Press Release

Tristar Lifesciences Private Limited [TLPL]

April 29, 2020

Rating

Facilities	**Amount (Rs. Crore)**	**Current Ratings**	**Previous Ratings**	**Rating Action**
Long Term Bank Facilities-Term Loan	48.99 (Reduced from Rs. 72.91Cr)	IVR BBB-/ Stable Outlook; (IVR Triple B Minus with Stable Outlook)	IVR BBB-/ Stable Outlook; (IVR Triple B Minus with Stable Outlook)	Reaffirmed
Long Term - Bank Facilities- Cash Credit	10.00	IVR BBB-/ Stable Outlook; (IVR Triple B Minus with Stable Outlook)	IVR BBB-/ Stable Outlook; (IVR Triple B Minus with Stable Outlook)	Reaffirmed
Long Term - Bank Facilities- Working Capital Demand Loan	2.50	IVR BBB-/ Stable Outlook; (IVR Triple B Minus with Stable Outlook)	--	Assigned
Total	**61.49** **(Sixty One Crore and Forty Nine Lakhs)**			

Details of facilities are in Annexure 1

Rating Rationale

The reaffirmation of rating of Tristar Lifesciences Private Limited (TLPL) continues to derive comfort from the experience and qualification of promoters, modern infrastructure and equipment, improving operating income and range bound EBITDA margin, Regular infusion of equity, Tie-ups with reputed corporate, growth prospects for Indian healthcare industry. These rating strengths are partially offset by moderate debt protection metrics, geographical concentration risk, capital intensive nature and competitive nature of healthcare industry.

Key Rating Sensitivities:

- **Upward Rating Factor:**

A sustained improvement in the revenue and/or EBITDA margin leading to improvement in the overall debt protection metrics

- **Downward Rating Factor:**

Any delay in ramping up of occupancy from Tristar II and/or any decline in revenue and EBITDA margin leading to deterioration in overall debt protection metrics.

Detailed Description of Key Rating Drivers

Key Rating Strengths

Experienced and highly qualified promoters with long experience

The company is being promoted by gold medal-winning cardiologist Dr. Arun Mehra and family. Dr. Premchand Mehra, father of Mr. Arun Mehra, aged 92 years, is qualified as M.B.B.S. and M.S. He is a Senior Doctor and Professor of Anatomy with over 50 years of experience. Dr. Arun Mehra is also highly qualified, having studied M.B.B.S., M.S. and "Master of Surgery" (M.Ch). He currently practices in five hospitals as Cardiac Specialist - Jaslok Hospital (Head of Department), Breach Candy (Coordinator), Lilavati Hospital, Nanavati Hospital and Tristar. Further, TLPL is managed by 2nd generation of family Arpit Mehra (Son of Dr. Arun Mehra) – the Executive Director. He has a sound background in finance and has successfully commissioned and run several projects in wind power, real estate and health care. Additionally, his wife Mrs. Sheena Singh, MBBS, MD Dermatology and Cosmetology has joined the company which will strengthen the revenue. Further, TLPL is well supported by a team of qualified & experienced professionals/doctors for managing the day-to-day functioning of the hospitals.

Modern infrastructure and latest equipment

The hospital has state-of-art equipment and facilities available for its patients. Tristar I has the latest infrastructure in place such as Isolated Intensive Care Units (ICU), state of art modular operation theatres (OTs), Heart Command Centre, etc. It offers healthcare services under 20 to 25 specialties covering Cardiovascular, Cancer care, Orthopaedic, Ophthalmology, Diabetes and Urology among others. The equipment required for the hospitals are procured from the top companies in the healthcare space like Siemens, Philips, GE, Maquet, Olympus, and Stryker. Tristar I & Tristar II both was granted the prestigious NABH accreditation within three years of operation based on its quality control infrastructure and process covering staffing, design and SOPs. Tristar II also become fully functional in FY20. In FY20, TLPL has added departments i.e. Cosmetology, Medical Oncology, Bariatric Surgery, IVF, Cardiac Catheterisation laboratory, Neonatal ICU and Neonatal interventional cardiology department.

Improving operating income and range bound EBITDA margins

Operating Income Improved Y-o-Y by 9% to Rs.37.50 crore in FY19 (FY: 18 Rs,34.41 crore) due to improved occupancy of Tristar I and operationalisation of Tristar II. EBITDA margins remained range bound at 20%-23% over the past three years ended FY19. In 9MFY20 the company had achieved the revenue of around Rs.33.00 crore. Revenue & EBITDA margin are expected to improve gradually on account of increase occupancy coupled with addition of new departments.

Regular infusion of Equity

The promoter has been able to pump in equity and/or unsecured loans as on when required reflects resourcefulness of the promoters. Liquidity is supported by regular infusion of unsecured loan from promoters for all of the last three years i.e. 2017 to 2019 and gradually unsecured loans is converted into equity in a planned manner.

Tie-ups with reputed corporate

The hospital has corporate tie ups with companies like Reliance Group, Adani Group, L&T, Shell, Aarti Industries, Essar Steel and Essar projects, who are major employers in Gujarat. Over and above, the hospital runs the factory clinics of Adani Group in Hajira. The hospital also has a tie ups with public sector units (PSU), like BSNL, Electricity Board ensuring a steady flow of patients.

Healthy growth prospects for Indian healthcare industry

Healthcare has become one of India's largest sectors both in terms of revenue & employment. The industry is growing at a tremendous pace owing to its increasing outreach &awareness, better services and increasing expenditure by public as well private players. Factors such as better affordability through increasing per capita income and widening medical insurance coverage, growing awareness for healthcare, under-penetration of health care services, technological improvements in early diagnosis and treatment and higher incidence of lifestyle diseases support the industry prospects.

Key Rating Weaknesses

Moderate debt protection metrics

The overall gearing & Total Outside Liabilities/ Adjusted Net worth though improved marginally, however remain elevated at 2.07x (FY18: 2.11x) & 2.31x (2.33x) in FY19 respectively. Interest coverage remains stable at 1.89x in FY19 (FY18: 1.90x).

Geographical concentration risk

The management has taken a conscious decision to operate Tristar I as a premium care facility, while Tristar II shall cater to medium to low income patients coming under insurance / government schemes. However, both the hospitals are situated close (at a distance of around 200 yards) to each other in the city of Surat. Though TLPL's facilities are limited in terms of scale with respect to number of hospitals, size and locations covered as compared to other large hospital chains such as Fortis, Apollo, Manipal, etc, the capacity of the hospitals taken together is sizeable.

Capital intensive nature of the industry

The healthcare segment is capital intensive with a long gestation period usually. Generally, the payback period for a new hospital is about 7-10 years. Further, the maintenance capex required for the hospital segment also remains high owing to regular replacement of equipment and modernization to remain updated with the latest technology.

Fiercely competitive healthcare industry

The healthcare industry is very competitive with a large number of established organized players and their growing network of hospitals. The healthcare and specialty hospital sector mainly comprises large national level players, organized regional players, government hospitals, charitable trusts and a significant number of nursing homes and multi-specialty clinics, making the sector highly competitive. Many other hospitals including few super-speciality hospitals also operate in the vicinity of this hospital, which will provide competition in the medium to long run. Even then, the significant future potential in the sector is likely to negate such effect considerably in terms of revenue and profitability

Analytical Approach & Applicable Criteria:

- Standalone
- Rating Methodology for service sector companies
- Financial Ratios & Interpretation (Non-Financial Sector)

Liquidity: Adequate

The company has completed second phase of Tristar II project in May 2019 and the first phase has been commissioned in December 2018 and hence, the company is in stage to reap the economies of the expansion. TLPL's current ratio is above unity and the average cash credit utilization of the company was at 89.45% during the past 12 months ended January 2020.

About the company

Tristar Lifesciences Private Limited (TLPL) was incorporated in 2006. The promoters identified a suitable location in 2010 and set-up the first multi-speciality hospital in Surat in Sep 2013 with a capacity of 108 beds operating under the name "Tristar Hospital" (Tristar I), providing healthcare service. TLPL has expanded its presence through its second hospital "Tristar II" with a capacity of 70 beds.

Financials (Standalone)

INR in Crore

For the year ended / As on	31-Mar-18 (A)	31-Mar-19 (A)
Total Operating Income	34.41	37.50
EBITDA	7.47	8.69
PAT	1.47	1.21
Total Debt	43.86	51.26
Tangible Net Worth	9.38	15.59
EBIDTA Margin (%)	21.17	23.17
PAT Margin (%)	4.24	3.20
Overall Gearing ratio (x)	2.11	2.07

* *Classification as per Infomerics' standards*

Details of Non Co-operation with any other CRA: N.A.

Any other information: N.A.

Rating History for last three years:

Name of Instrument/ Facility	Current Rating (Year: 2020-21)			Rating History for the past 3 years		
	Type	Amount outstanding (INR Crore)	Rating	Rating assigned in 2019-20	Rating assigned in 2018-19	Rating assigned in 2017-18
Fund Based Facilities-Term Loan	Long Term	48.99 (Reduced from Rs. 72.91Cr)	IVR BBB-/Stable outlook	--	IVR BBB-/Stable outlook	--
Fund Based Facilities-Cash Credit	Long Term	10.00	IVR BBB-/Stable outlook	--	IVR BBB-/Stable outlook	--
Fund Based Facilities-Working Capital Demand Loan	Long Term	2.50	IVR BBB-/Stable outlook	--	--	--
	Total	**61.49**				

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

Annexure 1: Details of Facilities

Sr. No.	Name of Facility	Date of Issuance	Coupon Rate/IRR	Maturity Date	Size of Facility (INR Crore)	Rating Assigned/ Outlook
1	Fund Based facility-Term Loan	--	--	Dec-31	48.99	IVR BBB- /Stable outlook
2	Fund Based Facility-Cash Credit	--	--	--	10.00	IVR BBB- /Stable outlook
3	Fund Based facility-Working Capital Demand Loan	--	--	--	2.50	IVR BBB- /Stable outlook
Total					**61.49**	