SMERA RATINGS LIMITED

Lonestar Holdings Private Limited: Assigned

Facilities	Amount (Rs. Crore)	Rating/Outlook
Term Loan	10.00	SMERA BB/Stable (Assigned)
Letter of Credit	10.00*	SMERA A4+ (Assigned)

** 100 per cent interchangeable with buyer's credit*

SMERA has assigned rating of **'SMERA BB' (read as SMERA double B)** and **'SMERA A4+' (read as SMERA A four plus)** to the abovementioned bank facilities of Lonestar Holdings Private Limited (LHPL). The outlook is **'Stable'.** The rating is supported by the company's experienced management, healthy capital adequacy and reputed customer base. The rating also factors in the increased spending on healthcare in the country. However, the rating is constrained by the company's limited track record of operations and the competitive landscape of the equipment financing industry..

LHPL is a non deposit taking NBFC having commenced commercial operations in 2012. The company is primarily engaged in providing medical equipments on operating lease. It also provides term financing for medical equipments. Typically, in a lease contract the asset life being five to eight years, the company leases out the medical equipment for around 36 months with a leading hospital (primary lessee). On the expiry of the primary lease, the contract is either renewed or the asset is deployed in a hospital/diagnostic centre in a Tier 2 city under secondary lease arrangement. The ability of the company to identify customers in primary lease and particularly the secondary lease is crucial to the success of the business model. This is more so on account of the fact that leasing of medical equipment is yet to pick up in a significant manner with several hospitals/clinics choosing to buy and own equipments rather than leasing it. Further, the company also faces competition from banks/financial institutions that are engaged in equipment financing. The company's assets will be due for secondary lease in the current year. LHPL's ability to successfully deploy its equipment in secondary leases in a timely manner will be a key rating sensitivity.

LHPL benefits from its experienced management as Mr. Sundeep Ramgarhia, Director, has around seven years experience in medical equipment financing. He has worked with GE Capital in the leasing, financial and private equity business and during his stint, developed contacts with leading doctors and hospitals in the country. The directors' experience in the field has resulted in LHPL being able to cater to reputed hospitals. The company has a healthy capital adequacy of 68 per cent for FY2015-16. With the overall spending on healthcare increasing in the country, the demand for equipment related to healthcare is expected to increase significantly over the medium term. SMERA believes that this will augur well for players like LHPL.

LHPL has modest scale of operations marked by loan book of Rs.0.57 crore and asset size for leasing of Rs.3.90 crore as on March 31, 2016. The company has achieved total income of Rs.2.10 crore out of which income from asset leasing constitutes 57 per cent while transaction advisory services contributed 30 per cent in FY2015-16. As on September 30, 2016, the company has been sanctioned bank limits to the tune of Rs.20 crore (Rs.10.00 as term loan and Rs.10.00 crore (Letter of credit/Buyers' credit) for scaling up its operations.

Rating Sensitivity Factors

- Scaling up of operations
- Ability to redeploy the assets in timely manner
- Maintaining asset quality
- Profitability margins
- Regulatory framework

Outlook - Stable

SMERA believes that the outlook for LHPL will remain 'Stable' over the medium term backed by its experienced management. The outlook may be revised to 'Positive' in case the company scales up its operations significantly while maintaining robust asset quality and healthy profitability margins. Conversely, the outlook may be revised to 'Negative' in case of significant challenges in scaling up the operations or in redeployment of assets and faces asset quality pressures.

Criteria applied to arrive at the ratings:

- Non-banking finance companies

About the Company

LHPL, incorporated in 1987 is a non-deposit taking, RBI registered NBFC engaged in the leasing and financing of medical equipments.

For FY2015-16, LHPL reported net profit after tax (PAT) of Rs.0.50 crore on total income of Rs.2.10 crore as against PAT of Rs.0.15 crore on total income of Rs.1.38 crore.

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ABOUT SMERA

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