation stands at 69.98% for the 12 months ended October 2018. Furthermore, DAEHL's cash and bank balance including margin money was Rs.2.28 crore as on March 31, 2018.

**Dependence on scarcely available medical professionals and growing competition in the industry:** DAEHL is highly dependent on the scarcely available ophthalmologists. The company has 146 doctors on its rolls (as on March 31, 2018). Given the constraints of individual practice and associated costs, the doctors are incentivized to be associated with the brand and work with the latest technology. However, given the increasing competition, greater penetration of single doctor clinics in tier-3 towns and semi urban areas, the scarcity of eye specialists and the ability of the company to retain its current pool would be a key differentiator. DAEHL also faces competition with respect to patient footfalls due to the presence of self-sustaining not-for-profit missionary institutions which are providing high quality ophthalmic care service to the impoverished people at affordable cost.

**Analytical approach:**

Standalone

**Applicable Criteria**

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

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

[Criteria for Short Term Instruments](#)

[CARE's Methodology for service sector companies](#)

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

**About the Company**

Dr Agarwal's Eye Hospital Limited (DAEHL) is a super speciality eye hospital promoted by Padma Bhushan (Late) Dr Jaiveer Agarwal and his family members in the year 1994 to offer eye care solutions. Although DAEHL was incorporated in 1994, the family has been in the profession of providing total eye care solutions for almost five decades through various other companies and partnership firms owned by the family members. Dr Agarwal's Health Care Limited (DAHCL) is the holding company of DAEHL and as on March 31, 2018, DAHCL holds 71.75% stake in DAEHL. DAEHL is primarily engaged in providing solutions for various eye related problems like cataract, owning and managing eye care hospitals, opticals and pharmacy.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	148.54	154.18
PBILDT	22.56	24.58
PAT	7.34	6.78
Overall gearing (times)	0.79	0.58
Interest coverage (times)	5.53	8.55

A: Audited

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

**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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

**Analyst Contact:**

Name: Mr P. Sandeep

Tel: 044-2850 1000

Email: [sandeep.prem@careratings.com](mailto:sandeep.prem@careratings.com)

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**Annexure-1: Details of 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	-	-	March 2023	26.20	CARE BBB+; Stable
Fund-based - LT-Cash Credit	-	-	-	6.00	CARE BBB+; 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	26.20	CARE BBB+; Stable	-	1)CARE BBB+; Stable (04-September-17)	1)CARE BBB+ (02-September-16)	1)CARE BBB+ (05-October-15)
2.	Fund-based - LT-Cash Credit	LT	6.00	CARE BBB+; Stable	-	1)CARE BBB+; Stable (04-September-17)	1)CARE BBB+ (02-September-16)	1)CARE BBB+ (05-October-15)

**CONTACT****Head Office Mumbai**

**Ms. Meenal Sikchi**  
 Cell: + 91 98190 09839  
 E-mail: [meenal.sikchi@careratings.com](mailto:meenal.sikchi@careratings.com)

**Mr. Ankur Sachdeva**  
 Cell: + 91 98196 98985  
 E-mail: [ankur.sachdeva@careratings.com](mailto:ankur.sachdeva@careratings.com)

**Ms. Rashmi Narvankar**  
 Cell: + 91 99675 70636  
 E-mail: [rashmi.narvankar@careratings.com](mailto:rashmi.narvankar@careratings.com)

**Mr. Saikat Roy**  
 Cell: + 91 98209 98779  
 E-mail: [saikat.roy@careratings.com](mailto:saikat.roy@careratings.com)

**CARE Ratings Limited****(Formerly known as Credit Analysis & Research Ltd.)**

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022  
 Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: [care@careratings.com](mailto:care@careratings.com)

**AHMEDABAD**

**Mr. Deepak Prajapati**  
 32, Titanium, Prahaladnagar Corporate Road,  
 Satellite, Ahmedabad - 380 015  
 Cell: +91-9099028864  
 Tel: +91-79-4026 5656  
 E-mail: [deepak.prajapati@careratings.com](mailto:deepak.prajapati@careratings.com)

**JAIPUR**

**Mr. Nikhil Soni**  
 304, Pashupati Akshat Heights, Plot No. D-91,  
 Madho Singh Road, Near Collectorate Circle,  
 Bani Park, Jaipur - 302 016.  
 Cell: +91 – 95490 33222  
 Tel: +91-141-402 0213 / 14  
 E-mail: [nikhil.soni@careratings.com](mailto:nikhil.soni@careratings.com)

**BENGALURU**

**Mr. V Pradeep Kumar**  
 Unit No. 1101-1102, 11th Floor, Prestige Meridian II,  
 No. 30, M.G. Road, Bangalore - 560 001.  
 Cell: +91 98407 54521  
 Tel: +91-80-4115 0445, 4165 4529  
 Email: [pradeep.kumar@careratings.com](mailto:pradeep.kumar@careratings.com)

**KOLKATA**

**Ms. Priti Agarwal**  
 3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)  
 10A, Shakespeare Sarani, Kolkata - 700 071.  
 Cell: +91-98319 67110  
 Tel: +91-33- 4018 1600  
 E-mail: [priti.agarwal@careratings.com](mailto:priti.agarwal@careratings.com)

**CHANDIGARH**

**Mr. Anand Jha**  
 SCF No. 54-55,  
 First Floor, Phase 11,  
 Sector 65, Mohali - 160062  
 Chandigarh  
 Cell: +91 851111-53511/99251-42264  
 Tel: +91- 0172-490-4000/01  
 Email: [anand.jha@careratings.com](mailto:anand.jha@careratings.com)

**NEW DELHI**

**Ms. Swati Agrawal**  
 13th Floor, E-1 Block, Videocon Tower,  
 Jhandewalan Extension, New Delhi - 110 055.  
 Cell: +91-98117 45677  
 Tel: +91-11-4533 3200  
 E-mail: [swati.agrawal@careratings.com](mailto:swati.agrawal@careratings.com)

**CHENNAI**

**Mr. V Pradeep Kumar**  
 Unit No. O-509/C, Spencer Plaza, 5th Floor,  
 No. 769, Anna Salai, Chennai - 600 002.  
 Cell: +91 98407 54521  
 Tel: +91-44-2849 7812 / 0811  
 Email: [pradeep.kumar@careratings.com](mailto:pradeep.kumar@careratings.com)

**PUNE**

**Mr. Pratim Banerjee**  
 9th Floor, Pride Kumar Senate,  
 Plot No. 970, Bhamburda, Senapati Bapat Road,  
 Shivaji Nagar, Pune - 411 015.  
 Cell: +91-98361 07331  
 Tel: +91-20- 4000 9000  
 E-mail: [pratim.banerjee@careratings.com](mailto:pratim.banerjee@careratings.com)

**COIMBATORE**

**Mr. V Pradeep Kumar**  
 T-3, 3rd Floor, Manchester Square  
 Puliakulam Road, Coimbatore - 641 037.  
 Tel: +91-422-4332399 / 4502399  
 Email: [pradeep.kumar@careratings.com](mailto:pradeep.kumar@careratings.com)

CIN - L67190MH1993PLC071691

**HYDERABAD**

**Mr. Ramesh Bob**  
 401, Ashoka Scintilla, 3-6-502, Himayat Nagar,  
 Hyderabad - 500 029.  
 Cell : + 91 90520 00521  
 Tel: +91-40-4010 2030  
 E-mail: [ramesh.bob@careratings.com](mailto:ramesh.bob@careratings.com)