

Press Release
Lone Star Holdings Private Limited

October 04, 2018

Rating Reaffirmed



Total Bank Facilities Rated*	Rs.20.00 Cr.
Long Term Rating	ACUITE BB / Outlook: Stable (Reaffirmed)
Short Term Rating	ACUITE A4+ (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed the long term rating of '**ACUITE BB**' (read as **ACUITE double B**) and short term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) on the Rs.20.00 cr. bank facilities of Lone Star Holdings Private Limited. The outlook is '**Stable**'.

Lone Star Holdings Private Limited (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 center in a Tier 2 city under secondary lease arrangement.

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of the LHPL to arrive at this rating.

Key Rating Drivers

Strengths

• **Experienced management & reputed customer base**

LHPL benefits from its experienced management. Mr. Sundeep Ramgarhia, Director, has around eight years of experience in medical equipment financing. He has been associated with GE Capital in the leasing, financial and private equity business and during his stint with GE, he had developed contacts with the leading hospitals and doctors in the country. LHPL caters to a reputed clientele base, viz, Fortis Hospital & Kidney Institute, Seven Hills Healthcare Private Ltd., Marc Medical Systems, ILS Hospital, Mission of Mercy Hospital & Research Centre amongst others. LHPL has leveraged on its promoter's prior experience in the healthcare sector to enter into relationships with leading hospitals in the country.

• **Healthy capital adequacy & asset quality**

LHPL's net worth stood at Rs.3.74 crore as on 31 March, 2018. The comfortable capitalisation is reflected in the capital adequacy ratio (CAR) of 57.07 per cent as on 31 March, 2018 as against 64.06 per cent as on 31 March, 2017.

Also, till date, the company has not incurred any bad debt and LHPL has been making adequate provisions towards its assets as per the regulatory requirement. Considering the high capital adequacy, the promoters have adequate headroom to support growth in scale of operations over the near term.

• **Average profitability & moderate liquidity profile**

LHPL has earned profit after tax of Rs. 0.75 Cr. during FY18 (PY: Rs.0.68 Cr). The company's net cash accruals were Rs.2.40 Cr for FY18 (PY: Rs. 1.75 Cr). During the year 2018, the company hived off one of its old assets to the tune of Rs.0.15 Cr. LHPL recorded a Return on Average Assets to the tune of 9.49 percent in FY2018 as against 10.71 percent in the previous year.

LHPL has a comfortable liquidity position. It earned an average monthly rental of ~Rs.40 lakhs during FY18 as against a monthly obligation of ~Rs.20 lakhs towards the term loans availed. The company collects post dated cheques from its customers. The equipments are funded by a mix of term loans & letter of credit, security deposits and own funds. The company has a cash & bank balance (including term deposits) of Rs.0.91 Cr as on 31 March 2018.

Weaknesses

• Small scale of operations

LHPL is a non-deposit taking NBFC which started its operation in 2012. The company offers medical equipments on operating lease. LHPL had leased medical equipments of Rs.9.45 cr as on 31 March 2018 (Rs.6.43 Cr as on 01 April 2017). LHPL had 46 leased assets as on 31 March, 2018 as against 35 assets as on 31 March, 2017. The company also has a small loan book of equipment loans of Rs.0.21 crores as on March 31, 2018. The ability of the company to scale up its operations and at the same time compete with players who are already into equipment leasing business will remain a key sensitivity factor.

The company has achieved total income (net of interest expense) of Rs.3.82 crore in FY2018 as against Rs.2.71 crore in FY2017. Of the gross total income, income from asset leasing constitutes around 86 per cent while the remaining mainly accounted for fee based income in the form of processing fees.

• Ability to deploy assets in secondary lease market

The business model is based on LHPL's ability to identify opportunities for primary and secondary leases in a timely manner. The leasing business of medical equipment is a newer concept in India as most hospitals/clinics being cash rich, tend to buy and own equipments instead of leasing it. However, on account of constant technological upgradation in the medical industry, Tier-1 city hospitals may not be keen on purchasing the asset as after a point of time the equipment would become obsolete.

During the current year, the company has been able to renew most of the agreements which were due for expiry. The company has been able to add 8 new hospitals/clinics to its customer base, now totaling the customer base to 18. The primary lease rentals enable the company to recover the cost of the asset but major profitability comes from the secondary lease. The ability of the company to successfully deploy assets in Tier 2 cities and maintain asset quality will be a key challenge.

• Nascent stage of leasing medical equipment 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.

Outlook: Stable

Acuite 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

	Unit	FY18(Actual)	FY17(Actual)	FY16(Actual)
Total Assets	Rs. Cr.	8.1	7.8	4.9
Total Income (Net of Interest Expense)	Rs. Cr.	3.8	2.7	2.0
PAT	Rs. Cr.	0.8	0.7	0.5
Net Worth	Rs. Cr.	3.7	3.2	2.6
Return on Average Assets (RoAA)	(%)	9.5	10.7	9.7
Return on Average Net Worth (RoNW)	(%)	21.6	23.4	20.8
Total Debt/Tangible Net Worth (Gearing)	Times	0.7	0.6	0.2

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Non-Banking Finance Entities: <https://www.acuite.in/criteria-nbfc.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
22-Jul-17	Term Loan	Long term	5.00	ACUITE BB/Stable (Reaffirmed)
	Term Loan	Long term	5.00	ACUITE BB/Stable (Reaffirmed)
	Letter of Credit	Short term	10.00#	ACUITE A4+ (Reaffirmed)
07-Nov-16	Term Loan	Long term	10.00	ACUITE BB/Stable (Assigned)
	Letter of Credit	Short term	10.00#	ACUITE 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. Crore)	Ratings/Outlook
Term loans	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BB/Stable (Reaffirmed)
Term loans	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BB/Stable (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A4+ (Reaffirmed)

Contacts

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About Acuité Ratings & Research:

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