Press Release

Tristar Lifesciences Private Limited (TLPL)

February 14, 2019

Rating

Instrument / Facility	Amount (Rs. crore)	Rating	Rating Action
Term Loans	72.91	IVR BBB-/Stable outlook [IVR Triple B Minus with Stable Outlook]	Assigned
Cash Credit	10.00	IVR BBB-/Stable outlook [IVR Triple B Minus with Stable Outlook]	
Total	**82.91**		

Details of Facilities are in Annexure I

Detailed Rationale

The rating of Tristar Lifesciences Private Limited (TLPL) derives comfort from the experience of promoters, modern infrastructure and equipment, healthy profitability margin, tie-ups with corporates and growth prospects for Indian healthcare industry. The rating also takes into consideration the high overall gearing, geographical concentration risk, capital intensive nature and competitive nature of healthcare industry. Gearing level, Profitability, timely completion of ongoing project and growth in revenue are the key rating sensitivities.

Detailed Description of the 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. 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, Breach Candy, Lilavati Hospital, Nanavati Hospital and Tristar (Director). His son, Mr Arpit Mehra – the Executive Director – has a sound background in finance and has successfully commissioned and run several projects in wind power, real estate and health care.

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 specialities 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 was granted the prestigious NABH accreditation within three years of operation based on its quality control infrastructure and process covering staffing, design and SOPs.

Healthy profitability margins

The company has reported healthy EBIDTA margin in the range of 20%-22% over the past three years. The PAT margin has improved during the past two years in view of increasing occupancy level in hospital.

Tie-ups with reputed corporates

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. The hospital also has a tie ups with public sector units (PSU), like BSNL, Electricity Board and ESIC 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. During 2017-20, the market is expected to record a CAGR of 16.5%. The total industry size is expected to touch $260 billion by 2020.

Key Rating Weaknesses

High overall gearing

The adjusted gearing ratio is high at 2.11x as on March 31, 2018 mainly due to the company being at expansion stage entailing capex.

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 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 other large hospital chains, 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 Approach
- Rating Methodology for Service Sector Companies
- Financial Ratios & Interpretation (Non-Financial Sector)

Liquidity

The company is in project expansion stage and the second phase of the Tristar II project is likely to be operational from May, 2019. Even the first phase of Tristar II has been commissioned in December 2018 only and hence, the company is yet to reap the benefit of the expansion. Even in this intervening period, the company has posted a modest level of profit and cash accruals. Given the above, the company is witnessing a pressure on liquidity front; however, considering promoter's respectable position in the society, resourcefulness, commitment in business and successful operation since implementation, the near term debt servicing and liquidity is expected to get adequate support from the promoters.

About the Company

Tristar Lifesciences Private Limited (TLPL) was incorporated in 2006. TLPL is promoted by gold medal-winning Cardiologist Dr. Arun Mehra and his family. Dr. Premchand Mehra (qualified as MBBS and MS) – father of Dr. Arun Mehra – is a senior doctor and professor of Anatomy with 50 years of experience. He serves as the Chairman of TLPL. Dr. Arun Mehra is highly qualified, having studied M.B.B.S., M.S. and "Master of Surgery" (M.Ch). Mr Arpit Mehra – son of Dr. Arun Mehra – is the Executive Director of the company who looks after the day-to-day operations.

The first multi-speciality hospital was started in Surat in Sep 2013 with a capacity of 108 beds operating under the name "Tristar Hospital" (Tristar I), providing healthcare services under multiple specialties covering cardiovascular, cancer care, orthopaedic care, ophthalmology, diabetes, urology, etc. TLPL is currently expanding its presence through its second hospital "Tristar II".

Financials (Standalone) **(Rs. crore)**

For the year ended/ As On	31-03-2017 (Audited)	31-03-2018 (Audited)
Total Operating Income	32.0	34.7
EBITDA	7.2	7.5
PAT	1.3	1.5
Adjusted Total Debt	35.9	43.9
Adjusted Tangible Networth	19.3	20.8
Ratios		
EBITDA Margin (%)	22.66	21.71
PAT Margin (%)	4.05	4.24
Adjusted Gearing Ratio (x)	1.86	2.11

Note: Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: CARE BB+/Stable; ISSUER NOT COOPERATING (Revised from CARE BBB-/Stable). As per the press release dated December 5, 2018, the company has not provided the requisite information for monitoring the ratings.

Any other information: Not applicable

Rating History for last three years:

Sl. No.	Name of Instrument/Facilities	Current Rating (Year 2018-19)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17	Date(s) & Rating(s) assigned in 2015-16
1	Term Loans	Long Term	72.91	IVR BBB-/Stable outlook [IVR Triple B Minus with Stable Outlook]	--	--	--
2	Cash Credit	Long Term	10.00	IVR BBB-/Stable outlook [IVR Triple B Minus with Stable Outlook]	--	--	--

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

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crores)	Rating Assigned/ Outlook
Term Loan I	-	-	Feb-20	13.34	IVR BBB- /Stable outlook [IVR Triple B Minus with Stable Outlook]
Term Loan II	-	-	May-25	5.57	
Term Loan III	-	-	Sep-32	4.00	
Term Loan IV	-	-	Sep-32	50.00	
Cash Credit	-	-	-	10.00	