

IPO Review

Lotus Eye Care Hospital Limited

Issue Opens
 June 12, 2008

Issue Closes
 June 17, 2008

Price Band
 Rs 38-42

Too expensive...

Lotus Eye Care Hospital is the state of art eye care hospital group successfully functioning in South India with specialization in super-specialty service in the sub-specialties of eye care.

▪ Rising medical tourism

Medical tourism is one of the major external drivers of growth of the Indian healthcare sector. The emergence of India as a destination for medical tourism leverages the country's well educated, medical staff, state-of-art private hospitals and diagnostic facilities, and relatively low cost to address the spiralling healthcare costs of the western world. India provides best-in-class treatment, in some cases at less than one-tenth the cost incurred in the US.

▪ Increased preference for private medical care

Despite high cost of treatment in comparison with public health care services, People generally prefer to opt for private health care because of their top quality health care standards. In the future, Private health care providers stand to gain the most from the expected demand growth in health care services.

▪ Use of latest technology

Technology plays very crucial role in any segment of health care industry. Lotus eye care provides comprehensive eye-care services using the world-class technology and skills. Besides delivering the regular eye-care services, it also provides advanced level of diagnostic and therapeutic services in the field of vitreous and retinal diseases, Phacoemulsification surgery for Cataract and customized wave front LASIK laser for glass free vision.

Concerns

- The company's performance and growth significantly depends upon its quality of doctors and other health care professionals including nurses. If the company is unable to attract or retain such doctors and other medical professionals as required then quality of services provided will be impacted.
- The eye care hospital is capital-intensive in nature. Any frequent shift in technology and impairment of equipment would put a dent on company's profitability.

Valuations

The nine month annualized EPS for FY08E on post-IPO fully diluted equity works out to Rs.1.03 At the offer price band of Rs.38 – Rs.42, the IPO is available at 36.8x at the lower price band and 40.7x at the upper price band to its FY08E annualized post-issue EPS.

Although this eye care segment offers steady growth which unaffected by global slowdown, we recommend the investors to **AVOID** this issue on a back of its expensive valuation.

Exhibit 1: Key Financials (Rs crore)

Year to March	FY05	FY06	FY07	9MFY08
Net Sales	1.83	2.43	6.75	8.07
EBIDTA	0.49	0.99	2.32	3.11
Net Profit after exceptional income	-0.04	0.52	1.26	1.59
EPS (Rs)	-0.34	2.60	1.77	1.51
Diluted EPS (Rs.)	-0.34	2.60	1.77	0.76

AVOID

Analysts' Name

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Fact sheet

	Pre issue	Post issue
Equity capital (Rs cr)	10.79	20.79
Promoters (%)	97.6	50.7
Others (%)	2.4	1.2
Public (%)	-	48.1

Issue details

Issue size (Rs crore)	38-42
No of shares on offer	1,00,00,000
QIB (50%)	50,00,000
Non institutional (15%)	15,00,000
Retail (35%)	35,00,000
Minimum lot size	150 shares
Market cap (post issue) (Rs cr)	79.02 – 87.34

Comparative return metrics

Stock return (%)	3 M	6M	12M
Dr. Agarwal's Eye Hospital	(9.33)	(26.33)	3.63
Malar Hospital	(4.90)	(35.04)	(5.14)

Company Background

Lotus Eye Care Hospital provides super-specialty service related to eye care and currently has a total network of four eye care hospitals. These are based at Coimbatore (2), Salem (1), Tirupur (1). The Salem center is located in the heart of the city and it was started in the year 2004. The Tirupur center started in 2007 is also functioning in prime location in the city. All these hospitals have hi-tech eye care equipments, modern setup and ophthalmic experts backed by well-trained paramedical and administrative team. These hospitals have total of 9 operation theatres and 3 lasik laser equipments. Total bed strength of all the centers is 120 beds excluding eye camp beds.

In the year 1998 Lotus introduced Multi scan lasik and in the year 2002 Wave front based esiris custom lasik for the first time in India. Lotus was the first Eye hospital in South East Asia to have Epi-lasik in July 2004. In the year June 2005 Lotus introduced the most advanced technology of Zyoptix and combined two superior technologies Epilasik and Zyoptix known as Zyoptix Integrated Epilasik to achieve supervision.

During the calendar year 2007, over 4200 nos of various surgeries such as cataract, Lasik/Epilasik, corneal, vitreo-retinal, squint, oculoplastic and orbital were performed.

Objects of the issue

Net proceeds of fresh issue are proposed to be utilized towards the following purposes:

- To expand the existing facilities
- To establish new centers with latest technologies
- To meet working capital requirements

Exhibit 2: Details of existing facility

Location	Year of commencement	Operation theatres	No of beds
R.S. Puram, Coimbatore	1989	0	10
Peelamedu, Coimbatore	2002	4	70
Salem	2004	3	25
Tirupur	2007	2	15
Total		9	120

Source: Company RHP

INVESTMENT RATIONALE

Rising medical tourism

Medical tourism is one of the major external drivers of growth of the Indian healthcare sector. The emergence of India as a destination for medical tourism leverages the country's well educated, medical staff, state-of-art private hospitals and diagnostic facilities, and relatively low cost to address the spiralling healthcare costs of the western world. India provides best-in-class treatment, in some cases at less than one-tenth the cost incurred in the US.

Increased preference for private medical care

Despite high cost of treatment in comparison with public health care services. People generally prefer to opt private health care because of their top quality health care services. Private expenditure on healthcare in India is also among the highest in the world. Private health care providers stand to gain the most from the expected demand growth in health care services.

Use of latest technology

Technology plays very crucial role in any segment of health care industry. Lotus eye care provides comprehensive eye-care services using the world-class technology and skills. Besides delivering the regular eye-care services, It also provides advanced level of diagnostic and therapeutic services in the field of vitreous and retinal diseases, Phacoemulsification surgery for Cataract and customized wave front LASIK laser for glass free vision.

CARE assigns IPO grade of 3/5

Rating agency Credit Analysis & Research Ltd. (CARE) has assigned the IPO a grade of 3 on a scale of 1 to 5, where a grade of 5 indicates strong fundamentals and 1 indicating poor fundamentals. This grade indicates that the fundamentals of the issue are average, relative to other listed equity securities in India.

KEY CONCERNS

Availability and Retention of medical professionals

The company's performance and growth significantly depends upon its quality of doctors and other health care professionals including nurses. Through their effective services, these people create brand image and strengthen company's goodwill. If the company is unable to attract or retain such doctors and other medical professionals as required then quality of services provided will be impacted which will further result in to losing prospective patients.

Technology changes

The eye care hospital is capital-intensive in nature. The industry is characterized by frequent innovations and changing technology. Normally equipment is upgraded or replaced every 4-7 years, which requires heavy cash outlay. Any frequent shift in technology and impairment of equipment would put a dent on company's profitability.

Increased competition

Since Lotus eye care is not a very large player in eye care segment. It may face competition from other private eye care hospitals, smaller clinics, hospitals owned or operated by non-profit and charitable organization in their region. This will have an adverse impact in its profitability.

FINANCIALS

High growth in top line and bottom line on back of Amalgamation

During the year FY07, the company had taken over the hospital running activity from group concern Lotus Vision Research Trust from 1st April onwards. Another profit making group concern Dr.SKS Eye Care Centre Pvt. Ltd. merged with the company. The company has also taken over optical business from Dr.S.K.Sundaramoorthy from Oct 06 onwards. This has resulted in manifold growth in top and bottom line. In addition to this factor there was a normal growth of business.

In FY07, company recorded a growth of 178% and increased its top line to Rs.6.75 crores from Rs. 2.43 crores last year. Its total expenditure also grew by 207% to Rs.4.42 crores from Rs.1.44 crores last year. PAT recorded a growth of 142% to Rs.1.26 crores from Rs.0.52 crores last year.

During the calendar year 2007, company performed over 4200 nos of various surgeries as cataract, Lasik/Epilasik, corneal, vitreo-retinal, squint, oculoplastic and orbital.

VALUATIONS

The nine month annualized EPS for FY08E on post-IPO fully diluted equity works out to Rs 1.03 At the offer price band of Rs 38 – Rs 42, the IPO is available at 36.8x at the lower price band and 40.7x at the upper price band to its FY08E annualized post-issue EPS.

While there are many players in the eye care segment of health care Industry, but the listed players such as Dr. Agarwal's Eye care Hospital is currently trading at 18.24x its annual EPS of Rs.2.50. Kovai Medical and Malar Hospital both are trading at 7.43x and 7.38x times its annual EPS of Rs.5.8 and Rs.2.5 respectively. Compared to its peers, the issue looks **very expensive**.

Although this eye care segment offers steady growth which is unaffected by global slowdown, we recommend the investors to **AVOID** this issue on a back of its expensive valuation.

FINANCIAL SUMMARY

Profit & Loss A/c

(Rs crore)

Year to March	FY05	FY06	FY07	9MFY08
Net Sales	1.83	2.43	6.75	8.07
Total expenditure	1.34	1.44	4.42	4.96
EBIDTA	0.49	0.99	2.32	3.11
Other Income	0.40	0.54	0.55	0.90
Interest	0.23	0.22	0.23	0.62
Depreciation	0.61	0.74	0.98	0.77
Profit Before Tax	0.05	0.58	1.67	2.63
PBT of Dr. SKSECC (P) Ltd.	0.00	0.00	0.19	0.00
Tax	0.09	0.06	0.58	1.04
Net Profit before Adjustments	-0.04	0.52	1.29	1.59
Adjustments	0.00	0.00	0.03	0.00
Net profit as adjusted	-0.04	0.52	1.26	1.59
OPM (%)	26.72	40.88	34.44	38.55
NPM (%)	-2.33	21.37	19.08	19.67
RONW (%)	-2.3	15.9	8.4	9.7
Outstanding Shares (Cr)	0.13	0.20	0.71	1.05
EPS (Rs)	-0.34	2.60	1.77	1.51
Diluted EPS (Rs.)	-0.34	2.60	1.77	0.76

Balance Sheet

(Rs crore)

Year to March	FY05	FY06	FY07	9MFY08
Sources of funds				
Equity Share Capital	1.25	2.11	7.09	10.54
Reserves & Surplus	0.64	1.16	8.02	6.16
Secured Loans	2.44	2.24	6.90	7.40
Unsecured Loans	0.79	1.24	0.42	0.20
Current liability	0.12	0.34	0.48	0.87
Provisions	0.06	0.11	0.72	1.19
Deferred Tax Liability	0.23	0.18	0.13	0.13
Total Liabilities	5.52	7.39	23.75	26.49
Application of Funds				
Net Block	5.13	5.84	17.41	18.79
Capital work in progress	0.00	0.00	0.42	0.81
Cash and bank balances	0.09	0.25	0.61	0.97
Inventories	0.03	0.03	0.38	0.77
Sundry debtors	0.00	0.00	0.10	0.29
Loans and advances	0.27	1.27	4.77	4.60
Miscellaneous Exp not w/off	0.00	0.00	0.05	0.26
Total Assets	5.52	7.39	23.75	26.49

RATING RATIONALE

ICICIdirect endeavors to provide objective opinions and recommendations. ICICIdirect assigns ratings to its stocks according to their notional target price vs. current market price and then categorises them as Outperformer, Performer, Hold, and Underperformer. The performance horizon is 2 years unless specified and the notional target price is defined as the analysts' valuation for a stock.

Outperformer: 20% or more;

Performer: Between 10% and 20%;

Hold: $\pm 10\%$ return;

Underperformer: -10% or more.

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