

Press Release

Lonestar Holdings Private Limited

22 July, 2017

Rating Reaffirmed



Total Instruments Rated*	Rs.20.00 Cr
Long Term Rating	SMERA BB / Outlook: Stable
Short Term Rating	SMERA A4+

Refer Annexure for details

Rating Rationale

SMERA has reaffirmed the long-term rating of '**SMERA BB**' (read as **SMERA double B**) and short term rating of '**SMERA A4+**' (read as **SMERA A four plus**) on the Rs.20.00 crore bank facilities of Lonestar Holdings Private Limited (LHPL). The outlook is '**Stable**'.

LHPL, a non-deposit taking NBFC incorporated in 1987 commenced commercial operations in 2012 to provide medical equipments on operating lease. The company also offers term financing of medical equipments. Typically, in a lease contract, the asset life is around five to eight years. The company leases out the medical equipment for around 36 months to a hospital (primary lessee). On 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.

List of key rating drivers and their detailed description:

Strengths:

Experienced management: LHPL benefits from its experienced management. Mr. Sundeep Ramgarhia, Director has around seven years of experience in medical equipment financing. He has worked with GE Capital in the leasing, financial and private equity business and during his stint with GE has developed contacts with the leading hospitals and doctors in the country. The promoters have been able to maintain the right balance between business growth and asset quality despite events such as demonetisation. LHPL has leveraged on its promoter's prior experience in the healthcare sector to enter into relationships with leading hospitals in the country.

SMERA believes that the business risk profile of LHPL will be supported by the experienced management and relationships with reputed hospitals.

Prudent capital structure: LHPL's net worth stood at Rs.3.32 crore as on 31 March, 2017. The comfortable capitalisation is reflected in the capital adequacy ratio (CAR) of 64.06 per cent as on 31 March, 2017 as against 68.65 per cent as on 31 March, 2016. LHPL has been sanctioned additional bank limits for scaling up operations. Considering the high capital adequacy, the promoters have adequate headroom to support growth in scale of operations over the near term.

SMERA believes that the prudent capital structure will help LHPL expand operations while maintaining moderate leverage.

Weaknesses:

Limited track record of operations: LHPL commenced commercial operations in 2012. The company offers medical equipments on operating lease. LHPL had 49 leased assets as on 31 March, 2017 as against 14 assets as on 31 March, 2016. In FY2016-17, the company recalled three of its assets to mitigate potential delinquency in the account. LHPL has adopted a cautious approach to growth and hence even after five years of commencement of operations, the scale of operations is modest marked by loan book of Rs.0.14 crores and leased asset size of Rs.6.43 crore as on 31 March, 2017. The company has achieved total income of Rs.2.71 crore in FY2016-17 as against Rs.2.10 crore in FY2015-16. Of the total income, income from asset leasing constitutes 69 per cent while transaction advisory services contributed 14 per cent in FY2016-17.

As on 31 March 2017, LHPL has 46 assets under primary lease, three on secondary lease while two are repossessed. The business model is based on LHPL's ability to identify opportunities for primary and secondary leases in a timely manner. Considering the limited track record of operations, LHPL's ability to scale up operations while maintaining healthy asset quality and profitability margins is yet to be adequately demonstrated. The asset quality and profitability margins will be key rating sensitivities.

Competitive landscape of the equipment financing industry: LHPL faces competition from banks and institutions that offer structured financial solutions to healthcare institutions/clinics. 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 lease them. LHPL's ability to scale up operations against the backdrop of intense competition will depend on its ability to offer optimal cost effective solutions in tune with the client's requirements.

Analytical approach: SMERA has considered the standalone business and financial risk profile of LHPL to arrive at the rating.

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. 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.

About the Rated Entity - Key Financials

For FY2016-17, LHPL reported net profit after tax (PAT) of Rs.0.68 crore on total income of Rs.2.71 crore as against PAT of Rs.0.50 crore on total income of Rs.2.10 crore.

Applicable Criteria

- Criteria for Rating of Non-Banking Financing Entities: <https://www.smera.in/criteria-nbfc.htm>
- Application of Financial Ratios and Adjustments: <https://www.smera.in/criteria-fin-ratios.htm>
- Default Recognition: <https://www.smera.in/criteria-default.htm>

Note on complexity levels of the rated instrument:
<https://www.smera.in/criteria-complexity-levels.htm>

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating History (Upto last three years):

Date	Name of Facilities	Term	Amount (Rs. Crore.)	Ratings/Outlook
07-Nov-2016	Term Loan	Long Term	5.00	SMERA BB/Stable (Assigned)
	Term Loan	Long Term	5.00	SMERA BB/Stable (Assigned)
	Letter of Credit	Short term	10.00*	SMERA A4+ (Assigned)

* 100 per cent interchangeable with buyer's credit

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Term Loan	N.A.	N.A.	N.A.	5.00	SMERA BB/Stable (Reaffirmed)
Term Loan	N.A.	N.A.	N.A.	5.00	SMERA BB/Stable (Reaffirmed)
Letter of Credit	N.A.	N.A.	N.A.	10.00*	SMERA A4+ (Reaffirmed)

* 100 per cent interchangeable with buyer's credit

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ABOUT SMERA

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